

DIRECTORATE OF DISTANCE & CONTINUING EDUCATION

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BBA Course material

Core Paper 1 – Accounting for Management-I

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BBA

ACCOUNTING FOR MANAGEMENT-I

Unit I

Meaning and Scope of Accounting, Basic Accounting Concepts and Conventions – Objectives of Accounting – Accounting Transactions – Double Entry Book Keeping – Journal, Ledger, Preparation of Trail Balance.

Unit II

Subsidiary book – Preparations of Cash Book – Bank Reconciliation Statement – Rectification of Errors – Suspense Account.

Unit III

Preparation of Final Accounts – Adjustment – Closing Stock, Outstanding, Prepaid and Accrued, Depreciations, Bad and Doubtful Debts, Provision and Discount on Debtors and Creditors, Interest on Drawings and Capital.

Unit IV

Hire Purchase System – Default and Repossession – Hire Purchase Trading Account – Installment System.

Unit V

Single Entry – Meaning, Features, Defects, Different Between Single Entry and Double Entry System – Statement of Affairs Method – Conversion Method.

Recommended Text:

1. Geol. K and Shelly Goel, 2018, Final Accounting, Arya Publications 2nd Edition
2. Jain.S.P & Narag .K, 1999, Financial Accounting, Kalyani Publishers, Ludhiana,4th edition
3. Rakesh Shankar.R & Manikandan.S, Financial Accounting, SCITECH, 3rd edition
4. Shukla & Grewal, 2002, Advanced Accounting, Sultan Chand & Sons, New Delhi, 15th edition
5. Tulsion P.C., 2006, Financial Accounting, Pearson Education.

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Unit -I

INTRODUCTION

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 decisions and actions.

CONCEPTUAL FRAME WORK OF ACCOUNTING

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.**

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

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

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 To, Sales (Being cash sales to Mr X)	15		2000	2000
2/6/2016	Purchase -----Dr To, XYZ Ltd (Credit Purchase from XYZ ,Invoice No xxx)	12		5000	5000

Example 3

Journalise the following transactions in the books of Amar and post them in the Journal:-
2004

- March 1 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	LF	Debit		Credit	
			Rs.	P.	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

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

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

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

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

Example 5

Journalise the following transactions in the books of Rahim & 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 Mr. Rahim & Sons
for the period from 1st May to 10th May

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

Journal in the books of Mr. Rahim & Sons
for the period from 1st May to 10th May

Date	Particulars	L/F	Amount (Dr)	Amount (Cr)
	[Being the amount paid by cheque no. ____ date ____ to Intel Computers]			
6 th	Cash a/c Dr To Bank a/c [Being the amount of cash withdrawn from bank]	– –	5,000	5,000
7 th	Cash a/c Dr To Bank a/c [Being the amount of cash withdrawn from bank vide bill no: ____ dated: ____]	– –	8,000	8,000
7 th	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
8 th	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
8 th	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
9 th	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
9 th	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
9 th	Cash a/c Dr To Capital a/c	– –	25,000	25,000

Journal in the books of Mr. Rahim & Sons
for the period from 1st May to 10th may

Date	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 Cholan & 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 Mr. Cholan & Bros.
for the period from 1st June to 30th June

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

Journal in the books of Mr. Cholan & Bros.
for the period from 1st June to 30th June

Date	Particulars	L/F	Amount (Dr)	Amount (Cr)
	[Being the amount of cash paid towards Salary to Mr. Charan vide voucher no: ___ dated: ___]			
14 th	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
15 th	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
17 th	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
18 th	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
19 th	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
20 th	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
22 nd	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	Credit
2017					
March	1	Cash Land Owner's Equity_ Farhan Rahim (Owner started business by assets)		15,000 10,000	25,000
	8	Purchases Account Payable_ Bilal and Friends Cash (Purchases by cash and by credit)		3,000	1,000 2,000
	13	Account Receivable_ Rehman & sons Cash Sales (Purchases by cash and Credit from Ahmed)		1,500 5,000	6,500
	17	Charity Cash Purchases (Charity by cash and by goods)		80	50 30
	21	Account Payable_ Bilal and Friends Cash Discount (Discount received and liability payoff)		1,000	975 25
	28	Cash Discount Account Receivable_ Rehman & sons (Account receivable realized and discount allowed)		1,450 50	1,500
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'.

Form

Name of the Account

Dr.				Cr.			
Date	Particulars	JF	Amount	Date	Particulars	JF	Amount
			AED				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
Cash Account**

Dr.				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				

Ram's Capital Account

Dr.				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 returned 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 Ramu & Sons
 for the period from July 1st, _ to July 31st, _

Date	Particulars	L/F	Amount (Dr)	Amount (Cr)
July 1 st	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 1 st	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 2 nd	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 Ramu & Sons
for the period from July 1st, _5 to July 31st, _5

Date	Particulars	L/F	Amount (Dr)	Amount (Cr)
July 3 rd	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 4 th	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 5 th	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 6 th	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 7 th	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 8 th	Manu a/c Dr To Cash a/c [Being the amount paid to Mr. Manu vide voucher no:___ dated:___]	— —	10,000	10,000
July 9 th	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 10 th	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 11 th	Cash a/c Dr To Jane a/c	— —	5,500	5,500

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

Date	Particulars	L/F	Amount (Dr)	Amount (Cr)
	[Being the amount of cash received from Ms. Jane vide cash receipt no: ___ dated: ___]			
July 12 th	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 13 th	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 14 th	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 15 th	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 16 th	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 17 th	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 19 th	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 20 th	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 By	–	15,000
16/10/_5	To Furniture a/c	–	1,000	20/10/_5	Goods/stock a/c By	–	13,500
19/10/_5	To Goods/stock a/c	–	15,000	30/07/_5	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
	tl		15,000	30/07/_5	By Balance c/d	–	14,000
31/07/_5	To Balance b/d	–	14,000		tl		15,000

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	Particulars	L/F	Amount (Dr)	Amount (Cr)
August 10 th	Cash a/c Dr To Capital a/c [Being the amount received from Mr. Moon, the proprietor as his capital contribution vide receipt no:___ dated:___]	— —	1,50,000	1,50,000
11 th	Bank a/c Dr To Cash a/c [Being the amount of cash deposited into bank vide bill no:___ dated:___]	— —	50,000	50,000
12 th	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: ___]	Dr	–		15,000
13th	Goods/stock a/c To Bank a/c [Being the payment made for stock purchased vide Cheque no: ___ dated: ___]	Dr	–	20,000	20,000
14th	Bank a/c To Goods/stock a/c [Being the amount received for stock sold to Mr. Sun vide Cheque no: ___ dated: ___]	Dr	–	15,000	15,000
16th	Rent a/c To Bank a/c [Being the amount paid for rent vide voucher no: ___ dated: ___]	Dr	–	5,000	5,000
17th	Cash a/c To Loan from Storm a/c [Being the cash received from Mr. Storm as loan vide receipt no: ___ dated: ___]	Dr	–	25,000	25,000
18th	Bank a/c To Commission a/c [Being the amount received for commission vide cheque no: ___ dated: ___]	Dr	–	5,000	5,000
19th	Wages a/c To Cash a/c [Being the amount paid for wages vide voucher no: ___ dated: ___]	Dr	–	15,000	15,000
20th	Drawings a/c To Bank a/c [Being the amount withdrawn from bank for personal use vide cheque no: ___ dated: ___]	Dr	–	3,000	3,000
21st	Cash a/c To Bank a/c [Being the amount withdrawn from bank for office purpose vide cheque no: ___ dated: ___]	Dr	–	10,000	10,000
22nd	Goods/stock a/c To Cash a/c	Dr	–	25,000	25,000

		[Being the amount of cash paid for stock purchases vide voucher no:___ dated:___]			
23 rd	–	Bank a/c To Cash a/c [Being the amount deposited into bank vide voucher no:___ dated:___]	Dr – –	30,000	30,000
24 th	–	Interest a/c To Bank a/c [Being the amount of interest paid vide cheque no:___ dated:___]	Dr – –	2,000	2,000
25 th	–	Loan to Mr. Wind a/c To Cash a/c [Being the amount of cash given to Mr. Wind as loan vide voucher no:___ dated:___]	Dr – –	10,000	10,000
26 th	–	Loan from Strom a/c To Cash a/c [Being the amount paid to Mr. Storm for repayment of loan vide voucher no:___ dated:___]	Dr – –	15,000	15,000
27 th	–	Salary a/c To Cash a/c [Being the amount paid for salary to Mr. Liquid vide voucher no:___ dated:___]	Dr – –	5,000	5,000
28 th	–	Postage a/c To Cash a/c [Being the amount paid for purchase of postage vide voucher no:___ dated:___]	Dr – –	1,000	1,000
29 th	–	Bank a/c To Loan to Mr. wind a/c [Being the Cheque no:___ date___ received from Mr. Wind for repayment of loan]	Dr – –	3,000	3,000
30 th	–	Cash a/c To Equipment a/c [Being the amount received on sale of equipment vide receipt no:___ dated:___]	Dr – –	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	To Capital a/c	–	1,50,000	11/10/_5	By Bank a/c	–	50,000
17/10/_5	To Loan from Storm	–	25,000	12/10/_5	By Equipment a/c	–	15,000
21/10/_5	a/c	–	10,000	19/10/_5	By Wages a/c	–	15,000
30/10/_5	To Bank a/c	–	2,000	22/10/_5	By Goods/stock a/c	–	25,000
	To Equipment a/c			23/10/_5	By Bank a/c	–	30,000
				25/10/_5	By Loan to Mr.	–	10,000
				26/10/_5	Wind a/c	–	15,000
				27/10/_5	By Loan from Strom	–	5,000
				28/10/_5	a/c	–	1,000
				31/08/_5	By Salary a/c	–	21,000
					By Postage a/c		
					By Balance c/d		
	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	To Cash a/c	–	50,000	13/10/_5	By Goods/stock	–	20,000
14/10/_5	To Goods/stock a/c	–	15,000	16/10/_5	a/c	–	5,000
18/10/_5	To Commission a/c	–	5,000	20/10/_5	By Rent a/c	–	3,000
23/10/_5	To Cash a/c	–	30,000	21/10/_5	By Drawings a/c	–	10,000
29/10/_5	To Loan to Mr. wind a/c	–	3,000	24/10/_5	By Cash a/c	–	2,000
				31/08/_5	By Interest a/c	–	63,000
	tl		1,03,000		By Balance c/d		
01/09/_5	To Balance b/d	–	63,000		tl		1,03,000

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	By Cash a/c	–	2,000
				31/08/_5	By Balance c/d	–	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	To Bank a/c	–	20,000	14/10/_5	By Bank a/c	–	15,000
22/10/_5	To Cash a/c	–	25,000	31/08/_5	By Balance c/d	–	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)	Debtors	1,80,000	
(iv)	Creditors	3,00,000	
(v)	Bank Loan		1,00,000
(vi)	Sales		1,50,000
(vii)	Purchases		3,00,000
(viii)		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			2018		
Apr. 1	Mohan commenced business with cash	1,00,000	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 To Gopal (Cash received from Gopal and discount allowed)	Dr.	50	4,000
April 25	Wages A/c To Cash (Paid Wages)	Dr.	700	700
April 27	Ram To Cash A/c To Discount Received A/c (Paid to Ram and discount received from him)	Dr.	8,000	7,700 300
April 30	Rent A/c To Cash A/c (Paid Rent)	Dr.	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 Trade		5,000
April 20	Gopal		3,950	April 15	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				

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

34	Purchases Return		22,500
56	Debtors	4,00,500	
78	Wages	96,000	
9	Capital		1,58,750
10	Purchases	4,45,000	
11	Cash in hand	8,500	
12	Creditors		2,15,000
	Sales Return	15,750	
	Equipment	25,000	
	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	

56	Cash	7,300	
78	Carriage	300	
9	Sales		22,500
10	Building	12,000	
11	Returns Inward	1,900	
12	Returns Outwards		350
13	Trade Expenses	1,000	
14	Discount Received		970
	Salary	3,000	
	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 6	Purchases Return		6,000
7 8	Sales Return	4,000	
9	Transportation	1,800	
10	Discount Allowed	500	
11	Printing	5,000	
12	Sundry Debtors	70,000	
13	Input CGST A/c	2,500	
14	Input SGST A/c	2,500	
15	Input IGST A/c	4,000	
16	Sundry Creditors		40,000
17	Investments	8,000	
18	Plant & Machinery	15,000	
19	Building	20,000	
20	Furniture	6,000	
21	Electricity	700	
22	Postage	400	
23	Drawings	8,000	
24	Salaries	6,000	
25	Travelling Expenses	2,000	
26	Output CGST A/c		1,500
	Output SGST A/c		1,500
	Output IGST A/c		6,000
	Total	2,43,400	2,43,400

Unit II

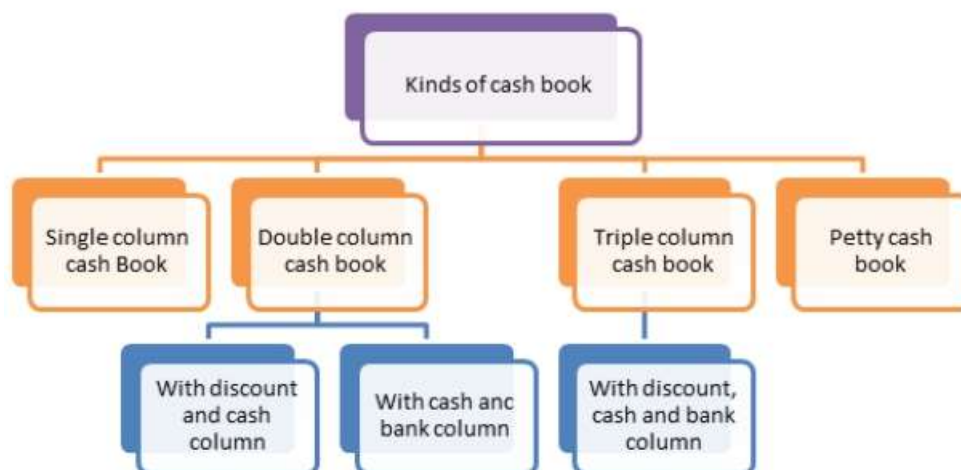
CASH BOOK

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.

TYPES OF CASH BOOK:



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

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

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 Imprest 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 genuineness 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 separate 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. only the periodical total of each column is posted to the ledger.
- 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- PETTY CASH BOOK								
Dr.								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 **Rs**
2017

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
	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							

Unit-III INTRODUCTION OF ERRORS

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. To Purchases A/c (The furniture purchase wrongly debited to purchase A/c)		5,000	5,000
2.	Machinery A/c Dr. To wages A/c (The wages for installation machinery wrongly debited to wates A/c)		7,000	7,000
3.	Hari Dr. To Sales A/c (The goods sold to Hari not recorded.)		10,000	10,000
4.	Sonu Dr. To Monu (The amount wrongly credited to Sonu instead of Monu)		2,500	2,500
5.	Rent A/c Dr. To Landlord (The rent paid but wrongly debited to landlord A/c)		1,000	1,000
6.	Purchases A/c Dr. Sales A/c Dr. To Raman (The Credit purchase but wrongly credit to sale A/c.		15,000 15,000	30,000
7.	Geeta Dr. To sales A/c The Credit sales to Geeta Rs.880 but recorded 8000		800	800
8.	Drawings A/c Dr. To Purchases A/c The goods withdraw by Proprietor for personal use		5,000	5,000

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 excess, 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 omission.
 - (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 in 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 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 To Suspense A/c (For cash paid to Mohit committed to be posted to his A/c)	Dr.	5,000	5,000
2.	Mohit To Suspense A/c (for Mohit A/c was debited with excess amount)	Dr.	4,500	4,500
3.	Suspense A/c To Mohit (from Mohit A/c was debited with excess amount)	Dr.	45,000	45,000
4.	Mohit, To Suspense A/c (For posting to Mohit's A/c was done on wrong side)	Dr.	10,000	10,000
5.	Mohit To Suspense A/c (For posting made with wrong amount and wrong side)	Dr.	5,500	5,500
6.	Sales A/c To Suspense A/c (For overcast of sales Book rectified)	Dr.	2,000	2,000

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

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. To X (Amount received from X was Posted to the wrong side now corrected)		1,100	1,100
2.	Suspense A/c Dr. To Purchase A/c To Purchase Returns A/c (For the purchases return wrongly posted to the purchases A/c)		200	100 100
3.	Suspense A/c Dr. To Discount A/c (Discount received was posted to the wrong side of discount A/c)		400	400
4.	Salary A/c Dr. To Suspense A/c (Salary paid was posted to Salary A/c with lesser amount)		1,000	1,000
5.	Purchases A/c Dr. Sales A/c Dr. To Suspense A/c (Purchases has been passed through sales book but the customer's A/c has been correctly credited)		400 400	800

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 Book 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 Book 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 <u>Xx</u>	(+) 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 <u>Xx</u>	(-) xx
	Balance as per Pass Book	<u>Xxx</u>

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	<u>2500</u> + 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
	<u>9,400</u>
	<u>1,84,100</u>

Unit –III 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:

$$\text{Gross Profit} = \text{Sales} - (\text{Purchases} + \text{Direct Expenses})$$

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:

$$\text{Net Profit} = \text{Gross Profit} + \text{Other Incomes} - \text{Indirect Expenses}$$

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

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)	xxx
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 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
Capital	xxx	Fixed assets:		
Add: Net profit/ Less: Net loss	xxx	i) Intangible assets:		
		Goodwill		xxx
Less: Drawings	xxx	Patent rights		xxx
		Copy rights		xxx
Reserves	xxx	Trade marks		xxx
Long term loans	xxx	Computer software		xxx
Current liabilities:		ii) Tangible assets:		
Bank overdraft, Cash credit	xxx	Land		xxx
Outstanding expenses	xxx	Buildings	xxx	
Unearned income	xxx	Less: Depreciation	xxx	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:		xxx
		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 (<i>Balance Figure</i>)	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 (<i>Balancing Figure</i>)	24,900
Rent	4,500		
<i>Add:</i> Unpaid Rent	500		
Bad Debts	5,000		
Depreciation on:			
Plant and machinery	12,000		
Delivery Vehicle	3,900		
	35,800		35,800

Balance Sheet
as on March 31, 2018

Liabilities		Assets	
	Amount (Rs)		Amount (Rs)
Capital	1,90,000	Fixed Assets	
<i>Less:</i> Drawings	(7,000)	Plant and Machinery	1,20,000
<i>Less:</i> Net Loss	(24,900)	<i>Less:</i> 10% Depreciation	(12,000)
	1,58,100	Delivery Vehicle	26,000
		<i>Less:</i> 15% Depreciation	(3,900)
Current Liabilities			
Sundry Creditors	26,000	Current Assets	
Bills Payable	23,500	Closing Stock	16,000
Unpaid Rent	500	Sundry Debtors	36,000
	2,08,100	Cash at Bank	26,000
			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	<i>Less: Return Inwards</i>	<i>(3,000)</i>
<i>Less: Return out words</i>	<i>(5,000)</i>	Closing Stock	14,500
Wages	50,000	Gross Loss (<i>Balancing figure</i>)	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		
<i>Add: outstanding</i>	<i>400</i>		
	900		

Rent		4,000		
Miscellaneous Expenses		7,000		
Bad Debts	2,000		Net Loss (<i>Balancing Figure</i>)	27,900
<i>Add:</i> Additional bad debts	<u>5,000</u>	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		
<i>Less:</i> Drawings	(10,000)		Plant and Machinery	40,000	
<i>Less:</i> Net Loss	<u>(27,900)</u>	62,100	<i>Less:</i> Depreciation	<u>(4,000)</u>	36,000
Current Liabilities			Current Assets		14,500
Creditors		12,000	Closing Stock		19,000
Bills Payable		5,000	Sundry Debtors	24,000	
Outstanding Repairs		400	<i>Less:</i> Further Bad Debts	<u>(5,000)</u>	10,000
		79,500	Bank		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.		Amount (Rs)	Cr.	
Particulars		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			
<i>Add: Outstanding Wages</i>	5,000			
Gross Profit (<i>Balancing Figure</i>)	8,95,000			
	24,00,000		24,00,000	

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

Dr.		Amount (Rs)	Cr.	
Particulars		Particulars	Amount (Rs)	
Rent	45,000	Gross Profit	8,95,000	
<i>Less: Prepaid Rent</i>	(10,000)	Interest Received	30,000	
Commission	25,000			
General Expenses	80,000			
Salaries	50,000			
<i>Add: Outstanding Salaries</i>	45,000			
Depreciation on Machinery	40,000			
Net Profit (<i>Balancing Figure</i>)	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		
Current Liabilities		Machinery	4,00,000
Sundry Creditors	4,50,000	Less: 10% Depreciation	(40,000)
Outstanding Salary	45,000	Current Assets	
Outstanding Wages	5,000	Closing Stock	8,00,000
		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. Niranjana. 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. Niranjana
Trading Account
for the year ended March 31, 2018**

Dr.			Cr.	
Particulars		Amount (₹)	Particulars	
Opening Stock		45,000	Sales	4,35,000
Purchases	2,95,000		Less: Sales Return	(7,000)
Less: Purchases Return	(4,000)	2,91,000	Closing Stock	75,000
Wages	40,000			
Add: Outstanding wages	5,000	45,000		
Gross Profit (<i>Balancing figure</i>)		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	
Rent		5,000	Gross Profit	1,22,000
Salaries	24,000			
Add: Outstanding Salaries	2,000	26,000	Interest Accrued on Investment (50,000 × 6% × 9/12)	2,250
Bad Debts	1,000		Miscellaneous Receipts	1,200
Add: Further Bad Debts	5,000			
Add: Provision for Doubtful Debts	1,750	7,750		
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 (<i>Balancing Figure</i>)		73,835		
		1,25,450		1,25,450

**Balance Sheet
as on March 31, 2018**

Liabilities		Amount (₹)	Assets	
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	<i>Less: 20% Depreciation</i>	<u>(300)</u>	1,200
Salaries Outstanding	2,000	6% Investment	50,000	
Bills Payable	800	<i>Add: Accrued Interest</i>	<u>2,250</u>	52,250
		Current Assets		
		Closing Stock		75,000
		Debtors	40,000	
		<i>Less: Further Bad Debts</i>	<u>(5,000)</u>	
		<i>Less: Provision for</i>		
		Doubtful Debts	<u>(1,750)</u>	
			33,250	
		<i>Less: Provision for</i>		
		Discount	<u>(665)</u>	32,585
		Cash		12,200
	1,99,635			1,99,635

UNIT - IV

HIRE PURCHASE AND INSTALMENT SYSTEM

HIRE PURCHASE SYSTEM

It is a system of purchase under which the buyers enters into agreement with the seller to pay the price in installments. The buyer gets the possession of goods immediately on paying the down payment but does not get ownership. He becomes the owner only after the last installment is paid. Under this system the buyer fails to pay any installment, the seller has the right to tack back the goods.

Difference between Hire Purchase and Sale:

The main difference between hire purchase agreement and sale are given below:

1. Under the sales ownership is transferred at the time of purchase. But under hire purchase ownership is transferred only after payment of the last installment
2. In the case of sale payment of price is generally made in lump sum. In the case of hire purchase payment of price is always made installment
3. In the case of sales buyer can dispose of the goods in any way he likes. But a buyer under hire purchase agreement has no such right before he becomes the owner on payment of the installment.
4. In the case of sale on credit the seller can sue the buyer for the payment of the price outstanding. Bur a seller under hire purchase system can take back the goods in case of default by the buyer in payment of any installment
5. In case of sale, the buyer's position is like that of an owner. But the position of an under hire purchase is like that of a bailee in respect of the goods until he becomes the owner.
6. In case of sale on immediate cash, the price does not include any interest. But under hire purchase the installment includes interest.

Accounting for hire purchase transactions in the books of hire purchaser

There two methods for making entries of the hire purchase transactions in the books of hire purchaser.

- 1) When asset is recorded at full cash price and
- 2) When asset is recorded at the cash price actually paid

When asset is recorded at full cash price

Under this method the asset is recorded at the full price. Thus this method treats the hire purchaser as owner of the asset.

Accounting entries in the books hire purchaser as follows:

- 1) When the asset is acquired on hire purchase

Asset account A/c Dr.
To hire vendor a/c (cash price)

- 2) When down payment is made

Hire vendor a/c Dr.
To cash a/c

- 3) When interest becomes due
 - Interest a/c Dr.
 - To hire vendor a/c
- 4) When installment is paid
 - Hire vendor a/c Dr.
 - To cash a/c
- 5) When depreciation is charged on asset
 - Depreciation a/c Dr.
 - To asset a/c
- 6) For closing interest
 - P & L a/c Dr.
 - To interest a/c
- 7) For closing depreciation
 - P & L a/c Dr.
 - To Depreciation a/c

In the books of hire vendor

Accounting entries are as follows:

- 1) When the asset is sold
 - Hire purchase a/c Dr.
 - To hire purchase sales a/c
- 2) When down payment received
 - Cash a/c Dr.
 - To hire purchase a/c
- 3) When interest become due
 - Hire purchase a/c Dr.
 - To interest a/c
- 4) When installment received
 - Cash A/c Dr.
 - To hire purchaser a/c
- 5) For closing interest
 - Interest a/c Dr.
 - To P & L a/c

Illustration 1

On 1st Jan. 2014, A Ltd purchased from B Ltd five trucks under hire purchase system. 50000

being paid on delivery and the balance in five installments of 75000 each payable annually on 31st Dec. The vendor charges 5% p.a interest on yearly balances. The cash price of five trucks was 375000. Show how this transaction should be recorded in the books of A ltd, if A Ltd writes off depreciation at 10% p.a on the written down value.

**In the books of A Ltd
Trucks Account**

Date	Particulars		Date	Particulars	
2014 Jan 1	To B Ltd	375000	2014 Dec 31	By Depreciation	37500
				By Balance c/d	337500
		375000			375000
2015 Jan 1	To Balance b/d	337500	2015 Dec 31	By Depreciation	33750
				By Balance c/d	303750
		337500			337500
2016 Jan 1	To Balance b/d	303750	2016 Dec 31	By Depreciation	30380
				By Balance c/d	273370
		303750			303750
2017 Jan 1	To Balance b/d	273370	2017 Dec 31	By Depreciation	27340
				By Balance c/d	246030
		273370			273370
2018 Jan 1	To Balance b/d	246030	2018 Dec 31	By Depreciation	24600
				By Balance c/d	221430
		246030			246030
2019 Jan 1	To Balance b/d	221430			

B Ltd Account

2014 Jan 1	To Cash	50000	2014 Jan 1	By Trucks	375000
	To Cash	75000	Dec-31	By Interest	16250
Dec-31	To Balance c/d	266250			
		391250			391250
2015 Dec 31	To Cash	75000	2015 Jan 1	By Balance b/d	266250
	To Balance c/d	204560	Dec-31	By Interest	13310
		279560			279560
2016 Dec 31	To Cash	75000	2016 Jan 1	By Balance b/d	204560
	To Balance c/d	139790	Dec-31	By Interest	10230
		214790			214790
2017 Dec 31	To Cash	75000	2017 Jan 1	By Balance b/d	139790
	To Balance c/d	71780	Dec-31	By Interest	6990
		146780			146780
2018 Dec 31	To Cash	75000	2018 Jan 1	By Balance b/d	71780
			Dec-31	By Interest	3220
		75000			75000

In the books of seller

- 1) All entries are passed as usual up to the date of default.
- 2) Seller closes the purchaser account by passing:
 Re possessed goods account Dr.
 To hire purchaser
- 3) Re possessed goods account or goods returned account is debited with all expenses incurred

and re sale price is credited and if any balance, it is transferred to P & L account.

When seller takes possession of the total assets sold

In the case accounting entries are similar to those of complete repossession. The additional precautions to be taken are:

- 1) Both the buyer and seller do not closes seller's account and buyer's account in their respective books. The entry for repossession is passed with the agreed value of assets taken by the vendor.
- 2) The buyer finds out the value of asset still left with him using the normal rate of depreciation. This account shows the balance of asset, which is left, to him
- 3) After crediting the asset account with the value of asset taken away by the seller and after keeping the balance of asset left, the difference by the asset account is transferred to P&L account

Illustration 3

A Machinery is sold on hire purchase. The terms of payment is four annual installment of 6000 at the end of each year commencing from the date of agreement. Interest is charged @ 20% and is included in the annual payment of 6000

Show machinery account and hire vendors account in the books of the purchaser who defaulted in the payment of the third yearly payment where upon the vendors re-possessed the machinery. The purchaser provides depreciation on the machinery @ 10% p.a on written down value method. All workings should form part of your answer

Solution**Calculation of Cash Price**

No. of Instalment	Amount due after payment of instalment	Amount of instalment	Total amount	Interest 20/120	Opening Balance
1	-	6000	6000	1000	5000
2	5000	6000	11000	1833	9167
3	9167	6000	15167	2528	12639
4	12639	6000	18639	3106	15533

Cash price of the machinery is Rs. 15533

Hire Vendor Account

Year I Jan 1	To Bank a/c	15000	Year I Jan 1	By Trucks a/c	56000
Dec-31	To Bank a/c	15000	Dec-31	By Interest	2050
Dec-31	To Balance c/d	28050			
		58050			58050
Year II Dec 31	To Trucks a/c	29453	Year II Jan 1	By Balance b/d	28050
		29453	Dec-31	By Interest	1403
					29453

**In the books of Hire Vendor
P's Account**

Year I Jan 1	To Hire Sales a/c	56000	Year I Jan 1	By Bank a/c	15000
Dec-31	To Interest a/c	2050	Dec-31	By Bank a/c	15000
		58050		By Balance c/d	28050
					58050
Year II Jan 1	To Balance b/d	28050	Year II Dec 31	By Goods repossessed a/c	29453
Dec-31	To Interest a/c	1403			
		29453			29453

Goods Repossessed Account

Year II Dec 31	To P a/c	29453	Year II Dec 31	By Sales	30110
	To Cash (Expenses)	357			
	To P & L a/c	300			
		30110			30110

Profit and Loss Account

Year II Dec 31 By Goods repossessed a/c 300

Illustration 5

Roman transport co. purchased five trucks from Ramos Auto Ltd., on the January, 2016 on hire purchase system. The cash price of each truck is 120000. The mode of payments was as follows:

- (i) 15% of cash price down
- (ii) 25% of cash price at the end of each year for 4 year

Roman transport co. writes off 15% depreciation annually on diminishing balance. The payment due to 31st December 2016 could not be made. Ramos Auto Ltd. agree to leave three Trucks with the buyer on the conditions that the value of the other two Trucks would be adjusted against the amount due, the trucks being valued at cost less 25% depreciation on diminishing balance.

Show the necessary accounts in the books of Roman Transport co.

Solution

In the books of Roman Transport Co. – Truck Account

2016 Jan 1	To Ramos Auto Ltd.	600000	2016 Dec 31	By Depreciation	90000
				By Balance c/d	510000
		600000			600000
2017 Jan 1	To Balance b/d	510000	2017 Dec 31	By Depreciation	76500
				By Ramos Auto Ltd.	135000
				By Profit and Loss a/c (loss on default)	38400
				By Balance c/d	260100
		510000			510000
2018 Jan 1	To Balance b/d	510000			

Ramos Auto Ltd. Account

2016 Jan 1	To Bank a/c (15% of 600000)	90000	2016 Jan 1	By Trucks a/c	600000
Dec-31	To Bank a/c	150000	Dec-31	By Interest	36000
Dec-31	To Balance c/d	396000			
		636000			636000
2017 Dec 31	To Trucks a/c	135000	2017 Jan 1	By Balance b/d	396000
	To Balance c/d	288000	Dec-31	By Interest	27000
		423000			423000

Working note:

Calculation of value of 2 Trucks taken up Ramos Auto Ltd.

Cost of 2 Trucks	240000
Less: Depreciation @ 25% for 2016	60000
	180000
Less: Depreciation @ 25% for 2017	45000
Value on 31-12-2017	135000

Calculation of value of 3 trucks retained by Roman Transport Co.

Cost of 3 Trucks	360000
Less: Depreciation @ 15% for 2016	54000
	306000
Less: Depreciation @ 15% for 2017	45900
Value on 31-12-2017	260100

Illustration 6

P Purchased 4 cars of 14000 each . 4 cars was 60000 to be paid 15000 down and 3 instalment of 15000 each at the end of each year interest is charged @ 5% p.a, buyer depreciates cars @10% p.a on straight line method. After having paid down payment and first instalment, buyer could not pay 2nd instalment and seller took possession of three cars at an agreed value to be calculated after depreciating cars at 20% p.a on written down value method one car was left with the buyer. Seller after spending 1200 on repairs sold away all the three cars to X for 35000 open ledger accounts in the books of both parties

Solution

Calculation of value of asset taken by the seller

Number of cars taken by the seller	3	
Cost Price	3×14000	42,000
Less: Depreciation		
1st Year	8400	
2nd Year	6720	15120
Value of assets taken		26,880
Value of car left with buyer		
Number of car	1	
Cost Price		14000
Less: Depreciation		
1st Year	1400	
2nd Year	1400	2800
value of asset left		11200

In the books of P – Asset Account

Year I	To Hire Vendor a/c	56000	Year I	By Depreciation	5600
				By Balance c/d	50400
		56000			56000
Year II	To Balance b/d	50400	Year II	By Depreciation	5600
				By Hire Vendor a/c	26880
				By Profit and Loss a/c (balancing figure)	6720
				By Balance c/d	11200
		50400			50400

Hire Vendor Account

Year I Jan 1	To Bank a/c	15000	Year I Jan 1	By Trucks a/c	56000
Dec-31	To Bank a/c	15000	Dec-31	By Interest	2050
Dec-31	To Balance c/d	28050			
		58050			58050
Year II Dec 31	To Trucks a/c	26880	Year II Jan 1	By Balance b/d	28050
	To Balance c/d	2573	Dec-31	By Interest	1403
		29453			29453

**In the books of Hire Vendor
P's Account**

Year I Jan 1	To Hire Sales a/c	56000	Year I Jan 1	By Cash a/c	15000
Dec-31	To Interest a/c	2050	Dec-31	By Cash a/c	15000
				By Balance c/d	28050
		58050			58050
Year II Jan 1	To Balance b/d	28050	Year II Dec 31	By Goods repossessed a/c	26880
Dec-31	To Interest a/c	1403		By Balance c/d	2573
		29453			29453

Goods Repossessed Account

Year II Dec 31	To P a/c	26880	Year II Dec 31	By Cash Sales	35000
	To Cash (Repairs)	1200			
	To P & L a/c	6920			
		35000			35000

INSTALMENT SYSTEM

It is a system of a sale in which the price of the article is paid in instalments along with interest on unpaid balances. Under this system the buyer gets the possession and ownership of the goods at the time of signing agreements.

BOOKS OF BUYER:

Buyer debits asset account with full cash price, credits vendor's account with full instalment price and debits interest suspense account with the difference between full cash price and full instalment price. Interest is debited to interest suspense account (not interest account) because it includes interest in respect of a number of years. Every year interest account is debited and interest suspense account is credited with the interest of current year. Interest account, at the end of the year, is closed by transferring to profit and loss account. The balance of vendor account should be shown in the balance sheet after deducting amount in interest suspense account. Vendor is paid the instalment due to him and entry for the depreciation is passed in the usual way.

BOOKS OF SELLER:

The seller debits the purchaser with the full amount (instalment price) payable by him and credits sales account by the full cash price and credits interest suspense account by the difference between the total instalment price and total cash price. Seller, like the buyer, also transfers the amount of interest due from the interest suspense account interest account every year. Interest account is closed by transferring to profit and loss account and the purchaser account should be shown in the balance sheet after deducting amount in interest suspense account. On receiving the instalment the vendor debits cash/bank account and credits purchaser's account.

Unit- V

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 Bills	***
Bank overdraft	***	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 Distinction	of 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

Profit and Loss account	Statement of Profit (Or) Loss
Gross Profit and Net profit can be found out	Only Net profit can be found out.
The performance of the business can be measured.	The performance of the business cannot be measured properly
It helps the users in taking important decisions.	The users cannot rely this system because the profit is ascertained from incomplete records.
It helps to ascertain the income from the business and income from other sources	No such allocation is possible under this system.

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	39,000
Add: Drawings (Balancing figure)	6,000
	45,000
Less: Additional Capital	12,000
	33,000
Less: Opening Capital	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 (Balance figure)	33,600	Stock	6,000
		Sundry Debtors	4,000
		Less: Reserve for bad doubtful debts 5%	
		Bills Receivable	200
			<u>3,800</u>
		Investment	4,000
		Loan	1,000
		Furniture	2,000
		Less:	
		Depreciation 10%	200
			<u>1,800</u>
	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	31.3.2010
	Rs.	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: 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
To Credit sales (Balancing figure)	112000	By Discount allowed	2000
		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	75,000
To Discount received	15,000	(Opening balance) By	
To Purchases returns	7,500	Credit purchases	60,000
To Balance c/d (Closing balance)	90,000	(Balancing figure)	
	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	1,65,000	By Balance b/d	40,000
To Purchase Return a/c	5,000	By Credit Purchasesa/c	1,97,000
To Closing balance	67,000	(Balancing figure)	
	2,37,000		2,37,000

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

Total Purchases

Particulars	Amount
Cash Purchases	85,000
Add: Credit Purchases	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)	1,42,000

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	63,600
		(Balancing figure)	
	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	83,620
To Discount received	10,400	(Opening balance)	
To Purchases returns	14,880	By Credit purchases	3,02,800
To Balance c/d	73,610		
(Balancing figure)			
	3,86,420		3,86,420
		By Balance b/d	73,610

Illustration:

Mrs. Malathy maintained 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
		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

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

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