



BOOK-KEEPING & ACCOUNTANCY

STANDARD XI

Transactions

Single Entry

Double Entry

Depreciation

NEFT

IFRS

Owners Equity

Sundry Debtors

Business

Books of Accounts

Net Profit

Journal

Liabilities

Purchase

Drawings

Assets

Ledger

Discount

GST

Credit

Capital



RTGS

Sales

The Coordination Committee formed by GR No. Abhyas - 2116/(Pra.Kra.43/16) SD - 4
Dated 25.4.2016 has given approval to prescribe this textbook in its meeting held on
20.06.2019 and it has been decided to implement it from the educational year 2019-20.

Book - Keeping and Accountancy

STANDARD ELEVEN



**Maharashtra State Bureau of Textbook Production
and Curriculum Research, Pune - 411 004**



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70 GSM Cream wove

Print Order No.

N/PB/2019-20/50,000

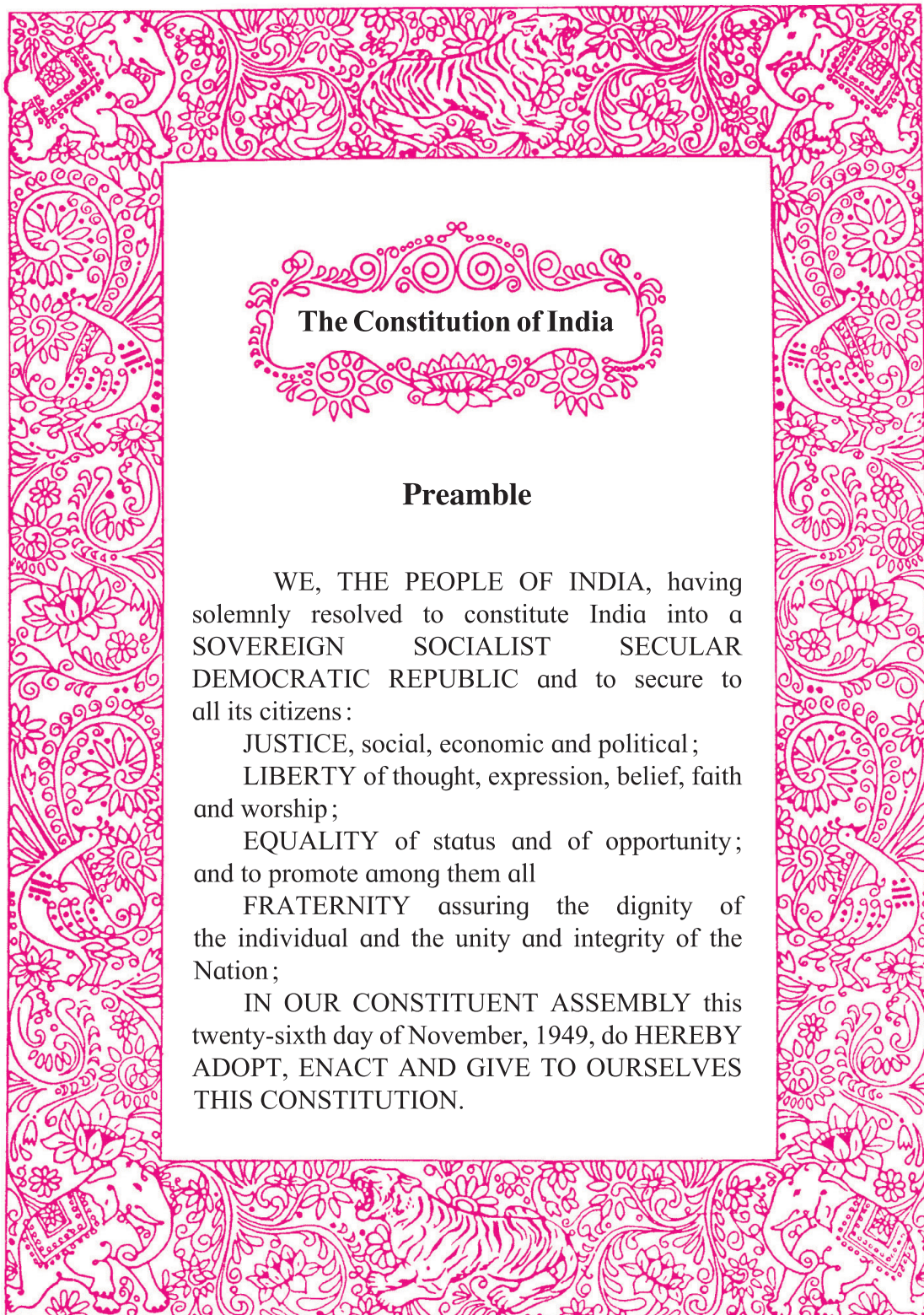
Printer

SAP PRINT SOLUTIONS PVT. LTD.,
PALGHAR

Publisher

Vivek Uttam Gosavi, Controller

Maharashtra State Textbook Bureau, Prabhadevi Mumbai- 400 025



The Constitution of India

Preamble

WE, THE PEOPLE OF INDIA, having solemnly resolved to constitute India into a SOVEREIGN SOCIALIST SECULAR DEMOCRATIC REPUBLIC and to secure to all its citizens :

JUSTICE, social, economic and political ;

LIBERTY of thought, expression, belief, faith and worship ;

EQUALITY of status and of opportunity ; and to promote among them all

FRATERNITY assuring the dignity of the individual and the unity and integrity of the Nation ;

IN OUR CONSTITUENT ASSEMBLY this twenty-sixth day of November, 1949, do HEREBY ADOPT, ENACT AND GIVE TO OURSELVES THIS CONSTITUTION.

NATIONAL ANTHEM

Jana-gana-mana-adhināyaka jaya hē
Bhārata-bhāgya-vidhātā,

Panjāba-Sindhu-Gujarāta-Marāthā
Drāvida-Utkala-Banga

Vindhya-Himāchala-Yamunā-Gangā
uchchala-jaladhi-taranga

Tava subha nāmē jāgē, tava subha āsisa māgē,
gāhē tava jaya-gāthā,

Jana-gana-mangala-dāyaka jaya hē
Bhārata-bhāgya-vidhātā,

Jaya hē, Jaya hē, Jaya hē,
Jaya jaya jaya, jaya hē.

PLEDGE

India is my country. All Indians
are my brothers and sisters.

I love my country, and I am proud
of its rich and varied heritage. I shall
always strive to be worthy of it.

I shall give my parents, teachers
and all elders respect, and treat
everyone with courtesy.

To my country and my people,
I pledge my devotion. In their
well-being and prosperity alone lies
my happiness.

PREFACE

It's great pleasure to introduce the Text Book of Book keeping & Accountancy as per revised syllabus for Std XI from the academic year 2019-20.

A student in the commerce stream studies various subjects, which covers business, management, finance, economics, costing, accounting etc. Book, keeping & Accountancy is one of the most important subjects in commerce, which deals exclusively with the accounting part of different business organizations.

As students are learning this subject first time in their academic career, due care has been taken to put the subject matter in a simple manner. As far as possible the content is designed in such a way that students will be able to understand the basic principles of Book-keeping & Accountancy. The contents are supported with charts, diagrams, tables etc. The exercise given at the end of each topic contains different types of questions to test conceptual clarity and accuracy. Students are given ample opportunity to solve practical problems which are based on application. Q.R. code is given on title which will help to get more knowledge and clarity about the contents.

This book introduces the basic concepts of topic like meaning and objectives of Book Keeping, accounting terms, concepts and conventions, classification of accounts, rules of accounts, various source documents, Journal, Ledger upto preparation of Final Accounts. We have also introduced some new concepts and trends followed in actual practice in this book e.g. GST, NEFT, RTGS, Debit card, Credit card e.wallet etc. We have also included so many activities for the students to gain practical knowledge.

We are grateful to the subject committee members, study group members, translators, reviewers, quality reviewers and all those who have taken efforts in designing this textbook.

We hope the textbook will be well received by academicians and students.



(Dr. Sunil Magar)
Director

Pune

Date : 20 June 2019,

Indian Solar Year : 30 Jyeshtha 1941

Maharashtra State Bureau of Textbook
Production and Curriculum Research, Pune.

Book-keeping and Accountancy
Competency Statements
Standard XI

Unit No.	Topic	Competency Statements
1	Introduction to Book- Keeping and Accountancy	<ul style="list-style-type: none"> ● Students understand the meaning, features and the importance of accounting. ● Students understand basic accounting concepts & Terminologies ● Students can Analyse the role and benefits of book- keeping. ● Students will be able to know the latest accounting standards.
2	Meaning and Fundamental of Double Entry Book-Keeping	<ul style="list-style-type: none"> ● Students understand fundamental principles of Double Entry System. ● Students understand classification and types of Accounts. ● Students are able to apply the golden rules to prepare classification tables. ● Students can prepare a statement of analysis of transaction and accounting equations system.
3	Journal	<ul style="list-style-type: none"> ● Students are able to prepare accounting documents. ● Students can get ability to analyse the effects of each transaction. ● Students become familiar with the standard form and arrangement of Journal entries. ● Students can calculate GST on purchase of goods. ● Students can calculate GST on sale of goods. ● Students are able to pass Journal Entries correctly.
4	Ledger	<ul style="list-style-type: none"> ● Students are able to post recording from Books of original entry to Ledger. ● Students learn the balancing of various ledger accounts ● Students are able to prepare Trial Balance
5	Subsidiary Books	<ul style="list-style-type: none"> ● Students understand the meaning & need of Subsidiary Books. ● Students know the actual recording of transactions in special Journal. ● Students can classify cash & credit transactions. ● Students are able to prepare & balance different types of Cash Book. ● Students learn to give accounting treatment for banking transactions & contra entries. ● Students can prepare various Subsidiary Books.

6	Bank Reconciliation Statement	<ul style="list-style-type: none"> ● Students can prepare specimen of different Bank Documents. ● Students will understand the difference between Cash Book and Pass Book ● Students will know the reasons behind the differences in Cash Book balance and Pass Book balance ● Students can prepare Bank Reconciliation Statement competently
7	Depreciation	<ul style="list-style-type: none"> ● Students understand the Concept, Methods and Importance of Depreciation. ● Students understand the difference between Fixed Assets and Current Assets. ● Students are able to calculate the amount of Depreciation of different fixed assets. ● Students are able to differentiate the amount of depreciation by Straight Line Method and Written Down Value Method.
8	Rectification of Errors	<ul style="list-style-type: none"> ● Students will know the meaning and effects of Rectification of Errors. ● Students will know the different Types of Errors and there Examples ● Students are able to detect the errors and rectify them. ● Students will learn the meaning and need of Suspense A/c. ● Students know how to prepare Suspense A/c.
9	Final Accounts of a Proprietary Concern	<ul style="list-style-type: none"> ● Students understand the Meaning, Objectives and Importance of Final Accounts. ● Students are able to understand the effects of Adjustments ● Students use the skills in preparing Trading Accounts, Profit & Loss Account and Balance Sheet with competency.
10	Single Entry System	<ul style="list-style-type: none"> ● Students are able to understand the meaning and importance of Single Entry System. ● Students can distinguish between single entry & double entry system. ● Students are able to prepare Opening & Closing Statements of affairs & statement of Profit or Loss of sole trading concern competently.

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1

Introduction to Book-keeping and Accountancy**Contents**

- 1.1 *Meaning, Definition and Objectives*
- 1.2 *Importance of Book-keeping.*
- 1.3 *Difference between Book-keeping and Accountancy.*
- 1.4 *Meaning and Definition of Accountancy*
- 1.5 *Basis of Accounting System.*
- 1.6 *Qualitative characteristics of accounting information*
- 1.7 *Basic Accounting Terminologies.*
- 1.8 *Accounting Concepts, Conventions and Principles.*
- 1.9 *Accounting Standards (AS) and IFRS*

Competency Statements

- Students understand the meaning, features and the importance of accounting.*
- Students understand basic accounting concepts and terminologies.*
- Students can analyse the role and benefits of Book-Keeping.*
- Students will be able to know the latest accounting standards.*

Introduction :

Book-keeping is related with recording of business transactions. Business enterprise and other organizations deal in activities which involve exchange of money or money's worth. All these activities are recorded for the purpose of taking important decisions as to whether the activities are feasible, profitable and are to be continued or not. Information about the business and other organizations is required not only by the proprietors and managers of business and other organisations but also to various other stakeholders such as the government, investors, customers, employees and researchers.

Evolution of Accounting :

In India, during Chandragupta Maurya's regime, Minister Kautilya wrote a book named 'Arthashastra', where in some references can be traced regarding the way of maintaining accounting records. Afterwards it was called as "Deshi Nama".

In the earlier time of civilisation, accounting was done by agents who managed the properties of wealthy people. They prepared accounts periodically for the owners of property. The records of debit and credit were found in the 12th century itself.

In the year 1494, Luca De Bargo Pacioli, an Italian merchant introduced Double-Entry Book-keeping system. Due to the industrial revolution in the 18th and 19th centuries, large scale operations were carried on and Joint Stock Companies emerged as an important form of organisation which

involved separation of ownership from management. Hence, to safeguard the interest of owners and investors, the business establishments required detailed information about business which paved the way for development of comprehensive financial accounting information system.

In the 20th century, the need for analysis of financial information for managerial decision making caused emergence of Management Accounting as a separate branch of Accounting.

Though accounting was individual centric in the initial stage of evolution of accounting, it has gradually developed into Social Responsibility Accounting in the 21st century. This is due to the vast growth in business activities as a result of development in various fields. Thus, accounting has become inevitable in the modern world for business.

1.1 Meaning and Definition:

In simple words, the 'Book-keeping' means recording of the business transactions in the books of accounts in a systematic way. All the monetary transactions are recorded datewise for accurate business results from such records at the end of accounting year.

Book-keeping is an art or science of systematic recording, classifying and summarising the financial transactions of business for a particular period, generally one year.

Definition of Book-Keeping

Richard E. Strahelm : "The art of analyzing and recording business transactions, reporting results of business operations through periodic statements and interpreting such results for purposes of effective control of future operations."

J. R. Batliboi : "Book-keeping is an art of recording business dealings in a set of books."

Noeth Cott: "Book-keeping is an art of recording in the books of accounts the monetary aspects of commercial or financial transactions."

R.N. Carter : "Book-keeping is the science and art of correctly recording in the books of accounts, all those business transactions that results in transfer of money or money's worth."

Features of Book-keeping:

- 1) It is the method of recording day to day business transactions.
- 2) Only financial transactions are recorded.
- 3) All records are prepared for a specific period which are useful for future references.
- 4) Records of transactions are based on rules and regulations.
- 5) It is an art of recording business transactions scientifically.

Objectives of Book-keeping:

- 1) The main objective of book-keeping is to keep a complete and accurate record of all the financial transactions in a systematic, orderly and logical manner.
- 2) All the business transactions are to be recorded date wise and account wise.

- 3) Book-keeping serves as a permanent record of the monetary transactions of an enterprise business and it can be produced as an evidence, whenever and wherever required.
- 4) To know the profit or loss of the business during the financial year.
- 5) To know the total assets and liabilities of the enterprise.
- 6) To know what the businessman owes to others and what others owe to him.
- 7) Businessman comes to know the current year's progress over previous year and compares its financial results with other business enterprise in similar line.

1.2 Importance of Book-keeping:

The importance of Book-keeping is as follows:

- 1) **Record :** It is not possible for anyone to remember all transactions. But Book-keeping maintains records of all the transactions permanently and systematically in the books of accounts.
- 2) **Financial Information:** Book-keeping is useful to get information related to Profit, Loss, Assets, Liabilities, Investments and Stock, etc, at any given time.
- 3) **Decision Making:** Book-keeping provides financial information to the businessman for decision making.
- 4) **Controlling:** Book-keeping enables the executives of the business to control the activities of the business.
- 5) **Evidence:** Businessman needs financial evidence to be produced in the Court of law in case of any disputes.
- 6) **Tax Liability:** Book-keeping is useful to find out the tax liabilities e.g. : Income Tax, Property Tax, GST, etc.

Utility of Book-keeping:

- 1) **Owner:** The businessman can find out Profit, Losses, Assets and Liabilities of an enterprise at any time.
- 2) **Management:** Management of an enterprise can plan, take decisions and control overall business activities.
- 3) **Investors:** Investors can take proper decisions whether to invest or not.
- 4) **Customer:** Customer can easily understand financial position of the business. He can be assured about supply of goods.
- 5) **Government:** Government can easily find out different types of taxes due from various sources.
- 6) **Lenders:** Money Lenders can find financial standing of the enterprise for decision to lend money or not.
- 7) **Development:** Business enterprise can achieve the business growth with the help of accounting.

1.3 Difference between Book-Keeping and Accountancy

Point	Book-keeping	Accountancy
Meaning	It is concerned with recording and classifying the business transactions.	It is related with recording, classifying, summarising, analyzing and interpreting the financial data.
Stage	Book-keeping is the primary stage in accounting. It is the base for accounting	Apart from the primary stage, it includes secondary stage of analysis and interpretation.
Objectives	The objective of Book Keeping is to keep the records of all financial transactions in proper and systematic manner.	The objective of accounting is to prepare the financial statement and further communicate the information to the relevant authorities.
Responsibility	Junior staff is responsible for keeping records.	Senior staff is responsible for keeping accounts.
Outcomes	Book-keeping basically results in Journal and Ledger.	The results of Accountancy is Profit and Loss A/c and Balance sheet.
Period	Book-keeping gives day to day details.	Accountancy gives details of entire year.
Analysis	The process of Book Keeping does not require any analysis	Accountant uses Book Keeping information to analyse and interpret the data and then compiles it into reports.
Decision Making	Management cannot take a decision based on the data provided by book-keeping.	Depending on the data provided by the accountants, the management can take critical business decisions.
Skill required	Analytical skill is not required for book-keeping.	It requires analytical skill.

1.4 Meaning and Definition of Accountancy:

Book-keeping is a part of Accounting. It is the primary stage in accounting. It is the process of recording transactions in the books of accounts. Accounting is part of Accountancy. Accountancy is the practice of recording, classifying, and reporting of business transactions for a business. Accounting principles are the basic norms and assumptions developed and established as the basis for accounting system. These principles are adopted by the accountants universally.

Definitions:

- 1) “Accountancy refers to the entire body of the theory and process of accounting.” By **Kohler**.
- 2) **Prof. Robert N. Anthony** has defined accounting as “Nearly every business enterprise has an accounting system. It is a means of collecting, summarizing, analyzing and reporting in monetary terms information about the business transactions.”

1.5 Basis (Methods) of Accounting System

Basis of Accounting:

There are mainly three basis or methods of accounting in common usage, namely

- (i) Cash basis
- (ii) Accrual or Mercantile basis
- (iii) Mixed or Hybrid basis.

(i) Cash basis :

Under the cash basis of accounting, actual cash receipts and actual cash payments are recorded. In this basis, revenue is recognised when cash is received and expenses are recognised when cash is paid. e.g. (i) Any income received, (ii) Any expense paid. Such a method of accounting is usually followed by professionals such as Doctors, Lawyers, Chartered Accountant (CA) and Not for Profit Organisations.

(ii) Accrual or Mercantile basis

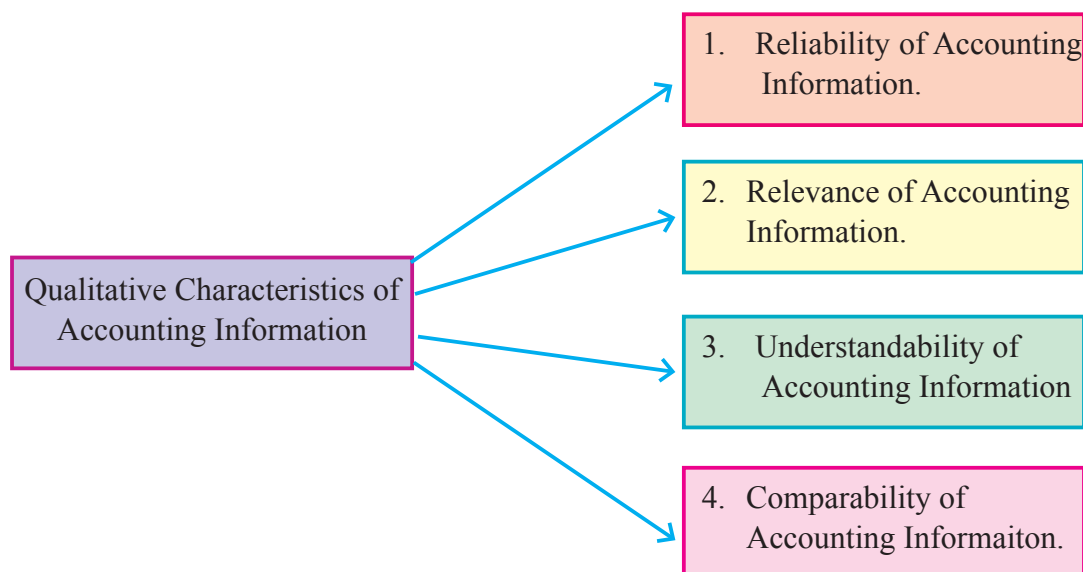
Under accrual basis of accounting, the revenue whether received or not, but has been earned or accrued during the accounting period and expenses incurred whether paid or not are recorded. In other words, revenue is recognised when it is earned or accrued and expenses are recognised when these are incurred. e.g. (i) Any income earned whether received or not, (ii) Any expense incurred whether paid or not.

(iii) Mixed or Hybrid basis

It is a combination of cash basis and accrual basis of accounting. Under mixed basis of accounting, both cash basis and accrual basis are followed. Revenues and assets are generally recorded on cash basis whereas expenses are generally taken on accrual basis. The laws in India prohibits the use of this method.

1.6 Qualitative characteristics of accounting information

Accounting means the numerical qualitative presentation of business transactions of financial nature. While recording accounting information in the books of accounts, we must observe the following qualitative characteristics of accounting.



1. Reliability of the Accounting Information: Reliability is described as one of the two primary qualities (relevance and reliability) that make accounting information useful for decision-making : Reliable information is required to form judgements about the earning potential and financial position of a business firm. Reliability differs from item to item.

Some items of information presented in an annual report may be more reliable than others. For example, information regarding plant and machinery may be less reliable than certain information about current assets because of differences in uncertainty of realization.

2. Relevance of the Accounting Information : Relevant accounting information must be capable of making a difference in a decision by helping users to form predictions about the outcomes of past, present and future events or to confirm or correct expectations. The accounting information related by the books of accounts and financial reports must be relevant. Accounting information should not include unnecessary and irrelevant information. All the information is said to be relevant which would have changed the outcomes of the business if disclosed i.e. All useful and related information must find a place in the books of accounts and the information must have timelessness, dedicative and feedback value.

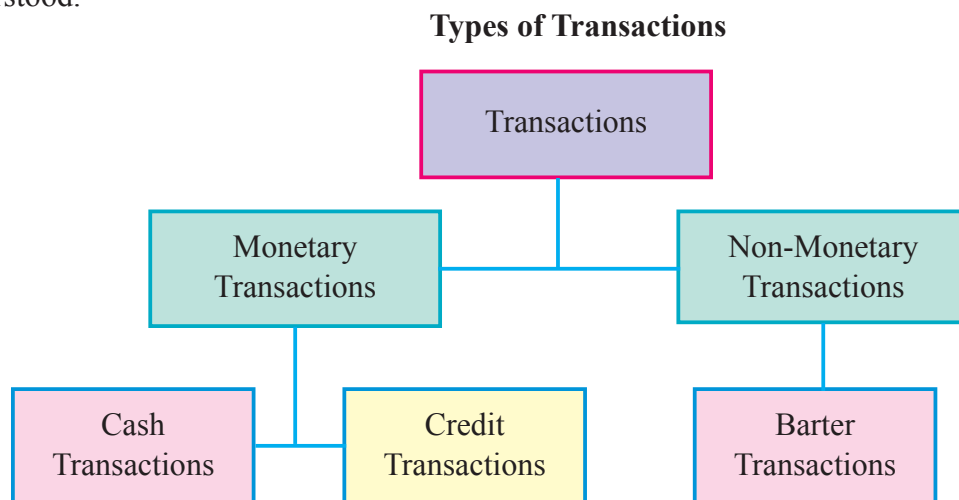
3. Understandability of the Accounting Information: Understandability is the quality of information that enables users to perceive its significance. The benefits of information may be increased by making it more understandable and hence useful to a wider circle of users. Thus, understandable financial accounting information presents data that can be understood by users of the information and is expressed in a form and with terminology adapted to the user's range of understanding.

4. Comparability of the Accounting Information: In making decision, the decision-maker will make comparisons among alternatives, which is facilitated by financial information. Comparability implies to have like things reported in a similar fashion and unlike things reported differently.

Information, if comparable, will assist the decision-maker to determine relative financial strengths and weaknesses and prospects for the future, between two or more firms or between periods in a single firm.

1.7 Basic Accounting Terminologies

In order to have better understanding of accounting, it is necessary to know the meanings of certain basic terms used in accounting. Accounting is a versatile system which serves a large number of purposes in the modern business world. Hence, the following terminologies need to be understood.



1.7.1 Transactions

Exchange of goods and services between two persons or parties for money or money's worth is known as Transactions.

(a) Monetary Transactions:

The transaction which involves an exchange of money or money's worth directly or indirectly is called monetary transactions. Only monetary transactions are recorded in the books of accounts.

- 1) **Cash Transactions :** A business transaction in which cash is paid or received immediately is known as cash transaction.
e.g i) Purchase of goods for cash at ₹ 15,000/-
ii) Payment of salary at ₹ 5,000/-
- 2) **Credit Transactions:** A credit transaction is one in which cash is not paid or received immediately at the time of a transaction but it is paid or received at a later date.
e.g i) Goods sold on credit to Mr. Aman at ₹ 8,000/-
ii) Sold machinery to Mr. Amarsingh on credit at ₹ 20,000/-

(b) Non-Monetary Transactions:

The transaction which does not involve an exchange of money or money's worth directly or indirectly are called Non-monetary transactions. An exchange of one thing against another thing is called as Barter transactions.

- 1) **Entry:** Recording of a business transaction in the proper form or method in the books of accounts is called an entry.
- 2) **Narration:** A brief explanation of the business transaction for which an entry is passed is called as a narration. It is always given in a bracket below the journal entry and it usually starts with the word "Being" or "For".
- 3) **Goods:** The term 'goods' refers to merchandise, commodities, articles or things in which a trader trades. These are purchased or manufactured for the purpose of sale and to earn profit.
e.g i) Medicines are goods for the chemist.
ii) Vegetables are goods for the vegetable vendor.
iii) Parts like tyres, engine gearbox, cables are produced by a vehicle manufacturer

like Bajaj Auto, Hero Motors.

1.7.2 Capital and Drawings:

- a) **Capital :** The total amount invested into the business by the owner is called capital. Excess of assets over the liabilities is also called as capital. The equation for this is :

$$\text{Capital} = \text{Assets} - \text{Liabilities}$$

Capital is a liability of the business as this amount is payable by the business enterprise to the owner at the time of closure of the business.

- b) **Drawings :** The amount of cash or value of goods, assets, etc., withdrawn from the business by the owner for personal use called as drawings.

E.g. : A proprietor pays colleges fees of his son, or pays for his medical expenses, mobile bills etc, from the business.

1.7.3 Debtors and Creditors:

- a) **Debtor :** A person who has to pay to the business for getting goods and services on credit is known as debtor. A debtor is a person who owes money to the business.
- b) **Creditor:** A person to whom business has to pay for getting goods or services on credit is known as creditor. A creditor is a person to whom business owes money.
- c) **Bad Debts :** An irrecoverable amount from a debtor is known as "Bad Debts". It is a revenue loss to the business.

1.7.4 Expenditure and Types of Expenditure

Expenditure: An amount spent by the business for any consideration received by business is called expenditure.

- i) **Capital Expenditure :** This expenditure is incurred to acquire fixed asset or to increase the value of fixed asset. It gives the benefit for a long period of time and it is non-recurring in nature.

E.g. : Purchase of Machinery, extension of building, purchase of computer etc.

- ii) **Revenue Expenditure :** Revenue expenditure is an expenditure from which no future benefit is expected but having immediate or short term benefit may be less than one year. It does not increase profit earning capacity of an organization. These are normal day to day operating expenses of a business organization and appear on the debit side of Trading A/c or Profit and Loss A/c.

E.g. : Rent paid, Salary paid, Wages paid etc.

- iii) **Deferred Revenue Expenditure:** An expenditure which is basically revenue in nature but benefit of which is not exhausted within one year is called as Deferred Revenue Expenditure. Such expenditure is written off over number of years. Such written off amount is shown on debit side of profit and loss a/c and unwritten amount is shown on asset side of the Balance Sheet.

E.g. : Heavy expenditure on advertising , heavy legal expenses.

1.7.5 Cash Discount and Trade Discount :

Discount is a concession or allowance given by the seller to purchaser.

There are two types of discounts.

- i) **Trade Discount :** It is an allowance given on catalogue price or list price of goods. This discount is allowed at the time of purchase/sale of goods. Value of goods purchased/sold recorded is net value payable i.e after deduction of amount of trade discount allowed. If goods of ₹ 1000/- are sold at 5% trade discount, the value of goods that will be recorded will be ₹ 950/- both by the purchaser and the seller and not ₹ 1000/-. Hence, trade discount does not appear in the books of accounts separately.
- ii) **Cash Discount:** It is the amount deducted from the final amount due at the time of receipt. It is the concession given for encouraging prompt payment. It is given either for the spot payment or for payment within a specific period. Cash discount is calculated after deducting trade discount, since it is loss to the seller and gain to the buyer, cash discount appears in the books of accounts.

1.7.6 Solvent and Insolvent:

i) **Solvent:** If a person's assets are more than his liabilities, or equal to his liabilities, he is called as a solvent person. Solvent person is financially sound and is in a position to pay off all his debts.

E.g. : A person's total assets have been calculated to ₹ 50,00,000/- and his total debts were ₹ 30,00,000/- since his position is sound he is able to pay off his debts therefore he is called Solvent.

ii) **Insolvent:** A person whose liabilities are more than his assets is an insolvent person. Such person's liabilities are more than his assets.

E.g. : A person's total assets or property have been calculated to ₹ 20,00,000/- and his total debts were ₹ 50,00,000/- and if he is not in a position to get any amount from any sources and if the court is so satisfied then he will be declared as an insolvent person.

Accounting Year:

It is the period of 12 months for which accounts are maintained and closed by the proprietor. Earlier the proprietors were following any accounting year i.e. calendar year, or financial year or any other year as per tradition. But now for income tax purpose an accounting year starts on 1st April and end on 31st March. At the end of accounting year a proprietor has to prepare Trading account, Profit and Loss account and Balance Sheet to find out the financial position of the business.



Student Activity:

Collect some Advertisement relating to discount and stick it in the note books.

Trading Concern and Not for Profit Concerns.

i) **Trading Concern:** A business concern established with an object of earning profit by selling goods is known as Trading concern. It is also called as commercial organization or profit making organization.

ii) **Not for Profit Concern:** It is an organization not established for making profit but for rendering services to the society. An organization may be formed for promoting a useful object like art, science, sports, culture, charity, profession etc.

e.g Schools, Hospitals, Sports Club etc.

1.7.8 Goodwill:

Goodwill may be described as the aggregate of those intangible attributes of a business which contributes to its superior earning capacity over a normal return on investment. It may arise from such attributes as favourable locations, the ability and skill of its employees and management, quality of its products and services, customer satisfaction etc.

◆ Goodwill is the reputation of business expressed in terms of money.

◆ Goodwill is an intangible asset

1.7.9 Profit or Loss

a) **Profit :** When the selling price of goods is more than the cost price it is a profit. Profit increases the capital of the business.

e.g. If goods are sold for ₹ 50,000/- and all expenses during the period amounted to ₹ 30,000/- then the profit is ₹ 20,000/-

- b) **Loss :** When cost price of goods is more than its selling price it is a loss. Loss decreases the capital of business
e.g If goods are sold for ₹ 50,000/- and all expenses during the period amounted to ₹ 60,000/-, then the loss will be ₹ 10,000/-
- c) **Income:** It is revenue arising as a result of business transactions. It is the amount receivable or realised from services provided and earnings from interest, dividend, commission, etc.
- d) **Revenue:** It is income that a business has from its normal business activities usually from the sale of goods and services to customer.

1.7.10 Assets, Liabilities, Net Worth:

- i) **Assets :** Any physical thing or right owned that has a monetary value is called as an asset. The ownership of the Asset must be with business unit. E.g Land, Goodwill, Patents, Computers etc.
- ii) **Types of Assets:**
 - a) **Fixed Assets/Non current Assets :** The assets which give long term benefit to the business are known as fixed assets e.g Land and Building, Plant & Machinery, Goodwill etc. These assets may be tangible or intangible.
 - b) **Current Assets :** Assets which are held in the business for the operating year and can be converted into cash very easily are called as current assets. e.g Debtors, Bills Receivable Cash in Hand, Cash at Bank, Stock etc.
 - c) **Fictitious Assets :** These assets are not represented by tangible possession or property. They are imaginary assets but do not have any realisable value. e.g Deferred revenue expense like advertisement paid for 4 years.
- iii) **Liabilities:** Amount payable by the business to others is known as liability. It is a debt or amount due from the business to others for the benefit received by the business unit. e.g Loan taken, Creditors, Bank Overdraft, Outstanding Expenses etc.
- iv) **Types of Liabilities:**
 - a) **Fixed Liabilities :** One of the major source of funds in the business is fixed liabilities. It may be in the form of capital, secured loans, long term loans from banks and from financial institutions etc.
 - b) **Current Liabilities:** Short term liabilities payable within a year are called current liabilities. Current liabilities arise in the regular current operations of the business. These liabilities are not normally secured. E.g. Creditors, Bills Payable etc.
- v) **Net worth or Owners Equity or Capital:**
The amount or funds provided by the proprietor in the business is called as “Capital” as well as the excess of assets over liabilities of the business is also known as “Capital” or “Net Worth”. Net worth includes Capital and Reserves. Capital can be in the form of cash or in kind.

Net worth = Owner’s Equity = Capital

OR

Owner’s Equity (Capital)= Total Equity(Assets) – Creditors Equity(Liabilities)

- e.g a) If the Capital of the business is ₹ 4,00,000 and Creditors ₹ 2,00,000 then
- $$\text{Total Equity(Assets)} = \text{Liabilities} + \text{Capital}$$
- $$₹ 6,00,000 = 2,00,000 + 4,00,000$$
- b) If total assets are ₹ 1,50,000 and outside liabilities are ₹ 50,000 the Creditors Equity (liabilities)
- $$\text{Creditors Equity (liabilities)} = \text{Assets} - \text{Capital}$$
- $$₹ 50,000 = ₹ 1,50,000 - ₹ 1,00,000$$
- c) If total assets of the business are ₹ 5,00,000 and Outside liabilities are ₹ 2,00,000 the Owner's Equity(Capital)
- $$\text{Owner's Equity (Capital)} = \text{Assets} - \text{Liabilities}$$
- $$₹ 3,00,000 = ₹ 5,00,000 - ₹ 2,00,000$$

Contingent Liabilities:

A liability which may arise in future depends on happening or non-happening of certain event is called as contingent liability. As it is not confirmed or perfect liability, it does not affect the financial position of the business and therefore, it is not shown on the liability side of the Balance Sheet. But it is shown by way of foot note to Balance Sheet simply as information.

e.g. A worker makes a claim for compensation of ₹ 5,000/- against the business and the decision is pending in the court. It may be a future liability for business on happening of an event i.e “Court Verdict”

1.8 Accounting Concepts, Conventions and Principles

Meaning and Importance of Accounting Concepts

Accounting is means of communicating the results of business operations to various parties interested in or connected with the business viz., the owners, creditors, investors, banks and financial institutions, Government and other agencies. Hence, it is rightly called as the language of business.

Accounting is not only associated with business, but also with everybody, who is interested in keeping an account of the monetary transactions. Generally the term 'accounting' refers to financial accounting. Book-keeping and Accountancy is an art of recording, classifying and summarizing transactions of business concern in a systematic manner.

Importance of Accounting Concepts:

- 1) Reliable financial statements.
- 2) Uniformity in presentation.
- 3) Generally acceptable basis of measurement.
- 4) Proper information to all.
- 5) Valid and appropriate assumptions.

Some of the important concepts are as follows :

- 1) **Business Entity:** This concept implies that a business unit is separate and distinct from the owner or owners, that is, the persons who supply capital to it. Based on this concept, accounts are prepared from the point of view of the business and not from the owner's point of view. Hence, the business is liable to the owner for the capital contributed by him/her.

According to this concept, only business transactions are recorded in the books of accounts. Personal transactions of the owners are not recorded. But, their transactions with the business such as capital contributed to the business or cash withdrawn from the business for the personal use will be recorded in the books of accounts. It implies that the business itself owns assets and owes liabilities.

e.g. Half of the building is used for business office and other half of the building is used for the residence of the proprietor. If the total rent of the building is ₹ 50,000/- then only ₹ 25,000/- will be deducted as drawings from proprietor's capital.

- 2) **Money Measurement:** This concept implies that only those transactions, which can be expressed in terms of money, are recorded in the books of accounts. Since money serves as the medium of exchange transactions expressed in money are recorded and the ruling currency of a country is the measuring unit for accounting.

Transactions which do not involve money will not be recorded in the books of accounts. For example, working conditions in the work place, strike by employees, efficiency of the management, etc. will not be recorded in the books, as they cannot be expressed in terms of money. It helps in understanding of the state of affairs of the business as money serves as a common measure by means of which heterogeneous facts about the business are recorded.

For example, if a business has 5 computers, 2 tables and 3 chairs, the assets cannot be added to give useful information, unless, they are expressed in monetary terms ₹ 1,50,000/- for computers, ₹15,000/- for tables and ₹ 2,500/- for chairs.

- 3) **Cost Concept :** An asset is recorded in the books on the basis of the historical cost, that is, the acquisition cost. Cost of acquisition will be the base for all further accounting. It does not mean that the asset will always be shown at cost. It is recorded at cost at the time of its purchase, but is systematically reduced in its book value by charging depreciation.

e.g. : Furniture is purchased for ₹ 3,00,000/- and same cost has been recorded in the books. In case the market value goes to ₹ 1,00,000/- or ₹ 1,50,000/- It will not be considered.

- 4) **Consistency Concept:** Any policy adopted for accounting should be continuous or consistent throughout the business and it need not be changed generally unless and until circumstances demand. However, it does not stop any improvement of new techniques. But that should be disclosed with a note.

e.g. : A company adopts fixed installment method for charging depreciation on fixed asset from the beginning till the end of estimated life of asset.

- 5) **Conservatism:** While recording the business transactions we have to anticipate no profit but provide for all possible losses. It encourages the certain secret reserves by making excess provision to prevent losses. The income statement may show lower income and the Balance Sheet overstates the liabilities and understates the assets. This policy of recording is asking the accountant 'to play safe' while writing the accounts.

e.g. : The closing stock in the factory is valued at ₹ 25,000/- at cost price and ₹ 35,000/- at its market price. But while recording in the books the value of ₹ 25,000/- will be considered being the lowest of all.

6) **Going Concern:** It is the basic assumption that business is a going concern and will continue its operations for future. Going concern concept influences accounting practices in relation to valuation of assets and liabilities, depreciation of the fixed assets, treatment of outstanding and prepaid expenses and accrued and unearned revenues. For example, assets are generally valued at historical cost. Any increase or decrease in the value of assets in the short period is ignored.

7) **Realization:** Income is recorded only when it is realized i.e. either it is received or earned. Revenues are recorded only when sale are affected or the services are rendered. Sales revenues are considered as recognized when sales are affected during the accounting period irrespective of the fact whether cash is received or not.

e.g. : A company gets an order for sale of goods ₹ 1,00,000/- in May 2017. Goods of only ₹ 60,000/- are sold and delivered in June 2017. Cash is received for ₹ 60,000/- in Sept, 2017. As per the principle of realization, sale is to be recorded in June 2017.

8) **Accrual:** Income is recorded when it accrues(earned) and expenses are recorded when they accrue(become payable). All expenses and revenues related to the accounting period are to be considered irrespective of the fact the revenues are received in cash or not or expenses are paid in cash or not.

e.g. : A company invested ₹ 100,000/- with a bank for one year on 1stOct 2015, Bank has to pay interest at 10% p.a on its maturity i.e 30th Sept, 2016.

9) **Dual Aspect :** According to this concept, every transaction or event has two aspects, i.e., dual effect. For example, when Akshay starts a business with cash ₹ 5,00,000/- , on one hand, the business gets cash of ₹ 5,00,000/- and on the other hand, a liability arises, that is, the business has to pay Akshay a sum of ₹ 5,00,000/-. This is the concept which recognizes the fact that for every debit, there is a corresponding and equal credit. This is the basis of the entire system of double entry book-keeping. From this concept the basic accounting equation, arises that is, Capital + Liabilities = Assets.

10) **Disclosure:** The accounts must disclose all material information. The accounting reports should disclose full and fair information to the related parties. The financial position and performance should be disclosed very honestly to all the users. The financial position means the Balance Sheet of the business and financial performance means business results in terms of profits or losses and income and expenses in profit and loss account.

All the information disclosed should be relevant, reliable, comparable and understood by all the concerned authorities.

11) **Materiality:** According to this convention, financial statements should disclose all material items which might influence the decisions of the users of financial statements. Hence, any item which is not significant and is not relevant to the users need not be disclosed in the financial statements.

This principle is basically an exception to the full disclosure principle. The term materiality is subjective in nature. Materiality depends on the amount involved in the transaction, size of the business, nature of information, requirements of the person making decision, etc. An item material to one person may be immaterial to another person.

12) Matching Concept: According to this concept, revenues during an accounting period are matched with expenses incurred during that period to earn the revenue during that period. This concept is based on accrual concept and periodicity concept. Periodicity concept fixes the time frame for measuring performance and determining financial status.

All expenses paid during the period are not considered, but only the expenses related to the accounting period are considered. On the basis of this concept, adjustments are made for outstanding and prepaid expenses and accrued and unearned revenues. Also due provisions are made for depreciation of the fixed assets, bad debt, etc., relating to the accounting period.

Thus, it matches the revenues earned during an accounting period with the expenses incurred during that period to earn the revenues before sharing any profit or loss.



Student Activity:

- 1) Give examples of economic and non-economic activities
- 2) Prepare a list of Assets and Liabilities that you find in your house.

1.9 Accounting Standards (AS) and IFRS

Accounting Standards provide the framework and norms to be followed in accounting so that the financial statements of different enterprises become comparable. It is necessary to standardise the accounting principles to ensure consistency, comparability, adequacy and reliability of financial reporting.

In the words of Kohler : “Accounting standards are codes of conduct imposed by customs, laws or professional bodies for the benefit of public accountants and accountants generally”.

Thus, Accounting Standards are written policy documents issued by the expert accounting body or by government or other regulatory body covering the aspects of recognition, measurement, treatment, presentation and disclosure of accounting transactions and events in the financial statements.

Need for accounting standards :

The need for accounting standards is as follows:

- i) To promote better understanding of financial statements.
- ii) To help accountants to follow uniform procedures and practices.
- iii) To facilitate meaningful comparison of financial statements of two or more entities.
- iv) To enhance reliability of financial statements.
- v) To meet the legal requirements effectively.

International Financial Reporting Standards (IFRS)

International Financial Reporting Standards (IFRS) are issued by the International Accounting Standard Board (IASB). IFRS is a set of International Accounting Standards stating how particular types of transactions and other events should be reported in financial statements. IFRS are issued to develop Accounting Standards that would be acceptable worldwide and to improve financial reporting internationally.

Accounting Standards in India

In India, Standards of Accounting is issued by the Institute of Chartered Accountants of India (ICAI). The Council of the Institute of Chartered Accountants of India constituted Accounting Standards Board (ASB) on 21st April, 1977 recognising the need for Accounting Standards in India. ASB. Formulates Accounting Standards so that such standards may be established by the Council of the Institute in India. The ASB will consider the applicable law, custom, usage, business environment and the International Accounting Standards while framing Accounting Standards (AS) in India.

Due to globalisation, the accounts prepared in India must be compatible with accounts prepared in other countries. This has resulted in the existing AS being converged with the IFRS. This convergence has resulted in what is known as Ind AS. Ind AS are basically the International Accounting Standards which have been modified in accordance with Indian accounting practices, customs and traditions. Presently, all big companies have to follow Ind AS rules, but smaller business units are allowed to continue using AS. In future, it is expected that all business entities in India will migrate to Ind AS.

Some Accounting Standards (AS): The Council of the Institute of Chartered Accountants of India has so far issued thirty one accounting standards. Some of these Accounting Standards are explained below

1) AS-1 Disclosure of Accounting Policies (1-4-1991 for Companies and 1-4-1993 for others)

According to this standard the accounting policies followed in the preparation and presentation of financial statements should form a part of the financial statements and normally be disclosed in one place.

2) AS-2 Valuation of Inventories (1-4-1999)

According to this standard inventories in general should be valued at lower of historical cost and net realizable cost.

3) AS-3 Cash Flow Statements (1-4-2001)

According to this standard a cash flow statement is prepared and presented for the period for which the profit and loss account is prepared.

4) AS-6 Depreciation Accounting (1-4-1995)

According to this standard the depreciation amount of an asset should be allocated on a systematic basis for each accounting period during the useful life of an asset.

5) AS-8 Accounting for Research and Development (1-4-1991 for Companies and 1-4-1993 for others)

According to this standard, the amount of research and development costs should be charged as an expense of the period in which they are actually incurred.

6) AS-9 Revenue Recognition(1-4-1991 for Companies and 1-4-1993 for others)

This standard deals with the basis required for recognition of revenue items in the Profit and Loss Account of an enterprise. It lays down conditions to recognize revenues that arise from the various transactions of an enterprise.

- 7) **AS-10 Accounting for Fixed Assets(1-4-1991 for Companies and 1-4-1993 for others)**
According to this standard, the cost of fixed assets should comprise of the original cost and any attributable cost of bringing the asset to its working conditions for its intended use. The fixed assets should be eliminated from the financial statement on disposal or when no further benefit is expected from their use.
- 8) **As-12 Accounting for Government Grants(1-4-1994)**
According to this, standard, government grants should be recognized when there is an assurance that the enterprise will comply with the conditions attached to them.
- 9) **As-13 Accounting for Investments (1-4-1995)**
According to this standard, an enterprise should disclose the current and long term investments distinction in its financial statements. Current investments should be carried in the financial statements at the lower cost or fair value. However long term investments should always be carried in the financial statements at the cost price.
- 10) **AS-22 Accounting for Taxes on Income (1-4-2001)**
According to this standard, tax expenses for the period comprising current tax and deferred tax should be included in the determination of the net profit or loss for the period.



Student Activity:

Visit icai.org website Refer under Resources, Accounting Standards and Ind AS.

EXERCISE

Q.1 Answer in One Sentence:

- 1) What is Book-keeping ?
- 2) What is meant by Goods?
- 3) What is Capital?
- 4) What is Drawings?
- 5) What is Goodwill?

Q.2 Give the word term or phrase which can substitute each of the following statements:

- 1) Recording of business transactions.
- 2) Amount invested in business by the proprietor.
- 3) A person to whom amount is payable.
- 4) Exchange between two persons.
- 5) Excess of expenses over income
- 6) A person whose assets are sufficient enough to meet business obligations.
- 7) Book-keeping is providing all required financial information to the businessman.
- 8) Property of any description owned by Proprietor.
- 9) Assets which remain in the business for only for short time and can be converted into cash very easily.
- 10) Allowance is given on catalogue price of goods

Q.3 Select the most appropriate alternatives from those given below and rewrite the statements.

- 1) Surplus of income over expenses is _____.
 a) Profit b) Deficit c) Loss d) Financial Statements
- 2) In _____ basis of accounting, actual cash receipts and actual cash payments are recorded.
 a) Accrual b) Hybrid c) Cash d) Mercantile
- 3) Amount which is not recoverable from customer is known as _____.
 a) Bad Debts b) Debts c) Debtors d) Doubtful debts
- 4) Accounts must be honestly prepared and they must disclose all material information is known as _____.
 a) Entity Concepts b) Dual Aspect Concept c) Disclosure Concept d) Cost Concept
- 5) A commodity in which a trader deals is known as _____.
 a) Goods b) Income c) Property d) Expenditure
- 6) _____ means a reputation of a business valued in terms of money.
 a) Trademark b) Assets c) Patents d) Goodwill
- 7) Cash flow statement is prepared and presented for the period for which the profit and loss account is prepared.
 a) AS-3 b) AS-10 c) AS-6 d) AS-2
- 8) The immediate recognition of loss is supported by principle of _____.
 a) Conservatism b) Objective c) Matching d) Consistency
- 9) Brief explanation of an entry is called as _____.
 a) Folio b) Narration c) Posting d) Journalising
- 10) An act of exchange of things or services between the two parties is termed as _____.
 a) Ledger b) Transfer c) Transaction d) Business

Q.4 State whether the following statements are true or false with reasons :

- 1) Book-keeping and accounting are one and the same thing.
- 2) Conservatism means to follow safe side.
- 3) The double entry system is based on “Dual Aspect” concept.
- 4) Bank overdraft is an asset of the business.
- 5) Solvent person is a person whose assets are more than his liabilities.
- 6) Cash discount does not appear in the books of accounts.
- 7) A transaction is concerned with money or money’s worth
- 8) Accounting is the language of business.
- 9) In civilization, accounting was done by owners.
- 10) Book-keeping is useful to find out all tax liabilities.

Q.5 Do you agree or disagree with the following statements :

- 1) Accounting is useful only to the owner.
- 2) Book-keeping is an art, science and profession.
- 3) Bills Payable is an asset of the business.
- 4) In Book-keeping and Accountancy only non monetary transactions are recorded.
- 5) Totalling of Journal or Ledger is called as casting.

Q.6 Complete the following sentences :

- 1) Revenue arising as a result of business transactions is known as
- 2) Excess of gross profit over operating expenses is
- 3) An expenditure which is basically revenue in nature but benefit of which is not exhausted within one year is called as
- 4) The amount deducted by the seller from the list price of goods at the time of sale is
- 5) A person to whom business owes money for the goods or services is known as



2

Meaning and Fundamentals of Double Entry Book-keeping

Contents

- 2.1 *Meaning and Definition of Double entry Book-keeping System*
- 2.2 *Methods of Recording Accounting Information (Indian, Single, Double)*
- 2.3 *Advantages of Double entry Book-keeping system.*
- 2.4 *Classification of Accounts.*
- 2.5 *Golden Rules of Debit and Credit (Traditional Approach)*
- 2.6 *Modern Approach of Rules of Accounts.*
- 2.7 *Illustrations.*
- 2.8 *Accounting Equations*

Competency Statements

- Students understand the Fundamental Principles of Double Entry System.*
- Students understand the Classification and Types of Accounts.*
- Students are able to apply the golden rules to classification tables.*
- Students can prepare a statement of analysis of transactions and accounting equations system*

2.1 Meaning and Definition of Double Entry Book-Keeping:

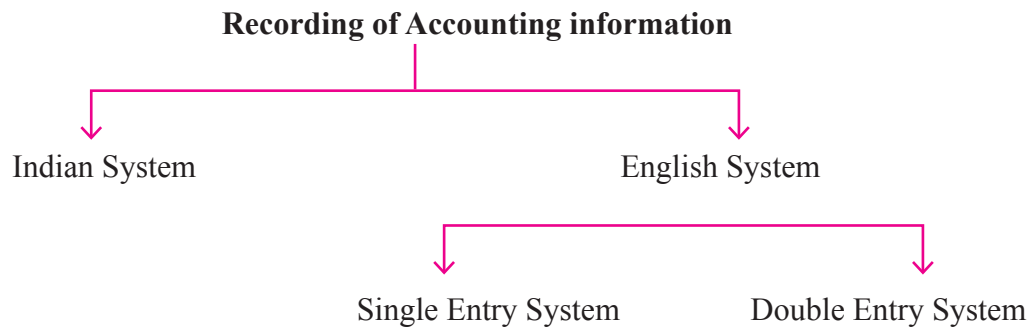
Double Entry Book-keeping System is the most scientific method of recording all monetary transactions in the books of accounts. This system owes its origin to Italian Merchant "LUCA D. BARGO PACIOLI" on 10th November 1494 and this day is celebrated as International Accounting Day. This system of Book-keeping is based on the fact that there are two aspects of every business transactions. Every business transaction involves two persons or accounts or parties where in one is the receiver of the benefit and the other is the giver of the benefit. If something comes into the business, something goes out from the business. Recording of two aspects of monetary transactions in the Books of Account in terms of Debit (Dr.) and Credit (Cr.) is called as "Double Entry" System of Book-keeping.



LUCA D. BARGO PACIOLI

According to modern approach, every business transaction is concerned with Assets, Liabilities, Capital, Expenses and Income. Whenever there is an increase in assets and expenses it is debited and decrease in assets and expenses are credited.

2.2 Methods of Recording accounting information:



1) Indian System:

Indian system maintains, records in Indian languages, such as Marathi, Hindi, Urdu, Gujrati etc. It is called Mahajani Deshinama system. In this system transactions are recorded or maintained in long books, known as Bahi-Khata and Kird. This system of accounting is not based on Double Entry system of accounting. Thus, is not a scientific accounting system. Even today this system is used in India for small business organization.

2) English System:

A) Single Entry System:

This system of accounting records only Cash book and Personal accounts. It is unscientific method and also known as an incomplete recording system, because it changes with the convenience of business for recording transactions. This system of accounting does not provide accurate information about the financial position of business and it is suitable for small business.

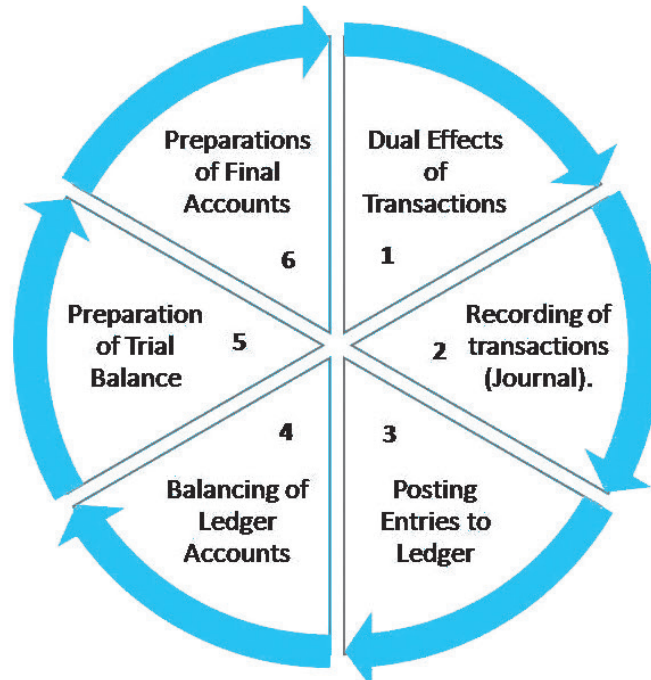
B) Double Entry System:

Double Entry System is the most scientific method of recording all business transactions in the books of accounts. Under this system double or two fold effects of each transaction is recorded.

According to Double Entry Book-keeping System, one account is to be debited and another account is to be credited with equal amount.

Every debit has an equal and corresponding credit of the same amount is the basic principle of Double Entry System.

Important Elements of Double Entry Book-keeping System:



Definition of Double Entry System

Definition of Double Entry System is as follows-

“Every business transaction has a two fold effect and that it affects two accounts in opposite directions and if a complete record is to be made of each such transaction it would be necessary to debit one account and credit another account. It is this recording of two fold effect of every transaction that has given rise to the term Double Entry.” – *J.R. Batliboi*.

Principles of Double Entry Book-keeping System:

- 1) In every business transaction there must be minimum two effects i.e debit and credit.
- 2) Two Accounts means one is the Receiver of the benefit and other is the Giver of the benefit.
- 3) If one account is debited other account must be credited.
- 4) Every debit has a equal and corresponding credit of the same amount.

2.3 Advantages of Double Entry Book-keeping System:

- 1) **Complete Record:**
Under this system all business transactions are recorded. This method is scientific and records both the aspects of each transaction.
- 2) **Accuracy:**
In this system both aspects are recorded in the books of accounts so it gives complete accuracy in accounting work. It also checks arithmetical accuracy.
- 3) **Business Results:**
All expenses, losses, income, gains, liabilities, assets, debtors and creditors all these transactions are recorded, therefore it helps to find out accurate business results of particular accounting period.
- 4) **Common Acceptance:**
It is widely accepted since it follows universal accounting principles. Double Entry System is accepted by financial institutions, government authorities etc.

Conventional Accounting System (Traditional):

Conventional Accounting System is based on practicability. Accounting convention means rules which by common agreement are used in accounting. However, there is no clear information of rules between concepts and convention.

Indian system of accounting is the example of conventional accounting. This system does not follow principles of double entry system. It is incomplete system of recording the business transactions.

2.4 Classification of Accounts :-

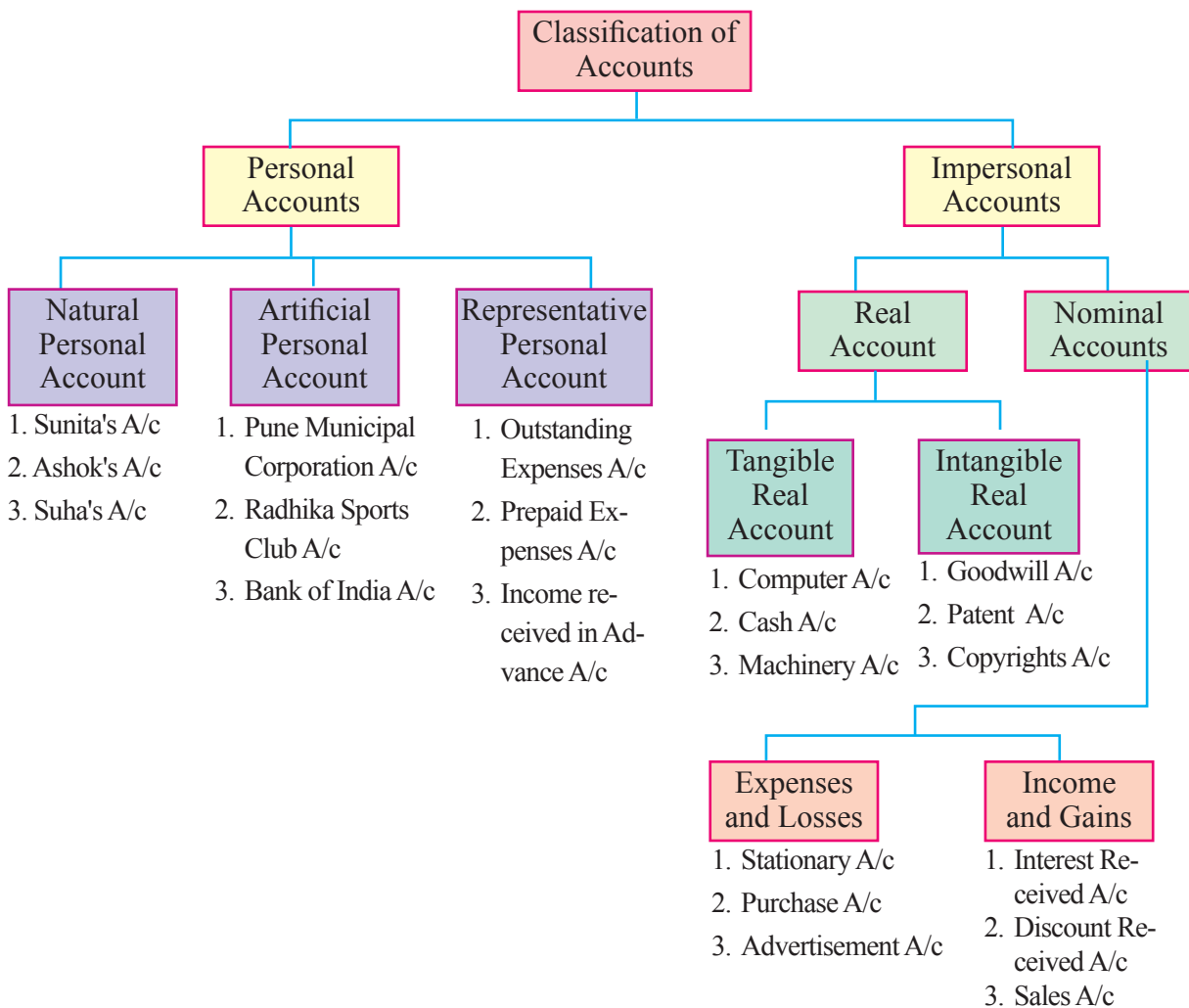
Meaning of Account:

An account is a summarized record of transactions relating to a particular person, asset, liability, particular head of expense or income recorded at one place. In day to day business activity large number of business transactions takes place. It affects the several accounts. At the end of certain period of time, it is necessary for the businessman to balance the accounts to find out the information. like total capital, total liabilities and assets , total incomes and expenses etc. of the business.

Definition of Account:

“An account is summarized record of transactions affecting one person, one kind of property or one class of gain or loss.” – **G.R.Batliloi**

“An account is a ledger record in a summarized form of all the transactions that have taken place with the particular person or thing specified.” – **Carter**



Each type of accounts is explained below with examples-

1) Personal Accounts :

This account represents a person and group of persons with whom business deals. These accounts are classified into following three categories:-

a) Natural Person's Account:

Accounts relating to individual human beings. for e.g. Rajesh's A/c, Sumit's A/c, Sushma's A/c, Vaibhav's A/c etc.

b) Artificial Person's Account:

Artificial persons means includes accounts of organizations, associations which are created by law, for

E.g. Bank of Maharashtra A/c, ABC & Co A/c, Recreation Club A/c.

c) Representative Personal Account:

These Accounts represent a certain person or group of person in business dealing. Accounts relating to outstanding and prepaid items are called representative personal account

E.g. Outstanding Rent A/c, Income received in advance A/c, Prepaid Wages A/c etc.

2) Impersonal Account:

Impersonal Accounts are classified into following two categories;-

1. Real Accounts:

This account represents assets and properties owned by the business. The following are the types of Real Account.

a) Tangible Real Account:

Tangible real account means the Assets and properties, which can be seen, touched and felt. e.g. Machinery A/c, Motor Car A/c, Stock of Goods A/c etc.

b) Intangible Real Account:

Intangible Real account means assets which cannot be seen, touched, or felt but they can be measured in terms of money e.g. Goodwill A/c, Patents A/c, Trademark A/c, Copyright A/c etc.

2. Nominal Accounts:

The account of expenses, losses, income and gains are called as Nominal accounts e.g. Wages A/c, Stationery A/c, Salary A/c, Depreciation A/c Commission Received A/c, Discount Received A/c etc.

Debit and Credit

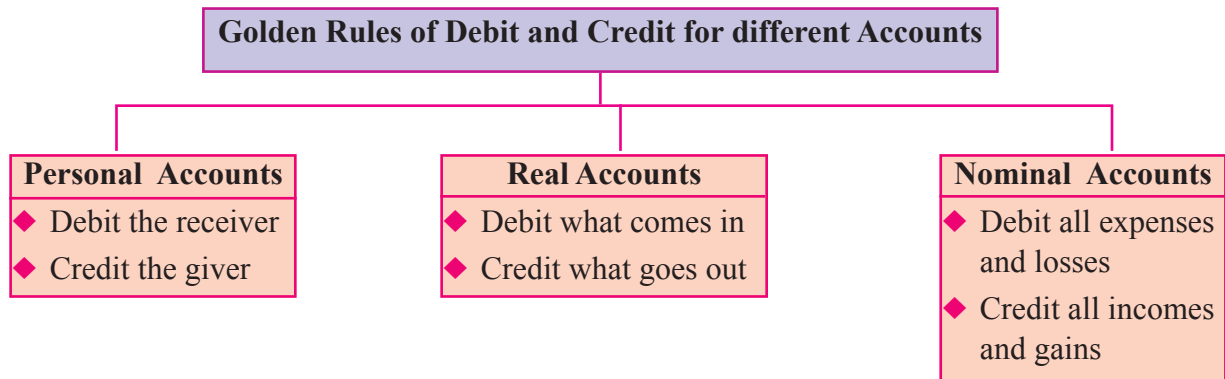
1) Debit (Dr.):

Left hand side of an Account is called Debit (Dr) side.

2) Credit (Cr):

Right hand side of an Account is called Credit (Cr) side.

2.5 Golden Rules of Debit and Credit (Traditional Approach):



I) From the following transactions find out

1) Two aspects 2) Two accounts 3) Classify the accounts

- 1) Commenced business with Cash ₹ 20,000.
- 2) Purchased goods on credit from Ajay ₹ 10,000.
- 3) Cash Sales ₹ 7,000.
- 4) Received commission ₹ 500.
- 5) Paid Rent ₹ 800.

Solution :

1) Two Aspects

Sr. No.	Aspect I	Aspect II
1)	Cash comes in	Proprietor is giver
2)	Purchases is an expenditure	Ajay is giver
3)	Cash comes in	Sales is an income
4)	Cash comes in	Commission received is an income
5)	Rent is an expenses	Cash goes out

2) Two Aspects and Two Accounts.

Sr. No.	Two aspects	Two accounts	
1	Cash comes in. Business Proprietor is giver	Cash A/c -----	----- Capital A/c
2	Purchases is an expense. Ajay is giver	Purchases A/c -----	----- Ajay A/c
3	Cash comes in. Sales is an income	Cash A/c -----	----- Sales A/c
4	Cash comes in. Commission is an income	Cash A/c -----	----- Commission A/c
5	Rent is an expense. Cash goes out	Rent A/c -----	----- Cash A/c

3) Two Aspects, Two Accounts and Classify the Accounts.

Sr. No.	Two aspects	Two accounts	Classification
1.	Cash comes in Proprietor (Capital) is the giver	Cash A/c Capital A/c	Real A/c Personal A/c
2.	Purchases is an expense Ajay is giver	Purchases A/c Ajay A/c	Nominal A/c Personal A/c
3.	Cash comes in Sales is an income	Cash A/c Sales A/c	Real A/c Nominal A/c
4	Cash comes in Commission is an income	Cash A/c Commission A/c	Real A/c Nominal A/c
5	Rent is an expense Cash goes out	Rent A/c Cash A/c	Nominal A/c Real A/c

Activity- 1

From the following transactions find out

- 1) Two Aspects 2) Two Accounts
- 3) Classify the Accounts and Fill the following Tables
- 1) Started business with Cash ₹ 50,000.
- 2) Purchased Machinery on credit from Avinash ₹ 20,000.
- 3) Purchased goods ₹ 5,000 from Rahul on cash.
- 4) Sold goods to Aniket ₹ 6,000 on credit.
- 5) Paid Salary ₹ 1,000.
- 6) Sold old Tables for ₹ 3,000.

Solution:

1) Two Aspects

Sr. No.	Aspect I	Aspect II
1		
2		
3		
4		
5		
6		

2) Two Aspects and Two Accounts.

Sr. No.	Two aspects	Two accounts	
1.			
2.			
3.			
4.			
5.			
6.			

3) Two Aspects, Two Accounts and Classify the Accounts.

Sr. No.	Two aspects	Two accounts	Classification
1.			
2.			
3.			
4.			
5.			
6.			

**Analysis of transaction by applying rules of Debit and Credit
(Traditional Approach)**

Sr. No.	Transaction	Two aspects/ Effects	Accounts Involved	Classification of Accounts	Rules Applied	Account to be Debited	Account to be Credited
1	Commenced business with Cash ₹50,000	1) Cash comes into the business 2) Proprietor is giver of the capital	1) Cash A/c 2) Capital A/c	1) Real A/c 2) Personal A/c	1) Debit what Comes in 2) Credit the giver	Cash A/c ---	--- Capital A/c
2	Advertisement paid ₹ 5,000 to Imran	1) Advertisement is an expenses 2) Cash goes out	1) Advertisement A/c 2) Cash A/c	1) Nominal A/c 2) Real A/c	1) Debit all expenses 2) Credit what goes out	Advertisement A/c ---	--- Cash A/c

3	Deposited cash into the Bank of India ₹ 10,000	1) Bank of India is receiver 2) Cash goes out	1) Bank of India A/c 2) Cash A/c	1) Personal A/c 2) Real A/c	1) Debit the receiver 2) Credit what goes out	Bank of India --- ---	--- Cash A/c
4	Purchased Goods from Sunil ₹13,000	1) Purchase is an expense 2) Sunil is giver	1) Purchases A/c 2) Sunil's A/c	1) Nominal A/c 2) Personal A/c	1) Debit all expenses 2) Credit the giver	Purchase A/c ---	--- Sunil's A/c
5	Sold goods for cash ₹ 12,000	1) Cash comes in 2) Sales is an income	1) Cash A/c 2) Sales A/c	1) Real A/c 2) Nominal A/c	1) Debit what comes in 2) Credit all income	Cash A/c ---	--- Sales A/c
6	Received Commission ₹ 4,500	1) Cash comes in 2) Commission received is an income	1) Cash 2) Commission A/c	1) Real A/c 2) Nominal A/c	1) Debit what comes in 2) Credit all income	Cash A/c ---	--- Commission A/c

- Note:** 1) Transaction number 2: Advertisement paid to Imran, here Imran's Account is not affected. The nature of expense is only to be considered.
- 2) Transaction number 4: This is considered as credit sale, because name of the person is given and sale for cash is not given.

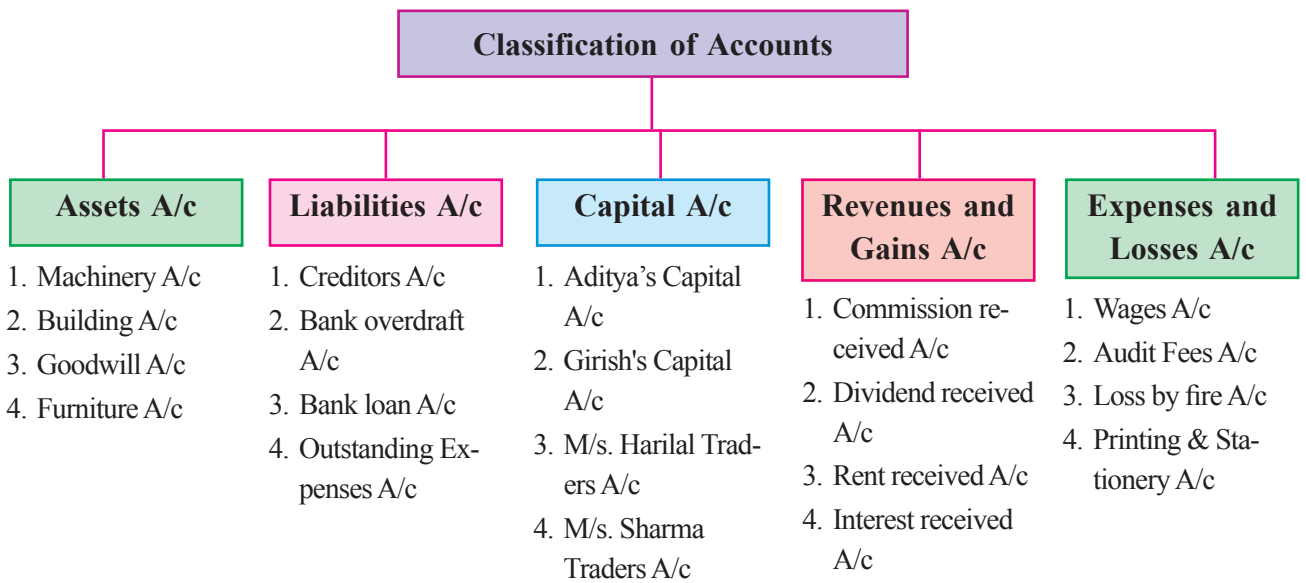
Activity: 02 Fill the following table.

**Analysis of transaction by applying rules of Debit and Credit
(Traditional Approach)**

Sr. No.	Transaction	Two Aspects/ Effects	Accounts Involved	Classification of Accounts	Rules Applied	Account to be Debited	Account to be Credited
1.	Commenced business with Cash ₹ 90,000						
2.	Deposited cash into Dena Bank ₹ 9,000						
3.	Withdrew cash for Personal use ₹ 1,500						

4	Purchased goods from Mandar ₹ 12,000						
5	Paid salary ₹2,900						
6.	Received Interest ₹4,000						

2.6 Classification of Accounts (Modern approach)



In the given chart different types of accounts have been summarized. All accounts are divided into five categories for the purpose of recording the transaction.

Namely - 1) Assets 2) Liabilities 3) Capital
 4) Expenses/Losses 5) Revenues/Gains

Two fundamental rules to be followed to record the changes in these accounts:

- 1) For recording changes in Assets / Expenses / Losses.
 - I) Increase in asset is debited and decrease in asset is credited.
 - II) Increase in expenses/losses is debited and decrease in expenses/ losses is credited.
- 2) For recording changes in liabilities and capital / revenues / Gains.
 - I) Increase in liabilities is credited and decrease in liabilities is debited.
 - II) Increase in capital is credited and decrease in capital is debited.
 - III) Increase in revenues/gains is credited and decrease is revenue/gains is debited.

Analysis of transaction by applying rules of Debit and Credit (Modern Approach)

Sr. No.	Transaction	Two Aspects/ Effects	Accounts Involved	Categories	Rules Applied	Account to be Debited	Account to be Credited
1.	Sanjay Com-menced busi-ness with cash ₹70,000	1) Cash comes in business 2) Propri- etor is giver of the cap- ital	1) Cash A/c 2) Capital A/c	1) Assets A/c 2) Capital A/c	1) Increase in asset 2) Increase in Cap- ital	Cash A/c ---	--- Capital A/c
2.	Rent paid cash. ₹5,000 to Amol.	1) Rent is an ex- penses 2) Cash goes out	1) Rent A/c 2) Cash A/c	1) Expense A/c 2) Asset A/c	1) Increase in ex- pense 2) Decrease in Asset	Rent A/c ---	--- Cash A/c
3.	Withdrew cash from Bank ₹10,000 for office use.	1) Cash comes in 2) Bank is giver	1) Cash A/c 2) Bank A/c	1) Asset A/c 2) Asset A/c	1) Increase in Asset 2) Decrease in Asset	Cash A/c --	--- Bank A/c
4.	Paid wife's mobile bill ₹4200.	1) Drawing is the re- ceiver of benefit 2) Cash goes out.	1) Drawings A/c 2) Cash A/c	1) Capital A/c 2) Asset A/c	1) Decrease in Capi- tal A/c 2) Decrease in Asset	Drawings A/c	--- Cash A/c
5.	Purchased Goods from Sunil ₹13,000	1) Purchase is an ex- pense 2) Sunil is giver	1) Purchas- es A/c 2) Sunil's A/c	1) Expense A/c 2) Liability A/c	1) Increase in ex- pense 2) Increase in Liabil- ity	Purchase A/c ---	--- Sunil's A/c
6.	Received Commission ₹4,500	1) Cash comes in 2) Commis- sion re- ceived is income	1) Cash A/c 2) Com- mission A/c	1) Asset A/c 2) Com- mission A/c	1) Increase in Asset 2) Increase in rev- enue/ gains	Cash A/c ---	--- Commis- sion A/c

Activity: 03 : Fill the following table.**Analysis of transaction by applying rules of Debit and Credit
(Modern Approach)**

Sr. No.	Transaction	Two Aspects/ Effects	Accounts Involved	Catego-ries	Rules Applied	Account to be Deb-ited	Account to be Credited
1.	Rajesh Commenced business with Cash ₹ 80,000						
2.	Paid Telephone bill (Office) ₹ 5,000						
3.	Goods purchased for cash ₹ 8,000.						
4.	Sold goods to Manoj worth ₹ 6,000						
5.	Purchased Machinery from Suresh on credit ₹ 15,000						
6.	Received Rent ₹ 2,500						

2.7 Illustration-I:

State the types of two accounts involved in the following transaction.

- 1) Commenced business with Cash ₹70,000.
 - (i) Cash A/c
 - (ii) Capital A/c
- 2) Deposited Cash into Bank of India ₹10,000.
 - (i) Bank of India A/c
 - (ii) Cash A/c
- 3) Withdrew Cash from Bank of India for Office use ₹5,500.
 - (i) Cash A/c
 - (ii) Bank of India A/c
- 4) Purchased goods for Cash ₹5,000.
 - (i) Purchases A/c
 - (ii) Cash A/c
- 5) Purchased goods on credit from Kiran Stores ₹6,000
 - (i) Purchase A/c
 - (ii) Kiran Stores A/c
- 6) Sold goods for Cash ₹3,000.
 - (i) Cash A/c
 - (ii) Sales A/c
- 7) Sold goods to Rohini ₹9,000.
 - (i) Rohini A/c
 - (ii) Sales A/c
- 8) Received Dividend ₹4,500.
 - (i) Cash A/c
 - (ii) Dividend A/c
- 9) Paid Audit fees ₹1,000.
 - (i) Audit fees A/c
 - (ii) Cash A/c

Illustration – 2

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

1)	Stationery A/c	2)	Mahesh's A/c
3)	Machinery A/c	4)	Capital A/c
5)	Loss by Fire A/c	6)	Pune Municipal Corp. A/c
7)	Building A/c	8)	Bank of Maharashtra A/c
9)	Copyright A/c	10)	Repairs A/c
11)	Laptop A/c	12)	Wages A/c

Solution :

Personal Account	Real Account	Nominal Account
Mahesh's A/c	Machinery A/c	Stationery A/c
Capital A/c	Building A/c	Loss by fire A/c
Pune Municipal Corp. A/c	Copyright A/c	Repairs A/c
Bank of Maharashtra A/c	Laptop A/c	Wages A/c

Illustration – 3

Classify the following accounts under Personal, Real and Nominal Accounts.

1)	Cash A/c	2)	Outstanding Salary A/c	3)	Rohit's A/c
4)	Furniture A/c	5)	Life Insurance Corp. A/c	6)	Goodwill A/c
7)	Prepaid Insurance A/c	8)	Trademark A/c	9)	Commission A/c
10)	Loan A/c	11)	Drawings A/c	12)	Interest A/c

Solution :

Personal Account	Real Account	Nominal Account
Outstanding Salary A/c	Cash A/c	Commission A/c
Rohit's A/c	Furniture A/c	Interest A/c
Life Insurance Corp. A/c	Goodwill A/c	
Prepaid Insurance A/c	Trademark A/c	
Loan A/c		
Drawings A/c		

Illustration – 4

Classify the following accounts under Assets, Liabilities, Income and Expenditure.

- | | | |
|------------------|---------------------------|--------------------------|
| 1) Prepaid Rent | 2) Salary A/c | 3) Bank Loan A/c |
| 4) Motor Car A/c | 5) Rent Payable A/c | 6) Bad Debts A/c |
| 7) Copyright A/c | 8) Interest Received A/c | 9) Dividend Received A/c |
| 10) Premises A/c | 11) Insurance Premium A/c | 12) Audit Fees A/c |

Solution :

Assets	Liabilities	Income/Gains	Expenditure/Loss
Prepaid Rent A/c	Bank Loan A/c	Interest Received A/c	Salary A/c
Motor Car A/c	Rent Payable A/c	Dividend Received A/c	Bad debts A/c
Copy Right A/c			Insurance Premium A/c
Premises A/c			Audit Fees A/c

Illustration – 5

Classify the following accounts into Assets, Liabilities, Income, Expenditure and Capital.

- | | | |
|--------------------------------|----------------------|----------------------|
| 1) Land and Building | 2) Interest Received | 3) Computer |
| 4) Sundry Creditors | 5) Bills Receivables | 6) Discount Allowed |
| 7) Sundry Debtors | 8) Goodwill | 9) Freight |
| 10) Discount Received | 11) Bills Payable | 12) Amit`s Capital |
| 13) Interest on Fixed deposit. | 14) Bank Overdraft | 15) Live Stock |
| 16) Printing & Stationery | 17) Cash at Bank | 18) Rent Received |
| 19) Repairs & Maintenance | 20) Carriage | 21) Outstanding Rent |
| 22) Commission Received | 23) Bank Loan | 24) Electricity Bill |
| 25) Copyright | | |

Solution :

Assets	Liabilities	Income/Gains	Expenditure/Loss	Capital
Land & Building	Sundry Creditors	Interest Received	Discount Allowed	Amit`s Capital
Computer	Bills Payable	Discount Received	Freight	
Bills Receivable	Bank Overdraft	Interest on Fixed deposit.	Repairs & Maintenance	
Sundry Debtors	Outstanding Rent	Rent Received	Carriage	
Goodwill	Bank Loan	Commission Received	Printing and Stationary	
Live Stock			Electricity Bill	
Cash at Bank				
Copyright				

2.8 Accounting Equations:

Accounting equation signifies that assets of a business are always equal to the total of its liabilities and capital.

The equation is expressed as follows-

$$\text{Assets} = \text{Liabilities} + \text{Capital}$$

The fundamental equation gives the foundation to the Double Entry Book-keeping system.

Following are the equations-

$$\text{Capital} = \text{Total Assets} - \text{Outsider's Liabilities}$$

$$\text{Assets} = \text{Capital} + \text{Outsiders Liabilities}$$

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

Example:-

1. Rahul started business with Cash ₹50,000.

The accounting equation will be-

$$\begin{aligned} \text{Assets} &= \text{Capital} + \text{Liabilities} \\ \text{Cash} &= \text{Capital} + \text{Liabilities} \\ ₹50,000 &= ₹50,000 + 0 \\ ₹50,000 &= ₹50,000 \end{aligned}$$

2. Rahul purchased Machinery from H.P. Co. on credit of ₹10,000.

The accounting equation will be-

$$\begin{aligned} \text{Assets} &= \text{Capital} + \text{Liabilities} \\ \text{Cash} + \text{Machinery} &= \text{Capital} + \text{Sundry Creditors} \\ ₹50,000 + ₹10,000 &= ₹50,000 + ₹10,000 \\ ₹60,000 &= ₹60,000 \end{aligned}$$

3. Rahul purchased goods ₹20,000.

The accounting equation will be-

$$\begin{aligned} \text{Assets} &= \text{Capital} + \text{Liabilities} \\ \text{Cash} + \text{Machinery} + \text{Stock} &= \text{Capital} + \text{Sundry Creditors} \\ \text{Old Bal.} ₹50,000 + ₹10,000 + 0 &= ₹50,000 + ₹10,000 \\ \text{New Transaction} ₹30,000 + ₹10,000 + ₹20,000 &= ₹50,000 + ₹10,000 \\ \text{New Balance.} ₹30,000 + ₹10,000 + ₹20,000 &= ₹50,000 + ₹10,000 \\ ₹60,000 &= ₹60,000 \end{aligned}$$

Illustration–1:

Show the accounting equation for the following transactions.

- 1) Rohit Sharma started business with cash ₹50,000.
- 2) Purchased goods from Dhoni on credit ₹10,000
- 3) Sold goods to Virat on credit ₹20,000.
- 4) Received Dividend ₹500.
- 5) Paid for Advertisement ₹500

Solution :

Transaction		Assets (₹)	=	Liabilities (₹)	+	Capital (₹)
1	Rohit Sharma started business with cash ₹ 50,000	50,000	=	0	+	50,000
		50,000	=	0	+	50,000
2	Purchased goods from Dhoni on credit ₹ 10,000	(+) 10,000	=	10,000	+	0
		60,000	=	10,000	+	50,000
3	Sold goods to Virat on credit ₹20,000.	(-) 20,000	=			
		(+) 20,000	=	0	+	0
		60,000	=	10,000	+	50,000
4	Received Dividend ₹ 500	(+) 500	=	0	+	(+)500
		60,500	=	10,000	+	50,500
5	Paid for Advertisement ₹ 500	(-) 500	=	0	+	(-) 500
		60,000	=	10,000	+	50,000
	Total	60,000	=	10,000	+	50,000

Illustration– 2:

Give the accounting equation for the following transactions-

- 1) Rupali commenced business with bank balance ₹ 25,000.
- 2) Purchased Machinery for cash ₹ 5,000.
- 3) Bought goods from Swara worth ₹ 3,000 on credit.
- 4) Paid for Salaries ₹ 3,000.
- 5) Received Interest ₹ 200.

Solution :

Transaction		Assets (₹)	=	Liabilities (₹)	+	Capital (₹)
1)	Rupali commenced business with bank balance ₹25,000.	25,000	=	0	+	25,000
		25,000	=	0	+	25,000
2)	Purchased Machinery for cash ₹5,000	(+) 5,000	=			
		(-) 5,000	=	0	+	0
		25,000	=	0	+	25,000
3)	Bought goods from Swara worth ₹3,000 on credit	(+) 3,000	=	3,000	+	0
		28,000	=	3,000	+	25,000
4)	Paid for Salaries ₹3,000	(-) 3,000	=	0	+	(-)3,000
		25,000	=	3,000	+	22,000
5)	Received Interest ₹200	(+) 200	=	0	+	(+) 200
	Total	25,200	=	3,000	+	22,200

Illustration– 3:**Give the accounting equation for the following transactions-**

- Arjun started business with Cash ₹90,000.
- Purchased Motor Car on credit from Honda Co. for ₹30,000.
- Purchased goods from Karan worth ₹10,000 on credit.
- Goods destroyed by fire ₹1,000.
- Depreciation on Motor Car for 1 year is ₹1,000.
- Goods sold for cash ₹5,000.

Transaction		Assets (₹)	=	Liabilities (₹)	+	Capital (₹)
1)	Arjun started business with Cash ₹90,000	90,000	=	0	+	90,000
		90,000	=	0	+	90,000
2)	Purchased Motor Car on credit from Honda Co. for ₹30,000.	(+) 30,000	=	30,000	+	0
		1,20,000	=	30,000	+	90,000
3)	Purchased goods from Karan worth ₹10,000 on credit.	(+) 10,000	=	10,000	+	0
		1,30,000	=	40,000	+	90,000
4)	Goods destroyed by fire ₹1,000.	(-) 1,000	=	0	+	(-)1,000
		1,29,000	=	40,000	+	89,000

5)	Depreciation on Motor car for 1 year is ₹1,000.	(-) 1,000	=	0	+	(-) 1,000
6)	Goods sold for cash ₹5,000	1,28,000	=	40,000	+	88,000
		(-)5,000		0		0
		(+)5,000				
	Total	1,28,000	=	40,000	+	88,000

Illustration– 4:

Give the accounting equation for the following transactions-

- 1) Nima started business with cash ₹60,000
- 2) Deposited cash into Bank of India ₹2000
- 3) Additional capital brought by Nima ₹7,000
- 4) Purchased goods from Varma worth ₹10,000
- 5) Sold goods to Karma ₹7,000
- 6) Paid Carriage ₹5,000
- 7) Received Interest ₹200.

Solution :

Transaction		Assets (₹)	=	Liabilities (₹)	+	Capital (₹)
1)	Nima started business with cash ₹60,000.	60,000	=	0	+	60,000
		60,000	=	0	+	60,000
2)	Deposited cash into Bank of India ₹2000.	(-) 2,000	=	0	+	0
		(+)2,000				
		60,000	=	0	+	60,000
3)	Additional capital brought by Nima ₹ 7,000.	(+) 7,000	=	0	+	(+) 7,000
		67,000	=		+	67,000
4)	Purchased goods from Varma worth ₹10,000.	(+) 10,000	=	(+) 10,000		
		77,000	=	10,000	+	67,000
5)	Sold goods to Karma ₹ 7,000.	(-) 7,000				
		(+)7,000				
		77,000	=	10,000	+	67,000
6)	Paid Carriage ₹5,000.	(-) 5,000	=	0	+	(-) 5,000
		72,000	=	10,000	+	62,000
7)	Received Interest ₹200.	(+) 200	=	0	+	(+) 200
	Total	72,200	=	10,000	+	62,200

Illustration– 5:

Show the accounting equation for the following transactions-

- 1) Mr. Mehta started business with ₹80,000
- 2) Purchased goods on credit from Ashwin ₹12,000.
- 3) Purchased Furniture from S.M Furniture Mart on credit ₹6,000
- 4) Sold goods to Anand worth ₹10,000.
- 5) Withdrew cash for personal use ₹2,500
- 6) Sold goods costing ₹12,000 at profit of ₹2,000.

Solution :

Transaction		Assets (₹)	=	Liabilities (₹)	+	Capital (₹)
1)	Mr. Mehta started business with ₹80,000.	80,000	=	0	+	80,000
		80,000	=	0	+	80,000
2)	Purchased goods on credit from Ashwin ₹12,000.	(+) 12,000	=	(+) 12,000	+	0
		92,000	=	12,000	+	80,000
3)	Purchased Furniture from S.M Furniture Mart on credit ₹6,000.	(+) 6,000	=	(+) 6,000	+	0
		98,000	=	18,000	+	80,000
4)	Sold goods to Anand worth ₹10,000.	(-) 10,000	=	0	+	0
		(+)10,000	=	0	+	0
5)	Withdraw cash for personal use ₹2,500	98,000	=	18,000	+	80,000
		(-) 2,500	=	0	+	(-) 2,500
6)	Sold goods costing ₹12,000 at a profit of ₹2,000.	95,500	=	18,000	+	77,500
		(-) 12,000	=	0	+	(+) 2,000
		(+)14,000	=	0	+	(+) 2,000
Total		97,500	=	18,000	+	79,500

Activity : 04

Show the accounting equation for the following transactions and fill the table.

- 1) Mr. Manohar started business with ₹ 75,000.
- 2) Purchase Stationery ₹ 1,000
- 3) Bought goods ₹ 6,000 from Mohan.
- 4) Sold goods to Radha ₹ 10,000.
- 5) Purchase Mobile For business ₹ 2,000.
- 6) Sold goods costing ₹ 20,000 at a profit of ₹ 5,000.
- 7) Paid salary ₹ 2,500.

Transaction		Assets	=	Liabilities	+	Capital



Activity: 05

In your college there are some basic rules and regulations to be followed by everyone. What will happen if the rules are broken? What will happen if there are no such rules?



EXERCISE



Q.1 Answer in one sentence only.

- 1) What is Double Entry System?
- 2) What is an Account?
- 3) State the meaning of Single Entry System.
- 4) What is Personal Account?
- 5) State the rule of Nominal Account.
- 6) Give two examples of intangible assets?
- 7) State the meaning of Real Account.
- 8) Give two examples of income and gains.
- 9) State the rule of Personal Account.
- 10) How many methods of recording accounting information are there?

Q.2 Write one word / term or phrase which can substitute each of the following statement.

- 1) Method of Accounting which records both aspect of transaction.
- 2) Right hand side of an account.
- 3) Name of the account which is debited when proprietor uses business money for personal use.
- 4) Accounts of Assets and Properties.
- 5) Accounts of Expenses and Losses and Incomes and Gains.
- 6) Left hand side of an account.
- 7) The Assets which cannot be seen, touched or felt.
- 8) Person who invented the Double Entry System.
- 9) Incomplete system of recording business transactions.
- 10) Scientific system of recording business transactions.

Q.3 Select the most appropriate alternatives from those given below and rewrite the statements.

- 1) International Accounting day is observed on
 - a) 10th November
 - b) 12th November
 - c) 10th December
 - d) 15th December
- 2) Conventional system of accounting is
 - a) English entry system
 - b) Double entry system
 - c) Indian system
 - d) None of these
- 3) Every debit has corresponding
 - a) Debit
 - b) Credit
 - c) Right hand side
 - d) None of these
- 4) Radha's Account is a type of account.
 - a) Nominal
 - b) Personal
 - c) Real
 - d) Expenses
- 5) Machinery Account is account.
 - a) Nominal
 - b) Income
 - c) Personal
 - d) Real
- 6) Goodwill is asset.
 - a) Tangible
 - b) Current
 - c) an intangible
 - d) None of these
- 7) Prepaid expenses is account.
 - a) Real
 - b) Personal
 - c) Nominal
 - d) Income

- 8) Debit the receiver, Credit the
 a) Goes out b) Giver c) Income and gains d) Comes in
- 9) Debit what comes in, Credit what
 a) Giver b) Expenses and losses
 c) Goes out d) Income and gains
- 10) Debit all and Credit all income and gains.
 a) Giver b) Expenses and losses c) Goes out d) None of these

Q.4 State whether the following statements are True or False with reasons.

- 1) Outstanding expense is nominal account.
- 2) Capital account is a real account.
- 3) Every debit has equal and corresponding credit.
- 4) Discount received is a nominal account.
- 5) Drawings account is a nominal account.
- 6) Outstanding salary is a nominal account.
- 7) Loan account is personal account.
- 8) Goodwill account is a real account.
- 9) Trade discount account is a nominal account.
- 10) Personal transactions of proprietor are recorded in the books of account of business.
- 11) Motor car account is a Real Account.
- 12) The rule of Nominal Account in Debit the receiver and Credit the giver.
- 13) Bank loan account is a Nominal account.
- 14) $\text{Assets} = \text{Capital} + \text{Liabilities}$
- 15) Trademark account is a personal account.

Q.5 Fill in the blanks.

- 1) Increase in asset is debited and decrease in asset is
- 2) $\text{Assets} = \text{Liabilities} + \dots\dots\dots$
- 3) Increase in capital is credited and decrease in capital is
- 4) Scientific and complete system of recording is known as
- 5) Debit all expenses and losses, Credit all
- 6) Land and Building account is account.
- 7) Cash Book and Personal Accounts are only maintained under system.

- 8) Debit what comes in and credit what goes out is the rule of account.
- 9) Travelling expenses account is type of Account.
- 10) Every transaction has effect.
- 11) accounts are accounts of properties and assets.
- 12) Laptop account is a account.

Q.6 Classify the following accounts under the types of Personal, Real and Nominal account.

- | | |
|--|--|
| 1) Mr. Rohit's capital A/c | 2) Loose Tools A/c |
| 3) Drawing A/c | 4) Cartage A/c |
| 5) Prepaid Rent A/c | 6) Copyright A/c |
| 7) Patent A/c | 8) Outstanding Income A/c |
| 9) Prepaid Expenses A/c | 10) Commission Received A/c |
| 11) Freight A/c | 12) Plant and Machinery A/c |
| 13) Sundry Income A/c | 14) Live Stock A/c |
| 15) Goods distributed as free sample A/c | 16) Radhika's A/c |
| 17) Outstanding Wages A/c | 18) Loss on Sale of Furniture A/c |
| 19) Bank of Maharashtra A/c | 20) Loan A/c |
| 21) Computer A/c | 22) Legal Expenses A/c |
| 23) Fixed Deposit A/c | 24) Income Receivable A/c |
| 25) Audit Fees A/c | 26) Trademark A/c |
| 27) Loss by fire A/c | 28) Motor Car A/c |
| 29) Income tax A/c | 30) GST A/c (Goods and Service Tax) |
| 31) Siddhivinayak Trust A/c | 32) Office Equipment A/c |
| 33) Stock of Stationery A/c | 34) Indian Railways A/c |
| 35) Income Received in Advance A/c | 36) Dividend on Investment Advance A/c |
| 37) Discount A/c | 38) Raj & company A/c |
| 39) Repairs A/c | 40) Royalty A/c |

Q.7 Complete the following Accounting equation table.

Transaction	Assets (₹)	=	Liabilities (₹)	+	Capital (₹)
1. Started business with Cash ₹ 50,000	?	=	?	+	50,000
2. Purchased goods of ₹ 10,000	?	=	?	+	?
3. Goods stolen ₹ 1,000	?	=	?	+	?
4. Sold goods for cash ₹ 5,000	?	=	?	+	?
5. Loan taken from Bank ₹ 7,000	?	=	?	+	?

Q.8 Give necessary transactions for the following effect of increase and decrease in Assets, Capital and Liabilities.

- | | | |
|----|----------------------|---|
| 1) | <input type="text"/> | Increase in Assets
Decrease in Assets |
| 2) | <input type="text"/> | Increase in Capital
Decrease in Assets |
| 3) | <input type="text"/> | Decrease in Liabilities
Decrease in Assets |
| 4) | <input type="text"/> | Decrease in Assets
Decrease in Capital |

PRACTICAL PROBLEMS

Q. 1 Prepare a chart showing Analysis of the following transactions in a Tabular form according to Traditional Approach:

- Rajasaheb started business with cash ₹ 85,000.
- Goods Purchased for cash ₹ 5,000.
- Sold goods on credit worth ₹ 6,000.
- Cash deposited into Bank of Maharashtra ₹ 12,000.
- Interest received ₹ 700 from Radhika.
- Paid Rent ₹ 2,000 to landlord.
- Bought goods on credit from Birajmohan ₹7,000.
- Withdrew cash from bank ₹ 1,000 for office use.
- Purchased computer ₹ 9,000 for cash.
- Paid Mobile bill (office) ₹ 500.
- Sold old Mobile ₹ 2,000.
- Received Rent ₹ 1,000 from tenant.

Q. 2 Prepare Chart showing Analysis of the following transaction in a Tabular form according to Modern Approach.

1. Mr. Meghraj started business with cash ₹ 30,000.
2. Deposited cash into Bank of India ₹ 2,000.
3. Withdrew cash ₹ 1,000 for personal use.
4. Purchased goods on credit from Nilesh ₹ 2,000.
5. Cash purchases ₹ 3,000.
6. Paid Wages ₹ 400.
7. Purchase a chair for office use ₹ 3,200.
8. Sold goods to Mohan worth ₹ 1,200.
9. Withdrew Cash for Office use ₹ 3,000.
10. Sold old furniture ₹ 9,000.
11. Received Dividend of ₹ 1,000.
12. Paid for Printing bill book ₹ 200.

Q.3 Give the accounting equation for the following transactions:

1. Mr. Vaibhav started business with Cash ₹ 1,00,000.
2. Purchased goods on credit from Rita Stores ₹ 9,000.
3. Purchase Laptop for office use ₹ 10,000.
4. Sold goods to Rina on credit ₹ 12,000.
5. Received Interest ₹ 2,500
6. Paid Telephone bill ₹ 1,300.

Q. 4 Give the accounting equation for the following transactions.

1. Mr. Swaraj commenced business with Bank balance ₹ 1,10,000.
2. Purchased Furniture on credit from S.M Furniture Mart ₹ 25,000.
3. Bought goods on credit from Yuvraj ₹ 15,000.
4. Purchased Machinery ₹ 10,000.
5. Paid Electricity bill ₹ 3,500.
6. Goods destroyed by fire ₹ 1,500.

Q. 5 Show accounting equation for the following transactions:

1. Rohit started business with cash ₹ 50,000.
2. Bought goods on credit from Manoj ₹ 6,000.
3. Cash purchases ₹ 5,000.
4. Paid wages ₹ 3,000 to Casual labour.
5. Sold goods to Santosh ₹ 7,000 on credit.
6. Received Commission ₹ 1,000 from Vaishali.



3

Journal

Contents

- 3.1 *Meaning, Importance and Utility of Accounting Documents.*
- 3.2 *Meaning, Definition, Importance and Utility of Journal.*
- 3.3 *Specimen of Journal.*
- 3.4 *Recording of Journal entries with GST.*

Competency Statements

- Students are able to prepare accounting documents*
- Students can get ability to analyse the effect of each transactions.*
- Students become familiar with the standard form and arrangement of Journal entries.*
- Students can calculate GST on purchase of goods.*
- Students can calculate GST on sale of goods.*
- Students are able to prepare Journal Entries correctly.*

3.1 Introduction:

Book Keeping records all day to day business transactions on the basis of supporting documents. The word 'document means a piece of paper which provides detailed information as a legal nature . Document is a legal proof for recording every transaction e.g. when we purchase computer for cash ₹30,000 we get the cash memo , this cash memo is a source document. The person or accountant first ensure the reliability and legal proof of the transactions recorded in the books of accounts .Every entry in books of accounts is supported by the relevant documentary evidence . These papers are called 'Accounting documents' . The accounting documents are the base for entering business transactions into the books of accounts

Importance and utility of Accounting documents

1. Documents are necessary for recording all transactions into the books of accounts.
2. The accounting transactions are recorded in proper mode and computer based.
3. Accounting documents are stored in physical files or in software.
4. Accounting documents are legal evidence for court matters.
5. Accounting documents are required for charity commissioner's office.
6. Accounting documents are required for payments of state government and local body authority.

The most important Accounting Documents for recording transactions in Journal are as follows :

VOUCHER :

Voucher is a document that supports a payment made by the businessmen . It is a legal evidence that certain sum of money has been paid to a specific person or party. There are different types of vouchers prepared by the businessmen e.g. Cash voucher, Bank voucher, Purchase vouchers, Sales Vouchers, Travel bills, Wages bill, Salaries bill etc.

There are two types of vouchers internal voucher and external voucher.

Internal vouchers: The internal vouchers are documents prepared internally by an organisation. The voucher which is created by the business itself and signed by the payee is called as an internal voucher. It is prepared when we cannot get receipt as proof for such a transactions. e.g. Taxi fare, Bus fare, Auto fare etc.

External voucher: These vouchers are documents generated from outside the business. It is a document received from an outside agency regarding the business transactions. e.g. Tax Invoice received from the seller for the purchase of goods or stationary, Receipt of electricity bills paid, Debit Note, Credit Note, Cash memo etc.

Journal voucher: Journal voucher is basic/original voucher on the basis of which the transactions should be Journalised in journal book.

Specimen of Journal voucher

Journal voucher

Name of the firm _____	
Voucher no. : _____	Transaction no. : _____ Date : _____
Name of debit account : _____	
Name of credit account : _____	
Particulars	Amount (₹)
Amount In words ₹ _____	
Approved by _____	Authorised by _____ Sign _____

Cash voucher

Meaning: The evidence of cash payments and cash receipts is called cash voucher. When the amount is spent in cash ,one should prepare a voucher. If any document from the payee is obtained then that itself can be treated as a voucher it may be prepared for the payment and external document may be attached to the same. It is a document on the basis of which entries will be made in the Cash Book.

CASH VOUCHER
Nakul & Company

Voucher no. : _____ Bandra Road, Mumbai Date : _____

G.S.T. I.N. No. : _____

Pay to _____

on account of _____

Debit account _____

Total ₹ _____ only

Amount ₹

Prepared by _____ Passed by _____ Receiver sign _____

TAX INVOICE

Meaning of Tax Invoice : Tax Invoice is a document prepared by the seller to inform the buyer about the quantity supplied, rates and terms of payment at which goods are supplied trade discount if any allowed, CGST and SGST and the total amount payable by him. It is 'purchase invoice' or inward invoice for the buyer and 'sales invoice' or outward invoice for the seller. Entries in the Purchase Books are made on the basis of the purchase invoices received. Entries in the Sales Book are made on the basis of sales invoices. Tax invoice is sent by the seller to the buyer when goods are supplied by him.

Specimen of Tax Invoice

Tax invoice
Sunil General Stores

Cash bill No.: _____ Shop no. 5 Laxmi road, Pune

G.S.T. I.N. No. : _____ Date: _____

Name : (Customer Name) _____

Address : _____

Sr. No.	Particulars	HSN No.	Rate	Qty	Taxable amount	CGST %	SGST %	Total Amount (₹)

Rupees (in words) _____

Bank Details : _____

Bank Name : _____

Branch IFSC Code : _____

A/c No. : _____

E & O.E. _____ Signature _____

CREDIT MEMO

A Credit Memo is also known as an Invoice or bill . When goods are purchased on credit basis a seller prepares the credit memo (sales Invoice or tax Invoice) and sends it to the customer along with the articles .When same memo is issued to the buyer it is called ‘Inward Invoice’ and the same is treated as ‘Outward Invoice’ by the seller. Therefore a credit memo is a statement given by the seller to the customer providing the details of goods sold for which certain amount becomes due from the customer. In the Purchase Book and the Sales Book entries are made on the basis of an invoice

RECEIPT:

Meaning : In modern business to increase the profit the businessmen sells goods on credit but the payment will be made on future date . At the time of making payment the receiver is required to acknowledge the payment for this purpose a document is prepared called as receipt .On the basis of this document entries will be made in the Cash Book.

RECEIPT	
Balaji and Sons	
Somwar Peth, NASIK	
	Receipt no----- Date-----
G.S.T.I.N. No. :-----	
Received with thanks from M/s-----	
a sum of ₹-----by cash/cheque/D.D./NEFT/R.T.G.S.	
No.-----Dated-----Drawn on-----	
in part/full payment of bill No.-----	
<div style="border: 1px solid black; width: 150px; height: 30px; display: flex; align-items: center; justify-content: center;">₹</div>	STAMP
Subject to realisation of cheque	ReceiversSignature

CHEQUE

While dealing with business transactions businessmen use different types of cheques to make payments and for sending money from one place to another. Cheque book facility is given by the bank to its account holders who maintains a certain minimum balance.

A cheque is an order issued by the account holder to his banker to pay on demand a stated sum of money to or to the order of specified person or to the bearer. The printed cheque book is issued by the Bank to the Account holder as per his requirement.

Definition of Cheque

“A cheque is a written unconditional order signed by the Account holder directing a specific Banker to pay on demand certain sum of money only to a person named there in or to the bearer”.

Parties to a Cheque

There are three parties to cheque

- (a) **The Drawer:** The person who draws a cheque is called as drawer.
- (b) **The Drawee:** The bank on whom the cheque is drawn is called a drawee. The drawee is always the bank.
- (c) **The Payee:** The person in whose favour a cheque is issued is called as a payee.

Contents of Cheque

- 1) Name of the Bank and address of the branch.
- 2) The date of issuing cheque.
- 3) Name of the payee.
- 4) Amount in words and figures.
- 5) Name and signature of account holder.
- 6) Cheque number.
- 7) MICR number.
- 8) IFSC code.
- 9) Account number.

Types of Cheques

A cheque may be

- 1) Bearer cheque 2) Order cheque 3) Crossed cheque

- 1) **Bearer Cheque:** Any person who can get the payment of the cheque at the counter of the bank is called as a bearer cheque. Any person who holds the cheque and is physically present at the counter and signs the same in front of the banker can get the amount of cheque.

Specimen of a Bearer Cheque

											DD MM YY
Pay _____											OR BEARER
RUPESS _____											
A/C NO.											₹
State Bank of India, M.G. Road, Mumbai. IFSC No. SBIN1234001.											Signature
“ 123456” 4110150351: 00796411											

- 2) **Order cheque** : When a cheque is drawn payable to a specific person or order is called as an order cheque. The payment of order cheque is made by the bank to the person's name mentioned therein or to any other person ordered by him. When the word Bearer is struck off it becomes an Order Cheque.

Specimen of an Order Cheque

											DD MM YY
Pay _____											OR BEARER
RUPESS _____											
A/C NO.											₹
State Bank of India, M.G. Road, Mumbai. IFSC No. SBIN1234001.											Signature
“ 123456” 4110150351: 00796411											

- 3) **a) Crossed Cheque:** For the safe interest of the account holder and the drawee drawing two parallel, transverse lines on the face of the cheque is called as a crossed cheque. Crossed cheque has to be deposited into bank account and payment is made only through the bank. The effect of this cheque is that the payment of cheque is received by the right person.

Specimen of a Crossed Cheque

	DD MM YY																					
Pay _____	OR BEARER																					
RUPESS _____																						
A/C NO. <table border="1" style="display: inline-table; border-collapse: collapse; text-align: center; width: 100px; height: 15px;"><tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr></table>																					₹ <table border="1" style="display: inline-table; border-collapse: collapse; width: 100px; height: 15px;"><tr><td> </td></tr></table>	
State Bank of India, M.G. Road, Mumbai. IFSC No. SBIN1234001. " 123456" 4110150351: 00796411		Signature																				

- 3) **b) Crossed Account Payee Cheque:** A crossed account payee cheque is similar to the crossed cheque. In this type of cheque specific person/ organisation deposited cheque into the bank and the amount is credited to his specific account only. When two parallel lines across the cheque are drawn with the word "Account payee" only it is called as a crossed account payee cheque.

Specimen of a Crossed Account Payee Cheque

<i>A/c payee</i>	DD MM YY																					
Pay _____	OR BEARER																					
RUPESS _____																						
A/C NO. <table border="1" style="display: inline-table; border-collapse: collapse; text-align: center; width: 100px; height: 15px;"><tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr></table>																					₹ <table border="1" style="display: inline-table; border-collapse: collapse; width: 100px; height: 15px;"><tr><td> </td></tr></table>	
State Bank of India, M.G. Road, Mumbai. IFSC No. SBIN1234001. " 123456" 4110150351: 00796411		Signature																				

3.2 Meaning, Definition, Importance and Utility of Journal

Introduction :

Everyday businessmen performs large number of transactions. These transactions cannot be remembered at a glance. Therefore these transactions must be recorded in different types of books. He keeps different accounting records. The number of books depends upon the size and nature of business and volume of transactions but important books of accounts which must be maintained by every businessmen are Journal and Ledger. Journal is a book employed to classify or sort out transaction in a form convenient for their subsequent entries in Ledger Journal keeps record of daily financial transaction . It is also known as Book of Original Entry. When the Journal transactions are recorded in the Journal it becomes Journal entry .Journal entries consist of the name of debit and name of credit involved in the financial transaction with a brief narration. Journal is a book in which the business transactions are first recorded in a chronological order i.e. Date wise in the order in which they take place.

Generally the different types of Books of Accounts are maintained by a businessman for recording the business transactions. He maintain primary books and secondary books, Primary books includes Journal proper and special Journal which includes Purchases Books ,Sales Book, Purchase Return Book, Sales Return Book, Bills Receivable Book, Bills Payable Book and Secondary Book includes Journal Ledger.

3.2.1 Meaning:

The word “Journal” is derived from the French word “JOUR” which means a “Day”. Therefore journal means a “daily record”. A journal contains a daily record of business transactions and hence it has been named so, as soon as a transaction takes place its debit and credit aspects are analyzed and first of all recorded chronologically i.e. In the order of their occurrence(taking place). Journal is a book of original entry or primary entry.

Definition :

- 1) According to **L.C.Cropper** “A journal is a book, employed to classify or sort out transactions in a form convenient for their subsequent entry in the Ledger”
- 2) According to a Dictionary for Accountant written by **Eric Kohler** “A Journal is the book of original entry are recorded transaction not provided for in specialised journals”.

3.2.2 Importance and utility of Journal:

Journal is an important book in Book-keeping. All business organisations, keep the Journal. The importance and utility is as follows:-

- 1) This is the principal book of account. It includes all types of accounts of business
- 2) It shows all necessary information regarding transactions.
- 3) The Journal has date wise record of all the transactions with details about accounts it helps to understand the events when its took place.
- 4) The Journal is subsidiary book in which all the day to day transactions are recorded first in chronological order in debit and credit form and with the amount of each transaction.

- 5) Accounting procedure is followed on the basis of accounting documents.
- 6) The narration provides a brief explanation about the transactions .It helps to increase the clarity of every transactions.
- 7) It helps to find and prevent errors.
- 8) It helps to check arithmetical accuracy of the transactions.
- 9) It helps in preparation of Final Accounts.

3.3 Specimen/ Format/ Ruling/ Proforma of Journal is given below-

Journal of -----

Date	Particulars	L.F.	Debit Amount ₹	Credit Amount ₹
Year Month/ Date	Name of the account debited To Name of account credited (Being.....)	Dr.		

Explanation of columns:

- 1) **Date:** In this column of Journal records of the year, month and date of every transaction is written. The year should be written at the top and below that the month and date should be written.
- 2) **Particulars: In particular column the Journal entry is passed in three parts**
 - i) **Debit A/c :** It records the name of the account to be debited
 - ii) **Credit A/c :** It records the name of the account to be credited

This is decided by applying the rules of Debit and Credit. The account to be debited is always written first. The word “Dr” is written in front of debited account just near L.F. Column. The account to be credited is written on the next line beginning with the word “To” after leaving short space just near date column. Narration is to be written just below the journal entry.
 - iii) “Narration is a brief explanation of the Journal Entry”. It is written in the bracket and begins with word, ‘Being’
- 3) **Ledger Folio Number :** It means page number of the ledger.

The transaction entered in the journal are posted to the Ledger. In this column the page number should be recorded against each and every account at the time of posting in ledger. The Folio number may be written in ‘red ink’ to distinguish them from the amount
- 4) **Debit Amount:** In this column the amount of debit account is written.
- 5) **Credit Amount :** In this column the amount of credit account is written

Casting of Journal: At the end of each page of Journal, the total of debit amount and credit amount column is taken to check arithmetical accuracy of the transaction. The totals of both the columns must be equal.

After recording Journal Entries, at the end of each page the total of amount columns is carried forward to the next page by writing the words Total c/f in particulars column. The next page will begin with the total brought forward from previous page, by writing the words Total b/f, on the last page of journal 'Grand Total' is casting.

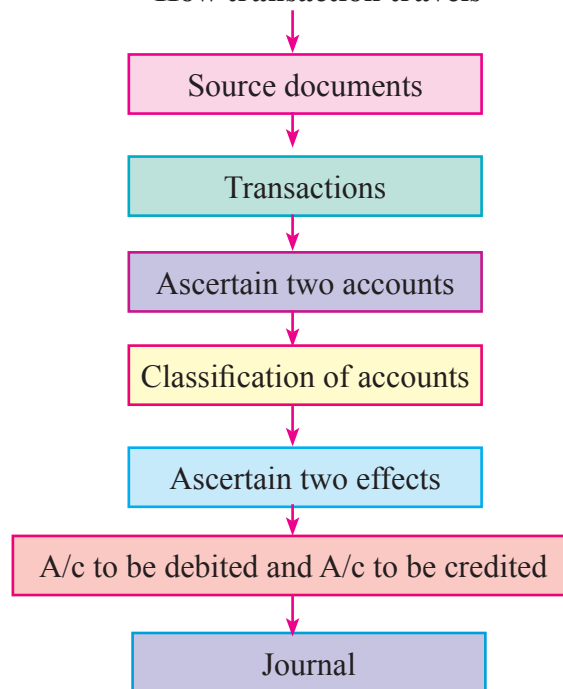
Journalising:

The process of entering or recording the transaction in a Journal is called as journalising.

Steps for Journalising:

- 1) Find out the accounts involved in a particular transaction.
- 2) Find out the types of account involved.
- 3) Apply the rules of debit and credit for each of the accounts involved.
- 4) Find out the account to be debited and the account to be credited.
- 5) Record the date of the transaction in the "Date column".
- 6) The name of the account to be debited is to be written in "Particulars" column. On first it is written close to the date column and name of the account to be credited is written on the next line after leaving short space from the date column.
- 7) The word 'Dr.' is written against the name of the account debited and the name of the account to be credited is preceded by the word 'To'.
- 8) Write the amount of transaction in debit column and credit column.
- 9) A brief explanation of the entry is given in the bracket just below the entry.
- 10) After each Journal entry a line is to be drawn in particulars column only to keep the entries of the transactions distinctly separate from each other.
- 11) L.F.(Ledger Folio) The page number on which the particular account is opened in the Ledger is stated under the L.F. Column to facilitate easy reference.

How transaction travels



3.3.1 GST:



GST stands for Goods and Service Tax. Before GST every State had variety of taxes levied at different stages of trading. Taxes that existed before were Excise Duty, Custom Duty, VAT, Entertainment Tax, Central Sales Tax, Service Tax, Octroi etc. All these taxes are included under GST, that is why GST is One nation, One tax, One market. GST is started from 1st of July 2017.

In the tax invoice for Goods, there is HSN i.e. Harmonised System of Nomenclature code while in service invoice there is SAC. Services are also classified and special code numbers are given. These are called SAC or Service Accounting Code.

Sr. No.	Types	Rate of GST	Goods and services items list
1	Zero rated	0%	Goods : Essential Commodities like food grains, fruits, vegetables, milk, salt, earthen pots etc. Services : Charitable trust activities, transport of water use of roads and bridges, public library, agriculture, related services, Education and Health care services etc.
2	Low rated	5%	Goods : Commonly used items- LPG cylinder, Tea, coffee, oil, Honey, Frozen vegetables, spices, sweets etc. Services : Railway transport services, bus transport services, taxi services.
3	Standard rated (I slab)	12%	Goods : consumer goods: butter, ghee, dry fruit, jam, jelly, sauces, pickles, mobile phone etc. Services : Printing Jobwork, Guest house, Services, related to construction business.
4	Standard rated (II slab)	18% (most of the goods and services are included)	Goods : Marble, Granite, Perfumes, Metal items, Computer, Printer, Monitor, CCTV etc. Services : Courier services, Outdoor catering, Circus, Drama, Cinema, Exhibitions, Currency exchange, Broker Services in share trading etc.
5	Highly rated	28%	Goods : Luxury items, Motor Cycles and spare parts, Luxury cars, Pan-masala, Vacuum cleaner, Dish washer, AC, Washing machine, Fridge, Tobacco products, Aerated water etc. Services : Five star Hotel accommodation, Amusement parks, Water parks, Theme parks, Casino, Race course, IPL games, Air transport (business class) etc.

Note : The rates and types of GST are as prescribed by the government. GST rates are subject to change. Electricity, petrol, diesel etc are not under purview of GST.

Example 1: Purchased Laptop from Jalaram and Company worth ₹ 50,000 at 18% GST and amount paid by cheque

	Cost of Laptop	=	₹ 50,000	
Add :	CGST 9%	=	₹ 4,500	
	SGST 9%	=	₹ 4,500	
	Net value	=	₹ 59,000	

Journal Entry

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
Year Month/ Date	Laptop A/c	Dr.	50,000	59,000
	Input CGST A/c	Dr.	4,500	
	Input SGST A/c	Dr.	4,500	
	To Bank A/c			
(Being purchased Laptop by cheque at 18% GST)				

Example 2: Sold Motor Car for ₹ 1,00,000 at 28% GST and amount received by cheque

	Cost of Motor Car	=	₹ 1,00,000	
Add :	CGST 14%	=	₹ 14,000	
	SGST 14%	=	₹ 14,000	
	Net value	=	₹ 1,28,000	

Journal Entry

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
Year Month/ Date	Bank A/c	Dr.	1,28,000	1,00,000 14,000 14,000
	To Motor Car A/c			
	To Output CGST A/c			
	To Output SGST A/c			
(Being sold Motor Car and amount received by cheque at 28% GST)				

3.4 Recording of Journal Entries

Goods Account :

The term goods includes commodities purchased by the businessmen for resale .It is generally classified as Purchase A/c, Sales A/c, Return Outward A/c (Purchase Return), Return Inward A/c (Sales Return), Goods withdrawn by proprietors A/c, Goods distributed as free samples A/c, Goods destroyed by fire A/c, Goods damaged/lost in transit A/c, Goods Pilfered or stolen account.

1) Purchase Account : It is an account for recording all purchase of goods for trading/producing activity

There are two types of purchases

- i) Cash Purchases
- ii) Credit Purchases

- i) **Cash Purchases :** When goods are purchased and payment is made to seller immediately, by cash or by bank, it is called as cash purchases.

Example 1: Purchased goods for cash from Mr. Sonu worth ₹ 2,000

In this transaction goods “comes in” on purchasing of goods and therefore purchase A/c is debited on purchase of goods and cash goes out therefore cash A/c credited the entry is as follows

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
Year Month/ Date	Purchase A/c.....Dr. To Cash A/c (Being purchased goods for cash)		2,000	2,000

- ii) **Credit Purchases :** When goods are purchased and payment is to be made in future date to seller i.e. Seller allows a certain period of time to the buyer to make the payment in respect of such purchases it is called as credit purchases.

Example 2: Purchased goods from Mrs Sonali worth ₹ 15,000 on credit.

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
Year Month/ Date	Purchase A/c Dr. To Mrs. Sonali's A/c (Being purchased goods on credit)		15,000	15,000

2) **Return Outward (Purchase Return)Account:**

This account is for recording return of goods purchased.

Sometime goods purchased are returned to the supplier for various reasons like.

- i) Goods are not according to sample
- ii) Goods are of inferior quality.
- iii) Goods are damaged in transit
- iv) Goods are defective.
- v) Goods are received in excess quantity than ordered.
- vi) Delay in supply of Goods.

Thus, when goods purchased are returned to the supplier, it is called as “Return Outward” or "Purchase Return"

Example 3: Returned Goods worth ₹200 to Mrs.Sonali

In this transaction the goods “goes out” on returning of goods to supplier therefore Return Outward Account should be credited

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
Year Month/ Date	Mrs. Sonali's A/c Dr. To Return Outward A/c Purchase Return A/c (Being goods returned)		200	200

3) **Sales:** Sales for the business means goods sold. Sales are classified in the following types-
 a) Cash sales b) Credit sales.

a) **Cash sales:** When goods are sold and money is received immediately, is called as cash sales.

Example 4: Sold goods worth ₹ 5,000 for cash to Mr. Govind.

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
Year Month/ Date	Cash A/c.....Dr. To Sales A/c (Being sold goods for cash to Mr. Govind)		5,000	5,000

b) **Credit sales :** when goods are sold and money will be received on future date it is called as credit sales.

Example 5 : Sold goods to Mr. Govind for ₹ 30,000

Journal entry

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
Year Month/ Date	Mr. Govind's A/c.....Dr. To Sales A/c (Being sold goods on credit)		30,000	30,000

4) **Return Inward (Sales Returns):**When the goods sold to customer are returned by that buyer to the Seller due to various reasons it is called as “Return Inward” or Sales Returned.

Example 6: Govind returned goods worth ₹ 8000 out of goods of ₹ 30,000 purchased by him

Journal entry

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
Year Month/ Date	Return Inward A/c/ Sales Return A/c Dr. To Govind's A/c (Being sold goods returned by Govind)		8,000	8,000

5) **Goods withdrawn by Proprietor**

When the goods are withdrawn by proprietor from the business for his private/personal/ household use. In such case, Drawings Account is debited .The goods withdrawn by proprietor goes out of the business and Goods withdrawn by proprietors A/c credited. The goods which are taken by the proprietor are assumed as taken from the total purchases.

Journal entry

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
Year Month/ Date	Drawing A/c.....Dr. To Good withdrawn by Proprietor A/c or Purchases A/c (Being goods withdrawn by proprietor for personal use)		xxx	xxx

- 6) **Goods distributed as free sample :** It is the value of goods distributed by the firm as free sample as an advertisement. Advertisement A/c is debited and the Goods Distributed as free Sample/Purchases A/c is credited as goods goes out of the business.

Journal entry

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
Year Month/ Date	Advertisement A/c.....Dr. To Good distributed as free sample A/c or Purchases A/c (Being goods distributed as free sample)		xxx	xxx

- 7) **Goods Destroyed by fire/Accident:** If goods are destroyed by fire/accident, it is a physical loss of goods for which Loss by fire A/c is debited and since goods goes out of business, Goods destroyed by fire/purchased A/c is credited.

A) If goods are not Insured (Uninsured) :

- i) When goods destroyed by Fire/ Accident and Insurance Company has not accepted the claim then the entry will be as follows:

Journal entry

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
Year Month/ Date	Loss by fire A/c.....Dr. To Goods destroyed by fire A/c or Purchases A/c (Being goods destroyed by fire)		xxx	xxx

B) If goods are insured:

- i) If full claim is admitted by the Insurance company then the entry will be as follows :

Journal entry

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
Year Month/ Date	Insurance Co. A/c.....Dr. To Goods destroyed by fire A/c or Purchases A/c (Being insurance claim accepted by the company)		xxx	xxx

ii) If the claims is partly admitted by the Insurance Co. then the entry will be as follows:

Journal entry

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
Year Month/ Date	Insurance Co. A/c.....Dr. (Amt. of claim accepted / admitted) Loss by fire A/cDr. (Amt. of loss) To Goods destroyed by fire A/c or Purchases A/c (Being goods destroyed and Insurance co. admitted the claim partly)		xxx xxx	xxx

8) Goods damaged or Lost in transit:

While despatching the goods to the buyer and before it reaches him if there is any damage to the goods in transit due to an accident then it is a physical loss of goods.

Journal entry

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
Year Month/ Date	Loss in transit A/c.....Dr. To Goods lost in transit A/c or Purchases A/c (Being goods lost in transit)		xxx	xxx

i) If goods are insured & full claim is admitted by Insurance co. Then the entry will be are as follows :

Journal entry

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
Year Month/ Date	Insurance Co. A/c.....Dr. (Amt. of claim) To Goods lost in transit A/c or Purchases A/c (Being Insurance company admitted the claim)		xxx	xxx

ii) If the claim is partly admitted by the insurance co. The entry will be as follows :

Journal entry

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
Year Month/ Date	Insurance Co. A/c.....Dr. (Amount of claim admitted)		xxx	xxx
	Loss in transit A/cDr. (Claim not accepted) To Goods lost in transit A/c or Purchases A/c (Being goods lost in transit and partly claim admitted)		xxx	

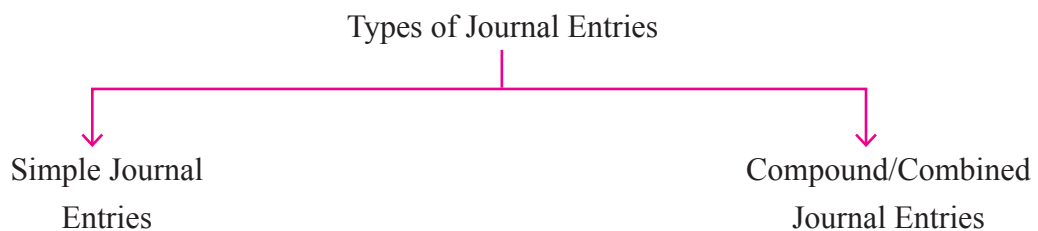
9) Pilfered goods or stolen:

If the goods are pilfered or lost by theft or stolen it becomes physical loss of goods.

Journal entry

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
Year Month/ Date	Loss by theft A/cDr. To Goods lost A/c or Purchases A/c (Being goods lost by theft)		xxx	xxx

3.3 Writing of Journal Entries



1. Simple Journal Entry:

In a simple entry, only two accounts are affected, one account is debited and the other is credited. Few transactions are given below for Simple Journal Entries. The process of journalising can be explained with the following illustration.

Illustration-A

Process of Journalising:

Transactions	Two effect	Two Accounts	Types of Account	Rules Applicable	A/c to be Debited	A/c to be Credited
1. Started business with Cash ₹ 1,00,000	Cash comes in to the business Proprietor is the giver of benefit..	Cash A/c Capital A/c	Real A/c Personal A/c	Dr. what comes in Cr. the giver	Cash A/c	Capital A.c
2. Purchased Computer of ₹ 20,000 for Cash.	Computer comes in Cash goes out	Computer A/c Cash A/c	Real A/c Real A/c	Dr. what comes in Cr. what goes out	Computer A/c	Cash A/c
3. Paid for Wages ₹ 9,000	Wages is an expenses Cash goes out	Wages A/c Cash A/c	Nominal A/c Real A/c	Dr. the expenses/ losses Cr. what goes out	Wages A/c	Cash A/c

Illustration - B :

Journal entries

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
1.	Cash A/c Dr. To Capital A/c (Being started business with cash)		1,00,000 -	- 1,00,000
2.	Computer A/c Dr. To Cash A/c (Being purchased Computer for cash)		20,000 -	- 20,000
3.	Wages A/c Dr. To Cash A/c (Being Wages paid)		9,000 -	- 9,000
	Total		1,29,000	1,29,000

Illustration-1

Journalise the following transactions in the books of Narendra General Stores

- 2019 April 1 Narendra commenced business with Cash ₹ 80,000
 3 Purchased goods from Kiran ₹ 40,000 on credit
 5 Paid rent ₹ 2,000
 10 Sold goods to Mr.Vikas ₹ 5,500 on credit

- 15 Purchased Furniture of ₹ 30,000 @ GST 18%
 18 Received a Bearer Cheque of ₹ 25,000 from Mr. Vikas
 21 Paid to Kiran by Cheque of Dena Bank ₹ 20,000
 30 Paid Salary ₹ 5000

Solution:**In the books of Narendra Journal with classification of Accounts**

Date	Particulars	Type of Account	L.F.	Debit Amount (₹)	Credit Amount (₹)
2019 April 1	Cash A/c Dr. To Capital A/c (Being started business with cash)	Real A/c Personal A/c		80,000	80,000
3	Purchases A/c Dr. To Kiran's A/c (Being purchased goods from Kiran on credit)	Nominal A/c Personal A/c		40,000	40,000
5	Rent A/c Dr. To Cash A/c (Being paid for Rent)	Nominal A/c Real A/c		2,000	2,000
10	Vikas's A/c Dr. To Sales A/c (Being sold goods to Vikas on credit)	Personal A/c Nominal A/c		55,000	55,000
15	Furniture A/c Dr. Input CGST A/c Dr. Input SGST A/c Dr. To Cash A/c (Being purchased Furniture @ 18% GST)	Real A/c Nominal A/c Nominal A/c Real A/c		30,000 2,700 2,700	35,400
18	Cash A/c Dr. To Vikas's A/c (Being received bearer cheque from Vikas)	Real A/c Personal A/c		25,000	25,000
21	Kiran's A/c Dr. To Dena Bank A/c (Being paid to Kiran by Cheque)	Personal A/c Personal A/c		20,000	20,000
30	Salary A/c Dr. To Cash A/c (Being paid for salary)	Nominal A/c Real A/c		5,000	5,000
	Total			2,62,400	2,62,400

Explanatory Note:**1. Entry on April 18**

A bearer cheque is received from Vikas. Bearer cheque received is treated as cash received. [Real A/c] and Vikas is giver [Personal A/c], Cash A/c is debited and Vikas A/c is credited.

2. Entry on April 21

The amount of cheque ₹ 20,000 will be paid by Dena Bank to Kiran who is receiver [Personal A/c] hence Kiran's A/c is debited and Bank A/c is credited.

Discount :

Discount means an allowance or concession given by the seller of goods to the purchaser. There are two types of discount: i) Trade Discount and ii) Cash Discount

- i) Trade Discount:** It is an allowance given on printed list price of goods. This discount is allowed at the time of Purchase / Sale of goods on cash as well as credit transactions. Trade discount is not recorded in the books of accounts

Example : Amar bought goods worth ₹ 20,000 from Rakesh at 10% trade discount.

Journal Entry in the Books of Amar (Buyer)

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
Year Month/ Date	Purchases A/c Dr. To Rakesh's A/c (Being bought goods from Rakesh at 10% trade discount)		18,000	18,000

Journal Entry in the Books of Rakesh (Seller)

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
Year Month/ Date	Amar A/c Dr. To Sales A/c (Being sold goods to Amar at 10% discount)		18,000	18,000

- ii) Cash Discount:** It is the concession given to encourage prompt payment .

Discount is a Nominal Account. Cash discount is a loss to the receiver of cash and a gain to the giver of cash. Therefore, whenever cash discount is allowed, discount allowed account should be debited in the books of the person who receives cash and discount received account should be credited in the books of the person who pays cash. It is to be calculated after deducting Trade discount i.e. on invoice price. It is recorded in the books of accounts.

Example 1: Received from Kartik ₹ 1,900 and allowed him discount ₹ 100

Journal entry

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
Year Month/ Date	Cash A/c Dr. Discount Allowed A/c Dr. To Kartik's A/c (Being cash received and discount allowed)		1,900 100	2,000
	Total		2,000	2,000

Example 2: Paid to Chanda ₹ 980 who allowed us discount ₹ 20

Journal entry

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
Year Month/ Date	Chanda's A/c Dr. To Cash A/c To Discount Received A/c (Being cash paid and discount received)		1,000	980 20
	Total		1,000	1,000

2) Combined Journal Entry

In many of transactions ,more than two accounts are affected .

A Journal Entry which contains more than one debit or more than one credit or both is called as a combined /compound Journal Entry.

Thus, in a combined Journal Entry.

- (i) Several accounts are debited and one account is credited.
- (ii) One account is debited and several accounts are credited.
- (iii) More than one account is debited and more than one account is credited.

Example1: Simple entry and combined entry transaction :

Started business with Cash ₹ 150,000 Goods, ₹ 30,000 and Laptop ₹ 50,000.

Simple entry		Combined entry	
A) Cash A/c	Dr 1,50,000	Cash A/c	Dr 1,50,000
	To Capital A/c 150,000	Stock of goods A/c	Dr 30,000
B) Stock of goods A/c	Dr 30,000	Laptop A/c	Dr 50,000
	To Capital A/c 30,000	To Capital A/c	2.30,000
C) Laptop A/c	Dr 50,000	(Being started business with cash, goods and laptop)	
	To Capital A/c 50,000		

In the above three simple entries capital A/c is commonly credited.

Example 2: Transaction :Sold goods worth ₹30,000 to Kishor who paid us ₹10,000 on account.

Simple entry		Combined entry	
A) Kishor's A/c	Dr 30,000	Cash A/c	Dr 10,000
To Sales A/c	30,000	Kishor's A/c	Dr 20,000
B) Cash A/c	Dr 10,000	To Sales A/c	30,000
To Kishor A/c	10,000	(Being goods sold to Kishor and part payment received)	

In the above two simple entries Kishor's A/c is debited by ₹ 30,000 and subsequently credited by ₹10,000 . The net effect is that Kishor's A/c is debited by ₹20,000 which is shown in a combined entry.

Example 2: : Paid Wages ₹5000 and Salaries ₹2000 = Wages A/c Dr 5,000
Salaries A/c Dr 2,000
To Cash A/c 7,000

Example 3: Received Commission ₹ 700 and Dividend ₹500 = Cash A/c Dr 1,200
To Commission Received A/c 700
To Dividend Received A/c 500

Illustration-2

Journalise the following transactions in the books of Sankalp General Stores
2019

- July 1 Started business with Cash ₹ 1,00,000, Stock of Goods worth ₹ 50,000, and Computer ₹ 50,000.
- 4 Purchased goods from Karina on credit ₹ 10,000 at 5% trade discount.
- 10 Sold goods to Priyanka ₹ 20,000 at 10% trade discount.
- 13 Paid into State Bank of India ₹ 50,000.
- 15 Goods worth ₹ 2,000 lost by theft.
- 18 Paid for Rent ₹ 4,000.
- 20 Received Cash of ₹ 17,500 from Priyanka in full settlement of her account.
- 25 Paid for Stationery purchased ₹ 8,000.

Solution: In the books of Sankalp General Stores

Journal

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
2017 July 1	Cash A/c Dr. Stock of Goods A/c Dr. Computer A/c Dr. To Capital A/c (Being started business with Cash, Goods and Computer)		1,00,000 50,000 50,000	2,00,000

4	Purchases A/c To Karina's A/c (Being purchased goods from Karina on credit at 5% trade discount)	Dr.		9,500	9,500
10	Priyanka's A/c To Sales A/c (Being goods sold to Priyanka on credit at 10% trade discount)	Dr.		18,000	18,000
13	State Bank of India A/c To Cash A/c (Being cash deposited into State Bank of India)	Dr.		50,000	50,000
15	Loss by theft A/c To Goods Lost A/c or Purchases A/c (Being goods lost by theft)	Dr.		2,000	2,000
18	Rent A/c To Cash A/c (Being paid for Rent)	Dr.		4,000	4,000
20	Cash A/c Discount Allowed A/c To Priyanka's A/c (Being cash received from Priyanka and discount allowed)	Dr. Dr.		17,500 500	18,000
25	Stationery A/c To Cash A/c (Being paid for stationery)	Dr.		8000	8,000
	Total			3,09,500	3,09,500

Illustration-3

Journalise the following transactions in the books of Rajkumar Grocery Seller.

2019

- April 1 Rajkumar started business with Cash ₹ 2,00,000, Building ₹ 2,00,000 and borrowed loan from Rakesh ₹ 50,000.
- 4 Deposited Cash into Dena Bank ₹ 50,000.
- 7 Purchased Computer from Brijesh of ₹ 30,000 @ 18% GST and paid by Cheque.
- 10 Cash Sales ₹ 90,000..
- 12 Goods sold on credit to Ganesh ₹ 10,000 at 5% Trade Discount.
- 15 Ganesh returned goods of ₹ 950.
- 18 Goods taken by Rajkumar for his personal use ₹ 1,000.
- 20 Paid Telephone Charges ₹ 500 and Taxi Fare ₹ 200.
- 22 Paid Transport Charges ₹ 5,000 @ 5% GST.
- 24 Paid Audit Fees ₹ 5,000 by Cheque.

- 26 Purchased Furniture of ₹ 70,000 and amount paid by cheque @ 12% GST.
 28 Sold Motor Car worth ₹ 1,00,000 @18% GST and Sales proceeds credited to our account.
 30 Paid cash to Kavita ₹ 15,500,who allowed us discount ₹ 500.

Solution: **In the books of Rajkumar Grocery Seller**

Journal

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
2018 April 1	Cash A/c Dr. Building A/c Dr. To Capital A/c To Rakesh's loan A/c (Being started business with Cash, Building and loan from Rakesh)		2,50,000 2,00,000	4,00,000 50,000
4	Dena Bank A/c Dr. To Cash A/c (Being cash deposited into Dena Bank)		50,000	50,000
7	Computer A/c Dr. Input CGST A/c Dr. Input SGST A/c Dr. To Dena Bank A/c (Being purchased computer @ 18% GST and paid by cheque)		30,000 2,700 2,700	35,400
10	Cash A/c Dr. To Sales A/c (Being goods sold for cash)		90,000	90,000
12	Ganesh's A/c Dr. To Sales A/c (Being goods sold to Ganesh on credit @5% trade discount)		9,500	9,500
15	Return Inward A/c Dr. To Ganesh A/c (Being goods withdrawn for personal use)		950	950
18	Drawing A/c Dr. To Goods Withdrawn by Proprietor A/c (Being goods withdrawn for personal use)		1,000	1,000

20	Telephone Charges A/c Conveyance A/c To Cash A/c (Being paid for Telephone charges and Taxi fare)	Dr. Dr.	500 200	700
22	Transport Charges A/c Input CGST A/c Input SGST A/c To Cash A/c (Being paid for transport charges including 5% GST)	Dr. Dr. Dr.	5,000 125 125	5,250
24	Audit fees A/c To Dena Bank A/c (Being paid for Audit fees)	Dr.	5,000	5,000
26	Furniture A/c Input CGST A/c Input SGST A/c To Dena Bank A/c (Being Furniture purchased with 12% GST)	Dr. Dr. Dr.	70,000 4,200 4,200	78,400
28	Dena Bank A/c To Motor Car A/c To Output CGST A/c To Output SGST A/c (Being sold Motor car at 18% GST)	Dr.	1,18,000	1,00,000 9,000 9,000
30	Kavita's A/c To Cash A/c To Discount Received A/c (Being paid to Kavita and discount received)	Dr.	16,000	15,500 500
	Total		8,60,200	8,60,200

Explanatory Note

- 1) Transactions dated 7th April 2019
- | | | |
|------------------|---|----------|
| Cost of computer | = | ₹ 30,000 |
| Add: 9% CGST | = | ₹ 2,700 |
| 9% SGST | = | ₹ 2,700 |
| Total value | | |
| | = | ₹ 35,400 |
- 2) Transactions dated 22th April 2019
- | | | |
|-------------------|---|---------|
| Transport charges | = | ₹ 5,000 |
| Add: 2.5% CGST | = | ₹ 125 |
| 2.5% SGST | = | ₹ 125 |
| Total amount paid | | |
| | = | ₹ 5,250 |
- 3) Transactions dated 26th April 2019
- | | | |
|-------------------|---|----------|
| Cost of furniture | = | ₹ 70,000 |
| Add: 6% CGST | = | ₹ 4,200 |
| 6% CGST | = | ₹ 4,200 |
| Total value | | |
| | = | ₹ 78,400 |

Illustration-4

Journalise the following transactions in the books of Shridevi Medical Store 2019

- August 1 Shridevi started business with own Cash ₹ 90,000 , Stock of goods worth ₹ 40,000 Machinery worth ₹ 70,000 and borrowed money ₹ 50,000 from her friend Konika at 12% p.a.
- 4 Bought goods worth ₹ 50,000 from Madhuri @ 10% trade discount .
- 6 Returned goods worth ₹450 to Madhuri for not being as per sample
- 8 Sold goods worth ₹ 80,000 to Kiran @ 10% trade discount and received cash after allowing her 5% cash discount.
- 13 Paid for Rent ₹ 4,000.
- 17 Purchased a new Machinery worth ₹1,00,000 from Bajaj Ltd. at 28% GST and amount paid by debit card.
- 20 Paid for Salary ₹ 27,000.
- 27 Purchased 4 Computers of ₹ 1,20,000 @18% GST and amount paid by Debit Card.
- 31 Withdrew from Bank ₹ 10,000 for personal use.

Solution:**Journal of Shridevi Medical Stores**

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
2018 August 1	Cash A/c Dr. Stock of Goods A/c Dr. Machinery A/c Dr. To Capital A/c To Konika's loan A/c (Being started business with cash, goods, machinery and loan from Konika)		1,40,000 40,000 70,000	2,00,000 50,000
4	Purchases A/c Dr. To Madhuri's A/c (Being bought goods from Madhuri on credit at 10% discount)		45,000	45,000
6	Madhuri's A/c Dr. To Purchase Return A/c (Being goods returned to Madhuri)		450	450
8	Cash A/c Dr. Discount allowed A/c Dr. To Sales A/c (Being goods sold for cash at 10% trade discount and 5% cash discount)		68,400 3,600	72,000
13	Rent A/c Dr. To Cash A/c (Being paid for Rent)		4,000	4,000
17	Machinery A/c Dr. Input CGST A/c Dr. Input SGST A/c Dr. To Bank A/c (Being Machinery purchase at 28% GST and paid by Debit card)		1,00,000 14,000 14,000	1,28,000
20	Salaries A/c Dr. To Cash A/c (Being paid for Salary)		27,000	27,000

27	Computers A/c Input CGST A/c Input SGST A/c To Bank A/c (Being purchased four Computers at 18% GST and paid by Debit card)	Dr. Dr. Dr.		1,20,000 10,800 10,800	1,41,600
31	Drawings A/c To Bank A/c (Being cash withdrawn from bank for personal use)	Dr.		10,000	10,000
	Total			6,78,050	6,78,050

Illustration-5

Journalise the following transactions of in the books of Vishal Electronics

2018

- April 1 Vishal commenced business with Cash ₹ 90,000, and Furniture ₹ 60,000 Building ₹ 1,00,000.
- 4 Purchased Motor Car from Honda Company by Cheque ₹ 55,000 at 18% GST.
- 5 Paid Insurance of the above Car ₹ 3,000 to United India Insurance Company.
- 10 Paid into State Bank of India ₹ 40,000.
- 12 Paid for Salary ₹ 10,000 and Rent ₹ 3,000
- 15 Bought goods from Rajesh ₹ 80,000 and paid him $\frac{1}{4}$ amount in cash immediately.
- 18 Cash sales ₹ 60,000 @ 5% GST.
- 20 Received Rent ₹ 1,000 and Commission ₹ 4,000.
- 25 Paid for Telephone Charges ₹ 1,500.
- 27 Invoiced goods to Katrina for cash ₹ 75,000 at 5% GST.
- 29 Sunita brought goods from us ₹ 45,000 @ 5% GST .
- 30 Paid for Printing ₹17,000 by Debit Card of SBI.

Solution:

Journal of Vishal Electronics

Date	Particulars	L.F.	Debit Amount	Credit Amount
2018 April 1	Cash A/c Dr. Furniture A/c Dr. Building A/c Dr. To Capital A/c (Being started business with Cash, Furniture and Building)		90,000 60,000 1,00,000	2,50,000
4	Motor Car A/c Dr. Input CGST A/c Dr. Input SGST A/c Dr. To Bank A/c (Being purchased motor car by cheque with 18% GST)		55,000 4,950 4,950	64,900
5	Insurance A/c Dr. To Cash A/c (Being paid insurance premium on motor car)		3,000	3,000
10	State Bank of India A/c Dr. To Cash A/c (Being cash deposited into state bank of India)		40,000	40,000
12	Salary A/c Dr. Rent A/c Dr. To Cash A/c (Being paid for Rent and Salary)		10,000 3,000	13,000
15	Purchases A/c Dr. To Rajesh's A/c To Cash A/c (Being purchased goods from Rajesh on credit and 1/4 amount paid))		80,000	60,000 20,000
18	Cash A/c Dr. To Sales A/c To Output CGST A/c To Output SGST A/c (Being goods sold for cash at 5% GST)		63,000	60,000 1,500 1,500

20	Cash A/c To Rent A/c To Commission A/c (Being received rent and commission)	Dr.		5,000	1,000 4,000
25	Telephone charges A/c To Cash A/c (Being paid for postage and telephone charges)	Dr.		1,500	1,500
27	Cash A/c To Sales A/c To Output CGST A/c To Output SGST A/c (Being goods sold for cash at 5% GST)	Dr.		78,750	75,000 1,875 1,875
29	Sunita A/c To Sales A/c To Output CGST A/c To Output SGST A/c (Being sold good for Sunita an credit at 5% GST)	Dr.		47,250	45,000 1,125 1,125
30	Printing A/c To State Bank of India A/c (Being paid for stationery by Debit card)	Dr.		17,000	17,000
	Total			6,67,400	6,67,400

Illustration-6

Journalise the following transactions in the books of Rajwade Trading Company 2019

- May 1 Started business with Cash ₹ 1,00,000, Bank Balance ₹ 2,00,000 and Building ₹ 2,00,000
- 3 Purchased goods from Ram of ₹ 50,000 at 18% GST.
- 5 Sold goods to Rakesh of ₹ 70,000 at 18% GST for Cash.
- 7 Paid for Repairs ₹ 5,000.
- 10 Placed an order with Ranveer and Sons for goods ₹ 60,000 at 12% GST
- 15 Paid for Wages ₹ 15,000.
- 18 Purchased goods from Mohan of ₹ 10,000 at 12% GST.
- 20 Paid for Conveyance Expenses ₹ 7,000.
- 25 Purchased goods from Kishor of ₹ 50,000 at 28% GST and paid half the amount by Cheque.
- 30 Purchased Machinery of ₹ 50,000 at 18% GST and half the amount paid immediately by Cheque.
- 31 Withdrew from Bank ₹ 10,000 for personal use.

Solution:

Journal of Rajwade Trading Company

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
2019 May 1	Cash A/c Dr. Bank A/c Dr. Building A/c Dr. To Capital A/c (Being started business with Cash, Bank balance and Building)		1,00,000 2,00,000 2,00,000	5,00,000
3	Purchases A/c Dr. Input CGST A/c Dr. Input SGST A/c Dr. To Ram's A/c (Being purchased goods from Raman for cash @ 18% GST)		50,000 4,500 4,500	59,000
5	Cash A/c Dr. To Sales A/c To Output CGST A/c To Output SGST A/c (Being sold goods to Rakesh for cash @ 18% GST)		82,600	70,000 6,300 6,300
7	Repairs A/c Dr. To Cash A/c (Being paid for repairs)		5,000	5,000
15	Wages A/c Dr. To Cash A/c (Being paid for Wages)		15,000	15,000
18	Purchases A/c Dr. Input CGST A/c Dr. Input SGST A/c Dr. To Mohan's A/c (Being purchased goods from Mohan on credit at 12% GST)		1,00,000 6,000 6,000	1,12,000
20	Conveyance A/c Dr. To Cash A/c (Being paid for conveyance)		7,000	7,000

25	Purchases A/c	Dr.	50,000	32,000	
	Input CGST A/c	Dr.	7,000		
	Input SGST A/c	Dr.	7,000		
	To Kishor's A/c				32,000
	To Bank				32,000
(Being purchased goods from Kishor on credit and half amount paid by cheque)					
30	Machinery A/c	Dr.	50,000	59,000	
	Input CGST A/c	Dr.	4,500		
	Input SGST A/c	Dr.	4,500		
	To Bank A/c				59,000
(Being purchased Machinery for cash @ 18% GST)					
31	Drawings A/c	Dr.	10,000	10,000	
	To Bank A/c				10,000
(Being cash withdrawn from Bank for personal use)					
Total			9,13,600	9,13,600	

Note: Transaction dated 10th May is happening of an event and not a transaction hence no journal entry will be passed.

Illustration-7

Journalise the following transactions in the books of Saniya Electronics, Pune

Debit balance on 1st April 2019 Cash at bank ₹ 50,000, Sundry Debtors ₹ 15,000, Stock ₹ 35,000, Plant & Machinery ₹ 1,00,000, Credit balances on 1st April 2019 Sundry Creditor Varsha ₹ 10,000 Bank loan ₹ 40,000 .

2019

- April 1 Purchased goods worth ₹ 90,000 from Kangana @ 12% GST and amount paid by Cheque.
- 5 Sold goods to Neha ₹30,000 @ 18% GST.
- 10 Sold goods to Sanjay of ₹ 50,000 @ 28% GST and payment received by Cheque.
- 14 Purchased Goods for Cash ₹ 50,000 @ 18% GST less 10% Cash Discount.
- 18 Paid for Advertisement ₹ 8,000.
- 20 Purchased a Horse for ₹ 40,000 and paid Carriage Charges ₹ 2,000.
- 22 Paid for Printing & Stationery ₹ 11,000.
- 26 Sold goods to Alok for Cash ₹ 13,000 @ 12% GST less 10% Cash Discount.
- 28 Received an amount of ₹ 1,000 from Varsha which was previously written off as Bad Debts.
- 30 Goods costing ₹ 5,000 distributed as Free Sample.

Solution:

In the books of Saniya Electronics

Journal entries

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
2019 April 1	Bank A/c Dr. Sundry Debtors A/c Dr. Stock A/c Dr. Plant and Machinery A/c Dr. To Varsha A/c To Bank loan A/c To Capital A/c (Being balances brought forwarded from the previous year)		50,000 15,000 35,000 1,00,000	10,000 40,000 1,50,000
1	Purchases A/c Dr. Input CGST A/c Dr. Input SGST A/c Dr. To Bank A/c (Being purchased goods less 10% trade discount @ 12% GST and paid cheque)		90,000 5,400 5,400	1,00,800
5	Neha's A/c Dr. To Sales A/c To Output CGST A/c To Output SGST A/c (Being goods sold to Neha on credit @18% GST)		55,400	50,000 2,700 2,700
10	Bank A/c Dr. To Sales A/c To Output CGST A/c To Output SGST A/c (Being sold goods @ 28% GST and amount received by cheque)		64,000	50,000 7,000 7,000
14	Purchases A/c Dr. Input CGST A/c Dr. Input SGST A/c Dr. To Cash A/c To Discount Received A/c (Being purchased goods for cash at 10% cash discount and 18% GST)		50,000 4,500 4,500	54,000 5,000

18	Advertisement A/c To Cash A/c (Being) paid for Advertisement)	Dr.		8,000	8,000
20	Live Stock A/c To Cash A/c (Being purchased horse and paid carriage charges)	Dr.		42,000	42,000
22	Printing and Stationary A/c To Cash A/c (Being paid for printing and stationery)	Dr.		11,000	11,000
26	Cash A/c Discount Allowed A/c To Sales A/c To Output CGST A/c To Output SGST A/c (Being goods sold to Alok for cash @ 12% GST and @10% cash discount)	Dr. Dr.		13,260 1,300	13,000 780 780
28	Cash A/c To Bad Debts Recovered A/c (Being the amount previously written off as bad debts now recovered)	Dr.		1,000	1,000
30	Advertisement A/c To Goods distributed as Free Sample A/c (Being to goods distributed as free sample)	Dr.		5,000	5,000
	Total			5,60,760	5,60,760

Explanatory notes dated 26th

(₹)

1) Entry on April 26	
value of goods	13,000
Add 6% CGST	780
Add 6% SGST	780
Total value	<u>14,560</u>
Less: Discount 10% on 13,000	<u>- 1,300</u>
cash received	13,260

Illustration-8

Journalise the following transactions in the books of Reymond for the Month of April 2019

- April 1 Purchased goods from Kajal worth ₹ 2,00,000 at 5% Trade Discount and @ 18% GST and ½ amount paid by cheque.
- 4 Purchased Shares of Mahindra Company ₹ 60,000 and ₹ 1,000 paid as Brokerage.
- 9 Sold goods to Ravikant worth ₹ 60,000 at 10% Trade Discount and @ 18% GST 1/3 amount received by cash at 5% Cash Discount.
- 10 Paid College Fees of proprietor's son ₹ 1,000.
- 12 Purchased Computer of ₹ 50,000 @ 18% GST
- 15 Paid Transport charges on the above computer of ₹ 2,000.
- 20 Paid for Salary ₹ 15,000.
- 26 Paid for Rent ₹ 5,000 and ₹ Advertisement 15,000.
- 27 Sold goods to Salman ₹ 20,000 @ 18% GST .
- 30 Purchased Goods for ₹ 1,00,000 @ 12%GST and paid by cheque.
- 30 Wages Outstanding ₹ 20,000.

Solution:

**In the books of Raymond
Journal entries**

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
2019 April 1	Purchases A/c Dr. Input CGST A/c Dr. Input SGST A/c Dr. To Bank A/c To Kajal's A/c (Being Goods purchased 5% T.D. and 8% GST, half amount paid by Cheque)		1,90,000 17,100 17,100	1,12,100 1,12,100
4	Investment in Shares in Mahindra Co. A/c Dr. To Bank A/c (Being purchased shares of Mahindra Company including brokerage, amount paid by cheque)		61,000	61,000

9	Cash A/c Discount allowed A/c Ravikant A/c To Sales A/c To Output CGST A/c To Output SGST A/c (Being goods sold to Ravikant at 10% trade discount and @ 18% GST and 1/3 amount received by cash and allowed 55 cash discount)	Dr. Dr. Dr.		20,178 1,062 42,480	54,000 4,860 4,860
10	Drawings A/c To Cash A/c (Being paid proprietors sons college fees)	Dr.		1,000	1,000
12	Computer A/c Input CGST A/c Input SGST A/c To Cash A/c (Being purchased computer for cash @ 18% GST)	Dr. Dr. Dr.		50,000 4,500 4,500	59,000
15	Computer A/c To Cash A/c (Being paid transport charges on purchase of computer)	Dr.		2,000	2,000
20	Salary A/c To Cash A/c (Being paid for salary)	Dr.		15,000	15,000
26	Rent A/c Advertisement A/c To Cash A/c (Being paid for Rent and Advertisement)	Dr. Dr.		5,000 15,000	20,000
27	Salman A/c To Sales A/c To Output CGST A/c To Output SGST A/c (Being goods sold to Salman @18% GST)	Dr.		23,600	20,000 1,800 1,800

30	Purchases A/c Input CGST A/c Input SGST A/c To Bank A/c (Being purchased goods @12% GST and paid by cheque)	Dr. Dr. Dr.		1,00,000 6,000 6,000	1,12,000
30	Wages A/c To Outstanding Wages A/c (Being wages outstanding)	Dr.		20,000	20,000
	Total			6,01,520	6,01,520

Explanatory notes

1) Entry on April 9

a) Invoice price	=	₹	60,000
Less: 10% trade discount	=	- ₹	6,000
Value of goods		₹	54,000
Add: 9% CGST	+	₹	4,860
9%SGST	+	₹	4,860
Total value		₹	63,720
		(1/3)	(2/3)
		₹	21,240
		₹	42,480
Less: 5% Discount	=	₹	1,062
Cash received	=	₹	20,178



Activity :

- 1) Journalise and collect GST Bills of 10 transactions incurred from your pocket money.
- 2) From your household/family transactions of a month, prepare Journal.
- 3) Collect minimum 10 computer generated home appliances bills and prepare Journal.
- 4) Visit C.A. Office and collect information about various Accounting Systems.

EXERCISE

Q.1 A) Answer in One Sentence:

- 1) What is Journal ?
- 2) What is Narration ?
- 3) What is GST ?
- 4) In which year GST was imposed by the Central Government of India ?
- 5) What is meant by simple entry ?
- 6) What is the meaning of combined entry ?
- 7) Which account is debited, when rent is paid by Debit card ?
- 8) Which discount is not recorded in the books of account ?
- 9) In which order monthly transactions are recorded in a Journal ?
- 10) Which account is credited, when goods are sold on credit ?

Q.2 Give one word/term or phrase for each of the following statements:

- 1) A book of prime entry.
- 2) The tax imposed by Central Government on Goods and Services
- 3) Brief explanation of an entry.
- 4) The process of recording transactions in the Journal.
- 5) The French word from which the word Journal is derived.
- 6) Concession given for immediate payment.
- 7) Entry in which more than one accounts are to debited or credited.
- 8) Anything taken by proprietor from business for his private use.
- 9) Tax payable to the Government on purchase of goods.
- 10) Page number of the ledger.

Q.3 Select the most appropriate alternative from the alternatives given below and rewrite the statement.

- 1) means explanation of the transactions recorded in the Journal.
a) Narration b) Journalising c) posting d) Casting
- 2) discount is not recorded in the books of accounts.
a) Trade b) Cash c) GST d) VAT
- 3) Recording of transaction in Journal is called
a) posting b) journalising c) narration d) prime entry
- 4) Every Journal entry require
a) casting b) posting c) narration d) journalising
- 5) The column of the Journal is not recorded at the time of journalising.
a) date b) particulars c) ledger folio d) amount

- 6) Goods sold on credit should be debited to
a) purchase A/c b) customer A/c c) sales A/c d) cash A/c
- 7) Wages paid for installation of Machinery should be debited to
a) wages A/c b) machinery A/c c) cash A/c d) Installation A/c
- 8) The commission paid to the agent should be debited to
a) drawing A/c b) cash A/c c) commission A/c d) Agent A/c
- 9) Loan taken from Dena Bank should be credited to
a) Capital A/c b) Dena Bank A/c c) Cash A/c d) Dena Bank Loan A/c
- 10) Purchase of animals for cash should be debited to
a) Live stock A/c b) Goods A/c c) Cash A/c d) Bank A/c

Q.4 State whether the following statements are True or False with reasons.

- 1) Narration is not required for each and every entry.
- 2) A journal voucher is must for all transactions recorded in the Journal.
- 3) Cash discount allowed should be debited to discount A/c.
- 4) Journal is a book of prime entry.
- 5) Trade discount is recorded in the books of accounts.
- 6) Goods lost by theft is debited to goods A/c.
- 7) If rent is paid to landlord, landlord's A/c should be debited.
- 8) Book Keeping records monetary and non-monetary transactions.
- 9) Drawings made by the proprietor increases his capital.
- 10) GST paid on purchase of goods Input tax A/c should be debited.

Q.5 Fill in the blanks.

- 1) The first book of original entry is the
- 2) The process of recording transaction into journal is called
- 3) An explanation of the transaction recorded in the journal
- 4) discount is not recorded in the books of accounts.
- 5) is concession allowed for bulk purchase of goods or for immediate payment.
- 6) Every Journal Entry requires
- 7) discount is always recorded in the books of accounts.
- 8) is the document on the basis of which the entry is recorded in journal.
- 9) There are parties to a cheque.
- 10) The cheque is more safe than other cheques as it cannot be encashed on the counter of the bank.

Q.6

- 1) Prepare specimen of Tax Invoice
- 2) Prepare specimen of Receipt
- 3) Prepare specimen of Crossed cheque
- 4) Prepare specimen of Cash voucher.

Q.7 Correct the following statements and rewrite the statements

- 1) All business transactions are recorded in the Journal.
- 2) Cash discount is not recorded in the books of accounts.
- 3) Journal is a book of Secondary entry.
- 4) GST is imposed by the Government of India from 1st July 2018.
- 5) Machinery purchased by the Proprietor decreases his capital.

- Answer :**
- 1) Only monetary transactions are recorded in the Journal.
 - 2) Cash discount is recorded in the books of accounts.
 - 3) Journal is a book of Prime entry.
 - 4) GST is imposed by the Government of India from 1st July, 2017.
 - 5) Machinery purchased by the proprietor increases his Capital.

Q.8 Do you agree or disagree with following statements.

- 1) Narration is required for every entry.
- 2) GST stands for Goods and Sales Tax.
- 3) Trade discount is not recorded in the books of accounts.
- 4) Wages paid for installation of Machinery is debited to Wages Account.
- 5) The process of entering or recording the transactions in a Journal is called as Journalising.

Q.9 Calculate the following :

- 1) Purchased Motor Car from Tata & Company worth ₹ 2,00,000 at 18% GST. Find out GST amount.
- 2) Paid Transport charges ₹ 10,000 @ 5% GST. Calculate CGST & SGST.
- 3) Bought goods from Ranjan ₹ 10,000 @ 5% GST and 10% cash discount. Calculate cash discount.
- 4) Received cheque of ₹ 90,000 from Kiran in full settlement of his account ₹ 1,00,000/-. Calculate discount rate.
- 5) Sold goods of ₹ 1,00,000 at 10% Trade Discount and 10% cash discount to Ram and received 50% amount by cheque. Calculate the amount of cheque received.

Q.10 Complete the following table.

Sr. No.	Transactions	Debit Amount (₹)	Credit Amount (₹)
1	Paid Income Tax ₹ 5,000 by cheque	? -	- Bank A/c
2	Received from Sonali ₹ 20,000 by RTGS.	Bank a/c -	- ?
3	Sanjay became insolvent and not received ₹ 500	? -	- Sanjay A/c
4	Purchased Horse for ₹ 10,000	? -	- Cash A/c
5	Transferred from Fixed deposit A/c of proprietor to business Bank A/c ₹ 50,000	Bank A/c -	- ?

PRACTICAL PROBLEMS

1. Journalise the following transactions in the books of Anand General Merchants.

2019

- April 1 Mr. Anand started business with cash ₹ 60,000.
 5 Purchased goods for cash ₹ 30,000.
 7 Sold goods of ₹ 10,000 to Suresh.
 10 Purchased Furniture from Mr. Govind on credit ₹ 30,000.
 15 Paid for Rent ₹ 3000 and paid by debit card.
 21 Purchased goods from Urmila on credit ₹ 70,000.
 27 Paid for Transport ₹ 1,000 to United Transport.
 30 Paid to Urmila ₹ 20,000 on behalf of Sharmila.

2. Journalise the following transactions in the books of Gajanan

2019

- May 3 Purchased goods for ₹ 90,000 and amount paid by Bank directly
 7 Sold goods to Satish on credit ₹ 30,000.
 9 Paid for Postage ₹ 10,000
 12 Paid for Wages ₹ 15,000.
 15 Received cheque of ₹ 30,000 from Sati.
 21 Received Dividend ₹ 5000.
 25 Purchased Laptop of ₹ 40,000 and paid by cheque.
 28 Deposited cash ₹ 10,000 into State Bank of India.
 31 Purchased goods for ₹ 40,000 and paid by RTGS

3. Journalise the following transactions in the books of Ashok General Stores.

2019

- May 1 Received ₹ 5,000 from Ram on behalf of Bharat.
 4 Purchased Goods for cash ₹ 55,000.
 8 Paid for Salary ₹ 8,000.
 12 Purchased goods from Ganesh ₹ 30,000 on credit.
 17 Sold goods to Mrs. Neha ₹ 60,000 on credit.
 20 Purchased Machinery of ₹ 80,000 @ 12% GST and amount paid by cheque.
 25 Paid to SG & Sons by cheque ₹ 30,000.
 28 Received Commission ₹ 10,000 from Ganesh.
 30 Paid Rent ₹ 5000.
 31 Purchased Shares of Atul Company Ltd. for ₹ 10,000 through Demat account.

4. Journalise the following transactions in the books of Sanjay General Stores.

2019

- June 1 Started business with cash ₹ 50,000, Bank ₹ 1,00,000, Goods worth ₹ 50,000.
 5 Purchased goods from Mohan on credit ₹ 80,000 at 10% Trade Discount.
 9 Sold goods to Urmila ₹ 30,000 at 5% Trade Discount.
 12 Paid in to Dena Bank ₹ 40,000.
 15 Goods worth ₹ 5000 distributed as free sample.
 22 Paid for Commission ₹ 5,000 to Anand.
 24 Received ₹ 28,000 from Urmila in full settlement of her account by Debit Card.
 29 Paid for Advertisement ₹ 9,000/
 30 Purchased Laptop for ₹ 20,000 @28% GST and amount paid by NEFT.

5. Journalise the following transactions in the books of Kunal Stores.

2018

- August 1 Purchased goods of ₹ 90,000 at 10% Trade Discount and 10% Cash Discount from Rakesh and 1/3rd amount received by cheque.
 5 Opened current account in State Bank of India by depositing ₹ 60,000.
 8 Cash purchases ₹ 85,000.
 10 Goods sold on credit to Tushar ₹ 20,000 @ 10% Trade Discount.
 12 Paid Salary ₹ 4,000.
 16 Tushar returned goods of ₹ 250.
 17 Goods taken by Kunal for his private use ₹ 2,000.
 20 Purchased Laptop of ₹ 40,000 from Joshi Electronics @18% GST and paid by cheque.
 22 Rent paid by cheque ₹ 15,000.
 25 Purchased Motor car worth ₹ 2,00,000 for cash @ 18% GST and paid by Bank.
 26 Goods distributed as free sample ₹ 4,000.
 28 Purchased goods from Amit of ₹ 60,000 on credit.
 30 Paid by ECS cash to Amit ₹ 58,500, who allowed us discount ₹ 1,500.
 30 Sold goods ₹ 5,000 at a loss of ₹ 1,000
 31 Sold goods for ₹ 20,000.

6. Journalise the following transactions in the books of Nina General Stores

2018

- Sept 1 Sold goods of ₹ 50,000 at 10% Trade Discount and 10% Cash Discount to Raj and received 50% by cheque and 20% by cash.
- 3 Bought goods worth ₹ 60,000 from Prashant at 7.5% Trade Discount and half amount paid by cash.
- 5 Returned goods worth ₹ 550 to Prashant.
- 7 Sold goods worth ₹ 90,000 to Ranvir on credit at 10% Trade Discount.
- 12 Received Commission ₹ 4,500.
- 15 Received cheque of ₹ 80,000 from Ranvir in full settlement of his account.
- 18 Purchased Computer worth ₹ 80,000 from Reliance Company by cheque at 28% GST.
- 22 Wages paid ₹ 13,000.
- 23 Paid for Life Insurance premium ₹ 17,000.
- 27 Sold goods worth ₹ 28,000 to Tushar who paid us ₹ 18,000 immediately

7. Journalise the following transactions in the books of Varun

2018

- Oct 1 Purchased Machinery of ₹ 95,000 and paid ₹ 5,000 for freight.
- 3 Purchased goods for ₹ 1,50,000 and amount paid by Bank.
- 6 Purchased Laptop from Nagesh & Co. worth ₹ 1,80,000 @ 18% GST.
- 10 Paid into Bank of Baroda ₹ 70,000.
- 12 Paid for Rent ₹ 4,000 and Commission ₹ 3,000.
- 15 Bought goods from Tushar Company Ltd. ₹ 1,20,000 at 12% GST and paid 1/2 amount by RTGS.
- 16 Cash purchases ₹ 50,000 amount paid by cheque.
- 20 Invoiced goods to Satish ₹ 80,000 at 12% GST and amount received by cheque.
- 25 Paid for Telephone charges ₹ 90,000
- 27 Mrs. Varsha bought goods from us ₹ 90,000 at 12% Trade Discount.
- 28 Purchased goods from Abhijeet & Sons ₹ 1,50,000 at 18% GST.
- 30 Paid to Abhijeet & Sons and received 10% Cash Discount by cheque.
31. Paid for Advertisement ₹ 8,000 and Brokerage ₹ 12,000.

8. Journalise the following transactions in the books of Dhoni Auto Car Centre

2018

- Nov 1 Sold 1,000 shares for ₹ 100 each and paid brokerage @ 1% and amount credited to our account.
- 4 Purchased goods from Ashish & Co. of ₹ 2,00,000.
- 6 Sold goods to Virat & Co. ₹ 1,50,000.
- 8 Paid for Advertisement ₹ 30,000 to Times of India.
- 10 Paid for Printing and Stationery ₹ 7,000.
- 12 Purchased goods from Prakash & Co. 1,50,000 @18% GST.
- 15 Paid for Transport charges ₹ 10,000 @12% GST.
- 20 Purchased goods from Vikram & Sons ₹ 1,20,000 @ 18% GST and paid half the amount immediately.
- 25 Paid to Prakash & Co. less 10% discount.
- 30 Invoiced Goods to Sanjay ₹ 60,000.
- 31 Sanjay returned goods of ₹ 10,000.
- 31 Sanjay became insolvent and recovered only 50 paise in a rupee as final settlement from him.

9. Journalise the following transactions in the books of Hero Enterprises.

Balance on 1st April 2019

Cash at Bank ₹ 80,000, Sundry Debtors Ram ₹ 20,000, Rahim ₹ 30,000, Stock ₹ 55,000, Building ₹ 1,50,000.

Credit Balances on 1st April 2019

Sundry Creditors Swapna ₹ 20,000, Rohit ₹ 30,000, Bank Loan ₹ 50,000.

2019

- April 1 Purchased goods worth ₹ 1,50,000 from Prashant & Co., less 10% Trade Discount.
- 4 Sold goods to Mr. Amit Sharma ₹ 70,000 at 10% Trade Discount on credit.
- 9 Purchased goods for cash ₹ 2,00,000 @28% GST amount paid by NEFT.
- 12 Sold Goods to Aditya Ray of ₹ 90,000 @28% GST.
- 15 Paid for Rent ₹ 5000 and Salary ₹ 18,000.
- 17 Paid for Proprietor's house Rent ₹ 12,000.
- 20 Sold half of the goods purchased on 9th April at 20% Profit and 28% GST.
- 25 Paid for Wages ₹ 1,500.
- 25 Purchased Furniture ₹ 1,80,000 @12% GST and amount paid by RTGS.
- 28 Sold an old Furniture of ₹ 20,000 for ₹ 12,000.
- 30 Sold shares of ₹ 10,000 for ₹ 15,000 and amount received by cheque.

10. Journalise the following transactions in the books of Harbhajan & Co. for the month of 1st April 2019.

Balance on 1st April 2019

Cash in hand ₹ 35,000, Cash at Bank ₹ 25,000, Furniture ₹ 1,50,000, Laptop ₹1,00,000,

Debtors : Sangita ₹ 40,000, Viru ₹ 30,000

2019

Creditors : Ganesh ₹ 10,000, Garima ₹ 40,000, Bank loan ₹ 50,000.

- April 1 Purchased goods from Ajay kumar worth ₹ 2,50,000 at 10% Trade discount @18% GST and paid 1/4 amount in Cash.
- 5 Purchased shares of Infosysis Company ₹ 50,000 and ₹ 500 paid as brokerage by DematA/c.
- 8 Sold goods to Raj worth ₹ 90,000 at 10% Trade discount and 1/3 amount received by cash and 5% cash discount is allowed.
- 12 Paid house rent of proprietor ₹ 9,000 and office rent ₹ 5,000.
- 15 Purchased Laptop of ₹ 60,000 @ 18% GST and paid amount by cheque.
- 20 Paid transport charges on the above Laptop ₹ 1,000 @ 18% GST.
- 25 Paid Commission ₹ 20,000 to Ram.
- 26 Paid Telephone Charges ₹ 1,000.
- 28 Transferred from private Bank A/c of proprietor to business Bank A/c ₹ 40,000.
- 30 Bought goods for ₹ 1,50,000 @ 12% as GST by cheque.
- 30 Exchanged our Furniture of ₹ 30,000 against a Motor car of the same value for business.



Activity

1. Journalise your family transactions for a month.
2. Collect various types of GST bills and compare the rates.
3. Collect different types of documents used for accounting.



4

Ledger

Contents

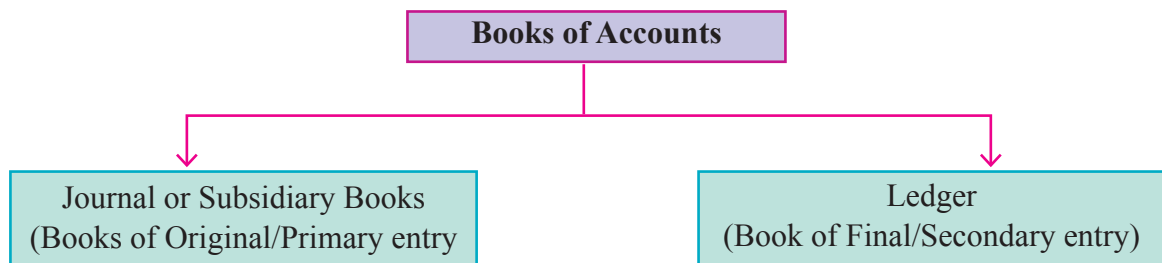
- 4.1 Meaning, Definition and Importance of Ledger.
- 4.2 Specimen of Ledger.
- 4.3 Posting of entries from Journal/Subsidiary Books to Ledger.
- 4.4 Balancing of Ledger Accounts.
- 4.5 Preparation of Trial Balance.

Competency Statements

- Students are able to post recording from Books of original entries to Ledger.
- Students learn the balancing of various ledger accounts.
- Students are able to prepare Trial Balance

Introduction

In the process of accounting, all the business transactions are recorded in chronological order in Journal. These business transactions are recorded in proper books of accounts. The books of accounts can be grouped as follows:



We are aware that all types of business transactions are recorded in Journal e.g. Transactions related to assets, liabilities, expenses, income, cash or credit etc.

At the end of the particular period if we want to know what is the total amount spent on particular type of expense, or what is the amount payable to particular person /party? These types of questions cannot be answered easily through Journal. So to overcome these limitations of Journal we need Ledger. A Ledger is called as the main Book of Accounts. Once the transactions are recorded in Journal or Subsidiary books the next stage is the transfer of those transactions in their respective accounts opened in the Ledger.

4.1 Meaning and Importance of Ledger

Meaning and Definitions :

Ledger is the Principal Book of accounts. It is also called as book of final entry. It is summarised record which contains all the accounts e.g. Assets A/c, Liabilities A/c, Capital A/c, Revenue A/c, Expenses A/c.

The word '**LEDGER**' is derived from **Latin word 'Ledger'** which means 'to contain' As the ledger is the collection of all the accounts so 'it contains' and hence the name signifies.

1. "A Ledger Account may be defined as a summary, statement of all the transactions relating to persons, assets, expenses or incomes which have taken place during a given period to time and shows their net effect".- **S. P. Jain, K. L. Narang –Advanced Accountancy**
2. "Main record of the accounts of a business, traditionally, a ledger was a large book with separate pages for each account. In modern systems ledger may consist of separate cards or computer records" - **Oxford Dictionary**
3. "A Ledger containing accounts in which all the transactions of a business enterprises or other accounting units are classified either in detail or in summary form"- **E. L. Kohler- A Dictionary for Accountants**

Importance of Ledger

1. It is the summarised record of all the transactions in form of Asset A/c, Liabilities A/c, Expenses A/c, Income A/c etc.
2. The ultimate object of Book-Keeping is to ascertain with the least trouble, what is the amount owed to the supplier, what is the amount receivable from the customer and so on. In the process of posting information collected is condensed in form of Debtors A/c ,Creditors A/c to get the ready results
3. It is necessary for preparation of Trial Balance.
4. The financial position of the business can be easily known with the help of various types of Assets A/c and Liabilities A/c
5. It is possible to prepare various types of income statement on the basis of balances shown by different ledger Accounts.
6. Ledger can be used as a control tool as it shows accounts of various expenses with the balance.
7. On the basis of the results shown in the Ledger it is useful for the management to forecast or plan the future plan of action.

Contents of Ledger

Ledger is a bound book which contains several pages. Each page of a ledger is serially numbered. For each account separate page is allotted. The page number of the ledger is called as 'Ledger Folio' (L.F.) Each ledger account is divided into two sides. The left side is known as debit side and the right side is known as credit side. This is indicated by writing the abbreviations 'Dr.' on the left side top corner and 'Cr.' on the right side top corner.

Every Ledger has an index. Index is prepared in the alphabetical order. The page number on which a particular account appears is shown against the name of the account shown in index. This facilitates quick reference.

Both the sides of the ledger have four columns. These columns are:-

- 1) **Date:** In this column the date of the transaction is written. The year, month and date should be clearly mentioned.
- 2) **Particulars:** In this column, the name of the account in which the corresponding credit or debit is found under double entry principle will be mentioned. The posting on the debit side begins with 'To' and on the credit side with 'By'.

- 3) **Journal Folio (J.F.):** Folio means page number. In Journal Folio (J.F.) column, page number of journal from where we have transferred the entry into Ledger is to be written.
- 4) **Amount:** In the column, the amount for which an account is debited or credited is entered.

4.2 Specimen of Ledger

Specimen of the ledger in 'T' form is given below:

In the books of

Name of the Account

Dr.

Cr.

Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)

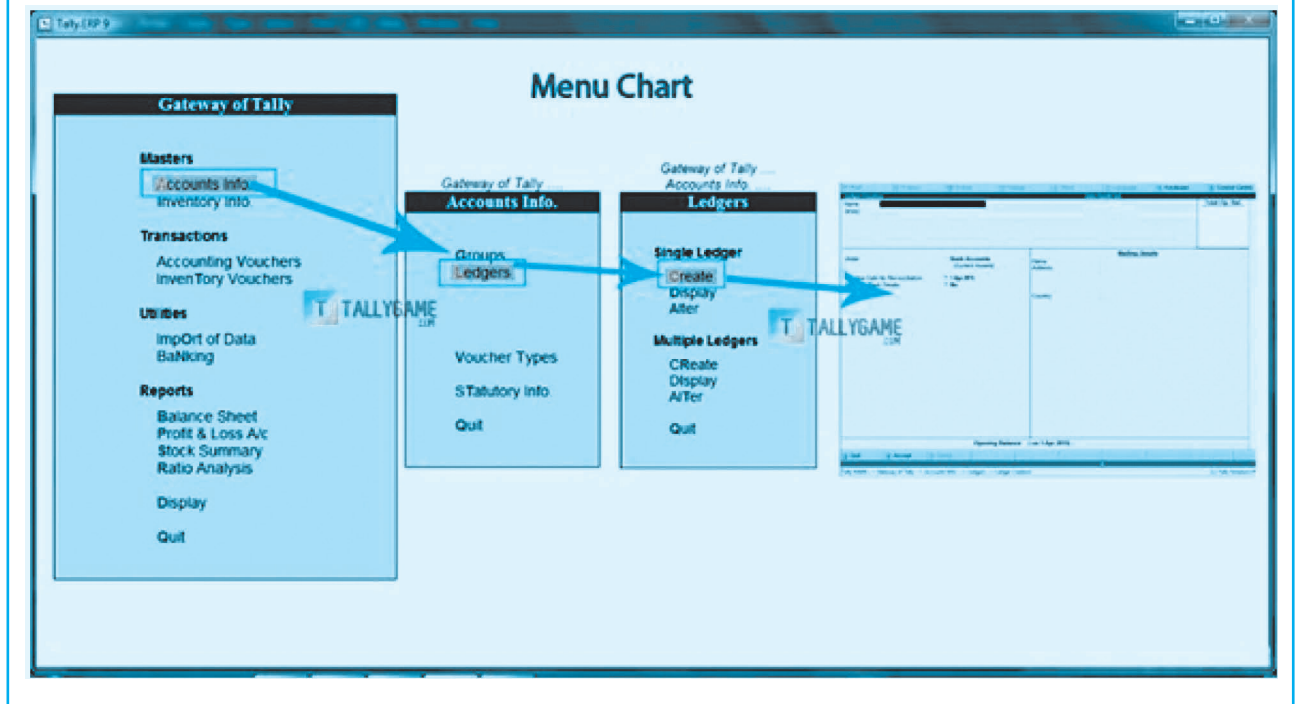
Specimen of the 'Statement form of an Account'

Date	Particulars	J.F.	Debit (₹)	Credit (₹)	Balance (₹)	Initial	Remark

Do you know?????

How computerised ledger account looks

In modern accounting system we use various accounting softwares for recording the transactions.



Orion Computer Repair Company General Ledger Accounts Receivable				
Date	Description	P.R.	Debit (₹)	Credit (₹)
9/8/2018	Computer Repair Sales	GJ1	18,000	

Orion Computer Repair Company General Ledger Accounts Receivable				
Date	Description	P.R.	Debit (₹)	Credit (₹)
9/8/2018	Computer Spare Parts Order	GJ1		7,500
25/9/2018	Computer Spare Parts Order	GJ1		6,500
30/9/2018	Closing Outstanding Spare Part Bills	GJ1	14,000	

4.3 Posting of entries from Journal/Subsidiary books to Ledger

Transactions are recorded in various books of original entry as and when they occur. From the books of original entry, the necessary records in the Ledger are made. The process of transferring entries from the Journal or Subsidiary Books into the appropriate account in the Ledger is called 'Posting'.

The Recording process:

The process of recording transactions in the Ledger involves the following steps:

- 1) From the Journal entries, ledger posting is to be done.
- 2) Open the necessary ledger accounts with proper headings.
- 3) If the opening balance of ledger account is given, it should be posted first, either as 'To balance b/d' or 'By balance b/d'
- 4) For posting the transactions into the ledger account, first write the date of the transaction in the date column.
- 5) In the particular column on the debit side of the ledger account the name of the account credited in the entry is written and on the credit side of ledger account, the name of the account to be debited in the entry is written.

Illustration 1

The above process of recording transactions can be studied with the help of following example;

- 1) Balance of Cash on 1st January 2018 ₹ 15,000
- 2) On 5th January 2018 Raj invested ₹ 10,000 in the business.

The Journal Entry for the transaction would be

2018 Cash A/c.....Dr. 10,000
Jan 5 To Raj's Capital A/c

Dr. Cr.
Cash Account

Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
2018	To Balance b/d		15,000				
Jan 5	To Raj's capital A/c		10,000				

Dr. Cr.
Raj's Capital Account

Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
				2018	By Cash A/c		10,000
				Jan 5			

Illustration 2

Posting of combined entries

2018, Jan 18 Paid ₹ 3,000 as Rent and ₹ 5,000 as Salaries.

Combined entry:

Rent A/c.....Dr. 3,000
Salaries A/c.....Dr. 5,000
To Cash A/c 8,000

Rent A/c and Salaries A/c are debited only with the amount against them in the Journal Entry. Cash A/c is credited with ₹ 8,000 in Journal entry. But since it is on account of two different expenses, both have to be written in the credit side, the total of which is equal to ₹ 8,000

There are total 3 accounts involved in the entry so posting of this entry will be done in 3 ledger accounts.

Dr. Cr.
Rent Account

Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
2018	To Cash A/c		3,000				
Jan 18							

Dr. Cr.
Salaries Account

Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
2018	To Cash A/c		5,000				
Jan 18							

Dr. Cr.
Cash Account

Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
				2018			
				Jan 18	By Rent A/c		3,000
				Jan 18	By Salaries A/c		5,000

Illustration 3

Posting of combined entries related to GST

Intra-state purchase of goods for ₹ 40,000 and GST applicable, amount paid by cheque.

The rates of GST applicable are

Input SGST 2.5% Input CGST 2.5% Input IGST 5%

Journal Entry (Page no. 5)

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
2018 Jan 31	Purchases A/c Input SGST A/c Input CGST A/c To Bank A/c (Being Goods purchased and 2.5% SGST and 2.5% CGST paid)	Dr. Dr. Dr. 17	11 15 16 17	40,000 1,000 1,000 42,000

Dr. Purchase Account (Ledger Page No. 11) Cr.

Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
2018 Jan 31	To Bank A/c	05	40,000				

Dr. Input SGST Account (Ledger Page No. 15) Cr.

Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
2018 Jan 31	To Bank A/c	05	1,000				

Dr. Input CGST Account (Ledger Page No. 16) Cr.

Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
2018 Jan 31	To Bank A/c	05	1,000				

Dr. Bank Account (Ledger Page No. 17) Cr.

Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
				2018 Jan 31	By Purchases A/c	05	40,000
					By Input SGST A/c	05	1,000
					By Input CGST A/c	05	1,000

Do You Know?

Rate of GST applicable to goods and services is different. Tax liability is to be found out according to Inter-state sale/purchase and Intra-state sale/purchase.

Currently there are three types of GSTs applicable

- 1) SGST- State Goods and Service Tax
- 2) CGST-Central Goods and Service Tax
- 3) IGST– Integrated GST.

* Rate applicable to different types of goods and services subject to change according to Government policies.

Posting of entries from Subsidiary Books

1) Posting from Cash Book

Separate column of Cash and Bank will serve as Cash A/c and Bank A/c.

So no need to open Cash A/c and Bank A/c, as the Cash Book serves the purpose of Journal as well as Ledger. Entries posted on the debit side of the Cash Book are posted on credit side of Personal A/c ,Real A/c or Nominal A/c . In the same way entries which are posted on credit side of Cash Book are shown on debit side of those ledger accounts.

Posting from Petty Cash Book

Initially main cashier hands over some cash to petty cashier for that entry is

Petty Cash A/cDr.
 To Cash/Bank A/c

Petty cashier will spend for all petty expenses from available cash. To record theses various expenses journal entry will be

Individual Expenses A/cDr.
 To Petty cash A/c

Taking imaginary expenses head, the Journal Entry would be :

Travelling & Conveyance A/c.....Dr.
 Postage A/c.....Dr.
 Printing & Stationery A/c.....Dr.
 Sundry Expenses A/c.....Dr.
 To Petty Cash A/c

The ledger posting will be done in Individual Expenses account as well as in Petty Cash Account.

Illustration 4

Posting of entries in Purchase Book

The total of Purchase Book for the month will be shown on debit side of Purchase Account and in suppliers account effect will be shown on credit side of each Supplier's Account.

Purchase Book

Date	Particulars	Inward Invoice No.	L.F.	Amt (₹)
2018 Dec 5	Mudra stores			15,000
Dec 21	Akash Co. Ltd.			12,000
	Total			27,000

Dr. Purchases A/c				Cr.			
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
2018 Dec 31	To Sundries as per Purchase Book		27,000				

Dr. Mudra Stores A/c				Cr.			
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
				2018 Dec 5	By Purchases A/c		15,000

Dr. Akash Co. Ltd. A/c				Cr.			
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
				2018 Dec 21	By Purchases A/c		12,000

Illustration 5

Posting of entries in Sales Book

The total of Sales Book for the month will be shown on credit side of Sales Account and in customers account effect will be shown on debit side of each Customer's Account.

Sales Book

Date	Particulars	Outward Invoice No.	L.F.	Amt (₹)
2018 Dec 17	Narendra			22,000
Dec 22	Devendra			18,000
	Total			40,000

Dr.				Sales A/c				Cr.
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)	
				2018 Dec 31	By Sundries as per Sales Book		40,000	

Dr.				Narendra's A/c				Cr.
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)	
2018 Dec 7	To Sales A/c		22,000					

Dr.				Devendra's A/c				Cr.
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)	
2018 Dec 22	To Sales A/c		18,000					

Illustration 6

Posting of entries in Purchase Return Book/Return Outward Book

The total of Purchase Return Book will be shown on credit side of Purchase Return Account and in suppliers account effect will be shown on debit side separately for each supplier.

Purchase Return Book/Return Outward Book

Date	Particulars	Debit Note No.	L.F.	Amt (₹)
2018 Dec 7	Mudra Stores			2,200
	Total			2,200

Dr.				Purchase Return A/c				Cr.
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)	
				2018 Dec 31	By Sundries as per Purchase Return Book		2,200	

Dr.				Mudra Stores A/c				Cr.
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)	
2018 Dec 7	To Purchase Return A/c		2,200					

Illustration 7**Posting of entries in Sales Return Book/Return Inward Book**

The total of Sales Return Book for the month will be posted on debit side of Sales Return Account and effect will be shown on credit side of each Customer's Account.

Sales Return book/Return Inward book

Date	Name of the Supplier	Outward Invoice No.	L.F.	Amt (₹)
2018 Dec 24	Devendra			900
	Total			900

Dr. Sales Return A/c Cr.

Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
2018 Dec 31	To Sundries as per Sales Return book		900				

Dr. Devendra's A/c Cr.

Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
				2018 Dec 24	By Sales Return A/c		900

Posting of entries from Journal Proper

The entries shown in Journal Proper are posted to respective accounts in the Ledger.

Balancing of Ledger Accounts

Balancing of Ledger accounts means totalling both the sides of Ledger Account, finding the difference between greater total and smaller total and recording the difference on the smaller side

Steps for balancing the ledger accounts

- 1) Take the totals of both the sides i.e Debit and Credit.
- 2) Find out the difference between both the sides.
- 3) If the debit side total is more than the credit side then difference will be shown on credit side as 'By Balance c/d' in particulars column and difference amount is shown in amount column.
- 4) Same way if the credit side total is higher than the debit side total then the difference amount is shown on debit side as 'To Balance c/d' in particulars column and difference amount is shown in amount column.
- 5) These closing balances of different ledger accounts are shown as Opening Balances for the next period. Closing balance shown on debit side of ledger account will be shown as Opening Balance on the credit side at the beginning of the period as 'By Balance b/d'
- 6) Closing Balance shown on credit side of ledger account will be shown on debit side of the account as Opening Balance at the beginning of the period as 'To Balance b/d'

Do you know?????

If the total of debit side of the account is higher than the total of credit side the account is said to have Debit balance and vice-versa.

**4.4 Balancing of Ledger Accounts**

1. Personal Account
2. Real Account
3. Nominal Account

Balancing of Personal Account

These accounts may have debit balance or credit balance or nil balance. A personal account having debit balance is a Debtor and credit balance is a Creditor. Balance of these accounts is carried forward.

- a) Debit balance:** If the debit side total of ledger Account is more than the credit side total it indicates a debit balance.

Illustration 8

2018

- Feb 1 Sold goods to Raghav ₹6,000.
 3 Received cash from Raghav ₹5,400 and allowed him cash discount ₹600.
 17 Invoiced goods to Raghav ₹ 14000.
 20 Received from Raghav ₹ 6,000.

Journal Entries

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
2018 Feb 1	Raghav's A/c Dr. To Sales A/c (Being goods sold to Raghav)		6,000	6,000
3	Cash A/c Dr. Discount Allowed A/c Dr. To Raghav's A/c (Being cash received from Raghav and discount allowed)		5,400 600	6000
17	Raghav's A/c Dr. To Sales A/c (Being goods sold to Raghav)		14,000	14,000
20	Cash A/c Dr. To Raghav's A/c (Being cash received from Raghav)		6,000	6,000
	Total		32,000	32,000

Dr.				Raghav's Account				Cr.			
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)				
2018				2018							
Feb 1	To Sales A/c		6,000	Feb 3	By Cash A/c		5,400				
17	To Sales A/c		14,000	3	By Discount allowed A/c		600				
				20	By Cash A/c		6,000				
				28	By Balance c/d		8,000				
			20,000				20,000				
Mar 1	To Balance b/d		8,000								

Note: Raghav's A/c is having Debit balance so he is a Debtor of the business.

b) Credit balance: If the total of credit side of an account is more than debit side it indicates credit balance.

Illustration 9

2019

Jan. 1 Bought goods from Anupam ₹ 8,000.

10 Goods returned to Anupam ₹700.

20 Cash paid to Anupam ₹7,000.

Solution :

Journal entries

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
2019				
Jan 1	Purchases A/c Dr. To Anupam's A/c (Being goods purchased on credit)		8,000	8,000
10	Anupam's A/c Dr. To Purchases Return A/c (Being goods returned)		700	700
20	Anupam's A/c Dr. To Cash A/c (Being cash paid to Anupam)		7,000	7,000
	Total		15,700	15,700

Posting of these entries in Anupam's A/c

Dr.				Anupam's Account				Cr.
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)	
2019				2019				
Jan 10	To Purchases			Jan 1	By Purchases A/c		8,000	
	Return A/c		700					
20	To Cash A/c		7,000					
31	To Balance c/d		300					
			8,000				8,000	
				Feb 1	By Balance b/d		300	

Note : Anupam's A/c shows a credit balance so he is our Creditor.

Illustration 10

Following transactions took place between Abha & Nabha .Prepare Abha's A/c in the books of Nabha and Nabha's A/c in the books of Abha.

2019

- Sept. 1 Abha owed to Nabha ₹ 22,000.
- 3 Nabha received ₹ 16,000 on account from Abha.
- 9 Abha bought goods from Nabha ₹ 5,000.
- 20 Abha paid to Nabha ₹ 6,000 on account @5% cash discount.
- 25 Nabha received goods returned by Abha ₹ 550.
- 30 Abha paid ₹ 1,500 to Nabha.

In the books of Nabha

Dr.				Abha's Account				Cr.
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)	
2019				2019				
Sept 1	To Balance b/d		22,000	Sept 3	By Cash A/c		16,000	
Sept 9	To Sales A/c		5,000	20	By Cash A/c		5,700	
				20	By Discount allowed A/c		300	
				25	By Sales Return A/c		550	
				30	By Cash A/c		1,500	
				30	By Balance c/d		2,950	
			27,000				27,000	
2019								
Oct 1	To Balance b/d		2,950					

In the books of Abha

Dr.				Cr.			
Nabha's Account							
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
2019				2019			
Sept 3	To Cash A/c		16,000	Sept 1	By Balance b/d		22,000
20	To Cash A/c		5,700	9	By Purchases A/c		5,000
20	To Discount Received A/c		300				
25	To Purchase Return A/c		550				
30	To Cash A/c		1,500				
30	To Balance c/d		2,950				
			27,000				27,000
				2019			
				Oct 1	By Balance b/d		2,950

Note : In the books Nabha, Abha is having debit balance so she is a debtor of Nabha.

In the books Abha, Nabha is having credit balance so she is a creditor of Abha.

Balancing of Real Account

Accounts which are related to assets and properties are real accounts. e.g.: Cash A/c, Furniture A/c etc. Real Account always shows a debit balance.

Illustration 11

Pass necessary Journal Entries for the following transactions and show Cash Account only.

2019

- Mar. 1 Cash Balance ₹ 10,000.
 6 Bought Goods ₹ 2,500.
 7 Received from Sudhir ₹ 3,000.
 10 Paid to Madhuri ₹ 2,000.
 12 Cash Sales ₹ 7,000.
 20 Paid Rent ₹ 3,500.

Solution :

Journal entries

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
2019 Mar 6	Purchases A/c To Cash A/c (Being goods purchased for cash)	Dr.	2,500	2,500
7	Cash A/c To Sudhir's A/c (Being amount received from Sudhir)	Dr.	3,000	3,000
10	Madhuri's A/c To Cash A/c (Being amount paid to Madhuri)	Dr.	2,000	2,000

12	Cash A/c To Sales A/c (Being goods sold for cash)	Dr.		7,000	7,000
20	Rent A/c To Cash A/c (Being paid Rent)	Dr.		3,500	3,500
	Total			18,000	18,000

Cash Account

Dr.				Cr.			
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
2019				2019			
Mar 1	To Balance b/d		10,000	Mar 6	By Purchases A/c		2,500
7	To Sudhir's A/c		3,000	10	By Madhuri's A/c		2,000
12	To Sales A/c		7,000	20	By Rent A/c		3,500
				31	By Balance c/d		12,000
			20,000				20,000
April 1	To Balance b/d		12,000				

Note: Cash A/c always shows a debit balance.

Balancing of Nominal Account

Nominal Accounts means the accounts which are related to expenses, incomes, losses and gains. This account may have a debit balance or a credit balance. At the end of the accounting year the balances of all Nominal Accounts are transferred to Trading or Profit and Loss Account.

Illustration 12

2019

Feb. 1	Salaries A/c (Dr.bal)	₹ 30,000
5	Paid Salaries by cheque	₹ 5,000
March 5	Paid Salaries	₹ 3,000

Accounts are closed on 31st March every year.

Salaries Account

Dr.				Cr.			
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
2019				2019			
Feb 1	To Balance b/d		30,000	Feb 28	By Balance c/d		35,000
5	To Bank A/c		5,000				35,000
			35,000				38,000
Mar 1	To Balance b/d		35,000	Mar 31	By Profit & Loss A/c		38,000
5	To Cash A/c		3,000				38,000
			38,000				38,000

**Activity 1**

Sahil is having wooden furniture manufacturing unit. He maintains his books on double entry system. On 1.1.2018 his cash balance is ₹50,000. He purchased loose parts of furniture from Décor mart at ₹ 6,000 on 7.1.2018. He sold Chairs to Avinash traders for ₹ 9,000 on 9.1.2018.

Cash purchases ₹4,500 on 12.1.2018, Sold a study table for ₹ 2,500 on 15.1.2018, Paid to Décor mart ₹4,200 on 20.1.2018, Received from Avinash traders ₹ 7,000 on 24.1.2018, Paid for cleaning charges ₹800 on 28.1.2018.

Amount paid to Décor mart ₹ 1,500 in full settlement of account 1.2.2018. On 7.2.2018 amount received from Avinash traders ₹1,900 in full settlement of account. Paid for salary ₹ 8,000 on 15.2.2018. Paid for Rent ₹ 9,000 on 25.2.2018.

On the basis of above information answer the following

1. What is the balance of cash on 31.1.2018 and 28.2.2018 ?
2. Who is the Debtor on 31.1.2018 and for what amount ?
3. Who is the Creditor on 31.1.2018 and for what amount ?
4. Who is the Debtor and creditor on 28.2.2018 ?

**Activity 2**

You or your parents must be having Bank account. Bank provides the details of all our transactions related to Bank in the Pass book. This book is nothing but our account (Customer's A/c) in the books of bank. It is computerised ledger printed in statement form. Try to read this ledger and identify the entries posted in the Pass Book e.g. cheque deposited in bank, Amount withdrawn from bank etc. Read the description printed in the Pass Book for these entries and write down the 10 transactions for which entries are posted in the Pass Book.

**Activity 3**

An inexperienced accountant, Girish maintained a ledger account incompletely. Check the ledger account and help him to find out the missing amounts and answer the questions given below.

In the books of Manish

Dr.				Cr.			
Mahesh's Account							
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
2018				2018			
Mar 1	To Balance b/d		64,000	Mar 6	By Return Inward A/c		...?...
3	To Sales A/c		60,000	9	By Purchases A/c		9,000
11	To Cash A/c		5,000	16	By Purchases A/c		30,000
24	To Sales A/c		31,000	22	By Bank A/c		24,000
25	To Return Outward A/c		...?...	22	By Discount allowed A/c		3,000
				31	By Bank A/c		85,000
				31	By Discount Allowed A/c		...?...
			1,62,000				1,62,000

Out of the goods sold to Mahesh on 3rd March, 10% goods are returned by him on 6th March.

- 1) Write transactions for the postings dated 6th March and 25th March.
- 2) Write down the Journal Entries for the postings dated 22nd March and 31st March.
- 3) Is Mahesh Debtor or Creditor on 31st March?

4.5 Preparation of Trial Balance

Trial Balance

A Trial balance is an abstract or list of all the ledger accounts as on a specific date showing debit and credit balances of all Ledger Accounts. Usually, Trial Balance is prepared at the end of the financial year. However it can be prepared periodically depending upon requirement of the business. It is prepared to ascertain the arithmetical accuracy of Books of Accounts.

Types of Trial Balance:

- (1) **Gross Trial Balance:** In this type of Trial Balance total of debit side of a particular account is shown in the debit column of the Trial Balance and total of credit side of a particular account is shown in the credit column of the Trial Balance. It is not in common use as it does not disclose the balance of each account.
- (2) **Net Trial Balance:** In this type of Trial Balance only the balances of each ledger account are shown against its name. If an account shows a credit balance then its balance is recorded in the credit amount column and vice versa. this Trial Balance is used in practice

Methods of preparing Trial Balance:

There are two methods of preparing Trial Balance

- (1) Vertical or Journal form of Trial Balance
- (2) Horizontal or Ledger form of Trial Balance

Format of Vertical / Journal form of Trial Balance

Trial Balance as on.....

Sr. No.	Head of Accounts	L.F.	Debit (₹)	Credit (₹)

Format of Horizontal / Ledger form of Trial Balance

Trial Balance as on.....

Sr. No.	Debit Balances	L.F.	Amt (₹)	Sr. No.	Credit Balances	L.F.	Amt (₹)

Utility of a Trial Balance:

- 1) It shows balances of different Ledger accounts.
- 2) It proves arithmetical accuracy of Books of Accounts.
- 3) It helps to prepare Final Accounts of a business.

Illustration 13

Journalise the following transactions in the books of Virat traders, open necessary ledger accounts, balance the accounts and prepare a Trial Balance as on 31st March 2019

2019

- March 1 Virat started business with Cash ₹ 50,000, Cash at Bank of India ₹ 7,000, Furniture ₹ 10,000.
- 3 Purchased goods from Rohit worth ₹ 10,000 less 10% T.D.
- 7 Sold goods to Sunil ₹ 5,000 less 5% T.D.
- 10 Deposited Cash with Bank Of India ₹ 5,000.
- 12 Purchased Furniture from Varma on credit worth ₹ 20,000.
- 15 Paid to Varma by net banking ₹ 8,000.
- 17 Paid Printing expenses ₹ 200.
- 20 Received Commission ₹ 200.
- 25 Withdrew Cash from Bank ₹ 1,000 by ATM
- 28 Paid to Varma ₹ 11,500 in full settlement of his account.
- 30 Paid Advertisement bill ₹ 500

Solution :

**In the books of Virat Traders
Journal**

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
2019 Mar. 1	Cash A/c Dr. Bank of India A/c Dr. Furniture A/c Dr. To Virat's Capital A/c (Being started business with cash, bank and furniture)		50,000 7,000 10,000	67,000
3	Purchases A/c Dr. To Rohit's A/c (Being purchased goods from Rohit less 10% T.D.)		9,000	9,000
7	Sunil's A/c Dr. To Sales A/c (Being goods sold to Sunil less 5% T.D.)		4,750	4,750

10	Bank of India A/c To Cash A/c (Being cash deposited with Bank)	Dr.		5,000	5,000
12	Furniture A/c To Varma's A/c (Being purchased furniture from Varma)	Dr.		20,000	20,000
15	Varma's A/c To Bank of India's A/c (Being purchased furniture by netbanking)	Dr.		8,000	8,000
17	Printing Expenses A/c To Cash A/c (Being paid printing bill)	Dr.		200	200
20	Cash A/c To Commission A/c (Being received commission)	Dr.		200	200
25	Cash A/c To Bank of India's A/c (Being withdraw cash from Bank)	Dr.		1,000	1,000
28	Varma's A/c To Cash A/c To Discount received A/c (Being paid to Varma in full settlement of his account.)	Dr.		12,000	11,500 500
30	Advertisement A/c To Cash A/c (Being paid Advertisement bill)	Dr.		500	500
	Total			1,27,650	1,27,650

Ledger Accounts

Dr.

Virat's Capital Account

Cr.

Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
2019				2019			
Mar. 31	To Balance c/d		67,000	Mar. 1	By Cash A/c		50,000
				1	By Bank of India's A/c		7,000
				1	By Furniture A/c		10,000
			67,000				67,000
				April 1	By Balance b/d		67,000

Dr.				Cash Account				Cr.			
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)				
2019				2019							
Mar. 1	To Virat's Capital A/c		50,000	Mar. 10	By Bank of India A/c		5,000				
20	To Commission A/c		200	17	By Printing A/c		200				
25	To Bank of India A/c		1,000	28	By Varma's A/c		11,500				
				30	By Advertisement A/c		500				
				31	By Balance c/d		34,000				
			51,200				51,200				
April 1	To Balance b/d		34,000								

Dr.				Bank of India's Account				Cr.			
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)				
2019				2019							
Mar. 1	To Virat's Capital A/c		7,000	Mar. 15	By Varma's A/c		8,000				
10	To Cash A/c		5,000	25	By Cash A/c		1,000				
				31	By Balance c/d		3,000				
			12,000				12,000				
April 1	To Balance b/d		3,000								

Dr.				Furniture Account				Cr.			
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)				
2019				2019							
Mar. 1	To Virat's Capital A/c		10,000	Mar. 31	By Balance c/d		30,000				
10	To Varma's A/c		20,000								
			30,000				30,000				
April 1	To Balance b/d		30,000								

Dr.				Purchases Account				Cr.			
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)				
2019				2019							
Mar. 3	To Rohit's A/c		9,000	Mar. 31	By Balance c/d		9,000				
			9,000				9,000				
April 1	To Balance b/d		9,000								

Dr.				Rohit's Account				Cr.			
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)				
2019				2019							
Mar.31	To Balance c/d		9,000	Mar. 3	By Purchases A/c		9,000				
			9,000				9,000				
				April 1	By Balance b/d		9,000				

Dr.				Sunil's Account				Cr.			
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)				
2019				2019							
Mar. 7	To Sales A/c		4,750	Mar. 31	By Balance c/d		4,750				
			4,750				4,750				
April 1	To Balance b/d		4,750								

Dr.				Sales Account				Cr.			
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)				
2019				2019							
Mar.31	To Balance c/d		4,750	Mar. 31	By Sunil's A/c		4,750				
			4,750				4,750				
				April 1	By Balance b/d		4,750				

Dr.				Varma's Account				Cr.			
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)				
2019				2019							
Mar.15	To Bank of India's A/c		8,000	Mar. 1	By Furniture A/c		20,000				
28	To Cash A/c		11,500								
28	To Discount received A/c		500								
			20,000				20,000				

Dr.				Printing Expenses Account				Cr.			
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)				
2019				2019							
Mar. 1	To Cash A/c		200	Mar. 31	By Balance c/d		200				
			200				200				
April 1	To Balance b/d		200								

Dr.				Commission Account				Cr.			
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)				
2019				2019							
Mar.31	To Balance c/d		200	Mar. 31	By Cash A/c		200				
			200				200				
				April 1	By Balance b/d		200				

Dr.				Discount Account				Cr.			
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)				
2019				2019							
Mar.31	To Balance c/d		500	Mar. 31	By Varma's A/c		500				
			500				500				
				April 1	By Balance b/d		500				

Dr.				Advertisement Account				Cr.			
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)				
2019				2019							
Mar.30	To Cash A/c		500	Mar. 31	By Balance c/d		500				
			500				500				
April 1	To Balance b/d		500								

Trial Balance as on 31st March 2019

Debit balances		Amt (₹)	Credit balances		Amt (₹)
Cash		34,000	Virat's capital		67,000
Bank of India		3,000	Rohit		9,000
Furniture		30,000	Sales		4,750
Purchases		9,000	Commission		200
Sunil		4,750	Discount		500
Printing Expenses		200			
Advertisement		500			
		81,450			81,450

Illustration 14

The following balances appeared in the ledger of Karan on 1st January 2018.

Debit balances	Amount (₹)	Credit Balances	Amount (₹)
Cash Account	60,000	Karan's Capital A/c	2,00,000
Purchases Account	80,000	Sales A/c	40,000
Bank of Maharashtra A/c	1,00,000		

- January 5 Bought goods from Rushi ₹ 10,000.
 10 Drew from Bank ₹ 20,000 for office and ₹ 6,000 for self use.
 17 Return goods to Rushi 2,000.
 19 Cash Purchases ₹ 14,000.
 22 Cash Sales ₹ 20,000.
 26 Deposited into Bank ₹ 16,000.
 28 Interest collected by Bank ₹ 7,000 on our behalf.

Solution :

Journal entries

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
2018 Jan. 1	Purchases A/c Dr. To Rushi's A/c (Being goods purchased on credit)		10,000	10,000
10	Cash A/c Dr. Karan's Drawings A/c Dr. To Bank of Maharashtra's A/c (Being Amount withdrawn for personal use and office use.)		20,000 6,000	26,000
17	Rushi's A/c Dr. To Purchases Return A/c (Being goods returned to Rushi)		2,000	2,000
19	Purchases A/c Dr. To Cash A/c (Being goods purchased for cash)		14,000	14,000
22	Cash A/c Dr. To Sales A/c (Being goods sold for cash)		20,000	20,000

26	Bank of Maharashtra's A/c To Cash A/c (Being cash deposited into bank)	Dr.		16,000	16,000
28	Bank of Maharashtra A/c To Interest A/c (Being interest collected by bank on our behalf)	Dr.		7,000	7,000
	Total			95,000	95,000

Ledger Accounts :

Dr.				Purchases Account				Cr.			
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)				
2018				2018							
Jan. 1	To Balance b/d		80,000	Jan. 31	By Balance c/d		1,04,000				
5	To Rushi's A/c		10,000								
19	To Cash A/c		14,000								
			1,04,000				1,04,000				
Feb 1	To Balance b/d		1,04,000								

Dr.				Rushi Account				Cr.			
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)				
2018				2018							
Jan.17	To Purchases Return A/c		2,000	Jan. 5	By Purchases A/c		10,000				
31	To Balance c/d		8,000								
			10,000				10,000				
				Feb. 1	By Balance b/d		8,000				

Dr.				Cash Account				Cr.			
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)				
2018				2018							
Jan. 1	To Balance b/d		60,000	Jan. 19	By Purchases A/c		14,000				
10	To Bank of Maharashtra's A/c		20,000	26	By Bank of Maharashtra's A/c		16,000				
19	To Sales A/c		20,000	31	By Balance c/d		70,000				
			1,00,000				1,00,000				
Feb. 1	To Balance b/d		70,000								

Dr.				Karans Drawings Account				Cr.			
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)				
2018				2018							
Jan.10	To Bank of Maharashtra's A/c		6,000	Jan.31	By Balance c/d		6,000				
			6,000				6,000				
Feb. 1	To Balance b/d		6,000								

Dr.				Purchases Return Account				Cr.			
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)				
2018				2018							
Jan.31	To Balance c/d		2,000	Jan. 17	By Rushi's A/c		2,000				
			2,000				2,000				
				Feb. 1	By Balance b/d		2,000				

Dr.				Sales account				Cr.			
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)				
2018				2018							
Jan.31	To Balance c/d		60,000	Jan. 1	By Balance b/d		40,000				
			60,000	22	By Cash A/c		20,000				
							60,000				
				Feb. 1	By Balance b/d		60,000				

Dr.				Bank of Maharashtra's Account				Cr.			
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)				
2018				2018							
Jan. 1	To Balance b/d		1,00,000	Jan. 10	By Cash A/c		20,000				
26	To Cash A/c		16,000	10	By Karan's Drawings A/c		6,000				
31	To Interest received A/c		7,000	31	By Balance c/d		97,000				
			1,23,000				1,23,000				
Feb. 1	To Balance b/d		97,000								

Dr.				Interest Received Account				Cr.			
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)				
2018				2018							
Jan.31	To Balance c/d		7,000	Jan. 28	By Bank of Maharashtra's A/c		7,000				
			7,000				7,000				
				Feb. 1	By Balance b/d		7,000				

Trial Balance as on 31st Jan. 2018

Sr. No.	Name of Account	L.F.	Debit Amount (₹)	Credit Amount (₹)
1.	Cash		70,000	
2.	Purchases		1,04,000	
3.	Purchase Return			2,000
4.	Rushi			8,000
5.	Bank of Maharashtra		97,000	
6.	Karan's Capital			2,00,000
7.	Karan's Drawings		6,000	
8.	Sales			60,000
9.	Interest			7,000
	Total		2,77,000	2,77,000

Do You know?????

How transaction travels?

**EXERCISE****Q.1 Answer in one sentence only**

- 1) What is Ledger?
- 2) What is ledger posting?
- 3) When does an account show a nil balance?
- 4) What is Folio?
- 5) Where is the statement form of ledger A/c is used in actual practice?
- 6) Why Proprietor's Capital account is a liability for the business?
- 7) Why does cash account never shows a credit balance?
- 8) What is 'Trial Balance'?

Q.2 Write the word, term, phrase, which can substitute each of the statement.

- 1) Principal Book of accounts.
- 2) Transferring a journal entry to the appropriate accounts in the Ledger.
- 3) Page number of Ledger to which an entry is posted.
- 4) The process of extracting the balance and inserting it on lesser side of an account.
- 5) A debit balance to Personal Accounts.
- 6) A credit balance to Bank Account.
- 7) An account to be debited for goods damaged by fire.
- 8) A Trial Balance in which only net balances of all ledger accounts are transferred.

Q.3 Select appropriate alternatives from those given below and rewrite the sentences.

- 1) In case of a credit transaction one of the account must be aaccount.
a) Cash b) Credit c) Personal d) Debit
- 2) 'c/d' indicatesbalance.
a) Opening b) Closing c) Positive d) Negative
- 3) Column of ledger is used for writing page number of Journal.
a) J.F. b) L.F. c) Date d) Particulars
- 4) Debtors Account showsbalance.
a) Real b) Negative c) Credit d) Debit
- 5)is the process of deriving the difference between totals of the debit and credit side of each ledger a/c.
a) Totalling b) Journalizing c) Balancing d) Posting.
- 6) Total of Purchase book is.....to Purchase Account.
a) posted b) moved c) given d) entered.
- 7) Real account always shows.....balance.
a) minimum b) maximum c) debit d) credit
- 8)is prepared to test arithmetical accuracy of Books of Accounts.
a) Trial Balance b) Ledger c) Journal d) List

Q.4 State whether the following statements are 'True or False' with reasons.

- 1) Ledger is a book of Original Entry.
- 2) The process of recording a transaction in the Journal is called Posting.
- 3) A cash withdrawal from business by the trader should be credited to Drawings A/c
- 4) Balances of Nominal Accounts are carried forward to the next year.
- 5) When debit side of an account is greater than the credit side, the account shows a debit balance.
- 6) The name of an account written on top of each account is called 'Head of Account'.
- 7) Agreement of Trial Balance always proves accounting accuracy.
- 8) Trial balance is based on the double entry principle that for every debit there is equal amount of corresponding credit.

Q.5 Fill in the blanks.

- 1) Balance on Nominal Account shows expenses or loss.
- 2) Cash account always shows.....balance.
- 3) The right hand side of an account is called.....side.
- 4) Creditors shows.....balance.
- 5)accounts are closed by transferring its balances to Profit and Loss Account.

- 6) 'b/d' means.....
- 7) Rent paid for the residential quarter will be debited to.....account.
- 8) Sold goods of ₹ 24,000 at 20% Profit on cost, the purchase price of the goods is.....

Q.6 Complete the following table.

1)

Journal	Journalising
?	Posting

2)

Sales Return	Return Inward
Purchase Return	?

3)

L.F.	Journal
?	Ledger

4)

Assets	Debit Balance
Liabilities	?

5)

Land & Building	Real Account
Commission Received	?

Q.7 Put ✓ mark for the nature of balance for the following.

	Account	Dr. Balance	Cr. Balance
1)	Capital A/c	<input type="text"/>	<input checked="" type="checkbox"/>
2)	Goodwill	<input type="text"/>	<input type="checkbox"/>
3)	Bank Overdraft	<input type="text"/>	<input type="checkbox"/>
4)	Bills Receivable	<input checked="" type="checkbox"/>	<input type="checkbox"/>
5)	Creditors	<input type="text"/>	<input checked="" type="checkbox"/>
6)	Drawings	<input type="text"/>	<input type="checkbox"/>
7)	Advertisement	<input type="text"/>	<input type="checkbox"/>
8)	Prepaid Rent	<input type="text"/>	<input type="checkbox"/>
9)	Outstanding Salary	<input type="text"/>	<input type="checkbox"/>
10)	Bad debts	<input type="text"/>	<input type="checkbox"/>

❁❁❁❁❁❁❁❁❁❁ PRACTICAL PROBLEMS ❁❁❁❁❁❁❁❁❁❁

Q.1 Give Journal entries of the following posting from the ledger account.

In the books of Sopan

Dr. Cash Account Cr.

Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
2019				2019			
Feb. 1	To balance b/d		8,000	Feb. 5	By Telephone		750
3	To Sales A/c		700		Charges A/c		
6	To Interest A/c		600	9	By Purchases A/c		800
8	To Jayashree's A/c		1,500	28	By Balance c/d		9,250
			10,800				10,800
Mar. 1	To Balance b/d		9,250				

Dr. Purchases Account Cr.

Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
2019				2019			
Feb. 9	To Cash A/c		800	Feb.28	By Balance c/d		800
			800				800
Mar. 1	To Balance b/d		800				

Dr. Jayashree's Account Cr.

Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
2019				2016			
Feb. 15	To Sales A/c		5,000	Feb. 8	By Cash A/c		1,500
			5,000	28	By Balance c/d		3,500
Mar. 1	To Balance b/d		3,500				5,000

Q.2 Prepare necessary Ledger Accounts from the following Subsidiary Books.

Purchase Book

Date	Particulars	Inward Invoice No.	L.F.	Amount (₹)
2019				
Oct. 2	Amol			7,500
7	Aishwarya			2,400
11	Vivek			3,900
17	Sheth			6,500
27	Shabari			1,000
	Total			21,300

Purchases Return Book

Date	Particulars	Inward Invoice No.	L.F.	Amount (₹)
2019				
Oct. 10	Aishwarya			480
20	Sheth			650
28	Shabari			200
	Total			1,330

Q.3 From the following transactions prepare necessary Ledger Accounts in the Books of Vinay and balance the same.

2019

- Jan. 1 Started business with Cash ₹ 10,000
 6 Bought goods from Vikas ₹ 3,000
 9 Sold goods to Bhushan ₹ 2,400
 12 Paid to Vikas on account ₹ 1,600
 19 Received on account from Bhushan ₹ 1,000
 25 Cash Purchases ₹ 3,600
 30 Cash Sales ₹ 5,000
 31 Paid Wages ₹ 400

Q.4 Journalise the following transactions and prepare Cash A/c only.

2019

- July 1 Hardik started business with Cash ₹ 15,000 and Machinery ₹ 20,000
 4 Purchased goods for ₹ 9,000 less 10% Cash Discount.
 9 Sold goods to Amar ₹ 3,000
 12 Distributed goods worth ₹ 700 as free samples.
 14 Bought Stationery for ₹ 550 for office use.
 18 Received ₹ 950 from Dhanashree, a customer, whose account was earlier written off as a bad debts.
 21 Abhiram invoiced us goods worth ₹ 3,000.
 24 Settled Abhiram's account, he allowed 5% cash discount.
 27 Exchanged goods worth 2,500 against Furniture of the same amount.
 29 Withdrawn cash from ATM ₹ 5,000 for office use and ₹ 3,000 for personal use.

Q.5 Prepare Aparna's account in books of Suparna.

2019

- Jan. 1 Balance due from Aparna ₹ 60,000
 4 Sold goods to Aparna ₹ 15,000 at 10% Trade Discount.
 7 Goods returned by Aparna ₹ 1,500 (Gross)
 11 Received crossed cheque from Aparna ₹ 50000
 17 Invoiced goods to Aparna ₹ 12,000
 25 Sold goods to Aparna in cash ₹ 6,000
 30 Received cash from Aparna ₹ 33,000 in full settlement of her account.

Q.6 Prepare Cash A/c, Bank A/c, Purchases A/c, Sales A/c and Capital A/c. and balance the same in the books of Madanlal.

2019

- Aug. 1 Started business with bank balance ₹ 40,000.
 2 Purchased goods from Aseem worth ₹ 15,000 less 10% Trade Discount.
 3 Sold goods to Arun for ₹ 8,000 for cash.
 4 Paid Rent ₹ 3,000 and Electricity bill ₹ 500.
 5 Purchased 100 Shares of Perfect Technologies for ₹ 55 per share and paid Brokerage ₹ 250 by transfer through netbanking.
 6 Withdrawal of goods for personal use ₹ 500.
 7 Sold goods for cash ₹ 5,000 less 10% Cash Discount.
 8 Deposited cash into Bank ₹ 2,000.
 9 Paid ₹ 3,000 for daughter's tuition fees by Debit Card.
 10 Purchased a Table for ₹ 2,000.
 19 Received ₹ 1,500 by selling the scrap.
 27 Paid cash into bank in excess of ₹ 2,000

Q.7 Journalise the following transactions; post them into Ledger for February 2019

- 1 Sunil Started business with stock of goods ₹ 20,000 and Cash ₹ 1,70,000 out of which ₹ 50,000 borrowed from his friend Kedar@10 p.a.
 5 Placed an order for goods worth ₹ 7,000 with Mohan for which advance ₹ 5,500 was paid.
 9 Purchased Stationery for office use ₹ 4,500
 12 Goods distributed as free samples ₹ 2,000
 17 Paid Freight ₹ 400 on behalf of Mr. Dev.
 24 Received Goods from Mohan as per our order dated 5th Feb and settled his account.
 27 Bought goods from Shekhar on two months credit for ₹ 7,000 at 20% Trade Discount with instructions to send them to Sagar.
 28 Sent to Sagar Outward Invoice for goods supplied by Shekhar. at list price less 10% Trade Discount.

Q.8 Journalise the following transactions and Prepare ledger accounts in the books of Sanjeev.

2019

- June 1 Cash Received from Raju ₹ 10,000 for commission.
 3 Intra-state sale to Rakesh ₹ 3,000 and SGST @2.5% and CGST @2.5% applicable..
 5 Received full amount from Rakesh.
 8 Intra-state purchases from Mangesh ₹ 2,000 and SGST @2.5% and CGST @2.5% applicable.
 11 Paid the necessary amount to Mangesh.
 18 Paid Rent ₹ 2,500
 24 Paid mobile bill ₹ 1,000 out of which ₹ 700 for office use and for ₹ 300 for personal use.

Q.9 The following ledger balances were extracted from the books of Pawan Pawar,Pune as on 1st July 2019

Debit balances	Amt.(₹)	Credit balances	Amt.(₹)
Machinery	4,40,000	Purchase return	60,000
Rashmi's	70,000	Sales	3,60,000
Purchases	1,30,000	Pawan's capital	4,80,000
Sales return	40,000	Interest	6,000
Cash	1,00,000	Rakesh	56,000
Bank	1,80,000		
Stationery	2,000		

The following transactions took place during July 2019. Post them into Ledger and prepare Trial Balance as on 31st July 2019.

- 1 Introduced additional Capital ₹ 40,000
 4 Bought goods from Rakesh ₹ 80,000 @ 10% Trade Discount
 7 Sold goods to Rashmi ₹ 30,000
 9 Returned goods to Rakesh ₹ 20,000 (Gross)
 11 Rashmi returned goods to us ₹ 400
 14 Paid to Rakesh ₹ 40,000 @ 2% Cash Discount
 22 Made purchases ₹ 17,000 and amount paid by cheque

- 24 Cash Sales ₹ 8,000
- 27 Bought Stationery ₹ 3,000
- 28 Received from Rashmi ₹ 39,000 by RTGS and discount allowed ₹ 1000
- 29 Paid Salary ₹ 10,000
- 29 Sold goods to Rashmi ₹ 20,000
- 31 Bought goods from Rakesh ₹ 36,000 and paid by cheque.



5

Subsidiary-Books

Contents

- 5.1 *Introduction, Meaning and need for maintaining Subsidiary Books.*
- 5.2 *Cash Book with Cash Column*
- 5.3 *Cash Book with Cash and Bank Columns.*
- 5.4 *Simple and Analytical Petty Cash Book under Imprest System.*
- 5.5 *Purchase Book.*
- 5.6 *Purchase Return Book.*
- 5.7 *Sales Book.*
- 5.8 *Sales Return Book*
- 5.9 *Journal Proper*

Competency Statements

- Students understand the meaning and need of Subsidiary Books.*
- Students know the actual recording of transactions in special Journal.*
- Students can classify cash and credit transactions.*
- Students are able to prepare and balance different types of Cash Book.*
- Student learn to give accounting treatment for banking transactions and contra entries.*
- Students can prepare various Subsidiary Books.*

5.1 Introduction

A small business may be able to record all transactions in single Journal but as the business expands the number of transactions becomes so large, that the Journal is required to be sub-divided into Special Journals which are called Subsidiary Books.

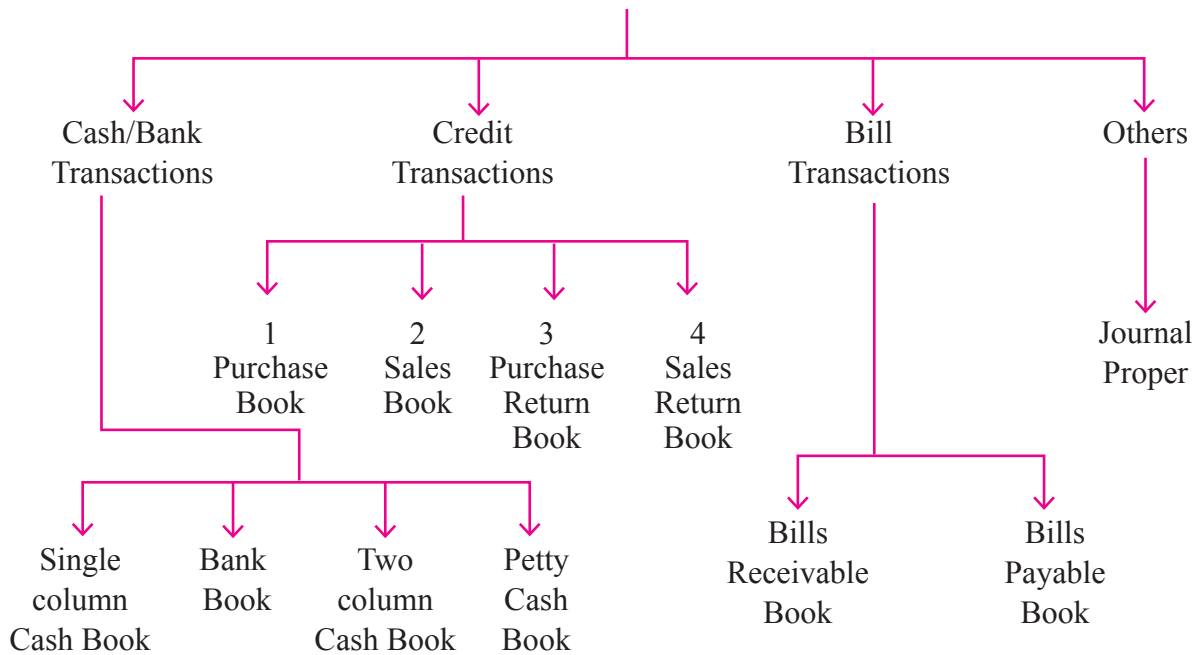
Meaning : The sub division of Journal on the basis of nature of transaction is known as Subsidiary Books. These books are also called as Books of Original entries or Prime entries because the transactions are first recorded in Subsidiary Books and then posted in the Ledger.

Need for maintaining Subsidiary Books :

- 1) **Specialisation :** When the staff is appointed for same type of work it leads to specialisation and increase in efficiency.

- 2) **Time saving and economical** : Different accounting procedures can be taken up at the same time. This will save time and prove to be economical.
- 3) **Division of work** : The writing of Subsidiary Books can be conveniently divided among different clerks. Hence it is easy to keep the Books upto date.
- 4) **Quick information and future reference** : Subsidiary Books gives quick information relating to the accounts and makes future reference easy.
- 5) **Internal check** : Verification of correctness can be made more effectively.

Types of Subsidiary Books on the basis of transaction :



Following are the important Subsidiary Books.

- 1) Cash Book.
- 2) Petty Cash Book.
- 3) Purchase Book
- 4) Purchase Return Books (Return Outward Book)
- 5) Sales Book
- 6) Sales Return Book (Return Inward Book)
- 7) Journal Proper

5.2 Cash Book :

All Cash and Bank transactions are recorded in the Cash Book. The Cash Book has two sides where the left hand side is Receipt Side (Debit-side) and the right hand side is Payment Side (Credit side). When amount is received details are recorded on the Receipt side and when payments are made details are recorded on the Payment side. Cash Book a Journal since it is a Book of Original entries and it also a ledger since it constitutes a classified record of all cash transactions in the form of Ledger and helps in finding out Cash and Bank balance at the end of particular accounting period. Thus, it can be said that cash book serves dual purpose of journal as well as ledger.

Format of Simple Cash Book

In the books of _____

Dr.					Cr.				
Simple Cash Book									
Date	Receipts	Receipt No.	L.F.	Amount ₹	Date	Payments	Voucher No.	L.F.	Amount ₹

1) Prepare a Simple Cash Book

2019 March 1	Cash in hand	₹	2,500
5	Cash paid to Suresh	₹	1,000
7	Cash Purchase	₹	500
14	Cash Received from Prakash	₹	1,000
16	Cash Sales	₹	800
20	Paid Carriage	₹	100
25	Paid Salary	₹	500

In the books of Company

Dr.					Cr.				
Simple Cash Book									
Date	Receipts	R. No.	L. F.	Amount ₹	Date	Payment	V. No.	L. F.	Amount ₹
2019 March					2019 March				
1	To Balance b/d			2,500	5	By Suresh A/c (Being paid to Suresh)			1,000
14	To Prakash A/c (Being cash received)			1,000	7	By Purchase A/c (Being goods purchased for cash)			500
16	To Sales A/c (Being cash sales)			800	20	By Carriage A/c (Being Carriage paid)			100
					25	By Salary A/c (Being Salary paid)			500
					31	By Balance c/d			2,200
				4,300					4,300
April 1	To Balance b/d			2,200					

2. Enter the following transactions in the Simple Cash Book of M/s Sourabh Traders

2019 July	1	Started business with cash	₹ 1,00,000
	3	Deposited cash into Bank	₹ 80,000
	5	Purchased Stationary for cash	₹ 2,000
	7	Cash Purchases	₹ 15,000
	8	Sold goods for cash ₹ 20,000 at 8% Trade Discount	
	10	Paid Insurance Premium	₹ 5,000
	12	Paid cash to Dixit	₹ 10,000
	15	Received cash from Saxena	₹ 80,000
	17	Received Commission	₹ 2,000
	18	Drew for domestic use	₹ 4,000
	22	Sold old Furniture	₹ 5,000
	25	Paid Salary to Ram	₹ 6,000
	30	Received Interest	₹ 4,000

Solution :**In the books of M/s Sourabh Traders**

Dr.		Simple Cash Book						Cr.	
Date	Receipts	R. No.	L. F.	Amount ₹	Date	Payments	V. No.	L. F.	Amount ₹
2019 July					2019 July				
1	To Capital A/c (Being business started)			1,00,000	3	By Bank A/c (Being Cash deposited in Bank)			80,000
				18,400					
8	To Sales A/c (Being cash sales)			80,000	5	By Stationary A/c (Being Stationary purchased)			2,000
15	To Saxena A/c (Being received cash)				7	By Purchase A/c (Being goods purchased)			15,000
17	To Commission A/c (Being commission received)			2,000	10	By Insurance Premium A/c (Being Insurance Premium paid)			5,000
22	To Furniture A/c (Being old Furniture sold)			5,000	12	By Dixit A/c (Being Cash paid)			10,000
30	To Interest A/c (Being Interest received)			4,000	18	By Drawings A/c (Being Drawings made)			4,000
					25	By Salary A/c (Being Salary paid)			6000
					31	By Balance c/d			87,400
				2,09,400					2,09,400
Aug. 1	To Balance b/d			87,400					

3. Enter the following transactions in a Simple Cash Book of Kamal Traders.

2018 Aug 1	Cash in hand	₹ 37,400
4	Cash received from Sakshi	₹ 25,000
5	Cash purchases	₹ 25,000 at 12% T.D.
8	Invested in Shares	₹ 25,000
10	Paid for Sundry Expenses	₹ 3,000
12	Paid Life Insurance Premium	₹ 8,000
16	Received Dividend	₹ 2,000
20	Paid Telephone Bill	₹ 6,000
22	Received Interest	₹ 1,000
25	Cash Sales	₹ 25,000 at 20% T.D.
28	Paid Electricity Bill	₹ 4,500

Solution : **In the books of Kamal Traders**

Dr.					Cr.				
Simple Cash Book									
Date	Receipts	R. No.	L. F.	Amount ₹	Date	Payments	V. No.	L. F.	Amount ₹
2018 Aug. 1	To Balance b/d			37,400	2018 Aug. 5	By Purchases A/c (Being Cash purchased)			22,000
4	To Sakshi's A/c (Being Cash received)			25,000	8	By Investment in Shares A/c (Being shares purchased)			25,000
16	To Dividend A/c (Being Dividend received)			2,000	10	By Sundry Expenses A/c (Being Sundry expenses paid)			3,000
22	To Interest A/c (Being Interest received)			1,000	12	By Drawings A/c (Being Life Insurance paid)			8,000
25	To Sales A/c (Being Cash sales)			20,000	20	By Telephone Bill A/c (Being Telephone bill paid)			6,000
					28	By Electricity Bill A/c (Being Electricity bill paid)			4,500
					31	By Balance c/d			16,900
				85,400					85,400
Sept. 1	To Balance b/d			16,900					

5.3 Two column Cash Book (Cash Book with Cash and Bank column)

Bank plays an important role in providing various services to traders. It accepts deposits from customers and allows withdrawals by way of cash or cheque or various net banking transactions. In addition to this bank provides a number of functions, like, payment by cheques and drafts, loan facility, cash credit, collection of cheques and above all safety of cash. Moreover, when a trader opens a current account with the bank he can avail Overdraft facility.

A businessman who indulges in a number of banking transactions opens a Current Account with the bank to take the advantage of Overdraft facility.

5.3.1 Columns in Cash Book with Cash and Bank columns :

Cash book with Cash and Bank columns has one additional column on receipt side and payment side along with cash column. This column is known as 'Bank' column. Only banking transactions are recorded in this column. Bank column represents the Bank Current Account.

5.3.2 Format of Cash Book with Cash and Bank columns :

In the books of -----

Two column Cash Book

Date	Receipts	R.No.	L.F.	Cash (₹)	Bank (₹)	Date	Payments	V.No.	L.F.	Cash (₹)	Bank (₹)

5.3.3 Accounting treatment of banking transactions in Cash Book with Cash and Bank columns :

- Opening balance of bank account :** When total of receipt side (debit side) is greater than the total of payment side (credit side) it is known as debit balance. When total of payment side (credit side) is greater than the total of receipt side (debit side) it is known as credit balance. Bank account is a personal account therefore; it can have debit balance or credit balance. Credit balance in bank account means 'Bank Overdraft'.
 - When debit balance of Bank account is given :** When debit balance of Bank account is given it will appear on the receipt side of cash book in the Bank column as : "To Balance b/d"
 - When credit balance of bank account is given or Overdraft in bank account is given:** Credit balance of bank is known as overdraft. Overdraft is a situation when amount withdrawn by account holder exceeds deposits in current account. It is a short term loan given by bank to current account holders. It is recorded on the payment side of the cash book in the bank column as under "By Balance b/d".
- Cheque received :** Cheques can be received for cash sales, commission, dividend, interest or settlement of accounts by debtors.
 - Crossed cheque received :** When crossed cheque is received, it is recorded, on receipt side of cash book in the bank column as "To Sales/Asset/Income/Debtor's A/c"

Journal entry : Bank A/c.....Dr

To Sales/Asset/Income/Debtor's A/c

- (b) **Bearer cheque received** : Bearer cheque received is treated as cash and recorded on the receipt side in the cash column as "**To Sales/Asset/Income/Debtor's A/c**"

Journal entry : Cash A/c.....Dr
To Sales/Asset/Income/Debtor's A/c

- (c) **Cheque received and deposited into bank on the same day** : Cheques received are deposited into the bank for collection. This is recorded on receipt side in the bank column as "**To Sales/Asset/Income/Debtor's A/c**"

Journal entry : Bank A/c.....Dr
To Sales/Asset/Income/Debtor's A/c

- (d) **Cheque received dishonoured** : Cheque received has to be presented to the bank for collection within three months from the date of drawing otherwise it becomes worthless. When bank refuses to pay the amount to the payee due to certain reasons the cheque is said to be dishonoured. Dishonoured cheque is recorded on the payment side to cancel the receipt effect in the bank as "**By Person's A/c**"

Journal entry : Person's A/c.....Dr
To Bank A/c

- (e) **Cheque issued** : Cheques can be issued for cash purchases, paying commission, paying interest settlement of creditors accounts. It can be used for withdrawing cash from bank. It is recorded on the payment side in the bank column as "**By Purchases/Expenses/Assets/Creditor's A/c**"

Journal entry : Purchases/Expenses/Assets/Creditor's A/c.....Dr
To Bank A/c

- (f) **Cheques issued dishonoured** :

Journal entry : Bank A/c.....Dr
To Person's A/c

- (g) **Cash withdrawn from bank for personal use** : This will appear on payment side in the bank column as "**By Drawings A/c**"

Journal entry : Drawings A/c.....Dr
To Bank A/c

3. **Bank advices and statements** : Banks offer a range of services like collection of cheques that are deposited into bank, collection of dividend, payment of expenses on behalf of account holder etc. Bank then sends an advice to the account holder giving details of these transactions. Current account holders also get a periodical statement from the bank which gives details of transactions like dishonour of cheque, direct deposit made by customer, interest charged on Overdraft, bank charges deducted by bank, interest allowed by bank etc. On the basis of advice and statement received transactions are recorded by the trader in the cash book.

- (a) **Direct deposit by customer into Bank** : Instead of paying by cash or cheque for settlement of accounts, customers may directly deposit money into our Bank Account. This is recorded on the receipt side in the bank column as "**To Customers A/c**"

Journal entry : Bank A/c.....Dr
To Customer's A/c

(b) **Interest allowed by bank :** Bank allows interest on bank deposits, this is income for the trader and therefore increases the balance in bank. It is recorded on the receipt side in the bank column as "**To Interest A/c**"

Journal entry : Bank A/c.....Dr
To Interest A/c

(c) **Interest charged on overdraft debited by bank :** Overdraft facility is a short term loan given to current account holders. Bank charges certain percentage of interest on overdraft amount which is expenditure to the trader. It is recorded on the payment side in the bank column as "**By Interest on overdraft A/c**"

Journal entry : Interest on overdraft A/c.....Dr
To Bank A/c

(d) **Bank charges debited by bank :** Certain amount is charged by the bank for services rendered by them. This is known as bank charges. Bank charges are expenditure for the trader and are recorded on the payment side in the bank column as "**By Bank Charges A/c**"

Journal entry : Bank Charges A/c.....Dr
To Bank A/c

(e) **Dividend or interest on investment collected by bank on behalf of trader :** This is income of trader collected by the bank. On receiving an advice or statement from Bank, the trader records this transaction on the receipt side in the bank column as "**To Interest on Investment A/c / Dividend A/c**"

Journal entry : Bank A/c.....Dr
To Interest on Investment or Dividend A/c

(g) **Payment made by Bank under the standing instruction given by trader :** As per the standing instructions given to Bank, the Bank makes payments of Insurance premium, Telephone bill, Electricity bills and other expenses on behalf of trader. This is recorded on the payment side in the bank column as "**By Respective Expenses A/c**"

Journal entry : Respective Expenses A/c.....Dr
To Bank A/c

4. **Transfer of amount :** In addition to Current Account, a businessman may have Credit or a Loan amount with the bank to meet his financial requirements. He can transfer money from Cash credit or Loan account to Current account or from Current account to Cash Credit or Loan account. Similarly amount can be transferred from Personal Savings Account to Current Account or from the Current Account to Personal Account. The treatments for these transactions are as under.

(a) **From Cash Credit or Loan Account to Current Account :** This transaction increases the current account balance and is therefore recorded on the receipt side in the bank column as "**To Cash Credit or Loan A/c**"

Journal entry : Bank A/c.....Dr
To Cash credit/Loan A/c

(b) **From Current Account to Cash Credit or Loan Account :** This transaction decreases the current account balance and is therefore recorded on the payment side in the bank column as "**By Cash Credit or Loan A/c**"

Journal entry : Cash Credit/Loan A/c.....Dr
To Bank A/c

- (c) From Personal Saving account to Current Account :** This is additional cash brought into business by the trader. It increases the capital balance and current account balance and is recorded on the receipt side in the bank column as **"To Capital A/c"**

Journal entry : Bank A/c.....Dr
To Capital A/c

- (d) From current account to personal savings Account :** This is drawings of the proprietor. It decreases the current account balance and is recorded the payment side in the bank column as **"By Drawings A/c"**

Journal entry : Drawings A/c.....Dr
To Bank A/c

5. Contra Entries : Certain transaction affects Cash Account and Bank Account simultaneously but with opposite effect. It may decrease the cash balance and increase bank balance or increase the cash balance and decrease bank balance at the same time. In columnar Cash Book, Cash Account and Bank Account appear under the same heading of cash book. To record increase in bank balance, bank account is debited and to record decrease in cash balance, cash account is credited and vice versa. Entries recorded on both the sides of Cash Book are called as "Contra Entries". It occurs only when Cash Account and Bank Account are simultaneously affected in a transaction. Contra entries are denoted by the capital letter "C" in the Ledger Folio column.

Situations under which contra entry takes place :

1. Cash deposited into the Bank.
2. Cash withdrawn from the Bank for office use.
3. Bearer Cheque received on previous date and deposited into the Bank"

Accounting treatment for contra entries are as under :

- (a) Cash deposited into the Bank :** This transaction increases the bank balance and decreases the cash balance and is recorded as under : **Receipt side "To Cash A/c" in the bank column.**

Payment side "By Bank A/c" in the cash column.

Journal entry : Bank A/c.....Dr
To Cash A/c

In the above transaction Bank is the receiver therefore it is debited to Cash Account. Similarly cash is going out therefore it is credited by Bank Account.

- (b) Cash withdrawn from bank for office use :** This transaction increases the cash balance and decreases the bank balance and is recorded as under : **Receipt side "To Bank A/c" in the cash column. Payment side "By Cash A/c" in the bank column.**

Journal entry : Cash A/c.....Dr
To Bank A/c

Here cash comes into the business therefore it is debited to Bank Account. Similarly bank is the giver and therefore is credited by Cash Account.

- (c) **Bearer Cheque received on previous date deposited into the Bank :** Bearer cheques received are treated as cash. When it is deposited into the bank for collection it is assumed that cash is going out and bank is the receiver. This transaction increases the bank balance and decreases the cash balance. It is recorded as under : **Receipt side "To Cash A/c" in the bank column. Payment side "By Bank A/c" in the cash column.**

Journal entry : Bank A/c.....Dr
To Cash A/c

5.3.4 Balancing of Cash Book with Cash and Bank column :

After recording all receipts and payments, the Cash Book is balanced to find out the cash balance and bank balance.

Cash column : Since the amount of cash in hand is always more than or equal to the payments, the total amount of receipt side should be more than the total amount of payment side. Total amount of payment side is deducted from the total amount of receipt side and the balance is recorded on the payment side as "By Balance c/d" in the cash column. At the beginning of the next accounting period this balance is brought down on the receipt side as "To Balance b/d" in the cash column.

Bank column : Bank account is a Personal Account. It can have debit balance or credit balance. When the total of receipt side is more than the total of payment side the difference is known as positive or normal balance. This balance is recorded on the payment side in the bank column as "By Balance c/d" At the beginning of the next accounting period this balance is brought down on the receipt side in the bank column as "To Balance b/d".

When the total amount of payment side is more than the total amount of receipt side the difference is known as bank overdraft or credit balance. This is recorded on the receipt side in the bank column as "To Balance c/d". At the beginning of the next accounting period, overdraft amount is brought down on the payment side in the bank column as "By Balance b/d".

Types of Bank Account : The following are the types of Bank Account.

1. **Current Account :** Current Account is suitable for businessman, since there is no restriction on number of deposits and number of withdraws or cheque payment made through current account. Generally, no interest is allowed on Current Account, but overdraft facility is available on Current Account.
2. **Savings Account :** A person having fixed or regular income can deposit his surplus in Saving Account. This account helps the person having limited income to develop the habit of savings. There are restrictions on withdrawals. Interest at a prescribed rate is allowed on this account. **No Overdraft facility is available on this Account.**
3. **Fixed Deposit Account :** In this account a fixed amount is deposited for a fixed period of time in order to earn higher rate of interest. The amount deposited cannot be withdrawn before expiry of that period. This account is not useful to businessman for regular banking transactions. It is useful to create time deposit and earn extra income.
4. **Recurring Deposit Account :** The account holder deposits fixed amount, monthly upto a particular decided period. It offers higher rate of interest as compared to Saving Bank Account and lower rate of interest as compared to fixed deposit account. Depositor is not allowed to withdraw money till its maturity.

Illustration - 1 Consider the following example.

Prepare two column Cash Book of Seema Traders

			₹
2019 Jan	01	Started business with Cash	60,000
	04	Cash deposited into Bank of India	25,000
	06	Cash Purchases	6,000
	10	Purchased Computer for office use	22,000
	15	Sold goods to Rakesh & Co. and received a bearer cheque.	10,000
	20	Rakesh's cheque deposited into Bank.	
	24	Paid Carriage	300
	25	Cash withdrawn for personal use	3,000
	30	Paid Rent by cheque	1,200

Solution : **In the books of Seema Traders**

Dr.		Cash Book								Cr.	
Date	Receipts	R. No.	L. F.	Cash ₹	Bank ₹	Date	Payments	V. No.	L. F.	Cash ₹	Bank ₹
2019 Jan.						2019 Jan.					
1	To Capital A/c (Being started business)	-	-	60,000	-	4	By Bank A/c (Being cash deposited)	-	C	25,000	-
4	To Cash A/c (Being cash deposited)	-	C	-	25,000	6	By Purchases A/c (Being cash Purchases)	-	-	6,000	-
15	To Sales A/c (Being cash sales made)	-	-	10,000	-	10	By Computer A/c (Being computer purchased)	-	-	22,000	-
20	To Cash A/c (Being cheque deposited into bank)	-	C	-	10,000	20	By Bank A/c (Being cheque deposited)	-	C	10,000	-
						24	By Carriage A/c (Being carriage paid)	-	-	300	-
						25	By Drawing A/c (Being cash withdrawn for personal use)	-	-	3,000	-
						30	By Rent A/c (Being rent paid by cheque)	-	-	-	1,200
						31	By Balance c/d	-	-	3,700	33,800
				70,000	35,000					70,000	35,000
Feb. 1	To Balance b/d			3,700	33,800						

2) From following transaction related to Sundar and Co. Prepare Cash Book with two columns

Date	Details	Amount (₹)
2018 Sept 01	Bank Balance	52,000
01	Cash Balance	15,000
04	Purchased goods and payment made by cheque	15,000
08	Sold goods for cash	8,000
13	Purchased Machinery and payment made by cheque	10,000
16	Sold goods and received cheque (deposited same day)	12,000
17	Purchased goods for cash from Mrunal	18,000
20	Purchased Stationery and paid by cheque	2,100
24	Cheque given to Avadhut	1,800
27	Cash withdrawn from Bank	12,000
30	Paid Rent by cheque	500
30	Paid Salary	4,000

Solution :

In the books of Sundar and Co.

Dr.

Cash Book with two columns

Cr.

Date	Receipts	R. N.	L. F.	Cash ₹	Bank ₹	Date	Payments	V. N.	L. F.	Cash ₹	Bank ₹
2018 Sept 1	To Balance b/d			15,000	52,000	2018 Sept 4	By Purchase A/c (Being cash purchases)				15,000
8	To Sales A/c (Being goods sold for cash)			8,000	-	13	By Machinery A/c (Being Machinery purchased)				10,000
16	To Sales A/c (Being goods sold against cheque)				12,000	17	By Purchases A/c (Being cash purchased)			18,000	
27	To Bank A/c (Being cash withdrawn for office use)	C		12,000	-	20	By Stationery A/c (Being Stationery purchased)				2,100
						24	By Avadhut A/c (Being cheque issued)				1,800
						27	By Cash A/c (Being Cash withdrawn for office use)		C		12,000
						30	By Rent A/c (Being Rent paid)				500
						30	By Salary A/c (Being Salary paid)			4,000	
						30	By Balance c/d			13,000	22,600
				35,000	64,000					35,000	64,000
Oct. 1	To Balance b/d			13,000	22,600						

3) Enter the following transactions in cash book with cash and bank columns of Mehta Brothers.

- 2019 Oct. 1 Cash in hand ₹ 13,000 and Bank balance ₹ 24,000
3 Cash sales ₹ 80,000 at 10% Traders discount.
5 Cash purchases ₹ 60,000 at 10% T.D. and 5% C.D. half the amount was paid in cash and remaining by cheque.
7 Deposited cash in to bank ₹ 40,000
9 Received bearer cheque from Sumit ₹ 9,500
13 Sold goods for cash ₹ 12,000 at 4% T.D.
15 Paid Life Insurance premium ₹ 4,000
18 Cheque received on 9th Oct. 2019 deposited into bank.
22 Received crossed cheque from Prabhakar ₹ 6,000
27 Introduced additional capital ₹ 25,000 and deposited the same into Bank A/c
28 Paid Electricity bill ₹ 3,000 and Telephone bill ₹ 4,100
30 Received crossed cheque for dividend ₹ 6,250.

Solution :

In the books of Mehta Brothers

Dr.

Cash Book

Cr.

Date	Receipts	R. No.	L. F.	Cash ₹	Bank ₹	Date	Payments	V. No.	L. F.	Cash ₹	Bank ₹
2018 Oct.						2018 Oct.					
1	To Balance b/d	-	-	13,000	24,000	5	By Purchase A/c (Being Cash purchases)	-	-	25,650	25,650
3	To Sales A/c (Being goods sold for cash)	-	-	72,000	-	7	By Bank A/c (Being Cash deposited)	-	C	40,000	-
7	To Cash A/c (Being Cash deposited)	-	C	-	40,000	15	By Drawings A/c (Being amount paid for life insurance premium)	-	-	4,000	-
9	To Sumit A/c (Being Cash received)	-	-	9,500	-	18	By Bank A/c (Being cash deposited)	-	C	9,500	-
13	To Sales A/c (Being cash sales)	-	-	11,520	-	28	By Electricity A/c (Being electricity bill paid)	-	-	3,000	-
18	To Cash A/c (Being deposited)	-	C	-	9,500	28	By Telephone Bill A/c (Being Telephone bill paid)	-	-	4,100	-
22	To Prabhakar A/c (Being Cash received from Prabhakar)	-	-	-	6,000	31	By Balance c/d	-	-	19,770	85,100
27	To Capital A/c (Being Additional capital brought)	-	-	-	25,000						
30	To Dividend A/c (Being Dividend received)	-	-	-	6,250						
				1,06,020	1,10,750					1,06,020	1,10,750
Nov. 1	To Balance b/d			19,770	85,100						

Working Note :

Transaction dated 5th Oct. 2018

$$\text{Net cash purchases} = \text{Cash purchases} - 10\% \text{ T.D.}$$

$$= 60,000 - 6,000 = 54,000$$

$$\text{Amount paid} = \text{Net Cash purchases} - 5\% \text{ C..D.}$$

$$= 54,000 - 5\% \text{ of } 54,000$$

$$= 54,000 - 2,700 = 51,300$$

$$1/2 \text{ Amount paid in cash} = 51,300 \times 1/2 = 25,650$$

$$\text{Remaining amount paid by cheque} = 51,300 - 25,650 = 25,650$$

4) Prepare two columns Cash Book of Guru Dakshina Brothers. (Narrations not required)

2019 March 1) Cash balance ₹ 13,000 and Bank Overdraft ₹ 18,000

2) Received from Neha cash ₹ 1,700 and bearer cheque ₹ 500.

7) Paid to Dhanraj ₹ 6,000 by cheque.

8) Cash Sales ₹ 6,545 and discount allowed ₹ 55

10) Cheque received on 2nd March 2019 deposited into Bank.

12) Deposited into Bank ₹ 5,000

13) Goods purchased from Prachi on credit ₹ 5,000

15) Cheque received from Neha returned dishonoured.

20) Purchased goods from Sweety ₹5,000 at 7% T.D. and paid half the amount immediately.

22) Bank paid insurance premium ₹1,000 and collected interest on investment ₹1,650

24) Cheque issued to Dhanraj was dishonoured.

26) Gupta stores directly deposited into our Bank A/c ₹7,500

30) Deposited cash in excess of ₹3,920 in to Bank.

Solution :

In the books of Guru Dakshina Brothers

Dr.

Cash Book with Cash and Bank column

Cr.

Date	Receipt	R. No.	L. F.	Cash ₹	Bank ₹	Date	Payment	V. No.	L. F.	Cash ₹	Bank ₹
2019 Mar .						2019 Mar.					
1	To Balance b/d			13,000		1	By Balance b/d				18,000
2	To Neha A/c			2,200		7	By Dhanraj A/c				6,000
8	To Sales A/c			6,545		10	By Bank A/c		C	500	
10	To Cash A/c		C		500	12	By Bank A/c		C	5,000	
12	To Cash A/c		C		5,000	15	By Neha A/c				500
22	To Int. on Investment A/c				1,650	20	By Purchases A/c			2,325	
24	To Dhanraj A/c				6,000	22	By Ins. Prem. A/c				1,000
26	To Gupta Stores A/c				7,500	30	By Bank A/c		C	10,000	
30	To Cash A/c		C		10,000	31	By Balance c/d			3,920	5,150
				21,745	30,650					21,745	30,650
April 1	To Balance b/d			3,920	5,150						

Working Note :

- Transaction dated 20th March 2019

Gross Purchases	₹ 5000
Less : 7% T.D.	₹ 350
	₹ 4,650

x 1/2 = 2325 Cash paid
- Total Receipt of Cash ₹ 21,745

Less : Payment Total up to 22 March	₹ 7,825
	₹ 13,920

Less : Cash Deposited into Bank
in excess of ₹ 3,920

	₹ 10,000
	₹ 3,920

Closing Cash Balance

Note : Transaction dated 13th March is of credit purchases of goods so it is not recorded in cash book.

5.4 Petty Cash Book

In large business organization the accounting work is divided systematically. There are various departments spending small amount on stationary, postage and telegram, refreshment carriage etc.

The person maintaining petty cash book is known as petty cashier. The Petty cashier is given certain amount by the main cashier as an advance at the beginning of every month from which all petty expenses are paid and recorded by petty cashier. The term petty is derived from the French word "Petit" which means "small". So this book is maintained for recording small expenses which cannot be paid by cheque.

Types of Petty Cash Book :

There are two types of Petty Cash Book which are as under :

- 1) Simple petty cash
- 2) Analytical Columnar Petty Cash Book

1) Simple Petty Cash Book :

Simple Petty Cash Book is divided into two sides Receipt side and Payment side. Cash or cheque received from head cashier is recorded in column of amount received and petty expenses paid are recorded in amount paid column. Transactions recorded in Simple Petty Cash Book are to be posted in respective Expenses A/c in Ledger. This requires additional time and labour therefore business firm do not use Simple Petty Cash Book.

From the following transactions prepare Simple Petty Cash Book

In the Books of Noha Brothers

Date	Details	Amount (₹)
2019 Jan. 01	Received from head cashier	1,200
04	Paid Telephone Charges	193
07	Paid for Mobile Charges	57
10	Purchased Office Files	125
14	Gave tip to peon	40
16	Sale of old Newspaper	60
19	Gave advance to Sweety	100
22	Paid Packing charges	170
24	Paid for Advertisement	120
27	Paid for Cleaning charges	60
28	Gave Donations	101
30	Purchased Revenue Stamps	60

Solution :

Simple Petty Cash Book

Amount Received (₹)	Date	Particulars	Voucher No.	L.F.	Total Amount paid (₹)
1,200	2019 Jan. 1	To Cash A/c			
	4	By Telephone Charges A/c			193
	7	By Mobile charges A/c			57
	10	By Office files A/c			125
	14	By Tip to Peon A/c			40
60	16	To Sale of old News paper A/c			-
	19	By Sweety A/c			100
	22	By Packing Charges A/c			170
	24	By Advertisement A/c			120
	27	By Cleaning Charges A/c			60
	28	By Donations A/c			101
	30	By Revenue Stamps A/c			60
		Total Expenses			1,026
	31	By Balance c/d			234
1,260					1,260
234	2019 Feb. 1	To Balance b/d			

2) Analytical Petty Cash Book/Columnar Petty Cash Book :

An Analytical Petty Cash Book has two sides, left hand side for recording receipt of cash and right hand side for recording payments. Analytical Petty Cash Book has many sub columns on payment side for recording various expenses.

For example : Printing and Stationery, Postage, Carriage and Cartage etc. There is no hard and fast rule for number of columns in analytical Petty Cash Book. For example Ledger column is prepared for making payment towards Personal or Real accounts. The Petty Cashier prepares a statement stating the summary of expenses paid and submits it to the Chief cashier.

Imprest system of Petty Cash Book : Maintaining Petty Cash Book under Imprest System is the best system. Under Imprest System estimate is made for petty expenses for a certain period. Such amount is paid to Petty cashier to start with. At the end of the period he presents the accounts of payment made by him to the head cashier. After checking the account the petty cashier will be given a sum equal to the amount actually spent by him. Now the Petty cashier will start with the same amount that he had at the beginning of the previous period. The system is known as Imprest System of Petty Cash Book.

Format of Analytical Petty Cash Book

Amount Received	Cash Book folio	Date	Particulars	Voucher No.	Total Amount	Printing & Stationary	Postage	Carriage	Travelling Expenses	Miscellaneous Expenses	Telephone charges	L.F.	₹ Ledger Account
₹ xx			To										
			By.....		xx		xx						
			By.....		xx								
			By.....		xx				xx				
			By.....		xx					xx			
			By.....		xx								
			By.....		xx			xx					
			By.....		xx								
			By.....		xxx			xx	xx	xx	xx		xx
			Total Exp	-	xxx			xx	xx	xx	xx		
			By Balance c/d		xx								
xxx					xxx								
xx			To balance b/d										
xxx			To.....										

Illustration 1 : Mr. Sourabh the Petty Cashier of Raje Mobile Company, Latur received ₹ 8,000 on June 01, 2019 from Head Cashier. Details of Petty Expenses for the month are as follows :

Date	Particulars	Amount (₹)
2019 June 1	Auto fare	255
3	Courier Expenses	60
4	Postal stamps purchased	210
5	Eraser/Pen/Pencils purchased	525
6	Speed post charges	198
8	Taxi fare	390
8	Refreshment	850
10	Auto fare	310
12	Registered postal charges	142
13	Files purchased	45
14	Cartage	65
16	Computer Stationery purchased	1,650
19	Bus fare	240
19	Mobile charges	270
20	Office sanitation charges paid	160
22	Refreshment	450
23	Photocopy charges paid (Zerox)	270
28	Courier expenses	140
29	Unloading charges	170
30	Bus fare	150

Prepare Analytical Petty Cash Book

Solution I
In the books of Raje Mobile Company, Latur
Petty Cash Book

Amount Received ₹	Date	Particulars	Voucher No.	Total Amount Paid ₹	Courier/Postage ₹	Telephone Expenses ₹	Travelling & Conveyance Expenses ₹	Printing & Stationery ₹	Misce. Expenses ₹	L.F.	Ledger ₹
8,000	2019 June 1	To Cash A/c	-								
	1	By Auto fare	-	255			255				
	3	By Courier exp.	-	60	60						
	4	By Postal Stamps	-	210	210						
	5	By Eraser/pen pencil	-	525				525			
	6	By Speed post charges	-	198	198						
	8	By Taxi fare	-	390			390				
	8	By Refreshment	-	850					850		
	10	By Auto fare	-	310			310				
	12	By Registered postal charges	-	142	142						
	13	By Files	-	45				45			
	14	By Cartage	-	65					65		
	16	By Computer stationery	-	1,650				1,650			
	19	By Bus fare	-	240			240				
	19	By Mobile charges	-	270					270		
	20	By Office sanitation	-	160					160		
	22	By Refreshment	-	450					450		
	23	By Photo stating charges	-	270							
	28	By Courier Expenses	-	140	140						
	29	By Unloading charges	-	170					170		
	30	By Bus fare	-	150			150				
		Total Exp	-	6,550	750	270	1,345	2,220	1,965		
	30	By Balance c/d		1,450							
8,000				8,000							
1,450	July 01	To Balance b/d									

From the above Analytical Petty Cash Book pass Journal Entries and prepare Ledger Accounts.
In the Books of Raje Mobile company, Latur

Solution 1

**In the books of Raje Mobile Company, Latur
Journal Entries**

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount(₹)
2019 June 1	Petty Cash A/c Dr. To Cash A/c (Being cash received from Head cashier)		8,000	8,000
June 30	Courier and Postage A/c Dr. Telephone Expenses A/c Dr. Travelling & Conveyance A/c Dr. Printing & Stationery A/c Dr. Miscellaneous Expenses A/c Dr. To Petty Cash A/c (Being petty expenses posted to petty cash account)		750 270 1,345 2,220 1,965	6,550

Ledger Accounts in the books of Raje Mobile Company, Latur

Dr.				Cr.			
Petty Cash Account							
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
2019 June 1	To Cash A/c		8,000	2019 June 30	By Sundries as per Petty Cash Book A/c		6,550
				30	By Balance c/d		1,450
			8,000				8,000

Dr.				Cr.			
Courier & Postage Account							
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
2019 June 30	To Petty Cash A/c		750				
			750				

Dr. Telephone Expenses Account				Cr.			
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
2019 June 30	To Petty Cash A/c		270				
			270				

Dr. Travelling & Conveyance Expenses Account				Cr.			
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
2019 June 30	To Petty Cash A/c		1,345				
			1,345				

Dr. Printing & Stationery Account				Cr.			
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
2019 June 30	To Petty Cash A/c		2,220				
			2,220				

Dr. Miscellaneous Expenses Account				Cr.			
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
2019 June 30	To Petty Cash A/c		1,965				
			1,965				

Illustration 2 - Enter the following transactions in an Analytical Petty Cash Book under Imprest System for July 2018

Date	Particulars	Amount (₹)
2018 July 1	Cash Balance	335
1	Cash received from Head Cashier	2,165
2	Gave Gift to clerk Omkar	251
5	Paid for Registered and Speed Post	240
6	Sold old Newspaper	100
7	Washing Charges paid to peon	170
10	Paid Lunch Bill to salesman	160
13	Gave Advance to peon Arun	500
16	Paid for Carriage & Cartage	180
19	Purchased Chair for office use	300
22	Purchased Stamp Pad, Paper and Pencil	170
26	Purchased Office Files	110
30	Paid for Repairs of Machinery	230

In the books of

Petty Cash Book**Solution :**

Amount Received ₹	Date	Particulars	Voucher No.	Total Amount Paid ₹	Analysis of petty expenses						Ledger ₹	
					Postage ₹	Printing & Stationery ₹	Carriage & Cartage ₹	Repairs ₹	Misc. Expenses ₹	L.F.		
335	2018, July 1	To Balance b/d										
2,165	1	To Cash A/c										
	2	By Gift to clerk		251					251			
	5	By Register & Speed post		240								
100	6	To Sale of old News paper										
	7	By Washing charges		170					170			
	10	By Lunch bill		160					160			
	13	By Advance to Arun		500								
	16	By Carriage & Cartage		180			180				500	
	19	By Chair		300								300
	22	By Stamp and Papers etc.		170					170			
	26	By Office files		110					110			
	30	By Repairs		230						230		
		Total Expenses		2,311	240	280	180	230	581		800	
	31	By Balance c/d		289								
2,600				2,600								
289	Aug 1	To Balance b/d										
2,311	Aug 1	To Cash A/c										

Illustration 3 - Enter the following transactions in an Analytical Petty Cash Book under Imprest System for Aug .2018. Imprest money was maintained at ₹ 2,000.

Date	Particulars	Amount (₹)
2018 August 1	Opening Petty Cash Balance	150
1	Cheque received from Chief Cashier	1,850
5	Paid for Carriage ₹18 and Envelopes ₹ 65	
6	Paid for Cleaning & Washing Charges	80
8	Paid for Telephone charges	280
10	Paid for Donation	250
14	Paid for Subscription to newspaper	120
19	Paid for Post cards ₹ 60 & Revenue Stamps ₹ 45	
22	Paid for Refreshment	200
26	Paid for Auto charges	55
27	Paid Wages	75
28	Paid for Repairs to Machinery	180
30	Paid to Mr. Krishna	500

In the books of

Analytical Petty Cash Book

Solution 3 :

Amt Received ₹	Date	Particulars	Vou. No.	Total Amount Paid ₹	Analysis of petty expenses															
					Carriage & Carriage	Printing & Stationery	Telephone Charges	Postage	Travelling Expenses	Wages	Repairs	Misc. exp.	L.F.	₹						
	2018, Aug 1	To Balance b/d																		
150	Aug 1	To Bank A/c																		
1,850	1	By Carriage		18																
	5	By Envelopes		65																
	5	By Cleaning & Washings		80																
	6	By Telephone		280																
	8	By Donation		250																
	10	By News paper subscription		120																
	14	By Revenue stamp		45																
	19	By Post cards		60																
	19	By Refreshment		200																
	22	By Auto charges		55																
	26	By Wages		75																
	27	By Repairs		180																
	28	By Krishna		500																
	30																			
		Total Exp		1,928																
	31	By Balance c/d		72																
2,000				2,000																
72	Sept 1	To Balance b/d																		
1,928	Sept 1	To Bank A/c																		

5.5 Purchase Book (Bought Day Book) :

Goods purchased on credit for manufacturing or for resale are only recorded in purchase book. Cash purchases are not recorded in purchase book. Similarly credit purchases other than goods like purchase of office equipment, furniture, stationary and building are not recorded in purchase book. For example, a business dealing in machinery spare parts will record only credit purchase of machinery spare parts in purchase book. This book is also known as Purchase Journal

Goods purchased on credit are always recorded at net value.

Purchase Book - Format of Purchase Book

Date	Name of supplier	Inward Invoice No.	L.F.	Amount (₹)

1) Prepare Purchase Book in the books of Noha Traders

2019 Apr 1	Purchased goods from Mrs. Kamal ₹ 1,000 on credit (Invoice No.4)			
4	Purchased goods from Sakshi for cash ₹ 500			
5	Purchased Machinery from Machinery Tools Company on credit ₹ 5,000			
8	Purchased goods from Sourabh on credit ₹ 2,000 (Invoice No. 10)			
10	Purchased goods from Aishwarya on credit ₹ 5,000 (Invoice No. 11)			

In the books Noha Traders

Purchase Book

Date	Name of supplier	Inward Invoice No.	L.F.	Amount (₹)
2019 April 1	Mrs. Kamal	4		1,000
8	Mr. Sourabh	10		2,000
10	Mrs. Aishawarya	11		5,000
		Total		8,000

Note : 1) Transaction dated 04 April 2019 cannot be recorded in Purchase Book because it is cash purchases.

2) Transaction dated 5th April, 2019 cannot be recorded in Purchase Book, it is recorded in Journal Proper as it is credit purchase of Machinery.

2) Enter the following transaction in Purchase Book of Konika Electronics. Post them into ledger and prepare Trial Balance as on 31st August, 2018.

2018 Aug 3	Purchase from M/s. Seema Electronics (Invoice No. 2250) 20 mini size Mobile @ ₹2,000 per piece, 12 Home Theatres @ ₹4,500 per piece at 20% T. D.
10	Purchased from Pawan Electronics (Invoice No. 2860) 100 Pendrives @ ₹210 per piece at 10% T.D.
16	Purchased from Modern Electronics (Invoice No. 2456) 15 stereos @ ₹4200 per piece, 20 Colour LCD @ ₹14,000 per piece at 12.5% T.D.
26	Purchased from Seema Electronics (Invoice No. 2394) 10 mini size LCD at ₹8000 per piece 6 LEDS at ₹12500 per piece at 20% T.D.
29	Bought from Pawan Electronics (Invoice No. 2960) 50 pen drives at ₹210 per piece at 20% T.D.

Solution : In the books of Konika Electronics - Purchase Book

Date	Name of supplier	L.F.	Inward Invoice No.	Amount (₹)
2018 Aug 3	Seema Electronics	₹	2,250	
	20 Mobile x 2,000 per piece	40,000		
	12 Home Theatre x 4,500	54,000		
		94,000		
	Less - 20% T.D.	18,800		75,200
10	Pawan Electronics		2,860	
	100 Pendrives x 210	21,000		
	Less - per piece 10% T.D.	2,100		
16	Modern Electronics		2,456	
	15 Stereos x 4200 per piece	63,000		
	20 LCDS x 14000 per piece	2,80,000		
		3,43,000		
	Less - 12.5% T.D.	42,875		3,00,125
26	Seema Electronics		2,394	
	10 LCDS x 8,000 per piece	80,000		
	6 LCDS x 12,500 per piece	75,000		
		1,55,000		
	Less - 20% T.D.	31,000		1,24,000
29	Pawan Electronics		2,960	
	50 Pendrive 210 per piece	10,500		
	Less - 20% T.D.	2,100		
				8,400
	Total			5,26,625

Note : Details of calculations can be shown as working notes.

In the books of Konica electronics

Dr.				Cr.			
Purchases Account							
Date	Particulars	L.F.	Amt (₹)	Date	Particulars	L.F.	Amt (₹)
2018				2018			
Aug 31	To Sundries as per Purchase Book		5,26,625	Aug 31	By Balance c/d		5,26,625
			5,26,625				5,26,625
Sept 1	To Balance b/d		5,26,625				

Dr.				Cr.			
Seema Electronics Account							
Date	Particulars	L.F.	Amt (₹)	Date	Particulars	L.F.	Amt (₹)
2018				2018			
Aug 31	To Balance c/d		1,99,200	Aug 3	By Purchases A/c		75,200
			1,99,200	26	By Purchases A/c		1,24,000
							1,99,200
				Sept 1	By Balance b/d		1,99,200

Dr.				Cr.			
Pawan Electronics Account							
Date	Particulars	L.F.	Amt (₹)	Date	Particulars	L.F.	Amt (₹)
2018				2018			
Aug 31	To Balance c/d		27,300	Aug 10	By Purchases A/c		18,900
			27,300	29	By Purchases A/c		8,400
							27,300
				Sept 1	By Balance b/d		27,300

Dr.				Cr.			
Modern Electronics Account							
Date	Particulars	L.F.	Amt (₹)	Date	Particulars	L.F.	Amt (₹)
2018				2018			
Aug 31	To Balance c/d		3,00,125	Aug 16	By Purchases A/c		3,00,125
			3,00,125				3,00,125
				Sept 1	By Balance b/d		3,00,125

In the books of Konica Electronics**Trial Balance as on 31st August, 2018**

Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
Purchases		5,26,625	-
Seema Electronics		-	1,99,200
Pawan Electronics		-	27,300
Modern Electronics		-	3,00,125
Total		5,26,625	5,26,625

5.6 Purchase Return Book.

In this book, purchases return of goods are recorded. Sometimes goods purchased are returned to the supplier for various reasons such as the goods are not of the required quality, or are defective. For every return, a debit note (in duplicate) is prepared the original one is sent to the supplier for making necessary entries in his book. The supplier also prepare a note, which is called the credit note. It is also called as Purchase return Journal or Returns Outward Book.

Format of Purchase Return Book

Date	Name of Supplier	Debit Note No.	L.F.	Amount (₹)

- 1) **Debit Note** : Debit Note is a statement containing the details of the goods like quantity, rate etc. This note is prepared by the person who is returning the goods. It indicates that the account of the person or party to whom the goods are returned is debited.

Format of Debit Note

VIGNESH TRADING COMPANY LIMITED				
Karve Road, PUNE				
Debit Note No. _____		Date _____		
To _____				
We hereby inform you that we have debited your account with Rupees _____ only.				
For the goods returned by us as under :				
Qty.	Particulars	Invoice No.	Rate (₹)	Amount (₹)
E& O. E. Prepared by _____ sd/			For Vignesh trading Co. Ltd. Signature	

1) From the following prepare Purchase Return Book

20 Aug 2018 - Goods returns to Seema Electronics is as follows

2 Mini T. V. sets @ ₹2,000 each and a Home Theatre @ 4,500 each return against Debit Note No. 4/2018.

Purchase Return Book

Date	Name of suppliers	Debit Note No.	L.F.	Amount (₹)
2018 Aug.20	Seema Electronics	4/2018		8,500
				8,500

Dr.

Purchase Return Account

Cr.

Date	Particulars	L.F.	Amt (₹)	Date	Particulars	L.F.	Amt (₹)
				2018 Aug. 31	By Sundries as per Purchase Return Book		8,500

5.7 Sales Book.

Goods sold on credit are only recorded in Sales Book. Cash sales are not recorded in Sales Book. Similarly goods assets news paper sold on credit are not recorded in Sales Book.

E.g. A businessman dealing in furniture will recorded only credit sale of Furniture in sales book. Cash sales of Furniture will not be recorded in sales book. It is also known as Sales Journal

Goods sold on credit are always recorded at net value.

Format of Sales Book

Date	Name of Customer	Outward Invoice No.	L.F.	Amount (₹)

Illustration 1 : Prepare Sales Book in the Books of Bhairavanath Traders

2019 Apr. 1	Sold goods on credit to Arun ₹ 5,000 (Invoice No. 112)
4	Purchased goods for cash from Arun ₹ 3,000
8	Invoiced goods to Noha credit ₹ 4,000 (Invoice No. 115)
10	Sold goods to Mrunal on credit ₹ 5,000 (Invoice No. 118)
12	Sold old Furniture to Avadhut on credit ₹ 8,000

**In the books of Bhairavanath Traders
Sales Book**

Date	Name of Customer	Outward Invoice No.	L.F.	Amount (₹)
2019 Apr. 1	Arun	112		5,000
8	Noha	115		4,000
10	Mrunal	118		5,000
				14,000

- Note :** 1) Transaction dated 4 April 2019 cannot be recorded in Sales Book as it is cash purchase.
2) Transaction dated 12 March 2019 cannot be recorded in Sales Book as it is recorded in Journal Proper as it is sale of asset. (Furniture)

Illustration 2 : M/s. Kohinoor Agencies sold on credit

- 2018 Apr 6 Five water purifiers @ ₹2,000 each and five buckets @ ₹170 each to Rama Traders (Invoice No. 207)
9 Three Road side containers @ ₹4,000 each to M/s. Nutan Enterprise (Invoice No. 208)
28 Sold 100 Water containers @ ₹850 each to Rama Traders (Invoice No. 209)

Prepare Sales Book and post them into Ledger

Sales Book

Date	Outward Invoice No.	Name of Customer	L.F.	Amount (₹)
2018 April				
6	207	Rama Traders		10,850
9	208	M/s Nutan Enterprises		12,000
28	209	M/s Rama Traders		85,000
		Total		1,07,850

Dr.				Sales Account				Cr.
Date	Particulars	L.F.	Amt (₹)	Date	Particulars	L.F.	Amt (₹)	
				2018 April 30	By Sundries as per Sales Book		1,07,850	

Dr.				Rama Traders Account				Cr.
Date	Particulars	L.F.	Amt (₹)	Date	Particulars	L.F.	Amt (₹)	
2018 April 6	To Sales A/c		10,850					
28	To Sales A/c		85,000					

Dr.				M/s Nutan Enterprises Account				Cr.
Date	Particulars	L.F.	Amt (₹)	Date	Particulars	L.F.	Amt (₹)	
2018 April 9	To Sales A/c		12,000					

5.8 Sales Return Book (Return Inward Book) :

When goods sold on credit are not according to specifications, sample or are damaged in transit, buyer or debtor can return them to seller. Such return of goods sold on credit only is recorded in Sales Return Book. Return of goods sold for cash is not recorded in this book. It is also known as Sales Return Journal.

On receipt of goods from the customer, a credit note is prepared. The difference between the credit and the debit note is that the former is prepared by the seller and the later is prepared by the buyer.

- 2) **Credit Note** : Credit Note is a statement containing the details of the goods returned as to quantity, rate etc. The credit note indicates that the account of the person to whom the goods are returned is credited.

Format of Credit Note

VIJAY TRADING COMPANY LIMITED				
Karve Road, PUNE				
Credit Note No.	Date			
To _____				
We hereby inform you that we have credited your account with Rupees _____ only.				
For the goods returned by us as under :				
Qty.	Particulars	Invoice No.	Rate (₹)	Amount (₹)
E& O. E.		For Vijay trading Co. Ltd.		
Prepared by _____sd/		Signature		

Format of Sales Return Book

Date	Name of Customer	Credit Note No.	L.F.	Amount (₹)

For Example :

20 May 2018 Goods Returned by Rama Traders ₹2,100 [Water purifier (Credit Note No. 10/2/2018)]

Format of Sales Return Book

Date	Name of Customer	Credit Note No.	L.F.	Amount (₹)
20 May 2018	Rama Traders	10/2/2018		2,100
Total				2,100

Dr.

Sales Return Account

Cr.

Date	Particulars	L.F.	Amt (₹)	Date	Particulars	L.F.	Amt (₹)
2018 May 31	To Sundries as per Sales Return Book		2,100				

Dr.

Rama Traders Account

Cr.

Date	Particulars	L.F.	Amt (₹)	Date	Particulars	L.F.	Amt (₹)
				2018 May 20	By Sales Return A/c		2,100

Problem No. 5 : Prepare Purchase Book & Purchase Return Book from the following transactions with GST in Maharashtra

Date	Details
2018 Aug. 05	Purchased from M/s. Rama Delhi (Invoice No. 780) 30 T.V. @ ₹ 10,000 each & 4 Home Theatres at ₹ 12,500 each @ 10% T.D
07	03 T.V. Return to M/s. Rama Delhi (Gross) (Found defective) Debit Note No. 211
20	Bought from M/s. Time Electronics Haryana (Invoice No. 11) 5 Washing Machines @ ₹ 10,000 each & 5 LCD T.V. @ ₹ 25,000 each @ 5% T.D. Rate of GST applicable on above purchases are CGST @ 9% SGST @ 9% & IGST @ 18%

Solution

Purchase Book (Analytical)

Date	Name of Supplier	Inward Invoice No.	L.F.	Details (₹)	Total (₹)	Purchase (₹)	CGST (₹)	SGST (₹)	IGST (₹)
2018 Aug. 5	M/s. Rama Delhi	780		30 T.V. x10,000 each 4 Home Theatres 12,500	3,00,000 50,000				
				Less - T.D. 10%	3,50,000 35,000				
				Add : IGST 18%	3,15,000 56,700	3,15,000			56,700
20	M/s. Time Electronics Hariyana	11		5 Washing Machine x 10000 5 LCD x 25,000 each	50,000 1,25,000				
				Less - T.D. 5%	1,75,000 8,750				
				Add : IGST 18%	1,66,250 29,925	1,66,250			29,925
				Total		5,67,875	4,81,250		86,625

Purchase Book

Date	Debit Note No.	Name of Supplier	L.F.	Details (₹)	Total (₹)	Purchase (₹)	CGST (₹)	SGST (₹)	IGST (₹)
2018 Aug.7	211	M/s. Rama Delhi 3 T.V. x ₹ 10,000 Less - T.D. 10%		30,000 3,000					
		Add : IGST 18%		27,000 4,860	31,860	27,000			4,860
		Total			31,860	27,000			4,860

Illustration No. 6 Prepare Sales Book & Sales Return book of M/s. Sourabh of Maharashtra from the following transactions with GST.

Date	Details
2018 Aug.07	Sold to M/s. Mehul Brothers, Delhi (Invoice No. 362) 30 Shirts @ ₹250 per Shirt 40 Pants @ ₹350 per Pant @ 8 @ T.D.
10	Returned 5 Shirts by M/s. Mehul Brothers, Delhi (Gross) Credit Note No. 61
18	Sold to M/s. Raja Traders, Jalana (Invoice No. 363) 20 Jackets @ ₹450 per Jacket 10 Plain Shirts @ ₹200 per Shirt at 8% T.D. Rate of GST applicable on above Readymade CGST @ 2.5% SGST @ 2.5% IGST @ 5%

Solution

Sales Book (Analytical)

Date	Name of Customer	Outward Invoice No.	L.F.	Details (₹)	Total (₹)	Sales (₹)	CGST (₹)	SGST (₹)	IGST (₹)
2018 Aug. 7	M/s. Mehul Bros. Delhi 30 Shirts @ ₹250 each 40 Pants @ ₹350 each	362		7,500 14,000					
	Less - T.D. 8%			21,500 1,720					
	Add : IGST 5%			19,780 989	20,769	19,780			989

18	M/s. Raja Traders Jalana 20 Jackets @ ₹450 per 10 Shirts @ ₹200 per	363							
				9,000					
				2,000					
				11,000					
	Less - T.D. 8%			880					
				10,120					
	Add : SGST 2.5%			253					
	CGST 2.5%			253	10,626	10,120	253	253	
	Total				31,395	29,900	253	253	989

Sales Return Book (Analytical)

Date	Name of Customer	Credit Note No.	L.F.	Details (₹)	Total (₹)	Sales (₹)	CGST (₹)	SGST (₹)	IGST (₹)
2018 Aug. 10	M/s. Mehul Bros. Delhi 5 Shirts @ ₹250 each Less - T.D. 8%	61		1,250 100					
				1,150					
	Add : IGST 5%			58	1,208	1,150	-	-	58
	Total				1,208	1,150	-	-	58

Illustration No. 7 : Enter the following transaction of M/s. Kirti in Purchase book, Sales book, Purchase Return book, Sales Return Book.

Date	Details
2018 Mar.01	Sold goods to Sudhakar Stores ₹ 39,000 @ 10% T.D.
3	Purchased goods from Avadhoot Traders ₹ 47,350 & paid carriage ₹ 250
6	Sudhakar Stores returned goods of ₹ 3,220 (Net)
10	Cash purchases ₹ 18,600 & cash sales ₹ 16,000
13	Rakesh invoiced goods to us as per our order placed on 28th Feb. 2018 ₹ 37,000
17	Sold goods ₹ 33,400 to Ragini @ 10% T.D.
20	Returned goods to Rakesh ₹ 3,850 as they were defective
22	Credit purchases from M/s. Michel Traders ₹ 19,450 & they allowed a TD ₹ 150 Ragini return goods ₹ 1900 (Gross) as they were damaged.
23	Purchased Office Furniture on credit from Sharma Furniture Mart ₹ 55,000
26	Purchased goods from Garima Stores ₹ 8,000 & sold the same to Sunita @ 25% profit on cost.
29	Sent a Debit Note to Michel Traders ₹ 3,200
31	

Solution :

**In the books of M/s. Kirti
Purchase Book**

Date	Name of Supplier	Inward Invoice No.	L.F.	Amount (₹)
2018 Mar. 03	Avadhoot Traders	-		47,350
13	Rakesh			37,000
22	Michel Traders			19,300
29	Garima Stores			8,000
	Total			1,11,650

Sales Book

Date	Name of Customer	Outward Invoice No.	L.F.	Amount (₹)
2018 Mar. 01	Sudhakar Stores	-		35,100
17	Ragini			30,060
29	Sunita			10,000
	Total			75,160

Purchase Return Book

Date	Name of Supplier	Debit Note No.	L.F.	Amount (₹)
2018 Mar. 20	Rakesh	-		3,850
31	Michel Traders			3,200
	Total			7,050

Sales Return Book

Date	Name of Customer	Credit Note No.	L.F.	Amount (₹)
2018 Mar. 06	Sudhakar Stores	-		3,220
23	Ragini			1,710
	Total			4,930

Note : Following Journal Entry can be passed for the transaction dated 26th March, 2018

Journal Proper

Date	Particulars	L.F.	Debit Amount	Credit Amount (₹)
2018 Mar. 26	Furniture A/c Dr. To Sharma Furniture Mart A/c (Being Furniture purchased from Sharma Furniture Mart)		55,000	55,000

Working Note :

- 1) Transaction dated 3rd March carriage paid ₹ 150 will be recorded in Cash Book.
- 2) Transaction dated 10th March will be recorded in Cash Book.
- 3) Transaction dated 10th March will be recorded in Cash Book.

Illustration No. 8 : Enter the following transactions in the books of Shreyas Traders in Purchase book, Sales book, Purchase Return book, Sales Return book.

Date	Details
2018 July 01	Purchased goods from Neelkamal Stores ₹ 33,000 at 5%. Trade Discount half the amount was paid immediately.
3	Invoiced goods of ₹ 27,750 to Dhaval Traders.
4	Sonali invoiced goods ₹ 14,000 to us at 4% T.D. as per our order dated 27 June 2018
9	Sold goods of ₹ 30,000 on credit to Sourabh & Sons at 7% T.D.
12	Sent a Debit Note to Neelkam Stores ₹ 3,000 (Gross)
14	Sent a Credit Note to Dhaval Traders of ₹ 3,550
19	Received Debit Note from Sonali ₹ 1,000 (Gross)
21	Sent Credit Note to Sourabh & Sons ₹ 4,675 (Net).
24	Purchased goods from Surabhi Stores ₹ 15,000 & sold the same to Prachi at a profit of 25% on cost.
25	Purchased goods of ₹ 6,600 from Seema Stores & paid carriage ₹ 240
27	Prachi return goods ₹ 5,000 as they were defective & same were returned to Surabhi Stores.
30	Purchased Furniture for office use ₹ 23,000 from Bharat Furniture on credit.

Solution :

In the books of Shreyas Traders

Purchase Book

Date	Name of Supplier	Inward Invoice No.	L.F.	Amount (₹)
2018 July 01	Neelkamal Stores			15,675
4	Sonali			13,440
24	Surabhi Stores			15,000
25	Seema Stores			6,600
	Total			50,715

Sales Book

Date	Name of Customer	Outward Invoice No.	L.F.	Amount (₹)
2018 July 03	Dhaval Traders	-		27,750
9	Sourabh & Sons			27,900
24	Prachi			18,750
	Total			74,400

Purchase Return Book

Date	Name of Customer	Debit Note No.	L.F.	Amount (₹)
2018 July 12	Neelkamal Stores	-		2,850
19	Sonali			960
27	Surabhi Stores			4,000
	Total			7,810

Sales Return Book

Date	Name of Supplier	Credit Note No.	L.F.	Amount (₹)
2018 July 14	Dhaval Traders	-		3,550
21	Sourabh & Sons			4,675
27	Prachi			5,000
	Total			13,225

Working Note :

Transaction dated 27-7-2018 value of goods returned to Surabhi Stores.

$$\begin{aligned} \text{(Price of goods received from Prachi)} &= 100/(100 + 25) \\ &= 5,000 \times (100/125) = 4,000 \end{aligned}$$

Note : Transaction dated 30th March is related to purchase of Furniture on credit, hence it will not be recorded in the above books.

Illustration No. 9 - Record the following transactions in Purchase book, Sales book, Purchase Return book, Sales Return book of Kamal General Stores, Solapur.

Date	Details
2018 May 01	Jaya Invoiced goods ₹ 15,000 at 9% T.D. as per invoice No. 23
3	Purchased Computer from IBM Computers ₹ 55,000 as per invoice No. 86
4	Invoiced goods to Priya for ₹ 20,000 at 4.5% T.D. as per invoice No. 34
7	Sold goods to Sneha for ₹ 14,500 at 10% T.D. as per invoice No. 35
12	Priya return goods ₹ 3,500 (Gross) for which we issued Credit Note No. 87
15	Goods ₹ 4,500 (Gross) returned to Jaya & issued Debit Note No. 49
17	Sold old Machinery to Bipin on credit ₹ 29,800.
20	Sold goods to Amina for ₹ 26,650 as per invoice No. 36 & Purchased goods from her for ₹ 12,250 as per their invoice No. 455.
22	Kailash Traders purchased goods from us ₹ 16,000 at 6% T.D. as per invoice No. 37
24	Sweety supplied goods to us ₹ 2,450 vide invoice No. 630.
27	Kailash Traders return goods to us ₹ 5,180 (Net) & issued a Credit Note No. 88
29	Return goods ₹ 460 to Sweety & issued debit note No 50

Solution :

In the books of Kamal General Stores

Purchase Book

Date	Name of Supplier	Inward Invoice No.	L.F.	Amount (₹)
2018 May 01	Jaya	23		13,650
20	Amina	455		12,250
24	Sweety	630		2,450
	Total			28,350

Sales Book

Date	Name of Customer	Outward Invoice No.	L.F.	Amount (₹)
2018 May 04	Priya	34		19,100
7	Sneha	35		13,050
20	Amina	36		26,650
22	Kailash Traders	37		15,040
	Total			73,840

Purchase Return Book

Date	Name of Customer	Debit Note No.	L.F.	Amount (₹)
2018 May 15	Jaya	49		4,095
29	Sweety	50		460
	Total			4,555

Sales Return Book

Date	Name of Supplier	Credit Note No.	L.F.	Amount (₹)
2018 May 12	Priya	87		3,342
27	Kailash Traders	88		5,180
	Total			8,522

Note : Transactions dated 3rd and 17th of March is related to purchase and sale of Asset on credit, hence it will not appear in the above books.

5.9 Journal Proper

A book maintained to record the transactions which do not find place in Special Journal (Subsidiary Books) is known as Journal Proper. Thus transactions that cannot be recorded in any particular book are recorded in Journal Proper. For example : Assets and other things except goods purchased on credit cannot be recorded in Cash Book or in Purchase Book, but these type of transactions are recorded in Journal Proper.

Following transactions are recorded in this Journal Proper

- 1. Opening Entries :** In the beginning of new accounting year record of the opening balances of assets, liabilities and capital in the form of opening entries are made in Journal Proper.
- 2. Adjustment Entries :** In order to update Ledger Account on accrual basis such entries are made at the end of accounting period. Such as rent outstanding, prepaid insurance, depreciation commission received in advance, etc.
- 3. Rectification Entries :** To rectify errors in recording transactions in the books of original entries and their posting to ledger account Journal Proper is used.
- 4. Transfer Entries :** Drawings Account is transferred to Capital Account at the end of accounting year. Expenses and Revenues which are not balanced at the time of balancing are opened to record specific transactions. Accounts relating to operation of business such as Sales, Purchases, Opening stock, Income, Gains and Expenses and Drawings are closed at the end of accounting year and their total balances are transferred to Trading and Profit and Loss Account by recording the Journal entries. These are also called **closing entries**.

5. Other Entries like

- a) Purchase of Assets on credit
- b) Sale of old Assets on credit.
- c) Withdrawal of goods by proprietor
- d) Bad debts written off.
- e) Loss of goods by fire or stolen or damaged in transit.
- f) Goods distributed as free sample or charity.
- g) Discount received and allowed on cash transactions.

Format of Journal Proper

In the books of

Journal Proper

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)

Accounting treatment for transactions appearing in Journal Proper

1. Opening Entries : These entries are passed at the beginning of financial year to bring the assets and liabilities into the books of Account. All assets are debited and liabilities are credited. Excess of assets over liabilities is capital which will be credited.

i.e. $Capital = Assets - Liabilities$

$Assets = Capital + Liabilities$

Illustration 1 :

Cash in hand	₹	8,500
Cash at Bank	₹	35,000
Plant & Machinery	₹	1,10,000
Stock	₹	37,000
Debtors	₹	43,000
Creditors	₹	32,000

Pass Opening Journal entries for the above.

Solution : **Journal Proper**

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
2019 April 1	Cash A/c Dr		8,500	
	Cash at Bank A/c Dr		35,000	
	Plant & Machinery Dr		1,10,000	
	Stock Dr		37,000	
	Debtors Dr		43,000	
	To Creditors A/c			32,000
	To Capital A/c			2,01,500
	(Being Assets & Liabilities brought down)			
	Total		2,33,500	2,33,500

₹

Note :	Total Assets	2,33,500
	Less : Total Liabilities	<u>32,000</u>
	Capital	<u>2,01,500</u>

Excess of Assets over Liabilities is Capital

2. Adjusting Entries : To calculate Profit Final Accounts are prepared at the end of accounting year on the basis of Trial Balance. Trial Balance contains balances of only those accounts which are recorded in the books of Accounts. Items like further bad-debts, depreciation of assets, closing stock, income receivable, outstanding expenses etc. do not appear in Trial Balance. Unless all these items are brought into the books of accounts. Final Accounts will not disclose accurate result. Thus to bring these items into the books of accounts adjusting entries are passed.

Illustration 2 : Pass adjusting entries for the following.

- 1) Further Bad Debts ₹ 3,750
- 2) Provide for depreciation on Building ₹ 31,500

Solution **Journal Proper**

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
1	Bad Debts A/c Dr		3,750	
	To Debtors A/c			3,750
	(Being Bad-debts written off)			
2	Depreciation A/c Dr		31,500	
	To Building A/c			31,500
	(Being Building depreciated)			
	Total		35,250	35,250

3. Closing Entries : In order to find out Profit or Loss, all the accounts of Expenses and Income are closed at the end of year. Accounts of Expenses and Income are closed by transferring them to "Trading" Account or Profit and Loss Account by passing closing entries. Closing entry is passed at the time of preparing Final Accounts.

Illustration 3 :Pass closing entries for the following.

- 1) Office Expenses for the year ₹ 17,500 is transferred to Profit & Loss A/c
- 2) Purchases of the Year amounted to ₹ 2,95,000

Solution**Journal Proper**

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
1	Profit & Loss A/c Dr To Office Expenses A/c (Being Office Expenses account closed by transferring it to Profit & Loss A/c)		17,500	17,500
2	Trading A/c Dr To Purchases A/c (Being Purchases A/c transferred to Trading A/c)		2,95,000	2,95,000
	Total		3,12,500	3,12,500

Note : Trading and Profit & Loss A/c are prepared at the end of the year to ascertain Gross Profit or Gross Loss and Net Profit or Net Loss. Revenue Expenses and Income are transferred to Trading or Profit & Loss A/c as the case may be.

4. **Transfer Entries :** Sometimes in order to close one particular account, the balance in the account is transferred to another account. Entries passed in such cases are known as "Transfer Entries"

Illustration 4 :Pass Necessary transfer entries for the following.

- 1) Net Profit ₹ 87,500 is transferred to Capital A/c
- 2) Drawings ₹ 10,500 is transferred to Capital A/c

Solution**Journal Proper**

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
1	Profit & Loss A/c Dr To Capital A/c (Being Net Profit transferred to Capital A/c)		87,500	87,500
2	Capital A/c Dr To Drawings A/c (Being Drawings transferred to Capital A/c)		10,500	10,500
	Total		98,000	98,000

5. **Rectification Entries :** A mistake committed by accountant without any intention of fraud is known as an error. If the mistakes are not corrected the Books of Accounts will not give a true and fair result. Thus to correct the errors accountant passes Rectification Entries.

Illustration 5 : Pass the necessary rectification entries for the following.

- 1) Goods purchased from Mr. Sourabh on credit ₹ 50,000 were not recorded in the Books.
- 2) Wages paid for installation of Machinery ₹ 5,000 were debited to Wages Account.

Solution

Journal Proper

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
1	Purchases A/c Dr To Sourabh's A/c (Being credit purchases not recorded in Books, now rectified)		50,000	50,000
2	Machinery A/c Dr To Wages A/c (Being wages paid for installation of machinery wrongly debited to Wages A/c now rectified)		5,000	5,000
	Total		55,000	55,000

6. Cash Discount Allowed and received : Cash discount allowed and Cash Discount received are non cash transactions one used they are not recorded in Cash Book. It is recorded in the Journal Proper as under.

Illustration 6 : Pass the entries for the following.

- 1) Suresh allowed us a cash discount of ₹ 420 in full settlement of his account.
- 2) Allowed Cash Discount to Kunal Stores ₹ 650.

Solution

Journal Proper

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
1	Suresh's A/c Dr To Discount Received A/c (Being cash discount received)		420	420
2	Discount Allowed A/c Dr To Kunal Stores A/c (Being discount allowed)		650	650
	Total		1,070	1,070

7. Other entries :

Example : Pass the entries in the Journal Proper

- 1) Purchased Furniture from M/s Patel Furniture on credit for ₹ 74,000
- 2) Sold Machinery for ₹ 9,400 to Suraj on credit.
- 3) Goods of ₹ 4,000 were withdrawn by Proprietor for his Personal use.
- 4) Goods distributed as free samples ₹ 11,000
- 5) Goods of ₹ 8,500 were lost by fire.
- 6) Cash Discount Received from Seema ₹ 500
- 7) Allowed Cash Discount to Hemant ₹ 600

Solution

Journal Proper

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
1	Furniture A/c Dr To M/s Patel Furniture A/c (Being Furniture purchased from M/s Patel)		74,000	74,000
2	Suraj's A/c Dr To Machinery A/c (Being machinery sold on credit)		31,500	31,500
3	Drawings A/c Dr To Goods A/c (Being goods taken by proprietor for personal use)		4,000	4,000
4	Advertisement A/c Dr To Goods distributed as Free Samples A/c (Being goods distributed as free samples)		11,000	11,000
5	Loss by Fire A/c Dr To Goods Destroyed by Fire (Being goods lost by fire)		8,500	8,500
6	Seema's A/c Dr To Discount Received A/c (Being discount received)		500	500
7	Discount Allowed A/c Dr To Hemant's A/c (Being discount allowed)		600	600
	Total		1,30,100	1,30,100

EXERCISE

Objective type Questions & Answers

Q.1 Answer the following questions in one sentence.

- 1) What is Subsidiary Books ?
- 2) What is a Cash Book ?
- 3) State the meaning of 'Contra entry'.
- 4) State the meaning of imprest system of Petty Cash Book.
- 5) Which transactions are recorded in Purchase Book ?
- 6) Which sales are recorded in Sales Book ?
- 7) Which transactions are recorded in the Journal Proper ?
- 8) Who is a Petty Cashier ?

Q.2 Give word/term or phrase for each of the following statements :

- 1) Person who maintains Petty Cash Book.
- 2) A bank account which the businessman prefer to open.
- 3) Petty Cash Book in which the payment side is ruled in suitable columns.
- 4) Subsidiary book in which only credit purchases of goods is recorded.
- 5) Subsidiary book in which return of goods sold on credit is recorded.
- 6) The entry which is recorded on both sides of cash book.
- 7) Name the account which encourages personal savings.
- 8) A note issued by buyer to seller giving full details of goods returned.
- 9) Note issued by seller on receipt of defective goods from customer.
- 10) Name the bank account on which overdraft facility is given to Account holder.

Q.3 Select the most appropriate answers from the alternatives given below and rewrite the sentences

- 1) Cash column of Cash Book can never have balance.
(a) credit (b) debit (c) zero (d) none of the above
- 2) Any entry recorded on both sides of Cash Book is known as entry
(a) opening (b) rectifying (c) transfer (d) contra
- 3) The source document for recording in Sales book is
(a) Inward Invoice (b) Outward Invoice
(c) Voucher (d) Cash Memo
- 4) Credit purchase of Machinery is recorded in the
(a) Purchase Book (b) Cash Book (c) Journal Proper (d) Returns Outward Book
- 5) Sub-division of journal is known as book.
(a) Subsidiary (b) Purchase Return (c) Purchase (d) Journal Proper
- 6) Additional cash introduced in business is recorded in
(a) Purchase Book (b) Cash Book (c) Journal Proper (d) Returns Inwards Book.
- 7) Entry for bad debts is recorded in the
(a) Sales Book (b) Purchase Book (c) Cash Book (d) Journal Proper
- 8) Direct deposit made by customer into our bank is recorded in the side of the Cash Book.
(a) payments (b) credit (c) receipts (d) both
- 9) The person who draws the cheque and signs on it is the
(a) drawer (b) drawee (c) payee (d) all of the above
- 10) A fixed amount is deposited for a fixed period in deposit account.
(a) Current (b) Savings (c) Fixed (d) Recurring

Q.4 State whether the following statements are True or False with reasons :

- 1) Journal is a book of secondary entry.
- 2) Assets sold on credit are entered in Sales Journal.
- 3) Cash and credit purchases are entered in Purchase Book.
- 4) Cash sales are entered in Sales Journal
- 5) Cash Book records transactions relating to receipts and payments of cash.

Q.5 Do you agree with the following statements.

- 1) Trade discount is recorded in Cash Book.
- 2) Petty Cash Book is a book having record of big payments.
- 3) Cash received is entered on the debit side of Cash Book.
- 4) Transactions recorded on both debit and credit side of Cash Book is known as Contra Entry.
- 5) Credit purchase of machinery is entered in Purchase Journal.

Q.6 Complete the following sentences :

- 1) Cash Book is a Journal.
- 2) In Journal Proper, only discount is recorded.
- 3) Return of goods purchased on credit to the suppliers will be entered in Journal.
- 4) Assets sold on credit are entered in
- 5) Double column Cash Book records transactions relating to cash and....
- 6) Credit purchases of goods are recorded in
- 7) Cash Book does not record the Transactions.
- 8) Credit balance shown by a bank column in Cash Book is.....
- 9) Petty Cash Book is used for recording expenses.
- 10) In Purchase Book goods purchased on are recorded.

Q.7 Correct the following sentences and rewrite the same.

- 1) Cash purchases of goods are recorded in Purchase book.
- 2) Cash Book records cash transactions as well as credit transactions.
- 3) Small and large business records all transaction in subsidiary books.
- 4) The person who maintain Petty Cash Book is called Chief Cashier.

Q.8 Calculate the following.

- 1) Cash purchases ₹ 1,60,000 at 10% T.D. and 5% C.D. What is the amount of Net purchases ?
- 2) Purchased goods from Harish ₹ 12,000 @ 7% T.D. What is the amount of Trade discount?
- 3) Sold 50 shirts at ₹ 300 per shirt and 40 Trousers at ₹ 600 each, What is the amount of sales ?
- 4) Sold 30 Jackets at ₹ 500 per Jacket at 8% Trade discount, What is the amount of Trade discount ?

Q.9 Complete the following Table.

1) Cash Purchases	Credit purchases	Purchase Return	Net Purchases
35,000	55,000	?	88,000
2) Cash Sales	Credit Sales	Sales Return	Total Sales
?	60,000	3,000	1,02,000
3) Cash Sales	Credit Sales	Trade discount	Total Sales
90,000	1,10,000	16,000	?
4) Cash Purchases	Credit purchases	Trade discount	Net Purchases
70,000	?	18,000	1,62,000
5) Opening cash Balance	Cash Receipts	Cash Payments	Total cash
?	60,000	45,000	23,000
6) Cash Sales	Credit Sales	Total Sales	Total Debtors
1,20,000	1,40,000	2,60,000	?
7) Cash Purchases	Credit purchases	Total Purchases	Total Creditors
80,000	?	1,90,000	1,10,000
8) Opening Petty Cash Balance	Petty Cash Received	Petty Expenses Paid	Closing Petty Cash Balance
250	1,750	?	420
9) Opening Petty Cash	Petty Cash Received	Petty Expenses Paid	Closing Petty Cash Balance
400	?	1,800	250
10) Opening Petty Cash Balance	Petty Cash Received	Petty Expenses Paid	Closing Petty Cash Balance
?	1,800	2,250	150

- 3 Record the following transactions in Cash Book of M/s Kamal Traders. Balance for the month of July 2018 : Cash in hand ₹ 2,000 and balance in Bank Current account ₹ 8,000.

	Amt (₹)
03 Cash sales	2,300
05 Purchased goods and amount paid by cheque	6,000
08 Cash sales	10,000
12 Paid General expenses	700
15 Sold goods and amount received by Cheque and deposited in to Bank	20,000
18 Purchased Motor Car paid by cheque	15,000
20 Cheque received from Mrunal deposited into Bank	10,000
22 Cash Sales	7,000
25 Mrunal's cheque returned dishonoured	
28 Paid Rent	2,000
29 Paid Telephone expenses by cheque	500
31 Cash withdrawn from Bank for personal use	2,000

Prepare two column Cash Book

- Exercise 4 : Prepare Analytical Petty Cash Book from the following transactions in the books of Swarali General Stores, Kolhapur. The imprest amount is ₹ 1,500 received from main cashier.**

2018 Jan.	Amt (₹)
01 Paid cartage	50
02 Telephone charges	40
02 Bus Fare	20
03 Postage	30
04 Refreshment to employees	80
06 Courier charges	30
08 Refreshment to customers	50
10 Cartage	35
15 Taxi Fare to Manager	70
18 Purchased Stationery	65
20 Bus Fare	10
22 Xerox charges	30
25 Internet charges	35
27 Postage stamps	200
29 Repair on Furniture	105
30 Cleaning expenses	115
31 Miscellaneous expenses	100

5. From the following information prepare Columnar Petty Cash Book kept on imprest system in the books of Manisha Books Stall, Beed.

2018 April		Amt (₹)
01	Opening petty cash balance	200
02	Received a bearer cheque to make up the imprest amount	1,200
03	Gave a tips to peon	40
04	Purchased stationery	150
05	Paid Taxi Fare	35
06	Purchased Stamp pad	140
07	Paid Cartage	40
08	Paid Bus Fare	30
11	Paid to sweeper	50
13	Purchased a Box of pencils	40
14	Paid Mobile charges	35
15	Gave to Sohan on account	250
19	Paid for Refreshment to staff	150
20	Paid Railway Fare	30
21	Paid Carriage	65

6. Prepare proper Subsidiary Books and post them to the ledger from the following transactions for the month of February 2018.

2018 Feb		Amt (₹)
01	Goods sold to Virat	5,000
04	Purchased goods from Khushboo Traders	2,480
06	Sold goods to Shankar Traders	2,100
07	Virat returned goods	600
08	Returns goods to Khusboo Traders	280
10	Sold goods to Mahesh	3,300
14	Purchased from Kunti Traders	5,200
15	Furniture purchased from Arun	3,200
17	Bought goods from Kunti Traders	4,060
20	Return goods to Kunti Traders	200
22	Return goods from Mahesh	250
24	Purchased goods from Kirti less 10% T.D.	5,700
25	Sold goods to Shri Surya goods less 5% T.D.	6,600
26	Sold goods to Prakash Brothers	4,000
28	Return goods to Kirti less 10% T.D.	1,000
28	Prakash Brothers returned goods	500

7. Enter the following transactions in the books of Vijay in Purchase Book, Sales Book, Purchase Returns Book and Sales Returns Book and Journal Proper for the month of August 2018.

2018 Aug.

- 01 Purchased goods from Vikas Stores ₹ 18,000 at 5% Trade Discount
- 02 Sold goods of ₹ 9,000 to Prabhakar Traders
- 05 Veena sold goods of ₹ 16,000 to us at 5% Trade Discount as per our order dated 28th July, 2018.
- 08 Sent a Debit Note to Vikas Stores ₹ 1,600 (Gross) for goods returned.
- 10 Sold goods of ₹ 12,000 on credit to Shamal & Sons at 6% Trade Discount.
- 18 Received Credit Note from Veena ₹ 900 (Gross) for goods returned.
- 22 Sent Credit Note to Prabhakar Traders for ₹ 1,500 for goods returned. Received credit note from Shamal & Sons for ₹ 1,200 (Net) for goods returned.
- 23 Purchased goods of ₹ 16,600 from Priya Stores and paid for Carriage ₹ 150.
- 25 Purchased goods from Sadhana Stores ₹ 12,000 and sold the same to Aradhana Stores at a profit of 20% on cost.
- 28 Aradhana Stores returned goods of ₹ 2,400 as they were defective and the same were returned to Sadhana Stores.
31. Purchased Furniture for office use ₹ 30,000 from Art Furniture Works on credit.

8. Mr. Akash gives you the following information and asks you to prepare Purchase Book, Sales Book, Purchase Returns Book and Sales Return Book for the month of January 2018.

2018 Jan.

- 01 Purchased goods on credit from Dhanal Traders for ₹ 15,000 and sold the same to Kunal Traders at a profit of 25% on cost.
- 05 Placed an order with Sunetra for goods of ₹ 10,000 less 5% Trade discount.
- 08 Purchased goods of ₹ 20,000 at 10% Trade Discount from Saurabha Traders.
- 13 Sold goods to Vinayak Stores ₹ 8,000 at 5% Trade Discount.
- 15 Vinayak Stores returned goods to us ₹ 200
- 18 Sunetra executed our order placed on 5th Jan. 2018.
- 20 Sold goods to Vishnu Traders ₹ 21,000 less 5% Trade Discount.
- 22 Returned goods to Sunetra ₹ 1,000 (Gross).
- 28 Kunal Traders returned goods to us ₹ 500
- 30 Returned goods to Sourabh Traders ₹ 1,500.

9. Enter the following transactions in the Subsidiary Book of Kamal Traders.

2018 Apr

- 01 Bought from Suhas goods of ₹ 12,000 as per his Invoice No. 41.
- 04 Purchased from Virat goods of ₹ 11,870 less 10% Trade Discount vide Bill No. 12.
- 07 Bought from Kuldip goods of ₹ 11,000 less 25% Trade Discount vide Bill No. 12.
- 08 Bought from M/s. Art Furniture Works, Furniture for ₹ 13,000 vide Invoice No. 84.
- 12 Sold to Dhiraj goods of ₹ 11,500 vide Sales Invoice No. 27
- 13 Sold to Raja goods of ₹ 12,780 less 5% Trade Discount, vide invoice No. 88
- 21 Sold to Suresh goods of ₹ 8,000 less 20% Trade Discount
- 23 Dhiraj returned goods of ₹ 500 vide our Credit note No. 14
- 26 Suresh returned goods of ₹ 150 (gross) vide our Credit Note No. 115
- 28 Returned to Suhas goods ₹ 1,200 vide our Debit Note No. 09
- 30 Returned to Virat goods of ₹ 1,300 (Gross) vide our Debit Note No. 10.
- 30 Returned to Kuldip goods of ₹ 1,100 (Gross) vide our Debit Note No. 11.

10. Enter the following transactions in the Subsidiary Books of Navyug Traders :

2018 Mar

- 01 Sold to Bharat Patil goods ₹ 10,000 at 10% Trade discount.
- 04 Purchased from Naresh goods of ₹ 11,000 less 10% Trade discount.
- 06 Purchased Furniture from M/s. Sham Furniture Works, of ₹ 15,000 for office use.
- 07 Bharat Patil returned 20% of the goods bought by him on 1st March above and we gave him fresh goods in exchange.
- 08 Sold to Sundar goods of ₹ 13,000 less 15% Trade Discount.
- 10 Sold to Sumit Computer for ₹ 23,800 with a book value of ₹ 24,000.
- 12 Placed an order with Sajan for goods of ₹ 12,000.
- 17 Purchased from Naresh goods of ₹ 14,000 and sold them to Kamesh for ₹ 16,000.
- 19 Kamesh returned us goods of ₹ 1,600 and immediately returned the same to Naresh.
- 23 Sold to Rakesh for ₹ 4,500 old Furniture with a book value of ₹ 4,800.
- 26 Returned to M/s. Sham Furniture Works, office Furniture of ₹ 4,500.
- 28 Sajan executed our order dated 12th March, 2018.





Activity

- 1) Collect actual Invoices from trader and Prepare Purchase & Sales Book.
- 2) Collect actual Debit & Credit notes from any business organization.
- 3) Prepare Petty Cash book of your house hold expenses for the month
- 4) Prepare Petty Cash book for a month of your pocket money.
- 5) Collects documents of Petty expenses of any business organization & prepare Petty Cash Book.
- 6) Make list of 20 transactions and find out in which type of Subsidiary Book these transactions are recorded.
- 7) Visit a Bank get a KYC form fill it and open your Saving Account.



6

Bank Reconciliation Statement**Contents**

- 6.1 *Meaning, Definition and Utilities of Accounting Documents*
- 6.2 *Meaning, Definition, Need and Importance of Bank Reconciliation Statement.*
- 6.3 *Reasons for difference between Cash Book balance and Pass Book balance.*
- 6.4 *Specimen of Bank Reconciliation Statement.*
- 6.5 *Preparation of Bank Reconciliation Statement.*

Competency Statements

- Students can prepare specimen of different Bank Documents.*
- Students will understand the difference between Cash Book and Pass Book*
- Students will know the reasons behind the differences in Cash Book balance and Pass Book balance.*
- Students can prepare Bank Reconciliation Statement competently.*

6.1. Meaning, Importance and Utilities of accounting documents.**Introduction:**

Accounting Documents describes all the basic facts of transactions like the amount of transaction, to whom the amount was paid, the purpose of transaction and the date of transaction. This is essential in the process of Book Keeping as it provides evidence that a financial transaction has actually taken place. There has been a drastic change in the functioning of modern banks. Internet and mobile banking play a prominent role in today's business. Payments and receipts of cash through these methods generates instant and automatic proof for both the parties.

But even now a large number of transactions are made by personally visiting the bank. Payments and receipts by cheques and drafts have not lost their significance altogether.

Types of Bank Documents:**1. Pay-in-slip**

Meaning: Pay-in-slip is also known as deposit slip. This slip is filled when the account holder deposits cheque or cash into his bank account. When cash is deposited account holder gives his account number, date of deposit and details of cash deposited. Similarly, when a cheque is deposited details of cheque, account number, name of drawee bank, amount etc are filled.

Pay-in-slip is divided into two parts. The right hand side is kept with the bank for their record. The left hand side known as counterfoil is duly stamped, signed and dated by the receiving clerk. This is returned back to the account holder which serves as acknowledgement.

Importance and Utilities:

- i) Facilitates the account holder to deposit cash or cheque to be credited in his account.
- ii) Entries in respect of cash or cheque deposited into bank are recorded in the books of accounts on the basis of pay-in-slip.
- iii) Counterfoil or acknowledgement acts as legal evidence.

Contents:

(same contents appear on the left hand side and right hand side of the pay-in-slip)

- i) Name of Bank, branch and address.
- ii) Date of transaction.
- iii) Amount deposited in figures and words. (Cash/cheque)
- iv) Name of account holder.
- v) Account Number.
- vi) Type of account.
- vii) Details of denomination, i.e. number of ₹ 100, ₹ 200, ₹500, ₹ 2000 notes etc. deposited.
- viii) Details of cheque.
- ix) Details of drawee bank.
- x) PAN card number if the amount of deposit is more than ₹ 50,000.

Format : Pay-in-slip

Fig. 6.1 (a)

In modern times, a cheque along with duly filled pay-in-slip can be simply dropped into the drop box placed in the bank for collection.

2. Withdrawal Slip

Meaning: Withdrawal means removing funds from a bank. Form which is to be filled for withdrawing money from bank is known as withdrawal slip or form. A copy of this document is not available to record the transaction in the books of accounts but it is reflected in the Pass Book.

Importance and Utilities:

- i) This document is used by the account holder within the bank only to withdraw money.
- ii) Account holder signs on the face of the slip and backside of the slip.
- iii) Signature of the account holder is matched with his/her specimen signature recorded in the books of bank thereby avoiding malpractices.

Contents:

- i) Name of the bank and branch.
- ii) Date of transaction.
- iii) Account holder’s name.
- iv) Account number and type.
- v) Amount in figures and words.
- vi) Signature of the account holder.

If the amount of withdrawal is more than ₹ 50,000 account holder has to submit a photocopy of his PAN card.

A cheque can also be used to withdraw cash from bank by the account holder.

Format :


CASH WITHDRAWAL SLIP / पैसे काढावयाचे चलन / नकद आहर्ता पर्ची	
 बँक ऑफ महाराष्ट्र बँक ऑफ महाराष्ट्र Bank of Maharashtra <small>एक परिवार एक बँक</small>	बँकेतून पैसे काढावयाच्या चलनावबरोबर खाते पुस्तिका आवश्यक आहे. कृपया मागे सही करावी. हे चलन म्हणजे चेक नव्हे. केवळ मूल शाखेत वापरण्यासाठी इस निकासी पर्ची के साथ पासबुक का होना जरूरी है। कृपया पिछली ओर हस्ताक्षर करें। यह आहरण पर्ची चेक नहीं है। केवल मूल शाखा में प्रयुक्त हेतु। Pass Book must accompany with this withdrawal. Please sign overleaf This withdrawal slip is not a cheque. Use at home branch only
शाखा/Branch	दिनांक/Date :
कृपया, मला वा धारकाला ₹. _____ वाहक/स्वतः को ₹. _____ Pay Bearer/Self the sum of ₹. _____ debiting	
200 x 14,000 BLOCKS - 02/2018 बचत खाते क्र. बचत खाता क्र. Saving A/c No.	ला नावे टाकून रोख द्यावेत. में नामें डालकर नकद अदा करें।
खातेदाराचे नांव खाताधारक का नाम in Name of A/c.	₹ _____
खातेदाराची स्वाक्षरी खाताधारक के हस्ताक्षर A/c. Holder's Signature	पासकर्ता अधिकारी/निरीक्षक/कर्मचाऱ्याची स्वाक्षरी पासकर्ता अधिकारी/निरीक्षक/कर्मचारी के हस्ताक्षर Signature of Passing Officer/Supervisor/Employee

Fig. 6.1 (b)

Availing banking services through an extensive use of information technology without physically walking into the bank premises is called virtual banking.

3. Bank Pass Book:

Meaning: Pass Book is a copy or extract of ledger account of account holder appearing in the books of bank. In this the bank provides the account holder with the details of all ledger entries appearing in the books of bank. It is a small book given to the account holder to inform him

about the transactions and balances from time to time. Modern times Pass Book is prepared on the basis of computerised accounting system.

Importance and Utilities:

- i) Pass Book gives the balance of an account on a particular date.
- ii) It acts as documentary evidence which can be produced in the court of law in case of disputes.
- iii) It is confirmation that all transactions are made through bank.

Contents:

- i) Name of the bank and branch.
- ii) Address and telephone number of bank.
- iii) Full name of account holder and address.
- iv) Type of account.
- v) Account number and customer ID.
- vi) Photo of account holder.
- vii) IFSC (Indian Financial System Code) It is an alphanumeric code that facilitates electronic funds transfer like IMPS, NEFT and RTGS.
- viii) Columns for date, particulars, cheque number, amount withdrawn, amount deposited, balance, bank officer's signature.

Format:

Pass Book

Date	Particulars	Cheque No.	Amount Withdrawn		Amount deposited		Balance (₹)	Signature / initials
			Dr.	₹	Cr.	₹		

Fig. 6.1 (c)

Pass Books appeared in the 18th century, allowing customers to have transaction information in their own hands for the first time. Prior to this, customers had no history of their own deposits and withdrawals. Today bank statements can be viewed on lines.

4. Bank Statement:

Meaning: Businessmen open current account for their business considering the benefits provided by this account. Current account holders enjoy unlimited number of deposits and withdrawals and therefore the number of transactions is large. Businessmen like to know the details of transactions and the bank balance. Therefore, the bank issues a bank statement to them. A bank statement is a summary of financial transactions which have taken place over a given period on a bank account held by account holder. Earlier, bank statements were printed paper statements produced monthly, quarterly or annually. Bank as a matter of service would provide a periodical bank statement. Today with better access to the internet and online banking, bank statement also known as electronic statement can be viewed online, downloaded and printed by the account holder. This reduces the cost of paper and postage.

Importance and Utilities:

- i) Bank statement enables the account holder to know the balance with bank.
- ii) Suitable arrangements for payment can be made.
- iii) It helps businessmen know the time taken for clearance of cheques deposited.
- iv) It helps in preparation of bank reconciliation statement.

Contents:

- i) Details of bank, branch and address.
- ii) Date of transaction.
- iii) Particulars.
- iv) Cheque number.
- v) Withdrawals.
- vi) Deposits.
- vii) Balance.

Format :

Statement of Account

Bank of India		Current Account		Date: / /20__		
S.B. Road		Statement of Account		Page No.:		
Account type: Institutional				Ledger No.:		
Account						
Date	Particulars	Cheque No.	Amount Withdrawn Dr. ₹	Amount deposited Cr. ₹	Balance	Signature / initials (₹)

Fig. 6.1 (d)

5. Bank Advice:

Bank advice is a letter sent by the bank to customer / account holder in a prescribed form to inform them about dishonour of cheques deposited for collection, bank charges debited, dishonour of Bills receivable discounted, Bill sent to bank for collection, interest charged and allowed by bank, dividend or interest collected by bank and any other payment made by bank according to the standing instruction given by the customer.

Importance and Utilities:

- i) Businessmen can update his records from time to time on receiving Bank Advice.
- ii) Evidence of transaction made through bank is created.

Contents:

- i) Name and address of bank.
- ii) Date of sending the advice.
- iii) Name, address and account number of customer.
- iv) Particulars of transaction.
- v) Amount to be debited or credited.

Format:

Bank Advice			
The People's Co-Operative Bank LTD., Pune			
			Date: 24 Nov, 2018
To,			
M/s Dhanashree Traders, Pune			
A/c No.- Current A/c 00001234			
Sir,			
Your A/c has been credited/debited as per following details:			
Particulars of transaction	Amount		
	Debit (₹)		Credit (₹)
Your electricity bill is paid as per your instruction, a copy of bill is enclosed	15,000	00	
Total	15,000	00	
Bank Manager			

Fig. 6.1 (a)

SMS alerts and notifications have overtaken bank advice today. Account holder receives SMS on their registered mobile number giving updates of their latest banking transactions.

6.2 Meaning, Definition, Need and Importance of Bank Reconciliation Statement.

Meaning: A businessman maintains a Cash Book with bank column in his ledger, wherein he records all banking transactions. The bank column in his Cash Book represents bank current account. Bank being the other party records these transactions in their ledger known as Pass Book. When businessman deposits money or cheque into bank for collection it is recorded in the Cash Book on the debit or receipt side. Bank records this on the credit or receipt side of Pass Book. Similarly, when businessman issues cheque for making payments, it is recorded on the credit or payment side of Cash Book. Bank records this transaction on the debit side or payment side of Pass Book / bank statement. Thus, whatever is recorded by businessman in the Cash Book is invariably recorded in the Pass Book / bank statement. Ideally then, Cash Book bank balance and Pass Book balance should be the same. The only difference would be that if Cash Book has a debit balance the Pass Book will have a credit balance and vice versa.

In the books of business		In the books of Bank	
Dr.	Cash Book	Cr.	
		Dr.	Pass Book (business's A/c)
		Cr.	
Receipts (₹)	Payments (₹)	Receipts (₹)	Payments (₹)

Fig. 6.2(a)

Fig. 6.2(b)

But in practice Cash Book bank balance is sometimes different from the Pass Book balance. You will learn about the causes of differences and method of reconciling balance of these two books by preparing bank reconciliation statement. A copy of bank statement is issued to the current account holder periodically by the bank. Bank statement is compared with the Cash Book for analysing the causes of difference in the balance of the two books.

Definition:

“A statement which reconciles the Bank balance as per Cash Book and the balance as per Pass Book showing all causes of difference between the two.”

“A statement showing the causes of disagreement between the balance shown by the bank Pass Book and the balance shown by the Cash Book under the bank column at the end of the specific period or month, is called Bank Reconciliation Statement.”

Need and importance of Bank Reconciliation Statement:

- It explains and clarifies the causes of disagreement between bank balance as per Cash Book and Pass Book.
- It helps in detecting errors and omission made in Pass Book and Cash Book.
- It reduces the chance of fraud by the staff dealing in cash.
- It helps to check whether the bank makes proper entries for banking transactions.
- It helps to have a moral check on the staff of business organisations to keep Cash Book up to date.
- It is an important mechanism of internal check and gives information of cash inflow and outflow.

6.3 Reasons for difference between Cash Book balance and Pass Book balance.

- Time difference.
- Errors and omission made by businessman or bank.

i) Time difference:

Transaction cannot be recorded in the Cash Book and Pass Book at the same time. There is a time gap between recording transaction in the two books. For example, when businessman deposits a cheque into bank for collection, it is a transaction for him and he immediately records it in his Cash Book. On the other hand, bank will record it in Pass Book only after collecting the amount of cheque. At this point of time entry for transaction appears only in Cash Book thereby creating a difference in the balance of the two books which is to be reconciled.

ii) Errors and omission made by bank or businessman:

Differences in balance may also arise due to errors committed by bank or businessman. For example, bank charges debited by bank ₹ 540 is recorded as ₹ 450 in Cash Book. Here the transaction appears in both the books but with wrong amount causing a difference in the balance of the two books.

Causes of difference in Cash Book and Pass Book

I. Due to time difference.

- a) Transaction that appears in Cash Book but not in Pass Book.
 - i) Cheque issued but not presented.
 - ii) Cheque deposited but not collected.
- b) Transaction that appears in Pass Book but not in Cash Book.
 - i) Interest credited by bank.
 - ii) Direct collection of income on behalf of customer.
 - iii) Direct payment of expenses by bank.
 - iv) Bank charges, interest on overdraft, commission charged by bank.
 - v) Dishonour of cheques or Bills of exchange.
 - vi) Amount directly deposited in the bank account.

II. Due to errors and omission made by bank or business.

- i) Recorded on wrong side.
- ii) Recording wrong amount.
- iii) Wrong balancing and totalling.
- iv) Double recording.
- v) Omission of a transaction.

Fig 6.3(a)

I. Due to time difference:**a) Transaction that appears in Cash Book but not in Pass Book.**

- i) **Cheque issued but not presented:** As soon as a cheque is issued, it is entered on the credit side of the Cash Book but the bank makes no entry for cheque until it is presented for payment. It means if the cheque is not presented for payment up to the date of preparation of bank reconciliation statement, the balance in the Pass Book will be higher than the balance as per Cash Book on that date.
- ii) **Cheques deposited / paid into bank but not cleared:** As soon as cheques are received and deposited into the bank they are recorded in the Cash Book on debit side which increase the balance at bank as per Cash Book but bank does not give credit for the cheques deposited until it is cleared and collected by bank. Therefore, a difference will arise on the date of preparation of bank reconciliation statement.

b) Transaction that appears in Pass Book but not in Cash Book.

- i) Interest credited by bank:** If the bank allows interest to customer it credits the customer account and the bank balance as per Pass Book will increase. But customer will make corresponding entry in the Cash Book only when he receives the intimation from the bank. Until then the balance as per Pass Book would be more than the balance as per Cash Book.
- ii) Direct collection on behalf of customer:** As per the standing instructions of the customer, bank can collect interest, dividend, rent etc. directly from the person concerned and credit the customer's account and increase the balance as per Pass Book. But the same will be entered in Cash Book only when the customer receives the statement or intimation of the same from bank. Till then the balance as per Cash Book and bank statement (Pass Book) will differ.
- iii) Direct payment by bank:** As per standing instructions bank can pay certain expenses on behalf of the customer e.g. insurance premium, electricity bill, telephone bill, loan instalments etc. As soon as such payments are made bank debits customer account in bank Pass Book / bank statement but the customer has no information of the same till it is informed to him. Till then balance as per Pass Book / bank statement will be less than balance as per Cash Book.
- iv) Bank charges, interest on overdraft, commission charged by bank:** Sometimes bank charges their customers for various services provided to them. It may be in the form of bank charges or commission. Similarly, bank can charge interest on overdraft facility provided to the customer. Bank debits the customer's account for such facilities time to time. However, the firm will know about these charges, commission etc. only when it goes through the bank Pass Book / bank statement. So, on the date of reconciliation balance as per Pass Book will be less than that of Cash Book.
- v) Dishonour of cheques or Bill of exchange:** When cheque or Bill of exchange discounted with the bank is dishonoured, the same is debited in the Pass Book / bank statement but not given effect in the Cash Book until intimation is received. Similarly, when customer makes the payment by cheque and if it is dishonoured, bank credits the same in Pass Book / bank statement to cancel the earlier effect of cheque but will not give effect of dishonour of cheque in the Cash Book until the intimation is received from bank. Thus, the balance differs.
- vi) Amount directly deposited in the bank account :** There are instances when debtors directly deposit money in businessman's bank account. Businessman is not aware of this transaction till he receives the intimation in bank statement. In this case bank records the receipt in customers account but the same is not recorded in the businessman's Cash Book. As a result, the balance shown in bank Pass Book will be more than the balance shown in Cash Book.

IMPS (Immediate Payment Service) is an instant payment interbank electronic funds transfer system in India. When an account holder needs to transfer funds immediately, IMPS can be used because this service is available 24/7 throughout the year including bank holidays.

NEFT(National Electronic Funds Transfer) is suitable for small money transfers(less than ₹ 2 Lakhs) and RTGS (Real Time Gross Settlement) is suitable for larger money transfers (greater than ₹ 2 Lakhs).

II. Due to errors and omission made by bank or businessman:

Sometimes bank may commit errors while recording the transactions in the Pass Book / bank statement which may disagree with the balance as per Cash Book and Pass Book. For e.g.

- i) Recorded on wrong side.
- ii) Recording wrong amount.
- iii) Wrong balancing and totalling.
- iv) Double recording.
- v) Omission of a transaction.

6.4 Specimen of Bank Reconciliation statement.**Bank Reconciliation Statement**

As on _____

Particulars	Amount (₹)	Amount (₹)
Bank balance / Overdraft as per Cash Book / Pass Book		xxx
Add: Reasons which would increase balance of the other book		
1.	xxx	
2.	xxx	xxx
Less : Reasons which would decrease balance of the other book		
1.	xxx	
2.	xxx	
3.	xxx	xxx
Bank balance / Overdraft * as per Pass Book / Cash Book		xxx

Fig. 6.4 (a)

* Balance becomes overdraft when answer is with negative (-) sign and vice versa.

Alternate Presentation.

Bank Reconciliation Statement can be prepared in alternative method. In this method two columns are prepared to record the amount. One column is for recording reasons that increase balance (plus items) and the other is for recording reasons that reduce the balance (minus items).

- Debit balance of Cash Book is written in plus column.
- Credit balance of Cash Book or overdraft is written in minus column.
- Debit balance of Pass Book or overdraft is written in minus column.
- Credit balance of Pass Book is written in plus column.

The two columns are then totalled and the difference is ascertained. This difference is balance or overdraft as per Cash Book or Pass Book.

Bank Reconciliation Statement

As on _____

Particulars	Amount (₹)	Amount (₹)
Bank balance / Overdraft as per Cash Book / Pass Book		
Add: Reasons which would increase balance		
1.		
2.		
3.		
Less : Reasons which would decrease balance of the other book		
1.		
2.		
Bank balance / Overdraft * as per Pass Book / Cash Book		xxx

Fig. 6.4 (b)**6.5 Preparation of Bank reconciliation Statement.**

Procedure for finding the causes of difference and effects thereof:

When there is a difference between balance as per Pass Book and Cash Book following steps are required to find the causes of difference-

1. Compare the items appearing on the debit side of the Cash Book with those on the credit side of the Pass Book (deposit column) and tick mark those items appearing in both the books.
2. Compare the items appearing on the credit side of the Cash Book with those on the debit side of the Pass Book (withdrawal column) and tick mark those items appearing in both the books.
3. Make a list of the items that are unticked in both the books. These are the items responsible for the difference in the balance shown by Cash Book and Pass Book.
4. Analyse the causes of difference.
5. Select the date for preparation of Bank Reconciliation Statement. Bank reconciliation statement can be prepared on any date. The date for the preparation of the Bank Reconciliation Statement is generally chosen as the last day of the month because Cash Book balance and Pass Book balance are readily available on that date.
6. Prepare Bank Reconciliation Statement by taking balance as per Cash Book or Pass Book as starting point.
7. Adjust the starting point with other balances by adding or subtracting the unticked items as found in step 3. If balance as per Cash Book has been taken as the starting point, then balance as per Cash Book is to be adjusted according to entries passed in the Pass Book or vice versa.

8. Apply the rule of plus and minus.
- a) When balance as per Cash Book is given
 - Add credits in Cash Book or in Pass Book.
 - Less debits in Cash Book or in Pass Book.
 - b) When balance as per Pass Book is given
 - Add debits in Cash Book or in Pass Book.
 - Less credits in Cash Book or in Pass Book.
 - c) When overdraft as per Cash Book is given
 - Add debits in Cash Book or in Pass Book.
 - Less credits in Cash Book or in Pass Book.
 - d) When overdraft as per Pass Book is given
 - Add credits in Cash Book or in Pass Book.
 - Less debits in Cash Book or in Pass Book.

Reasons for discrepancy	When bank balance is given as per Cash Book		When bank balance is given as per Pass Book		When overdraft balance is given as per Cash Book		When overdraft balance is given as per Pass Book	
	Dr.	Bal	Cr.	Bal	Cr.	Bal	Dr.	Bal
1. Cheque deposited into bank but not credited.		(-)		(+)		(+)		(-)
2. Cheque issued but not presented for payment.		(+)		(-)		(-)		(+)
3. Bank charges debited in Pass Book.		(-)		(+)		(+)		(-)
4. Interest credited in Pass Book only		(+)		(-)		(-)		(+)
5. Interest debited in Pass Book only.		(-)		(+)		(+)		(-)
6. Payments made by the bank recorded in Pass Book only.		(-)		(+)		(+)		(-)
7. Direct payment by customer in bank recorded in Pass Book.		(+)		(-)		(-)		(+)

8. Bills receivable discounted with bank being dishonoured, recorded in Pass Book only.	(-)	(+)	(+)	(-)
9. Cheque deposited into bank being dishonoured, nor recorded in Cash Book.	(-)	(+)	(+)	(-)

Fig. 6.5 (a)

A. When extract of Cash Book and Pass Book is given for a common period:

When extracts are given for common period the following points must be considered.

- a) Uncommon items are to be considered.
- b) The opening balance of Cash Book and Pass Book.

Items that create difference between the balance as per Cash Book and as per Pass Book can be ascertained by comparing the two books. Entries appearing in both the books in the same period do not create any difference in the balance of the two books, thus are to be ignored. The items which appear in Cash Book but does not appear in Pass Book and vice versa will only create difference in the balance of the two books. These are entered in the Bank Reconciliation Statement.

Illustration 1.

Ledger of Businessman					
Dr.			Cr.		
Cash Book (Bank column only)					
Date	Receipts	Amount (₹)	Date	Payments	Amount (₹)
2019 Apr.			2019 Apr.		
01	To Balance b/d	✓ 15,600	05	By Salaries	✓ 4,500
05	To Anand	✓ 5,200	09	By Ramlal Bros.	✓ 6,000
08	To Cash	✓ 4,000	15	By Atul and Sons.	✗ 2,600
15	To Mohan	✗ 7,100	25	By Raman and Co.	✓ 3,220
28	To Deepak	✗ 6,800	30	By Balance c/d	✗ 22,380
		38,700			38,700
May					
1	To Balance b/d	22,380			

In the books of Bank

Dr.		Pass Book		Cr.	
Date	Payments	Amount (₹)	Date	Receipts	Amount (₹)
2019 Apr.			2019 Apr.		
08	To Salaries	✓ 4,500	01	By Balance b/d	✓ 15,600
18	To Ramlal Bros.	✓ 6,000	08	By Cash Deposited	✓ 4,000
22	To Insurance Premium	✗ 6,500	10	By Anand	✓ 5,200
29	To Raman and Co.	✓ 3,220	14	By Dividend	✗ 2,000
30	To Bank Charges	✗ 800			
30	To Balance c/d	5,780			
		26,800			26,800
			May		
			1	By Balance b/d	5,780

Find out the reasons for difference in the balance of the two books. Prepare Bank reconciliation Statement as on 30th April 2019:

- When balance as per Cash Book is given.
- When balance as per Pass Book is given.

Solution: On comparing the Cash Book balance with Pass Book balance it can be noted that items appearing in both the books are given a (✓) tick mark. these do not create any difference in the balance of the two books and are to be ignored. Items that are appearing in any one of the Book only is given (✗) 'cross mark', these are the reasons which will create difference in the balance of the two Books which are to be added or deducted in Bank Reconciliation Statement.

On comparing debit side (receipt) of Cash Book with credit side (receipt) of Pass Book it is found that: -

- Cheques received from Mohan ₹ 7,100 and Deepak ₹ 6,800 is deposited into the bank for collection but not yet collected by bank.
- Dividend ₹ 2,000 collected by bank does not appear in the Cash Book.

On comparing credit side (payment) of Cash Book with debit side (payment) of the Pass Book it is found that :-

- Cheque ₹ 2,600 issued to Atul and Sons has not been presented for payment.
- Bank has paid insurance premium ₹ 6,500 for which no entry has been made in cash book.
- Bank has debited bank charges ₹ 800 which does not appear in Cash Book.

These discrepancies will appear in the Bank Reconciliation Statement as under :-

i) When balance as per Cash Book is given:

Bank Reconciliation Statement
As on 30th April 2019

Particulars	Amount (₹)	Amount (₹)
Balance as per Cash Book		22,380
Add : 1. Dividend collected by bank appearing in Pass Book only	2,000	
2. Cheques issued but not presented for payment Atul and Sons	2,600	4,600
		26,980
Less : 1. Cheques deposited but not yet collected		
Mohan ₹ 7,100		
Deepak ₹ 6,800	13,900	
2. Insurance premium paid by bank does not appear in Cash Book	6,500	
3. Bank charges appearing in Pass Book only	800	21,200
Bank balance as per Pass Book		5,780

ii) When balance as per Pass Book is given:

Bank Reconciliation Statement
As on 30th April 2019

Particulars	Amount (₹)	Amount (₹)
Balance as per Pass Book		5,780
Add : 1. Cheques deposited but not yet collected		
Mohan ₹ 7,100		
Deepak ₹ 6,800	13,900	
2. Insurance premium paid by bank appears in Pass Book	6,500	
3. Bank charges debited in Pass Book only	800	21,200
		26,980
Less : 1. Cheques issued but not presented for payment		
Atul and sons	2,600	
2. Dividend collected by bank and credited in Pass Book only	2,000	4,600
Bank balance as per Cash Book		22,380

Note: When we start with the Cash Book balance, we arrive at Pass Book balance and when we start with Pass Book balance, we arrive at Cash Book balance.

A business can prepare Bank Reconciliation Statement with Cash Book balance or Pass Book balance.

B. When extract of Cash Book and Pass Book is given for different periods:

When extract is given for uncommon period, consider only common items appearing in both the books. Common items only create discrepancies in the balance of the two books which are to be adjusted in the Bank Reconciliation Statement.

Illustration 2

In the books of _____					
Dr.			Cr.		
Cash Book (Bank column only)					
Date	Receipts	Amount (₹)	Date	Payments	Amount (₹)
2019 Jan.			2019 Jan.		
01	To Balance b/d	30,000	01	By Purchases	15,000
05	To Deepa	22,500	04	By Kuldeep	21,000
08	To Gita	7,500	06	By Advertisement	13,500
10	To Sangeeta	✓ 75,000	15	By Hemant	✓ 19,500
12	To Rucha	51,000	21	By Pravin	✓ 9,900
19	To Shruti	✓ 24,000	26	By Machinery	23,100
			29	By Vidya	✓ 27,000
			31	By Balance c/d	81,000
		2,10,000			2,10,000

In the books of Bank

Pass Book					
Dr.			Cr.		
Date	Payments	Amount (₹)	Date	Receipts	Amount (₹)
2019 Feb.			2019 Feb.		
06	To Hemant	✓ 19,500	01	By Balance b/d	38,400
09	To electricity bill	1,050	01	By Sangeeta	✓ 75,000
09	To Pravin	✓ 9,900	05	By Piyush	15,000
10	To Vidya	✓ 27,000	07	By Arijit	9,000
11	To Nishant	1,410	09	By Shruti	✓ 24,000

Prepare Bank Reconciliation Statement as on 31st Jan 2019.

Solution: On comparing the Cash Book balance with Pass Book balance it can be noted that items appearing in both the books are given a (✓) mark. These will create a difference in the balance of two books and will appear in Bank Reconciliation statement.

Extract of Cash Book and Pass Book in the illustration is for different periods i.e. Jan. 2018 and Feb. 2018.

On comparing the receipt side of Cash Book with receipt side of Pass Book and payment side of Cash Book with payment side of Pass Book the following reasons for discrepancies are found.

- i) Cheques deposited into bank for collection but not yet collected by bank are:
Sangeeta ₹ 75,000 Shruti ₹ 24,000
- ii) Cheques issued but not presented for payment are:
Hemant ₹ 19,500
Pravin ₹ 9,900
Vidya ₹ 27,000

Bank Reconciliation Statement
As on 31st Jan, 2019

Particulars	Amount (₹)	Amount (₹)
Balance as per Cash Book		81,000
Add : 1. Cheques issued but not presented for payment		
Hemant	19,500	
Pravin	9,900	
Vidya	27,000	56,400
		1,37,400
Less : 1. Cheques deposited but not collected by bank		
Sangeeta	75,000	
Shruti	24,000	99,000
Bank balance as per Pass Book		38,400

C. When bank balance as per Cash Book / favourable balance as Per Cash Book / debit balance as per Cash Book is given:

Illustration 3

On 31st March 2019 the Cash Book of Mr. Arvind showed a bank balance of ₹ 57,400, but Pass Book showed a different balance. On comparing the Cash Book with the Pass Book the following discrepancies were noted:

- i) Cheque of ₹ 6,350 deposited into bank but was not yet collected by bank.
- ii) Bank paid our electricity bill ₹ 9,700 which was not recorded in the Cash Book.
- iii) Cheque issued to our supplier ₹ 15,100 was not presented for payment up to 31st March 2019.
- iv) Interest on investment ₹ 8,800 was collected by bank was not recorded in Cash Book.
- v) Bank charges ₹ 650 was debited in Pass Book.
- vi) Mr. Tanmay our debtor directly deposited ₹ 12,000 into our bank account on 28th March 2019, which was not entered in Cash Book.

Prepare a Bank Reconciliation Statement as on 31st March 2019.

**In the books of Mr. Arvind
Bank Reconciliation Statement
As on 31st March 2019**

Particulars	Amount (₹)	Amount (₹)
Balance as per Cash Book		57,400
Add : 1. Cheques issued but not yet presented for payment	15,100	
2. Interest on investment collected by bank not recorded in Cash Book	8,800	
3. Direct deposit made by debtor not recorded in Cash Book	12,000	35,900
		93,300
Less : 1. Cheques deposited but not yet collected by bank	6,350	
2. Electricity bill paid by bank not recorded in Cash book	9,700	
3. Bank charges debited in Pass Book only	650	16,700
Bank balance as per Pass Book		76,600

D. When bank balance as per Pass Book / favourable balance as per Pass Book / credit balance as per Pass Book is given.

Illustration 4.

From the following details find out the bank balance as per Cash Book of Mr. Anurag as on 30th June 2019.

- i) Bank balance as per Pass Book ₹ 14,000.
- ii) Two cheques of ₹ 8,900 and ₹ 10,700 were issued on 25th June 2019, out of which only one cheque of ₹ 8,900 was presented for payment before 30th June 2019.
- iii) Cheques of ₹ 16,400 were deposited but only one cheque of ₹ 6,400 was cleared by bank on 28th June 2019.
- iv) Cash of ₹ 5,500 withdrawn from bank for personal use was not recorded in the Cash Book.
- v) ₹ 350 bank incidental charges debited to Mr. Anurag's account, is not recorded in Cash Book.
- vi) There was a debit in Pass Book of ₹ 7,500 in respect of a cheque dishonoured on 30th June 2019.
- vii) Interest ₹ 425 was credited in Pass Book only.

In the books of Mr. Anurag
Bank Reconciliation Statement
As on 30th June 2019

Particulars	Amount (₹)	Amount (₹)
Balance as per Pass Book		14,000
Add : 1. Cheques deposited but not cleared by bank	10,000	
2. Cash withdrawn from bank for personal use not recorded in Cash Book	5,500	
3. Incidental charges debited in Pass Book only	350	
4. Cheque dishonoured debited in Pass Book only	7,500	23,350
		37,350
Less : 1. Cheques issued but not presented for payment	10,700	
2. Interest credited in Cash Book only	425	11,125
Bank balance as per Cash Book		26,225

E. When overdraft as per Cash Book / unfavourable balance as per Cash Book / credit balance as per Cash Book is given.

Illustration 5.

Cash Book of Kunal showed an Overdraft of ₹ 36,280 as on 31st July 2019. On comparing his Cash Book and Pass Book following differences were found:

- i) An amount of ₹ 18,700 was directly paid into bank by our customer Manish, was not recorded in Cash Book.
- ii) Cheque of ₹ 18,900 deposited in the bank, was collected and credited by bank but was entered in Cash Book as ₹ 19,800.
- iii) Cheques issued for salary to staff ₹ 25,000 on 27th July 2019 was presented for payment only on 4th Aug 2019.
- iv) Cash ₹ 20,000 withdrawn from ATM for office use was not recorded in Cash Book.
- v) Debit side of Cash Book, bank column was overcast by ₹ 100.
- vi) As per standing instruction bank paid our office rent ₹ 19,500.
- vii) Commission collected by bank ₹ 3,750 on behalf of us was not recorded in Cash Book.

Prepare Bank Reconciliation Statement as on 31st July 2019.

Solution :

In the books of Kunal
Bank Reconciliation Statement
As on 31st July 2019

Particulars	Amount (₹)	Amount (₹)
Bank Overdraft as per Cash Book		36280
Add : 1. Cheque deposited and collected by bank but was debited in Cash Book with more amount	900	
2. Cash withdrawn from ATM for office use not recorded in Cash Book	20,000	
3. Debit side of Cash Book, bank column was overcast	100	
4. Office rent paid by bank appears in Pass Book only	19,500	40,500
		76,780
Less : 1. Direct deposit made by customer into bank not recorded in Cash Book	18,700	
2. Cheques issued but not presented for payment	25,000	
3. Commission collected and credited by bank only	3,750	47,450
Bank Overdraft as per Pass Book.		29,330

Alternate Method :

Bank Reconciliation statement can also be prepared with two column of plus (+) and Minus (-) as follows :

Bank Reconciliation Statement
As on 31st July 2019

Particulars	Plus items Amount (₹)	Minus items Amount (₹)
Bank Overdraft as per Cash Book		36,280
1. Direct deposit made by customer not recorded in cash book	18,700	
2. Cheque deposited and collected by bank but was debited in cash balance with wrong amount		900
3. Cheques issued but not presented for payment	25,000	
4. Cash withdrawn from ATM not recorded in Cash Book		20,000
5. Debit side of Cash Book was overcast		100
6. Office rent paid by bank appears in Pass Book only		19,500
7. Commission collected by bank appears in Pass Book only	3,750	
8. Bank overdraft as per Pass Book	29,330	
	76,780	76,780

F. When Overdraft as per Pass Book / unfavourable balance as per Pass Book / debit balance as per Pass Book is given:

Illustration 6.

Prepare Bank Reconciliation Statement from details given below, to find out balance as per Cash Book of Mr. Bhuvaneshwar as on 31st Oct 2018.

- i) Pass Book of Mr. Bhuvaneshwar shows an overdraft of ₹ 53,970.
- ii) Bank wrongly credited Mr. Bhuvaneshwar's account with ₹ 17,070.
- iii) Bank paid annual subscription to Chamber of Commerce ₹ 6,000 on Mr. Bhuvaneshwar's standing order which was not recorded in Cash Book.
- iv) Payment side, bank column of Cash Book was under cast ₹ 350.
- v) Interest on overdraft charged by bank was ₹ 1,530.
- vi) Cash deposit of ₹ 23,000 on 31st Oct 2018 was not recorded in the Pass Book.
- vii) Cheques issued but not presented to bank for payment ₹ 40,000.

Solution:

In the books of Mr. Bhuvaneshwar

Bank Reconciliation Statement

As on 31st Oct 2018

Particulars	Amount (₹)	Amount (₹)
Bank Overdraft as per Pass Book		53,970
Add : 1. Wrong credit given by bank in Pass Book	17,070	
2. Cheques issued but not presented to bank for payment	40,000	57,070
		1,11,040
Less : 1. Annual subscription of Chamber of Commerce paid by bank not recorded in Cash Book	6,000	
2. Payment side of Cash Book bank column was undercast	350	
3. Interest on overdraft debited in Pass Book only	1,530	
4. Cash deposit was not recorded in Pass Book	23,000	30,880
Bank Overdraft as per Cash Book		text-align: right;">80,160

Illustration 7.

On 31st March 2018 bank Pass Book of Mr. Rajiv showed a credit balance of ₹ 6,300 but Cash Book showed a different balance. On comparing the two books the following differences were noticed.

- i) Cheques sent to bank for collection ₹ 85,000 on 25th March 2018 but a cheque of ₹ 60,000 was only cleared by bank before 31st March 2018.
- ii) Out of cheques issued ₹ 58,500, cheques of ₹ 48,500 were not presented for payment before 31st March 2018.
- iii) A Bill of Exchange for ₹ 4,000 discounted with the bank was dishonoured on 30th March 2018. Intimation of the same was received on 5th April 2018.
- iv) Interest allowed by bank ₹820 appeared twice in the Cash Book.

- v) Pass Book debit side was overcast ₹ 200.
- vi) Cheque received from Akash ₹ 4,250 deposited into bank for collection was not yet collected. The entry was recorded in the cash column of Cash Book.
- vii) A Bills Payable amounting to ₹ 8,700 paid by bank has not been recorded in the Cash Book.
- viii) Mr. Aditya, our customer directly deposited ₹17,000 into our account through NEFT. It was not recorded in the Cash Book.

Prepare the Bank Reconciliation Statement as on 31st March 2018.

Solution:

In the books of Mr. Rajiv
Bank Reconciliation Statement
As on 31st March 2018

Particulars	Amount (₹)	Amount (₹)
Bank Balance as per Pass Book		6,300
Add : 1. Cheques sent to bank for collection but not yet cleared	25,000	
2. Discounted bill dishonoured does not appear in Cash Book	4,000	
3. Interest allowed by bank appears twice in cash book	820	
4. Pass Book debit side was overcast	200	
5. Bills Payable paid by bank not recorded in cash book	8,700	38,720
		45,020
Less : 1. Cheques issued but not presented for payment	48,500	
2. Direct deposit made by customer not recorded in Cash Book	17,000	65,500
		20,480
Bank Overdraft as per Cash Book		20,480

Note:

Reason No. vi) will not appear in the bank reconciliation statement. This does not create any difference in the balance of the two books because it has not been recorded in the Bank column of cash-book and it does not appear in the Pass Book too since it has not been collected by bank.

Illustration 8.

The Cash Book of Pankaj shows a credit balance of ₹ 32,490 in the bank column on 30th September 2018. Prepare Bank Reconciliation Statement as on 30th September 2018.

- i) Three cheques of ₹ 8,200, ₹ 11,360 and ₹ 16,440 were deposited into bank but only a cheque of ₹11,360 was credited by bank before 30th September 2018.
- ii) Cheques issued but not encashed before 30th September 2018 was ₹ 93,000.
- iii) Bank charges for issue of cheque book ₹ 250 and SMS alerts ₹ 170 was debited in Pass Book only.

- iv) Mr. Shreyans transferred ₹ 1,23,200 through NEFT but was wrongly debited with ₹ 12,320 in our Cash Book.
- v) Receipt side of Pass Book was undercast by ₹ 1,000.
- vi) Dividend collected and credited by bank ₹ 12,500, was not entered in Cash Book.

Solution:

In the books of Pankaj
Bank Reconciliation Statement
As on 30th September 2018

Particulars	Amount (₹)	Amount (₹)
Bank overdraft as per Cash Book		32,490
Add : 1. Cheques deposited but not yet collected by the bank	24,640	
2. Bank charges for issue of cheque book did not appear in Cash Book	250	
3. SMS alert charges appeared in Pass Book only	170	
4. Receipt side of Pass Book was undercast	1,000	26,060
		58,550
Less : 1. Cheques issued but not yet encashed	93,000	
2. Direct deposit through NEFT was made by customer but lesser amount was debited in cash book	1,10,880	
3. Dividend collected and credited by bank appears in Pass Book only	12,500	2,16,380
Bank balance as per Pass Book		1,57,830

Illustration 9.

On 31st March 2018, Bank Pass Book of Mr. Ravi showed a credit balance of ₹ 16,700.

Prepare Bank Reconciliation Statement with the following information:

- i) Cash of ₹ 8,500 drawn from his savings account has been shown in current account in Cash Book.
- ii) Cheques amounting to ₹ 27,000 were deposited into bank for collection, out of which cheques amounting to ₹ 23,000 only were credited upto 31st March 2018.
- iii) Cheques of ₹ 40,500 were issued on 25th March 2018, of which only one cheque of ₹ 1,500 was presented for payment on 30th March 2018.
- iv) Bill Receivable of ₹ 11,700 which was discounted with the bank was dishonoured on 30th March 2018. The intimation was received on 5th April 2018.
- v) Insurance premium ₹ 14,400 paid by bank appeared twice in the Cash Book.
- vi) Pass Book debit side was overcast by ₹ 300.
- vii) Interest allowed by bank ₹ 800 appeared in the Pass Book only.

Solution:

In the books of Mr. Ravi
Bank Reconciliation Statement
As on 31st March 2018

Particulars	Amount (₹)	Amount (₹)
Bank balance as per Pass Book		16,700
Add : 1. Cheques deposited but not yet collected by the bank	4,000	
2. Discounted bill dishonoured recorded in Pass Book only	11,700	
3. Pass Book debit side was overcast	300	16,000
		32,700
Less : 1. Cash withdrawn from Savings Account wrongly shown in Cash Book under Current Account	8,500	
2. Cheques issued but not presented for payment	39,000	
3. Insurance premium paid by bank recorded twice in Cash Book	14,400	
4. Interest allowed by bank does not appear in cash book	800	62,700
Bank Overdraft as per Cash Book		30,000

Illustration 10.

From the following particulars prepare the Bank Reconciliation Statement as on 31st Jan 2019.

- i) Debit balance as per Cash Book ₹ 48,000.
- ii) Cheque of ₹ 37,000 was deposited and collected by the bank but not recorded in Cash Book.
- iii) Cash deposit of ₹ 26,200 was recorded in cash column of Cash Book.
- iv) Purchased furniture and payment by debit card ₹ 25,000, was not recorded in Cash Book.
- v) Online transfer was made to our creditors account ₹ 26,700 through IMPS, for which no entry was made in Cash Book.
- vi) Telephone bill ₹ 7,250 and electricity bill ₹ 8,250 paid through online banking, was not recorded in the Cash Book.
- vii) Cheque received from Vinod for ₹ 28,600 paid into bank was dishonoured on 27th Jan 2019 but advice was received only on 4th Feb 2019.

Solution:

Bank Reconciliation Statement
As on 31st Jan 2019

Particulars	Amount (₹)	Amount (₹)
Bank balance as per Cash Book		48,000
Add : 1. Cheques deposited and collected by the bank but not recorded in Cash Book	37,000	
2. Cash deposit wrongly recorded in cash column of Cash Book	26,200	63,200
		1,11,200
Less : 1. Payment made by debit card not recorded in the Cash Book	25,000	
2. Online transfer made through IMPS not recorded in Cash Book	26,700	
3. Online payment for telephone and electricity bills appear in Pass Book only	15,500	
4. Cheque dishonoured not yet entered in cash book	28,600	95,800
Bank Balance as per Pass Book		15,400

Reconciliation of Debtors and Creditors:

Reconciliation helps us to identify and fix accounting errors. Reconciliation is carried out to verify the completeness and accuracy of a particular part of accounting records by comparing it with another record. Reconciliation Statement can also be prepared for vendor reconciliation i.e. reconciliation of debtors and creditors. Debtors represent money owed to us and creditors represent money owed by us. Here we compare debtor's ledger in our books with our ledger in the debtor's book and reconcile the differences if any.

Procedure for Reconciliation of Debtors and Creditors:

1. Request debtor to give our ledger account as appearing in their books.
2. Prepare debtor's ledger account in our book in excel.
3. Copy paste both in one excel file.
4. Compare and match entries appearing in both the ledger accounts.
5. Prepare list for entries which are not matching.
6. Group similar types of differences and give heading.
7. Prepare vendor reconciliation statement with the differences.

Activities:

- The following Bank Reconciliation Statement is prepared by our accountant Mr. New on 28th Feb 2018 with balance as per Cash Book. Pass Book balance on that date was ₹ 1,00,000. There are some mistakes in the statement. Can you correct it for us?

Bank Reconciliation Statement**As on 28th Feb 2018**

Particulars	Amount (₹)	Amount (₹)
Bank Balance as per Cash Book		1,24,100
Add : 1. Cheque deposited but not cleared by bank	30,000	
2. Cheque issued but not presented to bank for payment	28,000	
3. Insurance premium paid and debited in Pass Book only	5,000	
4. Interest collected and credited in Pass Book only	3,000	66,000
		1,90,100
Less : 1. Bank charges debited in Pass Book only	1,000	
2. Dividend collected by bank recorded in Pass Book only	4,000	
3. Cheque deposited and realised but wrongly entered twice in Cash Book	24,000	
4. Cheque issued and encashed but wrongly entered in Cash Book as ₹ 9,800 instead of ₹ 8,900	900	29,900
		1,60,200
Bank Overdraft as per Pass Book		1,60,200

- Visit 2 or 3 banks and collect banking documents like Pay-in-slip, deposit slip etc. and compare the contents.
- Visit any stationery / medical shop near your house and ask them how they prepare their Bank Reconciliation Statement.
- If you have an ATM card take a mini statement and study the details of deposits, withdrawals and balances.
- Visit a bank to find out how many days does it take to collect local and outstation cheques.
- Read the following reasons and identify the cause of difference on the basis of
 - time difference
 - errors made by bank or businessman.
 - Cheques issued for payment but not yet presented to bank.
 - Interest on overdraft debited by bank but not yet recorded in Cash Book.
 - Cheque deposited into bank but not yet collected by the bank.
 - Bank paid insurance premium which was recorded twice in the Cash Book.
 - Cash ₹ 12,300 deposited into bank was recorded as ₹ 13,200 in Cash Book.
 - Interest allowed by bank credited in Pass Book only.

EXERCISE

Q.1. Answer in one sentence.

1. Who prepares a bank Pass Book?
2. What is pay-in-slip?
3. What is bank overdraft?
4. What is withdrawal slip?
5. Who sends the bank statement?
6. What does a debit balance in Cash Book represent?
7. Who prepares the Bank Reconciliation Statement?
8. What does debit balance in Pass Book represent?
9. On which side is interest on bank deposit recorded in Pass Book?
10. Why is Bank Reconciliation Statement prepared?

Q.2. Give one word / term / phrase which can substitute each of the following statement:

1. The account on which overdraft facility is allowed by bank.
2. Extract of ledger account of account holder in the books of bank.
3. Alphanumeric code that facilitates electronic funds transfer in India.
4. Statement showing the causes of disagreement between balance of Cash Book and Pass Book.
5. Debit balance in Pass Book.
6. A form which is filled for depositing cash or cheque into bank.
7. Left hand side of Pay-in-slip.
8. Credit balance in Cash Book.
9. A book maintained by trader to record banking transactions.
10. Excess of bank deposits over withdrawals by businessman in bank current account.

Q.3. Do you agree or disagree with the following statements:

1. The bank column of Cash Book represents bank account.
2. Bank statement enables account holder to prepare Bank Reconciliation Statement.
3. Cheques issued for payment but not presented to bank appears in Cash Book only.
4. Bank Reconciliation Statement is prepared only during the year end.
5. Bank Reconciliation Statement is similar to bank statement.

6. Bank balance as per Cash Book is always equal to bank balance as per Pass Book.
7. Bank advice is sent by the businessman to bank.
8. Pay-in-slip is used for depositing cheque into bank.
9. Difference in Cash Book balance and Pass Book balance may arise due to errors committed while recording.
10. Payment and receipt of cash through internet banking generates automatic proof.

Q.4. Select the most appropriate alternative from those given and rewrite the following statements:

1. Overdraft means _____ balance of Cash Book.
a) closing b) debit c) opening d) credit
2. When a cheque is deposited and collected by bank Pass Book is _____.
a) dishonoured b) debited c) credited d) written.
3. A _____ is a summary of financial transactions that take place over a period of time on a bank account.
a) withdrawal slip b) bank advice c) bank statement d) Pay-in-slip.
4. Debiting an entry in Cash Book _____ cash balance.
a) increases b) decreases c) nullifies d) none of the above.
5. Bank Reconciliation Statement is prepared by _____.
a) student b) businessman c) bank d) none of the above.
6. Bank balance as per Pass Book means _____ balance of Pass Book.
a) credit b) opening c) debit d) closing.
7. Bank gives overdraft facility to _____ account holder.
a) savings b) recurring c) current d) fixed.
8. Debit balance as per Cash Book is also known as _____ balance.
a) favourable b) overdraft c) abnormal d) unfavourable.
9. When extracts of Cash Book and Pass Book are given for uncommon periods, only _____ items are considered for preparation of Bank Reconciliation Statement.
a) uncommon b) normal c) favourable d) common.
10. When extract of Cash Book and Pass Book are given for common period, only _____ items are considered for preparation of Bank Reconciliation Statement.
a) uncommon b) common c) favourable d) unfavourable.

Q.5. Complete the following statements :

1. Payments credited in Cash Book are _____ in Pass Book.
2. While preparing Bank Reconciliation Statement only _____ column of Cash Book is considered.
3. Cheques issued to creditors appear first in _____ book.
4. A statement showing the reasons for difference in Cash Book balance and Pass Book balance is known as _____ .
5. Overcast on receipt side of Pass Book means _____ in Pass Book balance.
6. Online transfer made to our creditors appear on the _____ side of Cash Book.
7. Interest on overdraft charged by bank is _____ in Pass Book.
8. Normally the Cash Book shows debit balance and Pass Book shows _____ balance.
9. The form filled for withdrawing cash from bank is known as _____ .
10. A businessman can update his records on receiving _____ .

Q.6. State whether the following statements are True or False with reasons :

1. Cheques deposited into bank but not yet cleared appears in the Pass Book only.
2. Direct deposit made by debtors into businessman's bank account is recorded on the credit side of Pass Book.
3. Businessman can prepare Bank Reconciliation statement only with Cash Book Balance.
4. When overdraft as per Cash Book is given, bank charges debited in Pass Book only, is to be added.
5. Bank Statement is sent by Bank to businessman.

Q.7. Draft the following specimen with imaginary Name, Account number, Amount.

1. Bank Statement
2. Pay-in-slip
3. Withdrawal slip
4. Bank Advice
5. Pass Book

Q.8. Correct and rewrite the following statements.

1. The form filled for depositing cash or cheque into bank is known as Pass Book.
2. Bank Reconciliation Statement is prepared by Bank.
3. Debit balance as per Pass Book is known as favourable balance.
4. When a cheque is deposited into Bank it is credited in Cash Book.
5. When extracts are given for common period only common items are to be considered.

Q.9. Complete the following table.

Reasons	When Normal balance as per Cash Book is given Add/Less	When Normal balance as per Pass Book is given Add/Less
1) Interest debited in Pass Book only.		
2) Direct deposit made by customer in bank recorded in Pass Book	(+)	
3) Cheque deposited into bank but not yet collected by bank		
4) Cheque deposited into bank is dishonoured		(+)
5) Cheque issued but not presented for payment.		(-)

PRACTICAL PROBLEMS

1. Following is the extract of Cash Book (Bank Column only) and Pass Book. Prepare Bank Reconciliation Statement as on 31st Oct. 2018.

In the books of _____

Dr. Cash Book (Bank column only) Cr.

Date	Receipts	Amount (₹)	Date	Payments	Amount (₹)
2018 Oct			2018 Oct		
01	To Balance b/d	10,000	07	By Tejas	12,000
05	To Aparna	5,000	10	By Anil	3,000
08	To Apoorva	6,000	15	By Bank charges	200
12	To Omkar	3,000	17	By Advertisement	2,000
20	To Sunil	4,000	20	By Drawings	1,000
			31	By Balance c/d	9,800
		28,000			28,000

In the books of Bank

Dr.			Pass Book			Cr.		
Date	Payments	Amount (₹)	Date	Receipts	Amount (₹)			
2018 Oct.			2018 Oct.					
07	To Interest	500	01	By Balance b/d	10,000			
10	To Insurance premium	2,000	10	By Apoorva	6,000			
13	To Anil	3,000	22	By Sunil	4,000			
20	To Telephone bill	2,000	24	By Raju	2,000			
20	To Drawings	1,000	27	By Swanand	3,000			
31	To Balance c/d	16,500						
		25,000			25,000			

2. From the following extract of Cash Book and Pass Book prepare Bank Reconciliation Statement as on 31st March 2019.

In the books of _____

Dr.			Cash Book (Bank column only)			Cr.		
Date	Receipts	Amount (₹)	Date	Payments	Amount (₹)			
2019 Mar.			2019 Mar.					
01	To Balance b/d	79,500	04	By Rent	36,000			
04	To Avinash	18,000	06	By Mansi	20,100			
09	To Dhananjay	25,500	12	By Nikhil	9,600			
15	To Meenal	10,800	17	By Drawings	15,000			
20	To cash	24,000	24	By Nishant	27,600			
27	To Prasad	14,700	31	By Balance c/d	64,200			
		1,72,500			1,72,500			

In the Books of Bank**Pass Book**

Date	Particulars	Withdrawals		Deposits		Balance ₹
		Dr.	₹	Cr.	₹	
2019 Apr.						
01	By Balance b/d					86,400
04	By Meenal			10,800		97,200
06	By Prasad			14,700		1,11,900
10	To Salary	24,000				87,900
13	To Nishant	27,600				60,300
18	By Bharat			11,400		71,700
23	To Keshav	6,600				65,100
27	To Mansi	20,100				45,000
30	By Sharvari			18,000		63,000

3. On 31st August 2018 bank Pass Book of Mr. Ravi showed a credit balance of ₹ 33,600, but Cash Book showed a different balance. On comparing the two books following differences were noticed:
1. Cheques paid into the bank but not credited before 31st Aug 2018 amounted to ₹ 24,500.
 2. Direct deposit by customer through NEFT ₹ 33,000 recorded in the Pass Book only.
 3. Cheques issued on 28th Aug 2018 were presented for payment on 5th Sep. 2018 amounted to ₹ 38,800.
 4. A bill receivable for ₹ 15,000 discounted with the bank was dishonoured on 30th Aug 2018. Intimation of the same was received only on 3rd Sep 2018.
 5. Pass Book credit side was overcast ₹ 2,000.
 6. Bank debited ₹ 400 for bank charges in Pass Book, was not recorded in Cash Book.
- Prepare Bank Reconciliation Statement as on 31st August 2018.
4. From the following details prepare Bank Reconciliation Statement as on 31st Dec 2018.
1. Bank overdraft as per Cash Book on 31st Dec 2018 was ₹ 48,450.
 2. Bank charges for SMS alerts ₹ 370 were debited in Pass Book but not recorded in Cash Book.
 3. Interest on overdraft ₹ 2,870 did not appear in Cash Book.
 4. A bill for ₹ 12,000 discounted with bank appears in Cash Book at full amount but bank has deducted ₹ 200 discounting charges.
 5. Cheques issued but not presented for payment before 31st Dec 2018 amounted to ₹ 32,300.
 6. Cheques amounting to ₹ 24,000 deposited into bank but only a cheque of ₹ 8,000 was collected by bank before 31st Dec 2018.
 7. Paid stationary bill ₹ 11,300 by debit card. It was not recorded in Cash Book.
5. From the following particulars prepare Bank Reconciliation Statement as on 30th June 2019.
1. Credit balance as per Pass Book ₹ 20,000.
 2. A cheque for ₹ 3,500 was issued and paid by bank, recorded in Pass Book as ₹ 5,300.
 3. Cheque deposited ₹ 9,700 collected by bank was not recorded in Cash Book.
 4. Payment side of Cash Book was undercast by ₹ 100.
 5. Electricity bill paid by bank ₹ 6,200 was recorded twice in Pass Book.

6. Prepare Bank Reconciliation statement from the following information as on 31st March, 2019.

- 1) Balance as per Cash Book ₹ 10,000.
- 2) Cheque of ₹ 2,000 issued but not presented to Bank for payment.
- 3) Our debtor directly deposited ₹ 3,500 to our Bank account by NEFT, not recorded in the Cash Book.
- 4) Bank paid electricity bill on our behalf ₹ 450 and charged Bank charges ₹ 100.
- 5) Paid ₹1,500 to ABC & company, our supplier by business debit card but recorded in Cash Book as ₹150.
- 6) Bank credited interest on Investment ₹ 500.
- 7) Cheque of ₹ 885 issued and presented to Bank but wrongly entered in the Pass Book as ₹ 865.

7. On 31st January 2018 Bank balance as per Cash Book was ₹40,000 but Pass Book was showing some other balance following were the causes of difference.

- 1) Cheques issued for ₹1,00,000 in January 2018 but cheques of ₹50,000 only presented to Bank for payment before January 31st 2018
- 2) Cheques sent to Bank for collection of ₹2,00,000 out of which cheques of ₹80,000 only credited by Bank in January 2018.
- 3) Following entries were shown in Pass Book in January 2018, but no corresponding entries were made in the Cash Book.
 - i) Payment of ₹6,400 by Bank for electricity Bill by ECS.
 - ii) Interest credited by Bank ₹12,000
 - iii) Bank debited commission ₹1,000 and Bank charges for ₹600.
 - iv) Direct deposit made by customer ₹ 1,000 by NEFT to our account.

Prepare Bank Reconciliation statement as on 31st January, 2018.

8. On January 2018, the Pass Book of Mr. Girish Kumbhar showed a bank balance of ₹14,000. A comparison of the Cash Book with the Pass Book, revealed the following.

- 1) Cheque deposited but not credited by Bank ₹10,000
- 2) Dividend on shares collected by Bank but not recorded in the Cash Book ₹1,000
- 3) Bank paid Insurance premium as per standing instruction by ECS ₹500, no corresponding entry was passed in the Cash Book.
- 4) Bank debited Commission ₹75.
- 5) A debit of ₹900 in respect of cheque dishonoured appears in Pass Book only.
- 6) Cheque of ₹1,500 deposited into Bank wrongly recorded twice in the Cash Book.
- 7) Total cheques of 20,000 issued during the month of January 2018, but cheques of ₹8,000 only were presented for payment in January 2018.

9. Form the following details provided by Prashant enterprises, prepare Bank Reconciliation statement as on 31st March, 2018.

- 1) Overdraft as per Cash Book ₹28,000
- 2) Cheque issued of ₹2,000 and presented to Bank returned dishonoured but the effect of dishonoured is not recorded in the Cash Book.
- 3) Bank debited Bank charges ₹150.
- 4) Bank transferred ₹2,500 to savings account of the proprietor but not recorded in the Cash Book.
- 5) Cheque issued to supplier but not presented to Bank before 21st March 2018, ₹1,600
- 6) Cheques of ₹3,000 and ₹2,000 deposited into Bank but cheque of ₹3,000 only credited by Bank before 31st March 2018.
- 7) Out customer directly deposited ₹1,500 in our Bank account but wrongly recorded in the cash column of the Cash Book.
- 8) Bank debited interest on overdraft ₹750.

10. Prepare Bank Reconciliation Statement as on 31st Dec. 2018

- 1) Debit balance as per Pass Book ₹16,000
- 2) Customer directly deposited in our Bank account by NEFT ₹8,000.
- 3) Cheques deposited into Bank but not credited by Bank ₹10,500
- 4) Pass Book shows debit entry for Bank commission ₹300, not recorded in Cash Book.
- 5) A Bill of Exchange of ₹3,500 discounted with the Bank in December 2018, returned dishonoured in January 2019.
- 6) As per standing instructions Bank paid Telephone bill ₹650, not recorded in Cash Book..
- 7) Cheque of ₹975 deposited into Bank but wrongly recorded on ₹795 in Cash Book.



7

Depreciation

Contents

- 7.1 *Meaning, Definition and Importance of Depreciation.*
- 7.2 *Factors of Depreciation.*
- 7.3 *Methods of Depreciation.*
- 7.3.1. *Straight Line Method.*
- 7.3.2. *Written Down Value Method.*
- 7.3.3. *Difference between Fixed Instalment Method and Written Down Value Method.*
- 7.4 *Accounting Treatment for Depreciation.*

Competency Statements

- Students understand the concepts, methods and importance of Depreciation.*
- Students understand the difference between Fixed Assets and Current Assets.*
- Students are able to calculate the amount of depreciation of different fixed assets.*
- Students are able to differentiate the amount of depreciation by Straight Line Method and Written Down Value Method*

In daily life, we use many assets which could be Tangible or Intangible. Such assets have their own life e.g. Building, Furniture, Machinery, etc. It is necessary to spread the cost over a number of years during the useful life of the assets. This process of spreading the cost of fixed assets is termed as ‘Depreciation’.

7.1 Meaning and Definition of Depreciation:-

The word depreciation is derived from the **Latin word ‘Depretium’** which means reduction. Every business concern acquires some fixed assets which are used in the business for its trading activity. These assets are purchased for business with an intention of permanent use and not for resale.

Working life of all fixed assets, except Land, decreases with the passage of time. The value of these assets decrease every year. So, reduction in the value of fixed assets due to its Wear and Tear or actual use is called as ‘**Depreciation**’.

“Depreciation is defined as shrinkage in the value of an asset due to wear and tear, passage of time or obsolescence.”

Unless depreciation is charged to the revenues, the true income of the business cannot be ascertained properly, and we cannot make provision for their replacement. Purchase of an asset is a capital expenditure and not a recurring expenditure.

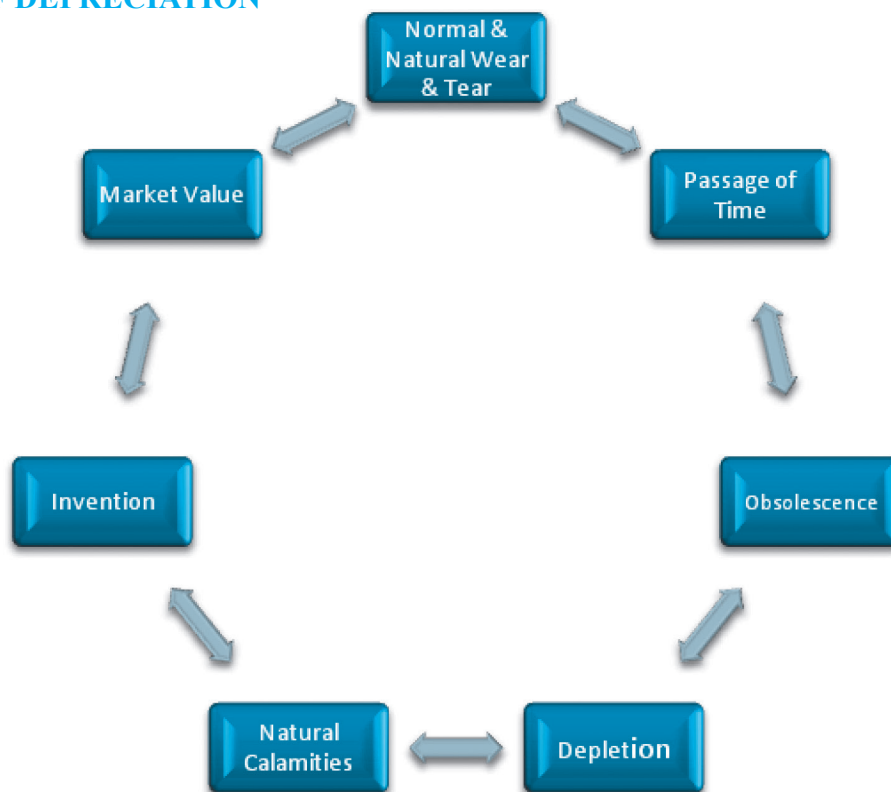
NOTE:.

1. Land is never depreciated, many a times it is appreciated. Moreover, the area of the Land neither increases nor decreases.
2. Depreciation is charged every year whether the business concern is earning profit or suffering a loss.

Definition:-

1. “Depreciation is the gradual decrease in the value of an asset from any cause.”
-R.N.Carter.
2. “Depreciation may be defined as a gradual deterioration in the value due to use.”
-R.G.Williams.
3. “Depreciation may be defined as permanent and continuing diminution in the quality, quantity or the value of an asset.”
-William Pickles.
4. “A measure of the wearing out, consumption or other loss of a value of a depreciable asset arising from use, effluxion of time or obsolescence through technology and market changes.”
-The Institute of Chartered Accountants of India.(ICAI)
5. “Depreciation is the allocation of the depreciable amount of an asset over its estimated useful life. Depreciation for the accounting period is charged to income either directly or indirectly.”
-The International Accounting Standard Committee.(ICAC)
6. “Continuous, gradual and permanent reduction in the value of assets is called depreciation.”

CAUSES OF DEPRECIATION



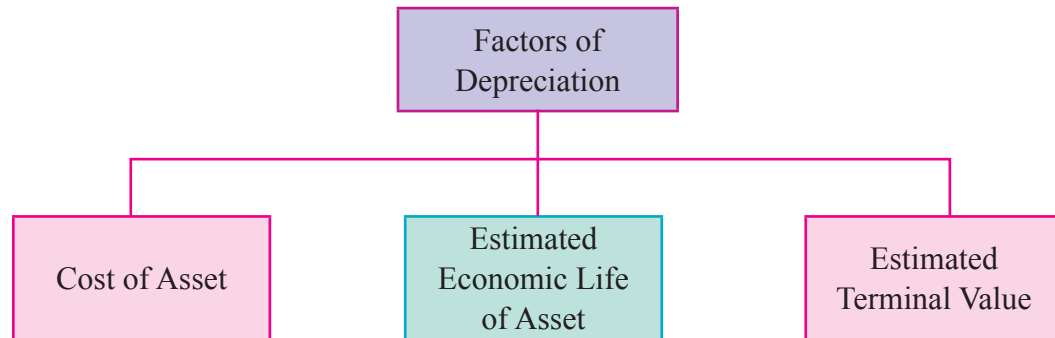
1. **Normal and Natural Wear and Tear-**
Value of fixed asset is reduced due to its normal and natural wear and tear or actual use. More the use of an asset, more the wear and tear.
2. **Passage of Time-**
Fixed assets get depreciated due to affluxion of time,so it is necessary to depreciate them even if they are not in use. e.g. Patents, Trademarks, Copyrights, Leases, Software, Designs, etc.
3. **Obsolescence–**
On account of technological development or changes in techniques of production, the old assets become obsolete or out-dated and all these cause reduction in their values. It is called obsolescence, e.g Computer ,Television etc.
4. **Depletion –**
To deplete means to empty. Depletion is also one of the causes of decrease in the value of wasting assets such as Forests, Oil-wells, Mines, Quarries, etc.
5. **Natural Calamities/Impairment of an Asset –**
The price of fixed assets decreases due to natural calamities such as earthquakes, storms, cyclones, fire, floods, or accidents,etc. and damages of the assets is accounted for in the Books of Accounts.
6. **Invention –**
When the new machines or assets are invented, the earlier assets or machines being used may lose their utility and hence their value is reduced. e.g. When in the market, i-phone8 was introduced the value of i-phone7 reduced.
7. **Market Value –**
Market Value of an asset goes on changing according to the prevailing conditions. Hence depreciation also changes. When market value of an asset decreases as compared to its cost, it causes the depreciation on it.

NEED AND IMPORTANCE OF DEPRECIATION–

1. Depreciation is charged to Profit and Loss A/c as it is an element of Cost. It is also essential to arrive at true value of the asset and also net Profit or Loss during a particular accounting period. Even if an asset is not in use, its value is reduced due to passage of time. Depreciation is Cost/Loss to the business. It is a non – cash expenditure. It is a Nominal Account.
2. If depreciation is not provided and deducted from the value of assets, the assets will be overvalued and we cannot find out true and fair financial position of the business.
3. Depreciation is necessary to make provision for replacement of old assets. If provision for depreciation is not made, the business may not have sufficient funds to replace them.
4. It enables the business to compute and pay correct amount of tax to the Government.
5. Depreciation must be calculated and equivalent funds should be provided for every year, so that at the end of its life, the assets may be easily replaced.

7.2. FACTORS TO BE CONSIDERED WHILE CHARGING DEPRECIATION

While deciding the amount of depreciation to be charged every year, the following basic factors should be taken into consideration.



1. Cost of Asset:-

The cost of asset is an important factor while computation of depreciation. Historical cost of the assets represents the money spent in connection with its acquisition, installation or improvement thereof.

In short Original Cost of the Assets = Purchasing Price of Assets + its Installation or Incidental charges i.e. cost of transportation, transit insurance, custom duty, unloading charges, brokerage, wages for fixation , amount spent for repairs on second hand assets or reconditioning, etc.

2. Useful or Estimated Economic Life of Assets :-

The useful life of an asset is generally taken to be in terms of years or working life of the assets expected utility to the business concern.

In other words it means the business should use the assets till the business gets useful services from the asset and earns Profit from its use.

3. Estimated Terminal or Scrap or Residual Value :-

Scrap Value is the Realisable (net) value of the asset at the end of its economic life. This value should be calculated after deducting the disposal and removal costs from the sale value of the asset.

7.3. METHODS OF DEPRECIATION

There are different methods of charging depreciation according to the nature of asset, use of asset and necessity. Following are the various methods for providing depreciation.

1. Fixed Instalment or Straight Line or Original Cost Method.
2. Diminishing or Reducing Balance or Written Down Value Method.
3. Annuity Method.
4. Depreciation Fund Method.
5. Revaluation Method.
6. Insurance Policy Method.
7. Machine Hour Rate Method, etc.

Note: Out of the above methods, only first two methods have been prescribed in the syllabus for class XI Commerce and hence only these methods are explained below.

7.3.1. Fixed Instalment or Straight Line or Original Cost Method:-

Under this method depreciation is charged at a specific percentage on the Original Cost of the asset every year, so as to reduce the asset account to nil or to its Scrap value at the end of the estimated life of the asset.

To ascertain the annual charge under this method, all that is necessary is to divide the original value of the asset (minus its residual value, if any) by the number of years of its estimated life.

Depreciation is calculated by following formula-

$$\text{Depreciation (p.a.)} = \frac{\text{Original cost} - \text{Scrap Value}}{\text{Estimated life of the asset (in years)}}$$

- Original cost of Asset = Purchasing price of an Asset + Incidental Charges etc.

For example

A machine costing ₹15,000 is purchased and installation charges of ₹ 3000 is paid. Estimated life of the asset is 10 years and the Scrap Value is estimated to be ₹ 2,000 at the end of its life. The amount of depreciation would be,

$$\begin{aligned} \text{Depreciation(p.a.)} &= \frac{(15,000 + 3,000) - 2,000}{10} \\ &= \frac{16,000}{10} \\ &= ₹ 1,600 \text{ p.a.} \end{aligned}$$

Depreciation is also charged when the rate of depreciation is given. It is calculated by using following formula

$$\text{Depreciation (p.a.)} = \frac{\text{Cost of the Asset} \times \text{Rate of depreciation}}{100}$$

NOTE : At the time of calculation of depreciation amount, the period for which the asset is used in the business during the current Accounting year should be considered.

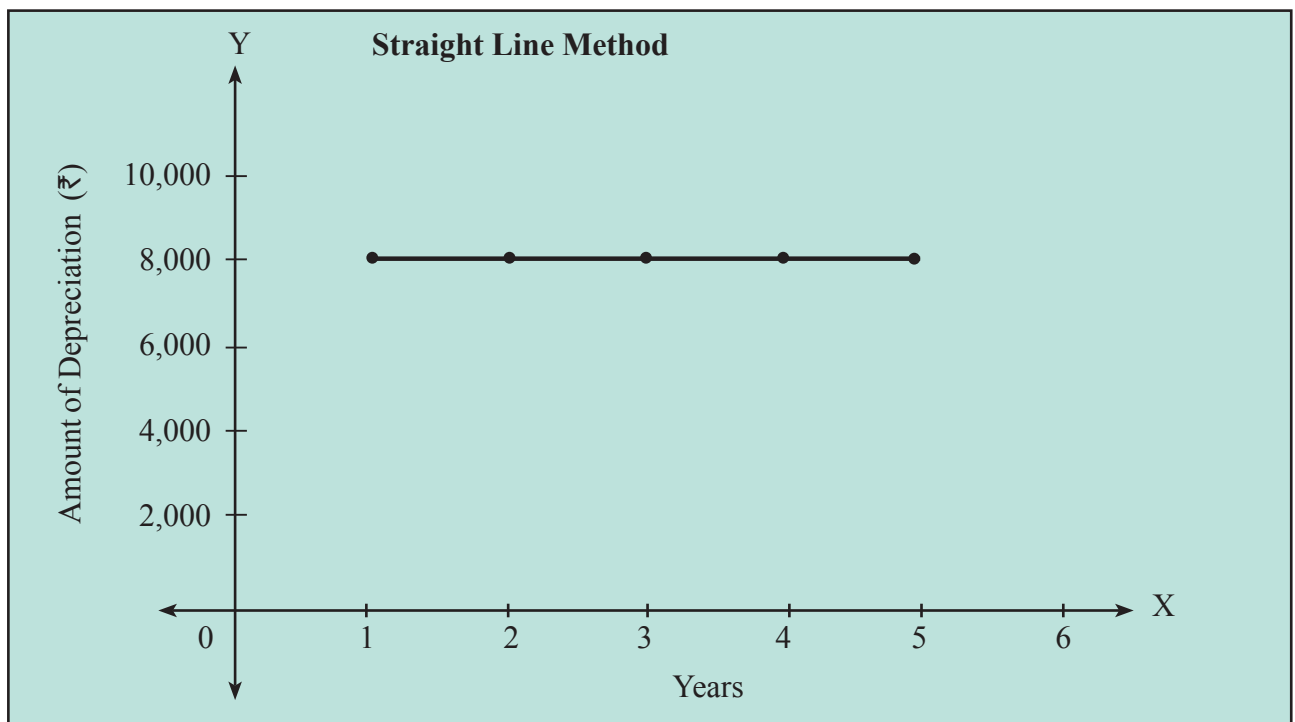
For example –

The Original cost of an asset is ₹ 80,000, and the depreciation is charged @ 10% p.a. at Fixed Instalment Method, then the amount of depreciation will be computed as follows.

1. Depreciation p.a.(1st year) = $80,000 \times 10/100 = ₹ 8,000 \text{ p.a.}$
WDV = $80,000 - 8,000 = 72,000$ (at the end of the 1st year)
2. Depreciation p.a.(2nd year) = $80,000 \times 10/100 = ₹ 8,000 \text{ p.a.}$
WDV = $72,000 - 8,000 = 64,000$ (at the end of the 2nd year)
3. Depreciation p.a.(3rd year) = $80,000 \times 10/100 = ₹ 8,000 \text{ p.a.}$
WDV = $64,000 - 8,000 = 56,000$ (at the end of the 3rd year)
4. Depreciation p.a.(4th year) = $80,000 \times 10/100 = ₹ 8,000 \text{ p.a.}$
WDV = $56,000 - 8,000 = 48,000$ (at the end of the 4th year)

Note : In this method depreciation is charged every year on Original Cost of the asset.

The amount of depreciation to be charged per year on the asset is constant. If the amount of depreciation is plotted annually on a graph paper and the points are joined together, then the graph will reveal a Parallel Line to X axis, that is why this method is also called as Straight Line Method.



7.3.2. Diminishing or Reducing Balance or Written Down Value Method:-

Under this method, depreciation is calculated at a certain percentage each year on the balance of the asset which is brought forward from the previous year. In other words, under this method depreciation is calculated at a specific percentage on the value of that asset which stands in the books of accounts on the opening date of each year.

The amount of depreciation charged per year is not fixed but it goes on decreasing gradually as the opening balance of the asset will decrease in each year. The charges depreciation in initial periods are higher than those in the later periods.

For example –

The Original Cost of an asset is ₹80,000, and the depreciation is charged @ 10% p.a. under Written Down Value Method, then the amount of depreciation will be computed as follows

1. Depreciation p.a.(1st year) = $80,000 \times 10/100 = ₹ 8,000$ p.a.
WDV = $80,000 - 8,000 = 72,000$ (at the end of the 1st year)
2. Depreciation p.a.(2nd year) = $72,000 \times 10/100 = ₹ 7,200$ p.a.
WDV = $72,000 - 7,200 = 64,800$ (at the end of the 2nd year)
3. Depreciation p.a.(3rd year) = $64,800 \times 10/100 = ₹ 6,480$ p.a.
WDV = $64,800 - 6,480 = 58,320$ (at the end of the 3rd year)
4. Depreciation p.a.(4th year) = $58,320 \times 10/100 = ₹ 5,832$ p.a.
WDV = $58,320 - 5,832 = 52,488$ (at the end of the 4th year)

Note : In this method depreciation is charged on original cost in first year and from the next year it is charged on Written Down Value(WDV)of an asset. It is charged on opening balance of every year.

The amount of depreciation charged during each year of asset life goes on decreasing every year. If the charge of depreciation is plotted annually on a graph paper and the points joined together, then the graph will reveal as follows :

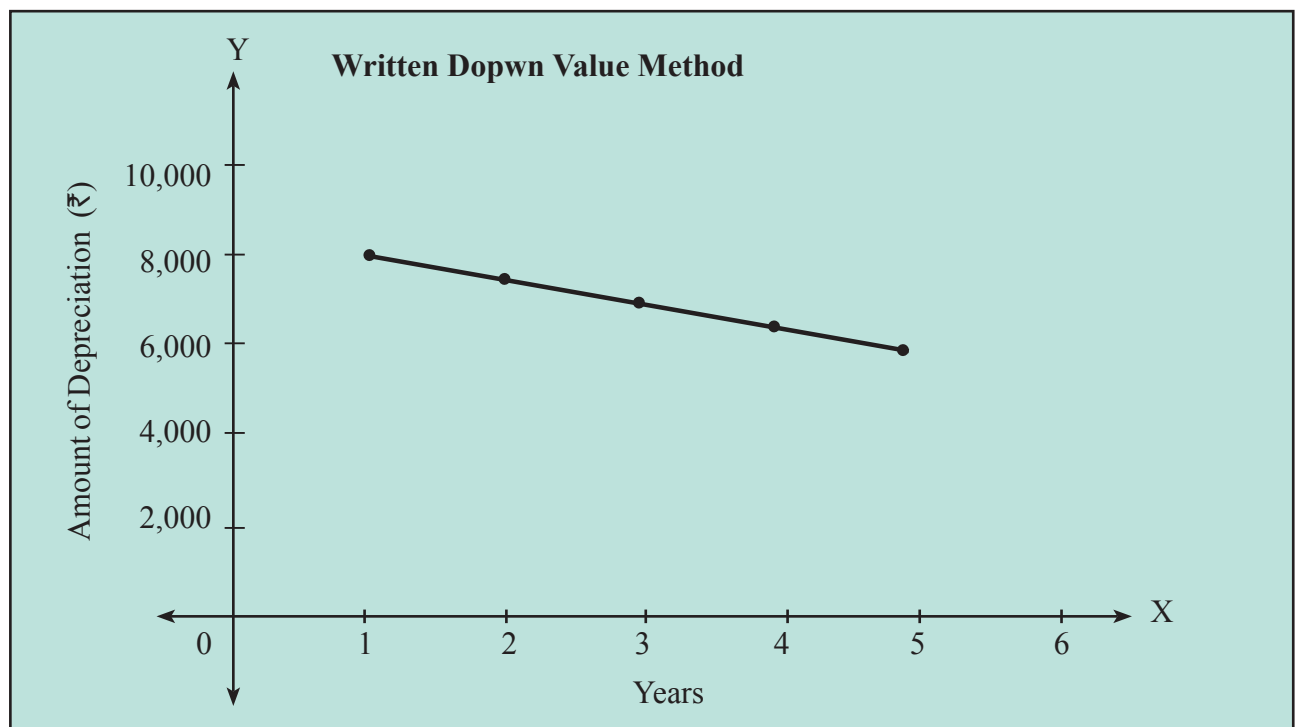


Fig. 7.2 Depreciation amount using Written Down Value Method

7.3.3 Difference between Fixed Instalment Method and Written Down Value Method.

Points	Fixed Instalment Method	Written Down Value Method
Meaning	Under this method depreciation per year on the asset remains fixed	Under this method depreciation per year on the asset goes on reducing
Charged on	On original cost of the asset.	On reduced balance of the asset.
Amount	Amount of depreciation remains the same each year.	Amount of depreciation goes on decreasing each year.
Value of fixed asset	Value of fixed asset can be reduced to Zero.	Value of fixed asset cannot be reduced to Zero.
Profits	Profits are more during the earlier years of the life of the asset than later years	Profits are less during the earlier years than the later years
Recognition by Tax/Law	It is not recognized by any Tax/Law	It is Recognised by Tax/Law
Suitability	This method is suitable where repair charges are less and obsolescence is not frequent.	This method is suitable where repair charges are more in later years and obsolescence is more.
Depreciation Curve	Under Straight line method the curve is parallel to X axis.	Under Written Down value method the curve slopes downward from left to right.

7.4 Accounting treatment

Journal entries under both the methods are same and they are as under;

A. In the year of Purchase**1. For Purchase of Asset for Cash**

Asset A/c -----Dr.

To Cash / Bank A/c

(Being asset purchased for cash.)

2. For Purchase of Asset on Credit

Asset A/c ----- Dr.

To, Supplier's/Party's A/c

(Being purchased asset on credit from.....)

3. For other incidental expenses incurred to put the asset into operation

Asset A/c-----Dr.

To Cash / Bank A/c

(Being the payment of incidental charges.)

4. For charging depreciation.

Depreciation A/c-----Dr.

To Asset A/c

(Being depreciation charged)

5. Balance of depreciation A/c is transferred to Profit and Loss A/c

Profit and Loss A/c -----Dr.

To Depreciation A/c.

(Being balance of depreciation A/c is transferred to Profit & Loss A/c.)

B. Second year onwards

1. For charging depreciation.

Depreciation A/c-----Dr.

To Asset A/c

(Being Depreciation charged)

2. At the end of the year balance of depreciation A/c is transferred to Profit and Loss A/c

Profit and Loss A/c -----Dr.

To Depreciation A/c.

(Being balance of Depreciation A/c transferred to Profit & Loss A/c.)

C. During the year of sale

1. For depreciation charged upto the date of sale of the asset.

Depreciation A/c-----Dr.

To Asset A/c

(Being Depreciation charged)

2. For Sale of Asset(at its Book value)

Bank A/c-----Dr.

To Asset A/c

(Being sale proceed on sale of asset at book value.)

3. For Sale of Asset at profit.

Bank A/c -----Dr.

To Asset A/c. (W.D.V)

To Profit on sale of Asset A/c.

(Being the asset has been/is sold at profit.)

4. Transferring Profit to Profit and Loss A/c.

Profit on Sale of Asset A/C -----Dr.

To Profit and Loss A/c

(Being the profit on sale of the asset transferred Profit & Loss A/c.)

5. For Sale of Asset at Loss.

Bank A/c Dr.
 Loss on Sale of Asset A/c Dr.
 To Asset A/c(W.D.V)
 (Being the asset sold at loss.)

6. Transferring Loss to Profit and Loss A/c.

Profit and Loss A/c Dr.
 To Loss on sale of Asset A/c.
 (Being the loss on sale of the asset transferred to Profit & Loss A/c.)

7. Depreciation on remaining asset if any.

Depreciation A/c Dr.
 To Asset A/c.
 (Being depreciation charged)

8. At the end of the year balance of Depreciation A/c is transferred to Profit and Loss A/c

Profit and Loss A/c..... Dr.
 To Depreciation A/c.
 (Being balance of depreciation A/c is transferred to Profit & Loss A/c.)

ILLUSTRATION ON STRAIGHT LINE METHOD

Illustration 1.

‘SIDDHI’ Ltd Ratnagiri purchased a Machinery costing ₹ 2,00,000 on 1st April, 2015. Depreciation is charged @10% on Original Cost each year on 31st March.

Give Journal entries, Machinery A/c and Depreciation A/c for the years 2015-16, 2016-17, 2017-18.

Solution : **In the Books of ‘SIDDHI’ Ltd Ratnagiri.**
Journal Entries.....

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
2015 April 1	Machinery A/c Dr. To Bank A/c (Being Machinery purchased)		2,00,000	2,00,000
2016 Mar. 31	Depreciation A/c Dr. To Machinery A/c (Being depreciation charged @ 10% p.a.)		20,000	20,000

2016 Mar. 31	Profit & Loss A/c To Depreciation A/c (Being balance of depreciation A/c is transferred to Profit & Loss Account)	Dr.		20,000	20,000
2017 Mar. 31	Depreciation A/c To Machinery A/c (Being depreciation charged @10% on Original Cost)	Dr.		20,000	20,000
2017 Mar. 31	Profit & Loss A/c To Depreciation A/c (Being balance of depreciation A/c is transferred to Profit & Loss Account)	Dr.		20,000	20,000
2018 Mar. 31	Depreciation A/c To Machinery A/c (Being depreciation charged @ 10% on Original Cost)	Dr.		20,000	20,000
2018 Mar. 31	Profit & Loss A/c To Depreciation A/c (Being balance of depreciation A/c is transferred to Profit & Loss Account)	Dr.		20,000	20,000

Working Note:-

1. Calculation of depreciation	(₹)
Cost as on 1st April 2015	2,00,000
Less - 10% depreciation for 2015-16	20,000
WDV as on 1st April 2016	<u>1,80,000</u>
Less - 10% depreciation for 2016-17	20,000
WDV as on 1st April 2017	<u>1,60,000</u>
Less - 10% depreciation for 2017-18	20,000
WDV as on 1st April 2018	<u><u>1,40,000</u></u>
2. Alternate Method	
Cost as on 1st April 2015	2,00,000
Less - 10% depreciation for 3 years (20,000+20,000+20,000)	60,000
WDV as on 1st April 2018	<u><u>1,40,000</u></u>

In the Books of SIDDHI Ltd., Ratnagiri

Dr.				Cr.			
Machinery Account							
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
2015				2016			
April 1	To Bank A/c		2,00,000	Mar. 31	By Depreciation A/c		20,000
				Mar. 31	By Balance c/d		1,80,000
			2,00,000				2,00,000
2016				2017			
April 1	To Balance b/d		1,80,000	Mar. 31	By Depreciation A/c		20,000
				Mar. 31	By Balance c/d		1,60,000
			1,80,000				1,80,000
2017				2018			
April 1	To Balance b/d		1,60,000	Mar. 31	By Depreciation A/c		20,000
				Mar. 31	By Balance c/d		1,40,000
			1,60,000				1,60,000
2018							
April 1	To Balance b/d		1,40,000				

Dr.				Cr.			
Depreciation Account							
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
2016				2016			
Mar. 31	To Machinery A/c		20,000	Mar. 31	By Profit & Loss A/c		20,000
			20,000				20,000
2017				2017			
Mar. 31	To Machinery A/c		20,000	Mar. 31	By Profit & Loss A/c		20,000
			20,000				20,000
2018				2018			
Mar. 31	To Machinery A/c		20,000	Mar. 31	By Profit & Loss A/c		20,000
			20,000				20,000

Illustration 2.

On 1st April 2016 M/s Punawala & Co. Latur. Purchased Equipments of ₹ 50,000 against cheque. They decided to follow Fixed Instalment Method of depreciation. The life of the Equipments is estimated as 8 years and scrap-value of the Equipments at the end of its life is estimated as ₹ 2,000. On 1st Jan 2019 entire Equipment is sold for ₹ 35,000. The firm closes its Books of Accounts on 31st March, each year

Prepare Equipments A/c, Pass Journal entries for third year and also calculate depreciation.

Solution :

In the Books of M/s Punawala & Co. Latur

Dr. Equipments Account Cr.

Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
2016				2017			
April 1	To Bank A/c		50,000	Mar. 31	By Depreciation A/c		6,000
				Mar. 31	By Balance c/d		44,000
			50,000				50,000
2017				2018			
April 1	To Balance b/d		44,000	Mar. 31	By Depreciation A/c		6,000
				Mar. 31	By Balance c/d		38,000
			44,000				44,000
2018				2019			
April 1	To Balance b/d		38,000	Jan. 1	By Depreciation A/c		4,500
2019	To Profit on sale of			Jan. 1	By Bank A/c		35,000
Jan. 1	Equipment A/c		1,500				
			39,500				39,500

Working Notes : 1. Calculation of Depreciation

$$\text{Depreciation (p.a.)} = \frac{\text{Cost of an asset - Scrap Value}}{\text{Estimated life an Asset}}$$

$$\text{Depreciation (p.a.)} = \frac{50,000 - 2,000}{8}$$

$$\text{Depreciation (p.a.)} = \frac{48,000}{8}$$

$$\text{Depreciation} = ₹ 6,000 \text{ p.a.}$$

2. Calculation of Profit or Los on sale of equipments

	₹
Cost of Equipments	50,000
Less : Depreciation for 2 years and 9 months	16,500
Cost as on 1-1-2019	<u>33,500</u>
Selling price	35,000
Less : Cost price	<u>33,500</u>
Profit on sale	<u><u>1,500</u></u>

In the books of M/s Punawala & Co. Latur

Journal Entries for the year 2018-19

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
2019				
Jan. 1	Depreciation A/c Dr. To Equipments A/c (Being depreciation charged)		4,500	4,500
Jan. 1	Bank A/c Dr. To Equipments A/c To Profit on sale of equipments A/c (Being Equipments sold at Profit)		35,000	33,500 1,500

Mar. 31	Profit on sale of Equipments A/c To Profit & Loss A/c (Being Profit on sale of Equipments transferred to Profit & Loss A/c)	Dr.		1,500	1,500
Mar. 31	Profit & Loss A/c To Depreciation A/c (Being depreciation transferred to P & L A/c)	Dr.		4,500	4,500

Illustration 3.

Prabhune and Sons Kolhapur, made Furniture for their own office on 1st October 2015. For this they had spent ₹ 72,000 on Materials and ₹ 32,000 on Wages.

The estimated life of the Furniture is to be for 10 years and its expected scrap value at the end of it would be ₹ 24,000.

They sold the entire Furniture for ₹ 80,000 on 1st October 2018. They close the books of accounts on 31st March every year.

Show the Furniture A/c and Depreciation A/c for first four years.

Solution :

In the Books of Prabhune & Sons, Kolhapur

Dr.				Furniture Account				Cr.			
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)				
2015				2016							
Oct. 1	To Bank A/c (72,000 + 32000)		1,04,000	Mar. 31	By Depreciation A/c		4,000				
				Mar. 31	By Balance c/d		1,00,000				
			1,04,000				1,04,000				
2016				2017							
April 1	To Balance b/d		1,00,000	Mar. 31	By Depreciation A/c		8,000				
				Mar. 31	By Balance c/d		92,000				
			1,00,000				1,00,000				
2017				2018							
April 1	To Balance b/d		92,000	Mar. 31	By Depreciation A/c		8,000				
				Mar. 31	By Balance c/d		84,000				
			92,000				92,000				
2018				2018							
April 1	To Balance b/d		84,000	Oct. 31	By Depreciation A/c		4,000				
				Oct. 31	By Bank A/c		80,000				
			84,000				84,000				

Dr.				Depreciation Account				Cr.			
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)				
2016				2016							
Mar. 31	To Furniture A/c		4,000	Mar. 31	By Profit & Loss A/c		4,000				
			4,000				4,000				
2017				2017							
Mar. 31	To Furniture A/c		8,000	Mar. 31	By Profit & Loss A/c		8,000				
			8,000				8,000				
2018				2018							
Mar. 31	To Furniture A/c		8,000	Mar. 31	By Profit & Loss A/c		8,000				
			8,000				8,000				
2018				2019							
Oct. 1	To Furniture A/c		4,000	Mar. 31	By Profit & Loss A/c		4,000				
			4,000				4,000				

Working Note-

1. Calculation of total cost

$$\begin{aligned}
 \text{Original Cost of asset} &= (\text{Material} + \text{Wages}) \\
 &= ₹ (72,000 + 32,000) \\
 &= ₹ 1,04,000,
 \end{aligned}$$

2. Calculation of Depreciation

$$\text{Depreciation} = \frac{\text{Original cost of an asset} - \text{Scrap Value}}{\text{Estimated Life of Asset (years)}}$$

$$\text{Depreciation} = \frac{1,04,000 - 24,000}{10}$$

$$\text{Depreciation} = \frac{80,000}{10}$$

$$\text{Depreciation} = ₹ 8,000 \text{ p.a. (for 6 months - ₹ 4,000)}$$

Illustration 4.

On 1st Jan 2015 'SCON' Transports', Pune, purchased four Trucks for ₹ 25,000 each. Depreciation has been provided @10%p.a. using Straight Line Method.

On 1st Jan 2016 one Truck was sold for ₹ 20,000. On 1st July 2016 another Truck (purchased for ₹ 25,000 in 1st Jan 2015) was sold for ₹ 22,000. A new Truck costing ₹ 40,000 was purchased on 1st Jan 2017.

You are required to prepare Trucks A/c and Depreciation A/c for First three years assuming that books of accounts are closed on 31st March each year.

In the Books of 'SCON'Transports', Pune

Dr.				Trucks Account				Cr.			
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)				
2015				2015							
Jan. 1	To Bank A/c (I)		1,00,000	Mar. 31	By Depreciation A/c (A+B+C+D) (WN)		2,500				
				Mar. 31	By Balance c/d		97,500				
			1,00,000				1,00,000				
2015				2016							
April 1	To Balance b/d		97,500	Jan. 1	By Depreciation A/c (I - A)		1,875				
				Jan. 1	By Bank A/c		20,000				
				Jan. 1	By Loss on sale of Truck A/c		2,500				
				Mar. 31	By Depreciation A/c (I - B+C+D)		7,500				
				Mar. 31	By Balance c/d		65,625				
			97,500				97,500				
2016				2016							
April 1	To Balance b/d		65,625	July 1	By Depreciation A/c (I-B)		625				
July 1	To Profit on sale of Truck A/c		750	July 1	By Bank A/c		22,000				
2017				2017							
Jan. 1	To Bank A/c (II)		40,000	Mar. 31	By Depreciation A/c (I-C+D+II)		6,000				
				Mar. 31	By Balance c/d		77,750				
							77,750				
			1,06,375				1,06,375				
2017											
April 1	To Balance b/d		77,750								

Dr.				Depreciation Account				Cr.			
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)				
2015				2015							
Mar. 31	To Trucks A/c		2,500	Mar. 31	By Profit & Loss A/c		2,500				
			2,500				2,500				
2016				2016							
Jan. 1	To Trucks A/c		1,875	Mar. 31	By Profit & Loss A/c		9,375				
Mar. 31	To Trucks A/c		7,500				9,375				
			9,375				9,375				

2016 July 1	To Trucks A/c		625	2017 Mar. 31	By Profit & Loss A/c		6,625
2017 Mar. 31	To Trucks A/c		6,000				
			6,625				6,625

Working Note:-

- Calculation of Profit / Loss on sale of Truck on 1st Jan 2016

Truck purchased on 1-1-2015	₹ 25,000
Less-10% depreciation upto sale	₹ 2,500 (625+1,875)
WDV as on 1-1-2016	₹ 22,500
Less-Selling Price	₹ 20,000
Loss on sale of Truck	₹ 2,500
- Calculation of Profit / Loss on sale of Truck on 1st July 2016.

Truck purchased on 1-1-2015	₹ 25,000
Less-10% depreciation up to sale	₹ 3,750 (625+2,500+625)
WDV as on 1-7-2016	₹ 21,250
Selling Price	₹ 22,000
Profit on sale of Truck	₹ 750

Alternative Working Note :

Truck	I-A ₹	Truck	I-B ₹	Truck	I-C ₹	Truck	I-D ₹	Truck	II ₹	Total Depre- ciation ₹
1-1-15	25,000	1-1-15	25,000	1-1-15	25,000	1-1-15	25,000	1-1-17	40,000	
31-3-15	625	31-3-15	625	31-3-15	625	31-3-15	625			2,500
1-4-15	24,375	1-4-15	24,375	1-4-15	24,375	1-4-15	24,375			
1-1-16	1,875	31-3-16	2,500	31-3-16	2,500	31-3-16	2,500			9,375
W.D.V	22,500	1-4-16	21,875	1-4-16	21,875	1-4-16	21,875			
Sales price	20,000	1-7-16	625	31-3-17	2,500	31-3-17	2,500	31-3-17	1,000	6,625
Loss on sale	2,500	W.D.V	21,250	1-4-17	19,375	1-4-17	19,375	1-4-17	39,000	
		Sales price	22,000							
		Profit on sale	750							

Illustration 5.

M/s Rubina Traders, Sindhudurg, bought Furniture worth ₹ 30,000 on 1st April 2016 and additional Furniture on 1st October 2016 worth ₹ 20,000. They charged depreciation at 15% p.a. on Fixed Instalment Basis.

On 1st October 2018 they sold one Cupboard for ₹ 5,000 Original cost of which on 1st April 2016 was ₹ 10,000. On the same date , a new Cupboard was purchased for ₹ 15,000.

Show the Furniture A/c and Depreciation A/c for the years 2016-17, 2017-18 and 2018-19 assuming that the financial year closes on 31st March every year.

Solution :

In the Books of 'Rubina Traders', Sindhudurg

Dr.				Furniture Account				Cr.			
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)				
2016				2017							
April 1	To Bank A/c		30,000	Mar. 31	By Depreciation A/c		6,000				
Oct. 1	To Bank A/c		20,000	Mar. 31	By Balance c/d		44,000				
			50,000				50,000				
2017				2018							
April 1	To Balance b/d		44,000	Mar. 31	By Depreciation A/c		7,500				
			44,000	Mar. 31	By Balance c/d		36,500				
			44,000				44,000				
2018				2018							
April 1	To Balance b/d		36,500	Oct. 1	By Depreciation A/c (I-A)		750				
Oct. 1	To Bank A/c		15,000	Oct. 1	By Bank A/c		5,000				
			51,500	Oct. 1	By Loss on sale of furniture A/c		1,250				
			51,500	Mar. 31	By Depreciation A/c (I-B+II+III)		7,125				
			51,500	Mar. 31	By Balance c/d		37,375				
			51,500				51,500				
2019											
April 1	To Balance b/d		37,375								

Dr.				Depreciation Account				Cr.			
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)				
2017				2017							
Mar. 31	To Furniture A/c		6,000	Mar. 31	By Profit & Loss A/c		6,000				
			6,000				6,000				
2018				2018							
Mar. 31	To Furniture A/c		7,500	Mar. 31	By Profit & Loss A/c		7,500				
			7,500				7,500				
2018				2019							
Oct. 1	To Furniture A/c		750	Mar. 31	By Profit & Loss A/c		7,875				
2019											
Mar. 31	To Furniture A/c		7,125				7,875				
			7,875				7,875				

Working Note:-

Calculation of Depreciation and Profit / Loss on sale of Furniture

	Furniture	Sold IA	Furniture	Unsold IB	Furniture	II	Furniture	III	Total Depreciation on ₹
		₹		₹		₹		₹	
Cost	1-4-16	10,000	1-4-16	20,000	1-10-16	20,000	1-10-18	15,000	
Depr.	31-3-17	1,500	31-3-17	3,000	31-3-17	1,500			6,000
Depr.	31-3-18	1,500	31-3-18	3,000	31-3-18	3,000	(6 M)		7,500
Depr.	1-10-18	750	31-3-19	3,000	31-3-19	3,000	31-3-19	1,125	7,825
	W.D.V	6,250	1-4-19	11,000	1-4-19	12,000	1-4-19	13,875	
	Sales price	5,000							
	Loss on sale	1,250							

Illustration 6.

M/s Amir Agency Solapur showed a debit balance of ₹.56,000 to Machinery A/c on 1st Oct. 2015. The Original Cost of the Machinery was ₹.80,000.

On 1st April 2016 M/s Amir Agency bought an additional Machinery of ₹.45,000 and spent ₹.5,000 for its installation. On 1st Oct 2017 a part of the Machinery purchased on 1st April 2016 was sold for ₹.15,000 the Original Cost of which was ₹.20,000.

M/s Amir Agency charged 10% depreciation on Fixed Instalment Basis and its financial year closes on 31st March every year.

Show Machinery A/c for the years 2015-16, 2016-2017 and 2017-18 and pass Journal Entries for Third year only.

Solution :

In the Books of M/s Amir Agency, Solapur

Dr.				Machinery Account				Cr.			
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)				
2015				2016							
Oct. 1	To Balance b/d		56,000	Mar. 31	By Depreciation A/c-I		4,000				
				Mar. 31	By Balance c/d		52,000				
			50,000				56,000				
2016				2017							
April 1	To Balance b/d		52,000	Mar. 31	By Depreciation A/c-I & II		13,000				
April 1	To Bank A/c		50,000	Mar. 31	By Balance c/d		89,000				
			1,02,000				1,02,000				
2017				2017							
April 1	To Balance b/d		89,000	Oct. 1	By Depreciation A/c (II-A)		1,000				
				Oct. 1	By Bank A/c		15,000				
				Oct. 1	By Loss on sale of Machinery A/c		2,000				
				2018							
				Mar. 31	By Depreciation A/c (I+IIB)		11,000				
				Mar. 31	By Balance c/d		60,000				
			89,000				89,000				
2018											
April 1	To Balance b/d		60,000								

In the books of Amir Agency, Solapur
Journal Entries

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
2017				
Oct. 1	Depreciation A/c Dr. To Machinery A/c (Being depreciation charged @ 10% on original cost)		1,000	1,000
Oct. 1	Bank A/c Dr. Loss on sale of Machinery A/c Dr. To Machinery A/c (Being Machinery has been sold at a loss)		15,000 2,000	17,000

2018 Mar. 31	Depreciation A/c To Machinery A/c (Being depreciation charged @ 10% p.a. on original cost)	Dr.		11,000	11,000
Mar. 31	Profit & Loss A/c To Loss on sale of Machinery A/c (Being loss on sale of Machinery transferred to P & L A/c)	Dr.		2,000	2,000
Mar. 31	Profit & Loss A/c To Depreciation A/c (Being balance of depreciation A/c transferred to P & L A/c)	Dr.		12,000	12,000
	Total			43,000	43,000

Working Note:-

Calculation of Depreciation and Profit / Loss on sale of Machinery

Machinery-I	Unsold (₹)	Machinery II A	Sold (₹)	Machinery II B	Unsold (₹)	Total Depreciation (₹)
1-10-15	56,000					
31-3-16	4,000					4,000
1-4-16	52,000	1-4-16	20,000	1-4-16	30,000	
31-3-17	8,000	31-3-17	2,000	31-3-17	3,000	13,000
1-4-17	44,000	1-4-17	18,000	1-4-17	27,000	
31-3-18	8,000	1-10-17	1,000	31-3-18	3,000	12,000
1-4-18	36,000	W.D.V	17,000	1-4-18	24,000	
		Sales price	15,000			
		Loss on sale	2,000			

ILLUSTRATIONS ON WRITTEN DOWN VALUE METHOD.

Illustration 1

Saurabh bought a Machine costing ₹ 1,15,000 on 1st April 2016 and paid ₹ 5,000 towards its installation. He writes off depreciation @10% p.a. on Written Down Value Method every year. His books are closed on 31st March every year.

On 1st Oct 2018 he disposed off the Machine for ₹ 80,000.

Give Journal Entries in the books of Saurabh till 31st March,2019.

Solution:

**In the books of Saurabh
Journal Entries**

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
2016 April 1	Machinery A/c To Bank A/c (Being Machinery purchased)	Dr.	1,15,000	1,15,000
April 1	Machinery A/c To Bank A/c (Being Installation charges paid)	Dr.	5,000	5,000
2017 Mar. 31	Depreciation A/c To Machinery A/c (Being depreciation charged)	Dr.	12,000	12,000
Mar. 31	Profit & Loss A/c To Depreciation A/c (Being balance of deprecation A/c transferred to Profit & Loss Account)	Dr.	12,000	12,000
2018 Mar. 31	Depreciation A/c To Machinery A/c (Being depreciation charged)	Dr.	10,800	10,800
Mar. 31	Profit & Loss A/c To Depreciation A/c (Being balance of depreciation A/c transferred to Profit & Loss Account)	Dr.	10,800	10,800
2018 Oct. 1	Depreciation A/c To Machinery A/c (Being depreciation charged)	Dr.	4,860	4,860
Oct. 1	Bank A/c Loss on sale of Machinery A/c To Machinery A/c (Being Machinery has been sold at Loss)	Dr. Dr.	80,000 12,340	92,340
2019 Mar. 31	Profit & Loss A/c To Loss on sale of Machinery A/c (Being Loss on sale of Machinery has been transferred to Profit & Loss Account)	Dr.	12,340	12,340
Mar. 31	Profit & Loss A/c To Depreciation A/c (Being balance of depreciation A/c transferred to Profit & Loss Account)	Dr.	4,860	4,860

Working Note:

Calculation of Profit/Loss on sale of Machinery

Original Cost on 1-4-2016	₹ 1,20,000
Less : Depreciation for 2017(12m)	₹ 12,000
WDV on 1-4-2017	₹ 1,08,000
Less : Depreciation for 2018(12m)	₹ 10,800
WDV on 1-4-2018	₹ 97,200
Less : Depreciation for 2017(6m)	₹ 4,860
WDV on 1-10-2018	₹ 92,340
Less : Selling Price	₹ 80,000
Loss on sale of Machinery	₹ 12,340

Illustration.2

Sangam Trading Co. Buldhana purchased Vehicle on 1st April 2016 costing ₹ 85,000 and spent ₹ 5,000 on its registration. On 30th Sept 2016 additional Vehicle is purchased for ₹ 10,000.

On 31st March 2018, a Vehicle was sold for ₹ 12,000 the Original Cost of which was ₹ 20,000. on 1st April 2016

Prepare Vehicle A/c for the years 2016-17, 2017-18 and 2018-19 and pass the Journal Entries for the year 2017-18 assuming that Vehicle is depreciated at 10% p.a. on Diminishing Balance Method on 31st March each year.

Solution : **In the Books of 'Sangam Trading Co.', Buldhana**

Dr.				Vehicle Account				Cr.			
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)				
2016				2017							
April 1	To Bank A/c		90,000	Mar. 31	By Depreciation A/c		9,000				
Sep. 30	To Bank A/c		10,000	Mar. 31	By Depreciation A/c		500				
				Mar. 31	By Balance c/d		90,500				
			1,00,000				1,00,000				
2017				2018							
April 1	To Balance b/d		90,500	Mar. 31	By Depreciation A/c-I		1,800				
				Mar. 31	By Bank A/c		12,000				
				Mar. 31	By Loss on sale of Vehicle A/c		4,200				
				Mar. 31	By Depreciation A/c-II		6,300				
				Mar. 31	By Depreciation A/c-III		950				
				Mar. 31	By Balance c/d		65,250				
			90,500				90,500				

2018 April 1	To Balance b/d		65250	2019 Mar. 31	By Depreciation A/c-II		5,670
				Mar. 31	By Depreciation A/c-III		855
				Mar. 31	By Balance c/d		58,725
			65,250				65,250
2019 April 1	To Balance b/d		58,725				

**In the books of Sargam Trading Company
Journal**

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
2016 Mar. 31	Depreciation A/c Dr. To Vehicle A/c (Being depreciation charged)		1,800	1,800
Mar. 31	Cash/Bank A/c Dr. Loss on sale of Vehicle A/c Dr. To Vehicle A/c (Being Vehicle sold at Loss)		12,000 4,200	16,200
Mar. 31	Profit & Loss A/c Dr. To Loss on Sale of Vehicle A/c (Being Loss on sale of vehicle transferred to Profit & Loss Account)		4,200	4,200
Mar. 31	Depreciation A/c Dr. To Vehicle A/c (Being depreciation charged on II & III Vehicle)		7,250	7,250
Mar. 31	Profit & Loss A/c Dr. To Depreciation A/c (Being balance of depreciation A/c transferred to Profit & Loss Account)		9,050	9,050
	Total		38,500	38,500

Working Note:-

Calculation of Depreciation and Profit / Loss on sale of Vehicle

Vehicle	Sold I (₹)	Vehicle	II (₹)	Vehicle	III (₹)	Total Depreciation (₹)
1-4-16	20,000	1-4-16	70,000	30-9-16	10,000	
31-3-17	2,000	31-3-17	7,000	31-3-17	500	9,500
1-4-17	18,000	1-4-17	63,000	1-4-17	9,500	
31-3-18	1,800	31-3-18	6,300	31-3-18	950	9,050
W.D.V	16,200	1-4-18	56,700	1-4-18	8,550	
Sales price	12,000	31-3-19	5,670	31-3-19	855	6,525
Loss on sale	4,200	1-4-19	51,030	1-4-19	7,695	

Illustration 3

Sharmila Automobiles Ltd Thane. Purchased a Machine for ₹ 80,000 on 1st July, 2015. On 1st Oct, 2016. Company purchased an additional Machine costing ₹ 30,000. On 31st March 2018 the Machine purchased on 1st July 2015 became obsolete and was sold for ₹ 65,000. Depreciation was provided annually on 31st March the rate of 10% per annum on the Reducing Balance Method. Prepare Machinery A/c and Depreciation A/c for the period from 2015-16, 2016-17 and 2017-18.

Solution : In the Books of 'Sharmila Automobiles, Ltd.', Thane

Dr.				Machinery Account				Cr.			
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)				
2015				2016							
July 1	To Bank A/c		80,000	Mar. 31	By Depreciation A/c		6,000				
				Mar. 31	By Balance c/d		74,000				
			80,000				80,000				
2016				2017							
April 1	To Balance b/d		74,000	Mar. 31	By Depreciation A/c		8,900				
Oct. 1	To Bank A/c		30,000	Mar. 31	By Balance c/d		95,100				
			1,04,000				1,04,000				
2017				2018							
April 1	To Balance b/d		95,100	Mar. 31	By Depreciation A/c-I		6,660				
2018				Mar. 31	By Bank A/c		65,000				
Mar. 31	To Profit on sale of Machinery A/c		5,060	Mar. 31	By Depreciation A/c-II		2,850				
				Mar. 31	By Balance c/d		25,650				
			1,00,160				1,00,160				
2018											
April 1	To Balance b/d		25,650								

Dr.				Depreciation Account				Cr.			
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)				
2016				2016							
Mar. 31	To Machinery A/c		6,000	Mar. 31	By Profit & Loss A/c		6,000				
			6,000				6,000				
2017				2017							
Mar. 31	To Machinery A/c		8,900	Mar. 31	By Profit & Loss A/c		8,900				
			8,900				8,900				
2018				2018							
Mar. 31	To Machinery A/c I		6,660	Mar. 31	By Profit & Loss A/c		9,510				
Mar. 31	To Machinery A/c II		2,850								
			9,510				9,510				

Working Note:-

Calculation of Profit/Loss on sale of Machinery

Original Cost on 1-7-2015	₹	80,000.
Less : Depreciation for 2016(9m)	₹	6,000.
WDV on 1-4-2016	₹	74,000.
Less : Depreciation for 2017(12m)	₹	7,400.
WDV on 1-4-2017	₹	66,600.
Less : Depreciation for 2018(12m)	₹	6,660.
WDV on 31-3-2018	₹	59,940.
Selling Price	₹	65,000.
Profit on sale of Machinery	₹	5,060.

Calculation of Additional Machine Depreciation.

Original Cost on 1st Oct. 16	₹	30,000
Less : Depreciation for 2016-17	₹	1,500
Less: Depreciation for 2017-18	₹	2,850
Written Down Value of Machinery	₹	4,350.
on 31st March, 2018	₹	25,650.

Illustration 4.

Kanchan Trading Centre. Dadar, purchased a Computer on 1st April 2015 for ₹ 50,000. In the same year on 1st Oct additional Computer was purchased for ₹ 20,000. On 1st Oct 2016 the Computer purchased on 1st April 2015 was sold for ₹ 40,000 and on the same date new Computer was purchased for ₹ 24,000.

Their charge depreciation at 8% p.a. on Reducing Balance Method.

Prepare Computers A/c and Depreciation A/c for the first three (3) years Assuming that the accounting year closes on 31st March every year.

Solution :

In the Books of 'Kanchan Trading Center', Dadar

Dr.				Cr.			
Computers Account							
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
2015				2016			
April 1	To Bank A/c		50,000	Mar. 31	By Depreciation A/c		4,800
Oct. 1	To Bank A/c		20,000	Mar. 31	By Balance c/d		65,200
			<u>70,000</u>				<u>70,000</u>
2016				2016			
April 1	To Balance b/d		65,200	Oct. 1	By Depreciation A/c		1,840
Oct. 1	To Bank A/c		24,000	Oct. 1	By Cash /Bank A/c		40,000
				Oct. 1	By Loss on sale of Computer A/c		4,160
				2017			
				Mar. 31	By Depreciation A/c (II+III)		2,496
				Mar. 31	By Balance c/d		40,704
			<u>89,200</u>				<u>89,200</u>
2017				2018			
April 1	To Balance b/d		40,704	Mar.31	By Depreciation A/c (II+III)		3,256
				Mar.31	By Balance c/d		37,448
			<u>40,704</u>				<u>40,704</u>
2018							
April 1	To Balance b/d		37,448				

Dr.				Depreciation Account				Cr.			
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)				
2016				2016							
Mar. 31	To Computer's A/c		4,800	Mar. 31	By Profit & Loss A/c		4,800				
			4,800				4,800				
2016				2017							
Oct. 1	To Computer's A/c		1,840	Mar. 31	By Profit & Loss A/c		4,336				
2017			2,496								
Mar. 31	To Computer's A/c (II & III)		4,336				4,336				
2018				2018							
Mar. 31	To Computer A/c (II & III)		3,256	Mar. 31	By Profit & Loss A/c		3,256				
			3,256				3,256				

Working Note:-

Calculation of Depreciation and Profit / Loss on sale of Computer

Computer	Sold (₹)	Computer	II (₹)	Computer	III (₹)	Total Depreciation (₹)
1-4-15	50,000	1-10-15	20,000	1-10-16	24,000	
31-3-16	4,000	31-3-16	800			4,800
1-4-16	46,000	1-4-16	19200	(6 M)		
1-10-16	1,840	31-3-17	1,536	31-3-17	960	4,336
W.D.V	44,160	1-4-17	17,664	1-4-17	23,040	
Sales price	40,000	31-3-18	1413	31-3-18	1,843	3,256
Loss on sale	4,160	1-4-18	16251	1-4-18	21,197	

Illustration 5.

M/s Janki Traders, Ratnagiri acquired a Building on 1st April 2015 for ₹ 12,00,000. On 1st April 2016 an extension was made to the above Building by spending ₹ 8,00,000.

On 1st October, 2016 they sold half part of the Building through broker for ₹9,50,000. Brokerage was paid at 3% on selling price.

On 31st March every year, they charged depreciation @10% under Diminishing Balance Method

Prepare Building A/c and Depreciation A/c for three (3) years i.e. 2015-16, 2016-17 and 2017-18.

Solution :

In the Books of 'M/s Janki Traders', Ratnagiri

Dr.				Buildings Account				Cr.
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)	
2015				2016				
April 1	To Bank A/c		12,00,000	Mar. 31	By Depreciation A/c		1,20,000	
				Mar. 31	By Balance c/d		10,80,000	
			12,00,000				12,00,000	
2016				2016				
April 1	To Balance b/d		10,80,000	Oct.1	By Depreciation A/c		47,000	
April	To Bank A/c		8,00,000	Oct. 1	By Cash /Bank A/c		9,21,500	
Oct. 1	To Profit on sale of Building A/c		28,500	2017				
				Mar. 31	By Depreciation A/c		94,000	
				Mar. 31	By Balance c/d		8,46,000	
			19,08,500				19,08,500	
2017				2018				
April 1	To Balance b/d		8,46,000	Mar.31	By Depreciation A/c		84,600	
				Mar.31	By Balance c/d		7,61,400	
			8,46,000				8,46,000	
2018								
April 1	To Balance b/d		7,61,400					

Dr.				Depreciation Account				Cr.
Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)	
2016				2016				
Mar. 31	To Building A/c		1,20,000	Mar. 31	By Profit & Loss A/c		1,20,000	
			1,20,000				1,20,000	
2016				2017				
Oct. 1	To Building A/c I(A)		47,000	Mar. 31	By Profit & Loss A/c		1,41,000	
2017								
Mar. 31	To Building A/c I(B)		94,000					
			1,41,000				1,41,000	
2018				2018				
Mar. 31	To Building A/c I(B)		84,600	Mar. 31	By Profit & Loss A/c		84,600	
			84,600				84,600	

Working Note:-

Calculation of Depreciation and Profit / Loss on sale of Building

Building Purchased on 1st April 2015	-	1 2,00,000.
Less : Depreciation for 2015-16	-	1,20,000.
Written Down Value	-	10,80,000.
Add: Extension of Building on 1st April 2016	-	8,00,000.
Total Value of Building	-	18,80,000.

Sold ₹ 9,40,000

Unsold ₹ 9,40,000

A) Building (Half-Sold)	₹	B) Building (Half-Unsold)	₹
1st April 2016	9,40,000	1st April 2016	9,40,000.
Less: Depreciation as on 1st Oct 2016	47,000	Less: Depreciation For 2016-17	94,000.
Written Down Value	8,93,000	W.D.V.	8,46,000.
Less: Selling Price	9,21,500	Less : Depreciation 17-18	84,600.
Profit on sale of Building	28,500	W.D.V.	7,61,400.

EXERCISE

Q.1 Answer in One Sentence only.

1. What is depreciation ?
2. Why depreciation is charged ?
3. What is a ‘Scrap Value’ of an asset?
4. Why depreciation is charged even in the year of loss?
5. Which account is credited when depreciation is charged ?
6. Where is the profit or loss on sale of asset is transferred ?
7. To which account balance on Depreciation A/c is transferred ?
8. What is the formula to calculate depreciation by Straight Line Method ?
9. What is Fixed Instalment Method ?
10. Which account is debited when expenses are paid on installation of Machinery ?

Q.2 Write the word/term/phrase which can substitute each of the following statement:

1. A continuous, gradual and permanent reduction in the value of a fixed asset.
2. The expenditure incurred for purchase, installation charges etc. of an asset.
3. The amount that a fixed asset is expected to realise on its disposal.
4. The period for which the asset remains in working condition.
5. The method of depreciation in which the total depreciation is equally spread over the life of the asset.

6. The method of depreciation in which the rate of depreciation is fixed but the amount of depreciation reduces every year.
7. The type of asset on which depreciation is charged.
8. Expenses incurred for fixation of the new asset to bring it in working condition.
9. Excess of Selling price of fixed asset over its Written Down Value.
10. Method of depreciation that cannot reach to zero value.

Q.3 Select the most appropriate answers from the alternatives given below and rewrite the sentence.

1. Decrease in the value of fixed assets is known as
a) Depreciation b) Appreciation c) Combination d) None of these
2. Depreciation is charged only onassets.
a) Fixed b) Current c) Non-performing. d) Fictitious.
3. The amount spent on installation of new machinery is aexpenditure.
a) Revenue b) Capital c) Deferred Revenue d) Income.
4. The amount that a fixed asset is expected to realise on its disposal is known as.....
a) Book value b) Scrap value c) Market value d) Original value.
5. The amount of depreciation reduces year after year under.....
a) Fixed Instalment Method b) Written Down Value Method
c) Depreciation Fund Method. d) Revaluation Method.
6. The amount of depreciation remains constant every year under.....
a) Straight Line Method b) Diminishing Balance Method
c) Revaluation Method. d) Insurance Policy Method
7. The balance of depreciation account is transferred to
a) Manufacturing A/c b) Trading A/c c) Profit & Loss A/c d) Balance sheet

Q.4 State whether the following Statements are True or False with reasons.

1. Depreciation is charged on fixed assets.
2. Depreciation increases the value of the asset.
3. Balance of depreciation account is transferred to Profit & Loss A/c.
4. The Profit or Loss on sale of fixed asset is ascertained only after charging depreciation.

5. Wages paid for installation of Machinery are debited to Wages A/c.
6. It is not necessary to depreciate an asset if it is not in use.
7. Depreciation is charged on Current Assets only.
8. Depreciation need not be charged when business is making losses.

Q.5 Complete the following sentence.

1. Depreciation is charged onasset.
2. Wages paid for Installation / fixation of Machinery is debited toaccount.
3. Undersystem, the amount of depreciation changes every year.
4. Depreciation =
$$\frac{\text{Cost of asset Less}}{\text{Estimated Working Life of the Asset.}}$$
5. Gradual and permanent decrease in the value of asset is known as
6. In Fixed Instalment System the amount of depreciation isevery year.
7. The amount spent on installation of Machinery is aexpenditure.
8. is the value which an asset realises at the end of its useful life.
9. Depreciation Account is aaccount.
10. Depreciation is derived from a Latin word

Q.6 Do you agree or disagree with the following statements.

1. Depreciation is non-cash expense.
2. Under written down value method the Depreciation curve slopes parallel to 'X' axis.
3. The rate of depreciation depends upon the life of fixed asset.
4. The terminal value of asset never affects the annual amount of depreciation.
5. By charging depreciation on fixed assets ascertainment of true and fair financial position is possible.

Q.7 Correct the following statement and rewrite the statement.

1. Residual value of an asset increases the amount of annual depreciation.
2. Depreciation is calculated on all assets.
3. Under written down value method depreciation is calculated on original cost of an asset.
4. Depreciation provided on asset is debited to asset account.
5. Profit on sale of asset is credited to asset account.

Q.8 Calculate the following.

1. A machine costing ₹ 23,000 is estimated to have a life of 7 years and the scrap value is estimated ₹ 2,000 at the end of its useful life.
Find out the amount of depreciation p.a.
2. If the cost of the Computer is ₹ 40,000 and depreciation is to be charged at 8% p.a. calculate the amount of depreciation.
3. Mr. 'X' purchased Furniture on 1st Oct., 2015 at ₹ 2,80,000 and spent ₹ 20,000 on its installation. He provides depreciation at 6% under straight line method on 31st March, 2016. Calculate the amount of depreciation.
4. M/s Sitaram and Co. purchased a Machinery on 1st Jan, 2016 for ₹ 2,00,000. Company provides depreciation @ 10% p.a. on Reducing Balance Method on 31st March every year.
Calculate written down value of Machinery as on 31st March, 2017.
5. On 1st July, 2016 M/s Ramai & Co. sold Machinery for ₹ 7,000, the original cost ₹ 10,000/- which was purchased on 1st April, 2015. Find out the profit or loss on sale of Machinery by charging depreciation at 10% p.a. on original cost on 31st March every year.

Practical Problems on Straight Line Method

1. On 1st April 2015 Farid of Nasik purchased a Motor Car for ₹ 55,000. The scrap value of the Motor Car was estimated at ₹ 10,000 and its estimated life is 10 years The Registration charges of the Motor Car was ₹ 5,000.

Show Motor Car Account for first four years, assuming that the books of accounts are closed on 31st March every year

2. On 1st Jan 2017 'Sai Industries Nagpur, purchased a Machine costing ₹ 1,65,000 and spent ₹ 15,000 for its installation charges. The estimated life of the Machine is to be 10 years and the scrap value at the end of its life would be ₹ 30,000. On 1st Oct 2018 the entire Machine was sold for ₹ 1,50,000.

Show Machinery Account, Depreciation Account for the years 2016-17, 2017-18 and 2018-19, assuming that the accounts are closed on 31st March every year.

3. Shubhangi Trading Company of Dombivli purchased Machinery for ₹ 86,000 on 1st Jan 2016 and immediately spent ₹ 4,000 on its fixation and erection. On 1st Oct, 2016 additional Machinery costing ₹ 40,000 was purchased.

On 1st Oct 2017 the Machinery purchased on 1st Jan 2016 became obsolete and was sold for ₹ 70,000. On 1st July 2017 a new Machine was also purchased for ₹ 45,000

Depreciation was provided annually on 31st March at the rate of 12% per annum on fixed instalment method.

Prepare Machinery Account for three years and pass Journal Entries for Third year i.e. 2017-2018.

4. On 1st Jan 2015, Triveni Traders Raigad purchased a Plant for ₹ 12,000, and installation charges being ₹ 3,000. On 1st July 2016 another Plant was purchased for ₹ 25,000, on 1st April 2017 another Plant was purchased for ₹ 27,000, wages paid for installation amounted to ₹ 2,000. Carriage paid for the Plant amounted to ₹ 1,000.

Show Plant Account up to 31st March 2018 assuming that the rate of depreciation is @10%p.a. on Straight Line Method

5. Sameer & Company, Mumbai purchased a Machine worth ₹ 2,00,000 on 1st April 2016. On 1st July 2017, the company purchased an additional Machine for ₹ 40,000.

On 31st March 2019, the company sold the Machine purchased on 1st July 2017 for ₹ 35,000. Company writes off depreciation at the rate of 10% on the original cost and the books of accounts are closed every year on 31st March.

Show the Machinery Account and Depreciation Account for the first three years ending 31st March 2016-17, 2017-18 and 2018-19

6. Samarth Manufacturing Co. Ltd, Aurangabad, purchased a New Machinery for ₹ 45,000 on 1st Jan 2015 and immediately spent ₹ 5,000 on its fixation and erection. In the same year 1st July additional Machinery costing ₹ 25,000 was purchased. On 1st July 2016 the Machinery purchased on 1st Jan 2015 became obsolete and was sold for ₹ 40,000

Depreciation was provided for annually on 31st March at the rate of 10% per annum on Fixed Instalment Method.

You are required to prepare Machinery Account for the year 2014 - 15, 2015 - 16, 2016-17.

Practical Problems on Written Down Value Method

1. M/s Omkar Enterprise Jalgaon acquired a Printing Machine for ₹75,000 on 1 Oct 2015 and spent ₹5,000 on its transport and installation. Another Machine for ₹45,000 was purchased on 1st Jan 2017. Depreciation is charged at the rate of 20% on Written Down Value Method, on 31st march every year.

Prepare Printing Machine Account for the first four years.

2. Vishal Company, Dhule, purchased Machinery costing ₹ 60,000 on 1st April 2016. They purchased further Machinery on 1st October 2017, costing ₹ 30,000 and on 1st July 2018, costing ₹ 20,000. On 1st Jan2019 ,one-third of the Machinery , which was purchased on 1st April 2016, became obsolete and it was sold for ₹ 18,000.

Assume that, company account closes on 31st March every year.

Show Machinery Account for the first three(3)years and pass journal entries for Third year, after charging depreciation at 10% p.a. on Written Down Value Method.

3. Mahesh Traders Solapur purchased Furniture on 1st April 2014 for ₹ 20,000. In the same year on 1st Oct additional Furniture was purchased for ₹ 10,000

On 1st Oct 2015, the Furniture purchased on 1st April 2014 was sold for ₹ 15,000 and on the same day a new Furniture was purchased for ₹ 20,000.

The firm charged depreciation at 10 % p.a. on Reducing Balance Method.

Prepare Furniture Account and Depreciation Account for the year ending 31st March 2015, 2016 and 2017.

4. Radhika-Masale' Amravati purchased a Plant on 1st Jan 2015 for ₹80,000. A new Plant was also purchased for ₹60,000, installation expenses being ₹10,000 on 1st April 2016. On 1st Jan 2017, a new Plant was purchased for ₹20,000, by disposing-off the 1st Plant at ₹60,000.
Prepare Plant Account and Depreciation Account for 31st March 2015, 31st March 2016 and 31st March 2017, assuming that the rate of depreciation was @10% on Diminishing Balance Method.
5. On 1st April 2015 Suman Traders purchased Machinery for ₹ 30,000. On 1st Oct, 2015, they purchased further Machinery costing ₹20,000.
On 1st Oct 2016 they sold the Machine purchased on 1st April 2015 for ₹18,000 and brought another Machine for ₹15,000 on the same date.
Depreciation is provided on Machinery @20% p.a. on the Diminishing Balance Method and financial year closes on 31st March every year.
Prepare the Machinery Account and Depreciation Account for the year 2015-16, 2016-17 and 2017-18.



Activity: Do it.

- Visit any Business organisation and collect the information of the assets which are depreciated in that organisation.
- Visit any Business Organisation, office of Chartered Accountant and collect the information about the methods and percentage of depreciation actually followed by them.
- Vaidhi & Co Bhandup purchased five Computers on various dates which were as follows.

On 1st April 2015	- ₹ 1,00,000	On 1st July 2015	- ₹ 30,000.
On 30th September 2015	- ₹ 80,000.	On 1st January 2016	- ₹ 50,000.
On 31st March 2016	- ₹ 40,000		

Calculate the amount of depreciation for the above five Computers for the year ended 31st March 2016. @10% p.a.
- Rajeev Industries Chiplun Purchased a Machinery on 1st July 2016 at cost ₹40,000. The rate of depreciation is 12% p.a.
Calculate the amount of depreciation for First (3) three years under Straight Line Method and Written Down Value Method.
- Home Appliances : Electric Products - Mobile and Washing Machine on Which assets have depreciation is higher / more compared to others



8

Rectification of Errors

Contents

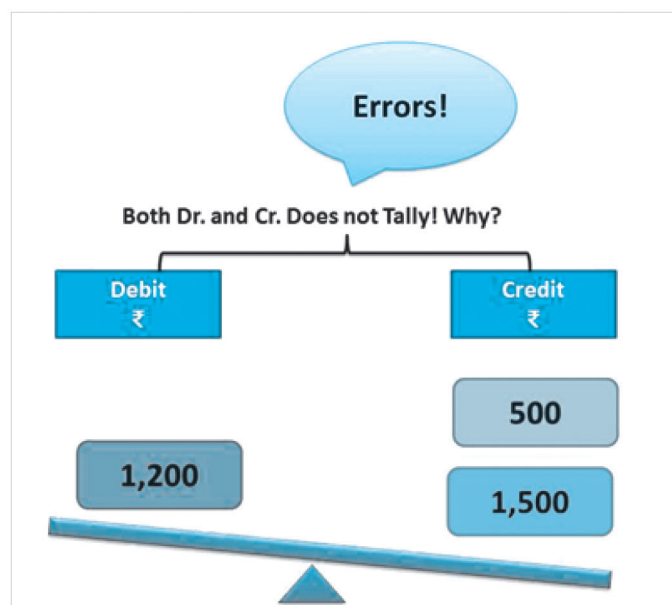
- 8.1 Meaning & Effects of errors
- 8.2 Types of Errors
- 8.3 Detection & Rectification of errors
- 8.4 Preparation of Suspense Accounts

Competency Statements

- ❑ Students will know the meaning and effects of Rectification of Errors
- ❑ Students will know the different Types of Errors and their examples
- ❑ Students are able to detect the errors and rectify them.
- ❑ Students will learn the meaning and need of Suspense A/c
- ❑ Students will know how to maintain Suspense A/c.

8.1 Introduction and Meaning

In the previous chapter we have learnt that a Trial Balance is prepared to check the arithmetic accuracy of transactions recorded in a Journal posting them into the ledger and balancing the ledger account. If a Trial Balance agrees it is assumed that recording posting etc. have been done correctly. But this is only partly correct because even if Trial Balance agrees there may be some errors in the accounting records.



Accuracy is assured only when there are no errors in the books of accounts. To confirm accuracy errors are identified and rectified. Many business units have shifted from manual accounting to computerized accounting. Yet errors in accounting are unavoidable. Hence errors are to be located and rectified to find out the real profit or loss and financial position.

Reasons of Errors

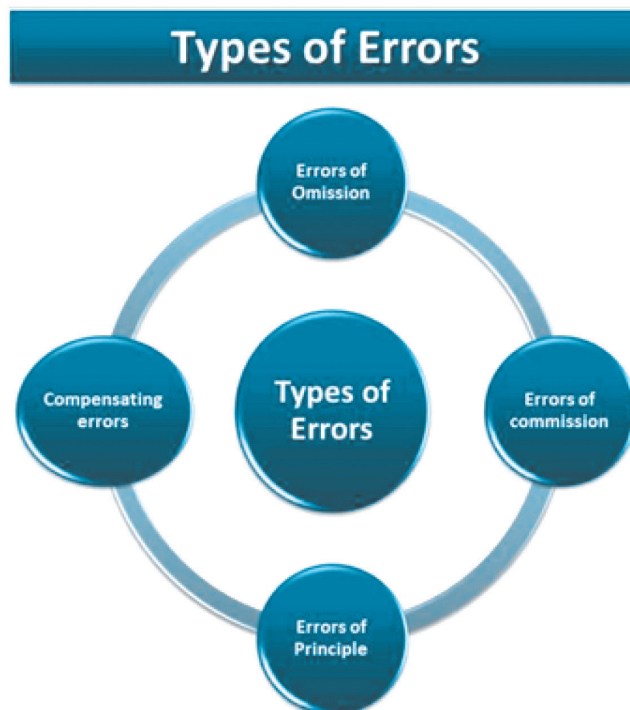
1. Lack of Accounting Knowledge
2. Wrong Data Collections
3. Wrong Recording
4. Incorrect Arithmetical Calculations

Need of Rectification:

1. For the preparation of correct Accounting Entries/Records.
2. Preparation of Profit & Loss A/c with corrected figures to finalize correct Profit and Loss.
3. To find out the accurate financial position of the firm/enterprise by preparing Balance Sheet with corrected figures.

Types of Errors:

While writing the Books of Accounts it is likely that some mistakes are committed and they are required to be corrected. Errors can be classified in the following four categories.



- 1) **Errors of Omission:** This kind of error arises when a transaction is partially or completely omitted to be recorded in the books of accounts. e.g. failure to record credit purchases. As a result of this omission neither the creditor's account is credited nor is the Purchase account debited. This type of error does not affect the agreement of Trial Balance and hence the Trial Balance fails to disclose such type of errors.

These can be of two types:

- a) Error of complete omission which does not affect the agreement of Trial Balance.
- b) Error of partial omission which affects the agreement of Trial Balance.

Type of Error with Meaning	Sub-Types with Examples
I. Error of Omission These errors are caused due to complete or partial omission.	(a) Error of Complete Omission Goods sold to Aditya on credit but not recorded in Sales Book.
	(b) Partial Omission Goods sold to Aditya on credit recorded in Sales Book but not posted to the A/c of Aditya thus Sales A/c is credited but Aditya's A/c is not debited. This error will affect the Trial Balance.

- 2) **Errors of Commission:** These are the errors which are committed due to wrong Entries or Posting of transactions wrong totalling or wrong balancing of the accounts, wrong casting of the- Subsidiary Books or wrong recording of amount in the books of original entry. These errors affect the agreement of Trial Balance.

Errors of commission are classified into following:

- a) Errors of Recording
- b) Errors of Casting
- c) Errors of Carrying
- d) Errors of Posting

Type of Error with Meaning	Sub-Types with Examples
II. Errors of Commission These errors are caused due to wrong recording of transactions, wrong totalling of Subsidiary Books or Ledger Accounts, Wrong posting and wrong carry forward	(a) Errors of Recording in the Book of Original Entry Goods purchased from Chaitanya for ₹850/- recorded as ₹580/- in the Purchase Book. (This error will not affect the agreement of Trial Balance as same amounts will be posted in both the accounts Purchase A/c and Chaitnaya's A/c.) (b) Wrong Totalling of Subsidiary Book. Example : Purchase Book has been under cast (total taken less) by ₹ 500/- Purchase A/c will be debited less by ₹500/- decreasing the debit side of Trial Balance by ₹500/-.

	<p>(c) Error in Totalling or Balancing of Ledger Accounts Example : Creditors A/c has been undercast by ₹700/-. In this case credit balance of Trial Balance will be less by ₹700/-</p> <p>(d) Error of Posting</p> <p>(i) Posting to the wrong side but correct account. Goods sold to Rohan for ₹900/- entered to the credit of Rohan's A/c instead of posting to the debit side of his account.</p> <p>(ii) Posting with wrong amount.</p> <p>(iii) Posting twice in an Account.</p> <p>(iv) Errors in posting to the wrong A/c but correct side..</p> <p>(e) Error in carrying forward. Total of Purchase Book ₹1,500/- is carried forward as ₹1,250/- Creates less debit of ₹250/- in Purchase A/c and also less debit in Trial Balance.</p>
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3) **Errors of Principle:** Transactions recorded without following the accounting principles and rules are known as Errors of Principle. An error of principle may occur due to the incorrect classification of expenditure or receipt between capital and revenue as it may lead to under/over stating of income or assets or liabilities. This error does not affect the Trial Balance as amounts are placed on the correct side but in a wrong account.

Type of Error with Meaning	Sub-Types with Examples
<p>III. Errors of Principles. These errors are caused due to the violation of accounting principles.</p>	<p>(a) Treating Capital items as Revenue item Example: Wages paid for the installation of new Machinery debited to Wages Account instead of Machinery Account.</p> <p>(b) Treating Revenue items as Capital Item Example : ₹500/- paid for the repairs of an old Machinery is debited to Machinery Account instead of Repairs Account.</p>

- 4) **Compensating Errors:** When two or more errors are committed in such a way that the net effect of these errors on the debit and credit of accounts is nil or nullified such errors are called compensating errors. These errors do not affect the agreement of Trial Balance.

Type of Error with Meaning	Sub-Types with Examples
IV. Compensating Errors Two or more errors committed in such a way that the net effect of these errors of the debit and credit of the accounts is nil.	Example: On May 10th 2018 a sum of ₹3000/- paid to Ashok is posted as ₹300/- to the Debit of his A/c and on May 20th 2018 a sum of ₹300/- paid to Kumar has been posted as ₹3000/- to the Debit of his A/c. Net Effect will be zero.

Errors may also be classified as One Sided Errors and Two Sided Errors.

One Sided errors affects only one account and affects the agreement of Trial Balance. These Errors can be rectified by giving a note for debiting or crediting the account, if it is located before preparation of Trial Balance.

When One Sided Errors are located after the preparation of Trial Balance then these errors will be rectified with help of Suspense Account.

Two sided errors affects two or more accounts and it does not affect the agreement of Trial Balance. It always be rectified with the help of Journal Entries.

Note : Rectified entries are recorded in Journal Proper.

ILLUSTRATIONS

- The following errors were located in the books of Anil & Sons before the preparation of the Trial Balance. Rectify them.
 - Goods sold to Aryan for ₹2,000 on credit were not entered in the Sales Book.
 - An amount of ₹ 600 paid for repairs to the Machinery stands wrongly posted to Machinery Account.
 - Salaries ₹ 2,500 paid to Shrikant was wrongly debited to his personal account in the ledger.

$$\text{Rectifying Entry} = \text{Reverse Entry} + \text{Correct Entry}$$

Working Note :

Sr. No.	Wrong Entry	Reverse Entry	Correct Entry	Rectifying Entry
1	Nil (Complete Omission)	Nil	Aryan's A/c Dr. 2,000 To Sales A/c 2,000	Aryan's A/c Dr. 2,000 To Sales A/c 2,000
2	Machinery A/c Dr. 600 To Cash A/c 600	Cash A/c Dr. 600 To Machinery A/c 600	Repairs A/c Dr. 600 To Cash A/c 600	Repairs A/c Dr. 600 To Machinery A/c 600
3	Shrikant's A/c Dr. 2,500 To Cash A/c 2,500	Cash A/c Dr. 2,500 To Shrikant's A/c ,500	Salary A/c Dr. 2,500 To Cash A/c 2,500	Salary A/c Dr. 2,500 To Shrikant's A/c 2,500

Solution:**Journal Proper of Anil & Sons**

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
(1)	Aryan's A/c To Sales A/c (Being the sale of goods to Aryan not entered in sales book, now rectified)	Dr.	2,000	2,000
(2)	Repairs A/c To Machinery A/c (Being the repairs wrongly debited to machinery account, now rectified)	Dr.	600	600
(3)	Salary A/c To Shrikant's A/c (Being salary paid to Shrikant wrongly debited to his account, now rectified)	Dr.	450	450

2. Rectify the following errors which are located in the books of Mr. Anand

- 1) Sale of old Furniture for ₹2,000 treated as sale of goods.
- 2) ₹15,000 paid of Salary to Mr. Rohit ,stands debited to his Personal Account.
- 3) An amount of ₹7,000 withdrawn by the proprietor for his personal use has been debited to Trade Expenses a/c.
- 4) Cash received from Mr. Sawant ₹500 was credited to Mr. Shinde.
- 5) Repairs for Building was debited to Building account ₹500.
- 6) ₹1,500 received as interest was credited to Commission Account.
- 7) ₹5,000 paid for the purchase of Computer was charged to Office Expenses Account.

Working Note : Formula Reverse Entry + Correct Entry = Rectified entry

Sr. No.	Wrong Entry	Reverse Entry	Correct Entry	Rectifying Entry
1	Cash A/c Dr. 2,000 To Sales A/c 2,000	Sales A/c Dr. 2,000 To Cash A/c 2,000	Cash A/c Dr. 2,000 To Furniture A/c 2,000	Sales A/c Dr. 2,000 To Furniture A/c 2,000
2	Mr. Rohit A/c Dr. 15,000 To Cash A/c 15,000	Cash A/c Dr. 15,000 To Mr. Rohit A/c 15,000	Salary A/c Dr. 15,000 To Cash A/c 15,000	Salary A/c Dr. 15,000 To Mr. Rohit A/c 15,000
3	Trade Expenses A/c Dr. 7,000 To Cash A/c 7,000	Cash A/c Dr. 7,000 To Trade Expenses A/c 7,000	Drawings A/c Dr. 7,000 To Cash A/c 7,000	Drawings A/c Dr. 7,000 To Trade Expenses A/c 7,000
4	Cash A/c Dr. 500 To Shinde A/c 500	Shinde A/c Dr. 500 To Cash A/c 500	Cash A/c Dr. 500 To Sawant A/c 500	Shinde A/c Dr. 500 To Sawant A/c 500
5	Building A/c Dr. 500 To Cash A/c 500	Cash A/c Dr. 500 To Building A/c 500	Repairs A/c Dr. 500 To Cash A/c 500	Repairs A/c Dr. 500 To Building A/c 500
6	Cash A/c Dr. 1,500 To Commission A/c 1,500	Commission A/c Dr. 1,500 To Cash A/c 1,500	Cash A/c Dr. 1,500 To Interest A/c 1,500	Commission A/c Dr. 1,500 To Interest A/c 1,500
7	Office Expenses A/c Dr. 5,000 To Cash A/c 5,000	Cash A/c Dr. 5,000 To Office Expenses A/c 5,000	Computer A/c Dr. 5,000 To Cash A/c 5,000	Computer A/c Dr. 5,000 To Office Expenses A/c 5,000

Solution:**Journal of Anand & Sons**

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
(1)	Sales A/c Dr. To Furniture A/c (Being sold old Furniture recorded as sale of goods now rectified)		2,000	2,000
(2)	Salary A/c Dr. To Rohit A/c (Being Paid salary paid to Mr. Rohit debited to his personal account now rectified)		15,000	15,000
(3)	Drawings A/c Dr. To Trade Expenses A/c (Being Cash withdrew for personal use debited to Trade Expenses account now rectified)		7,000	7,000
(4)	Shinde A/c Dr. To Sawant A/c (Being cash received from Sawant credited Shinde account now rectified)		500	500
(5)	Repairs A/c Dr. To Building A/c (Being paid repair to Building debited Building account, now rectified)		500	500
(6)	Commission A/c Dr. To Interest A/c (Being interest received credited to commission account, now rectified)		1,500	1,500
(7)	Computer A/c Dr. To Office Expenses A/c (Being computer purchased debited to office expenses account, now rectified)		5,000	5,000

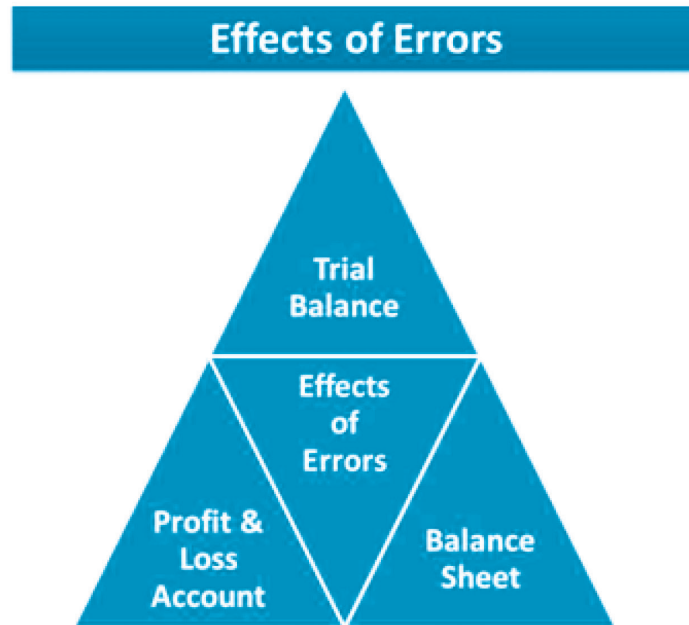
8.3 Detection & Rectification of errors**Stages of Detecting Errors:**

Rectifying errors depends generally on when the error is detected. Errors can be detected at any one of the following stages.

Stage 1 - Before preparation of Trial Balance

Stage 2 - After preparation of the Trial Balance but before preparing Final Accounts.

Stage 3- After preparing Final Accounts.



ILLUSTRATIONS

Illustration 1 :

Following are some accounting errors, rectify them.

- 1) Sales for ₹15,000/- made to Vaishnavi was not entered in the Sales Book.
- 2) Salary of ₹9,000/- paid to Accountant Varundas was debited to his personal account
- 3) Old Furniture sold for ₹3,500/- was entered in the Sales Book.
- 4) Carriage paid ₹500 on purchase of a Machine was debited to Carriage A/c
- 5) Cash ₹45,000/- paid to Aditya Verma was debited to Kumar Verma's A/c

Journal Proper

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
(1)	Vaishnavi's A/c Dr. To Sales A/c (Being Sale to Vaishnavi's omitted to be entered in Sales Book is now corrected)		15,000	15,000
(2)	Salary A/c Dr. To Varundas A/c (Being Salary paid to Varundas was debited to his personal account is now corrected)		9,000	9,000

(3)	Sales A/c To Furniture A/c (Being Old furniture sold was wrongly entered in the sales Book is now corrected)	Dr.		3,500	3,500
(4)	Machinery A/c To Carriage A/c (Being amount paid for carriage on purchase of machine debited to carriage account is now corrected)	Dr.		500	500
(5)	Aditya Verma's A/c To Kumar Verma's A/c (Being Amount paid to Aditya Verma was debited to Kumar verma is corrected)	Dr.		45,000	45,000

Illustration 2:**Rectify the following errors.**

- Total of the Return Inward book was overcast by ₹200/-
- Rent of ₹800/- paid to Mr. Amit has been debited to his Personal Account.
- Goods sold to Mr. Abhiraj ₹350/- have been entered in the Purchases Day Book as ₹530/-
- Repairs to Furniture ₹300/- have been debited to Furniture and Fixtures A/c
- Commission received ₹200/- has been posted to the debit of Commission Account.
- A cheque for ₹320/- issued to Mr. Ram has been wrongly entered in the cash column of the Cash Book.

Journal Proper

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
(1)	No Journal entry is required as it is affecting only one account. Returns Inwards A/c is to be credited with ₹200/- to cancel excess debit given			
(2)	Rent A/c To Amit's A/c (Being Rent paid to Amit debited to his personal account now rectified)	Dr.	800	800
(3)	Abhiraj A/c To Purchases A/c To Sales A/c (Being credit sales to Abhiraj ₹350/- wrongly entered through Purchases Book as ₹530/- . now rectified)	Dr.	880	530 350

(4)	Repairs A/c To Furniture & Fixtures A/c (Being Repairs to Furniture debited to Furniture & Fixtures now rectified)	Dr.		300	300
(5)	No Journal Entry is required as it is affecting only one account Commission A/c is to be credited with ₹400/-				
(6)	Cash A/c To Bank A/c (Being cheque issued wrongly entered in cash column of the Cash Book, now rectified)	Dr.		320	320

Illustration 3:**Rectify the following errors.**

- 1) Sales return book was overcast by ₹ 800/-
- 2) Factory electricity bill ₹ 7,000/- paid but recorded twice in the books.
- 3) Total of Sales book was undercast by ₹ 900/-
- 4) Paid for Rent ₹ 825/- was wrongly posted to Rent account as ₹ 325/-
- 5) Wages paid for extension of Building ₹ 9,900/- was charged to wages account.
- 6) Paid carriage for purchase of Machinery ₹ 2,000/- was charged to carriage account.
- 7) Life insurance premium of proprietor paid ₹ 1,500/- wrongly debited to Insurance A/c

Journal Proper

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)	
(1)	No Journal entry is required as it affects only one account so Sales Return Account should be credited with ₹800/-				
(2)	Cash A/c To Factory Electricity A/c (Being rectification of double recording of factory electricity bill now rectified)	Dr.		7,000	7,000
(3)	No Journal Entry as it affects only one account so Sales Account should be credited with ₹900/-				
(4)	No Journal Entry as it affects only one account so Rent account should be debited with ₹500/-				
(5)	Building A/c To Wages A/c (Being Wages paid for extension of Building wrongly debited to Wages Account, now rectified.)	Dr.		9,900	9,900

(6)	Machinery A/c To Carriage A/c (Being carriage paid for Machinery wrongly debited to carriage account, now rectified)	Dr.		2,000	2,000
(7)	Drawings A/c To Insurance A/c (Being rectification of wrong debit given to Insurance Account instead of Drawings Account now rectified)	Dr.		1,500	1,500

Illustration 4:**Rectify the following errors:**

- 1) Goods for ₹7,500/- were purchased from Vaishali Traders on credit, but no entry has yet been passed.
- 2) Purchase return for ₹ 2,000/- not recorded in the books.
- 3) Goods for ₹ 3,000/- sold to Anjali Traders on Credit were entered in Sales Book as ₹ 300 only
- 4) Goods of the value of ₹ 2,000/- returned by Sumit & Co. were included in stock, but no entry was passed in the books.
- 5) Goods purchased for ₹ 1,200/- entered in the Purchases Book as ₹12,000/-
- 6) An invoice for goods sold to Neeta was overcast by ₹200/-

Journal Proper

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
(1)	Purchases A/c To Vaishali Traders A/c (Being Credit purchases from Vaishali Traders were omitted to be recorded, now rectified)	Dr.	7,500	7,500
(2)	Creditors A/c To Purchase Return A/c (Being Purchases return was not recorded, now rectified)	Dr.	2,000	2,000
(3)	Anjali Traders A/c To Sales A/c (Being Goods sold to Anjali Traders were wrongly recorded now rectified)	Dr.	2,700	2,700
(4)	Sales Return A/c To Sumit & Co. (Being Good returned by Sumit & Co. were omitted to be recorded now rectified)	Dr.	2,000	2,000

(5)	Creditors A/c To Purchase A/c (Being Goods purchased wrongly recorded now rectified)	Dr.		10,800	10,800
(6)	Sales A/c To Neeta's A/c (Being Invoice for goods sold overcast now rectified)	Dr.		200	200

Illustration 5:**Give Journal Entries to rectify the following errors:**

- 1) Goods purchased from Sujit for ₹ 3,000/- were recorded in Sales Book.
- 2) Goods for ₹5,200/- sold to Sachin was passed through Purchase Book.
- 3) A customer returned goods worth ₹800/- was recorded in Purchase Return Book.
- 4) A credit sale of ₹ 240/- to Ajit was entered in the Sales books as ₹ 420/-
- 5) Sale of old Table and Chairs for ₹ 900/- was treated as sale of goods.
- 6) Rent paid for proprietor's residence ₹ 1,200/- , debited to Rent A/c.

Journal Proper

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
(1)	Purchases A/c Sales A/c To Sujit's A/c (Being Goods purchased from Sujit were wrongly recorded in Sales Book, now rectified)	Dr. Dr.	3,000 3,000	6,000
(2)	Sachin's A/c To Sales A/c To Purchases A/c (Being Goods sold to Sachin wrongly recorded in Purchases Book, now rectified)	Dr.	10,400	5,200 5,200
(3)	Sale Return A/c Purchases Return A/c To Customer's A/c (Being Goods returned by a customer recorded in Purchases Return Book, now rectified)	Dr. Dr.	800 800	1,600
(4)	Sales A/c To Ajit's A/c. (Being Credit sales to Ajit were wrongly recorded, now rectified)	Dr.	180	180

(5)	Sales A/c To Furniture A/c (Being sale of furniture was recorded as sale of goods, now rectified)	Dr.		900	900
(6)	Drawings A/c To Rent A/c (Being Rent paid for proprietor's residence, debited to Rent Account, now rectified)	Dr.		1,200	1,200

8.4 Suspense account

Meaning of Suspense Account :

When the Trial Balance does not tally the amount of difference is located to the debit (when the total of the credit column is higher than the debit column) or credit (when the total of the debit column is higher than the credit column) to a temporary account known as 'Suspense Account'. Errors affecting only one account is known as one sided errors. These errors will now be rectified with the help of Suspense Account. When all one sided errors are located and rectified Suspense Account automatically closes.

Illustration 6:

The Trial Balance of Shri. Kishorilal did not agree and the difference of debit balance of ₹ 620 was temporarily transferred to Suspense A/c. Later on following errors were located. Give the Journal entries to rectify the following errors and show the Suspense A/c.

- 1) An amount of ₹840/- received from M/s Singh & Co. was posted to the debit as ₹50/-
- 2) ₹530/- spent for repairs to Machinery were posted to the debit of Machinery A/c ₹150/-
- 3) Discount of ₹25/- allowed by Shah & Co. to us was posted to their credit.
- 4) An Amount of ₹730/- paid to Chetan & Co was wrongly credited to Lalit & Co. as ₹250/-
- 5) The total of Purchase Day Book has been undercast ₹100

Journal Proper

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
(1)	Suspense A/c To M/s Singh & Co. (Being the rectification entry for wrong debit of M/s Singh & Co., now rectified.)	Dr.	890	890
(2)	Repairs to Machinery A/c To Machinery A/c To Suspense A/c (Being repairs to Machinery was wrongly debited to Machinery A/c, now rectified)	Dr.	530	150 380

(3)	Shah & Co. A/c To Suspense A/c (Being Rectification of wrong credit given to Shah & co. now rectified.)	Dr.		50	50
(4)	Chetan & Co. A/c Lalit & Co. A/c To Suspense A/c (Being paid to Shah & Co. credited to Lalit & Co. with wrong amount now rectified.)	Dr. Dr.		730 250	980
(5)	Purchase A/c To Suspense A/c (Being Purchase Day Book undercast now rectified.)	Dr.		100	100

Dr.		Suspense A/c		Cr.	
Particulars	Amt (₹)	Particulars	Amt (₹)		
To Balance b/d	620	By Repairs to Machinery A/c	380		
To M/s Singh & Co. A/c	890	By Shah & Co. A/c	50		
		By Chetan & Co. A/c	730		
		By Lalit & Co. A/c	250		
		By Purchases A/c	100		
	1,510				1,510

Illustration 7 :

Rectify the following errors through Suspense Account :

- Purchase of goods from Sachin for ₹ 3,000/- was entered in the Sales Book, however Sachin's Account was correctly credited.
- Cash received from Anilkumar a debtor ₹4,500/- was correctly entered in the Cash Book but was omitted to be posted to his account.
- Sales Book was overcast by ₹ 2,000/-.
- Cash of ₹5000 paid to Sadik was credited to Sabir A/c as ₹ 1,800/-.
- The total of Purchase Returns Book of ₹3,150/- was carried forward as ₹1,530/-
- Cash paid to Shweta ₹ 7,500/- was debited to Ankita A/c by ₹7,000/-.

Journal Proper

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
(1)	Purchase A/c Dr. Sales A/c Dr. To Suspense A/c (Being Purchase of good was entered in the the Sale Book now rectified)		3,000 3,000	6,000
(2)	Suspense A/c Dr. To Anilkumar's A/c (Being Anilkumar's account omitted to be credited, now rectified)		4,500	4,500
(3)	Sales A/c Dr. To Suspense A/c (Being Sales Book overcast rectified)		2,000	2,000
(4)	Sadik A/c Dr. Sabir A/c Dr. To Suspense A/c (Being cash paid to Sadik was wrongly credited to Sabir is now rectified)		5,000 1,800	6,800
(5)	Suspense A/c Dr. To Purchase Return A/c (Being Purchase Return Book is undercast now rectified)		1,620	1,620
(6)	Shweta's A/c Dr. To Ankita A/c To Suspense A/c (Being cash paid to Shweta wrongly debited to Ankita, now rectified)		7,500	7,000 500

Illustration 8:**Rectify the following errors.**

- 1) A sale of goods of the value of ₹8,000/- to Sharma has been wrongly debited to Verma's Account.
- 2) A purchase of ₹ 1,200/- from S.Kumar instead of being credited to him from the Purchase book has been wrongly debited to him.
- 3) Cash ₹ 350/- received from G.Ramesh and entered on the Receipts side of the Cash Book has not been posted.
- 4) A payment of ₹ 800/- made to K.Mayur for cash purchase of goods from him stands debited to his Account.
- 5) An amount of ₹ 1,500/- drawn by the proprietor for his personal use stands debited to General Expenses Account.

Journal Proper

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
(1)	Sharma's A/c Dr. To Verma's A/c (Being Sale of goods to Sharma wrongly debited to Varma's A/c, now rectified)		8,000	8,000
(2)	No Journal entry is required S.Kumar's A/c is to be credited with ₹2 400/-			
(3)	No Journal entry is required G.Ramesh's A/c is to be credited with ₹350/-			
(4)	Purchase A/c Dr. To K.Mayur's A/c (Being Payment of K. Mayur for cash purchases, debited to his account now rectified)		800	800
(5)	Drawings A/c Dr. To General Expenses A/c (Being amount drawn for personal use wrongly debited General expenses account now rectified)		1,500	1,500

In the above example if it would have been stated that "The Trial Balance did not agree and the difference was put to Suspense Account." The correction entries (2) & (3) would be as follows:

		₹	₹
2) Suspense A/c	Dr.	1,200	
	To S.Kumar's A/c		1,200
3) Suspense A/c	Dr.	350	
	To G.Ramesh's A/c		350

And the Suspense Account would be:

Dr.		Suspense A/c		Cr.
Particulars	Amt (₹)	Particulars	Amt (₹)	
To S.Kumar's A/c	1,200	By Difference in Trial balance	1,550	
To G. Ramesh's A/c	350			
	1,550			1,550

Illustration 9:

Trial Balance of Amitabh did not agree. Amitabh put the difference to Suspense Account. Subsequently he located the following errors.

- 1) Amount paid on registration of Motor Car ₹ 800 was recorded as legal charges.
- 2) Repairs to Machinery ₹ 300 debited to Machinery account.
- 3) Repairs paid for the overhauling of second hand machinery purchased ₹1,000/- was debited to repairs account.
- 4) Purchased material ₹ 90,000/- and paid wages of ₹ 10,000/- for construction of building, not recorded in the books.
- 5) Furniture purchased for ₹ 6,000/- was posted to purchase account ₹ 400/-
- 6) Old Machinery sold to Sumit at ₹ 1,000/- was recorded through Sales Book.
- 7) Total of Sales Returns Book ₹ 2,000/- was not posted to the ledger.

Rectify the above errors and prepare Suspense Account to ascertain the original difference in Trial Balance.

Solution:**Journal Proper**

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
(1)	Motor Car A/c Dr. To Legal charges A/c. (Being amount paid for registration of Motor Car wrongly debited to legal charges account ,now rectified.)		800	800
(2)	Repairs A/c Dr. To Machinery A/c (Being Repairs paid wrongly debited to machinery account, now rectified)		300	300
(3)	Machinery A/c Dr. To Repairs A/c (Being Repairs for overhauling of second hand machinery purchased wrongly debited to repairs account, now rectified)		1,000	1,000
(4)	Building A/c Dr. To Cash A/c (Being Material and Wages paid for construction of Building not debited to building account, now rectified.)		1,00,000	1,00,000

(5)	Furniture A/c To Purchases A/c To Suspense A/c (Being Furniture purchased wrongly debited to purchases account, now rectified.)	Dr.		6,000	400 5,600
(6)	Sales A/c To Machinery A/c (Being sale of Machinery wrongly recorded in Sales Book, now rectified)	Dr.		1,000	1,000
(7)	Sales Return A/c To Suspense A/c (Being total of Sales Returns Book not posted to ledger now rectified)	Dr.		2,000	2,000

Dr.		Suspense A/c		Cr.	
Particulars	Amt (₹)	Particulars	Amt (₹)		
To Balance b/d (Balancing figure)	7,600	By Furniture A/c	5,600		
		By Sales return A/c	2,000		
	7,600		7600		

Hence original difference in Trial Balance was ₹7,600 excess credited.

EXERCISE

Q.1 Answer in One Sentence:

- 1) What is meant by rectification of errors?
- 2) What is meant by error of principle?
- 3) What is meant by error of partial omission?
- 4) What is meant by error of complete omission?
- 5) What are compensating errors?

Q.2 Give one word/term or phrase for each of the following statements.

- 1) Errors which affect the agreement of Trial Balance.
- 2) Taking the total more while closing books of accounts.
- 3) Error which arises when a transaction is partially or completely omitted to be recorded in the books of accounts.
- 4) Transactions recorded due to violating of the accounting principles.

- 5) Accounts to which difference in Trial Balance is transferred.
- 6) Error in which the effect of one mistake is nullified by another mistake.
- 7) Error which are not disclosed by the Trial Balance.
- 8) Errors of incorrect entries or wrong posting.

Q.3 Select the most appropriate alternative from those given below and rewrite the sentence.

- 1) Rectification entries are passed in -----.
 a) Journal Proper b) Ledger c) Balance sheet d) Cash Book
- 2) The type of error for which journal entry is always required for rectification -----.
 a) over casting b) one sided error c) under casting d) two sided error
- 3) Errors occurred due to wrong posting are called as errors of -----.
 a) principle b) commission c) compensating d) omission
- 4) If transaction is totally omitted from the Books, it is called -----
 a) Error of recording b) Error of omission
 c) Error of principle d) Error of commission
- 5) Suspense Account is opened when ____ does not tally
 a) Balance sheet b) Trading account c) Profit and Loss d) Trial Balance

Q.4 State whether the following statements are True or False with reasons.

- 1) Trial Balance is prepared from the balance of ledger accounts.
- 2) A Trial Balance can agree in spite of certain errors.
- 3) Rectification entries are passed in Cash Book.
- 4) There is no need to open a Suspense Account if the Trial Balance agrees.
- 5) All the errors can be rectified only through Suspense Account.

Q.5 Do you agree or disagree with the following statements.

- 1) The unintentional omission or commission of amounts and accounts while recording the transactions are known as an error.
- 2) The errors committed due to wrong recording, wrong posting, wrong totalling, wrong balancing, wrong calculations are known as Arithmetical errors.
- 3) When one or more debit errors happen to equal one or more credit errors it is said to be a Compensating error.

- 4) The agreement of Trial balance is not affected when a transaction is not recorded at all in the original Books.
- 5) When a transaction is not recorded according to the principles of accounting it is known as Compensating errors.

Q.6 Complete the following sentence.

- 1) is assured only when there are no errors in the books of accounts.
- 2) Transactions recorded in contravention of the accounting principles are known as
- 3) entry depends generally on when the error is detected.
- 4) Temporary account opened to rectify the entry is known as.....
- 5) Errors are caused due to recording of transactions.

PRACTICAL PROBLEMS

1. Rectify the following errors

- 1) Salary paid to Pravin was wrongly debited to his personal account ₹6,500/-
- 2) Cash Purchases ₹ 12,000/- from Siddhant Traders was debited to Siddhant Trader Account.
- 3) Paid Rent ₹5,000 to landlord Shantilal was debited to his personal account.
- 4) Received interest ₹700 from Bank was wrongly credited to Bank Account.
- 5) Advertisement expenses ₹ 5,000/- paid to Time of India was debited to Time of India.

2. Rectify the Following errors

- 1) Machinery purchased for ₹ 9,000/- has been debited to Purchase Account.
- 2) ₹ 15,000/- paid to Indus Company for Machinery purchased stand debited to Indus Company Account.
- 3) Printer Purchased for ₹10,000/- was wrongly passed through Purchase Book.
- 4) ₹ 800/- paid to Mohan as Legal Charges was debited to his personal account.
- 5) Cash paid to Ramesh ₹500/- was debited to Suresh.

3. Rectify the Following errors

- 1) A credit sales of goods to Sanjay ₹ 3,000/- has been wrongly passed through the 'Purchase Book'.
- 2) A credit purchase of goods from Sheetal amounting to ₹ 2,000/- has been wrongly passed through the 'Sales Book'.
- 3) A return of goods worth ₹ 500/- to Umesh was passed through the 'Sales Return Book'.
- 4) A return of goods worth ₹ 900/- by Ganesh were entered in 'Purchase Return Book'.
- 5) Credit Purchases from Neha ₹ 10,000/- were recorded as ₹ 11,000/-

4. Rectify the Following errors

- 1) Paid Rent ₹ 2,000/- to Nikhil has been debited to his personal account.
- 2) Total of the Sales Return Book is wrongly taken more by ₹ 200/-
- 3) Goods sold to Dhanraj ₹ 6,500/- on credit was not posted to his personal account.
- 4) Old Computer purchased was debited to Repairs account ₹ 8,000/-
- 5) Repairs to Furniture of ₹ 500/- has been debited to Furniture account.

5. Rectify the Following errors

- 1) Wages paid for construction of Building ₹ 10,000/- was wrongly debited to Wages Account.
- 2) Cash received from Patel ₹ 5,000/- though recorded in Cash Book was not posted to his personal account in the Ledger.
- 3) Sold goods worth ₹ 9,000/- to Rohini has been wrongly debited to Mohini's Account.
- 5) Material purchased for construction of Building was debited to Purchase Account ₹5,000/-

6. There was a difference of ₹ 1,230/- in a Trial Balance. It was placed on the Debit side of Suspense A/c. Later on the following errors were discovered. Pass rectifying entries and prepare Suspense A/c.

- 1) Sales Book was overcast by ₹ 1,000/-
- 2) Goods sold to Aarti for ₹ 4,400/- has been posted to her account as ₹4,000/-
- 3) Purchases Book was overcast by ₹100/-
- 4) An amount of ₹ 500/- received from Ranjeet, has not been posted to his account.
- 5) Goods sold to Sameer for ₹ 750/- were recorded in Purchase Book.
- 6) An amount of ₹ 500/- has been posted to the credit side of Commission Account instead of ₹ 570/-

7. A book-keeper finds that the debit side of the Trial Balance is short of ₹ 308/- and so for the time being, he balance of the side by putting the difference to Suspense Account. The following errors were disclosed.

- 1) The debit side of purchases account was undercast by ₹100/-
- 2) ₹ 100/- being the monthly total of discount allowed to customer were credited to discount account in the ledger.
- 3) An entry for goods sold of ₹ 102/- to Mihir was posted to his account as ₹ 120/-
- 4) ₹ 26/- appearing in the Cash Book as paid for the purchase of Stationery for office use have not been posted to Ledger.
- 5) ₹ 275/- paid by Mihir were credited to Mithali's Account.

You are required to make the necessary Journal Entries and the Suspense Account.

8. Trial Balance of Anurag did not agree. It showed an excess credit of ₹ 6,000/-. He put the difference to Suspense Account. He discovered the following errors.

- 1) Cash received from Ramakant ₹ 8,000/- posted to his account as ₹6,000/-
- 2) Credit purchases from Naman ₹ 7,000/- were recorded in Sales Book. However, Naman's Account was correctly credited.
- 3) Return Inwards Book overcast by ₹ 1,000/-

- 4) Total of Sales Book ₹ 10,000/- was not posted to Sales Account.
 - 5) Machinery purchased for ₹ 10,000/- was posted to Purchases Account as ₹ 5,000/-.
- Rectify the errors and prepare Suspense Account.

9. There was an error in the Trial Balance of Mr. Yashwant on 31st March 2019, and the difference in Books was carried to a Suspense Account. On going through the Books you found that.

- 1) ₹ 1,000/- being purchases return were posted to the debit of Purchase Account.
 - 2) ₹ 4,000/- paid to Badrinath was debited to Kedarnath's Account.
 - 3) ₹ 5,400/- received from Kishor was posted to the debit of his account.
 - 4) Discount received ₹ 2,000/- was posted to the debit of Discount Allowed Account.
 - 5) ₹ 2,740/- paid to Repairs to Motor Cycle was debited to Motor Cycle Account ₹ 1,740/-
- Give Journal Entries to rectify the above errors and ascertain the amount transferred to Suspense Account on 31st March, 2019 by showing the Suspense Account, assuming that the Suspense Account is balanced after the above corrections.

10. Rectify the following errors.

- 1) Goods purchased from Kishor ₹ 700/- was passed through Sales Book.
- 2) An item of ₹ 120/- in respect of purchase returns, has been wrongly entered in the Purchase Book.
- 3) Amount payable to Subhash for repairs done to Printer ₹ 180/- and new Printer supplied for ₹ 1,920/- , were entered in the Purchase Book as ₹ 2,000/-
- 4) Returned goods to Nitin ₹ 1,500/- was passed through Returns Inward Book.
- 5) An item of ₹450/- relating to Prepaid Rent account was omitted to be brought forward.



9

Final Accounts of a Proprietary concern**Contents**

- 9.1 *Meaning, Objectives and Importance of Final Accounts.*
- 9.2 *Preparation of Trading Account.*
- 9.3 *Preparation of Profit and Loss Account*
- 9.4 *Preparation of Balance Sheet*
- 9.5 *Effects of following adjustments.*
- ◆ *Closing stock*
 - ◆ *Outstanding Expenses*
 - ◆ *Prepaid Expenses*
 - ◆ *Depreciation on assets*
 - ◆ *Bad debts and R.D.D.*
 - ◆ *Discount on Debtors and Creditors*
 - ◆ *Income received in advance*
 - ◆ *Accrued Income*
 - ◆ *Goods distributed as free sample*
 - ◆ *Goods withdrawn by proprietor for Personal use.*
 - ◆ *Interest on capital*
 - ◆ *Interest on Drawings*

Competency Statements

- Students are able to understand Meaning, Objective and Importance of Final Accounts.*
- Students are able to Prepare Trading A/c, Profit and Loss A/c and Balance sheet with competency.*
- Students are able to understand effects of adjustments.*

Introduction :

Accounting is considered as a scientific approach in maintaining record of business transactions. It provides a systematic accounting record to all on the financial status of the enterprise. No sooner a business transaction takes place, the accounting process starts. The process is completed by the drafting the final accounts.

9.1 A) Meaning of Final Accounts :

The primary aim of accounting is assessment of business performance for the benefit of all stakeholders (such as owners, employees, suppliers, customers, financiers etc.) which will also help them to form their opinions on the financial position of their business concerns. For this purpose, various accounting reports are prepared in the form of Final Accounts at the end of every financial year. In brief, Final Accounts are financial statements that validate and explain working results and financial status for a specific period of time on a particular date. It is a set of Trading Account, Profit and Loss Account and Balance Sheet. Balancing figure of Trading Account is Gross Profit or Gross Loss. In case of Profit and Loss Account the balancing figure is Net Profit or Net Loss. Whereas Balance Sheet shows financial position of assets and liabilities at a given period of time.

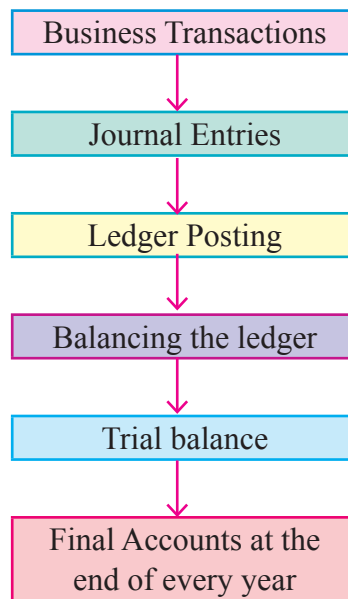
- The basic objectives of Final Accounts is to determine Gross Profit /Gross Loss and Net Profit or Net Loss of the business during the financial year.
- Final Accounts shows the true and correct financial position of business.
- It informs the operating results and exact financial position of the business to the stake holders to take financial decisions.
- It enables to control financial activities of business effectively.

C) Importance of Final Accounts :

- 1) Final Accounts are the basis on which management or businessmen decides business policies and take financial decisions.
- 2) Final Accounts gives a true picture of the financial status of business for the financial year.
- 3) Final Accounts are useful for accurate accounting records.
- 4) Transparency in business dealings are possible due to financial statements.
- 5) Final Accounts help to get a clear break-up of amounts payable to government as various taxes, e.g. Income tax, GST etc.
- 6) It is a mandatory requirement to maintain records of financial state of any business establishment.

How to Prepare Final accounts ? -

Every time a business transaction takes place, the details of it is made in Primary books. These entries are then posted to the ledger. At the end of a financial year the ledger accounts are balanced and closing balance of each ledger account is determined. There may be a debit or credit balance. With the help of all these balances, a Trial Balance is prepared. This in turn helps in preparing Trading Account, Profit and Loss Account and Balance Sheet, which is known as Final Accounts. This accounting process can be represented as follows :



Final accounts include

- 1) Manufacturing Accounts
- 2) Trading Account
- 3) Profit and Loss Accounts
- 4) Profit & Loss Appropriation Account
- 5) Balance sheet

Note : Manufacturing Account and profit and Loss Appropriation account are not included in the syllabus of XI commerce. So for XI commerce Final Accounts consist only of Trading Account, Profit and Loss Account and Balance Sheet.

Trading Account

Trading Account is an account which gives the overall preview of all trading activities. The expenses and losses relating to trading activities are debited to this account and all outward movements of goods and stock of goods at the end of the year are recorded to the credit side of this account.

Debit side of Trading Account includes activities such as opening stock, purchases and all direct expenses - e.g. Wages, Freight, Carriage Inward, Coal, Gas, Fuel, Water, Manufacturing or Direct expenses. Similarly credit side of trading includes Closing Stock, Sales, less returns (sales returns) any kind of goods that is used for promotions as Free Samples, goods withdrawn by proprietor for personal reasons etc. Therefore it is said Trading Account is prepared to ascertain gross profit or loss for a given period of time. When there is credit balance. It is referred to as Gross Profit and when there is debit balance it referred to a Gross Loss which is transferred to profit and loss account. Trading Account is a Nominal Account.

Important terms of Trading Account :

- 1) **Stock :** Goods that are unsold are called Stock.
Stocks are of two types :
 - (i) **Opening stock :** It refers to unsold goods at the beginning of the year.
 - (ii) **Closing Stock :** The unsold goods on the last day of accounting period is referred to as Closing Stock. This is always valued at cost or market price, whichever is less. Closing Stock is credited to the Trading Account. It is also recorded on the asset side of Balance Sheet.
- 2) **Purchases :** This includes the purchases of goods and not purchases of assets. Purchase of goods may be on the basis of cash or credit. Purchase Returns are deducted from total purchases and thereafter net purchases are recorded on the debit side of Trading Account.
- 3) **Sales :** Sales includes the sales of goods and not sale of Assets. Sale of goods may be on the basis of cash or credit. Sales returns are deducted from total sales and thereafter net sales are recorded on the credit side of Trading Account.
- 4) **Direct Expenses :** Direct expenses are those expenses which are incurred for purchase of goods, production of goods and purchase expenses. All nominal accounts e.g. Wages, Manufacturing expenses, Factory lighting, Coal, Gas, Fuel, Water. Dock dues, Carriage inward etc.

Specimen of Trading Account

Trading Account for the year ended

Dr.

Cr.

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Opening Stock		xxxx	By Sales	xxxx	
To Purchases	xxxx		Less : Sales Return	xxxx	xxxx
Less : Purchase Return (Return outwards)	xxxx	xxxx	(Return Inward)		
To Direct Expenses		xxxx	By Goods distributed as free sample		xxxx
To Freight & Carriage Inward		xxxx	By Goods taken by proprietor for personal use		xxxx
To Custom Duty		xxxx	By Closing Stock		xxxx
To Wages		xxxx	By Gross Loss c/d		xxxx
To Coal, Gas, Fuel etc.		xxxx			
To Royalties		xxxx			
To Factory expenses		xxxx			
To Gross Profit c/d		xxxx			
		xxxx			xxxx

Illustration 1

From the following information prepare Trading Account of Sangita Traders for 31st March, 2019.

Particulars	Amt (₹)	Particulars	Amt (₹)
Wages	16,000	Stock (1.04.2018)	22,000
Royalties	11,000	Sales	3,80,000
Sales Returns	24,000	Purchases	1,90,000
Goods withdrawn by Sangita for Personal use	16,000	Purchases Returns	6,400
Factory Rent	4,200	Manufacturing Expenses	8,400
Stock (31.03.2019)	36,000	Motive Power	16,000
		Freight	7,400

Solution : **Trading Account of Sangita Traders for the year ended 31st March 2019**

Dr.

Cr.

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Opening stock		22,000	By Sales	3,80,000	
To Purchases	1,90,000		Less : Sales Return	24,000	3,56,000
Less : Purchase Return	6,400	1,83,600			
To Wages		16,000	By Drawings		16,000
To Royalties		11,000	By Closing stock		36,000
To Factory Rent		4,200			
To Manufacturing Expenses		8,400			
To Motive Power		16,000			
To Freight		7,400			
To Gross Profit c/d (Balancing figure)		1,39,400			
		4,08,000			4,08,000

Journal Entries for preparing Trading Account

All accounts of Direct expenses are closed and their balances are transferred to Trading A/c. For this "closing entries" are passed as under :

A) Transferring of Opening Stock, Purchases, Direct expenses

- 1) Transfer of Purchase Returns

Purchase Returns A/cDr.	xxxx	
To Purchases A/c		xxxx

(Being Purchase returns transferred to Purchases A/c)

- 2) Sales A/c.....Dr. xxxx
 To Sales Return A/c xxxxx
 (Being Sales returns transferred to Sales A/c)
- 3) Trading A/c.....Dr. xxxx
 To Opening stock A/c xxxxx
 To Direct expenses A/c xxxxx
 To Purchases A/c xxxxx
 (Being Opening stock and Direct expenses and purchases transferred to Trading A/c)

B) Transferring of Sales

Sales A/c.....Dr. xxxxx
 To Trading A/c xxxxx
 (Being sales transferred to Trading A/c)

C) Entry of Closing stock

Closing stock A/cDr. xxxxx
 To Trading A/c xxxxx
 (Being closing stock given in adjustment transferred to Trading A/c)

D) For Gross Profit/Gross Loss

- 1) Trading A/c.....Dr. xxxxx
 To Profit & Loss A/c xxxxx
 (Being Gross Profit transferred to Profit & Loss A/c)
- 2) Profit & Loss A/c.....Dr. xxxxx
 To Trading A/c xxxxx
 (Being Gross Loss transferred to Profit & Loss A/c)

9.3 Profit and Loss Account

This account is main Account of final Accounts which gives the final working results of business. It is prepared on the basis of indirect expenses and indirect incomes of the business concern. Profit and Loss Account is maintained to ascertain Net Profit or Net Loss. The debit side of Profit and Loss Account includes all indirect expenses such as office or administrative expenses, financial expenses, selling or distribution expenses etc. The credit side of profit and Loss Account includes indirect incomes like commission received, rent received, discount earned etc. When the credit side of this account is greater than debit side it is called Net Profit and when debit side of this account is greater than credit side it is called as Net Loss. Net Profit/Loss is transferred to Capital Account. Profit and Loss Account is a Nominal Account.

Specimen of Profit and Loss Account :

Profit & Loss Account for the year ended

Dr.

Cr.

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Gross Loss b/d (if any)		xxxx	By Gross Profit b/d (if any)		xxxx
To Salaries & Wages		xxxx	By Rent received		xxxx
To Rent Rates & Taxes		xxxx	By Commission received		xxxx
To Insurance		xxxx	By Interest on Investment		xxxx
To Bank Charges		xxxx	By Interest on Deposits		xxxx
To Discount (allowed)		xxxx	By Misc. Income		xxxx
To Audit fees		xxxx	By Discount received		xxxx
To Depreciation on			By Net Loss		xxxx
Land & Building	xxxx		(transferred to Capital A/c)		xxxx
Plant & Machinery	xxxx				
Furniture etc.	xxxx	xxxx			
To Travelling expenses		xxxx			
To Advertisement		xxxx			
To Printing & Stationery		xxxx			
To Interest (paid)		xxxx			
To Loss by fire		xxxx			
To Loss by theft		xxxx			
To Packing expenses		xxxx			
To Commission		xxxx			
To Bad Debts (old)	xxxx				
Add : New bad debts	xxxx				
Add : New RDD	xxxx				
	xxxx				
Less : Old RDD	xxxx	xxxx			
To Net Profit		xxxx			
(Transferred to Capital A/c)					
		xxxx			xxxx

Illustration 1

From the following Trial balance of Raju & Sons, you are required to prepare Trading Account and Profit & Loss A/c for the year ended 31st March, 2018.

Debit balance	Amt (₹)	Credit balance	Amt (₹)
Wages	9,200	Purchases Returns	6,520
Purchases	66,800	Sales	1,52,900
Carriage Inward	3,350	Commission received	18,000
Sales returns	4,800	Rent Received	9,000
Opening Stock	31300	Discount Received	4,600
Salary	17,400		
Royalty	4,800		
Rent, Rates & Taxes	12,680		
Bad debts	500		
Carriage Outward	3,720		
Printing & Stationery	2,400		
Advertisement	18,000		
Discount Allowed	1,520		
Insurance	5,800		
Factory Rent	7,000		
Commission paid	1,800		
	1,91,020		1,91,020

Adjustment : 1) Closing stock Rs. 56,850

Solution :

In the Books of Raju & Sons

Trading Account for the year ended 31st March, 2018

Dr.

Cr.

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Opening stock		31,300	By Sales	1,52,900	
To Purchases	66,800		Less : Sales Return	4,800	1,48,100
Less : Purchase Return (Return outwards)	6,520	60,280	(Return Inward)		
To Wages		9,200	By Closing stock		56,850
To Carriage Inward		3,350			
To Royalty		4,800			
To Factory Rent		7,000			
To Gross Profit c/d (Balancing figure)		89,020			
		2,04,950			2,04,950

Profit & Loss Account for the year ended 31st March, 2018**Dr.****Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Salary		17,400	By Gross Profit b/d		89,020
To Advertisement		18,000	By Commission received		18,000
To Discount		1,520	By Rent Received		9,000
To Rent, Rates and Taxes		12,680	By Discount Received		4,600
To Insurance		5,800			
To Bad Debts		500			
To Carriage Outward		3,720			
To Commission		1,800			
To Printing & Stationery		2,400			
To Net Profit (Transfer to Capital A/c)		56,800			
		1,20,620			1,20,620

Journal Entries relating to Profit & Loss A/c**A) For transfer of Expenses and Losses**

Profit & Loss A/c.....Dr.

To All Indirect expenses A/c

(e.g. To Salaries A/c

To Rent A/c

To Advertisement A/c

To Insurance A/c

etc.....)

(Being Indirect expenses transferred to Profit & Loss A/c)

B) For transfer of Incomes and Gains

All Indirect incomes A/cDr.

(e.g, Discount, Dividend, Interest etc.)

To Profit & Loss A/c

(Being Indirect incomes transferred to Profit & Loss A/c)

C) For Transferring Net Profit/Net Loss to Capital A/c**a) For transferring Net Profit**

1) Profit & Loss A/c.....Dr.

To Capital A/c

(Being Net Profit transferred to Capital A/c)

a) For transferring Net Loss

Capital A/c.....Dr. xxxx
 To Profit & Loss A/c xxxx
 (Being Net Loss transferred to Capital A/c)

9.4 Balance Sheet

Balance Sheet is a statement showing financial position of a business concern.

Balance Sheet has no debit or credit side as it is a statement and not an account. Left hand side of Balance sheet is "Liability side" and Right hand side "Asset side". Both sides of Balance Sheet should be of equal amount. A Balance sheet shows assets & liabilities of the business.

All Debit balances of Personal and Real Accounts are shown on the Asset Side and All Credit Balances of Personal Accounts are shown on Liability side. No Nominal Account will appear in the Balance Sheet

**In the books of M/s
 Balance Sheet as on 31st March.....**

Liabilities	Amt (₹)	Amt (₹)	Assets	Amt (₹)	Amt (₹)
Capital (opening)	xx		Cash in hand		xx
Add : Net Profit	xx		Cash at Bank		xx
Add : Interest on capital	xx		Bills Receivable		xx
	xx		Sundry Debtors		xx
Less : Drawings	xx		Goodwill		xx
Less : Interest on Drawings	xx		Furniture		xx
Less : Net Loss	xx	xx	Plant & Machinery		xx
Bank Loan		xx	Land & Building		xx
Bank Overdraft		xx	Prepaid expenses		xx
Sundry Creditors		xx	Outstanding Income		xx
Bills Payable		xx	Closing Stock		xx
Outstanding Expenses		xx			
Pre-received Income		xx			
Total		xxx	Total		xxx

Journal Entries of Some important adjustments :

1) Closing Stock :

Closing Stock A/cDr.
 To Trading A/c
 (Being Closing stock transferred to Trading A/c)

2) Depreciation on assets : Depreciation means gradual and continuous decrease or reduction in the value of assets. This amount of depreciation is charged on fixed assets. It is treated as loss so it to debited to Profit & Loss account and to be deducted from respective asset. Entry will be as follows :

i) Depreciation A/cDr.
 To Respective Asset A/c
 (Being Depreciation charged on assets)

ii) Profit & Loss A/cDr.
 To Depreciation A/c
 (Being Depreciation transferred to Profit & Loss A/c)

3) **Outstanding expenses** : The expenses which have been incurred but not paid during the year. are unpaid expenses. Following journal entry is to be passed.

Expenses A/cDr.
 To Outstanding expenses A/c
 (Being amount of outstanding expenses A/c transferred to expenses A/c)

For Example : Rent, salary etc.

Outstanding expenses are included in respective expenses A/c on Trading account/Profit & Loss account and to be shown on Liability side of Balance sheet)

4) **Prepaid expenses (Unexpired expenses)** : The expenses paid in advance of the current year during is known as prepaid expenses and entry is as follows

Prepaid expenses A/c.....Dr.
 To Expenses A/c
 (Being amount of Prepaid expenses is debited to expenses A/c)

5) **Accrued Income (Outstanding Income):** The income which have been earned but not received during the year are outstanding income.

Outstanding Income A/c.....Dr.
 To Income A/c
 (Being Income Outstanding)

6) **Income received in advance**

(i) The income related to next accounting year but received in current year is known as income received in advance.

Income A/cDr.
 To Income received in advance A/c
 (Being income received in advance)

7) **Bad Debts** : The Debts which are irrecoverable is called Bad-debts. The amount of Bad debts is loss to business. So Bad debts is debited to Profit & Loss A/c and is to be deducted from Sundry Debtors, for which following Journal entries is to be passed -

i) Bad debts A/c.....Dr.
 To Sundry Debtors A/c
 (Being Bad debts written off)

ii) Profit & Loss A/cDr.
 To Bad debts A/c
 (Being Bad debts transferred to Profit & Loss A/c)

8) Reserve or Provision for Doubtful Debts : There are some debtors, of which recovery is doubtful. It may not be realised. For this purpose such provision is created which is known as Reserve for doubtful debts. This provision is created on the experiences of previous year. It is an anticipated loss therefore provision for doubtful debts is necessary.

i) Profit & Loss A/cDr.
 To Reserve for doubtful debts (R.D.D.) A/c
 (Being Provision of doubtful debts created)

9) Provision/Reserve for Discount on Debtors : It is an incentive to debtors for early payment. Such discount is also treated as loss. This discount is calculated on the amount of debtors (After deducting New Bad debts & New R.D.D.)

Profit & Loss A/c.....Dr.
 To Provision for discount on Debtors A/c
 (Being Provision for discount on Debtors created)

10) Provision/Reserve for Discount on Creditors : It is an incentive to make payment of creditors at the earliest. So discount received from creditors is treated as Profit or gain. So it is to be credited to Profit & Loss A/c and to be deducted from creditors from Balance Sheet. It is the only exception to the convention of conservatism.

Provision for discount on Creditors A/c.....Dr.
 To Profit & Loss A/c
 (Being Provision for discount on Creditors created)

Note : 1) When only Bad debts are given in Trial Balance it is debited to Profit & Loss A/c as it is loss.
2) When R.D.D. is given in Trial Balance, it is known as old R.D.D. [Existing R.D.D.]
3) When R.D.D. is given in adjustment, it is called New R.D.D.

11) Goods withdrawn by proprietor for Personal use : It refers to total amount of goods withdrawn by proprietor for personal use.

i) Drawings A/cDr.
 To Trading/Purchases A/c
 (Being goods withdrawn for personal use)

ii) Proprietor's Capital A/cDr.
 To Drawings A/c
 (Being balance of Drawings A/c transferred to Capital A/c)

12) Goods distributed as Free sample : Distribution of goods as a free sample is an advertisement. So amount of goods distributed as a free sample is to be debited to Profit and Loss account under the head of Advertisement (if any).

- i) Goods distributed as free sample A/c.....Dr.
 To Trading/Purchases A/c
(Being amount of goods distributed as free sample transferred to trading A/c)
- ii) Advertisement A/cDr.
 To Goods distributed as a free sample A/c
(Being amount of goods distributed as a free sample transferred to Advertisement A/c)

13) Interest on Capital :

- i) Interest on Capital A/cDr.
 To Capital A/c
(Being interest on capital provided)
- ii) Profit and Loss A/c.....Dr.
 To Interest on Capital A/c
(Being interest on capital transferred to capital A/c)

14) Interest on Drawings :

- i) Capital A/cDr.
 To Interest on Drawings A/c
(Being interest on Drawings charged)
- ii) Interest on Drawing A/cDr.
 To Profit and Loss A/c
(Being interest on Drawings transferred to Capital A/c)

Name of Adjustment	Journal Entries	Two Effects
1) Closing Stock	Closing Stock A/c Dr To Trading A/c	1) Credit side of Trading A/c 2) Shown on Assets side of Balance Sheet
2) Depreciation	1) Depreciation A/c..... Dr To Asset A/c 2) Profit & Loss A/c Dr To Depreciation A/c	1) Debit side of Profit & Loss A/c 2) Deducted from particular Assets on assets side of Balance sheet
3) Outstanding or Unpaid Expenses	Expenses A/c Dr To Outstanding expenses A/c	1) Add to particular expenses on Trading or Profit and Loss A/c 2) Shown on Liability side of Balance Sheet.
4) Prepaid Expenses	Prepaid Expenses A/c..... Dr To Expenses A/c	1) Less from that particular expenses on Trading or Profit & Loss A/c 2) Shown on Assets side of Balance sheet

5) Accrued Income/ Outstanding Income	Accrued Income A/c.....Dr To Income A/c	1) Add to particular income on credit side of Profit & Loss A/c 2) Shown on Assets side of Balance sheet.
6) Pre-received Income	Income A/c Dr To Pre-received Income /c	1) Less from particular income on credit side of Profit & Loss A/c 2) Shown on Liabilities side of Balance sheet
7) Bad debts	1) Bad debts A/c..... Dr To Debtors A/c 2) Profit & Loss A/c Dr To Bad debts A/c	1) Debit side of Profit & Loss A/c (New R.D.D + Bad debts) 2) Deducted from Sundry debtors on assets side.
8) R.D.D (Reserve for doubtful debts)	Profit & Loss A/c Dr To R.D.D. A/c	1) Debit side of Profit & Loss A/c 2) Deducted from Sundry debtors on assets side.
9) Provision for Discount on Debtors	Profit & Loss A/c. Dr To Provision for discount on debtors A/c	1) Debit side of Profit & Loss A/c 2) Deducted from Sundry debtors on Assets Side of Balance Sheet.
10)Provision for Discount on Creditors	Provision for discount on creditors A/c..... Dr To Profit & Loss A/c	1) Credit side of Profit & Loss A/c 2) Deducted from Sundry creditors on liabilities side of Balance sheet
11) Goods taken by proprietor for personal use	1) Drawings A/c. Dr To Trading A/c or Purchases A/c 2) Proprietor's Capital A/c...Dr. To Drawing A/c	1) Credit side of Trading or deducted from purchases A/c 2) Deducted from capital on Liability side
12) Goods distributed as free sample	1) Goods distributed as free sample A/c..... Dr To Trading A/c or Purchases A/c 2) Advertisement A/c...Dr. To Goods distributed as free sample A/c (To Purchases A/c)	1) Credit side of Trading or deducted from purchases A/c 2) Debited to Profit & Loss A/c
13)Interest on Capital	Profit & Loss A/c. Dr To Capital A/c	1) Debit side of Profit & Loss A/c 2) Add to Capital, Liability side of Balance sheet.
14) Interest on Drawings	Capital A/c. Dr To Profit & Loss A/c	1) Credit side of Profit & Loss A/c 2) Add to Drawings/Less from Capital.

Illustration 1

From the following Trial Balance of Bharadwaj & Sons prepare Trading and Profit & Loss Account for the year ended and Balance Sheet as on 31st March, 2019.

Trial Balance As on 31.3.2019

Debit balance	Amt (₹)	Credit balance	Amt (₹)
Royalties	4,000	Sundry Creditors	56,000
Drawings	10,000	Sales	81,000
Wages	6,000	Purchase Returns	3,000
Purchases	71,000	Capital	2,50,000
Cash	10,000	Bills payable	20,000
Sales Returns	5,000	Bank Overdraft	40,000
Bank	40,000		
Insurance	1,000		
Furniture	34,000		
Buildings	1,20,000		
Sundry Debtors	1,00,000		
Bad debts	1,000		
Sundry Expenses	3,000		
Travelling Expenses	2,000		
Opening Stock	24,000		
Carriage Outwards	1,600		
Rent	1,000		
Carriage Inward	400		
Salaries	16,000		
	4,50,000		4,50,000

Additional Information :

Closing Stock - ₹ 54,000

Solution :

In the Books of Bhardwaj & Sons

Trading Account and Profit and loss Account for the year ended 31st March 2019

Dr.

Cr.

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Opening Stock		24,000	By Sales	81,000	
To Purchases	71,000		Less : Sales Return	5,000	76,000
Less : Purchase Return	3,000	68,000			
To Royalties		4,000			
To Wages		6,000	By Closing Stock		54,000
To Carriage Inward		400			
To Gross Profit c/d		27,600			
		1,30,000			1,30,000
To Salaries		16,000	By Gross Profit b/d		27,600
To Rent		1,000			
To Sundry Expenses		3,000			
To Insurance		1,000			
To Bad debts		1,000			
To Travelling Expenses		2,000			
To Carriage Outwards		1,600			
To Net Profit (Transferred to Capital A/c)		2,000			
		27,600			27,600

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital	2,50,000		Buildings		1,20,000
Add : Net Profit	2,000		Furniture		34,000
	2,52,000		Sundry Debtors		1,00,000
Less : Drawings	10,000	2,42,000	Bank		40,000
Sundry Creditors		56,000	Cash		10,000
Bills Payable		20,000	Closing stock		54,000
Bank Overdraft		40,000			
		3,58,000			3,58,000

Illustration 2

From the following Trial Balance of Mangesh Traders you are required to prepare Final Accounts.

Trial Balance as on 31st March, 2018

Particulars	Debit (₹)	Credit (₹)
Opening stock	32,750	
Purchases	55,000	
Sales		89,500
Purchases Returns		2,630
Sales Returns	4,480	
Royalties	4,000	
Wages & Salaries	8,000	
Office Salaries	11,000	
Bills Receivable	19,250	
Bills Payable		12,500
Office Equipments	20,000	
Motor Van	30,400	
Plant and Machinery	25,000	
Bad Debts	2,500	
Advertisement	6,000	
Cash in Hand	5,000	
Sundry Debtors	31,250	
Reserve for Bad debts		1,000
Sundry Creditors		24,000
Capital		1,25,000
	2,54,630	2,54,630

Adjustments :

- 1) Closing Stock on 31st March, 2018 was valued at cost price ₹ 19,000, Market price ₹ 20,000
- 2) Office Salaries outstanding ₹ 1,000
- 3) Prepaid Wages ₹1,000
- 4) Provide depreciation @ 5%, 10% and 15% on Office Equipments, Motor Van and Plant and Machinery respectively.

Solution :

In the Books of Mangesh Traders

Trading Account and Profit and loss Account for the year ended 31st March 2018

Dr.

Cr.

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Opening Stock		32,750	By Sales	89,500	
To Purchases	55,000		Less : Sales Return	4,480	85,020
Less : Purchase Return	2,630	52,370			
To Wages and Salaries	8,000		By Closing Stock		19,000
Less : Prepaid Wages	1,000	7,000			
To Royalties		4,000			
To Gross Profit c/d		7,900			
		1,04,020			1,04,020
To Office Salaries	11,000		By Gross Profit b/d		7,900
Add : Outstanding Salary	1,000	12,000	By Reserve for Bad Debts.		1,000
To Bad debts		2,500	By Net Loss (Transferred to Capital A/c)		19,390
To Depreciation on					
- Office Equipments	1,000				
- Motor Van	3,040	7,790			
- Plant & Machinery	3,750				
To Advertisement		6,000			
		28,290			28,290

Balance Sheet as on 31st March, 2018

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital	1,25,000	1,05,610	Office Equipments	20,000	19,000
Less : Net Loss	19,390		Less : Depreciation 5%	1,000	
Outstanding Salaries		1,000	Motor Van	30,400	27,360
Bills Payable		12,500	Less : 10% Depreciation	3,040	
Sundry Creditors		24,000	Bills Receivable		19,250
			Plant & Machinery	25,000	21,250
			Less : 10% Depreciation	3,750	
			Debtors		31,250
			Closing Stock		19,000
			Prepaid Wages		1,000
			Cash in hand		5,000
		1,43,110			1,43,110

Depreciation :

- 1) 5% on ₹ 20,000 (Office Equipments) $20,000 \times 5/100$,
So Depreciation on Office Equipments is ₹ 1,000
- 2) 10% on ₹ 30,400 (Motor Van $30,400 \times 10/100$,
So Depreciation on Motor van is ₹ 3,040
- 3) 15% on ₹ 25,000 (Plant and Machinery) $25,000 \times 15/100$,
So Depreciation on Plant and Machinery is ₹ 3,750

Illustration 03

From the following Trial Balance of Reena Enterprises you are required to prepare Trading Account, Profit & Loss Account for the year ending on 31st March, 2018 and Balance Sheet as on that date

Trial Balance as on 31st March, 2018

Particulars	Debit (₹)	Credit (₹)
Opening Stock	45,200	
Capital		3,00,000
Drawings	20,000	
Furniture	60,000	
Prepaid Insurance	1,770	
Debtors & Creditors	70,000	1,29,250
Purchases & Sales	57,000	1,20,000
Plant & Machinery	50,000	
Investment	68,000	
Factory Insurance	26,000	
Audit Fees	21,000	
Carriage Inward	1,800	
Land & Building	1,40,000	
Rent	7,120	
Reserve for Bad debts		6,000
Carriage Outward	8,360	
Returns	2,000	9,000
Discount	1,000	7,000
Commission Received		8,000
	5,79,250	5,79,250

Adjustments :

- 1) Write off Bad debts ₹ 2,000 and Provide 2.5% reserve for bad debts on debtors.
- 2) Closing stock valued at Cost Price ₹ 46,000 and Market price ₹ 40,000
- 3) Provide Depreciation @ 5% on Building and 10% on Machinery.
- 4) Rent prepaid ₹ 3,560
- 5) Outstanding Carriage Inward is ₹ 1,200

Solution :

In the Books of Reena Enterprises

Dr. Trading Account and Profit and loss Account for the year ended 31st March 2018 Cr.

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Opening Stock		45,200	By Sales	1,20,000	
To Purchases	57,000		Less : Sales Return	2,000	1,18,000
Less : Purchase Return	9,000	48,000			
To Factory Insurance		26,000			
To Carriage Inward	1,800		By Closing Stock		40,000
Add : Outstanding	1,200	3,000			
To Gross Profit c/d		35,800			
		1,58,000			1,58,000
To Audit fees		21,000	By Gross Profit b/d		35,800
To Rent	7,120		By Discount		7,000
Less : Prepaid Rent	3,560	3,560	By R.D.D. (Old)	6,000	
To Depreciation			Less : R.D.D. (New)	1,700	
- Land & Building	7,000			4,300	
- Plant & Machinery	5,000	12,000	Less : Bad Debts (New)	2,000	2,300
To Carriage Outward		8,360	By Commission		8,000
To Discount		1,000	Received		
To Net Profit		7,180			
(Transferred to Capital A/c)					
		53,100			53,100

Balance Sheet as on 31st March, 2018

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital	3,00,000		Sundry Debtors	70,000	
Add: Net Profit	7,180		Less : Bad Debts	2,000	
	3,07,180			68,000	
Less : Drawings	20,000	2,87,180	Less : 2.5% R.D.D.	1,700	66,300
Creditors		1,29,250	Land & Building	1,40,000	
Outstanding Carriage Inward		1,200	Less : 5% Depreciation	7,000	1,33,000
			Plant & Machinery	50,000	
			Less : 10% Depreciation	5,000	45,000
			Prepaid Rent		3,560
			Prepaid Insurance		1,770
			Furniture		60,000
			Investment		68,000
			Closing Stock		40,000
		4,17,630			4,17,630

Illustration 4

From the following Trial Balance of Khandwala Enterprises prepare Final Accounts.

Trial Balance as on 31st March, 2018

Particulars	Debit (₹)	Credit (₹)
Capital		55,000
Drawings	3,000	
Opening stock	16,400	
Purchases	31,100	
Direct Expenses	2,500	
Sales		50,000
Returns	1,980	
Rent & taxes	6,000	
Bad Debts	400	
Reserve for bad debts		1,500
Discount	2,375	
Commission received		255
Debtors and Creditors	20,250	18,500
Furniture	6,000	
Machinery	12,000	
Goodwill	7,500	
Wages & Salaries	7,000	
Salaries (for 10 months)	5,000	
Advertisement	9,000	
Investment in Debentures	8,500	
Loans and Advances		13,750
	1,39,005	1,39,005

Adjustments :

- 1) Closing Stock ₹17,250
- 2) Rent of ₹ 4,000 has been prepaid
- 3) Provide 2% reserve for Bad Debts on Debtors. It was realised that our Debtor worth ₹ 1,000 proved to be bad and has to be written off.
- 4) Write off Depreciation @ 7.5% on Machinery and 15% on Furniture.
- 5) Create discount on Creditors @ 3%

Solution :

In the Books of Khandwala Enterprises

Dr. Trading Account and Profit and loss Account for the year ended 31st March 2018 Cr.

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Opening Stock		16,400	By Sales	50,000	
To Purchases		31,100	Less : Sales Return	1,980	48,020
To Direct Expenses		2,500			
To Wages & Salaries		7,000			
To Gross Profit c/d		8,270	By Closing Stock		17,250
		65,270			65,270
To Salaries	5,000		By Gross Profit b/d		8,270
Add : Outstanding salaries	1,000	6,000	By Discount on		555
To Rent & Taxes	6,000		Creditors		
Less : Prepaid Rent	4,000	2,000	By Commission		255
To Depreciation on			received		
- Machinery	900		By Net Loss		12,380
- Furniture	900	1,800	(Transferred to Capital		
To Discount		2,375	A/c)		
To Advertisement		9,000			
To Bad Debts (Old)	400				
Add : Bad Debts (New)	1,000				
Add : R.D.D. (New)	385				
	1,785				
Less : R.D.D. (Old)	1,500	285			
		21,460			21,460

Balance Sheet as on 31st March, 2018

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital	55,000		Machinery	12,000	
Less: Net Loss	12,380		Less : Depreciation 7.5%	900	11,100
	42,620		Furniture	6,000	
Less : Drawings	3,000	39,620	Less : Depreciation 15%	900	5,100
Creditors	18,500		Debtors	20,250	
Less : Reserve for	555	17,945	Less : Bad Debts	1,000	
Discount on creditors				19,250	
(W.N)			Less : R.D.D. 2% (W.N.)	385	18,865
		13,750	Closing Stock		17,250
Outstanding Salary		1,000	Prepaid Rent		4,000
Loans & Advances		13,750	Goodwill		7,500
			Investment in Debentures		8,500
		72,315			72,315

Working note :

- 1) In Trial Balance Salaries are given ₹ 5,000 for 10 months and 2 months are outstanding. Therefore 2 months outstanding amount will be ₹ 1,000

Salaries	₹ 5,000	
Add : outstanding	<u>₹ 1,000</u>	₹ 6,000

- 2) R.D.D. - 2% on 19,250 = ₹ 385
 3) 3% Reserve for discount on creditors - 3% on 18,500 = ₹ 555

Illustration 5

From the following Trial Balance of Omkar you are required to prepare Trading Account and Profit and Loss Account for the year ending on 31st March 2018 and Balance Sheet as on that date.

Trial Balance as on 31st March, 2018

Debit Balances	Amt (₹)	Credit Balances	Amt (₹)
Debtors	45,000	Capital	1,20,000
Opening Stock	11,550	Sales	60,750
Purchases	53,250	Return Outward	450
Sales Return	1,050	Dividend Received	2,250
Bad debts	600	Creditors	37,500
Rent. Rates & taxes	2,670	Bank Overdraft	24,000
Insurance	2,400	R.D.D.	1,200
Office Equipments	42,900		
Furniture & Fixtures	28,500		
Cash at Bank	32,280		
Legal Expenses	3,000		
Advertisement	1,800		
Brokerage	2,100		
Drawings	3,000		
Wages	2,250		
Coal, Gas, Fuel & Water	1,800		
Machinery	12,000		
	2,46,150		2,46,150

Adjustments :

- 1) Closing Stock valued at ₹. 42,000.
- 2) Write off ₹ 1,200 Bad Debts and create a provision for bad & doubtful debts at 2% on debtors.
- 3) Outstanding expenses - Legal Expenses ₹ 750 and Wages ₹ 225
- 4) Charge depreciation on Office Equipments 2.5% and Machinery 5%.
- 5) Prepaid - Insurance ₹ 900

Solution :

In the Books of Omkar

Trading Account and Profit and loss Account for the year ended 31st March 2018

Dr.

Cr.

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Opening Stock		11,550	By Sales	60,750	
To Purchases	53,250		Less : Sales Return	1,050	59,700
Less : Purchase Return	450	52,800			
To Wages	2,250				
Add : Outstanding Wages	225	2,475	By Closing Stock		42,000
To Coal, Gas, Fuel & Water		1,800			
To Gross Profit c/d		33,075			
		1,01,700			1,01,700
To Legal Expenses	3,000		By Gross Profit b/d		33,075
Add : Outstanding	750	3,750	By Dividend Received		2,250
To Insurance	2,400				
Less : Prepaid	900	1,500			
To Depreciation					
Office Equipments	1,073				
Machinery	600	1,673			
To Rent, Rates and Taxes		2,670			
To Advertisement		1,800			
To Bad Debts (New)	1,200				
Add : Bad debts (Old)	600				
Add : R.D.D. (New)	876				
		2,676			
Less : R.D.D. (Old)	1,200	1,476			
To Brokerage		2,100			
To Net Profit (Transferred to Capital A/c)		20,356			
		35,325			35,325

Balance Sheet as on 31st March, 2018

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)		
Capital	1,20,000	1,37,356	Office Equipments	42,900	41,827		
Add: Net Profit	20,356		Less : Depreciation 2.5%	1,073			
	1,40,356		Machinery	12,000			
Less : Drawings	3,000		Less : 5% Depreciation	600		11,400	
Creditors			Furniture & Fixtures			28,500	
Outstanding Exp.			Debtors	45,000			
Legal Expenses	750		Less : Bad Debts (New)	1,200			
Wages	225			43,800			
Bank Overdraft			24,000	Less : 2% R.D.D. (New)		876	42,924
				Prepaid Insurance			900
			Cash at Bank		32,280		
			Closing Stock		42,000		
		1,99,831			1,99,831		

Illustration 6

From the following Trial Balance and information given to you, prepare Trading Account, Profit & Loss Account & Balance Sheet as on 31st March, 2018 in the books of M/s Abhay.

Trial Balance as on 31st March, 2018

Debit Balances	Amt (₹)	Amt (₹)
Capital		2,28,000
Furniture	40,000	
Insurance	10,000	
Salaries	17,000	
Carriage Inward	1,000	
Rent. Rates and Taxes	7,000	
Machinery	50,000	
Wages	8,000	
Drawings	14,000	
Carriage Outward	5,600	
Purchases & Sales	62,000	1,71,000
Stock (1/4/2017)	31,000	
Returns	5,000	6,300
Rent received		6,000
Discount Received		1700

R.D.D.		5,000
Bad debts	2,000	
Advertisements	10,900	
Debtors and Creditors	90,000	54,000
Bills Receivable	36,000	
Cash at Bank	8,500	
6% Bank Loan (taken on 1/10/2017)		50,000
Brokerage	4,000	
Loose Tools	36,000	
Bills Payable		16,000
Goodwill	1,00,000	
	5,38,000	5,38,000

Adjustments :

- 1) Closing Stock cost price ₹ 37,000 and Market price ₹ 40,000
- 2) Provide for R.D.D. @ 5% on Sundry Debtors.
- 3) Outstanding expenses - Wages - ₹ 3,000, Salary - ₹ 3,600
- 4) Provide depreciation on Machinery @ 10% and Furniture 5%.
- 5) Allowed Interest on Capital 5% p.a.
- 6) Prepaid Insurance ₹ 2,000

Solution :

In the Books of M/s Abhay

Trading Account and Profit and loss Account for the year ended 31st March 2018

Dr.

Cr.

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Opening Stock		31,000	By Sales	1,71,000	
To Purchases	62,000		Less : Sales Return	5,000	1,66,000
Less : Purchase Return	6,300	55,700			
To Wages	8,000		By Closing Stock		37,000
Add : Outstanding	3,000	11,000			
To Carriage Inward		1,000			
To Gross Profit c/d		1,04,300			
		2,03,000			2,03,000

To Salaries	17,000		By Gross Profit b/d	1,04,300
Add : Outstanding Salaries	3,600	20,600	By Discount Received	1,700
To Int. on Capital		11,400	By Rent Received	6,000
To Bad debts (Old)	2,000			
Add : R.D.D. (New)	4,500			
	6,500			
Less : R.D.D. (old)	5,000	1,500		
To Depreciation on Machinery	5,000			
Furniture	2,000	7,000		
To Insurance	10,000			
Less : Prepaid Insurance	2,000	8,000		
To Rent, Rates and Taxes		7,000		
To Carriage Outward		5,600		
To Advertisement		10,900		
To Int. on Bank Loan		1,500		
To Brokerage		4,000		
To Net Profit (Transferred to Capital A/c)		34,500		
		1,12,000		1,12,000

Balance Sheet as on 31st March, 2018

Liabilities	Amount	Amount	Assets	Amount	Amount
	(₹)	(₹)		(₹)	(₹)
Capital	2,28,000		Machinery	50,000	
Add : Int on Capital	11,400		Less : Depreciation 10%	5,000	45,000
	2,39,400		Furniture	40,000	
Add: Net Profit	34,500		Less : Depreciation 5%	2,000	38,000
	2,73,900		Bills Receivable		36,000
Less : Drawings	14,000	2,59,900	Closing Stock		37,000
6% Bank Loan	50,000		Sundry Debtors	90,000	
Add :Outstanding Int.	1,500	51,500	Less : R.D.D. 5%	4,500	85,500
Creditors		54,000	Cash at Bank		8,500
Outstanding Exp :			Loose Tools		36,000
Salaries	3,600		Goodwill		1,00,000
Wages	3,000	6,600	Prepaid Insurance		2,000
Bills Payable		16,000			
		3,88,000			3,88,000

Working Note :

- 1) Interest on Capital 5% p.a. on ₹ 2,28,000 = ₹ 11,400
- 2) Hidden Adjustment in Trial Balance
6% Bank Loan, taken on 1st Oct, 2017 - ₹ 50,000
Interest should be charged for 6 months only.
6% on ₹ 50,000 for 6 months = ₹ 1,500

Illustration 7

From the following Trial Balance and additional information given of M/s Laxmi Enterprises you are required to prepare Trading Account. Profit & Loss Account for the year ending 31st March, 2019 and Balance Sheet as on that date.

In the books of M/s Laxmi Enterprises

Trial Balance as on 31st March, 2019

Debit Balances	Amt (₹)	Credit Balances	Amt (₹)
Machinery	1,00,000	Discount	2,000
Sundry Debtors	1,20,800	Sales	77,500
Furniture	36,000	Purchases Returns	4,800
Stock (1st April, 2018)	20,000	Creditors	52,000
Wages	1,800	10% Bank Loan (taken on 1st Oct. 2018)	76,000
Electricity Charges	4,600	R.D.D.	1,600
Insurance	5,000	Bank Overdraft	53,300
Factory Rent	4,600	Capital	1,00,000
Travelling Expenses	3,600		
Advertisement	2,500		
Office Rent	3,000		
Purchases	49,300		
Sales Returns	2,800		
Bad Debts	1,200		
Drawings	12,000		
	3,67,200		3,67,200

Adjustments :

- 1) Stock as on 31st March 2019, amounted to ₹ 57,000
- 2) Depreciate Machinery and Furniture @ 5%
- 3) Unexpired Insurance ₹ 1,000.
- 4) ₹ 800 are written off as bad debts and create a Provision for Reserve for Doubtful Debts 5% on Sundry Debtors and Reserve for Discount on Debtors 2% and discount on Creditors 3%.
- 5) Outstanding Expenses - Wages ₹ 2,200 and Office Rent ₹ 1,400.
- 6) Goods withdrawn worth ₹ 2,000 by owner for personal use.

Solution : **In the Books of M/s Laxmi Enterprises**
Trading Account and Profit and loss Account for the year ended 31st March 2019

Dr.

Cr.

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Opening Stock		20,000	By Sales	77,500	
To Purchases	49,300		Less : Sales Return	2,800	74,700
Less : Purchase Return	4,800	44,500			
To Wages	1,800		By Goods withdrawn for personal use		2,000
Add : Outstanding Wages	2,200	4,000	By Closing Stock		57,000
To Factory Rent		4,600			
To Gross Profit c/d		60,600			
		1,33,700			1,33,700
To Office Rent	3,000		By Gross Profit b/d		60,600
Add : Outstanding Rent	1,400	4,400	By Discount received		2,000
To Electricity Charges		4,600	By Provision for Discount on Creditors		1,560
To Insurance	5,000				
Less : Prepaid Insurance	1,000	4,000			
To Travelling Expenses		3,600			
To Depreciation on :					
Machinery	5,000				
Furniture	1,800	6,800			
To Bad debts (Old)	1,200				
Add : Bad debts (New)	800				
Add : R.D.D. (New)	6,000				
		8,000			
Less : R.D.D. (Old)	1,600	6,400			
To Provision for Discount on Debtors		2,280			
To Advertisement		2,500			
To Interest on Bank Loan		3,800			
To Net Profit (Transferred to Capital A/c)		25,780			
		64,160			64,160

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital	1,00,000		Machinery	1,00,000	
Add : Net Profit	25,780		Less : Depreciation 5%	5,000	95,000
	1,25,780		Furniture	36,000	
Less : Drawings (12,000 + 2,000)	14,000	1,11,780	Less : 5% Depreciation	1,800	34,200
Outstanding Exp :			Prepaid Insurance		1,000
Wages	2,200		Sundry Debtors	1,20,800	
Office Rent	1,400	3,600	Less : Bad debts	800	
Creditors	52,000		Less : RDD. 5%	6,000	
less : Discount on Creditors 3%	1,560	50,440	Less 2% Provision for discount	2,280	1,11,720
10% Bank Loan	76,000		Closing Stock		57,000
Add : Interest Outstanding	3,800	79,800			
Bank Overdraft		53,300			
		2,98,920			2,98,920

Illustration 8

Shreyas requested you, to prepare Trading Account, Profit & Loss Account for the year ended on 31st, March 2018. and Balance Sheet as on that date.

Trial Balance as on 31st March, 2018

Debit Balances	Amt (₹)	Credit Balances	Amt (₹)
Opening Stock	14,400	Creditors	19,300
Debtors	30,000	Returns outward	750
Returns Inward	1,650	Sales	20,000
Rent, Rates & Insurance	2,250	Discount	365
Productive Wages	2,525	Capital	75,000
Discount	390	Outstanding Interest	650
Interest	475	Loan	7,500
Loss by fire	1,650		
Salaries	1,850		
Purchases	24,350		
Drawings	2,500		
Carriage Outward	1,275		
Loose Tools	17,500		
Plant & Machinery	14,000		
Cash in hand	1,250		
Cash at Bank	7,500		
	1,23,565		1,23,565

Adjustments :

- 1) Stock as on 31st March 2018, amounted to ₹48,500
- 2) Charge depreciation on Loose Tools @ 10% and on Plant & Machinery @ 15%
- 3) Prepaid Insurance amounted to ₹ 500 and outstanding Rent ₹ 400.
- 4) Charge Interest on Capital @ 5% and on Drawings 7%
- 5) Outstanding Salary ₹ 650

Solution :**In the Books of Shreyas****Trading Account and Profit and loss Account for the year ended 31st March 2018****Dr.****Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Opening Stock		14,400	By Sales	20,000	
To Purchases	24,350		Less : Sales Return	1,650	18,350
Less : Purchase Return	750	23,600			
To Productive Wages		2,525	By Closing Stock		48,500
To Gross Profit c/d		26,325			
		66,850			66,850
To Rent, Rates & Insurance	2,250		By Gross Profit c/d		26,325
Add : Outstanding Rent	400		By Discount Received		365
	2,650		By Interest on		88
Less : Prepaid Insurance	500	2,150	Drawings		
To Discount		390			
To Interest on Capital		3,750			
To Depreciation on :					
Loose Tools	1,750				
Plant & Machinery	2,100	3,850			
To Interest		475			
To Salaries	1,850				
Add : Outstanding Salary	650	2,500			
To Loss by Fire		1,650			
To Carriage Outwards		1,275			
To Net Profit		10,738			
(Transferred to Capital A/c)					
		26,778			26,778

Balance Sheet as on 31st March, 2018

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital	75,000		Loose Tools	17,500	
Add : Net Profit	10,738		Less : Depreciation 10%	1,750	15,750
Add : Interest 5% on Capital	3,750		Plant & Machinery	14,000	
Less : Drawings	2,500		Less : Depreciation 15%	2,100	11,900
	89,488		Cash at Bank		7,500
Less : Int on Drawings	88	86,900	Closing Stock		48,500
Creditors		19,300	Prepaid Insurance		500
Loan		7,500	Debtors		30,000
Outstanding Interest		650	Cash in hand		1,250
Outstanding Rent		400			
Outstanding Salary		650			
		1,15,400			1,15,400

Note : Interest on Drawing is charged for 6 months only as date of Drawing is not given.

Amount of Drawing given in Trial Balance is ₹ 2,500, So 7% on 2500 = 175

Interest on Drawing is charged for 6 months only; Therefore $175/2 = 88$.

It means, Drawings ₹ 2,500 + 88 = 2,588

Illustration 9

From the following Trial Balance of Kisan Traders prepare Trading Account, Profit & Loss Account for the year ended on 31st, March 2019. and Balance Sheet as on that date.

Trial Balance as on 31st March, 2019

Debit Balances	Amt (₹)	Credit Balances	Amt (₹)
Stock (1.4.2018)	1,50,000	Sundry Creditors	2,00,000
Purchases	8,50,000	Bank Overdraft	1,80,000
Wages	1,20,000	Interest Received	60,000
Indirect Expenses	80,000	Reserve for doubtful debts	10,000
Return Inward	20,000	Sales	13,95,300
Power & Fuel	95,000	Returns Outward	30,000
Advertisement	70,000	Capital	6,00,000
Travelling Expenses	30,000		
Sundry Debtors	2,20,000		
Plant & Machinery	1,80,000		
Printing & Stationery	18,000		
Computers & Printers	5,20,000		
Insurance Premium	20,000		
Cash in hand	42,300		
Bad Debts	11,000		
Drawings	49,000		
	24,75,300		24,75,300

Adjustments :

- 1) Closing Stock is valued at ₹ 2,80,000
- 2) Wages unpaid ₹ 30,000, Indirect Expenses outstanding ₹ 22,000.
- 3) Machinery includes ₹ 40,000 for the purchase of a new Machinery on 1st Oct, 2018 depreciate Plant and Machinery at 10% and Computers & Printers at 10%.
- 4) Reserve for doubtful debts is to be maintained at 5%.
- 5) Insurance Premium is paid for one year up to 30th June, 2019.
- 6) Travelling expenses include ₹ 10,000 for personal travelling expenses of owner.

Solution :

In the Books of Kisan Traders

Trading Account and Profit and loss Account for the year ended 31st March 2019

Dr.

Cr.

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Opening Stock		1,50,000	By Sales	13,95,300	
To Purchases	8,50,000		Less : Sales Return	20,000	13,75,300
Less : Purchase Return	30,000	8,20,000			
To Wages	1,20,000				2,80,000
Add : Unpaid wages	30,000	1,50,000	By Closing Stock		
To Power & Fuel		95,000			
To Gross Profit c/d		4,40,300			
		16,55,300			16,55,300
To Indirect Expenses	80,000		By Gross Profit b/d		4,40,300
Add : Outstanding	22,000	1,02,000	By Interest		60,000
To Advertisement		70,000	Received		
To Travelling expenses	30,000				
Less : Personal	10,000	20,000			
Travelling					
To Printing & Stationery		18,000			
To Insurance Premium	20,000				
Less : Prepaid Insurance	5,000	15,000			
To Bad Debts	11,000				
Add : New R.D.D.	11,000				
	22,000				
Less : Old R.D.D.	10,000	12,000			
To Depreciation on :					
Plant & Machinery	16,000				
Buildings	52,000	68,000			
To Net Profit		1,95,300			
(Transfer to Capital A/c)					
		5,00,300			5,00,300

Balance Sheet of Kishan Traders as on 31st March, 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital	6,00,000		Cash in hand		42,300
Less : Drawings	49,000		Sundry Debtors	2,20,000	
Less : Drawings	10,000		Less : 5% New R.D.D.	11,000	2,09,000
(Travelling expenses)	5,41,000		Plant & Machinery	1,80,000	
Add : Net Profit	1,95,300	7,36,300	Less : Depreciation (WN)	16,000	1,64,000
Sundry Creditors		2,00,000	Computers & Printers	5,20,000	
Bank Overdraft		1,80,000	Less : 10% Depreciation	52,000	4,68,000
Outstanding expenses			Closing Stock		2,80,000
Wages	30,000		Prepaid Insurance		5,000
Indirect Expenses	22,000	52,000			
		11,68,300			11,68,300

Working Note :

1) Insurance Premium for 1 year ₹ 20,000 paid upt 30th June 2019.

Prepaid Insurance for 3 months $20,000/1 \times 3/12 = ₹ 5,000$

2) New R.D.D. is 5% on Debtors

i.e. $2,20,000/1 \times 5/100 = 11,000$

3) Balance on Machinery A/c ₹ 1,80,000

Cost of New Machinery

Purchased on 1st Oct. 2018 ₹ 40,000

Balance of old Machinery ₹ 1,40,000

a) Depreciation on old Machinery for 12 months

$1,40,000/1 \times 10/100$ ₹ 14,000

Add : b) Depreciation on New Machinery

(for 6 months)

$40,000/1 \times 10/100 \times 6/12$ ₹ 2,000

₹ 16,000

Total Depreciation on Machinery is ₹ 16,000

Illustration 10

Prepare Trading, Profit and Loss Account and Balance Sheet in the Books of Arun J. with the help of following information and Trial Balance given below for the year ending 31st March, 2019.

Trial Balance as on 31st March, 2019

Debit Balances	Amt (₹)	Credit Balances	Amt (₹)
Debtors	24,000	Capital	25,000
Opening Stock	8,000	Sales	20,000
Royalties	1,500	Creditors	10,000
Wages	1,000	Returns	1,000
Salaries	2,500	Loans & Advances	8,000
Drawings	3,000	Bills Payable	12,000
Goodwill	8,000	Interest Received	1,000
Returns	500		
Telephone Charges	1,000		
Carriage Inwards	1,000		
Carriage Outward	1,000		
Trade Expenses	500		
Insurance	2,000		
Plant & Machinery	6,000		
Furniture	5,000		
Purchases	12,000		
	77,000		77,000

Adjustments :

- 1) Closing Stock is valued at Cost Price ₹ 13,000 where as Market Price ₹ 15,000
- 2) Depreciate Plant & Machinery by 5% and Furniture by 10%
- 3) Insurance ₹ 700 is unexpired.
- 4) Outstanding Salary and Wages ₹ 800 and ₹ 1,000 respectively.
- 5) R.D.D. is to be created 5% on Sundry Debtors
- 6) Goods of ₹ 3,000 distributed as free sample

Solution :

In the Books of Arun

Dr. Trading Account and Profit and loss Account for the year ended 31st March 2019 Cr.

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Opening Stock		8,000	By Sales	20,000	
To Purchases	12,000		Less : Sales Return	500	19,500
Less : Returns	1,000	11,000			
To Royalties		1,500			
To Wages	1,000		By Closing Stock		13,000
Add : Outstanding	1,000	2,000	By Goods distributed as free sample		3,000
To Carriage Inwards		1,000			
To Gross Profit c/d		12,000			
		35,500			35,500
To Insurance	2,000		By Gross Profit b/d		12,000
Less : Prepaid	700	1,300	By Interest Received		1,000
To Salaries	2,500				
Add : Outstanding	800	3,300			
To Depreciation on : Plant & Machinery	300				
Furniture	500	800			
To R.D.D.		1,200			
To Telephone Charges		1,000			
To Carriage Outward		1,000			
To Trade Expenses		500			
To Advertisements (Goods distributed as free sample)		3,000			
To Net Profit (Transfer to Capital A/c)		900			
		13,000			13,000

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital	25,000		Closing Stock		13,000
Add : Net Profit	900		Plant & Machinery	6,000	
	25,900		Less : depreciation 5%	300	5,700
Less : Drawings	3,000	22,900	Furniture	5,000	
Creditors		10,000	Less : Depreciation 10%	500	4,500
Outstanding Expenses			Prepaid Insurance		700
Salaries	800		Goodwill		8,000
Wages	1,000	1,800	Debtors	24,000	
Loans & Advances		8,000	Less : R.D.D. 5%	1,200	22,800
Bills Payables		12,000			
		54,700			54,700

Illustration 11

From the following Trial Balance of Pravin & Sons prepare Trading Account, Profit & Loss Account for the year ended on 31st, March 2019. and Balance Sheet as on that date.

Trial Balance as on 31st March, 2019

Debit Balances	Amt (₹)	Credit Balances	Amt (₹)
Cash	4,000	R.D.D.	1,600
Wages	6,000	Creditors	50,280
Interest	3,000	Sales	62,000
Salaries	12,000	Purchase Returns	1,720
Drawings	10,000	Bank Overdraft	20,000
Advertisement	1,200	Commission Received	2,800
Machinery	51,000	Capital	1,00,000
Printing & Stationery	1,200		
Debtors	76,000		
Sales Returns	1,500		
Opening Stock	10,000		
Purchases	54,500		
Bad Debts	1,920		
Discount	2,080		
Rent	4,000		
	2,38,400		2,38,400

Adjustments :

- 1) Closing Stock is valued at ₹ 84,000
- 2) Wages include ₹ 800 being advance given to workers.
- 3) Outstanding expenses Salaries ₹ 3,600 and Rent ₹ 3,000
- 4) Write off ₹ 2,000 as bad debts, and create a provision for doubtful debts 3% on Debtors.
- 5) Amount of Machinery is reduced to ₹ 48,000
- 6) Charge Interest on Capital 5% p.a.

Solution :

In the Books of Pravin & Sons

Dr. Trading Account and Profit and loss Account for the year ended 31st March 2019 Cr.

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Opening Stock		10,000	By Sales	62,000	
To Purchases	64,500		Less : Sales Return	1,500	60,500
Less : Purchase Return	1,720	62,780			
To Wages	6,000		By Closing Stock		84,000
Less : Advance paid	800	5,200			
To Gross Profit c/d		76,520			
		1,44,500			1,44,500
To Rent	4,000		By Gross Profit b/d		76,520
Add : Outstanding Rent	3,000	7,000	By Commission Received		2,800
To Depreciation on Machinery		3,000			
To Salaries	12,000				
Add : Outstanding Salary	3,600	15,600			
To Bad Debts (New)	2,000				
Add : Bad Debts (old)	1,920				
		3,920			
Add : R.D.D. (New)	2,220				
		6,140			
Less : R.D.D. (Old)	1,600	4,540			
To Interest on capital		5,000			
To Interest		3,000			
To Advertisement		1,200			
To Printing & Stationery		1,200			
To Discount		2,080			
To Net Profit (Transfer to Capital A/c)		36,700			
		79,320			79,320

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital	1,00,000		Machinery	51,000	
Add : Interest on Capital	5,000		Less : Depreciation	3,000	48,000
	1,05,000		Debtors	76,000	
Add : Net Profit	36,700		Less : Bad debts (New)	2,000	
	1,41,700			74,000	
Less : Drawings	10,000	1,31,700	Less : New R.D.D. 3%	2,220	71,780
Creditors		50,280	Closing Stock		84,000
Outstanding Expenses			Advance to worker		800
- Salaries	3,600		Cash		4,000
- Rent	3,000	6,600			
Bank Overdraft		20,000			
		2,08,580			2,08,580

Working Notes :

- 1) New Bad debts ₹ 2,000 and R.D.D. is 3%
- | | |
|------------------------|----------|
| So Debtors | ₹ 76,000 |
| Less : Bad debts (New) | ₹ 2,000 |
| | ₹ 74,000 |
- Therefore R.D.D. 3% on 74,000
- | | |
|------------|-------|
| New R.D.D. | 2,220 |
|------------|-------|
- $74,000/1 \times 3/100 = ₹ 2,220$
- 2) Interest on Capital 5% p.a.
- $So 1,00,000/1 \times 5/100 = ₹ 5,000$
- Therefore Interest on Capital is ₹ 5,000

Illustration 12

Following is a Trial Balance of Vijay Traders, You are required to prepare Trading Account and Profit & Loss Account for the year ended 31st March, 2018 and Balance Sheet as on that date

Trial Balance as on 31st March, 2018

Debit Balances	Amt (₹)	Credit Balances	Amt (₹)
Rent, Rates & Taxes	3,500	R.D.D.	2,500
Insurance	1,000	Loan from Prakash	34,700
Wages	6,000	Sales	92,300
Repairs	9,400	Capital	45,000
Drawings	3,000	Sundry Creditors	18,000
Sundry Debtors	15,000	Sundry Income	7,500
Purchases	40,000	Bills Payable	17,000
Discount	900	Discount Received	3,000
General Expenses	3,600		
Furniture	40,000		
Plant & Machinery	50,000		
Stock (1.4.2017)	12,000		
Bank	7,500		
Bad Debts	600		
Bills Receivable	27,500		
	2,20,000		2,20,000

Adjustments :

- 1) Prepaid Insurance ₹ 400
- 2) Create 10% R.D.D. on Sundry Debtors and 6% discount on Debtors.
- 3) Outstanding expenses : General Expenses ₹ 1,400 and Wages ₹ 1,000
- 4) Depreciate Furniture by 10% and Plant & Machinery by 4%
- 5) Sundry Income of ₹ 1,500 received in advance.
- 6) Stock on 31st March 2018, amounted to ₹ 30,000

Solution : **In the Books of Vijay Traders**
Trading Account and Profit and loss Account for the year ended 31st March 2018

Dr.			Cr.		
Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Opening Stock		12,000	By Sales		92,300
To Purchases		40,000			
To Wages	6,000		By Closing Stock		30,000
Add : Outstanding	1,000	7,000			
To Gross Profit c/d		63,300			
		1,22,300			1,22,300
To Rent, Rates and Taxes		3,500	By Gross Profit b/d		63,300
To Insurance	1,000		By R.D.D. (old)	2,500	
Less : Prepaid	400	600	Less : R.D.D. (New)	1,500	
				1,000	
To General Expenses	3,600		Less : Bad Debts (old)	600	400
Add : Outstanding	1,400	5,000	By Sundry Income	7,500	
To Depreciation on :			Less : Received in	1,500	
Furniture	4,000		Advance		6,000
Machinery	2,000	6,000	By Discount Received		3,000
To Discount	900				
Add : Reserve for	810	1,710			
Discount on Debtors					
To Repairs		9,400			
To Net Profit		46,490			
transferred to Capital A/c					
		72,700			72,700

Balance Sheet as on 31st March, 2018

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital	45,000	88,490	Furniture	40,000	36,000
Add : Net Profit	46,490		Less : Deprecation 10%	4,000	
	91,490		Plant & Machinery	50,000	48,000
Less : Drawings	-3,000		Less : Deprecation 4%	2,000	
Sundry Creditors			Sundry Debtors	15,000	12,690
Loan from Prakash			Less : R.D.D. (New) 10%	1,500	
Outstanding Expenses :				13,500	
General Expenses	1,400		Less : 6% Discount on	810	400
Wages	1,000		Debtors		
Sundry Income			Prepaid Insurance		30,000
-recieved in advance			Closing Stock		7,500
Bills Payable			Bank		27,500
			Bills Receivable		
		1,62,090			1,62,090

Working Note :

Old R.D.D. (i.e. Provision for Doubtful debts given in Trial Balance) is more than the new R.D.D. So excess provision for doubtful debts (₹ 400) is shown on the credit side of Profit and Loss A/c. It is treated as gain.

Illustration 13

Following is a Trial Balance of Ajay Enterprises, You are required to prepare Trading Account and Profit & Loss Account for the year ended 31st March, 2019 and Balance Sheet as on that date

Trial Balance as on 31st March, 2019

Particulars	Debit Amt (₹)	Credit Amt (₹)	
Debtors	52,835	42,860	
Opening Stock	8,605		
Purchases	25,375		
Fuel and Power	1,818		
Creditors			
Carriage Outwards	1,860		
Drawings	5,000		
Capital			1,60,000
Sales			39,472
Returns	860		1,375

Cash at Bank	16,375	
Furniture (Purchased on 1/7/2018)	39,500	
Salaries	7,000	
Motor car	20,500	
Wages	7,000	
General Expenses	7,295	
8% Loan (taken on 1/10/2018)		15,000
Bad debts	2,000	
R.D.D.		800
Bills Payable		6,866
Machinery	40,800	
Insurance	5,000	
Commission Received		1,450
Investments	26,000	
	2,67,823	2,67,823

Adjustments :

- 1) Stock on hand 31st March 2019, amounted to ₹ 28,000
- 2) Write off ₹ 1,500 as Bad debts and create a Provision for doubtful debts @ 5% on Debtor.
- 3) Depreciation on Furniture, Motor car, and Machinery @ 10%, 7% and 5% respectively.
- 4) Commission ₹ 550 is due but not received.
- 5) Outstanding Expenses General Expenses ₹ 1,000 and Wages ₹ 500.
- 6) Prepaid expenses Insurance ₹ 2,000

Solution :

In the Books of Ajay Enterprises

Trading and Profit and loss Account for the year ended 31st March 2019

Dr.

Cr.

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Opening Stock		8,605	By Sales	39,472	
To Purchases	25,375		Less : Returns	860	
Less : Returns	1,375	24,000			38,612
To Wages	7,000		By Closing Stock		28,000
Add : Outstanding	500	7,500			
To Fuel & Power		1,818			
To Gross Profit c/d		24,689			
		66,612			66,612

To Salaries		7,000	By Gross Profit b/d		24,689
To Insurance	5,000		By Commission	1,450	
Less : Prepaid	2,000	3,000	Add : Accrued	550	2000
To Carriage Outward		1,860	commission		
To Gen. Expenses	7,295				
Add : Outstanding	1,000	8,295	By Net Loss		5,771
To bad debts (old)	2,000		(Transferd to		
Add : Bad debts (New)	1,500		Capital A/c)		
Add : R.D.D. (New)	2,567				
	6,067				
Less : R.D.D. (Old)	800	5,267			
To Depreciation on :					
Motor Car	1,435				
Furniture	2,963				
Machinery	2,040	6,438			
To Interest on Loan		600			
		32,460			32,460

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital	1,60,000		Furniture	39,500	
Less : Net Loss	5,771		Less : 10% Depreciation	2,963	36,537
	1,54,229		(9 Months)		
Less : Drawings	5,000	1,49,229	Motor Car	20,500	
Bills Payable		6,866	Less : 7% Depreciation	1,435	19,065
Creditors		42,860	Machinery	40,800	
Outstanding Expenses :			Less : 5% Depreciation	2,040	38,760
General Expenses	1,000		Sundry Debtors	52,835	
Wages	500	1,500	Less : Bad Debts (New)	1,500	
8% Loan	15,000			51,335	
Add : Interest	600	15,600	Less : 5% R.D.D. (New)	2,567	48,768
			Closing Stock		28,000
			Accrued Commission		550
			Prepaid Insurance		2,000
			Cash at bank		16,375
			Investment		26,000
		2,16,055			2,16,055

Activity : Students should visit and interact with Sole Proprietor in your residential area, and collect information of various Expenses, Income, Profits, Losses, Purchases, Sales & Stock of goods, Asset & Liabilities. Prepare Trading A/c, Profit & Loss A/c and Balance sheet of his business with the help of collected information.

Activity : Find out the mistakes from the Trading Account, Profit & Loss Account and Balance Sheet given under. There are some mistakes which students have to find out.

Dr. Trading Account and Profit and loss Account for the year ended 31st March 2019 Cr.

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Opening Stock		25,000	By Sales	17,200	
To Purchases	10,500		Less : Return outward	200	17,000
Less : Returns Inward	500	10,000			
To Wages		2,000			
To Advertisements		800	By Closing Stock		40,000
To Royalties		400			
To Gross Profit c/d		18,800			
		57,000			57,000
To Salaries		4,000	By Gross Profit b/d		18,800
To Insurance		7,200	By Interest on Bank Loan		600
To Advertisement		2,000			
To Rent		800			
To Discount Received		400			
To Printing & Stationery		700			
To Net Profit		4,300			
		19,400			19,400

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital	70,000		Building		20,000
Add : Net Profit	4,300		Plant & Machinery		30,800
	74,300		Debtors		33,000
Less : Drawings	300	74,000	Commission		2,000
Creditors		9,800	Closing Stock		40,000
Bank Loan		30,000			
Bills Payable		4,000			
Bills Receivable		2,000			
Prepaid Expenses		800			
Goodwill		5,000			
Postage		200			
		1,25,800			1,25,800

Note : This Final A/c is given for activity purpose only. Trial Balance & other adjustments are not given. So Balance sheet will not tally.

EXERCISE

Q.1. Answer in One Sentence

- 1) What is a Trading A/c ?
- 2) What do you mean by Profit & Loss A/c ?
- 3) Why Balance Sheet is prepared ?
- 4) State the meaning of Final Accounts ?
- 5) What is Net Profit ?
- 6) What do you mean by Gross Profit ?
- 7) State the meaning of Accrued Income ?
- 8) State the meaning of Outstanding Expenses ?
- 9) What is Depreciation ?
- 10) What do you mean by Prepaid Expenses ?

Q.2 Give a word, term or phrase which can substitute each of the following statements:

- 1) Expenses paid before it is due.
- 2) Income due but not yet received.
- 3) Carriage paid on sale of goods.
- 4) Statement of Assets & Liabilities.
- 5) Account prepared to know Net Profit or Net Loss.
- 6) Value of goods remaining unsold at the end of the year.
- 7) The provision made to compensate the loss on account of likely debts.
- 8) The accounts prepared at the end of the accounting year to know the profit or loss and Financial position of business.
- 9) An amount spent on promoting sale of goods.
- 10) An additional information provided below the Trial Balance.

Q.3 Select the most appropriate alternatives given below and rewrite the sentence :

- 1) is excess of assets over liabilities
a) Goodwill b) Capital c) Investments d) Drawings
- 2) Discount earned is transferred to credit side of account.
a) Current A/c b) Profit & Loss c) Trading d) Capital
- 3) is a statement which shows the financial position of business on a specific date.
a) Trading account b) Trial Balance c) Profit & Loss A/c d) Balance Sheet
- 4) Outstanding expenses are shown on the side of Balance Sheet.
a) Assets b) Liability c) Both d) None of these
- 5) Interest on Drawing is credited to Account.
a) Trading b) Profit & Loss c) Capital d) All

- 6) Debit balance of Trading Account means
a) Gross Loss b) Net Loss c) Net Profit d) Gross Profit
- 7) Carriage Inward is debited to Account.
a) Trading b) Profit & Loss c) Capital d) Bank
- 8) Excess of credit over to debit in Profit & Loss Account indicates
a) Net Profit b) Gross Profit c) Gross Loss d) Net Loss
- 9) Closing stock is always valued at cost or market price which is
a) more b) less c) zero d) equal
- 10) When specific date is not given, in that case interest on drawing is charged for month.
a) Four b) Six c) Eight d) Nine

Q.4 State True or False with reasons :

- 1) In every adjustment atleast there are three effects.
- 2) Every item of Trial Balance has only one effect.
- 3) Income due but not received is a liability.
- 4) Goodwill is not a fictitious asset.
- 5) Credit balance of Profit & Loss account shows net profit.

Q.5 Fill in the blanks :

- 1) Gross Profit is transferred to account.
- 2) Debit Balance of Trading Account indicates
- 3) Income Receivable appears on side of Balance Sheet.
- 4) Interest on Bank Loan is debited to A/c
- 5) Profit and Loss account is prepared to find out results of the business.
- 6) All indirect / operating expenses are transferred to account.
- 7) Interest of proprietor's drawing is credited to account.
- 8) An excess of debit over credit in the Profit & Loss A/c represents the
- 9) All direct expenses are transferred to account.
- 10) Balance Sheet is of assets & liabilities.

Q.6 Find the odd one :

- 1) Rent, Salary, Insurance, Plant and Machinery
- 2) Purchases, Closing stock, Debtors, Factory Rent.
- 3) Capital, Bills Payable, Debtors, Outstanding wages
- 4) Advertisement, Travelling Expenses, Factory Rent, Insurance
- 5) Cash in Hand, Debtors, Outstanding Income, Reserve for Doubtful Debts

Q.7 Do you agree or disagree with the following statement :

- 1) Reserve for bad debts is created by debiting Profit and Loss Account.
- 2) Balance Sheet is a statement as well as an account.
- 3) Indirect Expenses are debited to Trading Account.
- 4) Bank Overdraft is treated as an Internal Liability.
- 5) Capital is excess of Liabilities over Assets.

Q.8 Correct and Rewrite the following statements :

- 1) Balancing figure of Trading Account is Net Profit or Net Loss.
- 2) All direct expenses are debited to Profit and Loss Account.
- 3) When the credit side of Profit and Loss account is greater than debit side, it is called Net Loss.
- 4) Capital A/c..... Dr
 To Profit and Loss Account
 (Being Net Profit transferred to Capital A/c)
- 5) Trading A/cDr
 To Sales A/c
 (Being Sales transferred to Trading A/c)

Q.9 Calculate the following.

- 1) Calculate the Capital

Assets (₹)		Liabilities (₹)	
Building	- 20,000	Bills Payable	- 18,000
Furniture	- 15,000	Creditors	- 20,700
Debtors	- 30,000	Outstanding Wages	- 1,250
Investments	- 10,000		
Cash at Bank	- 5,000		
Plant and Machinery	- 20,000		

- 2) Machinery of ₹ 35,500 is purchased on 1st July, 2018 and on the same day ₹ 4,500 are spend on installation of Machinery. Proprietor has decided to Depreciate Machinery at the rate of 7% p.a. Calculate the amount of depreciation, assuming that accounting year is ending on 31st March every year.
- 3) Mr. Pramod borrowed Loan from State Bank of India ₹ 3,50,000 on 1st Oct.,2018 at the rate of interest 12% p.a. Calculate the Interest on bank loan for the year 2018-19, assuming that financial year end on 31st March every year.
- 4) Annual Insurance Premium ₹ 8,000 is paid on 1st Dec, 2018. Calculate the amount of Insurance Premium for the accounting year ending on 31st March, 2019.
- 5) Calculate the Gross Profit/Gross Loss
 Purchases A/c ₹ 15,500, Sales A/c ₹ 30,000 Carriage Inward ₹ 1,200
 Opening Stock ₹ 5,000 Purchases Returns ₹ 500, Closing Stock ₹ 18,000

PRACTICAL PROBLEMS

1. From the following Balances of Jayashri Traders, you are required to prepare Trading Account for the year ended 31/03/2019

Particulars	Debit Amount (₹)	Credit Amount (₹)
Opening Stock	41,000	
Purchases	59,000	
Purchases Returns		7,000
Sales Returns	1,600	
Sales		1,03,000
Wages	3,400	
Carriage Inward	1,000	
Royalty	4,000	
Total	1,10,000	1,10,000

Closing Stock ₹ 40000

2. Prepare Profit and Loss Account of Sanjay Brothers for the year ended 31st March, 2018 from the following balances.

1) Bank charges ₹ 22,000	11) Commission (Cr) ₹ 17,500
2) Interest (Cr.) ₹ 16,000	12) Printing & Stationery ₹ 21,000
3) Sundry expenses ₹ 42,000	13) Loss by fire ₹ 18,000
4) Insurance ₹ 35,000	14) Discount (Dr) ₹ 23,000
5) Salaries ₹ 40,000	15) Discount (Cr) ₹ 37,000
6) Rates and Taxes ₹ 13,000	16) Misc. Income ₹ 14,000
7) Postage ₹ 8,000	17) Depreciation ₹ 34,000
8) Advertisement ₹ 40,000	18) Carriage Outwards ₹ 60,000
9) Rent paid ₹ 32,000	19) Godown Expenses ₹ 40,000
10) Bad debts ₹ 10,000	Note: Gross Profit ₹ 407500

3. From the following Trial Balance of Sanjiv & Sons. Prepare Trading Account and Profit & Loss Account for the year ending on 31st March, 2019 and a Balance Sheet as on that date.

Particulars	Debit Amount (₹)	Credit Amount (₹)
Opening stock	22,000	
Purchases & Sales	1,78,000	4,60,000
Carriage Outward	4,800	
Plant and Machinery	50,000	
Debtors and Creditors	44,000	76,000
Returns	2,000	4,000
Buildings	58,000	
Motor Van	40,000	
Printing & Stationery	3,000	
Wages	28,000	
Reserved for Bad debts		3,200
Commission		2,400
Office expenses	5,400	
Carriage	9,000	
Furniture	20,000	
Premises	81,000	
Loose Tools	20,400	
Drawings	24,700	
Bank Overdraft		22,000
Cash in hand	71,000	
Dividend		3,300
Capital		1,40,000
Salaries	44,000	
Bills Receivable & Bills Payable	5,600	8,400
Bad debts	2,400	
Advertisement (for 3 year)	6,000	
	7,19,300	7,19,300

Additional information :

- 1) Closing stock on 31st March, 2019, was at cost ₹ 60,000 and Market Price ₹ 70,000.
- 2) Outstanding expenses : Wages ₹ 4,000, Salary ₹ 2,400
- 3) Provide depreciation at 10% on Motor Van and 5% on Furniture.
- 4) Write off ₹ 2,000 for bad debts and create R.D.D. at 5% on debtors.
- 5) Provide 10% p.a. interest on capital.

4. From the following Trial Balance of Nandini & Co. as on 31st March 2019. Prepare Final Accounts after considering the adjustments given below.

Particulars	Debit Amount (₹)	Credit Amount (₹)
Loose Tools	1,10,000	
Furniture & Fixtures	81,000	
Bad debts	1,400	
Sundry Debtors	81,600	
Stock (31st March 2018)	52,000	
Purchases	77,000	
Sales Cash		21,000
Sales Credit		81,000
Returns	400	600
Advertisements	4,800	
Rate taxes & Insurances	6,000	
Repairs & maintenance	1,200	
Salaries (2/3rd for factory)	18,000	
Rent (Paid for 11 months)	2,200	
Machinery (Includes ₹ 24,000 purchased on 1st Oct. 2018)	84,000	
Capital		3,60,000
R.D.D.		8,000
Sundry Creditors		70,000
Drawings	14,000	
Interest		1,200
Dividend		2,800
Bank Balance	40,000	
Royalty	6,000	
9% Bank loan (30th Sept 2018)		40,000
Carriage Outwards	4,000	
Discount	1,000	
	5,84,600	5,84,600

Adjustments :

- 1) Closing stock valued at ₹ 1,00,000
- 2) Write off ₹ 2,000 as bad debts and create a provision for doubtful debts @ 5% on Sundry Debtor
- 3) Depreciate Machinery by 10% p.a. and Loose Tools is valued at ₹ 1,00,000
- 4) Charge Interest on Capital @ 2% p.a.

5. Prepare Final accounts of Abdul Traders for the year ending 31st March, 2019 with the help of following Trial Balance and Adjustments.

Trial Balance as on 31st March, 2019

Debit Balance	Amount (₹)	Credit Balance	Amount (₹)
Salaries	10,000	Interest Received	2,400
Purchases	71,400	Capital	1,60,000
Rent (11 months)	2,200	Sales	85,000
Machinery	56,000	Provision for Bad Debts	2,000
Advance against wages	4,000	Commissions Received	1,600
Opening stock	20,000	Bills Payable	9,200
Bad debts	1,000	Creditors	56,000
Prepaid Insurance	2,400		
Wages	2,600		
Loose Tools	26,000		
Commission receivable	400		
Sundry Debtors	64,000		
Cash	1,000		
Bank	3,000		
Drawings	7,600		
Freight Inward	1,000		
Bills Receivable	13,600		
Loan to Aruna	30,000		
	3,16,200		3,16,200

Adjustments :

- 1) Closing stock valued at ₹ 89,600
- 2) Outstanding expenses Salaries ₹ 2,000, Wages ₹ 4,000
- 3) Charge depreciation on Machinery @ 10%
- 4) Bad debts written off ₹ 2,000 and create a provision for bad and doubtful debts 5% on Sundry Debtors

6. Following is the Trial Balance of Geeta Enterprises. You are required to prepare Trading and Profit & Loss Account for the year ended 31st March, 2019 and Balance Sheet as on that date after taking into account the additional information provided to you.

Trial Balance as on 31st March, 2019

Particulars	Debit Amount (₹)	Credit Amount (₹)
Capital A/c		50,000
Drawings	1,750	
Opening Stock	8,000	
Purchases & Sales	16,500	22,500
Returns	625	750
Carriage Outward	425	
Wages - Productive	1,000	
Unproductive	600	
Salaries	1,000	
Travelling expenses	1,125	
Trade Expenses	325	
Fuel and Coal	250	
Discount	460	550
Sundry expenses	225	
Bad Debts	200	
Plant & Machinery	20,000	
Furniture	5,500	
Packing expenses	175	
Sundry Debtors & Creditors	10,090	6,750
Cash in hand	2,200	
Investments	10,250	
Reserve for Doubtful debts		150
	80,700	80,700

Additional information :

- 1) Closing stock of goods on 31st March, 2019 valued at ₹ 7,100 at cost price and ₹ 7,500/- as market price.
- 2) Travelling expenses include ₹ 125 spent on personal travelling.
- 3) ₹ 175 are to be written off as bad debts which were due from Mr. Ashok, a debtor and 5% R.D.D. is to be maintained on debtors
- 4) Reserve for discount on debtors as well as on creditors is to be maintained at 2% and 3% respectively.
- 5) Provide 10% depreciation on Plant & Machinery and Furniture.

7. Following are the closing ledger balances of Deepak & Co. Prepare Trading Account and Profit & Loss Account for the year ended 31st March 2019 and Balance sheet as on that date.

Ledger Balances of Mr Deepak and Co. as on 31st March, 2019

Particulars	Amount (₹)	Particulars	Amount (₹)
Bank	30,000	Capital	1,20,000
Bills Payable	7,500	Insurance Premium (1.1.2019 to 31.12.2019)	18,000
Furniture	19,500	Salaries	30,000
Commission Received	3,000	Bank loan	30,000
Stock (1.4.2018)	27,000	Sundry expenses	7,500
Building	37,500	Interest paid	1,500
Wages	7,500	Machinery	25,500
Creditors	37,500	Sales	96,000
Bad Debts	4,500	Purchases	42,000
R.D.D. (old)	3,000	Debtors	31,500
Sales Returns	1,500	Purchases returns	3,000
		Cash in hand	16,500

Adjustments :

- 1) Closing stock was valued at ₹ 60,000
- 2) An amount of ₹ 3,000 is still to be received on account of commission.
- 3) Provision for discount on debtors and Provision for discount on Creditors are to be created 2% and 3% respectively.
- 4) Amount of Furniture is to reduce by ₹ 4,500 and Building by 10%.
- 5) Outstanding expenses Salaries ₹ 4,500 and Wages ₹ 1,500

8. Following is the Trial Balance extracted from the books of Raju Traders. You are required to prepare Trading A/c, Profit & Loss A/c for the year ending on 31st March 2019 and Balance Sheet as on that date after Considering the additional information given below.

Trial Balance as on 31st March, 2019

Particulars (Debit)	Amount (₹)	Particulars (Credit)	Amount (₹)
Raju's Drawings	5,000	Capital	2,00,000
Opening stock	30,000	Sales	1,64,000
Wages	5,000	Returns outward	2,400
Purchases	60,000	Creditors	40,000
Trade Expenses	800	Discount	1,600
Royalties	1,600	Bills payable	13,600
Salaries	20,000		
Debtors	80,000		
Plant & Machinery	56,000		
Printing & Stationery	2,400		
Bad debts	900		
Discount	1,200		
Furniture	16,000		
Advertisement	3,000		
Carriage outwards	600		
Computers	1,20,000		
Bills Receivable	16,000		
Cash in hand	1,100		
Cash at Bank	2,000		
	4,21,600		4,21,600

Adjustments :

- 1) Closing stock is valued at ₹ 40,000 at Cost Price and ₹ 44,000 as Market Price.
- 2) Provide Depreciation on Plant & Machinery, Furniture, Computers @ 5%, 10%, 15% respectively.
- 3) Salaries are paid for 10 months only.
- 4) Further Bad debts amounted to ₹ 400 and provide 10% R.D.D. on Sundry Debtors.
- 5) Advertisement is paid for 2 years

9. From the following Trial Balance of Shradha Enterprises, you are required to prepare Final Accounts for the year ending on 31st March 2019.

Trial Balance as on 31st March, 2019

Debit balances	Amount (₹)	Credit Balances	Amount (₹)
Opening Stock	2,40,000	Capital	13,00,000
Purchases	8,50,000	Sundry Creditors	1,20,000
Returns Inward	15,000	Bills Payable	60,000
Wages	29,000	Sales	25,00,000
Power and Fuel	21,800	Return Outward	8,000
Travelling Expenses	14,700	Discount	2,000
Audit fees	7,000	Bank Overdraft	1,54,000
Royalty	72,000	Reserve for Bad and doubtful debts	8,000
Discount	1,750		
Postage	13,500		
Bad debts	3,000		
Sundry Debtors	5,20,000		
Furniture	1,20,000		
Plant & Machinery	15,00,000		
Freehold Premises	7,02,000		
Rent, Rates and Insurance	42,250		
	41,52,000		41,52,000

Adjustments :

- 1) Insurance is prepaid to the extent of ₹ 2,250
- 2) Closing stock is valued at ₹ 3,80,000 Cost price and ₹ 4,00,000 as Market price.
- 3) Outstanding Expenses are Wages ₹ 6,000 and Rent ₹ 5,000
- 4) Write off further bad debts ₹ 1,500 and provide 5% Reserve for doubtful debts.
- 5) Depreciation on Furniture and Plant & Machinery at 10% p.a. and on Freehold Premises at 15% p.a.

10. From the following Trial Balance of Ayub & Co. as on 31st March 2019, you are required to prepare Trading Account, Profit and Loss Account for the year ending 31st March 2019 and Balance Sheet as on that date after making necessary adjustments..

Trial Balance as on 31st March, 2019

Debit balances	Amount (₹)	Credit Balances	Amount (₹)
Cash in hand	4,575	Discount	900
Cash at Bank	15,450	Loan from Abhay	15,000
Drawings	18,000	Creditors	18,225
Furniture	6,000	Sales	1,95,000
Plant & Machinery	45,000	Returns Outward	3,000
Opening Stock	30,000	Capital	90,000
Purchases	1,20,000		
Salaries & Wages	33,600		
Debtors	30,600		
Returns Inward	7,500		
Audit Fees	2,250		
Rent. Rates and Taxes	5,400		
Bad debts	600		
Travelling Expenses	750		
Insurance	1,200		
Interest on Loan from Abhay	450		
Trade Expenses	300		
Sundry expenses	450		
	3,22,125		3,22,125

Adjustments :

- 1) Stock on hand on 31st March, 2019 valued at ₹ 60,000
- 2) Rent amounting to ₹ 600 Prepaid.
- 3) Bad Debts ₹ 600 and create a Provision for Doubtful Debts 5%
- 4) Depreciation on Plant & Machinery by 10% and Furniture is valued at ₹ 4,500
- 5) Outstanding Salaries ₹ 900

11. From the following Trial Balance of Rajnish & Sons and the additional information given below prepare Trading & Profit and Loss Account for the year ending on 31st March 2018 and Balance Sheet as on that date.

Trial Balance as on 31st March 2018

Debit balances	Amount (₹)	Credit Balances	Amount (₹)
Stock (01.04.2017)	1,20,000	Capital	6,00,000
Purchases	4,00,000	Sales	3,00,000
Wages	17,000	Return outward	8,000
Carriage	6,000	Sundry Creditors	1,80,000
Salaries	60,000	Bills Payable	90,000
Rent, Rates and Taxes	12,000	8% Loan (taken on 01.10.2017)	1,00,000
Insurance	8,000	Bank Overdraft	79,200
Royalties	10,000		
Discount	4,500		
Courier charges	5,200		
Bad Debts	7,000		
Trade Expenses	2,500		
Drawings	15,000		
Machinery	3,00,000		
Furniture	1,50,000		
Patents	50,000		
Sundry Debtors.	1,90,000		
	13,57,200		13,57,200

Adjustments :

- 1) Closing Stock valued at ₹ 3,00,000 cost price and ₹ 3,20,000 at Market price.
- 2) Salaries were paid for 10 months only.
- 3) Insurance is paid for one year ending on 30.06.2018
- 4) One of the debtors Mr. Amit became insolvent, from whom ₹ 10,000 was not received.
- 5) 5% R.D.D. is to be maintained on Debtors
- 6) Depreciate Machinery & Furniture @ 10% and 5% respectively.

12. From the following Trial Balance of John & Sons you are required to prepare Trading Account, Profit and Loss Account for the year ending 31st March 2019 and Balance Sheet as on that date.

Trial Balance as on 31st March 2019

Debit balances	Amount (₹)	Credit Balances	Amount (₹)
Drawings (1st July 2018)	12,000	Sundry Creditors	40,000
Cash in hand	8,000	Returns	4,500
Cash at Bank	20,000	Dividend	100
Bills Receivable	15,000	Rent	200
Wages	1,800	Sales	53,200
Discount	700	Bank Loan	5,000
Rent	2,000	Capital	99,700
Advertisement	3,000		
Bad debts	1,200		
Travelling Expenses	800		
Purchases	40,000		
Machinery	15,000		
Motor Car	18,000		
Returns	1,200		
Stock (1st April 2018)	10,000		
Sundry Debtors	35,000		
Carriage outwards	1,000		
6% Investment (1st Sept 2018)	18,000		
	2,02,700		2,02,700

Adjustments :

- 1) Closing Stock ₹ 27,000
- 2) Charge Depreciation on Machinery and Motor car @ 10% and 5% respectively.
- 3) Create R.D.D. 5% on Sundry Debtors
- 4) Interest on Drawings @ 5% p.a.
- 5) Create Discount on Sundry Creditors 3%
- 6) Advertisement ₹ 1,000 is prepaid.
- 7) Outstanding Rent ₹ 1,500

13. From the following Trial Balance of Pushkraj you are required to prepare Trading Account and Profit and Loss Account for the year ended 31st March 2019 and Balance Sheet as on that date.

Trial Balance as on 31st March 2019

Debit balances	Amount (₹)	Credit Balances	Amount (₹)
Drawings	2,000	Capital	80,000
Motor Car	30,000	Sundry Creditors	25,000
Cash in hand	1,000	Dividend	4,800
Bills Receivable	20,000	Commission	2,535
Wages	1,000	8% Loan (taken on 1.7.2018)	13,700
Discount	235	Purchases Returns	400
Rent	300	Sales	38,680
Advertisement	2,500		
Bad Debts	500		
Travelling expenses	1,000		
Purchases	27,400		
Machinery	30,000		
Office expenses	500		
Sales Returns	680		
Opening Stock	10,000		
Sundry Debtors	35,500		
Carriage Outward	500		
Cash at Bank	2,000		
	1,65,115		1,65,115

Adjustments :

- 1) Stock on 31st March, 2019 was valued at ₹ 28,000
- 2) Create a Provision for doubtful debts on Sundry Debtors @ 5%
- 3) Depreciate Motor car by 5% p.a. and Machinery by 7% p.a.
- 4) Outstanding expenses Rent ₹ 800 & Wages ₹ 1,000
- 5) Charge interest on Capital @ 3% p.a.
- 6) Goods of ₹ 4,000 withdrawn by proprietor for personal use.

14. From the following Trial Balance of Jyoti Trading Co. Prepare a Trading Account and Profit and Loss Account for the year ended 31st March 2019 and Balance Sheet as on that date.

Trial Balance as on 31st March 2019

Debit balances	Amount (₹)	Credit Balances	Amount (₹)
Stock (1.4.2018)	9,500	Capital	2,00,000
Sales Returns	750	R.D.D.	1,000
Loose Tools	55,000	Sales	38,750
Debtors	50,800	Purchases return	455
Bills Receivable	4,000	Creditors	47,000
Purchases	29,455	Bills Payable	8,000
Furniture	15,000	Discount	1,845
Salaries	5,000		
Carriage Outward	3,000		
Legal expenses	2,000		
Insurance	2,200		
Goodwill	20,000		
Machinery	40,000		
Wages	2,345		
Bank	30,000		
Drawings	8,000		
Investments	20,000		
	2,97,050		2,97,050

Adjustments :

- 1) Closing stock valued at ₹ 58,000 Cost Price while Market price is ₹ 60,000
- 2) Write off ₹ 1,200 as Bad debts and create provision for doubtful debts 2% on Sundry Debtors and also create provision for discount on Creditors 5%.
- 3) Loose Tools is valued at ₹ 52,000 and depreciate Furniture by 10% p.a.
- 4) Outstanding expenses Salary ₹ 1,000 and Wages ₹ 225
- 5) Charge interest on Capital 2% and on Drawings 10%.

15. From the following Trial Balance of Manish Enterprise, Prepare the Trading Account and Profit and loss Account for the year ended 31st March 2019 and Balance sheet as on that date.

Trial Balance as on 31st March 2019

Debit balances	Amount (₹)	Credit Balances	Amount (₹)
Cash in hand	5,200	Capital	50,000
Opening stock	10,370	Bank Loan	15,000
Goodwill	10,000	Bills Payable	8,500
Patents	4,000	Creditors	38,260
Cash at Bank	4,400	General Reserve	1,500
Freight	2,500	Dividend	2,000
Power & Fuel	1,500	Interest on Fixed Deposit	3,440
Furniture	12,000	Sales	40,000
Purchases	35,260		
Mobile charges	3,200		
Factory Salaries	2,400		
Repairs	800		
Lighting	1,000		
Carriage outward	360		
Professional charges	1,240		
Debtors	40,000		
Plant & Machinery	13,700		
Office Equipments	10,000		
Carriage Inwards	770		
	1,58,700		1,58,700

Adjustments :

- 1) Closing Stock was ₹ 32,000.
- 2) Write off 50% of patents, depreciate Plant & Machinery by 10% p.a and Office Equipments by 20%.
- 3) Reserve for bad debts is to be created 5% and discount on Debtors 2%.
- 4) Outstanding expenses Mobile charges ₹ 300 and Freight ₹ 500
- 5) Charge Interest on Capital @ 5%.
- 6) Goods of ₹ 2,000 distributed on free sample.



10

Single Entry System

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Competency Statements

- Students are able to understand the meaning of Single Entry System*
- Students are able to distinguish between Single Entry System & Double Entry System.*
- Students are able to prepare opening & closing statements of affairs & statement of profit or loss of a Sole Trading Concern*

10.1 Introduction:

We have studied Double Entry System of Sole Trading concern in previous chapters. Now in this chapter we are going to learn Single Entry System of Sole Trading concern only. In ancient times there was no scientific method of recording business transactions. They were maintaining record of business transactions by their traditional methods. Single Entry System can be useful suitable for small size business, where the number of transactions are small. Single entry system is not a particular system of accounting rather it is a Double entry system in an incomplete and unscientific form. It is not a scientific and accurate system of Accounting.

Meaning of Single Entry System:

Under this system, Cash Book and personal accounts of debtors and creditors are maintained. Real and Nominal accounts are not maintained. Single Entry System has no proper set of rules to be followed.

Definitions:

- i) **Kohler** defines Single Entry System as, “A system of Book Keeping in which as a rule only records of cash and of personal accounts are maintained. It is always incomplete double entry varying with the circumstances.”
- ii) **Carter** has defined Single Entry as, “a method or variety of methods, employed for the recording of transactions, which ignores the two fold aspect and consequently fails to provide the businessman with the information necessary for him to be able to ascertain his financial position.”

Single entry system is a combination of Single entry, Double entry and No Entry.

Single Entry System is suitable for the following reasons:

1. It is a very simple method of recording business transactions.
2. Accounting records can easily be maintained since it does not require adequate skill and knowledge of principles of Book Keeping.
3. It is less expensive as compared to Double Entry Book Keeping.
4. Ascertainment of Profit or Loss is much easier.
5. It is to small concern with limited number of transactions and very few assets and liabilities.
6. It can be prepared easily in short period of time.

Difference between Single Entry System and Double Entry System

Points	Single Entry System	Double Entry System
1) Dual Aspect	Under this system each transaction is not recorded with dual aspect.	Under this system each transaction is recorded in dual aspect.
2) Accounts	Under this system Personal Accounts and Cash Accounts are maintained. Real and Nominal Accounts are not maintained.	Under this system, Personal Real and Nominal Accounts are maintained.
3) Trial Balance	Under this system Trial Balance cannot be prepared because of incomplete information of Accounting. Arithmetical accuracy of the accounting cannot be verified.	Under Double Entry System, Trial Balance can be prepared therefore arithmetical accuracy of the books of accounts is verified.
4) Profit or Loss	Under this system Profit and Loss Account is not prepared to find out the Net Profit or Net Loss.	Under this system Profit and Loss Account is prepared to find out Net Profit or Net Loss.
5) Balance sheet	Under this system only Statement of Affairs is prepared, Balance Sheet is not prepared.	Under this system to find out correct financial position, Balance Sheet is prepared.

6) Utility	Single Entry System is only useful to small business concerns.	Double Entry System is useful for all types of business concerns.
7) Rules	Single Entry System does not follow any accounting rules.	Double Entry System follows accounting rules.
8) Authenticity	The Government authorities do not consider this system as authentic.	The Government authorities consider this system as authentic
9) Expensive	Single Entry System is less expensive because time and labour involved is less.	Double Entry System is expensive compare to Single Entry System.
10) Financial Position	With the help of Statement of Affairs we can understand the estimated financial position of the business.	Balance Sheet is prepared to give true and fair financial position of business.

10.3 Preparation of Opening and Closing Statement of Affairs:

To find out the financial position of the business, under Single Entry System, following Statements are prepared.

- i) Opening Statement of Affairs
- ii) Closing Statement of Affairs
- iii) Statement of Profit or Loss.

Statements of Affairs:

A Statement of Affairs is a statement of Assets and Liabilities. It is as good as Balance Sheet. Right hand side is used for recording Assets and left hand is used recording for Liabilities. Statement of Affairs is prepared under the Single Entry System in order to find out the amount of Opening or Closing Capital of the business. The difference between the total of Assets and total of Liabilities is considered as the amount of capital.

Opening Statement of Affairs:

Opening Statement of Affairs is prepared to findout opening Capital balance. Opening Assets and Opening Liabilities are shown in the “Opening Statement of Affairs”. If the total of the Assets side is greater than the total of the Liability side it represents Opening Capital.

$$\text{Opening Capital} = \text{Opening Assets} - \text{Opening Liabilities}$$

Closing Statement of Affairs:

Closing Statement of Affairs is prepared at the end of the Accounting year to find out the closing Capital balance. Closing Assets and Closing Liabilities are shown in the “Closing Statement of Affairs”. If the total of the Assets side is greater than the total of the Liability side it represents Closing Capital.

$$\text{Closing Capital} = \text{Closing Assets} - \text{Closing Liabilities}$$

Following format of the Statement of Affairs may give the idea of items to be shown in it.

In the Books of -----
Statement of Affairs as on ----- -

Liabilities	Amt (₹)	Assets	Amt (₹)
Sundry Creditors	-----	Plant and Machinery	-----
Bills Payable	-----	Furniture and Fixtures	-----
Outstanding Expenses	-----	Building	-----
Bank Overdraft	-----	Investments	-----
Bank Loan	-----	Sundry Debtors	-----
		Bills Receivable	-----
Capital (Balancing figure)	-----	Prepaid Expenses	-----
		Cash in Hand	-----
		Cash at Bank	-----
	-----		-----

(Note: Opening Statement of Affairs and Closing Statement of Affairs can be prepared in columnar form)

10.4 Preparation of Statement of Profit or Loss:

A statement of Profit or Loss is to be prepared in order to find out the Profit or Loss made during the year.

When Books of Accounts are maintained under Single Entry System profit made during the year is calculated by the following methods:

- i) Net Worth Method
- ii) Conversion Method

(Note: The second method is not included the 11th standard syllabus, so it is not explained here)

Net Worth Method:

To ascertain Profit of a Business, Trading Account and Profit and Loss Account are prepared, but under Single Entry System it is not possible because of lack of adequate information. Therefore, under this system, profit is ascertained by preparing Statement of Profit or Loss.

After ascertaining capitals, they are compared with each other. If the Closing Capital is more than the Opening Capital the difference is Profit. If the Closing Capital is less than the Opening Capital the difference is Loss. Moreover, it is necessary to consider the other adjustments (i.e. Additional Capital, Drawings etc.) to ascertain Profit or Loss. This Profit or Loss is further adjusted for depreciation, interest on capital and provision for bad and doubtful debts to calculate Net Profit or Net Loss.

The following is the format of Statement of Profit or Loss:

In the Books of ----
Statement of Profit or Loss for the year ended -----

Particulars	Amount (₹)	Amount (₹)
Closing Capital/Capital at the end of the year		-----
Add : Drawings made during the year		
In Cash	-----	
In Kind	-----	-----
Less : Additional Capital brought during the year		
Adjusted Closing Capital		-----
Less : Opening Capital		
Net Profit/Loss for the year		-----

The following example can give the idea of calculating the Profit or Loss.

Opening Capital = ₹ 90,000

Closing capital = ₹ 1,50,000

Additional capital brought during the year ₹ 10,000.

Drawings made during the year ₹ 15,000.

Solution:

Statement of Profit or Loss for Year Ending-----

Particulars	Amt.(₹)	Amt. (₹)
Closing Capital		1,50,000
Add : Drawings		15,000
		1,65,000
Less : Additional Capital introduced during the year		10,000
Adjusted Closing Capital		1,55,000
Less : Opening Capital		90,000
Net Profit for the Year		65,000

10.5 Additional Information (Adjustments):

1. Additional Capital:

During Accounting Year, amount of cash or assets of any kind brought by proprietor into the business is called Additional Capital or Further Capital. Additional Capital is deducted from the Closing Capital in the Statement of Profit or Loss.

2. Drawings:

In the Statement of Profit or Loss, the amount of drawings is to be added to Closing Capital Balance. Closing Capital will be increased due to drawings during the accounting year.

3. Depreciation:

Depreciation should be recorded in the Statement of Profit or Loss. The amount of depreciation is a charged against Profit or Loss and is to be deducted.

4. Bad Debts:

The debts which are not recovered from a debtor is called Bad Debts. Hence it should be deducted in the statement of Profit or Loss.

5. Reserve for Doubtful Debts (provision for bad and doubtful debts)-

Reserve for bad and doubtful debts is to be deducted in the statement of Profit or Loss.

6. Undervaluation and Over valuation of Assets and Liabilities:

To find out the correct Profit or Loss of the business, if the assets and liabilities are undervalued or overvalued it is to be adjusted properly.

A) Undervaluation of Assets: In the Books of Accounts value of assets is undervalued so that the asset should be increased by the amount of undervaluation to bring it to proper value. Under valuation means lower capital which required to be adjusted and it is added in Statement of Profit or Loss.

B) Overvaluation of Assets: In the books of Accounts value of the Asset is already overvalued so that assets should be decreased by the amount of over valuation to bring it to the proper value. Overvaluation means higher capital which requires to be adjusted it is deducted in Statement of Profit or Loss.

C) Undervaluation of Liabilities: Undervaluation means liabilities are recorded at lesser amount which is to be adjusted. It is deducted from Statement of Profit or Loss.

D) Overvaluation of Liabilities: Overvaluation means the liabilities are recorded at higher amount which to be adjusted it is to be added in the Statement of Profit or Loss.

7) Interest on Loan:

The amount borrowed by the business is called as Loan. Interest on loan is the expenditure to the business, hence it is to be deducted in Statement of Profit or Loss.

8) Interest on Capital:

Interest on Capital is to be calculated on Opening Capital and also the amount of Additional Capital, which is utilized by the business. Interest on capital is expenditure to the business. Hence it is to be deducted from the Statement of Profit or Loss.

e.g. Opening Capital as on 31st March 2017 is ₹ 1,50,000 Additional Capital introduced in the business as on 1st Oct 2017 is ₹ 40,000. The rate of interest on capital is 10% p.a. The amount of interest will be as follows:

Interest on Capital	10% on ₹ 1,50,000 for one year	₹ 15,000
Interest on Additional Capital	10% on ₹ 40,000 for 6 months	₹ 2,000
Total Amount of Interest on capital		₹ 17,000

9) Interest on Drawings :

It is the income to the business; hence to be added in the Statement of Profit or Loss. If the date of drawings is not given and rate of interest is given, then interest on drawings is to be calculated for six months.

10) Outstanding/ Unpaid Expenses:

The expenses due but not paid during the year are known as Outstanding Expenses. It is to be deducted in Statement of Profit or Loss.

11) Prepaid Expenses/Expenses paid in Advance/Unexpired expenses :

In the business certain expenses are paid in advance which are known as Prepaid Expenses. Such expenses are not related with current year; hence it is added in Statement of Profit or Loss. The consolidated effect of the above adjustments can be seen at a glance in the following Statement of Profit or Loss.

Statement of Profit or Loss for Year Ended -----

Particulars	Amt.(₹)	Amt. (₹)
Closing Capital/Capital at the end of the accounting year		-----
Add : Drawings made during the accounting year		
In Cash	-----	
In Kind	-----	-----
Less : Additional Capital		-----
Adjusted Closing Capital		-----
Less : Opening Capital/Capital at the beginning of the accounting year		-----
Profit before adjustments:		-----
Add-Income and Gains during the accounting year		
1. Interest on Drawings	-----	
2. Interest on Investment	-----	
3. Prepaid Expenses	-----	
4. Outstanding Income	-----	
5. Undervaluation of Assets /Increase in the value of Assets	-----	
6. Overvaluation of Liabilities/Decrease in the value of Liabilities	-----	-----

Less : Expenses and Losses during the accounting year.		-----
1. Interest on Capital	-----	
2. Interest on Bank Loan	-----	
3. Bad debts and provision for bad and doubtful debts	-----	
4. Depreciation on fixed assets	-----	
5. Overvaluation of Assets (Decrease in the value of assets)	-----	
6. Undervaluation of Liabilities (Increase in the value of assets)	-----	
7. Outstanding Expenses	-----	
8. Income received in advance	-----	-----
Net Profit/Net Loss during the accounting year.	-----	-----

Problem: 1

Mr. Manoj keeps his books under Single Entry System and gives the following information:

Capital as on 31.3.2017 ₹ 80,000

Capital as on 31.3.2018 ₹ 1,00,000

Drawings made during the year ₹ 3,000

Additional Capital introduced during the year ₹ 8,000

Calculate Profit or Loss for the year ended 31st March, 2018.

Solution:

Statement of Profit or Loss for the year ended 31st March, 2018

Particulars	Amt.(₹)	Amt. (₹)
Closing Capital/Capital at the end of the year.		1,00,000
Add-Drawings during the year		3,000
		1,03,000
Less- Additional Capital during the year		8,000
Adjusted Closing Capital		95,000
Less- Opening Capital/Capital at the beginning of the year.		80,000
Net Profit for the year		15,000

Problem:2

Following information of an accounting year is given: Opening Capital as on 31.03.2017 ₹ 62,000; Drawings ₹ 5,000 Additional Capital added during the year ₹ 9,000 and Closing Capital as on 31.03.2018 ₹ 50,000

Calculate the Profit or Loss for the year ended 31st March, 2018

Solution:

Statement of Profit or Loss for the year ended 31st March, 2018

Particulars	Amt. (₹)	Amt. (₹)
Closing Capital		50,000
Add-Drawings		5,000
		55,000
Less-Additional Capital		9,000
Adjusted Closing Capital		46,000
Less- Opening Capital		62,000
Net Loss for the year		16,000

Problem: 3

Arjun keeps his books under Single Entry System. His Assets and Liabilities were as under.;

Particulars	31.3.2017 (₹)	31.3.2018 (₹)
Cash	1,500	1,000
Sundry Debtors	30,000	46,000
Stock	35,000	31,000
Plant and Machinery	61,000	75,000
Sundry Creditors	15,000	13,500
Bills Payable		4,000

During the year 2017-18 he introduced ₹ 15,000 as additional capital. He withdrew ₹ 2,500 every month for his private purpose.

Ascertain his Profit or Loss for the year ended 31st March 2018.

Solution:

In the Books of Arjun

Statement of Affairs as on 31st March, 2017

Liabilities	Amt (₹)	Assets	Amt (₹)
Sundry Creditors	15,000	Cash	1,500
Capital (Balancing figure)	1,12,500	Sundry Debtors	30,000
		Stock	35,000
		Plant and Machinery	61,000
	1,27,500		1,27,500

Statement of Affairs as on 31st March, 2018

Liabilities	Amt (₹)	Assets	Amt (₹)
Sundry Creditors	13,500	Cash	1,000
Bills Payable	4,000	Sundry Debtors	46,000
		Stock	31,000
		Plant and Machinery.	75,000
Capital(Balancing figure)	1,35,500		
	1,53,000		1,53,000

Statement of Profit or Loss for Year Ending 31st March, 2018

Particulars	Amt.(₹)	Amt. (₹)
Closing Capital/Capital at the end of the year		1,35,500
Add- Drawings during the year (₹ 2,500 x12 months)		30,000
		1,65,500
Less- Additional Capital introduced During the year		15,000
Adjusted Closing Capital		1,50,500
Less : Opening Capital /Capital at the beginning of the year		1,12,500
Net Profit for the Year		38,000

Problem: 4

Mr. Morya keeps his books on Single Entry System and gives the following information:

Particulars	31.3.2017 (₹)	31.3.2018 (₹)
Cash at Bank	10,000	40,000
Sundry Debtors	25,000	42,000
Stock in Trade	20,000	35,000
Furniture	30,000	30,000
Machinery	60,000	60,000
Bills Payable	4,000	4,000
Sundry Creditors	10,000	15,000
Bank Loan@10% p.a.	4,300	4,300

Additional information:

1. Mr. Morya withdrew from business account ₹ 6,000 for personal use.
2. He introduced Additional Capital of ₹ 30,000
3. Depreciation is to be charged at 10% p.a. on Furniture and Machinery.

Prepare: 1) Opening and Closing Statement of Affairs
2) Statement of Profit or Loss for the year ended 31.3.2018

Solution: **In the books of Mr. Morya**

Statement of Affairs as on -----

Liabilities	31.3.2017 (₹)	31.3.2018 (₹)	Assets	31.3.2017 (₹)	31.3.2018 (₹)
Bills Payable	4,000	4,000	Machinery	60,000	60,000
Sundry Creditors	10,000	15,000	Furniture	30,000	30,000
Bank Loan 10%	4,300	4,300	Stock in Trade	20,000	35,000
Capital (Balancing Figure)	1,26,700	1,83,700	Sundry Debtors	25,000	42,000
			Cash at Bank	10,000	40,000
	1,45,000	2,07,000		1,45,000	2,07,000

**Statement of Profit or Loss
for Year Ending 31st March, 2018**

Particulars	Amt. (₹)	Amt. (₹)
Capital as on 31 st March,2018		1,83,700
Add-Drawings during the year		6,000
		1,89,700
Less : Additional Capital during the year		30,000
Adjusted Closing Capital		1,59,700
Less : Capital as on 31 st March,2017		1,26,700
Profit for the year before adjustments		33,000
Less Expenses and Losses during the year		
i) Depreciation on Machinery(10% on ₹ 60,000)	6,000	
ii) Depreciation on Furniture(10% on ₹ 30,000)	3,000	
iii) Interest on Bank Loan (10% on ₹ 4,300)	430	9,430
Net Profit during the year		23,570

Problem: 5

Shubham, a trader does not keep proper books of accounts. However, he furnishes the following particulars :

Particulars	31.3.2017 (₹)	31.3.2018 (₹)
Cash at Bank	3,000	6,500
Cash at Hand	200	5,000
Stock in Trade	60,000	68,000
Sundry Debtors	10,000	25,000
Equipments	8,000	8,000
Sundry Creditors	15,000	10,000
Furniture	10,000	10,000

During the year, Shubham introduced ₹ 3,000 as further capital and withdrew ₹ 5,000 as drawings. Write off depreciation on Furniture at 10% p.a. and on Equipments at 5%.p.a.

Prepare a statement showing the Profit or Loss made by him for the year ended 31st March, 2018.

Solution: (Ultnerative Method)

In the Books of Shubham

Statement of Affairs as on 31st March, 2017

Liabilities	Amt (₹)	Assets	Amt (₹)
Sundry Creditors	15,000	Cash at Bank	3,000
		Cash in Hand	200
		Stock in Trade	60,000
Capital (Balancing Figure)	76,200	Sundry Debtors	10,000
		Equipments	8,000
		Furniture	10,000
	91,200		91,200

Statement of Affairs as on 31st March, 2018

Liabilities	Amt (₹)	Assets	Amt (₹)
Sundry Creditors	10,000	Cash at Bank	6,500
		Cash in Hand	5,000
Capital (Balancing Figure)	1,11,100	Stock in Trade	68,000
		Sundry Debtors	25,000
		Equipments	8000
		Less- Depreciation 5%	400
		Furniture	10000
		Less-Depreciation 10%	1000
	1,21,100		1,21,100

Statement of Profit or Loss for the year ended 31st March, 2018

Particulars	Amt.(₹)	Amt. (₹)
Closing Capital/ Capital as on 31 st March 2018		1,11,100
Add-Drawings during the year		5,000
		1,16,100
Less- Additional Capital during the year		3,000
Adjusted Closing Capital		1,13,100
Less-Opening Capital/ Capital as on 31 st March 2017		76,200
Profit during the Year		36,900

Note : The above problem is solved with alternative method where in all adjustments are shown in closing statement of affairs.

Problem: 6

Jyoti keeps her books on Single Entry System. From the following particulars, prepare Opening and Closing Statement of Affairs and Statement of Profit or Loss for the year ended 31st March 2018.

Particulars	1.4.2017 (₹)	31.3.2018 (₹)
Bank Balance	35,000	30,000
Cash Balance	14,000	10,000
Sundry Debtors	1,20,000	1,60,000
Stock	50,000	90,000
Furniture	18,000	18,000
Machinery	90,000	1,20,000
Sundry Creditors	32,000	50,000
Bills Payable	18,500	25,000

Additional Information:

- Jyoti has withdrawn ₹ 33,500 from the business for her private use.
- She has introduced additional Capital of ₹ 5,000 in the business on 1st Jan,2018
- Additions to Machinery were made on 1st January, 2018
- Depreciate Furniture and Machinery @ 10% p.a.
- Maintain R.D.D. @ 15% on Sundry Debtors.
- Closing Stock is overvalued by 20% in the books.

Solution:

In the books of Jyoti
Opening and Closing Statement of Affairs as on -----

Liabilities	1.4.2017 (₹)	31.3.2018 (₹)	Assets	1.4.2017 (₹)	31.3.2018 (₹)
Sundry Creditors	32,000	50,000	Bank Balance	35,000	30,000
Bills Payable	18,500	25,000	Cash Balance	14,000	10,000
			Sundry Debtors	1,20,000	1,60,000
Capital (Balancing Figure)	2,76,500	3,53,000	Stock	50,000	90,000
			Furniture	18,000	18,000
			Machinery	90,000	1,20,000
	3,27,000	4,28,000		3,27,000	4,28,000

Statement of Profit or Loss for the year ended 31st March 2018

Particulars	Amt. (₹)	Amt. (₹)
Closing Capital as on 31 st March, 2018		3,53,000
Add. Drawings		33,500
		3,86,500
Less Additional Capital		5,000
Adjusted Closing Capital		3,81,500
Less Opening Capital as on 1 st April, 2017		2,76,500
Profit before adjustments		1,05,000
Less: Expenses and Losses during the year		
1. Depreciation on Furniture (10% on ₹ 18,000)	1,800	
2. a) Depreciation on Machinery (10% on ₹ 90,000)	9,000	
b) Depreciation on additional Machinery (10% on ₹ 30,000 for 3 months)	750	
	9,750	
3. R.D.D. (15% on ₹ 1,60,000)	24,000	
4. Overvaluation of Stock	15,000	
		50,550
Net Profit during the year		54,450

Working Note:

Overvaluation of Stock by 20% , So we have to find out the Actual value of stock.

$$\text{Actual Value} = \frac{\text{Book Value}}{100 + \% \text{ of Overvaluation}} \times 100$$

$$\text{Actual Value} = \frac{90,000}{100 + 20} \times 100$$

$$\text{Actual Value} = \frac{90,000}{120} \times 100$$

$$\text{Actual Value} = ₹ 75,000$$

Therefore, Current value of Stock is lesser than the Book value by ₹15,000 (i.e. ₹ 90,000 – ₹ 75,000) It is a loss and deducted from Trading profit in the Statement of Profit or Loss.

Problem: 7

Rohit a trader keeps his books on Single Entry System. His financial position as on 1.4.2018 and 31.3.2019 were as under;

Particulars	1.4.2018 (₹)	31.3.2019 (₹)
Cash	12,000	18,000
Bank Balance	10,000	15,000
Stock in Trade	35,000	50,000
Sundry Debtors	30,000	35,000
Sundry Creditors	20,000	32,000
Building	40,000	60,000
Furniture	15,000	20,000

During the year he had withdrawn ₹ 100 per month for household expenses. Depreciate Building by 10 % p.a. and Furniture by 12% p.a. (Assume additions to both were made on 1st Oct. 2018)

Debtors ₹ 1,000 are bad and to be written off. Create Reserve for Doubtful Debts at 5% and maintain reserve for discount on debtors at 2%. Allow interest on capital at 5% p.a. and interest on drawings at 5% p.a. Prepare Opening and Closing Statement of Affairs and Statement of Profit or Loss for the year ended 31.3.2019.

Solution:

In the Books of Rohit

Statement of Affairs as on 1st April, 2018

Liabilities	Amt (₹)	Assets	Amt (₹)
Sundry Creditors	20,000	Cash	12,000
Capital (Balancing figure)	1,22,000	Bank Balance	10,000
		Stock in Trade	35,000
		Sundry Debtors	30,000
		Building	40,000
		Furniture	15,000
			1,42,000

Statement of Affairs as on 31st March, 2019

Liabilities	Amt (₹)	Assets	Amt (₹)
Sundry Creditors	32,000	Cash	18,000
		Stock	50,000
		Sundry Debtors	35,000
Capital (Balancing Figure)	1,66,000	Building	60,000
		Furniture	20,000
		Bank Balance	15,000
	1,98,000		1,98,000

Statement of Profit or Loss for the year ended 31st March, 2019

Particulars	Amt. (₹)	Amt. (₹)
Capital as on 31 st March, 2019		1,66,000
Add: Drawings (₹100×12 per month)		1,200
		1,67,200
Less: Capital as on 1 st April, 2018		1,22,000
Profit before adjustments		45,200
Add: Income and Gains during the year		
1. Interest on drawings(5% on ₹ 1,200 for 6 months)		30
		45,230
Less: Expenses and Losses during the year		
1. Interest on Capital (5% on ₹ 1,22,000)	6,100	
2. A) Depreciation. on Building (10% on ₹ 40,000) = 4,000		
B) Depreciation on additional Building (10% on ₹ 20,000 for 6 months) = 1,000	5,000	
3. A) Depreciation on Furniture (12% on ₹15,000) = 1800		
B) Depreciation on additional Furniture (12% on ₹5,000 for 6 months) = 300	2,100	
4. Bad debts	1,000	
5. R.D.D. (₹ 35,000 – ₹1000 = ₹ 34,000 for 5%)	1,700	
6. Reserve for Discount on Debtors (2% on ₹ 34,000 – 1,700 = 32,300)	646	16,546
Net Profit For the year		28,684

Note: As the date of Drawings is not given, Interest on Drawings is calculated for 6 months only.

Problem: 8

Aditya keeps his books on Single Entry System and the following information is disclosed.

Particulars	31.3.2016 (₹)	31.3.2017 (₹)
Cash at Bank	36,000	45,000
Stock in Trade	30,000	35,000
Debtors	15,000	22,000
Furniture	9,500	9,500
Sundry Creditors	27,850	35,400
Bills Payable	—	10,000
Investments	—	20,000

Additional Information:

- Aditya transferred ₹150 each month during first half year and ₹ 200 each month for remaining period from his business to his private banking account by way of drawings and took away ₹300 worth of goods for personal use.
- Aditya sold his household Furniture for ₹5,000 and proceeds were utilized for business.
- Furniture is to be depreciated by 10% and Reserve for Doubtful Debts is to be maintained at 5% on Debtors

Prepare : 1. Opening Statement of Affairs
2. Closing Statement of Affairs
3. Statement of Profit or Loss for the year ended 31st March 2017.

Solution:

In the Books of Aditya
Statement of Affairs as on -----

Liabilities	31.3.2016 (₹)	31.3.2017 (₹)	Assets	31.3.2016 (₹)	31.3.2017 (₹)
Sundry Creditors	27,850	35,400	Cash at Bank	36,000	45,000
Bills Payable	—	10,000	Stock in Trade	30,000	35,000
			Debtors	15,000	22,000
			Furniture	9,500	9,500
Capital (Balancing figure)	62,650	86,100	Investments	—	20,000
	90,500	1,31,500		90,500	1,31,500

Statement of Profit or Loss
for the year ended 31st March 2017

Particulars	Amt. (₹)	Amt. (₹)
Capital as on 31 st March, 2017		86,100
Add-Drawings		
In Cash (150 × 6 month + 200 × 6 month)	2,100	
In Goods	300	2,400
		88,500
Less : Additional Capital introduced during the year		5,000
Adjusted Closing Capital		83,500
Less : Capital as on 31 st March, 2016		62,650
Profit before adjustment		20,850
Less : Expenses and Losses during the year		
1. Depreciation on Furniture (10% on 9500)	950	
2. 5% R.D.D. on Debtors (5% on 22000)	1,100	2,050
		18,800
Net Profit for the year		18,800

Problem 9

Divya keeps her books under Single Entry System. The following details are given.

Particulars	1.4.2017 (₹)	31.3.2018 (₹)
Cash in hand	2,000	4,000
Cash at Bank	3,000	5,000
Building	30,000	30,000
Plant and Machinery	3,000	3,000
Bills Receivable	1,000	1,500
Stock	6,000	8,000
Bills Payable	2,000	2,200
Sundry Debtors	4,000	6,000
Sundry Creditors	2,000	1,000

Additional Information:

- Interest on Capital is to be allowed at 10% p.a.
- Building is to be depreciated by 10% and Plant and Machinery by 5% p.a.
- Creditors are undervalued by ₹ 2,000
- Bill Payable are overvalued by ₹ 600

5. Provide R.D.D. at 5% on Debtors
6. Divya brought additional capital into the business ₹ 1,000 on 1st Oct. 2017.

Prepare: Opening Statement of Affairs, Closing Statement of Affairs and Statement of Profit or Loss for the year ended 31st March 2018.

Solution:

In the books of Divya

Statement of Affairs as on -----

Liabilities	1.4.2017 (₹)	31.3.2018 (₹)	Assets	1.4.2017 (₹)	31.3.2018 (₹)
Sundry Creditors	2,000	1,000	Cash in hand	2,000	4,000
Bills Payable	2,000	2,200	Cash at Bank	3,000	5,000
			Building	30,000	30,000
Capital (Balancing figure)	45,000	54,300	Plant and Machinery	3,000	3,000
			Bills Receivable	1,000	1,500
			Stock	6,000	8,000
			Sundry Debtors	4,000	6,000
	49,000	57,500		49,000	57,500

Statement of Profit or Loss for the year ended 31st March, 2018

Particulars	Amt. (₹)	Amt. (₹)
Capital as on 31 st March, 2018		54,300
Less- Additional Capital		1,000
Adjusted Closing Capital		53,300
Less : Capital as on 1 st April, 2017		45,000
Profit before adjustment		8,300
Add : Incomes and Gains during the year		
Overvaluation of Bills Payable		600
Less : Expenses and Losses during the year		8,900
1. a) Interest on Opening Capital (10% on ₹. 45,000) = ₹ 4,500		
b) Interest on Additional Capital (10% on ₹1000 for 6 months) = ₹ 50	4,550	
2) R.D.D. (5% on ₹ 6000)	300	
3) Depreciation on Building (10% on ₹ 30,000)	3,000	
4) Depreciation on Plant and Machinery (5% on ₹ 3,000)	150	
5) Undervaluation of Creditors	2,000	
		10,000
Net Loss during the year		1,100

Problem: 10

Mr. Raj keeps his book on Single Entry System From the following particulars, prepare Opening Statement of Affairs and Closing Statement of affairs and Statement of Profit or Loss.

Particulars	Amount (₹) 31.3.2018	Amount (₹) 31.3.2019
Sundry Debtors	40,000	50,000
Sundry Creditors	30,000	60,000
10 % Govt. Bonds	—	20,000
Bank Overdraft	32,000	40,000
Furniture	12,000	12,000
Stock	40,000	60,000
Machinery	30,000	50,000
Cash in hand	4,000	10,000
Bills Payable	18,000	22,500
Bills Receivable	15,000	19,000

Additional Information:

- Mr. Raj has withdrawn ₹ 2,000 from the business for his daughter's marriage
- He introduced additional capital of ₹ 6,000 in the business on 1st Oct. 2018
- Additions to Machinery were made on 1st Oct. 2018.
- Bad Debts ₹ 2000 and maintain Reserve for Doubtful Debts @ 5% on debtors
- Stock was overvalued by 20 %
- Creditors were undervalued by 20%
- 10% Govt. Bonds were purchased on 1st Oct. 2018.
- Charge interest on Drawings at 10% p.a.
- Allow interest on Capital at 10% p.a.
- Depreciation on Furniture 10% p.a.
- Depreciation on Machinery at 10 % p.a.

Solution:**In the books of Mr. Raj****Statement of Affairs as on -----**

Liabilities	31.3.2018 (₹)	31.3.2019 (₹)	Assets	31.3.2018 (₹)	31.3.2019 (₹)
Creditors	30,000	60,000	Debtors	40,000	50,000
Bank Overdraft	32,000	40,000	10% Govt. Bonds	—	20,000
Bills Payable	18,000	22,500	Furniture	12,000	12,000
Capital	61,000	98,500	Stock	40,000	60,000
(Balancing Figure)			Machinery	30,000	50,000
			Cash in hand	4,000	10,000
			Bills Receivable	15,000	19,000
	1,41,000	2,21,000		1,41,000	2,21,000

Statement of Profit or Loss for the year ended 31.3.2019

Particulars	Amt. (₹)	Amt. (₹)
Closing Capital		98,500
Add : Drawings		2,000
		1,00,500
Less: Additional Capital		6,000
Adjusted Closing Capital		94,500
Less: Opening Capital		61,000
Profit before adjustments		33,500
Add : Incomes and Gains during the year		
1. Interest on Drawings (10% on ₹ 2000 for 6 months)	100	
2. Interest on Govt. Bonds (10% on ₹ 20000 for 6 months)	1,000	1,100
		34,600
Less : Expenses and Losses during the year		
1. i) Interest on Opening Capital (₹ 61,000×10/100) = ₹ 6,100		
ii) Interest on Additional Capital (₹ 6,000 × 10/100 × 6/12) = ₹ 300	6,400	
2. Depreciation on Furniture (₹ 12,000×10/100)	1,200	
3. Depreciation on Machinery = ₹ 3,000 (₹ 30,000 × 10/100)		
Depreciation on additional Machinery = ₹ 1,000 (₹ 20,000 × 10/100 × 6months/12months)	4,000	
4. Bad debts	2,000	
5. R.D.D. 5% on Debtors (₹ 50,000 – ₹ 2,000 = ₹ 48,000) (5% on ₹ 48,000)	2,400	
6. Overvaluation of Stock (W.N.1)	10,000	
7. Undervaluation of Creditors (W.N.2)	15,000	41,000
Net Loss for the year		(-) 6,400

Working Note:

1) Stock is Overvalued by 20%, So we have to find out the Actual value of Stock

$$\text{Actual Value} = \frac{\text{Book Value}}{100 + \% \text{ of overvaluation}} \times 100$$

$$\text{Actual Value} = \frac{\text{₹ } 60,000}{100 + 20} \times 100$$

$$\text{Actual Value} = \frac{\text{₹ } 60,000}{120} \times 100$$

$$\text{Actual Value} = \text{₹ } 50,000$$

Therefore Actual value of stock is lesser than the Book Value by ₹ 10,000 (i.e. ₹ 60,000 – ₹ 50,000) It is a loss and deducted in the statement of Profit or Loss

2) Creditors are undervalued by 20%. We have to find out the Actual value of Creditors

$$\text{Actual Value} = \frac{\text{Book Value}}{100 - \% \text{ of undervaluation}} \times 100$$

$$\text{Actual Value} = \frac{\text{₹ } 60,000}{100 - 20} \times 100$$

$$\text{Actual Value} = \frac{\text{₹ } 60,000}{80} \times 100$$

$$\text{Actual Value} = \text{₹ } 75,000$$

Therefore Actual value of creditors is greater than the Book Value by ₹ 15,000 (i.e. ₹ 75,000 – ₹ 60,000) It is a profit and added to in Statement of Profit or Loss.



Activity-I

Visit a small business unit and collect information regarding incomes, expenses, assets, liabilities and prepare a Statement of Affairs and Statement of Profit or Loss.



Activity –II

Visit the business units which follows Single Entry System to find out Profit or Loss of their business.

EXERCISE

Q.1 Answer in One sentence only.

1. What do you mean by Single Entry System?
2. What is Statement of Affairs?
3. Which types of accounts are normally not kept under the Single Entry System?
4. Which statement is prepared under the Single Entry system to ascertain the capital balances?
5. How Opening Capital is calculated under Single Entry System?
6. Which type of accounts are maintained under Single Entry System?
7. Can a Trial Balance be prepared under Single Entry System?
8. Which type of organization generally follows Single Entry System?

Q.2 Write a word, term or phrase which can substitute each of the following statements.

1. A statement which is similar to Balance Sheet.
2. System of Accounting normally suitable to small business organization.
3. A statement similar to Balance Sheet prepared to find out the amount of opening capital
4. An excess of assets over liabilities.
5. Excess of closing capital over opening capital of proprietor under Single Entry System.
6. Name of method of accounting suitable to firms to having limited transactions.
7. A System of accounting which is unscientific.
8. Further capital introduced by the proprietor in the business concern over and above his existing capital.

Q.3 Select the most appropriate answer from the alternatives given below and rewrite the sentence.

- 1) The capital balances are ascertained by preparing -----
a) Statement of affairs b) Cash Account
c) Drawings Accounts d) Debtors Accounts
- 2) Under Single Entry System, Opening Capital = Opening Assets less-----
a) Opening Liabilities b) Closing Liabilities c) Debtors Account d) Creditors Account
- 3) Additional Capital introduced during the year is ----- from closing capital in order to find out the correct profit
a) Added b) Deducted c) Divided d) Ignored
- 4) Single Entry System may be useful for -----
a) Sole traders b) Company c) Government d) None of these
- 5) In order to find out the correct profit, drawings is ----- from closing capital
a) Multiplies b) Divided c) Deducted d) Added

- 6) The difference between assets and liabilities is called -----
a) Capital b) Drawings c) Income d) Expenses
- 7) When Closing Capital is greater than the Opening Capital, the difference is -----
a) Profit b) Loss c) Assets d) Liabilities
- 8) Opening Capital is ₹ 30,000; Closing Capital is ₹60,000; Withdrawals are ₹ 5,000; and further capital brought in is ₹3,000; Profit is -----
a) ₹ 45,000 b) ₹ 35,000 c) ₹ 32,000 d) ₹ 22,000

Q.4 State True or False with reasons:

- 1) Double Entry System of Book-keeping is scientific method of books of accounts
- 2) Preparation of Trial Balance is not possible under Single Entry System
- 3) Statement of Affairs and Balance Sheet are one and the same.
- 4) Single Entry System is not useful for large organization.
- 5) Only Cash and Personal accounts are maintained under Single Entry System.

Q.5 Do you agree with the following statements?

- 1) Further capital introduced during the year increases profit.
- 2) Interest on Drawings decreases the amount of profit under Single Entry System.
- 3) Real and Nominal accounts are not maintained under Single Entry System.
- 4) Single Entry System is based on certain rules and principles
- 5) Statement of Profit is just like Profit and Loss Account.

Q.6 Fill in the Blanks

- 1) Statement of Affairs is just like -----
- 2) Under Single Entry System, Profit=Closing Capital Less -----
- 3) In order to find out the correct profit, drawings are ----- to the closing capital.
- 4) In ----- Book Keeping System, in every business transactions we find two effects.
- 5) The difference between Assets and Liabilities is called -----
- 6) Single Entry System is more popular for -----
- 7) Additional Capital introduced during the year is ----- from Closing Capital in order to find out the correct profit.
- 8) Single Entry System is Suitable for ----- business.

Q.7 Find the odd one :

- 1) Interest on Drawings, Outstanding Expenses, Undervaluation of Assets, Prepaid Expenses.
- 2) Interest on Capital, Interest on Loan, Overvaluation of Liabilities, Depreciation on Assets.
- 3) Creditors, Bills Payable, Bank Overdraft, Stock in Trade

Q.8 Complete the following table :

1)	Closing Capital		Opening Capital		Profit				
	₹ 10,000	–	₹ 5,000	=					
2)	Opening Assets		Opening Liabilities		Opening Capital				
		–	₹ 20,000	=	₹ 10,000				
3)	Closing Assets		Closing Liabilities		Closing Capital				
	₹ 10,000	–	₹ 5,000	=					
4)	Closing Capital	+	Drawings	=	Adjusted Closing Capital	–	Opening Capital	=	Profit
			₹ 15,000		₹ 40,000		₹ 20,000		
5)	Cash in Hand	+	Cash at Bank	=	Sundry Debtors	–	Bills Payable	=	Capital
	₹ 10,000		₹ 5,000		₹ 8,000		₹ 4,000		

Q.9 Complete the following table. Put Proper mark in Box

When the closing capital is given

	Add	Less
1) Drawings	<input type="text"/>	<input type="text"/>
2) Prepaid Expenses	<input type="text"/>	<input type="text"/>
3) Overvaluation of Liabilities	<input type="text"/>	<input type="text"/>
4) Undervaluation of Liabilities	<input type="text"/>	<input type="text"/>
5) Interest on Drawings	<input type="text"/>	<input type="text"/>
6) Opening Capital	<input type="text"/>	<input type="text"/>
7) Undervaluation of Assets	<input type="text"/>	<input type="text"/>
8) Interest on Capital	<input type="text"/>	<input type="text"/>
9) Depreciation of Assets	<input type="text"/>	<input type="text"/>
10) Bad debts	<input type="text"/>	<input type="text"/>

PRACTICAL PROBLEMS

1. Mr. Poonawala keeps his books under Single Entry System and gives the following information:

Capital as on 31.3.2017- ₹ 60,000

Capital as on 31.3.2018 – ₹ 1,00,000

Drawings made during the year ₹ 2,000

Additional capital introduced during the year ₹ 12,000

Calculate Profit or Loss during the year

2. Sujit a small trader provides you the following details of his business.

Particulars	1.4.2017 (₹)	31.3.2018 (₹)
Cash in Hand	2,000	7,000
Debtors	40,000	60,000
Creditors	50,000	80,000
10% Govt. Bonds	—	9,000
Bank Overdraft	70,000	30,000
Motor Van	50,000	70,000
Furniture	15,000	15,000
Stock	70,000	90,000
Bills Receivable	70,000	90,000

Additional information:

1. Sujit withdraws ₹ 5,000 for his personal use, on 1st Oct. 2017
2. He had also withdraws ₹ 30,000 for rent of his residential flat.
3. Depreciation Furniture by 10% p.a. and writes off ₹ 1,000 from Motor Van.
4. Charge interest on Drawings ₹ 3,000
5. 10% Govt. Bonds were purchased on 1st Oct. 2017
6. Allow interest on capital at 10% p.a.
7. ₹ 1,000 is written off as bad debts and provide 5% p.a. R.D.D on Debtors

Prepare: Opening Statement of Affairs, Closing Statement of Affairs and statement of Profit or Loss for the year ending 31st March,2018.

3. Anjali keeps her books by Single Entry System. Her position on 1.4.2016 was as follows.

Cash at Bank ₹ 4,000, Cash in Hand ₹ 1,000, Stock ₹ 6,000; Sundry Debtors ₹ 8,400, Plant and Machinery ₹ 7,500, Bill Receivable ₹ 2,600, Creditors ₹ 3500; Bills Payable ₹ 4,000

On 31.3.2017 her position was as follows; cash at Bank ₹ 3,900, Cash in Hand ₹ 2,000. Stock ₹ 9000, Sundry Debtors, ₹ 7,500; Plant and Machinery ₹ 7,500; Bills Payable ₹ 2,200, Bills Receivable ₹ 3,400; Creditors ₹ 1,500

During the year Anjali introduced further Capital of ₹ 1,500 and she spent ₹ 700 per month for her personal use.

Depreciation Plant and Machinery by 5% p.a. and create Reserve for Doubtful debts @5%p.a. on debtor.

Prepare Opening and Closing Statement of Affairs and Statement of Profit or Loss for the year ended 31.3.2017

4. Mr. Vijay is dealing in the business of fruits. He maintains accounting record with single entry. The following figures are taken from his record.

Particulars	31.3.2017 (₹)	31.3.2018 (₹)
Building	50,000	60,000
Furniture	30,000	30,000
Plant and Machinery	20,000	40,000
Sundry Debtors	30,000	50,000
Stock	15,000	25,000
Cash Balance	10,000	20,000
Bills Receivable	5,000	10,000
Sundry Creditors	30,000	15,000
Bank Overdraft	8,000	—
Bank Balance	—	12,000

Additional information:

1. Mr. Vijay introduced ₹ 7,000 as fresh capital.
2. He spent ₹ 40,000 from his business for his daughter's marriage.
3. Depreciate Building by ₹ 6,000
4. Create 5% reserve for doubtful debts on Sundry Debtor.

- Prepare -
1. Opening Statement of Affairs
 2. Closing Statement of Affairs
 3. Statement of Profit or Loss for the year ended 31.3.2018

5. Miss. Fiza keeps her books on Single Entry System and disclosed the following information of her business.

Particulars	1.4.2017 (₹)	31.3.2018 (₹)
Debtors	25,000	45,000
Investments	—	40,000
Plant and Machinery	10,000	10,000
Creditors	30,000	33,000
Stock	32,000	35,000
Cash at Bank	16,000	50,000
Bills Payable	5,000	8,000

Additional information:

1. Miss. Fiza transferred ₹ 2,000 per month during the first half year and ₹ 1000 per month for the second half year from business account to her personal account.
2. She sold her private asset for ₹ 40,000 and brought the proceeds into her business.
3. She also took goods worth ₹ 12,000 for private use.
4. Plant and Machinery is to be depreciated by 10% p.a.
5. Provide R.D.D. on debtors at 5% p.a.

- Prepare-
1. Opening Statement of Affairs
 2. Closing Statement of Affairs
 3. Statement of Profit or Loss for the year ended 31.3.2018

6. Miss. Sanika keeps her books on Single Entry System. The statement of affairs is given on 31st March, 2018.

Liabilities	Amt (₹)	Assets	Amt (₹)
Creditors	12,000	Plant and Machinery	17,000
Bills Payable	8,500	Debtors	19,500
Capital Balance	38,500	Stock	9,000
		Cash in Hand	7,500
		Bills Receivable	6,000
	59,000		59,000

On 31st March 2018 their Assets and Liabilities were as follows:

Plant and Machinery ₹ 42,000, Stock ₹ 38,000, Cash in Hand ₹ 10,000, Creditors ₹ 7,000, Debtors ₹ 25,000, Bills Payable ₹ 6,000

Drawings during the year was ₹ 5,500, Plant and Machinery was found Overvalued by 5% p.a. and Stock was found Undervalued by 20 % p.a., R.D.D. was to be created at 10% p.a. on Debtors, Interest on Capital was allowed at 10% p.a.

Prepare- 1. Closing Statement of Affairs

2. Statement of Profit or Loss for the year ended 31st March,2018

7. Mr. Suhas commenced his business with the Capital of ₹ 1,50,000 on 1st April, 2017. His financial position was as follows as on 31st March 2018, Cash ₹ 20,000, Stock ₹ 15,000, Debtors ₹ 30,000, Premises ₹ 90,000, Vehicles ₹ 45,000, Creditors ₹ 18,500, Bills Payable ₹ 10,000

Additional information;

1. He brought additional capital ₹ 10,000 on 30th Sept. 2017, Interest on capital is to be provided at 5% p.a.
2. He withdrew ₹ 15,000 for personal use on which interest is to be charged at 5% p.a.
3. Write off Bad debts ₹ 500

Prepare- 1. Closing Statement of Affairs

2. Statement of Profit or Loss for the year ended 31.3.2018

8. Ganesh keeps his books by Single Entry Method. Following are the details of his business:

Particulars	1.4.2016 (₹)	31.3.2017 (₹)
Cash in Hand	15,000	22,000
Cash at Bank	30,000	45,000
Stock	8,000	13,000
Furniture	20,000	20,000
Plant and Machinery	90,000	1,10,000
Building	50,000	50,000
Debtors	27,000	38,000
Creditors	8,000	10,000

During the year he has withdrawn ₹ 25,000 for his private purpose and goods of ₹ 3,000 for household use. On 1st Oct. 2016. He sold his household furniture for ₹ 4,000 and deposited the same amount in business Bank Account.

Provide Depreciation on Plant and Machinery at 10 % p.a. (assuming additions were made on 1st Oct. 2016) and Furniture at 5 %.

- Prepare
1. Opening Statement of Affairs
 2. Closing Statement of Affairs
 3. Statement of Profit or Loss for the year ended 31.3.2017

Peter keeps his books on Single Entry System. From the following particulars, Prepare Opening and Closing Statement of Affairs and Statement of Profit or Loss for the year ending 31st March,2018.

Particulars	31.3.2017 (₹)	31.3.2018 (₹)
Bank Balance	46,000	38,000
Cash Balance	8,500	15,000
Sundry Debtors	80,000	1,30,000
Stock	70,000	1,00,000
Furniture	18,000	18,000
Sundry Creditors	40,000	45,000
Bills Payable	15,000	30,000

Additional Information:

1. Peter has withdrawn ₹ 15,000 from the business for his personal use.
2. He has introduced additional capital of ₹ 10,000 in the business on 1st January, 2018.
3. Depreciate furniture @ 10% p.a.
4. Maintain reserve for doubtful debts @ 5% on Sundry Debtors.
5. Closing Stock is overvalued by 25% in the books.

10. Suresh keeps his books by Single Entry System. His position on 1.4.2017 was as follows.

Cash at Bank ₹ 4,000, Cash in Hand ₹ 3,000; Stock ₹ 8,000; Sundry Debtors ₹ 9,000; Plant & Machinery ₹ 10,000; Bills Receivable ₹ 3000; Creditors ₹ 1500; Bills Payable ₹ 2000.

On 31st March, 2018, his position was as follows:

Cash at bank ₹ 6,400; Cash in Hand ₹ 1,800; Stock ₹ 10000; Sundry and Debtors ₹ 8,000; Plant & Machinery ₹ 10,000; Bills Payable ₹ 4,000; Bills Receivable ₹ 5,200; Creditors ₹ 2,000. During the year Suresh introduced further capital of ₹ 3,000 and his drawings were ₹ 700 per months.

Depreciate Plant & Machinery by 5% and create a reserve for bad doubtful debts @ 5%

- Prepare-
1. Opening Statement of Affairs
 2. Closing Statement of Affairs
 3. Statement of Profit or Loss for the year ended 31.3.2018



Answer Key

1

Introduction to Book-keeping and Accountancy

Q.2 Give the word term or phrase which can substitute each of the following statements:

Answers : 1) Book-keeping 2) Capital 3) Creditor 4) Transaction 5) Loss 6) Solvent 7) Decision Making 8) Assets 9) Current Assets 10) Trade Discount

Q.3 Select the most appropriate alternatives from those given below and rewrite the statements.

Answers : 1) Profit 2) Cash 3) Bad Debts 4) Disclosure Concept 5) Goods 6) Goodwill 7) AS-3 8) Conservatism 9) Narration 10) Transaction

Q.4 State whether the following statements are true or false with reasons :

Answer : True : 2, 3, 5, 7, 8, 10 False : 1, 4, 6, 9

Q.5 Do you agree or disagree with the following statements :

Answer : Agree : 2, 5 Disagree : 1, 3, 4

Q.6 Complete the following sentences :

Answer : 1) Income 2) Operating profit 3) Deferred revenue expenditure 4) Trade discount
5) Creditor

2

Meaning and Fundamentals of Double Entry Book-keeping

Q.2 Write one word / term or phrase which can substitute each of the following statement.

Answer :

1) Double Entry System 2) Credit side 3) Drawings A/c 4) Real A/c
5) Nominal A/c 6) Debit side 7) Intangible Asset 8) Luca D. Bargo Pacioli
9) Single Entry system 10) Double Entry system

Q.3 Select the most appropriate alternatives from those given below and rewrite the statements.

Answer :

- | | | | |
|------------------|-------------------------|-------------|-------------|
| 1) 10th November | 2) Indian system | 3) Credit | 4) Personal |
| 5) Real | 6) an intangible | 7) Personal | 8) Giver |
| 9) Goes out | 10) Expenses and Losses | | |

Q.4 State whether the following statements are True or False with reasons.

Answer : 1) False, 2) False, 3) True, 4) True, 5) False, 6) False, 7) True, 8) True, 9) False, 10) False, 11) True, 12) False, 13) False, 14) True, 15) False.

Q.5 Fill in the blanks.

Answer : 1) Credited 2) Capital 3) Debited 4) Double entry system
5) Income and gains 6) Real 7) Single entry 8) Real
9) Nominal 10) Two Fold 11) Real 12) Real

Q.6 Classify the following accounts under the types of Personal, Real and Nominal account.

Answer : 1) Personal Account:- 1, 3, 5, 8, 9, 16, 17, 19, 20, 24, 29, 31, 34, 35, 38.
2) Real Account:- 2, 6, 7, 12, 14, 21, 23, 26, 28, 32, 33.
3) Nominal Account:- 4, 10, 11, 13, 15, 18, 22, 25, 27, 30, 36, 37, 39, 40.



Journal

Q.2 Give one word/term or phrase for each of the following statements:

Answer : 1) Journal; 2) GST; 3) Narration; 4) Journalising; 5) Jour; 6) Cash discount; 7) Combined Entry; 8) Drawings; 9) Input Tax; 10) Ledger Folio.

Q.3 Select the most appropriate alternative from the alternatives given below and rewrite the statement.

Answer : 1) Narration, 2) Trade discount, 3) Journalise, 4) Narration, 5) Ledger folio, 6) Customer A/c, 7) Machinery, 8) Commission A/c, 9) Dena Bank Loan A/c, 10) Live stock A/c

Q.4 State whether the following statements are True or False with reasons.

Answer : True : 2, 3, 4, 8, 10 False : 1, 5, 7, 6, 7, 9

Q.5 Fill in the blanks.

Answer : 1) Journal; 2) Journalising; 3) Narration; 4) Trade; 5) Discount; 6) Narration; 7) Cash; 8) Voucher; 9) Three; 10) Crossed.

Q.7 Correct the following statements and rewrite the statements

Answer : 1) Only monetary transactions are recorded in the Journal.
2) Cash discount is recorded in the books of accounts.
3) Journal is a book of Prime entry.
4) GST is imposed by the Government of India from 1st July, 2017.
5) Machinery purchased by the proprietor increases his Capital.

Q.8 Do you agree or disagree with following statements.

Answer : Agree : 1, 3, 5 Disagree : 2, 4

Q.9 Calculate the following :

Answer : 1) ₹ 36,000 2) CGST 250, SGST ₹ 250 3) ₹ 1,050, 4) 10%, 5) ₹ 40,500

4

Ledger

Q.2 Write the word, term, phrase, which can substitute each of the statement.

Ans: 1) Ledger 2) Posting 3) Ledger folio 4) Balancing 5) Debtor 6) Bank overdraft 7) Loss by fire 8) Net Trial Balance

Q.3 Select appropriate alternatives from those given below and rewrite the sentences.

Ans: 1) Personal 2) Closing 3) J.F. 4) Debit 5) Balancing 6) Posted 7) Debit 8) Trial balance

Q.4 State whether the following statements are 'True or False' with reasons.

Ans: True : 5, 6, 8 False: 1, 2, 3, 4, 7

Q.5 Fill in the blanks.

Ans: 1) debit 2) debit 3) credit 4) credit 5) Nominal 6) brought down 7) Drawings 8) ₹ 20,000

Q.2 Prepare necessary Ledger Accounts from the following Subsidiary Books.

Answer : Debit balance-Purchases A/c ₹ 21,300 Credit balances-Purchases Return A/c ₹ 1,330, Amol's A/c ₹ 7,500, Aishwarya's A/c ₹ 1,920, Vivek's A/c ₹ 3,900, Sheth's A/c ₹ 5,850, Shabari's A/c ₹ 800.

Q.3 From the following transactions prepare necessary Ledger Accounts in the Books of Vinay and balance the same.

Answer : Debit balances- Cash A/c ₹ 10,400, Bhushan's A/c ₹ 1,400, Purchases A/c ₹ 6,600, Wages A/c ₹ 400 Credit balances- Vinay's capital A/c ₹ 10,000, Vikas's A/c ₹ 1,400, Sales A/c ₹ 7,400.

Q.4 Journalise the following transactions and prepare Cash A/c only.

Answer : Cash A/c ₹ 9,450

Q.5 Prepare Aparna's account in books of Suparna.

Answer: Discount allowed A/c ₹ 1,150

Q.6 Prepare Cash A/c, Bank A/c, Purchases A/c, Sales A/c and Capital A/c. and balance the same in the books of Madanlal.

Answer : Debit balance- Cash A/c ₹ 2,000, Purchases A/c ₹ 13,000, Bank A/c ₹ 37,750. Credit balance-Sales A/c ₹ 12,500, Madanlal's Capital A/c ₹ 40,000, Excess amount deposited into bank ₹ 4,500.

Q.7 Journalise the following transactions; post them into Ledger for February 2019

Answer : Debit balance : Purchases A/c ₹ 30,600, Cash A/c ₹ 1,58,100, Stationery A/c ₹ 4500, Advertisement A/c ₹ 2,000, Dev's A/c ₹ 400, Sagar's A/c ₹ 6,300, **Credit balance :** Sunil's capital A/c ₹ 1,40,000, Loan from Kedar A/c ₹ 50,000, Shekhar's A/c ₹ 5,600, Sales A/c ₹ 6,300.

Q.8 Journalise the following transactions and Prepare ledger accounts in the books of Sanjeev.

Answer : Debit balance – Cash A/c ₹ 7,550, Purchases A/c ₹ 2,000, Input SGST A/c ₹ 50, Input CGST ₹ 50, Rent A/c ₹ 250, Drawings A/c ₹ 300, Mobile charges A/c ₹ 700. Credit balance – Commission A/c ₹ 10,000, Sales A/c ₹ 3,000, Output SGST A/c ₹ 75, Output CGST A/c ₹ 75.

Q.9 The following ledger balances were extracted from the books of Pawan Pawar, Pune as on 1st July 2019

Answer : Debit balance : Machinery A/c ₹ 4,40,000, Rashmi's A/c ₹ 79,600, Purchases A/c ₹ 2,55,000, Sales Return A/c ₹ 40,400, Cash ₹ 95,800, Bank A/c ₹ 1,66,000, Stationery A/c ₹ 5,000, Salary A/c ₹ 10,000, Discount Allowed A/c ₹ 1,000.

5

Subsidiary-Books

Q.2 Give word/term or phrase for each of the following statements :

Ans. : 1) Petty cashier 2) Current Account 3) Analytical Petty Cash Book 4) Purchase Book 5) Sales Returns Book 6) Contra 7) Savings 8) Debit Note 9) Credit Note 10) Current Account.

Q.3 Select the most appropriate answers from the alternatives given below and rewrite the sentences

Ans. : 1) (a) credit 2) (d) contra 3) (b) outward invoice 4) (c) journal proper 5) (a) subsidiary 6) (b) cash book 7) (d) Journal proper 8) (c) receipts 9) (e) (a) drawer 10) (c) fixed.

Q.4 State whether the following statements are True or False with reasons :

Ans. : True : 5 False : 1, 2, 3, 4

Q.5 Do you agree with the following statements.

Ans. : Agreee : 3, 4 Disagree : 1, 2, 5

Q.6 Complete the following sentences :

Ans. : 1) Subsidiary 2) Cash 3) Purchase return 4) Journal proper 5) bank 6) Purchase Book
7) credit 8) Overdraft 9) Petty 10) Credit

Q.8 Calculate the following.

Ans. : 1) ₹ 1,36,800 2) ₹ 840 3) ₹ 39,000 4) ₹ 1,200

1. Prepare a two column Cash Book with the help of following information for January 2018.

Ans. : Closing cash in hand ₹ 64,500 : Cash at Bank ₹ 70,000

2 Prepare two column Cash Book from the following transaction for the year July 2018.

Ans. : Closing cash in hand ₹ 8,800 cash at bank ₹ 10,000

3 Record the following transactions in Cash Book of M/s Kamal Traders. Balance for the month of July 2018 : Cash in hand ₹ 2,000 and balance in Bank Current account ₹ 8,000.

Ans. : Closing Cash in hand ₹ 16,600 Cash at bank ₹ 6,500

Exercise 4 : Prepare Analytical Petty Cash Book from the following transactions in the books of Swarali General Stores, Kolhapur. The imprest amount is ₹ 1,500 received from main cashier.

Ans. : Cash balance ₹ 435, Total petty expenses ₹ 1065 cash to be received from main cashier on 1st Feb. ₹ 1,065

5. From the following information prepare Columnar Petty Cash Book kept on imprest system in the books of Manisha Books Stall, Beed.

Ans. : Total of petty expenses : ₹ 1,055, Cash balance at the end : ₹ 345. Cheque be received by Petty cashier from Head cashier on 1st May 2018 ₹ 1,055

6. Prepare proper Subsidiary Books and post them to the ledger from the following transactions for the month of February 2018.

Ans. Total of Sales Book ₹ 20,670, Purchase Book ₹ 16,870,
Purchase Return Book ₹ 1,380, Sales Return Book ₹ 1,350

7. Enter the following transactions in the books of Vijay in Purchase Book, Sales Book, Purchase Returns Book and Sales Returns Book and Journal Proper for the month of August 2018.

Ans. : 1) Purchase Book : ₹ 60,900; 2) Sales Book : ₹ 34,680; 3) Purchase Return Book : ₹ 4,730; 4) Sales Returns Book : ₹ 5,100; 5) Journal Proper : ₹ 30,000.

8. Mr. Akash gives you the following information and asks you to prepare Purchase Book, Sales Book, Purchase Returns Book and Sales Return Book for the month of January 2018.

Ans. : 1) Purchase Book : ₹ 42,500; 2) Sales book : ₹ 46,300; 3) Purchase Return book : ₹ 2,300; 4) Sales Returns book : ₹ 690.

9. Enter the following transactions in the Subsidiary Book of Kamal Traders.

Ans. : 1) Purchase Book : ₹ 30,933; 2) Sales book : ₹ 30,041; 3) Purchase Return book : ₹ 3,195; 4) Sales Returns book : ₹ 620; 5) Journal Proper : ₹ 13,000

10. Enter the following transactions in the Subsidiary Books of Navyug Traders :

Ans. : 1) Purchase Book : ₹ 35,900; 2) Sales Book : ₹ 36,050; 3) Purchase Return Book : ₹ 1,400; 4) Sales Returns book : ₹ 3,400; 5) Journal Proper : ₹ 43,300.

6

Bank Reconciliation Statement

Q.2. Give one word / term / phrase which can substitute each of the following statement:

Answer : 1. Current account. 2. Pass Book.
3. IFSC (Indian Financial System Code). 4. Bank Reconciliation Statement.
5. Overdraft as per Pass Book. 6. Pay-in-slip.
7. Counterfoil. 8. Overdraft as per Cash Book.
9. Cash Book. 10. Bank balance (favourable balance).

Q.3. Do you agree or disagree with the following statements:

Answer : Agree : 1, 2, 3, 8, 9, 10 Disagree : 4, 5, 6, 7

Q.4. Select the most appropriate alternative from those given and rewrite the following statements:

Answer : 1. Credit. 2. Credited. 3. Bank statement. 4. Increases.
5. Businessman. 6. Credit. 7. Current 8. Favourable.
9. Common. 10. Uncommon.

Q.5. Complete the following statements :

Answer : 1. Debited. 2. Bank. 3. Cash.
4. Bank Reconciliation Statement. 5. Increase.
6. Payment / credit. 7. Debited. 8. Credit.
9. Withdrawal slip. 10. Bank advice.

Q.6. State whether the following statements are True or False with reasons :

Answer : True : 2, 4, 5 False : 1, 3

3. On 31st August 2018 bank Pass Book of Mr. Ravi showed a credit balance of ₹ 33,600, but Cash Book showed a different balance. On comparing the two books following differences were noticed:

Answer : Bank Overdraft as per Cash Book ₹ 300

4. From the following details prepare Bank Reconciliation Statement as on 31st Dec 2018.

Answer : Bank Overdraft as per Pass Book ₹ 46,890

5. From the following particulars prepare Bank Reconciliation Statement as on 30th June 2019.

Answer : Bank Balance as per Cash Book ₹ 28,100

6. Prepare Bank Reconciliation statement from the following information as on 31st March, 2019.

Answer : Bank balance as per Pass Book ₹12,070

7. On 31st January 2018 Bank balance as per Cash Book was ₹40,000 but Pass Book was showing some other balance following were the causes of difference.

Answer : Overdraft as per Pass Book ₹25000

8. On January 2018, the Pass Book of Mr. Girish Kumbhar showed a bank balance of ₹14,000. A comparison of the Cash Book with the Pass Book, revealed the following.

Answer : Overdraft as per Pass Book ₹13,975

9. Form the following details provided by Prashant enterprises, prepare Bank Reconciliation statement as on 31st March, 2018.

Answer : Overdraft as per Pass Book ₹26,500

10. Prepare Bank Reconciliation Statement as on 31st Dec. 2018

Answer : Overdraft as per Pass Book ₹16,230



Depreciation

Q.2 Write the word/term/phrase which can substitute each of the following statement:

Answers : 1.Depreciation 2.Cost of Asset 3.Scrap value 4.Life period of asset. 5.Fixed Instalment Method. 6.Reducing Balance Method. 7.Fixed asset. 8.Installation Charges. 9.Profit on sale of asset. 10.Diminishing Balance Method.

Q.3 Select the most appropriate answers from the alternatives given below and rewrite the sentence.

Answers –1- Depreciation, 2- Fixed, 3 – Capital, 4 - Scrap value, 5 - Written Down Value Method, 6 - Straight Line Method, 7 - Profit & Loss A/c.

Q.4 State whether the following Statements are True or False with reasons.

Answers – True - 1, 3, 4 False - 2, 5, 6, 7, 8

Q.5 Complete the following sentence.

Answers : 1.Fixed 2.Machinery 3. Diminishing balance 4. Scarp value 5. Depreciation 6. Constant. 7. Capital. 8. Scrap value. 9. Nominal. 10. Depretium.

Q.6 Do you agree or disagree with the following statements.

Answers : Agree : 1, 3, 5 Disagree : 2, 4

Q.8 Calculate the following.

Answer: 1. Depreciation ₹ 3,000 p.a. 2. Depreciation ₹ 3,200 p.a. 3. Depreciation ₹ 9,000 4. W.D.V. ₹ 1,75,500 5. Loss on sale of Machinery ₹ 1,750

Answer: Depreciation for each years-₹ 5,000. Balance of Motor Car -₹ 40,000

Answer: Depreciation for First year-₹3,750. Depreciation for Second year -₹ 15,000 Depreciation for Third year - ₹7,500. Loss on sale of Machine -₹3,750

Answer: Depreciation for First year - ₹2,700. Depreciation for Second year - ₹ 13,200
Depreciation for Third year - ₹14,250 Loss on sale of Machinery - ₹ 1,100
Balance of Machinery - ₹ 73,750

Answer: Depreciation for First year - ₹ 375. Depreciation for Second year - ₹ 1,500
Depreciation for Third year - ₹ 3,375 Depreciation for fourth year- ₹ 7,000
Balance of Plant - ₹ 57,750

Answer : Depreciation for First years - ₹ 20,000. Depreciation for Second years - ₹ 23,000
Depreciation for Third year - ₹ 24,000 Profit on sale of Machinery - ₹ 2,000
Balance of Machinery - ₹ 1,40,000

Answer : Depreciation for First year - ₹ 1,250. Depreciation for Second year - ₹ 6,875
Depreciation for Third year - ₹ 3,750 Loss on sale of Machinery - ₹ 2,500
Balance of Machinery - ₹ 20,625

Answer: Depreciation for First year - ₹ 8,000. Depreciation for Second year - ₹ 16,650
Depreciation for Third year - ₹ 20,070 Depreciation for fourth year- ₹ 16,056
Balance of Printing Machinery A/c - ₹ 64,224

Answer: Depreciation for First year - ₹ 6,000. Depreciation for Second year - ₹ 6,900
Depreciation for Third year - ₹ 8,710 Depreciation for fourth year- ₹ 7,381
Balance of Machinery A/c - ₹ 64,429 Loss on sale - ₹ 3,420

Answer: Depreciation for First year- ₹2,500. Depreciation for Second year- ₹2,850.
Loss on sale of Furniture - ₹2,100. Depreciation for Third year- ₹2,755.
Balance of Furniture A/c - ₹24,795.

Answer: Depreciation for First year- ₹ 2,000. Depreciation for Second year- ₹ 7,800.
Depreciation for Third year- ₹ 12,765. Loss on sale of Plant- ₹ 4,935.
Balance of Plant - ₹ 82,500.

Answer: Depreciation for First year- ₹ 8,000. Depreciation for Second year- ₹ 7,500.
Loss on sale of Machinery- ₹ 3,600. Depreciation for Third year- ₹ 5,580.
Balance of Machinery - ₹ 22,320.

8

Rectification of Errors

Q.2 Give one word/term or phrase for each of the following statements.

Answer: 1) One sided errors 2) Overcasting 3) Errors of Omissions 4) Error of Principle
5) Suspense Account 6) Compensating error 7) Two sided errors 8) Error of commission

Q.3 Select the most appropriate alternative from those given below and rewrite the sentence.

Answer : 1) Journal Proper , 2) two sided error, 3) commission, 4) -Error of omission,
5) Trial Balance

Q.4 State whether the following statements are True or False with reasons.

Answer: True : 1,2,4 False : 3,5

Q.5 Do you agree or disagree with the following statements.

Answer: Agree : 1, 3, 4 Disagree : 2, 5

Q.6 Complete the following sentence.

Answer: 1) Accuracy 2) errors of principle 3) Rectifying 4) suspense account 5) wrong

9. There was an error in the Trial Balance of Mr. Yashwant on 31st March 2019, and the difference in Books was carried to a Suspense Account. On going through the Books you found that.

Answer : Opening Cr Balance of Suspense A/c ₹ 1,580

9

Final Accounts of a Proprietary concern

Q.2 Give a word, term or phrase which can substitute each of the following statements:

Answer : 1) Prepaid Expenses, 2) Accrued Income, 3) Carriage Outward, 4) Balance Sheet,
5) Profit & Loss Account, 6) Closing Stock, 7) Provision For Bad & Doubtful Debts, 8) Final
Accounts, 9) Selling Expenses, 10) Adjustments.

Q.3 Select the most appropriate alternatives given below and rewrite the sentence :

Answer : 1) Capital, 2) Profit & Loss account, 3) Balance Sheet, 4) Liability, 5) Profit & Loss account, 6) Gross loss, 7) Trading A/c 8) Net Profit, 9) Less, 10) Six,

Q.4 State True or False with reasons :

Answer : True : 2, 5 False : 1, 3, 4

Q.5 Fill in the blanks :

Answer : 1) Profit & Loss account, 2) Gross loss, 3) Asset, 4) Profit & Loss account, 5) Net working, 6) Trading Account, 7) Profit & Loss Account, 8) Net loss 9) Trading A/c 10) Statement.

Q.6 Find the odd one :

Answer : 1) Plant and Machinery, 2) Debtors, 3) Debtors, 4) Factory Rent, 5) Reserve for Doubtful Debts

Q.7 Do you agree or disagree with the following statement :

Answer : Agree : 1, 5 Disagree : 2, 3, 4

Q.9 Calculate the following.

Answer : 1) ₹ 60,050 2) ₹ 2,100 3) ₹ 24,000 4) ₹ 2,667 5) ₹ 26,800 (Gross Profit)

2. Prepare Profit and Loss Account of Sanjay Brothers for the year ended 31st March, 2018 from the following balances.

Ans. : Gross Profit Rs. 40,000

3. From the following Trial Balance of Sanjiv & Sons. Prepare Trading Account and Profit & Loss Account for the year ending on 31st March, 2019 and a Balance Sheet as on that date.

Answer : Gross Profit ₹ 2,81,000, Net Profit 2,05,700, Total of Balance Sheet ₹ 4,40,800

4. From the following Trial Balance of Nandini & Co. as on 31st March 2019. Prepare Final Accounts after considering the adjustments given below.

Ans. : Gross Profit ₹ 55,200 Net Profit ₹ 8,220 Total of Balance Sheet ₹ 4,73,420

5. Prepare Final accounts of Abdul Traders for the year ending 31st March, 2019 with the help of following Trial Balance and Adjustments.

Ans. : Gross Profit ₹ 75,600 Net Profit ₹ 55,500 Total of Balance Sheet ₹ 2,79,300

6. Following is the Trial Balance of Geeta Enterprises. You are required to prepare Trading and Profit & Loss Account for the year ended 31st March, 2019 and Balance Sheet as on that date after taking into account the additional information provided to you.

Ans. : Gross Profit ₹ 3,650, Net Loss ₹ 2,942 Total of Balance Sheet ₹ 51,730

7. Following are the closing ledger balances of Deepak & Co. Prepare Trading Account and Profit & Loss Account for the year ended 31st March 2019 and Balance sheet as on that date.

Ans. : Gross Profit ₹ 79,500 Net Profit ₹ 28,245, Total of Balance Sheet ₹ 2,28,120

8. Following is the Trial Balance extracted from the books of Raju Traders. You are required to prepare Trading A/c, Profit & Loss A/c for e year ending on 31st March 2019 and Balance Sheet as on that date after Considering the additional information given below.

Ans. : Gross Profit ₹ 1,09,800 Net Profit ₹ 49,240, Total of Balance Sheet ₹ 3,01,840

9. From the following Trial Balance of Shradha Enterprises, you are required to prepare Final Accounts for the year ending on 31st March 2019.

Ans. : Gross Profit ₹ 16,54,200 Net Profit ₹ 12,84,525, Total of Balance Sheet ₹ 29,29,525

10. From the following Trial Balance of Ayub & Co. as on 31st March 2019, you are required to prepare Trading Account, Profit and Loss Account for the year ending 31st March 2019 and Balance Sheet as on that date after making necessary adjustments..

Ans. : Gross Profit ₹ 1,00,200 Net Profit ₹ 48,000 Total of Balance sheet ₹1,54,125

11. From the following Trial Balance of Rajnish & Sons and the additional information given below prepare Trading & Profit and Loss Account for the year ending on 31st March 2018 and Balance Sheet as on that date.

Ans. : Gross Profit ₹ 55,000 Net Loss ₹ 1,14,700 Total of Balance Sheet ₹ 9,35,500

12. From the following Trial Balance of John & Sons you are required to prepare Trading Account, Profit and Loss Account for the year ending 31st March 2019 and Balance Sheet as on that date.

Ans. : Gross profit ₹ 31,700 Net Profit ₹ 20,780 Total of Balance sheet ₹ 1,53,480

13. From the following Trial Balance of Pushkraj you are required to prepare Trading Account and Profit and Loss Account for the year ended 31st March 2019 and Balance Sheet as on that date.

Ans. : Gross Profit ₹ 31,000 Net Profit ₹ 23,403 Total of Balance Sheet ₹ 1,41,125

14. From the following Trial Balance of Jyoti Trading Co. Prepare a Trading Account and Profit and Loss Account for the year ended 31st March 2019 and Balance Sheet as on that date.

Ans. : Gross Profit ₹ 54,930 Net Profit ₹ 36,633 Total of Balance Sheet ₹ 2,86,108

15. From the following Trial Balance of Manish Enterprise, Prepare the Trading Account and Profit and loss Account for the year ended 31st March 2019 and Balance sheet as on that date.

Ans. : Gross Profit ₹ 20,700 Net Profit ₹ 6,610 Total of Balance Sheet ₹ 1,23,170



Single Entry System

- Q.2** Write a word, term or phrase which can substitute each of the following statements.

Answers: 1. Statement of affairs, 2. Single Entry System, 3. Opening statements of affairs, 4. Capital, 5. Profit 6. Single Entry System, 7. Single Entry System, 8. Additional Capital,

- Q.3** Select the most appropriate answer from the alternatives given below and rewrite the sentence.

Answers: 1) Statement of affair 2) Opening liabilities 3) Deducted, 4) Sole traders, 5) Added 6) Capital, 7) Profit , 8) ₹ 32000

- Q.4** State True or False with reasons:

Answers: True : 1, 4, 5 False : 2, 3

Q.5 Do you agree with the following statements?

Answers: Agree : 3, 4

Disagree : 1, 2, 5

Q.6 Fill in the Blanks

Answers : 1. Balance Sheet 2. Opening Capital 3. Added 4. Double Entry System 5. Capital
6. Sole Trader 7. Deducted 8. Small

Q.7 Find the odd one :

Answer : 1) Outstanding Expenses 2) Overvaluation of Liabilities 3) Stock in Trade

Q.8 Complete the following table :

Answer : 1) ₹ 5,000 2) ₹ 30,000 3) ₹ 5,000 4) ₹ 25,000, ₹ 20,000 5) ₹ 19,000

1. Mr. Poonawala keeps his books under Single Entry System and gives the following information:

Answer: Profit during the year ₹ 30,000

Ans: Opening Capital Balance ₹ 1,27,000, Closing Capital Balance ₹ 2,31,000, Net Profit during the year ₹ 1,23,300)

3. Anjali keeps her books by Single Entry System. Her position on 1.4.2016 was as follows.

Ans: Opening Capital Balance ₹ 22,000, Closing Capital Balance ₹ 29,600, Net Profit during the year ₹ 13,750

4. Mr. Vijay is dealing in the business of fruits. He maintains accounting record with single entry. The following figures are taken from his record.

Ans: (Opening Capital Balance ₹ 1,22,000, Closing Capital Balance ₹ 2,32,000, Net Profit during the year ₹ 1,34,500)

5. Miss. Fiza keeps her books on Single Entry System and disclosed the following information of her business.

Ans: (Opening Capital Balance ₹ 48,000, Closing Capital Balance ₹ 1,39,000, Net Profit during the year ₹ 77,750)

6. Miss. Sanika keeps her books on Single Entry System. The statement of affairs is given on 31st March, 2018.

Ans: Closing Capital ₹ 1,02,000, Net Profit during the Year ₹ 70,150

Ans: Closing Capital Balance ₹ 1,71,500, Net Profit during the year ₹ 12,775

8. Ganesh keeps his books by Single Entry Method. Following are the details of his business:

Ans: Opening Capital Balance ₹ 2,32,000, Closing Capital Balance ₹ 2,88,000, Net Profit during the year ₹ 69,000

9. Peter keeps his books on Single Entry System. From the following particulars, Prepare Opening and Closing Statement of Affairs and Statement of Profit or Loss for the year ending 31st March,2018.

Ans: Opening Capital Balance ₹ 1,67,500, Closing Capital Balance ₹ 2,26,000, Net Profit during the year ₹ 35,200

10. Suresh keeps his books by Single Entry System. His position on 1.4.2017 was as follows.

Ans: Opening Capital Balance ₹ 33,500, Closing Capital Balance ₹ 35,400, Net Profit during the year ₹ 6,400



NOTES

A series of horizontal dotted lines for writing notes, spanning most of the page width.

Sundry Creditors

Net Worth



Sole Proprietary Concern

Accounting Standards

Goods and Service Tax

Bank Reconciliation Statement



Maharashtra State Bureau of Textbook
Production and Curriculum Research,
Pune - 411 004.

इंग्रजी पुस्तपालन आणि लेखाकर्म इ. ११ वी ₹ 203.00