TEERTHANKER MAHAVEER UNIVERSITY
MORADABAD, INDIA

CENTRE FOR ONLINE & DISTANCE LEARNING

Programme: Bachelor of Business Administration

Course: Fundamentals of Accounting

Course Code: BBACC201

Semester-II

FUNDAMENTALS OF ACCOUNTING

CONTENTS

Paper title: Fundamentals of Accounting

Paper number **Maximum marks** 70

Learning Outcomes:
At the end of the course, the student will able to

- Identify transactions and events that need to be recorded in the books of accounts.
- Equip with the knowledge of accounting process and preparation of final accounts of sole trader.
- Develop the skill of recording financial transactions and preparation of reports in accordance with GAAP.
- Analyze the difference between cash book and pass book in terms of balance and make reconciliation.
- Critically examine the balance sheets of a sole trader for different accounting periods.
- Design new accounting formulas & principles for business organisations.

Syllabus:

Unit-I – Introduction
Need for Accounting – Definition – Objectives, – Accounting Concepts and Conventions – GAAP - Accounting Cycle - Classification of Accounts and its Rules – Book Keeping and Accounting - Double Entry Book-Keeping - Journalizing - Posting to Ledgers, Balancing of Ledger Accounts (including Problems).

Unit-II: Subsidiary Books:
Types of Subsidiary Books - Cash Book, Three-column Cash Book- Petty Cash Book (including Problems).

Unit-III: Trial Balance and Rectification of Errors:
Preparation of Trial balance - Errors – Meaning – Types of Errors

Unit-IV: Bank Reconciliation Statement:
Need for Bank Reconciliation - Reasons for Difference between Cash Book and Pass Book Balances- Preparation of Bank Reconciliation Statement - Problems on both Favourable and Unfavourable Balance (including Problems).

Unit -V: Final Accounts:
Preparation of Final Accounts: Trading account – Profit and Loss account – Balance Sheet – Final Accounts with Adjustments (including Problems).

References:

1. Ranganatham G and Venkataramanaiah, Fundamentals of Accounting, S Chand Publications
2. T.S.Reddy& A. Murthy, Financial Accounting, Margham Publications
3. S N Maheswari and SK Maheswari, Financial Accounting, Vikas Publications
4. R L Gupta & V K Gupta, Principles and Practice of Accounting, Sultan Chand & Sons
5. S.P. Jain & K.L Narang, Accountancy-I, Kalyani Publishers
6. Tulasian, Accountancy -I, Tata McGraw Hill Co.
7. V.K.Goyal, Financial Accounting, Excel Books
8. K. Arunjothi, Fundamentals of Accounting; Maruthi Publications
9. Prof EChandraiah : Financial Accounting Seven Hills International Publishers

Suggested Co-Curricular Activities:

- Bridge Course for Non-commerce Students
- Practice of Terminology of Accounting
- Quiz, Word Scramble
- Co-operative learning
- Seminar
- Co-operative learning
- Problem Solving Exercises
- Matching, Mismatch
- Creation of Trial Balance
- Visit a firm (Individual and Group)
- Survey on sole proprietorship and prepare final accounts of concern
- Group Discussions on problems relating to topics covered in syllabus
- Examinations (Scheduled and surprise tests)
- Any similar activities with imaginative thinking beyond the prescribed syllabus

LESSON - 1A

ACCOUNTING, INTRODUCTION

1A.0 Objectives : After going through this less on the student will know, what is Accountancy? what is the need for recording the business transactions in the books ? What is the difference between book keeping and Accountancy ? What are the things which should be bear in mind while recording business transaction in the books.

Structure :

1.1 Introduction to Accountancy - Scope

Accounting is as old as money itself. In the early days, the number of transactions to be recorded were so small then each business man was able to record and check for himself all his transactions. The modern system of accounting based on the principles of Double Entry system owes its origin to luco pacio who first published the principles of Double Entry system in 1494 at VENICE in Italy.

In the recent years large scale production, cut throat competition, widening of the market and changes in the technology have brought remarkable changes in the field of accounting.

A business consists of a series of transactions. These business transactions are to be identified, classified, recorded, summarised, analysed, interpreted and communicated to interested parties so as to serve as a basis for decision marking. In fact, modern accounting serves as the “eyes and ears” of the management.

The main purpose of accounting is to ascertain profit or loss during a specified period to show financial condition of the business on a particular date and to have control over the firms property. Such accounting records are required to be maintained to measure the income of the business and communicate the information so it may be used by managers, owners and other parties.

1.2 Definition :

Different people have defined Accountancy in deferent ways by going through these we can understand the nature of Accountancy.

The American institute of certified public Accounting has defined financial accounting as "the art of recording, classifying and summarising in a significant manner and in terms of money transactions and events which in part, at least of a financial character and interpreting the results there of "

American Accounting Association defines accounting as " the process of identifying, measuring and communicating economic information to permit informed judgements and decisions by users of the information"

Accountancy is the science of recording and classifying business transactions and events primarily of a financial character and the art of making significant summaries, analysis and interpretations of those transactions and events and communication of the results to persons who must make decisions or form judgements (Smith & Ashbuns).

1.3 Need for Accounting :

It is not possible to any human being to remember all business transactions which have taken place in business - that too, over a period of time say in an year. Even if some one does really remember all the transactions, he would find it impossible to calculate the net effect of all such transactions. Hence the need for accounting is raised.

What ever may be the size of organisation whether it is a sole trading concern, partnership or joint stock company it would like to have information about

1. The nature and amount of expenditure,
2. The nature, source, cause and amount of earnings,
3. The amount and cause of losses, if any
4. The size of capital and causes for its increase or decrease,
5. The nature and value of assets possessed, and
6. The nature and value of liabilities.

Further, the business requires various types of information for both external and internal use. For example information is required for filing sales tax, income tax and other tax returns and for preparing statements for decisions to be taken by managers. The question is how to get this information. A systematic accounting record is the only answer. Thus, the need for accounting arises on account of practical needs and sometimes legal requirements.

1.4 Functions of Accounts :

1. **Recording** : Business transactions are analysed in such a way that it may be possible to determine profit or loss made by the business and its financial condition of a specified date. Business transactions may relate to the receipt and payment of cash, purchase or sale of goods on credit, incurring an expense or receiving an income.

2. **Classification** : Classification is the second function of accountancy.

   The transactions recorded in journal should be classified and the transactions of one nature should be Placed at one place which we call as ledger.

   For example : All purchases of goods placed into purchases A/C, payment of salaries to salaries A/C etc.

3. **Summarising :** The classified data should be summarised at least periodically, into a significant form.

4. **Analysing :** The summarised financial statements profit and loss account, balance sheet, statement of changes are analysed with the help of statistical tools such as averages, percentages, ratio, rates etc.

5. **Interpreting :** The information in financial statements, are interpreted in terms of set standards and conventions. Inter preting the results of accounting information involves communicating and explaining the information to interested parties and decision makers like owners, creditors, investors, government and management.

1.5 Book Keeping and Accounting :

It is necessary to distinguish between book - keeping and accounting Actually the two are very closely related and there is no universally accepted line of discrimination. Generally book - keeping involves the chronological recording of financial transactions in a systematic manner. According to Northcott "book Keeping is an art of recording in books of accounts the monetary aspect of commercial or financial transaction"

According to G.A. Lee the Accounting system has two branches : 1. The making of routine records from day - to - day in the prescribed form and according to set rules of all events which affect the financial state of the organisation and 2. The summarising of the information contained in the records, its presentation in significant form to interested parties and its inter pretation as an aid to decision-making by these parties. Branch 1. Is called book - keeping and branch 2. Is accounting.

Book - keeping is the record making phase of accounting. The recording of transactions tends to be routine, repetitive and mechanical. It is a part of accounting. Accounting includes, book - keeping, preparation of financial statements, audits, cost studies, preparation of budgets, income - tax and other taxation work, analysis and interpretation of accounting information; as an aid to decision making.

1.6 Objects of Accounting :

According to American Accounting association the objectives of accounting are to provide information for the following purposes.

1. Making decisions concerning the use or limited resources including identification of crucial decision areas and determination of objectives and goals.

2. Effectively directing the controlling of an organisation's human and materials resources.

3. Maintaining and reporting on the custodian-ship of resources.

4. Facilitating social Functions and control.

1.7 Advantages and limitations of Accounting :

The following are the advantages of a properly maintained accounting system

1. The operating results i.e.. profit or loss and the financial state of affairs of an organisation can be known.
2. Any information required at any time can readily be had from the books of account.
3. With the help of financial statements an organization can evaluate its present performance with that in the past, and compare it with that of other organisations
4. Accounts form the basis for the settlement of tax liability such as income tax, sales tax etc.
5. In the events of the business being sold, the accounts are helpful in ascertaining the value of the business.
6. Accounting is an aid to the management. It is possible to find out exact reasons for the loss incurred or profit earned. The identification of reasons help the management in taking necessary steps to avoid losses or to further increase profits.
7. The financial information provided by the accounting system is needed to help the management in planning and controlling the activities with the help of budgets.

Limitations :

The following are the main limitations of accounting.

1. Accounting records only those transactions which can be measured in monetary terms.
2. Accounting transactions are recorded at cost in the books. The effect of price level changes is not brought into the books, with the result that comparison of the various years becomes difficult. For example the sale price of total assets in 2007 would be much higher than in 1980 due to rising prices, fixed assets being shown to cost and not at market price.
3. Accounting information may not be realist i.e. as accounting statements are prepared by following basic concepts and conventions.
4. Accounting statements are influenced by the personal judgement of the accountant. The method of depreciation, valuation of stock, treatment of deferred revenue expenditure is decided by the accountant. Such judgement if based on integrity will definitely affect the preparation of accounting statements.

1.8 Accounting process :

The accounting process begins when a financial transaction takes place. Transaction is recorded first in a book called ‘Journal’ and later posted in separate accounts maintained for the purpose in a ledger. At the end of the accounting year whether actual figures are entered accurately or not in the accounts is tested by preparing a ‘trail balance’ with the help of this trial balance and other information ‘final accounts’ are prepared to find out the financial result of the operations whether profit or loss and the financial position, assets and liabilities. In the subsequent year the accounting books are opened with the previous year’s closing balances. The process thus repeats itself like a cycle.

1.9 Branches of Accounting :

The accounting can be classified into the following categories.

1. Financial Accounting
2. Cost Accounting
3. Management Accounting
4. Inflation Accounting
5. Human resources Development Accounting

1.10. Concepts of Accounting :

Accounting is the language of business. To make the language convey the same meaning to all people, accountants all over the world have developed certain rules, procedure and conventions.

Accounting concepts may be considered as basic assumptions or conditions upon which the science of accounting is based. They are as follows.

1. Business Entity Concept : This concept implies that a business unit is separate and distinct from the persons who supply capital to it. Accounting system gives the information about business only. The entity concept regards the proprietor of the business as just a creditor having a claim over the assets of the business. The accounting equation i.e, Assets = liabilities + capital is an expression of the entity concept. In case this concept is not followed affairs of the business will be mixed up with the private affairs of the proprietor and the true picture of the business will not be available.

2. Going concern concept : According to this concept it is assumed that business entity will go on for ever. Transactions are recorded in the books keeping inview the going concern aspect of the business unit. This assumption provides much of the justification for recording fixed assets at original cost without reference to their current realisable value. Similarly the going concern concept supports the treatment of prepaid expenses as assets even though they may be unsaleable. Prepaid expenses are made assets on the assumption that the business entity will continue in future and the benefit of prepaid expenses will be utilised in future.

3. Money measurement concept : Money is the only practical unit of measurement that can be employed to achieve homogenity of financial data. The advantage of expressing business transactions in terms of money is that money serves a common denominator by means of which heterogeneous facts about a business can be expressed in terms of numbers, i.e. money, which are capable of additions and subtractions.

The money measurement concept restricts the scope of accounting because it is not capable of recording transactions which cannot be expressed in terms of money. For example : if there is a strike in the factory or the production manager is not in good terms with the sales manager, as these can not be measured in money terms. Accounting therefore can not record them. Similarly it does not take care of the effects of inflation because it assumes a stability of the money measurement unit.

Cost Concept : All assets are recorded in the books at the price paid to acquire it. Its value is systematically reduced by charging depreciation. The market value of an asset may change with the passage of time but for accounting purpose it continues to be shown in the books at its book value i.e. the cost at which it was purchased minus depreciation provided up to date. The cost concept has the advantage of bringing objectivity in the accounts. Information given in the financial statements is not influenced by the personal bias or judgement of those who furnish such statements.

Dual Aspect Concept :

This is the basic concept of accounting. According to this concept every financial transaction involves a two - fold aspect. 1) Yielding of a benefit and 2) Giving of that benefit. For example, if a business has acquired as asset, it must have given up some other asset such as cash. There must be a double entry to have a complete record of each business transaction, an entry being made in the receiving account and an entry of the same amount in the giving account. The receiving account is termed as debtor and the giving account is called creditor. Thus every debit must have a corresponding credit and vice versa and upon this dual aspect has been raised the whose superstructure of Double Entry System of Accounting. The Accounting Equation is based on dual aspect concept.

Assets = Liabilities + Capital

Accounting equation demonstrates the fact that for every debit there is an equivalent credit.

Accounting period Concept : Even though it is assumed that the business will continue for a long period, almost indefinitely; the businessman cannot postpone the ascertainment of its profit and financial position indefinitely. So it is reasonable to devide the life of the business into accounting periods so as to be able to know the profit or loss of each such period and the financial position at the end of such a period. Normally accounting period adopted is one year. However for internal purposes accounts can be prepared even for shorter periods.

The principal of segregating capital expenditure from revenue expenditure is based on the accounting period concept. The revenue expenditure for a particular period is transferred to the P & L A/c of that period whereas capital expenditure is carried forward to the extent to which its benefit extents in future accounting periods.

Realisation Concept : According to this concept, revenue is considered as being earned on the date at which it is realised, Take into account realised profit but donot take into account unrealised profit is the summary of this concept

1.11. Conventions of Accounting :

The terms conventions denotes customs or traditions which guide the accountant while preparing the accounting statements the following are the important accounting conventions.

1. Convention of Consistency
2. Convention of full disclosure
3. Convention of conservation
4. Convention of Materiality.

Convention of Consistency : Accounting rules, practices and conventions should be continuously observed. The results of different years will be comparable only when accounting rules are continuously adhered from year to year. For example the principle of “valuing stock at cost or market price which ever is lower should be followed year after year to get comparable results.

Convention of full Disclosure : According of this convention all accounting statements should be honestly prepared and all significant information should be made. All information which is of material interest to proprietors, creditors and investors should be disclosed in accounting statements. The convention is becoming popular these days because most of big business units are in the form of joint stock companies here ownership is diverse from management. The companies Act 1956 makes simple provisions for the disclosure of essential information that there is no change of any material information being left out.

Convention of conservatism : Conservatism means taking the gloomy view of a situation. It compels the business man to take all precautions for risks of future. It says anticipate no profits but provide for all possible losses. For ex. closing stock is valued at cost or market price whichever is lower. If market price is higher than the cost the higher amount is ignored in accounts and closing stock will be valued at cost which is lower than the market price and vice versa.

Thus the principle of conservation is inherent in the valuation of stock.

Convention of Materiality : Whether something should be disclosed or not in the financial statements will depend on whether it is material or not Materiality depends on the amount involved in the transaction. For ex. Minor expenditure of Rs 10 for the purchase of a waste basket may be treated as an expense of the period rather than an asset.

The term materiality is a subjective term. The accountant should record an item as material even though it is of small amount if its knowledge seems to influence the decision of the proprietors or auditors or investors.

Parties interested in Accounting information :

Accounting information is useful to various parties. They are :

1. Owners : Owners assume the primary risk of business by investing their funds in it. Naturally they are interested in obtaining information about the operations of their business how much profit it earned and what is the position of their capital. They also use the accounting to evaluate the managements performance and to compare their enterprise with others.

Managers : Accounting reports are important to manager for basing their decisions or for evaluation, the result of their decisions or for controlling the activities of the business. In addition to external financial statements managers need detailed internal reports, production wise, sales wise etc. Accounting reports for managers are prepared much more frequency than external reports and are usually available only for internal purposes.

Creditors and Bankers : Creditors and Bankers want to know the solvency of the concern so as to satisfy themselves that their money will be safe and that they can expect repayment in time.

Prospective Investors : Prospective investors who wants to invest their money in the firm wants to make a careful analysis of the financial statements of that business so as to know how safe and rewarding the proposed investments will be.

Employees : The employees of large organisation are interested in the results of their organisation operations. They use the accounting data to know whether they are getting a fair shape of the resources distributed by the organisation.

Governments : Numerous governmental agencies, both state and central are interesting in the accounts of concerns for the purpose of collecting taxes, for exercising control, for granting licenses or loans, for determining whether welfare measures and social security benefits to their employees are observed or not etc.

Financial analysts : Many investment decisions are made on the advice of financial analysts who are experts in analysing accounting reports.

Researchers : Financial statements are of immense use to research scholars who want to make a study of financial operations.

Consumers : Consumers do too, are interested in knowing about the concern's pricing policy, quality of goods etc.

1.12. Summary :

Business is a bundle or a series of transactions. The effects of these transactions must be brought into books of accounts and summarised so as to find out the result of the operations and the financial state of affairs of the business. Accounting involves different types of work like identifying the transactions, measures in terms of money, classifying according to their nature and recording in the books of accounts. These recorded transactions are summarised periodically in the form of financial statements, and analysing them with the help of statistical tools, Interpreting according to conventions and communicating to the interested parties in the form of reports.

1.13. Self Assessment Questions

1. What are the functions of the Accountancy ?
2. Write about the Accounting concepts.
3. Comment on the following.

   a) Realisation concept

   b) Consistency and conservatism of Accounting.
4. What is the difference between Accounting and Book keeping ?
5. Discuss Money measurement concept and material concept as applied in Financial Accounting.
6. What are different branches of accounting ?
7. Define Accounting state its functions and branches. How is it different from book - keeping.
8. Explain accounting, principles briefly.
9. Limitations of Accounting.

10. Define Accountancy.
11. Scope of Accounting.
12. What is accounting process ?
13. Write about the accounting conventions.

1.14 SUGGESTED READINGS :

Financial Accountancy	**:**	**Shukla Grewal**
Financial Accountancy	**:**	**Jain and Narang**
Financial Accountancy	**:**	**R.L. Gupta & V.K. Gupta**

- Dr. Ch. Suravinda

LESSON - 1 B

DOUBLE ENTRY SYSTEM

1. b.0. Objects :

By going through this lesson the student can know about Single entry system, Double entry system, Accounts and its classification structure.

structure

1.b.1 Single entry system

1.b.2 Limitation of single entry

1.b.3 Double entry system.

1.b.4 Accounts & its classification

1.b.5 Advantages of Double entry system

1.b.6 Diffrence between single entry system and Double entry system.

1.b.7 Summary.

1.b.8 Questions.

1.b.9 Suggested Readings

Business transactions can be recorded in the books in two methods. 1. Single entry system. **2.** Double entry system

1.b.1 Single entry system

Single entry means that it is a method of maintaining accounts which does not exactly follow the principles of double entry system. It does not mean that there is one entry for each transaction. But it simply means that principles of the double entry system are not being followed for all transactions. Under this method usually the personal accounts of the debtors and creditors are kept and impersonal accounts - real and nominal accounts may not be maintained in the books. Single entry is not any particular system of accounting but rather, the double entry system in an incomplete and disjointed form.

1.b.2. limitation of single entry system :

Following are the limitations of single entry.

1. It is not a scientific method of accounting because it does not record the two - fold aspect of each transaction.
2. No trial balance can be prepared as it does not record the dual aspect of each transaction so the arithmetical accuracy of the books cannot be checked.
3. In the absence of nominal accounts, trading and profit and loss account cannot be prepared.
4. In the absence of real accounts, it is not possible to know the exact financial position of the business on any particular day by preparing a balance sheet.

5. Internal check is not possible so the possibility of Fraud or misappropriation is greater in case of single entry than in the case of double entry system.
6. Accounts prepared on the basis of the single entry do not inspire confidence in out siders owing to the lack of any test for their arithmetical accuracy. So, information obtained from accounts maintained on the basis of the single entry will be taken with doubt.

7. It is difficult to ascertain the value of the business specially of goodwill if the propriter wishes to sell his business.

Double Entry System :

We have seen earlier that every business transaction has two aspects i.e when we receive something we give something else in return For example when we purchase goods for cash we receive goods and give cash in return ; similarly in credit sale of goods, goods are given to the customer and the customer becomes debtor for the amount of goods sold to him. This method of writing every transaction in two accounts is known as double entry system of Accounting one account is given debit while the other account is given credit with equal amount. Thus, on any date, the total of all debits must be equal to the total of all credits because every debit has a corresponding credit.

An account is a summarised record of transitions relating to particular person or thing. Accounts are classified as personal Accounts and impersonal Accounts. Impersonal Accounts are further classified as real Accounts and Nominal Accounts.

1. **Personal Accounts :** Accounts which relate to persons, both natural and artificial are called personal Accounts. They show dealings with persons. A separate account is maintained for each person. For example, Ganesh Account, Andhra Bank Account etc.

2. **Real Accounts :** Accounts which show dealing in assets or properties are called 'Real Account'. A separate account is kept for each property some examples are Machinery Account, Furniture account, cash Account etc. They are called 'real' accounts and they represent things of value owned by the business.

3. **Nominal Accounts :** Nominal Accounts record expenses, losses and incomes. Separate accounts are maintained for each item of expenses or incomes. example, salaries, wages, Rent etc. They are called 'Nominal' accounts because they are accounts only for names sake.

Rules of the Double Entry system :

There are separate rules of the double entry system in respect of personal, real and nominal accounts which are discussed below.

1. Personal Accounts :

As we have already seen these accounts record a business dealings with persons or firms. The person receiving something is given credit. For example if Anil sells goods to Ajay on credit Ajay Account will be given debit (in Anil books) as he is the receiver of goods and Anil's Account will be credited (in Ajay books) as he is the giver of goods. When Ajay makes the payment for these goods Anil's Account will be debited in Ajay's books as he is the receiver of cash and Ajay's Account will be given credit in Anil's books as he is the giver of cash. So the rule is Debit the receiver and credit the giver.

2. Real Accounts :

These are the accounts of assets. Asset entering the business is given debit and asset leaving the business is given credit. For example, when goods are sold for cash, cash account will be given debit as cash comes in and goods Account will be credited as goods go out. So the rule is debit what comes in and credit what goes out.

3. Nominal accounts :

These accounts deal with expenses, incomes, profits and losses. Accounts of expenses and losses are debited and accounts of incomes and gains are credited. For example, When salary is paid to employee, salary Account will be debited as it is an expense and cash Account will be credited as it goes out, similarly, when Interest is received, cash account will be debited as cash is received and Interest Account will be credited as it is an income. Thus the rule is debit all expenses and losses and credit all incomes and gains.

The rules of double entry system are shown in the following chart.

RULES OF DOUBLE ENTRY

Personal Accounts		Real Accounts		Nominal Accounts	
Debit	Credit	Debit	Credit	Debit	Credit
Receiver	giver	What comes in	What goes Out	Expenses and losses	Incomes and gains

Analysis of Transaction :

To make a correct record of the transactions, each transaction must be analysed. The following questions may be asked in this respect.

1. Which are the two accounts involved in the transaction to be recorded ?
2. Whether the two accounts involved in the transaction are personals, real or nominal ?
3. What rules of debit and credit are applicable to the accounts involved.
4. Which account should be debited or credited?

The above method will make the recording of transactions more simple and easy. The following chart explains the procedure of analysing the transactions.

Analysis of Transactions :

	Transaction	Two Accounts Involved	Classification of Accounts	Rule of Debit & Credit	Account Debited Rs.	Account Credited Rs.
1.	Started business with Rs.1,00,000	Cash capital	Real personal	Debit What comes in Credit the giver	Cash	Capital
2.	Purchased Furniture for Rs 20,000	Furniture Cash	Real Real	Debit what come in Credit what goes out	Cash	Furniture
3.	Paid Salaries Rs.3,000	Salaries Cash	Nominal Real	Debit the expenses Credit what goes out	Cash	salary
4.	Commission Received Rs.2,000	Commission Cash	Normal Real	Credit the incomes Debit what comes in	Cash	Commission
5.	Goods purchased Rs.20,000	goods cash	Real Real	Debit what come in Credit what goes out	goods	cash
6.	Sold goods to Rao Rs.10,000	Rao goods	Personal Real	Debit the receiver credit what goes out	Rao	goods

Advantage of Double Entry system :

The following are the advantages of Double entry system.

1. It provides a complete record of every transaction.
2. It provides an arithmetical check on the records as the total of debit entries must be equal to the total of credit entries.
3. The amount due to the concern and amount due by the concern to outsiders can be as certain by the personal accounts.
4. With the help of nominal accounts profit and loss account can be prepared for ascertaining the profit, or loss of the concern in a particular year.
5. With the help of real accounts, Balance sheet can be prepared for knowing the financial state of affairs of the concern on the closing day of the year.
6. The scope for committing errors and frauds can be reduced to minimum level.

Difference between single entry system and Double Entry system :

The following are the main differences.

Single entry	Double entry
1. It is an incomplete and unscientific method of recording business transactions.	1. It is a complete and scientific method of recording business transactions.
2. Only personal accounts are prepared.	2. All accounts, personal real and nominal accounts are prepared.
3. It is not a reliable system of accounting	3. It is a reliable system of accounting
4. Trial balance cannot be prepared for checking the arithmetical accuracy	4. Trial balance can be prepared
5. Profit & loss account and balance sheet can not be prepared under this system.	5. Profit & loss account and Balance sheet can be prepared under this system.

1.b.7. Summary :

Business transactions can be recorded in the books in two methods. 1) Single entry, which is an incomplete and unscientific method of accounting. 2) Double entry system is a systematic way of recording business transactions. Total accounting system has classified into two groups, one is personal accounts, other is imperson accounts which is again divided into real and nominal accounts. There are three different principles to record transactions in these accounts.

1.b.8. Self Assessment Questions :

1. Write down Double entry system of book-keeping and its advantages.
2. How can you classify the accounts ? Write down the rules of debit and credit.
3. What is single entry system ? What are its limitations ?

1.B.9 SUGGESTED READINGS :

Financial Accountancy : Shukla Grewal
Financial Accountancy : Jain and Narang
Financial Accountancy : R.L. Gupta & V.K. Gupta

- Dr. Ch. Suravinda

LESSON - 2

JOURNAL

2.0 Objects : After going through this lesson the student can know how the business transactions are recorded in the journal and how the journal prepared.

Structure :

2.1. Journal
2.2. Business transactions.
2.3. Journal Entry.
2.4. Method of writing a Journal entry
2.5. Advantages of Journal.
2.6. Illustrations
2.7. Summary
2.8. Questions
2.9. Exercises
2.10 Suggested Readings

2.1. Journal :

Business transactions are recorded at first in the Journal. A transaction may be defined as a transfer of money, goods or services from one individual to an other. The term Journal is derived from the French word 'Jour' which means a day. Journal therefore, means a daily record of business transactions. Journal is a book of original entry because transaction is first written in the journal in Chronological order as they occur, from which it is posted to the ledger at the end of a week, fortnight or month. The process of recording in the 'Journal' is called 'Journalising' and the various entries made in the journal is called 'Journal Entries'.

If two or more transactions of the same nature occur on the same day then such transactions can be entered in the journal in the form of a combined journal entry instead of making a separate entry for each transaction. Such type of entry is known as a compound journal entry.

2.2. Business transactions :

Business transactions may be classified into two types 1. Cash transactions 2. Credit transactions

Cash transactions : If purchase of goods, sale of goods, expenses paid, Income received etc., are for cash then those transactions are known as cash transactions. In case of cash transactions one of the account effected will be cash Account and the other account which should be debited or credit will depends on the nature of the transaction for ex : Purchase of good from X for cash in this transaction personal account i.e. 'x' should not be taken, one account is cash and the other account is goods.

Credit transaction : If the payment is deferred for purchase of goods or sale of goods then it is known as credit transaction. In a transaction, name of the supplier or customer is give and it does not contain the word 'for cash' then it is a credit transaction. In case of credit transaction one of the account effected is personal account and the other will be decided depending upon the transaction. See the following examples. goods purchased from Moorthy. Furniture sold to Madhu are credit transactions. If the transaction is goods purchased from Moorthy for cash then it is a cash transaction.

2.3. Journal Entry :

As we have already seen that every transaction of business at first, entered in the journal in the form of a journal Entry. The ruling of the journal is as follows.

JOURNAL

Date	Particulars	L.F.	Dr. Amount Rs	Cr Amount Rs.
Year Month/Date	Name of the Account to be debited Dr. To Name of the Account credited (Narration)			

Column 1 (Date) The date of the transaction on which is takes place is written in this column. The year is written only in the first entry appearing on each page.

Column 2. (Particulars) In this column, the name of the account to be debited is written first with the word 'Dr'. In the next line, the account to be credited is written preceded by the word "To" leaving a few spaces away from the first line. Here we need not write the word 'Cr' because the word 'To' itself will indicate that the account is credited. An explanation of the entry known as "Narration" is also recorded below the line giving credit to the account.

Column 3 (L.F.) L.F. Stands for ledger folio which means page of the ledger. In this column the page numbers on which the related account appears in the ledger is entered.

Column 4 (Dr. Amount) In the column, the amount to be debited against the 'Dr' account is written

Column 5 (Cr. Amount) In this column the amount to be credited against the 'Cr' account is written

2.4. Method of writing a Journal Entry :

1. Read the transaction carefully from the business entity point of view and determine the two accounts that are affected by the transaction.
2. Find out the class to which each account relates i.e. whether it is a personal account or a real account or a nominal account.
3. Now recollect the rules of debit and credit and apply the concerned rule to decide which account is to be debited and which to be credited.

   This can be clearly understood with the following table

Transactions	Two Accounts involved	Classification of Accounts	Rule of Debit Credit	Explanation	Account to be Debited	Account to be credited
Started business with Rs.1,00,000	Cash	Real	Debit what comes in	cash entered the business	Cash A/c	---
	Capital	Personal	Credit the giver	Proprietor is giver of cash		Capital A/c
Purchased Machine for Rs.10,000	Machine	Real	Debit what comes in	Machine entered the business	Machine A/c ---	---
	Cash	Real	Credit what goes out	Cash go out of business		Cash A/c -
goods purchased from Vasu on Credit Rs.5,000	goods	Real	Debit what comes in	goods entered the business	Goods A/c	--
	Vasu	Personal	Credit the giver	Vasu is giver of goods		Vasu A/c
Sold goods Rs.3,000	Cash	Real	Debit what comes in	Cash entered the business	Cash A/c	---
	goods	Real	Credit what goes out	goods go out of business	---	Goods A/c
Paid salaries to staff Rs.5,000	Salaries	Nominal	Debit the expenses & losses	Salaries are expenses	Salary A/c	---
	Cash	Real	Credit what goes out	Cash goes out of business	---	Cash A/c
Commission Received Rs.1,000	Cash	Real	Debit what comes in	Cash comes into the business	Cash A/c	
	Commission	Nominal	Credit the incomes & gains	Commission received is an income		Commission A/c
Sold goods to	Anil	Personal	Debit the receiver	Anil is the receiver of goods	Anil A/c	---
			Credit what goes out	Goods go out of		

2.5 Advantages of Journal :

1. Journal is a self explanatory book. It explains all the business transactions.
2. As all the business transactions are entered in the chronological order of their occurrence, any transaction can be referred later easily if necessary.
3. In case of any conflict about a transaction, it act as a proof.
4. It acts as a base for the preparation of a ledger.
5. Through journal, the principle of double entry can be understood clearly with ease.

2.6. Illustrations :

Illustration I (Cash transactions)

Journalise the following transactions :

		Rs.
Jan.1	Ajay started business with	2,00,000
Jan 2	Furniture purchased for	20,000
Jan 3	Purchased goods for	50,000
Jan 4	Sold goods for	30,000
Jan 5	Goods returned to supplier	500
Jan 6	Goods returned by customer	200
Jan 7	Salary paid	2,000
Jan 8	Commission received	1,000

Date	Particulars Cr.		L.F. Amount Rs.	Dr. Amount Rs.
Jan Ist	Cash Account Dr. To Ajay's capital Account (Being Ajay contributed Rs.2,00,000 as his capital)		2,00,000	 2,00,000
2nd	Furniture Account Dr. To Cash Account (Being Furniture purchased for business)		20,000	 20,000
3rd	Goods Account Dr To Cash Account (Being goods purchased for cash)		50,000	 50,000
4th	Cash Account Dr To goods Account (Being goods sold for cash)		30,000	 30,000

5th	Supplier's Account Dr		500	
	To Goods Account			500
	(Being goods returned to supplier)			
6th	Goods Account Dr			
	To customer's account			
	(Being goods received from customers).			
7th	Salaries Account Dr		2,000	
	To cash account			2,000
	(Being salaries paid)			
8th	Cash account Dr		1,000	
	To Commission account			1,000
	(Being commission received)			

1. Illustration 2. (Credit transactions).

		Rs.
Feb 1.	Purchased Furniture from Pranav & Co.	10,000
Feb 2.	Sold goods to Pavan	7,500
Feb 3.	Bought typewriter from Godrej & Co.	10,000
Feb 4.	Bought goods from Akhil	5,000
Feb 5.	Sold goods to Nikhil on credit	12,000
Feb 6.	Bought goods from Sai on Credit	15,000
Feb 7.	Bought goods on account from Sobhan	8,000
Feb 8.	Sold goods on account to Nagesh	6,500

Solution :

Date	Particulars	L.F.	Dr. Amount Rs.	Cr. Amount Rs.
Feb 1	Furniture Accounts Dr		10,000	
	To Pranav & Co			10,000
	(Being Furniture purchased on credit)			
Feb 2.	Pavan Account Dr.		7,500	
	To goods account			7,500
	(Being goods sold on credit)			
Feb 3.	Type writer Account Dr.		10,000	
	To Godrej & Co			10,000
	(Being typewriter purchased on credit)			
Feb 4.	Goods Account Dr		5,000	
	To Akhil account			5,000
	(Being goods purchased from			

	Akhil on credit)			
Feb 5.	Nikhil account Dr		12,000	
	To goods account			12,000
	(Being goods sold on credit)			
Feb 6	Goods Account Dr		15,000	
	To Sai account			15,000
	(Being goods purchased			
	from Sai on credit)			
Feb 7	Goods Account Dr		8,000	
	To Sobhan account			8,000
	(Being goods purchased			
	from Sobhan on credit)			
Feb 8	Nagesh account Dr		6,500	
	To goods account			6,500
	(Being goods sold on			
	credit to Nagesh)			

The student is advised to note the following points here,

1) When the name of the person is given in a transaction and when the word 'cash' does not appear, it is implied that it is a credit transaction. e.g. purchased furniture from P.N. Rao & Company Rs.5,000. At the same time when the name of the party does not appear it is always a cash transaction even if the word 'cash' is not mentioned in the transaction e.g. goods purchased Rs.10,000

In the illustrations given above 'goods account' is used while recording the dealings in 'goods' viz, purchases, sales, purchase returns and sale returns. In practice the 'goods account' is not maintained. Goods is valued at Market Price or cost Price which ever is less. We will discuss this principle later. Goods is devided into four accounts as, when we purchased goods, purchases account, when we sold goods sale account, when we return goods purchase returns account, when the customer return goods, sales returns account should be give affected instead of goods account.

Illustration 3. (Expenses and Incomes)
Journalise the following transactions :

		Rs.
Dec 1	Paid Salaries	10,000
Dec 2	Paid Rent to landlord Raghava	5,000
Dec 3	Paid commission	1,000
Dec 4	Received Rent	2,000
Dec 5	Received Commission	1,500

Dec 6	Stationery purchased	1,000
Dec 7	Postage paid	100

Date	Particulars		L.F.	Dr. Amount Rs.	Cr. Amount Rs.
Dec 1	Salaries Account	Dr		10,000	
	To Cash Account				10,000
	(Being salaries paid)				
Dec 2	Rent Account	Dr		5,000	
	To cash account				5,000
	(Being Rent paid)				
Dec 3	Commission paid Account	Dr		1,000	
	To cash account				1,000
	(Being Commission paid)				
Dec 4	Cash Account	Dr		2,000	
	To Rent Account				2,000
	(Being Rent Received)				
Dec 5	Cash Account	Dr		1,500	
	To Commission Received Account				1,500
	(Being Commission received)				
Dec 6	Stationery Account	Dr		1,000	
	To cash Account				1,000
	(Being Stationery paid)				
Dec 7	Postage Account	Dr		100	
	To cash Account				100
	(Being postage paid)				

Here the student is advised to note that transactions relating to payments of expenses and receipts of incomes are recorded through the 'expense account' or the 'Income account' concerned and not through the account of the person involves, since no debtor/Creditor relationship is created. In the above example rent paid to Raghava.

In respect of certain items like rent, commission etc, where both payments and receipts take place, two separate accounts may be maintained one for recording payments and the other for receipts e.g. commission paid account and commission Received Account.

Illustration 4. (Transactions with the proprietor)
Enter the following transactions in the journal.

	Rs.
1. Madhuri commenced business with a capital of	1,00,000
2. She withdraw for his personal use	5,000
3. She introduced additional capital	50,000
4. She took goods for personal use	1,000

Date	Particulars		L.F.	Dr. Amount Rs.	Cr. Amount Rs.
1.	Cash Account	Dr		1,00,000	
	To Capital Account				1,00,000
	(Being the business started with the capital of Rs.1,00,000)				
2.	Drawing Account	Dr.		5,000	
	To cash Account				5,000
	(Being cash withdrawn for personal use).				
3.	Cash account	Dr		50,000	
	To Capital Account				50,000
	(Being additional capital introduced)				
4.	Drawings Account	Dr		1,000	
	To Goods accounts				1,000
	(Being goods withdrawn for Personal use)				

We have seen how different types of business transactions are recorded through the Journal and shall now take up some comprehensive problems.

Illustration 5 :

Journalise the following transactions **Rs.**

Jan1	Mr. rao commenced business with	10,00,000
Jan 1	Purchased Furniture	50,000
Jan 1	Deposited into Bank	5,00,000
Jan 2	Purchased goods	50,000
Jan 2	Postage paid	1,000
Jan 2	Stationery purchased	2,000

Jan 3	Purchased goods from Arun	60,000
Jan 3	Sold goods	20,000
Jan 4	Commission paid	500
Jan 5	Cash withdrawn for personal use	10,000
Jan 6	Type writer purchased	5,000
Jan 7	Sold goods to Varun	70,000
Jan 8	Wages paid	10,000
Jan 9	Goods taken for personal use	2,000
Jan 10	goods returned to Arun	1,000
Jan 11	goods returned from Varun	1,500
Jan 12	Motor vehicle purchased from T.V.S.	50,000

Date	Particulars		L.F.	Dr. Amount Rs.	Cr. Amount Rs.
Jan 1	Cash Account	Dr		10,00,000	
	To Capital Account				10,00,000
	(Being capital introduced into business)				
Jan 1	Furniture Account	Dr		50,000	
	To Cash Account				50,000
	(Being furniture purchased)				
Jan 1	Bank Account	Dr		5,00,000	
	To Cash Account				5,00,000
	(Being cash deposited into Bank)				
Jan 2	Purchases account	Dr		50,000	
	To Cash Account				50,000
	(Being postage paid)				
Jan 2	Stationery Account	Dr		2,000	
	To Cash Account				2,000
	(Being stationery purchased)				
Jan 2	Postage Account	Dr		1,000	
	To Cash account				1,000
	(Being postage paid)				
Jan 3	Purchases Account	Dr		60,000	
	To Arun Account				60,000
	(Being goods purchased or credit)				
Jan 3	Cash Account	Dr		20,000	
	To Sales Account				20,000
	(Being goods sold)				

Jan 4	Commission Account Dr To cash Account (Being commission paid)		500	500
Jan 5	Drawings account Dr To Cash Account (Being cash withdrawn for personal use)		10,000	10,000
Jan 6	Type writer account Dr To Cash Account (Being Type writer purchased)		5,000	5,000
Jan 7	Varun Account Dr To Sales Account (Being goods sold to Varun)		70,000	70,000
Jan 8	Wages Account Dr To Cash Account (Being wages paid)		10,000	10,000
Jan 9	Drawings Account Dr To Purchases Account (Being goods taken for personal use)		2,000	2,000
Jan 10	Arun Account Dr To Purchase returns A./c (Being goods returned to Arun)		1,000	1,000
Jan 11	Sales Returns Account Dr To Varun Account (Being goods returned by Varun)		1,500	1,500
Jan 12	Motar Vehicle Account Dr To T.V.S. & Co. (Being Motar Vehicle purchased on credit)		50,000	50,000

In a going concern the balances of the previous year, appearing in various accounts are brought forward at the beginning of the new accounting year by means of a journal entry known as opening entry to incorporate the previous balances in a new set of accounts. All the Assets Accounts are debited and liabilities Accounts are credited. The difference between the assets and liabilities is credited to capital account.

Illustration 5 (Opening entry)

Pass the opening entry in the books a trader.

Jan 1. 2007

Debit balances : Cash Rs.80,000, Bank Balance 2,50,000

Stock Rs.2,00,000, Furniture Rs.14,000, Buildings Rs.5,00,000, Debtors Rs.40,000

Creditors Rs.50,000, Bill payable 40,000

Solution :

Date	Particulars		L.F.	Dr. Amount Rs.	Cr. Amount Rs.
Jan 1	Cash Account	Dr		80,000	
	Bank Account	Dr		2,50,000	
	Stock Account	Dr		2,00,000	
	Furniture Account	Dr		14,000	
	Buildings Account	Dr		5,00,000	
	Debtors Account	Dr		40,000	
	To Creditors Account				50,000
	To Bills Payable Account				40,000
	To Capital Account				9,94,000
	(Balancing fig.)				
	(Being balances brought in from last year)				

Illustration - 6

Journalise the following transactions in books of M/s Rohit & Co.

Jan, 1-2007

Assets : Furniture Rs.50,000, Machinery Rs. 1,00,000,

Stock Rs.40,000, Cash Rs.5,500 Bank Rs.75,000

Liabilities : Creditors Rs.80,000

		Rs.
Jan 1	Purchased goods from Amit	45,000
Jan 3	Sold goods	15,000
Jan 5	Paid Creditors by Cheque	5,000
Jan 10	Deposited into Bank	28,000
Jan 13	Sold goods to Ramvilas	30,000
Jan 15	Paid for postage	1,000
Jan 16	Received cash from Debtors	5,000
Jan 17	Paid telephone charges	1,000
Jan18	Cash sales	15,000
Jan19	Purchased goods	20,000
Jan 20	Bought goods from Arun for cash	30,000
Jan 21	Goods returned to Amit	1,000

Jan 22	goods returned by Arun	500	
Jan 23	Travelling expenses paid	1,000	
Jan 24	Old Furniture sold (book value is Rs.6,000)	5,000	
Jan 31	Paid Salaries	10,000	
	Wages		5,000
	Rent	4,000	

In the books of M/s. Rohit & Co
Journal

Date	Particulars		L.F.	Dr. Amount Rs.	Cr. Amount Rs.
2007					
Jan 1	Furniture Account	Dr		50,000	
	Machinery Account	Dr		1,00,000	
	Stock Account	Dr		40,000	
	Cash Account	Dr		5,500	
	Bank Account	Dr		75,000	
	Debtors Account	Dr		30,000	
	To Creditors Account				80,000
	To Capital Account				2,20,500
	(Balancing figure)				
	(Being Assets and liabilities brought forward from last year)				
Jun 1	Purchases account	Dr		45,000	
	To Amit Account				45,000
	(Being goods purchased from Amit)				
Jun 3	Cash Account	Dr		15,000	
	To Sales Account				15,000
	(Being goods sold for cash)				
Jun 5	Creditors Account	Dr		5,000	
	To Bank Account				5,000
Jun 10	Bank Account	Dr		28,000	
	To Cash Account				28,000
	(Being Cash deposited into Bank)				
Jun 13	Ram vilas Account	Dr		30,000	
	To Sales Account				30,000
	(Being goods sold on Credit)				

Jun 15	Postage Account Dr		1,000	
	To Cash Account			1,000
	(Being Postage paid)			
Jun 16	Cash Account Dr		5,000	
	To Debtors Account			5,000
	(Being cash received from Debtors)			
Jun 17	Telephone charges Account Dr		1,000	
	To Cash Account			1,000
	(Being Telephone Charges paid)			
Jun 18	Cash Account Dr		15,000	
	To Sales Account			15,000
	(Being Cash Sales)			
Jun 19	Purchases Account Dr		20,000	
	To Cash Account			20,000
	(Being goods purchased)			
Jun 20	Purchases Account Dr		30,000	
	To Cash Account			30,000
	(Being goods purchased for cash)			
Jun 21	Amit Account Dr		1,0000	
	To purchase returns account			1,000
	(Being goods returned to Amit)			
June 22	Sales returns Account Dr		500	
	To Arun Account			500
	(Being goods returned by Arun)			
June 23	Travelling expenses Account Dr		1,000	
	To Cash Account			1,000
	(Being Travelling exp. paid)			
June 24	Cash Account Dr		5,000	
	Loss on sale of furniture A/c Dr		1,000	
	To Furniture Account			6,000
	(Being old furniture sold and loss incurred)			
June 31	Salaries Account Dr		10,000	
	Wages Account Dr		5,000	
	Rent Account Dr		4,000	
	To Cash Account			19,000
	(Being various expenses paid)			

2.7 Summary :

Business transactions are at first written in a book called journal. Business transactions are of two types 1) Cash transactions 2) Credit transactions. If the name of the person is given and it does not contain the word 'for cash' then it is a credit transaction. At the same time if the name of the person does not appear it is always a cash transaction. In a going concern the balances of the previous year relating to assets and liabilities brought forward into the current years books with a journal entry called opening entry.

2.8. Self Assessment Questions :

1. Write down the advantages of using a journal.
2. List out 10 Nominal accounts.
3. What are personal accounts.
4. Give the form of Journal.
5. What is narration ?
6. What are the steps to be taken for journalising.
7. What are the important points you have to bear in mind, while writing journal entries ?

2.9. Exercises :

1. **Prepare a journal for the following transactions.**

2007		Rs.
Jan 1	Introducted Capital	50,000
Jan 10	Bought goods for cash	18,000
Jan 12	Withdrew cash for personal use	5,000
Jan 15	Sold goods to Ram for cash	7,000
Jan 18	Goods taken for personal use	1,000
Jan 20	Paid Mohan his salary	2,000

2. **Journalise the following transactions.**

2007		Rs.
Jan 1	Rent Received	1,000
Jan 2	Purchased office furniture	2,000
Jan 3	Machinery installation expenses	600
Jan 4	Paid into Bank	1,500

3. **Journalise the following transactions in the books of A.**

2007		Rs.
Jan 1	Paid wages to Srinadh	3,000
Jan 2	A brought capital	1,00,000

Jan 3	Purchased Machinery	30,000	
Jan 4	Paid into bank	70,000	
Jan 5	Purchased furniture on credit from Z & Co	40,000	
Jan 6	Paid cheque to Z	25,000	

4. **Journalise the following transactions in the books of Sateesh.**

2007			Rs.
Sept. 1	Sateesh commenced business with	75.000	
Sept 2	Deposited into Bank	30,000	
Sept 5	Purchased furniture and paid by cheque	1,500	
Sept 7	Goods purchased from Sri Vidya	20,000	
Sept 9	Goods returned to Sri vidhya	400	
Sept 13	Paid to Sri vidhya in full settlement	19,500	
Sept 17	Goods sold to Prakash	500	
Sept 20	Goods distributed by way of free samples	1,000	
Sept 24	Commission received	250	
Sept 30	Paid salaries	5,000	

5. **Journalise the following transactions in the books of Rajesh.**

2007			Rs.
Mar 1	Started business with	10,000	
Mar 2	Furniture purchased paid by cheque	2,000	
Mar 3	Cash drawn from bank for personal use	500	
Mar 4	Paid to Ram lal in full settlement of his debt Rs.6,000/-	5,940	
Mar 5	Paid for stationery	200	
Mar 7	Paid salaries	2,000	

6. Journalise the following transactions in the books of A.

2007			Rs.
Mar 2	Paid to Satish in full settlement of his account Rs.3000	2,800	
Mar 4	Cash Purchases	2,000	
Mar 5	Cash Sales		5,000
Mar 7	Amount received from Aravind	7,000	
Mar 8	Cash with drawn from bank for personal use	1,000	
Mar 9	Stationery purchased	500	
Mar 10	Furniture purchased	5,000	
Mar 11	Wages paid		700
Mar 12	Goods sold to Rajesh	2,500	
Mar 13	Goods purchased from Akash	7,800	
Mar 15	Goods returned to Akash	150	

7. From the following information find out the opening capital and pass opening entry.

	Rs.
Cash in hand	1800
Stock	2,400
Bills payable	1,000
Plant and Machinery	1,000
Debtors	500
Creditors	800
Investments	2,000
Loan from X	1,500

8. Journalise the following transactions.

2007		Rs.
1	Interest paid on loan	750
2.	Amount received from X whose account was previously written off	5,000
3.	Interest received	2,000
4.	Purchases	1,200
5.	goods sold to Sri Ram	1,200
6.	goods purchased from Hari Ram	800
7.	Sales to Y	550
8.	goods purchased from Durga & Co for cash	750
9.	Sales to Ram Saran	600
10.	Purchases from Sai Ram	1,000
11.	Cheque Received from Y and	500
	allowed discount	50

9. Journalise the following transactions.

2007		Rs.
Jan 1	Commenced business with a capital	4,50,000
Jan 4	Opened current account in Bank by cheque	1,50,000
Jan 10	Cash purchases	15,000
Jan 12	goods distributed by way of samples	5,000
Jan 15	goods purchased from X	20,000
Jan 20	Paid to X in full settlement	19,000
Jan 24	Commission received	2,500
Jan 25	Withdraw from bank for office use	5,000
Jan 26	Paid commission	500
Jan 27	Paid Rent	3,000

Jan 31	Paid Salaries	2,500

10. Journalise the following transactions in the books of a Trader. on 1-4-2007.

Cash in hand Rs.8,000; Cash at Bank Rs.25,600/- Stock of goods Rs.20,000; Buildings Rs.14,000. Debtors Rs.8,100, Creditors Rs.18,300. Mrs Loan Rs. 10,000.

2007		Rs.
Apr. 2	Purchased goods worth	5,000
Apr. 3	Received from debtors	2,646
	Discount allowed	54
Apr. 4	Paid to Creditors	5,300
Apr. 5	Paid for Charity	100
Apr.6	Postage	200
Apr. 7	Stationery	250

11. Journalise the following transactions.

2007

Aprl 1	Bought machinery for Rs. 2,40,000
Aprl 2	Installed the above machine, charges paid being Rs.3,100
Apr. 3	Withdrew cash from bank Rs.5,000 for office use.
Apr. 5	Paid salaries to staff Rs.1,700
Apr. 7	Sold goods to Shyam Rs.7,500
Apr.8	Shyam paid cash Rs.3,000 for partial settlement

12. Pass journal entries for the following transactions.

2007		Rs.
Sept. 1	Bought goods	10,000
Sept 2	Paid commission	200
Sept 3	Received from S, our debtor	390
	in full settlement of his account of Rs400	
Sept 4	Cheque issued to R, our creditor	3,100
Sept 5	Bank charges	20
Sept 6	Sold goods to Ramesh	2,500
Sept 7	Sold goods	1,000
Sept 8	Purchase returns from Ramesh	100
Sept 9	Purchased Furniture	5,000
Sept 10	Paid Postage	100
Sept 11	Stationery purchased	250
Sept 12	Cash received from Ramesh	2,400

Sept 13	Cash deposited into bank	5,000
Sept 15	goods taken for personal use	500

13. Give journal entries to record the following transactions.

2007		Rs.
June 1	Misra commenced business with a capital of	2,50,000
June 1	Purchased a Motor car	1,00,000
June 2	Purchased from Amar	20,000
June 3	Sold goods	75,000
June 4	Returned goods to Amar	100
June 7	Sold goods to Badri	50,000
June 8	Badri returned	150
June 14	Purchased postage stamps	125
June 16	Paid for advertising	750
June 20	Paid office expenses	1,000
June 25	Draw cash for personal use	1,500
June 26	Cash sales	8,500
June 27	Paid insurance premium	2,900
June 30	Paid rent	6,000
June 30	Paid salaries	5,000
June 30	Electric charges	1,500
June 30	Telephone bill	2,300

2.10 SUGGESTED READINGS :

Financial Accoun tancy : Shukla Grewal
Financial Accountancy : Jain and Narang
Financial Accountancy : R.L. Gupta & V.K. Gupta

- Dr. Ch. Suravinda

Lesson-3

LEDGER

3.0 Objectives :

After going through this lesson the student can know what is a ledger ?

How different Accounts are prepared in the ledger, and How the transactions are posted into ledger Accounts from the journal and how they are balanced ? etc.

Structure :

3.1. Ledger - Introduction

3.2. Formet of Account

3.3. Posting the transactions from journal to ledger.

3.4. Balancing the ledger accounts.

3.5. Interpretation of Accounts.

3.6. Illustrations

3.7. Summary

3.8. Self Assessment Questions

3.9. Exercises

3.10 Suggested Readings

3.1. Introduction :

In the previous chapter we have seen how different transactions are recorded in the Journal. Business transactions entered in the journal in chronological order of their occurance. The transactions pertaining to a particular person, asset, expenses or income are recorded at different places in the journal as they occur on different dates. Hence journal fails to bring the similar transactions together at one place. To have a consolidated view of the similar transactions different accounts are prepared in the ledger.

Defintion : A Ledger account may be defined as a summary statement of all the transactions relating to a person, asset, expenses or income which have taken place during a given period of time and shows their net effect.

Journal is maintained only to facilitate the passing of entries in the ledger, It cannot give answers to the following questions.

1) What are the total sales to an individual ?

2) What are the total purchases from an individual ?

3) What is the amount of profit or loss made during a particular period ?

4) What is the financial position of the firm on a particular date ?

Ledger can give answers to these questions. So every entry recorded in the journal must be posted into the ledger. For ex: all cash transactions are grouped together and are recorded at one place under Cash Account in the ledger. The process of entering the transactions, which have already been recorded in to the journal, in the ledger is technically called posting.

3.2. Form of the Ledger Account :

An account is a summarised record of transactions relating to a particular person or thing. The ruling of an account is given below.

Name of Account

Dr Cr

Date	**Particulars**	**F**	**Amount**	**Date**	**Particulars**	**F.**	**Amount**
	To Name of Credit Account				By Name of Debit Account		

Each account in the ledger is divided into two equal parts by a vertical line or the account is in the form of letter 'T'. The left hand side of the account is known as debit side and the right hand side is called credit side. Each of the two sides is further divided into four columns for date, particulars, folio and amount.

The columns of the ledger Account are explained below :

1. The date of each transaction is entered in the date column.
2. The particular column is meant for indicating the name of the account that has got the other aspect of the transaction. Thus, we write on the debit side the name of the account indiciated in the credit part of the journal entry with the word 'To' before it. On the credit side the name of the account indicated in the debit part of the journal entry is written with the word 'By' before it.
3. 'F' stands for 'Folio'. The 'Folio' column is used for writing the page number of the journal in which the transaction has been originally recorded.
4. The amount of the transaction is shown in the amount column. This can be understood by the followng illustration.

Illustration I :

2007 April 1 goods sold for cash Rs.25,000.

Journal Entry

Date	Particulars	L.F.	Dr. Amount Rs.	Cr. Amount Rs.
2007 Aprl	Cash Account Dr To Sales Account (Being goods sold for cash)		25,000	 25,000

Posting is as follows :

Ledger

Dr **Cash Account** Cr

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
2007 Apr.	To Sales Account		25,000				

Dr **Sales Account** Cr

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
				2007 Apr.	By Cash Accoun		25,000

From the above we see that while posting from the Journal, the Debit account is debited and credit account is credited and the entry in each account indicates the account in which the corresponding Credit and Debit appears.

3.4. Balancing of Ledger Account :

For the purpose of preparation of the final accounts various ledger accounts should be balanced. Balance is the difference between the total debits and the total credits of an account. After finding out the balance it is written on the side showing the smaller total so as to make the totals of the two sides equal. This is called the ‘Balancing’ of an account. Balancing is done periodically. It may be daily, weekly, fortnightly, monthly, Quarterly or yearly when it is required.

The procedure of balancing accounts is as follows :

1. Take the totals of the two side of the account concerned.
2. Ascertain the difference between the totals of two sides.
3. Enter the difference in the amout column of the side showing less total, writing against

the difference in the particulars column " To Balance", c/d means carried down, on the debit side of the account and "By Balance c/d on the cedit side of the account. Now both sides will have the same total.

4. Write the date of balancing in the date column.
5. After entering the balance in the relevant amount column, write the total of each side. The total must be written on the same horizontal line. Draw one line above each total and two lines below the total.
6. The balance thus, entered is known as the closing balance.
7. This closing balance is now brought down and written below the total on the side having the bigger total by writing to Balance b/d or By Balance b/d.
8. Sometimes, the balance of an account may be nil that means the totals of both sides are the same. In such cases we will only enter the totals on both sides of the account.

3.5. Interpretation of ledger Accounts :

1. **Personal accounts :** These are more frequently balanced than others so as to know the amounts owed and owing. when the account of a person shows a debit balance, it indicates that he is a debtor. If the account of a person shows a credit balance, it means that he is a creditor.
2. **Real Accounts :** Real accounts are normally balanced at the end of each accounting period i.e; before preparing the final accounts. They generally show a debit balance and are Asset accounts.
3. **Nominal Accounts :** When nominal accounts are balanced debit balances indicate expenses or losses and credit balances indicates incomes and gains. At the end of the year each and every nominal account is closed by transfering to profit and loss Account.

3.6.Illustration 2 :

Journalise the following transactions post them into the ledger and balance the accounts.

2007		
Jan 1	Balu commenced business with cash	2,00,000
Jan 2	Parchased furniture for cash from R.C Broses	20,000
Jan 2	Purchased goods from Perumal	25,000
Jan 3	Sold goods for cash	15,000
Jan 4	Paid rent	5,000
Jan 6	Sold goods to Srinivas	10,000
Jan7	Srinivas returned goods	1,000
Jan 10	Bought goods from Dayakar	40,000
Jan 11	Returned goods to Dayakar	1,500
Jan 14	Paid for Stationery	2,500
	Advertisement	3,000
	Postage	500

Jan 17	Drew for personal use	2,000	
Jan 20	Cash sales	10,000	
Jan 21	Received from Srinivas	8,000	
Jan 22	Paid to Dayakar	20,000	
Jan 24	Sold goods to Sirisha	15,000	
Jan 28	Cash sales	45,000	
Jan 31	Paid salaries	12,000	
Jan 31	Paid Municipal taxes	1,000	
Jan 31	Goods taken for personal use	1,000	
Jan 31	Paid for printing	1,500	
Jan 31	Wages paid		3,000
Jan 31	Paid Electric Charges	2,200	

Date	**Particulars**		**L.F.**	**Dr. Amount Rs.**	**Cr. Amount Rs.**
2007	Cash Account	Dr		2,00,000	
Jan 1	To capital Account				200,000
	(Being Capital brought into business)				
Jan 2	Furniture Account	Dr		20,000	
	To Cash Account				20,000
	(Being furniture purchased for cash)				
Jan 2	Purchases Account	Dr		25,000	
	To Perumal Account				25,000
	(Being goods Purchased on credit from perumal)				
Jan 3	Cash Account	Dr		15,000	
	To sales Account				15,000
	(Being goods sold for cash)				
Jan 4	Rent Account	Dr		5,000	
	To cash Account				5,000
	(Being rent paid)				
2007	Srinivas Account	Dr		10,000	
Jan 6	To sales Account				10,000
	(Being goods solds on Credit)				

Jan 7	Sales Ruturns Account	Dr	1000
	To Srinivas Account		1000
	(Being goods returned by Srinivas)		
Jan 10	Purchases Account	Dr	40,000
	To Dayakar Account		40,000
	(Being goods Purchased from Dakayar on cridit)		
Jan 11	Dayakar Account	Dr	1500
	To Purchase returns Account		1500
	(Being goods returned to Dayakar)		
Jan 14	Stationery Account	Dr	25,000
	Advertisement Account	Dr	3,000
	Postage Account	Dr	500
	To cash Account		6,000
	(Being expencses paid)		

JOURNAL

Date	Particulars		L.F.	Dr. Amount Rs.	Cr. Amount Rs.
Jan 17	Drawings Account	Dr		2000	
	To cash Account				2000
	(Being Cash drawn for personal use)				
	Cash Account	Dr		10,000	
Jan 20	To sales Account				10,000
	(Being Cash Sales)				
Jan 21	Cash Account	Dr		8000	
	To Srinivas Account				8000
	(Being cash received from Srinivas)				
Jan 22	Dayakar Account	Dr		20,000	
	To Cash Account				20,000
	(Being Cash paid to Dayakar)				
Jan 24	Sirisha Account	Dr		45000	
	To Sales Account				15000
	(Being goods Sold for Cash)				
Jan 28	Cash Account	Dr		45,000	
	To sales Account				45,000
	(Being goods sold on credit)				

Jan 31	Salaries Account	Dr	12,000
	To cash Account		12,000
	(Being salaries paid)		
Jan 31	Municipal taxes Account	Dr	1000
	To cash Account		1000
	(Being Municipal taxes paid)		
Jan 31	Drawings Account	Dr	1000
	To purchases Account		1000
	(Being goods taken for personal use)		
2007	Printing Account	Dr	1,500
Jan 31	Wages Account	Dr	3,000
	Electric Charges Account	Dr	2,200
	To cash Account		6,700
	(Being various expenses Paid)		

LEDGER

Dr. **Cash Account** Cr

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
2007							
Jan 1	To Capital A/c		2,00,000	Jan 2	By Furniture A/c		20,000
Jan 3	To Sales A/c		15,000	Jan 4	By Rent A/c		5,000
Jan 20	To Sales A/c		10,000	Jan14	By Stationery A/c		2,500
Jan 21	To SrinivasA/c		8,000	”	By Advertisement A/c		3,000
Jan 28	To Sales A/c		15,000	”	By Postage A/c		500
				Jan 17	By Drawings A/c		2,000
				Jan 22	By Dayakar A/c		20,000
				Jan 31	By Salaries A/c		12,000
				”	By Municipal taxesA/c		1,000
				”	By Printing A/c		1,500
					By Wages A/c		3,000
					By Electric charges A/c		
2,200							
					By Balance c/ld		1,75,300
			2,48,000				2,48,000
Feb 1	To Balance bld		1,75,300				

Dr. **Capital A/C** **Cr**

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
				2007 Jan 1	By Cash A/c		00,000

Dr. **Furniture A/C** **Cr**

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
2007 Jan2	To Cash A/c		20,000				

Dr. **Purchases A/C** **Cr**

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
2007				2007			
Jan2	To Perumal A/c		25,000	Jan 31	By Drawings		1,000
Jan 10	To Dayakar A/C		40,000	Jan 31	By Balance c/d		64,000
			65,000				**65,000**
Fe 1	To Bal b/d		64,000				

Dr. **Perumal A/C** **Cr**

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
2007				2007			
Jan 31	To Balance c/d		25,000	Jan 2	By Purchases A/c		25,000
			25,000				**25,000**
				Feb 1	By Balance b/d		25,000

Sales A/C

Dr. Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs. Cr
2007				2007			
Jan 31	To Balance c/d		95,000	Jan 3	By Cash A/c		15,000
				Jan 6	By Srinivas A/c		10,000
				Jan 20	By Cash A/c		10,000
				Jan 24	By Sirisha A/c		15,000
				Jan 28	By Cash A/c		45,000
			95,000				**95,000**
				Feb 1	By Balance b/d		95,000

Rent A/C

Dr. Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs. Cr
2007				2007			
Jan 4	To Cash A/c		5,000	Jan 31	By Balance c/d		5,000
			5,000				**5,000**
Feb 1	To Balance b/d		5,000				

Srinivas A/C

Dr. Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs. Cr
2007				2007			
Jan 6	To Sales A/c		10,000	Jan 7	By Sales Returns		1,000
				Jan 21	By Cash A/c		8,000
				Jan 31	By Balance c/d		1,000
			10,000				**10,000**
Feb 1	To Balance b/d		1,000				

Dr. Sales Returns A/C Cr

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
2007				2007			
Jan 7	To Srinivas		1,000	Jan 31	By Balance c/d		1,000
			1,000				**1,000**
Jan 31	To Balance b/d		1,000				

Dr. Dayakar A/C Cr

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
2007				2007			
Jan 11	To Purchase returns		1,500	Jan 10	By Purchases		40,000
Jan 22	To Cash A/c		20,000				
Jan 31	To Balance c/d		18,500				
			40,000				**40,000**
				Feb1	By Balance b/d		18,500

Dr. Purchase Returns A/C Cr

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
2007				2007			
Jan 31	To Balance c/d		1,500	Jan 11	By Dayakar		1,500
			1,500				**1,500**
				Feb 1	By Balance b/d		1,500

Dr. Stationery A/C Cr

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
2007				2007			
Jan 14	To Cash A/c		2,500	Jan 31	By Balance c/d		2,500
			2,500				**2,500**
Feb 1	To Balance b/d		2,500				

Dr. **Advertisement A/C** **Cr**

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
2007				2007			
Jan 14	To Cash A.c		3,000	Jan 31	By Balance c/d		3,000
			3,000				**3,000**
Feb 1	To Balance b/d		3,000				

Dr. **Postage A/C** **Cr**

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
2007				2007			
Jan 14	To Cash A/c		500	Jan 31	By Balnce c/d		500
			500				**500**
Feb 1	To Balanceb/d		500				

Dr. **Drawings A/C** **Cr**

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
2007				2007			
Jan 17	To Cash A/c		2,000	Jan 31	By Balance c/d		3,000
Jan 31	To Purchases a/c		1,000				
			3,000				**3,000**
Feb 1	To Balance b/d		3,000				

Dr. **Sirisha A/C** **Cr**

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
2007				2007			
Jan 24	To sales A/c		15,000	Jan 31	By Balnce c/d		15,000
			15,000				**15,000**
Feb 1	To Balance b/d		15,000				

Dr. Salaries A/C Cr

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
2007				2007			
Jan 31	To Cash		12,000	Jan 31	By Balance c/d		12,000
			12,000				**12,000**
Feb 1	To Balance b/d						

Dr. Muncipal Taxes A/C Cr

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
2007				2007			
Jan 31	To Cash		1,000	Jan 31	By Balnace c/d		1,000
			1,000				**1,000**
Feb 1	To Balance b/d		1,000				

Dr. Printing A/C Cr

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
2007				2007			
Jan 31	To Cash A/c		1,500	Jan 31	By Balance c/d		1,500
			1,500				**1,500**
Feb 1	To Balance b/d		1,500				

Dr. Wages A/C Cr

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
2007				2007			
Jan 31	To Cash A/c		3,000	Jan 31	By Balance c/d		3,000
			3,000				**3,000**
Feb 1	To Balance b/d		3,000				

Dr. Electric Charges A/C Cr

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
2007				2007			
Jan 31	To Cash A/c		2,200	Jan 31	By Balance c/d		2,200
			2,200				**2,200**
Feb 1	To Balance b/d		2,200				

3.7 Summary :

After journalising the transactions relating to a particular account are brought together and recorded at one place in another book called the 'ledger' the process of entering the transactions in the ledger is technically called posting. The two aspects of every transaction have to be posted to the respective accounts in the ledger.

3.8. Questions :

1. What is a ledger ?
2. What is balance ?
3. Write a note on ledger posting with an example ?
4. Write the procedure followed for balancing an account with an example ?
5. Give form of the ledger Account.

3.9 Exercises :

1. Journalise the following transactions, post them into ledger ascertain the balances.

2007		Rs
Mar 1	Vishal started business with	80,000
Mar 4	Paid into Bank	25,000
Mar 7	Purchased goods for cash	10,000
Mar 9	Purchased goods from Ramana	8,000
Mar 11	goods sold for cash	16,000
Mar 14	goods returned to Ramana	500
Mar 19	Purchased furniture and paid by cheque	750
Mar 21	goods sold to Raja	1,000
Mar 23	goods returned by Raja	400
Mar 25	Paid wages	100
Mar 27	with drew from bank	2,000
Mar 28	Paid discount	1,000
Mar 31	Paid salaries	5,000
Mar 31	commission received	6,000

2. Journalise the following transactions, post them into the ledger and balance the accounts.

2007		Rs
Jan 1	Saroja commence business with20,000	
Jan 2	Purchased furniture for cash	4,000
Jan 2	Purchased goods for cash	1,800
Jan 4	Paid rent	1,500
Jan 6	Sold goods to	1,500
Jan 7	C retuned goods	175

Jan 10	Brought goods from D	5,000
Jan 11	Returned goods to D	200
Jan 14	Paid for advertising	350
Jan 15	Paid for stationery	150
Jan 17	Drew for personal use	500
Jan 20	cash sales	16,000
Jan 21	Received from C	525
Jan 23	Paid to B	3,000
Jan 24	Sold goods to E	3,500
Jan 28	Cash sales	2,000
Jan 31	Paid salaries	2,000
Jan 31	Paid Municipal taxes	300

3. Journalise the following transactions, post them into the ledger and balance the accounts.

2007		Rs
Jan 1	Nageswara Rao commenced business with cash	40,000
Jan 2	Purchased furniture for Cash from A & Co	11,000
Jan 3	Sold goods for cash	6,000
Jan 4	Paid rent	3,000
Jan 4	Sold goods to C	12,500
Jan 7	C returned goods	100
Jan 10	Bought goods from D	17,500
Jan 11	Returned goods to D	150
Jan 14	Paid for Advertising	750
Jan 15	Paid for stationary	2,000
Jan 17	Drew for personal use	1,500
Jan 20	Cash sales	2,500
Jan 21	Received from C in full settlement of his account	12,000
Jan 23	Paid to B	2,500
Jan 24	Sold goods to E	5,000
Jan 28	Cash sales	2,000
Jan 31	Paid salaries	2,000
Jan 31	Paid Municipal taxes	250
Jan 31	Paid printing charges	500

4. Give journal entries to record the following transactions.

2007		Rs
June1	Madhuri commenced business with cash	2,50,000

June1	Purchased a Motar truck	100,000
June2	Purchased goods from Gopal	30,000
June3	Sold goods	2,000
June4	Returned goods to Amar	1,000
June7	sold goods to chandra	3,500
June8	Chandra returned goods	150
June11	Cash purchases	6,000
June14	Purchased postage stamps	100
June16	Paid for advertising	1,000
June 20	Paid office expenses	400
June 25	Drew cash for personal use	2,000
June 26	Cash sales	1,800
June 27	Paid insurance premium	250
June 30	Paid rent	2,000
June 30	Paid salaries	7,000

3. **Journlise the following transactions post them into the ledger and balance the accounts.**

2007		Rs.
Sep 1	Manohar started business with	2,50,000
Sep 1	Brought Machinery	1,00,000
Sep 2	Brought furniture from	15,000
Sep 3	Purchased goods	15,500
Sep 7	Paid wages	3,000
Sep 9	Brought packing materials	15,500
Sep 10	Cash sales	4,000
Sep 11	Credit sales to krishna	7,000
Sep 14	Paid wages	1,500
Sep 15	Purchased goods from Ram	15,000
Sep 16	Returned goods to Ram	250
Sep 20	Purchased stationery	1,000
Sep 21	Brought postage stamps	350
Sep 23	Paid for repairs	400
Sep 24	Paid miscellaneous expenses	250
Sep 27	Paid printing charges	300
Sep 30	Paid Salaries	7,500
Sep 30	Paid to X	8,000

3.10 SUGGESTED READINGS :

Financial Accountancy : Shukla Grewal
Financial Accountancy : Jain and Narang
Financial Accountancy : R.L. Gupta & V.K. Gupta

- Dr. Ch. Suravinda

LESSON - 4

SUBSIDIARY BOOKS

4.0. Objectives :

After going through the lesson the student can identify various types of subsidiary books, Advantages of subsidiary books, recording of transactions in these books and their posting into the ledger.

Structure :

4.1 Introduction
4.2 Advantages
4.3 Classification
4.4 Purchases book
4.5 Sales book
4.6 Purchase Returns book
4.7 Sales Returns book
4.8 Journal proper
4.9 Summary
4.10 Questions
4.11 Exercises

4.1. Subsidiary Books Introduction

It has already been explained in an earlier chapter that journal is the book of prime entry. It means all business transactions are to be first recorded in the journal. In case of big business concerns, where the number of transactions are large in number, it is very inconvenient and cause delay in collecting any information required. To avoid the laborious task of recording transactions first in the journal and later posting them into ledger, an other method of recording the transactions in subsidiary books have been introduced which is also known as British system or practical system.

4.2. Advantages of subsidiary books :

The following are the advantages of subsidiary books :

1. **Convenience :** As stated above maintenance of one journal will make it quite bulky and difficult to handle. Sub-division of journal will result in reducing the size of journal and make it convenient to handle.
2. **Division of labour :** Sub division of journal helps in division of labour since different persons can write different journals.
3. **Classified information :** Each journal provides information relating to a particular aspect of the business. For example, purchases book gives information about the total credit purchases, sales book gives information about the total credit sales etc.
4. It would make easier the job of posting in the ledger, as the posting can be made in the form of totals once a month.
5. Additional information can be collected while maintaining a subsidiary book. For example, sales book can collect the information relating to the sales of different areas or of different sales man.

6. When the work is divided among the accounting staff and one person is required to do that work again and again, he becomes specialist of that work and his efficiency also increases.

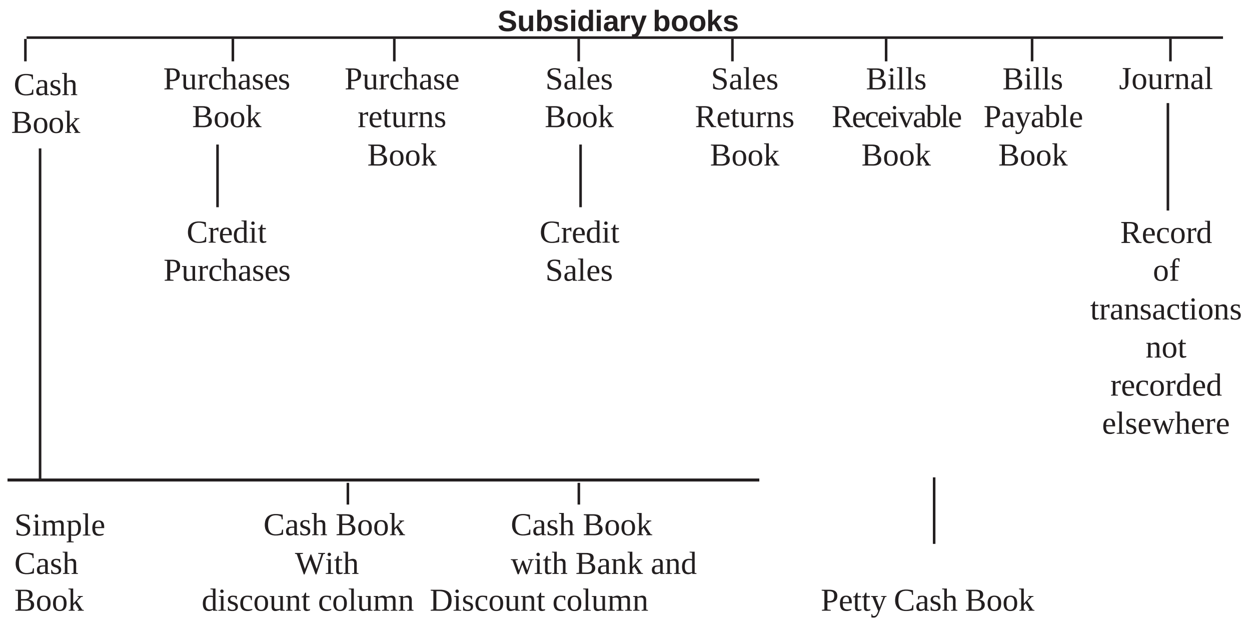
7. The existence of separate books helps location of errors, detection of frauds in case the trial balance does not agree.

4.3. Classification of subsidiary books :

The classification of various subsidiary books and the types of transactions to be recorded in these books are as follows

1. **Cash book :** This book deals with the transactions relating to the receipts and payments of cash. It shows cash in hand and at Bank.
2. **Purchases book :** The book is meant for recording all transactions of credit purchases of goods, It shows the total credit purchases of goods and materials made during a particular period.
3. **Sales Book :** The book is maintained to record all credit sales made is and will show total credit sales during a particular period.
4. **Purchase returns book :** This book is also known as returns outwards book. This book records all returns of goods previously purchased and will show total purchase returns during a particular period and also to a particular supplier.
5. **Sales Returns book :** It is also known as returns inwards book. This book is maintained to record all sales returns made by the customers and will shows the total returns inwards during a particular period.
6. **Bill Receivable Book :** This book is maintained to record all bills received from the customers during a particular period. It will also tell the various dates on which payments are to be received by the business.
7. **Bills payable Books :** This book records all acceptances made by the firm and will indicate the various dates on which payments of various bills are to be made.
8. **Journal proper :** All these transactions which could not be recorded in any of the above subsidiary books it will be recorded in this book.

A line chart of subsidiary books is as follow :



In this lesson we will deal with all types of subsidiary books except cash book, which will be dealt in the next lesson.

4.4. Purchases book :

This book is kept to record all credit purchases of goods for resale. Cash purchases of goods are entered in the cash book so these are not entered in the purchases book. This book is also known as invoice book. The ruling of purchases book is as follows

Purchases Book

Date	Particular	Invoice No.	L.F.	Details Rs.	Amount Rs.

In Date column, the date of the transaction is entered.

In particulars column the name of the party and particulars of the goods purchased are written.

In details column particulars regarding trade discount is written. At this stage the student must learn what is trade discount.

Trade Discount : Trade discount is the deduction allowed by the manufacturer to the whole saler or by the wholesaler to the retailer on the value of list price of the goods to enable the seller to make a profit by selling the goods at list price. There will be no entry for trade discount any where in books as it is merely a means of calculating the net selling price of the goods.

Illustration 1;

Write up purchases Book from the following transactions and post them into the ledger.

2007		Rs.
June 1	Bought goods for cash	4,000
June 4	Purchased goods from Vinayak Rs.10,000 less 10% trade discount	
June 11	Purchased goods from Siva & Co.	12,000
June 15	Purchased goods from Kesave for Rs.25,000 less 5% trade discount	
June 18	Purchased goods from Indira for cash	15,000
June 23	Purchased goods from Chandra	12,000

June 28	Bought goods from Amar subject to a trade discount of 10%	35,000
June 30	Purchased goods	10,000

Purchases Book

Date	Particulars	L.F.	Dr. Details Rs.	Cr. Amount Rs.
June 4	Vinayak, goods purchased		10,000	
	Less : Trade discount @ 10%		1,000	9,000
June 11	Siva & Co, goods purchased			12,000
June 15	Kesav goods purchased		25,000	
	Less : Trade discount @ 5%		1,250	23,750
June 23	Chandra, goods purchased			12,000
June 28	Amar, goods purchased		35,000	
	Less : Traded discount @ 10%		3,500	31,500
	Purchases account Dr			88,250

Ledger

Dr **Vinayak Account** Cr

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
2007				2007			
June 30	To Balance c/d		9,000	June 4	By purchases a/c.		9,000
			9,000				**9,000**
				July 1	By Balance b/d		9,000

Dr **Siva Account** Cr

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
2007				2007			
June 30	To Balanced c/d		12,000	June 11	By purchases a/c.		12,000
			12,000				**12,000**
July 1	By Balance b/d		12,000				

Dr **Kesav Account** **Cr**

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
2007				2007			
June 30	To Balanced c/d		23,750	June 15	By purchases a/c.		23,750
			23,750				**23,750**
July 1	By Balance b/d		23,750				

Dr **Chandra Account** **Cr**

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
2007				2007			
June 30	To Balanced c/d		12,000	June 23	By purchases a/c.		12,000
			12,000				**12,000**
July 1	By Balance b/d		12,000				

Dr **Amar Account** **Cr**

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
2007				2007			
June 30	To Balanced c/d		31,500	June 28	By purchases a/c	.	31,500
			31,500				**31,500**
July 1	By Balance b/d		31,500				

Dr **Purchases Account** **Cr**

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
2007				2007			
June 30	To Cash A/c		4,000	June 30	By Balance c/d		1,29,250
	To Cash A/c		15,000				
	To Chandra A/c		12,000				
	To Amar A/c		10,000				
	To Amount as per purchase book		88,250				
			1,29,250				**1,29,250**

Dr **Cash Account** **Cr**

Date	**Particulars**	**F**	**Amount Rs.**	**Date**	**Particulars**	**F.**	**Amount Rs.**
2007				2007			
				June 1	By purchases A/c		4,000
				June 18	By purhcases A/c		15,000
				June 30	By purchases A/c		10,000

Note : Cash Account can not be balanced because the information regarding other items is not available.

4.5. Sales books :

This book is used for recording only the credit sales of goods in which its business man deals. This is also called as sales day book. The ruling of the sales book is as follows :

Sales book

Date	Particulars	Outward invoice Number	L.F.	Details Rs.	Amount Rs.

Recording in the sales books :

The entries in the sales Journal are made in the following manner.

1. **Date column :** The date of credit sale is recorded.
2. **Particulars column :** The name and address of the customer to whom goods are sold on credit are recorded.
3. **Outword invoice number column :** The number of outward invoice is to be entered in this column.
4. **L.F.:**In L.F. column the page number of the customers account in the ledger is entered
5. **Account column :** In the amount column the amount actually receivable by the businss man i.e. catalogue price minus trade discount should be entered.

Illustration 2

Enter the following transactions in the sales book of a trader and post into ledger.

2007

April 1	Sold good to Harsha & Co for Rs.30,000. Trade discount @10%	
April 3	Sold goods to Preethi & Co for cash	Rs.50,000
April 5	Sold goods for Rs.15,000	
April 8	Sold goods to Pranya for @ 10% trade discount	Rs.50,000
April 7	sold goods to Jagan for Rs.40,000 @ 7.5% trade discount	

Sales Book

Date	Particulars	atward Invoice No.	L.F.	Details Rs.	Amount Rs.
2007					
April 1	Harsha & Co, sale of goods on credit			30,000	
	Less : Trade discount @ 10%			3,000	27,000
April 7	Pranya, sale of goods on credit			50,000	
	Less : Trade discount @ 10%			5,000	45,000
April 7	Jagan, Sale of goods on credit			40,000	
	Less : Trade discount @ 7.5%			3,000	37,000
	Sales Account Cr				1,09,000

Ledger

Dr **Harsha & Co Account** **Cr**

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
2007				2007			
April 1	To Sales A/c		27,000				

Dr

Pranya Account **Cr**

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
2007				2007			
April 7	To Sales A/c	45,000					

Dr **Jagan Account** **Cr**

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
2007							
April 7	To Sales A/c		37,000				

Dr **Sales Account** **Cr**

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
2007				2007			
April 7	To Balance c/d		1,74,000	Aprl 3	By cash A/.c		50,000
				Aprl 5	By cash A/c		15,000
				Aprl 7	By sundries as per sales book		109,000
			1,74,000				1,74,000
				Apr. 8	By Balance b/d		1,74,000

Dr **Cash Account** **Cr**

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
2007				2007			
Aprl 3	To Sales		50,000				
Aprl 6	To Sales		15,000				

4.6. Purchase returns Book :

The purchase returns book is used for recording the returns of goods to suppliers. It is also used to record allowances for damages claimed in respect of goods purchased. In any business it may become necessary to return the goods purchased, partly or fully. The reason may be that the goods are defective, or damaged in transit. The business man may, therefore, return them to the supplier.

When goods are returned to a supplier a statement called 'Debit Note' is sent to him. It informs him that his account is debited to the extent of the value of goods returned.

The ruling of the purchase returns book is as follows.

Format of purchase Returns Book

Date	Particulars	Debit Note Numbers	L.F.	Details	Amount Rs.

Recording in the purchase return book :

1. **Date column :** The day on which the goods are returned is entered in the Date column.
2. **Particulars :** The name and address of the supplier to whom goods are returned is entered in the particulars column.
3. **Debit Note number :** The serial number of Debit Note is to be entered in this column.
4. **L.F. column :** The ledger page number of the supplier's account is entered in L.F. column.
5. **Details column :** Any information may be recorded.
6. **Amount column :** The net value of the goods returned is entered in this column.

4.7. Sales Returns Book :

The sales returns book is used for recording goods returned by the customers. This is also called returns inward book as goods are coming in.

When a customer returns goods a credit note is prepared and sent to the customer. It has the name and address of the customer, description of the goods received which are returned by the customer etc. It informs the customer that his account is credited to the extent of the value of goods returned to him. The credit note is the basis for recording in the sales returns book. Credit notes are consecutively numbered and their copies filed.

The ruling of the sales returns book is as follows.

Sales Returns Book

Date	Particulars	Debit Note Numbers	L.F.	Details	Amount Rs.

Recording in the sales returns books :

Date column : Enter the date of the credit note in the Date column.

Particulars : Name and address of the customer who has returned goods is entered in this column.

Credit Notes Numbers : Credit note number in this column.

LF column : The ledger page number of the customer's in the L.F. column.

Amount column : Net value of goods returned is entered in this column.

Illustration 3 :

Enter the following transactions of Gopi Krishna & Co in proper books.

2007

Jan 1	Purchased on credit from Guntur digitals
Jan 12	Water heaters @ Rs.4,000 each
Jan 10	Ceiling Fans @ Rs1,000 each
Jan 15	Room coolers @ Rs.3,500 each
	Trade discount @10%
Jan 5	Sold on credit to Ajay Enterprises
Jan 6	Water heater @ Rs. 5,000 each
Jan 5	Ceiling Fans @ Rs. 1,200 each
Jan 5	Room coolers @ Rs.4,000 each
Jan 7	Retruned to Guntur digitals 2 water heaters and 1 Room cooler as defective.
Jan 10	Ajay Enterprises returned 1 ceiling Fan
Jan 11	Returned the same to Guntur digitals.
Jan 14	Purchased from Vijay Electronics on credit 20 T.V. stabilizers @ 1,500 each less 20% trade discount.
Jan 19	Sold to Mahaveer Electronics 10 stabilisers @ 600 less 10% discount
Jan 20	Sold one stabiliser @ Rs.600/-
Jan 22	Purchased on credit 20 Fans from Usha Enterprises @ Rs.1,200 each less 20% discount.
Jan 26	Sold to Murthy & Sons on credit 15 Fans @ Rs.1,400 each less 10% discount.
Jan 30	Murthy & Sons returned one fan as defective which in turn returned to Usha Enterprises.

Solution :

GOPI KRISHNA & CO BOOKS.

Dr. **Purchases Book** **Cr.**

Date	Particulars	L.F.	Details Amount Rs.	Amount Rs.
2007				
Jan1	Guntur Digitals, goods purchased			
	12 water heaters @ Rs.4,000 each			48,000
	10 ceiling Fans @ Rs.1,000 each		10,000	
	15 room coolers @ Rs.3,500 each			52,500
			1,10,500	
	Less : Trade discount @ 10%		11,050	99,450

Date	Particulars	L.F.	Details Amount Rs.	Amount Rs.
Jan 14	Vijay Electronics good purchases			
	20 T.V. stabilizers @ 1,500		30,000	
	Less : Trade discount @ 20%		6,000	24,000
Jan 22	Usha Enterprises goods		24,000	
	20 Fans @ Rs.1,200 each		24,000	
	Less : Trade discount @ 20%		4,800	19,200
Jan 31	Total purchases acccount Dr			1,42,650

Dr. Sales Book Cr.

Date	Particulars	L.F.	Details Amount Rs.	Amount Rs.
2007				
Jan 1	Ajay Enterprises, goods sold			
	6 water heaters @ Rs. 5,000 each			30,000
	5 ceiling fans @ Rs.1,200 each		6,000	
	Room coolers @ Rs.4,000 each		20,000	
				56,000
Jan 19	Mahaveer Electronics, goods sold			
	10 stabilisers @ Rs.600		6000	
	Less : Trade discount @ 10%		600	5,400
Jan 26	Murthy & sons, good sold			
	15 Fans @ Rs.1,400 each		21,000	
	Less : Trade discount @ 10%		2100	18,900
Jan 31	Total sales Account Cr			80,300

Dr. Purchase Returns Book Cr.

Date	Particulars	L.F.	Details Amount Rs.	Amount Rs.
2007				
Jan 7	Guntur Digitals			
	1 Room cooler @ Rs.3,500 each		3,500	
	Less : Trade discount @ 10%		350	3,150
Jan 11	Guntur Digitals			
	1 ceiling Fan @ Rs.1,000 each		1,000	
	Less : Trade discoung @ 10%		100	900

Jan 30	Usha Enterprises			
	1 Fan @ Rs.1200 each		1,200	
Jan 31	Less : Trade discount @ 10%		120	1,080
	Total purchse returns book cr.			5,230

Dr. Sales Return book Cr.

Date	Particulars	L.F.	Details Amount Rs.	Amount Rs.
2007				
Jan 19	Ajay Enterprises			
	1 ceiling Fan @ Rs.1,200			1,200
Jan 30	Murthy & Sons			
	1 Fan @ Rs.1,400		1,400	
	Less : Trade discount @ 10%		140	1,260
Jan 31	Total sale return account Dr			2,460

Dr. Guntur Digital Account Cr.

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
2007				2007			
Jan 7	To purchase Return A/c		3,150	Jan 1	By Purchase A/c		99,450
Jan 11	To Purchase's Return A/c		900				
Jan 31	To Balance c/d		95,400				
			99,450				**99,450**
				Feb 1	By Balance b/d		95,400

Dr. Vijay Electronics Account Cr.

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
2007				2007			
	To Balance c/d		24,000	Jan 14	By purchase a/c		24,000
			24,000				**24,000**
				Feb 1	By Balance b/d		24,000

Dr. Usha Enterprises Account Cr.

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
2007				2007			
Jan 30	To purchase Returns A/c		1,080	Jan 22	By Purchases A/c		19,200
Jan 31	To Balance c/d		18,120				
			19,200				19,200
				Feb 1	By Balanceb/d		18,120

Dr. Purchases Account Cr.

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
2007				2007			
Jan 31	To Amount as per purchase's book		1,42,650	Jun 31	By balance c/d		1,42,650
			1,42,650				1,42,650
Feb 1	To Balance b/d		1,42,650				

Dr. Ajay Enterprises Account Cr.

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
2007				2007			
Jan 1	To Sales A/c		56,000	Jan 10	By Sales returns a/c		
1,200							
				Jan 31	By Balance c/d		54,800
			56,000				**56,000**
Feb 1	To Balance b/d		54,899				

Dr. Mahaveer Electronics Account Cr.

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
2007				2007			
Jan 19	To Sales A/c		5,400	Jan 31	By Balancec/d		5,400
Feb 1	To Balance b/d		**5,400**				**5,400**

Dr. Murthy & Sons Account Cr

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
2007				2007			
Jan 26	To Sales A/c		18,900	Jan 30	By Sales Returns A/c		1,260
				Jan 31	By Balance c/d		17,640
			18,900				**18,900**
Feb 1	To Balance b/d		17,640				

Dr. Sales Account Cr.

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
2007				2007			
Jan 31	To Balance c/d		80,300	Jan 31	By amount as per sales Book		80,300
			80,300				**80,300**
				Feb 1	By Balance c/d		80,300

Dr. Purchases Returns Account Cr.

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
2007				2007			
Jan 31	To Balance c/d		5,230	Jan 31	By Amount as per purchase returns book		5,230
			5,230				**5,230**
				Feb 1	By Balance b/d	5,230	

Dr. Sales Returns Account Cr.

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
2007				2007			
Jan 31	To Amount as per sales return book		2,460	Jan 31	By Balance c/d		2,460
			2,460				**2,460**
Feb1	To Balance b/d		2,460				

In addition to these four books if in any concern, the number of transactions relating to bills receivable and Bills payable are numerous in number then separate books for recording these transactions can be opened in the books. The ruling for these books also the same.

4.8 Journal proper :

In addition to these subsidiary books, as in the case of the previous four books. The original journal now called "Journal proper" is also used to record all other transactions which can not be recorded in any of the afore said books. The Journal proper is similar to the journal in ruling and form.

4.8.1 Types of transactions recorded in Journal Proper :

The following types of transactions are usually recorded through journal proper.

1. Opening entries.
2. Closing entries.
3. Adjustment entries.
4. Rectification entries.
5. Transfer entries.
6. Other entries.

4.9 Summary :

Journal is the book of prime entry in which all transactions are recorded. But when the transactions are numerousm it is impossible to record all the transactions in one journal. Hence the need for special journal for recording the transactions which are numerous in number araised. These books are known as subsidiary books. Purchases book and sales books are meant for recording only credit transactions of purchases and sales respectively.

All transactions which cannot be recorded in any of the special books are recorded in a journal known as journal proper.

4.10. Questions :

1. What is the need for special journals ?
2. What do you understand by subsidiary books ?
3. What are the advantages of subsidiary books ?
4. What is a journal proper ?
5. Name various types of subsidiary books and explain the method of recording of transactions there in along with the method of posting.
6. State the types of transactions that are recorded through the journal proper.
7. What is journal proper? Explain its uses in accountancy.

4.11. Exercises :

1. Record the following transactions in the purchases journal of M/s Soni & co and show the ledger posting.

2007		Rs.
Jan 2	Purchased goods from Chinku	4,000
Jan 3	Brought goods from Reni	5,400
Jan 4	Purchased from Santi	3,500

Jan 5	Brought goods from chinku with trade discount of 10%	2,000
Jan 6	Purchased from Sai goods subject to a discount of 20%	5,000
Jan 7	Venugopal sold us goods	1,800

2. Enter the following transactions in the sales Book of Yashodara. Traders.

2007

Apr 1	Sold 200 quintals of super fine rice @ Rs 1700 per quintal to A.P.Rice dealers with 10% discount.
Apr 3	Sold 500 quintals of Coarse rice @ Rs 1500 per quintal to super price shop at a discount of 5%
Apr 5	Sold 750 quintals of fine rice at the rate of 1600 per quintal to Gayatri Rice store at 7.5% discount

3. Enter the following transactions of Narayana & Co in proper books.

2007

Mar 1	Purchased on Credit from Guntur digitals Ltd. 55 water heaters @ 3,500 each 35 Electric stoves @ 500 each. 50 Electric Irons @ 600 each. Trade discount 20%
Mar 5	Sold on Credit to Joginder Singh & Sons. 45 water heaters @ 4000 each 30 Electric stoves @ 600 each. 42 Electric Irons @ 700 each. Trade discount 10%
Mar 7	Returned to Guntur Digitals, water heater and 1 Electric iron as defective
Mar 10	Joginder Singh & Sons returned two Electric Irons as defective
Mar 11	Returned the same Irons to Guntur digitals
Mar 12	Purchased from V. Guard, 50 stabilisers @ Rs 750 each less 15% discount.
Mar 18	Sold to Raj Electricals 10 stabilisers @ Rs 1000 each less 10% discount.
Mar 19	Sold two stabilisers for cash Rs 800 each
Mar 22	Purchased on credit 25 pedestal fans from Usha Co @ 1500 each less 20% discount.
Mar 26	Sold Siri & Co 5 pedestal fans @ Rs 1750/- at 10% discount

4. Enter the following transactions in the proper books.

2007

Apr 1 Purchased on credit from Bombay dying 1000 meters of shifting cloth @ 125 per metre. 1000 meters of pant cloth @ 250 per metre.

Apr 5 Purchased on credit from DCM Ltd. . 5000 meters of curtain cloth @ Rs 100 per metre.

Apr 10 Purchased on credit from Vimal textiles 1000 sarees @ Rs 500 per sarees 2,500 Meters of dressing material @ Rs 125/- Per metre.

Apr 15 Purchase on credit from Garden vareli 500 sarees @ Rs 350/- each 3000 Meters of dressing material @ Rs 100 per metre

Apr 20 Purchased for cash from NTC 1500 metres of linen @ Rs 10 per metre.

Apr 25 Purchased furniture for office use Rs 1000.

Apr 30 Sold old type writer for Rs 750/-

5. From the following particulars prepare sales book.

2007

Apr 1 Sold on credit to sundar & Co 15 Tables @ Rs 2,500 each

Apr 3 Sold to Chandra & Co dining table with six chairs @ Rs 22,000

Apr 5 Sold to Vijaya Krishna Hotel 35 cots @ Rs 15,000 each
35 Tables @ Rs 700 each, 35 dressing tables @ Rs 3,000 each.
35 stools @ Rs 200 each

Apr 15 Sold for cash one book shelf @ Rs 5,500

Apr 25 Sold to Red cross society
40 iron cots @ Rs 1500 each
40 Mattresses @ Rs 500 each.
40 pillows @ Rs 100 each.

Apr 30 Sold to Guntur club.
1 sofa set @ Rs 1,30,000/-
1 coffee Table @ Rs 2,000/-

6. Vasudeva Rao gives the following information about his business. Record them in the concerned subsidiary books and post them to ledger accounts.

2007

Mar 1 Purchased goods from Pragati & co at the list price of Rs 50,000 less 10% trade discount.

Mar 5 Sold goods to Raja Rao for Rs 75,000 Less 5% trade discount.

Mar 8 Returned goods to pragati & co at list price Rs 500/-

Mar 10 Raja Rao returns us goods at the list price Rs 5,000/-

Mar 13	Purchased goods from Akhil at the catalogue price of Rs. 2,00,000 less 20% trade discount.
Mar15	Sold goods to Pranav at the catalogue price of Rs.50,000 50000 less 10% trade discount
Mar 18	Returned goods to Akhil at the list price Rs 2,000
Mar 20	Pranav returns us goods at the list price Rs 5,000
Mar 22	Purchased goods from Jahnavi at Rs 80,000 less 10% trade discount.
Mar 25	Sold goods to Pavan for Rs 25,000
Mar 27	Sold goods Madan for Rs 15,000
Mar 28	Purchased goods from Sarma at the catalogue price Rs 7,500 less 10% discount.
Mar 29	Pavan returns us goods Rs 500.
Mar 30	Returned goods to sarma at the catalogue Price 750/-

7. From the following information find out the sales for the year.

1-7-2007	Balance of Debtors	1,00,000
	Cash received from Debtors	9,50,000
	Sales Returns	20,000
	Bad debts	30,000
31-12-2007	Balance of Debtors	2,00,000
	Cash sales	3,50,000

8. Following information is extracted from the books of M/s Radha Krishna & Co.

Who is hole sale cloth Merchant

2007

Jan 4	Sales to Veena & co 200 sarees @ Rs 450 each.
Jan 9	Sales to Kohinoor Bross for cash 150 sarees @ Rs 500 each 200 Blowse pieces @ Rs 35 each. Dress Material. 450 Dresses @ Rs 850/- each.
Jan 16	Sales to Bhavani textiles. 450 sarees @ Rs 350 each.
Jan 30	Sold old Furniture to Lakshman Rs 1,000 Prepare sales book.

4.12 SUGGESTED READINGS :

Financial Accountancy	**:**	**Shukla Grewal**
Financial Accountancy	**:**	**Jain and Narang**
Financial Accountancy	**:**	**R.L. Gupta & V.K. Gupta**

- Dr. Ch. Suravinda

LESSON - 5

CASH BOOK

5.0. OBJECTIVES : In the previous chapter you learned how purchases book, purchase Returns book, sales book and sales Returns book are prepared. In this lesson we will see How a cash book is prepared and various types of cash book.

Structure :

5.1..Introduction :

The number of transactions relating to cash are usually large because most of the business dealings ultimately resolve themselves into cash transactions, so it is necessary to keep a separate book for cash transactions. In the cash book daily record of the transactions relating to receipts and payment of cash are entered. It is a very important book of business due to following reasons.

1. Usually is any business concern the number of transactions relating to cash are more in number.
2. with the proper maintance of cash book the scope for committing fraud or misappropriation of cash can be reduced, and strict control is possible.
3. Timely collection of amounts from Debtors increase the financial position and the chances of its prompt payment to creditor, which in turn increase the reputation of business.

Cash book had a special character, that it acts dual role i, e. as a book of original entry as well as a ledger. It is a subsidiary book because all cash transactions are first recorded in the cash book and then posted to various accounts in the ledger. The recording of transactions in the cash book takes the shape of a ledger Account. Receipts of cash are entered on the debit side and payment of cash on the credit side, so there is no need of cash Account in the ledger.

The following are the types of cash Book.

1. Simple cash Book
2. Cash book with discount column.
3. Cash book with Bank and discount column.
4. Petty cash Book.

5.2 Simple Cash Book :

This types of cash book makes a record of all the receipts and payments of cash. All cash received will be recorded on the debit side and payments on the credit side. The ruling of this type of cash book is as follows.

SIMPLE CASH BOOK

Receipts					**Payments**				
Date	Particulars	R.N.	L.F	Amount Rs.	Date	Particulars	V.N.	L.F	Amount Rs.

When cash is received it is entered on the debit side of the cash Book in the amount coloum along with the name of the party paying the cash in the particulars column. Receipt number with which cash has been received by the cashier is written in the R.N. (Receipt No) column.. Similarly cash paid is entered on the credit side of the cash book. Each payment must be supported by a voucher and voucher number is entered in the V.N (voucher No.) column.

At regular periodic intervals, preferably daily, Cash Book should be balanced like other ledger accounts and the balance shown by it should be equal to cash in hand. The cash Book always shows a debit balance because, one cannot spend more than what he had.

Illustration 1 : Mr. Madan Mohan started business with Rs. 2,00,000 on 1st sep 2007. He deposited Rs 50,000 in his bank account. His transactions during the month were as follows.

2007		Rs.	
Sep. 2	Purchased table and chair for office use	25,000	
Sep. 4	Sold goods for cash	10,000	
Sep.5	Paid for Electric fittings.	2,000	
Sep.6	Paid expenses	500	
Sep.7	Paid wages		2,500

Solution :

Prepare the cash Book of Mr. Madan Mohan

Mr. Madan Mohan Books.

Receipts **Cash Book (SIMPLE)** **Payments**

Date	Particulars	R.N.	L.F	Amount Rs.	Date	Particulars	U.N.	L.F	Amount Rs.
2007									
Sep1	To Capital a/c			2,00,000	Sep 1	By Bank A/c			50,000
Sep 4	To Sales A/c			10,000	Sep 2	By Furniture A/c			25,000
					Sept 5	By Electric fittings A/c			2,000
					Sep 6	By Expenses A/c			500
					Sep 7	By Wages A/c			2,500
					Sep 7	By Balance c/d			1,30,000
				2,10,000					**2,10,000**
Sep 8	To bal b/d			1,30,000					

5.3. Two Column Cash Book :

This cash book has an additional column for discount along with cash column on each side of the cash Book. Discount column on the debit side represents cash discount allowed to customers and the credit side indicates cash discount received from creditors, cash columns are balanced but discount columns are not balanced but totalled.

At this juncture before we see how a two columnor cash book is prepared we have to know what cash discount donates ?

Discounts are of two types 1. Trade discount 2. cash discount.

As we have already discussed that trade discount is the discount allowed by the supplier on the catalogue price or listed price of a commodity. We have already learned the accounting treatment regarding trade discount in the previous lesson. Now in the current lesson we will learn about cash discount.

5.4. Cash Discount :

When a business concern sold goods on credit debitors arises similarly, when it purchased goods on credit creditors arises to the concern. To encourage payments by debtors, the concern makes an announcement that if they repay their dues within a particular date certain amount is allowed as discount. This is known as discount allowed, which is a loss to the concern and debited. Similarly our creditors also make the same announcement, to enjoy the amount of discount we pay the amounts due within that date. This is known as discount received, which is a gain and credited. Cash discount is the only discount appears in the books of accounts.

Now we will see how a two columnor cash book is prepared with an illustration.

5.5 Distinction between cash discount and trade discount :

The following are the differences between cash Discount and Trade discount.

Cash Discount	Trade Discount
1. Cash discount is allowance made by the receiver of cash to the payer for prompt payment.	1. Trade discount is an allowance made by the manufacturer or whole salers to the retailers.
2. Cash discount is recorded in the books of debtor and creditor.	2. Trade discount is not recorded in the books of either seller or buyer.
3. Cash discount is deducted from the amount of debt or net invoice price.	3. Trade discount is deducted from the catalogue price.
4. Cash discount arise at the time of receipt or payment i.e.. When cash is received or paid.	4. Trade discount appears at the time of purchase.
5. The main object of cash discount is to induce the debtors to pay promptly with in the stipulated period of credit.	5. The main object of trade discount is to enable the retailer to sell the goods at catalogue or list price and to keep some margin of profit.
6. Generally the cash discount percentage will be less.	6. Generally the Trade discount percentage will he higher.

Illustration : 2

Enter the following transactions in a Two column cash Book and post them into the ledger.

2007		Rs	
Jan 1	Cash is hand	20900	
Jan 3	Purchased goods for cash	5300	
Jan 5	Paid wages		2100
Jan 7	Withdrew from bank for expenses	9000	
Jan 7	Paid to Jishnu	2900	
	Discount Allowed by him	100	
Jan 10	Cash sales	5900	
Jan 13	Received cash from Madhava on account	9400	
	Discount allowed to him	100	
Jan 15	Purchased furniture from Achut	10,000	
Jan 16	Paid for postage stamps	100	
Jan 18	Additional capital introduced	5,000	
Jan 21	Received cash from Venugopal	8,850	
	Discount allowed	150	
Jan 24	Paid cash for travelling expenses	400	
Jan 26	Amount deposited in bank	10,000	
Jan 27	Cash paid to Bala Ram	4,550	
	Discount received	50	
Jan 28	Goods sold to Vamsi	2,700	
Jan 30	Paid salaries	4,500	

Jan 30	Cash purchases	4,800
Jan 30	Deposited into bank all cash in exceed of	4,000

Two column Cash Book

Receipts **Payments**

Date	Particulars	R.N	L.F	Dis-count Rs.	Amount Rs.	Date	Particulars	R.N	L.F	Dis-count Rs.	Amount Rs.
2007						2007					
Jan 1	To Bal b/d				20,900	Jan 3	By purhcases a/c				5,300
Jan 7	To Bank A/c				9,000	Jan 7	By Jishnu A/c			100	2,900
Jan 10	To Sales a/c				5,900	Jan 16	By Postage stamps				100
Jan 13	To Madhavaa/c			100	9,400	Jan 24	By Travelling exp.				400
Jan 18	To Capital a/c				5,000	Jan 26	By Bank				10,000
Jan 21	To Venugopal			150	8,850	Jan 27	By Bala Ram			50	4,550
						Jan 30	By Salaries				4,500
						Jan 30	By Purchases				4,800
						Jan 30	By Bank				22,500
						Jan 30	By Balance c/d				4,000
					59,050						**59.050**
Feb 1	To bal b/d				4,000						

Ledger Account

Bank Account

Dr. **Cr.**

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
2007				2007			
Jan 26	To Cash A/c		10,000	Jan 7	By cash A/c		**9,000**
	To Cash A/c		**22,500**				

Sales Account

Dr. **Cr.**

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
				2007			
				Jan 10	By cash A/c		**5,900**

Dr. **Madhava Account** Cr.

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
				2007	By cash A/c		9,400
				Jan 13	By Discount A/c		100

Dr. **Capital Acount** Cr.

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
				2007			
				Jan 18	By cash A/c		**5000**

Dr. **Venu gopal Account** Cr.

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
				2007	By cash A/c		8850
				Jan 21	By Discount A/c		150

Dr. **Purchases Account** Cr.

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
2007							
Jan 3	To Cash A/c		5,300				
Jan 30	To Cash A/c		4,800				

Dr. **Jishnu Account** Cr.

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
2007				2007			
Jan 7	To Cash A/c		2,900				
	To Discount		100				

Dr. **Postage stamps Accounts** Cr.

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
2007							
Jan 16	To Cash A/c		100				

Dr. Travelling expenses Account Cr.

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
2007							
Jan 27	To Cash A/c		400				

Dr. Bala Ram Account Cr.

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
2007							
Jan 27	To Cash A/c		4,550				
	To Discount A/c		50				

Dr. Salaries Account Cr.

Date	Particulars	F	Amount Rs.	Date	Particulars	F.	Amount Rs.
2007							
Jan 27	To Cash A/c		4,500				

5.6 Three Columnar Cash Book

Now - a- days most of the trade is carried through banks i.e, payments by cheque and receipt with cheque. In such a case the cash book should have a bank column in addition to the cash and discount columns to have a record of Bank Account in the cash book. This type of cash Book is known as Three column cash Book

In case a business man has bank accounts with two or more banks. There will be two or more bank colouns on each side of the cash book, depending upon the number of banks with which he has bank accounts.

When a three coloumnor cash book is maintaied no separate account of cash or Bank Account is required in the ledger. However. Separate Discount Accounts have to be opened in the ledger, one for the discount allowed and the other for discount received.

Contra Entry :

As explained above a three columnar cash book contains columns both for cash and bank transactions. An accounting transaction involves two accounts, and there may be a transaction where cash account and bank Account are involved. Since there are no separate cash account and Bank account in the ledger no posting will done from the cash Book. For example when cash is paid into the bank, it should be debited to bank Account by entering the amount in the bank column on the debit side of the cash Book as “To Cash” and credited to cash Account by entering the amount in the cash column on the credit side of the Cash Book as “By Bank” to record the fact of cash having gone out of the business As both the accounts are in the same book and both the effects are given in the same book, letter ‘C’ is written in the L.F column against this entry on each side of the cash book to indicate that the contra effect of this transaction is recorded on the opposite side. Such type of entry appearing on both sides of the cash Book is known as contra Entry.

Similarly when cash is with drawn from the bank for office use the entry would be to debit cash Account by entering the amount in the cash column on the receipts side of the cash Book as “To Bank” and to credit the bank column as “by cash” As both accounts involved appear in the cash Book. To indicate this as a contra transaction in L.F column, letter ‘C’ is written on both sides in the L.F column.

5.5.1. Points which should be kept in view while preparing a three columnor cash Book:

The following are the points which should be kept in view while making accounting entries in the cash Book.

1. **Receipt of Cheques :** If a cheque is received and immediately sent to the bank for collection, it should be debited in the bank column, but it is sent to the bank for collection on a later date, on the date of receipt it is treated as cash and debited in the cash column. When the cheque is sent to bank for collection, contra entry will be recorded in the cash Book by giving debit to bank column and by giving credit to the cash column.

In the absence of any specific instructions in the question the student should presume that the cheque received from a party was sent to the Bank on the same day for collection.

2. **Endorsement of cheques received:** A cheque received by the business may not be sent to the Bank for collection, but may be endorsed in favour of a creditor as it is a negotiable instrument. In such a case the cheque received will be taken as a receipt of cash, similarly the cheque endorsed, will be taken as payment of cash.

3. **Dishonoured cheque :** If a cheque sent to the bank for collection is dishonoured, it should be credited in the bank column of the cash book to cancel the previous debit given to the bank column when the cheque was deposited in the bank.

When a cheque endorsed to creditor dishonouerd no entry is passed in the cash Book because for recording the dishonour. The entry is

Customer’s Account Dr
To creditors Account

It is passed through the Journal proper.

The recording of transactions in three-columnar cash book and from there posting into the ledger will be clear with the help of the following illustration.

Illustration - 3

Enter the following transactions in a three column cash Book.

2007		Rs
Jan1	Cash in hand	8,550
Jan1	Balance at Bank	24,590
Jan3	Cash sales	17,500
Jan6	Received a cheque from Ram	1,500
Jan8	Paid into bank Ram cheque	
Jan10	Paid to Dasaradh by cheque	19,800
	Discount allowed by him	200
Jan12	Cash purchases	12,100

Solution :

Receipts
Payments

Cash Book (Three columns)

Date	Particulars	LF.	Discount	Cash Rs.	Bank Rs.	Date Rs.	Particulars Rs.	LF. Rs.	Discount Rs.	Cash	Bank
2007						2007					
Jan 1	To Bal b/d			8,550	24,590	Jan 8	By Bank a/c	C		1,500	
Jan 3	To Sales A/c			17,500		Jan 8	By Dasaradh a/c		200		19,800
Jan 6	To Ram a/c			1,500		Jan 12	By Purchses a/c			12,100	
Jan 8	To Cash /c	C		1,500		Jan 14	By cash a/c	C			5000
Jan 14	To Bank a/c	C		5,000		Jan 19	By Bank A/c	C		14,900	
Jan 15	To Anirudh a/c		100	14,900		Jan 21	By Stationery a/c			500	
Jan18	To Sales a/c			8,500		Jan 23	By commission a/c				750
Jan19	To Cash a/c	C			14,900	Jan 27	By Anirudh a/c		100		
Jan25	To Pradeep a/c				2,000	Jan 29	By Drawings a/c				14,900
Jan31	To bal c/d				10,010	Jan 31	By Salaries a/c				4000
											7,000
						Jan 31	By Bank Charges & Insurance				1550
				1,550							
						Jan 31	By Balance c/d			26,950	
			100	**55,950**	**53,000**				**300**	**55,950**	**53,000**
						Feb 1	To Balance c/d				
Feb 1	To Balance c/d			26,950							10,010

Jan14	With draw from bank for Office use	5,000
Jan15	Received cheque from Anirudh	14,900
	Allowed discount	100
Jan18	Cash sales	8,500
Jan19	Paid into Bank the cheque received from Anirudh.	
Jan21	Cash paid for stationery	500
Jan23	Paid commission by cheque	750
Jan25	Received cheque from pradeep and paid the same into Bank	2,000
Jan27	Anirudh's cheque dishonoured	
Jan29	Drew a cheque for personal use	4,000
Jan31	Paid salaries by cheque	7,000
Jan31	Bank charges & Insurance premium debited in the pass Book.	1,500

Illustration - 4

Enter the following transactions in a cash Book with Discount and Bank columns assuming that all payments are made by cheque and all receipts are immediately banked.

2007.		Rs
Mar 1	Paid into Bank	50,000
Mar 3	Purchased goods	22,000
Mar 7	Sold goods for cash	11,000
Mar 9	purchased goods	24,000
Mar 10	sold goods to Raju on credit	5,000
Mar 13	purchased goods from Gopi on credit	5,800
Mar 14	paid electricity charges	750
Mar 15	Received from Raju in full settlement	4,800
Mar 16	paid office rent	2,500
Mar 17	with drawn from book for petty payments	500
Mar 18	paid to Gopi in full settlement of his A/c	5,700
Mar 19	sold goods	21,000
Mar 20	sold goods to Ramanujam	8,000
Mar 21	purchased goods from Abhinav on credit	28,000
Mar 24	Received cash from Ramanujam in full settlement	7,850
Mar 25	paid to Abhinav on account in full settlement	27,800
Mar 26	paid salaries	15,000

Solutions :

Cash Book with Discount And Bank Columns

Receipts					**Payments**				
Date	Particulars	L.F	Discount Rs.	Bank Rs.	te	Particulars	L.	Discount Rs.	Bank Rs.
2007					2007				
Mar 1	To Cash A/c			50,000	Mar 3	By Purchases a/c			22,000
Mar 7	To Sales A/c			11,000	Mar 9	By Purchases A/c			24,000
Mar19	To Raju a/c		200	4,800	Mar14	By Electric chargesa/c			750
Mar24	To Sales A/c			21,000	Mar16	By Office Rent A/c			2,500
Mar28	To Ramanujam a/c		150	7,850	Mar17	By Petty Cash A/c			500
Jan 21	To Sales A/c			15,800	Mar18	By Gopi A/c		100	5,700
					Mar 25	By Abhinav A/c			27,800
					Mar 26	By Salaries A/c			15,000
					Mar 27	By Drawings			1,500
					Mar 29	By Purchases			3,000
					Mar 31	By Telephone charges			2,300
					Mar 31	By Balance c/d			10,400
			350	**1,15,450**				**350**	**1,15,450**
Feb 1	To bal b/d			10,400					

Mar 27	with drawn for personal use	1,500
Mar 28	sold goods for cash	15,800
Mar 29	purchased goods by cheque	3,000
Mar 31	paid telephone charges	2,300

5.6 Petty Cash Book :

In every business there are many payments which are of small amounts such as postage, cartage, stationery, cleaning charges etc. It is undesirable to burden the main cash Book with numerous small payments like the above so a separate book, called “petty cash Book is usually maintained. The person maintaining the petty cash book is known as petty cashier. All small payments to be made by cash are recorded in the petty cash book. The petty cashier works under the supervision of the chief cashier, who advances money in the beginning of every month/ the month/ quarter to meet petty expenses. At the end of the month / Quarter, the petty cashier submits a statement of account of the expenses incurred by him during the month / quarter and gets a fresh advance.

The best method of recording petty cash payments is to enter them in a petty cash Book maintained in a columnar from. In such a petty cash Book, a separate column for each head of expenditure is provided. The advantage of a columnar petty cash Book is that it saves unnecessary labour used in posting each item of petty cash payment separately in the ledger, only totals of various coluns are to be posted in the ledger this book is also known as Analytical petty cash Book because the various small cash payments get automatically analysed when they are entered in their respective columns.

The petty cash book is Just like the cash Book. The amount received by the petty cashier from the main cashier are entered on the debit side of the petty cash book and payments on the credit side of the petty cash book every small payment is entered twice on the credit side - one in the total payments column and second in one of the analytical amount column. The periodical total of each column is posted to the expenses accounts concerned, while the total of payments columns serves to find out the balance of cash with the petty cashier.

5.5.1 Imprest system of petty cash Book :

The petty cash Book is usually maintained on the basis of Imprest system. According to this system, a fixed amount is advanced to the petty cashier. He submits his accounts at the end of the period and the chief cashier after examining his accounts gives him a fresh advance equivalent to the amount spent by him during the period. Thus, in the beginning of each period the petty cashier has a fixed balance. The amount so advanced to him is termed as "Imprest"

The recording of transaction in a petty cash Book will be clear with the help of the following Illustration.

Illustration - 5

Prepare columnar petty cash Book on imprest system from the following particulars and post into the ledger.

2007		Rs
June 1	Received for petty Cash payments	2000
June 2	Paid for postage	160
June5	Paid for stationery	100
June 8	paid for Advertisement	200
June 12	paid for wages	80
June 16	paid for carriage	60
June 20	paid for conveyance	88
June 25	paid for travelling expenses	320
June 27	paid for postage	100
June 28	wages to office cleaner	40
June 30	paid for telegrams	80
June 30	sent register notice to land lord	15

Dr | Petty Cash Book | Cr

Amount Rs.	Date	Particulars	Total Rs	Postage Telgram	Printing Statonery	Advertisement	Wages	Carriage	Travelling	Misclenious
2007	2007									
	June 1	To Cash A/c								
	June 2	By Postage Ac160	160	160						
	June 5	By Stationery A/c	100		100					
	June 8	By Advertisement a/c	200			200				
	June 12	By Wages A/c	80				80			
	June 16	By Carriage A/c	60					60		
	June 20	By Conveyance	88						88	
	June 25	By Travelling exp.	320						320	
	June 27	By Potage A/c	100	100						
	June 28	By Wages A/c	40				40			
	June 30	By Telegrams A/c	80	80						
	June 30	By Postage A/c	15	15						
			1243	**355**	**100**	**200**	**120**	**60**	**408**	
	June30	By Balance	757							
2000			2000							
757	July 1	To Balance b/d								
1243		To Bank								

5.6 Summary :

In Any business concern the number of transactions in cash are more so it is necessary to keep a separate book for cash transactions. Cash book plays dual role one as a subsidiary book other as a ledger account. There are four types of cash book. Simple cash book is prepared with cash column. In two columnor cash book a discount column is maintained along with cash column. As most of the trade now - a - days is carried through banks a bank column is also maintained in tree columnor cash book along with cash and discount columns. To record petty expenses a separate petty cash book under Imprest system is prepared.

5.7 Questions :

1. Write down the types of cash book.
2. What is a contra entry ?
3. Write about the Imprest system of petty cash.
4. Explain cash discount.
5. Write down the distinction between cash discount and trade discount.

5.8 Exercises :

1. Prepare a cash book from the following information.

		Rs.
Jan 1	Balance of cash	7,000
Jan 10	Bought goods on credit from Z	3,000
Jan 11	Bought goods for cash	2,500
Jan 15	sold goods for cash	4,700
Jan 17	paid salary	1,000
Jan 18	with draw for personal use	500

2. Prepare a single column cash book with the information given below.

2007		Rs
Jan 1	Balance of cash in hand	700
Jan 2	Received from cash sales	10,500
Jan 4	cash purchases	5,400
Jan 5	paid staff salaries	1,200
Jan 6	paid x, creditor	3,100
Jan 7	Received from debtor	1,500

3. Prepare cash book from the following transactions.

2007		
Apr. 1	Started business with a capital	20,000
1	Purchased furniture	8,000
5	Cash purchases	4,000
6	Sold table	6,000

8	Sold goods to Prasad	4,100	
10	Paid wages		1,000

4. Prepare a three columnor cash book from the information given below.

2007		Rs
June 1.	Introduced capital	9,000
June 1	Deposited into Bank Account	7,000
June 4	Bought furniture payment made by cheque	5,000
June10	Bought stationery through cheque	1,000
June 15	Purchased goods through cheque	1,000
June 18	With drew Rs. 100 from bank for office use.	
June 20	sold goods on credit to suresh	1,500
June 22	Deposited into bank	500
June 25	Brought goods from Mahesh	1,000
June 26	sold goods, payment received in cheque and deposited into Bank	1,500
June 27	paid to Mahesh in full suttlement	980
June 30	Received from subhash in full settlement of his account	1,480
June 31	withdrew cash from Bank for Personal use	100

Ans : cash - Rs 3,080, Bank Rs 1,020

5. Prepare a cash book from the following information.

2006		Rs
December1	Cash in hand	3,000
	Bank Balance	12,000
December 2.	cash received from Ajay and a cheque received	1,500
December 3.	A cheque issued to Neeraj	450
	in full settlement of	470
December 4	cheque received from Ajay deposited into the bank	
December 6	cash sales	6,000
December 8	purchased goods from Anil for cash	2,000
December 10	Cheque received from Ajay dishonoured	
December 10	cash deposited into Bank	1,500
December 12	A cheque received from Sunil	2,100
	in full settlement of Rs	2,200
December 13	cheque received from sunil is endorsed to Vinod in full settlement of his account of	2,150
December 15	Bank charges debited in pass book	20
December 18	An advise received from the bank states that :	

a.	Mrs. sobha has directly deposited into bank	3,500
b.	The bank has collected interest on investments	250
c.	As per standing instructions the bank has paid insurance premium	300

December20 paid for stationery 100

December 23 Received a cheque from Imran on account 10,000

December 26 Paid salaries 2,000

December 29 cash withdrawn for office use 1,000

Ans :- cash Rs 4,900 Bank Rs. 25,480

6. Prepare three column cash book of suresh from the following information on 1st Jan 2007 suresh had Rs 900 in hand and Rs 13,000 at bank.

2007		Rs
Jan 2.	Received cheque from Arun in fulsettlement of debt Rs 1300	1,240
Jan 3	cash sales	500
Jan 3	paid for advertisement by cheque	700
Jan 4	Paid salaries and wages	870
Jan 4	Amount with drawn from bank for office use	1,200
Jan 5	Drawn cash for domestic use by suresh from bank	400
Jan 6	issued cheque in favour of Rao & sons	2,000
	Discount allowed	40
Jan 7	Received cheque from Mahata Bros	1,600
	discount allowed	40
Jan 18	sale of Machinery Payment Received by cheque	5,000
Jan 20	Bank returns cheque of Mehata Bros dishonoured	
Jan 25	New Machinery Purchased and cheque issued	20,000
Jan 26	Paid installation expenses in cash	1,000
Jan 28	Bank charges as per pass book	20

Ans :- cash Rs 730. Bank O.D Rs. 5080

7. Enter the following transaction in a cash book

2007		Rs
Jan 1	Cash in hand	5,374
	Balance at bank	15,490
Jan 3	cash sales	6,400
Jan 5	paid into bank	7,000

Jan 6	Received a cheque from Satyam	700	
Jan 8	Paid into bank satyam's cheque.		
Jan 10	Paid to Anurag by cheque on account	980	
	discount allowed by him	20	
Jan 12	cash purchases	2,500	
Jan 14	with drew from bank for office use	5,000	
Jan 15	Received cheque from lakshman	950	
	allowed discount	50	
Jan 16	cash sales	7,500	
Jan 19	paid into bank lakshman's cheque and cash	4,000	
Jan 21	cash paid for stationery	120	
Jan 23	paid commission to Rakesh	500	
Jan 25	Received cheque from Mohan	1,000	
	and paid the same into bank		
Jan 27	Lakshman's cheque dishoured		
Jan 29	Drew a cheque for personal use	800	
Jan 31	paid salaries by cheque	1,500	
	and by cash		500
Jan 31	Bank charges Rs 20 and Insurance premium Rs 520 as shown in pass Book.		

Ans : Cash Rs 8654 Bank Rs. 19,370

8. Enter the following transactions in three columnor cash book.

2007		Rs
March 1.	cash in hand	600
March 1	Bank balance	3,000
March 3	cash deposited into bank	2,000
March 5	cheque received from Narayan in full settlement	
	of his bebt Rs 530/-	500
March 8	Purchased goods from Narendra	1,000
	at 5% Trade discount	
	paid half in cash and the other in cheque.	
March 15.	Narayan's cheque dishonoured	
	and returned.	
March 20	Cash with drawn from Bank	
	For office use	300
	For personal use	200
March 25	office rent paid	500
March 27	Bank charges in pass book	10
March 29	salaries paid through cheque	500

March 30	Amount received from satyam	
	in cash	500
	through cheque	1,000
	Discount allowed	50.
March 31	Amount paid to Ramachandra Rs 475 in full settlement of Rs 500.	

Ans: cash Rs 250 Bank o.D. Rs 1485

9. Enter the following transactions in three columnor cash book.

2007		Rs
June 1	cash in Hand	5,000
	Balance at Bank	2,000
June 2	cash sales	2,000
June 4	Amount paid to Anil by cheque	800
June 5	cash purchases	1,100
June 6	cash received from customer	2,000
June 7	Amount with drawn from Bank for personal use 500.	

Ans : Bal cash Rs 6,900/- Bank Rs 1700/-

10. From the following information prepare a three columnor cash book.

2007		Rs
Mar 1	cash balance	55,000
	Bank balance	35,000
Mar 2	purchased goods paid by cheque	10,000
Mar 3	Business expenses paid	1,000
Mar 4	Cheque received from Naresh	30,000
	deposited the same into bank	
Mar 5	Amount paid to kumar in full	
	settlement of Rs 2,100	2,000
Mar 6	sold goods to vijay	5,000
Mar 10	cheque received from Naresh dishonoured.	
Mar 12	cheque received from vijay	5,000
Mar 14	cash withdrawn from Bank for	5,000
	personal expences	5,000
Mar 20	cash with drawn from bank for office use	6,000
Mar 24	cash sales	10,000
Mar 25	Deposited into bank	15,000
Mar 26	Amount received from Rekesh	
	in full settlement of his	5,900
	account of Rs 6,000	

Mar 31	Due to insolvency of a customer	
	Who due Rs 8000 only 50% received	

Ans : cash Rs. 62,900 Bank Rs. 34,000

11. Enter the following transactions in three columnor cash book.

2007		Rs
Jan 1	cash balance	15,000
	Bank balance	50,000
Jan 2	cash sales	40,000
Jan 5	Furniture purchased and paid	
	by cheque	8,000
Jan 6	Rent paid by cheque	5,000
Jan 7	cash deposited into bank	40,000
Jan 8	Interest on capital received	4,000
Jan 9	Salaries paid	5,000
Jan 10	cash received from vishnu	15,000
	Discount allowed	500
Jan 12	cheque received from Anjan	
	deposited into bank	8,000
Jan 13	Anjan's cheque dishonoured.	
Jan 14	credit purchases from Gopi	6,000
Jan 18	cash with drawn for office use	12,000
Jan 20	cheque issued to Gopi	5,800
	Discount received	200
Jan 24	cash drawn from bank for personal use	4,000

Ans : cash 37000 Bank : 59,200

petty cash :

12. Enter the following transactions in petty cash book.

2007		Rs
March 1	Amount received from cashier	200-00
March 2.	Printing charges	15-00
March 4	Postage	8-00
March 6	stationery	10-00
March 10	carriage	15-00
March 15	Postage	18-00
March 20	Travelling expenses	20-00
March 25	Telegram	12-00
March 31	cool drinks	40-00

Ans :- Bal 62-00

13. Prepare the petty cash book for the following transactions and balance.

2007		
Nov 1	Advanced to petty cashier by cheque	100-00
Nov 2	Paid carriage	4-00
Nov 3	paid for stationery	15-00
Nov 4	paid for postage stamps	10-00
Nov 5	Purchased letter pads for office use	5-00
Nov 6	Paid for carriage	6-00
Nov 7	gave telegram to Mumbai	11-00

Ans : Bal Rs 49.

14. Prepare the petty cash book under the imprest system.

2007		Rs
Feb 1	cash received from cashier	100-00
Feb 2	cortage	6-00
Feb 3	Postage	2-25
Feb 4	stationery	3-00
Feb 4	Printing	11-25
Feb 4	stamps	2-00
Feb 4	Refreshments to customers	5-75
Feb 5	cleaning wages	4-00
Feb 5	Repairs to type writer	15-00
Feb 6	cortage	1-75
Feb 6	postage	4-75
Feb 6	travelling expenses	1-25
Feb 6	Entertainment	2-50

Ans:- Bal Rs. 39.25

15. M/s vimal Bros maintaining their petty cash under imprest system. Every monday cashier provides Rs 150 to petty cashier for meeting petty expenses. The expenses for one week were as follows.

2007		Rs
Jan 1	Amount received from cashier	150-00
Jan 2	Travelling expenses	8-00
Jan 2	postage stamps purchased	22-00
Jan 3	stationery	19-00
Jan 3	office expenses	6-00
Jan 4	Tea, coffee	21-00
Jan 4	carriage	10-00
Jan 5	Advance to Raj, clerk	10-00
Jan 5	Tiffins	12-00

Jan 6 Riksha

prepare petty cash under imprest system.

Ans : Bal : Rs 24.

16. Prepare a petty cash under the imprest system from the following particulars,

2007		Rs.
Dec 1	Balance with petty cashier.	800
Dec 2	Railway charges	90
Dec 2	Telegram	95
Dec 2	stationery	100
Dec 5	carriage	120
Dec 5	stationery	55
Dec 5	Postage stamps	100
Dec 7	Repairs	200
Dec 7	Travelling expences	150
Dec 8	casual wages	50
Dec 9	Electric Repairs paid	45
Dec 10	Tiffins	50
Dec 12	S.T.D charges	80
Dec 15	speed post	75

SUGGESTED READINGS :

Financial Accountancy : Shukla Grewal

Financial Accountancy : Jain and Narang

Financial Accountancy : R.L. Gupta & V.K. Gupta

- Dr. Ch. Suravinda

LESSON - 6

BANK RECONCILIATION STATEMENT

6.0. OBJECTIVES : After going though this lesson the student can know the causes of difference between the balance of cash book and pass book, the need for reconciliation and the preparation of bank reconciliation statement.

Structure :

6.1. Introduction :

A Business unit have to make many receipts and payment every day. The business man can relieve himself from this bothering of cash receipts and payments by opening a current account in the bank. After opening of current account with the bank, a pass book is given to the business man, which makes a record of the transactions with the bank. This pass book is written by the bank. On the other hand the business man who opens a current Account with the bank also writes his transactions with the bank either in a bank account opened in the ledger or in bank column of his cash book.

The balance of the bank account should be equal to the balance shown by the pass book, But some times these two balances do not agree. This disagreement may arise because of a mistake or time-lag between the entries made by the bank in its own account books or the entries made by a trader in his books. To reconcile these different balance shown by the cash book and pass book, a statement known as Bank reconciliation statement is prepared.

6.2. Need for Bank Reconciliation Statement

The bank column of the cash book usually shows a debit balance representing the amount held in deposit with the bank, the banker also records these transactions with his customers in his ledger considered from his point of view. The pass Book is a copy of the customer's account as it appears in the banker's ledger. It usually shows a credit balance representing the amount belonging to the customer with the banker. The cash Book usually shows a debit balance and the pass book shows a credit balance. Both these books should show the same amount as their balance. However, they usually show different amounts as their balances. This difference in the balances arises on account of the fact that the transactions are either first recorded by the business man in the cash book or by the banker later, the other party records them. The fact that transactions do not get recorded simultaneously in both the books is the main reason for the difference in these balances. The interval in the recording of the transactions, in these two books is called 'time - lag'. The business man compares his cash Book with the pass Book periodically say, once in a month. The balance shown by these two books should be one and the same. But it is usually not so because some of the entries might not have been recorded or incorrectly recorded in any of the two books.

Therefore it is necessary to prepare a statement known as bank Reconciliation statement to reconciling the two balances shown by the cash Book and the pass book on a particular date. The other important purpose of the preparation of this statement is to know the exact balance with the bank.

6.3. Reasons for the difference in Two Balances :

The reasons for the difference in the balances shown by the two books may be as follows.

1. **Cheques issued but not yet presented for payment :** As soon as a cheque is issued it is entered but the bank makes no entry for the cheque until it is actually presented for payment. This means that if the cheque is not presented for payment upto the date of the preparation of the Bank Reconciliations statement the balance as per Pass Book will be higher than the balance shown by the Cash Book by the amount of cheque not presented for payment.

2. **Cheques paid into bank but not yet collected by the Bank :** As soon as cheques are received they are entered on the debit side of the cash book, increases the balance at the bank but the bank does not give credit for the cheque deposited until it is cleared and collected.

3. **Bank Charges and Interest debited in the pass Book :** If there is an overdraft the bank will charge interest for the overdrawn amount. As a result the balance as per pass Book is reduced by the amount of bank charges and interest, where as balance as per Cash Book remains same due to lack of information of these charges upto the date of the preparation of the Bank Reconciliation statement. Similarly in case of Bank charges also the banker debits the pass book of the customer at first and the business man comes to know this fact only when he receives the Pass Book from the bank duly filled up.

4. **Interest, Rent and dividend collected by the Bank on behalf of customer :** On the instructions of the customer the bank may collect Interest, rent on property or dividend on investments. After collection of this income the bank will give the credit to the businessman so as a result the balance as per pass book increases where as there may be no entry in the cash book due to lack of this information. The cash book balance remains unchanged as there is no entry in the cash book.

5. Insurance premium, subscriptions to periodicals and other payments made by the bank on behalf of the client on the standing instructions of the customer, the bankers make certain payments like Insurance premium and other payments when they fall due and reduce his balance. But balance as per cash Book will remain same because of the omission of the entry in the cash book for payments made by the bank.

6. **Cheques omitted to be banked :** some times a cheque received by the businessman may be entered immediately in the cash book but may be ommitted to send the same to the bank for collection. As a resulte of this the cash book balance increases and the balance as per pass book remains same without change because no cheque is received for collection.

7. **Cheques, bills of exchange dishonoured :** When a cheque or bills of exange dishonoured, this fact is first recorded in the pass book, reduces the balance as per pass book. Business will make the entry only after receiving the instruction from the bank. In this time-lag the cash book shows higher balance than the pass book.

8. **Direct payment into Bank :** some times the customers of businessman may make payments direct into his account with the banker. The banker credit his pass book which result in an increase in the balance. As this information is not received the cash book balance remains unchanged.

9. Wrong debit or credit given in the pass Book or the cash book may also result the disagreement of the two balances.

6.4. Procedure for preparation of Bank Reconciliation statement :

Before preparation of the Bank reconciliation statement the student should first note the fact that if the balance of one book increased or Decreased the balance as per other book remains uncharged or constant.

1. Tick off all the items in the pass book with entries in the bank column of the cash book and make a list of unticked items both in cash book and pass book. These unticked items are responsible for the difference in the balances shown by the cash book and the pass book.

2. Take balance as per cash book or pass book as the starting point.

3. Decide which item unticked is added or diducted from the base.

4. Do all the adjustments accordingly if you started with cash book you will get the balance as per pass book or vice versa.

5. For deciding which items of unticked, is added to or deducted from the starting point, the following formula will help the student.

Add Add

Increase - constant - Decrease

less less

Note : if one book increased or decreased the other bock remain constant.

This can be understood by the following Illustration.

Illustration 1:

Cash Book (Bank columns only)

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
2007			2007		
Jan 1	To cash A/c	10,000 3		By Rent A/c (Ravi)	350 3
Jan 3	To Suresh A/c	600 3	Jan 2	By Krishna A/c	900 3
Jan 5	To Bhuvana A/c	700 3	Jan 13	By cash A/c	600 3
Jan 5	To cash A/c	1000 3	Jan 13	By drawing A/c	900 3
Jan 25	To Kiran A/c	750 3	Jan 25	By Mohan A/c	850 3
Jan 29	To Prasad A.c	500	Jan 29	By Rama Rao A/c	780
Jan 30	To Cash A/c	2000 3	Jan 29	By Bal cld	12670 3
	To Suresh A.c	1500			
		17,050			**17,050**

Pass Book

Date	Particulars	Dr. Rs.	Cr. Rs.	Dr. Rs	Balance Rs
2007					
Jan 1	By cash	-	1000 3	Cr	10,000
Jan 3	To Ravi	350 3	-	Cr	9650
Jan 5	By suresh	-	600 3	Cr	10250
Jan 8	To Krishna	900 3	-	Cr	9350
Jan 11	By Bhuvana	-	700 3	Cr	10050
Jan 13	To cash	600 3	1000 3	Cr	11050
Jan 17	To self	900 3	-	Cr	10450
Jan 27	To Mohan	850 3	-	Cr	9,550
Jan 30	By Kiran	-	750 3	Cr	8,700
Jan 30	By cash	-	2000 3	Cr	11,450
Jan 30	To Insurance premium	250	-	Cr	11,200
Jan 31	To Bank Charges	15	-	Cr	11185
Jan 31	To Interest	-	550	Cr	11735

In the above illustration the unticked, items are the reasons for variation between the balances of cash book and pass book. Now we will pick those, items.

1. The cheques deposited on 29th received from prasad for Rs 500 and on 30th received from Suresh for Rs 1500 are not collected by bank.
2. Cheque issued to Rama Rao for Rs 780 on 29th has not presented for payment in the bank
3. Insurance premium paid Rs 250 appearing in pass Book only.
4. Bank charges Debited in pass book Rs 15.
5. Interest credited in pass book Rs 550.

Now you decide which items should be added and which should be deducted by using the formula given. Start with either of the balance, cash book or pass book for example we started with cash book. The student, here is always advised to remember that, with one transaction, if one book increases or decreases the other book remain constant.

Item		Cashbook	Passbook	Amount Rs.	Effect Add/Less
1.	Cheque issued but not collected	Increase	Constant	2000	Less
2.	Cheque issued but not presented for payment	Decrease	Constant	780	Add
3.	Insurance premium Debited in pass book	Constant	Decrease	250	Less
4.	Bank charges Debited in passbook	Constant	Decrease	15	less
	Interest credited in pass book	Constant	Increase	550	Add

Once we decided which item is added and which one is deducted from the starting balance to find the other book balance we can proceed to prepare a bank Reconciliation statement as follows:

Bank Reconciliation statement as on 31.1.2007.

	Particulars	Amount Rs	Amount Rs
1.	Balance As per cash book		12,670
	Add		
	1. Cheque issued but not presented for payment	780	
	2. Interest collected and credited in the pass book.	550	1,330
			14,000
	less		
	1. Cheques deposited but not collected	2,000	
	2. Insurance premium Debited in pass book	250	
	3. Bank charges Debited in pass book	15	2,265
	Balance as per pass Book		11,735

The same illustration can be worked out by taking the pass book balance, as follows.

Add — Add

Increase - constant - Decrease

less — less

If we take the balance as per pass book

Item		Cashbook	Passbook	Amount Rs.	Effect Add/Less
1.	Cheques deposited but not collected	Constant	Increase	2000	Add
2.	Cheque issued but not pres-enteed for payment	Constant	Decrease	780	Less
3.	Insurance Premium debited in pass book	Decrease	Constant	250	Add
4.	Bank charges Debited in Pass book	Decrease	Constant	15	Add
5.	Interest Credited in pass book	Increase	Constant	550	less

Bank Reconciliation statement on 31- 1 - 2007

	Particulars	Amount Rs	Amount Rs
	Balance as per pass book.		11,735
	Add		
1.	Cheques deposited but not collected	2,000	
2.	Insurance premium paid by Bank	250	
3.	Bank charges Debited in pass book	15	2,265
	Less		14,000
4.	Cheques issued but not presented for payment	780	
5.	Interest credited in pass book	550	1,330
	Balance as per cash Book		12670

Illustration - 2

From the following particulars prepare a Bank Reconciliation statement showing the balance as per cash book on 31 Dec 2006. The following cheque were paid into Bank in December, 2006 but were credited by the bank in January, 2007;

Chinna Rs 7,000. Madhu Rs 8,000 Vasu Rs 6,000.

The following cheques were issued by the firm in December 2006 but were presented for payment in January 2007.

Pranav Rs.1,500 Pavan Rs 1,450

The following charges were made by the bank which were not recorded in the cash book;

Bank charges Rs. 120

Collection charges Rs. 115

The following payments made by the bank direct as per standing instructions were not entered in the cash book Insurance premium Rs 2,350 subscription for magazine Rs 275

A cheque for Rs 3,500 which was received from a customer was entered in the bank column of cash book in December 2006, but was to be banked in December 2006. A bill for Rs.31,000 was retired by the bank under rebate of Rs 320 but the full amount of the bill was credited in the bank column of the cash book.

The bank balance as per pass Book was Rs. 35,800 on 31-12-2006

Solution :

Bank Reconciliation statement as on 31-12-06

	Particulars	Amount Rs	Amount Rs
	Balance as per pass Book		35,800
	Add		
1.	Cheques paid into Bank not yet collected		
	Chinna	7,000	
	Madhu 8,000		
	Vasu	6,000	21,000
2.	Bank charges recorded in the pass book		
	Bank charges	120	
	Collection charges	115	235
3.	Payment made by the bank as per standing instructions.		
	Insurance premium	2,350	
	subscriptions	275	2,625
4.	Cheque entered in cash Book but omitted to be banked		3,500
			63,160
	Less		
5.	Cheques issued but not presented for payment		
	Pranav	1,500	
	Pavan	1,450	
		2,950	
6.	Rebate allowed for a bill but not entered in cash book	320	3,270
	Balance as per cash book		59,890

The student is adviced to do the problem by starting with the balance of cash book.

6.5. Bank Overdraft :

Sometimes cash book may show a credit balance or pass Book a debit balance. It indicates the amount overdrawn. This means that the trader owes this amount to the bank i.e; he has drawn more amount than his balance in the bank such a balance is technically known as bank overdraft. The overdraft balance is also referred to as the unfavourable balance.

The method of analysis or the preparation of Reconciliation statement is the same as in the case of favourable balance. However the student is expected to note the difference in the effect of a given item of discrepancy, if the balance is an unfavourable or overdraft balance. For ex: In case of favourable balance, cheques issued reduce the cash balance, But when the balance is an unfavourable balance the effect of the cheque issued will further increase the overdraft balance. here you have to note that the effect of the cause of disagreement will be exactly opposite because of the unfavourable nature of the starting balance.

Illustration 3 :

On 30th June 2007, the pass Book of Mr. Anil kumar showed an overdraft balance of Rs 80,000 prepare a Bank Reconciliation statement using the following information.

1. Out of the two cheques issued to Ajay Kumar on 25th June 2007, one for Rs 10,000 and another for Rs. 25,000. The cheque for Rs 25,000. was cashed on 5 - 7 - 2007.
2. A wrong credit for Rs 500 relating to some other account was found in the pass book.
3. Out of the three cheques deposited in the bank for collection on 22 - 6 - 2007, for Rs. 30,000 Rs 40,000 and Rs 50,000 respectectively, the cheque for Rs 40,000 alone was collected by 30 - 6 - 07.
4. There is a debit of Rs 1,600 for interest and Rs 300 for bank charges in the pass book which have not been entered in the cash book.
5. The pass Book showed that bank had collected Rs 3,000 as interest on securities but there was no entry in the cash book for interest.
6. A Bill receivable for Rs 10,000, discounted with the bank in May, was dishonoured on 28th June, 2007 and was debited in the pass Book.

Solution : Bank reconciliation statement as on 30 - 6 - 2007.

	Particulars	**Amount Rs**	**Amount Rs**
	Bank overdraft balance as per the pass book		80,000
	Add		
1.	Cheques issued but not presented for payment	25,000	
2.	Wrong credit in the pass book	500	
3.	Interest on securities collected by the bank	3,000	28,500
			1,08,500
	Less		
4.	Cheques paid in but not yet cleared	80,000	
5.	Interest on O.D, and bank charges debited in the pass book.	1,900	
6.	Dishonoured bill debited in the pass book only	10,000	9,19,000
	Overdraft Balance as per cash book		16,600

Illustration 4 :

On 31st December 2006 the cash book of Mr. Akhil showed a credit balance of Rs.50,000 with the state Bank of India. Before this date cheques worth Rs.39,600 were issued but of them cheques worth Rs.7,500 were only presented at the bank for payment. a cheque for Rs.4,500 received from a customer was entered in the Bank column of the cash book in December 2006, but it was not paid into Bank. In December cheques worth Rs.10,500, were deposited in the bank but cheques amountig to Rs.9,000 only were credited in the Pass Book. The total of a page on the receipts side of the cash book Rs.26,260s was carried to the next page as 22,620. A cheque for Rs.24,000 which was received from a customer was paid into the bank on 26th of December, but it was not entered in the Cash Book. The pass book is debited with Rs.200 for bank charges, Rs.600 for interest on overdraft and Rs.570 for insurance premium paid. Interest on investments credited in Pass Book Rs.3,000. These items not yet posted in cash book.

Prepare the Bank Reconcilation statement.

Solution :

	Particulars	Amount Rs	Amount Rs
	Bank overdraft balance as per the Cash book		50,000
	Add		
1.	Cheques debited in the Cash Book but omitted to be paid into Bank	4,500	
2.	Cheque deposited but not cleared	1,500	
3.	Bank charges debited in the Pass Book only	200	
4.	Interest on O.D. debited in the Pass book only	600	
5.	Insurance premium directly paid by the bank but not yet entered in the Cash Book	570	7,370
			57,370
	Less		
6.	Cheques issued but not yet presented	32,100	
7.	Short carry foreward of the total on the receipts side of the Cash Book	3,640	
8.	Cheques paid into the bank but not recorded in the Cash Book	24,000	
9.	Interest on investments credited in the Pass book only	3,000	62,740
	Bank balance as per Pass Book (Favourable)		5,370

Illustration 3:

The Bank Pass Book of Siva Rao showed a credit balance of Rs.24,000 on 31-12-2006. While the bank column of his Cash Book showed a different balance. You are required to prepare the Bank Reconcilation statement.

1. If the cheques amounting to Rs.12,900 deposited in the bank upto 31-12-06 a cheque of Rs.3,200 received from Papa Rao was collected by the bank on 3-1-2007.

2. Cheque of Rs.5,000 issued to Raj & Co was wrongly entered twic in the cash book.
3. Cheques issued during the month amounted to Rs.16,000 of which cheques for Rs.6000 were not presented to the bank upto 31-12-06.
4. The Pass Book showed a credit of Rs.200 as interest for which there was no entry in the Cas Book.
5. The Pass Book also showed a payment of Rs.1,675 as life insurance Premium for which no entry was made in the Cash Book.

Solution :

Bank Reconciliation statement as on 31-12-06

	Particulars	**Amount Rs**	**Amount Rs**
	Balance as per the Pass book		24,000
	Add		
1.	Cheque deposited but not credited in the Pass Book	3,200	
2.	Amount of Insurance Premium debited by the bank but not entered in the cash Book	1,675	
3.	Error in respect of carry forward in the Cash Book	540	
4.	Dishonoured cheque debited in the Pass Book but no entry made in the Cash Book	840	6255
			30,255
	Less		
5.	Cheque issued but recorded twice in the cash book	5,000	
6.	Cheques issued but not presented for payment	6,000	
7.	Interest credited in the pass book and not entered in the Cash Book	200	
8.	Direct deposit in bank by a customer but not recorded in the Cash Book	20,800	
9.	Excess amount recorded in the Cash book	29,700	
10.	Error in respect of casting in the Cash Book	2,000	63,700
	Over draft as per Pass Book		33,555

6.6 Summary :

The cash book maintained by the business man and the pass book maintained by the banker may not show identical balances on any given date. This is mainly due to time - lag i.e, gap in the recording of the transactions in the books. It can also be due to errors in any one or both the books. As these two books show two different balance, it is necessary to compare them periodically and identify the causes of disagreement. After identifying the causes of dis - agreement the effect of each cause of disagreement on the known balance must be determined and these should be added or deducted in a bank Reconciliation statement.

6.7. Questions

1. What is bank reconciliation statement.
2. What are the causes of disagreement between the cash book and the pass book balances?
3. How is a bank reconciliation statement prepared.
4. What is the procedure for finding out the points of disagreement by comparing the cash book with the pass book
5. Explain the procedure for preparing the bank reconciliation statement.

6.8 Exercises :

1. From the following particulars prepare a Bank Reconciliation statement.

a. Bank Reconciliation statement.

1. Balance as per cash book Rs 10,000 (Cr)
2. Cheque received from a customer for Rs 500 entered the cash book but not banked.
3. There is a wrong debit in the pass book to the extend of Rs 2,000.

Ans : O.D Balance Rs 10,700

2 **From the following particulars prepare a Bank reconciliation statement as on 31-3-2007.**

1. Balance as per cash book Rs 25,000
2. Cheques issued but not presented for payment Rs 6,000
3. Dividend Credited in the pass book only Rs 500
4. Cheques deposited into bank but not collected Rs 8,000
5. Bank charges debited in pass book Rs 200
6. Cheque deposited in the bank dishonoured but this was not recorded in cash book Rs 2000
7. Interest collected and credited in the pass book by the banker.

3. From the following particulars prepare a Bank reconciliation statement as on 31-3-2007.

1. O.D Balance as per pass book Rs 12,000
2. Out of the total cheques of Rs 7,000 issued on 28th April, only Rs 3000 cheques paid upto Apr. 30.
3. Out of the cheques deposited Rs 3,500 only cheques of Rs 500 credited in the pass book.
4. Information regarding the debit of interest on over draft of Rs 500 not received.
5. One debtor directly paid into bank an amount of Rs 400 and there is an other credit of Rs 600 in the pass book for interest on investments collected by the bank.
6. On the standing instructions bank paid insurance premium of Rs 1200, not entered in the cash book.

7. The bank column of the cash book on the credit - side under cast by Rs 1000

4. Mr. Gopi Nadh cash book is showing a bank balance of Rs 8,500 from the following information prepare a bank reconciliation statement.

1. Cheques deposited into bank Rs 1000 but not collected.
2. Interest collected and credited in the pass book only Rs. 400.
3. Out of the cheques issued totalling Rs 5,100 in March, cheques with of Rs 1200 paid in April.
4. On the standing instructions bank paid Rs 600 for insurance premium, not entered in the cash book.
5. One customer deposited in the bank directly Rs 150.
6. Bank charges debited in the pass book Rs 50.
7. A cheque deposited in the bank dishonoured Rs 400/- information not received.

5. On 31-1-2007 the pass book of Rama Rao showed a debit balance of Rs 4,100 prepare a bank reconciliation statement with the following information.

1. Out of the cheques issued for Rs 15,600 only Rs 4,600 was paid.
2. A wrong debit of Rs 800 has been given by the Bank in pass book.
3. There is a credit of Rs 200 in pass book only.
4. A cheque for Rs 1000 returned dishonored and were debited in pass book only.
5. Interest and bank charges Rs 100 were not recorded in cash book.
6. Interest and bank charges Rs 100 were not recorded in cash book.
7. A cheque of Rs 500 debited in the cash book ommitted to be banked.
8. A wrong credit has been given by the banker for Rs 500 in the pass book.

6. From the following particulars prepare a bank reconciliation statement.

1.	Over draft as per pass book	13,800
2.	Interest on overdraft not entered in cash book	240
3.	Bank charges debited in the pass book	60
4.	Cheques drawn but not cashed by the customers	2,,300
5.	Cheques paid into bank but not cleared	4,340
6.	A bill receivable discounted with bank, dishonoured, debited in the pass book	1,000

7. On 30th June 2007 the pass book of Mr. Kotesh showed an overdraft balance of Rs 30,000 prepare a bank reconciliation statement using the following information.

1. Out of the cheques issued to Siva on 26 June 2007, one for Rs 1000 and another for Rs 2500 the cheque for Rs 2,500 was cashed on 5th July 2007
2. A wrong credit for Rs 250 relating to some other account was found in the pass book
3. Out of three cheques deposited into bank for collection on 22nd June 2007 for Rs 3,500 Rs 4000 and Rs 5000 respectively, the cheque for Rs 4000 alone was collected by June 30th 2007.
4. There is a debite of Rs 800 for interest and Rs 150 for bank charges in the pass book which have not been entered in the cash book.

5. The pass book showed that bank had collected Rs 6000 as interest on govt securities. But there was no entry in the cash book for interest.
6. A bills receivable for Rs 5000 discounted with the bank in the month of May was dishonored on 26 June 1997 and was debited in pass book.

8. From the following information given below, find out the bank balance as per pass book of Suresh as on 31st Dec 2007.

1. Bank balance as per cash book on 31-12-2002 was Rs 5000
2. Out of cheques issued for Rs 22,000 before 31st Dec for Rs.750 seens to have been not presented for payment.
3. Cheque for Rs 2,500 received from a customer though recorded in cash book but not sent to bank
4. Cheque for Rs 500 though issued to suppliers was not recorded in cash book.
5. Total of a folio of cash book Rs 8,760 was carried as Rs 7,860
6. Insurance premium Rs 2,500 paid by the bank was not recorded in cash book.

9. From the following information prepare a Bank Reconciliation statement as on 31-3-2007 of Sirish & co.

1. Bank overdraft as per cash book Rs 2,40,900
2. A customer of the firm who received a cash discount of 2% on this account of Rs 200 paid the company a cheque on 19th March. The bank coloun of the cash book.
3. Interest debited by the bank on 29th March 2007 but no advice received Rs 27,870.
4. Cheque issued before 31st March 2007 but not yet presented to bank for Rs 66,000.
5. Transport subsidy received from government directly by the bank but no advice to the company Rs 42,500
6. Draft deposited in the bank but not collected till 31st March 2007, Rs 13,500.
7. Bills for collection credited by the bank Rs 83,600 were not communicated to the company till April 1, 2007
8. Amount wrongly debited to the company's account by the bank for which no details are available Rs 7,400.
9. Bankers have made a mistake in balancing by showing over drawn balance in excess by Rs 1000 on 31-3-2007 This was rectified on 4-4-2007.

10. From the following particulars, ascertain the bank balance as per cash book of Saraswathi as on 31st March 2007.

1. Credit balance as per pass book as on 31 - 3 - 2007 Rs 2,500
2. Bank charges of Rs 60 had not been entered in the cash book.
3. Out of the cheque of Rs 3,500 paid into the bank a cheque of Rs 3,500 was not yet credited by the banker.
4. Out of the cheques issued for Rs 4,500 cheques of Rs 3,800 only were presented for payment.
5. A dividend of Rs 400 was collected by the banker directly but not entered in the cash book
6. A cheque of Rs 600 had been dishonoured but no entry was made in the cash book.

11. From the following particulars ascertain the bank balance as per bank pass book of Rama Seshaiah as on 31 - 12- 2007.

1. Bank over draft as per cash book on 31-12-07 Rs 6,000
2. Interest on overdraft for six months endings 31-12-2007 Rs 200 is debited in the pass book
3. Cheques issued but not cashed before 31-12-07 amounted to Rs 1,500.
4. Cheques deposited into bank but not cleared and credited before 31-12-07 amounted to Rs 2,500
5. Interest on investments collected by bank pass book amounted to Rs 1,800,
6. Bills receivable discounted with bank was dishonoured, and bank had debited Rs 1050 including Rs 50 for bank charges.
7. The bank coloun cash book receipts side was over cast by Rs 1,000
8. Bank had wrongly debited his account with Rs 500

12. From the following particulars of M/s Mamata & co show the bank balance as per cash book as on 31-9-2007.

1. On 30-9-07 bank balance as per pass book was Rs 7,850.
2. Out of cheques paid into bank for Rs 7,500 cheques for Rs 5,000 yet to be collected
3. Cheques issued in favour of Mr. Sadasiva a supplier for Rs 2,000 are yet to be presented.
4. A cheque from Kishore for Rs 3,750 deposited in bank on 15th sep, was omitted to be recorded in cash book.
5. A cheque issued to Mr. Kedar for Rs 4,500 was wrongly recorded as Rs 4,050 in cash book.
6. An amount of Rs 1,500 pertaining to M/s Madan & co was wrongly credited our account by the banker.

13. Prepare the Bank reconciliation statement as on 30-6-2007 from the following particulars.

1. Debit balance as per pass book on 31 - 6- 07 Rs 15,000
2. A cheque of Rs 200 was deposited on 25-6-2007 but was not recorded in cash book.
3. Cheque of Rs 17,000 were issued but of these Rs 10,000 worth were presented before 30-6-07.
4. Cheques received on 20-6-07 Rs 2,000 were not sent to bank but noted in cash book.
5. Cheques worth Rs 10000 were sent to bank for collection. Of these Rs 2,000 were credited on 8-7-07 Remaining cheques were credited before 30-6-07.
6. Bank paid Rs 300 on behalf of Customer to Trade Association. This was to recorded in cash book.
7. Interest on overdraft Rs 800 was not entered in cash book.
8. Bank expenses Rs.100 were recorded twice in cash book and another bank charges for Rs. 35 was not recorded in the cash book.
9. Cash book credit side Bank column was under cast by Rs 1,000

14. The pass book of a trader is showing a debit balance of Rs 12300 on 31-1-2007 From the following information prepare a bank reconciliation statement.

1. Cheques amounting to Rs 4,680 was drawn on 25th January out of which cheques for Rs 3,300 were cashed up to 31st January.
2. A wrong debit of Rs 240 has been given by Bank in pass book
3. A cheque for Rs 60 was credited in pass book but was not recorded in cash book.
4. Cheques amounting to Rs. 6,300 were deposited for collection, But cheques for Rs. 2,200 have been credited in pass book at 5th Feb 2007.
5. A cheque for Rs 300 returned dishonoured and were debited in pass book.
6. Interest and bank charges amounted to Rs 30 were not accounted in cash book.
7. A cheque received entered in cash book but not sent to Bank for collection Rs 150.

15. On 31-8-2007 pass book of Anupama Showed a credit balance of Rs 37,400 in Account No. 1 which did not agree with his cash book, On scrutiny the following discrepancies were located.

1. Three cheques totalling Rs 15200 were deposited into her account of which only those for Rs 9,800 were credited before 31st August.
2. Anupama has issued two cheques of Rs 1,200 and RS 1,400 only the first cheque was presented for payment before 31st August.
3. The banker paid electricity bill of Rs 750, Telephone bill of Rs 900 as per the standing instructions of Anupama.
4. Pass book shows entries of Rs 50 towards charges and Rs 75 towards interest.
5. A cheque issued for Rs 300 against A/c No. 1 has wrongly entered in A/c No. II by the banker.
6. The pass book has no entry for the cheque of Ram Prasad for Rs. 270 as it has been dishonoured.
7. Payments side bank column has been under cast by Rs 20.

Prepare bank Reconciliation statement as on 31-8-2007.

SUGGESTED READINGS :

Financial Accountancy : Shukla Grewal
Financial Accountancy : Jain and Narang
Financial Accountancy : R.L. Gupta & V.K. Gupta

Dr. Ch. Suravinda

Lesson 7

Trial Balance

7.0 Objective:

After going through this lesson you will be able to understand the following:

1. Method of preparing Trial Balance
2. Advantages of Trial Balance
3. Errors of Trial Balance

Structure:

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7.1 : Trial Balance – Meaning:

You have learnt preparation of subsidiary books and preparation of ledger accounts in the previous lessons. While writing the transactions in double entry system, you have observed that there is one debit item and its equal credit item. Without debit there is no credit and with out credit there is no debit. For example, when the totals of sales book are credited to sales account, we debit debtors account. These entire debits amount will be equal to the credit of sales account. Similarly, when a transaction is written for total receipts, it will be debited to cashbook with the equal amount. When entries are recorded in ledger, the debit balances of ledger will be equal to credit balances. However, due to some errors knowingly or unknowingly lead to difference in the balances.

Businessman, by the end of the year prepares final accounts and ascertains gross profit, net profit and firm financial position based on the balances of the ledger. If the balances in the ledger are not accurate, the final accounts become erroneous. The decisions taken based on these accounts are not dependable. That is why businessman tries for accuracy of accounts. Trial Balance is a device useful for such preparation. This is not an account. It is a statement consisting of balances of ledger. The accuracy of the ledger can also be proved from this.

7.2 : Methods of preparing Trial Balance:

Trial Balance can be prepared in two ways. They are totals method and balances method. Let us discuss about them.

7.2.1 : Totals Method:

Under this method all accounts of the ledger are shown under different heads. Under the head "Trial Balance", there are three columns Viz., particulars, debit totals and credit totals. If the debit and credit totals are equal, the trial balance is said to be correct.

7.2.2 : Balances Method:

Under this method only balances of ledger are taken. In any account when debit balances are more than credit balances only the difference is taken as debit balance. In this way the balances of various accounts are shown as debit and credit under the head Trial Balance. If the credit and debit balances are same, the trial balance is said to be correct.

The following example can be observed to understand the above two methods.

Illustration:

Trial Balance

Name of the Account	**Totals**		**Balances**	
	Debit	Credit	Debit	Credit
	Rs.	Rs.	Rs.	Rs.
Cash in hand	3,305	2,680	625	
Cash at bank	8,100	5,650	2,450	
Capital account	44,770		44,770	
Drawings account	350		350	
Stock	35,100		35,100	
Furniture	4,530	400	4,130	
Purchases	1,350		1,350	
Sales	2,000		2,000	

Sundaram	4,000	1,000	3,000	
Prakash	2,000	3,500	1,500	
Ganesh	1,100	450	650	
Wages and salaries 600		600		
Interest account	75		75	
Discount account	100	160	60	
	60,610	**60,610**	**48,330**	**48,330**

7.3 : Factors to be considered while preparing Trial Balance:

The following are the factors to be considered while preparing Trial Balance.

1. If all personal accounts are to be shown in the trial balance, the list of accounts becomes big. Therefore, it is better to show only two accounts, one debtors account and the other creditors account.

2. Though the debit and credit amounts are entered properly, sometimes there arises some difference. This may be due to non-entry of capital or stock.

3. Even after the entry of capital and stock, there may be difference in totals. In such case that difference shall be transferred to 'Suspense Account'. If the debit side of the trial balance is higher, then the suspense account shows credit balance. Contrary, if the credit side of the trial balance is higher, then the suspense account shows debit balance. The debit balance of the suspense account shall be shown on the assets side and the credit balance of the suspense account shall be shown on the liabilities side. Then only the balances in the balance sheet tally. After the errors in ledger are rectified, the suspense account will be closed.

4. Normally, closing stock appears in adjustments than in trial balance. If it is given in the trial balance means, it is to be assumed that the trading account was already prepared. In such case gross profit or loss appears in the trial balance.

5. It is to be remembered that different accounts show the balances in the following way while preparing trial balance.

    a) All expenses (salaries, wages, interest paid, rent, commission, discount paid, transport, insurance premium etc) —— Debit balances.

    b) All assets (plant, machinery, cash, debtors, furniture, goodwill, patents, fixtures, campuses etc.) —— Debit balances.

    c) Bad debts, drawings, opening stock —— Debit balances.

    d) All incomes (discount received, commission, rent etc) —— Credit balances.

e) All liabilities (creditors, bills payable, overdraft, loan taken etc) — - Credit balances.

f) Capital, reserve for bad and doubtful debts —— Credit balances.

7.4 : Advantages of Trial Balance:

The following are the advantages of preparing Trial Balance.

1. By preparing trial balance after preparation of ledger accounts helps in testing the accuracy of the accounting.
2. As there are many transactions in business firms, there are chances for mistakes. Trial balance acts as an index in identifying such mistakes. When the totals of debits and credits are not equal we can say that there is a mistake in the trial balance.
3. For preparation of final accounts at the end of the year and to ascertain gross profit, net profit and financial position, trial balance helps as a first step.

   However, it is to be remembered that even though there are equal in balances in the trial balance, we cannot come to the conclusion that there are no mistakes. Trial balance cannot identify all errors. They will be discussed later.

7.5 : Errors in Trial Balance:

After writing entries from transactions, recording in ledger, and showing debit and credit balances in the trial balances, there occur some errors due to mistake or recklessness. We can say that the trial balance is erroneous if the balances are not tallied. But sometimes, trial balance may be wrong in spite of equal debit and credit balances. These errors can be divided into two categories viz., disclosed errors and undisclosed errors.

7.5.1 : Disclosed Errors:

When the following errors take place, the trial balance balances disagree. They are explained as follows:

a) Wrong totaling or casting of the subsidiary books: If there are wrong totals in subsidiary books, trial balance will disclose. For example, if the total of the sales book is under cast by Rs.500, the sales account is credited with Rs.500 less. The personal accounts of customers are debited properly relating to their purchases. In such situation, credits will be more than debits by Rs.500. Similarly, any error of wrong totaling in any subsidiary book will be disclosed by the trial balance.

b) Posting a wrong amount to ledger account: When ledger is recorded with a wrong amount, the trial balance will disclose the error. For example, if a supplier sends Rs. 750 worth of goods, this amount needs to be recorded in purchases book. However, it may be recorded as Rs. 570. In such situations, credits are less than debits by Rs. 180 (750-570). This leads to difference in the trial balance.

c) Posting an amount on the wrong side of a ledger account: If the totals of accounts are recorded one side instead of the other, it also leads to imbalance in the trial balance. For example, if goods of Rs.300 are returned to the supplier, it is to be recorded in sales returns book. Similarly, the same amount should be debited to the seller account. But, if his account is credited with Rs.300, the credit side of the account will increase by Rs.600 (300+300).

d) Omission of an amount from ledger accounts: When the amounts to be posted in ledger accounts are not posted, there occurs difference in balance. For example, if we pay cash to the supplier, the supplier's account should be debited and the cash account should be credited. But my mistake, only one of the two is recorded there comes difference.

e) Omission of an amount from the trial balance: When the balances of accounts are posted in trial balance and any one-account balance is misses, the trial balance will not agree.

7.5.2 : Undisclosed Errors:

If the above-mentioned errors are not there, the totals of the trial balance equal. However, when the totals of the trial balance are equal, it cannot be said that it is error free. Trial balance cannot disclose some errors. These are serious errors than the above. The following are the errors not disclosed by trial balance.

a) Omission of an entry altogether from subsidiary books: these errors occur when the transactions are ignored completely in the subsidiary books. For example, if we receive back Rs. 200 worth of goods from the customer, and not recorded in the sales returns book, then the customer account is also not credited. The sales returns account is also not debited. In result, this amount will be excluded from totals. Thus, trial balance will not show any difference though there is an error.

b) Writing the wrong amount in the subsidiary books: when the wrong totals are recorded in the subsidiary book, and based on this error entries are posted, trial balance cannot identify the error. For example, an invoice of Rs.860 is recorded as Rs.680 in sales book; the totals of trial balance will not differ, though there is an error of Rs.180 of both credit and debit sides.

c) Posting to a wrong head: When transactions are not recorded in correct accounts, these errors occur. For example, a sale of Rs.650 sold to Indra & co., and written in the name of Chandra& co., the totals of trial balance do not differ.

d) Errors of principles: If transactions are written against the principles of accounting, these errors occur. The following are such errors:

1. **Treating expenditure as asset:** In certain situations, expenditure is treated as asset. For example, repairs of machinery if debited to machinery account instead of repairs account, the trial balance do not show any difference as amount is debited in one or the other account.

2. **Treating asset as expenditure:** Some times, the purchase of assets also will be shown as expenditure. For example, furniture worth Rs. 3,500 purchased for office work, may be debited to office expenditure account instead of furniture (asset) account.

3. **Treating of income as liability and liability as income:** These errors may also happen often. For example, a commission of Rs. 2000 earned may wrongly be credited to the person or the organization that has given the commission instead of crediting to commission account. Similarly, a loan taken may wrongly be credited to sales account instead of personal account.

4. **Compensating errors:** Sometimes the errors on debit side may compensate errors on credit side. Because of this, trial balance looks correct. For example, an excess debit of Rs.150 to purchases account, excess debit of Rs.100 to sales account and an excess debit of Rs. 50 to sales returns account do not affect the trial balance.

7.6 : Ascertaining of Errors:

It is the duty of an accountant to rectify the errors when the totals of the trial balance are not tallied. To ascertain the errors quickly, the following measures are required.

a) The debit and credit side totals of trial balance are to be ascertained first. When one account is shown instead of different accounts like sundry debtors and sundry creditors, they are to be totaled again.

b) Care is to be taken to see that the balances of all accounts including cash and bank balances should be included in the trial balance.

c) The correct difference in trial balance is to be ascertained. Any account carries such amount balance may be verified. Similarly, half the amount accounts, double the amount accounts need to be verified.

d) Sufficient care should be taken while ascertaining the balances of various accounts.

e) It is necessary to verify the subsidiary accounts once again. Particularly, when 1,10,100,1000 like mistakes are happened.

f) When there is abnormal difference in trial balance, it is to be compared with previous year trial balance. For example, if sales account is far higher than that of the previous year, that account needs to be verified.

g) It is to be checked that all amounts are posted in trial balance.

h) Even at this stage, the difference is not identified; all accounts are to be verified. For this purpose, it is better to look into the totals of subsidiary books first. Then, they are to be observed whether all the aspects are recorded. Further, they are to be looked into whether they are opened with correct balances.

7.7 : Illustrations:

1. Prepare trial balance from the following account balances.

Narayanamurthy Capital Account	21,500

Narayanamurthy Drawings Account	2,500
Opening stock	25,500
Debtors	23,500
Loan to Sundar	5,000
Bills receivable	3,000
Bills payable	4,450
Creditors	12,000
Cash at office	400
Tools and fixtures	6,250
Bank overdraft	3,000
Cash at bank	2,250
Import duty	1,750
Purchases	20,000
Salaries	1,250
Sales	56,500
Wages	5,500
Purchases returns	300
Sales returns	250
Commission	350
Stationery	500
Business expenses	850
Rent account	500
Discount received	2,000
Bad debts	400

Solution:

Trial Balance

Debit Balances	Rs.	Credit Balances	Rs.
Narayanamurthy Drawings a/c	2,500	Narayanamurthy Capital a/c	21,500
Opening stock	25,500	Bills payable	4,450
Debtors	23,500	Creditors	12,000
Loan to Sundar	5,000	Bank overdraft	3,000
Bills receivable	3,000	Sales	12,000

Cash at office	400	Purchases returns	300
Tools and fixtures	6,250	Discount received	2,000
Cash at bank	2,250		
Import duty	1,750		
Purchases	20,000		
Salaries	1,250		
Wages	5,500		
Sales returns	250		
Commission	350		
Stationery	500		
Business expenses	850		
Rent account	500		
Bad debts	400		
	99,750		**99,750**

2. Some inexperienced people prepare the following trial balance. Prepare it proper way.

Debit balances	Rs.	Credit balances	Rs.
Cash in hand	375	Opening stock	8,500
Cash at bank	9,100	Bills payable	8,00
Discount given	600	Debtors	19,000
Sales	27,500	Bills receivable	850
Furniture	750	Creditors	22,500
Machinery	10,000	Purchases returns	475
Carriage inwards	650	Purchases	15,000
Insurance	400	Office salaries	4,150
Stationery & Printing	350	Sales returns	500
Taxes	550		
Mukundam Capital	20,500		
Mukundam Drawings	1,000		
	71,775		**71,775**

Solution:

Trial Balance

Debit balances	Rs.	Credit balances	Rs.
Cash in hand	375	Sales	27,500
Cash at bank	9,100	Mukundam Capital	20,500
Discount given	600	Bills payable	800
Furniture	750	Creditors	22,500
Machinery	10,000	Purchases returns	475
Carriage inwards	650		
Insurance	400		
Stationery & Printing	350		
Taxes	550		
Mukundam Drawing	1,000		
Opening stock	8,500		
Debtors	19,000		
Bills receivable	850		
Purchases	15,000		
Office salaries	4,150		
Sales returns	500		
	71,775		**71,775**

3. Prepare trial balance for the year ending 31st December 2007 from the following ledgers of Chatterji.

	Rs.		Rs.
Plant and machinery	80,000	Salaries	6,800
Purchases	68,000	Wages	10,000
Purchases returns	1,275	Discount received	800
Sales returns	1,000	Sundry Creditors	25,000
Opening stock	30,000	Freight – Purchases	750

Capital account	1,00,000	Freight – Sales	1,200
Discount given	350	Rent, rates and taxes	2,000
Bank charges	75	Advertisements	2,000
Sundry debtors	45,000	Cash at bank	6,900
Sales	1,27,000		

Solution:

Trial balance of Chatterji as on 31st December 2007

	Debit balances		Credit balances
	Rs.		Rs.
Plant and machinery	80,000	Capital account	1,00,000
Purchases	68,000	Sales	1,27,000
Sales returns	1,000	Purchases returns	1,275
Opening stock	30,000	Discount received	800
Discount given	350	Sundry creditors	25,000
Bank charges	75		
Sundry debtors	45,000		
Salaries	6,800		
Wages	10,000		
Freight – Purchases	750		
Freight – Sales	1,200		
Rents, rates and taxes	2,000		
Advertisements	2,000		
Cash at bank	6,900		
	2,54,075		**2,54,075**

4. Prepare trial balance from the books of Gupta as on 31st December 2007.

	Rs.		Rs.
Capital	8,794	Furniture	250
Opening stock as on 1-1-2007	8,560	Cash in hand	5

Discount (Cr)	35	Sundry creditors	845
Wages	3,000	Rates and taxes	30
Advertising	470	Printing and stationery	50
Plant and machinery	2,000	Sundry debtors	1,800
Sales	36,000	Drawings	1,250
Water and energy	70	General expenses	123
Purchases returns	190	Insurance	42
Office rent	150		
Purchases	26,270		
Bills receivable	200		
Cash at bank	666		

Solution:

Trial balance of Gupta as on 31st December 2007

	Debit balances		Credit balances
	Rs.		Rs.
Opening stock	8,560	Capital	8,794
Wages	3,000	Discount (Cr)	35
Advertising	470	Sales	36,000
Plant and machinery	2,000	Purchases returns	190
Water and energy	70	Sundry creditors	845
Office rent	150	Suspense account	1,072
Purchases	26,270	(Dif. In trial balance)	
Bills receivable	200		
Cash at bank	666		
Furniture	250		
Cash in hand	5		
Sundry debtors	1,800		
Rates and taxes	30		

Printing and stationery	50		
Drawings	1,250		
General expenses	123		
Insurance	42		
	46,936		**46,936**

5. From the following particulars prepare Trial balance of Pradeep as on 31st December 2007.

	Rs.		Rs.
Pradeep capital	1,19,400	Sales	3,56,530
Pradeep drawings	10,550	Sales returns	2,780
Sundry creditors	59,630	Salaries	11,000
6% loan (credit)	20,000	Rent and taxes	5,620
Cash in hand	3,030	Interest and discount	5,870
Cash at bank	18,970	Traveling expenses	1,880
Sundry debtors	62,000	Repairs	3,370
Bills receivable	9,500	Insurance	400
Provision for doubtful debts	2,500	Bad debts	3,620
Furniture	8,970	Commission received	5,640
Plant and machinery	28,800		
Stock as on 1-1-2007	89,780		
Purchases	2,56,590		
Productive wages	40,970		

Solution:

Pradeep Trial balance as on 31st December 2007

	Debit balances		Credit balances
	Rs.		Rs.
Pradeep drawings	10,550	Pradeep capital	1,19,400

Cash in hand	3,030	Sundry creditors	59,630
Cash at bank	18,970	6% loan (credit)	20,000
Sundry creditors	62,000	Provision for doubtful debts	2,500
Bills receivable	9,500	Sales	3,56,530
Furniture	8,970	Commission received	5,640
Stock on 1-1-2007	89,780		
Purchases	2,56,590		
Productive wages	40,970		
Sales returns	2,780		
Salaries	11,000		
Rent and taxes	5,620		
Interest and discount	5,870		
Traveling expenses	1,880		
Repairs	3,370		
Insurance	400		
Bad debts	3,620		
	5,63,700		**5,63,700**

7.8 : Try yourself:

1. The following balances are taken from Nagabhushanam books. Prepare trial balance as on 31st December 2007.

	Rs.		Rs.
Nagabhushanam Capital	15,000	Sales returns	1,000
Nagabhushanam Drawings	2,500	Discounts given	800
Furniture	1,300	Discounts received	1,000
Bank overdraft	2,100	Taxes and insurance	1,000
Creditors	6,650	General expenses	2,000
Business premises	10,000	Salaries	4,500
Opening stock	11,000	Commission paid	1,100

Debtors	9,000	Carriage inwards	900
Rent received	500	Reserve for bad&doubtful debts	250
Purchases	55,000	Bad debts	400

(Total of trial balance: Rs. 1,00,500)

2. The following are the balances taken from Raghupathi as on 30th September 2007. Prepare trial balance from these particulars.

	Rs.		Rs.
Raghupathi capital	59,700	Cash at bank	11,665
Drawings	5,275	Cash in hand	295
Bills receivable	4,750	Insurance	200
Machinery	14,400	Traveling expenses	910
Debtors	31,000	Salaries and wages	5,500
8% Loan (Cr)	10,000	Stock as on 1-10-2006	44,840
Fixtures and Fittings	4,485	Rent and taxes	2,810
Creditors	28,815	Commission received	2,820
Bad debts	1,810	Sales	1,78,215
Discount	2,935	Purchases	1,28,295
Repairs	1,285	Productive wages	20,485
Purchases returns	1,390		

(Total of trial balance: Rs. 2,80,940)

3. Prepare trial balance from the following balances.

	Rs.		Rs.
Opening stock	18,600	Discount given	1,500
Coal and coke	2,000	Loans	5,000
Productive wages	11,000	Debtors	16,000
Purchases	80,000	Creditors	4,000
Sales	1,20,000	Profit & loss A/A(Cr)	4,000
Carriage outwards	1,500	Lease asset	6,500
Repairs	1,000	Machinery	8,000
Loose tools	1,300	Patents	1,000

Capital	40,000	Discount received	600
Lighting charges	1,800	Goodwill	15,000
Office salaries	2,600	Cash at bank	5,100
Office furniture	500	Cash in hand	200

(Total of trial balance: Rs. 1,73,600)

4. The following are the balances of Niranjan as on 31st December 2007. Based on these prepare trial balance.

	Rs.		Rs.
Sundry debtors	60,000	Capital	2,00,000
Sales	2,50,000	Drawings	35,000
Sundry creditors	10,000	Opening stock	50,000
General trading expenses	12,000	Sales returns	3,000
Factory rent	2,000	Plant and machinery	60,000
Interest received	1,200	Motor vehicles	20,000
Purchases returns	2,000	Bank balance	23,000
Productive wages	20,000	Loan on Pledge (Dr)	20,000
Purchases	1,00,000	Cash balance	100
Discount received	1,800	Traveling expenses	6,000
Provision for bad debts	2,000	Discount given	2,000
Furniture	5,000	Office salaries	22,000
Carriage inwards	5,500	Rates, taxes and insurance	1,200

(Total of trial balance:Rs. 4,67,000)

5. The following are the balances of Sudhakar as on 31st December 2007. Prepare trial balance as on that date.

	Rs.		Rs.
Land and buildings	26,000	Carriage inwards	1,700
Sundry debtors	40,500	Discount given	1,400
Sundry creditors	45,000	Discount received	1,100
Plant and machinery	20,000	Reserve for doubtful debts	1,000
Purchases	35,000	Factory expenses	3,400

Sales	1,23,400	Patent rights	2,000
Opening stock	23,500	Capital	45,000
Wages	27,000	Drawings	6,100
Factory rent and taxes	2,500	Cash at bank	4,000
Salaries	6,800	Cash in hand	250
Advertising	3,000		
Office rent and insurance	4,000		
General expenses	6,800		

(Total of trial balance: Rs. 2,15,500)

7.9 : Summary:

According to double entry system for every debit there will be equal credit. When accounts are written according to this principle, debit balances equal to credit balances.

For preparation of final accounts and to know the accuracy of account balances trial balance is prepared. It is not an account. It is a statement consisting of balances of ledger.

The credit and debit of trial balance should be equal. Nominal expenses, assets, debtors are shown on debit side and incomes, creditors; liabilities are shown on credit side.

7.10 : Glossary:

Trial balance: It is a statement consisting of accounting balances prepared by the business man by the end of the year to know the accuracy of accounts.

Suspense account: It is a temporary account opened to transfer the difference in the trial balance if any.

Totals method of trial balance: A statement prepared based on the debit and credit balances of each account. Debit balances are shown on debit side and credit balances on credit side.

Balances method of trial balance: A statement prepared based on the balance of each account. Only the net balance will be shown in the trial balance.

7.11 : Self Assessment Questions:

1. Why a trial balance? And how is it prepared?
2. What are the errors disclosed by trial balance?
3. What are the errors not disclosed by trial balance?

- Dr.R.Jayaprakash Reddy.

Lesson - 8

FINAL ACCOUNTS

TRADING ACCOUNT & PROFIT & LOSS ACCOUNT

OBJECTIVES:

Through the study of this Lesson, you are able to understand

- What are the objectives of preparing Final Accounts?
- What are the various stages in the preparation of Final Accounts?
- What is the treatment of Capital and Revenue items?
- How the Trading Account is prepared?
- How the Manufacturing Account is prepared?
- How the Profit & Loss Account is prepared?

STRUCTURE :

7.1. Introduction

7.2. Objectives

7.3. Various stages in the preparation of Final Accounts

7.4. Capital & Revenue items

7.5. Trading Account

7.6. Manufacuting Account

7.7. Profit & Loss Account

7.8. Summary

7.9. Questions

8.10.Exercises

8.1. INTRODUCTION :

The main objectives of any business is earning Profit. If the businessman is able to know the Profit / Loss of the business in one financial year; then he will be able to take the appropriate decisions about the operation of business in future, expansion of business etc. Generally the businessman will prepare various statements at the end of the every half year or every year to findout Profit or Loss, Assets and Liabilites of the business firm. These statements are called Final Accounts. Preparation of Final Accounts is the last stage in the process of Accounting. Final Accounts are prepared with the help of Journal Entries and Ledger Balances.

8.2. OBJECTIVES OF FINAL ACCOUNTS:

There are two objectives in the preparation of Final Accounts

a) to findout the Profit or Loss of the business for a particular period

b) to findout the true financial position of the business firm on a particular date i.e., to find out the total value of assets, total value of liabilities and the amount of Capital invested in the firm etc.

8.3. STAGES IN THE PREPARATION OF FINAL ACCOUNTS :

There are 3 stages in the preparation of Final Accounts. They are

a) Preparation of Trading Account for the year ended -----

b) Preparation of Profit & Loss Account for the year ended -----

c) Preparation of Balance Sheet as on -----

The Trading Account and Profit & Loss Accounts are prepared to achieve the first objective i.e., to find out the Profit & Loss of the business for a particular period. Balance Sheet is prepared to achieve the second Objective i.e., to find out the true financial position of the business on a particular date.

8.4. CAPITAL AND REVENUE ITEMS:

Business transactions can be devided into two broad categories.

1) Capital items 2) Revenue items.

The Capital items can be subdivided into two categories viz. Revenue Expenditure and Revenue Income. All the Revenue items must be entered in the Trading Account and Profit & Loss Account and all the Capital itmes must be entered in the Balance Sheet.

8.4.1. Capital Expenditure :

The amount paid for the purchase of Fixed Assets is called Capital Expenditure. The expenditure incured for the development and constructive changes for the increase of earning capacity is called as Capital Expenditure. For Example:- Purchase of Plant & machinery, their carriage, installation expenses etc.

8.4.2. Revenue Expenditure:

The day today expenses incured in the regular course of business are called Revenue Expenses. The expenditure paid for smooth conduct of the business and to maintain the Assets with the same capacity is called Revenue Expenditure. For Ex:- Office Expenses, Selling & Distribution Expenses etc.

8.4.3. Capital Incomes:

The Profits or the incomes earned on the non-trading transactions are called capital incomes or capital profits. For Ex:- Amount received on the sale of fixed asset, premium received when the shares are issued at premium, Profit received when the assets are insured at excess value.

8.4.4. Revenue Incomes:

The amounts received in the day today business transactions are called Revenue Incomes. These incomes will be received every year which means these are recurring incomes.

For Ex:- Sale of goods, Commission received, Interest received, Discount received etc.,

8.4.5. Differences between Capital Expenditure and Revenue Expenditure:

S.No	Revenue Expenditure	S.No	Capital Expenditure
1.	Recurring expenses are called Revenue expenses	1.	Non recurring expenses are called Capital expenses
2.	When the purchase is meant for sales it is treated as revenue expenditure	2.	When the purchase is meant for using it in the Business, it is treated as capital expenditure.
3.	Expenses incured to maintain the existing capacity of the asset is called Revenue expenditure	3.	Expenses incured to increase the earing capacity of the asset is called capital expenditure.
4.	The Benefit of the Revenue expenditure will be limited to one year	4.	The benefit of the capital expenditure will extend for long time i.e. for more than one year.

8.4.6. Difference between Capital Receipts and Revenue Receipts:-

8.4.7. Treatment of Capital and Revenue items in Final Accounts:

Revenue Expenses must be debited to the Trading Account and Profit & Loss Account and Revenue Incomes must be credited to the Trading Account and Profit & Loss Account. Capital Receipts must be shown on the Liabilities side of the Balance Sheet and Capital Payments or Capital Expenditure must be shown on the Assets side of the Balance Sheet.

8.4.8. Classification of Firms:

The business firm can be devided into two categories for the purpose of preparation of Final Accounts.

i) Trading firms,

ii) Manufacturing firms

i **Trading firms:-** The business firm purchasing the finished goods and selling them with profit are called trading firms. These firms does not involve in manufacturing the goods. The Final Accounts of these firms will be consisting of

a) Trading Account,

b) Profit & Loss Account,

c) Balance Sheet.

ii Manufacturing firms:- The firm purchasing the raw-material converting them into finished goods with manufacturing process and selling them with Profit are called Manufacturing firms. The Final Accounts of these firm consisting of -

a) Manufacturing Account,

b) Trading Account,

c) Profit & Loss Account &

d) Balance Sheet.

8.5. TRADING ACCOUNT:

The Account prepared to findout the Profit or loss on the purchase and sale of the goods is called Trading Account. The Profit ascertained in the Trading Account is called Gross Profit. If there is loss in this Account, it is called Gross Loss. The Proforma of the Trading Account will be as under:

Dr Trading Account of Mr. X for the year ended 31-03-2007. Cr

Particulars		Amount Rs.	Particulars		Amount Rs.
To Opening stock		xxx	By sales	xxx	
To Purchases	xxx		Less sales returun	xxx	xxx
Less purchase Returns	xxx	xxx	By Closing stock		xxx
To Carriage inwards		xxx			
To Wages		xxx			
To Fuel		xxx			
To Freight & duty		xxx			
To Import duties		xxx			
To dock expenses		xxx			
To Marine insurance		xxx			
To Duty & Clearing charges		xxx			
To consumable stores		xxx			
To octroi		xxx			
To Royalty		xxx			
To gross profit balance c/d		xxx			
(Transfer to P&L Account)					
		xxx			xxx

8.5.1 Items to be debited to Trading Account:-

The details of the items to be debited to Trading Account were:-

1) **Opening Stock:-** It is the balance of Stock in the beginning of the year. In the case of manufacturing firms, the opening stock includes three items viz., Raw-material, work-in-progress and Finished goods.

2) **Purchases:-** The net amount of goods purchased during the year must be debited to Trading Account. Purchase Returns must be deducted from Purchases to find out Net Purchases.

3) **Direct Expenses:-** The expenses incurred for the purchase of goods and making them ready for sale are called Direct Expenses. They can be devided as follows.

   a) **Expenses for the purchase of goods:-** For Ex:- Carriage inwards, Cartage, Freight, Duty, Octroi, Local Taxes, Import Duties, Clearing Charges, Unloading Charges, Dock Charges, Railway Charges etc.

   b) **Expenses for manufacture of goods:-** For Ex:- Gas, Water, Fuel, Power, Factory Lighting, Stores, Royalty, Factory Insurance, Factory Expenses, Factory Rent, Manufactureing Expenses etc.

   c) **Wages:-** The remuneration paid to the workers for participating in the Production is called wages. The term 'Wages & Salaries' shall be debited to Trading Account and the term 'Salaries & Wages' shall be debited to Profit & Loss Account.

8.5.2. Items to be Credited to Trading Account:-

1) **Sales:-** The net amount of goods sold during the year must be credited to Trading Account. Sales Returns must be deducted from Sales to findout the net amount of Sales.

2) **Closing Stock:-** This item is generally given in Adjustments but not in Trial Balance. It is the balance of stock at the end of the year. Closing Stock must be valued at Cost or Market Value which ever is less.

3) **Loss of Stock:-** The loss or goods by fire or any other reason must be credited to Trading Account.

8.5.3. Closing Entries to be passed in the preparation of Trading Account:-

The following entries shall be passed for the preparation of Trading Account. The various accounts transfered to Trading Account will be closed with these entries.

1)	Trading Account	Dr.	xxx	
	To Opening Stock			xxx
	To Purchases			xxx
	To Direct Expenses			xxx
	(Being the Opening Stock, Purchases & all Direct Expenses transfered to Trading Account)			
2)	Sales A/c	Dr.	xxx	
	Closing Stock Account	Dr.	xxx	
	To Trading Account			xxx
	(Being the Sales and Closing Stock transfered)			
3)	Purchase Returns Account	Dr.	xxx	
	To Purchases Account			xxx
	(Being the returns transfered to Purchases Account)			
4)	Sales Account	Dr.	xxx	
	To Sales Returns Account			xxx
	(Being the returns transfered to Sales Account)			
5)	Trading Account	Dr.	xxx	
	To Profit & Loss Account			xxx
	(Being the Gross profit transfered to Profit & Loss Acc.)			
6)	Profit & Loss Account	Dr.	xxx	
	To Trading Account			xxx
	(Being the loss transfered to Profit & Loss Account			

8.5.4. Advantages of Trading Account:-

1) Gross Profit or Gross Loss can be ascertained.
2) Changes in the Direct Expenses can be observed
3) Cost of groods sold can be calculated through the Trading Account.
4) By comparing the Opening and Closing Balances, it can be observed that whether the purchases are made properly or not.
5) The improvement or development of the firm can be observed by comparing the Sales of current year with the Standard Sales or with the Sales of last year.

Example-1:-

From the following data prepare Trading Account of Mr X for the year ended 31-03-2007.

Stock on 01-04-06 Rs.18000/-, Purchases Rs.90000/-, Purchase Returns Rs.6000/- Sales Rs.153000/-, Sales Returns Rs.9000/-, Carriage inwards Rs.3000/-, Freight Rs.1500, Cartage Rs.1500/-, Duty and Clearing Charges Rs.1200/-, Stock on 31-03-2007 Rs.21000/-

Solution:-

Dr Trading Account of Mr. X for the year ended 31-03-2007 Cr

Particulars		Amount Rs.	Particulars		Amount Rs.
To opening stock		18,000	By sales	1,53,000	
To purchases	90,000		Less sales returun	9,000	1,44,000
Less purchase Returns	6,000	84,000	By Closing stock		21,000
To carriage inwards		3,000			
To Freight		1,500			
To Cartage		1,500			
To Duty & crearing charges		1,200			
To gross profit balance c/d		55,800			
		1,65,000			1,65,000

Example-2:-

From the following particulars of Mr. Y prepare Trading Account for the year ended31-03-2007

Opening stock on (01-04-06)		Fuel	750
Raw material	12,000	Factory Rent	3,000
Work in progress	30,000	Factory lighting	1,500
finished goods	21,000	Sales	1,20,000
Purchases	6,000	Sales Returns	3,000
carriage inwards	3,000	Closing stock on 31.03.07	
wages	3,000	Raw material	12,300
clearing charges			
marine insurance	3,000	Work in - progress	14,700
coal & coke	1,500	Finished goods	27,000
Power	750		

Solution:

Dr. Trading Account of Mr. Y for he year ended 31-03-2007 Cr.

Particulars	Amount Rs.	Particulars		Amount Rs.
To Opening stock on (01-04-06)		By sales	1,20,000	
Raw material	12,000	Less returns	3,000	1,17,000
Work in progress	30,000	By closing stock		
Finished goods	21,000	Raw material		12,300
To Purchases	54,000	Work - in - progress		14,700
To carriage inwards	6,000	Finished goods		27,000
To wages	3,000			
To clearing charges	3,000			
To marine insurance	3,000			
To coal & coke	1,500			
To Power	750			
To Fuel	750			
To Factory Rent	3,000			
To Factory lighting	1,500			
To Gross profit. Balance C/d	31,500			
	1,71,000			1,71,000

8.6. MANUFACTURING ACCOUNT :

The manufacturing firms will compute the Cost of Production by preparing Manufacturing Account. These firms will prepare the Manufacturing Account along with the Trading Account and Profit & Loss Account. The Cost of Production will be calculated through Manufacturing Account and it will be transferred to Trading Account to findout the Gross Profit or Gross Loss. The Proforma of the Manufaturin Account is given here under.

Dr Manufacturing Account of X for the year ended 31-03-2007 Cr

		Rs.		Rs.
To Opening stock on (01-04-06)			By closing stock	
Raw material		xxx	Raw material	xxx
Work in progress		xxx	Work - in - progress	xxx
To Purchases of Material	xxx		By cost of production -	xxx
Less Returns	xxx	xxx	(Transfer to trading account)	
To productive wages		xxx		
To Power		xxx		
To Heating & lighting		xxx		
To Factory Rent & Insurance		xxx		
To coal & coke		xxx		
To repairs to plant		xxx		
To Depreciation on Machinery		xxx		
		xxx		xxx

Dr Trading Account of Mr X for the year ended 31-03-2007 Cr

	Rs.			Rs.
To Opening Balance of finished goods	xxx	By sales (finished goods)	xxx	
To purchase of finished goods	xxx	Less Returns	xxx	xxx
To Cost of production (Transfer from manufacturing account)	xxx	By finsihed goods (closing balance)		xxx
To Gross profit	xxx			
	xxx			xxx

Example- 3:-

From the following particulars prepare Manufacturing Account and Trading account of Mr Balu for the Year ended 31. 03,07.

	Rs.		Rs.
Raw material on 01.04.06	6,000	Material returned	100
on 31.03.07	5,800	Repairs to plant	800
Consumable stores	1,700	Repairs to factory buildings	500
Motive power	3,000	finished goods on 01.04.06	6,000
Work in progress on 01.04.06	8,000	on 31.03.07	7,000
on 31.03.07	10,000	Depreciatoin on Factory builidings	2,000
		on plant & machinery	3,000
Factory Rent & Rates	1,600	Factory lighting	400
Factory Insurance	500	Productive wages	21,000
Other Direct expenses	1,300	Carriage in words	600
Sales	82,000	Purchases	23,000
Sales Returnes	2,200		

Solution:

Dr Manufacturing Account of Balu for the year ended 31-03-2007 Cr

Particulars		**Amount Rs.**	**Particulars**	**Amount Rs.**
To Opening stock			By closing stock	
Raw material		6,000	Raw material	5,800
Work in progress		8,000	Work in progress	10,000
To Purchase of Material	23,000		By cost of production - C/D	
Less Returnes	100	22,900	(Transfer to trading A/c)	57,500
To carriage in words		600		
To wages		21,000		
To Consumable stores		1,700		
To Motive power		3,000		
To Factory Rent & Rates		1,600		

To Factory Insurance	500			
To Direct expenses	1,300			
To Repairs to plant	800			
To Repairs to factory buildings	500			
To Depreciatoin on Factory builidings	2,000			
on plant	3,000			
To Factory lighting	400			
	73,300			73,300

Dr Trading Account of Balu for the year ended 31-03-2007 Cr

	Rs.			Rs.
To Opening stock (finished goods)	6,000	By sales	82,000	
To Cost of production B/D	57,500	Less Returns	2,200	79,800
(Transfer to Trading A/c)		By closing stock of finsished goods		7,000
To Gross profit Balance C/d	23,300			
	86,800			86,800

8.7. PROFIT & LOSS ACCOUNT :

Profit & Loss Account is prepared to find out the Net Profit or Net Loss during a particular business period. This account will be started with the Gross Profit and all the expenses and losses given in the Trial Balance will be debited (except those debited to Trading Account) and all the Incomes and Profits given in the Trial Balance will be credited. The proforma of Profit & Loss Account will be as under.

Dr Profit & Loss Account of Mr. X for the year ended 31-03-2007 Cr

	Rs.		Rs.
To salaries & wages	xxx	By Gross Profit	xxx
To Rent & Taxes	xxx	By Rent received	xxx
To Lighting	xxx	By commission received	xxx
To Insurance	xxx	By Discount received	xxx
To printing & stationary	xxx	By interest received	xxx
To Postage & Telegrams	xxx	By interest on investments	xxx
To Telephone	xxx	By interest on Drawings	xxx

To legal expenses	xxx	By interest on Bank deposits	xxx
To Audit fees	xxx	By dividends received	xxx
To Selling & Distribution expenses	xxx	By profits on sale of assets	xxx
To Gowdown expenses	xxx	By Bad debts recovred	xxx
To Packing expenses	xxx	By Apprentice premium	xxx
To Advertising	xxx	By reserve for discount on creditors	xxx
To Commission on sales	xxx		
To Baddebts	xxx		
To Discounts allowed	xxx		
To Delivery van expenses	xxx		
To Travelling expenses	xxx		
To Carriage outwards	xxx		
To Samples	xxx		
To Interest on capital	xxx		
To Interest on loans	xxx		
To Depreciation on Assets	xxx		
To Repairs on Assets	xxx		
To Net profits (transfer to capital account)	xxx		
	xxx		xxx

8.7.1. Closing entries to be passed for the transfer of expenses and incomes to Profit & Loss Account:-

a) For the transfer of all indirect expenses and losses to Profit & Loss Account:-

Profit & Loss Account	Dr.	xxx	
To Administrative expenses			xxx
To Selling and Distribution Expenses			xxx
To Financial Expenses			xxx
To Operating Expenses			xxx
To Provisions & Reserves			xxx

b) For the transfer of various incomes and profits to P&L Account

Discount received Account	Dr.	xxx	
Interest received Account	Dr.	xxx	
Commission received Account	Dr.	xxx	
Dividends received Account	Dr.	xxx	
Apprentice Premium Account	Dr.	xxx	
To P&L Account			xxx

c) For the transfer of Net Profit to Capital Account

Profit & Loss Account	Dr.	xxx	
To Capital Account			xxx

d) For the transfer of Net Loss to Capital Account

Capital Account	Dr.	xxx	
To Profit & Loss Account			xxx

Example-4:

From the following particulars, prepare Profit & Loss Account for the year ended 31-03-2007.

	Rs.		Rs.
Salaries	3,000	Audit fees	600
Carriage outwards	1,000	Baddebts	400
Printing & Stationery	1,500	Commssion received	500
Discount allowed	750	Rent, rates, insurance	500
Postage	250	General expenses	400
Repairs	400	Gross Profit	8,000

Solution:

Dr. Profit & Loss Account of --- for the year ended 31-03-2007 Cr

	Rs.		Rs.
To Salaries	3,000	By Gross profit	8,000
To Carriage outwards	1,000	By Commssion received	500
To Printing & Stationery	1,500	By Rent received	500
To Discount allowed	750		
To Postage	250		
To Repairs	400		
To Audit fees	600		
To Baddebts	400		
To Rent, rates, insurance	500		
To General expenses	400		
To Net Profit			
(Transfer to captial A/c)	3,200		
	12,000		12,000

Example 5 :

From the following particulars, prepare Trading and Profit & Loss Accunt for the year ended 31-03-2007

	Rs.		Rs.
Stock on 1-4-06	50000	Purchases	500000
Purchase Returns	50000	Sales	1000000
Sales Retunrs	50000	Direct Wages	20000
Indirect Wages	10000	Carriage in wards	5000
Carriage out wards	10000	Distribution expenses	5000
Office Rent	20000	Repairs	10000
Duty	5000	Coal & Gas	15000
Office Lighting	10000	Closing Stock	150000

Solution:

Dr **Trading & Profit & Loss Account of --- for the year ending 31-03-07** **Cr**

		Rs.			Rs.
To Opening stock		50,000	By sales	10,00,000	
To Purchases	5,00,000		less Returns	50,000	9,50,000
Less Returns	50,000	4,50,000	By closing stock		1,50,000
To Direct wages		20,000			
To Carriage in wards		5,000			
To Duty		5,000			
To Coal and Gas		15,000			
To Gross profit					
(Transfer to P&L Ac)		5,55,000			
		8,00,000			8,00,000
To Indirect Wages		10,000	By Gross profit		5,55,000
To Carriage out wards		10,000			
To Distribution expenses		5,000			
To Office Rent		20,000			
To Repairs		10,000			
To Office Lighting		10,000			
To Net Profit					
(Transfer to captial A/c)		4,90,000			
		5,55,000			5,55,000

8.8. ADVANTAGES OF PROFIT & LOSS ACCOUNT :

1) Net result of the business firm can be ascertained by the preparation of Profit & Loss Account.

2) The percentages of various expenses on Sales can be ascertained by the preparation of this account. These percentages can be compared with the last year's percentages and the firm's control on expenses can be analysed.

3) The efficiency of the firm can be ascertained by comparing the actual expenses with the Standard expenses.

4) The development of the firm in future can be estimated by finding out the net profit.

5) Preparation of Profit & Loss account facilitates the creation of Reserves and provisions to meet the Contingent Liabilities.

8.9. SUMMARY:

Every businessman prepares Final Accounts at the end of the year to findout the Profit or Loss of the business. Trading and P&L Accounts are prepared to find out the profitability of the firm. When the profitability is good, It can be said that there is chance for improvement of the business.

8.10. QUESTIONS:

a) Short Answer questions:-

1) What are the main objectives of Final Accounts?

2) What are the various stages in the preparation of Final Accounts?

3) What is necessity of recognising the difference between the Capital and Revenue items?

4) Explain the Capital & revenue items?

5) State the differences between Capital Expenditure & Revenue Expenditure?

6) State the differences between Capital Receipts & Revenue Receipts?

7) What is meant by Trading Account? Why it is prepared?

8) State the Advantages of Trading Account.

9) State the various items in Trading Account.

10) Prepare the ‘Format’ of the Trading Account.

8) Write the closing entries for the various items in Trading Account.

12) What is meant by Production Account/ Manufacturing Account? Show the Formats of the Manufacturing Account and Trading Account which are prepared by manufacturing firms.

13) What is meant by Profit & Loss Account? Why it is prepared?

14) What is the necessity of Profit & Loss Account?

15) Explain the various items in the Profit & Loss Account?

16) Prepare the Format of Profit & Loss Account.

17) Write the closing entries for the various items in Profit & Loss Account.

b) Essay Questions:-

1) What is meant by Capital Expenditure? Explain the differences between the Capital Expenditure & Revenue Expenditure.
2) What is meant by Trading Account? Prepare the Trading Account of a business firm with assumed figures.
3) Why the Profit & Loss account is prepared? What is its importance?
4) Why the Manufacturing Account is prepared in Manufacturing firms? Prepare the Format of Manufacturing Account.

8.8. EXERCISES :

1) From the following particulars prepare Trading Account for the year ended 31-03-2007

	Rs.		Rs.
Opening Stock 1-4-06	10000	Net Purchases	52400
Manufacturing Wages	8000	Clearing Charges	648
Import Duties	3000	Freight	210
Net Sales	74900	Factory Rent & Taxes	1640
Factory Insurance	640	Carriage inwards	167
Octroi and Dock Expenses	164	Closing Stock 31-3-07	13000

(GP Rs.8031)

2) From the following information prepare Trading Account and find out Gross Profit

	Rs.		Rs.
Opening Stock	5570	Sales Returns	524
Purchases	13816	Carriage inwards	1400
Sales	15284	Import duties	252
Purchase Returns	390	Closing Stock	8880

(GP Rs.2992)

3) From the following particulars, prepare Trading Account for the year ending 31-03-2007

	Rs.		Rs.
Purchases	85000	Wages	10000
Manufacturing Expenses	3900	Opening Stock	20000
Carriage inwards	200	Sales Returns	100

Sales	135000	Purchase Returns	400
Freight & Duty	10000	Consumable Stores	400
Power	600	Closing Stock	24000

(GP Rs.29200)

4) From the following data prepare Trading Account and give necessary journal entry.

	Rs.		Rs.
Purchases	6500	Lighting	50
Sale	8850	Stores Expenditure	150
Purchase Returns	100	Stock on 1-4-06	500
Clearing charges	50	Stock 31-3-07	1250
Cartage	50	Wages	800
Fuel & Power	250	Sales Returns	100
Discount allowed	100		

(GP Rs.4750)

5) From the following particulars prepare production Account for the year ended 31-03-2007

	Rs.		Rs.
Opening Stock; Material	6000	Wages of Workers	40000
Work-in-progress	8000	Lighting & Gas(Factory)	4000
Finished Goods	16000	Carriage in wards	2000
Closing Stock: Material	2000	Special plant rent	4000
Work-in-progress	10000	Rent of the factory	8000
Finished goods	8000	Repairs to Plant	4000
Supervisor Salary	16000	Repairs to Factory	2000
Wages	2000	Salaries of staff working	6000
Worke managers salary	12000	Royalty on Production	4000
Purchase of Material	80000		

(Ans: Cost of Production = 180000)

6) From the following particulars, prepare Profit & Loss Account for the year ended 31-03-2007

	Rs.		Rs.
Salaries	3000	Printing & Stationery	1500
Carriage outwards	1000	Commission received	1000
Discount allowed	500	Rent received	500
Commission Paid	1500	Insurance Premium	1000
Bad debts	1000	Office Electricity charges	500
Repairs	1000	Gross Profit	24000
Advertisements	1000	Audit Fees	500
General Expenses	1000	Postage	1000

(Ans: N.P. Rs.8500)

7) From the following ledger balances of Gopal, prepare Profit & Loss Account for the year ended 31-03-2007

	Rs.		Rs.
Rent Paid	6000	Bad debts	1000
Salaries	8000	Printing & Stationery	1500
Commission Paid	2000	Office Insruance	1000
Discount allowed	2000	Postage	500
Advertisements	2000	Repairs	500
Telephone charges	1000	Interest received	3500
Interest on loans	3000	Gross Profit 40% on Sales	200000

(Ans: NP: 55000)

8) From the following ledger balances, of Mr. Suresh, prepare Trading and Profit & Loss Account for the year ended 31-03-2007.

	Rs.		Rs.
Opening Stock	41730	Wages	12270
Sales	207830	Discounts	8240
Purchases	127330	Discounts received	7630

Carriage	4780	General Expenses	13380
Baddebts	2250	Taxes	1880
Closing Stock	44200		

(Ans: GP Rs.65920; NP Rs.47800)

9) From the following ledger balances of Devanand, prepare Trading and Profit & Loss Account for the year ending 31-03-2007

	Rs.		Rs.
Wages	33000	Sales Returns	1500
Carriage	2250	Carriage outwards	750
Purchases	120000	Opening Stock	27000
Commission	3750	Duty etc.	1800
Salaries	27000	Discount allowed	6000
Printing & Stationery	750	Rent, Taxes, Insurance	9000
Trade Expenses	2700	Coal, Oil etc.	1200
Factory expenses	6750	Sales	225000
Interest received	4500	Discount received	9000
Purchase returns	3000	Closing Stock	500

(Ans: GP: Rs.35000, Net Loss: Rs.1450)

10) From the following ledger balances, prepare Trading and Profit & Loss Account

	Rs.		Rs.
Sales	16000	Sales returns	800
Purchases	12500	Purchase returns	700
Carriage inwards	425	Opening Stock	6400
Wages	375	Closing Stock	3225
Salaries	2800	Rent	1800
Advertisements	300	Insurance	240
Commission received	800	Discount allowed	85

(Ans: GP:545; Net Loss:5000)

8) Prepare Trading and Profit & Loss Account

	Rs.		Rs.
Stock on 1st Jan.	5000	Purchases	195000
Wages	14000	Insurance	5500
Carriage in	4000	Commission (Dr)	4000
Interest on Capital	3500	Stationery	2250
Returns inwards	6500	Commission (Cr)	2000
Returns outwards	2500	Trade Expenses	1000
Rent & Taxes	5500	Carriage out	7250
Sales	250000	Stock in 31st Dec.	125000

(Ans: GP:153000, NP:126000)

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Lesson - 9

FINAL ACCOUNTS

BALANCE SHEET, ADJUSTMENTS

OBJECTIVES:

By the Study of this chapter, you will be able to understand the:

- Importance of Balance Sheet
- Objectives of Balance Sheet
- Method of Preparation of Balance Sheet

STRUCTURE:

9.1. Introduction

9.2. Definition

9.3. Objectives of Balance Sheet

9.4. Proforma of Balance Sheet

9.5. Differences between Trial Balance & Balance Sheet

9.6. Differences between P&L Account & Balance Sheet

9.7. Adjustments

9.8. Summary

9.9. Examples

9.10. Questions

9.11. Exercises

9.1. INTRODUCTION:

Balance Sheet is the third and last step in the Final Accounts. Balance Sheet is prepared to find out the true financial position of a business on a particular date. It is not an account but only a statement.

9.2. DEFINITION OF BALANCE SHEET :

"Balance Sheet is a Statement prepared with the help of Assets and Liabilites to find out the true financial position of the business on a particular date".

9.3. OBJECTIVES OF BALANCE SHEET:

a) to know about all the Assets and the nature of these assets of the business firm.

b) to know about all the Liabilities payable and their nature.

c) to know about he Capital of the firm.

9.4. PROFORMA OF BALANCE SHEET :

Balance Sheet must be prepared in a systematic and Standard method. All the Liabilities will be shown on one side and the Assets on the other side of the Balance Sheet in a systamatic method. Balance Sheet can be prepared in two methods.

1) Order of Liquidity

2) Order of Permanance.

1. Order of Liquidity : The format of the Balance Sheet in this method will be as under.

Balance sheet of Sri Ram as on 31 - 03-07

Liabilities			**Amount Rs.**	**Assets**	**Amount Rs.**
Current Liabilities :				Current Assets :	
Out standing expenses			xxx	Cash in hand	xxx
Incomes received in Advance			xxx	Cash at bank	xxx
Bills payable			xxx	Short term investments	xxx
Bank over draft			xxx	Debtors	xxx
Creditors			xxx	Incomes receivable	xxx
Loans :				Prepaid expenses	xxx
Long term loan			xxx	Closing stock	xxx
Short term loan			xxx	Fixed Assets	
Reserves & Surplus :				Furniture & Fixtures	xxx
General Reserves			xxx	Vehicles	xxx
Special Reserves			xxx	Plant & Machinery	xxx
Capital				Land & Building	xxx
Capital		xxx		Free hold property	xxx
Add Net profit		xxx		Lease hold property	xxx
Add Further capital		xxx		Intangible Assets	
Add Interest on capital		xxx		Patents	xxx
		xxx			
Less Drawings	xxx			Trade Marks	xxx
Interest	xxx	xxx	xxx	Copy Rights	xxx
				Good will	xxx
			xxx		xxx

2. Order of Permanance : It is an opposite method to the above model. The format of the Balance sheet in this method will be as under.

Balance sheet of Sri Ram as on 31 - 03-07

Liabilities			**Amount Rs.**	**Assets**	**Amount Rs.**
Capital			xxx	Intangible Assets :	
Add Net profit		xxx		Good will	xxx
Add Further capital		xxx		Copy Rights	xxx
Add Interest on capital		xxx		Trade Marks	xxx
		xxx			
Less Drawings	xxx			Patents	xxx
Interest	xxx	xxx	xxx	Fixed Assets	
Reserves & Surplus				Lease hold property	xxx
General Reserves			xxx	Free hold	xxx
Special Reserves			xxx	Land & Buildings	xxx
Loans				Plant & Machinery	xxx
Long term loan			xxx	Furniture & Fittings	xxx
Short term loan			xxx	Vehicles	xxx
Current Liabilities :				Current Assets :	
Creditors			xxx	Closing stock	xxx
Bank O D			xxx	Incomes receivable	xxx
Bills payable			xxx	Prepaid expenses	xxx
Incomes received in Advance			xxx	Debtors	xxx
Out standing expenses			xxx	Bills Receivable	xxx
				Cash in hand	xxx
				Cash at Bank	xxx
			xxx		xxx

9.5 DIFFERENCES BETWEEN TRIAL BALANCE & BALANCE SHEET:

S.No	Trial Balance	S.No	Balance Sheet
1.	Trial Balance is prepared to find out the arithmatic accurancy of the ledger accounts	1.	Balance sheet is prepared to findout the financial porision of a business.
2.	The ledger balances of all types of accounts personal real and nominal accounts will be entered in the trial balance	2.	Personal accounts and real accounts only will be entered in the balance sheet.
3.	Trial Balance does not reveal the profit or less.	3.	Profit or loss will be adjusted to the capital in the Balance sheet.
4.	Opeining stock will be posted in Trial Balance	4.	Closing stock will be posted in the Balance sheet
5.	It is prepared before the preparation of Trading & Profit & loss account	5.	Balance sheet is prepared after the preparation of Trading & Profit & loss account
6.	Adjustments Viz : Out standing expenses prepaid expenses etc. are not entered in the trial balance	6.	All the adjustments are made in the Balance sheet

9.6 DIFFERENCES BETWEEN PROIFT & LOSS ACCOUNT AND BALANCE SHEET:

S.No	Balance Sheet	S.No	P& L Account
1.	It is only a statment	1.	It is an account
2.	It is prepared to find out the financial position of the business.	2.	It is prepared to find out the profit or loss of the business.
3.	The balances of personal and Real accounts will be shown in this account	3.	The balances of Nominal accounts only will be entered in this account
4.	Balance sheet will reveal the ability of the firm to discharge the liabilities and will reveal the liquidity of the firm	4.	P&L Account will reveal the profitability and return on capital of the firm.
5.	Liabilities will be posted on the left hand side and Assets will be posted on the Right hand side of the Balance sheet	5.	It is also devided into two parts. The left hand side is called. " Debit side" and the right side is called "credit side ".
6.	It is prepared on a particular date	6.	It is prepared for the year ending.

9.7 ADJUSTMENTS :

The transactions given outside the Trial Balance are called adjustments. The items given in the Trial Balance must be entered only once in Final Accounts. Bu the items given outside the Trial Balance (Adjustments) must be entered twice in Final Accounts after the writing the adjustment entry. Adjustments are generally made for the following items.

1) Closing Stock:-

Adjustment Entry:-

Closing Stock Account	Dr.	xxx	
To Trading Account			xxx

Accounting Treatment:-

1) It must be credited to Trading Account

2) It must be shown as an Asset in the Balance sheet

When the Closing Stock is given in Trial Balance- it must be shown as an Asset in the Balance Sheet only.

2) Outstanding Expenses:-

For Ex:- Outstanding Salaries, Rent, Wages etc.,

Adjustment Entry:-

Expenses Account	Dr.	xxx	
To Outstanding Expenses Account			xxx

Accounting treatment:-

1) It must be added to the respective item on the debit side of the Profit & Loss Account.

2) It must be shown as Liability in the Balance Sheet

When it is given in Trial Balance - it must be shown as a liability in the Balance Sheet only

3) **Prepaid Expenses:- For example :** Prepaid Insurance, Taxes, Rents etc.,

Adjustment Entry:-

Prepaid Rent A/c.	Dr.	xxx	
To Rent A/c.			xxx

Accounting Treatment:-

1) It must be deducted from the respective item on the debit side of the Profit & Loss Account.

2) It must be shown as an Asset in the Balance Sheet.

When it is given in Trial Balance - It must be shown as an Asset in the Balance Sheet only.

4) **Incomes Receivable:- For Ex :-** Rent receivable, Interest receivable etc.

Adjustment entry:-

Incomes receivable Acc.	Dr.	xxx	
To Incomes Account			xxx

Accounting Treatment:-

1) It must be added to the respective item on the credit side of the Profit & Loss Account

2) It must be shown as Asset in the Balance Sheet

When it is given in Trial Balance - It must be shown as an Asset in the Balance Sheet.

5) **Incomes Received in Advance:- For Ex :** Rent received in Advance, Interest received in Advance etc.

Adjustment entry:-

Incomes Account	Dr.	xxx	
To Incomes received in advance			xxx

Accounting Treatment:-

1) It must be deducted from the respective item on the Credit side of the Profit & Loss Account.

2) It must be shown as Liability in the Balance Sheet.

When it is given in Trial Balance - it must be shown as Liability in the Balance Sheet.

6) **Depreciation on Fixed Assets:- For Ex:-** on Machinery, Furniture etc.

Adjustment entry:-

Depreciaton Account	Dr.	xxx	
To Fixed Asset Account			xxx

Accounting treatment:-

1) It must de debited to P&L account

2) It must be deducted from the value of respective asset on the assets side of the Balance sheet

When it is given in Trial Balance - it must be debited to P & L Account.

7) Interest on Capital:-

Adjustment Entry:-

Interest on Capital Acc.	Dr.	xxx	
To Capital Acc.			xxx

Accounting Treatment:-

1) It must be debited to the Profit & Loss Account

2) It must be added to the Capital on the Liabilites side by the Balance Sheet.

When it is given in Trial Balance - It must be debited to the P & L Account.

8) Interest on Drawings :

Adjustment Entry:-

Drawings Acc	Dr.	xxx	
To Interest on Drawings Ac.			xxx

Accounting Treatment:-

1) It must be credited to Profit & Loss Account

2) It must be deducted from the Capital on the Liabilities side of the Balance Sheet.

When it is given in Trial Balance - it must be credited to the P & L Account.

9) Interest on Loans :

Adjustment Entry:-

Interest on Loans Acc.	Dr.	xxx
To Loans Acc.		xxx

Accounting Treatment:-

1) It must be debited to P & L Account

2) It must be shown as Liability in the Balance Sheet.

When it is given in Trial Balance - it must be debited to P & L Account.

10) Baddebts :

Adjustment Entry:-

Bad debts Acc.	Dr.	xxx	
To Debtors Acc.			xxx

Accounting Treatment:-

1) It must be debited to P & L Account

2) It must be deducted from Debtors in the Balance sheet.

When it is given in Trial Balance - it must be debited to P & L Account.

When it is given both in Trial Balance & in Adjustments:-

1) Both amounts must be debited to P & L Account

2) Amount given in Adjustments only must be deducted from Debtors in the Balance Sheet.

11) Reserve for Baddebts or Reserve for Bad & doubtful debts:-

Adjustment Entry:-

Profit & Loss Acc.	Dr.	xxx	
To Reserve for Baddebts Acc.			xxx

Accountng Treatment:-

When it is given as an Adjustment:-

1) It must be debited to P & L Account

2) It must be deducted from Debtors in the Balance Sheet

When it is given only in Trial Balance - it must be deducted from Debtors in the Balance Sheet.

When it is given both in Trial Balance and as an Adjustment

1) Both the amounts must be compared - when Adjustment amount is more than Trial Balance amount - the difference amount must be debited to P & L Account.

When the Adjustment amount is less than the Trial Balance amount - the difference amount must be credited to P & L Account.

2) The amount given in Adjustments only must be deducted from Debtors in the Balance Sheet.

9) Reserve for Discount on Debtors:-

Adjustment Entry:-

P&L Acc.	Dr.	xxx	
To Reserve for Discount on Debtors Acc.			xxx

Accounting Treatment:- The same procedure must be followed which was followed in the case Reserve for Baddebts as above.

13) Reserve for Discont on Creditors:-

Adjustment Entry:-

Reserve for Discount on Credition Acc. Dr. xxx

To P & L Account xxx

Accounting Treatment:-

1) It must be credited to P&L Account

2) It must be deducted from Credition in the Balance Sheet.

When it is given in Trial Balance - it must be deducted from Creditors in Balance Sheet.

When it is given both in Trial Balance and as an Adjustment:-

1) Both the amounts must be compared - when the Adjustment amount is more than the Trial Balance amount - the difference amount must be credited to P & L Account.

When the Adjustment amount is less than the Trial Balance amount - the difference amount must be debited to P & L Account.

2) The amount given in Adjustments only must be deducted from Creditors in the Balance Sheet.

14) Loss of Goods in Fire:-

a) When such goods were not insured:-

Adjustment Entry:- P & L Account Dr. xxx

To Trading Acc. xxx

Accountng Treatment:-

1) It must be credited to Trading Account

2) It must be debited to P & L Account.

b) When such goods were Insured and when the Insurance Company agreed to pay the total amount of loss as compensation:-

Adjustment Entry:-

Insurance Company Account Dr. xxx

To Trading Account xxx

Accounting Treatment:-

1) It must be credited to Trading Account.

2) It must be shown as an Asset in the Balance sheet.

c) When the Insurance Company agreed to pay a part of the loss as compensation:-

Adjustment Entry:-

Insurance Company Account	Dr.	xxx	
P&L Account	Dr.	xxx	
To Trading Account			xxx

Accounting Treatment:-

1) Total amount of goods destroyed must be credited to Trading Account.

2) Net loss (Total loss-Insurance claim) must be debited to P&L Acc.

3) Insurance claim agreed by the Insurance Company must be shown as asset in the Balance Sheet.

15) Goods used for Office Purpose:-

Adjustment Entry:-

P&L Account	Dr.	xxx	
To Purchases Account			xxx

Accounting treatment:-

1) It must be deducted from Purchases in the Trading Account.

2) It must be debited to P&L Account.

16) Goods used for Personal Purpose:-

Adjustment Entry:-

Drawing Account	Dr.	xxx	
To Purchases Account			xxx

Accounting Treatment:-

1) it must be deducted from Purchases in the Trading Account.

2) It must be deducted from Capital in the Balance Sheet.

17) Providing Reserve Fund:-

Adjustment Entry

P & L Account	Dr.	xxx	
To Reserve Fund Account			xxx

Accounting Treatment:-

1) It must be debited to P&L Account.

2) It must be shown on the Liabilities side of the Balance Sheet.

18) Manager's Commission on the basis of Profits:-

Adjustment Entry:-

P & L Account	Dr.	xxx	
To Outstanding Commission to Manager Acc.			xxx

Accounting Treatment:-

1) It must be debited to P&L Account

2) It must be shown as Liability

The Calculation of Manager's Commission is 2 types.

1) Commission as a percentage on NP 'BEFORE' charing such

Commission = NP x % of Commission/100

2) Commission as a percentage on NP 'AFTER' charging such

Commission = NP x % Commission/ 100 + % of Commission

19) Goods Purchased, included inthe Closing Stock, but not entered in the Books of Account:-

Adjustment Entry:-

Purchases Account	Dr.	xxx	
To Creditors Account			xxx

Accounting Treatment:-

1) It must be added to Purchases in the Trading Acc.

2) It must be added to Creditors in the Balance Sheet.

20) Sale of Assets but recorded as goods sold:-

Adjustment Entry:-

Sales Account	Dr.	xxx	
To Asset Account			xxx

Accounting Treatment:-

1) It must be deducted from Sales in the Trading Account

2) It must be deducted from Asset in the Balance Sheet

21) Wages paid for erection of Machinery but recorded as Wages:-

Adjustment Entry:-

Machinery Account	Dr.	xxx	
To Wages Accounts			xxx

Accounting Treatment:-

1) It must be deducted from Wages in the Trading Account

2) It must be added to Machinery in the Balance Sheet.

22) Goods sold but not recorded as Sales:-

Adjustment Entry:-

Debtors Account	Dr.	xxx	
To Sales Account			xxx

Accounting Treatment:-

1) It must be added to Sales in the Trading Account

2) It must be added to Debtors inthe Balance Sheet.

9.8. SUMMARY:

Balance Sheet will reveal the true financial position of the business on a particular date and Final Accounts must be prepared after making the adjustments.

9.9. EXAMPLES:

Example 1 :

The Net profit of Suma Industries for the year ended 31-03-07 was Rs. 26938 From the following Ledger Balances, prepare Balance sheet as on that date.

	Rs.		Rs.
Cash in Hand	7200	Creditors	9472
Cash at Bank	18,654	Drawings	4,800
Plant & machinery	17,000	Capital	30,000
Debtors	11,356	Bills Payable	5,600
		Stock on 31-03-07	13,000

Solution :

Balance Sheet of Suma Industries as on 31.03.07

Liabilities		Amount Rs.	Assets	Amount Rs.
Capital	30,000		Plant & machinery	17,000
Add N.P	26,938		Closing Stock	13,000
	56,938		Debtors	11,356
Less Drawings	4,800	52,138	Bank	18,654
Creditors		9,472	Cash	7200
Bills Payable		5,600		
		67,210		67,210

Example 2 :

From the following particulars, prepare Balance sheet under order of Liquidity mehtod and order of permanance method as on 31-03-07.

	Rs.		Rs.
Capital	10,000	Drawings	3,000
Net Profit of current year	15,000	Closing stock	6,000
Mortgage loan	7,500	Bills payable	2,500
Bills Receivable	4,000	Good will	6,000
Debtors	9,000	Creditors	3,000
Plant & machinery	20,000	Investments	9,000
Cash in hand	1,000	Cash at bank	3,000
Land & Buildings	17,000		

Solution :

Order of Liquidty

Balance Sheet of............... as on 31.03.07

Liabilities		Amount Rs.	Assets	Amount Rs.
Bills payable		2,500	Cash in hand	1,000
Creditors		3,000	Cash at Bank	3,000
Mortgage loan		7,500	Bills Receivable	4,000
Capital	50,000		Debtors	9,000
Add N.P	15,000		Closing stock	6,000
	65,000		Investments	9,000
Less Drawings	3,000	62,000	Plant & Machinery	20,000
			Land & Buildings	17,000
			Good will	6,000
		75,000		75,000

Order of Permanace

		Rs.		Rs.
Capital	50,000		Good will	6,000
Add N.P	15,000		Land & Buildings	17,000
	65,000		Plant & Machinery	20,000
Less Drawings	3,000	62,000	Closing stock	6,000
Mortgage loan		7,500	Investments	9,000
Creditors		3,000	Debtors	9,000
Bills payable		2,500	Bills Receivable	4,000
			Cash at Bank	3,000
			Cash in hand	1,000
		75,000		75,000

Example 3:

The Trial Balance of Chandra Sekhar on 31-03-07 was as under.

	Rs.	Rs.
Land & buildings	27,500	
Plant & Machinery	13,320	
Opening stock	41,730	
Purchases & sales	1,27,330	2,07,830
Carriage	4,780	
Bad Debts	2,250	
Wages	9,270	
Debtors, Creditors	54,450	24,290
Discounts	8,240	7,630
Furniture	1,920	
Capital & Drawings	18,550	1,06,590
General Expenses	13,380	
Bank	18,740	
Taxes	1,880	
	3,46,340	3,46,340

Stock on 31-03-07 Rs. 44200. Prepare final Accounts.

Solution :

Trading & Profit and Loss Account of Chandra Sekhar for the Year ended 31-03-07

Dr	Rs.		Cr Rs.
To Opening stock	41,730	By Sales	2,07,830
To Purchases	1,27,330	By closing stock	44,200
To Carriage	4,780		
To Wages	9,270		
To Gross (profit transfer	65,920		
to P&L Account)	2,52,030		2,52,030
To General Expenses	13,380	By G.P	65,920
To Taxes	1,880	By Discount received	7,630
To Discounts (allowed)	8,240		
To Bad debts	2,250		
To Net profit(Transfer to capital A/c.)	47,800		
	73,550		73,550

Balance Sheet of Chandra Sekhar as on 31.03.07

		Rs.		Rs.
Capital	1.06,590		Land & Buildings	27,500
Add N.P	47,800		Plant & Machinery	13,320
	1,54,390		Furniturs	1,920
Less Drawings	18,550	1,35,840	Closing stock	44,200
Creditors		24,290	Debtors	54,450
			Cash at Bank	18,740
		1,60,130		1,60,130

Example 4 :

From the following Trial Balance, Prepare final accounts.

	Rs.	Rs.
Capital & Drawings of Srinivas	50,000	4,00,000
Land & Buildings	27,500	
Lease hold land	2,50,000	
Free hold premises	2,00,000	
Good will	70,000	
Trade marks	1,30,000	
Plant & Machinery	1,50,000	
Fixtures & Fittings	20,000	
Opening stock	1,80,000	
Bills Receivable & Bills Payable	40,000	60,000
Debtors & Creditors	1,60,000	2,40,000
Purchases & Sales	8,00,000	15,00,000
Returns	10,000	20,000
Carriage in	15,000	
Carriage out	5,000	
Freight & Duty	9,000	
Productive wages	2,20,000	
Coal, gas & Water	8,000	
Factory Expenses	45,000	
Salaries	1,80,000	
Rent, Taxes and Insurance	60,000	
Commission	25,000	
Discounts	40,000	60,000
Interest		30,000
Stationery	5,000	
Trade expenses	18,000	
Cash in hand	7,000	
Bank O.D.		3,90,000
	27,00,000	27,00,000

Solution :

Trading & Profit and Loss Account of Srinivas for the Year ended 3103-07

Dr.					**Cr**
		Rs.			**Rs.**
To Opening stock		1,80,000	By Sales	15,00,000	
To Purchases	8,00,000		Less Returns	10,000	14,90,000
Less Returns	20,000	7,80,000			
To Carriage in		15,000			
Freight & Duty		9,000			
To Productive wages		2,20,000			
To Coal, gas & Water		8,000			
To Factory Expenses		45,000			
To Gross (profit transfer		2,30,000			
to P& L Account)		14,90,000			14,90,000
To Carriage out		5,000	By G.P		2,30,000
To Salaries		1,80,000	By interest		30,000
To Rent, Taxes and Insurance		60,000	By Discount		60,000
To Commission		25,000	By Net loss(Transfer to Capital Ac)		13,000
To Discounts		40,000			
To Stationery		5,000			
To Trade expenses		18,000			
		3,33,000			3,33,000

Balance Sheet of Srinivas as on 31.03.07

			Rs.		Rs.
Capital		4,00,000		Good will	70,000
Less Net loss	13000			Free hold premises	2,00,000
Less Drawings	50000	63,000	3,37,000	Lease hold premises	2,50,000
Bank O.D			3,90,000	Trade Marks	1,30,000
Creditors			2,40,000	Plant & Machinery	1,50,000
Bills payable			60,000	Fixtures & Fittings	20,000
				Bills Receivable	40,000
				Debtors	1,60,000
				Cash	7,000
			10,27,000		10,27,000

Example 5 :

The following Balance sheet is prepared by an inexperienced accountant. Prepare the correct Balance sheet.

Liabilities		Rs.			Rs.
Plant Machinery 1-4-06		24,000	Capital	30,000	
Debtors	49,200		Add interest	1,500	31,500
Less Reserve	2,460	46,740	Creditors		58,800
Drawings		3,600	Depreciation on plant		1,200
Repair to Machinery		280	Reserve for bad debts		2,100
Stock on 1.4.06	6,800		Profit		21,600
Stock on 31.03.07	24,000	30,800	Bills payable		600
Cash		2,520	Balance		4,980
Buildings		9,840			
		1,20,780			1,20,780

Solution :

Balance sheet of ....as on 31.03.07

Liabilities		Rs.	Assets		Rs.
Capital	30,000		Buildings		9,840
Add interest	1,500		Plant Machinery (24000-900)		22,800
Add N.P	21,600		Closing Stock		24,000
	53,100		Debtors	49,200	
Less Drawings	3,600	49,500	Less RBD	2,460	46,740
Creditors		58,800	Cash		2,520
Bills payable		600			
		1,08,900			1,08,900

9.10. QUESTIONS:

a) Short Answer & Essay questions:-

1. What is meant by Balance Sheet ? What are the Objectives in the preparation of Balance sheet ?
2. Prepare a Model Balance sheet under order of Liquidity and order of permanance with assumed figures.
3. What are the differences between Trial Balance and Balance sheet ?
4. What are the differences between P& L Account and Balance sheet ?

9.11. EXERCISES:

1. From the following ledger balances taken from the Trial Balance of Venkatesh, prepare Final accounts for the year 2007.

   Credit Balances : Capital Rs. 360000, Creditors Rs. 87,200 ; Bills Payable Rs. 25270 ; Sales Rs.789,820 ; Loans Rs. 1,20,000.

   Debit Balances : Debtors Rs. 38850 ; Salaries Rs. 40,000 ; Discount Rs. 10,000; Postage Rs.2,730 ; Bad Debts Rs. 2,870 ; Interest Rs. 9,950 ; Insurance Rs. 4,170 ; Machinery Rs.1,00,000 ; Opening stock Rs. 99,450 ; Purchases Rs. 6,20,920 ; Wages Rs. 43,000 ; Bulidings Rs. 2,37,800 ; Fixtures Fittings Rs. 1,69,550.

   (Ans ; G.P. 26,450 ; Net Loss Rs. 46,270 ; B. S : Rs. 5,46,200)

2. From the following Trial Balance on 31.9.07 Prepare Balance sheet

	Rs.	Rs.
Cash in hand	36,000	
Bank O.D		30,000
Capital		3,25,000
Land & buildings	1,00,000	
Closing stock	60,000	
Furniture	9,500	
Good will	47,500	
Bills Receivable, Bills Payable	35,000	40,000
Car	40,000	
Prepaid Advertisments	5,000	
Debtors, Creditors	1,50,000	70,000
P&L Ac.		5,000
Loan from Ram		30,000
Drawings	25,000	
	5,00,000	5,00,000

(Ans ; Total of B. S : Rs. 4,75,000)

3. The trial balance of Mr. Ram Babu on 31.03.07 was as under. Prepare final accounts.

	Rs.	Rs.
Capital		2,25,000
Cash in hand	25,000	
Stock on 1.04.06		
Finished Goods	35,000	
Work in progress	70,000	
Raw Material	30,000	
Purchase of Raw material	7,05,000	
Machinery	2,25,000	
Sales		9,62,250
Carriage in	7,500	
Carriage out	4,500	
Rent	13,500	
Discount	1,050	
Office fire insurance	2,100	
Sundry Debtors & Creditors	1,59,000	51,000
Reserve for Bad debts		600
Printing & stationery	7,800	
Other Expenses	8,400	
Advertisments	45,000	
Drawings	18,000	
Office salaries	54,000	
Furniture & Fittings	60,000	
Factory power & Fuel	22,500	
Productive wages	2,000	
Cash in hand	6,000	
Cash at bank	37,500	
	15,38,850	15,38,850

Stock on 31. 03.07	Rs.
Finished Goods	50,000
Raw Material	10,000
Work in progress	55,000

(Ans ; G.P. 5,05,250 ; Net Profit Rs. 3,74,500 ; B. S: Rs. 6,32,500)

4. From the following Trial Balance of Raghava prepare Trading and P&L Account and Balance Sheet on 31.03.07.

	Rs.		Rs.
Cash in hand	25,000	Capital	8,00,000
Plant & Machinery	1,97,200	Creditors	5,41,600
Direct wages	3,49.650	Loan	1,00,000
Salaries	1,59,650	Purchase Returns	31,400
Furniture	94,800	Sales	24,68,500
Carriage	19,800		
Carriage out	21,500		
Free hold property	2,50,000		
Manufacturing expenses	94,550		
Insurance & Taxes	41,750		
Good will	3,00,000		
General expenses	81,420		
Fuel & Power	9,760		
Factory lighting	9,860		
Distribution Expenses	24,730		
Stock on 01.04.06	3,41,700		
Horses & carts	51,650		
Purchases	9,71,650		
Sales Returns	37,700		
Discount	9,280		
Bad debts	14,850		
Interest & Bank charges	4,950		

Cash in hand	69,300		
Cash at Bank	1,450		
	39,41,500		39,41,500

(Ans ; G.P. 6,62,230 ; Net Profit Rs. 3,04,100 ; B. S : Rs. 17,45,700)

T. Nageswara Rao
Vice - Principal
Hindu College, Guntur.

Lesson - 10

FINAL ACCOUNTS - PROBLEMS

OBJECTIVES:

By the study of this chapter, you will be able to solve the Final Accounts with adjustments.

STRUCTURE :

10.1. Examples.

10.2. Exercises

10.1. EXAMPLES :

1. From the following Trial Balance of Mr Balu prepare Trading & P&L A/C for the year ending 31.3.07 and Balance sheat as on that data.

	Rs.		Rs.
Plant & Machinery	40,000	Capital	1,00,000
Debtors	24,000	Creditors	12,000
Drawings	10,000	Returns out wards	5,000
Purchases	1,05,000	Sales	2,00,000
Wages	50,000	Bills payable	5,000
Bank	10,000		
Repairs	500		
Stock on 01.04.06	20,000		
Rent	4,000		
Manufacturing Expenses	8,000		
Trade expenses	7,000		
Baddebts	2,000		
Carriage out	1,500		
Returns inwards	4,000		
Cash in hand	36,000		
	3,20,000		3,20,000

Adjustments :

1) Closing stock Rs. 14,500

2) Depreciate plant & Machinery by Rs. 4,000

3) Interest on capital 5%

4) Outstanding Repairs Rs. 400/-

Solution:-

Dr Trading & P&L A/C of Mr. Balu for the year ended 31-03-2007 Cr

Particulars		**Amount Rs.**	**Particulars**		**Amount Rs.**
To opening stock		20,000	By sales	2,00,000	
To purchases	1,05,000		Less sales returns	4,000	1,96,000
Less Returns	5,000	1,00,000	By Closing stock		14,500
To wages		50,000			
To Manufacturing Exp.		8,000			
To Gross Profit		32,500			
		2,10,500			2,10,500
To Repairs	500		By G.P		32,500
Add outstanding	400	900			
To Rent		4,000			
To Trade expenses		7,000			
To Baddebts		2,000			
To Carriage out		1,500			
To Depreciation on plant		4,000			
To Interest on capital 100000x5/100		5,000			
To Net Profit - Transfer to cap. A/C		8,100			
		32,500			32,500

Balance Sheet of Mr. Balu as on 31-03-2007

		Rs.		Rs.
Capital	1,00,000		Plant & Machinery (40,000-4,000)	36,000
Add interest on Cap.	5,000		Closing stock	14,500
Add N.P	8,100		Debtors	24,000
	1,10,100		Bank	10,000
Less Drawings	10,000	1,03,100	Cash	36,000
Creditors		12,000		
Bills payable		5,000		
Outstanding Repairs		400		
		1,20,500		1,20,500

Example 2. The Trial Balance of Siva on 31.12.07 was as under. Prepare Final Accounts

	Rs.		Rs.
Drawings	7,000	Capital	85,000
Buildings	23,000	Purchase Returns	3,800
Stock on 1.1.2007	29,000	Sales	2,38,000
Purchases	2,07,000	Apprentice premimum	1,000
Sales Returnes	5,000	Commission	600
General Expenses	8,000	Bank O.D	2,800
Rent & Taxes	6,400	Creditors	20,000
Baddebts	3,400	Bills payable	2,000
Debtors	64,000		
Interset on O.D	400		
	3,53,200		3,53,200

Adjustments :

1) Stock on 31.12.07 Rs. 29,000/-

2) Out standing Rent Rs. 500/- ; Prepaid Taxes Rs. 350/-

3) Apprentice premium to be adjusted over 5 years

4) Depreciate Buildings by 10%

5) Interest on capital 5% and interest on Drawings 3%

6) Commission received in advance Rs. 500/-

Solution:-

Dr Trading & P&L AC of Siva for the year ended 31-12-2007 Cr

		Rs.			Rs.
To opening stock		29,000	By sales	2,32,000	
To purchases	2.07,000		Less Sales returns	5,000	2,33,000
Less Returns	3,800	2,03,200	By Closing stock		29,000
To Gross Profit Transfer to AC		29,800			
		2,62,000			2,62,000
To General Exp.		8,000	By G.P		29,800
To Rent & Taxes	6,400		By Apprentice premium	1,000	
Less Prepaid taxes	350		Less Received in advance	800	200
	6,050		By Commission	600	
Add outstanding Rent	500	6,550	Less Recieved in Advance	500	100
To Baddebts		3,400	By interest on Drawings 7000x3/100		210
To interest on O.D		400			
To Deperciation Buildings		2,300			
To interestion Cap		4,250			
To Net profit (Transfer to Cap. Ac)		5,410			
		30,310			30,310

Balance Sheet of Siva as on 31-03-2007

			Rs.		Rs.
Capital		85,000		Buildings (23,000-2,300)	20,200
Add interest on Cap.		4,250		Closing stock	29,000
Add N.P		5,410		Debtors	64,000
Less Drawings	7,000	94,660		Prepaid Taxes	350
Interest	210	7,210	87,450		
Creditors			20,000		
Bank O.D			2,800		

Bills payable	2,000		
Apprentice premium recived in Advance	800		
Commission	500		
Outstanding Rent	500		
	1,14,050		1,14,050

3. From the following Trial Balance of ' Kranthi ' on 31.03.07 prepare final accounts

	Rs.		**Rs.**
Purchases	1,65,625	Sales	2,56,650
Sales returns	4,250	Purchase Returns	3,120
Sundry Debtors	40,200	Reserve for Baddebts	5,200
Stock on 01.04.06	26,725	Sundry crdeitors	25,526
wages	20,107	Bills payable	8,950
Salaries	8,575	Interest on investments	825
Furniture	6,575	Capital	28,000
Patents	4,500	Out standing wages	2,019
Postage, stationary , Insurance	3,226	Out standing Rent	750
Lighting	350		
Trade expenses	2,314		
Rent & Taxes	3,517		
Baddebts	525		
5% prakash loan (on 1.12.06)	3,000		
Investments	11,500		
Prepaid insurance	524		
Cash in hand	5,752		
Bills Receivable	17,070		
Drawings	6,000		
Depreciation on Furniture	675		
	3,31,040		3,31,040

Adjustments :

1) Stock on 31.12.07 Rs. 10,520/-

2) A fire occured in March 2007 and goods of Rs. 1000 were destroyed and the insurance company agreed to pay Rs. 700/- as compensation.

3) Bills Receivable dishonoured Rs. 650/- but no entry is passed for dishonour.

4) Depreciate patents by 25%

5) Write off Rs. 850 from debtors as baddebts and provide Reserve for Baddebts @ 5%

6) Goods purschased on credit Rs. 5000/- is included in closing stock but no entry is passed.

Solution:-

Dr. Trading & P&L A/C of Kranthi for the year ended 31-03-07 Cr.

		Rs.			**Rs.**
To opening stock		26,725	By sales	2,56,650	
To purchases	1,65,625		Less returun	4,250	2,52,400
Add additional purchases	5,000		By Closing stock		10,520
	1,70,625		By Loss due to fire		1,000
Less Returnes	3,120	1,67,505			
To wages		20,107			
To Gross profit		49,553			
		2,63,920			2,63,920
To Salaries		8,575	By G.P		49,553
To Postage, stationary, insurance		3,226	By interest on loan of prakash		
To Lighting		350	3000 x 5/100 x 4/12		50
To Trade exp.		2,314	By R.B.D. (5200 -2000)		3,200
To Rent & Taxes		3,517	By intereston investments		825
To Baddebts (525+850)		1,375			
To Depreciation on Furniture		675			
To Loss due to fire (1000-700)		300			
To Depreciation on Patents					
4500 x 25/100		1,125			
To net profit (Transfer to capital ac)		32,171			
		53,628			53,628

Balance Sheet of Kranthi as on 31-03-2007

		Rs.			Rs.
Capital	28,000		Furniture		6,575
Add N.P	32,171		Patents (4500 - 1125)		3,375
	60,171		Investments		11,500
Less Drawings	6,000	54,171	5% prakash loan Ac		3,000
Creditors (25,526 +5000)		30,526	Interest receivable on loan		50
Bills payable		8,950	Insurance claim due		700
Outstanding wages		2,019	Closing stock		10,520
Rent		750	Debtors	40,200	
			Add Bills Dishonoured	650	
				40,850	
			Less Baddebts	850	
				40,000	
			Less R.B.D. 5%	2,000	38,000
			Bills Receivable	17,070	
			Less Bills dishonoured	650	16,420
			Cash		5,752
			Prepaid Insurance		524
		96,416			96,416

4. From the following Ledger Balance of ' Prakash ' prepare final accounts

	Rs.		Rs.
Stock on 01.04.06	96,000	Wages	28,000
Salaries	4,000	Drawings	6,500
Capital	50,000	Bills payable	5,000
Carriage	5,000	Interest on over draft	200
Purchases	1,20,000	Bills Receivable	6,000
Rent	2,000	Plant & Machinery	20,000
Travelling Expenses	5,000	Repairs to Machinery	1,600
Cash in hand	5,600	Office expenses	5,000
IncomeTax	500	Bank loan	14,000
Baddebts	5,000	Sales	2,50,000
Discount on purchases	4,000	Creditors	23,300
Purchase Returns	1,500	Cash at Bank	1,800
Buildings	5,000	Sales Returns	1,000
Debtors	35,000		

Adjustments :

1) Stock on 31.03.07 Rs. 35,000/-
2) Bad debts Rs. 3,000/-
3) Provision for Bad debts 5%
4) Goods drawn for house hold purpose Rs. 3,000/-
5) Goods of Rs. 1000/- were given away as free samples
6) Erection charges of Machinery Rs. 1,000 were included in wages account
7) Depreciation on plant & Machinery 10%
8) Interest on capital 5%
9) Outstanding wages Rs. 1500/-, salaries Rs. 450, Rent Rs. 400/-

Solution:-

Dr. Trading & P&L AC of Prakash for the year ended 31-03-07 Cr.

		Rs.			Rs.
To opening stock		96,000	By sales	2,50,000	
To purchases	1,20,000		Less returuns	1,000	2,49,000
Less Returns 1500			By Closing stock		35,000
Less Drawings 3000					
Less Free samples1000	5,500	1,14,500			
To wages	28,000				
Add out standing	1,500				
	29,500				
Less Erection charges					
of Machine	1,000	28,500			
To carriage		5,000			
To Gross profit					
(Transfer to P&L AC)		40,000			
		2,84,000			2,84,000
To Salaries	2,000		By G.P		40,000
Add outstanding	450	4,450	By Discount on purchases		4,000
To intereston O.D		200			
To Rent	2,000				
Add out standing	400	2,400			
To Depreciation on P&M					
21,000x10/100		2,100			
To Travelling expenses		5,000			
To Repairs		1,600			
To office expenses		5,000			
To Baddebts (5000+3000)		8,000			
To Advertisements- free samples		1,000			
To interest on capital 50,000x5/100		2,500			
To R.B.D. (32,000 x5/100)		1,600			
To net profit (Transfer to capital A/C)		10,150			
		44,000			44,000

Balance Sheet of Prakash as on 31-03-2007

		Rs.			Rs.
Capital	50,000		Buildings		5,000
Add N.P	10,150		Plant & Machinery	20,000	
Add interest on capital	2,500		Add erection charges	1,000	
	62,650			21,000	
Less Drawings 6,500			Less Depreciation	2,100	18,900
Less Drawings of goods 3,000			Closing stock		35,000
Less Income tax 500	10,000	52,650	Bills Receivable		600
Bank loan		14,000	Debtors	35,000	
Creditors		23,300	Less Baddebts	3,000	
Bills payable		5,000		32,000	
Out standing Expenses			Less R.B.D. 5%	1,600	30,400
Wages		1,500	Bank		1,800
Salaries		450	Cash		5,600
Rent		400			
		97,300			97,300

5. The trial Balance of Sri. Govind on 31-03-08 was as under. Prepare Trading and P&L account and Balance sheet.

	Dr Rs.	Cr Rs.
Capital & Drawings	6,000	40,000
Plant & Machinery	15,000	
Furniture & Fixtures	2,000	
Patent Rights (for 10 years from 1.4.07)	10,000	
Stock on 1.4.07	10,000	
Purchases & sales	42,500	66,000
Salaries	3,700	
Wages	7,500	
Debtors & Creditors	10,200	6,000
Loan from syam (@ 6% on 1.10.07)		5,000
Postage & Telegrames	250	
Loose tools	500	
Rent, Rates & Taxes	1,800	
Baddebts written off	200	
Discount		300
Trade expenses	100	
Interest on the loan of syam	75	
Insurance	400	
Travelling Expenses	250	
Legal expenses	150	
Cash in hand	1,525	
Cash at bank	5,150	
	1,17,300	1,17,300

Adjustments :

1) Stock on 31.03.08 Rs. 10,600/- and loose tools Rs. 350/-

2) New machine purchased on 1.1.2008 for Rs. 1,500 but no entry is passed in the books of account. Expenses for erection of the machine Rs. 500/- were included in wages.

3) Depreciate plant by 20% and Furniture by 10% P.A.

4) Write off Rs. 200/- as Baddebts and provide 5% for Baddebts and 2% for Discount on Debtors.

5) Manager shall be given a commission of 5% on N.P. before charging such commission.

6) Fire occured in the godown on 25.03.08 and goods of Rs. 2500 were destroyed. The insurance company agreed the claim in full.

7) Unexpired insurance Rs. 200/-

Solution:-

Dr Trading & P&L A/C of Sri Govind for the year ended 31-03-08 Cr.

		Rs.		Rs.
To opening stock		10,000	By sales	66,000
To purchases		42,500	By closing stock	10,600
To wages	7,500		By loss due to fire	2,500
less erection charges				
of Machine	500	7,000		
To G.P		22,600		
		82,100		82,100
To Salaries		3,700	By G.P	22,600
To Postage & Telegrams		250	By Discount	300
To Rent, Rates & Taxes		1,800		
To Bad debts (200+200)		400		
To Trade Expenses		100		
To interest on loan	75			
Add out standing	75	150		
To insurance	400			
Less un expired	200	200		
To Travelling		250		
To legal expenses		150		
To depreciation :				
Loose tools (500-350)		150		
Furniture		200		
Plant		3,100		
Patents		1,000		
To R.B.D		500		
To Reserve for discount on debtors		190		
To N.P(before charging commission)				
Balance C/D		10,760		
		22,900		22,900

To Manager's commission 10,760x5/100	538	By Bal B/D	10,760
To Net profit (Transfer to capital A/C)	10,222		
	10,760		10,760

Balance Sheet of Sri Govind as on 31-03-2007

		Rs.			Rs.
Capital	40,000		Plant (15000+1500+500-3100)		10,900
Add N.P	10,222		on 15,000 = Rs.	3,000)	
	50,222		on 2,000 for 3 months	100)	
Less Drawings	6,000	44,222		3,100	
Syam's Loan		5,000	Furnuiture (2,000-200)		1,800
Sundry creditors		6,000	Patents (10,000-1,000)		9,000
Out standing Expenses			Insurance claim due		2,500
Manager's commission		538	Closing stock		10,600
For machinery		1,500	Loose tools		350
Interest on loan		75	Unexpired insurance		200
			Debtors	10,200	
			Less Baddebts	200	
				10,000	
			Less R.B.D.	500	
				9,500	
			Less Reserve for discount	190	9,310
			Bank		5,150
			Cash		1,525
		57,335			57,335

6. The following Trial Balance relate to Suresh. Prepare final accounts

Debit Balances	**Rs.**	**Credit Balances**	**Rs.**
Drawings	3,000	Capital	28,000
Debtors	20,100	Creditos	10,401
Interestan loans	300	Mortgage loan	9,500
Cash in hand	2,050	Reser for Doubtful debts	710
Stock on 1.1.07	6,839	Sales	1,10,243
Motor vehicles	10,000	Purchase returns	1,346
Bank	3,555	Discount	540
Land & Buildings	12,000	Bills payable	2,614
Baddebts	525	Rent received	250
Purchases	66,458		
Sales Returnes	7,821		
carriage out	2,404		
carriage in	2,929		
Salaries	9,097		
Rent, Rates, insurance	2,891		
Advertisments	3,264		
General Expenses	3,489		
Bills Receivable	6,882		

Adjustments :

1) Depreciation on Land & Buildings 2 $^1/_2$ % on Motor vehicles 20%
2) Interest on loan is not paid for 6 monts @ 6%
3) Goods costing Rs. 500 were sent on Sale or Return basis at Rs. 600 on 31.12.07 but recorded as sales in the books of account.
4) Outstanding salaries Rs. 750/- and Rates Rs. 350/-
5) Prepaid Insurance Rs. 150/-
6) Provide 5% on Debtors for Bad & Doutful debts
7) Manager shall be given a commission of 5% on N.P, after charging such commission.
8) Stock on 31.12.07 Rs. 6,250/-

Solution:-

Dr. Trading & P&L AC of Suresh for the year ended 31-12-07 Cr.

		Rs.			**Rs.**
To opening stock		6,839	By sales	1,10,243	
To purchases	66,458		Less returun	7821	
Less Returns	1,346	65,112	Less goods		
To Carriage in		2,929	on sale or return 600	8,421	1,01,822
To Gross profit (Transfer to			By closing stock (6250+500)		6,750
P & L AC)		33692			
		1,08,572			1,08,572
To Salaries	9,097		By G.P		33,692
Add out standing	750	9,847	By Discount		540
To interest on loan		585	By Rent		250
To Carriage out		2,404			
To Rent,Rates,Insurances	2,891				
Add outstanding Rates	350				
	3,241				
Less Prepaid insurance	150	3,091			
To Advertisements		3,264			
To Gen. Expenses		3,489			
To Baddebts		525			
To R.B.D. (975 - 710)		265			
To Dep. Land & Buildings		300			
Motor vehicles		2,000			
To Balance C/D		8,712			
		34,482			34,482
To Manager's commission			By Bal. B/D		8,712
8712 x 10/110		792			
To net profit (Transfer to capital A/C)		7,920			
		8,712			8,712

Balance Sheet of Suresh as on 31-03-2007

		Rs.			Rs.
Capital	28,000		Land & Buildings (12000-300)		11,700
Add N.P	7,920		Motor Vehicles (10000 - 2000)		8,000
	35,920		Closing stock		6,750
Less Drawings	3,000	32,920	Detbors	20,100	
Mortgage loan		9,500	Less goods on sale or Return	600	
				19,500	
Bills payable		2,614	Less R.B.D	975	18,525
Creditors		10,401	Bill Recivable		6,882
Out standing Expenses			Cash at bank		3,555
Salaries		750	Cash in hand		2,050
Rates		350	Prepaid insurance		150
Interest on loan		285			
Manager commission		792			
		57,612			57,612

10.2. EXERCISES :

1. From the following ledger balances of " Kapil Dev " prepare final accounts.

	Rs.		Rs.
Capital	1,00,000	Cash in hand	1,200
Purchases	1,20,000	Bills payable	22,000
Stock on 1-4-07	35,000	Debtors	50,000
Creditors	24,000	Plant & Machinery	60,000
Furniture	15,000	Sales	2,00,200
Bills Receivable	20,000	Rent & Taxes	10,000
Wages	16,000	Reserve for Baddebts	1,000
Salaries	20,000		

Adjustments :

1) Stock on 31.03.08 Rs. 40,000.

2) Outstanding Rent Rs. 2,000, wages Rs. 3,000 ; Salaries Rs. 4000/-

3) Depreciation 10% on Furniture ; 5% on Plant & Machinery

4) Increase the Reserve for Baddebts to 2 1/2 %

(**Ans :** G.P. Rs. 66,200 ; N.P. Rs. 24,450/- ; B.S. Rs. 1,80,450/-)

2. The Trial Balance of 'Gavaskar ' was as under on 31-03-08

	Dr Rs.	**Cr Rs.**
Purchases	3,10,000	
Opening stock	50,000	
Cash	2,100	
Bank	12,000	
Drawings	4,000	
Rent & Taxes	5,000	
Salaries	32,000	
Postage & Telegrams	11,500	
Salesmans commission	35,000	
Insurance	9,000	
Advertisements	17,000	
Furniture	22,000	
Printing & Stationary	3,000	
Motor car	48,000	
Baddebts	2,000	
Cash discount	4,000	
General expenses	15,000	
Carriage in	10,000	
Carriage out	22,000	
Debtors	1,00,000	
Sales		4,15,000
Capital		2,88,600
Creditors		10,000
	7,10,600	7,10,600

Adjustments :

1) Stock on 31.03.08 Rs. 1,45,000/-

2) Goods of Rs. 5000 were with drawn by him for personal use.

3) Baddebts Rs. 5,000/-

4) Reserve for baddebts 5 %

5) Depreciation 10% on Furniture and 20 % on Car

Prepare final accounts.

(**Ans :** G.P. Rs. 34,000 ; N.P. Rs. 3,200/- ; Balance Sheet Rs. 87,200/-)

3. From the following Trial Balance of ' Kalyan ' prepare Final accounts for 2007

	Dr Rs.	**Cr Rs.**
Plant & Machinery	80,000	
Purchases & sales	1,25,000	2,30,000
Debtors & creditors	50,000	40,000
Opening stock	25,000	
Salaries	16,000	
Resere for Baddebts		750
Capital		50,000
Bills Receivable & Payable	20,000	9,250
Rent & Taxes	5,500	
Furniture	2,500	
Bank loan		20,000
Interest on loan	600	
Discount	650	1,200
Wages	14,850	
Cash	11,100	
	3,51,200	3,51,200

Adjustments :

1) Closing Stock Rs. 45,000/-

2) Out standing liabilities : Rent Rs. 500/- ; Interest Rs. 1,400 ; Wages Rs. 150.

3) Depreciation : 5% on Plant & Machinery ; 10% on Furniture.

4) Increase the R.B.D. on Debtors to 2 1/2 %

5) provide a reserve for discount on creditors at 1 %.

(**Ans :** G.P. Rs. 1,10,000 ; N.P. Rs. 82,200/- ; Balance sheet Rs. 2,03,100/-)

4. From the following Trial Balance of ' Sachin ' on 31.03.08 prepare final accounts.

	Dr Rs.	**Cr Rs.**
Bills receivable and Bills payable	4,000	3,250
Debtors & Creditors	60,000	10,000
Plant & Machinery	70,000	
Purchases, Sales	80,000	2,00,000
Free hold premises	48,000	
Capital		1,00,000
Salaries	10,000	
Wages	12,500	
Postage & stationary	800	
Carriage in	650	
Carriage out	750	
Bad debts	1,000	
Reserve for Baddebts		450
Office, general expenses	1,500	
Cash in hand and at Bank	6,500	
Insurance	1,000	
Opening stock	20,000	
	3,16,700	3,16,700

Adjustments :

1) Interest on capital 5%

2) Reserve for Baddebts 2%

3) Closing stock Rs. 30,000

4) Depreciate machinery by 5%

5) Prepaid insurance Rs. 400

6) Outstanding wages Rs. 1,000/-

(**Ans :** G.P. Rs. 1,16,850; N.P. Rs. 91,950/- ; Balance sheet Rs. 2,14,200/-)

5. Prepare Final Accounts of Mr. Babu for the year 2007

	Rs.		Rs.
Capital	20,000	Machinery	2,500
Drawings	3,500	Furniture	600
Buildings	10,000	Opening stock	12,500
Purchases	75,000	Sales	1,25,000
Reserve for Discount on Debtors	200	9% loan	5,000
Salaries	4,400	wages	8,100
Outstanding wages	600	Outstanding Rent	2,750
Trade expenses	1,250	Carriage in	2,500
Carriage outwards	750	Sales Returnes	5,000
Freight & duty	15,000	Debtors	10,000
Creditors	7,500	Reserve for Baddebts	700
Interest paid	375	Sundry expenses	1,115
Incomes receivable	400	Bad debts	300
Cash & Bank	3,000	Depreciation on Machinery	350
		Bills payable	390

Adjustments :

1) Closing Stock Rs. 14,000.

2) Provide 5% reserve on Debtors for baddebts.

3) Reserve for Discount on debtors 2 1/2%

4) Depreciation on Buildings 2 1/2 %

(**Ans :** G.P. Rs. 20,900 ; N.P. Rs. 9,447/- ; B.S. Rs. 39,512/-)