KENDRIYA VIDYALAYA SANGATHAN

NEW DELHI

STUDY MATERIAL

CLASS – XI

ACCOUNTANCY

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Prepared by

KENDRIYA VIDYALAYA SANGATHAN: AHMEDABAD REGION

PREFACE

It is a pride and privilege given to Ahmedabad Region and particularly to the team of Chief Patron, Patrons & members who got associated themselves with the preparation of study material for class XI Accountancy.

It is expected that this material will help the students to understand the subject easily and perform better in the examination. It will also be helpful to the teacher to guide the students in the classroom. While preparing this material lot of discussions were held among the members of committee and they tried to give the best in this study material on the basis of their experience. For example "Mistakes Generally Committed by the Students." Teachers and students are requested to see these points carefully that will help them to solve the problems of Accountancy accurately.

Efforts have been made that the language should be simple and easily understandable to the students. We expect that the students will be better equipped to face the examination with confidence by reading this study material

(P.DEVAKUMAR)

DEPUTY COMMISSIONER (K.V.S.)

AHMEDABAD REGION

CHIEF PATRON

SHRI P. DEVAKUMAR

DEPUTY COMMISSIONER, KVS, RO, AHMEDABAD REGION

PATRONS

SH. P. MADAN

ASSISTANT COMMISSIONER, KVS, RO, AHMEDABAD REGION

&

SH. Y. P. SINGH

ASSISTANT COMMISSIONER, KVS, RO, AHMEDABAD REGION

MEMBERS OF COMMITTEE

S.NO.	NAME OF MEMBER	DESIGNATION	NAME OF K.V.	MOBILE NO. & EMAIL ID
1	SH.D.K.GUPTA	PRINCIPAL	K.V.NO.4, ONGC, BARODA	09726633727 gupta0504dk@yahoo.co.in
2	SH.PRASHANT WADODKAR	PGT (COMMERCE)	K.V.BSF, DANTIWADA	09558843751 prashantwadodkar@yahoo.com
3	SH.RAJU GOSWAMI	PGT (COMMERCE)	K.V.ONGC MEHSANA	09913151533 rgoswami12359@rediffmail.com
4	SH. N. C. KHAMBHATI	PGT (COMMERCE)	K.V.NO.2 EME BARODA	09998633110 niravckhambhati@yahoo.in
5	SH.KAUSHIK R.DALVI	PGT (COMMERCE)	K.V.NO.2, ARMY BHUJ	09427463999 kaushikdalvi123@gmail.com
6	SH.B.S.SRIVASTAVA	PGT (COMMERCE)	K.V.NO.1 HARNI ROAD, BARODA	09016997600 srivastava.bholendra1@gmail.com

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Unit :1
Introduction to accounting

Unit at a Glance:-

- Introduction
- Book keeping
- Meaning of accounting
- Difference between book keeping and accountancy
- Economic events
- Changing role of accountancy
- Process of accounting
- Users of financial statements
- Branches of accounting
- Objectives of accounting
- Basic accounting terms

"There's no business like show business, but there are several businesses like accounting."

Introduction:

Accounting has greater discipline than book keeping. It includes conceptual knowledge of the subject and applications also.

BOOK KEEPING:-It involves journal, ledger, cash book and other subsidiary books, it cannot disclose the results of Business.

Meaning of Accounting:-It is process of identifying, measuring, recording and communicating the financial information.

Difference between Bookkeeping and accountancy:

Book keeping does not show the net result and accountancy shows net result of the business.

Economic Events:-

All events which can be measured in monetary Terms are known as Economic events. (Salary paid to employees, Goods purchased from creditors, cash withdrew from bank)

CHANGING ROLE OF ACCOUNTANCY

1. As a language to communicate information an enterprises.
2. To provide valuable information for judging management ability.
3. To provide quantitative information this is useful in economic decision.

Process of accounting

1. Identification of the economic events. (Selection of important event)

2. Classification of the business transaction (Assets, liability, expenses, income).
3. Measurement in terms (Monetary value transaction.),
4. Recording of business transactions (As per accounting principal)
5. Summarizing the business transaction (Journal, ledger, trial balance and Balance sheet.)
6. Analysis and interpreting the business transactions. (Various reports, ratio etc.)
7. Communication (provide information to internal and external users.)

Users of financial statements:
1. Internal users :- (Owners, shareholders, investors, creditors, employees, customers, management.)
2 External users: - (Regulatory agencies, labor union, stock exchange, public and others)

BRANCHES OF ACCOUNTING
1. Financial accounting (Book Keeping + preparation of financial statement).
2. Cost accounting (Determines the unit cost at different level of production).
3. Management accounting (It blends financial and cost accounting to get maximum profit at maximum cost).
4. Tax accounting (Sales tax and income tax).
5. Social responsibility (Focus on social benefits)

Objectives of Accounting
1. Provides information in systematic way.
2. Enables to get profit or loss of business during certain profit.
3. Shows the actual position of the business.

BASIC ACCOUNTING TERMS
1. Entity:- It means existence of an individual which includes two things 1.Business entity
2. Non business entity.
2. Transactions: - Exchange of goods and services for consideration.
3.Assets:- These are properties or economic resources of an enterprises which can be expressed in monetary terms it can be divided in two parts 1.Fixed assets(more than 1 year period) 2. Current assets(less than 1 year period)
4. Liabilities:-These are certain obligations or dues which firm has to pay.
5. Capital: It is an essential investment for commencement of every business.
6. Sales: It can be credit or cash, in which goods are delivered to customers.
7. Revenues:-It is the amount which is earned by selling of products.
8. Expenses:-It is known as cost of assets consumed or services which used.
9. Expenditure:-It means spending money for some benefit.
10. Profit: - Excess of revenues over expenses is called profit.
11. Gain: - It generates from incidental transaction such as sales of fixed asset, winning of court case.
12. Loss: - Excess of expenses over income is termed as loss.

13. Discount:-It is defined as concession or deduction in price of goods sold.
14. Voucher:-It is known as evidence in support of a transaction.
15. Goods: - It refers all the tangible goods (Raw material, work in progress, finished goods.)
16. Drawings: - Amount of goods or cash which is withdrawn from business for personal use.
17. Purchases: - It means of procurement of goods on credit or cash.
18. Stock: - It is a part of unsold goods. It can be divided into two categories.

1.Opening stock

2. Closing stock.

19 Debtors: - There are persons who owe to an enterprise an amount for buying goods and services on credit.

20. Creditors: - These are persons who have to be paid by an enterprise an amount for providing the enterprise goods and services on credit.

Questions:

1. Write any two users of financial statements.

   ANS: - 1.Public 2.Regulatory agencies

2. Write any one advantage of accounting.

   ANS: - Provide information in systematic order

3. Write any one example of voucher.

   ANS: cash memo

4. Write any two examples of current assets.

   Ans. 1.Stock 2.Debtor

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UNIT- 02
THEORY BASE OF ACCOUNTING

Unit at a glance:
- Introduction
- Meaning of accounting principles
- Features of accounting principles
- Necessity of accounting principles
- Basic accounting concepts
- Basis of accounting
- Nature of accounting standards
- Utility of accounting standards
- International Financial Reporting Standards (IFRS)
- Meaning and benefits of IFRS

"A mode of conduct imposed on an accountant by custom, law and professional body." – Kohler

Introduction:
To maintain uniformity in recording transactions and preparing financial statements, accountants should follow Generally Accepted Accounting Principles.

Meaning of Accounting Principles:
Accounting principles are the rules of action or conduct adopted by accountants universally while recording accounting transactions.

GAAP refers to the rules or guidelines adopted for recording and reporting of business transactions, in order to bring uniformity in the preparation and presentation of financial statements.

Features of accounting principles:
(1) Accounting principles are manmade.
(2) Accounting principles are flexible in nature
(3) Accounting principles are generally accepted.

Necessity of accounting principles:
Accounting information is meaningful and useful for users if the accounting records and financial statements are prepared following generally accepted accounting information in standard forms which are understood.

Basic accounting concepts

(1) Business entity concepts

This concept assumes that business has a distinct and separate entity from its owners. Therefore business transactions are recorded in the books of accounts from the business point of view and not owners. For example, If owner bring Rs. 1,00,000 as capital in business. It is treated as liability of business to owner. Similarly if owner withdrew Rs. 5,000 from business for personal use, it is treated as reduction of owner's capital and consequently reduction in liability of business towards owner.

(2)Money measurement concept

This concept states that transactions and events that can be expressed in money terms are recorded in the books of accounts. Non monetary transactions cannot be recorded in the books like appointment of manager, capabilities of human resources etc.

Another aspect is the records of transactions are to be kept not in physical unit but in monetary unit. For example, an organisation has 2 buildings, 15 computers, 20 office tables are not recorded because they are physical unit and not in monetary unit.

Limitation of this concept is the value of rupee does not remain same over a period of time. As changes in the value of money is not reflected in books does not reflect fair view of business affairs.

(3) Going concern concept

This concept assumes that business shall continue to carry out its operations indefinitely for a long period of time and would not be liquidated in the foreseeable future. It provides the very basis for showing the value of assets in the balance sheet.

An asset may be defined as a bundle of services. For example, a machine purchased for Rs. 2,00,000 and its estimated useful life say 10 years. The cost of machinery is spread on suitable basis over next 10 years for ascertaining the profit or loss for each year. The total cost of the machine is not treated as an expense in the year of purchase itself.

(4) Accounting period concept

Accounting period refers to span of time at the end of which financial statements are prepared to know the profits or loss and financial position of business. Information is required to by different users at regular intervals for decision making. For example, bankers require information periodically because they want to ensure safety and returns of their investments. Similarly management requires information at regular interval to assess the performance and funds requirement. Therefore they are prepared at regular interval, normally a period of one year. This interval of time is called accounting period.

(5) Cost concept

According to this concept all assets are recorded in the books of accounts at the purchase price which includes the purchase price, cost of acquisition, transportation and installation. For example, if an asset purchased for Rs. 1,00,000 and spent Rs. 10,000 on its installation. Therefore asset will be recorded in the books of accounts at Rs. 1,10,000.

This concept is historical in nature. For example, if machine purchased for Rs. 75,000, the purchase or acquisition price will remain same for all years to come, though its market value may change. The main limitation of this concept is that it does not show the true value of asset and may lead to hidden profits.

(6) Dual aspect concept

This concept provides the very basis for recording the transaction in the books of accounts. It states that every transaction entered in the books has two aspects. For example, Man as started business with cash Rs. 50,000. In this transaction asset (cash) increases and liability (capital of owner) also increases. This principle is also known as duality principle. This principle is commonly expressed in fundamental accounting equation given below.

Assets = Liabilities + Capital

This equation states that assets of business are always equal to the claims of owners **and outsiders.**

(7) Revenue recognition concept (Realisation concept)

According to this principle revenue is considered to have been realised when a transaction has been entered and obligation to receive the amount has been established. In other words when we receive right to receive revenue than it is called revenue is realised. For example, sales made in March, 2010 and receives amount in April, 2010. Revenue of these sales should be recognised in February month, when the goods sold. For example commission for the March, 2010 even if received in April 2010 will be taken into profit and loss A/c of March, 2010. Similarly if rent for the April, 2010 is received in advance in March, 2010 it will be taken the profit and loss A/c of the financial year of March, 2011.

(8) Matching concept

The matching concept states that expense incurred in an accounting period should be matched with revenues during that period. It follows from this that revenue and expenses incurred to earn these revenues must belong to the same accounting period.

For example, salary for the month of March, 2010 paid in April, 2010 is recorded in the profit and loss A/c of financial year ending March, 2010 and not in the year when it realized. Similarly we records cost of goods sold and not the goods purchased or produced. So the cost of unsold goods should be deducted from the cost of goods produced or purchased.

(9) Full disclosure concept

Apart from legal requirement good accounting practice require all material and significant information must be disclosed. Financial statements are the basic means of communicating financial information to its users for taking useful financial decisions. This concept states that all material and relevant fact and financial performance must be fully disclosed in financial statement of the business. Company's act 1956 has provided a format for making profit and loss A/c and balance sheet, which needs to be compulsorily adhered to for preparation of financial statement. Disclosure of material information results in better understanding. For example, the reasons for low turnover should be disclosed.

(10)Consistency concept

This concept states that accounting practices followed by an enterprise should be uniform and consistent over a period of time. For example if an enterprise has adopted straight line method of charging depreciation then it has to be followed year after year. If we adopt written down value method from second year for charging depreciation than the financial information will not be comparable. Consistency eliminates the personal bias helps in achieving the results that are comparable. However consistency does not prohibits the change accounting policies. Necessary changes can be adopted and should be disclosed.

(11) Conservatism concept (Prudence concept)

This concept takes into consideration all prospective losses but not the prospective profit. It means profit should not be recorded until it realised but all losses, even those which have remote possibility are to be recorded in the books. For example, valuing closing stock at cost or market value whichever is lower, creating provision for doubtful debts etc. This concept ensures that the financial statements provide the real picture of the enterprise.

(12) Materiality concept

This concept states that accounting should focus on material fact. Whether the item is material or not shall depend upon nature and amount involved in it. For example, amount spent of repair of building Rs. 4,00,000 is material for enterprise having the sales turnover of Rs.1,50,000 but not material for enterprise having turnover of Rs. 25,00,000. Similarly closure of one plant material but stock eraser and pencils are not shown at the asset side but treated as expenses of that period, whether consumed or not because the amount involved in it are low.

(13) Objectivity concept

This concept states that accounting should be free from personal bias. This can be possible when every transaction is supported by verifiable documents. For example, purchase of machinery for Rs. 30,000 should be supported by the voucher and should be recorded in the books of accounts. Similarly other supporting documents are cash memo, invoices, receipts provides the basis for accounting and auditing.

Basis of Accounting:

(1) Cash basis

Under this entries in the books of accounts are made when cash id received or paid and not when the receipt or payment becomes due. For example, if salary Rs. 7,000 of January 2010 paid in February 2010 it would be recorded in the books of accounts only in February, 2010.

(2) Accrual basis

Under this however, revenues and costs are recognized in the period in which they occur rather when they are paid. It means it record the effect of transaction is taken into book in the when they are earned rather than in the period in which cash is actually received or paid by the enterprise. It is more appropriate basis for calculation of profits as expenses are matched against revenue earned in the relation thereto. For example, raw materials consumed are matched against the cost of goods sold for the accounting period.

Accounting Standards (AS):

"A mode of conduct imposed on an accountant by custom, law and a professional body." – By Kohler

Nature of accounting standards:

(1) Accounting standards are guidelines which provide the framework credible financial statement can be produced.
(2) According to change in business environment accounting standards are being changed or revised from time to time
(3) To bring uniformity in accounting practices and to ensure consistency and comparability is the main objective of accounting standards.
(4) Where the alternative accounting practice is available, an enterprise is free to adopt. So accounting standards are flexible.
(5) Accounting standards are amendatory in nature.

Utility of accounting standards:

(1) They provide the norms on the basis of which financial statements should be prepared.
(2) It creates the confidence among the users of accounting information because they are reliable.
(3) It helps accountants to follow the uniform accounting practices and helps auditors in auditing.
(4) It ensures the uniformity in preparation and presentation of financial statements by following the uniform practices.

International Financial Reporting Standards (IFRS):

To maintain uniformity and use of same or single accounting standards, International Financial Reporting Standards (IFRS) are developed by International Accounting Standards board (IASB).

Objectives of IASB:

(1) To develop the single set of high quality global accounting standards so users of information can make good decisions and the information can be comparable globally.
(2) To promote the use of these high quality standards.
(3) To fulfill the special needs of small and medium size entity by following above objectives.

Meaning of IFRS:

IFRS is a principle based accounting standards. IFRS are a single set of high quality accounting Standards developed by IASB, recommended to be used by the enterprises globally to produce financial statements.

Benefits of IFRS:

(1) Global comparison of financial statements of any companies is possible
(2) Financial statements prepared by using IFRS shall be better understood with financial statements prepared by the country specific accounting standards. So the investors can make better decision about their investments.
(3) Industry can raise or invest their funds by better understanding if financial statements are there with IFRS.
(4) Accountants and auditors are in a position to render their services in countries adopting IFRS.
(5) By implementation of IFRS accountants and auditors can save the time and money.
(6) Firm using IFRS can have better planning and execution. It will help the management to execute their plans globally.

QUESTIONS

Explain cost concept.

(1) What is mean by accounting standard? What is the main objective of accounting standard?

(2) Explain the following concepts.

   a. Business entity concept
   b. Going concern concept
   c. Revenue recognition concept

(3) Explain the utility of Accounting Standards.

(4) Which principle assumes that a business enterprise will not be liquidated in near future?
Ans. Going concern concept.

(5) "Closing stock is valued lower than the market price" which concept of accounting is applied here?
Ans. Conservatism (prudence) concept.

(6) 'An asset may defined as a bundle of services' – explain with an example.

(7) Under which accounting principle, quality of manpower is not recommended in the books of accounts?
Ans. Money measurement concept.

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UNIT-03

RECORDING OF TRANSACTION

Unit at a Glance :

- Meaning of accounting equation
- Classification of transactions
- Rules of debit and credit
- Meaning of Source documents
- Meaning of voucher
- Meaning of journal
- Meaning and types of cash book
- Purchase journal
- Sales journal
- Purchase return journal
- Sales return journal
- Questions

Accounting Equation :

Total Assets = Total Liabilities Or

Total Assets = Internal Liabilities + External Liabilities Or

Total Assets = Capital + Liabilities

Classification of Transactions

Following are the nine basic transactions:

1. Increase in assets with corresponding increase in capital.
2. Increase in assets with corresponding increase in liabilities.
3. Decrease in assets with corresponding decrease in capital.
4. Decrease in assets with corresponding decrease in liabilities.
5. Increase and decrease in assets.
6. Increase and decrease in liabilities
7. Increase and decrease in capital
8. Increase in liabilities and decrease in capital
9. Increase in capital and decrease in liabilities.

Illustration :

Show the effect of the following business transactions on assets, liabilities and capital through accounting equations:

1.	Commenced business with cash	20,000
2.	Goods purchased on credit	7,000
3.	Furniture purchased	3,000
4.	paid to creditors	2,000
5.	Amount withdrawn by the proprietor	4,000
6.	Creditors accepted a bill for payment	1,500
7.	interest on capital	1,000
8.	Transfer from capital to loan	5,000
9.	Allotted shares to creditors	1,000

Solution

Transactions	Cash +	Stock+	Assets Furniture	= Liabilities = Creditors	+ B/P	+ Loan	+ Capital + Capital
1. Commenced business with cash Rs.20000	20000 +	0+	0 =	0 +	0 +	0 +	20,000
2. Goods purchased on credit Rs. 7,000/-	+	7,000 +	0=	7,000+	0+	0+	0
New Equation	20,000+	7,000+	0=	7,000+	0+	0+	20,000
3. Furniture Purchased	(-) 3,000	0+	3,000=	0+	0+	0+	0
New Equation	17,000+	7,000+	3,000=	7,000+	0+	0+	20,000
4. Paid to creditors	(-) 2,000+	0+	0=	(-) 2000+	0+	0+	0
New Equation	15,000+	7,000	3,000=	5,000+	0+	0+	20,000
5. Amount withdrawn by proprietor	- 4000+	0+	0=	0+	0+	0+	-4000
New Equation	11,000+	7,000	3,000=	5,000+	0+	0+	16,000
6. Creditors accepted a bill	0+	0+	0=	-1500+	1500+	0+	0
New Equation	11000+	7000+	3000=	3500+	1500+	0+	16000
7. Interest on capital	0+	0+	0=	0+	0+	0+	-1000
New Equation	11000+	7000+	3000=	3500+	1500+	0+	16000
8. Transfer from capital to loan	0+	0+	0=	0+	0+	5000+	-5000
New Equation	11000+	7000+	3000=	3500+	1500+	5000+	11000
9. Allotted shares to creditors	0+	0+	0=	-1000+	0+	0+	1000
New Equation	11000+	7000+	3000=	2500+	1500+	5000+	12000

Question for Practice:

Prepare Accounting equation on the basis of following information:

(1) Sohan started business with cash =80,000
    Machinery =10,000
    And stock =10,000

(2) Interest on the above capital was allowed @ 10%

(3) Money withdrew from the business for his personal use 10,000/-

(4) Interest on drawings 500/-

(5) Depreciation charged on machinery 2,000/-

Q. How the assets liabilities and capital will be affected under following cases:

(1) Purchase of building for cash
(2) Purchase of furniture on credit
(3) Receipt of commission
(4) Payment to creditors.

Generally Students commit these mistakes please avoid :

- Treatment of adjustment in accounting equation
- Dual or triple effect of transaction
- Omission in recording amount
- Interest on capital and drawing
- Debit and credit should be done properly
- Depreciation must be treated properly.

RULES OF DEBIT AND CREDIT

(I) Traditional or English Approach: This approach is based on the main principle of double entry system i.e. every debit has a credit and every credit has a debit. According to this system we should record both the aspects of a transaction whereas one aspect of a transaction will be debited and other aspect of a transaction will be credited.

(1) Personal Account: Debit the receiver and credit the giver.
(2) Real Account: Debit what comes in and credit what goes out.
(3) Nominal Account: Debit all expenses and losses credit all incomes and gains.

(2) Modern or American Approach: This approach is based on the accounting equation or balance sheet. In this approach accounts are debited or credited according to the nature of an account. In a summarised way the five rules of modern approach is as follows:

1. Increase in asset will be debited and decrease will be credited.
2. Increase in the liabilities will be credited and decrease will be debited.
3. Increase in the capital will be credited and decrease will be debited.
4. Increase in the revenue or income will be credited and decrease will be debited.
5. Increase in expenses and losses will be debited and decrease will be credited.

SOURCE DOCUMENTS

Meaning of Source documents:
Business transactions are recorded in the books of accounts on the basis of some written evidence called source document.

Common Source documents are Cash Memo, Invoice or Bill, Receipts, Debit Note, Credit Note, Cheque, Pay in slip

Meaning of Voucher:
Voucher is a source by which we record the transactions.

Meaning of Journal:
Journal is a book of prime entry in which transactions are copied in order of date from a memorandum or waste book.

Illustration:
Journalise the following transactions in the books of Ravi:

1. Bought goods from Sonam Rs. 20,000 less trade discount 20% plus VAT @ 10%.
2. Sold goods costing Rs. 6,000 to Ram for Rs. 8,000 plus VAT @ 10%
3. Sold the balance goods for Rs. 16,000 and charged VAT @ 10% to Mohan against payment by cheque which was banked on the same day.
4. Deposited the VAT into government account by cheque.

Solution:

Date	Particulars	L.F.	Amount (Dr.) Rs.	Amount Cr. Rs.
1	Purchases A/c Dr. VAT Paid A/c Dr. To Sonam (Goods purchased from Sonam)		16,000 1,600	 17,600
2	Ram Dr. To Sales A/c To VAT Collected A/c (Goods sold & charged VAT @10%)		8,800	 8,000 800
3	Bank A/c Dr. To Sales A/c To VAT Collected A/c (Goods sold to Mohan against cheque & charged VAT @10%)		17,600	 16,000 1,600
4	VAT Collected A/c Dr. To VAT paid A/c (Adjustment of VAT paid with VAT collected)		1,600	 1,600
5	VAT Collected A/c Dr. To Bank A/c (Balance amount of VAT deposited in Govt.A/c		800	 800

Question for Practice:
Journalise the following transactions:

1. Paid sales tax Rs. 5,000.
2. Sold goods for Rs. 80,000 to Diwan for cash and charged 8% sales tax.
3. Purchased goods from Neelam for Rs. 50,000 plus VAT @ 10%
4. Sold goods to Punam worth Rs. 80,000 plus VAT @ 10%.
5. VAT was deposited into Government Account on its due date.
6. Paid Income Tax Rs. 7,000.

CASH BOOK

Meaning: Cash book is a book in which all the transactions related to cash receipts and cash payments are recorded.

Types of Cash book:

1. Single Column Cash Book
2. Double Column Cash Book
3. Petty Cash Book

1. Single Column Cash Book:

Illustration:

Enter the following transactions in a single column cash book for the month of January 2008 from the following particulars:

January 2008		Rs.
1	Cash in hand	2,000
2	Goods sold	18,000
4	Paid salaries to employees	10,000
6	Payment made to a creditor A by cheque	5,000
8	Cash sales of Rs. 30,000 out of which Rs. 5,000 immediately deposited into bank.	
9	Cash sales of Rs. 28,000 out of which Rs. 10,000 was deposited into bank on 12th January	
15	Purchased goods from Hari Ram	6,000
18	Paid to transporter	1,000
19	Sold goods to Manik Chand	3,000
28	Paid electricity bill	500
30	Paid to Mr. Sharma Rs.140 and discount received Rs.10	

Solution :

CASH BOOK (SINGLE COLUMN)

Date	Particulars	V. No.	LF	Amount (Rs.)	Date	Particulars	V. No.	LF	Amount (Rs.)
2008 Jan.					2008 Jan.				
1	To Balance b/d			2,000	4	By Salaries			10,000
2	To Sales			18,000	12	By Bank			10,000
8	To Sales			25,000	18	By Transporter			1,000
9	To Sales			28,000	28	By Electricity Bill			500
					30	By Mr. Sharma			140
					31	By Balance c/d			51360
				73,000					73,000
2008 Feb. 1	To Balance b/d			51,360					

Question for Practice:

Enter the following transactions in the cash book

Oct.2010		Rs.
1	Cash in hand	13,000
3	Goods sold for cash	9,500
5	Bought goods for cash	6,700
8	Paid Salary	3,000

11	Cash deposited into bank	5,500
13	Bought office furniture	4,000
15	Cash sales Rs. 20000 of which Rs. 12000 are banked on Oct.16	
19	Bought goods from Sohan	5,800
21	Withdrew cash from bank for office use	2,500
23	Paid Sohan in full settlement of his account	5,600
25	Paid Amit by cheque	2,000
27	Paid carriage Rs. 500, rent Rs. 800 and life insurance premium Rs. 600.	
31	Paid electricity charges Rs. 1,100 and insurance premium Rs. 800.	

TWO COLUMN CASH BOOK

Illustration:

From the following information prepare a Two column cash book.

2006		
March 1	Cash in hand	5000
March 1	Cash at bank	6000
March 3	Cheque received from Naresh	3000
	Discount allowed	100
March 4	Cheque received from Naresh was deposited into bank	
March 6	Naresh's cheque dishonoured	
March 7	Cheque paid to Ram	4000
	Discount received	200
March 9	Cash withdrawn from bank for office use	2000
March 10	Withdrawn from bank for paying income tax	2500
March 12	Cheque received from Harish and endorsed it to Shivam on 13th March	4000
March 14	Given a cheque to Amber for cash purchase of furniture for office use	3000
March 16	Cash purchase of Rs. 1,500 less 10% trade discount	
March 18	Cheque received for sales of Rs. 10,000 less 10% trade discount cheque was immediately deposited into bank	
March 25	Paid commission by cheque	2000
March 27	Paid rent	3000
March 28	Received bank interest	1000
March 29	Paid bank charges	500
March 31	Paid into bank the entire balance after retaining Rs. 500 at office.	

Solution

CASH BOOK (TWO COLUMN)

Date	Particulars	V. No.	L.F.	Cash	Bank	Date	Particulars	V. No.	L.F.	Cash	Bank
2006 March 1 3	 To Balance b/d To Naresh			 5000 3000	 6000	2006 March 4 6	 By Bank By Naresh		 C	 3000	 3000

4	To Cash		C		3000	7	By Ram				4000
9	To Bank		C	2000		9	By Cash		C		2000
12	To Harish			4000		10	By Drawings				2500
18	To Sales				9000	13	By Shivam			4000	
28	To Bank Interest				1000	14	By Furniture				3000
31	To Cash		C		2150	16	By Purchases			1350	
						25	By Commission				2000
						27	By Rent			3000	
						29	By Bank charges				500
						31	By Bank		C	2150	
						31	By Balance c/d			500	4150
				14000	21150					14000	21150
Apr.1	**To Balance b/d**			**500**	**4150**						

Question for Practice:
Enter the following transactions in the cash book with cash and bank column of Rao & Sons.

June 2010	Particulars
1	Started Business with cash Rs. 1,00,000
3	Opened a bank current account with SBI Rs. 60,000
6	Bought goods from Ashok Rs. 15,000
8	Paid Ashok by cheque Rs. 14,700 and received discount Rs. 300
10	Sold goods to Mohan for cash Rs. 10,000 and on credit Rs. 22,000.
12	Received cheque from Mohan 21,400 and allowed discount Rs. 600.
13	Cheque of Mohan deposited into bank
15	Paid electricity charges Rs. 1100 and rent Rs. 2,000.
17	Received a cheque from Total for Rs. 6,800 in full settlement of his account Rs. 7,000
19	Endorsed the cheque of Gopal in favour of our creditor Amar
23	Withdrew cash from bank for office use Rs. 5,000 and for personal use 3,500
25	Bought a machine from Raman. He was paid by cheque 9,000.
26	Paid Carriage of machine Rs. 300 and installation charges Rs. 700
29	Bank allowed interest Rs. 800 and bank charges were Rs. 200.

PETTY CASH BOOK

Meaning

Petty Cash Book is the book which is used for the purpose of recording expenses involving petty amounts.

Recording of Petty Cash

Petty cash given to the Petty Cashier for small payments is recorded on the credit side of the Cash Book as ‘By Petty Cash Account’ and is posted to the debit side of the Petty Cash Account in the Ledger.

System of Petty Cash

Petty Cash Book may be maintained by ordinary system or by imprest system.

Imprest System

Under this system an estimate is made of amount required for petty expenses for a certain period.

Types of Petty Cash Book

1. Simple Petty Cash Book and

2. Petty Cash Book.

Illustration: From the following information, write up a Simple Petty Cash Book for the first week of April 2012 :

Date	Particulars	Rs.
2012		
April 1	Received Rs. 4,000 from Chief Cashier for Petty Cash	
April 2	Bought Postage stamps	200
April 4	Paid bus fare	120
April 5	Purchased stationery for office use	1000
April 6	Paid for milk and sugar for office tea	600
April 7	Paid to window cleaner	80

Solution:

Amount Received	**Cash Book Folio**	**Date**	**Particulars**	**Voucher No.**	**Amount Paid**
4000	-	2012	To Cash A/c		
		April 1	By Postage A/c		200
		April 2	By Travelling Exp. A/c		120
		April 4	By Stationery A/c		1000
		April 5	By Office Expenses A/c		600
		April 6	By Miscellaneous Exp. A/c		80
		April 7	By Balance c/d		2000
4000					**4000**

Illustration: Prepare an Analytical Petty Cash Book on the Imprest System from the following:

Jan.2012		Rs.
1	Received Rs. 1,000 for Petty Cash	
2	Paid bus fare	5
2	Paid cartage	25
3	Paid for postage and telegrams	50
3	Paid wages for casual labourers	60
4	Paid for stationery	40
4	Paid auto charges	20
5	Paid for repairs to chairs	150
5	Bus fare	10
5	Cartage	40
6	Postage and telegrams	70
6	Conveyance charges	30
6	Cartage	30
6	Stationery	20
6	Refreshment to customers	50

Solution:

In the Books of_______________

Receipts	Date	Voucher No.	Particulars	Total Payment	Conveyance	Cartage	Stationery	Postage and Telegrams	Wages	Sundries
	Jan 12									
1000	1	1	To Cash A/c							
	2	1	To Conveyance A/c	5	5					
		2	By Cartage A/c	25		25				
	3	3	By Postage and Telegrams A/c	50				50		
		4	By Wages A/c	60					60	
	4	5	By Stationery A/c	40			40			
		6	By Conveyance A/c	20	20					
	5	7	By Repairs of Furniture A/c	150						150
		8	By Conveyance A/c	10	10					
		9	By Cartage A/c	40		40				
	6	10	By Postage and Telegrams A/c	70				70		

	6 6 6 6	11 12 13 14	By Conveyance A/c By Cartage A/c By Stationery A/c By General Exp. A/c	30 30 20 50	30	 30	 20			 50
				600	**65**	**95**	**60**	**120**	**60**	**200**
	Jan 6		**By Balance c/d**	**400**						
1000				**1000**						
400	**Jan 8**		**To Balance b/d** **To Cash A/c**							

PETTY CASH BOOK

SPECIAL PURPOSE BOOKS

Purchases Book:

It is a book in which all the credit purchases of goods are recorded.

Illustration:

Enter the following transactions in the Purchases Book of Rozer Electronics Delhi.

2010	Particulars
Jan 3	Bought from Bharat Electric Co. Dwarka Delhi on credit (Invoice No. 1238)) 100 Tube light @ Rs. 40 each 50 Table fans @ Rs. 415 each 30 Electric Iron -Bajaj @ Rs. 200 each Trade Discount 10%
Jan 9	Purchased from Ashoka Traders, Karol Bag, New Delhi on credit (Invoice No. 551) 30 Table fans – Polar @ 600 each 20 Mix grinders – Usha @ Rs.500 each Trade Discount 15%
Jan 16	Bought goods from Royal Electric Co. Kashmiri Gate, Delhi on credit (Invoice No. 252) 20 Duson Bulbs @ Rs.100 per dozen 10 Table fans @ Rs. 500 each Less : Trade Discount 15%
Jan 22	Bought from Prakash Lamps, Delhi for cash (Memo No. 715) 10 Table fans – Orient @ Rs. 600 each
Jan.29	Bought from Laxmi Furniture, Rohtak on credit (Invoice No. 4312) 2 Tables @ 2000 each 10 Chairs @ Rs. 400 each.

Solution :

In the books of Rozer Electronics, Delhi
Purchases Book or Purchases Journal

Date	Name of the supplier (a/c to be credited)	Invoice No.	LF	Detail	Amount
2010					
Jan 3	**Bharat Electric Co:** Dwarka, Delhi	1238		Rs.	
	100 Tube lights @ Rs. 40 each			4,000	
	50 Table Fans @ Rs. 415 each			20,750	
	30 Electric iron @ Rs. 200 each			6,000	
				30,750	
	Less : Trade Discount 10%			3,075	27.675
Jan 9	**Ashoka Traders,** Karol Bag, New Delhi	581			
	30 Table fans – Polar @ 600 each			18,000	
	20 Mix grinders – Usha @ Rs.500 each			10,000	
				28,000	
	Less : Trade Discount 15%			4,200	23,800
Jan 16	**Royal Electric C**o. K Gate Delhi	252			
	20 Dozen Bulbs @ Rs.100 Dozen			2,000	
	10 Table Fans @ Rs. 500 each			5,000	
				7,000	
	Less: Trade Discount 15%			1,050	5,950
Jan 31	**Purchases A/c Dr**				**57,425**

Question for Practice

From the following information prepare the Purchase Book of Moon Light House Gurgaon.

2007

April 1 Purchased goods from Rajan Electric Co. Pushp Vihar, Delhi (Invoice No.605)
16 Dozen bulbs @ Rs 90 per bulb
30 Water heaters @ 144 per heater
Less 10% of Trade Discount.

April 12 Purchased from M/s Sudharshan, Bombay Office Furniture worth Rs. 20,000.

April 18 Purchased goods from Surya Electric House, Delhi (Invoice No. 2301)
10 Geyzers @ Rs. 5,000 each
04 Table fans @ Rs. 1,500 each
40 Electric Iron @ 220 each
Trade Discount 20%.
Sales Tax 8%.

April 20 Purchased from Aman Lights, Surya Nagar GZB for cash (Invoice No. 640).
30 Dozen bulbs @ Rs. 70 each.
04 Ceiling fans @ 1,200 each.

April 27 Purchased goods from Radhey Shyam Ltd. Delhi (Invoice No. 720)

30 Heaters @ Rs. 125 each.
70 Table fans @ Rs. 500 each
10 Ovens @ Rs. 1,855 each
Trade discount 15%

Sales Book

Meaning of Sales Book:

Sales Book or Sales Journal is a book in which all the credit sales of goods are recorded. Recording in Sales book is done on the basis of invoice issued to the customers.

Illustration:

Enter the following transactions in the Sales book of M/s Salim & Co. Hyderabad

2012

May 4	Sold to Gupta Bros. New Delhi (Invoice No. 175) 10 dozen Pencils @ Rs. 20 per dozen 14 gross Rubbers Rs. 5 per dozen
May 14	Sold to M/s Fazal Mirza & Co. Mumbai (Invoice No.200) 5 Dozen Gum Bottle @ Rs. 5 per bottle 70 dozens Rulers @ Rs. 15 per dozen Less : 10% Trade Discount
May 17	Sold old Newspapers for Rs. 200 (Invoice No. 215)
May 21	Sold to M/s Rajendra & Co. Ghaziabad (Invoice No. 255) 10 reams of Papers @ Rs. 60 per ream Less : Trade Discount @ 10%
May 25	Sold to M/s Dhyanchand & Co. Delhi for cash (Invoice No. 285) 10 dozen pens @ Rs. 120 per dozen for cash
May 30	Sold to Cheap Stores, New Delhi (Invoice No. 299) 10 dozens Pencils @ Rs. 18 per dozen Less: Trade Discount @ 10%.
May 31	Sold old furniture to M/s Kashyapel Co. on credit for Rs. 1700 (Invoice No.300)

Solution:

Sales Book (Sales Journal)

Date	Invoice No.	Name of the customers (Account to be debited)	LF	Amount	
				Details (Rs.)	Total (Rs.)
2012					
May 4	175	**Gupta Bros. New Delhi**			
		10 Dozen Pencils @ Rs. 20 per dozen		200	
		14 gross Rubbers @ Rs. 5 per dozen		840	1040
May 14	200	**Fazal Mirza & Company Mumbai**			
		5 dozen Gum Bottles @ Rs.5 per bottle		300	
		70 dozens rulers @ Rs. 15 per dozen		1050	
				1350	
		Less : Trade Discount @ 10%		135	1215
May 21	255	**Rajendra & Company, Ghaziabad**			
		10 reams papers @ Rs/ 60 per ream		600	
		Less : Trade discount @ 10%		60	540
May 30	299	**Cheap Stores, new Delhi**			
		10 dozens Pencils @ Rs/ 18 per dozen		180	

		Less : Trade Discount @ 10%		18	162
		Sales A/c Cr.			2,957

Question for Practice :
Record the following transactions in the sales book of Sunny Furniture, Mumbai
2010

April 3	Sold goods to laxmi Furniture , Delhi 4 Sofa Sets @ Rs. 5000 each Less : 15% Trade Discount and VAT charged @ 10%.
April 10	Sold to Star Furniture, Tilak Nagar, Delhi 50 Chairs @ Rs. 200 each 10 Tables @ Rs. 500 each Less : 5% VAT charged @ 10%
April 17	Sold goods to Rajdhani Furniture, Raisena Hills, Gwalior for cash 40 Chairs @ Rs. 175 each, VAT charged @ 10%.
April 25	Sold goods on credit to Vishal Mega Mart, Delhi 10 Almirahs @ Rs. 3,000 each. 2 Sofa Sets @ Rs. 4,500 each 20 Chairs @ Rs. 200 each Less : 15% Trade Discount : VAT charged ! 10% and freight charged Rs. 2,200.

Purchases Return Book

This book is used to record return of goods which has been purchased earlier on credit basis.

Illustration:

Prepare purchase return book from the following transactions:

2011

March 4 Returned to Roy & Co. Kolkata : (Debit Note No.225)
2 Collapsible Chairs @ Rs. 200 each.

March 8 Returned to Mohan Furniture Ludhiana (Debit Note No. 245)
4 Chairs @ Rs. 150 each
Less : 10% Trade Discount

March 15 Returned to Rao Ltd. Mumbai (Debit Note No.315)
1 Steel Almirah of Rs. 4000.

Solution :

Purchases Return Journal (Return Outward Book)

Date	Debit Note No.	Name of the Supplier (Account to be debited)	LF	Amount	
				Detail	Total
2011 Mar.4	225	**Roy & co. Kolkata** 2 Collapsible Chairs @ Rs. 200			400
Mar.8	245	**Mohan Furniture, Ludhiana** 4 Chairs @ Rs. 150 Less : Trade Discount 10%		600 60	540

Mar.15	315	**Rao Ltd. Mumbai** 1 Steel Almirah Purchases Return A/c Cr.			4000 4940

Question for Practice:

Enter the following transactions in the Purchase Return Book of Maya Sharma.

2006

April 8 Returned goods to Sudha Ltd for Rs. 15,000 as the goods were not according to specifications. (Debit Note No. 214)

April 15 Allowance claimed from Ravi Taneja, on account of mistake in the invoice Rs. 800 (Debit Note No. 226).

April 26 Returned goods to Ankit and Sons for Rs. 4000. Trade discount 20% (Debit Note No. 252).

Sales Return Book

Meaning: Sales return book is a book in which sales return of goods are recorded.

Illustration:

From the following information prepare Return Inward Book

2004

March 11 M/s Neelkamal & Co. returned 600 units which were sold @ Rs. 150 per unit (Credit Note No. 26)

March 20 M/s Rohan & Co. returned 200 units which were sold @ Rs. 100 per unit (Credit Note No. 152).

Solution :

Return Inward (Sales Return) Book

Date	Particulars (Name of the customer i.e. account to be credited)	Credit Note No.	LF	Amount	
				Detail	Total
2004 March 11	**Neelkamal & Co.** 600 units @ Rs. 150 per unit	26			90,000
March 20	Rohan & Co. 200 units @ Rs.100 per unit	152			20,000
March 31	Sales Return Account		Dr.		1,10,000

Question for Practice:

Prepare Sales Return Book of Mohan Lal & Sons. Dehradun from the following transactions :

2010

April 4	Goods returned by Rama & co. (Credit Note No. 121) 10 shirts @ 200 each Less : Trade Discount 10%
April 11	Allowance allowed to Goel Agencies on account of mistake in invoice No. 1203 for Rs. 600 (Credit Note No. 122)
April 18	Rohit & Co. returned goods being defective for Rs. 3,200 (Credit Note No. 123)

<u>Questions for practice:</u>

1. Prepare Accounting equation :
   1. Started business with cash Rs. 3,30,000
   2. Commission received Rs. 22,000
   3. Interest received in advance Rs. 1,100.
   4. Salary paid Rs. 22,000
   5. Prepaid rent Rs. 4,400.
   6. Accrued commission Rs. 3,300
   7. Wages outstanding Rs. 11,000.

   Ans. Total after final equation = 3,14,600

A=	C	+	L
3,14,600=	3,02,500+		12,100

2. Show the effect of the following business transactions on assets, liabilities and capital with the help of accounting equation:

1.	Commenced business with cash	31,200
2.	Interest on Capital	1,560
3.	Machinery Purchased	4,680
4.	Cash withdrawn from the business for personal use of proprietor	6,240
5.	Goods purchased on credit	3,120
6.	Paid to creditors	2,340
7.	Creditors accepted a bill for	1,560
8.	Allotted shares to creditors	1,560
9.	Transfer from capital to loan	7,800

   Ans. Total after final equation 32,760

A	=	C +	L
32,760	=	18720	+ 14040

3. Prepare Accounting Equation for the following :

   Started Business with

Cash	3,00,000
Building	90,000
Stock	60,000
Interest on capital	45,000
Depreciation charged on building	9,000
Money withdrawn from business for personal use	45,000
Goods withdrawn for personal use	22,500

Interest on drawings	2,250

Ans. Total after final equation 3,73,500

A	=	C +		L
3,73,500	=	3,73,500	+	0

4. Write Rules of Debit and Credit.
5. What is a Voucher ?
6. Define Journal ?
7. Enter the following transactions in the journal of Mohan:

2010		Rs.
Jan 1	Started business with cash	80,000
	And goods	40,000
Jan.3	Paid into bank for opening a bank current account.	50,000
Jan 6	Bought goods from Ram and paid by cheque	10,000
Jan 9	Sold goods to Amar and received cheque	12,000
Jan 11	Cheque received from Amar deposited in the bank.	
Jan 15	Withdrew cash by cheque for personal use	3,000
Jan 17	Took a bank loan	40,000
Jan 19	Paid Salary Rs. 2,000 rent Rs. 1,000 by cheque	
Jan 21	Interest allowed by bank.	300
Jan.25	Ram who owed us Rs. 1,000 met with an accident and nothing could be recovered.	

8. Pass journal entries in the books of Shyam :

2009	
Dec. 1	Sold goods to Amar of the list price Rs. 50,000 less 15% trade discount.
Dec.5	Amar returned goods of list price Rs. 6,000 being defective.
Dec.8	Amar paid the amount due under a cash discount of 2%.
Dec.12	Sold goods to Karan of list price Rs. 40,000 at 10% trade discount and 2% cash discount. Karan paid cash for only 40% value of goods.

9. Journalise the following transactions:

1	Mr.Ravi Started business with cash	70,000
2	Paid Salary to Hari an employee	7,000
3	Paid rent to Mr. Lokesh Landlord	10,000
4	Paid office expenses	15,000
5	Withdrawn from bank	8,000
6	Withdrawn from bank for office use	6,000
7	Withdrawn from bank for personal use	5,000
8	Paid rent to landlady by cheque	12,000
9	Bank charged for its services	800

10. Enter the following transactions in a One Column Cash Book.

2008		Rs.
Jan.1	Cash-in-hand	20,000
Jan.3	Purchased machinery on credit	15,000
Jan.6	Purchased goods for cash	6,000

Jan.7	Received from Mr.Singh	45,000
Jan 9	Received commission	5,000
Jan 12	Paid to Srijan Rs. 140 in full settlement	200
Jan 13	Goods sold for cash	28,000
Jan 15	Paid brokerage to Charu	3,000
Jan 18	Paid to Kartar	4,000
Jan 20	Received cash from Jaydeep Rs. 520 in full settlement of his account of	550
Jan 30	Interest accrued	8,000
Jan 31	Wages outstanding	3,000
Jan 31	Paid Salaries	2,000
Jan 31	Paid rent	1,500

Ans. 81,880.

11. Enter the following transactions in a One Column cash book.

May2008		Rs.
1	Cash in hand	15,000
6	Purchased goods for cash	7,000
7	Furniture purchased on credit	10,000
8	Goods sold for cash	20,000
12	Paid to Kamal	5,000
18	Received from Sonu	30,000
20	Paid brokerage	2,000
23	Received commission	4,000
25	Received cash from Jagan Rs. 480 in full settlement of his account of	500
27	Paid to Somesh Rs. 190 in full settlement of the account of Rs.	200
30	Paid Salaries	4,000
31	Outstanding wages	2,000
31	Accrued Interest	6,000

Ans. 51,290.

12. Record the following transactions in a Cash Book with Cash and Bank Columns:

Jan 03		Rs.
1	Cash in hand	3,151.20
	Cash at Bank	91,401.10
2	Discounted a Bill Receivable (B/R) for Rs. 1,000 at 1% through bank	
5	Bought goods for RS. 2,000 and paid by cheque, discount allowed 1%	
15	Paid trade expenses	120.00
16	Paid taxes	400.00
17	Paid insurance charges	100.00
25	Sold goods for Rs. 12,500, received cheque and	

	allowed discount 1%	
27	Cheque received on 25th deposited into bank	
28	Received cheque from John & Co.	
30	Purchased 100 NSC Plan Certificate for Rs. 100 each @ 95 each and paid for them by cheque	6,000.00

Ans. Cash = 12,995, Bank 700

13. From the following information prepare Two Column Cash Book

July 2007		Rs.
1	Bank Balance	50,000
1	Cash Balance	20,000
3	Purchased goods by cheque	10,000
6	Goods sold for cash	7,000
9	Machinery purchased by cheque	6,000
12	Cash sales immediately deposited into bank	8,000
14	Purchased goods from Vaidya for cash	5,500
16	Purchased stationery by cheque	5,000
20	Cheque given to Ratnesh	2,000
22	Cash withdrawn from bank	8,000
24	Salary paid by cheque	2,000
26	Cash deposited in bank	96,000
28	Cash withdrawn from bank for personal use	3,000
30	Paid rent	4,000
30	Received a cheque for Commission	5,600

Ans Cash 22,100 Bank 31,000

14. Enter the following transactions in the purchases book.

Mar.2012

1 Purchased from Rajendra Bros. Mahendrgarh (Invoice No. 324)
50 tins Ghee @ Rs. 500 per tin
100 bags sugar @ Rs. 900 per bag
Less : 10% trade discount

2 Bought from Bhartat Stores, Madurai (Invoice No. 377)
20 bags Gram @ Rs. 300 per bag
10 bags Sugar @ Rs. 1000 per bag
15 bags wheat @ Rs. 400 per bag
Less : 10%Trade Discount

30 Bought from Harish Kumar Chaudhary, Kotihar (Invoice No. 390)
10 bag sugar @ Rs. 1000 per bag
30 tins Ghee @ Rs. 400 per tin

Ans. Total Purchases Book Rs. 1,45,300

15. Enter the following transactions in the Columnar Purchases Book of Sudarshan Chavda :

2011

May 1 Purchased from Suresh Gupta, Jaipur (Invoice No.

2680)
100 bags wheat @Rs. 400 per bag
50 bags Gram @ Rs. 450 per bag
200 bags sugar @ Rs. 900 per bag

May 5 Bought of Virendra Vig. Delhi (Invoice No.2015)
100 bags wheat @ Rs. 400 per bag
100 bags Gram @ Rs. 450 per bag

May 8 Surendra Gupta, Agra sold to us : (Invoice No. 2950)
100 bags sugar @ Rs. 900 per bag

May 9 Rajesh Kumar, Dehradun sold to us (Invoice No. 350)
200 bags wheat @ Rs. 460 per bag.

Ans. Total of Purchases book Rs. 5,09,500

16. From the following particulars of Baljinder Flour Mills prepare a Sales Book :
2005

Mar. 3 Sold to Gupta Brothers
90 Bags of Sugar @ Rs. 85 per bag
20 Quintals Rice @ Rs. 300 per quintal
Less : 10% Trade Discount

Mar.6 Sold to Jugal Furniture House
80 Chairs of Rs. 10 each

Mar.20 Sold to M/s Kunal & Sons for cash
30 qtl. wheat @ Rs. 250 per qtl.
40 Tins Oil @ Rs. 150 per tin

Mar.28 Sold to M/s Chaman and Company
120 Bags of wheat @ Rs.90 per bag.
30 Tins oil @ Rs. 200 per tin
60 Bags of rice @ Rs. 150 per bag
Less: Trade Discount = 15%.

(Ans.Total of Sales Book = Rs. 21,930)

17. From the following information of M/s Gajadhar and Sons prepare a Sales Book
2007

July 3 Sold to Mohan vide invoice No. 325, 40 kg. Assam Tea @ 66 per kg less trade discount of 5%. VAT @ 10%. Freight and Packing charges were separately charged in the invoice at Rs. 352.

July 8 Sold to Ramanand vide (Invoice No. 426), 5 chests of tea for Rs. 3960 less trade discount @ 10% and VAT is charged @ 10%.

July 20 Sold to Krishna & Sons vide Cash Memo No. 845, 80 kg butter @ Rs. 200 per kg; less trade discount @ 25% and VAT @ 8%.

July 26 Sold to Shivhare vide invoice No. 189, 30 packets of Darjeeling Tea @ Rs. 110 per packet less trade discount Rs. 220, charged VAT @ 10%.

Ans. Total of Sales Book Rs. 10,419.

18. Enter the following transactions in the Purchases Return Book of Sh. Mukund.

2007

Jan.20 Returned goods to Arav & Sons for Rs. 410,000
Trade Discount 10% (Debit Note No.369).

Jan.24 Allowance Claimed from Rakesh on account of mistake in the invoice Rs. 900 (Debut Note No. 2660)

Jan.29 Returned goods to Sweksha Ltd. For Rs. 26,000 as the goods were defective (Debit Note No.3100).

(Ans.Total of Purchase Return Book = Rs. 35,900)

19. Prepare purchase return book of Madhav Rao Furniture House

2011

Feb.1 Returned to Chanakya Co. (Debit Note No. 123)
5 Chairs @ Rs. 80 per chair
10 stools @ RS. 150 per stool

Feb.10 Returned to Goyanka Furniture Stores (Debit Note No. 178)
5 Elmira @ Rs. 100 per Elmira
8 Tables @ Rs. 70 per table

Feb.28 Returned to Ashok & Co. : (Debit Note No.199)
7 Stools @ Rs. 120 per stool
5 tables @ Rs. 100 per table

(Ans. Total of Purchase Return Book = Rs. 4,300)

20. Enter the following transactions of Tanuj & Co. in the proper books :

2012

July 5 Sold on credit to Sethi & Co. (Invoice No. 515)
10 Electronics Iron @ Rs. 25
5 Electric Stoves @ Rs. 15

July 8 Purchased on credit from Hari & Sons : (Invoice No. 601)
25 Heaters @ Rs. 40
10 Water Heaters @Rs. 20

July 10 Purchased for cash from Mohan and Co.(Invoice No. 625)
10 Electric Kettles @ Rs. 30

July 15 Sold to Gopal Bros. on credit : (Invoice No. 648)
10 Heaters @ Rs. 50
5 Water Heaters @ Rs. 25

July 18 Returned to Hari & Sons : (Debit Note No.650)
5 Heaters, being defective

July 20 Purchased from Kohli & Co. (Invoice No. 712)
10 Toasters @ Rs. 20
10 Water Heaters @ Rs.30

July Gopal Bros. returned one water heater as defective. (Credit Note No.425)

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UNIT – 4

PREPARATION OF LEDGER, TRIAL BALANCE AND BANK RECONCILIATION STATEMENT

Unit at a Glance:

- Introduction
- Meaning and Importance of Ledger.
- Format of Ledger.
- Postings from Journal.
- Postings from Cash Book and other Subsidiary Books.
- Closing and Balancing of Ledger Accounts.
- Trial Balance - Meaning, objectives and Preparation.
- Meaning and importance of Suspense A/c.
- Bank Reconciliation Statement
- Generally students commits mistakes please avoid it
- Questions

"Ledger is a book which contains all accounts of the business enterprise whether Personal, Real or Nominal."

INTRODUCTION

After recording the business transaction in the Journal or special purpose Subsidiary Books, the next step is to transfer the entries to the respective accounts in the Ledger. **Ledger is a book where all the transactions related to a particular account are collected at one place.**

LEDGER

Definition: The Ledger is the main or principal book of accounts in which all the business transactions would ultimately find their place under various accounts in a duly classified form.

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

Points to be Remember:-
➢ **To know the collective effect of all the transactions pertaining to one particular account.**

By this classification / collective effect we are able to know the following –

- How much amount is due from each customer and how much amount the firm has to pay to each supplier/ creditor.
- The amount of Purchases and Sales during a particular period.
- Amount paid or received on account of various items.
- Ultimate position of Assets and Capital.

- For the preparation of Trial Balance which helps in ascertaining the Arithmetic Accuracy of the Accounts.

Points to be Remember:-
➢ Ledger is also called the Principal Book of Accounts

PERFORMA OF LEDGER

Name of the Account

Dr. **Cr.**

Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount

- Each ledger account is divided into two equal parts.
  Left Hand Side--Debit side (Dr)
  Right Hand Side-- Credit side (Cr)

POSTING IN THE LEDGER

This will be dealt separately from Journal Entries and each Subsidiary Book.

Case I – Posting from Journal Entries.

- ❖ If an account is debited in the journal entry, the posting in the ledger should be made on the debit side of that particular account. In the particular column the name of the other account (which has been credited in the Journal entry) should be written for reference.
- ❖ For the A/c credited in the Journal entry, the posting in the ledger should be made on the credit side of that particular A/c. In the particulars column, the name of the other account that has been debited (in the Journal entry) is written for reference.

Points to be Remember:-
➢ ‘To’ is written before the A/c s which appear on the debit side of ledger.
➢ “By” is written before the A/c s appearing on the credit side.
➢ Use of these words ‘To’ and ‘By’ is optional.

1: Simple Journal Entry.

On 1st August 2011, goods are sold for cash Rs. 2,000.

SOLUTION –

Journal Entry:-

Cash A/c Dr.	2,000	--
To Sales A/c	--	2,000
(for cash sales)		

Ledger A/c:-

Cash A/c (extract)

Dr **Cr**

Date	Particulars	J.F	Rs.	Date	Particulars	J.F	Rs.
2011 Aug.1	To sales A/c		2,000				

Sales A/c (extract)

Date	Particulars	J.F	Rs.	Date	Particulars	J.F	Rs.
2011				Aug.1	By Cash A/c		2,000

Example 2: Compound Journal Entry.

Received Rs.14,500 in full settlement of a debt of Rs. 15,000 from Ram on Aug 8, 2011.

SULUTION - Journal Entry

	Rs.	Rs.
Cash A/c Dr.	14,500	
Discount allowed A/c Dr	500	
To Ram		15,000
(Cash received and discount allowed)		

Ledger A/c

Cash A/c

Dr **Cr**

Date	Particulars	L.F	Rs.	Date	Particulars	L.F	Rs.
2011 Aug.8	To Ram		14,500				

Discount Allowed A/c

Dr **Cr**

Date	Particulars	L.F	Rs.	Date	Particulars	L.F	Rs.
2011 Aug.8	To Ram		500				

Dr **Ram's Account** **Cr**

Date	Particulars	L.F	Rs.	Date	Particulars	L.F	Rs.
				2011			
				Aug. 8	By cash A/c		14,500
					By Discount Allowed A/c		500

<u>Case II. - Ledger Postings from Cash Book</u>

- **Important Points**

(1) Cash Book itself serves as a cash A/c also, therefore when cash book is maintained, cash A/c is not opened in the ledger.

(2) When Bank column is maintained in the Cash Book, Bank A/c is also not opened in the ledger. The Bank column itself serves the purpose of Bank A/c.

(3) Opening and closing balances of Cash Book will not be entered in the ledger anywhere.

(4) As Cash Book serves the purpose of Cash/Bank A/c, it means that, only the second A/c (other than Cash A/c or Bank A/c) is to be opened in the ledger and posting is to be made for each entry in the Cash Book.

- **<u>Rules of Posting</u>**

(a) Posting from the Debit Side of Cash Book

Entries appearing on the debit side of Cash Book are to be posted to the Credit Side of respective accounts in the Ledger by writing the words

'By Cash A/c' ⟶ if it is from the Cash Column

By Bank A/c ⟶ if it is from the Bank column.

(b) Posting from the Credit Side of Cash Book

Entries appearing on the credit side of the Cash Book are to be posted to the Debit side of respective accounts in the ledger by writing the words.

'To Cash A/c' ⟶ if it is from the Cash Column

'By Bank A/c' ⟶ if it is from the Bank Column

(c) All contra entries marked 'C' are ignored while posting from the Cash Book to the Ledger because double aspect of such transactions is completed in the Cash Book itself.

Illusration: Given some Cash Book entries post there into ledger A/c

Date	Particulars	Vr.	L.F.	Cash	Bank	Date	Particulars	Vr.	L.F.	Cash	Bank
				`	`					`	`
2011											
Jan 10	To Capital A/c			20,000	-	Jan,12	By Purchases A/c			5,000	-
Jan 15	To Cash A/c		C	-	10,000	Jan,15	By Bank A/c		C	10,000	-
Jan 22	To Sales A/c			3,000	-	Jan,25	By Sumit			-	4,500
Jan, 28	To Anil			-	2,900	Jan,31	By Balance C/d			8,000	8,400
				23,000	12,900					23,000	12,900

SOLUTION:

15th Jan. entry will not be posted (Contra Entry)
Closing Balance will not be posted in the ledger

Capital A/c

Dr Cr

Date	Particulars	L.F	Amount Rs.	Date	Particulars	L.F	Amount Rs.
				2011 Jan. 10	By Cash A/c		20,000

Sales A/c

Dr Cr

Date	Particulars	L.F	Rs.	Date	Particulars	L.F	Rs.
				2011 Jan. 22	By Cash A/c		3,000

Anil's A/c

Dr Cr

Date	Particulars	L.F	Rs.	Date	Particulars	L.F	Rs.
				2011 Jan. 28	By Bank A/c		2,900

Purchases A/c

Dr Cr

Date	Particulars	L.F	Rs.	Date	Particulars	L.F	Rs.
2011 Jan. 12	To Cash A/c		5,000				

Sumit's A/c

Dr Cr

Date	Particulars	L.F	Rs.	Date	Particulars	L.F	Rs.
2011 Jan. 25	To Bank A/c		4,500				

Case III- Ledger posting from Purchases book

Journal Entry for Credit Purchases is

Purchases A/c Dr

To Supplier A/c

Therefore the rules of posting from Purchases Book are.

(1) T**he total of the Purchases book** will be posted to the **Debit side of Purchase A/c** and the words **"To Sundries as per Purchase Book"** will be written in the particulars column.

(2) Each of the **Supplier's A/c** will be **Credited** and the words. **"By Purchases A/c"** will be written in the particulars column.

Illustration:

Purchases Book

Date	Name of the Supplier	Inv. No.	L.F.	Details	Total Amount
				(Rs)	(Rs)
2011					
June 4	Sahil & Co.				10,000
June 14	Geeta Industries			20,000	
	Less Trade Discount 20%			(4,000)	16,000
June 26	Vijay & Co.			12,000	
	Less 20% Trade Discount			(2,400)	9,600
June 30	Purchases A/c Dr				35,600

SOLUTION: LEDGER A/C s

Purchases A/c

Dr **Cr**

Date	Particulars	L.F	Amount	Date	Particulars	L.F	Amount
			Rs.				Rs.
2011							
June30	To Sundries as per Purchases Book		35,600				

Sahil & Co.

Dr **Cr**

Date	Particulars	L.F	Amount	Date	Particulars	L.F	Amount
			Rs.	2011			Rs.
				June 4	By Purchases A/c		10,000

Geeta Industries

Dr **Cr**

Date	Particulars	L.F	Amount	Date	Particulars	L.F	Amount
			Rs.	2011			Rs.
				June 14	By Purchases A/c		16,000

Dr **Vijay & Co.** **Cr**

Date	Particulars	L.F	Amount	Date	Particulars	L.F	Amount
			Rs.	2011 June26	By Purchases A/c		Rs. 9,600

<u>Case IV- Ledger Postings from Sales Book</u>

Journal Entry for Credit sales is
Customer A/c Dr.
To Sales A/c
Hence rules for posting from sales Book are

1. Total of the **Sales Book** will be posted to the **credit side** of **sales A/c** by writing the words "By Sundries as per Sales Book"
2. Customer's personal A/c s are **debited** by writing the words "**To Sales A/c**"

<u>Case V- Ledger Postings from Purchase Return Book</u>

Journal Entry for purchase Return is
Personal A/c of Supplier a/c Dr
To Purchase Return A/c.

Hence the **rules for posting** are.

1. Supplier's A/c (to whom the goods are returned) is **debited** by writing the words "To Purchase Return A/c")
2. The **total of the Purchases return Book is credited** to the Purchases Return A/c by writing the words "By Sundries as per Purchases Return Book".

<u>Case VI - Ledger Postings of Sales Return Book</u>

Journal Entry for the Sales Return is –
Sales Return A/c Dr
To Customer A/c
Hence the Rules for Posting are

(1) **Individual Customer's A/C s** by whom the goods are returned are **credited by writing** the words "By Sales Return A/c".

(2) The total of the **Sales Return Book** is posted to the **Debit of Sales Return** A/c by writing the words. "**To Sundries as per Sales Return Book**".

a. Ledger Postings from Bills Receivable Book.

Bills Receivable book shows the names of the persons from whom the Bills are received. Therefore the Journal Entry is
B / R A/c Dr.
To Personal A/c

Hence. (1) Posting will be done on the **Credit side of the Personal A/cs** by writing the words. “By Bills Receivable A/c”.

(2) **The total of the Bills Receivable Book** will be posted to the **debit side of Bills Receivable A/c** by writing the words “To Sundries as per Bills Receivable Book”.

b. Ledger Postings of Bills Payable Book

Bills payable is a liability, therefore the Journal Entry is

Personal A/c Dr

To Bills Payable A/c.

Hence the rules of Posting are

1. **Personal A/C s** will be **debited** by writing the words. **“To Bills Payable A/c”.**
2. Total of the Bills Payable Book will be posted to the **credit of Bills Payable A/c** by writing **“By Sundries as per Bills Payable Book”.**

Closing and Balancing of Accounts

Normally after every month or whenever a businessman is interested in knowing the position of various A/C s, the accounts are balanced. Various steps for this purpose are .

(1) Debit and Credit sides of each A/c are totalled.

(2) The **difference between the two sides is written** on the **side which is shorter** so as to make their totals equal.

(3) The words “Balance C/d” i.e. the balance carried down and written against the amount of difference.

(4) In the next period, the balance is brought down on the other side by writing the words ‘Balance b/d’.

(5) If the **Debit side exceeds** the **Credit Side** the **difference** is a **Debit Balance** whereas.

(6) If the **Credit side exceeds the Debit side** the **difference** is a **Credit Balance.**

- **GENERALLY STUDENTS COMMITS MISTAKES PLEASE AVOID :-**

1. Debit Balance of a Personal A/c means the person is a Debtor of the firm whereas Credit Balance of a Personal A/c indicates that the person is a Creditor of the firm.

2. Real A/c s (which include Cash and all other Assets A/c s) will usually show Debit Balances.

3. Nominal A/C s (A/c s of Income and Expenses) are transferred to **Trading and Profit and Loss A/c of the firm** at the end of the Accounting Period.

4. Debit Balance of any A/c means an **Asset** or an **Expense** whereas **Credit Balance** means a **liability, Capital or Income earned**.

TRIAL BALANCE

I Meaning – When posting of all the transactions into the Ledger is completed and accounts are balanced off, then the balance of each account is put on a list called Trial Balance.

II Definition – Trial Balance is the list of debit and credit balances taken out from ledger. “It also includes the balances of Cash and bank taken from the Cash Book".

III Preparation – Steps (Only Balance Method)

(1) Ledger A/Cs which shows a debit balance is put on the Debit side of the trial balance.

(2) The A/c's Showing credit balance are put on the Credit side of the Trial Balance.

(3) Accounts which show no balance i.e. whose Debit and Credit totals are equal are not entered in Trial Balance.

(4) Then the two sides of the Trial Balance are totaled. If they are equal it is assumed that there are no arithmetical error in the posting and balancing of Ledger A/cs.

Objectives or Functions of Trial Balance

- It helps in ascertaining the arithmetical accuracy of ledger accounts.
- Helps in locating errors.
- Provides the summary of Ledger A/cs.
- Helps in the preparation of Final A/cs.

Recording in the journal and subsidiary Books, Posting into the Ledger and Preparation of Trial Balance can be clearly understood with the help of the example given on next pages.

Illusration: Enter the following transactions in proper Subsidiary Books, post them into Ledger Accounts, balance the accounts and prepare a Trial Balance.

2011

June 1. **Assets :** Cash in hand Rs. 20,000; **Debtors :** Amit and Co. Rs. 15,000, Sumit Bros. Rs. 30,000, Stock Rs. 1,75,000, Machinery Rs. 1,20,000, Furniture Rs. 40,000.
Liabilities : Bank overdraft Rs. 33,000, **Creditors :** Virat and Co. Rs. 24,000, Vishal Rs. 16,000.

June 2 Purchased from Ramesh and Sons goods of the list price of Rs. 20,000 at 10% trade discount.

June 5 Returned to Ramesh & Sons goods of the list price of Rs. 2,000.

June 10 Issued a cheque to Ramesh and Sons in full settlement of their account.

June 12 Sold to Amit and Co., goods worth Rs. 25,000.

June 15 Received cash Rs. 10,000 and a cheque for Rs. 8,000 from Amit and Co. The cheque was immediately deposited into the bank.

June 16 Withdrawn for personal use cash Rs. 5,000 and goods of Rs. 3,000.

June 17 Accepted a bill for 45 days drawn by Virat and Co. for the amount due to him.

June 18 Acceptance received from Sumit Bros. for the amount due from them payable after 30 days.

June 19 Sold to Mohit Bros., goods for Rs. 16,000.

June 20 Cash purchases Rs. 15,000.

June 22 Withdrawn from bank for office use Rs. 10,000.

June 23 Purchased from Vishal goods valued at Rs. 24,000.

June 24 Amit and Co. returned goods worth Rs. 2,000.

June 25 Received from Mohit Bros. Rs. 10,000.

June 27 Accepted a bill for Rs. 25,000 for 1 month draw by Vishal.
June 27. Paid by cheque, Rent Rs. 2,800
June 27 Received Commission in Cash Rs. 800
June 30 Paid salaries Rs. 5,000.

SOLUTION:

Cash Book (with cash and Bank Columns)

Date	Receipt	L.F.	Cash Rs.	Bank Rs.	Date	Payments	L.F	Cash Rs.	Bank Rs.
June 2011					June 2011				
1	*To Balance b/d		20000	--	1	*By Balance b/d		--	33000
15	To Amit & Co.		10000	8000	10	By Ramesh Son.		--	16200
22	*To Bank a/c	C	10000	--	16	By Drawings a/c		5000	--
25	To Mohit Bro.		10000	--	20	By Purchases a/c		15000	--
27	To Commission A/c		800	--	22	*By Cash a/c	C	--	10000
30	To Balance C/d		--	54000	27	By Rent a/c		--	2800
					30	By Salary a/c		5000	--
					30	By Balance c/d		25800	--
	Total		50800	62000		Total		50800	62000
July 1	To Balance b/d		25800		July 1	*By Balance b/d (Bank Overdraft)		--	54000

Notes :
1. Extras marked with will* not be posted anywhere in the ledger.
2. Closing Balances of Cash and Bank will be shown in the Trial Balance.
3. All other A/cs shown in the **Debit** side will be **credited** & All other A/cs shown in the Credit side will be debited.

Purchases Book

Date	Name of the Supplier (Account to be Credited)	Inv. No.	L.F	Details Rs.	Total Amount Rs.
2011					
June 2	Ramesh & Sons			20,000	
	Less Trade Discount 10%			2,000	18,000
June 23	Vishal				24,000
June 30	Purchases A/c Dr				42,000

Sales Book

Date	Name of the Supplier (Account to be Debited)	In. No.	L.F	Details Rs.	Total Amount (Rs.
2011					
June 12	Amit & Co.				25,000
June 19	Mohit Bros.				16,000
June 30	Sales A/c Cr				41,000

Sales Return Book

Date	Name of the Customer (Account to be Credited)	Credit Note No.	L.F	Details Rs.	Total Amount Rs.
2011					
June 24	Amit & Co.				2,000
June 30	Sales Return A/c Dr				2,000

Purchases Return Book

Date	Name of the Supplier (Account to be Debited)	Debit Note No.	L.F	Details Rs.	Total Amount Rs.
2011					
June 5	Ramesh & Sons.			2,000	
	Less Trade Discount 10%			200	1,800
June30	Purchases Return A/c Cr				1,800

Bills Receivable Book

Date of Receipt	From whom received	Period of the bill	Due Date	L.F	Amount Rs.	How Disposed
2011						
June18	Sumit Bros.	30 days	July 21		30,000	
June 30	Bill Receivable A/cDr				30,000	

Bills Payable Book

Date of Acceptance	To Whom Given	Period of the Bill	Due Date	L.F	Amount Rs.	How Disposed
2011						
June 17	Virat & Co.	45 days	August 4		24,000	
June 27	Vishal	1 month	July 30		25,000	
June 30	Bills Payable A/c Cr				49,000	

Posting of opening Entries :

(1) First of all opening Journal Entry is done in the Journal proper.

(2) All Assets A/cs are Debited and Liabilities A/cs are Credited. Difference between the totals of the two sides is the Capital.

Important: Besides opening Journal entries, any transaction which is not covered under any of the Subsidiary Book is done in Journal proper.

Journal Proper

Date	Particulars		L.F	Amount Dr.	Amount Cr.
2011				Rs.	Rs.
June 1	Cash A/c	Dr		20,000	
	Amit & Co.	Dr		15,000	
	Sumit Brothers	Dr		30,000	
	Stock A/c	Dr		1,75,000	
	Machinery A/c	Dr		1,20,000	
	Furniture A/c	Dr		40,000	
	To Bank (Overdraft) A/c				33,000
	To Virat & Co.				24,000
	To Vishal				16,000
	To Capital A/c (Balancing fig)				3,27,000
	(opening Balances, brought forward from the previous years books)				
June 16	Drawings A/c	Dr		3,000	
	To Purchases A/c				3,000
	(Goods withdrawn for personal use)				

Ledger Accounts

Amit & Co.

Dr. Cr.

Date	Particulars	J.F	Amount (Rs)	Date	Particulars	J.F	mount (Rs)
2011				2011			
June 1	To Balance b/d		15,000	June 15	By Cash A/c		10,000
June 12	To Sales A/c		25,000	June 15	By Bank A/c		8,000
				June 24	By Sale Reurn A/c		2,000
				June 30	By Balance c/d		20,000
			40,000				40,000
July 1	To Balance b/d*		20,000				

Sumit Bros. A/c

Dr. Cr.

Date	Particular	J.F	Amount (Rs)	Date	Particular	J.F	Amount (Rs)
2011				2011			
June 1	To Balance b/d*		30,000	June18	By B/R. A/c		30,000

Stock Account

Dr. Cr.

Date	Particular	J.F	Amount (Rs)	Date	Particular	J.F	Amount (Rs)
2011				2011			
June 1	To Balance b/d*		1,75,000				

Machinery A/c

Dr. Cr.

Date	Particular	J.F	Amount (Rs)	Date	Particular	J.F	Amount (Rs)
2011				2011			
June 1	To Balance b/d		1,20,000	June 30	By Balance c/d		1,20,000
			1,20,000				1,20,000
July1	To Balance b/d*		1,20,000				

Furniture A/c

Dr. Cr.

Date	Particular	J.F	Amount (Rs)	Date	Particular	J.F	Amount (Rs)
2011 June 1	To Balance b/d		40,000	2011 June 30	By Balance c/d		40,000
July 1	To Balance b/d		40,000				

Virat & Co.

Dr. Cr.

Date	Particular	J.F	Amount (Rs)	Date	Particular	J.F	Amount (Rs)
2011 June 17	To Bills Payable A/c		24,000	2011 June 1	By Balance b/d		24,000

Balance on June 30th is Nil in this A/c (Virat & Co.)

Vishal's A/c

Dr. Cr.

Date	Particular	J.F	Amount (Rs)	Date	Particular	J.F	Amount (Rs)
2011 June 27	To Bills Payable A/c		25,000	2011 June 1	By Balance b/d		16,000
June 30	To Balance c/d		15,000	June 23	By Purchases A/c		24,000
			40,000				40,000
				July 1	By Balance b/d*		15,000

Capital A/c

Dr. Cr.

Date	Particular	J.F	Amount (Rs)	Date	Particular	J.F	Amount (Rs)
2011 June 30	To Balance c/d		3,27,000	2011 June 1	By Balance b/d		3,27,000
				July 1	By Balance b/d		3,27,000

Drawings A/c

Dr. Cr.

Date	Particular	J.F	Amount (Rs)	Date	Particular	J.F	Amount (Rs)
2011				2011			
June 16	To Cash A/c		5,000	June 30	By Balance c/d		8,000
June 16	To Purchases A/c		3,000				
			8,000				8,000
July 1	To Balance b/d*		8,000				

Ramesh & Sons

Dr. Cr.

Date	Particular	J.F	Amount (Rs)	Date	Particular	J.F	Amount (Rs)
2011				2011			
June 5	To Parchase Return A/c		1,800	June 2	By Puchase A/c		18,000
June 10	To Bank A/c		16,200				
			18,000				18,000

Purchases A/c

Dr. Cr.

Date	Particular	J.F	Amount (Rs)	Date	Particular	J.F	Amount (Rs)
2011				2011			
June 20	To Cash A/c		15,000 J	June 16	By Drawings A/c		3,000
June 30	To Sundries as per Purchases Book		42,000	June 30	By Balance c/d		54,000
			57,000				57,000
July 1	To Balance b/d*		54,000				

Mohit Brothers A/c

Dr. Cr.

Date	Particular	J.F	Amount (Rs)	Date	Particular	J.F	Amount (Rs)
2011				2011			
June 19	To Sales A/c		16,000	June 25	By Cash A/c		10,000
				June 30	By Balance c/d		6,000
			16,000				16,000
July 1	To Balance b/d*		6,000				

Rent A/c

Dr. Cr.

Date	Particular	J.F	Amount (Rs)	Date	Particular	J.F	Amount (Rs)
2011				2011			
June 27	To Bank A/c		2,800	June 30	By Balance c/d		2,800
June 30	To Balance b/d*		2,800				

Commission A/c

Dr. Cr.

Date	Particulars	J.F	Amount (Rs)	Date	Particulars	J.F	Amount (Rs)
2011				2011			
				June 27	By Cash A/c		800

Salaries A/c

Dr. Cr.

Date	Particular	J.F	Amount (Rs)	Date	Particular	J.F	Amount (Rs)
2011				2011			
June 30	To Cash A/c		5,000				

Sales A/c

Dr. Cr.

Date	Particular	J.F	Amount (Rs)	Date	Particular	J.F	Amount (Rs)
				2011			
				June 30	By Sundries as per Sales Book		41,000

Sales Return A/c

Dr. Cr.

Date	Particular	J.F	Amount (Rs)	Date	Particular	J.F	Amount (Rs)
2011							
June 30	To Sundries as per Sales Return Book		2,000				

Purchase Return A/c

Dr. Cr.

Date	Particular	J.F	Amount (Rs)	Date	Particular	J.F	Amount (Rs)
				2011 June 30	By Sundries as per Purchase Return Book		1,800

Dr. Bills Receivable A/c Cr.

Date	Particular	J.F	Amount (Rs)	Date	Particular	J.F	Amount (Rs)
June 30	To Sundries as per B/R Book		30,000	June 30	By Balance c/d		30,000
July 1	To Balance b/d*		30,000				

Dr. Bills Payable A/c Cr.

Date	Particular	J.F	Amount (Rs)	Date	Particular	J.F	Amount (Rs)
June 30	To Balance c/d		49,000	June 30	By Sundries as per B/P Book		49,000
				July 1	By Balance b/d*		49,000

TRIAL BALANCE
as on 30th June, 2011

Name of the Accounts	L.F	Debit Balances (Rs)	Credit Balances (Rs)
Cash A/c		25,800	–
Bank (overdraft) A/c		–	54,000
Amit & Co.		20,000	–
Stock A/c		1,75,000	–
Machinery A/c		1,20,000	–
Furniture A/c		40,000	–
Vishal's A/c		–	15,000
Capital A/c		–	3,27,000
Drawings A/c		8,000	–
Purchases A/c		54,000	–
Mohit Brothers		6,000	–
Rent A/c		2,800	–
Commission A/c		–	800
Salaries A/c		5,000	–

Sales A/c			–	41,000
Sales Return A/c			2,000	–
Purchase Return A/c			–	1,800
Bills Receivable A/c			30,000	–
Bills Payable A/c				49,000
Total			**4,88,600**	**4,88,600**

SUSPENSE ACCOUNT

When Trial Balance does not agree, then first of all we try to locate the errors. Sometimes, in spite of the best efforts, all the errors are not located and the Trial Balance does not tally. Then in order **to avoid delay in the preparation of final accounts, a new account is opened which is known "Suspense Account" Difference in Trial Balance is posted to this Account.**

1. If there is Excess Debit in the Trial Balance	**Difference is posted to the Credit side of Suspense A/c**
2. If there is Excess Credit in the Trial Balance	**Difference is posted to the Debit side of Suspense Account.**

Illusration:

S. no.	Trial Dr. Total (Rs)	Balance (Cr Total) (Rs)	Difference (Rs.) (Rs)	Posted to the Suspense A/c ? (Debit / Credit Side)
1.	2,25,000	2,16,500	8,500 (Excess Debit)	Credit Side of Suspense A/c.
2.	2,16,500	2,25,000	8,500 (Excess Credit)	Debit Side of Suspense A/c.

Closing of Suspense A/c :

- The errors which led to the difference still remains to have to be located.
- These errors will be rectified through Suspense A/c (One sided errors) which will be explained in the topic Rectification of Errors.
- **When all the errors are rectified,** this **Account closes down automatically. If the difference in Trial Balance** persist, **it is shown in the Balance Sheet.**

Points to be Remember:-

(1) **Debit Balance of Suspense Account** is shown in the **Asset Side of the B/Sheet.**

(2) **Credit Balance of Suspense Account is shown** in the **Liability Side of the Balance** Sheet.

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BANK RECONCILLIATION STATEMENT

Unit at a Glance:

- Introduction
- Meaning of B.R.S.
- Causes of Differences in Bank Balance as per Cash Book and Pass Book.
- Importance of Bank Reconciliation Statement.
- Procedure of preparation of B.R.S.
- Preparation of Adjusted Cash Book.

INTRODUCTION

Usually all the firms open a current account with the bank as there are so many transactions and record these transactions in the Bank column of the Cash Book. Bank also maintains a separate ledger account of each firm (customer) and periodically supplies a copy of the account to the firm for information. This copy of the firm's Account supplied by the bank is known as Bank Statement or Bank Pass Book.

Since all the transactions with the bank are entered in both the books Cash Book and Pass Book, the balances of the two books should tally with each other. But usually the two balances don't tally.

Bank Reconciliation Statement is prepared to reconcile the difference between the Bank Balance shown by the Cash Book and Bank Pass Book.

DEFINITION

A schedule showing the items of difference between the bank statement and the bank column of Cash Book is known as Bank Reconciliation Statement.

CAUSES OF DIFFERENCES IN CASH BOOK AND PASS BOOK

The differences may be caused by either

A. Time gap in recording transactions or
B. Errors Committed in recording transactions.

(A) Differences Caused by the time gap:-

Reasons for the time gap in recording the transactions in the two books (Cash Book and Pass Book) are as given below –

(1) Cheques issued but not yet presented for payment in the bank.
(2) Cheques deposited or paid into the bank for collection but not yet credited by the bank.
(3) Cheques deposited but dishonoured by the bank.
(4) Interest allowed by the bank.
(5) Interest on overdraft, bank charges, commission etc. charged by the bank.
(6) Direct Deposit by the customers into the bank.
(7) Interest, Dividend etc. collected by the bank.
(8) Direct payments made by the bank on behalf of customer as per standing instruction.

(B) **<u>Differences caused by Errors Committed</u>**

Such errors may be of two types

(1) **Errors committed by the firm**

(i) Cheques issued to some creditors but omitted to be recorded in the Cash Book or recorded twice.

(ii) Cheques deposited into the bank omitted to be entered in the Cash Book or recorded twice.

(iii) Error in totaling or balancing the bank column of the Cash Book.

(2) **Errors committed by the bank**

Sometimes bank records a wrong entry in the customer's account which causes a difference in the two balances.

<u>NEED AND IMPORTANCE</u>

- It helps in locating and rectifying the errors or omissions committed either by the firm or by the bank.
- Customer becomes sure of the correctness of the bank balance shown by the cash book.
- Facilitates the preparation of <u>amended or revised Cash Book.</u>
- Reduces the chances of fraud by the staff of the firm or bank.
- Helps in keeping a track of the cheques deposited for collection.

Procedure of Preparing Bank Reconciliation Statement

A Bank Reconciliation Statement is prepared when we get the duly completed Pass Book from the Bank. On receiving the Cash Book

(1) First of all tally the Debit side entries of the cash book with the Credit side entries of the Pass Book and vice versa.

(2) Tick the items appearing in both the books.

(3) Un ticked items will be the points of differences.

(4) A BRS is then prepared by taking either the balance as per Cash Book or Pass Book as a starting point.

<u>Important Points to Remember:-</u>

(1) If the Starting point is Cash Book Balance then the ending point will be Pass Book Balance.

(2) If the starting point is Pass Book Balance then the ending point will be the Balance as per Cash Book.

(3) Debit Balance as per Cash Book or Credit Balance as per Pass Book, means that the firm has that much amount of deposited at the bank also called favorable balance write the amount under (+) item.

(4) Credit Balance as per Cash Book or Debit Balance as per Pass Book, means that this much amount has been withdrawn in excess of deposit also called over-draft or unfavorable balance write the amount under (-) item.

Method of Preparing BRS Starting with by the Balance / overdraft as per Bank Column of Cash Book.

Starting Point **End Point**

Cash Book		Pass Book
Less Balance	+ item	More Balance
More Balance	– item	Less Balance

Note : To get more from less means something is to be added therefore + item
& To get less from more, something is to be deducted therefore _ item.

1. First of all write
   Under Plus Item – If the Cash Book Balance is debit or favorable or simple balance.
   Under Minus Item – If the Credit Balance or overdraft as per Cash Book is given.
2. Now study the point of difference.
   (a) If the entry is done in the Cash Book and not in the Pass Book then .
   (i) if it is done on the debit side of Cash Book, Balance in the Cash Book will be more as compared to Pass Book and hence the item will be(–) item as shown in the box above.
   (ii) where as if the entry is done on the Credit side of Cash Book, the Balance in the Cash Book will be less as compared to Pass Book and hence the item will be (+) item.
   (b) If the entry is done in the Pass Book and not in the Cash Book then.
   (i) if done on the Credit side of Pass Book –
   Pass Book Balance is more as compared to Cash Book (–) item.
   (ii) It it is done on the Debit side of Pass Book –
   Pass Book Balance is less as compared to Cash Book → (–) item
3. At the end + items and – items are totaled.
   (a) If total of Plus Items is more than the total of (–) items → Difference is Cr Balance or favorable balance as per Pass Book.
   (b) Whereas if the – items total is more than the (+) items total → Difference is Dr Balance or overdraft as per Pass Book.

Ready Reference

(+) Items (Items which increases the Pass Book Balances or decreases the Cash Book Balance)

(1) Cheques issued but not yet presented.
(2) Credits made by the bank for Interest.
(3) Amount directly deposited by the customers in our bank A/c.
(4) Interest and dividend collected by the bank.
(5) Cheques paid into the bank but omitted to be recorded in the Cash Book.

(–) Items (Items which, decreases the Pass Book Balance or increase the Cash Book Balance)

1. Cheques sent to the bank for collection but not yet credited by the bank.
2. Cheques paid into the bank but dishonoured.
3. Direct payments made by the bank.
4. Bank charges, commission etc. debited by the bank.
5. Cheqes issued but omitted to be recorded in the Cash Book.

Illusration: Balance as per Cash Book is given

Prepare BRS as on 31st July 2011

(1) Balance as per Cash Book is Rs. 25,000 as on 31st July 2011.

(2) Cheques for Rs. 15,000 were deposited into the Bank in the month of July but only cheques for Rs. 11,000 were credited by the bank till 31st July 2011.

(3) Cheues issued for Rs. 13,000 in July, out of which a cheque for Rs. 3,800 was presented for payment on 3rd August.

(4) Bank charged Rs. 50 as Bank charges and credited interest of Rs. 370.

(5) A customer directly deposited Rs. 1,550 in firm's bank A/c.

(6) Bank paid the Insurance Premium of Rs. 1,200 as per standing instructions on 25.07.2011.

SOLUTION:-

Bank Reconciliation Statement
as on 31st July 2011

Particulars	+ items	– items
	(Rs.)	(Rs.)
(1) Balance as per Cash Book.	25,000	–
(2) Cheques deposited but not yet collected by the bank (15,000–11,000)	–	4,000
(3) Cheques issued but not yet presented for payment	3,800	–
(4) (a) Bank Charges	–	50
(b) Interest credited by the bank	370	–
(5) Directly deposited by the customers not recorded in the Cash Book	1,550	–
(6) Insurance Premium paid by the bank not recorded in Cash Book.	–	1,200
Total	**30,720**	**5,250**
Balance as per Book (30,720 – 5,250)	**25,470**	**–**

Explanation :

(1) Balance per Cash Book means favourable Balance, hence + item. **If nothing** b**(i.e. Debit or Credit) is written with the Balance given, it is treated as favourable.**

(2) Cheques were deposited into the bank for Rs. 15,000 but credited by the bank for Rs. 11,000 in the month of July, implies that cheques for Rs. 4,000 (15,000– 11,000) are entered in the Cash Book but not in the Pass Book increasing the Cash Book Balance by Rs. 4,000 as compared to Pass Book. Hence to get Pass Book Balance from the Cash Book Balance Rs. 4,000 will have to be deducted. **– item**

(3) Cheque issued but not presented for payment till 31st July is for Rs. 3800 entered more on the credit side of Cash Book as compared to Pass Book.
Cash book Balance is less by Rs. 3800 as compared to Pass Book (+) item.

(4) (a) Bank charges of Rs. 50 entered in the Pass Book decreases the Balance of Pass Book. To reach Pass Book Balance from Cash Book Balance, this item has to be deducted i.e. (–) item.

(b) Interest credited by the Bank Rs. 370 entered in Pass Book increases the, balance of Pass Book, hence to search the Balance from cash book and this item is to be added (+) item.

(5) Direct deposit by a customer Rs. 1,550 increases the Pass Book Balance (+)item

(6) Payment made by the bank for insurance premium decreases the Pass Book Balance (–) item.

(7) (+) items total Rs. 30,720 is more than(–) item total Rs. 5250 by Rs. 25,470. Hence the difference of Rs. 25,470 will be (+) item i.e. Favaurable Balance or Cr. Balance as per Pass Book.

Illustration:–when overdraft as per Cash Book is given

(1) Overdraft as per Cash Book is Rs. 10,500 on 30th June 2011.
(2) Cheques deposited but not yet collected Rs. 2,000.
(3) Chequs issued but not yet presented for payment of Rs. 2,800.
(4) Bank charges of Rs. 50 and Interest on overdraft of Rs. 250 are charged by the bank.
(5) A customer directly deposited Rs. 1,200 into the Bank.
(6) Insurance Premium of Rs. 1,500 is paid by the bank as per standing instructions.

Prepare Bank Reconciliation Statement for the month of June 2011.

SOLUTION :

Bank Reconciliation Statement
as on 30th June 2011

Particulars	+ item	– item
	(Rs.)	(Rs.)
(1) Overdraft as per Cash Book*	–	10,500
(2) Cheques deposited but not yet collected.	–	2,000
(3) Cheques issued but not yet presented for payment	2,800	–
(4) (a) Bank Charges	–	50
(b) Interest on overdraft charged by the bank.	–	250
(5) Directly deposited by a customer	1,200	–

in the bank.		
(6) Insurance Premium paid by the bank not entered in Cash Book.	–	1,500
Total	**4,000**	**14,300**
Overdraft as per Pass Book (14,300 – 4,000)	–	10,300

Overdraft means unfavorable balance or Negative Balance Hence put it under – item.
Explanation for all other items is similar as example 1 except the following.

(1) Item No. 4 (b) – Interest on overdraft decreases the Pass Book Balance hence it is to be deducted from Cash Book Balance to reach at Pass Book Balance → item.
(2) This time the total of (–) items Rs. 14,300 is more to the total of + item is Rs. 4,000 by Rs. 10,300.
Hence this is a (–) item or in other words overdraft as per Pass Book.

Case II – Starting with Pass Book Balance / overdraft.

Starting Point		**Ending Point**
Pass Book	→	Cash Book
Less Balance	+ item →	More Balance
More Balance	– item →	Less Balane

1. First of all write under
+ Item – If Cr Balance, favaurable balance or Simply Balance as per Pass Book is given.
(–) Item If Debit Balance or overdraft as per Pass Book is given.

2. Now study the point of difference between the Cash Book and Pass Book.

(a) If the entry is done in the Cash Book and not in the Pass Book then.
(i) If is done on the Debit side of Cash Book Balance in the Cash will be more as compared to Pass Book and hence the item is to be added in the Pass Book Balance to get the Cash Book Balance i.e. (+) item.
(ii) Where as if the entry is done on the Credit side of Cash Book Cash Book Balance will be less as compared to Pass Book hence (–) item

(b) If the entry is done in the Pass Book and not in the Cash Book then.
(i) if it is done on the Debit side of Pass Book Pass Book Balance is less as compared to Cash Book item is to be added in Pass Book Balance to get the Cash Book Balance + item.
(ii) if is done on the Credit side of Pass Book Pass Book Balance is more as compare to Cash Book item. (–) item

3. At the end + item and – item are totalled
(a) If total of (+) items is more than the total of (–) ⇒ Differences is favourable Balance or Debit Balance as per Cash Book .

(b) Where as if the total of (–) items is more than the total of + items ⇒Difference is Dr Balance or overdraft as per Pass Book.

Difference is unfavourable or overdraft as per Cash Book.

Ready Reference

(+) Items [items which increases the Cash Book Balances or decreases the Pass Book Balance]

1) Cheques sent for collection to the bank but not yet credited / collected by the bank.
2) Cheques deposited into the bank but dishonoured.
3) Direct Payments made by the bank.
4) Bank charge, commission etc. debited by the bank.
5) Cheques issued but omitted to be recorded in the Cash Book.

(–) Item [Items which decreases the Cash Book Balance or increases the Pass Book Balance]

(1) Cheques issued but not yet presented.
(2) Credits made by the bank for interest.
(3) Amount directly deposited by the customers into the Bank.
(4) Interest and dividend collected by the Bank.
(5) Cheques paid into the bank but omitted to be recorded in the Cash Book.

Illusration: Balance as per Pass Book is given

Given (1) Balance as per Pass Book is Rs. 25,470 Point No. (2) to (6) are same as given in example (1) Prepare B.R. Statement for the month of July 2011.

SOLUTION :

Bank Reconciliation Statement as on 31th July 2011

Particulars	+ item	– item
	(Rs.)	(Rs.)
(1) Balance as per Pass Book (Cr)	25,470	–
(2) Cheques deposited but not yet collected by the Bank (15,000–11,000).	4,000	–
(3) Cheques issued but not yet presented for payment		3,800
(4) (a) Bank Charges	50	–
(b) Interest Credited by the Bank.	–	370
(5) Directly deposited by the customer not recorded in the Cash Book.	–	1,550
(6) Insurance Premium paid by the bank not recorded in Cash Book.	1,200	–
Total	**30,720**	**5,720**
Balance as per Cash Book (Dr) (30720-5720)	**25,000**	–

Important Points –

- Starting and Ending Points are reversed as compared to Example No. 1, Hence + items and (–) items are interchanged.
- Favourable balance whether of Cash Book or Pass Book is always a + item.
- If + items total is more than the – items total then the difference in the two totals is always a favourable balance.
- where as if + items total is less than the – items total then the difference in the two totals is overdraft.

Example:- 4 – Overdraft as per Pass Book is given.

Given that (1) Overdraft as per Pass Book is Rs. 10,300 Rest of the contents (points 2 to 6) are same as given in example No. 2

Prepare B.R. Statement for the month of June 2011.

SOLUTION

Bank Reconciliation Statement as on 30th June 2011

Particulars	+ item (Rs.)	– item (Rs.)
(1) Overdraft as per Pass Book	–	10,300
(2) Cheques deposited but not yet collected or Credited by the Bank	2,000	–
(3) Cheques issued but not yet presented for payment	–	2,800
(4) (a) Bank Charges not entered in in Cash Book	50	–
(b) Interest on overdraft chargeg by the bank	250	–
(5) Directly deposited by a customer in the Bank	–	1,200
(6) Insurance Premium paid by the Bank	1,500	–
Total	**3,800**	**14,300**
Overdraft as per Cash Book (14,300–3,800)	–	**10,500**

Important Points –

1. Overdraft whether as per Cash Book or Pass Book is always a (–) items.
2. Starting and Ending points are interchanged as compared to Example No. 2, hence + items and (–) are also interchanged.
3. Here (–) items total is more as compared to (+) items total, therefore the difference in the two balance is a negative items i.e. overdraft as per Cash Book.

Amended Cash Book Method:-

Introduction : So far we have studied the preparation Bank Reconcilliation State-ment simply by reconciling the causes of differences between the Cash Book and Pass Book. In actual practice adjustments are done in the Cash Book by comparing the Bank column of Cash Book with the Bank Statement and after that B.R. Statement is prepared. It is called Amended Cash Book Method.

Procedure

1) Adjusted Cash Book is prepared starting with the Balance of the Cash Book given in the question.

2) All errors that have been committed in the Cash Book will have to be rectified by passing adjusting entries in the Cash Book.

Usual or General Errors are

(a) Overcasting or Undercasting of Debit / Credit Column of Cash Book.
(b) Cheques deposited or Issued but omitted to be entered in the Cash Book.
(c) Incorrect amount (if any) entered in the Cash Book.
(d) Entries on the incorrect side or in the wrong column of Cash Book. (e)
(e) Any amount recorded twice in the Cash Book.

(3) Certain amounts for which Bank has debited our A/c will be recorded on the Credit side of Cash Book. Such items are

(a) Interest charged by the bank on overdraft etc.
(b) Debits made by the bank for the bank charges, commission etc.
(c) Direct payments made by the Bank on behalf of the A/c holder.
(d) Cheques sent for collection but dishonoured by the bank.

(4) Cash Book is then balanced and the new Balance of the Cash Book is taken as the Starting point for preparing the B.R. Statement.

Important:-
It should be noted that the following items must not be recorded in the Amended Cash Book.

1. Cheques deposited into the Bank but not yet credited by the bank.
2. Cheques Issued but yet not presented for payment.
3. Any wrong entry in the Pass Book.

Illusration:

The Cash Book of Mr. Sharma showed a balance of Rs. 3,560 as on 31st Dec. 2010 at the Bank where as Pass Book showed a balance of Rs. 4,230 Comparison of the Cash Book and Pass Book revealed the following.
(1) The Bank has debited Mr. Sharma with Rs. 460, the annual premium of his life policy according to his standing instructions and Rs. 20 as Bank charges.
(2) Mr. Sharma paid into the Bank cheques totaling Rs. 3,100 on Dec. 26th 2010 of which those for Rs. 2,500 were collected in December. One cheque for Rs. 200 was returned deshonoured on 2nd Jan. 2011.
(3) The Bank has credited Mr. Sharma by Rs. 1,600, the proceeds of a bill.
(4) Cash collected on 31st Dec. 2010 totaling Rs. 850 was entered in the Cash Book in the Bank column on the same date but banked on 2.1.2011.
(5) Mr. Sharma issued cheques totaling Rs. 2,300 in the month of Dec. out of which cheques for Rs. 1000 have not been presented for payment till 31st Dec.

SOLUTION:-

Amended Cash Book (Bank Column only) as on 31st Dec. 2010

Receipt side Payment side

Particulars	(`)	Particulars	(`)
To Balance b/d	3,560	By Drawings	460
To B/R (Proceeds of a Bill)	1,600	By Bank charges	20
		By Balance c/d.	4,680
	5,160		5,160

Bank Reconciliation Statement
As on 31st Dec. 2010

Particulars	**+ item**	**– item**
	(Rs.)	(Rs.)
(1) Balance as per Adjusted Cash Book (Dr)	4,680	–
(2) Cheques paid into the Bank but not Credited by Dec. 31st, 2010 (3100–2500)	–	600
(3) Cheques issued but not presented till date	1,000	–
(4) Cash collected entered in the Cash Book but not banked. till 31st Dec.	–	850
Total	5,680	1,450
Balance as per Pass Book (Cr) (5680 – 1,450)	**4,230**	–

<u>GENERALLY STUDENTS COMMIT MISTAKES PLEASE AVOID:</u>

- Amended or adjusted Cash Book is started with the given balance of bank as per Cash Book.
- Closing Balance of the adjusted Cash Book is the opening balance of Bank Reconciliation statement.
- Entry for the dishouner of the cheques of Rs. 200 is not done.

1. In the Cash Book as it was dishonoured after 31st Dec.
2. In Bank Reconciliation Statement it is included in the adjustment (Rs. 3100– 2500)

QUESTIONS

Q.(1) Give journal entries of M/s Krutagna traders, Post them to the Ledger from the following transactions and prepare a Trial Balance :

April- 2012	Rs.
1. Commenced business with cash	1,10,000
2. Opened bank account with H.D.F.C.	50,000
3. Purchased furniture	20,000
7. Bought goods for cash from M/s Rupa Traders	30,000
8. Purchased good from M/s Hema Traders	42,000
10. Sold goods for cash	30,000
14. Sold goods on credit to M/s. Gupta Traders	12,000
16. Rent paid	4,000
18. Paid trade expenses	1,000
20. Received cash from Gupta Traders	12,000
22. Goods return to Hema Traders.	2,000
23. Cash paid to Hema Traders	40,000
25. Bought postage stamps	100
30. Paid salary to Rishabh	4,000

Q. (2) Journalise the following transactions in the Books of M/s Bhuj traders. Also post them in the ledger and prepare a Trial Balance.

May- 2012	Rs.
1. Started business with cash	2,00,000
2. Bought office furniture	30,000
3. Paid into bank to open a current account	1,00,000
5. Purchased a computer and paid by cheque	2,50,000
6. Bought goods on credit from Ritika	60,000
8. Cash sales	30,000
9. Sold goods to Krishna on credit	25,000
12. Cash paid to Mansi on account	30,000
14. Goods returned to Ritika	2,000
15. Stationery purchased for cash	3,000
16. Paid wages	1,000
18. Goods returned by Krishna	2,000
20. Cheque given to Ritika	28,000

Bank Reconciliation Statement

Q.(1) The cash book shows a bank balance of Rs. 7,800. On comparing the cash book with passbook the following discrepancies were noted :

(a) Cheque deposited in bank but not credited Rs. 3,000
(b) Cheque issued but not yet present for payment Rs. 1,500
(c) Insurance premium paid by the bank Rs. 2,000
(d) Bank interest credit by the bank Rs. 400
(e) Bank charges Rs. 100
(d) Directly deposited by a customer Rs. 4,000

(*Ans:* Balance as per passbook Rs. 8,600).

Q.(2) The passbook of Mr. Mohit current account showed a credit Balance of Rs. 20,000 on dated December 31, 2005. Prepare a Bank Reconciliation Statement with the following information.

(i) A cheque of Rs. 400 drawn on his saving account has been shown on current account.

(ii) He issued two cheques of Rs. 300 and Rs. 500 on of December 25, but only the first cheque was presented for payment.

(iii) One cheque issued by Mr. Mohit of Rs. 500 on December 25, but it was not presented for payment whereas it was recorded twice in the cash book.

(*Ans:* Balance as per cash book Rs. 18,900).

Q.(3) Prepare bank reconciliation statement.

(i) Overdraft shown as per cash book on December 31, 2005 Rs. 10,000.

(ii) Bank charges for the above period also debited in the passbook Rs. 100.

(iii) Interest on overdraft for six months ending December 31, 2005 Rs. 380 debited in the passbook.

(iv) Cheques issued but not in cashed prior to December 31, 2005 amounted to Rs. 2,150.

(v) Interest on Investment collected by the bank and credited in the passbook Rs. 600.

(vi) Cheques paid into bank but not cleared before December, 31 2005 were Rs.1,100.

(*Ans:* overdraft as per passbook Rs. 8,830).

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UNIT-05
Depreciation, Provisions and Reserves

Unit at a glance:

- Meaning of Depreciation
- Features of depreciation
- Causes of depreciation
- Need or objectives of depreciation
- Factors or basis for providing depreciation
- Methods of calculating depreciation
- Difference between straight line method and written down value method
- Methods of recording depreciation
- Sale of an asset
- Disposal of an asset
- Provisions and reserves
- Types of reserves

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

Introduction:

Every fixed asset loses its value due to use or other reasons. This decline in the value of asset is known as depreciation.

Meaning of Depreciation:

Depreciation may be described as a permanent, continuing and gradual shrinkage in the book value of fixed assets.

Features of Depreciation:

(1) It is decline in the book value of fixed assets.
(2) It is a continuing process.
(3) It includes loss of value due to efflux ion of time, usage or obsolescence.
(4) It is an expired cost and must be deducted before calculating taxable profit.

Causes of Depreciation:

(1) Wear and tear due to use or passage of time.
(2) Obsolescence.
(3) Expiration of legal rights.
(4) Abnormal factors.

Need or Objectives of Depreciation:

(1) To ascertain the true profit or loss.
(2) For consideration of tax.
(3) To ascertain the true and fair financial position.
(4) Compliance with legal provisions.

Factors or Basis for providing Depreciation:

(1) Cost of asset.
(2) Estimated net residual value.
(3) Depreciable cost.
(4) Estimated useful life.

Methods of calculating Depreciation:

(1) Straight line method (Fixed installment method):

This method is based on the assumption of equal usage of time over asset's entire useful life. According to this method a fixed and equal amount is charged as depreciation in every accounting period during the life time of an asset. Depreciation amount can be calculated by the following formula:

Basis	Straight line method	Written down value method
Charging depreciation	On original cost of an asset	On book value of an asset
Amount of depreciation	Fixed year after year	Declines year after year
Recognition by income tax law	Not recognised	Recognised
Calculation	Easy to calculate	Difficult to calculate

$$\text{Depreciation} = \frac{\text{cost of asset} - \text{estimated net residual value}}{\text{no. of years of expected life}}$$

(2) Written Down value method(Diminishing balance method):

In this method depreciation is charged on the book value of tha asset. The amount of depreciation reduces year after year.

Difference between Straight line method and written down value method:

Methods of recording Depreciation:

(1) When depreciation is charged to asset account:

In this method depreciation is deducted from the asset value and charged (debited) to profit and loss account. Journal entries for recording under this method are as follows.

(a) For purchase of an asset

Asset A/c Dr.

To Bank/ vendor A/c

(With the cost of an asset including installation expenses, freight etc.)

(b) Following entries are recorded at the end of each year

(i) Depreciation A/c Dr.

To Asset A/c

(With an amount of depreciation)

(ii) Profit and loss A/c Dr.

To Depreciation A/c

(With an amount of depreciation)

(2) When provision for depreciation/Accumulated depreciation account is maintained:

Following journal entries are recorded at the end of each year.

(a) Depreciation A/c Dr
To provision for depreciation A/c
(With the amount of depreciation)
(b) Profit and loss A/c Dr
To depreciation A/c
(With the amount of depreciation)

Illustration – 1. Soham purchased a machinery for Rs. 1,00,000 on 1st July, 2009. Another machine was purchased for Rs. 50,000 on 1st January, 2011. Depreciation is charged at 10% p.a. by straight line method. Accounts are closed on 31st December each year. Pass the necessary Journal entries, show machinery A/c and Depreciation A/c for the year 2009, 2010, 2011.

(a) When Provision for depreciation a/c is not maintained.
(b) When Provision for depreciation a/c is maintained.

Solution:

(a) When Provision for depreciation a/c is not maintained.

In the Books of Soham

Journal

Date	Particulars	L.F.	Dr. (Rs.)	Cr.(Rs.)
2009				
July 1	Machinery A/c Dr.		1,00,000	
	To Bank A/c			1,00,000
	(Being machinery purchased for Rs. 1,00,000)			
Dec 31	Depreciation A/c Dr.		5,000	
	To Machinery A/c			5,000
	(Being depreciation charged to machinery A/c)			
Dec 31	Profit and Loss A/c Dr		5,000	
	To Depreciation A/c			5,000
	(Being depreciation amount transferred to Profit and Loss A/c)			
2010				
Dec 31	Depreciation A/c Dr.		10,000	
	To Machinery A/c			10,000
	(Being depreciation charged to machinery A/c)			

Dec 31	Profit and Loss A/c Dr To Depreciation A/c (Being depreciation amount transferred to Profit and Loss A/c)		10,000	10,000
2011 Jan 1	Machinery A/c Dr. To Bank A/c (Being machinery purchased)		50,000	50,000
Dec 31	Depreciation A/c Dr. To Machinery A/c (Being depreciation charged to machinery A/c)		15,000	15,000
Dec 31	Profit and Loss A/c Dr To Depreciation A/c (Being depreciation amount transferred to Profit and Loss A/c)		15,000	15,000

Dr. Machinery A/c Cr.

Date	Particulars	J.F.	Rs.	Date	Particulars	J.F.	Rs.
2009				2009			
Jul 1	To Bank A/c (M-I)		1,00,000	Dec 31	By Depreciation A/c		5,000
				Dec 31	By Balance c/d		95,000
			1,00,000				1,00,000
2010				2010			
Jan 1	To Balance b/d		95,000	Dec 31	By Depreciation A/c		10,000
				Dec 31	By Balance c/d		85,000
			95,000				95,000

2011				2011			
Jan 1	To Balance b/d		85,000	Dec 31	By Depreciation A/c (M-I – 10,000 + M-II – 5,000)		15,000
Jan 1	To Bank A/c(M-II)		50,000	Dec 31	By balance c/d		1,20,000
			1,35,000				1,35,000
2012							
Jan 1	To balance b/d		1,20,000				

Dr. Depreciation A/c Cr.

Date	Particulars	J.F.	Rs.	Date	Particulars	J.F.	Rs.
2009				2009			
Dec 31	To Machinery A/c		5,000	Dec 31	By Profit and loss A/c		5,000
			5,000				5,000
2010				2010			
Jan 1	To Machinery A/c		10,000	Dec 31	By Profit and loss A/c		10,000
			10,000				10,000
2011				2011			
Jan 1	To Machinery A/c		15,000	Dec 31	By Profit and loss A/c		15,000
			15,000				15,000

(b) When Provision for depreciation A/c is maintained.

In the Books of Soham

Journal

Date	Particulars	L.F.	Dr. (Rs.)	Cr.(Rs.)
2009				
July 1	Machinery A/c Dr.		1,00,000	
	To Bank A/c			1,00,000

	(Being machinery purchased for Rs. 1,00,000)			
Dec 31	Depreciation A/c Dr. To Provision for Depreciation A/c (Being depreciation charged to machinery A/c)		5,000	5,000
Dec 31	Profit and Loss A/c Dr To Depreciation A/c (Being depreciation amount transferred to Profit and Loss A/c)		5,000	5,000
2010 Dec 31	Depreciation A/c Dr. To Machinery A/c (Being depreciation charged to machinery A/c)		10,000	10,000
Dec 31	Profit and Loss A/c Dr To Depreciation A/c (Being depreciation amount transferred to Profit and Loss A/c)		10,000	10,000
2011 Jan 1	Machinery A/c Dr. To Bank A/c (Being machinery purchased for Rs. 1,00,000)		50,000	50,000
Dec 31	Depreciation A/c Dr. To Provision for Depreciation A/c (Being depreciation charged to machinery A/c)		15,000	15,000
Dec 31	Profit and Loss A/c Dr To Depreciation A/c (Being depreciation amount transferred to Profit and Loss A/c)		15,000	15,000

Dr. Machinery A/c Cr.

Date	Particulars	J.F.	Rs.	Date	Particulars	J.F.	Rs.
2009				2009			
Jul 1	To Bank A/c (M-I)		1,00,000	Dec 31	By Balance c/d		1,00,000
			1,00,000				1,00,000
2010				2010			
Jan 1	To Balance b/d		1,00,000	Dec 31	By Balance c/d		1,00,000
			1,00,000				1,00,000
2011				2011			
Jan 1	To Balance b/d		1,00,000	Dec 31	By balance c/d		1,50,000
Jan 1	To Bank A/c(M-II)		50,000				
			1,50,000				1,50,000
2012							
Jan 1	To balance b/d		1,50,000				

Dr. Provision for Depreciation A/c Cr.

Date	Particulars	J.F.	Rs.	Date	Particulars	J.F.	Rs.
2009				2009			
Dec 31	To Balance c/d		5,000	Dec 31	By Depreciation A/c		5,000
			5,000				5,000
2010				2010			
Dec 31	To Balance c/d		15,000	Jan 1	By Balance b/d		5,000
				Dec 31	By Depreciation A/c		10,000
			15,000				15,000

2011 Jan 1	To Balance c/d		30,000	2011 Jan 1	By balance b/d		15,000
				Dec 31	By Depreciation A/c (M-I Rs. 10,000 + M-II Rs. 5,000)		15,000
			30,000				30,000
				2012 Jan 1	By balance b/d		30,000

Dr. Depreciation A/c Cr.

Date	Particulars	J.F.	Rs.	Date	Particulars	J.F.	Rs.
2009 Dec 31	To Provision for Depreciation A/c		5,000	2009 Dec 31	By Profit and loss A/c		5,000
			5,000				5,000
2010 Dec 31	To Provision for Depreciation A/c		10,000	2010 Dec 31	By Profit and loss A/c		10,000
			10,000				10,000
2011 Dec 31	To Provision for Depreciation A/c		15,000	2011 Dec 31	By Profit and loss A/c		15,000
			15,000				15,000

Sale of an Asset

(1) On the date of sale of an Asset
Cash / Bank A/c Dr.
To Asset A/c
(Being an Asset sold)

(2) If case of profit

Asset A/c Dr.
To Profit and Loss A/c
(Being profit on sale of an asset transferred to profit and Loss A/c)

(3) In case of loss
Profit and Loss A/c Dr.
To Asset A/c
(Being loss on sale of an asset transferred to profit and Loss A/c)

Illustration – 2. Rohan Ltd. purchased a Machinery on 1st May, 2009 for Rs. 60,000. On 1st July, 2010 it purchased another Machine for Rs. 20,000. On 31st March, 2011 it sold off the first machine purchased in 2009 for Rs. 39,000. Depreciation is provided at 20% on the original cost each year. Accounts are closed each year on 31st December. Show the Machinery account from 2009 to 2011.

Dr. Machinery A/c Cr.

Date	Particulars	J.F.	Rs.	Date	Particulars	J.F.	Rs.
2009				2009			
May 1	To Bank A/c (M-I)		60,000	Dec 31	By Depreciation A/c		8,000
				Dec 31	By Balance c/d		52,000
			60,000				60,000
2010				2010			
Jan 1	To Balance b/d		52,000	Dec 31	By Depreciation A/c (M-I Rs. 12,000 + M-II Rs. 2,000)		14,000
Jul 1	To Bank A/c(M-II)		20,000	Dec 31	By Balance c/d (M-I Rs. 40,000 + M-II Rs. 18,000)		58,000
			72,000				72,000
2011				2011			
Jan 1	To Balance b/d		58,000	Mar 31	By Bank A/c (Sale)		39,000
Mar 31	To Bank A/c (M-III)		50,000	Mar 31	By Depreciation A/c(M-I)		3,000
Mar 31	To Profit and Loss A/c (profit on sale)		2,000	Dec 31	By Depreciation A/c (M-II Rs. 4,000 + M-III Rs. 7,500)		11,500
					By Balance c/d		

				Dec 31	(M-II Rs. 14,000 + M-III Rs. 42,500)		56,500
			1,10,000				1,10,000
2012 Jan 1	To balance b/d		56,500				

<u>Working notes:</u>

Calculation of profit or loss on sale of machinery:

Book value as on 1^{st} January, 2011	Rs. 40,000
Less: Depreciation (60,000*20/100*3/12)	<u>Rs. 3,000</u>
Book value as on 31^{st} March, 2011	Rs. 37,000
Less: sale of machinery	<u>Rs. 39,000</u>
Profit on sale of machine	<u>Rs. 2,000</u>

Illustration 3. Suyashi Ltd. purchased on 1^{st} January, 2009 a machinery for Rs. 36,000 and spent Rs. 4,000 on its installation. On 1^{st} July, 2009 another machine purchased for Rs. 20,000. On 1^{st} July, 2011, machine bought on 1^{st} January, 2009 was sold for Rs. 12,000 and a new machine purchased for Rs. 64,000 on the same date. Depreciation is provided on 31^{st} December @ 10% p.a. on the written down value method. Prepare machinery A/c from 2009 to 2011.

Solution:

Dr. Machinery A/c Cr.

Date	Particulars	J.F.	Rs.	Date	Particulars	J.F.	Rs.
2009				2009			
Jan 1	To Bank A/c (M-I) (36,000 + 4,000)		40,000	Dec 31	By Depreciation A/c (M-I Rs. 4,000 + M-II Rs. 1,000)		5,000
July 1	To Bank A/c		20,000	Dec 31	By Balance c/d (M-I Rs. 36,000 + M-II Rs. 19,000)		55,000
			60,000				60,000

2010				2010			
Jan 1	To Balance b/d		55,000	Dec 31	By Depreciation A/c (M-I Rs. 3,600 + M-II Rs. 1,900)		5,500
				Dec 31	By Balance c/d (M-I Rs. 32,400 + M-II Rs. 17,100)		49,500
			55,000				55,000
2011				2011			
Jan 1	To Balance b/d		49,500	July 1	By Bank A/c (Sale)		12,000
July 1	To Bank A/c (M-III)		64,000	July 1	By Depreciation A/c(M-I)		1,620
				July 1	by Profit and Loss A/c (profit on sale)		18,780
				Dec 31	By Depreciation A/c (M-II Rs. 1,710 + M-III Rs. 3,200)		4,910
				Dec 31	By Balance c/d (M-II Rs. 15,390 + M-III Rs. 60,800)		76,190
			1,10,000				1,10,000
2012							
Jan 1	To balance b/d		76,190				

<u>Working notes:</u>
Calculation of Profit or loss on machine sold:

Book value of machine sold as on 31st December, 2010	Rs. 32,400
Less: Depreciation (32400*10/100*6/12)	<u>Rs. 1,620</u>
Book value of machine sold as on 1st July, 2011	Rs. 30,780
Less: sale of machine	<u>Rs. 12,000</u>
Loss on sale of machine	<u>Rs. 18,780</u>

Disposal of an Asset:
Under this method a new account is opened named 'Asset Disposal A/c' at the time of sale of an asset. Following journal entries required for preparation of Asset Disposal A/c

(a) When provision for depreciation A/c is maintained.

(1) Asset disposal A/c Dr.
To Asset A/c
(With the original cost of asset being sold)

(2) Provision for depreciation A/c Dr.
To Asset disposal A/c
(Transfer of accumulated depreciation)

(3) Bank A/c Dr.
To Asset disposal A/c
(With the net sales proceeds)

(4) Asset disposal A/c Dr.
To Profit and Loss A/c
(For profit on sale of the asset)

(5) Profit and Loss A/c Dr.
To Asset disposal A/c
(For loss on sale of an asset)

(b) When provision for depreciation A/c is not maintained
In this case replace entry no. 2 from above journal entries by passing following journal entry.
Depreciation A/c Dr.
To Asset disposal A/c

Illustration 4. On 1st April, 2008, Jasmeet Ltd. purchased a machine for Rs. 12,00,000. On 1st October, 2010, a part of machine purchased on 1st April, 2008 for Rs. 80,000 was sold for Rs. 45,000 and a new machine was purchased for Rs. 1,58,000 on the same date. Company provides depreciation @10% p.a. on written down value method. Prepare necessary ledger accounts

(a) When provision for depreciation A/c is not maintained.
(b) When provision for depreciation A/c is maintained.

Solution.

(a) When provision for depreciation A/c is not maintained.

Dr. Machinery A/c Cr.

Date	Particulars	J.F.	Rs.	Date	Particulars	J.F.	Rs.
2008				2009			
Apr 1	To Bank A/c		12,00,000	Mar 31	By Depreciation A/c		1,20,000
				Mar 31	By Balance c/d		10,80,000
			12,00,000				12,00,000
2009				2010			
Apr 1	To Balance b/d		10,80,000	Mar 31	By Depreciation A/c		1,08,000
				Mar 31	By Balance c/d		9,72,000

			10,80,000				10,80,000
2010				2010			
Apr 1	To Balance b/d		9,72,000	Oct 1	By Bank A/c (Sale)		45,000
Oct 1	To Bank A/c		1,58,000	Oct 1	By Profit and Loss A/c (Loss on sale)		16,560
				Oct 1	By Depreciation A/c		3,240
				2011			
				Mar 31	By Depreciation A/c		98,620
				Mar 31	By Balance c/d		9,66,580
			11,30,000				11,30,000
2011 Apr 1	To balance b/d		9,66,580				

(b) When provision for depreciation A/c is maintained.

Dr. Machinery A/c Cr.

Date	Particulars	J.F.	Rs.	Date	Particulars	J.F.	Rs.
2008 Apr 1	To Bank A/c		12,00,000	2009 Mar 31	By Balance c/d		12,00,000
			12,00,000				12,00,000
2009				2010			
Apr 1	To Balance b/d		12,00,000	Mar 31	By Balance c/d		12,00,000
			12,00,000				12,00,000
2010				2010			
Apr 1	To Balance b/d		12,00,000	Oct 1	By Machine Disposal A/c		80,000
Oct 1	To Bank A/c		1,58,000	2011			
				Mar 31	By Balance c/d		12,78,000

			13,58,000				13,58,000
2011 Apr 1	To balance b/d		12,78,000				

Dr. Provision for Depreciation A/c Cr.

Date	Particulars	J.F.	Rs.	Date	Particulars	J.F.	Rs.
2009 Mar 31	To Balance c/d		1,20,000	2009 Mar 31	By Depreciation A/c		1,20,000
			1,20,000				1,20,000
2010 Mar 31	To Balance c/d		2,28,000	2009 Apr 1	By Balance b/d		1,20,000
				2010 Mar 31	By Depreciation A/c		1,08,000
			2,28,000				2,28,000
2010 Oct 1	To Machinery disposal A/c (8,000 + 7,200 + 3,240)		18,440	2011 Apr 1	By Balance b/d		2,28,000
				Oct 1	By Depreciation A/c		3,240
2011 Mar 31	To Balance c/d		3,11,420	2011 Mar 31	By Depreciation A/c		98,620
			3,29,860				3,29,860
				2011 Apr 1	By Balance b/d		3,11,420

Dr. Machinery Disposal A/c Cr.

Date	Particulars	J.F.	Rs.	Date	Particulars	J.F.	Rs.
2010				2010			
Oct 1	To Machinery A/c		80,000	Oct 1	By Provision for Dep. A/c		18,440
				Oct 1	By Bank a/c (sale)		45,000
				Oct 1	By Profit and loss A/c (Loss on sale)		16,560
			80,000				80,000

Working notes:

Calculation of profit or loss on machine sold

Cost as on 1st April, 2008	Rs. 80, 000	
Less: dep. For 2008-09	Rs. 8,000	
Book value as on 1st April, 2009	Rs. 72,000	
Less: dep. For 2009-10	Rs. 7,200	
Book value as on 1st April, 2010	Rs. 64,800	
Less: dep. For 2010 (64,800*10/100*6/12)	Rs. 3,240	(April to October)
Book value as on 1st October, 2010	Rs.61,560	
Less: sale of machine	Rs.45,000	
Loss on sale of machine	Rs.16,560	

Calculation of depreciation on remaining machine

Old machine (9,72,000 – 64,800 = 9,07,200*10/100)	Rs. 90,720	
New machine (1,58,000*10/100*6/12)	Rs. 7,900	(October to March)
	Rs. 98,620	

Provisions and Reserves

Provisions

Provision is an amount set aside by charging (debited) it in the profit and loss account, to provide for known liability the amount which can not be determined accurately because they are not yet incurred. For example, Provision for Depreciation, Provision for Bad and doubtful debts etc.

Reserves

Reserves are the amount set aside out of profits. It is an appropriation of profits to strengthen the financial position of the business. For example, General reserve, Capital reserve etc.

Types of Reserves

(a) **General reserve** – It is the amount set aside out of profits for no specific purpose. It is available for strengthen the financial position or expansion of business.

(b) **Specific reserve** – This is created for specific purpose and can be utilized only for that purpose.

(c) **Secret reserve** – It is a reserve the existence or the amount of which is not disclosed in the balance sheet. It is also known as hidden reserve.

<u>Distinguish between Reserves and Provisions</u>

Basis	**Reserves**	**Provisions**
Nature	It is an appropriation of profit	It is charge of profit
Purpose	It is created to strengthen the financial position of business	It is created to meet known liability for which the amount is not determined.
Effect on taxable profit	It reduces the taxable profit.	It has no effect on taxable profit
Distribution of dividend	It can not be used for dividend distribution.	It can be used for dividend distribution.

<u>Difference between revenue reserve and capital reserve</u>

Basis of difference	**Revenue reserve**	**Capital reserve**
Source of creation	These reserves created from revenue profits	These reserves created from capital profits
Usage	These reserves can be used to give dividend to shareholders	These reserves cannot be used for giving dividend to members.
Purpose	These reserves are created for meeting unforeseen losses	It is used for writing off the capital losses.

<u>Questions</u>

(1)Define Depreciation

(2) State any two causes of Depreciation

(3) Give two methods of providing Depreciation.

(4) Give two examples of provisions.

(5) What is meant by secret reserve?

(6) Which method of depreciation assumes that an asset should be depreciated more in earlier years and less in the later years of use?

(7) Depreciation cannot be provided in case of loss in a financial year. Comment.

(8) Distinguish between provisions and reserves

Numerical questions

(1) Shyam Ltd. purchased a machinery on 1st May, 2009 for Rs. 60,000. On 1st July, 2010 it purchased another machine for Rs. 20,000. On 31st March, 2011, it sold the first machine purchased in 2009 for Rs. 38,500. Depreciation provided @ 20% p.a. on the original cost every year. Accounts are closed 31st December every year. Prepare machinery A/c for three years.

[Profit on sale of machine Rs. 1,500: Balance of machine on 31st December, 2011 Rs. 14,000]

(2) The following balances appear in the books of Raghav Ltd. As on 1st April, 2006:

Machine A/c Rs. 5,00,000

Provision for Depreciation A/c Rs. 2,25,000

The machine is depreciated at 10% p.a. on the original cost. The accounting year being April to March. On 1st October, 2006, a machinery which was purchased on 1st July 2003 for Rs. 1,00,000 was sold for Rs. 42,000 and on the same date a new machine was purchased for Rs. 2,00,000. Prepare machine A/c and Provision for depreciation A/c for the year 2006-07.

[Loss on sale of machine Rs. 25,500; Balance of Provision for dep. A/c Rs. 2,47,500; Balance of machine A/c Rs. 6,00,000]

(3) Reema Ltd. Purchased on 1st on April, 2007 a machinery costing Rs. 30,000. It purchased another machinery on 1st October, 2007 costing Rs. 20,000 and on 1st July, 2008 costing Rs. 10,000.

On 1st January, 2009 1/3rd of the machinery purchased on 1st April, 2007 became obsolete and was sold for Rs. 3,000.

Show the machinery account assuming that the company's accounting year is a calendar year. It is being given that machinery was depreciated by fixed installment method at 10% p.a. What would be the value of Machinery A/c on 1st January, 2010?

[Loss on sale of machine Rs. 5,250; Balance of machinery On 1st January, 2010 M-I (2/3) Rs. 14,500; M-II Rs. 15,500, M-III Rs. 8,500]

(4) Ankit Ltd. Purchased a machine on1st April 2006 for Rs. 1,80,000 and spent Rs. 20,000 on its installation.

On 1st January, 2007, it purchased another machine for Rs. 2,40,000. On 1st July 2008 the machine purchased on 1st April, 2006 was sold for Rs. 1,45,000. On 1st October, 2008 another machine was purchased for Rs. 3,60,000.

Prepare Machinery A/c from 2006 to 2008 after charging depreciation @ 10% p.a. by diminishing balance method. Accounts are closed 31st December each year.

[Loss on sale machine Rs. 13,175; balance of machinery A/c Rs. 5,45,500 – M-II Rs. 1,94,400; M-II Rs. 3,51,000]

(5) The following balance appears in the books of M/s. Palak Enterprise.

1st April, 2009	Machinery A/c	Rs. 60,000
	Provision for Depreciation A/c	Rs. 36,000

On 1st April, 2009, they decided to dispose off a Machinery for Rs. 8,400 which was purchased on 1st April, 2005 for Rs. 16,000.

You are required to prepare the Machinery A/c and Machinery Disposal A/c for 2009-10. Depreciation was charged at 10% on Original Cost Method.

[Balance of machinery A/c on 31st March, 2010 Rs 44,000; Provision for Dep. A/c on 31st March, 2010 Rs. 34,000; Loss on sale of machinery Rs. 1,200]

(6) A machinery was purchased for Rs.1,80,000 on 1st January, 2006. Depreciation was charged annually@ 10% on written down value method. 1/4th of this machinery was sold on 1st July, 2008 for Rs. 36,000. Prepare machinery A/c from 2006 to 2008, if the books are closed on 31st December each year.
[Profit on sale of machinery Rs. 412; Balance of machinery A/c on 31st December, 2008 Rs. 1,01,150]

Generally students commit the mistakes in these topics

- Time factor in calculation of depreciation.
- Estimation of profit and loss at the time of sale of asset.
- At the time of maintain provision for depreciation A/c.
- Preparation of asset disposal A/c.

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UNIT-6

ACCOUNTING FOR BILLS OF EXCHANGE

Unit at a Glance:

- Introduction.
- Definition of a Bill of Exchange
- Features of a Bill of Exchange
- Parties to a Bill of Exchange
- Advantages of Bill of Exchange
- Promissory note
- Features of a promissory note
- Parties to a promissory note
- Distinction between bills of exchange and promissory note
- Important terms
- Accounting treatment of bill transactions
- Generally students commit mistakes please avoid it
- Questions

"Bills of Exchange are instrument of credit which facilitate the credit sale of goods."

INTRODUCTION

A Bill of Exchange and Promissory Note both are legal Instruments which facilitate the credit sale of goods by assuring the seller that the amount will be recovered after a certain period. **Both of these are legal instruments under the Negotiable Instruments Act, 1881.**

BILL OF EXCHANGE

"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." Section 5 of the Negotiable Instrument Act, 1881.

FEATURES OF A BILL OF EXCHANGE ARE

1. A Bill of Exchange must be in writing.
2. It must contain an order (and not a request) to make payment.
3. The order of payment must be unconditional .
4. The amount of bill of exchange must be certain.
5. The date of payment should be certain.
6. It must be signed by the drawer of the bill.
7. It must be accepted by the drawee by signing on it.
8. The amount specified in the bill of exchange is payable either on demand or on the expiry of a fixed period.
9. The amount specified in the bill is payable either to a certain person or to his order or to the bearer of the bill.
10. It must be stamped as per legal requirements.

PARTIES TO A BILL OF EXCHANGE

1. DRAWER: Drawer is the person **who makes or writes the bill of exchange.** Drawer is a person **who has granted credit** to the person on whom the bill of exchange is drawn. **The drawer is entitled to receive money** from the drawee (acceptor).

2. DRAWEE: Drawee is the person on whom the bill of exchange is drawn for acceptance. **Drawee is the person to whom credit has been granted by the drawer**. The drawee is **liable to pay money** to the creditor/drawer.

3. PAYEE: Payee is the person **who receives the payment from the drawee**. Usually the drawer and the payee are the same person. In the following cases. drawer and payee are two different persons :

(i) When the **bill is discounted** by the drawer from his bank- **payee is the bank.**

(ii) When the **bill is endorsed** by the drawer to his creditors: **payee is the endorsee.**

ADVANTAGES OF BILL OF EXCHANGE

1. It helps in purchases and sales of goods on **credit basis.**
2. It is a **legally valid document** in the eyes of law. It assures a easier recovery to the drawer if drawee fails to make the payments.
3. A bill **can be discounted** from the bank before its date of maturity. By discounting with the bank, drawer can get the money before due date if required.
4. It can be **easily transferred** from one person to another by endorsement.
5. It **helps in recovery of debt** without sending reminders to the debtor.
6. It assures the seller about the timely recovery of debt. So a **drawer and drawee can plan about its cash management.**

PROMISSORY NOTE

A Promissory note is an instrument in writing (not being a bank note or a 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 or to the bearer of the instrument.

FEATURES OF A PROMISSORY NOTE

1. There must be an unconditional promise to pay a certain sum of money on a certain date.
2. It must be signed by the maker.
3. The name of the payee must be mentioned on it.
4. It must be stamped according to its value.

PARTIES TO A PROMISSORY NOTE

1. The maker : The maker is the person **who makes the promise to pay** the amount on a certain date. Maker of a bill must sign the promissory note before giving it to the payee.
2. The payee : The payee is the person **who is entitled to get the payment** from the maker of promissory note. Payee is the pesson who has granted the credit.

DISTINCTION BETWEEN BILLS OF EXCHANGE AND PROMISSORY NOTE

Basis of difference	Bills of Exchange	Promissory Note
1. **Drawer**	The Drawer is the creditor.	The Drawee is the debtor. It has
2. No. of Parties	It has three parties namely : 1. The drawer 2. The drawee 3. The payee	two parties namely : 1. The maker 2. The payee
3. Order or Promise	It contains an order to make the payment.	It contains a promise to make the payment.
4. Acceptance	It is valid only when accepted by the drawee.	It does not require any acceptance from the drawee.
5. Payee	It case of bill of exchange, drawer can be the payee.	Drawer or maker cannot the payee of promissory note.
6. Noting	It case of dishonor of bill noting becomes important.	Noting is not necessary in case of dishonor of promissory note.
7. Liability	The liability of the drawer arises only if the drawee fails to make payment.	The liability of the drawer (maker) is primary.

IMPORTANT TERMS

1. Term of Bill :

The period intervening between the date on which a bill is drawn and the date on which it becomes due for payment is called 'Term of Bill'.

2. Due Date :

Due date is the date on which the payment of the bill is due.

Due date is ascertained in the following manner :

(i) In case of 'Bill at sight' -

Due date is the date on which a bill is presented for the payment.

(ii) In case of 'Bill after Date' -

Due Date = Date of Drawing + Term of Bill.

(ii) In case of ' Bill after sight' –

Due date = Date of Acceptance + Term of Bill.

3. Days of Grace :

Drawee is allowed **three extra days after the due date** of bill for making payments. Such 3 days are known as 'Days of Grace'. It is a custom to add the days of grace.

4. Date of Maturity :

The date which comes after adding three days of grace to the due date of a bill is called 'Date of maturity'.

Illustration: 1

A bill of exchange for ` 25000 is drawn by A on B on 1st April, 2011 for 3 Months. B accepted the bill on 10th April, 2011.

Find the DUE DATE and DATE OF MATURITY if

Cash I - The bill is Bill After date

Case II - The bill is Bill After Sight

Solution:

	DUE DATE	**Date of Maturity**
Case I - When the Bill is "Bill After date"	1st July 2011	4th July, 2011
Case II When the Bill is "Bill After Sight"	10 th July 2011	13th July, 2011

- In case a bill is "Bill after Sight" term of bill starts from the date of acceptance.

5. Bill at sight/Bill on Demand:

When **no time for payment is mentioned** in the bill of exchange and the **bill is payable whenever it is presented** to the drawee for the payment, such bills are known as "Bill at sight" or "Bill on Demand".

3 days of grace are not allowed when bill is payable on demand.

6. Bill after Date:

Bill after date is the bill in which due date and date of maturity is ascertained from the date on which the bill is drawn.

3 days of grace are allowed for ascertaining the date of maturity in case of bill after date.

7. Discounting of Bill:

When the **bill is encashed from the bank before its due date,** it is known as discounting of bill. Bank deducts its charges from the amount of bill and disburses the balance amount.

Illustration 2

Ram sold goods to shyam for Rs. 30,000 at credit on 1st April, 2011. Ram discounted the bill with his bank on 4th May 2011 @ 9% per annum find out :

(i) The amount of discounting charges.

(ii) The amount that Ram will receive from his bank at the time of discounting the bill.

Solution :

(i) Discounting Charges =

$$\text{Amount of Bill Discounted} \times \frac{\text{Rate}}{100} \times \text{Unexpired Period}$$

$$= 3000 \times \frac{9}{100} \times \frac{2}{12} = \text{Rs. } 450$$

(ii) Ram will receive from his bank Rs. 29,500 (i.e., Rs. 30,000 - 450) at the time of discounting the bill.

8. Endorsement of Bill:

Endorsement of a bill means the **Process of transferring the title of bill from the drawer or holder to their creditors.**

The person transferring the title is called " Endorser" and the person to whom the bill is transferred called 'Endorsee'. **The endorsee can further endorse the bill in favor of his creditors.** Endorsement is executed by putting the signature at the back of the bill.

9. Bill sent for Collection:

It is a process when the bill is sent to the bank with instructions to keep the bill till maturity and collect its amount from the acceptor on the date of maturity.

10. Dishonour of Bill:

When the **drawee (or acceptor) of the bill fails to make payment of the bill on the date of maturity,** it is called 'Dishonour of Bill.

11. Noting of Bill:

To obtain the proof of dishonour of a bill, it is re-sent to the drawee through a legally authorized persons called Notary Public. Notary Public charges a small fee for Providing this service known as noting charges.

Noting charges are paid to the Notary Public first by the holder of the bill but are ultimately recovered from the drawee, because he is the person responsible for the dishonour.

12. Retirement of a Bill:

When the drawee **makes the payment of the bill before its due date** it is called 'Retirement of a bill'.

In such a case, holder of the bill usually allow a certain amount as **Rebate** to the drawee.

Amount of rebate is calculated at a fixed percentage for the unexpired period only.

13. Renewal of a Bill:

Sometimes, the drawee of a bill finds himself **unable to meet the bill on due date.** To avoid dishonouring of bill, he may request the holder of the bill to **cancel the original bill and draw a new bill in place of old one.** It the holder agrees, the old bill is cancelled and a new bill with new terms is drawn on the drawee and also accepted by him. This process is called 'Renewal of a bill'.

In this case, Noting of the bill is not required as cancellation of the bill is mutually agreed upon by both the parties of the bill.

Normally, the drawer charge interest for the period of new bill. The interest may be paid in cash or may be added in the amount of new bill. If any part payment is made at the time of renewal of a bill, interest is calculated only on the outstanding amount.

14. Accommodation Bill:

When bills of exchange or promissory note are not drawn to settle a trade between drawer and drawee but are written for the purpose of mutual help and to raise funds temporarily then it is known as Accommodation bill.

15. Insolvency of Acceptor :

When the drawee (i.e., acceptor) of a bill is unable to meet his liabilities on due date, the drawee become insolvent. In such a case, entries for the dishonour of the bill are passed in the books of drawer/holder and drawee of the bill.

Any proportionate amount received from the drawee is recorded in the books of the holder and the **amount unrecoverable is debited to 'Bad Debts A/c'.**

ACCOUNTING TREATMENT OF BILL TRANSACTIONS

A. On the Due Date bill is Honoured –

The accounting treatment under this heading is based on the assumption that bill is duly honoured at maturity of the bill. The drawer can treat the bill in the following ways:

Case - I Bill is retained by the drawer till date of maturity:

Transaction	In the books of DRAWER	In the books of DRAWEE
1. When Goods are sold on credit	Drawee A/c Dr. To Sales A/c (Being goods Sold on credit)	Purchases A/c Dr. To Drawer A/c (Being goods purchased from Drawer)
2. When Bill is Drawn	Bills Receivable A/c Dr. To Drawee A/c (Being acceptance received from drawee)	Drawer A/c Dr. To Bills Payable A/c (Being acceptance given to drawer)
3. When Bill is Honored on Date of Maturity	Cash/Bank A/c Dr. To Bills Receivable A/c (Being payment of bill received from Drawee)	Bills Payable A/c Dr. To cash/Bank A/c (Being payment of bill made to drawer)

Case II : When the bill is discounted from the Bank by the Drawer

Transaction	In the books of Drawer	In the books of Drawee
1. When the bill is discounted from Bank	Bank A/c Dr. Discounting Charges A/c Dr. To Bills Receivables A/c (Being bill discounted for the Bank)	No Entry
2. When the bill is honored on date of maturity	No Entry	Bills Payable A/c Dr. To Cash/Bank A/c (Being the payment of bill made)

Points to be Remember :

- Discounting charges are always recorded (i.e., debited) in the books of **Drawer.**
- In the books of Drawee, there is no effect of discounting charges.

Case III : When bill is endorsed in favour of a creditor

Transaction	In the books of Drawer/ Endorser	In the books of Drawee
1. When bill is endorsed	Endorsee A/c Dr. To Bills Receivable A/c (Being bill receivable endorsed)	No Entry
2. When bill is honored on date of maturity	No Entry	Bills Payable A/c Dr. To Cash/Bank A/c (Being the payment of bill made)

Transaction	In the Books of Endorse
1. When bill is endorsed	Bills Receivable A/c Dr. To Endoreser (Being bill received from debtor through endorsement)
2. When bill is honoured on date of maturity	Cash/Bank A/c Dr. To Bills Receivable (Being Bill realised on date of maturity)

Case - IV When Bill is sent to the Bank for collection

Transaction	In the books of Drawer	In the books of Drawee
1. When bill is sent collectin to Bank	Bills sent for for Collection A/c Dr. To Bills Receivable A/c (Being bill sent for collection)	No Entry
2. When the amount is realised on date of maturity	Bank A/c Dr. To Bill sent for collection A/c (Being the bill sent for collection realised on maturity)	Bill Payable A/c Dr. To Cash/Bank A/c (Being bill paid on date maturity)

Note : There will be no effect in the books of Drawee either the bill is discounted from the bank or endorsed to a creditor or sent to the bank for collection. The drawee makes the payment in normal manner.

It is only in the books of drawer where an additional entry is passed to record the effect of the above transaction.

Illustration: 5

X sold goods to Y on 1st April, 2011 for Rs. 20,000 on credit and drew upon him a bill for the same amount payable after 3 months. Y accepted the bill and returned it to X. On the date of maturity bill was presented to Y for the payment and he honoured it.

Pass the Journal Entries in the books of both the parties when :

Case I – Bill is retained by the X till the date of maturity.

Case II – Bill is discounted by X from his bank on 4th April @ 6% per annum.

Case III – Bill is endorsed in favour of Z on 4th May, 2011.

Case IV – Bill is sent to Bank for collection on 1st July, 2011.

Also record the Journal Entries in the books of C (Case - III)

Solution: **In the book of X (Drawer)**

Journal

Date	**Particulars**		**L.F.**	**Dr.** Rs.	**Cr.** Rs.
2011					
April, 1	Y A/c	Dr.		20,000	
	To Sales A/c				20,000
	(Being goods sold to Y on credit)				
April, 1	Bills Receivable A/c	Dr.		20,000	
	To YA/c				20,000
	(Being acceptance received from Y)				
	Case – I When bill is retained by X till the date of maturity				
July, 4	Cash/Bank A/c	Dr.		20,000	
	To Bills Receivable A/c				20,000
	(Being amount received from B against bill)				
	Case – II When bill is discounted by X from his bank				
April, 4	Bank A/c	Dr.		19,700	
	Discounting Charges A/c	Dr.		300	
	To Bills Receivable A/c				20,000
	(Being the bill discounted from the bank, discounting Charges are				
	Case – III when bill is Endorsed in favour of Z				
May, 4	Z A/c	Dr.		20,000	

ate	Particulars	L.F.	Dr. Rs.	Cr. Rs.
July, 1	Bills Sent for Collection A/c Dr.		20,000	
	To Bills Receivable A/c			20,000
	(Being bill sent for collection to bank.)			
July, 4	Bank A/c Dr.		20,000	
	To Bill sent for Collection A/c			20,000
	(Being amount realised from bill sent for Collection)			
	To Bills Receivable A/c			20,000
	(Being bill endorsed in favour of Z)			

Case – IV When bill is sent to bank for collection

Points to be Remember :

(3) First two entries passed on April 1, 2011 will be same in the books of X (Drawer) in all the 4 cases.

(4) If a bill is honoured on the date of maturity.
NO ENTRY is passed on the date of maturity in the books of drawer, if :

- Bill is discounted from the bank ; or
- Bill is endorsed in favour of creditor.

(In all 4 cases)

In the Books of Y (Drawee)

Journal

Date	Particulars	L.F.	Dr. Rs.	Cr. Rs.
2011				
April, 1	Purchases A/c Dr.		20,000	
	To X A/c			20,000
	(Being goods purchased from X on credit)			
April, 1	X A/c Dr.		20,000	
	To Bills Payable A/c			20,000
	(Being the acceptance given to X)			
July, 4	Bills Payable A/c Dr.		20,000	
	To Cash/Bank A/c			20,000
	(Being payment made on date of maturity)			

(Case - III)

In the books of Z (Endorsee)

Journal

Date	Particulars	L.F.	Dr. Rs.	Cr. Rs.
2011 May, 4	Bills Receivable A/c Dr. To X A/c (Being bill received from X through endorsement)		20,000	20,000
July, 4	Cash/Bank A/c Dr. To Bills Receivable A/c (Being payment received against bill)		20,000	20,000

B. When Bill is dishonoured on date of maturity.

Case I - Bill is retained by the drawer till date of maturity.

Transaction	In the Books of Drawer	In the Books of Drawee
When bill is dishonoured	Drawee Dr. To Bills Receivable A/c To cash A/c (with noting charges) (Being bill dishonoured)	Bills Payable A/c Dr. Noting charges A/c Dr. To Drawer (Being bill dishonured)

Points to be Remember:

Entry passed in the book of Drawee will be SAME in all cases.

Cass II - Bill is discounted by the drawer from his bank, the following entry is passed, at the time of maturity, if the bill is dishonoured.

In the books of DRAWER

Date	Particulars	L.F.	Dr. Rs.	Cr. Rs.
	Drawee Dr. To Bank A/c (Including noting charges) (Being bill discounted from bank dishonoured)			

Case III - When bill is endorsed in favour of a creditor (At the time of Dishonour of a Bill)

In the books of DRAWER

Date	**Particulars**	**L.F.**	**Dr.** Rs.	**Cr.** Rs.
	Drawee A/c Dr. To Endorsee A/c (Including noting charges) (Being bill dishonoured, earlier endorsed in favour of creditor)			

(At the time of Dishonour of a bill)

In the books of ENDORSEE

Date	**Particulars**	**L.F.**	**Dr.** Rs.	**Cr.** Rs.
	Endorser A/c Dr. To Bills Receiable A/c To Cash A/c (Noting charges) (Being bill dishonoured received through endorsement)			

Case IV- When Bill is sent for collection to Bank

(At the time of Dishonour of a Bill)

In the books of DRAWER

Date	**Particulars**	**L.F.**	**Dr.** Rs.	**Cr.** Rs.
	Drawee A/c Dr. To Bills Sent for Collection A/c To Bank A/c (Noting charges) (Being bill sent to bank for collection, dishonoured)			

Points to be Remember:

1. Same Entry is passed in the books of Drawee at the time of dishonour of a bill/
2. In the books of Drawer

   (At the time of Dishonour of Bill)

Drawee A/c Dr. (In all Cases)

To Bills Receivable A/c (Case-I)

To Cash A/c (Noting Charges)

OR

To Bank A/c (Case-II)

(Including noting Charges)

OR

To Endorsee A/c (Case-III)

(Including noting charges)

OR

To Bills Sent for Collection A/c (Case-IV)

To Bank A/c (Noting Charges)

Illustration: 6

A sold good to B on April 1, 2011 for Rs. 20,000 on credit and drew upon him a bill for the same amount payble after 3 months. B accepted the bill and returned into to A. On the due date bill was dishonoured.

Pass Journal entries in the books of A and B if **Case I :** Bill is retained by A till the date of maturity.,

Case II : Bill is discounted by A from his bank on 4th April, 2011 @ 6% per annum.

Case III : Bill is endorsed in favour of C on April, 4th, 2011.

Case IV : Bill is sent to bank for collection on July 1, 2011.

Solution :

In the books of A (Drawer)

Journal

Date	**Particulars**	**L.F.**	**Dr.** Rs.	**Cr.** Rs.
2011 April, 1	B Dr. To Sales A/c (Being goods sold to B		20,000	20,000

	on credit)			

April, 1	Bills Receivable A/c Dr. To B A/c (Being bill received from B)		20,000	 20,000
	Case-I : When bill is retained by A			
July, 4	B A/c Dr. To Bills Receivable A/c (Being bill received from B dishonoured)		20,000	 20,000
	Case - II : When bill is discounted from the Bank			
April, 4	Bank A/c Dr. Discounting charges A/c Dr. To Bills Receivable A/c (Being bill discounted from the bank ; discounting charges are $= 2000 \times \frac{6}{100} \times \frac{3}{12} = 300$)		19,700 300	 20,000
July, 4	B A/c Dr. To Bank A/c (Being bill discounted from, dishonoured on date of maturity)		20,000	 20,000
	Case - III : When bill is endorsed in favour of 'C'			
April, 4	C A/c Dr. To Bills Receivable A/c (Being bill endorsed in favour of C)		20,000	 20,000
July, 4	B A/c Dr. To C A/c (Being bill received from B and endorsed to C dishonoured on maturity date)		20,000	 20,000
	Case - IV : When bill is sent for collection			

July, 1	Bill sent for Collection A/c Dr. To Bills Receivable A/c (Being bill received from B sent for collection)		20,000	 20,000
July, 4	B A/c Dr. To Bills Sent for Collection A/c (Being bill sent for collection to bank, dishonoured on date of maturity)		20,000	 20,000

In the Books of B (DRAWEE)
(In All Cases)

Date	**Particulars**	**L.F.**	**Dr.** Rs.	**Cr.** Rs.
2011				
April, 1	Purchases a/c Dr. To A a/c (Being goods purchased on credit)		20,000	 20,000
April,1	A a/c Dr. To Bills Payble a/c (Being acceptance given to A)		20,000	 20,000
July, 4	Bills Payable a/c Dr. To A a/c (Being bill Payable to A dishonoured on date of maturity)		20,000	 20,000

Illustration 7

A sold goods to to B on May 1st, 2011 for ` 30,000 on credit and drew upon him a bill for the same amount payable after 2 months. B accepted the bill and returned it to A. On date of maturity, B fails to make payment of bill. Noting charges amounted to ` 100.

Pan Journal Entries in the books of A and B if.

Case 1 : A retains the bill till the date of maturity and also paid the noting charges.

Case 2 : A discounts the bill from his bank on 4th June @ 12% per annum. Noting charges has been paid by bank.

Case 3 : A endorses the bill n favour of C on June 1. C paid the noting charges.

Case 4 : A sents the bill to his bank for collection on July 1. Bank paid the noting charges.

Solution :

In the Books of A (DRAWER)

Date	**Particulars**	**L.F.**	**Dr.** Rs.	**Cr.** Rs.
2011				
May, 1	B A/c Dr.		30,000	
	To Sales A/c			30,000
	(Being goods sold to B on Credit)			
May, 1	Bills Receivables A/c Dr.		30,000	
	To B A/c			30,000
	(Being acceptance received from B)			
	Case 1 : When A retains the bill			
July, 4	B A/c Dr.		30,100	
	To Bills Receivable A/c			30,000
	To Cash A/c			100
	(Being bill dishonourted and noting charges paid by A)			
	Cas 2 : When bill is discounted from the bank			
June, 4	Bank A/c Dr.		29,700	
	Discounting charges A/c Dr.		300	
	To Bills Receivable A/c			
	(Being bill discounted from the bank, discounting charges amounted to ` $= 3000 \times \frac{12}{100} \times \frac{1}{12} =$ ` 300)			30,000
July, 4	B A/c Dr.		30,100	
	To Bank A/c			30,100
	(Being bill discounted from bank dishonoured and noting charges paid by bank)			

	Case 3 : When bill is endorsed in favour of C			
June, 1	C A/c Dr.		30,000	
	To Bills Receivable A/c			30,000
	(Being bill sent to bank for collection)			
July 4	B A/c Dr.		30,100	
	To C A/c			30,100
	(Being bill received from B and endorsed to C dishonoured on maturity)			
	Cash 4 : When bill is sent for Collection			
July, 1	Bill Sent for Collection A/c Dr.		30,000	
	To Bills Receivable A/c			30,000
	(Being bill sent to bank for collection)			
July, 4	B A/c Dr.		30,100	
	To Bills sent for Collection A/c			30,000
	To Bank A/c			100
	(Being bill received from B dishonoured on maturity)			

In the Book of B (DRAWEE)
(In all Cases)

Date	**Particulars**	**L.F.**	**Dr.** Rs.	**Cr.** Rs.
2011 May, 1	Purchases A/c Dr.		30,000	
	To A a/c			30,000
	(Being goods purchased from A)			

May, 1	A a/c Dr. To Bills Payable A/c (Being acceptance given to A)		30,000	30,000
July, 4	Bills Payable A/c Dr. Noting Charges A/c Dr. To A a/c (Being bill dishonoured and noting charges debited)		30,000 100	30,100

C. Renewal of a Bill

Transaction	In the Books of Drawer	In the Books of Drawee
Canelling the Original Bill	Drawee Dr. To Bills Receivable A/c (Being the cancellation of bill receivable)	Bills Payable A/c Dr. To Drawer (Being th e bill payable cancelled)
Recording Interest for extended Period	Drawee Dr. To Interst A/c (Being interest charged for extended period)	Interest A/c Dr. To Drawer (Being interest payable for extended period)
Past Payment Received/ made	Cash or Bank A/c Dr. To Drawee (Being the part payment received)	Drawer Dr. To Cash Bank A/c (Being the part payment made).
New Bill Drawn / Accepted	Bills Receivable A/c Dr. To Drawee (Being a new bill drawn)	Drawer Dr. To Bills Payable A/c (Being a new bill accepted.)

Points to be Remember :-

1. **No Entry for noting charges is passed at the time of cancellation of original bill because both the parties have mutually agreed to cancel the old bill.**
2. Rate of interest must be carefully noticed that it is in

% per annum (Time is important)

or

% .

When rate of interest is given in % form, time extended for payment is not considered.

Illustration - 8 :

On 1st April, 2011 Anil accepts a bill drawn by Sunil for 2 months for Rs. 15000, in payment of a debt. On the date of maturity bill was dishonoured and Sunil had to pay Rs. 150 as noting charges. On 4th June 2011, Anil requested to Sunil to draw a new bill for the amount due. Sunil agreed to draw a new bill for 73 days but he charged interst @ 15% per annum in cash. This bill is duly met on its maturity.

Pass Journal entries in the books of both the parties.

Solution :

In the books of

Sunil Journal

Date	**Particulars**	**L.F.**	**Dr.** Rs.	**Cr.** Rs.
2011 April, 1	Bills Receivable A/c Dr. To Anil A/c (Being acceptance received)		15,000	 15,000
June, 4	Anil A/c Dr. To Bills Receivable A/c To Cash A/c (Being bill dishonoured and noting charges paid)		15,150	 15000 150
June, 4	Anil A/c Dr. To Interest A/c (Being interest charged $= 15150 \times \frac{15}{100} \times \frac{73}{365}$)		454.50	 454.50
June, 4	Cash A/c Dr. To Anil A/c (Being interest received in cash)		454.50	 454.50
June, 4	Bills Receivable A/c Dr. To Anil A/c (Being a new bill drown M Anil and acceptance received)		15,1,50	 15,1,50
Aug., 19	Bank A/c Dr. To Bills Receivable A/c (Being amount received on maturity of bill)		15,1,50	 15,1,50

In the Books of Anil (DRAWEE)

Journal

Date	Particulars	L.F.	Dr. Rs.	Cr. Rs.
2011				
April, 1	Sunil A/c Dr.		15,000	
	To Bills Payable A/c			15,000
	(Being acceptance gave)			
June, 4	Bills Payable A/c Dr.		15,000	
	Noting Charges A/c Dr.		150	
	To Sunil A/c			15,150
	(Being bill dishonoured and noting charges due)			
June, 4	Interest A/c Dr.		454.50	
	To Sunil A/c			454.50
	(Being interest payable to Sunil)			
June, 4	Sunil A/c Dr.		454.50	
	To Cash A/c			454.50
	(Being interest paid in cash)			
June, 4	Sunil A/c Dr.		15,150	
	To Bills Payable A/c			15,150
	(Being acceptance of new bill given)			
Aug. 19	Bills Payable A/c Dr.		15,150	
	To Bank A/c			15,150
	(Being bill accepted, paid on maturity)			

Illustration 9

P sold goods to Q for ` 10,000 on January 1, 2011 and on the same day draws a bill on Q for the same amount for 3 months. Q accept it and returns it to P, who discounts it on 10th January, 2011 with his bank for ` 9850. The acceptance is dishonoured on the due date and the noting charges were paid by bank being ` 50.

On 4th April, Q paid ` 2,050 (including noting charges) in cash and accepted a new bill at 3 months for the amount due to P together with interst @ 12% per annum.

Make Journal Entries in the books of P and Q to record these transactions.

Solution :

Journal of P

Date	Particulars	L.F.	Dr. Rs.	Cr. Rs.
2011 Jan., 1	Q A/c Dr To Sales A/c (Being goods sold to Q)		10,000	10,000
Jan., 1	Bills Receivable A/c Dr. To Q A/c (Being acceptance received)		10,000	10,000
Jan., 10	Bank A/c Dr. Discounting Charges A/c Dr. To Bills Receivable A/c (Being bill discounted from Bank)		9,850 150	10,000
April, 4	Q A/c Dr. To Bank A/c (Being bill discounted from bank dishonoured and noting charges paid by bank)		10,050	10,050
April, 4	Cash A/c Dr. To Q A/c (Being part payment received in cash)		2050	2050
April, 5	Q A/c Dr. To Interest A/c (Being interest charged $= \left(8000 \times \frac{12}{100} \times \frac{3}{12}\right)$		240	240
April, 4	Bills Receivable A/c Dr. To Q A/c (Being a new bill drawn on Q together with interest)		8240	8240

Journal of Q (DRAWEE)

Date	Particulars	L.F.	Dr. Rs.	Cr. Rs.
2011				
Jan., 1	Purchases A/c Dr.		10,000	
	To P A/c			10,000
	(Being goods purchased on credit)			
Jan., 1	P A/c Dr.		10,000	
	To Bills Payable A/c			10,000
	(Being acceptance given to P)			
April, 4	Bills Payable A/c Dr.		10,000	
	Noting Charges A/c Dr.		50	
	To P A/c			10,050
	(Being bill dishonoured and noting charges due)			
April, 4	P A/c Dr.		2,050	
	To Cash A/c			2,050
	(Being part payment made in cash)			
April, 4	Interest A/c Dr.		240	
	To P A/c			240
	(Being interest payable on outstanding amount for 3 months)			
April, 4	P A/c Dr.		8,240	
	To Bills Payable A/c			8,240
	(Being acceptance given to P)			

D. Retiring a bill under Rebate:

Transaction	In the Books of Drawer	In the Books of Drawee
When Drawee retires the bill before date of Maturity	Cash/Bank A/c Dr. Rebate A/c Dr. To Bill Receivable A/c (Being the amount received before date of maturity and	Bills Payable A/c Dr. To Cash/Bank A/c To Rebate A/c (Being the amount paid before date of maturity and

	rebate allowed.	rebate received.)

Points to Remember:-

1. In the books of Drawer, Rebate Account is DEBITED because it is a loss for Drawer.
2. In the books of Drawee, Rebate Account is CREDITED because it is a gain for Drawee.

Illustration: 10

Mukesh sold goods to Jitender on July 1, 2011 for ` 30,000 and drew a bill for the some amount for 3months. Jitender accepted the bill and returned it to Mukesh. Jitender retired his acceptance on 4th August, 2011 under rebate of 8% per annum Give Journal entries in the books of Mukesh and Jitender.

Solution :

In the books of MUKESH

Journal

Date	Particulars		L.F.	Dr. Rs.	Cr. Rs.
2011					
July, 1	Jitender A/c	Dr.		30,000	
	To Sales A/c				30,000
	(Being goods sold on credit)				
July, 1	Bill Receivable A/c	Dr.		30,000	
	To Jitender A/c				30,000
	(Being acceptance received)				
Aug., 4	Cash A/c	Dr.		29,600	
	Rebate A/c	Dr.		400	
	To Bills Receivable A/c				30,000
	(Being amount received on bill before maturity and rebate allowed, Rebate = $3000 \times \frac{2}{12} \times \frac{8}{100} = 400$)				

In the books of JITENDER

Journal

Date	**Particulars**	**L.F.**	**Dr.** Rs.	**Cr.** Rs.
July, 1	Purchases A/c Dr. To Mukesh A/c (Being goods purchased on credit)		30,000	 30,000
July, 1	Mukesh A/c Dr. To Bills Payable A/c (Being acceptance given to Mukesh)		30,000	 30,000
Aug., 4	Bill Payable A/c Dr. To Cash A/c To Rebate A/c (Being acceptance retired with rebate)		30,000	 29,600 400

E. Insolvency of Acceptor :

Transaction	**In the books of Drawer**	**In the books of Drawee**
When Drawee is Insolvent	Entry for dishonour of bill shall be passed (depending up on the case)	Bills Payable A/c Dr. To Drawer (Being bill dishonoured)
When nothing could be Recovered	Bad Debts A/c Dr. To Drawee (Being amount of Bill written off as bed debts)	Drawer Dr. To Deficiency A/c or To P &L A/c (Being the amount of bill written off.)
When Amount is Received Partially	Cash/Bank A/c Dr. Bad Debts A/c Dr. To Drawee (Being the amount received partially and the remaining amount written off due to Insolvency of drawer.)	Drawer Dr. To Cash A/ c To Deficiency A/c or To P & L A/c. (Being the amount payable Settled by payment of......% only.

Illustration - II

Rajiv sold goods to Pankaj for ` 40,000 on January 1st, 2011. On the same date Rajiv drew a bill of the same amount at 3 month on Pankaj. The bill was accepted by Pankaj. Rajiv discounted the bill with his bank on 4th February, 2011 @ 12% per annum. On date of maturity, the bill was dishonoured and noting charges ` 200 were paid by bank.

Pankaj agreed to pay ` 10,200 and accpted another bill for the remaining amount for 3 months together wih interest @ 9% per annum. On July 4, 2011, Pankaj becomes insolvent and a first and final dividend of 60 paise in a rupee was received from his private estate on 15th July, 2011.

Give Journal Entries in the books of Rajiv and Pankaj.

Solution :

In the Books of RAJIV (DRAWER)

Journal

Date	Particulars		L.F.	Dr. Rs.	Cr. Rs.
2011					
Jan, 1	Pankaj A/c	Dr.		40,000	
	To Sales A/c				40,000
	(Being goods sold on credit)				
Jan,.1	Bill Receivable A/c	Dr.		40,000	
	To Pankaj A/c				40,000
	(Being acceptance received)				
Feb., 4	Bank A/c	Dr.		39,200	
	Discounting Charges A/c	Dr.		800	
	To Bill Receivable A/c				40,000
	(Being bill discounted from bank and discounting charges are ` 800 : $= 40000 \times \frac{12}{100} \times \frac{2}{12}$)				
April, 4	Pankaj A/c	Dr.		40,200	
	To Bank A/c				40,200
	(Being bill dishonoured and noting charges paid by bank).				

April, 4	Cash A/c Dr. To Pankaj A/c (Being past payment received from Pankaj)		10,200	 10,200
April, 4	Pankaj A/c Dr. To Interest A/c (Being Interest charged on remaining amount : (= 30000 x 9/100 x 3/12)		675	 675
April, 4	Bills Receivable A/c Dr. To Pankaj (Being new acceptance received)		30,675	 30,675
July, 4	Pankaj Dr. To Bills Receivable A/c (Being bill dishonoured due to insolvency of Pankaj)		30,675	 30,675
July, 15	Bank A/c Dr. Bad Debts A/c Dr. To Pankaj (Being final dividend @ 60 paise in a ` received from Pankaj and balance written off as Bad Debts)		18,405 12,270	 30,675

In the Books of PANKAJ (DRAWEE)

Journal

Date	**Particulars**	**L.F.**	**Dr.** Rs.	**Cr.** Rs.
2011				
Jan, 1	Purchases A/c Dr. To Rajiv A/c (Being goods purchased on credit)		40,000	 40,000

Jan. 1	Rajiv A/c Dr.		40,000	
	To Bills Payable A/c			40,000
	(Being acceptance given)			
April, 4	Bills Payable A/c Dr.		40,000	
	Noting Charges A/c Dr.		200	
	To Rajiv A/c			40,200
	(Being bill dishonoured and noting charges due)			
April, 4	Rajiv A/c Dr.		10,200	
	To Cash A/c			10,200
	(Being part payment made)			
April, 4	Interest A/c Dr.		675	
	To Rajiv A/c			675
	(Being interest due)			
April 4	Rajiv A/c Dr.		30,675	
	To Bills Payable A/c			30,675
	(Being the new acceptance given to Rajiv)			
July, 4	Bills Payable A/c Dr.		30,675	
	To Rajiv A/c			30,675
	(Being bill dishonoured due to insolvency)			
July, 5	Rajiv A/c Dr.		30,675	
	To Bank A/c			18,405
	To Deficiency A/c			12,270
	(Being amount paid @ 60 paise in a rupee`)			

<u>GENERALLY STUDENTS COMMIT MISTAKES PLEASE AVOID IT:-</u>

1. When calculating Date of Maturity the following points must be considered:

3. In case of “Bill at sight” or “Bill on demand” 3 days of grace are NOT allowed.
4. When the term of bill is mentioned in no of days, then
   - Date of drawing the bill is not included.
   - Date of payment is included in determining date of maturity .
   - If date of maturity falls on a day which is public holiday, the maturity date of the bill shall be “PRCEDING DAY’.
   - If maturity date is on an emergent holiday declared under the Negotiable Installment Act. 1881, the next working day immediately after the holi day will be considered as the date of maturity.

   When the period is stated in months the date of maturity shall be calculated in terms of calendar months ignoring the no. of days in a month.

(7) Noting Charges :

1. Noting charges are not an expense for the drawer.
2. It is always debited as ‘Noting chargers in the books of drawee.
3. Noting charges are recovered by drawer from drawee.
4. Noting charges are paid only when noting of the bill is necessary any at the time DISHONOUR of bill.

Noting of the bill is NOT required when the bill is CANCELLED with the consent of both the parties, specially at the time of RENEWAL of Bill.

<u>Questions</u>

1. State any four essential features of bill of exchange.
2. What is meant by maturity of a bill of exchange?
3. What is meant by acceptance of a bill of exchange?
4. What is Noting of a bill of exchange.
5. What is meant by renewal of a bill of exchange?
6. What is retirement of a bill of exchange?
7. What is meant by insolvency?
8. Give the meaning of rebate.
9. Distinguish between bill of exchange and promissory note.
10. Briefly explain the purpose and benefits of retiring a bill of exchange to the debtor and the creditor.

Numerical Questions

1. On Jan 15, 2006, Sankar Sold goods for Rs.30,000 to Parvati and drew upon him three bills of exchanges of Rs.10,000 each payable after one month, two month, and three months respectively. The first bill was retained by Sankar till its maturity. The second bill was endorsed by him in favour of his creditor Ratna and the third bill was discounted by him immediately @ 6% p.a. All the bills were met by Parvati. Journalise the above transactions in the books of Sankar and Parvati. Also prepare ledger accounts in books of Sankar and Parvati.

2. BSNL sold goods worth Rs.19,000 to MTNL on March 02, 2006. Rs.4,000 were paid by MTNL immediately and for the balance she accepted a bill of exchange drawn upon her by BSNL payable after three months. BSNL discounted the bill immediately with her bank. On the due date MTNL dishonoured the bill and the bank paid Rs.30 as noting charges. Record the necessary journal entries in the books of BSNL and MTNL.

3. Tina and Mina were in need of funds temporarily. On August 01 2005 Tina drew upon Mina a bill for Rs. 12,000 for 4 months. Mina Accepted the bill and returned to Tina. Tina discounted the Bill @ 8% p.a. Half amount of the discounted bill remitted to Mina. On due date, Tina sent the required sum to Mina, who met the bill. Journalise the transaction in the books of both the parties.

4. On Jan 01, 2006 Mr. Dalvi sold goods for Rs.20,000 to Mr. Vaghela and drew upon her a bill of exchange payable after two months. One month before the maturity of the bill Mr. Vaghela approached Mr. Dalvi to accept the payment against the bill at a rebate @ 12% p.a. Mr. Dalvi agreed to the request of Mr. Vaghela and Mr. Vaghela retired the bill under the agreed rate of rebate. Journalise the above transaction in the books of Mr. Dalvi and Mr. Vaghela.

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UNIT :7
RECTIFICATION OF ERROR

"To err is human"

Unit at a Glance:
- **Introduction**
- **Error affecting or disclosed by trial balance** Meaning of Accounting
- **Errors not affecting by trail balance**
- **Clerical Errors**
- **Suspense account**
- Numerical questions

Introduction

Correcting the errors of accounting by passing journal entry is known as rectification of error.

Error affecting or disclosed by trial balance

1. Errors of additions and subtractions :- wrong totaling and balancing of ledger, totaling of trial wrong totaling of trial balance.

2.Posting at the wrong side of an account :- Instead of debiting amounts by mistake are written in credit.

3. Entering incorrect amount:- Incorrect copying ,Transposing figure(Writing 56 in place of 65), sliding figure (8000 in place of 800), doubling the wrong figure and duplicate posting.

4. Errors of omission:- Not posted in subsidiary accounts, accounts are not opened in the ledger.

5. Wrong posting in the trial balance:- Instead of writing debit side accounts has posted in credit side.

Errors not affecting by trail balance

1. Errors of omission:- Transactions not recorded in books. For example:- goods return to supplier not recorded.

2.Errors of principle:-Disobey of accounting principles, (salary paid to manager) manager's accounts are debited.

3.Compensating errors: - Sales of goods to Rani for Rs.100 debited to Rain's account with Rs.10 and Rs.100 cash received for Ajay was credited to Ajay with Rs.10.

4. Incorrect account in the original book: - Insteadof B . Babu's accountN.babu's account affected by writer.

5. Posting to wrong account: - Instead of writing in purchases book , sales book are opened.

CLERICAL ERRORS

1. Errors of omission: - Forget to write the transaction in books.
   Example:
   1. Goods worth Rs.5,000 returned by a customer was not recorded in the books.
   2. Goods worth Rs.3,000 sold to Anil was not recorded in the books.

Solution:

Journal Entry

1.	Return Inward A/C Dr. To Customer's A/C (Being goods returned was not passed in the books , now recorded.		5,000	5,000

2.	Customer's A/C Dr. To Sales A/C (Being goods sold was not passed in the books , now recorded.		3,000	3,000

2. Errors of commission: - Under casting and Over casting.

   Example:

   1. Purchase book was under cast by Rs.5,000
   2. Sales book was over cast by Rs.2,000

Journal Entry (By Raising Suspense Account)

1.	Purchase A/C Dr. To Suspense A/C (Being under casting of purchase book now rectified)		5,000	5,000
2.	Sales A/C Dr. To suspense A/C (Being Over casting of sales book now rectified.		2,000	2,000

3. **Errors of Principles**: - Mistake in posting such as instead of sale ,furniture account is credited, Wages is paid and posted in salary account.

   Example:

   1. Purchase of Building was passed in purchase book amounting Rs.10,000
   2. Wages paid for extension of building was debited to wages account amounting Rs.6000

Journal Entry

1.	Building A/C Dr. To Purchase A/C (Being purchase of building wrongly debited in purchase account ,is now rectified)		10,000	10,000
2.	Building A/ C Dr. To wages A/C (Being payment of wages for extension of building wrongly debited in wages account, is now rectified)		6,000	6,000

4. Compensating errors : - Mistake in posting such as posting at wrong side of account.

   Example:

   1. Salary paid amounting Rs.500 was credited to salary account.
   2. Rent paid amounting Rs.600 was credited to rent account as 60.

Solution:

Journal Entry (By Raising Suspense Account)

1.	Salary A/C Dr. To suspense A/C (Being payment of salary account wrongly credited ,is now rectified)		1,000	1,000
2.	Rent A/C Dr. To suspense A/C (Being payment of account wrongly credited , is now rectified)		660	660

Suspense account

When Trial balance does not agree, the difference of amount will be transferred into suspense account.

Treatment of Suspense account:-When mistakes are detected and rectified, Suspense account will be closed. Balance of suspense account will be transferred in to Balance sheet.

Point to be remembered:

(Debit balance of suspense account will be at assets side. Credit balance will be at liabilities side of balance sheet)

Questions:

1. Explain the types of errors.
2. What do you mean by Suspense account?

Illustration:

Pass journal entry for following cases assuming the use of suspense account

1. Under casting in sales day book by Rs.5,000
2. Goods returned By Amit costing Rs.2,000 was not recorded in the books
3. Salary paid Rs.1500 was debited in wages account.
4. Interest due on investment Rs.2, 500 was not recorded in the books.

Journal Entry

1.	Suspense A/C Dr. To Sales A/C (Being under casting of sales book ,is now rectified)		5,000	5,000
2.	Returned inward A/C Dr. To Amit (Being omission of return inward book , is now rectified)		2,000	2,000
3.	Salary A/C Dr. To wages A/C (Being payment of salary account wrongly debited in wages account ,is now rectified)		1,500	1,500
4.	Accrued interest A/C Dr. To interestA/C (Being Interest due on investment is now recorded .)		2,500	2,500

Generally students commit these mistakes, please avoid:

1. Wrong selection in nature of error.
2. Focus on use of suspense account.
3. Do not write single amount in case of fundamental error.

Numerical questions:

Q.1 Pass journal entry for following cases

1. Purchase of Furniture was passed in purchase book amounting Rs.25,000
2. Wages paid for installation of machine posted to wages account amounting Rs.7000
3. Goods worth Rs.15,000 returned to supplier was not recorded in the books.
4. Goods worth Rs.23,000 sold to Anil was not recorded in the books.
5. Commission received from z Rs.2,500 not recorded in books.

Q.2 Pass journal entries for following cases assuming the use of suspense account

1. Under casting in purchase day book by Rs.3,,000
2. Goods returned to Prakash costing Rs.12,000 was not recorded in the books
3. Repair paid Rs.2,500 was debited in Rent account.
4. Interest due on investment Rs.4, 500 was not recorded in the books.

Q.3 Pass journal entries for following cases:

1. Interest paid amounting Rs.600 was credited to interest account as Rs. 60.
2. Salary paid to employee Rs.5,000 was debited to his personal account.
3. Goods purchased from AB limited costing Rs.8,000 not recorded in books.
4. Machinery sold for Rs.6,000 was wrongly credited in Furniture account

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UNIT - 8
FINANCIAL STATEMENTS

Unit at a glance:

- Meaning of Financial Statements
- Users of Accounting information
- Capital Nature Items
- Revenue Nature Items
- Operating Profit and Net Profit
- Trading Account
- Profit and Loss Account
- Balance Sheet
- Important Adjustments with their treatments in financial statements
- Generally Students commits these mistakes please avoid

"Financial Statements of a company shows its financial position for the current year"

Meaning :

The financial statement provide a summary of the accounts of a business enterprise.

Financial statement include two statements include two statements :

i) 'Trading and Profit and Loss Account' or Income Statement' (To Know Profit or loss)

ii) Balance Sheet (To know value of assets and liabilities on the closing date of an accounting period)

Users of Accounting Information :

Internal Users : Management, Employees, Current owners

External Users : Potential Investors Government, Banks/Lenders, Stock Exchange, Suppliers and Trade Creditors, Public.

Capital Nature Items:

Capital Expenditure : Those expenditures which are incurred in acquiring and increasing the value of fixed assets. Ex.

1. Purchase of fixed assets or bringing into existence of fixed assets
2. Expenditure incurred on erection of a fixed asset
3. Payment of goodwill
4. Decrease in long term debts.
5. Capital Receipts : Any receipt from the sale of fixed assets is known as capital receipt.

Revenue Nature items :

Revenue Receipts : Receipts in the business of recuirring nature are called as Revenue receipts ex: rent received, discount received, commission received

Revenue Expenditures : Recurring nature of expenditure done in the business which are done in order to earn profit are known as revenue expenditure ex.:

1. Purchase of goods during the year
2. Money spent in acquiring or manufacturing goods like freight, carriage, wages etc.

Any expenses for meeting day to day business like wages, salaries, postage etc.

OPERATING PROFIT AND NET PROFIT

After getting Gross Profit from the business. Profit may be divided into two parts :

1 Operating Profit, 2 Net Profit

Operating Profit : Operating profit is that profit which is earned through the normal activities of the business. It can be ascertained by deducting aqll operating expenses from the gross profit.

2. Net Profit : Net profit is that profit which is earned after deducting all operating as well as non operating expenses from the Gross Profit.

Trading Account :

Trading account is prepared to know the result of manufacturing and trading activities :

Ex: Prepare A Trading Account from the following particulars for the year ender March 31, 2007.

Opening Stock	56,250
Purchases	157500
Sales	405000
Wages	45000

Solution :

Trading Account for the year ended March 31, 2007

Particulars	Amount	Particulars	Amount
To Opening Stock	56,250	By Sales	4,05,000
To Purchases	1,57,500		
To Wages	45,000		
To Gross Profit	1,46,250		
	4,05,000		4,05,000

Question for Practice :

Prepare a Trading Account from the following particulars for the year ended 31st March, 2011

	Rs.		Rs.
Opening Stock	30,000	Wages	18,000
Purchases	1,00,000	Carriage on purchases	3,000
Sales	2,05,000	Manufacturing Exp.	20,000
Factory rent	10,000	Custom Duty	4,500
Purchases returns	3,000	Gas, Fuel and power	12,000
Sales returns	5,000	Dock charges	3,000

Profit and Loss Account :

Profit and loss account is prepared to know the result of the business in the term of net profit

Question for Practice:

Prepare Profit and Loss Account for the year ended 31st March, 2010 from the following particulars :

	Rs.		Rs.
Gross profit	90,500	Discount allowed	600
Trade expenses	2,400	Lighting	4,100
Rates and taxes	1,200	Interest on investment	500
Carriage outwards	7,500	Commission received	600
Salaries	13,600	Bad debts	1,000
Postage and telegram	2,400	Discount (Cr.)	600
Rent	9,000	Interest on loan	1,800
Legal charges	2,000	Stable expenses	1,600

Audit fee	2,400	Export duty	2,200
Depreciation	2,000	Miscellaneous receipts	200
Donation	500	Unproductive wages	2,100
General expenses	1,500	Travelling expenses	3,500
Selling expenses	4,000		

Solution : **Profit and Loss Account**

(for the year ended 31st March 2010)

Particulars	Amount	Particulars	Amount
To Trade expenses	2,400	By Gross profit b/d	90,500
To Carriage outwards	7,500	By commission received	600
To Salaries	13,600	By Discount	600
To Postage and telegram	2,400	By Miscellaneous receipts	200
To Rent	9,000	By interest on investment	500
To Rates and taxes	1,200		
To Legal charges	2,000		
To Audit fee	2,400		
To Depreciation	2,000		
To Donation	500		
To General Expenses	1,500		
To Selling expenses	4,000		
To Discount allowed	600		
To Lighting	4,100		
To Bad Debts	1,000		
To Interest on loan	1,800		
]To Stable expenses	1,600		
To Export duty	2,200		
To Unproductive wages	2,100		
To Traveling expenses	3,500		
To Net Profit transferred to capital account	27,000		
	92,400		92,400

Question for Practice :

From the following trial balance of Raj & Co. prepare trading and profit and loss A/c for the year ending 31st March 2011 .

Debit Balance	Amount	Credit Balance	Amount
Stock	16,000	Sundry Creditors	20,000
Purchases	55,000	Purchases returns	1,000
Sales Returns	2,000	Sales	1,03,000
Carriage	3,500	Commission	4,500
Wages	12,500	Capital	56,000
Salaries	10,000	Bills Payable	8,500
Printing and stationery	3,400	Bank Loan	20,000
Trade expenses	2,000		
Cash in hand	3,500		
Bills receivables	8,000		
Sundry Debtors	22,000		
Land and buildings	30,000		
Plant and machinery	20,000		
Drawings	8,000		

Furniture and fixtures Rent and taxes	10,600 6,500		

Balance Sheet

The Balance Sheet is a statement prepared for showing the financial position of the business summarising its assets and liabilities at a given date.

Important Adjustments with their treatments

S.N.	Adjustment		Treatments
1	Closing Stock	:	Credit Side of Trading and Asset Side of B/S
2	Outstanding expenses	:	Add with concerned item in trading or profit and loss a/c and Liabilities side of B/S
3	Prepaid expenses	:	Less from concerned item in trading or profit and loss a/c and assets side of B/S
4	Accrued Income	:	Add with concerned income in P&L and Asset Side of B/S
5	Income Received in advance	:	Less from concerned item in P&L A/c and Liabilities side of B/S
6	Depreciation	:	Dr.Side of P&L A/c & Deduct from concerned asset in Balance sheet
7	Bad Debts	:	Dr.Side of P&L A/c & Deduct from debtors in B/S
8	Provision for doubtful debts	:	Dr. Side of P&L A/c and Deduct from Debtors
9	Provision for Discount on debtors	:	Dr. Side of P&L A/c and Deduct from Debtors
10	Manager's Commission	:	Dr.Side of P&L and Liabilities side of B/S

Ex:

From the following figures prepare Trading and Profit and Loss Account for the year ended 31st March, 2010 and a Balance Sheet as on that date :

Capital	86,800
Drawing	15,000
Investments	14,000
Cash	8,000
Rent and Insurance	3,000
Opening Stock	36,600
Purchases	1,86,000
Sales	3,05,000
Sales return	5,000
Wages	22,000
Carriage	4,200
Bad debts	700
Bad debts provision	2,100
Sundry debtors	40,400
Sundry creditors	25,700
Furniture	8,000
Plant and machinery	50,000
Salaries	11,000
Advertisement	4,400
Goodwill	6,000
Freight	6,300

Commission (Cr.)	1,000

Adjustments :

1. Stock on 31st march 2010 was Rs. 31,500
2. Salary and wages for March 2010 were unpaid.
3. Rent outstanding amounted to Rs. 600 and insurance unexpired amounted to Rs. 400.
4. Commission amounting to Rs. 200 has been received in advance.
5. Write off Rs. 400 as bad debts, create provision for doubtful debts at 5% on sundry debtors and provide 2% provision for discount on debtors and creditors.
6. Depreciate furniture and plant and machinery by 10%.

Solution :

Trading and Profit and Loss Account

For the year ending 31st March 2010

Particulars		Amount	Particulars		Amount
To Opening Stock		36,600	By Sales	3,05,000	
To Purchases		1,86,000	Less : Sales Return	5,000	3,00,000
To Wages	22,000		By Closing Stock		31,500
Add : Outstanding	2,000	24,000			
To Carriage		4,200			
To Freight		6,300			
To Gross Profit c/d		74,400			
		3,31,500			3,31,500
To Bad Debts	700		By Gross Profit b/d		74,400
Add : Further Bad Debts	400		By Commission	1,000	
New Provision	2000		Less : Unearned	200	800
	3100		By Provision for Discount on Creditors		514
Less : Old Provision	2100	1,000			
To Provision for Discount on debors		760			
To Salary	11,000				
Add:	1,000	12,000			
To Advertisement		4,400			
To Rent and Insurance	3,000				
Add : Outstanding Rent	600				
	3600				
Less :Prepaid Insurance	400	3200			
To Depreciation on					
Furniture	800				
Plant and Machinery	5,000	5,800			
To Net Profit transferred to Capital A/c		48,554			
		75,714			75,714

Balance Sheet (As on 31st March, 2010)

Liabilities		Amount	Assets		Amount
Salaries outstanding		1,000	Cash		8,000
Wages outstanding		2,000	Sundry Debtors	40,400	
Outstanding Rent		600	Less : Bad Debts	400	
Unearned commission		200		40,000	
Creditors	25,700		Less : New Prov. for		
Less : Prov.for discount	514	25,186	Bad Debts.	2,000	
Capital	86,800			38000	
Add : Net Profit	48,554		Less : Prov. for discount	760	37240
	1,35,354		Closing Stock		31,500
Less : Drawing	15,000	1,20,354	Insurance Prepaid		400
			Investment		14,000
			Furniture	8,000	
			Less : Depreciation	800	7,200
			Plant and Machinery	50,000	
			Less : Depreciation	5,000	45,000
			Goodwill		6,000
		1,49,340			1,49,340

Question for Practice :

Following is the Trial Balance of Rama & Co. for theyear ending 31st December 2010. Prepare Trading and Profit and Loss Account and Balance Sheet :

Name of Account	Dr. Balance	Cr.Balance
Drawing and Capital	4.000	23,000
Furniture	8,000	-
Apprentice Premium	-	1,000
Machinery	20,000	-
Bad debts	350	-
Provision for bad debts	-	500
Sundry debtors and Creditors	8,200	5,000
Stock on January 1, 2010	7,400	-
Purchases and sales	75,000	1,05,000
Bank overdraft	-	2,600
Sales return and purchase returns	500	400
Advertisement	2,400	-
Interest	200	-
Commission	-	400
Cash in hand	1,650	-
Taxes and Insurance	3,200	-
Carriage and Freight	1,500	-
Salaries	5,500	-

Adjustments :

The following adjustments are to be made :

(i) Stock in hand on 31st December 2010 was value Rs. 8,250/-
(ii) Salary is paid at Rs. 500 for month.
(iii) Tax outstanding Rs. 300 and insurance is prepaid Rs 400.
(iv) Write off furniture bad debts Rs. 200 and create provision for bad debts on debtors at 5%.
(v) Apprentice Premium Rs. 300 is related to 2011.
(vi) Commission Accrued Rs. 100.

Ans. G.P. 29250, NP 18300 and B/S 46000

Generally Students commit these mistakes please avoid

1- Calculation of Cost of Goods Sold

Solution : To calculate Cost of Goods Sold the following formula will be applied :

COGS = Opening Stock + Net Purchase + Direct Expenses (Carriage on purchase + wages) – Closing Stock

2- Confusion in calculating operating profit :

Solution: To calculate operating profit the following formula will be used :

Operating Profit = Net Profit + Non Operating Expenses – Non Operating Incomes

3- Marshalling and Grouping of Assets and Liabilities :

Solution : Arrangement of assets and liabilities in a particular order is known as marshalling.

4- Provision for Bad Debts :

First of all deduct bad debts given in adjustment from the debtors

Calculate provision for doubtful debts on the amount of debtors

Deduct the amount of provision for doubtful debts given in credit side of trial balance

Questions for practice:

1. What are financial statements ?
2. Differentiate Capital Expenditure and Revenue Expenditure
3. Differentiate Capital Receipts and Revenue Receipts.

4. Prepare Final Accounts of Mr. Sharad for theyear 31-3-09. Trial Balance 31-3-09

Particulars	Amount	Particulars	Amount
Stock	20,000	Capital	1,60,000
Purchases	2,92,000	Sales	5,90,000
Duty and clearning charges	34,000	Rent	19,000
Rent	10,000	Creditors	1,35,000
Return inwards	16,000		
Discount	15,000		
Drawings	58,100		
Goodwill	16,000		
Furniture and Fittings	58,000		
Repairs	2,900		
Bank	24,000		
General expenses	18,000		
Salaries	1,10,000		
Debtors	2,30,000		
	9,04,000		9,04,000

Adjustments :

1. General expenses include Rs. 5,000 chargeable to furniture pursed on ist October 1998.
2. Create a reserve of 5% on Debtors for Bad and Doubtful debts after treating Rs. 30,000 as a Bad Debt.
3. Balance at Bank as ascertained from the pass book is Rs. 22,500, the difference representing bank charges.
4. Rent for 2 months is outstanding.
5. Depreciate furniture and fittings @ 10% p.a.
6. Closing Stock was Rs. 40,000. There was a loss by fire on 20th March to the extent of Rs. 8,000. Insurance Company admitted the claim in full.
7. Goods costing RS. 2,500 were used by the proprietor.
8. Goods costing Rs. 1,500 were distributed as free samples.

Ans. G.P. 2,80,000, N.P. 97050 B/S 3,33,450

5. From the following Trial Balance of Mr.Sarthak for the year ended 31st March 2011.. Prepare Final Accounts.

Particulars	Amount	Amount
Capital	-	2,73,000
Furniture and fittings	48,100	-
Cash at Bank	73,230	-
Land and Building	4,94,000	-
Stock	10,530	-
Debtors and Creditors	84,890	26,780
Purchase and Sales	3,55,790	6,77,120
Carriage outwards	4,030	-
Salaries	54,210	-
General expenses	31,200	-
10% Loan "(1-4-2010)	-	2,60,000
Returns	1,690	1,430
Rent	1,820	-
Wages	71,170	-
Interest	13,000	-
Bills Payable	-	8,970
Electricity Charges (Factory)	3,640	-
	12,47,300	12,47,300

Additional Information :

1. Goods costingRs. 5,200 were taken by Sarthan for the personal use.
2. Salaries include Rs. 2,210 paid for the year ending 31-12-2012.
3. The debtors include Rohan who owned us Rs. 1,690 and has become insolvent and nothing is recoverable from his estate.
4. General expenses include Rs. 2,600 paid for wages.
5. Create a provision for doubtful debts @ 5% p.a.
6. Depreciate land and building @ 10% p.a. and furniture and fittings @ 20% p.a.
7. Closing stock was valued at Rs.20,280.

(Ans. G.P. Rs. 2,58,610 N.P. Rs. 81,290, Balance Sheet Rs.6,57,840)

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UNIT-09

ACCOUNTING FOR NOT FOR PROFIT ORGANISATIONS

Unit at a Glance **: -**

- Meaning
- Features of NPO
- Final Accounts of NPO
- Difference between Receipts & Payments A/c & Income & Expenditure A/c.
- Calculation of Subscriptions
- Fund based Accounting
- Calculation of Material Consumed
- Comprehensive Illustrations
- Mistakes generally committed by students
- Practice Questions

1. Meaning of NPO :-

Non profit organizations are those organizations which are established for a Social/Charitable/Cultural purpose & not for earning profit. They render services for the promotion of Art, Culture, Sports, Education & Healthcare etc.

2. Features of NPO :-

a) They are registered distinct entities

b) They render services to the society at nominal charges

c) Their basic motive is not profit earning but social service.

3. **Final Accounts of NPO :-**

They prepare the following financial statements at the end of the accounting period:-

1. Receipts & Payments A/c;
2. Income & Expenditure A/c;
3. Balance sheet.

4. Distinction between Receipts & Payments A/c & Income & Expenditure A/c :-

Basis	**Receipts & Payments A/c**	**Income & Expenditure A/c**
1.Nature of A/c	It's a Real A/c	It's a Nominal A/c
2. Form	It's a summarized form of cash book	It's similar to P& L a/c
3. Basis	Prepared on Cash basis of accounting	Prepared on Accrual basis of accounting
4. Period	Includes receipts & payments of cash made during the year, whether they relate to past, current or future period	Includes incomes & expenses of current year only
5. Revenue & Capital Items	It records both revenue & capital receipts & payments	It records only revenue items
6. Balance sheet	It's not accompanied with Balance sheet	It's accompanied with Balance sheet
7. Opening & Closing balance	It represents opening & closing balance of cash in hand & at bank	It does not contain opening balance. The closing balance represents surplus or deficit
8. Adjustments	Does not contain any adjustments	Adjustments for outstanding, prepaid & accrued items is done in it.

4. Calculation of Subscription to be credited to Income & Exp. A/c.

Note : - Taking the figure of subscriptions received from the Receipts & Payments a/c as the base, additions for subscription of the current year though outstanding and subtraction of the subscription of the past & future period should be done to arrive at the figure to be credited to Income & Expenditure a/c. It should be clearly kept in mind that only the subscription of the current year should be considered even if it is outstanding and the subscription of the past & future period even if received in the current year should be excluded.

The following illustrations shall clarify the point:-

Illustration : - 1

	Rs.
Subscription received during 2007-08	50,000
Subscription outstanding on 31-3-08	8,000
Subscription outstanding on 1-04-07	6,000

Calculate the amount of subscription to be credited to Income & Expenditure a/c for the yr. 2007-08.

Ans.1

	Rs.
Subscription received during the yr.	50,000
Add: Subscription outstanding on 31-3-08	8,000

	58,000
Less: Subscription outstanding on 1-04-07	6,000

Amount to be credited to Income & Expenditure A/c =====➔	52,000

Illustration : - 2

	Rs.
Mumbai Club received subscription during the yr. 2005-06	1,50,000
Subscription received on 31-3-05	4,500
Subscription received on 31-3-06	5,100
Subscription outstanding on 31-3-06 for 2005-06	3,800
Subscription outstanding 2004-05 (of which Rs.4,000 received in 2005-06)	6,000

Calculate the subscription to be taken to Income & Exp. a/c for 2005-06.

<u>Ans. 2</u>

		Rs.
Total Subscription Received during the yr. 2005-06		1,50,000
Add: Sub. Outstanding for 2005-06		3,800
Sub. Received in advance on 31-3-05		4,500

		1,58,300
Less: Sub received in advance on 31-3-06	5,100	
Sub. Of 2004-05 received in 2005-06	4,000	9,100
	--------	-----------
Sub for 2005-06 to be taken to Income & Exp. a/c. ====➔		Rs.1,49,200

<u>Calculation of expenses for the year for Income & Expenditure a/c</u>.

<u>Note</u> : Here too, it is important to understand that - the guiding principle is - that the expenses of the current year whether paid or not should be considered. Similarly expenses of previous or future period though paid in the current year should be excluded.

The following Illustration shall clarify the concept further.

<u>Illustration :- 3</u>

Ascertain the amount of salary chargeable to Income & Expenditure A/c for 2006-07

	Rs.
Total salaries paid in 2006-07	10,200
Prepaid salaries on 31-3-2006	1,200
Prepaid salaries on 31-3-2007	600
Outstanding salaries on 31-3-2006	900
Outstanding salaries on 31-3-2007	750

Ans. 3

		Rs.
Total Salaries paid in 2006-07		10,200
Add: - Outstanding salaries on 31-3-07		750
Prepaid salary on 31-3-06		1,200

		12,150
Less:- Outstanding on 31-3-06 -	900	
Prepaid on 31-3-07 -	600	1,500
	------	---------------
Salaries dr. to Income & Exp. A/c for 2006-07		10,650

Fund & Non-Fund Based Accounting :

Illustration: - 4

How would you deal with the following items in the Balance sheet of a NPO?

	Rs.
1. Donations received for Auditorium construction (Expected total cost of the auditorium Rs.40,00,000)	25,00,000
2. Expenditure on construction of Auditorium	21,00,000
3. Receipts from Charity show	10,000
4. Charity show expenses	11,000
5. Prize Fund	25,000
6. 6% Prize fund Investment	25,000
7. Donation for Prize Fund	5,000
8. Prizes awarded	6,000

Ans. 4

Income & Expenditure A/c

(for the year ending on-----)

Expenditure	**Amount**	**Income**	**Amount**
To charity show expenses	11,000	By Receipts from charity show	10,000

Balance Sheet (As at ----------)

Liabilities		**Amount**	**Assets**	**Amount**
Capital Fund		xxx	Auditorium in Progress	21,00,000
Add: Transfer From Auditorium fund		21,00,000		
Auditorium Fund	xxx		6% Prize Fund Investment	25,000
Add: Donation	25,00,000			
Less: Transferred to Capital fund	21,00,000		Accrued Interest on Prize fund investment	1,500
		4,00,000		
Prize Fund :	25,000			
Add: Donation	5,000			
	30,000			
Add: Accrued Interest	1,500			
	31,500			
Less: Prizes awarded	6,000			
	--------	25,500		

Calculation of Cost of Material Consumed
(E.g. Stationery/Sports Materials/Medicines/Postage etc.)

Case 1. When Opening Stock, Purchases & Closing Stock are given

		Rs.
Illustration 5.	Stock of Cricket equipments on 1.1.2008	1,000
	Stock of Cricket equipments on 31.12.2008	1,500
	Cricket equipments purchased during the yr.	4,150

Ans. 5

Calculation of Cricket Material Consumed during the yr. 2008.

Particulars	**Amount (Rs.)**
Opening Stock on 1.1.2008	1,000
Add: Purchases during the yr.	4,150
Total Cricket Equipment	5,150
Less: Closing Stock	1,500

Cricket equipment consumed During the yr.	3,650

Case 2. When Opening & Closing Stock, Opening & Closing Creditors and Payments made for such items during the year are given.

Illustration 6.

Calculate the sports material to be debited to Income & Expenditure a/c.
For the yr. ended 31-3-2007 on the basis of the following information:

Particulars	1-4-2006 (Rs.)	31.3.2007 (Rs.)
Stock of sports material	7,500	6,400
Creditors for sports material	2,000	2,600

Amount paid for sports material during the yr. was Rs.19,000

Ans. Illustration 6 :

Purchase of Sports Material during the yr: Rs.

Total payments made during the yr. for sports material	-	19,000
Less: Creditors on 1/4/2006	-	2,000
		17,000
Add: Creditors on 31/3/2007		2,600
Sports material purchased during the year		19,600

Sports goods consumed during the yr. Rs.

Opening stock		7,500
Add: Purchases during the yr.		19,600
		27,100
Less: Closing stock		6,400
Sports material consumed	➔	20,700

Comprehensive Problems:

Illustration 7 :-

From the following particulars of M/s. Jalaram Charity Hospital, prepare Income & Expenditure a/c & the balance sheet as on 31st March 2007.

Receipts	Rs.	Payments	Rs.
To Cash in hand 1/4/06	7,130	By Medicines	30,590
To Subscriptions	47,996	By Doctor's Honorarium	9,000
To Donations	14,500	By salaries	27,500
To Interest on Bank Fixed Deposit For full yr.	7,000	Petty expenses	461
		By Equipments	15,000
To charity show proceeds	10,450	By charity show expenses	750
		Cash in hand 31/3/2007	3,775
	87,076		**87,076**

Additional information:	**1/4/2006 Rs.**	**31.3.2007 Rs.**
Subscription due	240	280
Subscription received in advance	64	100
Stock of medicines	8810	9740
Estimated value of equipment	21200	31600
Building (Cost less depreciation)	40000	38000

Ans. 7.

Income & Expenditure A/c

(Year ended on 31st March 2007)

Expenditure	**Rs.**	**Income**	**Rs.**
To Medicines consumed Opening stock 8810 Add: Purchases 30590 Less: Closing. stock 9740	29660	By Subscriptions 47996 Add: O/S (of 2007) 280 Adv in 2006 64 Less: O/S (of 2006) 240 Adv of 2008 100	48000
To Doctor's honorarium	9000	By Donations	14500
To salaries	27500	By Interest on Bank FD	7000
To petty expenses	461	By charity show proceeds	10450
To expenses charity show	750		
To Depreciation: Equipment	4600		
Building	2000		
To Surplus	5979		
	79950		**79950**

Balance Sheet as at 31.3.2007

Liabilities	Rs.	Assets	Rs.
Advance Subscription	100	Cash in Hand	3775
Capital Fund 177316		Subscription o/s	280
Add: Surplus 5979	183295	Stock of Medicines	9740
		Bank Fixed Deposit	100000
		Equipments Op. 21200	
		+ Purchases 15000 - Depreciation 4600	31600
		Building 40000	
		- Depreciation 2000	38000
	183395		**183395**

Balance Sheet as at 31.3.2006

Liabilities	Rs.	Assets	Rs.
Advance Subscription	64	Cash	7130
Capital Fund (Bal. fig.)	177316	Subscription o/s	240
		Stock of Medicines	8810
		Bank Fixed Deposit	100000
		Equipments	21200
		Building	40000
	177380		**177380**

Working Notes: -

1. Bank Deposit = $\dfrac{\text{Rs.}7000 \times 100}{7} = \text{Rs.}100000$

2. Depreciation has been calculated on the basis of :

(Opening balance of the Asset + Purchases of Assets during the yr.)
- the Closing balance of the Asset

ILLUSTRATI ON 8 :

Prepare Income & Expenditure A/c & Balance Sheet of Leo Club Mumbai for the yr. ended 31st Dec. 2007 from the following:

Receipts & Payments A/c
(Year ended 31-3-2007)

Receipts	Rs.	Payments	Rs.
Cash in hand b/d	4500	Salaries (11 months)	1100
Subscriptions: 2006 – 100 2007- 2400 2008 - 200	2700	Tournament exp.	1600
		Investments	1000
		Furniture	400
Sale of old furniture (Costing Rs.200)	140	Stationery	1200
Tournament Receipts	2000	Sports expenses	15000
Sports Fund	10000	Misc. expenses	200
Donations for Sports	3000	Rent paid up-to Feb. 2009	1400
		Cash in hand	440
	22340		**22340**

The club has 300 members each paying an annual subscription of Rs.10.
Rs.70 are still outstanding for the yr.2006. In 2006, 10 members had paid their subscription for 2007 in advance. Stock of stationery in 2006 was Rs.100 & in 2007 Rs.140.

On 1-1-2007, club owned Land & Building valued at Rs.20,000 & furniture of Rs.1300. Interest accrued on investment @6% p.a. for 3 months.

Ans. 8

Income & Expenditure A/c
(Year ended 31st Dec.2007)

Expenditure	Rs.	Income	Rs.
To Loss on sale of furniture	60	By Subscriptions 2700 Less: O/s (2006) 100 Less: Advance (2008) 200 Add: Advance (2006) 100 Add: O/s 500	3000
To sports expenses	2000		
To Salaries 1100		By Tournament Receipts	2000

Add: Outstanding	100	1200	By Accrued interest	15
To Tournament exp.		1600	By Deficit	2405
To stationery Op. Stock	100			
Add: Purchases	1200			
Less: Closing stock	140	1160		
To Misc. Exp.		200		
To Rent Less: Prepaid	1400 200	1200		
		7420		**7420**

Balance Sheet as at 31.12.2007

Liabilities	**Rs.**	**Assets**	**Rs.**
Advance Subscriptions	200	Cash in hand	440
Salary o/s	100	Prepaid Rent	200
Capital Fund 25970 Less: Deficit 2405	23565	Subscription 500 Add: O/s 70	570
		Accrued Interest	15
		Stock of stationery	140
		Investment	1000
		Furniture 1300 Add: Purchase 400 Less: Sold 200	1500
		Land & Building	20000
	23865		**23865**

Balance Sheet as at 31.12.2006

Liabilities	**Rs.**	**Assets**	**Rs.**
Advance Subscription	100	Cash in hand	4500
Capital Fund (Bal fig)	25970	Subscription o/s	170
		Stock of stationery	100
		Furniture	1300
			20000
	26070		**26070**

Generally students commit these mistakes, please avoid

1. Students get confused between Capital & Capital Fund.

   Please Remember that : Capital represents the difference between Assets & Liabilities whereas Capital Fund is a General Fund.

2. Generally the confusion on treatment of Specific Donation & General Donation prevails amongst the students.

   Please Remember that : Specific donation can be utilized only for that particular purpose for which it is received therefore it is to be taken to the liability side of Balance Sheet. Whereas general donation is of revenue nature & to be taken to the Income side of Income & Expenditure A/c.

3. The treatment of Entrance Fees:

   Please Remember that : As it may be treated as both income or liability, Students are advised to see the instructions in the question as to treat it as an income or a liability. In the absence of any instructions students are advised to kindly give a note on how they have treated the same.

4. Life membership fees : It is a liability.

   Please Remember that : It is to be taken to the liability side of the Balance sheet.

5. Grant received on an yearly basis is a revenue income & grant received for a specific purpose is a capital nature income.

   Please Remember that revenue grant should be taken to the income side of Income & Expenditure a/c whereas specific grant should be taken to the liability side of the Balance Sheet.

Questions for practice:

1. Calculate the stationery consumed to be shown in Income & Expenditure A/c for the year ended 31st March 2012, from the following details:

   Stock of stationery on 1/4/2011 Rs. 50,000

Stock of stationery on 31/3/2012	Rs. 40,000
Payment during the year for stationery	Rs. 2,00,000
Creditors for stationery on 1/4/2011	Rs. 20,000
Creditors for stationery on 31/3/2012	Rs. 10,000

(Ans. Rs. 2,00,000)

2. From the following calculate the subscription for the current year:

	1.1.2012 (Rs.)	31.12.2012(Rs.)
Outstanding Subscription	9500	10000
Subscription received in advance	6200	8700
Subscription received during the year 2012	Rs.2,50,000	

(Ans. Rs. 2,48,000)

3. From the following prepare Income & Expenditure a/c for the yr. ended 31.3.12 & ascertain the Capital fund on 31.3.2011

Receipts	Amount Rs.	Payments	Amount Rs.
Balance b/d	39100	By Salary	6000
To Subscriptions 2009-10 - 2400 2010-11 -53000 2011-12 - 1000	56400	By Newspaper	4100
To Sale of scrap	2500	By Electricity charges	2000
To Govt. Grants	20000	By Fixed Deposit (on 1/7/2011 @9% p.a.)	40000
To Sale of old furniture (of book value Rs. 8000)	11400	By Books	21200
		By Rent	13600

To Interest on Fixed deposit	900	By Furniture	21000
		By Balance c/d	22400
	130300		130300

Additional Information:

1. Subscription outstanding as on 31.3.2011 Rs.4000 & on 31.3.12 Rs.5000
2.
3. On 31.3.12 Salary outstanding Rs.1200 & Rent outstanding Rs.2400
4.
5. On 1/4/2011 assets were Furniture – Rs.30000 & Books Rs.14000

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UNIT:10
ACCOUNTS FOR INCOMPLETE RECORDS

"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"
Unit at a Glance:

- Introduction
- Salient features
- Uses
- Limitations
- Difference between double entry system and incomplete records
- Ascertainment of profit or loss from incomplete records
- Conversion into double entry method
- numerical exercises

Introduction:

Accounting records which are not prepared in accordance with double entry system method are described as accounts for incomplete records.

SALIENT FEATURES

1. Apply of personal accounts only (ignores nominal and real accounts)
2. Maintenance of cash book.(Cash book is prepared)
3. Based on original vouchers. (Collection of data is made with original vouchers)
4. Lack of Similarity. (Method of preparation of books differs from firm to firm, it prepared as per the need of the business.
5. Preparation of final accounts. (After converting the information into double entry system final accounts are prepared. Due to this Statement of affairs is prepared instead of Balance sheet)

Uses

1. Easy method (Not requires any specific knowledge)
2. Economical(Can be prepared by without having more staff)
3. Suitable for small concerns (Few assets and liabilities are to be recorded)
4. Not – rigid (Can be modified/changed as per requirement of business)
5. Easy finding of profit & losses. (Only opening and Closing capital is required)

Limitations

1. Impossible to find fraud (As Trial balance is ignored)
2. Incomplete system (No set rules are followed)
3. Unable to find adequate profit & losses. (Ignorance of nominal accounts)
4. Difficulty in preparation of balance sheet.(Lack of valuation of goodwill)
5. Unable to retain full control on asserts. (Real accounts are ignored, it is difficult to make full control on assets)
6. Unsuitable for planning in control(Lack of reliable figure)
7. Lack of internal checking(Fails to adopt double entry system)
8. Improper evaluation of asserts (Ignorance of certain information like depreciation etc.)

DIFFERENCE BETWEEN DOUBLE ENTRY SYSTEM & INCOMPLETE RECORDS

Basis of difference

Recording of both aspects (Double entry records every transaction and incomplete records few transactions)

1. Type of accounts (All accounts are considered in double entry only personal account are considered in incomplete records)
2. Trial balance (Trial balance is prepared in double entry system,Trial balance is not prepared in incomplete records)
3. Net profit/ loss (Profit/Loss is calculated by preparing trading and profit &loss a/c in double entry system, Statement of profit is prepared in incomplete records to find the same.
4. Financial position (Balance sheet is prepared in double entry and statement of affairs is prepared in incomplete records)
5. Adjustment (Adjustment are considered in double entry ,while adjustments are not considered in incomplete records)

ASCERTAINMENT OF PROFIT OR LOSS FROM INCOMPLETE RECORDS

1. Statements of affairs method
2. Conversion into double entry method

Statement of affairs method: Under this method Opening and Closing capital is calculated. Then statement of profit is prepared to find profit/loss during the year.

Format of Statement of affairs

Statement of affairs

(As on ---------------------)

Liabilities	Amount	Assets	Amount
Bank overdraft Bills payable Sundry creditors Outstanding expenses Incomes received in advance Capital(being, balance figure)	....	Cash in hand Cash in bank Bills receivable Sundry debtors Stock Prepaid expenses Accrued income Furniture Plant & machinery etc.	....

Format of Statement of Profit

Closing capital	--------
Add: Drawings	--------
Less:	
1. Opening capital	
2. Additional capital introduced	
Profit during the year	

Example:

Mr. Ramesh,the owner of a mobile shop maintains incomplete records of his business. He wants to know the result of the business in 31stDec. 1998 and for that following information are available:

	1st Jan, 1998	31st Dec, 1998
Cash in hand	300	350
Bank balance	1500	1600
Furniture	200	200
Stock	1000	1300
Creditors	700	800
Debtors	500	600

During the year he had withdrawn Rs.1000 for his personal use and invested Rs.500 as additional capital. Calculate his profit on 31st Dec, 1998.

SOLUTION:

Statement of affairs
As on 1st January, 1998

Liabilities	Amount	Assets	Amount
	Rs.		Rs.
Creditors	700	Cash in hand	300
Capital(balance figure)	2,800	Bank balance	1500
(Opening capital)		debtors	500
		Stock	1000
		Furniture	200
	3,500		3,500

Statement of affairs As on 31stDecember, 1998

Liabilities	Amount	Assets	Amount
	Rs.		Rs.
Creditors	800	Cash in hand	350
Capital(balance figure)	3,250	Bank balance	1600
(Closing capital)		debtors	600
		Stock	1300
		Furniture	200
	4,050		4,050

Statement of profit
For the year ending 31st December, 1998

	Rs.
Closing capital as on 31-12-1998	3,250
Add: drawings	1,000
	4,250
Less: further capital introduced	500
	3,750
Less: opening capital as on 1-1-1998	2,800
Profit for the year	950

Points to be remembered: If opening capital is given but closing capital is not given, only one statement of affairs will be prepared to find closing capital.

Conversion into double entry method: Under this method following steps are made :

1. Opening of statement of affairs
2. Preparation of subsidiary.
3. Opening of others account like debtors account.

Format of debtor's A/c
Total debtors account

Dr. Cr.

	Rs.		Rs
To balance b/d (opening balance of debtors)	....	By cash received from debtors	....
To B/R Dishonored	....	By B/R received	....
To cash refund to debtors	....	By sales returns	
To credit sales, if given (if not given balancing figures is credit sales)	....	By discount allowed	....
		By bad-debts	....
		By balance c/d (closing balance of debtors, either given or balancing figures)	....

Format of creditor's A/c

Total Creditors account

	Rs.		Rs
To cash paid to creditors	....	By balance b/d (opening balance of creditors)	....
To B/Paccepted	....		....
To B/R endorsed	....	By B/P Dishonored	
To Purchase returns		By B/R endorsed	....
To discount received		dishonored	....
To balance c/d (closing balance of creditors, either given or balancing figures)	....	By Credit Purchase, if given (if not given balancing figures is Credit Purchase)	....

Example:

Find out credit and total purchases from the following particulars:

	Rs.
Balance of creditors on 1st Jan, 2003	60,000
Balance of creditors on 31st Dec, 2003	48,000
Cash paid to creditors	2,40,000
Cheques issued to creditors	80,000
Returns outwards	10,000
Discount received from creditors	7,200
B/P given to creditors	17,000
B/P dishonored	4,000
B/R endorsed to creditors	6,000
B/R endorsed to creditors dishonored	2,400
Cash purchases	
1,00,000	

Solution:

Creditor's Account

	Rs.		Rs
To cash paid	2,40,000	By balance b/d	60,000
To Bank	80,000	By B/P Dishonored	4,000
To Purchase returns	10,000	By B/R endorsed	2,400
To discount received	7,200	dishonored	
To B/P accepted	17,000	By Credit Purchase	3,41,800
To B/R endorsed	6,000		
To balance c/d (closing creditors)	48,000		

Generally commits these mistakes ,please avoid:

1. Do not forget to find opening/closing capital
2. Creditors has credit balance
3. Debtors has debit balance
4. Deduct additional capital from statement of profit while finding profit or loss.

<u>Numerical question:</u>

Q.1 AB Company keeps incomplete records. During 2000 the analysis of his cash book was as under:

	Rs.		Rs.
Receipts from debtors	8,000	Bank overdraft(1-1-2000)	1,200
Additional capital introduced on 1-9-2000	600	Payments to creditors	5,400
Loan from *C* on 1-7-2000 @ 6% interest p.a.	3,000	General expanses	1,800
		Salaries	600
		Drawing	800
		Bank balance(31-12-2000)	1,800
	11,600		11,600

On 1st Jan, 2000, The Following Balances were Recorded: Building Rs.5,000; Stock Rs. 3,600; Debtors Rs.10,600 And Creditors Rs.3,000.

The Balances On 31st Dec, 2000were: Debtors Rs.12,000; Building Rs.5,000; Creditors Rs.3,800 And Stock Rs.5,200.

Allow 5% Depreciation On Building. Provide Interest in *C'S* Loan for Six Months. Prepare Trading,

Profit And Loss Accounts and Balance Sheet on 31-12-2000

Answer:

1. Credit sales Rs.9,400
2. Credit purchase Rs.6,200
3. Opening Capital Rs.15,000
4. Gross profit Rs.4,800
5. Net profit Rs.2060
6. Balance sheet Rs.23,750

Q.2 Dr. Man Mohan maintains incomplete records. His accounts on 31st December 2005 were as follows:

Liabilities	Amount	Assets	Amount
	Rs.		Rs.
Bills payable	20,000	Stock	3,00,000
Sundry Creditors	2,40,000	Cash	40,000
Capital	6,80,000	Bank balance	1,00,000
		Bills received	1,40,000
		Sundry debtors	2,40,000
		Furniture	1,20,000
			9,40,000
	9,40,000		

During the six months ended 30th June, 2006 his position was as follows:

(i) His cash position improved by Rs.20,000 the bank balance was as Rs.1,00,000.
(ii) Stock decreased to Rs. 2,60,000 and debtors reduced by Rs.40,000.
(iii) Sundry creditors were the same as on 31st Dec, 2005.
(iv) There was no bills payable outstanding.
(v) The balance of the furniture was Rs.70,000 (Furniture costing Rs.50,000 was sold for Rs. 40,000)
(vi) There was no change in bills receivable.

The furniture was sold on 30th June, 2006. It was estimated that furniture depreciated during the period @10%p.a. of the original cost.
From the above information calculate Profit or Loss of Dr. Man Mohan` and also prepare his final statement of affairs.
Answer: Closing capital Rs.5,90,000, Net loss Rs.93,500. Total of final statement of affairs Rs.8,26,500

Q.3. From the following information are given of an accounting year:
1. Opening creditor Rs.10,000
2.Cash paid to creditors Rs.30,000
3. Return out ward Rs.2,000
4.Closing creditors Rs.24,000
Calculate credit purchase during the year.
Answer: Credit purchase Rs.46,000

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Unit:11

Computers & Accounting Information System

***Unit at a Glance* : -**

- Meaning of Computer
- Components of a Computer
- MIS & AIS
- Advantages of Computerized AIS
- Limitations of Computerized AIS
- Role of Computers in Accounting
- Customized & Readymade Software
- Database & DBMS
- Structured Query Language
- Practice Questions

According to International Standards Organization –

" A Computer is a data processor that can perform substantial computations, including numerous arithmetic & logical operations, with intervention by a human operator during the run."

Components of a Computer

1. **Input Devices** : Such as Keyboard, Mouse etc.

2. **CPU**: It has three components – The control unit, memory unit and the logical unit.

3. **Output Devices:** Such As Monitor, Printer.

4. **Hardware & Software**

The System Software such as MS DOS, Windows 7 etc.- are a set of programs which control the operations & help processing.

The Application software such as MS Word, Tally etc. enables the user to perform useful specific functions.

Management Information System (MIS): Is an information system that provides the needed information to the managers to manage the organization effectively. It combines the three resources viz; technology, information & people for the efficient management of an enterprise.

Accounting Information System (AIS): Is an information system based on the accounting database of an organization, helping in storage, processing, summarizing & reporting information about an organization.
It has 3 elements viz: Computerized Accounting, Information and System.

Advantages of Computerized AIS :

1. **High Speed** : of recording, storage, processing & retrieval of information.
2. **Accuracy** : As all the calculations etc. are done by the computer it has accuracy.
3. **Reliability** : The information is reliable.
4. **Real Time User Interface** : AIS enables direct & simultaneous interaction between user & the machine.

Limitations of Computerized AIS :

1. **Staff Opposition** : As it reduces the no of employees, staff usually opposes it.
2. **High Development Costs** : Development requires qualified engineering staff & training also, so it's a costly affair.
3. **Security Considerations** : Cyber crime & hacking etc. are becoming very common these days, therefore security is always a concern.
4. **High costs** makes it suitable only for medium & large sized firms & not for small firms.

Role of Computers in Accounting

Owing to Globalization the business operations are becoming large scale & complex. The need therefore arose to record, compile, summarize & present the accounting information to the large number of interested users with greater speed, accuracy & utility.
Thus computerized accounting is the only appropriate solution to these needs.

Computerized accounting serves this purpose by using both the AIS & MIS very effectively by combining the following :

1. Customer Relationship Management (CRM)
2. Debtors Management
3. Inventory Management
4. Supply Chain Management
5. Payroll Accounting
6. Enterprise Resource Planning (ERP)
7. Enterprise Performance Management (EPM)
8. Computerized preparation of Financial Statements
9. Tax Planning & Management
10. Sales & Marketing Management

<u>Comparision between Customized & Readymade Software Packages</u>

Basis	**Readymade Software**	**Customized Software**
Time	It saves time as it readymade	It takes time for development
Cost	It is cost effective as money is not to be spent on its development	It is costlier
After Sales Service	Is promptly available because of well developed professionals as well as market	Has to depend on the programmer who has developed the package specially for the needs of the firm
Ready Availability	It is readily available in the market	It is not readily available as it is tailor made to the firm's need.

<u>Database & Database Management System</u>

Database is data bank storing voluminous information about the entities within an organization and also the entities interacting with the organization.

Database Management System is the electronic data processing of information stored in the database. DBMS is "a set of programs that controls and manages creation, utilization and maintenance of database of a business organization."

Components of Database System :

- Data
- Hardware
- Software
- Users

<u>Advantages of DBMS :</u>

1. Reduced Data Redundancy

2. Protection of information

3. Greater Consistency

4. Reduced Costs

5. Back-up & Recovery facility

Limitations of DBMS:

1. High setting up costs
2. Lack of Expertise Knowledge
3. Security Problems
4. Hardware & Software costs due to fast obsolescence

Structured Query Language

It is a 4th generation Computer Programming language which greatly facilitates the writing of a program or application by the programmer in one tenth of time taken in older & third generation language like COBOL.

Practice Questions

1. Explain the components of a Computer.
2. What is a computer?
3. What is MIS?
4. What is AIS?
5. What are the advantages of AIS?
6. Which of the two is better – Ready-made Accounting Software or Customized Accounting Software? Give reasons in support of your answer.
7. What is database?
8. What is DBMS?
9. What is the role of computers in accounting?
10. What is the difference between Manual & Computerized Accounting system.
11. What is SQL ? (Structured Query Language)

LIST OF SUGGESTED TOPICS FOR PROJECT WORK AS PER CBSE SYLLABUS

1. Collection of Source Documents, Preparation of Vouchers, Recording of Transactions with the help of vouchers.

2. Preparation of Bank Reconciliation Statement with the help of given Cash Book and Pass Book.

3. Project Work on any Windows based Accounting Package: Installing and starting the package, setting up a new Company, Setting up account heads, voucher entry, viewing and editing data.