

(vi) Jan, 12, 2006 Goods returned to Mittal & Co Rs. 1,500

			Rs	Rs
Jan 12, 2006	Mittal & Co A/c To Purchase Return A/c	Dr	1,500	1,500
Being the goods returned to supplier Mittal & Co				

(vii) Jan 20, 2006 Goods returned from Ganesh Rs. 2,000

			Rs	Rs
Jan 20, 2006	Sales Return A/c To Ganesh & Co	Dr	2,000	2,000
Being sales return made by Ganesh & Co				

(viii) Jan 31, 2006 Office Rent paid Rs. 500

			Rs	Rs
Jan 31, 2006	Office Rent A/c To Cash A/c	Dr	500	500
Being office rent paid				

(ix) Feb 2, 2006 Interim Cash Dividend received Rs. 3000

			Rs	Rs
Feb 2, 2006	Cash A/c To Interim Dividend	Dr	3,000	3,000
Being cash interim dividend received				

(x) Feb 8, 2006 Cash withdrawn from bank Rs. 2,000

			Rs	Rs
Feb 8, 2006	Cash A/c To Bank	Dr	2,000	2,000
Being cash withdrawn from the bank				

Classification of transactions is being done only on the basis of preparing the ledger accounts. The accounts are classified on the basis of nature and characteristics.

*How the account transactions are classified?*

The accounts are classified through the preparation of ledger.

### 1.10.2 Preparation of Ledger

Ledger is nothing but preliminary book of accounting transactions at which, each account is separately maintained through the allotment of various pages for exclusive recording. There is exclusive allotment of pages for every account to finalize their balances. Finally, ledger can be understood that it is a document of grouping the transactions under one heading.

It is a fundamental book of accounts which mainly highlights the status of the accounts.

*Example:* Plant & Machinery's ledger A/c should reveal the transactions of the sale & purchase of the plant and machinery.

How the transactions are recorded in the ledger?

The journal entries which are recorded nothing but posting of the entries in the ledger book of accounts. Posting/entering the journal entries are routinely carried out immediately after the transactions.

Prior to discuss the posting of journal entries into the ledger accounts, every body should know the contents of the ledger. The ledger is segmented into two different categories. Proforma of the Ledger Account

Dr		Name of the Account				Cr
Date	Particular	Amount	Date	Particulars	Amount	
	To			By		

Journal entries are divided into two categories viz.

1. Debit item of the transaction
2. Credit item of the transaction

Once the journal entries are identified for classification, the entries should be recorded in accordance with the date order of the transactions in the respective pages.

While recording a transaction, normally a journal entry has an impact on two or even three different accounts.

### *Ledgering*

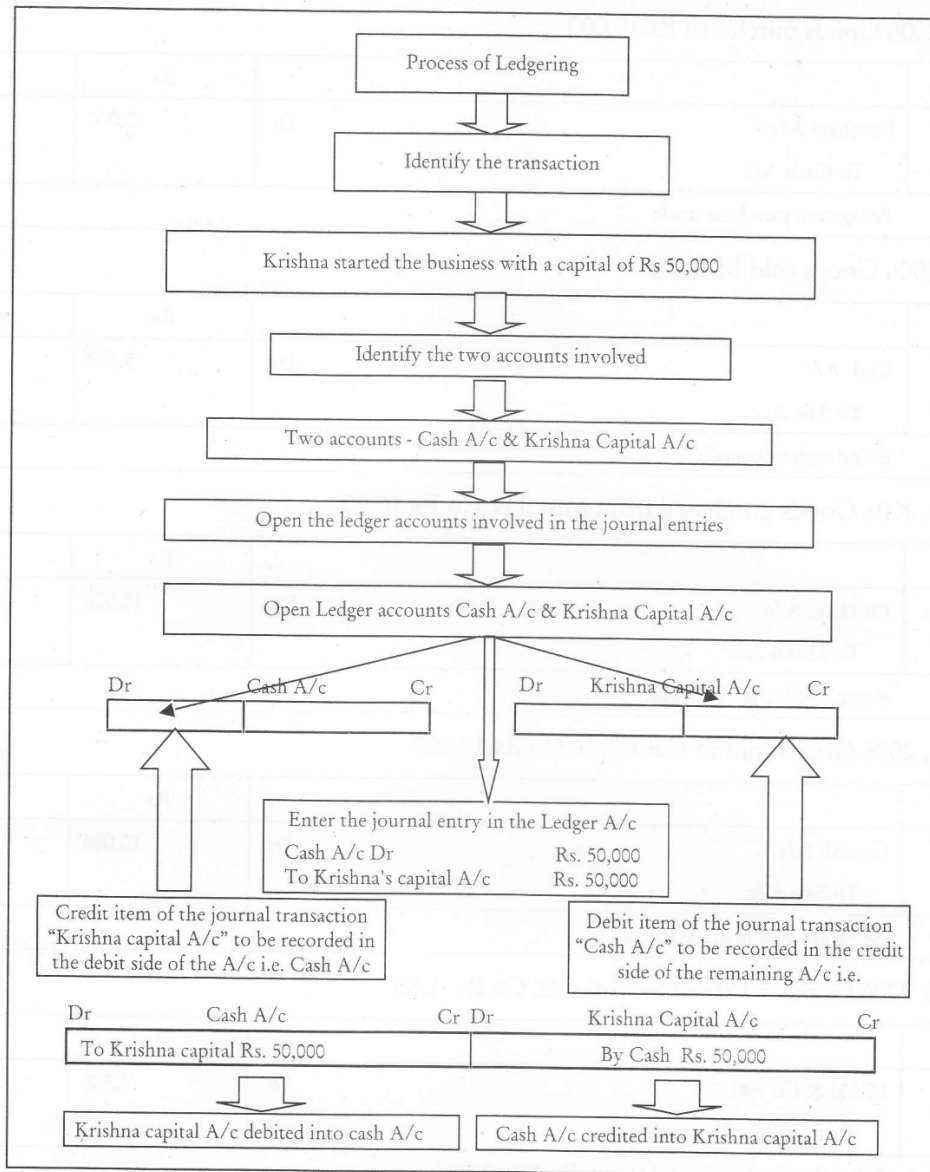
It is a process of recording the transactions under one group from the early process of journalizing. Without journalizing, ledgering is not meaningful. The process of ledgering involves various steps. The process commences from the completion of journalizing and ends at the balancing of journal accounts.

Next step is to Balance the individual Ledger A/c:

*How to balance the ledger A/c?*

The individual ledger A/c may have more than two transactions during the specified period.

- The first step is to find out the totals of debit and credit side of the ledger account.
- The second step is to compare the totals of the two different sides.
- The third step is to find out the total of which side is greater over the other.
- The fourth step is to identify the difference among the two different side balances i.e., debit and credit side totals.
- The fifth step is most important step which balances the difference on the total of the side which bears lesser total over the greater.
- If the balance of the debit side of the ledger is more than the credit side of the ledger is called as Debit balance ledger and vice versa in the case of Credit balance ledger.



- The closing balance of one ledger account will become automatically the opening balance of the same ledger account for next accounting period.

Post the journal entries into respective ledger accounts. And list out their accounting balances.

- (i) Jan 1, 2006 Mr. Sundar has started business with a capital of Rs. 50,000

		Rs	Rs
Jan 1, 2006	Cash A/c	Dr	50,000
	To Sundar's capital A/c		50,000
Being capital brought by Sundar as cash			

(ii) Jan 2, 2006 Goods purchased Rs 10,000

			Rs	Rs
Jan 2, 2006	Purchase A/c To Cash A/c	Dr	10,000	10,000
Being cash purchase made				

(iii) Jan 5, 2006 Goods sold Rs 5,000

			Rs	Rs
Jan 5, 2006	Cash A/c To Sale A/c	Dr	5,000	5,000
Being cash sale made				

(iv) Jan, 10, 2006 Goods purchased from Mittal &amp; Co Rs 10,000

			Rs	Rs
Jan 10, 2006	Purchase A/c To Mittal A/c	Dr	10,000	10,000
Being credit purchase from Mittal				

(v) Jan, 11, 2006 Goods sold to Ganesh &amp; Co Rs.10,000

			Rs	Rs
Jan 11, 2006	Ganesh A/c To Sale A/c	Dr	10,000	10,000
Being credit sale made to Ganesh				

(vi) Jan, 12, 2006 Goods returned to Mittal &amp; Co Rs. 1,500

			Rs	Rs
Jan 12, 2006	Mittal & Co A/c To Purchase Return A/c	Dr	1,500	1,500
Being the goods returned to supplier Mittal & Co				

(vii) Jan 20, 2006 Goods returned from Ganesh Rs. 2,000

			Rs	Rs
Jan 20, 2006	Sales Return A/c To Ganesh & co	Dr	2,000	2,000
Being sales return made by Ganesh & Co				



(viii) Jan 31, 2006 Office Rent paid Rs. 500

		Rs	Rs
Jan 31, 2006	Office Rent A/c To Cash A/c	Dr 500	500
Being office rent paid			

(ix) Feb 2, 2006 Interim Cash Dividend received Rs. 3000

		Rs	Rs
Feb 2, 2006	Cash A/c To Interim Dividend	Dr 3,000	3,000
Being cash interim dividend received			

(x) Feb 8, 2006 Cash withdrawn from bank Rs. 2,000

		Rs	Rs
Feb 8, 2006	Cash A/c To Bank	Dr 2,000	2,000
Being cash withdrawn from the bank			

List out the various accounts which are involved in the enterprise during the year:

- (i) Cash Account
- (ii) Sundar Capital Account
- (iii) Purchase Account
- (iv) Sales Account
- (v) Mittal & Co Account
- (vi) Ganesh & Co Account
- (vii) Sales Return Account
- (viii) Purchase Return Account
- (ix) Office Rent Account
- (x) Interim Dividend Account
- (xi) Bank Account

Dr

## Cash Account

Cr

Date	Particular	Rs	Date	Particulars	Rs
Jan 1	To Sundar Capital	50,000	Jan 2	By Purchase	10,000
Jan 5	To Sale	5,000	Jan 31	By Office Rent	500
Feb 2	To Interim Dividend	3,000		By Balance c/d	49,500
Feb 8	To Bank	2,000			
		60,000			60,000
	To balance b/d	49,500			

**Note:** Debit side total is greater than the credit side total of the cash account. After determining the difference, the cash account shows Debit Balance.

Dr		Sundar Capital Account				Cr
Date	Particular	Rs	Date	Particulars	Rs	
	To Balance c/d	50,000	Jan 1	By Cash	50,000	
		50,000			50,000	

**Note:** Sundar capital account is having the greater credit balance over the debit balance account which led to credit balance account.

Dr		Purchase Account				Cr
Date	Particular	Rs	Date	Particulars	Rs	
Jan 2	To Cash	10,000		To Balance c/d	20,000	
Jan 10	To Mittal & Co	10,000				
		20,000			20,000	

**Note:** Purchase account is bearing the debit balance account

Dr		Sale Account				Cr
Date	Particular	Rs	Date	Particulars	Rs	
	To Balance c/d	15,000	Jan 5	By Cash	5,000	
			Jan 11	By Ganesh	10,000	
		15,000			15,000	

**Note:** Sale account is bearing the credit balance account

Dr		Sales Return Account				Cr
Date	Particular	Rs	Date	Particulars	Rs	
Jan 20	To Ganesh	2000		By Balance c/d	2000	
		2000			2000	

**Note:** Sales return account is having the debit balance account

Dr		Purchase Return Account				Cr
Date	Particular	Rs	Date	Particulars	Rs	
	To Balance c/d	1,500	Jan 12	By Mittal & Co	1,500	
		1,500			1,500	

**Note:** Purchase return account is bearing credit balance account

Dr		Mittal & Co Account		Cr	
Date	Particular	Rs	Date	Particulars	Rs
Jan 12	To Purchase Return	1,500	Jan 10	By Purchase	10,000
	To Balance c/d	8,500			
		1,500			10,000

**Note:** Mittal & Co account is having the greater total in the credit side than the debit side led to credit balance at the closing

Dr		Ganesh & Co Account		Cr	
Date	Particular	Rs	Date	Particulars	Rs
Jan 11	To Sale	10,000	Jan 20	By Sale Return	2,000
				By Balance c/d	8,000
		10,000			10,000

**Note:** Ganesh & Co account is bearing a greater debit side total than the credit side total which led to have debit balance account

Dr		Office Rent Account		Cr	
Date	Particular	Rs	Date	Particulars	Rs
Jan 31	To Cash	500	Jan 20	By Balance c/d	500
		500			500

**Note:** Office rent account is bearing debit balance

Dr		Interim Dividend Account		Cr	
Date	Particular	Rs	Date	Particulars	Rs
	To Balance c/d	3,000	Feb 2	By Cash	3,000
		3,000			3,000

**Note:** Interim dividend account is having the credit balance

Dr		Bank Account		Cr	
Date	Particular	Rs	Date	Particulars	Rs
	To Balance c/d	2,000	Feb 2	By Cash	2,000
		2,000			2,000

**Note:** Bank account is having the credit balance.

**Check Your Progress**

1. Financial Accounting is
  - (a) Recording
  - (b) Classifying
  - (c) Summarizing
  - (d) Recording, Classifying, Summarizing, Interpretation of financial information
2. Book value of the asset is
  - (a) Gross value of the asset - Depreciation
  - (b) Gross value of the asset
  - (c) Gross value of the asset - Accumulated depreciation
  - (d) None of the above
3. Tax status of an organisation is the interest area of
 

(a) Lenders	(b) Suppliers
(c) Regulatory Authorities	(d) Customers
4. Accounting principles are
 

(a) Accounting concepts only	(b) Accounting conventions
(c) Accounting concepts & conventions only	(d) None of the above
5. Money measurement concept is
 

(a) Financial transactions only	(b) Non financial transactions only
(c) Both (a) & (b)	(d) None of the above
6. Distinction of the assets is on the basis of
 

(a) Going concern concept	(b) Time period concept
(c) Business entity concept	(d) Duality concept

**1.11 LET US SUM UP**

"Accounting is the process of recording, classifying, summarizing in a significant manner of transactions which are in financial character and finally results are interpreted." The revenues are recognized only at the moment of realization but the expenses are recognized at the moment of payment. The charges which were paid only will be taken into consideration but the outstanding, not yet paid will not be considered. The revenues are recognized only at the time of occurrence and expenses are recognized only at the moment of incurring. The financial statements are found to be more useful to many people immediately after presentation only in order to study the financial status of the enterprise in the angle of their own objectives. The entire accounting system is governed by the practice of accountancy. The accountancy is being practiced through the universal principles which are wholly led by the concepts and conventions. Money measurement concept tunes the system of accounting as fruitful in recording the transactions and events of the enterprise only in terms of

money. Business entity concept treats the owner as totally a different entity from the business. Going concern concept deals with the quality of long lasting status of the business enterprise irrespective of the owners' status, whether he is alive or not. Matching concept only makes the entire accounting system as meaningful to determine the volume of earnings or losses of the firm at every level of transaction. Duality or Double entry accounting concept is the only concept which portrays the two sides of a single transaction. The law of entire business revolves around only on mutual agreement sharing policy among the players. Personal accounts is an account which deals with a due balance either to or from these individuals on a particular period. Real Accounts is the account especially deals with the movement of assets. Nominal Accounts is an account deals with the amount of expenses incurred or incomes earned. It includes all expenses and losses as well as incomes and gains of the enterprise.

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## 1.12 KEYWORDS

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**Capital:** It is the money invested by the owner of the business.

**Assets:** Assets are the things/properties of value used by the business in its operations.

**Liabilities:** It may be defined as currently existing obligations which a business enterprise requires to meet sometime in future.

**Revenues:** The amounts which are earned by a business by selling a product or rendering its services to the customers.

**Expenses:** This is used to indicate the purchases made by a business during a particular period.

**Sales:** When product is sold or services are rendered to the customers, it is known as sales.

**Stock:** The term stock means goods which are not sold (remain unsold), are in the hands of the business at the end of a particular period.

**Debtors:** The debtors are the persons who owe to an enterprise an amount for receiving goods or services on credit.

**Creditors:** The creditors are the persons to whom the firm owes for providing goods or services.

**Bills Receivable:** It means the amount which is payable by the firm other than the creditors of the firm.

**Drawings:** The amount of money or goods taken away by the proprietor of the business for his/her personal use.

**Losses:** Loss means something against which the firm receives no benefit such as embezzlement or loss on account of theft, etc.

**Gain:** It is used for profit other than regular profit such as capital gains.

**Gross Profit:** It is the amount (difference) between sales - cost of sales.

**Net Profit:** The amount of gross profit left after allowing for all expenses. If expenses are more than G.P. the net result is the net loss.

**Cost of Goods sold** is the direct cost of goods sold. It is calculated as follows:

$$\text{Operating Stock} + \text{Purchase} - \text{Closing Stock.}$$

**Discount:** When customers are allowed a reduction in selling price of the goods, it is called discount. It is a trade discount if it is allowed on sales and, if it is allowed for quick/ prompt payment, then it is cash discount.

**Purchases:** This is used to indicate the purchases made by a business during a particular period. This may be either cash purchases or credit purchases. Goods are purchased with one of the following objectives, (i) either for resale or (ii) for manufacturing a product. If for resale, the business purchases the finished products whereas for manufacturing, it buys the raw materials.

**Bills Payables:** It means the amount which is payable by the firm other than the creditors of the firm.

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### 1.13 QUESTIONS FOR DISCUSSION

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1. Define Accounting.
2. Illustrate the Accounting process.
3. Classify the various kinds of values in the accounting process.
4. Highlight the journalizing process of accounting.
5. Explain the process of ledgering of transactions of the business firm.
6. Write brief note on the various classification of accounts.
7. Explain the golden rules of accounting.
8. Identify nature of the transactions: Sundar has purchased goods on credit from M/s Melvin & Co Rs.15,000. The portion of the goods were found to damaged which worth of Rs 5,000. Sundar immediately returned the damaged goods to Melvin & Co.
  - (a) Identify the various types of accounts involved in the above illustrated transactions.
  - (b) Pass the journal entries with regards to the nature of accounts involved.

<b>Check Your Progress: Model Answers</b>		
1. (d)	2. (c)	3. (c)
4. (c)	5. (a)	6. (b)



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### 1.14 SUGGESTED READINGS

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- M.P. Pandikumar, *Accounting & Finance for Managers*, Excel Books, New Delhi.
- R.L. Gupta and Radhaswamy, *Advanced Accountancy*.
- V.K. Goyal, *Financial Accounting*, Excel Books, New Delhi.
- R. Narayanswamy, *Financial Accounting - A Managerial Perspective*, HPI.
- Nitin Balwani, *Accounting & Finance for Managers*, Excel Books, New Delhi.



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## LESSON

# 2

## TRIAL BALANCE

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### CONTENTS

- 2.0 Aims and Objectives
- 2.1 Introduction
- 2.2 Grouping of Various Accounting Transactions
- 2.3 Preparation of Trial Balance & Adjustment Process
- 2.4 Why the Subsidiary Accounts have to be Prepared?
  - 2.4.1 Purchase Book
  - 2.4.2 Purchase Returns Book
  - 2.4.3 Sales Book
  - 2.4.4 Sales Return Book
  - 2.4.5 Trade Bills Book
- 2.5 What is meant by the Cash Transaction?
  - 2.5.1 Single Columnar Cash Book
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  - 2.5.3 Three Columnar Cash Book
  - 2.5.4 Petty Cash Book
- 2.6 Let us Sum up
- 2.7 Keywords
- 2.8 Questions for Discussion
- 2.9 Suggested Readings

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### 2.0 AIMS AND OBJECTIVES

After studying this lesson, you will be able to:

- Discuss grouping of various accounting transactions
- Analyse preparation of the trial balance

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### 2.1 INTRODUCTION

It is very important to prepare the statement (summary) of accounting balances and their names for the specified accounting period to the tune of principle of grouping transactions and this summary is known as Trial Balance.

Trial Balance is a list of accounting balances and their names; of the enterprise during the specified period which includes debit and credit balances of the various balanced ledger accounts out of the journal entries.

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## 2.2 GROUPING OF VARIOUS ACCOUNTING TRANSACTIONS

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There are eleven different ledger accounts involved out of the journal entries which already transacted are finally balanced. The balanced ledger accounts should be prepared as a summary list of their balances and names. The total of both balances are equivalent to each other. The major reason for the equivalent balances on both sides is only due to posting of entries to the tune of "Double Entry Accounting Concept (Or) Duality Concept". This is the concept which equates the total amount of resources raised with the total amount of applications of the enterprise.

### *Purposes of Preparing the Trial Balance*

- To prepare a statement of disclosure of final accounting balances of various ledger accounts on a particular date
- To prepare a statement of cross checking device of accounting while in the process of posting of entries which mainly on the basis of Double entry accounting principle. It facilitates the accountant to have systematic posting of entries
- It facilitates the enterprise for the preparation of Trading & Profit and Loss Accounts for the year ended..... and the Balance sheet as on dated .....
- It provides the birds' eye view of accounting balances of various ledger accounts during the specified period.

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## 2.3 PREPARATION OF TRIAL BALANCE & ADJUSTMENT PROCESS

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The preparation of the trial balance is classified on the basis of three different accounts viz.

- Real Account (R)
- Nominal Account (N)
- Personal Account (P)

The classification of the transactions is not only on the basis of accounts but also on the basis of payments and receipts. These payments and receipts classification further segmented into following categories.

### *Payments Category - Debit Balance*

Debit Balance is the source of following golden rules of the three different accounts:

Personal Account – Debit the Receiver

Nominal Account – Debit all the expenses and losses

Real Account – Debit what comes in & Debit all ssets

- Trading Expense Category (TE)
- Profit and Loss Category (PL)
- Assets- Balance Sheet (BA)

**Receipts Category-Credit Balance**

Credit Balance is the major source of other half of the golden rules of accounting

Personal Account - Credit the Giver

Nominal Account - Credit all income and gains

Real Account - Credit what goes out & Credit all liabilities

- Trading Income Category (TI)
- Profit and Loss Category (PL)
- Liabilities - Balance Sheet (BL)

The following Trial Balance of the Sundar firm is prepared from the previous list of journal entries and ledger accounting balances.

Trial Balance

Sl. No.	Particulars	Debit Balances Rs	Credit Balances Rs
1.	Cash A/c	49,500	
2.	Sundar Capital A/c		50,000
3.	Purchase A/c	20,000	
4.	Sales A/c		15,000
5.	Sales Return A/c	2,000	
6.	Purchase Return A/c		1,500
7.	Mittal & Co. A/c		8,500
8.	Ganesh & Co. A/c	8,000	
9.	Office Rent A/c	500	
10.	Interim Dividend A/c		3,000
11.	Bank A/c		2,000
	Total	80,000	80,000

From the Table, it is obviously understood that the total amount of debit balances are equated to the total of credit balances of the enterprise.

The above statement of accounting balances are the resultant out of the ledger accounts which is easier in preparation only at the moment, the firm has limited number of transactions.

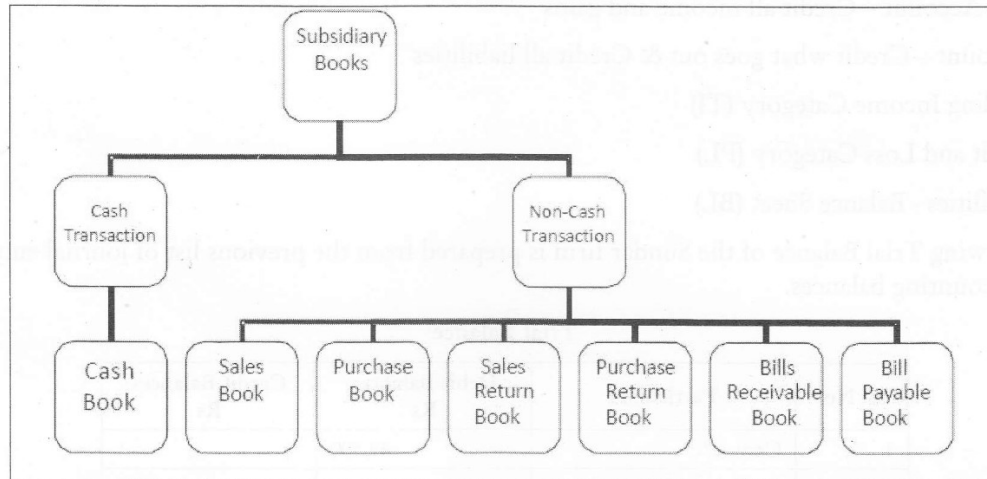
## 2.4 WHY THE SUBSIDIARY ACCOUNTS HAVE TO BE PREPARED?

If the transactions of the enterprise are voluminous, to ease the process of posting the transactions, the transactions should be classified into two categories: the transactions are segmented one on the basis of regular and another on the basis of non-regular occurrence.

The regular/frequent occurrence of transactions are recorded only in the separate books which are known as subsidiary book of accounts or subsidiary journals instead to record in the regular journal. The infrequent transactions are recorded/posted in the original journal or Journal proper which do not have any specific subsidiary journal or subsidiary books.

The subsidiary journals or books are developed by the firms only based on the occurrence of the transactions. Normally the frequent occurrence of the transactions of the firm is a major formation of the subsidiary books of the accounting system.

The following are the subsidiary books of the frequent occurrence of transactions



Subsidiary books are classified on the basis of transactions viz. Cash transactions and non-cash transactions. First, let us discuss the Non-cash transactions.

*What is meant by the Non-cash transaction?*

The Non-cash transaction is a transaction out of credit terms and conditions of the enterprise.

The Non-cash transactions shall include the following transactions of the enterprise, which do not involve any cash; are as follows

- Credit Sales Book
- Credit Purchases Book
- Credit Sales Return Book
- Credit Purchases Return Book
- Bills Payable Book - Outcome of Credit transaction
- Bill Receivable Book - Outcome of Credit transaction

#### 2.4.1 Purchase Book

The purchase book is called in other words as purchase journal. It is a book meant for credit purchases only for resale.

##### Proforma of the Purchases Book

Date	Name of the Supplier	Ledger Folio	Inward Invoice No.	Amount Rs

The purchase book usually contains various components viz.

**Name of the supplier:** From whom the raw material were procured on credit.

**Ledger folio:** It is the number of the page where the journal entry is transacted Inward Invoice No: The book contains the invoice number of the credit purchase of the goods from the supplier.

**Amount (Rs):** The book contains the value of credit purchase transactions from the supplier.

#### **Steps Involved in Posting the Entries**

- Posting the entries pertaining to the individual accounts into the Purchase journal
- The total of the purchase journal is determined on monthly and finally should be posted into debit side of the purchase account- To satisfy the rule of Real Account; which not only contains the cash purchase but also the credit purchase of the firm during the year.

### **2.4.2 Purchase Returns Book**

This is a book of goods returned to the supplier which are out of credit purchases.

The return of goods out of the credit purchase is due to non-confirmation with the specification mentioned in the order.

**Proforma of the Purchase Returns Book**

Date	Name of the Customer	Ledger Folio	Outward Invoice No.	Amount Rs

The purchase returns book consists of various components viz.

**Name of the supplier:** To whom the goods/raw material purchased, were returned.

**Ledger folio:** It is the number of the page where the journal entry is posted.

**Debit Note No:** It is the page number on the original copy of the document sent to the firm to whom the goods are sent.

**Amount (Rs):** The book should illustrate the value of goods/raw materials returned out of credit purchase.

#### **Steps Involved**

- Posting the entries of the purchase returns to the individual suppliers' account into the purchase return journal.
- The monthly total of the purchase journal is credited into the purchase return account.

### **2.4.3 Sales Book**

It is a book maintained by the enterprise only during the moment of selling the goods on credit. It is pronounced in other words as sales journal.

**Proforma of the Sales Book**

Date	Name of the Customer	Ledger Folio	Credit Noted No.	Amount Rs



The sales book normally contains the following components:

**Name of the customer:** The sales book usually records the name of the buyer who has been sold the goods or raw materials on credit.

**Ledger Folio:** The page number where the journal entry is posted/transacted Outward Invoice No: This book registers the invoice number of the goods/raw materials sold out to the buyers on credit.

**Amount (Rs):** It is fundamental document to earmark the value of the goods/raw materials sold out on credit to the various buyers. It facilitates the firm to identify the amount of sales transacted on credit as well as to collect the amount of dues from the buyers.

#### **Steps Involved in the Sales Book**

- Sale of the goods/raw materials to the individual buyers are entered on daily basis
- The monthly total of sales book is credited into the sales account of the firm which includes both the sale transactions of cash as well as credit.

#### **2.4.4 Sales Return Book**

It is a book which registers the goods sold on credit and received from the buyers. The sales return from the buyers is due to non-confirming to the specifications mentioned at the moment of placement of the order. It is known as sales return journal.

Proforma of the Sales Return Book

Date	Name of the Supplier	Ledger Folio	Debit Note No.	Amount Rs

The following are the various components dealt in the design of the book:

**Name of the customer:** It includes the most important information about the buyer who returned the goods /raw materials, non-confirming to specifications of the placed. **Ledger folio:** It contains the page number of the journal entry posted.

**Credit Note No:** It is a number on the original copy of the document sent to the firm from whom the goods are received i.e., buyer.

#### **Steps Involved in the Sales Return Book**

- Sales return of the enterprise from the individual buyers are recorded immediately after the transactions.
- The monthly total of the sales return is posted into the debit side of the sales return account in accordance with the rule of Real account.

#### **2.4.5 Trade Bills Book**

The trade bills book can be classified into two categories viz. Bills receivable book and Bills payable book.

##### **Bills Receivable Book**

It is a book maintained especially for promissory notes & Bill of exchanges accepted by the customers out of their dues, as an outcome of credit sale of the enterprise. The bills receivable and promissory



notes are nothing but the resultant of the credit sale transactions of the enterprise not only to safeguard the interest of enterprise but also to collect the dues from the customers as per the terms of the trade agreed earlier.

#### Proforma of the Bills Receivable Book

Sl.No.	Date	From whom Received	Acceptor	Date of the bill	Term	Date of the Maturity	Where Receivable	Amt Rs	How Disposed

The various components of the Bills payable book are as follows:

**From whom Received:** The either bill or promissory received from whom? The name of the party should be entered at the moment of receiving the negotiable instruments of the trade.

**Acceptor:** The person/institution who/which accepts the terms of the bill to make the payment

**Date of the bill:** At when the bill is drafted/ drawn for obtaining the acceptance of the buyer; who bought the goods on credit

**Term:** Modalities involved in the process of payment of the dues mentioned in the bill  
**Date of Maturity:** Date at when the bill to be presented for collection from the customer. **Where payable:** The place of amount payable by the customers or buyers who bought the goods on credit.

**Amount (Rs):** It reveals the amount how much to be collected from the customer through either bill of receivable or promissory note.

**How disposed:** The process of the collection done should be recorded for future verification in settling the dues of the customer. **Bills Payable Book:** It is a book of bills payable or promissory notes accepted by the enterprise to the suppliers at the moment of carrying out the credit purchase.

#### Proforma of the Bills Payable Book

Sl.No.	Date	Name of the Drawer	Payee	Date of the bill	Term	Date of the Maturity	Where Payable	Amt Rs	Remarks

The following are the some of the important components normally included in the book: **Name of the drawer:** Name of the person or concern, who or which draws the bill nothing but either seller or manufacturer or supplier of the goods or raw materials.

**Payee:** To whom the payment has to be paid

**Date of the bill:** Normally included to know the date at when the bill was drafted which is under the possession of the seller or supplier.

**Date of Maturity:** It is the date at when the payment has to be made as per the terms of trade.

**Where payable:** At where the amount of the bills to paid.

## 2.5 WHAT IS MEANT BY THE CASH TRANSACTION?

The Cash transaction is a transaction carried out only out of cash. The cash transactions are recorded in the subsidiary book known as Cash Book. The Cash Book can be classified into three categories:

- Single Columnar Cash Book
- Double Columnar Cash Book
- Three Columnar Cash Book

### 2.5.1 Single Columnar Cash Book

It is a book generally records the transactions into two classification viz. Payments and Receipts. The receipts and payments are recorded in the debit and credit side of the cash book respectively. The debit and credit side transactions of the cash book are prefixed with "To" and "By" respectively.

Proforma of the Single columnar Cash Book

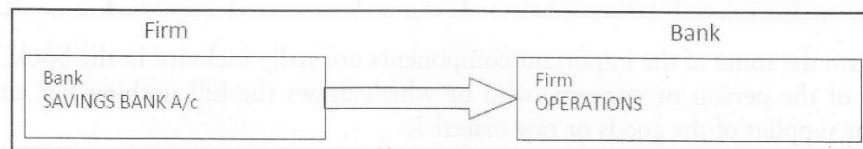
Date	Receipts	Rs	Date	Payments	Rs
	To Opening Balance B/d				
				By Closing Balance c/d	

### 2.5.2 Double Columnar Cash Book

It is another kind of cash book which is nothing but extension of earlier version, single columnar cash book. The double columnar cash book includes the operations of the enterprise through two different categories viz. transactions through Cash and Bank. It means that the entire receipts and payments of the business routed through cash and bank. The transaction of the business with the bank either at the moment of cash withdrawal or cash deposit leads to register the movement of cash from one entity to another through the contra entries.

The contra entries are posted in two different occasions viz. cash withdrawal and cash deposit.

During the cash withdrawal, the movement of cash is depicted below for easier understanding, which is nothing but the movement of asset from bank to firm.



#### Example

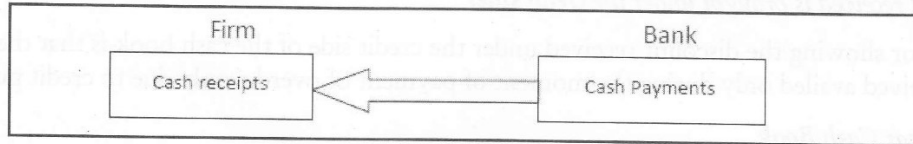
Jan 5, 2006, Cash withdrawal Rs.10,000 from the bank is having the following journal entry

Cash A/c	Dr	Rs.10,000
To Bank A/c		Rs.10,000

(Being cash withdrawn from the bank A/c)

From the above entry, it is obviously understood that the bank is the giver of the cash resources from the savings bank a/c and cash receipts are made only due to withdrawal of cash from the bank.

There are two different angles of cash withdrawal one is in the dimension of firm and another is bank.



**Proforma of Double Columnar Cash Book**

Dr				Cr			
Date	Receipts	Bank	Cash	Date	Payments	Bank	Cash
	To Balance B/d				By Balance c/d*		
Jan 5	To Bank C1		10,000	Jan 5	By Cash C1	10,000	
Jan 20	To Cash C2	5,000		Jan 20	By Bank C2		5,000
					By Balance B/d		

\* Bank overdraft

The above table of double columnar cash book clearly elucidates the contra entry process taken place in between two entities viz. firm and bank.

**2.5.3 Three Columnar Cash Book**

It is another dimension of cash book which has three components of operations of the enterprise viz. Cash, Bank and Discount. This cash book is extension of the early one, not only which incorporates the receipts and payments of the firm through cash and bank but also discount allowed and received.

**Proforma of Three Columnar Cash book**

Dr					Cr				
Date	Receipts	Bank	Cash	Discount Allowed	Date	Payments	Bank	Cash	Discount Received
	To Balance B/d					By Balance c/d			
						By Balance B/d			

*Why discount allowed is brought under the debit side?*

The discount is allowed at the time of receipts out of sale. The discounts are categorized into two categories viz. cash discount and trade discount.

Cash discount is the discount allowed by the firm only at the moment of making the payment within the stipulated time frame i.e. 7% @ 10 days means that 7% discount will be given to the parties who are able to make the payment of dues within 10 days of stipulated time period.

Trade discount is the discount allowed by the firm to encourage the regular customers to buy more and more. This type of discount is allowed by the firm only on the total value of the invoice. The discount is granted on the gross value of the goods purchased by the regular customer from the enterprise.

*Why discount received is brought under the credit side?*

The reason for showing the discount received under the credit side of the cash book is that the amount of discount received availed only during the moment of payment of overdue only due to credit purchase.

#### **Multi columnar Cash Book**

The regular receipts and payments on various heads require the firm to design not only a most suited cash book which is in a position to incorporate all the entries of cash in nature but also to reduce the excessive labour involved in the process of sorting out them. To replace the bottlenecks of the three columnar cash book, multi columnar cash book is developed which is in a position to highlight the receipts and payments of a firm under various accounting heads within a specified period. Under this system of cash book, the firm is required to register the payments and receipts of the respective heads only in the columns especially provided for determining the balance under each at the end of the specified month.

#### **2.5.4 Petty Cash Book**

It is a book maintained by the petty cashier who is especially appointed for the purpose to assist the cashier of the business enterprise in order to meet the day to day expenses of meager in volume. The cashier normally hands over a certain sum of money to the petty cashier to meet out tiny expenses of the enterprise based on the early estimation on the daily requirement e.g., postage, refreshment charges. The meager amount which is given by the cashier is known in other words as petty cash or float. The vouchers and receipts are finally examined by the cashier based on the presentation of petty cash book balance.

*Example 1:* The following are extracted information from the books of M/s Brown & Co. Prepare the Trial Balance.

Particulars	Rs	Particulars	Rs
Sundry Debtors	30,600	Carriage inwards	1,750
Sundry Creditors	10,000	Carriage outwards	1,000
Bills receivable	5,000	Bad debts	950
Plant and machinery	75,000	Bad debts provision	350
Purchases	1,90,000	Office general expenses	1,500
Capital	70,000	Cash at bank	5,300
Free hold premises	50,000	Cash in hand	800
Salaries	21,000	Bills payable	7,000
Wages	24,400	Reserve	20,000
Postage and stationery	1,750	Sales	3,31,700
Closing stock	30,000		

The first step is to determine the debit and credit balance of the business transactions in terms of Expense, Revenue, Assets and Liabilities.

## Trial Balance M/s Brown

Particulars	Rs	Nature of balance	Particulars	Rs	Nature of balance
Sundry Debtors	30,600	Debit	Carriage inwards	1,750	Debit
Sundry Creditors	10,000	Credit	Carriage outwards	1,000	Debit
Bills receivable	5,000	Debit	Bad debts	950	Debit
Plant and machinery	75,000	Debit	Bad debts provision	350	Credit
Purchases	1,90,000	Debit	Office general expenses	1,500	Debit
Capital	70,000	Credit	Cash at bank	5,300	Debit
Freehold premises	50,000	Debit	Cash in hand	800	Debit
Salaries	21,000	Debit	Bills payable	7,000	Debit
Wages	24,400	Debit	Reserve	20,000	Credit
Postage and stationery	1,750	Debit	Sales	3,31,700	Credit
Closing stock	30,000	Debit			

Particulars	Debit Rs.	Credit Rs.
Sundry Debtors	30,600	
Bills receivable	5,000	
Plant and machinery	75,000	
Sundry Creditors		10,000
Carriage inwards	1,750	
Carriage outwards	1,000	
Bad debts	950	
Bad debts provision		350
Purchases	1,90,000	
Capital		70,000
Freehold premises	50,000	
Salaries	21,000	
Wages	24,400	
Postage and stationery	1,750	
Closing stock	30,000	
Office general expenses	1,500	
Cash at bank	5,300	
Cash in hand	800	
Bills payable		7,000
Reserve		20,000
Sales		3,31,700
Total	4,39,050	4,39,050



## Proforma Trial Balance

Debit / Payment Balances				Credit / Receipt Balance			
Sl. No.	Expenses or Asset	A/c	Final A/c	Sl. No.	Incomes or Liabilities	A/c	Final A/c
<b>Trading Accounting Heads</b>							
1.	Carriage Inward	N	TE	1.	Sales	N	TI
2.	Carriage	N	PE	2.			
3.	Clearing charges- Import Authority	N	TE	3.			
4.	Coal & Coke	N	TE	4.			
5.	Energy	N	TE	5.			
6.	Factory Expenses	N	TE	6.			
7.	Freight charges	N	TE	7.			
8.	Fuel & Power	N	TE	8.			
9.	Gas & Water	N	TE	9.			
10.	Manufacturing Expense	N	TE	10.			
11.	Motive Power	N	TE	11.			
12.	Octroi	N	TE	12.			
13.	Oil	N	TE	13.			
14.	Purchases	N	TE	14.			
15.	Purchases	N	TE	15.			
16.	Wages	N	TE	16.			
17.	Water	N	TE	17.			
18.	Return Inward(to be deducted from Sales)			18.			

## Profit &amp; Loss Accounting Heads

19.	Audit fees	N	PE	19.	Commission received	N	PI
20.	Bad Debt	N	PE	20.	Discount received	N	PI
21.	Advertisement	N	PE	21.	Donation	N	PI
22.	Bank Charges	N	PE	22.	Interest received	N	PI
23.	Clearing charges- Cheque	N	PE	23.	Rent received	N	PI
24.	Commission Paid	N	PE	24.	Trading profits	N	PI
25.	Depreciation	N	PE	25.			
26.	Discount Paid	N	PE	26.			
27.	Donation Paid	N	PE	27.			
28.	Electricity	N	PE	28.			
29.	General Expenses	N	PE	29.			
30.	General Expenses	N	PE	30.			
31.	Interest on capital	N	PE	31.			
32.	Interest	N	PE	32.			
33.	Legal charges	N	PE	33.			
34.	Lighting charges	N	PE	34.			
35.	Miscellaneous Expense	N	PE	35.			
36.	Office expenses	N	PE	36.			
37.	Packaging charges	N	PE	37.			
38.	Printing & Stationery	N	PE	38.			
39.	Postage	N	PE	39.			
40.	Rent, Rates, Taxes	N	PE	40.			
41.	Stable Expenses	N	PE	41.			
42.	Subscription paid	N	PE	42.			
43.	Sundry expenses	N	PE	43.			
44.	Travelling expenses	N	PE	44.			
45.	Telephone charges	N	PE	45.			



## Balance sheet

46.	Bank balance	P	BA	46.	Bank loan	P	BL
47.	Bank Deposit	P	BA	47.	Bank overdraft	O	BL
48.	Bill Receivable	P	BA	48.	Bills payable	P	BL
49.	Cash in deficit	P	BA	49.	Capital	P	BL
50.	Cash in Hand	R	BA	50.	Cash excess	P	BL
51.	Copy right	N	BA	51.	Debentures	P	BL
52.	Deferred Revenue Expenses	N	BA	52.	Donation - Building	N	BL
53.	Drawings – Deducted from the capital	P	BL	53.	Loan received	P	BL
54.	Finished goods	R	BA	54.	Loan from Mr Y	P	BL
55.	Fixtures and Fittings	R	BA	55.	Mortgage Loan	P	BL
56.	Furniture	R	BA	56.	Net profit	N	PL
57.	Freehold property	R	BA	57.	Outstanding expenses	P	BL
58.	Goodwill	N	BA	58.	Pre received Income	P	BL
59.	Investment	P	BA	59.	Suppliers	P	BL
60.	Leasehold property	R	BA	60.	Share premium	N	BL
61.	Livestock	R	BA	61.	Suspense receipt	P	BL
62.	Loose Tools	R	BA	62.	Unpaid dividend	P	BL
63.	Outstanding Incomes	P	BA	63.			
64.	Patent	N	BA	64.			
65.	Petty cash	R	BA	65.			
66.	Plant & Machinery	R	BA	66.			
67.	Preliminary expenses	N	BA	67.			
68.	Prepaid expense	N	BA	68.			
69.	Raw materials	N	BA	69.			
70.	Sundry debtors	P	BA	70.			
71.	Suspense payment	P	BA	71.			

## Check Your Progress

- Trial balance is
  - The statement of accounting balances
  - The statement of various account names
  - The statement of accounting balances and their names
  - None of the above
- Trial balance contains
  - Debit balance only
  - Credit balances only
  - Debit and credit balances only
  - None of the above

Contd...

3. Trial balance is the statement prepared on the basis of
  - (a) Business entity concept
  - (b) Matching concept
  - (c) Double entry accounting concept
  - (d) Realization concept
4. Subsidiary books are:
  - (a) Additional records of accounting for future reference
  - (b) To administer only few transactions of the business
  - (c) Accounting record for the administration of voluminous transactions
  - (d) None of the above
5. Subsidiary books are prepared for:
  - (a) Cash transactions only
  - (b) Both cash and Non-cash transactions
  - (c) Non-cash transactions only
  - (d) None of the above

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## 2.6 LET US SUM UP

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*Purpose of preparing the Trial Balance includes:* To prepare a statement of disclosure of final accounting balances of various ledger accounts on a particular date.

The classification of the transactions is not only on the basis of accounts but also on the basis of payments and receipts. These payments and receipts classification further segmented into categories. The subsidiary journals or books are developed by the firms only based on the occurrence of the transactions. Normally the frequent occurrence of the transactions of the firm is in major formation of the subsidiary books of the accounting system.

The cash transaction is a transaction carried out only out of cash. The cash transactions are recorded in the subsidiary book known as Cash Book. The Cash Book can be classified into three categories:

- Single Columnar Cash Book
- Double Columnar Cash Book
- Three Columnar Cash Book

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## 2.7 KEYWORDS

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*Trial Balance:* List of accounting balances and their names.

*Subsidiary Journals:* Journals developed only based on occurrence of the transactions.

*Purchase Books:* Book meant for credit purchase.

*Cash Transaction:* Transactions carried out not out of cash.

*Double Columnar Cash book:* Includes the operations through Cash and Bank.

## 2.8 QUESTIONS FOR DISCUSSION

1. Write short notes on:
  - (a) Credit balance
  - (b) Trial Balance
  - (c) Transaction
  - (d) Receiver
2. What is the need of having subsidiary Account?
3. What is outward invoice no. meant for?
4. Explain why?
  - (a) Discount allowed is brought under the debit side
  - (b) Discount received is brought under the credit side
5. What are the elements of Non-cash Transaction?

### Check Your Progress: Model Answers

- |        |        |        |        |        |
|--------|--------|--------|--------|--------|
| 1. (c) | 2. (c) | 3. (c) | 4. (a) | 5. (b) |
|--------|--------|--------|--------|--------|

## 2.9 SUGGESTED READINGS

M.P. Pandikumar, *Accounting & Finance for Managers*, Excel Books, New Delhi.

R.L. Gupta and Radhaswamy, *Advanced Accountancy*.

V.K. Goyal, *Financial Accounting*, Excel Books, New Delhi.

R. Narayanswamy, *Financial Accounting - A Managerial Perspective*, HPI.

Nitin Balwani, *Accounting & Finance for Managers*, Excel Books, New Delhi.