

**BBA/DBA
SEMESTER - 1
BBACC102
DBACC102**

Financial Accounting



Message for the Students

Dr. Babasaheb Ambedkar Open (University is the only state Open University, established by the Government of Gujarat by the Act No. 14 of 1994 passed by the Gujarat State Legislature; in the memory of the creator of Indian Constitution and Bharat Ratna Dr. Babasaheb Ambedkar. We Stand at the seventh position in terms of establishment of the Open Universities in the country. The University provides as many as 54 courses including various Certificate, Diploma, UG, PG as well as Doctoral to strengthen Higher Education across the state.



On the occasion of the birth anniversary of Babasaheb Ambedkar, the Gujarat government secured a quiet place with the latest convenience for University, and created a building with all the modern amenities named 'Jyotirmay' Parisar. The Board of Management of the University has greatly contributed to the making of the University and will continue to this by all the means.

Education is the perceived capital investment. Education can contribute more to improving the quality of the people. Here I remember the educational philosophy laid down by Shri Swami Vivekananda:

“We want the education by which the character is formed, strength of mind is Increased, the intellect is expand and by which one can stand on one’s own feet”.

In order to provide students with qualitative, skill and life oriented education at their threshold. Dr. Babaasaheb Ambedkar Open University is dedicated to this very manifestation of education. The university is incessantly working to provide higher education to the wider mass across the state of Gujarat and prepare them to face day to day challenges and lead their lives with all the capacity for the upliftment of the society in general and the nation in particular.

The university following the core motto ‘स्वाध्यायः परमम् तपः’ does believe in offering enriched curriculum to the student. The university has come up with lucid material for the better understanding of the students in their concerned subject. With this, the university has widened scope for those students who

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Matching with the pace of the digital world, the university has its own digital platform Omkar-e to provide education through ICT. Very soon, the University going to offer new online Certificate and Diploma programme on various subjects like Yoga, Naturopathy, and Indian Classical Dance etc. would be available as elective also.

With all these efforts, Dr. Babasaheb Ambedkar Open University is in the process of being core centre of Knowledge and Education and we invite you to join hands to this pious *Yajna* and bring the dreams of Dr. Babasaheb Ambedkar of Harmonious Society come true.



Prof. Ami Upadhyay

Vice Chancellor,

Dr. Babasaheb Ambedkar Open University,
Ahmedabad.

BBA/DBA

SEMESTER – 1

BBACC102

DBACC102

FINANCIAL ACCOUNTING

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BBA SEMESTER-1
FINANCIAL ACCOUNTING
BLOCK: 1

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1.1 Introduction

In time, immemorial, men's wants were quite limited and he was completely self dependent for the fulfilment of his needs. But with the development of human civilisation, his desires multiplied and he was forced to depend on others. Earlier the need to maintain the account was not felt because under barter system transactions were small, thus people could easily memorise all. As the human civilisation developed and as the economic progress resulted, the difficulties in respect of barter system increased many folds. So, money came in to existence and with the help of money there were better opportunities for the exchange of things. Consequently, trade and industry increased. Trade remained not only regional but it became National and International also. Many forms of business organisations like sole trade, partnership, company, co-operative societies and corporations came into being and size of industries went on increasing. There was establishment of various forms of organisations in private, public and co-operative sectors. Under such circumstances, the importance of keeping of the accounts was greatly felt.

In the modern times, during the course of his business, a businessman deals with a large number of persons-customers, suppliers, middlemen, institutions etc. He keeps various types of assets such as cash, stock of goods, furniture, plant,

investments, building etc. He has to incur various expenses to run the business. Obviously, he cannot remember all these transactions relating to persons, property, payments and earnings. He must thus have a written record of these transactions. Moreover, such a record must be based on a definite and well-tried system, as to enable him to secure accurate information regarding the cumulative effect of the business transactions.

1.2 History of Accounting

Luca Pacioli, who was resident of Venice (Italy), is regarded as the founder of book-keeping. His book '*De Computiset Scripturies*' was published in 1494, which is regarded as the first book on book keeping. England came second in starting book-keeping and then it spread nearly all over the world. However, huge development in it has taken place in the 20th century.

1.3 What is Accounting?

The American Accountant Committee on Terminology has defined the term accountancy as "an art of recording, classifying and summarising in a significant manner and in the terms of money, transactions and events which are in part of at least of a financial character, and interpreting the result thereof." From the above definition: it is clear that through practically, book-keeping and accountancy means the same, but the term accountancy is used for accounting work of higher order. Book-keeping involves only keeping the books of accounts where in a systematic records of business records and transaction is made, but accountancy involves other activities like classifying and summarising the events and transactions of business and interpreting their result as well. It means that an accountant has to analyse and interpret the financial position of the firm. These analyses when communicated to the management help them in talking important decisions of the business. For example, an accountant can be asked to find out the comparative profitability of number of year and study the effect of various alternatives and thus to help the management in selecting the most beneficial alternative to the business. Book-keeping is the art as well as a science of recording financial transactions of a business, and individual or an institution in such a systematic manner so as to bring out clearly the periodical result of its activity and its financial position at the end of the period.

1.4 Need for Accounting

At the end of each year all the businessman wants to know how much they have gained or lost during the year, how much capital invested in the business at the end of year, how much they are liable to pay and to whom they owe it, how much is owed to them and by whom etc. In order to attain such information, it is essential to keep a complete and systematic record of each and every business transaction entered into during the year.

By keeping a complete and systematic record of every business dealing, the businessman can know how much is the amount of purchases, how much is the amount of sales, what are his total expenses and what is the amount of profit earned or loss incurred during the year, further more he ascertain the financial position of his business, such as , how much capital it has at the end of the year and how that capital stands invested in various assets, how much amount he has to take and from whom and how much amount he is liable and to whom. Besides the properly maintain

accounts are helpful in the assessment of income tax and sales tax and are accepted as a proof in the court of law whenever needed.

Importance of accounting record is increasing day by day. Now a days, the properly maintained accounts give the answers of numbers of questions, such as; what is the cost of production? Is such cost reasonable or not? Can it be reduced and if so in what manner? What should be the selling price based on the cost of production? Thus, business owners can take important decisions with the help of the information provided by accounting data.

1.5 Definitions / Meaning of Accounting:

1. Every business enterprise has accounting system. It is a means of collection, summarising, analysing and reporting in monetary terms, information about business.” *R.N.Anthony*
2. “Accounting is a discipline which provides financial and other information essential to efficient conduct and evaluation of the activities of any organisation.” *American Institute of Certified Public Accounts*
3. “Accounting is the science of recording and classifying business transactions and events primarily of a financial character and the art of making significant summarise, analysis and interpretation of these transactions and events and communicating the results to persons whom must make decisions or firm judgement.” *Smith and Ashburne*
4. “Accounting is the art of recording, classifying and summarising in a significant manner and in term of money, transactions and events which are, in part at least, of a financial character and interpreting the result thereof.” *AICPA Committee on Terminology.*

1.6 Characteristics of Accounting:

An analysis of the above definitions brings out the followings as characteristics or features or attributes of accounting:

- 1. Accounting is an Art as well as Science:** Art is the technique of attaining some predetermined objectives. Accounting is an art of recording, classifying and summarising business transactions with a view to ascertain the net profit and financial position of the business enterprise.

Any organised body of knowledge which is based on certain specified principles is called science. In this respect, accountancy is also a science as it is also an organised body of knowledge based on certain specified principles and accounting standards.

- 2. Recording of Financial Transactions only:** Only those transactions and events are recorded in accounting which is of a financial character. There are so many transactions in business which are very important for business but which cannot be measured and expressed in terms of money and hence such transactions will not be recorded.
- 3. Recording in Terms of Money:** Each transaction is recorded in the books in term of money only. In a small business, where the number of transactions is quite

small, all transactions are first of all recorded in a book called 'Journal.' But in a big business where the number of transactions is quite large, the journal is further sub-divided into various subsidiary books. The number of subsidiary books to be maintained depends on the size and nature of the business.

4. **Classifying:** After recording the transactions in journal or subsidiary books, the transactions are classified. Classification is the process of grouping the transactions of one nature at one place in separate account. The book in which various accounts are opened is called Ledger. Separate accounts are opened in the ledger in the name of each person, whether customer or supplier. Likewise, separate accounts are opened for purchases, sales, assets etc. Similarly, all expenses and incomes, which are already recorded in journals are again classified under separate heads in ledger, such as Wages Account, Salary Account, and Advertisement Account etc.
5. **Summarising:** Summarising is the art of presenting data in a manner which are understandable and useful to management and other users of such data. This involves the balancing of ledger accounts and the preparation of Trial Balance with the help of such balances. Final accounts are prepared with the help of Trial Balance, which include Trading and Profit & Loss Account and Balance Sheet. Trading Account is prepared for calculating gross profit or gross loss during the year. Profit & Loss account is prepared for calculating net profit or net loss during the year. Balance sheet is prepared to present the financial position of the business. Recording, classifying and summarising are also known as 'Process of Accounting' or 'Accounting Cycle.'
6. **Interpretation of the result:** In accounting, the results of the business are presented in such a manner that the parties interested in the business such as proprietors, managers, banks, creditors, employees etc can have full information about the profitability and the financial position of the business.
7. **Communicating:** Accounting functions also include the communication of financial information to the users who analyse them as per their requirements.

1.7 Objectives of Accounting:

The following are the main objectives of accounting:

1. **To keep systematic record of business transactions:** The main objective of accounting is to keep complete and systematic record of business transactions as per specified rules. Complete and systematic record of all the business transactions helps to avoid the possibility of omission and frauds.
2. **To calculate profit or loss:** The second main objective of accounting is to ascertain the net profit or net loss on account of business transaction during a particular period. This is ascertained by preparing a trading and profit and loss account of the business at the end of each accounting year.
3. **To ascertain the financial position of the business:** Merely ascertaining profit and loss is not sufficient; the businessman must also know the financial position of the business. To achieve this objective a Balance Sheet is prepared, which shows the assets on the one side and liabilities on the other side. A Balance Sheet is actually a picture of the financial position of the business.

4. **To know the exact reasons leading to net profit or net loss:** The secondary object is to know the actual Amount of Net profit or Loss through preparing Profit and loss and reason behind it.
5. **To ascertain the progress of the business form year to year:** Balance sheet display the progress of firm/company from previous year to current year and the amount of profit earn by company is appreciation/ progress.
6. **To prevent and detect errors and frauds:** Fraud detection in accounting refers to the process of identifying and uncovering fraudulent activities within financial records and transactions. It involves the use of various techniques, tools, and internal controls to detect and prevent fraudulent acts. Such acts could distort financial information, mislead stakeholders, and compromise the integrity of an organization's financial statements.
7. **To make the information available to interested parties:** Accounting is primarily useful to the owners and the managers. However, other persons like, prospective investors, creditors, employees, banks etc are also interested in the accounting information.

1.8 Functions of Accounting:

Accounting performs the following functions:

- A. **Maintaining complete and systematic Records:** Main function of accounting is to maintain complete and systematic records of business transactions, post them to ledger and to prepare the financial statements i.e. statement of profit and loss and balance sheet.
- B. **Communicating the financial results to various parties:** Another main function of accounting is to communicate the information regarding net profit or net loss, assets, liabilities etc. to the interested parties.
- C. **Protecting the assets of business:** Another function of the accounting is to maintain proper records of various assets such as Cash in hand, Bank balance, Inventory, Debtors etc. It enables the management to keep proper control over them.
- D. **Providing Assistance to Management:** By providing timely information, accounting assists the management in the task of planning, controlling and decision making.
- E. **Trusteeship:** In case of Companies, the management is entrusted with the task of controlling the resource of the enterprise. The management is expected to act as trustee of the Company's funds and accounting assists them to control the resources properly.
- F. **Compliance of Legal needs:** Under provision of various laws such as Companies Act, Income Tax Act, Sales Tax Act, Excise laws etc., a business has to submit various statements such as annual accounts, Income Tax and Sales Tax Returns etc. Accounting performs this function by supplying the information to the government agencies.

1.9 Accounting – A Science or Art?

1. **Accounting as a Science:** Accounting is treated both a science as well as an art. Before we decide whether it is a science or an art or both, it is better to understand meaning of both the terms, Science and Art. Science may be defined as a systematised body of knowledge based in certain basic principles. Accountancy is science because the business transactions are recorded in the books of accounts on the basis of certain principles. Of course, accounting cannot be termed as ‘perfect or pure science’ like Physics or Chemistry. It may, therefore, be said, that Accounting is a science but not perfect or pure science.
2. **Accounting as an Art:** Art is that part of knowledge, which enables us to reach our goals and tells us the manner in which we may attain our objectives in the best possible manner. Accounting is definitely an art. The American Institute of Certified Public Accounts also defines accounting as “the art of recording, classifying and summarising the financial transaction.” Accounting helps in achieving our desired goal of maintain proper accounts i.e. to know the profitability and the financial position of the business by maintaining proper accounts. However, accounting is more an art than a science.

1.10 Concept – Book Keeping, Accounting and Accountancy

These three are sometimes considered as synonymous, i.e. having the same meaning. However, there is fundamental difference amongst book-keeping, accounting and accountancy.

1. **Book keeping:** “Book-keeping is an art of recording in books of accounts the monetary aspects of commercial or financial transactions.” Northcott. It is mainly concerned with record keeping or maintenance of books of accounts. The maintenance of books of account includes the following four activities:
 - A. Identifying the transaction of financial nature from amongst the various transactions.
 - B. Measuring the identified transaction in terms of money.
 - C. Recording the transactions in the books of original entry.
 - D. Classifying them into ledger.

The book-keeping function is routine and clerical in nature and can be performed by person having limited knowledge of accounting. At present this function increasingly done by computers.

2. **Accounting:** Accounting starts where book-keeping ends. It includes the following activities:
 - A. Summarising the classified transactions in the form of Profit & Loss Account and Balance Sheet etc.
 - B. Analysing and interpreting the summarising results. In other words, drawing the meaningful information from Profit & Loss Account and Balance Sheet etc.
 - C. Communicating the information to the interested parties.

Thus, an accountant's work goes beyond that of a book-keeper. However, in actual practise, the accounting process include the book-keeping function also because on the basis of book-keeping records, an accountant draws up periodically such financial statements as Profit & Loss Account and Balance Sheet etc. In a small concern, the accountant performs the work of a book-keeper also.

3. Accountancy: It refers to a systematic knowledge of accounting concerned with the principles and techniques which are applied in accounting. It tells us how to prepare the books of accounts, how to summarise the accounting information and how to communicate it to the interested parties.

Objectives of Accounting:

Objectives of book-keeping include:

1. To have a permanent record of each transaction of the business (i.e. the entity)
2. To show the financial effect of each transaction recorded on the entity; and
3. To ascertain the combined effect of all the transaction on the financial position on a particular date.

1.11 Distinction between Book-keeping, Accounting and Accountancy

- **Distinction between Book-keeping and Accounting:**

<i>Basis of Difference</i>	<i>Book – Keeping</i>	<i>Accounting</i>
Objective	The objective of book-keeping is to record the transactions in the books of original entry.	The objective of accounting is to record, analyse and interpret the business transactions.
Scope	Book-keeping has a limited scope as it is concerned with recording, posting, balancing and preparation of Trial balance.	Accounting has a wider scope as it extends to preparation of final accounts after incorporating year end adjustments.
Special knowledge and ability	It does not require special knowledge and ability.	It requires knowledge and ability.
Mutual dependence	Book-keeping is the basis of accounting.	Accounting is based upon book-keeping. It starts where book-keeping ends.
Trading and P&L a/c and Balance Sheet	Preparation of Trading and Profit & Loss Account and Balance Sheet is not included in book-keeping.	Preparation of Trading and Profit & Loss Account and Balance Sheet is included in it.
Principles of accountancy	In book-keeping, accounting concepts and conventions are followed.	In accounting, all accounting principles are followed.

Liability	A book-keeper is not liable for accountancy work.	An accountant is liable for the work of the book-keeper.
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• **Distinction between Accounting and Accountancy:**

<i>Basis of Difference</i>	<i>Accounting</i>	<i>Accountancy</i>
Meaning	It is concerned with recording, classifying and summarising of transactions.	It is a body of knowledge prescribing certain rules or principles to be observed while recording, classifying and summarising of transactions.
Scope	It is narrow in scope. Accounting starts where Book-keeping ends.	It is much wider in scope and includes Book-keeping as well as Accounting.
Relation	It depends on Book-keeping.	It depends on both, Book-keeping and Accounting.
Function	Its main function is to ascertain the net results and the financial position of the business and to communicate them to interested parties.	It includes the decision-making function on the basis of information provided by book-keeping and Accounting.

1.12 Types of Branches or Sub-fields of Accounting:

Now - a - days, management requires detailed information to perform its duties effectively and efficiently. To meet these requirements, there are many specialised branches of accounting. These are as follows:

- 1. Financial Accounting:** The main objectives of this branch of accounting is to record the business transactions properly, to determine the profit or loss of the business by preparing the profit and loss account and to know the financial position of the business by preparing balance sheet. This branch of accounting gives the information to interested parties, Such as management, shareholders, bankers, creditors and government agencies etc.
- 2. Cost Accounting:** The main objective of cost accounting is to ascertain the cost of a product and help the management in the control of costs. It records and determines scientifically the accurate cost per unit of a product, job or process. It also helps in estimation of cost and to control it.
- 3. Management Accounting:** The main purpose of this branch of accounting is to present the accounting information in such a way so as to assists the management in planning and controlling the operations of a business. The management accountant uses different techniques and concepts to make the accounting information more beneficial for managerial decision making. These techniques include Ratio Analysis, Budgetary Control, Fund Flow and Cash Flow Statement etc.

4. **Tax Accounting:** This branch of accounting is used for tax purposes. It helps in the determination of Income Tax, Sales Tax, Value Added Tax and Professional Tax etc.
5. **Social Responsibility Accounting:** This branch of accounting is the process of identifying, measuring and communicating the contribution of a business to the society. The contribution of a business to the society consists of providing employment, financial and manpower support for public programmes, environmental contribution, product durability and consumer satisfaction etc. In this branch of accounting, many techniques have been developed for measuring the cost of these contributions and the gain to the society.
6. **Human Resource Accounting:** This branch of accounting is quite new. Generally, we treat all the expenses incurred on employees as revenue expenditure. As a result of this treatment, the balance sheet of any business concern does not disclose human assets. This system of treating the expense incurred on employees as revenue expenditure is not proper, because benefits of these expenses accrue in more than one accounting period. So, this branch of accounting is in favour of showing a part of expense on employees as an independent asset in the balance sheet. Thus, this branch of accounting i.e. HRA is the art of valuing, recording and presenting systematically the worth of human resources in the book of account of the business.

1.13 Accounting as Source of Information or Users of Accounting Information:

“Accounting is the language of business.” Accounting is a source of information and it involves the process of identifying, measuring, recording, summarising and communicating the information about business to interested users of such information. The users of this information can be categorised into two types i.e. **Internal Users and External Users**, which are discussed as here under:

Sr. No.	Users of Accounting Information	Respective Interest
<u>Internal Users</u>		
1	Owners	Owners are interested to know about the profitability and financial soundness of the business. They are also interested to know the rate of return on capital employed. This information is taken from the published financial statements.
2	Management	Management is interested to know profitability and efficiency in financial management. These are calculated by the accounting information in a number of ways. All such information helps the management in planning, decision making and controlling process.
3	Employees	Employees need information about the profit of a business to assess the ability of the business to pay higher wages and bonus. At present trade unions are using accounting reports and statements to support their demands for increasing the rate of wages.

External Users		
4	Creditors, Bankers, And other lending Institutions	They are interested to know the solvency and liquidity position of the firm. These can be read from the analysis of financial statements.
5	Government	It is interested in profit earning capacity and in the effective utilisation of firm's capacity which are also supplied by accounting statements.
6	Investors	They use accounting information while determining the relative merits of various investment opportunities. They are interested to know the profitability and safety of their investment. These are presented through financial statements.
7	Regulatory Agencies	Various government agencies and departments use accounting information for the purpose of tax assessment and to evaluate the business operations.
8	Researchers	Research scholars use the accounting data in their research work.
9	Member of Public Account Committee and Estimate Committee.	They analyse and interpret the function of state enterprise to see whether efficient working system is being used or not on the basis of information supplied by the accounting reports and statements.

1.14 Uses/ Merits/ Benefits or Advantages of Accounting:

Accounting offers the following advantages:

1. **Helpful in Management of Business:** Management needs a lot of information for the efficient running of the business. All such information is provided by accounting which helps the management in the following:
 - A. **Helpful in Planning:** Management would like to know whether the sales are increasing or decreasing and also the speed of increase in the cost of production. All such information is provided by the accounting, which helps the management in estimating the future sales and expenses. It also helps them to estimate the cash receipts and cash disbursement during the next accounting period.
 - B. **Helpful on Decision Making:** At times, the management has to take a number of decisions. For example, what should be the selling price of the product? How much discount should be offered to the customers? Accounting provides all the information required for making such decisions.
 - C. **Helpful in Controlling:** Management would like to see that the cost incurred is reasonable and that no department is overspending. Accounting provides information to the management in this regard.
2. **Provides Complete and Systematic Record:** Business transactions have grown in size and complexity and it is not possible to remember each and every transaction. Accounting keeps a prompt and systematic record of all the transactions and summarises them in order to provide a true picture of the activities of the business entry.

- 3. Information Regarding Profit or Loss:** Accounting reports the net result of the business activities of an accounting period. The Profit & Loss Account prepared at the end of each accounting period discloses the net profit earned or loss suffered during that period. The information regarding profit is of great use to the owners and various other interested parties.
- 4. Information Regarding Financial Position:** Accounting reports the financial position of the business by preparing a Balance Sheet at the end of each accounting period. Balance Sheet discloses the position of assets and their values on the one hand and liabilities and capital on other hand.
- 5. Enables Comparative Study:** By systematic record, accounting helps the owners to compare one year's cost expenses, sales and profit etc. with those of other years. Such comparison provides the useful information on the basis of which the important decisions can be taken more judiciously.
- 6. Helpful in Assessment of Tax Liability:** Properly maintained records will be also great help when the firm is assessed to income tax or sales tax. Such records when audited are trusted by the taxation authority.
- 7. Evidence in Legal Matters:** Properly maintained accounts, supported by authenticated documents are accepted by the court as firm evidence.
- 8. Facilitates Sale of Business:** If a business is being sold, the accounting information can be utilised to determine the proper purchase price.
- 9. Helpful in Raising Loans:** Accounting information is a great help while raising loans from bank or any other financial institutions. Such information before sanctioning loan screen various financial statements of the firm such as final accounts, fund flow and cash flow statements etc.
- 10. Helpful in Prevention and Detection of Errors and Frauds:** Properly maintained accounting helps in prevention and detection of errors and frauds in business entity.

1.15 Limitations of Accounting

As discussed above, accounting provides information about the profitability and financial soundness of a business concern to the owners and other interested parties. In addition, it provides various other valuable information also. However, accounting has certain limitations which must be kept in mind while using such information. These limitations are as follows:

- 1. Influenced by Personal Judgement:** Accounting is as yet an exact science and accountant has to exercise his personal judgement in respect of various items. For example, it is extremely difficult to predict with any degree of accuracy the actual useful life of an asset which is needed for calculating depreciation. The same is true about method of valuation of stock and making provision for doubtful debts. Different persons are bound to have different opinion in respect of such things and hence it will result in ascertainment of different figure or profit or loss of a business by different persons. Hence, the figure of profit cannot be taken as an exact figure.
- 2. Based on Accounting Concepts and Conventions:** Accounts are prepared on the basis of a number of accounting concepts and conventions. Hence, the profitability

and the financial position disclosed by it may not be realistic. For example, fixed assets are shown in the balance sheet according to 'going concern concept'. This means that the fixed assets are shown at their cost and not at their market value. The values realised on their sale may be more or less than the values stated in the balance sheet. Similarly, on account of convention of conservatism, the profit and loss account does not disclose the true profit of the business because future losses are provided whereas future incomes are ignored.

- 3. Incomplete Information:** Accounting statements provides only the incomplete information because the actual profit or loss of a business can be known only when the business is closed down.
- 4. Omission of Qualitative Information:** Accounts contains only those informations which can be expressed in terms of money. Qualitative aspects of business units are completely omitted from the books as these cannot be expressed in monetary terms. Thus, changes in management, reputation of the business, cordial management-labour relations, and firm's ability to develop new products etc. which have a vital bearing in the profitability of the firm are all ignored and omitted from being recorded because all these are qualitative in nature.
- 5. Based on Historical Cost:** Accounts are prepared on the basis of historical cost i.e. original cost, and as such the figures given in financial statements do not show the effect of changes in price level. The assessment remains undervalued in many cases particularly land and building. The outcome of this practise is that balance sheet values of assets are not helpful in estimating the true financial position of the business.
- 6. Affected by Window Dressing:** Window dressing refers to the practise of manipulating accounts, so that the financial statements may disclose a more favourable position than the actual position. For example, the purchase made at the end of the year may not be recorder or the closing stock may be overvalued. Hence, correct decisions cannot be taken on the basis of such financial statements.
- 7. Unsuitable for Forecasting:** Financial Accounts are only a record of past events. Continuous changes take place in the demand of the products, prices adopted by the firm, the position of competition etc. The financial analysis based on past events may not be of much use for forecasting.

1.16 Qualitative Characteristics of Accounting Information:

Qualitative characteristics or qualities necessary for information serve as a major supporting role in decision usefulness, decision model approach to accounting theory. Accounting information that is reported to facilitate economic decision should possess certain characteristics. The information must be useful in the formulation of objectives, the making of decision or the direction and control of resources to accomplish objectives. The utility of information lies in its ability to reduce uncertainty to the user about the actual state of affairs of a business enterprise. These characteristics make information a desirable commodity and guide the selection of preferred accounting policies and methods from among available alternatives. These characteristics have been viewed as a hierarchy of qualities with usefulness for decision making.

The qualitative characteristics that have been found possessing wider acceptance and recognition are as follows:

1. Reliability: “Reliability is described as one of the two primary qualities that make accounting useful for decision making.” Reliable information is required to form judgement about the earning potential and financial position of a business concern. Reliability differs from item to item. Some items of information presented in an annual report may be more reliable than other, for example, information regarding plant and machinery may be less reliable than certain information about current assets because of uncertainty of realisation. Reliability is that quality which permits users of data to depend upon it with confidence as representative of what its purpose to represent.

There are many factors affecting reliability of information such as uncertainties inherent in the subject matter and accounting measurements. Accounting measurements, like others, may be subject to error. A continuing source of misunderstanding about accounting information and measurement is tendency to attribute them a level of precision which is not practical or attainable. The possibility of error on measuring information and business events may create difficulties in attaining high degree of reliability. The measurement constrains in accounting place restrictions on the accuracy and reliability of information. Adequate disclosure in annual reports, however, required that users should be informed about the data limitations and the magnitude of possible measurement errors. The reliability concept does not imply hundred per cent reliability or accuracy. Non disclosure of limitation attached with information will mislead users. It can be noted that the most reliable information may not be the most significant for users in making economic decision and assessment of an earning power of an enterprise.

It is the responsibility of the management to report reliable information in annual report. The goal of reliable information can be achieved by management if it applies generally accepted accounting principles appropriate to the enterprise’s circumstances, maintains proper and effective system of accounting and internal control and prepares adequate financial statements.

2. Relevance: Relevance is closely and directly related to the concept of useful information. Relevance implies that all items of information should be reported that may aid the users in decisions. In general, information that is given greater weight in decision-making is more relevant. Specially, it is information’s capacity to make a difference that identifies it as relevant to a decision. American Accounting Association Committee to prepare a Statement of Basic Accounting Theory defines relevance as “**the primary standard and requires that information must bear upon or be useful associated with action it is designed to facilitate or results desired to be produced.**”

The question of relevance arises after identification and recognition of the purpose for which the information will be used. It means that information relevant for one purpose may not necessarily relevant for other purpose. Information that is not relevant is useless because that will not help users in making decisions. The relevant information also reduces decision makers’ uncertainty about future acts. A necessary test of the relevance of reportable data is the ability to predict events of interest of statement users. To say that accounting information has predictive value is not to say that it is itself a prediction. Predictive value here means value as an

input to a predictive process, not value directly as a prediction. Users can expect to favour those sources of information and analytical methods that have the greatest predictive value in achieving their specific objectives.

In today's complex financial accounting environment, a general-purpose report aims to fulfil the common needs of all users. In judging relevance of general-purpose information, attention is focused in the common needs of users and specific needs of particular users will not be considered. It is difficult to prepare a general-purpose report which may provide optimal information for all possible users and which may command universal relevance.

To conclude, relevance is the dominant criterion in taking decision regarding information disclosure. It follows that relevant information must be reported. Relevance has been defined in accounting literature, but no satisfactory set of relevant items of information has been suggested. In this regard, an important task is to determine the need of users and item of information that are relevant to target users.

- 3. Understandability:** Accounting information should be presented in such a simple and logical manner that they are understood by their users such as investors, lenders, employees etc. A person who does not have any knowledge of accounting terminology should also be able to understand them without much difficulty. This can be done by giving relevant explanatory notes to explain the information given financial statements. General topics which should be included in explanatory notes are methods of depreciation, method of valuation of stock, description of contingent liabilities etc. These explanatory notes make the financial statements more useful and understandable.
- 4. Comparability:** Comparability is a very useful quality of accounting information. The financial statements should contain the figures of previous years along with the figures of current year so that the current performance can be compared with past performance. Similarly, the financial statements should be prepared in such a manner that the profitability and financial position of the concern may be compared with other concern of the similar type. Comparison reveals the strong and weak points of the business entity; Comparability is possible when different firms in the same industry adopt the same accounting principles form year to year. For example, if diminishing balance method of charging depreciation is selected, it should not be changed from year to year. Similarly, the method of valuation of inventory should also be consistently the same from year to year. However, the consistency principle does not mean that a particular method once adopted should never be changed. When change in method is desirable for the purpose of better preparing and reporting the accounting information, it should be changed. In such a case, the nature and effect of change and justification for change must be stated clearly by way of footnotes to enable the users of accounting information to be aware of such change.

1.17 Accounting as an Information System:

The accounting information system is divided into the following sub-systems:

- 1. Cash Sub-system:** This sub-system deals with the receipts and payments of cash. Cash includes both physical cash and electronic cash. Electronic transfer takes place through bank transfers and credit card entry.

2. **Sales and Accounts Receivables Sub-system:** This sub-system deals with recording sales, maintaining sales ledger and fund transfer. It generates periodic information about sales, collection from account receivables, overdue accounts and the position of receivables.
3. **Purchases and Accounts Payable Sub-system:** This sub-system is related to creditors' status as regard credit purchase and payment to them. It provides for payments to creditor and generates periodic information about purchases and the position of payables.
4. **Inventory Accounting Sub-system:** This sub-system deal with the recording of purchase and issues of various items specifying the date, quantity and price.
5. **Fixed Assets Accounting Sub-system:** This sub-system deals with the recording of purchase, addition, sale and writing off fixed assets such as land and building, plants and machinery, furniture etc. It generates information about cost, depreciation etc.
6. **Payroll Accounting Sub-system:** Payments of wages and salaries are covered under this sub-system. This system generates information about basic pay and allowances of employees and deductions on account of provident funds, loans, income tax etc.
7. **Expenses and Income Accounting Sub-system:** This sub-system deals with recording of income and expenses and generates information about the same.
8. **Financial Statements Sub-system:** This sub-system deals with the preparation of various financial statements such as Income Statements, Balance Sheet, Fund Flow Statement, Cash Flow Statement etc.
9. **Costing Sub-system:** This sub-system deal with the ascertainment of cost of goods produced. It generates information about the change in cost that take place during a given period.
10. **Budget Sub-system:** Preparation of budget and its comparison with actual performances are key output of this sub-system.
11. **Tax Accounting Sub-system:** This sub-system is concerned with computation of income tax and sales tax on the basis of accounting.
12. **Management Information System:** This sub-system deal with sales and accounts receivables sub-system, tax accounting sub-system and obtains necessary information for decision making.

1.18 Role of Accounting

The role of accounting has been changing with the changes in economic development and increasing social demands. Over the centuries, the role of accounting remained confined to the record keeping of financial transactions only. But, today's rapidly changing business environment has changed the role of accounting and at present the accounting plays the following roles:

1. **Role of a Language:** Accounting is perceived as the language of business which is used to communicate information regarding the business enterprise.

- 2. Role of Historical Records:** Accounting is viewed as chronological record of financial transactions of an organisation according to specified rules.
- 3. Role of Determining the Real Profit or Loss:** Accounting is also regarded as a means of determining the real profit or loss of a business enterprise.
- 4. Role of Information System:** Accounting is now regarded as an information system because it is capable of providing the necessary information to managers and other parties for taking appropriate decisions.
- 5. Role of a Commodity and Service Provider:** Accounting is regarded as a role of a commodity or service provider, which is in demand in society, to provide quantitative financial information to the users in different ways.

❖ **Exercise**

• **Long Answer Type Questions:**

1. Define accounting. What are its objectives and limitations?
2. What do you mean by book-keeping? In what respect it is different from accounting?
3. Write the name of different steps involved in accounting and explain them.
4. Which parties are interested in accounting information and why?
5. What are the branches of accounting? Explain briefly.
6. Define accounting. Explain its advantages and disadvantages in detail.
7. Discuss the qualitative characteristics of accounting information.

• **Short Type Questions:**

1. Explain the meaning of accounting. Is accounting a science or an art or both?
2. Define book-keeping.
3. Write the main characteristics of accounting and explain any four of them.
4. Mention the different types of users of accounting information. Explain any two of them.
5. Give four advantages of accounting.
6. Write the qualitative characteristics of accounting information. Explain any two of them.
7. State five limitations of accounting.
8. What are the objectives of accounting?
9. Write notes on:
 - A. Financial Accounting

B. Cost Accounting

C. Management Accounting

D. Social Responsibility Accounting

• **State whether the Following Statements are True or False:**

1. Accounting is the language of business.
2. Accounting records qualitative aspects of business.
3. Accounting is as old as money itself.
4. Accounting is a service function.
5. Book-keeping is a part of accounting.
6. Accounting starts where book-keeping ends.
7. Accounting involves only the recording of business transactions.
8. Book-keeping and accounting are one and the same thing.
9. Identifying business transaction is the first step of accounting.
10. Accounting may be described as an information system which has its inputs, processing, methods and output.
11. Accounting means recording transaction and events and not their interpretation.
12. Every accounting transaction must have a documentary proof.

2.1 Need for Accounting Principles**2.2 Kinds of Accounting Principles****2.3 Accounting Concepts****2.4 Accounting Conventions****❖ Exercise**

2.1 Need for Accounting Principles

Accounting is the language of business. It records the business transactions taking place during the accounting period and communicates the result of the transactions in the form of final accounts consisting of profit and loss account and balance sheet. The results are communicated to various parties, namely, proprietors, creditors and potential investors. Proprietors want to read the well-being of the business; the present creditors are interested in the earning prospects of the business. In view of the utility of accounting statement to various interested parties, it is necessary to recognise the urgency of a scientific approach to the recording of business transactions and communicating the result to interested parties. In the absence of a scientific approach, accountants will be free to use their own language and whatever they will be writing will not necessarily be understood in the same sense by other persons concerned. The uniformity in understanding the accounting records is possible only when some standard language is used. With a view to making the accounting language a standard language, certain accounting principles, concepts and conventions have been developed over a period of time.

2.2 Kinds of Accounting Principles

Accounting principles, rules of conduct and action are described by various terms such as concepts, conventions, doctrines, tenets, assumptions, axioms, postulates. We will confine our discussion to the following basic accounting concepts:

2.3 Accounting Concepts:

(1) Entity Concept:

According to this concept, business is treated as a unit or entity apart from its owners, creditors and others. In other words, the proprietor of an enterprise is always considered to be separate and distinct from the business which he controls. All the transactions of the business are recorded in the books of the business from the point of view of the business. Even the proprietor is treated as a creditor to the extent of his capital upon the investment of money in the business by the proprietor. It is deemed that the proprietor has given money and the business has received money.

The Concept of separate entity is applicable to all forms of business organisations. For Example, from legal point of view, a body corporate is a separate entity and we regard the sole trader and his business as one and the something. But for accounting purposes, we regard them as different entities. For recording the transactions, it is the business which is the entity and with which we are concerned.

In a partnership business, the firm is quite separate from the individual partners, who are its members and who have agreed to some together in a formal way to attain an agreed objective. Still, each partner has his own separate life and may have many interests – financial and otherwise, outside the partnership. It is most desirable that the dealings and transactions of the partnership business alone should be recorded in firm's books. If any partner enters into a private financial dealing e.g. to purchase or sell equity shares in a limited company, it has no relevance to the partnership business and thus, it should not be recorded in firm's books. Similarly, a sole proprietor may have many interests apart from or in addition to his business. But these should not be included in the firm's books if they are unconnected with it.

E.g.

- (1) The owner of business withdraws goods for personal use, it is debited to his drawings account because of entity concept.
- (2) One person invests Rs. 10,000 into business. It will be shown as a liability in the books of the business because that the proprietor has given that much of money to the business.
- (3) Personal Expenses of a trader are not recorded in the books of accounts of the business. e.g. food, house-rent, Electric bill House.
- (4) Separate income tax is levied on the net profits of the company as well as on dividend received by shareholders because of entity concept. Company is considered to be a separate person of business entity, different from its shareholders.
- (5) Consignment A/c or Joint Venture A/c should be opened in the books of accounts to know profit from consignment or joint venture business because of entity concept.
- (6) An independent branch prepares its trial balance separately because of entity concept.

(2) Going Concern Concept:

According to this concept, it is assumed that the business will continue its existence for a very long time. There is neither the intention nor the necessity to liquidate the particular business venture in the foreseeable future. On account of this concept, the accountant while valuing the assets does not take into account forced sale value of assets. Moreover, he charges depreciation on fixed assets on the basis of their expected lives rather than on their market values.

The enterprise will not be considered as a going concern when it has gone into liquidation or it has become insolvent. The receiver or the liquidator may endeavour to carry on business operations for some period pending arrangement with the creditors or final buyer for the sale of the business as a going concern. The going concern status of the business will stand terminated from the date of his appointment or will be least regarded as suspended. Pending the results of this efforts.

E.g.

- (1) Assets is shown at cost less depreciation in the balance sheet because of going concern concept.
- (2) Depreciation to be shown in profit and loss amount is calculated on the basis of the expected life of asset rather than on the basis of its market value.

- (3) The deferred revenue expenditure and patents and trademarks also suggest that business is going to continue for an indefinite period. Then only, these assets are written off in future years.
- (4) While estimating amount likely to be received from debtors also, the assumption is there that in future certain amount will be realised. Provision for bad debts is made. It is presumed that the business is to continue in future and so much amount will be collected.
- (5) The work in progress is valued on the basis of expenses, so far incurred on it. Here again it is presumed that these goods will be completed in future and will be sold.
- (6) The Provision is made for contingent future liability. there is a presumption that the business will continue for a long time. e.g. Gratuity for employees

(3) Money Measurement Concept:

Accounting records only monetary transactions or events. The transactions, which cannot be expressed in money do not find place in the books of accounts though they may be very useful for the business. If a business has got a term of dedicated and trusted employees, It is definitely an asset to the business but since their monetary measurement is not possible, they are not shown in the books of the business.

When transactions and events are recorded and expressed in terms of money, there is an implied assumption that the real value of money or the purchasing power of money is constant. This stable money value is not true and the value of money varies considerably from time to time. The stable money value concept has given rise to important problem of treatment of changes in price level in accounting i.e. inflation Accounting.

Money measurement concept underlines the fact that these events or transactions will be recorded in terms of money in account books, which can be measured.

E.g. (1) The effect of the death of the chairman of the business is not shown in the books of accounts due to money measurement concept.

(2) If business owns Rs. 1,000 cash, 600 Kg. raw materials, 2 trucks, 1000 square feet of building space etc. these amounts cannot be added together to produce a meaningful total of what the business owns. If these items are expressed in monetary terms such as Rs. 10,000 cash, 12,000 Rs. Raw material., Rs. 2,00,000 of trucks and Rs. 5,000 of building. All such items can be added.

(3) A building was purchased for Rs. 5,000 in the year 1990 and the value of the building has increased substantially in the year 2003, it will yet be shown in balance sheet at Rs. 5,000 less Provision of depreciation.

(4) Dual Aspect:

This is the basic concept of accounting. According to this concept, every business transaction has a dual effect. It is an important idea which states that there are two sides to accounting. The first is the assets of the business and the second is the claims against the assets. The concept states that these two aspects are always equal to each other. The dual aspect is also known as the debit credit aspect. Therefore, the accounting equation that emerges is.....

Assets = Capital + Liabilities.

This concept is the very important base of double entry system of accounting. It is also known as “Duality Concept”. The single-entry system of book keeping is an exception to it. Every change in financial set up may be viewed as having two-sided effect to the extent of the same amount.

The term ‘assets’ denote the resources by a business while the term ‘equities’ denotes the claims of various parties against the assets. Equities are of two types. They are owner’s equity and outsider’s equity. Both are the claim of against the assets of the business. It means all assets of the business are claimed by someone (either owners or outsiders). The total of assets will be equal to total of liabilities.

Equities = Assets.

E.g. (1) When the totals of two sides of the balance sheet equal due to dual aspect concept.

(2) If trader commenced business with Rs. 50,000 cash This amount is shown in balance sheet as a capital in the capital side of balance sheet and as a cash balance in the asset side of balance sheet with the same amount due to dual aspect concept.

(5) Cost Aspect:

In accounting, under this concept, all the transactions and events are recorded at their monetary cost of acquisition i.e. actual amount of money paid for the acquisition of asset or for receiving the services provided. Accounting should make a record of the transactions on objective basis. If nothing is paid for an item; no entry is passed.

The cost concept does not mean that the asset will always be shown at cost price. It has also been stated above that cost price becomes the basis for all future accounting for the asset. It means that asset is recorded at cost at the time of its purchase, but it may systematically be reduced in its value by charging depreciation.

There are certain limitations of this concept:

- ✓ In times of continuously rising prices, the historical cost becomes meaningless. If the land is purchased for Rs. 1,00,000 in the year 1990, the cost of that land is Rs. 10,00,000 in the year 2003. Then the accounts will not show the true position. Still land is shown at Rs. 1,00,000 in the balance sheet.
- ✓ Because of the same reasons the accounts are not comparable.
- ✓ Those assets which have no acquisition costs are not recorded in accounts. As we have seen earlier.

E.g. (1) Assets are shown at cost less depreciation in the balance sheet due to cost concept.

(6) Accounting Period:

According to this concept, the life of the business is divided into appropriate segments for studying the results shown by the business after each segment. This is because though the life of the business is considered to be indefinite, the measurement of income and studying the financial position of the business after a very long period would not be helpful in taking proper corrective steps at the appropriate time. It is

therefore absolutely necessary that after each segment or time interval, the businessman must stop and see back, how things are going. In accounting such a segment or time interval is called 'accounting period'. It is usually of a year.

At the end of each accounting period, an income statement and a balance sheet are prepared. The income statement discloses the profit or loss made by the business during the accounting period while the balance sheet depicts the financial position of the business on that particular date.

(7) Periodic Matching of costs and Revenues Concept:

This is based on the accounting period concept. The paramount objective of running a business is to earn profit. In order to ascertain the profit made by the business during a period, it is necessary that 'revenues' of the period should be matched with the costs (expenses) of the period. The term matching means appropriate association of related revenues and expenses. In other words, income made by the business during a period can be measured only when the revenue earned during a period is compared with the expenditure incurred for earning that revenue.

- ✓ When the net Income of Particular type of transaction is to be determined, then the expenses incurred to earn that revenue must be determined and deducted from it. Certain expenses are direct expenses of a particular income. For e.g. cost of goods sold and salesmen's commission are expenses directly related to sales. such expenses can be directly debited to the income.
- ✓ But all business expenses are not direct expenses some expenses are time based e.g. Salaries, Rent, insurance etc. Such expenses are charged to the period during which they are incurred.
- ✓ Some expenses are not time based, yet they are also not directly related to particular income e.g. bad debts such expenses must be debited against the revenue of that period only.
- ✓ When cost is to be matched with revenue, it is necessary that costs or expenses must be divided into revenue expenses and capital expenses. Net Profit of a particular period can be determined only when it is known as to which are revenue expenses and which are capital expenses. Revenue expenses can be charged against the income of that period and they are not to be carried to next year.

While, capital expenditure is that whose benefit will be available not only during the current year, but also during the future years. An asset is acquired when capital expenditure is made. Its useful life is estimated and it is written off from its useful life in the form of depreciation. Thus, the whole of capital expenditure is not written off against the revenue of a single year.

This principle also calls for considering certain other points:

- (1) Some income may be received, which does not relate to the current accounting period, but to next year, such incomes must be carried forward.
- (2) Some expenses may be paid during the year, but the whole of it cannot be charged against the revenue of that year. In that case, a part of it is carried forward to next year as expenses paid in advance.
- (3) Deferred Revenue expenditure should be spread over a number of years.

Some abnormal types of losses, which are not related to the performance of business, must be charged against the income of the year, during which the loss has been occurred. E.g. loss by fire, loss by theft etc.

(8) Realisation Concept:

This concept centres round the determination of the point of time when revenue is earned. Income being the difference between realised revenue and related expenses during the accounting period, the accountant will not record any income unless there is a sale, and income is actually realised. Therefore, according to the realisation concept which is also known as the 'revenue recognition concept', revenue is considered as being earned on the date on which it is realised i.e. the date on which goods and services are transferred to customers either for cash or for promise or some other asset.

Further, revenue is recognised as the amount customers are reasonably certain to pay. It is therefore, necessary to note that the initial contract to sell goods or services, i.e. the receipt of a mere order does not constitute revenue till the work is performed.

In certain cases, revenue is said to be recognise even before the sale or after the sale.

- (i) In case of some commodities, income is said to have realised immediately when its production is completed. In case of standard articles like Gold, Whose sale is certain and which can be sold in organised markets, its sales income is recorded when its production is complete.
- (ii) Sometimes the revenue is said to arise even before production is complete. In case of big contracts for construction, if revenue is considered to be realised when the construction is completed then a strange situation will arise. If it is done so, the profit of one year may be a very large one and earlier years will show losses. Hence in such cases, income is said to be realised every year as the construction work progress.
- (iii) When it is doubtful whether the money due on account of credit sales will be realised, the income is not considered as realised ever after the sales is made. This is so when accounts are kept on cash basis. E.g. Doctors, lawyers, C.A., Manager, Consultant

2.4 Accounting Conventions

(1) Convention of Conservatism:

This Convention is expressed in the maxim, 'anticipate no profit and provide for all possible losses. In other words, the accountant follows the policy of 'Playing safe'. On account of this convention, the inventory is valued at cost or market price whichever is less'. Similarly, a provision is made for possible bad and doubtful debts out of current year's profits. This concept affects principally the category of current assets.

This convention is applicable to the valuation of stock for balance sheet purposes. Accordingly, stock should be valued at cost or market price whichever is lower, and even if the market price is higher than cost, the same should not be brought

into account. It is also necessary to provide for all possible losses, such as doubtful debts, discount on debtors, investments, amortization of goodwill etc.

- ✓ Conservatism normally means taking a Gloomy view.
- ✓ It's Policy of Playing safe and has its origin as a safeguard against possible losses in a world of uncertainty.

❖ **E.g.:** -

- (1) A provision of reserve for discount on debtors is made on the basis of conservatism concept.
- (2) Assets Like stock and investments are shown at cost or market price whichever is lower.
- (3) Intangible asset like goodwill is gradually written off from books.
- (4) Joint life policy is shown at its surrender value.
- (5) No Provision is made for discount on creditors.
- (6) The professional persons create reserve for fees not received.
- (7) Creating investment fluctuation fund, repairs and renewal reserve etc.

2. Convention of Consistency:

The users of accounting information are decision makers. For the purpose of making decisions, they compare the financial statements of a business with those of the previous year or that of one business with the statements of another business.

The Comparability of financial statements depends upon the accounting methods, and the consistency with which they are followed. As such, this convention requires that a business concern should be consistent in the accounting practices it follows, especially with regard to the treatment of assets, liabilities, equities, revenues, expenses, valuation of stock, depreciation charge etc.

According to Kohler, consistency is "Continued uniformity, during a period or from one period to another, in methods of accounting, mainly in valuation bases and methods of accrual, as reflected in the financial statements of a business enterprise or other accounting or economic unit".

If consistency is followed from period to period, the users of accounting information can safely presume that the financial statements are based on the same methods and principles. As such, they can rely on these statements and make comparisons for the purpose of their optimal decisions. In fact, even auditors of companies are interested in the convention while certifying the accounts of a business.

❖ **E.g.:** -

1. A uniform policy of charging depreciation is adopted every year.
2. If Closing Stock is valued by Lifo method last year, then at the same method must be used during current year and years to come.

3. The Convention of full disclosure:

The financial statements are essentially meant for external users. It is on the basis of information conveyed by the statements that the users are enabled to know as much about the business as is necessary to appraise it.

In other words, this fundamental accounting convention emphasizes that the financial statements should make full disclosure of material financial information. Material financial information means not only the pertinent accounting information as is recorded in the books and summarised in the statements with footnotes or other explanations as at the date of their preparation. But also, information relating to events becoming known after their preparation, and likely to affect the information contained in the statements.

This convention has been given legal recognition by the Companies Act, which has prescribed the form of balance sheet to be presented to shareholders.

❖ **E.g.:** -

1. The market value of investment is shown along with its cost price in the balance sheet.
2. The practice of appending notes regarding contingent liabilities in accounting statements as per convention of disclosure.

4. The Convention of Materiality:

According to this convention, the accountant should attach importance to material details and ignore insignificant details. This is because otherwise accounting will be unnecessarily overburdened with minute details. The question what constitutes a material detail is left to the discretion of the accountant. Moreover, an item may be material for one purpose while immaterial for another. For example, while sending each debtor 'a statement of his account', complete details up to paise have to be given. However, when a statement of outstanding debtors is prepared for sending to top management, figures may be rounded to the nearest ten or hundred. The Companies Act also permits ignoring of 'Paise' while preparing financial statements. Similarly for Tax purposes, the income has to be rounded to nearest ten.

Thus, the term 'Materiality' is a subjective term. The accountant should regard an item as material if there is reason to believe that knowledge of it would influence the decision of the informed investor. According to Kohler "materiality means the characteristic attaching to a statement, fact or item where by its disclosure or method of giving it expression would be likely to influence the judgement of a reasonable person".

It should be noted that accounting is a man-made art designed to help man in achieving certain objectives. "The Accounting principles, therefore cannot be derived from or proven by laws of nature. They are rather in the category of conventions or rules developed by man from experience to fulfil the essential and useful needs and purposes in establishing reliable financial and operating information control for business entities. In this respect, they are similar to principles of commercial laws and other social disciplines."

❖ **E.g.:** -

1. Telephone expenses are charged in the month in which they are paid.
2. Many petty expenses of business are grouped under the heading sundry expenses because of connection of materiality.

❖ **Exercise:**

• **Multiple Choice Questions:**

1. Accounting Principles are divided into:
A. Accounting Concepts

- B. Accounting Conventions
- C. Fundamental Accounting Assumptions
- D. All of the above**

2. Which of the following is not an Accounting Concept?
- A. Matching Concept
 - B. Dual Aspect Concept
 - C. True and Fair Concept**
 - D. Going Concern Concept
3. Accounting concepts are based on:
- A. Certain Assumptions**
 - B. Certain facts and Figures
 - C. Certain Accounting Records
 - D. Government Guidelines
4. According to going Concern, a business is Assumed as having:
- A. a limited life
 - B. an indefinite life**
 - C. a very long life
 - D. None of the above
5. Non- financial quantitative information is not recorded in accounts due to:
- A. Dual Concept
 - B. Accrual Concept
 - C. Money measurement concept**
 - D. Entity concept
6. Accounting Equation is an Expression of:
- A. Money measurement concept
 - B. Business entity concept
 - C. Going concern concept**
 - D. Matching concept
7. Final accounts must be prepared on a periodic basis rather than waiting till the business is terminated:
- A. Money measurement concept
 - B. Cost concept
 - C. Dual Aspect concept
 - D. Accounting Period Concept**

❖ **Write a Long Question Answers.**

1. Explain the Accounting Concepts.
2. Describe the Accounting Conventions.

- 3.1 Introduction**
- 3.2 Computation of Accounting Equation**
- 3.3 Rules of Debit and Credit Based Upon Accounting Equation (A= C + L)**
- 3.4 Analysis of Transaction Using Accounting Equation**
- 3.5 Types of Accounts for Accounting Equation**
- ❖ **Exercises**

3.1 Introduction

The entire accounting structure is based upon three terms i.e., assets, liabilities and capital. The total claims (those of outsider and of the proprietors) will always be equal to the total assets of the firm. The claims which also known as equities are of two types.

- A. Owner's Capital or equity, and**
- B. Liabilities or amounts due to outsider.**

We can express the same as:

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

OR

$$\text{Assets} = \text{Equities (Total Claims)}$$

OR

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

OR

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

The above relationship is known as 'Accounting Equation' or 'Balance Sheet Equation'.

3.2 Computation of Accounting Equation

The business receives funds from proprietors and creditors and retains all of them in the form of various assets. This shows that capital + liabilities are always equal to assets. So, accounting equation is expressed as:

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

If there is any change in amount of assets or liabilities, the owner's claim or the capital is bound to change correspondingly. If assets increase and liabilities do not, the capital will increase; a reduction in the amount of assets or an increase in the amount of liabilities will mean a reduction in the amount of capital.

3.3 Rules of Debit and Credit Based Upon Accounting Equation (A = C + L)

- 1.** Any increase at the left-hand side of the equation is debit.

2. Any decrease on the left-hand side of the equation is credit.
3. Any increase on the right-hand side of the equation is credit.
4. Any decrease on the right-hand side of the equation is debit.

3.4 Analysis of Transaction Using Accounting Equation

Analysis of various transactions helps one to apply the ‘Rules of Debit and Credit’. As a matter of fact, the rules of debit and credit depend on the nature of an account. For this purpose, all accounts are classified into five types i.e., **Assets account, Liabilities account, Capital account or Owner’s Equity account, Revenue or Income account and Expenses or Losses account.**

3.5 Types of Accounts for Accounting Equation

Following rules of debit and credit in respect of various categories of accounts can be obtained:

1. **Assets Account:** When there is an increase in the amount of an asset, such an increase is recorded on the debit side of the Assets account and if there is decrease in the amount of an asset, such reduction is recorded on the credit side of the Asset account.

For example, if a firm purchases machinery of Rs. 50,000 it will be recorded on the debit side of the machinery account. Again, if the firm sells machinery of Rs. 30,000 the reduction will be recorded on the credit side of the machinery account.

2. **Liabilities Account:** When there is an increase in the amount of liability, such an increase will be recorded on the credit side of the Liability account. And if there is reduction in the amount of the liability, then such reduction will be recorded on the debit side of Liability account.

For example, if a firm borrows Rs. 20,000 from Shayal, the account of Shayal will be credit since amount of Rs. 20,000 is owing to her.

3. **Capital Account:** An increase in the capital is recorded on the credit side and decrease in the capital is recorded on debit side of Capital account.

For example, if proprietor introduces additional capital in the business, the capital account will be credited and if he withdraws some money for his personal use i.e. makes drawings, the capital account will be debited.

4. **Revenue or Income Account:** Increase in the gains and incomes are recorded on the credit side of Income account. And if there is any reduction in any gain or income, the account concern will be debited, as it leads to decrease in capital.

5. **Loss or Expenses Account:** Increase in losses and expenses are recorded on the debit side of the concerned Expense account as it leads to decrease in capital and if there is any reduction in expenses, it will be recorded on the credit side.

Summary of Rules

1. Debit the increase in assets and credit the decrease in assets.

2. Credit the increase in liabilities and debit the decrease in liabilities.
3. Credit the increase in capital and debit the decrease in capital.
4. Credit the increase in income and debit the decrease in income.
5. Debit the increase in expenses and credit the decrease in expense.

In case of assets and expenses debit means increase and credit means decrease. In the case of liabilities, capital and incomes, debit represents decrease and credit represents increase.

Illustration:

(1) On which side will the increase in the following accounts will be recorded? Also mention the nature of account.

1. Cash
2. Furniture
3. Debtor
4. Creditor
5. Proprietor's Account
6. Interest Received
7. Wages Paid

Answer:

Items	Assets	Liability
Cash	Debit	
Furniture	Debit	
Debtor	Debit	
Creditor		Credit
Proprietor's Account		Credit
Interest Received		Credit – Income
Wages Paid	Debit – Expenses	

(2) On which side should the decrease in the following accounts will be recorded? Also mention the nature of account.

1. Machinery
2. Bank Overdraft
3. Bank Loan
4. Wages Paid
5. Wages Outstanding
6. Rent Received

Answer:

Items	Assets	Liability
Machinery	Debit	
Bank Overdraft		Credit
Bank Loan		Credit
Wages Paid	Debit – Expenses	
Wages Outstanding		Credit
Rent Received		Credit – Income

Effects of Transaction on Accounting Equation:

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

$$(\text{F.A.} + \text{C.A.} + \text{Investments}) = \text{Capital} + \text{Loans} + \text{C.L.}$$

$$(\text{Cash} + \text{Stock} + \text{Furniture}) = \text{Creditors} + \text{B/P} + \text{Loans} + \text{Capital}$$

- (3) Show the effect of the following business transactions on assets, liabilities and capital through accounting equation.

Particular	Rs.
Commencement of business with cash	20,000
Goods purchased on credit	7,000
Furniture purchased	3,000
Paid to creditors	2,000
Amount withdrawn by the proprietor	4,000
Creditors accepted a bill	1,500
Interest on capital	1,000
Transfer from capital to loan	5,000
Allotted shares to creditors	1,000

Answer: The inter-relationship of nine transactions may be summarised as under:

Transaction	Assets = Liabilities + Capital						
	Cash +	Stock +	Furniture +	= Creditors +	B/P +	Loan +	Capital
Commenced business with cash	20,000	0	0	0	0	0	20,000
Goods purchased on credit	0	7,000	0	7,000	0	0	0
New Equation	20,000	7,000	3,000	0	0	0	20,000

Furniture purchased	-3,000	0	3,000	0	0	0	0
New equation	17,000	0	0	-2,000	0	0	20,000
Paid to creditors	-2,000	0	0	-2,000	0	0	0
New equation	15,000	7,000	3,000	5,000	0	0	20,000
Amount withdrawn by the proprietor	-4,000	0	0	0	0	0	-4,000
New equation	11,000	7,000	3,000	5,000	0	0	16,000
Creditors accepted a bill for	0	0	0	-1,500	1,500	0	0
New Equation	11,000	7,000	3,000	3,500	1,500	0	16,000
Interest on capital	0	0	0	0	0	0	+1,000 -1,000
New equation	11,000	7,000	3,000	3,500	1,500	0	16,000
Transfer from capital to loan	0	0	0	0	0	5,000	-5,000
New equation	11,000	7,000	3,000	3,500	1,500	5,000	11,000
Allotted shares to creditors	0	0	0	-1,000	0	0	1,000
New equation	11,000	7,000	3,000	2,500	1,500	5,000	12,000

❖ Exercises

• Multiple Choice Questions:

- Which of the following statements is incorrect?
 - Liabilities + Capital = Assets
 - Liabilities + Assets = Capital**
 - Assets – Capital = Liabilities
 - Assets – Liabilities = Capital
- Which of the following statement is true about the accounting equation?
 - The Accounting equation represents that the sources in a business are not equal to the resources of that business.
 - The accounting equation represents that the sources in a business are equal to the resources of that business.**
 - The accounting equation represents that the resources are allocated to the business at cost price
 - None of the above
- What type of balance do Asset Accounts have?
 - Contra
 - Credit
 - Debit**
 - All of the above

4. Capital + Liabilities = _____

- A. Revenue
- B. Assets**
- C. Unearned Income
- D. Voucher

5. What causes the decrease in Assets?

- A. Cash purchases
- B. Liabilities
- C. Payment of Expenses**
- D. Retained Earnings

• **Write a Long Question Answers.**

1. Describe the Types of Accounts for Accounting Equation.
2. Explain the computation of Accounting & Rules of Debit and Credit Based upon Accounting Equation ($A = C + L$).
3. "Accounting equation is true under all circumstances." Justify these statements with the help of illustrations.

• **Short Answer Type Question:**

1. Define accounting equation.
2. "Prove that accounting equation holds well under all circumstances." Give example.

• **Practical Question:**

1. Use accounting equation to show the effect of the following transaction on assets, liabilities and capital and also show the final Balance Sheet.

Particular	Rs.
Started business with cash	70,000
Purchased goods on credit	18,000
Purchased machinery	20,000
Payment made to creditors in full settlement	17,500
Depreciation on machinery	2,000

- 4.1 Classification of Accounts
- 4.2 Personal Accounts
- 4.3 Types of Personal Accounts
- 4.4 Rules/ Principles of Personal Accounts
- 4.5 Impersonal Accounts
- ❖ Exercise

4.1 Classification of Accounts

According to conventional approach, all accounts are classified into two main heads i.e. **Personal Accounts and Impersonal Accounts**. Impersonal accounts may be further subdivided into two heads i.e. **Real Accounts and Nominal Accounts**. So, accounts can be classified into Personal, Real and Nominal Accounts.

4.2 Personal Accounts

It deals with the accounts relating to persons i.e. natural and artificial. Natural person means human beings, such as Abhijit, Devang, Paresh, Swati, Magan etc. Artificial person does not have physical existence as human being but they work as personal accounts. These accounts are related to firms, companies, institutes, factories. Such as ABC Ltd., HDFC Bank, Shree Brothers, etc.

4.3 Types of Personal Accounts

Types of personal accounts can be explained as follows:

- A. Natural Personal Accounts:** It includes name of an individual, the suppliers and buyers say Chhagan, Magan etc.
- B. Artificial Personal Accounts:** It includes bank, name of any firm, companies, clubs etc. example of artificial personal accounts includes Tata, Bata, Reliance, Essar, Debtor's account, Creditor's account, Capital Account, Drawings account etc.
- C. Representative Personal Account:** It includes outstanding liabilities say for rent, salary etc. Unearned Rent Account, Commission Accrued Account, Unexpired Insurance and Wages outstanding accounts are examples of representative personal account.

4.4 Rules of Debit and Credit / Principle of Personal Account:

Personal accounts either receive something or give something in the business. According to this nature of personal account, the rule of 'Debit and Credit' in the personal account is as under.

Debit the Receiver

Credit the Giver.

Practical Example:

1. Paid Rs. 5,000 to Shayal

In this case, two accounts are affected i.e. Shayal and Cash. Shayal's account will be debited in the entry as she is the receiver of cash. Simultaneously Cash account will be credited as cash has gone out. The entry will be as follows:

Shayal a/c	Dr.	5,000	
			To Cash a/c
			5,000

2. Received Rs. 10,000 from Rakhi.

In this case, Cash account will be debited as it has been received and Rakhi's account will be credited as she is the giver of cash. The entry will be as follows:

Cash a/c	Dr.	10,000	
			To Rakhi a/c
			10,000

4.5 Impersonal Account

All those accounts, which are not personal accounts, are termed as 'Impersonal Accounts'. These accounts may belong to assets, losses, expenses, income and gain. Impersonal accounts may be further classified into two types i.e. **Real and Nominal Accounts**.

Types of Real Accounts:

1. Real Accounts: It stands for properties and assets which are broadly classified as tangible and intangible assets.

A. Tangible: All those things which can be seen, touched and have physical existence are tangible. E.g. cash account, building account, furniture account, machinery account, goods account etc.

B. Intangible: All those things which cannot be seen, touched or do not have any physical existence are intangible. E.g. goodwill, trademark and patents etc.

Rules of Debit and Credit / Principle of Real Account:

On the basis of the nature of real accounts, the following rules have been ascertained.

Debit what Comes in

Credit what Goes out

As per this rule, whenever any property comes into business, Property Account is debited and when it goes outside the business, Property account is credited.

Practical Example:

A. Furniture of Rs. 50,000 purchased for cash.

In this case, furniture account should be debited according to the rule 'Debit what Comes in', while Cash account should be credited according to the rule 'Credit what goes out'. The entry will be as follows:

Furniture a/c	Dr.	50,000
To Cash a/c		50,000

2. **Nominal Accounts:** Nominal accounts do not have any physical existence. It relates to income and expenditure or gain and loss. Nominal accounts are also known as **Revenue and Expenses Accounts**. E.g. Rent, Salary, Interest, Dividend, Bad debt, Discount, Commission accounts etc.

Rules of Debit and Credit / Principle of Nominal Account:

On the basis of the nature of nominal accounts, the following rules have been ascertained.

Debit all Expenses and Losses

Credit all Incomes and Gains.

Practical Example:

1. Paid Rs. 2,500 for Salaries.

In this case, Salaries account will be debited according to the rule of 'Debit all Expenses' While Cash account will be credited according to the rule of 'Credit what Goes Out'. The entry will be as follows:

Salary a/c	Dr.	2,500
To Cash a/c		2,500

2. Received Rs. 5,000 for interest.

In this case, interest account will be credited according to rule of 'Credit all Incomes' and Cash account will be debited according to the rule of 'Debit what Comes in'. The entry will be as follows:

Cash a/c	Dr.	5,000
To Interest a/c		5,000

❖ Exercise:

• Long Answer type Questions:

1. What are different types of accounts? Explain it with examples with their rules of debit and credit.
2. Explain Personal Account in detail.
3. Explain Impersonal accounts in detail.

- **Short Answer Type Questions:**
 1. What are the different types of accounts? Give two examples of each.
 2. State types of personal accounts.
 3. Give the rules of debit and credit for the three types of accounts.
 4. Give two examples of representative accounts.

- **Classify the following into three types of personal accounts:**
 - A. Capital account
 - B. Debtor account
 - C. Bank account
 - D. Bata Shoe Company
 - E. Outstanding Salary account
 - F. Creditor account.

- **State to which class of accounts does each of the following relate:**
 - A. Capital
 - B. Debtors
 - C. Wages
 - D. Bad debts
 - E. Goodwill
 - F. Sales
 - G. Drawings
 - H. Outstanding Salary
 - I. Purchases
 - J. Interest Received
 - K. Cash
 - L. Bank
 - M. Prepaid Rent
 - N. Accrued Interest
 - O. Commission Received in Advance
 - P. Machinery

BBA SEMESTER -1
FINANCIAL ACCOUNTING
BLOCK: 2

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5.1 Introduction**5.2 Meaning of Journal****5.3 Method of writing a Journal****5.4 Type of Accounts****5.5 Rules of debit and credit****5.6 Entries For Various Types of Transaction**❖ **Exercise****5.1 Introduction**

A Journal is the basic book of account in double entry. It is a book in which day to day transaction are recorded immediately when they take place.

‘Journal’ means a day in Latin and so the word ‘Journal’ derived from it, which means a day book.

‘In double entry system, every transaction has a two-fold effect. One Account receives the benefit, which is debited and the other account gives the benefit, which is credited.

It is First determined which account will be debited and which account will be credited according to rules of debit and credit. Then the entries are made firstly in a book called Journal.

5.2 Meaning of Journal

‘A Journal is a book of account in which business transactions are recorded in their two-fold aspect for the first time in the order of their happening.’

5.3 Method of writing a Journal

Journal is written in a particular format and it’s given below.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)

The explanations of these columns are given below:

1. **Date:** The first column is for recording the date on which the transaction took place, because transactions are recorded in chronological order.
2. **Particulars:** The Particulars of the transaction are written in the second column. The name of the account to be debited and the name of the account to be credited are written in this column. Short description of the transaction is also written in this column, which is called ‘narration’

3. **Ledge folio (L.F):** The third column is the reference column. The number of page of the ledger on which the particular account appears is shown in this column.
4. **Debit:** There are two columns of amounts which are shown last. The fourth column is meant for writing the amount of the account which is to be debited.
5. **Credit:** The last column is kept for writing the amount of the account to be credited.

➤ **For Example :-**

Sold goods of Rs.900 on date of 15thJuly, 2024

It will be written in the Journal as follows

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2024 July- 15	Cash A/c To Sales A/c	Dr.	900	- 900

After all transactions have been entered in the journal, the amounts of debit and credit columns are totalled and the word Total is written in the particular column against these totals. According to the double entry, the amounts in the debit and credit columns must be equal. So these totals must be equal.

5.4 Types of Account

The accounts are of three types:-

- 1) Personal Account
 - 2) Real Account
 - 3) Nominal Account
- (1) **Personal Account:** - The Account relating to living individuals and non-living thing or artificial persons.
Example: - Ketan Hathi's Account, Matte Co Ltd.'s Account, Bank of India Account, Capital Account etc.
 - (2) **Real Account:** - The Account relating to goods and other property.
Example: - goods Purchase Account, goods sales Account, Machinery Account, Investment Account etc.
 - (3) **Nominal Account:** - They are the accounts relating to income or gains and expenses and losses.
Example: - Rent Received Account, Interest Account, Salary Account, and Discount Allowed Account etc.

5.5 Rules of Debit and Credit

- (1) **Personal Account :-**
 - Debit the Receiver
 - Credit the Giver

(2) Real Accounts :-

- Debit what comes in
- Credit what goes out

(3) Nominal Accounts :-

- Debit Expenses and Losses
- Credit Incomes and gains

5.6 Entries for Various Types of Transaction

A. Starting a new business with capital and drawing transaction

Illustration:-1 Write journal entries from the following Transaction of Shri Malay pal.

- 1: Started business with cash Rs. 10,000.
- 2: Brought a personal scooter of Rs. 5,000 in business.
- 3: Started business with cash Rs.15,000, Machines, Rs. 40,000, goods Rs. 8,000 and debtors Rs.12,000
- 4: A personal furniture was sold for Rs.10,000 and out of this, cash of Rs.5,000 was brought into the business.
- 5: Started a business with cash Rs.30,000, debtors Rs.8,000 and creditors Rs.5,000,
- 6: Withdrew cash from business for personal use Rs.5, 000
- 7: Paid for Life insurance premium Rs.1,250.
- 8: Paid for daughter's school fee Rs.1,700.
- 9: Goods of Rs.1,000 were withdrawn for Personal use.

Solution:-

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Cash A/c Dr.		10,000	-
	To Capital A/c		-	10,000
	(Being:- Started business with cash)			
2	Scooter A/c Dr.		5,000	-
	To Capital A/c		-	5,000
	(Being:- Brought scooter in business)			
3	Cash A/c Dr.		15,000	-
	Machinery A/c Dr.		40,000	-
	Goods A/c Dr.		8,000	-
	Debtors A/c Dr.		12,000	-

	To Capital A/c (Being: - capital brought in the form of various assets)		-	75,000
4	Cash A/c Dr.		5,000	-
	To Capital A/c (Being:- cash brought in business)		-	5,000
5	Cash A/c Dr.		30,000	-
	Debtors A/c Dr.		8,000	-
	To Creditors A/c		-	5,000
	To Capital Account (Being:- capital brought in the form of various Assets and liabilities to start business)			33,000
6	Drawing A/c Dr.		5,000	-
	To cash A/c (Being: the amount of cash withdrawn from business for personal use)		-	5,000
7	Drawing A/c Dr.		1,250	-
	To cash A/c (Being: the amount paid for life insurance premium)		-	1,250
8	Drawing A/c Dr.		1,700	-
	To cash A/c (Being: the Amount paid for daughter's school fees)		-	1,700
9	Drawing A/c Dr.		1,000	-
	To Goods withdrawn for personal use A/c (Being: the amount of goods withdrawn for personal use)		-	1,000
	Total		1,41,950	1,41,950

B. Transaction related to goods Accounts

GOODS SOLD AT PROFIT

- **REMEMBER:**

- ❖ If it is not specified in the Transaction, profit will be charged on cost price.
- ❖ If profit will charged on cost price, assumed Rs. 100 cost price
- ❖ If profit will charged on sales price, assumed Rs. 100 sales price
- ❖ Sales price = cost price + profit and cost price = sales price – profit

<p><u>PROFIT 10% ON C.P.</u> <u>Goods of Rs.10,000 Purchase form A & sold to B</u> Suppose Rs. 100 C.P. + Profit Rs. 10 = S.P. Rs. 110</p> <p>Sales price = $10,000 * 110 / 100 = 11000$ Rs.</p>	<p><u>PROFIT 10% ON S.P.</u> <u>Goods of Rs.9000 Purchase form A & sold to B</u> Suppose Rs. 100 S.P. - Profit Rs. 10 = C.P. Rs. 90</p> <p>Sales price = $9000 * 100 / 90 = 10000$ Rs.</p>
<p>Goods returned by B of Rs. 1100 (S.P.) which is to be returned to A. Assumed Sales Price is Rs. 110 If Rs. 110 S.P. = 100 C.P. Then 1100 S.P. = ? = 1,000 Rs. C.P.</p>	<p>Goods returned by B of Rs. 1000 (S.P.) which is to be returned to A. Assumed Sales Price is Rs. 100 If Rs. 110 S.P. = 90 C.P. Then 1000 S.P. = ? = 900 Rs. C.P.</p>
<p>1. Purchase A/c Dr. To A's A/c.</p> <p>2. B's A/c Dr. To Sales A/c.</p> <p>3. Sales Return A/c. Dr. To B's A/c.</p> <p>4. A's A/c. Dr. To Purchase Return A/c.</p>	<p>1. Purchase A/c. Dr. To A's A/c.</p> <p>2. B's A/c. Dr. To Sales A/c.</p> <p>3. Sales Return A/c. Dr. To B's A/c.</p> <p>4. A's A/c. Dr. To Purchase Return A/c.</p>

Illustration: -2 Write Journal entries from the following transaction of Sandip Vora for the month of June, 2024:

- June 1: Purchased goods for cash Rs. 15,000
- 3: Purchased goods from Mahesh Rs.10,000
- 7: Purchased goods Rs. 5,000.
- 10: Placed an order with Ramesh for supplying goods Rs. 7,500.
- 12: Sold goods Rs. 13,000
- 15: Sold goods to Kantilal Rs. 10,500
- 17: Ramesh sent goods as per our order of Rs. 7,500.
- 19: Out of the Purchases of 3rd July. Goods of Rs. 2,500 are returned, being defective.

- 20: Kantilal returned goods Rs. 500, being defective
 24: Purchased goods of Rs. 20,000 from kajal and sold half of it to pooja at a profit of 5%
 30: Pooja returned defective goods of Rs. 1050, which we returned to kajal.

Solution:-

Journal of Shri Sandip Vora

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2024				
June				
1	Purchase A/c Dr. To Cash A/c (Being:- Purchased goods for cash)		15,000 -	- 15,000
3	Purchases A/c Dr. To Mahesh A/c (Being:- Purchased goods from Mahesh)		10,000 -	- 10,000
7	Purchased A/c Dr. To cash A/c (Being:- Purchased goods for cash)		5,000 -	- 5,000
10	It is not a transaction, so no Journal entry is passed			
12	Cash A/c Dr. To Sales A/c (Being:- sold goods for cash)		13,000 -	- 13,000
15	Kantilal Accounts Dr. To Sales Account (Being:- Sold goods to kantilal)		10,500 -	- 10,500
17	Purchases A/c Dr. To Ramesh A/c (Being: Ramesh sent us goods as per our order)		7,500 -	- 7,500
19	Mahesh A/c Dr.		2,500	-

	To Purchase Returns A/c		-	2,500
	(Being: Defective goods out of those purchased returned to Mahesh)			
20	Sales Returns A/c	Dr.	500	-
	To kantilal A/c		-	500
	(Being: Kantilal returned some goods sold to him)			
24	(1) Purchases A/c	Dr.	20,000	-
	To Kajal A/c		-	20,000
	(Being: Purchased goods from Kajal)			
	(2) Pooja A/c	Dr.	10,500	-
	To Sales A/c		-	10,500
	(Being: sold goods of Rs. 10,000 at a profit of 5%)			
30	(1) Sales Returns A/c	Dr.	1,050	-
	To Pooja A/c		-	1,050
	(Being: Pooja returned us some goods)			
	(2) Kajal A/c	Dr.	1,000	-
	To Purchase returned A/c		-	1,000
	(Being: Returned goods to kajal)			
	Total		96,550	96,550

C. Goods going out for other reasons:

Illustration: -3 Write Journal entries from the following transaction of Nilesh for the month of June, 2014:

- June 1: Goods costing Rs.1,000 are stolen from godown.
5: Goods of Rs.500 were received as Sample.
8: Goods of the Cost of Rs.2,500 were completely destroyed by fire.
13: Goods of Rs.3,500 were destroyed by fire. The insurance company accepted a claim for Rs.2,000.
18: Goods of Rs.800 were withdrawn for personal use.

20: Goods of Rs.600 were soaked by rain and were sold for Rs.300

24: Goods worth Rs.1,250 were distributed free as samples.

30: Goods worth Rs.350 were distributed free among the poor.

Solution:-

Journal of Shri Nilesh

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Loss by Theft A/c Dr. To Goods Stolen A/c (Being:- Goods were stolen from godown)		1,000	-
			-	1,000
5	No entry will be made of goods received as samples.			
8	Loss by fire A/c Dr. To Goods burn by fire A/c (Being:- Goods were destroyed by fire)		2,500	-
			-	2,500
13	Loss by fire A/c Dr. Insurance Company's A/c Dr. To Goods burn by fire A/c (Being:- Goods were damaged by fire, of which insurance company accepted claim of Rs. 2000.)		1,500	-
			2,000	-
			-	3,500
18	Drawings A/c Dr. To Goods withdrawn for personal use a/c (Being:- Goods withdrawn for personal use)		800	-
			-	800
20	Cash A/c Dr. Loss by rain A/c Dr. To Goods damaged by rain A/c (Being:- Goods of Rs. 600 were soaked by		300	-
			300	-
			-	600

	rain which were sold for Rs. 300)			
24	Advertisement Accounts Dr.		1,250	-
	To Goods given as Samples A/c		-	1,250
	(Being:- The goods given free as Samples)			
25	Charity A/c Dr.		350	-
	To Goods given as charity A/c		-	350
	(Being: Goods were distributed among poor as charity)			
	Total		10,000	10,000

D. Discount and Allowance:

Many times in business some less amount is paid or received than the value of goods sold or purchased. This amount is known as 'discount'. There are two types of discount in business (1) Trade Discount and (2) Cash Discount

(1) Trade Discount: - The Amount so allowed to the retailer off the catalogue price is treated as 'trade discount'. The trade discount is a rebate allowed by the manufacturer or a wholesaler to the retailer off the catalogue price the trade discount is not recorded in the books of account. Only the net amount is entered in the books after deducting the trade discount.

(2) Cash Discount: - As distinguished from trade discount, it is an allowance made by the receiver of cash to the payer, for prompt payment of cash. This discount is connected with cash receipts and payments, so it is called cash discount. It reduces the existing debt and so as record of such discount is necessary. Thus, cash discount is always recorded in books of account.

Difference between Cash Discount and Trade Discount

	Trade Discount		Cash Discount
1	Trade discount is allowed by a wholesaler to retailer to enable him to sell at a fixed price and yet make a profit	1	Cash discount is allowed by the receiver of cash to the payer for prompt payment or for payment of cash within the period of credit.
2	Trade discount is allowed on the catalogue price	2	Cash discount is allowed on the net amount after deducting trade discount from printed price.
3	Trade discount is not recorded in book of account.	3	Cash discount is always recorded in book of account
4	Trade discount is always deducted from invoice.	4	Cash discount is not deducted from invoice.
5	The purpose of trade discount is to	5	The purpose of cash discount is to tempt

allow retailer to sell goods at Printed Price.	the customers to make prompt payment of cash.
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Allowance:-

It is some reduction allowed to the customer at the time of settlement of account e.g. ketan shah owes Rs.1,010 to karan. But karan accepts Rs.1,000 in full settlement. Here the amount of Rs.10 accepted less by karan is the allowance.

Illustration:-4 Journalise the following transactions of Vimal Barot for the month of June, 2024:-

- June 1: Purchased goods of Rs.10,000 at 10% trade discount from Patel Traders.
- 6: Sold goods of Rs.5,000 at 10% trade discount to Janki for cash.
- 10: Purchased goods worth Rs.12,000 at a trade discount of 10% and a cash discount of 10% from komal. Half the amount is paid in cash.
- 17: Rs.1,050 was due from Rahul. His accounts were settled by accepting Rs.1,000 in cash.
- 21: sold goods worth Rs.20,000 at 10% trade discount and a cash discount of 5% to Sanjay. Half the amount is received in cash.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Purchases Account A/c Dr. To Patel traders Account (Being:- bought goods of Rs.10,000 at a trade discount of 10%)		9,000	- 9,000
6	Cash Account A/c Dr. To sales Account (Being:- sold goods of Rs.5,000 at 10% trade discount for cash)		4,500	- 4,500
10	Purchases Account A/c Dr. To Kamal A/c To Cash A/c To Discount A/c (Being:- Purchased goods of Rs.12,000 at a trade discount of 10% from Kamal and Paid half the amount in cash)		10800	- 5,400 4,860 540

17	Cash A/c	Dr.		1,000	-
	Allowance A/c	Dr.		50	-
	To Rahul A/c			-	1,050
	(Being:- Rahul Settled his Account of Rs.1,050 by paying cash Rs.1,000)				
21	Cash A/c			8,550	-
	Sanjay A/c			9,000	-
	Discount A/c			450	-
	To sales A/c			-	18,000
	(Being:- Sold goods to sanjay@10% T.D. & 5% C.D. and half amount recorded)				
27	Sanjay A/c	Dr.		9,000	-
	Cash A/c	Dr.		8,550	-
	Discount A/c	Dr.		450	-
	To Sales A/c			-	18,000
	Total			43,350	43,350

(E) Purchase and sale of Assets

Illustration:-5 Record the following transaction of Shri Ravi Sharma in his journal for the month of May-2024:

- May 3: Purchased furniture for Rs.1,500 from Jain Furniture Mart.
- 10: Purchased a Land for Rs.1,00,000 and Paid cash
- 15: Purchased a machine for Rs.50,000 and paid Rs.3,000 for installation charges.
- 25: Purchased cycle of Rs.1,500 and given the goods costing Rs.1,200 in exchange.

Solution:-

Journal of Shri Ravi Sharma

Date	Particulars	L.F.	Debit (₹)	Credit (₹)	
2024 May 3	Furniture A/c	Dr.	1500	-	
	To Jain Furniture Mart A/c		-	1500	
	(Being Bought Furniture on credit)				

10	Land A/c	Dr.	1,00,000	-
	To Cash Account		-	1,00,000
	(Land Purchased on cash)			
15	Machinery Account A/c	Dr.	53000	-
	To Cash A/c		-	53000
	(Purchased Machine and Paid Installation charges Rs. 3000)			
25	Cycle A/c	Dr.	1500	-
	To sales A/c		-	1500
	(Purchased Cycle of Rs. 1500 and given goods costing Rs. 1200)			

(F) Bank Transactions

Illustration: -6 Journalise the following transaction of Jayesh for the month of June, 2014.

- June 1: Opened a bank account with Rs.50,000.
3: Received a cheque from kamal Rs.5,000.
7: Cheque received from kamal is paid into bank
10: sold goods for Rs.4,000 and received a cheque.
12: Withdrawn Rs.2,200 for personal use and Rs.1,000 for office use from bank.
17: Bank has debited Rs.35 to our account for bank charges and credited Rs.70 for interest.
22: Paid for life insurance premium Rs. 800 by cheque.
30: Purchased goods from Raju of Rs. 10000 and paid the amount by a cheque.

Solution:-

Journal of Shri Jayesh

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2024 June 1	Bank A/c	Dr.	50,000	-
	To Cash A/c		-	50,000

	(Opened a bank account with cash)			
3	Cash A/c	Dr.	5,000	-
	To Kamal A/c		-	5,000
	(Received a cheque from Kamal)			
7	Bank A/c	Dr.	5,000	-
	To cash A/c		-	5,000
	(Paid a cheque received from kamal into bank)			
10	Bank A/c	Dr.	4,000	
	To Sales Account		-	4,000
	(goods sales and received a cheque)			
12	Cash A/c	Dr.	1,000	-
	Drawing A/c		2,200	-
	To Bank A/c			3,200
	(Withdrawn from bank Rs. 2200 for Personal use and Rs. 1000 for office use)			
17	(A) Bank charges A/c	Dr.	35	-
	To Bank Account		-	35
	(Bank has debited bank charges to Our account)			
	(B) Bank A/c	Dr.	70	-
	To Interest A/c		-	70
	(Bank has credited interest our A/c)			
22	Drawing A/c	Dr.	800	-
	To Bank Account		-	800
	(Life Insurance paid by cheque)			
30	Purchases A/c	Dr.	10,000	-
	To Bank A/c		-	10,000
	(goods Purchased and paid by cheque)			
		Total	78,105	78,105

(G) Illustration containing all types of Transaction

Illustration: -7 Write the following transaction of Kalpana for the month of June 2014.

June 1: Kalpana started business with cash 35,000.

- Machinery Rs. 15,000 and Debtors Rs. 4,000
- 3: Opened a bank account and paid Rs. 8,000 in it.
- 5: Goods purchased from Pankaj of Rs. 1,000 at 5% Trade Discount.
- 7: Purchased stationery of Rs. 1,200.
- 8: Sold goods to Daya of Rs. 12,000.
- 10: Purchased goods Rs. 20,000 from Milan at a trade discount of 10% and cash discount 5% paid half the amount in costs.
- 12: Paid Salary Rs. 12,000
- 15: Received a cheque of Rs. 4,000 from daya
- 18: Paid Rs. 4,500 to Milan by cheque.
- 21: Paid Advertisement bill of Rs. 450.
- 23: Goods stolen from the shop Rs. 800
- 25: Paid for life Insurance premium Rs. 750
- 26: Purchase furniture of Rs. 1,000 from Narayan Furniture Mart.
- 28: Cash sales, Rs. 4,500, and cash purchase Rs. 3,000
- 30: Out of Purchases of 10th June, good of Rs. 500 are returned.

Solution:-

Journal of Shri Kalpana

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2024 June				
1	Cash A/c Dr.		35,000	-
	Machinery A/c Dr.		15,000	-
	Debtors A/c Dr.		4,000	-
	To Capital A/c		-	54,000
3	Bank A/c Dr.		8,000	-
	To cash A/c		-	8,000
5	Purchase A/c Dr.		9,500	-
	To Pankaj A/c		-	9,500

7	Stationary Expenses A/c	Dr.	1,200	-
	To cash A/c		-	1,200
8	Daya A/c	Dr.	12,000	-
	To Sales A/c		-	12,000
10	Purchases A/c	Dr.	19,000	-
	To Milan A/c		-	9,500
	To cash A/c			9,025
	To Discount A/c			475
12	Salary A/c	Dr.	12,000	-
	To cash A/c		-	12,000
15	Bank A/c	Dr.	4,000	-
	To Daya A/c		-	4,000
18	Milan A/c	Dr.	4,500	-
	To Bank A/c		-	4,500
21	Advertisement exp A/c	Dr.	450	-
	To cash Account		-	450
23	Loss by Theft A/c	Dr.	800	-
	To Goods stolen A/c		-	800
25	Drawing A/c	Dr.	750	-
	To cash A/c		-	750
26	Furniture A/c	Dr.	1,000	-
	To Narayan Furniture Mart		-	1,000
28	Cash A/c	Dr.	4,500	-
	To sales A/c		-	4,500
28	Purchase A/c	Dr.	3,000	-
	To cash A/c		-	3,000
30	Milan A/c	Dr.	500	-
	To Purchases Returns Accounts		-	500
	Total		1,35,200	1,35,200

(H) Transaction of Expenses and Incomes

Illustration: -8 Journalise the following transaction of Shri Vipul Parmar for the month of June, 2024.

- June 2: Paid Rent Rs.1,000
5: Paid salary Rs.1,500

- 8: Paid wages Rs.500
 12: Paid for fire insurance premium Rs.500 and life insurance premium Rs.200.
 18: dividend received Rs.1,000
 20: Interest received Rs. 400
 30: Sold goods to Ramesh Rs.5,000 and paid carriage on his behalf of Rs.400.

Solution:-

Journal of Shri Vipul Parmar

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2024 June				
2	Rent A/c Dr. To Cash A/c (Paid Rent)		1,000 -	- 1,000
5	Salary A/c Dr. To Cash Account (Paid Salary)		1,500 -	- 1,500
8	Wages Account A/c Dr. To Cash A/c (Paid wages)		500 -	- 500
12	Fire insurance Premium A/c Dr. Drawings A/c Dr. To Cash A/c (paid fire insurance premium and also life insurance premium.)		500 200 -	- - 700
18	Cash A/c Dr. To Dividend (Received Dividend)		1,000 -	- 1,000
21	Cash A/c Dr. To Interest A/c (Received Interest)		400 -	- 400
30	Ramesh A/c Dr.		5,400	-

	To sales A/c		-	5,000
	To cash A/c		-	400
	(Sold goods on Credit to Ramesh and paid 400 for carriage on his behalf)			
	Total		10,500	10,500

(I) Loans and Interest on Loans

Illustration: -9 Journalise the following transaction of Lalaji Rao for the month of June,2014.

- June 1: Borrowed Rs.10,000 as a loan at 12% p.a. from bank.
9: Give a loan of Rs.5,000 at 5% to Mahesh
30: Paid interest to bank for one month on loan taken from bank

Solution:-

Journal of Shri Lalaji Rao

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Cash A/c Dr.		10,000	-
	To Bank Loan A/c		-	10,000
	(Taken loan from bank at 10% Interest P.A.)			
9	Mahesh's Loan A/c Dr.		5,000	-
	To Cash Account		-	5,000
	(Given a loan Rs.5,000 to Mahesh at 5% P.A.)			
30	Interest A/c Dr.		100	-
	To Cash A/c		-	100
	(Paid Interest to Bank Loan of Rs.10,000 at 10% one month)			
	Total		15,100	15,100

❖ **Exercise:**

➤ **Multiple Choice Questions**

1. Goods worth Rs. 17,000 given away as charity would be credited to:
 - A. Cash A/c
 - B. Purchase A/c
 - C. Charity A/c
 - D. Sales A/c

2. Journal records the transactions of a firm in a
 - A. Chronological order
 - B. Systematic Order
 - C. Specific Order
 - D. None of these.

3. Paid to Shayal on behalf of Rakhi Rs. 2,000 will be debited to
 - A. Rakhi A/c
 - B. Cash A/c
 - C. Shayal A/c
 - D. On behalf A/c

4. Loss of goods by theft should be credited to
 - A. Loss A/c
 - B. Theft A/c
 - C. Purchase A/c
 - D. Profit & Loss A/c

5. Main object of preparing Journal is
 - A. For Posting
 - B. Journalise cash transaction
 - C. Record transaction
 - D. None

6. Purchase of goods from Rakhi for cash should be credited to
 - A. Rakhi
 - B. Cash
 - C. Purchase
 - D. None

7. Personal Accounts are related to
 - A. Debtors
 - B. Cash
 - C. Salary
 - D. None of these

8. Real Accounts are related to
- A. Debtors
 - B. Cash
 - C. Salary
 - D. None of these
9. Nominal Accounts are related to
- A. Debtors
 - B. Cash
 - C. Salary
 - D. None of these
10. What shall be the amount of capital if cash is Rs. 50,000, Vehicles Rs. 20,000, Stock Rs. 50,000 and Creditors Rs. 20,000?
- A. Rs. 1,00,000
 - B. Rs. 1,20,000
 - C. Rs. 80,000
 - D. Rs.90,000
11. The process of recording transactions in the Journal is called _____.
- A. Ledger
 - B. Journalising
 - C. Posting
 - D. All
12. A _____ is a book of origin entry.
- A. Ledger
 - B. Posting
 - C. Journal
 - D. None
13. There are _____ types of discount.
- A. 3
 - B. 2
 - C. 4
 - D. 5
14. Outstanding rent will be debited to _____.
- A. Outstanding Expenses A/c
 - B. Cash A/c
 - C. Rent A/c
 - D. No entry.

15. Premium paid on the life insurance policy of the proprietor will be debited to _____.

- A. Capital A/c
- B. Drawings A/c
- C. LIC premium A/c
- D. Proprietor A/c

Answer: 1. B. 2. A. 3. A. 4. C. 5. C.
 6. B. 7. A. 8. B. 9. C. 10. A.
 11. B. 12. C. 13. B. 14. C. 15. B.

❖ **Practical Question:**

1. Record the following transaction in the Journal of Ravi Chopara for the month of June, 2024.

- June 1: Started business by bringing in cash Rs. 70,000, furniture of Rs. 10,000, and debtors of Rs. 8,000.
- 4: Sold personal car for Rs. 15,000 and invested Rs. 7,000 in the business.
- 7: Withdraw Rs. 750 for household expenses
- 11: Brought Rs. 14,000 as additional capital
- 14: Paid fire insurance premium Rs. 1,100 and life insurance premium of Rs. 825.
- 19: Received income tax refund Rs. 900.
- 22: paid son's fees Rs. 2,400 from the business.

2. Record the following transaction in the Journal of Priya Kapoor for the month of July, 2024.

- July 1: Opened an account with Bank of India by depositing Rs. 40,000.
- 3: Received a cheque of Rs. 9,000 from Vinay, Which was deposited in the bank.
- 7: Received a cheque of Rs. 12,000 as collection from Pooja.
- 11: Deposited the cheque received from Pooja in the bank.
- 18: Withdraw from the bank by cheque Rs. 750 for household expenses and Rs. 1,500 for office expenses.

- 20: Purchased goods of Rs. 16,000 from Jay and Paid half the amount by cheque.
- 22: Sale of goods of Rs. 18,000 to Ashil, received a cheque. Which was deposited in the bank.
- 24: Paid life insurance premium Rs. 1,200, and fire insurance premium Rs. 1,700 by cheque.
- 30: The bank has credited interest Rs. 425 and debited bank charges Rs. 70.

3. Recorded the following transaction in the Journal of Hari for the month of July 2024.

- July1: For additional requirement of the business borrowed a loan of Rs.25,000 from karan at 12% interest.
- 8: Received cash of Rs. 5,000 of Loan advanced to kamal and Rs. 300 as interest.
- 14: Loan an amount of Rs. 4,000 to pankaj at 10% interest.
- 22: Returned Rs. 6,000 of Loan borrowed from Amit and paid interest Rs. 200.
- 30: Paid Rs. 250 as interest for one month on loan borrowed from karan.

4. Recorded the following transactions in the Journal of Himesh for the month of July 2024.

- July1: Started business by bringing cash Rs. 30,000 and Debtors of Rs. 7,000
- 3: Opened an account with bank of Baroda by depositing Rs. 15,000.
- 5: Purchased goods of Rs. 11,000 for cash.
- 6: Purchased goods of Rs. 12,000 from Jeet.
- 8: Of the goods purchased from jeet, returned goods of Rs. 1,200 being defective.
- 11: Purchased goods of Rs. 16,000 from Majanu and paid half the amount by cheque.
- 14: Sold goods purchased from Majanu to Maya after adding 20% profit at 10% trade discount.

- 17: Maya returned goods of Rs. 1,600.
- 19: Sold goods of Rs. 20,000 to Krishna at 10% trade discount.
- 21: Goods of Rs.400 were stolen away.
- 22: Good of Rs.1,200 which were not insured were destroyed by fire.
- 24: Good of Rs.750 were taken away for personal use.
- 25: Received goods of Rs.350 as free samples.
- 26: Received Rs.350 on sale of goods received for as sample.
- 28: Goods of Rs.2,000 were destroyed by fire. Insurance company accepted a claim of Rs.1,200 received Rs.300 on sale of goods destroyed by fire as scrap.
- 30: Exchanged goods of cost price Rs.1,600 for a bicycle of Rs.1,300.

5. Record the following transaction for July 2024 in the Journal of Sita Pandya.

- July 1: Purchased shares of Reliance Ltd. for Rs. 10,000 and made the Payment through cheque. Paid brokerage and stamp fees Rs. 250 in cash.
- 9: Purchased furniture of Rs. 15,000 from Kapil furniture Mart.
- 13: Purchased a Machine of Rs. 5,000 and made the payment through cheque. Paid wages for installing the machine Rs. 2,000 in cash.
- 20: Purchased balances and weights of Rs. 500 for the shop.
- 25: Sold old machinery for Rs. 10,500.
- 30: Purchased furniture of Rs. 5,000 and gave goods of Rs. 4,500 in exchange.

6. Record the following transactions for July 2024 in the Journal of Bhavin.

- July 1: Received commission Rs. 750.
- 4: Purchased stationary books of Rs. 500 and files of Rs. 250.
- 8: Paid Rs. 551 for Gol-dhana and Pooja on the occasion of the inauguration of the shop.
- 11: Paid wages Rs. 1,700 and cartage Rs. 200 in cash.
- 14: Paid Shop rent Rs. 1,800 and house rent Rs. 3,000.
- 17: Received a cheque of Rs. 1,100 for brokerages.

- 20: Paid a bill of Rs. 450 for Advertisement.
- 22: Received Rs. 700 as dividend on shares of Reliance Ltd.
- 25: Received interest on debentures of TATA Rs. 800 by cheque.

7. Write Journal entries for the business transactions of Nayan during April 2024.

- April 1: Started business by bringing in cash Rs. 75,000, furniture of Rs.12,000, goods of Rs. 15,000 and debtors of Rs. 10,000.
- 2: Purchased goods of Rs. 8,000 from Sonal stores at 10% trade discount.
- 6: Borrowed a loan of Rs. 25,000 from Ravi Bajaj at 10% interest.
- 10: Sold goods of Rs. 10,000 to korat stores at 5% trade discount.
- 13: Received an order from pradip for sending goods of Rs. 15,000.
- 16: Purchased goods of Rs. 20,000 from Nilesh Distributors at 10% trade discount and 10% cash discount. Gave a cheque for half the amount.
- 19: Sent goods to pradip as per the order at 10% trade discount. Paid cartage Rs. 50 in cash.
- 22: Pradip was declared insolvent, there were bad debts of Rs. 500 and received a cheque for the remaining amount.
- 28: Settled the amount of maganlal of Rs. 1,220 by issuing a cheque of Rs. 1,200.
- 30: Recovered back Rs. 1,500 from kiran of bad debts written off earlier.

8. Pass Journal entries for the business transaction of “Zala stores” during May, 2024.

- May 1: Started business by bringing in cash Rs. 40,000, furniture of Rs. 1,000, stock of goods of Rs. 7,000. Debtors Rs. 3,000, and creditors of Rs. 5,000.
- 2: Opened an account with bank of Baroda by depositing cash Rs. 30,000.
- 3: purchased goods of Rs. 15,000 from vandana at 10% trade discount and 10% cash discount. paid half the amount by cheque.

- 5: purchased Table of Rs.5,000 from “Parin Furniture Mart” paid cartage Rs. 100 in cash
- 6: Purchased goods of Rs. 2,200 for cash.
- 8: Goods of Rs. 500 being defective were returned to Vandana.
- 10: purchased balances and weights of Rs.600.
- 11: Sold goods of Rs. 10,000 to Nilam at 10% trade discount and 10% cash discount. Received a cheque for half the amount.
- 12: sold goods of Rs. 12,000 to Bhavin at 10% trade discount and 10% cash discount for cash.
- 13: paid cash Rs.1,300 as office rent and Rs. 1,500 as house rent.
- 15: withdraw goods of Rs. 2,100 and cash Rs. 400 for household use.
- 16: purchased goods of Rs.2,000, and sold goods of Rs. 3,500.
- 17: Paid Rs.600 for purchase of plastic bags for packing.
- 19: There was bad debt of Rs. 400 of the total amount receivable from Nilam.
- 20: Since there was a need for additional funds, a loan of Rs. 50,000 was borrowed from a bank at 12% interest.
- 21: Goods of Rs. 1,000 were destroyed by fire for which the insurance company accepted a claim of Rs. 800.
- 22: Goods of Rs. 500 were stolen away.
- 23: Paid wages of Rs. 1,400, salary of Rs. 1600.
- 24: paid life insurance premium Rs. 550 and fire insurance premium Rs. 900 by cheque.
- 25: Withdraw Rs.700 for household expenses and Rs. 1500 for office expenses from bank.
- 26: Received goods of Rs. 450 as free samples.
- 27: Distributed goods of Rs. 250 as free samples for advertisement.
- 28: The bank credited Rs. 125 as interest and debited Rs. 60 as bank charges.
- 30: paid Rent Rs. 2,300 by cheques.

9. Write journal entries from the following transactions of ‘Pathak stores’ for the month of May, 2024.

- May 2: Bought goods at 10% trade discount from Sandip Rs. 30,000, and sold them to Nilam at a profit of 10%.
- 4: sold goods to Amit of Rs. 11,000 at 10% trade discount.
- 7: purchased goods for cash from Mukesh Rs.3,000.

- 9: sold goods to Ganesh stores Rs. 7,000 at 10% trade discount.
- 11: sold goods worth Rs. 25,000 to Ajay at a trade discount of 10% and cash discount of 10%. He Paid the full amount.
- 13: purchased stationary of Rs. 850.
- 16: Received a cheque from Amit.
- 17: cheque received from Amit is paid into bank.
- 19: Paid Rs. 3300 for salary in cash and fire insurance premium Rs.1050 by a cheque.
- 21: Rs. 1100 due from kajal were written off as she is declared insolvent.
- 23: Borrowed Rs. 17000 as a loan at 10% p.a. from Ram.
- 25: Purchased a machine for Rs. 35000 and paid Rs.3500 for installation charger.
- 27: sold old furniture at Rs. 17000.
- 29: Rs.510 was due from Hemlata. Her account was settled by accepting Rs.500 in cash.
- 30: Goods of Rs. 1600 withdrawn for personal use.

10. Record the following transaction in the journal of K.P. sales Agency for the month of May, 2024.

- May 1: started business with cash Rs. 55,000, stock of goods Rs. 6,500, and furniture of Rs. 7,500.
- 3: As more money is needed in business, a loan of Rs. 25,000 at 10% interest is taken from pintu.
- 4: opened a bank account and depositing Rs. 15,000.
- 5: purchased goods worth Rs. 8,000 from vijay at 10% trade discount.
- 7: sold goods to manubhai Rs.6,000.

- 9: Placed an order with Priya for supplying goods Rs. 14,000.
- 11: sold goods of Rs. 4,000 for cash to Manish at 10% trade discount and 5% cash discount.
- 13: Returned goods of Rs. 200 to vijay.
- 15: Manubhai returned goods of Rs.500.
- 17: Paid wages Rs. 2,000, and salary Rs. 1,500.
- 18: Goods of Rs. 300 were stolen away from the shop.
- 20: cash of Rs. 1,000 were taken away for personal use.
- 21: cheque received from manubhai of Rs. 2,500, which deposited in bank.
- 23: Manubhai paid the remaining amount in cash.
- 25: Settled the account of vinubhai by issuing a cheque of Rs.700 against an amount of Rs. 707.
- 27: Received commission Rs. 300.
- 28: Withdrew cash Rs. 1,000 from the bank for office expense.
- 29: Paid insurance premium for the shop Rs. 1,350.
- 30: Paid rent of the shop Rs. 23,000

6.1 Introduction**6.2 Meaning / Concept of Subsidiary Book****6.3 Advantages of Subsidiary Books****6.4 Purchase Book****6.5 Recording of Transactions****6.6 Format of Purchase Book****6.7 Points to be Considered while preparing Purchase Book****6.8 Different Types of Purchase Book****6.9 Sales Book****6.10 Format of Sales Book****6.11 Some Important Terms for Sales Books****6.12 Purchase Return Book****6.13 Debit Note****6.14 Sales Return Book****❖ Exercises**

6.1 Introduction

In the previous chapters, we already discussed that all cash transactions are first recorded in the cash book and also learnt that apart from these cash transactions, there are a number of credit transactions. These credit transactions or non-cash transactions are recorded in other special purpose subsidiary books which are as follows:

1. Purchase Book
2. Sales Book
3. Purchase Return Book or Return Outward Book
4. Sales Return Book or Return Inward Book
5. Bills Receivable Book
6. Bills Payable Book
7. Journal Proper or General Journal

In this chapter we will mainly discuss about first four types as other topics are covered in specific chapters.

6.2 Meaning / Concept of Subsidiary Book

Subsidiary books are journals in which special classes of transactions are recorded in Purchase book, such as purchase of goods on credit, in sales book, such as sale of

goods on credit, in Purchase Return book, records the return of goods purchased, Sales Return book records the return of goods sold.

6.3 Advantages of Subsidiary Books

The following are the advantages of subsidiary books.

1. Detection of Errors
2. Flexible
3. Fixation of Responsibility
4. Convenient Posting
5. Increase in Efficiency
6. Helpful in Decision Making
7. Division of Work
8. Proper and systematic Record
9. Availability of Detailed Information
10. Protection from Fraud

6.4 Purchase Book

All credit purchase of goods is recorded in the Purchase Book. Here Goods means any articles in which the firm is dealing. These are the articles which are purchased by the firm to resale it.

Purchase Book is also known as '**Purchase Journal**', '**Bought Journal**', '**Invoice Journal**', '**Invoice Book**' and '**Purchase Day Book**'.

Following transactions are not recorded in the purchase book:

- A. Cash Purchase**
- B. Purchase of Assets**

6.5 Recording of Transaction

The source documents on the basis of which the transactions are recorded in the purchase book are **invoice or bills received by the firm from the suppliers of the goods.**

6.6 Format of Purchase Book

Date	Name of the Supplier (Account to be Credited)	Invoice No.	L.F.	Details (in Rs.)	Total Amount (in Rs.)

Explanation of Columns

- A. Date:** The date column records the date of purchase of goods on credit,
- B. Particulars:** The name of the firm or person from whom the goods are purchased is recorded in this column.
- C. Invoice Number:** The number of the invoice or bill on the basis of which the transaction is being recorded in the Purchase Book is written in this column.
- D. Ledger Folio or L.F.:** It means the page number of the ledger where the transaction is posted.
- E. Details:** The details column is used to write the individual total of the items purchased from a particular supplier.
- F. Total Amount:** Net amount of a transaction is recorded in this column. The total amount is posted to the debit of Purchase Account in ledger.

6.7 Points to be considered while preparing Purchase Book

- 1. Trade discount:** It is a concession which is given on the catalogue price and allowed on purchases. The amount of purchase to be recorded in the Purchase book is always arrived at after deducting trade discount.
- 2. Cash discount:** It is a concession allowed on payment being made “within a certain period”. It is not deducted from the purchase price.
- 3. Sales tax:** The amount of sales tax charged by the supplier of goods is added to the amount of purchases, as it increases the cost of purchases.

Illustration: 1 Enter the following transactions in the purchase book of M/s Global Book Stores for June 2007.

June-7: Purchased books on credit from Shayal publishers: 5 Business Studies books by V. Wason @ Rs. 120 each, 5 Economics books by P. C. Tulsian @ Rs. 150 each (Trade discount allowed 10%).

June-15: Purchased books on credit from Kitab House: 7 Statistics books by Chabra @ Rs. 100 each (Trade discount allowed 12%)

June-18: Purchased from Sanjeev Garg & Co. on cash, 10 Company Laws books by Grewal @ Rs. 125 each.

June-20: Purchased on credit from Cambridge, 5 dictionaries @ Rs. 50 each (Trade discount allowed 15%).

June-25: Purchased on credit from Parin Furniture Co.: 12 chairs @ Rs. 200 each and 2 Tables @ Rs. 1000 each.

Solution:**Purchase Book of M/s Global Book Stores**

Date	Particulars (Name of Suppliers)	Invoice No.	L.F.	Details (Rs.)	Total Amount (Rs.)
2006 June 7	Shayal Publishers 5 Busi. Std. @ Rs. 120 each 5 Economics @ Rs. 150 each Less: Trade Discount @ 10%			600 750 135	1215
June 15	Kitab House 7 Statistics @ Rs. 100 each Less: Trade Discount @ 12%			700 84	616
June 20	Cambridge 5 Dictionaries @ Rs. 50 each Less: Trade Discount @ 15%			250 37.50	212.50
June 30	Purchase A/c (Total)				2043.50

(Note: 1. Purchase of June 18 will not be recorded because the goods have been purchased on cash. 2. Only the purchase of goods is recorded in this book, so the purchase of furniture on 28th June will not be recorded in this book)

6.8 Different Types of Purchase Book

A. Multi – Column Purchase Book: If different types of goods are purchased and separate information is required regarding purchase of each type of goods, a Multi – Column Purchase Book is used. In this book a separate column is prepared for each type of goods to know the purchase of every item.

Illustration: 2 Enter the following transaction in multi – column purchase book of a Rakhi readymade stores:

2009 April 4: Purchased from Om & Sons, Bombay:
100 metre cotton cloth @ Rs. 40 p/m.
80 metre woollen cloth @ Rs. 80 p/m.
60 metre silk cloth @ Rs. 100 p/m.

Trade discount @ 20%.

2009 April 10: Purchased from Mona Furniture House, Rajkot:

10 chairs @ Rs. 200 per chair.

2009 April 25: Purchased from Shankar Prasad & Co., Morbi:

80 metre silk cloth @ Rs. 100 p/m

150 metre cotton cloth @ Rs.50 p/m.

Solution:

Multi – Column Purchas Book

Date	Particulars	Invoice No	L.F.	Total Amount	Cotton Cloth	Woollen Cloth	Silk Cloth
2009 April 4	Om & Sons, Bombay			13120	3200	5120	4800
2009 April 25	Shankar Prasad & Co. Morbi			15500	7500	-	8000
2009 April 30	Purchase A/c (Total)			28620	10700	5120	12800

6.9 Sales Book / Sales Journal

All credit sales of goods are recorded in the Sales Book. Here Goods means any articles in which the firm is dealing. Sales Book is also known as **Sales Day Book**.

6.10 Format of Sales Book

Date	Particular (Name of Customers)	Invoice No.	L.F.	Details (in Rs.)	Total Amount (in Rs.)

Explanation of Columns

- G. Date:** The date column records the date of sales of goods on credit,
- H. Particulars:** The name of the firm or person to whom the goods are sold is recorded in this column.
- I. Invoice Number:** The number of the invoice or bill on the basis of which the transaction is being recorded in the Sales Book is written in this column.
- J. Ledger Folio or L.F.:** It means the page number of the ledger where the transaction is posted.

K. Details: The details column is used to write the individual total of the items sold to a particular customer.

L. Total Amount: Net amount of a transaction is recorded in this column. The total amount is posted to the credit side of Sales Account in ledger.

Illustration.3 Record the following transactions in the sales book:

2009 March 1: Sold to M/s Dolly & Co., on credit:

30 shirts @ Rs. 150 each

20 Trousers @ Rs. 200 each

Trade discount @ 10%

2009 March 7: Sold 50 shirts to M/s Jani & Co. @ Rs. 150 each for cash.

2009 March 10: Sold old furniture to M/s Bansi & Co. on credit for Rs. 800 each.

2009 March 25: Sold on credit to M/s Godrej & Co. 100 shirts @ Rs. 175 each.

Trade discount @ 10%.

Solution:

Sales Book

Date	Particulars (Name of Customer)	Invoice No.	L.F.	Detail (In Rs.)	Total Amount (In Rs.)
2009 March 1	M/s Dolly & Co. 30 shirts @ Rs. 150 each 20 trousers @ Rs. 200 each Less: Trade Discount @ 10%			4500 4000 850	7650
2009 March 25	M/s Godrej & Co. 100 shirts @ Rs. 175 each Less: Trade discount @10%			17500 1750	15750
2009 March 31	Sales A/c (Total)				23400

(Note: 1. Sales on 7th March will not be recorded in the sale book because its cash transaction.

2. Only the sale of goods is recorded in the books as such the sales of furniture on 10th March will not be recorded in the book)

6.11 Some Important Terms for Sales Books

1. Central Sales Tax: This tax is levied on inter – state sales. It is charged by the seller from the purchasers on the net sales value i.e., sales less trade discount.

2. VAT Collected: VAT is received on local sales while selling goods and it is the duty of the seller to collect VAT from customers.

3. Freight: Sometimes, freight paid on sending the goods is charged from the customer along with the sales proceeds. A separate column is maintained in the sales book to record such recovery of freight because it is not a part of sale proceeds.

4. Packing Charges: Like freight, seller may also charge packing charges of the goods from the buyer. A separate column is prepared for this.

Illustration.4 Record the following transactions in the sales book of Shankar Electronics, Rajkot.

- 2008 January 3:** Sold Rutu Electronics, Vide Invoice No. 431
5 Colour T.V. Sets @ Rs. 20000 each.
Less Trade Discount 20% and VAT is charged @ 10 %
- 2008 January 10:** Sold to Gita Electronics, Vide Invoice No. 432
10 Washing Machine @ Rs. 8000 each
Less Trade Discount @ 25% and CST is charged @ 10%
- 2008 January 12:** Sold to Raghu & Sons, Vide Cash Memo No.2510
6 Colour T.V. sets @ Rs. 18000 each Less Trade Discount @ 15% and VAT is charged @ 10%
- 2008 January 16:** Sold to Nita Trading Co. Vide Invoice No. 433
8 Music systems @ Rs, 15000 each
10 Colour T.V. Sets @ Rs. 22000 each
Less Trade Discount 20%, VAT charged @ 10%

Solution:

Shankar Electronics, Rajkot Sales Book

Date	Particulars (Name of Customer)	Invoice No	L.F.	CST	VAT	Freight	Detail (in Rs.)	Total Amount (in Rs.)
2008 Jan 3	Rutu Elec. 5 colour TV @ Rs. 20000 each Less: Trade Discount @ 20%	431					100000 20000	

	Add: VAT @ 10% Total				8000		80000 8000	88000
2008 Jan 10	Gita Ele. 10 Washing Machine @ Rs. 8000 each Less Trade discount @ 25% Add: CST @ 10% Total	432			6000		80000 20000 <hr/> 60000 6000 <hr/>	66000
2008 Jan 16	Nitu Ele. 8 Music Systems @ Rs. 15000 each 10 Colour TV Sets @ Rs. 22000 Less: Trade Discount @ 20% Add: VAT @ 10% Add: Freight	433			27200	2500	120000 220000 <hr/> 340000 68000 <hr/> 272000 27200 <hr/> 299200 2500 <hr/>	301700
2008 Jan 31	Total Sales			6000	35200	2500	412000	455700

6.12 Purchase Return Book / Purchase Return Journal

This book is also known as 'Return Outwards Book' or 'Purchase Return Journal'. Purchase Return Book is maintained to record the goods returned to the suppliers. Goods may be returned to suppliers due to any of the following reasons:

- A. When the price charged in invoice is more than the agreed price.
- B. When the goods have not been delivered on time.
- C. When goods are not according to the order.
- D. When goods are defective.
- E. When the goods are delivered is not according to the sample.

Format of Purchase Return Book:**Purchase Return Book**

Date	Particular (Name of Suppliers)	Debit Note No.	L.F.	Details (in Rs.)	Total Amount (in Rs.)

Illustration.5 Enter the following transactions in the Purchase Return Book.

2005 May 19: Returned goods to M/s Gopi & Sons, since goods were defective.

2 table fans @ Rs. 750 each

2005 May 29: Returned goods to M/s Radhika & Sons, as the goods were not according to Sample:

4 electric kettles @ Rs 150 each and 4 table lamps @ Rs. 100 each
trade discount @ 10%.

Solution:**Purchase Return Book**

Date	Particular	Debit Note No.	L.F.	Detail (In Rs.)	Total Amount (In Rs.)
2005 May 19	M/s Gopi & Sons 2 table fans @ Rs. 75 each			1500	1500
2005 May 29	M/s Radhika & Sons 4 electric kettles @ Rs. 150 each 4 table lamps @ Rs. 100 each Less: Trade discount @ 10%			600 400 <hr/> 1000 <hr/> 100	900
2005 May 31	Total Purchase Return A/c				2400

6.13 Debit Note:

It is a document prepared and sent by the customer to his suppliers in respect of goods returned. A debit note contains the name of the company or the party to whom the goods have been returned.

6.14 Sales Return Book:

This book is also known as 'Return Inward Book'. It records all returns of goods sold to customers may return the goods which are either defective or not up to the specification.

Format of Sales Return Book:**Sales Return Book**

Date	Particular (Name of Customers)	Credit Note No.	L.F.	Details (in Rs.)	Total Amount (in Rs.)

Illustration.6 Prepare a Sales Return Book of M/s Shayal & Co. from the following information.

2005 May 21: Goods returned by M/s Anil Traders:

2 table fans @ Rs. 750 each

Trade discount @ 10%

2005 May 30: Goods returned by M/s Chopra & Sons:

4 electric kettles @ Rs. 150 each

4 Table lamps @ Rs. 100 each

Trade discount @ 15%

Solution:

Sales Return Book of M/s Shayal & Co.

Date	Particulars	Credit Note No	L.F.	Detail (in Rs.)	Total Amount (in Rs.)
2005 May 21	M/s Anil & Traders 2 Table fans @ Rs. 750 each Less: Trade Discount @ 10%			1500 <u>150</u>	1350

2005 May 30	M/s Chopra & Sons 4 electric kettles @ Rs. 150 each 4 Table lamps @ Rs. 100 each Less: Trade Discount @ 15%			600 400 <hr/> 1000 150 <hr/>	850
2005 May 31	Total Sales Return A/C				2200

❖ **Exercises:**

➤ **Multiple Choice Questions:**

1. Purchased book records

A. All purchase	C. All credit Purchase
B. All cash Purchase	D. All credit Purchase of Goods
2. Sales book records

A. Sale of goods on credit	C. Cash sales
B. Sale of Assets on credit	D. All above
3. _____ is not a subsidiary book.

A. Ledger	C. Sales Book
B. B. Purchase Book	D. Cash Book
4. The periodical total of Purchase book is posted to _____.

A. Debit in Sales A/c	C. Debit in Purchase A/c
B. Credit in Sales A/c	D. None
5. The periodical total of sales book is posted to _____.

A. Credit of Sales A/c	C. Debit of Sales A/c
B. Credit of Purchase A/c	D. None
6. Other name of Purchase Book is ____

A. Invoice Journal	C. Invoice Day Book
B. Invoice copy	D. All Above
7. Another name of Sales Book is ____

A. Invoice Journal	C. Sales Day Book
B. Invoice Copy	D. All Above
8. Return Inward Book is maintained for recording ____

A. Return of assets purchased	C. Return of goods sold
B. Return of goods purchased	D. Return of goods sold
9. Return Outward Book is maintained for recording ____

A. Return of assets purchased	C. Return of goods sold
B. Return of goods purchased	D. Return of goods sold

10. The periodical total of Sales Book is posted to ____
 - A. Credit of sales A/c
 - B. Credit of Purchase A/c
 - C. Debit of Sales A/c
 - D. Debit of Purchase A/c
11. Debit Note is Prepared when there is _____
 - A. Purchase Return
 - B. Sales Return
 - C. Both
 - D. None
12. Credit Note is prepared when there is ____
 - A. Purchase Return
 - B. Sales Return
 - C. Both
 - D. None
13. Recording in purchase book is made _____
 - A. After deducting trade discount
 - B. After adding trade discount
 - C. After deducting Cash discount
 - D. After adding Cash discount
14. A note sent by a buyer on return of goods is _____
 - A. Debit Note
 - B. Credit Note
 - C Return Note
 - D. None of these
15. In case lesser amount is recorded in sales invoice by mistaken, then a _____ is sent.
 - A. Debit Note
 - B. Credit Note
 - C. Cash Note
 - D. Debit or Credit Note

(Answer: 1. D. 2. A. 3. A. 4. C. 5. A. 6. A. 7. C. 8. C. 9. B. 10. A. 11. A. 12. B. 13. A. 14. A. 15. A.)

➤ **Long Answer Type Questions:**

1. What do you mean by Subsidiary Book? What are its advantages?
2. Explain Purchase Book with its format and type.
3. Explain Sales Book with its format and type.
4. Explain Purchase and Sales Return Books in detail.

➤ **Short Type Answer Questions:**

1. Give specimen of Purchase Book.
2. Give specimen of Purchase Return Book.
3. Give specimen of Sales Book.
4. Give specimen of Sales Return Book.

➤ **Very Short Answer Type Questions:**

1. What is Purchase Book?
2. What is Sales Book?
3. What is Purchase Return Book?

4. What is Sales Return Book?
5. What is Debit Note?
6. What is Credit Note?

➤ **Practical Questions**

1. You are required to prepare a Purchase book from the following information:

2007 May 2 Purchased from M/s Sunny & Bros. Ahmedabad:

100 sacks of wheat @ Rs. 530 per sack

50 sacks of Rice @ Rs. 500 per sack

2007 May 5 Purchased from Saurashtra Traders, Rajkot:

40 packets of Biscuits @ Rs. 450 per pack

20 packets of Tea @ Rs. 350 per pack

Trade Discount @ 5%

2007 May 9 Bought from M/s Shayal & Co. Rajkot:

25 Tins oil @ Rs. 48 per tin

40 Tins Kerosene @ Rs. 25 per tin

Trade discount @ 5%

{Ans: Total Credit Purchase Rs. 96040}

2. Record the following transactions in concerned Purchased Book for July 2014:

2014 July 1 Bought on credit from M/s Om & Sons:

100 pieces long cloth @ Rs. 80

50 pieces Velvet @ Rs. 100

2014 July 9 Bought for cash from Rakhi & Co:

35 silk sarees @ Rs. 500

40 long kurtas @ Rs. 12000

2014 July 20 Bought from M/s Anjali Mills:

20 pieces muslin @ Rs. 1000

10 pieces shirting @ Rs. 90

2014 July 25 Bought 5 computers on credit from M/s Dolly Computers Ltd. @
Rs. 14500

Each

{Ans: Total Credit Purchase Rs. 33900}

3. M/s Shankar & Sons, who are dealers in readymade garments, purchased the following. Prepare Multi – Column Purchase Book for the month of April 2010:

2010 April 5 Bought from New Look, Delhi:

200 shirts @ Rs. 80 per shirts

225 T-shirts @ Rs. 40 per T-shirts

Less: Trade discount @ 20%; Paid VAT @ 12% and freight charges Rs. 120

2010 April 9 Purchased from Barbie Stores, Ludhiana:

150 Tracks @ Rs. 60 per track

180 Shirts @ Rs. 50 per piece

Less: Trade discount @ 15%; Vat @ 12% and freight charges Rs. 100

2010 April 16 Bought from Parin Furniture's, Rajkot:

20 Sofa sets @ Rs. 20000 each

2014 April 20 Purchased from Abhishek Shirts, Mumbai:

120 Bermuda @ Rs. 110 per Bermuda

{Ans: Total Cost Column Rs. 35300, VAT Rs. 4236, Freight Charges Rs. 220, Total Column Rs. 39756}

Sales Book:

1. Record the following transactions in the sales book of Shankar & Co. which deals in Furniture:

2010 January 1 Sold to Gita Furniture Mart, Jamnagar:

120 Almirahs @ Rs. 200 per Almirahs

20 Steel Cabinets @ Rs. 800 per Cabinets

Less: Trade Discount @ 5%

2010 January 10 Sold to Rani Furniture House, Bangalore:

5 Chairs @ Rs. 2500 each

10 Tables @ Rs. 6000 each

Less: Trade Discount @ 10%

2010 January 12 Sold Computer for Rs. 22000 to Madhav & Sons on credit

2010 January 15 Sold 4 Sofa Sets @ Rs. 9800 each to Siddharth & Co. for cash

2010 January 20 Sold to Old Furniture House, Ribda:

5 Swing chairs @ Rs. 3200 each

10 Kid's Beds @ Rs. 900 each

2010 January 31 Bought from Shayal & Co. on credit:

20 chairs @ Rs. 250 each

{Ans: Total Credit Sales Rs. 128250}

2. Record the following transaction in the books of M/s Anju Electronics:

2009 March 5 Sold to Vidu stores Vide Invoice No. 2366

50 Musical Wall Clocks @ Rs. 300 each

30 Alarms @ Rs. 200 each

Less: Trade discount @ 20%; VAT 10%

2009 March 9 Sold to Radha Watch House Vide Invoice No 2367

20 Deluxe Alarms @ Rs. 250 each

Less: Trade discount @ 10%; VAT 10%

2009 March 15 Sold to Star Watch Company Vide Invoice No 2368

80 Musical Alarms @ Rs. 250 each

40 Deluxe Wall Clocks @ Rs. 350 each

Less: Trade Discount @ 15%; VAT @ 10 %; Freight charged

Rs. 200

2009 March 25 Sold to Mira Electronics Vie Invoice No. 2369

100 Musical Wall Clocks @ Rs. 280 each

Less: Trade discount @ 20%; VAT @ 10%

{Ans: Total of Cost Column Rs. 48500; VAT Column Rs. 4850; Freight Column Rs. 200 and Total Column Rs. 53550}

Purchase Return Book:

1. Enter the following transactions in the Purchase Return Book of M/s Radha Govind.

2012 January 10 Returned goods to Govind & Sons for Rs. 22000, Trade discount 10%;

Debit Note No. 410.

2012 January 19 Returned goods to Madhav Prasad for Rs. 5000, as the goods was not

according to sample, Debit Note No. 411

2012 January 28 Allowance claimed from Ramprasad, on account of mistake in invoice

Rs. 500; Debit Note No. 412

{Ans: Total Purchase Return A/c 7300}

2. Enter the following transactions in Return Outward Book of Mehta & Co., Rajkot.

2011 August 5 Returned to sashwat house 25 chairs @ Rs. 180 per chair as it were not

as per order; Trade discount @ 10%.

2011 August 15 Sent back Dining Tables to Nita Enterprise @ Rs. 800 and 20 Chairs @

Rs. 190 each.

2011 August 20 Returned to Yadunandan Bros. Ribda, being not according to sample;

20 Chairs @ Rs. 200 each

2 Dressing Tables @ Rs. 1500 each

2011 August 26 Allowance claimed from Nita Enterprise, on account of mistake in the

invoice Rs. 620.

{Ans: Total Purchase Return Rs. 16270}

Sales Return Book:

1. Record the following transactions in the Sales Return Book of Prem Cloth House, Goa, for August 2014.

5 Chetan & Co. Jetpur, returned to us being goods not according to sample;

50 metre Cotton Cloth @ Rs. 40 per metre

30 metre Silk Cloth @ Rs. 100 per metre

Trade Discount @ 20%

10 Aditya Rai & Co., Nasik, returned goods being defective;

25 metre woollen cloth @ Rs. 80 per metre

18 Goods sold to Janvi Traders now returned by them, being not according to sample;

Total value @ Rs. 1560

30 Allowance allowed to Kumkum Traders Rajkot, on account of a mistake in the invoice

Rs. 440

{Ans: Total of Sale Return Book Rs. 8000}

Purchase Return Book and Sales Return Book:

2. Write up the Return Outward and Return Inward Books from the following for November 2010:

5 Radha & Co. returned to us 20 tables @ Rs. 10 per table; Trade discount @ 5%

9 Returned to Soni Ltd 9 Chairs @ Rs. 8 per chair being not of specified quality

12 Received from Sheth & Co. 4 Desks @ Rs. 13 each

15 M/s Green Bros. returned 2 chairs for being defective @ Rs. 75 each, 5 broken tables

@ Rs. 110 each

22 Sent back one dressing table to Nirbal Singh for not being polished @ Rs. 60 and 8

Chairs @ Rs. 15 each

28 Returned 3 Chairs @ Rs. 10 each and one desk @ Rs. 15 to Lakhan Sinh.

{Ans: Total of Return Outwards Rs. 297, Total of Return Inward Book Rs. 2742}

Comprehensive:

1. Enter the following transactions in the books of Shri Vijay Malya for May 2014:

1 Sold to Chanda Light House;

50 heaters @ Rs. 60 each less 20%

20 Lights @ Rs. 120 each less 25%

9 Purchased from Chahat Electric Co.;

25 ceiling fans @ Rs. 600 each

20 Table fans @ Rs. 800 each

12 Shayal & Co. purchased from us;

80 dozen bulbs @ Rs. 7200

16 Purchased from Lakhan & Sons one computer for Rs. 59000, for office use on credit

20 Shri Shyam Bros. sold to us;

10 electric irons @ Rs. 180 each less 10%

24 Chanda Light House returned;

5 heaters sold on May 1

26 Sold goods to Jai Bhagwan & Co. for cash Rs. 7654

30 Returned to Shri Shyam Bros. 2 electric irons purchased on May 20

You are required to prepare (I) Purchase Book (ii) Sales Book (III) Purchase Return Book (IV) Sales Return Book.

{Ans: Total of Purchase Book Rs. 32620; Total of Sales Book Rs. 11400; Total of Purchase Return Book Rs. 324; Total of Sales Return Book Rs. 240}

According to double entry system left hand side of each account is known as debit side and right hand side as a credit side. As given in above specimen columns are drawn in an account. Each column is explained hereunder:

1. **Date:** The date of the transaction which affects this account is shown in this column. This date is also shown in Journal or subsidiary book.
2. **Particulars:** When we are recording on the debit side of an account, the name of the account having corresponding credit effect, due to the same transaction is written here in this column. Similarly, while recording on credit side name of the account having corresponding debit effect, due to the same transaction is written here in this column. The name of the affected account opposite to this account in a transaction is written here.
3. **J.F. (Journal folio):** In Journal and subsidiary book, each page is numbered serially. The effect of the entry which is to be recorded in an account, page number of that entry wherever it is recorded, either in Journal or subsidiary is recorded in this column and similarly this ledger page number is recorded in that journal or subsidiary books, wherever that transaction is recorded. Because of this reconciliation or checking of effects can be done easily.
4. **Amount:** The amount which is shown in Journal or subsidiary books for this affected account, it shown in this column.
5. **Posting:** From Journal or Subsidiary books a Process of recording as per the rules of accounting, either on debit or credit side of an affected account, is known as posting.
6. **Forms of Ledger:** In which form a ledger book is to be maintained, depends upon trader's requirement, capacity to afford the same and business facilities. Following three forms of ledger are prevailing in practice.
 - (i) Bound Book Ledger
 - (ii) Loose Leaf Ledger
 - (iii) Card Ledger
 - (i) **Bound Book Ledger:** Generally most of the traders, specifically small traders, prefer this type of ledger. This type of ledger is less expensive and easy from the view point of preservation. This ledger is in the form of a bound book. In the beginning of it, index is given and thereafter each page is serially numbered. As and when it is required, new pages can't be added in this type of ledger because it is a book in bound form.
 - (ii) **Loose Leaf Ledger:** This type of ledger is filed in between two thick paper cover or in between two metal sheets. The structure is connected with a special type of lock. Here a trader can increase or decreases number of pages according to his requirements. As it is with lock system, it ensures facility of safety. Here each page is serially numbered.
 - (iii) **Card Ledger:** This form of a ledger is a safe form with conveniences of course overall it is an expensive form. Here for each account, instead of a page, a card is used. All these cards are arranged with a steel bar. This form of ledger is seen in bank and large scale companies. In this form, for index separate cards are required to be arranged.

7. Process of Posting: In the process of posting affected accounts are drawn in the ledger, for all transaction recorded in Journal and subsidiary book and debit or credit effect are given in the respective accounts.

To understand the process of posting easily, we will divide the total process of posting in two parts.

(a) Posting of Journal entries

(b) Posting from subsidiary books

(a) **Posting of Journal Entries:** For Financial transaction of a business, Journal entries are passed in books of accounts. From the view point of the number of accounts affected, Journal entry is classified in two parts:

(i) **Simple Journal Entry:** In simple Journal entry only two accounts are affected, out of which one gets debit effect and the other one, credit.

(ii) **Posting of simple Entry:** Let us understand the posting of simple entry with the help of an Illustration.

E. g. Purchased goods of Rs. 1000 for cash (Dt. 01/03/2014)

Journal Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2014 June-1	Purchases Account Dr. To cash Account (Being: Purchased goods for Cash)		1,000 -	- 1,000

Ledger

Dr. Purchase Account Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
2014 June-1	To Cash Account		1,000				

Dr. Cash Account Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
				2014 June-1	By Purchase A/c	-	1,000

In above entry only two accounts Viz. Purchase account and cash account are affected, out of this purchase Account gets a debit effect and cash Account gets credit effect.

We will understand the process of posting of a simple entry in following stages.

- (1) To Prepare accounts
 - (2) To decide the side of an account
 - (3) Date
 - (4) Amount
 - (5) Name of the account in the particulars column
- (1) **To Prepare Accounts:** First of all, Journal entry which is to be posted for all the affected accounts therein, are to be drawn in ledger. In our Illustration purchase A/c and cash A/c are prepared.
- (2) **To Decide the side of the Account:** After preparing the accounts it is to be decided that, out of these account in which account posting is to be made on debit side and in which posting is to be made on credit side.

This matter becomes clear on the basis of Journal entry. In Journal entry the account which is debited, posting is done on its debit side and the account which is credited, posting is done on its credit side.

In our Illustration purchase Account is debited and therefore in purchase Account, Posting is made on debit side, where as cash Account is credited and therefore, posting is made on its credit side.

- (3) **Date:** The date of the entry for which posting is made, is to be shown in the column of date in both the account prepared.
- (4) **Amount:** The amount which is shown in Journal entry against the respective account, the same is to be shown in that account.
- (5) **Name of the account in the column of particulars:** At the time of posting in any account, in the column of its particulars that name of the account is to be shown which is affected due to its opposite effect. In our Illustration while posting in purchase A/c on its debit side in the column of particulars, Cash A/c having credit effect is shown. While posting in cash A/c on its credit side, in the column of particulars, purchase A/c having debit effect is shown.

In the column of particulars name of an account having corresponding opposite effect is to be shown.

Illustration-1

Journalise the following transaction and post then in the ledger of Bhoomi.

2014, May

- 1 Started the business by bringing in cash ₹ 25,000
- 5 Goods Purchased of ₹ 8,000 for cash
- 8 Sold goods of ₹ 6,000 to Payal

- 11 Paid ₹ 5,000 for salary
 17 Received ₹ 4,000 from Payal
 23 Furniture of ₹ 7,000 is purchased from Kajal furniture mart.

Journal entries in the Books of Bhoomi's

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2014 May-1	Cash A/c To Capital A/c (Business Started with cash ₹ 25,000)	Dr.	25,000	-
5	Purchased A/c To cash A/c (being: Purchased good for cash)	Dr.	8,000	-
8	Payal's A/c To Sales A/c (Goods sold to Payal)	Dr.	6,000	-
11	Salary A/c To cash A/c (Being: Salary Paid)	Dr.	5,000	-
17	Cash A/c To Payal's A/c (Received From Payal)	Dr.	4,000	-
23	Furniture A/c To Kajal Furniture Mart A/c	Dr.	7,000	-
			55,000	55,000

Ledger of Bhoomi

Dr. **Cash A/c** **Cr.**

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
2014 May-1	To Capital A/c		25,000	2014 May-5	By Purchase		8,000
May-17	To Payal's A/c		4,000	May-11	A/c By Salary A/c		5,000

Dr. **Capital A/c** **Cr.**

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
				2014 May-5	By Cash A/c		25,000

Dr. **Purchase A/c** **Cr.**

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
2014 May-5	To Cash A/c		8,000				

Dr. Payal's A/c Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
2014 May-8	To Sales A/c		6,000	2014 May-17	By Cash A/c		4,000

Dr. Sales A/c Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
				2014 May-8	By Payal's A/c		6,000

Dr. Furniture A/c Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
2014 May-11	To Cash A/c		5,000				

Dr. Kajal Furniture's A/c Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
				2014 May-23	By Furniture A/c		7,000

Posting of Combined or Joint entry: In Combined entry, three or more than three accounts are affected. In this of Journal entry either on debit or credit side, more than one affects of accounts are there. Sometimes on both, debit and credit sides, there are more than one affected account.

- (a) E.g. On 17/06/2014 ₹ Purchased goods worth ₹ 10,000 From Jaydeep and Half amount is paid in cash.

Journal Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2014 June-16	Purchase Account Dr. To Jaydeep Account To cash Account (Purchased goods and half the amount paid)		10,000 - 5,000	- 5,000 5,000

Ledger

Dr. **Purchase Account** Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
2014 June-16	To Jaydeep's A/c To cash A/c		5,000 5,000				

Dr. **Jaydeep's Account** Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
				2014 June-16	By Purchase A/c	-	5,000

Dr. **Cash Account** Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
				2014 June-16	By Purchase A/c	-	5,000

- (b) Let us understand the point where, in an entry there are two accounts on the debit side.

E.g., Sold goods of ₹ 4,000 to Jay and half of amount Received in cash on 13/06/2014

Journal Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2014 June-13	Jay's A/c Cash A/c To Sales A/c (Being: Sold goods to Jay and half amount Received in cash)	Dr.	2,000 2,000 -	- - 4,000

Dr.

Jay's Account

Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
2014 June-13	To Sales A/c		2,000				

Cash Account

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
2014 June-13	To Sales A/c		2,000				

Sales Account

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
				2014 June-13	By Jay's A/c By Cash A/c		2,000 2,000

- (c) Let us understand the posting of a Journal entry wherein, there are more than one affected account on its both, debit and credit side.

E.g., On 01/06/2014 A Business is started with cash ₹ 35,000, Debtors ₹ 14,000, Stock of goods ₹ 9,000, Creditors ₹ 6,000 and a loan of ₹ 15,000 From Hitesh.

Journal Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2014 June-1	Cash A/c Debtors A/c Stock pf goods A/c To Creditors A/c	Dr. Dr. Dr.	50,000 14,000 9,000 -	- - - 6,000

	To Hitesh's Loan A/c		-	15,000
	To Capital A/c		-	52,000
	(Being the business started with cash, Debtors, goods, Creditors and a loan From Hitesh)			

Cash Account

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
2014 June-1	To Capital A/c To Hitesh's Loan A/c		35,000 15,000				

Debtors Account

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
2014 June-1	To Capital A/c		14,000				

Stock of Goods Account

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
2014 June-1	To Capital A/c		9,000				

Creditors Account

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
				2014 June-1	By Capital A/c		6,000

Hitesh's Loan Account

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
				2014 June-1	By Cash A/c		15,000

Capital Account

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
2014 June-1	To Creditor's A/c		6,000	2014 June-1	By Cash A/c By Debtors A/c By Stock A/c		35,000 14,000 9,000

Illustration-2: From the following transaction of Kanti Bhai, prepare Journal, draw necessary account in ledger and complete the posting in the books.

2014

April-1 Brought cash ₹ 12,500, and stocks of goods of ₹ 3,500 in the business.

5 Cash Purchase ₹ 1,700

7 Goods of ₹ 4,700 sold for cash

8 Received a cheque of ₹ 600 in full settlement of 620 due from Hina

10 A Purchased cycle of ₹ 1,800 From Shivam cycle store and paid ₹ 800 cash towards this.

12 Paid salaries of ₹ 1,400.

15 ₹ 1,050 received towards Rent.

Journal Entries in the books of Kanti Bhai

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2014 April-1	Cash A/c Dr. Stock of goods A/c Dr. To Capital A/c (Being the cash and stock of goods brought in the business)		12,500 3,500 -	- - 16,000
5	Purchased A/c Dr. To cash A/c (Being Purchases for cash)		1,700 -	- 1,700
7	Cash A/c Dr. To sales A/c (Being Sales for cash)		4,700 -	- 4,700
8	Bank A/c Dr. Discount A/c Dr. To Hina's A/c (Being : The cheque received from Hina)		600 20 -	- - 620
10	Cycle A/c Dr. To Shivam Cycle store's A/c To Cash A/c		1,800 - -	- 1,000 800
12	Salary A/c Dr. To cash A/c (Being: Paid Salary)		1,400 -	- 1,400
15	Cash A/c Dr. To Rent A/c (Being: Rent Received)		1,050 -	- 1,050
	Total		2,72,700	2,72,700

Ledger of Kanti Bhai

Dr. Cash A/c Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
2014 April-1	To Capital A/c		12,500	2014 April-5	By Purchase		1,700
7	To Sales A/c		4,700	10	A/c		800
15	To Rent A/c		1,050	12	By Cycle A/c		1,400
					By Salary A/c		

Dr. Stock of Goods A/c Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
2014 April-1	To Capital A/c		3,500				

Dr. Capital A/c Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
				2014 April-1	By Cash A/c		12,500
					By Stock of Goods A/c		3,500

Dr. Purchase A/c Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
2014 April-5	To Cash A/c		1,700				

Dr. Sales A/c Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
				2014 April-7	By Cash A/c		4,700

Dr. Bank A/c Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
2014 April-8	To Hina's A/c		600				

Dr. Discount A/c Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
2014 April 8	To Hina's A/c		20				

Dr. Cycle A/c Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
2014 April-10	To Shivam cycle Store A/c		1,000				
	To cash A/c		800				

Dr. Hina's A/c Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
				2014 April-8	By Bank A/c		600
					By Discount A/c		20

Dr. Sivam Cycle Store's A/c Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
				2014 April-10	By Cycle A/c		1,000

Dr. Salary A/c Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
2014 April-12	To Cash A/c		1,400				

Dr. Rent A/c Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
				2014 April-15	To Cash A/c		1,050

Illustration: 3 From the following transaction, prepare the Purchase books of Jaman bhai and post them in Ledger.

2014

May 1 Purchased goods of ₹ 11,000 from Naresh on Credit

8 Purchased goods of ₹ 15,000 from Mita at 10% trade discount on Credit

10 Purchased goods of ₹ 6,000 from Ankur at 10% trade discount

Purchase book of Jamanbhai

Date	Name of the trader (Particulars)	Inward Invoice No.	L.F.	Amount(₹)
2014 May-1	Naresh Account	-	-	11,000
8	Mita Account			13,500
10	Ankur Account			5,400
	Total Purchase on Credit (To Purchase A/c)			29,900

Ledger of Jamanbhai

Dr.

Purchase Account

Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
2014 May-31	By Sundry Creditors A/c (as per Purchase book)		29,900				

Dr.

Naresh's Account

Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
				2014 May-1	By Purchase A/c (as per Purchase book)		11,000

Dr. Mita's Account Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
				2014 May-8	By Purchase A/c (as per Purchase book)		13,500

Dr. Ankur's Account Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
				2014 May-1	By Purchase A/c (as per Purchase book)		5,400

Illustration: 4 From the following transactions, prepare the sales books of Vikash and post them ledger.

2014

- June-1 Goods of ₹ 2,000 are sold to Kishan
 5 Goods of ₹ 10,000 are sold to Vimal at 5% trade discount
 10 Goods of ₹ 4,000 are sold to Vijay

Dr. Sales Account Cr.

Date	Name of Customers (Particulars)	Outward Bill No.	L.F.	Amount(₹)
2014 June-1	Kishan A/c	-	-	2,000
5	Vimal A/c			9,500
10	Vijay A/c			4,000
	Total Sales on Credit (To Sales A/c)			15,500

Ledger of Vikash

Dr. Sales Account Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
				2014 June-30	By Purchase Debtors A/c (as per Sales book)		15,500

Dr.**Kishan's Account****Cr.**

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
2014 June-1	To Sales A/c (as per sales book)		2,000				

Dr.**Vimal's Account****Cr.**

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
2014 June-5	To Sales A/c (as per Sales book)		9,500				

Dr.**Vijay's Account****Cr.**

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
2014 June-5	To Sales A/c (as per Sales book)		4,000				

Illustration: 5 From the Following transaction, prepare subsidiary books of Kamal and post them in appropriate accounts:

2014

- May 1 Goods of Rs. 8000 are purchased from Vishal at 10% trade discount.
3. Goods of Rs. 5000 are sold to Ketan at 10% trade discount.
 5. Goods of Rs. 10000 are purchased from Nikhil at 8% trade discount.
 6. Goods of Rs. 6000 are sold to Jalpa at 10% profit thereon.
 7. Goods of Rs. 600 are returned to Vishal.
 9. Goods of Rs. 400 are returned by Megha.
 10. Goods of Rs. 300 are returned to Nikhil.
 12. Goods of Rs. 500 are returned by Jalpa.
 15. Purchased a Computer of Rs. 20000 from Shriram Computer.

Subsidiary Books of Kamal

Purchase Book

Date	Name of Customers (Particulars)	Inward Invoice No.	L.F.	Amount(₹)
2014 June-1 5	Vishal Nikhil			7,200 9,200
	Total Credit Purchase (To Purchase A/c)			16,400

Purchase Returns Book

Date	Name of Customers (Particulars)	Debit Note No.	L.F.	Amount(₹)
2014 June-7 10	Vishal Nikhil			600 300
	Total Purchase Returns (To Purchase Return A/c)			900

Sales Book

Date	Name of Customers (Particulars)	Outward Invoice No.	L.F.	Amount(₹)
2014 June-3 6	Ketan Jalpa			4,500 6,600
	Total Credit Sales (To Sales A/c)			11,100

Sales Return Book

Date	Name of Customers (Particulars)	Credit Note No.	L.F.	Amount(₹)
2014 June-9 12	Megha Jalpa			400 500
	Total Sales Return (To Sales Return A/c)			900

Journal Proper

Date	Name of Customers (Particulars)	Outward Bill No.	L.F.	Amount(₹)
2014 June-15	Computer Account Dr. To Shivam Computer A/c (Being: Computer Purchased From Shivam Computer)		20,000 -	- 20,000

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

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
2014 June-30				2014 June-30	To Sundry Debtors A/c (as per sales books)		11,100

Dr.**Purchase Return Account****Cr.**

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
				2014 June-30	To Sundry Creditors A/c (as per Purchase return Book)		900

Dr.**Sales Return Account****Cr.**

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
2014 June-30	To Sundry Debtors A/c (as per Sales return Book)		900				

Dr.**Vishal's Account****Cr.**

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
2014 June-7	To Purchase Return A/c		600	2014 June-1	By Purchase A/c		7,200

Dr.**Nikhil's Account****Cr.**

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
2014 June-10	To Purchase Return A/c		300	2014 June-5	By Purchase A/c		9,200

Dr. Ketan's Account Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
2014 June-3	To Sales A/c		4,500				

Dr. Jalpa's Account Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
2014 June-6	To Sales A/c		6,600	2014 June-12	To Sales Return A/c (as per Sales return book)		500

Dr. Megha's Account Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
				2014 June-9	To Sales Return A/c (as per sales return book)		400

Dr. Purchase Account Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
2014 June-30	To Sundry Creditors A/c (as per Purchase book)		16,400				

Dr. Computer Account Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
2014 June-15	To Shivam Computer A/c		20,000				

Dr. Shivam Computer Account Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
				2014 June-15	To Computer A/c		20,000

* As per Different Types of Goods *

Illustration: 6 In the books of ABC Telecom, from the following transactions prepare a columnar sales book, ledger and post them in respective accounts.

2014

May 1 Sold to Sunita 4 mobiles at Rs. 2000 per piece, 3 tablet at Rs. 5000 per price and 10 simple telephones at Rs. 1000 per piece outward invoice number -1.

5 sold to Prity Telecom 5 mobile at Rs. 4500, and 8 simple phone at Rs. 600 per piece outward invoice number-2.

10 Sold to Shilpa Telecom 4 tablet at Rs. 7000 and 10 Mobile at Rs. 3000 per piece Outward invoice number- 4.

Columnar (Good wise) Sales Book of Poojara telecom

Date	Customer's Name	Outward Invoice No.	L.F.	Amount(₹)			Total Amount (₹)
				Mobile	Tablet	Simple Phone	
2014 May-1	Sunita Telecom	1	-	8,000	15,000	10,000	33,000
5	Prity Telecom	2		22,500	-	4,800	27,300
10	Shilpa Telecom	4		30,000	28,000	-	58,000
	Ledger of Poojara Telecom			60,500	43,000	14,800	1,18,300

**Ledger of ABC Telecom
Sales Account**

Date	Particulars	L.F.	Amount(₹)			Total Amount (₹)	Date	Particulars	Amount(₹)			Total Amount (₹)
			Mobile	Tablet	Simple Phone				Mobile	Tablet	Simple Phone	
							2014 July-31	By Sundry Debtors A/c (as per Columnar Sales book)	60,500	43,000	14,800	1,18,300

Dr.

Sunita's Telecoms Account

Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
June-1	To Sales A/c (Mobile as per Sales Book)		8,000				
	To Sales A/c (Tablet as per Sales Book)		15,000				
	To Sales A/c (Simple Phone as per Sales Book)		10,000				

Dr. Prity Telecoms Account Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
Date							
June-3	To Sales A/c (Mobile as per Sales book)		22,500				
	To Sellers A/c (Simple Phone as per Sales Book)		4,800				

Dr. Shilpa Telecoms Account Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
Date							
June-10	To Sales A/c (Mobile as per Sales book)		30,000				
	To Sellers A/c (Tablet as per Sales book)		28,000				

Expense wise columnar sales books

Illustration: 7 From the Following Information's prepare columnar Sales book of Mahaveer and Post them in Ledger:

2014

- April-1 Goods of Rs. 5000 are sold to Kapil and Invoice is given along with sales tax Rs. 100 and packing expenses Rs. 30.
- 6 Goods of Rs. 8000 are sold to Jay and Invoice is sent along with sales tax Rs. 120 and Rs. 60 for Railway Freight.
- 10 Goods of Rs. 3000 are sold to Vishal. Invoice is sent along with Rs. 70 for sales tax and Rs. 30 for Railway Freight.

Columnar (Expense wise) Sales Book of Mahaveer

Date	Customer's Name	Outward Invoice No.	L.F.	Amount(₹)				Total Amount (₹)
				Cost of Goods	Sales tax	Packing Exp.	Railway Freight	
2014								
May-1	Kripal	-	-	5,000	100	30	-	5,130
6	Jay	-	-	8,000	120	-	60	8,180
10	Vishal	-	-	3,000	70	-	30	3,100
	Total Credit Sales			16,000	290	30	90	16,410

Ledger of Mahaveer

Dr.

Sales Account

Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
				2014 April- 30	By Sundry Debtor's A/c (As per Columnar sales book)		16000

Dr.

Sales tax Account

Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
				2014 April- 30	By Sundry Debtor's A/c (As per Columnar sales book)		290

Dr.

Packing expense Account

Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
				2014 April- 30	By Sundry Debtor's A/c (As per Columnar sales book)		30

Dr.

Railway Freight Account

Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
				2014 April- 30	By Sundry Debtor's A/c (As per Columnar sales book)		90

Dr. Kapil's Account Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
2014 April-1	To Sales A/c (As per columnar sales book)		5,000				
	To Sales tax A/c		100				
	To Packing Exp A/c		30				

Dr. Jay's Account Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
2014 April-1	To Sales A/c (As per columnar sales book)		8,000				
	To Sales tax A/c		120				
	To Railway Freight A/c		60				

Dr. Vishal's Account Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
2014 April-10	To Sales A/c (As per Columnar sales book)		3,000				
	To Sales tax A/c		70				
	To Railway Freight A/c		30				

Posting From Cash Book:-

Illustration: 8 From the Following transactions, **prepare a three columnar cash book in the books of Navanilal and post them in ledger.**

2014

May-1 Opening cash balance is Rs. 7500 and bank balance Rs. 15000.

2 Paid wages Rs. 1700.

4 Received a cheque of Rs. 6500 from Anjali in full settlement of our receivable of Rs. 6550 and Cheque received is deposited in a bank.

5 Received Rent Rs. 1500.

6 Given a cheque of Rs. 1800 to Nirali in full settlement of the debt of Rs. 1820.

8 Withdrawn Rs. 1400 from bank for office expenses.

10 paid fee Rs. 1000 for daughter (Kajal)

Three Columnar cash Book of Navanital

Date	Particulars	L.F.	No.	Discount (₹)	Cash (₹)	Bank (₹)	Date	Particulars	L.F.	No.	Discount (₹)	Cash (₹)	Bank (₹)
1	To balance B/F (Opening balance)		-	-	7,500	15,000	May-2	By Wages A/c		-	-	1700	-
							6	By Nirali's A/c		-	20	-	1800
							8	By cash A/c	C	-	-	-	1400
4	To Anjali's A/C		-	50	-	6500	10	By Drawing A/c		-	-	1000	-
5	To Rent A/c		-	-	1500	-	10	By Balance C/F		-	-	7700	18300
8	To Bank A/c	C	-	-	1400	-							
				50	10400	21500					20	10400	21500

Ledger of Navanital

Dr.

Wages Account

Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
2014 May-2	To Cash A/c	-	1,700				

Dr.

Nirali's Account

Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
2014 May-6	To Bank A/c		1,800				
	To Discount A/c		20				

Dr.

Drawings Account

Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
2014 May-10	To Cash A/c		1,000				

Dr.

Anjali Account

Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
				2014 May-4	By Bank A/c		6500
					By Discount A/c		50

Dr. Rent Account Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
				2014 May-5	By cash A/c		1500

Dr. Discount Allowed Account Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
2014 May-10	To total Discount allowed (As per cash book)		50				

Dr. Discount Received Account Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
				2014 May-10	By Total discount Received (As per cash book)		20

7.4 Balancing of an Account

A process of preparing a summary of an account at the end of a certain period is known as balancing of an account. i.e., finding out the balance of that account.

In order to find out summary of any account, the difference of the total amount on debit side and that a credit side is to be found out and the difference between the two, is known as 'Balance' of that account.

How to find out the 'Balance' of an Account: -

- (1) In order to find out the balance of an account the difference is found out between the totals of amount on debit side and credit side. The amount of this difference is known as a balance of that account. E.g., In a cash account total of the amounts on debit side, comes to Rs. 12000 and the total of the amounts on credit side comes to Rs. 5000 and therefore the difference is Rs. 12000-5000 = Rs.7000. In this case cash account has a balance of Rs. 7000.
- (2) In any account in order to equate the totals of both the sides the difference as shown above, is written as a balance and totals of both sides get tallied.

Specimen: -

Dr. Vishal's Account Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
2014 July-7	To cash A/c		2,500	2014 July-1	By Purchase		

12	To cash A/c		3,000		A/c		6,000
17	To Bank A/c		3,500	8	By Purchase		
29	To Bank A/c		2,000		A/c		8,000
				25	By Purchase		
31	To Balance Carried Forward		7,000		A/c		4,000
			<u>18,000</u>				<u>18,000</u>
				2014 Aug-1	By Balance Brought forward		7,000

Here the total of Amount on debit side is Rs. $2500+3000+3500+2000 = 11000$.

The total of amount on credit side Rs. $6000+8000+4000 = 18000$

Amount of difference = $18000-11000 = 7000$

Balance of an account = Rs. 7000

As the total of amounts on credit side exceeds by Rs. 7000, it is said as a credit balance of Rs. 7000.

In any Account when the Transactions are recorded only on one side:

Dr. Purchase Account
Cr.

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
2014 July-1	To Avani A/c		5,500	2014 June-30	By Balance Carried forward		13,000
11	To cash A/c		4,500				
30	To Bank A/c		3,000				
			<u>13000</u>				<u>13,000</u>
2014 July-1	To Balance brought Forward		13,000				

Here the total of amounts on debit side = $5500 + 4500 + 3000 = 13000$

Total of amounts on credit side = 00

Difference (Balance) = $13000-00 = 13000$ Debit balance

Specimen of Squared up Account

Dr.**Karan's Account****Cr.**

Date	Particular	J.F.	Amount(₹)	Date	Particular	J.F.	Amount(₹)
2014 June-1 18	To Sales A/c To Sales A/c		3,500 2,500	2014 June-7 21 29	To Bank A/c To cash A/c To Bank A/c		2,000 1,000 3,000
			6,000				6,000

Total amounts of debit side = 3500 + 2500 = 6000

Total amounts of credit side = 2000+1000+3000 = 6000

Difference (Balance) = 6000-6000 = 00 Account is squared up.

Illustration: 9 In the book of Krishna, for the following transaction, write Journal entries and post them in ledger. Thereafter find out the balance of each account and decide which account has which balance:

2014

May-1 Brought Rs. 40000 cash and Furniture of Rs. 8000 in the Business.

2 Deposited Rs. 10000 in bank.

4 Goods of Rs. 6000 are purchased from Kamalesh at 5% trade discount and paid cash Rs. 2000.

5 Goods of Rs. 4000 are sold at 25% Profit to Magan at 5% trade discount. Magan has given a cheque of Rs. 1000, which is deposited in the bank.

6 Rs. 1500 is withdrawn from bank for office expenses and Rs. 500 for household purposes.

8 Paid salary Rs. 2100, and wages Rs. 200.

10 fire insurance premiums Rs. 725 is paid by cheque.

11 Received commission Rs. 600.

15 Goods of Rs. 4000 purchased for cash and cash sales of Rs. 5000.

Journal

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2014 May-1	Cash A/c Furniture A/c To Capital A/c	Dr. Dr.	40,000 8,000 -	- - 48,000

	(Being brought cash and furniture in business)			
2	Bank A/c	Dr.	10,000	-
	To cash A/c		-	10,000
	(Being Deposited in bank)			
4	Purchase A/c	Dr.	5,700	-
	To Kamlesh A/c		-	3,700
	To cash A/c		-	2,000
	(Being purchase goods at 5% trade discount)			
5	Magan A/c	Dr.	3,750	-
	Bank A/c	Dr.	1,000	-
	To sales A/c		-	4750
	(Being : Sold goods at 5% trade discount)			
6	Cash A/c	Dr.	1,500	-
	Drawing A/c	Dr.	500	-
	To Bank A/c		-	2,000
	(Being : Withdraw for office expenses and personal use)			
8	Salary A/c	Dr.	2,100	-
	Wages A/c	Dr.	200	-
	To cash A/c		-	2300
	(Being: Paid Salary and wages)			
10	Fire insurance premium A/c	Dr.	725	-
	To Bank A/c		-	725
	(Being: fire insurance premium paid by cheque)			
11	Cash A/c	Dr.	600	-
	To Commission		-	600
	(Being : Received commission)			
15 (a)	Purchase A/c	Dr.	4,000	-
	To Cash A/c		-	4000
	(Being : goods purchased for cash)			
(b)	Cash A/c	Dr.	5,000	-
	To Sales A/c		-	5,000
	(Being : goods sales for cash)			
			83,075	83,075

Ledger of Krishna

Dr. Cash Account Cr.

Date	Particular	J.F.	Amount (₹)	Date	Particular	J.F.	Amount (₹)
2014 May-1	To capital A/c		40,000	2014 May-2	By Balance A/c		10,000
6	To Bank A/c		1,500	4	By Purchase A/c		2,000
11	To Commission A/c		600	8	By Salary A/c		2,100
15	To Sales A/c		5,000	8	By wages A/c		200
				15	By purchase A/c		4,000
				31	By Balance Carried forward		28,800
			47,100				47,100
2014 June-1	By Balance Brought forward		28,800				

Dr. Furniture Account Cr.

Date	Particular	J.F.	Amount (₹)	Date	Particular	J.F.	Amount (₹)
2014 May-1	To Capital A/c		8,000	2014 May-31	By Balance C/F		8,000
			8,000				8,000
June-1	To Balance B/F		8,000				

Dr. Capital Account Cr.

Date	Particular	J.F.	Amount (₹)	Date	Particular	J.F.	Amount (₹)
2014 May-31	To Balance C/F		48,000	2014 May-11	By Cash A/c		40,000
				11	By furniture A/c		8,000
			48,000				48,000
				2014 June-1	By Balance B/F		48,000

Dr. Bank Account Cr.

Date	Particular	J.F.	Amount (₹)	Date	Particular	J.F.	Amount (₹)
2014 May-2 5	To Cash A/c To Sales A/c		10,000 1,000	2014 May-6 10 31	By cash A/c By Drawing A/c By fire Insurance premium By Balance C/F		1,500 500 725 8,275 11,000
			11,000				
2014 June-1	To Balance B/F		8,275				

Dr. Purchase Account Cr.

Date	Particular	J.F.	Amount (₹)	Date	Particular	J.F.	Amount (₹)
2014 May-4 15	To Kamalesh's A/c To Cash A/c To Cash A/c		3,700 2,000 4,000 9,700	2014 May-31	By Balance c/F		9,700
							9,700
2014 June-1	To Balance B/F		9,700				

Dr. Kamalesh's Account Cr.

Date	Particular	J.F.	Amount (₹)	Date	Particular	J.F.	Amount (₹)
2014 May-31	To Balance c/F		3,700	2014 May-4	By Purchase A/c		3,700
			3,700				3,700
				2014 June-1	By Balance B/F		3,700

Dr. Magan's Account Cr.

Date	Particular	J.F.	Amount (₹)	Date	Particular	J.F.	Amount (₹)
2014 May-5	To Sales A/c		3,750	2014 May-31	By Balance c/F		3,750
2014 June-1	To Balance B/F		3,750				3,750

Dr. Drawing Account Cr.

Date	Particular	J.F.	Amount (₹)	Date	Particular	J.F.	Amount (₹)
2014 May-6	To Bank A/c		500	2014 May-31	By Balance C/F		500
			500				500
2014 June-1	To Balance B/F		500				

Dr. Sales Account Cr.

Date	Particular	J.F.	Amount (₹)	Date	Particular	J.F.	Amount (₹)
2014 May-31	To Balance C/F		9750	2014 May-5	By Magan A/c		3,750
			9750	May-15	By Bank A/c		1,000
					By cash A/c		5,000
							9,750
				2014 June-1	By Balance B/F		9,750

Dr. Salary Account Cr.

Date	Particular	J.F.	Amount (₹)	Date	Particular	J.F.	Amount (₹)
2014 May-8	To cash A/c		2,100	2014 May-31	By Balance C/F		2,100
			2,100				2,100
2014 June-1	To Balance B/F		2,100				

Dr. Wages Account Cr.

Date	Particular	J.F.	Amount (₹)	Date	Particular	J.F.	Amount (₹)
2014 May-8	To cash A/c		200	2014 May-31	By Balance C/F		200
			200				200
2014 June-1	To Balance B/F		200				

Dr. Wages Account Cr.

Date	Particular	J.F.	Amount (₹)	Date	Particular	J.F.	Amount (₹)
2014 May-8	To cash A/c		200	2014 May-31	By Balance C/F		200
2014 June-1	To Balance B/F		200				200
			200				

Dr. Fire Insurance Premium Account Cr.

Date	Particular	J.F.	Amount (₹)	Date	Particular	J.F.	Amount (₹)
2014 May-10	To Bank A/c		725	2014 May-31	By Balance C/F		725
2014 June-1	To Balance B/F		725				725
			725				

Dr. Commission Account Cr.

Date	Particular	J.F.	Amount (₹)	Date	Particular	J.F.	Amount (₹)
2014 May-31	To Bank C/F		600	2014 May-11	By cash A/c		600
			600				600
				2014 June-1	By Balance B/F		600

Statement Prepared on the basis of Balances of Accounts

Name of Accounts	Debit Balance (₹)	Credit Balance (₹)
Capital Account	-	48,000
cash Account	28,800	-
Furniture Account	8,000	-
Bank Account	8,275	-
Purchase Account	9,700	-
Kamalesh's Account	-	3,700
Magan's Account	3,750	-
Drawing Account	500	-
Sales Account	-	9,750
Salary Account	2,100	-
Wages Account	200	-
Fire Insurance Premium Account	725	-
Commission Account	-	600
	62,050	62,050

❖ Exercise

➤ Multiple Choice questions (MCQ)

1. When debit balance occurred in my account?
 - (a) Total of both the side
 - (b) When both side total are equal
 - (c) When debit side total access higher of credit side total**
 - (d) When credit side total is higher of debit side total

2. When both the side total is equal to Means...
 - (a) Squared up account**
 - (b) Debit balance
 - (c) Credit balance
 - (d) Suspense account

3. When account is close, credit balance show in which side of account?
 - (a) credit side
 - (b) Debit side
 - (c) Both side**
 - (d) None of this

4. How many types of ledgers are prevailing in practice?
 - (a) one
 - (b) two
 - (c) three**
 - (d) four

5. Which book is main book of Account?
 - (a) Journal
 - (b) Journal proper
 - (c) Rough book
 - (d) Ledger**

6. Small trader which types of Ledgers prefer?
- (a) **Bound book Ledger**
 - (b) Loose leaves Ledger
 - (c) Card Ledger
 - (d) None of this
7. How many sides of an account?
- (a) One
 - (b) **Two**
 - (c) Three
 - (d) Four
8. In which ledger kept separate information regarding the business creditors for good?
- (a) **Creditors Ledger**
 - (b) Debtors' ledger
 - (c) Sub-division Ledger
 - (d) None of this
9. In which ledger all account of business is kept?
- (a) Creditors Ledger
 - (b) Debtors Ledger
 - (c) **General Ledger**
 - (d) None of this
10. When the total of credit side is higher, then the difference called.....
- (a) Debit balance
 - (b) **Credit balance**
 - (c) Squared account
 - (d) None of this
11. Which type of Ledger maintain by Bank and company etc.
- (a) Bound book Ledger

- (b) Loose leaves Ledger
- (c) Card Ledger**
- (d) None of this
12. Capital account kept in which ledger when maintain different types of ledgers?
- (a) Creditors ledger
- (b) Debtors' ledger
- (c) General ledger**
- (d) Personal ledger
13. In which account book kept personal account, Real account and nominal account.
- (a) Journal **(b) Ledger** (c) Subsidiary book (c) Journal proper
14. Furniture Account kept in which ledger when maintain different types of ledgers?
- (a) Creditors Ledger
- (b) Debtors Ledger
- (c) Personal Ledger
- (d) General Ledger**
15. Debtors Ledger, which is also known as
- (a) Sales ledger**
- (b) Purchase ledger
- (c) General ledger
- (d) Personal ledger

➤ **Practical Question**

1. In the book of Nilam, write the journal entries for the following transactions, draw the necessary accounts in the ledger and post them accordingly.

2014, June

- 1 Brought Rs. 25000 in business
- 3 Deposited Rs. 15000 in a bank
- 4 Cash purchased Rs. 7000

- 8 Paid Rent Rs. 1200
- 9 From Kamal furniture Mart, a Table of Rs. 3500 is purchased for office use.
- 10 A cheque is given to Kamal furniture Mart for full payment.
- 11 A commission of Rs. 500 is paid by cheque.
- 12 Sold goods of Rs. 2000 for cash.
- 13 A cheque of Rs. 1500 is given to Paresh against dues.
- 15 Against the receivables of Rs. 2010 from Karan, cash received Rs. 2000 for full and final payment.

2. In the books of Sonal ben, write journal entries, for the following transaction, draw necessary accounts in the ledger and post them accordingly.

2014, May

- 1 Cash Rs. 35000, and machinery of Rs. 25000 is brought in business.
- 3 Rs. 20000 is deposited in a bank.
- 4 Goods of Rs. 10000 are purchased at 5% trade discount from Mahendra and a cheque of Rs. 2500 is given to him.
- 6 Goods of Rs. 8000 are sold to Rakhi at 5% trade discount.
- 7 Paid salary Rs. 5400.
- 9 Withdrawn from bank Rs. 5000 for office expenses and Rs. 1200 to pay personal use.
- 10 Against the dues of Rs. 1525, paid Rs. 1500 as per final settlement to Dhara.
- 11 Rs. 300 is donated in a temple.
- 12 Because of a fire in shop, goods of Rs. 2000 is burnt by fire, insurance company has accepted a claim of Rs. 1200 for the same.
- 13 Paid Rs. 1000 for shop rent.
- 15 Paid to 2000 to Mahendra.

3. From the following transactions prepare subsidiary books of Shri V.K. Traders and post them in necessary accounts in the ledger.

2014, May

- 1 Goods of Rs. 12000 are purchased at 10% trade discount from Vipul.
- 4 Goods of Rs. 8000 are purchased at 5% trade discount from Kanti Bhai.
- 5 Goods of Rs. 7000 are sold to Vikram at 10% trade discount.
- 8 Purchased furniture of Rs. 3500 from Parin Furniture Mart.
- 9 Goods purchased of Rs. 11000 at 5% trade discount from Jitu Bhai.
- 10 Goods of Rs. 5000 is sold at 25% profit to Manoj at 10% trade discount.

- 11 Goods of Rs. 3000 are sold to Deepak at 10% trade discount.
- 12 Goods of Rs. 750 are returned to Vipul.
- 13 Goods of Rs. 500 are returned by Manoj.
- 14 Goods of Rs. 600 are returned to Kamal.
- 15 Goods of Rs. 450 are returned by Deepak.

4. From the following transactions prepare subsidiary books of Chiman Bhai and post them in necessary account:

2014, June

- 1 Goods of Rs. 9000 are sold at 20% profit to Chetan through outward invoice number 121.
- 2 Good of Rs. 6000 are purchased from Zarina at 10% trade discount – Inward invoice Number – 156.
- 4 Goods of Rs. 5000 are sold at 10% trade discount to Nayan and Outward invoice number -75.
- 6 Purchased Old Machinery of Rs. 25000 from omkar Machinery Mart.
- 7 Good of Rs. 10000 are purchased from param at 10% trade discount and Inward invoice number – 301.
- 9 Goods of Rs. 450 are returned to Jamanbhai with a debit note No. 2.
- 10 Goods of Rs. 650 are received back from Nayan credit Note No. 5.
- 12 As the goods of Rs. 235 are damaged, are returned to Zarina Debit note No. 11.

5. From the following information, prepare columnar (Expense wise) purchase book of Geeta and Post them in ledger:

2014, April

- 1 Goods of Rs. 5500 are purchased from Sobhana ben at 10% trade discount. Trader has given a bill along with sales tax of Rs. 45 and Mahajan lago of Rs. 15.
- 7 Goods of Rs. 7500 are purchased from Mehul Bhai at 10% trade discount. In the invoice of the trader Rs. 100 is shown for sales tax and Rs. 25 railway freight.
- 10 From Rajani bhai goods of Rs. 3000 are purchased at 5% trade discount. Railway freight of Rs. 50 and a Mahajan Lago of Rs. 20 is shown in the invoice.

6. The following is the information relating to purchase of goods by Kala Mandir Sadi Stores. From this prepare their columnar purchase book goods wise and post them in ledger:

2014, May

- 1 20 sarees at the rate of Rs. 500 and 10 panetar at the rate of Rs. 1500, are purchased from Saragan stores at 10% trade discount. Inward invoice No. 352.
- 6 25 Bandhanies at the Rate of Rs. 550 and 15 panetar at the rate of Rs. 1700 are purchased from Vikash centre at 10% trade discount, Inward invoice No. 555.
- 10 30 sarees at the rate of Rs. 400 and 20 Bandhanies at the rate of Rs. 600 are purchased from Kala selection at 10% trade discount. Inward invoice No-222.

7. From the following information prepare three columnar cash book and post it in ledger 2014:

2014, July

- 1 Cash Balance Rs. 13000, and Bank balance Rs. 18000.
- 2 Cash Purchases Rs. 3500, and cash sales Rs. 5300.
- 4 Withdrew Rs. 4200 from Bank for business.
- 5 A cheque of Rs. 2200 is given to Yash for full settlement towards payables of Rs. 2220.
- 7 Purchased files ballpens etc. and gave a cheque of Rs. 750.
- 9 Against the receivable of Rs. 3310 due from Samir received Rs. 3300 in full settlement.
- 12 paid salary Rs. 2400 and Rent Rs. 1300.
- 13 paid electricity bill of the shop Rs. 700 and of the residence Rs. 1000.
- 15 By paying cash of Rs. 1400, Gopal has closed his account of Rs. 1410.

8. In the business of Ramesh, write journal entries for the following transaction and post them in ledger. Thereafter find out the balance of each account and decide which account has which balance.

2014, May

- 1 Commenced a business by bringing in cash of Rs. 50000 and machinery of Rs. 16000.
- 2 A bank account is opened, by depositing Rs. 25000.
- 6 Goods of Rs. 8000 are purchased from Bipin at 10% trade discount and paid cash Rs. 2500.
- 9 Goods of Rs. 6000 are sold to Nilesh at 10% trade discount and he has paid a cheque of Rs. 1200, which is deposited in bank.

- 14 Rs. 2700 is withdrawn from bank for office expenses
- 17 Paid Rent of Rs. 1500.
- 20 A cheque of Rs.2000 is given to Bipin.
- 22 A Furniture of Rs. 3500 are purchased from Kanaji Furniture Mart.
- 23 Against the dues of Rs. 1200 Nilesh has deducted the amount of 5% cash discount and for the balance gave a cheque, which is deposited in bank.
- 25 A cheque of Rs. 1500 and Rs. 2000 cash are given to kanaji furniture mart.
- 30 Paid life insurance premiums of Rs. 2550.

9. Record the following transaction prepare journal of Anmol, and post them in ledger. Thereafter find out the balance of each account and decide which account has which balance.

2014, April

- 1 Brought Rs. 45000 cash and Furniture of Rs. 10000 in the business.
- 3 Deposited Rs. 30000 in bank.
- 4 Goods of Rs. 11000 are purchased from Virat at 10% trade discount and paid Rs. 3500 cash.
- 7 Goods of Rs. 10000 are sold at 25% profit, to Vimal at 10% trade discount. Vimal has given a cheque of Rs. 4000, which is deposited in the bank.
- 11 Withdrawn from bank Rs. 5000 for office and Rs. 900 for household purpose.
- 15 Fire insurance premium Rs. 1150 is paid by cheque.
- 18 Paid commission Rs. 850, and salary Rs. 2700.
- 21 Good of Rs. 6500 purchased from Dipak and paid cheque of Rs. 1500.
- 22 paid Rs. 2800 for a slide show to Galaxy Theatre.
- 23 Purchased school text books of Rs. 560 for daughter manushri.
- 24 A cheque of Rs. 2500 and cash Rs. 1500 is given to Virat.
- 26 Rs. 3000 cash received from Vimal.

10. Record the following transaction in three columnar cash books of Vijay Bhai. Post them in necessary accounts. Find out the balance of each account and show how much and which they are.

2014, June

- 1 Cash balance Rs. 14000, and bank balance Rs. 11000.

- 3 Cash deposited in bank Rs. 2200.
- 4 Goods of Rs. 14000 are sold to Ravi, for which received cash Rs. 5000 and for the balance received a cheque which is deposited in the bank.
- 7 Goods of Rs.7000 are purchased from Ronak and paid Rs.2000 cash.
- 10 Paid wages of Rs. 3100 by cheque.
- 13 Paid Rs. 4950 cash to Ronak and settled his account.
- 17 Goods of Rs. 8500 are sold to mital at 10% trade discount and Received Rs. 3000 in cash.
- 20 A cheque of Rs. 450 for Interest is received, which is deposited in the bank.
- 22 Nitin has paid Rs. 900 for his dues of Rs. 905 and settled his account.
- 24 Paid salaries of Rs. 1600 and paid Rent of Rs. 1100 in cash.
- 29 Goods of Rs. 1800 are sold to Dhaval and he has paid the full amount at 5% cash discount.
- 30 Withdraw Rs. 1000 for personal use.

8.1 Introduction**8.2 Importance of cash book****8.3 Types of cash book****8.4 Petty cash book****8.5 Illustration of Three Columnar Cash Book.****❖ Exercise**

8.1 Introduction

Cash book is the most important type of subsidiary book. Generally, in any business or profession, two types of transactions are seen.

- (i) Cash transaction and,
- (ii) Credit transaction

Credit transaction also get corrected in cash transaction in the future, cash book is prepared to keep record of cash transaction, cash book is a type of subsidiary book in which cash transactions are recorded. Cash receipts and payment are recorded in the cash book and at the end of the given period, cash balance also be known from cash book.

Cash book serves the purpose of Journal entry and cash account both, as cash book is prepared in the form of a ledger account. Cash receipts are recorded on the Receipt side (Debit side) of the cash book and cash payments are recorded on the payment side (credit side) of the cash book.

8.2 Importance /usefulness of cash book

- (1) As the structure of cash book is like a ledger account, it serves the purpose of both Journal and ledger account. Therefore, time and labour are saved as cash account need not be prepared in the ledger when the cash book is maintained.
- (2) cash book is maintained separate from the Journal, therefore, the responsibility of preparing it can be definitely allotted to a different person and the benefit of division of labour can be obtained.
- (3) Cash balance can be known daily or at the end of the given period by maintaining the cash book.
- (4) If the balance of cash book is worked out daily. Then the physical cash balance can be compared with it and any error or cash embezzlement can be known immediately.
- (5) As per the requirement of business the nature and volume of transaction, cash book can be prepared in various different types. If there columnar cash book is prepared, than the transactions of cash, bank and discount can be recorded and therefore, separate bank account also need not be prepared.

8.3 Types of cash Book

According to the necessity of any business or profession. Cash book can be prepared as per any one of the following three types:

- (1) Simple cash book

- (2) Two-columnar cash book
 (i) cash and discount columnar
 (ii) cash and bank columnar
 (iii) Bank and discount columnar
- (3) Three-columnar cash book, i.e. cash, discount and bank columnar cash book.

❖ **Simple cash Book:-**

In simple cash book, only transaction relating to cash are written and There are two sides of the cash book. The left hand side is called the receipts side. When cash comes in a transaction, it is entered therein, whereas the right hand side is called the payment side and when cash goes out, it is recorded on that side, the cash Book balance shows the cash on hand.

Dr. Specimen of Simple Cash Book

Cr.

Date	Receipts	Receipt No.	L.F.	Amount(₹)	Date	Payment	Voucher No.	L.F.	Amount (₹)

(A) Receipt side or Debit side:-

When the cash Received, it is recorded on the debit side of the cash book and following particulars are mentioned along with it.

- (1) **Date:-** In this column, the date on which the cash is received is recorded.
- (2) **Receipts (particulars) :-** In this column, the ledger account other than cash account of the transaction due to which the cash is received, it shown. It means as per the Journal entry, the account, which is credited, shown here.
- (3) **Receipt No.:** The number of the receipt issued for cash received is entered in this column.
- (4) **L.F. (Ledger Folio No.):**- The page number of the ledger on which the account, shown in the receipts column, is drawn or maintained, is recorded in this column.

(B) Payment side or credit side: - when the cash goes out from the business, it is recorded on the credit side of the cash book.

- (1) **Date: -** Here, in this column, the date on which the cash is paid or goes out recorded.
- (2) **Payments (particulars):-** In this column, the ledger account other than cash account of the transaction due to which the cash goes out, is shown. It means, as per the Journal entry, the account, which is debited, is shown here.
- (3) **Voucher No.:-** When the cash is paid, the payee issues a receipt of cash received or cash memo of cash purchased. The No. of such receipt or cash memo or the No. given by us to it is written in this column.
- (4) **L.F. (Ledger Folio No.):**- The page number of the ledger on which the account. Shown in the payments column.

Closing cash Balance: - In simple cash book, on the debit side, opening cash balance and cash receipts are recorded. Whereas, on the credit side cash payments are recorded. Every day or at the end of given period, cash book is closed and closing cash balance is worked out.

The total of payment side of such cash book is deducted from the total of receipt side. The amount of difference is known as closing cash balance. The total of receipts side of simple cash book can never be less than the total of payments side.

Illustration-1

Prepare cash book from the following transactions of Karan for May, 2014.

2014, May

- 1 cash on hand Rs. 8500.
- 2 Good of Rs. 4400 sold to Vinayak for cash.
- 5 cash of Rs. 3500 brought in the business.
- 7 Goods of Rs. 3000 purchased from Arjun for cash
- 10 Salary Rs. 1100 paid.
- 12 Rs. 550 paid for school fees of the son.
- 15 cash of Rs. 3100 received from Poonam towards sales made in the last month.
- 19 Freight Rs. 350 paid.
- 22 Rs. 2200 paid to Ramesh towards an old account.
- 25 Received commission Rs. 1300, and Rs. 600 paid towards Rent.
- 26 Furniture purchased for the business Rs. 1700.
- 30 As more funds are required in the business Rs. 7500 borrowed loan bearing 5% rate of interest from Puskar.

Dr.

Simple Cash Book of Karan for May 2014

Cr.

Date	Receipts (Particulars)	Receipt No.	L. F.	Amou nt (₹)	Date	Payments (Particulars)	V. No	L.F	Amount (₹)
2014 May					2014 May				
1	Balance b/f (Opening balance)			8500	7	Purchase A/c			3000
2	Sales A/c			4400	10	Salary A/c			1100
5	Capital A/c			3500	12	Drawings A/c			550
15	Poonam's A/c			3100	19	Freight A/c			350
25	Commission A/c			1300	22	Ramesh's A/c			2200
30	Puskar's 5% loan A/c			7500	25	Rent A/c			600
					26	Furniture A/c			1700
					31	Closing cash balance (balance c/f)			18,800
				28,300					28,300
2014 June 1	To Balance b/f			18,800					

*Two-columnar cash Book:-

Two-columnar cash book can be prepared in three ways:

- (i) cash and discount columnar
- (ii) cash and bank columnar
- (iii) Bank and discount columnar

(i) Cash and Discount columnar cash Book:-

In this type of cash book, one additional column is added in the simple cash book. This column is kept for 'cash discount'. Trade discount is not recorded in the cash book.

Specimen of cash and discount columnar cash Book

Cash Book of Shri

Date	Receipts (Particulars)	Receipt No.	L.F.	Discount Allowed Rs.	Cash Amount (₹)	Date	Payments (Particulars)	Vou cher No.	L.F.	Discount Received Rs.	Cash Amount(₹)
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In two-columnar cash book, the balance of cash column of the cash book is worked out but the balance of discount column is not worked out. Here, the total of discount column on debit side is made and total amount is debited to discount allowed account. Whereas, discount column on credit side is totalled and total amount is credited in the discount received account.

Illustration-2

Prepare two- columnar cash book (cash and discount columns) of Deva from the following transaction:

2014, June

- 1 Opening cash balance Rs. 14000.
- 3 Good of Rs. 6000 purchased for cash at 5% trade discount.
- 4 Goods of Rs. 9000 sold for cash at 5% cash discount.
- 6 Goods of Rs. 5000 purchased for cash at 10% cash discount.
- 11 Wages paid Rs. 1100 and salary paid Rs. 2300.
- 14 Lina has paid Rs. 1400 towards full settlement of his account of Rs. 1440.
- 17 dividends received Rs. 600.
- 20 Rs.1200 has been paid to Dakshu towards full settlement of her account of Rs. 1220.
- 23 Computer of Rs. 6500 is purchased, for which Rs. 3500 is paid in cash and the balance amount is agreed to be paid after one month.
- 27 As more fund are required in the business Rs. 6000 brought in the business after selling personal vehicle of Rs. 8000.
- 30 Goods of Rs. 2000 has been sold to Jayesh at 10% trade discount and 10% cash discount.

Dr.

Cash Book of Deva for June 2014

Cr.

Date	Receipts (Particulars)	Receipt No.	L.F.	Discount Allowed Rs.	Cash Amount (₹)	Date	Payments (Particulars)	Voucher No.	L.F.	Discount Received Rs.	Cash Amount (₹)
2014 June 1	Balance b/f			-	14,000	2014 June 3	By purchase A/c			-	5700
4	To Sales A/c			450	8550	6	By purchase A/c			500	4500
14	To Lina's A/c			40	1400	11	By Wages A/c			-	1100
17	To Dividend A/c			-	600	11	By Salary A/c			-	2300
27	To Capital A/c			-	6000	20	By Daksha's A/c			20	1200
30	To Sales A/c			180	1620	23	By Computer A/c			-	3500
						30	By Balance C/F			-	13870
				670	32170					520	32170
2014 June 1	To Balance B/f				13870						

(ii) Cash and Bank columnar cash Book:-

In this type of cash book, an additional column (Bank) is inserted on both the side of simple cash book.

Specimen of cash and Bank Columnar cash Book**Cash Book of Shri.....**

Date	Receipts (Particulars)	Receipt No.	L.F.	Cash Amount (₹)	Bank Amount (₹)	Date	Payments (Particulars)	Voucher No.	L.F.	Cash Amount (Rs.)	Bank Amount (₹)

In Bank column opening balance can be debit or credit. Debit balance is known as cash balance and credit balance is known as Bank overdraft.

The total of receipt side of bank column in the cash book is more than the total of payment side, it is known as closing bank balance. But if the total of payment side is more than the total of receipt side, it is known as closing bank overdraft.

***Contra Transactions:-**

When two columnar cash book with cash and bank is maintained, then recording of transactions involving both cash and bank columns is an important point. For example cash withdrawn from the bank and cash deposited in the bank.

Here in this type of transaction both, cash and bank accounts are involved. Contra transaction means such financial transaction, in which cash and bank, both the accounts get affected. This type of transaction is recorded on both the sides of cash book.

Contra transactions are of two types

- (i) Cash Deposited in the Bank.
- (ii) Cash withdrawn from the Bank.

In contra transaction 'C' will be written in the L.F. no. Column of cash book on both the side. As contra transactions are not required to be posted, no L.F.no. is there.

Illustration-3:-

From the following transactions, prepare cash and bank columnar cash book in the books of Hitesh Bros.

2014, July

- 1 Opening cash Balance Rs. 11000.
Opening bank Balance Rs. 10000.
- 3 Goods of Rs. 2000 purchased for cash.
- 7 Goods of Rs. 7000 sold to Hemant for cash at 5% cash discount.
- 12 Advertisement expense of Rs.1500, and Rent of Rs. 700 paid by cheque.
- 19 Rs.1300 stationary expense paid.
- 21 Rs.1500 deposited in the bank.
- 23 Daughter's school fee of Rs.700 paid by cheque from the bank account of the business.
- 25 Rs. 1300 withdrawn from the bank to pay fire insurance premium of the business.
- 27 Fire insurance premium paid.
- 30 Cheque of Rs. 2400 received from Lata, which is deposited in the bank.

Solution:

Dr. Cash Book of Hitesh Bros. for July 2014 Cr.

Date	Receipts (Particulars)	Receipt No	L. F.	Cash Amt Rs.	Bank Amount (₹)	Date	Payments (Particulars)	Voucher No.	L. F.	Cash Amt. (₹)	Bank Amount (₹)
2014 July 1	To Balance b/f		-	11000	10000	2014 July 3	By purchase A/c	-	-	2000	-
7	To Sales A/c		-	6650	-	12	By Advt. Exp.	-	-	-	1500
21	To cash A/c		C	-	1500	12	By Rent A/c	-	-	-	700
25	To Bank A/c		C	1300	-	19	By Stationery Exp. A/c	-	-	1300	-

30	To Lata's A/c	-	-	2400	21	By Bank A/c	-	C	1500	-
					23	By Drawing A/c	-	-	-	700
					25	By Cash A/c	-	C	-	1300
					27	By fire insurance Exp.	-	-	1300	-
					30	By Balance c/f	-	-	12850	9700
				18950	13900				18950	13900
2014 Aug 1	To Balance b/f			12850	9700					

(iii) Bank and Discount Columnar cash Book:-

In this type of cash book, two columns, bank column and discount column, are kept on both the side of the cash book.

**Specimen of Bank and Discount Columnar cash Book
Cash Book of Shree.....**

Date	Receipts (Particulars)	Receipt No.	L. F.	Discount Allowed Rs.	Bank Amount (₹)	Date	Payments (Particulars)	Voucher No.	L. F.	Discount Received Rs.	Bank Amount (₹)

Illustration-4:-

From the following transactions, prepare bank and discount columnar cash book in the books of Hari traders:

2014, May

- 1 Opening bank Overdraft Rs. 8000.
- 4 Goods of Rs. 4000 sold to Vijay at 5% trade discount towards that he gave a cheque, which is deposited in the bank.
- 9 Cheque of Rs. 5000 issued to Radhe in full settlement of account of Rs. 5040.
- 14 Rent of Rs. 1100 paid by cheque.
- 20 Nikhil has given a cheque of Rs. 8500 towards amount payable of Rs. 8570 in full settlement of account.
- 22 Goods of Rs. 6000 sold to Gopal at 10% trade discount and 10% cash discount. Gopal Made the payment immediately by cheque and is immediately deposited in the bank.
- 26 Loan of Rs. 1800 given to Nayan by cheque.
- 30 Dividend Received of Rs. 700 by cheque.

Solution:**Cash Book of Hari traders for May-2014**

Date	Receipts (Particulars)	Receipt No.	L. F.	Discount allowed Rs.	Bank Amount (₹)	Date	Payments (Particulars)	Voucher No	L. F.	Discount Received (₹)	Bank Amount (₹)
2014 May 4	To sales A/c	-	-	-	3800	2014 May 1	By Balance b/f	-	-	-	8000
20	To Nikhil's A/c	-	-	70	8500	9	By Radhe's A/c	-	-	40	5000
22	To sales A/c	-	-	540	4860	14	By Rent A/c	-	-	-	1100
30	To Dividend A/c	-	-	-	7000	26	By Nayan's loan A/c	-	-	-	1800
						30	By Balance c/f				1960
				610	17860					40	17860
2014 June 1	To Balance b/f	-	-	-	1960						

Illustration-5:-

From the following transactions, prepare cash and bank columnar cash book in the books of Vipul traders:

2014, April

- 1 Opening cash balance Rs. 12500.
- 2 Goods of Rs. 12000 sold to Sonali for cash at 10% trade discount.
- 4 Goods of Rs.5000 sold to Monali for which, she made the payment immediately by cheque.
- 7 The cheque received by Monali is deposited in the bank.
- 10 cash Rs. 2500 is deposited in the bank.
- 13 Furniture of Rs. 2700 purchased and the amount is paid immediately by cheque.
- 15 Goods of Rs. 9000 sold to Jivan and for which Jivan paid 50% amount by cash and balance amount by cheque immediately. Cheque is immediately deposited in the bank.
- 16 Goods of Rs. 7500 purchased from Dinesh and amount is paid immediately by cash.
- 17 Stationery of Rs. 800 and wages of Rs. 650 paid by cash.
- 20 Rs. 1200 withdrawn from the bank for payment of Rent.
- 22 Rent is paid.

- 27 Bank debited Rs. 150 to our account for interest on overdraft and it is informed to us through bank advice.
- 29 Goods of Rs. 1600 to Kishan, for which he has given a cheque. This cheque is deposited in the bank.
- 30 Bank informed about the dishonour of cheque issued by Kishna.

Solution:

Cash Book of Vipul Traders for April-2014

Date	Receipts (Particulars)	Receipt No.	L. F.	Cash Amount Rs.	Bank Amount (₹)	Date	Payments (Particulars)	Voucher No.	L. F.	Cash Amount (₹)	Bank Amount (₹)
2014 July 1	To Balance b/f			12500	-	2014 April 10	By Bank A/c		C	2500	-
2	To Sales A/c		-	10800	-	13	By Furniture A/c		-	-	2700
4	To Sales A/c		-	-	5000	16	By Purchase A/c		-	7500	-
10	To Cash A/c		C	-	2500	17	By Stationary A/c		-	800	-
15	To Sales A/c		-	4500	4500	17	By wages A/c		-	650	-
16	To Bank A/c		C	1200	-	20	By Cash A/c		C	-	1200
19	To Sales A/c		-	-	1600	22	By Rent A/c		-	1200	-
						27	By Bank interest A/c		-	-	150
						29	By Kishan's A/c		-	-	1600
						30	By Balance c/f			16350	7950
				29000	13600					29000	13600
2014 July 1	To Balance b/f		-	16350	7950						

***Three Columnar Cash Book:-**

In this type of cash book, three columns of amount are kept on both the sides. Discount column, cash column, and bank column. This type of cash book is more useful, because discount, cash and bank transaction can be recorded simultaneously in it.

Illustration-6

From the following transactions, prepare three columnar cash books of Kinjal:

2014, March

- 1 Opening cash balance Rs. 17700.

Note-1:- On 27 the cheque of Rs. 5000 has been received from Dipak on 25th March. Towards amount payable of Rs. 5070 in full settlement of account, which is deposited in the bank and dishonoured on 27th March. Generally, in such cases, if the cheque given by the customer is dishonoured, then the discount allowed is also cancelled, here cash discount of Rs. 70 has been given to Dipak, which is required to be cancelled due to dishonour of cheque on 27th March. The Journal entry for cancellation of discount is as under:-

	Dr	Cr
Dipak account	70	-
To Discount allowed A/c	-	70

From the above Journal entry, it can be seen that Rs. 70 will be recorded on the credit side of discount allowed account. Therefore discount has not been recorded on the credit side where the entry for cheque dishonoured has been made. If the bank balance is reduced by Rs. 5000 only. Then the amount of discount received and discount allowed would be incorrectly reflected more because the discount allowed is required to be cancelled and thereby it is reduced due to dishonour of cheque.

***Bank Book:-**

When the trader keeps more than one accounts in a bank or keeps accounts in more than one bank, Bank book is maintained to record the bank transactions easily.

Illustration-7:-

From the following transactions, prepare Bank Book in the books of Bhavin.

2014, June

- 1 Opening bank balance (State Bank of India-SBI) Rs. 8000.
Opening bank overdraft (Bank of Baroda-BOB) Rs. 3000.
- 4 Goods of Rs. 7000 purchased, for which a cheque of Rs. 2000 of SBI is issued and for remaining amount cheque of BOB is issued.
- 7 Goods of Rs. 12000 sold to Vijay and Vijay paid the necessary amount by cheque, which is deposited in BOB account.
- 9 Cheque of SBI of Rs. 2000 issued for salary.
- 12 The amount of dividend Rs. 3000 and interest Rs. 1000 collected by SBI and credited in the account.
- 14 Rs. 1800 withdrawn for personal use from SBI
- 16 crossed cheque of Rs. 18000 received from Palak towards payment of an old dept
- 18 Cheque issued by palak is deposited in BOB account.
- 24 Cheque of Rs. 2200 issued from SBI and deposited in BOB account.
- 30 Goods of Rs. 8000 sold at 10% trade discount, against that a cheque is received, which is deposited in SBI account.

Solution:**Bank Book of Bhavin for June, 2014**

Date	Receipts (Particulars)	R. No.	L. F.	SBI Rs.	BoB Rs.	Date	Payments (Particulars)	V. No.	L. F.	SBI (₹)	Bob (₹)
2014 June						2014 June					
1	To Balance b/f		-	8000	-	1	By Balance b/f		-	-	3000
7	To Sales A/c		-	-	12000		(O.D)				
12	To Dividend A/c		-	3000	-	4	By Purchase A/c		-	2000	5000
12	To Interest A/c		-	1000	-	9	By Salary A/c		-	2000	-
18	To Cash A/c		-	-	18000	14	By Withdrawn A/c		-	1800	-
	(Cheque Dt. 18 issued by Palak deposited in bank)					24	By BOB A/c		C	2200	-
24	To SBI A/c		C	-	2200	30	By Balance c/f			11200	24200
30	To Sales A/c		-	7200	-						
				19200	32200					19200	32200
2014 July 1	To Balance b/f		-	11200	24200						

8.4 Petty cash Book

When the volume of cash and bank transaction more in respect of any trader, concern or unit, then generally, to help main (chief) cashier and to keep him free from making payment and recording petty or small expenses, assistant (petty) cashier is employed. The main Job of petty cashier is to pay and keep a detailed record of petty expenses. Normally petty cashier is given the responsibility of payment and recording of expense etc. The book kept by the petty cashier for keeping a record for payment of such expense is known as petty cash book.

❖ Types of petty cash Book:-

Petty cash book can be prepared in two types:-

- (i) **Simple petty cash book and**
- (ii) **Petty cash book on impress system**

Which type of petty cash book will be maintained would depend on the extent of cash. Provided by the main cashier to the petty cashier for payment of expenses.

(i) **Simple petty cash Book:-**

In this type of petty cash book, the petty cashier is given a fixed amount in the beginning. At the end of a given period the main cashier gives more cash, if required. When any expense is paid, then it is recorded in the column kept separately for such expense in the petty cash book.

Format of Petty Cash Book

Receipt Rs.	Date	(Particulars)	Voucher No.	Total Amt Paid Rs.	Particulars of Various Expenses					L. F.	Personal A/c In the ledger
					Carriage Exp. (₹)	Postage Exp. (₹)	Stationary Exp. (₹)	Tea & Refreshment (₹)	Other Misc. Exp.		

Illustration-8:-

From the following transactions, prepare petty cash Book of Popat lal.

2014, May

- 1 Opening cash balance Rs. 3000
- 4 Rs. 500 for sundry wages and Rs. 150 for tea and refreshments paid.
- 6 Rs. 1200 paid for stationary.
- 8 Postage and courier expenses paid Rs. 250.
- 10 Rs. 125 paid to Anand towards advance salary.
- 12 Rs. 25 paid towards carriage.
- 14 Rs. 80 paid for sundry wages and Rs. 60 paid for postal stamps.
- 15 Other Misc. expenses amounted to Rs. 25.

Petty cash Book of Popat lal

Rec. Rs.	Date	(Particulars)	V. No	Total Amt. Paid Rs.	Particulars of Various Expenses						L. F.	Personal A/c In the ledger
					Sundry Wages (₹)	Tea & Refreshment (₹)	Stationary Exp. (₹)	Postages (₹)	Carriage (₹)	Other Misc. Exp.		
3000	2014 May 1	To Opening Balance										
	4	By Sundry Wages & Tea Refreshment A/c		650	500	150						
	6	By Stationary A/c		1200			1200					
	8	By Postage A/c		250				250				
	10	By Anand A/c		125								125
	12	By carriage A/c		25					25			
	14	By Sundry Wages & Postage		140	80			60				

	15	By Misc. Exp A/c		25						25		
				2415	580	150	1200	310	25	25	-	125
3000	15	By Balance c/f		585								
585	2014 June 1	To Balance b/f		3000								

(ii) Petty Cash Book on Imprest System:-

In this type of petty cash book a fixed amount is given at the beginning of the fixed period by the main cashier to the petty cashier. Cashier makes the payment for various expenses from the amount so received and keeps the records of such expenses. At the end of the fixed period, the petty cashier gives the accounts of the expense paid by him to the main cashier. The Main cashier provides cash equal to the amount spent by the petty cashier at the beginning of the next period, so that again the pre-decided fixed balance remains with the petty cashier at the beginning of the next period. In this type, as fixed amount of cash balance is maintained at the beginning of each period, it is known as imprest system of petty cash book.

Illustration-9:-

The following transactions are to be recorded by Rahul, who is the main cashier. The following information has been obtained in respect of the petty cash book maintained as per petty cash book on imprest system for the month ending on 31-3-2014:

Carriage Rs. 75, Misc. expenses Rs. 15, Tea and Refreshment expenses Rs.40, stationary expense Rs.50, and postage expenses Rs.80.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
31-3-14	Carriage A/c Dr.		75	
	Misc. Expenses A/c Dr.		15	
	Tea & Refreshment Expenses A/c Dr.		40	
	Stationery expenses A/c Dr.		50	
	Postage expenses A/c Dr.		80	
	To Petty Cashier A/c		-	260
	(Being :- The particulars of expenses paid as per petty cash book)		-	
1-4-14	Petty cashier A/c Dr.		260	-
	To cash A/c		-	260
	(Being cash given to petty cashier on imprest system)			

Illustration-10:-

From the following transactions, prepare petty cash Book of Kaushik, as per petty cash book on imprest system.

2014, May

- 1 Cash received from the Main cashier Rs. 2800.
 4 Rs. 150 for postage expenses and Rs. 75 for printing expenses of bill book are paid.
 7 Rs. 80 for tea and refreshments expense and Rs. 125 for stationary expense are paid.
 15 Rs. 100 for carriage and Rs. 175 for stationary are paid.
 18 Rs. 250 paid to Arjun as advance salary.
 24 Rs. 100 given to Kanak for payment of Misc. expenses.
 26 Postal stamps are purchased for Rs. 50.
 30 Rs. 30 for carriage and Rs. 40 for Misc. expense are paid.
 The petty cashier is given cash at the beginning and end of the month.

Petty cash Book of Kaushik for May-2014

Rec. (Rs.)	Date	Particulars	V. No.	Total Amt. Paid	Post age	Statio nary	Tea & Refresh ment	Carri age	Other Misc. Exp.	L. F.	Individual Pension Account in the ledger
2800	2014 May 1	To Chief Cashier A/c	-								
	4	By Postage and stationery exp.	-	225	150	75					
	7	By Tea & Refreshment and Stationary exp. A/c		205		125	80				
	15	By Carriage and Stationary exp. A/c		275		175		100			
	18	By Arjun A/c		250							250
	24	By Kanak A/c		100							100
	26	By Postage exp. A/c		50	50						
	30	By Carriage & Misc. Exp. A/c		70				30	40		
				1175	200	375	80	130	40	-	350
2800	31	By Balance B/f		1625							
	2014 June-1			2800							
1625	1	By Balance b/f									
1175	1	To Main cashier A/c									

8.5 Illustration of Three Columnar Cash Book

Illustration-11:-

From the following transactions, prepare three columnar cash book of Mahi.

2014, April

- 1 Opening cash balance Rs. 11000.
Opening bank balance Rs. 4500.
- 3 Goods of Rs. 12000 sold to Manoj. Manoj issued a cheque of necessary amount. Which is deposited in the bank.
- 5 Goods of Rs. 4000 sold to Pinky at 10% cash discount and Half of the amount is received in cash and remaining amount by cheque.
- 8 Goods of Rs. 6000 purchased from Amit for cash at 5% cash discount.
- 10 Rs. 1500 deposited in the bank.
- 12 Suresh paid Rs. 8400 by cash towards total debt of Rs. 8450.
- 18 Rs. 800 for wages and Rs. 600 for stationary expenses are paid by cheque.
- 19 Cheque of Rs. 1000 issued to Manish towards full settlement of account of Rs. 10100.
- 21 Sales tax of Rs. 2800 paid by cash.
- 25 Rs. 2200 withdrawn from the business for personal use.
- 27 salary of Rs. 1500 paid by cheque.
- 29 Received cheque of Rs. 1200 for dividend.
- 30 After keeping cash on hand of Rs. 4000, remaining amount is deposited in the bank.

Cash Book of Mahi for April -2014

Dr.

Cr.

Date	Receipts (Particulars)	R N o	L F	Dis Rs.	Cash Amt Rs.	Bank Amt (₹)	Date	Payments (Particulars)	V N o.	L F	Dis Rec (₹)	Cash Amt (₹)	Bank Amt (₹)
2014 April 1	To Balance b/f		-	-	11000	4500	2014 Apr. 8	By Purchase A/c	-	-	300	5700	-
3	To Sales A/c		-	-	-	12000	10	By Bank A/c	-	C	-	1500	-
5	To Sales A/c		-	400	1800	1800	18	By Wages A/c	-	-	-	-	800
10	To Cash A/c		C	-	-	1500	18	By Stationery exp. A/c	-	-	-	-	600
12	To Suresh A/c		-	50	8400	-	19	By Manish A/c	-	-	100	-	10000
29	To Dividend A/c		-	-	-	1200	21	By Sales Tax A/c	-	-	-	2800	-
30	To Cash A/c		C	-	-	4900	25	By Withdrawn A/c	-	-	-	2200	-
							27	By Salary A/c	-	-	-	-	1500
							30	By Bank A/c	-	C	-	4900	-
							30	By Balance c/f				4000	13000
				450	21100	25900					400	21100	25900

2014 May 1	To Balance b/f	-	-	4000	13000							
------------------	-------------------	---	---	------	-------	--	--	--	--	--	--	--

Illustration-12:-

From the following transactions, prepare three columnar cash book of Divya.

2014, May

- 1 Opening bank overdraft Rs.6600.
Opening cash balance Rs.8800.
- 2 Goods of Rs.16000 sold to Nirmal at 10% trade discount for which the amount is received by cheque.
- 3 cheque received from Nirmal is deposited in the bank.
- 6 cheque issued by Nirmal is dishonoured.
- 9 Receives of Nirmal paid dividend of 60 paisa in a rupee by cash.
- 12 Goods of Rs.9000 purchased from Anil at 5% cash discount. Half of the amount is paid by cash and remaining amount is paid by cheque.
- 14 Bank has collected a dividend of Rs.1500 and credited in our account.
- 16 Bank has credited Rs.125 towards bank interest in our account.
- 19 Salary of Rs.3000 paid by cash.
- 23 Rs.1800 withdrawn from the business for personal use.
- 25 Rs.2500 paid by cheque for goods purchased for personal use.
- 27 Cheque of Rs.5500 issued to Bharat towards full settlement of account of Rs.5580.
- 29 Chetan has paid by cheque Rs.8500 in full settlement of account of Rs.8575.
- 31 After keeping cash on hand of Rs.3500, remaining amount is taken for personal use.

Cash Book of Divya for May -2014

Dr.

Cr.

Date	Receipts (Particulars)	R N o.	L. F.	Dis. Allo. Rs.	Cash Amt Rs.	Bank Amt (₹)	Date	Payments (Particulars)	V. N o.	L. F.	Dis. Rec. (₹)	Cash Amt (₹)	Bank Amt (₹)
2014 May 1	To Balance b/f	-	-	-	8800	-	2014 May 1	By Balance b/f (BOD)	-	-	-	-	6600
2	To Sales A/c	-	-	-	-	14400	6	By Nirmal	-	-	-	-	14400
9	To Nirmal A/c	-	-	-	8640	-	12	By Purchase A/c	-	-	450	4275	4275
14	To Dividend A/c	-	-	-	-	1500	19	By Salary A/c	-	-	-	3000	-
16	To Interest A/c	-	-	-	-	125	23	By Drawings A/c	-	-	-	1800	-
29	To Chetan A/c	-	-	75	-	8500	25	By Drawings A/c	-	-	-	-	2500
31	To Balance c/f	-	-	-	-	8750	27	By Bharat A/c	-	-	80	-	5500
							31	By Drawing					

						31	A/c	-	-	-	4865	-	
							By Balance c/f	-	-	-	3500	-	
			75	17440	33275					530	17440	33275	
2014 June 1	To Balance b/f	-	-	-	3500	-	2014 June 1	By Balance b/f	-	-	-	-	8750

❖ **Exercise**

➤ **Multiple Choice Questions**

- Generally there are _____ types of Transactions.
 - 3
 - 2
 - 1
 - 4
- There are main _____ types of Cash book.
 - 3
 - 2
 - 1
 - 4
- When a firm maintains a cash book, it need not maintain _____.
 - Purchase book
 - Sales Book
 - Journal
 - Cash and Bank book
- Which of the following may have both Dr. Or Cr. Balance?
 - Bank
 - Cash
 - Both
 - None
- Cash book is a type of _____.
 - Subsidiary book
 - Principal book
 - Formal book
 - All
- Cash book can be treated as _____.
 - Subsidiary book
 - Principal book
 - Formal book
 - All
- The balance of bank column of cash book always shows as _____.
 - Either Dr. Or Cr.
 - Debit.
 - Credit
 - Neither Dr. Or Cr.

8. Cash discount received will be recorded in cash book in
 - A. Discount column on cr. side
 - B. Discount column on dr. Side
 - C. Cash on Cr. Side
 - D. Cash on dr. Side.
9. Which of the following is not recorded in cash book?
 - A. Cash discount
 - B. Bad debts
 - C. Credit Purchase
 - D. All
10. Cash book without Cash column is also known as _____ book.
 - A. Bank cash
 - B. Open cash
 - C. Close Cash
 - D. None of these
11. The word 'C' against any entry in the cash book signifies that this entry is _____ entry.
 - A. Correct
 - B. Cash
 - C. Contra
 - D. None of these
12. A contra entry appears on _____ side of cash book.
 - A. Dr.
 - B. Cr.
 - C. Both Dr. & Cr.
 - D. None of these
13. Cash account is _____ account.
 - A. Personal
 - B. Real
 - C. Nominal
 - D. All
14. Cash book is _____.
 - A. Journal
 - B. Ledger
 - C. Journal as well as Ledger
 - D. None of these
15. Cash book always shows _____ balance.
 - A. Debit
 - B. Credit
 - C. Both
 - D. None

(Ans: 1. B 2. A. 3. D. 4. A. 5. A. 6. B. 7. A. 8. A. 9. C. 10. A. 11. C. 12. C. 13. B. 14. C. 15. A.)

➤ **Write a long question answer.**

- 1 Explain the meaning of cash book and clarify its usefulness.
- 2 Briefly explain various types of cash Books.
- 3 Write a note on Bank book with examples.

- 4 explain the meaning of simple petty cash book and petty cash book maintained as per Imprest system.

➤ **Practical Questions**

1.) Record the following transaction in the cash book of sangam

2014, August

- 1 Opening cash balance Rs. 15000.
3 cash Purchases Rs. 4600.
5 cash sales Rs. 6300.
8 goods of Rs. 8000 sold to Mahesh for cash
10 cash of Rs. 2400 brought in the business, as more fund are required.
13 Goods of Rs. 5500 purchased from sakina by cash.
15 Rs. 3200 paid to mohin for goods purchased in the previous month.
19 Wages of Rs. 1500, and stationery Expenses Rs. 800 are paid by cash.
20 Shahil paid Rs. 3000 for goods sold to her in the previous month.
24 Furniture of Rs. 4200 purchased for business
27 Rs. 1000 received towards Rent.
30 Old scooter of Rs. 3800 is purchased for business.

2.) From the following transactions, prepare cash and discount columnar cash book of Dinesh

2014, July 1

- 1 Opening cash balance Rs. 11500.
2 Goods of Rs. 8500 sold at 10% cash discount.
5 As money was needed in business, Dinesh sold his personal scooter for Rs. 9000 and invested money in business.
7 Purchased goods at a trade discount of 10% and cash discount of 5% 6000.
10 sold good for cash Rs. 650.
13 Settled the account of Trilok by payment of Rs. 1600, in cash against his dues of Rs. 1675.
15 Purchased settled his account with us by paying Rs. 270, deducting discount Rs. 30.
19 Purchased goods valued at Rs. 1600 for cash from
21 Shop rent is paid.
23 Goods of Rs. 4000 purchased for cash at 10% trade discount.
25 Bipin paid cash of Rs. 2750 towards his debt.
28 Vivek has been paid Rs. 1700 towards full settlement of an old account.
30 Manish issued a cheque of Rs. 4000, which is deposited in the bank.

3.) From the following transactions, prepare cash and bank columnar cash book of purvi.

2014, January 1

- 1 Cash balance Rs. 14000, Bank overdraft Rs. 4100.
- 3 Goods of Rs. 9400 sold to panna against which a cheque of necessary amount is received.
- 4 cheque issued by panna is deposited in bank.
- 7 Goods of Rs. 4000 sold to Nikhil at 10% trade discount. Nikhil paid 50% of amount by cash and remaining amount is immediately paid by cheque.
- 8 Rs. 4700 deposite in the bank.
- 11 Machine of Rs. 6300 is purchased and cheque of necessary amount is issued.
- 13 Jaydeep issued a cheque of Rs. 7700 towards payment of sales made in the previous month which is immediately deposited in the bank.
- 14 Rs. 700 for wages, Rs. 1100 for electricity and Rs. 850 stationary bill are paid by cash.
- 15 Rs. 2500 withdrawn from the bank for payment of telephone bill.
- 17 Telephone bill of Rs. 1300 is paid.
- 20 Bank debited our account by Rs. 420 for interest on overdraft and Rs. 125 for bank charges in our account, which is informed through bank advice.
- 22 Goods of Rs. 5500 is sold to vivek, for which he issued a crossed cheque of necessary amount.
- 24 Cheque of Rs. 4200 received from Hetal, which is endorsed in favour of Mital.
- 26 Bank informed that cheque issued by vivek is dishonoured.
- 27 Rs. 1700 paid by cash to Rajesh in full settlement of account.
- 30 Rs. 2600 withdrawn from the bank for personal use.

4.) From the following transactions, prepare bank and discount columnar cash book of Ankit.

2014, July

- 1 Opening bank overdraft Rs. 21200.
- 3 Goods of Rs. 11000 sold to ketan, against which he issued a cheque of Rs. 10800 in full settlement of account, which is immediately deposited in the bank.
- 6 Goods of Rs. 8000 purchased and a cheque is issued for the necessary amount.
- 9 cheque of Rs. 10000 is received from piyush in full settlement of account of Rs. 10200.
- 13 Cheque of Rs. 6700 issued to kapil in full settlement of the debt of Rs. 7000.
- 19 Goods of Rs. 3000 sold to kanti, for which he issued a cheque of necessary amount.
- 24 cheque issued by kanti is deposited in the bank.

27 cash of Rs. 2400 is deposited in the bank.

29 cheque issued by kanti is dishonoured.

5.) From the following transactions, prepare three columnar cash book of Zeel.

2014, April

1 Opening cash balance Rs. 13500, opening bank balance Rs. 9300.

2 cash purchase Rs. 10700, cash sales 14500.

3 Rs. 4800 is deposited in the bank.

5 As more funds are required in the business, a loan of Rs. 10000 is taken from Pravin bearing 10% interest rate.

7 Goods of Rs. 6000 sold to Ankur at 10% cash discount. Ankur issued a cheque of necessary amount.

9 cheque issued by Ankur is deposited in the bank.

10 Goods of Rs. 9000 purchased and 50% of the amount is immediately paid by cash.

12 salary of Rs. 2700, wages of Rs. 1300, and carriage of Rs. 650 are paid by cash.

14 commission of Rs. 2000 and brokerage of Rs. 1000 received by cash.

16 Bank credited interest Rs. 250 on balance amounting in zeel's bank account.

17 Rs. 3500 withdrawn from the bank for payment of Rent.

20 Rs. 1500 paid for Rent and remaining Rs. 2000 is taken for personal use from the business.

21 Goods of Rs. 12000 sold to vimal, he issued a cheque of necessary amount after deducting cash discount at the rate of 5% which is immediately deposited in the bank.

23 Cheque issued by vimal is dishonoured.

25 cheque of Rs. 5800 is issued to vandana towards an old debt. Total debt was of Rs. 6000.

28 Forum has paid Rs. 3400 by cash in full settlement of the debt of Rs. 3550.

30 After keeping cash on hand of Rs. 8000, remaining amount is deposited in the bank.

6.) From the following transactions, prepare two columnar bank book having columns of state bank of India (SBI) and bank of India (BOI) in the book of Raja.

2014, July

1 Opening bank balance-SBI Rs. 16300, opening bank Overdraft-BOI Rs. 4300.

3 Goods of Rs. 8000 sold, for which a cheque is received, which is deposited in the bank account of BOI.

7 Goods of Rs. 7500 are purchased for which cheques of Rs. 4400 on SBI and 3100 on BOI are issued towards payment.

- 9 Salary of Rs. 2600 paid by cheque of BOI.
- 13 SBI credited Rs. 700 for bank interest and Rs. 2200 after collecting dividend in the bank account of BOI.
- 19 Cheque of Rs. 11000 is received from pankaj towards payment of an old debt.
- 20 Cheque received from Pankaj is deposited in the bank account of SBI.
- 22 Cheque of Rs. 4000 issued from bank account of BOI, is deposited in the bank account of SBI.
- 26 Goods of Rs. 5000 purchased, for which cheque of the entire amount is issued from the BOI bank account.
- 30 Furniture of Rs. 6200 purchased, 50% amount is paid by cheque of SBI and for the remaining amount, a cheque of BOI is issued.

7.) From the following transactions, prepare petty cash book of Naresh.

2014, March

- 1 Opening petty cash balance Rs. 2800.
- 3 wages of Rs. 475, and carriage of Rs. 560 are paid.
- 5 Rs. 330 paid for postage and postal stamps expenses.
- 7 Rs. 90 paid for Wages.
- 9 Rs. 380 paid for tea and refreshment expenses
- 10 Stationary expenses paid Rs. 220.
- 12 Rs. 500 received from the main cashier.
- 14 Misc. expenses paid Rs. 75.
- 15 Rs.350 given to Kishor for payment of misc. expenses.

8.) From the following transactions, prepare petty cash book of Kamalesh as per petty imprest system.

2014, April

- 1 cash received from the main cashier Rs. 2600
- 2 Rs. 375 for printing charges of bill book and Rs. 110 for other stationery items are paid.
- 3 Postage expenses paid Rs. 125.
- 5 carriage of Rs. 50 and wages of Rs. 80 paid.
- 6 Rs. 175 is advanced to Bharat towards salary.
- 8 Rs. 105 is given to kiran for payment of misc. expense.
- 10 carriage of Rs. 20, and stationery expenses of Rs. 150 are paid.
- 11 Rs. 60 paid for misc. expenses.
- 14 Postal stamps purchased for Rs. 50.

15 Rs. 125 for wages and Rs. 40 for misc. expenses are paid.

9.) Following transactions are to be recorded by the main cashier. The following information is obtained in respect of the petty cash book maintained on imprest system for the month ending on 31-3-2014.

Write Journal

Stationery expense	Rs. 120
Carriage	Rs.70
Wages	Rs.370
Tea and Refreshment expenses	Rs.140
Misc. expenses	Rs.110

→ Special Exercises for practice of three columnar cash book.

10.) From the following transactions of Shri Kapil Shah, Prepare his three columnar cash book.

2014, June

- 1 Cash on hand Rs. 4500, and bank balance Rs. 2500.
Paid to petty cashier Rs. 100 by cheque.
- 3 Cash rules Rs. 1500, and cash purchases Rs. 300.
- 5 Received a crossed cheque of Rs. 1000 against a bill receivable on presentation on the date of maturity.
- 7 A creditors Shri Lalit was paid Rs. 500 at a cash discount of 2% by a cheque.
- 8 A 100 Rs. Note was exchanged for change from which a 5 Rs. Ruppe note was found to be counterfeit.
- 9 Goods worth Rs. 2000 was purchased from pathik less 10% trade discount and 5% cash discount and the amount was paid by a cheque.
- 11 A cheque of Rs. 750 deposited in the bank was received from Dinesh in full settlement of his account. His account showed a debit balance of Rs. 760.
- 12 Purchased a Machine of Rs. 1300 and paid Rs. 50 for installation charges and sold old furniture of Rs. 150.
- 15 Withdrew from the bank Rs. 200 for office expense and Rs. 150 for personal use.
- 17 Paid salary to clerk Rs. 150 in cash and paid daughter's college fees Rs. 220 by cheque.
- 21 A cheque received from Dinesh and deposited in the bank was dishonoured. In return, cash was received immediately.
- 26 Interest credited by bank Rs. 10.

30 Rs. 450 cash on hand was carried forward and the remaining amount was deposited in the bank.

11.) Enter the following transactions in Shri R.Khanna's cash book with discount, cash and bank columns:

2014, January

- 1 Cash balance on hand Rs. 7000, Bank overdraft Rs. 1000.
- 2 Sold his own scooter for Rs. 3000 and invested Rs. 2500 in the business.
- 3 paid Rs. 2000 into the bank.
- 4 Placed on order with Raj and Co. for sending goods worth Rs. 1000.
- 5 Purchased from High class furniture mart two chairs for Rs. 100 and one cabinet for Rs. 300.
- 6 Purchased goods worth Rs. 800 from manoj less 10% cash discount.
- 8 Received a cheque of Rs. 200 for full settlement from shatrughna.
- 10 Paid into the bank the cheque received from shatrughna.
- 11 purchased 10 shares, each Rs. 50, of Tata Motor Ltd. and paid in cash the amount including brokerage at 50 paise per share!
- 13 Purchased a Machine for Rs. 1000 from Tiptop Furniture Mart and gave a cheque for Rs. 990.
- 16 Sold goods worth Rs. 600 to Sanjiv at 3% cash discount. In exchange in full settlement sanjiv gave a cheque which was deposited with the bank.
- 20 Since there was no balance in the account of sanjiv the cheque given by him and deposited with the bank was returned dishonoured and was handed over to him and cash was received in exchange.
- 23 Withdrew from the bank Rs. 250 for office use and Rs. 150 for personal use.
- 24 The bank discounted at 6% a bill of exchange for Rs. 1000 due on 24th March 2014.
- 25 Salary paid of Rs. 350 for cash.
- 26 Paid Rs. 300 towards income-tax by a cheque.
- 28 Received commission of Rs. 100.
- 30 Rs. 100 dividend collected by the bank on behalf of Rs. Khanna has been credited in the passbook, and Rs. 50 interest for the bank overdraft has been debited. Make entries for these in the cash book.
- 31 Kept Rs. 500 balance on hand and deposited the remaining amount into the bank.

12.) Shri Malhar Sheth request you to write up his cash book for the Month of Feb.2014 using three columns from the following transactions:

2014, February

- 1 Opening cash balance Rs. 6700, and bank balance Rs. 2000.
 - 2 Malhar has sent a cheque for Rs. 200 in payment of college fees of his sister palak.
 - 3 Sold goods worth Rs. 5000 to surya at a cash discount of 10% surya endorsed to us a cheque of Rs. 2000, Which was deposited in the bank and balance paid in cash.
 - 5 A bank draft for Rs. 2000 was received in full settlement of Rs. 2100, from Miss Bindiya was deposited into bank.
 - 7 cash sales Rs. 6000.
 - 8 paid into bank Rs. 2000 from the office cash.
 - 10 cash purchase of Rs. 3000 at 10% cash discount.
 - 12 Purchased Machinery by an cheque Rs. 500.
 - 14 Received a crossed cheque for Rs. 800 from Shri Pravan Sheth.
 - 16 Issued a cheque for Rs. 1000 in favour of Mitul Sheth, Discount earned Rs. 100
 - 19 Sold old furniture and the amount received by cheque for Rs. 6000 is immediately banked.
 - 20 Bank returns the cheque of Shri Pranav Sheth being dishonoured.
 - 21 Paid Salary of Rs. 1100, and rent of Rs. 800 by cheque.
 - 24 Bank charges as per Pass book is Rs. 10.
 - 26 Life insurance premium of Rs. 700 is paid by cheque.
 - 28 After keeping cash on hand of Rs. 1000, the balance amount is deposited in the bank.
- 13.)** From the following transactions, prepare three columnar cash bank of Kajol.

2014, July-1

- 1 Opening cash balance Rs. 13200, Opening Bank balance Rs. 4400.
- 3 Goods of Rs. 7000 sold to Ajay at 10% trade discount and cheque of necessary amount is issued by Ajay at the same time.
- 4 Cheque issued by Ajay is deposited in the bank
- 7 Goods of Rs. 11000 sold for cash to Bhavin at 5% cash discount.
- 10 Rs. 5500 deposited in the bank.
- 13 Rs. 2000 withdrawn from the bank for personal use.
- 15 Rs. 3200 for salary and Rs. 800 for rent are paid by cash.
- 17 Life insurance Premium of Rs. 750 is paid by cheque.
- 18 Cash Purchases Rs. 2500, and cash sales Rs. 3800.
- 20 Shop rent of Rs. 1000 is paid by cash.
- 21 Goods of Rs. 6000 purchased from Karina at 10% trade discount. Half of the amount is paid by cash and the remaining amount is paid by cheque.

- 23 Rs. 1500 withdrawn from the bank for payment of fire insurance premium.
- 24 Fire insurance premium of Rs. 1900 is paid by cash.
- 26 Bank has credited Rs. 100 for bank interest and Rs. 150 for commission to our bank account.
- 27 Dividend warrant of Rs. 1200 is deposited in the bank.
- 30 Rs. 3500 deposited in the bank account.

BBA SEMESTER-1
FINANCIAL ACCOUNTING
BLOCK: 3

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9.1 Introduction**9.2 Definition of Trial Balance****9.3 Characteristics of Trial Balance****9.4 Objectives of Trial Balance****9.5 Methods of Preparing Trial Balance**❖ **Illustrations**❖ **Exercise**

9.1 Introduction

So far now we have recorded economic transactions in the journal and subsidiary books. We have understood the process of posting them to the ledger and balancing the accounts. In order to find out an error in the entire procedure, a trader prepares a statement from the balances of various accounts at the end of a definite period, which is known as a “Trial Balance”.

9.2 Definition of Trial Balance

“A Trial Balance is a statement prepared at the end of a definite accounting period, showing the totals of the debit and credit sides of each account of the business or their balances:

“A Trial Balance is a statement prepared from the totals of both sides (total of debit effects and total of credit effects) of each account or from their balances, in order to ascertain whether the accounts of a business written during a definite period are arithmetically correct or not”.

9.3 Characteristics of Trial Balance

The Characteristics of the trial balance as derived from the above definitions can be presented as follows:

- (1) The trial balance is prepared on a definite date at the end of a definite accounting period (generally at the end of a year).
- (2) The trial balance is prepared from the balance of an accounts or from the totals or the debit and credit sides of each account.
- (3) The trial balance is a statement, not an account.
- (4) The trial balance is prepared in order to verify whether the accounts are arithmetically correct or not.
- (5) The trial balance is prepared before preparing the final accounts of the business. Hence it is a link between the ledger and the final accounts.

9.4 Objectives of Trial Balance

The objectives of preparing the trial balance are as follows:

- (1) The main objective of preparing the trial balance is to check whether the accounts are arithmetically correct or not.
- (2) The trial balance helps to find out errors in the accounts and to rectify them in time.
- (3) The trial balance gives information about the balances of various accounts of the business.
- (4) The trial balance helps to prepare the final accounts of the business in time and with ease.

(5) The trial balance helps to keep an indirect check on the employees, and thereby accounts are written regularly and errors and frauds are controlled.

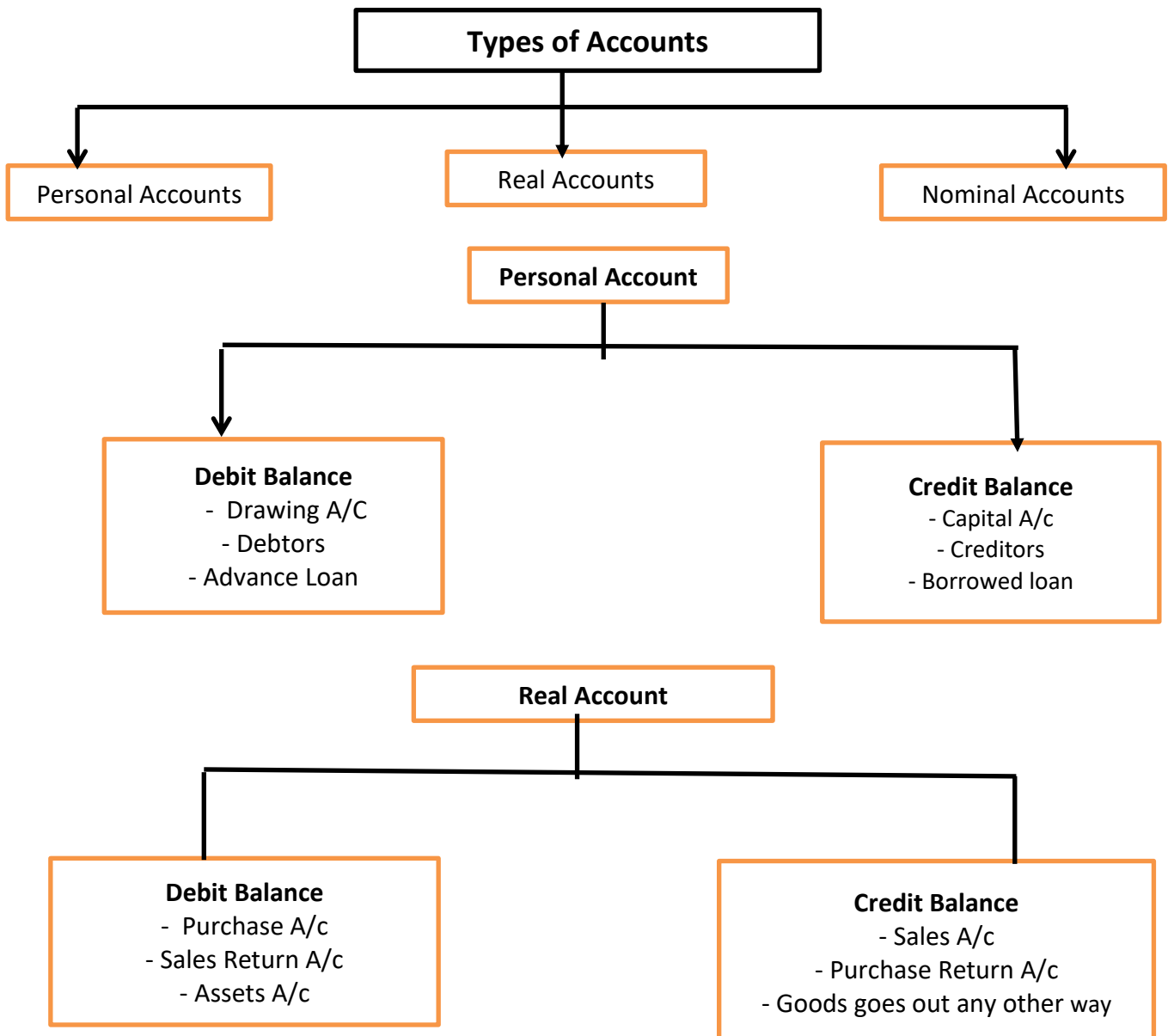
9.5 Methods of Preparing Trial Balance

(1) Preparing the trial Balance on the Basis of the totals of the Debit and Credit side of each Account:

In this Method, the trial balance is prepared on the basis of the totals of the debit side as well as the credit side of each and every account. If the totals of both sides of the trial balance are equal. It can normally be understood that there is no error in the books of accounts and that the accounts are arithmetically correct. This is so because the debit and credit effects of each transaction are equal.

Trial Balance of Shri as on

Name of the Account	L.F.	Total of the debit side (Rs.)	Total of the credit side (Rs.)
Total (Rs.)			



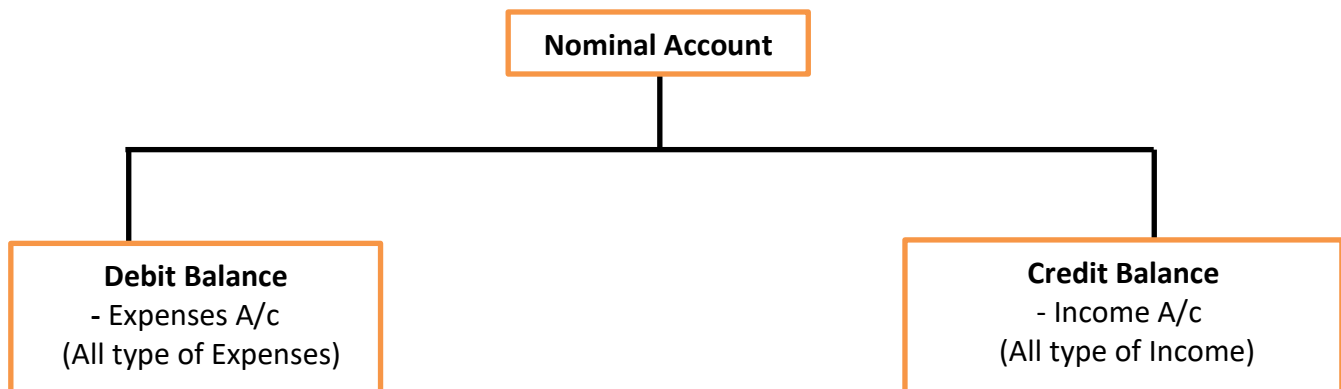


Illustration 1: - The Following are the total of the debit and credit sides of all the accounts available from the books of shri Sahil as on 31-3-2024. Prepare a trial balance from the same.

Name of the Account	Total of the Debit side (Rs.)	Total of the Credit side (Rs.)
Capital A/c	-	75,000
Drawings A/c	7,000	-
Ketan's A/C	14,000	7,000
Cash A/c	30,500	18,200
Furniture A/c	22,000	-
Nilesh's A/c	2,000	10,800
Shobha's A/c	17,000	2,500
Sales A/c	-	26,000
Purchase A/c	23,000	-
Wages A/c	9,000	-
Salary A/c	14,000	-
Discount A/c	1,000	-

Solution:

Trial Balance of Shri Shahil as on 31-3-2024

Name of the Account	L.F.	Total of the Debit side (Rs.)	Total of the Credit side (Rs.)
Capital A/c		-	75,000
Drawings A/c		7,000	-
Ketan's A/C		14,000	7,000
Cash A/c		30,500	18,200
Furniture A/c		22,000	-
Nilesh's A/c		2,000	10,800
Shobha's A/c		17,000	2,500
Sales A/c		-	26,000
Purchase A/c		23,000	-
Wages A/c		9,000	-
Salary A/c		14,000	-

Discount A/c		1,000	-
Total (Rs.)		1,39,500	1,39,500

✓ **Preparing the trial balance from the balances of all accounts:**

In this method, the trial balance is prepared on the basis of the balance of each account, which could be debit or credit. This method is more useful for preparing the final accounts:

✓ **Specimen :- (Form of Statement)**

(1) Vertical Format:

Trial Balance of Shri as on

Name of the Account	L.F.	Debit Balance (Rs.)	Credit Balance (Rs.)
Total (Rs.)			

(b) Form of Account:

Trial Balance of Shri as on

Debit Balances	Rs.	Credit Balances	Rs.
Total	-----	Total	----

Trial balance can be prepared any of the one method, (a) or (b).

Illustration 2: The Following Balances have been taken from the books of shri Anil as on 31-3-2024. Prepare a trial balance as a statement from the same.

Name of the Account	Rs.	Name of the Account	Rs.
Capital	85000	Good Destroyed by fire	1000
Drawing	4500	Investment	15000
Cash	2000	Discount received	350
Bank	8000	Discount allowed	400
Machinery	15000	Carriage	750
Opening stock	4000	Loss by fire	200
Purchase	56000	Rent	3300
Sales	63000	Furniture	14000
Purchase Returns	2200	Stationary Expense	1100
Sales Returns	2500	Dividend	850
Interest Received	400	Loan borrowed	11000
Telephone Expense	1200	Advertisement expense	2250
Salary	6000	Interest on Investment	500
Debtors	53000	Bad debts	800
Creditors	27000	Wages	1300

Solution:

Trial Balance of Shri Anil as on 31-3-2024

Name of the Account	L.F.	Debit Balance (Rs.)	Credit Balance (Rs.)
Capital		-	85,000
Drawing		4500	-
Cash		2000	-
Bank		8000	-
Machinery		15000	-
Opening stock		4000	-
Purchase		56000	-
Sales		-	63000
Purchase Returns		-	2200
Sales Returns		2500	-
Interest Received		-	400
Telephone expense		1200	-
Salary		6000	-
Debtors		53000	-
Creditors		-	27000
Good destroyed by fire		-	1000
Investment		15000	-
Discount Received		-	350
Discount allowed		400	-
Carriage		750	-
Loss by fire		200	-
Rent		3300	-
Furniture		14000	-
Stationery Expenses		1100	-
Dividend		-	850
Loan Borrowed		-	11000
Advertisement Expense		2250	-
Interest on Investment		-	500
Bad debts		800	-
Wages		1300	-
		1,91,300	1,91,300

Illustration 3: The Following Balance have been taken from the books of Shri Kirtan as on 31-3-2024. Prepare a trial balance in the form of Account From the balance.

Name of the Account	Rs.	Name of the Account	Rs.
Capital	85,000	Stationary	2270
Drawing	19,800	Commission	1885
Bank Charges	720	Discount Received	720
Purchase	58,800	Carriage Inward	635
Sales	62,500	Investment	10,300
Cash Balance	33,300	Bad debts Reserve	2,130
Debtors	35,200		
Creditors	48,700	Interest on Bank	
Bills Payable	11,300	Overdraft	685
Bills Receivable	7,100	Insurance Premium	1,900
Rent Paid	2,400	Rent Received	1,470
General Reserve	7,450	Advertisement Expense	1,400
Bank Overdraft	13,500	Donation	760
Discount Allowed	400	Dividend	835
Computer	13,250	Provident fund	8100
Goodwill	48,000	Bank Loan	10,000
Salary	13,600	Goods given as charity	700

Solution:

Trial Balance of Shri Kirtan as on 31-3-2024

Debit Balance	Rs.	Credit Balance	Rs.
Drawing	19,800	Capital	85,000
Bank Charges	720	Sales	62,500
Purchase	58,800	Creditors	48,700
Cash Balance	33,300	Bills Payable	11,300
Debtors	35,200	General Reserve	7,450
Bills Receivable	7,100	Bank over draft	13,500
Rent Paid	2,400	Discount Received	720
Discount Allowed	400	Rent Received	1470
Computer	13250	Dividend	835
Goodwill	48,000	Provident Fund	8,100
Salary	13,600	Bank Loan	10,000
Stationary	2,270	Goods given as charity	700
Commission	1,885	Bed debts Reserve	2,130
Carriage Inward	635		
Investment	10,300		
Interest on Bank over draft	685		
Insurance Premium	1,900		
Advertisement expense	1,400		
Donation	760		
	2,52,405		2,52,405

Illustration 4: The Trial Balance of Shri Devraj as on 31-3-2024 does not agree. So, detect the errors, rectify them and prepare the trial balance again.

Trial Balance of Shri Devraj as on 31-3-2024

Debit Balance	Rs.	Credit Balance	Rs.
Drawing	7200	Capital	1,25,000
Creditors	30000	Debtors	1,45,000
Machinery	47000	Salary	18,000
Interest on investment	1220	Cash on hand	12,000
Legal Fees	750	Bad debts	1,150
Postage-telegram	340	Carriage inward	830
Wages	910	Interest on Loan	410
Investment	17400	Stock (1-4-13)	6400
Motor car	21000	Discount Received	1100
Sales	1,96,000	Purchase	185000
Bills Payable	14,400	Contribution to provident fund	3200
Bank overdraft	16,000	Borrowed Loan	80000
Stationery Expenses	530		
	352750		578090

Solution:

Trial Balance of Shri Devraj as on 31-3-2024 (Rectified)

Debit Balance	Rs.	Credit Balance	Rs.
Drawing	7200	Capital	1,25,000
Debtors	145000	Creditor	30,000
Machinery	47000	Interest on Investment	1220
Salary	18000	Purchase Return	3400
Cash on hand	12000	Sales	1,96,000
Legal fee	750	Bills Payable	14,400
Bad debts	1150	Discount received	1100
Postage telegram	340	Bank over draft	16000
Carriage inward	830	Borrowed Loan	80000
Interest on loan	410		
Wages	910		
Investment	17400		
Motor Car	21000		
Stock (1-4-13)	6400		
Stationary expenses	530		
Purchase	1,85,000		
Contribution to provident fund	3,200		
	4,67,120		4,67,120

❖ **Exercise**

• **Multiple Choice Questions:**

1. Trial balance is a
 - (a) Account
 - (b) Statement**
 - (c) Main book
 - (d) Rough book

2. A Traders prepares a statement from the balances of various account at the end of a Definite period, which is known as
 - (a) **Trial balance**
 - (b) Statement
 - (c) Account
 - (d) Journal

3. Which is a link between ledger and final account?
 - (a) Journal proper
 - (b) Final account
 - (c) **Trial balance**
 - (d) Journal

4. What is main objective for preparing trial balance?
 - (a) **Arithmetically**
 - (b) Economically
 - (c) Owners
 - (d) Government

5. Trial balance is based for prepare
 - (a) Ledger
 - (b) Journal
 - (c) Subsidiary book
 - (d) **Final account**

6. Whom indirect controlled by trial balance sheet?
 - (a) Owner
 - (b) Debtors
 - (c) Creditors
 - (d) **Employees**

7. How many methods are there for preparing trial balance?
 - (a) one
 - (b) **two**
 - (c) three
 - (d) four

8. Which account has credit balance?
 - (a) debtors
 - (b) bill receivable
 - (c) purchase
 - (d) **creditors**

9. Which account has debit balance?
 - (a) capital
 - (b) sales
 - (c) purchase return
 - (d) **bad-debt**

10. Which account has credit balance?
 - (a) land
 - (b) machinery
 - (c) **provident fund**

(d) investment

• **Practical Questions:**

1. The Total of the debit and credit sides of each account maintained in the ledger of Shri Kushal as on 31-3-2024 are given below. Prepare a trial balance on that date using the method of totals of accounts.

Name of the Account	Total of the Debit side (Rs.)	Total of the Credit side (Rs.)
Capital	-	66000
Purchase	20000	-
Sales	-	34800
Opening stock	5800	-
Drawings	4800	-
Sales Returns	1380	-
Purchase Returns	-	900
Furniture	30000	-
Cash	74130	58680
Bank	50610	39210
Vimal traders	9720	9000
Commission	-	450
Salary	13200	-
Haresh Stores	21600	21600
Shah Enterprise	5580	6480
Stationery	2040	-
Carriage Inward	1380	-
Interest received	-	300
Komal's	12600	9420
Shree traders	11220	17220

2. The Following balances have been taken from the books of Shri Manali as on 31-3-2024. Prepare a trial balance in the form of a statement.

Name of the Account	Balance (Rs.)	Name of the Account	Balance (Rs.)
Capital	170000	Purchase	112000
Drawing	9000	Sales	126000
Bank	4000	Sales return	5000
Cash	16000	Purchase Returns	4400
Furniture	30000	Rent Received	800
Opening stock	8000	Legal fees	2400
Salary	12000	Freight and Octroi	6600
Creditors	54000	Vehicles	28000
Debtors	106000	Carriage inward	2200
Good given in charity	2000	Dividend	1700
Investment	30000	Bills Payable	22000
Discount Received	700	Travelling expenses	4500
Discount allowed	800	Carriage outward	1600
Audit fees	1500	Bad debt reserve	1000

Stationary expense	400	Wages	2600
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3. The following balances have been taken from the books of Shri Prashant as on 31-3-2024. Prepare a trial balance in the form of an account.

Name of the Account	Balance (Rs.)	Name of the Account	Balance (Rs.)
Capital	1,00,000	Bank Balance	14100
Drawings	4000	Salary	6000
Sales	90,600	Rent	4000
Purchases	60,000	Audit fees	1000
Opening stock	10,000	Bad debts	900
Purchase Return	4,000	Discount Received	500
Sales Return	2,000	Machinery	50,000
Carriage Inward	1,000	Cash Balance	1500
Discount allowed	1700	Creditors	6000
Advertisement expenses	2400	Furniture	10000
Dividend	1200	Interest Received	2400
Carriage Outward	1600	Bad debts reserve	3000
Bills Receivable	2900	Investment in bond	20000
Bills Payable	2500	Goods given in advertisement	1500
Goods Destroyed by fire	1300	Debtors	20000

4. The trial balance of Shri Manish as on 31-3-2024 agrees. But if any errors are there, then rectify it and prepare the rectified trial balance.

Name of the Account	L.F.	Debit Balance (Rs.)	Credit Balance (Rs.)
Capital		-	42400
Drawing		3200	-
Land and Building		40000	-
Creditors		16000	-
Debtors			14000
Sales Return		1200	-
Purchase Return		-	2000
Bills Receivable		-	6000
Bills Payable		4000	-
Interest on overdraft		-	160
Interest – received		120	-
Salary		-	200
Dividend		240	-
Goods withdrawn for		2000	-

personal use			
Loss by fire		-	2000
		66760	66760

5. The trial balance of Shri Akshay as on 31-3-2024 does not agree. Detect the errors, rectify them and prepare the rectified trial balance.

Name of the Account	L.F.	Debit Balance (Rs.)	Credit Balance (Rs.)
Capital		56000	-
Drawing		3500	-
Purchases		-	61000
Sales		77000	-
Purchase Return		1400	-
Sales Return			700
Opening Stock		3500	
Carriage Inward		350	-
Salary		-	5720
Wages		760	-
Advertisement expenses		910	-
Rent		280	-
Audit Fees		-	1050
Carriage Outward		-	420
Interest Received		210	-
Discount Received		-	480
Dividend		200	-
Goods given as charity		920	-
Bad debts		1890	-
Furniture		35000	-
Machinery		-	2800
Investment in Shares		-	4000
Computer		14000	-
Cash Balance		330	-
		1,94,440	76,170

6. The Following balances have been taken from the books of Shri Mayuri as on 31-3-2024. Prepare a trial balance in the form of an account.

Name of the Account	Balance (Rs.)	Name of the Account	Balance (Rs.)
Capital	90000	Bad debts Return	540
Opening Stock	4000	Investment in Debentures	8000
Purchases	32000	Goodwill	95000
Sales	96500	Machinery	8200
Purchase Return	1000	Debtors	18600

Drawings	5000	Cash	7240
Sales Return	1500	Wages	2400
Octroi	2000	Interest on debentures	560
Discount Received	800	Bank loan	8000
Sales Tax	5100	Creditors	12000
Salary	9900	Bad debts	200
Bad debts Reserve	900		
Insurance Premium	2400		
Carriage outward	8200		
Discount allowed	560		

7. The Trial Balance of Shri Hari as on 31-3-2024 agrees, but there are a few errors in it. Detect these errors. Rectify them and prepare the trial balance again.

Trial Balance of Shri Hari as on 31-3-2024

Name of the Account	L.F.	Debit Balance (Rs.)	Credit Balance (Rs.)
Capital			30000
Salary			6000
Debtors			24000
Interest Received		7200	
Bank overdraft			12000
Creditors		12000	-
Purchases		42000	-
Sales		-	36000
Opening Stock of Goods		18000	
Furniture		12600	-
Discount allowed			300
Rent Received		900	-
Carriage outward		5400	-
Goods Return – Debit (Purchase Return)		4500	-
Goods Return – Credit (Sales Return)			5100
Bills Payable		10,800	
Total Rs.		1,13,400	1,13,400

10.1 Introduction**10.2 Definition of Partnership and Importance****10.3 Important terms****10.4 Components of financial statements or final account****10.5 Difference between Fixed Capital and Fluctuating Capital****10.6 Difference between Profit and Loss A/c and Profit and Loss Appropriation A/c****10.7 Specimen of financial statements/ final accounts****10.8 Adjustment Chart for Final Accounts****❖ Illustrations****❖ Exercises**

10.1 Introduction:

Partnership is the extended or upgraded version of sole proprietorship because it removes most of its limitations i.e., small capital due to one-person, unlimited liability, and one-person management, etc. Partnership firms are firms that have two or more members as partners and contribute capital. They are regulated through partnership deed. Any partnership firm or sole proprietorship is always made or formed for profit making. Profit-making is the primary motive and for that, they are doing business and various transactions. Business or partnership firms want to find out the figure of profit or loss made during the year therefore financial statements are prepared by internal accountants to answer various questions related to know the profitability, and financial position, etc. financial statements or final accounts address the above mention question with details. In the process of accounting, firstly transactions are recorded in the Journal and thereafter ledger accounts are prepared based on the journal, after closing various ledger accounts, a Trial Balance is prepared from the Ledger accounts. This is called Final Accounts. Hence, the Trading Account, Profit and Loss Account, Profit and Loss Account appropriation, and Balance sheet are prepared in it. There are four parts of the Final Accounts of Partnership firms.

10.2 Definition of Partnership and Importance

Definition: - The Indian Partnership Act of 1932 defines partnership as “the relationship between persons who have agreed to share the profit of a business carried on by all or any of them acting for all”.

The persons joining the partnership are individually known as partners and collectively they are called a partnership firm.

Importance: -

1. When there is a requirement for more capital in the business the partnership firm can easily collect the required capital.
2. Risk of business is distributed among all the partners as per their capital ratio.
3. When management and expansion cannot handle by one person at that time partners are very useful.
4. In a partnership firm business-related works are distributed to each partner for his skills and intelligence, as a result, efficiency will be increased.

10.3 Important terms:

Partnership Deed

From the accounting point of view, the main thing is that relations among the partners will be governed by mutual agreement. The agreement is known as a partnership Deed. Which is to be properly stamped. It should be comprehensive to avoid disputes later on.

1. Names and addresses of the partners and the firm
2. Aims of the firm and the type of business
3. Duration of the firm and rules regarding admission, retirement, etc. for partners.
4. Profit and loss sharing ratio and the ratio in which Capital would be contributed by each Partner.
5. Terms and conditions of loan from partners to the firm.
6. Amount of personal drawings by a partner and its limit.
7. Rate of interest on Capital and drawings.
8. Details of Salary, commission, bonus, etc. if any to a partner.

Interest on capital:

Investment, which is made by the partners in the firm is called capital. A Provision may be included in the Deed to allow interest on capital. If there is no provision then no interest is to be allowed on the partners' capital. If there is any provision regarding interest on capital then partners are entitled to get the interest on capital at a fixed rate. During the year, if more capital is brought into the business by any partner then interest on this capital is also considered for that period.

Profit and loss appropriation Account: -

Partnership accounts are quite different from sole proprietorship Accounts In Sole proprietorship, Profit and loss account is prepared in which transactions of income and expenditure are recorded But in partnership, to show the expenses concerned partners like interest on capital, interest on drawings, interest on the loan, salary, commission, etc. a separate account namely profit and loss appropriation account is prepared.

10.4 Components of financial statements or final account.

1. Trading Account: -

In this Account, the entries to relating net purchases of goods and its expenses, such wages, carriage inward, octroi, Railway freight etc. are shown on the debit

side. On the credit side, net sales, closing stock, goods destroyed, goods given, Goods withdrawn for personal use, etc. are shown. The main aim of preparing this account is to find out the Gross profit or Gross sales Loss.

2. Profit and Loss Account:-

All indirect expenses and indirect incomes are recorded in this Account. The main aim of preparing this account is to know the net profit at net loss of the firm.

3. Profit and Loss Appropriation Account: -

The profit and loss appropriation account is a part of the profit and loss account. Its main purpose is to know the distribution of profit among the partners and expense of the firm, distributed in which ratio among the partners, and also the amount receivable from partners, for which a profit and loss appropriation account is prepared.

The expenses and incomes relating to partners are recorded specially prepared in this Account. This account is to show the distribution of profit and loss among the partners.

4. Balance Sheet: -

At the end of the year, the Trial Balance (Final Accounts) Balance sheet is to be proposed which shows the true financial position of the business. The balance sheet Displays/ provides the financial soundness of a company or firm.

10.5 Difference between Fixed Capital and Fluctuating Capital

Points	Fixed Capital	Fluctuating Capital
Meaning	The balance of capital accounts in the beginning and the balance at remains the same except when the partner brings additional capital.	The balance of capital accounts in the beginning and at the end fluctuates every year which is known as Fluctuating Capital
Current Account	Under this method, a separate current account for each partner is opened.	Under this method, a separate current account for each partner is not opened.
Types of Accounts	Under this method, two accounts are maintained: <ul style="list-style-type: none"> • Capital Accounts • Current Accounts 	Under this method, only one account is prepared, i.e., Capital Accounts.

Balance	In this method, the capital account shows credit balance and the current account shows credit or debit balance.	In this method, the capital account shows the credit balance.
Transaction	Interests on capital, drawings, loans, salary, commissions, etc. are recorded in current account.	Interests on capital, drawings, loans, salary, commissions, etc. are recorded in the capital account.
Interest on Capital	Under this method, Interest on capital remains the same every year.	Under this method, Interest on capital does not remain the same every year.
Profit & Loss	This method is available where P&L is to be maintained.	This method is not available where P&L is to be maintained.

10.6 Difference between Profit and Loss A/c and Profit and Loss Appropriation A/c

Sr. No	Profit and Loss A/c	Profit and Loss Appropriation A/c
1.	This account is prepared by all types of business organisations like sole proprietors, partnerships etc.	This account is not prepared by sole proprietary concern.
2.	All business expenses and losses except purchase exp. are shown on the debit Side of this account.	On the debit side of this account are recorded exp. payable to partners like interest on capital.
3.	On the credit side of this account are recorded all business incomes and gains except sales.	On the credit side of this account are recorded incomes receivable from partners like interest on drawings.
4.	Gross profit or loss ascertained from Trading A/c is brought in this account.	The net profit or loss shown by P&L A/C is brought in this Account.
5.	By profit or loss Account we can get Net profit or loss.	By profit or loss Appropriation Account we can get devisable profit of the firm or loss.

10.7 Specimen of financial statements / final accounts

Specimen of Trading Account For the year ending _ _ _ _ _

Particulars	Amt. (Rs.)	Particulars	Amt. (Rs.)
To Opening Stock	✓	By Sales: ---	
		Less (-) Sales Return: ---	✓
To Purchases: -	✓	By goods given as free Samples	✓
--			
Less(-) Purchases Return: ==			
=			
To Direct expenses:		By goods withdrawn for personal use	✓
To Wages	✓	By goods destroyed by fire	✓
To Railway freight	✓	By goods stolen	✓
To Carriage inward	✓	By goods sunk	✓
To Octroi	✓	By goods given as advertisement	✓
To Custom duties	✓	By goods destroyed by rain	✓
To Dock charges	✓	By goods destroyed in Railway	✓
To Damage	✓	By goods destroyed by accident	✓
To Excise duly	✓	By goods given as charity	✓
To Unloading charges	✓	By goods given as conditional sales	✓
To Cleaning charges	✓	By closing stock	✓
To Royalty	✓	By GROSS LOSS	✓
To Power, heating, fuel	✓		
To Factory expenses	✓		
To Raw Materials and work	✓		
To work in-progress consumed	✓		
To port charges	✓		
To freight	✓		
To Wages & Salary	✓		
To Production exp.	✓		
TO GROSS PROFIT	✓		
	✓		✓

Specimen of Profit and loss Account for the year ending _ _ _ _ _

Particulars	Amt. (Rs.)	Particulars	Amt. (Rs.)
To Gross Loss	✓	By Gross profit	✓
Administrative expenses		Others incomes:	
To salary	✓	By Discount received	---
		(+) Creditor dis. Res. (N)	---

		(-) Creditor dis Res. (old)	---
To salary & Wages	✓	By interest received	✓
To rent	✓	By Dividend received	✓
To rent and Rates	✓	By Rent	✓
To Printings	✓	By commission received	✓
To stationary	✓	By Bad debts recovered	✓
To postage and Telegram	✓		
To telephone charges	✓	By Brokerage Received	✓
To Electric bills	✓	By interest on loan given	✓
To office expenses	✓	By Allowance	✓
To insurance Pre.	✓	By Bank interest (S. A/C., F.D. A/C).	✓
Selling and distribution exp.		By Apprentice premium	✓
To carriage outward	✓	By profit due to Assets and investment sold	✓
To Dis. Allowed	✓	By NET LOSS	✓
To Commission paid	✓		
To Bad debts	✓		
To Export duty	✓		
To Travelling exp.	✓		
To packing charges.	✓		
To selling expenses	✓		
To advertisement exp.	✓		
To Showroom exp.	✓		
To Cartage on sales	✓		
To commission & Salary of Salesman	✓		
To wages on goods sold	✓		
To distribution expenses	✓		
To Agent's commission	✓		
To Travelling exp. & allowances	✓		

To rent and taxes	✓		
To contribution to Provident Fund	✓		
To legal exp.	✓		
To Audit Fee	✓		
To administrative exp.	✓		
To General exp.	✓		
Financial Expenses-	✓		
To Dis. Allowed	✓		
To paid interest	✓		
To interest on loan	✓		
To interest on O.D.	✓		
To Bank charges.	✓		
To Brokerage	✓		
To Allowances	✓		
Miscellaneous exp. and Loss:			
To Depreciation on Assets	✓		
To Insurance of Assets	✓		
To Repair & Maintenance for Assets	✓		
To Bad debts (old) ---			
(+) To Bad debts (New) ---			
(+) To B/D Reserve (New) ---			

(-)To B/D Reserve (old) ---	✓		
To Discount allowed ---			
(+) To Debtors dis. Res (New) --			

(-)To Debtors dis. Res.(old) ---	✓		
To Employees welfare exp.	✓		
To Com. & Salary for Manager	✓		
To Municipal Corpo. tax	✓		
To sales tax	✓		
To Loss due to accident (fire, rain, stolen)	✓		
To charity exp.	✓		
To Loss due to Assets & Investment sold	✓		
TO NET PROFIT	✓		
	✓		✓

Specimen of Balance sheet as on _ _ _ _ _

Capital-Liabilities	Amt. (Rs.)	Assets	Amt. (Rs.)
Fixed capital:-- _____ 's capital _____ 's capital	✓	Fixed Assets:	
Current Accounts: _____ 's credit balance --- Add (+) Int. on capital Salary (Partners) Partner's com. Net Profit --- Less (-) Drawing Interest on Dra. Net Loss		Land Building Machinery Plant & Machinery Furniture & Fixtures Goodwill Equipment's Leasehold premises Motor car Patents Trademark Copy right	✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓
Reserves:		Assets:	
Reserve Fund	✓	Investments:-	✓
General Reserve	✓	Investment in Shares / Deb.	✓
Development Fund	✓	Investment in Depreciation Fund	✓
Contingency	✓	Investment in provident Fund	✓
Depreciation Fund	✓	Investment of Reserve Fund	✓
Liabilities:		General Investment	✓
Bank loan	✓	Investment in Government Securities	✓
Other Loans taken	✓	Loan given	✓
Provident Fund	✓	Fixed, current, Rec. A/c	✓
Interest on investments	✓	Current Assets:	✓
Sundry Creditors	✓	_____ 's debit balance of current A/c	✓
Bills payable	✓	Debit balance of suspense Account	✓
Bank overdraft	✓	Debtors (-)Bad debts --- (-)BID Reserve	-- -- -- --

		(-)Discount Res.	✓
Outstanding expenses	✓	Bills receivable	✓
		Outstanding incomes	✓
Credit balance of suspense Account	✓	Closing stock of goods	✓
Pre-received income	✓	Cash balance	✓
		Bank balance	✓
		Fictitious assets:	✓
		Advertisement suspense A/c	✓
		Preliminary expenses	✓
		Profit & Loss (Debit balance)	✓
		Debit bal. of suspense A/c	✓
	✓		✓

10.8 Adjustment Chart for Final Accounts

Sr. No.	Adjustment	Effect to Trading, P&L or P&L App. A/c	Effect on Balance Sheet	Journal Entry
1.	Closing Stock	Shown on Cr. Side of Trading A/c	Shown on assets side	Closing Stock A/c Dr. To Trading A/c
2.	Outstanding Exp. (Un-paid)	Shown Dr. side to respective A/c	Shown on the Liabilities side	Resp. exp. A/c Dr. To out. Exp. A/c
3.	Prepaid Exp. (Paid in Advance)	Deducted from the respective exp. From the Dr. side of respective A/c	Shown on the Assets side	Prepaid exp. A/c Dr. To Res. Exp. A/c
4.	Outstanding income (not received)	Shown in the Cr. Side of P&L A/c	Shown on the assets side	Outstanding income A/c Dr. To income A/c
5.	Income received in advance (Pre-received)	Deducted from the respective from Cr. Side of P&L A/c	Shown on the Liabilities side	Income A/c Dr. To Pre-received Inc. A/c
6.	Depreciation on Assets	Shown on the Dr. side of P&L A/c	Deducted from respective assets	Depreciation A/c Dr. To Assets A/c
7.	Interest on Drawing	Shown on the Cr. Side of P&L App. A/c or P&L A/c	Added to the Dra. (Less from capital) or on the Dr. side of Current A/c	Drawing A/c Dr. To Interest on Drawing A/c

8.	Interest on Capital	Shown on the Dr. side of P&L A/c or P&L App. A/c	Added to the capital A/c or Current A/c Cr. Side	Interest on Capital A/c Dr. To Capital A/c
9.	Bad debts written off.	Profit & Loss A/c Dr. side added to bad debts (old)	Deducted from the debtors A/c on the Assets side	Bad debts A/c Dr. To Debtors A/c
10.	Provision for Doubtful Debts.	P&L A/c Dr. side added to B/D (old) + B/D (new)	Deducted from the Debtors A/c on the Assets Side	P&L A/c Dr. To B/D Reserve A/c
11.	Provision for Discount on Debtors	Profit & Loss A/c Debit side	Deducted from the Debtors A/c. on the Assets side	P&L A/c Dr. To Debtors Dis. Res. A/c
12.	Unrecorded credit purchase	Shown on trading A/c Dr. side added to Purchase	Shown on Liabilities side added to Creditors	Purchase A/c Dr. To Creditors A/c
13.	Unrecorded credit sales	Shown on trading A/c Cr. side added to Sales	Shown on the assets side added to Debtors	Debtors A/c Dr. To Sales A/c
14.	Unrecorded Purchase Return	Shown on trading A/c Dr. side deducted from Purchase	Shown on Liabilities side deducted from the Creditors	Creditors A/c Dr. To Purchase Return A/c
15.	Unrecorded Sales Return	Shown on trading A/c Cr. side deducted from Sales	Shown on Assets side deducted from the Debtors	Sales Return A/c Dr. To Debtors A/c
16.	Provision for Discount on Creditors	Shown on P&L A/c Credit side	Deducted from the creditors on the Liabilities	Deducted from the creditors on the Liabilities
17.	Goods burnt by fire suppose of Rs.10,000 & Insurance co. has admitted the claim of Rs.8,000	(i) Shown on Trading A/c Cr. Side as goods burnt by fire Rs.10,000. (iii) Shown on the Dr. Side as "Loss by fire" on P&L A/c Rs.2,000	(ii) Shown on assets side as Insurance company Rs.8,000.	Insurance Co. A/c Dr. Loss due to Fire A/c Dr. To goods dis. By fire A/c
18.	Unrecorded goods withdrawn for personal use	Shown on Cr. Side of Trading A/c	Added in Drawings or deducted from capital on the liabilities side	Drawing A/c Dr. To goods withdrawn for personal use A/c
19.	Salary / Commission to Partner	Shown on Dr. side of P&L App. A/c	Added to the Capital on	Salary/Com. A/c Dr. To Capital A/c

			Liabilities side	
20.	Interest on loan to Partner	Shown on Dr. side of P&L App. A/c	Added to the Capital on Liabilities side	Int. on Loan A/c Dr. To Capital A/c
21.	Goods distributed as free samples	(i) Shown on Cr. Side of Trading A/c (ii) Shown on Dr. side of P&L A/c as advertisement exp.	--	Adv. Exp. A/c Dr. To goods given as free sample A/c
22.	Partner brings personal machinery with installation charges	--	(i) Added into capital on Liabilities side (ii) Added installation charges in respected assets	Machinery A/c Dr. To Capital A/c
23.	In cash balance there is a note which is useless	Shown in the P&L A/c on Dr. Side as a loss	Deducted from Cash balance on Assets side	P&L A/c Dr. To Cash A/c
24.	Goods given as charity	(i) Shown in the P&L A/c on Dr. side as charity exp. (ii) Shown on the Cr. Side of Trading as goods given as ____	--	Charity A/c Dr. To goods given as Charity A/c
25.	Write off Patent/Goodwill	Shown on the P&L A/c on Debit side	Deducted from Goodwill / Patent on Assets side	P&L A/c Dr. To Assets A/c
26.	Transferring to General Reserve A/c	P&L App. A/c Dr. Side	Shown on the Liabilities side	P&L A/c Dr. To General Reserve A/C
27.	Stock of Stationery	Deducted from stationery exp. From Dr. side of P&L A/c	Show on the Assets side	Closing Stock A/c Dr. To Stationery Exp. A/c
28.	Bad debts Recovered	Shown on Cr. Side of P&L A/c as B/D recover	Assets recover side added in to Debtors	Debtors A/c Dr. To B/D Recovery A/c
29.	Goods gone out by any reason which is unrecorded	credit side of Trading A/C as respective goods gone out A/c	--	--
30.	Goods withdrawn for personal use is	1. Deducted from sales on Trading A/c	1. Deducted from debtors on asset	--

	by mistake recorded as Cr Sales	2. Shown of Cr. Side of trading A/c as "Goods withdrawn."	side. 2. Deducted from capital or added in to drawings.	
31.	Sold Furniture which is recorded as credit sales.	Deducted from sales on Cr. side of Trading A/c.	1. On assets side deducted from respective assets. 2. Deducted from debtors. 3. As assets receivable.	--
32.	Partner's Personal expenses are recorded in other expense.	On P&L dr. side of A/c deducted from respective expenses.		
33.	Interest on debit balance of current A/c	Shown on Cr side of P&L app A/c	On Liabilities side deducted from current A/c	Current A/c Dr. To Int. on A/c
34.	Interest on credit balance of current A/c	Shown on Dr side of P&L app A/c.	On liabilities side added in to current A/c	Int. on A/c Dr. To current A/c
35.	Respective assets sold by loss	Shown on Dr side of P&L A/c as loss by assets sold.	1. Deducted from respective assets. 2. As assets receivables.	Loss by A/c Dr. Assets receivables A/c Dr. To Assets A/c
36.	Some amount of app. received in advance.	Deducted from it on Cr. side of P&L A/c	Shown on the Liabilities side	App pre A/c Dr. To Pre receivables App Pre A/c
37.	Written off expenses	Shown on P&L A/c on Dr side	Deducted from the respective expenses on the assets side.	P&L A/c Dr. To respective exp. A/c
38.	Leasehold property written off	Shown on P&L A/c on Dr side	Deducted from the leasehold property	P&L A/c Dr. To leasehold Pr. A/c
39.	Bills Receivables dishonoured		1. Added in to debtors 2. Shown on the lia. Side debt of bills dishonoured OR Shown on asset side deducted in bank	Debtors A/c Dr. To BR A/c

			balance for bank debt.	
40.	Installation charges for machinery is debited to wages A/c	Deducted from wages on Dr side of Trading account	Added to machinery on asset side.	Machinery A/c Dr. To wages a/c
41.	Interest received on investment of PF is credited as int on loan given.	Shown on P&L A/c Cr side deducted from Interest on loan.	Added to PF on liabilities side.	--
42.	Uninsured goods burnt by fire.	1) Shown on Cr side of Trading A/c as by goods burnt 2) shown on Dr side as loss by fire in P&L Account	--	--
43.	Partners bring personal furniture in firm but it is recorded.	--	--	--

Illustration: 1 X, Y and Z are partners in a partnership firm. As per the terms of the partnership agreement, the partners are to be remunerated as under:

- (a) X is to be paid salary of Rs. 10,000.
- (b) Y is to be given commission of 10% of net profits before charging any salary or commission due to any partner.
- (c) Y is entitled to commission of 10% after charging of salaries and commission to partners.

The net profits for the year before charging any salary or commission to a partner amounting to ₹60,000. The balance of profits and losses are to be shared by the partners in the ratio of 1:2:2

You are required to prepare the Profit and Loss Appropriation Account and show your workings.

Solution:**Profit and Loss Appropriation Account**For the year ending 31st March

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Salary of X	10,000	By profit for the year	60,000
To Commission to Y	6,000		
To Commission to Z	4,000		
To Profit Transferred to Partners Capital Account			
X 8,000			
Y 16,000			
Z <u>16,000</u>	40,000		
	60,000		60,000

Working Notes:

1. Computation of Commission payable to Y

$$\frac{60,000 \times 10}{100} = \text{Rs. } 6,000$$

2. Computation of Commission payable to Z

Firm's Profit before charging Commission and Salary = Rs. 60,000

Less: Salary to X	10,000	
Commission to Y	<u>6,000</u>	= RS. <u>16,000</u>
		<u>Rs. 44,000</u>

Z is entitled to commission of 10% after charging of salary and commission to partners:

Let us, therefore, assume the profit after charging Z 's commission is 100. This means profit before charging Z's commission will be $100+10= 110$. Hence, share of Z's commission will be $\frac{10}{110} \times 44,000 = ₹4,000$.

Illustration:2 Following is the Trial Balance for the year ending 31st December, 2021 of Goinka's Brothers.

Particulars	Dr. (Rs.)	Cr. (Rs.)
Purchase and sales	50,000	1,00,000
Opening stock	30,000	
Wages	10,000	

Salaries	10,000	
Plant	20,000	
Furniture	10,000	
Printing & Stationery	5,000	
Debtors & Creditors	40,000	60,000
Cash	20,000	
Drawings:		
Ram	10,000	
Raj	5,000	
Capital:		
Ram		30,000
Raj		20,000
	2,10,000	2,10,000

The following adjustments are to be taken into account:

- (i) Wages Outstanding ₹5,000.
- (ii) Plant is to be depreciated at 10% and furniture at 5%.
- (iii) A provision for doubtful debt is to be created 5% on debtors.
- (iv) Interest on capital to be allowed at 5% p.a. while on drawings it is to be charged at 6% p.a.
- (v) Ram and Raj, each is to be allowed salary 200 per month
- (vi) Profit & loss is to be shared equally.
- (vii) Closing stock on 31st December, 2021 is valued at ₹30,000.

You are required to prepare the Trading and Profit and Loss Account of the business for the year ending on 31st December, 2021 and the Balance Sheet as on that date.

Solution:

Trading and Profit and Loss Account

For the year ending 31st December, 2021

Particulars	Rs.	Particulars	Rs.
To opening stock	30,000	By sales	1,00,000
To purchase	50,000	By closing stock	30,000
To wages 10,000			
Add: Outstanding <u>5,000</u>	15,000		
To Gross profit c/d	35,000		
	1,30,000		1,30,000

To salaries	10,000	By Gross Profit b/d	35,000
To printing and stationery	5,000		
To depreciation Plant 2,000 Furniture 500	2,500		
To provision for doubtful debts	2,000		
To profit for the year	15,500		
	35,000		35,000

Profit and Loss Appropriation Account

For the year ending 31st December,2021

Particulars	Rs.	Particulars	Rs.
To interest on capital: Ram 1,500 Raj 1,000	2,500	By profit for the year	15,500
To Net profit Ram 6,725 Raj <u>6,725</u>	13,450	By Interest on drawings Ram 300 Raj 150	450
	15,950		15,950

Balance Sheet

For the year ending 31st December,2021

Liabilities	Rs.	Assets	Rs.
Outstanding wages	5,000	Cash	20,000
Creditors	60,000	Debtors 40,000	38,000
Capital		Less: provision for bad debts 2,000	
Ram 30,000			
Add: Profit 6,725			
Interest on capital <u>15,000</u>			
38,225			
Less: Drawings 10,000			
Interest on drawings <u>300</u>			
10,300	27,925		
Raj		Closing stock	30,000
Add: profit 6725		Furniture 10,000	

Interest on capital	1000		Less: depreciation	<u>500</u>	9,500
Less: drawings			Plant	20,000	
5000		22,575	Less: Depreciation	<u>2,000</u>	18,000
Interest on drawings					
150					

❖ Exercise

• Short and long questions:

1. Give the Definition of Partnership.
2. Explain the Importance of Partnership.
3. Explain the Components of financial statements or final accounts.
4. Explain the Difference between Fixed Capital and Fluctuating Capital.
5. Explain the Difference between Profit and Loss A/c and Profit and Loss Appropriation A/c.
6. Explain the Specimen of the Trading account, Profit and Loss account, and Balance sheet.
7. Explain all the Adjustments related to Final Accounts and also journal entries of it.

• Practical sums

Q-1 A and N are in Partnership Sharing Profits and Losses equally. From the following Trial Balance and Adjustments given below, you are required to prepare the Trading and Profit and Loss Account for the year ended 31st March 2023 and the Balance Sheet as on that date.

Trial Balance as on 31st March 2023

Debit Balance	Amount ₹	Credit Balance	Amount ₹
Plant & Machinery	2,80,000	Capital A/c :	
Factory Building	75,000	A	3,50,000
Sundry Debtors	28,700	N	3,00,000
Purchases	85,500	Sales	1,80,000
Bad Debts	500	Bills Payable	8,500
Sales Return	2,200	Discount	1,200
10% Govt. Bond	40,000	Creditors	38,500
(Purchased on 1st Oct 2020)		R.D	2,700

Import Duty	1,800	Bank Loan	15,000
Legal Charges	2,000	Purchases Return	2,000
Motive Power	12,000		
Warehouse Rent	1,800		
Cash in Hand	20,000		
Cash at Bank	70,000		
Advertisement (for 2 years, w.e.f., 1st Jan 2021)	10,000		
Salaries	3,800		
Rent	1,500		
Drawings :			
A	2,400		
N	3,200		
Furniture	1,95,800		
Bills Receivable	20,700		
Freehold Property	41,000		
	8,97,900		8,97,900

❖ **Adjustments:**

- 1) Stock on hand on 31st March 2023 was valued at ₹ 43,000.
- 2) Uninsured goods worth ₹ 8,000 were stolen.
- 3) Create B.D.R. at 2% on Sundry debtors.
- 4) Mr. Patil, our customer becomes insolvent and could not pay his debts of ₹ 500.
- 5) Outstanding Expenses - Rent ₹ 800 and Salaries ₹ 300.
- 6) Depreciate Factory Building by ₹ 2,500 and Furniture by ₹ 1,800.

Q-2 From the following Trial Balance of M/S Mitesh and Mangesh, you are required to prepare the Trading and Profit and Loss Account for the year ended 31st March 2019, and the Balance Sheet as on that date.

Trial Balance as on 31st March 2019

Debit Balance	Amount ₹	Credit Balance	Amount ₹
Stock as on (1/4/2018)	25,000	Sundry Creditors	38,000
Building	48,500	Sales	1,75,000
Carriage	1,780	Capital :	
Factory Insurance	2,700	Mitesh	1,50,000
Postage	1,600	Mangesh	50,000
Bills Receivable	13,700	Outstanding Salaries	2,000

Sundry Debtors	52,200	Bills Payable	18,000
Return Inward	1,600	Return outward	1,800
Purchases	68,900	Current A/c:	
Audit fees	32,000	Mitesh	3,000
Loose tools	1,820	Mangesh	2,000
Manufacturing Expenses	2,600		
Electricity Charges	3,400		
General Expenses	1,000		
Export duty	75,000		
Cash in hand	29,000		
Bank Balance	4,100		
Conveyance	64,000		
Furniture	2,000		
Salaries	3,700		
Rent, Rate & Taxes	1,800		
Drawings :			
Mitesh	1,200		
Mangesh	2,200		
	4,39,800		4,39,800

❖ **Adjustments:**

- 1) Mitesh and Mangesh are sharing Profit and losses in the ratio 3: 1.
- 2) Partners are entitled to get Commission 1% each on Gross Profit.
- 3) The closing stock is valued at ₹ 23,700.
- 4) Outstanding Expenses - Audit fees ₹ 400; carriage ₹ 600.
- 5) The building is valued at ₹ 46,500.
- 6) Furniture is depreciated by 5%.
- 7) Provide Interest on Partner's capital at 2.5%.
- 8) Goods of ₹ 900 were taken by Mangesh for his personal use.
- 9) Write off ₹ 1,000 as Bad Debts and maintain B.D.R. at 3% on Sundry Debtors.

11.1 Meaning**11.2 Definition****11.3 Features of the bill of exchange****11.4 Elements of the bill of exchange****11.5 Advantages of the bill****11.6 Parties of the bill****11.7 Bills receivable and Bills payable****11.8 Promissory Note****11.9 The distinction between a Bill of Exchange and a Promissory Note****11.10 The distinction between Trade Bills and Accommodation Bills****11.11 Dishonour of the bill****11.12 Noting Charges****11.13 Endorsement****11.14 Date of maturity of bills of exchange and promissory notes****11.15 Accounting entries of bills****❖ Illustrations****❖ Exercise**

11.1 Meaning:

In a transaction of purchase and sale, payment may be made either in cash immediately or it may be deferred to some future date. The latter type of transaction is a credit transaction. Most of the business transactions are credit transactions. To facilitate such transactions 'Bills of exchange' are used. A bill is used like a cheque to settle the debts in business. A bill of exchange is a written order by a creditor on his debtor to pay a certain sum of money on some future date. It is produced before the debtor by the creditor for acceptance. The debtor would put his signature on this document signifying his acceptance. This would ensure that the debtor would pay the amount in the future. Besides, the debtor accepts that he owes a debt. Thus, it is also useful as a written proof of the debt.

11.2 Definition:

A bill of exchange is "an instrument in writing containing an unconditional order, signed by the market, directing a certain person to pay a certain sum of money only to, or to the order of a certain person or to the bearer of the instrument."

A bill of exchange is an unconditional order in writing given by the creditor to the debtor to pay on demand, or at a fixed or determinable future time, a certain sum of money to or to the order of a specified person or to the bearer.

11.3 Features of the bill of exchange:

The following features of a bill of exchange are clear from the above definition:

1. It must be in writing only. Oral order is not a bill.
2. There must be an order to pay and not a request.
3. The order must be unconditional i.e., there must be no condition for payment.
4. The payee must be certain i.e., the amount must be payable to a specified person or his order.
5. It must be accepted by the drawee.
6. The sum of money must be certain.
7. It must be signed by the drawer.
8. It must be stamped according to the Stamp Act.
9. There must be three parties to the bill of exchange.

11.4 Elements of the bill of exchange:

The following points can be seen from the bill of exchange:

1. Date: the date on which the bill was written is very important because the period of the bill begins from this date.
2. Term of Bill: the term or the period after which the amount of the bill is to be paid is stated in the bill
3. Amount: according to the definition of a bill, the amount of the bill must be certain. So, it is written twice, once in figures and second in words. The purpose is to see that there is no manipulation of the amount by anyone.
4. Parties: there are three parties to the bill. One, the drawer, the other is the acceptor or drawee and the third is the payee i.e., a person to whom the amount is payable. Generally, the drawer and the payee are the same person.
5. Revenue stamp: a revenue stamp is to be affixed on a bill according to the amount of the bill.
6. Signature: The signature of the drawer of the bill must be there on the bill. But so that the bill becomes a negotiable instrument, the signature of the drawee must also be there on the bill i.e. the bill must be accepted.

11.5 Advantages of the bill:

The advantages of a bill of exchange are as under.

1. It acts as an evidence of indebtedness since it is a written and signed acknowledgment of debt.
2. It acts as a source of finance since it can be discounted before the due date.

3. It acts as a means of remittance since money can be transferred easily from one place to another using a bill.
4. It is an important means of settlement of accounts.
5. It can be easily transferred or endorsed.
6. It is possible to know when the money will be received.
7. Bills are important in foreign trade for payment and collection of money.
8. A bill is useful in remitting money from one place to another.

11.6 Parties of the bill:

1. Drawer: he is a person who draws or writes a bill. He is a seller of goods or is a creditor.
2. Drawee: he is a person on whom the bill is drawn. He is the buyer of goods or is a debtor. He has to accept the bill and hence, he is called “acceptor” also.
3. Payee: he is a person in whose favour the bill is drawn. He is entitled to receive the payment. Many times, the drawer and the payee are the same person.

11.7 Bills receivable and Bills payable:

When a creditor writes a bill and is returned to him duly accepted by the drawee, then the instrument becomes a Bill Receivable for the drawer. In other words, it is a Bill Receivable for the person who is entitled to receive the payment of the bill.

The same bill is a Bill Payable for a person who has accepted the bill i.e., for the debtor, as he will be called upon to pay the amount of the bill. In short, it must be remembered that the same bill is a bill receivable for the drawer and is a bill payable to the acceptor. In other words, it is a bill receivable for a person who has to receive money and a bill payable for a person who has to pay money.

11.8 Promissory Note:

A promissory note is an unconditional undertaking in writing given by the debtor to the creditor to pay on demand or at a fixed or determinable future time, a certain sum of money to or to the order of a specified person or to the bearer. According to sec. 4 of the Negotiable Instruments Act 1881, "a promissory note is an instrument in writing (not being a bank note or a currency note) containing an unconditional undertaking, signed by the maker to pay a certain sum of money only to or to the order of a certain person or to the bearer of the instrument. The following features of a promissory note:

- (a) A promissory note is a written unconditional promise.
- (b) It is drawn and signed by the person to whom credit is granted or by the debtor.
- (c) It is addressed to the person who grants credit or to the creditor.
- (d) The amount must be certain.
- (f) It must be a promise to pay for the value received.
- (e) It must be stamped.

11.9 The distinction between Bill of Exchange and Promissory Note:

Bill of Exchange	Promissory Note
There are three parties: drawer, drawee and payee.	There are two parties: maker and payee.
A bill is written by a creditor.	A promissory note is written by a debtor.
A bill of exchange is an order.	A promissory note is a promise to pay.
A bill is to be accepted by the drawee.	A promissory note does not require any acceptance.
The drawer and payee may be the same person.	The maker and payee cannot be the same person.
Three sets of foreign bills are generally written.	There is no need for three sets of promissory notes.

11.10 The distinction between Trade Bills and Accommodation Bills:

Trade Bills	Accommodation Bills
These bills are drawn to settle a business transaction.	Accommodation Bills are drawn to meet the financial needs of the drawer / drawee / both temporarily.
A genuine trade bill is drawn and accepted for consideration.	It is drawn and accepted without consideration.
A trade bill is not always discounted.	An accommodation bill is drawn for discounting and is always discounted.
These bills act as evidence of indebtedness.	These bills act as a source of finance.
Here, the drawer is the creditor and the acceptor is the debtor.	The relation between the drawer and acceptor is not that of a creditor and a debtor.

11.11 Dishonour of Bill:

When the drawee of a bill of exchange refuses to accept the bill, it is said to be dishonored by non-acceptance. Similarly, when a bill or note is duly presented for payment to the person liable to pay and he refuses to pay the amount of the instrument, it is said to be dishonored by non-payment. Non-payment of a bill of exchange is called "Dishonor of the Bill."

When a promissory note or a bill exchange is dishonored, the holder of the instrument must give a notice of dishonor to all previous parties. It means the notice of dishonor must finally reach the person who has drawn the bill. On receiving such notice, the drawer can take legal steps to recover the money due on the bill.

11.12 Noting Charges:

To prove beyond doubt that the instrument is dishonored, it must be noted by the Notary Public. A Notary Public is an official appointed by the government. Noting a dishonored bill is not compulsory, but it is advisable. A holder of a dishonored bill goes to the notary public, who again presents the bill for acceptance or payment. If the bill is

returned without acceptance or payment, then the notary public makes a note of the fact on the face of the bill. The date of dishonor and the reason thereof are also noted on the bill by him. This process is known as "Noting". Noting is not compulsory but it establishes the fact that the bill is dishonored.

11.13 Endorsement:

The process of transferring an instrument is called an endorsement. An endorsement means signing the negotiable instrument on the back or face thereof or a slip of paper annexed thereto for negotiation. The person who endorses the instrument is called the endorser and the person in whose favour the instrument is endorsed is called the endorsee.

11.14 Date of maturity of bills of exchange and promissory notes:

The date on which the payment of the bill becomes due is called the due date or date of maturity. While calculating the due date of the bill or promissory note, three days of grace are added to the period of the bill. If the due date falls on a Sunday or public holiday the maturity date will be supposed to be one day earlier. If the due date has been declared as an emergency holiday, the due date will be supposed to be one day later. In the case of bills payable on demand, it become due as soon as the bill is presented for payment, no days of grace are allowed. And, where the bill is payable at a fixed period i.e., after sight, the period starts to run from the date of acceptance and three days of grace are allowed for calculating the maturity date.

11.15 Accounting entries of bills

(A) When there is a Credit Sale and Bill is Drawn & Accepted:

(1) A sells goods to B on credit:

In A's Journal
B's A/c Dr.
 To sales a/c

In B's Journal
Purchase A/c Dr.
 To A's A/c

(2) A draws a bill on B and B returns it duly accepted:

In A's Journal
Bill Receivable A/c Dr.
 To B's A/c

In B's Journal
A's A/c Dr.

To Bill Payable A/c

(a) Retaining the bill until maturity

I. Discharge of bill

In Drawer journal

Cash/Bank A/c Dr.
 To Bills Receivable A/c

In Drawee journal

Bills payable A/c Dr.
 To Cash/Bank A/c

II. Dishonor of bill

In Drawer journal

Drawee's A/c Dr.
 To Bills Receivable A/c

In Drawee journal

Bills Receivable A/c Dr.
 To Drawer s A/c

(b) Discounting the bill with the bank

In Drawer journal

Bank A/c (the amount actually received) Dr.
Discount A/c (amount of discount) Dr.
 To Bills Receivable A/c

(c) Endorsing the bill to a creditor

Creditor's/ Endorsee's A/c Dr.
 To Bills Receivable A/c

(Being endorsement of bill in favor of creditor)

I. Discharge of bill

No entry

II. Dishonor of bill

Drawee's A/c Dr.
 To Creditor's/ Endorsee's A/c

(Being bill endorsed dishonored)

(d) Bill sent for collection

Bill sent for collection A/c Dr.
 To Bills Receivable A/c

(Being bill is sent for collection)

Noting charges A/c Dr.
 To Drawer's A/c
 (Being dishonor of bill and noting charges due from drawee)

Illustration 1: A draws upon B three Bills of exchange of Rs. 3,000, Rs. 2,000 and Rs. 1,000 respectively. A week later his first bill was mutually cancelled, B agreeing to pay 50% of the amount in cash immediately and for the balance plus interest Rs. 100, he accepted a fresh Bill drawn by A. This new bill was endorsed to C who discounted the same with his bankers for Rs. 1,500. The second bill was discounted by A at 5% discount. This bill on maturity was returned dishonored (nothing charge being Rs. 30). The third bill was retained till maturity when it was duly met. Give the necessary journal entries recording the above transactions in the books of A and B.

Solution:

Journal of A

Date	Particular	L.F	Debit amount	Credit amount
	Bill Receivable A/c Dr. To B a/c (Three bills for Rs. 3,000, Rs. 2,000 and Rs. 1,000 drawn on B and duly accepted by him received)		6,000	6,000
	B a/c Dr. To Bills Receivable A/c (Bills received from B cancelled for renewal)		3,000	3,000
	Cash Account Dr. Bills Receivable Account Dr. To B A/c To interest Account (50% Amount received on cancellation of the first bill, and for remaining 50% a new bill is drawn with the interest of Rs. 100)		1,500 1,600	3,000 100
	C A/c Dr. To Bills Receivable Account (A's acceptance endorsed in favour of C)		1,600	1,600
	Bank A/c Dr. Discount A/c Dr. To Bills Receivable A/c (Second Bill for Rs. 2000 discounted with the bank @ 5%)		1,900 100	2,000
	B a/c Dr. To Bank A/c (Second bill for Rs. 2,000 discounted with the Bank dishonoured, noting		2,030	2,030

	charges Rs.30 paid by the Bank)			
	Bank A/c Dr. To Bills Receivable A/c (Amount received on maturity of the third bill)		1,000	1,000
Journal of B				
	A a/c Dr. To Bills Payable A/c (Three acceptances given to A for Rs. 3,000, Rs. 2,000 and Rs. 1,000)		6,000	6,000
	Bills payable A/c Dr. To A (Cancellation of the first bill issued to A by mutual agreement)		3,000	3,000
	A a/c Dr. Interest A/c Dr. To Bank A/c To Bills Payable A/c (Amount paid to A against cancelled bill and accepted a new bill for Rs. 1,600 including interest Rs. 100)		3,000 100	1,500 1,600
	Bills Payable A/c Dr. Trade Expenses A/c Dr. To A a/c (Dishonour of the second bill issued by A)		2,000 30	2030
	Bills Payable A/c Dr. To Bank (Payment of 3rd bill to A on due date)		1,000	1,000

Illustration 2: Journalize the following transactions in K.Katrak's books:

- (i) Katrak's acceptance to Basu for Rs. 2,500 discharged by a cash payment of Rs. 1,000 and a new bill for the balance plus Rs. 50 for interest.
- (ii) G.Gupta's acceptance for Rs. 4,000 which was endorsed by Katrak to M.Mehta was dishonoured. Mehta paid Rs. 20 noting charges. Bill withdrawn against cheque.
- (iii) D. Dalal retires a bill for Rs. 2,000 drawn on him by Katrak for Rs. 10 discount.
- (iv) Katrak's acceptance to P.Patel for Rs. 5,000 discharged by P. Mody's acceptance to Katrak for a similar amount.
- (v) Katrak's acceptance to S.Sen, for Rs. 4,000 was discharged by a cash payment of Rs. 2,020 including an interest of Rs. 20 and a new bill for Rs. 2,000.

Solution:**In the Books of Katrak's**

Date	Particulars	L.F	Debit amount	Credit amount
	Bills Payable Dr. Interest Account Dr. To Cash Account To Bills Payable Account (Bills Payable to Basu discharged by Cash payment of Rs. 1,000 and a new bill for Rs. 1,550 including Rs. 50 as interest)		2,500 50	1,000 1,550
	(a) G. Gupta a/c Dr. To M. Mehta (G. Gupta's acceptance for Rs. 4,000 endorsed to M.Mehta dishonored, Rs. 20 paid by M. Mehta as noting charges).		4,020	4,020
	b) M. Mehta Dr. To Bank Account (Payment to M. Mehta on withdrawal of bill earlier received from Mr. G. Gupta)		4,020	4,020
	Bank Account Dr. Discount Account Dr. To Bills Receivable Account (Payment received from D. Dalal against his acceptance for Rs. 2,000, allowed him a discount of Rs. 10)		1,990 10	2,000
	Bill Payable Account Dr. To Bills Receivable Account (Bills Receivable from M. Mody endorsed to P.Patel in settlement of bills payable issued to him earlier)		5,000	5,000
	Bills Payable Account Interest Account To Cash To Bills Payable Account (Settlement of Bilis payable issued to S.Sen for Rs. 4,000 by payment of Rs. 2,020 including Rs. 20 for interest, and issue of a fresh bill for Rs. 2.000)		4,000 20	2,020 2,000

Illustration 3: Journalize the following in the books of Don:

- (1) Bob informs Don that Ray's acceptance for Rs. 3,000 has been dishonoured and noting charges are Rs. 40. Bob accepts Rs. 1,000 cash and the balance as bill at three months at interest of 10%.
- (2) Don accepts from Ray his acceptance at two months plus interest 12% p.a. James owes Don Rs. 3,200, he sends Don's own acceptance in favour of Ralph for Rs. 3,160 in full settlement.
- (3) Don meets his acceptance in favour of Singh for Rs. 4,500 by endorsing John's acceptance for Rs. 4,450 in full settlement.
- (4) Ray's acceptance in favour of Don retired one month before due date, interest is taken at the rate of 6% p.a.

Solution:

In the Books of Don

Date	Particular	L.F	Debit amount	Credit amount
	(a) Ray A/c Dr. To Bob A/c (Ray's acceptance endorsed to Bob dishonored on due date noting charges paid by Bob Rs.40)		3,040	3,040
	(b) Bob a/c Dr. Interest a/c Dr. To Cash A/c To Bills Payable A/c (The amount payable to Bob Rs. 3,040 settled by cash payment Rs. 1,000 and issue of new bill for Rs. 2,091 including interest Rs. 51 for three months on Rs. 2,040 @ 10% p.a.)		3040 51	1000 2091
	Bill Receivable A/c Dr. To Ray A/c To Interest A/c (Bill received from Ray for Rs. 3,040 due against earlier acceptance dishonoured plus Rs. 60.80 interest for two months @ 12% p.a.)		3100.80	3040 60.80
	Bills payable A/c Dr. Discount A/c Dr. To James A/c (Cancellation of bills payable to Ralph for Rs. 3,160 in settlement of Rs.3,200 due from James)		3160 40	3200

	Bills payable A/c Dr. To Bills Receivable A/c Dr. To Discount A/c (Settlement of acceptance issued to Mr. Singh by endorsement of John's acceptance for Rs. 4,450)		4500	4450 50
	Bank a/c Dr. Discount A/c Dr. To Bills Receivable Account (Amount received from Ray in settlement of Bills Payable, retired one month before due date).		3085.30 15.50	3100

❖ **Exercise**

➤ Multiple Choice questions (MCQ)

1. A bill of exchange includes.

- A) An order to pay
- B) A request to pay
- C) A promise to pay
- D) All the above

Answer: A

2. Who draws a bill of exchange?

- A) Creditor
- B) Debtor
- C) Drawer
- D) None of the above

Answer: C

3. -----is the person who will be getting the payment from the bill of exchange.

- A) Drawer
- B) Payee
- C) Drawee
- D) None of the above

Answer: B

4. When the drawee signs the bill, it is considered as

- A) Accepted
- B) Retired
- C) Renewed
- D) Endorsed

Answer: A

5. When the bill is noted by the notary public, it is known as?

- A) Noting
- B) Discounting
- C) Accepting
- D) None of the above

Answer: A

➤ **Long and short questions**

1. Explain the Features of the bill of exchange.
2. Explain the Elements of the bill of exchange.
3. Explain the Advantages of the bill.
4. Give the names of the Parties of the bill.
5. What is Promissory Note?
6. Explain the distinction between a Bill of Exchange and a Promissory Note.
7. Explain the distinction between Trade Bills and Accommodation Bills.
8. Explain the following terms:
 1. Dishonour of bill
 2. Noting Charges
 3. Endorsement
 4. Date of maturity of bills of exchange and promissory notes

➤ **Practical Sums:**

1. On 1-1-2020, Bharatbhai Gandhi drew on Pallavi Gandhi, three bills - the first of Rs. 700 for one month, the second of Rs. 800 for two months and third of Rs. 900 for three months. Pallavi Gandhi accepts and returns these bills to Bharatbhai.

The first bill is endorsed by Bharatbhai to his creditor Urvish Shah on 3rd January, 2020. The second bill is discounted at the bank on 15th January, 2020 for Rs. 795, which was dishonored later on and noting charges of Rs. 12 were paid. Bharatbhai charged Pallavi Rs. 15 for interest and drew on her a fourth bill for Rs. 827 at three months in settlement.

The third and the fourth bills were met on due dates. Show how these transactions will be recorded in the books of Bharatbhai Gandhi.

[Ans.: Entry for dishonour of the bill: (1) Pallavi Gandhi's A/c Dr. 812 to Bank A/c 812 (2) Pallavi Gandhi's A/c Dr. Rs. 15 to Interest A/c Rs. 15 (3) B/R No.4 A/c Dr. 827 to Pallavi Gandhi Rs. 827]

2. Shankar had borrowed Rs. 1,000 from Jaikishan, for which Jaikishan drew a bill on Shankar, which was returned by Shankar duly accepted. Jaikishan sent the bill to the bank for collection.
State what journal entries would be passed in the books of both the parties in following circumstances:
 - (i) If the bill is met on due date.
 - (ii) If the bill is dishonoured on due date.
3. A bill of exchange for Rs. 6,000 is drawn by Priya Co. on Nilima & Co. and accepted by the latter, payable at the head office of Bank of India. Show what entries

would be passed in the books of Priya Co. under each of the following circumstances:

- (i) If the bill is retained till the due date and then realised on maturity.
- (ii) If the bill is discounted with the bank for Rs. 5,800.
- (iii) If Priya Co. endorsed it over to Pratima Co. in settlement of their debt; and
- (iv) If the bill is sent to the bank for collection and the bill is duly met on maturity.

If the bill is dishonoured in all the above four circumstances and noting charges amount to Rs. 20, what entries would be passed in the books of Priya.

4. Kamal drew a bill on Gulab for his dues of Rs. 1,000 from Gulab, which Gulab returned duly accepted. Kamal endorsed this bill in favour of a creditor Champa. Gulab could not pay the bill on due date and Champa had to pay Rs. 10 for noting charges. Kamal paid the full amount to Champa in cash, while he received in cash Rs. 300 towards the dues, Rs. 20 for interest for extension and also for noting charges. Gulab accepted a new bill for the balance amount for 3 months. Kamal discounted the bill with the bank at 8%. The bill was met on due date. Pass entries in the books of Kamal.

[Ans.: Amount of new bill Rs. 700; Discount Rs. 14]

5. Birbal owed to Akbar Rs. 3,000 on 1st July, 1995. On the same date Akbar drew on Birbal a bill for the amount at two months and Birbal returned the bill duly accepted. Before the bill was due for payment, Birbal told Akbar that he was not able to pay the full amount and requested Akbar to accept Rs. 1,000 immediately and drew on him another bill for the remaining amount for two months together with interest at 6% per annum. Akbar agreed. The second bill was duly met. Give journal entries in the books of both Akbar and Birbal.

[Ans.: Amount of new bill Rs. 2,020 including interest Rs. 20.]

6. Make journal entries in the books of Asha for the following bill transactions:

1-4-20: Asha sold goods of Rs. 1,000 at 10% trade discount to Nirasha and drew on her a bill for 3 months.

2-4-20: Nirasha accepted and returned the bill.

3-4-20: Asha endorsed the bill accepted by Nirasha to Abhilasha in full settlement of her dues of Rs. 918.

4-4-20: Abhilasha discounted this bill at 8% p.a. with bank.

30-6-20: Nirasha was declared insolvent.

31-7-20: Asha received a first and final dividend at 60 paise in a rupee from the receiver of Nirasha.

[Ans.: Discount of Rs. 18 received when the bill of Rs. 900 was endorsed to Abhilasha. Discount Rs. 18 when the bill was discounted and bad debts Rs. 360].

7. On 1st February, 2020, Vasant of Vadodara sold to Jugnu of Jamnagar goods worth Rs. 2,000 at 10% trade discount on credit. On the same day Vasant drew a bill on Jugnu for 3 months, which Jugnu accepted and returned. On 4th February, Vasant discounted the bill with the bank at 12% p.a. the bill was dishonoured on due date and the bank paid Rs. 18 for noting charges.

12.1 Introduction**12.2 Type of Accounting Errors****12.3 Errors not affecting the Trial Balance****12.4 Suspense account and error detected after preparation of the Final Account****12.5 Effect of Rectification on Profit –Loss**❖ **Illustrations**❖ **Exercise**

12.1 Introduction

When the business transactions are recorded in the books of accounts there remains a possibility of accounting errors. It May be because of hastiness in writing, negligence, oversight or incomplete knowledge of the principles of accountancy. Sometimes in order to manipulate the books of accounts errors are committed intentionally.

Irrespective of whether the accounting errors are committed innocently or intentionally they cannot be rectified by erasing with the help of an eraser. Necessary accounting effects are to be given in accounts in order to rectify these errors. Sometimes if an error affects two accounts, in order to rectify the same, a Journal entry is passed which is known as a rectification entry and it is recorded in Journal proper.

Generally, two principles should be taken into consideration to rectify the accounting errors:

- 1) Undo what is wrong.
- 2) Do what is correct.

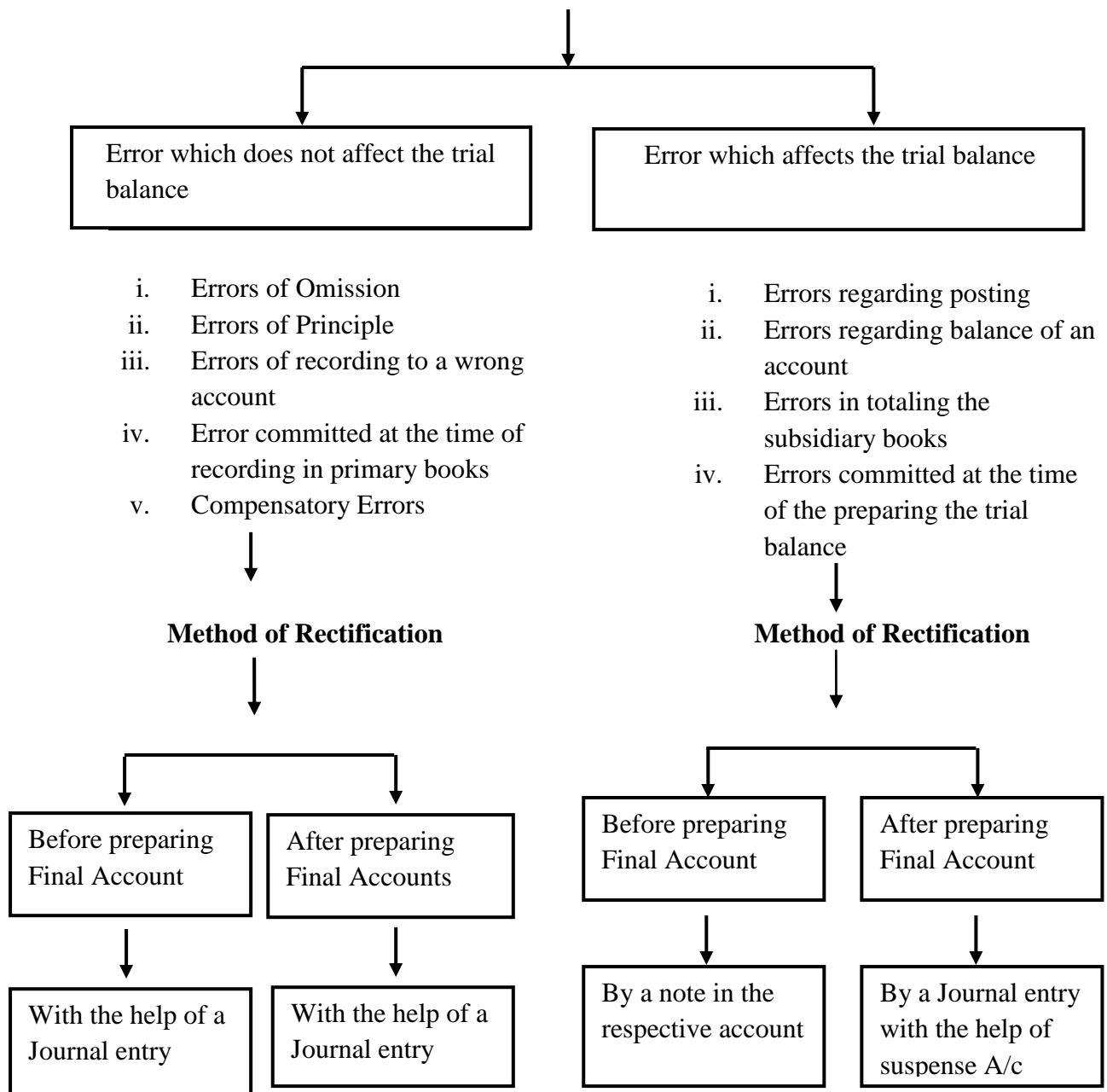
12.2 Types of Accounting Errors

Two types of accounting errors, based on whether they affect the trial balance or not.

- 1) Errors which do not affect the trial balance
- 2) Errors which affect the trial balance

Generally accounting errors are found out and rectified before preparing the final accounts. But sometimes such errors may not be traced before preparing the final accounts. Afterwards in the next year these errors are detected and rectified. In this case, the suspense account helps to rectify the errors.

Types of Accounting Errors



12.3 Errors not Affecting the Trial Balance

A trail Balance is prepared to know whether the accounts are arithmetically correct or not. But it cannot be said that the accounts are perfectly correct only because the trial balance tallies. Even though the trial balance tallies, some accounting errors exist such errors are known as errors not affecting the trial balance. Such errors cannot be detected easily. They can be known by comparing the records of receipt and payments, by correspondence and by exchange of copies of accounts with customers and suppliers.

To rectify these errors whether detected before or after preparing final accounts, a rectification entry must be passed in the Journal proper.

(1) Error of Omission

When a transaction is totally omitted to be recorded in the Journal or the subsidiary book or the ledger such error is known as an error of Omission.

E.g., Rs. 500 received from Kalpesh is left unrecorded.

By writing correct Journal entry for this transaction the above error will be rectified.

Date	Particulars	L.F	Debit (Rs.)	Credit (Rs.)
	Cash A/c Dr. To Kalpesh's A/c (Being the entry of Rs. 500 received from Kalpesh left unrecorded)		500	- 500

(2) Error of Principle

When an error arises because of non-compliance of accounting principles it is known as an error of principle. Because of ignorance of principles of accountancy, when instead of one account, any other account is debited or credited, error of principle occurs. E.g., cycle purchased worth Rs. 1100 is debited to purchase account.

Rectification entry will be as under

Date	Particulars	L.F	Debit (Rs.)	Credit (Rs.)
	Cycle A/c Dr. To Purchase A/c. (Being the rectification enter for purchase of cycle wrongly debited to purchase A/c.)		1100	-- 1100

(3) Error of Recording in Wrong Account

In such type of an error, Journal entry is written correctly but while posting, instead of giving the effect to the correct account, by mistake the effect is given to some other account. Thus, by debiting or crediting a wrong account with correct amount, on the correct side, the trial balance remains unaffected.

e.g. Rs. 1600 received from Jay, is credited to Jayesh's A/c.

Rectification entry will be as under

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
	Jayesh's A/c Dr. To Jay A/c (Being the rectification entry for the amount received from Jay wrongly credited to Jayesh A/c.)		1600	- 1600

(4) Errors Committed at the Time of Recording Primary Books

While writing the books of accounts, due to negligence if the transaction in primary books is recorded with more or less than the correct amount or are recorded in wrong subsidiary books such an error is known as an error of commission.

(a) Transacting Recorded in correct Book with Less amount:

E.g. Goods of Rs. 760 purchased from pavan is recorded by mistake as Rs. 670.

In this transaction the effect is given less by Rs. 90 (Rs. 760 - Rs. 670). To rectify this error, write correct entry with the amount of difference.

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
	Purchase A/c Dr. To Pavan A/c. (Being the rectification entry for recording purchase to Pavan by less amount)		90	- 90

(b) Transaction Recorded in correct Book with more amounts

In this case original entry will be reversal with the amount of difference.

E.g., Goods of Rs. 670 sold to Ketan is recorded by Mistake as Rs. 760.

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
	Sales A/c Dr. To Ketan A/c (Being the rectification entry for the goods sales Ketan recorded with excess amount.)		90	- 90

(c) Transaction Recorded in wrong subsidiary Book

In this type of error, instead of recording the transaction in the correct subsidiary book, it is recorded in another subsidiary book.

E.g., Goods of Rs. 1200 sold to Ramesh is recorded in purchase book.

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
	Ramesh's A/c Dr. To Purchase A/c (Being the rectification entry of goods sold to Ramesh, wrongly recorded in purchase book.)		1200	- 1200

At the same time, correct entry for sales will be recorded as under:

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
	Ramesh's A/c Dr. To Sales A/c (Being the goods sold to Ramesh.)		1200	- 1200

Instead of the above two separate entries one combined entry can also be passed as under

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
	Ramesh's A/c Dr.		2400	-
	To Sales A/c			1200
	To Purchase A/c			1200
	(Being the rectification of goods sold to Ramesh wrongly recorded in purchase book)			

(d) Transaction Recorded in Wrong Subsidiary Book with wrong amount

E.g. Goods of Rs. 600 purchased from Kapil is wrongly of recorded in sales book as Rs. 60 To notify the effect given in sales book reverse the entry for Rs. 60 and given the correct entry for purchases of Rs. 600.

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
	Sales A/c Dr.		60	-
	To Kapil A/c			60
	(Being the rectification entry of purchases from Kapil wrongly recorded in sales book with wrong amount.)			

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
	Purchased A/c Dr.		600	-
	To Kapil's A/c			600

Instead of the above two so separate entries, one combined entry can also be passed as under:

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
	Sales A/c Dr.		60	
	Purchase A/c Dr.		600	
	To Kapil's A/c		-	660
	(Being the rectification entry for goods purchased from Kapil Rs. 600 wrongly recorded in sales book as Rs. 60)			

(5) Compensatory Errors

In the books of accounts when more than one error exists but because of their nullifying effects on both debit and credit sides. The trial balance tallies. Such errors are known as compensatory errors.

E.g., Total of purchase book is over cast by Rs. 700 and a receipt of Rs. 700 from Bipin is posted to his account by Rs. 1400.

	To Ankit's A/c (Being the rectification of goods of purchase wrongly recorded in purchase.)			300
5	This is a compensatory error. Error committed in two different accounts is rectified by recording in respective account. Instead of writing it in Journal entry. The error will be rectified by writing Rs. 180 on debit side of furniture A/c and Rs. 100 on credit side of wages A/c			
6	Bank A/c Dr. To Bank interest A/c (Being the rectification of bank interest credited by bank wrongly recorded on payment side of cash book)		960	- 960
7	Machinery A/c Dr. To Miscellaneous Expenses A/c (Being the rectification for charges of Rs. 1000 paid for installation of machinery wrongly debited to miscellaneous exp. A/c)		1000	- 1000
8	Purchase A/c Dr. Sales A/c Dr. To Bhavesh's A/c (Being the rectification of good purchase from Bhavesh, wrongly recorded in sales book)		1700 1700	- - 3400
9	Furniture A/c Dr. To Purchase A/c (Being the rectification of furniture purchase, wrongly debited to purchase account)		1100	- 1100
10	Mahesh's A/c Dr. To Nilesh's A/c (Being the rectification of the amount received from Nilesh wrongly recorded in Mahesh's A/c)		800	- 800
	Total		11,560	11,560

Illustration 2:

Pass necessary rectification entries to rectify the following Journal entries written by Jethalal.

Journal of Shri Jethalal

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
1	Kamlesh's A/c Dr. To Cash A/c (Being the salary paid to a Kamlesh)		1800	- 1800
2	Cash A/c Dr. To Nilam A/c		2700	- 2700

	(Being the amount written off as bad debts in past years, received in current year from Nilam)			
3	Cash A/c Dr. To Bank A/c (Being change taken from bank)		100	- 100
4	Furniture A/c Dr. To Cash a/c To Discount A/c (Being the amount paid after deducting 10% discount for the furniture purchased for personal use)		7000	- 6300 700
5	Vimal's A/c Dr. To Cash A/c (Being the amount paid to Vimal for cash purchase)		3000	- 3000
6	Chetan's A/c Dr. To Sales A/c (Being the goods purchased of Rs. 2300 from Chetan on credit)		2300	- 2300
7	Brokerage A/c Dr. To Cash A/c (Being the brokerage paid for the purchase of building for business.)		3100	- 3100
8	Purchase A/c Dr. To Cash A/c (Being the goods worth Rs. 10,000 purchased at 5% cash discount)		10,000	10,000
9	Insurance Premium A/c Dr. To Bank A/c (Being Life Insurance premium paid by cheque)		4000	- 4000
10	Birbal's A/c Dr. To Purchase Return A/c (Being the goods of Rs. 2500 returned by Birbal recorded in purchase return book)		500	- 500
	Total		34,500	34,500

Ans. Rectification Entries of Shri Jethalal

Date	Particulars	L.F	Debit (Rs.)	Credit (Rs.)
1	Salary A/c Dr. To Kamlesh's A/c (Being the rectification of salary paid to Kamlesh wrongly debited to his account)		1800	- 1800
2	Nilam's A/c Dr. To Bad debt returns A/c (Being the rectification of bad debts		2700	- 2700

	written off in past years received, wrongly credited to personal A/c)			
3	Bank A/c Dr. To Cash A/c (Being the rectification of wrong effect of unnecessary Journal entry passed for a change taken from bank)		100	- 100
4	Drawings A/c Dr. Discount A/c Dr. To Furniture A/c (Being rectification of the furniture purchased for personal use wrongly)		6300 700	- - 7000
5	Purchase A/c Dr. To Vimal's A/c (Being the rectification of cash purchase wrongly recorded in Vimal's A/c)		3000	- 3000
6	Purchase A/c Dr. Sales A/c Dr. To Chetan A/c (Being the rectification of credit purchase from Chetan wrongly recorded in sales book)		2300 2300	- - 4600
7	Building A/c Dr. To Brokerage A/c (Being the rectification of brokerage for building paid, wrongly debited to brokerage A/c)		3100	- 3100
8	Cash A/c Dr. To Discount A/c (Being the rectification for cash discount received omitted to be recorded at the time of cash purchases)		500	- 500
9	Drawings A/c Dr. To Insurance premium A/c (Being the rectification of life insurance premium paid wrongly recorded)		4000	- 4000
10	Sales Returns A/c Dr. Purchase Returns A/c Dr. To Birbal's A/c (Being the rectification of goods returned from Birbal, recorded in purchase return book)		2500 500	- - 3000
	Total		29,800	29,800

12.3 Errors affecting the Trial Balance

Sometimes the total of debit side and credit side of a trial balance are not equal, i.e., Trial balance does not tally. In such circumstances error or errors might have been committed somewhere in posting, in balancing the accounts in writing the balance of an account on the wrong side of a trial balance or in preparation of the trial balance.

Now, we understand the types of errors affecting the trial balance and how they can be rectified if they are detected before the preparation of the final accounts.

(1) Errors Regarding Posting

(a) Omission of Posting

While posting the transaction recorded in Journal or subsidiary books if posting is omitted in any account by mistake it is known as an error of omission of posting and in this case the trial balance does not tally.

e.g. Goods of Rs. 1000 sold to Darshan is correctly recorded in the sales book but posting in Darshan's account is omitted.

This error will be rectified by posting the amount on the debit side of Darshan's A/c.

(b) Posting Twice in an account

Out of the two accounts affected, if in any one account posting is done on the correct side but twice by an error, the trial balance does not tally.

E.g. Goods of Rs. 2000 purchased from Nisha is recorded correctly in the purchase book but by mistake it is posted twice in the account of Nisha.

This error will be rectified by giving opposite effect in the account which is posted twice, by the amount of the transaction. Thus, by writing Rs. 2000 on the debit side of Nisha's A/c.

(c) Posting of a wrong Amount in an Account

While posting from the primary books if a wrong amount is posted in any account, the trial balance does not tally.

E.g. Rs. 300 received from Dharam is posted in his account as Rs. 30.

In this case by writing the deficit figure of Rs. 270 (Rs. 300-Rs. 30) in Dharam's A/c on the credit side.

(d) Posting in an Account on the wrong side

While posting from the primary books, if the amount is posted on the wrong side (i.e. on credit side instead of debit or vice versa) the trial balance does not tally.

E.g. Rs. 600 discount received is debited to discount account.

This error will be rectified by writing double the amount on the correct side. Therefore, in discount received A/c by writing Rs. 1200 on the credit side and in the column of particulars 'by an amount posted on wrong side' the error will be rectified.

(e) Posting wrong amount on the wrong side of an account

In this case, posting is done in an account on the wrong side and that too of a wrong amount.

e.g. Rs. 3200 received from Dipak is written correctly in the cash book but by mistake is written on the debit side of Dipak a/c as Rs. 320.

Here the error in Dipak A/c will be rectified by writing on the credit side an amount equal to the sum of wrong amount plus the correct amount. i.e. Rs. 3520 and in the column of particular 'by posting of wrong amount on wrong side.'

(2) Error Regarding Balance of Account

(a) Error in finding out the balance of an Account

If the balance of any account is found either more or less the trial balance does not tally. If the calculated balance is less. Put the deficit amount on the correct side to rectify the error, and if the balance is worked out in excess, error will be rectified by writing that excess amount on the opposite side of that account.

E.g., the credit balance of Anil's A/c is worked out as Rs. 4500 instead of Rs. 5000.

Here, write Rs. 500 in Anil's A/c on the credit side.

(b) Error in writing the balance of an Account

In this case the balance is calculated correctly, but when it is brought forward, it is written with a wrong amount and therefore the trial balance does not tally.

E.g. Opening balance of Rs. 7600 of Cash A/c is written as Rs. 6700.

Here by writing Rs. 900 in cash A/c on the debit side.

(c) Balance of an account is omitted to be recorded

If the opening balance of any account remains unrecorded the trial balance does not tally.

E.g. Opening balance of Furniture A/c of Rs. 3000 remains unrecorded.

To rectify this error, write Rs. 3000 on the debit side of Furniture account.

(d) Balance of an Account is written on the wrong side

By mistake if the balance of any account is written on the opposite side (i.e. written on credit side instead of debit side and vice versa) the trial balance does not tally.

E.g. A balance of Rs. 2100 of creditor Anisha's account is written on the debit side. Error in creditor Anisha's account will be rectified by writing double the amount i.e. Rs. 4200 on the credit side.

(e) Balance of an Account is written on the wrong side with wrong Amount

The trial balance does not tally if the balance of any account is written on the wrong side with a wrong amount.

E.g. credit balance of Sirin's A/c Rs. 1700 is written on the debit side as Rs. 7100.

This error will be rectified by writing Rs. 8800 on the correct side.

(3) Errors in Totaling the Subsidiary Books

The trial balance does not tally if an error is committed while totaling subsidiary books like purchase book, sales book, goods return book, Cash book etc. This error

will be rectified by writing necessary note in that respective account. A Journal entry is not necessary to rectify this type of error.

E.g. Total of purchase book is under cast by Rs. 200. This error will be rectified by writing in purchase account Rs. 200 on debit side.

(4) Errors committed while preparing Trial Balance

While preparing the trial balance there remains a possibility of error like, error in totaling of the trial balance of an account is omitted to be recorded. It is recorded twice in the books with wrong amount, and also wrong side.

In order to rectify their types of errors no journal entry is required.

Illustration: - 3

Rectify the following errors committed while writing the book of Nayan.

1. Total of sales return book is under cast by Rs. 300.
2. Rs. 1100 Paid to Manoj a Supplier, is recorded correctly in the cash book but by mistake it is credited to his account.
3. Rs. 3500 the balance of salary account is shown in the credit column of the trial balance.
4. Debit balance of wages account Rs. 1750 is written as credit balance of Rs. 1570 in the trail balance.
5. Opening balance of the cash account Rs. 2000 is brought forward as a debit balance of Rs. 1900.
6. Rs. 950 received from Sunil, is posted in his account Rs. 1050.
7. Balance of Rs.5400 of Ramesh A/c a debtor is left unrecorded in the trial balance.
8. Rent paid Rs. 1600 is debited twice to rent account.
9. Salary paid Rs. 4500 are recorded correctly in the cash book but are not posted to salary account.
10. Rs. 180 paid for stationary expenses, posted to that account as Rs. 108.

Note: - Instead of drawing accounts and posting therein, rectification can be done simply by showing the particulars there of.

1. The error will be rectified by writing in sales return Account Rs. 300 on Debit side and in the column of particulars 'being total of goods return credit book is under cast'.
2. The error will be rectified by writing in Manoj's Account Rs. 2200 on debit side and in the column of particulars 'being the amount written on wrong side'.
3. The error will be rectified by writing Rs.7000 as the balance of Salary A/c in the debit column of the trial balance. (Or by writing Rs.3500 as the balance of salary A/c in the debit common of the new trial balance)
4. The error will be rectified by writing Rs.3320 a balance of wages account in the debit balance of the trial balance or by preparing a new trial balance where in correct debit balance 1750 of wages account is shown.

5. The error will be rectified by writing in cash book Rs.100 on debit side and in the column of particular. 'Being the balance brought forward by less Amount. After rectification correct closing balance should be worked out'.
6. The error will be rectified by writing in Sunil's A/c Rs.100 on debit side and in the column of particulars being excess amount credited by mistake.
7. The error will be rectified by writing-by-writing Rs.5400 a balance Ramesh's A/c in the debit column of the trial balance.
8. The error will be rectified by writing in Rent A/c Rs. 1600 on credit side and in the column of particulars 'being the account debited by mistake'.
9. The error will be rectified by writing in salary A/c Rs. 4500 and in the column of particulars being posting omitted.
10. The error will be rectified by writing in office expenses account Rs. 72 on the debit side and in the column of particulars 'being the posting is done by less amount'.

12.4 Suspense account and error detected after preparation of the Final

Account:

If the accounts are writing accurately without any error, the trial balance tallies and thereafter final accounts are prepared. But when trial balance does not tally because of some errors, too much time is required to detect such errors and consequently final account cannot be prepared in time. In such circumstance the difference of the trial balance is transferred to a suspense account and final accounts are prepared. When detection of errors are rectified with or without the help of suspense account as per requirement. Suspense account will be closed automatically when all error are rectified.

➤ **Use of Suspense Account**

Other than rectification of errors, suspense account is useful for various other purposes such as,

1. When in any transaction which account is to be debited or credited is not decided for the time being that amount is debited or credited to suspense.
2. When in any transaction, if the name of the party is to be kept secret, that amount is recorded to suspense account.

Illustration 4

Hitesh has tallied his trail balance by debiting a difference of Rs.1100 to suspense account and there after he has prepared the final accounts. After preparation of final accounts the following errors are detected.

1. Total of sales book is over cast by Rs.1100.
2. Rs.150 received from Kamlesh for interest is posted to his account as well as of interest account.
3. Rs.750 paid to Priyank for repayment of loan is not posted to his account.
4. Goods of Rs. 450 returned by Janvi are posted on debit side of her account.

5. Hitesh has paid Rs.100 for his personal life insurance and the amount is debited to Insurance Premium Account.
6. Goods of Rs.300 purchased from Kuntal are recorded in sales book.

From the above information pass rectification entries and also prepare suspense account.

Rectification Entries of Shree Hitesh

Date	Particular	L.F.	Debit (Rs.)	Credit (Rs.)
1	Sales A/c Dr. To Suspense A/c (being the rectification of overcast total of sales Book)		1100	1100
2	Kamlesh A/c Dr. To Suspense A/c (being the rectification of interest received from Kamlesh is credited to his a/c and interest A/c)		150	150
3	Loan Of Priyank A/c Dr. To Suspense A/c (being the rectification of loan repay to Priyank left to be posted to his account)		750	750
4	Suspense A/c Dr. To Janvi's A/c (being the goods returned by Janvi posted on debit side of her account)		900	900
5	Drawing A/c Dr. To Insurance Pre. A/c. (Being the rectification of personal insurance premium debit to ins. Premium A/c.)		100	100
6	Purchase A/c Dr. Sales A/c Dr. To Kuntal's A/c (Being the rectification of goods purchase from Kuntal recorded in sales book.)		300 300	600
	Total		3600	3600

Suspense Account

Date	Particulars	J. F.	Amount (Rs.)	Date	Particulars	J. F.	Amount (Rs.)
1	To Balance B/d		1100	1	By Sales A/c		1100
4	To Janvi's A/c		900	2	By Kamlesh A/c		150
				3	By Loan Of Priyank A/c		750
			<u>2000</u>				<u>2000</u>

12.5 Effect of Rectification on Profit – Loss:

As stated earlier, when the trail balance does not tally its difference is transferred to a suspense account and there after final accounts are prepared. But as the final accounts are prepared before the rectification of error profit & loss A/c cannot show correct profit or loss.

For preparing final account an error affecting assets or personal account, do not affect the profit & loss A/c of the business but an error affecting the accounts of goods and the accounts of income expenses affects Profit & Loss A/c of business. In rectification, if accounts regarding goods or income expenses are debited, Profit will be decreased or loss will be increased. In rectification, if accounts regarding goods or income expenses are credited profit will be increased or loss will be decreased.

➤ **Illustration 5:**

As on 31-3-2014 trial balance of Ankur does not tally and therefore he has written difference of Rs.1342 on the credit side of suspense account and gets his trial balance tallied. Later on, after preparing final account the following error are detected in the next years.

1. Rs. 1755 Received from Ankit is posted as Rs. 175 on the debit side of his account.
2. Discount of Rs.80 given by sonal is credited to her A/c.
3. Total of sales book is under cast by Rs.350.
4. Rs. 580 paid for repairing expenses were posted on the debit side of machinery account as Rs.380.
5. Purchase of Furniture of Rs.800 debited to Purchase A/C.
6. Rs.725 paid to Sandip is debited to Sanjay's account as Rs. 527.

To rectify the above error pass necessary rectification entries and prepare suspense account. At the end of the year 2014, if profit & loss A/c discloses a profit of Rs. 18725, then find out the correct profit after rectification of errors.

Ans:-

Rectification Entries of Shri Ankur

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
1	Suspense A/c Dr. To Ankit's A/c (Being the rectification of Rs. 1755 received from Ankit posted on the debit side of his account by Rs. 175)		1930	1930
2	Sonal's A/c Dr. To Suspense A/c (being the rectification of discount given by Sonal, credited to her account)		160	160

3	Suspense A/c To Sales A/c (Being the Rectification of total of sales book is under cast)	Dr.		350	350
4	Repairing A/c To Machinery A/c To Suspense A/c (Being the rectification of repairing expenses of Rs. 580 were debited to Machinery as Rs. 380)	Dr.		960	380 580
5	Furniture A/c To purchase A/c (Being the rectification of purchase of furniture debited to purchase A/c)	Dr.		800	800
6	Sandip A/c To Sanjay A/c To Suspense A/c (Being the rectification of Rs. 725 paid to Sandip debited to Sanjay's A/c by 527)	Dr.		725	527 198

Suspense Account

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
1	To Ankit's A/c		1930	1	By balance b/d		134
3	To Sales A/c		350	2	By Sonal's A/c		160
				4	By Repairing Exp A/c.		580
				6	By Sandip's A/c		198
			<u>2280</u>				<u>2280</u>

It can be observed from suspense account that no balance is left out there in because all errors are rectified after their detection. Because of rectification of these errors the effect on profit-loss can be found out as under.

Entry No.	Particulars	Increase in profit	Decreases in profit
1	Profit loss remains unaffected		
2	Profit-loss remains unaffected		
3	Profit increase because sales a/c is credit	350	
4	Profit decrease because repairing expanses A/c is debited		960
5	Profit increase because purchase A/c is credited	800	
6	Profit-loss remains unaffected		
		<u>1150</u>	<u>960</u>

Profit of the year 2013-14 before rectification of errors	Rs. 18725
+ increase in profit due rectification of error	<u>Rs. 1150</u>
	Rs. 19875
- decrease in profit due to rectification of error	<u>Rs. 960</u>
Rectified correct profit of the year 2013-14	<u>Rs. 18915</u>

Illustration 6

Trial balance of Neha as on 31-3-2014 does not tally. The difference is transferred to suspense account in order to get it tallied which is as under:

Trial Balance of Neha as on 31-3-14

Name of the Account	L. F.	Debit Balance	Credit Balance
Capital A/c			60000
Drawing A/c		6000	
Purchase A/c		44000	
Sales A/c			95000
Wages A/c		18000	
Building A/c		22500	
Nikita's A/c		7500	
Vasant's A/c			16000
Cash A/c		12000	
Bank A/c		31000	
Ravina's A/c		19000	
Office Expenses A/c		3500	
Rent A/c		3000	
Suspense A/c		4500	
Total		1,71,000	1,71,000

The Following errors are detected after the Final account is prepared.

- Rs. 1400 received from Nikita is posted on the debit side of her account.
- Total of sales book is over cast by Rs. 1700
- Personal home rent of Rs. 1500 is debited to rent A/c.
- Goods of Rs. 1700 sales to Ravina are recorded correctly in the sales book but while posting the same were credited to Ravina A/c.
- Wages paid to Vasant is debited to his personal A/c. Rs. 3000.
- Opening balance of Rs. 2200 of Aman, debtors A/c omitted to be carried down.

Give Necessary rectification entries to rectify the above errors. Prepare suspense account and the corrected trial balance.

Ans: -

Journal proper of Neha

Date	Particulars	L/F	Debit Rs.	Credit Rs.
1	Suspense A/c Dr. To Nikita A/c (being the rectification of amount received from Nikita debited to her account)		2800	2800
2	Sales A/c Dr. To Suspense A/c (Being the rectification of total of sales book is over cast)		1700	1700
3	Drawing A/c Dr. To Rent A/c (Being the rectification of personal home Rent debited to Rent A/c.)		1500	1500
4	Ravina's A/c Dr. To Suspense A/c (Being the rectification of goods sold to her account)		3400	3400
5	Wages A/c Dr. To Vasant's A/c (Being the rectification of wages paid debited to personal A/c Vasant)		3000	3000
6	Aman's A/c Dr. To Suspense A/c (Being the rectification of opening balance omitted to be recorded in the account of Aman a debtors)		2200	2200
	Total		<u>14600</u>	<u>14600</u>

Suspense Account

Date	Particular	J/F	Amount	Date	Particular	J/F	Amount
1	To Balance b/d		4500	2	By Sales A/c		1700
1	To Nikita's A/c		2800	4	By Ravina's A/c		3400
				6	By Aman's A/c		2200
			<u>7300</u>				<u>7300</u>

Rectified Trial Balance of Neha as on 31-3-14

Name of the A/c	L. F.	Debit Balance	Credit Balance
Capital A/c			60000
Drawing A/c		7500	
Purchase A/c		44000	
Sales A/c			93300
Wages A/c		21000	
Building A/c		22500	

Nikita's A/c		4700	
Vasant's A/c			19000
Case A/c		12000	
Bank A/c		31000	
Ravina's A/c		22400	
Office Expenses A/c		3500	
Rent A/c		1500	
Aman's A/c		2200	
	Total	<u>172300</u>	<u>172300</u>

❖ **Exercise**

• **Multiple Choice Question**

- How many types of error are there on the basis of whether they affect the trial balance or not?
 - one
 - two**
 - three
 - four
- Furniture purchase is debit to purchase account this error is which type?
 - Error of omission
 - Error of principle**
 - Error of recording to a wrong account
 - Compensatory errors
- Some amount received from Mansi is credited to Magan's account this error is which type?
 - Error of omission
 - Error of principle
 - Error of recording to a wrong account**
 - Compensatory error.
- Rs.500 received from Komal is posted in her account a debit side as Rs.50. Rectify this error which amount credit or debit in Komal account?
 - 500 credited
 - 550 debited
 - 500 debited
 - 550 credited**
- Total of purchase book is under cast by Rs.700. How much Profit or loss increase or decrease?

(a) 700 profit Decrease	(b) 1400 profit Decrease
(c) 2100 profit Decrease	(d) None of these
- Rs.100 Received from Simaran is left unrecorded.

- (A) **Error of omission** (B) Error of principle
(C) Error of recording to a wrong account (D) Compensatory error

7. Rs.1000 withdrawn from bank for personal use is left unrecorded. How to rectify this error?

- (a) Bank a/c dr. to personal a/c
(b) Personal a/c dr. to bank a/c
(c) Bank a/c dr. to capital a/c
(d) **Drawing a/c dr. to bank a/c**

8. Total of sales book is over cast by Rs.1000, how to rectify this error?

- (a) cash a/c dr. to sales a/c (b) sales a/c dr. to cash a/c
(c) **sales a/c dr. to suspense a/c** (d) suspense a/c dr. to sales a/c

9. Purchase of furniture of Rs.1500 debited to purchase a/c. How to rectify this error?

- (a) purchase a/c dr. to cash a/c (b) cash a/c dr. to purchase a/c
(c) furniture a/c dr. to cash a/c (d) **furniture a/c dr. to purchase a/c**

10. Debit balance of rent account Rs.600 is written as credit balance of Rs.60 in trial balance. How to rectify this error?

- (a) Rs.600 rent account debit (b) Rs.540 rent account debit
(c) **Rs.660 rent account debit** (d) Rs.540 rent account credit

11. If a transaction is left unrecorded in primary books the Error is known as.....

- (a) **error of omission** (b) error of principle
(c) error of recording to a wrong account (d) compensator errors

12. Suspense account is which type of account?

- (a) nominal account (b) real account
(c) person account (d) **none of these**

13. Balance of suspense account is shown in....

- (a) trading a/c (b) profit & loss a/c
(c) **balance sheet** (d) nominal a/c

14. Salary paid Rs.1500 is debited twice to salary account how to rectify this error?

- (a) Salary a/c debited by Rs.750
(b) Salary a/c debited by Rs.3000
(c) **Salary a/c credited by Rs.1500**
(d) Salary a/c credited by Rs.3000

15. Rs. 1700 received from Suresh for rent, is posted to his account as well as to salary account. How to rectify this error?

- (a) Suresh a/c dr to suspense a/c
- (b) Rent a/c dr to Suresh a/c
- (c) Suspense a/c dr to Suresh a/c
- (d) Suresh a/c dr to rent a/c

❖ **Practical Questions**

(1) Pass rectification entries to rectify the following errors detected while preparing final account of Shree Navin lal as on 31-3-14.

1. Wages of Rs. 1010 paid to Tarak, is debited to his personal account.
2. Rs. 350 being debited which is written off in past received from Smit, is recorded to his Personal account.
3. Rs. 700 paid for installation charges of Machinery are recorded in wages account.
4. Purchase of machinery Rs. 5000 is recorded correctly in the cash book but while posting, the Machinery account is debited by Rs. 500.
5. Rs. 7100 Received from Ansu is credited .to his account as Rs. 1700
6. Rs. 1900 paid to Kiran is debited to Kishan's A/c.
7. Goods of Rs. 8000 Sales to Punit is recorded in Purchase book.
8. Goods of Rs. 5100 Purchase from Shivang is recorded in purchase return book.
9. Goods of Rs. 760 sold to Kanak are recorded by mistake as Rs. 7600.

(2) The Following are the journal entries passed by Falgun. If required pass necessary rectification entries.

Journal of Falgun

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
1	Cash A/c Dr. To Manasi's A/c (Being cash received from Manasi for cash sales)		1300	- 1300
2	Cash A/c Dr. To Bank A/c (Being change taken from bank)		600	- 600
3	Pinal's A/c Dr. To Purchase Return A/c (Being the goods of 5500 returned by Pinal recorded in purchase return book)		550	- 550
4	Jesal's A/c Dr. To Cash A/c (Being the salary paid to clerk Jesal)		1200	- 1200
5	Drawing A/c Dr. To Cash A/c To Discount A/c (Being the personal expense of Rs. 1100 is settled by payment of Rs. 1000)		1100	- 1000 100

6	Purchase A/c To Cash A/c (Being the amount paid for purchase of old furniture)	Dr.	2400	- 2400
7	Purchase A/c To Mahesh's A/c To Discount A/c (Being purchased goods from Mahesh at 5% cash discount on credit)	Dr.	7000	- 6300 700
8	Cash A/c To Bank A/c (Being withdrawn from bank for personal use)	Dr.	700	- 700
9	Cash A/c To Rekha's A/c (Being Interest Received from Rekha)	Dr.	1400	- 1400
10	Tina's A/c To Sales A/c (Being Goods purchased from Tina)	Dr.	4000	- 4000

(3) From the following transactions, errors find out from the books of Varsh.

- Total of purchase return book is under cast by Rs. 525.
- Goods of Rs. 7000 purchased from Lalaji are recorded correctly in purchase book, but are posted twice in Lalaji's A/c.
- Rs. 750 paid for wages is recorded correctly in cash book, but is not posted to wages A/c.
- Opening balance of Rs. 3600 of Ravina a creditor's account is left unrecorded in her account.
- Rs. 10,000 debit balance of furniture account is written as Rs. 1000 in trial balance.
- Goods of Rs. 1500 sold to Chintan on Credit are correctly recorded in sales book but are posted as Rs. 150 in his account.
- Rs. 1550 paid to Dhaval a Creditor is posted on the debit side of his account as Rs. 550 when posting is done from cash book.
- Opening balance of Rs. 8,500 of Geeta a Debtor's account is written on the credit side.
- Balance of salary A/c Rs. 5500 is written as credit balance of Rs. 550 in trial balance.
- Rs. 1800 received from Heena are posted on the debit side of her account.

(4) At the time of preparing final accounts of Bhavin as on 31-3-14, the following errors are found out. Pass necessary rectification entries to rectify the same.

- Goods of Rs. 5,000 are completely burnt by fire and insurance co. has accepted a claim at 60% for the same.
- In January 2014 discount received and discount paid are Rs. 730 and Rs. 870 respectively. But by mistake, they are posted on their opposite sides.

- (3) Rs. 110 received towards interest, is posted to interest account on debit side.
 - (4) Total of purchase Book is over cast by Rs. 800.
 - (5) Rs. 2450 paid for purchase of a typewriter is debited to purchase account at the time of posting from cash book.
 - (6) Rs. 6300 paid for salary to Vijay, but by mistake is debited to his personal account.
 - (7) Rs. 105 paid for stationery expense is posted to that account as Rs. 150.
 - (8) Rs. 1400 paid for commission is posted twice in commission A/c.
 - (9) Rs. 50,000 incurred for extension of building, but by mistake is debited to repairing expense account.
 - (10) A Furniture of Rs. 9,000 is sold for Rs. 10,000. It is recorded in sales book at Rs. 10,000.
- (5) Trial balance of Manish for the year 2013 does not tally. Therefore, a difference of Rs. 2470 is credited to suspense account. The following errors are detected after final accounts are prepared.

1. Total of purchase book is over cast by Rs. 770.
2. Bank charges of Rs. 80 are left unrecorded.
3. Life Insurance premium of Rs. 2700 is debited to insurance premium account.
4. Rs. 2120 received from Neeta ben is credited in her account as Rs. 2020.
5. Cash sales of Rs. 1990 are posted in sales account as Rs. 2990.
6. Rs. 450 received from Komal ben was written off as bad debt in past years. This amount is credited to her personal account.
7. Opening balance Rs. 950 of Krishna a Debtor's account is written in her account on credit side.
8. Advance salary of Rs. 4500 paid to Payal is debited to salary account.
9. A cheque of Rs. 2450 is received from Bhoomi posted in her account on the debit side by Rs. 2050.
10. Purchase of Machine of Rs. 10,500 is recorded in purchase book.

- (6) **Trial balance of Karina for the year ending 2014 does not tally and therefore final accounts are prepared by transferring the difference to a suspense account. There after following errors are found out, to rectify these errors pass necessary rectification entries and also prepare suspense a/c and show the effects of rectification on profit-loss.**

1. Goods of Rs. 1300 returned to Vimal are recorded in purchase book and are Debited to Vimal's A/c
2. Total of purchase book is overcast by Rs. 1900.
3. A bill receivable of Rs. 6000 received from Nitin is credited to bills payable account and to Nitin's account too.

4. A cash payment of Rs. 2650 for the purchase of a scooter, is debited to purchase A/c
5. Goods of Rs. 7000 sold to Archana are correctly recorded in sales book but are posted as Rs. 5000 in Archana's A/c.
6. Goods of Rs. 1100 sold to Pavan for cash, are correctly recorded in cash book but in sales ledger, the same all credited to Pavan's Account.
7. A Balance of Building account is carried forward as Rs. 35,000 instead of Rs. 40,000.
8. Total of Sales book is under cast by Rs. 3000.

(7) Inspire of some accounting errors trial balance of Ruchita as on 31-3-2014 tallies.

Trial balance of Ruchita as on 31-3-2014

Debit Balance	Rs.	Credit Balance	Rs.
Opening Stock	16,000	Capital A/c	60,000
Furniture A/c	44,000	Sales A/c	1,40,000
Vehicle A/c	10,000	Pankaj's A/c	2,500
Purchase A/c	90,000	Kirti's A/c	30,000
Cash A/c	22,200	Interest A/c	3,000
Drawings A/c	11,400	Purchase Returns A/c	4,000
Rent A/c	3,400		
Total	262,000	Total	262,000

Verification of account reveals the following errors.

1. Rs. 3500 paid to Pankaj is recorded in his account as Rs. 500.
2. Total of Sales book is under cast by Rs. 4300.
3. Rs. 1500 Rent paid is debited to Rent A/c as Rs. 100.
4. Purchase of Furniture of Rs. 10,000 is posted to purchase account by mistake.
5. Rs. 1300 interest received is posted in interest a/c as Rs. 1000.
6. Rs. 2100 received from Priti towards her due, left unrecorded.
7. Goods of Rs. 2300 returned by Ashish, are recorded in purchase book.

To rectify the above errors, pass necessary rectification entries and prepare new rectified trial balance.

13.1 Meaning**13.2 Causes of Depreciation****13.3 Objectives of Providing Depreciation****13.4 Factors Determining the Amount of Depreciation****13.5 Methods of Providing Depreciation****❖ Exercise**

13.1 Meaning

It is common knowledge that the value of any asset used in business is gradually decrease, as its efficiency decrease. Due to use, the asset gets depreciated. This depreciation is a loss of business and must be debited to profit and loss account as a loss. This method has another advantage. The amount debited to profit and loss account by way of depreciation is not paid to anybody, as in case of other expenses. The amount remains in the business. It gets accumulated year after year. When the asset becomes useless and is discarded, there are funds lying in the business for purchasing a new asset. Depreciation arises not only due to use, but also due to passage of time.

On the basis of Fundamental Accounting Assumption of Going Concern, assets are classified as Fixed Assets and Current Assets. Fixed Assets are used in the business to derive benefits for more than one accounting period. Generally, the term 'depreciation' is used to denote decrease in value but in accounting, this term is used to denote decrease in the book value of a fixed asset.

Depreciation represents that part of the cost of a fixed asset to its owner, which is not recoverable when the asset is finally out of use by him. Provision against this loss of capital is an integral cost of conducting the business during the effective commercial life of the asset and is not depended on the amount of profit earned.

An analysis of the definition given above highlights the characteristics of depreciation as follows:

- (1) It is related to fixed assets only.
- (2) It is a fall in the book value of an asset.
- (3) It indicates the decrease in the utility value due to use of an asset.
- (4) It is a loss of business and so it is debited to profit & loss account.
- (5) It is not paid in cash just like other revenue expenses and so it remains in the business.
- (6) It is always computed in a systematic and rational manner since it is not a sudden loss.
- (7) It is a process of allocation of expired cost and not of valuation of fixed assets.
- (8) This charge is not an exact amount but based on estimates.

It defines "depreciation may be defined as the measure of the exhaustion of the effective life of an asset from a cause during a given period." Comprehensively, the term 'depreciation' covers Depletion, Amortization and Obsolescence.

13.2 Causes of Depreciation

Usually, the following causes are responsible for causing depreciation:

- (1) **Physical wear and tear:** when the fixed assets are put to use, the value of such assets may decrease. Such decrease in the value of assets is said to be due to physical wear and tear. The more the use, the more is the depreciation.
- (2) **Passage of Time:** when the assets are exposed to the forces of nature like weather, winds, rains, etc., the value of such assets may decrease even if they are not put to any use. It is immaterial whether it is used or not. Hence, the proportionate amount is written off over the number of years.
- (3) **Obsolescence:** a new invention may bring into the market some new and improved asset which may be much more profitable to use and at the same time may reduce the cost of production. In such case, the old asset, though in good working condition, may have to be scrapped and replaced by an improved asset
(a) invention of improved technique or equipment (b) market decline due to change in taste and fashion (c) inadequacy of existing plant to meet the increase business
- (4) **Change in economic environment:** the value of an asset may decrease due to decrease in the demand of the assets. the demand of the asset may decrease due to technological changes, changes in the habits of consumers etc.
- (5) **Expiration of legal rights:** when the use of an asset (e.g. patents, leases) is governed by the time bound arrangement, the value of such assets may decrease with the passage of time.
- (6) **Accident:** sometimes, an asset is damaged due to an accident and its value is reduced. This diminution in value is also considered to be depreciation.
- (7) **Depletion:** wasting assets such as mines and quarries lose their value because they get exhausted on account of continuous extractions.

13.3 Objectives of providing depreciation

1. **To ascertain true profit/Loss:** assets are used in the business to earn profit and in the course of it use in business, it loses its value every year because it is used in business. This reduction in the value is an expense of the business and must be charged to revenue before true profit or loss is ascertained. Unless the depreciation is charged against income, the result of operations would stand overstated. As a result, the income statement would fail to present a true and fair view of the result of operations of an accounting entity.
2. **To present true and fair view of the financial position:** for presenting true and fair view of the financial position, it is necessary to charge the depreciation. If the depreciation is not charged, the unexpired cost of the asset concerned would be overstated. As a result, the position statement (i.e. the balance sheet) would not present a true and fair view of the financial position of an accounting entity.
3. **To keep the capital intact or to replace the old asset:** as De Paula has put it the real object of providing for depreciation is to keep the capital intact. When depreciation is provided, a fund is being built up every year, which can be utilized in purchasing a new asset, when the old one wears out and has to be replaced.

4. **To ascertain the true cost of production:** for ascertaining the cost of production, it is necessary to charge depreciation as an item of cost of production. If the depreciation on fixed assets is not charged, the cost records, would not present a true and fair view of the cost of production.
5. **To comply with legal requirements:** In case of companies, it is compulsory to charge depreciation on fixed assets before it declares dividend. (sec. 205(1) of The companies Act, 1956.)

6. **Depreciation is a charge against revenue profit or incurs loss: whether the business makes profit or incurs loss:**

Depreciation accounting is the process of allocating the cost of the tangible fixed assets less its salvage value over its expected useful life. It is an expense that is to be charged against the revenue whether business makes profit or incurs loss. Provision for depreciation does not involve. Any cash outflow and hence it is a charge which results in funds which will remain in the business and can be easily used for replacement of asset. The primary purpose of depreciation accounting is cost allocation. Even if the market value of an asset increases, depreciation has to be recorded because of allocation process.

Thus, it is immaterial whether business is making profits or incurring losses but depreciation is to be provided or charged.

7. **One of the objectives of providing depreciation is to know correct profit and true financial position of the business.**

In order to ascertain the true financial position of the business, it is necessary that assets must be shown at their true book value i.e. after deducting the reasonable depreciation. If the depreciation is not provided, the assets will appear in the balance sheet at overstated figures which may lead to misrepresentation of the business.

It is also necessary the value of asset should be reduced due to the use and the reduction in the value of assets should be deducted from the income earned in order to have the correct and real profits of the business.

8. **Depreciation is a process of allocation and not of valuation.**

Depreciation is that portion of the cost of an asset, which is deducted from revenue for assets use in routine business affairs.

As William pickals defines ‘depreciation as the permanent and continuing diminution in the quality, or the value of an asset.’

Depreciation is a system in which the cost of tangible capital assets less salvage over the estimated useful life is distributed in a systematic and rational manner. It is a process of allocation and not of valuation.

Whenever a fixed asset is used to earn revenue for a number of accounting years, it is necessary that a part of the acquisition cost is treated or allocated as an expense in each of such years to ascertain the actual profit earned in that year. This allocation of cost in the form of an expense is known as depreciation in other words, the cost of fixed assets in the form of depreciation has to be matched against the revenues of the years over which the asset is used. And, this process is not the valuation of fixed assets but the allocation of expired cost.

13.4 Factors determining the amount of depreciation

It is clear that proper amount of depreciation must be charged to profit and loss account in order to correctly ascertain profit or loss.

1. **The original cost of an asset:** while considering the original cost, the expenses incurred on purchasing and installing the assets are added to the purchase price.
2. **The expected useful life:** generally the life of the asset can be determined on the basis of the past experience. On that basis, the number of year during which it is to be written off is decided.
3. **Estimated residual (scrap) value:** while calculating depreciation, the scrap value at the end of the useful life of the asset is deducted from its original cost.
4. **The chance of the asset becoming obsolete:** the possibility of an asset becoming out dated due to some new invention must be taken into account.
5. **Interest on capital locked up in the asset:** when an asset is purchased, some amount is invested in it. Had the amount been invested outside the business, then it would have earned interest.
6. **Use of the asset:** how much the use of an asset and for what purpose it is used must be considered. If the asset is used for two shifts or three shifts the depreciation must be charged at a higher rate.

13.5 Methods of providing depreciation

- 1) **Straight Line Method/ Fixed Instalment Method:** under the straight line method, a fixed and equal amount in the form of depreciation, according to a fixed percentage on the original cost, is written off during each accounting period over the expected useful life of the assets. The amount and rate of depreciation is calculated as under:

$$\text{Depreciation} = \text{cost-scrap value} / \text{useful life (years)}$$

- **Merits:** the main merits of this method are as follows.

- (a) It is easy to understand.
- (b) It is easy to calculate the amount and rate of depreciation.
- (c) Under this method, the book value of the asset becomes zero or equal to its scrap value at the expiry of its useful life.

- **Demerits:**

- (a) It suffers from a main defect that the charge for depreciation remains the same till the end of its useful life, whereas the repairs go on increasing as the asset becomes older.
- (b) it does not take into consideration the interest on the capital invested in the asset.
- (c) It does not provide for the replacement of the asset on the expiry of its useful life.
- (d) if the useful life of an asset or its scrap value is not proper estimated, the amount of depreciation calculated will be wrong.

- 2) **Reducing Balance Method:** the depreciation is charged at a fixed percentage not on the original cost every year as in the first method, but on the depreciated value or reducing balance every year. Under this method, the rate of depreciation remains constant year after year here as the amount of depreciation goes on decreasing.

$$R = [1 - n\%] \times 100$$

- **Merits:**

- (a) the main advantage of this method is that the combined charge for depreciation and repairs is almost equal every year. The depreciation is heavy in the beginning, when there would be less repairs. As the asset grows older with the passage of time, the repair goes on increasing but the depreciation goes on reducing under this method.
- (b) it is not necessary to make fresh calculations each time when an addition is made to the asset.
- (c) The asset is never completely reduced to zero. Hence, the existence of the asset is always disclosed by the accounts and each year gets a debit for depreciation so far as it is in use in business.

- **Demerits:**

- (a) It is difficult to calculate the rate of depreciation.
- (b) It does not take into consideration the interest on capital invested in the asset.
- (c) It does not provide for the replacement of the asset on the expiry of its useful life.
- (d) It takes a very long time to write an asset down to its break-up value, unless a very high rate is used.

3) Sinking Fund Method: the method of depreciation fund is used to make sure that ready cash is available when the new asset is to be purchased at the end of the useful life of the old asset. Under the three methods discussed so far, available net profit is reduced by providing for depreciation but the sum so provided is locked up in business and may not be available at the time of replacement of an asset. Under this method, amount transferred to depreciation fund out of the profit is withdrawn from the business and is invested in readily realizable securities.

- **Merits:**

- (a) the main advantage of this method is that cash is obtained by selling investments, when old asset is to be discarded and new asset is to be bought.
- (b) as the asset is shown in the Balance sheet at its original value, it is easy to know the original cost of asset at any time.
- (c) the amount of depreciation charged every year is known from the balance of depreciation fund account.

- **Demerits:**

- (a) main limitation of this method is that enough money to purchase a new asset may not be available, as the price of investments may have gone down in the market.
- (b) as the amount of depreciation is invested outside the business every year, the working capital is reduced to that extent.
- (c) if the rate of interest on outside securities is less than the profit earned in business, the business will be making loss on money so invested.
- (d) interest on capital is not taken into account in this method.

4) Difference: Fixed Instalment Method and Reducing Balance Method

Sr. No.	Fixed Instalment Method	Reducing Balance Method
1.	Under this method, estimated scrap value is deducted from the total cost of the asset. The amount so obtained is divided by the number of years of its useful life.	Under this method, depreciation is calculated at a fixed percentage on the value of the asset. But the value of the asset is that which is obtained after deducting depreciation.
2.	The amount of depreciation remains same every year.	The amount of depreciation goes on reducing every year
3.	Under this method, the book value of the asset is zero at the end of its useful life.	The book value is not reduced to zero at the end of its useful life.
4.	Depreciation is always calculated on the cost of the asset.	Depreciation is calculated on reducing balance of the value of asset every year.
5.	It is applied where the life of asset is almost certain and short.	It is useful for an asset having longer life or having uncertain life

5) Difference: Depreciation Fund Method vs. Annuity Method

Sr. No.	Depreciation Fund Method	Annuity Method
1.	The purpose is to collect necessary funds for replacement of asset in future and to invest it inside business.	The purpose is to consider interest on amount locked up in asset and then to calculate depreciation.
2.	The asset account is not credited every year with the amount of depreciation, but depreciation fund account is credited	The asset account is credited with the amount of depreciation every year.
3.	Every year the amount of depreciation is invested outside business, along with the amount of interest on investments.	No Investment is made under this method.
4.	The amount of depreciation is a fixed percentage or a fixed amount as in case of reducing balance or straight lined method.	The amount of depreciation is obtained from annuity tables.
5.	The asset is closed at the end of its useful life and is transferred to depreciation fund A/c.	The asset account is closed at the end of its useful life and is not transferred to any account.

Illustration :

1. A company has four machines costing of Rs. 75,000 each in its factory. Company charges depreciation at 10% p.a. on straight line method. On 1st January, 2024 one of the machines was sold for Rs. 40,000. The provision for depreciation stood at Rs.

90,000 in the books on 1st April 2023 of which Rs. 20,000 was in respect of the machine sold. The accounting year of the firm closes on 31st March.

Prepare machine account and Provision for Depreciation Account for the year 2023-24.

Ans.

Notes: (1) Loss on Sale:

Cost of the Machine	75,000
Less: Depreciation (upto 1-4-23)	20,000
	55,000
Less: Depreciation (1-4-23 to 31-12-23= 9 months on 75,000 @ 10%)	5,625
Balance as on 1-4-24 (on the date of sale)	49,375
Less: Sale	40,000
Loss on Sale	9,375

2. Total Depreciation on machine sold:

Depreciation on sold machine (till 31-3-23) -	20,000
Add: Depreciation for 9 months on sale date -	<u>5,625</u>
Total depreciation -	25,625

3. Balance on Provision for Depreciation A/c.:

Accumulated depreciation (up to 1-4-23) (90,000 -20,000 sold machine) -	
70,000	
Add: Depreciation (current year i.e. 2023-24) (2,25,000 @ 10%) -	
<u>22,500</u>	
Balance.....	- 92,500

MACHINE ACCOUNT

Date	Particulars	Amt. (Rs.)	Date	Particulars	Amt. (Rs.)
1-4-23	To Balance b/d	2,25,000	1-1-24	By Bank	40,000
			1-1-24	By Prov. for Dep. A/c.	25,625
			1-1-24	By P & L A/c.	9,375
			31-3-24	By Balance c/d	1,50,000
		2,25,000			2,25,000

PROVISION FOR DEPRECIATION ACCOUNT

Date	Particulars	Amt. (Rs.)	Date	Particulars	Amt. (Rs.)
1-4-24	To Machine A/c. (Dep. On machine sold)	25,625	31-3-23	By Balance b/d	90,000
			31-3-24	By Dep. On machine sold	5,625
31-3-24	To Balance C/d	92,500	1-1-24	By Dep. on remaining machine	22,500
		1,18,125			1,18,125

Illustration :2

A company purchased machinery on 1st January, 2021 for Rs. 1,20,000. On July 1, 2021, one more machine was purchased of Rs. 40,000. On 1st July, 2023 the machinery purchased on 1st January, 2021 having become obsolete was sold for Rs. 57,200 and on the same date, new machinery was purchased at a value of Rs. 80,000.

Depreciation was provided for annually at the rate of 10% on written down value and calculates on 31st December. In 2024, however, the firm changed this method of providing depreciation and adopted the method of providing 5% p.a. depreciation on the straight line method with retrospective effect. Prepared machine Account for all the years and related notes.

Ans.

Notes: (1) Machine Value:

Particulars	Machine -1	Machine -2	Machine-3
Cost Price	1,20,000	40,000	-
Less: Depreciation (2021)	12,000	2,000	-
Value on 1-1-2022	1,08,000	38,000	-
Depreciation (2022)	10,800	3,800	-
Value on 1-1-2023 (M/3 Purchase on 1-7-23)	97,200	34,200	80,000
Depreciation (2023) (M/1 -6 Mon.)(M/3 – 6 Mon.)	4,860	3,420	4,000
Value on 1-1-2024	92,340	30,780	76,000
Sale	57,200	-	-
Loss on Sale	35,140	-	-

(2) Value on 31-12-23 - Depreciation as per Straight line method (5%):

Particulars	M -2	M – 3
Cost Price	40,000	80,000
Depreciation: M-1 (6 months for 2021, 2022 and 2023= 2.5 yrs.)	5,000	2,000
M-3 (6 months for 2023)		
	35,000	78,000

Note: Total Machinery on 1-1-24 of Rs. 1,13,000

(3) Depreciation excess value:

Total Depreciation charged

Machine – 1	=	9,220
Machine – 2	=	<u>4,000</u>
Total	=	13,220

Less: Depreciation by (SLM method) = 7,000

Excess Depreciation = 6,220

Note: So that Book value shows on Machinery A/c. on**MACHINERY ACCOUNT**

Date	Particulars	Amt. (Rs.)	Date	Particulars	Amt. (Rs.)
1-1-21	To Bank	1,20,000	31-12-21	By Depreciation A/c.	14,000
1-7-21	To Bank	40,000	31-12-21	BY Balance C/d	1,46,000
		1,60,000			1,60,000
1-1-22	To Balance B/d	1,46,000	31-12-22	By Depreciation A/c.	14,600
			31-12-22	By Balance C/d	1,31,400
		1,46,000			1,46,000
1-1-23	To Balance B/d	1,31,400	1-7-23	By Depreciation A/c.	4,860
1-7-23	To Bank A/c.	80,000	1-7-23	By Bank	57,200
			1-7-23	By P & L A/c.	35,140
			31-12-23	By Depreciation A/c.	7,420
			31-12-23	By Balance C/d	1,06,780
		2,11,400			2,11,400
1-1-24	To Balance B/d	1,06,780	31-12-24	By Depreciation A/c.	6,000
31-12-24	To P & L A/c. (Excess Depreciation)	6,220	31-12-24	By Balance C/d	1,07,000
		1,13,000			1,13,000

Illustration :3 The valuation of the Plant and Machinery, on 1st January, 2021 was Rs. 32,000 and the estimated life was 8 years.

The following purchases and sales took place upto 31st December, 2023:

Purchases – (1) March 31, 2021 – Cost Rs. 15,000, estimated life 10 years

(2) September 30, 2022 – Cost Rs. 12,000, estimated life 6 years

(3) April 30, 2023 – Cost Rs. 20,000, estimated life 8 years

Sales – Out of the group of assets,

- Valuation on 1st January, 2021 was Rs. 5,000 was sold for Rs. 4,700 on 30th June, 2023.

Assuming the break-up value of each asset to be 10% the initial valuation or original cost, prepare the Plant and Machinery Account for the first three years.

Ans:

Notes: (1) Depreciation:

Particulars	Amount (Rs.)
(a) Old P & M as on 1-1-21 = 32,000 - 3,200 = 28,800 / 8 years	3,600
(b) Purchase on 31-3-21 = 15,000 – 1,500 = 13,500 / 10 years	1,350
(c) Purchase on 30-9-22 = 12,000 – 1,200 = 10,800 / 6 years	1,800
(d) Purchase on 30-4-23 = 20,000 – 2,000 = 18,000 / 8 years	2,250

(2) Depreciation on sold P & M:

Value of P & M = 5,000

(-) Scrap value (10%) = 500

4,500

Estimated life = 8 yrs.

So that, One year depreciation is Rs. 562.50 but it is used only 6 months =

Depreciation Rs. 281

(3) Depreciation on Balance Old P & M:

Value of P & M = 32,000

(-) Sold P & M = 5,000

Balance = 27,000

(-) Scrap Value (10%) = 2,700

Balance = 24,300

Estimated life = 8 yrs.

So that, Depreciation for the year 2023 will be = 24,300 / 8 yrs. = Rs. 3038 Approx.

(4) Depreciation on all assets:

Particulars	2021	2022	2023
Old P & M	3,600	3,600	3,038
Purchase on 31-3-21	1,013 (9 month)	1,350	1,350
Purchase on 30-9-22	-	450 (3 months)	1,800
Purchase on 30-4-23	-	-	1,500 (8 months)
TOTAL DEPRECIATION	4,613	5,400	7,688

TOTAL AMOUNT – 17,701

(5) Profit on sale of P & M:

Value of P & M (Old P & M 1-1-2021)	5,000
(-) Depreciation (2021)	563
Value of P & M (1-1-2022)	4,437
(-) Depreciation (2022)	562
Value of P & M (1-1-2023)	3,875
(-) Depreciation (2023 for six months)	281
Value of P & M (30-6-2023)	3,594
(-) Sale value	4,700
Profit on Sale of P & M	1,106

PLANT & MACHINERY ACCOUNT

Date	Particulars	Amt. (Rs.)	Date	Particulars	Amt. (Rs.)
1-1-21	To Balance B/d	32,000	31-12-21	By Depreciation A/c.	4,613
31-3-21	To Bank	15,000	31-12-21	By Balance C/d	42,387
		47,000			47,000
1-1-22	To Balance B/d	42,387	31-12-22	By Depreciation A/c.	5,400
30-9-22	To Bank	12,000	31-12-22	By Balance C/d	48,987
		54,387			54,387
1-1-23	To Balance B/d	48,987	30-6-23	By Bank	4,700
1-4-23	To Bank	20,000	30-6-23	By Depreciation (sold P & M)	281
30-6-23	To P & L A/c. (profit on sale P & M)	1,106	31-12-23	By Depreciation	7,688
			31-12-23	By Balance C/d	57,424
		70,093			70,093

❖ **Exercise:**

• **Practical Sums**

1. A company purchased a machine on 1 January, 2005 for Rs.38,000 and paid the amount by cheque. Installation charges incurred were Rs.2,000 and were paid in cash. The useful life of the machine is estimated to be 10 years and its scrap value is estimated at Rs.4,000. The accounts are closed each year on 31st December. Find out the rate of Depreciation and amount of annual depreciation. Prepare the machinery account and depreciation account for the first three years and how machinery account will appear in the Balance sheet for the three years. Also give the journal entries at the end for the first year.
2. On 1 January, 2005 a company purchased a machine at a cost of Rs.50,000 and it is decided to provide depreciation at the rate of 10% per annum by Reducing Balance method. The accounting year of the company ends on 31st December, Show depreciation account and pass journal entries for the first year and also prepare machinery account for the first three years.
3. On 1-1-2007, the cost of machinery of ABB Ltd. was Rs.50,000 which was purchased on 1-1-2004. The company paid Rs.10,000 for installation charges on 1-1-04. Depreciation is calculated at 10% per annum as per straight line method. On 30-6-07 machinery of the cost of Rs.20,000 (including installation charges) was sold at 10% profit. Prepare machinery account for 2007 and show calculation of depreciation.
4. A second-hand machinery was purchased on 1st January, 2001 for Rs.90,000 and Rs.18,000 and Rs.12,000 were spent on its repairs and erection immediately. On 1st July, 2002 another machinery was purchased for Rs.78,000 and on 1st July, 2003 the first machinery having become obsolete was auctioned for Rs.90,000. On the same date another was purchased for Rs.75,000. On 1st July, 2004 the second machinery was also sold-off and it fetched Rs.60,000. Depreciation was provided on machinery at the rate of 10% on the original cost annually on 31st December. In 2003 the method of providing depreciation was changed to the written-down (diminishing) value method; the rate of depreciation being 15% p.a.
You are required to prepare machinery account for the calendar years mentioned heretofore
5. Hindustan Motors Ltd. purchased several machines at a cost of Rs.60,000 on 1- 1-04. The company provides depreciation on machines at 10% p.a. on straight line method. On 30-6-07 all machines were destroyed by accident and the insurance company paid Rs.24,000 of the claim. They were sold as scrap for Rs.3,000. The company purchased other machines for Rs.80,000 on 31-12-07 and paid Rs.20,000 for installation charges. Prepare machinery account for the year 2007.

6. A firm purchased certain machineries on 1-1-04 for Rs.1,80,000 for which the cost of carriage was Rs.10,000 and cost of installation was Rs.10,000. Depreciation on machinery is charged at 10% per annum on reducing balance method. The accounting year of the firm ends on 31st December. On 1-7-2006, one fourth of the machinery was sold at 20% more than the book value and another machine costing Rs.80,000 was purchased on the same date. On 1-1-07, one fourth of the machinery installed on 1-1-04 was sold at 10% less than its depreciated value. Another machine was purchased on 1-10-07 for Rs.1,00,000. Prepare machinery account and depreciation account for four years from 2004 to 2007.
7. Hope Ltd. purchased some machines at a cost of Rs.2,40,000 on 1-1-04. It purchased some other machines at a cost of Rs.1,50,000 on 1-7-05 and also purchased additional machineries worth Rs.1,00,000 on 1-10-06. On 30-9-07, 25% of the machinery first purchased was sold at 30% loss on book value and of the remaining, 40% of machines were sold at 20% profit on book value on 31-12-07. Depreciation on machineries is to be calculated at 10% per annum by straight line method. The accounting year of company ends on 31st December. Prepare machinery account for all the years.
8. On 1 April 2007, Brite Ltd. purchased a machine for Rs.1,50,000 and spent Rs.30,000 on its installation. On 1st October, 2008 a new machine was purchase at a cost of Rs.1,20,000. On 30th June, 2009 the first machine got damaged and was sold as scrap for Rs.25,000. On 1st July, 2009 the machine was replaced by a new machine purchased for Rs.2,60,000 and a sum of Rs.40,000 was spent on its installation. Show machinery account for the three years ended 31st March, 2010 while charging depreciation @ 10% per annum as per the written down value method. Accounts of the co. are closed on 31st March.
9. On 1st April, 2005, a company acquired a lease of land for a term of 5 years at a cost of Rs.4,00,000. It is proposed to depreciate the lease by annuity method charging 5% per annum interest. Show the lease account for the entire period of 5 years. A reference to the annuity tables shows that to depreciate Rs.1 by annuity method over 5 years charging 5% per annum interest, one must write off a sum of Re. 0.230975 every year.
10. A firm purchased a plant on 1st April 2002 for Rs.10,00,000. The plant had an estimated useful life of 5 years. The firm used straight line method of depreciation. An extension was carried out for Rs.2,00,000 and it was made operational from 1st April, 2004. Prepare the plant account for all the seven years assuming that the extension was capable of being used independently of existing plant and expected to last 5 years from its installation.

11. A firm, which depreciates its machinery at 10% per annum on written down value method, had on 1st April, 2002 Rs.9,72,000 in the debit of machinery account. During the year ended 31st March, 2003, a part of the machinery purchased on 1st April, 2000 for Rs.80,000 was sold for Rs.45,000 on 1st October, 2002 and a new machinery at a cost of Rs.1,50,000 was purchased and installed on the same date, installation charges being Rs.8,000. On 31st March, 2003, the firm decided to change its method of charging depreciation from written down value method to straight line method with effect from 1st April, 2000 the rate of depreciation remaining the same as before. Show machinery account for the year ended 31st March, 2003 after incorporating the effect of the above mentioned transactions.
12. On 1st April, 2004, Sun Pharma Ltd. purchased a plant for Rs.10,00,000. On 1st October, 2004 an additional plant was purchased costing Rs.5,00,000. On 1st October, 2005 the plant purchased on 1st April, 2004 was sold off for Rs.4,00,000. On 1st October, 2006 a new plant was purchased for Rs.12,00,000 and the plant purchased on 1st October, 2004 was sold for Rs.4,20,000 on the same date.
- Depreciation is to be provided at 10% per annum on the written down value on 31st March every year. Prepare the plant account for three years ended 31st March, 2007.

14.1 Meaning**14.2 Bank balance****14.3 Bank Overdraft****14.4 Objectives of Bank reconciliation Statement****14.5 Distinguish Between Cash Book & Pass Book****14.6 Reasons for Difference in the Bank Balance in the Cash Book and in the Pass Book****14.7 Transaction related Bank Reconciliation Statement Entries**❖ **Illustrations**❖ **Exercise**

14.1 Meaning

When the bank balance as per cash book and balance as per passbook do not tally with each other on any particular day, then by the process of checking corresponding entries of both the records the causes of disagreement are found out. There after a statement is prepared. This is known as "Bank Reconciliation Statement".

A businessman records amount of the business transactions with bank in the bank column of the cash book. Similarly bank records transaction in the Ledger book of the trader Account. Bank gives a copy of the account called "Pass book" and the trader matches his cash book with the Bank pass book. But in Practice it never agrees, so the trader has to prepare Bank Reconciliation Statement to reconcile and a balance as per opposite books is to be found out. It is prepared separately by businessman.

14.2 Bank balance

If the total of the debit side exceeds the total of the credit side of the bank column of cash book, it is known as bank balance and credit balance as per passbook means bank balance.

Bank balance means trader's receivable from bank. Thus the cash and cheques are deposited in the bank, bank balance increased. But when cheque issued in bank, bank balance decreases.

14.3 Bank Overdraft

The Bank gives the facility to a trader to withdraw more amount than his credit balance. If the total of the debit side of the bank column of cash book, it is known as bank overdraft. And debit balance as per passbook means bank overdraft.

Bank overdraft means bank's receivable from traders. Thus the cash and cheques are deposited, when in the bank, bank overdraft decreases. But when cheque issued in bank, bank overdraft increases.

14.4 Objectives of Bank Reconciliation Statement

The bank Reconciliation statement is preparing with the following objectives.

1. To find out the actual bank balance and to reconcile the entries recorded in the cashbook and passbook.
2. To find out the reasons for the difference in bank balance as per cashbook and passbook and to represent them in Bank Reconciliation Statement.
3. The correct bank balance can be known which will present the true financial position of the business.
4. Information is received about any transaction left out from cash book and pass book.
5. Information about dishonoured cheques and bills are also obtained.
6. Information is received about money misappropriated through any bank transactions.
7. Even when both the balances agree on a particular date, it is necessary to prepare Bank Reconciliation Statement to find out compensation errors, if any.

14.5 Distinguish between Cash Book and Pass Book

Sr. No.	Cash Book	Pass Book
1.	It is prepared by trader.	It is prepared by the bank.
2.	Traders are deposited cash or cheques or bank collected on behalf of trader and bank credited interest, all entries are recorded in Cash book on the debit side.	Traders are deposited cash or cheques or bank collected on behalf of trader and bank credited interest, all entries are recorded in passbook on the credit side.
3.	Debit balance exceeds of the credit balance, it is known as bank balance.	Credit balance exceeds of the debit balance, it is known as bank balance.
4.	Cheques deposited or issued; every entry immediately noted in cash book.	In pass book cheques cleared or entered a bank after noted in pass book.
5.	Traders issued a cheque, withdrawn a cash, bank has paid on behalf of trader, all entries are recorded in cash book on the credit side.	Traders issued a cheque, withdrawn a cash, bank has paid on behalf of trader, all entries are recorded in pass book on the debit side.

14.6 Reasons for difference in the bank balance in the cash book and in the passbook

• **Reasons for difference are as under:**

1. Cheques deposited in the bank but not credited.
2. Cheques issued but not presented for payment at the bank.
3. Transaction recorded by bank in Pass Book but not recorded in cashbook:
4. Cash or cheques directly credited by customer or a debtor in to the bank without any information to trader.

5. Bank makes payment on behalf of trader but trader has not received any information about it.
6. Interest credited by bank in the Pass Book.
7. Interest on bank overdraft, bank charges commission etc. debited in the passbook by the bank.
8. Amount collected by bank on behalf of the trader.
9. Cheques deposited in the bank but not recorded in cash book.
10. Dishonour of a cheque or bills receivables discounted with the bank.
11. Errors of cashbook and passbook:
 - An error of writing the entries the wrong amount or on the wrong side.
 - An error of totaling.
 - An error of occurred in finding balance.
 - An error in carrying forward of the bank balance.

14.7 Transaction related Bank Reconciliation Statement Entries

Sr. No	Transaction	Balance as per C/B	Balance as per P/B	B.O.D. as per C/B	B.O.D. as per P/B
1.	Cheque issued but still not presented to the bank for payment	+	-	-	+
2.	Bank has credited Dividend Interest in passbook	+	-	-	+
3.	Cheque deposited into bank but not collected by bank	-	+	+	-
4.	Cash or cheques directly deposited by third Parties	+	-	-	+
5.	Cheques issued but not credited in the cashbook	-	+	+	-
6.	Cheques debited in the cashbook but not deposited	-	+	+	-
7.	Bank charges, Bank commission B.O.D. Interest debited by bank	-	+	+	-
8.	The amount paid by bank on our behalf	-	+	+	-
9.	Bank credited amount of other parties in our account	+	-	-	+
10.	Cheques issued but bank debited other party's account	+	-	-	+
11.	Bank charges interest,	+	-	-	+

	commission, etc. noted in C/B two times				
12.	The total of the receipt side of the C/B is under cast/payment side is overcast	+	-	-	+
13.	The total of the receipt side of cash book is overcast/ payment side is under cast.	-	+	+	-
14.	Bill receivable cleared in bank	+	-	-	+
15.	Bill payable cleared in bank	-	+	+	-
16.	Cheques deposited in bank but not debited in cashbook				
17.	Bank debited bills receivable dishonored with noting changes.	-	+	+	-
18.	Bank debited expenses but in C/B it is recorded on the debit side	(With double amount)			
		-	+	+	-
19.	Total of the debit side of passbook is over cast / credit side is under cast	-	+	+	-
20.	Cheques deposited but partial amount credited by bank	-	+	+	-
21.	The total of credit side of P/B is overcast / debit side is under cast	+	-	-	+
22.	Bank has debited other parties cheque in our passbook	-	+	+	-
23.	Our cheques are credited in other party's a/c by bank	-	+	+	-
24.	Debit balances of cashbook recorded as credit balance by mistake	+	-	-	+

❖ **Remember: -**

1. Debit balance as per cash book → Bank balance
2. Credit balance as per pass book → Bank balance

3. Credit balance as per cash book → Bank overdraft
4. Debit balance as per pass book → Bank overdraft

• **Rules are to Remember:**

1. Sum always starts with the closing balance of any one book.
2. If any transaction recorded in both the book, therefore differences is not create then it is not recorded in B.R.S. [If it is not recorded in both the books, then also it is not recorded in B.R.S.]
3. If any transaction recorded in any one book, find out in which book it is not recorded.
4. Then differences create in particular book or Particular side which is recorded in B.R.S. on the same side.

• **Specimen of Cash Book:**

Dr.

Cr.

Receipts	Amount	Payments	Amount
Opening bank / cash balance		Opening bank O/D	
cheque received		Cheque Issued	
cheque deposited		Expenses paid (Insurance Premium, Salary etc.)	
Income received [dividend, Interest]		Bank has Paid on our behalf (Electricity Bill)	
Bank has received on our behalf		Bank has debited in our A/c (bank charges)	
Bank has credited in our A/c (bank interest, income)		Bills payable, Purchase	
Bills Receivable, Sales		Cash withdraw	
Closing bank O/D		Closing bank balance	

=> **Rules:**

1. You decided the transaction is recorded in which book firstly.
2. Then you supposed that other book is not recorded this transaction in his book (if there is no any particular mentioned)
3. Now the difference create in any particular book, which is not recorded the transaction.

4. Then this difference recorded in B.R.S. on the same side which is not recorded in particular book on particular side.

• **Illustrations**

1. According to the company's bank account on 31st December, 2023 cash book was shown overdraft of Rs. 4,062. On the same date bank statement shown bank balance of Rs. 1,400. From the following information prepare Bank reconciliation statement as on that date.

- (b) A cheque for Rs. 1,140 deposited on 29th December, 2023 was credited by the bank on 3rd January, 2024.
- (c) Bank charge amounting to Rs. 58 had not been recorded in the cash book.
- (d) The bank credited an amount of Rs. 1,740 on 29th December, 2023 received from Z, but not received any information from the bank till 1st January, 2024.
- (e) Payment of Rs. 160 made by cheque has been recorded twice in the cash book.
- (f) Cheque issued of Rs. 3,760 on 30th December, 2023 but not presented for payment in the bank till 31st December, 2023.
- (g) Bank has credited Rs. 2,000 in the bank account on 6th December, 2023 by mistake.
- (h) A bill of exchange of Rs. 1,000 was discounted in the bank, which was dishonored on 28th December, 2023 but entry had not been recorded in the cash book.

Ans.

Bank Reconciliation Statement as on 31st December, 2023

Particulars	Debit Amount (Rs.)	Credit Amount (Rs.)
➤ Bank Overdraft as per Cash Book		4,062
(a) Cheque deposited but not collected by bank till date		1,140
(b) Bank charges not recorded in the cash book		58
(c) Bank credited in the pass book but not recorded in the cash book	1,740	
(d) Payment of the cheque recorded twice in the cash book	160	
(e) Issued cheque not presented for payment in the bank till 31-12-23	3,760	
(f) Bank credited in the passbook by mistake	2,000	
(g) Discounted bills dishonored by bank not recoded in the cashbook		1,000
➤ Bank Balance as per Pass Book		1,400
	7,660	7,660

2. You are given the following information extracted from the records of B Enterprise on 31st March, 2024. You are requested to prepare Bank Reconciliation Statement as on that date.

Cash Book

Dr.			Cr.		
Date	Particulars	Amt.	Date	Particulars	Amt.
2024 March-1	To Balance B/d	4,980	2024 March-1	By Bank Charges	20
5	To Interest	40	6	By Jayshree	600
8	To Mahesh	800	9	By Ajay	340
11	To Ankit	420	14	By Savai	300
17	To Khushbu	300	20	By Mansi	260
23	To Dhaval	460	27	By Ram	840
			31	By Balance C/d	4,640
		7,000			7,000

Pass Book

Date	Particulars	Debit Amount (Rs.)	Credit Amount (Rs.)	Balance Amount (Rs.)
2024 March-1	To Balance b/d			5,000
7	To Jayshree	600	-	4,400
9	To Mahesh	-	800	5,200
12	To Ankit		420	5,620
12	To Ajay	340	-	5,280
18	To Insurance Premium	890	-	4,390
21	To Savai	300	-	4,090
24	To dividend on shares	-	1,220	5,310
28	To Calls on shares of XYZ Ltd.	2,500	-	2,810
31	To Balance C/d	-	-	2,810

Ans.

Bank Reconciliation Statement as on 31st December, 2023

Particulars	Debit Amount (Rs.)	Credit Amount (Rs.)
➤ Bank Balance as per Cash Book	4,640	
a. Cheques deposited in the bank but not credited (Khushbu – 300 + Dhaval - 460)		760
b. Cheques issued but not present for payment in		

the bank (Mansi – 260 + Ram – 840)	1,100	
c. Dividend credited in the pass book	1,220	
d. Bank paid call money on shares		2,500
e. Insurance premium paid by bank on our behalf		890
➤ Bank Balance as per Pass Book		2,810
	6,960	6,960

Note: Bank Charges and Interest shown in the Cash book current month which was not shown in the passbook current month it means both these transactions were shown last month. Both entries were shown in the BRS last month so that it should not be shown again in the current month BRS.

3. Prepare a Bank Reconciliation Statement of Resham Wala Brothers on 31st January, 2024 from the following information. Bank Balance shown as per Cash Book Rs. 9,700 and Pass Book has a Credit balance of Rs. 5,420.

- A Cheque of Rs. 3,200 deposited in the bank but not credited by bank till date.
- Bank has collected of Rs. 1,720 dividend from the Polycab Ltd. not recorded in the cashbook.
- One customer has directly deposited cheque of Rs. 2,500 in the bank account which was not informed to the account holders till date.
- Bank has credited bank interest of Rs. 300 and debited bank charges of Rs. 120 to the account, which was not recorded in the cash book.
- Bank has paid Rs. 1,500 for property tax on behalf of account holder for which no information was received from the bank.
- A cheque of Rs. 4,520 directly deposited in the bank account not recorded in the cash book.
- A bill of Rs. 5,000 discounted in the bank is now dishonored, bank has paid dishonored charges of Rs. 100 and debited both the amounts in the account for which no information received by account holder.
- Issued cheque of Rs. 1,600 paid by bank but not recorded in the cash book.
- Cheque of Rs. 4,200 issued to customer was wrongly recorded in the cash book as Rs. 2,400.

Ans.

Bank Reconciliation Statement as on 31st January, 2024

Particulars	Debit Amount (Rs.)	Credit Amount (Rs.)
➤ Bank Balance as per Cash Book	9,700	
a. Cheque deposited but not credited by the bank		3,200
b. Bank collected dividend of Polycab Ltd. not recorded in Cashbook	1,720	
c. Customer directly deposited cheque in the bank not recorded in the cash book	2,500	
d. Bank charges and bank interest recorded in the pass book	300	120
e. Bank paid property tax on our behalf		1,500

f. Directly deposited cheque not recorded in the cash book	4,520	
g. Bank has debited dishonored bills along with charges in the bank account not recorded in the cash book		5,100
h. Issued cheque paid by bank but not recorded in the cash book		1,600
i. Issued cheque to customer but wrong amount is recoded in the cash book		1,800
➤ Bank Balance as per Pass Book		5,420
	18,740	18,740

- **Exercise**

- **Multiple Choice Questions**

1. The main purpose of preparing a bank reconciliation statement is?

- a. To Know the Bank Balance b. To know the balance of bank statement
c. To correct the Cash Book **d. To identify causes of difference between cash book and bank statement**

2. Bank reconciliation statement is?

- a. part of bank statement b. part of the cash book
c. a separate statement d. a sub- division of journal

3. Favorable balance means?

- a. credit balance in the cash book b. credit balance in bank statement
c. debit balance in cash book **d. both b and c**

4. When cheque is not paid by the bank, it is called?

- a. Honored b. Endorsed
c. Dishonoured d. a & b

5. Bank statement is also called?

- a. Pass Book** b. Cash Book
c. Credit Book d. Debit Book

- **Write a short note:**

1. Bank Balance 2. Bank Overdraft

- **Write a Long Question Answers:**

1. Explain the Objectives of Bank Reconciliation Statement in detail.
2. Distinguish between Cash Book & Pass Book.
3. Describe the difference in the Bank Balance in the Cash Book and in the Pass Book.

❖ **Practical questions:**

Question:1 According to the Cash Book of Shri Mehta his bank balance on 31-1-2020 was Rs. 5,000 which did not agree with the balance of his Pass Book. On comparing the Cash Book with the Pass Book it was found that-

- (1) Out of the cheques issued during January, cheques of Rs. 1,500 were still not presented for payment.
- (2) Out of the cheques sent to the bank for collection during January, cheques worth Rs. 800 were not Collected by the bank.
- (3) The bank has credited interest Rs. 50 in the Pass Book and has debited bank commission Rs. 10, which has not been recorded in the Cash Book.

Prepare a bank reconciliation statement as on 31-1-2020.

Question:2 From the following particulars, prepare a Bank reconciliation statement as on 31st December, 2021.

- (I) Balance as per Cash Book ₹6,000.
- (II) Cheques issued but not presented for payment ₹2,000.
- (III) Cheques sent for collection but not collected up to 31st December, 2021 ₹1,500.
- (IV) The Bank had wrongly debited the account of the firm by ₹200 which was rectified by them after 31st December.

Balance as per Pass Book is ₹6,500.

Question:3 From the following particulars, prepare a Bank reconciliation statement Showing the balance as per cash book as on 31st December, 2019.

- (I) Out of cheques of ₹9,000 paid on 29th December, ₹4,000 appear to have been credited in the pass book on 2nd January, 2020.
- (II) I had issued cheques in December, 2019 amounting in all to ₹ 16,000 out of which I found that cheques for ₹7,000 have been cashed in the same month; a cheque of ₹5,000 cashed on January 3, 2020 and the rest have not been presented at all.
- (III) My bankers have given me a wrong credit in my Joint Account with my wife, in respect of a cheque of ₹2,000 paid into my personal account.
- (IV) ₹1,000 for interest on overdraft charged in the pass book on 31st December has been entered in my cash book on 4th January, 2020.
- (V) My pass book shows a credit of ₹1,200 to my account being interest on my securities collected by my bankers.
- (VI) The balance as per my pass book shown an overdraft of ₹ 19,000.

Question:4 From the following entries in the Bank Column of the Cash Book of Mr. Rajan and corresponding Bank Pass Book, prepare Reconciliation statement as on 31st March, 2018.

Cash Book

Date	Particulars	Amount	Date	Particulars	Amount
2018			2018		
March 1	To balance b/d	3,400	March 7	By Drawings	1,500
March 10	To Heri & Sons	500	March 8	By Salary	2,200
March 13	To Anjali	4,000	March 15	By Ardesar & co.	3,000
March 18	To Nupur & Co.	1,200	March 28	By Mahi Bros.	1,550
March 28	To Rishabh & Co.	2,200	March 29	By Ram & Sons	800
March 29	To Reshma & co.	5,700	March 30	By Macmillan Radios	400
March 31	To Antony	3,425	March 31	By Ramu	1,600
			March 31	By Balance c/d	9,375
		20,425			20,425

Pass Book

Date	Particulars	Amount	Date	Particulars	Amount
2018			2018		
April 1	To balance (overdraft)	750	April 2	By Dividends	500
April 2	To Ram & Sons	800	April 2	By Rishabh & Co.	2,200
April 4	To Macmillan Radios	400	April 2	By Rakesh	200
April 8	To Salary	2,300	April 3	By Reshma & co.	5,700
April 10	To Drawings	500	April 3	By Antony	3,425
April 10	To Antony (cheque dishonoured)	3,425	April 5	By Roshni	170

Question: 5 On 31st December, 2019 the Cash Book of a merchant shown a debit balance of ₹850. On comparing the Cash Book with the Bank Pass Book, the following discrepancies were noted:

- (2) Cheques issued for ₹600 were not presented at the bank by 31st December, 2019.
- (3) Cheques for ₹1,000 were deposited in the bank but were not cleared.
- (4) The proceeds of a Bill Receivable of ₹3,000 collected appear in the pass book but not in the cash book.
- (5) A cheque for 100 received from X & Co. and deposited in the bank was dishonoured. No advice of non-payment was received from bank till the 1st of January, 2020.
- (6) The Bank has settled a Bill Payable amounting to ₹450 but it has not been entered in the cash book.
- (7) A Bill Receivable for ₹800 which was discounted with the bank was due this month. It was dishonoured by the drawee on due date.
- (8) A cheque for ₹510 was paid into the bank but the bank credited the account with ₹501 by mistake.

- (9) A cheque for ₹50 was deposited into the bank but the same was credited to a wrong account.
 - (10) Rs.200 was deposited by a customer directly into the bank.
 - (11) The bank received interest of 250 on debentures on behalf of the trader.
 - (12) A cheque for 150 received from a customer and deposited in the bank was not entered in the cash book.
 - (13) The Bank paid 125 towards insurance premium.
 - (14) The Bank charged Rs.9 as their commission for collecting outstation cheques and allowed interest of Rs. 10 on the trader's balance.
 - (15) A cheque for ₹25 entered into the cash book was omitted to be banked.
- Prepare a Bank Reconciliation Statement and show the balance as per Pass Book.

યુનિવર્સિટી ગીત

સ્વાધ્યાય: પરમં તપ:

સ્વાધ્યાય: પરમં તપ:

સ્વાધ્યાય: પરમં તપ:

શિક્ષણ, સંસ્કૃતિ, સદ્ભાવ, દિવ્યબોધનું ધામ
ડૉ. બાબાસાહેબ આંબેડકર ઓપન યુનિવર્સિટી નામ;
સૌને સૌની પાંખ મળે, ને સૌને સૌનું આભ,
દશે દિશામાં સ્મિત વહે હો દશે દિશે શુભ-લાભ.

અભણ રહી અજ્ઞાનના શાને, અંધકારને પીવો ?
કહે બુદ્ધ આંબેડકર કહે, તું થા તારો દીવો;
શારદીય અજવાળા પહોંચ્યાં ગુર્જર ગામે ગામ
ધ્રુવ તારકની જેમ ઝળહળે એકલવ્યની શાન.

સરસ્વતીના મયૂર તમારે ફળિયે આવી ગહેકે
અંધકારને હડસેલીને ઉજાસના ફૂલ મહેંકે;
બંધન નહીં કો સ્થાન સમયના જવું ન ઘરથી દૂર
ઘર આવી મા હરે શારદા દૈન્ય તિમિરના પૂર.

સંસ્કારોની સુગંધ મહેંકે, મન મંદિરને ધામે
સુખની ટપાલ પહોંચે સૌને પોતાને સરનામે;
સમાજ કેરે દરિયે હાંકી શિક્ષણ કેરું વહાણ,
આવો કરીયે આપણ સૌ
ભવ્ય રાષ્ટ્ર નિર્માણ...
દિવ્ય રાષ્ટ્ર નિર્માણ...
ભવ્ય રાષ્ટ્ર નિર્માણ