Bureau's

Higher Secondary (+2)

ACCOUNTANCY

PART - 1

For +2 Commerce

(Approved by the Council of Higher Secondary Education, Odisha)

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FOREWORD

The Odisha State Bureau of Textbook Preparation and Production, Bhubaneswar has made a pioneer attempt to publish text books for +2 Commerce Stream with an excellent team of teachers in different subjects.

The Present Book **"Accountancy"** is meant for higher Secondary Commerce Students. This book has been written by a team of learned academicians namely Dr. Ajoy Mohanty, Dr. Uma Chand Lal, Dr. Prafulla Kumar Parida and Dr. Ram Chandra Jena and reviewed by Prof.(Dr.) Gunanidhi Sahu. I would like to record my sincere gratitude to all of them for accomplishing this venture in time. The main purpose of developing this text book is to provide a thorough exposure to the students of Commerce in this subject. This book that has been prepared according to the new syllabus prescribed by the CHSE, Odisha, shall cater to the needs of young students.

I believe that the students and teachers of commerce stream shall welcome and appreciate the book. Constructive suggestions for further improvement of the book will be highly appreciated.

Geetika Patnaik

Dr. Geetika Patnaik)

Director

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PREFACE

The present book on "Accountancy" serves as a foundation for the basic principles of Accountancy. This book has been designed in accordance with the prescribed new syllabus of the Council of Higher Secondary Education, Odisha for students of +2 Fist Year Commece. Considering introduction of the subject for the +2 students, great care has been taken to enable the students to grasp the concepts with ease. All possible attempts have been made to present the text in a simple, lucid and comprehensive form. Basic concepts have been explained in this book in a very simple manner to suit to the new learners of the subject with supporting examples and illustrations, wherever necessary. Each chapter is followed by many typical multiple choice questions, very short, short and long type questions and a number of unsolved practical problems for practice. We are confident that the students will find this book extremely helpful.

No originality is claimed in the subject, rather literature from different sources have been referred to and collected. The authors express their gratitude to the original thinkers of the subject. We have taken utmost care to ensure that the book is complete in every respect. Despite best possible efforts, errors still might have remained undetected. We shall appeciate the suggestions for improvement of the book in the next edition.

We express our deep sense of gratitude to Prof. (Dr.)Gunanidhi Sahu, former Director of Higher Education, Odisha, who has taken pains in reveiwing the manuscript thoroughly and making necessary modifications. The authors are thankful to the Council of Higher Secondary Education, Odisha for giving an opportunity to prepare the manuscript and to the Odisha State Bureau of Textbook Preparation and Production, Bhubaneswar for timely publication of the book. We are also thankful to the persons associated with the production of this book in its present form.

Board of Writers

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SYLLABUS

ACCOUNTANCY

FIRST YEAR

1st Elective (Compulsory)

Paper - I

Objectives :

- a To provide fundamental ideas to the students about accounting as an information system;
- a To enable the students to learn basic concepts of accounting and accounting standards;
- a To develop the skills for application of accounting equation in processing business transactions;
- a To develop an understanding about recording of business transactions and Preparation of Trial Balance
- a To enable the students to learn the concept and process of preparation of Bills of Exchange along with the fundamentals of computerized accounting;
- a To enable the students to understand, analyze and rectify various errors prevailed in the process of recording business transactions and
- a To make the students enable to understand and prepare Bank Reconciliation Statement;

Course Inputs

Unit - I Introduction to Accounting

Evolution of Accounting and Need for Accounting, Book-Keeping and Accounting - Meaning, definition and characteristics, Relationship between Book-Keeping, Accounting and Accountancy, Accounting as a language of business, Objectives, Advantages and Limitations of Accounting, Accounting as an information system, Users of accounting information, Branches of Accounting, Accounting Cycle.

Basic Accounting Concepts

Accounting Principles (GAAP), Concepts and Conventions, Accounting Standards: Concept and Objectives, IFRS: Concept and Objectives, Basic Terms: Event, Transaction, Vouchers, Debtors, Creditors, Purchases, Sales, Assets, Liabilities, Goods, Stock, Profit, Loss, Expense, Revenue, Income, Drawings and Capital, Accounting Equation: Meaning and Preparation, System of Record Keeping: Double Entry System and Single Entry System, Basis of Accounting : Cash Basis, Accrual Basis and Hybrid Basis, Classification of Accounts: British Approach and American Approach Rules of Debit and Credit.

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Subsidiary Book

Cash Book, Purchase Book, Sales Book, Return Books, Bills Books and Journal Proper

Trial Balance

Meaning, objectives, advantages and limitations of Trial Balance, Preparation of Trial Balance from ledger accounts & Redrafting of trial balance from incorrect trial balance

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Chapter - 2

BASIC CONCEPTS OF ACCOUNTING

STRUCTURE

2.1 Accounting Principles (GAAP)

We know that accounting deals with recording, classifying and summarising the financial transactions and interpreting the results thereof. It also communicates the financial position and performance of a business to the interested users (stakeholders) such as owners, managers, investors, creditors, suppliers of goods and services, government, etc. and help them in taking important decisions. All these stakeholders look forward to the accounting for reliable, comparable and appropriate information. In order to make the accounting information meaningful to its users, it is important that such information is reliable and comparable. Reliability is concerned with correctness of information. The comparability of information is concerned with how a firm has performed as compared to other firms and how it has performed as compared to the previous years. This is possible only when consistent accounting policies, principles and practices are followed by every business entity.

In order to follow uniformity and consistency in accounting records, certain rules or principles have been developed which are generally accepted by the accounting profession. Generally Accepted Accounting Principles (GAAP) refers to a set of rules or guidelines adopted for recording and reporting of business transactions in order to ensure uniformity in the preparation and presentation of financial statements. These principles are not static in nature, rather they are influenced by the legal and economic environment and the needs of the users. Though accounting principles are denoted by various terms such as, concepts, conventions, doctrines, assumptions, postulates, etc., those can be broadly classified into two groups, namely, accounting concepts and accounting conventions.

2.2 Concepts and Conventions

The term ‘concept’ refers to the necessary assumptions and ideas which are fundamental to accounting practices. The term ‘convertion’ connotes customs and traditions as a guide to the presentation of accounting statements. In practice, the same rules and guidelines have been described by one author as a concept, by another author as a postulate and still by some other as convention.

2.2.1 Accounting Concepts

The important accounting concepts are discussed below :

(i) Business Entity Concept :

Under this concept it is assumed that the business unit is distinct and completely separate from its owners. This means business in considered as a separate person (artificial person) and the owner is considered as another separate person (natural person). A business entity should have a completely separate set of books and the business transactions are recorded in such set of books from the point of view of the business and not from the point of view of the owner or proprietor. The personal assets and liabilities of the owner are not considered while recording and reporting the assets and liabilities of the business. If the proprietor of the business has another business entity doing another business, the records of that business sholud also be kept separate. The personal transactions of the owner are not recorded in the books of the business. The owner is treated as a creditor by the business to the extent of capital invested by him in the business. The capital invested by the owner is treated as liability for business. Interest on capital if allowed to the owner, is treated as an expense for the business reducing the profit of the enterprise and increasing the capital of the owner. Similarly, the money withdrawn by the owner from the business for his personal use is treated as his drawings reducing the capital of the proprietor. Likewise, goods used by the owner from the stock of the business for his personal use are also treated as his drawings. In the absence of business entity concept, the net profits and the financial position of a business cannot be known. This concept is also known as **separate entity concept.**

(ii) Money Measurement Concept :

Money Measurement Concept states that only those business transactions and event which can be expressed in monetary terms, are to be recorded in the books of accounts. The transactions and events of a business which cannot be expressed is term of money, even though they may be very important for the business, cannot be recorded in the books of accounts. For example, accounting does not record the efficiency of a manager, presence of competition, etc., but transactions like salary paid to the employees, interest earned on investments made, etc. are recorded in the books of accounts. The basic purpose of using money measurement concept is to implement an element of uniformity. Thus, fixed assets like land, furniture, etc. are expressed in terms of money and not in terms of area (for land) or quantity (for furniture) for recording in books of accounts like other assets which are expressed always in monetary terms such as cash in hand and cash at bank. This concept is not free from limitation. It does not recognise the changes in the purchasing power of money due to changes in the price level. As the change in the value of money is not reflected in the books of accounts, the accounting information do not reflect the true and fair view of affairs of the business.

(iii) Going Concern Concept :

Under this concept, the transactions are recorded assuming that the business will exist for a longer period of time, i.e., a business is considered to be a going concern and not a dissolved or liquidated one. Keeping this in view, the suppliers and other firms enter into business transactions with the business. It is on the basis of this concept that fixed assets are recorded at their original cost and depreciation is charged on these assets. Because of this concept, the full cost of a fixed asset is not treated as expense in the year of its purchase. The market value of the fixed assets is irrelevant and it is not recorded in the balance sheet as these assets are not going to be sold in the near future. Besides, under this concept prepaid expenses which have no realisable value, are recognised as assets since the benefits will be enjoyed in future when the business entity will continue.

(iv) Accounting Period Concept :

Accounting period refers to the period at the end of which the financial statements of a business are prepared to know the profit earned ot loss incurred during that period and the financial position of the business at the end of that period. Such information is required by different users at regular interval for different purposes. One year or twelve month period is usually adopted for this purpose. As per income tax rule, a business has compulsorily to adopt financial year starting on 1st April and ending on 31st March in the next calendar year as its accounting year. In addition to this, companies whose shares are listed on the next calendar year as its accounting year. In addition to this, companies whose shares are listed on the stock exchange, are required to publish quarterly results to ascertain the profitability and financial position at the end of each three month period. The segregation of expenditure between capital and revenue arises from this concept. That is, whether a particular item of expenditure will appear is the Profit and Loss Account or will appear in the Balance Sheet, is to be determined on the basis of this concept. Because, a capital expenditure may be treated as revenue one, if the accounting period is taken as a decade (a period of ten years) instead of a year. Thus, accounting period concept plays a very significant role in accounting.

(v) Cost Concept :

According to this concept, an asset is recorded at its cost in the books of accounts, i.e., the price which is paid at the time of acquiring it. The assets, when acquired, are recorded at their cost price and gradually reduced by way of depreciation. Amount of expenditure is to be calculated on the basis of its cost price and the effective life of the asset. The market value of the asset is not to be taken into consideration for the purpose of valuation or depreciation. The cost concept is historical in nature. This concept has an advantage. Since the valuation of assets does not depend on the market value, accounts are maintained properly, i.e., without any personal bias of the accountant. However, an important limitation of the concept is that it does not show the true picture of the business and may lead to hidden profits. During the period of rising prices, the market value of the assets are higher than the value at which these are shown in the books of accounts leading to hidden profits.

(vi) Dual Aspect Concept :

Under this concept every transaction has a two-fold aspects, namely,

(a) receiving of benefits and

(b) giving of benefits

The basic principle of Double entry system is that every debit has a corresponding credit with equal amount. This is the underlying assumption of this concept. For instance, when a business acquires an asset (receiving of benefit) it must pay cash (giving of benefit).

Therefore, two entries are to be passed or two aspects are to be recorded in the books of accounts, one for receiving the benefit and the other for giving the benefit. Thus, there will be double entry for every transaction, i.e., debit for receiving the benefit and credit for giving the benefit. So for each and every debit, there must be a corresponding credit and vice versa. It is because of this concept that the two sides of Balance Sheet are always equal. This concept is commonly expressed in terms of fundamental Accounting Equation, which is as follows :

Assets = Liabilities + Capital

OR

Capital = Assets - Liabilities

The above accounting equation states that the assets of a business are always equal to the claims of outsiders and owners. The claim of owners is termed as 'capital' or 'Owner's Equity' and that of outsiders as 'Liabilities' or 'Creditor's Equity'. For example, A starts a business with capital of ₹ 10,00,000 in cash and takes a loan of ₹ 5,00,000 from a bank and these ₹ 15,00,000 are utilised in purchasing plant and machinery. The equation will be as follows :

Assets = Liabilities + Capital

₹ 15,00,000 = ₹ 5,00,000 + ₹ 10,00,000

(vii) Realisation (Revenue Recognition) Concept :

According to this concept, revenue is considered as earned on the date when it is realised. In other words, revenue realised either by sale of goods or by rendering services during an accounting period should only be taken into the Profit and Loss Account. Unearned or unrealised revenue should not be taken into account. The revenue is said to be earned when the sale of goods or services or the resources yielding interest, dividend, etc. result in inflow of cash. The revenue is said to be realised when a right to receive arises, i.e., the point of time of sale of product or service irrespective of whether the sale proceed is received immediately or not. Thus, credit sales are treated as revenue on the date of sale and not the date when cash is actually received. But when an order is simply received from a customer, it does not mean that the revenue is earned or realised. On the other hand, when an advance payment is made by a customer, the same also cannot be treated as revenue realised or earned. However, in case of hire-purchase transactions, the title or ownership of the goods is not transferred from the seller to the buyer till the last instalment is paid. As such, the down payments and the instalments received or due should be treated as actual sale, i.e., revenue realised. In case of contracts like construction work which take long time, usually two or more years to complete, proportionate amount of revenue based on the part of the contract completed by the end of the period, is to be treated as realised.

(viii) Matching Concept :

This concept is important for correct determination of net profit or loss. According to this concept, all costs which are applicable to revenue of the period should be charged against that revenue in determining the net profit or loss from business operations. Thus, for matching costs with revenue, first revenues should be recognised and then costs incurred for generating that revenue should be recognised. In this context, the following points are worth-noting :

(a) If an item of revence is included in the Profit and Loss Account, all expenses incurred on it, whether paid or not, should be taken into account as expenses in the profit and loss account for that period. Thus, outstanding expenses, though not paid in cash, are taken in the Profit and Loss account.

(b) If an item of expense such as insurance premium is paid partly for the next accounting year, that part relating to next year will be shown as an expense only in next accounting year and not this year. That is, the part of insurance premium against which benefit will be derived next year, should be shown is the Balance Sheet as an asset and the balance is treated as an expense during the current year.

(c) Cost of goods remaining unsold at the end of the year, should be carried forward to the next year as these goods will be sold in the next year. Thus, closing stock is carried over to the next year as opening stock.

(d) An item of income receivable should be considered as revenue and the items of revenue received in advance should be deducted from revenue.

2.2.2 Accounting Conventions

Accounting conventions refer to the general agreement on the usage and practices. In other words, conventions are accounting procedures followed by the accounting community on the basis of long-standing customs. These accounting conventions are as follows :

(i) Convention of Consistency :

The convention of consistency requires that accounting principles and methods should remain consistent from year to year. In other words, these principles should be continuously observed and applied and should not be changed from year to year. Comparison of results of different years is meaningful and significant only when the accounting rules, procedues and pratices are continuously followed from year to year. Similarly, the comparison between the financial results of two firms would be meaningful only if same kind of accounting methods and policies are adopted is the preparation of financial statements. For example, the principle of valuing stock at cost or market price, which ever is less, should be followed every year for making comparison. Likemise, a firm can choose any one of the several methods of depreciation, i.e., straight line method, written down value method, etc. The method once chosen will be followed consistently year after year. Consistency helps to eliminate the personal bias of an accountant, since he is not allowed to choose any accounting method or principle according to his own opinion and desire from one year to another. The consistency convention should not be taken to mean that it does not allow a firm to change the accounting methods according to the changed circumstances of the business. If the accountant feels that change in a particular method will lead to better disclosure of the profits and the financial position of the business, the changed method may be adopted. However, the nature and effect of change of method and justification for the change, must be stated clearly by way of footnotes to enable the user to know about the change.

(ii) Convention of full disclosure :

The convention of full disclosure suggests that all accounting statements should be honest making the full disclosure of all the significant information. In other words, there should be a sufficient disclosure of information which is of material interest to the users of financial statement such as, shareholders, potential investors, creditors, etc. This enables the users to make correct assessment about the profitability and financial state of affairs of the enterprise and help them to take judicious decisions. This convention of full disclosure is so important that the Companies Act makes provisions for the disclosure of essential information is the financial statements of a company. The proforma and contents of Balance Sheet and Profit and Loss Account are prescribed by the Companies Act. The items or facts which do not find place in accounting statements, are shown is the balance sheet by way of footnotes such as, contingent liabilities, i.e., disputed claims pending in the court of law against the business enterprise, change in the method of valuation of stock or for providing depreciation or in making provision for doubtful debts, etc.

(iii) Convention of Conservatism (Prudence) :

According this convention, all anticipated losses should be recorded is the books of accounts, but all anticiputed or unrealised gains should be ignored. In other words, conservatism is the policy of playing safe. Valuing closing stock at cost or market price which ever is less, creating provision for doubtful debts, creating provision for discount on debtors, writting off intangible assets like goodwill from the books of accounts are some of the examples of application of conservatism principle. This doctrine helps to keep the human desire to be on the safe side as a matter of prudence. In order to protect the interest of different parties, the net profits and net assets must not be over stated but may be understated. The excessive and deliberate application of conservatism could result in excessive understatement of assets leading to the creation of secret reserve which directly contradicts the convention of full disclosure. Thus, such type of deliberate attempt to underestimate the value of assets should be discourged.

(iv) Convention of Materiality :

Materiality means relative importance. In other words, whether a matter should be disclosed or not in the financial statements depends on its materiality, i.e., whether it is material or substantial or not. This principle states that accounting should disclose all the material facts. Insignificant and immaterial facts may be ignored. As per this principle, items having an insignificant effect or being irrelevant to the users need not be disclosed in the financial statements. This principle is an exception to the principle of full disclosure.

American Accounting Association defines 'materiality' as under "

"An item should be regarded as material if there is reason to believe that knowledge of it would influence the decision of informed investors." Materiality depends on the amounts involved and the account so affected. As a result, whether a particular item in material or immaterial depends on the amount and the nature of the same. In this regard, it should be noted that what is material for one concern may be immaterial for another. For example, the cost of small tool may be material for a small repair shop, but the same figure may be immaterial for a large manufacturing organisation. In certain cases, when the amount involved is very small, strict adherence to this accounting convention is not required. For instance, stock of pencils, erasors, etc. are not shown as assets. The amount of stationery purchased during an accounting period is treated as the expense of that period, whether fully consumed or not. Thus, an accountant should judge the importance of each transaction to determine its materiality.

(v) Convention of Objectivity :

This principle requires the scrutiny of the supporting document before it is entered or recorded is the books of accounts. Objectivity means that every business record must be based on and supported by documentary evidence. Entries which are recorded in accounting from transactions and data which are reported in financial statements, must be based on documentary evidence. Invoices and vouchers for purchases, sales and expenses, physical checking of stock-in-hand, etc. are examples of objective evidences which are capable of verification. Therefore, it must be said that every entry must be supported by some objective evidence and as such it will minimise the possibility of errors and frauds.

2.3 Accounting Standards

Generally Accepted Accounting Principles (GAAP) aim at bringing uniformity and comparability in the financial statements. But in many cases, GAAP permits a number of accounting treatments for the same item. For example, different methods of valuation of stock give different results in financial statements. Such practices can misguide the users of financial statements in taking decisions relating to their field. Keeping in view the problems faced by many users of accunting information, a need arises for the development of common accounting standards. For this purpose, the Institute of Chartered Accountants of India

(ICAI) had constituted Accounting Standard Board (ASB) in the year 1977. ASB identified the areas in which uniformity in accounting was required. After detailed discussions, it prepared and submitted a draft to the ICAI. After proper examination, ICAI finalised them and notified for its use in financial statements. Section-133 of the companies Act, 2013 as amended recently, requires that the Profit and Loss Account and Balance Sheet of a company shall comply with the accounting standards recommended by the ICAI. As on 1st April, 2015 there are 32 accounting standards specified by the Institute, compliance of all of which is mandatory (compulsory) for companies.

2.3.1 Concept of Accounting Standard

Accounting standards are the written statements consisting of rules and guidelines issued by the ICAI for accounting professionals for preparation of uniform and consistent financial statements and also for other disclosures affecting the different users of accounting information.

Kohler defines accounting standard as "a code of conduct imposed on accountants by custom, law or professional body." Accounting standards serve as a guide in the accounting process. They provide the basis on which accounts are prepared. For example, they provide the method of valuation of inventories as per Indian Accounting Standard-2.

Accounting standards act as a dictator in the field of accounting. Like a dictator, in some areas accountants have no choice of their own to follow practices other than stated in the accounting standards. For example, cash flow statement should be prepared in the format prescribed by Indian Accounting Standard-3. Accounting standards comprise the scope of accounting by defining certain terms, specifying standards, explaining numerous disclosures, etc. Thus, accounting standards are descriptive is nature and serve as a service provider. Accounting standards are not biased and bring uniformity in accounting methods. They remove the effect of diverse accounting practices and policies. On many occasions, accounting standards develop and provide solutions to specific accounting issues. So it is clear that whenever there is any conflict on accounting issues, accounting standards act as harmoniser and facilitate solutions for accountants. However, in the event of any deviation from the standards, it will be the duty of the accountant to make adequate disclosure of this fact in the financial statements so that the users of such statement may be aware of such deviations.

2.3.2 Objectives of Accounting Standards

The objectives of accounting standards are discussed below :

(i) To bring uniformity in accounting methods :

The basic objective of accounting standards is to bring uniformity in accounting methods by prescribing standard treatments to the accounting issues. Accounting standards lay down the norms of accounting policies and practices to direct how the transactions and events should be dealt with in accounts and disclosed in financial statements. For examples, Indian Accounting Standards-6 states the methods for depreciation accounting.

(ii) To improve the reliability of the financial statements :

The users of accounting information take various decisions relating to their field on the basis of information contained in financial statements. In this connection, it is necessary that the financial statements should show true and fair view of the business concern. Thus, the objective of accounting standards is to give a sense of faith and reliability to various users.

(iii) To simplify accounting information :

An objective of accounting standard is to prevent the users from reaching any misleading conclusion and make the financial data simpler for everyone. For example, Indian Accounting Standard-3 clearly classifies the flows of cash is terms of 'operating activities', 'investing activities' and 'financing activities'.

(iv) To ensure consistency and comparability of financial statements :

One of the important objectives of accounting standards is to make the financial statements of different entities or of the same entity for different accounting periods comparable. They bring uniformity of the assumptions, rules and policies for the preparation of financial statements leading to consistency and comparability of such statements. In the absence of accounting standard, comparision of different financial statements may lead to wrong conclusions because each enterprise would evolve its own rules, policies and practices to suit to its purpose.

(v) To reduce the chance of manipulations and frauds :

Another objective of accounting standard is to reduce the chances of frauds and manipulations in accounts by adopting standard accounting methods in the preparation of financial statements.

(vi) To help auditors :

The aim of accounting standard is to lay down the terms and conditions for accounting policies and practices by way of guidelines. It is the duty of the auditors to ensure that the accounting standards have been followed in the preparation of financial statements. In case of deviation, it is his duty to make adequate disclosure in their reports. As a result of that the auditors will be free from court cases and various penal provisions under the company law.

2.4 International Financial Reporting Standards (IFRS)

International Financial Reporting Standards or IFRS refers to globally accepted accounting standards developed by International Accounting Standard Board (IASB). IFRS is designed as a common global language for business affairs so that company accounts are understandable and comparable across international boundaries. The IFRS is particularly important for companies that have dealings in several countries. They are progressively replacing many different national accounting standards. The objective is to facilitate international comparisons for true and fair valuation of business enterprises.

2.4.1 Concept of IFRS

International Financial Reporting Standards or IFRS is a set of accounting standards developed by an independent organisation called International Accounting Standard Board (IASB). The goal of IFRS is to provide a global framework for how public companies prepare and disclose their financial statements. IFRS provides general guidance for the preparation of financial statements. IFRS is especially important for large companies that have subsidiaries in different countries. Adopting a single set of international standards will simplify accounting procedures by allowing a company to use one reporting language.

The following are the assumptions in IFRS :

(i) Going-concern assumption :

It is assumed that the life of the business is infinite, i.e., the enterprise will continue to exist for an indefinite period in future.

(ii) Accrual assumption :

This assumption states that the transactions are recorded on accrual basis and the date of receipt or payment is immaterial.

(iii) Measuring unit assumption :

As per this assumption, the assets are not shown in the balance sheet at historical cost but they are shown at current or fair value. This means that assets are shown at the amount that would have been paid if the same asset would have been acquired currently. Similarly, liabilities are shown at the amount that would be required to settle them. Thus, under IFRS, depreciation is not charged on the cost of the assets but the assets are valued on the balance sheet date and the difference in the opening and closing value of assets is debited or credited to Profit and Loss Account.

(iv) Constant Purchasing Power Assumption :

This assumption requires that the value of capital be adjusted to inflation at the end of each financial year.

2.4.2 Objectives of IFRS

The following are the objectives of IFRS :

(i) To help enterprises operating world-wide :

Enterprises operating in different countries face the problem of consolidation of financial statements, if they prepare financial statements as per the accounting standards prevailing in different countries. So IFRS solves this problem by using a common accounting standard which is internationally accepted.

(ii) To help investors :

Investors always want transparent, reliable and comparable information in the financial statements. IFRS is developed with the objective of using a common set of accounting standards world-wide in order to enable the investors to make economic decisions.

(iii) To help the industries in getting funds from foreign countries :

The objective of IFRS is to help the industries to obtain funds from outside the country as the financial statements comply with internationally accepted accounting standards.

2.5 Basic Terms in Accounting

There are some basic terms which are frequently used in Accounting. It is essential to understand these terms to have knowledge of the subject. These basic terms are called as “Accounting Terminology”.

Event : In general some happenings are called ‘Event’. The term ‘Event’ in accounting refers to a change in an item that should be reflected in the financial statements of a business enterprise. Accounting events involve in a change in assets, liabilities, revenues, expenses or owner’s equity. Thus, an event in accounting brings change in the financial position of an enterprise. Events are classified into two groups, i.e., monetary events and non-monetary events. The events related to money are the sources of transactions.

Transactions : Transactions are very important elements is Accounting. Events measurable in terms of money are called transactions. Events treated as transactions are recorded in the books of accounts. Events other than transactions are not recored in the books of accounts. In every transaction, normally two parties or accounts are involved. In case of compound entries more than two accounts are involved.

Any exchange of goods or services measurable in terms of money which brings financial changes of an enterprise is called a transaction. The modern accountants have explained the matter in different ways. Thus, transactions are events which cause an immediate change in the financial resources or obligations of the business enterprise and can be measured in terms of money.

Transactions may be external or internal. External transactions involve economic activities between two parties, as in case of purchase or sale of goods, etc. Internal transactions are the economic activities that take place within the business itself, such as depreciation of fixed assets, loss due to fire, etc. It may be noted that every transaction is an event, but every event is not a transaction. The events which satisfy the various concepts and conventions of accounting are treated as transactions.

The main charactsistics of a transaction are :

i. Transactions involve some economic activity or other. When a business enterprise purchases goods or pays salary to its employees or takes a loan from bank, a business transaction takes place.

ii. Transaction results in a change in the financial position of the business enterprise, i.e., a change may take place in the value of assets, liabilities or owner's capital.

iii. The change in the financial position must be capable of being expressed is terms of money.

Vochers : A vocher is a documentary evidence in support of a transaction. It may be a receipt, counterfoil of a receipt, a cash memo, an invoice, an agreement, a resolution passed by the Board of Directors or shareholders, etc. For example, if goods are purchased for cash, a cash memo is obtained. Similarly if goods are purchased on credit, an invoice is obtained. On the basis of the vouchers, transactions are recorded in the books of accounts. Each voucher is numbered and countersigned by an authorised person by the business firm.

Debtors : Debtors refer to those persons or firms who owe money to the business enterprise on account of credit sale of goods or services rendered or in respect of a contractual obligation and payment has not been received from them. The sum total of debtors are known as Sunday Debtors.

Creditors : Creditors refer to those persons or firms to whom the business enterprise owes money on account of credit purchase of goods or services enjoyed or in respect of contructual obligation and payment has not been made to them. The sum total of creditors are known as Sunday Creditors.

Purchases : Purchases are the total amount of goods purchased by the business enterprise. Purchases refer to purchase of goods only in which the business deals. In a manufacturing concern, purchase of goods means acquiring of raw materials for the purpose of conversion into finished product. In case of a trading concern, purchase of goods means purchase of those things which are purchased for resale. In both cases, the purpose is to earn profit by resale. Purchases may be cash purchases or credit purchases. But purchases do not include purchase of any assets. Purchases of assets will be reflected in the concerned asset account and not in purchase account. For example, purchase of computer by a dealer in electronic goods in a purchase but such purchase of computer by a dealer in ready made garments is an asset.

Sales : Sales means transfer of ownership of goods or services to customers for a consideration, i.e., price. The term 'sales' is used only for the sales of those goods which are purchased for resale purposes. Sale proceeds of assets are not treated as sales but are reflected in the concerned asset account. For example, sale of computer by a dealer in electronic goods, is a sale but such sale by a dealer in ready made garments, is not treated as sales.

Assets : Asset is common language means anything that we own. For example, our house, the furniture in our house as well as in our office, our car, the cash balance we have in our hands as well as in bank, the jewellary, etc. are all of our assets. But in Accounting, we have some broader meaining of the term 'assets'. In according, assets are anything which have got some economic value and which are owned by the business enterprise. In other words, anything which will enable a business enterprise to get cash or a benefit in future is an asset. Some examples of assets are, land and buildings, plant and machinery, investments, stock of unsold goods, debtors, bank balance, cash in hand, goodwill (value of reputation of the business), prepaid expenses, etc.

In the words of Prof. R.N. Anthony, "Assets are valuable resources owned by a business which are acquired at a measurable money cost."

Finney & Miller define assets as "Assets are future economic benefits, the rights of which are owned or controlled by an organisation or individual."

Assets may be classified into the following categories :

1. On the basis of convertibility into cash

On the basis of how assets can be converted into cash, assets are of two types, i.e. (a) Current assets and (b) Fixed assets.

(a) Current Assets : Current assets are those assets which can be easily converted into cash in short period i.e. within one year. Bank balance, debtors, bills receivable, stock, marketable investment, etc. are some of the assets which can be converted into cash easily and are the examples of current assets.

According to the Institute of Certified Public Accountants, U.S.A, "Current assets include cash and other assets or resources commonly identified as those which are reasonbly expected to be realised in cash or sold or consumed during the normal operating cycle of the business."

Although 'Prepaid expenses' will never be realised in cash, these are also included in current assets as the service or benefit will be available against these without further payment. Current assets are very important for working of the business enterprise as these assets provide resources for the day-to-day running of the business. Current assets are also known as floating assets or circulating assets. Some of the current assets are also known as liquid assets. **Liquid assets** are those assets which are vary near to cash and can be converted into cash in short period without any loss or with little loss in its value. Liquid assets incluse cash in hand, cash at bank, Government securities, etc. Cash in hand is a highly liquid asset, followed by cash at bank.

(b) Fixed Assets : Fixed assets are those assets which are held for use in the business for the purpose of producing goods or services and are not meant for sale. Land and Buildings, plant and machiery, furniture and fixtures, office equipment, motor vehicles, long-term investments, etc. are the examples of fixed assets.

Fixed assets are also known as non-current assets or long-term assets. These assets have a life expectancy of many years. But they lose their value due to their use in the business or with the passage of time (expect in case of land). This loss in the value of fixed assets is known as depreciation. Care should be taken while making investment in fixed assets as it involves major investment of the funds of the business and funds are blocked for a long time in these assets.

2. On the bais of Physical existence

On the basis of physical existence, assets can be classified into tangible assets and intangible assets.

(a) Tangible Assets : Tangible assets are those assets which can be seen and touched. In other words, tangible assets have physical existence. Some of the examples of tangible assets are land, building, plant, machinery, motor car, office equipment, stock, cash, etc.

(b) Intangible Assets : Intangible assets are those assets which do not have a physical existence and cannot be seen or touched, but still they have an economic value. The examples of such assets are goodwill, patents, trademarks, copyrights, etc. These assets, just like tangible assets, can be sold or bought in the market and appear in the Balance Sheet with other assets.

In addition to the above categories of assets, there are other types of assets also. They are :

(a) Fictitious Assets : Fictitious assets are those assets which do not have any physical form and cannot be realised in cash or no benefit can be derived from these assets. Profit and Loss Account debit balance, preliminary expenses, etc. are the examples of such assets. These assets appear in the Balance Sheet on the asset side till they are written off out of profits gradually over a period of time.

(b) Wasting Assets : Wasting assets are those assets which are depleted due to extration, etc. Mines, stone quarries, oil wells, timber yards, etc. are the examples of wasting assets.

Liabilities : Liabilities are the obligations of the business enterprise to be paid in some time in future. In other words, liabilities refer to the amount which the business enterprise owes to outsiders except the amount owed to the proprietor. Liabilities represent the claims of the creditors on the assets of the business. When goods are purchased on credit from Mr. X, the amount due or owing to Mr. X is a liability. Debentures, Sundry creditors, Bank loan, Bills payable, Bank overdraft, Outstanding salaries, etc. are the examples of liabilities. Liabilities are clssified as Long-Term Liabilities and Short-Term Liabilities.

Long-Term Liabilities : Long-Term Liabilities are those liabilities which are usually payable after a period of one year. These liabilities are also known as Non-current liabilities. Long-Term Loans and Debentures, etc. are the examples of long-term liabilities.

Short-Term Liabilities : Short-Term Liabilities are those liabilities which are payable within a period of one year. These liabilities are also known as Current Liabilities. Sundry creditors, Bills payable, Bank overdraft, Outstanding Expenses, etc. are the examples of short-term liabilities.

Another liability known as Contingent Liability refers to that liability the obligation for which may or may not arise in future on the basis of a future event. Guarantee given for bank loan, disputed claims against the business, etc. are the examples of contingent liablilities. These liabilities are not shown in the Balance Sheet but are mentioned as a foot note in the Balance Sheet.

Goods : Goods refer to the products in which the business deals. In other words, goods include the things which are purchased for resale or which are used for manufacturing the finished products meant for sale. The items which are purchased for use in the business are not called goods. A motor car dealer purchases motor cars for sale, are called goods for such dealer. But if a cloth merchant purchases motor car for his use in the business, the purchase of such motor car is not treated as goods but it is treated as an asset.

Stock : Stock or inventory refers to the goods in hand. In a trading firm, stock in hand is the amount of goods remaining unsold at the end of an accounting period, is called closing stock or closing inventory. In case of a manufacturing firm, stock in hand or closing stock comprises of raw materials, semi-finished goods and finished goods in hand on the last date of the accounting year. Similarly opening stock comprises of raw-materials semi-finised goods and finished goods at the beginning of the accounting period.

Revenue : Revenue refers to the amount obtained through the business activities. Amount realised on sale of goods, commission and fees received for services rendered, interest and dividend received on investments, etc. are the examples of revenue.

Expense : Expense refers to the cost incurred in selling or producing the goods and services. It is incurred in the process of earning revenue. The examples of expense are : cost of goods sold, salaries and wages, rent, advertisement, depreciation, etc.

Profit : Surplus of revenues over expenses during an accounting year is called profit. It increases the investment of the proprietor. For example, goods costing ₹ 1,00,000 are sold for ₹ 1,30,000, the sales amounting to ₹ 1,30,000 is the revenue and the cost of goods sold amounting to ₹ 1,00,000 is expense and the difference between the two, i.e., ₹ 30,000 is the profit. This can be expressed as :

Profit = Revenues - Expenses

Income : The actual earnings of a business during a particular accounting year is known as income. The earnings can be from the main activities of the business or any other activities which are not regularly undertaken by the business.

Loss : The excess of expenses over revenues during an accounting year is called 'Loss'. It decreases the investment of the proprietor. Loss also refers to money or money's worth lost without receiving any benefit. Examples of such losses are loss due to fire, theft, accident, etc.

Capital : Capital refers to the amount of investment made by the proprietor in a business enterprise. Such capital may be brought in the form of cash, goods or assets by the proprietor. Capital is an obligation for the business enterprise and shown on the liabilities side of the Balance Sheet. In order to calculate the amount of capital, the outsiders' liabilities are deducted from total assets.

Thus, Capital = Assets - Liabilities

Capital is also known as Owner's equity or Net worth or Net Assets.

Drawings : Withdrawal of cash or goods by the proprietor from the business for personal use or any private payments made out of the business funds, are called drawings.

Entity : An entity or business entity means an economic unit which is formed for earning income by selling goods or providing services.

Turnover : Turnover refers to the total sales made in a particular period by a business enterprise.

2.6 Accounting Equation

Accounting equation is the foundation of double entry system of Book-keeping. It represents the relatioinship among the assets, liabilities, and capital or owner's equity of a business. This equation is also known as Balance Sheet Equation.

2.6.1 Meaning of Accounting Equation

Accounting Equation establishes relationship among the assets, liabilities and capital or owner's equity of a business. The equation displays that all assets are either financed by the capital provided by the proprietor or by borrowings from outsiders or by both.

Thus, the Accounting Equation is :

Assets = Liabilities + Capital or Owner's Equity

The Balance sheet is a display of this equation showing that the total assets of a business enterprise (what it owns) are equal to the total liabilities (what it owes to outsiders) and owner's equity or capital (the difference between assets and liabilities). Assets are the resources of a business, i.e., things the business owns. From the accounting equation we find that the amount of assets is equal to the combined amount of liabilities and owner's equity or capital. Liabilities are the obligations of the business enterprise, i.e., the amounts that the business owes to the outsiders. The amount of liabilities is equal to the excess of assets over owner's equity or capital. Owner's equity is the amount invested in the business by the owner or proprietor plus the profits minus losses (if any) that has not been withdrawn or distributed to the proprietor. At any point of time, resources of the business (assets) must be equal to the claims of those who have financed these resources. The owner or proprietor of the business and outsiders finance the resources of the business.

2.6.2 Preparation of Accounting Equation

Accounting equation implies that the assets of a business are always equal to the total of liabilities and capital. At any point of time the equation will hold good. A business transaction will result in the change in either of the assets, liabilities or capital of the business and after this change the assets will be again equal to the total of liabilities and capital. If a transaction results in increase of assets, there will be a corresponding increase in the amount of liabilities or capital by the same amount. On the other hand, if a transaction results in decrease of assets, there will be a corresponding decrease in the amount of liabilities or capital by the same amount.

The inter-relationship of assets, liabilities and capital can happen in the following ways :

(i) Increase in Assets results in Increase in Liabilities

(ii) Increase in Assets results in Increase in Capital

(iii) Increase in one Asset results in Decrease in another Asset

(iv) Decrease in Assets results in Decrease in Liabilities

(v) Decrease in Assets results in Decrease in Capital

(vi) Decrease in one Asset results in Increase in another Asset

(vii) Increase in one Liability results in Decrease in another Liability

(viii) Decrease in one Liability results in Increase in another Liability

An Accounting Equation is develped by taking the following steps :

Step 1 : Analyse the transaction and find out the elements involved in the transaction, i.e., assets, liabilities or capital.

Step 2 : Find out the effect of the transaction on the elements involved, i.e., increase or decrease in assets, liabilities or capital.

Step 3 : Show the effect of transaction on the appropriate side of the equation and ensure that both sides are equal.

The effect of different business transactions on accounting equation and the preparation of the equation will be clear from the illustrutions given below :

Illustration- 1

Give an example of each of the following types of transactions :

(a) Increase is one asset and Increase in owner’s capital

(b) Increase is one asset and Increase in liability

(c) Decrease is one asset and Increase in another asset

(d) Decrease is one asset and Decrease in liability

(e) Decrease is one asset and Decrease in owner's capital

Solution :

(a) Capital introduced by owner in cash

(b) Purchase of goods on credit from Mr. Z

(c) Cash collected from Debtors

(d) Cash paid to creditors

(e) Cash withdrawn for personal use by the owner.

Illustration- 2

(a) Mr. X commenced business with cash ₹ 1,00,000

(b) Purchased goods for cash ₹ 30,000

Show the Accounting Equation on the basis of the above transactions.

Solution :

Table showing Accounting Equation

Sl. No.	Transactions	Assets		= Liabilities + Capital
a.	Commenced Business with cash ₹ 1,00,000	Cash 1,00,000 +	Goods(stock) Nil	= Nil + 1,00,000
	Equation	1,00,000 +	Nil	= Nil + 1,00,000
b.	Purchased Goods for cash ₹ 30,000	(-) 30,000	30,000	= Nil + Nil
	Final Equation	70,000	+ 30,000	= Nil + 1,00,000

∴ The Accounting Equation is :

Assets: Cash ₹ 70,000 + Stock ₹ 30,000 = Liabilities : Capital ₹ 1,00,000

Working Note : Analysis of Transactions

Sl. No	**Elements involved**	**Effect of Transactions**
(a)	Asset (cash) and Capital	Increase in Asset (cash) Increase in Capital
(b)	Asset (cash) and Asset (goods)	Increase in Asset (goods) Decrease in Asset (cash)

Illustration 3

Show the Accounting Equation on the basis of the following transactions :

1. Mr. A started business with ₹ 5,00,000
2. Opened a bank account with ₹ 3,00,000

3. Purchased goods for cash ₹ 1,00,000
4. Purchased furniture for cash ₹ 80,000
5. Purchased goods on credit ₹ 50,000
6. Paid salary ₹ 15,000

Solution :

Table showing Accounting Equation

Sl. No.	Transactions	Assets				= Liabilities + Capital	
		Cash	Bank	Goods(stock)	Furniture	Creditors	Capital
1.	Mr.A started business with ₹ 5,00,000	5,00,000	+ Nil	+ Nil	+ Nil	= Nil	+ 5,00,000
	Equation	5,00,000	+ Nil	+ Nil	+ Nil	= Nil	+ 5,00,000
2.	Opened bank A/c with ₹ 3,00,000	(-) 3,00,000	+ 3,00,000	+ Nil	+ Nil	= Nil	+ Nil
	New Equation	2,00,000	+ 3,00,000	+ Nil	+ Nil	= Nil	+ 5,00,000
3.	Purchased goods for cash ₹ 1,00,000	(-) 1,00,000	+ Nil	+ 1,00,000	+ Nil	= Nil	+ Nil
	New Equation	1,00,000	+ 3,00,000	+ 1,00,000	+ Nil	= Nil	+ 5,00,000
4.	Purchased Furniture for cash ₹ 80,000	(-) 80,000	+ Nil	+ Nil	+ 80,000	= Nil	+ Nil
	New Equation	20,000	+ 3,00,000	+ 1,00,000	+ 80,000	= Nil	+ 5,00,000
5.	Purchased goods on credit ₹ 50,000	Nil	+ Nil	+ 50,000	+ Nil	= 50,000	+ Nil
	New Equation	20,000	+ 3,00,000	+ 1,50,000	+ 80,000	= 50,000	+ 5,00,000
6.	Paid salary	(-) 15,000	+ Nil	+ Nil	+ Nil	= Nil	(-) 15,000
	Final Equation	5,000	+ 3,00,000	+ 1,50,000	+ 80,000	= 50,000	+ 4,85,000

The Accounting Equation is:

Assets: Cash ₹5,000+ Bank ₹ 3,00,000 + Stock ₹ 1,50,000 + Furniture ₹ 80,000 = Liabilities: Creditors ₹ 50,000 + Capital ₹ 4,85,000

Working Note : Analysis of Transactions

Sl.No	Elements involved	Effect of Transactions
1.	Asset (Cash) and Capital	Increase in Asset (Cash) Increase in Capital
2.	Asset (Bank) and Asset (Cash)	Increase in Asset (Bank) Decrease in Asset (Cash)
3.	Asset (Goods) and Asset (Cash)	Increase in Asset (Goods) Decrease in Asset (Cash)
4.	Asset (Furniture) and Asset (Cash)	Increase in Asset (Furniture) Decrease in Asset (Cash)

5.	Asset (Goods) and Liability (Creditors)	Increase in Asset (Goods) Increase in Liability (Creditors)
6.	Asset (Cash) and Capital (for expense)	Decrease in Asset (Cash) Decrease in Capital (for expense)

Illustration 4 : Prepare Accounting Equation from the following transactions :

(i) Started business with cash ₹ 2,00,000

(ii) Purchased goods for cash ₹ 50,000

(iii) Purchased goods on credit ₹ 30,000

(iv) Sold goods costing ₹ 10,000 for cash at 20% profit.

(v) Sold goods costing ₹ 10,000 on credit at 20% profit.

(vi) Withdrew cash for personal use ₹ 5,000

(vii) Paid to creditors ₹ 20,000

(viii) Commission received ₹ 10,000

(ix) Purchased Motor cycle for private use ₹ 50,000

(x) Unpaid wages ₹ 10,000

Solution :

Sl.No.	**Transactions**	**Assets**			**Liabilities + Capital**		
		Cash	Goods (stock)	Debtors	Creditors	Unpaid wages	Capital
(i)	Started business with cash ₹ 2,00,000	2,00,000 +	Nil +	Nil	= Nil +	Nil +	2,00,000
	Equation	2,00,000 +	Nil +	Nil	= Nil +	Nil +	2,00,000
(ii)	Purchased goods for cash ₹ 50,000	(-) 50,000 +	50,000 +	Nil	= Nil +	Nil +	2,00,000
	New Equation	1,50,000 +	50,000 +	Nil	= Nil +	Nil +	2,00,000
(iii)	Purchased goods on credit ₹ 30,000	Nil +	30,000 +	Nil	= 30,000 +	Nil +	2,00,000
	New Equation	1,50,000 +	80,000 +	Nil	= 30,000 +	Nil +	2,00,000
(iv)	Sold goods costing ₹ 10,000 for cash at 20% profit	+ 12,000	(-) 10,000 +	Nil	= Nil +	Nil +	2,000
	New Equation	1,62,000 +	70,000 +	Nil	= 30,000 +	Nil +	2,02,000
(v)	Sold goods costing ₹ 10,000 on credit at 20% profit	Nil	(-) 10,000 +	12,000	= Nil +	Nil +	2,000
	New Equation	1,62,000 +	60,000 +	12,000	= 30,000 +	Nil +	2,04,000
(vi)	Withdrew cash for personal use ₹ 5,000	(-) 5,000 +	Nil +	Nil	= Nil	+ Nil	(-) 5,000

	New Equation	1,57,000 + 60,000 + 12,000	= 30,000 + Nil + 1,99,000
(vii)	Paid to creditors ₹ 20,000	(-) 20,000 + Nil + Nil	= (-) 20,000 + Nil + 1,99,000
	New Equation	1,37,000 + 60,000 + 12,000	= 10,000 + Nil + 1,99,000
(viii)	Commission received ₹ 10,000	+ 10,000 + Nil + Nil	= Nil + Nil + 10,000
	New Equation	1,47,000 + 60,000 + 12,000	= 10,000 + Nil + 2,09,000
(ix)	Purchased Motor cycle for private use ₹ 50,000	(-) 50,000 + Nil + Nil	= Nil + Nil + (-) 50,000
	New Equation	97,000 + 60,000 + 12,000	= 10,000 + Nil + 1,59,000
(x)	Unpaid wages ₹ 10,000	Nil + Nil + Nil	= Nil + 10,000 (-) 10,000
	Final Equation	97,000 + 60,000 + 12,000	= 10,000 + 10,000 + 1,49,000

∴ The Accounting Equation is:

Assets: Cash ₹ 97,000 + Stock ₹ 60,000 + Debtors ₹ 12,000

= Liabilities: Creditors ₹ 10,000 + Unpaid wages ₹ 10,000 + Capital ₹ 1,49,000

Working Note : Analysis of Transactions

Sl.No	Elements involved	Effect of Transactions
(i)	Asset (Cash) and Capital	Increase in Asset (Cash) by ₹ 2,00,000 and Increase in Capital by ₹ 2,00,000
(ii)	Asset (Cash) and Asset (Goods)	Increase in Asset (Goods or Stock) by ₹50,000 and Decrease in Asset (Cash) by ₹ 50,000
(iii)	Asset (Goods) and Liability (Creditor)	Increase in Asset (Goods or Stock by ₹ 30,000 and Increase in liability (Creditor) by ₹ 30,000
(iv)	Asset (Cash), Asset (Goods) and Capital (for profit)	Increase in Asset (Cash) by ₹ 12,000, Decrease in Asset (Stock) by ₹ 10,000 and Increase in Capital for profit by ₹ 2000
(v)	Asset (Debtors), Asset (Goods) and Capital for profit	Increase in Asset (Debtors) by ₹ 12,000, Decrease in Assets (Stock) by ₹ 10,000 and Increase in Capital by ₹ 2000 for profit
(vi)	Asset (Cash) and Capital	Decrease in Asset (Cash) by ₹ 5000 and Decrease in Capital by ₹ 5,000
(vii)	Asset (Cash) and Liability (Creditor)	Decrease Asset (Cash) ₹ 20,000 and Decrease in Liability (Creditor) by ₹ 20,000
(viii)	Asset (Cash) and Capital (for commission received)	Increase in Asset (Cash) by ₹ 10,000 and Increase in Capital by ₹ 10,000 for commission as income.
(ix)	Asset (Cash) and Capital	Decrease in Asset (Cash) by ₹ 50,000 and Decrease in Capital by ₹ 50,000
(x)	Liability (unpaid wages) and Capital (for wages as expense)	Increase in Liability (Unpaid wages) by ₹ 10,000 and Decrease in Capital by ₹ 10,000 for wages as expense.

Illustration 5

Show the effect of the following transactions on Assets, Liabilities and Capital with the help of Accounting Equation :

a. Mr. X started business with cash ₹ 2,00,000, Buildings ₹ 5,00,00, Furniture ₹50,000 and Goods ₹ 1,00,000.

b. Purchased goods on credit from Mr. A ₹ 10,000

c. Sold goods to Mr. Y on credit ₹ 36,000, cost of goods sold ₹ 30,000

d. Salary paid ₹ 15,000

e. Paid to Mr. A in full settlement ₹ 9,500

f. Prepaid insurance ₹ 1000

g. Depreciation on Buildings ₹ 50,000

h. Fresh capital introduced ₹ 50,000

i. Received ₹ 35,000 from Mr. Y is full settlement.

j. Goods destroyed by fire ₹ 5000. Insurance claim received for ₹ 4000.

Solution :

Sl. No.	Transactions	Assets	= Liabilities+Capital
a.	Started business with Cash, Goods Buildings, Furniture	Cash Goods Furniture Buildings Debtors Prepaid Insurance 2,00,000 +1,00,000 + 50,000 + 5,00,000 + Nil + Nil	Creditors Capital = Nil + 8,50,000
b.	Equation Purchased goods on credit ₹ 10,000	2,00,000 +1,00,000 + 50,000 + 5,00,000 + Nil + Nil Nil + 10,000+ Nil + Nil + Nil + Nil	= Nil + 8,50,000 =10,000 + Nil
c.	New Equation Sold goods costing ₹ 30,000 for ₹ 36,000 on credit	2,00,000+ 1,10,000 + 50,000 + 5,00,000+ Nil + Nil Nil (-) 30,000 + Nil + Nil + 36000 + Nil	=10,000 + 8,50,000 =Nil + 6000
d.	New Equation Salary paid ₹ 15,000	2,00,000 + 80,000 + 50,000+ 5,00,000+ 36,000 + Nil (-) 15,000 + Nil + Nil + Nil + Nil + Nil	=10,000 + 8,56,000 = Nil (-) 15,000
e.	New Equation Paid to Mr. A (Creditor) ₹ 9500 Discount received ₹ 500	1,85,000 + 80,000 + 50,000 + 5,00,000 + 36000 + Nil (-) 9,500 + Nil + Nil + Nil + Nil + Nil	=10,000 + 8,41,000 =(-) 10,000 + 500
f.	New Equation Prepaid Insurance ₹ 1,000	1,75,000 + 80,000 + 50,000 + 5,00,000 + 36000 + Nil (-) 1000 + Nil + Nil + Nil + Nil + 1000	= Nil + 8,41,500 = Nil + Nil

	New Equation	1,74,500 + 80,000 + 50,000 + 5,00,000 + 36,000 + 1000	= Nil + 8,41,500
g.	Depreciation on Buildings ₹ 50,000	Nil + Nil + Nil (-) 50,000 + Nil + Nil	= Nil (-) 50,000
	New Equation	1,74,500 + 80,000 + 50,000 + 4,50,000 + 36000 + 1000	= Nil + 7,91,500
h.	Capital introduced ₹ 50,000	+ 50,000 + Nil + Nil + Nil + Nil + Nil	= Nil + 50,000
	New Equation	2,24,500 + 80,000 + 50,000 + 4,50,000 + 36000 + 1000	= Nil + 8,41,500
i.	Receivd for Mr.Y (Debtor) in full settlement ₹35000	+ 35,000 + Nil + Nil + Nil (-) 36000 + Nil	= Nil (-) 1,000
	New Equation	2,59,500 + 80,000 + 50,000 + 4,50,000 + Nil + 1000	= Nil + 8,40,500
j.	Goods destrayed by fire ₹ 5000 and Insurance claim received ₹ 4000	+ 4,000 (-) 5000 + Nil + Nil + Nil + Nil	= Nil (-) 1000
	Final Equation	2,63,500 + 75,000 + 50,000 + 4,50,000 + Nil + 1000	= Nil + 8,39,500

∴ The Accounting Equation is:

Assets: Cash ₹2,63,500 + Goods ₹ 75,000+ Furniture ₹ 50,000 + Buildings ₹ 4,50,000 + Prepaid Insurance ₹ 1,000 = Liabilites: Capital ₹ 8,39,500

Working Note : Analysis of Transactions

Sl.No.	Elements involved	Effect of Transactions
a	Asset (Cash, Goods, Furniture, Buildings) and Capital	Increase in Assets (Cash ₹ 2,00,000, Goods ₹ 1,00,000 Furniture ₹ 50,000, Buildings ₹ 5,00,000) and Increase in Capital ₹ 8,50,000
b.	Asset (Goods) and Liability (Creditor)	Increase in Asset (Goods) ₹ 10,000 and Increase in Liability (Creditor) ₹ 10,000
c.	Assets (Goods), Asset (Debtors) and Capital for profit	Decrease in Asset (Goods) ₹ 30,000 Increase in Asset (Debtors) ₹ 36,000 Increase in Capital for profit ₹ 6,000
d.	Asset (Cash) and Capital for salary as expense	Decrease in Asset (Cash) ₹ 15,000 Decrease in Capital for expense ₹ 15,000
e.	Asset (Cash), Liability (A as Creditor) and Capital for Discount Received	Decrease in Asset (Cash) by ₹ 9,500 Decrease in Liability (Creditor) by ₹ 10,000 Increase in Capital for Discount received ₹ 500
f.	Asset (Cash) and Asset (Prepaid Insurance)	Decrease in Asset (Cash) ₹ 1,000 Increase in Asset (Prepaid Insurance) ₹ 1,000
g.	Asset (Buildings) and Capital(for depreciation as expenses)	Decrease in Capital for Depreciation as expense ₹ 50,000 Decrease in Asset (Building) ₹ 50,000

h.	Asset (Cash) and Capital	Increase in Asset (Cash) ₹ 50,000 Increase in Capital ₹ 50,000
i.	Asset (Cash), Asset (Debtors) and Capital for Discount allowed	Increase in Asset (Cash) ₹ 35,000 Decrease in Asset (Debtors) ₹ 36,000 Decrease in Capital for Discount Allowed ₹ 1,000
j.	Asset (Goods), Asset (Cash) and Capital for loss	Decrease in Asset (Goods) ₹ 5,000 Increase in Asset (Cash) for Insurance claim received ₹ 4,000 Decrease in Capital for loss ₹ 1,000

Illustration 6

(a) Rajiv commenced business with a capital of ₹ 10,00,000 on 1.4.2014. On that date he took a loan of ₹ 1,00,000 from Bank. On 31.3.2015, his assets were ₹ 12,00,000. Ascertain his capital on 31.3.2015 and profit or loss made during the year 2014-15 assuming that the Bank Loan is outstanding on the last date of the year.

(b) In addition to the particulars given in (a) above, if Rajiv had introduced ₹ 50,000 as fresh capital and had withdrawn for his personal use ₹ 10,000, find out his profit or loss during the year 2014-15.

Solution :

(a) Capital on 31.3.2015 =

Assets on 31.3.2015 - Liabilities on 31.3.2015

= ₹ 12,00,000 - ₹ 1,00,000 (Bank Loan)

= ₹ 11,00,000

Profit = Capital on 31.3.2015 - Capital on 1.4.2014

= ₹ 11,00,000 - ₹ 10,00,000 = ₹ 1,00,000

(b) Profit	= Capital on 31.3.2015	₹ 11,00,000
	Add Drawings made during the year 2014-15	₹ 10,000
		₹ 11,10,000
	Less Capital Introduced during the year 2014-15	₹ 50,000
		₹ 10,60,000
	Less Capital on 1.4.2014	₹ 10,00,000
	Profit earned during 2014-15 =	₹ 60,000

2.7 System of Record keeping

In accounting there are two systems of keeping records.

These two systems are :

Double Entry System and Single Entry System

2.7.1 Double Entry System

Double Entry System was develped by Luca Pacioli in 1494. This system is based on the principle of 'Dual Aspect' which states that every transaction has two aspects, i.e., receiving of benefit and giving of benefit. The basic principle followed is that every debit must have a corresponding credit. In other words, one account is to be debited and another account is to be credited for every transaction in order to have a complete record of the same. Thus, every transaction affects two accounts in opposite direction. For example, if goods are purchased from Mr.X on credit, the same will affect goods or purchase account and X's account and entry will be made in opposite direction in these two accounts. Therefore, both the aspects of every transaction are recorded under this system. There can be no transaction in the business which affects only one account or which has only one aspect. Under this system, the person or the account receiving a benefit is debited and the person or the account who gives something to the business is credited.

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

Features of Double Entry System

The important features or characteristics of Double Entry System are as follows :

i. Each transaction has two aspects, one is debit and other is credit.

ii. Both the accounts of a transaction are affected by the same amount but in opposite direction.

iii. Records are maintained as per specified rules.

iv. Recording of both personal and impersonal aspects are made. It is possible that both the aspects of a transaction may be personal or both may be impersonal or one may be personal and the other may be impersonal.

Advantages of Double Entry System

The advantages of Double Entry System are given below :

i. Complete Record of Transactions - In double entry system both personal and impersonal accounts are to be opened to keep a complete record of all business transactions.

ii. Scientific system - Double entry system follows certain rules for recording the transactions and thus, the system is more scientific as compared to other system of record keeping.

iii. Check on arithmetical accuracy - The system provides a check on the arithmetical accuracy with the help of Trial Balance.

iv. Knowledge about Profit or Loss - The system helps to reveal the result of the operation, i.e., profit or loss of the business during a particular period through Trading Account and Profit and Loss Account.

v. Knowledge of financial position - Financial position of the business on a particular date can be known under this system through Balance Sheet.

vi. Easy detection of errors and frauds - Under this system record is made for each transaction in two accounts and thus, there in less scope for errors and frauds. If at all some errors and frouds are committed, those can be easily detected.

vii. Comparative study possible - Comparisons of profitability can be made indicating the reasons for changing the net results of the business between two periods.

viii. Legal approval - Under this system a complete record of all business transactions are made as per certain rules of the system. The records maintained under this system are accepted by the Companies Act and various other Acts. Tax authorities also rely on the records maintained under this system. Records of double entry system are also accepted as documentary evidence by the court of law.

Disadvantages of Double Entry System

i. Expensive - Under this system a number of records are to be maintained making the system expensive.

ii. Requirement of expert knowledge - Proper education, knowledge and training are required for recording the transactions, preparing different statements for analysis and interpretation of the results.

iii. Some errors may remain undetected - Under the system arithmetical accuracy is ensured by the preparation of Trial Balance. But some errors like errors of principle, compensating errors, etc. may remain undetected.

2.7.2 Single Entry System

Single Entry System is not a complete system of maintaining accounting records. The system does not record both the aspects of each and every transaction. Usually the accounts kept are those relating to cash, credit customers and creditors. One may not find accounts relating to fixed assets, purchases, sales, expenses, incomes, etc. Thus, one may find that some transactions are not recorded at all, some transactions are recorded only in one of their aspects, while for some others both the aspects are recorded. For example, goods sold on credit will be recorded in the account of the customer. Cash received from him will be recorded both in the Cash Account and in the Personal Account of the customer, whereas, purchase of machinery on credit will not be recorded at all till payment is made. Therefore, the Single Entry System is better known as Incomplete System of recording transactions. Under this system only records relating to cash and personal accounts are maintained, i.e., accounts relating to cash, debtors and creditors are prepared. The system ignores all impersonal accounts like salaries, wages, sales, purchases, etc. It is not a systematic and reliable system but it is still followed by some small organisations to keep the records of transactions.

Kohler defines the system as "A system of book-keeping in which, as a rule, only records of cash and of personal accounts are maintained, it is always incomplete double entry system, varying with circumstances."

Features of Single Entry System

The salient features of Single Entry System of Accounting are noted below :

i. Suitability - This system is suitable for sole traders or partnership firms. Company form of organisations cannot maintain accounts on Single Entry System because of legal provisions.

ii. No uniformity - The system may differ from firm to firm as it is a mere adjustment of double entry system according to requirements and conveniences of the person.

iii. Maintenance of personal accounts - Under this system only personal accounts are maintained but real and nominal accounts are ignored.

iv. Maintenance of Cash Book- A cash book is usually maintained in this system which mixes up business as well as private transactions.

v. Dependance on original vouchers - Under this system one has to depend on original vouchers for the collection of necessary information.

vi. Preparation of Final Accounts - Final Accounts at the end of the year cannot be prepared in the absence of real and nominal accounts. But after converting the available information into double entry records and the missing amounts have been found out, Trading and Profit and Loss Account can be prepared. The amounts of assets and liabilities can also be computed from incomplete records, but they are based on estimates. That is the reason why the statement of assets and liabilities prepared under the system at the end of the accounting period is called a "Statement of Affairs" in stead of Balance Sheet.

Advantages of Single Entry System

i. Simple method - Single entry system is very simple method of recording the transactions.

ii. Economical - Compared to Double Entry System, this system is very economical and less expensive.

iii. Suitable for small concerns - The system is mainly suitable for small business enterprises with limited number of transactions and very few assets and liabilities.

iv. No need of adequate knowledge of principles of Book-keeping - Accounting records under this system can be easily maintained as their maintenance does not require adequate knowledge of the priciples of Book-keeping.

v. Easy to ascertain profit or loss - Ascertainment of profit or loss in much easier in Single Entry System. The proprietor has to compare the financial position of the business at the close of the accounting period with that at the beginning to ascertain profit or loss.

Disadvantages of Single Entry System

i. Incomplete and unscientific system - This system is incomplete and unscientific as both the aspects of a transaction are not recorded and no rules are followed for recording them.

ii. Arithmetical accuracy cannot be ensured - A trial balance cannot be prepared under this system and hence, arithmetical accuracy of the books of accounts cannot be ensured. Chances of errors and frauds, remaining undetected, are high.

iii. No control on assets - Since the accounts of assets are not maintained, it may be difficult to keep full control on assets in order to avoid misappropriation of assets.

iv. True profit or loss cannot be known - Trading and Profit and Loss Account, under the system, cannot be prepared and hence, the correct profit earned or loss suffered during the accounting period cannot be known.

v. Financial position of the business cannot be judged - Balance Sheet, called Statement of Affairs under the Single Entry System, is prepared in an unsatisfactory manner. The assets and liabilities are not provided from records, but are put down by physical inspection and on estimation basis. Thus, exact financial position cannot be known.

vi. Comparative study is difficult - A major defect of this system is that the financial position at the end of the year cannot be compared with that of the previous year due to incomplete information and lack of uniformity of principles of recording.

vii. Inadequate for planning and control - Accounting information supplied by the accounting records are inadequate for managerial planning and control.

viii. Not suitable for large organisations - It may be followed only by small organisations. It can never be followed in large business houses.

Differences between Double Entry and Single Entry System :

The following are the major differences between Double Entry System and Single Entry System of Book-keeping :

Basis	Double Entry System	Single Entry System
1. Meaning	The accounting system, in which every transaction affects two accounts simultaneously, is known as Double Entry System. Under this system both aspects of every transaction are recorded.	The system of accounting in which both aspects of very few transactions are recorded. For some other transactions one aspect and for the others no aspect is recorded.
2. Nature	This system is very complex. Proper knowledge and training are required for recording the transactions.	This system is very simple and somebody with little or no knowldge of accounting, can maintain the records.
3. Types of recording	Complete records are made.	Incomplete records are made.
4. Types of Accounts maintained	All types of accounts, i.e., Personal, Real and Nominal Accounts are maintained.	Only personal accounts and cash accounts are maintained.
5. Detection of Errors and frauds	It is very easy to locate the errors and frauds.	It is very difficult to detect the errors and frauds as the records are incomplete.
6. Suitabulity	It is suitable for all types of business enterprises, small or large.	It is suitable for small enterprises only.
7. Preparation of financial statement	Financial statements such as Trading and Profit and Loss Account and Balance Sheet can be prepared easily.	It is difficult to prepare the Financial Statement from the incomplete records.
8. Suitability for Tax purposes	Records maintained under this system are accepted by tax authorities and are suitable for tax assessment.	Records under this system are not accepted by tax authorities and hence, not suitable for tax assessment.
9. Acceptance as Evidence	Records maintained under this system are accepted as evidence in the court of law.	Records maintained under this system are not accepted as evidence in the court of law.

2.8 Basis of Accounting

The basis of accounting refers to the methods used to determine when revenues and expenses with associated assets and liabilities are recognised in the accounts of a business enterprise and reported in its financial statements. In other words, a basis of accounting is the timing of recognition of various financial transactions on the basis of which they are recorded in the books of accounts of an enterprise.

There are three bases of accounting by which profit or income is measured. They are :

a. Cash Basis of Accounting

b. Accrual Basis of Accounting

c. Hybrid Basis of Accounting

2.8.1 Cash Basis of Accounting

Under this method, all revenues/ incomes are considered to be earned only when they are actually received in cash. Similarly, all expenses are deemed to be incurred only when they are actually paid. In such cases credit transactions are not recorded at all till cash in actually received or paid for them. Under cash basis of accounting, the difference between total incomes so received in cash and the total expenses so paid in cash represents the profit or loss of an enterprise for a particular accounting period. Outstanding expenses and accrued incomes are ignored under this basis of accounting. This method is particularly followed by professionals like doctors, lawyers, chartered accountants, etc.

Advantages of cash basis of Accounting

(i) It is very simple since it does not require any adjustment entry on periodical accounts at the end of the period.

(ii) It is suitable for those enterprises where most of the transactions are made on cash basis.

Disadvantages of cash basis of Accounting

(i) Cash basis of accounting fails to ascertain profit or loss accurately since it does not incorporate the necessary adjustments for outstanding and accrued items. As a result of this, the financial statements fail to show true and fair view of the profit or loss and financial position of the business.

(ii) The method is found unsuitable for an enterprise having numerous credit transactions.

(iii) It does not follow the matching principle of accounting. For example, unpaid salary for the month of March if paid in April, will be treated as expense of the next accounting year in stead of current accounting year in which actual benefits are derived.

(iv) There is possibility of manipulation of profits under this system because payments may be delayed and incomes may be postponed.

(v) The Companies Act, 2013 does not recognise the cash basis of accounting.

2.8.2 Accrual Basis of Accounting

This basis of accounting is also known as Mercantile Basis of Accounting. Under this method, incomes are recorded or credited to the period in which they are earned irrespective of the fact that they have actually been received or not. Similarly, expenses are charged to the period in which they relate, irrespective of the fact that they have actually been paid or not. As such, the difference between the total incomes earned and the total expenses incurred respresents the profit or loss for the period. Under this basis, all adjustments regarding outstanding and prepaid expenses, accrued incomes, etc. are to be made accordingly for determination of the correct result of the operation. This method recognises the matching principle of accounting. Under the Companies Act, 2013 all companies are required to maintain their accounts according to accrual basis of accounting.

Advantages of Accrual Basis of Accounting

(i) Under this system, the profit or loss for a particular period and the financial position at the end of the period exhibit true and fair view of the state of affairs of the business enterprise.

(ii) This method follows the matching principle of accounting.

(iii) There is consistency in profits of different years, as a result of which comparison of figures of different years is possible.

(iv) The Companies Act, 2013 recognises this system of accounting.

Disadvantage of Accrual Basis of Accounting

It is not simple as cash system of accounting. The system requires many adjustments while preparing financial statements at the end of the year.

2.8.3 Hybrid Basis of Accounting

This basis of accounting is also known as Mixed Basis of Accounting. Under this method, incomes / revenues and assets are recorded on cash basis, whereas expenses and liabilities are recorded on accrual basis. In other words, this basis of accounting is a mixture of cash basis and accrual basis. Generally professionals like doctors, lawyers, etc. adopt this method. Under this method, outstanding expenses are considered whereas accrued incomes are ignored. This basis of accounting is not widely followed in actual practice since it fails to measure accurate profit or loss.

Distinction between Cash Basis and Accrual Basis of Accounting

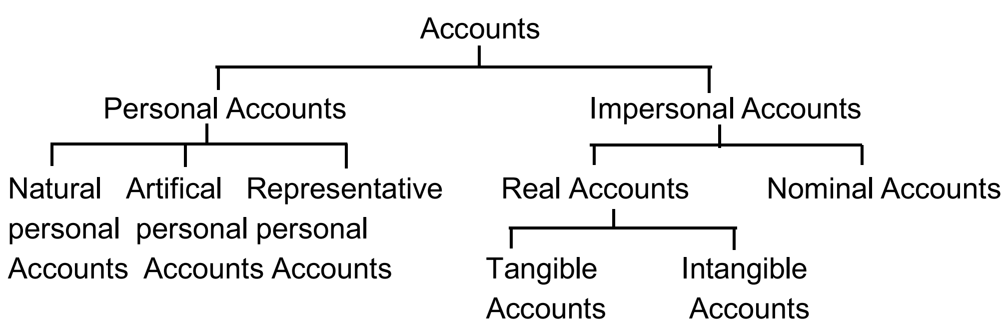
Basis of Difference	Cash Basis	Accrual Basis
1. Recording of Incomes	Those incomes which are received in cash, are considered under this system.	Under this system, all incomes are considered whether received or not.
2. Recording of expenses	Expenses paid in cash are recorded under this system	As per this basis, all expenses are recorded whether paid or not.
3. Recording of outstanding and accrued items	This basis does not consider outstanding and accrued items.	This basis considers all outstanding and accrued items.
4. Nature of transaction	Enterprises with mostly cash transactions prefer this basis.	Enterprises with cash and credit transactions prefer this basis.
5. Accuracy of result	Accurate profit or loss cannot be ascertained under this basis.	Profit or loss can be ascertained accurately.
6. Suitability	Small firms usually prefer this basis of accounting as it is very simple to follow.	Large scale organisations having both cash and credit transactions prefer this basis of accounting.
7. Legal position	This basis is not recognised by the Companies Act, 2013.	This basis of accounting is recognised by the Companies Act, 2013.

2.9 Classification of Accounts

Accounts are classified on the basis of two approaches, i.e., British Approach and American Approach.

2.9.1 British Approach of Classification of Accounts

This approach is also known as Traditional Approach. The Traditional Approach or British Approach classifies accounts into three classes, i.e., Personal Account, Real Account and Nominal Account. The classification may be illustrated as follows :



(a) Personal Accounts -

The accounts which relate to persons are called Personal Accounts. Persons include an individual, a firm, a company or an institution. The object of preparing a personal account is to ascertain as to how much amount a personal account owes to the business and how much amount is owed to a personal account by the business. Personal accounts may be classified into three categories, i.e., Natural Personal Accounts, Artificial Personal Accounts and Representative Personal Accounts.

(i) Nature Personal Accounts - Accounts which relate to natural persons such as individuals or human beings are called Natural personal Accounts. Mr. X's Account, Ram's Account, Seeta's Account, Proprietor's Capital Account, Proprietor's Drawings Account, Debtors Account, Creditors Account, etc. are the examples of Natural Personal Accounts.

(ii) Artificial Personal Accounts - Accounts which relate to a group of persons or firms or institutions having no physical existence as human beings are known as Artificial Personal Accounts. Account of X Ltd., Account of Life Insurance Corporation of India, Bank Account, Account of a Partnership Firm, etc. are the examples of Artificial Personal Accounts.

(iii) Representative Personal Accounts - Accounts which represent a particular person and group of persons are known as Representative Personal Accounts. For example, if the salaries for the month of March are not paid to the employees, the amount payable to these employees will be put under one common head "Salary Outstanding Account". This salary outstanding account represents the employees to whom salaries have to be paid. This is, therefore, called Representative Personal Account. Unpaid or Outstanding Wages Account, Prepaid Insurance Account, Interest Accrued Account, Commission Received in Advance Account, etc. are the other examples of Representative Personal Account.

(b) Impersonal Accounts -

All those accounts which are not personal accounts are called Impersonal Accounts. This account is further divided into two types, i.e., Real Accounts and Nominal Accounts.

(i) Real Accounts - The accounts of all those things whose value can be measured in terms of money and which relate to properties and assets of the business are called Real Accounts. Cash Account, Land and Buildings Account, Machinery Account, Furniture Account, Stock Account, Goodwill Account, etc. are the examples of Real Accounts. These accounts represent the value of various properties and assets owned by the business and indicate the financial position of the business. Real Account can be further classified into two categories, i.e., Tangible Real Accounts and Intangible Real Accounts.

A. Tangible Real Accounts - Tangible Real Accounts are the accounts of those things which can be touched, felt, measured, purchased or sold, etc. Cash Account, Land and Buildings Account, Stock Account, Furniture Account, etc. are the examples of Tangible Real Accounts. It may be pointed out here that though Bank Account is an asset, it is not a tangible real account but it is an artificial personal account since it relates the account of a bank which is an artifical person.

B. Intangible Real Accounts - Intangible Real Accounts represent the things which cannot be seen, or touched but their value can be expressed in terms of money. Goodwill Account, Patents Account, Copyright Account, Trade marks Account, etc. are the examples of Intangible Real Account.

(ii) Nominal Accounts - These accounts do not have any existence, form or shape. They relate to incomes, gains, expenses and losses of a business enterprise. Interest Received Account, Dividend Account, Commission Account, Discount Received Account, Bad debt Recovered Account, Salaries Account, Wages Account, Insurance Account, Rent Account, Discount Allowed Account, Bad debt Account, Loss due to Fire Account, etc. are the examples of Nominal Accounts. These accounts are opened to explain the nature of expenses and incomes for which cash has been paid or received. Nominal Accounts provide information regarding the amounts spent as expenses on various heads during the year, incomes received on various heads during the year and losses, if any, suffered on different heads during the year.

2.9.2 American Approach of Classification of Accounts

This approach is also known as Modern Approach. The accounts are classified into the following five categories as per the American Approach :

(i) Assets Accounts

(ii) Liabilities Accounts

(iii) Capital Account or Owener's Equity Account

(iv) Revenues or Incomes Accounts

(v) Losses or Expenses Accounts

(i) Assets Accounts - The accounts which relate to assets are called Assets Accounts. Assets are anythings which have got economic value and which are owned by the business enterprise. Cash Account, Stock Account, Land and Buildings Account, Plant and Machinery Account, etc. are the examples of Assets Accounts.

(ii) Liabilities Accounts - Accounts which relate to liabilities are called Liablities Accounts. Liabilities are the obligations of the business enterprise to be paid in future. In other words, liabilities refer to the amount which the business enterprise owes to the outsiders except the amount owed to the proprietor. Sundry Creditors Account, Bills payable Account, Bank Overdraft Account, Long-Term Loans Account, Debentures Account, etc. are the examples of Liabilities Accounts.

(iii) Capital Account - Account which relates to the proprietor is called Capital Account. It is also known as Owner's Equity Account. Capital is the obligation of the business enterprise to the proprietor.

(iv) Revenues or Incomes Accounts - The accounts which relate to the revenues or incomes are called Revenues Accounts or Income Accounts, Interest Received Account, Commission Received Account, Dividend Received Account, etc. are the examples of Revenus or Incomes Accounts.

(v) Losses or Expenses Accounts - The accounts which relate to all types of losses and expenses are called Losses or Expenses Accounts. Bad debt Account, Loss due to Fire Account, Salaries Account, Wages Account, Discount Allowed Account, Rent Account, etc. are the examples of Losses or Expenses Accounts.

2.10 Rules of Debit and Credit

Debit and credit are two actions of opposite nature that are relevant to the process of recording the business transactions in accounting. One account is either debited or credited depending on the nature of the account and the rule applicable to it. Each and every account has two sides. The left side of an account is traditinally called Debit side and the right side of an account is called Credit side. Debit is written as 'Dr.' and credit is written as 'Cr.' in abbreviated form. Similarly an account is written as 'A/c' in abbreviated form.

Rules of Debit and Credit under British Approach

As discussed earlier, under British Approach or Traditional Approach, Accounts are classified into three categories, i.e., Personal Account, Real Account and Nominal Account.

(a) Rule for Personal Accounts :

"Debit the Receiver and Credit the Giver"

This rule implies that the person who receives something from the business is debited and the person who gives something to the business is credited. For example, if cash is paid to Mr. A, A's Account is to be debited as he is the person who receives the cash. On the other hand, if cash in received from Mr. B, B's Account is to be credited as he is the person who gives the cash.

(b) Rule for Real Accounts :

"Debit what comes in and credit what goes out"

This rule implies that whenever any asset or property comes into the business, such asset account is debited and whenever any asset goes outside the business, such asset account in credited. For example, if a Machine in purchased for cash, Machinery Account is debited as the Machine (asset) comes into the business and Cash Account is credited as Cash (asset) goes outside the business.

(c) Rule for Nominal Accounts :

"Debit the Expenses and Losses and Credit Incomes and Gains"

This rule implies that all expenses incurred and losses suffered are to be debited and on the other hand, all incomes and gains are to be credited. For example, if rent is paid for business premises, Rent Account (expense) in debited. On the other hand, if interest on investments is received, Interest Received Account (income) is credited.

Rules of Debit and Credit under American Approach

Under American Approach or Modern Approach, the accounts are classified into five categories, i.e., Assets Account, Liabilities Accounts, Capital Account, Revenues or Incomes Accounts and Losses or Expenses Accounts.

(a) Rule for Assets Accounts

"Debit all increases in Assets and Credit all decreases in Assets"

The rule implies that when there is an increase in the amount of an asset, the concerned Asset Account is debited due to such increase and if there is a decrease in the amount of an asset, the concerned Asset Account is credited for such decrease, For example, if a Machine of ₹ 50,000 is purchased for cash, the Machinery Account is debited since the Machine (asset) is increased due to purchase. On the other hand, since the amount of Cash (asset) is decreased, the Cash Account is credited.

(b) Rule for Liabilities Accounts :

"Debit all decreases in Liabilities and Credit all increases in Liabilities"

This rule implies that when there is decrease in the amount of a liability, the concerned Liability Account is debited for such decrease and on the other hand, if there is increase in the amount of a liability, the concerned Liability Account is credited for such an increase. For example, if a Bank Loan of ₹ 50,000 is obtained, Bank Loan Account is credited as the business owes to the bank and a liability (Bank Loan) is increased. When the same loan is paid back to the bank, Bank Loan Account is debited since there is decrease in the amount of liability (Bank Loan).

(c) Rule for Capital Account :

"Debit the decrease in Capital and credit the Increase in Capital"

This rule implies that the Capital Account is debited for decrease in capital and is credited for increase in capital. For example, Capital Account is debited for withdrawal of money from the business for personal use, i.e., drawings and Capital Account is credited for introduction of additional capital in the business.

(d) Rule for Revenues or Incomes Accounts :

"Debit the decrease in Revenues or Incomes or Profits and Credit the increase in Revenues or Incomes or Profits".

This rule means that if there is a decrease in revenues or incomes, the concerned revenue or income account is debited and on the contrary, the revenues or incomes accounts are credited for increase in such revenues or incomes.

(e) Rule for Expenses and Losses Accounts :

"Debit the increase in Expenses and Losses and credit the decrease in Expenses and Losses".

This rule signifies that the concerned expenses and losses accounts are debited for an increase in the amount of such expenses and losses. On the other hand, the concerned expenses and losses accounts are credited for a decrease in such expenses or losses.

Illustration 7

Classify the following items into Personal, Real and Nominal Accounts :

a. Capital	e. Rent	i. Building	m. Abhijeet
b. Sales	f. Cash	j. Bank	n. Lucy Traders
c. Drawings	g. Interest paid	k. Purchases	o. Prepaid
d. Outstanding salary	h. Discount received	l. Advertisement	Insurance

Solution :

a. Capital - Personal Account b. Sales - Real Account

c. Drawings -Personal Account

d. Outstanding Salary - Representative Personal Account

e. Rent - Nominal Account

f. Cash - Real Account

g. Interest paid - Nominal Account

h. Discount Received - Nominal Account

i. Buildings - Real Account

j. Bank - Artificial Personal Account

k. Purchases - Real Account

l. Advertisement - Nominal Account

m. Abhijeet - Personal Account

n. Lucy Traders - Artificial Personal Account

o. Prepaid Insurance - Representative Personal Account

Illustration 8

From the following transactions, find out the nature of accounts involved and state the account to be debited and credited under British Approach :

a. Interest paid

b. Dividend Received

c. Outstanding wages

d. Discount Received

e. Machine purchased in cash

f. Proprietor introduced capital

g. Received cash from Ram

h. Furniture sold for cash

i. Drawings by proprietor

j. Goods purchased from Shyam on credit

k. Goods sold to Laxman on credit

l. Purchased goods for cash from Mr. B.

Solution :

Transactions	Accounts involved	Nature of Account	Debit / Credit
a. Interest paid	Interest paid A/c and	Nominal	Debit
	Cash A/c	Real	Credit
b. Dividend Received	Cash A/c and	Real	Debit
	Dividend A/c	Nominal	Credit
c. Outstanding wages	Wages A/c and	Nominal	Debit
	Outstanding wages A/c	Representative Personal	Credit
d. Discount Received	Creditors A/c and	Personal	Debit
	Discount Received A/c	Nominal	Credit
e. Machine Purchased for cash	Machinery A/c and	Real	Debit
	Cash A/c	Real	Credit

f. Proprietor introduced Capital	Cash A/c and Capital A/c	Real Personal	Debit Credit
g. Received cash from Ram	Cash A/c and Ram's A/c	Real Personal	Debit Credit
h. Furniture sold fof cash	Cash A/c and Furniture A/c	Real Real	Debit Credit
i. Drawings by Proprietor	Drawings A/c or Capital A/c and Cash A/c	Personal Real	Debit Credit
j. Goods purchased from Shyam on credit	Purchases A/c and Shyam's A/c	Real Personal	Debit Credit
k. Goods sold to Laxman on credit	Laxman's A/c and Sales A/c	Personal Real	Debit Credit
l. Purchases goods from Mr.B for cash	Purchases A/c Cash A/c	Real Real	Debit Credit

Illustration 9

One of the accounts involved is given for the following transactions. State the other account involved in the trasanction and mention whether that account will be debited or credited as per British Approach. Give reasons.

a. Started Business with cash	-	Cash A/c
b. Opened a Bank A/c	-	Bank A/c
c. Goods bought from Mr.x and a cheque issued in his favour	-	Purchases A/c
d. Amount withdrawn from Bank	-	Bank A/c
e. Amount Received from B	-	B's A/c
f. Amount due from A irrecoverable	-	A's A/c
g. Carrige paid	-	Cash A/c
h. Freight on purchases paid	-	Cash A/c
i. Amount withdrawn by proprietor for personal use	-	Cash A/c
j. Goods destroyed by fire	-	Goods A/c

Solution :

	Other Accounts involved	Debited or credited	Reasons
a.	Capital A/c	Credited	Personal A/c - Giver is credited
b.	Cash A/c	Credited	Real A/c- Cash goes out and credited
c.	Bank A/c	Credited	Personal A/c - Giver is credited
d.	Cash A/c	Debited	Real A/c - Cash comes in and Debited
e.	Cash A/c	Debited	Real A/c - Cash comes in and Debited
f.	Bad debt A/c	Debited	Nominal A/c - Bad debt is a loss and Debited
g.	Carriage A/c	Debited	Nominal A/c - Carriage is an expense and hence Debited
h.	Freight A/c	Debited	Nominal A/c - Freight is an expense and hence Debited
i.	Drawings A/c / Capital A/c	Debited	Personal A/c - Receiver is debited
j.	Loss by Fire A/c	Debited	Nominal A/c - Loss by fire is a loss and hence is debited.

Illustration 10

Classify the following accounts under American Approach :

a. Cash A/c	b. Salary A/c	c. Buildings A/c
d. Repairs A/c	e. Commission Received A/c	f. Bad debt A/c
g. Discount Allowed A/c	h. Wages outstanding A/c	i. Drawings A/c
j. Bad debt recovered A/c	k. Bank A/c	l. Bank overdraft A/c
m. Bills payable A/c	n. Discount Received A/c	o. Bills Receivable A/c

Solution :

Assets A/c - Cash A/c, Buildings A/c, Bank A/c, Bills Receivable A/c

Liabilities A/c - Wages outstanding A/c, Bank Overdraft A/c, Bills payable A/c

Capital A/c - Drawings A/c

Revenues / Incomes A/c - Commission Received A/c, Bad debt Recovered A/c, Discount Received A/c

Expenses / Losses A/c - Salary A/c, Repair A/c, Bad debt A/c, Discount Allowed A/c

Illustration 11

On the basis of American Approach, whether the increase in the following accounts will be debited or credited ? State the nature of accounts.

a. Cash A/c b. Rent paid A/c c. Debtors A/c d. Proprietor's A/c

e. Creditors A/c f. Machinery A/c g. Wages A/c h. Furniture A/c

Solution :

a. Debit - Asset b. Debit - Expense c. Debit- Asset d. Credit - Capital

e. Credit - Liability f. Debit - Asset g. Debit - Expense h. Debit - Asset

Illustration 12 :

On the basis of American Approach, whether the decrease in the following accounts will be debited or credited ? State the nature of accounts.

a. Furniture A/c b. Bank Overdraft A/c c. Debtors A/c

d. Creditors A/c e. Proprietor's A/c f. Wages A/c

g. Outstanding salary A/c h. Commission Received A/c

Solution :

a. Credit - Asset b. Debit - Liability c. Credit - Asset

d. Debit - Liability e. Debit - Capital f. Credit - Expense

g. Debit - Liability h. Debit - Income

Illustration 13

Analyse the following transactions as per American Approach and state the accounts to be debited and credited.

a. Started a business with cash
b. Opened a Bank Account
c. Purchased a computer for official use
d. Purchased goods from Rohit on credit
e. Paid wages
f. Received commission
g. Sold goods for cash
h. Paid to Rohit by cheque

Solution :

	Transactions	Accounts involved	Analysis	Debit / Credit
a.	Started business with cash	Cash A/c and	Increase in Asset	Debit
		Capital A/c	Increase in Liability	Credit
b.	Opened a Bank A/c	Bank A/c and	Increase in Asset	Debit
		Cash A/c	Decrease in Asset	Credit
c.	Purchased a computer for official use	Computer A/c and	Increase in Asset	Debit
		Cash A/c	Decrease in Asset	Credit
d.	Purchased goods from Rohit on credit	Purchases A/c and	Increase in Expense	Debit
		Rohit's A/c	Increase in Liability	Credit
e.	Paid wages	Wages A/c and	Increase in Expense	Debit
		Cash A/c	Decrease in Asset	Credit
f.	Received Commission	Cash A/c and	Increase in Asset	Debit
		Commission Received A/c	Increase in Income	Credit
g.	Goods sold for cash	Cash A/c and	Increase in Asset	Debit
		Sales A/c	Increase in Revenue	Credit
h.	Paid to Rohit by cheque	Rohit's A/c and	Decrease in Liability	Debit
		Bank A/c	Decrease in Asset	

Credit **2.11 Questions**

1. From the alternatives given below, write the correct answer along with its serial number against each bit :

(i) According to which accounting concept, even the owner of a business is treated as a creditor ?

a. Money measurement concept b. Business Entity Concept

c. Going - concern concept d. Accounting period Concept

(ii) According to convention of conservatism,

a. Contingent Liabilities are shown in the Balance Sheet by way of foot notes.

b. Depreciation is charged on fixed assets.

c. Provision is made for bad and doubtful debts.

d. Record is made for outstanding expenses.

(iii) As per Dual Aspect Concept,

a. Capital = Assets + Liabilities

b. Assets = Capital - Liabilities

c. Assets = Liabilities - Capital

d. Assets = Liabilities + Capital

(iv) One of the following accounting concepts / conventions, according to which contingent liabilities are shown in the Balance Sheet by way of foot notes, is :

a. Dual Aspect Concept b. Convention of full disclosure

c. Convention of materiality d. Going concern concept

(v) One of the following accounting concepts / conventions, according to which cost of a small calculator is shown as an expense and not an asset, is :

a. Convention of materiality b. Matching concept

c. Convention of full disclosure d. Accounting period concept

(vi) The concept / convention on the basis of which depreciation on fixed assets provided, is :

a. Going concern concept b. Business Entity Concept

c. Convention of conservatism d. Convention of full disclosure

(vii) Principle of conservatism takes into account :

a. All future profit and losses

b. All future profits and not losses

c. All future losses and not profits

d. Neither profits not losses of the future

(viii) According to the convention of conservatism, closing stock is valued at :

a. Cost price b. Market price

c. Cost price or market price which ever is less d. Realisable price

(ix) The accounting concept according to which qualiltative transactions are not recorded in the books of accounts, is :

a. Business Entity concept b. Going concern concept

c. Dual Aspect concept d. Money Measurement concept

(x) The accounting convention according to which the same accounting methods should be followed each year, is :

a. Convention of full disclosure b. Convention of materiality

c. Convention of conservatism d. Convention of consistency

(xi) Profit or loss is determined on the basis of :

a. Matching concept b. Cost concept

c. Money measurement concept d. Dual aspect concept.

(xii) The accounting concept that is violated by recording the personal expenses of the proprietor in the firm's income statement, is :

a. Cost concept b. Accounting period concept

c. Business Entity concept d. Dual aspect concept

(xiii) A person who owes money to the firm is called :

a. Debtor b. Creditor c. Supplier d. Seller

(xiv) Current assets do not include :

a. Bills of exchange b. Debtors

c. Cash at Bank d. Motor vehicles

(xv) Fixed assets do not include :

a. Cash in hand b. Land and Buildings

c. Plant and Machinery d. Long-term Investment

(xvi) One of the following which is an intangible asset, is :

a. Cash at Bank　　b. Plant and Machinery

c. Goodwill　　d. Short-term Investment

(xvii) One of the following which is a fictitions asset, is :

a. Preliminary expense　b. Goodwill　c. Patent　d. Mine

(xviii) One of the following which is not a wasting asset, is :

a. Mine　b. Oil well　c. Stone quarry　d. Closing stock

(xix) Current liabilities do not include :

a. Sunday creditor　　b. Bills payable

c. Bank overdraft　　d. Long-term loan

(xx) Long-term Liabilities include :

a. Outstanding expenses　　b. Bank Overdraft

c. Debentures　　d. Bills payable

(xxi) Contingent Liabilities include :

a. Sunday creditors　　b. Bank Overdraft

c. Disputed claims against the business　　d. Debentures

(xxii) Purchases refer to the buying of :

a. Assets for use in the business　　b. Stationery for office use

c. Goods for resale　　d. Investment

(xxiii) One of the following which will be treated as drawings is :

a. Withdrawing money for purchase of assets for business

b. Withdrawing money for payment of salary to employees

c. Withdrawing money for payment to creditors

d. Withdrawing money for personal expenses of proprietor.

(xxiv) Tangible assets do not include :

a. Furniture　b. Plant　c. Goodwill　d. Cash

(xxv) Bank overdraft is a :

a. Current asset　　b. Current liability

c. Fixed asset　　d. Non-current liability

(xxvi) The effect of 'salary paid' on Accounting Equation will be :

a. Decrease in assets b. Increase in assets

c. Decrease in capital d. Decrease in both asset and capital

(xxvii) Both assets and capital would increase for :

a. Purchase of machinery on credit

b. Payment to creditors

c. Drawings by proprietor

d. Additional capital introduced by proprietor

(xxviii) Purchase of fixed asset for cash would :

a. Reduce both current assets and current liabilities

b. Reduce current assets and increase fixed assets

c. Reduce both current assets and fixed assets

d. Keep both current assets and fixed assets unchanged

(xxix) Sale of fixed asset for cash at book value would :

a. Reduce both current assets and fixed assets

b. Reduce both current assets and current liabilities

c. Increase current assets and decrease fixed assets

d. Keep both current assets and fixed assets unchanged

(xxx) When closing capital is more than opening capital, it denotes :

a. Profit b. Loss c. No profit or loss

d. Profit, if there is no introduction of fresh capital

(xxxi) When closing capital is less than opening capital, it denotes :

a. Profit b. Loss, if there is no drawings

c. Loss d. No profit or loss

[Ans : (i) b, (ii) c, (iii) d, (iv) b, (v) a, (vi) a, (vii) c, (viii) c, (ix) d, (x) d, (xi) a, (xii) c, (xiii) a, (xiv) d, (xv) a, (xvi) c, (xvii)a, (xviii) d, (xix) d, (xx) c, (xxi) c, (xxii) c, (xxiii) d, (xxiv) c, (xxv) b, (xxvi) d, (xxvii) d, (xxviii) b, (xxix) c, (xxx) d, (xxxi) b]

2. Answer the following questions in one word/ term each ;

(i) Under which principle, the calibre or quality of the manager is not disclosed in the Balance Sheet ?

(ii) According to which convention, depreciation is to be charged as per one particular method from year to year ?

(iii) Give one example of current asset.

(iv) Give one example of intangible asset.

(v) Give one example of wasting asset.

(vi) Give one example of fictitious asset.

(vii) Write one example of contingent liability.

(viii) State one example of current liability.

(ix) Which assets are expected to be converted into cash within short period (normally within one year) ?

(x) Which liabilities are to be paid in near future (normally within one year) ?

(xi) On 31.3.2016, the financial position of a business enterprise is as follows :

Cash ₹ 5,000, Debtors ₹ 50,000,
Machinery ₹ 1,00,000, Stock ₹ 15,000,
Capital ₹ 1, 20,000

Find out the liabilities as on that date.

(xii) If the capital of a business is ₹ 2,00,000 and outside liabilities are ₹ 50,000, ascertain total assets of the business.

[Ans : (i) Money measurement, (ii) Consistency, (iii) Cash, Bills Receivable, Stock, etc., (iv) Goodwill, patent, etc. (v) Mine, quarry, etc., (vi) Preliminary expenses, etc., (vii) Disputed claim, (viii) Creditor, etc., (ix) Current assets, (x) Current liabilities, (xi) ₹ 50,000, (xii) ₹ 2,50,000]

3. Answer the following questions in one sentence each :

(i) What is the full form of GAAP ?

(ii) Write the full form of IFRS.

(iii) What is 'Business Entity Concept' ?

(iv) State the significance of 'Money Measurement Concept' ?

(v) What do you mean by 'Capital' ?

(vi) What is fixed asset ?

(vii) What is current asset ?

(viii) What are current liabilities ?

(ix) State any one feature of Double Entry system of Book-keeping.

(x) Write any one advantage of Double Entry System of Book-keeping.

(xi) Write any one advantage of Single Entry system of Book-keeping.

(xii) Write any one disadvantage of Single entry system of Book-keeping.

(xiii) What is 'Cash Basis' of accounting ?

(xiv) What do you mean by 'Accrual Basis' of accounting ?

(xv) Write any one advantage of 'Accrual Basis' of accounting.

(xvi) State any one objective of 'Accounting Standard'.

(xvii) Write any one assumption of IFRS.

(xviii) State any two classes of accounts on the basis of British Approach.

(xix) Write any two classes of accounts under American Approach.

(xx) State the rule of debit and credit for 'assets' under American Approach.

(xxi) Write the rule of debit and credit for 'capital account' under American Approach.

(xxii) State the rule of debit and credit for 'Real Accounts' under British Approach.

(xxiii) Write the rule of debit and credit for 'Personal Accounts' under British Approach.

(xxiv) State the rule of debit and credit for 'Liabilities Accounts' under American Approach.

(xxv) Write the rule of debit and credit for 'Expenses and losses' under American Approach.

4. Correct the underlined portion of the following sentences :

(i) The amount invested by the proprietor in a business enterprise is known as <u>drawings</u>.

(ii) The amount which the firm owes to outsiders is called <u>assets</u>.

(iii) <u>Fixed</u> assets include cash and other assets which are expected to be converted into cash within a short period.

(iv) Stock is an example of <u>fictitious</u> assets.

(v) Bank overdraft is an example of <u>Non-current</u> liabilities.

(vi) Investment is an <u>intangible</u> asset.

(vii) According to <u>Going-concern</u> concept, the proprietor of the business is treated as a creditor.

(viii) Due to the <u>cost</u> concept, qualitative transactions are not recorded in the books of accounts.

(ix) An asset is recorded in the books of accounts at <u>market</u> price.

(x) Both assets and <u>liabilities</u> would increase by fresh introduction of capital by the proprietor.

[Ans : (i) Capital, (ii) Liabilities, (iii) Current, (iv) Current, (v) Current, (vi)Tangible, (vii) Business Entity, (viii) Money measurement, (ix) Cost, (x) Capital.]

5. Fill up the blanks.

(i) An asset is recorded in the books of accounts at ________ price.

(ii) Convention of _________ requires the same accounting principles and methods should be followed from year to year.

(iii) Matching concept means matching cost with ________.

(iv) Cash at Bank is a _________ asset.

(v) The person from whom the amounts are due for goods sold to him on credit is known as ________.

(vi) Goodwill is a / an ________ asset.

(vii) Oil wells are ________ assets.

(viii) Preliminary expenses are ________ assets.

(ix) Goodwill is a /an ________ account.

(x) The system of Book-keeping in which only records of cash and of personal accounts are maintained, is known as _________ Entry System.

(xi) In ________ basis of accounting, outstanding expenses and accrued incomes are ignored.

(xii) Accrual basis of accounting is also known as ________ basis of accounting.

(xiii) In ________ basis of accounting, outstanding expenses are considered accrued incomes are ignored.

[Ans : (i) cost, (ii) consistency, (iii) revenue, (iv) current, (v) debtor, (vi) intangible, (vii) wasting, (viii) fictitious, (ix) intangible real, (x) single, (xi) cash, (xii) mercantile, (xiii) hybrid]

6. Answer the following questions within two sentences each :

(i) What is GAAP ?

(ii) What do you mean by “accounting concepts and conventions” ?

(iii) What is the significance of ‘Business Entity Concept’ ?

(iv) What do you mean by “Money Measurement Concept” ?

(v) What is going - concern concept ?

(vi) What is cost concept ?

(vii) What is accounting period concept ?

(viii) What is the significance of the principle of full disclosure ?

(ix) What do you mean by convention of consistancy ?

(x) What is the principle of materiality ?
(xi) State any two objectives of Accounting Standards.
(xii) What is IFRS ?
(xiii) Write any two assumptions of IFRS.
(xiv) What is capital ?
(xv) What are drawings ?
(xvi) What are assets ?
(xvii) What are liabilities ?
(xviii) What is the basic accounting equation ?
(xix) What are current assets ?
(xx) What are current liabilities ?
(xxi) What is expense ?
(xxii) What is revenue ?
(xxiii) What do you mean by 'purchase' ?
(xxiv) What is 'sale' ?
(xxv) Why are the rules of debit and credit same for both capital and liability under American Approach ?
(xxvi) What is Double Entry System of Book-keeping ?
(xxvii) What are Personal accounts ?
(xxviii) What are Real accounts ?
(xxix) What are Nominal accounts ?
(xxx) What are Representative Personal Accounts ?
(xxxi) State any two advantages of Double Entry System of Book-keeping.
(xxxii) Write any two disadvantages of Double Entry System of Book-keeping.
(xxxiii) State any two features of Double Entry System of Book-keeping.
(xxxiv) What is Single Entry System of Book-keeping ?
(xxxv) Write any two features of Single Entry System of Book-keeping.
(xxxvi) State any two advantages of Single Entry System.
(xxxvii) Write any two disadvantages of Single Entry System.
(xxxviii) What is Cash basis of accounting ?
(xxxix) What is Accrual basis of accounting ?
(xxxx) What do you mean by 'Hybrid Basis of Accounting' ?
(xxxxi) Write any two disadvantages by Cash basis of accounting.

(xxxxii) Write any two advantages of Accrual basis of accounting.

(xxxxiii) What is “British Approach of classification” of accounts ?

(xxxxiv) What is “American Approach of classification” of accounts ?

(xxxxv) State the rules of debit and credit for capital and liabilities under American Approach.

7. Answer the following questions within six sentences each :

(i) What do you mean by GAAP ?

(ii) What is Business Entity Concept ?

(iii) What in Going - concern concept ?

(iv) Explain the ‘Matching Concept’ of accounting.

(v) Briefly explain the cost concept of accounting.

(vi) Explain the convention of conservatism.

(vii) State the characteristics of business transaction.

(viii) Write the objectives of IFRS.

(ix) What is an event ?

(x) What is voucher ?

(xi) What are Current assets ? Give any two examples.

(xii) What are fixed assets ? Give any two examples.

(xiii) Explain the meaning of the term ‘Goods’.

(xiv) What do you mean by ‘Stock’.

(xv) What is capital ?

(xvi) What do you meaning ‘Accounting Equation’ ?

(xvii) What is Double Entry System of Accounting ?

(xviii) Write the disadvatages of Double Entry System.

(xix) State the features of Double Entry System.

(xx) What is Single Entry System of Accounting ?

(xxi) Write any three points of distinction between Double Entry and Single Entry System.

(xxii) Explain the Cash basis of Accounting.

(xxiii) Write the advantages of Cash basis of Accounting.

(xxiv) Write three disadvantages of Cash basis of Accounting.

(xxv) What is Accrual basis of Accounting ?

(xxvi) Write the advantages of Accrual basis of Accounting.

(xxvii) Explain the Hybrid Basis of Accounting.

(xxviii) Write any three points of distinction between Cash Basis and Accrual Basis of Accounting.

(xxix) Explain briefly the British Approach of classification of accounts.

(xxx) Explain briefly the American Approach of classification of accounts.

(xxxi) State the rules of Debit and Credit under British Approach.

(xxxii) State the rules of Debit and Credit under American Approach.

8. What do you mean by 'Accounting Concepts and Conventions' ? Explain any three accounting concepts.

9. Describe any four accounting conventions.

10. What is Accounting Standard ? Discuss the objectives of Accounting Standards.

11. What is IFRS ? Describe the assumptions and objectives of IFRS.

12. What do you mean by an asset ? What are the different types of assets ?

13. What is Double Entry System of Book-keeping ? Discuss the advantages of such system.

14. Discuss the features and disadvantages of Double Entry System.

15. What is Single Entry System of Book-keeping ? Discuss its advantages and disadvantages.

16. Distinguish between Single Entry System and Double Entry System of Book-keeping.

17. What is Cash basis of Accounting ? Explain its advantages and disadvantages.

18. What do you mean by Accrual basis of Accounting ? Discuss its advantages and disadvantages.

19. Write short notes on :

    (a) Cash Basis of Accounting

    (b) Hybrid Basis of Accounting

20. Distinguish between Cash basis of Accounting and Accrual basis of Accounting.

21. Describe the British Approach and American Approach of classification of accounts.

22. Discuss the rules of Debit and Credit under British Approach and American Approach.

23. Give an example of each of the following type transactions :

    a. Increase is one asset and Decrease in another asset.

    b. Increase is one asset and Increase in liability.

    c. Increase is one asset and Increase in capital.

d. Decrease is one asset and Decrease in liability.
e. Decrease is one asset and Decrease in capital.

24. a. Mr. A started business with cash of ₹ 50,000.
b. Opened a bank account with ₹ 30,000.
c. Purchased goods for cash ₹ 10,000.
d. Purchased goods of ₹ 20,000 from Mr. X on credit.
Show the accounting equation on the basis of the above transactions.
[Ans : Assets = Cash ₹ 10,000 + Cash at Bank ₹ 30,000 + Goods ₹ 30,000
= ₹ 70,000
Liabilities = Creditor ₹ 20,000 + Capital ₹ 50,000 = ₹ 70,000]

25. Show the Accounting Equation on the basis of the following transactions :
a. Krishna started a business with ₹ 2,50,000
b. Opened a bank account for ₹ 2,00,000
c. Purchased furniture for cash ₹ 20,000
d. Purchased goods on credit from Radha ₹ 30,000
e. Paid salaries ₹ 20,000

[Ans : Assets = Cash ₹ 10,000 + Cash at Bank ₹ 2,00,000 +
Furniture ₹ 20,000 + Goods ₹ 30,000 = ₹ 2,60,000
Liabilities = Creditor ₹ 30,000 + Capital ₹ 2,30,000 = ₹ 2,60,000]

26. On the basis of the following transactions, show the accounting equation :
a. Laxman commenced a business with ₹ 5,00,000
b. Purchased goods on cash ₹ 50,000
c. Purchased goods on credit ₹ 50,000
d. Sold goods costing ₹ 30,000 for cash at 10% profit.
e. Sold goods costing ₹ 20,000 on credit at 10% profit.
f. Withdrew cash for personal use ₹ 10,000
g. Paid to creditors ₹ 40,000
h. Commission received ₹ 5,000
i. Paid salaries ₹ 12,000
j. Unpaid salaries ₹ 6,000
k. Purchased a Motor Cycle for personal use ₹ 50,000

[Ans : Assets = Cash ₹ 3,76,000 + Goods ₹ 50,000 + Debtors ₹ 22,000 = ₹ 4,48,000
Liabilities = Creditor ₹ 10,000 + unpaid salaries ₹ 6,000 +
Capital ₹ 4,32,000= ₹ 4,48,000

27. Show the effect of the following transactions on Assets, Liabilities and Capital with the help of Accounting Equation :

a. Hari commenced business with cash ₹ 2,00,000; Buildings ₹ 3,00,000; Furniture ₹ 20,000; Goods ₹ 30,000.

b. Goods sold on credit to Mr. B at ₹ 24,000 (cost of goods ₹ 20,000).

c. Purchased goods on credit from Mr. A ₹ 10,000.

d. Salary paid ₹ 18,000.

e. Paid to Mr. A ₹ 9,900 in full settlement of his claim.

f. Prepaid insurance ₹ 12,000.

g. Depreciation on Buildings @ 5%.

h. Fresh capital introduced ₹ 60,000.

i. Received ₹ 23,000 from Mr. B in full settlement.

j. Goods destroyed by fire ₹ 10,000, insurance claim received ₹ 8,000.

[Ans : Assets = Cash ₹ 2,51,100 + Buildings ₹ 2,85,000 + Furniture ₹ 20,000
+ Goods ₹ 10,000 + Prepaid insurance ₹ 12,000 = ₹ 5,78,100
Liabilities = Capital ₹ 5,78,100]

28. (a) Saurav started his business with a capital of ₹ 5,00,000 on 1.4.2015. On that date he took a loan of ₹ 50,000 from Bank. On 31.3.2016, his assets were ₹ 7,00,000. Ascertain his capital on 31.3.2016 and profit or loss made during the year 2015-16 assuming that the Bank Loan in still outstanding on 31.3.2016.

(b) In addition to the particulats given in (a) above, if Saurav had introduced ₹ 30,000 as fresh capital and had withdrawn ₹ 5,000 for his personal purpose, find out his profit or loss made during the year 2015-16.

[Ans : (a) Capital = ₹ 6,50,000; Profit = ₹ 1,50,000
(b) Profit = ₹ 1,25,000]

29. Sunil has the following transactions :

a. Commenced business with cash ₹ 8,50,000

b. Purchased goods for cash ₹ 1,00,000

c. Deposited in Bank ₹ 5,00,000

d. Purchased Machinery on credit ₹ 80,000

e. Purchased furniture in cash ₹ 20,000

f. Purchased Motor Car for domestic use ₹ 1,00,000

g. Paid to creditors in full settlement ₹ 76,000

h. Sold goods costing ₹ 20,000 for cash ₹ 18,000

i. Paid salaries ₹ 20,000

j. Paid rent ₹ 10,000

k. Commision received in advance ₹ 2,000

Prepare the Accounting Equation to show the effect of the above transactions on the assets, liabilities and capital.

[Ans : Asset = Cash ₹ 44,000 + Goods ₹ 80,000 + Bank ₹ 5,00,000
+ Machinery ₹ 80,000 + Furniture ₹ 20,000 = ₹ 7,24,000
Liabilities = Commission received in advance ₹ 2,000
+ Capital ₹ 7,22,000 = ₹ 7,24,000]

30. Use Accounting Equation to show the effect of the following transactions of Lucky Traders :

a. Started business with cash ₹ 1,00,000 and Goods ₹ 50,000.

b. Purchased furniture for cash ₹ 10,000.

c. Sold goods costing ₹ 30,000 on credit to Mr. X for ₹ 36,000.

d. Salary unpaid ₹ 5,000.

e. Prepaid insurance ₹ 1,000.

f. Received interest ₹ 1,000.

g. Goods costing ₹ 2,000 destroyed by fire.

h. Received from Mr. X in full settlement ₹ 35,000

i. Purchased goods on credit from Mr. Y ₹ 10,000.

j. Paid to Mr. Y in full settlement ₹ 9,500.

[Ans : Assets = Cash ₹ 1,15,500 + Goods ₹ 28,000 + Furniture ₹ 10,000
+ Prepaid insurance ₹ 1,000 = ₹ 1,54,500
Liabilities = Unpaid salary ₹ 5,000 + Capital ₹ 1,49,500 = ₹ 1,54,500]

31. Show the effect of the following transactions on Assets, Liabilities and Capital through Accounting Equation :

a. Started a business with, (i) Cash ₹ 1,00,000
(ii) Goods ₹ 50,000
(iii) Buildings ₹ 2,00,000

b. Sold goods costing ₹ 20,000 at ₹ 22,000 in cash.

c. Opened a bank account for ₹ 20,000.

d. Invested in shares of a company ₹ 20,000.

e. Purchased goods on credit from Rahul ₹ 20,000.

f. Received dividend on shares ₹ 2,000.

g. Paid to Rahul by cheque ₹ 18,000 is full settlement.

h. Salary paid ₹ 10,000.

i. Depreciation on Buildings ₹ 2,000.

j. Paid cash for household expenses ₹ 5,000.

[Ans : Assets = Cash ₹ 69,000 + Goods ₹ 50,000 + Buildings ₹ 1,80,000
+ Bank ₹ 20,000 + Share (Investment) ₹ 20,000 = ₹ 3,21,000
Liabilities = Capital ₹ 3,21,000]

32. Show the Accounting Equation on the basis of the following transactions :

a. Laxmi started a business with Goods ₹ 2,00,000 and Cash ₹ 30,000.

b. Sold goods costing ₹ 1,00,000 to Saraswati ₹ 1,20,000.

c. Purchased goods from Parvati ₹ 20,000.

d. Paid insurance insurance premium ₹ 5,000.

e. Rent outstanding ₹ 10,000.

f. Cash paid to Parvati on account ₹ 15,000.

g. Cash received from Saraswarti ₹ 1,00,000.

h. Goods worth ₹ 5,000 were taken by the proprietor for her domestic use.

i. Salary paid in advance ₹ 5,000.

j. Paid to Parvati is full settlement of her claim ₹ 4,500.

[Ans : Assets = Cash ₹ 1,00,500 + Goods ₹ 1,15,000 + Debtor ₹ 20,000
+ Salary paid in advance ₹ 5,000 = ₹ 2,40,500
Liabilities = Rent outstanding ₹ 10,000 + Capital ₹ 2,30,500 = ₹ 2,40,500].

33. Show the effect of the following transactions on Assets, Liabilities and Capital with the help of Accounting Equation :

a. Business started with cash ₹ 75,000

b. Goods purchased on credit from Suneet ₹ 50,000

c. Goods costing ₹ 30,000 sold on credit to Sumeet ₹ 36,000

d. Deposited in the Bank ₹ 60,000

e. Received from Sumeet in full settlement ₹ 35,000

f. Paid Suneet by way of cheque in full settlement ₹ 48,000

g. Paid rent ₹ 5,000

h. Salary due but not paid ₹ 10,000

i. Commission received in advance ₹ 2,000

j. Goods destoyed by fire ₹ 3,000, goods being not insured

k. The proprietor transferred the ownership of a Motor Car worth ₹ 1,00,000 to the business.

l. Goods worth ₹ 5,000 used for personal purpose by the proprietor

[Ans: Assets = Cash ₹ 47,000 + Goods ₹ 12,000 + Bank ₹ 12,000
+ Motor Car ₹ 1,00,000 = ₹ 1,71,000

Liabilities = Salary unpaid ₹ 10,000 + Commission received in advance ₹ 2,000
+ Capital ₹ 1,59,000 = ₹ 1,71,000]

34. Classify the following items into Personal, Real and Nominal Accounts :

(a) Salary paid (b) Interest received (c) Unpaid salary

(d) Capital (e) Discount allowed (f) Drawings

(g) Discount received (h) Plant and Machinery (i) Bank (j) Sales

(k) Rohit (l) A.K. Traders (m) Purchases (n) Carriage

(o) Prepaid wages

35. From the following transactions, state the nature of accounts involved and ascertain the accounts to be debited and credited under British Approach :

(a) Salary paid (b) Outstanding wages (c) Capital introduced by the proprietor (d) Machinery purchased for cash (e) Goods purchased on credit from Suresh (f) Goods sold to Ashwin on credit (g) Discount allowed

(h) Discount received (i) Purchased goods from Raju in cash

(j) Rent paid to landlord (k) Furniture purchased for cash

(l) Bad debt written off

36. One of the accounts involved is given for the following transactions. State the other account involved and mention whether the account will be debited or credited as per the British Approach. Give reasons.

a. Business commenced with Goods worth ₹ 50,000. - Goods Account.

b. Introduced fresh capital by the proprietor ₹ 1,00,000. - Capital Account.

c. Goods purchased on credit ₹ 40,000. - Goods Account.

d. Goods withdrawn by the proprietor for personal use ₹ 10,000. - Goods Account

e. Paid for advertisement ₹ 5,000. - Cash Account.

f. Opened a bank account with State Bank of India ₹ 30,000. - Cash Account

g. Withdrawn from Bank for official use ₹ 10,000. - Bank Account.

h. Salary outstanding ₹ 10,000. - Salary Account.

i. Amount due from Mr. B irrecoverable ₹ 2,000. - Mr. B's Account.

j. Discount received from a creditor ₹ 1,000 - Discount Received Account.37.

37. Classify the following accounts under the American Approach :

(a) Bank A/c (b) Salary A/c (c) Interest received A/c

(d) Discount allowed A/c (e) Plant and Machinery A/c (f) Goodwill A/c

(g) Bad debt A/c (h) Commission received in advance A/c

(i) Unpaid wages A/c (j) Bills Payable A/c (k) Drawings A/c

(l) Bills Receivable A/c (m) Commission received A/c

(n) Sales A/c (o) Bad debt recovered A/c

38. On the basis of American Approach, whether the increase in the following accounts will be debited or credited ? State the nature of accounts.

(a) Debtors A/c (b) Bad debt recovered A/c (c) Bank A/c

(d) Commission paid A/c (e) Drawings A/c (f) Buildings A/c

(g) Unpaid wages A/c (h) Creditors A/c (i) Bank overdraft A/c

(j) Loss by fire A/c

39. On the basis of American Approach, whether the decrease in the following accounts will be debited or credited ? State the nature of accounts.

(a) Cash A/c (b) Bank A/c (c) Bank overdraft A/c

(d) Sales A/c (e) Drawings A/c (f) Creditors A/c (g) Debitors A/c

(h) Interest received A/c (i) Advertisement A/c (j) Land and Buildings A/c

40. Analyse the following transactions as per American Approach and state the accounts to be debited or credited :

a. Started a business with cash ₹ 60,000 and goods ₹ 50,000.

b. Purchased goods on credit from Mr. X ₹ 10,000.

c. Purchased furniture on credit from Mr. A ₹ 20,000.

d. Interest received ₹ 10,000.

e. Salaries paid ₹ 15,000.

f. Goods costing ₹ 20,000 sold for cash ₹ 20,000.

g. Bad debt written off ₹ 5,000.

h. Paid to Mr. A on account ₹ 20,000.

41. Analyse the following transactions as per American Approach and state the accounts to be debited or credited :

a. Paid rent ₹ 12,000.

b. Capital introduced ₹ 50,000.

c. Goods purchased for ₹ 10,000 in cash from Ramesh.

d. Commission received in advance ₹ 5,000.

e. Salaries unpaid ₹ 10,000.

f. Bad debt recovered ₹ 5,000.

g. Goods withdrawn by proprietor for domestic use ₹ 10,000.

h. Dividend from investment received ₹ 5,000.

Chapter - 3

JOURNAL

STRUCTURE

3.1 Introductions

Accounting process involves four stages viz., (i) recording the transactions (ii) classifying the transactions (iii) summarising the transactions (iv)Interpreting the results. So the 1st step is recording the transactions in the books of original entry or prime entry. Journal is the book of original entry wherein all the transactions are recorded first in a chronological order.

3.2 Meaning

Journal is derived from the French word ‘Jour’ which means a day. Hence, Journal is called a day book. It records all business transactions chronologically. It is the first book to record transactions as and when take place. So it is called a book of prime entry or original entry.

The process of recording transactions in the Journal is known as Journalising. The entries made in the books are known as Journal entries.

3.3 Features

i) Business transactions are recorded in the Journal in chronological order.

ii) It is the book of original entry where transactions are recorded first.

iii) It is a day book since all the transactions are recorded daily.

iv) It records both the debit and credit aspects of the transactions according to the principles of double-entry.

v) It gives brief explanation (narration) below each Journal entry.

vi) It serves as an information centre for future reference.

vii) It makes, the posting of the transactions to ledger, possible.

3.4 Format of Journal

The form of Journal is as follows :

Format of Journal

Date	Particulars	L.F	Debit amount ⊠	Credit amount ⊠

Journal is divided into five columns.

i) **Date :** The first column is used to write the date of the transactions. In this column, year, month and date of transactions are recorded.

ii) Particulars : This is the second column. Both the aspects of the transactions are recorded. The names of two accounts affected by the transactions are recorded in this column. The name of the account to be debited is recorded first. The abbreviation 'Dr' is recorded against the account to be debited. It is written against the same line close to L.F. column. In the next line after leaving little space from the left, the name of the account to be credited is written. It is wrritten in such a manner that it can be clearly distinguished from the first line. The second account (which is credited) always starts with the word 'To'. The word 'Cr' is not written against the account to be credited. A brief description of the transaction is recorded below the second line within bracket. This is known as narration.

After the narration, a line is drawn in the particular column in order to separate one transaction from the other.

iii) L.F. : The third column is known as ledger folio (L.F) column. This column records the folio or page number of the ledger wherein the concerned account is subsequently posted.

iv) Debit amount :

This is the fourth column in which amount to be debited is recorded against the account to be debited.

v) Credit amount :

This is the fifth and last column. The amount to be credited is written in this credit amount column against the name of the account to be credited.

It is to be noted that the amount in both the debit amount column and credit amount column are equal.

3.5 Steps involved in Journalising

(i) Ascertain the accounts involved in the transaction. Minimum two accounts or more than two accounts may be involved in the transaction.

(ii) Find out the name of the accounts.

(iii) Ascertain the nature of accounts involved such as Personal Account, Real Account and Nominal Account.

(iv) Ascertion the account or accounts to be debited and account or accounts to be credited by applying the golden rule of debit and credit.

(v) Ascertain the amount to which accounts are to be debited and credited.

(vi) Record the transaction in proper format as given above.

3.6 Advantages of Journal

The following are the advantages of Journal :

i) Chronological record of transactions :

Journal keeps a permanent record of all the financial transactions date-wise. So one can get date-wise happening of all transactions.

ii) Narration :

Journal is always supported by a short description regarding the nature of the transaction in the form of narration. So one can know about the happening under each transaction.

iii) Reduces possibility of error :

Journal entry is passed by following the rules of debit and credit under the principle of double entry. Debit and credit are recorded side by side. So total debit and total credit can be compared.

iv) Minimising errors of omission :

Systematic recording of Journal entry minimises errors of omission.

v) Location of error :

Journal entries are recorded in chronological order and these are posted to the ledger one by one in a systematic order. The page number, to which each account is posted, is also noted under the L.F. column in the Journal. It helps in locating error if at all committed.

vi) Evidence of transaction :

Entry of Journal is supported by documentary evidence like invoice, cash memo, money receipt, etc. So it acts as an evidence in case of any possible dispute or legal complications.

vii) Assist in preparation of Final Accounts :

Ledger is prepared from Journal. Trial Balance is prepared from ledger. Final accounts are prepared from trial balance. Journal being the original book of entry and basis of all subsequent books of accounts, helps in the preparation of final accounts.

3.7 Disadvantages of Journal

Inspite of a lot of advantages, Journal has its own limitations.

i) Lengthy : All the transactions are recorded chronologically in the Journal. So, the size of the Journal of a large concern becomes unusually bulky.

ii) Difficult to locate : It is very difficult to locate a transaction without knowing the date of transaction.

iii) Difficulty in ascertaining the balance : A separate ledger account is to be opened for each account, since it is very difficult to know the balance of any account at any point of time.

iv) Time consuming :

Posting each transaction from Journal to ledger is a very time consuming process.

3.8 Rules of Journalising

Rule of Debit and Credit as per Traditional approach/British approach:

The most important step involved in journalising is application of the rule of debit and credit. As we have discussed earlier, as per the traditional classification, there are three types of accounts viz. personal, Real or Property, Nominal or fictitious for which there are three golden rules.

Personal Account :	Debit the receiver
	Credit the giver
Real Account :	Debit what comes in
	Credit what goes out
Nominal Account :	Debit all losses and expenses
	Credit all incomes and gains

The Rule of Debit and Credit as per Modern Approach are as under :

Type of Account	**Debit**	**Credit**
Asset Account	Increase	Decrease
Liability Account	Decrease	Increase
Capital Account	Decrease	Increase
Income Account	Decrease	Increase
Expenses Account	Increase	Decrease

Illustration 1

From the following transactions find out nature of accounts involved and state the account to be debited or credited :

(a) Started business with cash

(b) Opened a bank account

(c) Purchased goods

(d) Sold goods to Ram

(e) Wages paid

(f) Rent paid

(g) Received cash from Ram

Solution :

Transactions	**Accounts involved**	**Nature of Account**	**Debit/credit**
Started Business with cash	Cash Account	Real	Debit
	Capital A/c	Personal	Credit
Opened a Bank Account	Bank A/c	Personal	Debit
	Cash A/c	Real	Credit
Purchase Goods	Purchase A/c	Real	Debit
	Cash A/c	Real	Credit
Sold goods to Ram	Ram A/c	Personal	Debit
	Sales A/c	Real	Credit
Wages paid	Wages A/c	Nominal	Debit
	Cash A/c	Real	Credit
Rent paid	Rent A/c	Nominal	Debit
	Cash A/c	Real	Credit
Received cash from Ram	Cash A/c	Real	Debit
	Ram A/c	Personal	Credit

Illustration 2

From the transactions given below, one of the accounts involved is given. State the other account and mention whether the account will be debited or credited.

(i) Started business with ⊠ 25,000 - cash

(ii) Goods purchased from Jagannath ⊠ 10,000 - Jagannath

(iii) Amount due from Ramchandra irrecoverable ⊠ 250 - Ramchandra

(iv) Discount allowed by Goutam ⊠ 15 - Goutam

(v) Freight paid on purchase ⊠ 125 - cash

Solution :

Other Account involved	**will be Debited or credited**	**Reason**
(i) Capital A/c	Credited	Personal A/c- Credit the giver
(ii) Purchase Account	Debited	Real A/c- Debit what comes in
(iii) Bad debts A/c	Debited	Nominal A/c- Debit all losses
(iv) Discount A/c	Credited	Nominal A/c-Credit all incomes
(v) Freight A/c	Debited	Nominal A/c-Debit all expenses

Illustration 3

Analyse the following transactions as per

(a) Modern approach/American approach

(b) Traditional approach/British approach and state the account to be debited or credited.

(i) Gourav started business with cash

(ii) Opened a bank account

(iii) Purchase goods from Sourav

(iv) Purchase a typewriter for office use

(v) Paid Telephone Bill

(vi) Sold goods for cash

(vii) Sold goods on credit to Mohan

(viii) Paid Sourav

(ix) Received from Mohan in part payment by cheque.

(x) Amount due from Mohan is written off as bad debts.

Solution :

Modern Approach/ American Approach

Transaction	**Accounts involved**	**Analysis**	**Debit/Credit**
(i) Started Business	Cash A/c	Increase in Asset	Debit
with cash	Capital A/c	Increase in capital	Credit
(ii) Opened a Bank	Bank A/c	Increase in asset	Debit
Account	Cash A/c	Decrease in asset	credit

(iii) Purchase of goods	Purchase A/c	Increase in exp.	Debit
from Sourav in credit	Sourav A/c	Increase in liability	Credit
(iv) Purchase of typewriter	Type writer A/c	Increase in asset	Debit
for office use	Cash A/c	Decrease in asset	Credit
(v) Paid Telephone Bill	Telephone charges A/c	Increase in expenses	Debit
	Cash A/c	Decrease in asset	Credit
(vi) Cash sale of goods	Cash A/c	Increase in asset	Debit
	Sales A/c	Increase in revenue	Credit
(vii) Sale of goods	Mohan A/c	Increase in asset	Debit
on credit to Mohan	Sales A/c	Increase in revenue	Credit
(viii) Payment to Sourav	Sourav A/c	Decrease in liability	Debit
	Cash A/c	Decrease in asset	Credit
(ix) Received from Mohan	Bank A/c	Increase in asset	Debit
by cheque	Mohan A/c	Decrease in asset	Credit
(x) Amount due from	Bad debt A/c	Increase in loss	Debit
Mohan became bad and	Mohan A/c	Decrease in asset	Credit
written off			

As per British approach/Traditional approach.

	Step -I	Step - II	Step - III	Step - IV
(i)	Cash Account	Real A/c	Comes in	Dr.
	Capital Account	Personal A/c	Giver	Cr.
(ii)	Bank Account	Personal A/c	Receiver	Dr.
	Cash Account	Real A/c	Goes out	Cr.
(iii)	Goods Account/			
	Purchase Account	Real A/c	Comes in	Dr.
	Sourav Account	Personal A/c	Giver	Cr.
(iv)	Type writter Account	Real A/c	Comes in	Dr.
	Cash Account	Real A/c	Goes out	Cr.

(v)	Telephone charges Account	Normal A/c	Expenses	Dr.
	Cash Account	Real A/c	Goes out	Cr.
(vi)	Cash Account	Real A/c	Comes in	Dr.
	Goods Account/Sales Account	Real A/c	Goes out	Cr.
(vii)	Mohan Account	Personal A/c	Receiver	Dr.
	Goods Account/Sales Account	Real A/c	Goes out	Cr.
(viii)	Sourav Account	Personal A/c	Receiver	Dr.
	Cash Account	Real A/c	Goes out	Cr.
(ix)	Bank Account	Personal A/c	Receiver	Dr.
	Mohan Account	Personal A/c	Giver	Cr.
(x)	Bad debt Account	Nominal A/c	loss	Dr.
	Mohan Account	Personal A/c	Giver	Cr.

Classification of goods Account :

The term 'goods' means mercandise purchased for the purpose of manufacturing or for resale. The objective is to earn profit. When goods are not purchased for resale, the same is treated as an asset. For example, furniture purchased for an automobile show room is an asset. But for the furniture dealer, it is goods. Similarly car purchased for a furniture dealer is not goods. It is an asset. In actual practice goods account is not opened in the books of business. On the other hand, the following accounts are maintained.

(i) Purchase Account :

Both cash and credit purchase of goods are recorded under purchase account. Purchase account is debited as "goods come.in" on purchase.

(ii) Sales Account :

This account is opened to record both cash sale and credit sale of goods. Here sales account is credited since goods goes out on sale.

(iii) Purchase Return Account/Return outward Account :

This account is opened to record return of goods to the supplier. This account is credited since goods go out on return to the supplier.

(iv) Sales return account/Return inward account :

This account is opened to record return of goods by the customers. This account is debited since goods come in on return by the customers.

Types of Journal Entry :

(i) Simple Journal Entry :

A Journal entry is said to be simple Journal entry if it has only one account to be debited and one account to be credited.

Example :

Cash paid to ‘X’ ⊠ 1,000

Date	Particulars	L.F	Amount Dr. ⊠	Amount Cr. ⊠
	‘X’ Account Dr. To Cash Account (Being cash paid to X)		1,000	 1,000

(ii) Compound Journal Entry :

Compound Journal Entry arises when two or more transactions of similar nature occur on the same day. It is a combination of two or more simple Journal entries. In other words, when more than one account, either in debit or in credit or in both are involved the Journal entry is known as compound Journal entry.

Example :

(i) More than two accounts are involved

Received ⊠ 970 from Bimal in full-settlement of his account for ⊠ 1,000.

Date	Particulars	L.F	Amount Dr. ⊠	Amount Cr. ⊠
	Cash Account Dr. Discount Account Dr. To Bimal’s Account (Being cash received and discount allowed)		970 30	 1,000

In this transaction three accounts are involved. These are cash A/c, Discount A/c and Bimal Account. Hence, the Journal entry is known as compound Journal entry.

(ii) When more transactions of similar nature occur on the same day:

June 15, 2016 Salary paid ☒ 15,000

June 15, 2016 Wages paid ☒ 4,000

The Journal entry for these two transactions will be combined as follows:

Date	Particulars	L.F	Amount Dr. (☒)	Amount Cr. (☒)
2016	Salaries Account Dr.		15,000	
June 15	Wages Account Dr.		4,000	
	To Cash Account			19,000
	(Being salaries and wages paid)			

In the above transactions cash is commonly going out in both the transactions on the same date. Thus, the entry is made in form of a compound Journal entry.

3.9 Recording of Journal Entries

1) Bad debts : The amount which could not be recovered from the debtor either fully or partially is known as bad debts.

i) When amount could not be recovered :

Bad Debts Account.... Dr.

To Debtor's personal Account

(Being the amount not recovered)

ii) When the debt could be recovered partially :

Cash Account .... Dr.

Bad Debt Account .... Dr.

To Debtor's personal Account

(Being the amount recovered and the balance treated as bad debts).

iii) Bad debt recovered :

Cash A/c .... Dr.

To Bad debt recovered A/c

(Being the amount written off as bad earlier, now recovered)

2) Cash withdrawn by proprietor for personal use

Drawings A/c .... Dr.

To Cash A/c

(Being cash withdrawn by proprietor for personal use)

3) Goods taken by proprietor for personal use

Drawings A/c .... Dr.

To purchase A/c

(Being goods taken for personal use)

4) Goods used to make an Asset :

Asset A/c .... Dr.

To purchase A/c

(Being goods used in making the Asset)

5) Loss due to fire or theft :

Loss by fire/theft A/c .... Dr.

To purchase A/c

(Being goods lost by fire/theft)

6) Interest on capital

Interest on capital A/c .... Dr.

To capital A/c

(Being the interest on capital allowed)

7) Interest on Drawing

Drawing A/c .... Dr.

To Interest on Drawing A/c

(Being the interest on drawing charged)

8) Goods distributed as free sample

Advertisement A/c .... Dr.

To purchases A/c

(Being goods used as free sample)

9) Expenses outstanding, say salary outstanding

Salaries Account .... Dr.

To outstanding salary A/c

(Being entry for outstanding salary)

N.B - Salary account is an expense of the current year. Hence it is debited for outstanding salary.

10) Prepaid expenses : Expenses paid in advance. Such expenses is not meant for current year.

Prepaid expenses Account Dr.

To Expenses A/c

(Being adjustment passed for prepaid expenses)

11) Expenses on purchase of Assets

(Such expenses will be charged to Asset Account not to expenses A/c)

Purchased machinery ⊠ 50,000.Transportation ⊠ 3,000, Installation ⊠7,000

Machinery Account. Dr. 60,000

To cash Account 60,000

12) Payment of Income tax

(This is paid on behalf of Proprietor not on behalf of business)

Drawing Account Dr.

To Cash Account

(Being Income Tax paid on behalf of proprietor)

13) Refund of Income Tax

(Refund is made to the proprietor not to the business)

Cash Account .... Dr.

To capital A/c

(Being the refund of Income tax to the proprietor)

Illustration 4

What entries are made for the following transactions in the journal ?

(a) Bought goods on credit from P & Co. for ⊠1,000.

(b) Received a Cheque for ⊠950 from Ramanath and allowed him discount ⊠50.

(c) Withdrew ⊠1,500 for personal expenses.

(d) Purchased 25 fans @ ⊠500 per fan on cash from M.

(e) Received a bill duly accepted by SPK payble after 3 months for ⊠2,500.

(f) Returned defective goods worth ⊠ 3,500 purchased from ABC on credit.

(g) Depreciation of ⊠2,000 was provided on the machinery for the year 2016.

(h) A bill receivable of ⊠ 6,000 maturing after 2 months was discounted @ 5% per annum at the bank.

(i) Insurance premium prepaid for 3 months. Annual premium is ⊠4,000.

(j) ⊠925 due from Shyam was written off as bad debt.

Solution :

Journal

Sl. No	**Date**	**Particulars**	**L.F**	**Amount Dr. (⊠)**	**Amount Cr. (⊠)**
(a)	-	Purchase A/c Dr.		1,000	
		To P & Co A/c			1,000
		(Being goods purchased on credit)			
(b)	-	Bank A/c Dr.		950	
		Discount A/c Dr.		50	
		To Ramnath A/c			1,000
		(Being cheque received and discount allowed)			
(c)	-	Drawings A/c Dr.		1,500	
		To Cash A/c			1,500
		(Being cash withdrawn for personal use)			
(d)	-	Fan A/c Dr.		12,500	
		To Cash A/c			12,500
		(Being 25 fans purchased @ ⊠ 500 each)			
e)	-	Bills Receivable A/c Dr.		2,500	
		To SPK A/c			2,500
		(Being bill received from SPK)			
f)	-	ABC A/c Dr.		3,500	
		To Return outward A/c			3,500
		(Being defective goods returned to ABC)			
g)	-	Depreciation A/c Dr.		2,000	
		To Machinery			2,000
		(Being depreciation charged on machinery)			

h)	-	Bank A/c Dr.		5,950	
		Discount A/c Dr.		50	
		To Bills Receivable A/c			6,000
		(Being the bill discounted @ 5 %)			
i)	-	Prepaid insurance A/c Dr.		1,000	
		To Insurance A/c			1,000
		(Being insurance premium paid in advance for 3 months adjusted)			
j)	-	Bad debts A/c Dr.		925	
		To Shyam			925
		(Being amount due from Shyam is written off as bad debts)			
		Total		31,925	31,925

Illustration 5

Journalise the following transactions :

(a) Motilal starts business with ₹ 10.000 cash and a building worth ₹ 50,000.

(b) Purchased goods worth ₹ 20,000 out of which goods worth ₹ 12,000 was on credit from Shyam Lal.

(c) Sold goods on credit worth ₹ 16,000 to Ramanath.

(d) Received ₹ 15,600 from Ramanath in full settement of his account.

(e) Paid ₹ 11,800 to Shyam Lal in full settement of ₹ 12,000 due to him.

(f) Paid Wages ₹ 500 and Salaries ₹ 2,000.

(g) Purchased a machinery from Marshall and Sons for ₹ 2,000 on credit.

(h) Depreciation of ₹ 200 was provided on the machinery at the year end.

(i) Withdrew ₹ 500 from the business for personal expenses.

(j) A cheque amounting to ₹ 500 deposited in the bank was returned dishonoured.

Solution :

Journal

Sl. No	Date	Particulars	L.F	Amount Dr. (⊠)	Amount Cr. (⊠)
(a)	-	Cash A/c Dr.		10,000	
		Building A/c Dr.		50,000	
		To Capital A/c			60,000
		(Being business started with cash and building)			
(b)	-	Purchase A/c Dr.		20,000	
		To Cash A/c			8,000
		To Shyam Lal			12,000
		(Being goods purchased on cash and credit)			
(c)	-	Ramnath A/c Dr.		16,000	
		To Sales A/c			16,000
		(Being goods sold on credit to Ramnath)			
(d)	-	Cash A/c Dr.		15,600	
		Discount A/c Dr.		400	
		To Ramnath A/c			16,000
		(Being cash received and discount allowed)			
(e)	-	Shyam Lal A/c Dr.		12,000	
		To Cash A/c			11,800
		To Discount A/c			200
		(Being cash paid and discount received)			
		Total c/f		1,24,000	1,24,000

		Total b/f		1,24,000	1,24,000
(f)	-	Wages A/c Dr.		500	
		Salaries A/c Dr.		2,000	
		To Cash A/c			2,500
		(Being wages and salaries paid)			
(g)	-	Machinery A/c Dr.		2,000	
		To Marshal and Sons			2,000
		(Being machinery purchased on credit)			
(h)	-	Depreciation A/c Dr.		200	
		To Machinery A/c			200
		(Being depreciation charged on machinery)			
(i)	-	Drawing A/c Dr.		500	
		To Cash A/c			500
		(Being cash withdrawn for personal expenses)			
(j)	-	Customer's A/c Dr.		500	
		To Bank A/c			500
		(Being cheque deposited in bank dishonoured)			
		Total		1,29,700	1,29,700

Illustration 6

Journalise the following transactions :

(a) Paid wages for installing a machinery ₹ 3,000.

(b) Prepaid insurance comes to ₹ 250.

(c) ₹ 500 treated as bad debt last year has been recovered this year.

(d) Stock worth ₹ 5,000 was destroyed by fire and GIC admitted claim of ₹ 4,500 only.

(e) The owner withdrew ₹ 6,600 to meet his household expenses.

Solution :

Journal

Sl. No	Date	Particulars		L.F	Amount Dr. (⊠)	Amount Cr. (⊠)
(a)	-	Machinery A/c	Dr.		3,000	
		To Cash A/c				3,000
		(Being paid for installing a machinery)				
(b)	-	Prepaid Insurance A/c	Dr.		250	
		To Insurance A/c				250
		(Being insurance prepaid)				
(c)	-	Cash A/c	Dr.		500	
		To Bad debts recovered A/c				500
		(Being Bad debts of last year recovered this year)				
(d)	-	GIC claim A/c	Dr.		4,500	
		Loss by fire A/c	Dr.		500	
		To Purchases A/c				5,000
		(Being stock lost and claim admitted)				
(e)	-	Drawings A/c	Dr.		6,600	
		To Cash A/c				6,600
		(Being cash withdrawn for personal use)				
			Total		15,350	15,350

Illustration 7

Journalise the following transactions in the books of Mr. Dey for the month of June 2016:

		⊠
June 1	Started Business with cash	1,00,000
June 2	Opened a bank account	10,000
June 3	Purchased goods for cash	20,000
June 4	Sold goods for cash	10,000
June 5	Purchased office furniture	20,000

June 6	Purchased office stationery	1,000
June 7	Goods bought from Ramlal's	30,000
June 8	Goods sold on credit to Ajay	12,000
June 9	Withdrew from bank for private use	3,000
June 10	Goods worth ₹ 1,000 distributed as free sample	
June 11	Goods returned to Ramlal's being defective	2,000
June 12	Ajay returned goods	1,000
June 13	Paid Ramlal in full settlement of his Account	27,500
June 14	Received from Ajay by cheque	7,000
June 15	Interest paid by cheque	500
June 16	Ajay become insolvent 50 paise in a rupee was recovered	
June 17	Salary paid	5,000
June 18	Rent paid by cheque	3,000
June 19	Withdrew from bank for office use	5,000
June 20	Paid for advertisement by cheque	1,000
June 21	Purchased a computer from HCL ltd.	20,000
June 22	Paid HCL ltd.	10,000
June 23	Interest on bank deposit credit by bank	100
June 24	Goods purchased from Hari	6,000
June 25	Goods sold to Dama	3,000
June 26	Goods lost by fire	5,000
	Insurance claim admitted	3,000
June 27	Life Insurance premium paid	500
June 28	Paid tution fee of Mrs. Dey	300
June 29	Deposited into bank	5,000
June 30	Cash Sales	3,300

Solution :

In the Books of Mr. Dey

Journal Entry

Date	Particulars		L.F	Amount Dr. (⊠)	Amount Cr. (⊠)
2016	Cash Account	Dr.		1,00,000	
June 1	To capital A/c				1,00,000
	(Being the business started with cash)				
June 2	Bank Account	Dr.		10,000	
	To cash Account				10,000
	(Being the amount deposited into bank)				
June 3	Purchase Account	Dr.		20,000	
	To cash Account				20,000
	(Being goods purchased)				
June 4	Cash Account	Dr.		10,000	
	To Sales A/c				10,000
	(Being goods sold)				
June 5	Furniture Account	Dr.		20,000	
	To cash Account				20,000
	(Being purchase of furniture)				
June 6	Office stationery A/c	Dr.		1,000	
	To cash A/c				1,000
	(Being purchase of office stationery)				
June 7	Purchase Account	Dr.		30,000	
	To Ramla's Account				30,000
	(Being purchase of goods from Ramlal)				
June 8	Ajay's Account	Dr.		12,000	
	To sales Account				12,000
	(Being sale of goods to Ajay)				

June 9	Drawings A/c Dr.		3,000	
	To Bank A/c			3,000
	(Being cash with drawn from bank by proprietor)			
June 10	Advertisement A/c Dr.		1,000	
	To purchase A/c			1,000
	(Being goods distributed as free sample)			
June 11	Ramlal's A/c Dr.		2,000	
	To Return out ward A/c or purchase Return A/c		2,000	
	(Being goods return to Ramlal)			
June 12	Return inward A/c or Sales Return A/c Dr.		1,000	
	To Ajay's A/c			1,000
	(Being goods return to Ajay)			
June 13	Ramlal's Account Dr.		30,000	
	To Cash Account			29,500
	To Discount Account			500
	(Being cash received from Ramlal and allowed discount)			
June 14	Bank A/c Dr.		7,000	
	To Ajay's A/c			7,000
	(Being received from Ajay by cheque)			
June 15	Interest A/c Dr.		500	
	To Bank A/c			500
	(Being payment of interest by cheque)			

June 16	Cash A/c zDr.	2,000	
	Bad debt A/c Dr.	2,000	
	To Ajay's A/c		4,000
	(Being 50 paise in a rupee collected from Ajay as he became insolvent)		
June 17	Salary A/c Dr.	5,000	
	To cash A/c		5,000
	(Being salary paid)		
June 18	Rent A/c Dr.	3,000	
	To Bank A/c		3,000
	(Being rent paid by cheque)		
June 19	Cash A/c Dr.	5,000	
	To Bank A/c		5,000
	(Being drawing of cash from bank for office use)		
June 20	Advertisement A/c Dr.	1,000	
	To Bank		1,000
	(Being payment of advertisement exp.)		
June 21	Computer A/c Dr.	20,000	
	To HCL Ltd. A/c		20,000
	(Being purchase of computer on credit)		
June 22	HCL ltd. A/c Dr.	10,000	
	To cash A/c		10,000
	(Being paid to HCL ltd)		
June 23	Bank A/c Dr.	100	
	To interest A/c		100
	(Being interest credited by Bank)		

June 24	Purchase A/c Dr.		6,000	
	To Hari's A/c			6,000
	(Being purchase of goods on credit)			
June 25	Dama's A/c Dr.		3,000	
	To sales A/c			3,000
	(Being sale of goods on credit)			
June 26	Insurance company A/c Dr.		3,000	
	Loss by fire A/c Dr.		2,000	
	To purchase A/c			5,000
	(Being goods lost by fire and Insurance claim admitted partly)			
June 27	Drawing's A/c Dr.		500	
	To cash A/c			500
	(Being payment of life insurance premium on the life of proprietor)			
June 28	Drawing A/c Dr.		300	
	To cash A/c			300
	(Being payment of tution fee for proprietor's wife)			
June 29	Bank A/c Dr.		5,000	
	To cash A/c			5,000
	(Being deposit of cash in bank)			
June 30	Cash A/c Dr.		3,300	
	To sales A/c			3,000
	(Being sale of goods)			

Casting and carry forward :

Depending upon the volume of transactions debit and credit column of the Journal are periodically totalled. Such totalling is known as casting. Since for every debit, there is a corresponding credit, total of both the columns will be equal. Inequality between two columns implies mistake in recording.

When the Journal entries are recorded in more than one page, debit and credit columns in 1st page are totalled in that page and carried forward to next page. This is done by writing total c/f in the particular column against the total amount. In the next page it is written as total b/f in the particulars column and total amount in the amount column.

Illustration 8

Journalise the following transactions:

2016		⊠
April 1	Started business with cash	1,50,000
	Goods worth ⊠ 30,000 and furniture ⊠ 20,000	
April 5	Purchased goods from X	20,000
April 8	Sold goods to Y	12,000
April 10	Received from Y	8,000
April 12	Y became insolvent and 50% recovered from his estate	
April 15	Goods lost by fire	10,000
	Insurance company admitted claim in full	
April 20	Paid to X in full settlement	19,500
April 25	Bad debt recovered from Y	1,000
April 27	Purchased machinery	25,000
	transportation expenses	1,000
	Installation expenses	3,000
April 28	Depreciation on furniture	3,000
April 29	Sold goods to Ajit at list price at 10 % trade discount	2,000
April 30	Paid Rent	3,000

Solution :

In the Books of -

Journal

Date	Particulars	L.F	Amount Dr. (₹)	Amount Cr. (₹)
2016 April 1	Cash A/c Dr. Stock A/c Dr. Furniture A/c Dr. To Capital A/c (Being business started with cash, stock and furniture)		1,50,000 30,000 20,000	 2,00,000
April 5	Purchase A/c Dr. To X's A/c (Being goods purchased on credit from X)		20,000	 20,000
April 8	Y's A/c Dr. To sales A/c (Being sale of goods on credit to 'y')		12,000	 12,000
April 10	Cash A/c Dr. To Y's A/c (Being cash received from Y)		8,000	 8,000
April 12	Cash A/c Dr. Bad debt A/c Dr. To Y's A/c (Being 50 paise in a rupee collected from Y as he became insolvent)		2,000 2,000	 4,000
April 15	Insurance company A/c Dr. To purchase A/c (Being loss by fire and the claim admitted in full)		10,000	 10,000
	Total c/f		2,54,000	2,54,000

	Total b/f		2,54,000	2,54,000
April 20	X's A/c Dr.		20,000	
	To Cash A/c			19,500
	To Discount A/c			500
	(Being cash paid and discount received)			
April 25	Cash A/c Dr.		1,000	
	To Bad debt recovered A/c			1,000
	(Being cash received from Y who was declared insolvent)			
April 27	Machinery A/c Dr.		29,000	
	To Cash A/c			29,000
	(Being machinery purchased transpotation and installation changes paid)			
April 28	Depreciation A/c Dr.		300	
	To furniture A/c			300
	(Being furniture depreciated)			
April 29	Ajit's A/c Dr.		1,800	
	To sales A/c			1,800
	(Being goods sold to Ajit 2,000 less 10% Trade Discount)			
April 30	Rent A/c Dr.		3,000	
	To Cash A/c			3,000
	(A Being rent paid)			
	Total		3,09,100	3,09,100

Opening entry :

In case of a continuing business, the entry passed in the begining of the accounting year is known as opening entry. This is the first entry in the Journal in the new year to record the balance of various assets and liabilities of the last year. This is a compound Journal entry. The rule for passing opening entry is that all assets balances are debited, all liabilities balances including capital are credited. In case capital balance is not given the difference of total assets and other liabilities is treated as capital.

Illustration 9

From the following information pass opening entry in the books of Chaturvuj:

1st April 2016 - Cash A/c ⊠ 20,000, Bank A/c ⊠ 12,000, Stock of goods ⊠ 15,000, Furniture ⊠ 18,000, Plant & Machinery ⊠ 48,000. Debtors ⊠ 18,500. Sundry creditors ⊠ 17,500, Bills payable ⊠ 5,000.

In the Books of Chaturvuj

Journal

Date	**Particulars**	**L.F**	**Amount Dr. (⊠)**	**Amount Cr. (⊠)**
2016	Cash A/c Dr.		20,000	
April 1	Bank A/c Dr.		12,000	
	Stock A/c Dr.		15,000	
	Furniture A/c Dr.		18,000	
	Plant and machinery A/c Dr.		48,000	
	Debtors A/c Dr.		18,500	
	To Sundry creditors A/c			17,500
	To Bills payable A/c			5,000
	To Capital A/c (Balance)			1,09,000
	(Being the opening entry)			

3.10 Questions

1. From the following alternatives, write serially the correct answer along with serial number against each bit :

(a) Income Tax paid by a sole trader on his business income should be :

(i) Credited to his capital Account

(ii) Debited to his Capital Account

(iii) Debited to profit and loss Account

(iv) Debited to Trading Account

(b) Goods given as free sample should be credited to :

(i) Profit and loss Account

(ii) Purchase Account

(iii) Sales Account

(iv) Advertisement Account

(c) Incase of debt becoming bad, the amount will be credited to :

(i) Debtors Account

(ii) Bad debt Account

(iii) Discount Account

(iv) Cash Account

(d) The word Journal has been derived from the

(i) Greek word Jour

(ii) Italian word Jour

(iii) French word Jour

(iv) German word Jour

(e) One of the following accounts, which shows always debit balance, is:

(i) Bank Account

(ii) Discount Account

(iii) Bills Receivable Account

(iv) Purchase Return Account

(f) Debit means :
(i) an increase in asset
(ii) an increase in liability
(iii) an increase in owner's equity
(iv) a decrese in asset

(g) Goods purchased not for resale is debited to :
(i) Goods account
(ii) Asset account
(iii) Purchase account
(iv) Sale or approval account

(h) Credit means :
(i) an increase in asset
(ii) an increase in liability
(iii) a decrease in liability
(iv) a decrease in owner's equity

(i) Security deposit received from a clerk should be credit to :
(i) Clerk's account
(ii) Security deposit account
(iii) Cash account
(iv) Bank account

(j) One of the following groups of accounts, which is always balanced, is :
(i) Personal account and Nominal account
(ii) Real account and Nominal account
(iii) Personal account and Real account
(iv) Personal account, Real account and Nominal account

(k) One of the following statements for recording bad debt of ⊠ 800, which is correct, is:
(i) Bad debt account debited with ⊠ 800
(ii) Bad debt account credited with ⊠ 800
(iii) Cash account debited with ⊠ 800
(iv) Discount account debited with ⊠ 800

(l) The process of recording transactions in Journal is called :

(i) Posting

(ii) Casting

(iii) Journalising

(iv) Balancing

(m) One of the following accounts, which is increased by debit entry, is :

(i) asset account

(ii) Purchase return account

(iii) Commission received account

(iv) Wages outstanding account

(n) When bad-debt is recovered, the account to be credited is

(i) Bad-debt account

(ii) debtors account

(iii) Cash account

(iv) Baddebt recovered account

(o) Goods donated to a charitable organisation should be credited to :

(i) Charity account

(ii) Advertisement account

(iii) Doner's account

(iv) Purchase account

(p) Patent Right is a /an :

(i) Personal account

(ii) Real account

(iii) Nominal account

(iv) Expenses account

(q) One of the following, which is a cash transaction, is :

(i) Purchase of goods

(ii) Purchase of goods from Jatin

(iii) Purchase of goods from Jatin on account

(iv) Purchase of goods from Jatin to pay after 7 days

(r) One of the following which is a credit transaction, is :

(i) Sale of goods

(ii) Sold goods to Nari

(iii) Sold goods to Nari in exchange of a old computer

(iv) Sold goods to Nari and received a cheque

(s) One of the following accounts which shows a credit balance, is :

(i) Return inward

(ii) Return outward

(iii) Carriage inward

(iv) Carriage outward

(t) Number of accounts involved in simple Journal entry are :

(i) Two

(ii) Three

(iii) Four

(iv) One

(u) Personal accounts are related to :

(i) Customers

(ii) Employees

(iii) Assets and liabilities

(iv) Expenses, lossers

(v) Real accounts are related to :

(i) Customers

(ii) Employees

(iii) Assets

(iv) Expenses and lossers

(w) Nominal accouts are related to :

(i) Customers

(ii) Employees

(iii) Assets and liabilities

(iv) Expenses, losses

(x) Wages paid on repair of second hand furniture (purchased) should be debited to :

(i) Wages account

(ii) Repair account

(iii) Furniture account

(iv) Cash account

(y) The golden rule "debit the receiver, credit the giver is applicable to :

(i) Personal account

(ii) Real account

(iii) Nominal account

(iv) Intangible Real Account

(z) The golden rule "debit what comes in and credit what goes out" is applicable to :

(i) Personal account

(ii) Real account

(iii) Nominal account

(iv) Representative personal account

[Ans: (a) ii, (b) ii, (c) ii, (d) iii, (e) iii, (f) i, (g) ii, (h) ii, (i) ii, (j) iii, (k) i, (l) iii, (m) i, (n) iv, (o) iv, (p) ii, (q) i, (r) ii, (s) ii, (t) i, (u) i, (v) iii, (w) iv, (x) iii, (y) i, (z) ii]

2. Answer the following questions in one word/ term each :

(i) Wages paid for instaliation of new machinery be debited to which account ?

(ii) Goods distributed as free sample should be credited to which account ?

(iii) In which type of accounts the basic rule debit the receiver, credit the giver is applicable ?

(iv) Which term is used for recording transactions in Journal

(v) What is the nature of balance revealed by cash account ?

(vi) Which account is debited for goods withdrawn by proprietor ?

(vii) Which account is credited for payment of outstanding wages.

(viii) Which balance is shown by prepaid rent accont ?

(ix) Which account will be debited for receving cheque from Jadu ?

(x) Which column in the Journal indicates the page number ?

[Ans: (i) Machinery A/c, (ii) Purchase, (iii) Personal A/c, (iv) Journalising, (v) Debit, (vi) Drawings A/c, (vii) Cash A/c, (viii) Debit balance, (ix) Bank A/c, (x) Ledger folio]

3. Rectify the underlined portions of each of the following sentences :

(i) Journal entry passed in the begining of the continuing business is called compound entry.

(ii) A compound Journal entry involves minimum two accounts.

(iii) Loss of goods by fire should be credited to sales account.

(iv) Journal is a book of secondary entry.

(v) L.F. (ledger folio) column in the Journal is filled at the time of casting.

(vi) Incomes are debited.

(vii) Real accounts record the transactions relating to persons.

(viii) Bank account is a real account.

(ix) Cash discount is not recorded in the books of accounts.

(x) When discount is allowed by creditors, discount account is debited.

[Ans: (i) Opening, (ii) Three, (iii) Purchase, (iv) Original, (v) Posting, (vi) Credited, (vii) Properties, (viii) Personal Account, (ix) Trade, (x) Credited]

4. Fill in the blanks :

(i) Goods distributed as free sample should be debited to ________ account.

(ii) Bought machinery from Debesh ☒ 1,20,000 is a ________ transaction.

(iii) Salary paid to a clerk should be debited to _______ Account.

(iv) Goods withdrawn by the proprietor for private use will be credited to _______ Account.

(v) Purchase return account has a _______ balance.

(vi) Decrease in capital is ________.

(vii) As per golden rule of debit and credit all lossess and expenses are _______.

(viii) Wages due but not paid should be credited to ________ wages account.

(ix) _______ Account is credited when interest is allowed on capital.

(x) When discount is allowed to debtors, discount account will be _______.

[Ans: (i) Advertising, (ii) Credit, (iii) Salary, (iv) Purchase, (v) Credit, (vi) Debited, (vii) Debited, (viii) Outstanding / unpaid, (ix) Capital, (x) Debited]

5. Answer the following questions in one sentence each:

(i) What is debit ?

(ii) What is Journal ?

(iii) What is narration ?

(iv) What is implication of debiting an asset ?

(v) What is compound Journal entry ?

(vi) What is simple Journal entry ?

(vii) Give two examples of transactions relating to proprietor.

(viii) What is opening entry ?

(ix) Mention which account is debited and which account is credited, when interest is allowed by bank.

6. Answer the following questions within two sentences each :

(i) What is the need for Journal ?

(ii) Name three different type of personal account with example.

(iii) Which column in Journal is not filled at the time of Journalising and why ?

(iv) Name the different columns of Journal.

(v) Give an example of compound journal entry.

(vi) State the golden rule of debit and credit for real account and nominal account.

(vii) State two advantages of Journal.

(viii) Name different types of Real Account.

(ix) What entry is passed for dishonour of cheque ?

(x) Name the side in which increase in capital account is recorded and why ?

7. Answer the following questions within six sentences each :

(i) Explain cash discount and trade discount.

(ii) State three limitations of Journal.

(iii) Name three different types of personal account. Give two examples for each type.

(iv) State the rule of debit and credit as per modern approach.

(v) Enumerate various steps in Journalising.

(vi) Pass opening entry on the basis of following information :

Cash in hand ⊠ 5,000, Cash at Bank ⊠ 4,500, Debtors ⊠ 8,500, Bills receivable ⊠ 7,200, Stock of goods ⊠ 10,200, Furniture ⊠ 4,600, creditors ⊠ 6,200, Bill payable ⊠ 3,500.

(vii) State under which heading (personal, real, nominal) would you classify the following accounts.

(a) Prepaid salary account

(b) Outstanding salary account

(c) Bad debt recovered account

(d) Good will account

(e) Bank loan account

(f) Bills receivable account

(viii) Why are entries recorded chronologically in the Journal ?

8. Explain the term Journal. What are its advantages and limitations ?

9. State the rules of Journalising under traditional approach and modern approach. Give also examples.

10. Define Journal. Give the format. State the procedure of recording transactions in Journal with example.

11. Journalise the following transactions :

2016		☒
Jan1	Mohan started Business with a capital of	1,00,000
Jan2	Deposited in to Bank	50,000
Jan3	Made cash purchase of goods	30,000
Jan4	Purchase goods from Balu	20,000
Jan5	Sold goods for cash	15,000
Jan6	Sold goods to Varun	25,000
Jan10	Bought goods for cash, payment being made by cheque	10,000
Jan15	Purchased goods from Muna	25,000
Jan17	Returned goods to Muna, being defective in quality	5,000
Jan20	Paid to Balu by cheque	15,000
Jan22	Received a cheque from Varun in full settlement	24,500
Jan23	Paid to Muna on account	10,000
Jan25	Drew from Bank for office use	15,000
Jan27	Paid electricity charges	5,000
Jan29	Withdrawn from Bank for personal use	7,500
Jan31	Paid Rent to landlord	8,000
Jan31	Paid salaries to office staff	12,000

12. Journalise the following transactions in the Books of 'X'

2016		₹
Feb1	Mr. X started a business with cash of	5,00,000
Feb2	He opened a current bank account with SBI	2,00,000
Feb3	Purchase goods of ₹ 1,00,000 from Balu with a trade Discount of 10%	
Feb4	Sold goods for cash	5,000
Feb5	10% of the goods purchased from Balu being defective, are returned to him	
Feb8	Purchased Machinery for office use	2,00,000
Feb10	Purchased Furniture for office use	30,000
Feb10	Purchased goods for cash	50,000
Feb11	Paid freight on Machinery	5,000
Feb13	Paid wages for installation of Machinery	15,000
Feb14	Paid Rent to landlord	7,500
Feb16	Borrowed from Bank	20,000
Feb19	Goods worth ₹ 10,000 were lost by fire, the insurance company admitted 80% of the claim	
Feb20	Paid salaries by cheque	30,000
Feb22	Paid life insurance premium	10,000
Feb25	Paid interest on Bank loan	2,000
Feb26	Paid repairing charges of Machine	7,500
Feb27	Sold goods worth ₹ 15,000 for	20,000
Feb28	Paid telephone Bill	5,000

13. Enter the following transactions in the Books of Saurav :

2016		₹
March1	Sourav started a business with a cash of	1,50,000
March1	He purchased goods worth	75,000
March2	Purchased furniture	25,000
March3	Goods sold for cash	40,000
March 4	Goods purchased from Narayan	35,000
March 5	Goods returned to Narayan for not upto sample	5,000
March7	Opened bank account	50,000
March8	Purchased a Typewriter	15,000
March9	Paid tuition fees of son of the proprietor	10,000

Mar10	Withdrew from bank for personal use	15,000
Mar12	Sold goods to Tukun at 3% Trade Discount	30,000
Mar15	Paid to Narayan by cheque	25,000
Mar17	Settled Narayan's account with	9,500
Mar20	Paid Rent of the premises (one fifth of the premises is used for personal purpose)	10,000
Mar22	Sold goods for cash	7,500
Mar25	Advertisement expenses paid by cheque	10,000
Mar28	Sundry expenses paid	3,000
Mar30	Payment of electricity bill	3,500
Mar31	Rent due for the month	5,000

14. On 1st April 2016, Jamen Singh started business with a capital of ⊠ 1,20,000. His transactions for the month of April is given below. Pass Journal entries for the following transactions :

2016		⊠
April 1	Opened a bank account with	18,000
April 2	Bought goods for cash	60,000
April 3	Cash sales	44,000
Jan 5	Goods sold to Kuna	12,000
Jan 6	Paid for stationery	2,000
Jan 8	Received a cheque from Kuna	4,000
April 10	Purchased goods worth ⊠ 60,000 out of which goods worth ⊠ 20,000 was on credit from Sunanda	
April 15	Kuna settled the account by cash with a discount of ⊠ 300	
April 18	Paid wages ⊠ 10,000 and salaries ⊠ 15,000	
April 20	Purchased a Machinery from Bijay	50,000
April 22	Issued a cheque in favour of Sunanda	12,000
April 25	Withdrew from bank for personal use	6,000
April 26	Settled account of Sunanda by cash with a discount of	200
April 30	Paid shop rent for the month	5,000
April 30	Depreciate Machinery by 5%	

15. On 1st January 2016 financal position of Apex trader was as follows :

	⊠
Capital	70,000
Bank overdraft	7,500
Machinery	45,000
Goodwill	5,000
Bills payable	2,500
Cash	1,000
Furniture	5,000
Building	40,000
Loan from supplier	20,000
Bills receivable	4,000

Give the opening Journal entry

16. Journalise the following serially :

(a) Received ⊠ 1,000 from Dinesh in full settlement against the amount due from him ⊠ 1,050.

(b) Provide depreciation on building valued ⊠ 4,75,000 @ % for 3 months.

(c) Sold goods to Rahan, list price ⊠ 10,000 Trade discount allowed

(d) Dutta, who owed ⊠ 1,000 is declared insolvent and 60 paise in the rupee is received as final dividend from his estate.

(e) Paid ⊠ 2,000 to the petty cashier.

17. Give the Journal entries for the following transactions :

(i) Purchased from Saswat Pustak Bhandar 100 copies of a book @ ⊠ 25 each less trade discount 10%.

(ii) Took a loan of ⊠ 5,000 from Bank of Baroda.

(iii) Sold to Smt. Mahasweta Ray on credit old furniture for ⊠ 1,200.

(iv) Settled the account of Gopinath who owes ⊠ 1,500 on receipt of ⊠ 1,450

(v) Cost of Machinery ⊠ 50,000. Charge depreciation at 10% p.a.

18. Journalise the following transactions :

(a) Gave away for charitable purposes goods worth ⊠ 100 and cash ⊠ 51.

(b) Goods worth ⊠ 800 lost by accident. Goods were not insured.

(c) Purchased new machinery from M/s Machine makers on credit ₹ 5,000 paid installation charges ₹ 300 and freight ₹ 200.

(d) Goods worth ₹ 2,000 were damaged in transit and the Railways admitted the claim for ₹ 1,500.

(e) One month's interest on a loan of ₹ 20,000 @ 15% p.a. has become due for payment but has not so far been paid.

(f) An amount of ₹ 125 drawn by the proprietor for his personal use stands debited to general expenses account.

(g) An amount of ₹ 250 written off as bad debts last year and now recovered was credited to the personal account of the customer.

(h) A claim of ₹ 3,000 was settled on payment of ₹ 2,750.

19. Journalise the following transactions in the books of Manoj :

2016		₹
May 1	Manoj started business with	2,50,000
May 2	Purchased goods from Joseph	50,000
May 5	Sold goods to Somesh	25,000
May 7	Paid Joseph on account	30,000
May 8	Paid Mukund ₹ 5,800 in full settlement of his account amounting	6,000
Feb 10	Purchased a machinery worth ₹ 6,00,000 from Harish Traders, Kolkata	
May 15	A Bills Receivable amounting ₹ 20,000 received from Kandarpa was dishonoured. Noting charges paid	300
May 20	A cheque amounting ₹ 10,000 received from Devilal was dishonoured.	
May 22	Goods worth ₹ 15,000 were destroyed by fire. Insurance claim admitted	12,000
May 23	Goods lost in transit	300
May 25	Goods worth ₹ 5,000 were taken by Manoj for domestic use	
May 26	Paid Rent	8,000
May 27	Wages paid for construction of the shed	10,000
May 28	Security deposit was given to a supplier	20,000
May 30	Received a cheque of ₹ 15,000 and cash ₹ 4,700 from Jagendra in full settlement of ₹ 20,000	

20. Journalise the following transactions :

(a) Motilal starts business with ⊠ 10,000 and a building worth ⊠ 50,000.

(b) Purchased goods worth ⊠ 20,000 out of which ⊠ 12,000 was on credit from Shyamlal.

(c) Sold goods on credit ⊠ 16,000 to Ramnath.

(d) Received ⊠ 15,600 from Ramnath in full settlement of his account.

(e) Paid ⊠ 11,800 to Shyamlal in full settenent of ⊠ 12,000 due to him.

(f) Paid wages ⊠ 500 and salaries ⊠ 2,000.

(g) Purchased machinery from Marshal and sons for ⊠ 2,000 on credit.

(h) Depreciation of ⊠ 200 was provided on the machinery at the year end.

(i) Withdrew ⊠ 500 from business for personal expenses.

(j) A cheque amounting to ⊠ 500 deposited in the bank was dishonoured.

21. Journalise the following :

(a) A started a business with cash and goods ⊠ 10,000 and ⊠ 5,000 respectively.

(b) Total of the return inward book showed ⊠ 8,000.

(c) Charged depreciation at ⊠ % p.a on building of ⊠ 1,00,000 for a period of six months.

(d) Insured stock worth ⊠ 15,000 was lost in fire and insurance company admitted only ⊠ 12,000.

(e) Insurance prepaid amounts to ⊠ 100.

(f) Outstanding wages ⊠ 500.

(g) Last year's bad debt worth ⊠ 1,000 was received this year.

(h) Paid ⊠ 200 to petty cashier.

(i) Purchased goods worth ⊠ 25,000 for resale.

(j) Change 5% interest on A's drawing of ⊠ 15,500.

Chapter - 4

LEDGER

STRUCTURE

4.1 Introduction

As discussed earlier, Accounting involves recording, classifying and summarising business transactions. As we know, transactions are first recorded in a chronological order. Transactions of similar nature are recorded in different dates and different places. So it becomes difficult to know the net effect of various transactions affecting a particular account. Journal cannot answer to :-

(i) amount due to a suplier or due from a customer on a particular date (ii) Rent paid during a particular period of time (iii) Sales made during a particular month, etc.

To overcome all these difficulties, we maintain another set of books, called Ledger. Classification is the second step of accounting process. Classification means recording all transactions related to a particular person or item i.e., Ram, Dama, Shyam, Hari, Rent, Commission, etc., in one place. This separate record of similar transactions relating to a person or property or imcome or expense is known as Account. The book which contains all these accounts is known as Ledger.

4.2 Meaning of Ledger

Ledger is the main book of accounts. It contains all accounts of a business firm in a classified and summarised form. It may be defined as a book or register which provides permanent record of all financial transactions in a classified and summarised form. In the ledger book all accounts relating to different items are maintained. All journal entries are posted to appropriate accounts in the ledger. It provides complete information about all transactions relating to all parties, all items of assets, liabilities, incomes, expenses individually. For this reason, ledger is called “Principal Book” or “Main Book”or “Chief Book” of accounts.

4.3 Features of Ledger

- Ledger is the main book of record of all accounts of a business concern.
- It is prepared by posting from Journal.
- The pages are numbered consecutively and separate pages are allotted to different accounts individually. For example, Ram Account , Rent account, Interest Account - each will appear in different pages and so on.
- Ledger account shows the current balance of all accounts.
- It gives complete information regarding assets, liabilites, expenses, incomes of the business unit.
- Trial Balance and final accounts are prepared from ledger accounts.

4.4 Utility of Ledger

The ledger is the principal book of accounts. It contains information regarding business transactions in the form of accounts. It provides summary of similar transactions in one place. The information required from time to time for a business is :

- What is the amount payable to a particular creditor ?
- What is the amount receivable from a particular debtor ?
- How much exense is incurred on a particular head of expenditure ?
- How much income is earned on a particular head of income ?
- What is the amount of purchase and sale during a particular period of time, and so on ?
- Ledger can provide answer to all these questions.
- Ledger helps in preparing trial balance and final accounts. In this way it helps in achieving the objectives or accounting.

4.5 Format of Ledger Account

As we know, " an account is a summarised record of all transactions relating to a particular person, property or an item of income or expense".

An account is vertically divided into two identical parts. Both the parts are separated by two vertical lines drawn closely or a thick vertical line. It resembles to the shape of english alphabet "T". The left hand side is the "debt side". The right hand side is known as "credit side".

Dr. A specimen form of an account in the ledger is given below: Cr.

Name of the account

Date	Particulars	Folio	Amount ₹	Date	Particulars	Folio	Amount ₹

The following points explain the layout of an account :

- Name of the account is written at the top.
- The date column shows the date of the transaction.
- The particular column shows the name of the other account credited (on the (left side) or debited (on the right side)

- Folio (journal folio) column is used to record the page number of the journal from where posting is made to the account.
- The amount column is used for writing the amount of the transaction.

An alternative form of ledger account, which is usually adopted by the commercial bank doesn't have two sides. The account is divided in to six columns as given below:

(a) Date (b) Particulars (c) Folio (d) Dr. Amount (e) Cr. Amount (d) Balance

Name of the Account

Date	Particulars	Folio	Dr. Amount ₹	Cr. Amount ₹	Balance

It is customary to write the word 'To' before the name of the account on the debit side and the word 'By' before the name of the account on the credit side of the account.

4.6 Rules of Posting

Every transaction is first recorded in the journal or subsidiary book. The transactions are then tranfered from the journal / subsidiary book to the concerned account in the ledger. The processes of transferring the transactions from journal to ledger account is known as posting. The posting is necessary because summaries of all transactions relating to a particular account are recorded in one place through the posting only.

Steps in Posting from Journal to ledger

The following steps are followed for posting the debit and credit aspects of a transaction recorded in the Journal:

Posting of debit entry

i) Locate the account in the ledger to be debited.

ii) Record the date of the transaction in the date column on the debit side of the account.

iii) Write the name of the account credited on the debit side of the account in the particulars column. The word 'To' is prefixed to the name of the account.

iv) Record the page number of the journal from which the entry is being posted in the folio column on the debit side of the account.

v) Enter the relevant amount in the amount column on the debit side.

vi) In the Folio column of the journal, record the page number of the ledger to which the posting is made.

Posting of credit entry

i) Locate the account in the ledger to be credited.

ii) Record the date of the transaction in the date column on the credit side of the account.

iii) Write the name of the account debited on the credit side of the account in the particulars column. The word 'By' is prefixed to the name of the account.

iv) Record the page number of the journal from which the entry is being posted in the folio column on the credit side of the account.

v) Enter the relavant amount in the amount column on the crdit side.

vi) In the Folio column of the journal, record the page number of the ledger to which the posting is made.

As an illustration, let us consider the following journal entry.

		₹	₹
Rent Account	Dr.	1,000	
To Cash Account			1,000

The two accounts will appear as follows:

Dr. Rent Account Cr.

Date	Particulars	JF	Amount ₹	Date	Particular	JF	Amount ₹
	To Cash Account		1,000				

Dr. Cash Account Cr.

Date	Particulars	JF	Amount ₹	Date	Particular	JF	Amount ₹
					By Rent Account		1,000

The debit in the Rent Account has its corresponding credit in the Cash Account and vice-versa.

Illustration 1

Journalise the following transactions and post them to ledger.

1. 15.03.16 Started business with cash ₹50,000
2. 17.03.16 Purchased goods from Ramesh & Co. ₹20,000

Solution:

Journal

Date	Particulars	L.F	Debit Amount ₹	Credit Amount ₹
15.3.16	Cash Account Dr. To Capital Account (Being the business started with cash)		50,000	50,000
17.03.16	Purchase Account Dr. To Ramesh & Co. (Being purchase of goods on credit)		20,000	20,000

Ledger

Dr. Cash Account Cr.

Date	Particulars	JF	Amount ₹	Date	Particular	JF	Amount ₹
15.3.16	To Capital Account		50,000				

Dr. Capital Account Cr.

Date	Particulars	JF	Amount ₹	Date	Particular	JF	Amount ₹
				15.03.16	By Cash Account		50,000

Dr. Purchase Account Cr.

Date	Particulars	JF	Amount ₹	Date	Particular	JF	Amount ₹
17.3.16	To Ramesh & Co.		20,000				

Dr. Ramesh & Co. Account Cr.

Date	Particulars	JF	Amount ₹	Date	Particular	JF	Amount ₹
				17.03.16	By Purchase Account		20,000

Illustration 2

Post the following Journal entries to Ledger:

Journal

Date	Particulars	L.F	Debit Amount ₹	Credit Amount ₹
12.3.16	X's Account Dr.		5,000	
	To Cash Account			4,950
	To Discount Account			50
	(Being the cash paid in full settlement of account and discount received)			
13.03.16	Furniture Accoun Dr.		10,000	
	Machinery Account Dr.		20,000	
	To Y's A/c			30,000
	(Being purchase of furniture and machinery on credit)			

Solution: Ledger

Dr. X's Account Cr.

Date	Particulars	JF	Amount ₹	Date	Particular	JF	Amount ₹
12.3.16	To Cash Account		4,950				
12.3.16	To Discount A/c		50				

Dr. Cash Account Cr.

Date	Particulars	JF	Amount ₹	Date	Particular	JF	Amount ₹
				12.3.16	By X's Account		4,950

Dr. Discount Account Cr.

Date	Particulars	JF	Amount ₹	Date	Particular	JF	Amount ₹
				12.3.16	By X's Account		50

Dr. Furniture Account Cr.

Date	Particulars	JF	Amount ₹	Date	Particular	JF	Amount ₹
13.3.16	To Y's Account		10,000				

Dr. Machinery Account Cr.

Date	Particulars	JF	Amount ₹	Date	Particular	JF	Amount ₹
13.3.16	To Y's Account.		20,000				

Dr. Y's Account Cr.

Date	Particulars	JF	Amount ₹	Date	Particular	JF	Amount ₹
				13.3.16	By Furniture A/c		10,000
				13.3.16	By Machinery A/c		20,000

Posting the opening entry:

Opening entries are passed in the beginning of the accounting period to open the new set of books. Assets, Liabilities, Capital appearing in the Balance Sheet of previous year is recorded in the opening entries. This is the first entry in the journal to bring forward the closing balances of the previous year. All assets are debited and all liabilities are credited in the opening entry. The excess of assets over liabilities is credited to Capital Account.

Illustration-3

On 1st April 2016, the following is the position of assets and liabilities of a trader :

	₹
Building	2,00,000
Furniture	20,000
Cash	22,000
Stock	1,20,000
Debtors	35,000
Sundry Creditors	42,000
Salary Outstanding	5,000
Capital	3,50,000

Pass the opening entry and post to the Ledger Account

Journal

Date	Particulars		L.F	Debit Amount ₹	Credit Amount ₹
2016 April,1	Building A/c	Dr.		2,00,000	
	Furniture A/c	Dr.		20,000	
	Cash A/c	Dr.		22,000	
	Stock A/c	Dr.		1,20,000	
	Debtors A/c	Dr.		35,000	
	To Sundry Creditors A/c				42,000
	To Salary Outstanding A/c				5,000
	To Capital A/c				3,50,000
	(Being the opening entry)				

Dr. Building Account Cr.

Date	Particulars	JF	Amount ₹	Date	Particular	JF	Amount ₹
2016 April,1	To balance b/d		2,00,000				

Dr. Furniture Account Cr.

Date	Particulars	JF	Amount ₹	Date	Particular	JF	Amount ₹
2016 April,1	To balance b/d		20,000				

Dr. Cash Account Cr.

Date	Particulars	JF	Amount ₹	Date	Particular	JF	Amount ₹
2016 April,1	To balance b/d		22,000				

Dr. Stock Account Cr.

Date	Particulars	JF	Amount ₹	Date	Particular	JF	Amount ₹
2016 April,1	To balance b/d		1,20,000				

Dr. Debitors Account Cr.

Date	Particulars	JF	Amount ₹	Date	Particular	JF	Amount ₹
2016 April,1	To balance b/d		35,000				

Dr. Sundry Creditors Account Cr.

Date	Particulars	JF	Amount ₹	Date	Particular	JF	Amount ₹
				2016 April,1	By balance b/d		42,000

Dr. Salary Outstandting Account Cr.

Date	Particulars	JF	Amount ₹	Date	Particular	JF	Amount ₹
				2016 April,1	By balance b/d		5,000

Dr. Capital Account Cr.

Date	Particulars	JF	Amount ₹	Date	Particular	JF	Amount ₹
				2016 April,1	By balance b/d		3,50,000

4.7 Difference between Journal and Ledger:

Basis	Journal	Ledger
i) Time of recording	Transactions are recorded in the Journal as and when take place	Transactions are posted to ledger after being recorded in the journal
ii) Nature of Book	Journal is a book of original / prime entry.	Ledger is a book of secondary entry or final entry
iii) Manner of recording.	Journal records the transactions in a chronological order.	Ledger records the transactions in a classified manner.
iv) Process of recording.	Process of recording the transactions in the journal is known as 'Journalising'.	Process of recording the transactions in the ledger is known as 'Posting'.
v) Format	Journal has five columns. 1. Date, 2. Particulars, 3. Ledger Folio,4. Debit amount 5. Credit amount.	Ledger has four identical columns in both the debit side and credit side. 1. Date 2. Particulars 3. Journal Folio 4.Amount

vi) Place of writing	A transaction is recorded in one place in the journal.	A transaction is posted to different places in the ledger.
vii) Narration	Narration is required for each journal entry.	Narration is not required in Ledger.
viii) Period of recording	Transactions are recorded in the journal on daily basis	Transactions are posted to ledger periodically.
ix) Carry forward	Total of journal (except cash book) is not carried forward to next year).	Balance of personal Accounts and Real Accounts are carried forward to next year.
x) Net effect.	Journal does not help in ascertain ing net effect of various transacti-ons affecting a particular account.	Ledger helps in ascertaining the net effect of various trans-actions affecting a particular account.
xi) Basis of Prepairing final account.	Journal does not serve the purpose of preparation of final accounts.	Ledger serves the purpose of preparation of final accounts.

4.8 Balancing of Ledger accounts

The word balance means the difference between the total amounts of two sides of an account. The businessman wants to know the net position of the various accounts. For this purpose, he makes total of both the sides of accounts separately and finds out the balance or difference.

Balancing is the process of finding out the difference between debit and credit side amount of an account and writing the difference in the shorter side, so that both the debit and credit totals are made equal.

Balancing different types of Accounts :

Normally, Personal Accounts and Real Accounts are balanced i.e, the difference between the debit and credit total is carried forward to the next year. The balance of a Personal Account will reveal whether he is debtor or creditor of the business and the balance of Real Account will indicate the value of that properly on that date. Nominal Accounts are not balanced i.e., the amount is not carried forward to the next year. The account will indicate total expenses or incomes under that head during the year and those accounts are closed by transferring to Profit and Loss Account.

Steps in balancing ledger accounts :

The following procedure is followed for balancing an account:

i) Make the total of debit amount column and credit amount column of the accounts.

ii) Find out the difference between the total of both the sides.

iii) If the debit total of an account exceeds credit total, the difference is called debit balance. Such difference is written in the credit side as follows:

- In the date column write the date of balancing the account.
- In the particular column write "By balance c/d".
- In the amount column write the difference i.e., excess of debit over credit.

iv) If the credit total of an account exceeds debit total, the difference is called credit balance. Such difference is written in the debit side as follows:

- In the date column, write the date of balancing.
- In the particular column, write "To balance c/d".
- In the amount column, write the difference i.e., excess of credit over debit".

v) Now the tolal amount of both the sides are equal. Draw two thin horizontal lines below each side total indicating the close of the account.

vi) At the begining of next accounting period such balance is brought down (b/d) with the words:

- "To balance b/d" in the particular column of the debit side in case of debit balance.
- "By balance b/d" in the particular column of the credit side in case of credit balance.

vii) If the total of debit side and total of credit side are equal, there is no balance to carry forward to the next period.

viii) If the account covers more than one page, make the total of both the sides, write "Balance carred forward (Bal. c/f)" in both the sides. In the next page such total is written in the respective column with the word "Balance brought forward (bal. b/f)".

Remember

Balance	**Meaning**
By balance c/d	Closig Debit Balance
To balance c/d	Closing Credit Balance
To balance b/d	Opening Debit Balance
By balance b/d	Opening Credit Balance

Illustration 4

Journalise the following transactions and post the same to ledger:

2016		₹
April 1,	Commenced business with cash	70,000
April 3	Opened a bank account	20,000
April 5	Purchased goods for cash	15,000
April 7	Purchased office stationery	1,000
April 10	Purchased office furniture	18,000
April 15	Sold goods for cash	12,000
April 20	Bought goods from Sidharth	15,000
April 22	Paid Sidharth	10,000
April 25	Paid Trade exp. by cheque	2,000
April 28	Withdrew from Bank	5,000
April 30	Paid Sidharth in full settlement of account by cheque	4,500

Solution:

Journal

Date	Particulars	L.F	Dr. Amount ₹	Cr. Amount ₹
2016 April,1	Cash Account Dr. To Capital Account (Being business started)		70,000	70,000
April,3	Bank Account Dr. To Cash A/c (Being an account opened in bank)		20,000	20,000
April-5	Purchase A/c Dr. To Cash A/c (Being purchase of goods for Cash)		15,000	15,000
April-7	Office Stationery A/c Dr. To Cash A/c (Being purchase of Office Statainery)		1,000	1,000

April-10	Office furniture A/c Dr. To Cash A/c (Being purchase of office furniture)		18,000	 18,000
April-15	Cash A/c Dr. To Sales A/c (Being Cash sale of goods)		12,000	 12,000
April-20	Purchase A/c Dr. To Sidharth A/c (Being purchase of goods from Sidharth on Credit.)		15,000	 15,000
April-22	Sidharth A/c Dr. To Cash A/c (Being Cash paid to Sidharth)		10,000	 10,000
April-25	Trade expenses A/c Dr. To Bank A/c (Being payment of trade expenses by Cheque).		2,000	 2,000
April-28	Cash A/c Dr. To Bank A/c (Being amount withdrawn from Bank)		5,000	 5,000
April -30	Sidharth A/c Dr. To Bank A/c To Discount A/c (Being paid to Sidharth and availed Discount)		5,000	 4,500 500

Ledger

Dr. **Capital Account** Cr.

Date	Particulars	J.F	Amount (₹)	Date	Particular	J.F	Amount (₹)
2016 April,30	To balance c/d		70,000	2016 April,1	By Cash A/c		70,000
			70,000				70,000
				May,1	By balance b/d		70,000

Dr. **Cash Account** Cr.

Date	Particulars	J.F	Amount (₹)	Date	Particular	J.F	Amount (₹)
2016				2016			
April,1	To Capital A/c		70,000	April,13	By Bank A/c		20,000
April15	To Sales A/c		12,000	April,15	By Purchase A/c		15,000
April28	To Bank A/c		5,000	April,7	By Office Stationery A/c		1,000
				April,10	By office furniture A/c		18,000
				April22	By Sidharth A/c		10,000
				April30	By balance c/d		23,000
			87,000				87,000
May,1	To balance b/d		23,000				

Dr. **Bank Account** Cr.

Date	Particulars	J.F	Amount (₹)	Date	Particular	J.F	Amount (₹)
2016 April,3	To Cash A/c		20,000	2016 April,25	By Trade expenses		2,000
				April,28	By Cash A/c		5,000
				April,30	By Sidharth A/c		4,500
				April,30	By balance c/d		8,500
			20,000				20,000
May,1	To balance b/d		8,500				

Dr. Purchase Account Cr.

Date	Particulars	J.F	Amount (₹)	Date	Particular	J.F	Amount (₹)
2016				2016			
April,5	To Cash A/c		15,000	April30	By Balance c/d		30,000
April20	To Sidharth A/c		15,000				
			30,000				30,000
May,1	To Balance b/d		30,000				

Dr. Office Stationery Account Cr.

Date	Particulars	J.F	Amount (₹)	Date	Particular	J.F	Amount (₹)
2016							
April17	To Cash A/c		1,000				
			1,000				

Dr. Office Furniture Account Cr.

Date	Particulars	J.F	Amount ₹	Date	Particular	J.F	Amount ₹
2016	To Cash A/c	18,000	2016		By Balance c/d	18,000	
April10			18,000	April30			18,000
May,1	To Balance b/d		18,000				

Dr. Sales Account Cr.

Date	Particulars	J.F	Amount ₹	Date	Particular	J.F	Amount ₹
2016	To Balance c/d		12,000	2016	By Cash A/c		12,000
April,30			12,000	April15			12,000
				May,1	By Balance b/d		12,000

Dr. Sidharth Account Cr.

Date	Particulars	J.F	Amount ₹	Date	Particular	J.F	Amount ₹
2016				2016			
April10	To Cash A/c		10,000	April 20	By Purchase A/c		15,000
April30	To Bank A/c		4,500				
April30	To Discount A/c		500				
			15,000				15,000

Dr. Trade Expenses Account Cr.

Date	Particulars	J.F	Amount ₹	Date	Particular	J.F	Amount ₹
2016							
April,25	To Bank A/c		2,000				
			2,000				

Illustration-5

Journalise the following transactions, post them to ledger and balance the accounts:

2016

Feb-1	Ganapati started business with cash	₹ 1,00,000
Feb-2	Opened a Bank account	₹ 40,000
Feb-3	Purchased machinery	₹ 20,000
Feb-4	Purchased goods for cash	₹ 16,000
Feb-6	Sold goods for cash	₹ 18,000
Feb-6	Sold goods to X	₹ 2,000
Feb-8	Purchased goods from Ram	₹ 30,000
Feb-10	Sold goods to Kabita on credit	₹ 25,000
Feb-11	Received ₹24,500 from Kabita by cheque and discount allowed ₹ 500	

Feb-12	Paid to Ram in full settlement	₹ 29,200
Feb-15	Withdrew cash for personal use	₹ 3,000
Feb-17	Withdrew goods for domestic use	₹ 4,000
Feb-18	Withdrew from Bank	₹ 5,000
Feb-20	Paid salaries by cheque	₹ 3,000
Feb-21	Withdrew from bank for personal use	₹ 2,000
Feb-22	Received a cheque from X, a customer	₹ 2,000
Feb-23	The cheque of X was dishonoured	
Feb-28	Bought goods from Mohan ₹25,000 Less Trade discount 10%	
Feb-29	Returned goods to Mohan	₹ 3,000

Solution:

In the books of Ganapati

Journal

Date	Particulars	L.F	Amount (Dr.) ₹	Amount(Cr.) ₹
2016 Feb,1	Cash Account Dr. To Capital Account (Being business started with Cash)		1,00,000	 1,00,000
Feb,2	Bank Account Dr. To Cash A/c (Being an account opened in the Bank)		40,000	 40,000
Feb,3	Machinery A/c Dr. To Cash A/C (Being Machinery purchased)		20,000	 20,000
Feb,4	Purchases A/c Dr. To Cash A/c (Being goods purchased)		16,000	 16,000

Feb,6	Cash A/c Dr. To Sales A/c (Being Goods sold for Cash)		18,000	 18,000
Feb,6	X's A/c Dr. To Sales A/c (Being Goods sold on Credit)		2,000	 2,000
Feb,8	Purchase A/c Dr. To Ram's A/c (Being purchased goods from Ram on Credit)		30,000	 30,000
Feb, 10	Kabita's A/c Dr. To Sales A/c (Being sale of goods to Kabita)		25,000	 25,000
Feb,11	Bank A/c Dr. Discount A/c Dr. To Kabita's A/c (Being cheque received from Kabita and discount allowed)		24,500 500	 25,000
Feb, 12	Ram's A/c Dr. To Cash A/c To Discount A/c (Being cash pay to Ram and Discount receive)		30,000	 29,200 800
Feb,15	Drawings A/c Dr. To Cash A/c (Being Cash withdrawn for personal use)		3,000	 3,000
Feb, 17	Drawings A/c Dr. To Purchase A/c (Being goods withdrawn for domestic use)		4,000	 4,000
Feb, 18	Cash A/c Dr. To Bank A/c (Being Cash withdrawn from bank for office use)		5,000	 5,000

Feb,20	Salaries A/c Dr. To Bank A/c (Being payment of salary by cheque)		3,000	 3,000
Feb, 21	Drawing A/c Dr. To Bank A/c (Being withdrawn from Bank for personal use)		2,000	 2,000
Feb, 22	Bank A/c Dr. To X's A/c (Being the cheque received from X, a Customer)		2,000	 2,000
Feb, 23	X's A/c Dr. To Bank A/c (Being the cheque of X dishonoured)		2,000	 2,000
Feb, 28	Purchase A/c Dr. To Mohan's A/c (Being the goods purchased from Mohan at list price ₹25,000-Trade discount ₹2,500 (10%)		22,500	 22,500
Feb, 29	Mohan's A/c Dr. To Return Outward A/c (Being goods return to Mohan)		3,000	 3,000

Ledger

Dr. Capital Account Cr.

Date	Particulars	J.F	Amount ₹	Date	Particular	J.F	Amount ₹
2016	To Balance c/d		1,00,000	2016	By Cash A/c		1,00,000
Feb,29			1,00,000	Feb,1			1,00,000
				May,1	By balance b/d		1,00,000

Dr. Cash Account Cr.

Date	Particulars	J.F	Amount (₹)	Date	Particular	J.F	Amount (₹)
2016				2016			
Feb,1	To Capital A/c		1,00,000	Feb, 2	By Bank A/c		40,000
Feb,6	To Sales A/c		18,000	Feb,3	By Machinery A/c		20,000
Feb,18	To Bank A/c		5,000	Feb,4	By Purchase A/c		16,000
				Feb,12	Ram's A/c		29,200
				Feb,15	By Drawings A/c		3,000
				Feb,20	By Salaries A/c		3,000
				Feb, 29	By Balance c/d		11,800
			1,23,000				1,23,000
Mar,1	To balance b/d		11,800				

Dr. Bank Account Cr.

Date	Particulars	J.F	Amount (₹)	Date	Particular	J.F	Amount (₹)
2016				2016			
Feb,2	To Cash A/c		40,000	Feb, 8	By Cash A/c		5,000
Feb,11	To Kabita's A/c		24,500	Feb,20	By Salaries A/c		3,000
Feb,22	To X's A/c		2,000	Feb,21	By Drawings A/c		2,000
				Feb,23	X's A/c		2,000
				Feb,29	By balance c/d		54,500
			66,500				66,500
Mar,1	To balance b/d		54,500				

Dr. Machinery Account Cr.

Date	Particulars	J.F	Amount (₹)	Date	Particular	J.F	Amount (₹)
2016				2016			
Feb,3	To Cash A/c		20,000	Feb,29	By balance c/d		20,000
			20,000				20,000
Mar,1	To balance b/d		20,000				

Dr. Purchase Account Cr.

Date	Particulars	J.F	Amount (₹)	Date	Particular	J.F	Amount (₹)
2016				2016			
April,4	To Cash A/c		16,000	Feb,17	By Drawing A/c		4,000
				Feb,29	By Balance c/d		64,500
Feb, 8	To Ram's Ram's A/c		30,000				
Feb,28	To Mohan's A/c		22,500				
			68,500				68,500
Mar,1	To Balance b/d		64,500				

Dr. Sales Account Cr.

Date	Particulars	J.F	Amount ₹	Date	Particular	J.F	Amount ₹
2016				2016			
Feb,29	To balance c/d		45,000	Feb,6	By Cash A/c		18,000
				Feb,6	By X's A/c		2,000
				Feb,10	By Kabita's A/c		25,000
			45,000				45,000
				Mar,1	By balance b/d		45,000

Dr. Ram's Account Cr.

Date	Particulars	J.F	Amount (₹)	Date	Particular	J.F	Amount (₹)
2016				2016			
Feb,12	To Cash A/c		29,200	Feb,8	By Purchase A/c		30,000
Feb,12	To Discount A/c		800				
			30,000				30,000

Dr. Kabita's Account Cr.

Date	Particulars	J.F	Amount ₹	Date	Particular	J.F	Amount ₹
2016				2016			
Feb,10	To Sales A/c		25,000	Feb,11	By Bank A/c		24,500
				Feb,11	By Discount A/c		500
			25,000				25,000

Dr. Drawings Account Cr.

Date	Particulars	J.F	Amount ₹	Date	Particular	LFJ.F	Amount ₹
2016				2016			
Feb,15	To Cash A/c		3,000	Feb,29	By balance c/d		9,000
Feb,17	To Purchase A/c		4,000				
Feb, 21	To Bank A/c		2,000				
			9,000				9,000
Mar,1	To balance b/d		9,000				

Dr. Salaries Account Cr.

Date	Particulars	J.F	Amount ₹	Date	Particular	J.F	Amount ₹
2016							
Feb,20	To Bank A/c		3,000				
			3,000				

Dr. X's Account Cr.

Date	Particulars	J.F	Amount ₹	Date	Particular	J.F	Amount ₹
2016				2016			
Feb,1	To Sales A/c		2,000	Feb,22	By Bank A/c		2,000
Feb,23	To Bank A/c		2,000	Feb, 29	By balance c/d		2,000
			4,000				4,000
Mar,1	To balance b/d		2,000				

Dr. Return Outward Account Cr.

Date	Particulars	J.F	Amount ₹	Date	Particular	J.F	Amount ₹
2016				2016			
Feb,29	To balance c/d		3,000	Feb,29	To Mohan's A/c		3,000
			3,000				3,000
				Mar,1	By balance b/d		3,000

Dr. Mohan's Account Cr.

Date	Particulars	J.F	Amount ₹	Date	Particular	J.F	Amount ₹
2016				2016			
Feb,29	To Return Outward A/c		3,000	Feb,28	By Purchase A/c		22,500
Feb,29	To balance c/d		19,500				
			22,500				22,500
				Mar,1	To Balance b/d		19,500

Dr. Discount Allowed Account Cr.

Date	Particulars	J.F	Amount ₹	Date	Particular	J.F	Amount ₹
2016							
Feb,11	To Kabita's A/c		500				
			500				

Dr. Discount received Account Cr.

Date	Particulars	J.F	Amount ₹	Date	Particular	J.F	Amount ₹
				2016			
				Feb,12	To Ram's A/c		800
							800

It may be noted that Nominal Accounts have been left as they are, without being balanced. Those will be closed at the end of the accounting period, by transfer to Profit and Loss Account.

4.9 Questions

1. From the following alternatives, write serially the correct answer along with its serial number against each bit:

a) Ledger folio (L.F) in the ledger is filled at the time of:

(i) Journalising

(ii) Casting

(iii) Posting

(iv) Balancing

b) The word “To balance b/d’ or “By balance b/d” are recorded in the particulars column at the time of posting of:

(i) a closing entry

(ii) transfer entry

(iii) a compound entry

(iv) an opening entry

c) When debit total of an account exceeds credit total, the account shows:

(i) credit balance

(ii) debit balance

(iii) both debit and credit balance

(iv) nil balance

d) Credit balance in Rajendra’s Account indicates:

(i) amount due from Rajendra

(ii) amount receivable from Rajendra

(iii) loan given to Rajendra

(iv) amount payable to Rajendra

e) In ledger:

(i) only Personal Accounts are maintained

(ii) only Real Accounts are maintained

(iii) only Nominal Accounts are maintained

(iv) all Personal, Real and Nominal Accounts are maintained.

f) Normally the following accounts are balanced:
   (i) Personal Accouts and Nominal Accounts
   (ii) Real Accounts and Nominal Accounts
   (iii) Personal Accounts and Real Accounts
   (iv) Non-personal Accounts

g) One of the following accounts showing credit balance is:
   (i) Carriage Inward
   (ii) Carriage outward
   (iii) Raturn Inward
   (iv) Return outward

h) One of the following accounts showing debit balance is:
   (i) Rent receivable
   (ii) Rent payable
   (iii) Accounts payable
   (iv) Wage outstanding

i) The balance in Cash Account indicates:
   (i) cash in hand
   (ii) cash at bank
   (iii) net income
   (iv) total cash received

[Ans: a) (iii), b) (iv), c) (ii), d) (iv), e) (iv), f) (iii), g) (iv), h) (i), i) (i)]

Q2. Correct the underlined portions of the following sentences:

(i) Journal is known as the principal book.
(ii) The posting of the entries is done to the Journal.
(iii) Amount due to Sohan is a debit balance in Sohan's Account.
(iv) Income Accounts always show debit balance.
(v) All business transactions are first recorded in ledger.
(vi) Narration is required in ledger.
(vii) Posting to the debit side of an account is written as "By".

(viii) Credit balance in Nominal Accounts represents expenses.

(ix) Amount receivable from Sudam is shown by credit balance.

(x) Impersonal ledger is also known as real ledger.

[Ans.(i) ledger (ii) ledger (iii) credit (iv) credit (v) Journal (vi) Jornal (vii) "To" (viii) debit (ix) debit (x) general]

Q3. Fill in the blanks.

(i) Ledger is the _____ book.

(ii) Ledger is a book of _____ entry.

(iii) Cash discount is allowed by the _____ of cash.

(iv) Posting to the credit side of an account is written as _____.

(v) Real Account usually shows a ____ balance.

(vi) _____ balance of Nominal account represents income.

(vii) Wages outstanding is ______ Personal account.

(viii) Liability always shows _____ balance.

(ix) The difference between the assets and liabilities in the opening entry is known as _____.

[**Ans:** (i)Principal (ii) Final (iii) Receiver (iv) By (v) debit (vi) credit (vii) representative (viii) credit (ix) Capital]

Q4. Answer the following questions in one word/term each:

(i) Which balance does represent the amount due to the creditor ?

(ii) Which balance does represent the amount due from the debtor ?

(iii) Which balance does Real account always show ?

(iv) What is the term used for transfer of entries from Journal to Ledger.

(v) What is the name of process of finding out the difference between two sides of an account ?

(vi) What does the credit balance in the bank column of the cash book signify ?

(vii) State which of the following accounts will show debit balance and which will show credit balance ?

a) Bills receivable

b) Bills payable

c) Bank overdraft

d) Wages outstanding

e) Bad debts

f) Carriage outward

g) Discount allowed

h) Discount received

i) Sales return

j) Purchase return

[**Ans:** (i) Credit balance (ii) Debit balance (iii) Debit balance
(iv) Posting (v) Balancing (vi) Over draft (vii) (a) Debit Balance
(b) Credit Balance (c) Credit Balance (d) Credit Balance
(e) Debit Balance (f) Debit balance (g) Debit Balance
(h) Credit Balance (i) Debit Balance (j) Credit Balance]

Q5. Answer the following questions within one sentence each:

(i) What is an Account ?

(ii) What is Ledger ?

(iii) Why is Ledger called a book of final entry ?

(iv) Explain the term posting ?

(v) When is posting considered to be completed ?

(vi) What do you mean by Debit balance ?

(vii) What is Credit balance ?

(viii) Explain the meaning of the word “ c/f ”.

(ix) What do you understand by credit balance in Discount Account ?

Q6. Answer the following questions within two sentences each:

(i) How is Drawing Account closed ?

(ii) How are Nominal Accounts closed ?

(iii) Why does Cash Account always show debit balance ?

(iv) What does a credit balance in Nominal account signifies ?

(v) What does a debit balance in Nominal Account signifies ?

(vi) What is the purpose of balancing Personal Accounts ?

(vii) What is the reason of balancing Real Accounts ?

(viii) Whether Nominal Accounts are balanced or not ? If not, what is the treatment to close these accounts ?

(ix) Show the posting of a simple entry with an imaginary example.

(x) Give any two limitations of Ledger.

Q7. Answer the following questins within six sentences each:

(i) What is the importance of Ledger ?

(ii) Explain the steps for posting of transactions to ledger.

(iii) Explain the proforma of a ledger.

(iv) Show the posting of a compound entry with imaginary example

(v) From the following information prepare Jambuban Accout and find out balance with him.

(a) Credit sale to Jambuban ₹10,000,

(b) Cash received ₹5,000 and discount allowed ₹200

(c) Credit purchase from him ₹6,000

(d) Cash paid ₹4,000 and discount earned ₹150

(e) Goods returned to him ₹1,100

(vi) Distinguish between Journal and Ledger.

(vii) From the following particulars, prepare the account of Jasmin, the proprietor of business:

(a) Capital introduced ₹80,000

(b) Drawing ₹20,000

(c) Further capital introduced ₹30,000

(d) Profit from the business ₹2,000

(viii) Is the following Cash Account correctly prepared ? If not, prepare correctly.

Particulars	Amount(₹)	Particulars	Amount(₹)
To commission (Commision paid)	480	By Balance bid	5,700
To X (cash purchase)	2,000	By interest (received)	750
To sales A/c (sale of old machine)	5,200	By y (credit purchase)	4,000
To salary(paid)	2,000		
To Balance c/d	2,770		
	10,450		10,450

(ix) Give the proforma of a ledger followed by the banks. Record three imaginary transactions.

8. Define ledger. Explain its advantages and limitations.

9. Distinguish between journal and ledger.

10. Explain the procedure of posting from journal to ledger.

11. What do you mean by balancing of ledger accounts. Discuss the method of balancing a ledger.

12. Mr. Bidyadhar had the following balances of various assets and liabilities as on 1st April 2016:

    Stock ₹40,000, Bills Receivable ₹16,000 Sunday Debtors ₹24,000, Cash in hand ₹13,600, cash at bank ₹14,400. Bills payable ₹14,000, Sundry Creditors ₹26,000, Bank loan ₹28,000

    You are required to pass the opening entry and post them to ledger.

    (Ans. capital ₹40,000)

13. The following balances were extracted from the books of Bijay as on 1st April 2016:

    Cash in hand ₹1800, Cash at bank ₹19,500, Bills payable ₹3,000, Stock ₹12,000, Fazil (Dr) ₹2,400, Gundu (Cr) ₹6,000, Sharma (Dr) ₹4,500, Ram (Cr) ₹2,700

The following transactions took place during the month:

2016

April 2	Purchased goods from Gundu	₹ 2,700
April 3	Sold goods to Sharma	₹ 3,000
April 5	Purchased goods from Ram	₹ 3,600
Arpil 7	Sold goods to Fozil	₹ 1,500
April 8	Cash sales	₹ 6,000
April 10	Paid Gundu by cheque	₹ 4,500
April 15	Received from Sharma by cheque	₹ 6,000
	and allowed him discount	₹ 1,500.
Arpil 20	Received commission from Sabir	₹ 4,500
April 22	Sold goods to Sharma	₹ 2,400
April 25	Sold to Fazil	₹ 3,000

You are required to pass journal entries and post them to ledger.

14. Prepare the account of Matuna as it would appear in the books of Tulu.

2016

May 1	Debit balance in the account brought forward	₹ 18,000
May 2	Matuna returned goods being inferior in quality	₹ 6,000
May 6	Matuna paid on account cash	₹ 8,000
	Cheque	₹ 14,000
May 10	Matuna purchased goods on credit	₹ 27,000
May 15	Matuna paid on account by cheque	₹ 20,000

15. Journalise the following transactions in the books of Subash, post them in to ledger and balance the accounts:

2016

June 1	Subash started business with cash	₹ 3,50,000
June 2	Opened a bank account	₹ 2,50,000
June 3	Purchased goods from Sailesh on cash	₹ 25,000
June 5	Bought goods on credit from Yudhistir	₹ 30,000
June7	Sold goods to Akash for Cash	₹ 25,000
June 8	Returned goods to Yudhistir being defective in quality	₹ 7,500

June 9	Sold goods to Baidehi	₹14,000
June 10	Baidehi returned 20% of the goods being defective in quality	
June 15	Drew from Bank for office use	₹25,000
June 16	Settled Yudhistir's accounts by cheque	₹21,500
June 18	Drew cash from bank for personal use	₹35,000
June 20	Paid salaries to office staff	₹20,000
June 22	Rent paid by cheque	₹12,500
June 25	Paid life insurance premium	₹10,000
June 30	Withdrew goods for personal use	₹6,000

16. The following balances were extracted from the books of Sushil as on 1st January 2016 :

Rama Dr. ₹6,000, cash ₹81,600, machinery ₹7,200, closing stock ₹8,400, Gudu(Cr) ₹16,000, Furniture ₹4,800

The following transactions took place during the month:
2016

Jan 1	Cash purchase	₹60,000
Jan 2	Cash sales	₹84,000
Jan 6	Soldgoods to Rama	₹4,200
Jan 10	Salary paid	₹2,500
Jan 15	Received from Rama	₹6,000
Jan 19	Rent paid	₹2,000
Jan 23	Paid Gudu	₹15,500
	and received discount	₹500
Jan 31	Commission paid	₹400
Jan 31,	Closing stock valued at	₹6,000

17. Record the following transactions in the books of Somnath and post them to ledger :

(i) Started business with Cash ₹50,000

(ii) Sold goods to Satrughna ₹5,000

(iii) Purchased goods from Tanu ₹5,000

(iv) Received cash from Satrughna ₹4,500 in full settlement.

(v) Paid to Tanu ₹14,500 in full settlement.

(vi) Paid salary to Zakir ₹3,000.

(vii) Purchased a plant for ₹10,000

(viii) Sold goods for cash ₹13,000

(ix) Received interest ₹500

(x) Deposited in Bank ₹10,000

(xi) Paid wages ₹1,000

(xii) Cash withdrawn from bank for private use ₹2,000

18. Open necessary accounts in the ledger of Suran from the following transactions:
2016

March 1	Started Business with cash ₹2,00,000
Mar 4	Purchased goods from Roshan ₹10,000, trade discount 10%
Mar 5	Sold goods to Mantu ₹30,000 trade Discount 10%
Mar 8	sold goods to Anuradha ₹65,000
Mar 10	Paid wages ₹7,000
Mar 15	Anuradha returned goods ₹6,500
Mar 20	Placed order with Munjal for supply of goods ₹45,000
Mar 25	Received from Anuradha in full settlement of her account ₹62,000
Mar 27	Deposited in the bank ₹10,000
Mar 30	Paid salary ₹5,000
Mar 31	Paid income tax ₹3,500

19. Mr. Akbar started business as a cloth merchant with a capital of ₹10,00,000 on 1st April 2016. The following transactions took place during the month:
2016

April 2	Took a building on rent paying on advance of ₹30,000
April 3	Purchased furniture for cash ₹13,000
Arpil 4	Purchased an Iron safe for cash ₹17,000
April 5	Purchased goods from Vishal Traders ₹1,60,000, trade discount 10%.
April 6	Purchased cloth from Biswanath ₹2,40,000, with trade discount 10%

April 10	Cash sales ₹3,00,000
April 15	Paid Vishal Traders in full settlement of their accounts ₹1,40,000.
April 18	Sold goods to Anil ₹1,00,000
April 20	Goods worth ₹24,000 were used by Mr. Akbar for his personal purposes.
April 22	Sold goods to Priyadarshini worth ₹30,000, she paid 40% immediately.
April 28	Paid salary to Asima ₹3,600.
April 29	Paid to Biswanath 60% of the amount due.
April 30	Withdrew cash for personal use ₹5,500
April 30	Cloth given to orphanage as charity ₹2,500.

Chapter - 5

Subsidiary Books

STRUCTURE

5.1 Introduction

All business transaction are to be first recorded in the Journal. Then the transactions are to be posted to the Ledger. With the increase in size of business, number of transactions also increases. Recording all the transactions in one journal and posting to ledger involves a lot of clerical work. It is also a time consuming process. Therefore, it was necessary to sub-divide the Journal into sub-journals for the purpose of convenience. As a result, separate Journal books for each type of transactions were maintained. Each of these special Journals to record a particular type of transaction is known as subsidiary book.

5.2 Meaning and Advantages of Subsidiary Books

Meaning: Subsidiary books refer to sub-divison of Journals. These books are meant for recording specific transactions of similar nature. In every business major transactions are related to receipt and payment of cash including banking transactions, purchase and sale of goods, etc. So separate books are maintained for the different types of transactions. Each separate took records a particular type of transactions and it is known as subsidiary book. Subsidiary Books are called the books of original entry or prime entry because these are nothing but part of the journal which is called book of original entry or prime entry.

The following types of Subsidiary books are used in the business:

i) Purchase book: Purchase Book records credit purchases of goods for the purpose of sale or manufacturing.

ii) Sales Book: Sales Book records credit sale of goods in which the firm is dealing.

iii) Purchase Returns or Return outward Book: This book records return of goods to the supplier.

iv) Sales Returns or Return Inward Book: It records return of goods by the customers to the business.

v) Bills Receivable Book: Bills Receivable book records receipts of bills of exchange, Promissory notes, hundies etc. from various parties.

vi) Bills Payable Book: Bills payable book records issue of Bills of exchange, promissory notes, hundies etc. to various parties.

vii) Cash Book: Cash Book records receipt and payemnts of cash including banking transactions.

viii) Journal Proper: It records transactions which cannot be recorded in any of the above seven books.

Advantages of Subsidiary Books:

i) Easy and Quick Recording: There are different types of subsidiary books to record different transactions. Each Subsidiary book is meant for recording specific type of transactions. Since there are eight different types of subsidiary books, the recording of transactions can be done simultaneously at the same time, thereby quickning the work.

ii) Division of Work: As there are eight Subsidiary books like purchase, sales, cash book etc., different persons can be entrusted with the work of a particular subsidiary book at a time. It helps in division of work among the book-keepers and also develops specialisation in them.

iii) Convinience in handiling: All business transactions are recorded in the book of original entry i.e, Journal. It will be very bulkey, if all the transactions will be recorded in it. But subdivision of Journal reduces the size. So it is convinient to handle.

iv) Increase in efficiency: Division of work increases the efficiency of the accounts assistants who specialise in handling only one type of subsidiary books.

v) Easy availability of information: One can refer to different subsidiary books for different types of information. It is very difficult to refer to a particular information in case of the undivided single journal which is very bulky. This difficulty is removed by subsidiary books where only one type of transactions are recorded in one subsidiary book.

vi) Saving in time: Different persons are assigned duties for different subsidiary books. So the work in different books can be carried on simultanously and the entire accounting work can be completed quickly.

vii) Fixation of Responsibility: Specific persons carry on recording work in different subsidiary books. So responsibility can be fixed upon specific persons for the delay in work and mistake, if any, committed.

The different subsidiary books are discussed in a detailed manner in the following pages:

5.3 Purchase Book

The Purchase Book is also, otherwise known as Purchase Day Book, Purchase Journal, Purchase Register etc.

The Purchase Book is used for recording credit purchase of goods and raw materials. It does not record credit purchase of assets like Furniture, Fixture, Machinery, etc. These are recorded in Journal Proper. If also does not record cash purchase of goods, which are recorded in the cash book.

Sources of Data for the Purchase Book:

The entries in the purchase book are made on the basis of invoice received from the supplier for the net amount. The net amount is arrived at after deducting trade discount and Quantity discount. The invoice received by the purchaser is known as purchase invoice or inward invoice.

Invoice is a statement issued by the seller to the buyer and sent with the goods . The invoice contains details of quantity, price, net amount payable and other terms and conditions of sale.

Specimen of an Invoice

Invoice

Name of the Seller

Address

No..................... Date.........................

To

The Name of the Purchaser

Address

Sl No. Decription Quantity Rate Amount

Less: Trade Discount

Add: Packing and Forwarding charges

Add: CST

Add: VAT

Add: Carriage

Total______________

(Rupees..)

E&OE. Signature

Proforma of Purchase Book:

The proforma of a purchase book is as follows:

Date	Particulars	Invoice No	L.F	Detail	Amount

Procedure for writing up the Purchase Book:

Purchase Book records all credit purchases of goods in chronological order. The first column is the date column which records the date of purchase. In the particulars column name of the supplier along with brief description of goods, quantity purchased and rate are entered. The third column records invoice number of the supplier. The fourth column records the page number of the concerned supplier's account in the ledger. The 5th column i.e, details column records the value of the goods purchased and trade discount availed. The last column i.e, the amount column records the net amount payable to the seller.

Posting from Purchase Book:

Posting of individual Amount:

Individual amounts are daily posted to the credit of individual supplier's account with the word "By Purchase Account" in the particulars column.

Posting of Periodic total:

Periodic totals of the purchase book are posted to the debit of Purchase Account with the words "To Sundries as per Purchase book" in the particulars column.

Illustration 1

From the following particulars of Prusty & Sons prepare purchase book & post them to the ledger.

2016

Jan,7 Purchased 100 meters shirting @ ₹200 per meter and 120 meters of Suiting @ ₹450 per meter from Ambani mills, Ahmadadad, Trad discount 10%.

Jan,10 Purchased 8 meters Shirting and Suiting @ ₹350 per meter from Patel Cloth Store, Surat on Credit/ Trade Discount-10%.

Jan,15 Purchased 30 Sarees @ ₹250 and 40 Shawls @ ₹500 from Agarwal Mills, Jaipur less Trade discount 8% for cash.

Jan,17 Purchased a Steel Almirah from Modern Furniture, Bhubaneswar for ₹16,000, for Office use.

Jan, 20 Purchased from Gwalior Cloth Mill, Gwalier 150meters Modern Shirting @ ₹220, 120 meters Suiting @ ₹450 per meter less trade discount 12%.

Jan, 25 Purchased 80 Silk Sarees @ ₹750 from Sarees House, Mysore less 15% trade discount.

Solution: In the Books of Prusty & Sons

Purchase Book

Date	Particulars	Invoice No	L.F	Details	Amount ₹
2016					
Jan,7,	Ambani Mill, Ahamadabad				
	100meter Shirting @ ₹200			20,000	
	and 120 mtr of Suitings @ ₹450			54,000	
				74,000	
	Less Trade Discount @10%			7,400	66,600
Jan,10	Patel Cloth Store, Surat				
	80 mtr Shirting @ ₹180 per mtr			14,400	
	100 mtr of Suitings @ ₹350			35,000	
				49,400	
	Less Trade Discount @10%			4,940	44,440
Jan, 20	Gwaliar Cloth Mill, Gwalier				
	150 mtr of Shirting @ ₹220 mtr			33,000	
	120mtrs of Suitings@ ₹450 per mtr			54,000	
				87,000	
	Less Trade Discount @12%			10,440	76,560
Jan, 25	Saree House, Mysore				
	80 Silk Saree @ ₹750 per saree			60,000	
	Less Trade Discount @15%			9,000	51,000
					₹ 2,38,620

N.B: Purchase of Saree on Cash will be recorded in the cahs book and Purchase an Steel Almirha on Credit will be recorded in the Journal Proper.

Ledger

Dr. Ambani Mills Account Cr.

Date	Particulars	LF	Amount ₹	Date	Particulars	LF	Amount ₹
				2016			
				Jan,7	By Purchase A/c		66,600

Dr. Patel Cloth Store Account Cr.

Date	Particulars	LF	Amount ₹	Date	Particulars	LF	Amount ₹
				2016			
				Jan,10	By Purchase A/c		44,460

Dr. Gwalior Cloth Mill Account Cr.

Date	Particulars	LF	Amount ₹	Date	Particulars	LF	Amount ₹
				2016			
				Jan, 2	By Purchase A/c		76,560

Dr. Saree House Account Cr.

Date	Particulars	LF	Amount ₹	Date	Particulars	LF	Amount ₹
				2016			
				Jan, 25	By Purchase A/c		51,000

Dr. Purchase Account Cr.

Date	Particulars	LF	Amount ₹	Date	Particulars	LF	Amount ₹
2016							
Jan,15	To Cash A/c		25,300				
Jan,31	To Sundries as per Purchase Book		2,38,620				

Advantages of the Purchase Book:

The Following are the advantages of the purchase book:

i) One can know the total credit purchase of goods at any point of time without wastage of time.

ii) It provides complete information as to from which firm goods are purchased on credit.

iii) It relieves the burden of posting each and every transactions to Purchase Account. Only the total of the Purchase Book is posted periodically.

iv) Detailed information about type of goods, quantity, rate, trade discount, etc. are available immediately.

v) It helps in locating errrors easily.

Distinctions between Purchase Book and Purchase Account.

Basis of Distinction	Purchase Book	Purchase Account
Meaning	It is a Subsidiary book used to record credit purchase of goods.	It is a ledger account meant to record periodic total of credit purchases and cash purchases.
Type of Book	It is a book of prime entry.	It is a part of the ledger.
Form	It is in the form of a statement.	It is in the Form of an account.
Type of Transactions	It records only credit purchase of goods in which the firm is dealing.	It records both cash and credit purchase of goods.
Object	The main aim is to record credit purchase of goods and find out total credit purchase of goods at any point of time.	It shows both cash purchase and credit purchase of goods.
Recording of Transactions	Transactions regarding credit purchase of goods are recorded in order of their occurance.	The transactions which are already recorded in the purchase book and cash book are posted to it.
Posting	The total of the purchase book is posted to the purchase account periodically.	There is no posting from the purchase account. Only the total of purchase Account is transfered to trading account.

Link with Trial Balance	Purchase book is not considered for preparing the Trial Balance.	The total of purchase account is shown in the Trial Balance.
Effect of errors	Any error committed while recording transactions in the Puchase Book does not affect the Trial Balance.	Any type of error committed in the purchase account will affect the Trial Balance.

5.4 Sales Book

Meaning of Sales Book:

Sales book (otherwise known as sales day book or sales Journal) is a subsidiary book. It records only credti sale of goods. It does not record cash sale of goods or sale of assets on credit. Cash sales are recorded in the cash Book. Credit sale of assets are recorded in the Journal Proper.

Sources of data for Sales Book

The entries in the Sales book are made on the basis of invoice issued to the customers with the net amount after deducting Trade Discount. The invoice is known as outward invoice for the seller. The same is known as inward invoice for the buyer.

Proforma of the Sales Book

Date	Particulars	Invoice No	L.F	Detail ₹	Amount ₹

Procedure for recording in the Sales Book:

The entry for credit sale of goods in the Sales Book is similar to that of credit purchase in the Purchase Book. The Sales Book is written on the basis of duplicate copy of the outward invoice. The orginal invoice is sent to the customer with the goods.

The following steps are followed:

i) In the date column the date of the invoice issued to the customer is recorded.

ii) In the particular column the name of the customer along with the place is recorded. A brief description of the goods sold with quantity, rate, amount, trade discount allowed, VAT added etc. are recorded.

iii) In the invoice column serial number of the outward invoice is written.

iv) In the details column value of the goods sold and Trade Discount allowed is recorded.

v) Last column i.e, the amount column records the net amount payable by the buyer.

Posting of Sales Book:

Individual amounts are daily posted to the debit of customer's account in the Ledger with the words "To Sales Account" in the particulars column.

Posting of periodical totals:

Periodical total of the Sales Book is posted to the credit of Sales Account with the words "By Sundries as per Sales book" in the particulars column.

Advantages (functions) of Sales Book:

The following are the advantages of Sales Book :

i) One can know at a glance the tatal credit sale during a particular period of time.

ii) Detailed information about credit sale to different customers during a particular period can be known from the Sales Book.

iii) It saves the time and energy as total credit sale is posted to the credit of Sales Account. Crediting Sales Account for individual Sales would have taken more time.

iv) It helps easy location of errors and frauds.

Distinctions between Sales Book and Sales Account

Basis of Distinction	Sales Book	Sales Account
Meaning	It is a Subsidiary book to record credit Sale of goods.	It is a ledger account meant to record periodic total of credit Sales and cash Sales.
Type of Book	It is a book of prime entry.	It is a part of the ledger.
Form	It is in the form of a statement.	It is in the form of an account.
Type of Transactions	It records only credit sale of goods in which the firm is dealing.	It records both cash and credit sale of goods.
Object	It's main aim is to record credit sale of goods and find out total credit sale of goods at any point of time.	It's main aim is to record total sale of goods. Total sale includes both cash sale and credit sale of goods.

Recording of Transactions.	Transactions regarding credit sale of goods are recorded chronologically.	The transactions which are already recorded in the Purchase Book and cash book are psoted in to it.
Posting.	Total of Sales book are posted to the sales account periodically.	There is no posting from the Sales Account. Only the total of Sales Account is transferred to trading account. at the end of the year.
Link with Trial Balance.	Sales Book is not considered for the purpose of prepairing trial balance.	The total of sales account is shown in the Trial Balance.
Effect of errors	Any error committed while recording transactions in the sales book does not affect the Trial Balance.	Any type of error committed in the sales account will affect the Trial Balance.

Illustration 2

From the following transactions of Kitab Mahal, prepare slaes Books and post them to necesary ledger accounts :

2016

Jan, 5 Sold on credit to modern Book Depot, Bhubaneswar. 50 copies of Double Entry Book-keeping @ ₹250 per copy.

80 Copies of Business Mathematics @₹190 per copy (Trade Discount 10%).

Jan,10 Sold to Gyana Bharati, Dhenkanal 60 copies of Salesmanship @₹210 per copy.

40 copies of Business Economics @ ₹180 per copy.

(Trade Discount 12%).

Jan, 17 Sold to Books and Books, Cuttack 40 copies of Cost Accounting @₹230 per copy.

60 copies of Economics @₹ 180 per copy.

(Trade Discount 15%).

Jan, 22 Sold one old Scooty to Knowledge Centre, Bhadrak for ₹12,000.

Solution: In the Books of M/S Kitab Mahal

Sales Book

Date	Particulars	Invoice No.	L.F	Details ₹	Amount ₹
2016					
Jan,5	Modern Book Depot, Bhubaneswar				
	50 copies of Double Entry Book-Keeping @₹250 per copy			12,500	
	80 copies of Business Mathmatics @ ₹190 per copy			15,200	
				27,700	
	Less: Trade Discount 10%			2,770	24,930
Jan,10	Gyana Bharati, Dhenkanal				
	60 copies of Salesmanship @₹210 per copy			12,600	
	40 cpoies of Business Economics @₹180 per copy			7,200	
				19,800	
	Less: Trade Discount 12%			2,376	17,424
Jan, 17	Books and Books, Cuttack				
	40 copies of Cost Accounting @ ₹230 per Copy			9,200	
	60 copies of Economics @ ₹180 per copy			10,800	
				20,000	
	Less: Trade Discount 15%			3,000	17,000
					59,354

N.B: Sale of old scooty will be recorded in the Journal Proper.

Ledger

Dr. Modern Book Depot Account Cr.

Date	Particulars	LF	Amount ₹	Date	Particular	LF	Amount ₹
2016							
Jan,5	To Sales A/c		24,930				

Dr. Gyana Bharati Account Cr.

Date	Particulars	LF	Amount ₹	Date	Particular	LF	Amount ₹
2016							
Jan,10	To Sales A/c		17,424				

Dr. Books and Books Account Cr.

Date	Particulars	LF	Amount ₹	Date	Particular	LF	Amount ₹
2016							
Jan,17	To Sales A/c	17,000					

Dr. Sales Account Cr.

Date	Particulars	LF	Amount ₹	Date	Particular	LF	Amount ₹
				2016			
				Jan,31	By Sundries-/		
					As per Sales Book		59,354

5.5 Purchase Return Book

Meaning: Purchase Return Book (also known as Return Outward Book or Return outward Journal) is a subsidiary book. This book is used to record return of goods purchased on credit. Return of goods purchased on cash basis or return of any other asset is not recorded in this book.

The reason for return of goods may be defective in quality, damaged in transit, not upto specification, etc.

Sources of data for Purchase Return Book:

The entries in the Purchase Return Book are made on the basis of Debit Note issued to the supplier.

Proforma of Purchase Return Book

Date	Particulars	Debit Note No	L.F	Details ₹	Amount ₹

Procedure for Writing up Purchase Return Book:

Purchase Return Book records return of goods purchased on credit. The purchase returns are recorded in chronological order. The first column is the date column which records the date of return of goods. In the particulars column, name of the Supplier along with brief description of goods, quantity and rate are entered. The third column records Debit Note number. The debit note is issued to the purchaser at the time of returning the goods. The fourth column records the page number of the concerned supplier's account in the ledger. The 5th column is the details column which records the value of goods returned and Trade Discount availed at the time of purchase. the last column i.e, the amount column records the net value of the goods returned to the supplier.

Posting of individual amount: Individual amounts are daily posted to the debit of suppliers account in the ledger with the words "To Purchase Return Account" in the particular column.

Posting of periodic totals: Periodic total of Purchase Return Book is posted to the credit with the words, "By Sundries as per purchase return book" in the particulars column of the Purchase Return Account.

Debit Note: When goods are returned to the supplier, a statement is sent to him for his information. This statement contains the detail information about the goods returned. This statement is known as Debit Note.

We can define Debit Note as a document prepared by the purchaser to inform to the seller that his account is debited. The information mentioned in the Debit Note is in the form of brief description of goods returned, quantity, rate and amount of goods returned and reason of return.

It is generally prepared in duplicate. The original copy is sent to the supplier and the duplicate copy is retained by the purchaser, on the basis of which recording is made in Purchase Return Book.

Specimen of Debit Note

Debit Note No....................................

Date:..................................

From: Name and Address (of the buyer who returns the goods)

To

Name and Address (of the Supplier to whom goods are returned)

Dear Sir,

Your account has been debited with the value of the goods returned to you as mentioned below:

Sl. No.	Particulars	Quantity	Rate	Amount ₹	Remarks ₹

Awaiting your reply and kind confirmation in this regard,

Ref: Invoice Number................. Dated............................

Signature

Illustration 3

Prepare the Purchase Return Book of Prusty & Sons, Bhubaneswar from the following particulars and post them to ledger :

Jan,10. 2016 Returned to Shawl House, Punjab 5 Shawls @₹ 800 each less Trade Discount 15%.

Jan,17. Returned to Surat Textile, Surat 10 Polyster Sarees @ ₹700 each less Trade Discount 12%.

Jan, 20 Returned to Gopil Mill, Kota 20 Kota Sarees @ 450 each less Trade Discount 16%, which were purchased for cash.

Jan, 25 Returned to Sik House, Mysore 10 Silk Sarees @ 1500 each less Trade Discount 15%.

Jan, 30 Returned one Computer being defective to Ram & Co. 16,000.

Solution:

In the Books of Prusty & Sons

Purchase Return Book

Date	Particulars	Invoice No.	L.F	Details	Amount
2016					
Jan10.	Shawl House, Punjab				
	5 Shawl @ ₹800 each			4,000	
	Less Trade Discount @15%			600	3,400
Jan,17	Surat Textile, Surat				
	10 Polyster Sarees @ ₹ 700 each			7,000	
	Less Trade Discount @12%			840	6,160
Jan, 25	Silk House, Mysore				
	10 Silk Sarees@ ₹1500 per Saree			15,000	
	Less Trade Discount @15%			2,250	12,750
					22,310

N.B:

(i) Return of Kota Sarees will be recorded in the Journal Proper.

(ii) Return of Computer will be recorded in Journal Proper.

Ledger

Dr.		Shawl House, Punjab Account					Cr.
			₹				₹
Date	Particulars	LF	Amount	Date	Particular	LF	Amount
2016							
Jan,10	To Purchases Return A/c		3,400				

Dr		Surat Textile, Surat Account					Cr.
			₹				₹
Date	Particulars	LF	Amount	Date	Particular	LF	Amount
2016							
Jan,17	To Purchases Return A/c		6,160				

Dr.		Silk House Mysore Account					Cr.
			₹				₹
Date	Particulars	LF	Amount	Date	Particular	LF	Amount
2016							
Jan,25	To Purchases Return A/c		12,750				

Dr.		Purchase Return Account					Cr.
			₹				₹
Date	Particulars	LF	Amount	Date	Particular	LF	Amount
				2016			
				Jan,20	By Gopal Mill A/c		7,560
				Jan, 25	By Sundreis as per Purchase Ruturn book		22,310

5.6 Sales Retun Book

Meaning of Sales Return Book:

Sales Return Book (also known as Return Inward Book/Journal) is a subsidiary book. It records return of goods sold on credit. It does not record return of goods sold on cash or return of assets.

The reason for return of goods may be inferior in quality, damage in transit, not up to specification, etc.

Sources of data for Sales Return Book:

The entries in the Sales Return Book is made on the basis of Credti Note issued to the customers.

Proforma of Sales Return Book

Date	Particulars	Credit Note No.	L.F	Detail ₹	Amount ₹

Procedure for writing up Sales Return Book:

The Sales Return Book Records return of goods sold on credit. The Sales return is recorded in chronological order.

(i) The first column is the date column. It records the date of return of goods.

(ii) In the particulars column, name of the buyer (who returned the goods) along with brief description of goods, quantity returned and rate are recorded.

(iii) The 3rd column records the number of the Credit Note issued to the buyer who returned the goods.

(iv) The fourth column records the page number of the concerned buyer's account in the ledger.

(v) The 5th column i.e, the details column records the value of the goods returned by the customer and the trade discount allowed.

(vi) Last column i.e, the amount column records the net amount to be credited to the buyer who has returned the goods.

Posting of the Sales Return Book

Posting of individual Amount:

Individual amounts are daily posted to the credit of individual customer's account in the ledger with the words, "By Sales return account" in the particulars column.

Posting of Periodic total:

Periodic total of Sales Return Book are posted to the debit of Sales Return Account with the words "To Sundries as per Sales Return Book" in the particulars column.

Credit Note:

A Credit Note is a document prepared by the seller to inform to the buyer about crediting his account. The Credit Note is Prepared by the Seller after receiving the Debit Note from the customer. He acknowledges the return of goods by the customer through the Credit Note. The Credit Note contains the date of return of goods, name of the customer returning the goods, the details of the goods received back and amount of the goods. The Credit Note is numbered serially.

The seller prepares credit note in duplicate. The original copy is sent to the customer informing him about acceptance of the goods and Debit Note.

Specimen of Credit Note

Credit Note No....................................

Date:..................................

From:

Name and Address (of the Seller to whom goods are returned)

To

Name and Address (of the buyer or customer who has returned the goods)

Dear Sir,

Your account has been credited with the value of the goods returned by you as mentioned below. This is in confirmation of your Debit Note Number............. Dt.

Sl. No.	Particulars	Quantity	Rate	Amount ₹	Remarks ₹

Signature

Distinctions between Debit Note and Credit Note

Debit Note	Credit Note
• It is prepared by the customer and sent to the seller when returning the goods.	• It is prepared by the supplier and sent to the customer who has returned the goods.
• It is an information for return of goods to the seller.	• It is an acknowledgement of goods received back from the customer.
• The customer informs the supplier that his account has been debited with the value of the goods returned.	• The supplier informs the customer that his account has been credited with the value of the goods received back.
• It provides the basis for recording in the Purchase Return Book.	• It provides the basis for recording in the Sales Return Book.
• Debit Note is first prepared by the customer for returning the goods.	• Credit Note is subsequently prepared by the seller after receiving the Debit Note and the goods.

Illustration 4

From the following particulars write up the Sales Return Book of Capital Sports House, Bhubaneswar and post them to ledger:

2016

Feb,8. Odisha Sports House, Angul returned 10 Cricket Bats @ ₹1,200 each and

12 Cricket Balls @ ₹250 each.

(Original Invoice is subject to Trade Discount 20%)

Feb,15 Vijay Sports, Bolangir returned: 15 Foot Balls @ ₹300 each

(Original invoice is subject to Trade Discount 15%).

Feb,20 Janata Store, Balasore returned Two Dozen Racket @ ₹1500 per dozen.

(Original invoice is subject to 12% Trade Discount)

The Rackets were sold for cash.

Feb,25 Bhawani Sports, Baripada returned 5 Carrom Boards @₹500 each 5 dozen Corks @ ₹250 per dozen. (Original invoice was subject to 10% Trade Discount).

Solution:

In the Books of Capital Sports House

Sales Return Book

Date	Particulars	Credit Note No.	L.F	Details ₹	Amount ₹
2016					
Feb,8. ,	Odisha Sports House, Angul				
	10 Cricket Bats @ ₹ 1200 each			12,000	
	12 Cricket Balls @₹250 each			3,000	
				15,000	
	Less Trade Discount @20%			3,000	12,000
Feb,15	Vijay Sports, Bolangir				
	15 Foot Balls @₹ 300 each			4,500	
	Less Trade Discount @15%			675	3,825
Feb, 25	Bhawani Sports, Baripada				
	5 Carrom Boards @₹ 500 each			2,500	
	5 Dozen Corks @₹ 250 each			1,250	
				3,750	
	Less Trade Discount @10%			375	3,375
	Total				19,200

N.B:

Return of rackets by Janata Store, Balasore will be recorded in the Journal Proper.

Ledger

Dr. Odisha Sports House, Angul Account Cr.

Date	Particulars	LF	Amount ₹	Date	Particular	LF	Amount ₹
				2016			
				Feb,8	By Sales Return A/c		12,000

Dr. Vijay Sports, Bolangir Account Cr.

Date	Particulars	LF	Amount ₹	Date	Particular	LF	Amount ₹
				2016			
				Feb,15	By Sales Return A/c		3,825

Dr. Bhawani Sports, Baripada Account Cr.

Date	Particulars	LF	Amount ₹	Date	Particular	LF	Amount ₹
				2016			
				Feb,25	By Sales Return A/c		3,375

Dr. Sales Return Account Cr.

Date	Particulars	LF	Amount ₹	Date	Particular	LF	Amount ₹
2016							
Feb,20	To Janata Store A/c		2,640				
Feb,29	To Sundries As per Sales Return Book		19,200				

5.7 Bills Receivable Book

Meaning: Bills Receivable Book is a subsidiary book to record the details of the bills receivable received by the firm. Bills receivable (Bills of exchange, Promissory Notes, Hundies) are generally received from the customers against credit sale of goods. When bills receivable are received, information about the drawee, amount of the bill, tenure of the bill, date of drawing etc. are recorded in the Bills Receivable Book. It is also convenient to record the transactions in this book. Entries on their realisation and discount are made in the Cash Book. Entries for endorsement and dishonour are made in the Journal proper.

Format of Bills Receivable Book

Sl.No.	Date of Receipt	From whom received	Name of the Drawer	Name of the accepter	Date of Bill	Term of Bill	Due Date	Where receivable	L.F	Amount	Remarks

Posting of Bills Receivable Book:

Posting of individual amount:

Individual amounts are daily posted to the credit of individual debtors from whom the bills are received.

Postingof Periodic Total: Periodic totals (normally monthly total) are posted to the debit of "Bills Receivable Account" in the ledger with the words "To Sundries as per Bills receivable Book" in the particular column.

5.8 Bills Payable Book

Meaning: Bills Payable Book is a Subsidiary Book which is used to record the details of bills payable accepted by the firm or person. The details of the bill accepted such as date of acceptance, amount, tenure, due date of payment, where payable, etc. are recorded in the Bills Payable Book:

Format of Bills Payable Book

Sl. No.	Date of Acceptance	Name of Drawer	Name of Payee	Date of Bill Drawn	Term of Bill	Due Date	Where payable	Ledger Folio	Amount	Remarks

Posting of Bills Payable Book:

Posting of individual amount:

Individual amounts are daily posted to the debit of individual creditor's account to whom acceptance of bill of exchange is given.

Posting of Periodic Total:

Periodic total (normally monthly total) are posted to the credit of "Bills Payable Account" with the words "By Sundries as per Bills Payable Book" in the particular column.

Illustration-5

Following are the transactions relating to the bill of exchange in the books of M/S Santi Enterprises for the month of April 2016. Enter the transactions in Bills Receivable Book and Bills Payable Book:

2016

April,1 Received a bill from Ramesh duly accepted for ₹3,000 payable 3 months after date.

April,7 Accepted a bill drawn by Kambhu of Cuttack payable at Canara Bank, Cuttack 2 months after date for ₹3,000.

April,10 Drew on Dinabandhu a bill amounting ₹7,500 payable after two months at UCO Bank, Bhubaneswar. The same was endorsed to Abhisek.

April,12 Accepted a bill drawn by Somesh of Sonepur payable at IOB, Sambalpur after 4 months for ₹10,000.

April,18 Drew a bill on Somesh of Dhenkanal for ₹ 5,000 payable after 3 months at Union Bank, Dhenkanal. It was discounted on the same day for ₹4,800.

April,25 Promised in writing to pay ₹3,000 to Soubhagya, Bhawanipatna at ICICI Bank, Berhampur after 3 months.

Bills Receivable Book:

Sl. No.	Date of Receipt	From whom received	Name of the Drawer	Name of the accepter	Date of Bill	Term of Bill	Due Date	Where receivable	L.F	Amount ₹	Remarks
1	2016 April,1	Ramesh	Self	Ramesh	2016 April,1	3 months	2016 July,4	--		3,000	Endorsed to Abhisek
	April,10	Dinabandhu	Self	Dinabandhu	April,10	2 months	June,13	Canara Bank		7,500	
	April,18	Somesh	Self	Somesh	April,18	3 months	July,21	UCO Bank		5,000	Discounted
								Total		15,500	

Bills Payable Book:

Sl. No.	Date of acceptance	Name of the Drawer	Name of the Payee	Date of Bill drawn	Term of Bill	Due Date	Where Payable	L.F	Amount ₹	Remarks
1	2016 April,7	Kambhu, Cuttack	Kambhu, Cuttack	2016 April,7	2 months	2016 June,10	Canara Bank		3,000	
2	April,12	Somesh, Sonepur	Somesh, Sonepur	April,12	4 months	Aug. 14	IOB,Sambalpur		10,000	
3	April,25	Saubhagya, Bhawanipatna	Saubhagya, Bhawanipatna	April,25	3 months	July,28	ICICI Bank, Berhampur		3,000	
							Total		16,000	

5.9 Cash Book

In a business maximum number of transactions are related to cash and bank transactions. Purchase and sale of goods may be in cash or on credit. If goods are sold on credit, customer will pay the cash later on. If goods are purchased on credit, we will pay the cash later on to the supplier. If debtor has accepted the bills of exchange for credit sale, the firm will receive the cash on maturity of the bill. If the firm has accepted the bill of exchange on credit purchase of goods, it will pay the cash later, on maturity of the bill. All expenses are paid in cash. All incomes are received in cash. In this way, each and every business has largest number of cash transactions in comparison to other transactions. Hence, it is necessary to maintain a separate subsidiary book called cash book to record all the cash transactions.

Meaning:

The subsidiary book which recrods all cash transactions including bank transactions is known as cash book. All receipts and payments through cash, cheques, bank drafts are recorded in the cash book. It is different from other subsidiary books. It has two sides like a ledger account. It records receipts on the debit side and payemnts on the credit side. No further posting to separate Cash or Bank Account is required. Cash Book is a Journal as all cash transactions are recorded in this book as and when take place and it is journal because it is one of the eight subdivisions of journal. It is also a ledger as Cash and Bank Accounts are maintained in it. Separate Cash and Bank Accounts are not necessary. Hence, it is a book of both original entry and final entry. It is both a subsidiary book or journal and ledger as well.

Features of a Cash Book:

i) It records only cash transactions.

ii) It is a book of both Journal and Ledger.

iii) Like a ledger, it has two sides debit side and credit side.

iv) All receipts are recorded on the debit side,all payments are recorded on the credit side.

v) It is a Real Account.

vi) Cash column shows only debit balance, bank column may have debit or credit balance. The reason of showing debit balance is that one cannot pay more than what he has in pocket (received).

vii) Cash aspect of the transactions need not be posted to separate ledger account. One can know both the cash and bank balance from the cash book itself. Only non cash aspect of the transactons like salary account, commission account, rent account, X & W’s account, insurance claim account, etc. are posted to ledger.

Cash book -A Journalised ledger:

Cash book has unique feature of both Journal and ledger. It is a Journal as all cash transactions are recorded in it chronologically as and when they take place. It is a ledger as its proforma is like that of a ledger account and it serves the purpose of Cash Account and Bank Account. Separate Cash Account and Bank Account need not be opened in ledger. We can know the cash balance and bank balance simply by balancing the cash and bank columns of the Cash Book like any other ledger account.

Why Cash Book a Journal

- All cash transactions are recroded chronologically in the journal as and when take place.
- Like Journal cash book has ledger folio column.
- Narrations are given in the cash book like a journal.
- Like Journal, transactions recorded in the cash book are posted to ledger.

Why Cash Book a ledger

- Cash book is prepared in 'T' form as in case of ledger account.
- Like ledger account cash book has two

sides-debit side and credit side.

- The cash book use the word 'To' in the debit side and 'By' in the credit side, while recording the transactions..
- No separate cash or bank account are required to be prepared. So it is a ledger book.
- Cash and Bank balances are ascertained regularly like other ledger accounts.

Distinctions between Cash Book and Cash Account

Cash Book is a perfect substitute of Cash Account. Both the Cash Book and Cash Account recrod only cash transactions chronologically. Cash balance at any point of time can be ascertained simply by balancing both. Inspite of this, there are some differences between these two which are discussed below :

Cash Book	Cash Account
It is a subsidiary book.	It is an account in the ledger.
Cash transactions are directly recorded in the cash book.	Cash transactions are posted from the Journal to Cash Account.
It is both Journal and ledger.	It is only part of ledger account.
Narration may be given after each entry in the cash book.	No narration is required after each entry.
It records receipts and payments of cash, cheques, bank draft, etc.	It records only receipts and payments of cash.
Cash discount allowed and cash discount received are recovered.	Cash discount received and Cash discount allowed are not recorded.

Advantages of Cash Book:

i) Maintenance of Cash Book ensures control over inflow and out flow of cash.

ii) Duplication of work like recording in Journal and postingto ledger (Cash A/C) is avoided by maintaining the cash book.

iii) Both cash and bank transactions are recorded in one place.

iv) Cashier can check physical cash balance with balance as per the cash book.

v) It helps in minimising errors and frauds by early and easy detection.

vi) Cash audit can be carried on conveniently.

Types of Cash Book:

The various types of cash book maintained are usually as follows:

i) Single columned Cash Book (with Cash column only).

ii) Double columned Cash Book (with Cash and Discount Column).

iii) Triple columned Cash Book (with Cash, Bank and Discount Column).

iv) Double Columned Cash Book (with Bank and Discount column).

v) Petty Cash Book (for small cash transactions).

Single Columned Cash Book / Simple Cash Book:

It is the most simple form of cash book. It keeps record of all cash transactions. It has only one amount column in both the sides of cash book. It is written just like Cash Account in the ledger. All cash receipts are recorded on the debit or receipts side and all cash payments are recorded in the credit side or payments side of the cash book. Being a Real Account, the rule followed here is “debit, what comes in and credit, what goes out”. Entries from the debit side of the Cash Book are posted to the credit side of the concerned accounts. Entries on the credit side of the Cash Book are posted to the debit side of the concerned accounts. It is periodically balanced to find out the cash balance. The Cash Book is balanced like any other Real Account in the ledger.

<u>Proforma</u>

Dr. Receipts Single Column Cash Book payment Cr.

Date	Particulars	L.F	Amount ₹	Date	Particulars	L.F	Amount ₹

The various columns of the debit or receipt side of the Cash Book are explained below:

Date: This column records date, month and year of actual transaction i.e, actual receipt of cash.

Particulars: This column records heads of accounts to be credited. The narration of the transaction may also be recorded within bracket in this column, under the account credited.

L.F.: Under this column, the page number of the ledger to which the account is posted, is recorded.

Amount: The amount of the transaction is recorded under the 'Amount' column.

On the credit or payment side of the Cash Book, all these four columns will appear where the recordings will be with regards to payments.

Illustration 6

Enter the following transactions in the single columned Cash Book and post them to ledger:

2016		₹
Jan,1	Started business with cash	50,000
Jan,2	Purchased goods for cash	25,000
Jan,5	Purchased furniture for cash	10,000
Jan,7	Sold goods for cash	8,000
Jan,10	Sold goods on credit to Rama	5,000
Jan,12	Paid for Postage	100
Jan,14	Purchased goods on credit from 'X'	20,000
Jan,15	Received cash from Rama	4,000
Jan,17	Paid wages	1,000
Jan,19	Paid for Stationery	500
Jan,21	Goods sold for Cash	6,000
Jan,22	Paid Cash to 'X'	15,000
Jan,25	Paid Rent	1,500
Jan,27	Withdrawn Cash for personal use	3,000
Jan,30	Paid Salesries	2,000
Jan,31	Paid electricity bill	600

Solution:

Cash Book (single columned)

Dr Receipts **Payments Cr.**

Date	Particulars	L.F	Amount	Date	Particulars	L.F	Amount
2016				2016			
Jan,1	To Capital A/c		50,000	Jan,2	By Purchase A/c		25,000
Jan,7	To Sales A/c		8,000	Jan,5	By Furniture A/c		10,000
Jan,15	To Rama's A/c		4,000	Jan,12	By Postage A/c		100
Jan,21	To Sales A/c		6,000	Jan,17	By Wages A/c		1,000
				Jan,19	By Stationery A/c		500
				Jan,22	By X's A/c		15,000
				Jan,25	By Rent A/c		1,500
				Jan,27	By Drawings A/c		3,000
				Jan,30	By Salaries A/c		2,000
				Jan,31	By Electricity A/c		600
				Jan,31	By Balance c/d		9,300
			68,000				68,000
2016							
Feb,1	To Balance b/d		9,300				

Ledger

Dr. Capital Account Cr.

Date	Particulars	LF	Amount ₹	Date	Particulars	LF	Amount ₹
2016				2016			
Jan,27	To Drawings A/c		3,000	Jan,01	By Cash A/c		50,000
Jan, 31	To Balance c/d		47,000				50,000
			50,000	Feb,1	By Balance b/d		47,000

Dr. Purchase Account Cr.

Date	Particulars	LF	Amount ₹	Date	Particulars	LF	Amount ₹
2016				2016			
Jan.2	To Cash A/c		25,000	Jan.31	To Balance c/d		45,000
Jan.14	To X' A/c		20,000				
			45,000				45,000
2016							
Feb.1	To Balance b/d		45,000				

Dr. Sales Account Cr.

Date	Particulars	LF	Amount ₹	Date	Particulars	LF	Amount ₹
2016				2016			
Jan.31	To Balance c/d		19,000	Jan.7	By Cash A/c		8,000
				Jan.10	By Ram's A/c		5,000
			19,000	Jan.21	By Cash A/c		6,000
							19,000
				Feb.1	By Balance b/d		19,000

Dr. Furniture Account Cr.

Date	Particulars	LF	Amount ₹	Date	Particulars	LF	Amount ₹
2016				2016			
Jan.5	To Cash A/c		10,000	Jan.31	By Balance c/d		10,000
			10,000				10,000
Feb.1	To Balance b/d		10,000				

Dr. Postage Account Cr.

Date	Particulars	LF	Amount ₹	Date	Particulars	LF	Amount ₹
2016							
Jan.12	To Cash A/c		100				
			100				

Dr. Rama's Account Cr.

Date	Particulars	LF	Amount ₹	Date	Particulars	LF	Amount ₹
2016				2016			
Jan.10	To Sales A/c		5,000	Jan.15	By Cash A/c		4,000
				Jan. 31	by Balance c/d		1,000
			5,000				5,000
2016							
Feb.1	To Balance b/d		1,000				

N.B: Credit sales of goods to Ram will be recorded in the sales book. From the sales book it will be posted to Rama's Account.

Dr. X's Account Cr.

Date	Particulars	LF	Amount ₹	Date	Particulars	LF	Amount ₹
2016				2016			
Jan.22	To Cash A/c		15,000	Jan.14	By Purchase A/c		20,000
Jan. 31	To Balance c/d		5,000				
			20,000				20,000
				2016			
				Fe.1	By Balance b/d		5,000

N.B: Credit purchase of goods from X will be recorded in the purchase book. From the purchase book it will be posted to X's Account.

Dr. Wages Account Cr.

Date	Particulars	LF	Amount ₹	Date	Particulars	LF	Amount ₹
2016							
Jan.17	To Cash A/c	1000					

Dr. Stationery Account Cr.

Date	Particulars	LF	Amount ₹	Date	Particulars	LF	Amount ₹
2016							
Jan.19	To Cash A/c	500					

Dr. Rent Account Cr.

Date	Particulars	LF	Amount ₹	Date	Particulars	LF	Amount ₹
2016							
Jan.25	To Cash A/c		1500				

Dr. Drawings Account Cr.

Date	Particulars	LF	Amount ₹	Date	Particulars	LF	Amount ₹
2016				2016			
Jan.27	To Cash A/c		3,000	Jan,31	By Balance c/d		3,000
			3,000				3,000
Feb.1	To Balance b/d		3,000				

Dr. Salaries Account Cr.

Date	Particulars	LF	Amount ₹	Date	Particulars	LF	Amount ₹
2016							
Jan.30	To Cash A/c		2,000				

Dr. Electricity Account Cr.

Date	Particulars	LF	Amount ₹	Date	Particulars	LF	Amount ₹
2016							
Jan.31	To Cash A/c		600				

N.B: Nominal Account should be closed by transfer to P/L A/C and should not be shown as Balance c/d and Balance b/d.

Double Columned Cash Book:

It is a Cash Book with two amount columns an each side. One column is to record the cash and the other column to record the discount. When cash is paid to creditors within the specified time, the creditors may allow cash discount. This is a gain for the business and should be credited to Discount received Account. Similarly when cash is received from the debtors, cash discount may be allowed to them as per the terms and conditions. Discount allowed is a loss for the receiver and should be debited to Discount allowed Account. The discount allowed and received are closely related to receipt and payment of cash respectively. Unless discount allowed is recorded side by side with the cash received from customer, the recording will be incomplete and the customer account will show a wrong picture. The same thing happens in case of the payment of cash to the creditors and discount allowed by them. For this reason, additional column is provided in both the sides of the Cash Book to record discount allowed and discount received. Thus, there are two amount columns on both the sides of the cash book i.e., one for discount and the other for cash. This is known as Double Columned Cash Book.

The cash columns are balanced to know the cash-in-hand. But discount columns are not balanced. They are simply totalled and transferred to Profit and Loss Account at the end of the period.

Discount in the Cash Book refers to Cash discount. As againt this, there is another discount known as Trade Discount. Both Cash Discount and Trade Discount are discussed below:

Trade Discount:

Trade discount is an allowance off the catalogue price or invoice price or list price of the goods. It is allowed by the manufacturer to the wholesaler, by the wholesaler to the retailer. It is expressed as a percentage on the invoice price of the goods. Trade discount is allowed in order to enable the buyer to sell the goods at list price and make profit after meeting his incidental expenses . This discount is directly deducted from the invoice itself. This discount is not recorded in the books of accounts. Only net amount is recorded in the books of accounts.

Cash Discount:

Cash Discount is an allowance made by the receiver of cash to the payer for prompt payment. It is expressed as a percentage and is calculated on the amount received. It is recorded in the books of accounts since it is deducted from the amount due and already recorded in the books of accounts. Cash discoun allowed is a loss and debited to “Discount allowed Account”. Cash discount received is a gain and credited to “Discount received Account.

Differences between Cash Discount and Trade Discount

The following are the differences between Trade Discount and Cash Discount:

Basis of Difference	Trade Discount	Cash Discount
i) Meaning	This discount is allowed by the supplier from the list price of the goods. This discount is allowed on the basis of quantity purchased and Trade Practices.	This discount is allowed on the invoice price of the goods or the net amount due.
ii) Purpose	It is allowed to the purchaser in order to sell the goods at list price or below the list price and make profit.	It is allowed to the payer of cash in order to encourage prompt payment.
iii) Time of allowing	It is allowed at the time of purchase of goods	It is allowed at the time of payment of cash within a specified period of time.
iv) Recording in invoice	It is recorded in invoice by way of deduction from the gross amount.	It is not recorded in the invoice itself.
v) Recording in ledger.	Trade Discount is not recorded in the books of accounts.	Cash Discount is recorded in the books of accounts.

Dr. Receipts Format of Double Columned Cash book Payments Cr.

Date	Particulars	LF	Discout ₹	Cash ₹	Date	Particulars	LF	Discout ₹	Cash ₹

Explanation of Proforma of Double Columned Cash Book: All the columns of the Double columned Cash Book are the same as those of the single columned Cash Book except the additional discount column. Double columned Cash Book differs from single columned Cash Book only in respect of discount column. When cash discount is received on payment of cash, it is a gain for the business. So it is recorded in the payment side (credit side) of the cash book under discount column. Similary when discount is allowed to the customer on receipt of cash, it is a loss for the business. So it is recorded in the receipt side (Debit side) of the cash book under discount column.

However the following points may be noted :

i) Only cash discount is recorded in the cash book.

ii) If a cheque is received from the debtor and discount is allowed, later on the cheque is dishonoured, the entry for cancellation of discount will not be recorded in the cash book. The entry for cancellation of discount will be made in the journal proper.

iii) Discount received earlier and later on disallowed for some reason or other will not be recorded in the cash book. It will be recorded by passing an entry in Journal proper.

(iv) Discount column of both the sides will not be balanced. These two columns represent two different accounts, i.e., Discount Allowed Account and Discount Received Account. These two columns are only totalled and posted to Discount allowed Account and Discount Received Account, respectively.

Distinction between Single columned Cash Book and Double columned Cash Book

Single columned Cash book	**Double columned Cash book**
* It records cash receipts and cash payments.	* It records discount received and discount allowed along with cash received and cash paid respectively.
* It has one column on each side to record cash amount.	* It has two columns on each side to record the cash and discount amount.
* Its' cash columns are balanced periodically.	* Its cash columns are only balanced. Discount columns are simply totalled and not balanced.
* Discount allowed and discount received are recorded in the journal proper and posted to their respective accounts at the time of occurence.	* Total discount allowed and total discount received are posted to their respective account periodically.

Illustration 7

From the following transactions prepare a cash book with cash and discount column :

2016		(₹)
June 1	Balance of cash in hand	5,000
June 5	Purchased goods for cash	2,100
June 8	Sold goods for cash	3,800
June 9	Sale of old news paper	300
June 10	Paid to Abhay	3,880
	discount allowed by him	120
June 11	Received from Anurag in full settlement of 4,300	4,100
June 13	Received from Baburam	6,780
	Discount allowed to him	220
June 18	Bad debt previously written off	
	now recovered from Ahalya	1,250
June 25	Paid salary	2,000
June 26	Paid Rent	2,100
June 28	Purchase of furniture	5,300
June 30	Cash deposited into bank	5,600
June 30	Sold goods to Narayan on credit	3,000

Solutions :

In the books of ... ...
Double columned cash book

Dr Receipts Payments Cr

Date	Particulars	L.F	Dis-count ₹	Cash ₹	Date	Particulars	L.F	Dis-count ₹	Cash ₹
2016					2016				
June 1	To balance b/d			5,000	June 5	By purchases A/c			2,100
June 8	To sales A/c			3,800	June 10	By Abhay's A/c		120	3,880
June 9	To old newspaper A/c			300	June 25	By Salary A/c			2,000
June 11	To Anurag's A/c		200	4,100	June 26	By Rent A/c			2,100
June 13	To Balaram's A/c		220	6,780	June 28	By furniture A/c			5,300
June 18	To bad debts				June 30	By bank A/c			5,000
	recovered A/c			1,250	June 30	By balance c/d			850
				21,230					21,230
July 1	To balance b/d			850					

N.B: Sale of goods on credit will not be recorded in the cash book

Triple columned Cash Book:

Meaning: With the change in time, functioning style of business has changed. Business houses prefer bank transactions to cash transactions. It is more convient and less risky to deal with cheque and draft rather than cash. A bank account is opened for frequent bank dealings, i.e., frequent deposits and withdrawals.

So an extra amount column is added in both the sides of the cash book for recording receipts and payments through cheque, draft, etc.In such a case, there will be three amount columns on either side of the cash book, one for cash, second for bank and third for discount. Such a cash book is known as Triple-columned Cash Book.

All cash receipts, deposits into bank and discount allowed are recorded in the debit side of the cash book. All cash payments, discount received and withdrawals from bank are recorded in the credit side of the cash book. Since the cash and bank amount columns serve the purpose of both Cash Account and Bank Account, there is no necessity of opening these two accounts in the ledger any more.

Specimen of Triple columned Cash Book

Dr. Receipts Payments Cr.

Date	Particulars	LF	Dis-count ₹	Cash ₹	Bank ₹	Date	Particulars	LF	Dis-count ₹	Cash ₹	Bank ₹

Explanation of the proforma of Triple columned Cash Book: All columns of the Triple columned Cash Book are the same as that of Double columned Cash Book except the additional bank column. Triple columned cash book differs from double columned cash book only in respect of bank column. The bank column in the debit side (receipts side) of the cash book records deposit of cheques, cash, demand drafts, etc. in the bank. The bank column in the credit side (payment side) of the cash book records withdrawals of cash, issue of cheques, etc.

Posting from Triple-Columned Cash Book:

Posting of items appearing in the debit side of the cash book

(a) All the receipts appearing in the debit side are posted to the credit of respective ledger accounts with the words “By Cash/Bank A/c” in the particulars column.

(b) Individual entry in the discount allowed column are posted to the credit of respective personal accounts in the ledger with the words “By Discount A/c” in the particular column.

(c) Debit side total of the discount allowed column is posted to the debit of discount allowed account with the words “To Sundries as per Cash Book” in the particulars column.

Posting of items appearing in the credit side of the Cash Book

(a) All the payements appearing in the credit side are posted to the debit of respective ledger accounts with the words “To Cash/Bank A/c” in the particulars column.

(b) Individual entries in the discount received column are posted to the debit of respective personal accounts in the ledger with the words “To Discount A/c” in the particulars column.

(c) Credit side total of the discount received column is posted to the credit of discount received account with the words “By Sundries as per Cash Book” in the particulars column.

Contra entries:

The word “Contra” is a latin word which means the opposite side. Normally a transaction is recroded either in the debit side or credit side of the cash book. But there are certain transactions which are recroded in the both the sides of the cash book. When both the debit and credit aspects of a transaction are recorded simultaneously in the same book on the same day, both on the debit side and credit side, is called Contra entry. Since both the aspects (debit and credit) of a transaction are recorded in the Cash Book itself, such transactions do not need any further posting to ledger accounts. The letter ‘C’(for contra) is written in the ledger folio column of both the sides of the cash book against the contra entries. The contra entry arises generally in the following cases :

(i) Deposit of cash in the bank.

(ii) Withdrawing cash from the bank for office use.

(iii) Deposit of cheque, which was received earlier and recorded of the cash column of the cash book.

Illustration 8

Enter the following transactions in the Triple columned cash book of M/s Bhabagrahi & Sons:

2016		(₹)
May.1	Balance of cash in hand	6,000
	Overdraft	8,000
May.2	Introduced further capital	
	and deposited the same into bank	50,000
May. 4	Purchased goods by cash	12,000
	and through cheque	18,000
May.5	Sold goods for cash	15,000
	and for cheque	5,000
May.7	Drew from bank for office use	7,000
May.8	Paid Gopal by cheque	6,800
	in full settlement of	7,000

		₹
May.10	Received a cheque from Narendra	1,400
	in full settlement of	1,500
	The cheque was deposited in the next day in the bank.	
May.12	Paid insurance premium	1,200
May.14	Drew from bank for personal use	3,000
May.17	Cheque received from Ganesh	2,200
May.20	Chaeque of Ganesh returned dishonoured.	
May.22	Discounted a bill receivable of	2,000
	in the bank for	1,900
May. 25	Drew from bank for office use	3,000
May.27	Paid salaries by cash	7,000
May.28	Paid Rent by cheque	5,000
May.30	Met an acceptance by cash	2,000

Solutions :

In the books of Bhabagrahi & Sons

Dr Receipts Triple Columned Cash Book Payments Cr

Date	Particulars	L.F	Dis-count ₹	Cash ₹	Bank ₹	Date	Particulars	L.F	Dis-count ₹	Cash ₹	Bank ₹
2016						2016					
May 1	To Balanced b/d			6,000		May,1	By Balance b/d				8,000
May,2	To Capital A/c				50,000	May,4	By Purchases A/c			12,000	18,000
May,5	To Sales A/c			15,000	5,000	May,7	By Cash A/C	C			7,000
May,7	To Bank A/c	C		7,000		May,8	By Gopal's A/c		200		6,800
May,10	To Naredndra's A/c		100	1,400		May,11	By Bank A/c	C		1,400	
May,11	To Cash A/C	C			1,400	May,12	By insurance Premium A/c			1,200	
May,17	To Ganesh's A/c				2,200	May,14	By Drawings A/c				3,000
May,22	To Bills receivable A/c		100		1,900	May,20	By Ganesh's A/c				2,200
May,25	To Bank A/c	C		3,000		May,25	By Cash A/c	C			3,000
						May,27	By Salaries A/c			7,000	
						May,28	By Rent A/c				5,000
						May,30	By Bills payable A/c			2,000	
						May,,31	By Balance c/d			8,800	7,500
			200	32,400	60,500				200	32,400	60,500
June1	To Balance b/d			8,800	7,500						

Petty Cash Book:

The word petty is a french word which means small. In every business small or petty payments are made every day. These payments include carriage, cartage, coolie charges, postage, stationery, refreshment, conveyance, etc. These payments are normally made in cash. If all such small payments are recorded in main cash book, cash book will be voluminous and number of posting will be increased. Chances of errors will also be increased. Hence another small cash book is maintained to record the small payments along with main cash book. The cash book recording the small payments is known as petty cash book.

Features of Petty Cash book:

i) The particulars are recorded under a single column at middle place of the cash book for both the receipts and payments.

ii) The amount of receipt is recorded in extreme left and payments are recorded in the right hand side of the particulars column.

iii) Like main cash book, petty cash book also shows the debit balance which means cash in hand with the petty cashier.

iv) The amounts are totalled and transferred to respective expenses account in the ledger.

Objectives:

i) Petty cashier relieves the main cashier from the burden of numerous transactions of small payments.

ii) The work load of chief cashier/main cashier is reduced.

iii) Effective control can be expressed on small payments.

Advantages:

i) The petty cash book is divided into columns as per requirement. So maintenance of petty cash book beocmes easy.

ii) It saves the time of main cashier and needs less time to record the transactions.

iii) Instead of preparing individual petty expenses account, total of petty expenses is posted to the main cash book.

iv) The mistake is reduced as the statement prepared by petty cashier is checked by main cashier.

v) Chances of fraud is reduced.

vi) Misuse of cash is also reduced.

Systems of Petty Cash Book:

Petty cash book is maintained on the basis of cash given to the petty cashier. The cash may be given in ordinary system or in imprest system.

Simple System:

Under this system, a lump sum money or cheque is given to the petty cashier. After spending the entire amount, he submits the accounts to the head cashier and receives cash to meet expenses in subsequent period.

Imprest System:

To exercise better control upon the petty cashier, most business houses follow the "Imprest system of petty cash". Under this system, the petty cashier is handed over a specific sum of money to meet the petty expenses for a specific period of time. This period may be a week, a fortnight or a month.

This specific sum is known as "Float" or "Imprest" amount. This amount is supposed to be sufficient to meet the petty expenses of this period. This period is also known as balancing period. At the end of this balancing period, the petty cashier submits the updated petty cash book along with vouchers to the main or chief cashier. The chief cashier after verifying the documents gives a cheque for the exact amount spent during the balancing period. The amount received by the petty cashier together with the unspent balance is now equal to imprest amount. Thus, in the begining of each balancing period the petty cashier starts with the fixed amount, i.e., imprest or float.

For example the imprest is ₹5,000. The petty cashier makes a payment of ₹4,500 during th period. The chief cashier will issue of cheque of ₹4,500 to make the imprest amount originally fixed, i.e., ₹5,000.

The usual Proforma of Simple Petty Cash Book:

Cash received from the main cashier is written on the debit side and payments made against petty expenses are written on the credit side of simple petty cash book. The format of simple petty cash book is as follows:

Simple Petty Cash Book

Amount Received ₹	Cash Book Folio	Date	Particulars	Voucher No.	L.F	Amount ₹
		Opening Date	To Balance b/d			
		....	To Cash/Bank A/c			
		....	By Sundry Expenses			
		....	By Sundry Expenses			
		Closing Date	By Balance c/d			
		Opening Date	To Balance b/d			
			To Cash/Bank A/c			

Analytical or Columnar Petty Cash Book

The demerit of simple petty cash book is that it is difficult and time taking to find out the amount spent under a particular head of expenses say, printing & stationery. The reason is being that similar transactions are not analysed and grouped under one column. To overcome this difficulty various similar payments are put under one column. For this reason additional analytical columns are provided on the payment side of the petty cash book. For recording the payments the whole expenses are classified into a few heads of expenses account. It is also decided as to which petty expenses will be recorded under which head. The common expenses are wages, postage, stationery, carriage and cartage, conveyance, etc. Separate columns are provided on the credit side for each of the heads of expenses.

Like simple cash book, cash received is recorded on the debit side. Separate columns are provided on the credit side for common expenses. Payments against each expenses are recorded on the credit side, both in the appropriate expenses column and total column. At the end of a particular period, balance of petty cash with the cashier is found out and all expenses columns are added and posted to the debit side of respective expenses account.

Format of Analytical Petty Cash Book

Dr. Analytical Petty Cash Book Cr.

Amount Received ₹	Cash Book Folio	Date	Particulars	Petty Cash voucher	Payment total ₹	Wages ₹	Postage ₹	Stationery ₹	Cartage ₹	Conveyance ₹	Miscllaneous ₹	Remarks

Illustration 9

Enter the following transactions in the simple and analytical petty cash books of Satyaprakash:

2016		(₹)
Jan.1	Balance in hand with Petty Cashier	2,300
Jan.2	Received from Head Cashier	7,700
Jan.2	Paid for Postage Stamp	800

Jan.3	Paid for Stationery	3,200
Jan.4	Paid for Cartage	800
Jan.5	Paid for Printing	1,500
Jan.6	Paid tips to peon	500
Jan.6	Paid for Freight	2,300
Jan.7	Paid for Coolie Charges	250

Solution:

In the books of Satyaprakash

Simple Cash Book

Amount Received	Date	Particulars	Voucher No.	L.F	Amount paid
	2016				
2,300	Jan.1	To Balance b/d			
7,700	Jan.1	To Bank A/c			
	Jan.2	By Postage A/c	800		
	Jan.3	By Stationery A/c	3,200		
	Jan.4	By Cartage A/c	800		
	Jan.5	By Printing A/c	1,500		
	Jan.6	By Tips to peon	500		
	Jan.6	By Freight	2,300		
	Jan.7	By Coolie charges	250		
	Jan.7	By Balance c/d	650		
10,000			10,000		
650	Jan.8	To Balance b/d			
9,350	Jan.8	To Bank A/c			

Analytical Petty Cash Book

Amount Received	Date	Particulars	Petty Cash Voucher No	Amount Paid Total ₹	Postage ₹	Statio-nary ₹	Carti-age ₹	Prin-ting Charges ₹	Tips ₹	Freight ₹	Coolie Charges ₹	Remark/ Misc (purpose) ₹
	2016											
2,300	Jun 1	To Balance b/d										
7,700	Jun 1	To Bank A/c										
	Jun 2	By Postage A/c		800	800							
	Jun 3	By Stationary A/c		3,200		3,200						
	Jun 4	By Cartage A/c		800			800					
	Jun 5	By Printing charges A/c		1500				1500				
	Jun 6	By Tips to peon A/c		500					500			
	Jun 6	By Frieght A/c		2,300						2,300		
	Jun 7	By Coolie chargesA/c		250							250	
	Jun 7	By Balance c/d		650								
				10,000	800	3,200	800	1,500	500	2,300	250	
6,500	Jun 8	To Balance c/d										
9,350	Jun 8	To bank A/c										

Posting From Petty Cash Book:

Journal entries to record the petty cash transactions are as follows:

(a) When money is advanced to the petty cashier.

Petty Cash A/c Dr.

To Bank A/c

or

Petty Cash A/c Dr.

To Cash A/c

(As the case may be)

(b) When accounts are submitted at the end of the balancing period by the petty cashier.

Different petty expenses (individual item) Dr.

To Petty Cash A/c (Total expenses)

Petty Cash Account and individual expenses account will be opened in the ledger. The petty cash balance at the end of the period will be added to cash in hand while showing in the Balance Sheet.

5.10 Journal Proper

Journal Proper is a residuary book in which those transactions are recorded which cannot be recorded in any of the subsidiary books discussed earlier. This is also known as General Journal or Main Journal. The usual entries passed through the Journal Proper are:

(i) **Opening entry**: As already discussed in the Chapter Journal, opening entry is the Journal entry passed in the beginning of the year for bringing the balances of various assets, liabilities and capital appearing in the Balance Sheet of previous accounting period.

(ii) **Closing entry:** Closing entries are passed in the Journal to close the nominal accounts by transferring their balances to Trading and Profit and Loss Account.

(iii) **Adjusting entries:** Adjusting entries are passed at the end of the accounting year to bring into the books of accounts the unrecorded items like closing stock, depreciation on fixed assets, outstanding expenses, prepaid expenses, income received in advance, income earned but not received, etc. These are needed at the time of preparing final accounts.

(iv) **Transfer entries:** Transfer entries in Journal are passed to transfer an amount from one account to another account.

Example 1

Material amounting ₹ 1,000 included in the purchase account was used in erection of machinery. But these materials are included in purchases. The transfer entry will be

Machinery A/c		Dr. 1,000	
	To Purchase A/c		1,000

(Being material included in Purchase account is now transferred to Machinery A/c).

Example 2

Mr. Sarbeswar agrees to pay the debt of Kanhu ₹1000. So Kanhu's A/c is to be transferred to Sarbeswar's A/c.

Sarbeswar's A/c		Dr.1,000	
	To Kanhu's A/c		1,000

(Having Sarbeswar agreed to pay the dues of Kanhu).

(v) **Rectification Entries:** Rectifying entries are passed in the journal to rectify the errors committed. The errors should not be rectified by overwriting or erasing. These rectification entries are discussed in the chapter 'Rectification of errors'.

(vi) **Miscellaneous entries:** These entries included credit purchase of assets, credit sale of assets, interest on capital, interest on drawings, bad debts, goods drawn for personal use, loss by fire/accident, endorsement of Bill Receivable, Dishonour of Bills Receivable (not discounted in the bank), cancellation of Bills payable, etc.

5.11 Questions:

Q1. From the following alternatives, write serially the correct answer along with its serial number against each bit:

(a) Expenditure on installation of new machinery is:

(i) deferred revenue expenditure.

(ii) recurring expenditure.

(iii) capital expenditure.

(iv) revenue expenditure.

(b) The book which serves the purpose of Journal as well as ledger is:

(i) purchase book.

(ii) sales book.

(iii) cash book.

(iv) Journal Proper.

(c) Purchase Book records:

(i) all purchases of goods.

(ii) all credit purchases of goods.

(iii) all credit purchases.

(iv) all purchase of assets.

(d) Transactions recorded in the debit side of the cash book are posted to:

(i) the debit side of the concerned account.

(ii) the credit side of the concerned account.

(iii) the debit of Cash Account.

(iv) the credit of Cash Account.

(e) A customer’s cheque, which was discounted in the bank and was dishonoured, is recorded in:

(i) cash book.

(ii) bills receivable book.

(iii) bills payable book.

(iv) Journal Proper.

(f) Sales return book is used to record:

(i) return of goods sold for cash.

(ii) return of goods sold on credit.

(iii) return of assets sold on credit.

(iv) return of goods as well as asset.

(g) One of the follwing which is not a book of original entry, is:

(i) Purchase Book.

(ii) Sales Book.

(iii) Bills Receivable book.

(iv) The ledger.

(h) The total of Return Inward Book is posted to:

(i) Sales account.

(ii) Sales Return Account.

(iii) Purchase Return Account.

(iv) Customer's Account.

(i) Closing entries are recorded in the :

(i) Ledger.

(ii) Journal Proper.

(iii) Trading and Profit and Loss Account.

(iv) Balance Sheet.

(j) Debit note is used to prepare:

(i) Sales Book.

(ii) Purchase Book.

(iii) Return Inward Book.

(iv) Return Outward Book.

(k) In the Triple Columned Cash Book:

(i) only cash column and discount column are balanced.

(ii) only bank column and discount column are balanced.

(iii) only cash column and Bank column are balanced.

(iv) only discount column is balanced.

(l) Sales Book is maintained to record:

(i) cash sale of goods only.

(ii) credit sale of goods only.

(iii) credit sale of assets only.

(iv) credit sale of both goods and assets.

(m) Return Outward Book records:

(i) goods returned by the customer.

(ii) goods returned to the supplier.

(iii) goods returned by the supplier.

(iv) goods return to the Store.

(n) Return Outward book's periodical total is posted to the:

(i) debit of Return Outward Account.

(ii) credit of Return Outward Account.

(iii) debit of Sales Return Account.

(iv) credit of Sales Return Account.

(o) Cash Purchases are recorded in:

(i) Purchase Book.

(ii) Cash Book.

(iii) Journal.

(iv) Ledger.

(p) Petty Cash book is maintained:

(i) to record all small expenses.

(ii) to record all small incomes.

(iii) to record all small expenses and incomes.

(iv) to record all the expenses of the business.

(q) The balance of petty cash book represents:

(i) an expense.

(ii) an income.

(iii) a liability.

(iv) an asset.

(r) When a customer returns goods: (sold on credit)

(i) an Invoice is sent to him.

(ii) a Credit note is sent to him.

(iii) a Debit note is sent to him.

(iv) Cash is returned to him.

(t) One of the following which is recorded in the Journal Proper, is:

(i) Trade discount .

(ii) Cash discount.

(iii) Openion entry.

(iv) Receipt of bill of exchange.

(u) One of the following transactions which is recorded in the Journal Proper, is:

(i) Purchase of asset for cash.

(ii) Purchase of goods for cash.

(iii) Purchase of goods on credit.

(iv) Purchase of asset on credit.

(v) Receipt of cheque is recorded in the :

(i) debit cash column .

(ii) credit cash column.

(iii) debit bank column.

(iv) credit bank column.

(w) Issue of cheque is recorded in the :

(i) debit cash column.

(ii) credit cash column.

(iii) debit bank column.

(iv) credit bank column.

(x) Journal Proper records:

(i) all cash transactions.

(ii) all cash and credit purchases.

(iii) all cash and credit sales.

(iv) all adjusting entries.

(y) The term imprest system is used in case of :

(i) Purchase Book.

(ii) Sales Book.

(iii) Cash Book.

(iv) Petty Cash Book.

(z) A triple columned cash book records:

(i) all cash transactions only.

(ii) both cash and bank transactions excluding discounts.

(iii) both cash and bank transactions including discount.

(iv) all cash and bank transactions except cash purchase of assets.

[**Ans:** (a)-(iii), (b)-(iii), (c)-(ii), (d)-(ii), (e)-(iv), (f)-(ii), (g)-(iv), (h)-(ii), (i)-(ii), (j)-(iv), (k)-(iii) (l)-(ii), (m)-(ii), (n)-(ii), (o)-(ii), (p)-(i), (q)-(iv), (r)-(ii), (s)-(iii), (t)-(iii), (u)-(iv), (v)-(iii), (w)- (iv), (x)-(iv), (y)-(iv), (z)-(iii)]

Q2. Answer the following questions in one word /term each:

(i) Which document forms the basis of writing the transactions in the Purchase Book?

(ii) Name the document on the basis of which transactions are recorded in the Return Inword Book.

(iii) Which balance is revealed by Cash Account?

(iv) Name the Account in which periodical total of Sales Return Book is recorded.

(v) What is the Account in which periodical total of Return outword book is recorded.

(vi) Name the document sent by the supplier with the goods to the buyer.

(vii) Name the book recording credit purchase of goods.

(viii) Name the book recording closing entries.

(ix) Which account is debited for the wages paid on installation of machinery?

[Ans: (i) Inward invoice (ii) Debit note (iii) Debit balance
(iv) Return inward account (v) Return outward account (vi) Invoice
(vii) Purchase Book (viii) Journal Proper (ix) Machinery Account]

Q.3:Rectify the underlined portion of the following sentences:

(i) Credit note is sent when goods are returned to the supplier.

(ii) Debit note is issued by the supplier conforming acknowledgement of goods.

(iii) Payment made by cheque is recorded in debit side of cash book (bank column).

(iv) Receipt of cheque from the customer is recorded in the credit side of Triple Columned Cash Book.

(v) Dishonour of cheque is recorded in the debit side of Triple columned Cash Book.

(vi) Dishonour of bills receivable discounted in the bank is recorded in cash book.

(vii) The other name of Purchase return book is return-inward Book.

(viii) The other name of return outword book is sales return book.

(ix) The total of Return In-ward Book is posted to the credit of Return Inward Account.

(x) The total of Return Outward Book is posted to the debit of Purchase Return Account.

[Ans:(i) Debit, (ii) Credit, (iii) Credit, (iv) Debit, (v) Credit, (vi) Journal Proper, (vii) Return- Outward, (viii) Purchase return (ix) Debit, (x) Credit]

Q.4: Fill in the Blanks:

(i) All Credit Purchases of goods are recorded in the ___________Book

(ii) All credit sales of goods are recorded in the _____________Book.

(iii) Bills receivable discounted in the bank and subsequented dishonoured is credited to_____________account.

(iv) The book recording small payments is known as______________ Cash Book.

(v) For prompt payment of cash, ___________________discount is allowed.

(vi) All credit purchase of assets are recorded in the_______________.

(vii) Cash book is a_______________book.

(viii) ________________book is a Journal as well as ledger.

(ix) Adjusting entries are recorded in__________________.

(x) Credit sale of the land will be recorded in_________________.

[**Ans:** (i) Purchase, (ii) Sales, (iii) Bank, (iv) Petty, (v) Cash, (vi) Journal Proper, (vii) Subsidiary (viii) Cash, (ix) Journal Proper, (x) Journal Proper.]

Q.5: Answer the following questions in one sentence each:

(i) What is Trade Discount?

(ii) What is a Credit Note?

(iii) What is a Debit Note?

(iv) What is Journal Proper?

(v) What is a Sales Book?

(vi) What is a Purchase Book?

(vii) Give any two examples of transactions recorded in the Journal Proper.

(viii) What is Purchase Return Book?

(ix) What is Sales Return Book?

(x) Why is Cash Discount allowed?

Q.6: Answer the following questions within two sentences each:

(i) Why does Cash Account always show debit balance?

(ii) Which type of transactions are recorded in the Purchases Book and Sales Book?

(iii) Why is Trade Discount allowed?

(iv) Distinguish between Purchase Book and Sales Book.

(v) How are the transactions posted from the Sales Book to ledger accounts?

(vi) Give a specimen of Purchases Book.

(vii) Why are Subsidiary Books called book of original entry?

(viii) How would you post from the Sales Return Book?

(ix) Distinguish between Sales Book and Sales Account.

(x) Name any four Subidiary Books.

Q.7: Answer the following questions within six sentences each:

(i) What are closing entries? How are those passed?

(ii) Give any three differences between Cash Discount and Trade Discount.

(iii) State any three differences between Debit Note and Credit Note.

(iv) Give a specimen of sales book with any three imaginary entries.

(v) Give a specimen of Bills Receivable Book with any three entries.

(vi) Distinguish between Purchase Book and Purchase Account (any three).

(vii) Write a note on subsidiary books.

(viii) What is transferring entry? Explain with an example.

(ix) Give a specimen of Triple Columned Cash Book and record any five imaginary transactions.

(x) What is Contra Entry ?

(xi) Why Cash and Bank accounts are not opened in the ledger ?

(xii) Explain the procedure of balancing a Triple Columned Cash Book.

(xiii) Write a note on Petty Cash Book.

(xiv) What is a cash book? Name different types of cash books.

(xv) What is overdraft ? How is it shown in the Cash Book ?

8. Discuss the three different types of main Cash Book.

9. Discuss the advantages of Sub-Dividing the Journal.

10. What do you mean by Analytical Petty Cash Book ? Discuss with suitable examples.

11. What is Journal Proper? Which type of transactions are recorded in it ?

12. What do you mean by Adjustmenting entries? Show the adjusting entries with regard to Outstanding Rent, Prepaid Insurance and Accrued Interest.

13. Name the subsidiary books. Explain the transactions recorded in these books, with examples.

14. What is a Purchase Book? What are its advantages ? Distinguish between Purchase Book and Purchase Account.

15. What is a Sales Book? What are its advantages ? Distinguish between sales Book and Sales Account.

16. What do you mean by Imprest System of petty Cash? Discuss the advantages of this system.

17. From the following particulars, prepare the Purchase Book of Lalit Book Depot for the month of March 2016 :

2016	
March-5	Purchased on Credit from Kalyani Publishers. 15 copies of Advanced Accounts by T.S. Grewal @ ₹400 each and 5 copies of Company Law by Chawla @₹ 280 each subject to 10% Trade discount.

March-10	Purchase 7 copies of Business Statistics by D.N. Elhance from Kitab Mahal, Agra @ ₹ 320 each, Trade discount 15%.
March-15	Purchased books from Damini & Co. on credit 10 copies of company law by S.M. Shah @₹800 each.
March-20	Purchased from Oxford Press 5 copies of Oxford dictionaries @ ₹500 each.
	Trade discount 15%.
	(Ans: Purchase book total ₹18,689)

18. Prepare the purchase book of Furniture House (a furniture dealer) from the following transactions. Open ledger accounts and post the entries:

2015	
Dec-1	Bought from Hari Stores 40 Wodden Tables @₹200 per table.
Dec-7	Bought from Mohan Brothers 16 Steel tables @₹450 each.
Dec-15	Purchased from Hari Stores Ltd. 10 Almirahs @ ₹1,200 each.
Dec-22	Bought from Bimal Suppliers 10 Sofa sets @₹1,000 each.
Dec-29	Bought from Mohan Brothers 30 Chairs @₹100 each.
	(Ans: Total of Purchase book @ ₹40,200)

19. From the following particulars, prepare Sales Book of M/s Manohari Stores, Kolkata, a Stationery dealer:

2016	
March-1	Sold Stationery to Mohan on credit vide invoice no-101.
	2 reams white paper @ ₹150 per ream.
March-2	Sold on credit to Pawan Chand & Sons. Vide invoice no-102.
	6 dozen Inkpots @ ₹240 per dozen.
March-10	Sold old news paper for cash @ ₹1,200.
March-25	Sold on credit to M/s Rohtak & Co. vide invoice no-103.
	10 drawing Boards @ 70 per piece.
	(Ans: Total of sales book @₹2,440).

20. From the following transactions, write up th sales book of Ajay, who deals in furniture: Also make the posting from sales book to ledger.

2015	
Dec-4	Sold on credit to Anwar:

	10 Tables @ ₹50 each
	30 Chairs @₹ 20 each
Dec-11	Sold on credit to B.Das & Co.
	2 Almirahs @ ₹800 each.
	1 Dining table @₹500 each.
Dec-22	Sold on cash to Gopal Singh
	15 Tables @ ₹60 each.
Dec-24	Sold old Typewriter on credit to Prem lal for @ ₹400.
Dec-30	Sold to Rangoli Hotel on credit.
	60 Chairs @₹ 800 each.
	15 Tables @₹1500 each.
	Ajay Offers Trade Discount at the following rates.
	Sales upto₹20,000 @ 5% and Sales beyond ₹20,000 @ 10%.

21. From the following transactions prepare sales book of Modern Furniture House for January 2016:

Jan-5	Sold on credit to Brarat Khadi Bhandar, Bhubaneswar
	20 chairs, 200 each with trade discount 10%
	20 Tables @ ₹5,000 each with trade discount 5%.
Jan-8	Sold on Credit to Rajdhani College, Bhubaneswar
	15 Almirahs @ ₹10,000 each
	1 Executive Chair @ ₹ 3,000
	(Trade Discount 10%)
Jan-10	Sold on cash to Capital Traders
	5 Tables @₹1,000 each (Trade discount 10%)
Jan-15	Sold one old typewriter to Madhusudan Das
	on credit for @ ₹2,100.

22. Prepare a Purchase Return Book from the following transactions and post them to ledger:

2016	
April-1	Returned to Rajdhani Furniture
	10 Beads @ ₹25,000 and 20 Tables @ ₹3,000 each. Trade discount 5%.

April-15	Returned to Bhairab Woods, Bhubaneswar
	1 Dining Table @ ₹50,000 each,
	1 T.V. Stand ₹15,000. Trade discount was 10%
	(Ans: Total of Purchase return book @ ₹3,53,300).

23. Prepare Return outward book from the following transactions of Garment House :

2016	
April-1	Returned to Gupta Garments
	10 Shirts @ ₹750 each and 5 Pants @ ₹1,500 each. Original Trade discount was 10%.
April-10	Returned to Madhu Sudan Lal & Co.
	1 dozen Babasuits @ ₹1,800 per dozen and
	10 dozen Banian @ ₹1,200 per doz. (Trade discount was 10%)
April-15	Returned one typewriter being defective to Suresh Trading Co. ₹13,500.
	(Ans: Total of return outward book) ₹25,920)

24. From the following details, Prepare Sales Return Book of Electronics & Electronics:

2016	
Jan-4	Subash & Sons returned
	10 T.V. Sets @ ₹14,800 each
	5 Tape recroders @ ₹2,400 each
	(Trade Discount was 15%)
Jan-10	Pattanik Electronics returned
	5 Radio Sets @ ₹4,800 each
	2 VCD Sets @ ₹10,000 each
	(Trade Discount was 10%)
Jan-15	Received a Debit Note from Y and Co. for the following items:
	2 T.V. Sets @ ₹18,000 each
	4 Micro phones @ ₹1,600 each.
	(Trade discount was 10%)

Jan-20	Send a credit note to Golden Electronics for the following items.
	2 VCR Sets @₹ 11,200 each.
	3 Music System @ ₹14,000 each
	(Trade discount was 5%)
	(Total of Sales return book ₹2,76,380)

25. Record the following transactions in appropriate subsidiary books:

2016	
March-1	Brought goods from Ram Chandra & Co.₹ 10,000 less 10% Trade discount.
March-2	Received from Omkarnath & Co. goods of ₹30,000 less 10% Trade discount and 5% cash discount on cash payment. Half of the amount was paid in cash.
March-3	Sold goods on credit to R. Ramesh ₹40,000 less 20% trade discount.
March-4	Booked order with S.Somnath for goods ₹ 15,000 less Trade discount 20%.
March-5	Returned to Ram Chandra & Co. 1/3rd goods which were received on 1st March as the same was not according to sample.
March-6	Invoiced goods to B.Barve ₹8,000 after allowing 10% Trade Discount.
March-7	B. Borve returned goods worth ₹700. A credit note was sent to him for the same account.
March-8	Sold our surplus machinery to Ram for ₹3,000.
	(Ans: Total Purchase book ₹22,500
	Sales book ₹39,200
	Return inward book ₹700
	Return Outward book ₹3,000)

N.B:

No entry for order booked.
No entry for selling surplus machinery.
since machinery is not goods.

26. Enter the following transactions in appropriate subsidiary books of Rama Chandra:

2016		(₹)
April-1	Sold goods to Ramesh	5,250
	Bought from Hariram	7,800
April-2	Ramesh returned goods	750
	Sold to Dina nath	5,500
April-3	Purchased goods from Mangal	7,000
April-4	Returned goods to Mangal1,000	
April-4	Bought from Devi Dayal	3,250
April-4	Sold to Zakir Hussain	3,500
April-5	Zakir Hussain returned goods	450
April-6	Sold to Ram Saran	5,000
April-7	Ram Saran Return goods	500
April-7	Bought from Devi Dayal	7,000
April-8	Returned goods to Devi Dayal	750
April-9	Purchased goods from Raghunath	
	Subject to trade discount 10%	10,000
April-10	Sold goods to Rajaram subject	
	to trade discount 5%	5,000

(Ans: Total of purchase Book ₹34,050 sales Book ₹24,000
Puchase returen book ₹1,750, Sales return book ₹1,700)

27. Record the following transactions in the single columned cash Book of Mr. Juveda :

2016		(₹)
Mar-1	Commenced business with	1,50,000
Mar-2	Paid into Bank	1,00,000
Mar-3	Purchased a machine	5,000
Mar-4	Purchased goods for cash	15,000
Mar-5	Sold goods for cash	2,000

Mar-6	Paid for stationary	500
Mar-7	Goods sold for cash	4,000
Mar-8	Sale of old news paper	700
Mar-10	Rent paid	1,500
	(Ans: Cash balance ₹34,700)	

28. Enter the following transactions in a single columed Cash Book of Chaman Lal:

2016		(₹)
Apr-1	Chamanlal started business with cash	50,000
Apr-2	Purchased goods for cash	25,000
Apr-3	Goods sold for cash	6,000
Apr-4	Suresh paid cash	2,160
Apr-5	Deposited into Bank	18,000
Apr-7	Cash paid to Jyotshna	1,290
Apr-8	Cash sales	9,000
Apr-10	Paid for stationery	300
Apr-11	Purchased office furniture	1,100
Apr-18	Vaijayant Paid	4,080
Apr-20	Advertising expenses paid	600
Apr-25	Paid for postage stamps	250
Apr-29	Rent paid	2,600
Apr-30	Payment of telephone bill	300
	(Ans. Cash Balance ₹21,790)	

29. Record the transactions given below in a sinlge columned Cash Book and post to the ledger:

2016		(₹)
May 1	Cash in hand	60,000
may 2	Goods purchased	20,000
May 3	paid to Somesh	3,750
May 4	Cash Sales	10,000

May 5	Goods purchased on credit from Chhotelal	20,000	
May 6	Sold goodsfor cash	15,000	
May 10	Postage stamp purchased		800
May 12	Paid Chhotelal	15,000	
May 15	Rent Paid	500	
May 18	Purchased of office furniture	8,000	
may 20	Credit sale of goods to Madam	15,000	
May 22	Purchased of Type writer	25,000	
May 25	Cash received from Madam	10,000	
May 26	Advertisement exp	10,000	
May 27	Cash sales	12,500	
May 30	Wages paid	4,500	
May 31	Drawings by proprietor for personal use	1,500	
	(Ans. Cash balance ₹16,400)		

30. Record the following transactions in a Double columned Cash Books:

2016		(₹)
Mar-1	Balance in hand	17,000
Mar-2	Credit purchased of goods from Ranbir Singh	15,000
Mar-3	Carriage on purchase of goods paid	750
Mar-5	Insurance premium paid	700
Mar-6	Received Cash from Jamuna	17,100
Mar-8	Settled Ranbir singh's account with 3% cash discount	
Mar-10	Withdrew from Bank	4,000
Mar-18	Old machinary sold	4,700
Mar-22	Paid Swagata ₹9,800 in full settlement of ₹10,000	
Mar-28	Deposited into bank	7,000
Mar-29	Received from Anuj ₹5,700 in full settlement of his account amounting ₹6,000	
Mar-31	Payment of Telephone Bill	4,700

(Ans. Cash balance ₹11,040, discount (Dr.) ₹300, Discount Cr.₹650)

31. Record the following transactions in the two columned cash book and post them to ledger:

2016		(₹)
May 1	Started business with a cash of	2,00,000
May 2	Deposited into bank	1,20,000
May 3	Cash sale of goods	20,000
May 4	Somesh settled his account of	20,000
	Cash discount allowed to him	160
May 5	Received from Suvendu ₹7,800 in full settlement of ₹8,000	
May 12	Cash purhases	6,000
May 18	Paid to Omkar	18,000
May 20	Drawing for personal use	10,000
May 25	Cash purchase of goods	30,000
May 26	Cash sales	24,000
May 27	Received from Simant ₹11,800 in full settlement of his debt of ₹12,000	
May 28	Payment of office expenses	5,000
May 29	Rent received from sub-letting	3,000
May 30	Rent paid	6,000

(Ans: Cash Balance ₹90,440, Discount(Dr.) ₹560)

32. Record the following transactions in the cash book with discount column and post them to ledger :

2016		(₹)
June-1	Cash in hand	35,000
June-2	Cash purchase	15,000
June-6	Payment of wages	3,000
June-12	Received Cash from Mr X ₹1,980 in full settlement of ₹2,000	
June-15	Purchased a typewriter from M/s Kandarpa for ₹15,000	

June-18	Cash paid to Jamnejay ₹4,700, Discount allowed	300
June-20	Cash paid to M/s Kandarpa in full settlement	14,500
June-28	Purchased goods	10,000
June-30	Cash sales	7,500

(Ans: Cash balance ₹7,280,Disctount Dr.₹20, Discount Cr.₹800)

33. Enter the following transactions in a Three columned Cash Book:

2016		
Jan 1	Started business with cash	2,00,000
Jan 2	Opened a current account with bank for	1,80,000
Jan 3	Bought goods by paying cheque	1,500
Jan 4	Received a cheque from Ram for ₹1,900, Allowed him a discount of ₹100	
Jan 5	Sold goods for cash amounting to	300
Jan 6	Paid into bank cash amounting	300
Jan 7	Paid Shyam by cheque	3,450
	Received Discount	50
Jan 9	Drew from Bank cash for office use	2,000
Jan 30.	Paid wages by cheque	600

(Ans: Cash balance ₹22,000, bank balance ₹1,74,650, Discount (Dr.)₹100, Discount (Cr.) ₹50)

34. Enter the following transactions in the Triple columned Cash Book and balance the book on January 8, 2016:

2016	
Jan 1	Manohar commerced business with Cash ₹3,000. He pays ₹2,750 into bank from cash box.
Jan 2	He buys goods for cheque ₹690
Jan 3	He pays rent ₹150 by cheque
Jan 4	He settled a debt of ₹75 due to Hari by cheque deducting discount of 5%
Jan 5	He receives a cheque of ₹30 less 5% discount from Gopal.
Jan 6	He draws for personal use ₹70 from cash box.
Jan 7	He pays wage ₹20 in cash.

(Ans: Cash balance ₹160, Bank balance ₹1867.25, Discount allowed ₹1.50, Discount received ₹3.75)

35. Enter the following transactions in the Three columned cashbook and balance it:

2016:

Nov 1	Balance of cash in hand ₹14,000 and in bank ₹10,000
Nov 2	Received cash from Mohan ₹1,000 and allowed him discount ₹30
Nov 3	Paid into bank ₹2,000
Nov 4	Paid to Divakar by cheque ₹320 in full settlement of his account ₹350
Nov 5	Received from cash sales cash ₹275 and cheque ₹225.
Nov 6	Paid for purchases by cheque ₹645.
Nov 7	Paid by cheque to Ravi ₹725 in full settlement of ₹800.
Nov 8	Drew from Bank book for office use ₹900 and ₹100 for personal use.

(Ans: Cash balance ₹14,175, Bank balance ₹9,535, Discount (Dr.) ₹30, Discount (Cr.) ₹105)

36. Enter the following transactions in the Triple columned cash book of Rao Traders:

2015

Dec 1	Started a business with cash ₹9,000
Dec 1	Deposited in the bank ₹4,000
Dec 2	Purchased office equipment ₹1,000
Dec 4	Cash purchases, issued cheque ₹2,500
Dec 8	Received cheque from Naidu on account ₹3,250
Dec 10	Cash sales, received cheque ₹1,270
Dec 15	Office expenses ₹275
Dec 25	Office rent paid by cheque ₹300
Dec 28	Received cheque from Raju and endorsed the same to Krishna ₹400
Dec 30	Paid advance income tax by cheque ₹575
Dec 31	Deposited into bank, balance of cash in excess of ₹300

(Ans: Cash balance ₹300, Bank balance ₹8,570)

37. On May 1, Ramesh had ₹2,750 in his cash box and was over drawn at bank by ₹27,065.

Enter these opening balances in his Cash Book and then record the following transactions. Balance the cash book on May 15.

2016	
May 2	Paid for postage stamps ₹260 in cash
	Paid for repair ₹147 in cash
	Paid to Rakesh a cheque ₹2,710 who gave discount ₹190
May 3	Cash sales ₹8,770, paid ₹5,030 out of cash box into the bank.
May 8	Bought goods by cheque at an auction ₹1,750, paid rent for the month ₹2,950 by cheque, paid wages ₹1,000 in cash.
May 10	Laxman paid by cheque ₹9,710 in full settlement of ₹10,000.
May 15	Rates paid by cheque ₹2,265, drew for personal use from cash box ₹1,500.
	(Ans: Cash balance ₹3,583, bank overdraft ₹22,000, Discount allowed ₹290, Discount received ₹190)

38. Write the following transactions in the cash book with bank and discount column:

2016	
Jan 1	Bijay started business with ₹3,50,000 in cash
Jan 3	Opened a current account in the bank by depositing ₹1,90,000
Jan 4	Received a cheque from Krishore ₹60,000 and paid it into bank on the next day.
Jan 6	Paid ₹3,300 by cheque to Ramlal and is allowed a discount of ₹200.
Jan 10	Mohan paid into his bank account ₹4,750
Jan 14	Received a cheque for ₹4,500 from Surendra and allowed him discount at ₹350
Jan 18	Received ₹1,750 in cash and ₹1,000 in cheque towards cash sales for the day and deposited the cheque in bank.
Jan 20	Paid into bank ₹10,000
Jan 25	Cash purchases ₹2,750, payment made by cheque.

Jan 27	Paid Biraj ₹3,750 in cash in full settlement of his account for ₹4,100.
Jan 28	Paid for sundry expenses in cash ₹4,500
Jan 29	Paid salary ₹5,000 by cheque. He drew a cheque of ₹2,500 for personal use and another cheque of ₹4,000 for office use.
Jan 30	Cash purchase of goods ₹1,500, rent paid to landlord by cheque ₹3,000, purchased furniture and paid by cheque ₹15,750.
Jan 31	Received a cheque for ₹9,500 from Vabani towards commission due from him.

(Ans. Cash balance ₹1,46,00, Bank balance ₹2,43,450, Discount(Dr.)350, Discount(Cr.)₹550)

39. From the following transactions, prepare simple petty cash book on an imprest system, having float of ₹3,000.

2016

Jul 1	Received by petty cashier ₹3,000
Ju 2	Paid for travelling expenses ₹160
Jul 3	Bought postage stamp ₹440
Jul 4	Purchased office stationery ₹380
Jul 5	Paid for office cleaning ₹360
Jul 6	Paid for telephone bill ₹420
Jul 7	Paid for advertisement ₹480
Jul 7	Spent for tea & coffee for guest ₹60

(Ans: Petty cash in hand ₹580)

40. From the following particulars write up a simple pretty cash book based on imprest system, the float money being ₹4,000:

2016

Feb 1	Balance in hand ₹200
Feb 1	Received the necessary amount from the cashier to maintain the float amount.
Feb 2	Paid for telephone ₹118
Feb 3	Paid for taxi fair to manager ₹340

Feb 3 Paid for carriage ₹100

Feb 4 Paid for postage stamp ₹600

Feb 5 Paid for repair ₹200

Feb 7 Paid for telephone charges ₹225

Feb 8 Paid for office stationery ₹302

Feb 10 Paid for refreshment ₹100

Feb 12 Paid for cartage ₹360

Feb 15 Paid for newspager bill ₹400

Feb 18 Paid for travelling expenses ₹800

Feb 20 Paid for charity ₹40

Feb 25 Paid for repair of office machine ₹105

Feb 28 Paid for office cleaning ₹80

Feb 29 Paid for stationery ₹40

(Ans: Petty Cash balance ₹190)

41. Record the following transactions for the month of July 2016 in the analytical petty cash book of M/s. Krishna Kumar under the imprest system, the float being ₹15,000:

20016

Jul 1 Paid for carriage ₹ 200

Jul 2 Paid for telephone charges ₹120

Jul 3 Paid for cartage ₹100

Jul 4 Paid for postage ₹200

Jul 5 Paid for refreshment ₹205

Jul 7 Paid for stationery ₹100

Jul 12 Paid for telephone charges ₹200

Jul 15 Paid for travelling expenses ₹205

(Ans: Petty cash balance ₹670)

Chapter - 6

TRIAL BALANCE

STRUCTURE

6.1 Introduction

Financial transactions are recorded in the Journal or subsidiary books as and when take place. Subsequently those are posted to the concerned accounts in the ledger. After posting, ledger accounts are balanced. Each organisation prepares the final accounts from the balances of the accounts. The final accounts are prepared at the end of each financial year. The correctness of financial accounts depends on the arithmatic accuracy of the accounts.

In the Double Entry System of book keeping for every debit, there must be equal and corresponding credit. Sum total of debit must be equal to sum total of credit. This is possible, if all transactions are recorded properly in the books of accounts, posted to the ledger accounts correctly and also balanced accurately.

So, the arithmetic accuracy of the accounts depends upon accuracy in recording, posting and balancing. Trial Balance is prepared to check the arithmetic accurancy of the accounts.

6.2 Meaning of Trial Balance

Trial Balance is an abstract of balances of all the accounts of the ledger on a specific date. It is a statement showing the debit and credit totals or balances of all the accounts on a particular date. It may be prepared at regular intervals to check the arithmatic accuracy of the accounts. But its preparation is must before the preparation of final accounts at the end of each year since, the accurracy of final accounts is most important in any organisation.

Definition of Trial Balance :

Different authors have given different definitions of Trial Balance. Some of the definitions are as follows :

Trial Balance is the list of debit and credit balances, taken out from the ledger, it also includes the balances of Cash and Bank taken from cash book. "Carter".

Trial Balance is a statement prepared with the debit and credit balances of ledger accounts to test the arithmetic accuracy of the books. "J.R. Batliboi"

The statement prepared with the help of ledger balance, at the end of financial year (or at any other date) to find out whether debit total agrees with the credit total is called Trial Balance. "William Pickles"

An analysis of the above definitions revenals that " A Trial Balance is a statement of balances of all accounts prepared on a specific date to test the arithmetic accurancy of the accounts.

Features :

Trial Balance has the following features :

i) Trial Balance is a statement, not an account.

ii) It is a list of balances of all accounts and cash book.

iii) It is prepared on a particular date, normally at the end of an accounting period.

iv) It verifies arithmetic accurancy of the accounts by tallying debit and credit balances or totals of all accounts.

v) Tallying of debit and credit balances assures arithmetic accurancy but not accounting accuracy.

vi) Difference in debit and credit totals in the Trial Balance implies either mistake in posting to ledger or balancing the accounts.

6.3 Objectives

The Trial Balance is prepared with the following objectives :

i) To ascertain arithmetic accuracy :

Trial balance is a device to test the arithmetic accuracy of the accounts. Summary of all ledger accounts are recorded in the Trial Balance. Agreement of both debit and credit columns is an indication of arithmetic accurancy of accounts.

ii) Helps in locating errors :

It is assumed that some errors have been committed, if the Trial Balance does not agree. Such errors may be committed because of mistake of posting, casting, carry forward, etc. The accountant will try to locate the errors.

iii) Serves as a summary of information :

Trial Balance gives the information of balances of all accounts, relating to incomes, expenses, assets and liabilities. One need not refer to the ledger accounts for this purpose.

iv) Helps in preparation of final accounts :

Each and every business prepares financial statements at the end of each accounting period. The financial statements include Trading and Profit and loss account and Balance Sheet. Final account is prepared from Trial Balance and other additional information.

6.4 Limitations

i) Trial Balance can only be prepared, if Double Entry System of Book Keeping is followed.

ii) Agreement of Trial Balance is not conclusive proof of accurancy. Inspite of agreement of Trial Balance, the following errors may not be detected.

a) Complete omission of transaction in recording in Journal/subsidiary books.

b) Recording of wrong amount in Journal/subsidiary books.

c) Posting of correct amount but to wrong account.

d) Recording of the transaction twice in Journal/subsidiary books.

e) Recording the transaction against the principle of accounting i.e. treating the asset as expenses and vice-versa. For example, wages paid on installation of machinery debited to Wages Account instead of Machinery Account.

f) Presence of compensating errors : Errors might have been committed where one error nullifies or neutralises the effect of another error.

6.5 Preparation of a Trial Balance

Trial Balance can be prepared in three different methods, viz.,

i) Balance Method

ii) Total Method

iii) Total and Balance Method / Compound Method

Sources of preparing Trial Balance :

The requisite information for preparation of Trial Balance can be collected from the ledger accounts under each method as follows :

(i) Balance Method

Under this method, Trial Balance is prepared by taking the balance of each ledger account including cash and bank balance. The debit balances are recorded under the debit column and credit balances are recorded under the credit column of the Trial Balance. The format of the Trial Balance is given below :

Trial Balance of ....

As at ....

Sl.No.	Name of Account	L.F.	Debit balance(₹)	Credit balance(₹)

(ii) Total Method :

Under this method, Trial Balance is prepared, taking the total of debit and credit side of each ledger account instead of taking the balances. The debit side total and credit side total of each ledger account are recorded in the debit total and credit total column of the Trial Balance, respectively.

A format of the Trial Balance is given below :

Sl. No.	Name of Account	L.F.	Debit total (₹)	Credit total (₹)

(iii) Total and Balance Method / Compound Method / Combined Method :

It is a combination of both Balance method and Total method. Trial Balance is prepared by taking the total of each side of ledger accounts individually as well as balances of each account. The format of Trial Balance under this method is given below :

Sl. No.	Name of Account	L.F.	Debit balance ₹	Credit balance ₹	Debit total ₹	Credit total ₹

Normally, compound method is not followed for preparing Trial Balance. This is discussed only for academic interest. The most commonly used method is the Balance Method.

Illustration 1

Record the following transactions in the books of Mr. Ashok, post them to the ledger and prepare Trial Balance under Balance method, Total Method and Combined Method for the period ending 31st March 2016.

2016		₹
Mar. 1	Mr. Ashok started business with cash	1,00,000
	Goods	40,000
Mar. 2	Opened a bank account	30,000
Mar. 3	Purchased goods for cash	25,000
Mar. 5	Purchased equipments	5,000
Mar. 7	Purchases goods from Sohan	30,000
Mar. 10	Bought stationery	3,000
Mar. 11	Sold Goods to Mohan	22,000
Mar. 12	Sold Goods for cash	23,000
Mar. 15	Paid cash to Sohan	20,000
Mar. 17	Received cash from Mohan	15,000
Mar. 18	Paid Electric Bill	3,000
Mar. 20	Paid Wages	500

Mar. 21 Mohan Returned goods	1,000
Mar. 25 Mohan paid in full settlement	5,700
Mar. 27 Paid salaries	5,000
Mar. 30 Paid for Advertisement in cheque	2,000

SOLUTION: In the Books of Mr. Ashok

Journal

Date	**Particulars**	**L.F**	**Amount Dr. (₹)**	**Amount Cr. (₹)**
2016	Cash Account Dr.		1,00,000	
Mar. 1	Goods Account Dr.		40,000	
	To Capital Account			1,40,000
	(Being the business started with cash and goods)			
Mar. 2	Bank A/c . Dr.		30,000	
	To cash A/c			30,000
	(Being deposit of cash in to Bank)			
Mar. 3	Purchase A/c Dr.		25,000	
	To cash A/c			25,000
	(Being cash purchase of goods)			
Mar. 5	Equipment A/c Dr.		5,000	
	To cash A/c			5,000
	(Being purchase of equipment for cash)			
Mar. 7	Purchase A/c Dr.		30,000	
	To Sohan's A/c			30,000
	(Being credit purchase of goods)			

Mar. 10	Office stationery A/c Dr.	3,000		
	To cash A/c			3,000
	(Being purchase of stationery for cash)			
Mar. 11	Mohan's A/c Dr.	22,000		
	To sales A/c			22,000
	(Being credit sale of goods)			
Mar. 12	Cash A/c Dr.	23,000		
	To sales A/c			23,000
	(Being cash sale of goods)			
Mar. 15	Sohan's A/c Dr.	20,000		
	To Cash A/c			20,000
	(Being the payment of cash to Sohan)			
Mar. 17	Cash A/c Dr.	15,000		
	To Mohan's A/c			15,000
	(Being receipt of cash from Mohan)			
Mar. 18	Electricity charges A/c Dr.	3,000		
	To Cash A/c			3,000
	(Being payment of electric bill for the month of .....)			
Mar. 20	Wages A/c Dr.	500		
	To Cash A/c			500
	(Being payment of wages)			

Mar. 21	Return-inward A/c Dr.		1,000	
	To Mohan's A/c			1,000
	(Being Goods returned to Mohan)			
Mar. 25	Cash A/c Dr.		5,700	
	Discount A/c Dr.		300	
	To Mohan's A/c			22,000
	(Being cash received and discount allowed)			
Mar. 27	Salaries A/c Dr.		5,000	
	To Cash A/c			5,000
	(Being payment of salary for the month of ....)			
Mar. 30	Advertisement A/c Dr.		2,000	
	To Bank A/c			2,000
	(Being payment of advertisement exp.)			

LEDGER

Dr. Cash Account Cr.

Date	Particulars	L.F	Amount ₹	Date	Particulars	L.F	Amount ₹
2016				2016			
Mar. 1	To Capital A/c		1,00,000	Mar. 2	By Bank A/c		30,000
Mar. 12	To sales A/c		23,000	Mar. 3	By Purchase A/c		25,000
Mar. 17	To Mohan's A/c		15,000	Mar. 5	BY Equipment A/c		5,000

Date	Particulars	L.F	Amount	Date	Particulars	L.F	Amount
Mar. 25	To Mohan's A/c		5,700	Mar. 10	By office stationery A/c		3,000
				Mar. 15	By Sohan's A/c		20,000
				Mar. 18	By Electricity A/c		3,000
				Mar. 20	By Wages A/c		500
				Mar. 27	By Salaries A/c		5,000
				Mar. 31	By Balance c/d		52,200
			1,43,700				1,43,700
Aprl 1	To Balance b/d		52,200				

Dr. Goods Account Cr.

Date	Particulars	L.F	Amount ₹	Date	Particulars	L.F	Amount ₹
2016				2016			
Mar. 1	To Capital A/c		40,000	Mar. 31	By Balance c/d		40,000
			40,000				40,000
April 1	To Balance b/d		40,000				

Dr. Capital Account Cr.

Date	Particulars	L.F	Amount ₹	Date	Particulars	L.F	Amount ₹
2016				2016			
Mar. 31	To Balance c/d		1,40,000	Mar. 1	By Cash A/c		1,00,000
				Mar. 1	By Goods A/c		40,000
			1,40,000				1,40,000
				April. 1	By Balance b/d		1,40,000

Dr. **Bank Account** Cr.

Date	Particulars	L.F	Amount ₹	Date	Particulars	L.F	Amount ₹
2016				2016			
Mar. 2	To Cash A/c		30,000	Mar. 30	By Advertisement A/c		2,000
				Mar. 31	By Balance c/d		28,000
			30,000				30,000
April. 1	To Balance b/d		28,000				

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

Date	Particulars	L.F	Amount ₹	Date	Particulars	L.F	Amount ₹
2016				2016			
Mar. 3	To Cash A/c		25,000	Mar. 31	By Balance c/d		55,000
Mar. 7	To Sohan's A/c		30,000				
			55,000				55,000
April. 1	To Balance b/d		55,000				

Dr. **Equipment Account** **Cr.**

Date	Particulars	L.F	Amount ₹	Date	Particulars	L.F	Amount ₹
2016				2016			
Mar. 5	To Cash A/c		5,000	Mar. 31	BY Balance c/d		5,000
			5,000				5,000
April. 1	To Balance b/d		5,000				

Dr. **Office Stationery A/c** **Cr.**

Date	Particulars	L.F	Amount ₹	Date	Particulars	L.F	Amount ₹
2016							
Mar. 10	To Cash A/c		3,000				

Dr. **Sohan's Account** **Cr.**

Date	Particulars	L.F	Amount ₹	Date	Particulars	L.F	Amount ₹
2016				2016			
Mar. 15	To Cash A/c		20,000	Mar. 7	By Purchase A/c		30,000
Mar. 31	To Balance c/d		10,000				
			30,000				30,000
				April. 1	By Balance b/d		10,000

Dr. **Mohan's Account** **Cr.**

Date	Particulars	L.F	Amount ₹	Date	Particulars	L.F	Amount ₹
2016				2016			
Mar. 11	To sales A/c		22,000	Mar. 17	By Cash A/c		15,000
				Mar. 21	By Return-inward A/c		1,000
				Mar. 25	By Cash A/c		5,700
				Mar. 25	By Discount A/c		300
			22,000				22,000

Dr. Discount Account Cr.

Date	Particulars	L.F	Amount ₹	Date	Particulars	L.F	Amount ₹
2016							
Mar. 25	To Mohan's A/c		300				

Dr. Sales Account Cr.

Date	Particulars	L.F	Amount ₹	Date	Particulars	L.F	Amount ₹
2016				2016			
Mar. 31	To Balance c/d		45,000	Mar.11	By Mohan's A/c		23,000
				Mar. 12	By Cash A/c		23,000
			45,000				45,000
				April. 1	By Balance b/d		45,000

Dr. Electricity charges Account Cr.

Date	Particulars	L.F	Amount ₹	Date	Particulars	L.F	Amount ₹
2016							
Mar. 18	To Cash A/c		3,000				

Dr. **Wages Account** **Cr.**

Date	Particulars	L.F	Amount ₹	Date	Particulars	L.F	Amount ₹
2016							
Mar. 20	To Cash A/c		500				

Dr. **Return Inward Account** **Cr.**

Date	Particulars	L.F	Amount ₹	Date	Particulars	L.F	Amount ₹
2016				2016			
Mar. 21	To Mohan's A/c		1,000	Mar. 31	By Balance c/d		1,000
			1,000				1,000
April.1	To Balance b/d		1,000				

Dr. **Salaries Account** **Cr.**

Date	Particulars	L.F	Amount ₹	Date	Particulars	L.F	Amount ₹
2016							
Mar. 27	To Cash A/c		5,000				

Dr. **Advertisement Account** **Cr.**

Date	Particulars	L.F	Amount ₹	Date	Particulars	L.F	Amount ₹
2016							
Mar. 30	To Bank A/c		2,000				

Trial Balance as at 31st March 2016.

(Balance Method)

Sl. No.	Name of Accounts	L.F	Debit Balance ₹	Credit Balance ₹
1.	Cash A/c		52,200	
2.	Stock A/c		40,000	
3.	Capital A/c..............................			1,40,000
4.	Bank A/c		28000	
5.	Purchase A/c		55,000	
6.	Equipment A/c		5,000	
7.	Office Stationery A/c		3,000	
8.	Sohan's A/c			10,000
9.	Discount A/c		300	
10.	Sales A/c			45,000
11.	Electricity Charges A/c		3,000	
12.	Wages A/c		500	
13.	Return-inward A/c		1,000	
14.	Salaries A/c		5,000	
15.	Advertisement A/c		2,000	
	Total		1,95,000	1,95,000

Trial Balance as at 31st March 2016

(Total Method)

Sl. No.	Name of Accounts	L.F	Debit Total ₹	Credit Total ₹
1.	Cash A/c		1,43,700	91,500
2.	Stock A/c		40,000	
3.	Capital A/c...............................			1,40,000
4.	Bank A/c		30,000	2,000
5.	Purchase A/c		55,000	
6.	Equipment A/c		5,000	
7.	Office Stationery A/c		3,000	
8.	Sohan's A/c		20,000	30,000
9.	Mohan's A/c		22,000	22,000
10.	Discount A/c		300	
11.	Sales A/c			45,000
12.	Electricity Charges A/c		3,000	
13.	Wages A/c		500	
14.	Return-inward A/c		1,000	
15.	Salaries A/c		5,000	
16.	Advertisement A/c		2,000	
	Total		3,30,500	3,30,500

Trial Balance as at 31st March 2016.

(Total and Balance Method/compound method/combined method)

Sl. No.	Name of Accounts	L.F	Debit Total ₹	Credit Total ₹	Debit Balance ₹	Credit Balance ₹
1.	Cash A/c		1,43,700	91,500	52,200	
2.	Stock A/c		40,000		40,000	
3.	Capital A/c			1,40,000		1,40,000
4.	Bank A/c		30,000	2,000	28,000	
5.	Purchase A/c		55,000		55,000	
6.	Equipment A/c		5,000		5,000	
7.	Office Stationery A/c		3,000		3,000	
8.	Sohan's A/c		20,000	30,000		10,000
9.	Mohan's A/c		22,000	22,000	-	-
10.	Discount A/c		300		300	
11.	Sales A/c			45,000		45,000
12.	Electricity Charges A/c		3,000		3,000	
13.	Wages A/c		500		500	
14.	Return-inward A/c		1,000		1,000	
15.	Salaries A/c		5,000		5,000	
16.	Advertisement A/c		2,000		2,000	
		Total	3,30,500	3,30,500	1,95,000	1,95,000

Preparation of Trial Balance when balances are given :

For preparing Trial Balance out of the different given balances one must remember that the (i) assets, expenses, lossess show debit balances (ii) Income and liabilities show credit balance.

The following two rules should be remembered while preparing the Trial Balance from different ledger balances :

i) The balances relating to assets, expenses, lossess, drawings, purchase, sales return, bills receivable, etc. should be recorded in the debit balance column of the trial balance.

ii) The balances relating to incomes, liabilities, capital, creditors, sales, purchase return, provisons, reserves, bills payable, etc. should be recorded in the credit balance column of the Trial Balance.

Generally closing stock does not appear in the Trial Balance, the reason being the closing stock account does not appear in the ledger. It is found out after stock-taking at the end of the year, which, therefore, appears under 'adjustments' at the end of the Trial Balance. However, it may appear in the Trial Balance when it is adjusted against 'Purchases' (deducted from purchases) or against 'sales' (added to sales). In such a case, the Trial Balance will show 'Adjusted purchases' or 'Adjusted sales' instead of only 'purchases' or 'Sales', respectively.

Illustration 2

Prepare Trial Balance from the following balances extracted from the books of Sandeep & Brothers as at 31st March 2016 :

	₹		₹
Opening Stock	32,500	Accrued income	1500
Sales	3,35,600	Interest outstanding (payable)	300
Sales return	3,200	Creditors	23,700
Purchases	2,63,300		
Purchase return	2,300	Interest paid	700
Carriage inward	1,500	Assets	20,000
Carriage outward	1,700	Capital	1,35,000
Wages	5,300	Postage	300
Salaries	7,800	Discount allowed	700
Drawings	6,500	Discount received	600
Debtors	28,500	Cash in hand	22,400
Baddebts	500	Cash at bank	21,500
Provision for Bad debts	400	Machinery	80,000

SOLUTION: In the Books of Sandeep & Brothers Trial Balance as at 31st March 2016

Sl. No.	Name of the Account	L.F	Debit Balance ₹	Credit Balance ₹
	Opening Stock		32,500	
	Sales			3,35,600
	Sales return		3,200	
	Purchases		2,63,300	
	Purchase return			2,300
	Carriage inward		1,500	
	Carriage outward		1,700	
	Wages		5,300	
	Salaries		7,800	
	Drawings		6,500	
	Debitors		28,500	
	Baddebits		500	
	Provision for Bad debts			400
	Accrued income		1500	
	Interest payable			300
	Creditors			23,700
	Interest paid		700	
	Assets		20,000	
	Capital			1,35,000
	Postage		300	
	Discount allowed		700	
	Discount received			600
	Cash in hand		22,400	
	Cash at Bank		21,500	
	Machinery		80,000	
			4,97,900	4,97,900

6.6 Rectification of wrong Trial Balance

Sometimes debit balances are recorded in the credit column of the Trial Balance and vice-versa. In that case both the columns of the Trial Balance will not agree. In such a case, the posting of balances to the Trial Balance is to be rechecked and ensured that the balance of each account has been posted correctly. The following illustration will make it clear :

Illustration 3

The Junior clerk of a business firm drafted the following Trial Balance. But he could not tally the Trial Balance. You are required to redraw the Trial Balance correctly.

Trial Balance of .... as at 3oth April 2016

Sl. No.	Name of the Account	L.F	Debit amount ₹	Credit amount ₹
1.	Capital			1,45,000
2.	Opening stock			22,300
3.	Purchases		1,45,000	
4.	Sales			2,22,300
5.	Purchase return		2,750	
6.	Loan taken			52.000
7.	Wages		17,500	
8.	Rent paid			6,800
9.	Discount received		3,800	
10.	Prepaid expenses		2,750	
11.	Creditors			27,300
12.	Reserve fund		12,500	
13.	Bank Deposit			20,000
14.	Carriage in ward		11,200	
15.	Return in ward			1,350
16.	Import duty			2,200
17.	Royalty		13,500	
18.	Plant & Machinery		1,50,000	
19.	Debtors			73,050
	Total		3,49,000	5,72,300

Solution :

Trial Balance of .... as at 30th April 2016 (Correct Tribal Balance)

Sl. No.	Name of the Account	L.F	Debit amount ₹	Credit amount ₹
1.	Capital			1,45,000
2.	Opening stock		22,300	
3.	Purchase		1,45,000	
4.	Sales			2,22,300
5.	Purchase return			2,750
6.	Loan taken			52.000
7.	Wages		17,500	
8.	Rent paid		6,800	
9.	Discount received			3,800
10.	Prepaid expenses		2,750	
11.	Creditors			27,300
12.	Reserve fund			12,500
13.	Bank Deposit		20,000	
14.	Carriage in ward		11,200	
15.	Return in ward		1,350	
16.	Import duty		2,200	
17.	Royalty		13,500	
18.	Plant & Machinery		1,50,000	
19.	Debtors		73,050	
	Total		4,65,650	4,65,650

6.7 Questions

1. From the alternatives given under each bit, choose and write serially the correct answer along with its serial number against each bit :

(i) The purpose of preparing Trial Balance is to

(a) Check arithmatic accuracy of accounts

(b) Check balancing

(c) Tallying balance sheet

(d) Check errors or omission

(ii) A Trial Balance is a :

(a) Personal Account

(b) Real Account

(c) List of balances of accounts

(d) Nominal Account

(iii) A Trial Balance is prepared

(a) After preparing final account

(b) After balancing ledger accounts

(c) Before preparing ledger account

(d) After recording in journal proper

(iv) Which of the following error is not disclosed by Trial Balance :

(a) Wrong balancing of an account.

(b) Writing the amount in the wrong account but in the correct side.

(c) One side error .

(d) Mistake in carry forward.

(v) Tallying the trial balance assumes :

(a) No error in accounts

(b) Error in accounts

(c) May or may not be error

(d) None of the above

(vi) Prepaid expenses appear in

(a) Debit column of trial balance

(b) Credit column of the trial balance

(c) Both debit and credit column of trial balance

(d) None of the above

(vii) Difference between two columns of trial balance is transferred to :

(a) Balance sheet

(b) Trading account

(c) Profit and loss account

(d) Suspense account

(viii) Purchase return is recorded in

(a) Debit column of trial balance

(b) Credit column of trial balance

(c) Both debit and credit balance column of trial balance

(d) None of these

[Ans: (i) a, (ii) c, (iii) b, (iv) b, (v) c, (vi) a, (vii) d, (viii) b]

2. Correct the underlined portion of the following sentences :

(i) Sales return account is recorded in the <u>credit</u> column of the trial balance.

(ii) Reserve fund appears in the <u>debit</u> column of the trial balance.

(iii) Provison for bad debt is written in the <u>debit</u> column of the trial balance.

(iv) All debit and credit balances are recorded in <u>balance-sheet</u>.

(v) Interest on drawing is recorded in the <u>debit</u> column of the trial balance.

[Ans: (i) Debit, (ii) Credit, (iii) Credit, (iv) Trial Balance, (v) Credit]

3. Fill up the blanks of the following sentences :

(i) Trial Balance is a ________ of balances of accounts.

(ii) The agreement of both the sides of the trial balance indicate ________ accuracy of the books of accounts.

(iii) Trial Balance prepared under ________ method may show the same account as both a debit and credit balance.

(iv) Rent due but not received appear in ________ column of the trial balance.

(v) Trial balance is prepared after balancing ________ accounts.

[Ans: (i) statement, (ii) arithmetic, (iii) total, (iv) credit, (v) ledger]

4. Answer the following questions within one word/term each :

(i) Salary outstanding is shown in which column of the trial balance ?

(ii) Provison for doubtful debt appears in which column of the trial balance.

(iii) Under which method of preparing trial balance, the ledger accounts need not be balanced ?

(iv) Amount spent on renovation of asset is recorded in which side of the trial balance ?

(v) In which column of trial balance distribution of goods as free sample is recorded?

[Ans: (i) credit column, (ii) credit column, (iii) total method, (iv) debit side, (v) debit column]

5. Answer the following questions within one sentence each :

(i) What is a trial balance ?

(ii) When trial balance is normally prepared ?

(iii) Name different methods of preparing trial balance ?

(iv) Why trial balance is prepared ?

(v) Is trial balance an account or statement ?

(vi) What is gross trial balance ?

(vii) What is net trial balance ?

(viii) What do you mean by arithmatic accuracy ?

(ix) Can a trial balance ensures accounting accuracy.

(x) What do you mean by disagreement of Trial Balance ?

6. Answer the following questions within two sentences each:

(i) What are the objectives of preparing trial balance ?

(ii) Explain the limitations of Trial Balance.

(iii) Explain different methods of preparing Trial Balance.

(iv) If a Trial Balance tallies, can we conclude that the accounts are free from errors ?

7. Answer the following questions within six sentences each :

(i) What do you mean by Trial Balance ?

(ii) Discuss the objectives of preparing trial balance.

(iii) Explain the limitations of trial balance.

(iv) What are various methods of preparing trial balance ?

(v) Give an example of trial balance.

(vi) Write the name of six accounts mentioning the column in which they appear.

(vii) Discuss the advantages and limitations of prepares trial balance.

8. From the following ledger account balances prepare a trial balance as at 31.3.2016 :

	₹		₹
Capital Account	1,20,000	Stock on 31.3.16	1,80,000
Current Account (cr)	15,000	Petty cash	15,000
Sales	15,00,000	Depreciation	6,000
Adjusted purchase	12,00,000	Cash at Bank	1,20,000
Salaries	36,000	Interest received	1,50,000
Carriage inward	6,000	Accrued Interest	6,000
Carriage outward	9,000	Investment	30,000
Discount allowed	15,000	Provison for Bad debt	9,000
Building	1,20,000	General Reserve	30,000
Expenses outstanding	15,000	Bad debt recovered	3,000
Prepaid Insurance	3,000	Rent outstanding	30,000
Debtors	1,80,000	Loan Account	99,000
Creditors	90,000		

(Ans : Trial Balance Total ₹ 18,26,000)

9. Madan started a business with a capital of ₹ 85,000 on 1st January 2016. His transactions for the month are as follows :

2016		₹
Jan.2	Bought Goods from Bhakti	15,000
Jan.3	Sold goods to Akash	27,000
Jan.5	Sold goods to Himansu	20,000
Jan.10	Received from Akash	26,750
	Discount allowed	250
Jan.12	Bought goods from Bulu	32,250

Jan.13 Purchased furniture	2,000
Jan.15 Equipments purchased from 'X'	350
Jan.18 Paid Bulu	31,875
Discount received	375
Jan.20 Cash sales	1,100
Jan.25 Goods return by Himansu	1,350
Jan.26 Paid to X on account	1,500
Jan.27 Goods purchased from Mitra	17,375
Jan.29 Goods returned to Mitra	1,125
Jan.30 Paid salaries	1,000
Jan.31 Paid electricity Bill	450

Journalise the transactions, post them to ledger and prepare the Trial Balance.

(And. Total of Trial Balance ₹ 1,66,100)

10. The following trial Balance is drafted by an inexperienced accountant. Redraft it

	Debit Balance	Credit Balance
	₹	₹
Opening stock	6,00,000	-
Debtors		6,00,000
Fixed Assets	1,00,000	
Creditors		8,00,000
Cost of goods sold	15,00,000	
Closing stock		4,00,000
Salaries		2,00,000
Sales		20,00,000
Capital	9,00,000	
Total	40,00,000	40,00,000

(Ans : Total Trial of Balance ₹ 37,00,000)

11. The following is the trial balance of Mr. Soren showing a debit total of ₹ 31,82,000 and credit total of ₹ 37,62,000. Ascertain the correct total of trial balance after pointing out the errors causing the disagreement.

	Debit Balance	Credit Balance
	₹	₹
Capital		10,00,000
Bills payable	2,20,000	
Bills receivable		2,00,000
Cash in hand	12,000	
Purchases	12,00,000	
Opening stock	3,50,000	
Creditors	2,40,000	
Sales		20,02,000
Bad debt reserve	10,000	
Debtors		5,00,000
Plant & Machinery	6,00,000	
Furniture	1,50,000	
Rents & Taxes	50,000	
Drawings	50,000	
Wages	1,00,000	
Income Tax		60,000
Salaries	2,00,000	
Total	31,82,000	37,62,000

(Total of Trial Balance ₹ 34,72,000)

12. The following ledger balances are taken from the books of Mr. Manoj for the year ending 31st March 2016. Draft a trial Balance :

	₹		₹
Salaries	54,000	Furniture	1,30,000
Capital	10,00,000	Sundry creditors	1,00,000
Sales	9,70,000	Drawings	1,20,000
Freight inward	80,000	Return outward	40,000
Cash	2,00,000	Bank	1,80,000
Debtors	4,32,000	Machinery	5,43,000
Rent	11,000		

Ans : Trial Balance Total ₹ 21,10,000

(Hints : Purchases ₹ 3,60,000 Balancing figure)

13. From the following Trial Balance (containing obvious errors) prepare a correct Trial Balance :

	Debit (₹)	Credit (₹)
Purchases	3,00,000	
Reserve fund	1,00,000	
Sales		5,00,000
Purchase return	5,000	
Sales return		10,000
Opening stock	1,50,000	
Closing stock		2,00,000
Expenses		1,00,000
Outstanding expense	10,000	
Bank Balance	25,000	
Assets	2,50,000	
Debtors		4,00,000
Creditors		1,50,000
Capital	4,70,000	
Suspense	50,000	
	13,60,000	13,60,000

Ans : Correct Trial Balance Total ₹ 12,35,000

Chapter - 7

BILLS OF EXCHANGE

STRUCTURE

7.1 INTRODUCTION

In chapter 5, there has been discussion on various subsidiary books being used by businessmen under the practical system of Book-Keeping, which includes two separate subsidiary books for transactions on bills of exchange. The books are called Bills Receivable Book and Bills Payable Book. Bills Receivable book records the transactions relating to bills under which the businessman will receive the proceeds of the bills and Bills Payable book records the transactions relating to bills under which he has to pay the proceeds of the bills to his creditors.

This chapter describes the types of instrumnets of credit, their nature, the transactions coming under the perview of the bills and how these transactions are recorded in the books of accounts of different parties. A complete description is given about the recording in the Bill Books.

7.2 TYPES OF INSTRUMENTS OF CREDIT

Selling goods can be made either in cash or on credit. Now a days most of the business purchases and sales are made on credit, whether those are domestic or outside, due to liberal marketing policy of the commerical houses. In a continuous process of production and sale of goods a producer starts procuring the raw materials on credit and selling finished goods to wholesalers mostly on credit. The wholesaler extends credit facility to the retailers and so also the retailers sell goods on credit to the final consumers. The banker or any financial institution or money lender also provides credit, i.e., lends money to their customers. It is better and safer to provide credit to a debtor by obtainning a written document from him. This written document acts as an evidence of credit transaction between the buyer and seller. The most frequently writen instruments of credit are Bills of Exchange or Hundies and Promissory Notes.

7.2.1 BILLS OF EXCHANGE

Meaning: Bills of exchange is an unconditional written order given by the seller (creditor) to the purchaser (debtor) to pay a certain amount of money on demand at a particular time either to him or to a specified person or to the bearer of the instrument. In other words, bills of exhange is a written order by the cerditor to his debtor for payment of dues.

Definition:

According to section 5 of the Indian Negotiable Instruments Act 1881, “a bill of exchange is an instrument in writing containing an unconditional order signed by the maker, directing a certain person to pay a certain sum of money only to or to the order of a certain person or to the bearer of the instrument".

Features : The essential features of a bill of exchange are:

i) It must be in writing.

ii) It must contain an unconditional order to pay.

iii) It must be signed by the maker, i.e, drawer.

iv) The order must be to a certain person.

v) The order must be to pay a certain sum of money.

vi) The money must be payable to a certain person or to his order or to the bearer of the instrument.

vii) It must be payable on demand or after a certain period of time.

viii) The instrument must comply with the formalities as regards date, consideration, stamp, etc.

ix) The instrument must be accepted by the drawee. Acceptance is necessary in case of a time bill.

Parties

There are three parties to a bill of exchange, i.e, drawer, draweee and payee.

i) Drawer is the person who makes or draws the bill of exchange. He is the creditor either for selling goods on credit or advancing money on loan. He draws the bill on the debtor.

ii) Drawee is the person on whom the bill of exchange is made or drawn. He is the debtor either for purchasing goods on credit or for borrowing money on loan. He is the debtor in the transaction for value received. The debtor becomes the drawee after accepting the bill by putting his signature.

iii) Payee is the person to whom the payment is to be made under the bill of exchange on the date of maturity. Normally, drawer of the bill himself is the payee.

Specimen

The following is the form or specimen of a bill of exchange. It may be written in any language.

Specimen of Bill of Exchange

Prakash	Sambalpur
₹ 1,00,000	29.02.2016
Stamp	

Three months after date, pay to me or my order, the sum of ₹ 1,00,000 (Rupees One Lakh) only for value received.

To	Signature
Akash Dash	Prakash
Modipara	20/17, Budharaja
Sambalpur	Sambalpur

In the above mentioned bill of exchange, Prakash is the drawer and Akash is the drawee.

7.2.2 Promissory Note

According to Section 4 of the Indian Negotiable Instruments Act 1881, a Promissory Note is defined as "an instrument in writting, not being a bank note or currency note containing an unconditional undertaking signed by the maker to pay a certain sum of money only to or to the order of a certain person". According to section 31(2) of the Reserve Bank of India Act a Promissory Note cannot be made payable to the bearer.

Features

The main features of Promissory Note are:

i) It must be in writing.

ii) It must contain an express promise to pay. A mere acknowledgement of debt without express promise to pay is not a promissory note.

iii) The promise to pay must be unconditional. The promise to pay must not depend on the happening of a contingency.

iv) The maker must be certian and definite. The note must show on its face the person who is liable as the maker.

v) The Promissory Note must be signed by the maker.

vi) The promise must be to pay a certain sum.

vii) The promise should be to pay money and only money.

viii) The payee must be certain.

ix) A Promissory Note must be properly stamped under the Indian Stamp Act.

x) It may be payable on demand or after a definite period of time. When no time is mentioned, the Note is payable on demand.

Parties

There are two parties to a Promissory Note. They are :

i) Maker or Promissor or debtor who promises to pay a certain sum of money on a future date for values received. He makes or prepares the Promissory Note.

ii) Payee or creditor is the person to whom payment is to be made.

Specimen:

No special form or specimen of Promissory Note is laid down in the Act. A promissory Note may be in the form of a letter or any other form but it must contain all the above mentioned features.

Specimen of Promissory Note

₹ 50,000	Bolangir
	29.02.2016
Three months after date, I Promise to pay Mr. Kailash or order the sum of ₹ 50,000 (Rupees Fifty Thousand) only for value received.	
To	Stamp
Kailash	Signature
10/88, Samalei Square	Kamal Kumar
Bolangir	19/78, Old Palace Road, Bolangir

Distinction between a Bill of Exchange and Promissory Note

Both Bill of Exchange and Promissory Note are instruments of credit having similarities in many respects. Both save the purpose of credit transactions of purchase and sale. These are used as evidence of a credit transaction resulting in indebtedness of the buyer or borrower to the seller or lender.

In spite of similarities between the two instruments, those are different from each other in many ways. Those are enumerated below:

Basis	Bill of Exchange	Promissory Note
1. Drawing/Making	It is drawn by creditor	It is made by debtor
2. Order / Promise	It is an unconditional order	It is an unconditional promise/ undetaking
3. Acceptance	It requires acceptance by the drawee or by his agent.	It requires no acceptance as it is signed by the person who is liable to pay
4. Payee	Drawer and maker is the the payee in most of the cases	Drawer and Maker can never be the payee, since he himself is the debtor / borrower.
5. Liability	The liability of the maker / drawer of a bill of exchange is secondary and conditional. It is only when the drawee fails to pay, that the drawer would be liable if the bill has been endorsed or discounted.	The liability of the promissor / maker is primary and absolute / final.
6. Notice of Dishonour	In case of dishonour for non-acceptance or non-payment, notice must be given to all persons liable to pay.	Notice of dishonour to the maker is is not necessary.
7. Payable to bearer	Bill of Excharge may be made payable to the bearer.	Promissory Note cannot be made payable to the bearer.

7.3 IMPORTANT TERMS OF BILL OF EXCHANGE

The followings are the important terms which are used frequently:

Holder- A person who is in the physical possession of the bill and has the right to recover the amount due on the bill from the parties. He is either a payee or an endorsee.

Demand Bill- Bills of exchange payable on demand are called Demand Bills. The bill must contain the words "on demand".

Time Bills- Bills of Exchange are made payable after the expiry of a certain period of time which is mentioned in the bill.

Again Time bills may be of two types:(a) After Date Bill (b) After Sight Bill.

(a) After Date Bill is one where the date of maturity is calculated from the date of drawing of the bill by the drawer.

(b) After Sight Bill is one where the date of maturity is calculated from the date of acceptance of the bill by the drawee.

Term/Tenure- The period of time from the date of drawing to the date of maturity of the bill of exchange is called the term or tenure of the bill.

Negotiation- The transfer of the title or the right to receive money of the bill, by the holder of the bill to the transferee is called Negotiation. Negotiation gives a good title to the transferee, even a better title than the transferor of the bill. Negotiation is done by physical delivery. The holder can negotiate the bill to the bearer by mere delivery. If the holder wants to negotiate the bill to the order, he can do both by endorsement and delivery.

Endorsement-Endorsement means signing on the reverse of the bill in order to transfer the property, i.e., the value of the bill to another person. The person/holder endorsing the bill is called the 'Endorser' and the person to whom the bill is endorsed is called the "Endorsee".

Due date- The date on which the payement of the bill becomes due after the tenure of the bill is called the due date or date of maturity of the bill. Three extra days are added to the tenure of the bill for arriving at the due date, in case of time bills.

Days of Grace- Three extra days added to the tenure of the bill in order to arrive at the due date is called Days of Grace. It is allowed to the acceptor with a view to enabling him to arrange the necessary finance to meet the bill.

Calculation of Due date- A bill drawn on 1st January 2016 for three months and accepted by the drawee on 3rd January 2016. The due date is calculated as below:

If the due date is calculated from the date of drawing on 1st January 2016, it is an 'After date bill'. Its date of maturity is 4th April 2016.

	Day/Days	Month/Months	Year
Date of Drawing	01	01	2016
Term /Period of Bill	(+)—	03	—
Nominal Due Date	01	04	2016
Days of Grace	(+)03	—	—
Legal Due Date	04	04	2016

Alternatively,

If the date of maturity is calculated from the date of acceptance of the bill on 3rd January 2016, it is an 'After sight bill'. Its date of maturity is 6th April 2016.

	Day/Days	Month/Months	Year
Date of Drawing	3	01	2016
Term/Period of Bill	(+) —	03	—
Nominal Due Date	03	04	2016
Days of Grace	(+) 03	—	—
Legal Due Date	06	04	2016

7.4 Treatment of Bills The holder of the bill can treat/handle the bill in four different ways.

(a) He can retain the bill till the due date and present the bill to the drawee on that date. This happens where the holder is not in immediate need of money.

(b) He can discount the bill with his banker if he is in immediate need of money. In such a case, he gives importance to receive cash less than the face value of the bill, because the present value of money he receives now is more than the future value of the money he will receive later on the date of maturity.

(c) He can endorse the bill in favour of his creditor for settlement of his debt.

(d) He can send the bill to his banker for collection on due date. Being busy in his business, the holder has no time for treating the bill in any of the above three ways and therefore, prefers this method.

7.5 Accounting Treatment of Bills

There is no difference between the accounting treatment of Bill Exchange and Promissory Note. Seller is treated as drawer and purchaser is treated as drawee. The drawer and payee stand on the same footing in most of the cases. The Bill of Exchange is Bills Receivable for the Drawer and Payee, and is Bills Payable for the Drawee. A bill becomes bills receivable to the person who has to receive the proceeds of the bill. Similarly, a bill becomes bills payable to the person who has to pay the proceeds. The drawer and drawee (acceptor) will record the transactions for a bill only after the acceptance by the drawee, not immediatly after the drawing of the bill by the drawer. It may be noted that before acceptance, the document is only a draft and not a bill.

In the Books of Drawer (In case of Honour)-

A bill receivable can be handled by the drawer as per his financial requirements in any one of the four different manners, as mentioned above:

The entries in the books of the drawer are made on the assumption that the bill is duly honoured by the drawee on the due date.

a) Retaining the bill till the date of maturity:

On acceptance of the bill

Bills Receivable A/c Dr

    To Drawee's / Acceptor's A/c

(Being the bill drawn and accepted)

On maturity of the bill

Cash / Bank A/c Dr

    To Bills Receivable A/c

(Being the bill realised / honoured)

b) Discounting bill with the banker:

On acceptance of the bill

Bills Receivable A/c Dr

    To Drawee's / Acceptor's A/c

(Being the bill drawn is accepted)\

On discounting the bill:

Bank A/c Dr

Discount A/c Dr

    To Bills Receivable A/c

(Being the bill discounted).

On maturity of the bill:

No entry is recorded in the books of the drawer because the bill is already with the bank and the bank will receive the money from the drawee/acceptor on due date.

C) Endorsing the bill in the favour of his creditor:

On receiving the bill

Bills Receivable A/c Dr

To Drawee's / Acceptor's A/c

(Being the bill drawn is accepted)

On endorsing the bill

Endorsee's/Creditor's A/c Dr

To Bills Receivable A/c

(Being the bill endorsed)

On maturity

No entry is made in the books of the drawer because the creditor/ endorsee will receive the money from the drawee on the date of maturity.

d) Sending the bill to the bank for collection:

On receiving the bill

Bills Receivable A/c Dr

To Drawee's /Acceptor's A/c Dr

(Being the bill drawn and accepted)

On Sending the bill for collection

Bank for collection of Bill A/c Dr

To Bills Receivable A/c

(Being the bill Sent to bank for collection)

On maturity

Bank A/c Dr

To Bank for collection of Bills A/c

(Being the bill collected by bank)

In the Books of Drawee (In case of Honour)

The entries in the books of the drawee are made on the assumption that the bill is duly honoured by himself. The drawee, as the debtor, has the ultimate liability under the bill. He is liable to pay to the holder of the bill on the date of maturity. The drawee passess the same two entries in his books under all the four different situations such as (i) retaining the bill till the date of maturity, (ii) discounting the bill with the banker, (iii) Endorsing the bill in favour of his creditor, (iv) Sending the bill to the bank for collection. The entries in the books of the drawee are as follwos:

On accepting the bill

Creditor's / Drawer's A/c Dr.

To Bills Payable A/c

(Being the bill accepted)

On maturity of the bill

Bills Payable A/c Dr

To Bank A/c

(Being the bill honoured)

Illustration 1 On 1st March 2015, Ramesh sold goods worth ₹5,000 to Naresh on credit and drew a bill on Naresh immediatly for 3 Months. Naresh accepted the bill on the same day and returned to Ramesh. Ramesh held the bill till due date and the bill was honourd.

Pass necessary journal entries in the books of both Ramesh and Naresh.

SOLUTION:

In the Books of Ramesh (Drawer)

Journal

Date	Particulars	L.F	Dr. (₹)	Cr. (₹)
2015 March,1	Naresh A/c Dr To Sales A/c (Being goods sold on credit)		5,000	5,000
March,1	Bills Receivable A/c Dr To Naresh A/c (Being acceptance received from Naresh)		5,000	5,000
June, 4	Cash A/c Dr To Bills Receivable A/c (Being the bill honoured)		5,000	5,000

In the Books of Naresh (Drawee)

Journal

Date	Particulars		L.F	₹ Dr. ( )	₹ Cr. ( )
2015	Purchases A/c	Dr		5,000	
March,1	To Ramesh A/c				5,000
	(Being credit purchases)				
March,1	Ramesh A/c	Dr		5,000	
	To Bills Payable A/c				5,000
	(Being acceptance given)				
June,4	Bills Payable A/c	Dr		5,000	
	To Cash A/c				5,000
	(Being the bill honoured)				

Illustration 2

Ajaya sold goods on credit to Bijay worth ₹7,000 on 1st January 2014. Bijay accepted the bill on the same day. On 15th January 2014, Ajay discounted the bill with his bank for ₹ 6,800. Bijay honoured the bill on due date.

Pass journal entries in the books of Ajay and Bijay.

SOLUTION: In the Books of Ajay.

Journal

Date	Particulars		L.F	Dr.(₹)	Cr. (₹)
2014	Bijaya's A/c	Dr		7,000	
January,1	To Sales A/c				7,000
	(Being Credit Sales)				
January,1	Bills Receivable A/c	Dr		7,000	
	To Bijay's A/c				7,000
	(Being acceptance given by Bijay)				
January,1	Bank A/c	Dr		6,800	
	Discount A/c	Dr		200	
	To Bills Receivable A/c				7,000
	(Being the bill discounted)				

In the Books of Bijay (Drawee)

Journal

Date	Particulars	L.F	Dr. (₹)	Cr. (₹)
2014	Purchases A/c Dr		7,000	
January,1	To Ajay's A/c			7,000
	(Being credit purchases)			
January,1	Ajay's A/c Dr		7,000	
	To Bills Payable A/c			7,000
	(Being acceptance given)			
April,4	Bills Payable A/c Dr		7,000	
	To Bank A/c			7,000
	(Being the bill honoured on due date)			

Illustration 3

Pass necessary journal entries in the books of A,B and C from the following information.

A drew a bill of exchange for 2 months on B for ₹ 3,000. B accepted the bill on 15th January 2016 and returned the smae to A. On 20th January 2016, A endorsed the bill to C and the bill was honoured by B on due date.

SOLUTION: In the Books of A (Drawer)

Journal

Date	Particulars	L.F	Dr. (₹)	Cr. (₹)
2016	Bills Receivable A/c Dr.		3,000	
Jan, 15	To B's A/c			3,000
	(Being the acceptance received from B)			
	C's A/c Dr.		3,000	
Jan, 20	To Bills Receivable A/c			3,000
	(Being the bill endorsed to C)			

In the Books of B (Drawee)

Journal

Date	Particulars	L.F	Dr. (₹)	Cr. (₹)
2016 Jan, 15	A's A/c Dr. To Bills Payable A/c (Being the acceptance given to A)		3,000	3,000
Mar, 18	Bills Payable A/c Dr. To Bank A/c (Being the bill honoured on due date)		3,000	3,000

In the Books of C (Endorsee)

Journal

Date	Particulars	L.F	Dr. (₹)	Cr. (₹)
2016 Jan, 20	Bills Receivable A/c Dr. To A's A/c (Being the bill received from A on endorsement)		3,000	3,000
Mar, 18	Bank A/c Dr. To Bills Receivable A/c (Being the bill honoured on due date)		3,000	3,000

Illustration 4

On 30th June 2015, Tom draws a bill on Jerry amounting ₹ 4,000 for a period of 3 months. After aceeptance by Jerry on 5th July 2015, Tom sends the bill to his bank for collection. The bill is duly honoured by Jerry on due date. The Bank collected the bill and charged ₹ 17 as collection charges.

Pass necessary journal entries in the books of Tom and Jerry.

SOLUTION:

In the Books of Tom

Journal

Date	Particulars	L.F	Dr. (₹)	Cr. (₹)
2015	Bills Receivable A/c Dr		4,000	
July,5	To Jerry's A/c			4,000
	(Being the acceptance received from Jerry)			
Jul,5	Bank for collection of Bill A/c Dr		4,000	
	To Bills Receivable A/c			4,000
	(Being the bill sent to bank for collection)			
Oct,8	Bank A/c Dr		3,983	
	Bank Charges A/c Dr		17	
	To Bank for collection of Bill A/c			4,000
	(Being the bill sent to bank for collection now collected and bank charges paid)			

In the Books of Jerry

Journal

Date	Particulars	L.F	Dr. (₹)	Cr. (₹)
2015	Tom's A/c Dr.		4,000	
July,5	To Bills Payable A/c			4,000
	(Being the acceptance given for 3 months)			
	Bills Payable A/c Dr.		4,000	
Oct, 8	To Bank A/c			4,000
	(Being the bill discharged on due date)			

7.6 DISHONOUR OF BILLS

If the acceptor/drawee fails to make payment on the due date to the holder of the bill, the bill of exchange is said to be dishonoured. Consequent upon the dishonour of bill, the holder of the bill will intimate by issuing notices to all the previous parties such as the endorser and drawer whose names appear on the bill. When a bill is dishonoured, it is desirable on the part of the holder of the bill to get presented to the drawee through a Notary Pubilc. The drawee cannot escape his liability on presentation of the bill through this legal process. If the payment is received, the Notary will handover the amount to the holder of the bill. If the payment is not received, the Notary notes/records the fact of dishonour such as date of dishonour, reasons of dishonour and his charges of providing legal service to the holder/his client either on the face of the bill or on a separate paper attaching to the bill. The Notary puts his own stamp and signature on the paper. Then he sends back the dishonoured bill to his client.

This process fo writting the fact of dishonour is called Noting of the bill. The Notary Public charges a nominal amount for his service to the holder, called Noting charge.

If the holder of the bill requests the Notary Public to issue him a formal certicate on dishonour, the Notary will issue such a certificate. This certificate of the Notary certifying the dishonour of the bill is called Protest.

In the Books of Drawer

According to the status of the bill on due date, different entries are passed in the books of drawer in order to cancel the previous entries regarding the bill.

a) Retaining till the date of maturity

Drawee's /Acceptor's A/c Dr.

To Bills Receiable A/c

(Being the bill dishonoured)

b) Discounting the bill with the Banker

Drawee's /Acceptor's A/c Dr.

To Bank A/c

(Being the discounted bill dishonoured)

c) Endorsing the bill in favour of his creditor

Drawee's /Acceptor's A/c Dr.

To Endorsee's A/c

(Being the endorsed bill dishonoured)

d) Sending the bill for collection

Drawee's /Acceptor's A/c Dr.

To Bank for collection of Bill A/c

(Being the bill sent for collection, dishonoured)

In the Books of Drawee

When a bill is dishonoured by the drawee in all the four cases mentioned above, the drawee is to pass the same entry as below:

Bills Payable A/c Dr.

To Drawee's A/c

(Being the bill dishonoured)

Accounting for Noting Charges

The holder of the bill is to pay a fee to the Notary Public called "Noting charge" for presenting the bill to the drawee.The drawer has to pass different entries depending upon the status of the bill on due date.

In the Books of Drawer-Noting charge on dishonour

(i) If the bill is retained by the drawer till the due date

Drawee's A/c Dr.

To Cash A/c

(Being the noting charges paid)

(ii) If the bill has been discounted

Drawee's A/c Dr.

To Bank A/c

(Being the noting charges paid by bank)

(iii) If the bill has been endorsed

Drawee's A/c Dr.

To Endorse's A/c

(Being the noting paid by the endorsee)

(iv) If the bill has been sent to bank for collection

Drawee's A/c Dr.

To Bank A/c

(Being the noting charges paid on dishonour of bill sent for colelction)

In the Books of Drawee-Noting charges on Dishonour

The following entry is passed in the books of the drawee in all the four cases of dishonour:

Where the bill is presented through the Notary

Noting Charges A/c Dr.

To Drawer's A/c

(Being noting charges due)

The fact of dishonour of the bill can be authenticated if the bill is presented to the drawee through the Notary Public. The drawer will take the noting charges from the drawee and pay to the holder of the bill on due date in case of discounting and endorsement. If the bill is retained with him till maturity or sent to bank for collection, the drawer is to keep the amount of noting charges with him.

Illustration 5

On 1st January 2014 SriRam drew a 2 months bill for ₹ 3,000 on SriKrishna and SriKrishna accepted the same immediately. On due date, the bill was dishonoured. Pass the necessary journal entries in the books of both the parties.

SOLUTION:

In the Books of SriRam (Drawer)

Journal

Date	Particulars	L.F	Dr. (₹)	Cr. (₹)
2014 Jan. 1	Bills Receivable A/c Dr. To SriKrishna's A/c (Being the acceptance received)			
Mar. 4	SriKrishna's A/c Dr. To Bills Receivable A/c (Being the dishonoured)		3,000	3,000

In the Books of Srikrishna

Journal

Date	Particulars	L.F	Dr. (₹)	Cr. (₹)
2014 Jan. 1	SriRam's A/c Dr. To Bills Payable A/c (Being the bill acceptance received)			
Mar. 4	Bills Payable A/c Dr. To SriRam's A/c (Being the bill dishonoured)		3,000	3,000

Illustration 6

Amar drew a bill of ₹ 5,000 on Akbar on 1st February 2015 for 3 months and Akbar accepted the same. On due date the bill was dishonoured and noting charges ₹ 300 were paid. Pass journal entries in the books Amar and Akbar.

SOLUTION:

In the Books of Amar (Drawer)

Journal

Date	Particulars	L.F	Dr. ( )	Cr. ( )
2015 Feb. 1	Bills Receivable A/c ....Dr.		5,000	
	To Akbar's A/c			5,000
	(Being Akbar acceptance received)			
	Akbar's A/c ....Dr.		5,300	
May. 4	To Bill Receivable A/c			5,000
	To Cash/Bank A/c			300
	(Being the bill dishonoured and noting charges paid)			

In the Books of Akbar (Drawee)

Journal

Date	Particulars	L.F	Dr. ( )	Cr. ( )
2015 Feb. 1	Amar's A/c ....Dr.		5,000	
	To Bills Payable A/c			5,000
	(Being the bill accepted)			
	Bills Payable A/c ....Dr.		5,000	
	Notary Charges A/c....................Dr.		300	
May. 4	To Amar's A/c			5,300
	(Being our acceptance dishonoured and Notary charges due)			

Illustration 7

On 1st March 2015, Sulagna drew a 3 months bill on Sudeshna for ₹7,000. Sudeshna accepted the bill on 6th March 2015 and Sulagna discounted the bill with her bank at 7% per annum on 23.03.2015. The bill was dishonoured due date. Pass necessary journal entries in the books of Sulagna and Sudeshna.

SOLUTION:

In the Books of Sulagna (Drawer)

Journal

Date	Particulars	L.F	Dr. (₹)	Cr. (₹)
2015	Bills Receivable A/c Dr.		7,000	
Mar. 6	To Sudeshna's A/c			7,000
	(Being acceptance of Sudeshna recieved)			
Mar. 23	Bank A/c Dr.		6,902	
	Discount A/c Dr.		98	
	To Bills Receivable A/c			7,000
	(Being the bill discounted at 7% p.a)			
June. 4	Sudeshna's A/c Dr.		7,000	
	To Bank A/c			7,000
	(Being the discounted bill dishonoured)			

Note:

(i) Discounted period of the bill = Due date - Discounting date
= 4th June 2015 to 23rd March 2015
= 4 days (June) + 31 days (May) + 30 day
April + 8 days (March) = 73 days

(ii) Discount/Bank Interest = ₹7000 x 7/100 x 73/365 = ₹98

(iii) It is an after date bill.

In the Books of Sudeshna (Drawee)

Journal

Date	Particulars	L.F	Dr. (₹)	Cr. (₹)
2015	Sulagna's A/c Dr.		7,000	
Mar. 6	To Bills Payable A/c			7,000
	(Being the bill acceptance given for 3 months)			
	Bills Payable A/c Dr.		7,000	
June. 4	To Sulagna's A/c			7,000
	(Being the bill dishonoured)			

Illustration 8

Kamal drew a 3 months bill on Bimal for ₹5,000 on 1st June 2015. After acceptance immediately by Bimal, Kamal discounted it with his bank at 8% p.a. The bill was dishonoured on due date and noting charges of ₹200 were paid by the bank in presenting the bill to Bimal.

Pass necessary journal entries in the books of Kamal and Bimal.

SOLUTION:

In the Books of Kamal (Drawer)
Journal

Date	**Particulars**		**L.F**	**Dr. (₹)**	**Cr. (₹)**
2015 June.1	Bills Receivable A/c	Dr.		5,000	
	To Bimal's A/c				5,000
	(Being acceptance received for 3 months)				
June.1	Bank A/c	Dr.		4,900	
	Discount A/c	Dr.		100	
	To Bills Receivable A/c				5,000
	(Being the bill discounted at 8% p.a)				
Sept.4	Bimal's A/c	Dr.		5,200	
	To Bank A/c				5,200
	(Being the bill dishonoured & Noting charges Paid by Bank)				

In the Books of Bimal (Drawer)
Journal

Date	**Particulars**		**L.F**	**Dr. (₹)**	**Cr. (₹)**
2015 June.1	Kamal's A/c	Dr.		5,000	
	To Bills Payable A/c				5,000
	(Being acceptance given for 3 months)				
Sept.4	Bills Payable A/c	Dr.		5,000	
	Noting charges A/c	Dr.		200	
	To Kamal's A/c				5,200
	(Being the bill dishonoured and noting charges due)				

Illustration 9

On August 1st 2014, Suman drew a bill of ₹ 6,000 on Menon for 2 months. After acceptance, Suman endorsed the bill to Aman. The bill was dishonoured on the due date. Pass necessary journal entries in the books of Suman, Menon and Aman.

SOLUTION:

In the Books of Suman (Drawer)

Journal

Date	**Particulars**	**L.F**	**Dr. (₹)**	**Cr. (₹)**
2014 Aug.1	Bills Receivable A/c Dr.		6,000	
	To Menon's A/c			6,000
	(Being acceptance received for 2 months)			
Aug.1	Aman's A/c Dr.		6,000	
	To Bills Receivable A/c			6,000
	(Being the bill endorsed)			
Oct.4	Menon's A/c Dr.		6,000	
	To Aman's A/c			6,000
	(Being the endorsed bill dishonoured)			

In the Books of Menon (Drawee)

Journal

Date	**Particulars**	**L.F**	**Dr. (₹)**	**Cr. (₹)**
2014 Aug.1	Suman's A/c Dr.		6,000	
	To Bills payable A/c			6,000
	(Being acceptance given)			
Oct.4	Bills payable A/c Dr.		6,000	
	To Suman's A/c			6,000
	(Being the bill dishonoured)			

In the Books of Aman (Endorsee)

Journal

Date	Particulars	L.F	Dr. (₹)	Cr. (₹)
2014	Bills Receivable A/c Dr.		6,000	
Aug.1	To Suman's A/c			6,000
	(Being the bill received duly endorsed			
Oct.4	Suman's A/c Dr.		6,000	
	To Bills receivable A/c			6,000
	(Being the bill dishonoured on due date)			

Illustration 10

On Octber 1, 2015 Shiva drew a bill of ₹10,000 on Shakti for 4 months. Shakti acepted the bill on 2nd October and returned the bill to Shiva. Shiva endorsed the bill in favour of Shradha on the same day. The bill was dishonoured on the due date. Noting charges of ₹500 was paid by the Shradha.

Make journal entries in the books of Shiva, Shakti and Shradha.

SOLUTION:

In the Books of Shiva (Drawer)

Journal

Date	Particulars	L.F	Dr. (₹)	Cr. (₹)
2015	Bills Receivable A/c Dr.		10,000	
Oct. 2	To Shakti's A/c			10,000
	(Being acceptance received for 4 months)			
Oct. 2	Shradha's A/c Dr.		10,000	
	To Bills Receivable A/c			10,000
	(Being the bill endorsed)			
2015	Shakti's A/c Dr.		10,500	
Feb. 5	To Shradha's A/c			10,500
	(Being the endorsed bill dishonoured and Noting chages due from Shakti)			

In the Books of Shakti (Drawee)

Journal

Date	Particulars	L.F	Dr. (₹)	Cr. (₹)
2015 Oct. 2	Shiva's A/c Dr. To Bills Payable A/c (Being acceptance Given flor 4 months)		10,000	10,000
2016 Feb. 5	Bills Payable A/c Dr. Noting charges A/c Dr. To Shiva's A/c (Being the bill dishonoured & noting charges due to Shiva)		10,000	500 10,500

In the Books of Shradha (Endorsee)

Journal

Date	Particulars	L.F	Dr. (₹)	Cr. (₹)
2015 Oct. 2	Bills Receivable A/c Dr. To Shiva's A/c (Being the bill received duly endorsed)		10,000	10,000
2016 Feb.5	Shiva's A/c Dr. To Bills Receivable A/c To Bank A/c (Being the endorsed bill dishonoured & noting charges paid)		10,500	10,000 500

Illustration 11

Kanha drew a bill of ₹ 3,000 on Kapil on 12th may 2015 for 3 months. Kapil accepted the bill on the same day and returned to Kanha. Kanha sent the bill to his bank for collection on due date. The bill was dishonoured on due date and noting charges paid by Kanha ₹ 300. Pass necessary journal entries in the books of Kanha and Kapil.

SOLUTION:

In the Books of Kanha (Drawer)

Journal

Date	Particulars	L.F	Dr. (₹)	Cr. (₹)
2015 May 12	Bills Receivable A/c Dr.		3,000	
	To Kapil's A/c			3,000
	(Being acceptance received for 3 months)			
May 12	Bank for collection of Bill A/c Dr.		3,000	
	To Bills Receivable A/c			3,000
	(Being the bill sent to bank for collection)			
Aug.14	Kapil's A/c Dr.		3,300	
	To Bank for collection of Bill A/c			3,000
	To Bank A/c			300
	(Being the bill dishonoured & noting charges paid)			

Note : As the due date falls on 15th Aug, 2015 and it is a National Public Holiday, the due date of the bill is 14th Aug, 2015.

In the Books of Kapil (Drawee)

Journal

Date	Particulars	L.F	Dr. (₹)	Cr. (₹)
2015 May 12	Kanha's A/C Dr.		3,000	
	To Bills Payable A/C			3,000
	(Being acceptance given for 3 months)			
Aug.14	Bills Payable A/c Dr.		3,000	
	Noting charges A/c Dr.		300	
	To Kanha's A/c			3,300
	(Being the bill dishonoured & noting charges due to Kanha)			

7.7 RENEWAL OF BILL

The old bill is renewed by the drawer on the request of the drawee that he cannot honour the bill on due date due to financial problem. The process of cancelling the bill and drawing a fresh bill against the old one for an extended period is called renewal of the bill. The new bill comes up with fresh terms and conditions, due acceptance and delivery. Since the cancellation of the bill is mutually agreed upon, noting of the bill is not necessary.

For renewal of the bill, the existing bill is to be cancelled by making an entry as in case of dishonour of a bill. Keeping in view, whether the bill is retained or discounted or endorsed, etc., the recording of dishonour entries are made. The drawee is to pay interest to the drawer/holder for the extended period either in cash or it may be included in the bill amount. The interest is calculated at the prevailing rate of interest in the short-term debt market for the extended period.

The journal entries passed at the time of renewal of bill are given below:

<u>In the Books of Drawer</u>

On cancelling the old bill

Drawee's A/c Dr
To Bills Receivable A/c
(Being the original bill cancelled)

On interest due for the extended period

(i) If interest is received in cash

Cash A/c Dr
To interest A/c
(being interest in cash received for extended)

(ii) If interest is not received in cash but included in new bill amount.

Drawee's A/c Dr.
To interest A/c
(Being the interest due for extended period)

On Drawing the new bill

Bills Receivable A/c Dr.
To Drawee's A/c
(Being the new bill received after acceptance)

Note: If interest is received in cash, the amount of the new bill is equal to the amount of the old bill. But if interest is not received in cash, then the amount of interest is added to the value of old bill. The amount of new bill is equal to the amount of old bill plus the amount of interest for the extended period. Thus, three entries are to be passed in the books of the drawee.

In the Books of the Drawee

On Cancelling the old bill

Bills Payable A/c Dr.

To Drawer's A/c

(Being the old bill cancelled)

On Interest being due for the extended period.

(i) If paid in cash

Interest A/c Dr.

To Cash A/c

(Being interest for th e extended period paid in cash)

(ii) If not paid in cash but to be included in the new bill amount.

Interest A/c Dr.

To Drawer's A/c

(Being the interest on old bill due for the extended period)

On accepting the new bill

Drawer's A/c Dr.

To Bills Payable A/c

(Being acceptance given for new bill)

Illustration 12

On 1st January 2016, Noor sold goods worth ₹ 20,000 to Ali. Ali paid ₹ 6,000 on 2nd January 2016 and sent a Promissory Note for the balance to be paid after 3 months to which Noor agreed on the same day. On the date of maturity, Ali requested Noor to extend the period of bill by 2 months. Ali further agreed to pay interest in cash to Noor @12% per annum. Noor agreed to the request of Ali. Pass journal entries in the books of both the parties.

SOLUTION:

In the Books of Noor (Drawer)

Journal

Date	Particulars		L.F	Dr. (₹)	Cr. (₹)
2016	Ali's A/c	Dr.		20,000	
Jan.1	To Sales A/c				20,000
	(Being credit sales to Ali)				
Jan.2	Cash A/c	Dr		6,000	
	To Ali's A/c				6,000
	(Being cash received from Ali on account)				
Jan.2	Bills Receivable A/c	Dr		14,000	
	To Ali's A/c				14,000
	(Being the promissory note of Ali received)				
April 5	Ali's A/c	Dr		14,000	
	To Bills Receiable A/c				14,000
	(Being the old bill cancelled)				
April 5	Cash A/c	Dr		280	
	To Interest A/c				280
	(Being interest received in cash)				
April 5	Bills Receiable A/c	Dr		14,000	
	To Ali's A/c				14,000
	(Being the request of Ali for renweing the old bill)				

Note: Interest on renewal of bill ₹14,000 x $\frac{2}{12}$ x $\frac{12}{100}$ = ₹280

In the Books of Ali (Drawee)

Journal

Date	Particulars	L.F	Dr. (₹)	Cr. (₹)
2016 Jan.1	Purchases A/c Dr. To Noor's A/c (Being credit Purchases)		20,000	 20,000
Jan.2	Noor's A/c Dr To Cash A/c (Being cash paid to Noor on account)		6,000	 6,000
Jan.2	Noor's A/c Dr To Bills Payable A/c (Being the promissory note given)		14,000	 14,000
April 5	Bills Payable A/c Dr To Noor's A/c (Being the old bill cancelled)		14,000	 14,000
April 5	Interest A/c Dr To Cash A/c (Being the interest paid for the extended period of bill)		280	 280
April 5	Noor's A/c Dr To Bills Payable A/c (Being the acceptance given for renewal of Bill)		14,000	 14,000

Illustration 13 Ranu drew two months bill on Sanu for ₹ 3,000 on 1st July 2015 and Sanu accepted it on the same day. On due date, Sanu requested Ranu to extend the period of the bill by one month and he would pay interest at the rate 12% p.a. which is to be added to the bill amount. Ranu agreed to the reqeust of Sanu.

Pass necessary journal entries in the books Ranu and Sanu.

SOLUTION:

In the Books of Ranu (Drawer)

Journal

Date	Particulars	L.F	Dr. (₹)	Cr. (₹)
2015	Bills Receivable A/c Dr.		3,000	
July 1	To Sanu's A/c			3,000
	(Being acceptance received from Sanu for 2 months)			
Sept.4	Sanu's A/c Dr		3,000	
	To Bills Receivable A/c			3,000
	(Being the old bill cancelled)			
Sept.4	Sanu's A/c Dr		30	
	To interest A/c			30
	(Being interest reveivable for the extended period of 1 month)			
Sept.4	Bills Receivable A/c Dr		3,030	
	To Sanu's A/c			3,030
	(Being acceptance received for the new bill)			

Note: Interest => ₹3000 x 12/100 x 1/12 => ₹,030.

In the Books of Sanu (Drawee)

Journal

Date	Particulars	L.F	Dr. (₹)	Cr. (₹)
2015	Ranu's A/c Dr.		3,000	
July 1	To Bills Payable A/c			3,000
	(Being acceptance given to Ranu)			
Sept.4	Bills Payable A/c Dr.		3,000	
	To Ranu's A/c			3,000
	(Being the old bill cancelled)			
Sept.4	Interest A/c Dr.		30	
	To Ranu's A/c			30
	(Being interest Payable for the extended period of 1 month)			
Sept.4	Ranu's A/c Dr.		3,030	
	To Bills Payable A/c			3,030
	(Being acceptance given for the renewed bill)			

7.8 Retirement of Bill

If the acceptor/drawee desires to make payment of the bill before the due date and the drawer/holder agrees to it, it is known as "retirement of the bill". The accounting treatment of the bill in the books of both the parties remains the same as the bill is honoured by the acceptor except one difference. The difference is that the holder/drawer grants a rebate to the drawee and he is ready to accept a lesser amount of the bill. The holder encourages the drawee to retire the bill before the date of maturity. The journal entries passed at the time of retirement of bill are as follows:

<u>In the Books of Drawer/Holder</u>

Cash A/c Dr.
Rebate A/c Dr.
To Bills Receivable A/c
(Being the bill retired with rebate allowed)

In the Books of the Drawee/Acceptor.

Bills Payable A/c Dr.
To Rebate A/c
To Bank A/c
(Being the bill retired and rebate earned)

Illustration 14 X sold goods worth ₹10,000 to Y on 1st January 2015 and immediately drew a bill on Y for 3 months for the same amount. Y accepted the bill on the same date. Y retired the bill on 1st February 2015 at a rebate of 15% per annum.

Pass journal entries in the books of X and Y

SOLUTION : In the Books of X (Drawer)

Journal

Date	Particulars	L.F	Dr. (₹)	Cr. (₹)
2015 Jan.1	Y's A/c Dr. To Sales A/c (Being credit sales)		10,000	 10,000
Jan.1	Bills Receivable A/c Dr. To Y's A/c (Being acceptance received for 3 months)		10,000	 10,000
Feb.1	Cash / Bank A/c Dr. Rebate A/c Dr. To Bills Receivable A/c (Being the bill retired with rebate, i.,e, $10000 \times \frac{15}{10} \times \frac{10}{12}$)		9,750 250	 10,000

In the Books of Y (Drawee)
Journal

Date	Particulars	L.F	Dr. (₹)	Cr. (₹)
2015	Purchases A/c Dr.		10,000	
Jan.1	To X's A/c			10,000
	(Being credit purchases)			
Jan.1	X's A/c Dr.		10,000	
	To Bill's Payable A/c			10,000
	(Being acceptance given for 3 months)			
Feb.01	Bills Payable A/c Dr.		10,000	
	To Cash/ Bank A/c Dr.			9,750
	To Rebate A/c			250
	(Being the bill retired under rebate)			

7.9 Insolvency of Drawee/Acceptor

Insolvency/bankruptcy is a financial condition where the assests of a person are less then his liabilities. That person is unable to discharge his obligations either fully or partly. the realisable value of the assests is insufficient to pay off his liabilities. If the drawee becomes insolvent, he will apply to the Court in order to be declared as insolvent. The Court, if satisfied, declares the drawee as insolvent and appoints an Official Receiver/ Asignee or Liquidator to realise his assets and pay off the creditors on the basis of preferential order of payment.

Generally, the creditors receive less than the amount due to them. When the bill is dishonoured due to the insolvency of the drawee of the bill, either a part or nothing is recovered from his estate/property in full settlement of his account. The proportionate amount paid by the liquidator to the creditors/drawer is called 'dividend' and is expressed as some amount of paise in a rupee.

Accounting Treatment in the Books of Drawer

The dishonour of bill due to insolvency of the debtor/drawee is treated in accounting in the similar manner as in case of ordinary dishonour of bill. If the acceptor/ drawee becomes insolvent and a partial amount is received from the liquidator, the drawer is to close the personal account of the acceptor. The unpaid amount from the drawee is called 'bad debt' for the drawer.

The follwing entries are passed:

On the dishonour of bill on insolveny.

Drawee's A/c Dr

To Bills Receivable A/c

or

To Bank A/c

or

To Endorsee's A/c

or

To Bank for collection of Bills A/c

(Being the bill dishonoured as per holding of the bill)

On the final payment received from the liquidator.

Cash A/c Dr.

Bad debts A/c Dr.

To Drawee's A/c

(Being the amount received as dividend and amount not received as bad debts)

AccountingTreatment in Books of Drawee.

In the event of dishonour due to insolvency of the drawee, the drawee is to close the account of the drawer / creditor. The unpaid amount to the drawer is called 'deficiency' by the drawee. The entries to be passed in the books of drawee are:

On the dishonour of bill due to insolvency

Bills Payable A/c Dr

To Drawer's A/c

(Being the bill dishonoured due to insolvency)

On the final payment made to drawer

Drawer's A/c Dr

To Cash A/c

To Deficiency A/c

(Being ....paise per rupee paid to drawer and the balance transferred to Deficiency A/c)

Illustration 15

On 01.07.2015 Ravi accepted a bill drawn by Ashok for 10,000 for three months. On the same day, Ashok endorsed the bill to his creditor Akash. Ravi became insolvent on the date of maturity. Sixty paise in a rupee was realised from Ravi's estate on 20.10.2015.

Pass necessary journal entries in the books of Ashok, Ravi and Akash.

SOLUTION: In the Books of Ashok (Drawer)

Journal

Date	Particulars		L.F	Dr. ₹	Cr. ₹
2015	Bills Receivable A/c	Dr.		10,000	
July 1	To Ravi's A/c				10,000
	(Being acceptance received for 3 months)				
July 1	Akash's A/c	Dr.		10,000	
	To Bills Receivable A/c				10,000
	(Being the bill endorsed to Akash)				
Oct. 4	Ravi's A/c	Dr.			10,000
	To Akash's A/c				10,000
	(Being the endorsed bill dishonoured)				
Oct.20	Bank A/c	Dr.		6,000	
	Bad Debts A/c	Dr.		4,000	
	To Ravi's A/c				10,000
	(Being recieved a dividend of 60 paise in a rupee from Ravi's estate)				

In the Books of Ravi (Drawee)

Journal

Date	Particulars		L.F	Dr. ₹	Cr. ₹
2015	Ashok's A/c	Dr.		10,000	
July 1	To Bills Payable A/c				10,000
	(Being acceptance given for 3 months)				
Oct.4	Bills Payable A/c	Dr		10,000	
	To Ashok's A/c				10,000
	(Being the bill dishonoured due to insolvency)				
Oct.20	Ashok's A/c	Dr		10,000	
	To Cash A/c				6,000
	To Deficiency				4,000
	(Being 60 paise in rupee paid to Ashok)				

In the Books of Akash's (Endorsee)

Journal

Date	Particulars		L.F	Dr. ₹	Cr. ₹
2015	Bills Receivable A/c	Dr.		10,000	
July 1	To Ashok's A/c				10,000
	(Being the endoresed bill received)				
Oct.4	Ashok's A/c	Dr		10,000	
	To Bills Receivable A/c				10,000
	(Being the endorsed bill dishonoured)				

7.10 Accommodation Bill

Generally, bills of exchange and promissory notes are used as instruments of credit to settle trade debts arising out of credit transactions.The bills so drawn and accepted to settle trade debts are called 'Trade Bills'. A trade bill is accepted by the debtor for a 'consideration'. The consideration for the debtor is either the goods he has purchased or the money he has received on a loan.Similarly, the consideration for the creditor is the bills receivable. So far we have discussed in our books about the trade bills.

At times, a bill comes into existence without any credit transaction or without any debt. A bill is drawn just to arrange money for financial accommodation of one party or both the parties. In other words, when the parties are in financial hardships temporarily, one draws a bill on another and the other party accepts the bill without any consideration. The bill so drawn is called 'Accommodation Bill'.

The drawer discounts the bill at his bank and the money so received is either used for his own need or shared with the drawee. On or before the due date, the drawer pays back the amount of the bill to the drawee so that the drawee can meet the bill.

Parties to the bill can also draw separate bills on each other. Each party discounts the bill at his bank and utilises the proceeds of the bill so received to meet his requirement. When the bills become due for payment, they settle their accounts and make payment to the bank.

The parties in an Accommodation bill are called "Accommodating Parties". Accommodation bills are not legally enforceable as no consideration is involved.

The above description implies that there can be three types of arrangements in an Accommodation bill. These are :

(i) Accommodation of the drawer only;

(ii) Accommodation of both drawer and drawee under a single bill;

(iii) Accommodation of both the parties by drawing two bills simultaneously on each other.

Distinction between Accommodation bill and Trade bill

Sl. No	Basis of Difference	Accommodation bill	Trade bill
1.	Object	The object is to accommodate a person-in-need of finance for a short period.	The object is to settle the indebtedness in a credit transaction.
2.	Consideration	The bills are drawn and accpted without any consideration.	The bills are drawn and accepted for some consideration.
3.	Discounting	The bill is to be discounted always	The bill may or may not be discounted.

4.	Bearing of Discount amount	Both the parties bear the discount amount in proportion to their sharing of the proceeds of the bill.	Only the drawer / holder bears the discount amount.
5.	Endorsing and Sending to bank for collection.	The bill can neither be endorsed nor sent to bank for collection.	The bill can either be endorsed or sent to bank for collection.
6.	Legal Recourse	Legal recourse is not possible to recover the debt on the dishonour of the bill.	Legal recourse is possible to recover the debt on the dishonour of the bill.
7.	Credit trasaction	The bill comes into existence without any credit transaction between the parties.	The bill comes into existence out of a credit transaction between the creditor and debtor.

Accounting Treatment of Accommodation Bill

There is no difference in the accounting treatment of Accommodation bill and Trade bill except the following:

(i) When both the parties share the proceeds of the accommodation bill, the loss on discounting the bill is to be shared between the parties in their proceeds- sharing ratio;

(ii) The drawer of an Accommodation bill is to remit to the accptor/drawer on or before the date of maturity in order to enable the drawee to honour the bill.

Illustration 16 On 1st January 2016, Bijay requested Sujay for an advance of ₹7,000. Sujay, instead of advancing a loan, agreed to accept a bill drawn on him by Bijay. Bijay drew a bill on Sujay for ₹7,000 for 3 months. Sujay accepted the bill and returned it to Baijay. Bijay discounted the bill @10% p.a on 2nd January 2016. On 3rd April Bijay sent a cheque of ₹7,000 to Sujay in order to enable the latter to honour the bill.

Pass necessary journal entries in the books of Bijay and Sujay.

SOLUTION: In the Books of Bijay (Drawer)

Journal

Date	Particulars	L.F	Dr. ₹	Cr. ₹
2016 Jan.1	Bills Receivable A/c Dr.		7,000	
	To Sujay's A/c			7,000
	(Being acceptance received for 3 months)			
Jan.2	Bank A/c Dr		6,825	
	Discount A/c Dr		175	
	To Bills receivable A/c			7,000
	(Being the bills discounted, i.e, 7,000 x 10/100 x 3/12 = 175)			
April 3	Sujay's A/c Dr		7,000	
	To Bank A/c			7,000
	(Being the remittance sent to honour the bill)			

In the Books of Sujay (Drawee)

Journal

Date	Particulars		L.F	Dr. ₹	Cr. ₹
2016	Bijay's A/c	Dr.		7,000	
Jan.1	To Bills Payable A/c				7,000
	(Being acceptance given for 3 months)				
April 3	Bank A/c	Dr		7,000	
	To Bijay's A/c	Dr			7,000
	(Being Cash received)				
April 4	Bills Payable A/c	Dr		7,000	
	To Bank A/c				7,000
	(Being the bill honoured on due date)				

Illustration 17 On 1st October 2015, Ahuja drew a bill on Narang for ₹ 5,000 for mutual financial accommodation for 3 months. Narang accepted bill and returned to Ahuja. On 3rd October 2015, Ahuja discounted the bill @ 10% p.a. with his bank and remitted half of the proceeds to Narang. On the due date, Ahuja sent the requisite amount to Narang by cheque and Narang honoured the bill on due date. Pass necessary journal entries in the books of Ahuja and Narang.

SOLUTION: In the Books of Ahuja (Drawer)

Journal

Date	Particulars		L.F	Dr. ₹	Cr. ₹
2015	Bills Receivable A/c	Dr.		5,000	
Oct.1	To Narang's A/c				5,000
	(Being acceptance received for 3 months)				
Oct.3	Banks A/c	Dr		4,875	
	Discount A/c	Dr		125	
	To Bills Receivable A/c				5,000
	(Being the bill discounted, i.e, ₹ 5,000 x 10/100 x 3/12 = ₹125)				
Oct.3	Narang's A/c	Dr		2,500	
	To Banks A/c	Dr			2,435.50
	To Discount A/c				62.50
	(Being the half of the proceeds remitted)				
2016	Narang's A/c	Dr		2,500	
Jan.4	To Banks A/c	Dr			2,500
	(Being own share remitted to Narang for honouring the bill)				

In the Books of Narang
Journal

Date	Particulars		L.F	Dr. ₹	Cr. ₹
2015 Oct.1	Ahuja's A/c	Dr.		5,000	
	To Bills Payable A/c				5,000
	(Being acceptance given for 3 months)				
Oct.3	Banks A/c	Dr		2,437.50	
	Discount A/c	Dr		62.50	
	To Ahuja's A/c				2,500
	(Being half of the proceeds received from Ahuja)				
2016 Jan.4	Bank A/c	Dr		2,500	
	To Ahuja's A/c	Dr			2,500
	(Being cheque received from Ahuja on due date)				
Jan.4	Bills payable A/c	Dr		5,000	
	To Banks A/c	Dr			5,000
	(Being the bill honoured on due date)				

Illustration 18 On 18th April 2014, Chandrika and Kalyani for mutual accomodation, drew on each other bills of exchange for 3 months. Chandrika drew a bill for ₹3,000 on Kalyani and Kalyani drew a bill for ₹ 2,000 on Chandrika. Both discounted the bill at 10% p.a. in their banks on the same day. On the date of maturity, Chandrika remitted the amount due to Kalyani and the bills were honoured on maturity.

Pass necessary journal entries in the books of Chandrika and Kalyani.

SOLUTION: In the Books of Chandrika
Journal

Date	Particulars		L.F	Dr. ₹	Cr. ₹
2014 Apr.1	Bills receivable A/c	Dr.		3,000	
	To Kalyani's A/c				3,000
	(Being acceptance receive for 3 months)				
Apr.1	Kalyani's A/c	Dr			2,000
	To Bills Payable A/c			2,000	
	(Being acceptance given to kalyani for 3 months)				
Apr.1	Bank A/c	Dr		2,925	
	Discount A/c			75	
	To Bills Receivable A/c				3,000
	(Being the bill discounted@10% i.e $3000\times\frac{10}{100}\times\frac{3}{12}=075$)				
July 4	Kalyani's A/c	Dr		1,000	
	To Banks A/c				1,000
	(Being remittance sent by cheque to Kalyani)				
July 4	Bills payable A/c	Dr		2,000	
	To Banks A/c				2,000
	(Being the bill honoured on maturity)				

In the Books of Kalyani
Journal

Date	Particulars	L.F	Dr. ₹	Cr. ₹
2014 Apr.1	Chandrika's A/c Dr. To Bills payable A/c (Being acceptance given for 3 months)		3,000	3,000
Apr.1	Bills Receivable A/c Dr. To Chandrika's A/c (Being acceptance received for 3 months)		2,000	2,000
Apr.1	Bank A/c Dr. Discount A/c Dr. To Bills Receivable A/c (Being the bill discounted @10%, i.e., $2000 \times \frac{10}{100} \times \frac{3}{12} = 50$)		1,950 50	2,000
July 4	Bank A/c Dr. To Chandrika's A/c (Being remitance by cheque received from Chandrika)		1,000	1,000
July 4	Bills Payable A/c Dr. To Bank's A/c (Being the bill honoured on maturity)		3,000	3,000

7.11 Questions

1. (i) A bill of exchange is drawn by a :

    (a) Holder (b) Debtor (c) Creditor (d) Endorser

    (ii) A bill from the view point of a creditor, is called a :

    (a) Bills Receivable (b) Bills Payable (c) Cheque (d) Draft

    (iii) At the time of endorsementof a bill, the drawer debits :

    (a) Bills Receivable A/c (b) Endorser's A/c
    (c) Endorsee's A/c (d) Bank A/c

    (iv) When a bill is discharged, the acceptor debits:

    (a) Cash A/c (b) Creditor's A/c (c) Bills Payable A/c (d) Bank A/c

    (v) A bill of exchange contains a/an :

    (a) Promise (b) Request
    (c) Unconditional Order (d) Unconditional Undertaking

    (vi) Bills Receivable A/c is a :

    (a) Nominal A/c (b) Real A/c
    (c) Personal A/c (d) Representative Personal A/c

    (vii) When noting charges are paid by the bank at the time of dishonour of bill, the drawer credits :

    (a) Bank A/c (b) Drawee's A/c
    (c) Bills Payable A/c (d) Noting Charge A/c

    (viii) Bills Payable is a/an :

    (a) Asset (b) Liability (c) Income (d) Loss

    (ix) A bill falling due on Sunday will be payable on:

    (a) Monday (b) Saturday (c) Friday (d) Thursday.

    (x) A bill falling due on 15th August 2016, being Monday will be payable on:

    (a) 14.01.2016 (b) 13.01.2016 (c) 16.01.2016 (d) 17.01.2016.

    (xi) The total number of negotiable instruments is :

    (a) Two (b) Three (c) Four (d) More than Four

    (xii) The number of parties to a bill of exchange is:

    (a) Two (b) Three (c) Four (d) Five.

    (xiii) The number of parties to a promissory note is:

    (a) Two (b) Three (c) Four (d) Five

    (xiv) If due date of a bill falls on a public holiday, the payment is to be made on the

(a) Same day (b) Preceding day

(c) Succeeding day (d) After two days.

(xv) Bills Receivable Book is a part of the:

(a) Journal (b) Ledger

(c) Balance sheet, (d) Profit and Loss A/c.

[Answers: (i) c; (ii) a; (iii) c; (iv) c; (v) c;, (vi) b; (vii) a; (viii) b; (ix) b; (x) b; (xi) b; (xii) b; (xiii) a; (xiv)b; (xv) a.]

2: Answer the following questions in one word each:

(i) How many parties are there to a bill of exchange?

(ii) How many parties are there to a promissory note?

(iii) Who is authorised by law to certify the fact of dishonour of a bill?

(iv) By what name is the person in possession of the bill on due date is called?

(v) What is the name of the process of paying off a bill before due date?

(vi) How is the process of 'Postponement of the payment of a bill to future date' beyond the due date named?

(vii) How is the 'receipts by the drawer from an isolvent drawee' called?

(viii) Who bears the noting charges ultimately?

(ix) Who bears the noting charges initially for a short period?

(x) What do we call the process of transfer of the title of a bill of exchange by the holder to another person?

(xi) What term is used for the method of signing on the reverse side (book) of the bill of exchange with the object of transferring property in the bill to another person?

(xii) What is the formal certificate issued by the notary certifying the dishonour of bill ?

[Answers : (i) Three; (ii) Two; (iii) Notary; (iv) Holder; (v) Retirement; (vi) Renewal; (vii) Dividend, (viii) Drawee; (ix) Holder on due date; (x) Negotiation; (xi) Endorsement; (xi) Protest.]

3. Answer the follwing questions in one sentence each:

(i) Who is a drawer?

(ii) Who is a drawee?

(iii) Who is a Payee?

(iv) What is a Negotiable Istrument?

(v) What do you mean by Trade Bill?

(vi) What do you mean by Accommodation bill?

(vii) What is Dishonour for Acceptance?

(viii) How many days are allowed as days of grace in a bill of Exchange?

(ix) What is an 'After date Bill' ?

(x) What is an 'After sight Bill' ?

(xi) Who is a "Holder in due course" ?

(xii) What do you mean by 'Endorsement' of a bill?

(xiii) What do you mean 'Discounting a bill'?

(xiv) What is noting of a bill ?

(xv) What do you mean by Protest?

4. Correct the underlined portions of the following sentences:

(i) A bill of exchange is a conditional order.

(ii) The person who pays the amount of the bill on due date is payee.

(iii) On the dishonour of a discounted bill, the drawer debits Bank A/c.

(iv) On the dishonour of an endorsed bill, the drawer credits Drawee's A/c.

(v) When a bill is paid before it due date, it is said to be renewed.

(vi) A promissory note requires acceptance by the drawee.

(vii) Three days of grace are not allowed in case of time bill.

(viii) A negotiable instrument should be received without consideration.

(ix) Fifteen days are given as 'days of grace' on a bill.

(x) When a bill of exchange is renewed, interest for the extended period is waived.

(xi) On the dishonour of discounted bill, the drawer credits drawee's A/c.

[Answer: (i) Unconditional; (ii) Drawee; (iii) Drawee's; (iv) Endorsee's; (v) Retired; (vi) Bills of Exchange; (vii) Demand/Sight; (viii) With/For; (ix) Three; (x) Charged; (xi) Bank

5. Fill up the blanks.

(i) A bill of exchange is drawn by a _______.

(ii) Bills Receivable A/c is a _______ Account.

(iii) The person to whom payment is made under bill is called _______.

(iv) Days of grace is not allowed on_______bill.

(v) The person in whose favour a bill is endorsed is called_______.

(vi) The person accepting a Bill Exchange is usually the_______.

(vii) There are _______ parties to a Bill.

(viii) There are _______ parties to a Promissory Note.

(ix) When an endorsed bill is dishonoured, the drawer credits_______ Account.

(x) Noting charges are paid initially by_______.

(xi) Bill of exchange, if paid before due date, the drawee is allowed_______.

[Answer: (i) Creditor; (ii) Real; (iii) Payee; (iv) Demand/Sight; (v) Endorsee; (vi) Drawee. (vii) Three; (viii) Two; (ix) Endorse’s (x) Holder on due date. (xi) Rebate.

6. Answer the following questions within two sentences each:
   (a) What is a Negotiable Instrument?
   (b) What is a Bill of Exchange?
   (c) Who is a Drawee?
   (d) What do you mean by ‘Trade Bill’ ?
   (e) Who is a Payee ?
   (f) Who are the parties to a Promissory Note?
   (g) What is a Draft?
   (h) Who is a Holder in due course?
   (i) What is an ‘After Date’ bill?
   (j) What is an ‘After Sight’ bill?
   (k) What is a Promissory Note?
   (l) What is meant by Dishonour for Acceptance?
   (m) What is endorsement of a bill?
   (n) What do you mean by ‘Noting’?
   (o) What do you mean by ‘Protest’ ?
   (p) Why are the days of grace allowed?
7. Answer the following questions within six sentences each:
   (a) Explain the characteristics of Negotiable Instrument.
   (b) Give the specimen of a Bill of Exchange.
   (c) Give the specimen of Promissory Note.
   (d) What are the uses of Bill of Exchage?
   (e) Mention the features Bill of Exchange.
   (f) Mention the features of Promissory Note.
   (g) What is renewal of a bill?
   (h) What is endorsement of a bill?
   (i) What is retiring bill under a rebate?
   (j) Write a note on Dishonour of Bill.
8. Define a bill of exchange. Bring out its salient features.
9. Distinguish between Bill of Exchange and Promissory Note.

10. What do you mean by discounting of a bill and endorsement of a bill? Discuss the necessity of these two situations.

11. On 1st January 2015 Jamini sold goods to Kamini on credit worth ₹7,000 drawing upon the latter a two months bill for the amount. Kamini returned the bill to Jamini after acceptance which was met on due date. Journalise the transactions in the books of both Jamini and Kamini.

12. On 1st April 2014 B sold goods to A worth ₹ 8,000 on credit drawing upon the latter two bills of exchange for ₹ 5,000 and ₹ 3,000 at 3 months and 4 months respectively. The first bill was duly met on due date. Before one month of the due date of the second bill, B sent the bill to his bank for collection. On due date, the bank collected the amount and charged 1% commission. Pass entries in the books of both B and A.

13. Ram sold goods to Hari worth ₹10,000 on credit on 1st April 2015 by drawing a bill for 3 months which was accepted by Hari. Ram discounted the bill immediately at 5% p.a. The bill was duly honoured on due date by the drawee. Pass entries in the book of Ram and Hari.

14. On 1st Janurary 2013 Ramesh sold goods to Suresh worth ₹ 5,000 and drew a bill at 3 months for the same amount. Ramesh endorsed the bill to his creditor Akash in settlement of his claim. The bill was duly met by Suresh on the due date. Journalise the transaction in the books of Ramesh and Suresh.

15. On 1st April 2014, Amiya sold goods to Soumya worth ₹ 8,000 on credit drawing a bill for the same at three months. Amiya endorsed the bill to Mohan his creditor in full satisfaction of a debt of ₹ 8,200. In return Mohan also endorsed the bill to his creditor Sohan in discharge of a debt of ₹ 8,300 in full. The bill was duly paid by the drawee on due date. Record the entries in the books of Amiya, Soumya, Mohan and Sohan.

16. A sold goods to B worth ₹ 5,000 for which B paid ₹ 2,000 in cash and the balance by way of accepting a bill at 3 months. A retained the bill till due date but B could not honour his acceptance on the due date. Journalise the transactions in the books of A and B.

17. On 1st April 2016, X sold goods to Y worth ₹ 12,000 drawing upon the latter three bills of exchange for ₹ 2000, ₹ 4,000 and ₹ 6,000 at 2 months, 3 months and 4 months respectively. The first bill was kept till maturity and the second bill was discounted in the bank for ₹ 3,800. The third bill was endorsed to his creditor Z. All these three bills were dishonoured on due date. Record the transactions in the books of X and Y, assuming that noting charges in each case to be ₹100 being paid by the respective parties.

18. On 1st January 2015 X sold goods to Y valued ₹ 8,000 on credit and drew upon him a bill at four months, the bill to include simple interest at 6% p.a. On the due date Y was not able to meet the bill and requested X to renew the bill for another term of 3 months. X agreed to renew the bill provided interest at 6% p.a. for the extended period be paid in

cash. Y accepted the proposal and a fresh bill was drawn accordingly. The new bill was duly met on due date.

Journalise the transactions in the books of X and Y.

19. On 1st July 2015, A sold goods to the value of ₹12,000 to B and drew a bill on him for the amount payable three months after date. On 4th August, A discounted the bill with his bankers at 5% p.a.. At maturity the bill was returned by the bankers dishonoured, with ₹ 200 as expenses. B paid ₹3,000 and the expenses, and gave A another bill at 3 months for ₹ 9,000 at 6% interest. Before maturity, B became insolvenent and ultimately paid his creditors 75 paise in the rupee.

Make journal entries in the books of A recording the above transactions.

20. On 1st August 2015, X drew a bill on Y ₹10,000 payable after three months. On 4th October Y retired his acceptance earning a rebate of 6% p.a. Journalise the transactions in the books of X and Y.

21. On 1st April 2014, P sells goods worth ₹10,000 to Q and draws a bill at 3 months for the amount. Q accepts the bill and returns to P. On 1st June 2014, Q retires his acceptance under rebate 12% p.a. Record the transactions in the journals of P and Q.

22. Abhas being in need of money requested his friend Prabhas to accept a bill drawn upon him for ₹5,000 at 3 months. After due acceptance, Abhas discounted the the bill in his bank for ₹4,800. On the due date Abhas remitted the money to Prabhas who in turn discharges his liability.

Journalise the transactions in the books of both the parties.

23. For mutual accommodaction of Abhijit and Surajit, Abhijit draws a bill on Surajit for ₹16,000 at 3 months. Surajit accepts the bill and returns it to Abhijit. Abhijit discounts the same with his bankers and receives ₹15,800. The proceeds are shared between Abhijit and Surajit equally. On the due date Abhijit remits Surajit his proportion of money who meets the bill.

Pass journal entries in the books of both the parties to record the above transactions.

24. On 1st July 2014, A for mutual accommodation of himself and B, drew on the latter a bill of ₹10,000 payable after 3 months. On the same day the bill was discounted at ₹9,800 and half of the proceeds were remitted to B on 02.07.2014. On 3rd July 2014, B drew a bill on A for ₹4,000 payable after 3 months. He discounted the bill with his banker at ₹3,900 and remitted half of the proceeds to A. The bills were duly honoured on due date.

Pass journal entries in the books of both A and B.

Chapter - 8

COMPUTERISED ACCOUNTING

STRUCTURE

8.1 Introduction

Computer is an electric device with a box full of electrical circuits. It has brought a widespread revolution in every activity of human life of the present day society. Computers were initially used to solve problems on mathematics. But now they are used to send mails, forecast weather, keeping office records, record transactions in books of accounts, guide medical and health science, diagonose diseases, facilitate reservation of seats in hotels, railway journey and air flights, help in games and sports, prepare invoices for business organisations, maintain record of customers, transactions in banks, etc. In fact, computers have become indispensable in almost every field of science and technology, research, transport, communication and business.

Now a days computers have replaced manual functions in most of the activities of the large business houses. These are now used in recording and posting of business transactions, preparing pay rolls and wage and salary sheets, keeping an effective inventory control, maintaining sales and purchase ledger, preparing financial accounts. Computers carry out all the varieties of accounting and business operations speedly and accurately.

8.2 Meaning and Definition of Computer

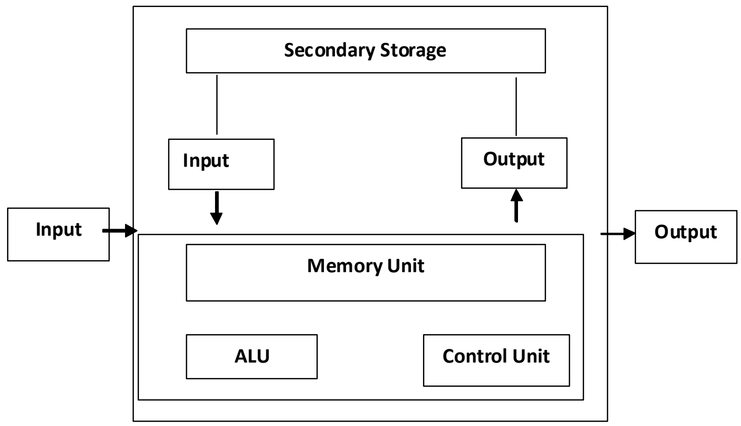
The word ‘Computer’ comes from the word ‘compute’ which means to calculate. Normally it is a calculating machine for performing arithmetical operations at phenomenal speed with high degree of accuracy. According to Websters Dictionary a computer is “an automatic electronic machine for performing calculations”. But its definition cannot be limited to merely a calculating machine because of its widespread uses.

According to International Standard Organisation (ISO) “A computer is a data processor that can perform substantial computations including numerous arithmetic and logic operations without intervention by a human operator during the run”.

Thus, a computer may be defined as a machine in which a lot of information and data can be stored for use in future in digital or alphabetical form.

8.3 Components of Computer

The functional components of computer system consists of three units, i.e, . Input unit, Central Processing Unit and Output Unit. These components are embedded into a computer may differ from one to another in architechtural design, yet all of them constitute the building blocks of a computer system. Diagramatically these components are presented below:



Block Diagram of main components of computer

Thus, the three main components are:

a) Input Unit

b) Central Processing Unit

c) Output Unit

8.3.1 Input Unit

These devices are used to feed information to the computers. Such devices are : key board, mouse, punched card, paper tapes, magnetic tape, recorders, drum, etc. The input unit may consist of one or more such input devices at a time. Data, inoformation and instructions must be entered into the memory of the computers to perform operations. The various input devices are described below:

i) Key Board

Key board is the most common input device. It is used to feed data into the computer by manual typing. The key board of a computer is just like that of a typewriter with some additional and special keys called function keys and control keys which can be set by the user according to his needs. This means that when one is to write a programme he is to instruct the computer to perform a specific action when a key is pressed. The data which we want to feed into a computer my be typed on the key board in binary language.

ii) Mouse

Mouse is basically a pointing device. As an input device, it sends the point on the screen on which the associated cursor is placed. A cursor is a special illuminated character on the screen showing the place of selection for data entry or menu selection or similar kind of thing.

The mouse may be used to draw diagrams on the screen, to select one from a group of choices, or to place the cursor at any specific point on the screen. A mouse is an essential input device in a graphical user interface like WINDOWS.

iii) Punched Cards

Punched Cards are the oldest used input device of a computer. Data and instructions are punched on the cards and even the output can also be otained on the cards.

A standard size of punched card has usually 12 rows and 80 columns. Data are recorded on it by punching rectangular holes in columns by using a key punch.

iv) Touch Pad This is a small device of computer. It is directly embeded into various systems of laptops and note books.

v) Joy Stick and Tracker Ball Both joy stick and tracker ball are pointing devices. Their functions are similar to that of a mouse.

A joy stick is mainly used for playing computer games and can be moved right, left, forward or backward. Usually, while playing computer games, the user needs to move certain objects quickly across the screen. One can use the mouse on the board but a joy stick makes it easer as it provides better control.

The tracker ball has a ball which can be rotated by hand in any direction and the cursor moves accordingly. A tracker ball is usually used in medical computers.

8.3.2 Central Processing Unit (CPU)

This is the main part of computer hardware that actually processes data as per the instructions it received from the operator. It controls flow of data by directing the data to enter the system, places the data into its memory, retrives the same data as and when needed and directs the output of data according to a set of stored instructions. Central processing unit has three main units as explained below:

a) **Storage / Memory Unit:** Data are stored in memory unit before being actually processed. The data so stored are accessed and processed according to a set of instructions being stored earlier in the memory of a computer. It can store vast amounts of data and information and recall the data instantly and accurately whenever desired. The memory of a computer can be classified into primary/ internal memory and secondary/ external memory. Internal memory consists of magnetic core memory and semiconductor memory built into the system like RAM, ROM, PROM, etc. The internal memory consists of devices such as magnetic drums, discs, tapes and cores in the CPU. The external memory devices are floppy disc, hard disc, compact disc (CD),CD-Recordable (CDR), CD- Rewritable (CD-RW), Digital Versatile Disc (DVD),DVD-Recordable(DVD-R), DVD-Rewritable (DVD-RW), Flash Drive/Pen drive or USB Drive, etc.

b) **Arithmetic and Logic Unit (ALU):** Arithmetic and logic unit is housed inside the central processing unit. It is responsible for performing all the arithmetic computations such as addition, subtraction, division, multiplication and exponentiation. In addition to this, it also performs logical operations like comparisions among variables, information and data.

c) **Control Unit:** This unit is entrusted with the responsibility of controlling and coordinating the activities of all other units of the computer system. The control unit ensures that the information is correctly stored and programme instruction is followed in proper sequence and necessary data is selected. The programme instructions and data are transferred under the direction of the control unit from the input device to the memory. The specific functions of control unit are:

(i) Read instructions out of memory unit;

(ii) Decode such instructions;

(iii) Set up the routing of data, through internal circuitry / wiring to the desired place at right time; and

(iv) Determine the input device from where to get next instruction after the instruction in hand has been executed.

8.3.3 Output Unit

After processing of the data by the central processing unit, the output device communicates such information to the user. Output devices are the devices to convey information in a human readable form. The commonly used output devices are visual display units, printers, plotters. These are the external output devices. The internal output devices are like magnetic storage devices. Recently, a new internal device called speech synthesiser has been developed, which is capable of producing verbal output that sounds like human speech.

(i) **Visual Display Unit (VDU) :** A visual display unit is similar to a TV Screen, which displays both text and graphics. The VDU is also known as monitor. The text or graphics shown on the monitor is called soft copy. The screen consists of several tiny dots called pixels. Anything that appears on the monitor screen is shown using these dots.

(ii) Printers: Printers have been the most popular output devices till date. They provide information in a permanent, readable form. It produces printed outputs of results, programmes and data. Printed output is called hardcopy Printers may be classified as: Character printers, Line printers and Page printers. A Character printer prints only one character at a time. Dot matrix printer belongs to the character printer class. These printers are usually cheap and durable. The output quality of this type of printers is the lowest of all the types of printers.

Line printers would print one line of text at a time. These printers are high speed printers and are still in use. It can print 600 to 1200 lines per minute. Chain or Drum printers are examples of Line printers.

Page Printers would print a complete page at a time. Laser printer is an example of page printers.

Printers are also classified as Impact printers and Non-Impact printers.

Impact printers are the printers that print by impact or contact. They have a print head that presses an ink ribbon to the target medium (usually paper) for printing. Hence, they are named impact printers. Those are slow and noisy with poor output quality compared to non-impact printers. Examples of impact printers are Dot matrix and Line printers.

Non-Impact printers print without impact or contact. They are generally much quieter than impact printers since they do not physically strike the page. Examples of non-impact printers are bubblejet printers, inkjet printers and laser printers.

(iii) Plotters are output devices used in producing high resolution graphic and drawings by a computer. The plotters use ink pen and colour pens preparing drawings and graphs.

8.4 Computerised Accounting System

Computers play a very important role in the field of Accounting. They can be used as accounting devices and carry out all the functions of accounting machines. Computerised system in accounting applications covers all most all the activities of Financial, Cost and Management Accounting. Further, these accounting applications may cover the entire business functions such as production, finance, marketing and human resources,research and development, etc.

A Computerised Accounting System is an accounting information system that processes the financial transactions and events as per Generally Accepted Accounting Principle(GAAP) and International Financial Reporting Standard (IFRS) to produce reports as per the requirement of the user. Every accounting system has two aspects. First, it has to work under a set of well-defined concepts called ‘accounting principles’. The second aspect is that there is ‘user-defined framework’for maintenance of records and generation of reports. The framework of storage and processing of data is called the operating environment. It consists of hardware as well as software in which accounting system is to work. The type of accounting system used determines the operating environment of computerised accounting.

Modern Computerised Accounting Systems are based on the concept of ‘database’. In order to implement a data base, a data base management system is used. A data management system is a set of computer programmes that manages and organises data effectively and provides access to the stored data by the application programmes. The accounting database is well-organised with active interface that uses accounting application programmes and reporting system. Every computerised accounting system has six basic requirements.

a) **Accounting Framework:** Accounting framework is the combination of a set of accounting standard and principles, coding and grouping the structure of accounting.

b) **Operating Procedure:** The operating procedure should be well-defined and blended as per the operating environment of the business house.

c) **Front-end interface :** It is an interactive link or dialogue between the user and databased oriented software. The user can communicate to the back-end database through front-end interface. For example, a transaction relating to sale of goods may be dealt with in the Computerised Accounting System through a sales voucher, which appears on the computer's screen of data entry operator and when entered into the system, is stored in the Database. The same data may be queried through reporting system, say, sales analysis software programmes.

d) **Back-end Database:** Back-end database is the system of data storage. It is indirectly hidden from the user. It responds to the requirements of the user only when the user is authorised to access to a particular extent.

e) **Data Processing:** It is sequential operation or action to transform the data into information useful for decision making. It is a process of transforming data for decision making.

f) **Reporting System:** It is an integrated set of objects which constitute the accounting report.

The computerised accounting is also one of the database oriented applications. The user operates such database by using the required interface and also takes the desired report by suitable transformations of stored data into information.

8.4.1 Functions of Computerised Accounting System: Accounting is a routine and repetitive work for which computers can be conveniently used. The speed, accuracy in processing data and more storage capacity of computers popularise its use in Accounting. Intially, computer was used in processing and preparing payroll of employees in large commercial organisations. Gradually, the application of computer is being extended to invoicing, billing and updating Sales Ledger, Purchase Ledger, etc. Now a days, inbuilt accounting and other packages are available for the purpose of automatic recording, posting, summarising of transactions.

Commercial Softwares used in Business

A large number of Commercial Softwares are available in the market for use in business. The most commonly used softwares are as follows:

a) Electronic Spread Sheet: It is a type of software used to store information in columns and rows. Various figures are filled in these columns /rows. The size and number of columns/

rows can be changed (increase / decrease) as per the need of the user. A spread sheet has the following utilities in accounting.

i) Payroll Accounting- It is used for calculating the salary, wages and other allied benefits payable to employees. There are columns for basic pay, dearness allowance, house rent allowance and other allowances, gross salary, deductions and the net amount payable to each employee. If the columns of name and basic pay are filled up, the spread sheed will automatically calculate the amounts for other columns according to the given formulae.

ii) Recalculatiions if some values are changed: A spread sheet offers replies to 'what if' question quickly by changing the formulae on it. For example, while preparing payroll, Dearness allowance if is to be changed, the new formulae is to be given in the spread sheet so that, the new figures of D.A, total salary, etc. of each employee will be readily available.

iii) Graphic Representation: Data in the spread sheet can be represented in the form of graphs, charts and diagrams. For example, the Sales figures, trends of sales, cost of production, gross/net profit can be shown in the form of a graph. These graphs can be displayed on the screen and can also be printed on a sheet of paper.

iv) Depreciation Accounting: The spread sheet can be used in selecting the proper method of charging depreciation on a fixed asset and also determine the appropriate rate of depreciation, life of fixed assets and the scrap value of that asset.

v) Budgeting and Financial Forecasting: Spread sheets are useful in preparing budgets, forecasting the future trend of sales, cost of production and gross/net profits.

(b) Word Processor: It enables the user to draft the letters, reports and other text material on a video screen with a facility to make changes very conveniently as and when and as many times as required. It may be called a jet-age typewriter. The word processor can prepare text of letters, documents and contracts, etc. Letters of common reply, reminders to debtors, common terms and conditions of contracts can be prepared by the user with the help of word processor.

c) Data Base management: Data Base Management (DBM) records all the useful and relevant information of a business house at a centralised location. These data are stored on floppy discs and the DBM converts the data into useful information. Data may relate to the various activities of the business such as daily purchases ad sales, collection of debts, payments to creditors, expenditure and income on various heads of accounts and so on. The data fed into the computer may be rearranged in a desired order and different calculations can be performed. For example, one can obtain duly prepared and reconciled Trial Balance and Final Accounts at any time when desired. Data base management is useful in debt collection, inventory control, production planning, preparing pay rolls and in various areas of decision making.

Tailor-Made Software Packages

In addition to the above softwares, there are also a large number of software packages readily available in the market which have been particularly designed to suit to the accounting needs of a business enterprise. Some of the specially designed/ tailor-made software packages are as follows:

(i) General Ledger- This software package helps in recording transactions through a computer and posting automatically to various ledger accounts. As such, General Ledger always contains up-to-date information. When computerised, more than one person can work on the sub-ledgers simultaneously with multiuser programming. The output can be easily and quickly received without error.

(ii) Accounts Receivable: This software is used to keep up-to-date accounts of the debtors accurately. When coomputerised, one can get information about the details of debtors individually, sales data, list of bad and doubtful debts, etc.

(iii) Accounts Payable: This software keeps up-to-date records of all the creditors, purchase data, discounts receivable from creditors, etc,. It will also double check the vendor's invoice and purchase order.

(iv) Invertory Control: This software package keeps a complete record of receipts, issues and balances of inventories, level setting of stocks, economic ordering quantity and lead time of different types of stocks. The balance of closing stock can be readily available.

From the above descriptions, the functions of Computerised Accounting System can be summerised as follows:

1. Recording and posting business transactions.
2. Processing the recorded / stored data.
3. Maintaining pay rolls.
4. Maintaining records of human resources.
5. Keeping stock records.
6. Invoicing of sales.
7. Preparation of bills.
8. Preparation of Debtors' Account.
9. Preparation of Creditors' Account.
10. Maintaining purchases and sales ledger.
11. Closing, recording, analysing and summerising business transactions.
12. Reporting in the form of Income Statement and Balance sheet.
13. Preparation of spread sheets.

Now-a-days, in-built accounting packages are available to perform automatic accounting operations.

8.4.2 Need for Computerised Accounting System

The development of trade, industry and commerce along with increased complexities of the business necessitate the computerisation of accounting. The numer of transactions, data and information has increased exponentially. The traditional system of accounting (Manual Accounting) may not be effective in the changing business environments. The need of computerised accounting was felt due to the follwing reasons:

(i) Economical- The computerised accounting procedure is economical, cost effective in comparision to manual accounting. The accounting reports can be prepared with less manpower, time and paper work by a computerised accounting system.

(ii) Quick reporting- The decision by top management is reported quickly to the stake-holders. The computerised system accounting helps in preparing qualitative reports within a very short time.

(iii) Accuracy- The degree of accuracy is very high in the computerised accounting reports. These reports are reliable for decision making. The chance of error is ruled out in preparing different accounting reports under the computerised system.

(iv) On-line facility- On-line facility to store and process data is possible in computerised system of Accounting. From the memory of the computer, data can be retrived to produce information and prepare financial reports. With the advent of internet, on-line facility allows the user to work on Computerised Accounting System from far off places from the office.

(v) Scientific Research- The research and development work is possible due to Computerised Accounting System. The system gives a big boost to the research in the field of science so that qualitative products will be available to the customers at lower prices.

(vi) Flexible Reporting- The reporting of financial, marketing and any business decision is flexible because of the introduction of Computerised Accounting. The reports of Manual Accounting are perioded and planned earlier while Computerised Accounting System prepares report of any kind as and when required. The Computerised Accounting System is capable of producing any report at any time without delay.

8.4.3 Advantages of Computerised Accounting System

Computerised Accounting System has a number advantages over the Manual Accounting System. Such advantages are:

(a) Speed: The processing of data and preparation of final report is faster in computerised Accounting System compared to the Manual Method of accounting.

(b) Accuracy- The chances of error is reduced and a high degree of accuracy is achieved because the data entered once at the primary stage for all the subsequent usage and process in preparing the accounting reports. Normally accounting errors occur in the mannual method because of repetition in posting, balancing the same set of data several times, etc.

(c) Reliability: The computers are highly reliable compared to human beings. The computers are free from fatigue, tiredness, and capable of performing repetitive operations. Since Computerised Accounting System primarily relies heavily on computers, it is more reliable than Manual Accounting System.

(d) Up-to-date Information: In a Computerised System of Accounting Procedure, the accounting records are updated automatically as and when data are entered and stored. The latest information relating to accounts get incorporated whenever the accounting reports are produced. Any change or addition or modification in an account get reflected in the final reports.

(e) Real Time User Interface: The Computerised Accounting Systems are inter-Linked through a network of computers. This inter-link facility among the computers enables the various users to share and avail of infomation simultaneously on a real time basis (spontaneously).

(f) Automated Document Production: Most of the computerised accounting systems have standardised, user defined format of accounting reports that are generated automatically. For example, Cash book, Trial balance, Statement of accounts are obtained just by click of a mouse in a Computerised Accounting Environment.

(g) Scalability: In a Computerised Accounting System, the requirement of additional manpower is confined only to data entry operators for entering and storing additional data, information and vouchers. The incremental/additional cost of processing incremental transactions is very negligible. As a result, this system is highly scalable/affordable.

(h) Legibility: The monitor of the computer displays the legible data. This is because the characters (alphabets, numbers, etc) are type written, using standard fonts. This is helpful in avoiding errors caused by hand-written characters in the Manual Accounting Procedure.

(i) Efficiency: The Computerised Accounting System utilises resources and time in a better manner compared to the manual method. No resource is left idle. So the efficiency of the organisation increases in making decision and preparing reports.

(j) Quality Reports: The inbuilt checks and untouchable nature of data handling facilitates genuine, representative, correct and qualitative reports. The reports are highly objective and can be relied upon.

(k) MIS Reports: The Computerised Accounting System facilitates the real time production and preparation of management information reports. These reports will help the management to monitor and control the business effectively and efficiently. If debtor analysis is to be made, the bad and doubtful debt and its impact on Balance Sheet are detected immediately through MIS reports. The company will restrict the credit sales by getting information from the computer.

(l) Storage and Retrieval: The Computerised Accounting System facilitates the user to store data in small physical space. This is because accounting data is stored in hard discs, CD-Roms, Floppies. Those occupy a fraction of physical space occupied by ledger, journal and other accounting registers in the Manual Accounting System. The accurate and quick retrieval of data and information is possible in the Computerised Accounting System.

(m) Motivation and Employees' Interest: Special training of staff in the Computerised Accounting System will make them more valuable and essential for the business house. This training will be a motivation to the employees so that they will develop a sense of belongingness to the business.

In spite of the advantges of the Computerised Accounting System, there will be resistance when the company will switch over from the manual system to a computerised system.

8.5 Accounting Information System (AIS)

8.5.1 Meaning of AIS: Accounting Information System is one of the oldest and most popular information systems. It is widely used in profit as well as non-profit making organisations because accounting information is used by marketing, production, human resources, accounts department, etc. It gathers data about the activities of the organisation, maintains a detailed financial record of operations of the organisation and transforms the financial data into information, makes the information available to both internal and external users.

8.5.2 Definition of AIS: An accounting information system is a system of collecting, processing, summarising and reporting information about a business organisation in monetary terms. Thus, it is a formal process of collecting data, processing the data into information and distributing the information to users. Although AIS was a manual process originally, now-a-days most AIS are computerised.

An Accounting Information System is generally a computer-based method for tracking accounting activity in conjuction with information technology resources. The resulting financial reports can be used internally by management and externally by other stakeholders including shareholders, creditors, investors, tax authorities, government, etc. AISs are designed to support all accounting functions and activities including auditing, financial accounting and reporting, managerial accounting, cost accounting and tax administration. The most widely adopted accounting information systems are auditing and financial reporting modules.

8.5.3 Features of AIS The accounting information system is based on the transactions of the organisations. It produces standard management reports summerising the firm's financial conditions. AIS provides a database to the firm to be used by other information system. The main features of AIS are as follows:

(a) AIS helps in handling and manipulating accounting and financial transactions of a firm.

(b) AIS generates various reports to meet the informational needs of outsiders and management.

(c) AIS produces futuristic data in the form of budgets and forecasts.

(d) AIS is helpful in maintaining accounting information on the basis of legal requiements.

(e) AIS is a highly crucial tool and can be adversely manipulated. Thus, it is to be kept in a highly safe and secured environment.

(f) AIS is helpful in the automation of processing large amount of data and produce accurate information in time.

8.5.4 Sub-Systems of AIS

The Sub-Systems of AIS are divided into four categories, such as:

i) Input

ii) Process

iii) Output

iv) Control

i) Input- This Sub-system deals with the collection, classification, arrangement, and making available all types of transactional, financial and accounting data to the system. These data are required for the various functions of AIS.

ii) Process- It deals with the processing of data and information collected by the input sub-system.

iii) Output- The work of this system is to produce the processed data in the user-friendly understandable and readable form. The output sub-system is helpful in producing data in the prescribed format as per the guidelines of the statutory and regulatory bodies.

iv) Control- This sub-system keeps control over the AIS as described below:

a) It follows the internal rules and regulations of the organisation.

b) It follows the legal procedures as laid down by the Government and Regulatory Bodies.

c) It ensures quality information by setting up performance standard.

d) It compares actual performance with standard performance.

e) It analyses and interprets the variances between the actual performance and standard performance.

f) It takes the remedial measures for the adverse variancs.

g) It ensures safety and security of information being managed and handled by AIS.

8.5.5 Purposes of Accounting Information System

AIS has six important purposes:

i) Sales order processing	iv) Accounts Payable
ii) Inventory Control	v) Pay roll
iii) Accounts Receivable	vi) General Ledger.

i) Sales Order Processing: It is an important transaction processing system. It processes customer's order and produces invoices for them. It also produces data for the purpose of sales analysis and inverntory control.

ii) Inventory Control: This system keeps a watch on various stock levels, ordering quantity, lead time and the various changes in them.

iii) Accounts Receivable: This system keeps the record of credit sales, amounts owed by the customers with the help of data generated from credit sales and collection of accounts receivable.

iv) Accounts Payable: This system keeps the record of credit purchases from suppliers and payments made to them, discounts receivable, etc.

v) Pay roll: The pay roll system records the various requisite data from the employees' Time cards. It prepares earning statements, pay roll reports, labour analysis report, etc.

vi) General Ledger: This system consolidates the data received from accounts receivable, accounts payable, pay roll and other accounting information.

8.5.6 Functions of an Accounting Information System

Accounting information system has four basic functions:

i) Collection and Storage of Data- The first and foremost function of AIS is to collect and store the data efficiently and effectively. The data so collected and stored are on financial activities. The data are to be collected from source documents, recorded in the journal, and then posting the data to the ledger.

ii) Producing Reports- The second function is to produce financial statements and managerial reports.

iii) Supplying Information- The third function of AIS is to supply information useful for making decisions. It also supplies suggestions and recommendations to the operating levels in the organisation.

iv) Control of Reports and information- The AIS is to control the reports so produced and information supplied to both internal and external users.

8.5.7. The Reliability of Accounting Information Systems

The reliability on the functions of AIS is very important as it stores and provides valuable business information.The American Institute of Certified Public Accountant (AICPA) and Canadian Institutue of Chartered Accountants (CICA) have identified five basis principles important for the reliability of AIS. Those are:

1. Security- Security of the system is essential. The access of users is restricted in to the AIS. Only the authorised persons can access to a prescribed limit. So a check and control is necessary for access into the system.

2. Confidentiality- The sensitive information should be kept confidential. The confidential information are not to be disclosed unauthorisely. The secret information are to be shared only by the top level management.

3. Privacy- The personal information of individual employee and department are to be kept secret. The collection, use and disclosure of personal information about customers, employees and suppliers are to be done in the appropriate manner. Privacy of data about these persons is essential for the social image of the business.

4. Processing integrity- The integrity in the processesing of data is necessary. The accurate, complete and timely processing of data is to be done with proper authorisation. The processing of data should be free from prejudice of any sort.

5. Availability- The AIS should make available the information only to the organisation working under contract. This system is available to meet the operational and contractual obligations.

8.5.8. Management Information System (MIS) and Accounting Information System (AIS)

In a competitive, complex and global business environment, organisations depend heavily on information systems. Management information System (MIS) is used as the most common information system. An MIS is a system to provide information necessary for taking decision for efficient mangement. MIS is an information system that generates accurate and timely organised information to help managers in making decisions, controlling processes, solving problems, supervising activities and tracking progress.

Accounting information system identifies, collects, records, processes and communicates financial information of an organisation to a wide variety of users. Every accounting system is a part of the Accounting Information System. AIS is part of the broader system, i.e, the management information system.

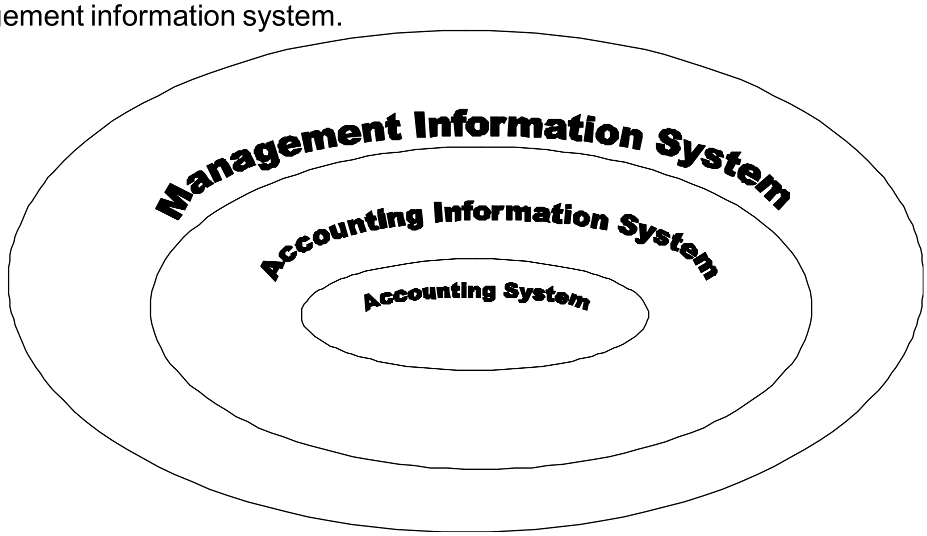


Diagram Showing relationship of AS, AIS and MIS

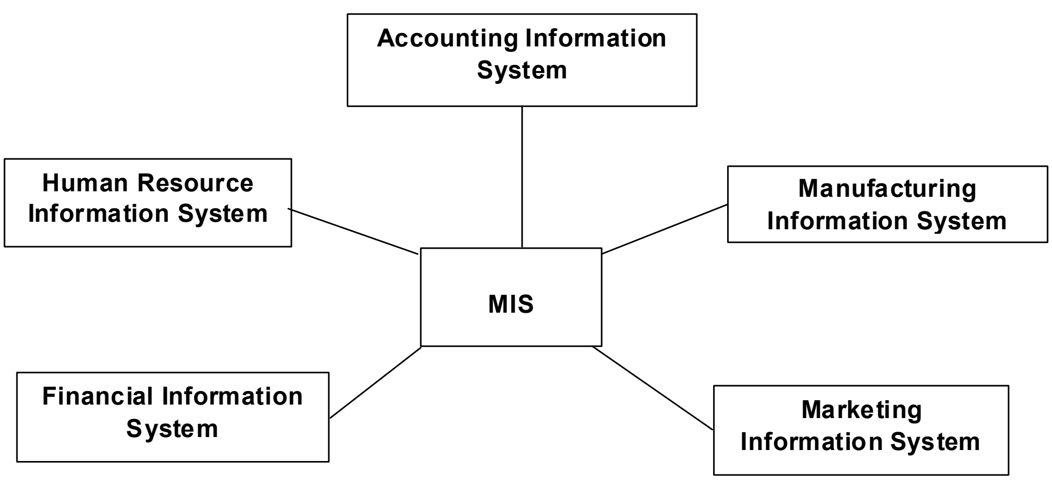


Diagram showing the link of MIS with other functional areas of MIS. Originally MIS was considered to be a financial accounting system and used as a tool to maintain financial records. But gradually it developed into a broader concept and accounting information system has become one of its components.

8.6 Questions

1. From the following alternatives write the appropriate answer alongwith its serial number against each bit:

(a) An automatic electronic machine for performing calculation is a:

(i) Calculator (ii) Smart phone, (iii) Computer, (iv) Pendrive.

(b) ISO defines computer as a :

(i) problem solver, (ii) data receiver, (iii) calculator, (iv) data processor

(c) Computer uses:

(i) decimal numbers (ii) binary numbers, (iii) roman numbers (iv) natural numbers

(d) Speed of computer is expressed in

(i) hours, (ii) micro-minutes, (iii) micro-seconds (iv) seconds.

(e) Volatile Memory is capable of storing data:

(i) permanently (ii) temporarily (iii) for one week (iv) for one day.

(f) Non-Volatile Memory is capable of storing data:

(i) permanently (ii) temportarily (iii) for one week (iv) for one day.

(g) A Spread sheet is a type of :

(i) hardware (ii) software (iii) a large sheet of space to write (iv) memory.

(h) A Spread Sheet offers replies to:

(i) 'How if' (ii) 'why if' (iii) 'what if' (iv) 'when if'.

(i) A spread sheet is used in:

(i) pay roll accounting, (ii) measuring weather (iii) messaging (iv) on-line shopping.

(j) Sub-systems of AIS (Accounting Information System) are:

(i) Two (ii) Three (iii) Four (iv) Five.

[Answer: (a) (iii), (b) (iv), (c) (ii), (d) (iii), (e) (ii), (f) (i), (g) (ii), (h) (iii), (i) (i), (j) (iii)]

2. Express the following in one word/term each:

(i) A two-way system of storing information in computer.

(ii) A sequence of instructions written in proper language to be fed into the computer.

(iii) A set of programmes in a computer.

(iv) Physical components a computer.

(v) A set of computer softwares that manages and organises data effectively.

(vi) The visual displays unit to display both texts and graphics.

(vii) The several tiny dots of the monitor/screen.

(viii) The interactive link between the user and data based oriented software.

[Answer: (i) binary system (ii) programme (iii) software (iv) hardware (v) database, (vi) monitor (vii) pixels (viii) Front-end interface.]

3. Answer the following in one sentence each:

(i) What is the input unit of a computer?

(ii) What is the central processing unit of computer?

(iii) What is a joy stick in computer?

(iv) What is front-end interface?

(v) What is back-end data base?

(vi) What is data processing?

(vii) What is electronic spread sheet?

(viii) What is a word processor?

(ix) Express the purpose of data base management.

(x) Give an example of tailor-made software package.

(xi) Give one feature of Accounting Information System (AIS).

(xii) Give one Subsystem of AIS.

4. Correct the underlined portion of the following sentences:

(i) There are <u>four</u> main components of a computer.

(ii) Data are stored in memory unit <u>after</u> being actually processed.

(iii) ALU is responsible for performing <u>algebric</u> computations.

(iv) The VDU is known as <u>screen</u> of a computer.

(v) Accounting framework of CAS is a <u>separation</u> of the set of accounting standard, principle and coding.

(vi) Back-end data-base is the system of data processing.

(vii) Electronic Balance Sheet is used to store information in columns and rows.

(viii) A spread sheet offers replies to 'when if'.

(ix) The software to keep up-to-date records of debtors is known as accounts payable software.

(x) AIS is to handle and manipulate management accounting transactions.

(xi) The important principles of reliability of AIS are security, confidentiality, privacy, processing-integrity, and urgency.

[Answer: (i) three (ii) before (iii) arithmetic (iv) monitor (v) combination (vi) storage (vii) spread (viii) what (ix) receivable (x) financial (xi) availability.]

5. Fill up the blanks:

(i) Computer receives, stores and _______________ data.

(ii) There are ____________ main components of a computer.

(iii) The screen of the monitor consists of several tiny dots called_______________.

(iv) Electronic spread sheet is used to _______________ information.

(v) AIS deals with _________________ accounting.

(vi) AIS produces_____________ data in the form of budgets and forecasts.

(vii) The sub-systems of AIS is divided into ______________ categories.

(viii) The _____________ sub-system deals with the collection/classification, arrangement, etc. of financial data.

(ix) AIS is a part of ________________.

(x) Accounting System is a part of ______________________.

[Answer: (i) processes (ii) three (iii) pixels (iv) store (v) financial (vi) futuristic (vii) four (viii) input (ix) MIS (x) AIS]

6. Answer the following questions within two sentences each:

(i) What is CPU?

(ii) What is a Tracker Ball?

(iii) What is the memory unit of computer?

(iv) Give two example of output unit?

(v) What are principles on which Computerised Accounting System is based ?

(vi) What is Front-end Interface?

(vii) What is the utility of Electronic Spread Sheet?

(viii) What is the function of General Ledger Software?

(ix) Narrate a need of Computerised Accounting System.

(x) Give any two advantages CAS.

(xi) What is Accounting Information System (AIS)?

(xii) Give any two features of AIS.

7. Answer the following questions in Six Sentences each:

(i) What are the Input Units?

(ii) What is Central Processing Unit?

(iii) Explain Front-end Interface.

(iv) What are the utilities of Electronic Spread Sheet?

(v) What are the functions of Word Processor?

(vi) Explain the role of Data Base Management.

(vii) What are the needs of Computerised Accounting System?

(viii) What is Accounting Information System?

(ix) Explain the relationship among Accounting System, Accounting Information System (AIS) and Management Information System (MIS).

8. Define Computer. Explain the Components of Computer.

9. What is Computerised Accounting System? Explain its basic requirements.

10. Describe the functions of Computerised Accounting System.
11. Define the Computerised Accounting System? Explain its advantages.
12. What is Accounting Information System? Explain its features.
13. Explain the Sub-systems and purposes of Accounting Information System.
14. What are the functions Accounting Information System? Explain its reliability.
15. Define Accounting Information System. How is it related to Management Information System?

Chapter - 9

RECTIFICATION OF ERRORS

STRUCTURE

9.1 Meaning of Errors

A Trial Balance is prepared to check the arithmetical accuracy of transactions recorded in a journal, posting them to the ledger and balancing the ledger accounts. If a Trial Balance agrees, it is assumed that recording, posting and balancing have been carried out correctly. And if it does not agree, it implies that there is some error and efforts are made to locate the same.However, an agreed Trial Balance is not a conclusive proof of the accurancy of records. Even when the Trial Balance agrees, error of omission or compensating errors may still remain. For example, non-recording of a credit sale in the sales book will not affect the agreement of the Trial Balance because both (debit as well as credit) aspects of the sales have been omitted from the records.

Accounting requires precisions and it is a meticulous activity. However, mistakes are committed during such a process commonly due to ignorance, carelessness or lack of knowledge about the principle of accounting or because of oversight.

9.2 Types of Errors

Errors can be divided into four types. They are :

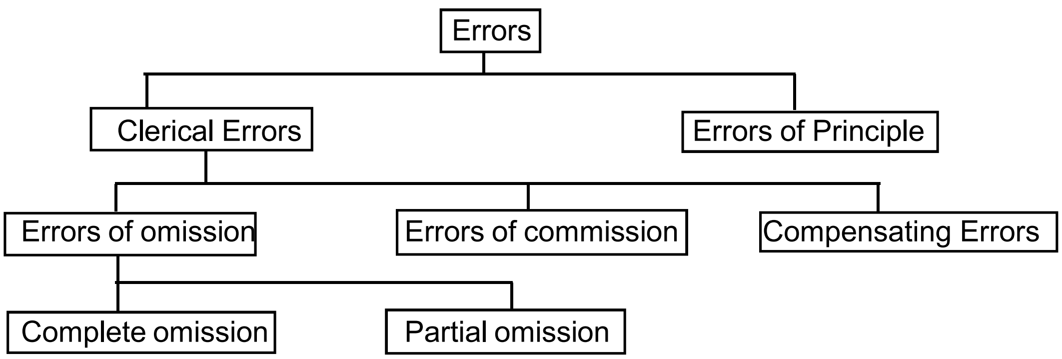
(i) Errors of omission,

(ii) Errors of commission,

(iii) Compensating Errors, and

(iv) Errors of Principle.

Except the Errors of Principle all other errors can be grouped as clerical errors. Classification of errors can be shown in the form of a chart, as follows :



(i) Errors of Omission :

An Error of omission is an error when a transaction is completely or partially omitted from being recorded in the books of accounts.

(a) Errors of complete omission : It arises if a transaction is not recorded in the books of original entry, i.e., journal or a transaction recorded in the journal, is not at all posted to the ledger. Such errors do not affect the Trial Balance because the complete entry, i.e., both the debit and credit aspects have been left out of the books of accounts. For example, a receipt of ₹ 1,000 from a credit customer has not been recorded in the Cash Book which means the omission of both the debit and credit aspects.

(b) Errors of Partial Omission : It arises if a transaction is not completely recorded or if completely recorded has not been completely posted to ledgerAccounts. As a result, the Trial Balance does not agree as there would be either short debit or short credit. For example, if a credit purchase has been recorded in the Purchases book but not posted to the supplier’s Account in the ledger. There would be shortage on the credit side to the extent of this transaction.

(ii) Errors of Commission

Errors of commission are those errors which arise due to wrong recording, wrong posting, wrong totalling (casting), wrong carrying forward of the balances of subsidiary books, wrong balancing, etc, which are explained below, with examples :

(a) Error of Recording : Error of recording arises when a transaction is incorrectly recorded in the books of original entry. Example : Goods of ₹ 4,000 sold on credit to Hari is recorded in the Sales Book as ₹ 14,000 or ₹ 400, etc.

(b) Error of Casting (Totalling) : The process of totalling the amounts of different entries in an account, finding out the balance at the end of the period is called casting. If there in an error in totalling, it is called an error of casting.

Example : Sales book is totalled as ₹ 5,000 instead of ₹ 15,000.

(c) Error of carrying forward : It arises if an error is committed in carrying forward the total of one page to the next page. For example : Total of Sales Book is carried forward as ₹ 50,000 even though the correct amount is ₹ 5,000.

(d) Error of Posting : It arises when transactions recorded in the books of original entry are incorrectly transferred, i.e., posted to the ledger.

Examples : (i) Posting the total of Sales Book to the Purchases Account instead of Sales Account.

(ii) Posting the total of the Sales Book ₹ 10,005 as ₹ 10,050 to the Sales Account.

Some of these errors affect the Trial Balance while some do not. Examples of errors that affect the Trial Balance are Purchase Book being overcast by ₹ 1,000 or the Sales Book being undercast by ₹ 2,000. Examples of errors that do not affect the Trial Balance are sales being recorded as ₹ 1,00,000 instead of ₹ 10,000 in the sales book, sales being recorded in the purchase book, etc.

(iii) Compensating Errors

An error, the effect of which is nullified by another error or series of errors of equal amount is known as compensating error. As for example Gopal's Account was debited with ₹ 100 instead of ₹ 1,000, while Hari's Account was debited with ₹ 1,000 instead of ₹ 100. Thus, Gopal's Account which was debited by ₹ 900 less was compensated by another error in Hari's Account, whose account was debited excess of ₹ 900. Such errors do not affect the Trial Balance.

(iv) Errors of Principle

When a transaction is not recorded according to accounting principles, it is known as an Error of Principle. Such errors do not affect the Trial Balance as amounts are placed in correct side but in a wrong account. It arises when a capital expenditure is treated as revenue or vice-versa. For example, if wages paid for erection of a newly purchased machinery is debited to Wages Account instead of Machinery Account. The effect of such a treatment is that the financial results get distorted but the Trial Balance will agree.

Besides the above classification of errors, they may be categorised into the following two categories on the basis of their detetion or disclosure.

9.3 Errors disclosed by the Trial Balance

These errors affect the agreement of the Trial Balance. They are also called one sided errors, since they affect only one account. For example, purchase of goods (₹ 15,000) from Raju is recorded in Purchase Book. Total of the Purchase Book has been posted to Purchase Account, but purchase of the said amount has not been posted to the credit of Raju's account. As a result the credit total of the Trial Balance will be less than the debit total by ₹ 15,000. The error so committed is one sided error, which will affect the agreement of the Trial Balance. One sided errors occur in the following cases :

(i) Posting only one aspect of the journal entry to the ledger.

(ii) Posting a journal entry to the wrong side of an account.

(iii) Wrong totalling of subsidiary books.

(iv) Posting the correct amount to one account and wrong amount to the other account.

(v) Wrong totalling or balancing of a Ledger Account.

(vi) Omitting to post the total of subsidiary books to the Ledger.

(vii) Omission in writing the cash book balance in the Trial Balance.

(viii) Omission in writing the balance of any other account in the Trial Balance.

(ix) Writing a balance in the wrong column of the Trial Balance.

(x) Wrong totalling of sundry debtors or sundry creditors which represent the total of a large number of accounts.

(xi) Totalling the Trial Balance wrongly.

9.4 Errors not disclosed by the Trial Balance

These errors are also called two sided errors. Two sided errors are those errors which affect both the debit and credit aspects of the same account or of two different accounts. In such cases, the error or errors do not affect the Trial Balance. For example, Purchase of ₹ 5,000 from Suresh is recorded as ₹ 15,000 in the Purchase Book. Since, ₹ 15,000 is posted to both Purchases Account (debit) and Suresh Account (credit), Trial Balance will still agree. Two sided errors occur in the following cases :

(i) Error of Principle : The errors which arise due to incorrect application of principles of accounting are known as errors of principle and are not disclosed by the Trial Balance. Suppose, purchase of office furniture is wrongly debited to office expenses account. Trial Balance will still agree, because any way the amount has been shown on the correct side (debit), although wrong account, i.e., office expenses account instead of furniture account.

(ii) Compensating Errors : If the effect of one error is neutralised by the effect of some other error/errors, it is called compensating error. Trial Balance will still agree. Suppose, an amount of ₹ 150 received from X is not credited to his account and the total of the Sales Book is ₹ 150 in excess. The omission of credit to X's Account will be made up by the increased credit to the Sales Account, and hence, the Trial Balance will agree, inspite of the presence of such errors.

(iii) Errors of complete omission.

(iv) Posting correct amount on the correct side but in wrong account.

(v) Recording wrong amount in the books of original entry.

(vi) Recording both aspects of a transaction twice in the books of accounts.

It must be remembered that when a Trial Balance agrees, it must not be construed that there is no more error existing in the books of accounts. The agreement of Trial Balance is not a conclusive proof of the accuracy of accounts. Even if a Trial Balance agrees, still certain errors might be persisting, as enumerated above. The next step is, therefore, the detection of errors.

9.5 Detection of Errors

Disagreement of the Trial Balance or difference between the totals of the Trial Balance implies the existence of errors, which must be located and rectified. The following steps may be taken to locate the errors :

(i) Both the amount columns of the Trial Balance should be totalled again. If number of accounts are clubbed together and one amount is written in the Trial Balance, list of such accounts should be checked and totalled again. For example, the list of sundry creditors and sundry debtors, which represent the sum total of large number of accounts.

(ii) It should be checked that the cash and bank balances have also been written correctly in the Trial Balance.

(iii) Exact difference in the Trial Balance should be found out. Ledger should be persued, if any item with an amount equal to the difference has been omitted from the Trial Balance. The difference should also be halved because it is possible that a balance equal to half the difference might have been written in the wrong column of the Trial Balance.

(iv) Each account in the ledger should be balanced again in order to find if any error has been commited at that stage.

(v) Totalling of subsidiary books should be checked.

(vi) If the difference is big, balance in the various accounts should be compared with the balance of corresponding accounts in the previous period.

(vii) Posting of amounts equal to half the difference should be checked. It is possible that an amount has not been posted at all or has been posted to the wrong side of an account. If posting is made in wrong side, the difference will be double the actual amount of the transaction.

(viii) If there is still a difference in the Trial Balance, a complete checking will be necessary. The posting of all entries including the opening entry should be checked. It is better to begin with the Nominal Accounts.

(ix) If it is not possible to locate the errors, the difference in the Trial Balance is temporarily transferred to a Suspense Account. Whenever any one sided error is detected it is subsequently rectified through the Suspense Account.

9.6 Rectification of Errors after preparation of Trial Balance and Final Account

Errors once detected must be rectified. However, corrections should not be made by way of overwriting or erasing the wrong entry. This would lower down, the reliability, authenticity and genuineness of financial books. It may encourage falsification and frauds in the books. Therefore, errors are corrected with the help of suitable entries in General Ledger or Journal Proper. From the rectification point of view, errors can be divided into two categories :

(A) One sided errors

(B) Two sided errors

(A) Rectification of One sided errors :

Errors, that affect only one side of one account only, either debit or credit, are called one-sided errors. Examples of such errors are as follows :

(a) Sales book overcast by ₹ 300.

(b) ₹ 5,000 received from Rahim was posted to his account as ₹ 500.

(c) Purchase book undercast by ₹ 500.

(d) ₹ 300 received towards interest was posted to the credit side of interest account twice.

(e) Commission paid to agent ₹ 450 was not posted to commission account.

(f) Credit purchase of ₹ 1,500 from Khetri was posted to the debit side of his account.

(g) Total of discount allowed column in the Triple-columned cash book ₹ 79 was posted to the discount allowed account as ₹ 97; and so on.

These errors can be detected at two different points of time.

(i) Simultaneously with the preparation of Trial Balance.

(ii) After transfer of difference in Trial balance to the Suspense Account. Errors detected are reclified accordingly.

Generally, errors are reclified with the help of suitable journal entries. Journal entry requires two accounts, one for debit and the other for credit. In case of one sided errors, the error is committed only in one account, thus, it cannot be rectified through journal entry. It is rectified in the form of a noting on the appropriate side of the account in which the error is committed.

The rectification of one sided errors is illustrated in the following examples :

(i) Rectification of one-sided errors detected simultaneously with the preparation of Trial Balance :

If errors given in the examples are detected simultaneously with the preparation of Trial Balance, then they are rectified as follows :

(a) Sales book over-cast by ₹ 300

In this example the totalling of Sales Book has exceeded by ₹ 300. Postings are made from Sales Book to the credit side of Sales Account. Thus, posting of ₹ 300 to the debit side of the Sales Account will rectify this error as shown below :

Dr. Sales Account Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To overcasting of Sales Book	300		

(b) ₹ 5,000 received from Rahim was posted to his account as ₹ 500.

All receipts are recorded on the debit side of the Cash Book and posted to the credit side of the giver's personal accounts. In this case, the error lies in posting to the credit side of Rahim's Account ₹ 500 instead of ₹ 5,000, creating a short credit of ₹ 4,500 (₹ 5000 - ₹ 500) in Rahim's Account. So the error can be corrected as follows :

Dr. Rahim's Account Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
		By difference in amount received from him posted on Dt............	4,500

(c) Purchase Book undercast by ₹ 500

By undercast of purchase book we mean that the purchase book has been totalled less. The periodical total of purchase book is posted to the debit side of purchase account. So this error of totalling will ultimately affect debit side of the Purchase Account, i.e., the debit total falls short by ₹ 500. Thus, this error can be corrected by an additional entry on the debit side of the Purchase Account as shown below :

Dr. Purchase Account Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To undercasting of Purchase Book	500		

(d) Interest received ₹ 300 posted twice to the credit side of Interest Account. This error has caused excess posting of ₹ 300 on the credit side of Interest Account. So, ₹ 300 is to be posted to the debit side of the account as rectification of the error and it is shown as follows :

Dr. Interest Account Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Rectification of double posting	300		

(e) Commission paid ₹ 200 has not been posted to Commission Account

Commission paid, being an expense should be debited to Commission Account - This error can be rectified by posting ₹ 200 to the debit side of Commission Account as shown below:

Dr. Commission Account Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To rectification of posting omitted	200		

(f) Credit purchase of ₹ 1,500 from Khetri was posted to the debit side of his account instead of credit side. So first it requires to balance by posting ₹ 1,500 to his credit to rectify the error of posting or in other words, ₹ 3,000 (₹ 1500 + ₹ 1500) should be posted to the credit of Khetri's Account as shown below :

Dr. Khetri's Account Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
		By Rectification of wrong posting made on debit side on Dt.......	3,000

(g) Total of discount allowed column in the Triple columned cash book₹79 was posted as ₹ 97.

In this example, there was an excess posting of ₹ 18 in the Discount allowed Account. We know Discount allowed is posted to the debit side of Discount allowed Account. So this excess debit of ₹ 18 can be rectified by posting to the credit side of Discount allowed Account as follows :

Dr. Discount Allowed Account Cr.

Particulars	Amount(₹)	Particulars	Amount (₹)
		By Rectification of excess posting	18

(ii) Rectification of one-sided errors after transfer of difference in Trial Balance to the Suspense Account :

One sided errors can be corrected with the help of rectifying journal entries. For this purpose, the differential short balance of the Trial Balance transterred to Suspense Account will be utilised to rectify the errors. The following errors are rectified with the help of Suspense Account.

Example 1

Total of Sales Book ₹ 4,230 omitted to be posted.

The effect of this error is that Sales Account has not been credited by ₹ 4,230. Therefore, for rectification Sales Account is to be credited. The other aspect (i.e., debit) will be the Suspense Account. Hence, the rectification entry will be :

Journal

Date	Particulars		Dr. (₹)	Cr. (₹)
	Suspense A/c	Dr.	4,230	
	To Sales A/c			4,230
	(Being total of Sales Book omitted to be posted, now rectified)			

Example 2

Sales book overcast by ₹ 500.

It means, there is excess credit in Sales Account. Thus Suspense Account shows a debit balance of ₹ 500 to tally the Trial Balance. Realification entry will be as follows :

Date	Particulars		Dr. (₹)	Cr. (₹)
	Sales A/c	Dr.	500	
	To Suspense A/c			500
	(Being rectification of overcasting of sales book)			

Example 3

₹ 6,000 received from Dhoni was posted to his account as ₹ 600.

This error caused short credit of ₹ 5,400 in Dhoni's Account. Therefore, Suspense Account should be credited to the tune of ₹ 5,400 to tally the Trial Balance. Thus, entry for rectification of this error should give credit to Dhoni's Account and debit to Suspense Account to strike a balance and close it. The entry shall be as follows :

Journal

Date	Particulars		Dr. (₹)	Cr. (₹)
	Suspense A/c	Dr.	5,400	
	To Dhoni's A/c			5,400

Example 4

Interest received ₹ 350 posted twice to the credit side of Interest Account.

Double posting of ₹ 350 in the Interest Account must have caused excess credit of ₹ 350 in the Trial Balance and to tally the Trial Balance, Suspense Account shows a debit balance of ₹ 350. Thus, the rectification entry would be as follows :

Journal

Date	Particulars	Dr. (₹)	Cr. (₹)
	Interest received A/c Dr.	350	
	To Suspense A/c		350
	(Being double posting of interest received, rectified)		

Example 5

Purchase book undercast by ₹ 800.

Undercast of Purchase book by ₹ 800 caused short debit on the debit side of Purchase Account and the total of the debit column of the Trial Balance was less by ₹ 800. So, Suspense Account with ₹ 800 is placed on the debit side of the Trial Balance.

Since there is a short debit of ₹ 800 in Purchase Account, Suspense Account must be given debit balance to tally the Trial Balance. Thus, debiting Purchase Account and crediting Suspense Account by ₹ 800, this error will be rectified. This rectification entry will set off the short fall in Purchase Account, and close by cancelling the balance in Suspense Account. The rectification entry shall be as follows :

Journal

Date	Particulars	Dr. (₹)	Cr. (₹)
	Purchase A/c Dr.	800	
	To Suspense A/c		800
	(Being undercast of Purchase Book rectified)		

Example 6

Credit purchase of ₹ 2,500 from Karim was posted to the debit of his account.

Credit purchase of ₹ 2,500 from Karim was posted to the debit of his account, which must have caused short credit of ₹ 5,000 in his account and accordingly Suspense Account must have been credited with ₹ 5,000. Therefore, entry for rectification would be as follows :

Journal

Date	Particulars	Dr. (₹)	Cr. (₹)
	Suspense A/c	5,000	
	To Karim's A/c		5,000
	(Being wrong debit to karim instead of credit, rectified)		

Example 7

Total of discount allowed column in the Triple-columned cash book ₹ 790 was posted to the Discount allowed Account as ₹ 970.

Discount allowed account, due to this error, must be showing excess debit of ₹ 180 (₹ 970 ₹790) and accordingly Suspense Account must have been credited with ₹ 180 to tally the Trial Balance. Rectification of this error can be made by passing the following entry :

Journal

Date	Particulars	Dr. (₹)	Cr. (₹)
	Suspense A/c Dr.	180	
	To Discount allowed A/c		180
	(Being excess debit of Discount allowed A/c rectitied)		

(B) Rectification of two sided errors :

Errors that affect two or more accounts, generally with equal debit and credit amounts are known as two sided errors. Trial Balance is not affected by these errors and such errors are not disclosed by Trial Balance. However, those errors, when detected, are rectified with rectitication entries passed in General Ledger/Journal proper.

Rectification of these types of errors is done in the following manner :

1- Write down the correct entry for the transaction.

2- Write the wrong entry just below it, actually passed through books of account.

3- Compare the correct entry with the wrong entry and arrive at the required rectification entry to set off the effect of error committed in the accounts involved in the transaction.

Examples of two-sided errors and their rectification are explained as follows :

Example 8

Credit sale of ₹ 5,100 to Amar was passed through the Purchase Book - Rectify.

	Particulars		Dr. (₹)	Cr. (₹)
1. Correct entry	Amar's A/c	Dr.	5,100	
	To Sales			5,100
2. Wrong entry	Purchase A/c	Dr.	5,100	
	To Amar's A/c			5,100
3. Rectifying entry	Amar A/c	Dr.	10,200	
	To Purchase A/c			5,100
	To Sales A/c			5,100
	(Being Sales to Amar passed through purchase book rectified)			

In the above example, Amar's A/c has been credited with ₹ 5,100 instead of being debited. So now it is debited with double the amount i.e., ₹ 10,200. Sales A/c has been credited with ₹ 5,100 which was omitted and purchase A/c has been credited which was wrongly debited.

Example 9

Credit purchase of goods of ₹ 450 from Ram Singh was posted to the credit of Bhim Singh.

Journal

	Particulars	Dr. (₹)	Cr. (₹)
1. Correct entry	Purchase A/c Dr. To Ram Singh's A/c	450	 450
2. Wrong entry	Purchase A/c Dr. To Bhim Singh's A/c	450	 450
3. Rectification entry	Bhim Singh's A/c Dr. To Ram Singh's A/c (Being Bhim Singh A/c wrongly credited instead of Ram Singh for credit purchase, now rectified)	450	 450

Example 10

Credit sale of goods to Dinesh of ₹ 250 is recorded as ₹ 520 in the Sales Day Book.

Journal

	Particulars	Dr. (₹)	Cr. (₹)
1. Correct entry	Dinesh's A/c Dr. To sales A/c	250	 250
2. Wrong entry	Dinesh A/c Dr. To sales	520	 520
3. Rectification	Sales A/c Dr. To Dinesh's A/c (Being wrong amount passed through Sales Book rectified)	270	 270

Example 11

Purchase of Machinery of ₹ 4,500 from Jindal entered in the Purchase book.

Journal

	Particulars		Dr. (₹)	Cr. (₹)
1. Correct entry	Machinery A/c	Dr.	4,500	
	To Jindal's A/c			4,500
2. Wrong entry	Purchase A/c	Dr.	4,500	
	To Jindal's A/c			4,500
3. Rectification entry	Machinery A/c	Dr.	4,500	
	To Purchase A/c			4,500
	(Being purchase A/c wrongly debited instead of machinery rectified)			

Example 12

Repairs to Machinery ₹ 5,000, debited to Machinery Account.

Journal

	Particulars		Dr. (₹)	Cr. (₹)
1. Correct entry	Repairs A/c	Dr.	5,000	
	To cash			5,000
2. Wrong entry	Machinery A/c	Dr.	5,000	
	To cash			5,000
3. Rectification entry	Repairs A/c	Dr.	5,000	
	To Machinery A/c			5,000
	(Being repairs to machinery wrongly debited machinery, rectified)			

Example 13

₹ 5,200 paid for purchase of a Refrigerator for the personal use of the proprietor debited to general expenses account.

Journal

	Particulars	Dr. (₹)	Cr. (₹)
1. Correct entry	Drawings A/c Dr. To Cash	5,200	 5,200
2. Wrong entry	General expenses A/c Dr. To Cash	5,200	 5,200
3. Rectification entry	Drawings A/c Dr. To General Expenses A/c (Being personal expenses of proprietor wrongly debited to General expenses A/c, rectified)	5,200	 5,200

Example 14

Paid ₹ 10,000 for the installation of machinery debited to wages account.

Jouranal

	Particulars	Dr. (₹)	Cr. (₹)
1. Correct entry	Machinery A/c Dr. To cash	10,000	 10,000
2. Wrong entry	Wages A/c Dr. To cash	10,000	 10,000
3. Rectification entry	Machinery A/c Dr. To wages A/c (Being correction of wrong debit to wages A/c, instead of machinery A/c)	10,000	 10,000

9.7 SUSPENSE ACCOUNT

Errors detected before closure of books of accounts are rectified and a revised Trial Balance is prepared which normally tallies. In case it does not tally, it implies that there still exists some errors in the books of account. In this situation, since preparation of Final Account cannot be delayed and there is no enough time to take further steps to locate errors, the difference in the Trial Balance is temporarily placed in an account, called Suspense Account till the errors are detected and rectified.

Meaning

The account opened temporarily to carry forward the difference of short balance in the Trial Balance, arising out of undetected errors in the books of accounts that could not be detected in spite of the best possible efforts before preparation of final accounts, is known as 'Suspense Account'. Thus, like any other account Suspense Account is not the result of any transaction but of undetected errors. This carries debit balance if debit column total of Trial Balance is shorter than the credit column total or credit balance if credit column total is shorter than the debit column total. Suspense Account maintains the same balance till the errors are detected and rectified. It is closed with the rectification entry passed through it. Suspense Account can show either debit balance and credit Balance.

Uses : Suspense account has the following uses :

(a) It carries forward the net effect of undetected errors remaining in the books of accounts at the time of preparation of final accounts.

(b) It helps to tally and set off the difference in Trial Balance.

(c) It helps in preparation of final accounts in time without waiting for detection and rectification of undetected errors.

(d) If facilitates rectification of the errors in the subsequent year, if not in the year in which it is committed.

(e) It helps to rectify one sided errors with the help of journal entry which is otherwise not possible.

Preparation

The following steps are necessary for preparation of Suspense Account :

1- Ascertain difference if any, in the Trial Balance.

2- Try to exhaust all possible steps to locate the errors that caused the difference in the Trial Balance and rectify them.

3- After putting all possible efforts, if the Trial Balance does not agree, find out the differential amount in the debit or credit column.

4- Place the suspense account on the shorter side of the Trial Balance and get it tallied.

5- Post the short balance on the appropriate side of the suspense account.

6- Suspense Account with debit balance shall be shown on the assets side and with credit balance shall be shown on the liabilities side of the Balance Sheet.

7- In the subsequent period when all the errors are detected, rectification entries to the effect shall be passed through the Suspense Account and it is closed. However, if nominal accounts are involved in the error, Profit and loss Adjustment Account should be debited or credited to rectify the error and close the Suspense Account.

Illustration 1

Pass the necessary Journal entries to rectity the following errors :

(i) Credit sale of ₹ 2,700 to Rahim was recorded as ₹ 7,200 in the Sales Book.

(ii) Credit sale of ₹ 3,300 to Madan was recorded as sales to Mohan.

(iii) Credit sale of ₹ 5,200 to Ashok was recorded as sale to Asha as ₹ 9,200.

(iv) Credit sale of ₹ 3,700 to Dhoni was recorded in the purchase book.

(v) Credit sale of old machinery to Shubham for ₹ 4,300 was entered in the sales Book as ₹ 7,500.

Solution:

Rectifying Journal Entries

Date	Particulars	Dr. (₹)	Cr. (₹)
(i)	Sales A/c Dr.	4,500	
	To Rahim's A/c		4,500
	(Being the credit sale of ₹ 2,700 to Rahim recorded as ₹ 7,200, now rectified)		

(ii)	Madan's A/c	Dr.	3,300	
	To Mohan's A/c			3,300
	(Being credit sale to Madan recorded as sales to Mohan, now rectified)			
(iii)	Sales A/c Dr.		4,000	
	Ashok's A/c Dr.		5,200	
	To Asha A/c			9,200
	(Being the credit sales of ₹ 5,200 to Ashok, recorded as sale to Asha as ₹ 9200, now rectified)			
(iv)	Dhoni's A/c Dr.		7,400	
	To Purchase A/c			3,700
	To Sales A/c			3,700
	(Being the credit sale of ₹ 3,700 to Dhoni, recorded in the Purchases Book, now rectified)			
(v)	Sales A/c Dr.		7,500	
	To Machinery A/c			4,300
	To Shubham's A/c			3,200
	(Being sale of old machinery of ₹ 4,300 to Shubham entered in the sales book as ₹ 7,500, now rectified).			

Illustration 2

Errors in books of account of Dhanpat & Sons caused a difference, i.e., short of ₹ 12,770 in the credit side of the Trial Balance prepared for the year 2015. Errors could not be detected and the balance was transferred to the Suspense Account. Subsequently the following errors are detected in the year 2016. Rectify the errors and show the Suspense Account.

(i) A purchase of goods from Debdas ₹ 56,000 was not entered in the Purchase book.

(ii) ₹ 4,500 received from Mr. Kishore was credited to Mr. Iswar's Account.

(iii) A sale of ₹ 45,000 to Dhiraj was debited to his account as ₹ 54,000.

(iv) Wages paid ₹ 25,000 was wrongly debited to salary account.

(v) ₹ 2,500 received as commission wrongly credited to interest account.

(vi) Return outward of ₹ 3,500 was not posted to the ledger.

(vii) A credit sale of ₹ 5,200 to Udaya credited to his account.

(viii) Discount allowed total of ₹ 2,030 in the Cash Book has been carried forward as ₹ 3,200.

(ix) Discount received column of the Cash book was undercast by ₹ 1,500.

(x) Cash sale of ₹ 8,000 was not posted to the Sales Account.

SOLUTION:

Rectifying Entries

Date	Particulars	Dr. (₹)	Cr. (₹)
(i)	Purchases A/c Dr.	56,000	
	To Debas A/c		56,000
	(Being omission of credit purchase, now rectified)		
(ii)	Mr. Iswar's A/c Dr.	4,500	
	To Mr. Kishore's A/c		4,500
	(Being credit given to Mr. Iswar instead of Mr. Kishore, now rectified)		
(iii)	Suspense A/c Dr.	9,000	
	To Dhiraj's A/c		9,000
	(Being excess debit given to Dhiraj, now rectified)		
(iv)	Wages A/c Dr.	25,000	
	To Salaries A/c		25,000
	(Being salaries A/c wrongly debited instead of wages A/c, rectified)		

(v)	Interest A/c	Dr.	2,500	
	To commission A/c			2,500
	(Being Interest A/c wrongly credited instead of commission A/c, now rectified).			
(vi)	Suspense A/c	Dr.	3,500	
	To Return Outward A/c			3,500
	(Being omission of Return outward, now rectified).			
(vii)	Udaya's A/c	Dr.	10,400	
	To Suspense A/c			10,400
	(Being wrong credit to Udaya, now rectified)			
(viii)	Suspense A/c	Dr.	1,170	
	To Discount Allowed A/c			1,170
	(Being excess amount of discount allowed carried forward now rectified)			
(ix)	Suspense A/c	Dr.	1,500	
	To Discount received A/c			1,500
	(Being Discount received A/c, under cast now rectified)			
(x)	Suspense A/c	Dr.	8,000	
	To Sales A/c			8,000
	(Being omission of posting in sales account now rectified)			

Dr. **Suspense Account** Cr.

Date	Particulars	Folio	Amount (₹)	Date	Particulars	Folio	Amount (₹)
	To Dhiraj's A/c		9,000		By Balance b/d		12,770
					By Udaya's A/c		10,400
	To Return out outward A/c		3,500				
	To Discount Allowed A/c		1,170				
	To Discount Received A/c		1,500				
	To Sales A/c		8,000				
	Total		23,170				23,170

Effect of Rectification entries on Profit :

Sometimes Final Accounts are prepared with the help of Suspense Account even if errors exist and remain undetected. Profit & Loss account prepared and profit or loss arrived at in such a situation is subject to change with the detection and rectification of undetected errors in subsequent year. Errors affect the profit / loss of the period in which that remains undetected. Similarly, the rectification entries also affect the profit / loss of the period in which the error is detected and rectified.

All accounts that appear on the Trial Balance with their balances do not affect profit. Only balances of nominal accounts and accounts related to sale and purchase of goods affect profit. Balances of real and personal accounts are taken to the Balance Sheet. Thus, if any errors pertaining to nominal accounts and accounts related to purchase and sale of goods remain undetected, then profits / loss arrived at may be erroneous and it may change with rectification of such errors.

Change in profit or loss affects capital account. Because, profit or loss is ultimately transferred to capital account and get merged. Profit increases capital and loss decreases capital. Capital is shown on the liability side of the Balance Sheet. Thus, any error, in nominal accounts or accounts related to purchase and sale of goods that affect profit or loss and capital will also affect Balance Sheet.

The effects of errors and their rectification on the profit / loss are as follows :

Nature of error in Nominal, Sale and Purchase accounts	Effect of error on profit	Effect of Rectification entry on profit
Excess debit	Reduces	Increases
Excess credit	Increases	Reduces
Short debit	Increases	Reduces
Short credit	Reduces	Increases
Omission of debit	Increases	Reduces
Omission of credit	Reduces	Increases

Illustration 3

Find out the effect of rectification entry passed for the errors rectified involving Suspense Account in illustration 2 :

SOLUTION:

Effect on Net Profit of 2016

Sl. No	Rectifying entry	Increases ₹	Decreases ₹
i	Omission from purchase Book		56,000
ii	No nominal or goods account involved	-	-
iii	No nominal or goods account involved	-	-
iv	Nominal account involved but no impact	-	-
v	Nominal account involved but no impact	-	-
vi	Credit to Return outward A/c	3,500	
vii	Nominal account not involved	-	-
viii	Credit to discount allowed A/c	1170	
ix	Credit to Discount received A/c	1,500	
x	Credit to sales A/c	8,000	
		14,170	56,000
	Net decrease in Profit		41,830

9.8 Questions

1. From the alternatives given below, write the correct answer along with its serial number against each bit :

(i) ₹ 3,000 paid as wages for erection of a machine should be debited to :

(a) Wages Account (b) Machinery Account

(c) Repair Account (d) Capital Account

(ii) Sale of old office furniture should be credited to :

(a) Sales Account (b) Cash Account

(c) Capital Account (d) Office Furniture Account

(iii) Goods worth ₹ 500 given as charity should be credited to :

(a) Sales Account (b) Charity Account

(c) Purchase Account (d) Advertisement Account

(iv) ₹ 300 received from Ms. Smita whose account was previously written off as Bad Debt should be credited to :

(a) Ms. Smita'a Account (b) Bad Debts Recovered Account

(c) Cash Account (d) Trading Account

(v) A Trial Balance is prepared to locate :

(a) Error of Principle (b) Complete ommission

(c) Compensating error (d) Partial omission

(vi) A suspense Account will give :

(a) Debit Balance (b) Credit Balance

(c) Zero Balance (d) Debit or credit Balance, as the case may be

(vii) On purchase of old building, the amount of ₹ 20,000 spent on its repairs should be debited to :

(a) Repairs Account (b) Building Account

(c) Cash Account (d) Bank Account

(viii) If sales Account is overcast, it will not affect :

(a) Cost of goods produced (b) Gross profit

(c) Net profit (d) Balance sheet

(ix) When Suspense Account is shown in the Trial Balance, it will also be shown in :

(a) Trading Account (b) Profit & loss Account

(c) Balance sheet (d) Bank Reconciliation statement

(x) Treating capital expenditure as revenue expenditure is a/an :

(a) Error of partical omission (b) Error of Principle

(c) Compensating error (d) Error of complete omission

(xi) White-washing expenses of an existing building amounting to ₹ 10,000 will be debited to :

(a) Building Account (b) Repairs & Maintenance A/c

(c) Trading Account (d) Cash Account

(xii) Wages paid to labourer ₹ 5,000 was credited to wages account as ₹ 50,000. In rectification entry wages account will be debited with :

(a) ₹ 5,000 (b) ₹ 45,000

(c) ₹ 55,000 (d) ₹ 50,000

Ans : [i (b), ii (d), iii (c), iv (b), v (d), vi (d), vii (b), viii (a), ix (c), x (b), xi (b), xii (c)]

2. Answer the following questions in one word/term each :

(i) How many accounts are affected if a transaction has been completely omitted from being recorded ?

(ii) Where will the credit balance of Suspense A/c appear in the Balance Sheet ?

(iii) Name any one error that is disclosed by Trial Balance.

(iv) What type of error is it if an amount of ₹ 575 is recorded in the books of accounts as ₹ 755 ?

(v) Name the error which counters the effect of another error.

[Ans: (i) two (ii) liability side (iii) partial omission, posting wrong amount, etc. (iv) clerical error (v) compensating error]

3. Answer the following questions in one sentence each :

(i) What do you mean by compensating error ?

(ii) What is error of principle ?

(iii) What do you mean by error of commission ?

(iv) What is meant by an error of complete omission ?

(v) What is suspense Account ?

(vi) How is a wrong debit posted to an account rectified ?

(vii) What do you mean by error of casting ?

4. Correct the underlined portions of the following sentences :

(a) Two sided errors affect the agreement of trial balance.

(b) Compensating error involves at least one account/s.

(c) If Sales Book is overcast, it will affect Debtors account.

(d) Goods destroyed by fire will decrease the amount of sales.

(e) Non-recording of a transaction amounts to error of principle.

[Ans: (a) One, (b) Two, (c) Sales, (d) Purchase, (e) Omission]

5. Fill in the blanks :

(i) Wrong carry forward is an example of ________ error.

(ii) If credit total is more than debit total, Suspense Account will show a ________ balance.

(iii) Wages paid for installation of a new machinery will be debited to ________ Account.

(iv) Bills Receivable book undercast is rectified by ________ the Bills Receivable book.

(v) Discount allowed ₹ 250, if treated as discount received ₹ 250, the ________ side of Trial Balance will be higher by ₹ 500.

[Ans : (i) clerical error (ii) debit (iii) Machinery (iv) Debiting (v) credit]

6. Answer the following questions within two sentences each :

(i) What do you mean by rectifying entry ?

(ii) What are one sided errors ?

(iii) What is the objective of preparing Suspense Account ?

(iv) Give one example each of error of partial omission and error of complete omission.

(v) What is compensating error ?

(vi) Give two examples of the errors that affect both net profit and Balance Sheet.

(vii) Give two examples of error that affect Net profit.

(viii) What is meant by clerical error ?

(ix) What do you mean by an error of duplication ?

7. Answer the following questions within six sentences each :

(a) What are the different classes of errors ?

(b) What do you mean by Suspense Account ? When is it opened ?

(c) Is the agreement of a Trial Balance absolute proof of the accuracy of the books of accounts ? If not, what are the errors which remain even after agreement ?

(d) What are the different factors causing disagreement of a Trial Balance ?

8. Explain the different classes of errors that usually arise in accounts and illustrate your answer with examples.

9. What do you mean by one sided and two sided errors ? Discuss in detail by giving suitable examples.

10. How would you rectify the errors affecting the Trial Balance ?

11. How will you rectify the following errors ?

(a) Purchase book is overcast by ₹ 250.

(b) Rent paid to landlord ₹ 1,500, debited to landlord's account.

(c) Total of sales book ₹ 2,500 omitted to be posted.

(d) A credit sale of machinery to x for ₹ 6,850 is debited to x's Account as ₹ 5,860.

(e) A credit sale of goods of ₹ 2,525 to Radha, credited to her account.

12. Rectify the following errors assuming that there is no Suspense Account.

(a) Purchases from Balkrishna of ₹ 14,300 posted to his account as ₹ 13,400.

(b) Sales to Maheswar of ₹ 2,475 posted to his account as ₹ 4,275.

(c) Sales to Amar of ₹ 4,400 posted to his account ₹ 3,450.

(d) Salary paid to Rabin of ₹ 6000 was not posted to salaries account.

13. How will you rectify the following errors ?

(a) Sales book is undercast by ₹ 6,000.

(b) Sales return book is cast short by ₹ 600.

(c) Balance of sales Book is carried forward excess by ₹ 1,000.

(d) Balance of Sales Return Book is carried forward short by ₹ 1,100.

14. Which of the following errors will affect the Trial Balance ?

(a) The total of Sales Book has not been posted to the Sales Account.

(b) ₹ 11,000 paid as installation charges of a new machinery has been debited to Repairs Account.

(c) Goods costing ₹ 3000 taken by the proprietor for personal use has been debited to Repairs Account.

(d) ₹ 5,000 paid for repairs to building has been debited to Building Account.

15. Rectify the following errors :

(a) The Sales Book of December 2015 was added short by ₹ 600.

(b) A periodical total of the Purchase Book was short by ₹ 6,000.

(c) The total of Purchase Return Book has been overcast by ₹ 2500.

(d) Goods sold to Sanjeet were posted as ₹ 715 instead of ₹ 571.

(e) The Sales Return Book in added ₹ 2000 short.

16. Following errors are discovered in the books of Sri Ramnath. Make the necessary entries to rectify them :

(a) Purchase journal was overcast by ₹ 1,150.

(b) ₹ 3,000 was received from R. Balakrishna was debited to his account.

(c) A sum of ₹ 5,000 withdrawn by the proprietor for his personal use was posted to the Travelling Expenses Account.

(d) An amount of ₹ 1,750 for a credit sale to Madan correctly entered in the Sales Book has been debited to his account as ₹ 1,570.

17. Rectify the following errors.

(a) Total of one page of the Sales Book was carried forward to the next page as ₹ 8,750 instead of ₹ 8,570.

(b) A cheque of ₹ 4,000 received from Malini was dishonoured and had been posted to the debit of Allowance Account.

(c) A return of goods worth ₹ 500 by a customer was entered in the purchase return book.

(d) Sum of ₹ 1,200 owed by 'X' has been included in the list of sundry creditors.

(e) Sale of old furniture worth ₹ 3,400 was credited to sales Account as ₹ 4,300.

18. Rectify the following errors :

(a) Purchase book is overcast by ₹ 5,000.

(b) Salary paid to an employee, Mr. Ajit, is debited to his Personal Account ₹ 2,000.

(c) Goods sold to Sridhar on credit ₹ 3,000 have been wrongly passed through the Purchase Book.

(d) Total of returns inward bas been added ₹ 92 short.

(e) Purchase of chair from Furniture House for ₹ 350 has been entered in the Purchase Book as ₹ 530.

19. Correct the following errors in Madan lal's Book :

(a) A payment of ₹ 15,000 for salaries (to Mr. Raman) has been posted twice to the salaries Account.

(b) ₹ 2,750 received from Raja are entered on the debit side of the Cash Book. No posting was done in Raja's Account.

(c) Purchase book was under cast by ₹ 5,000.

(d) Goods (cost ₹ 3,000, sales price ₹ 3,500) distributed as free samples among customers were not recorded any where.

20. Give the rectifying entries of the following :

(a) Sales of ₹ 30,000 to Malaya were recorded as ₹ 3,000 in the Sales Book.

(b) An amount of ₹ 15,000 spent for the extension of machinery has been debited to the Wages Account.

(c) Total of Sales Return Book was undercast by ₹ 7,500.

(d) Goods of ₹ 4,500 sold to Ramesh were recorded in purchase book.

(e) Sales to Vinod ₹ 1,430 posted to his account as ₹ 1,340.

21. Pass the journal entries to rectify the following errors :

(a) A purchase of goods from Rahim Bros. amounting to ₹ 5,100 has been wrongly passed through the Sales Book.

(b) A credit sale of goods of ₹ 12,000 to Rohit has been wrongly passed through the Purchase Book.

(c) An amount of ₹ 22,000 due from Sultan & co, which had been written off as a bad debt in previous year was unexpectedly recovered and has been posted to the Account of Bikash & co.

(d) A cheque for ₹ 10,000 received from Modi & Bros was dishonoured and had been posted to the debit of Sales Return Account.

22. Pass the journal entries to rectify the following errors :

(a) Credit sales to Dhoni ₹ 1,600 debited to his account as ₹ 6,100.

(b) Credit purchases from Ram ₹ 2,290 recorded as ₹ 2920.

(c) Purchase book was over cast by ₹ 2,100.

(d) Credit purchase of goods of ₹ 12,000 from Rosan posted as ₹ 21,000.

(e) An addition in the Return Inward Book had been cast ₹ 500 short.

23. Rectify the following errors :

(a) Wages paid for the construction of Building debited to wages account ₹ 6,000.

(b) Machinery purchased for ₹ 25,000 was passed through the Purchase Book.

(c) Old furniture sold for ₹ 5,500 passed through Sales Book.

(d) ₹ 3,000 paid to Mehta Bros. against acceptance were debited to Mahima Bros. Account.

(e) Sales of ₹ 2,040 to Ram debited to his account as ₹ 4,020 and purchases of ₹10,120 from Shyam credited to his account as ₹ 12,100.

24. There was an error in the Trial Balance of Ram Krushna on 31st March 2016 and the difference in books was carried to the Suspense Account . On going through the books, it is found that :

(a) ₹ 5,400 received from R. Mehta was posted to the debit side of his account.

(b) ₹ 1,200 being purchases return was posted to the debit of the Purchase Account.

(c) Discount of ₹ 250 received was posted to the debit of the Discount Account.

(d) ₹ 5,740 paid for motor car repairs was debited to the Motor car Account as ₹ 2,740.

(e) ₹ 3,000 paid to D.Das was debited to the account of H. Dass.

25. Pass the rectifying Journal entries :

(a) A credit sale of goods for ₹ 3,500 to kisan has been wrongly passed through the Purchase Book.

(b) ₹ 7,000 paid for freight on machinery purchased was debited to the Freight Account as ₹ 5,000.

(c) The return outward book has been wrongly cast ₹ 1,000 short.

(d) An amount of ₹ 5,000 due from Suresh which had been written off as bad debt in previous year was recovered and had been posted to the personal account of Suresh.

(e) A sum of ₹ 5,600 owed by Harish had not been included in the list of Debtors.

26. Trial Balance of a Book-keeper shown an excess of debit over credit by ₹ 2,610. This difference is placed in a Suspense Account to facilitate books closure. Later on the following errors were discovered.

(a) A credit item of ₹ 3,490 has been debited to a personal account as ₹ 4,390.

(b) A sum of ₹ 6,250 written off from fixture as depreciation has not been posted to the Depreciation A/c.

(c) ₹ 90,000 paid for purchase of furniture have been charged to the Purchase Account.

(d) A sale of ₹ 5,940 was posted as ₹ 4,950 in the sales A/c.

(e) The total of Return Inward Book has been added ₹ 100 short.

(f) A discount allowed to a customer has been credited to him as ₹ 1,450 in place of ₹ 1,540.

Chapter - 10

Bank Reconciliation Statement

STRUCTURE

10.1 MEANING

Bank Reconciliation Statement is a statement prepared to reconcile the difference between the balance as per bank column of the cash book and pass book on any given date.

A bank reconciliation is a process that explains the difference between the bank balance shown in an organisation's bank statement as supplied by the bank and the corresponding amount shown in the organisation's own records (cash book), at a particular point of time.

Amount deposited (both cash and cheque) into bank is recorded in the bank column of the Triple Columned Cash Book on the debit side (i.e. receipt side) while withdrawals and issue of cheques are recorded on the credit side(i.e. payment side).

Bank also maintains an account of its customers (i.e., accountholders) in its books of accounts. Deposits by the accountholder are recorded on the credit side of the accountholders' account and withdrawals on the debit side. A copy of it is given to the accountholder in the form of statement or Pass Book for its records and reconciliation.

Thus, debit entries in the Cash Book are recorded on the credit side of the Bank Statement or Bank Pass Book, while credit entries in the Cash Book are recorded on the debit side of the Bank Statement or Bank Pass Book.

Transactions relating to deposits and withdrawals made during the period being recorded in both Cash Book and Pass Book, balances shown by the two records at the end of the period should normally agree, i.e., should be the same. But, sometimes the two balances differ. If the two balances differ, it is necessary to know the reasons for the difference. The difference may be because of an error in Cash Book or Pass Book or cheques issued not having been presented for payment or cheques having been recorded in the Cash Book but not deposited in bank or vice-versa or for any other reasons. A statement showing the reasons or causes of difference is prepared This Statement is known as Bank Reconciliation Statement.

Preparation of this statement does not require the principles of Double Entry System of Book-Keeping . It is a method to reconcile bank balance in Cash Book (Bank Column) with the balance as per Bank Pass Book to ensure that errors if any, are corrected and transactions, if omitted, are recorded.

10.2 NEED OF PREPARING BANK RECONCILIATION STATEMENT

Bank Reconciliation Statement is prepared because of the following reasons:

i) It brings to light errors that may have been committed either in the Cash Book or in the Pass Book.

ii) Undue delay in the clearance of cheques deposited is known from the Reconciliation,

iii) Regular Reconciliation discourages embezzlements.

iv) Reconciliation helps the management to check the accuracy of entries recorded in the Cash Book.

v) It shows actual bank balance.

BANK PASS BOOK

Bank Pass Book is a copy of the account of the customer of the bank in the books of the bank. It is issued by the bank to the customer (i.e., accountholder) so that entries in the Bank Pass Book can be compared with the entries in the Cash Book and difference determined. A debit balance in the Bank Pass Book means an asset for the bank and liability for its customer, whereas a credit balance means a liability for the Bank and an asset for its customer. In other words, a debit balance in the customer's account as per the Bank Pass Book means overdraft by the customer while a credit balance means customer's balance at bank. The format of a Bank Pass Book is given below :

Date	Particulars	Cheque No.	Withdrawals (Dr) ₹	Deposits (Cr) ₹	Balance		Initials
					Amount ₹	Dr. or Cr.	

10.3 CAUSES OF DIFFERENCE BETWEEN CASH BOOK AND PASS BOOK BALANCE

Balance as per Cash Book and Bank Pass Book may differ under some situations. We can broadly classify these situations into three categories :

1. Difference due to timing :

There is always a time gap between recording a transaction in the customer's books of accounts, i.e., Cash Book and it being recorded by the bank in the Pass Book. For example, a cheque issued is recorded in the Cash Book immediately but the bank records it only when it is presented for payment. Similarly, a cheque deposited, is recorded in the Cash Book immediately whereas the bank credits it when it is cleared, i.e, bank has collected the amount. Thus, there is always a time gap in recording entries in two books, i.e., Cash Book and Bank Pass Book. If Bank Reconciliation Statement is prepared in between the two dates, difference will exist.

2. Transactions recorded by the Bank :

At times, transactions are recorded by the bank, which are not known to the accountholder. The accountholder records it in his books of accounts only after getting the Pass Book updated. For example, interest charged or allowed, bank charges, transfer of balance from one account to another, payment of insurance premium , collection of dividend by bank, etc. are recorded by the banker without the knowledge of the customer. The customer comes to know about it after receiving intimation from the bank. Such transactions in the bank passbook lead to difference between the balance as per Cash Book and balance as per Bank Pass Book.

3. Errors:

Errors may be committed by the bank or the accountholder and these errors result in difference in the balances of Cash Book and Bank Pass Book. For example, wrong balance may be carried forward, a transaction may not have been recorded in the Cash Book or a transaction may have been wrongly recorded in an account, i.e., bank pass book, etc.

Above stated facts make it clear that there are certain reasons due to which the balances of Cash Book and Pass Book do not agree with each other.

10.4 STEPS IN PREPARATION OF BANK RECONCILIATION STATEMENT

After receiving the bank statement, the reconciliation statement is prepared following the steps given below :

Step 1 : Tick common items : The items that appear in both the cash book and the bank statement are first ticked off.

Step 2 : Ascertain points of difference : The remaining un-ticked items from both the books will be the points of differences.

Step 3 : The unticked items in the cash book will represent cheques deposited in the bank but not collected and credited in the pass book or cheques issued but not presented for payment. The unticked items in the pass book will relate to the credits given, if any, for interest allowed by the bank, deposits on account of dividends, interest on investments collected by bank or debits in respect of bank charges and payments made by bank for insurance premium, etc.

Balance as per Cash Book or as per Pass Book can be taken as the base for preparation of Bank Reconciliation Statement. If the statement is started with the balance as per bank column of the Cash Book, the answer arrived at the end will be the balance as per Pass Book. If the statement is started with the balance as per Pass Book, the answer arrived at the end will be the balance as per bank column of the Cash Book.

It should be noted that balance as per Cash Book may be either debit or credit and similarly balance as per Pass Book may also be either debit or credit balance, which are explained below :

i) Debit balance as per cash book means the business enterprise has this amount in the bank in the form of deposit.

ii) Credit balance as per cash book shows the amount which has been withdrawn in excess of deposit. It is called 'overdraft as per Cash Book'.

iii) Credit balance as per pass book shows that, the business enterprise has this amount as deposit in the bank,

iv) Debit Balance as per pass book shows the amount which has been withdrawn in excess of the deposit. It is called 'overdraft as per Pass Book'.

Specimen of Bank Reconciliation Statement

Bank Reconciliation Statement as on ……………..

Particulars	Plus items(₹)	Minus items (₹)

When the amount of overdraft is given that may be of Cash Book or Pass Book, it will be written in the column of 'Minus Amount', and when the amount of balance as per Cash Book or Pass Book is given, it will be recorded in the column of 'Plus Amount'.

If the total of 'Plus Amount' is more than the total of 'Minus Amount' the balance is treated as positive balance. But when, the total of 'minus amount' is more than 'plus amount' the balance is treated as an overdraft.

Bank Reconciliation Statement may also be prepared in the following proforma :

Bank Reconciliation Statement as on ....

Particulars	Amount ₹	Amount ₹
Balance / Overdraft as per Cash Book/ Pass Book		________
Add ---------------------------	________	
---------------------------	________	________
Less ---------------------------	________	________
---------------------------	________	________
Balance/ Overdraft as per Pass Book/ Cash Book		________

10.5 IMPORTANT POINTS FOR PREPARATION OF BANK RECONCILIATION STATEMENT

Following points should be noted, while preparing Bank Reconciliation Statement:

(a) Date : The date on which Bank Reconciliation Statement is prepared, should be specified on the top of the statement.

(b) Balance : The balance which forms the basis of bank reconciliation statement, should be specified in the beginning. In this regard it should be kept in mind that :

(i) Balance as per Cash Book means the balance as per bank column of Cash Book.

(ii) Credit balance in the Cash Book is a liability of the business enterprise or firm, i.e, overdraft.

(iii) Debit balance in Cash Book is the asset of the business enterprise or firm, i.e., Cash at Bank.

(iv) Credit balance as per Bank Pass Book is an asset of the firm, i.e., Cash at Bank.

(v) Debit balance as per Bank Pass Book is a liability of the business enterprise or firm, i.e., overdraft.

Besides above, the following should be kept in mind :

(i) Debiting an item in the Cash Book increases Cash Book balance and crediting, decreases it.

(ii) Debiting an item in the Bank Pass Book decreases the Bank Pass Book balance or increases the overdraft balance and crediting increases the balance or decreases the overdraft balance.

(iii) Preparing Bank Reconciliation Statement: After deciding which entries are to be added to the balance of the concerned book (i.e., the starting balance of Bank Reconciliation Statement) and which entries are to be subtracted, Bank Reconciliation Statement is prepared.

(iv) Bank Reconciliation Statement is prepared by starting with either (i) Cash Book balance: or (ii) Pass Book balance. Thereafter entries that cause the difference are determined. Starting balance is then adjusted by noting how the balance would have changed if same entries were recorded in both the Cash Book and Bank Pass Book.

10.6 PREPARATION OF BANK RECONCILIATION STATEMENT

(a) Preparation of Bank Reconciliation Statement srarting with Cash Book Balance

Cash Book may have debit, i.e., favourable balance or credit, i.e., unfavourable balance.

Bank Reconciliation Statement, if started with debit, i.e., favourable balance as per Cash Book, each entry causing difference is analysed to ascertain its effect on Cash Book balance, i.e., whether it has led to increase or decrease in the Cash Book balance.

Entries that have led to decrease in Cash Book balance (e.g., cheques issued but not presented for payment, dividend received and credited by bank but not recorded in the Cash Book etc.) are added to the balance as per Cash Book.

Similarly, entries of difference that have led to increase in Cash Book balance (e.g, cheques deposited but not credited by bank, bank charges debited by the bank, etc.) are deducted from the balance as per Cash Book.

These amounts when added to or deducted from Cash Book balance, give the balance as per Bank Pass Book.

Bank Reconciliation Statement if started with credit, i.e., unfavourable or bank overdraft balance as per Cash Book, each entry causing difference is analysed to ascertain its effect on Cash Book balance, i.e, whether it has led to increase or decrease in overdraft balance as per Cash Book.

Entries that have led to increased overdraft balance as per Cash Book (i.e., cheques issued but not presented for payment, interest credited by the bank etc.) are deducted from overdraft balance as per Cash Book.

Similarly, entries that have led to decreased overdraft balance as per Cash Book (e.g., cheques deposited but not credited by bank, bank charges debited by the bank, direct payment by bank not recorded in the Cash Book, etc.) are added to the overdraft balance as per Cash Book.

The deductions and additions of above amounts, result in the balance or overdraft as per Pass Book.

(b) Preparation of Bank Reconciliation Statement starting with Pass Book Balance :

Bank Reconciliation Statement, if started with credit, i.e., favourable balance as per Bank Pass Book, each entry causing difference is analysed to ascertain its effect on

Pass Book balance, i.e., whether it has led to increase or decrease in the balance as per Bank Pass Book.

Entries that have led to increased Pass Book Balance (e.g., cheques issued but not presented for payment, interest credited by bank, etc) are deducted from the Bank Pass Book balance.

Similarly, entries that have led to the decreased Bank Pass Book balance (e.g., cheques deposited but not credited, bank charges debited by bank, insurance premium paid by bank as per standing instruction, etc.) are added to the Bank Pass Book balance.

The adjustments of above amounts lead to the balance as per Cash Book.

Bank Reconciliation Statement, if started with debit, i.e., unfavourable balance or overdraft as per Bank Pass Book, each entry causing difference is analysed to ascertain its effect on Cash Book balance, i.e., whether it has led to increase or decrease in the balance as per Bank Pass Book. Entries that have led to increased overdraft of Bank Pass Book balance (e.g., cheques deposited but not credited, bank charges debited by bank, etc.) are deducted from the overdraft as per Bank Pass Book.

Similarly, entries that have led to decrease in overdraft as per Bank Pass Book (e.g., cheques issued but not presented for payment, interest credited by bank, etc) are added to the overdraft as per Bank Pass Book.

The adjustments of above amounts lead to the amount of overdraft or balance as per Cash Book.

It is pertinent to note that a transaction which is correctly recorded in both Cash Book and the Bank Pass Book within the date of preparing Bank Reconciliation Statement is not considered while preparing Bank Reconciliation Statement. The entries which have been recorded in the Cash Book and not in the Pass Book or have been recorded in the Pass Book and not in the Cash Book are considered.

The following statement contains the working rules for preparing a Bank Reconciliation Statement when the reasons of disagreement are given along with the balance favourable or unfavourable, i.e., overdraft as per Cash Book or Pass Book.

Sl No.	Particulars (items)	Starting Point			
		Bal. as per CB (Dr.)	Bal. as per PB (Cr.)	O.D. as per CB (Cr.)	O.D. as per PB (Dr.)
1.	Cheques deposited but not credited by bank.	-	+	+	-
2.	Interest on overdraft charged by bank and debited in the Pass Book.	-	+	+	-
3.	bank charges and expenses debited in the Pass Book.	-	+	+	-
4.	Direct payments and remittances made by the bank as per standing order.	-	+	+	-
5.	Discounted bills or cheques dishonoured including noting charges debited by bank in the Pass Book.	-	+	+	-
6.	Cheques issued but not recorded in Cash Book.	-	+	+	-
7.	Cheques recorded in Cash Book but not depostied.	-	+	+	-
8.	Wrong debit by the bank.	-	+	+	-
9.	Cheques issued but not yet presented for payment.	+	-	-	+
10.	Interest allowed by bank.	+	-	-	+
11.	Dividend, rent, interest, etc. collected by bank as per standing order.	+	-	-	+
12.	Bills collected by bank.	+	-	-	+
13.	Direct deposits into the bank by the firm's customers or third parties.	+	-	-	+
14.	Cheques paid into the bank and credited in the Pass Book but not recorded in the Cash Book.	+	-	-	+
15.	Wrong credit made by the bank.	+	-	-	+

Note :- '+' signifies amount of items to be added and '-' signifies amount of items to be deducted from the balance at the starting point. CB stands for Cash Book, PB stands for Pass Book, O.D. stands for overdraft and Bal. stands for Balance.

CASE I – When starting balance is Debit or Favourable Balance as per Cash Book.

Illustration 1 The following particulars relate to the business of Mr. A on 31st March 2016 :

		(₹)
(i)	Cheques issued but not yet presented for payment	11,500
(ii)	Cheques paid into the bank but not yet collected	2,500
(iii)	Interest credited by the bank but not entered in the Cash Book	550
(iv)	Bank charges debited in the pass book but not entered in the Cash Book	35
(v)	Debit balance as shown by the Cash Book	26,015

You are required to prepare a Bank Reconciliation Statement as on 31st March 2016.

Solution :

Bank Reconciliation Statement of Mr. A as on 31st March 2016

Particulars	Details (₹)	Amount (₹)
Balance as per Cash Book		26,015
Add :		
(i) Cheques issued but not presented for payment	11,500	
(ii) Interest credited in the Pass Book	550	12,050
		38,065
Less :		
(iii) Cheques paid into bank but not collected	2,500	
(iv) Bank charges debited in the Pass Book	35	2,535
Balance as per Pass Book		35,530

Illustration 2

The Cash Book of a trader showed a bank balance of ₹1,58, 000 on 31st December 2015. On scrutiny, the following facts came to notice :

The trader issued cheques for ₹1,00,000 out of which cheques of ₹70,000 only were encashed by 30th December 2015. He received a cheque of ₹25,000 from a customer on 30th November 2015 and entered in the Cash Book but forgot to deposit the same in the bank. Bank allowed interest ₹2,600 and charged commission ₹700 which were not entered in the Cash Book. Prepare Bank Reconciliation Statement.

Solution :

Bank Reconciliation Statement of a trader as on 31st December 2015.

Particulars	Details (₹)	Amount (₹)
Balance as per Cash Book		1,58,000
Add :		
Cheques issued but not yet encashed	30,000	
1,00,000- 70,000		
Interest allowed by bank and credited in Pass Book	2,600	32,600
		1,90,600
Less :		
Cheques recorded in Cash Book but not deposited in bank	25,000	
Bank charges entered in Pass Book only	700	25,700
Balance as per Pass Book		1,64,900

Illustration 3

From the following particulars of Dhanpat Ray, prepare a Bank Reconciliation Statement as on 31st March 2016 :

His bank balance as per Cash Book was ₹15,900. Cheques amounting to ₹870 were paid into bank in March 2016 out of which cheque of ₹230 were collected in April 2016. Cheques worth ₹460 issued in March 2016 was encashed in April 2016. A cheque of ₹130 received from a customer and entered in the bank column of the Cash Book was omitted to be banked. Bank has allowed on interest of ₹23 which is not recorded in Cash Book.

Solution :

Bank Reconciliation Statement of Chanpat as on 31st March 2016.

Particulars	Details (₹)	Amount (₹)
Balance as per Cash Book		15,900
Add :		
Cheques issued but not yet encashed	460	
Interest allowed by bank and credited in Pass Book	23	
		483
		16,383
Less :		
Cheques paid into Bank but not yet credited in Pass Book	230	
Cheques recorded in Cash Book but omitted to be banked	130	360
Balance as per Pass Book		16,023

Illustration 4

Cash Book of Mr. Ambani showed a debit balance of ₹5,97,320 as on 31st March, 2016. On further scrutiny , the following facts were disclosed :

(a) Cheques totalling ₹75,000 were issued out of which cheques of ₹34,000 were presented to the bank by 31st March 2016.

(b) A cheque of ₹9,500 received from a customer was entered in the Cash Book but not sent to bank by mistake.

(c) Bank paid ₹54,000 towards insurance premium and charged commission ₹700, which were not entered in the Cash Book.

(d) Interest allowed on bank deposit ₹6,130 were not recorded in Cash Book.

(e) A customer deposited ₹18, 250 directly in the bank account of Mr Ambani.

Prepare Bank Reconciliation Statement of Mr. Ambani as on 31st March 2016.

Solution :

Bank Reconciliation statement of Mr. Ambani as on 31st March 2016.

Particulars	Details (₹)	Amount (₹)
Balance as per Cash Book		5,97,320
Add :		
Cheques issued but not yet presented for payment (75,000-34,000)	41,000	
Interest allowed on bank deposit not recorded in the Cash Book	6,130	
Direct Payment into the bank account by a customer	18,250	65,380
		6,62,700
Less :		
Cheques received and entered in Cash Book but not sent to bank for collection.	9,500	
Premium paid by bank as per standing order	54,000	
Commission charged by bank	700	64,200
Balance as per Pass Book		5,98,500

Illustration 5

On 31st December, 2015, the Cash Book of Mahesh showed debit balance of ₹18,500. On comparing the Cash Book with the Pass Book, the following discrepancies were noted :

(i) Cheques issued for ₹60,000 were not presented at bank by 31st December 2015.

(ii) Cheque of ₹80,000 was deposited in bank but was not cleared.

(iii) A cheque of ₹2,000 received from Dhani and deposited in bank was dishonored. No advice for non-payment was received from bank till 1st January 2016.

(iv) A cheque of ₹5,100 was paid into bank but bank credited the amount with ₹5,010 by mistake.

(v) Bank received interest on Debenture on behalf of Mahesh amounting to ₹2,500.

(vi) A cheque of ₹5000 entered in Cash Book was omitted to be banked.

Prepare Bank Reconciliation Statement as on 31st December 2015.

Solution :

Bank Reconciliation Statement of Mahesh as on 31st December 2015.

Particulars	Details (₹)	Amount (₹)
Balance as per Cash Book		18,500
Add :		
Cheques issued but not presented for payment	60,000	
Interest collect & credited in Pass Book	2,500	62,500
		81,000
Less :		
Cheques deposited but not yet cleared	80,000	
Cheques deposited in bank but dishonoured	2,000	
Wrong posting in Pass Book in respect of cheques		
deposited (5100-5010)	90	
Cheques entered in Cash Book but omitted to be banked	5,000	87,090
Overdraft as per Pass Book		6,090

CASE – 2 : When starting balance is Credit, i.e., Favourable Balance as per Cash Book :

Illustration 6

On 31st March 2016, Bank Pass Book of Dayanidhi showed credit balance of ₹1,56,500, whereas Cash Book showed debit balance of ₹1,52,000. The reasons for the difference were :

(i) Cheques issued to Rohan for ₹60,000 and Daniel for ₹38,400 were not presented for payment.

(ii) Bank charged ₹3,500 for bank charges.

(iii) Narendra directly deposited ₹81,600 into the Bank Account of the trader which was not entered in the Cash Book.

(iv) Two cheques, one from Shyamalal for ₹51,500 and another from Ramlal for ₹1,25,000 were collected by bank in the first week of April, 2016, although they were banked on 25th March 2016.

(v) Interest credited by bank ₹4,500.

Prepare Bank Reconciliation Statement as on 31st, March 2016.

Solution :

Bank Reconciliation Statement as on 31st March 2016.

Particulars	Details (₹)	Amount (₹)
Balance as per Cash Book (Cr.)		1,56,500
Add.		
Cheques deposited but not yet collected		
Shymlal 51,500		
Ramlal 1,25,000	1,76,500	
Bank charges debited by bank	3,500	1,80,000
Less:		3,36,500
Cheques issued but not yet presented for payment		
Rohan 60,000		
Daniel 38,400	98,400	
Cheques directly deposited in bank	81,600	
Interest credited by the bank	4,500	1,84,500
Balance as per Cash Book(Dr.)		1,52,000

Illustration 7

From the following particulars, prepare Bank Reconciliation Statement of Lala as on 31st December 2015 :

Balance as per Pass Book on 31st December, 2015 was ₹1,85,000. Cheques amounting to ₹68,000 were deposited in bank during December 2015 but credit was given for ₹58,200 only. Cheques of ₹72,000 were issued during the month of December, 2015 but of these cheques, a cheques of ₹22,000 was presented for payment in the month of January, 2016 and one cheque of ₹5,000 was not presented for payment. A customer had deposited ₹12,000 in the bank directly and the bank has credited the merchant for ₹2,000 as interest and has debited him for Rs. 600 as bank charges for which there are no corresponding entries in the Cash Book.

Solution :

Bank Reconciliation Statement as on 31st December 2015.

Particulars	Details (₹)	Amount (₹)
Balance as per Cash Book		1,85,000
Add :		
Cheques deposted but not cleared		
(68,000-58,200)	9,800	
Interest collect & credited in Pass Book	600	10,400
		1,95,400
Less :		
Cheques issued but not yet presented for payment.		
(22,000+5,000)	27,000	
Direct payment into the bank account by a customer	12,000	
Interest credited in Pass Book	2,000	41,000
Balance as per Cash Book		1,54,400

Illustration 8

Anil's Pass Book showed a balance of ₹1,20,000 on 31st March 2016. Before that date, he issued cheques of ₹16,000 to his creditor out of which cheque of ₹7,000 only were presented to the bank for payment. He also received a cheque of ₹3,500 which, although entered in the bank column of the Cash Book, was forgotten to be deposited into the bank. On 31st March 2016, a cheque of ₹5,000 received and deposited in the bank was not entered in the Cash Book by mistake. There was a credit of ₹1,800 for interest and a debit of ₹200 for bank charges in the Pass Book.

Draw up a Bank Reconciliation Statement.

Solution :

Bank Reconciliation Statement of Anil as on 31st March 2016.

Particulars	Details (₹)	Amount (₹)
Balance as per Cash Book		1,20,000
Add :		
Cheques received and entered in Cash Book		
but not banked	3,500	
Bank charges debited in Pass Book	200	3,700
		1,23,700
Less :		
Cheques issued but not yet presented for payment		
(16,000 - 7,000)	9,000	
Cheques deposited into bank but not recorded		
in Cash Book	5,000	
Interest credited in the Pass Book	1,800	15,800
Balance as per Cash Book		1,07,900

CASE – 3 : When starting balance is Credit, i.e., Overdraft as per Cash Book :

Illustration 9

From the following information, ascertain the balance that would appear in the Bank Pass Book of Azin on 31st March, 2016:

(i) Bank overdraft as per Cash Book on 31st March 2016, ₹6,340.

(ii) Interest on overdraft for 6 months ended 31st March 2016, ₹160 entered in the Pass Book.

(iii) Bank charges of ₹30 for the above period are debited in the Pass Book.

(iv) Cheques issued but not cashed prior to 31st March 2016, amounted to ₹1,168.

(v) Cheques paid into the bank but not cleared before 31st March, 2016 were for ₹2,170.

(vi) Interest on investments collected by the bank and credited in the Pass Book, ₹1,200.

Solution:

Bank Reconciliation Statement as on 31st March, 2016.

Particulars	Details (₹)	Amount (₹)
Balance as per Cash Book		6,300
Add :		
Interest debited in the Pass Book but not yet entered in the Cash Book	160	
Cheques paid but not yet credited by the bank	2,170	
Bank charges debited in Pass Book but yet not entered in the Cash Book	30	2,360
		8,700
Less :		
Cheques issued but not yet presented	1,168	
Interest collected and credited by the bank but not yet entered in the Cash Book	1,200	
Overdraft as per Pass Book(Dr.)		6,332

The above solution can also be presented with two columns using 'plus' and 'minus' method.

Bank Reconciliation Statement amarch, 2016.

Particulars	Details (₹)	Amount (₹)
Overdraft as per Cash Book (Cr.)		6,340
Interest debited in the Pass Book but not yet entered in the Cash Book		160
Cheques issued but not yet presented	1,168	
Cheques paid but not yet credited by the bank		2,170
Bank charges		30
Interest collected and credited by the bank in the Pass Book but not yet entered in the Cash Book	1,200	
Overdraft as per Pass Book (8,700-2,368)	6,332	
	8,700	8,700

Illustration 10

Prepare Bank Reconciliation Statement as on 30th June, 2016 for Reliance Fresh Pvt. Ltd. from the information given below :

		₹
(i)	Bank overdraft as per Cash Book on 30th June, 2016	1,10,450
(ii)	Cheques issued on 20th June, 2016 but not yet presented	15,000
(iii)	Cheques deposited but not yet credited by the bank	22,750
(iv)	Bills for collection not advised by the bank but credited to the account.	47,200
(v)	Interest debited by the bank on 27th June, 2016 but no advice received.	12,115
(vi)	Subsidy received from the authorities by the bank on our behalf, credited to the account	22,000
(vii)	Amount wrongly debited by the bank	2,400
(viii)	Amount wrongly credited by the bank	5,000

Solution :

Bank Reconciliation Statement as on 30th June 2016

Particulars	Details (₹)	Amount (₹)
Balance as per Cash Book (Cr.)		1,10,450
Add :		
Cheques deposited but not yet credited	22,750	
Interest debited by bank but not recorded in Cash Book	12,115	
Amount wrongly debited by bank	2,400	37,265
		1,47,715
Less :		
Cheques issued but not yet presented for payment	15,000	
Bill sent for collection credited by bank but not recorded in Cash Book	47,200	
Amount wrongly credited by bank	5,000	
Subsidy received by bank and credited but not recorded in Cash Book	22,000	89,200
Overdraft as sper Pass Book		58,515

Illustration 11

On 31st March 2016, the Cash Book of Rohit showed an overdraft of ₹56,000, from the following particulars, prepare Bank Reconciliation Statement :

(i) Cheques drawn but not encashed before 31st March, 2016 amounted to ₹39,460.

(ii) Cheques paid into the bank but not credited before 31st March, 2016 amounted to ₹48,910.

(iii) A bill receivable for ₹5,200 previously discounted with the bank had been dishonoured and bank charges debited in the Pass Book amounted to ₹550.

(iv) Debit is made in the Pass Book for ₹1,200 on account of interest on overdraft.

(v) The bank has collected interest on investment and credited ₹7,600 in the Pass Book.

Solution :

Bank Reconciliation Statement as on 31st March 2016

Particulars	Details (₹)	Amount (₹)
Overdraft as sper Pass Book		56,000
Cheques drawn but not encashed	39,460	
Cheques paid into the bank but not credited till 31st March		48,910
Bills receivable dishonoured, previously discounted with the bank		5,200
Bank charges debited in the Pass Book		550
Interest on overdraft		1,200
Interest on investment	7,600	
Overdraft as per Pass Book	64,800	
	1,11,860	1,11,860

CASE 4 : When starting balance is Credit, i.e., Overdraft as per Pass Book :

Illustration 12

On 31st December, 2015, Bank Pass Book of Manu & Co. showed an overdraft of ₹77,000. On the basis of the following particulars, prepare a Bank Reconciliation Statement :

(i) Cheques issued before 31st. December, 2015 but not yet presented for payment amounted to ₹35,000.

(ii) Out of cheques paid into the Bank, but a cheque amounting to ₹26,000 has not been collected yet.

(iii) Interest on loan amounting to ₹5,540, debited by the Bank did not appear in the Cash Book.

(iv) ₹48,000 directly deposited by a customer entered in the Pass Book but not in the Cash Book.

Solution :

Bank Reconciliation Statement of Manu & co as on 31st Dec. 2015

Particulars	Details (₹)	Amount (₹)
Overdraft as per Pass Book(Dr.)		77,000
Add :		
Cheques issued but not presented for payment	35,000	
Directly deposited by the customer	48,000	
		83,000
		1,60,000
Less :		
Cheques paid into bank but not collected	26,000	
Interest on Bank Loan not entered in the Cash Book	5,540	
		31,540
Overdraft as per Cash Book		1,28,460

Illustration 13

From the following particulars, prepare a Bank Reconciliation Statement as on 31st March, 2016

(i) Overdraft as per Pass Book ₹1,600

(ii) A cheque of ₹130 was entered in the Cash Book on 28th March, 2016 but was sent to the bank on 2nd April 2016.

(iii) A amount of ₹120 paid into the bank was not entered in the Cash Book.

(iv) A cheque of ₹125 was credited by the bank but was not entered in the Cash Book.

(v) A deposit of ₹260 on 31st March, 2016 was not recorded wrongly in the Bank Pass Book.

(vi) A cheque of ₹1,800 paid into the bank was returned dishonoured but no intimation was received from the bank till 31st March, 2016

Solution :

Bank Reconciliation Statement as on 31st March 2016

Particulars	Details (₹)	Amount (₹)
Overdraft as per Pass Book(Dr.)		1,600
Add :		
Cash paid into the bank but not yet entered in the Cash Book	120	
Cheque sent to bank but not yet entered in Cash Book	125	245
		1,845
Less :		
Cheques entered in the Cash Book but not yet sent to bank	130	
Cash deposited but not entered in the Pass Book wrongly	260	
Cheque dishonoured	1,800	2,190
Overdraft as per Cash Book		345

Illustration 14

Following information has been given by Gobinda. Prepare a Bank Reconciliation Statementas on 31st March, 2016, showing balance as per the Cash Book

(i) Debit balance shown by Bank Statement ₹1,780

(ii) Cheque of ₹2,160 were issued in the last week of March but only cheques of ₹1,480 were presented for payment.

(iii) Cheques of ₹1,075 were presented to the bank out of them, a cheque of ₹420 was credited in the first week of April, 2015.

(iv) A cheque of ₹120 was debited in the Cash Book but was not presented in the bank.

(v) Insurance premium paid by the bank ₹145.

(vi) A bill of exchange of Rs. ₹620 which discounted with the bank was returned dishonoured but no entry was made in the Cash Book.

(vii) Bank charges and interest charged by the bank are ₹35.

Solution :

Bank Reconciliation Statement as on 31st March 2016

Particulars	Details (₹)	Amount (₹)
Balance as per Cash Book		1,780
Add :		
Cheques issued but not presented for payment		680
		2,460
Less :		
Cheques deposited but not yet credited	420	
Cheques recorded in Cash Book but not deposited in bank	120	
Insurance premium paid by bank not recorded in Cash Book	145	
Bills dishonoured, not entered in Cash Book	620	
Bank charges and interest charged by bank not recorded in Cash Book	35	1,340
Overdraft as per Cash Book		1,120

Where extracts of the cash Book and Pass Book are given :

In practice, bank reconciliation statement is prepared from the extract of the Cash Book and Pass Book. Causes of difference are not available. For ascertaining the causes of differences, Cash Book of a particular period has to be compared with the Pass Book of that period. Items appearing in one but not in the other are the causes of difference. The debit side of Cash Book is compared with the credit column of Pass Book.

If an item appears in both the books, then it will not contribute to the difference. Such items are tick **(✔)** marked in both the books. The unticked items in the Cash Book represent deposits not yet recorded in the Pass Book and the unticked items in the Pass Book represent amount credited by the bank not yet recorded in the Cash Book. Similarly, the credit side of Cash Book is compared with the Debit column of Pass Book. Items appearing in both the books are ticked. The unticked items in the Cash Book represent amount debited by the bank not yet recorded in the Cash Book. Finally, after ascertaining the reasons and taking into consideration the closing balance of the Cash Book or Pass Book, the bank reconciliation statement is prepared. This will be cleared from the following illustration:

Illustration 15

From the following entries in the bank column of the Cash Book and Pass Book of Sambit, prepare Bank Reconciliation Statement as on 30.04.2016 :

Cash Book (Bank Column)

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
April -1	To balance b/d	93,000	April 6	By Paresh	26,000
April -8	To Ranjita	14,300	April 7	By Aniti	45,400
April -2	To Amit	23,100	April 18	By Kalyani	17,000
April -25	To Kalia	18,400	April 28	By Salary	35,000
April -27	To Basant	32,000	April 29	By Rent	6,000
April -28	ToRanjan	15,800	April 30	By balance c/d	67,200
		1,96,600			1,96,600

Pass Book

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
April -7	To Paresh	26,000	April 1	By balance b/d	93,000
April -8	To LIC Premium	5,000	April 10	By Ranjita	14,300
April -19	To Kalyani	17,000	April 17	By Rama	15,000
April -28	To Salary	35,000	April 28	By Basanta	32,000
April -29	To Club bill	2,100		By collection of bills	26,000
April -30	To balance c/d	1,18,300		By Amit	23,100
		2,03,400			2,03,400

Solution:

Bank Reconciliation Statement of Sambit as on 30.04.2016.

Particulars	Details (₹)	Amount (₹)
Balance as per Cash Book		67,200
Add :		
Cheque issued but not presented for payment		
Aniti 45,400		
Rent 6,000	51,400	
Direct deposit by customer Rama	15,000	
Collection of bills	26,000	92,400
		1,59,600
Less :		
Cheques deposited but not collected		
Kalia - 18,400		
Ranjan - 15,800	34,200	
Payment made by bank :		
Lic Premium - 5,000		
Club Bill - 2,100	7,100	41,300
Balance as per Pass Book		1,18,300

10.6 Questions

1. **From the given alternatives, write the correct answer along with its serial number against each bit:**

(i) A Bank Reconciliation Statement is a :

(a) Part of Pass Book (b) Part of Cash Book

(c) Separate Statement (d) Part of Journal

(ii) A Bank Reconciliation Statement is prepared by :

(a) A banker (b) Creditor

(c) Debtor (d) Accountholder

(iii) One of the following which will not require adjustment in the Cash Book balance, is :

(a) Cheque issued but not presented for payment.

(b) Cheque deposited but not cleared

(c) Cheque wrongly credited by bank

(d) LIC premium paid by bank as per standing instruction, under intimation to the customer

(iv) A Bank Reconciliation Statement is prepared with the help of :

(a) Bank Pass Book and Cash column of Cash Book.

(b) Bank Pass Book and Bank column of Cash Book.

(c) Pass Book and Cheque Book.

(d) Cheque Book and Cash Book.

(v) Cheque issued but not presented for payment, will :

(a) Increase the Cash Book balance.

(b) Decrease the Cash Book balance.

(c) Increase the balance of both the Cash Book and Pass Book.

(d) Derease the Pass Book balance.

(vi) Debit balance as per Pass Book means :

(a) Favourable balance as per Pass Book.

(b) Overdraft balance as per Cash Book.

(c) Favourable balance as per Cash Book.

(d) Overdraft balance as per Pass Book.

(vii) A Bank Reconciliation Statement is prepared to reconcile the difference in :

(a) Cash balance and bank balance.

(b) Cash Balance and Pass book balance.

(c) Balance shown by the cash column and bank column of the Cash Book.

(d) bank balance as per Cash Book and Pass Book.

(viii) Interest charged by bank will :

(a) Increase the Pass Book balance.

(b) Increase the Cash Book and Pass Book balance

(c) Decrease the Pass Book balance.

(d) Decrease the Cash Book balance

[Ans : (i) c, (ii) d, (iii) c, (iv) b, (v) b, (vi) d, (vii) d, (viii) c]

2. Answer the following questions in one word/ term each :

(i) Who prepares Bank Reconciliation Statement ?

(ii) What is the other name of Pass Book ?

(iii) When two parallel lines are drawn across the face of a cheque, what does it signify?

(iv) Who maintains the Pass Book ?

(v) What is the type of Bank Account that is usually opened by the businessmen ?

[Ans : (i) Bank Customer, (ii) Bank Statement of Account, (iii) crossing of cheque, (iv) Bank, (v) Current Account]

3. Correct the underlined portion of the following :

(i) A bank reconciliation statement is a <u>ledger.</u>

(ii) The Bank Reconciliation Statement is prepared by <u>bank</u>.

(iii) Direct deposit by a customer into the bank will increase the <u>Cash</u> Book balance.

(iv) Interest charged by bank will <u>increase</u> Pass Book balance.

(v) The <u>Cash</u> column of the triple columned Cash Book is taken into account for Bank Reconciliation Statement.

[Ans . (i) Statement, (ii) Bank customer, (iii) Pass , (iv) Decrease, (v) Bank]

4. Fill up the blanks of the following sentences :

(i) Cash receipts and payments are recorded in ______ bank.

(ii) The Bank Statement is sent by the bank to ______.

(iii) Interest allowed by bank increases ______ balance first.

(iv) Dividend collected directly by the bank increases the balance of ______ book.

(v) Bank reconciliation statement is prepared so that the difference between the Cash Book balance ______ Book balance can be reconciled.

[Ans. (i) cash, (ii) customer, (iii) pass, (iv) pass, (v) pass]

5. Answer the following questions in one sentence each :

(a) What do you mean by Overdraft ?

(b) Why is a Bank Reconciliation Statement prepared ?

(c) Write any one cause of difference between Bank Pass Book balance and Cash Book balance ?

(d) Give an example which causes increase in Overdraft as per Pass Book.

6. Answer the following questions within two sentences each :

(i) What is a Pass Book ?

(ii) What do you mean by a Bearer Cheque ?

(iii) What is Bank Reconciliation Statement ?

(iv) What is Bank overdraft ?

(v) What is current account ?

(vi) What is meant by 'unpresented cheque' ?

(vii) What do you mean by "standing instruction' ?

(viii) State two objects of preparing Bank Reconciliation Statement ?

7. Answer the following questions within six sentences each :

(i) Distinguish between Cash Book and Pass Book.

(ii) State the nature and object of Bank Reconciliation Statement.

(iii) State any three causes of disagreement in Cash Book and Pass Book balance.

(iv) State any three reasons when the Cash Book balance will be higher than the Pass Book balance.

(v) State whether the following items are added to or subtracted from the overdraft balance of Cash Book, while preparing Bank Reconciliation Statement :

(a) Cheques deposited in bank but dishonoured.

(b) Interest on bank overdraft.

(c) Bank collected interest on investments.

(d) Bank paid insurance premium as per standing instruction.

8. What is Bank Reconciliation Statement ? Write down the causes of its preparation with suitable examples.

9. Explain the different reasons of disagreement between the balances shown by the Cash Book and Pass Book.

10. Explain the procedure of preparing Bank Reconciliation Statement.

11. Prepare Bank Reconciliation Statement from the following particulars as on 31st July, 2016 :

		₹
(i)	Debit balance as per Cash Book	20,000
(ii)	Cheques issued but not presented for payment	1,600
(iii)	Cheques deposited but not credited	14,000
(iv)	Amount directly deposited by a customer	10,600
(v)	Bank Charges debited by Bank	200

[Ans. Credit balance as per Pass Book ₹18,000]

12. From the following particulars, prepare a Bank Reconciliation Statement as on 31.12.2015 :

(i) Debit Balance as per Cash Book ₹19,820.

(ii) The following cheques were issued but were presented for payment in January 2016 : A ₹6,840, B ₹7,068, C ₹4,535.

(iii) The following cheques were sent to the bank for collection in December but were credited in January : A ₹3,200, B ₹6,750, C ₹5,340.

(iv) A customer directly deposited ₹3,200. The bank paid ₹400 insurance premium which was not entered in the Cash Book. The bank allowed half-yearly interest of ₹85 and charged ₹60 for its service, but the same were not entered in the Cash Book.

[Ans. Balance as per Pass Book ₹25,798]

13. Prepare a Bank Reconciliation Statement from the following :

(i) Bank balance on 30th June 2016 as per Cash Book was ₹10,000.

(ii) Cheques issued but not presented for payment were ₹2,200.

(iii) Cheques deposited but not collected were ₹4,460

(iv) Interest allowed by bank ₹200

(v) Bank charges charged by the bank ₹40

(vi) A cheque of ₹400 was deposited in the bank for collection. The cheque was dishonoured and this was not recorded in Cash Book.

[Answer Balance as per Pass Book ₹7,360]

14. Prepare a Bank Reconciliation Statement as on 30th June, 2016 and find the balance of Pass Book on this date :

On 30th June, 2016 the Cash Book shows a bank balance of ₹6000. Cheques amounting to ₹30,000 were sent to bank before 30th June, but it appears from the Pass Book that cheques worth ₹12,000 only had been credited till that date. Similarly, out of cheques for ₹15,000 issued during the month of June, cheques worth ₹7,500 were presented and paid in July, 2016.

The Pass Book shows the following payments : (i) ₹600 insurance premium as per instruction, (ii) ₹6,000 against a promissory note as per instructions.

The Pass Book also shows that bank had collected ₹1,800 as interest on government securities. The bank had charged bank charges ₹210 for which no entry has been passed in the Cash Book.

[Answer: Overdraft balance as per Pass Book Rs. 9,510].

15. From the following particulars, prepare a Book Reconciliation Statement of Gitanjali on 31st December, 2015 : Balance as per Pass Book on 31st December, 2015, was ₹18,500/-. Cheques for ₹7,200/- were issued during the month of December, but of these cheques for ₹2,200/- were presented in the month of January, 2016 and one cheque of ₹500/- was not presented for payment. Cheques and cash amounting to ₹6,800/- were deposited in the bank during December, but credit was given for ₹ 5,820/- only. A customer has deposited ₹1,200/- into the bank directly. The bank has credited the merchant for ₹200/- as interest and has debited him for ₹60/- as bank charges, for which there are no corresponding entries in the cash book.

[Answer : Balance as per cash book ₹15,440]

16. From the following particulars, prepare a Bank Reconciliation Statement as on 31st December, 2015 : On 31st December, 2015, a merchant's passbook showed a credit balance of ₹5,400. A comparison of the entries with the Cash Book revealed that he had paid in cheques amounting to ₹600 on 30th December, 2015, out of which, cheques of ₹240 were credited in the Pass Book on 3rd January, 2016. He had issued cheques amounting to ₹1,500 before 31st December, of which cheque for ₹466 was debited in his account after 1st January. There was a debit in the Pass Book of ₹15, in respect of bank charges and credit of ₹35 for interest on current account.

[Answer : Balance as per cash book ₹5,154]

17. From the following particulars, prepare a Bank Reconciliation Statement of Goel, as on 31st December, 2015 :

Balance as per Pass Book on 31st December, 2015 is ₹8,500 Cheques of ₹5,100 were issued during the month of December, but of these chaques for ₹1200 were presented in the month of January, 2016 and one cheque of ₹200 was not presented for payment. Cheques and cash amounting to ₹4,800 were deposited in bank during December, but credit was given for ₹3,800 only. A customer has deposited ₹800 into bank directly. The bank credited the merchant for ₹200 as interest and has debited him for ₹30 as bank charges for which there are no corresponding entries in the cash book.

[Answer : Balance as per cash book ₹4,130].

18. On 31st March, 2016 the Pass Book of ABC Ltd. shows a credit balance of ₹67,140. The following discrepancies were noted while verifying the same with the cash book :

(i) The cheques and draft sent to the bank, but not collected amounting to ₹15,800.

(ii) Three cheques drawn for ₹6,000, ₹3000 and ₹4000 respectively were not presented for payment till 31st March.

(iii) Bank has paid a Bill Payment amounting to ₹2,000, but it has not been entered in the cash book.

(iv) A Bill Receivable of ₹10,000, which was discounted with the bank was dishonoured on the due date.

(v) The bank has charged ₹60 as its commission for collecting outstation cheques and has allowed interest of ₹200 on the trader's balance.

You are required to prepare a Bank Reconciliation Statement showing the balance that would be revealed by the Cash Book.

[Answer : Balance as per Cash Book ₹1,00,000]

19. The Cash Book of XYZ Ltd. showed a bank overdraft of ₹2,100 on September, 30, 2015 :

On going through the Pass Book the following differences are noted :

(i) Cheques paid into the bank but not cleared upto September 30, 2015 amounted to ₹2,400.

(ii) Cheques ₹18,750 were issued, of which cheques of ₹3,750 were presented for payment.

(iii) A customer deposited ₹6,000 direct into the bank and no entry in the Cash Book was made.

(iv) Bank charged commission of ₹230 and interest on overdraft ₹160.

(v) A customer's cheque of ₹2,430 was deposited in the bank but wrongly entered in the Cash Book as ₹2,340.

(vi) Bank paid insurance premium of ₹1,200 but no entry was passed in the Cash Book for it.

(vii) A bill received from a customer for ₹2,500 discounted with the bank was dishonoured on September, 26, 2015 and no entry was passed in Cash Book.

(viii) Dividend of Rs. 900 collected by the bank has not been recorded in the Cash Book.

Prepare a Bank Reconciliation Statement and show what balance the bank Pass Book would indicate on 30th September, 2015

[Answer : Balance as per Pass Book ₹13,400].

20. From the following information, prepare a Bank Reconciliation statement as on 30.06.2016 :

(i) Bank overdraft as per Cash Book on 30.06.2016 was ₹29,530.

(ii) A cheque of ₹3,750 was debited in the Cash Book but omitted to be banked.

(iii) A cheque of ₹5,000 was deposited into the bank on 28th June but was returned dishonoured.

(iv) Two cheques of ₹300 and ₹5,250 were drawn in June but were presented in the bank in July 2016.

(v) According to standing order, bank has collected dividend of ₹850 and has paid premium on insurance policy amounting to ₹2,250. These were not entered in the Cash Book.

(vi) A bill for ₹4,000 received from Sudha was discounted with the bank for ₹3,900 but the Cash Book has been debited with full amount of the bill.

[Answer : Overdraft as per Pass Book ₹34,500].

21. From the following particulars, ascertain the bank balance as per Pass Book of Rajesh Kumar as on 31st March 2016 :

(i) Credit balance as per Cash Book on 31st March 2016 was ₹15,000.

(ii) Interest charged by the bank upto 31st March 2016 ₹500 is recorded in the Pass Book only.

(iii) Bank charges of ₹150 were not recorded in the Cash Book.

(iv) Cheques paid into the bank Rs. 25,000 but cheques of ₹18,750 only were cleared and credited by the bankers till 31st March, 2016.

(v) Two cheques of ₹7,500 and ₹15,000 were issued but out of them only one cheque of ₹7,500 was presented for payment upto 31st March 2016.

(vi) Dividend of ₹4,500 were collected by the bank directly for which Rajesh Kumar did not have any information.

[Answer : Overdraft as per Pass Book ₹ 2,400]

22. From the following facts of Shyma Traders, you are required to reconcile her Cash Book with the Pass Book balance :

		₹
(i)	Overdraft as per Cash Book	9,400
(ii)	Un-presented cheques	4,260
(iii)	Un credited cheques	3,860

(iv) The debit side of the Cash Book (bank column) has been undercast by ₹4,060.

(v) A cheque of ₹920 paid to a creditor and presented by him in the bank has been entered by mistake in the cash column .

(vi) Bank charges of ₹240 have not been entered in the Cash Book,

[Answer : Overdraft as per Pass Book ₹6,100]

23. Prepare Bank Reconciliation Statement from the following :

(i) Overdraft as per Pass Book as on 31st July, 2016 was ₹20,000.

(ii) On 29th July, cheques of ₹50,000 had been issued of which cheques of ₹16,000 only had been encashed upto 31st July.

(iii) Cheques of ₹9,000 had been deposited into bank for collection but of these only ₹1,800 had been credited in the Pass Book.

(iv) A cheque of ₹1,000 had been debited in the Cash Book but was not sent to bank.

[Answer : Overdraft as per Cash Book ₹45,800]

24. From the following particulars of Mr. Rajat, prepare Bank Reconciliation Statement :

		₹
(i)	Overdraft balance as per Pass Book on 31st January 2016.	29,100
(ii)	Cheques issued but not yet presented for payment	2,700
(iii)	Cheques deposited but not yet credited	5,100
(iv)	Interest on overdraft debited in the Pass Book	525

(v)	Interest on investment collected by bank	1,800
(vi)	Bank Charges debited in the Pass Book	45
(vii)	A dishonoured cheque not recorded in the Cash Book	2,400

[Answer : Overdraft balance as per Cash Book ₹25,530].

25. While comparing the Cash Book of Mayadhar with his bank Pass Book on 30th September, 2015, you find the following :

(i) The bank Pass Book showed a debit balance of ₹15,000.

(ii) Bank paid insurance premium ₹2,000, but it was recorded as ₹200 only in cash book.

(iii) Cheques issued in favour of a supplier in September, 2015 amounted to ₹55,000, but cheques of ₹50,000 only were presented for payment up to 30th September, 2015.

(iv) Direct deposit of ₹10,000 in Mayadhar's bank account by a customer on 25th September, 2015 had not been recorded in the cash book.

(v) Dividend collected by bank, but not recorded in cash book ₹1,000.

(vi) Bank charged ₹300 for its services, but they were yet to be recorded in cash book.

(vii) Cheques amounting to ₹78,000 were deposited in the bank in the last week of September, 2015 but cheques of ₹51,000 only had been cleared before 1st October, 2015.

Prepare a Bank Reconciliation Statement ascertaining bank balance / overdraft as per cash book.

[Answer : Overdraft as per Cash Book ₹1,900]

26. On 31st December, 2015 the bank pass book of a trader showed overdraft of ₹8,450. On comparing the bank pass book with cash book, the following discrepancies were noticed :

(i) Cheques issued for ₹1500 were not presented to the bank till 1st January 2016.

(ii) A cheque amounting to ₹2,300 were deposited in the bank, but were not collected till 1st January, 2016.

(iii) A cheque for ₹500 received from customer and deposited in the bank was dishonoured but advice of non-payment was not received from the bank till 1st January 2016.

(iv) Bank charges ₹30, do not appear in the Cash Book.

Prepare a Bank Reconciliation Statement and show the balance on 31st December, 2015 as per Cash Book.

[Answer : Overdraft as per Cash Book ₹7,120]