மனோன்மணியம் சுந்தரனார் பல்கலைக்கழகம்

Manonmaniam Sundaranar University

Reaccredited with 'A' Grade (CGPA 3.13 Out of 4.0) by NAAC (3rd Cycle)

Tirunelveli - 627 012, Tamilnadu, India.

DIRECTORATE OF DISTANCE

&

CONTINUING EDUCATION

FINANCIAL ACCOUNTING

Prepared by

Dr.S.M.SUBBULAKSHMI M.Com., M.Phil., M.B.A., Ph.D.,

Assistant Professor (T)

Department of Commerce

Manonmaniam Sundaranar University, Tirunelveli.

II B. COM (IV SEMESTER) – UNDER CBCS

PART IV- NON – MAJOR ELECTIVE -II (SELECT ANY ONE) - 1

FINANCIAL ACCOUNTING

Objectives

1. To explain the concept and role of Accounting and financial reporting in the modern marketing economy.

2. To explain the regulatory frame work for the operation of fundamental accounting

Unit I:

Average Due Date- Utility of average due date- Problems.

Unit II:

Bank Reconciliation Statement – Meaning causes of difference between balance as per cash book and pass book – Need of Bank Reconciliation Statement – Preparation of Bank Reconciliation Statement.

Unit III:

Self-balancing Ledger – general ledger- debtors ledger- creditors ledger- Sectional balancing system.

Unit IV:

Depreciation – Meaning – Causes – Straight Line method and Written down value method – Simple problems only

Unit V:

Rectification of Errors- Classification of errors- suspense account- rectifying accounting entries (simple problem only)

Text Books

1. Dr.M.A.Arulanandam&K.S.Raman, Advanced Accountancy, Himalaya Publishing House, Mumbai.

2. P.Jain&K.L.Narang, Advanced Accountancy, Kalyani Publishers, New Delhi.

Reference Books

1. M.C.Shukla and T.S.Grewal, Advanced Accountancy, Sultan Chand &Co, New Delhi.

2. T.S.S. Reddy &A.Murthy, Advanced Accountancy, Margham Publications, Chennai.

3. P.C.Tulsian, Accountancy, Tata McGraw- Hill Company.

INDEX

Unit – I

FINANCIAL ACCOUNTING

Introduction:

Accounting is both the science and art of correctly recording in books of accounts all those business transactions that result in the transfer of money or money's worth. It may also be defined as the art of recording mercantile transactions in a regular and systematic manner; the art of keeping accounts in such a manner that a man may ascertain correct result of his business activities at the end of a definite period and also can know the true state of affairs of his/her business and properties by an inspection of his/her books.

Due Date

A date on which the bill of exchange or invoice is payable by the creditor to the debtor is known as the due date.

Average Due Date

The average due date is the equated date on which a single payment is made in lieu of numerous payments on different dates, without any loss to either party. Here, the interest is calculated for several due dates and is called with respect to the average due date.

Calculation of Average Due Date:

For average due date calculation, first, we have to calculate the due dates for each transaction. The following steps can be followed:

1. Add the credit period on the relevant date with 3 days of grace. The relevant date in case of bills of exchange may be the date of the invoice. But, in other cases, it

will be the date of the transaction. Also, three days of grace is only added in the case of Bills of Exchange but not otherwise.

2. If the date of maturity falls on a Public Holiday, the next working day will be considered the due date.
3. If the due date is announced as an Emergency Holiday, the subsequent working days are taken as the due date.

Let's understand the above more precisely, with the help of a table.

Due Date Related to	Nature of Holiday	Due Date
Bills of Exchange/ Promissory Notes	Public Holiday Emergency / Holiday	Previous working day / Next working day
Other cases of sale/ purchase	Public Holiday/ Emergency Holiday	Next working day

Now, let's understand the above concept with the help of examples.

EXAMPLE 1. Ajay drew a 2months bill on Varun on 8th May 2012. Calculate his due date if, on the original due date, an emergency holiday was announced.

Due Date = 8. 5. 2012 + 2 months + 3 days of grace = 11.7. 2012

But, on 11th July 2012, an emergency holiday was declared. So, the subsequent working day, i.e., 12th July 2012, will be considered the due date.

EXAMPLE 2. Rosy sales items on three months credit to Daisy on 26th October 2018. Calculate its due date.

Due Date = 26.10.18 + 3 months = 26.01. 19 [Here, no grace is calculated as the transaction is on sale of items.]

But, since 26th January is Republic Day, a public holiday, the due date will be the next working day, i.e., 27th January 2019.

Process of Average Due Date Calculation:

The formula used to calculate the average due date is given:

Average Due Date = Base Date

Here, you need to keep a few points in mind –

1. Selection of Base Date: As per your convenience, you can select any due date between the first and the last as the base date. This needn't be the first transaction, but it is advisable to choose an earlier due date.

2. There are a certain number of intervening days between the base date and the due date of each transaction. Here, always ignore the first date but include the last date.

3. If you obtain the due date in a fraction, always round it off to the nearest whole number.

4. Remember to include the calculation of rebates when the amount is paid before the due date.

5. Similarly, including the calculation of interests for paid amounts after the due date.

6. In the case of the sale of goods by two parties (to each other) on different dates, the formula for the average due date changes.

Utility of Average Due Date:

- The average due date is usually used in the following cases: For paying off a lump sum amount against various bills due on different dates. For setting the accounts of transactions between the agent and principle. For calculating the interests on the drawings of two or more partners.
- The settlement of accounts by a series of bills of exchange due on different dates.

Problems and Solution:

(a) Where the amount is lent in different instalments:

1. Kannan purchased goods from Raman, the due dates for payment in cash being as follows:

	Rs.	
March 15	1,000	Due 18^{th} April
April 21	1,500	Due 24^{th} May
April 27	500	Due 30^{th} June
May 15	600	Due 18^{th} July

Raman agreed to draw a bill for the total amount due on the average due date. Ascertain the date.

Solution

Computation of Average Due Date

Base date 18^{th} April

Due date 1	Amount Rs. 2	No. of days from Base date 3	Product Rs. 4

			(2x3)
18th April	1,000	0	0
24th May	1,500	36	54,000
30th June	500	73	36,500
18th July	600	91	54,600
	3,600		**1,45,100**

Average Due date = Base Date + Total Products / Total of Amounts (Days)

= 18th April + 1,45,100 / 3,600 (Days)

= 18th April + 40 Days

Average due date = May 28.

Calculation of Interest:

2. R owes S the following sums of money due from him on the dates stated:

Rs.300 due on March 9.1993

Rs.1,000 due on April 2.1993

Rs.4,000 due on April 30.1993

Rs.100 due on June 1.1993

He wants to make the complete payment on 30.6.93. Calculate interest at 5% p.a. with the help of Average due date method.

Solution

Computation of Average Due date

Basse date 9.3.93

Due date 1	Amount Rs. 2	No. of days from Base date 3	Product Rs. 4 (2x3)
9.3.93	300	0	0
2.4.93	1,000	24	24,000

30.4.93	4,000	52	2,08,000
1.6.93	100	84	8,400
	5,400		**2,40,400**

Average Due date = Base Date + Total Products / Total of Amounts (Days)

= 9.3.93 + 2,40,400 / 5,400 (Days)

= 9.3.93 + 45 days

= 23.4.93

Therefore, interest is chargeable from 23.4.93 to 30.6.93 i.e., 68 days

Interest for 68 days = 5,400 x 68 / 365 x 5% 365

Interests payable = Rs.50.30.

When due dates fall on Gazetted government holidays:

3. The following amount are due to Ezil by Satya. Satya wants to pay off (i) on 18.3.97 or (ii) on 14.7.97

Interest rate of 8% p.a. is taken into consideration.

Due dates	Rs
10.1.97	1,000
26.1.97 (Republic day)	2,000
23.3.97	6,000
18.8.97 (Sunday)	8,000

Determine the amount to be paid in (i) and in (ii)

Solution

Computation of Average due date

Base date 10.1.97

Due Date (Nominal) 1	Due Date (Actual) 2	No.of days from base date i.e., 10.1.97	Amount Rs. 4	Product Rs. 5 (3 x 4)

		3		
10.1.97	10.1.97	0	1,000	0
26.1.97	25.1.97	15	2,000	30,000
23.3.97	23.3.97	72	6,000	4,32,000
18.8.97	17.8.97	219	8,000	17,52,000
			17,000	**22,14,000**

Average Due date = Base Date + Total Products / Total of Amounts (Days)

= 10.1.97 + 22,14,000 / 17,000 days

= 10.1.97 + 130 days

= 20.5.97

(i) If the payment is made on 18.3.97, rebate will be allowed for unexpired time from 18.3.97 to 20.5.97 i.e., for 63 days. He has to pay the discounted value of the total amount.

Discount = 17,000 x 8% x 63 / 365 = 234.74

Amount to be paid on 18.3.97 = 17,000 – 234.7

= Rs.16,765.26

(ii) If the payment is deferred to 14.7.97, interest is to be paid from 20.5.97 to 14.7.97 (i.e., for 55 days)

Interest = 17,000 x 8 % x 55 / 365 = 204.93.

Amount to be paid on 14.7.97 = Rs.17,000+204.93

= Rs.17,204.93.

Where due dates of bills are given

4. Find out the Average due date of the following bills accepted by a trader who wishes to settle them with one single payment.

Date of Bill	Amount of Bill Rs.	Due Date
1.4.90	800	6.6.90
30.4.90	1,000	3.8.90
3.6.90	400	6.7.90
15.6.90	600	18.9.90

Solution:

Calculation of Average due date

Base date 6.6.90

Due date 1	Amount Rs. 2	No.of days from base date 3	Product Rs. 4 (2 x 3)
6.6.90	800	0	0
3.8.90	1,000	58	58,000
6.7.90	400	30	12,000
18.9.90	600	104	62,400
	2,800		**1,32,400**

Average Due date = Base Date + Total Products / Total of Amounts (Days)

= 6.6.90 + 1,32,400 / 2800 days

= 6.6.90 + 47 days

= 23.7.90

Calculation of due date of Bills payable after so many months after date (or) sight:

5. Ramesh drew upon Vinod several bills of exchange due for payment on different dates as under:

Date of the Bill	Amount Rs.	Tenure of the Bill
1.6.88	1,200	3 months
19.6.88	1,600	2 months
10.7.88	2,000	3 months
27.7.88	1,500	3 months
7.8.88	1,800	1 month
15.8.88	2,400	2 months

Find out Average due date on which payment may be made in one single amount.

Solution

Computation of Average due date

Base date 22.8.88

Due date 1	Amount Rs. 2	No.of days from base date 3	Product Rs. 4 (2 x 3)
4.9.88	1,200	13	15,600
22.8.88	1,600	0	0
13.10.88	2,000	52	1,04,000
30.10.88	1,500	69	1,03,500

10.9.88	1,800	19	34,200
18.10.88	2,400	57	1,36,800
	10,500		**3,94,100**

Average Due date = Base Date + Total Products / Total of Amounts (Days)

= 22.8.88 + 3,94,100 / 10,500 days

= 22.8.88 + 38 days

= 29.9.88

----

6. X sold goods to Y as detailed below:

Date of Invoice	Value of goods sold Rs.
5.5.94	2,000
12.5.94	1,500
19.5.94	3,000
26.5.94	2,200
11.6.94	1,500
3.6.94	1,000

The payments were agreed to be made by bills payable 90 days from the respective dates of invoice. However, Y wanted to arrange for payment of all the bills to be made on a single date. Calculate the date on which such payment could be made without loss of interest to either party.

Solution

Computation of Average due date

Base date 6.8.94

Due date **1**	**Amount** **Rs.** **2**	**No.of days from base date** **3**	**Product** **Rs.** **4** **(2 x 3)**
6.8.94	2,000	0	0
13.8.94	1,500	7	10,500
20.8.94	3,000	14	42,000
27.8.94	2,200	21	46,200
2.9.94	1,500	27	40,500
4.9.94	1,000	29	29,000
	11,200		**1,68,200**

Average Due date = Base Date + Total Products / Total of Amounts (Days)

= 6.8.94 + 1,68,200 / 11,200 days

= 6.8.94 + 15 days

= 21.8.94

---

7. For goods sold, Nagarajan draws the following bills on Raj who accepts the same as per terms given under:

Amount of the bill **Rs.**	**Date of drawing**	**Date of acceptance**	**Tenure**
16,000	6.1.95	9.1.95	3 months after

			date
18,000	15.2.95	18.2.95	60 days
16,000	21.2.95	21.2.95	2 months
30,000	14.3.95	17.3.95	30 days after sight

On 18.3.95, it was agreed that the above bills will be withdrawn and the acceptor would pay the whole amount in one lump sum by a cheque, 15 days ahead of average due date and for this a rebate of Rs.1,000 would be allowed.

Calculate the average due date, the amount and the due date of the cheque.

Solution:

Computation of Average due date

Base date 9.4.95

Due date **1**	**Amount** **Rs.** **2**	**No.of days from base date** **3**	**Product** **Rs.** **4** **(2 x 3)**
[6.1.95 + 3 months + 3 days] = 9.4.95	16,000	0	0
[15.2.95 + 60 days + 3 days] = 19.4.95	18,000	10	1,80,000
[21.2.95 + 2 months + 3 days] = 24.4.95	16,000	15	2,40,000
[17.3.95 + 30 days + 3 days] = 19.4.95	30,000	10	3,00,000
	80,000		**7,20,000**

Average Due date = Base Date + Total Products / Total of Amounts (Days)

= 9.4.95 + 7,20,000 / 80,000 days

= 9.4.95 + 9 days

= 18.4.95

Amount of cheque = Rs.80,000 -1,000 = Rs.79,000

Due date of cheque: 18.4.95 – 15 days = 3.4.95

Calculation of Interest on drawings:

8. A partner has withdrawn the following sums of money during the half year ending 30.6.94.

Jan 15	Rs.300
Feb 18	Rs.250
Mar 10	Rs.150
Mar 26	Rs.200
April 20	Rs.400
May 16	Rs.300
June 18	Rs.500

Interest is to be charged at 8% p.a. Find out the average due date and calculate the amount of interest to be debited to the partner.

Solution:

Computation of ADD

Base date 15.1.94

Date 1	Amount Rs. 2	No.of days from base date 3	Product Rs. 4

			(2 x 3)
15.1.94	300	0	0
18.2.94	250	34	8,500
10.3.94	150	54	8,100
26.3.94	200	70	14,000
20.4.94	400	95	38,000
16.5.94	300	121	36,300
18.6.94	500	154	77,000
	2,100		**1,81,900**

Average Due date = Base Date + Total Products / Total of Amounts (Days)

= 15.1.94 + 1,81,900 / 2,100 days

= 15.1.94 + 87days

= 12.4.94

Interest is to be charged on Rs.2,100 at 8% p.a. for period from 12.4.94 to 30.6.94 i.e., 79 days Interest = 2,100 x 8% x 79/365 = Rs.36.36

---

9. A partner has been withdrawing Rs.600 at the end of each month from January to December for private expenses. According to the partnership deed, interest is charged on drawings @ 12% per annum. Calculate the amount of Interest to be charged on drawings by the partner during the year.

Solution:

Calculation of Average due date

Date 1	Amount Rs. 2	No.of days from base date 3	Product Rs. 4

			(2 x 3)
January 31	600	0	-
February 28	600	1	600
March 31	600	2	1,200
April 30	600	3	1,800
May 31	600	4	2,400
June 30	600	5	3,000
July 31	600	6	3,600
August 31	600	7	4,200
September 30	600	8	4,800
October 31	600	9	5,400
November 30	600	10	6,000
December 31	600	11	6,600
	7,200		**39,600**

Average Due date = Base Date + Total Products / Total of Amounts (Days)

= Jan 31 + 5 ½ months

= July 15

Interest from July 15 till 31st December = 7,200 x 12% x 11/12

Interest = Rs.792

Determination of payment date to save specified amount of interest:

10. Mani has accepted the following bills drawn by Sharma:-

On 8.3.94	Rs.8,000	for 4 months
On 16.3.94	Rs.10,000	for 3 months
On 7.4.94	Rs.12,000	for 5 months
On 17.5.94	Rs.10,000	for 3 months

He wants to pay all the bills on a single day. Find out this date. Interest is charged at 18% p.a. and Mani wants to save Rs.300 by way of interest. Find out the date on which he has to effect the payment to save interest of Rs.300.

Solution:

Computation of Average Due Date

Base date 19.6.94

Date **1**	**Amount** **Rs.** **2**	**No.of days from base date** **3**	**Product** **Rs.** **4** **(2 x 3)**
11.7.94	8,000	22	1,76,000
19.6.94	10,000	0	0
10.9.94	12,000	83	9,96,000
20.8.94	10,000	62	6,20,000
	40,000		**17,92,000**

Average Due date = Base Date + Total Products / Total of Amounts (Days)

= 19.6.94 + 17,92,000 / 40,000 days

= 19.6.94 + 45 days

= 3.8.94

Interest per year = 40,000x18% = 7,200

Per month = 7,200/12 = Rs.600

Per day = 600/30 days = Rs.20

In order to save Rs.300, he must pay 15 days earlier.

I.e., 3.8.94 – 15 days = 19.7.94

i.e., Mani has to arrange the payment on 19.7.94.

Conclusion

The average due date or the weighted average of several dates on which invoices are payable makes the payment easier. One equivalent date is used instead of multiple dates so that the interest can be settled accordingly. In this way, none of the parties gains or loses anything by way of interest. Besides, the amount payable can be due on any type of transaction – loans, promissory notes, or other sales. Calculation of the average due date involves assuming the base date and then finding its difference from the due date in each case. Finally, using the formula, we can obtain the required due date for paying the total amount along with interest. We believe that helped clear the concepts of the average due date and account for the current notes of students.

Unit – II

BANK RECONCILIATION STATEMENT

The Bank Reconciliation Statement is an aid used to ensure the accuracy of transactions appearing in the bank columns of the cash book. Such transactions can be verified through an external record, namely, the bank statement received periodically from the banker. While the business keeps a record of its transactions through the bank columns in the cash book, the banker in turn maintains the bank's transactions with the business in his ledger. An extract from this ledger showing details of the transactions during a specified period is sent at frequent intervals by the bank to the business and this extract is referred to as a bank statement.

Reasons for Difference between Bank Balances as per Cash Book and Pass Book

The relationship between the customer and the banker is that of a creditor and a debtor. So, if the bank columns of the cash book show a debit balance as on a specified date, the bank statement should show an equal amount of credit balance as on that date and vice versa. However, the balances shown by the two independent records may not always agree due to the following:

(a) Checks issued by the business to its suppliers or other parties may not have been presented for payment.

(b) Checks received from customers and deposited may not have been collected by the banker.

(c) Deposits may have been directly made by the customers into the bank account of the enterprise.

(d) Collection charges, service charges and interest on overdraft charged by the banker. The business can ascertain the exact amount of charges and record them in the cash book only after the receipt of the bank statement.

(e) Interest credited by bank for the balance maintained with it and any other income such as interest on securities, dividend, etc. collected by the bank on behalf of the business can be ascertained only from the bank statement.

(f) Wrong entries made by the business in the cash book or errors committed by the bank in its ledger.

(g) Omission of entries in the two sets of books.

(h) Dishonour of customers checks deposited in the bank account.

The Effect of Each of These Entries is Explained Below

Cheques Issued but not Presented for Payment: When a check is issued to a third party, it is entered in the cash book by crediting the Bank a/c resulting in reducing the bank balance in the depositor's books. But bank debits the customer's account only when the check is presented by that third party. So, till it is presented and paid for, the bank's pass book shows more balance than shown by the depositor's cash book.

Cash Book (Bank Column Only)

Date	Particulars	Rs.	Date	Particulars	Rs.
04.03.14	To Balance b/d	15,000.00	05.03.14	By Rajan Traders a/c	2,00,000
			05.03.14	By Balance c/d	13,000.00
		15,000.00			**2,00,000**

Pass Book

Date	Particulars	Dr. (withdrawn)	Cr. (deposited)	Balance `
04.03.14	To Balance b/d			15,000.00 (cr)

Cheques Deposited and Remaining Uncollected: Whenever a check is received by a person from a third party and he deposits it in a bank, he will debit Bank a/c and credit the a/c of third party in his own books. His bank balance (in cash book) is therefore increased. But bank will credit that cheque not when it is deposited but only when that amount has been realized. Until the cheque has been collected, the balance appearing in the pass book would be less than the balance in the Bank a/c of cash book.

Cash Book (Bank Column Only)

Date	Particulars	Rs.	Date	Particulars	Rs.
05.05.14	To Balance b/d	10,000	05.03.14	By Balance c/d	15,000
07.05.14	To Mr. Balaram a/c	5,000	05.03.14		
		15,000			**15,000**

Bank Statement

Date	Particulars	Dr. (withdrawn)	Cr. (deposited)	Balance `
04.03.14	To Balance b/d			10,000.00

So, balance as per bank statement is ` 5,000 less than the balance in the cash book.

Deposits Directly Made into Bank a/c of the Enterprise: If suppose a debtor credits the amount directly into the bank account of a company, the balance in the pass book increases without a corresponding increase in the cash book (bank column) until it receives the information from the bank.

Dr. Cash Book (Bank Column only) Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Balance b/d	5,000		By Balance c/d	5,000
		5,000			**5,000**

Pass Book

Date	Particulars	Dr.	Cr.	Balance Rs.
04.03.14	To Balance b/d		10,000	5,000
	By Cash			15,000

Bank Charges: Bank charges some amount from customer by way of incidental charges, collection charges, etc. These adjustments are shown in the pass book as and when they occur and hence the balance in the pass book decreases. Only when the customer collects his pass book and verifies it, he will not know about it and hence the balance in the bank column of cash book shown is more.

Dr. Cash Book (Bank Column only) Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Balance b/d	3,000		By Balance c/d	3,000

Pass Book

Date	Particulars	Dr.	Cr.	Balance Rs.
	To Balance b/d			3,000 (cr)
	By Cash	15	10,000	2,985 (cr)

Similarly, interest on deposits credited by the bank leads to an increase in balance in bank's pass book without corresponding increase in the cash book.

1. In addition to the above-mentioned transactions, the balances may not agree because of omission of entries in two sets of books.

2. Wrong entries made by the business in cash book or errors committed by the bank in its ledger.

3. Dishonour of customers cheques deposited in the bank account.

THE RECONCILIATION STATEMENT

On receipt of the bank statement, a comparison of the entries in the Cash Book with those appearing in the bank statement will help in identifying the items causing the difference in the two balances. While the difference due to (i) and (ii) above will be eliminated in the near future (that is, creditors will soon present their cheques for payment and customer checks will be collected by the bank in due course), the difference due to items (iii) to (v) can be eliminated only if such items are recorded in the cash book. In addition, the business must rectify any errors in the cash book, include any transactions omitted and record the dishonour, if any, of customers' cheques. After these adjustments have been recorded, a statement will be prepared to reconcile the balance as shown by the cash book with that shown by the pass book. This statement is referred to as Bank Reconciliation Statement. It must be understood that this reconciliation statement will generally contain details of:

(a) Cheques issued and not presented,

(b) Cheques deposited and remaining uncollected,

(c) Errors in the bank statement, and

(d) Omission of entries in the bank statement

The bank reconciliation statement is, thus, an additional tool available to check the accuracy of the bank columns of the cash book.

Advantages of Bank Reconciliation Statement

(i) **Error Detection**: It helps in detection of errors of omission of transactions or wrong recording of transactions either by the bank or the business enterprises. Errors identified in the books by preparing BRS can be rectified.

(ii) **Delay in Collection Revealed:** The delay in the collection of cheques, bills, etc., if any, are revealed, when BRS is prepared. The matter can be pursued to avoid unnecessary delays in collection. It also helps the management to keep track of the cheques and bills sent for collection.

(iii) **Completion of Cash Book**: Business enterprises get information about bank charges, cheques dishonoured, direct payments, direct deposits, etc. from the bank statement only. Entries of the same are made in the cash book on the basis of bank statement. Thus, to complete the cash book, comparison and reconciliation of cash book and bank book is essential.

(iv) **Chances of Embezzlements are Reduced**: Periodical comparison of cash book and pass book keeps a check on the office staff. For example, entry for cash deposit is appearing in the cash book, but not in the pass book, indicates fraud being committed by the staff. This type of frauds come to light when Bank Reconciliation Statement is prepared.

STEPS IN PREPARATION OF BRS

1. Take the cash book or passbook balance as starting point. The following points have to be noted while taking the starting balance.

(i) Debit balance as per cash book indicates favourable balance.

(ii) Credit balance as per cash book means overdraft or unfavourable balance.

(iii) Debit balance as per pass book means overdraft or unfavourable balance.

(iv) Credit Balance as per pass book means favourable balance.

If the starting point denotes a favourable balance as per cash book or pass book, take it as a positive figure. However, if the starting point denotes negative unfavourable balance, take it as a negative figure.

2. Adjust the starting point amount as per the information given and analyze its impact on the other balances.

3. After adjusting all the differences or errors, the balance as per the other book is obtained. If the final balance is positive, it denotes favourable balance (Debit balance as per cash book or credit balance as per the pass book). However, if the final balance is negative, it denotes the unfavorable balance or overdraft. (Credit balance as per cash book or debit balance as per pass book).

The following table summarizes the impact of various differences and errors on the starting balance.

Bank Reconciliation Statement
as on ....

Particulars		Plus	Minus
Dr. Balance (Favourable Balance) as per Cash Book		XXXX	
Add:	1. Cheque issued or drawn but not yet presented for payment	XXX	
	2. Interest allowed by the bank not recorded in Cash Book	XXX	
	3. Amount directly deposited by the customers in our Bank Account	XXX	
	4. Interest and Dividends collected by bank on investments	XXX	
	5. Cheque paid into bank but omitted to be entered in the Cash Book	XXX	
	6. Any wrong credit given by the bank in the Pass Book	XXX	
Less:	1. Cheque paid into the bank for collection but not yet credited by the bank		XXX
	2. Cheque paid into the bank for collection but dishonoured by the bank		XXX
	3. Direct payment made by the bank according to prior instructions		XXX
	4. Bank Charges and commission charged by the bank		XXX
	5. Cheque issued but omitted to be recorded in the Cash Book		XXX
	6. Any wrong debit given by the bank in the Pass Book		XXX
		XXXX	XXXX
Cr. Balance (Favourable Balance) as per Pass Book			XXX
		XXXX	XXXX

Illustration 1

On March 31, 1991, the cash book of Prithvi Limited showed a bank balance (debit) of ` 48,500. However, the bank statement showed a credit balance of ` 53,900 as on the same date. A detailed comparison of entries revealed the following:

(a) Customers' cheques amounting to ` 8,450 had not been collected by the bank as on 31.3.1991.

(b) Certain cheques amounting to ` 8,850 had not been presented for payment as on 31.3.19 91.

(c) Bank charges of ` 1,000 and interest on investments of ` 2,500 collected by the banker appear only in the bank statement.

(d) A wrong credit of ` 2,500 in the bank statement.

(e) Swaroop Limited, a customer, had paid into the bank directly a sum of ` 3,000 on March 29, 1991. This has not been recorded in the Cash Book.

(f) A cheque for ` 2,000 received from Excel Limited, a customer, and deposited had been returned unpaid. The dishonour of this cheque has not been entered in the Cash Book.

Prithvi Limited will first pass the necessary rectification entries in the cash book and then prepare a reconciliation statement.

Cash Book of Prithvi Limited (Bank Columns Only)

Date	**Receipts**	**Bank Rs.**	**Date**	**Payments**	**Rs.**
1991			1991		
March 31	To Balance b/d	48,500	March 31	By Bank Charges	1,000
March 31	To Interest Received	2,500	March 31	By Excel Limited	2,000
March 31	To Swaroop Limited	3,000	March 31	By Balance c/d	51,000
		54,000			**54,000**

Solution:

Bank Reconciliation Statement as on March 31, 1991

Particulars	Rs.	Rs.
Bank Balance as per Cash Book		51,000
Add: Checks Issued and Not Presented	8,850	
Wrong Credit in the Bank Statement	2,500	11,350 ------------
		62,350 -----------
Less: Checks Deposited and Remaining Uncollected		8,450
Bank Balance as per bank Statement		53,900

Illustration 2

Mr. Q maintains two accounts known as account No.1 and account No. 2 in Bank of Maharashtra. On 31st December 1991, the overdraft as per pass book for account No. 1 is ` 86,552. But the overdraft as per cash book is not the same, and on comparing the pass book and the cash book, he finds the following:

(i) Out of the total cheques of ` 7,400 deposited on 27th December, 1991, one cheque amounting to ` 2,650 was collected on 4 th January, 1992.

(ii) Out of the total cheques of ` 12,560 issued on 22nd December 1991, two cheques of ` 1,500 each were not presented until 31st December, 1991.

(iii) A cheque amounting to ` 2,260 was sent to the supplier, through post on 29th December, 1991 and it is expected to reach him only after 3 rd January, 1992.

(iv) Bank charges amounting to ` 63 and interest charges amounting to ` 262 have not yet been recorded in the cash book.

(v) Mr. Q has deposited a cheque in his account No.2, for ` 1,000 on 2 nd December, 1991 was wrongly credited to account No.1 by the bank.

(vi) A cheque deposited on 15th December, 1991 for ` 500 was returned dishonoured by bankers on 2 nd January, 1992.

(vii) A cheque of ` 200 issued for account No.1 by mistake was recorded in bank column of the cash book for account No. 2, and this cheque was presented for payment on 4 th January, 1992.

From the above particulars, prepare a bank reconciliation statement to find out the Bank Overdraft as per cash book.

Solution:

Bank Reconciliation Statement as on 31st December, 1991

Particulars	Rs.	Rs.
Bank Overdraft as per Pass book:		86,552
Add: Cheques issued but not presented for payment	3,000	
Add: Cheque sent to the supplier through post, but has not reached him, hence, not presented for payment	2,260	
Add: Cheque wrongly credited to account No.1 by bank instead of account No. 2	1,000	6,260
		92,812

Less: Cheques deposited but not yet collected by the bank	2650	
Less: Bank charges and interest not recorded in cash book	325	
Less: Cheque deposited on 15th December, 1991, but not cleared by the until 31st December, 1991	500	3,475
Bank Overdraft as per Cash Book		8,993

Note: Item No. (vii), will not make impact as on 31st December, 1991, as it was presented for payment only on 4th January, 1992 and the cash book (Bank column) of account No. 2 is affected and not account No. 1.

Illustration 3

On 31, March, 2001, the Cash Book of a firm showed a balance at bank for ` 40,000. From the information given below prepare a Bank Reconciliation Statement.

1. Cheques issued for ` 7,000 have not yet been presented at the bank for payment.

2. Cheques amounting to ` 8,000 were paid on 29th March but have not been credited by the bank.

3. One cheque for ` 2,500 was entered in the Cash Book on 31st March, but was banked on 2 nd April.

4. A cheque from Suresh, for ` 3,000, paid in on 27th March was dishonoured but the advice of the dishonour was received only on the 2 nd April 2001.

5. Pass book included a bank charge, ` 100 on its debit side.

6. Pass book showed ` 2,500 collected by the bank as interest on securities.

Solution:

Bank Reconciliation Statement as on March 31, 2001

Particulars	**Rs.**	**Rs.**
Balance as per Cash Book		40,000
Add:		
Cheques issued but not yet presented	7,000	
Interest collected by the bank but not yet entered in the Cash Book	2,500	9,500
		49,500
Less:		
Cheques paid in but not yet collected	8,000	
Cheques entered in Cash Book but not yet paid in	2,500	
Cheques dishonoured but not yet entered in Cash Book	3,000	
Bank charges not yet entered in Cash Book	100	13,600
Balance as per Pass Book		**35,900**

Illustration 4

On March 31, 2001, the cash book of Sai Apna Ltd. showed an overdraft balance of ` 12,500 and this balance did not agree with the balance as per bank statement. On verification, the following facts were discovered.

(a) A cheque for ` 3,400 deposited on March 24, 2001 was dishonoured by bankers on April 3, 2001.

(b) Bank charges amounting to ` 180 and interest charges amounting to ` 615 have not been recorded in the cash book.

(c) Certain cheques amounting to ` 7,250 have not been presented for payment as on March 31, 2001.

(d) Interest on investment of ` 2,000 collected by the banker appears only in the bank statement.

(e) The debit side of the cash book had been over casted by ` 900.

You are required to find out the balance as per bank book.

Solution

Bank Reconciliation Statement of Sai Apna Ltd.

Particulars	**Rs.**	**Rs.**
Overdraft balance as per Cash Book		12,500
Add:		
(a) A cheque deposited on March 24, 2001 dishonoured	3,400	
(b) Bank charges (entered only in pass book)	180	
(c) Interest on overdraft (entered only in pass book)	615	
(d) Adjustment of cash book	900	5,095
Less:		
(a) Cheques issued but not presented for payment	7250	
(b) Interest on investment directly credited to bank account	2000	9250
Overdraft as per Pass Book		**8,345**

Illustration 5

Prepare a Bank Reconciliation Statement as on 30th September, 1991 from the following entries in the Bank Column of the Cash Book and the corresponding Pass Book

Cash Book (Bank Column only)

Date	Particulars	Rs.	Date	Particulars	Rs.
Sept. 1	To Balance b/d	8,000	Sept.4	By Drawings	700
3	To Kamlesh	2,200	8	By Suresh	3,300
9	To Prabhu	1,500	12	By Salary	2,800
16	To Pawan	3,400	16	By Manish	1,700
23	To Sathish	2,600	18	By Shyam	4,200
27	To Mohan	100	21	By Kapil	2,000
30	To Kapoor	350	26	By Seeta	1,100
			30	By Commission	100
			30	By Balance c/d	2,250
		18,150			**18,150**

Bank Pass Book

Date	Particulars	Debit Rs.	Credit Rs.	Balance
Sept.1	By Balance b/d			Cr.8,000
4	To Cheque-Drawings	700		Cr.7,300
5	By Cheque-Kamalesh		2,220	Cr.9,500
9	To cheque-Suresh	3,300		Cr.6,200
11	By Cheque-Prabhu		1,500	Cr. 7,700

12	To Cheque-Salary	2,800		Cr. 4,900
17	To Cheque-Manish	1,700		Cr. 3,200
20	By Cheque-Satish		2,600	Cr. 5,800
30	By Dividend Received		900	Cr. 6,700
	To Bank Charges	15		Cr. 6,685
	To Electricity Bill	60		Cr. 6,625
	To Check-Commission	100		Cr. 6,525

Solution

Bank Reconciliation Statement as on 30. 9.1991

Particulars	**Rs.**	**Rs.**
Balance as per Bank column of cash Book		2,250
Add: Cheques Issued but not presented		
Shyam	4,200	
Kapil	2,000	
Seeta	1,100	7,300
		9,550
Less: Cheque deposited but not cleared		
Pawan	3,400	
Mohan	100	
Kapoor	350	3,850
		5,700
Add: Amount credited in Pass Book only		900
Dividend received		6,600
Less: Amounts debited in Pass Book only		
Bank charges	15	
Electricity bill	60	75
Balance as per Pass Book		6,525

Unit – III

SELF BALANCING LEDGERS

Introduction

You have learnt that all business transactions are recorded first in journal or its sub-division and then posted into the concerned accounts in the ledger. A statement called Trial Balance is also prepared at the end of the accounting period primarily to check the arithmetical accuracy of the entries in the ledger, Normally the firms maintain one ledger for all the accounts involved. So long as the volume of transactions is small and the number of accounts is limited, this works fairly well. But, as the business expands and the number of accounts increases, especially those of the debtors and creditors, maintaining all accounts in a single ledger becomes impractical. The ledger becomes too bulky and location of errors involves more time. Hence many firms decide to introduce multiple ledger system whereby separate ledgers are kept for debtors and creditors and the entries are recorded in each ledger in such a way that a separate Trial Balance can be prepared for each ledger. This is called 'Self-balancing System'. Sometimes the firms, while maintaining more than one ledger, do not adopt the self-balancing system. In such a situation, though separate Trial Balance cannot be prepared for each ledger but the arithmetical accuracy can be duly certified by preparing certain control accounts. This is called 'Sectional Balancing'. In this unit you will learn about both the self-balancing and the sectional balancing systems:

Meaning of Self Balancing Ledger

Self-balancing system is a system whereby separate Trial Balance can be taken out from each ledger. ... It is the reverse of the Total Debtors Account in Sales Ledger and Total Creditors Account in Bought Ledger. Under this system ledgers are made self-balancing by opening adjustment accounts.

Advantages of Self Balancing System:

- Localizes the errors and facilitates in quick detection with minimum efforts;
- Facilitates division of work amongst different accounting staffs in the Accounts department;
- Responsibility for committing errors can be fixed;
- Possibility of collusion is lessen as the ledgers are maintained by different accounts staff;
- Facilitates the preparation of interim accounts and draft final accounts.

Steps to introduce the system

The first step is that the ledger should be spilt up into certain number of ledgers as shown under:

1. **Debtors Ledger**: This ledger should contain the accounts only trade debtors (customers).

2. **Creditors Ledger**: This ledger should contain the accounts only trade creditors (suppliers)

3. **General Ledger**: This ledger should contain all the remaining accounts i.e other than trade debtors and trade creditors

The second step is that in each of the above ledgers the extra adjustment account or accounts should be opened as mentioned below:

1. **General Ledger Adjustment account**: This extra account should be opened in the **"Debtors ledger"** in addition to the usual accounts of all the debtors.

2. **General Ledger Adjustment account**: This extra account should be opened in the **"Creditors ledger"** in addition to the usual accounts of all the debtors.

3. **Debtors Ledger Adjustment account**: This extra account should be opened in the **"General ledger"** in addition to the usual other accounts.

4. **Creditors Ledger Adjustment account**: This extra account should be opened in the **"General ledger"** in addition to the usual other accounts.

Different names of ledgers

1. General ledger is also called as nominal ledger

2. Debtors ledger is also called as sales ledger, sold ledger or customer ledger

3. Creditors ledger is also called as purchases ledger, bought ledger or supplier ledger

Format of Self Balancing Ledger

In General Ledger

Debtors Ledger Adjustment Account

Date	Particulars	Amount	Date	Particulars	Amount
	To Balance b/d	X		By Balance b/d (if any)	X
	(opening debit balance)			(opening credit balance)	
	To General Ledger Adjustment account			By General Ledger Adjustment account	
	Credit sales	X		Cash or cheques received from debtors	X
	Carriage and sundry	X		Bad debts	X

	charges debited to customers				
	Bills receivable dishonoured	X		Return inwards	X
	Cheques received dishonoured	X		Discount Allowed	X
	Interest and charges	X		Other allowances	X
	Cash paid to customers	X		Bills receivable	X
	B/R discounted dishonoured	X		Transfers	X
	B/R endorsed dishonoured	X		By bal c/d	x
	Interest charged on overdue accounts	X			
	To Bal c/d	X			
	Total	**xxx**		**Total**	**xxx**

The following transactions are to be excluded while preparing self-balancing ledger

1.Cash sales

2. Provision for bad debts

3. Recovery of bad and doubtful debts

4. Trade discount

5. Bills receivable discounted or matured

6. Freight on purchase

7. Carriage inward

8. Provision for discount on debtors

In General Ledger

Creditors Ledger Adjustment Account

Date	Particulars	Amount	Date	Particulars	Amount
	To Balance b/d (if any)	X		By Balance b/d	X
	(opening debit balance)			(opening credit balance)	
	To General Ledger Adjustment account			**By General Ledger Adjustment account**	
	Cash paid to creditors	X		Credit purchases	X
	Bills payable accepted Discount received	X		B/P dishonoured	X
	Return outwards	X		Bills receivable endorsed to creditors dishonoured	X
	Bills receivable endorsed to creditors	X		interest and charges	X

	Transfers	X		By bal c/d	X
	To Bal c/d	X			x
	Total	**xxx**		**Total**	**xxx**

The following transactions are to be excluded while preparing self balancing ledger

1. Cash purchases

2. Provision for discount on creditors

3. Bills payable matured

In Debtors Ledger

General Ledger Adjustment Account

Date	Particulars	Amount	Date	Particulars	Amount
	To Balance b/d (if any)	X		By Balance b/d	X
	(opening credit balance)			(opening debit balance)	
	To Debtors Ledger Adjustment account			**By Debtors Ledger Adjustment account**	
	Cash or cheques received from debtors	X		Credit sales	X
	Bad debts	X		Carriage and sundry charges debited to customers	X
	Return inwards	X		Bills receivable dishonored	X
	Discount allowed	X		Cheques received dishonored	X
	Other allowances			Interest ad charges	

	Bills receivable			Cash paid to customers	
	Transfers	X		B/R discounted dishonored	
	To Bal c/d	X		B/R endorsed dishonored	
				Interest charged on overdue accounts	
				By bal c/d	X
	Total	**xxx**		**Total**	**xxx**

In Creditors Ledger

General Ledger Adjustment Account

Date	Particulars	Amount	Date	Particulars	Amount
	To Balance b/d	X		By Balance b/d (if any)	X
	(opening credit balance)			(opening debit balance)	
	To Creditors Ledger Adjustment account			**By creditors Ledger Adjustment account**	
	Credit purchases	X		Cash paid to creditors	X
	B/P dishonored	X		Bills payable accepted Discount received	X
	Bills receivable	X		Return outwards	X

	endorsed to creditors dishonored				
	interest and charges	X		Bills receivable endorsed to creditors	X
	To Bal c/d	X		Transfers	
				By bal c/d	X
	Total	**xxx**		**Total**	**xxx**

Problem 1:

From the following transactions prepare the necessary ledger adjustment accounts in the respective ledgers as on 31/12/2002

Balance of debtors on 1/1/02 (Dr)	Rs.30000
Balance of debtors on 1/1/02 (Cr)	Rs. 1500
Credit sales	Rs.75000
Cash received from customers	Rs 40000
Cash sales	Rs 35000
Discount allowed	Rs.2500
Bills receivable received	Rs.35000
Bad debts written off	Rs. 750
Return from debtors	Rs.3000
B/R dishonored	Rs. 1250

Bad debts previously written off now recovered Rs 1000

Transfer from creditor ledger Rs.3000

Bills receivable discounted Rs.3000

Provision for doubtful debts Rs,2000

Balance of debtors on 31/12/02 (Cr) Rs.1000

SOLUTION

In General Ledger

Debtors Ledger Adjustment Account

Date	Particulars	Amount	Date	Particulars	Amount
1/1/02	To Balance b/d	30,000	1/1/02	By balance b/d	1500
	(opening debit balance)			(opening credit balance)	
31/12/02	**To General Ledger Adjustment account**		**31/12/02**	**By General Ledger Adjustment account**	
	Credit sales	75,000		Cash received from debtors	40,000
	B/R dishonoured	1,250		Discount allowed	2,500
31/12/02	To bal c/d	1,000		B/R received	25,000
				Return from debtors	3,000
				Bad debts	750
				Transfers	3,000
			31/12/02	By bal c/d	31,500

				(balancing figure)	
		1,07,250			**1,07,250**
	To bal b/d	31,500		By bal b/d	1000

Note : closing balance has to be taken in opposite side(if they given as debt we should take under credit side vice versa)

In Debtors Ledger

General Ledger Adjustment Account

Date	Particulars	Amount	Date	Particulars	Amount
1/1/02	To Balance b/d	1500	1/1/02	By balance b/d	30000
	(opening credit balance)			(opening debit balance)	
31/12/02	**To Debtors Ledger Adjustment account**		**31/12/02**	**By Debtors Ledger Adjustment account**	
	Cash received from debtors	40,000		Credit Sales	75000
	Discount allowed	2,500		B/R dishonored	1250
	B/R received	25,000	31/12/02	By bal c/d	1000
	Return from debtors	3,000			
	Bad debts	750			
	Transfers	3,000			
31/12/02	To bal c/d (balancing figure)	31500			

		1,07,250			**1,07,250**
1/1/03	To bal b/d	1000	1/1/03	By bal b/d	31500

Question. 2

From the following transactions prepare debtor ledger adjustment accounts in general ledgers as on 31/12/2013.

Balance of debtors on 1/1/13 (Dr)	Rs.20000
Balance of debtors on 1/1/13 (Cr)	Rs.1000
Credit sales	Rs.50000
Cash sales	Rs 15000
Cash received from debtors	Rs 25000
Discount allowed	Rs.1500
Bills receivable received	Rs.15000
Bad debts written off	Rs. 250
B/R dishonoured	Rs. 500
Return from debtors	Rs.2000
Provision for doubtful debts	Rs,3000
Balance of debtors on 31/12/13(Cr)	Rs. 750

Solution

In General Ledger

Debtors Ledger Adjustment Account

Date	Particulars	Amount	Date	Particulars	Amount
1/1/13	To Balance b/d	20,000	1/1/13	By balance b/d	1000
	(opening debit			(opening credit	

	balance)			balance)	
31/12/13	**To General Ledger Adjustment account**		**31/12/13**	**By General Ledger Adjustment account**	
	Credit sales	50,000		Cash received from debtors	25,000
	B/R dishonoured	500		Discount allowed	1,500
31/12/13	To bal c/d	750		B/R received	15,000
				Return from debtors	2,000
				Bad debts	250
			31/12/13	By bal c/d (balancing figure)	26,500
		71250			**71250**
1/1/14	To bal b/d	26,500	1/1/14	By bal b/d	750

Question 3. From the following prepare the debtors ledger adjustment account under self
balancing system in general ledger

Balance of debtors on 1/1/18 (Dr)	Rs.40000
Balance of debtors on 1/1/18 (Cr)	Rs.2000
Credit sales	Rs.200000
Cash received from debtors	Rs 160000
Discount allowed	Rs.6000
Return inwards	Rs.4000

Bad debts written off Rs. 3000

Bills receivable received Rs.20000

B/R dishonored Rs. 2000

Provision for bad debts Rs,2000

Transfer from creditors ledger to debtors ledger Rs.2200

Closing credit balance of debtors Rs.6000.

Solution

In General Ledger

Debtors Ledger Adjustment Account

Date	Particulars	Amount	Date	Particulars	Amount
1/1/18	To Balance b/d	40,000	1/1/18	By balance b/d	2000
	(opening debit balance)			(opening credit balance)	
31/12/18	**To General Ledger Adjustment account**		**31/12/18**	**By General Ledger Adjustment account**	
	Credit sales	2,00,000		Cash received from debtors	1,60,,000
	B/R dishonoured	2000		Discount allowed	6000
31/12/18	To bal c/d	6000		B/R received	2,00,000
				Bad debts	3000
				Return inwards	4000
				Transfer	2200
			31/12/18	By bal c/d (balancing figure)	50800

		248000			**248000**
1/1/19	To bal b/d	50800	1/1/19	By bal b/d	6000

Question 4. From the following prepare the creditors ledger adjustment account under self balancing system in general ledger

Debit balance of creditors (1-1-2014)	Rs.1000
Credit balance of creditors (1-1-2014)	Rs.10000
Credit purchase	Rs. 40000
Cash purchase	Rs. 20000
Cash paid to creditors	Rs 35000
Discount received	Rs. 2000
Bills payable issued	Rs. 3000
Bills payable dishonored	Rs. 1000
Debit balance of creditors (31-1-2014)	Rs. 2000

Solution

General Ledger

Creditors Ledger Adjustment Account

Date	Particulars	Amount	Date	Particulars	Amount
1/1/14	To Balance b/d (if any)	1000	1/1/14	By balance b/d	10000
	(opening debit balance)			(opening credit balance)	
31/12/14	**To General Ledger Adjustment account**		**31/12/14**	**By General Ledger Adjustment account**	

	Cash paid to creditors	35000		Credit purchases	40000
	Bills payable issued	3000		B/P dishonored	1000
	Discount received	2000		By bal c/d	2000
	To bal c/d (balancing figure)	12000			
	Total	**53000**		Total	**53000**
1/1/15	To bal b/d	31,500	1/1/15	By bal b/d	1000

The following transaction is to be excluded while preparing self balancing ledger

1. Cash purchases
2. Bills payable discounted by creditors
3. Goods received as samples

Question 5 From the following prepare the creditors ledger adjustment account under self balancing system in general ledger

Creditors balances on 1-1—1995 (Cr) Rs 30000

Creditors balances on 1-1—1995 (Dr) Rs 600

Total purchase Rs. 255000

Cash purchase Rs 75000

Return outwards Rs 3500

Cash paid to creditors Rs 45500

Cheques issued to creditors Rs 100000

Discount received Rs. 3000

Goods received as samples Rs.1000

Bills payable issued to creditors Rs 25000

Bills payable unpaid Rs. 1500

Noting charges due on the above unpaid bills Rs 200

Excess cash refunded by creditors Rs 300

Bills payable discounted by creditors Rs 10000

Creditors balance on 31-3 1995 (Dr) Rs 400.

Solution

General Ledger

Creditors Ledger Adjustment Account

Date	Particulars	Amount	Date	Particulars	Amount
1/1/95	To Balance b/d (if any)	600	1/1/14	By balance b/d	30000
	(opening debit balance)			(opening credit balance)	
31/3/95	**To General Ledger Adjustment account**		**31/12/14**	**By General Ledger Adjustment account**	
	Cash paid to creditors	1,00,000		Credit purchases Total purchase – cash purchase (255000 – 75000)	180000
	Bills payable issued	25000		Nothing Charges due	200
	Discount received	3000		B/P unpaid (dishonoured)	1500
	Return Outwards	3500	31/3/95	Excess cash refunded to creditors	300

31/3/95	To bal c/d (balancing figure)	34800		By bal c/d	400
	Total	**212400**		Total	**212400**
1/4/95	To bal b/d	400	1/4/95	By bal b/d	34800

The following transaction are to be excluded while preparing self balancing ledger

1. Cash purchases
2. Bills payable discounted by creditors
3. Goods received as samples

Question 6. From the following particulars as extracted from the books of Bhima prepare debtors ledger adjustment account and creditors ledger adjustment account:

January 1. 2000

Balance of bought ledger (Dr)	Rs 3500
Balance of bought ledger (Cr)	Rs 47760
Balances of sold ledger (Dr)	Rs. 58480
Balances of sold ledger (Cr)	Rs.1960

January 31, 2000

Purchases	Rs. 264720
Return outwards	Rs 10240
Sales	Rs 349960
Return inwards	Rs 4680
Cash received from customers	Rs 304840
Discount allowed thereon	Rs 11280
Cash paid to suppliers	Rs 233720
Discount earned thereon	Rs 6640
Cash paid to customers	Rs 520
Bills receivable	Rs 16480

Bills payable Rs 9000

Bills receivable dishonored Rs 1000

Bills receivable discounted Rs 2000

Bills receivable endorsed to creditors Rs 2000

Bills receivable endorsed dishonored Rs 1000

Bought ledger balances (Dr) Rs. 3000

Sold ledger balance (Cr) Rs 73400

Solution

In General Ledger

Debtors Ledger Adjustment Account

Date	Particulars	Amount	Date	Particulars	Amount
1/1/10	To Balance b/d (if any)	58480	1/1/10	By balance b/d	1960
	(opening debit balance)			(opening credit balance)	
31/1/10	**To General Ledger Adjustment account**		**31/1/10**	**By General Ledger Adjustment account**	
	Credit Sales	3,49,960		Cash received from customers	3,04,840
	Cash paid to customers	520		Return inwards	4,680
	B/R dishonored	1000		Discount allowed	11280
	B/R endorsed dishonored	1000		Bills receivable	16480
31/1/10	To bal c/d (b/f)	1680		By bal c/d	73400

		412640			**412640**
1/2/10	To bal b/d	73400	1/2/10	By bal b/d	1680

General Ledger

Creditors Ledger Adjustment Account

Date	Particulars	Amount	Date	Particulars	Amount
1/1/10	To Balance b/d (if any)	3500	1/1/10	By balance b/d	47760
	(opening debit balance)			(opening credit balance)	
31/1/10	**To General Ledger Adjustment account**		**31/1/10**	**By General Ledger Adjustment account**	
	Cash paid to suppliers	233720		Credit purchases	2,64,720
	B/R endorsed to creditors	2000		B/R endorsed to creditors dishonored	1000
	Bills payable issued	9000		By bal c/d	3000
	Discount earned	6640			
	Return outwards	10240			
31/1/10	To bal c/d (b/f)	51380			
	Total	**316480**		Total	**316480**
1/2/10	To bal b/d	3000	1/2/10	By bal b/d	51380

Note: purchase and sales treated as credit purchase and credit sales

Question 7

From the following particulars as extracted from the books of Bhima prepare debtors ledger adjustment account and creditors ledger adjustment account:

Debit balance of debtors (1-1-2014)	Rs. 100,000
Debit balance of creditors (1-1-2014)	Rs. 7,000
Credit balance of debtors (1-1-2014)	Rs. 4000
Credit balance of creditors (1-1-2014)	Rs 90,000

Transactions during the month of January

Credit purchase	Rs 500,000
Returns outwards	Rs 20,000
Credit sales	Rs 700000
Return inwards	Rs 50000
Cash received from debtors	Rs 600000
Discount allowed	Rs 25000
Cash paid to creditors	Rs 500000
Bills receivables	Rs 30000
Discount earned	Rs.14000
Provision for bad debts	Rs 3000
Bills payable	Rs 20000
B/R dishonored	Rs 2000
B/R discounted	Rs 3000
Bills endorsed to creditors	Rs 4000
Bad debts written off	Rs 5000
Bad debts recovered	Rs 1000
Transfers	Rs 6000
B/R endorsed dishonored	Rs 2000
Balance of debtors (Cr)	Rs 5000
Balance of Creditors (Dr)	Rs 2000

Solution

In General Ledger

Debtors Ledger Adjustment Account

Date	Particulars	Amount	Date	Particulars	Amount
1/1/14	To Balance b/d	100000	1/1/10	By balance b/d	4000
	(opening debit balance)			(opening credit balance)	
31/1/14	**To General Ledger Adjustment account**		**31/1/10**	**By General Ledger Adjustment account**	
	Credit Sales	700000		Cash received from customers	600000
	B/R dishonored	2000		Return inwards	50000
	B/R endorsed dishonored	2000		Discount allowed	25000
31/1/14	To bal c/d (b/f)	5000		Bills receivable	30000
				Bad debts	5000
				Transfers	5000
			31/1/14	By bal c/d	900000
		809000			**809000**
1/2/14	To bal b/d	90000	1/2/14	By bal b/d	5000

General Ledger

Creditors Ledger Adjustment Account

Date	Particulars	Amount	Date	Particulars	Amount
1/1/14	To Balance b/d (if any)	7000	1/1/10	By balance b/d	90000
	(opening debit balance)			(opening credit balance)	
31/1/14	**To General Ledger Adjustment account**		**31/1/10**	**By General Ledger Adjustment account**	
	Cash paid to suppliers	500000		Credit purchases	500000
	B/R endorsed to creditors	4000		B/R endorsed to creditors dishonored	2000
	Bills payable issued	20000		By bal c/d	2000
	Discount earned	14,000			
	Return outwards	20,000			
	Transfers	5000			
31/1/14	To bal c/d (b/f)	24000			
	Total	**5,94,000**		**Total**	**5,94,000**
1/2/14	To bal b/d	2000	1/2/14	By bal b/d	24000

Question 8

From the following particulars as extracted from the books of Bhima prepare debtors ledger adjustment account and creditors ledger adjustment account:

Debit balance of customers (1-1-2014) Rs. 60,000

Debit balance of suppliers (1-1-2014)	Rs.600
Credit balance of customers (1-1-2014)	Rs. 1000
Credit balance of suppliers (1-1-2014)	Rs 30,000

Transactions during the year 2014

total purchase	Rs 36000
Cash purchase	Rs. 10000
Returns outwards	Rs 5000
Credit sales	Rs 42000
Cash sales	Rs 9000
Return inwards	Rs 2000
Cash received from customers	Rs 62000
Discount allowed to customers	Rs 1200
Cash paid to suppliers	Rs 31000
Bills drawn on debtors	Rs 6000
Discount allowed by suppliers	Rs. 1300
Provision for bad debts	Rs 4000
Bills payable	Rs 8000
B/R unpaid	Rs 3000
Interest and noting charges on unpaid bills	Rs 200
Bills endorsed to creditors	Rs 1000
Bad debts written off	Rs 1000
Bad debts written now recovered	Rs 500
Transfers from customers ledger to suppliers ledger	Rs 500
Carriage inward	Rs. 2500
Balance of customers (Cr) on 31-12- 14	Rs 1500
Balance of Creditors (Dr) on 31-12-14	Rs 1200

Solution

In General Ledger

Debtors Ledger Adjustment Account

Date	Particulars	Amount	Date	Particulars	Amount
1/1/14	To Balance b/d	60000	1/1/10	By balance b/d	1000
	(opening debit balance)			(opening credit balance)	
31/12/14	**To General Ledger Adjustment account**		**31/1/10**	**By General Ledger Adjustment account**	
	Credit Sales	42000		Cash received from customers	62000
	B/R unpaid (dishonoured)	3000		Return inwards	2000
	B/R endorsed dishonored			Discount allowed	1200
	Interest and nothing charges on unpad bills	200		Bills receivable	6000
31/12/14	To bal c/d	1500		Bad debts	1000
				Transfers	500
			31/12/14	By bal c/d (B/F)	33000
		106700			**106700**
1/1/15	To bal b/d	33000	1/1/15	By bal b/d	1500

General Ledger

Creditors Ledger Adjustment Account

Date	Particulars	Amount	Date	Particulars	Amount
1/1/14	To Balance b/d (if any)	600	1/12/14	By balance b/d	30000
	(opening debit balance)			(opening credit balance)	
31/12/14	**To General Ledger Adjustment account**		**31/12/14**	**By General Ledger Adjustment account**	
	Cash paid to suppliers	31000		Credit purchases (36000 – 10000)	26000
	B/R endorsed to creditors	1000		By bal c/d	1200
	Bills payable issued	8000			
	Discount earned	1300			
	Return outwards	5000			
	Transfers	500			
31/12/14	To bal c/d (b/f)	9800			
	Total	**57200**		**Total**	**57200**
1/1/15	To bal b/d	1200	1/1/15	By bal b/d	9800

Unit – IV

Depreciation

Introduction to Depreciation:

Every business concern acquires and holds certain fixed assets like Land, Building, Plant, Machinery, Furniture and fixture, Computer etc. for long term in the business. They are brought with the view to use them in the course of the business for a long period of time. Due to the use of the fixed assets the value declines. Shrinkage in the book value of fixed asset is of permanent and continuing nature. Such permanent and continuing decline in value of fixed asset is called Depreciation.

MEANING OF DEPRECIATION

The word '*depreciation*' is derived from Latin word '*Depretium*' which means '*decline*' or 'reduction' in price or value. Depreciation is concerned with fixed assets only. Fixed assets have long life and loose their value due to the usages. Even if the asset is not put to use, its value goes on reducing due to time span i.e. efflux. In other words depreciation means fall in the value of an asset because of usage or with efflux of time or due to obsolescence or accident.

Accordingly depreciation is the continuous, gradual and permanent reduction in the value of fixed asset brought about by factors like wear and tear, erosion, rot or rust, obsolescence, depletion or exhaustion, passage (efflux) of time, etc.

DEFINITIONS OF DEPRECIATIONS

Carter defines "Depreciation is the gradual and permanent decrease in the value of an asset from any cause whatsoever"

According to **William Pickles**, "Depreciation is the permanent and continuing diminution in the quality, quantity or value of an asset"

From the above definitions the following facts can be noted or Important features of depreciation.

1. Depreciation is a loss.

2. It is a reduction in the value of an asset.

3. The decrease in the value of asset is due to its use, caused by wear and tear or any other reason.

4. Such reduction in the value is gradual and continuous except Land. Because land does not have definite economic life.

5. The term depreciation is used only in respect of fixed assets.

6. Depreciation is a charge against profit.

7. Depreciation is different from maintenance.

8. Depreciation is a part of operating cost. Therefore, it is transferred to profit & loss account at the end of financial year.

9. It is a permanent and continuous decrease in the book value of an asset. (Reduction in the value of fixed Asset on account of depreciation is not temporary but permanent.)

CAUSES OF DEPRECIATION

1. Wear & Tear: Wear and tear refers to loss of utility or usefulness of an asset due to its use. Wear and tear takes place in the case of tangible fixed asset such as machinery, furniture, etc.

2. Efflux of time or Passage of time: Even if fixed asset is not used, its value declines over a period of time. Thus, depreciation is required to be charged on idle machinery or building.

3. Obsolescence: On account of new invention or introduction of new technology, the old or existing asset becomes outdated or useless. Such a loss or reduction is called as obsolescence, e.g. introduction of computers, reduces market value of typewriters.

4. Exhaustion or Depletion: Assets may get exhausted or depleted due to its constant use or working, e.g. mines, quarries, oil wells, etc.

5. Damage: Damage of assets due to fire, accident, natural calamities like floods, earth-quakes, etc. reduces their values.

NEED FOR DEPRECIATION

1. To ascertain true profit or loss: Depreciation is an expense and becomes an important element of the cost of production. Though it is not visible like other expenses and never paid to the outside party, yet it is considerable to charge depreciation on fixed assets, as these are used for earning purposes. So the reduction in the value of fixed assets must be deducted from the income earned in order to calculate the true and real profit or loss of the business.

2. To show true financial position: Balance sheet shows the true and fair financial position of the business. So the fixed assets are required to be shown at their true values. If depreciation is not provided on assets, it amounts overstatement of assets in the Balance Sheet and will not reflect the true financial position of the business. Therefore it is necessary that depreciation must be deducted from the fixed asset in the Balance Sheet.

3. To make provisions for replacement of fixed assets: The amount of depreciation charged and debited to profit and loss account every year is not paid as like other expenses. This amount is retained in the business and invested in some securities or in the business. The funds so accumulated is made available to the business for replacement of fixed assets when its life is over or it becomes unproductive.

4. To meet the legal requirements: It is necessary to charge depreciation to comply with the provisions of Companies Act and the Income Tax Act.

FACTORS AFFECTING DEPRECIATION OR CONCEPTS IN DEPRECIATION

1. **Cost of the asset**: The total cost of an asset means the purchase price of an asset plus incidental expenses of the asset such as freight, transport charges, installation charges, wages for errection, fixation charges etc. upto the point the asset is ready for use.
2. **Estimated scrap value:** It is the residual value of the asset which can be realised at the end of the effective life of the asset. The asset may become outdated after its estimated life, then it may be sold as scrap.
3. **Estimated useful life of asset:** Life of any fixed asset refers to total period for which a fixed asset can be used. The useful life of the asset may be calculated in terms of years. An asset may still exist physically but may not be capable of producing the same results at a reasonable cost. So physical life of the asset is not important, rather its useful life is important from accounting point of view.

FORMULA FOR CALCULATION OF DEPRECIATION

1. Depreciation p.a $= \frac{\text{Cost of the asset} - \text{Estimated Scrap value}}{\text{Estimated life of the asseet}}$

OR

Depreciation p.a $= \frac{\text{Cost of the asset} + \text{Installation Charges} - \text{Scrap Value}}{\text{Life of the asset}}$

OR

2. Depreciation p.a = Cost of the asset – Rate of Depreciation

OR

Depreciation p.a = Book value/ Opening balance of the asset – Rate of Depreciation

METHODS OF DEPRECIATION

The different methods of depreciation are stated below:

1. Straight Line Method/Fixed Installment Method

2. Written Down Value Method/Reducing Balance Method

3. Annuity Method

4. Depreciation Fund Method

5. Revaluation Method

6. Insurance Policy Method

7. Sum of the digits method

8. Machine hour rate method

9. Depletion method

As per the Syllabus students are required to study the following two methods of Depreciation. These methods are:

1. Straight Line Method and

2. Written Down Value method.

1. Straight Line Method: Under this method, the depreciation is usually charged at fixed percentage on the original cost of the Fixed Asset every year.

This method is very simple and easy. Under this method a fixed percentage of the original value of the asset is written off every year, so as to reduce the asset account to nil or to its scrap value at the end of the estimated life of the asset.

If the charge of depreciation plotted annually on graph paper and the points are joined together, then it will show a straight line, so this method is called as "Straight Line Method".

As the amount of depreciation per year remains constant, this method is called as "fixed Installment Method".

As the depreciation is charged on original cost every year. This method is also called as "Original Cost Method".

Features

1. The rate of depreciation is fixed as a fixed percentage.

2. Depreciation is charged as a fixed percentage on original cost of the assets.

3. The amount of depreciation is same during the economic life of the asset.

Merits

1. It is the simplest method of charging depreciation.

2. The provision for depreciation is spread equally.

3. It is suitable to leasehold properties and patents.

Demerits

1. If additional asset does not have the same working life; separate calculations are to be made.

2. It does not take in to account effective utilization of asset.

When provision for Depreciation Account is not maintained i.e. Depreciation is charged or credited to the Asset A/c.

Under this method the amount of depreciation is charged to (Debited to) the Depreciation Account and credited to the Asset Account. The Asset Account appears in the Balance Sheet at the value remaining after deducting depreciation. Depreciation Account, being nominal Account, is transferred to Profit and Loss Account at the end of accounting year. The Journal entries under this method are as follows.

1. For Purchase of Asset

   Asset A/c Dr

   To Cash/Bank/Party's (supplier's) A/c

   (Being Asset purchased for cash or on credit)

2. For expenses paid on Asset

   Asset A/c Dr

   To Cash/Bank A/c

   (Being expenses paid on asset)

3. At the end of every accounting year

   (a) For providing depreciation

   Depreciation A/c Dr

   To Asset A/c

   (Being depreciation charged on asset for the year ___ at ___% p.a. by FIM/RBM)

   (b) For Transfer of depreciation to Profit & Loss A/c

Profit & Loss A/c Dr

To Depreciation A/c

(Being depreciation for the year ___ transfer to Profit & Loss A/c) Or

(Being balance in depreciation A/c transfer to Profit & Loss A/c)

4. For Sale of Asset

(a) For sale proceeds of Asset

Cash/Bank/Party's (Purchaser's A/c) Dr

To Asset A/c

(Being asset sold for cash or on credit)

(b) For Depreciation on Asset sold (according to the period of use i.e. 1 st day of accounting year till the date of sale)

Depreciation A/c Dr

To Asset A/c

(Being depreciation charged on asset sold for___ period at ___% p.a. by FIM/RBM)

(c) Entry for profit or loss on Sale of Asset

Profit or loss = Selling price – Book value of the Asset sold as on date of sale.

If profit

Asset A/c Dr

To Profit & Loss A/c

(Being profit on sale of asset transferred to Profit & Loss A/c)

If loss

Profit & loss A/c Dr

To Asset A/c

(Being loss on sale of asset transferred to Profit & Loss A/c)

PROFORMA LEDGER ACCOUNTS

In the books of ……………

Dr. Asset A/c Cr.

Date	Particulars	Amt.	Date	Particulars	Amt.
	To balance b/d	XXX		By Depreciation A/c (Depreciation charged)	XXX
	To Cash/Bank/Party's A/c (Purchase of asset)	XXX		By Cash/ Bank / Party's A/c (Sale of Asset)	XXX
	To Cash/ Bank A/c (expenses on asset)	XXX		By Profit & Loss A/c (Loss on sale of asset)	XXX
	To Profit & Loss A/c (Profit on sale of asset)	XXX		By balance c/d	XXX
		XXX			XXX

Dr. Depreciation A/ c Cr.

Date	**Particulars**	**Amt.**	**Date**	**Particulars**	**Amt.**
	To Asset A/ c (for depreciation)	XXX		By Profit & Loss A/c (for transfer)	XXX

		XXX			XXX

Illustration 1

Duryodhan purchased a Motor Truck at a cost of ` 60,000/- on 1 st January, 1985. Its useful life is 9 years, at the end of which it is estimated to fetch ` 10,000/-. The incidental expenses for the purchases of the truck amounted to ` 4,000/-. Duryodhan wants to write off depreciation on fixed installment basis.

How much depreciation should be written off every year? Prepare a Motor Truck A/C for the year 1985, 1986, 1987 and 1988.

Solution

In the books of Duryodhan

Date	Particulars	JF	Rs.	Date	Particulars	JF	Rs.
1/1/85	To Cash a/c (60000 + 40000)		64000	31/12/85	By Depreciation A/c		6,000
					By Bal c/d		
			640000				**640000**
1/1/86	To bal b/d		58000	31/1/86	By Depreciation A/c		6,000
					By bal c/d		52,000

			58000				**58000**
1/1/87	To bal b/d		52,000	31/12/87	By Depreciation A/c		6,000
					By bal c/d		46,000
			52000				**52000**
1/1/88	To bal b/d		46,000	31/1/88	By Depreciation A/c		6,000
					By bal c/d		40,000
			46000				**46000**

Dr. Depreciation A/c Cr.

Date	Particulars	JF	Rs.	Date	Particulars	JF	Rs.
31/12/85	To M.T. A/c		6000	31/12/85	By P & L A/c		6,000
			6000				**6000**
31/12/86	To M.T. A/c		6000	31/12/86	By P & L A/c		6,000

			6000				**6000**
31/12/87	To M.T. A/c		6000	31/12/87	By P & L A/c		6,000
			6000				**6000**
31/12/88	To M.T. A/c		6000	31/12/88	By P & L A/c		6,000
			6000				**6000**

Depreciation p.a = Cost + S.V / Life

= 40000 + 4000 + 10000 / 9

= 54,000 / 9

= 6,000 p.a.

Illustration 2

A company purchased Machinery worth ` 1,00,000/- on 1 st March, 1985. Accounting year of the company closes on 31st March, every year. Company provides depreciation at 10% p.a. on the original cost. On 31st March., 1988, the machinery was sold for ` 1,20,000/- Give the machinery Account for three years.

Solution

In the books of Company

Dr. Machinery A/c Cr.

Date	Particulars	JF	Rs.	Date	Particulars	JF	Rs.
1/4/85	To Cash A/c (P)		1,00,000	31/3/86	By Depreciation A/c		10,000
					By Bal c/d		**90,000**
			1,00,000				1,00,000
1/4/86	To bal b/d		90,000	31/3/87	By Depreciation A/c		10,000
					By bal c/d		80,000
			90,000				**90,000**
1/4/87	To bal b/d		80,000	31/12/87	By Cash A/c		1,20,000
31/3/88	To P&L (pr)		50000		By Depreciation A/c		10,000
			1,30,000				**1,30,000**

Illustration 3

Raj purchased following plants and Machinery on various dates:

1.1.1986 Rs.50,000/- 1.7.1986 Rs.20,000/-

1.10.1987 Rs.40,000/- 1.4.1988 Rs.60,000/-

31.12.1989 Rs.1,00,000/-

On 1.7.1989, he sold ½ of the Machine bought on 1.1.1986 for Rs.20,000/-.

He writes off depreciation on the fixed instalment system which he has estimated to be 10% p.a. of the original cost. Prepare machinery Accounts in the ledger of Raj for the year 1986, 1987, 1988 and 1989.

Solution

In the books of Raj

Dr. **Machinery A/c**

Cr.

Date	Particulars	JF	Rs.	Date	Particulars	JF	Rs.
1/1/86	To Cash A/c (P)		50,000	31/3/86	By Depreciation A/c (5000 +1000)		6000
1/1/86	To Cash A/c (P)		20,000		By bal c/d		64,000
			70,000				**70,000**
1/1/87	To bal b/d		64000	31/3/87	By Depreciation A/c		8000

					(5000+2000+1000)		
1/1/87	To Cash A/c (P)		40000		By bal c/d		96000
			104000				**104000**
1/1/88	To bal b/d		96000	31/12/88	By Depreciation A/c (5000+6000+4000+ 4500)		120000 10000
31/3/88	To Cash A/c (P)		60000		By bal c/d		140500
			156000				**156000**
1/1/89	To bal b/d		140500	1/7/89	By Cash A/c		20000
1/7/89	To P/L A/c		8750	1/7/89	By Depreciation A/c		1250
			100000	7/8/89	By Depreciation A/c (2500 + 2000 + 4000+ 6000+90)		14590
				31/3/89	By bal c/d		208500
			249250				**249250**

Dr. **Depreciation A/c** **Cr.**

Date	Particulars	C/F	Rs	Date	Particulars	C/F	Rs.
31/12/88	To Machinery		6,000	31/12/88	By P&L		6,000
	A/c		**6000**		A/c		**6000**
31/11/87			8000				8000
	To Machinery		**8000**	31/12/86			**8000**
	A/c		15,500		By P&L		15500
31/12/89			**15500**	31/12/87	A/c		**15500**
			1250				15750
31/7/89	To Machinery		**15750**	21/8/89	By P&L		**15750**
	A/c				A/c		
	To Machinery				By P&L		
	A/c				A/c		

Illustration 4

Sanika Enterprises, Pune purchased furniture for Rs.40,000 on 1st July 2005. Additional furniture on 1 st January 2007 was purchased for Rs. 20,000. They charged depreciation at 15% p.a. on original cost.

On 1 st October 2007 they sold the furniture purchased on 1st July 2005 for Rs.32,000 and on the same date new furniture was purchased for Rs.10,000. Show Furniture Account and Depreciation Account for the years 2005-06, 2006-07, and 2007-08 assuming that the financial year closes on 31st March, every year.

Solution

In the books of Sanika enterprises

Dr. Furniture A/c Cr.

Date	Particulars	JF	Rs	Date	Particulars	JF	Rs.
1/7/05	To Cash A/c (P)		40,000	31/3/06	By Depreciation A/c		4500
				31/8/06	By bal c/d		25500
			40000				**40000**
1/1/06	To bal b/d		25,500	31/3/07	By Depreciation A/c		6,750
1/1/87	To Cash A/c (P)		20,000	31/3/07	By bal c/d		38,750
			45500				**45500**
1/4/07	To bal b/d		38,750	1/10/07	By Cash A/c		32000
1/10/07	To P&L (P)		6,500	1/10/07	By Depreciation A/c		3000
1/10/07	To Cash A/c (P)		10,000	31/12/08	By Depreciation A/c		3750
				31/3/08	By bal c/d		16500
			52250				**52250**

Dr. **Depreciation A/c** **Cr.**

Date	Particulars	C/F	Rs	Date	Particulars	C/F	Rs.
311/3/06	To Furniture A/c		4500	31/12/88	By P&L A/c		4500
			4500				**4500**
31/3/07	To Furniture A/c		6750	31/12/86	By P&L A/c		6750
			6750				**6750**
1/10/07	To Furniture A/c		3000	31/3/08	By P&L A/c		6750
31/3/08	To Furniture A/c		3750				
			6750				**6750**

Working Note

(1) Profit or Loss on sale of machine (1/10/07)

Cost (1/07/05)	40,000
Less Depreciation up to 31/03/07	10,500

W.D.V. (1/04/07)	29,500
Less Depreciation for months	
(40,000 × 15% × 12 6)	3,000

W.D.V. (1/10/07)	26,500

	Sold for	32,000

	Profit on sale	6,500

(2) Depreciation on balance in 2007

20,000 × 15%	= 3,000
10,000 × 15% × 12 6	= 7,50

	3,750
	------------- .

WRITTEN DOWN VALUE METHOD

Under this method depreciation is charged at a certain percentage each year on balance of the asset which is brought forward from the previous year. The amount of depreciation charged in each period is not fixed but it goes on decreasing gradually, as the opening balance of the asset in each year will reduce. In other words a fixed rate on the written down value of the asset is charged as depreciation every year over the expected useful life of the asset. Thus, the amount of depreciation becomes higher at the earlier period and becomes gradually lower in subsequent periods, when repairs and maintenance charges increase gradually.

As the depreciation is charged on Written Down Value (i.e. Cost less total depreciation), this method is called as "Written Down Value Method". Similarly as the amount of depreciation per year goes on reducing every year upto the useful life of the asset it also called as “Reducing Balance Method” or “Diminishing Balance Method”.

If this method of depreciation is followed, the amount of depreciation remains higher but repairing and maintenance charges remains very low in the earlier years. In the later years, amount of depreciation remains low while amount of repairing and maintenance charges remains higher. It means the total charges of depreciation and repairs and maintenance debited to profit and loss account every year remains more or less same. As a result profit remains constant over the number of years. This method of depreciation is more logical, scientific and realistic as compared to other methods of depreciation. This method of depreciation is accepted under the Income Tax Act. Under this method of depreciation assets are never completely written off. Because of this, some charges however they are small, are made to revenue to save the taxes. Under this method of depreciation, higher amount of depreciation is charged in the initial years gets match with the higher revenues earned from the increased production carried out by the use of new assets.

Features:

1. The rate of deprecation is fixed.

2. The depreciation is computed on reducing balance of the asset.

3. The annual depreciation diminishes as the asset gets older.

4. The value of asset never becomes zero even after the economic life of the asset.

Merits:

1. It is not necessary to calculate every year the additions made to the asset.

2. It is simple and easy to understand.

3. Since the asset is not completely written off, some charge is made to revenue every year.

4. It is generally followed by every business concern and even tax authority.

Demerits:

1. Interest on capital invested in the asset is not considered.

2. Determination of suitable rate of depreciation is difficult.

Difference between Straight Line Method and Written Down Value Method

	Straight Line Method	**Written Down Value Method**
1	**Meaning**	
	The method of depreciation in which depreciation is charged at a fixed percentage on the original cost of fixed asset every year is called Straight Line Method of depreciation.	The method of depreciation in which depreciation is charged at a fixed percentage on the written down value of fixed asset at the beginning of each year is called 'Written Down Value Method'.
2	**Depreciation Charged**	
	Depreciation is charged on the original cost of the asset every year.	Depreciation is charged on the written down value (cost less total depreciation) of the asset every year.
3	**Book Value / Zero balance**	
	The book value of the asset becomes zero or to scrap value at the end of its useful life.	The book value of the asset never becomes zero or to scrap value at the end of its useful life.
4	**Amount of Depreciation**	
	The amount of depreciation remains constant for all the years.	The amount of depreciation goes on reducing every year.
5	**Recognition/Acceptability**	
	This method of depreciation is not recognised or accepted by the Income	This method of depreciation is recognised or accepted by the Income

	tax authority.	tax authority.
6	**Suitability**	
	This method is suitable where repair charges are less and obsolescence is not frequent.	This method is suitable where repair charges are more in later years and also obsolescence.

I st Method Straight Line Method Or Fixed Installment Method Or Original Cost Method		**IIst Method Written Down Value Method Or Reducing Balance Method Or Diminishing Balance Method**	
Example:	**Rs.**	**Example:**	**Rs.**
Cost (1/1/2008)	10,000	Cost (1/1/2008)	10,000
Less: Depreciation 2008 10% p.a.	(1000)	Less: Depreciation 2008 10% p.a	(1000)
Book value/W.D.V./Balance		Book value/W.D.V./Balance	
31/12/08 01/01/09	9000	31/12/08 01/01/09	9000
Less: Depreciation 2009 10% p.a.	(1000)	Less: Depreciation 2009 10% p.a.	(900)
Book value/W.D.V./Balance		Book value/W.D.V./Balance	
31/12/09 01/01/10	8000	31/12/09 01/01/10	8100
Less: Depreciation 2010 10% p.a.	(1000)	Less: Depreciation 2010 10% p.a.	(810)
Book value/W.D.V./Balance		Book value/W.D.V./Balance	

31/12/10 ------------- 01/01/11	7000	31/12/10 ------------- 01/01/11	7290

Illustration 5

Wasim Raja & Co., purchased following Plant & Machinery on the dates mentioned hereunder

1 st Jan, 1986 Rs.5,000/- 1 st April, 1987 Rs.2,000/-

1 st July, 1987 Rs. 4,000/- 1 st April, 1988 Rs.6,000/-

On 1 st July, 1989 they sold the machine bought on 1 st January, 1986 for ` 4,000/-. They write off depreciation on the Reducing Balance Method @ 20% p.a. On 31st December every year.

Prepare Machinery Account in the ledger of Wasim Raja & Co. for the years 1986, 1987, 1988 and 1989.

Solution

In the books of Wasim Raja & Co

Machinery A/c

Date	Particulars	JF	Rs.	Date	Particulars	JF	Rs.
1/01/86	To Cash/Bank A/c		5000	31/12/86	By Depreciation A/c		1,000
				31/12/86	By bal c/d		4,000
			5000				**5000**

1/01/87	To bal b/d		4,000	31/12/87	By Depreciation A/c		1,200
1/04/87	To Cash/Bank		2,000		(N – 1)		
1/07/87	To Cash/Bank		4,000	31/12/87	By bal c/d		8,800
			10000				**10000**
1/01/88	To bal b/d		8,800	31/12/88	By Depreciation A/c		2,660
1/04/88	To Cash/bank		6,000	31/12/88	(N – 2)		
				31/12/88	By bal c/d		12,140
			14800				**14800**
1/01/89	To bal b/d		12,140	1/07/89	By Cash/bank		4,000
1/07/89	To P/L A/c		1696		By Depreciation		2056
	(Profit on Sale)				(M. Sold)		
	(N – 3)			31/12/89	By Depreciation		**1916**
					(on balance) (N – 4)		
				31/12/89	By bal. C/d		7,664
			13836				**13836**
1/01/90	By bal. b/d		7,667				

Working Notes

(1) Depreciation for 1987

Rs. 4,000 × 20%	= Rs. 800
Rs. 2,000 × 20% × 9/12	= Rs. 300
Rs. 1,000 × 20% × 6/12	= Rs. 100

	Rs. 1,200

(2) Depreciation for 1988

Rs. 8,800 × 20%	= Rs.1,760
Rs. 6,000 × 20% × 9/12	= Rs. 900

	Rs. 2,660

(3) Machine sold on 1/07/89

Cost (1/01/86)	Rs. 5,000
(-) Depreciation for 1986 @ 20%	Rs. 1,000

W.D.V. (1/01/87)	Rs.4,000
Less: Depreciation @ 20%	Rs.800

W.D.V. (1/01/88)	Rs. 3,200
Less: Depreciation @ 20%	Rs.6,40

W.D.V. (1/01/89)	Rs. 2,560
Less: Depreciation @ 20%	
for 6 months	Rs.2,56

W.D.V. (1/07/89)	Rs. 2,304
Sold for	Rs. 4,000

Profit	Rs. 1,696

(4) Depreciation on balance for 1989

W.D.V. (1/01/89)	Rs.12,140
(-) W.D.V. of M. Sold (1/01/89)	Rs. 2,560

Balance	Rs. 9,580
Depreciation @ 20%	Rs. 1916

Illustration 6

The Machinery Account in the books of Ramji & Co., showed a balance of Rs. 7,540/- as on 1 st January, 1990. They purchased a new Machinery of Rs.2,200/- on 1.7.1990. They have also sold an old machine on 1.1.1990 at a price of Rs.5,000/-. This Machine was purchased on 1.1.1987 for Rs.7,500/-.

Ramji & Co., write off depreciation @ 20% on Readucing Balance Method. Prepare Machinery Account for the year 1990.

Solution

In the books of Ramji & Co.

Machinery A/c

Date	Particulars	JF	Rs.	Date	Particulars	JF	Rs.
1/01/90	To bal b/d		7540	1/01/90	By Cash/Bank		5,000
1/01/90	To P/L A/c		1160	31/12/90	By Depreciation (N-2)		960
1/07/90	To Cash/Bank		2200	31/12/90	By bal c/d		4,940
			10,900				**10,900**
1/01/91	To bal b/d		4,940				

Working Notes

(1) Machine sold on 1/01/90

Cost (1/01/87)	Rs.7,500
Less: Depreciation @ 20%	Rs. 1,500
W.D.V. (1/01/87)	Rs.6,000
Less: Depreciation @ 20%	Rs.1,200
W.D.V. (1/01/89)	Rs.4,800

Less: Depreciation @ 20%	Rs.960

W.D.V. (1/01/90)	Rs. 3,840
Sold for	Rs. 5,000

Profit on sale	Rs. 1,160

(2) Depreciation on Balance Machine and new purchase for 1990

Opening	Rs.7,540
(-) W.D.V. (1/01/90) (M. Sold)	Rs. 3,840

	Rs. 3,700
= Depreciation @ 20%	Rs. 740
On new machine	
Rs. 2200 × 20% × 6/12	Rs. 220
Total	Rs. 960

Illustration 7

The Machinery Account in the books of Joker shows a debit balance of Rs.15, 000/- on 1 st April, 1990.

(i) On 1 st October, 1990, he purchased a Machinery costing Rs.10,000/-.

(ii) On 1 st January, 1991 he sold out one old Machine for Rs. 2,000 whose book value at the beginning of the year was Rs.3,000.

Machinery is to be depreciated at the fixed rate of 10% on diminishing balance method. Show the Machinery Account for the year ending 31st March, 1991.

Solution

In the books of Joker

Machinery A/c

Date	Particulars	JF	Rs.	Date	Particulars	JF	Rs.
1/04/90	To bal b/d		15,000	1/01/91	By Cash/ bank		2,000
1/10/90	To Cash/Bank		10,000	1/01/91	By P/L A/c		775
				1/01/91	By Depreciation (M .Sold)		225
				31/3/91	By Depreciation (N-2)		1,700
				31/3/91	By bal c/d		20,300
			25000				**25000**
1/4/91	To bal b/d		20,300				

Working Notes

(1) Sale of Machinery on 1/01/91

B.N. n (1/04/90)	Rs. 3,000
Less: Depreciation @ 10% for 9 months	Rs.225

W.D.V. (1/01/91)	Rs.2,775
Sold for	Rs. 2,000

Loss on Sale	Rs. 775

2) Depreciation on Balance and during the year

Opening (1/04/90)	Rs.15,000
(-) B.V. Machine sold	Rs. 3,000

	Rs. 12,000
Depreciation @ 10% × 12,000	Rs. 1,200
New Purchase	
10,000 × 10% × 6/12	Rs. 500
Total Depreciation	Rs. 1,700

Unit – V

Rectification of Errors

Errors and their Rectification: An error is an unintentionally committed mistake. When the Trial Balance does not tally it is a clear indication that there are some errors in the preparation of accounts. The errors may be committed at various stages:

1. Journalizing,
2. Posting,
3. Casting (totaling),
4. Balancing,
5. Transferring to trial balance and so on.

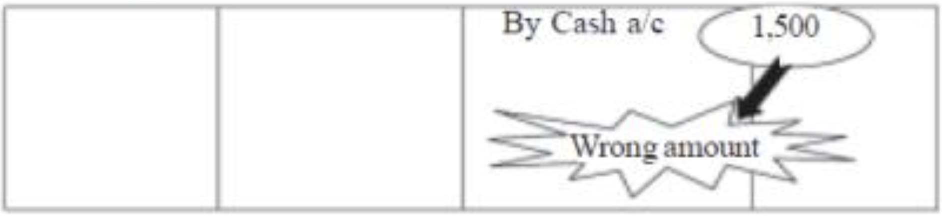
Mere tallying of the trial balance does not ensure an error free statement. There are certain errors such as errors of omission, error of principle and compensating errors are not disclosed by trial balance while errors of casting, posting to wrong side of an account or posting a wrong amount can be detected by trial balance.

Errors whether disclosed or not disclosed by trial balance have to be corrected or rectified in order to obtain the correct picture of profit or loss. It should be remembered that errors will have their impact not only on profit but also on the asset and liability position of the business organization.

Errors Disclosed by Trial Balance: Those errors that can be disclosed by trial balance can easily be located. As soon as the trial balance does not tally, the accountant can proceed to find out the spots where the errors might have been committed. The total amount of difference in the trial balance is temporarily transferred to a 'Suspense Account' so that it can be mitigated as and when the errors get rectified. Therefore, the suspense account gets debited or credited as the case may be on rectification of these types of errors. The following are the errors which are disclosed by trial balance:

(3) **Posting a Wrong Amount:** This mistake may occur while posting an entry from subsidiary book to ledger.

Example: Cash received from Rama ₹ 1,150 is posted to Rama's ledger account as ₹ 1,500 while it is correctly recorded in cash account.



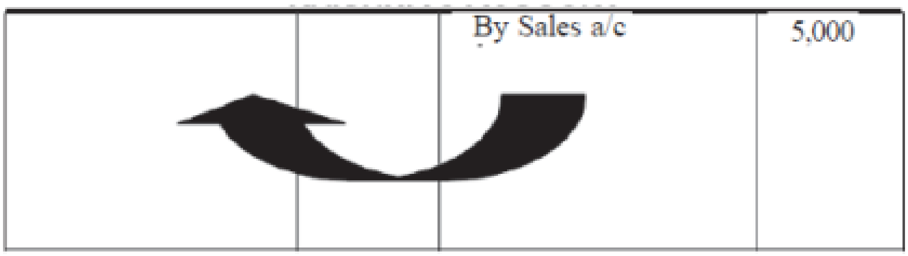
Rectification entry

Rama's account Dr. ₹ 350
To suspense account ₹ 350
(Being excess credit given to Rama's account rectified)

(4) **Posting to the Wrong Side of an Account:** This error is committed while posting entries from subsidiary books to ledger.

Example: Sales made to Krishna ₹ 5,000 is transferred to credit side of the Krishna's account in the ledger.

KRISHNA'S ACCOUNT



Rectification entry

Krishna's account Dr. ₹ 10,000
To Suspense account ₹ 10,000
(Being excess in Krishana's account rectified)

(5) **Wrong Totaling:** Both undercasting and overcasting are detected by trial balance. If any account is wrongly totaled, it gets reflected in the trial balance.

Example: Purchase book total is ₹ 5,800. If it is totaled as ₹ 5,700 or ₹ 5,900, the difference will be shown in the trial balance.

PURCHASE BOOK	
ABC Ltd.	xxxx
MNC Ltd.	xxxx
PQR Ltd.	xxxx
Total	5,800

TRIAL BALANCE		
	Debit	Credit
Cash	xxx	xxx
Sales		
Purchase	5,700	

WRONG AMOUNT

(6) **Omitting to Post an Entry from Subsidiary Book to Ledger**: If an entry made in the subsidiary book does not get posted to ledger, the trial balance does not tally.

Example: Rent paid ₹ 2,000 recorded in cash account but is not posted to rent account at all.

RENT ACCOUNT

To Cash a/c	2,000		

Omitted

Rectification entry

Rent a/c Dr. ₹ 2,000

To Suspense a/c ₹ 2,000

(Being the error of omitted to post rent paid in rent account rectified.)

(7) Omission of an Account Altogether from Being shown in Trial Balance:

Example: Advertisement account which shows a debit balance is completely omitted from trial balance.

ADVERTISEMENT ACCOUNT

To Cash a/c	xxxx	By balance c/d	xxxx
Total	xxxx	Total	xxxx

To balance b/d xxxx

TRIAL BALANCE

Particulars	Debit	Credit
Advertisement	Ommitted	

Rectification entry

Advertisement expense a/c Dr. ₹ 10,000

To Suspense a/c ₹ 10,000

(Being debit balance in advertisement account accounted.)

(8) **Posting an Amount to a Correct Account more than Once**: This result in imbalance in the trial balance.

Example: Receipt from Sundry debtors of ₹ 5,000 was accounted twice in Sundry Debtors account.

SUNDRY DEBTORS A/C

		By Cash a/c	50,000
		By Cash a/c	50,000
		ENTERED TWICE	

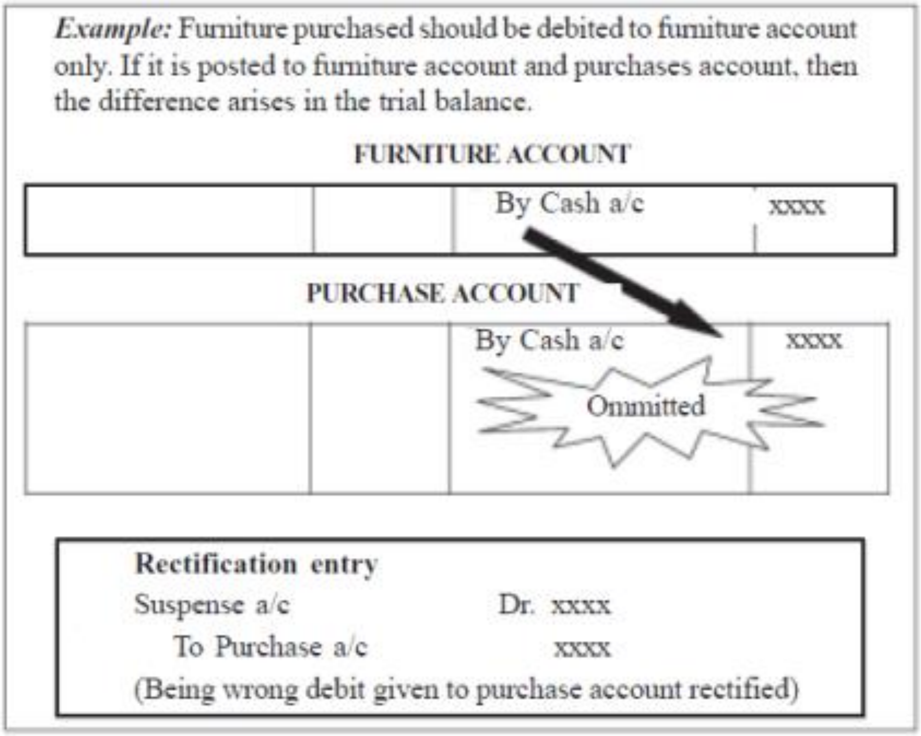
Rectification entry

Suspense a/c Dr. ₹ 5,000

To Sundry Debtors a/c ₹ 5,000

(Being excess debit in Sundry debtors account rectified.)

(9) **Posting an Item to the Same Side of Two Different Ledger Accounts:** If two accounts are debited/credited for the same transaction, this type of error occurs.


Example: Furniture purchased should be debited to furniture account only. If it is posted to furniture account and purchases account, then the difference arises in the trial balance.

FURNITURE ACCOUNT

		By Cash a/c	xxxx

PURCHASE ACCOUNT

		By Cash a/c Ommitted	xxxx

Rectification entry

Suspense a/c	Dr.	xxxx
To Purchase a/c		xxxx

(Being wrong debit given to purchase account rectified)

(10) **Errors Not Disclosed by Trial Balance:** There are four errors regarded as those which do not affect trial balance and it is difficult to locate them. A brief description of the four errors is offered in the following paragraphs:

(a) Error of Omission: Error of omission occurs when a transaction is completely omitted from the books of accounts.

Example: If purchase of goods from Jairam on credit is not recorded at all either in the general journal or in the purchases book, it is termed as error of omission.

PURCHASE BOOK

Date	Suppliers' Name	LF	Inv No.	₹
	Jairam			

Ommitted

PURCHASE ACCOUNT

To Jairam	xxx		

Ommitted

Since both aspects — debit and credit — of the transaction are missing, the trial balance is not affected at all. To rectify such errors, the transaction should be recorded when it is traced.

(b) Error of Commission: If the error of wrong posting, wrong casting, wrong calculation etc., committed in the books of original entry or ledger, it is said to be error commission.

Example: Purchase invoice of ₹ 1,730 may have been entered as ₹ 1,370 in the purchases book it self, then, in the subsequent ledger accounts the same mistake continues and thereby cannot be disclosed by trial balance.

The difference of ₹ 360 (1,730 -1,370) should be added to purchases account and to the respective supplier's account.

PURCHASE BOOK

Date	Suppliers' Name	LF	Inv No.	₹
	xxx			1,370

Correct amount is ₹ 1,730

To xxx	1,370		

Correct amount is ₹ 1,730

The error can be detected only when the original invoice is referred to after getting the complaint from the supplier.

Rectification entry

Purchase a/c	Dr.	₹ 360
To Supplier a/c		₹ 360

(Being deficit amount added to rectify the account.)

(c) Error of Principle: While drawing journal entries, often error of principle is committed and this goes unnoticed because it does not affect the total of trial balance.

Example:

Wages paid to workers engaged in the construction of building????

- Wages paid to workers engaged in the construction of building should be debited to building account but not wages account.
- If the building account is debited, the value of the asset appears in the balance sheet and the expenditure is actually capitalized.
- In case the wages are treated as usual revenue expenditure, they are deducted from profit.
- The error here is wages account is debited and not builing account.

Rectification entry

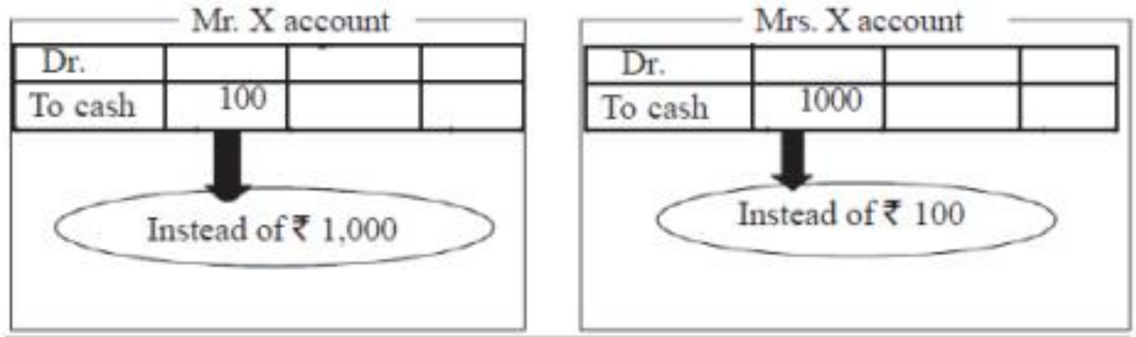
Building a/c	Dr.	
To Wages a/c	₹ 10,000	
(Being wrong debit given to wages account rectified.)		

Similarly, treating incomes as liabilities, providing insufficient provision for bad and doubtful debts, inadequate depreciation against assets etc., come under errors of principle. They must be rectified by applying the correct principles of accounting.

(d) Compensating Errors: It is also called off-setting error. Compensating error is one which is counterbalanced by another error.

Example:

- Mr. X account was debited for ₹ 100 as against ₹ 1,000 while the account of Mrs. X account was debited ₹ 1,000 against the corrct amount of ₹ 100.
- The first error is compensated by the second error and therefore the trial balance is not affected. this comes to light only at a later stage or on receipt of the complaint.



Rectification entry

Mr. X account	Dr.	900
To Mrs. X account		900

(Being deficit amount debited in Mr. X account and excess amount debited in Mrs. X account rectified. account rectified.)

Steps to Locate the Errors: The following steps help to locate the errors. In spite of the efforts, if the difference in the trial balance persists, a suspense account may be created and subsequently the suspense account can be eliminated as and when the errors are located and rectification is made.

1. Check the totals of both debit side and credit side of the trial balance.
2. Check the totals of debtors and creditors accounts.
3. Find out whether all ledger balances are carried to trial balance.
4. Verify the totals of all the ledger accounts.
5. Divide the amount of difference in the trial balance by 2 and see if any item of the debit or credit side, equal to that amount has been posted to the opposite side.
6. Check whether the opening balances are brought down correctly from the previous accounting period.

7. Make a comparison with trial balance of the previous year to find out if there are any items missing.

8. Where the difference in the trial balance is divisible by 9 then the difference is likely to be due to misplacement of figures like 12 for 21; 24 for 42; 36 for 63 and so on.

When errors are located, they should be rectified. It is not a good practice nor do we have the legal right to erase the mistakes and rewrite the correct ones. Rectification entries are recorded in General journal or journal proper.

Example

Goods ` 3,000/- sold to Nishikant has been debited to M/s Nishi & Co. A/c.

Solution

Entry		Dr.	Cr.
Wrong Entry			
M/s Nishi & Co. a/c	Dr.	3,000	
To Sales a/c			3,000
Reverse Entry			
Sales A/c	Dr.	3,000	
To M/s Nishi & Co. a/c			3,000
Correct Entry			
Nishikant's a/c	Dr.	3,000	
To Sales a/c			3,000
Rectification Entry			
Nishikant's a/c	Dr.	3,000	
To M/s Nishi & Co. a/c			3,000

Example

A credit purchase of ` 3,000 from Nishikant is posted to his account as Rs. 30,000.

Solution

Entry		Dr.	Cr.
Wrong Entry			
Purchase a/c	Dr.	3,000	
To Nihikant's a/c			3,000
Reverse Entry	Dr.		
Nishikant's a/c		3,000	
To Purchase a/c			3,000
Correct Entry			
Purchase A/c	Dr.	3,000	
To Nishikant's a/c			3,000
Rectification Entry			
Nishikant's a/c	Dr.	3,000	
To Purchase a/c			3,000

Example

A credit purchase from Nishi & Co. has been wrongly recorded in sales book RS. 3,000/-

Solution

Entry		Dr.	Cr.
Wrong Entry			
M/s Nishi & Co. a/c	Dr.	3,000	
To Sales a/c			3,000
Reverse Entry			
Sales a/c	Dr.	3,000	
To M/s Nishi & Co. a/c			3,000
Correct Entry			
Purchase A/c	Dr.	3,000	
To M/s Nishi & Co. a/c			3,000
Rectification Entry			
Purchase a/c	Dr.	3,000	
Sales a/c	Dr.	3,000	
To M/s Nishi & Co. a/c			3,000

Illustration 6

An accountant finds that the trial balance of his client did not tally and it showed an excess credit of Rs. 69.74. He transferred it to a suspense account and later discovered the following errors.

(a) Rs.44.37 paid to Anand has been credited to his account as Rs.34.37.

(b) A purchase of Rs. 145.50 has been posted as Rs. 154.50 to the purchases account.

(c) An expenditure of ` 158 on repairs has been debited to the Buildings account.

(d) Rs.80 was allowed by B as discount which has not been entered in the books.

(e) A sum of Rs.125.05 realized on the sale of old furniture has been posted to the sales account.

Give journal entries to rectify the errors.

Solution

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
1	Anand's account	Dr.		78.74	
	To Suspense account				78.74
	(Being wrong amount, wrongly credited to Anand's a/c recifited)				
2	Suspense account	Dr.		9.00	
	To Purchases account				9.00
	(Being over debit of purchase a/c rectified)				
3	Repairs account	Dr.		158.00	
	To Building account				158.00
	(Being wrong debit given to building account rectified)				
4	B's account	Dr.		80	
	To Discount received account				80
	(Being discount received from B, omitted earlier, brought to account)				
5	Sales account	Dr.		125.05	
	To Old furniture account				125.05
	(Being sales of old furniture wrongly transferred to sales account rectified)				

Note:

1. The entry should have been:

Anand a/c	Dr.	44.37	
To Cash a/c			44.37

(Being cash paid to Anand accounted)

When amount is paid to Anand, his account should have been debited. On the other hand, his account was credited for a wrong amount of Rs. 34.37. Hence, there has been excess credit to the extent of Rs. 78.74 (44.37 + 34.37). To rectify this double error we need to debit Anand's account to the extent of Rs. 78.74 and credit suspense account.

2. Purchases account was over debited by Rs. 9 (Rs. 154.50 – Rs.145.50). To rectify this error, we need to credit purchase account to the extent of Rs. 9 and debit suspense account.

3. Repairs spent on building are by mistake debited to building account. This is error of principle. Repairs account is debited and buildings account is credited to rectify the error.

4. Discount received from B has not been taken to records. This is an error of omission. Therefore, it is now brought to accounts. This has not affected the trial balance.

5. When old furniture is sold, the furniture account should have been credited. On the other hand, sales account was credited against to the principle of accounting. To rectify the error, sales account is debited and old furniture account is credited.

Illustration 7

The trial balance of Evergreen Co Ltd. taken out as on 31st December, 2002 did not tally and the difference was carried to suspense account. The following errors were detected subsequently.

(a) Sales book total for November was undercast by Rs. 1,200.

(b) Purchase of new equipment costing Rs. 9,475 has been posted to Purchases a/c.

(c) Discount received Rs. 1,250 and discount allowed Rs. 850 in September 2002 have been posted to wrong sides of discount account

(d) A cheque received from Mr. Longford for Rs.1,500 for goods sold to him on credit earlier, though entered correctly in the cash book has been posted in his account as Rs. 1,050.

(e) Stocks worth Rs. 255 taken for use of Mr. Dayananda, the Managing Director, has been entered in sales day book.

(f) While carrying forward, the total in Returns Inwards Book has been taken as Rs. 674 instead of ` 647.

(g) An amount paid to cashier, Mr. Ramachandra, Rs. 775 as salary for November month has been debited to his personal account as Rs. 757.

(h) Pass journal entries and draw up the suspense account.

Solution

Journal Proper of Evergreen Co. Ltd.

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
31.12.2002	Suspense account	Dr.		1,200	
	To sales account				1,200
	(Being undercasting of sales book rectified)				
31.2.2002	New Equipment account	Dr.		9,475	
	To Purchases account				9,475
	(Being wrong debit given to purchase account rectified)				
31.12.2002	Discount allowed account	Dr.		1,700	
	Suspense account	Dr.		800	
	To Discount received account 2,500				2,500
	(Being discount received and discount allowed posted to wrong side of discount account rectified)				
31.12.2002	Suspense account	Dr.		450	
	To Longford account				450
	(Being short credit given to Longford account)				
31.2.2002	Sales account	Dr.		255	
	To Suspense account				255
	(Being stock used for personal purpose wrongly credited to sales account rectified)				

31.2.2002	Suspense account Dr.		27	
	To Return Inwards account (Being excess debit given to return inwards account to the extent of ` 27 now rectified)			27
31.2.2002	Salary account Dr.		775	
	To Ramachandra's account To Suspense account (Being the wrong debit of salary to the personal account of Ramachandra now rectified)			775 18

Note:

In Q. No.(c): Discount received Rs.1,250 is posted on the wrong side of discount account. Discount received (income) should be credited and discount allowed (expenses) should be debited.

Instead of crediting the discount received account, it has been wrong debited. To rectify this error, we need to credit discount received account to the extent of Rs.2,500 (Rs. 1,250 + Rs. 1,250).

In the same context, discount allowed which is an expense should be debited instead, it is credited. To rectify the error, we need to debit discount allowed to the extent of Rs.1,700 (850 + 850). The difference between discount received and discount allowed account is transferred to suspense account.

Illustration 8

The trial balance of M/s. J Ltd. on 31st March, 1991 did not balance. The difference amount of Rs.76 was transferred to the credit of suspense account, and the accountant proceeded with the preparation of final accounts. Before completion of final accounts, the following errors were discovered:

(a) Total of sales figure was taken as Rs. 58,726 instead of Rs. 58,762.

(b) A discount of Rs. 52 allowed to Mr. X was not recorded in the discount allowed account.

(c) The total of purchases returns book was undercast by Rs.43.

(d) Sale of old furniture for Rs. 130 was wrongly entered in Machinery a/c.

(e) A credit purchase for Rs. 49 made from Mr. Y was recorded in purchases book, but was omitted to record in Y's account.

(f) Rs. 320 received from P was posted to the credit of R.

(g) A credit sale made to Mr. S for Rs.250 was recorded twice in his account.

(h) Depreciation on plant and machinery was wrongly recorded as Rs.750, instead of Rs.950.

(i) Rs. 50 wages paid on 30th March, 1991, are not debited to wages account.

Give journal entries to rectify the above errors, and prepare suspense account.

Solution

Rectification of Errors

	Particulars	L.F.	Debit (₹)	Credit (₹)
a	Suspense a/c Dr.		36	
	To Sales a/c			36
	(Being the sales figure undercast by ₹ 36)			
b	Discount allowed a/c Dr.		52	
	To Suspense a/c			52
	(Being the discount allowed not recorded earlier)			
c	Suspense a/c Dr.		43	
	To Purchase returns a/c			43
	(Being the total of purchase returns undercast by ₹ 43)			
d	Machinary a/c Dr.		130	
	To Furniture a/c			130
	(Being the sale of furniture wrongly credited to Machinery a/c earlier)			
e	Suspense a/c Dr.		49	
	To Y's a/c (or Creditor's a/c)			49
	(Being the credit purchase made from Y was not recorded in his account)			
f	R's a/c		320	
	To P's a/c			320
	(Being the entry to rectify the wrong credit given to R instead of P)			
g	Suspense a/c		250	
	To S's a/c			250
	(Being the entry to rectify the error of debiting S twice)			
h	Depreciation a/c		200	
	To Suspense a/c			200
	(Being the entry to record depreciation figure correctly)			
i	Wage a/c		50	
	To Suspense a/c			50
	(Being the entry to record the wages, which was not recorded earlier)			

Illustration 9

The accountant of Jay Ltd. has reconciled the trial balance by putting the difference in a suspense account and has prepared a trading and profit and loss account and balance sheet. Subsequent scrutiny of the books disclosed the following errors:

(a) A credit sale of goods to Mr. Roshan for Rs. 2,100 has been credited to his account.

(b) Goods purchased from Mr. Kanithkar amounting to Rs. 1,200 were entered in the purchase day book, but were omitted to be entered in the name of Mr. Kanithkar in the creditors ledger.

(c) Office furniture purchased for Rs. 2,100 has been passed through the purchase account.

(d) Repairs to office car amounting to Rs. 850 were debited to the office car account.

You are required to:

(a) Pass the journal entries for rectification of the above errors.

(b) Prepare suspense account.

Solution:

Jay Ltd.

Journal Entries

	Particulars	L.F.	Debit (₹)	Credit (₹)
a	Mr. Roshan account (₹ 2,100 × 2) Dr.		4,200	
	To Suspense account			4,200
	(Being sales to Mr. Roshan wrongly credited to his account, now rectified)			
b	Suspense account Dr.		1,200	
	To Mr. Kanithkar's account			1,200
	(Being purchase from Mr. Kanithkar omitted to be posted to his account in the ledger, now rectified)			
c	Office Furniture account Dr.		2,100	
	To Profit and loss adjustment account			2,100
	(Being purchase of office furniture wrongly passed through the purchase day book, now rectified)			
d	Profit and loss adjustment account Dr.		850	
	To Office car account			850
	(Being repairs to office car wrongly debited to office car account, now rectified)			

Illustration 10

In the month of April 2002, the accountant of Mapani & Co. found the following errors in the books of accounts for the year 2001-2002 in spite of the agreed balance sheet:

(11) A sale of Rs.20,050 to Mr. Dutta was entered in the sales day book as Rs.20,500 and it has been debited to Mr. Dutta's account as Rs.25,000.

(ii) A purchase of Rs.16,000 from Mr. Philip on 30th March 2002 was taken in stock, but the invoice was not passed through the purchase day book.

(iii) Goods to the value of Rs. 2,750 returned by Mr. Rajkumar had been debited to his account and also to sales return account.

(iv) The purchase day book for the month of March 2002 was undercast by Rs.10,000.

(v) Bank interest on overdraft for the month of March 2002, amounting to Rs.3,750 has not been recorded in the books of accounts.

(vi) A credit sale of Rs. 20,000 on 29th March 2002, has been completely omitted from the sales day book.

You are required to pass the necessary journal entries to rectify the above errors.

Solution

Mapani & Co.

Journal Entries

	Particulars	L.F.	Debit (₹)	Credit (₹)
a	Profit & Loss Adjustment a/c. Dr. Suspense a/c. To Mr. Dutta a/c. (Being sale to Mr. Dutta of ₹ 20,050 wrongly entered in the sales book as ₹ 20,500 and posted to his account as ₹ 25,000 now rectified)		450 4,500	 4,950
b	Profit & Loss Adjustment a/c. To Mr. Philip a/c.		16,000	 16,000

	(Being goods purchased on 30th March 2002 were included in stock but not recorded in the purchase book, now rectified)			
c	Suspense a/c. To Mr. Rajkumar a/c (₹ 2,750 × 2) (Being goods returned by Mr. Rajkumar wrongly debited to his account, now rectified)		5,500	5,500
d	Profit & Loss Adjustment a/c. To Suspense a/c. (Being error caused by undercasting of the purchase book in the month of March 2002, now rectified)		10,000	10,000
e	Profit & Loss adjustment a/c. To Bank a/c. (Being bank interest previously not recorded now rectified)		3,750	3,750
f	Sundry Debtors a/c. To Profit & Loss adjustment a/c. (Being credit sales completely omitted from sales day book, now rectified)		20,000	20,000