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SCHOOL OF MANAGEMENT STUDIES

UNIT I - FINANCIAL ACCOUNTING- I - SBA1105

Over the centuries, accounting has remained confined to the financial record-keeping functions of the accountant. But, today's rapidly changing business environment has forced the accountants to reassess their roles and functions both within the organisation and the society. The role of an accountant has now shifted from that of a mere recorder of transactions to that of the member providing relevant information to the decision-making team. Broadly speaking, accounting today is much more than just bookkeeping and the preparation of financial reports. Accountants are now capable of working in exciting new growth areas such as: forensic accounting (solving crimes such as computer hacking and the theft of large amounts of money on the internet); ecommerce (designing web-based payment system); financial planning, environmental accounting, etc. This realisation came due to the fact that accounting is capable of providing the kind of information that managers and other interested persons need in order to make better decisions. This aspect of accounting gradually assumed so much importance that it has now been raised to the level of an information system. As an information system, it collects data and communicates economic information about the organisation to a wide variety of users whose decisions and actions are related to its performance. This introductory chapter therefore, deals with the nature, need and scope of accounting in this context.

Need and Importance of Accounting

When a person starts a business, whether large or small, his main aim is to earn profit. He receives money from certain sources like sale of goods, interest on bank deposits etc. He has to spend money on certain items like purchase of goods, salary, rent, etc. These activities take place during the normal course of his business. He would naturally be anxious at the year end, to know the progress of his business. Business transactions are numerous, that it is not possible to recall his memory as to how the money had been earned and spent. At the same time, if he had noted down his incomes and expenditures, he can readily get the required information. Hence, the details of the business transactions have to be recorded in a clear and systematic manner to get answers easily and accurately for the following questions at any time he likes.

i. What has happened to his investment?

ii. What is the result of the business transactions?

iii. What are the earnings and expenses?

iv. How much amount is receivable from customers to whom goods have been sold on credit?

v. How much amount is payable to suppliers on account of credit purchases?

vi. What are the nature and value of assets possessed by the business concern?

vii. What are the nature and value of liabilities of the business concern?

Meaning

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

Definition

- The American Institute of Certified Public Accountants has defined accounting as "the art of **recording, classifying and summarizing** in a significant manner and in terms of money transactions and events which are, in part at least, of financial character, and interpreting the results thereof."

Objectives of accounting

- The main objectives of accounting are

    i. to maintain accounting records.

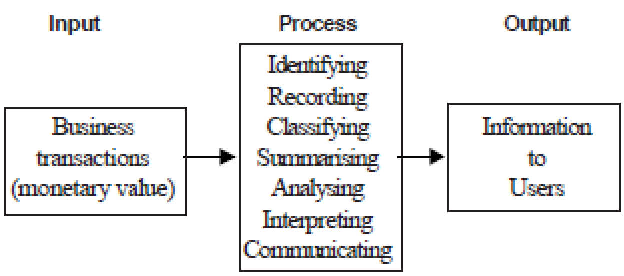
    ii. to calculate the result of operations.

    iii. to ascertain the financial position.

    iv. to communicate the information to users.

Process

The process of accounting as per the above definition is given below:



In order to accomplish its main objective of communicating information to the users, accounting embraces the following functions.

i. Identifying: Identifying the business transactions from the source documents.

ii. Recording: The next function of accounting is to keep a systematic record of all business transactions, which are identified in an orderly manner, soon after their occurrence in the journal or subsidiary books.

iii. Classifying: This is concerned with the classification of the recorded business transactions so as to group the transactions of similar type at one place. i.e., in ledger accounts. In order to verify the arithmetical accuracy of the accounts, trial balance is prepared.

iv. Summarising : The classified information available from the trial balance are used to prepare profit and loss account and balance sheet in a manner useful to the users of accounting information.

v. Analysing: It establishes the relationship between the items of the profit and loss account and the balance sheet. The purpose of analysing is to identify the financial strength and weakness of the business. It provides the basis for interpretation.

vi. Interpreting: It is concerned with explaining the meaning and significance of the relationship so established by the analysis. Interpretation should be useful to the users, so as to enable them to take correct decisions.

vii. Communicating: The results obtained from the summarised, analysed and interpreted information are communicated to the interested parties.

Users of Accounting Information

The basic objective of accounting is to provide information which is useful for persons and groups inside and outside the organization.

I. Internal users: Internal users are those individuals or groups who are within the organisation like owners, management, employees and trade unions.

- **Owners**: To know the profitability and financial soundness of the business.
- **Management:** To take prompt decisions to manage the business efficiently.
- **Employees and Trade unions:** To form judgement about the earning capacity of the business since their remuneration and bonus depend on it.

II. External users: External users are those individuals or groups who are outside the organisation like creditors, investors, banks and other lending institutions, present and potential investors, Government, tax authorities, regulatory agencies and researchers.

- **Creditors, banks and other:** To determine whether the principal and lending institutions the interest thereof will be paid in when due.

- **Present investors:** To know the position, progress and prosperity of the business in order to ensure the safety of their investment.
- **Potential investors:** To decide whether to invest in the business or not.
- **Government and Tax :**To know the earnings in order to assess authorities the tax liabilities of the business.
- **Regulatory agencies:** To evaluate the business operation under the regulatory legislation.
- **Researchers:** To use in their research work.

Branches of Accounting

The economic development and technological advancements have resulted in an increase in the scale of operations and the advent of the company form of business organisation. This has made the management function more and more complex and increased the importance of accounting information. This gave rise to special branches of accounting. These are briefly explained below:

1. Financial accounting : The purpose of this branch of accounting is to keep a record of all financial transactions so that:

(a) the profit earned or loss sustained by the business during an accounting period can be worked out,

(b) the financial position of the business as at the end of the accounting period can be ascertained, and

(c) the financial information required by the management and other interested parties can be provided.

2. Cost Accounting : The purpose of cost accounting is to analyse the expenditure so as to ascertain the cost of various products manufactured by the firm and fix the prices. It also helps in controlling the costs and providing necessary costing information to management for decision-making.
3. Management Accounting : The purpose of management accounting is to assist the management in taking rational policy decisions and to evaluate the impact of its decisons and actions.

CONCEPTUAL FRAME WORK OF ACCOUNTING

Frame Work of Accounting

Assumptions	Concepts	Modifying Principles
1. Accounting Entity	1. Dual Aspect	1. Cost Benefit
2. Money Measurement	2. Revenue Realisation	2. Materiality
3. Accounting Period	3. Historical Cost	3. Consistency
4. Going Concern	4. Matching	4. Prudence
	5. Full Disclosure	
	6. Verifiable and objective evidence	

I.Basic Assumptions

The basic assumptions of accounting are like the foundation pillars on which the structure of accounting is based. The four basic assumptions are as follows:

i. Accounting Entity Assumption

According to this assumption, business is treated as a unit or entity apart from its owners, creditors and others. In other words, the proprietor of a business concern is always considered to be separate and distinct from the business which he controls. All the business transactions are recorded in the books of accounts from the view point of the business. Even the proprietor is treated as a creditor to the extent of his capital.

ii. Money Measurement Assumption

In accounting, only those business transactions and events which are of financial nature are recorded. For example, when Sales Manager is not on good terms with Production Manager, the business is bound to suffer. This fact will not be recorded, because it cannot be measured in terms of money.

iii. Accounting Period Assumption

The users of financial statements need periodical reports to know the operational result and the financial position of the business concern. Hence it becomes necessary to close the accounts at regular intervals. Usually a period of 365 days or 52 weeks or 1 year is considered as the accounting period.

iv. Going Concern Assumption

As per this assumption, the business will exist for a long period and transactions are recorded from this point of view. There is neither the intention nor the necessity to wind up the business in the foreseeable future.

II. Basic Concepts of Accounting

These concepts guide how business transactions are reported. On the basis of the above four assumptions the following concepts (principles) of accounting have been developed.

i. Dual Aspect Concept

Dual aspect principle is the basis for Double Entry System of book-keeping. All business transactions recorded in accounts have two aspects - receiving benefit and giving benefit. For example, when a business acquires an asset (receiving of benefit) it must pay cash (giving of benefit).

ii. Revenue Realisation Concept

According to this concept, revenue is considered as the income earned on the date when it is realised. Unearned or unrealised revenue should not be taken into account. The realisation concept is vital for determining income pertaining to an accounting period. It avoids the possibility of inflating incomes and profits.

iii. Historical Cost Concept

Under this concept, assets are recorded at the price paid to acquire them and this cost is the basis for all subsequent accounting for the asset. For example, if a piece of land is purchased for Rs.5,00,000 and its market value is Rs.8,00,000 at the time of preparing final accounts the land value is recorded only for Rs.5,00,000. Thus, the balance sheet does not indicate the price at which the asset could be sold for.

iv. Matching Concept

Matching the revenues earned during an accounting period with the cost associated with the period to ascertain the result of the business concern is called the matching concept. It is the basis for finding accurate profit for a period which can be safely distributed to the owners.

v. Full Disclosure Concept

Accounting statements should disclose fully and completely all the significant information. Based on this, decisions can be taken by various interested parties. It involves proper classification and explanations of accounting information which are published in the financial statements.

vi. Verifiable and Objective Evidence Concept

This principle requires that each recorded business transactions in the books of accounts should have an adequate evidence to support it. For example, cash receipt for payments made. The documentary evidence of transactions should be free from any bias. As accounting records are based on documentary evidence which are capable of verification, it is universally acceptable.

III. Modifying Principles

To make the accounting information useful to various interested parties, the basic assumptions and concepts discussed earlier have been modified. These modifying principles are as under.

i. Cost Benefit Principle

This modifying principle states that the cost of applying a principle should not be more than the benefit derived from it. If the cost is more than the benefit then that principle should be modified.

ii. **Materiality Principle**

The materiality principle requires all relatively relevant information should be disclosed in the financial statements. Unimportant and immaterial information are either left out or merged with other items.

iii. Consistency Principle

The aim of consistency principle is to preserve the comparability of financial statements. The rules, practices, concepts and principles used in accounting should be continuously observed and applied year after year. Comparisons of financial results of the business among different accounting period can be significant and meaningful only when consistent practices were followed in ascertaining them. For example, depreciation of assets can be provided under different methods, whichever method is followed, it should be followed regularly.

iv. Prudence (Conservatism) Principle

Prudence principle takes into consideration all prospective losses but leaves all prospective profits. The essence of this principle is “anticipate no profit and provide for all possible losses”. For example, while valuing stock in trade, market price or cost price whichever is less is considered.

Double Entry System

There are numerous transactions in a business concern. Each transaction, when closely analysed, reveals two aspects. One aspect will be “receiving aspect” or “incoming aspect” or “expenses/loss aspect”. This is termed as the **“Debit aspect”**. The other aspect will be “giving aspect” or “outgoing aspect” or “income/gain aspect”. This is termed as the **“Credit aspect”.** These two aspects namely "Debit aspect" and "Credit aspect" form the basis of Double Entry System. The double entry system is so named since it records both the aspects of a transaction. In short, the basic principle of this system is, for every debit, there must be a corresponding credit of equal amount and for every credit, there must be a corresponding debit of equal amount.

Definition of Double Entry System

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

Features of Double Entry System

i. Every business transaction affects two accounts.

ii. Each transaction has two aspects, i.e., debit and credit.

iii. It is based upon accounting assumptions concepts and principles.

iv. Helps in preparing trial balance which is a test of arithmetical accuracy in accounting.

v. Preparation of final accounts with the help of trial balance.

Approaches of Recording

There are two approaches for recording a transaction.

I. Accounting Equation Approach

II. Traditional Approach

I. Accounting Equation Approach

This approach is also called as the **American Approach**. Under this method transactions are recorded based on the accounting equation,

i.e.,

Assets = Liabilities + Capital

This will be discussed in detail in the next chapter.

II. Traditional Approach

This approach is also called as the **British Approach**. Recording of business transactions under this method are formed on the basis of the existence of two aspects (debit and credit) in each of the transactions. All the business transactions are recorded in the books of accounts under the 'Double Entry System'.

Accounting Rules

- **Personal Accounts (**Natural person or Company)
  - Debit the receiver
  - Credit the giver
- **Real Accounts (**cash , property or asset)
  - Debit what comes in
  - Credit what goes out
- **Nominal Accounts (**Business expenses or losses and income or gains)
  - Debit all expenses and losses
  - Credit all income and gains

Journal

A journal may be defined as the book or original or prime entry containing a chronological record of the transactions from which posting is done to the ledger. The transactions are recorded first in the journal in the order in which they occur.

Form of Journal

Date	Particulars	Ledger Folio(LF)	Debit Amount	Credit Amount

Explanation:

1. Date : In the first column, the date of the transaction is entered. The year and the month is written only once, till they change. The sequence of the dates and months should be strictly maintained.

2. Particulars : Each transaction affects two accounts, out of which one account is debited and the other account is credited. The name of the account to be debited is written first, very near to the line of particulars column and the word **Dr.** is also written at the end of the particulars column. In the second line, the name of the account to be credited is written, starts with the word '**To**', a few space away from the margin in the particulars column to the make it distinct from the debit account.

3. Narration : After each entry, a brief explanation of the transaction together with necessary details is given in the particulars column with in brackets called **narration**. The words 'For' or 'Being' are used before starting to write down narration. Now, it is not necessary to use the word 'For' or 'Being'.

4. Ledger Folio (L.F): All entries from the journal are later posted into the ledger accounts. The page number or folio number of the Ledger, where the posting has been made from the Journal is recorded in the L.F column of the Journal. Till such time, this column remains blank.

5. Debit Amount : In this column, the amount of the account being debited is written.

6. Credit Amount : In this column, the amount of the account being credited is written.

Steps in Journalising

The process of analysing the business transactions under the heads of debit and credit and recording them in the Journal is called **Journalising**. An entry made in the journal is called a '**Journal Entry**'.

Step 1 Determine the two accounts which are involved in the transaction.

Step 2 Classify the above two accounts under Personal, Real or Nominal.

Step 3 Find out the rules of debit and credit for the above two accounts.

Step 4 Identify which account is to be debited and which account is to be credited.

Step 5 Record the date of transaction in the date column. The year and month is written once, till they change. The sequence of the dates and months should be strictly maintained.

Step 6 à Enter the name of the account to be debited in the particulars column very close to the left hand side of the particulars column followed by the abbreviation Dr. in the same line. Against this, the amount to be debited is written in the debit amount column in the same line.

Step 7 Write the name of the account to be credited in the second line starts with the word '**To**' a few space away from the margin in the particulars column. Against this, the amount to be credited is written in the credit amount column in the same line.

Step 8 Write the narration within brackets in the next line in the particulars column.

Step 9 Draw a line across the entire particulars column to separate one journal entry from the other.

Example 1:

January 1, 2004 – Saravanan started business with Rs. 1,00,000

Step 1	Determine the two accounts involved in the transaction.	Cash Account	Capital Account
Step 2	Classify the accounts under personal, real or nominal.	Real Account	Personal Account
Step 3	Find out the rules of debit and credit.	2(a) Debit what comes in.	1(b) Credit the giver
Step 4	Identify which account is to be debited and credited.	Cash A/c is to be debited	Capital A/c is to be credited

Solution :

Journal

Date	Particulars	LF	Debit Rs.	Debit P.	Credit Rs.	Credit P.
2004	Cash A/c Dr	12	1,00,000	–		
Jan 1	To Capital A/c	45			1,00,000	–
	(The amount invested in the business)					

Example 2

- On 1st June 2016 goods sold for Rs. 2000
- On 2nd June 2016 goods purchase from XYZ ltd for Rs.5000

General Journal

Date	Particulars	Ledger Folio(LF)	Ref	Debit Amount	Credit Amount
1/6/2016	Cash ------------Dr	15		2000	
	To, Sales				2000
	(Being cash sales to Mr X)				
2/6/2016	Purchase ---------------Dr	12		5000	
	To, XYZ Ltd				5000
	(Credit Purchase from XYZ ,Invoice No xxx)				

Example 3

- Journalise the following transactions in the books of Amar and post them in the Joural:-

2004

- March1 Bought goods for cash Rs. 25,000
- 2 Sold goods for cash Rs. 50,000
- 3 Bought goods for credit from Gopi Rs.19,000
- 5 Sold goods on credit to Robert Rs.8,000
- 7 Received from Robert Rs. 6,000
- 9 Paid to Gopi Rs.5,000
- 20 Bought furniture for cash Rs. 7,000

Solution : **Journal of Amar**

Date	Particulars		L.F	Debit Rs.	P.	Credit Rs.	P.
2004 Mar 1	Purchases A/c To Cash A/c (Cash purchases)	Dr.		25,000	–	25,000	–
2	Cash A/c To Sales A/c (Cash Sales)	Dr.		50,000	–	50,000	–
3	Purchases A/c To Gopi A/c (Credit purchases)	Dr.		19,000	–	19,000	–
5	Robert A/c To Sales A/c (Credit Sales)	Dr.		8,000	–	8,000	–
7	Cash A/c To Robert A/c (Cash received)	Dr.		6,000	–	6,000	–
9	Gopi A/c To Cash A/c (Cash paid)	Dr.		5,000	–	5,000	–
20	Furniture A/c. To Cash A/c (furniture purchased)	Dr.		7,000	–	7,000	–

Example 4

Mr. Nirmal has the following transactions in the month of April. Write Journal Entries for the transactions.

10th April : Commenced business with a capital of 1,00,000

11th April : Purchased goods from Veeru for 20,000

13th April : Purchased Goods for Cash 15,000

14th April : Purchased Goods from Abhiram for cash 9,000

16th April : Bought Goods from Shyam on credit 12,000

17th April : Sold goods worth 15,000 to Tarun

19th April : Sold goods for cash 20,000

20th April : Sold goods to Utsav for cash 6,000

21st April : Sold goods to Pranav on credit 17,000

22nd April : Returned goods to Veeru 3,000

23rd April : Goods returned from Tarun 1,000

25th April : Goods taken by the proprietor for personal use 1,000

26th April : Bought Land for 50,000

27th April : Purchased machinery for cash 45,000

28th April : Bought computer from Intel Computers for 25,000

28th April : Cash sales 15,000

29th April : Cash purchases 22,000

30th April : Bought furniture for proprietor's residence and paid cash 10,000

Journal in the books of Mr. Nirmal for the period from 1st to 30th April

ate	V/R No.	Particulars	L/F	Amount (Dr)	Amount (Cr)
April 10th	–	Cash a/c Dr To Capital a/c [Being the amount received from Mr. Nirmal in cash, the proprietor as his capital contribution vide receipt no:__ dated:__]	– –	1,00,000	 1,00,000
11th	–	Goods/Stock a/c Dr To Veeru a/c [Being the value of stock purchased from Mr. Veeru on credit vide bill no:___ dated:__]	– –	20,000	 20,000
13th	–	Goods/Stock a/c Dr To Cash a/c	– –	15,000	 15,000

ate	V/R No.	Particulars	L/F	Amount (Dr)	Amount (Cr)
		[Being the value of stock purchased for cash from M/s ___ vide bill no:___ dated:__]			
14th	–	Goods/Stock a/c Dr To Cash a/c [Being the value of stock purchased for cash from Mr. Abhiram vide bill no:___ dated:__]	– –	9,000	 9,000
16th	–	Goods/Stock a/c Dr To Shyam a/c [Being the value of stock purchased from Mr. Shyam on credit vide bill no:___ dated:__]	– –	12,000	 12,000
17th	–	Tarun a/c Dr To Goods/Stock a/c [Being the value of stock sold on credit to Mr. Tarun vide invoice no:___ dated:__]	– –	15,000	 15,000
19th	–	Cash a/c Dr To Goods/Stock a/c [Being the value of goods sold for cash vide receipt no:___ dated:__]	– –	20,000	 20,000
20th	–	Cash a/c Dr To Goods/Stock a/c [Being the value of stock sold to Mr. Utsav for cash vide receipt no:___ dated:__]	– –	6,000	 6,000
21st	–	Pranav a/c Dr To Goods/Stock a/c [Being the value of stock sold to Mr. Pranav on credit vide bill no:___ dated:__]	– –	17,000	 17,000

ate	V/R No.	Particulars	L/F	Amount (Dr)	Amount (Cr)
22nd	–	Veeru a/c Dr To Goods/Stock a/c [Being the value of goods returned to Mr. Veeru vide returns bill no:___ dated:__]	– –	3,000	 3,000
23rd	–	Goods/Stock a/c Dr To Tarun a/c [Being the value of stock returned by Mr. Tarun vide returns bill no:___ dated:__]	– –	1,000	 1,000
25rd	–	Drawings a/c Dr To Goods/Stock a/c [Being the value of stock taken by the proprietor vide bill no:___ dated:__]	– –	1,000	 1,000
26th	–	Land a/c Dr To Cash a/c [Being the amount paid for land purchased on:__]	– –	50,000cmd	 50,000
27th	–	Machinery a/c Dr To Cash a/c [Being the amount paid for the purchase of machinery vide bill no:___ dated:__]	– –	45,000	 45,000
28th	–	Computers a/c Dr To Intel Computers a/c [Being the value of a computer purchased from M/S Intel Computers on credit vide bill no:___ dated:__]	– –	25,000	 25,000
29th	–	Cash a/c Dr To Goods/Stock a/c	– –	15,000	 15,000

ate	V/R No.	Particulars	L/F	Amount (Dr)	Amount (Cr)
		[Being the value of stock sold for cash vide receipt no:___ dated:__]			
29th	–	Goods/Stock a/c Dr To Cash a/c [Being the value of stock purchased for cash vide bill no:___ dated:__]	– –	22,000	 22,000
30th	–	Drawings a/c Dr To Cash a/c [Being the amount of cash paid for furniture purchased for proprietor's residence vide bill no:___ dated:__]	– –	10,000	 10,000

Example 5

Journalise the following transactions in the books of Rama & Sons

3rd May : Cash deposited into bank 60,000

4th May : Loan given to Bhuvan 20,000

4th May : Paid cash to Veeru 20,000

5th May : Paid to Veeru by cheque 15,000

5th May : Cash received from Tarun 12,000

5th May : Took loan from Anush 15,000

6th May : Cheque received from Pranav 15,000

6th May : Paid to Intel Computers by cheque 17,000

6th May : Withdrew from bank 5,000

7th May : Withdrew from bank for office use 8,000

7th May : Cash received from Bhuvan on loan account 10,000

8th May : Withdrew from bank for personal use 1,000

8th May : Cash taken by proprietor for personal use 3,000

9th May : Bought furniture and paid by cheque 15,000

9th May : Paid to Anush by cheque on loan account 5,000

9th May : Brought additional capital of 25,000

Journal in the books of M/s Rama & Sons
for the period from 1st May to 10th May

Date	V/R No.	Particulars	L/F	Amount (Dr)	Amount (Cr)
May 3rd	–	Bank a/c Dr To Cash a/c [Being the amount of cash deposited into bank vide voucher no:___ dated:__]	– –	60,000	60,000
4th	–	Loan to Bhuvan a/c Dr To Cash a/c [Being the amount of cash given as loan to Bhuvan vide voucher no:___ dated:__]	– –	20,000	20,000
4th	–	Veeru a/c Dr To Cash a/c [Being the amount of cash paid to Veeru vide voucher no:___ dated:__]	– –	20,000	20,000
5th	–	Veeru a/c Dr To Bank a/c [Being the amount paid to veeru on account by cheque no. ___ dated ___]	– –	15,000	15,000
5th	–	Cash a/c Dr To Tarun a/c [Being the amount of cash received from Tarun vide cash receipt no:___ dated:__]	– –	12,000	12,000
5th	–	Cash a/c Dr To Loan from Anush a/c [Being the amount of loan taken from Anush on:__]	– –	15,000	15,000
6th	–	Bank a/c Dr To Pranav a/c [Being the amount received by cheque no. ____ date ____from Pranav]	– –	15,000	15,000
6th	–	Intel Computers a/c Dr To Bank a/c	– –	17,000	17,000

Journal in the books of M/s Rama & Sons
for the period from 1st May to 10th May

Date	V/R No.	Particulars	L/F	Amount (Dr)	Amount (Cr)
		[Being the amount paid by cheque no. ____ date ____to Intel Computers]			
6th	–	Cash a/c Dr To Bank a/c [Being the amount of cash withdrawn from bank]	– –	5,000	 5,000
7th	–	Cash a/c Dr To Bank a/c [Being the amount of cash withdrawn from bank vide bill no:___ dated:__]	– –	8,000	 8,000
7th	–	Cash a/c Dr To Loan to Bhuvan a/c [Being the amount of cash received from Bhuvan as loan vide cash receipt no:___ dated:__]	– –	10,000	 10,000
8th	–	Drawings a/c Dr To Bank a/c [Being the amount of withdrawn from bank for personal use vide cheque no:___ dated:__]	– –	1,000	 1,000
8th	–	Drawings a/c Dr To Cash a/c [Being the amount of cash taken by the proprietor for personal purposes vide voucher no:___ dated:__]	– –	3,000	 3,000
9th	–	Furniture a/c Dr To Bank a/c [Being the amount paid by cheque no ____ date ____ towards the purchase of furniture vide bill no:___ dated:__]	– –	15,000	 15,000
9th	–	Loan from Anush a/c Dr To Bank a/c [Being the amount paid by cheque no ____ date ____ towards repayment of loan from Anush vide voucher no:___ dated:__]	– –	5,000	 5,000
9th	–	Cash a/c Dr To Capital a/c	– –	25,000	 25,000

Journal in the books of M/s Rama & Sons
for the period from 1st May to 10th May

Date	V/R No.	Particulars	L/F	Amount (Dr)	Amount (Cr)
		[Being the amount received from proprietor as capital vide cash receipt no:___ dated:__]			

Example 6

Write journal entries in the books of Chikky & Bros.

10th June : Paid wages 12,000

11th June : paid rent by cheque 10,000

13th June : Paid salary to Mr. Charan 12,000

14th June : Purchased stationery from Kagaz & Co. and paid by cheque 5,000

15th June : Received interest 14,000

17th June : Received commission by cheque 6,000

18th June : Rent received from Mr. Mody 8,000

19th June : Interest received from Mr.Bijju by cheque 10,000

20th June : Carriage paid on purchase of goods 3,000

22nd June : Carriage paid on sale of goods 2,000

Journal in the books of M/s Chikky & Bros.
for the period from 1st June to 30th June

Date	V/R No.	Particulars	L/F	Amount (Dr)	Amount (Cr)
June 10th	–	Wages a/c Dr To Cash a/c [Being the amount of cash paid towards wages vide voucher no:___ dated:__]	– –	12,000	 12,000
11th	–	Rent paid a/c Dr To Bank a/c [Being the amount paid by cheque no.____ date ____ towards rent vide voucher no:___ dated:__]	– –	10,000	 10,000
13th	–	Salaries a/c Dr To Cash a/c	– –	12,000	 12,000

Journal in the books of M/s Chikky & Bros.
for the period from 1st June to 30th June

Date	V/R No.	Particulars	L/F	Amount (Dr)	Amount (Cr)
		[Being the amount of cash paid towards Salary to Mr. Charan vide voucher no:___ dated:__]			
14th	–	Stationery a/c Dr To Bank a/c [Being the amount paid by cheque no.____ date ____ towards stationery purchased from Kagaz & co. vide voucher no:___ dated:__]	– –	5,000	 5,000
15th	–	Cash a/c Dr To Interest Received a/c [Being the amount of cash received towards interest vide receipt no:___ dated:__]	– –	14,000	 14,000
17th	–	Bank a/c Dr To Commission Received a/c [Being the amount received by cheque no. ____ date____ towards commission vide receipt no:___ dated:__]	– –	6,000	 6,000
18th	–	Cash a/c Dr To Rent Received a/c [Being the amount of cash received towards rent from Mr. Mody vide receipt no:___ dated:__]	– –	8,000	 8,000
19th	–	Bank a/c Dr To Interest Received a/c [Being the amount received by cheque no. ____ date____ towards interest from Bijju vide receipt no:___ dated:__]	– –	10,000	 10,000
20th	–	Carriage Outwards a/c Dr To Cash a/c [Being the amount of cash paid towards carriage on goods purchased vide voucher no:___ dated:__]	– –	3,000	 3,000
22nd	–	Carriage Inwards a/c Dr To Cash a/c [Being the amount of cash paid towards carriage on goods sold vide voucher no:___ dated:__]	– –	2,000	 2,000

Compound Journal Entry

- When two or more transactions of similar nature take place on the same date, such transactions can be entered in the journal by means of a combined journal entry is called **Compound Journal Entry**.
- The only precaution is that the total debits should be equal to total credits.

On ***March 2017,*** Farhan Rahim, starts wholesaling business. Following transactions as follows:

1. He started business with capital of Rs. 15,000 and Land worth Rs. 10,000.

8. Bought goods from Bilal and Friends Rs. 1,000 and by cash from XYZ Co. Rs 2,000.

13. Sold goods to Rehman & sons Rs. 1,500 and sale by cash Rs. 5,000.

17. Gave away charity of cash Rs. 50 and merchandising worth Rs. 30.

21. Paid Bilal and Friends cash Rs. 975; discount received Rs. 25.

28. Received cash from Rehman & Sons Rs. 1,450; allowed him discount of Rs. 50.

General Journal

Date		Account Title and Explanations	Ref	Amount (Rs.) Debit	Amount (Rs.) Credit
2017					
March	*1*	Cash		15,000	
		Land		10,000	
		Owner's Equity_ Farhan Rahim			25,000
		(Owner started business by assets)			
	8	Purchases		3,000	
		Account Payable_ Bilal and Friends			1,000
		Cash			2,000
		(Purchases by cash and by credit)			
	13	Account Receivable_ Rehman & sons		1,500	
		Cash		5,000	
		Sales			6,500
		(Purchases by cash and Credit from Ahmed)			
	17	Charity		80	
		Cash			50
		Purchases			30
		(Charity by cash and by goods)			
	21	Account Payable_ Bilal and Friends		1,000	
		Cash			975
		Discount			25
		(Discount received and liability payoff)			
	28	Cash		1,450	
		Discount		50	
		Account Receivable_ Rehman & sons			1,500
		(Account receivable realized and discount allowed)			
		Total		**Rs. 37,080**	**Rs. 37,080**

LEDGER

Collection of an entire group of similar accounts in double-entry bookkeeping. Also called book of final entry, a ledger records classified and summarized financial information from journals.

A Ledger is a book which contains all the accounts whether personal, real or nominal, which are first entered in journal or special purpose subsidiary books.

According to **L.C. Cropper**, 'the book which contains a classified and permanent record of all the transactions of a business is called the Ledger'.

Format

Name of the Account

Dr. Cr.

Date	Particulars	JF	Amount AED	Date	Particulars	JF	Amount AED
Year Month Date	Accounts name			Year Month Date	Accounts name		

Explanation:

i. Each ledger account is divided into two parts. The left hand side is known as the debit side and the right hand side is known as the credit side. The words 'Dr.' and 'Cr.' are used to denote Debit and Credit.

ii. The name of the account is mentioned in the top (middle) of the account.

iii. The date of the transaction is recorded in the date column.

iv. The word 'To' is used before the accounts which appear on the debit side of an account in the particulars column. Similarly, the word 'By' is used before the accounts which appear on the credit side of an account in the particulars column.

v. The name of the other account which is affected by the transaction is written either in the debit side or credit side in the particulars column.

vi. The page number of the Journal or Subsidiary Book from where that particular entry is transferred, is entered in the Journal Folio (J.F) column.

vii. The amount pertaining to this account is entered in the amount column.

Example 1

Mr. Ram started business with cash Rs. 5,00,000 on 1st June 2003.

The transaction will appear in Journal and Ledger as under.

Solution :

In the Books of Ram
Journal

Date	Particulars	LF	Debit Rs.	Credit Rs.
2003 June 1	Cash A/c. Dr To Ram's Capital A/c (Ram started business with Rs.5,00,000)		5,00,000	5,00,000

Note : Here two accounts are involved, Cash Account and Ram's capital account, so we should allot in the ledger a page for each account.

Ledger

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

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2003 June 1	To Ram's Capital A/c		5,00,000				

Dr. **Ram's Capital Account** **Cr.**

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				2003 June 1	By Cash A/c		5,00,000

Example 2

Mr. Ramu has the following transactions in the month of July.

Record them into the journal and show postings in the ledger and balance the accounts.

July 1st : Ramu started business with a capital of 75,000

1st : Purchased goods from Manu on credit 25,000

2nd : Sold goods to Sonu 20,000

3rd : Purchased goods from Meenu 15,000

4th : Sold goods to Tanu for cash 16,000

5th : Goods retuned to Manu 2,000

6th : Bought furniture for 15,000

7th : Bought goods from Zenu 12,000

8th : Cash paid to Manu 10,000

9th : Sold goods to Jane 13,500

10th : Goods returned from Sonu 3,000

11th : Cash received from Jane 5,500

12th : Goods taken by Ramu for domestic use 3,000

13th : Returned Goods to Zenu 1,000

14th : Cash received from Sonu 12,000

15th : Bought machinery for 18,000

16th : Sold part of the furniture for 1,000

17th : Cash paid for the purchase of bicycle for Ramu's son 1,500

19th : Cash sales 15,000

20th : Cash purchases 13,500

Journal in the books of M/s Rama & Sons
for the period from July 1st, _5 to July 31st, _5

Date	V/R No.	Particulars	L/F	Amount (Dr)	Amount (Cr)
July 1st	–	Cash a/c Dr To Capital a/c [Being the amount received from Mr. Ramu, the proprietor as his capital contribution vide receipt no:___ dated:__]	– –	75,000	75,000
July 1st	–	Goods/stock a/c Dr To Manu a/c [Being the value of stock purchased from Mr. Manu vide bill no:___ dated:__]	– –	25,000	25,000
July 2nd	–	Sonu a/c Dr To Goods/stock a/c [Being the value of stock sold to Mr.Sonu vide bill no:___ dated:__]	– –	20,000	20,000

Journal in the books of M/s Rama & Sons
for the period from July 1st, _5 to July 31st, _5

Date	V/R No.	Particulars	L/F	Amount (Dr)	Amount (Cr)
July 3rd	–	Goods/stock a/c Dr To Meenu a/c [Being the value of stock purchased from Mr.Meenu on credit vide bill no:___ dated:__]	– –	15,000	 15,000
July 4th	–	Cash a/c Dr To Goods/stock a/c [Being the value of stock sold to Mr. Tanu for cash vide receipt no:___ dated:__]	– –	16,000	 16,000
July 5th	–	Manu a/c Dr To Goods/stock a/c [Being the value of stock returned to Mr. Manu vide bill no:___ dated:__]	– –	2,000	 2,000
July 6th	–	Furniture a/c Dr To Cash a/c [Being the value of furniture purchased from M/s ___vide bill no:___ dated:__]	– –	15,000	 15,000
July 7th	–	Goods/stock a/c Dr To Zenu a/c [Being the value of stock Purchased from Mr. Zenu vide bill no:___ dated:__]	– –	12,000	 12,000
July 8th	–	Manu a/c Dr To Cash a/c [Being the amount paid to Mr. Manu vide voucher no:___ dated:__]	– –	10,000	 10,000
July 9th	–	Jane a/c Dr To Goods/stock a/c [Being the value of stock Sold to Ms.Zane vide bill no:___ dated:__]	– –	13,500	 13,500
July 10th	–	Goods/stock a/c Dr To Sonu a/c [Being the value of stock returned from Mr. Sonu vide bill no:___ dated:__]	– –	3,000	 3,000
July 11th	–	Cash a/c Dr To Jane a/c	– –	5,500	 5,500

Journal in the books of M/s Rama & Sons
for the period from July 1st, _5 to July 31st, _5

Date	V/R No.	Particulars	L/F	Amount (Dr)	Amount (Cr)
		[Being the amount of cash received from Ms. Jane vide cash receipt no:___ dated:__]			
July 12th	–	Drawings a/c Dr To Goods/stock a/c [Being the amount of stock taken by Ramu for domestic use vide bill no:___ dated:__]	– –	3,000	 3,000
July 13th	–	Zenu a/c Dr To Goods/stock a/c [Being the amount of stock returned to Mr. Zenu vide bill no:___ dated:__]	– –	1,000	 1,000
July 14th	–	Cash a/c Dr To Sonu a/c [Being the amount of cash received from Mr. Sonu vide cash receipt no:___ dated:_]	– –	12,000	 12,000
July 15th	–	Machinery a/c Dr To Cash a/c [Being the amount paid for machinery purchased to M/s ____vide voucher no:___ dated:__]	– –	18,000	 18,000
July 16th	–	Cash a/c Dr To Furniture a/c [Being the amount received on sale of furniture vide cash receipt no:___ dated:__]	– –	1,000	 1,000
July 17th	–	Drawings a/c Dr To Cash a/c [Being the amount of cash paid for bicycle purchases for proprietor's son vide voucher no:___ dated:__]	– –	15,000	 15,000
July 19th	–	Cash a/c Dr To Goods/stock a/c [Being the value of stock sold for cash vide receipt no:___ dated:__]	– –	15,000	 15,000
July 20th	–	Goods/stock a/c Dr To Cash a/c [Being the value of stock Purchased for vide voucher no:___ dated:__]	– –	13,500	 13,500

General Ledger
[Books of Mr. Ramu]

Cash a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
01/10/_5	To Capital a/c	–	75,000	06/10/_5	By Furniture a/c	–	15,000
04/10/_5	To Goods/stock a/c	–	16,000	08/10/_5	By Manu a/c	–	10,000
11/10/_5	To Jane a/c	–	5,500	15/10/_5	By Machinery a/c	–	18,000
14/10/_5	To Sonu a/c	–	12,000	17/10/_5	By Drawings a/c	–	15,000
16/10/_5	To Furniture a/c	–	1,000	20/10/_5	By Goods/stock a/c	–	13,500
19/10/_5	To Goods/stock a/c	–	15,000	30/07/_5	By Balance c/d	–	53,000
	tl		1,24,500		tl		1,24,500
31/07/_5	To Balance b/d	–	53,000				

Capital a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
30/07/_5	To Balance c/d	–	75,000	01/10/_5	By Cash a/c	–	75,000
	tl		75,000		tl		75,000
				31/07/_5	By Balance b/d	–	75,000

Goods/stock a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
01/10/_5	To Manu a/c	–	25,000	02/10/_5	By Sonu a/c	–	20,000
03/10/_5	To Meenu a/c	–	15,000	04/10/_5	By Cash a/c	–	16,000
07/10/_5	To Zenu a/c	–	12,000	05/10/_5	By Manu a/c	–	2,000
10/10/_5	To Sonu a/c	–	3,000	09/10/_5	By Jane a/c	–	13,500
				12/10/_5	By Drawings a/c	–	3,000

Goods/stock a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
20/10/_5	To Cash a/c	–	13,500	13/10/_5	By Zenu a/c	–	1,000
30/07/_5	To Balance c/d	–	2,000	19/10/_5	By Cash a/c	–	15,000
	tl		70,500		tl		70,500
				31/07/_5	By Balance b/d	–	2,000

Manu a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
05/10/_5	To Goods/stock a/c	–	2,000	01/10/_5	By Goods/stock a/c	–	25,000
08/10/_5	To Cash a/c	–	10,000				
30/07/_5	To Balance c/d	–	13,000				
	tl		25,000		tl		25,000
				31/07/_5	By Balance b/d	–	13,000

Sonu a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
02/10/_5	To Goods/stock a/c	–	20,000	10/10/_5	By Goods/stock a/c	–	3,000
				14/10/_5	By Cash a/c	–	12,000
				30/07/_5	By Balance c/d	–	5,000
	tl		20,000		tl		20,000
31/07/_5	To Balance b/d	–	5,000				

Meenu A/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
30/07/_5	To Balance c/d	–	15,000	03/10/_5	By Goods/stock a/c	–	15,000
	tl		15,000		tl		15,000
				31/07/_5	By Balance b/d	–	15,000

Furniture a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
06/10/_5	To Cash a/c	–	15,000	16/10/_5	By Cash a/c	–	1,000
				30/07/_5	By Balance c/d	–	14,000
	tl		15,000		tl		15,000
31/07/_5	To Balance b/d	–	14,000				

Zenu a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
13/10/_5	To Goods/stock a/c	–	1,000	07/10/_5	By Goods/stock a/c	–	12,000
30/07/_5	To Balance c/d	–	11,000				
	tl		12,000		tl		12,000
				31/07/_5	By Balance b/d	–	11,000

Jane a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
09/10/_5	To Goods/stock a/c	–	13,500	11/10/_5	By Cash a/c	–	5,500
				30/07/_5	By Balance c/d	–	8,000
	tl		13,500		tl		13,500
31/07/_5	To Balance b/d	–	8,000				

Drawings a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
12/10/_5	To Goods/stock a/c	–	3,000	30/07/_5	By Balance c/d	–	18,000
17/10/_5	To Cash a/c	–	15,000				
	tl		18,000		tl		18,000
31/07/_5	To Balance b/d	–	18,000				

Machinery a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
15/10/_5	To Cash a/c	–	18,000	30/07/_5	By Balance c/d	–	18,000
	tl		18,000		tl		18,000
31/07/_5	To Balance b/d	–	18,000				

Example 3

Journalise the following transactions in the books of Moon and post them into the ledger for the month of August

Aug 10th : Moon commenced business with a capital of 1,50,000

11th : Cash deposited into bank 50,000

12th : Bought equipment for 15,000

13th : Bought goods worth 20,000 from Star and payment made by cheque

14th : Sold goods to Sun for 15,000 and payment received through cheque

16th : Paid rent by cheque 5,000

17th : Took loan from Mr. Storm 25,000

18th : Received commission from Mr. Air by cheque 5,000

19th : Wages paid 15,000

20th : Withdrew from bank for personal use 3,000

21st : Withdrew from bank for office use 10,000

22nd : Bought goods for 25,000

23rd : Cash paid into bank 30,000

24th : Interest paid through cheque 2,000

25th : Gave loan to Mr.Wind 10,000

26th : Amount paid to Mr. Storm on loan account 15,000

27th : Salary paid to Manager Mr. Liquid 5,000

28th : Postage paid 1,000

29th : Received cheque from Mr. Wind on loan account 3,000

30th : Sold part of the equipment for 2,000

Journal in the books of M/s Rama & Sons
for the period from August 10th, _5 to August 30th, _5

Date	V/R No.	Particulars		L/F	Amount (Dr)	Amount (Cr)
August 10th	–	Cash a/c To Capital a/c [Being the amount received from Mr. Moon, the proprietor as his capital contribution vide receipt no:__ dated:__]	Dr	– –	1,50,000	 1,50,000
11th	–	Bank a/c To Cash a/c [Being the amount of cash deposited into bank vide bill no:___ dated:__]	Dr	– –	50,000	 50,000
12th	–	Equipment a/c	Dr		15,000	

		To Cash a/c [Being the value of equipment purchased from M/s___ for cash vide bill no:___ dated:__]	– –		15,000
13th	–	Goods/stock a/c Dr To Bank a/c [Being the payment made for stock purchased vide Cheque no:__ dated:__]	– –	20,000	20,000
14th	–	Bank a/c Dr To Goods/stock a/c [Being the amount received for stock sold to Mr. Sun vide Cheque no:__ dated:__]	– –	15,000	15,000
16th	–	Rent a/c Dr To Bank a/c [Being the amount paid for rent vide voucher no:___ dated:__]	– –	5,000	5,000
17th	–	Cash a/c Dr To Loan from Storm a/c [Being the cash received from Mr. Storm as loan vide receipt no:___ dated:__]	– –	25,000	25,000
18th	–	Bank a/c Dr To Commission a/c [Being the amount received for commission vide cheque no:__ dated:__]	– –	5,000	5,000
19th	–	Wages a/c Dr To Cash a/c [Being the amount paid for wages vide voucher no:___ dated:__]	– –	15,000	15,000
20th	–	Drawings a/c Dr To Bank a/c [Being the amount withdrawn from bank for personal use vide cheque no:___ dated:__]	– –	3,000	3,000
21st	–	Cash a/c Dr To Bank a/c [Being the amount withdrawn from bank for office purpose vide cheque no:___ dated:__]	– –	10,000	10,000
22nd	–	Goods/stock a/c Dr To Cash a/c	– –	25,000	25,000

		[Being the amount of cash paid for stock purchases vide voucher no:___ dated:__]			
23rd	–	Bank a/c Dr To Cash a/c [Being the amount deposited into bank vide voucher no:___ dated:__]	– –	30,000	 30,000
24th	–	Interest a/c Dr To Bank a/c [Being the amount of interest paid vide cheque no:___ dated:__]	– –	2,000	 2,000
25th	–	Loan to Mr. Wind a/c Dr To Cash a/c [Being the amount of cash given to Mr. Wind as loan vide voucher no:___ dated:__]	– –	10,000	 10,000
26th	–	Loan from Strom a/c Dr To Cash a/c [Being the amount paid to Mr. Storm for repayment of loan vide voucher no:___ dated:__]	– –	15,000	 15,000
27th	–	Salary a/c Dr To Cash a/c [Being the amount paid for salary to Mr. Liquid vide voucher no:___ dated:__]	– –	5,000	 5,000
28th	–	Postage a/c Dr To Cash a/c [Being the amount paid for purchase of postage vide voucher no:___ dated:__]	– –	1,000	 1,000
29th	–	Bank a/c Dr To Loan to Mr. wind a/c [Being the Cheque no:___ date___ received from Mr. Wind for repayment of loan]	– –	3,000	 3,000
30th	–	Cash a/c Dr To Equipment a/c [Being the amount received on sale of equipment vide receipt no:___ dated:__]	– –	2,000	 2,000

General Ledger

[Books of M/s Rama & Sons]

Cash a/c

Dr

Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
10/10/_5 17/10/_5 21/10/_5 30/10/_5	To Capital a/c To Loan from Storm a/c To Bank a/c To Equipment a/c	– – – –	1,50,000 25,000 10,000 2,000	11/10/_5 12/10/_5 19/10/_5 22/10/_5 23/10/_5 25/10/_5 26/10/_5 27/10/_5 28/10/_5 31/08/_5	By Bank a/c By Equipment a/c By Wages a/c By Goods/stock a/c By Bank a/c By Loan to Mr. Wind a/c By Loan from Strom a/c By Salary a/c By Postage a/c By Balance c/d	– – – – – – – – – –	50,000 15,000 15,000 25,000 30,000 10,000 15,000 5,000 1,000 21,000
	tl		1,87,000		tl		1,87,000
01/09/_5	To Balance b/d	–	21,000				

Capital A/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
31/08/_5	To Balance c/d	–	1,50,000	10/10/_5	By Cash a/c	–	1,50,000
	tl		1,50,000		tl		1,50,000
				01/09/_5	By Balance b/d	–	1,50,000

Bank a/c

Dr

Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
11/10/_5 14/10/_5 18/10/_5 23/10/_5 29/10/_5	To Cash a/c To Goods/stock a/c To Commission a/c To Cash a/c To Loan to Mr. wind a/c	– – – – –	50,000 15,000 5,000 30,000 3,000	13/10/_5 16/10/_5 20/10/_5 21/10/_5 24/10/_5 31/08/_5	By Goods/stock a/c By Rent a/c By Drawings a/c By Cash a/c By Interest a/c By Balance c/d	– – – – – –	20,000 5,000 3,000 10,000 2,000 63,000
	tl		1,03,000		tl		1,03,000
01/09/_5	To Balance b/d	–	63,000				

Equipment a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
12/10/_5	To Cash a/c	–	15,000	30/10/_5 31/08/_5	By Cash a/c By Balance c/d	– –	2,000 13,000
	tl		15,000		tl		15,000
01/09/_5	To Balance b/d	–	13,000				

Goods/stock a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
13/10/_5 22/10/_5	To Bank a/c To Cash a/c	– –	20,000 25,000	14/10/_5 31/08/_5	By Bank a/c By Balance c/d	– –	15,000 30,000
	tl		45,000		tl		45,000
01/09/_5	To Balance b/d	–	30,000				

Rent a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
16/10/_5	To Bank a/c	–	5,000	31/08/_5	By Balance c/d	–	5,000
	tl		5,000		tl		5,000
01/09/_5	To Balance b/d	–	5,000				

Loan from Storm a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
31/08/_5	To Balance c/d	–	25,000	17/10/_5	By Cash a/c	–	25,000
	tl		25,000		tl		25,000
				01/09/_5	By Balance b/d	–	25,000

Commission a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
31/08/_5	To Balance c/d	–	5,000	18/10/_5	By Bank a/c	–	5,000
	tl		5,000		tl		5,000
				01/09/_5	By Balance b/d	–	5,000

Wages a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
19/10/_5	To Cash a/c	–	15,000	31/08/_5	By Balance c/d	–	15,000
	tl		15,000		tl		15,000
01/09/_5	To Balance b/d	–	15,000				

Drawings a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
20/10/_5	To Bank a/c	–	3,000	31/08/_5	By Balance c/d	–	3,000
	tl		3,000		tl		3,000
01/09/_5	To Balance b/d	–	3,000				

Interest a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
24/10/_5	To Bank a/c	–	2,000	31/08/_5	By Balance c/d	–	2,000
	tl		2,000		tl		2,000
01/09/_5	To Balance b/d	–	2,000				

Loan to Mr. Wind a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
25/10/_5	To Cash a/c	–	10,000	31/08/_5	By Balance c/d	–	10,000
	tl		10,000		tl		10,000
01/09/_5	To Balance b/d	–	10,000				

Loan from Strom a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
26/10/_5	To Cash a/c	–	15,000	31/08/_5	By Balance c/d	–	15,000
	tl		15,000		tl		15,000
01/09/_5	To Balance b/d	–	15,000				

Salary a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
27/10/_5	To Cash a/c	–	5,000	31/08/_5	By Balance c/d	–	5,000
	tl		5,000		tl		5,000
01/09/_5	To Balance b/d	–	5,000				

Postage a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
28/10/_5	To Cash a/c	–	1,000	31/08/_5	By Balance c/d	–	1,000
	tl		1,000		tl		1,000
01/09/_5	To Balance b/d	–	1,000				

Loan to Mr. wind a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
31/08/_5	To Balance c/d	–	3,000	29/10/_5	By Bank a/c	–	3,000
	tl		3,000		tl		3,000
				01/09/_5	By Balance b/d	–	3,000

TRIAL BALANCE

- Trial balance is a statement which shows debit balances and credit balances of all accounts in the ledger. The total of the debit balances and credit balances should tally (agree).
- In case, there is a difference, one has to check the correctness of the balances brought forward from the respective accounts.
- Trial balance can be prepared in any date provided accounts are balanced.

Definition

- "Trial balance is a statement, prepared with the debit and credit balances of ledger accounts to test the arithmetical accuracy of the books" – J.R. Batliboi.

Objectives

i. To check the arithmetical accuracy of the ledger accounts.

ii. To locate the errors.

iii. To facilitate the preparation of final accounts.

Methods

A trial balance can be prepared in the following methods.

i. **The Total Method :** According to this method, the total amount of the debit side of the ledger accounts and the total amount of the credit side of the ledger accounts are recorded.

ii. **The Balance Method :** In this method, only the balances of an account either debit or credit, as the case may be, are recorded against their respective accounts.

The balance method is more widely used, as it supplies ready figures for preparing the final accounts.

Format

Trial Balance of ABC Ltd.
as on ....

Sl.No	Name of Account	L.F	Debit Rs.	Credit Rs.

Format of Trail Balance

i) a debit balance is either an asset or loss or expense; and

ii) a credit balance is either a liability or income or gain.

Format for Trial Balance:

Particulars (Debit side)	Rs.	Particulars (Credit side)	Rs.
All Assets	XXX	All Liabilities	XXX
All Expenses and Losses	XXX	All Income and gain	XXX
Opening Balance	XXX	Closing Balance	XXX
Drawings	XXX	Loan	XXX
Purchase	XXX	Sales	XXX
Sales Return	XXX	Purchase Return	XXX
Total	XXX	Total	XXX

Example 1

Prepare a Trial Balance with the following information:

Sr. No	Name of Account	Balance (₹)	Sr. No	Name of Account	Balance (₹)
(i)	Capital	2,00,000	(ii)	Stock	70,000
(iii)	Cash	1,80,000	(iv)	Debtors	3,00,000
(v)	Creditors	1,00,000	(vi)	Bank Loan	1,50,000
(vii)	Sales	3,00,000	(viii)	Purchases	2,00,000

Solution 1

Trial Balance

S. No.	Account Title	Debit Balance (Rs)	Credit Balance (Rs)
(i)	Capital		2,00,000
(ii)	Stock	70,000	
(iii)	Cash	1,80,000	
(iv)	Debtors	3,00,000	
(v)	Creditors		1,00,000
(vi)	Bank Loan		1,50,000
(vii)	Sales		3,00,000
(viii)	Purchases	2,00,000	
		7,50,000	7,50,000

Example 2

Journalise the following transactions , post them into Ledger and prepare a Trial Balance :

		(₹)			(₹)
2018 Apr. 1	Mohan commenced business with cash	1,00,000	2018 Apr. 20	Received cash from Gopal	3,950
Apr. 3	Bought goods	5,000		Discount Allowed	50
Apr. 4	Sold goods to Gopal	4,000	Apr. 25	Paid Wages	700
Apr. 10	Bought goods from Ram	8,000	Apr. 27	Paid to Ram in full settlement	7,700
Apr. 15	Paid trade expenses	2,000	Apr. 30	Paid rent	1,500

Solution 2

Books of Mohan
Journal

Date	Particular		L.F.	Debit Amount (Rs)	Credit Amount (Rs)
2018 April 01	Cash A/c To Capital A/c (Commenced business with Cash)	Dr.		1,00,000	 1,00,000
April 03	Purchases A/c To Cash A/c (Bought goods)	Dr.		5,000	 5,000
April 04	Gopal To Sales A/c (Goods Sold to Gopal)	Dr.		4,000	 4,000
April 10	Purchases A/c To Ram (Bought goods from Ram)	Dr.		8,000	 8,000
April 15	Trade Expenses A/c To Cash A/c (Paid trade expenses)	Dr.		2,000	 2,000
April 20	Cash A/c	Dr.		3,950	

	Discount Allowed A/c Dr. To Gopal (Cash received from Gopal and discount allowed)		50	 4,000
April 25	Wages A/c Dr. To Cash (Paid Wages)		700	 700
April 27	Ram Dr. To Cash A/c To Discount Received A/c (Paid to Ram and discount received from him)		8,000	 7,700 300
April 30	Rent A/c Dr. To Cash A/c (Paid Rent)		1,500	 1,500

Cash Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
2018 April 01	Capital		1,00,000	2018 April 03	Purchases		5,000
April 20	Gopal		3,950	April 15	Trade Expenses		2,000
				April 25	Wages		700
				April 27	Ram		7,700
				April 30	Rent		1,500
					Balance c/d		87,050
			1,03,950				1,03,950

Capital Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
2018 April 30	Balance c/d		1,00,000	2018 April 01	Cash		1,00,000
			1,00,000				1,00,000

Purchases Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
2018 April 03	Cash		5,000	2018 April 30	Balance c/d		13,000
April 10	Ram		8,000				
			13,000				13,000

Sales Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
2018 April 30	Balance c/d		4,000	2018 April 04	Gopal		4,000
			4,000				4,000

Gopals' Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
2018 April 04	Sales		4,000	2018 April 20	Cash		3,950
				April 20	Discount Allowed		50
			4,000				4,000

Ram's Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
2018 April 27	Cash		7,700	2018 April 10	Purchases		8,000
	Discount Received		300				
			8,000				8,000

Trade Expenses Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
2018 April 15	Cash		2,000	2018 April 30	Balance c/d		2,000
			2,000				2,000

Discount Received Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F	Amount (Rs)
2018 April 20	Balance c/d		300	2018 April 20	Ram		300
			300				300

Wages Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
2018 April 25	Cash		700	2018 April 30	Balance c/d		700
			700				700

Discount Allowed Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
2018 April 27	Gopal		50	2018 April 01	Balance c/d		50
			50				50

Rent Account

Dr. **Cr.**

Date	Particulars	J.F	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)

2018 April 30	Cash		1,500	2018 April 30	Balance c/d		1,500
			1,500				1,500

Trial Balance

S. No.	Account Title	L.F.	Debit Balance (Rs)	Credit Balance (Rs)
(i)	Cash		87,050	
(ii)	Capital			1,00,000
(iii)	Sales			4,000
(iv)	Trade Expenses		2,000	
(v)	Discount Received			300
(vi)	Wages		700	
(vii)	Discount Allowed		50	
(viii)	Rent		1,500	
(ix)	Purchases		13,000	
			1,04,300	1,04,300

Example 3

Prepare the Trial Balance of Ankit as on 31st March, 2018. He has omitted to open a Capital Account:

	₹		₹
Bank Overdraft	85,000	Purchases	4,45,000
Sales	8,10,000	Cash in Hand	8,500
Purchases Return	22,500	Creditors	2,15,000
Debtors	4,00,500	Sales Return	15,750
Wages	96,000	Equipment	25,000
Capital	?	Opening Stock	3,00,500

SOLUTION 3

Trial Balance
as on March 31, 2018

S.No.	List of Items	Debit Balances	Credit Balances
1	Bank Overdraft		85,000
2	Sales		8,10,000

3	Purchases Return		22,500
4	Debtors	4,00,500	
5	Wages	96,000	
6	Capital		1,58,750
7	Purchases	4,45,000	
8	Cash in hand	8,500	
9	Creditors		2,15,000
10	Sales Return	15,750	
11	Equipment	25,000	
12	Opening Stock	3,00,500	
	Total	**12,91,250**	**12,91,250**

Example 4

Prepare a Trial Balance from the following items:

	₹		₹
Capital	24,000	Building	12,000
Opening Stock	8,500	Returns Inward	1,900
Furniture	2,600	Returns Outward	350
Purchases	8,950	Trade Expenses	1,000
Cash	7,300	Discount Received	970
Carriage	300	Salary	3,000
Sales	22,500	Office Rent	2,270

SOLUTION:4

Trial Balance
as on March 31, 2018

S.No.	List of Items	Debit Balances	Credit Balances
1	Capital		24,000
2	Opening Stock	8,500	
3	Furniture	2,600	
4	Purchases	8,950	

5	Cash	7,300	
6	Carriage	300	
7	Sales		22,500
8	Building	12,000	
9	Returns Inward	1,900	
10	Returns Outwards		350
11	Trade Expenses	1,000	
12	Discount Received		970
13	Salary	3,000	
14	Office Rent	2,270	
	Total	**47,820**	**47,820**

Example 5

The following are the balances extracted from the books of Mr. A. Mukhopadhyay. Prepare a Trial Balance as on 31st March, 2018:

	₹		₹
Cash	2,000	Sundry Creditors	40,000
Capital	80,000	Investment	8,000
Purchases	85,000	Plant and Machinery	15,000
Sales	1,08,400	Building	20,000
Purchases Return	6,000	Furniture	6,000
Sales Return	4,000	Electricity	700
Transportation	1,800	Postage	400
Discount Allowed	500	Drawings	8,000
Printing	5,000	Salaries	6,000
Sundry Debtors	70,000	Travelling Expenses	2,000
Input CGST A/c	2,500	Output CGST A/c	1,500
Input SGST A/c	2,500	Output SGST A/c	1,500
Input IGST A/c	4,000	Output IGST A/c	6,000

SOLUTION:5

Trial Balance
as on March 31, 2018

S.No.	List of Items	Debit Balances	Credit Balances
1	Cash	2,000	
2	Capital		80,000
3	Purchases	85,000	
4	Sales		1,08,400

5	Purchases Return		6,000
6	Sales Return	4,000	
7	Transportation	1,800	
8	Discount Allowed	500	
9	Printing	5,000	
10	Sundry Debtors	70,000	
11	Input CGST A/c	2,500	
12	Input SGST A/c	2,500	
13	Input IGST A/c	4,000	
14	Sundry Creditors		40,000
15	Investments	8,000	
16	Plant & Machinery	15,000	
17	Building	20,000	
18	Furniture	6,000	
19	Electricity	700	
20	Postage	400	
21	Drawings	8,000	
22	Salaries	6,000	
23	Travelling Expenses	2,000	
24	Output CGST A/c		1,500
25	Output SGST A/c		1,500
26	Output IGST A/c		6,000
	Total	**2,43,400**	**2,43,400**

CASH BOOK

A cash book is a special journal which is used to record all cash receipts and cash payments. The cash book is a book of original entry or prime entry since transactions are recorded for the first time from the source documents. The cash book is a ledger in the sense that it is designed in the form of a cash account and records cash receipts on the debit side and cash payments on the credit side.

Advantages

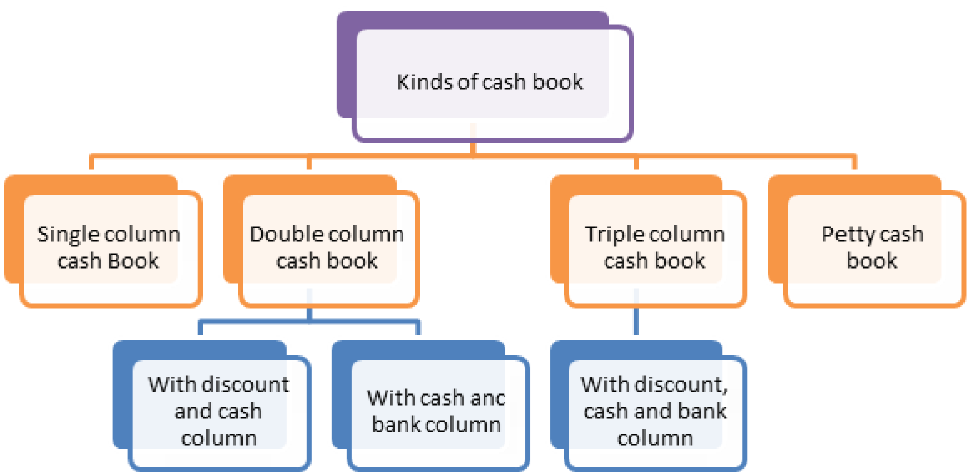
1. **Saves time and labour:** When cash transactions are recorded in the journal a lot of time and labour will be involved. To avoid this all cash transactions are straight away recorded in the cash book which is in the form of a ledger.

2. **To know cash and bank balance:** It helps the proprietor to know the cash and bank balance at any point of time.

3. **Mistakes and frauds can be prevented:** Regular balancing of cash book reveals the balance of cash in hand. In case the cash book is maintained by business concern, it can avoid frauds. Discrepancies if any, can be identified and rectified.

4. **Effective cash management:** Cash book provides all information regarding total receipts and payments of the business concern at a particular period. So that, effective policy of cash management can be formulated.

<u>Types of Cash Book:</u>



1. **Single Column Cash Book:** A single column Cash Book contains one column of amount on both sides, i.e., one in the debit side and other in the credit side. In the single column Cash Book, only cash transactions are recorded. In the debit side of the Cash Book, all cash receipts are recorded, while in the credit side all cash payments are recorded.

2. **Double Column Cash Book:** A double column Cash Book contains two columns of amount, namely cash column and bank column on both sides. In the cash column of Cash Book, all cash receipts and payments are recorded, according to the rule of Real Accounts. All deposits either in cash or through cheques into the bank account of the business are debited in the bank column and all withdrawals of cash and payments through cheques are credited in the bank column.

3. **Triple Ccolumn Cash Book:** In a triple column Cash Book, there are three columns of amount namely, cash, bank and discount. Discount allowed and discount received are recorded in the discount column. While in the debit side, discount allowed is recorded along with the receipts, either in cash or through cheque; whereas, in the credit side, discount received is recorded, along with the payments made either in cash or by issuing cheques.

4. **Petty Cash Book:** This book is used for recording payment of petty expenses, which are of smaller denominations like, postage, stationery, conveyance, refreshment, etc. is known as Petty Cash Book.

Following is the format of the single column cash book:

Dr. **Cash Book** Cr.

Receipts					Payment				
Date	Particulars	V No.	L. F.	Amount (Rs)	Date	Particulars	V. No.	L. F.	Amount (Rs)

Explanation :

i. **Date :** This column appears in both the debit and credit side. It records the date of receiving cash at debit side and paying cash at credit side.

ii. **Particulars :** This column is used at both debit and credit side. It records the names of parties (personal account), heads (nominal account) and items (real account) from whom payment has been received and to whom payment has been made.

iii. **Receipt Number (R.N):** This refers to the serial number of the cash receipt.

iv. **Voucher Number (V.N) :** This refers to the serial number of the voucher for which payment is made.

v. **Ledger Folio (L.F):** This column is used in both the debit and credit side of cash book. The ledger page (folio) of every account in the cash book is recorded against it.

vi. **Amount :** This column appears in both sides of the cash book. The actual amount of cash receipt is recorded on the debit side. The actual payments are entered on the credit side.

Balancing :

The cash book is balanced like any other account. The total of the receipt (debit side) column will always be greater than the total of the payment column (credit side). The difference will be written on the credit side as "By Balance c/d". In the beginning of the next period, to show the cash balance in hand, the balance amount is recorded in the debit side as "To balance b/d".

Example:1

Write the following transactions in the simple cash book and post into the ledger:

1991		
Jan. 1	Cash in hand	15,000
" 6	Purchased goods for cash	2,000
" 16	Received from Akbar	3,000
" 18	Paid to Babar	1,000
" 20	Cash sales	4,000
" 25	Paid for stationary	60
" 30	Paid for salaries	1,000
" 31	Purchased office furniture	2,000

Solution:1

Cash Book

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
1991							
Jan. 1	To Balance b/d		15,000	Jan. 6	By Purchases a/c		2,000
16	To Akbar		3,000	18	By Babar		1,000
20	To sales a/c		4,000	25	By stationary		60
				30	By Salaries a/c		1,000
				31	By Furniture a/c		2,000
					By Balance c/d		15,940
			22,000				22,000

	To Balance b/d		15,940				

Example:2

Enter the following transactions in a simple cash book for December 2016:

		Rs
01	Cash in hand	12,000
05	Cash received from Bhanu	4,000
07	Rent Paid	2,000
10	Purchased goods Murari for cash	6,000
15	Sold goods for cash	9,000
18	Purchase stationery	300
22	Cash paid to Rahul on account	2,000
28	Paid salary	1,000
30	Paid rent	500

Solution;2

Cash Book

Dr. **Cr.**

Date	Particulars	L.F.	Amount Rs	Date	Particulars	L.F.	Amount Rs
2016				2016			
Dec.01	Balance b/d		12,000	Dec.07	Rent		2,000
Dec.05	Bhanu		4,000	Dec.10	Purchases		6,000
Dec.15	Sales		9,000	Dec.18	Stationery		300
				Dec.22	Rahul		2,000
				Dec.28	Salaries		1,000
				Dec.30	Rent		500
				Dec.31	Balance c/d		13,200
			25,000				25,000

Example 3

Record the following transaction in simple cash book for November 2016:

		Rs
01	Cash in hand	12,500
04	Cash paid to Hari	600
07	Purchased goods	800
12	Cash received from Amit	1,960
16	Sold goods for cash	800
20	Paid to Manish	590
25	Paid cartage	100
31	Paid salary	1,000

Solution:

Cash Book

Dr. **Cr.**

Date	Particulars	L.F.	Amount Rs	Date	Particulars	L.F.	Amount Rs
2016				2016			
Nov.01	Balance b/d		12,500	Nov.04	Hari		600
Nov.12	Amit		1,960	Nov.07	Purchases		800
Nov.16	Sales		800	Nov.20	Manish		590
				Nov.25	Cartage		100
				Nov.30*	Salaries		1,000
				Nov.30*	Balance c/d		12,170
			15,260				15,260

Note: There is a misprint in the question as there is a transaction on November 31, which is not possible as there are only 30 days in the month of November.

Example 4

Enter the following transaction in Simple cash book for December 2017:

		Rs
01	Cash in hand	7,750
06	Paid to Sonu	45
08	Purchased goods	600
15	Received cash from Parkash	960
20	Cash sales	500
25	Paid to S. Kumar	1,200
30	Paid rent	600

Solution: 4

Cash Book

Dr. **Cr.**

Date	Particulars	L.F.	Amount Rs	Date	Particulars	L.F.	Amount Rs
2017				2017			
Dec.01	Balance b/d		7,750	Dec.06	Sonu		45
Dec.15	Prakash		960	Dec.08	Purchases		600
Dec.20	Sales		500	Dec.25	S. Kumar		1,200
				Dec.30	Rent		600
				Dec.31	Balance c/d		6,765
			9,210				9,210

Format of the Double Column Cash Book:

A **double column cash book** or **two column cash** book is one which consists of two separate columns on the debit side as well as credit side for recording cash and discount. In many concerns it is customary for the trader to allow or to receive small allowance off or against the dues. These allowances are made for prompt settlement of accounts. In certain business almost all receipts or payments are accompanied by such discounts and in order to avoid unnecessary postings separate columns in the cash book are introduced to record the discounts received or allowed. These discount columns are memorandum columns only. They do not form the discount account. The discount column on the debit side of the cash book will record discounts allowed and that on the credit side discounts received.

Debit Side Credit Side

Date	Particulars	V.N.	L.F.	Discount	Cash	Date	Particulars	V.N.	L.F.	Discount	Cash

Example 5

From the following transactions write up a two column cash book and post into ledger:

1991	
Jan. 1	Cash in hand $2,000
" 7	Received from Riaz & Co. $200; discount allowed $10
" 12	Cash sales $1,000
" 15	Paid Zahoor Sons $500; discount received $15
" 20	Purchased goods for cash $300
" 25	Received from Salman $500; discount allowed $15
" 27	Paid Hussan & Sons $300.
" 28	Bought furniture for cash $100
" 31	Paid rent $100

Solution:5

Cash Book

Debit Side Credit Side

Date	Particulars	V.N.	L.F.	Discount	Cash	Date	Particulars	V.N.	L.F.	Discount	Cash
1991						1991					
Jan.1	To Balance b/d				2,000	Jan.5	By Zahoor & Sons			15	500
" 7	To Riaz & Co.			10	200	" 20	By purchase a/c				300
" 12	To Sales a/c				1,000	" 27	By Hussan&Sons				300
" 25	To Salman			15	500	" 28	By Furniture a/c				100
						" 31	By Rent a/c				100
							By Balance c/d				2,400
				25	3,700					15	3,700
1991 Feb1	To Balance b/d				2,400						

Three column Cash Book:
Opening Balance:

Put the opening balance (if any) on cash in hand and cash at bank on the debit side in the cash book and bank columns. If the opening balance is credit balance (overdraft) then it will be put in the credit side of the cash book in the bank column.

Cheque/Check or Cash Received:

If a cheque is received from any person and is paid into the bank on the same date it will appear on the debit side of the cash book as "To a Person". The amount will be shown in the bank column. If the cheque received is not deposited into the bank on the same date then the amount will appear in the cash column. Cash received will be recorded in the usual manner in the cash column.

Payment By Cheque/Check or Cash:

When we make payment by cheque, this will appear on the credit side "By a person" and the amount in the bank column. If the payment is made in cash it will be recorded in usual manner in the cash column.

Contra Entries:

If an amount is entered on the debit side of the cash book, and the exact amount is again entered on the credit side of the same account, it is called "contra entry". Similarly an amount entered on the credit side of an account also may have a contra entry on the debit side of the same account.

Contra entries are passed when:

1. **Cash is deposited into bank by office:** It is payment from cash and receipt in bank. Therefore, enter on credit side, cash column "By Bank" and on debit side bank column "To Cash". The reason for making two entries is to comply with the principle of double entry which in such transactions is completed and therefore, no posting of these items is necessary. Such entries are marked in the cash book with the letter "C" in the folio column
2. **Cheque/Check is drawn for office use:** It is payment by bank and receipt in cash. Therefore, enter on the debit side, cash column "To Bank" and on credit side, bank column "By Cash".

Bank Charges and Bank Interest Allowed: Bank charges appear on the credit side, bank column "Bank Charges." Bank interest allowed appear on the debit side, bank column "To Interest".

Posting:

The method of posting three column cash book into the ledger is as follows:

1. The opening balance of cash in hand and cash at bank are not posted.
2. Contra Entries marked with "C" are not posted.
3. All other items on the debit side will be posted to the credit of respective accounts in the ledger and all other items on the credit side will be posted to the debit of the respective accounts.
4. As regards discounts the total of the discount allowed will be posted to the debit of the discount account in the ledger and total of the discount received to the credit side of the discount account.

Format of the Three Column Cash Book:

Debit Side Credit Side

Date	Particulars	V.N.	L.F.	Dis-count	Cash	Bank	Date		Particulars	V.N.	L.F.	Dis-count	Cash	Bank

Example: 6

On January 1, 1991 Noorani Stores cash book showed debit balance of cash $1,550 and bank $13,575. During the month of January following business was transacted.

1991

Jan.1 Purchased office typewriter for cash $750; cash sales $315

" Deposited cash $500

" 4 Received from A. Hussan a cheque for $2,550 in part payment of his account

" 6 Paid by cheque for merchandise purchased worth $1,005

" 8 Deposited into bank the cheque received from A. Hussan.

" 10 Received from Hayat Khan a cheque for $775 in full settlement of his account and allowed him discount $15.

" 12 Sold merchandise to Divan Bros. for $1,500 who paid by cheque which was deposited in the bank.

" 16 Paid Salman $915 by cheque, discount received $5

" 27 Paid to Gulzar Ahmad by cheque $650

" 30 Paid salaries by cheque $1,750

" 31 Deposited into bank the cheque of Hayat Khan.

" 31 Drew from bank for office use $250.

You are required to enter the above transactions in three column cash book and balance it.

Noorani Stores
Cash Book

Debit Side Credit Side

Date	Particulars	V.N.	L.F.	Dis-count	Cash		Date	Particulars	V.N.	L.F.	Dis-count	Cash	
1991 Jan.1	To Balance b/d				1,550	13,575	1991 Jan.1	By Office Equip.				750	
" 1	To Sales a/c				1,315		" 3	By Bank		C		500	
" 3	To Cash a/c		C			500	" 6	By Purchases a/c					1,005
" 4	To A Hussan				2,550		" 8	By Bank		C		2,550	
" 8	To Cash		C			2,550	" 16	By Salman			5		915
" 10	To Hayat Khan			15	775		" 27	By Gulzar					650
" 12	To Sales a/c					1,500	" 30	By Salaries a/c					1,750
" 31	To Cash		C			775	" 31	By Bank		C		775	
" 31	To Bank		C		250		" 31	By Cash		C			250
								By Balanced c/d				1,865	14,330
				15	6,440	18,900					5	6,440	18,900
1991 Feb.1	To Balance b/d				1,865	14,330							

PETTY CASH BOOK

Petty means ‘small’. The petty cash book is a book where small recurring payments like carriage, cartage, postage and telegram, printing and stationery etc., are recorded by the petty cashier, a person other than the main cashier.

8.1 Impress System

Imprest means ‘money advanced on loan’. Under this system the amount required to meet out various petty expenses is estimated and given to the petty cashier at the beginning of the specified period, usually a month. All the payments are supported by vouchers. At the end of the given period or earlier, when the petty cashier has spent the petty cash amount, he closes the petty cash book for the period and balances it. Then he submits the accounts to the cashier. He verifies the petty cash book with the vouchers. After satisfying himself as to the correctness and genuiness of the payments an amount equal to the cash spent is given to the petty cashier. This amount together with the unspent amount will bring up the cash in hand to the amount with which he originally started i.e., **the imprest amount**. Thus the system of reimbursing the amount spent by the petty cashier at fixed period, is known as the **imprest system of petty cash**.

For example, On June 1, 2002, Rs.1,000 was given to the petty cashier. He had spent Rs.940 during the month. He will be paid Rs.940 on 30th June by the cashier so that he may again have Rs.1,000 for the next month i.e., July.

Analytical Petty Cash Book

As in the case of any other cash book, petty cash book also has the debit side and the credit side. The debit side is smaller and has very infrequent entries because cash receipt by the petty cashier is mainly from the cashier at the beginning or close of a specified period. The credit side is bigger and thus has many columns. For each important petty expenses there is a seperate column, and therefore columnar cash book is another name for this petty cash book. These analytical columns helps to know the actual amount spent on each and every type of petty expenses for the specified period. Each petty payment is first entered in the total payments column, and then recorded in the respective analytical column, so that :

i. the total amount spent on each expenses for a particular period can be easily ascertained by adding up the respective column.

ii. ii. only the periodical total of each column is posted to the ledger.

iii. iii. the total petty payment for any period can be easily ascertained from the total payments column.

The analytical petty cash book may be designed according to the requirements of the business.

Format of Petty Cash Book

-COMPANY-

Dr. PETTY CASH BOOK Cr.

Receipt	Date	Details	VN	Total	expense 1	Expense 2	Expense 3	Expense 4

Example: 7

Prepare petty cash book from the following transactions. The imprest amount is Rs 2,000.

January 2017		**Rs**
01	Paid cartage	50
02	STD charges	40
02	Bus fare	20
03	Postage	30
04	Refreshment for employees	80
06	Courier charges	30
08	Refreshment of customer	50
10	Cartage	35
15	Taxi fare to manager	70
18	Stationery	65
20	Bus fare	10
22	Fax charges	30
25	Telegrams charges	35
27	Postage stamps	200
29	Repair on furniture	105
30	Laundry expenses	115
31	Miscellaneous expenses	100

Petty Cash Book

Amount Received Rs	**Date 2017**	**Particulars**	**Voucher No.**	**Amount Paid Rs**	**Analysis of Payments**					
					Telephone Telegram	**Postage**	**Conveyance**	**Refreshment**	**Cartage**	**Miscellaneous**
2,000	Jan. 01	Cash								
	Jan. 01	Cartage		50					50	
	Jan. 02	STD charges		40	40					
	Jan. 02	Bus Fare		20			20			
	Jan. 03	Postage		30		30				
	Jan. 04	Refreshment for Employees		80				80		
	Jan. 06	Courier charges		30		30				
	Jan. 08	Refreshment of customer		50				50		
	Jan. 10	Cartage		35					35	

	Jan. 15	Taxi Fare to Manager		70			70			
	Jan. 18	Stationery		65						65
	Jan. 20	Bus Fare		10			10			
	Jan. 22	Fax Charges		30	30					
	Jan. 25	Telegram Charges		35	35					
	Jan. 27	Postage stamps		200		200				
	Jan. 29	Repair to Furniture		105						105
	Jan. 30	Laundry Expense		115						115
	Jan. 31	Miscellaneous Expenses		100						100
				1,065	105	260	100	130	85	385
	Jan. 31	Balance c/d		935						
2,000				2,000						
935	Feb. 01	Balance b/d								
1,065	Feb. 01	Cash								

Example 8

Record the following transactions during the week ending January. 30, 2017 with a weekly imprest Rs 500

		Rs
24	Stationery	100
25	Bus fare	12
25	Cartage	40
26	Taxi fare	80
27	Wages to casual labour	90
29	Postage	80

Petty Cash Book

Amount Received Rs	Date	Particulars	Voucher No.	Amount Paid Rs	Analysis of Payments				
					Stationery	Conveyance	Cartage	Postage	Miscellaneous
	2017								
500	Jan .24	Cash							
	Jan .24	Stationery		100	100				
	Jan .25	Bus Fare		12		12			
	Jan .25	Cartage		40			40		
	Jan .26	Taxi Fare		80		80			
	Jan .27	Wages to Casual labour		90					90
	Jan .29	Postage		80				80	
				402	100	92	40	80	90
	Jan .30	Balance c/d		98					
	2017			500					
98	Jan .31	Balance b/d							
402	Jan .31	Cash							

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SCHOOL OF MANAGEMENT STUDIES

UNIT II - FINANCIAL ACCOUNTING- I - SBA1105

FINAL ACCOUNT

Financial accounting is a well-defined sequential activity which begins with Journal (Journalising), Ledger (Posting), and preparation of Trial Balance (Balancing and Summarisation at the first stage). The next step is the preparation of financial statement.

Financial Statements:- It has been emphasised that various users have diverse informational requirements. Instead of generating particular information useful for specific users, the business prepares a set of financial statements, which in general satisfies the informational needs of the users.

The basic objectives of preparing financial statements are:

(i). To present a true and fair view of the financial performance of the business;

(ii). To present a true and fair view of the financial position of the business;

For this purpose, the firm usually prepares the following financial statements:

- Trading and Profit and Loss Account
- Balance Sheet

Trading and Profit and Loss account, also known as Income statement, shows the financial performance in the form of profit earned or loss sustained by the business. Balance Sheet shows financial position in the form of assets, liabilities and capital. These are prepared on the basis of trial balance and additional information, if any.

Meaning of Final Accounts:

- **Final accounts** gives an idea about the profitability and financial position of a business to its management, owners, and other interested parties. ... The term "**final accounts**" includes the trading **account**, the **profit and loss account**, and the balance sheet.

Objectives of Final Accounts:

- The following are the main **objectives** of **final accounts**: - To determine gross profit and net profit of the business during the year. To present true financial position of the business on a given date. To make effective control on financial activities of the business.
- Financial managers make final accounts as well as corporate **balance** sheets in order to get a clear and summarizing picture of the current financial condition of the company. Final accounts, as well as **balance** sheets, assist shareholders to recognize an organization's financial viability

ITEMS TO KNOW BEFORE PREPARATION OF FINANCIAL STATEMENT:

i) **Expenditures:** Whenever payment and/or incurrence of an outlay are made for a purpose other than the settlement of an existing liability, it is called expenditure. The expenditures are incurred with a viewpoint they would give benefits to the business. The benefit of an expenditure may extend up to one accounting year or more than one year. If the benefit of expenditure extends up to one accounting period, it is termed as revenue expenditure. If the benefit of expenditure extends more than one accounting period, it is termed as capital expenditure.

ii) **Receipts:** The similar treatment is given to the receipts of the business. If the receipts imply an obligation to return the money, these are capital receipts. If a receipt does not incur an obligation to return the money or is not in the form of a sale of fixed asset, it is termed as revenue receipt.

iii) Usually Trading and Profit and Loss account includes revenue incomes and expenditures and Balance sheet includes capital incomes and expenditures.

iv) **Closing Entries:** The preparation of trading and profit and loss account requires that the balances of accounts of all concerned items are transferred to it for its compilation.

- Opening stock account, Purchases account, Wages account, Carriage inwards account and direct expenses account are closed by transferring to the debit side of the trading and profit and loss account. This is done by recording the following entry:

    Trading A/c Dr.

        To Opening stock A/c

        To Purchases A/c

        To Wages A/c

        To Carriage inwards A/c

        To All other direct expenses A/c

- The purchases returns or return outwards are closed by transferring its balance to the purchases account. The following entry is recorded for this purpose:

    Purchases return A/c Dr.

        To Purchases A/c

- The sales returns or returns inwards account is closed by transferring its balance to the sales account as:

    Sales A/c Dr.

To Sales return A/c

- The sales account is closed by transferring its balance to the credit side of the trading and profit and loss account by recording the following entry:

  Sales A/c Dr.

  To Trading A/c

- Items of expenses, losses, etc. are closed by recording the following entries:

  Profit and Loss A/c Dr.

  To Expenses (individually) A/c

  To Losses (individually) A/c

- Items of incomes, gains, etc. are closed by recording the following entry:

  Incomes (individually) A/c Dr.

  Gains (individually) A/c Dr.

  To Profit and Loss A/c

TRADING AND PROFIT AND LOSS ACCOUNT

Trading accounting is an account prepared to ascertain the trading results of a business i.e., the gross profit earned or gross loss incurred from buying and selling of goods during a particular period. The excess of net sales [total sales less returns] over cost of goods sold is termed as gross profit.

Trading and Profit and Loss account is prepared to determine the profit earned or loss sustained by the business enterprise during the accounting period. It is basically a summary of revenues and expenses of the business and calculates the net figure termed as profit or loss. The trading and profit and loss can be seen as combination of two accounts, viz. Trading account and Profit and Loss account. The trading account or the first part ascertains the gross profit and Profit and loss account or the second part ascertains net profit.

1) **Trading Account:-** The trading account ascertains the result from basic operational activities of the business. The basic operational activity involves the manufacturing, purchasing and selling of goods. It is prepared to ascertain whether the selling of goods and/or rendering of services to customers have proved profitable for the business or not. Purchases is one of the main constituents of expenses in business organisation. Besides

purchases, the remaining expenses are divided into two categories, viz. direct expenses and indirect expenses. Direct expenses means all expenses directly connected with the manufacture, purchase of goods and bringing them to the point of sale. Direct expenses include carriage inwards, freight inwards, wages, factory lighting, coal, water and fuel, royalty on production, etc. Similarly, sales constitute the main item of revenue for the business. The excess of sales over purchases and direct expenses is called **Gross Profit**. If the amount of purchases including direct expenses is more than the sales revenue, the resultant figure is **Gross Loss**. The computation of gross profit can be shown in the form of equation as:

Gross Profit = Sales – (Purchases + Direct Expenses)

2) Profit and Loss account:-

Accounting to Prof. Carter "Profit and loss account is an account into which all gains and losses are calculated in order to ascertain the excess of gains over the losses or vice versa".
Profit and loss account is an account which prepared to calculate the final profit or loss of the business. All operating expenses and other non-operating income and expenditures and losses are charged to profit and loss account to find out the net profit.

The gross profit or the gross loss is transferred to profit and loss account. The indirect expenses are transferred to the debit side of the second part, viz. profit and loss account. All revenue/gains other than sales are transferred to the credit side of the profit and loss account. If the total of the credit side of the profit and loss account is more than the total of the debit side, the difference is the **Net Profit** for the period of which it is being prepared. On the other hand, if the total of the debit side is more than the total of the credit side, the difference is the **Net Loss** incurred by the business firm.

Objectives of P/L Accounts

- To know the trading result
- To Identify Net Profit or Loss
- To know the relation between profits and turnover
- To Know components of Income & Expenditure
- To determining efficiency
- To Control over expenses
- To prepare future profit planning

Items on the debit side

Debit Side

I. Operating expense

- Office & Admn. Expense
- Selling, distb. Expense
- Financial expense
- Maintenance Expense

II. Non Operating expense

- Losses
- Written off of fictitious assets

Credit Side

I. Operating Income

- Interest, commission, discount

II. Non operating income

- Profit sale of assets
- Refund tax
- Rent received

In an equation form, it is shown as follows:

Net Profit = Gross Profit + Other Incomes – Indirect Expenses

Net profit or net loss so computed is transferred to the capital account in the balance sheet by way of the following entry:

i) For transfer of net profit

Profit and Loss A/c Dr.

To Capital A/c

ii) For transfer of net loss

Capital A/c Dr.

To Profit and Loss A/c

Relevant Items in Trading and Profit and Loss Account

The different items appearing in the trading and profit and loss account are explained hereunder:

(i). **Opening stock:** It is the stock of goods in hand at the beginning of the accounting year. This is the stock of goods which has been carried forward from the previous year and remains unchanged during the year and appears in the trial balance. In the trading account it appears on the debit side because it forms the part of cost of goods sold for the current accounting year.

(ii). **Purchases less returns:** Goods, which have been bought for resale appears as purchases on the debit side of the trading account. They include both cash as well as credit purchases. Goods which are returned to suppliers are termed as purchases return. It is shown by way of deduction from purchases and the computed amount is known as Net purchases.

(iii). **Wages:** Wages refer to remuneration paid to workers who are directly engaged in factory for loading, unloading and production of goods and are debited to trading account.

(iv). **Carriage inwards/Freight inwards:** These expenses are the items of transport expenses, which are incurred on bringing materials/goods purchased to the place of business. These items are paid in respect of purchases made during the year and are debited to the trading account.

(v). **Fuel/Water/Power/Gas:** These items are used in the production process and hence are part of expenses.

(vi). **Packaging material and Packing charges:** Cost of packaging material used in the product are direct expenses as it refers to small containers which form part of goods sold. However, the packing refers to the big containers that are used for transporting the goods and is regarded as an indirect expense debited to profit and loss account.

(vii). **Salaries:** These include salaries paid to the administration, godown and warehouse staff for the services rendered by them for running the business. If salaries are paid in kind by providing certain facilities (called perks) to the employees such as rent free accommodation, meals, uniform, medical facilities should also be regarded as salaries and debited to the profit and loss account.

(viii). **Rent paid:** These include office and godown rent, municipal rates and taxes, factory rent, rates and taxes. The amount of rent paid is shown on the debit side of the profit and loss account.

(ix). **Interest paid:** Interest paid on loans, bank overdraft, renewal of bills of exchange, etc. is an expense and is debited to profit and loss account.

(x). **Commission paid:** Commission paid or payable on business transactions undertaken through the agents is an item of expense and is debited to profit and loss account.

(xi). **Repairs:** Repairs and small renewals/ replacements relating to plant and machinery, furniture, fixtures, fittings, etc. for keeping them in working condition are included under this head. Such expenditure is debited to profit and loss account.

(xii). **Miscellaneous expenses:** Though expenses are classified and booked under different heads, but certain expenses being of small amount clubbed together and are called miscellaneous expenses. In normal usage these expenses are called Sundry expenses or Trade expenses.

Items on the credit side

(i). **Sales less returns:** Sales account in trial balance shows gross total sales (cash as well as credit) made during the year. It is shown on the credit side of the trading account. Goods returned by customers are called return inwards and are shown as deduction from total sales and the computed amount is known as net sales.

(ii). **Other incomes:** Besides salaries and other gains and incomes are also recorded in the profit and loss account. Examples of such incomes are rent received, dividend received, interest received, discount received, commission received, etc.

(iii). **Closing stock:** It may be noted that closing stock does not normally form part of trial balance and is brought into books with the help of the following journal entry :

Closing stock A/c Dr.

To Trading A/c

This entry opens a new account of asset, which is transferred to the balance sheet. The closing stock shall be an opening stock for the next year and shall be sold during the year.

BALANCE SHEET

The balance sheet is a statement prepared for showing the financial position of the business summarising its assets and liabilities at a given date. The assets reflect debit balances and liabilities (including capital) reflect credit balances. It is prepared at the end of the accounting period after the trading and profit and loss account have been prepared. It is called balance sheet because it is a statement of balances of ledger accounts that have not been transferred to trading and profit and loss account and are to be carried forward to the next year with the help of an opening entry made in the journal at the beginning of the next year.

According to Howard, a Balance sheet may be defined as – 'a statement which reports the values owned by the enterprise and the claims of the creditors and owners against these properties'.

It is showing the financial position of the concern as on the last day of the accounting year. It comprises of a list of assets, liabilities and capital.

Balance Sheet Equation:

- **Assets** = Liabilities + Capital
- **Capital** = Assets – Liabilities

Objectives and Functions of Balance Sheet

- To identify the financial position of a company
- To know the liquidity picture of the concern
- To know the solvency position of the concern
- To identify nature and value of assets
- To get Nature and extent of liabilities and actual capital

Preparing Balance Sheet

All the account of assets, liabilities and capital are shown in the balance sheet. Accounts of capital and liabilities are shown on the left hand side, known as Liabilities. Assets and other debit balances are shown on the right hand side, known as Assets. There is no prescribed form of Balance sheet, for a proprietary and partnership firms. (However, Schedule VI Part I of the Companies Act 1956 prescribes the format and the order in which the assets and liabilities of a company should be shown). The horizontal format in which the balance sheet is prepared is shown below.

Relevant Items in the Balance Sheet

Items which are generally included in a balance sheet are explained below:

1) **Current Assets:** Current assets are those which are either in the form of cash or a can be converted into cash within a year. The examples of such assets are cash in hand/bank, bills receivable, stock of raw materials, semi-finished goods and finished goods, sundry debtors, short term investments, prepaid expenses, etc.
2) **Current Liabilities:** Current liabilities are those liabilities which are expected to be paid within a year and which are usually to be paid out of current assets. The examples of such liabilities are bank overdraft, bills payable, sundry creditors, short-term loans, outstanding expenses, etc.
3) **Fixed Assets:** Fixed assets are those assets, which are held on a long-term basis in the business. Such assets are not acquired for the purpose of resale, e.g. land, building, plant and machinery, furniture and fixtures, etc. Sometimes the term 'Fixed Block' or 'Block Capital' is also used for them.
4) **Intangible Assets:** These are such assets which cannot be seen or touched. Goodwill, Patents, Trademarks are some of the examples of intangible assets.
5) **Investments:** Investments represent the funds invested in government securities, shares of a company, etc. They are shown at cost price. If, on the date of preparation the balance sheet, the market price of investments is lower than the cost price, a footnote to that effect may be appended to the balance sheet.
6) **Long-term Liabilities:** All liabilities other than the current liabilities are known as long-term liabilities. Such liabilities are usually payable after one year of the date of the balance sheet. The important items of long term liabilities are long-term loans from bank and other financial institutions.
7) **Capital:** It is the excess of assets over liabilities due to outsiders. It represents the amount originally contributed by the proprietor/ partners as increased by profits and interest on capital and decreased by losses drawings and interest on drawings.
8) **Drawings:** Amount withdrawn by the proprietor is termed as drawings and has the effect of reducing the balance on his capital account. Therefore, the drawings account is closed by transferring its balance to his capital account. However it is shown by way of deduction from capital in the balance sheet.

OPENING ENTRY

The balances of various accounts in balance sheet are carried forward from one accounting period to another accounting period. In fact, the balance sheet of an accounting period becomes the opening trial balance of the next accounting period. Next year an opening entry is made which opens these accounts contained in the balance sheet. The opening entry with various assets and liabilities will be recorded as follows:

Fixed assets A/c Dr.

Current assets A/c Dr.

Fictitious assets A/c Dr.

Investments A/c Dr.

To Capital A/c

To Long-term liabilities A/c

To Current liabilities A/c

FINAL ACCOUNT FORMAT

Dr. **Trading account for the year ended . . .** **Cr.**

Particulars	Amount	Amount	Particulars	Amount	Amount
To Opening stock		xxx	By Sales	xxx	
To Purchases	xxx		Less: Sales returns	xxx	Xxx
Less: Purchases returns	xxx	xxx	By Closing stock		xxx
To Direct expenses:			By **Gross loss c/d***		xxx
Carriage/ Freight inwards		xxx xxx			
Wages		xxx			
Dock charges		xxx			
Octroi		xxx			
Royalty		xxx			
Import duty		xxx			
To **Gross profit c/d***		**xxx**			
		xxx			**xxx**

Profit and loss account for the year ended …….

Dr. **Cr.**

Particulars	**Amount**	**Particulars**	**Amount**
To Gross loss b/d	xxx	By Gross profit b/d	xxx
To Office and administrative expenses:		**By Indirect incomes:**	
Salaries	xxx	Rent earned	xxx
Rent, rates and taxes	xxx	Discount received	xxx
Printing and stationery	xxx	Commission earned	xxx
Postage	xxx	Interest on investments	xxx
Legal charges	xxx	Dividend on shares	xxx
Audit fees	xxx	Bad debts recovered	xxx
Establishment expenses	xxx	Profit on sale of fixed assets	xxx
Trade expenses	xxx	Apprenticeship premium	xxx
General travelling expenses	xxx	Miscellaneous receipts	xxx
Lighting	xxx	By Net loss*	xxx
Insurance premium	xxx	(transferred to capital account)	
To Selling and distribution expenses:			
Carriage outwards	xxx		
Advertisement	xxx		
Commission	xxx		
Brokerage	xxx		
Bad debts or provision for bad debts	xxx		
Export duty	xxx		
Packing charges	xxx		
To Other expenses and losses:			
Repairs	xxx		
Depreciation	xxx		
Interest charges	xxx		
Discount allowed	xxx		
Provision for discount on debtors	xxx		
Bank charges	xxx		
Interest on capital	xxx		
Donation and charity	xxx		
Loss on sale of fixed assets	xxx		
Abnormal loss due to fire, theft	xxx		
etc. not covered by insurance	xxx		
To Net profit* (transferred to capital account)	xxx		
	xxx		**xxx**

Balance sheet of ... as on...

Liabilities	Amount	Assets	Amount	Amount
		Fixed assets:		
Capital	xxx	**i) Intangible assets:**		
Add: Net profit/ Less: Net loss	xxx	Goodwill		xxx
	xxx	Patent rights		xxx
Less: Drawings	xxx	Copy rights		xxx
	xxx	Trade marks		xxx
Reserves	xxx	Computer software		xxx
Long term loans	xxx	**ii) Tangible assets:**		
Current liabilities:		Land		xxx
Bank overdraft, Cash credit	xxx	Buildings	xxx	
Outstanding expenses	xxx	Less: Depreciation	xxx	xxx
Unearned income	xxx	Plant and machinery	xxx	
Short term loans from banks	xxx	Less: Depreciation	xxx	xxx
Sundry creditors	xxx	Vehicles	xxx	
Bills payable	xxx	Less: Depreciation	xxx	xxx
Provisions:		Furniture and Fittings	xxx	
Provision for employee benefits	xxx	Less: Depreciation	xxx	xxx
Provision for tax	xxx	Investments		xxx
	xxx	**Current assets:**		
		Stock		xxx
		Advances given		xxx
		Sundry debtors		xxx
		Bills receivable		xxx
		Prepaid expenses		xxx
		Accrued income		xxx
		Cash at bank		xxx
		Cash in hand		xxx
		Fictitious assets:		
		Preliminary expenses		xxx
		Miscellaneous expenses		xxx
	xxx			**xxx**

Example 1

Following are the balances extracted from the books of Manish Gupta on 31st March, 2018:

	₹		₹
Capital	1,90,000	Cash at Bank	26,000
Drawing	7,000	Salaries	8,000
Plant and Machinery	1,20,000	Repairs	1,900
Delivery Vehicle	26,000	Stock on 1st April, 2017	16,000
Sundry Debtors	36,000	Rent	4,500
Sundry Creditors	26,000	Manufacturing Expenses	1,500
Purchases	20,000	Bills Payable	23,500
Sales	42,000	Bad Debts	5,000
Wages	8,000	Carriage	1,600

Prepare Trading and Profit and Loss Account and balance Sheet as at 31st March, 2018 after following adjustments are made:

(i) Closing Stock was ₹ 16,000.

(ii) Depreciate Plant and Machinery @ 10% and Delivery Vehicle @ 15%.

(iii) Unpaid Rent amounted to ₹ 500.

Solution 1

Trading Account
for the year ended March 31, 2018

Dr. **Cr.**

Particulars	**Amount (Rs)**	**Particulars**	**Amount (Rs)**
Opening stock	16,000	Sales	42,000
Purchases	20,000	Closing Stock	16,000
Wages	8,000		
Manufacturing Expenses	1,500		
Carriage	1,600		
Gross Profit (*Balance Figure*)	10,900		
	58,000		**58,000**

Profit and Loss Account

for the year ended March 31, 2018

Dr. **Cr.**

Particulars		**Amount (Rs)**	**Particulars**	**Amount (Rs)**
Salaries		8,000	Gross Profit	10,900
Repairs		1,900	Net Loss (*Balancing Figure*)	24,900
Rent	4,500			
Add: Unpaid Rent	500	5,000		
Bad Debts		5,000		
Depreciation on:				
Plant and machinery	12,000			
Delivery Vehicle	3,900	15,900		
		35,800		**35,800**

Balance Sheet

as on March 31, 2018

Liabilities		**Amount (Rs)**	**Assets**		**Amount (Rs)**
Capital	1,90,000		**Fixed Assets**		
Less: Drawings	(7,000)		Plant and Machinery	1,20,000	
Less: Net Loss	(24,900)		*Less*:10% Deprecation	(12,000)	1,08,000
		1,58,100	Delivery Vehicle	26,000	
			Less:15% Depreciation	(3,900)	22,100
Current Liabilities					
Sundry Creditors		26,000	**Current Assets**		
Bills Payable		23,500	Closing Stock		16,000
Unpaid Rent		500	Sundry Debtors		36,000
			Cash at Bank		26,000
		2,08,100			**2,08,100**

Example 2

Prepare Trading and Profit and Loss Account and Balance Sheet from the following balances relating to the year ended 31st March, 2018:

	₹		₹
Capital	1,00,000	Wages	50,000
Creditors	12,000	Bank	10,000

Returns Outward	5,000	Repairs	500
Sales	1,64,000	Stock on 1st April, 2017	20,000
Bills Payable	5,000	Rent	4,000
Plant and Machinery	40,000	Manufacturing Expenses	8,000
Sundry Debtors	24,000	Trade Expenses	7,000
Drawing	10,000	Bad Debts	2,000
Purchases	1,05,000	Carriage	1,500
Returns Inward	3,000	Fuel and Power	1,000

Additional Information:

(i) Closing Stock was valued at ₹ 14,500.

(ii) Depreciate Plant and Machinery by ₹ 4,000.

(iii) Write off Bad Debts ₹ 5,000.

(iv) A sum of ₹ 400 is due for repairs.

Solution 2

Trading Account

for the year ended March 31, 2018

Dr. **Cr.**

Particulars		**Amount (Rs)**	**Particulars**		**Amount (Rs)**
Opening stock		20,000	Sales	1,64,000	
Purchases	1,05,000		*Less*: Return Inwards	(3,000)	1,61,000
Less: Return out words	(5,000)	1,00,000	Closing Stock		14,500
Wages		50,000	Gross Loss (*Balancing Figure*)		5,000
Manufacturing Expenses		8,000			
Carriage		1,500			
Fuel and Power		1,000			
		1,80,500			**1,80,500**

Profit and Loss Account

for the year ended March 31, 2018

Dr. **Cr.**

Particulars		**Amount (Rs)**	**Particulars**	**Amount (Rs)**
Gross Loss		5,000		
Repairs	500			
Add: outstanding	400	900		

Rent		4,000		
Miscellaneous Expenses		7,000		
Bad Debts	2,000		Net Loss (*Balancing Figure*)	27,900
Add: Additional bad debts	5,000	7,000		
Depreciation on Plant and Machinery		4,000		
		27,900		**27,900**

Balance Sheet

as on March 31, 2018

Liabilities		Amount (Rs)	Assets		Amount (Rs)
Capital	1,00,000		**Fixed Assets**		
Less: Drawings	(10,000)		Plant and Machinery	40,000	
Less: Net Loss	(27,900)	62,100	*Less*: Depreciation	(4,000)	36,000
Current Liabilities			**Current Assets**		
Creditors		12,000	Closing Stock		14,500
Bills Payable		5,000	Sundry Debtors	24,000	
Outstanding Repairs		400	*Less*: Further Bad Debts	(5,000)	19,000
			Bank		10,000
		79,500			**79,500**

Example 3

Following Trial Balance has been extracted from the books of M/s. Ram Prasad & Sons on 31st March, 2018:

Particulars	Dr. ₹	Particulars	Cr. ₹
Machinery	4,00,000	Capital	9,00,000
Cash at Bank	1,00,000	Sales	16,00,000
Cash in Hand	50,000	Sundry Creditors	4,50,000
Wages	1,00,000	Interest Received	30,000
Purchases	8,00,000		
Stock on 1st April, 2017	6,00,000		
Sundry Debtors	4,40,000		
Bills Receivable	2,90,000		
Rent	45,000		
Commission	25,000		
General Expenses	80,000		
Salaries	50,000		
	29,80,000		29,80,000

Additional Information:

(i) Outstanding salaries were ₹ 45,000.

(ii) Depreciate Machinery at 10%.

(iii) Wages outstanding were ₹ 5,000.

(iv) Rent prepaid ₹ 10,000.

(v) Provide for interest on capital 5% per annum.

(vi) Stock on 31st March, 2018 ₹ 8,00,000.

Prepare Trading and Profit and Loss Account for the year ended 31st March, 2018 and Balance Sheet as at that date.

Solution 3

Financial Statement of M/s. Ram Prasad & Sons

Trading Account

for the year ended March 31, 2018

Dr. **Cr.**

Particulars		Amount (Rs)	Particulars	Amount (Rs)
Opening Stock		6,00,000	Sales	16,00,000
Purchases		8,00,000	Closing Stock	8,00,000
Wages	1,00,000			
Add: Outstanding Wages	5,000	1,05,000		
Gross Profit (*Balancing Figure*)		8,95,000		
		24,00,000		**24,00,000**

Profit and Loss Account

for the year ended March 31, 2018

Dr. **Cr.**

Particulars		Amount (Rs)	Particulars	Amount (Rs)
Rent	45,000		Gross Profit	8,95,000
Less: Prepaid Rent	(10,000)	35,000	Interest Received	30,000
Commission		25,000		
General Expenses		80,000		
Salaries	50,000			
Add: Outstanding Salaries	45,000	95,000		
Depreciation on Machinery		40,000		
Net Profit (*Balancing Figure*)		6,50,000		
		9,25,000		**9,25,000**

Balance Sheet

as on March 31, 2018

Liabilities		Amount (Rs)	Assets		Amount (Rs)
Capital	9,00,000		**Fixed Assets**		
Add: Net Profit	6,50,000	15,50,000	Machinery	4,00,000	
Current Liabilities			*Less*: 10%		
			Depreciation	(40,000)	3,60,000
Sundry Creditors		4,50,000	**Current Assets**		
Outstanding Salary		45,000	Closing Stock		8,00,000
Outstanding Wages		5,000	Sundry Debtors		4,40,000
			Bills Receivable		2,90,000
			Prepaid Rent		10,000
			Cash at Bank		1,00,000
			Cash in Hand		50,000
		20,50,000			**20,50,000**

Example 4

Following balances are taken from the books of Mr. Niranjan. You are required to prepare Trading and Profit and Loss Account and Balance Sheet for the year ended 31st March, 2018:

Particulars	₹	Particulars	₹
Capital	1,20,000	Drawings	21,000
Opening Stock	45,000	Plant and Machinery	24,000
Furniture	1,500	Purchases	2,95,000
Sales	4,35,000	Insurances	1,500
Purchases Return	4,000	Sales Return	7,000
Rent	5,000	Trade Expenses	2,000
Salaries	24,000	Wages	40,000
Bad Debts	1,000	6% Investments	50,000
Sundry Debtors	40,000	Sundry Creditors	19,000
Bills Payable	800	Cash	12,200
Advertisement Expenses	6,000	Miscellaneous Receipts	1,200
Patents	4,800		

Adjustments:

(i) Closing Stock ₹ 75,000.

(ii) Depreciate Machinery by 10% and Furniture by 20%.

(iii) Wages ₹ 5,000 and salaries ₹ 2,000 are outstanding.

(iv) Write off ₹ 5,000 as further Bad Debts and create 5% Provision for Doubtful Debts.

(v) Investments were made on 1st July, 2017 and no interest has been received so far.

Solution 4

Financial statements of Mr. Niranjan
Trading Account
for the year ended March 31, 2018

Dr. **Cr.**

Particulars		Amount (₹)	Particulars		Amount (₹)
Opening Stock		45,000	Sales	4,35,000	
Purchases	2,95,000		*Less*: Sales Return	(7,000)	4,28,000
Less: Purchases Return	(4,000)	2,91,000	Closing Stock		75,000
Wages	40,000				
Add: Outstanding wages	5,000	45,000			
Gross Profit (*Balancing Figure*)		1,22,000			
		5,03,000			**5,03,000**

Profit and Loss Account
for the year ended March 31, 2018

Dr. **Cr.**

Particulars		Amount (₹)	Particulars	Amount (₹)
Rent		5,000	Gross Profit	1,22,000
Salaries	24,000			
Add: Outstanding Salaries	2,000	26,000		
Bad Debts	1,000		Interest Accrued on Investment	
Add: Further Bad Debts	5,000		(50,000 × 6% × 9/12)	2,250
Add: Provision for Doubtful Debts	1,750	7,750	Miscellaneous Receipts	1,200
Advertisement expenses		6,000		
Provision for discount on debtors		665		
Insurances		1,500		
Trade Expenses		2,000		
Depreciation on:				
Machinery	2,400			
Furniture	300	2,700		
Net Profit (*Balancing Figure*)		73,835		
		1,25,450		**1,25,450**

Balance Sheet
as on March 31, 2018

Liabilities		Amount (₹)	Assets		Amount (₹)
Capital	1,20,000		**Fixed Assets**		
Less: Drawings	(21,000)		Patents		4,800
Add: Net Profit	73,835	1,72,835	Plant and Machinery	24,000	
Current Liabilities			*Less*: 10% Depreciation	(2,400)	21,600

Sundry Creditors	19,000	Furniture	1,500	
Wages Outstanding	5,000	*Less*: 20% Depreciation	(300)	1,200
Salaries Outstanding	2,000	6% Investment	50,000	
Bills Payable	800	*Add*: Accrued Interest	2,250	52,250
		Current Assets		
		Closing Stock		75,000
		Debtors	40,000	
		Less: Further Bad Debts	(5,000)	
		Less: Provision for Doubtful Debts	(1,750)	
			33,250	
		Less: Provision for Discount	(665)	32,585
		Cash		12,200
	1,99,635			**1,99,635**

WHAT IS A NONPROFIT ORGANIZATION?

These are those organisations which are established for a charitable or social purpose and not with a view to earn profit. These also render services to their members and to the society on voluntary basis. These non-profit seeking entities exist with a primary motive of providing service. Such as, a club provides sports and recreational facilities; a hospital renders medical services.

Characteristics/Features

SERVICE :- Such organisations are set up to provide service to a specific group or the public at large such as education, health care, sports, entertainment etc. The main aim of these organisations is to provide service either free of cost or at nominal rates and not to earn profit.

• FORM:- Since the basic objective of NPO is to render services such as social, religious, educational, charitable, etc. so they take the form of clubs, schools, colleges, societies, trusts or charitable bodies.

• SEPARATE LEGAL ENTITY:- As every organisation has distinct entity from its members, so has the NPO. Its name and entity is different from the people who have contributed towards its capital fund. It takes birth by law and winds up in the same way.

• MANAGEMENT BY ELECTED PERSONS:- Management of NPO is done by the people who have been elected by its members called managing/ executive committee.

NO PROFIT MOTIVE:- These institutions do not operate with a view to earn profit rather their aim is to promote education, sports, charity, religion, culture, etc.

• ACCOUNTS:- They prepare financial statements at the end of their accounting period in the form of RECEIPTS AND PAYMENT ACCOUNT, INCOME AND EXPENDITURE ACCOUNT and BALANCE SHEET.

• MAJOR SOURCES OF INCOME (FUNDING):- These organisations collect subscriptions from their members, grants from government, donations, income from investments etc. to meet the operating cost and cost of projects undertaken.

• SURPLUS NOT DISTRIBUTED AMONG ITS MEMBERS:- Current year's surplus in the form of excess of income over expenditure is not distributed among its members. It is added to Capital Fund.

NPO prepares annual or final accounts reflecting the financial transactions of the organisation .

Final accounts of NPO includes :

1 . RECEIPTS & PAYMENT A/C

2 . INCOME & EXPENDITURE A/C

3. BALANCE SHEET

Preparation of Receipts and Payments Accounts:

Receipts:

Summaries all receipts appearing on the receipts side of the cash book and the bank book. These are added up separately for each head of account and shown on the receipts side of the Receipts and Payments Account.

Payments:

Similarly, all payments appearing on the payments side of the cash book and the bank book are summarized. These also are added up separately for each head of account and shown on the payments side of the Receipts and Payments Account.

Concept of Receipts And Payments Account:

Receipt and payment account is a summary of cash receipts and payments during the accounting period. It records all cash receipts and cash payments including capital receipts and revenue revenue receipts irrespective of accounting period.

All cash receipts are recorded on debit side or receipts side and all cash payments are recorded on credit or payments side of receipts and payments account.

Features of Receipts And Payments Account:

The essential features of receipts and payments account are as follows:

1. Summary Of Cash Transactions:

All cash receipts and payments made by the concern during the accounting period are recorded in this book. Therefore, receipts and payments account can be taken as a summary of cash transactions.

2. Cash And Bank Items In One Column:

All receipts either cash or bank are recorded in receipts column of receipts side where all cash and bank payments are recorded in one column of payment column of receipts and payments account. The cash and bank transactions are merged to avoid contra entries of cash and bank transactions.

3. No Distinction Between Capital And Revenue:

All cash receipts and cash payments irrespective of capital and revenue nature are recorded in receipts and payments account. No distinct is made for capital receipts , revenue receipts, capital expenditures and revenue expenditures.

4. Opening and Closing Balance of Cash:

Receipts and payments account starts from opening balance of cash and bank ends with the closing balance of cash and bank.

5. Recording of Cash Receipts And Payments:

All cash and cheque receipts are recorded on debit side where as all cash and cheque payments are recorded on credit side of receipts and payments account.

6. Ignores Non-cash Transactions:

Receipts and payments account does not record non-cash transactions.

Limitations Of Receipts And Payments Account

1. Receipts and payments account does not differentiate capital and revenue expenses and incomes.
2. Receipts and payments account fails to show expenses and incomes on accrual basis.
3. Receipts and payments account fails to show surplus and deficiency.
4. Receipts and payments account fails to show non-cash transactions such as depreciation of fixed assets, pilferage.

Income and Expenditure Account and Balance Sheet:

Income and expenditure account is prepared in non profit organisation whose aim is not to earn money for personal benefits but they distribute the profit for welfare activities. So, for showing the organisation different from for-profit organisation, they prepare income and expenditure account. It is prepared just like preparing of profit and loss account. In the debit side, we show all the expenses whether they has been paid or not. In the credit side, we show all the incomes whether they have been received or not. One thing, we should remember that we will show only the expenses and incomes which are not the capital nature.

Income and Expenditure Account:

All transactions relating to non-profit-seeking concerns like Club, Library etc. are recorded in the books of account strictly according to Double Entry System. At the year-end result is determined through Final Accounts.

Final Accounts consist of two stages:

- Income and Expenditure Account
- Balance Sheet

Characteristics:

The following are the characteristics of Income and Expenditure Account:

1. It is in fact like a Profit and Loss Account of a profit-seeking concern.
2. All expenses are recorded on Debit side and all revenues on Credit side.
3. Only revenue transactions are included in it. No capital items is taken into account.
4. All the items of income/revenue concerning current year — whether received in cash or not—and all items of expense —whether paid in cash or not—are taken into account. But no item of income or expense concerning last year or next year is included in it.
5. Surplus or deficit of a concern is ascertained through this account. Credit balance "indicates surplus, while debit balance indicates deficit.
6. Its balance is transferred to Capital Fund Account.
7. It is prepared on the last day of an accounting year.
8. It does not start with any opening balance.

Difference between Receipt and Payment Account and Income and Expenditure Account-

S. No.	Particulars	Receipts and Payments Account	Income and Expenditure Account
1.	**Cash and Non cash transaction**	Only cash transactions are recorded here.	It is not confined to, cash transactions only, i.e. non-cash transactions are also included in it.
2.	**Shows an items**	Receipts are shown on the debit side and payments on the credit side.	All revenue incomes appear on the credit side and expenditure on the debit side.
3.	**Capital and revenue items**	It includes both capital and revenue receipts & payment	It includes only income and expenditure of revenue nature
4.	**Balance sheet**	It includes both capital and revenue items, so it need not necessarily be accompanied by a Balance Sheet.	It includes only revenue items, so it must be accompanied by a balance sheet, the balance sheet contains the remaining balances.
5.	**Type of Account**	It is a Real Account	It is a Nominal Account
6.	**Transfer of Closing Balance**	Its balance is carried over to Receipts & Payments Account of the next year.	Its balance is transferred to Capital Fund.
7.	**Opening Balance**	This account shows opening balance except in the first year.	It has no opening balance.

8.	**Transactions**	Transactions relating to past, present and futures are recorded.	Transactions relating to current year only are recorded.
9.	**Adjustment**	Adjustments are not considered, because it is prepared on cash basis of accounting.	Adjustments are considered necessary because it is prepared on accrual basis of accounting.
10.	**Use of Double Entry System**	The double entry bookkeeping system is not followed while its preparation.	Double entry bookkeeping system is followed strictly while its preparation.
11.	**Compulsory**	Its preparation is not compulsory.	It is compulsory. It must be prepared in order to ascertain the true result of a concern.
12.	**Closing Balance**	Closing balance of this account represents the closing cash in hand and at bank or overdraft at bank.	Closing balance of this account indicates either excess of income over expenditure or excess of expenditure over income.

Format Receipt and Payment Account

Receipt and Payment Account for the year ended ____

Receipt		Rs.	Payments		Rs.
To Balance b/d			By Rent		XXX
Cash	xxx		By Salaries		XXX
Bank	<u>xxx</u>	XXX	By Electricity		XXX
To Subscriptions:			By Printing & Stationery		XXX
Relating to previous year	XXX		By purchase of furniture		XXX
For Current Year	XXX		By purchase of books		XXX
For Future year	<u>XXX</u>	XXX	By purchase of investment		XXX
To Life membership fees		XXX	By Insurance		XXX
To Entrance fee		XXX	By Repairs		XXX
To Donations		XXX	By Miscellaneous Exp		XXX
To Income from lecture		XXX	By Balance c/d (bal.fig)		XXX
To Rent		XXX	Cash	XXX	
			Bank	<u>XXX</u>	XXX
		XXX			XXX

Format Income and Expenditure Account

Name of the club / Institution

Dr. Income and Expenditure Account for the year ended .... Cr.

Expenditure	₹	Income	₹
To Salaries	xxx	By Subscription	xxx
To Charities	xxx	By Donation received	xxx
To Rent	xxx	By Admission fee received	xxx
To Donation paid	xxx	By Grant received	xxx
To Stationery	xxx	By Rent received	xxx
To Loss on sale of asset	xxx	By Interest received	xxx
To Depreciation	xxx	By Profit on sale of asset	xxx
To Surplus*	xxx	By Deficit*	xxx
(Excess of income over expenditure)		(Excess of expenditure over income)	
	xxx		xxx

* Note: The balancing figure may be either surplus or deficit.

Format of Balance Sheet

Balance Sheet of .... As on ....

Liabilities		Rs.	Assets	Rs.
Outstanding Exp		Xxx	Cash in hand	Xxx
Subscription received in advance		Xxx	Cash at bank	Xxx
Bank Loan		Xxx	Fixed Deposits	Xxx
Special fund(Tournament)	xxx		Investments	Xxx
Add: Income from tournament	xxx		Outstanding subscription	Xxx
	xxx		Interest outstanding	Xxx
Less: Tournament Exp	xxx	Xxx	Rent receivable	Xxx
Special donations	xxx		Prepaid expenses	Xxx
Capital fund	xxx		Stock of stamps	Xxx
Add: surplus	xxx		Stock of sports Material	Xxx
Or	xxx		Stock of Medicines	Xxx
Less: Deficits	xxx	xxx	Library books	Xxx
Add: General Donations	xxx		Furniture & Fittings	Xxx
Entrance fees	xxx		Land and Building	Xxx
Legacies	xxx		Ground & Pavilion	xxx
		xxx		xxx

Example 1

Calculate the amount of stationery to be posted to Income and Expenditure Account of Indian Cultural Society for the year ending 31st March, 2018 from the following information :

Particulars	**1.4.2017 (Rs.)**	**31.3.2018 (Rs.)**
Stock of stationery	21,000	18,000
Creditors for stationery	11,000	23,000

Stationery purchased during the year ended 31st March 2018 was Rs.75,000. Also, present the relevant items in the Balance Sheet of the society as at 31st March 2018.

Solution 1

Stationery Account

Dr.			**Cr.**
Particulars	**Rs.**	**Particulars**	**Rs.**
To Balance b/d	21,000	By Income & Expenditure A/c	78,000
To Bank	75,000	(Balancing figure)	
		By Balance c/d	18,000
	96,000		**96,000**

Balance sheet as on 31.03.2018

Liabilities	**Rs.**	**Assets**	**Rs.**
Creditors for stationery	23,000	Stationery's Stock	18,000

Example 2

From the following information, calculate the amount of subscriptions to be credited to the income and expenditure account for the year 2007—08.

	Amt (Rs.)
Subscriptions received during the year	50,000

Subscriptions outstanding on 31st March, 2007	20,000
Subscriptions outstanding on 31st March, 2008	6,000
Subscriptions received in advance on 31st March, 2007	8,000
Subscriptions received in advance on 31st March, 2008 Subscriptions of Rs. 1,500 are still in arrears for the year 2006-07.	9,000

Particulars	**Amount (Rs.)**
Subscriptions received during the year	50,000
(+) Subscriptions Outstanding for 31st March, 2008 (6,000 – 1,500)	4,500
(+) Subscriptions Received in advance an 31st March, 2007	8,000
(-) Subscriptions Received in advance on 31st March, 2008	(9,000)
(-) Subscriptions Outstanding on 31st March, 2007 (20,000 – 1,500)	(18,500)
= Income from subscriptions for the year 2007-08	**35,000**

Solution 2

Example 3

From the following Reciepts and Payments Accounts of Cricket Club and the additional information given, prepare the Income and Expenditure Account for the Year ending 31-12-2018 and Balance sheet as on that date:

RECEIPTS AND PAYMENTS ACCOUNT
for the year ending 31-12-2018

To bal. b/d	**Rs.**		**Rs.**
-Cash	3520	By Maintenance	6820

-Bank	27380	By Crockery Purchased	2650
-Fixed Deposit @ 6%	30000	By Match Expenses	13240
To Subscription (including Rs. 6000 for 2017)	40000	By Salaries	11000
TO Entrance fees	2750	By Conveyance	820
To Donation	5010	By Upkeep of Lawns	4240
To Interest on Fixed Deposits	900	By postage stamps	1050
To Tournament Fund	20000	By Purchase Of cricket goods	9720
To Sale of Crockery(book value Rs. 1200)	2000	By Sundry expenses	2000
		By Investments	5700
		By Tournament Expenses	18800
		By balance c/d:	
		-Cash	2200
		-Bank	23320
		Fixed Deposits	30000
	131560		**131560**

Additional Information:

1. Salary outstanding is Rs. 1000.
2. Opening Balance of Stock of Postage and Stationery and Cricket gods is Rs. 750 and Rs. 3210 respectively. Closing stock of the same is Rs. 900 and Rs. 2800 respectively.
3. Outstanding subscription for 2017 and 2018 is Rs. 6600 and Rs. 8000 respectively.

Solution 3

Cricket Club Income and Expenditure account
for the year ended 31-12-2018

Expenditure	**Rs.**	**Income**		**Rs.**
To Maintenance	6820	By Subscription	40000	
To Conveyance	820	Less: Rec. for last year	6000	

To Upkeep of Lawns		4240	Add: outstanding for current year	8000	42000
To Match Expenses		13240	By Entrance Fees		2750
To Salaries	11000		By Donations		5010
Add: Outstanding	1000	12000	By Interest on Fixed Deposits	900	
To postage Stamps:			Add:Outstanding	900	1800
opening balance	750		By Profit on Sale of Crockery (2000-1200)		800
Add: Purchases	1050				
Less: Closing Stock	(900)	900			
To Cricket Goods:					
opening balance	3210				
Add: Purchases	9720				
Less: Closing Stock	(2800)	10130			
To sundry Expenses		2000			
To Excess of Income over Expenditure (balance fig.)		2210			
		52360			**52360**

Balance sheet
as on 31-12-2018

Liabilities		**Rs.**	**Assets**	**Rs.**
Tournament Fund	20000		Cash	2200
Less:Tournament Expenses	18800	1200	Bank	23320
Salary Outstanding		1000	Fixed Deposit	30000
Capital (Balancing Fig.)	72660		Investment	5700
Add: surplus	2210	74870	Crockery	2650
			Accrued Interest on Fixed Deposit	900

		Subscription Due:		
		2017 (6600-6000)	600	
		2018	8000	8600
		Stock of Postage and stationery		900
		Stock of Cricket goods		2800
	77070			**77070**

Example 4

Receipt and Payment Account of Shankar Sports club is given below, for the year ended March 31, 2017

Receipt and Payment Account for the year ending March 31, 2017			
Receipts	**Amount Rs**	**Payments**	**Amount Rs**
Opening Cash in hand	2,600	Rent	18,000
Entrance fees	3,200	Wages	7,000
Donation for building	23,000	Billiard table	14,000
Locker rent	1,200	Furniture	10,000
Life membership fee	7,000	Interest	2,000
Profit from entertainment	3,000	Postage	1,000
Subscription	40,000	Salary	24,000
	……	Cash in hand	4,000
	80,000		80,000

Prepare Income and Expenditure Account and Balance Sheet with help of following Information:

Subscription outstanding on March 31, 2016 is Rs 1, 200 and Rs 2,300 on March 31, 2017, opening stock of postage stamps is Rs 300 and closing stock is Rs 200, Rent Rs 1,500 related to 2015 and Rs 1,500 is still unpaid.

On April 01, 2016 the club owned furniture Rs 15,000, Furniture valued at Rs 22,500

On March 31, 2016. The club took a loan of Rs 20,000 (@ 10% p.a.)

Solution 4

Books of Shankar Sports Club Income and Expenditure Account as on 31 Dec. 2017					
Dr.					**Cr.**
Expenditure		**Amount (₹)**	**Income**		**Amount (₹)**
Rent	18,000	…..	Entrance Fees		3,200
Add: Outstanding for 2017	1,500	…..	Locker Rent		1,200
.	19,500	…..	Profit from Entertainment		3,000
Less: Outstanding for 2016	(1,500)	18,000			…..
.		…	Subscription received during the year	40,000	…..
Wages		7,000	Less: Outstanding for 2016	(1,200)	…..
Depreciation on Furniture		2,500	.	38,800	…..
Interest		2,000	Add: Outstanding for 2017	2,300	41,100
Postage	1,000	…	Deficit (Balancing Figure)		6,100
Add: Opening Stock	300	…			…
	1,300	…			…
Less: Closing Stock	(200)	1,100			…
Salaries		24,000			…

Books of Shankar Sports Club Income and Expenditure Account as on 31 Dec. 2017					
		…			…
		54,600			54,600

Balance Sheet as on December 31, 2016

Liabilities	**Amount Rs**	**Assets**	**Amount Rs**
Rent Outstanding	1,500	Cash in Hand	2,600
10% Loan	20,000	Subscription Outstanding	1,200
.	…	Furniture	15,000
.	…	Stock of Postage Stamps	300
.	…	Capital fund Deficit (Balancing figure)	2,400
.	21,500	.	21,500

Balance Sheet as on December 31, 2017

Expenditure		**Amount (₹)**	**Income**		**Amount (₹)**
Rent Outstanding		1,500	Subscription Outstanding		2,300
10% Loan		20,000	Stock of Postage Stamps		200
Donation for Building		23,000	Billiard Table		14,000
Capital Fund	(2,400)	…	Furniture	15,000	…
Add: Life Membership Fee (note 1)	7,000	…	Add: Purchases	10,000	…
Less: Deficit	(6,100)	…		25,000	…
		…	Less: Depreciation	(2,500)	22,500
		…	Cash in Hand		4,000

Expenditure		Amount (₹)	Income		Amount (₹)
		…	*Capital Fund (Deficit)(note 2)		1500
		44,500			44,500

Note : 1. Some members of the organisation pay their subscription (to become the member) in lump sum for the entire life. This amount is called Life Membership Fees. So, Life Membership Fees is a receipt of Capital nature or non-recurring amount since the members will not be required to pay the fee annually. Hence it is not credited to the Income and Expenditure account but added to the Capital Fund.

2. Since there is insufficient amount in Capital Fund, it will be shown in the Assets side of Balance Sheet.

SCHOOL OF MANAGEMENT STUDIES

UNIT III - FINANCIAL ACCOUNTING- I - SBA1105

INTRODUCTION

Accounts are prepared by accountant, a human being is likely to commit mistakes at time of recording and posting in the books. However, such errors are located after some time and should be corrected by passing corrective journal entry, which is known as rectification if errors.

Need of Rectification

1. For the preparation of correct Accounting Records.
2. Preparation of P & LA/c with corrected figures to ascertain correct Profit or Loss.
3. To find out the true financial position of the firm by preparing Balance Sheet with corrected figures.

CLASSIFICATION OF ERRORS (ON THE BASIS OF NATURE)

I. Error of Omission

(When a transaction is completely partially omitted to be record in the books)

(a) Error of Complete Omission

Goods sold to X on Credit but not recorded in Sales Book.

(b) Partial Commission

Purchase machinery Rs. 5,000 in cash recorded in cash Book but not recorded in Machinery A/c

II. Error of Commission

(These errors are caused due to wrong recording of transactions, wrong totalling of subsidiary books or Ledger A/cs, Wrong posting and wrong carry forward)

(a) Error of Recording in the Book of Original Entry

Goods purchased from Ravi for Rs. 450, Goods as Rs. 540, in the Purchases Book

(b) Wrong Totalling of Subsidiary Book

Example : Purchase Book has been undercast (short totalled) by Rs.100.

(c) Error in Totalling or Balancing of Ledger A/cs*

Example : Creditors A/c has been balanced short by Rs. 500.

(d) Error of Posting

	(i) Posting to the wrong side but correct account. Goods sold to X for Rs. 550, entered to the credit of X's A/c instead of posting to the debit side of his account. (ii) Posting with wrong amount. (iii) Posting twice in an A/c/ (iv) Errors in posting to the wrong A/c but correct side don't affect Trial Balance. **(e) Error in carrying forward.** Total of purchase book Rs. 2,500 is carried forward as Rs. 2050
III. Errors of Principal. (These errors are caused due to the violation of accounting principles *i.e.* allocation between Capital and Revenue items.	**(a) Treating capital items as revenue item** Example : Wages paid for the installation of a new machinery charged to Wages A/c instead of machinery A/c. **(b)Treating Revenue Items as Capital Item** Example : Rs. 200 paid for the repairs of an old Machinery but debited to Machinery A/c instead of Repairs A/c.
Compensating Errors (Two or ore errors committed such a way that the net effect of these errors is nil).	**Example :** Cash paid to Ram Rs. 5,000 but debited him as Rs. 500 and paid to Mohan Rs. 500 but debited him as Rs. 5,000 so, net effect will be nil

TYPES OF ERRORS FROM RECTIFICATION POINT OF VIEW

From Rectification point of view, errors are classified into the following two categories only:

Case I: Errors which don't affect the Trial Balance

Or

Two Sided Errors

Case II: Errors which affect the Trial Balance

Or

One Sided Errors.

Errors don’t Affecting Trial Balance

- Errors of complete commission.
- Wrong recording in the books of original entry.
- Complete omission from posting.
- Errors of posting to the wrong A/c but on the correct side.
- Compensating errors.
- Errors of principle.

Errors Affecting Trial Balance

Shown by Star in the Table showing.

- Error in totalling of subsidiary books as under cast or over cast.
- Error in the balancing of ledger accounts.
- Error in posting to the correct Account but wrong amount.
- Error of partial omission.

Rectification of Errors

When the errors are detected, these have to be rectified in the books of accounts. Rectification of errors depends upon.

- The type of error and
- The time of depiction of an error.

Time of Depiction of an error means.

(i) Errors of detected before the preparation of Trial Balance.

(ii) Errors detected after preparing Trial Balance but before preparing final Accounts.

(iii) Errors detected after preparing Final Accounts.

RECTIFICATION OF TWO SIDED ERRORS

Two sided errors are those errors which affect two sides of Accounts. These errors don’t affect trial Balance as discussed earlier.

These Errors are rectified by passing a Journal entry irrespective of the time of depiction. In other words their rectifying entry will be same whether

(a) the error is depicted before Trial Balance or

(b) after the preparation of Trial Balance but before the Final A/c s are prepared.

Steps for Rectification

- Locate the effect of Error on Different Accounts.
- The Account showing excess credit should be debited.
- The Account showing excess Debit should be credited.
- The Account showing short Debit should be debited.
- The Account showing short Credit should be credited.

Examples (with Explanation)

(I) When an account has wrongly been debited in place of another A/c.

- Rectification will be done by debiting the correct account and Crediting the A/c which was wrongly debited.

Example: Machinery purchased for Rs. 10,000 has been debited to Purchases A/c

Solution: Here two accounts are affected

- Machinery A/c is not debited hence its debit side is short by Rs. 10,000 whereas purchases A/c debited by mistake. Purchases A/c debit side is in excess by Rs. 10,000.
- While rectifying this mistake Machinery A/c will be debited by Rs. 10,000 because it was not debited earlier and Purchases A/c will be credited because it was wrongly debited.

Rectifying Entry is

Machinery A/c	Dr.	10,000	
To Purchases A/c			10,000
(For purchases of machinery wrongly debited to Purchases A/c)			

(II) When an account has wrongly been credited in place of another account.

Example: Rs. 5,000 received from the sale of old furniture has been credited to Sales A/c.

Solution: This error also affects the two A/c

- Furniture A/c is not credited hence its credit side is short by Rs. 5,000. Sales A/c is credited by mistake its credit side is excess of Rs. 5,000.
- Therefore fore rectifying this mistake Sales A/c will be debited because it was wrongly credited and Furniture A/c which was not credited earlier will now be credited by Rs. 5,000.

Hence Rectifying entry is

Sales A/c	Dr.	5,000	
To Furniture A/c			5,000
(Sales of old Furniture wrongly credited to Sales A/c)			

(III) When there is a short debit in one A/c and a short Credit another A/c.

Example: Goods sold to Seema for Rs. 540 was entered in the Sales Book as Rs. 450.

Solution:

- Here Seema's A/c is debited by Rs. 90 short and Sales A/c is credited by Rs. 90 short. (Instead of Rs. 540 by Rs. 450)
- Therefore rectification will be done by Debiting Seema's A/c and Crediting Sales A/c. Hence Rectifying entry is:

Seema	Dr.	90	
To Sales A/c			90

(For Goods sold to Seema for Rs. 540 wrongly entered Rs.450)

(IV) When there is an Excess Debit in one A/c and Excess Credit in another A/c.

Example : Goods purchased from Mohan for Rs. 300 was recorded in Purchases Book as Rs. 3,000.

Solution :

- Here Purchases A/c is Debited by Rs. 3,000 instead of Rs. 300, i.e. Rs. 2,700, more.
- Mohan's A/c is also Credited by Rs. 2,700 more.
- Rectification will be done by debiting Mohan's A/c and Crediting purchases A/c by Rs. 2,700, i.e., the entry in the reverse direction.

Rectifying Entry

Mohan	Dr.	2,700	
To Purchases A/c			2,700

(For Purchase of goods from Mohan for Rs. 300 wrongly entered Rs.3,000)

Problem :

Rectify the following Errors :

1. Rs. 5,000 Paid for furniture purchased has been debited to purchases account.
2. Wages paid Rs. 7,000 for installation of new machinery were recorded in wages account.
3. Goods sold to Hari Rs. 10,000 not recorded.
4. Rs. 2,500 received from Monu has been credited to Sonu A/c.
5. Rent paid Rs. 1,000 wrongly debited to Landlord Account.
6. Credit Purchase from Raman Rs. 15,000 were wrongly recorded in sales book.

7. Credit sales to Geeta Rs. 8,.800 were recorded as Rs, 8,800
8. Goods Rs. 5,000 withdrawn by proprietor has not been recorded.

Solution :

Error No.	Particulars	L.F.	Dr. Rs.	Cr. Rs.
1.	Furniture A/c Dr.		5,000	
	To Purchases A/c			5,000
	(The furniture purchase wrongly debited to purchase A/c)			
2.	Machinery A/c Dr.		7,000	
	To wages A/c			7,000
	(The wages for installation machinery wrongly debited to wates A/c			
3.	Hari Dr.		10,000	
	To Sales A/c			10,000
	(The goods sold to Hari not recorded.)			
4.	Sonu Dr.		2,500	
	To Monu			2,500
	(The amount wrongly credited to Sonu instead of Monu)			
5.	Rent A/c Dr.		1,000	
	To Landlord			1,000
	(The rent paid but wrongly debited to landlord A/c)			
6.	Purchases A/c Dr.		15,000	
	Sales A/c Dr.		15,000	
	To Raman			30,000
	(The Credit purchase but wrongly credit to sale A/c.			
7.	Geeta Dr.		800	
	To sales A/c			800
	The Credit sales to Geeta Rs.880 but recorded 8000			
8.	Drawings A/c Dr.		5,000	
	To Purchases A/c			5,000
	The goods withdraw by Proprietor for personal use			

Important : Rectification of double sided errors can easily be understood by the students. These are rectified by passing the journal entries as given irrespective of the time of detection of the errors.

RECTIFICATION OF ONE SIDED ERRORS

These errors affect only one side of An Account either debit or credit. Therefore these errors the Trial Balance.

Rectification of these errors is done differently, in these two cases i.e.

(i) Before preparing the Trial Balance

(ii) After preparing the Trial Balance

Case 1 : Rectification of one sided errors before preparing Trial Balance.

When there errors are rectified before preparing Trial Balance i.e. transferring the difference in the Trial Balance to the Suspense Account.

(Which will be explained later on), then it is done directly by debiting or crediting the concerned ledger account.

For Short Debit -> Concerned A/c is debited.

For Excess Credit -> Concerned A/c is debited

For Short Credit -> Concerned A/c is credited

For Excess Debit -> Concerned A/c is credited

Example : (1) Purchases Book understand by Rs. 150

Analysis : It means that the total of the Purchases, Book is Rs. 150 short.

- This total is posted to purchases A/c- Debit side
- Hence Purchases A/c is debited short by Rs. 150
- No effect on any other A/c
- Therefore purchases A/c will be debited by Rs. 150 to rectify this error as given below.

Purchases A/c

Date	Particulars	J.F.	Rs.	Date	Particulars	J.F.	Rs.
	To Undercast of purchase book		150				

Here debit side of the Purchase A/c was short therefore the rectification is done by debiting the A/c.

Example 2 : Purchases Book is overcast by Rs. 300

Analysis

- Means total of the Purchases Book is in excess by Rs. 300 which is posted to the debit side of purchases A/c
- Hence purchases A/c is debited in excess by Rs. 300.
- No effect on any other A/c.
- Therefore to rectify this error Rs. 300 will be credited to purchases A/ c (i.e. opposite side)

Purchases A/c

Date Particulars	J.F.	Rs.	Date Particulars	J.F.	Rs.
			By Overcast of Purchases Book		300

- Here debit side of the purchases A/c was in access, therefore the rectification is done by entering the amount on the opposite side i.e., Credit side of the Purchases A/c.

Case II : Rectification of one Sided Error after Preparing Trial Balance

When the errors are detected after the preparation of Trial Balance then every single sided error is rectified by passing a Journal entry through Suspense Account.

- For short Debit Income Account -> Debit that Account and Credit the Suspense A/c
- Excess Credit in one Account -> Debit that Account and Credit the Suspense A/c
- Short Credit in one Account -> Credit that A/c and Debit the Suspense A/c
- Excess Debit in one Account -> Credit that A/c and Debit the Suspense A/c

Example : Hence for the same error as given in example No. in case I, the following Journal Entry will be passed.

		Rs.	Rs.
Purchases A/c	Dr.	150	
To Suspense A/c			150
(For undercast of purchase book, now corrected)			

Example 4 : Sales Book was undercast by Rs. 200

Analysis

- Sales book totalled short by Rs. 200 which is posted to the credit side of sales A/c.
- Therefore Sales A/c credit side is short by Rs. 200.
- Hence rectification will be done by crediting the sales A/c and Debiting the Suspense A/c by Rs. 200.

		Rs.	Rs.
Suspense A/c	Dr.	200	
To Sales A/c			200
(For undercast of Sales Book, now corrected)			

Note : When nothing is mentioned in the question about the time of detection of an error, the student are advised to rectify one sided errors through Suspense A/c.

Problem : Rectify the following error

(A) Without opening a Suspense A/c

(B) By passing Journal entries through Suspense A/c.

(1) Rs. 5,000 paid to Mohit were entered in the cash Book but omitted to be posted to the ledger.

(2) Rs. 5,000 paid to Mohit were debited to his A/c as Rs. 500.

(3) Rs. 5,000 paid to Mohit were debited to his A/c as Rs. 50,000.

(4) Rs. 5,000 paid to Mohit were credited to his A/c

(5) Rs.5,000 paid to Mohit were credited to his A/c as Rs. 500.

(6) Sales Book was overcast by Rs. 2,000

(7) Sales Return Book undercast by Rs. 4,000

(8) Purchase Return Book undercast by Rs. 5,000.

Solution :

(A) Without opening a suspense A/c. These errors are rectified in the concerned ledger A/c, as these errors before trial Balance.

(1) Mohit's A/c will debited by Rs. 5,000 as it is a case of partial ommission.

(2) Mohit's A/c was debited Rs. 45,000 (5,000-500) therefore the rectification will be done by debiting Mohit's A/c by 4,500.

(3) Mohit's A/c was debited in excess by Rs. 45,000 (50,000-5,000) therefore ratification will be done by crediting the Mohits A/c by Rs. 45,000.

(4) Mohit's A/c was credited by Rs. 5,000 instead of debited by Rs. 5,000 therefore rectification will be done by debiting Mohit's A/c by Rs. 10,000 (5,000+5,000)

(5) Mohit's A/c was wrongly credited by Rs. 500 instead of debiting it by Rs. 5,000, so rectification will be done by debiting the Mohit's A/c by 5,500.

(6) Sales book overcast means sales A/c is credited is excess by Rs. 2,000. Hence rectification will be done by debiting sales A/c by 2,000.

(7) Sales Return Book total undercast by Rs. 4,000 means sales return A/c is a debited short by Rs. 4,000 Hence rectification will be done by debiting sales Return A/c by 4,000.

(8) Purchase Return Book undercast by Rs. 5,000 means purchase Return A/c is credited short by Rs. 5,000.

Hence rectification will be done by crediting the purchase Return A/c by Rs. 5,000

(B) By opening suspense A/c.

Rectifying Journal Entry

Error No.	Particulars	L.F.	Dr. Rs.	Cr. Rs.
1.	Mohit Dr. To Suspense A/c (For cash paid to Mohit committed to be posted to his A/c)		5,000	 5,000
2.	Mohit Dr. To Suspense A/c (for Mohit A/c was debited with excess amount)		4,500	 4,500
3.	Suspense A/c Dr. To Mohit (from Mohit A/c was debited with excess amount)		45,000	 45,000
4.	Mohit, Dr. To Suspense A/c (For posting to Mohit's A/c was done on wrong side		10,000	 10,000
5.	Mohit Dr. To Suspense A/c (For posting made with wrong amount and wrong side)		5,500	 5,500
6.	Sales A/c Dr. To Suspense A/c (For overcast of sales Book rectified)		2,000	 2,000

7.	Sales Return A/c Dr. To Suspense A/c (For under cast of sales return book rectified)		4,000	4,000
8.	Suspense A/c Dr. To Purchase Return A/c (For under cast of purchase return Book, rectified)		5,000	5,000

Suspense Account and its Disposal

In the chapter of Trial Balance we have learn about the Suspense A/c

Important

- When inspite of all the efforts the Trial Balance does not tally, the difference is put to a newly opened account named Suspense A/c.
- Suspense A/c is an imaginary account, opened temporarily for the purpose of reconciling a Trial Balance.
- Later on when the errors affecting the Trial Balance are located, rectification entries are passed through the Suspense A/c.
- When all the errors are located and rectified, the Suspense A/c will be auto material closed i.e., it will show zero balance.
- But if suspense A./c still shows a balance it will indicate that some errors are still to be discovered and rectified.

Problem: An accountant of a trading concern could not agree the Trial Balance. There was an excess credit of Rs. 100 which he transferred to the suspense A/c. The following errors were subsequently discovered.

(1) Received Rs. 550 from X, were posted to the debit of his account.

(2) Rs.100 being purchase return were pointed to the debit of purchases A/c.

(3) Discount received Rs. 200 Correctly entered in the Cash Book but posted to the debit of the discount A/c.

(4) Salary paid Rs. 3,500 to X were posted to the salary A/c as Rs 2,500.

(5) A purchase of Rs. 400 has been passed through Sales Book. However the customer's account has been correctly credited.

Give Rectifying entries and Suspense A/c Rectifying Journal Entries

Date No.	Particulars	L.F.	Dr. Rs.	Cr. Rs.
1.	Suspense A/c Dr.		1,100	
	To X			1,100
	(Amount received from X was Posted to the wrong side now corrected)			
2.	Suspense A/c Dr.		200	
	To Purchase A/c			100
	To Purchase Returns A/c			100
	(For the purchases return wrongly posted to the purchases A/c)			
3.	Suspense A/c Dr.		400	
	To Discount A/c			400
	(Discount received was posted to the wrong side of discount A/c)			
4.	Salary A/c Dr.		1,000	
	To Suspense A/c			1,000
	(Salary paid was posted to Salary A/c with lesser amount)			
5.	Purchases A/c Dr.		400	
	Sales A/c Dr.		400	
	To Suspense A/c			800
	(Purchases has been passed through sales book but the customer's A/c has been correctly credited)			

Dr. Suspense A/c Cr.

Date/Error	Particulars	J.F.	Rs.	Date	Particulars	J.F.	Rs.
	To Difference in the Trials Balance		100		By Salary A/c		1,000
					By Purchases A/c		400
					By Sales A/c		400
	To X		1,100				
	To Purchases A/c		100		Balance c/d		Nil
	To Return A/c		100				
	To Discount A/c		400				
			1,800				1,800

Since the Balance of the suspense A/c is nil, indicates that all the errors have been certified.

BANK RECONCILIATION STATEMENT

The cash Book and Pass Book are prepared separately. The Businessman prepares the Cash Book and the Pass Book is prepared by the Bank (here by cash book we mean three column cash Book). But as both the books are related to one person and same transactions are recorded in both the books so the balance of both the books should match i.e. the balance as per Pass Book should match to balance at bank as per cash book. But many a times these two balances do not agree then, it becomes necessary to reconcile them by preparing a statement which is called Bank Reconciliation Statement. A BANK RECONCILIATION STATEMENT may be defined as a statement showing the items of differences between the cash Brook balance and the pass book balance, prepared on any day for reconciling the two balances.

CAUSES FOR DIFFERENCES

A transaction relating to bank has to be recorded in both the books i.e. Cash Book and Pass Book but sometimes it happens that a bank transaction is recorded only in one book and not recorded simultaneously in other book this causes difference in the two balances. The causes for difference may be illustrated in detail as follows:

	Causes	Cash Book	Pass Book
1.	Cheques issued but not yet presented for payment	Entry is made Balance =Decreased	No entry is made till the cheques are presented for payment. Balance= Same as before
2.	Cheques paid into the bank but not yet cleared.	Entry is made Balance = Increased	No entry is made till the cheques are cleared Balance = same
3.	Interest allowed by the Bank	No entry is made till the Pass Book is checked Balance = Same	Entry is made Balance = Increased
4.	Interest and Expenses Charged by the Bank	No entry is made till the Pass Book is	Entry is made

		checked Balance = Same	Balance = Decreased
5.	Interest and dividends collected by Bank	No entry is made till the Pass Book is checked Balance = Same	Entry is made Balance = Increased
6.	Direct payments by the bank	No entry is made till the Pass Book is checked Balance = Same	Entry is made Balance = decreased
7.	Direct payments into the bank by a customer	No entry is made till the Pass Book is checked Balance = Same	Entry is made Balance = Increased
8.	Dishonor of a bill discounted with the bank	No entry is made till the pass Book is checked Balance = Same	Entry is made Balance = decreased
9.	Bills collected by the bank on behalf of the customer	No entry is made till the Pass Book is checked Balance = Same	Entry is made Balance = Increased
10	Errors committed either in Cash Back or Pass Book		

NEED AND IMPORTANCE OF BANK RECONCILIATION STATEMENT

The need and importance of the bank reconciliation statement may be given as follows:

1. The reconciliation process helps in bringing out the errors committed either in cash Book or Pass Book.
2. Bank reconciliation statement may also show any undue delay in the clearance of cheques.

3. Sometimes the cashier may have the tendency of cheating like he may made entries in the Cash Book only but never deposit the cash into bank. These types of frauds by the entrepreneur's staff or bank staff may be detected only through bank reconciliation statement. So this way bank reconciliation statement acts as a control technique too.

PROCEDURE FOR PREPARATION OF BANK RECONCILIATION STATEMENT

A. bank reconciliation statement is prepared to reconcile the two balances of Cash Book and Pass Book. So, when you will prepare a bank reconciliation statement you will start it with one balance make adjustments and then you will reach to the other balance. This way both the balances will agree. The way the adjustments should be made may be illustrated as follows:

	Particulars		Amount
			Rs.
	Balance at Bank as Per Cash Book		Xxx
Add			
(i)	Cheques issued but not yet presented for payment	Xx	
(2)	Interest allowed by the bank	Xx	
(3)	Interest and dividend collected by the bank	Xx	
(4)	Direct payments into the bank by a customer	Xx	
(5)	Bills collected by the bank on behalf of the customer	Xx	(+) xx
Less :			
(1)	Cheques paid into the bank but not yet cleared	Xx	
(2)	Interest and expenses charged by the bank	Xx	
(3)	Direct payment by the Bank	Xx	
(4)	Dishonor of a bill discounted with the bank	Xx	(-) xx
Balance as per Pass Book			Xxx

Note: If you start the question with balance as per pass book all the adjustments will be reversed.

Example :

From the following prepare a bank reconciliation statement on 31st March 2005.

1. Balance as per Cash Book 1,80,000
2. Cheques paid into Bank March 2005 but credited by the 7,900 bank in April 2005
3. Cheques issued in March 2005 but cashed in April 2005, 11,000
4. Cheques entered in the Cash Book in March 2005 but 1,000 paid into bank in April 2005
5. Interest allowed by the bank 2500
6. Interest charged by the bank 500

Solution

Bank Reconciliation Statement

As on March 31, 2005

Particulars		
Balance as per Cash Book		1,80,000
Add. 1. Cheques issued but not cashed	11,000	
2. Int. allowed by bank	2500	+ 13,500
		1,93,500
Less: 1. Cheques paid into bank but not yet cleared	7,900	
2. Cheques entered into Cash Book	1,000	
3. Interest charged by Bank	500	9,400
Balance as per Pass Book		1,84,100

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SCHOOL OF MANAGEMENT STUDIES

UNIT IV - FINANCIAL ACCOUNTING- I - SBA1105

DEPRECIATION

MEANING AND DEFINITION

Depreciation is the reduction in the value of the assets due to constant use. This is a process of spreading the cost of fixed assets is termed as depreciation.

L.C. Cropper defines depreciation as, "the diminution in the financial value of an asset owing to wear and tear, effluxion of time, obsolescence's or similar causes".

NEED FOR PROVIDING DEPRECIATION

The need for providing depreciation in accounting records arises due to any one or more of the following reasons.

1. To ascertain correct profit / loss

For proper matching of cost with revenues, it is necessary to charge depreciation against revenue in each accounting year, to calculate the correct net profit or net loss.

2. To present a true and fair view of the financial position

If the amount of depreciation is not provided on fixed assets in the books of accounts, the value of fixed assets will be shown at a higher value than it's real value in the balance sheet. As such it will not reflect the true and fair financial position of the business, it is necessary that depreciation must be deducted from the book value of the assets in the balance sheet.

3. To ascertain the real cost of production

Ascertaining the real cost of production, it necessary to provide depreciation.

4. To comply with legal requirements

As per Section 205(1) of the Companies Act 1956, it is compulsory for companies to provide depreciation on fixed assets before it declares dividend.

5. To replace assets

Depreciation is provided to replace the assets when it becomes useless.

CAUSES OF DEPRECIATION

Causes of depreciation may be divided into

1) Internal causes

2) External causes

1) Internal causes

a) Wear and tear

It arises due to constant use of the assets. It arises mainly in case of fixed assets like buildings, machines, furniture, etc.,

b) Depletion

It arises due to the extraction of assets. It arises mainly in case of wasting assets like mines, quarry, oil, well, etc.,

2) External causes

a) Obsolescence

It arises due to new invention, change of style, legislation, etc.,

b) Effluxion of time

Some assets decrease in the value due to paste of time. Example leasehold property, patents, copy rights.

OBJECTIVES (OR) PURPOSE OF PROVIDING DEPRECIATION

1. To find out correct cost of production

If a machine is used to manufacture an article, the depreciation of the machine should also be added with the cost of calculate correct cost of production.

2. To calculate proper profits

The correct profit can be calculated only after providing for depreciation.

3. To show the asset at reasonable value

If the depreciation is not provided the assets will not show the real value.

4. To replace the old asset

Provision of depreciation is made to replace the old plant with the latest model available.

5. To declare the dividend properly

If the deprecation is not provided, dividend cannot be declare properly.

FACTORS INFLUENCING THE TOTAL AMOUNT OF DEPRECIATION

The following three factors are to be considered for the determining the total amount of depreciation.

1) Total cost of assets
2) Scrap value
3) Estimated useful life of the assets

1) Total cost of assets

It includes invoice price less cash discount.

2) Scrap value

It is an estimated value of the assets at the end of the economic life of the assets.

3) Estimated useful life of the assets

It can be calculated in terms of time or output.

a) Depreciation and Depletion

Depreciation is the gradual diminution in the value of assets due to wear and tear and / or lapse of time. But depletion is the decrease in the value of assets due to extraction.

Depreciation is used for fixed assets where as depletion is used for wasting assets.

b) Depreciation and obsolescence

Depreciation is the gradual diminution in the value of assets due to wear and tear and / or lapse of time. But obsolescence is the loss in the value of asset due to new invention.

Depreciation arises due to internal or external causes whereas obsolescence arises due to external causes.

METHODS OF DEPRECIATION

1. Straight Line Method (or) Original Cost Method (or) Fixed Installment Method

Under this method a fixed percentage is calculated on original cost and written off as depreciation every year during the life time of the assts.

$$\text{Depreciation Amount} = \frac{\text{Original cost} - \text{Scrap value}}{\text{No. of years or Life of the assets}}$$

$$\text{Depreciation Rate} = \frac{\text{Depreciation Amount}}{\text{Cost of the Assets}} \times 100$$

This method is simple to adopt. But his method does not consider the seasonal fluctuations. The total charge in respect of an asset is not equal from year to year through the depreciation is the same for all the years.

Illustration:

ABC company purchased machinery for Rs. 10,00,000. Its installation costs amounted to Rs. 1,00,000. It‟s estimated life is 5 years and the scrap value is Rs. 5,000. Calculate the amount and rate of depreciation.

Solution:

Total cost = Purchase price + Installation charges

$$= 10,00,000 + 1,00,000$$

$$= \text{Rs. } 11,00,000$$

$$\text{Amount of depreciation} = \frac{\text{Total cost} - \text{Scrap value}}{\text{Estimated life}}$$

$$\frac{11,00,000 - 50,00,000}{5}$$

$$\frac{10,50,000}{5}$$

$$= \text{Rs. } 2,10,000$$

$$\text{Rate of depreciation} = \frac{\text{Amount of depreciation}}{\text{Original cost}} \times 100$$

$$= \frac{2,10,000}{11,00,000 \times 100}$$

2.

$$= 19.09\%$$

Diminishing balance method (or) Reducing balance method (or) Written down value method

Under this method depreciation is charged at fixed rate on the reducing balance (cost depreciation) every year.

Illustration:

XYZ Limited assets purchased for machinery of Rs. 5,00,000 and depreciation is to be provided 10% p.a. on reducing balance method. Calculate the three year depreciation.

Solution:

First year depreciation

$$= \text{Rs. } 5,00,000 \text{ on } 10\%$$

$$= 5,00,000 \times \frac{10}{100}$$

$$= \text{Rs. } 50,000$$

Second year depreciation

$$= \text{Rs. } 4,50,000 \text{ on } 10\%$$

$$(5,00,000 - 50,000)$$

$$= 4,50,000 \times \frac{10}{100}$$

$$= \text{Rs. } 45,000$$

Third year depreciation

$$= \text{Rs. } 4{,}05{,}000 \text{ on } 10\%$$
$$(4{,}50{,}000 - 45{,}000)$$
$$= 4{,}05{,}000 \times \frac{10}{100}$$
$$= \text{Rs. } 40{,}500$$

Demerits

- Asset is never reduced to zero.
- This method can be applied only when there is some residual value of assets.

3. Annuity method

Under this system the amount of total depreciation is determined by adding the cost of the asset and interest there on at an expected rate. The annual amount of the depreciation is determined with the help of annuity table.

Illustration:

A trader takes a lease for five years for Rs. 4,00,000. He decides to write off lease by annuity method presuming the rate of interest at 5% p.a. The annuity table show that the annuity amount necessary to write of Re. 1in 5 years at 5% is Re. 0.230975. Calculate amount of depreciation

Solution:

$$\text{Depreciation} = \text{Cost price} \times \text{Annuity table value}$$
$$= 4{,}00{,}000 \times 0.230975$$
$$= \text{Rs. } 92{,}390$$

4. Depreciation fund method

Under this system, the amount written off as depreciation should be debit aside and invested in government securities. The securities accumulate. When the life of the asset expires, the securities are sold and a new asset is purchased with the help of sale proceeds. So this system incorporates the advantages of deprecating the asset as well as accumulating the necessary amount for its replacement.

5. Insurance policy method

Under this method the business take a policy form an insurance company. The objective is to replace the asset when it is workout. Every year premium is paid (equal to the amount of depreciation) to the insurance company. On the date of maturity the insured sum will be received from the insurance company, with this sum, new asset will be purchased.

6. Revaluation method

According to the method assets are revalued at the end of each year. The difference between the past estimated (as per the past balance sheet) and at the present estimated value represents depreciation. It is followed in the case of small items such as loose tools etc.,

7. Depletion method

This method is applied in recording the extraction of natural resources. It is used in case of mines, quarries etc., where an estimates of total quantity of output likely to be calculated.

Illustration:

It a mine is purchased for Rs. 2,00,000 and its estimated that quantity taken from the mine is 50,000 tonne.

$$\text{Depreciation} = \frac{\text{Cost of the mine}}{\text{Total quantity}}$$

$$\text{Depreciation} = \frac{2,00,000}{50,000}$$

$$= 4$$

8. Sum of years digit method

In this method, the amount of depreciation goes no decreasing in the future years.

The rate of depreciation is determined by the fraction, where the denominator (it does not change) is the sum of the digits representing the life of the asset and the numerators are individual digits used in the life of the asset taken in the reverse order.

9. Machine hour method

This method taken into consideration the life time of the asset in terms of machine hours for the purpose of calculating the amount of depreciation.

$$\text{Depreciation per service hour} = \frac{\text{Cost of the asset} - \text{Scrap value}}{\text{No. of hours}}$$

Difference between straight line method & Diminishing balance method

S. No.	Straight Line Method	Diminishing Balance Method
1.	The total amount of depreciation is fixed	The amount of depreciation decreases as the asset value decreases.
2.	The depreciation is calculated on the original cost of the asset.	Depreciation is calculated on the diminishing balance of the asset.
3.	The system is not accepted by the income tax authorities.	The system is accepted by income tax authorities.

Difference between annuity method and depreciation fund method

S. No.	Insurance Policy Method	Sinking Fund Method
1.	The amount received is certain	The amount received depends on the quality of investments and market conditions.
2.	The premium is paid in the beginning of the year.	The investment is made at the end of the year.

Differences between a provision and a reserve

1) A reserve is an amount which is setatside for any unknown liability whereas a provision is an amount setaside for a known liability.
2) The purpose of creating a reserve is to strengthen the financial position of a business whereas the purpose of creating a provision is to meet out a specific loss or a specific liability or to a replace an asset.
3) A reserve is created only when there is sufficient profit whereas a provision is created even if there is a loss.
4) The amount which is kept in a reserve may be utilized to distribute dividend to the shareholders. But the amount which is kept in a provision may not be used like reserve.
5) Reserve is an appropriation of profits. So it is recorded in the profit and loss appropriation account.

   A provision is charge against profits. Therefore, it is recorded in the profit and loss account.

Straight Line Method

Journal entries

S. No.	Particulars	Debit Rs.	Credit Rs.
1.	**When assets is purchased** Assets a/c Dr. To Cash a/c (Being asset is purchased)	***	***
2.	**When depreciation is provided** Depreciation a/c Dr. To Assets a/c (Being depreciation is provided)	***	***
3.	**When assets sold as a profit** **i)For sales** Cash a/c Dr. To Assets a/c	***	***
	ii) For profit Assets a/c Dr. To Profit & Loss a/c	***	***
4.	**When assets sold as a loss** Cash account a/c Dr. Profit & Loss a/c To Assets a/c	*** ***	***

Recording Depreciation

Depreciation is directly charged against the asset by debiting depreciation account and crediting the asset account. Depreciation account is closed by transferring to profit and loss account at the end of the year. The entries will be as under.

1) For the amount of depreciation to be provided at the end of the year

Depreciation a/c Dr. **(With the amount of**
To Assets a/c **depreciation)**

2) For transferring the amount of depreciation at the end of the year

Profit and Loss a/c Dr. **(With the amount of**
To Depreciation a/c **depreciation)**

Asset account will be shown at cost less depreciation i.e. written down value at the end of the year in the balance sheet.

Illustration:

Rahavan& Co., purchased a fixed asset on 1.4.2010 for Rs. 2,50,000. Depreciation is to be provided @ 10% annually according to the Straight line method. the books are closed on 31st March every year.

Pass the necessary journal entries, prepare fixed asset account and depreciation account for the first three years.

Solution:

Amount of Depreciation

$$= 4,50,000 \times \frac{10}{100}$$

$$= \text{Rs. } 25,000$$

In the books of Rahavan& Co.,

Journal Entries

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
2010 April 1	Fixed asset a/c To Bank a/c (Fixed asset purchased)	Dr.		2,50,000	2,50,000
2011 Mar. 31	Depreciation a/c To Fixed asset a/c (Depreciation provided)	Dr.		25,000	25,000
Mar. 31	Profit and loss a/c To Depreciation a/c (Depreciation transferred to profit and loss account)	Dr.		25,000	25,000
2012 Mar. 31	Depreciation a/c To Fixed asset a/c (Depreciation provided)	Dr.		25,000	25,000
Mar. 31	Profit and loss a/c To Depreciation a/c (Depreciation transferred to profit and loss account)	Dr.		25,000	25,000
2013 Mar. 31	Depreciation a/c To Fixed asset a/c (Depreciation provided)	Dr.		25,000	25,000
Mar. 31	Profit and loss a/c To Depreciation a/c (Depreciation transferred to profit and loss account)	Dr.		25,000	25,000

Ledger Accounts Fixed assets account

Dr. **Cr.**

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
2010 April 1	To Bank a/c	2,50,000	2011 Mar. 31	By Depreciation a/c	25,000

			”	By Balance c/d	2,25,000
		2,50,000			**2,50,000**
2011 April 1	To Balance b/d	2,25,000	2012 Mar. 31 ”	By Depreciation a/c By Balance c/d	25,000 2,00,000
		2,25,000			**2,25,000**
2012 April 1	To Balance b/d	2,00,000	2013 Mar. 31 ”	By Depreciation a/c By Balance c/d	25,000 1,75,000
		2,00,000			**2,00,000**
2013 April 1	To Balance b/d	1,75,000			

Depreciation Account

Dr. **Cr.**

Date	**Particulars**	**Amount Rs.**	**Date**	**Particulars**	**Amount Rs.**
2011 Mar. 31	To Fixed Asset a/c	25,000	2011 Mar. 31	By Profit and Loss a/c	25,000
		25,000			**25,000**
2012 Mar. 31	To Fixed Asset a/c	25,000	2012 Mar. 31	By Profit and Loss a/c	25,000
		25,000			**25,000**
2013 Mar. 31	To Fixed Asset a/c	25,000	2013 Mar. 31	By Profit and Loss a/c	25,000
		25,000			**25,000**

Illustration:

A company purchased machinery for Rs. 50,000 on 1st April 2012. It is depreciated at 20% per annum on written down value method. The accounting year ends on 31st March of every year. Pass necessary journal entries, prepare machinery account and depreciation account for three years.

Solution:

Journal Entries

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2012 April 1	Machinery a/c Dr. To Bank a/c (Fixed asset purchased)		50,000	50,000
2013 Mar. 31	Depreciation a/c Dr. To Machinery a/c (Depreciation provided)		5,000	5,000
Mar. 31	Profit and loss a/c Dr. To Depreciation a/c (Depreciation transferred to profit and loss account)		5,000	5,000
2014 Mar. 31	Depreciation a/c Dr. To Fixed asset a/c (Depreciation provided)		4,500	4,500
Mar. 31	Profit and loss a/c Dr. To Depreciation a/c (Depreciation transferred to profit and loss account)		4,500	4,500
2015 Mar. 31	Depreciation a/c Dr. To Fixed asset a/c (Depreciation provided)		4,050	4,050
Mar. 31	Profit and loss a/c Dr. To Depreciation a/c (Depreciation transferred to profit and loss account)		4,050	4,050

Ledger Accounts Machinery account

Dr. **Cr.**

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
2012 April 1	To Bank a/c	50,000	2013 Mar. 31 ”	By Depreciation a/c By Balance c/d	5,000 45,000
		50,000			**50,000**

2013 April 1	To Balance b/d	45,000	2014 Mar. 31 ”	By Depreciation a/c By Balance c/d	4,500 40,500
		45,000			**45,000**
2014 April 1	To Balance b/d	40,500	2015 Mar. 31 ”	By Depreciation a/c By Balance c/d	4,050 36,450
		40,500			**40,500**
2015 April 1	To Balance b/d	36,450			

Depreciation Account

Dr. **Cr.**

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
2013 Mar. 31	To Machinery a/c	5,000	2011 Mar. 31	By Profit and Loss a/c	5,000
		5,000	2012		**5,000**
2014 Mar. 31	To Machinery a/c	4,500	Mar. 31	By Profit and Loss a/c	4,500
		4,500			**4,500**
2015 Mar. 31	To Machinery a/c	4,050	2013 Mar. 31	By Profit and Loss a/c	4,050
		4,050			**4,050**

Illustration:

Deepak manufacturing company purchased on 1st April 2012, Machinery for Rs. 2,90,000 and spent Rs. 10,000 on its installation. After having used it for three years it was sold for Rs. 2,00,000. Depreciation is to be provided every year at the rate of 15% per annum on the fixed instalment method.

Pass the necessary journal entries, prepare machinery account and depreciation account for three years ends on 31st March every years.

Solution:

Calculation of profit or loss on sale of machinery

	Rs.
Cost price (Rs.2,90,000 + Rs. 10,000)	3,00,000
Less: Depreciation for (2012 – 13) @ 15%	45,000
	2,55,000
Less: Depreciation for (2013 – 14) @ 15%	45,000
	2,10,000
Less: Depreciation for (2014 – 15) @ 15%	45,000
Book value as on the date of sale	**1,65,000**

As book value is less than selling price the difference is profit.

	Rs.
Machinery selling price	2,00,000
Less: Book value as on the date of sale	1,65,000
Profit	**35,000**

Solution:

Journal Entries in the books of Deepak Manufacturing Company

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2012 April 1	Machinery a/c Dr. To Bank a/c (Machinery purchased and installation charges paid)		3,00,000	3,00,000
2013 Mar. 31	Depreciation a/c Dr. To Machinery a/c (Depreciation provided)		45,000	45,000
Mar. 31	Profit and loss a/c Dr. To Depreciation a/c (Depreciation transferred to profit and loss account)		45,000	45,000
2014 Mar. 31	Depreciation a/c Dr. To Machinery a/c (Depreciation provided)		45,000	45,000
Mar. 31	Profit and loss a/c Dr. To Depreciation a/c (Depreciation transferred to profit and loss account)		45,000	45,000
2015 Mar. 31	Depreciation a/c Dr. To Machinery a/c (Depreciation provided)		45,000	45,000
Mar. 31	Profit and loss a/c Dr.		45,000	

	To Depreciation a/c (Depreciation transferred to profit and loss account)			45,000
2012 April 1	Bank a/c Dr. To Machinery a/c (Machinery sold)		2,00,000	2,00,000
2013 Mar. 31	Machinery a/c Dr. To Profit and Loss a/c (Profit on sale of machinery)		35,000	35,000

Ledger Accounts Machinery account

Dr. **Cr.**

Date	**Particulars**	**Amount Rs.**	**Date**	**Particulars**	**Amount Rs.**
2012 April 1	To Bank a/c	3,00,000	2013 Mar. 31 ”	By Depreciation a/c By Balance c/d	45,000 2,55,000
		3,00,000			**3,00,000**
2013 April 1	To Balance b/d	2,55,000	2014 Mar. 31 ”	By Depreciation a/c By Balance c/d	4,500 2,10,000
		2,55,000			**2,55,000**
2014 April 1	To Balance b/d To Profit and loss a/c (profit on sale)	2,10,000 35,000	2015 Mar. 31 ”	By Depreciation a/c By Bank	45,000 2,00,000
		2,45,000			**2,45,000**

Depreciation Account

Dr. **Cr.**

Date	**Particulars**	**Amount Rs.**	**Date**	**Particulars**	**Amount Rs.**
2013 Mar. 31	To Machinery a/c	45,000	2011 Mar. 31	By Profit and Loss a/c	45,000
		45,000			**45,000**
2014 Mar. 31	To Machinery a/c	45,000	2012 Mar. 31	By Profit and	

				Loss a/c	45,000
		45,000			**45,000**
2015 Mar. 31	To Machinery a/c	45,000	2013 Mar. 31	By Profit and Loss a/c	45,000
		45,000			**45,000**

Illustration:

Machinery account showed a balance of Rs. 80,000 on 1st April 2011. On 1st October 2013, another machinery was purchase for Rs. 48,000. On 30th September 2013, a machinery which has book value Rs. 80,000 on 1.4.2011 was sold for the Rs. 48,000. Depreciation is to be provided at 10% per annum on written down value method. The accounting year ends on 31st March.

Prepare machinery account and depreciation account for three years.

Solution:

Calculation of profit or loss on sale of machinery

	Rs.
Cost of machinery (1.4.2011)	80,000
Less: Depreciation for 2011 – 12	8,000
	72,000
Less: Depreciation for 2012 – 13	7,200
	64,800
Less: Depreciation till the date of sale (30.9.13)	3,240
Book value as on the date of sale	**61,560**

As book value is greater than selling price the difference is loss.

	Rs.
Book value as on the date of sale	61,560
Less: Machinery selling price	48,000
Loss	**13,560**

Ledger Accounts Machinery account

Dr. **Cr.**

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
2011			2012		
April 1	To Bank a/c	80,000	Mar. 31	By Depreciation a/c	45,000
			”	By Balance c/d	2,55,000
		80,000			**3,00,000**
2012			2013		
April 1	To Balance b/d	72,000	Mar. 31	By Depreciation a/c	4,500
			”	By Balance c/d	2,10,000
		72,000			**2,55,000**
2013			2013		
April 1	To Balance b/d	64,800	Sep. 30	By Depreciation a/c	45,000
Oct. 1	To Bank a/c	48,000	”	By Bank	2,00,000
				To Profit and loss a/c (loss on sale)	35,000
			2014		
			Mar. 31	By Depreciation a/c	2,400
			”	By Balance c/d	45,600
		1,12,800			**1,12,800**
2014					
April 1	To Balance b/d	45,600			

Depreciation Account

Dr. **Cr.**

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
2012			2011		
Mar. 31	To Machinery a/c	8,000	Mar. 31	By Profit and	

				Loss a/c	8,000
		8,000	2012		**8,000**
2013 Mar. 31	To Machinery a/c	7,200	Mar. 31	By Profit and Loss a/c	7,200
		7,200			**7,200**
2015 Mar. 31 2015 Mar. 31	To Machinery a/c To Machinery a/c	3,240 2,400	2013 Mar. 31	By Profit and Loss a/c	5,640
		5,640			**5,640**

Illustration:

Vimal& Brothers purchased a machinery for Rs. 3,75,000 on 1st July 2012. It is depreciated at 20% per annum on Straight Line Method for three years. Having became obsolete was sold for Rs. 75,000 on 31.3.2015. Pass the journal entries, prepare machinery account and depreciation account.

Accounts are closed 31st March every year.

Solution:

Calculation of profit or loss on sale of machinery

	Rs.
Cost of machinery (1.7.2012)	3,75,000
Less: Depreciation for 2012 – 13	
(for 9 months at the rate of 20%)	56,250
	3,18,750
Less: Depreciation for 2013 – 14	75,000
	2,43,750
Less: Depreciation for 2014 – 15	75,000
Book value as on the date of sale	**1,68,750**

As book value is greater than selling price the difference is loss.

	Rs.
Book value as on the date of sale	1,68,750
Less: Machinery selling price	48,000
Loss	**93,750**

Journal Entries in the books of Vimal& Brothers

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2012 July 31	Machinery a/c Dr. To Bank a/c (Machinery purchased)		3,75,000	3,75,000
2012 Mar. 31	Depreciation a/c Dr. To Machinery a/c (Depreciation provided)		56,250	56,250
Mar. 31	Profit and loss a/c Dr. To Depreciation a/c (Depreciation transferred to profit and loss account)		56,250	56,250
2014 Mar. 31	Depreciation a/c Dr. To Machinery a/c (Depreciation provided)		75,000	75,000
Mar. 31	Profit and loss a/c Dr. To Depreciation a/c (Depreciation transferred to profit and loss account)		75,000	75,000
2015 Mar. 31	Depreciation a/c Dr. To Machinery a/c (Depreciation provided)		75,000	75,000
Mar. 31	Profit and loss a/c Dr. To Depreciation a/c (Depreciation transferred to profit and loss account)		75,000	75,000
Mar. 31	Bank a/c Dr. To Machinery a/c (Machinery sold)		75,000	75,000
Mar. 31	To Profit and Loss a/c Dr. Machinery a/c (Loss on sale of machinery)		93,750	93,750

Ledger Accounts Machinery account

Dr. **Cr.**

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
2012			2013		

July 1	To Bank a/c	3,75,000	Mar. 31 ”	By Depreciation a/c By Balance c/d	56,250 3,18,750
		3,75,000			**3,75,000**
2013 April 1	To Balance b/d	3,18,750	2014 Mar. 31 ”	By Depreciation a/c By Balance c/d	75,000 2,43,750
		3,18,750			**3,18,750**
2014 April 1	To Balance b/d	2,43,750	2015 Sep. 30 ”	By Depreciation a/c By Bank To Profit and loss a/c (loss on sale)	75,000 75,000 93,750
		2,43,750			**2,43,750**

Depreciation Account

Dr. **Cr.**

Date	**Particulars**	**Amount Rs.**	**Date**	**Particulars**	**Amount Rs.**
2013 Mar. 31	To Machinery a/c	56,250	2011 Mar. 31	By Profit and Loss a/c	56,250
		56,250	2012		**56,250**
2014 Mar. 31	To Machinery a/c	75,000	Mar. 31	By Profit and Loss a/c	75,000
		75,000			**75,000**
2015 Mar. 31	To Machinery a/c	75,000	2013 Mar. 31	By Profit and Loss a/c	75,000
		75,000			**75,000**

Illustration:

On April 1, 2011 Machinery was purchased for Rs. 4,00,000. On 1st October 2012, a new machine costing Rs. 2,40,000 was purchased. On 30th September 2013, the machinery purchased on 1st April 2011 having became obsolete was sold for Rs. 2,40,000. The accounting year ends on 31st March and depreciation is to be provided at 10% p.a. on straight line method.

Pass journal entries and prepare important ledger accounts for three years.

Solution:

Calculation of profit or loss on sale of machinery

	Rs.
Cost of machinery (April, 2011)	4,00,000
Less: Depreciation for 2011 – 12	40,000
	3,60,000
Less: Depreciation for 2012 – 13	40,000
	3,20,000
Less: Depreciation till the date of sale (30.9.13)	20,000
Book value as on the date of sale	**3,00,000**

As book value is greater than selling price the difference is loss.

		Rs.
Book value as on the date of sale	3,00,000	
Less: Machinery selling price	2,40,000	
Loss		**60,000**

Journal Entries

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2012 April 31	Machinery a/c Dr. To Bank a/c (Machinery purchased)		4,00,000	4,00,000
2012 Mar. 31	Depreciation a/c Dr. To Machinery a/c (Depreciation provided)		40,000	40,000
Mar. 31	Profit and loss a/c Dr. To Depreciation a/c (Depreciation transferred to profit and loss account)		40,000	40,000
2012 Oct 1	Machinery a/c Dr. To Bank a/c		2,40,000	2,40,000

	(Machinery purchased)			
2014 Mar. 31	Depreciation a/c Dr. To Machinery a/c (Depreciation provided)		52,000	52,000
Mar. 31	Profit and loss a/c Dr. To Depreciation a/c (Depreciation transferred to profit and loss account)		52,000	52,000
2013 Sep. 30	Depreciation a/c Dr. To Machinery a/c (Depreciation provided on first machine till the date of sale)		20,000	20,000
	Bank a/c Dr. To Machinery a/c (First machinery sold)		2,40,000	2,40,000
Mar. 31	Profit and loss a/c Dr. To Machinery a/c (Loss on sale of machinery)		60,000	60,000
2014 Mar. 31	Depreciation a/c Dr. To Machinery a/c (Depreciation provided on second machine)		24,000	24,000
Mar. 31	To Profit and Loss a/c Dr. To Depreciation a/c (Depreciation transferred to profit and loss account)		44,000	44,000

Dr. Ledger Accounts Machinery account Cr.

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
2011 July 1	To Bank a/c	4,00,000	2012 Mar. 31	By Depreciation a/c	40,000 3,60,000

		4,00,000	”	By Balance c/d	**4,00,000**
2012 April 1 Oct 1	To Balance b/d To Bank a/c	3,60,000 2,40,000	2013 Mar. 31 ”	By Depreciation a/c By Balance c/d	52,000 5,48,000
		6,00,000			**6,00,000**
2013 April 1	To Balance b/d	5,48,000	2013 Sep. 30 ” ”	By Depreciation a/c By Bank To Profit and loss a/c (loss on sale)	20,000 2,40,000 60,000
			2014 Mar. 31 ”	By Depreciation a/c By Balance c/d	24,000 2,04,000
		5,48,000			**5,48,000**
2014 April 1	To Balance b/d	2,04,000			

Dr. **Depreciation Account** **Cr.**

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
2012 Mar. 31	To Machinery a/c	40,000	2012 Mar. 31	By Profit and Loss a/c	40,000
		40,000			**40,000**
2013 Mar. 31	To Machinery a/c	52,000	2013 Mar. 31	By Profit and Loss a/c	52,000
		52,000			**52,000**
2013 Sep. 30 2014 Mar. 31	To Machinery a/c To Machinery a/c	20,000 24,000	2014 Mar. 31	By Profit and Loss a/c	44,000
		44,000			**44,000**

Illustration:

Aravinth& Brothers purchased a Machinery for Rs. 90,000 on 1st April 2011. They spent Rs. 10,000 for installation charges. But the machinery was brought into use from 1st October 2011. It further purchased a machinery costing Rs. 20,000 on 1st January 2014. Accounts are closed 31st March every year. Depreciation is to be provided at the rate of 10% per annum on written down value method.

Prepare Machinery account & Depreciation account for three years.

Solution:

Ledger Accounts Machinery account

Dr. **Cr.**

Date	**Particulars**	**Amount Rs.**	**Date**	**Particulars**	**Amount Rs.**
2011 April 1	To Bank a/c	1,00,000	2012 Mar. 31	By Depreciation a/c (1,00,000×10/100 ×6/12)	5,000
			”	By Balance c/d	95,000
		1,00,000			**1,00,000**
2012 April 1	To Balance b/d	95,000	2013 Mar. 31	By Depreciation a/c	9,500
			”	By Balance c/d	85,500
		95,000			**95,000**
2013 April 1	To Balance b/d	85,500	2014 Mar. 31	By Depreciation a/c	9,050
2014 Jan 1	To Bank a/c	20,000	”	By Balance c/d	96,450
		1,05,000			**1,05,000**
2014 April 1	To Balance b/d	96,450			

Depreciation Account

Dr. **Cr.**

Date	**Particulars**	**Amount Rs.**	**Date**	**Particulars**	**Amount Rs.**
2012			2012		

Mar. 31	To Machinery a/c	5,000	Mar. 31	By Profit and Loss a/c	5,000
		5,000			**5,000**
2013 Mar. 31	To Machinery a/c	9,500	2013 Mar. 31	By Profit and Loss a/c	9,500
		9,500			**9,500**
2014 Mar. 31	To Machinery a/c	9,050	2014 Mar. 31	By Profit and Loss a/c	9,050
		9,050			**9,050**

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SCHOOL OF MANAGEMENT STUDIES

UNIT V - FINANCIAL ACCOUNTING- I - SBA1105

SINGLE ENTRY SYSTEM

INTRODUCTION

Generally tiny organizations, do not have any knowledge of accounting. They do not want to follow any systematic or scientific methods of accounting. They prefer to maintain only few accounts. To ascertain profit or loss of their business, they prepare only the statement of profit or loss.

They record two transactions according to their desire. At the end of the year, with the help of the available data, the profit or loss of the business are ascertained through a system known as single entry system. In this chapter, an attempt is made to ascertain the profit or loss under single entry system.

SINGLE ENTRY SYSTEM – MEANING AND DEFINITION

Under this system, cash book and personal accounts are maintained. This system does not totally follow the principles of Double Entry System. According to R.N.Carter, Single Entry system cannot be termed as a system, as it is not based on any scientific system like Double Entry System. For this purpose, Single Entry System is now a days known as preparation of accounts from incomplete records. Particularly this system is followed by those firms whose transactions are limited and at the same time, who maintain only the essential records. There is no hard and fast rule for maintaining records under this system, i.e. it depends on the circumstances and the necessity of the firm.

FEATURES OF SINGLE ENTRY SYSTEM

- Books according to this system can be kept only in sole trader or partnership firm organizations. Limited companies, because of legal provisions, cannot keep books on Single Entry System.
- In this system it is very common to keep only personal accounts and to avoid real and nominal accounts. Therefore, this system is defined as a system where only personal accounts are kept.
- It is very common in this system to keep one cash book which mixes up business as well as private transactions.
- It is also quite often seen that for information, one has to depend on original vouchers. For example, in case of credit sales, proprietor may keep the invoice without recording

it anywhere and at the end of year the total of the invoices gives an idea of total credit sales of the business.

- This system lacks uniformity as it is a mere adjustment of double entry system according to the conveniences of the person.

MERITS OF SINGLE ENTRY SYSTEM

1. Since this system is very simple, anyone can maintain it without any adequate knowledge of accounting.
2. Limited accounts are to be opened under this system since the transactions relating to only personal accounts are recorded.
3. Since the numbers of books are limited, expenses relating to the keeping of records are also nominal.
4. In the case of accounting for an event, i.e. household, social and festival, etc., it is very helpful.

LIMITATIONS OF SINGLE ENTRY SYSTEM

a. Arithmetical accuracy of the books of account is not found out since the Trail Balance cannot be prepared under this system.

b. It is also not possible to ascertain the correct amount of profit or loss of the firm, (i.e. results from operation) since the nominal accounts are missing under this system,

c. Similarly, Balance Sheet cannot be prepared since the real accounts are not recorded. Therefore, the real financial position cannot be known at the end of the accounting period.

d. As the arithmetical accuracy is not possible, the possibility of committing fraud or manipulation is greater in comparison with Double Entry System.

e. Any statistical information relating to the business or the comparison between the two firms or the interim accounts, etc. which help the management to take decision or to formulate policy in future is not possible under this system.

f. Outsiders (e.g. Income-tax authorities, Bank, etc.) do not rely on this system.

METHODS OF ASCERTAINMENT OF PROFIT OR LOSS UNDER SINGLE ENTRY SYSTEM

Under Single Entry System, the following two methods are followed to ascertain profit or loss

(1) Statement of affairs method/Increase in Net worth Method and

(2) Conversion method.

STATEMENT OF AFFAIRS METHOD / INCREASE IN NET WORTH METHOD

Under this method, Profit or Loss made by the business is ascertained by comparing the capital at the end of the trading period with that at the beginning. If the Capital at the close is higher, the increase is the measure of Profits and if the Capital at the close is lower the decrease is the measure of loss. The Capital either at the beginning or at the close- can be ascertained by preparing a statement of affairs at the opening and also as at the closing date.

Statement of Affairs

A statement of affairs, like Balance Sheet, is a statement of all assets and liabilities. One should consider different adjustments, like depreciation on assets, outstanding and prepaid expenses, etc. at the time of preparing a statement of affairs. **Capital = Assets – Liabilities**

Statement of Affairs as on …….

Liabilities	**Amount Rs.**	**Assets**	**Amount Rs.**
Sundry creditors	***	Cash in hand	***
Bills payable	***	Sundry debtors	***
Outstanding expenses	***	Fixed assets	***
Bank overdraft	***	Bills Receivable	***
Capital (Opening / Closing)	***	Prepaid expenses	***
		Stock	***
	***		***

Specimen Profit and Loss

Profit and Loss for the year ended……

Particulars	**Amount Rs.**
Closing capital **Add: Drawings**	*** ***
 Less: Additional Capital	*** ***
 Less: Opening Capital **Profit / Loss**	*** ***
	***

Difference between Double Entry System and Single Entry System

No.	Basis of Distinction	Double Entry System	Single Entry System
1.	Principle	For every debit there is a corresponding credit and vice versa.	Debit and credits do not agree.
2.	Recording of transaction	Debit and credit aspects of all transactions are recorded	Debit and credit aspects of all transactions are not recorded.
3.	Nature of accounts maintained	Maintains complete record of personal, real and nominal accounts.	All incomplete record. Only personal and cash accounts are maintained.
4.	Trial balance	Arithmetical accuracy of the records can be checked by preparing a trial balance.	Trial balance cannot be prepared.
5.	Determination of profit or loss and financial position	A profit and loss account and balance sheet can be conveniently prepared since the book of accounts present a complete picture.	A profit & loss account and balance sheet cannot be conveniently prepared since the accounting records are incomplete.
6.	Suitability	It is suitable for all types of traders.	It is suitable for only small traders.
7.	Dependability	It is the only scientific system of keeping books of accounts.	It not a system. It is incomplete and unscientific.

8.	Acceptability	Records are acceptable for the purpose of tax, loans, etc.,	Records are not acceptable for the purpose of tax claims, loans, etc.,
9.	Internal check	Internal check is possible	Internal check is not possible.

Difference between Statement of Affairs and Balance Sheet

Balance Sheet is also a statement of assets and liabilities just like that of statement of affairs. But there are some differences between these two. Let us now see that differences between Statement of affairs and Balance Sheet.

No.	Statement of Affairs	Balance sheet
1	It is drawn under the Single Entry System	It is drawn under the Double Entry System
2	It is drawn from the incomplete and unsystematic records.	It is compiled out of the ledger balances as disclosed in complete and systematic records.
3	It cannot be relied upon since the preparation of Trial Balance is not Possible	It is arithmetically proved since it is drawn after the Trial Balance has proved arithmetical accuracy.
4	It shows the financial position without any explanation.	It shows the financial position with some explanations.

Differences between Profit and Loss account and Statement of the profit or Loss

No.	Profit and Loss account	Statement of Profit (Or) Loss
1	Gross Profit and Net profit can be found out	Only Net profit can be found out.
2	The performance of the business can be measured.	The performance of the business cannot be measured properly
3	It helps the users in taking important decisions.	The users cannot rely this system because the profit is ascertained from incomplete records.
4	It helps to ascertain the income from the business and income from other sources	No such allocation is possible under this system.
5	Expenses are divided into direct and indirect.	There is no such division of expenditure.

Illustration:

The capital at the beginning of the year is Rs.30,000 and that at the end is Rs.38000. Calculate the amount of profit earned during the period, assuming that there is no additional capital introduced or no drawings.

Solution:

Statement of profit or Loss

Particulars	Amount Rs.
Capital at the end	38,000
Less: Capital in the beginning	30,000
Profit	**8,000**

Illustration:

Calculate the missing information:

	Rs.
Closing Capital	32,000
Drawings	4,800
Additional Capital	8,000
Profit made during the year	9,600

Solution:

Statement of Profit or Loss

Particulars	Amount Rs.
Closing capital	32,000
Add: Drawings	4,800
	36,800
Less: Additional Capital	8,000
	28,800
Less: Opening Capital (Balancing figure)	19,200
Profit	**9,600**

Illustration:

Calculate the missing information:

	Rs.
Closing capital	1,63,000
Additional Capital	42,300
Drawings	25,200
Loss	12,600

Solution:

Statement of profit or loss

Particulars	**Amount Rs.**
Closing capital	1,63,800
Add: Drawings	25,200
	1,89,000
Less: Additional Capital	42,300
	1,46,700
Less: Opening Capital (Balancing figure)	**1,59,300**
Loss	12,600

Illustration:

Calculate the missing information

	Rs.
Capital in the beginning	24,000
Profits made during the year	9,000
Capital introduced during the year	12,000
Capital at the end	39,000

Solution:

Statement of profit or loss

Particulars	**Amount Rs.**
Closing capital **Add: Drawings (Balancing figure)**	39,000 **6,000**
 Less: Additional Capital	45,000 12,000
 Less: Opening Capital	33,000 24,000
Profit	9,000

Illustration:

Mrs. Revathi Started business with Rs.1,20,000 as capital on 1.4.2013. During the year for his personal use, withdrawn at the rate of R.1,000 per month. He introduced Rs.20,000 as additional capital. His position on 31.3.2014 was as follows:

	Rs.
Bank balance	8,000
Stock	80,000
Sundry Debtors	50,000
Furniture	2,500
Cash in hand	2,000
Sundry Creditors	25,000
Expenses outstanding	1,000

She keeps her books under single entry system. Determine his profit or loss for the year 2013-14

Solution:

Statement of affairs of Mrs. Ravathi as on 31.3.2013

Liabilities	**Amount Rs.**	**Assets**	**Amount Rs.**
Sundry Creditors	25,000	Stock	80,000
Outstanding expenses	1,000	Sundry Debtors	50,000
Capital (Balancing figure)	1,16,500	Furniture	2,500
		Cash in hand	2,000
		Bank balance	8,000
	1,42,500		**1,42,500**

Statement of profit of Mrs. Ravathi for the period ended 31.3.2014

Particulars	Amount Rs.
Closing Capital	1,16,500
Add: Drawings (1000 X 12)	12,000
	1,28,500
Less: Additional Capital	20,000
	1,08,500
Less: Opening Capital	1,20,000
Loss	**11,500**

Illustration:

Mr. Gundurao keeps his books under single entry system, Assets and liabilities on 31.3.2009 and 31.3.2010 stood as follows:

	31.3.2009 (Rs.)	31.3.2010 (Rs.)
Sundry creditors	15,000	30,000
Furniture	15,000	15,000
Sundry Debtors	75,000	1,00,000
Stock	35,000	50,000
Cash Balance	5,000	60,000

He introduced an additional capital of Rs.15,000 during the year. He withdrew Rs.35,000 for domestic purpose. Find out the profit or loss for 2009-10

Solution:

Statement of affairs of Mr. Gundurao as on 31.3.2009

Liabilities	Amount Rs.	Assets	Amount Rs.
Sundry Creditors	15,000	Furniture	15,000
Capital (Balancing figure)	**1,15,000**	Sundry Debtors	75,000
		Stock	35,000
		Cash Balance	5,000
	1,30,000		**1,30,000**

Statement of affairs of Mr. Gundurao as on 31.3.2010

Liabilities	Amount Rs.	Assets	Amount Rs.
Sundry Creditors	30,000	Furniture	15,000
Capital (Balancing figure)	1,95,000	Sundry Debtors	1,00,000
		Stock	50,000
		Cash Balance	60,000
	2,25,000		**2,25,000**

Statement of profit &loss of Mr. Gundurao for the period ended 31.3.2010

Particulars	Amount Rs.
Closing Capital	1,95,000
Add: Drawings	35,000
	2,30,000
Less: Additional Capital	15,000
	2,15,000
Less: Opening Capital	1,15,000
Profit	**1,00,000**

Illustration:

The balances appearing in Bharanidharan‟s books which are kept on single entry basis are as follows:

	1st April,2009	31st March 2010
	Rs.	**Rs.**
Furniture	2,000	2,000
Stock	5,000	6,000
Sundry Debtors	6,000	4,000
Cash	10,000	20,000
Sundry Creditors	2,000	3,500
Bills Receivable	1,000	500
Loan (Dr.)	--	1,000
Investment	--	4,000

His drawings during the year were Rs.2,000. Depreciate furniture by 10% and provide a reserve for bad and doubtful debts at 5% on sundry debtors.

Prepare a statement showing profit for the year.

Solution:

Statement of affairs of Mr. Bharanidharans as on 1st April, 2009

Liabilities	Amount Rs.	Assets	Amount Rs.
Sundry Creditors	2,000	Furniture	2,000
Capital (Balance figure)	22,000	Stock	5,000
		Sundry Debtors	6,000
		Cash	10,000
		Bills Receivable	1,000
	24,000		**24,000**

Statement of affairs of Mr.Bharanidharans as on 31st March,2010

Liabilities	Amount Rs.	Assets		Amount Rs.
Sundry Creditors	3,500	Cash		20,000
Capital	33,600	Stock		6,000
(Balance figure)		Sundry Debtors	4,000	
		Less: Reserve for bad doubtful debts 5%		
		Bills Receivable	200	3,800 500
		Investment		4,000
		Loan		1,000
		Furniture	2,000	
		Less: Depreciation 10%	200	1,800
	37,100			**37,100**

Statement of profit &loss of Mr.Bharanidharans for the period ended 31.3.2010

Particulars	Amount Rs.
Closing Capital	33,600
Add: Drawings	2,000
	35,600
Less: Opening Capital	22,000
Profit	**13,600**

Illustration:

A trader has not kept proper books of accounts. His position as on 31.3.2009 and 31.3.2010 was as follows:

	31.3.2009 Rs.	**31.3.2010 Rs.**
Cash at Bank	75,000	50,000
Cash in hand	5,000	10,000
Stock	5,00,000	3,25,000
Sundry Debtors	2,00,000	4,00,000
Furniture	50,000	50,000
Machinery	4,00,000	4,00,000
Sundry Creditors	6,00,000	7,00,000

During the year he introduced Rs.1,00,000 as additional capital and withdrew Rs.10,000 per month for domestic purpose. Depreciate furniture and machinery by 10% per year. Ascertain profit or loss for the year ended 31.3.2010.

Solution:

Statement of affairs as on 31.03.2009

Liabilities	**Amount Rs.**	**Assets**	**Amount Rs.**
Sundry Creditors	6,00,000	Cash at bank	75,000
Capital (Balance figure)	6,30,000	Cash in hand	5,000
		Stock	5,00,000
		Sundry Debtors	2,00,000
		Machinery	4,00,000
		Furniture	50,000
	12,30,000		**12,30,000**

Statement of affairs as on 31.03.2010

Liabilities	Amount Rs.	Assets		Amount Rs.
Sundry Creditors	7,00,000	Cash at Bank		50,000
Capital (Balance figure)	4,90,000	Cash in hand		10,000
		Stock		3,25,000
		Sundry Debtors		4,00,000
		Furniture	50,000	
		Less:		
		Depreciation	5,000	45,000
		Machinery **Less:**	4,00,000	
		Depreciation	40,000	3,60,000
	11,90,000			**11,90,000**

Statement of profit &loss for the period ended 31.3.2010

Particulars	Amount Rs.
Closing Capital	4,90,000
Add: Drawings (10,000 X 12)	1,20,000
	6,10,000
Less: Additional Capital	1,00,000
	5,10,000
Less: Opening Capital	6,30,000
Loss	**1,20,000**

Illustration:

From the following, find out credit sales

	Rs.
Opening sundry debtors	50,000
Cash received from sundry debtors	80,000
Discount allowed to sundry debtors	2,000
Sales return	5,000
Closing sundry debtors	75,000

Solution:

Total Debtors account

Dr. **Cr.**

Particulars	**Amount Rs.**	**Particulars**	**Amount Rs.**
To Balance b/d (Opening balance)	50000	By Cash received	80000
		By Discount allowed	2000
To Credit sales (Balancing figure)	112000	By Sales returns	5000
		By Balance c/d (Closing balance)	75000
	162000		162000

Illustration:

From the following details, find out credit purchases

	Rs.
Opening sundry creditors	75,000
Closing sundry creditors	90,000
Cash paid to sundry creditors	22,500
Discount received	15,000
Purchase returns	7,500

Solution:

Total Creditors account

Dr. **Cr.**

Particulars	**Amount Rs.**	**Particulars**	**Amount Rs.**
To Cash paid	22,500	By Balance b/d (Opening balance)	75,000
To Discount received	15,000		
To Purchases returns	7,500	**By Credit purchases (Balancing figure)**	60,000
To Balance c/d (Closing balance)	90,000		
	1,35,000		**1,35,000**

Illustration:

From the following information calculate total purchases.

	Rs.
Cash purchase	85,000
Creditors as on April 1,2012	40,000
Cash paid to creditors	1,65,000
Purchase returns	5,000
Creditors as on March 31, 2013	67,000

Solution:

Total Creditors Account

Dr. **Cr.**

Particulars	**Amount Rs.**	**Particulars**	**Amount Rs.**
To Cash a/c To Purchase Return a/c To Closing balance	1,65,000 5,000 67,000	By Balance b/d By Credit Purchasesa/c (Balancing figure)	40,000 1,97,000
	2,37,000		**2,37,000**

Note: Cash Purchases will find no place in Creditors a/c

Total Purchases

Particulars	**Amount**
Cash Purchases **Add:** Credit Purchases	85,000 1,97,000
	2,82,000

Illustration: 12

From the following, you are required to calculate total sales made during the year.

Rs.

Debtors on April 1,2012 51,000

Cash received from debtors during the year (as per cash book) 1,52,000

Returns inwards 13,500

Bad debts 6,000

Debtors as on March 31, 2013 69,000

Cash Sales (as per Cash Book) 1,42000

Solution:

Total Debtors Account

Dr. **Cr.**

Particulars	**Amount Rs.**	**Particulars**	**Amount Rs.**
To balance b/d	51,000	By Cash a/c	1,52,000
To Credit Sales	1,89,500	By Returns inwards	13,500
(Balancing Figure)		By Bad debts a/c	6,000
		By Balance c/d	69,000
	2,40,500		**2,40,500**

Note: Cash sales will find no place in the debtors account.

Total Sales

Particulars	**Amount Rs.**
Cash sales	1,42,000
Add: Credit Sales	1,89,500
	3,31,500

Illustration:

From the following particulars, calculate closing balances Debtors and Creditors

	Rs.
Sundry debtors as on 1.4.2015	57360
Sundry creditors as on 1.4.2015	83620
Credit purchases	302800
Credit sales	331800
Discount earned	10400
Discount allowed	9600
Return outwards	14880
Return inwards	12888
Cash received form debtors	301072

Cash paid to creditors 287530

Solution:

Total Debtors account

Dr. **Cr.**

Particulars	**Amount Rs.**	**Particulars**	**Amount Rs.**
To Balance b/d	57,360	By Cash received	3,01,072
To Credit sales	3,31,800	By Discount allowed	9,600
		By Sales returns	12,888
		By Balance c/d (Balancing figure)	**63,600**
	3,89,160		**3,89,160**
To Balance b/d	63,600		

Total Creditors account

Dr. **Cr.**

Particulars	**Amount Rs.**	**Particulars**	**Amount Rs.**
To Cash paid	2,87,530	By Balance b/d (Opening balance)	83,620
To Discount received	10,400		
To Purchases returns	14,880	By Credit purchases	3,02,800
To Balance c/d (Balancing figure)	73,610		
	3,86,420		**3,86,420**
		By Balance b/d	73,610

Illustration:

Mrs. Malathymaintained her account books of single entry system on 1.4.2013 her capital was Rs. 2,50,000.

Additional Information:

	Rs.
Opening stock	1,25,000
Cash received form sundry debtors	25,000
Cash sales	1,00,000
Cash paid to sundry creditors	30,000
Opening sundry debtors	20,000
Opening sundry creditors	91,500
Business expenses	60,400
Free hold premises (31.3.2014)	2,00,000
Furniture (31.3.2014)	3,600
Closing stock	1,30,000
Closing sundry debtors	40,000
Closing sundry creditors	1,00,000
Closing cash balance	27,500

Prepare trading and profit & loss account for the year ended 31.03.2014 and balance sheet as on that date.

Solution:

Total Debtors account

Dr. **Cr.**

Particulars	**Amount Rs.**	**Particulars**	**Amount Rs.**
To Balance b/d (opening)	20,000	By Cash received	25,000
To Credit sales (Balancing figure)	45,000	**By Balance c/d (closing)**	40,000
	65,000		**65,000**

Total Creditors account

Dr. **Cr.**

Particulars	**Amount Rs.**	**Particulars**	**Amount Rs.**
To Cash paid	30,000	By Balance b/d (Opening)	91,500
To Balance c/d (Closing)	1,00,000	**By Credit purchases (Balancing figure)**	38,500
	1,30,000		**1,30,000**

Trading and Profit & Loss account of Mrs. Malathy for the year ended 31.3.2014

Dr. **Cr.**

Particulars	**Amount Rs.**	**Particulars**		**Amount Rs.**
To Opening stock	1,25,000	**By Sales**		
To Purchase (Credit)	38,500	Cash	1,00,000	
To Gross profit c/d	1,11,500	Credit	45,000	1,45,000
		By Closing stock		1,30,000
	2,75,000			**2,75,000**
To Business expenses	60,400	By Gross profit b/d		1,11,500
To Net profit	51,100			
	1,11,500			**1,11,500**

Balance sheet of Mrs. Malathy as on 31.3.2014

Liabilities		**Amount Rs.**	**Assets**	**Amount Rs.**
Capital	2,50,000		Freehold premises	2,00,000
Add: Net profit	51,100	3,01,100	Furniture	3,600
		1,00,000	Closing stock	1,30,000
			Sundry debtors	40,000
			Cash in hand	27,500
		4,01,100		**4,01,100**

Illustration: 15

From the following details, prepare Trading and Profit and Loss account for the period ended 31.3.2014 and a balance sheet on that date

	31.3.2013	31.3.2014
	Rs.	Rs.
Stock	50000	25000
Sundry debtors	125000	175000
Cash	12500	20000
Furniture	5000	5000
Sundry creditors	75000	87500

Other details

	Rs.
Drawings	20,000
Discount received	7,500
Discount allowed	5,000
Sundry expenses	17,500
Cash paid to creditors	2,25,000
Cash received form debtors	2,67,500
Sales return	7,500
Purchase return	2,500
Cash sales	2,500

Solution:

Statement of affairs as on 31.03.2013

Liabilities	Amount Rs.	Assets	Amount Rs.
Sundry creditors	75,000	Stock	50>000
Capital	1,17,500	Sundry debtors	1>25>000
(Balancing figure)		Cash	12>500
		Furniture	5>000
	1,92,500		**1,92,500**

Total Debtors account

Dr. **Cr.**

Particulars	**Amount Rs.**	**Particulars**	**Amount Rs.**
To Balance b/d	1,25,000	By Cash received	2,67,500
To Credit sales	**3,30,000**	By Discount allowed	5,000
(Balancing figure)		By Sales returns	7,500
		By Balance c/d	1,75,000
	4,55,000		**4,55,000**

Total Creditors account

Dr. **Cr.**

Particulars	**Amount Rs.**	**Particulars**	**Amount Rs.**
To Cash paid	2,25,000	By Balance b/d	75,000
To Discount received	2,500	(Opening balance)	
To Purchases returns	7,500	**By Credit purchases**	**2,47,500**
To Balance c/d	87,500	**(Balancing figure)**	
	3,22,500		**3,22,500**

Trading and Profit & Loss account for the year ended 31.3.2014

Dr. **Cr.**

Particulars		**Amount Rs.**	**Particulars**		**Amount Rs.**
To Opening stock		50,000	**By Sales**		
To Purchases	2,47,500		Cash	2,500	
Less: Returns	2,500	2,45,000	Credit	3,30,000	
To Gross profit c/d		55,000		3,32,500	
			Less: Returns	7,500	
			By Closing stock		3,25,000
To Discount paid					25,000
			By Gross profit b/d		
		3,50,000			**3,50,000**
		5,000			55,000
To Sundry expenses		17,500	By Discount received		7,500
To Net profit		40,000			
		62,500			**62,500**

Balance sheet as on 31.3.2014

Liabilities		**Amount Rs.**	**Assets**	**Amount Rs.**
Capital	1,17,500		Furniture	5,000
Add: Net profit	40,000		Sundry debtors	1,75,000
	1,57,500		Closing stock	25,000
Less: Drawings	20,000	1,37,500	Cash	20,000
Sundry creditors		87,500		
		2,25,000		**2,25,000**