DIRECTORATE OF EDUCATION

Govt. of NCT, Delhi

SUPPORT MATERIAL
(2022-2023)

ACCOUNTANCY

Class : XI

Under the Guidance of

Mr. Ashok Kumar
Secretary (Education)

Mr. Himanshu Gupta
Director (Education)

Dr. Rita Sharma
Addl. DE (School & Exam.)

Coordinators

Mr. Sanjay Subhas Kumar	**Mrs. Sunita Dua**	**Dr. Raj Kumar**	**Mr. Krishan Kumar**
DDE (Exam)	OSD (Exam)	OSD (Exam)	OSD (Exam)

Production Team

Anil Kumar Sharma

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ASHOK KUMAR
IAS

सचिव (शिक्षा)
राष्ट्रीय राजधानी क्षेत्र
दिल्ली सरकार
पुराना सचिवालय, दिल्ली-110054
दूरभाष: 23890187 टेलीफैक्स : 23890119

सत्यमेव जयते

Secretary (Education)
Government of National Capital Territory of Delhi
Old Secretariat, Delhi-110054
Phone : 23890187, Telefax : 23890119
E-mail : secyedu@nic.in

Message

Remembering the words of John Dewey, "Education is not preparation for life, education is life itself", I highly commend the sincere efforts of the officials and subject experts from Directorate of Education involved in the development of Support Material for classes IX to XII for the session 2022-23.

The Support Material is a comprehensive, yet concise learning support tool to strengthen the subject competencies of the students. I am sure that this will help our students in performing to the best of their abilities.

I am sure that the Heads of Schools and teachers will motivate the students to utilise this material and the students will make optimum use of this Support Material to enrich themselves.

I would like to congratulate the team of the Examination Branch along with all the Subject Experts for their incessant and diligent efforts in making this material so useful for students.

I extend my Best Wishes to all the students for success in their future endeavours.

(Ashok Kumar)

HIMANSHU GUPTA, IAS
Director, Education & Sports

सत्यमेव जयते

Directorate of Education
Govt. of NCT of Delhi
Room No. 12, Civil Lines
Near Vidhan Sabha,
Delhi-110054
Ph.: 011-23890172
E-mail : diredu@nic.in

MESSAGE

"A good education is a foundation for a better future."

- Elizabeth Warren

Believing in this quote, Directorate of Education, GNCT of Delhi tries to fulfill its objective of providing quality education to all its students.

Keeping this aim in mind, every year support material is developed for the students of classes IX to XII. Our expert faculty members undertake the responsibility to review and update the Support Material incorporating the latest changes made by CBSE. This helps the students become familiar with the new approaches and methods, enabling them to become good at problem solving and critical thinking. This year too, I am positive that it will help our students to excel in academics.

The support material is the outcome of persistent and sincere efforts of our dedicated team of subject experts from the Directorate of Education. This Support Material has been especially prepared for the students. I believe its thoughtful and intelligent use will definitely lead to learning enhancement.

Lastly, I would like to applaud the entire team for their valuable contribution in making this Support Material so beneficial and practical for our students.

Best wishes to all the students for a bright future.

(HIMANSHU GUPTA)

Dr. RITA SHARMA
Additional Director of Education
(School/Exam)

Govt. of NCT of Delhi
Directorate of Education
Old Secretariat, Delhi-110054
Ph.: 23890185

सत्यमेव जयते

संदेश

शिक्षा निदेशालय, दिल्ली सरकार का महत्वपूर्ण लक्ष्य अपने विद्यार्थियों का सर्वांगीण विकास करना है। इस उद्देश्य को ध्यान में रखते हुए शिक्षा निदेशालय ने अपने विद्यार्थियों को उच्च कोटि के शैक्षणिक मानकों के अनुरूप विद्यार्थियों के स्तरानुकूल सहायक सामग्री उपलब्ध कराने का प्रयास किया है। कोरोना काल के कठिनतम समय में भी शिक्षण अधिगम की प्रक्रिया को निर्बाध रूप से संचालित करने के लिए संबंधित समस्त अकादमिक समूहों और क्रियान्वित करने वाले शिक्षकों को हार्दिक बधाई देती हूँ।

प्रत्येक वर्ष की भाँति इस वर्ष भी कक्षा 9वीं से कक्षा 12वीं तक की सहायक सामग्रियों में सी.बी.एस.ई. के नवीनतम दिशा-निर्देशों के अनुसार पाठ्यक्रम में आवश्यक संशोधन किए गए हैं। साथ ही साथ मूल्यांकन से संबंधित आवश्यक निर्देश भी दिए गए हैं। इन सहायक सामग्रियों में कठिन से कठिन पाठ्य सामग्री को भी सरलतम रूप में प्रस्तुत किया गया है ताकि शिक्षा निदेशालय के विद्यार्थियों को इसका भरपूर लाभ मिल सके।

मुझे आशा है कि इन सहायक सामग्रियों के गहन और निरंतर अध्ययन के फलस्वरूप विद्यार्थियों में गुणात्मक शैक्षणिक संवर्धन का विस्तार उनके प्रदर्शनो में भी परिलक्षित होगा। इस उत्कृष्ट सहायक सामग्री को तैयार करने में शामिल सभी अधिकारियों तथा शिक्षकों को हार्दिक बधाई देती हूँ तथा सभी विद्यार्थियों को उनके उज्ज्वल भविष्य की शुभकामनाएं देती हूँ।

रीता शर्मा

(रीता शर्मा)

भारत का संविधान

उद्देशिका

हम, भारत के लोग, भारत को एक [1]**[संपूर्ण प्रभुत्व-संपन्न समाजवादी पंथनिरपेक्ष लोकतंत्रात्मक गणराज्य]** बनाने के लिए, तथा उसके समस्त नागरिकों को :

सामाजिक, आर्थिक और राजनैतिक **न्याय,**

विचार, अभिव्यक्ति, विश्वास, धर्म

और उपासना की **स्वतंत्रता,**

प्रतिष्ठा और अवसर की **समता**

प्राप्त कराने के लिए,

तथा उन **सब में**

व्यक्ति की गरिमा और [2]**[राष्ट्र की एकता और अखंडता]** सुनिश्चित करने वाली **बंधुता**

बढ़ाने के लिए

दृढ़संकल्प होकर **अपनी इस संविधान सभा में** आज तारीख 26 नवंबर, 1949 ई. को **एतद्द्वारा इस संविधान को अंगीकृत, अधिनियमित और आत्मार्पित करते हैं।**

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1. संविधान (बयालीसवां संशोधन) अधिनियम, 1976 की धारा 2 द्वारा (3.1.1977 से) ''प्रभुत्व-संपन्न लोकतंत्रात्मक गणराज्य'' के स्थान पर प्रतिस्थापित।
2. संविधान (बयालीसवां संशोधन) अधिनियम, 1976 की धारा 2 द्वारा (3.1.1977 से) ''राष्ट्र की एकता'' के स्थान पर प्रतिस्थापित।

THE CONSTITUTION OF INDIA

PREAMBLE

WE, THE PEOPLE OF INDIA, having solemnly resolved to constitute India into a [1]**[SOVEREIGN SOCIALIST SECULAR DEMOCRATIC REPUBLIC]** and to secure to all its citizens :

JUSTICE, social, economic and political;

LIBERTY of thought, expression, belief, faith and worship;

EQUALITY of status and of opportunity; and to promote among them all

FRATERNITY assuring the dignity of the individual and the [2][unity and integrity of the Nation];

IN OUR CONSTITUENT ASSEMBLY this twenty-sixth day of November, 1949 do **HEREBY ADOPT, ENACT AND GIVE TO OURSELVES THIS CONSTITUTION.**

1. Subs. by the Constitution (Forty-second Amendment) Act, 1976, Sec.2, for "Sovereign Democratic Republic" (w.e.f. 3.1.1977)
2. Subs. by the Constitution (Forty-second Amendment) Act, 1976, Sec.2, for "Unity of the Nation" (w.e.f. 3.1.1977)

भारत का संविधान

भाग 4क

नागरिकों के मूल कर्तव्य

अनुच्छेद 51 क

मूल कर्तव्य – भारत के प्रत्येक नागरिक का यह कर्तव्य होगा कि वह –

(क) संविधान का पालन करे और उसके आदर्शों, संस्थाओं, राष्ट्रध्वज और राष्ट्रगान का आदर करे;

(ख) स्वतंत्रता के लिए हमारे राष्ट्रीय आंदोलन को प्रेरित करने वाले उच्च आदर्शों को हृदय में संजोए रखे और उनका पालन करे;

(ग) भारत की संप्रभुता, एकता और अखंडता की रक्षा करे और उसे अक्षुण्ण बनाए रखे;

(घ) देश की रक्षा करे और आह्वान किए जाने पर राष्ट्र की सेवा करे;

(ङ) भारत के सभी लोगों में समरसता और समान भ्रातृत्व की भावना का निर्माण करे जो धर्म, भाषा और प्रदेश या वर्ग पर आधारित सभी भेदभावों से परे हो, ऐसी प्रथाओं का त्याग करे जो महिलाओं के सम्मान के विरुद्ध हों;

(च) हमारी सामासिक संस्कृति की गौरवशाली परंपरा का महत्त्व समझे और उसका परिरक्षण करे;

(छ) प्राकृतिक पर्यावरण की, जिसके अंतर्गत वन, झील, नदी और वन्य जीव हैं, रक्षा करे और उसका संवर्धन करे तथा प्राणिमात्र के प्रति दयाभाव रखे;

(ज) वैज्ञानिक दृष्टिकोण, मानववाद और ज्ञानार्जन तथा सुधार की भावना का विकास करे;

(झ) सार्वजनिक संपत्ति को सुरक्षित रखे और हिंसा से दूर रहे;

(ञ) व्यक्तिगत और सामूहिक गतिविधियों के सभी क्षेत्रों में उत्कर्ष की ओर बढ़ने का सतत् प्रयास करे, जिससे राष्ट्र निरंतर बढ़ते हुए प्रयत्न और उपलब्धि की नई ऊँचाइयों को छू सके; और

(ट) यदि माता-पिता या संरक्षक है, छह वर्ष से चौदह वर्ष तक की आयु वाले अपने, यथास्थिति, बालक या प्रतिपाल्य को शिक्षा के अवसर प्रदान करे।

Constitution of India

Part IV A (Article 51 A)

Fundamental Duties

It shall be the duty of every citizen of India —

(a) to abide by the Constitution and respect its ideals and institutions, the National Flag and the National Anthem;

(b) to cherish and follow the noble ideals which inspired our national struggle for freedom;

(c) to uphold and protect the sovereignty, unity and integrity of India;

(d) to defend the country and render national service when called upon to do so;

(e) to promote harmony and the spirit of common brotherhood amongst all the people of India transcending religious, linguistic and regional or sectional diversities; to renounce practices derogatory to the dignity of women;

(f) to value and preserve the rich heritage of our composite culture;

(g) to protect and improve the natural environment including forests, lakes, rivers, wildlife and to have compassion for living creatures;

(h) to develop the scientific temper, humanism and the spirit of inquiry and reform;

(i) to safeguard public property and to abjure violence;

(j) to strive towards excellence in all spheres of individual and collective activity so that the nation constantly rises to higher levels of endeavour and achievement;

*(k) who is a parent or guardian, to provide opportunities for education to his child or, as the case may be, ward between the age of six and fourteen years.

Note: The Article 51A containing Fundamental Duties was inserted by the Constitution (42nd Amendment) Act, 1976 (with effect from 3 January 1977).

*(k) was inserted by the Constitution (86th Amendment) Act, 2002 (with effect from 1 April 2010).

DIRECTORATE OF EDUCATION

Govt. of NCT, Delhi

SUPPORT MATERIAL
(2022-2023)

ACCOUNTANCY

Class : XI

NOT FOR SALE

PUBLISHED BY : DELHI BUREAU OF TEXTBOOKS

LIST OF GROUP LEADER AND SUBJECT EXPERTS FOR PREPARATION / REVIEW OF SUPPORT MATERIAL

CLASS-XI

ACCOUNTANCY SUPPORT MATERIAL

2022-2023

GROUP LEADER

DR. BHAGWAN DASS
Principal
GSV, Sector-6, Rohini
Delhi-110085

TEAM LEADER

1.	Mr. Mukesh Sharma Lecturer Commerce	School of Excellence, Sec-17 Rohini, Delhi
2.	Mr. Tarun Mittal Lecturer Commerce	RPVV, Paschim Vihar, New Delhi
3.	Mr. Shankar Dutt Fulara Lecturer Commerce	RPVV, Gandhi Nagar, New Delhi
4.	Mr. Puneet Gola Lecturer Commerce	RPVV, Link Road, Karol Bagh New Delhi

ACCOUNTANCY (Code No. 055)

Rationale

The course in accountancy is introduced at plus two stage of senior second of school education, as the formal commerce education is provided after ten years of schooling. With the fast changing economic scenario, accounting as a source of financial information has carved out a place for itself at the senior secondary stage. Its syllabus content provide students a firm foundation in basic accounting concepts and methodology and also acquaint them with the changes taking place in the preparation and presentation of financial statements in accordance to the applicable accounting standards and the Companies Act 2013.

The course in accounting put emphasis on developing basic understanding about accounting as an information system. The emphasis in Class XI is placed on basic concepts and process of accounting leading to the preparation of accounts for a sole proprietorship firm. The students are also familiarized with basic calculations of Goods and Services Tax (GST) in recording the business transactions. The accounting treatment of GST is confined to the syllabus of class XI.

The increased role of ICT in all walks of life cannot be overemphasized and is becoming an integral part of business operations. The learners of accounting are introduced to Computerized Accounting System at class XI and XII. Computerized Accounting System is a compulsory component which is to be studied by all students of commerce in class XI; whereas in class XII it is offered as an optional subject to Company Accounts and Analysis of Financial Statements. This course is developed to impart skills for designing need based accounting database for maintaining book of accounts.

The complete course of Accountancy at the senior secondary stage introduces the learners to the world of business and emphasize on strengthening the fundamentals of the subject.

Objectives:

1. To familiarize students with new and emerging areas in the preparation and presentation of financial statements.
2. To acquaint students with basic accounting concepts and accounting standards.
3. To develop the skills of designing need based accounting database.
4. To appreciate the role of ICT in business operations.
5. To develop an understanding about recording of business transactions and preparation of financial statements.
6. To enable students with accounting for Not-for-Profit organizations, accounting for Partnership Firms and company accounts.

Accountancy (Code No.055)

Course Structure

Class-XI (2022-23)

Theory: 80 Marks **3 Hours**

Project: 20 Marks

Units		Periods	Marks
Part A: Financial Accounting-1			
	Unit-1: Theoretical Framework	**25**	**12**
	Unit-2: Accounting Process	**115**	**44**
Part B: Financial Accounting-II			
	Unit-3: Financial Statements of Sole Proprietorship	**60**	**24**
Part C: Project Work		**20**	**20**

PART A: FINANCIAL ACCOUNTING - I

Unit-1: Theoretical Frame Work

Units/Topics	**Learning Outcomes**
Introduction to Accounting • Accounting- concept, meaning, as a source of information, objectives, advantages and limitations, types of accounting information; users of accounting information and their needs. Qualitative Characteristics of Accounting Information. Role of Accounting in Business. • Basic Accounting Terms- Entity, Business Transaction, Capital, Drawings. Liabilities (Non Current and Current). Assets (Non Current, Current); Expenditure (Capital and Revenue), Expense, Revenue, Income, Profit, Gain, Loss, Purchase, Sales, Goods, Stock, Debtor, Creditor, Voucher, Discount (Trade discount and Cash Discount) **Theory Base of Accounting** • Fundamental accounting assumptions: GAAP: Concept • Basic accounting concept : Business Entity,	**After going through this Unit, the students will be able to:** • describe the meaning, significance, objectives, advantages and limitations of accounting in the modem economic *environment with varied types of business* and non-business economic entities. • identify / recognise the individual(s) and entities that use accounting information for serving their needs of decision making. • explain the various terms used in accounting and differentiate between different related terms like current and non-current, capital and revenue. • give examples of terms like business transaction, liabilities, assets, expenditure and purchases. • explain that sales/purchases include both cash and credit sales/purchases relating to the accounting year.

Money Measurement, Going Concern, Accounting Period, Cost Concept, Dual Aspect, Revenue Recognition, Matching, Full Disclosure, Consistency, Conservatism, Materiality and Objectivity • System of Accounting. Basis of Accounting: cash basis and accrual basis • Accounting Standards: Applicability in IndAS • Goods and Services Tax (GST): Characteristics and Advantages.	• differentiate among income, profits and gains. • state the meaning of fundamental accounting assumptions and their relevance in accounting. • describe the meaning of accounting assumptions and the situation in which an assumption is applied during the accounting process. • explain the meaning, applicability, objectives, advantages and limitations of accounting standards. • appreciate that various accounting standards developed nationally and globally are in practice for bringing parity in the accounting treatment of different items. • acknowledge the fact that recording of accounting transactions follows double entry system. • explain the bases of recording accounting transaction and to appreciate that accrual basis is a better basis for depicting the correct financial position of an enterprise. • Explain the meaning, advantages and characteristic of GST.

Unit-2: Accounting Process

Units/Topics	Learning Outcomes
Recording of Business Transactions • Voucher and Transactions: Source documents and Vouchers, Preparation of Vouchers, Accounting Equation Approach: Meaning and Analysis, Rules of Debit and Credit. • Recording of Transactions: Books of Original Entry- Journal • Special Purpose books: • Cash Book: Simple, cash book with bank column and petty cashbook	**After going through this Unit, the students will be able to:** • explain the concept of accounting equation and appreciate that every transaction affects either both the sides of the equation or a positive effect on one item and a negative effect on another item on the same side of accounting equation. • explain the effect of a transaction (increase or decrease) on the assets, liabilities, capital, revenue and expenses.

• Purchases book • Sales book • Purchases return book • Sales return book • Journal proper ***Note: Including trade discount, freight and cartage expenses for simple GST calculation.*** • Ledger: Format, Posting from journal and subsidiary books, Balancing of accounts **Bank Reconciliation Statement:** • Need and preparation, Bank Reconciliation Statement **Depreciation, Provisions and Reserves** • Depreciation: Meaning, Features, Need, Causes, factors • Other similar terms: Depletion and Amortisation • Methods of Depreciation: i. Straight Line Method (SLM) ii. Written Down Value Method (WDV) ***Note: Excluding change of method*** • Difference between SLM and WDV; Advantages of SLM and WDV • Method of recoding depreciation i. Charging to asset account ii. Creating provision for depreciation/accumulated depreciation account • Treatment of disposal of asset • Provisions, Reserves, Difference Between Provisions and Reserves. • Types of Reserves: i. Revenue reserve ii. Capital reserve iii. General reserve iv. Specific reserve v. Secret Reserve • Difference between capital and revenue reserve	• appreciate that on the basis of source documents, accounting vouchers are prepared for recording transaction in the books of accounts. • develop the understanding of recording of transactions in journal and the skill of calculating GST. • explain the purpose of maintaining a Cash Book and develop the skill of preparing the format of different types of cash books and the method of recording cash transactions in Cash book. • describe the method of recording transactions other than cash transactions as per their nature in different subsidiary books . • appreciate that at times bank balance as indicated by cash book is different from the bank balance as shown by the pass book / bank statement and to reconcile both the balances, bank reconciliation statement is prepared. • develop understanding of preparing bank reconciliation statement. • appreciate that for ascertaining the position of individual accounts, transactions are posted from subsidiary books and journal proper into the concerned accounts in the ledger and develop the skill of ledger posting. • explain the necessity of providing depreciation and develop the skill of using different methods for computing depreciation. • understand the accounting treatment of providing depreciation directly to the concerned asset account or by creating provision for depreciation account. • appreciate the method of asset disposal through the concerned asset account or by preparing asset disposal account. • appreciate the need for creating reserves and

Trial balance and Rectification of Errors • Trial balance: objectives, meaning and preparation **(Scope:** *Trial balance with balance method only*) • Errors: classification-errors of omission, commission, principles, and compensating; their effect on Trial Balance. • Detection and rectification of errors; (i) Errors which do not affect trial balance (ii) Errors which affect trial balance • preparation of suspense account.	also making provisions for events which may belong to the current year but may happen in next year. • appreciate the difference between reserve and reserve fund. • state the need and objectives of preparing trial balance and develop the skill of preparing trial balance. • appreciate that errors may be committed during the process of accounting. • understand the meaning of different types of errors and their effect on trial balance. • develop the skill of identification and location of errors and their rectification and preparation of suspense account.

Part B: Financial Accounting - II

Unit 3: Financial Statements of Sole Proprietorship

Units/Topics	Learning Outcomes
Financial Statements Meaning, objectives and importance; Revenue and Capital Receipts; Revenue and Capital Expenditure; Deferred Revenue expenditure. Opening journal entry. Trading and Profit and Loss Account: Gross Profit, Operating profit and Net profit. Preparation. Balance Sheet: need, grouping and marshalling of assets and liabilities. Preparation. Adjustments in preparation of financial statements with respect to closing stock, outstanding expenses, prepaid expenses, accrued income, income received in advance, depreciation, bad debts, provision for doubtful debts, provision for discount on debtors, Abnormal loss, Goods taken for personal use/staff welfare, interest on capital and managers commission. Preparation of Trading and Profit and Loss account and Balance Sheet of a sole proprietorship with adjustments.	**After going through this Unit, the students will be able to:** • state the meaning of financial statements the • purpose of preparing financial statements. • state the meaning of gross profit, operating profit and net profit and develop the skill of preparing trading and profit and loss account. • explain the need for preparing balance sheet. • understand the technique of grouping and marshalling of assets and liabilities. • appreciate that there may be certain items other than those shown in trial balance which may need adjustments while preparing financial statements. • develop the understanding and skill to do adjustments for items and their presentation in financial statements like depreciation, closing stock, provisions, abnormal loss etc. • develop the skill of preparation of trading and profit and loss account and balance sheet.

Part C: Project Work (Any One)

1. Collection of source documents, preparation of vouchers, recording of transactions with the help of vouchers.
2. Preparation of Bank Reconciliation Statement with the given cash book and the pass book with twenty to twenty-five transactions.
3. Comprehensive project of any sole proprietorship business. This may state with journal entries and their ledgering, preparation of Trial balance. Trading and Profit and Loss Account and Balance Sheet. Expenses, incomes and profit (loss), assets and liabilities are to be depicted using pie chart / bar diagram.

PROJECT WORK

It is suggested to undertake this project after completing the unit on preparation of financial statements. The student(s) will be allowed to select any business of their choice or develop the transaction of imaginary business. The project is to run through the chapters and make the project an interesting process. The amounts should emerge as more realistic and closer to reality.

Specific Guidelines for Teachers

Give a list of options to the students to select a business form. You can add to the given list:

1. A beauty parlour
2. Men's saloon
3. A tailoring shop
4. A canteen
5. A cake shop
6. A confectionery shop
7. A chocolate shop
8. A dry cleaner
9. A stationery shop
10. Men's wear
11. Ladies wear
12. Kiddies wear
13. A Saree shop
14. Artificial jewellery shop
15. A small restaurant
16. A sweet shop
17. A grocery shop
18. A shoe shop
19. A coffee shop
20. A music shop
21. A juice shop
22. A school canteen
23. An ice cream parlour
24. A sandwich shop
25. A flower shop

After selection, advise the student(s) to visit a shop in the locality (this will help them to settle on a realistic amounts different items. The student(s) would be able to see the things as they need to invest in furniture, decor, lights, machines, computers etc.

A suggested list of different item is given below.

1. Rent
2. Advance rent [approximately three months]
3. Electricity deposit
4. Electricity bill
5. Electricity fitting
6. Water bill
7. Water connection security deposit
8. Water fittings
9. Telephone bill
10. Telephone security deposit
11. Telephone instrument
12. Furniture
13. Computers
14. Internet connection
15. Stationery
16. Advertisements
17. Glow sign
18. Rates and Taxes
19. Wages and Salary
20. Newspaper and magazines
21. Petty expenses
22. Tea expenses
23. Packaging expenses
24. Transport
25. Delivery cycle or a vehicle purchased
26. Registration
27. Insurance
28. Auditors fee
29. Repairs & Maintenance
30. Depreciations
31. Air conditioners
32. Fans and lights
33. Interior decorations
34. Refrigerators
35. Purchase and sales

At this stage, performas of bulk of originality and ledger may be provided to the students and they may be asked to complete the same.

In the next step the students are expected to prepare the trial balance and the financial statements.

Suggested Question Paper Design
Accountancy (Code No. 055)
Class XI (2022-23)

Theory: 80 Marks **3 hrs.**
Project: 20 Marks

S N	Typology of Questions	Marks	Percentage
1	**Remembering and Understanding**: Exhibit memory of previously learned material by recalling facts, terms, basic concepts, and answers. Demonstrate understanding of facts and ideas by organizing, comparing, translating, interpreting, giving descriptions, and stating main ideas	44	55%
3	**Applying**: Solve problems to new situations by applying acquired knowledge, facts, techniques and rules in a different way.	19	23.75%
4	**Analysing, Evaluating and Creating:** Examine and break information into parts by identifying motives or causes. Make inferences and find evidence to support generalizations. Present and defend opinions by making judgments about information, validity of ideas, or quality of work based on a set of criteria. Compile information together in a different way by combining elements in a new pattern or proposing alternative solutions.	17	21.25%
	TOTAL	**80**	**100%**

CONTENT

CHAPTER - 1
INTRODUCTION TO ACCOUNTING

Learning Objectives

After studying this chapter, student will be able to

- Describe the meaning, significance, objectives, advantages and limitations of accounting
- Identify the individuals and entities that use accounting information and their needs of decision making.
- Explain the various terms used in accounting and differentiate between different related terms.

Concept: All businessmen wish to know whether their business is profitable, what is the amount they owe to others i.e., payables, what is the amount that is owed to them i.e. receivables, and by whom.

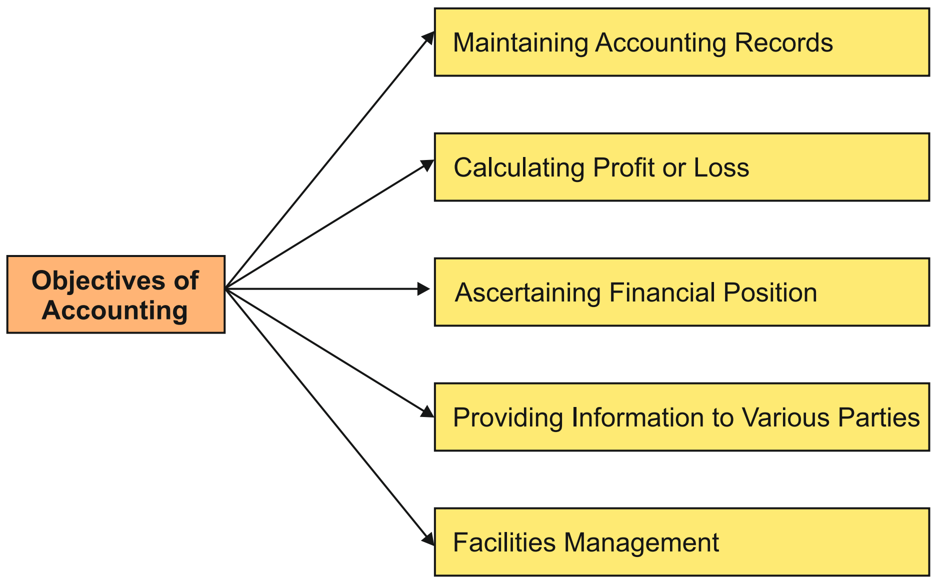
During an accounting period, the total purchases done, sales, expenses and the amount of profit earned or loss incurred during the year can be ascertained by keeping a compete and systematic record of every business dealing. The financial position of the business, correct assessment of Income-tax and Goods and service tax (GST) can be done through proper accounting.

According to American Institute of Certified Public accountants, "accounting is the art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character, and interpreting the results thereof."

Accounting Principles Board (APB) defined accounting as follows. "Accounting is a service activity. Its function is to provide quantitative information primarily financial in nature , about economic entities that is intended to be useful in making economic decisions in making reasoned choices among alternative courses of action ."

In simple words, accounting is the process of identifying, recording, classifying, summarizing, interpreting and communicating financial information to the users for judgement and decision marking.

Objectives of accounting



1. **Maintaining Accounting Records:** To keep systematic and complete record of business transaction in the books of accounts according to specified principles and rules to avoid the possibility of omissions and fraud.

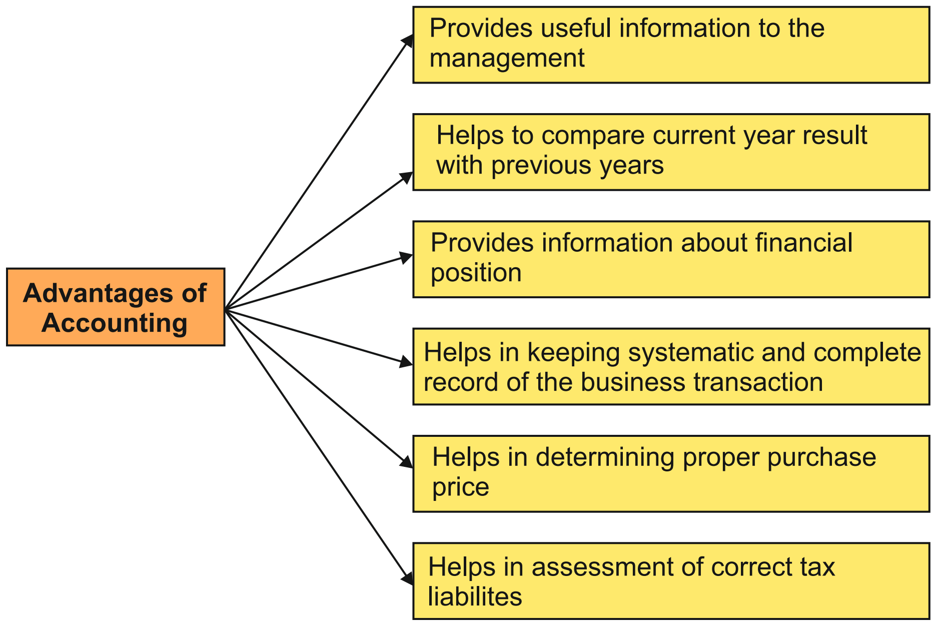
2. **Calculating Profit or Loss:** To ascertain the profit earned or loss incurred during a particular accounting period which further help in knowing the financial performance of a business.

3. **Ascertaining Financial Position:** To ascertain the financial position of the business by means of financial statement i.e. balance sheet which shows assets on one side and capital & liabilities on the other side.

4. **Provide Information to various parties:** To provide useful accounting information to users like owners, investors, creditors, banks, employees and government authorities etc who analyse them as per their requirements.

5. **Facilitates Management:** To provide financial information to the management which help in decision making, budgeting and forecasting.

Advantages of accounting



1. **It provides information** which is useful to management for making economic decisions.
2. **It helps owners to compare one year's results** with those of other years to know the factors which leads to changes .
3. It **provides information** about the financial position of the business by means of balance sheet which shows assets on one side and capital and liabilities on the other side.
4. It **helps in keeping systematic and complete record** of business transactions in the books of accounts according to specified principles and rules, which is accepted by the courts as evidence.
5. It **helps a firm in the assessment of its correct tax liabilities** such as income tax, goods & service tax (GST) etc.
6. Properly maintained accounts help a business entity in **determining its proper purchase price**.

Limitations of accounting

1. It is **historical in nature**, it does not reflect the current worth of a business. Moreover, the figures given in financial statements ignore the effects of changes in price level.

2. It contains only those information which can be expressed in terms of money. It **ignores qualitative elements** such as efficiency of management, quality of staff, customers satisfaction etc.

3. It may be **affected by window dressing** i.e. manipulation in accounts to present a more favourable position of a business firm than its actual position.

4. It is **not free from personal bias** and personal judgment of the people dealing with it for example different people have different opinions regarding life of asset for calculating depreciation, provision for doubtful debts etc.

5. It is **based on various concepts** and conventions which may hamper the disclosure of realistic financial position of a business firm. For example, assets in balance sheet are shown at their cost and not at their market value which could be realized on their sale.

Book keeping– the basis of accounting

Book keeping is the record-making phase of accounting which is concerned with the recording of financial transaction and events relating to business in a significant and orderly manner.

Book keeping should not be confused with accounting. Book keeping is the recording phase while accounting is concerned with the summarizing phase of an accounting system. The distinction between the two are as under.

No.	Basis	Book keeping	Accounting
1.	Scope	Book-keeping includes the process of : (i) **Identifying** the transactions of financial nature (ii) **Measuring** the identified transactions in terms fo money (currency being used, for example, rupees in India)	Accounting includes all the processes of book-keeping and the following: (i) **Summarising** the classified transactions i.e. preparation of financial statements (Trading and Profit & Loss Account, Balance sheet) (ii) **Analysis** and **interpretation** of financial statements.

No.	Basis	Basis	Accounting
		(iii) Chronologically (datewise) **recording** the transactions in the books of accounts. (iv) **Classifying** them into ledgers (posting)	(iii) **Communication** of financial information to various users.
2.	Stage	Book-keeping is a primary stage.	Accounting is a secondary stage.
3.	Objective	To maintain systematic records of transactions of financial nature.	(i) To ascertain the net results and financial position of the business (ii) To communicate the results to the users of accounting data.
4.	Nature of job	The job is of routine type and clerical in nature	The job is analytical in nature.
5.	Who performs	This is performed by junior staff.	This is performed by senior staff.
6.	Require-ment of analytical skill	No analytical skill is required to perform this function.	Analytical skill is required to perform this function.
7.	Know-ledge level	Book keeping can be performed by persons having limited level of knowledge.	Accounting can be performed by persons having higher level of knowledge than that of a book keeper.

Meaning of Accounting information

Accounting information refers to the financial statements such as profit and loss account and Balance Sheet, that are generated through Book Keeping and helps in decision making.

Types of accounting information

Accounting information can be categorized into following:

1. Information relating to **profit or loss** i.e. **income statement**. It shows the net result of business operations of a firm during a particular accounting period.
2. Information relating to **financial position** i.e. **balance sheet**. It shows assets on one side and capital & liabilities on the other side.
3. **Schedules and notes** forming part of balance sheet and income statement to give details of various items shown in Profit and loss statement and Balance sheet.

Interested users/parties of accounting information and their needs

There are number of users interested in knowing about the financial soundness and the profitability of the business.

Users	Classification	Information the user want
Internal	1. Owner	Return of their investment, financial health of their company/business.
	2. Management	To evaluate the performance to take various decisions.
	3. Employees	Profit earned by an enterprise whether their dues (PF, ESI) deposited.
External	1. Investors and potential investors	Safety and growth of their investments, future of the business.
	2. Creditors	Assessing the financial capability, ability of the business to pay its debts.
	3. Lenders	Repaying capacity, credit worthiness.
	4. Tax Authorities	Assessment of due taxes, true and fair disclosure of accounting information,
	5. Others	Customers, researchers etc., may seek different information for different reasons.

Qualitative characteristics of accounting information

Accounting information is useful for interested users only if it posses the following characteristics:

1. **Reliability :** The information must be based on facts and be verified through source document. It must be free from bias and errors.
2. **Relevance :** Information must be readily available as and when required. It must be capable of making a difference in decisions taken by management, investors, creditors and other users of the accounting information.
3. **Understandability :** The information should be presented in such a manner that users can understand it well.
4. **Comparability :** The information should be disclosed in such a manner that it can be compared with previous years figures of business itself and other firm's data.

- **Role of Accounting in Business**

Role of accounting has been changing with the changes in statutory requirements of law, with the changes in business environment and increasing demands of various users. Presently, accounting plays following different roles:

1. **Role as a language of Business:** Accounting plays a vital role as a language of Business. The financial statements, notes to accounts and other financial data prepared by accounting communicate information regarding the business enterprise.
2. **Role of Historical Record Keeping:** Accounting keeps a chronological record of all financial transactions. This is supplied to various end users in the form of financial statements at the end of accounting period.
3. **Role of Information System:** Accounting acts as an Information system. All events which are of financial nature are recorded in accounting, with proper evidence.
4. **Role of Service Provider:** Accounting plays a role of service provider since it provides quantitative financial information to various users.
5. **Role of Ensuring Statutory Compliance:** Accounting systems and processes help businesses in ensuring statutory compliance, depending on the form of business organisation.

BASIC ACCOUNTING TERMS

1. **Entity:** It is an economic unit which perform economic activities as per the law such as Tata Steel, Maruti etc.
2. **Business transaction**

   An economic activity that affects financial position of the business and can be measured in terms of money e.g., purchase of goods for sale.
3. **Capital**

   Amount invested by the owner in the firm is known as capital. It may be brought in the form of cash or assets by the owner. It is a liability of the business entity to its owners.
4. **Drawings**

   The money or goods or both withdrawn by owner from business for personal use is known as drawings. Example: purchase of car for personal use by withdrawing money from business.

4\. **Liabilities:**

   Liabilities are obligations or debts that an enterprise has to pay after some time in the future.

5\. **Liabilities can be classified as:**

   1. **Current liabilities:** Current liabilities are obligation or debts that are payable within a period of one year or expected to be settled in company's normal operating cycle. For example: creditors, bill payable etc.
   2. **Non-current liabilities:** Non-current liabilities are those obligation or debts that are payable after a period of one year or expected to be settled beyond company's normal operating cycle. Example: bank loan, debentures etc.

6\. **Assets**

   Assets are valuable and economic resources of an enterprise useful in its operations. Assets can be broadly classified as:

   1. **Current assets:** Current assets are those assets which are held primarily for the purpose of trade and expected to be realized within 12 months or within the normal operating cycle of the firm. For example: debtors, stock, cash etc.
   2. **Non-current assets:** Non-current assets are those assets which are held for long period and used for normal business operations. For example: land, building, machinery etc. They are further classified into:

a) **Tangible assets:** Tangible assets are those assets which have physical existence and can be seen and touched. For example: furniture, machinery, etc.

b) **Intangible assets:** Intangible assets are those assets which have no physical existence but can be felt. For example: goodwill, patent, Trade mark etc.

7. **Expenses**

Costs incurred by a business for earning revenue are known as expenses. For example: rent, wages, salaries, interest etc.

8. **Expenditure**

Spending money or incurring a liability for acquiring assets, goods or services is called expenditure. The expenditure is classified as:

(i) **Revenue expenditure:** If the benefit of expenditure is received within a year , it is called revenue expenditure. For example: rent, interest etc.

(ii) **Capital expenditure:**

If benefit of expenditure is received for more than one year, it is called capital expenditure. Example purchase of machinery.

9. **Revenue:** Revenue is the amount received or receivable by the enterprise from its operating activities and from the use of entity resources by others.

10. **Income**

Income is a wider term which includes profit also. Income means increase in the wealth of the enterprise over a period of time.

11. **Profit**

The excess of revenues over its related expenses during an accounting year is profit.

Profit = Revenue – Expenses

12. **Gain**

A non- recurring profit from event or transaction incidental to business such as sale of fixed assets, appreciation in the value of an assets etc.

13. **Loss**

The excess of expenses of a period over its related revenue is termed as loss.

Loss = Expenses – Revenue

14. Goods

The products in which the business deal in. The items that are purchased for the purpose of resale and not for use in the business are called goods.

15. Purchases

The terms purchases is used only for the goods procured by a business for resale. In case of trading concerns it is purchase of final goods and in manufacturing concern it is purchase of raw materials. Purchases may be cash purchases or credit purchases.

16. Purchases return

When purchased goods are returned to the suppliers, these are known as purchases return.

17. Sales

Sales are total revenues from goods sold or serviced provided to customers. Sales may be cash sales or credit sales.

18. Sales Return

Goods sold to a customer returned to business due to variation in size, specifications, quality etc. are called sales return.

19. Stock

The goods available with the business for sale on a particular date is known as stock.

20. Debtors

Debtors are persons and/or other entities to whom business has sold goods and services on credit and amount has not received yet. These are assets of the business.

21. Creditors

If the business buys goods/services on credit and amount is still to be paid to the persons and /or other entities, these are called creditors. These are liabilities for the business.

22. Voucher

The documentary evidence in support of a transaction is known as voucher. For example if we buy goods for cash we get cash memo, if we buy goods on credit, we get an invoice, when we make a payment we get a receipt.

23. Discount

Discount is the rebate given by the seller to the buyer. It can be classified as:

1. **Trade discount:** The purpose of this discount is to persuade the buyer to buy more goods. It is offered at an agreed percentage of list price at the time of selling goods. This discount is not recorded in the accounting books as it is deducted in the invoice/cash memo..

2. **Cash discount:** The objective of providing cash discount is to encourage the debtors to pay the dues promptly. This discount is recorded in the accounting books.

24. Bad Debts

Bad Debts is the amount owed to the business, that is written off because it has become irrecoverable.

25. Operating Cycle is the time between the acquisition of asset and its conversion into cash and cash equivalents.

Questions

Q1. Transactions of financial nature are recorded. Select transactions which can not be recorded.

(i) Transfer of General Manager.

(ii) Goods worth ₹ 5000/- given as a gift by the proprietor to his wife.

(iii) Quarrel between factory workers.

(iv) Sale of old bike for ₹12000/- belonging to proprietor costing ₹20,000/-

(v) Credit purchase of goods.

Ans. (i), (iii), (iv)

Q2. Which of the following is not an external user of accounting information?

(i) Creditors (ii) Lenders

(iii) Management (iv) Bank

Ans. (iii)

Q3. A person from whom money is receivable by the firm for sale of goods is called

(i) Creditors (ii) Debtor

(iii) Supplier (iv) Manager

Ans. (ii)

Q4. True or False

(i) Accounting is the source of information for its users.

(ii) Book keeping is maintained by professional only.

(iii) Accounting is known as the language of business.

(iv) Balance sheet is prepared at the end of each accounting period.

(v) Employees are internal users of accounting information.

Ans. (i) T, (ii) F, (iii) T, (iv) T, (v) T

Q5. Fill in the blanks:

(i) To know the financial position of a business, ______ is prepared.

(ii) Scope of accountancy is wider than ______.

(iii) Accounting begins where ________ ends.

(iv) Book-keeping is maintained by __________ staff.

Ans. (i) Balance sheet

(ii) Book-keeping

(iii) Book-keeping

(iv) Junior

Q6. Arrange the following terms in chronological order :

(i) Summarising

(ii) Analysis and interpretation

(iii) Recording

(iv) Classifying

Ans. (iii) , (iv) , (i) , (ii)

Q.7. Match the items of column A with appropriate items of coloumn B:

Column A	Column B
(i) Proprietor	(a) Their bread and butter depends on good results.
(ii) Management	(b) To know whether they shall get their dues on time, from the business.
(iii) Government	(c) To estimate the trading results, know future prospects
(iv) Creditors	(d) To fix taxes, computing national income
(v) Employees	(e) For planning and controlling purpose; to improve efficiency of business.

Ans. (i) c, (ii) e, (iii) d, (iv) b, (v) a

Q8. Fill in the blanks

(i) .... assets are the assets which have physical existence such as .... , ... and ....

(ii) .... is the amount invested by the proprietor or partner in the business.

(iii) .... is the amount of money or the value of asset which proprietor withdraw for personal law.

(iv) .... is the evidence of a business transaction.

(v) .... is the amount owed to business that is irrecoverable and so it is written off.

Ans. (i) Tangible assets, land, building, furniture or any other assets.

(ii) Capital

(iii) Drawing

(iv) Vouchers

(v) Bad Debts.

Q9. Identify the qualitative characteristic of the following accounting information:

(i) Journal entries are based on facts and can be verified through source documents such as cash memo, receipts etc.

(ii) Last 5 years profits of a company can be compared as these are drawn on standard format to take decisions.

(iii) Insignificant or small amount items are grouped so that financial statements have fewer items and main conclusions can be drawn easily. For example Sundry debtors, Sundry creditors etc.

(iv) Now a days, Statement of profit and loss are made quarterly by almost all companies so that informed decisions can be taken by its users.

Ans. (i) Reliability

(ii) Comparability

(iii) Understandability

(iv) Relevance

Q10. Give examples of

(i) Intangible assets	(ii) Current assets
(iii) Fixed assets	(iv) Current Liability.
(v) Trade Payables	(vi) Trade Receivables

Ans. (i) Goodwill, Patent, Trade Mark

(ii) Cash, Bank, Stock

(iii) Land, Building, Goodwill

(iv) Sundry Creditors, Bills Payable, Bank Overdraft

(v) Debtors and Bills Receivable

Q11. Neeraj started a business by introducing Rs. 3,50,000. He borrowed Rs. 3,40,000 from his friend Ramesh for 2 years and purchased shirts worth Rs. 2,60,000 for selling them at higher price. He invested Rs. 2,50,000 in the business again during the year. He also purchased furniture of Rs. 20,000 and Computer Rs. 40,000 for official usage. He paid Rs. 30,000 as salary to the employees and Rs. 10,000 as tuition fees of his child. Other sunday expenses were 1,20,000 and he made a profit of Rs. 2,40,000 at the end of year.

Answer the following questions on the bases of above case study:

(i) How much capital is invested by Neeraj?

(ii) What is the amount of sales made by him?

(iii) What is the amount of revenue expenses in the above case?

(iv) How much capital expenditures were incurred during the year?

(v) What is the amount of Drawing?

Ans. (i) Rs. 6,00,000

(ii) 2,60,000 + 30,000 + 1,20,000 + 2,40,000 = Rs. 6,50,000

(iii) Rs. 1,50,000

(iv) 20,000 + 40,000 = Rs. 60,000

(v) Rs. 10,000

Q12. Define Accounting?

Q13. Write any two objectives of Accounting.

Q14. State any two limitations of Accounting.

Q15. Write any 3 advantages of accounting.

CHAPTER - 2

THEORY BASE OF ACCOUNTING

Learning Objectives

After studying this chapter, student will be able to:

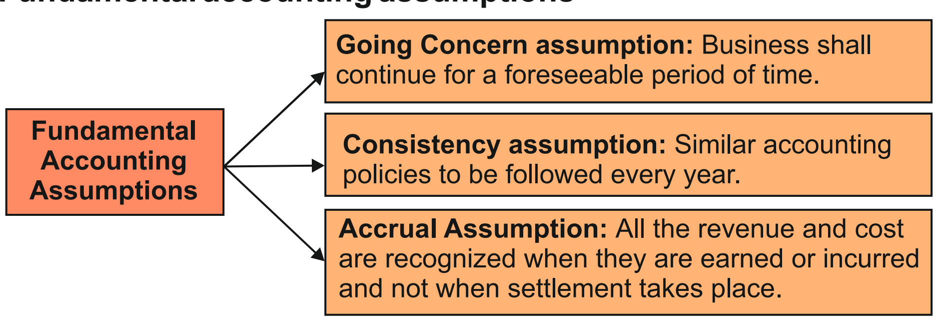
- Describe the meaning of Accounting Assumptions and Accounting Principles.
- Explain the Accounting Standards and IFRS along with their objectives.
- Describe the Bases of Accounting.
- Distinguish between Cash Basis of Accounting and Accrual Basis of Accounting

Main objective of accounting is to provide appropriate, useful and reliable information about the financial performance of the business to its various users to enable them in judicious decision. This objective can be achieved only when accounting records are maintained on the basis of uniform rules and principles.

GAAP : Accounting principles, concepts and convention are known as generally accepted accounting principles (GAAP). These principles are the base of accounting. Generally accepted accounting principles (GAAP) refers to the rules or guidelines adopted for recording and reporting of business transactions, in order to bring uniformity and consistency in the preparation and the presentation of financial statements.

These principles have evolved over a long period of time on the basis of experiences of the accountants , customs, legal decisions etc., and which are generally accepted by the accounting professionals.

Fundamental accounting assumptions



1. **Going concern assumption:** This concept assumes that an enterprise has an indefinite life or existence. It is assumed that the business has neither intention to liquidate nor to scale down its operations significantly.

   Relevance:

   a) Distinction is made between capital expenditure and revenue expenditure.

   b) Classification of assets and liabilities into current and non-current.

   c) Depreciation is charged on book value of fixed assets in a systematic manner and fixed assets appear in the balance sheet at book value, without any reference to their market value.

2. **Consistency assumption:** According to this assumption, accounting practices once selected and adopted, should be applied consistently year after year. This will ensure a meaningful study of the performance of the business for a number of years.

   Consistency assumption does not mean that a particular practice, once adopted, cannot be changed. The only requirement is that when a change is desirable, it should be fully disclosed in the financial statements along with its effect on income statement and balance sheet.

   Any accounting practice may be changed if the law or accounting standard requires, to make the financial information more meaningful and transparent.

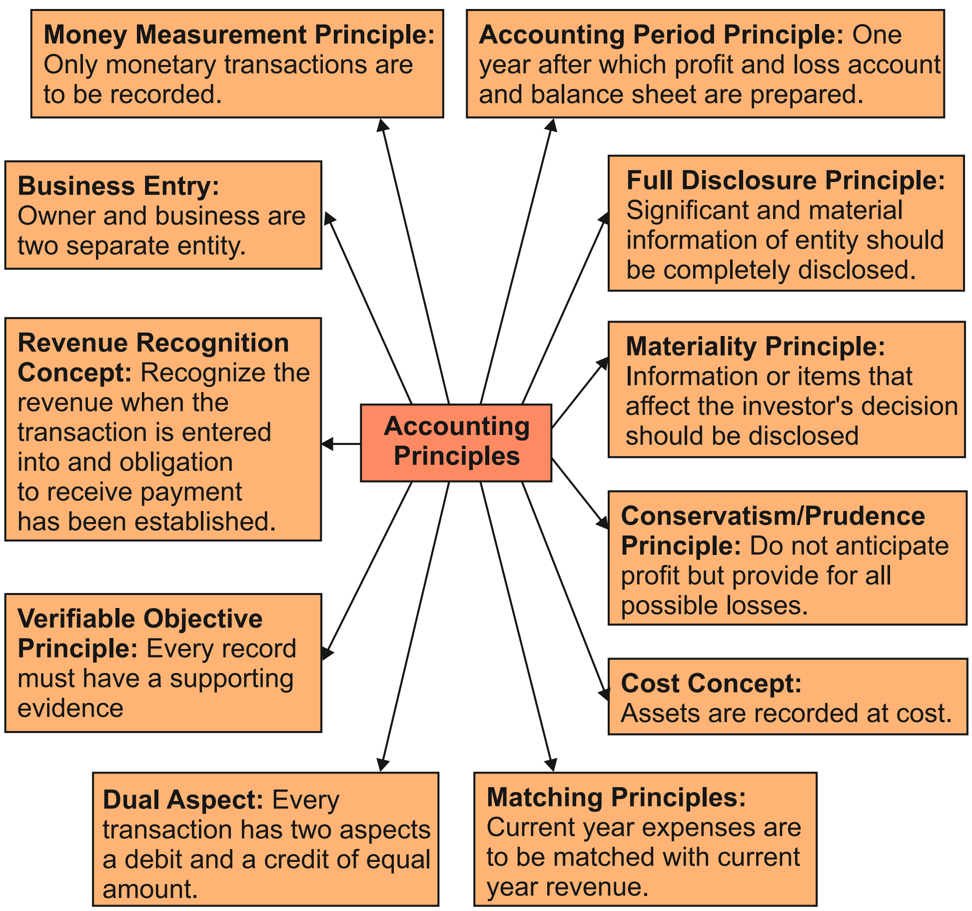
   Relevance : It helps the management in decision-making by removing the personal bassness and utilizing the comparable financial information.

3. **Accrual assumption:** Accrual concept applies both to revenue and expenses. As per this assumption, all revenue and cost are recognized when they are earned or incurred and not when settlement takes place.

It is immaterial, whether the cash is receive or paid at the time of transaction or later date e.g., if a credit sale (credit for two months) for ₹15,000 is made on 15th Feb. 2022 then the revenue earned is to be recorded on 15th Feb. 2022 not on the date of cash realized, i.e., after two months. In case of expenses , if at the end of the year the two months salary is due but not paid, then the expenses of salary will be recorded in the current year in which salary is due, not in the next year in which it will be paid.

Relevance: Earning of a revenue and expenses can be accurately matched to a particular accounting period.

ACCOUNTING PRINCIPLES



1. **Business Entity:** An entity has a separate existence from its owner. According to this principle, business is treated as an

entity, which is separate and distinct from its owner. Therefore transaction are recorded; analyzed and financial statements are prepared from the business point of view and not of the owner.

The owner is treated as a creditor (internal liability) for his investment in the business, as if the firm has borrowed from its owner instead of the outside parties. Interest on capital is treated as expense like any other business expense. His private expenses are treated as drawings leading to reduction in capital.

2. **Money measurement principle:** According to this principle, only those transactions that are measured in money or can be expressed in term of money are recorded in the books of accounts of the enterprise. Non-monetary events like death of any employee/manager, strikes, disputes etc., are not recorded at all, even though these events also affect the business operations significantly.

Limitations:

(i) It ignores qualitative aspect e.g., efficient human resources (assets), satisfied customers (assets) and dishonest employee (liabilities).

(ii) Value of money (currency) is not static.

To make accounting records simple, relevant , understandable and homogeneous, transaction are expressed in a common unit of measurement-money, which is not stable.

3. **Accounting Period Principle:** According to this principle, the whole indefinite life of an enterprise is divided into smaller parts, known as accounting period.

Accounting period is defined as an interval of time, at the end of which the profit and loss account and balance sheet are prepared, so that the performance is measured at regular intervals and decision can be taken at the appropriate time. Accounting period is usually a period of one year.

Relevance:

1. This assumption requires showing the allocation of expenses between capital and revenue.

2. Portion of capital expenditure that is consumed during the current year is charged to income statement and rest of the portion i.e., unconsumed portion is shown as an asset in the balance sheet.

3. As per income tax law, tax on income is calculated on annual basis from 1st April to 31st March (financial year).

4. Timely action for corrective measures can be taken by management.

4. **Full disclosure principle:** According to this principle, apart from legal requirements all significant and material information relating to the Economic affairs of the entity should be completely disclosed in its financial statements and accompanying notes to accounts.

   The financial statements should act as means of conveying and not concealing the information. Disclosure of information will result in better understanding and the parties may be able to take sound decisions on the basis of the information provided.

   e.g., footnotes such as:

   1. Contingent liabilities in respect to a claim of very big amount against the business are pending in a Court of Law.
   2. Change in the method of providing depreciation.
   3. Market value of investment.

5. **Materiality principle:** Disclosure of all material facts is compulsory but it does not imply that even those figures which are irrelevant are to be included in financial statements. According to this principle, only those items or information should be disclosed that have material effect and relevant to the users. So, items having an insignificant effect or being irrelevant to user need not be disclosed separately, these may be merged with other items.

   If the knowledge of any item affect the investor's decision, then it is termed as material information.

   It should be noted that an item material for one enterprise may not be material for another enterprise, e.g., an item of expenses ₹50,000 is immaterial for an enterprise having turnover of ₹100 crore.

6. **Conservatism\Prudence Principle:** According to this principle, profit in anticipation should not be recorded but loss in anticipation should immediately be recorded. In other words, "Donot anticipate a profit, but provide for all possible losses."

The objective of this principle is not to overstate the profit of the enterprise in any case. When different equally acceptable alternative methods are available, the method which having least favourable immediate effect on profit should be adopted, e.g.,

1. Valuation of stock at cost or realizable values, whichever is lower.
2. Provision for doubtful debts and provision for discount on debtors is made in anticipation of actual bad debts and discounts.

7. Cost Concept: According to this principle, an asset is recorded in the books of accounts at its original cost comprising cost of acquisition and all expenditure incurred for making the assets ready to use.

This cost becomes the basis of all subsequent accounting transactions for the asset, since the acquisition cost relates to the past, it is referred to as historical cost. Example: machinery purchased for ₹1,50,000 in cash and ₹20,000 was spent on installation of machine then ₹1,70,000 be recorded as cost of machine in the books and depreciation will be charged on this cost. If market value of machine due to inflation has gone upto ₹2,00,000 then the increased value will not be recorded. This cost is systematically reduced from year after year by charging depreciation and the assets are shown in the balance sheet at book value (cost –depreciation).

Relevance: Cost concept brings objectivity in preparation and presentation of financial statements and remove personal biasness.

8. Matching principle: According to this principle, all expenses incurred by any enterprise during an accounting period are matched with the revenue recognized during the same period.

The matching principle facilitates to ascertain the amount of profit or loss incurred in a particular period by deducting the related expenses from the revenue recognized during that period.

The following treatment of expenses and revenue are done due to matching principle:

1) Ascertainment of prepaid expenses.
2) Ascertainment of income received in advance.

3) Accounting of closing stock.

4) Depreciation charged on fixed assets.

9. **Dual Aspect Principle:** According to this principle, every business transaction has two aspects-a debit and a credit of equal amount. In other words, for every debit there is a credit of equal amount in one or more accounts and vice-versa.

   The system of recording transactions based on this principles is called as “Double Entry System”.

   Due to this principle, the two sides of Balance Sheet are always equal and the following accounting equation will always hold good at any point of time.

   Assets = liabilities + capital

   Example: Ram started business with cash ₹1,00,000. It increases cash in assets side and capital in liabilities side by ₹1,00,000.

   Assets (₹1,00,000) = liabilities + capital (₹1,00,000)

10. **Revenue Recognition Concept:** According to this concept, revenue is considered as realized when a transaction, has been entered and the obligation to receive its payment has been established. The recognition of revenue and receipt of payment are two different aspects.

   Example: Nishtha sold goods in Feb 2018, and got its payment in Aug. 2018 Recognition of revenue of this transaction is Feb 2018. i.e. the date of the sale as the legal obligation to pay the payment has been established on the date .

11. **Objectivity principle:** This states that only factual and verifiable accounting transactions should be adhered in books.

   Relevance: Data is based on facts and free from bias. It can be verified through supporting documents such as cash memo, invoice, sales bills etc.

BASIS OF ACCOUNTING

There are two basis of accounting to ascertain profit or loss, namely (i) cash basis, and (ii) accrual basis.

(i) **Cash Basis of Accounting:** Under this system of accounting transactions are recorded in the books of accounts only on the receipt/payment of cash. The income is calculated as the excess of actual cash receipts (in respect of sale of goods, service, properties etc.) over actual cash payments (regarding purchase of goods, rent , electricity, salaries etc.)

Entry is not recorded when a payment or receipt is merely due i.e., outstanding expenses, accrued income etc.

This method is contrary to the matching principle.

(ii) Accrual Basis of Accounting : Under this system of accounting, revenue and expenses are recorded when they are recognized i.e., income is recorded even when it is accrued (when transaction takes place), irrespective of the fact whether cash is received or not. Similarly expenses are recorded when they are incurred or become due and not when the cash is paid for them.

Under this system, expenses such as outstanding expenses and prepaid expenses and income such as accrued income and income received in advance are identified and taken into account.

Under the Companies Amendments Act 2013, all companies are required to maintain their accounts according to accrual basis of accounting.

Basis	**Accrual basis of accounting**	**Cash basis of accounting**
Recording of transactions	Both cash and credit transactions are . recorded	Only cash transaction are recorded.
Profit or loss	Profit or loss in ascertained correctly due to complete record of transactions.	Correct profit/loss is not ascertained because it records only cash transactions
Distinction between capital and revenue	This method makes a distinction between capital and revenue items.	This method does not make distinction between capital and revenue nature items
Legal position	The basis is recognized under the Companies Act.	This basis is not recognized under the Companies Act.

Accounting standards: Concept and objectives

The accounting standards or GAAP (Generally Accepted Accounting Principle) in the from of concepts and conventions have been developed to bring comparability and uniformity in the financial statements. But GAAP also allows a large number of alternative treatments for the same item. Different organizations may adopt different accounting policies for the same transaction or an organization may follow different accounting policies for the same item over different accounting periods. As a result, the financial statements become inconsistence and incomparable.

So it was felt that certain minimum standards should be universally applicable, so that the accounting statements have the qualitative characteristics of reliability, relevance, understandability and comparability.

International Accounting Standard Committee (IASC) was set up in 1973. (now renamed as International Financial Reporting committee IFRC). The Institute of Chartered Accountants of India (ICAI) and the Institute of Cost and Works Accountants of India (ICWAI) are members of this committee. ICAI set up the Accounting Standard Board (ASB) in 1997 to identify the areas in which uniformity in accounting is required. ASB prepares and submits a draft accounting standard to the council of ICAI. The council of ICAI issues the draft for the comments to the govt., industry and professionals etc. After due consideration on comments received, the council of ICAI notifies it for its use in financial statements.

Concept of Accounting Standards

Accounting Standard are a set of guidelines, issued from time-to-time by institutions of accounting professionals, specifying uniform rules or practices for preparation and presentation of the financial statements.

Objectives of Accounting Standards

1. Accounting standards are required to bring uniformity in accounting practices and policies by proposing standard treatment in preparation of financial statements.
2. To improve realiability of the financial statement: Accounts prepared by using accounting standards are reliable for various

users, because these standards create a sense of confidence among the users .

3. To prevent frauds and manipulation by codifying the accounting methods and practices.

4. To help Auditors: Accounting Standards provide uniformity in accounting practices, so it helps auditors to audit the books of accounts.

QUESTIONS

1. Which of these is not a fundamental accounting assumption?
   (a) Going concern (b) Accrual
   (c) Materiality (d) Consistency

2. Cost of Pen is accounted as an expense and not shown as an asset in a final statement of a business entity due to –
   (a) Materiality convention
   (b) Cost Concept
   (c) Matching Principle
   (d) Money measurement Principle

3. "Revenue is recognized when sale is made or service is rendered rather than cash is received" is based on
   (a) Going concern assumption (b) Matching Principle
   (c) Prudence Principle (d) Materiality Principle

4. Every business transaction has two aspects, a debit and a credit of equal amount
   (a) Dual Aspect Principle (b) Matching Principle
   (c) Accrual assumption (d) Full disclosure Principle

5. Transaction, are recorded, analyzed and financial statement are prepared from business point of view and not of the owner
   (a) Accrual assumption (b) Consistency assumption
   (c) Accounting Period Principle (d) Business entity

Ans. (1) (c) (2) (a) (3) (b)

(4) (a) (5) (d)

6. Name the fundamental ascending assumptions "It is assumed that the business has neither intention to liquidate nor to scale down its operations significantly".

Ans. Going concern assumption

7. Under which basis of accounting revenue and expenses are recorded when they are recognized irrespective of fact whether cash is received or not

Ans. Accrual basis of accounting.

8. Which accounting convention takes into account all prospective losses but leaves all prospective profits.

Ans. Conservatism/Prudence

9. State whether the following statements one True or False

   (i) Accountants can use any method for accounting - cash basis of accounting or accrual basis of accounting.

   (ii) Closing stock is valued at cost or market price, whichever is higher.

   (iii) Income is treated as being earned on the date on which it is realized.

   (iv) Businessman is treated as the creditor of the business to the extent of his capital.

   (v) Every transaction has two aspects.

Ans. (i) False (ii) False (iii) True (iv) True (v) True

10. State the principle, concept or contention on which the following are based:

   (i) Capital introduced by the proprietor is treated as liability for the business.

   (ii) Strike by workers affect the business, yet it cannot be recorded in the books.

   (iii) All contingent liabilities are shown as a footnote in the balance sheet.

   (iv) Purchase of a pen is recorded as an expense even if the pen purchased is an asset.

   (v) Heavy advertisement expenditure is deferred over a certain period, till when its benefit is assumed to be received.

Ans. (i) Business Entity Principle (ii) Money Measurement Principle

(iii) Full Disclosure Principle (iv) Materiality Principle

(v) Matching Principle

11. Under which accounting principle, quality aspect of management is not recorded in the books of account?

Ans. Money Measurement Principle.

12. What is the relevance of "Accounting Period Principle"?

Ans. Financial Statements are prepared at the end of accounting period so that timely action for correct measures can be taken by management.

13. Market Price of the Land purchased is much higher then the price paid for it at the time of its purchase, still it is shown at the cost price due to which accounting concept?

Ans. Cost Concept

14. Rent of ₹ 24,000 paid for two years 2021-22 and 2022-23. At the end of 2021-22, only ₹12,000 is considered as rent for the current year 2021-22 and rest is shown as prepaid rent. Which accounting concept is used here?

Ans. Accrual Concept

15. Provision for doubtful debts is created due to which accounting concept?

Ans. Prudence Concept.

16. Due to which accounting concept, advance received against the sales of goods is recognized as advance against sales and not as sales?

Ans. Revenue Recognition Concept.

17. Identify the accounting concept used here:

(i) Distinction between Capital expenditure and revenue expenditure is made.

(ii) Same method of depreciation on machinery is used every year.

(iii) The owners of business are treated as creditors and their personal expenses are considered as Drawing. .

(iv) Footnotes are prepared to disclose the current value of the investment done in shares of other companies.

(v) Purchase of staplers are treated as expense even though these will be used for a number of years.

(vi) Every transaction has 2 aspects -a debit and a credit of equal amount.

(vii) Every expense can be verified through supporting documents such as Cash memo, invoices etc.

Ans. (i) Going Concern Assumption

(ii) Consistency Assumption.

(iii) Business Entity Principle

(iv) Full disclosure Principle.

(v) Materiality Principle

(vi) Dual Aspect Principle.

(vii) Verifiable Objective Concept.

18. Quality of manpower is not recorded in the books of account due to which accounting principle?

Ans. Money Measurement Principle.

19. What is the reason for dividing the entire lift of the business into intervals?

Ans. To ascertain the amount of profit earned or loss suffered by the firm at such regular intervals. so that timely decisions can be taken.

CHAPTER - 3
RECORDING OF TRANSACTIONS

Learning Objectives

After studying this chapter, you will be able to:

- Explain how to prepare accounting Vouchers.
- Apply accounting equation to explain the effect of transactions.
- Record transactions using rules of debit and credit.
- Record transactions in journal and other subsidiary books.

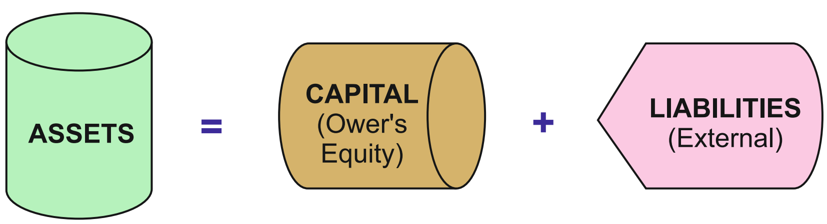
Suggested Method: Discussion Method, Illustration Method, Problem Solving Method etc.

ACCOUNTING EQUATION

ACCOUNTING EQUATION

Accounting equation signifies that the assets of a business are always equal to the total of its liabilities and capital (owner's equity).

The equation reads as follows:



Accounting equation indicates that all the assets of a business are also equal to the total of its liabilities (Borrowing from outsides) and capital (Borrowing from owners). It is based on duality principle of accounting.

Assets = Capital + Liabilities or Capital (Net Worth) = Assets – Liabilities.

Note:- All Assets are procured from the amount of capital (owner's fund) and liabilities (outsides funds) therefore the sum fo capital and liabilities are equal to assets.

ANALYSIS OF BUSINESS TRANSACTIONS

Business transaction may effect either both sides of the equation or one side of the equation but the ultimate effect must be equal on the both sides. Some of the effects are as follows:-

1. Transaction affecting both sides of the equation:

A. Commenced business with Cash ₹ 3,00,000

Effect

Assets		=	Capital + Liabilities
	Cash		Capital
Transaction	3,00,000	=	3,00,000

Explanation:- As Cash is invested by the owner, it should be shown in Capital (anything which is bring in by the owner is termed as Capital) and Business is receiving asset in the form of cash, it is to be shown in the Assets side as Cash.

B. Bought goods from Ram ₹ 30,000

Effect

Assets		=	Capital + Liabilities
	Cash + Stock		Capital + Creditors
Old Equation	300000 + –	=	300000 + –
Transactions	0 + 30000	=	0 + 30000
N.E.	300000 + 30,000	=	300000 + 300000

Explanation:- As goods is purchased on credit, one effect is that it should be shown in the assets side as Goods and other effect is that goods are purchased on credit so it is to be shown in Liabilities as Creditors.

C. Sold goods (costing ₹ 10000) for cash at ₹ 13000

Effect

Assets		=	Capital + Liabilities
	Cash + Stock		Capital + Creditors
Old Equation	300000 + 30,000	=	300000 + 30000
Transactions	13000 – 10000	=	3000 +
N.E.	313000 + 20,000	=	303000 + 30000

Explanation:- The transaction will affect both sides as cash has been received so it is to be added back in cash (₹13,000) & Goods are to be reduced by ₹10,000 as goods has been sold. Also profit of ₹3,000 Is to be added back in Capital. Net effect will remain same for both sides.

D. Paid to creditors ₹ 20,000

Effect

Assets		=	Capital + Liabilities
	Cash + Stock		Capital + Creditors
Old Equation	313000 + 20,000	=	303000 + 30000
Transactions	–20000 + 0	=	0 – 20000
N.E.	293000 + 20,000	=	303000 + 10000

Explanation:- The transaction will affect both sides as cash has been paid so it is to be deducted from cash as well from creditors as payment made to them.

- **Transaction related to Expenses**

  All the expense or Losses is to borne by the owner although business has separate legal entity from its owner as he/she is the person who has taken risk to do business.

E. Rent paid ₹ 5,000

Effect

Assets		=	Capital + Liabilities
	Cash + Stock		Capital + Creditors
Old Equation	293000 + 20,000	=	303000 + 10000
Transactions	–5000 + 0	=	–5000 + 0
N.E.	288000 + 20,000	=	298000 + 10000

Explanation:- The transaction will affect both sides as cash has been paid so it is to he reduced as well as Capital is to be reduced because expense is to be born by the owner.

- **Transaction related to Income**

  Income or Profit is the reward for taking risk, as risk is taken by the owner so it is to be added in Capital.

F. Commission received ₹ 8,000

Effect

	Assets		=	Capital + Liabilities
	Cash	+ Stock		Capital + Creditors
Old Equation	288000	+ 20,000	=	298000 + 10000
Transactions	+8000	+ 0	=	+8000 + 0
N.E.	296000	+ 20,000	=	306000 + 10000

Explanation: The transaction will affect both sides as cash has been received so it is to be added back in cash as well as in Capital.

- **Transaction related to Accrued/outstanding Income**

  Income is to be added back into the capital but as it is not received should be shown in the Assets Side as accrued Income because it meant to be received in this financial year.

A. Accrued Interest ₹ 10,000

Effect

	Assets			=	Capital + Liabilities
	Cash	+ Goods	+ Accrued Income	=	Capital + Creditors
Old Equation	296000	+ 20000	+ –	=	306000 + 10,000
Transactions	0	0	+ 10000	=	+10000 + 0
N.E.	296000	+ 20000	+ 10000	=	316000 + 10000

Explanation:- The transaction will effect both sides as Accrued Income has been added back to the capital & as it is not received so it is to be shown in the assets side as an asset.

- **Transaction related Advance Income**

  As Income received in advance so it does not belong to current financial year, so it can not be added back to the Capital. It is an amount which is received by the business firm for the future course of activity till the activity not happened it is the Liability of the business.

B. Rent received in advanced ₹ 5,000

Effect

	Assets			=	Capital + Liabilities		
	Cash	+ Goods	+ Accrued Income		Capital	+ Creditors	+ Advance Rent
Old Equation	296000	+ 20000	+ 10000	=	316000	+ 10000	+
Transactions	+5000	+ 0	+ 0	=	+0	+ 0	+ 5000
N.E.	301000	+ 20000	+ 10000	=	316000	+ 10000	+ 5000

Explanation:-The transaction will effect both sides as Advance Income is a Liability should be shown in the Liability side & Cash received by the business should be added back to the Cash column of assets side.

2. Transaction affecting one side of the equation:

(I) Transaction affecting Assets side of the equation:

- **Transaction related to Prepaid or Advance Expense**

As Expense paid in advance so it does not belong to current financial year, so it can not be deducted from Capital. It is an amount which is paid by the business firm for the future course of activity as the activity is not happened it is the Assets of the business.

A. Prepaid insurance paid ₹4,000

Effect

	Assets				=	Capital + Liabilities		
	Cash	+ Stock	+ Accrued Income	+ Prepaid Expense		Capital	+ Creditors	+ Advance Rent
Old Equation	301000	+ 20000	+ 10,000	+ –	=	316000	+ 10000	+ 5000
Transactions	–4000	+ 0	+ 0	+ 4000	=	+0	+ 0	+ 0
N.E.	297000	+ 20000	+ 10000	+ 4000	=	316000	+ 10000	+ 5000

Explanation:- The transaction will affect one side as Prepaid expense is a Asset should be shown in the Assets side & Cash paid by the business should be deducted from Cash column of assets side.

B. Purchased Machinery for Cash ₹80,000

Effect

	Assets					=	Capital + Liabilities		
	Cash +	Stock +	Accrued + Income	Prepaid + Expense	Machinery		Capital +	Creditors +	Advance Rent
Old Equation	297000 +	20000 +	10000 +	4000 +	–	=	316000 +	10000 +	5000
Transactions	–80000 +	0 +	0 +	0 +	80,000	=	+ 0 +	0 +	0
N.E.	217000 +	20000 +	10000 +	4000 +	80,000	=	316000 +	10000 +	5000

Explanation:- The transaction will affect one side as cash has been paid for purchased of machinery & Machine is a fixed asset so it is separately shown in the asset side as well as cash is to be reduced.

(II) Transaction affecting Liability side of the equation:

- **Transaction related to outstanding Expense**

As Expense not paid yet or Outstanding but belong to current financial year so it is deducted from Capital & business has to pay it in near future so it is the liability of the firm.

A. Salary outstanding ₹8,000

Effect

	Assets					=	Capital + Liabilities			
	Cash +	Stock +	Accrued Income +	Prepaid Expense +	Machinery		Capital +	Creditors +	Advance Rent +	Outstanding Expense
Old Equation	217000 +	20000 +	10000 +	4000 +	80,000	=	316000 +	10000 +	5000	
Transactions	0 +	0 +	0 +	0 +	0	=	–8000 +	0 +	0 +	8000
N.E.	217000 +	20000 +	10000 +	4000 +	80,000	=	308000 +	10000 +	5000 +	8000

Explanation:- The transaction will affect Liability side as outstanding expense is a Liability should be shown in the Liability side & Expense should be deducted from Capital.

- **Transaction related to Interest on Capital**

  As interest on capital Is the Expense of business it should be shown or deducted in the capital as well as interest of capital is the amount which is to be given to the owner as capital is the amount which is invested by the owner, therefore it is to be added back to Capital.

B. Interest on Capital ₹10,000

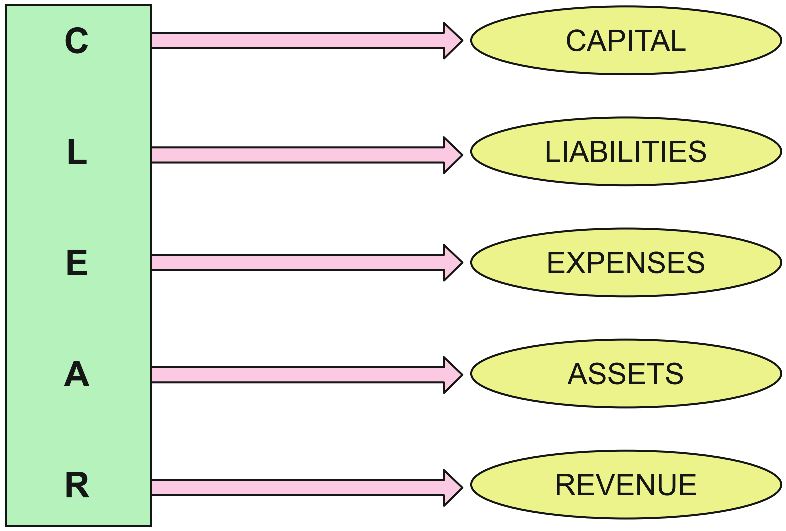
Effect

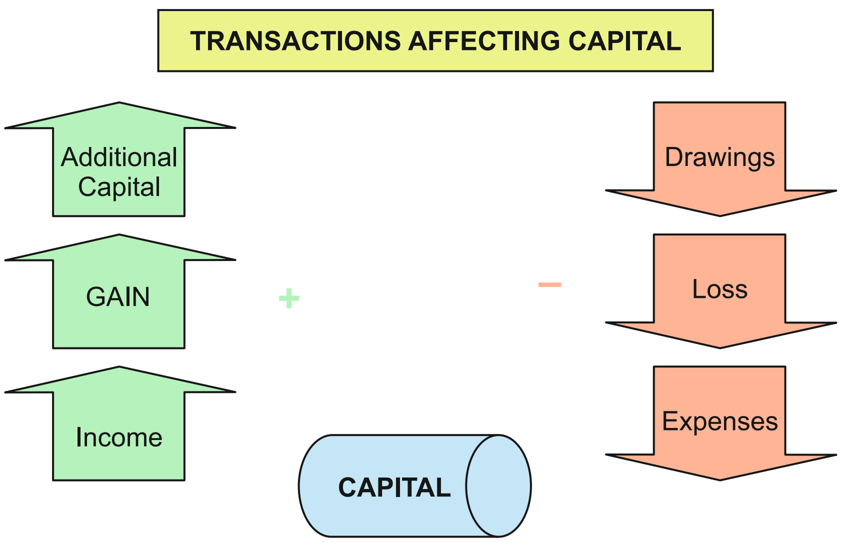
	Assets					=	Capital + Liabilities			
	Cash +	Stock +	Accrued Income +	Prepaid Expense +	Machinery		Capital +	Creditors +	Advance Rent +	Outstanding Exp.
Old Equation	217000 +	20000 +	10000 +	4000 +	80,000	=	308000 +	10000 +	5000 +	8000
Transactions	–0 +	0 +	0 +	0 +	0	=	–10000 +	0 +	0 +	0
						=	+10000 +	0 +	0 +	0
N.E.	217000 +	20000 +	10000 +	4000 +	80,000	=	308000 +	10000 +	5000 +	8000

Explanation:- The transaction will affect Liability side as Interest of Capital should be added back & deducted from Capital as both of them belong to the owner.

- **Transaction related to interest on Drawing**

  As interest on Drawing is the Income of business it should be shown or added back in the capital as well as interest of Drawing is the amount which is to be given by the owner to the business so it is treated as drawing and deducted from the Capital.





C. Interest on Drawing ₹1,000

Effect

	Assets					=	Capital + Liabilities			
	Cash +	Stock +	Accrued + Income	Prepaid + Expense	Machinery		Capital +	Creditors +	Advance + Rent	Outstanding Exp.
Old Equation	217000 +	20000 +	10000 +	4000 +	80,000	=	308000 +	10000 +	5000 +	8000
Transactions	0 +	0 +	0 +	0 +	0	=	–10000			
						=	+10000	+ 0 +	0 +	
N.E.	217000 +	20000 +	10000 +	4000 +	80,000	=	308000 +	10000 +	5000 +	8000

Explanation:- The transaction will effect Liability side as Interest of Drawing should be added back & deducted from Capital as both of them belong to the owner.

- **Transaction related to Drawing**

  As Drawing is the amount withdrawn by owner from business for personal use so it is to be deducted from Capital & also from the Cash.

D. Owner withdrew cash of ₹ 10,000 for personal use

Effect

	Assets					=	Capital + Liabilities			
	Cash +	Stock +	Accrued + Income	Prepaid + Expense	Machinery		Capital +	Creditors +	Advance + Rent	Outstanding Exp.
Old Equation	217000 +	20000 +	10000 +	4000 +	80,000	=	308000 +	10000 +	5000 +	8000
Transactions	–10000 +	0 +	0 +	0 +	0	=	–10000 +	0 +	0 +	0
N.E.	207000 +	20000 +	10000 +	4000 +	80,000	=	298000 +	10000 +	5000 +	8000

Explanation:- The transaction will effect both sides as Drawing should be deducted from Capital & also deducted from Cash as withdraw by owner.

Illustration : 1

Prepare the Accounting Equation for the year ended on 31st March 2021 on the basis of the following information:

1. Mr. X Started business with Cash ₹1,50,000, Furniture ₹50,000, Goods/ Stock ₹ 30,000 & Machinery ₹ 2,00,000
2. He sold goods Costing ₹ 25,000 at a profit 20% above cost & half of the payment received in Cash and received a bill for the remaining balance.
3. He paid salary ₹10,000, commission ₹2,000 & Commission Still outstanding ₹1,000.
4. He purchased goods from Ram of ₹ 25,000.
5. Deprecate Machinery at 20 % p.a. and Furniture at 10 % p..a.
6. He paid Insurance ₹12,000 p.a. (from 1st October 2020 to 30th September 2021)
7. He withdrew ₹ 10,000 for personal use.
8. He paid to Ram ₹ 23,500 in full settlement of his account.
9. He received cash on the maturity of Bill.
10. Interest on Capital is to be credited at 5 % p.a.

Solution : Accounting Equation

	Capital + Liability												Assets				
Transaction	Cash	+	Stock	+	Machinery	+	Furniture	+	B.R.	+	Prepaid Insurance	=	Capital	+	O/S Comm	+	Creditors
1. Commenced business	150000	+	30000	+	200000	+	50000	+	–	+	–	=	430000	+	–	+	–
2. Sold goods at 20 % profit	+15000	–	25000	+	0	+	0	+	15000	+	–	=	+5000	+	–	+	–
N.E.	165000	+	5000	+	200000	+	50000	+	15000	+	–	=	435000	+	–	+	–
3. Paid salary & Comm. Outstanding	–12000	+	+0	+	0	+	0	+	0	+	–	=	–13000	+	1000	+	–
N.E.	153000	+	+ 5000	+	200000	+	50000	+	15000	+	–	=	422000	+	1000	+	–
4. Purchased goods from ram 25000	0	+	25000	+	0	+	0	+	0	+	–	=	0	+	0	+	25000
N.E.	153000	+	30000	+	200000	+	50000	+	15000	+	–	=	422000	+	1000	+	25000
5. Depreciates Machine @ 20% & Furniture @ 10%	0	+	0	+	–40000	+	–5000	+	0	+	–	=	–45000	+	0	+	0
N.E.	153000	+	30000	+	+160000	+	45000	+	15000	+	–	=	377000	+	1000	+	25000
6. Insurance paid for one year Rs. 12,000	–12000	+	0	+	0	+	0	+	0	+	6000	=	–6000	+	0	+	0
N.E.	141000	+	30000	+	160000	+	45000	+	15000	+	6000	=	371000	+	1000	+	25000
7. Drawing Rs. 10,000	–10000	+	0	+	0	+	0	+	0	+	0	=	–10000	+	0	+	0
N.E.	131000	+	30000	+	160000	+	45000	+	15000	+	6000	=	361000	+	1000	+	25000
8. Paid to Ram in Full Settlement	–23500	+	0	+	0	+	0	+	0	+	0	=	+1500	+	0	+	25000
N.E.	107500	+	30000	+	160000	+	45000	+	15000	+	6000	=	365200	+	1000	+	0
9. Received cash for bill at maturity	+15000	+	0	+	0	+	0	+	15000	+	0	=	0	+	0	+	0
N.E.	122500	+	30000	+	160000	+	45000	+	0	+	6000	=	362500	+	1000	+	0
10. Interest on Capital @ 5% p.a.	0	+	0	+	0	+	0	+	0	+	0	=	–21500	+	0	+	0
												=	+21500				0
N.E.	122500	+	30000	+	160000	+	45000	+	0	+	6000	=	362500	+	1000	+	0

Some Important Transactions

S.No.	Transaction	Effect	Explanation
1.	Started business with cash	Cash (Assets)+ Capital+	Cash will increase in assets and capital will also increase
2.	Purchased goods for cash	Stock (Assets) + Cash(Assets) -	Stock will increase under Assets and cash will reduce from assets.
3.	Sold goods for cash	Cash(Assets) + Stock (Assets)-	Cash will increase under assets and stock will decrease under assets
4.	Purchased goods on credit	Stock(Assets) + Creditors(Liabilities)+	Stock will increase under assets and liability will increase by creditors
5.	Sold goods on credit	Stock(Assets) - Debtors (Assets) +	Stock will reduce and since goods are sold on credit debtors will increase

S.No.	Transaction	Effect	Explanation
6.	Paid Salaries	Cash (Assets) - Capital -	Capital is reduced by expenses and cash is going out.
7.	Received Rent	Cash(Assets)+ Capital+	Capital increases by Incomes and cash is increasing.
8.	Amount drawn for personal use	Cash(Assets) - Capital -	Cash is decreasing and capital is also reduced.
9.	Depreciation on Asset	Asset- Capital -	Particular asset will reduce and depreciation is a expense so, capital will reduce.
10.	Goods costing ₹ ₹10,000 sold for ₹ ₹15,000	Stock(Assets}-10,000 Cash(Assets) + 15,000 Capital + 5,000	Goods will be reduced by ₹10,000 i.e cost, cash is increasing by ₹15,000 and profit will be added to capital.
11.	Outstanding Expenses (Say Rent)	Capital - Outstanding Rent (Liabilities) +	Outstanding rent is a liability as firm owe this to landlord and this is a expense, so will be deducted from capital.
12.	Prepaid expenses (Prepaid Insurance)	Cash (Assets) – Prepaid Insurance (Asset)+	Cash will reduce and prepaid expense is an asset for a business so, new asset will be opened)
13.	Accrued Incomes (Earned but not received)	Accrued Income (Asset) + Capital +	New asset (accrued Income) 1 will increase as amount is to be received and as per accrual concept capital will increase.
14.	Income received in advance	Unearned income (Liabilities) + Cash +	Cash is increasing and advance income is liability for! business since, it is to be returned.
15.	Interest on Capital	Capital – Capital +	it is expense so capital will reduce and it is to be given to owner hence will be added to capital.
16.	Interest on drawings	Capital + Capital –	It is a income for business so capital will increase and to be taken from owner hence deducted from capital.

RULES OF DEBIT & CREDIT

Every business transaction affects two or more accounts. An account is summarized record of transaction at one place relating to a particular head. An account is divided into two parts i.e. debit and credit. Debit refer to the left side of an account and Credit refers to the right side of an account.

Approaches for the rules of Debit & Credit

A. Traditional Approach

Under this approach, all ledger accounts are mainly classified into two categories:-

(I) **Personal Accounts:-** It includes all those accounts which are related to any person i.e. Individuals, firms, companies, Banks etc. This can further classified into three categories:-

1. **Natural Persons :** All the accounts of human beings/ Persons are included such Ram A/C, Shyam A/c etc.
2. **Artificial Persons :** This includes all such accounts which are treated as persons in the eyes of law and have separate legal entity such as Reliance Ltd., Banks, etc.
3. **Representative Persons :** This includes all such accounts which represents some persons such as Capital (Represent Owner) Outstanding Salary (Represent Employee)

(II) **Impersonal Accounts:-** It includes all those accounts which are not related to any person this can be classified as :-

1. **Real Accounts :** Under this all accounts related to assets are included (except Debtors Bank). These can be Tangible i.e. Machinery, Furniture. Building, Cash etc. and Intangible I.e. Goodwill, Trade Mark, Patents, copy Rights etc.
2. **Nominal Accounts :** This includes all the accounts related to Expenses / Losses and Incomes / Gains e.g. Salary, Rent, Commission received etc. They are used to record the transaction in the books of accounts.

B. Rules of Debit/Credit under Traditional Approach

Classification of Accounts	Rules of Dr./ Cr.
Personal Accounts (All Personal Accounts)	Debit the **receiver**. Credit the **Giver**
Real Account	Debit what **comes in**, Credit what **goes out.**
Nominal Account	Debit all **losses / expenses**, Credit all **incomes / gains**.

Illustration : 2

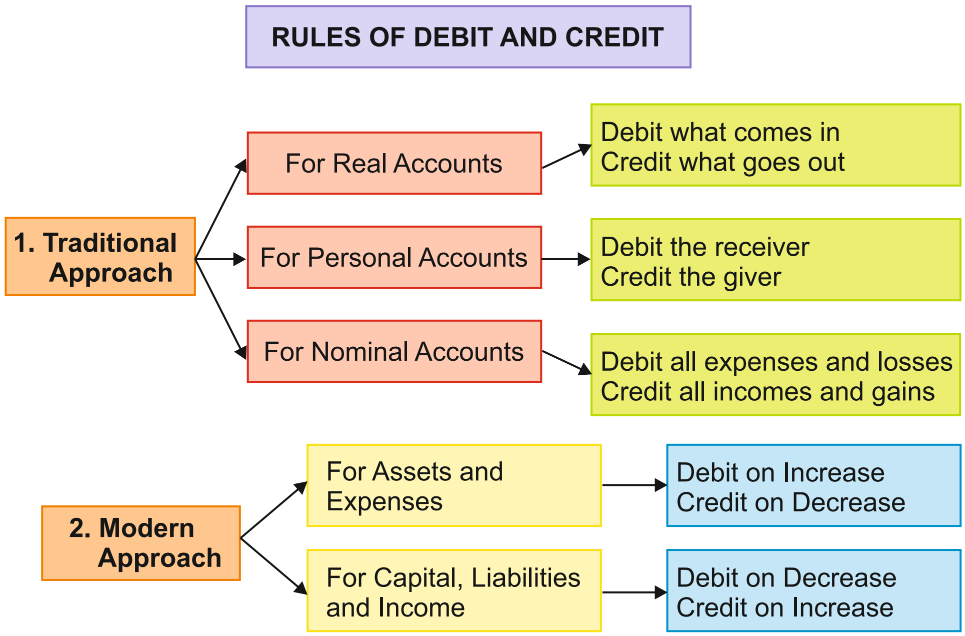
Analyse the following transactions by using the **"Traditional Approach"** of Debit/ Credit

S. No.	Transactions	Amount in (₹)
1	Ram Started business with cash	1,00,000
2	He purchased goods for cash	20,000

3	sold goods to Ram	30,000
4	paid salary	5,000
5	withdrew cash for personal use	10,000
6	cash deposited into Bank	20,000
7	bought goods from Mohan	15,000
8	sold goods for cash	16,000
9	purchased machinery for cash	50,000
10	Depreciate machinery	5,000

Solution : Analysis of Transactions

S. N.	Transactions	Accounts Effected	Nature Of A/C	Rules	Debit (₹)	Credit (₹)
1	Commenced Business	Cash Capital	Real Personal	Debit what comes in Credit the Giver	1,00,000	 1,00,000
2	Bought Goods for cash	Purchase Cash	Nominal Real	Debit all Expense Credit what, goes out	20,000	 20,000
3	Sold goods to Ram	Ram Sales	Personal Nominal	Debit the receiver Credit all Incomes	30,000	 30,000
4	paid salary	Salary Cash	Nominal Real	Debit all Expense Credit what goes out	5,000	 5,000
5	Drawing	Drawing Cash	Personal Real	Debit the receiver Credit what goes out	10,000	 10,000
6	Cash deposited into bank	Bank Cash	Personal Real	Debit the receiver Credit what goes out	20,000	 20,000
7	Bought goods from Mohan	Purchase Mohan	Nominal Personal	Debit all Expense Credit the Giver	15,000	 15,000
8	Sold goods for cash	Cash Sales	Real Nominal	Debit What comes in Credit all Incomes	16,000	 16,000
9	Machinery purchased	Machinery Cash	Real Real	Debit what comes in Credit what goes out	50,000	 50,000
10	Depreciate machinery	Depreciation Machinery	Nominal Real	Debit all Expense Credit what goes out	5,000	 5,000



Rules of Debit/Credit under Modern Approach.

Modern Rules of Debit and Credit

I) Increase(+) in assets are debits; decreases(-) are credits.

ii) Increase in expenses(+) are debits; decreases(-) are credits.

iii) Increase(+) in liabilities are credits; decreases(-) are debits.

iv) Increase(+) in revenues are credits; decreases(-) are debits.

v) Increase(+) in owner's capital are credits; decreases(-) are debits.

	For Increase (Plus) +	For Decrease (Minus) –
Assets	Debit ↑	Credit ↓
Expenses	Debit ↑	Credit ↓

	For Increase (Plus) +	For Decrease (Minus) –
Liabilities	Credit ↑	Debit ↓
Revenue	Credit ↑	Debit ↓
Capital	Credit ↑	Debit ↓

NOTE :- The accounts of Assets and Expenses show Debit Balance and accounts of Liabilities, Capital and Revenue show Credit Balance.

Illustration : 3

Analyze the transactions of illustration 2 by using the "Modern Approach" of Debit/Credit

Solution : Analysis of Transactions

S. N.	Transactions	Accounts Effected	Nature Of A/C	Rules	Debit (₹)	Credit (₹)
1	Commenced Business	Cash Capital	Assets Capital	Increase Increase	1,00,000	 1,00,000
2	Bought Goods for cash	Purchase Cash	Expense Assets	Increase Decrease	20,000	 20,000
3	Sold goods to ram	Ram Sales	Assets Revenue	Increase Increase	30,000	 30,000
4	paid salary	Salary Cash	Expense Assets	Increase Decrease	5,000	 5,000
5	Drawing	Drawing Cash	Capital Assets	Decrease Decrease	10,000	 10,000
6	Cash deposited into bank	Bank Cash	Assets Assets	Increase Decrease	20,000	 20,000
7	Bought goods from Mohan	Purchase Mohan	Expense Liabilities	Increase Increase	15,000	 15,000
8	Sold goods for cash	Cash Sales	Assets Revenue	Increase Increase	16,000	 16,000
9	Machinery purchased	Machinery Cash	Assets Assets	Increase Decrease	50,000	 50,000
1 0	Depreciate machinery	Depreciate Machinery	Expense Assets	Increase Decrease	5,000	 5,000

VOUCHER

A voucher is a document evidencing a business transaction recording in the books of accounts are done on the basis of voucher.

SOURCE DOCUMENTS

A voucher is a document evidencing a business transaction. Recording in books of accounts are done on the basis of voucher.

SOURCE DOCUMENTS (Supporting documents/Source Vouchers)

A written document which provides evidence of the transactions is called the Source Documents. Source document is the first evidence of a transaction which takes place such as Cash Memo, Bill or Invoice, Receipt, Pay-in-slip, cheques, Debit-Note & Credit -Note. It contains the details of transaction.

Vouchers

- Source Vouchers/ Source documents
  - Cashmemo
  - Invoice/Bill
  - Receipt
  - Pay-in-slip
  - Cheque
  - Debit Note
  - Credit Note
- Accounting Vouchers
  - Cash Vouchers
    - Debit Voucher
    - Credit Voucher
  - Non-cash voucher/ Transfer voucher

(a) **Invoice (Bill):-** An invoice is prepared by Seller at the time of sale of goods on credit. It contains details such as the goods sold, the party to whom goods are sold, sales amount, date etc.

(b) **Cash Memo :-** It is prepared by the Seller at the time of Sale of goods on Cash. It contains details such as goods sold, quantity, amount received, date etc.

(c) **Pay-in-Slip :-** It is used to deposit cash or cheque into bank. It has a counterfoil which is returned to the depositor with the Signature of the authorized person.

(d) **Receipt :-** It is used when a customer give cash to the Business firm. It is an acknowledgment of payment or cash received by firm.

(e) **Cheque :-** A cheque is a order in writing, drawn upon a specified banker and payable on demand.

(f) **Debit Note :-** It is prepared when a buyer returned goods to seller or when purchased return transaction is entered in the books of accounts. It is prepared by the buyer of the goods.

(g) **Credit Note :-** It is prepared when a seller received goods from buyer or when Sales return transaction is entered in the books of accounts. It is prepared by the Seller of the goods.

ACCOUNTING VOUCHERS

It is a written document prepared by accountant, on the basis of supporting vouchers, containing business transaction analysis for recording purposes.

Source vouchers	Accounting vouchers
1. These comes into existence when a transaction entered into. 2. It is signed by the maker. 3. It contains complete details of transactions.	1. It is prepared on the basis of evidence of the transaction. 2. It is prepared and signed usually by an accountant and counter signed by authorised signatory. 3. It is an analysis of a transaction.

Classification of Accounting Vouchers

Vouchers	Further classification	Purpose
Cash Vouchers	Debit Vouchers Credit Vouchers	To show Cash Payment To show Cash Receipt
Non Cash Voucher	Transfer Voucher	To show Transactions not involving cash

CASH VOUCHERS

Cash voucher is prepared to record all the transactions which involve cash either in the form of receipt or payment. Thus cash voucher is further classified into Debit Voucher & Credit Voucher.z

Debit Voucher

Debit voucher is prepared for all cash payment made by the business firm such as Payment of Rent. Payment of salary, payment for purchase of goods etc.

Source Documents

Source Document	Description
INVOICE (BILL)	It is prepared by seller at the time of sale of goods on Credit
CASH MEMO	It is prepared by seller at the time of sale of goods for Cash
PAY IN SLIP	It is used to deposit Cash or Cheque into bank
RECEIPTS	It is acknowledgement of Cash received by seller
CHEQUE	An negotiable instrument used to make payment and receive amount
DEBIT NOTE	It is prepared by buyer of goods at the time of purchase return to Debit the account of seller
CREDIT NOTE	It is prepared by seller of goods at the time of sales return to Credit the account of buyer

ACCOUNTING VOUCHERS

Accounting Vouchers

- **Cash Vouchers** (Prepared to record Cash Transactions i.e. Cash Receipts and Cash Payments)
  - **Debit Vouchers** (Prepared for Cash Payments i.e. Paid Rent, Cash Purchases etc.)
  - **Credit Vouchers** (Prepared for Cash Receipts i.e. Rent Received, Cash Sales etc.)
- **Non-Cash Vouchers** (Prepared to record Transactions which do not involve cash. Ex. Credit Sales, Credit Purchase etc.)
  - **Transfer Vouchers**

Format of Debit Voucher

Received Rs..............	Mis Pratibha Furnitures 180. Nai Sarak. Delhi	
	Voucher No .... Date	
	DEBIT	Amount (In ₹)
	Total	
Affix Revenue Stamp		
	Signature Manager	Signature Accountant

Illustration : 4

Prepare a Debit vouchers of XYZ traders, 10, Patel Nagar, New Delhi from the following information.

Aug. 1, 2022 Salary paid for the Month of July 2022 vide salary sheet No. 7 ₹ 15,000

Received Rs..............	M/s XYZ Traders 10, Patel Nagar, New Delhi	
	Voucher No. : 215	Date : -01/08/2022
	DEBIT :- Salary A/C (Being salary paid for July 2022 vide salary sheet No. - 7	Amount (In ₹) 15,000
	Total	15,000
Affix Revenue Stamp		
	Signature Manager	Signature Accountant

Credit Voucher :- Credit voucher is prepared for cash received by the business firm Such as Sale of goods for Cash, Payment received from any of Debtors, Income received etc.

Format of Credit Voucher

M/s Pratibha Furnitures 180, Nai Sarak, Delhi	
Voucher No	Date..........................
Credit	Amount (In ₹)
Total	
Signature Manager	Signature Accountant

Illustration: 5.

Prepare a Credit vouchers of Shyam traders, 156, Subhash Nagar, New Delhi from the following information.

Oct. 5, 2022 Sold goods for cash vide cash memo no. 401 ₹ 16,600

Credit Voucher

Shyam Traders 156, Subhash Nagar, New Delhi	
Voucher No : 520	Date :- 05/10/2022
Credit :- Sales A/C (Being Cash Sales Vide Cash Memo No. 401)	Amount (In ₹)
	16,600
Total	16,600
Signature Manager	Signature Accountant

Transfer Voucher/Non-Cash Voucher

This type of vouchers are prepared in those transactions which do not involve Cash. Such as Credit Sales, Credit Purchases, Bad Debts, Depreciation charged etc.

Transfer Voucher

Shyam traders 156, Subhash Nagar, New Delhi	
Voucher No --	Date:...................................-
DEBIT:- ……………………….	Amount (₹)
Total	
CREDIT:.	Amount (₹)
Total	
Signature Manager	Signature Accountant

Illustration: 6

Prepare a Transfer voucher of Shyam traders. 156. Subhash Nagar, New Delhi from the following information.

Feb. 15. 2022 Sold goods to Ram Traders vide Invoice/Bill no. 120 ₹ 24.000

Shyam traders 156, Subhash Nagar, New Delhi	
Voucher No.:- **102**	Date:- 15/02/2022
DEBIT:- Ram Traders	Amount (₹)
	24,000
Total	24.000
CREDIT:- Sales A/C	Amount (₹)
(Being Cash Sales vide (Invoice/Bill no.-120)	24,000
Total	24.000
Signature Manager	Signature Accountant

JOURNAL

The first book in which the transactions of a business unit are recorded is called Journal. Here. business **transactions are recorded in chronological order i.e.** in the order in which they occur. Each record in a journal is called an entry. As a journal is the first book in which entries are recorded. It is also known as a book of **original entry**.

FORMAT OF JOURNAL

Date	Particulars	L.F.	Amount (₹) Dr.	Amount (₹) Cr.

Ledger Folio (L.F.): Ledger Folio is the page No. of Ledger on which the Debit A/c & Credit A/c are to be posted.

TYPES OF ENTRIES

(1) Simple Entry: It is that entry in which only two accounts are affected i.e. one account is debited and another account is credited with an equal amount.

Example : Purchase of goods worth ₹ 5,000 from Ramesh by the business firm. The simple entry is.

JOURNAL

Date	*Particulars*	L.F.	Amount (₹) Dr.	Amount (₹) Cr.
	Purchase A/c Dr. To Ramesh (Being goods purchased from ramesh)		5,000	5,000

(2) Compound Entry : It is that entry in which more than two accounts are involved. Compound Entries can further be classified into single compound entry and double compound entry.

In Single Compound Entry Several accounts are to be debited and only one account is to be credited or only one account is to be debited and several accounts are to be credited.

Example : A business firm pays rent ₹2,000; salaries ₹1,500; freight ₹ 500 on 1 Jan. 2022, the single compound entry is

JOURNAL

Date	Particulars		L.F.	Amount (₹) Dr.	Amount (₹) Cr.
2022	Rent A/C	Dr.		2,000	
Jan 1	Salaries A/C	Dr.		1.500	
	Freight A/C	Dr.		500	
	To Cash A/C				4000
	(Being Rent, Salary & freight Paid Cash)				

In Double Compound Entry, several accounts are to be debited which are accompanied by several credit accounts.

Example : A firm receives cash ₹ 20,000 and cheque ₹ 10,000 in return of sale of goods for ₹ 25,000 and furniture ₹ 5,000.

Date	Particulars		L.F.	Amount (₹) Dr.	Amount (₹) Cr.
	Cash A/C	Dr.		20,000	
	Bank A/C	Dr.		10,000	
	To Sales A/C				25,000
	To Furniture A/C				5,000
	(Being goods & Furniure sold for cash)				

(3) Opening Entry:- The entry passed to record the closing balances of the previous year is called opening entry. While passing an opening entry, all assets accounts are debited and all liabilities accounts are credited.

Example : The various balances of XYZ ltd on 1st April 2022 were as follows Debt Balance: Cash ₹20,000 furniture ₹50,000 Building ₹1,00,000 & Debtors ₹30.000 Credit Balance : Creditors ₹50,000, Bank loan ₹25,000.

JOURNAL

Date	Particulars		L.F.	Amount (₹) Dr.	Amount (₹) Cr.
2022 April 1	Cash A/C	Dr.		20,000	
	Furniture A/C	Dr.		50.000	
	Building NC	Dr.		1,00,000	
	Debtors A/C	Dr.		30,000	
	To Creditors A/C				50,000
	To Bank Loan A/C				25,000
	To Capital A/C (Balancing Fig.)				1,25,000
	(Being recording of the opening balances of Assets, Liabilities and Capital)				

Transaction related to Goods

1. **<u>Goods purchased for cash</u>**

   Purchases A/c Dr.
   To Cash A/c
   (Being goods purchased for cash)

2. **<u>Goods purchased from Ram on credit</u>**

   Purchases A/c Dr.
   To Ram
   (Being goods purchased from Ram on credit)

3. **<u>Goods sold for cash</u>**

   Cash A/C Dr.
   To Sales A/C
   (Being goods sold for cash)

4. **<u>Goods sold on credit to Mohan</u>**

   Mohan Dr.
   To Sales A/c
   (Being goods sold to Mohan on credit)

5. **<u>Withdrawal of goods by owner for personal use</u>.**

   Drawings A/c Dr.
   To Purchases A/c
   (Being goods withdrew by owner for personal use)

6. **<u>Goods distributed as free samples</u>**

   Advertisement A/c Dr.
   To Purchases A/c
   (Being goods distributed as free samples)

7. **<u>Goods given as charity</u>**

   Charity A/c Dr.
   To Purchases A/c
   (Being goods given as charity)

8. **<u>Goods lost by fire/flood/ theft etc.</u>**

   Loss by fire/theft A/c Dr.
   To Purchases A/c
   (Being goods lost by fire/flood/theft)

Note : Purchases A/c is credited in the above mentioned entries at **S. No. 5 to 8 because the goods are going out of our business on cost and it is not a sale hence, deducted from the purchases A/c.**

Transaction related to Bank

1. **Cash deposited into the bank** Bank A/c Dr. To Cash A/c (Being cash deposited into bank)	2. **Cash withdrawn for office use.** Cash A/c Dr. To Bank A/c (Being cash withdrew from bank for office use)
3. **When cheque is received from customer and deposited into bank same day.** Bank A/c Dr. To Customer's personal A/c (Being cheques deposited into bank)	4. **Cash withdrawn for personal use by owner.** Drawing A/c Dr. To Bank A/c (Being cash withdrew for personal use)
5. **When cheque is received from customer and not deposited into bank same day.** Cheque-in-hand A/c Dr. To customer's personal A/c	6. **When above cheque (Point 5) is deposited later into bank** Bank A/c Dr To cheque-in-hand A/c (Being cheques deposited into bank received from............On..........)
7. **When payment is made through cheque** Personal A/c Dr To Bank A/c (being payment made to.......by cheque)	8. **When expense is paid through cheque.** Expense A/c Dr To Bank A/c (Being expense paid by cheque)
9. **When interest is allowed by the bank.** Bank A/c Dr To Interest A/c (Being interest allowed by bank)	10. **When Bank charges for the services provided.** Bank Charges A/c Dr To Bank A/c (Being Bank charges deducted)

Note:- (i) Bank A/c will be debited if the amount is deposited/credited by bank & Bank A/c will be credited if the amount is withdrawn/debited by bank.

(ii) Cash will be debited if business receives it & Credited if Business paid it.

Transaction related to Expense or Income	
1. **<u>Expense paid by bank / Cash by the Business</u>** Expense A/C Dr. To Cash/ Bank A/C (Being expense paid by cash/Bank)	2. **<u>Expense is outstanding during a current F.Y.</u>** Expense A/C Dr. To Outstanding Exp. A/C (Being expense is due but not paid)
3. **<u>Expense paid in advance</u>** Prepaid Expense A/C Dr. To Cash/Bank A/C (Being expense paid in advance by cash/ Bank)	4. **<u>Income received in Cash/Bank</u>** Cash/Bank A/C Dr To Income A/C (Being Income received in cash / bank)
5. **<u>Income due but not received</u>** Accrued/Outstanding Income A/C Dr. To Income A/C (Being Income due but not received)	6. **<u>Income received in cash /Bank in advance.</u>** Cash/Bank A/C Dr. To Prepaid Income A/C (Being income received in advance)

Transaction related to Assets /Liabilities	
1. **<u>When Assets is purchased in Cash/Bank</u>** Assets A/C Dr. To Cash/Bank A/C (Being Assets purchased in cash/Bank.)	2. **<u>Depreciation charged on assets</u>** Depreciation A/C Dr. To Assets A/C (Being Depreciation charged on assets @.........%)
3. **<u>Assets Sold by the business</u>** Cash/Bank A/C Dr. To Assets A/C (Being Assets sold in cash/Bank)	4. **<u>Liability arise when business raise funds</u>** Cash/Bank A/C Dr. To Liability A/C (Being fund raised)
5. **<u>Payment of Liability</u>** Liability A/C Dr. To Cash/Bank A/C (Being Liability paid in cash/Bank)	

Some other Journal Entries	
1. **<u>Bad Debts (when Debtors fail to pay due)</u>** Bad Debts To Debtors A/C (Being amount Bad Debts)	2. **<u>Bad Debts Recovered</u>** Cash / Bank A/C Dr. To Bad Debts Recovered A/c (Being bad debts recovered)
3. **<u>Debtors Become insolvent</u>** Cash/Bank A/C Dr. (Amt. Received) Bad Debts Dr. (Amt. not rec.) To Debtors A/C (the due amount) (Being Debtors become insolvent could pay only.....Paise in a Rupees)	4. **<u>Interest on Capital</u>** Interest on Capital A/C Dr. To Capital A/C (Being Interest on capital credited by business in capital A/C)
5. **<u>Interest on drawing</u>** Capital A/C Dr. To Interest on Drawing A/C (Being Interest on Drawing charged by business from capital A/C)	

Illustration 7 : Pass necessary Journal entries relating to Mr. X for the month of January 2022.

2022

Jan. 1 Started business with ₹20,000 and furniture ₹4,000

Jan. 1 Bought shop fitting ₹4,000 and a car ₹6,000 and payment made in cash.

Jan. 2 Paid into Bank ₹8,000.

Jan. 3 Paid rent ₹2,000 by cheque.

Jan. 10 Purchased on credit goods for ₹5,000 from Mr. Khatana.

Jan. 12 Cash Sales ₹10,000.

Jan. 15 Paid wages ₹500 and Commission ₹200 by cash.

Jan. 20 Sold good to Shyam ₹15000 Bank charges ₹500.

Jan. 21 Withdrew cash for personal use ₹5,000.

Jan. 23 Bought goods for cash ₹14,000.

Jan. 25 Paid to Mr. Khatana by cash ₹4,800 in full settlement of his account.

Jan. 28 Received cash from Shyam ₹14,500 in full settlement of his account.

Jan. 31 Salary outstanding for the month ₹5,000.

Jan. 31 Paid insurance charges for whole year in advance ₹12,000.

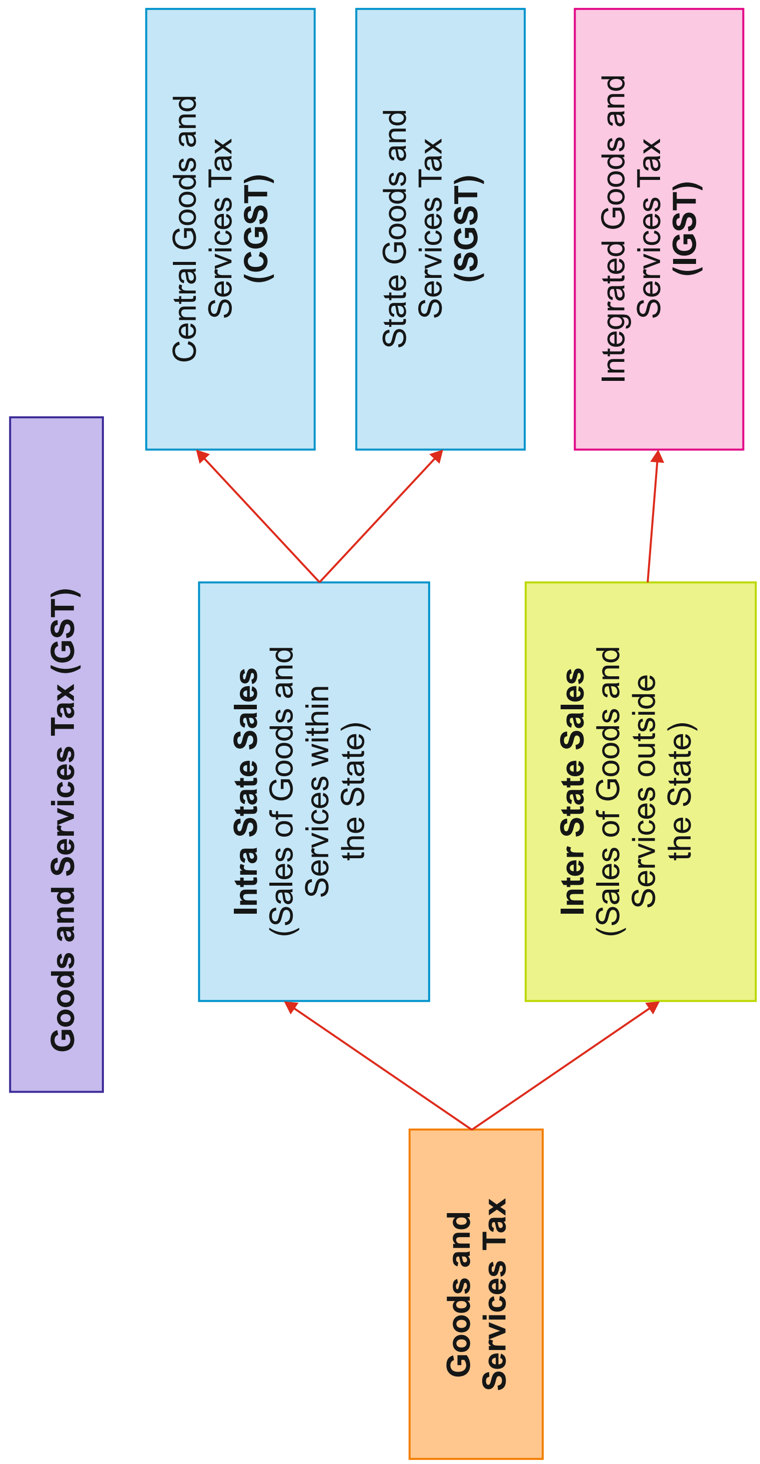
Solution : In the books of Mr. X.

Journal

Date	Particulars		L. F.	Amount (₹) Dr.	Amount (₹) Cr.
2022	Cash A/c	Dr.		20,000	
Jan-01	Furniture A/c	Dr.		4,000	
	To capital A/c				24,000
	(Being business started with cash and furniture).				
	Furniture & Fitting A/C	Dr.		4,000	
Jan-01	Car A/C	Dr.		6,000	
	To Cash A/c				10,000
	(Being Purchase of Fitting & Car.)				
	Bank A/C	Dr.		8,000	
Jan-02	To Cash A/C				8,000
	(Being cash paid into Bank)				
	RentA/C	Dr.		2,000	
Jan-03	To Bank A/C				2,000
	(Being rent paid by cheque)				
	Purchases A/C	Dr.		5,000	
Jan-10	To Mr. Khatana				5,000
	(Being goods purchased on Credit from Mr. Khatana)				
	Cash A/C	Dr.		10,000	
Jan-12	To Sales A/C				10,000
	(Being goods sold for cash)				
	Commission A/C	Dr.		200	
Jan-15	Wages A/C	Dr.		500	
	To Cash				700
	(Being wages & Commission paid by cash)				
	Shaym	Dr.		15,000	
Jan-20	To Sales A/C				15,000
	(Being goods to Shyam on credit)				

Date	Particulars		L.F.	Amount (₹) Dr.	Amount (₹) Cr.
2022 Jan-20	Bank Charges A/C	Dr.		500	
	To Bank A/C				500
	(Being bank charges debited from bank A/C)				
Jan-21	Drawing A/C	Dr.		5,000	
	To Cash A/C				5,000
	(Being cash withdrew for personal use)				
Jan-23	Purchases A/C	Dr.		14,000	
	To cash A/C				14,000
	(Being goods purchased by cash)				
Jan-25	Mr. Khatana	Dr.		5,000	
	To Cash A/C				4,800
	To Discount Received A/C				200
	(Being cash paid to Mr. Khatana in full Sett.)				
Jan-28	Cash A/C	Dr.		14,500	
	Discount allowed A/C	Dr.		500	
	To Shyam				15,000
	(Being cash received from Shyam in full sett.)				
Jan-31	Salary A/C	Dr.		5,000	
	To Outstanding Salary A/C				5,000
	(Being salary due but not paid)				
Jan-31	Prepaid Insurance A/C	Dr.		11,000	
	Insurance A/C	Dr.		1,000	
	To Cash A/C				12,000
	(Being insurance paid for the whole year)				

Note :- In the last entry insurance is paid for the whole year that's why insurance for 11 month is treated as prepaid & insurance for the month of January is treated as expense.


Goods and Services Tax (GST)
Goods and Services Tax
Intra State Sales (Sales of Goods and Services within the State)
Inter State Sales (Sales of Goods and Services outside the State)
Central Goods and Services Tax (CGST)
State Goods and Services Tax (SGST)
Integrated Goods and Services Tax (IGST)

Goods and Services tax (GST)

Gst is an indirect tax levied on the sale of goods and rendering of services. **GST came into effect from July 1, 2017** and replaced existing multiple cascading taxes levied by the Central and State Governments.

GST is levied at every step in the production process, but is refunded to all parties in the chain of production other than the final consumer.

Goods and Services are divided into **five tax slabs for collection of tax i.e. 0%, 5% 12%, 18% and 28%** except petroleum products and alcoholic drinks.

Characteristics of GST

(1) Most of the indirect taxes of the Centre and states are integrated under the GST.

(2) The Centre and States will store GST tax revenues at 50:50 ratio (except the IGST). The GST going to the centre is called Central GST and that goes to the states is known as State GST.

(3) GST belongs to the VAT family as tax revenues are collected on the basis of value added i.e. GST paid (Input GST) is SET OFF AGAINST GST COLLECTED (OUTPUT GST) and thus GST is levied on the incremental value of goods or services supplied.

(4) GST integrates goods and service taxes into one unified tax regime. Earlier goods and services were imposed and administered differently.

(5) GST proposes a four-tier rate structure. The tax slabs are fixed at 5%, 12%, 18% and 28% besides the 0% tax on essentials.

Objectives of Goods and Services Tax

(1) GST has eased the doing of business as most of the indirect taxes of centre and states are integrated under it (GST).

(2) GST reduces the cost of goods as GST paid (input GST) is set off against GST collected (output GST) and thus tax on tax is eliminated.

(3) GST ensure timely collection of taxes and electronic return filing which reduces the possibilities of tax evasion.

(4) Introduction of GST and removal of multiple indirect taxes will increase foreign direct investment also in the country.

(5) GST integrates goods and service taxes into one unified tax regime by eliminating various unnecessary indirect taxes.

Types of Taxes Under GST

GST is levied under following three types

(1) Central GST (CGST)

(2) State GST (SGST)

(3) Integrated GST (IGST)

Both CGST and SGST are levied on intra-state supply (i.e. sales within the state) at half of the prescribed rate of tax. Suppose the rate of GST is 18% then 9% will be levied as CGST and 9% as SGST. In fact, CGST indicate the share of Central Government while SGST indicate the share of State Government. In case of Union Territory like Delhi, Chandigarh etc. Union territory GST (UTGST) is levied instead of SGST alongwith CGST.

Integrated GST (IGST) is levied on inter state supply (i.e. sales out side the state) and the entire amount will go to Central Government. Suppose, a dealer of Gujarat Sell Goods of Worth ` 10,000 to a dealer of Maharastra and IGST rate is 18%, the ` 1800 will be charged as IGST by the Seller and the whole amount will go to Central Government.

GST paid is categorised into input CGST, input SGST/UTGST and input IGST while GST collected is categorised into output CGST, output SGST/UTGST and output IGST.

GST paid is set off against GST collected in the prescribed order as given in the diagram.

Input IGST paid	Input CGST paid	Input SGST paid
↓	↓	↓
Set off against Output IGST Output CGST Output SGST	**Set off against** Output IGST (If available) Output CGST	**Set off against** Output IGST (If available) Output SGST

Note:- Input IGST is first set of against output IGST, then against output CGST and then against output SGST, if required.

Input CGST is first set of against output IGST (If available) & then against output IGST

Similarly Input SGST is set of first against output IGST (If available) and then against output SGST, if required.

Accounting Entries/Journal Entries involving GST

(i) For Purchase of Goods

Purchase	A/c	Dr
Input CGST	A/c	Dr.
Input SGST	A/c	Dr.
To creditors/Bank A/c		

(ii) For Sale of Goods

Debtors/Bank	A/c	Dr.
To Sales	A/c	
To output CGST	A/c	
To output SGST	A/c	

(iii) For payment of expense

Expense	A/c	Dr.
Input CGST	A/C	Dr.
Input SGST	A/c	Dr.
To Bank	A/c	

(iv) For distributing goods as free samples

Advertisement	A/c	Dr.
To Purchases	A/c	
To Input CGST	A/C	
To Input SGST	A/c	

(v)	For Purchases returns		
	Creditor's	A/c	Dr.
	To purchases returns A/c		
	To Input CGST	A/c	
	To Input SGST	A/c	
(vi)	For Sales Returns		
	Sales Return	A/c	Dr.
	Output CGST	A/C	Dr.
	Output SGST	A/c	Dr.
	To Debtor's	A/c	
(vii)	For Purchase of Fixed Assets.		
	Fixed Asset	A/c	Dr.
	Input CGST	A/c	Dr.
	Input SGST	A/c	Dr.
	To Bank/Vendor	A/c	
(viii)	For setting off Input CGST against output CGST.		
	Output CGST	A/c	Dr.
	To Input CGST	A/c	
(ix)	For setting off input SGST against output SGST.		
	Output SGST	A/c	Dr.
	To Input SGST	A/c	
(x)	For setting off input IGST against output IGST		
	Output IGST	A/c	Dr.
	To Input IGST	A/c	
(xi)	For payment of GST to Government.		
	Output CGST	A/c	Dr.
	Output SGST	A/c	Dr.
	Output IGST	A/c	Dr.
	To Bank	A/c	

Illustration on Setting of GST

Illustration : 8 Based on following information make journal entries for setting of GST.

Input	CGST	4,000
Input	SGST	4,000
Input	IGST	5,000
Output	CGST	5,000
Output	SGST	5,000
Output	IGST	4,000

JOURNAL

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
	Output IGST A/c Dr.		4,000	
	To Input IGST A/c			4,000
	(Being input IGST set off against output IGST)			
	Output CGST A/c Dr.		5,000	
	To Input IGST A/c			1,000
	To Input CGST A/c			4,000
	(Being input CGST and input IGST set off against output CGST)			
	Output SGST A/c Dr.		5,000	
	To Input SGST A/c			4,000
	To Bank A/c			1,000
	(Being Input SGST Set of against output SGST and balance paid.)			

Illustration on Setting of GST

Illustration : 9 Journalise the following entries.

(i) Goods costing ₹ 5000 were given as charity, which were purchased after payment of CGST and SGST @6% each.

(ii) Goods costing ₹2000 were used by the proprietor, which were purchased after payment of CGST and SGST @12% each.

(iii) Goods of ₹ 2000 were destroyed by fire which were purchased after payment of CGST and SGST @6% each.

JOURNAL

Date	Particulars		L.F.	Dr. ₹	Cr. ₹
(i)	Charity A/c	Dr.		5,600	
	To Purchase A/c				5,000
	To Input CGST A/c				300
	To Input SGST A/c				300
	(Being goods given as charity)				
(ii)	Drawings A/c	Dr.		2,480	
	To Purchase A/c				2,000
	To Input CGST A/c				240
	To Input SGST A/c				240
	(Being goods used by proprietor)				
(iii)	Loss of Goods by Fire A/c	Dr.		2,240	
	To Purchase A/c				2,000
	To Input CGST A/c				120
	To Input SGST A/c				120
	(Being goods destroyed by Fire)				

Illustration based on GST and setting of GST

Illustration : 10

(i) Goods costing ₹ 1,00,000 were sold to ram at a profit of 25% on cost less 10% Trade discount plus CGST and SGST @6% each.

(ii) Ram was allowed rebate of ₹ 5,000 due to poor quality of goods sold to him.

(iii) Goods having list price ₹ 40,000 were sold to Ravi at a trade discount of 10% plus CGST and SGST @6% each and allowed cash discount @10%. Half of the amount was paid immediately.

JOURNAL

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
(i)	Ram Dr.		1,26,000	
	To sales A/c			1,12,500
	To output CGST A/c			6,750
	To output SGST A/c			6,750
	(Being goods sold to Ram)			
(ii)	Rebate A/c Dr.		5,000	
	Output CGST A/c Dr.		300	
	Output SGST A/c Dr.		300	
	To Ram			5,600
	(Being rebate allowed to Ram and output CGST & SGST reversed)			
(iii)	Cash A/c Dr.		18,144	
	Ravi Dr.		20,160	
	Discount allowed A/c Dr.		1,800	
	To Sales A/c			36,000
	To output CGST A/c			2,052
	To output SGST A/c			2,052
	(Being goods sold and cash discount allowed on half payment received in cash)			

Illustration based on GST and setting of GST

Illustration : 11 Journalise the following entries. Also set-off GST.

(i) Purchased goods costing ₹ 1,50,000 within state after paying CGST and SGST @6% both.

(ii) Sold goods for ₹ 2,00,000, CGST and SGST both levied on them @6%.

(iii) Purchased goods for ₹ 1,00,000 from other state, IGST paid was 12%.

(iv) Sold goods of ₹ 80,000 to other states, IGST paid was 12%.

JOURNAL

Date	Particulars		L.F.	Dr. ₹	Cr. ₹
(i)	Purchase A/c	Dr.		1,50,000	
	Input CGST A/c	Dr.		9,000	
	Input SGST A/c	Dr.		9,000	
	To Bank A/c				1,68,000
	(Being goods purchased for cash)				
(ii)	Bank A/c	Dr.		2,24,000	
	To Sales A/c				2,00,000
	To output CGST A/c				12,000
	To output SGST A/c				12,000
	(Being goods sold for cash)				
(iii)	Purchase A/c	Dr.		1,00,000	
	Input IGST A/c	Dr.		12,000	
	To Bank A/c				1,12,000
	(Being goods purchased from other state)				

Date	Particulars		L.F.	Dr. ₹	Cr. ₹
(iv)	Bank A/c	Dr.		89,600	
	To Sales A/c				80,000
	To output IGST A/C				9,600
	(Being goods sold to other state)				
(v)	Output IGST A/c	Dr.		9,600	
	To Input IGST A/C				9,600
	(Being Input IGST set off against output IGST)				
(vi)	Output CGST A/c	Dr.		12,000	
	To Input IGST A/C				2,400
	To Input CGST A/c				9,000
	To Bank A/c				600
	(Being Input CGST & Input IGST set off against output CGST and balance paid)				
(vii)	Output SGST A/c	Dr.		12,000	
	To Input SGST A/c				9,000
	To Bank A/c				3,000
	(Being Input SGST set off against output SGST and balance paid.)				

BOOKS OF ORIGINAL ENTERY/SPECIAL PURPOSE BOOKs

As the business grow in size so the number of transactions increases. It is therefore necessary for the business to look out for some way which is simple and time saving, so recording of transaction are done on the basis of nature of transactions like cash transactions, credit purchases/sale of goods, etc.

Following table will illustrate how transactions are classified and in which subsidiary book they are recorded:

S. No.	Nature of Transactions	Subsidiary Book Maintained
1.	Cash Transactions	• Simple Cash Book (For transaction involving only cash) • Double Column Cash book (For Cash and Bank Transactions) • Petty Cash Book (For recording Petty Expenses)
2.	Credit Purchase of Goods	Purchases Book
3.	Credit Sale of Goods	Sales Book
4.	Sales Returns/ Return Inward	Sales Return Book
5.	Purchases Returns/ Return Outward	Purchases Return Book
6.	All other transactions	Journal Proper

Advantages of Maintaining Subsidiary Books

- Division of work
- Leads to Specialization
- Easy to maintain Ledger
- Check on frauds
- Easy to fix responsibility
- Quick availability of Required information.

Test your Understanding:

State in which book following transactions will be recorded:

1. Purchase of goods on credit.
2. Cash paid to creditors.
3. Sale of goods to Archana.
4. Purchase of furniture on credit.
5. Goods returned to Vijay.
6. Goods returned by Tarun.

CASH BOOK

Meaning

Cash–Book is a book of Orignial Entry in which all the cash and bank transactions are recorded in a chronological (date-wise) order.

Features

- Only cash and bank transactions are recorded.
- Receipts of cash/cheque are recorded on the debit side.
- Payments of cash/cheque are recorded on the credit side.
- Transactions are recorded in a chronological order.
- It serves the purpose of both journal and ledger at the same time.

Advantages

- Division of Work.
- Increased Efficiency
- Saves time and efforts.
- Easy ledger posting.
- Less chances of frauds.

Types of Cash-Book

- Simple Cash-Book
- Double Column Cash-Book
- Petty Cash Book.

Difference Between Cash book and Cash Account

Basis	Cash Book	Cash Account
1. Meaning	It is one of the book of original entry in which cash and bank transactions are recorded.	It is a part of a Ledger, wherein transactions are recorded from journal.
2. Need for journal	There is no need to maintain a separate journal for cash transactions.	Transactions are posted from the journal so journal needs to be maintained.
3. Journal or Ledger	Cash book is both journal and ledger as it is both subsidiary book and principal book.	Cash account is a ledger

Answer to Test Your Understanding

1. Purchases Book
2. Cash Book
3. Sales Book
4. Journal Proper
5. Purchases Returns Book
6. Sales Return Book

4. Recording of Bank transactions	Bank transactions are recorded In the double-column cash book itself and there is no need to maintain separate bank account.	For Bank transactions a separate bank account need to be maintained.

(1) Cash book

- Cash book is book in which cash as well as bank transaction are recorded in order of their occurrence (chronological order).
- All receipts are recorded on debit side of cash book (as cash is an asset and to increase asset it is debited)
- All payments are recorded on credit side of cash book (as cash is an asset and to decrease asset it is credited)
- Cash Book is both book of original entry (Journal) as well as Primary Book (Ledger). It is so because all cash and bank transactions are firstly recorded in cash book hence it is a journal and from there NO separate ledgers of cash and bank are maintained and cash book in itself is considered as ledger of cash and bank so it is also a Primary Book (Ledger).

Types of Cash book

Simple Cash Book | Double Column Cash book (Cash and Bank) | Petty Cash Book

<u>A. Simple Cash Book</u>

- Only cash receipts and cash payments are recorded in simple cash book.
- Transactions related to bank are not recorded in simple cash book.
- Receipts of cash are recorded on Dr. side of cash book.
- Payments of cash are recorded on Cr. side of cash book.
- Simple cash book can never have credit balance (negative balance) as one can't pay more that what one have e.g. if I have ₹100 in my pocket I cannot give ₹ 101 to any one. At the most it can have zero balance.

Format of simple cash book:

Dr. (+) Cash Book Cr. (–)

Date	Particulars	L.F.	₹	Date	Particulars	L.F.	₹
	Receipts of cash are recorded on Dr. Side				Receipts of cash are recorded on Cr. Side		

Illustrations 12:

Record the following transactions in the Cash Book (Single Column)

Date	Transactions	₹	Date	Transactions	₹
2022			*2022*		
Jan. 1	*Cash in Hand*	*12,000*	*Jan. 5*	*Received from Ram*	*3,000*
Jan. 7	*Paid rent*	*300*	*Jan. 8*	*Sold goods*	*3,000*
Jan. 10	*Paid to Shyam*	*7,000*	*Jan. 15*	*Purchased goods from Mohan*	*5,000*
Jan. 27	*Purchased furniture*	*2,000*	*Jan. 31*	*Paid Salaries*	*1,000*

Cash Book (Single Column)

Dr. **Cr.**

Date	Particular	V.No	L.F.	₹	Date	Particular	V.No.	L.F.	₹
2022					*2022*				
Jan. 01	*To Balance B/d*			*12,000*	*Jan. 07*	*By Rent A/C*			*300*
Jan. 05	*To Ram*			*3,000*	*Jan. 10*	*By Shyam*			*7,000*
Jan. 08	*To Sales A/C*			*3,000*	*Jan. 27*	*By Furniture A/C*			*2,000*
					Jan. 31	*By Salaries A/C*			*1,000*
					Jan. 31	*By Balacne C/d*			*7,700*
				18,000					*18,000*
Feb. 1	*To Balance b/d*			*7,700*					

Notes : One can draw the following conclusions:

1. In a Simple Cash Book only cash receipts and cash payments are recorded. Credit transaction are not recorded. Purchases from Mohan of ₹5,000 on 15th Jan is a credit purchase hence, is not recorded in the Cash Book.
2. The debit side is always bigger than the credit side since the payments can never exceed the available cash. This is true even for daily balances.
3. It is like an ordinary account.

Illustration 13 :

Enter the following transactions in the cash book for the month of April 2022.

April 1 Cash in hand ₹50,000

April 11 Cash Sales ₹25,000

April 12 Goods sold to Aryan on credit for ₹20,000

April 13 Purchased goods from Khushi on credit for ₹30,000.

April 14 Purchased stationary for ₹1,000 in cash.

April 25 Received from Aryan ₹19,500 in full settlement.

April 26 Paid to Khushi ₹29,000 as full & final payment.

April 27 Deposited into bank ₹ 5,000.

April 30 Paid to Vishal, on old creditor ₹9,800 & received discount of ₹200.

Dr. **Cash Book** **Cr.**

Date	Particular	V.No.	L.F.	Amount ₹	Date	Particular	V.No.	L.F.	Amount ₹
2022					2022				
April 01	To Balance B/d			50,000	Apr-14	By Stationery			1,000
April 11	To Sales A/C			25,000	Apr-26	By Khushi			29,000
April 25	To Aryan			19,500	Apr-27	By Bank A/C			5,000
					Apr-30	By Vishal			9,800
					Apr-30	By Bal. c/d			49,700
				94,500					94,500
Feb. I	To Balance b/d			49,700					

Double Column Cash Book (Cash and Bank)

In a business all transactions do not take place in cash only. Almost every business has bank account and deposit some of its cash into bank. Bank balance is nothing but cash at bank. Bank balance is nothing but cash at bank i.e, that cash which a business has kept in bank. There are transactions when bank balance increases and decreases.

So, it is feasible that along with cash a business maintain record of bank transactions too in same subsidiary book, as bank balance is nothing but cash which is in bank.

Preparation of Double Column Cash Book:

Format of Double Column Cash Bank

Dr. **Cash Book** **Cr.**

Date	Particulars	V.N.	L.F.	Cash ₹	Bank ₹	Date	Particulars	V.N.	L.F.	Cash ₹	Bank ₹

Whenever any payments are made through cheques, they are recorded on Cr. side of cash book but in bank column e.g. Paid rent by cheque ₹ 500

Similarly, when there is an increase in bank balance they are recorded on Dr. side of cash book but in bank column e.g., Received cheque from Pooja and deposited in bank ₹ 1,000

Lets see this with simple transactions:

Jan. 6 Received cheque from Pooja and deposited in bank ₹ 1,000

Jan. 8 Paid rent by cheque ₹ 500

Dr. **Cr.**

Date	Particulars	V.N.	L.F.	Cash ₹	Bank ₹	Date	Particulars	V.N.	L.F.	Cash ₹	Bank ₹
Jan 6	To Pooja				1,000	Jan 8	By Cash A/C		C		500

Besides this there two more very important concepts to understand while preparing Double Column Cash Book.

- Treatment of Contra Entries.
- Treatment of cheques when they are received.

(i) Treatment of Contra Entries

Contra Entries are those entries in which cash and bank are affected at the same time i.e., when cash is increased and at the time same time bank is decreased and vice-vera. There are two types of contra entries:

(a) Cash paid into bank/Deposited into bank/Banked

In this transaction cash is being deposited in bank hence cash balance will decrease but at the same bank balance will increase.

Journal entry for this will be:

Bank A/c Dr. (Bank balance will increase)

To Cashs A/c (Cash balance will decrease)

Lets See posting of this:

Jan 7. Deposited cash into bank ₹ 600

Dr. **Cr.**

Date	Particulars	V.N.	L.F.	Cash ₹	Bank ₹	Date	Particulars	V.N.	L.F.	Cash ₹	Bank ₹
Jan 7	To Cash		C		600	Jan 7	By Bank A/C		C	600	

- To indicate contra entry 'C' is mentioned in L.F. column.
- In this bank balance is being increased so bank column is debited and cash is decreased so cash column is credited.

(b) Cash drawn from bank for office use/Cash drawn from bank/Cashed a cheque

In this transaction cash is being drawn from bank hence cash balance will debited and cash is decreased so cash column is credited.

Journal entry for this will be:

Cash A/c Dr. (Cash balance will increase)

To bank A/c (Bank balance will decrease)

Lets see posting of this:

Jan 9. Drawn form bank ₹ 700

Cash Book

Date	Particulars	V.N.	L.F.	Cash ₹	Bank ₹	Date	Particulars	V.N.	L.F.	Cash ₹	Bank ₹
Jan 9	To Bank A/c		C		700	Jan 9	By cash A/c		C		700

- To indicate contra entry 'C' is mentioned in L.F. column.
- In this cash balance is being icreased so cash column is debited and bank is decreased so bank column is credited.

(ii) Treatment of cheques when they are received.

Another concept to understand is treatment of any amount received in from of cheque. Here, point to notice is the whether cheque received is deposited on the same date i.e., on the date of receipt or later.

Let us understand this with following transactions:

Jan 4. Received a cheque from Kapil and deposited in bank ₹ 500

Jan 6. Received a cheque from Nikhil ₹ 700

Jan 10. Deposited Nikhil's cheque into bank

Jan 15. Received a cheque from Tarun ₹ 800

Dr. Cash Book Cr.

Date	Particulars	V.N.	L.F.	Cash ₹	Bank ₹	Date	Particulars	V.N.	L.F.	Cash ₹	Bank ₹
Jan 4	To Kapil				500						
Jan 10	To Cheques in hand A/c				700						
Jan 15	To Tarun				800						

When it is given that cheque is received and deposited in bank on same day it is debited to bank column on same day e.g on Jan 4 cheque is received from Kapil and deposited in bank.

When a cheque is received and nothing is mentioned wether it is deposited in bank on same day or not then read the question till end and see whether that cheque is deposited on some later day or not.

Now, two possibilities can be there–

(i) That cheque is deposited on later date e.g. Cheque is received from Nikhil on Jan 6 but after reading the questions further we notice that Nikhil's cheque is deposited in bank on Jan 10. In this case we will not enter any entry in cash book on Jan 6 (when cheque is received) we will treat cheque as cheque in hand in hand till the day when it is deposited in bank. On jan 10 (When cheque is deposited in bank) bank account will be debited with cheque in hand.

(ii) When nothing is mentioned about whether cheque is deposited on same day or later then it is assumed that cheque is deposited on the same day when it is received. As in above case, cheque is received from Tarun on jan 15 and nothing is mentoned about Tarun's cheque hence it is debited to bank column on same day.

Illustration 14 :

Record the following transactions in the cash book with cash and Bank columns. (Year : 2022)

Jan.1	Cash balance ₹10,000 & Bank balance ₹7,000.
Jan.2	Cash received from sale of furniture ₹8,000 & paid into Bank ₹5,000.
Jan. 5	Paid to Mr. Kasana by cheque ₹2,000, who allowed discount of ₹50.
Jan.10	Received cheque from Mr. Nagar for ₹2,400 and allowed him discount of ₹100.
Jan.15	Paid wages by cash ₹500 and salaries by cheque ₹1,000.
Jan.20	Deposited Mr. Nagar cheque into Bank.
Jan.22	Drawn from Bank for office use ₹2,000.
Jan.25	Withdraw cash ₹1,000 and from bank ₹500 for personal use.
Jan.30	Received cheque from Mr. Lohiya for ₹2,500 and paid into Bank.

Cash Book (with Cash & Bank Column)

Dr. Date	Particulars	V.N.	L.F.	Cash ₹	Bank ₹	Cr. Date	Particulars	V.N.	L.F.	Cash ₹	Bank ₹
2022 Jan 1	To Bal b/d			10,000	7,000	2022 Jan 2	By Bank A/C		C	5,000	
Jan 2	To Furniture			8,000		Jan 5	By Mr. Kasana				2,000
Jan 2	To Cash A/c		C		5,000	Jan 15	By Wages A/C			500	
Jan 20	To Cheque in Hand				2,400	Jan 15	By Salaries A/C				1,000
Jan 22	To Bank A/c		C	2,000		Jan 22	By Cash		C		2,000
						Jan 25	By Drawing A/C			1,000	500
Jan 30	To Mr. Lohiya				2,500	Jan 31	By Bal. c/d			13,500	11,400
				20,000	16,900					20,000	16,900
Feb 1	To Bal. b/d			13,500	11,400						

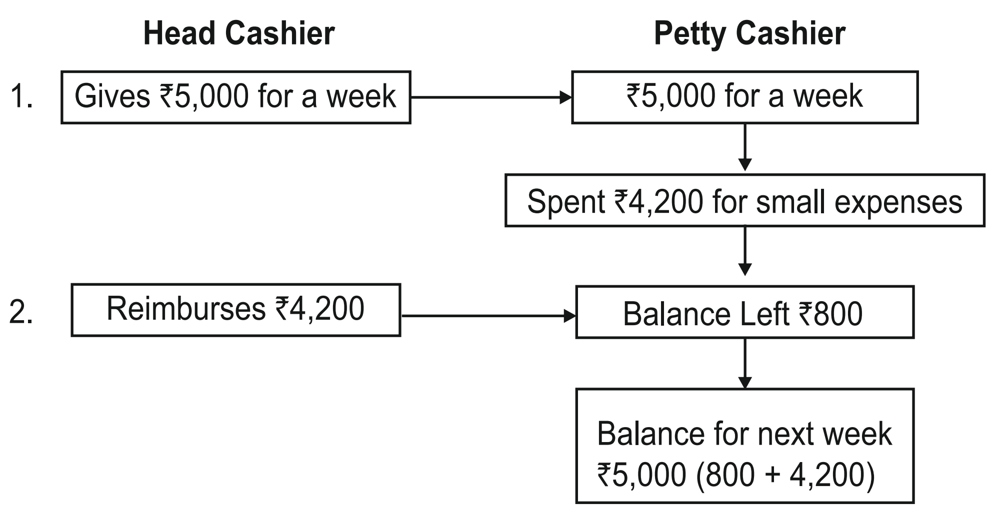
Petty Cash Book

Business has to incur small expenses which are repetitive in nature. To save the time and efforts of head cashier, business appoints a petty cashier. He is entrusted with the duty of paying these expenses.

Impress System of Petty Cash Book

Under this system, Head cashier gives a fixed amount to petty cashier for a definite period. At the end of given period, Head cashier reimburses the amount actually spent by the petty cashier resulting the same amount with petty cashier which he had in the beginning of the period

This can be illustrated as under.



Advantage of Petty Cash Book

- Saving of time and efforts of Head cashier
- Control on Petty expenses.
- Less chances of fraud.

Illustrations : 15

Prepare a Petty Cash book on the imprest system from the following transactions:-

2022		**Amt. (₹)**
Jan. 1	Receive cash from Head cashier	1000.00
Jan. 2	Bought stationery	80.00
Jan. 3	Paid for registered post	120.00
Jan. 4	Bought Pen/Pencils for office use	90.00
Jan. 4	Paid for Speed Post	50.00
Jan. 5	Paid for refreshment	250.00
Jan. 6	Bought postal stamps	40.00

Solution :

Petty Cash Book

Receipts	*Date*	*Particular*	*V. No.*	*Total Expense*	*Stationary*	*Postage*	*Sundries*
	2022						
1000	*Jan. 1*	*To Cash*					
	Jan. 2	*By Stationery*		*80*	*80*		
	Jan. 3	*By Postage*		*120*		*120*	
	Jan. 4	*By Stationery*		*90*	*90*		
	Jan. 4	*By Speed Post*		*50*		*50*	
	Jan. 5	*By Refreshment*		*250*			*250*
	Jan. 6	*By Postage*		*40*		*40*	
	Total Jan. 7			*630*	*170*	*210*	*250*
	Jan. 7	*By Bal. c/d*		*370*			
370	*Jan. 8*	*To Bal. b/d*					
630	*Jan. 8*	*To Cash A/C*					

Cash Book Involving GST

Illustration : 16

Prepare Single Column Cash Book for the month of June 2022, from the following transactions.

2022			₹
June	1	Cash in hand	17,500
June	4	Cash sales, including CGST and SGST @ 6% each	1,72,480
June	5	Deposited Cash into Bank	1,40,000
June	5	paid Cheque to a Creditor ₹34,930 after deducting Cash Discount of ₹2,170	
June	6	Salary paid in cash	15,750
June	6	Cash Sales of ₹1,26,000 plus CGST and SGST @ 6% each. Out of which ₹1,40,000 was deposited in Bank on June 9.	
June	11	Paid Cash ₹3,150 plus CGST and SGST @ 6% each to Delhi Transco Ltd. against their Bill No. 186.	
June	22	Paid Cash for Office Lighting repair Deposited CGST and SGST @6% each on above	1,400
June	23	Purchased Goods on Credit from Varun & Co. ₹10,500 plus IGST @ 12%	
June	25	paid Cash to Tarun, a creditor, after deducting discount ₹350.	6,650
June	27	Paid Telephone Bill in Cash	6,300
June	30	Cash Collected from Naman (Debtor) ₹31,500 after allowing discount of ₹1,750.	

Dr. Cash Book Cr.

Date	Particulars	L.F.	₹	Date	Particulars	L.F.	₹
2022 June 1	To Balance b/d		17,500	2022 June 5	By Bank A/c		1,40,000
June 4	To sales A/c		1,54,000	June 6	By Salary A/c		15,750
June 4	To Output CGST A/c		9,240	June 8	By Bank A/c		1,40,000
June 4	To Output SGST A/c		9,240	June 11	By Freight A/c		3,150
June 6	To Sales A/c		1,26,000		By Input CGST A/c		189
June 6	To Output CGST A/c		7,560		By Input SGST A/c		189
June 6	To Output SGST A/c		7,560	June 22	By Office Expenses A/c		1,400
June 30	To Naman		31,500	June 22	By Input CGST A/c		84
				June 22	By Input SGST A/c		84
				June 26	By Tarun		6,650
				June 27	By Telephone Exp. A/c		6,300
				June 30	By Balance c/d		48,804
			3,62,500				**3,62,500**
July 1	To Balance b/d		48,804				

Double Column Cash Book Question

Illustration : 17

Prepare Double Column Cash Book for the month of June 2022, from the following transactions.

2022		
June	1	Cash in Hand ₹ 1,440, Overdraft at bank ₹ 18,000
June	4	Capital introduced ₹ 24,000 out of which ₹ 19,200 is by cheque and is deposited in the bank.
June	5	Purchased goods from Tanu Traders, Jaipur for ₹ 3,600 CGST and SGST @ 6% each and they allowed trade discount ₹ 240. The amount was paid by cheque.
June	5	Good purchased for cash ₹ 4,800 plus CGST and SGST @ 6% each.
June	6	Sold good to Naresh on credit ₹ 6,000 plus CGST and SGST @ 6% each.

2021		
June	7	Received cheque from Sanjay₹ 2,940. Allowed him discount ₹ 60.
June	11	Cheque received from Sanjay deposited into bank.
June	12	Settled the account of Uday & Co. ₹ 900 by paying cash ₹816
June	13	Cash received from Naresh ₹ 5,700 in full settlement of his account of ₹6,000
June	17	An amount of ₹ 1,200 due from Pawan & Sons written off as bad debts in the previous year, now received.
June	18	Received from Naveen on behalf of Navjot ₹ 240.
June	20	Received a cheque for ₹ 960 from Naman, which was endorsed to Om.
June	21	Old furniture sold for ₹ 840 plus CGST and SGST @ 6% each, payment received in cash.
June	26	Withdrawn from bank ₹ 3,600.
June	26	Drew from bank for household expenses ₹1,200 and for income tax ₹ 600
June	29	Trupti, who owed ₹480 became insolvent and paid 60 paise in a rupee.
June	29	Received repayment of a loan advanced to Sunny ₹ 3,600 and deposited out of it ₹3,000 into the bank.
June	30	Interest debited by bank ₹450.
June	30	Deposited with the bank the entire balance after retaining ₹ 2,400 at office.

TWO COLUMN CASH BOOK

Dr. **Cr.**

Date	Particulars	L.F.	Cash ₹	Bank ₹	Date ₹	Peculators	L.F.	Cash ₹	Bank ₹
2022 June 1	To balance b/d		1,440	...	2022 June 1	By Balance b/d		...	18,000
June 4	To Capital A/c		4,800	19,200	June 5	By Purchases A/c		...	3,360
June 11	To Cheque in Hand A/c		...	2,940	June 5	By Input CGST A/c		...	202
June 13	To Naresh		5,700	...	June 5	By Input SGST A/c		...	202
June 17	To Bad Debts		...	...	June 5	By Purchases A/c		4,800	...
	Recovered A/c		1,200	...					
June 18	To Navjot		240	...	June 5	By input CGST A/c		288	...
June 21	To Furniture A/c		840	...	June 5	By Input SGST A/c		288	...
June 21	To Output CGST A/c		51	...	June 12	by Uday & co..		816	...
June 21	To Output SGST A/c		51	...	June 26	by cash A/c	C	...	3,600
June 26	To Bank A/c	C	3,600	...	June 26	By Drawings A/c		...	1,800
June 29	To Trupti		288	...	June 29	By Bank A/c	C	3,000	...
June 29	To Loan to Sunny A/c		3,600	...	June 30	By Interest A/c		...	450
June 29	To Cash A/c	C	...	3,000	June 30	By Bank A/c	C	10,218	...
June 30	To Cash A/c	C	...	10,218	June 30	By Balance c/d		2,400	7,744
				21,810	**35,358**			**21,810**	**35,358**
July 1	To Balance b/d		2,400	7,744					

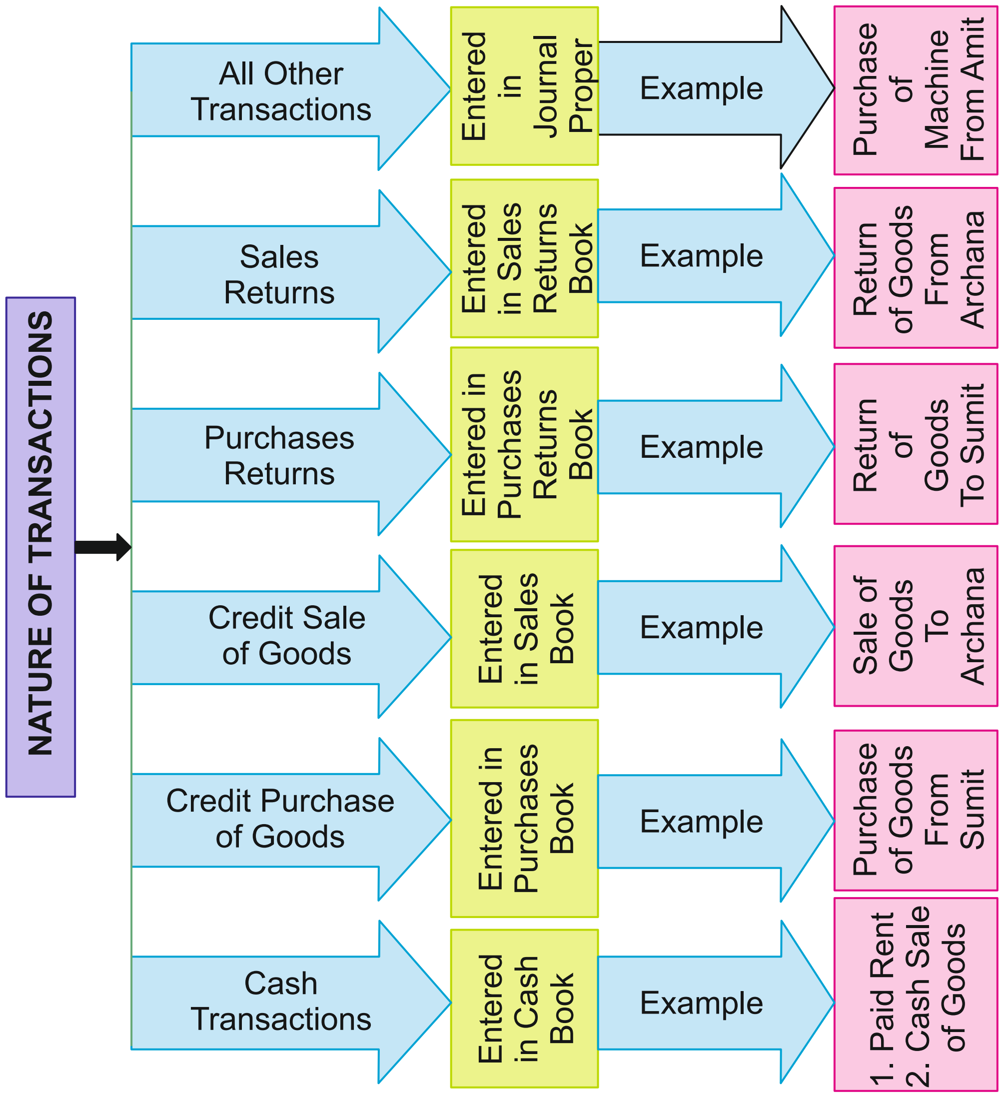
Notes:

Cash in hand before retaining ₹2400

= (1440 + 4800 + 5700 + 1200 + 240 + 840 + 51 + 51 + 3600 + 2800 + 3600) – (480 + 288 + 288 + 816 +3000)

= 12618

Out of this ₹2400 is retained and remaining transferred to bank i.e. 12618 – 2400 = 10218


NATURE OF TRANSACTIONS
Cash Transactions
Entered in Cash Book
Example
1. Paid Rent
2. Cash Sale of Goods
Credit Purchase of Goods
Entered in Purchases Book
Example
Purchase of Goods From Sumit
Credit Sale of Goods
Entered in Sales Book
Example
Sale of Goods To Archana
Purchases Returns
Entered in Purchases Returns Book
Example
Return of Goods To Sumit
Sales Returns
Entered in Sales Returns Book
Example
Return of Goods From Archana
All Other Transactions
Entered in Journal Proper
Example
Purchase of Machine From Amit

SPECIAL PURPOSE SUBSIDIARY BOOKS

Purchase Book

In this book, only those transactions are recorded which are related to credit purchases of goods in which the business deals in. Recording is made on the basis of Bills/ Invoices issued by the Suppliers.

Transactions not recorded in purchases Book

- Purchases of goods for cash.
- Purchases of Assets meant for long term, not for resale.

Illustration : 18

Enter the following transaction in the Purchase Book of M/s Ajeet Stationers.

2022

Aug.1	Bought from Aggarwal Book House (Invoice No. 205)
	25 Dozen Pencils @ ₹30 per dozen
	20 Dozen Ball pens @ ₹10 per pen Trade discount @₹10%
Aug. 5	Brought furniture of ₹20,000 on credit from M/s Interior Decor (Invoice No. 109)
Aug.8	Shivani Bros, sold to us (Invoice No. 626)
	30 Registers @ ₹50 each
	50 Note Books @ ₹20 each
Aug.17	Brought from Tushar stationers : (Cash Memo No. 101)
	300 Refills @ ₹5 each
	10 Ink pads @ ₹50 each
	Trade discount @ 10%

Solution:- In the Books of M/s Ajeet Stationers.

PURCHASE BOOK

Date	*Particular*		*Inv. No*	*LF.*	*Details*	*Amount*
2022	*Agarwal Book House*		*205*			
Aug. 1	*25 Dozen Pencils @ Rs. 30 per dozen*				*750*	
	20 Dozen Ball pens @ Rs. 10 per pen				*2400*	
					3150	
	Less:-Trade discount@ 10%				*315*	*2835*

SALES BOOK

Date	Particular	Inv. No.	LF	Details	Amount
Aug. 8	Shivani Bros. 30 Registers @ ₹50 each 50 Note Books @ ₹20 each	626		1500 1000	2500
Aug. 31	Purchase A/c Dr.				5335

1. Transaction of Aug 5 is related to purchase of furniture and not goods
2. On Aug 17 goods are bough for cash

Sales Books/Sales Journal

In this book, transactions for credit sales of goods are recorded. The source documents for this book is duplicate copy of invoice/bills issued to the customers.

Transactions not recorded in Sales Book

- Sales of goods for cash
- Sales of Assets

Illustration : 19

From the following transactions. Prepare a Sales Book of Subhash Furnitures.

2022

Jul.7	Sold to Anil furniture house (Invoice No. 107) 200 Tables @ ₹150 each 100 Chairs @ ₹100 each Trade discount @ 10%
Jul.8	Sold Air Conditioner to Ram ₹12,000
Jul.20	Sold to Rama Furnitures (Cash Memo No. 3001) 10 Beds @ ₹ 2,500 each
Jul.29	Sold to Jitesh Woods (Invoice No. 506) 10 Dressing Tables @ ₹1,700 each 5 tables @ ₹500 each. Trade Discount @ 10%

Solution :

In the books of M/s Subhash Furniture

Date	Particular	Inv. No	LF.	Details	Amount
2022	<u>Anil Furniture House</u>	107			
Jul-07	200 Tables @ ₹150 each			30.000	
	100 Chairs @ ₹100 each			10,000	
				40.000	
	Less:-Trade discount@ 10%			4,000	36.000
Jul-29	<u>Jitesh Woods</u>	506			
	10 Dressing tables @ ₹ 1.700 each			17,000	
	5 tables @ ₹ 500 each			2,500	
				19,500	
	Less:-Trade discount@ 10%			1950	17,550
Jul-31	Sales A/c Cr.				53,550

Note:-

1. Transaction of July 08 is related to sale of asset,
2. Sale of Rama Furniture is made for cash, hence not recorded in Sales Book.

PURCHASES RETURNS / RETURNS OUTWARD BOOK

This book includes only those transactions which are related to returns of goods bought on credit. The goods may be returned due to various reasons such as goods bought being defective, supply of inferior quality goods etc. Entries in this book are made on the basis of Debit Note.

A Debit note contains the name of the supplier to whom good are returned, details of goods returned.

Illustration : 20

Enter the following transactions in the Purchases Returns Book of Vikas Traders

2022

Aug. 5 Returned to Agarwal Book House (Debit Note No. 105)
5 Dozen Pencils @ ₹30 per Dozen
Trade Discount @ 10%

Aug.10 Returned to Shivani Bros. (Debit Note No. 106)
5 Resisters @ ₹50 each.

Solution:- In the Books of M/s Vikas Traders

PURCHASE RETURNS BOOK

Date	Particular	Dr. Note	LF.	Details	Amount ₹
2022 Aug-5	Aggarwal Book House 5 Dozen Pencils @ ₹30 per dozen Less : Trade Discount @ 10%	105		 150 15	 135
Aug-10	Shivani Bros. 5 Registers @ ₹50 each	106		 250	 250
Aug-31	Purchase Returns A/c Cr.				385

SALES RETURNS BOOK

This book includes all the returns by customers of credit sales of goods. The Credit Note is used for recording entries in this book. The credit note contains the details of customers and goods returned.

Illustration : 21

From the following transactions, Prepare a Sales Returns Book of Subhash Furnitures.

2022 Returned by Anil furniture house (Credit Note No.209)

Jul-09 5 Table @ ₹150 each

10 Chairs @ ₹100 each Trade discount @ 10%

Jul-30 Returned by Jitesh Woods (Credit Note No.210)

1 Dressing tables @ ₹1700 each

Trade discount @ 10%

Solution:- In the books of M/s Subhash Furnitures

SALES RETURNS BOOK

Date	Particular	Cr. Note	LF.	Details	Amount ₹
2022 Jul-07	Anil Furniture House 5 Table @ ₹150 each 10 Chairs @ ₹100 each Less:-Trade discount @ 10%	209		 750 1,000 1,750 175	 1,575
Jul-29	Jitesh Woods I Dressing tables @ ₹1,700 each Less:-Trade discount @ 10%	210		 1,700 170	 1,530
Jul-31	Sales Returns A/c Dr.				3,105

Illustration : 22

Prepare the Purchase Book and Purchase return book from following assuming CGST and SGST is levied @ 6% each.

2022

1 April — Purchased on Credit from Pareek Bros., Delhi
10 reams of paper @ ₹ 600 per ream
12 registers @ ₹ 1000 per dozen
Less: Trade Discount @ 10%.

10 April — Purchased on Credit from Arora Book Depot, Delhi.
10 dozen registers @ ₹ 500 per dozen
12 boxes of pencils @ ₹ 1000 per box.
Less : Trade Discount @ 10%

12 April — Returned 6 dozen registers to Arora Book Depot.

15 April — Returned 5 reams of papers to Pareek Bros. Delhi.

Solution :-

PURCHASE BOOK

Date	Particulars	Invoice	Details	Input Cost	Input CGST	Input SGST	IGST	Total
2022								
April-1	*Pareek Bros. Delhi*							
	10 reams of paper @ ₹600 per ream		*6000*					
	12 registers @ ₹1000 per dozen		*1000*					
			7000					
	Less : Trade Discount @ 10%		*700*					
			6300					
	Add:							
	CGST @ 6%		*378*					
	SGST @ 6%		*378*					
			7056	*6300*	*378*	*378*	-	*7056*

April-10	Arora Book Depot							
	10 dozen registers @ ₹500 per dozen		5000					
	12 boxes of pencils @ ₹1000 per box		12000					
			17000					
	Less: Trade Discount @ 10%		1700					
			15300					
	Add:							
	CGST @ 6%		918					
	SGST @ 6%		918					
April-30			17,136	15,300	918	918	-	17,136
	Total			21,600	1296	1296	-	24,192

PURCHASE RETURN BOOK

Date	Particulars	Debit Note No.	L F	Details	Cost	Input SGST	Input SGST	Input IGST	Total
2022									
April-12	Arora Book Depot								
	6 dozen registers @ ₹500 per dozen			3000					
	Less: Trade discount @ 10%			300					
				2700					
	Add: CGST @ 6%			162					
	SGST @ 6%			162					
				3024	2700	162	162	-	3024
April-15	Pareek Bros., Delhi								
	5 reams of papers @ ₹ 600 per ream			3000					
	Less: Trade Discount @ 10%			300					
				2700					
	Add: CGST @ 6%			162					
	SGST @ 6%			162					
April-30				3024	2700	162	162	-	3024
	Total				5400	324	324	-	6048

Illustration : 23

From the following transactions of M/S Virender & Co. of Lucknow. Prepare Sales Book.

2022

Feb. 1 Sold to Anil Furniture House, Jabalpur (Invoice No. 108)
200 tables @ ₹150 each
100 chairs @ ₹100 each
Trade Discount @ 10%
and IGST is charged 18%.

Feb. 6 Sold to Rama furniture, Lucknow (Cash Memo No. 3005)
10 beds @ ₹ 2500 each
and charged CGST and SGST @ 9% each

Feb. 7 Sold to Jitesh Furniture, Lucknow (Invoice No. 121)
10 dressing table @ ₹ 1700 each.
5 tables @ ₹ 500 Each.
Trade discount @ 10%
and charged CGST and SGST @ 9% each.

Solution :-

M/s Virender & Co., Lucknow

SALES BOOK

Date	Particulars	Invoice No.	L F	Details	Sales Values	Output SGST	Output SGST	Output IGST	Total
2022									
Feb. 1	Anil Furniture House, Jabalpur	108							
	200 Tables @ ₹ 150 each			30,000					
	100 chairs @ ₹ 100 each			10,000					
				40,000					
	Less: Trade Discount 10%			4,000					
				36,000					
	Add: IGST 18%			6,480					
				42,480	36,000			6,480	42,430

Feb. 7	Jitesh Furniture, Lucknow	121							
	10 Drawing table @ ₹ 1700 each			17000					
	5 Tables @ ₹ 500 each			2500					
				19500					
	Less: Trade Discount 10%			1950					
				17550					
	Add: CGST 9%			1580					
	SGST 9%			1580					
Feb. 28				20710	17550	1580	1580		20710
				53500	1580	1580	6480	63190	

Illustration : 24

From the following transactions, prepare Sales Return Book of M/s. Virender & Co. of Lucknow.

2022

Feb. 4 Returned by Anil Furniture House, Jabalpur.

(Credit Note No. 215)

5 tables @ ₹150 each.

10 chairs @ ₹100 each

Trade Discount 10%

IGST is charge @ 18%

Feb. 9 Returned by Jitesh Furniture, Lucknow

(Credit Note No. 217)

1 dressing table @ ₹1700 each

Trade Discount 10%

CGST and SGST @ 9% each.

Solution :-

Books of M/s Virender & Co., Lucknow

SALES RETURN BOOK

Date	Particulars	Credit Note No.	L F	Details	Value	Output SGST (Dr.)	Output SGST (Dr.)	Output IGST	Total
2022 Feb. 4	Anil Furniture House Jabalpur								
	5 Tables @ ₹ 150 each			750					
	10 Chairs @ ₹ 100 each			1000					
				1750					
	Less: Trade Discount 10%			175					
				1575					
	Add. IGST 18%			284					
				1859	1575			284	1859
Feb. 9	Jitesh Furniture, Lucknow								
	1 Drawing table @ ₹ 11700 each			1700					
	Less: Trade Discount 100%			170					
				1530					
	Add: CGST 9%			138					
	SGST 9%			138					
				1806	1530	138	138	-	1806
					3105	138	138	274	3665

TEST YOUR LEARNING

Objective Type Questions :-

1. State whether following statements are true or false
   - (i) A journal is known as a book of final entry.
   - (ii) The term credit, as it is used in recording journal entries, means to increase the balance of an account.
   - (iii) A journal entry in which more than two accounts are involved is known as a combined journal entry.
   - (iv) Cash sales are entered in sales journal.
   - (v) Ledger is a subsidiary book.
   - (vi) Transaction recorded both on debit and credit side of cash book is known as contra entry.
   - (vii) Prepaid Insurance will increase when debited.
   - (viii) The left side of an account is always the debit side and always the increase side.
   - (ix) Journal is a book of secondary entry.
   - (x) One debit account and more than one credit account in a entry is called compound entry.
   - (xi) Assets sold on credit are entered in sales journal.
   - (xii) Cash and credit purchases are entered in purchase Journal.
   - (xiii) Cash book records transactions relating to receipts and payments.
   - (xiv) Petty cash book is a book having record of big payments.
   - (xv) Cash received is entered on the debit side of cash book.
   - (xvi) Balancing of account means total of debit and credit side.
   - (xvii) Credit purchase of machine is entered in purchase journal.

Choose the Correct Answer :-

2. Double column cash book records
   - (i) All Transactions
   - (ii) Cash and Bank Transactions
   - (iii) Only cash transactions
   - (iv) Only bank transactions
3. Voucher is prepared for:

(i) Cash received and paid

(ii) Cash/Credit sales

(iii) Cash/Credit purchase

(iv) All of the above

4. Voucher is prepared from:

   (i) Documentary evidence

   (ii) Journal entry

   (iii) Ledger account

   (iv) All of the above

5. Recording of transaction in the Journal is called:

   (i) Casting

   (ii) Posting

   (iii) Journalising

   (iv) Recording

6. The journal entry to record the sale of services on credit should include:

   (i) Debit to debtors and credit to capital.

   (ii) Debit to cash and Credit to debtors.

   (iii) Debit to fees income and Credit to debtors.

   (iv) Debit to debtors and Credit to fees income.

7. The journal entry to record purchase of equipment for ₹ 5,00,000 cash and a balance of ₹ 1,00,000 due in 30 days include:

   (i) Debit equipment for ₹ 5,00,000 and Credit cash ₹ 5,00,000.

   (ii) Debit equipment for ₹ 6,00,000 and Credit cash ₹ 5,00,000 and creditors ₹ 1,00,000.

   (iii) Debit equipment ₹ 5,00,000and Credit debtors ₹ 6,00,000.

   (iv) Debit equipment ₹ 6,00,000 and Credit cash ₹ 6,00,000.

8. Credit balance of bank account in cash book shows :

   (i) Overdraft

   (ii) Cash deposited in our bank

   (iii) Cash withdrawn from bank

   (iv) None of these

9. If a transaction is properly analysed and recorded:

   (i) Only two accounts will be used to record the transaction.

(ii) One account will be used to record transaction.

(iii) One account balance will increase and another will decrease.

(iv) Total amount debited will equals total amount credited.

10. Journal entry to record paid salaries will include:

(i) Debit salaries Credit cash.

(ii) Debit capital Credit cash.

(iii) Debit cash Credit salary.

(iv) Debit salary Credit creditors.

11. Cash withdrawn by the Proprietor should be credited to:

(i) Drawings account

(ii) Capital account

(iii) Profit and loss account

(iv) Cash account

12. Find the correct statement:

(i) Assets decrease in the Credit

(ii) Expenses increase in the Credit

(iii) Revenue increase in the Debit

(iv) Capital increase in the Credit

13. The book in which all accounts are maintained is known as:

(i) Cash Book

(ii) Journal

(iii) Purchases Book

(iv) Ledger

14. Goods purchased on cash are recorded in the

(i) Purchases (journal) book

(ii) Sales (journal) book

(iii) Cash book

(iv) Purchases return (journal) book

EXERCISE

1. Pass journal entries
   (i) Mukesh started business with cash ₹ 20,000, furniture ₹ 5,000 and machinery ₹ 10,000.
   (ii) Paid into bank ₹ 5,000.
   (iii) Purchased goods from Kapil ₹ 10,000.
   (iv) Sold goods to Nikhii ₹ 16,000.
   (v) Paid to Kapil ₹ 9.500, discount received ₹ 500.
   (vi) Received from Nikhii ₹ 15,000, Discount allowed ₹ 1,000.
   (vii) Amount drawn for personal use ₹ 2,000.
   (viii) Paid salaries ₹ 4,000.
   (ix) Received rent ₹ 5,000.
2. Pass journal entries in the books of Rahul
   (a) Started business with ₹ 20,000.
   (b) Opened a current account ₹ 10,000.
   (c) Purchased a furniture and paid by cheque ₹ 7,000.
   (d) Paid rent of building by cheque ₹ 6,000, one third of building is used by proprietor for residential use.
   (e) Drew from bank ₹ 1,000.
   (f) Drew from bank for personal use ₹ 500.
   (g) Sold household furniture ₹ 2,000 and paid the money into business.
3. Journalise
   (a) Amount due from Sushil ₹ 2,000 is not recoverable.
   (b) 'X' became insolvent and first and final compensation of 75 paise in rupee was received from his official receiver. He owed me a debt of ₹ 2,000.
   (c) Received cash for bad debts written off last year ₹ 2,000.
   (d) Rent due to landlord ₹ 500.
   (e) Salaries due to managers ₹ 2,000.
   (f) Depreciation on machinery @ 10% p.a. for 3 months (value of machinery- ₹ 20,000).
   (g) Interest on capital ₹ 1,000.
   (h) Interest on drawings ₹ 500.
4. Pass journal entries
   (a) Goods given as charity ₹ 3,000.(Cost price ₹ 2,000)

(b) Goods given as free samples ₹ 2,000.(Cost price ₹ 3,000)

(c) Goods destroyed by fire ₹ 10,000, insurance claim admitted ₹ 6,000.

(d) Goods used by proprietor for domestic use ₹ 400.

(e) Goods used for making tools for use in the factory ₹ 700.

(f) Paid wages for installation of new machinery ₹ 500.

(g) Paid cartage for newly purchased furniture ₹ 1,000.

(h) Paid acquisition charges at the time of purchase of buildings ₹ 600.

(i) Paid custom duty on import of machinery ₹ 6,000.

5. Journalise

(a) Purchased goods for cash ₹ 3,000.

(b) Purchased machinery for cash ₹ 4,000.

(c) paid rent ₹ 500.

(d) Paid rent to Sushil ₹ 400.

(e) Paid salaries to Mukesh ₹ 500.

(f) Received a cheque from Sumit ₹ 600.

(g) Sumit's cheque returned dishonoured.

(h) Paid cartage for newly purchased furniture ₹ 600.

(i) Amount drawn for personal use ₹ 700.

(j) Bricks of ₹ 15,000 and timber of ₹ 4,000 purchased for construction of buildings. Payment is made by cheque.

(k) Received ₹ 500 from Mukesh for an amount which was written off as bad debts in previous year.

6. Prepare Two column cash book from following transactions: 2022

Jan.1 Cash in Hand ₹ 5,000, Cash at Bank ₹ 7,000(Cr.)

Jan.2 Purchased goods from Ashish for ₹ 10,000 they allowed trade discount ₹ 300. The amount was paid by cheque

Jan.3 Further capital introduced ₹ 20,000 out of which ₹ 5,000 deposited in bank.

Jan.4 Sold goods to Mohit ₹ 4,000.

Jan. 5 Received cheque from Mohit for ₹ 3,000, allowed him discount ₹ 200.

Jan.6 Settled account of Raghav ₹ 1,000 by paying cash ₹ 900.

Jan.7 Cheque received from Mohit deposited in bank.

Jan 8 Cash received from Varun ₹ 4,900 in full settlement of ₹ 5,000.

Jan 9 Banked ₹ 1,000.

Jan.10 Drawn from bank ₹ 2,000.

Jan. 11 Received a cheque for ₹ 500 from Mukesh, which had endorsed to Kapil on Jan. 15.

Jan.13 Cheque received from Mohit returned by bank as dishonoured.

Jan.14 Discounted a bill of exchange of ₹ 5,000 at 1% through bank.

Jan.18 Cashed a cheque ₹ 1,000.

Jan 22 Interest debited by bank ₹ 200 (**Ans.** ₹26,000, Bank (Cr.) ₹8950)

7. Prepare Two column cash book from following transactions:

Jan.1 Cash in hand ₹20000, Cash at Bank ₹ 8,000

Jan.2 Pays into current account ₹ 500.

Jan.4 Draw a cheque for personal use ₹ 500.

Jan.6 Paid rent by cheque ₹ 300

Jan.7 Received repayment of a loan of ₹ 5,000 and deposited? 3,000 out of it into bank

Jan 10. Ramesh who owed us ₹ 2 000 became bankrupt and paid us 50 paise in the rupee.

Jan.12 Honoured our own acceptance by cheque ₹ 1,000

Jan.13 Bank charges as per pass book ₹ 100.

Jan.15 Deposited in bank entire cash balance after retaining ₹ 1,000 at office. (**Ans.** Cash ₹21,500, Bank ₹30,000)

8. Record following transactions in two-column cash book

Jan. 1 Cash in hand ₹ 8,000, Cash at bank ₹ 10,000.

Jan. 2 Purchased goods for Cash ₹ 3,000.

Jan. 4 Paid rent ₹ 2,000 in cash and salary ₹ 3,000 by cheque.

Jan. 6 Sold goods for cash ₹ 5,000.

Jan. 7 Paid into bank ₹ 3,000.

Jan. 9 Amount drawn for personal use ₹ 1,000.

Jan. 11 Sold goods and received cheque for ₹ 3,000(Banked on same day)

Jan. 12 Cash Sales ₹ 6,000.

Jan. 14 Paid for cartage ₹ 1,000.

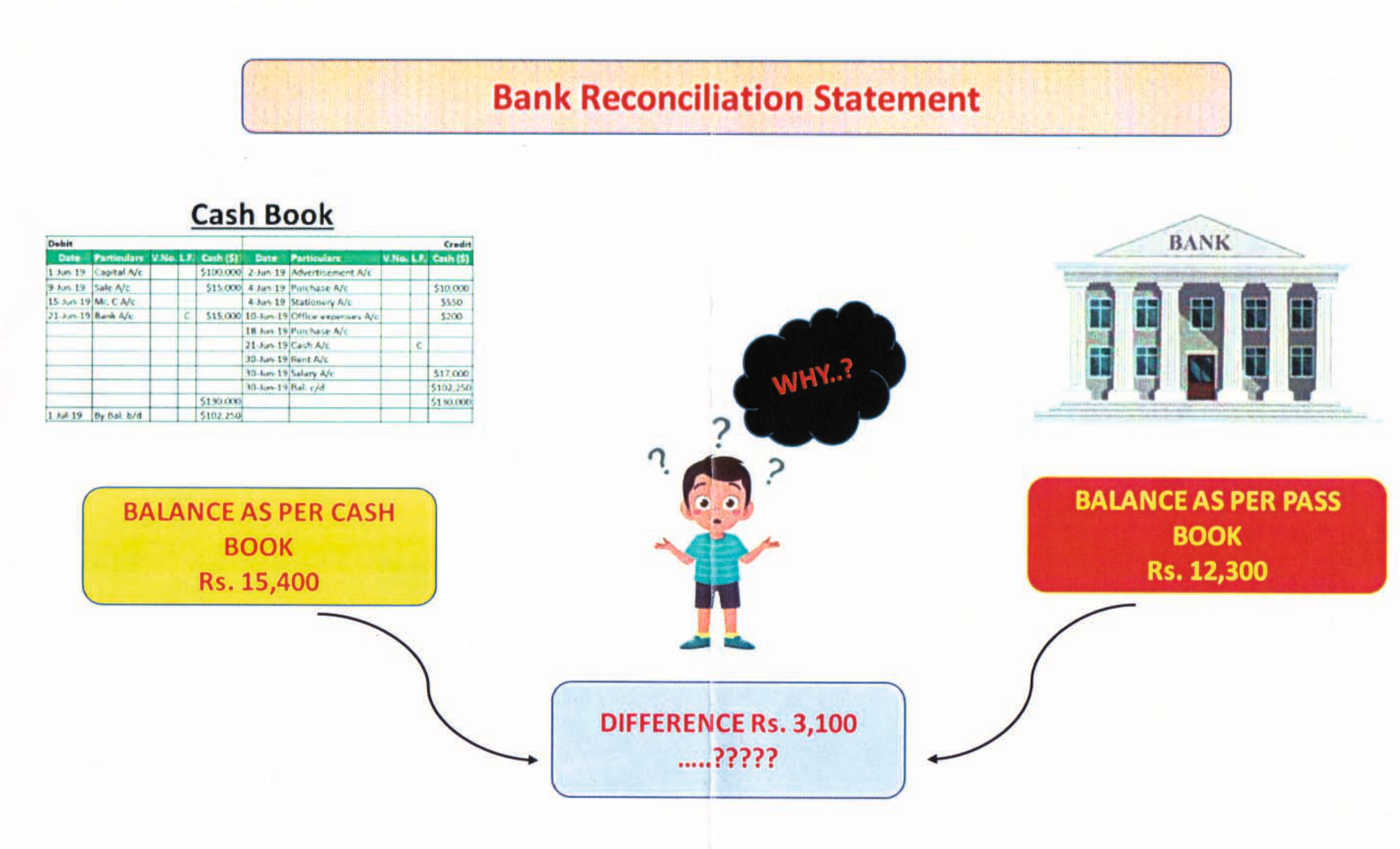
Jan. 17 Drawn from bank for office use ₹3,000.

(**Ans.** Cash ₹12,000, Bank ₹10,000)

9. Record following transactions in two-column cash book 2022

July 1	Cash in hand ₹ 10,000 and cash at bank ₹ 15,000.
July 3	Purchased goods from Amit ₹ 4,000.
July 4	Paid by cheque to Amit in full settlement ₹ 3,900.
July 5	Sold goods to Parag ₹ 7,000.
July 6	Deposited in bank ₹ 3,000.
July 7	Received a cheque from Parag ₹ 4,000.
July 9	Paid electricity bill by cheque ₹ 1,000.
July 13	Parag's cheque deposited in bank.
July 14	Received a cheque from Ashish ₹ 3,000.
July 17	Drawn from Bank ₹ 4,000.
July 20	Drawn from bank for office use ₹ 2,000.

(**Ans.** Cash ₹13,000, Bank ₹14,100)



Debit									Credit
Date	Particulars	V.No.	L.F.	Cash ($)	Date	Particulars	V.No.	L.F.	Cash ($)
1 Jun 19	Capital A/c			$100,000	2-Jun-19	Advertisement A/c			
9 Jun 19	Sale A/c			$15,000	4-Jun-19	Purchase A/c			$10,000
15-Jun-19	Mr. C A/c				4-Jun-19	Stationery A/c			$550
21-Jun-19	Bank A/c		C	$15,000	10-Jun-19	Office expenses A/c			$200
					18-Jun-19	Purchase A/c			
					21-Jun-19	Cash A/c		C	
					30-Jun-19	Rent A/c			
					30-Jun-19	Salary A/c			$17,000
					30-Jun-19	Bal. c/d			$102,250
				$130,000					$130,000
1 Jul 19	By Bal. b/d			$102,250					

CHAPTER - 4
BANK RECONCILIATION STATEMENT

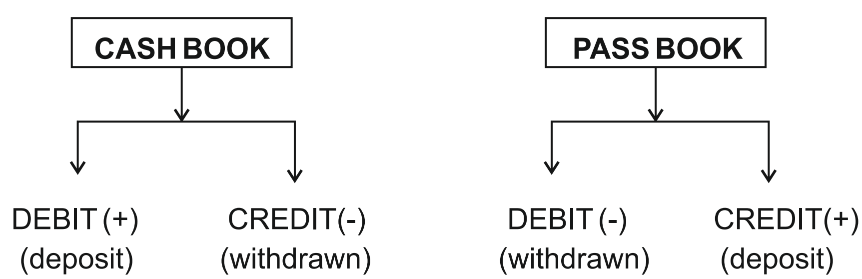
Learning Objectives

After studying this chapter, you will be able to :-

- State the meaning and need for the preparation of bank reconciliation statement.
- Appreciate that at times, bank balance as indicated by cash book is different from the bank balance as shown by Pass Book / Bank Statement and to reconcile both the balances, bank reconciliation statement is prepared.
- Identify causes of difference between bank balance as per cash book and pass book.
- Prepare the bank reconciliation statement.
- Ascertain the correct bank balance as per cash book.

Vocabulary / Important points

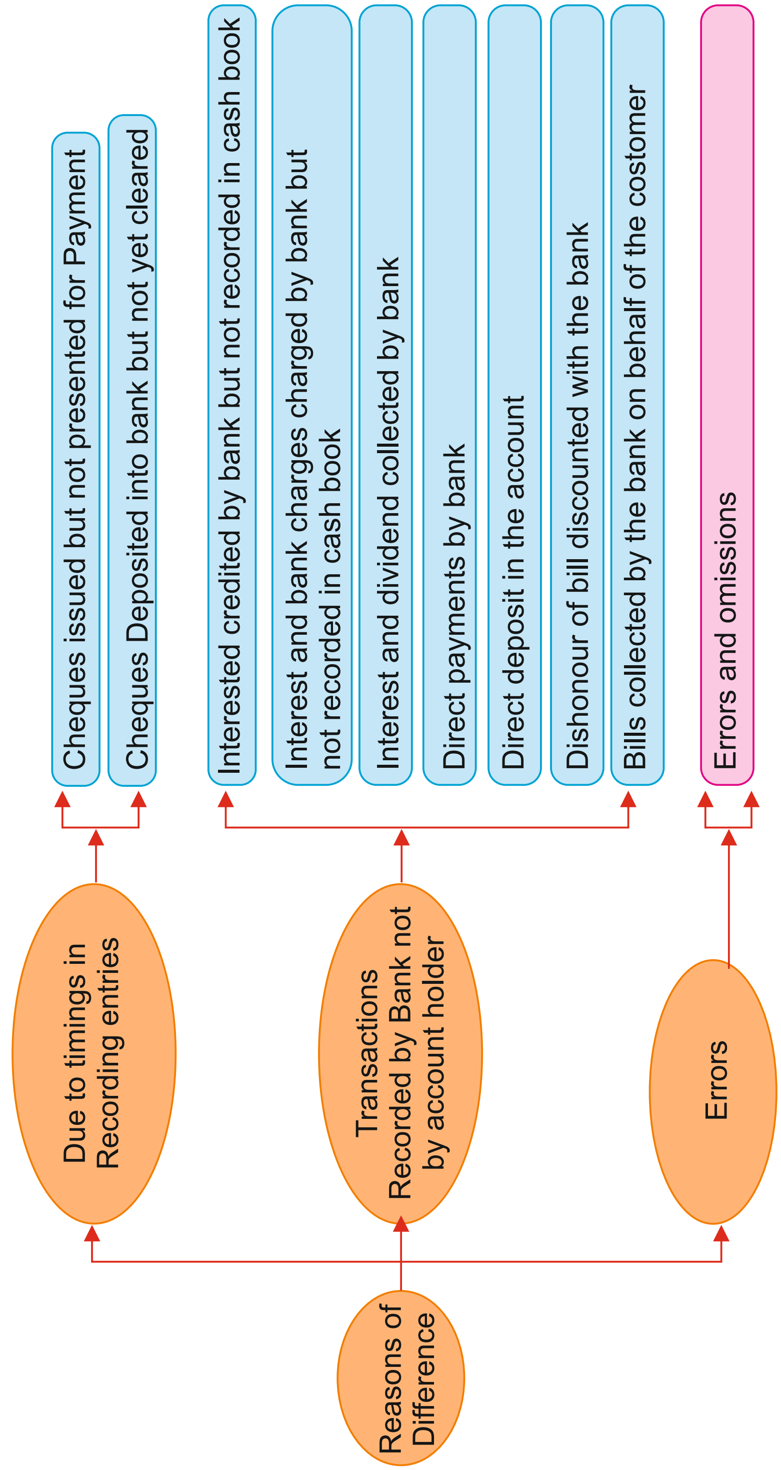
- Balance as per Cash Book → Positive Balance / Debit Balance
- Overdraft as per Cash Book → Negative Balance / Credit Balance
- Balance as per Pass Book → Positive Balance / Credit Balance
- Overdraft as per Pass Book → Negative Balance / Debit Balance



Bank Reconciliation Statement is prepared to reconcile the difference between the bank balance shown by the cash book and bank passbook.

Definition: As per schedule showing the items of difference between the bank statement and the bank column of cash book is known as Bank Reconciliation Statement.

BANK RECONCILIATIONS STATEMENT



Causes of Differences in Cash Book and Pass Book

(A) Transactions recorded in Cash Book but not in Pass Book.

(B) Transactions recorded in Pass Book but not in Cash Book.

(C) Others transactions errors.

(A) Transactions recorded in Cash Book but not in Pass Book :-

(i) Cheques issued but not presented for payment in the bank.

(ii) Cheques deposited or paid into the bank for collection but not yet credited by bank.

(iii) Cheques deposited but dishonored.

(iv) Wrongly entered either debit or credit side.

(B) Transactions recorded in Pass Book but not in Cash Book :-

(i) Interest allowed by the Bank

(ii) Interest on overdraft, bank charges and commission etc. charges by Bank.

(iii) Direct deposit by the customers into Bank.

(iv) Interest, dividend etc. collected by the Bank.

(v) Direct payment made by the Bank on behalf of costumer as per standing instruction.

(C) Other Transactions :-

(i) Error into tallying or balancing of Cash Book.

(ii) Transactions recorded twice in Cash Book.

(iii) Transactions recorded twice in Pass Book.

(iv) Error of recording by wrong amount.

(v) Error of recording in wrong side like debit instead of credit and vice-versa.

Need and importance

- 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 amended or revised Cash Book.
- 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 (BRS)

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

(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) Unticked 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.

Points To Be Remember

(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.

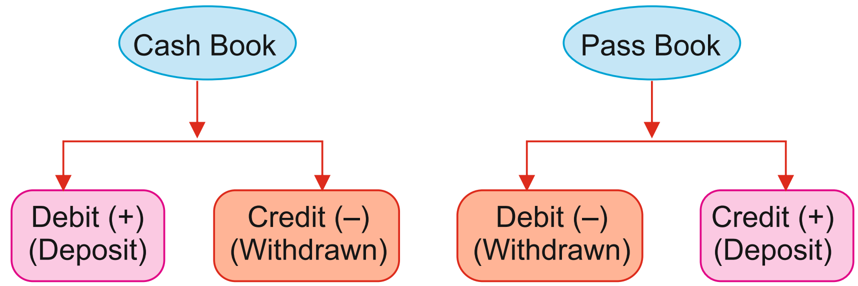
(3) Debit Balance as per Cash Book or Credit Balance as per Pass Book, means that the firm has that much amount of deposit at the bank (also called favourable balance) write the amount under (+) items.

(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 overdraft or unfavorable balance) write the amount under (–) items.

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

Bank Reconciliation Statement as on ....

	Dr.	*Cr.*
Particulars	*+ ITEM*	*- ITEM*
Balance as per Cash Book (Dr.)		
Add :- Items Credit in Pass Bork but not recorded in Cash Book.	xxx	
Less : - Items debit in Cash Book but not recorded in Pass Book.		xxx
Less : Item debit in Pass Book but not recorded in Cash Book		xxx
Add: Items credit in Cash Book but not recorded in Pass Book	xxx	
Balance as per Pass Book (Cr.)		xxx
Total	xxx	xxx



Bank Reconcililation Statement (BRS) is prepared to Reconcite the difference between the Bank Balance shown by cash Book and Pass Book.

Vocabulary/Important Points

- Balance as per cash book → Positive balance/debit blance
- Overdraft as per cash book → Negative balance/credit balance
- Balance as per pass book → Positive balance/credit balance
- Overdraft as per pass book → Negative balance/debit balance

Note

- If total of (+) Items is more than the total of (–) items then difference is Credit Balance or favourable balance as per Pass Book.
- Where as if the(–)total is more than the (+) items total then difference is Debit Balance or overdraft as per Pass Book.
- If BRS is started with Balance as per Cash Book then ending point is Balance as per Pass Book and Vice-Versa.
- Debit balance of Cash Book means favourable balance or(+) balance
- Debit balance of Pass Book means unfavorable balance or (–)balance.
- Credit balance of Pass Book means favourable balance or(+) balance
- Credit Balance of Cash Book Means unfavourable balance or (–) Balance.

READY REFERENCE

Items which increase the Pass Book Balance 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 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) Cheques issued but omitted to be recorded in the Cash Book.

Example 1 : Balance as per Cash Book is given

Prepare Bank Reconciliation statement as on 31st July 2021

(1) Debit balance as per Cash Book is ₹20,000 as on 31st Jul 2021.
(2) Cheques for ₹5000 were deposited into the Bank in the month of July but only Cheques for ₹1000 were credited by bank till 31st July 2021.
(3) Cheques issued for ₹33,000 in July, out of which a cheque for ₹13,800 was presented for payment on 3rd August, 2021.

(4) Bank charged ₹150 as Bank charges and credited interest of ₹400.

(5) A Customer directly deposited ₹2,500 in firms's bank A/C.

(6) Bank paid the insurance Premium of ₹1200 as per standing instruction on 25th July 2021.

Solution :

Bank Reconciliation Statement as on 31st July 2021

Explanation

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

	Particulars	+ Item (₹) Dr.	- Item (₹) Cr,
(1)	*Balance as per Cash Book. (Dr.)*	*20,000*	
(2)	*Cheques deposited but not yet collected by the bank (5.000-1.000)*	-	*4,000*
(3)	*Cheques issued but not yet Present for payment*	*13,800*	-
(4)	*(a) Bank. Charges*	-	*150*
	(b) Interest credited by the bank	*400*	-
(5)	*Directly deposited by the customers not recorded in the Cash Book*	*2,500*	-
(6)	*Insurance Premium paid by the bank not recorded in Cash Book.*		*1.200*
	Balance as per Pass Book (36,700- 5,350) (Cr.)		*31350*
	Total	*36700*	*36700*

Alternative:

Bank Reconciliation statement as on 31st July 2021

Particulars	**Amount Details (₹)**	**Amount (₹)**
Balance as per Cash Book (Dr.)		20,000
Add:		
Cheques issued but not yet presented for payment	13,800	
Interested credited by Bank	400	
Directly Deposited by customers into bank but not recorded in Cash Book	2,500	16,700
		36,700
Less:		
Cheques deposited but not yet collected by bank (5,000–1,000)	4,000	
Bank Charges	150	
Insurance premium paid by the bank not recorded in the Cash Book	1,200	(5,350)
Balance as per Pass Book (Cr.)		31,350

Example 2 : When overdraft as per Cash Book is given

(1) Overdraft as per Cash Book is ₹41,000 on 30th June 2021.

(2) Cheqes deposited but not yet collected ₹13,000.

(3) Cheqes issued but not yet presented for payment of ₹2,500.

(4) Bank Charges of ₹100 and Interest on overdraft of ₹300 are charged by the bank.

(5) A customer directly deposited ₹1,500 into the Bank.

(6) Insurance Premium of ₹2,500 is paid by the bank as per standing instructions.

Prepare Bank Reconciliations Statement for the month of June 2021.

Solution:

Bank Reconciliations Statement as on 30th June 2021

Particulars	(+) Items (₹) Dr.	(–) Items (₹) Cr.
(*1)* Overdraft as per Cash Book*. (Cr.)	-	41,000
(2) Cheques deposited but not yet collected	-	13,000
(3) Cheques issued but not yet Presented for payment	2,500	-
(4) (a) Bank Charges	-	100
(b) Interest on overdraft charged		300
(5) Directly deposited by a customer in the bank.	1,500	-
(6) Insurance Premium paid by the bank not entered — in Cash Book.	-	2,500
Overdraft as per Pass Book (56,900 – 4,000) (Dr.)	52,900	
Total	56,900	56,900

Overdraft means unfavorable balance or Negative Balance Hence put it under (–I've) items.

Alternative

Bank Reconciliations Statement as on 30th June 2021

Particulars	Amount Details (₹)	Amount (₹)
Overdraft as per Cash Book (Cr.)		41,000
* Cheques deposited but not yet collected	13,000	
* Bank charges	100	
*Interested on Bank overdraft charged but not recorded in Cash Book	300	
*Insurance premium paid by bank but not recorded in the cash book	2,500	15,900
		56,900
Less:		
*Cheques issued but not yet presented for payment	2,500	
*Directly Deposited by customers into bank	1,500	(4,000)
Overdraft as per Pass Book (Dr.)		52,900

Method of preparing BRS starting with balance/overdraft as per Bank passbook.

Bank Reconciliations Statement ....

Particulars	**(+) Items (Cr)**	**(–) Items (Dr)**
Balance as per pass book (Cr.)	xxx	
or		
Overdraft as per pass book (Dr.)		xxx
Add: Items Debit in cash book but not recorded in pass book	xxx	
Less: items credit in pass book but not recorded in cash book		xxx
Add : Items debit in pass book but not recorded in cash book	xxx	
Less: Items credit in cash book but not recorded in pass book		xxx
Balance as per cash book (Dr.)............		xxx
or		
Overdraft as per cash book (Cr.)	xxx	
Total	xxx	xxx

READY REFERENCE

Items which increases the Cash Book Balance or decreases the Pass Book Balance

(1) Cheques deposited into the bank but dishonoured.

(2) Cheque sent for collection but not yet collected.

(3) Direct Payments made by the bank.

(4) Bank charges, commission etc. debited by the bank.

(5) Cheques issued but omitted to be recorded in the Cash Book.

Items which decreases the Cash Book Balance or increase 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.

Examples 3 : When Balance as per Pass Book is Given.

Prepare the bank Reconciliation statement from the Following transactions of Ram lal & sons for the month of July 2021 .

1. Balance as per Pass Book is ₹70,000.
2. Cheques for ₹5,000 were deposited into the Bank in the month *of* July but only Cheques for ₹1,000 were credited by the bank till 31st July 2021.
3. Cheques issued for ₹33,000 in July, out of which a Cheque for ₹13,800 was presented for payment on 3rd August, 2021.
4. Bank charged ₹150 as bank charges and credited interest of ₹400.
5. A customer directly deposited ₹2,500 in the firm's bank A/c.
6. Bank paid the insurance Premium of ₹1,200 as per standing instruction.

Solution

Bank Reconciliation Statement as on 31th July 2021

	Particulars	(+) Items (₹)	(–) Items (₹)
(1)	Balance as per Pass Book (Cr).	70,000	—
(2)	Cheques deposited but not yet collected by the Bank (5,000-1,000).	4,000	—
(3)	Cheques issued but not yet Presented for payment		13,800
(4)	(a) Bank Charges.		-
	(b) Interest allowed by Bank.	150	
(5)	Directly deposited by the customer, not recorded in the Cash Book.	-	400
(6)	Insurance Premium paid by the Bank, not recorded in Cash Book.	-	2,500
	Balance as per Cash Book (75,350-16,700) Dr.		58,650
	Total	75,350	75,350

Alternative:

Bank Reconciliations Statement as on 30th July 2021

Particulars	Amount Details (₹)	Amount (₹₹
Balance as per Pass Book (Cr).		70,000
Add:		
* Cheques deposited but not yet collected	4,000	
*Bank charges	150	
*Insurance premium paid by bank but not recorded int he cash book	1,200	5,350
		75,350
Less:		
*Cheques issued but not yet presented for payment	13,800	
*Interest allowed by Bank	400	
*Directly Deposited by customers into bank not recorded in Cash Book	2,500	(16,700)
Balance as per Cash Book (Dr.)		58,650

Example 4 : When Overdraft as per Pass Book is Given

Prepare the bank Reconciliation statement from the Following transactions of M/s R. Gupta for the month of June 2021.

1. Overdraft as per Pass Book is ₹48,000
2. Cheques Deposited but not yet collected by bank ₹13,000
3. Cheques issued but not yet presented for payment of ₹2,500
4. Bank Charges of ₹100 and interest on overdraft of ₹300 are charged by the Bank.
5. A customer directly deposited ₹1,500 into the bank.
6. Insurance Premium of ₹2,500 is paid by the bank as per standing instructions.

Solution:

Bank Reconciliations Statement as on 30th June 2021

Particulars	(+) Items (Cr.)	(–) Items (Dr.)
(1) Over draft as per Pass Book. (Dr.)	-	48,000
(2) Cheques deposited but not yet collected	13,000	-
(3) Cheques issued but not yet presented for payment	-	2,500
(4) (a) bank Charges not entered in Cash Book	100	-
(b) Interest on overdraft charged by the bank	300	-
(5) Directly deposited by a customer in the Bank	-	1,500
(6) Insurance Premium paid by the Bank	2,500	-
Overdraft as per Cash Book (52,000-15,900) (Cr.)	36,100	
Total	**52,000**	**52,000**

Alternative:

Bank Reconciliation Statement as on 30th June 2021

Particulars	Amount Details (Rs.)	Amount (Rs.)
Over draft as per Pass Book. (Dr.)	-	48,000
Add:		
*Cheques issued but not yet presented for payment	2,500	-
*Directly deposited by a customer in the Bank but not recorded in Cash Book	1,500	4,000
		52,000
Less:		
*Cheques deposited but not yet collected by bank	13,000	
*Bank charges not entered in Cash Book	100	-
*Interest on overdraft charged by the bank	300	-
*Insurance Premium paid by the Bank	2,500	(15,900)
Overdraft as per Cash Book (Cr.)		36,100

Solved Exercises

I. Multiple Choice Questions

1. In the cash book, the favourable balance indicates:
   (a) Credit Balance (b) Debit Balance
   (c) Bank Overdraft (d) Adjusted Balance
2. M/s. Shri Ram Bring out the Bank Statement. On the bank statement, cash deposited by the Firm, into the bank is known as:
   (a) Credit (b) Debit
   (c) Liability (d) Expenses
3. Bank reconciliation statement compares a bank statement with
   (a) Cash payment journal (b) Cash receipt journal
   (c) Financial statements (d) Cashbook
4. What is the treatment of "Deposit in transit" in the bank reconciliation statement?
   (a) Added to Bank Balance
   (b) Subtracted From Bank Balance
   (c) Subtracted From the Cash Book Balance

(d) Added to Cashbook Balance

5. 'NSF' marked in cheque (Dishonoured Cheque) sent back by the bank indicates:
   (a) Cheque has been forged
   (b) A bank couldn't verify the identity
   (c) Not sufficient funds
   (d) A cheque cannot be cashed because it's illegal
6. Unpresented cheques also referred to as:
   (a) Bounced cheques (b) Outstanding cheques
   (c) Uncredited cheques (d) Uncollected cheques
7. In cash book, bank charges of ₹ 1,000 was not recorded. Name the correct cash book adjustment.
   (a) It will be debited in cash book
   (b) It will be credited in cash book
   (c) No adjustment needed in the cash book
   (d) Charges will be added to the cash book balance
8. What type of cheque is that which is issued by a firm but not yet presented to the bank?
   (a) Uncredited cheques (b) Outstanding cheques
   (c) Uncollected cheques (d) Bounced cheques
9. When a cheque is not paid by the bank, it is called?
   (a) Honoured (b) Endorsed
   (c) Dishonoured (d) A and B
10. Bank reconciliation is not a ....
    (a) Reconcile records
    (b) Memorandum statement
    (c) Ledger account
    (d) Procedure to provide cash book adjustments
11. The balance on the debit side of the bank column of cash book indicates?
    (a) The total amount has drawn from the bank
    (b) Cash at bank
    (c) The total amount overdraft in the bank
    (d) None of above
12. Bank statement also called?
    (a) Pass book (b) Cash book
    (c) Credit book (d) Debit book

13. The main purpose of preparing a bank reconciliation statement is?
   (a) To know the bank balance
   (b) To know the balance of bank statement
   (c) To correct the cash book
   (d) To identify causes of difference between cash book and bank statement
14. Which of the following items is not a reason for the difference between bank balance as per cash book and Passbook?
   (a) Dishonoured cheque
   (b) Cheques deposited but not yet cleared
   (c) Credit sales
   (d) Cheques issued but not yet presented for payment
15. A cheque that bears a date latter than date of issue is called?
   (a) Anti-dated cheque (b) Post-dated cheque
   (c) Dishonoured cheque (d) Outdated cheque

Answers:

1. b,	2. a,	3.d,	4. a,	5. c,	6. b,	7. b,
8. b,	9. c,	10. c,	11. b,	12. a,	13. d,	14. c,
15. b						

II. Fill in the Blanks

(i) Passbook is a copy of ____________as it appears in the ledger of the bank.

(ii) When money is withdrawn from the bank, the bank _____________ the ___________ account of the customer.

(iii) Normally, the cash book shows a debit balance, passbook shows ____________ balance.

(iv) Favourable balance as per the cash book means___________ balance in the bank column of the cash book.

(v) If the cash book balance is taken as a starting point, the items which make the cash book balance smaller than the passbook must be_________________for the purpose of reconciliation.

(vi) If the passbook shows a favourable balance and if it is taken as the starting point for the purpose of bank reconciliation statement then cheques issued but not presented for payment should be ___________ to find out cash balance.

(vii) When the cheques arc not presented for payment, favourable balance as per the cash book is____________ than that of the passbook.

(viii) When a banker collects the bills and credits the account passbook overdraft shows ____________ balance.

(ix) If the overdraft as per the passbook is taken as the starting point, the cheques issued but not presented are to be _______________ in the bank reconciliation statement.

(x) When the passbook balance is taken as the starting point, items which makes the passbook balance___________than the balance in the cash book must be deducted for the purpose of reconciliation.

(xi) Bank Reconciliation Statement is prepared to Reconcile balance as per ___________with balance as per Bank Statement.

(xii) Balance as per Cash Book is ₹30,000, Cheques of ₹2,600 were deposited which were not credited by the bank and Cheques of ₹3,000 issued have not been presented for payment. Balance as per Passbook is ____________ .

(xiii) Overdraft as per Pass Book is ₹21,000 if a direct deposit of ₹5,000 and Bank charge ₹1,000 are not recorded in the Cash Book. Overdraft as per Cash Book will be __________ .

(xiv) Balance as per Pass Book is ₹23,000, Cheques of ₹4,500 were collected but not deposited in the bank and Cheques of ₹2,000 issued have not been presented for payment. Balance as per Cash Book is ____________.

(xv) Debit balance in the Bank Statement or Bank Passbook means ___________ balance as per Cash Book.

Answers:

(i) Customer account	(ii) Debit
(iii) Credit	(iv) Debit
(v) Added	(vi) Deducted
(vii) less	(viii) Less
(ix) Added	
(x) Higher	
(xi) Cash Book	
(xii) ₹ 49,400	
(xiii) ₹ 25,000	
(xiv) ₹ 25,500	
(xv) Credit	

III. True or False

(i) Bank Reconciliation Statement is prepared by the Bank.

(ii) Bank Reconciliation Statement is prepared at the end of every month.

(iii) A bank reconciliation statement is prepared by the Bank Account holder.

(iv) Bank Reconciliation Statement is prepared to detect the errors that take place in accounting.

(v) Bank Reconciliation Statement is prepared to Reconcile the balance of Cash Book with Balance of Passbook and vice versa.

(vi) Bank balance as per Cash Book means debit balance as per Cash Book.

(vii) Overdraft as per Cash Book means Credit balance as per Cash Book.

(viii) Bank balance as per Passbook means debit balance as per Passbook.

(ix) Overdraft as per Passbook means Credit balance as per Passbook.

(x) Direct deposit made by debtors into businessman's bank account is recorded on the credit side of Pass Book.

(xi) Cash Book balance was Rs. 1,580 (debit) when compared with the bank statement, it was identified that unpresented cheques were Rs. 1,200 and deposits not credited were Rs. 320. The balance of the bank statement will be Rs. 700 credit.

(xii) Cash Book normally shows a Credit Balance.

(xiii) Errors in the Bank Statement are considered while preparing an amended Cash Book.

(xiv) Cheques issued but not presented for payment will reduce the balance as per the Passbook.

(xv) Cheques deposited but not collected will result in increasing the balance of the cash book when compared to Passbook.

Answers:

(i) False	(ii) True
(iii) True	(iv) False
(v) True	(vi) True
(vii) True	(viii) False
(ix) False	(x) True
(xi) True	(xii) False
(xiii) False	(xiv) *False*
(xv) True	

IV. Prepare the Bank Reconciliation Statement in the following Questions.

1. M/s. Karori Mai Called his Accountant for the Reconciliation of Bank statement with the Cash Book for the month of April 2022. Cashbook shows a balance of Rs. 22,500. On comparing the cash book with the passbook the following discrepancies were noted.
   - (i) Cheque issued but not yet presented for payment Rs. 5,000
   - (ii) Cheque deposited in the bank but not collected Rs. 8,000
   - (iii) Bank paid insurance premium Rs. 6,000
   - (iv) Bank charges Rs. 1,300
   - (v) Directly deposited by a customer into the bank account Rs. 8,000
   - (vi) Interest on Investment collected by bank Rs. 1,200
   - (vii) Cash discount allowed Rs. 500 was recorded on the debit side of the bank column.

Solution:

Bank Reconciliation Statement for the month of April 2022

Particulars	Amount Plus	Amount Minus
Balance as per Cashbook (Debit)	22,500	
(i) Cheque issued but not yet presented for payment	5,000	
(ii) Cheque deposited in the bank but not collected		8,000
(iii) Bank paid insurance premium		6,000
(iv) Directly deposited by a customer into the bank		1,300
account.	8,000	
(vi) Interest on Investment collected by the bank.	1,200	
(vii) Cash discount allowed was recorded on the debit side of the bank column.		500
Balance as per Pass Book (Cr.)		20,900
Total	36,700	36,700
Alternative:		

Bank Reconciliation Statement for the month of April 2022

Particulars	Amount Details	Amount
Balance as per Cashbook (Debit)		22,500
Add:		
– Cheque issued but not yet presented for payment	5,000	
– Directly deposited by a customer into the bank account	8,000	
– Interest on Investment collected by the bank.	1,200	14,200
		36,700
Less:		
– Cheque deposited in the bank but not collected.	(8,000)	
– Bank paid insurance premium.	(6,000)	
– Bank charges.	(1,300)	
– Cash discount allowed was recorded on the debit side of the bank column.	(500)	(15,800)
Balance as per Pass Book (Cr.)		20,900

2. (i) On 31st March 2021 Bank Passbook of X Limited showed a balance of ₹ 25,000 to her credit.

   (ii) Before that date, she had issued cheques amounting to ₹5,000 out of which cheque amounting to ₹1,200 have so far been presented for payment.

   (iii) A cheque of ₹2,000 deposited by her into the bank on 25th of March 2021 is not yet credited in the passbook.

   (iv) She had also received a cheque of ₹1,500 which although recorded by her in the bank column of the cash book, was omitted to be deposited in the bank.

   (v) On 30th March, 2021 a cheque of ₹1,670 received by her was paid into the bank but the same was omitted to be recorded in the cash book.

   (vi) There was a Credit of ₹200 for interest on the current account and a debit of ₹250 for the bank charges.

Solution:

Bank Reconciliation Statement for the mouth of March 2021

Particulars	Amount Plus	Amount Minus
(i) Balance as per Passbook (Credit)	25,000	
(ii) Cheque issued but not yet presented for payment		3,800
(iii) Cheque deposited in the bank but not collected.	2,000	
(iv) Cheque received but not yet deposited into Bank	1,500	
(v) Cheque collected but omitted to be recorded in the cashbook.		1,670
(vi) Interest Credited to Bank		200
Bank Charges	250	
Balance as per Cash Book (Dr.)		23,080
Total	28,750	28,750

Alternative:

Particulars	Amount Details	Amount
Balance as per Passbook (Credit)		25,000
Add:		
– Cheque deposited in the bank but not collected	2,000	
– Cheque received but not yet deposited into Bank	1,500	
– Bank Charges	250	3,750
		28,750
Less:		
– Cheque issued but not yet presented for payment	(3,800)	
– Cheque collected but omitted to be recorded in the cashbook	(1,670)	
– Interest Credited by Bank	(200)	(5,670)
Balance as per Cash Book (Dr.)		23,080

UNSOLVED EXERCISE

1. **In the following Bank Reconciliation statement determine the missing amounts"**

Bank Reconciliation Statement as on ....

Particulars	Plus Item ₹	Minus Item ₹
(a) Overdraft as per cash book (CR) ₹ 65000	....	....
(b) Bank charges debited in the pass book but not yet entered in the cash book ₹ 500	....	....
(c) Cheque issued but not yet presented ₹ 11,000	....	....
(d) Interest debited in the pass book but not yet entered in the cash book amounting ₹1,500	....	....
(e) Cheque paid in but not yet called by the bank ₹1600	....	....
(f) Overdraft Balance as Per Pass Book (Dr.)	....	....

2. **Bank Reconciliation statement is prepared by**
   (a) Debtors of firm
   (b) Creditors of firm
   (c) Account holder of bank
   (d) Bank
3. **A Bank reconciliation statement is prepared with the balance of**
   (a) Pass Book
   (b) Cash book
   (c) Neither cash book nor pass book
   (d) Either cash book or pass book
4. **Unfavorable bank balance means**
   (a) Credit balance in the cash book
   (b) Credit balance in the pass book
   (c) Debit balance in the cash book
   (d) Favorable balance in the cash book

5. **From the following information, prepare bank Reconciliation Statement as on 31st March, 2021.**

(I) On 31st March, 2021 balance as per cashbook ₹18,000.

(ii) Out of the total cheques of ₹12,000 issued, cheques aggregating ₹3000 were presented in March, 2021, cheques aggregating ₹4000 were presented in April, 2021 and the remaining have not been presented yet.

(iii) Out of the total cheques amounting to ₹5000 deposited, cheques only aggregating ₹1500 were credited till March, 2021.

(iv) Bank has debited ₹100 as bank charges and has credited ₹200 as interest.

(v) Bank had reversed bank charges of ₹200 wrongly debited earlier.

(vi) Bank paid Insurance premium of ₹2000 but it was recorded as ₹200 in the Cashbook.

(vii) Receipts side of Cashbook was under casted by ₹500.

(**Answer:** Balance as per passbook ₹22,500)

6. **Prepare bank Reconciliation Statement of Raman as on 31st March, 2021:**

(i) Balance as per Bank Pass Book as on the date is ₹8000.

(ii) Bank collected a cheque of ₹500 on behalf of Raman but wrongly *credited* it to Rajan's Account (a customer).

(iii) Bank recorded a cash deposit of ₹2580 as ₹2590.

(iv) Withdrawal column of the Pass Book under casted by ₹100.

(v) Credit *Balance* of ₹1500 as on Page 10 of the Pass Book was recorded on Page 11 as a debit balance.

(vi) Payment of a cheque of ₹350 was recorded twice in the Pass book.

(vii) Pass Book showed a credit for a cheque of ₹1000 deposited by Rajan's (another customer of the Bank).

(viii) Dividend collected by Bank ₹125.

(**Answer:** Balance as per Cash Book ₹12,615)

7. **From the following information determine the balance as per Bank Pass Book of Amit on 31st March, 2021:**

(i) Bank overdraft as per Cash Book on 31st March, 2021 ₹60,000.

(ii) Interest on overdraft for 6 months ended 31st March, 2021, ₹1600 entered in the Pass Book.

(iii) Bank charges of ₹300 for the above period are debited in the pass book.

(iv) Cheques issued but not cashed prior to 31st March, 2021, amounted to ₹12,600.

(v) Cheques paid into the bank but not cleared before 31st March, 2021 were for ₹21,700.

(vi) Interest on investments collected by the bank and credited in the Pass Book, ₹12,000.

(vii) Credit side of the Bank column of the Cash book was under casted by ₹1000. (**Answer:** Overdraft as per Pass Book ₹60,000)

8. From the following information Overdraft balance shown by the pass book of Mrs. Nidhi is ₹25,000.

Prepare Bank Reconciliation statement on December 31, 2020:

(i) Bank charges debited as per pass book ₹ 500.

(ii) Cheques recorded in the cash book but not sent to the bank for collection ₹ 7,000.

(iii) Received a payment directly from a customer ₹ 7,500.

(iv) Cheques issued but not presented for payment ₹ 6,840

(v) Interest debited byu the bank ₹ 380.

(vi) Cheques deposited into bank but not yet collected ₹ 4,750.

(vii) Interest on investment collected by the bank and credited in the pass book ₹ 700.

(viii) A bill receivable for ₹ 3,600 previously discounted with the bank had been dishonoured and debited in the pass book.

(**Answer:** Overdraft as per cash book ₹ 23810)

9. Prepare Bank Reconciliation Statement as on 31 st May 2022 for Ratan sales private limited from the infonnation given below:

(i) Bank overdraft as per Cashbook on 31 st May 2020 ₹ 1,10,000.

(ii) Cheque issued on 28 may, 2022 but not yet presented ₹ 25,000.

(iii) Cheques deposited but not yet credited by the bank ₹ 12,750.

(iv) Bills for collection not advised by the bank but credited to the account ₹ 27,200.

(v) Interest debited by the bank on 27th may but no advice received ₹ 11,500

(vi) Subsidy received from the authorities by the bank on our behalf, credited to the account ₹ 15,000.

(vii) Amount wrongly debited by the bank ₹ 3,400

(viii) Amount wrongly credited by the bank ₹ 6,000

(**Answer.** Balance (overdraft) as per pass Book ₹ 64,450)

10. On 31st January 2022 the Passbook of Gurmeet & sons shows a Debit balance of ₹ 52,000. prepare bank reconciliation statement from the following particulars.

(i) Cheques amounting to ₹ 15,600 were drawn on 27th January 2022. Out of which Cheques for ₹ 11,000 were encashed up to 31 st January.

(ii) wrong debit of ₹ 1,800 has been given by the bank in the passbook.

(iii) A Cheque of ₹ 1,200 was credited in the passbook but was not recorded in the Cash Book.

(iv) Cheques amounting to ₹ 18,000 were deposited from the collection. But out of these, cheques for ₹ 6,400 have been credited in the passbook on 5th February 2022.

(v) A cheque for ₹ 1,000 was returned dishonoured by the bank and was debited in the passbook only.

(vi) Interest on overdraft and Bank charges amount to ₹ 100 were not entered in the Cash book.

(vii) A cheque of ₹ 1,500 debited in the cash book was omitted to be banked.

(**Answer:** Overdraft as per Cash book (Cr.) ₹ 47,000.)

MULTIPLE CHOICE QUESTIONS

1. Statement that explains the causes of difference between cash-book and bank statement is called:

a) Bank statement

b) Financial statement

c) Income statement

d) Bank reconciliation statement

2. Bank reconciliation statement is prepared by:

a) Bank

b) Customer's accountant

c) Auditors

d) None of the above

3. **Bank statement is issued by:**
   a) Bank
   b) Auditors
   c) Depositor / Customer
   d) None of the above
4. **Bank reconciliation statement is:**
   a) Part of Bank statement
   b) Memorandum statement
   c) Part of journal
   d) Ledger account
5. **Bank Reconciliation statement is prepared in the books of:**
   a) Bank
   b) Guarantor
   c) Depositor/ trader
   d) None of the above
6. **Cheques issued but not presented in the bank are called:**
   a) Un-presented cheques
   b) Un-credited cheques
   c) Un-collected cheques
   d) Un-cleared cheques
7. **The differences between the cash-book and bank pass-book is caused by:**
   a) Timing differences on recording of the transactions.
   b) Errors made by the business
   c) Errors made by the bank
   d) All of the above
8. **Debit Balance as per Cash book shows:**
   a) Bank withdrawls are more than deposits.
   b) Bank withdrawls are less than deposits
   c) Bank deposits are less than withdrawls.
   d) All of the above

9. **Which of the following is not a part of Double Entry System?**
   (A) Cash-book
   (B) Journal
   C) Trial balance
   (D) Bank reconciliation statement
10. **Which of the following transaction will result in higher balance in the bank column of cash-book in comparison to pass-book?**
   (A) Cheques issued but not presented for payment.
   (B) Interest allowed by bank.
   (C) Bank charges entered twice in each book.
   (D) Cheques paid into bank for collection but not yet credited.
11. **Cheques deposited but not collected will result in:**
   (A) Increasing the balance of pass-book when compared to cash-book.
   (B) Increasing the balance of cash-book when compared to pass-book.
   (C) Decrease the balance of pass-book when compared to cash-book.
   (D) Both (B) and (c).
12. **When cheques issued by the trader but not yet presented for payment will:**
   (A) Decrease the pass-book, and no affect on the cash-book.
   (B) No affect on the pass-book, and decrease the cash-book.
   (C) Both (A) and (B)
   (D) None of the above.

CHAPTER 5

LEDGER AND TRIAL BALANCE

Learning Objectives

After studying this chapter Students will be able to tell:

- Meaning and Importance of Ledger.
- Format of Ledger.
- Posting from Journal to Ledgers.
- Postings from Cash Book & other Subsidiary Books to Ledgers.
- Closing and Balancing of Ledger Accounts.
- Trial Balance - Meaning, objectives and Preparation.

THE LEDGER

After recording the business transactions 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.

Meaning: The ledger is the **principal book** of the accounting system. It contains different accounts where transactions relating to that account are recorded. A ledger is the collection of all the accounts **prepared using the journal proper and various special journals.**

In short Ledger is a book where all the transactions related to a particular account are collected at one place.

UTILITIES OR IMPORTANCE OF THE LEDGER

- It provides complete **information of a Particular Account** during a period.
- It provides **information of incomes and expenses** during a particular accounting period.
- It provides **information for the preparation of Trial Balance**.
- It is **helpful in preparing final accounts** for a particular accounting period.

Important: Ledger is also called the **Principal Book of Accounts**.

FORMAT FOR THE LEDGER

Dr. **Name of the Account** **Cr.**

Date	*Particulars*	*J.F.*	*Amount (₹)*	*Date*	*Particulars*	*J.F.*	*Amount (₹)*

Note:- Each ledger account is divided Into two equal parts.

Left Hand Side → Debit side (Dr.)

Right Hand Side → Credit side (Cr.)

J.F (Journal Folio) → Page or Folio number of Journal

Posting in the Ledger

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

Case I : Posting from Journal Entries

- **For the A/c Debit in the Journal entry:-** The posting in the ledger should be made on the debit side of that particular account. In the particulars 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.

Important

- To' is written before the A/c which appear on the debit side of Ledger
- "By" is written before the A/c appearing on the credit side Ledger.
- **Use of these words To' and 'By' is optional.**
- An account cannot have the same name on any side of the account. Ex. Cash Account never contain "To Cash Account or By Cash Account".

Example 1: Posting of a transaction from Journal to ledger.

Transaction:- On 1st August 2022. goods are sold for cash ₹12,000.

Solution

Dr. **Journal Entry** Cr.

Date	Particulars	L.F.	(₹)	(₹)
2022 Aug.1	Cash A/c Dr.		12,000	
	To Sales A/c			12,000
	(For cash sales)			

Ledge Account

Dr. Cash A/c (an extract) Cr.

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
2022 Aug.1	To Sales A/c		12,000				

Dr. **Sales A/c (an extract)** Cr.

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
				2022 Aug.1	By Cash A/c		12,000

Example 2 : Compound Journal Entry

Received ₹14,000 in full settlement of a debt of ₹15,000 from Ram on Aug 8, 2022.

Solution

Dr. **Journal Entry** Cr.

Date	Particulars	L.F.	(₹)	(₹)
2022 Aug.8	Cash A/c Dr.		14,000	
	Discount Allowed A/c Dr.		1,000	
	To Ram's A/c			15,000
	(Cash received and discount allowed)			

Ledger A/c

Dr. Cash Account Cr.

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
2022 Aug.8	To Ram		14,000				

Dr. **Discount Allowed Account** Cr.

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
2022 Aug.8	To Ram		1,000				

Ram's Account

Dr. Cr.

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
2021				2022 Aug.8	By Cash A/c		14,000
					By Discount A/c Allowed A/c		1,000

Case II : Ledger Postings from Cash Book 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.

(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.

RULES OF POSTING

(a) Posting from the Debit Side of Cash Book

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

To Cash A/c → if it is from the Cash Column

To 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.

Example 3 : Given some Cash Book entries Post them into ledger Accounts.

Double Column Cash Book

Dr. Cr.

Date	Particulars	L.F	Cash (₹)	Bank (₹)	Date	Particulars	L.F	Cash (₹)	Bank (₹)
2022					2022				
Jan 10	To Capital A/c		40,000	-	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		28,000	8,400
			<u>43,000</u>	<u>12,900</u>				<u>43,000</u>	<u>12,900</u>

Solution:

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

Capital Account

Dr. Cr.

Date	*Particulars*	*J.F.*	*Amount (₹)*	*Date*	*Particulars*	*J.F.*	*Amount (₹)*
				2022 Jan. 10	By Cash A/c		40,000

Sales Account

Dr. Cr.

Date	*Particulars*	*J.F.*	*Amount (₹)*	*Date*	*Particulars*	*J.F.*	*Amount (₹)*
2021				2022 Jan. 22	By Cash A/c		3,000

Anil's Account

Dr. Cr.

Date	*Particulars*	*J.F.*	*Amount (₹)*	*Date*	*Particulars*	*J.F.*	*Amount (₹)*
				2022 Jan. 28	By Bank A/c		2,900

Purchase Account

Dr. Cr.

Date	*Particulars*	*J.F.*	*Amount (₹)*	*Date*	*Particulars*	*J.F.*	*Amount (₹)*
2022 Jan. 12	To Cash A/c		5,000				

Sumit's Account

Dr. Cr.

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2022 Jan. 25	To Cash A/c		4,500				

Case III : Ledger posting from Purchases book

Journal Entry for Credit Purchases is

Purchases A/c Dr

To Supplier (Creditor)

Therefore the rules of posting from Purchases Book are.

1. **The total of the Purchase 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.

Example 4 :

Purchases Book

Date	Particulars	Invoice No.	L.F.	Detail (₹)	Total Amount (₹)
2022 June 4	Sahil & Co.				10,000
June 14	Geeta Industries Less : Trade discount @20%			20,000 (4,000)	16,000
June 26	Vijay & Co. Less : Trade discount @20%			12,000 (2,400)	9,600
June 30	Purchases A/c Dr.				35,600

Solution :

LEDGER A/cs

Purchases Account

Dr. Cr.

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2022 Jun. 30	To Sundries as per Purchase Book		35,600				

Sahil & Co. (Supplier)

Dr. Cr.

Date	*Particulars*	*J.F.*	*Amount (₹)*	*Date*	*Particulars*	*J.F.*	*Amount (₹)*
				2022 June 4	By Purchase A/c		10,000

Geeta Industries (Supplier)

Dr. Cr.

Date	*Particulars*	*J.F.*	*Amount (₹)*	*Date*	*Particulars*	*J.F.*	*Amount (₹)*
				2022 June 14	By Purchase A/c		16,000

Vijay & Co. (Supplier)

Dr. Cr.

Date	*Particulars*	*J.F.*	*Amount (₹)*	*Date*	*Particulars*	*J.F.*	*Amount (₹)*
				2022 June 26	By Purchase A/c		9,600

CASE IV : **Ledger Posting from Sales Book**

Journal Entry for Credit sales is

Customer (Debtor) Dr.

To Sales A/c

Hence rules for posting from sales Book are

1. Total of the **Sales boo**k 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/cs are **debited** by writing the words **"To Sales A/c"**

Case V : Ledger Posting from Purchase Return Book

Journal Entry for purchase Return is

Personal A/C of Supplier Dr.

To Purchase Returns 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"**

Case VI : Ledger Postings of Sales Returns Book.

Journal Entry for the sales Return is -

Sales Returns A/c Dr.

To Customer

Hence the Rules for Posting are

1. **Individual Customer's A/cs** by whom the goods are returned are **Credited by writing** the word "By Sales Return A/c."
2. The total of the **Sales Returns Book** is posted to the **Debit of Sales Returns A/c** by writing the words. **"To Sundries as per Sales Returns Book".**

CLOSING AND BALANCING OF ACCOUNT

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

1. Debit and Credit sides of each A/c are totalled.
2. The **difference between the two sides is inserted** 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 Sides**, the difference is a **Debit Balance**.
6. If the **Credit side exceeds the Debit side**, **the** difference is a **Credit Balance.**

Important

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/cs** (which include Cash and all other Assets A/cs) will usually show Debit Balances.
3. **Nominal A/cs** (A/cs of Income and Expenses) are closed by 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 Revenue.**

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 or statement of debit and credit balances taken out from ledger. "It also includes the balances of Cash and bank taken from the Cash Book".

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 Showing credit balance is put on the Credit side of Trial Balance.

(3) Accounts which shows **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 to totalled. If they are equal it is assumed that there is no arithmetical error in the posting and balancing of Ledger A/cs.

Note:- While preparing the trial balance from the given list of ledger balance, following rules should be taken into care:

1. The balances of all (i) assets accounts (ii) expenses accounts (iii) losses (iv) drawings (v) cash and bank balances are placed in the debit column of the trial balance.
2. The balances of all (i) liabilities accounts (ii) income accounts (iii) profits (iv) capital are placed in the credit column of the trial balance

Objectives or Functions of Trial Balance

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

Preparation of Trial Balance

A trial balance can be prepared the following three ways:

1. Totals Method
2. Balances Method
3. Totals-cum-Balances Method

1. Totals Method

Under this method, total of each side in the ledger (debit and credit) is ascertained separately and shown in the trial balance in the respective columns. The total of debit column of trial balance should agree with the total of credit column in the that balance because the accounts are based on double entry system. However, this method is not widely used in practice, as it does not help in assuming accuracy of balances of various accounts and preparation of the financial statements.

2. Balances Method

This is the most widely used method In practice. Under this method trial balance is prepared by showing the balances of all ledger accounts and then totalling up the debit and credit columns of the trial balance to assure their correctness. The account balances are used because the balance summarises the net effect of all transactions relating to an account and helps in preparing the financial statements. It may be noted that in trial balance, normally in place of balances in individual accounts, of the debtors, a figure of sundry debtors is shown, and In place of individual accounts of creditors, a figure of sundry creditors is shown.

3. Totals-cum-balances Method

This method is a combination of totals method and balances method. In this method four columns for amount are prepared. Two columns for writing the debit and credit totals of various accounts and two columns for writing the debit and credit balances of these accounts. However, this method is also not used in practice because it is time consuming and hardly serves any additional or special purpose.

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.

Question : Enter the following transactions in proper Subsidiary Books, post them into Ledger Accounts, balance the accounts and prepare a Trial Balance, 2022.

Jun.1	**Assets :** Cash in hand ₹ 50.000: **Debtors :** Amit and Co. ₹15,000, Sumit Bros, ₹ 30.000, Stock ₹ 1.75,000, Machinery ₹1,20,000, Furniture 40,000. **Liabilities :** Bank overdraft ₹ 33,000. Creditors : Virat and Co. ₹ 24,000, Vishal ₹ 16.000.
Jun. 2	Purchased from Ramesh and Sons goods of the list price of ₹ 20,000 at 10% trade discount.
Jun. 5.	Returned to Ramesh & Sons goods of the list price of ₹ 2,000.
Jun. 10	Issued a cheque to Ramesh and Sons in full settlement of their account.
Jun. 12	Sold to Amit and Co., goods worth ₹ 25,000.
Jun. 15	Received cash ₹ 10,000 and cheque for ₹ 8,000 from Amit and Co. The cheque was immediately deposited into the bank.
Jun. 16	Withdraw for personal use cash ₹ 5,000 and goods for ₹ 3,000.
Jun. 19	Sold to Mohit Bros., goods for ₹ 16,000.
Jun. 20	Cash purchases ₹ 15,000.
Jun. 22	Withdraw from bank for office use ₹ 10,000.
Jun. 23	Purchased from Vishal goods valued ₹ 24,000.
Jun. 24	Amit and Co. returned goods worth ₹ 2,000.
Jun. 25	Received from Mohit Bros. ₹ 10.000.
Jun. 27	Paid by cheque. Rent ₹ 2,800.
Jun. 27	Received Commission in Cash ₹ 800.
Jun. 30	Paid salaries ₹ 5,000.

Cash Book (with cash and Bank Columns)

Dr. Cr.

Date	Particulars (Receipts) Vr No	L.F	Cash	Bank	Date	Particulars (Payments) Vr. No	L.F	Cash	Bank
2022			(₹)	(₹)	2022			(₹)	(₹)
June 1	*To Balance b/d		50,000	-	June 1	*By Balance b/d		-	33,000
June 15	To Amit & Co.		10,000	8,000	June 10	By Rames & Sons		-	16,200
June 22	*To Bank A/c	C	10,000	-	June 16	By Drawings A/c		5,000	-
June 25	To Mohit Brothers		10,000	-	June 20	By Purchases A/c		15,000	-
June 27	To Commission A/c		800		June 22	*By Cash A/c	C		10,000
					June. 27	By Rent A/c		-	2,800
June 30	To Balance C/d		-	54,000	June 30	By Salaries A/c		5,000	
					June 30	By Balance C/d		55,800	
	Total		80,800	62,000		Total		**80,800**	**62,000**
July 1	To Balance b/d		55,800	-	July 1	By Balance b/d (Bank overdraft)		-	54,000

Note : 1. Entries marked with *will not be posted any where 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.

Purchase Book

Date	Name of the Supplier (Account to be Credited)	Inv. No	L. F.	Detail (₹)	Total Amount (₹)
2022					
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 Credited)	Inv. No.	L.F.	Details (₹)	Total Amount (₹)
2022					
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 Supplier (Account to be Credited)	Inv. No.	L.F.	Detail (₹)	Total Amount (₹)
2022 June 24	Amit & Co.				2,000
June 30	Sales Return A/c Dr.				**2,000**

Purchase Return Book

Date	Name of the Supplier (Account to be Credited)	Inv. No.	L.F.	Detail (₹)	Total Amount (₹)
2022 June 5	Ramesh & Sons			2.000	
	Less Trade Discount 10%			200	1.800
June 30	Purchases Return A/c Cr.				**1,800**

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 recorded in Journal proper.

Journal Proper

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2022					
June 1	Cash A/c	Dr.		50,000	
	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)				3,57,000
	(opening Balances, b ought 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	(₹)	Date	Particulars	J.F	(₹)
2022				2021			
Jun. 1	To Balance b/d		15,000	June 15	By Cash A/c		10.000
Jun. 12	To Sales A/c		25,000	June 15	By Bank A/c		8,000
				June 24	By Sale Return A/c		2,000
				June 30	By Balance c/d		20.000
			40,000				**40,000**
Juiy 1	To Balance b/d*		20,000				

Sumit Bros.

Dr. Cr.

Dale	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2022				2022			
June 1	To Balance b/d*		30,000				

Stock Account

Dr. Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2022				2022			
June 1	To Balance b/d*		1.75,000				

Machinery Account

Dr. Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2022				2022			
June 1	To Balance b d		1.20,000	June 30	By Balance c/d		1,20,000
			1,20.000				**1,20,000**
July 1	To Balance b d'		1.20,000				

Furniture Account

Dr. Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2022				2022			
June 1	To Balance b/d		40,000	June 30	By Balance c/d		40,000
			40.000				40,000
July 1	To Balance b/d		40,000				

Virat & Co.

Dr. Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
				2022			
				June 1	By Balance b/d		24,000

Vishal's A/C

Dr. Cr.

Date	Particulars	J.F	₹	Date	Particulars	J.F.	₹
2022				2022			
				June 1	By Balance b/d		16,000
Jun 30	To Balance c/d		40,000	June 23	By Purchases A/c		24,000
			40,000				**40,000**
				July 1	By Balance b/d		40,000

Capital Account

Dr. Cr.

Date	Particulars	J.F	₹	Date	Particulars	J.F.	₹
2022				2022			
Jun 30	To Balance c/d		3,57,000	June 1	By Balance b/d		3,57,000
			3,57,000				3,57,000
				July 1	By Balance b/d		3,57,000

Drawing Account

Dr. Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F	₹
2022				2022			
Jun. 16	To Cash Ac		5,000	June 30	By Balance b/d		8,000
Jun. 16	To Purchases A/c		3,000				
			8,000				8,000
July 1	To Balance b/d		8,000				

Ramesh & Sons

Dr. Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2022				2022			
June 5	To Purchase Return A/c		1,800	June 2	By Purchase A/c		18,000
June 10	To Bank A/c		16,200				
			18,000				18,000

Purchase Account

Dr. Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2022				2022			
Jun. 20	To Cash Ac		15,000	June 16	By Drawing A/c		3,000
Jun. 30	To Sundries as per Purchase Book		42,000	July 30	By Balance c/d		54000
			57,000				57,000
July 1	To Balance b/d'		54.000				

Mohit Brothers

Dr. Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2022				2022			
Jun. 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 Account

Dr. Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2022				2022			
Jun. 27	To Bank A/c		2,800	June 30	By Balance c/d		2,800
Jun. 30	To Balance b/d*		2,800				2,800

Commission Account

Dr. Cr.

Date	Particulars	J.F.	₹	Date	Particular	J.F.	₹
				2022 June 27	By Cash A/c		800

Salaries Account

Dr. Cr.

Date	Particulars	J.F.	(₹)	Date	Particular	J.F.	(₹)
2022 Jun. 30	To Cash A/c		5.000				

Sales Account

Dr. Cr.

Date	Particulars	J.F.	₹	Date	Particular	J.F.	₹
				2022 June 30	By Sundried as per Sales Book		41.000

Sales Return Account

Dr. Cr.

Date	Particulars	J.F.	₹	Date	Particular	J.F.	₹
2022 Jun. 30	To Sundries as per Sales Return Book		2,000				

Purchase Return Account

Dr. Cr.

Date	Particulars	J.F.	₹	Date	Particular	J.F.	₹
				2022 June 30	By Sundries as per Purchase Return Book		1,800

Trial Balance
As on 30th June, 2022

Name of the Accounts	L.F.	Debit Balances (₹)	Credit Balances (₹)
Cash A/c		55,800	-
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	-
Capital A/c		-	3,57,000
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
Sumit Brothers		30,000	-
Virat & Co.		-	24,000
Vishal		-	40,000
Total		5,18,600	5,18, 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 as "Suspense Account." Difference in Trial Balance is posted to this Account.

Trial Balance

S. No.	Dr. Balance Total (₹)	(Cr) Balance Total) (₹)	Difference (₹)	Posted to the Suspense A/c
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 Account

(a) The errors which led to the difference still remains to have to be located.

(b) These errors will be **rectified through Suspense A/c (One sided errors)** which will be explained in the topic Rectification of Errors.

(c) 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.

(i) Debit Balance of Suspense Account is shown in the Asset Side of the Balance Sheet.

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

Note:
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 A/c

OBJECTIVE QUESTIONS BASED ON CHAPTER

Multiple Choice Questions

1. The process of transferring the debit and credit items from a Journal to their respective accounts in the ledger is termed as
(a) Posting
(b) Purchasing
(c) Balancing of an account
(d) Recording

2. The technique of finding the net balance of an account after considering the totals of both debits and credits appearing in the account is known as
(a) Posting
(b) Purchasing
(c) Balancing of an account
(d) None of the above

3. Journal and ledger records transactions in
(a) A chronological order and analytical order respectively.
(b) An analytical order and chronological order respectively.
(c) A chronological order only
(d) None of the above

4. Ledger book is popularly known as:
(a) Secondary book of accounts
(b) Principal book of accounts
(c) Subsidiary book of accounts
(d) Primary book of accounts

5. After the preparation of ledgers, the next step is the preparation of:
(a) Trading accounts
(b) Trial balance
(c) Profit and loss account
(d) Balance Sheet

6. After preparing the trial balance the accountant finds that the total of the debit side is short by 5,000. This difference will be ___________ .

(a) Debited to Suspense Account

(b) Credited to Suspense Account

(c) Debited to a ledger Account

(d) None of the above

True and False Questions

1. A ledger is also known as the principal book of accounts.
2. Cash account has a debit balance.
3. Posting is the process of transferring the accounts from ledger to journal.
4. Ledger records the transactions in a chronological order.
5. If the total debit side is greater than the total of credit side, we get a credit balance.
6. Ledger accounts of assets will always have debited balance.
7. Trial balance forms a base for the preparation of Financial statements.
8. Agreement of Trial balance is a conclusive proof of accuracy.
9. A Trial balance can find the missing entry from the journal.
10. Suspense account opened in a trial balance is a permanent account.
11. The balance of purchase returns account has a credit balance.

Answers of Objective Questions

MCQ's

1. (a)
2. (c)
3. (a)
4. (b)
5. (b)
6. (a)

True False Questions

1. True
2. True
3. False :- Posting is the process of transferring the balances from journal to ledger.
4. False:- Ledger records the transactions in analytical order.
5. False:- If the total debit side is greater than the total of credit side, we get a debit balance as the opening balance.
6. True
7. True
8. False:- There can be still amount errors in recording or posting
9. False:- Trial balance Cannot find entry error.
10. False:- Suspense account opened in a trial balance Is a Temporary Account.
11. True

CHAPTER-6

DEPRECIATION, PROVISIONS AND RESERVES

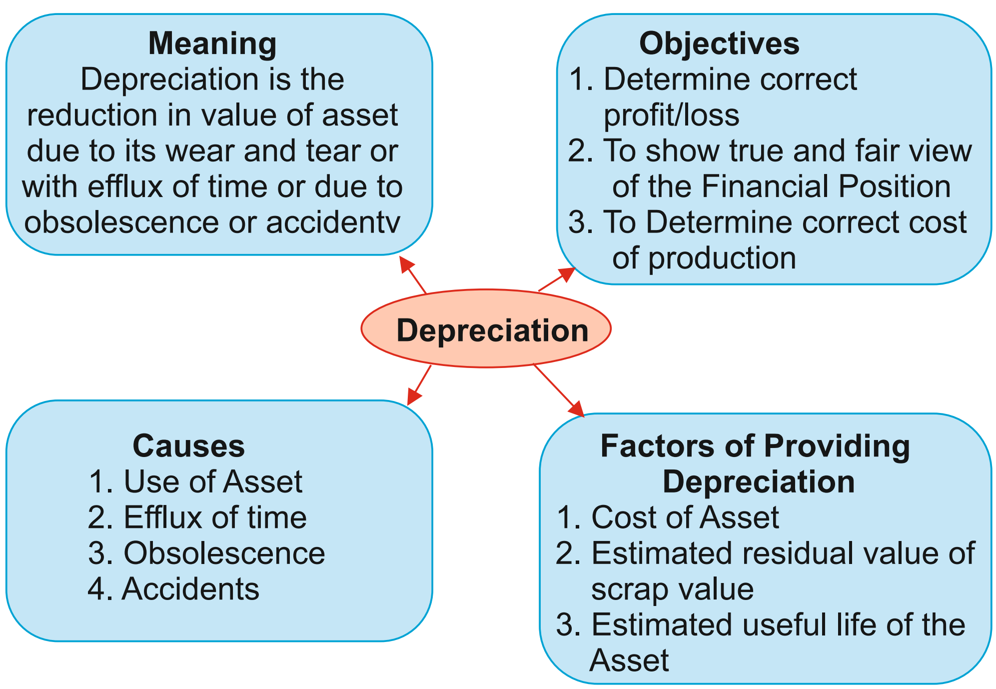
Learning Objectives

After studying this lesson you will be able to:

- State the meaning and concept of depreciation.
- Explain the need and factors affecting depreciation.
- Explain the methods of charging depreciation.
- Find the amount of depreciation using different methods.
- Show the Accounting Treatment of Depreciation.
- State the meaning of Provisions and Reserve
- Differentiate between Provision and Reserve.

Teaching Methods

Discussions, Brainstorming etc. Teachers are advised to use various examples of real life context of the students to clear the concept of depreciation.



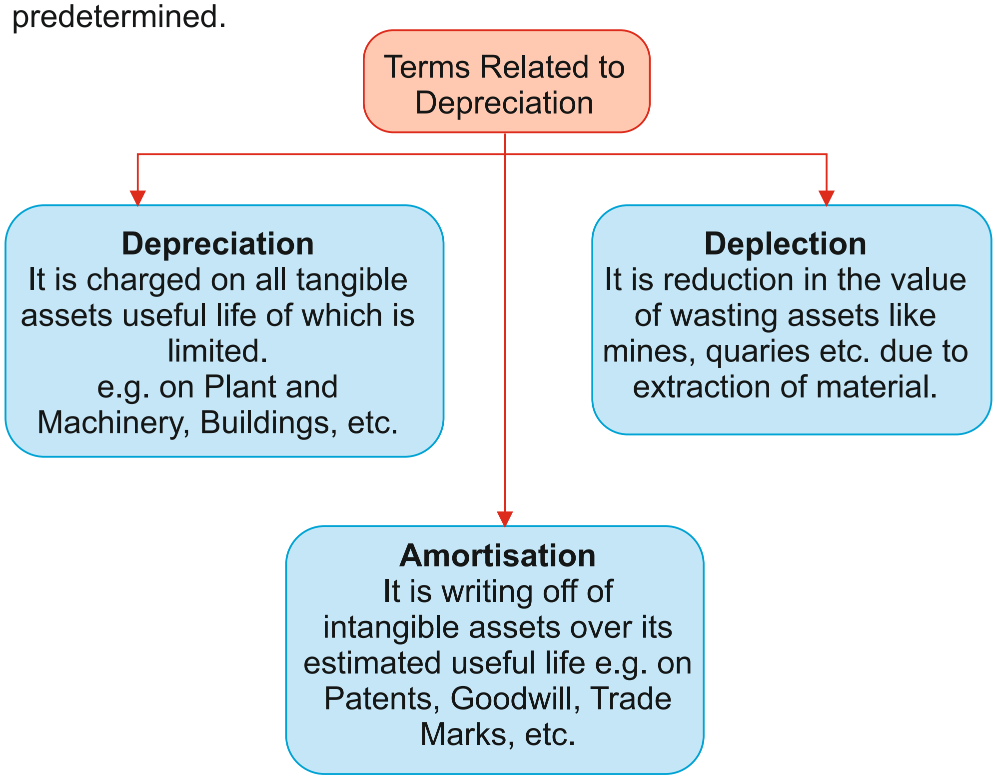
Depreciation : Concept

Fixed assets are held on a long term basis and used to generate periodic revenue. That portion of assets, which is believed to have been consumed or expired to earn the revenue, needs to be charged as cost. Such an appropriate proportion of the cost of fixed assets is called Depreciation.

Business enterprises require fixed assets such as furniture and fixtures, office equipments. plant and machinery, motor vehicles. land and building etc. for their business operation. In the process of converting **Raw material into finished products, the fixed assets depreciate in value over a period of time, i.e. its useful life.**

In other words, the process of allocation of the cost of a fixed asset over its useful life is known as depreciation.

According to accounting standard - 6 (Revised) issued by the ICAI "Depreciation is a measure of wearing out, consumption or other loss of value of a depreciable asset arising from use, EFFLUX of time or obsolescence through technology and market changes. Depreciation is allocated so as to charge a fair proportion of the depreciable in each accounting period-during the expected useful life of the asset. Depreciation includes amortization of assets whose useful life is predetermined.



Some Important Terms

1. **Obsolescence :-** When a fixed tangible asset becomes useless or unwanted due to new invention.

2. **Amortization :-** The term amortization is used for writing off intangible assets such as goodwill, copyright, patents, etc.

3. **Depletion :-** The term depletion is used in relation to decreasing the value of wasting assets or natural resources such as mines, oil wells, timber trees & fishing etc. due to the continuous removal or extraction of things.

Need or objectives of providing Depreciation

1. **Ascertaining true profit or loss :**

(i) The true profit of an enterprise can be ascertained when all costs incurred for the purpose of earning revenues have been debited to the profit and loss account.

(ii) Fall in the value of assets used in business operations is a part of the cost and should be shown in the profit and loss account of concerned accounting period.

(iii) Keeping this in view, depreciation must be debited to profit & loss account, since loss in value of fixed assets is also an expense like other expenses.

2. **Presentation of True and Fair value of assets :** If depreciation is not provided, the value of assets shown in the Balance sheet will not present the true and fair value of assets because assets are shown at the cost price but actual value is less than cost price of the assets.

3. **To ascertain the accurate cost of the Production :** Depreciation is an item of expense, the correct cost of production cannot be calculated unless it is also taken into consideration. Hence, depreciation must be provided to ascertain the correct cost of production.

4. **Computation of correct income tax:**
   (i) Income tax of an enterprise is determined after charging all the costs of production.
   (ii) If depreciation is not charged, the profits will be higher and the income tax will also be higher.
   (iii) If depreciation is charged, Tax liability is reduced.
5. **Provision of funds and replacement of assets:** Depreciation is a non cash expense. So the amount of depreciation charged to profit & loss account is retained in business every year. These funds are available for replacement of the assets when its useful life is over.

Methods of providing depreciation

1. **Straight line method**
   (i) This method is also known as 'original cost method'
   (ii) Under this method, depreciation is charged at fixed percentage on the original cost of the asset, throughout its estimated life.
   (iii) Under this method, the amount of depreciation is uniform from year to year. That is why this method is also known as 'Fixed Installment Method' or 'Equal installment method'.

Calculation of the amount of depreciation:

(a) When Estimated life of asset and scrap value are given:

$$\text{Annual Depreciation} = \frac{\text{Original Cost - Estimated scrap value}}{\text{Estimated Life in year}}$$

For examples : A firm purchases a machine for ₹ 2,25,000 on April 1, 2020. The expected life of this machine is 5 years. After 5 years the scrap of this machine would be realized ₹ 25,000. Under straight line method, the amount of depreciation can be calculated as under :

$$\text{Annual Depreciable} = \frac{2{,}25{,}000 - 25{,}000}{5}$$

$$= ₹\ 40{,}000$$

Hence ₹ 40,000 will be charged every year as depreciation on this machine.

(b) When the Rate of deprecation is given:

Annual Depreciation =

$$\frac{\text{Original cost of asset x Rate of Depreciation}}{100}$$

For Example: A firm purchases a machine for ₹ 2,00,000 on Oct 1, 2019. If depreciation is charged @ 10% P.a. on original cost method and accounts are closed on 31st March every year, the amount of depreciation can be calculated for 2019-20 and 2020-21 as under:

2019-20

Depreciation = $2,00,000 \times \frac{10}{100} \times \frac{6}{12}$ = ₹ 10,000

Since the usage of asset is from (Oct-March) 2019, the deprecation is calculated for 6 months.

2020-21

Depreciation = $2,00,000 \times \frac{10}{100}$ = ₹ 20,000

2. **Diminishing balance method :** Under this method, depreciation is charged as a fixed percentage on the book value of the asset every year. In first year the depreciation will be charged at the end of the year, on the total cost the asset.

Example: A machine is purchase for ₹ 2,00,000 on April 1.2016. It is decided to charge depreciation on this machine @ 10% p.a. The amounts of depreciation for first four years by using both the methods **(Straight line method and Diminishing balance method)** are shown as under :

Straight Line Method **Diminishing Balance Method**

Year	Book Value	Dep. @ 10%	Book Value	Dep. @ 10%
2016-17	20,000	2,000	20,000	2,000
2017-18	18,000 (20,000 - 2,000)	2,000	18,000 (20.000 - 2,000)	1,800
2018-19	16, 000 (18,000 - 2,000)	2,000	16.200 (18.000 - 1,800)	1,620
2019-20	14,000 (16,000 - 2,000)	2,000	14,580 (16.200 - 1,620)	1.458

Hence, in Straight Line method, amount of depreciation is same but in Diminishing Balance Method amount of depreciation goes on decreasing every year. Depreciation can be recorded by crediting it to the Assets account.

Difference Between Straight line Method and written down value method of charging depreciation

Basis	Straight Line Method	Diminishing Balance Method
Charge	Calculated on the original cost of the asset	Calculated on reducing balance of fixed asset
Amount	Remains the same	Reduces year after year
Zero Balance	Zero Balance in Asset Account, at the expiry of the working life	The Asst Account balance never reduces to zero.
Suitability	For assets which get depreciated on account of expiry of working life of asset.	For assets which require more repairs in the later years due to wear and tear.

Journal Entries

	Transaction	Journal Entry	
1.	For Purchase of Asset	Asset A/c To Bank/Cash A/c	Dr.
2.	For charging Depreciation	Depreciation A/c To Asset A/c	Dr.
3.	Transfer of Depreciation to profit and loss account and loss account	Profit & Loss A/c To Depreciation A/c	Dr.
4.	Sale of Asset	Bank/Cash A/c To Asset A/c	Dr.
5.	For loss on sale of Asset	Loss sale of Asset To Asset A/c	Dr.
6.	For gain on sale of Asset	Asset A/c To gain on sale of Asset A/c	Dr.

Illustration 1: On 1st, April 2019, a firm purchased a machine for ₹90,000 and spend ₹ 10,000 on its erection. It is decided to depreciate it @ 10% p.a. on straight line method. Show machinery account for three accounting years when books are closed on 31st March every year.

Solution :

Machinery Account

Dr. Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2019				2020			
Apr. 1	To Bank A/c		90,000	Mar. 31	By Depreciation A/c		10,000
Apr. 1	To Cash A/c		10,000	Mar. 31	By Balance c/d		90,000
			1,00,000				1,00,000
2020				2021			
Apr. 1	To Balance b/d		90,000	Mar. 31	By Depreciation A/c		10,000
				Mar. 31	By Balance c/d		80,000
			90,000				90,000
2021				2022			
Apr. 1	To Balance b/d		80,000	Mar. 31	By Depreciation A/c		10,000
				Mar. 31	By Balance c/d		70,000
			80,000				80,000

Illustration 2 : On the basis of information given in Illustration 1, show machinery account for three years if depreciation is charged @ 10% p.a. on diminishing balance method.

Solution :

Machinery Account

Dr. Cr.

Date	Particulars	J.F		Date	Particulars	J.F	₹
2019				2020			
Apr. 1	To Bank A/c		90,000	Mar. 31	By Depreciation A/c		10,000
Apr. 1	To Cash a/c		10,000	Mar. 31	By Balance c/d		90,000
			1,00,000				1,00,000
2020				2021			
Apr. 1	To Balance b/d		90,000	Mar. 31	By Depreciation A/c		9,000
				Mar. 31	By Balance c/d		81,000
			90,000				90,000
2021				2022			
Apr. 1	To Balance b/d		81,000	Mar. 31	By Depreciation A/c		8,100
				Mar. 31	By Balance c/d		72,900
			81,000				81,000

Illustration 3 : On April 1, 2019 Sanju bought Machinery costing ₹80,000. On July 1, 2022 Machinery was sold for ₹40,000. Prepare Machinery Account from April 1, 2019 till July 1, 2021 assuming depreciation was charged @ 10% per annum on March 31, every year on the basis of Original cost method.

Solution :

Machinery Account

Dr. Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2019				2020			
Apr. 1	To Balance b/d		80,000	Mar. 31	By Depreciation A/c		8.000
				Mar. 31	By Balance cid		64.000
			80,000				**72,000**
2020				2021			
Apr. 1	To Balance b/d		72,000	Mar. 31	By Depreciation A/c		8.000
				Mar. 31	By Balance cid		64.000
			72,000				**72,000**
2021				2021			
Apr. 1	To Balance b/d		64,000	July 1	By Bank A/c		40,000
				July 1	By Depreciation A/c		2,000
				July 1	By Loss on sale of truck A/c		22,000
			64,000				**64,000**

Working notes:

Value of truck as on April 1, 2021	=	64,000
Less: depreciation till 1st July 2021		2,000
Value of truck at the time of sale	=	62,000
Less: sale price		40,000
Loss on sale on truck		**22,000**

Illustration 4

On the basis of information given in Illustration 3, prepare Truck account assuming depreciation is charged @ 10% on written down value method.

Solution

Machinery Account

Dr. Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2019				2020			
Apr. 1	To Bank A/c		80,000	Mar. 31	By Depreciation A/c		8.000
				Mar. 31	By Balance cid		72.000
			80,000				**80,000**
2020				2021			
Apr. 1	To Balance b/d		72,000	Mar. 31	By Depreciation A/c		7,200
				Mar. 31	By Balance c/d		64.000
			72,000				**72,000**
2021				2021			
Apr. 1	To Balance b/d		64,000	July 1	By Bank A/c		40,000
				July 1	By Depreciation A/c		2,000
				July 1	By Loss on sale of truck A/c		23,180
			64,800				**64,800**

Working notes:

Value of truck as on April 1, 2021	=	64,800
Less: depreciation till 1st July 2021		1,620
Value of truck at the time of sale	=	63,180
Less: sale price		40,000
Loss on sale on truck		**23,180**

Illustration : 5

A firm purchased on 1st January, 2019 certain Machinery for ₹ 5,82,000 and spent ₹ 18,000 on its erection. On 1st July, 2019 additional machinery costing ₹ 2,00,000 was purchased. On 1st July, 2021 the machinery purchased on 1st January, 2019 was auctioned for ₹ 2,86,000 and a fresh machinery for ₹ 4,00,000 was purchased on same date. Depreciation was provided annually on 31st December at the rate of 10% on written down value method. Prepare Machinery account from 2019 to 2021.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2019				2019	By Depreciation A/C		
Jan. 1	To Bank A/c (i)		6,00,000	Dec. 31			
July 1	To Bank A/c (ii)		2,00,000		(i) (600,000x10/100)		
					= 60000		
					(ii) (200,00x10/100x		
					6/12) = 10000		70,000
				Dec. 31	By Balance c/d		
					(5,40,000+1,90,000)		7,30,000
							8,00,000
			8,00,000	2020			
				Dec. 31	By Depreciation A/c		
2020							
Jan. 1	To Balance b/d		**7,30,000**		(i) (5,40,000x10/100)		
	(5,40,000+1,90,000)				54,000		
					(ii) (1,90,000x10/100		73,000
					19,000		
				Dec.31	By Balance c/d		6,57,000
					(4,86,000+1,71,00)		**7,30,000**
2021			7,30,000				
Jan.1	To Balance b/d		6,57,000	2021	By Bank A/c (Sale)		2,86,000
	(4,86,000+1,71,000)			July 1			
July 1	To Bank A/c (iii)		4,00,000				
					By Dep. (4,86,000x		24,300
					10/100x6/12)		
					By P &L A/c (loss)		1,75,700
				Dec. 31	By Dep. A/c		
					(ii) (1,71,000x10/100)		
					17,100		
					(iii) (400,000x10/100x		37,100
					6/12)20,000		5,33,900
			10,57,000		By Balance c/d		**10,57,000**

Working Notes: Cost of 1st Machine = ₹ 5,82,000 + ₹ 18,000 = ₹ 6,00,000

Profit/Loss on sale of 1st

Loss on sale of 1st Machine = Book Value - Sale Value

(₹ 4,86,000 - ₹ 24,300) ₹ 4,61,700 – ₹ 4,61,700 – ₹ 2,86,000 = ₹ 1,75,700

Methods of Recording Depreciation

First Method

In this method one account is prepared :
(i) Asset A/c
In this case, each year, Depreciation is directly credited to the Asset A/c with the help of this entry:
Depreciation A/c Dr
To Asset A/c

Second Method

In this method two accounts are prepared :
(i) Asset A/c
(ii) Provision for Depreciation A/c
In such case, every year depreciation is directly credited to provision for Depreciation A/c.This A/C shows the accumulated amount of depreciation to date. At the time it sale of asset, the total accumulated depreciation of concerned asset is transferred to the credit side of asset with the help of following entry.

Accumulated Depreciation A/c or Prov. for Depreciation A/c Dr.
To Asset A/c

Illustration 6 :

Suhani limited purchased a machine for ₹2,50,000 including installation cost on January 1, 2020. On October 1, 2022, machine was sold for ₹1,50,000. Depreciation was provided @ 10% p.a. on Fixed Installment method and accounts are closed on December 31, each year.

Show the Machinery Account and Provision for Depreciation Account for the year. 2020 to 2022. In the books of Suhani Limited.

Solution :

Machinery Account

Dr. Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2020				2020			
Jan. 1	To Bank A/c		2,50,000	Dec. 31	By Balance c/d		2,50,000
			2,50,000				2,50,000
2021				2021			
Jan. 1	To Balance b/d		2,50,000	Dec. 31	By Balance c/d		2,50,000
			2,50,000				2,50,000
2022				2022			
Jan. 1	To Balance b/d		2.50,000	Oct. 1	By Provision for Dep. A/c		68,750
				Oct. 1	By Bank A/c		1,50,000
				Oct. 1	By Loss on sale of Machinery A/c		31,250
			2,50,000				2,50,000

Provision for Depreciation Account

Dr. Cr.

Date	Particulars	J.F.	₹	Date	Particulars	₹
2020				2020		
Dec. 31	To Balance c/d		25,000	Dec. 31	By Depreciation A/C	25,000
			25,000			**25,000**
2021				2021		
Dec. 31	To Balance c/d		50,000	Jan. 1	By Balance b/d	25,000
				Dec. 31	By Depreciation a/c	25,000
			50,000			**50,000**
2022				2022		
Oct. 1	To Machinery a/c		68,750	Jan. 1	By Balance b/d	50,000
				Oct. 1	By Depreciation A/c	18,750
			68,750			**68,750**

Notes: Total Depreciation charged on Machinery from Jan 1, 2020 to Oct. 1, 2022 : ₹25,000+ ₹ 25.000 + ₹ 18,750 = ₹ 68,750.

Illustration 7 :

On the basis of information given in Illustration 5, show the Machinery Account and Provision for Depreciation is provided @ 20 % p.a. on Written Down Value Method.

Solution : In the books of Suhani Limited

Machinery Account

Dr. Cr.

Date	**Particulars**	**J.F.**	**₹**	**Date**	**Particulars**	**J.F.**	**₹**
2020				2020			
Jan. 1	To Bank A/c		2,50,000	Dec. 31	By Balance c/d		2,50,000
			2,50,000				2,50,000
2021				2021			
Jan. 1	To Balance b/d		2,50,000	Dec. 31	By Balance c/d		2,50,000
			2,50,000				2,50,000
2022				2022			
Jan. 1	To Balance b/d		2,50,000	Oct. 1	By Provision for Dep. A/c		1,14,000
Oct. 1	To gain On sale A/c		14,000	Oct. 1	By Bank A/c		1,50,000
			264,000				264,000

Provision for Depreciation Account

Dr. Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2021				2021c			
Dec. 31	To Balance c/d		50,000	Dec. 31	By Depreciation a/c		50,000
			50,000				50,000
2021				2021			
Dec. 31	To Balance c/d		90,000	Jan. 1	By Balance b/d		50,000
				Dec. 31	By Depreciation a/c		40,000
			90,000				90,000
2022				2022			
Oct. 1	To Machinery		1,14,000	Jan 1	By Balance bid		90,000
				Oct. 1	By Depreciation a/c		24,000
			1,14,000				1,14,000

Note : Total Depreciation charged on Machinery from Jan. 1,2016 to Oct. 1, 2018: ₹50,000+ ₹ 40,000 + 24,000 = ₹1,14,000

Illustration 8:

A Company purchased a machine for ₹40,000 on April 1, 2020. On October 1, 2021 it was sold for ₹ 13,000. The company charges depreciation @ 10% p.a. on straight line method.

Show Machinery Account, Provision for Depreciation Account and Machinery Disposal account if books are closed on March 31 each year.

Machinery Account

Dr. Cr.

Date	Particulars	J. F.	₹	Date	Particulars	J. F.	₹
2020				2021			
April 1	To Bank A/c		40,000	Mar. 31	By Balance c/d		40,000
			40,000				40,000
2021				2021			
April 1	To Balance b/d		40,000	Oct. 1	By Machinery Disposal A/c		40,000
			40,000				40,000

Provision for Depreciation Account

Dr. Cr.

Date	Particulars	J. F.	₹	Date	Particulars	J. F	₹
2021				2021			
Mar. 31	To Balance c/d		4,000	Mar. 31	By Depreciation A/c		4,000
			4,000				4,000
2021				2021			
Oct 1	To Machinery Disposal A/c		6,000	Apr. 1	By Balance b/d		4,000
				Oct. 1	By Depreciation A/c		2,000
			6,000				6,000

Machinery Disposal Account

Dr. Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2021				2021			
Oct. 1	To Machinery A c		40.000	Oct. 1	By Prov. For Dep. A/c		6,000
					By Cash A/c		13,000
					By loss on sale of machinery A/c		21,000
			40.000				40,000

Note : Total Depreciation charged on Machine : ₹ 4,000 + ₹ 2,000 = ₹6,000

Illustration 9 :

On Oct. 1, 2019, Arora Auto Limited Purchased Furniture for₹1,00,000 and spent ₹ 4,000 towards its installation. On July 1, 2020, the Furniture was disposed off ₹59,820 and on the same day furniture costing ₹1,60,000 were purchased.

Show the Furniture Account, Provision for Depreciation Account and Furniture Disposal Account for the year 2019–20 and 2020–21 and 2021-22 if the rate of Depreciation is 15% per annum by Diminishing Balance method and accounts are closed or 31st march of every year.

Solution :

Furniture Account

Dr. Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2019				2020			
Oct. 1	To Bank A/c		1,00,000	Mar. 31	By Balance c/d		1,04,000
Oct.1	To Bank A/c		4,000				
			1,04,000				**1,04,000**
2020				2020			
Apr. 1	To Balance bid		1,04,000	Jul. 1	By Furniture Disposal A/c		1,04,000
Jul. 1	To Bank A/c		1,60,000	2021 Mar. 31	By Balance c/d		1,60,000
			2,64,000				**2,64,000**
2021				2022			
Apr. 1	To Balance b/d		1,60,000	Mar. 31	By Balance c/d		1,60.000
			1,60,000				**1,60,000**

Provision for Depreciation Account

Dr. Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2020				2020			
Mar. 31	To Balance c/d		7,800	Mar. 31	By Depreciation A/c		7,800
			7,800				**7,800**
2020				2020			
Jul. 1	To Furniture Disposal A/c		11,408	Apr. 1	By Balance b/d		7,800
				July 1	By Depreciation A/c		3,608
2021				2021			
Mar. 31	To Balance c/d		18,000	Mar. 31	By Depreciation A/c		18,000
			29,408	2021			**29,408**
2022				1 Apr.	By Balance b/d		18,000
Mar. 31	To Balance c/d		39,300	2022 Mar. 31	By Depreciation A/c		21,300
			39,300				**39,300**

Furniture Disposal Account

Dr. Cr.

Date	Particulars	J. F.	₹	Date	Particulars	J.F.	₹
2020				2020			
Jul. 1	To Furniture A/c		1,04,000	Jul 1	By Prov. For Dep. A/c		11,408
					By Bank A/c		59,820
					By loss on sale A/c		32,772
			1,04,000				**1,04,000**

Note : Total Depreciation charged on Machinery sold : ₹ 7,800 + ₹ 3,608 = ₹ 11,408.

Working Notes :

Cost of 1st Machine = ₹ 5,82,000 + ₹ 18,000 = ₹ 6,00,000 Profit/Loss on sale of 1st

Loss on Sale of 1st Machine = Book Value – Sale Value

(₹ 4,86,000 – ₹ 24,300) ₹ 4,61,700 – ₹ 2,86,000 = ₹ 1,75,700

Illustration 10 :

The following balances appear in the books of Sankalp on 01-01-2021

Machinery A/c	₹ 8,00,000
Provision for Depreciation a/c	₹ 3,18,000

On 01-01-2021 they decided to sell a machine for ₹ 34,500. This machine was purchased for ₹ 1,20,000 on 01-01-2017.

Show the machinery A/c, Provision for Depreciation A/c for the year ended December 31, 2021 assuming that depreciation was charged at 10% p.a. on Written Down value method.

Machinery Account

Dr. Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2021				2021			
Jan. 1	To Balance b/d		8,00,000	Jan. 1	By Bank A/c		34,500
				Jan. 1	By Provision for Depreciation A/c		41,268
				Jan. 1	By Profit & Loss A/c		44,232
				Dec. 31	By Balance c/d		6,80,000
			8,00,000				**8,00,000**

Provision for Depreciation Account

Dr. Date	Particulars	J.F.	₹	Date	Particulars	J.F.	Cr. ₹
2021				2021			
Jan. 1	To Machinery A/c		41,268	Jan. 1	By Balance b/d		3,18,000
Dec. 31	To Balance A/c		3,17,095	Dec. 31	By Depreciation A/c		40,363
			3,58,363				**3,58,363**

Working Notes

Depreciation charged on Sold Machinery

Cost of the Machinery on 01-01-2017	1,20,000
Less : Depreciation on 31-12-2017	-12,000
Book Value on 01-01-2018	1,08,000
Less Depreciation on 31-12-2018	-10,800
Book Value on 01-01-2019	97,200
Less : Depreciation on 31-12-2019	-9,720
Book Value on 01-01-2020	87,480
Less : Depreciation on 31-12-2020	-8,748
Book Value on 01-01-2021	78,732
Cost of Machinery	1,20,000
Dep. Charged till Sale (12000 + 10800 + 9720 + 8748)	41,268

(12,000+10,809+9,720+8,748)	
Book Value on 01-01-2020	78,732
Less : Sale Price	34,500
Loss on sale of Machinery	44,232

Depreciation on Remaining Machinery	
Cost of Remaining Machinery (800,000 - 120,000)	6,80,000
Less : Accumulated Depreciation thereon (till 31-12-2020) (318,000 - 41,268)	–276,372
Book Value on 01-01-2019	4,03,628
Depreciation (4,03,628x10/100) = 40362.8 = 40363	

Illustration 11

(Problem Based on Missing Figures)

On 1st July 2019 Tata Private Ltd. purchased a machinery for ₹6,00,000. On 1st Oct. 2020 another machinery was purchased for ₹3,60000. On 1st July 2021, the machine purchased on July 2019 was sold for ₹3,36,000 and on the same date a fresh machinery was purchased for₹4,00,00. Depreciation was provided @10% p.a. on the written down value method. Books are closed on 31st march every year.

You are required to prepare machinery account and provision for Depreciation for three years ending 31st March 2022.

MACHINERY ACCOUNT

Dr. Cr.

Date	Particular	Amount (₹)	Date	Particular	Amount (₹)
2019 Jul-01	To Bank A/C	6,00,000	2020 March 31	By Balance c/d	6,00,000
		6,00,000			6,00,000
2020 April	To Balance b/d	6,00,000	2021 March 31	By Balance c/d	9,60,000
Oct1	To Bank A/C	360,000			
		9,60,000			9,60,000
2021 April 1	To Balance b/d	9,60,000	2021 July 1	By Bank A/C	3,36,000
July 1	To Bank A/C	4,00,000	–	By Prov. for Dep. A/C	(---------) (5)
			–	By Profit & Loss A/C	(---------) (7)
			2022 Mar 31	By Balance c/d	(---------) (8)
		13,60,000			13,60,000

PROVISION FOR DEPRECIATION ACCOUNT

Dr. Cr.

Date	Particular	Amount (₹)	Date	Particular	Amount (₹)
2020 Mar-31	To Bank c/d	45000	2020 March 31	By Depreciation A/C	45000
		45000			45000
			2020 Apr-1	By Balance b/d	45000
2021 Mar 31	To Balance b/d	(--------)	2021 March 31	By Depreciation A/C	(--------) (1)
		(--------)			(--------)
2021 July 1	To Machinery A/C	(5) (-------)	2021 Apr 31	By Balance b/d	(---------) (2)
2022 Mar-31	To Balance c/d	(6) (-------)	July 1	By Depreciation A/C	(---------) (3)
			2022 Mar 31	By Depreciation A/C	(---------) (4)
		(-------)			(-------)

Answer:- 1) ₹ 73,500

2) ₹ 1,18,500

3) ₹ 12,488

4) ₹ 64,200

5) ₹ 1,12,988

6) ₹ 82,200

7) ₹ 1,51,012

8) ₹ 7,60,000

Asset Disposal Account

Asset Disposal A/c is opened when an asset (partially or fully) is sold or disposed off. All entries related to sold asset are recorded in the asset disposal A/c. Methods of recording the entries in Asset Disposal A/C will depend on a fact whether provision for depreciation account is maintained or not.

Format of Assets Disposal Account

(a) When Provision for Depreciation Account is maintained

To Asset A/c	–	By provision for Depreciation	
(Original Value)		A/c	–
		By Bank A/c	–
To Profit and loss	–	By Profit and Loss A/C	–
A/C Loss (if loss)	–	(if Profit)	–

(b) When Provision for Depreciation Account is not maintained

To Asset A/c	–	By Bank A/c	–
(Original value - Depreciation)		By Profit and loss –	
To Profit and loss A/C	–	A/C (if profit)	
Loss (if loss)	–		–

Questions for practice:

1. Estimated sales value of an asset its useful like is called_____.
2. Reduction in the value of asset due to new technological development is called______.
3. Amount of depreciation on asset will be ____ in initial years under straight line method than Diminishing Balance method.
4. Reduction in the value of wasting assets like mines is called ___.
5. Book Value of assets reduced to zero under ____ method.
6. Wages paid at the time of installation on machinery is debited to ______ account.
7. Original Cost of an asset is ₹ 3,50,000; its salvage value is ₹ 25,000 useful life 5 years. Annual Depreciation under Straight Line Method:

   (a) ₹ 65,000

   (b) ₹ 85,000

   (c) ₹ 35,000

   (d) ₹ 17,500

8. Book Value of an asset after 2 years is ₹ 80,000; Rate of depreciation is 10% p.a. under Straight Line method. The Original Cost of an asset would be

(a) ₹ 8,000

(b) ₹ 1,00,000

(c) ₹ 8,00,000

(d) ₹ 80,000

9. The balance of Machinery Account as on March 31, 2022 is ₹ 1,08,000. The machinery was purchased on April 1, 2017. Depreciation is charged @10% p.a. by Diminishing Balance Method. What is the original cost of an asset purchased on April, 2021?

(a) ₹ 1,30,000

(b) ₹ 1,25,000

(c) ₹ 1,20,000

(d) ₹ 1,00,000

10. The balance of Machinery Account as on March 31, 2022 is ₹ 91,125. The machinery was purchased on April 1, 2019. Depreciation is charged @10% p.a. by Diminishing Balance Method. What is the book value of machinery as on 1st April 2019?

(a) ₹ 1,30,000

(b) ₹ 1,25,000

(c) ₹ 1,20,000

(d) ₹ 80,000

Answer:

1. Scrap Value	2. Obsolescence
3. Less	4. Depletion
5. Streight line method	6. Machinery A/c
7. (a)	8. (b)
9. (c)	10. (b)

Practical Questions

Q1. On 1st April, 2016 Ashok & Brothers bought a second hand machine for ₹6,00,000 and spent ₹100000 for its repair and installation. On Oct. 1, 2018 the machine was sold for ₹5,00,000. Prepare Machine Account after charging depreciation @10% p.a. by Written down value Method, assuming that the books are closed on 31st March every year. (Loss on sale 38650)

Q2. Vijay Ltd. purchased a plant on 1st April 2017 for ₹2,50,000. On 1st 2018, it purchased a new plant for ₹1,50,000. The part of the machine which was purchased on 1st April 2017 costing ₹50,000 was sold for ₹18000 on 30th september 2020. Prepare the plant A/c for four years. Depreciation is charged @10% p.a. on 31st March every year on the Diminishing Balance Method.

Ans. Loss on sale of plant 16627, Balance 31 March, 2019 ₹2,46,645

Q3. On 1st April 2018 a firm purchased a machinery for ₹8,00,000. On 1st Oct. in the same accounting year, an additional machinery costing ₹4,00,000 was purchased. On 1st Oct 2019, the machinery purchased on 1st April 2018 was sold off for ₹3,60,000. On 1st October 2020, a new machinery was purchased for ₹10,00,000 while the machinery purchased on 1st October 2018 was sold for ₹3,40,000 on the same date. The firm provides depreciation on its machinery @ 10% p.a. on original cost 31st March every year.

Prepare Machinery Account (ii) Provision for Depreciation Account (iii) Machinery Disposal Account

Ans. Balance of Machinery Account ₹10,00,000 Loss on Sale of 1st Machinery ₹3,20,000 Profit on sale of second Machinery ₹20,000.

Q4. You are given the following balances as on 1st April 2019

Plant Account = ₹10,00,000

Provision for Depreciation on Account = ₹2,32,000

Depreciation is charged on plant at 10% p.a by the Diminishing Balance Method. A piece of plant purchased on 1st April 2017 for ₹2,00,000 was sold on 1st october 2020 for ₹1,20,000.

Prepare the Plant Account and provision for the Depreciation Account for the year ended 31st March 2019 and also prepare the plant Disposal Account.

Ans. Loss on sale Plant ₹233,900.

Balance of provision for Depreciation on A/c on April, 2019 ₹2,54,000

Q5. Fill up the missing information in the machinery account, provision for Depreciation Account and Disposal Account. You are informed that on 30th June 2018 it sold off the first machine purchased in 2016 for ₹5,24000 Accumulated Depreciation Account in maintained changing depreciation @ 10% on straight line method.

MACHINERY ACCOUNT

Dr. Cr.

Date	Particular	Amount	Date	Particular	Amount
2016 Oct-01	To Bank A/C	6,55,000	2017 March 31	By---------- 1	----------
2017 March-01	To Bank A/C	2,40,000			
		8,95,000			----------
2017 April-01	To Balance b/d (2)	----------	2018 March 31	By Balance c/d (3)	----------
		----------			----------
2018 April-01	To Balance b/d (4)	----------	2018 June 30	---------- (5)	----------
			2019 March 31	By Balance c/d (6)	----------

PROVISION FOR DEPRECIATION ACCOUNT

Dr. Cr.

Date	Particular	Amount	Date	Particular	Amount
-------	To ------- (8)	-----------	----------	---------- (7)	----------
		----------			----------
2018 March-31	To Balance c/d (11)	----------	2017 April 1	By -------- (9)	
			2018 March 31	By -------- (10)	----------
		----------			----------
2018 June-30	-------------- (15)	----------	2019 April 31	By -------- (12)	----------
					----------
			----------	By -------- (13)	
2019 March-31	-------------- (16)	----------	2019 March 31	By -------- (14)	(----------)
		----------			----------

MACHINERY DISPOSAL ACCOUNT

Date (year)	Particular	Amount	Date (year)	Particular	Amount
-------	To ------- (20)	-----------	----------	By provision for Depreciation A/C (17)	---------- ----------
			----------	Bank A/C (18)	----------
			----------	Statement of Profit & Loss (19)	----------
		----------			----------

Ans. 1) By Balance b/d ₹8,95,000

2) ₹8,95,000

3) ₹8,95,000

4) ₹8,95,000

5) Machinery Disposal A/C ₹6,55,000

6) ₹2,40,000

7) By Depreciation A/C ₹34750

8) To Balance c/d ₹34750

9) By Balance b/d ₹34750

10) By Depreciation A/C (1) ₹89500

11) To Balance c/d ₹1,24,250

12) By Balance c/d ₹1,24,250

13) By Depreciation A/C (1) ₹16375

14) By Depreciation A/C (4) ₹24000

15) To Machinery Disposal A/C ₹1,14,250

16) To Balance c/d ₹50,000

17) ₹1,14,625

18) ₹5,24,000

19) ₹16375

20) To Machinery A/C ₹6,55,000

Provisions

- Provision is to be made is respect of a liability which is certain to be incurred, but its accurate amount is not known.
- It is charged in the profit and loss Account on estimate basis. It should be clearly understood that if the amount of a known liability can be determined with reasonable accuracy, it can not be a provision.

Notes: Provision is a charge against profits, it means provision has to be made irrespective of business enterprise is earning enough profits or Incurring losses.

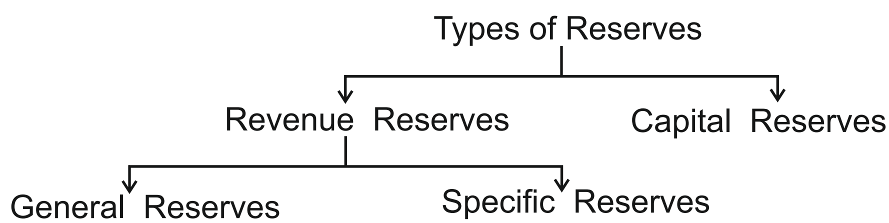
Examples of provisions : Provisions for Depreciation on assets, Provision for Repairs and Renewals of assets. Provision for Taxation. Provision for Discount on Debtors, Provision for Bad and Doubtful Debts.

Reserves

- Reserves are the amount set aside out of profits. It is an appropriation of profits and not a charge on the profits.
- The amount of profit retained is used in the business when difficult time comes. Since reserves are neither expenses nor losses. so these are not charged to profit & loss Account rather these are debited to Profit & Loss Appropriation Account which is prepared after Profit and Loss Account.
- Reserves are also known as 'Ploughing Back of Profits'.
- Reserves are created to strengthening the financial positions of the business enterprise.
- Examples are General Reserves, Divided Equalization Reserves etc.
- If the amount of reserve is invested outside the business then, it is called 'Reserve Fund'.
- Creation of reserve does not reduce the net profit but only reduced the divisible profits.

DIFFERENCE BETWEEN PROVISION AND RESERVE

Basis	Provision	Reserve
1. Meaning	It is created to meet a known liability.	It is create to strengthen the financial position of business enterprise.
2. Charge or Appropriation	Provision are charge against profits	Reserve is an appropriation of profit.
3. Objective	The object is to provide for known liability cannot be calculated accurately.	It is created to strengthen the financial position and to meet unforeseen liability.
4. Effect on profit	It is debited to the profit. Hence' profit is reduced.	Reserve reduces divisible profits.
5. Creation	Provisions are to be created even if there are insufficient profits.	Reserve is created out of adequate profits only.
6. Mode of creation	Provision are created by debiting the Profit & loss A/c.	It is created through Profit & Loss Appropriation Account.
7. Investment	It cannot be invested outside the business	Reserve can be invested outside the business.
8. Necessity	Creation of provision is necessary as per law.	Its creation is not necessary. It is created as a matter of prudence.



Revenue Reserves

Revenue Reserves are those reserves which are created by setting aside a part of the net profit of business. Since reserves represent undistributed profit of the company so they are available for declaration of dividend and distribution among shareholders. Revenue reserves are of two types namely. (1) General Reserves (2) Specific Reserves.

(1) General Reserves :- Those reserves which are created out of profit to meet out the unforseen contingencies are called general reserves. They are termed as 'Free Reserves' or 'Contingency Reserves'. Creation of general reserve is optional. It is an appropriation of profit so it is made only if adequate profit is earned by the company. They are shown on liability side of the balance sheet under the head," Reserve and surplus".

(2) **Specific Reserves:-** These reserves are created for specific purpose and can be utilised for that purpose only. Examples:- Dividend Equalization Reserves, Debentures Redemption Reserve, workmen Compensation Reserve, Investment Fluctuation Reserves etc.

Reserve fund :- If reserves are invested in outside securities, it is known as Reserve fund.

Capital Reserves:-

The reserves created out of capital profits are known as capital Reserve. Such reserves, generally are not available for distribution as cash dividend among the share holders of a company.

Examples of Capital Profit:

i) Profit on sale of fixed assets.

ii) Profit on revaluation of assets and liabilities.

iii) Securities premium earned on issue of share or debentures.

iv) Profit on the purchase of running business.

v) Profit earned on forfeiture of shares.

vi) Profit on redemption of debentures.

vii) Profit prior to the incorporation of a company

Capital profits can be used to (1) write off capital losses (2) to issue fully paid up bonus shares among the equity share holders. However, company can declare dividend out of capital profits on the fulfilment of the following conditions.

i) Articles of Associations of a company permits the declaration of dividend out of such profile.

ii) Capital profits realised in cash.

iii) Profile remains after revaluation of assets and liabilities.

Questions

1. Provision is a ______ against profit.
2. Provision is charged to _____ Account.
3. Reserve is an _____ of profit.
4. Profit on sale of fixed asset is a capital profit and therefore it will be transferred to _______ .

True and False

5. Provision can be invested outside the business.
6. If the amount of reserve in invested outside the business then it is called as Reserve Fund. (True)
7. Creation of Provision is necessary as per law.
8. Provision is the amount of any known liability to be determined with substantial accuracy.
9. Provision is an appropriation of profit.
10. Reserve is a charge against profit.

Answer

1. Charge
2. Profit and Loss
3. Appropriation
4. Capital Reserve
5. False
6. True
7. True
8. True
9. False
10. False

CHAPTER - 7
RECTIFICATION OF ERRORS

Learning Objectives

After studying this topic the students will be able to :

- explain the types of errors;
- state various process of locating errors;
- identify the errors which affect the agreement of trial balance and those which do not affect the agreement of trial balance;
- rectify the errors without preparing suspense account; and
- rectify the errors with a suspense account.

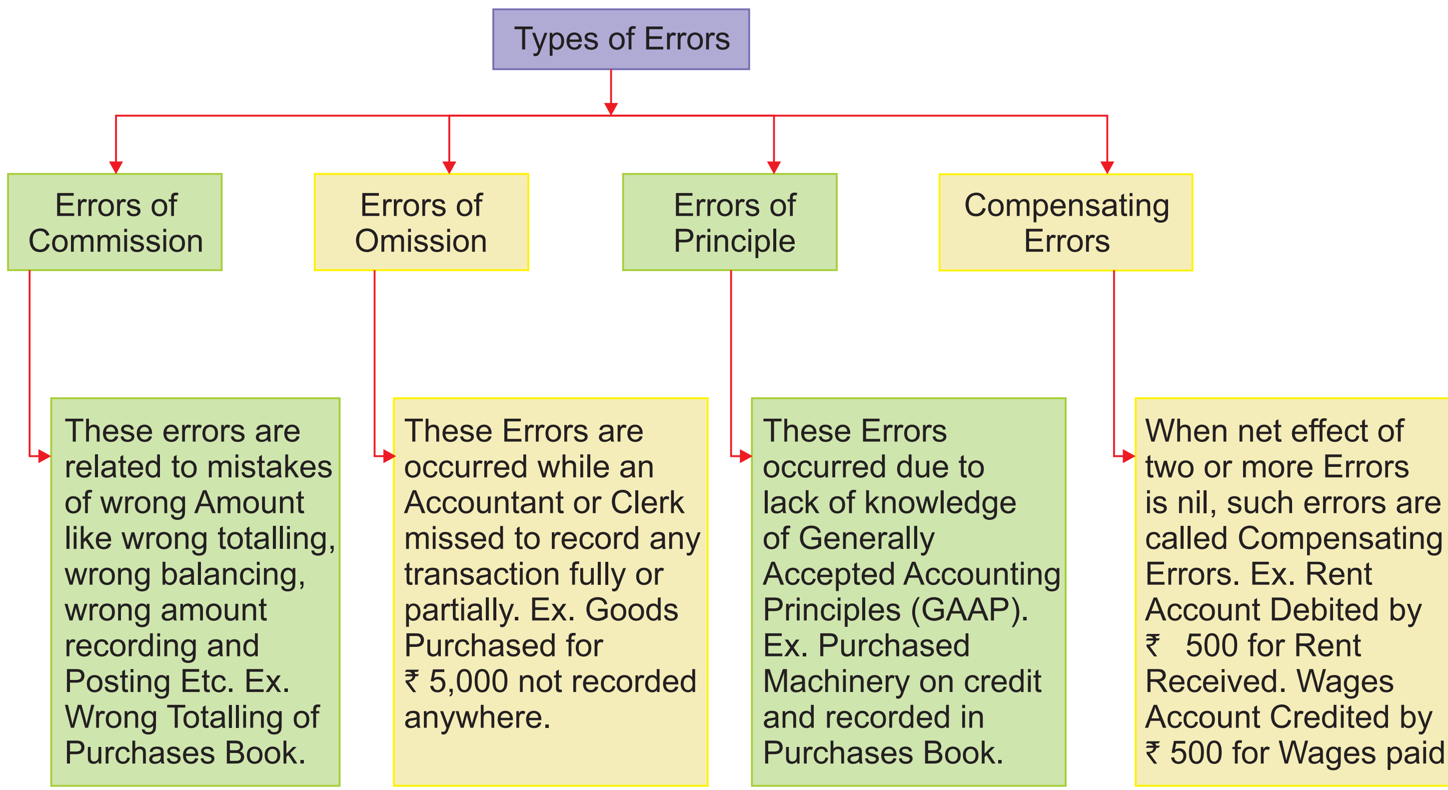
INTRODUCTION

Accounts are prepared by an accountant; a human being is likely to commit mistakes at time of recording and posting in the books. However, such errors are located after some time and should be corrected by passing corrective journal entry, switch is known as rectification of errors.

Important : The errors whether affecting the Trial Balance or not must be detected and rectified.

NEED OF RECTIFICATION

1. For the preparation of correct Accounting Records.
2. Preparation of P & L A/c with corrected figures to ascertain correct Profit or Loss.
3. To find out the true financial position of the firm by preparing Balance Sheet with corrected figures.


Types of Errors
Errors of Commission
Errors of Omission
Errors of Principle
Compensating Errors
These errors are related to mistakes of wrong Amount like wrong totalling, wrong balancing, wrong amount recording and Posting Etc. Ex. Wrong Totalling of Purchases Book.
These Errors are occurred while an Accountant or Clerk missed to record any transaction fully or partially. Ex. Goods Purchased for ₹ 5,000 not recorded anywhere.
These Errors occurred due to lack of knowledge of Generally Accepted Accounting Principles (GAAP). Ex. Purchased Machinery on credit and recorded in Purchases Book.
When net effect of two or more Errors is nil, such errors are called Compensating Errors. Ex. Rent Account Debited by ₹ 500 for Rent Received. Wages Account Credited by ₹ 500 for Wages paid.

Classification of Errors

(On the basis on Nature)

Type of Error with Meaning	Sub-Types with Examples
1. **Error of Omission** It refers to the error in which a transaction is completely or partially omitted to be recorded in books.	a) **Error of complete Omission** Good-sold to X on credit but not recorded in Sales Book. b) **Partial Omission*** Purchase machinery ₹ 5,000 in cash, recorded in cash Book but not recorded in Machinery A/c.
2. **Error of Commission** It refers to those errors which are caused due to wrong recording of transactions, wrong totalling of subsidiary or Ledger A/cs. Wrong posting and wrong carry forward etc.	a) **Error of Recording in the Book of Original Entry** Goods purchased from Ravi for ₹ 450, but Goods recorded as ₹ 540, in the Purchases Book. b) **Wrong Totalling of Subsidiary Book** * **Example :** Purchase Book has been undercast (short totalled) by ₹ 100. c) **Error in Totalling or Balancing of Ledger A/cs*** **Example :** Creditors A/c has been balanced short by ₹ 500. d) **Error of Posting** i) **Posting to the wrong side but correct account *** Goods sold to X for ₹ 550, entered to the credit of ₹ X's A/c instead of posting to the debit side of his account.

	ii) Posting with wrong amount.* **iii) Posting twice in an A/c*** **iv) Errors in posting to the wrong A/c but correct side don't affect Trial Balance.** **e) <u>Error in carrying forward*</u>** Total of purchases book ₹ 2,500 is carried forward as ₹ 2050.*
3. <u>Errors of Principle</u> These error are caused due to the violation of accounting principle i.e. allocation between Capital and Revenue items	**a) <u>Treating capital items as revenue item</u>** **Example :** Wages paid for the installation of a new machinery charged to Wages A/c instead of machinery A/c. **b) <u>Treating revenue items as Capital Item</u>** **Example :** ₹ 200 paid for the repairs of an old Machinery but debited to Machinery A/c instead of Repairs A/c.
4. <u>Compensating Errors</u> Two or more errors committed in such a way that the net effect of these errors in nil. Means the effect of one error is nullified by the effect of another error of equal amount.	**Example :** Cash paid to Ram 5,000 but debited-him as ₹ 500 and paid Mohan ₹ 500 but debited him as ₹ 5,000 so, net effect will be nill.

*** Trial Balance will not tally with these errors.**

<u>TYPES OF ERRORS FROM RECTIFICATION POINT OF VIEW</u>

From Rectification point of view, errors are classified into the following two categories only:

Case I : Errors which don't affect the Trial Balance **or** Two Sided Errors

Case II : Errors which affect the Trial Balance **Or** one Sided Errors.

Errors don't Affecting Trial Balance

1. Errors of complete Omission.
2. Wrong recording in the books of original entry.
3. Errors of Omission from posting.
4. Errors of posting to the wrong A/c but on the correct side.
5. Compensating errors.
6. Errors of principle.

Note: These errors cannot be identified by preparing Trial Balance. So, these errors are considered as limitations of Trial Balance.

Errors Affecting Trial Balance

* **Shown by Star in the Table showing Classification of Errors**

1. Error in totalling of subsidiary books as undercast and overcast.
2. Error in the balancing of ledger accounts.
3. Error in posting to the correct Account but with wrong amount.
4. Error of partial omission.
5. Error in carrying forward.

Rectification of Errors

When the errors are detected, these have to be rectified in the books of accounts. Rectification of errors depends upon.

- The Type of error and
- The time of depiction of an error.

Time of Depiction of an error means.

i) Errors detected before the preparation of **Trial Balance.**

ii) Errors detected after preparing Trial Balance but **before** preparing **final** accounts.

iii) Errors detected after preparing Final Accounts.

RECTIFICATION OF TWO SIDED ERRORS

Two sided errors are those errors which affect two sides of Accounts. These errors don't affect Trial Balance as discussed earlier.

These errors are rectified by passing a journal entry irrespective of the *time of depiction. In other words their rectifying entry will be same whether*

(a) the error is depicted before Trial Balance or

(b) after the preparation of Trial Balance but before the Final A/cs are prepared.

Steps for Rectification

1. Locate the effect of Error on Different Accounts.
2. The Account showing excess Credit should be Debited.
3. The Account showing excess Debit should be Credited.
4. The Account showing short Debit should be Debited.
5. The Account showing short Credit should be Credited.

Examples (With Explanation)

i) When an account has wrongly been debited in place of another A/c.

- Rectification will be done by debiting the correct account and Crediting the A/c which was wrongly debited.

  Example : Machinery purchased for ₹10,000 has been debited to Purchases A/c.

Solution : This error affects the two A/c.

- Machinery A/c is not debited hence its debit side is short by ₹10,000 whereas purchases A/c debited by mistake. Purchases A/c debit side is in excess by ₹ 10,000.
- While rectifying this mistake Machinery A/c will be debited by d 10,000 because it was not debited earlier and Purchases A/c will be credited because it was wrongly debited.

Rectifying Journal Entry

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Machinery A/c Dr.		10,000	
	To Purchases A/c			10,000
	(For Purchases of machinery wrongly debited to Purchases A/c)			

ii) When an account has wrongly been Credited in place of another account.

Example : ₹ 5,000 received from the sale of old furniture has been Credited to Sale A/c

Solution: This error also affects the two A/c.

- Furniture A/c is not Credited, hence its credit side is short by ₹ 5,000.
- Sales A/c is credited by mistake, its credit side is excess of ₹ 5,000.
- Therefore for rectifying this mistake. Sales A/c will be debited because it was wrongly Credited and Furniture A/c which was not Credited earlier will now be credited by ₹ 5,000.

Rectifying Entry

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Sales A/c	Dr.		5,000	
	To Furniture A/c (Sales of old Furniture wrongly Credited to Sales A/c)				5,000

iii) When there is a short debit in one A/c and a short Credit another A/c.

Example : Goods sold to Seema for ₹ 540 was entered in the Sales Book as f 450.

Solution :

- Here Seema's A/c is debited by ₹ 90 short and Sales A/c is credited by f 90 short. (Instead of ₹ 540 by ₹ 450)
- Therefore rectification will be done by Debiting Seema's A/c and Crediting Sales A/c.

Rectifying Journal Entry

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Seema	**Dr.**		**90**	
	To Sales A/c (For goods sold to Seema for ₹ 540 wrongly entered ₹ 450.)				90

IV) When there is an Excess Debi`in one account and Excess Credit in another A/c.

Example : Goods Purchases from Mohan for ₹ 300 were recorded in Purchase Book ₹ 3000.

- Here Purchases A/c is Debited by ₹ 3,000 instead of ₹ 300, *i.e.* ₹ 2,700 more.
- Mohan's A/c is also Credited by ₹ 2,700 more.
- Rectification will be done by debiting Mohans' A/c & Crediting Purchases A/c by ₹ 2,700 i.e. **the entry in the reverse direction**.

Rectifying Entry

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Mohan Dr.		2,700	
	To Purchases A/c			2,700
	(For purchases of goods from Mohan for ₹ 300 wrongly entered ₹ 3000)			

Problem : Rectify the following Errors :

1. ₹ 5,000 paid for furniture purchased has been debited to purchases account.
2. Wages paid ₹ 7,000 for installation of new machinery were recorded in wages account.
3. Goods sold to Hari ₹ 10,000 not recorded anywhere.
4. ₹ 2,500 received from Monu has been credited to Sonu A/c.
5. Rent paid ₹1,000 wrongly debited to Landlord Account Personal Account.
6. Credit Purchase from Raman ₹15,000 were wrongly recorded in sales book.
7. Credit sales to Geeta ₹ 8800 were recorded as ₹ 8,000.
8. Goods ₹5,000 withdrawn by proprietor has not been recorded.

Solution :

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
1.	Furniture A/c Dr. To Purchases A/c (The furniture purchase wrongly debited to purchases A/c)		5,000	5,000
2.	Machinery A/c Dr. To Wages A/c (The wages for installation machinery wrongly debited to wages A/c.)		7,000	7,000
3.	Hari Dr. To Sales A/c (The goods sold to Hari not recorded.)		10,000	10,000
4.	Sonu Dr. To Monu (The amount wrongly credited to Sonu instead of Monu)		2,500	2,500
5.	Rent A/c Dr. To Landlord Personal A/c (The rent paid but wrongly debited to landlord A/c)		1,000	1,000
6.	Purchases A/c Dr. Sales A/c Dr. To Raman (The Credit purchase from wrongly credited to sales A/c		15,000 15,000	30,000

7.	Geeta Dr. To Sales A/c (Credit sales to Geeta recorded ₹800 short)		800	800
8.	Drawing A/c Dr. To Purchases A/c (The goods withdraw, by Proprietor for personal use)		5,000	5,000

Important : Rectification of double sided errors can easily be understood by the students. These are rectified by passing the journal entries as given irrespective of the time of detection of the errors.

RECTIFICATION OF ONE SIDED ERRORS

These errors affect only one side of an Account either debit or credit. Therefore these errors affect the Trial Balance.

Rectification of these errors is done differently, in these two cases i.e.

i) **Before preparing the Trial Balance.**

ii) **After preparing the Trial Balance.**

Case I : Rectification of one sided errors before preparing Trial Balance.

One-sided Errors are rectified directly by debiting or crediting the concerned ledger account.

For Short Debit	→	**Concerned A/c is Debited.**
For Excess Credit	→	**Concerned A/c is Debited.**
For Short Credit	→	**Concerned A/c is Credited.**
For Excess Debit	→	**Concerned A/c is Credited.**

Example 1 : Purchases Book under cast by ₹ 150.

Analysis : It means that the total of the Purchases Book is ₹ 150 short.

1. This total is posted to purchases A/c Debit side.

2. Hence Purchases A/c is debited or short by ₹ 150.
3. No effect on any other A/c.
4. Therefore purchases A/c will be debited by ₹ 150 to rectify this error as given below.

Purchase Account

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
	To Undercast of purchase book		150				

Here debit side of the Purchase A/c was short therefore the rectification is done by debiting the A/c.

Example 2 : Purchases Book is overcast by ₹ 300.

Analysis

1. Means total of the Purchases Book is in excess by ₹ 300 which is posted to the debit side of purchases A/c.
2. Hence purchases A/c is debited in excess by ₹ 300.
3. No effect on any other A/c.
4. Therefore to rectify this error ₹ 300 will be credited to purchases A/c (i.e. opposite side)

Purchases Account

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
					By Overcast of purchase book		300

- **Here debit side of the purchases A/c was in excess, therefore the rectification is done by entering the amount on the opposite side i.e., Credit side of the Purchases A/c.**

Case II : Rectification of one Sided Error after preparing Trial Balance.

When the errors are detected after the preparation of Trial Balance then **one sided error is rectified** by passing a Journal entry **through**

Suspense Account.

1.	**Short debit in one Account → Debit that Account and Credit the Suspense A/c.**
2.	**Excess Credit in one Account → Debit that A/c and Credit the Suspense A/c.**
3.	**Short Credit in one Account → Credit that A/c and Debit the Suspense A/c.**
4.	**Excess Debit in one Account → Credit that A/c and Debit the Suspense A/c.**

Example 3 : Purchases Book undercast by ₹ 150.

Date	Particulars	J.F.	Dr. (₹)	Cr. (₹)
	Purchases A/c Dr. To Suspense A/c (For undercast of purchases book, now corrected.)		150	150

Example 4 : Sales Book was undercast by ₹ 200.

Analysis

1. Sales book totalled short by ₹ 200 which is posted to the credit side of sales A/c.
2. Therefore Sales A/c credit side is short by ₹ 200.
3. Hence rectification will be done by crediting the sales A/c and Debiting the Suspense A/c by ₹ 200.

Date	Particulars	J.F.	Dr. (₹)	Cr. (₹)
	Suspense A/c Dr. To Sales A/c (For undercast of sales books, now corrected)		200	200

Note : When nothing is mentioned in the question about the time of detection of an error, the students are advised to rectify one sided errors through Suspense A/c.

Problem : Rectify the following error

A) Without opening a Suspense A/c

B) By passing journal entries through Suspense A/c.

1) ₹5,000 paid to Mohit were entered in cash Book but omitted to be posted to the ledger.
2) ₹ 5,000 paid to Mohit were debited to his A/c as ₹ 500.
3) ₹ 5,000 paid to Mohit were debited to his A/c as ₹ 50,000.
4) ₹ 5,000 paid to Mohit were credited to his A/c.
5) ₹ 5,000 paid to Mohit were credited to his A/c as ₹ 500.
6) Sales Book was overcast by ₹ 2,000.
7) Sales Return Book undercast by ₹ 4,000.
8) Purchases Return book undercast by ₹ 5,000.

Solution :

A) Without opening a suspense A/c. These errors are rectified in the concerned ledger A/c, as these errors are before preparing Trial Balance.

1. Mohit will be the debited by ₹ 5,000 as it is a case of partial omission.
2. Mohit was debited ₹ 4500 (5,000-500) therefore the rectification will be done by debiting Mohit by ₹ 4,500.
3. Mohit was debited in excess by ₹ 45,000 (50,000-5,000) therefore rectification will be done by crediting the Mohit by ₹ 45,000.
4. Mohit was credited by ₹ 5,000 instead of debited by ₹ 5,000 therefore rectification will be done by debiting Mohit'by ₹ 10,000 (5,000+5,000)
5. Mohit was wrongly credited by ₹ 500 instead of debiting it by ₹ 5,000 so rectification will be done by debiting the Mohit'by ₹ 5,500.
6. Sales book overcast means sales is credited is excess by ₹ 2,000. Hence rectification will be done by debiting sales A/c by ₹ 2000.

7. Sales Return Book total undercast by ₹ 4,000 means sales return debit is short by ₹ 4,000 Hence rectification will be done by debiting sales return by ₹ 4,000.
8. Purchases Return Book undercast by ₹ 5,000 means purchases return is credited short by ₹ 5,000. Hence rectification will be done by crediting the purchases return by ₹ 5,000.

B) By opening suspense A/c.

Rectifying Journal Entry

Suspense Account and its Disposal

In the chapter of Trial Balance we have learnt about the Suspense A/c.

Important

- When inspite of all the efforts the Trial Balance does not tally, the difference is put to a newly opened account named Suspense A/c.
- Suspense A/c is an imaginary account, opened temporarily for the purpose of reconciling a Trial Balance.
- Later on when the errors affecting the Trial Balance are located, rectification entries are passed through the Suspense A/c.
- When all the errors are located and rectified, the Suspense A/c will be Automatically closed i.e., it will show zero balance.
- But if suspense A/c still shows a balance it will indicated that some error are still to be discovered and rectified.

Problem : An accountant of a trading concern could not agree the Trial Balance. There was an excess credit of ₹ 100 which he transferred to the suspense A/c. The following errors were subsequently discovered.

1. Received 550 from X, were posted to the debit of his account.
2. ₹ 100 being purchases return were posted to the debit of purchases A/c.
3. Discount received ₹ 200 Correctly entered in the Cash Book but posted to the debit of the discount A/c.

4. Salary paid ₹ 3,500 to X were posted to the salary A/c as ₹ 2,500.
5. A purchase of ₹ 400 has been passed through Sales Book. However the customer's account has been correctly credited.

Give Rectifying entries and Suspense A/c

Journal

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

Dr. **Suspense Account** **Cr.**

Date	Particulars	J.F.		Date	Particulars	J.F.	
	To Difference in the Trial Balance		100	(4)	By Salary A/c		1,000
				(5) (i)	By Purchases A/c		400
				(5) (ii)	By Sales A/c		400
(1)	To X		1,100				
(2)	To Purchases A/c		100		By Balance c/d		Nil
(3)	To Purchases Return A/c		100				
(4)	To Discount Received A/c		400				
			1,800				1,800

Since the Balance of the suspense A/c is nil, indicates that all the errors have been certified.

OBJECTIVE QUESTIONS

MULTIPLE CHOICE QUESTIONS

1. What kind of accuracy is tested by Trial balance-

(a) Theoretical
(b) Practical
(c) Arithmetical
(d) None of these.

2. How many methods are there for preparing Trial Balance -

(a) One
(b) Three
(c) Four
(d) None of these.

3. Which of the following is prepared on the basis of Trial Balance

(a) Journal
(b) Ledger
(c) Final Accounts
(d) None of these.

4. If the two sides of Trial balance does not tally, which Account is opened -

(a) Suspense Account

(b) Personal Account
(c) Real Account
(d) None of these.

5. **Agreement of trial balance is affected by:**
(a) One sided errors only.
(b) Two sided errors only.
(c) Both (a) and (b).
(d) None of the above.

6. **Which of the following is not an error of principle:**
(a) Purchase of furniture debited to purchases account.
(b) Repairs on the overhauling of second hand machinery purchased debited to repairs account
(c) Cash received from Manoj posted to Saroj.
(d) Sale of old car credited to sales account.

7. **Which of the following is not an error of commission:**
(a) Overcasting of sales book.
(b) Credit sales to Ramesh ₹ 5,000 credited to his account.
(c) Wrong balancing of machinery account
(d) Cash sales not recorded in cash book.

8. **Which of following errors will be rectified through suspense account:**
(a) Sales return book undercast by ₹ 1,000.
(b) Sales return by Madhu ₹ 1,000 not recorded.
(c) Sales return by Madhu ₹ 1,000. recorded as ₹100.
(d) Sales return by Madhu ₹ 1,000 recorded through purchases returns book

9. **If the trial balance agrees, it implies that:**
(a) There is no error in the books.
(b) There may be two sided errors in the book.
(c) There may be one sided error in the books.
(d) There may be both two sided and one sided errors in the books.

10. **If suspense account does not balance off even after rectification of errors it implies that:**
(a) There are some one sided errors only in the books yet to be located.
(b) There are no more errors yet to be located.

(c) There are some two sided errors only yet to be located.

(d) There may be both one sided errors and two sided errors yet to be located.

11. If wages paid for installation of new machinery is debited to wages Account, it is:

(a) An error of commission.

(b) An error of principle.

(c) A compensating error.

(d) An error of omission.

12. Trial balance is:

(a) An account.

(b) A statement.

(c) A subsidiary book.

(d) A principal book.

13. A Trial balance is prepared:

(a) After preparing a financial statement.

(b) After recording transactions in subsidiary books.

(c) After posting to the ledger is complete.

(d) After posting to ledger is complete and accounts have been balanced

14. If a purchase return of ₹ 2,000 has been wrongly posted to the debit of the sales return account, but has been correctly entered in the suppliers' account, the total of the

(a) Trial balance would show the debit side to be ₹ 2,000 more than the credit.

(b) Trial balance would show the credit side to be ₹ 2,000 more than the debit.

(c) The debit side of the trial balance will be ₹ 4,000 more than the credit side.

(d) None of the above

15. If the amount is posted in the wrong account or it is written on the wrong side of the account, it is called

(a) Error of omission.

(b) Error of commission.

(c) Error of principle.

(d) Compensating Error.

TRUE AND FALSE

1. In case of error of complete omission, the trial balance does not tally.
2. When errors are detected after preparation of trial balance, a suspense account is opened.
3. When purchase of an asset is treated as an expense, it, is known as error of principle.
4. Trial balance agrees in case of compensating errors.
5. When an amount is written on the wrong side, it is known as an error of principle.
6. On purchase of furniture, the amount spent on repairs should be debited to the repairs account.
7. Rent paid to landlord of the proprietors house, must be debited to Rent account?
8. If the errors are detected after preparing a trial balance, then all the errors are rectified through a suspense account.

Fill in the Blanks Questions

1. Trial balance is .... not an Account. **(Ledger/Statement)**
2. Errors of .... committed due to lack of knowledge of accounting principles. **(Compensating/Principle)**
3. Errors of .... occurred due to incorrect posting of amount from journal to ledger. **(Commission/Principle)**
4. Suspense Account is prepared to correct .... Errors. **(One sided/Two sided)**

PRACTICAL PROBLEMS FOR PRACTICE

1. Rectify the following errors:
   Credit purchases from Rajesh ₹ 10,000
   i. were not recorded.
   ii. were recorded as ₹ 5,000.
   iii. were recorded as ₹ 15,000.
   iv. were not posted to his account.
   v. were posted to his account as ₹ 1,000.
   vi. were posted to Rakesh's account.
   vii. were posted to the debit of Rajesh's account.

viii. were posted to the debit of Rakesh.

ix. were recorded through sales book.

2. Rectify the following errors:

   Cash sales ₹ 6,000

   i. were not posted to sales account.

   ii. were posted as ₹ 600 in sales account.

   iii. were posted to commission account.

3. Rectify the following Errors:

   Depreciation written-off as the machinery ₹ 20,000

   i. was not recorded anywhere.

   ii. was not posted to machinery account

   iii. was not posted to depreciation account

4. Trial balance of Dinesh did not agree. It showed an excess credit ₹ 5,000. Anurag put the difference to suspense account. He located the following errors:

   i. Sales return book overcast by ₹ 500.

   ii. Purchases book was undercast by ₹ 300.

   iii. In the sales book total of page no. 6 was carried forward to page 7 as ₹ 500 instead of ₹ 600 and total of page 10 was carried forward to page 11 as ₹ 2,800 instead of ₹ 2,500.

   iv. Goods returned to Shyam ₹ 500 were recorded through sales book.

   v. Credit purchases from Rohan ₹ 400 were recorded through sales book.

   vi. Credit purchases from Puneet ₹ 2,500 were recorded through sales book. However, Puneet was correctly credited.

   vii. Salary paid ₹ 1,000 was debited to employee's personal account.

5. Rectify the following errors:

   i. Credit sales to X ₹ 4,000 were not recorded.

   ii. Credit purchases from Nitin ₹1,000 were not recorded.

   iii. Good sreturned to Lalit ₹ 5,000 were not recorded.

iv. Goods returned from Y ₹7,000 were not recorded.

v. Credit sales to Mohit ₹ 1,000 were recorded as ₹100.

vi. Credit purchases from Raj ₹ 2,000 were recorded as ₹ 200.

vii. Goods returned to Aakash ₹ 3,000 were recorded as ₹ 300.

viii. Goods returned from X ₹ 1,000 were recorded as ₹ 100.

ix. Credit sales to Rohan ₹ 5,000 were recorded as ₹ 4,200.

x. Credit purchases from Nandan ₹ 6,000 were recorded as ₹ 6,600.

xi. Goods returned to Raj ₹ 1,000 were recorded as ₹ 1,010.

xii. Goods returned from Himesh ₹ 2,000 were recorded as ₹ 2,600.

xiii. Salary paid ₹ 8,000 was debited to employee's personal account.

xiv. Rent Paid ₹ 7,000 was posted to landlord's personal account.

xv. Goods withdrawn by proprietor for personal use ₹ 10,000 were debited to sundry expenses account.

xvi. Cash received from Sohail ₹ 5,000 was posted to Sohan's account.

xvii. Cash paid to Kalu ₹ 6,500 was posted to Balu's account.

xviii. Credit Sales to Brijesh ₹ 8,000 were recorded in the purchase book.

xix. Credit Purchases from Madan ₹ 9,000 were recorded in the sales book.

xx. Goods returned to Suresh ₹ 40,000 were recorded in the sales return book.

xxi. Goods returned from John ₹ 2,000 were recorded in the purchase's return book.

xxii. Goods returned from Dinesh ₹ 3,000 were recorded in the purchase book.

xxiii. Sales book overcast by ₹ 7,000.

xxiv. Purchases book overcast by ₹ 5,000.

xxv. Sales return book overcast by ₹ 3,300.

ANSWERS OF OBJECTIVE QUESTIONS

MCQ's

1. (c), 2. (b), 3. (c), 4. (a), 5. (c), 7. (d), 8. (a), 9. (b), 10. (a)

11. (b), 12. (b), 13. (d), 14. (c), 15. (b)

True False Questions

1. False
2. True
3. True
4. True
5. False
6. False
7. True
8. False

CHAPTER - 8
FINANCIAL STATEMENTS OF SOLE PROPRIETORSHIP

Learning Objectives

Financial Statement

- Meaning, objectives and importance.
- Revenue and Capital Receipts.
- Revenue and Capital Expenditure.
- Deferred Revenue Expenditure.
- Trading and Profit and Loss Account: Gross Profit.
- Operating profit and Net profit. Preparation. Balance Sheet: need, grouping and marshalling of assets and liabilities. Preparation.
- Adjustments in preparation of financial statements with respect to closing stock, outstanding expenses, prepaid expenses, accrued income, income received in advance, depreciation, bad debts, provision for doubtful debts, provision for discount on debtors, Abnormal loss, Goods taken for personal use/staff welfare, interest on capital and managers commission.
- **Preparation of Trading and Profit and Loss account and Balance Sheet** of a sole proprietorship with adjustments.

Teaching Methodology

For teaching this topic the teacher should use discussion method, explanation method, illustration method etc.

Financial Statements

Financial statements are those statements that are prepared at the end of an accounting period to ascertain the performance and financial position of a business. These are also called final account. Financial statements of sale proprietorship are trading account Profit and loss Account and Balance sheet.

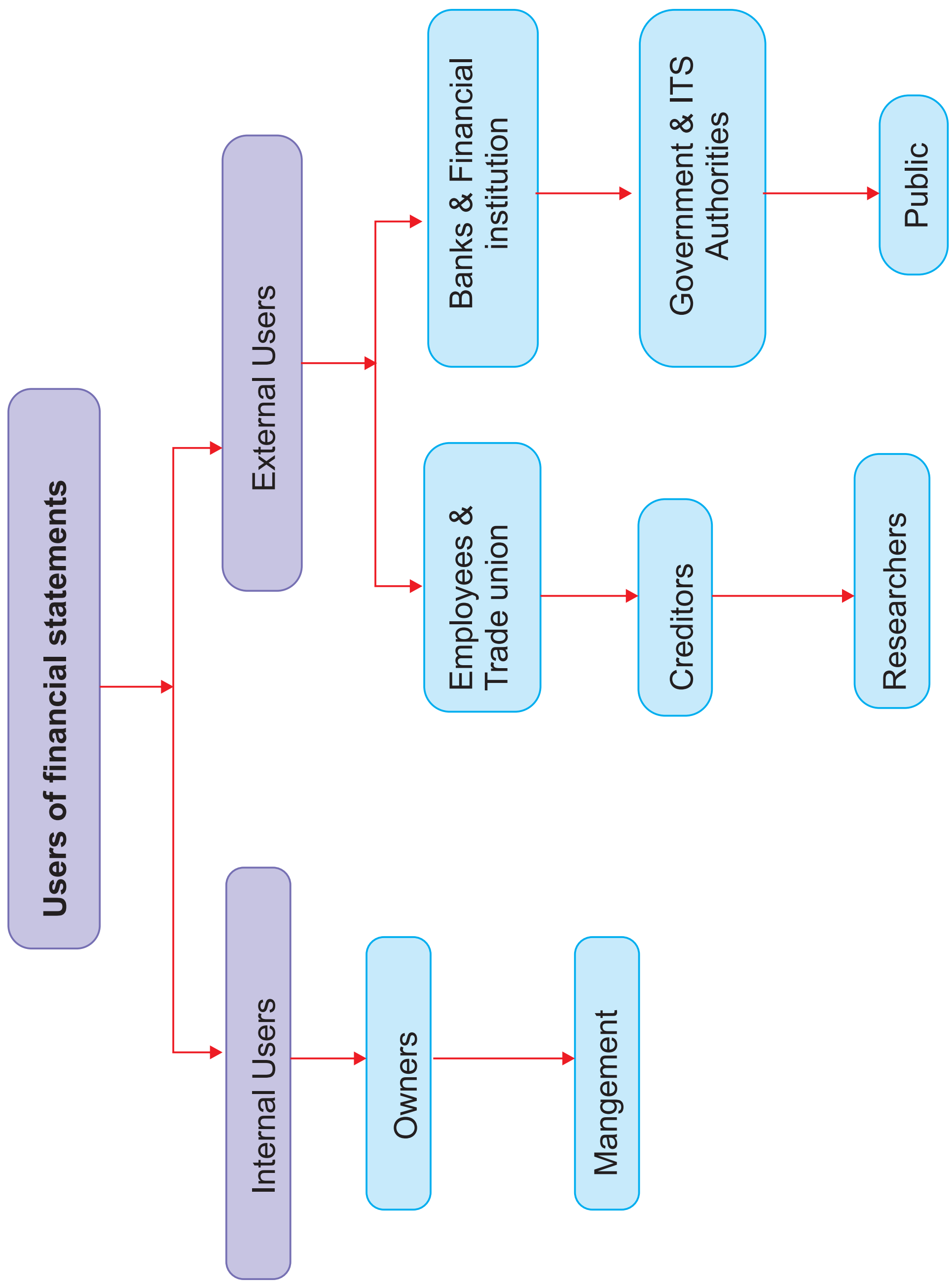
Hi.... I am a sole proprietor
In this chapter you will learn about my financial statements like income statement, statement of financial position (i.e., Balance sheet) & schedules and notes forming part of Balance Sheet and Income Statement

For preparing financial statements I have the following objectives:

a. to present a true and fair view of the financial performance of the business
b. to present a true and fair view of the financial position of the business
c. helps in estimating the extent of a company's capacity to earn profit.

My financial statements are important for >>

- Management
- Shareholders (Owners)
- Financers (Creditors)
- Staff


Users of financial statements
Internal Users
External Users
Owners
Mangement
Employees & Trade union
Creditors
Researchers
Banks & Financial institution
Government & ITS Authorities
Public

Final statements include these statements :

i) **Income statement (Trading and Profit and Loss Account) –** Prepared to ascertain gross profit and net profit/loss during an accounting period.

ii) **Statement of Financial Position (Balance Sheet) –** Prepared to ascertain position (assets, liabilities and capital) of an enterprise at a particular point of time.

iii) **Schedules and notes forming part of Balance sheet and income statement –** to give detail of various items shown in both the statements.

Objectives of Preparing Financial Statements.

a) To present a true and fair view of the financial performance of the business.

b) To present a true and fair view of the financial position of the business.

c) Helps in estimating the extent of a company's capacity to earn profit.

IMPORTANCE OF FINANCIAL STATEMENTS

a) **Importance to Management:** The financial statements helps the management to know about the current position of the business as up to date, accurate and systematic information relating to the business. It enables the management to identify the current position, progress of the business and the business prospects which leads the managers to take necessary remedies and plans to develop the business environment.

b) **Importance to Shareholders (Owners):** Financial statements enables the shareholders to know about the performance of the management and it will give the relevant information of the effectiveness, efficiency and the current financial position of the business.

c) **Importance to Leaders or Creditors:** The financial statements provides the useful. information or guide to the suppliers or the creditors of the enterprise. Financial Statements provide information of the company's short term solvency.

d) **Importance to staff:** The financial statements provide the profit and loss account of the business. This enables the staff to identify the profit condition of the business and helps to negotiate for the better salary because the profit of the company depends on the salary for the staff.

Capital Expenditure:

The non-recurring expenditure whose benefit is derived by the business for more than a year is called Capital Expenditure.

It includes amount spent or liabilities incurred to acquire or improve any fixed assets or acquiring any legal rights or first-time expenses incurred to make fixed assets workable e.g. purchase of machinery/building/furniture etc., expenses incurred to acquired Patents, Trade-mark etc. and expenditure incurred for getting an asset ready to use (like installation exp., carriage, first time expenses incurred on second hand fixed asset for making it ready to use).

Capital expenditures are shown on the assets side of the Balance sheet.

In Short: Capital expenditures either increases assets or decreases liabilities.

Revenue Expenditure

The recurring and routine nature expenditures which are incurred for operating the business smoothly and which help to maintain business's earning capacity, are called Revenue expenditure e.g. expenses incurred for producing finished goods such as direct expenses, purchase of raw material and other expenses as rent, salary, repairs etc.

The benefit of these expenses last in one year (give benefit up to one year). These expenses are shown in Debit side of income statement (trading and profit and loss account).

In short: Revenue expenditures neither increases assets nor decreases liabilities.

Deferred Revenue Expenditure

The expenditure which is revenue in nature, but the heavy amount spent and benefit likely to be derived over a number of years called deferred revenue expenditure e.g. heavy expenses on advertising on launching of a new product and hence it is capitalized like any fixed asset.

Difference Between Capital Receipt and Revenue Receipt

Basis	Capital Receipt	Revenue Receipt
1. Nature	It is the amount realised by sale of fixed assets or received as capital or loan taken.	It is the amount realised by sale of goods and/or rendering services.
2. Presentation	It is shown in balance sheet.	It is shown in trading account or profit and loss account.
3. Recurring/non recurring	Capital receipts are normally of non recurring nature.	It is shown in trading account or profit and nature.
4. Trading/non trading	Capital receipts are the receipts which are not received in the normal course of business.	Revenue received are received in the course of normal trading operations.
5. Availability and Distribution	Capital receipts are normally not available for payment as profit to the owner of the business.	Revenue Receipts i.e. net of Revenue Expenses and Expired portion of Capital Expenditure/Deferred Revenue Expenditure are available for distribution to the owner of the business

Difference Between Capital Expenditure and Revenue Expenditure

Basis	Capital Expenditue	Revenue Expenditure
1. Purpose	It is incurred for purchase of fixed assets for use in business.	It is incurred for running fo business.
2.Capacity	It increases earning capacity of the business	It is incurred for earning profits.
3. Period	Its benefit extends to more than one year	It benefit is exhausted within the year
4. Recording	It is debited to related Asset Account	It is debited to related expense Account
5. Nature of Account	It is an Asset Account	It is an Expense Account.
6. Depiction	It the shown in the Balance Sheet	It is shown in the Trading or Profit & loss Account
7. Examples	(a) Cost of Plant and Machinery. (b) Cost of land and Building	(a) Depreciation on Plant and Machinery (b) Rent.

Accounting treatment of Deferred Revenue Expenditure

As per matching principle, expenses incurred in an accounting period are matched with the revenue recognized in that accounting period. So the whole deferred revenue expenditure should be spread over the number of years over which benefit is likely to be derived.

During the current accounting year (a) Only that portion of the expenditure should be charged to the profit and loss account which has facilitate the enterprise to earn revenue during current year (b) Remaining amount of expenditure be carried forward to the next year and shown in the assets side of balance sheet (It is also called a Fictitious Asset).

Capital Receipt

Capital receipts are those irregular receipts that don't affect profit or loss of business; it either increases the liabilities (raising of loan) or reduces the fixed assets (by sale of fixed assets), so it will be shown in Balance sheet.

Capital receipts are not made available for distribution of profit to the owner.

In Short: Capital Receipts either increase Liabilities or decreases Assets.

Revenue Receipt

Revenue receipts are received in the normal and regular course of business like Receipts from sale of goods and rendering services to customers. Income from non-operating business activities (like income from investment i.e. interest and dividend received and rent received, Commission and other fees received for non-operating business etc. These receipts increases profit and shown in the credit side of the Trading and Profit &Loss account.

In short: Capital Receipts neither increases Liabilities nor decreases Assets.

Types of Expenses

Direct Expenses : Those expenses which are incurred on purchasing of goods and for converting raw material into the finished goods e.g.

Manufacturing wages, Expenses on purchases (including all duty and tax paid on purchases), Carriage/Freight/Cartage inwards, Production expenses (such as power and fuel, water etc.), factory expenses (e.g. lighting, rent and rates). Royalty based on Production etc.

Note : All direct expenses are debited to Trading account.

Indirect Expenses : Those expenses which are not directly related to production or purchase of the goods are called indirect expenses. It includes those expenses which are related to office and administration, selling and distribution of goods and financial expense etc.

These expenses are shown in the debit side of the Profit and Loss Account.

Calculation of Gross Profit

- Gross Profit = Net Sales – Cost of Goods Sold
- Cost of Goods Sold = Opening Stock + Net Purchases + Direct Expenses – Closing stock
- Net Purchases = Total Purchases - Purchase Return
- Net Sales = Total Sales - Sales Return

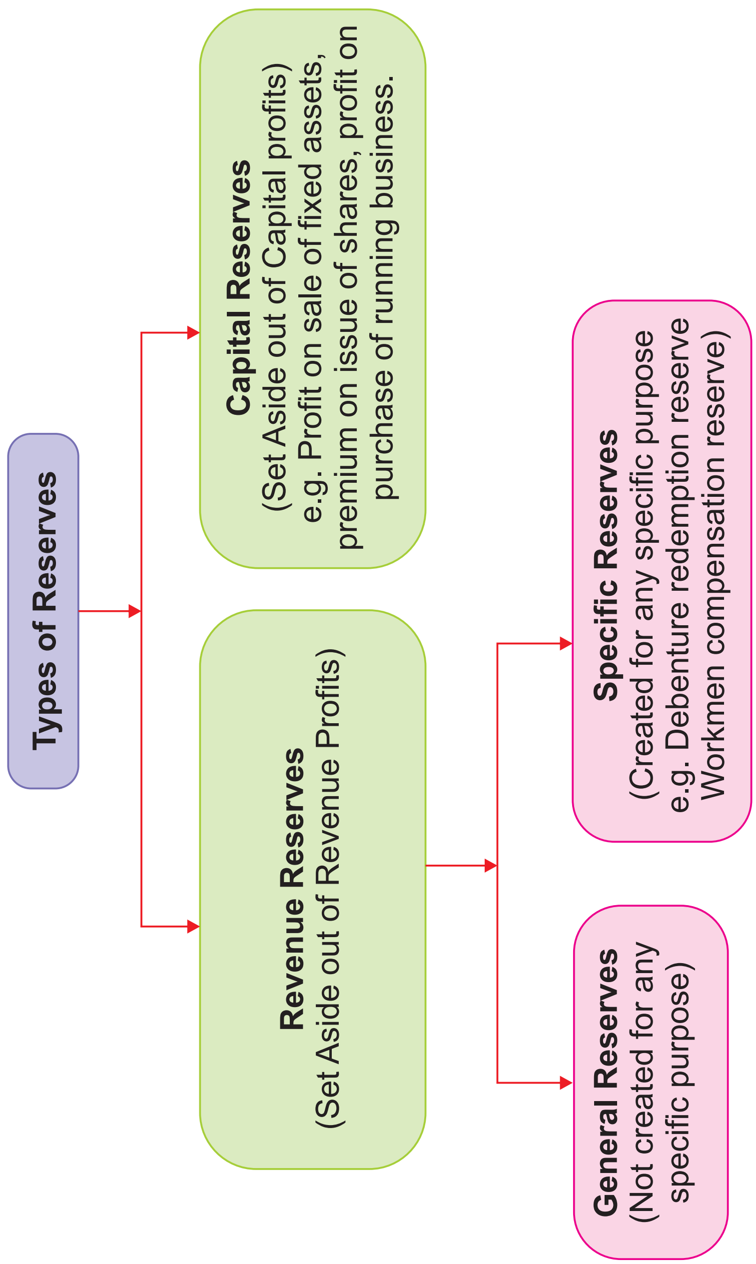
Calculation of Operating Profit

- Operating Profit = Net Sales – Operating Cost

  or
- = Gross Profit – (Office and Administrative Expenses + Selling and Distribution etc.)
- Operating Cost = Cost of Goods Sold + Office and Administrative Expenses + Selling and Distribution Expenses.
- Net Profit = Operating Profit + Non-operating income – Non-operating expenses.

Operating Expenses

The expenses which are related to the main or normal activities of the business e.g. office and Administrative expenses, selling and distribution expenses, Operating profit is also called EBIT (Earnings before interest and taxes)


Types of Reserves
Capital Reserves
(Set Aside out of Capital profits)
e.g. Profit on sale of fixed assets,
premium on issue of shares, profit on
purchase of running business.
Revenue Reserves
(Set Aside out of Revenue Profits)
Specific Reserves
(Created for any specific purpose
e.g. Debenture redemption reserve
Workmen compensation reserve)
General Reserves
(Not created for any
specific purpose)

INCOME STATEMENT

It is divided into two parts:

1. Trading Account which shows the gross profit or gross loss.
2. Profit and Loss Account which shows the net profit or net loss.

Format of Trading Account

Name of Business Firm

Trading Account

Dr. Cr.

Particulars	₹	Particulars	₹
To Opening Stock	......	By Sales	
To Purchases		Less : Sales Returns or	
Less : Purchases Return		Return inwards	
Returns outwards	......	By Scrap sales	......
To All Direct Expenses	......	By Closing Stock	......
To Wages	......		
To Carriage inwards			
To Gas, Fuel and power	......		
To Freight, octroi and cartage	......		
To Manufacturing Expenses			
To Custom or import duty	......		
To Dock and clearing charges	......		
To Excise duty	......		
To Factory rent	......		
To Royalty	......		
To Gross Profit transferred to		By Gross Loss transferred to	......
Profit and Loss A/c		Profit and Loss A/c	
(Balancing figure)	......	(Balancing figure)	

Illustration 1

Opening stock ₹30,000, Net Purchase ₹54600 expenses on purchase r5000, Net Sales ₹100,000, closing stock ₹40,000 calculate cost of goods sold and gross profit.

Solution :

Cost of Goods sold = Opening stock + Net Purchase + expenses on purchase – Closing Stock

= ₹30,000 + ₹ 54,600 + ₹ 5,000 – ₹ 40,000

= ₹ 49,600

Gross Profit = Net sales – Cost of goods sold

= ₹ 100,000 – ₹ 49,600

= ₹ 50,400

Illustration 2

Net sales during the year is ₹ 3,00,000, Gross profit is 25% on sales. Find out cost of goods sold.

Solution :

Gross Profit = ₹ 300,000 $\times \frac{25}{100}$ = ₹ 75,000

Cost of goods sold = Net Sales – Gross Profit

= ₹ 300,000 – ₹ 75,000

= ₹ 2,25,000

Illustration 3

Net sales during the year is r₹ 6,00,000. Gross profit is 25% on cost. Find out gross profit and cost of good sold.

Solution :

Here, Gross Profit is 25% on cost

Hence, If cost is ₹ 100, Gross Profit will be ₹ 25 and sales will be ₹ 125

Thus, If sales is ₹ 125, Gross Profit will be ₹ 25

If sales is r 600,000, Gross Profit will be 600,000 x $\frac{25}{125}$ = ₹ 1,20,000

Cost of goods sold = Net Sales – Gross Profit

= ₹ 6,00,000 – ₹1,20,000 = ₹ 4,80,000

Note : Gross profit 25% or $\frac{1}{4}$th on cost is equal to $\frac{1}{5}$th on sales

Gross profit = ₹ 6,00,000 × $\frac{1}{5}$th = ₹ 1,20,000

Illustration 4

Calculate Net Sales and Gross Profit from the following information.

Cost of goods sold ₹ 2,00,000

Gross profit 20% on sale

Solution

Let sale = x

Sale = Cost of good sold + Gross Profit

x = ₹ 200,000 + .20x

x = ₹ 250,000

Gross Profit = ₹ 250,000 – ₹ 200,000 = ₹ 50,000

Note : Gross Profit 20% or $\frac{1}{5}$th on sale, equal to $\frac{1}{4}$th on cost

Gross Profit = ₹ 200,000 × $\frac{1}{4}$ = ₹ 50,000

Illustration 5

Calculate Gross Profit

	₹
Total Purchase	680,000
Purchase Return	30,000
Direct Expenses	70,000
Carriage Outwork	15,000

3/4 of the goods are sold ₹ 600,000

Solution

Cost of goods sold = Total Purchase – Purchase Return + Direct Expenses

= ₹ 6,80,000 – ₹ 30,000 + ₹ 70,000 = ₹ 7,20,000

Cost of 3/4 of the goods sold = ₹ 7,20,000 x $\frac{3}{4}$ = ₹ 5,40,000

Gross Profit = Sales – Cost of goods sold

= ₹ 6,00,000 – ₹ 5,40,000

= ₹ 60,000

Illustration 6

Calculate the amount of operating profit from the following balances:

	₹
Net sales	5,00,000
Cost of goods sold	3,00,000
Operating Expenses	1,20,000

Solution

Operating Cost = Cost of Goods Sold + Operating Expenses

= ₹ 3,00,000 + ₹ 1,20,000

= ₹ 4,20,000

Operating Profit = Net Sales – Operating Cost

= ₹ 5,00,000 – ₹ 4,20,000

= ₹ 80,000

Illustration 7

Calculate the value of closing stock from the following information :

	₹		₹
Purchase	93,000	Wages	20,000
Sales	1,20,000	Carriage Outward	3,200

Rate of Gross Profit 40% on sales

Solution

Dr. **Trading Account for the year ended** Cr.

Particulars	₹	Particulars	₹
To Purchases	93,000	By Sales	1,20,000
To Wages	20,000	By Closing Stock (Bal. Fig.)	41,000
To Gross Profit (Transferred to Profit & Loss Account)	48,000		
	1,61,000		1,61,000

Illustration 8

This information is provided by Mr. Rohit

Stock as on 01.04.2021 ₹ 20,000

During the year Sales was ₹ 4,00,000; Purchases ₹ 2,90,000; Carriage Inwards ₹ 8,000; Clearing charges ₹ 10,000; Sales Returns ₹ 3,000; Purchases Returns ₹ 4,000; Carriage Outwards ₹ 5,000 and Stock on 31.03.2021 was ₹ 30,000.

Calculate cost of goods sold and prepare Trading Account for the year ending 31.03.2021.

Solution :

Trading Account for the year ended on March 31, 2021

Dr. Cr.

Particulars	₹	Particulars	₹
To Opening Stock	20,000	By Sales 4,00,000	
To Purchases 2,90,000		Less : Sales Returns (3,000)	3,97,000
Less: Returns 4,000	2,86,000	By Closing Stock	1,30,000
To Carriage Inwards	8,000		
To Clearing Charges	10,000		
To Gross Profit (Transferred to Profit & Loss Account)	1,03,000		
	4,27,000		4,27,000

Cost of goods sold = Net Sales – Gross Profit

= ₹3,97,000 – ₹1,03,000

= ₹2,94,000

Adjusted Purchase :

Sometimes the opening and closing stock are adjusted through purchases account. In that case, the entry recorded is as follows :

Closing Stock A/c Dr.

To Purchase A/c

This entry reduces the amount in the purchases account and is also known as adjusted purchases which is shown on the debit side of the Trading and profit & loss account.

When the opening and closing stocks are adjusted through purchases, the Trial Balance does not show any opening stock. Instead, the closing stock shall appear in the Trial Balance (not as additional information or as an adjustment item) and so also the adjusted purchases.

Illustration 9

Prepare the Trading Account for the year ended 31st March, 2021 from the following information. Adjusted purchase ₹ 25,00,000; Freight outwards ₹ 15,000; Wages ₹ 1,68,000; Octroi charges ₹ 2,000; Carriage inwards ₹ 20,000; Fuel & Power ₹ 30,000; Office rent ₹ 18,000; Trade expenses ₹ 10,000; Sales ₹ 32,00,000; Closing Stock ₹ 1,50,000

Solution :

Trading Account

Dr. **for the year ending 31st March, 2021** Cr.

Particulars	₹	*Particulars*	₹
To Adjusted Purchases	25,00,000	By Sales	32,00,000
To Wages	1,68,000		
To Octroi Charges	2,000		
To Carriage Inwards	20,000		
To Fuel and Power	30,000		
To Gross Profit (transferred to profit or loss A/c.)	4,80,000		
	32,00,000		32,00,000

Format of Profit & Loss Account

Profit & Loss Account

for the year ending........

Dr. Cr.

Particulars	₹	***Particulars***	₹
To Gross Loss		By Gross Profit	
(Transferred from Trading A/c)		(Transferred from Trading A/c)	
Office & Admin. Expenses		By Rent Received	
To Salaries		By Discount Received	
To Rent, Rates & Taxes		By Rebates	
To Printing and Stationery		By Commission Received	
To Salaries & Wages		By Interest Received	
To Postages and Telephones		By Dividend Received	
To Office Lighting		By Bad Debts Recovered	
To Insurance Premium		By Apprentice fees or premium	
To Legal Expenses		By Gain on Sale of Fixed Asset	
To Establishment Expenses		By Miscellaneous Receipts	
To Audit Fees		By Net Loss	
To Trade Expenses		(Transferred to Capital Account)	
To Travelling Expenses		(Excess of Debit Side Over	
To General Expenses		Credit Side)	
Selling & Distribution Exp.			
To Carriage and Freight Outwards			
To Commission			
To Brokerage			
To Advertisement			
To Publicity			
To Bad Debts			
To Export Duty			
To Packing Expenses			
To Salaries of Salesman			
To Delivery Van Expenses			
Financial Exp.			
To Interest paid on loans			
To Interest Paid (Dr.)			
To Discounts Allowed (Dr.)			
To Rebate Allowed			

To Bank Charges **Miscellaneous Exp.** To Repairs To Depreciation on Fixed Assets To Conveyance Expenses To Entertainment Expenses To Donations & Charity To Loss on Sale of Fixed Assets To Stable Expenses To Loss by Fire To Loss by theft To Unproductive Expenses To Net Profit Transferred to Capital Account (Excess of Credit Side over Debit Side)			

* The words 'To' and 'By' are generally not used these days.
* The name of Business Firm is stated on the top of Trading and P & L Account.

Illustration 10

From the following information, prepare a Profit & Loss Account for the year ending 31st March 2021.

Gross Profit ₹70,000; Rent ₹5,000; Salary ₹15,000; Wages ₹8,000; Commission paid ₹7,000; Interest on loans ₹5,000; Advertising ₹3,000; Discount Received ₹2,000; Printing & Stationery ₹1,000; Legal charges ₹2,500; Bad Debts ₹1,500; Depreciation ₹1,000; Income received on Investment ₹3,000; Loss by Fire ₹2,200; Bad Debts recovered ₹200; Freight outward ₹600, Audit Fee ₹450.

Solution :

Profit and Loss A/C of ....

for the year ending 31st March, 2021

Dr. Cr.

Particulars	₹	*Particulars*	₹
To Rent	5,000	By Gross Profit	70,000
To Salary	15,000	By Discount received	2,000
To Commission	7,000	By Bad debts Recovered	200

To Interest on Loans	5,000	By Income from Investment	3,000
To Advertising	3,000		
To Printing and Stationery	1,000		
To Legal Charges	2,500		
To Bad Debts	1,500		
To Depreciation	1,000		
To Loss by Fire	2,200		
To Freight outward	600		
To Audit Fee	450		
To Net Profit	30,950		
(to transferred to Capital A/C)			
	75,200		75,200

Illustration 11

From the following balances obtained from the accounts of Mr. Hemant, prepare the Trading and Profit & Loss Accounts:

Particulars	₹	*Particulars*	₹
Stock on April 01, 2020	8,000	Bad debts	1,200
Purchases for the year	22,000	Rent	1,200
Sales for the year	42,000	Discount (Dr.)	600
Wages	2,500	Commission paid	1,100
Salaries & Wages	3,500	Sales Expenses	600
Advertisement	1,000	Repairs	600

Closing stock on March 31, 2021 is ₹4,500.

Solution :

Books of Mr. Hemant

Trading and Profit & Loss Account

for the year ended on March, 31, 2021

Dr. Cr.

Particulars	₹	*Particulars*	₹
Opening stock	8,000	Sales	42,000
Purchases	22,000	Closing stock	4,500
Wages	2,500		
Gross Profit c/d	14,000		
	46,500		46,500

Particulars	₹	Particulars	₹
Salaries and Wages	3,500	Gross Profit b/d	14,000
Rent	1,200	(transferred from Trading A/c)	
Advertisement	1,000		
Commission	1,100		
Discount	600		
Bad debts	1,200		
Sales Expenses	600		
Repairs	600		
Net Profit	4,200		
(transferred to capital)			
	14,000		14,000

BALANCE SHEET

Meaning of Balance Sheet

Balance sheet is a summarised statement of assets and liabilities, prepared generally at the end of financial year to show the financial position of the business. All liabilities are put on the left hand side of balance sheet where all assets are shown on its right hand side.

GROUPING AND MARSHALLING OF ASSETS AND LIABILITIES

Grouping : The term 'Grouping' means putting together items of a similar nature under a common heading. For example, under the heading 'Trade creditors, the balances of the ledger accounts of all the suppliers from whom goods have been purchased on credit, will be shown.

Marshalling : It refers to the order in which the various assets and liabilities are shown in the Balance Sheet. The assets and liabilities can be shown either **in the order of liquidity** or **in the order of permanence**.

☞ **Order of Liquidity**

1. The assets are arranged in the order of their liquidity *i.e.,* the most liquid asset (e.g., cash in-hand), is shown first. The least liquid asset (e.g., goodwill) is shown last.
2. The liabilities are arranged in the order of timing i.e., the liabilities which are to be paid immediately (e.g., Creditors) are shown first and which are to be paid later are shown at last (long-term loans).

A general format of a Balance Sheet in order of liquidity is shown below :

Balance Sheet of ....

As at..............

Liabilities		₹	***Assets***	₹
Current Liabilities:			**Current Assets:**	
Bank Overdraft		×××	Cash-in hand	
Bills Payable		×××	Cash at Bank	×××
Sundry Creditors		×××	Bills Receivable	×××
Outstanding Expenses		×××	Short Term Investment	×××
Income received-in-advance		×××	Sundry Debtors	×××
Long-term Liabilities:			Prepaid Expenses	×××
Long term loan		×××	Accrued Income	×××
Reserve and Surplus			Closing Stock	×××
Capital	×××		**Investment: (long term)**	×××
Add : Interest on Capital	×××		**Fixed Assets:**	×××
Add : Net Profit	×××		Furniture an Fixture	×××
Less : Drawings	×××		Plant & Machinery	×××
Less : Interest on Drawings	×××		Building	×××
Less : Income Tax	×××		Land	×××
Less : Life Insurance Premium	×××		Goodwill	×××
Less : Net Loss	×××	×××		

☞ **Order of Permanence :**

This order is exactly reverse of the liquidity order.

1. The assets are arranged in the order of their performance i.e., the least liquid asset (e.g., goodwill) is shown first and the most liquid asset (e.g., Cash-in-hand) is shown last.
2. The least urgent payment to be made (e.g., short-term creditors) is shown last.
3. A company is required to prepare the balance sheet in order of performance.

A general format of a Balance Sheet in the order of performance is shown below :

Balance Sheet of ....

Liabilities	₹	***Assets***	₹
Capital		**Fixed Assets:**	
Opening Balance XXX		Goodwill	XXX
Add: Net Profit XXX		Land	XXX
(Less: Net Loss)		Building	XXX
Less: Drawings XXX	XXX	Plant & Machinery	XXX
Long-term Liabilities:		Furniture & Fixtures	XXX
Long term loan	XXX	Investment: (long term)	XXX
Current liabilities:		Current Assets:	
Income received-in-advance	XXX	Closing stock	XXX
Outstanding Expenses	XXX	Accrued Income	XXX
Sundry Creditors	XXX	Prepaid expenses	XXX
Bills Payable	XXX	Sundry Debtors	XXX
Bank Overdraft	XXX	Bills Receivable	XXX
		Cash at Bank	XXX
		Cash in Hand	XXX
	XXX		XXX

Illustration 12

From the following Trial Balance of Shri Hemant Babu prepare Trading and Profit and Loss A/C for the year ending 31st March 2019 and Balance Sheet as on that date. The Closing Stock on 31st March 2019 was valued at ₹ 25,000.

Debit Balances	₹	**Credit Balances**	₹
Stock (1-4-2015)	20,000	Sundry Creditors	15,000
Purchases	75,000	Purchase Returns	3,000
Sales Return	8,000	Sales	2,50,000
Freight and Carriage	7,500	Commission	3,300
Wages	36,500	Capital	1,70,500
Salaries	12,000	Interest on Bank Deposit	2,000
Repairs	1,200	B/P	6,200
Trade Expenses	4,000		

Rent and Taxes	24,000		
Cash in Hand	5,700		
B/R	4,000		
Debtors	55,000		
Plant and Machinery	160,000		
Withdrawals (Drawings)	16,600		
Bank Deposit	20,500		
	450,000		450,000

(In the Books of Hemant Babu)

Solution

TRADING AND PROFIT AND LOSS ACCOUNT

for the year ending 31st, March 2019

Dr. Cr.

Particulars	₹	*Particulars*	₹
To Opening Stock	20,000	By Sales Return 2,50,000	
To Purchases 75,000		Less : Sales Return 8,000	2,42,000
Less : Purchase Returns 3,000	72,000	By Closing Stock	25,000
To Freight & Carriage	7,500		
To Wages	36,500		
To Gross Profit	1,31,000		
	2,67,000		2,67,000
To Salaries	12,000	By Gross Profit b/d	1,31,000
To Repairs	1,200	By Commission	3,300
To Trade Expenses	4,000	By Interest on Bank Deposit	2,000
To Rent & Taxes	24,000		
To Net Profit transferred to Capital A/c	95,100		
	1,36,300		1,36,300

BALANCE SHEET

as on 31st March, 2019

Liabilities	₹	Assets	₹
B/P	6,200	Cash in hand	5,700
Sundry Creditors	15,000	B/R	4,000
Capital 1,70,500		Sundry Debtors	55,000

Add : Net Profit	95,100		Closing Stock	25,000
	2,65,600		Bank Deposit	20,500
Less : Drawings	16,600	2,49,000	Plant & Machinery	1,60,000
		2,70,200		2,70,200

Note :– The heading of Trading A/c and Profit & Loss A/c is put collectively as 'Trading and Profit & Loss A/c'. The first part of this Account is Trading A/c, whereas the second part is Profit & Loss A/c.

Adjustment in preparation of financial statements of Sole-proprietor

Meaning of Adjustment entries : Those entries which need to be passed at the end of the accounting year to show the accurate profit or loss and fair financial position of the business.

Need of Adjustment : There are number of transactions that may not find the place in the Trial Balance due to any reason such as Closing Stock (because it is valued at the end of the year), Manager's Commission based on Net profits (because its calculation requires preparation of Income Statement first). These transactions can only be taken into account by passing Adjustment entries so that their impact on the profitability and financial position can be shown.

Closing Stock : The closing stock represents the cost of unsold goods lying in the stores at the end of the accounting period.

Outstanding Expenses : When expenses of an accounting period remain unpaid at the end of an accounting period, they are termed as outstanding expenses.

As they relate to the earning of revenue during the current accounting year, it is logical that they should be duly charged against the revenue for computation of the correct amount of profit or loss.

Prepaid Expenses : At the end of the accounting year, it is found that the benefits of some expenses have not yet been fully received; a portion of its benefit would be received in the next accounting year. This portion of expenses, is carried forward to the next year and is termed as prepaid expenses.

Accrued Income : It may sometime happen that certain items of income such as a interest on loan, commission, rent, etc. are earned during the current accounting year but have not been actually received by the end of the same year. Such incomes are known as accrued income.

Income Received in Advance : Sometimes, a certain income is received but the whole amount of it does not belong to the current period. The portion of the income which belongs to the next accounting period is termed as income received in advance or an Unearned Income.

Depreciation : It is the decline in the value of assets on account of wear and tear and passage of time. It is treated as a business expense and is debited to profit & loss account. In case of intangible assets it is termed as Amortisation.

This, in effect, amounts to writing-off a portion of the cost of an asset which has been used in the business for the purpose of earning profits.

Transactions	Journal Entries	Effects
Closing Stock	Closing Stock A/c Dr. To Trading A/c	(i) Credit side of Trading A/c. (ii) Show on the assets side of BALANCE SHEET.
Outstanding/Unpaid Expenses	Expenses A/c Dr. To outstanding Exp. A/c	(i) Add to the concerned item on the Debit side of Trading/Profit & Loss A/c. (ii) Show on the liabilities side of BALANCE SHEET.
Prepaid expenses/ Unexpired expenses	Prepaid Expenses A/c Dr. To expenses A/c	(i) Deduct from the concerned expenses on the debit side of Profit & Loss A/c (ii) Show on the assets side of BALANCE SHEET.
Accrued income / Income due but not received	Accrued Income A/c Dr. To Income A/c	(i) Add to the concerned income on Credit side of Profit and Loss A/c (ii) Show on the assets side of BALANCE SHEET.
Unearned income/ Income received in Advance	Income A/c Dr. To Unearned Income A/c	(i) Deduct from the concerned income on the credit side of Profit & Loss A/c (ii) Show on the liabilities side of BALANCE SHEET.
Depreciation	Depreciation A/c Dr. To Asset A/c	(i) Show on the debit side of Profit Loss A/c (ii) Deduct from the concerned asset in the Balance Sheet.

Illustration 13

The following were the balances extracted from the books of Roshan as on March 31, 2021.

Debit Balance	₹	*Credit Balance*	₹
Cash in hand	540	Sales	98,780
Cash at bank	2,630	Return	500
Purchases	40,675	Outwards	
Return inwards	680	Capital	62,000
Wages	8,480	Sundry	6,300
Fuel and Power	4,730	Creditors	
Carriage on sales	3,200	Rent	9,000
Carriage on purchases	2,040		
Opening stock	5,760		
Building	32,000		
Freehold land	10,000		
Machinery	20,000		
Salaries	15,000		
Patents	7,500		
General expenses	3,000		
Insurance	600		
Drawings	5,245		
Sundry Debtors	14,500		
	1,76,580		1,76,580

Taking into account the following adjustments, prepare Trading and Profit & Loss account and Balance Sheet as on March 31, 2021 :

a) Stock in hand on March 31, 2021 was ₹6,800.

b) Machinery is to be depreciated at the rate of 10% and patents @ 20% p.a.

c) Salaries for the month of March, 2021 amounting to ₹1,500 were outstanding.

d) Insurance includes a premium of ₹ 170 on a policy expiring on September 30, 2021.

e) Rent receivable ₹ 1,000.

Solution

Books of Roshan
Trading and Profit & Loss Account
for the year ended March 31, 2021

Dr. Cr.

Particulars		₹	*Particulars*		₹
Opening stock		5,760			
Purchases	40,675		Sales	98,780	
Less Return outwards	(500)	40,175	Less Return inwards	(680)	98,100
Wages		8,480	Closing stock		6,800
Fuel and Power		4,730			
Carriage on purchases		2,040			
Gross profit		43,715			
		1,04,900			1,04,900
Salaries	15,000		Gross profit		43,715
Add Outstanding Salaries	1,500	16,500	Rent	9,000	
Carriage		3,200	Add Accrued Rent	1,000	10,000
General expenses		3,000			
Insurance	600				
Less Prepaid Insurance	(85)	515			
Depreciation : machinery	2,000				
Patent	1,500	3,500			
Net profit (transferred to capital account)		27,000			
		53,715			53,715

Balance Sheet
as at March 31, 2021

Liabilities	₹	*Assets*	₹
Sundry creditors	6,300	Cash in hand	540
		Cash at bank	2,630
Salaries outstanding	1,500	Sundry debtors	14,500
		Insurance prepaid	85

Capital	62,000		Stock		6,800
Add Net Profit	27,000		Rent Accrued		1,000
			Freehold Land		10,000
	89,000				
			Building		32,000
Less Drawings	(5,245)	83,755	Machinery	20,000	
			Less Depreciation	(2,000)	18,000
			Patents	7,500	
			Less Depreciation	(1.500)	6,000
		91,555			91,555

Bad Debts : The debtors from whom amounts cannot be recovered are treated in the books of accounts as bad and are termed as bad debts.

Further Bad Debts : These Bad debts is a loss that occurred after preparation of Trial Balance. Further bad debts be added in the bad debts already appearing in the Profit & Loss A/c and Debtors would be reduced with the same amount.

Provision for Bad Debts : In the balance sheet, debtors appears on the assets side of the Balance Sheet, which is their estimated realisable value during next year. It is quite possible that the whole of the amount may not be realized in future. However, it is not possible to accurately ascertain the amount of such bad debts.

Hence, a reasonable estimate of such loss is provided in the book. Such provision is called provision for bad debts. Provision for doubtful debts is shown as a deduction from the debtors on the asset side of the balance sheet.

Note : The provision for doubtful debts brought forward from the previous year is called the opening provision or old provision. When such a provision already exists, the loss due to bad debts during the current year are adjusted against the same and while making provision for doubtful debts required at the end of the current year is called new provision. The balance of old provision as given in trial balance should also be taken into account.

Provision for discount on Debtors : Discount is allowed to customers to encourage them to make prompt payment. The discount likely to be allowed to customers in an accounting year can be estimated and provided for by creating a provision for Discount on debtors.

Provision for discount on debtors is made on good debtors which are arrived at by deducting further bad debts and provision for bad debts out of Debtors shown in the Balance sheet.

Transactions	Journal Entries	Effects
To write off bad debts	Bad Debts A/c Dr. To Debtors	(i) Debit side of P&L A/c. (ii) Deduct from debtors on the assets side of Balance Sheet.
Provision for bad and doubtful debts	(I) provision for Doubtful Debts A/c Dr. To Debtors A/c	(i) Debit side of P & L A/c. (ii) Deduct from debtors on the assets side of Balance Sheet.
Provision for Discount on debtors	(ii) P & L A/c Dr. To Provision for Discount on Debtors A/c	(i) Debit side of P & L A/c. (ii) Deduct from debtors on the assets side of Balance Sheet.

Illustration 14

An exact from a Trial Balance on March 31, 2019 is given below :

PARTICULARS	
Sundry Debtors	32,000
Bad Debts	2,000
Provision for Bad Debts	3,500

Additional Information

Write-off further Bad Debts ₹ 1,000 and create a provision for Doubtful Debts @ 5% on debtors.

Solution

Journal

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2019 March 31	(a) Bad debts A/c To sundry debtors A/c Entry for further Bad Debts)	Dr.		1,000	1,000
	(b) Provision for Doubtful Debts A/c To Bad-debts A/c (Bad debts adjust against provision)	Dr.		3,500	3,500
	(c) Profit & Loss A/c To provision for doubtful debts A/c (Amount charges from P & L A/c)	Dr.		1,050	1,050

Profit and Loss Account'
for the year ended March 31, 2019

Dr. Cr.

Particulars			*Particulars*	₹
Provision for doubtful debts:				
Bad debts	2,000			
Add: Further bad debts	1,000			
Add: New provision	1,550			
	4,550			
Less: Old provision	3,500			
		1,050		

'Only relevant items.

Extract of Balance Sheet* as at March 31, 2019

Liabilities	₹	*Assets*		₹
		Sundry debtors	32,000	
		Less Further Bad-debts	(1,000)	
			31,000	
		Less Provision for doubtful debts	(1,550)	29,450

*Only relevant items in debit side of P & L A/C

Note : The amount of new provision for doubtful debts has been calculated as follows : ₹ 31,000 × 5/100 = ₹1,550

Illustration 15

The following balances were extracted from the books of Shri Himanshu Traders on March 31, 2019.

Name of the Ledger A/c	₹	*Name of the Ledger A/c*	₹
Capital	1,00,000	Rent (Cr.)	2,100
Drawings	17,600	Railway freight on sales	16,940
Purchases	80,000	Carriage inwards	2,310
Sales	1,40,370	Office expenses	1,340
Purchases return	2,820	Printing and Stationery	660
Stock on April 01, 2018	11,460	Postage and Telegram	820
Bad debts	1,400	Sundry debtors	62,070
Bad debts Provision on		Sundry creditors	18,920
April 01, 2018	3,240	Cash in bank	12,400
		Cash in hand	2,210
Rates and Insurance	1,300	Office furniture	3,500
Discount (Cr.)	190	Salaries and Commission	9,870
B/R	1,240	Addition to buildings	7,000
Sales returns	4,240		
Wages	6,280		
Buildings	25,000		

Prepare the Trading and Profit & loss account and a Balance Sheet as on March 31, 2019 after keeping in view the following adjustments :

i) Depreciate old building by ₹ 625 and addition to building at 2% and office furniture at 5%.

ii) Write-off further Bad Debts ₹ 570.

iii) Increase the Bad Debts Reserve to 6% of Debtors.

iv) ₹ 570 are outstanding for salary.

v) Rent receivable ₹200 on March 31, 2019

vi) Interest on capital is to be charged @ 5%.

vii) Unexpired insurance ₹ 240.

viii) Stock was valued at ₹14,290 on March 31, 2019.

Solution

Books of Himanshu Traders
Trading and Profit & Loss Account
for the year ended on March 31, 2019

Dr. Cr.

Particulars		₹	*Particulars*		₹
Opening stock		11,460	Sales	1,40,370	
Purchases	80,000		Less : Sales Return	(4,240)	1,36,130
Less: Purchase return	(2,820)	77,180			
Carriage inwards		2,310			
Wages		6,280	Closing stock		14,290
Gross profit		53,190			
		1,50,420			1,50,420
Railway freight on sales		16,940	Gross profit		53,190
Office expenses		1,340	Rent	2,100	
Postage and Telegram		820	Add Accrued rent	200	2,300
Printing and Stationery		660	Discount		190
Salary and Commission	9,870				
Add Outstanding salary	570	10,440			
Rates and Insurance	1,300				
Less: Unexpired insurance	(240)	1,060			
Bad debts	1,400				
Add: Further bad debts	570				
Add: New bad debts provision	3,690				
	5660				
Less: Old provision for Bad debts	(3,240)	2,420			
Interest on capital		5,000			
Depreciation on building		625			
Depreciation on additions		140			
Depreciation on Furniture		175			
Net profit (transferred to capital account)		16,060			
		55,680			55,680

Balance Sheet as on March, 31, 2019

Liabilities		₹	*Assets*		₹
Sundry creditors		18,920	Cash at bank		12,400
Outstanding salaries		570	Cash in hand		2,210
			B/R		1,240
Capital	1,00,000				
Add: Net profit	16,060		Debtors	62,070	
	1,16,060				
Add: Interest capital	5,000		Less: Further Bad Debts	570	
Less: Drawings	(17,600)	1,03,460		61,500	
			Less: New provision for	(3.690)	57,810
			Bad Debts		
			Accrued Rent		200
			Prepaid Insurance		240
			Building	25,000	
			Less Depreciation	(625)	24,375
			Addition to building	7,000	
			Less Depreciation	(140)	6,860
			Office Furniture	3,500	
			Less Depreciation	(175)	3,325
			Closing stock		14,290
		1,22,950			1,22,950

Manager's Commission

The manager of the business is sometimes given the commission on the net profit of the company. The percentage of the commission is applied on the profit either before charging such commission or after charging such commission . In the absence of any such information, it is assumed that commission is allowed as a percentage of the net profit before charging such commission.

1. **Commission on net profits *<u>before</u>* charging such commission**

$$\text{Commission} = \frac{\text{Net profit before commission} \times \text{Rate of Commission}}{100}$$

2. **Commission on net profits *<u>after</u>* charging such commission.**

$$\text{Commission} = \frac{\text{Net profit before commission} \times \text{Rate of Commission}}{100 + \text{Rate of Commission}}$$

Interest on capital	Interest on Capital A/c Dr. To Capital A/c	(i) Debit side of P&L A/c. (ii) Add to capital on the liabilities side of Balance Sheet.
Interest on drawings	Capital/Drawings A/c Dr. To Interest on Drawings A/c	(i) Credit side of P&L A/c. (ii) Deduct from capital on the liabilities side of Balance Sheet.
Interest payable on loans (borrowed)	Interest on Loan A/c Dr. To Loan A/c	(i) Debit side of P&L A/c. (ii) Add to loan on the liabilities side of Balance Sheet.
Commission payable to manager	P & L A/c Dr. To commission payable to manager A/c	(i) Debit side of P&L A/c. (ii) Show on the liabilities side of Balance Sheet.

ADJUSTMENT IN RESPECT OF GOODS

Abnormal Loss : Sometimes losses occur due to some abnormal circumstances such as accident, fire, flood, earthquakes etc. Such losses are called Abnormal losses. These may be divided into two categories :–

(A) Loss of Goods (B) Loss of Fixed Assets

Good taken for personal use (Drawings in goods) : When the goods are withdrawn by proprietor for personal use the cost of such goods deduct from purchases and the amount should be deduct from capital in Balance Sheet.

Goods distributed as free samples : Sometime goods are distributed as free sample by the businessman for the purpose of advertisement. The cost of free sample deduct from purchase and shown in Debit side of profit and loss account.

Adjustment Entry in respect of goods

Adjustment	Treatment in Trading & P & L A/c	Treatment in Balance Sheet
1) Loss of Goods (By accident, Fire, Theft)	1) Loss of .... A/c Dr. To Trading A/c Or To Purchase A/c	1) Gross Loss : Deduct from Purchase or show on the credit side of Trading A/c 2) Net Loss : Debit side of P & L A/c
If goods were not insured	2) Profit & Loss A/c Dr. To loss by .... A/c	3) Insurance claim: Assets side of Balance Sheet.
If goods were insured and full claim accepted by insurance company	2) Insurance Company A/c Dr. To loss by......... A/c	

If full claim not accepted by Insurance Company	2) Insurance Company A/c Dr. Profit & Loss A/c Dr. To loss by .... A/c	
2) Goods taken by the proprietor for his personal use	Drawings A/c Dr. To Purchase A/c	1) Deduct the amount of goods from the purchases in Trading A/c. 2) Deduct the amount from the capital on the liabilities side of Balance Sheet.
3) Goods distributed as free sample	Advertisement A/c Dr. To Purchase A/c	1) Deduct the amount from the purchases on the debit side of Trading A/c. 2) Show on the debit side of P & L A/c.
4) Goods given as charity	Charity A/c Dr. To Purchase A/c	1) Deduct the amount of goods from the purchases in Trading A/c. 2) Show on the debit side of P & L A/c.

Key Points :

1. **If closing stock** shown in Trial Balance then it will be shown in balance sheet only. It is assumed that purchases amount already get adjusted in Trial Balance.

2. **Salary and** wages will be shown in profit & loss A/c debit side (assuming that salary is prominent) while wages and salary will be shown in Trading A/c debit side, (wages are prominent).

3. **Freight, carriage, cartage** will be shown in Dr. side of Trading A/c. if inward word attached with these then it also debited to Trading A/c, if outward word attached with these item then it will be debited to Profit & loss account.

4. **Any expenses** related to factory are debited to Trading account like factory lighting, factory rent if factory word is not given then lighting and rent will be debited to Profit and loss account.

5. **Trade expenses** always debited to Profit and loss A/c not as name indicate Trading Account.

6. **Packaging material :** Cost of packaging material used in product are direct expenses as it refers to small containers which form part of sale, it will be debited to Trading Account.

7. **Packing :** The packing refers to the big containers that are used for transporting the goods and regarded as indirect expenses and debited to Profit & loss account.

8. **Adjusted purchases** means the amount of purchases is adjusted by way of adding opening stock and reduced by the amount of closing stock, e.g., purchases ₹ 1,00,000; opening stock ₹ 12,000, closing stock ₹ 8,000. Calculate adjusted purchases.

   Adjusted purchases = purchases + opening stock - closing stock = ₹ 1,00,000 + ₹. 12,000 – ₹ 8,000 = ₹ 1,04,000

   When adjusted purchases is given in trial balance, then there is no need of debiting opening stock and crediting closing stock in Trading Account.

In this case closing stock will be shown in balance sheet only.

Remember

While preparing Final Account The items which are given inside the Trial Balance are written only once either in Income Statement or in the Balance Sheet. (Assuming that they have been already adjusted in the respective account). On the other hand, the items which are given outside the Trial Balance (known as adjustment) are to be written twice because the double entry in respect of all adjustments is to be completed in the final accounts itself.

Table Showing Adjustment at a Glance

	Adjustment	Adjustment Entry	Treatment in Trading A/c	Treatment in Profit & Loss A/c	Treatment in Balance Sheet
1.	Closing Stock	Closing Stock A/c Dr. To Trading A/c	Shown on the credit side		Shown on the credit side
2.	Outstanding Expenses	Expenses A/c Dr. To Outstanding Expenses A/c	Added to the respective expense on the debit side	Added to the respective expense on the debit side	Shown on the liabilities side
3.	Prepaid or unexpired expenses	Prepaid Expenses A/c Dr. To Expenses A/c	Deducted from the respective expense on the debit side	Deducted from the respective expense on the debit side	Shown on the assets side
4.	Depreciation	Depreciation A/c Dr. To Asset A/c		Shown on the debit side	Deducted from the concerned asset on the assets side
5.	Accured Income (Income earned but not received)	Accured Income A/c Dr. To Income A/c		Added to the respective income on the credit side	Shown on the assets side
6.	Unearned Income (Income received in advance)	Income A/c Dr. To Unearned Income A/c		Deducted from the respective income on the credit side	Shown on the liabilities side
7.	Interest on capital	Interest on Capital A/c Dr. To Capital A/c		Shown on the debit side	Added to the capital on the liabilities side
8.	Interest on Drawings	Drawings A/c Dr. To Interest on Drawings A/c		Shown on the credit side	Added to the drawings and then deducted fom capital
9.	Interest on Loan (taken from someone)	Interest on Loan A/c Dr. To Loan A/c		Shown on the credit side	Added to the loan on the liabilities side
10.	Further Bad-debts	Bad-debts A/c Dr. To Sundry Debtors A/c		Added to Bad-debts (given in Trial Balance) on the debit side.	Deducted from debtors on the assets side

11.	Provision for Doubtful debts	Profit & Loss A/c Dr. To Provision for Doubtful Debts A/c		Added to Bad-debts on the debit side	Deducted from Debtors on the assets side
12.	Provision for discount on Debtors	Profit & Loss A/c Dr. To Provision for Discount on Debtors A/c		Shown on the debit side as a separate item	Deducted from Debtors on the assets side
13.	Abnormal loss of stock	Insurance Company A/c Dr. Profit & Loss A/c Dr. To Purchases A/c	Total amount of loss is deducted from purchases on the debit side	Amount not recovered from the insurance company is shown on the debit side	Amount recovered from the insurance company is shown on the assets side.
14.	Charity in the form of goods	Charity A/c Dr. To Purchases A/c	Deducted from purchases on the debit side	Shown on the debit side	
15.	Goods distributed as free samples	Free samples A/c Dr. To Purchases A/c	-do-	Shown on the debit side	
16.	Drawings in goods	Drawings A/c Dr. To Purchases A/c	-do-		Deducted from capital on the liabilities side.
17.	Manager's Commission	Manager's Commission A/c Dr. To Outstanding Commission A/c		Shown on the debit side	Shown on the liabilities side.
18.	Goods sold but omitted to be recorded	Debtors A/c Dr. To Sales A/c	Added to sales on the credit side		Added to Debtors on the assets side.
19.	Goods purchased but omitted to be recorded	Purchases A/c Dr. To Creditors A/c	Added to purchases on the debit side		Added to Creditors on the liabilities side.
20.	Sale of goods in approval basis	(i) Sales A/c Dr. To Debtors A/c (Sale value of goods) (ii) Closing Stock A/c Dr. To Trading A/c (Cost price of goods)	Deducted from sales on the credit side Added to closing stock on the credit side		Deducted from debtors on the assets side. Added to closing stock on the assets side.

Illustration 16

From the following balances of Mr. Ashok. You are required to prepare Trading and Profit & loss account and a balance sheet on March 31, 2019.

Debit Balance	₹	Credit Balance	₹
Plant and Machinery	1,30,000	Sales	3,00,000
Debtors	50,000	Return outwards	2,500
Interest	2,000	Creditors	2,50,000
Wages	1,200	Bills payable	70,000
Salary	2,500	Provision for bad debts	1,550
Carriage Inwards	500	Capital Rent received	2,20,000
Carriage Outwards	700	Rent received	10,380
Return Inwards	2,000	Commission received	16,000
Factory rent	1,450		
Office rent	2,300		
Insurance	780		
Furniture	22,500		
Buildings	2,80,300		
Bills receivable	3,000		
Cash in hand	22,500		
Cash at bank	35,000		
Commission	500		
Opening stock	60,000		
Purchases	2,50,000		
Bad debts	3,500		
	8,70,430		8,70,430

Adjustment

1. Provision for Bad Debts @ 5% p.a. and further Bad debts ₹ 2,000.
2. Rent received in Advance ₹ 6,000.
3. Prepaid Insurance ₹ 200.
4. Depreciation on furniture @ 5% p.a., plant and machinery @ 6% p.a., building @ 7% p.a..
5. Closing stock amounting ₹ 70,000 on 31.03.2019.
6. Goods costing ₹1,000 were used by proprietor.

Solution

Books of Mr. Ashok
Trading and Profit and Loss Account
for the year ended March 31, 2019

Particulars		₹	Particulars		₹
Opening stock		60,000	Sales	3,00,000	
Purchases	2,50,000		Less Return	(2,000)	2,98,000
Less : Return	2,500		Closing Stock		70,000
Less : Goods Personal Use	1,000	2,46,500			
Wages		1,200			
Carriage inwards		500			
Factory rent		1,450			
Gross profit		58,350			
		3,68,000			3,68,000
Interest		2,000	Gross profit		58,350
Salary		2,500	Rent received	10,380	
Carriage outwards		700	Less Advance rent	(6,000)	4,380
Office Rent		2,300	Commission received		16,000
Insurance	780				
Less Prepaid Insurance	(200)	580			
Depreciation on furniture		1,125			
Depreciation on Plant and Machinery		7,800			
Depreciation on building		19,600			
Commission		500			
Bad debts	3,500				
Add : Further and debts	2,000				
Add : New provision	2,400				
	7,900				
Less old provision	(1.550)	6,350			
Net Profit (transferred to capital account)		35,272			
		77,730			78,730

Balance Sheet as at March 31, 2019

Liabilities		₹	Assets		₹
Creditors		2,50,000	Cash in hand		22,500
Bills Payable		70,000	Cash at Bank		35,000
Advance rent		6,000	Bills receivable		3,000
Capital	2,20,000		Prepaid insurance		200
Add Net Profit	35,275		Debtors	50,200	
	2,55,275		Less Further	(2.000)	
Less : Goods Taken	1,000		Bad debts	48,000	
for personalise		2,54,275	Less New Provision	(2,400)	45,600
			Plant and Machinery		1,22,200
			Furniture		21,375
			Buildings		2,60,400
			Closing stock		70,000
		5,80,275			5,80,275

Illustration 17

From the following Adjustments and with the help of Trial Balance prepare a Trading and Profit and Loss A/c and Balance sheet as on 31st Dec. 2019.

Dr. Balance	₹	Cr. Balance	₹
Insurance Charges	2,400	Capital	1,70,000
Salaries & Wages	19,400	S. Creditors	20,000
Cash in Hand	200	Sales	1,20,000
Cash at Bank	26,500	Returns outwards	1,200
Trade Expenses	400	Provision for doubtful debts	400
Postage & Telegrams	800	Discount	800
Drawings	6,000	Rent of Premises, Subject for	1,200
Plant & Machinery		one year to 30th June 2019	
Balance on 1st Jan, 2019	1,20,000		
Addition on 1st July, 2019	5,000		
Stock on 1st Jan, 2019	15,000		
Purchases	82,000		
Returns Inward	2,000		
S. Debtors	20,800		
Furniture & Fixture	5,000		
Freight & Duty	2,000		
Carriage Outwards	500		
Rent, Rates & Taxes	4,600		
Printing & Stationery	1,000		

Adjustments

1. Stock on 31st Dec. 2019 was valued at ₹ 24,000 and stationery unused at the end was ₹ 250.
2. The provision for Doubtful Debts is to be maintained at 6% on Sundry Debtors.
3. Create a provision for discount on Sundry Debtors at 2%.
4. Write off ₹ 800 as Bad-Debts.
5. Provide depreciation on Plant and Machinery @ 10% p.a.
6. Insurance is paid up to 31st March 2019.
7. A fire occurred on 25th Dec. 2019 in the Godown and Stock of the value of ₹ 6,000 was destroyed. It was insured and the Insurance co. admitted a claim of ₹ 4,000.

Solutions

Trading and Profit & Loss Account
the year ending 31st Dec. 2019

Dr. **Cr.**

Particulars	₹	*Particulars*	₹
To Opening Stock	15,000	By Sales 1,20,000	
		Less Return 2,000	1,18,000
To Purchases 82,000		By Closing stock	24,000
Less Return (1,200)			
80,800			
Less : Loss by fire (6,000)	74,800		
To Freight & duty	2,000		
To Gross Profit	50,200		
	1,42,000		1.42 000
To Insurance charges 2,400		By Gross Profit	50,200
Less : Prepaid insurance (600)	1,800		
To Salaries & wages	19,400	By Discount	800
To Trade expenses	400	By Rent of premises sublet 1,200	
		Less : Rent received in adv. (600)	600
To Postage & telegram	800		
To carriage outwards	500		
To Rent, Rates & wages	4,600		
To Printing & Stationery 1,000			

Less : Unused	(250)	750		
To Bad debts	800			
Add : New reserve	1,200			
	2,000			
Less : Old reserve	(400)	1,600		
To Provision for discount on debtor		376		
To Depreciation on Plant & Mac. (12,000 + 250)		12,250		
To loss by fire	6,000			
Less : Insurance Claim	4,000	2,000		
To Net Profit transferred to Capital		7,124		
		51,600		**51,600**

Balance Sheet As on 31st Dec. 2019

Liabilities		₹	Assets		₹
S. Creditor		20,000	Cash in hand		200
Rent received in advance		600	Cash at Axis Bank		26,500
Capital	1,70,000				
Add : Net Profit	7,124		S. Debtor	20,800	
	1,77,124				
Less : Drawings	6,000	1,71,124	Less : Bad Debts	(800)	
				20,000	
			Less : New Reserve	(1,200)	
				18,800	
			Less : Discount	(376)	18,424
			Insurance company (Claim)		4,000
			Closing stock		24,000
			Stationery unused		250
			Prepaid insurance		600
			Furniture & fixture		5,000
			Plant & Mac.	1,20,000	
			Add : Addition	(5,000)	
				1,25,000	
			Less : Depreciation	(12,250)	1,12,750
		1,91,724			1,91,724

Illustration 18

Give journal entries for the following adjustments in final accounts :

(i) Closing Stock ₹70,000.

(ii) Outstanding salaries ₹15,000.

(iii) Insurance premium amounting to ₹18,000 is paid in advance.

(iv) ₹ 1900 received for rent related to the next accounting period.

(v) Interest accrued but not received during the accounting year ₹ 1,500.

(vi) Write off 600 as further bad debts.

(vii) Goods costing ₹8,000 destroyed by fire and insurance company admitted a claim for ₹5,000 only.

(viii) Goods costing ₹10,000 (Market value ₹11,000) were taken by proprietor for personal use.

Solution

JOURNAL

Particulars		L.F.	Dr. (₹)	Cr. (₹)
(I Closing Stock A/c	Dr.		70,000	
To Trading A/c				70,000
(Closing Stock transferred to Trading A/c				
(ii) Salaries A/c	Dr.		15,000	
To Outstanding Salaries A/c				15,000
(Outstanding salaries accounted in the books)				
(iii) Prepaid Insurance Premium A/c	Dr.		18,000	
To Insurance Premium A/c				18,000
(Prepaid Insurance accounted in the books)				
(iv) Rent Received A/c	Dr.		1,900	
To Rent Received in Advance A/c				1,900
(Rent received in advance accounted in the books)				
(v) Accrued Interest A/c	Dr.		1,500	
To Interest Received A/c				1,500
(Accrued interest accounted in the books)				
(vi) Bad debts A/c	Dr.		600	
To Sundry Debtors A/c				600
(Further Bad-debts written off)				
(vii) Loss by Fire A/c	Dr.		8,000	
To Purchase A/c				8,000
(Goods destroyed by fire)				
Insurance Co.	Dr.		5,000	
Profit & Loss A/c	Dr.		3,000	
To Loss by Fire A/c				8,000
(Claim accepted by insurance co. and balance transferred to Profit & Loss A/c)				
(viii) Drawings A/c	Dr.		10,000	
To Purchase A/c				10,000
(Goods taken by proprietor for personal use)				

Illustration 19

Give journal entries for the following adjustments in final account :

(i) Depreciation on furniture by 10% (cost of furniture ₹10,000)

(ii) Goods worth ₹1,800 distributed as free samples.

(iii) Rent received for 12 month ending 30th, June 2012 (Account closed 31st March, 2019) ₹6,000.

Solution

JOURNAL

Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i) Depreciation A/c Dr. To Furniture A/c (Depreciation charged on furniture)		1,000	1,000
(ii) Advertisement (or free sample) A/c Dr. To Purchase A/c (Goods distributed as free sample)		1,800	1,800
(iii) Rent A/c Dr. To Rent received in advance A/c (Rent for 3 month received in advance)		1,500	1,500

Illustration involving adjustment for GST and GST Set-off.

Illustration 20 From the following Trial balance, prepare Trading and Profit & loss Account and Balance sheet.

Debit Balances	₹	**Credit balances**	₹
Purchases	15,000	Capital	27,500
Opening Stock	3,000	Sales	33200
Salaries	4550	Creditors	10250
Bills Receivable	23000	Bills Payable	850
Machinery	6000	Outstanding Rent	350

Sundry Debtros	10,000	Commission	4500
Wages	2300	Output CGST	5000
Rent	1400	Output SGST	5000
Bad debts	600	Output IGST	4000
Discount Allowed	1250		
Insurance	300		
Bank	6000		
Advertisement	4250		
Input CGST	4000		
Input SGST	4000		
Input IGST	5000		
	90,650		**90,650**

Adjustments :

(i) Closing stock is ₹ 3000.

(ii) Goods costing ₹ 500 were distributed as free sample and goods of ₹ 1000 were taken by the proprietor for personal use. CGST and SGST @ 6% each were levied on these goods.

(iii) Goods costing ₹ 1000 were destroyed by fire. IGST @ 12% was levied on these goods.

The goods were insured and the Insurance Company admitted a claim of ₹ 900.

(iv) A credit sales of ₹ 1500, on which IGST @ 12% was levied was not recorded in the sales Book.

Dr. **Trading and Profit and Loss Account** **Cr.**

Particulars		₹	Particulars		₹
To opening stock		3000	By sales	33200	
To Purchases	15000		Add: unrecorded	1500	
Less: Advertisement	500				34700
(Free Sample)	14500				

Less: Drawings 1000	13500	By loss by fire	1120
To wages	2300	By closing stock	3000
To Gross profit	20020		
	38820		**38820**
To salaries	4550	By Gross profit	20000
To Rent	1400	By Commission	4500
To Bad debts	600		
To Discount allowed	1250		
To Insurance	300		
To Advertisement 4250			
(+) free sample 500	4750		
To Less by Fire	220		
To Net profit	11450		
transferred to Capital A/c			
	24520		**24520**

Balance Sheet

Liabilities		**Rs.**	**Assets**		**Rs.**
Capital	27500		Machinery		6000
(+) Net profit	11450		Bills Receivable		23000
	38950		Sundry debtors	10,000	
(+) Drawing	1120	37830	Add: Unrecorded	1680	11680
			Credit Sales		
			Bank		6000
Creditors		10250	Insurance Claim due		900
Bills Payable		850	Closing Stock		3000
Outstanding rent		350			
Output CGST		210			
Output SGST		1090			
		50580			**50580**

* Journal Entries for adjustment of GST and GST set off

Journal

Date	Particulars	LF.	Dr. (₹)	Cr. (₹)
	Advertisement A/c Dr.		560	
	(free sample)			
	To purchases A/c			500
	To Input CGST A/c			30
	To Input SGST A/c			30
	(Being Goods distributed as free sample)			
	Drawing A/c Dr.		1120	
	To Purchases A/c			1000
	To Input CGST A/c			60
	To Input SGST A/c			60
	(Being goods used by proprietor)			
	Loss by Fire (Stock) A/c Dr.		1120	
	To Trading A/c			1000
	To Input IGST A/c			120
	(Being loss of stock by Fire)			
	Insurance Company A/c Dr.		900	
	Profit and Loss A/c Dr.		220	
	To Loss by Fire (Stock) A/c			1120
	(Being claim admitted by Insurance Company)			
	Sundry Debtors A/c Dr.		1580	
	To Sales A/c			1500
	To Output IGST A/c			180
	(Being Credit sales recorded)			
	Output IGST A/c Dr.		4120	
	To Input IGSTA/c			4120
	(Being input IGST set of against output IGST)			

	Output CGST A/c Dr.		3910	
	To Input CGST A/c			3910
	(Being input CGST set off against output CGST)			
	Output SGST A/c Dr.		3910	
	To Input SGST A/c			3910
	(Being input SGST set off against output SGST)			
	Output CGST A/c Dr.		880	
	To Input IGST A/c			880
	(Being input IGST set off against output CGST)			

Multiple Choice Questjong

1. Current liabilities are those obligations which are to be paid by the business

   (a) within one year. (b) within two years.

   (c) within operating cycle (d) a and c both

2. Plant and Machinery owned by a firm is classified as

   (a) Tangible Assets. (b) Current Assets

   (c) Liquid Assets (d) Intangible Assets

3. Loss on sale of Fixed Assets is debited to:

   (a) Profit and Loss A/c. (b) Fixed Assets A/c.

   (c) Depreciation A/c. (d) Trading Account.

4. Sales of the business can be calculated by:

   (a) Cost of Goods Sold + Gross Profit.

   (b) Cost of Goods Sold - Gross Profit.

   (c) Gross Profit - Cost of Goods Sold.

   (d) Purchases + Gross Profit.

5. Income tax paid by a sole trader is shown:
   (a) on the debit side of the Trading Account.
   (b) on the debit side of the Profit and Loss Account.
   (c) as deduction from capital in the Balance Sheet.
   (d) as addition to capital in the Balance Sheet.
6. Goodwill of the firm can be classified as:
   (a) Fictitious Asset. (b) Tangible Asset.
   (c) Intangible Asset. (d) Current Asset.
7. Returns Inward given in the Trial Balance is
   (a) deducted from Purchases. (b) deducted from Sales.
   (c) Added in Returns outward. (d) Added in Sales
8. Financial Statements includes
   (a) Trial Balance
   (b) Trading and Profit and Loss Account
   (c) Balance Sheet
   (d) b and c both
9. Which type of expenses are shown in Trading Account?
   (a) Direct Expenses.
   (b) Indirect Expenses.
   (c) Opening Expenses.
   (d) Direct and Indirect Expenses both
10. Which statement shows financial position of the business?
   (a) Trading Account. (b) Profit and Loss Account.
   (c) Balance Sheet. (d) Trial Balance.
11. Expenditure which either decreases liabilities or increases assets are:
   (a) Capital Expenditures (b) Revenue Expenditures
   (c) Financial Expenditures (d) None of the above

12. Carriage Outwards is shown in
    (a) Trading Account.
    (b) Profit and Loss Account.
    (c) Balance Sheet.
    (d) Either Trading Account or Profit and Loss Account.
13. Expenditure incurred on acquiring a fixed asset, which increases the earning capacity is accounted as
    (a) General Expenditure.
    (b) Revenue Expenditure.
    (c) Deferred Revenue Expenditure.
    (d) Capital Expenditure
14. Opening stock shown inside the Trial Balance is shown in :
    (a) Trading Account. (b) Profit and Loss Account
    (c) Balance Sheet. (d) None of these.
15. Which of the following is not shown in Balance Sheet?
    (a) Opening Stock (b) Closing Stock
    (c) Patents (d) Debtors
16. Purchase of machinery for *production is*
    (a) Revenue Expenditure.
    (b) Capital Expenditure.
    (c) Deferred Revenue Expenditure.
    (d) None of these.
17. Furniture purchased for re-sale is:
    (a) Capital expenditure.
    (b) Revenue Expenditure.
    (c) Deferred Revenue Expenditure.
    (d) None of these.

18. Insurance premium paid to insure the machinery at the time of its purchase is
    (a) Revenue Expenditure.
    (b) Capita] Expenditure.
    (c) D*eferred* Revenue Expenditure.
    (d) None of these
19. Expenses on Repairing of Plant and Machinery is:
    (a) Revenue Expenditure.
    (b) Capital Expenditure
    (c) Deferred Revenue Expenditure.
    (d) None of these
20. Balance Sheet is
    (a) a list of all the accounts in the books of a business.
    (b) an account showing trading activities of a business.
    (c) an account showing the financial position of a business as on a certain date.
    (d) a list of assets, liabilities and capital of a business at a certain date.

Answers:

1.d, 2. a, 3. a, 4. a, 5. c, 6. c, 7.b, 8. d, 9. a, 10. c,
11. a,12. b, 13. d, 14. a, 15. a, 16. b, 17. b, 18. b, 19. a, 20. d

II. Fill in the Blanks:

(i) Revenue Expenditures are transferred to the______________ of______________,

(ii) Revenue Incomes is transferred to the __________ of ______,

(iii) Closing Stock in the Trial Balance is transferred to __________,

(iv) Capital expenditure is shown in _______________.

(v) Expenses on overhauling a second-hand machine purchase is ____________ expenditure.

(vi) Prepaid wages ₹ 2,500 appears in a Trial balance. It will be shown in _____________.

(vii) Income tax paid by proprietor of ₹ 10,000. It will be ____________.

(viii) Operating profit=_______+ Non-operating Expenses -Non-operating Incomes.

(ix) Capital Receipts are shown in ________________.

(x) Purchase of machinery for production is ___________ expenditure.

(xi) Excess of total of debit side over total of credit side in the trading account means ______________ .

(xii) Stock of goods on hand is valued at cost or net realizable value (market value) whichever is ____________

(xiii) All indirect expenses are recorded in _______________,

(xiv) Expenses related to Salary and Wages of the employees are _____________ Expenditure.

(xv) Carriage inwards is ____________ expense.

(xvi) The sole proprietor may not be able to raise adequate ___________ for the expansion of business.

(xvii) The life of the business depends on the life of the ______________,

(xviii) Due to limited financial resources and limitation of the expertise of the owner, the business may lack professional _______________, .

(xix) Sole Proprietorship business is suitable for simple business where __________ skill is required.

(xx) Sole proprietorship best caters the needs of customers where the market for the product is ____________ and Localized.

[Ans: (i) Debit, Profit and Loss Account; (ii) Credit, Profit and Loss Account; (iii) Balance Sheet; (iv) Balance Sheet; (v) Capital; (vi) Balance Sheet; (vii) deducted from capital as drawings; (viii) Net Profit; (ix) Balance Sheet; (x) Capital; (xi) Gross Loss; (xii) Less;

(xiii) Profit and Loss A/c.; (xiv) Revenue (xv) Direct; (xvi) capital; (xvii) Proprietor /owner; (xviii) Management; (xix) Manual/ less; (xx) Limited]

III. True or False

(i) Profit and Loss Account shows the financial position of the entity.

(ii) Trial balance is prepared after preparing the Trading & Profit And Loss Account.

(iii) Goodwill is an Intangible asset.

(iv) Freight and Carriage expenses paid on purchase of goods are shown in the debit side of the Trading account.

(v) Income Tax paid by a sole trader is debited to profit and loss account.

(vi) Grouping and Marshalling have the same meaning regarding the balance sheet.

(vii) Closing stock is always valued at cost price.

(viii) Legal fee paid to acquire a property in Capital Expenditure.

(ix) All Indirect Expenses are taken into Trading Account whereas Direct Expenses are taken into Profit and Loss Account.

(x) A Profit & Loss Account is a periodic statement and a Balance Sheet is a point statement.

(xi) Financial Statements are organised summaries of detailed information about the financial performance and financial position of an enterprise.

(xii) Balance Sheet is also known as Position Statement.

(xiii) Expenditure incurred on improvement of existing Assets is known as Revenue Expenditure.

(xiv) Sales and Closing Stock are the items credited to the Trading Account.

(xv) Excess of total of debit side over total of credit side in the trading account results in Gross Profit.

Answers:

(i) False	(ii) False	(iii) True	(iv) True
(v) False	(vi) False	(vii) False	(viii) True
(ix) False	(x) True	(xi) True	(xii) True
(xiii) False	(xiv) True	(xv) False	

IV Other Questions:

State whether the following expenses are Capital or Revenue in nature:

(i) Expenses on renovation of a Office building purchased to make it ready for use.

(ii) ₹ 20,000 spent on constructing warehouse for keeping Goods.

(iii) Repair expenses of ₹ 5,000 incurred for whitewashing of factory building.

(iv) Insurance premium paid for the renewal.

(v) Purchased a new Truck for Delivery of Goods.

(vi) Excise duty paid on purchase of new Plant and Machinery.

(vii) Wages paid for installation of a new Machine.

(viii) Repairs carried out on existing Delivery Van.

(ix) Furniture work done in **office** premises.

(x) Paid Electricity bill ₹ 1,500.

ANSWERS:

(i) Capital Expenditure: Paid to make an Asset, to make it ready to use

(ii) Capital Expenditure: Paid to make an New Asset

(iii) Revenue Expenditure: Expenses paid to make for the maintenance of Asset

(iv) Revenue Expenditure: Insurance is a Part of normal operating cost

(v) Capital Expenditure: Paid to make a long term asset.

(vi) Capital Expenditure: Paid for the acquisition of new asset.

(vii) Capital Expenditure: Installation expenses, paid to make the as ready to use

(viii) Revenue Expenditure: Paid for the running and maintenance of Delivery van.

(ix) Capital Expenditure: Paid to make a long term asset

(x) Revenue Expenditure: Part of normal operating cost

Test Your Learnings (M.C.Q.)

1. Statements prepared to know profit or loss and financial position of the business are called:
   (i) Financial Statement
   (ii) Bank Reconciliation Statement
   (iii) Trial Balance (iv) All of these

2. Account which shows Gross Profit or Gross Loss of the business is called:
   (i) Profit and Loss Account (ii) Balance Sheet
   (iii) Trial Balance (iv) Trading Account

3. Trading Account is prepared to know:
   (i) Net Profit or Loss of business
   (ii) Gross Profit or Loss of business
   (iii) Both (1)or (2)
   (iv) Financial Position of business

4. On debit side of trading Account we record:
   (i) Direct Expense (ii) Indirect Expense

(iii) Both of these
(iv) None of these

5. Closing stock is recorded in:
   (i) Profit and Loss Account
   (ii) Trading Account and Balance Sheet
   (iii) Balance Sheet only
   (iv) None of these
6. Profit and Loss Account shows the:
   (i) Total Capital Employed
   (ii) Profit and Loss through sale of assets
   (iii) Profit earned by business
   (iv) None of these
7. Operating expenses are recorded in:
   (i) Trading Account
   (ii) Profit and Loss Account
   (iii) Balance Sheet
   (iv) All of these
8. Expenses relating to sale of goods are shown in:
   (i) Profit and Loss Account
   (ii) Trading Account
   (iii) Trading and Profit & Loss A/c
   (iv) Balance Sheet
9. Profit and Loss Account is prepared:
   (i) At a particular point of time
   (ii) On fixed date
   (iii) For a certain period
   (iv) All of these
10. Carriage Outwards is an example of:
   (i) Direct Expenses
   (ii) Indirect Expenses
   (iii) Indirect Income
   (iv) Direct Income
11. Which are indirect expense of the fallowings?
   (i) Salaries Expenses

(ii) Insurance Expenses
(iii) Rent Income
(iv) All of these

12. Income earned from other than routine activities is called:
    (i) General Income
    (ii) Direct Income
    (iii) Indirect Income
    (iv) None of these
13. Discount received is an example of:
    (i) Indirect income
    (ii) Direct Income
    (iii) Net Income
    (iv) General Income
14. Which are indirect incomes of the followings?
    (i) Commission received
    (ii) interest on investment
    (iii) Dividend received
    (iv) All of these
15. On credit side of Profit and Loss Account we record:
    (i) Direct Expenses
    (ii) Direct Income
    (iii) Indirect Expenses
    (iv). Indirect Income
16. Balance Sheet is a statement of:
    (i) Assets
    (ii) Capital
    (iii) Liabilities
    (iv) All of these
17. Balance Sheet discloses the financial position of a business:
    (i) For a given period
    (ii) On a particular point of time
    (iii) On a certain fixed date
    (iv) All of these

18. Properties, things and receivables having certain value owned by business are called
    (i) Assets
    (ii). Liabilities
    (iii) Goods
    (iv) None of these
19. Any physical thing that has money value is:
    (i) Intangible asset
    (ii) Fictitious asset
    (iii) Goodwill
    (iv) Asset
20. Assets which have physical existence are called:
    (i) Tangible assets
    (ii) Fictitious assets
    (iii) Contingent assets
    (iv) Intangible assets

II. Fill in the Blanks

(i) Patents and Copyrights are ___________ Assets.

(ii) Return Outward appearing in the trial balance is deducted from____________.

(iii) The Balance Sheet of a firm or a Company shows the _____________ Position of concern.

(iv) ___________ profit is the item to be shown on the credit of profit and loss account, brought forward from Trading Account.

(v) The ___________loss of the business firm is calculated by taking the difference of the credit side debit side Trading A/c.

(vi) Stationery purchase for the office use is a _________ expense.

(vii) Depreciation charged on fixed assets will be taken on the debit side of ______________ account.

(viii) Brokerage paid in connection with the purchase of land for constructing office building is _________ expense.

(ix) Commission received by the business will be taken at ________ side of ___________ account.

(x) _________ expenditure is that expenditure, benefits of which is exhausted within the accounting year in which it is incurred.

(xi) ________ of balance sheet means putting item of similar nature under the common heading.

(xii) ___________ is prepared to check the arithmetical accuracy of the posting of transaction to the ledger.

(xiii) Payment of office rent is an example of __________ expense.

(xiv) ___________ of balance sheet means arranging the Assets and liabilities in a praticular manner i.e., in order of permanence or in order of liquidity.

(xv) Large expenditure incurred on advertising to introduce a new product in the market are called _______ expenditure.

III. True or False

(i) Financial Statements helps management to take various decisions.

(ii) Deferred Revenue Expenditure once incurred can be recovered back.

(iii) Expenses which are paid but not yet due are considered as prepaid expenses.

(iv) Interest on loan is an example of Non-operating expense.

(v) Net Profit calculated from Profit and Loss account is transferred to Capital Account

(vi) Loss on sale of fixed assets is considered as operating expenses.

(vii) A trial balance is prepared after preparing the Profit and Loss Account.

(viii) Trial Balance is prepared to check the arithmetical accuracy of the posting of transaction of the ledger.

(ix) Marshalling of balance sheet means putting item of similar nature under the common heading.

(x) Brokerage paid in connection with the purchase of land is a Revenue Expenditure.

(xi) Closing Stocks are the Goods which remain unsold at the end of the each year.

(xii) Contingent Liabilites are those liabilities which become payable on happening an event.

(xiii) Order of Liquidity and Order of Permanence are the types of grouping.

(xiv) The nature of Profit and loss account is nominal.

(xv) A Deferred Revenue Expenditure is a fictitious asset.

IV Other Questions:

1. From the following information ascertain the Gross Profit for the year ended 31st March 2022.

Opening Stock	₹ 42000
Goods purchased during the year	₹ 2,40,000
Freight	₹ 18,000
Closing stock	₹ 80,000
Sales	₹ 2,90,000
Packaging	₹ 16,000

(Answer. ₹ 70,000 Gross Profit)

2. Calculate the Closing Stock from the following information of M/s. Hira Lal for the year ended 31 st March 2022.

Opening slock	₹ 5,000
Sales	₹ 2,00,000
Purchases	₹ 1,23,000
Return Inward	₹ 5,000
Return outward	₹ 10,000
Carriaged inward	₹ 4,000
Gross profit	₹ 80,000

(Answer. ₹ 7,000 Closing Stock)

3. From the following information prepare the trading account for the year ended 31st March 2022.

Sales	₹ 9,50,000
Adjusted Purchase	₹ 8,00,000
Closing stock	₹ 35,800
Carriage inward	₹ 5,200
Wages	₹ 11,000
Carnage outward	₹ 6,000

(Answer. ₹ 1,33,800 Gross Profit)

4. From the following formation prepare a Profit and Loss Account for the year ending 31st March 2022.

Gross profit	₹ 80,000
Rent	₹ 6,000
Salary	₹ 30,000
Commission paid	₹ 23,000
Interest on loan	₹ 5,500
Advertisement	₹ 7,500
Interest received	₹ 6,000
Discount received	₹ 8,000
Printing and Stationery	₹ 4,000
Legal charges	₹ 9,000
Bad debts	₹ 3,000
Loss by fire	₹ 3,000
Depreciation	₹ 7,000

(Answer. ₹ 4,000 Net Loss)

5. From the following information prepare a balance sheet of a Trader as at 31 st March 2022, arranging the Assets and liabilities (i) in order of permanence and (ii) in order of liquidity.

Goodwill	₹ 15,000.
Bank	₹ 22,000
Capital	₹ 1,75,000
Sundry Creditors	₹ 63,000
Liabiliities for expenses	₹ 3,200

Bills receivable	₹ 18,000
Cash in hand	₹ 1,000
Plant and Machinery	₹ 40,000
Investment	₹ 20,000
Provision for bad debts	₹ 2,500
Bills payable	₹ 15,700
Closing stock	₹ 80,000
Net Profit	₹ 92,600
Furniture	₹ 24,000
Sundry Debtors	₹ 50,000
Drawings	₹ 30,000
Land and Building	₹ 52,000

(Answer: Total of Balance Sheet Rs. 3,19,500)

EXCERCISE

Q6. The Trial Balance of Veer Singh Bros. show the following balances. Prepare Trading and Profit and Loss Account for the year ended 31st March, 2021 and Balance Sheet as on 31st March 2021.

Particulars	₹	Particulars	₹
Capital Account	6,60,000	Cash	15,000
Creditors	36,000	Drawings	24,000
Bank Overdraft	16,500	Freehold Property	2,10,000
Interest on Bank Overdraft	1,650	Plant and Machinery	3,80,000
Debtors	59,400	Computers	1,22,000
Purchases	2,47,400	Rent	6,900
Sales	4,30,950	Insurance and Taxes	12,300
Return Inward	11,400	Fire Insurance Premium	6,000
Return Outward	6,300	Electricity	2,700
Stock (Opening)	18,000	Factory Lighting	5,100
Freight Inward	5,700	Salaries to Storekeeper	8,400
Patents	12,000	Coal, Gas and Power	1,800

The following adjustments are to be made :

(i) The value of stock in hand on 31.3.2021 was ₹ 50,700.

(ii) Depreciation to be charged on Computers @ 10% p.a. and on Plant and Machinery @ 5% p.a.

(iii) Interest on bank overdraft was outstanding ₹ 300.

(iv) Insurance was prepaid ₹1,500.

(v) Manager's commission to be provided @ 10% p.a. on Net Profits after charging his commission.

Ans. Net Profit ₹1,18,727 Capital ₹75,472

Balance Sheet Total ₹ 8,19,400

Gross Profit ₹ 1,98,550

Q7. From the following figures, prepare Trading and Profit & loss account for the year 31st March, 2021 and a balance sheet as on that date :

	₹
Opening stock	40,000
Purchases	1,80,000
Sales	3,20,000
Sales returns	5,500
Wages	22,000
Carriage	1,200
Bad debts	600
Bad debts provision	1,000
Sundry debtors	50,300
Sundry creditors	15,800
Office furniture	5,300
Plant and machinery	78,000
Establishment charges	5,100
Advertisement	5,500
Goodwill	10,000
Duty and clearing charges	4,200

Commission (Cr.)	800
Capital	1,20,000
Personal expenses	15,000
Investments	16,100
Cash	16,000
Rent and insurance	2,800

Adjustments :

1) Rent outstanding amounted to ₹500 and insurance unexpired amounted to ₹300.
2) Commission amounting to ₹120 has been received in advance.
3) Write off ₹300 as bad debts and provision for doubtful debts at 2.5% on sundry debtors.
4) Depreciate plant and machinery by 5%.
5) Wages for March 2021 was unpaid.
6) Stock on 31st March, 2021 was ₹ 34,000. (market value ₹ 40,000)

Ans. Net Profit ₹ 81,130
Balance Sheet ₹ 2,04,550
Gross Profit ₹ 99,100

Q8. From the following Trial Balance extracted from the books of Lucky Gupta prepare Trading and Profit & Loss Account for the year ending 31st March, 2021 and a Balance Sheet as at that date :–

Particulars	Dr.(₹)	Cr.(₹)
Furniture	640	
Loose Tools	6,250	
Buildings	7,500	
Capital Account		13,500
Bad-Debts	125	
Provision for Bad-Debts		200
Sundry Debtors and Creditors	3,800	2500
Stock on 1st April, 2019	3,460	
Purchases and Sales	5,475	15,450
Bak Overdraft		2,850

Sales Return and Purchases Return	200	
Stationery	450	
Interest Account	118	
Commission		125
Cash in hand	1,650	
Taxes and Insurance	1,250	
General Expenses	782	
Salaries	3,300	
	35,000	35,000

The following adjustments are to be made :

(I) Stock in hand on 31st March, 2021 was ₹ 3,250.

(ii) Depreciate Building at 5% and Furniture at 10%. Loose Tools are revalued at ₹ 5,000 at the end of the year.

(iii) Salaries ₹ 300 and taxes ₹ 120 are outstanding.

(iv) Insurance amounting to ₹ 100 is prepaid.

v) Write off a further ₹ 100 as Bad-Debts and provision for Doubtful Debts to be made equal to 5% on Sundry Debtors.

vi) Half of the stationery was used by the proprietor for his personal purposes.

Ans. Net Profit ₹ 2,171, Gross Profit ₹ 9,690, Balance Sheet ₹ 21,216

Q9. Give journal entries for the following adjustment in final accounts.

i) Salaries ₹ 15,000 are outstanding.

ii) Insurance amounting to ₹ 20,000 is paid in advance.

iii) ₹ 2,000 for rent have been received in advance.

iv) Goods cost ₹ 3,000 used by owner.

v) Goods worth ₹ 5,000 distributed as free sample.

vi) Write off ₹ 1,000 as further bad debts.

vii) Commission earned but not received ₹ 2,000.

viii) Stock of the value of ₹ 4,000 was destroyed by fire a claim of ₹ 3,000 has been admitted by insurance company.

Q10. From the following balances, prepare Trading, Profit and Loss A/c and Balance Sheet as at 31st March 2021 :–

	₹		₹
Stock (1st April 2020)	20,000	Goodwill	16,000
Purchases	2,92,000	Furniture are Fittings	58,000
Duty and Clearing Charges	34,000	Repair Charges	2,900
Capital	1,60,000	Bank	24,000
Sales	5,90,000	Salaries	1,10,000
Rent	10,000	General Expenses	18,000
Returns Inwards	16,000	Debtors	2,30,000
Cash Discount allowed	15,000	Creditors	1,35,000
Cash Discount received	19,000		
Drawings	58,100		

Take the following adjustments into account :

a) General expenses include ₹ 5,000 chargeable to Furniture purchased on 1st October 2020.

b) Create a reserve of 5% on debtors for Bad and Doubtful Debts after treating ₹ 30,000 as a bad-debt.

c) Rent for two months is outstanding.

d) Depreciation on Furniture and Fittings for the year is to be at the rate of 10% per annum.

e) Closing Stock was ₹ 42,000, but there was a loss by fire on 20th March to the extent of ₹ 8,000. Insurance Company admitted the claim in full.

f) (i) Goods costing ₹ 2,500 were used by the proprietor.

(ii) Goods costing ₹ 1,500 were distributed as free samples.

Ans. Gross Profit ₹ 2,82,000, Net Profit ₹ 1,00,550, Balance Sheet ₹ 3,36,950.

Q11. The following balances were extracted from the books of Mr. Sandeep Rana on 31st Dec. 2020.

Ledger Accounts	Dr. Balance	Cr. Balance
Capital		24,500
Drawings	2,000	
General Expenses	2,500	
Building	11,000	
Machinery	9,340	
Stock (1.1.2020)	16,200	
Power	2,240	
Taxes and Insurance	1,315	
Wages	7,200	
Sundry Debtors	6,280	
Sundry Creditors		2,500
Charity	105	
Bad Debts	550	
Bank Overdraft		11,180
Sales		65,360
Purchases	47,000	
Scooter	2,000	
Bad Debts Provision		900
Commission		1,320
Trade Expenses	1,780	
Bills Payable		3,850
Cash	100	
Total	**1,09,610**	**1,09610**

Prepare final accounts for the year ended 31st Dec. 2020 after taking into account the following :

1. Stock on 31st Dec. 2020 was valued at ₹ 23,500
2. Write off further Bad Debts ₹ 160 and maintain the provision for Bad Debts at 5% on Sundry Debtors.
3. Depreciate Machinery by 10% and Scooter by ₹ 240.
4. Provide ₹ 750 for outstanding interest on bank overdraft.
5. Prepaid insurance is to the extent of ₹ 50, Commission receivable amounting to ₹ 50.
6. Provide Manager's Commission at 10% on net profit after charging such commission.

Ans. Gross Profit 16,220, Net Profit 9000
Total of Balance sheet : 50,680

Q12. From the following balances of Mr. Ashok. You are required to prepare Trading and Profit & loss account and a Balance Sheet on March 31, 2021.

Debit Balance	₹	Credit Balance	₹
Plant and Machinery	1,30,000	Sales	3,00,000
Debtors	50,000	Return outwards	2,500
Interest	2,000	Creditors	2,50,000
Wages	1,200	Bills payable	70,000
Salary	2,500	Provision for bad debts	1,550
Carriage Inwards	500	Capital Rent received	2,20,000
Carriage Outwards	700	Rent received	10,380
Return Inwards	2,000	Commission received	16,000
Factory rent	1,450		
Office rent	2,300		
Insurance	780		
Furniture	22,500		
Buildings	2,80,300		
Bills receivable	3,000		
Cash in hand	22,500		
Cash at bank	35,000		
Commission	500		
Opening stock	60,000		
Purchases	2,50,000		
Bad debts	3,500		
	8,70,430		8,70,430

Adjustment

1. Provision for Bad Debts @ 5% p.a. and further Bad debts ₹ 2,000.
2. Rent received in Advance ₹ 6,000.
3. Prepaid Insurance ₹ 200.
4. Depreciation on furniture @ 5% p.a., Plant and Machinery @ 6% p.a., building @ 7% p.a..
5. Closing stock amounting ₹ 70,000 on 31.03.2021.
6. Goods costing ₹ 1,000 were used by proprietor.

Ans. Gross Profit 58,350, Net Profit 35,272
Total of Balance Sheet 5,80,275

Q13. (Comprehensive) The following is the Trial Balance of Ali Mushabbar Traders on 31st March, 2021.

Particulars	**L.F.**	**Debit (₹)**	**Credit (₹)**
Purchases / Sales		2,12,000	3,15,000
Stock (1.4.2019)		16,000	
Returns		3,000	1,800
Debtors / Creditors		81,000	16,100
Goodwill		17,000	
Bills Receivable / Bills Payable		8,000	3,900
Machinery		70,000	
Drawings		48,000	
Motor Car		2,30,000	
Provision for Doubtful Debts			1,200
Cash Balance		11,700	
Freehold Property		2,13,000	
Fire Insurance Premium		2,400	
Bad Debts		1,200	
Carriage on Sales		1,350	
Carriage on Purchases		2,350	
Establishment Expenses		3,800	
Horses and Carts		11,000	
Custom Duty		2,100	
Donations (Charity)		3,100	
Loan			3,00,000
Interest on Loan		1,000	
Capital Account			3,00,000
		9,38,000	9,38,000

Prepare Trading and Profit & Loss Account and Balance Sheet as at 31st March, 2021 after considering the following adjustments :

(i) Value of goods on hand at the end of the year was ₹ 20,000.

(ii) Depreciate Machinery @ 10% p.a. and Motor car @ 5% p.a.

(iii) Provision for doubtful debts to be maintained @ 5% on Debtors.

(iv) Create provision for discount on Debtors @ 5%.

(v) Further bad debts are ₹1,400.

(vi) The manager is entitled to a commission @ 10% on net profit before charging his commission.

Ans Gross profit ₹1,01,350, Net Profit ₹55,835,
Total of Balance sheet ₹6,34,039

Q14. Problems based on missing information. Fill in the missing figures in the following.

TRADING AND PROFIT & LOSS ACCOUNT
for the year ended 31st March, 2021

Dr. Cr.

Particulars		₹	Particulars		₹
To Opening Stock		----------	By Sales	----------	
To Purchase	----------		Less : Sales Return	5000	----------
Less : Return	1,000	81,000			
To Wages		1,800	By Closing Stock		20,000
To Carriage Inward		200			
To Gross Profit b/d		17,000			
					1,15,000
To Insurance		600	By Gross Profit b/d		
To Rent		5,000	By Discount received		1,500
To Salaries	12,500				
Add: Outstanding Salaries	-----	----------	By Net Loss		----------
To Bad Debts	200				
Add: Further Bad Debts	100				
	300				
Add : New Provision	----------				
	900				
Less : Old Provision	----------	400			
To Provision for Discount on Debtors		388			
To Depreciation					
Building	2,250				
Furniture	700	2,950			
		22,838			22,838

PROJECT SPECIMEN

VALIDITY CERTIFICATE

This is to certify that this Accountancy Project File belongs to

Name: ....

Roll No : .... Class: .... Section: ....

Session: ....

The Projects recorded in this Project Work Book have been done by the candidate under the guidance of the teacher.

The student's initiative, cooperation and participation during the practical classes .... (Excellent/Good/Average).

- His project presentation, visual appeal, expression and neatness is .... (Excellent/Good/Average).
- His content accuracy, creativity, originality and analysis of different perception is...................(Excellent/Good/Average).

Date: .... Teacher-Incharge

ACKNOWLEDGMENT

I would like to convey my heartfelt thanks to Mr./Mrs. .... My Accountancy Teacher, who always gave valuable suggestions and guidance for completion of my project. He/She helped me to understand and remember important details of the project that I would have otherwise lost. My project has been a success only because of his/herguidance.

Name of the Project : ....

Name of Student : ....

Class : .... Roll No: .... Section: ....

School Name : ....

COMPREHENSIVE PROJECT

Mr. Ravi Kumar completed his post-graduation from IIM Ahmadabad with masters in Business Administration (MBA) and International Relations. He has decided to purchase an existing business in Chennai which has been adversely affected by the flood. He is extremely inclined towards providing employment to the people in the affected areas nearby.

The owners of a business concern Mohan Bros, are in no position to recover the former condition of their factory and have therefore decided to sell it.

Mr. Ravi Kumar purchased the business of Mohan Bros, on 1st April 2018. The business is mainly concerned with manufacturing electronic goods i.e. Pen Drives, Battery Chargers, USB Cables etc.

Following assets were taken over by Mr. Ravi Kumar on the above mentioned date:

Land and Building	₹1,00,000
Plant and Machinery	₹80,000
Furniture & Fittings	₹25,000
Stock	₹30,000
Office Equipment	₹10,000

Mr. Ravi Kumar paid ₹ 2,50,000 as purchase consideration. On the same day he brought ₹ 2,00,000 as his capital and took loan of ₹50,000 from the bank @ 8% p.a. interest and borrowed ₹ 20,000 from his Friend @ 6% p.a. interest to meet the working capital requirements.

His transactions during the accounting period were as follows:

1. Total Purchases ₹2,80,000 including credit purchases worth ₹2,00,000.
2. He invested ₹20,000 in shares of Reliance Limited.
3. Total Sales ₹4,80,000 including credit sales worth ₹ 1,80,000.

Direct Expenses:

Wages	₹35,000
Manufacturing expenses	₹5,000
Factory Lighting	₹2,000
Carriage inwards	₹1,000
Commission on purchases	₹1,500
Freight	₹5,000

Indirect Expenses:

Salaries	₹20,000
Office Rent	₹1,000
Postage and Telephone exp	₹500
Stationery	₹300
Water & Electricity (office)	₹1,200
Conveyance	₹800
Advertising	₹1,200

(I) He withdrew ₹6,000 from the business to buy a second-hand Laptop, for personal use.

(ii) Goods worth ₹3,000 given as free samples,

(iii) Cash received from debtors ₹10,000.

(iv) Cash paid to Creditors ₹1,20,000.

(v) Interest paid on Bank Loan ₹2,800.

(vi) Interest paid on Friend's Loan ₹1,000.

(vii) Bills Receivable received from debtors ₹8,000.

(viii) Bill accepted in favour of creditors ₹10,000.

(ix) Interest received on investment ₹1,000. You are required to :

(i) Give journal entries for these transactions and post them into ledger account and prepare a Trial Balance.

(ii) Prepare Trading Account, Profit 85 Loss Account and Balance Sheet considering the following adjustments:

(a) Interest is outstanding on Bank Loan ₹1,200 and on Friend's Loan ₹200.

(b) Plant and Machinery is to be depreciated by 5% and Furniture by 10%.

(c) Closing Stock ₹35,000.

(d) Wages outstanding ₹3,000 and office rent outstanding ₹500.

Journal

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2018 1 Apr.	Bank A/c To Capital A/c. (Being capital introduced by Ravi)	Dr.		2,00,000	 2,00,00
2018 1 Apr.	Land and Building A/c Plant and Machinery A/c Furniture & Fittings A/c Stock A/c Office Equipments A/c Goodwill A/c (Bal. Fig.) To Bank A/c (Being assets purchased)	Dr. Dr. Dr. Dr. Dr. Dr.		1,00,000 80,000 25,000 30,000 10,000 5,000	 2,50,000
	Bank A/c To 8% Bank Loan A/c. (Being Loan obtained from bank)	Dr.		50,000	 50,000
	Bank A/c To 6% Friend's Loan (Being Loan obtained)	Dr.		20,000	 20,000
	Purchases A/c To Bank A/c (Being Loan purchased)	Dr.		80,000	 80,000
	Purchases A/c To Creditors A/c (Being goods purchased)	Dr.		20,000	 2.00,000
	Investment A/c To Bank A/c (Being money invested in shares of Reliance Ltd.)	Dr.		20,000	 2.00,000
	Bank A/c To Sales A/c (Being goods sold on cash basis)	Dr.		3,00,000	 3,00,000
	Debtors A/c To Sales A/c (Being goods sold on cash credit)	Dr.		1,80,000	 1,80,000

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Wages A/c To To Bank A/c (Being wages paid)	Dr.		35,000	35,000
	Manufacturing Expense A/c To Bank A/c (Being manufacturing expenses paid)	Dr.		5,000	5,000
	Factory Lighting A/c To Bank A/c (Being factory expenses paid)	Dr.		2,000	2,000
	Carriage Inwards A/c To Bank A/c (Being expenses on purchase paid)	Dr.		1,000	1,000
	Commissions of Purchase A/c A/c To Bank A/c (Being commission paid)	Dr.		1,500	1,500
	Freight A/c To Bank A/c (Being freight expenses paid)	Dr.		5,000	5,000
	Salaries A/c To Bank A/c (Being salaries paid)	Dr.		20,000	20,000
	Office Rent A/c To Bank A/c (Being office rend paid)	Dr.		1,000	1,000
	Postage and Telephone A/c To Bank A/c (Being postage & telephone expense paid)	Dr.		500	500
	Stationary A/c To Bank A/c (Being stationary expenses paid)	Dr.		300	300
	Water & Electricity A/c To Bank A/c (Being water & electricity expense paid)	Dr.		1,200	1,200

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Conveyance A/c Dr. To Bank A/c (Being conveyance expenses paid)		800	800
	Advertising A/c Dr. To Bank A/c (Being advertising expenses paid)		1,200	1,200
	Drawing A/c Dr. To Bank A/c (Being withdrawn for personal use)		6,000	6,000
	Advertising A/c Dr. To Purchases A/c (Being goods give as free samples)		3,000	3,000
	Bank A/c Dr. To Debtors A/c (Being cash received from Debtors)		10,000	10,000
	Creditors A/c Dr. To Bank A/c (Being cash paid to Creditors)		1,12,000	1,12,000
	Interest on Bank Loan Dr. To Bank A/c (Being interest paid on bank loan)		2,800	2,800
	Interest on Friend's Loan Dr. To Bank A/c (Being interest paid on Friend's Loan)		1,000	1,000
	Bills Receivable A/c Dr. To Debtors A/c (Being B/R received from debtors)		8,000	8,000
	Creditors A/c Dr. To Bank Payable A/c (Being bill accepted in favour of Creditors)		10,000	10,000
	Bank A/c Dr. To Int. on Investment A/c (Being Interest received on investment)		1,000	1,000

Preparation of Ledger:

Bank Account

Dr. Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
	To Capital A/c	2,00,000		By Land and Building A/c	1,00,000
	To 8% Bank Loan A/c	50,000		By Plant and Machinery A/c	80,000
	To 6% Friend's Loan	20,000		By Furniture 8s Fittings A/c	25,000
	To Sales A/c	3,00,000		By Stock A/c	30,000
	To Debtors A/c	10,000		By Office Equipment A/c	10,000
	To Int. on Investment A/c	1,000		By Goodwill A/c	5,000
				By Purchases A/c	80,000
				By Investment A/c	20,000
				By Wages A/c	35,000
				By Manufacturing Exp. A/c	5,000
				By Factory Lighting A/c	2,000
				By Carriage Inward A/c	1,000
				By Commissions on Purchase	1,500
				By Freight A/c	5,000
				By Salaries A/c	20,000
				By Office Rent A/c	1,000
				By Postage & Telephone A/c	500
				By Stationery A/c	300
				By Water & Electricity A/c	1,200
				By Conveyance A/c	800
				By Advertising A/c	1,200
				By Drawings A/c	6,000
				By Creditors A/c	1,20,000
				By Int. on bank loan	2,800
				By Int. on Friend's loan	1,000
				By Balance c/d	26,700
		5,81,000			5,81,000

Capital Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Balance c/d	2,00,000		To Balance c/d	2,00,000
		2,00,000			2,00,000

Land and Building Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank	1,00,000		To Balance c/d	1,00,000
		1,00,000			1,00,000

Plant and Machinery Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank	80,000		To Balance c/d	80,000
		80,000			80,000

Furniture & Fittings Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank	25,000		To Balance c/d	25,000
		25,000			25,000

Stock Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank	30,000		To Balance c/d	30,000
		30,000			30,000

Office Equipment Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank	10,000		To Balance c/d	10,000
		10,000			10,000

Goodwill Equipment Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank	5,000		To Balance c/d	5,000
		5,000			5,000

8% Bank Loan Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Balance c/d	50,000		To Balance Ac	50,000
		50,000			50,000

6% Friend's Loan Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Balance c/d	20,000		To Balance Ac	20,000
		20,000			20,000

Purchases Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c To Creditors A/c	80,000 2,00,000		To Advertising To Balance c/d	3,000 2,77,000
		2,80,000			2,80,000

Creditors Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c To Bill Payable A/c To Balance c/d	1,20,000 10,000 70,000		By Purchases A/c To Balance c/d	2,00,000
		2,00,000			2,00,000

Investment Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	20,000		By Purchase c/d	20,000
		20,000			20,000

Dr. **Sales Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank c/d	4,80,000		By Bank A/c By Debtors A/c	3,00,000 1,80,000
		4,80,000			4,80,000

Dr. **Wages Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	35,000		By Balance c/d	35,000
		35,000			35,000

Dr. **Manufacturing Expenses Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	5,000		By Balance c/d	5,000
		5,000			5,000

Dr. **Factory Lighting Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	2,000		By Balance c/d	2,000
		2,000			2,000

Dr. **Carriage Inwards Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	1,000		By Balance c/d	1,000
		1,000			1,000

Dr. **Commissions on Purchase Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	1,500		By Balance c/d	1,500
		1,500			1,500

Freight Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	5,000		By Balance c/d	5,000
		5,000			5,000

Salaries Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	20,000		By Balance c/d	20,000
		20,000			20,000

Office Rent Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	1,000		By Balance c/d	1,000
		1,000			1,000

Postage and Telephone Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	500		By Balance c/d	500
		500			500

Stationery Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	300		By Balance c/d	300
		300			300

Water and Electricity Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	1,200		By Balance c/d	1,200
		1,200			1,200

Dr. **Conveyance Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	800		By Balance c/d	800
		800			800

Dr. **Advertising Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c To Purchases A/c	1,200 3,000		By Balance c/d	4,200
		4,200			4,200

Dr. **Drawing Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	6,000		By Balance c/d	6,000
		6,000			6,000

Dr. **Interest on Bank Loan Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	2,800		By Balance c/d	2,800
		2,800			2,800

Dr. **Interest on Friend's Loan Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	1,000		By Balance c/d	1,000
		1,000			1,000

Dr. **Bill Receivable Loan Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Debtors A/c	8,000		By Balance c/d	8,000
		8,000			8,000

Dr. **Bill Payable Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Balance c/d	10,000		By CreditorsA/c	10,000
		10,000			10,000

Int. on Investment Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Balance d/d	1,000		By Bank A/c	1,000
		1,000			1,000

Trail Balance

Particulars	Debit (₹)	Credit (₹)
Bank A/c	26,700	
Capital A/c		2,00,000
Land and Building A/c	1,00,000	
Plant and Machinery A/c	80,000	
Furniture & Fittings A/c	25,000	
Stock A/c	30,000	
Office Equipment A/c	10,000	
Goodwill A/c	5,000	
8% Bank Loan A/c		50,000
6% Friend's Loan A/c		20,000
Purchases A/c	2,77,000	
Creditors A/c		70,000
Investment A/c	20,000	
Debtors A/c	162,000	
Sales A/c		4,80,000
Wages A/c	35,000	
Manufacturing Expenses A/c	5,000	
Factory Lighting A/c	2,000	
Carriage Inward A/c	1,000	
Commissions on purchase A/c	1,500	
Freight A/c	5,000	
Salaries A/c	20,000	
Office Rent A/c	1,000	
Postage and Telephone Exp. A/c	500	
Stationery A/c	300	
Water and Electricity A/c	1,200	

Conveyance A/c	800	
Advertising A/c	4,200	
Drawings A/c	6,000	
Interest on Bank Loa	2,800	
Interest on Friend's Loan	1,000	
Bills Receivable	8,000	
Bills Payable		10,000
Int. on Investment		1,000
	8,31,000	**8,31,000**

Trading Account
for the year ending 31 March, 2018

Dr. Cr.

Particulars	(₹)	Particulars	(₹)
To Opening Stock	30,000	By Sales	4,80,000
To Purchases	2,77,000	By Closing Stock	35,000
To Wages 35,000			
Add : Outstanding 3,000	38,000		
To Manufacturing Exp.	5,000		
To Factory Lighting	2,000		
To Carriage Inward	1,000		
To Commissions on purchase	1,500		
To Freight	5,000		
To Gross Profit	1,55,500		
	5,15,000		5,15,000

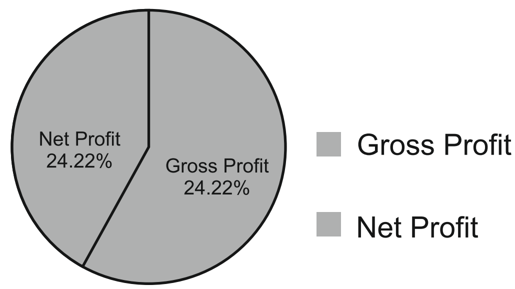
Profit and Loss Account

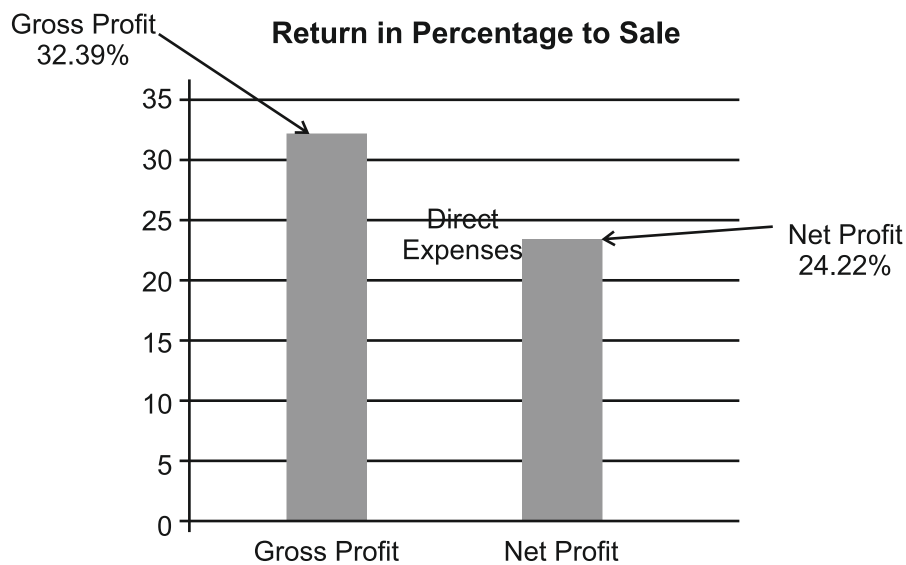
Particulars		(₹)	Particulars	(₹)
To Salaries		20,000	By Gross Profit b/d	1,55,500
To Office Rent	1,000	By	Int. on Investment	1,000
Add: Outstanding	500	1,500		
To Postage & Telephone		500		
To Stationery		300		
To Water 8s Electricity		1,200		
To Conveyance		800		
To Advertising		4,200		
To Int. on Bank Loan		2,800		
Add : Outstanding	1,200	4,000		
To Int. on Friend's Loan		1,200		
(1,000 + 200 due)				
To Dep. on plant 8& machinery		4,000		
To Dep. on Furniture		2,500		
To Net Profit		1,16,300		
		1,56,500		1,56,500

Balance Sheet

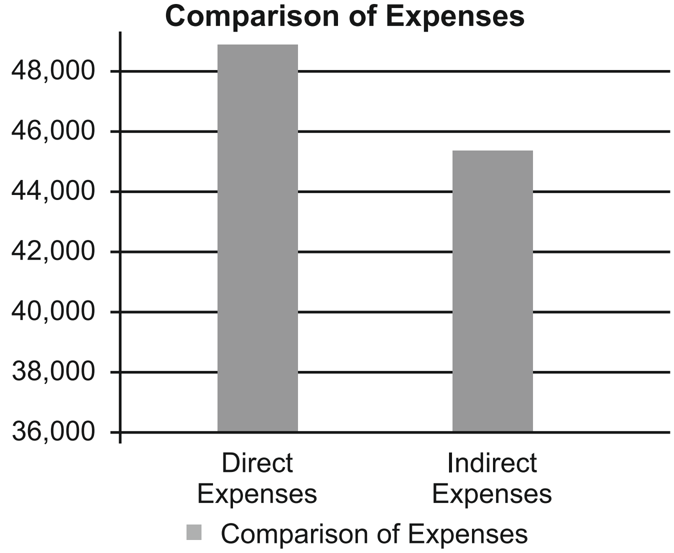
Liabilities		(₹)	Assets		(₹)
Capita		2,00,000	Goodwill		5,000
Add : N/P	1,16,300		Land and Building		1,00,000
Less : Drawings	6,000	3,10,300	Plant and Machinery	80,000	
8% Bank Loan	50,000		Less : Depreciation	4,000	76,000
Add: Interest due	1,200	51,200	Furniture & Fittings	25,000	
6% Friend's Loan	20,000		Less : Depreciation	2,5002	2,500
Add: Interest due	200	20,200	Office Equipment	10,000	
Creditors		70,000	Investment		20,000
Bills Payable		10,000	Debtors		162,000
Wages Outstanding		3,000	Bills Receivable		8,000
Office Rent Outstanding		500	Closing Stock		35,000
			Bank		26,700
		4,65,200			**4,65,200**

Return in Percentage to Sale





Comparison of Expenses



Comparison of Gross Profit with Similar Firm

Comparison of Gross Profit

COMPREHENSVIE PROJECT

Situation: On Ist January 2017, Mr. Vipul decided to start a computer Hardware store and decides to sell various components of computer Hardware. He purchased a Building for ₹18,00,000 for this purpose. Since he had shortage of funds, so he secured a Loan of ₹6,00,000.

(a) 10% per annum from State Bank of India. This loan was payable in three equal instalments along with interest due on 31 December 2017. He had following transactions for his business:

	Transactions	**Amount (₹)**
1.	Purchased computer Hardwares	4,00,000
2.	Purchased furniture	1,90,000
3.	Bought Computer Accessories	2,20,000
4.	Sale of Computer Accessories	17,50,000
5.	Wages paid	1,30,000
6.	Salaries Paid to staff	3,20,000
7.	Electricity charges	1,21,800
8.	Advertisement charges	1,05,000
9.	Postage charges	13,500
10.	General Expenses	21,000
11.	Insurance Premium paid	48,000
12.	Bought Laptop and Printer for office use	70,000
13.	Security deposited for Electricity Connection with NDPL	40,000
14.	Security Deposited with MTNL for telephone and Internet connection	1,10,000

Beside these, he also withdrew ₹20000 per month for his personal use out of his business.

You are required to

(i) Journalise all above transactions in the books the firm named " Computer Solutions."

(ii) Prepare necessary Ledger Accounts showing postings of all journal entries.

(iii) Prepare Trial Balance.

(iv) Prepare financial statements of the firm for the year ended 31st December 2018 showing.

(a) Trading and Profit and loss A/C

(b) Balance Sheet

You also need to consider the following additional informations –

(a) Depreciater building by 5% and furniture by 10% per annum.

(b) Salary outstanding ₹ 16000 at the end.

(c) Insurance prepaid ₹ 6500 at the end.

(d) Closing stock of computer Accessories is Rs. 9500

Solution Journal of "Computer Solutions"

Date	Particulars	L.F.	Debit ₹	Credit ₹
2017				
Jan 01	Building A/C Dr.		18,00,000	18,00,000
	To Capital A/C			
	(Capital invested in the business by way of Building)			
Jan 01	Bank A/C Dr.		6,00,000	
	To Bank loan A/C			6,00,000
	(Loan taken from SBI)			
Jan 01	Purchases A/C Dr.		4,00,000	
	To Bank A/C			4,00,000
	(Computer Hardwares purchased)			

	Furniture A/C Dr.			1,90,000
	To Bank A/C			1,90,000
	(Furniture purchased)			
	Purchases A/C Dr.		2,20,000	
	To Bank A/C			2,20,000
	(Computer Accessories Purchased)			
	Bank A/C Dr.		17,50,000	
	To sales A/C			17,50,000
	(Computer Accessories sold)			
	Wages A/C Dr.		1,30,000	
	Salaries A/C Dr.		3,20,000	
	Electricity charges A/C Dr.		1,21,800	
	Advertisement A/C Dr.		1,05,000	
	Postal charges A/C Dr.		13,500	
	General Expenses A/C Dr.		21,000	
	Insurance A/C Dr.		48,000	
	To Bank A/C			7,59,300
	(Various expenses incurred)			
	Laptop and printer A/C Dr.		70000	
	To Bank A/C			70,000
	(Laptop and Printer Purchased for Business)			
	NDPL A/C Dr.		40,000	
	MTNL A/C Dr.		1,10,000	
	To Bank A/C			1,50,000
	(Security deposit for Electricity connection and Internet connection)			

	Drawings A/C Dr. To Bank A/C (Drawing made @ Rs. 20,000 pm)		2,40,000	2,40,000
31 Dec	Interest on Bank Loan A/C Dr. To Bank loan A/C (Interest due @ 10% pa on Rs. 6,00,000)		60,000	60,000
2017 31 Dec	Bank Loan A/C Dr. To Bank A/C (Interest on loan along with loan paid i.e., 60,000 + 2,00,000)		2,60,000	2,60,000
31 Dec	Depreciation A/C Dr. To Building A/C To Furniture A/C (Depreciation charged on Building and Furniture)		1,09,000	90,000 19,000
31 Dec	Salary A/C Dr. To O/S salary A/C (Salary outstanding)		16,000	16,000
31 Dec	Prepaid Insurance A/C Dr. To Insurance A/C (Insurance prepaid)		6,500	6,500

Sample Vouchers—

(i) For Purchase of Building

Received Revenue Stamp	M/S Computer Solution Voucher No (i)	Date– 01/01/17
		Amt ₹
	Debit: Building A/c (Building Purchased for cash vide cash memo N0—)	18,00,000
		18,00,000
	Authorised by	Prepared by

(ii) For Pament of Salaries.

Receied ₹ Revenue Stamp	M/S Computer Solution Voucher No (ii)	Date– 31/12/17
		Amt ₹
	Debit: Salaries A/c (Salaries Paid for the year 2017 vide salary Sheet N0—)	3,20,000
		3,20,000
	Authorised by	Prepared by

(iii) For sales (Cash)

Received ₹	M/S Computer Solution	
	Voucher No (iii)	Date– /01/17
		Amt ₹
	Credit: Sales A/c	17,50,000
	(Sold goods for cash vide cash memo N0—)	
Revenue Stamp		17,50,000
	Authorised by	Prepared by

M/S Computer Solutions		
Voucher No (iv)	Date	31/12/17
Debit : Depreciation A/c		19,000
Credit: Furniture A/c		19,000
(Deprecialron Charged on furnitare @ 10% p.a. on ₹ 1,90,000)		19,000
Authorised by	Prepared by	

Preparation of Ledger Accounts

Dr. **Building Account** Cr.

Date	**Particular**	**J. F.**	**Amt ₹**	**Data**	**Particular**	**J. F.**	**Amt ₹**
01/01/17	To Capital A/c		18,00,000	31/12/17	By Deprec-iation A/C		90000
				31/12/17	By Balance cld		17,10,000
			18,00,000				18,00,000
01/1/18	To Balance b/d		17,10,000				

Bank Account							
Date	**Particular**	**J. F.**	**Amt ₹**	**Data**	**Particular**	**J. F.**	**Amt ₹ 4,00,000**
01/1/17	To Bank loan kdk A/c		6,00,000		By Purchases A/C		220,000 4,00,000
	To Sales A/C		17,50,000		By Purchases A/C		220,000
					By Furniture A/C		1,90,000
					By Wages A/C		1.30,000
					By Salaries A/C		3,20,000
					By Electricity Charges A/C		1,21,800
					By Advertise- A/C ment		1,05,000
					By Postal Charges A/C		13,500
					By General Expenses A/C		21,000
					By Insurance A/C		48,000
					By Laptop and Printer A/C		70,000
					By NDPL A/C		40,000
					By MTNL A/C		1,10,000
					By Drawings A/C		2,40,000
					By Bank loan A/C		2,60,000
				31/12/17	By balance c/d		60,700
			23,50,000				23,50,000
01/1/18	To Balance b/d		60700				

Dr. **Capital Account** Cr.

Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
31/12/17	To Balance c/d		18,00,000	01/1/17	By Building A/c		18,00,000
			18,00,000				
				01/1/18	By Balance b/d		18,00,000

Dr. **Bank loan Account** Cr.

Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
31/12/17	To Bank A/C		2,60,000	01/1/17	By Bank A/C		6,00,000
31/12/17	To Balance		4,00,000	31/12/17	By Interest on Bank Loan A/C		60,000
			6,60,000				6,60,000
				01/1/18	By Balance b/d		4,00,000

Dr. **Purchases Account** Cr.

Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
	To Bank A/C		4,00,000	31/12/17	By Trading A/C		6,10500
	To Bank A/C		2,20,000		By closing stock		9,500
			6,20,000				6,20,000

Dr. **Furniture Account** Cr.

Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
01/1/17	To Bank A/C		1,90,000	31/12/17	By Depreciation A/C		19000
				31/12/17	By Balance c/d		1,71000
			1,90,000				190,000
01/1/18	To Balance b/d		1,71,000				

Dr. **Sales Account** Cr.

Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
31/12/17	To Trading A/c		17,50,000		By Bank A/c		17,50,000
			17,50,000				17,50,000

Dr. **Wages Account** Cr.

Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
	To Bank A/C		1,30,000	31/12/17	By Trading A/c		1,30,000
			1,30,000				1,30,000

Dr. **Electricity Charges Account** Cr.

Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
	To Bank A/C		1,21,800	31/12/17	By Profit and Loss A/C		1,21,800
			1,21,800				1,21,800

Dr. **Advertisement Account** Cr.

Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
	To Bank A/C		1,05,000	31/12/17	By Profit and Loss A/C		1,05,000
			1,05,000				1,05,000

Dr. **Postal Charges Account** Cr.

Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
	To Bank A/C		13500	31/12/17	By Profit and Loss A/C		13500
			13500				13500

Dr. **General Expenses Account** Cr.

Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
	To Bank A/c		21000	31/12/17	By Profit and Loss A/C		21000
			21000				21000

Dr. **Salaries Account** Cr.

Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
	To Bank A/c Tools salary A/c		3,20,000	31/12/17	By Profit and Loss A/c		3,36,000
			3,36,000				3,36,000

Dr. **Insurance Account** Cr.

Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
	To Bank A/C		48000		By Prepaid Insurance A/C		6500
				31/12/17	By Profit and Loss A/C		41,500
			48,000				48,000

Dr. **Laptop and Printer Account** Cr.

Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
	To Bank A/C		70000	31/12/17	By Balance c/d		70000
			70000				70000
01/1/18	To Balance b/d		70000				

Dr. **NDPL Account** Cr.

Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
	To Bank A/C		40000	31/12/17	By Balance c/d		40000
			40000				40000
01/1/18	To Balance b/d		40,000				

Dr. **MTNL Account** Cr.

Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
	To Bank A/C		1,10,000	31/12/17	By Balance c/d		1,10,000
			1,10,000				1,10,000
01/1/18	To Balance b/d		1,10,000				

Dr. **Drawings Account** Cr.

Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
	To Bank A/C		2,20,000	31/12/17	By Balance c/d		2,40,000
			2,40,000				2,40,000
01/1/18	To Balance b/d		2,40,000				

Dr. **Interest on Bank loan Account** Cr.

Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
31/12/17	To Bank Loan A/C		60000	31/12/17	By Profit and Loss A/C		60000
			60000				60000

Dr. **Depreciation Account** Cr.

Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
31/12/17	To Building A/ C		90,000	31/1/17	By Profit and Loss A/C		1,09,000
31/12/17	To Furniture A/C		19,000				
			1,09,000				1,09,000

Dr. **Outstanding Salary Account** Cr.

Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
31/12/17	To Balance c/d		16000	31/12/17	By Salary A/C		16000
			16000				16000
				01/1/18	By Balance b/d		16000

Dr. **Prepaid Insurance Account** Cr.

Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
31/12/17	To Insurance A/C		6500	31/12/17	By Balance c/d		6500
			6500				6500
01/1/18	To Balance b/d		6500				

Trial Balance

Dr. **as on 31st December 2017** Cr.

S.No.	Name of the Account	Debit	Credit
1.	Building A/C	17,10,000	–
2.	Bank A/C	60,700	–
3.	Capital A/C	–	800,000
4.	Bank Loan A/C	–	4,00,000
5.	Purchases A/C	6,20,000	–
6.	Furniture A/C	1,71,000	–
7.	Sales A/C	–	17,50,000
8.	Wages A/C	1,30000	–
9.	Salaries A/C	3,20,000	–
10.	Electricity Charges A/C	1,21,800	–
11.	Advertisement A/C	1,05000	–
12.	Postal Charges A/C	13,500	–
13.	General Expenses A/C	21,000	–
14.	Insurance A/C	48,000	–
15.	Laptop and Printer A/C	70,000	–
16.	NDPL A/C (Security)	40,000	–
17.	MTNL A/C (Security)	1,10,000	–
18.	Drawings A/C	2,40,000	–
19.	Interest on Bank Loan A/C	60,000	–
20.	Depreciation A/C	1,09,000	–
21.	Outstanding Salary A/C	–	16,000
22.	Prepaid Insurance A/C	6,500	–
23.	Closing Stock of Computer Accessories	9,500	–
		39,66,000	39,66,000

Trading and Profit & Loss A/C

Dr. **for the year ending 31st Dec. 2017** Cr.

Particulars	Amount	Particulars	Amount
To Purchases A/C	610,500	By Sales A/C	17,50,000
To Wages	1,30,000		
To Gross Profit c/d	100,9,500		
	17,50,000		17,50,000
To Salaries A/C	3,36000	By Gross Profit b/d	1009,500
To Electricity Charges A/C	121800		
To Advertisement A/C	1,05000		
To Postal Charges A/C	13500		
To General Expenses A/C	21000		
To Insurance A/C	41500		
To Interest on Bank Loan A/C			
To Depreciation A/C			
Building – 90000			
Furniture – 19000	1,09,000		
To Net Profit c/d	20,1700		
(Carried forward to Capital A/C)	10,09,500		10,09,500

Balance Sheet
as at 31st December 2017

Liabilities	Amount	Assets	Amount
Capital 18,00,000		Building 18,00,000	
Drawings (2,40,000)		Depreciation 90,000	17,10,000
Net Profit 20,1700	17,61700	Bank A/C	60700
Bank Loan	4,00,000	Furniture 1,90,000	

Outstanding Salaries	16000	Depreciation 19000 Laptop and Printer NDPL (Security Deposit) MTNL (Security Deposit) Prepaid Insurance Closing Stock	1,71,000 70000 40000 1,10,000 6500 9500
	21,77,700		21,77,700

Calculation of Gross Profit and Net Profit Ratio

(i) Gross Profit Ratio = $\frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$

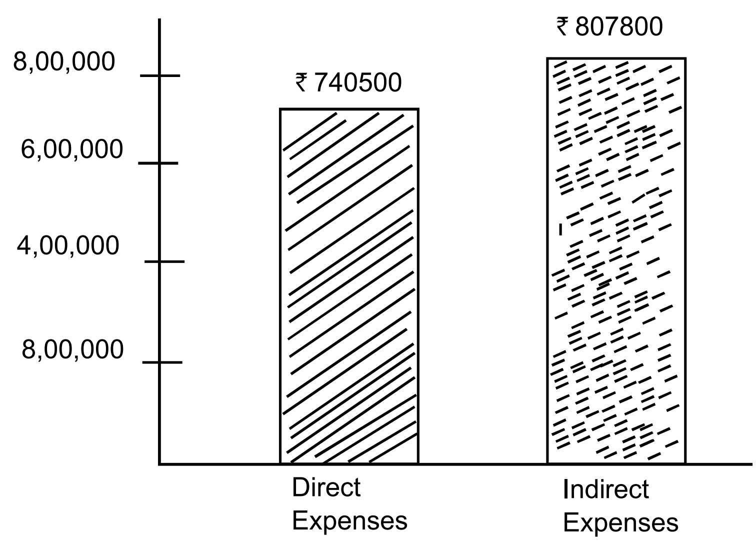
$$= \frac{10,09,500}{17,50,000} \times 100 = 57.68\%$$

(ii) Net Profit Ratio = $\frac{\text{Net Profit}}{\text{Net Sales}} \times 100$

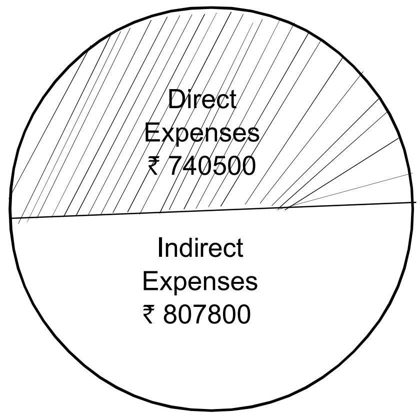
$$= \frac{2,01,700}{17,50,000} \times 100 = 11.52\%$$

Bar Diagrams and Pie Charts for Direct and Indirect Expeuses

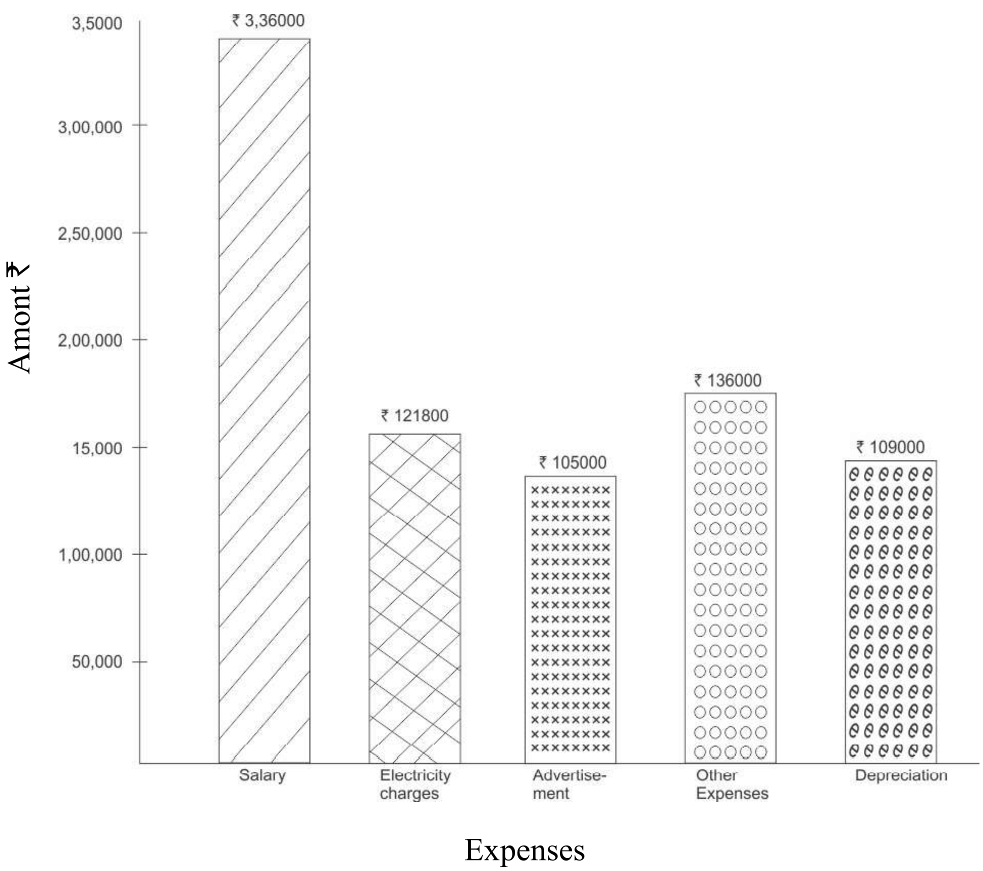
Bar Diagram of Direct and Indirect Expenses



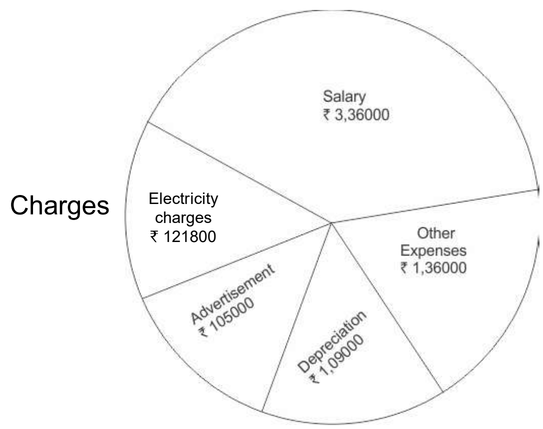
Pic Chart of Direct and Indirect Expeuses



Bar Diagram of Indirect Expenses

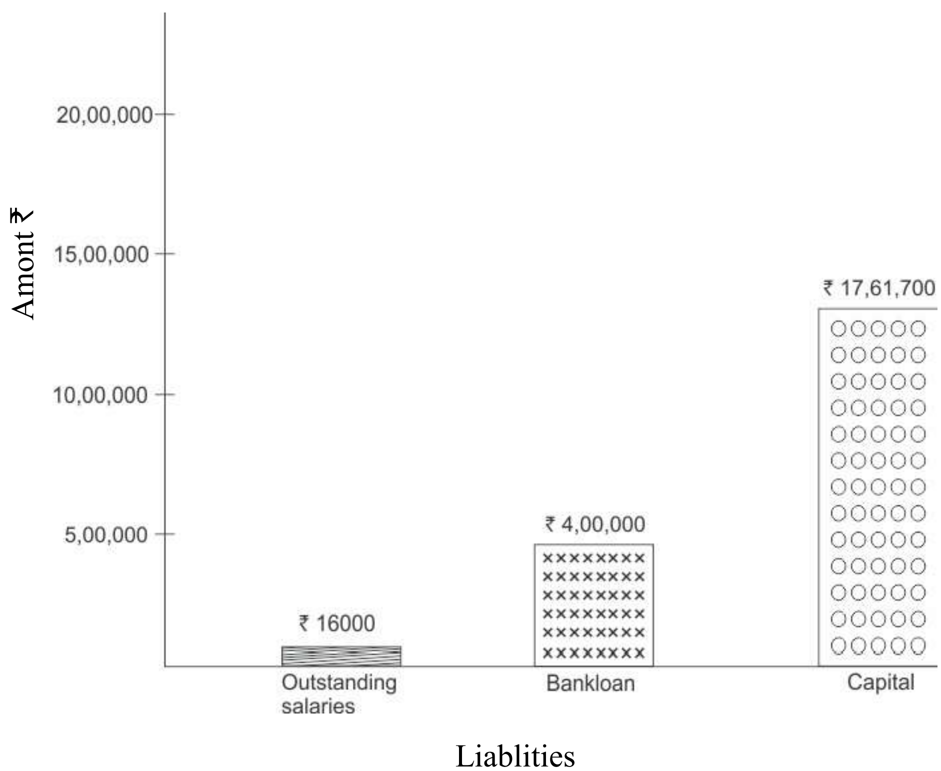


Pic chart of Indirect Expenses.

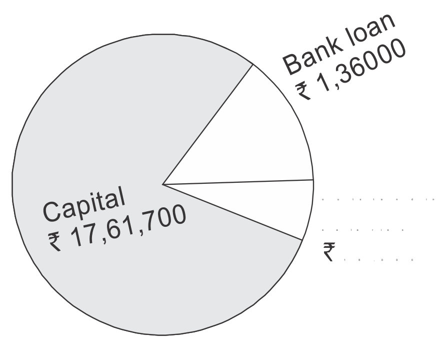


Bar Diagrams and pic charts for Assets and hiabilities.

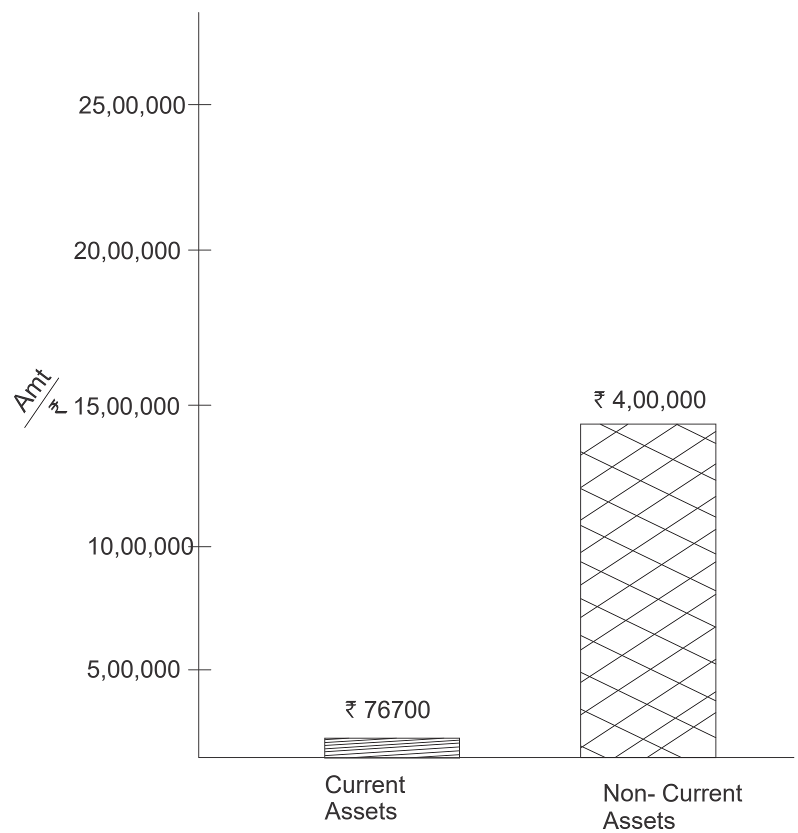
Bar Diagram of hiabilsties



Pic chart of hiabilities

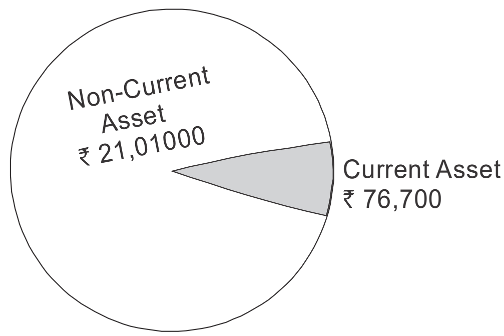


Bar siagram of Assets



– Assets

Pic Chart of Assets.



Conclusion:

(i) From all the above recording and analysing the results, we can say that vipul is very much able to handle his new business of selling computer Hardwares and Accessories. He is managing his business very well.

(ii) The Gross Profit and the Net Profit Ratios indicates that he is earning good return over his Investments.

(iii) If the business runs on the same track, he should pay his Bank loan first.

(iv) In order to run his business successfully in future, he should control his indirect Expenses.

Sample Paper

Class XI- Accountancy 2022-23

Time: 3 hours **Max. Marks: 80**

General Instructions:

1. *This question paper contains 34 questions. All questions are*
2. *Question 1 to 20 carries compulsory. 1 mark each.*
3. *Questions 21 to 26, carries 3 marks each.*
4. *Questions from 27 to 29 carries 4 marks each*
5. *Questions from 30 to 34 carries 6 marks each*
6. *There is no overall choice. However, an internal choice has been provided in 7 questions of one mark, 2 questions of three marks, 1 question of four marks and 2 questions of six marks.*

---

1. While preparing Financial Statement of a firm, Closing Stock given in Trial Balance will be recorded in **(1)**

   (a) Trading Account

   (b) Profit&Loss Account

   (c) Balance sheet

   (c) None of these

   OR

   Which of the following is an Indirect Expense:

   (a) Wages

   (b) Manufacturing Expenses

   (c) Salary

   (d) Carriage Inward 1

2. **Assertion (A):** Manufacturing Expenses is shown in Profit and Loss Alc.

   Reason (R): Manufacturing expenses in an Indirect Expense.

   (a) (A) is correct but (R) is wrong

   (b) Both (A) and (R) are correct, but (R) is not the correct explanation of (A)

(c) Both (A) and (R) are incorrect.

(d) Both (A) and (R) are correct, and (R) is the correct explanation of (A) **(1)**

3. Which of the following is correct **(1)**

   (a) Operating Profit = Net profit- Non-operating expenses Non-operating incomes

   (b) Operating profit = Net profit + Non-operating Expenses + Non-operating

   (c) Operating profit = Net profit + Non-operating Expenses - Non-operating

   (d) Operating profit = Net profit- Non-operating Expenses+ +Non-operating

OR

If Net Profit ₹50,000, Indirect Expenses ₹10,000, Other Income ₹8,000. The Gross Profit amount will be:

(a) ₹48,000

(b) ₹52,000

(c) ₹55,000

(d) ₹60,000

4. Cash book balance ₹3,000 (Dr.). When Statement). it was found that compared with Pass Book (Bank one of the debtors has deposited ₹2,000 directly into the bank and Bank Charges ₹100 has not been recorded in Cash Book. Balance of the Pass Book is **(1)**

   (a) ₹4,000 (Dr.)

   (b) ₹4,900 (Dr.)

   (c) ₹4,900 (Cr.)

   (d) ₹5,000 (Dr.)

5. Goods worth ₹10,000 used by Proprietor for his personal use should be Credited to **(1)**

5. Goods worth 10,000 used by Proprietor for his personal use should be Credited to **(1)**

(a) Sales Account

(b) Purchases Account

(c) Goods Accounts

(d) Drawings's Account

OR

Journal Entry for Sale of goods for Cash to Mohan

(a) Debit Mohan and Credit Sales Account

(b) Debit Cash Account and Credit Mohan

(c) Debit Cash Account and Credit Sales Account

(d) Debit Sales Account and Credit Cash Account

6. When a firm maintains a cash book, it need not maintain ________________ **(1)**

(a) Journal Proper

(b) Purchases book

(c) Sales book

(d) Bank and cash account in the ledger

7. Credit Purchases of Machinery will be recorded in **(1)**

(a) Purchase Book

(b) Sales Book

(c) Journal Proper

(d) Cash Book

8. Which one of the following is a**" Contra Entry"**? **(1)**

(a) Cash paid to a Debtor

(b) Cash withdrawn from bank for personal use

(c) Cash withdrawn from bank for office use

(d) Cheque sent to bank for collection

OR

Which of the following will be recorded in the Cash Book?

(a) Cash Sales

(b) Credit Purchase

(c) Trade Discount

(d) Bad Debts

9. The liability arising from the purchase of goods on credit is called **(1)**

(a) Creditors

(b) Bills Receivable

(c) Trade Receivable

(d) Payable expenses

10. A concept that a business enterprise will not be sold or liquidated in the near future is known as: **(1)**

(a) Going concern

(b) Economic entity

(c) Monetary unit

(d) None of the above

OR

___________ Principle says, Anticipate no profits and provide for all possible losses.

(a) Dual Aspect Principle

(b) Materiality Principle

(c) Consistency Principle

(d) Conservatism Principle

11. A Machinery purchased for ₹4,00,000 and depreciation Charged @ 10% on Reducing Balance Method. Value of the machinery after 3 years will be **(1)**

(a) ₹2,91,600

(b) ₹2,80,000

(c) ₹3,00,00

(d) None of the above

12. Match the following

Column A	Column B
(i) Decline in the Value of Coal Mine by ₹ 1,00,000	(a) Depreciation
(ii) Value of Building decline by ₹1,00,000	(b) Amortisation
(iii) Value of patents Written off by ₹10,000	(c) Depletion

(a) (i)-(a), (ii)-(b), (iii)-(c)

(b) (i)-(b), (ii)-(c), (iii)-(a)

(c) (i)-(c), (ii)-(a), (iii)-(b)

(d) (i)-(a), (ii)-(c), (iii)-(b)

13. Credit balance of bank account in cash book shows **(1)**

(a) Overdraft

(b) Cash deposited in our bank

(c) Cash withdrawn from banck

(d) Cash balance in the bank

14. Which one of the following is the "Book of Original Entry"? **(1)**

(a) Journal Proper

(b) Sales Book

(c) Purchase Book

(d) All of the Above

15. Which one is a liability for a business? **(1)**

(a) Input CGST

(b) Output IGST

(c) Input SGST

(d) Input IGST

OR

Goods and Services Tax applicable on Inter-state transaction is

(a) CGST

(b) SGST

(c) Both SGST and CGST

(d) IGST

16. Sale of goods to Mr. Amir is Amir wrongly debited to Umair Alc(debtor) instead of Alc(debtor), this is an example? **(1)**

(a) Error of principle

(b) Error of omission

(c) Error of commission

(d) Compensatory Error

17. _______" qualitative characteristic of accounting information is reflected when accounting information is clearly presented. **(1)**

(a) Relevance

(b) Comparability

(c) Understandability

(d) Reliability

18. "Window dressing is an ___________ of Accounting" **(1)**

(a) Limitation

(b) Advantage

(c) Either a or b

(d) None of the above

19. If rate of Gross Profit is 25% on sales and Cost of Goods Sold is ₹ 2,10,000, then amount of Sales is __________. **(1)**

(a) ₹2,20,000

(b) ₹1,20,000

(c) ₹2,00,000

(d) None of the above

OR

Capital Expenditure are recorded in

(a) Trading Account

(b) Balance Sheet

(c) Profit and Loss Account

(d) Cash Book

20. Net profit of Profit and Loss Accounts indicates **(1)**

(a) Debit Balance of Profit and L0ss Account

(b) Credit Balance of Profit and Loss Account

(c) Debit side of Trading Account

(d) None of the Above

21. How will you show the following in the Balance Sheet of a firm**(3)**

Extract of Trial Balance

Particulars	**Dr. (₹)**	**Cr. (₹)**
Debtors	1,00,000	
Bad Debts	10,000	
Provision for Doubtful Debts		5,000

Additional Information:- Further Bad Debts ₹ 6,000 and Provision for Doubtful debts Maintained at 8%.

22. Write any three differences in Cash Discount and Trade Discount. **(3)**

23. Give any three differences in Provisions and Reserves **(3)**

24. Prepare Accounting Equation on the basis of the following transactions. **(3)**

    (i) Started business with cash ₹10,000.

    (ii) Paid rent in advance ₹300.

    (iii) Purchased goods for cash ₹5,000 and credit ₹2,000.

    (iv) Sold goods for cash ₹8,000 costing ₹4,000.

    (v) Paid salary ₹450 and salary outstanding being ₹100.

    (vi) Bought motorcycle for personal use ₹3,000.

    OR

    Give an example for each of the following transactions

    (i) Increase in one asset and decrease in another assets

    (ii) Increase in assets and increase in liability.

    (iii) Decrease in assets and Decreases in Owner's Capital

25. Journalise the following transactions in the books of Manoj & Bros. **(3)**

    (a) Goods worth ₹20,000 were distributed as free samples and ₹10,000 goods given as charity.

    (b) Charge depreciation @ 10% p.a for two month on a machine costing ₹1,20,000.

    (c) Provide interest on capital of ₹1,50,000 at 6% p.a. for 9 months.

26. Explain any two limitations of Accounting. **(3)**

    OR

    State any three characteristics of GST.

27. Fil in the blanks **(4)**

(i) If a firm believes that some of its debtors may 'default', it should act on this by making sure that all possible losses are recorded in the books.This is an example of the ________ concept.

(ii) The fact that a business is separate and distinguishable from its owner is best exemplified by the ___________ concept.

(iii) Everything a firm owns, it also owns out to somebody. This co-incidence is explained by the ____________ concept.

(iv) The _________ concept states that if straightline method of depreciation is used in one year, then it should also be used in the next year.

OR

Mr. Sunrise started a busines for buying and selling stationery with ₹5,00,000 as an initial investment. Of which he paid₹ 1,00,000 for furniture, ₹2,00,000 for buying stationery items. He employed a sales person and clerk. At the end of the month he paid ₹5,000 as their salaries. Out of the stationery bought he sold some stationery tor ₹1,50,000 for cash and some other stationery for ₹1,00,000 on credit basis to Mr. Ravi. Subsequently, he bought stationery items of ₹1,50,000 from Mr. Peace. In the first week of next month there was a fir accident and he lost ₹30,000 worth of stationery. A part of the furniture Which cost ₹40.000, was sold lor ₹45,000.

From the above, answer the following:

(a) What is the armount of capital with which Mr. Sunrise started business.

(b) What are the fixed assets he bought?

(c) What is the value of the goods purchased?

(d) Who is the creditor and state the amout payable to him?

(e) What is the amount of expenses?

(f) What is the gain he earned?

(g) What is the loss he incurred?

(h) Who is the debtor? What is the amount receivable from him?

28 Trial balance of a firm did not agree. Subsequently the following errors were located: **(4)**

(i) Cash received from Mohit ₹4,000 was posted to Mahesh as ₹1,000.

(ii) Cheque for ₹5,800 received from Arnar in full settlement of his account of ₹6,000, was dishonoured. No entry was passed in the books on dishonour of the cheque.

(iii) ₹800 received from Khanna, whose account had previously been written off as bad, was credited to his account.

(iv) A credit sale to Manav for ₹5,000 was recorded through the purchase book as ₹2,000.

Pass Journal Entries to rectify the above errors and omissions.

29. From the following balances extracted from the books of M/s Ahuja and Nanda. Calculate the amount of: (a) Cost of goods available for sale (b) Gross Profit

Opening stock ₹25,000, Credit purchases ₹7,50,000, Cash purchases ₹3,00,000, Credit sales ₹12,00,000, Cash sales ₹4,00.000, Wages ₹1,00,000, Salaries ₹1,40,000, Closing stock ₹30,000, Sales return ₹50,000, Purchases return ₹10,000.

30. The following balances appear in the books of Vinod on 01-04-2020

Machinery Alc-	₹ 8,00,000
Provision for Depreciation a/c	₹3,18,000

On 01-04-2020 they decided to sell a machine for ₹34,500. This machine was purchased for ₹1,20,000 on 01-04-2016.

Show the machinery Alc, Provision for Depreciation A/c for the year ended March 31, 2021 assuming that depreciation was charged at 10% p.a. on the straight line method.

31. From the following particulars, prepare the bank reconciliation statement of Shri Krishan as on March 31, 2022. **(6)**

(a) Balance as per passbook is ₹10,000.

(b) Bank collected a cheque of ₹500 on behalf of Shri Krishan but wrongly credited it to Shri Kishan's account.

(c) Bank recorded a cash book deposit of ₹1,589 as ₹1,598.

(d) Withdrawal column of the passbook under cast by ₹100.

The credit balance of ₹1,500 as on the pass-book was recorded in the debit balance.

(f) The payment of a cheque of ₹350 was recorded twice in the passbook.

32. Prepare double column cash book from the following transactions for the year 6 August 2022 **(6)**

01 Cash in hand ₹17,500

Cash at bank ₹5,000

03 Purchased goods for cash ₹3,000

05 Received cheque from Naresh ₹10,000

08 Sold goods for cash ₹7,000

10 Naresh's cheque deposited into bank

12 Purchased goods and paid by cheque ₹20,000

15 Paid establishment expenses through bank ₹1,000

18 Cash sales ₹7,000

20 Deposited into bank ₹10,000

24 Paid trade expenses ₹500

27 Received commission by cheque ₹6,000

30 Withdrew cash for personal use ₹1,200

OR

Prepare Sales book and Purchases book of M/s Ranjan & Bros. from the following transactions

2022	
Aug 10	**Purchased from Anil & Co. Delhi**
	10 Chairs@ ₹2,000 each
	2 tables@ ₹6,000 each
	Trade Discount @ 10%
Aug 15	**Sold to Neeraj Furniture, Punjab**
	2 Almirah@ ₹5.000 each
	Less-Trade Discount15 %
Aug 16	**Sold to Jagat & co, for Cash**
	10 tables @ ₹10,000 each
Aug 18	**Purchased from Sohan Lal, Ghaziabad**
	20 Chairs @ ₹500 each
	10 Tables @ ₹1,000 Each
	Trade Discount @ 10%
Aug 20	**Purchased from Mohan Furniture, Delhi**
	10 Almirah@ ₹600 each
	Trade Discount @ 10%

33. State with reasons whether following are Capital or Revenue Expenditures:

    a. Custom duty paid on import of machinery.

    b. Wages paid in connection with the erection of a new machinery.

    c. ₹5,000 spent on repainting the factory.

    d. Repairs for ₹2,000 necessitated by negligence of an operator of the machine.

e. 10,000 paid for electricity bill

f. Goods worth ₹2,000 distributed as free samples.

34. prepare a trading account and profit and loss account for the year ending March 31, 2022, **(6)**

Debit Items	₹	Credit Items	₹
Sundry debtors	1,00,000	Bills payable	85,550
Bad debts	3,000	Sundry creditors	25,000
Trade expenses	2,500	Provision for bad	
		Debts	1,500
Printing and Stationary	5,000	Return outwards	4,500
Rent	3.450	Capital	2,50,000
Freight	2,250	Discount received	3,500
Sales return	6,000	Interest received	11,260
Motor car	25,000	Sales	1,00,000
Opening stock	75,500		
Furniture and Fixture	15,500		
Purchases	75,000		
Drawings	13,560		
Investments	65,500		
Cash in hand	36,000		
Cash in bank	53,000		
	4,81,310		4,81,310

Additional Information:

(a) Interest on drawing @ 6% p.a.

(b) Depreciation charged on motor car @ 10% p.a.

(c) Further bad debts ₹1,000.

(d) Make a provision for bad debts @ 5% on sundry debtors.

(e) Closing stock was valued ₹35,000.

(f) Rent outstanding ₹200.

OR

The following were the balances extracted from the books of Raja and Sons as on March 31, 2022.

Debit Balance	₹	**Credit Balance**	₹
Cash in hand	540	Sales	98,780
Cash at bank	2,630	Return Outwards	500
Purchases	40,675	Capital	62,000
Return inwards	680	Sundry Creditors	6,300
Wages	8,480	Rent	9,000
Fuel and Power	4,730		
Carriage on sales	3,200		
Carriage on purchases	2,040		
Opening stock	5,760		
Euilding	32,000		
Freehold land	10,000		
Machinery	20,000		
Salaries	15,000		
Patents	7,500		
General expenses	3,000		
Insurance	600		
Drawings	5,245		
Sundry Debtors	14,500		
	1,76,580		1,76,580

Taking into account the following adjustments, prepare Trading and Profit & loss account and Balance Sheet as on March 31, 2022. Stock in hand on March 31, 2022 was ₹6,800.

SOLUTION

1. (c) Balance sheet Or (c) salary
2. (c)
3. (c) Or (b) 52,000
4. (c) 4900 (Cr.)
5. (b) Purchases A/c Or (c)
6. (d)
7. (c) Journal Proper
8. (c) OR (a)
9. (a)
10. (a) OR (d)
11. (a)
12. (c)
13. (a)
14. (d)
15. (b) Or (d)
16. (c)
17. (c)
18. (a)
19. (d) Or (b)
20. (b)
21. **Extract of Balance Sheet**

Lab	₹	Assets	₹
		Debtors 94000 Less: Prov. for Doubtful debts 7520	86480

22. Any 3 differences

23. Any 3 differences

24. Any Accounting Equation

S.No.	Transactions	Capital + Liabilities = Assest
		Capital + Creditors + Outstanding Salary = Cash + Precid rent + Stock
1.	Started business with cash	10000 = 10,000
2.	Paid rent in Advance	(–) 300 + 300
	New Equation	10,000 = 9700 + 300
3.	Purchased goods for cash and on credit.	+ 2000 (–)5000 + 7000
	New Equation	10,000 + 2000 = 4700 + 300 + 7000
4.	Sold goods for cash	+4000 + 8000 (–) 4000
	New Equation	14000 + 2000 = 12700 + 300 + 3000
5.	Paid salary and outsandary Salary	–550 + 100 – 450
	New Equation	13450 + 2000 + 100 = 12250 + 300 + 300
6.	Bought motorcycle for Personal use	–3000 (–) 3000
		10450 + 2000 + 100 = 9250 + 300 + 300
		10450 + 2100 = 12550

(i) Purchase of machinery on cash

(ii) Purchase of goods on credit

(iii) Amount drawn for personal use

(or any other correct answers)

25. Journal

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
(a)	Advertisement A/c Dr.		20,000	
	Charity A/c Dr.		10,000	
	To Purchases A/c			30,000
	(Being goods given as free sample & chanty)			
(b)	Depreciation A/c Dr.		2,000	
	To Machineny A/c			2,000
	(Being Depreciation charged on machinery)			
(c)	Interest on capital A/c Dr.		6,750	
	To Capital A/c			6,750
	(Being int on capital provided)			

26. Any 2 Umnitations (or)

Any 3 Characteristics of GST

27. (i) Conservations

(ii) Separate Entity

(iii) Dual Aspect

(iv) Consistency

OR

(a) ₹ 5,00,000

(b) ₹ 1,00,000

(c) ₹ 3,50,000 (2,00,000 + 1,50,000)

(d) Mr. Peace ₹ 2,00,000

(e) ₹ 5,000 (salaries)

(f) ₹ 5,000

(g) ₹

(h) Mr. Ravi (₹ 1,00,000)

28. Rectifying Journal

(i)	Suspense A/c Dr. Mahes Dr. To Mohit (Being cash received prem Mohit credited to Mahes by ₹1000)	3,000 1,000	 4,000
(ii)	Arnar's A/c Dr. To Bank A/c To Discount Allowed A/c (Being cheque received but dishoured sand not recorded any where)	6,000	 5,800 200
(iii)	Khanna's A/c Dr. To Bad debts Recover A/c (Being cash received as bad debts recover A/c)	800	 800
(iv)	Mahav's A/c Dr. To Sales A/c To Purchase A/c (Being goods sold is considoul as goods purchared)	7,000	 5,000 2,000

29. (a) Cost of goods sold = opening stock + Net purchase + Direct expenses – Closing stock

= 25,000 + (75000 + 300000 – 10000) + 100000 – 30000

= ₹ 11,35,000

(b) Gross Profit = Net sales – Cost of goods sold.

= (12,00,000 + 400,000 – 50,000) – 11,35,000

= 15,50,000 – 11,35,000

= ₹ 4,15,000

30. **Dr.** **Machinery A/c** **Cr.**

Date	**Particulars**	**₹**	**Date**	**Particulars**	**₹**
2020 April 1	To Balance b/d	800,000	2020 April 1	By provision for Depreciation A/c	48000
			"	By Bank A/c–Sale	34500
			"	By Loss on sale of Machinery	37500
			2021 Mar. 31	By Balance c/d	680000
		800000			800000

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

Date	**Particulars**	**₹**	**Date**	**Particulars**	**₹**
2020 April 1	To Machinery A/c (12000 × 4)	48000	2020 April 1	By Balance b/d	3,18,000
2021 31 Mar	To Balance c/d	338000	2021 31 Mar	By Deprecication A/c (@ 10% of 680,000)	68000
		386000			3,86000

31. Bank Reconcilation Statement

	Particulars	+	–
(a)	Balance as per passbook (Cr.)	10,000	
(b)	Cheques Recieve but corongly Credited by bank in another's A/c	500	
			9
(c)	Bank recorded a cash book deposit more by ₹9		
(d)	withdrawal column of passbook under cast		100
(e)	credit balance as on pass-book was recorded in the debit balance	3000	
(f)	payment of a cheque of ₹350 recorded twice in the pass book	350	
	Balance as per cashbook (Dr)		13741
		13,850	13,850

32. **Dr.** **Double column cash book** **Cr.**

Date	Particulars	LF	Cash	Bank	Date	Particulars	LF	Cash	Bank
2022					2022				
Aug 1	To Balance b/d		17,500	5,000	Aug 3	By Purchase A/c		3000	
Aug 8	To Sales A/c		7,000		Aug12	By Purchase A/c			20,000
Aug10	To Cheque inhand			10,000	Aug15	By establishment Expense A/c			1000
Aug18	To sales A/c		7,000		Aug20	By Banck A/c	C	10,000	
Aug20	To Cahs A/c	C		10000				500	
Aug27	To Commission			6,000	Aug24	By Trade Expenses A/c		500	
					Aug30	By Drawings		1200	
					Aug31	ByBalance c/d		16800	10,000
			31500	31000				31500	31000
sep1	To Balance b/d		16,800	10000					

Or

In the books of M/s Ranjan an Bros.

Purchase Book

Date	**Particulars**	**LF**	**V. No.**	**Details**	**Amount**
2022	Anil & Co. Delhi				
Aug10	10 chairs @ ₹ 2,000 each			20,000	
	2 tables @ ₹ 6,000 each			12,000	
				32,000	
	less trade discount			3,200	
	@ 10%				
				28,800	28,800
Aug18	Sohan Lal, ghaziabad				
	20 chairs@ ₹ 500 each			10,000	
	10 tables @ ₹1000 each			10,000	
				20,000	
	Less Trades discount				
	+ @ 10%			2.000	
				18,000	18,000
Aug20	Mohan Furniture, Delhi				
	10 Almirah@ ₹ 600 each			6000	
	Less trade Discount @ 10%			600	
				5400	5400
	Purchase A/c Dr.				52,200

Sales Book

Date	particulars	LF	V. No	Details	Amount
2022	Neraj Furnitures, Punjab				
	2 Almirah @ ₹5000 each			10,000	
	Less trade Discount				
	@ 15%			1500	
				8,500	8500
	Sales A/c Cr.				8500

33. (a) Capital (b) Capital

(c) Revenue (d) Revenue

(e) Revenue (f) Revenue

34. Trading and Profit loss A/c

For the fear ended 31 march 2022

Dr. **Cr.**

Particulars	₹	**Particulars**	₹
To opening stock	75,550	By Sales 1,00,000	
To Purchases 75,000		Less: returns 6,000	94,000
Less; returns 4500	70,500		
To Freight	2250	By closing stock	35,000
		By Gross loss c/d	19300
	148300		148300
To Gross loss b/d	19300		
To Bad debts 3,000		By Discount discount	3,500
+ Further bed debts 1,000			
+ New Provision 4950		By Interest received	11,260
8950		By Interest on drawings	814
(–)old provision 1500	7450		
To Trade expenses	2,500	By net loss transterred	
To printing stationery	5,000	to capital	24826
To Rent 3450			
Add outsanding 200	3650		
To Depreciation on			
motor car	2,500		
	40400		40400

Balance sheet

As at 31 march 2022

Liabilities	**₹**	**Assets**	**₹**
Capital 2,50,000		Furniture fixture	15,500
Less Drawings (13560)		Motor car 25000	
Lessichitond (814)		Less: Dep (2500)	22,500
Less: Nut loss (24826)	2,10,800	Investments	65,500
		Debtors 1,00,000	
Creditors	25,000	(–) Further	
		B. debts (1,000)	
Bills payable	85,550	(–) New	
		provision (4950)	94050
Outstanding rent	200	Stock	35,000
		Cash in hand	36,000
		Cash at Bank	53,000
	3,21,550		3,21,550

Or

Trading and Profit + Loss A/c

Dr for the year ended 31 march 2022 Cr.

To opening stock	5760	By sales 98780	
To purchases 40675		Less returns 680	98100
less: returns 500	40175		
		By Closing stock	6800
To years	8480		
To Fuel a power	4730		
To Camage on			
purchases	2040		
To gross profit c/d	43715		
	104900		104900

To camiage on sales	3,200	By Gross profit	43715
To salaries	15,000	By Rent	9,000
To General Expenses	3,000		
To In surance	600		
To Net profit transferred	30915		
To Capital			
	52715		52715

Balance Sheet as at 31 March 2022

Liabilities		₹	**Assets**	₹
Capital	62,000		Freehold land	10,000
Less: Drawing	(5245)		Buildings	32,000
Add; Net profit	30915	87670	Machineny	20,000
Sundry creditors		6300	Patents	7,500
			Sundry Debtors	14500
			Stock	6800
			Cash in hand	540
			Cash at bank	2630
		93,970		93,970

Sample Paper

Class XI- Accountancy 2022-23

Time: 3 hours **Max. Marks: 80**

General Instructions:

1. *This question paper contains 34 questions. All questions are*
2. *Question 1 to 20 carries compulsory. 1 mark each.*
3. *Questions 21 to 26, carries 3 marks each.*
4. *Questions from 27 to 29 carries 4 marks each*
5. *Questions from 30 to 34 carries 6 marks each*
6. *There is no overall choice. However, an internal choice has been provided in 7 questions of one mark, 2 questions of three marks, 1 question of four marks and 2 questions of six marks.*

1. While preparing Financial Statement of a firm, Opening Stock given in Trial Balance will be recorded in **(1)**

   (a) Trading Account

   (b) Profit and Loss Account

   (c) Balance sheet

   (d) None of these

   OR

   Which of the following is an Direct Expense:

   (a) Rent paid

   (b) Wages

   (c) Salary

   (d) Carriage Outward

2. **Assertion (A):** Office Expenses is shown in Profit and Loss A/c.

   Reason (R): Office expenses in an Indirect Expense.

   (a) (A) is correct but (R) is wrong

   (b) Both (A) and (R) are correct, but (R) is not the correct explanation of (A)

(c) Both (A) and (R) are incorrect

(d) Both (A) and (R) are correct, and (R) is the correct explanation of (A). **(1)**

3. Whichof the following is correct: **(1)**

(a) Operating Profit = Gross profit - Non-operating expenses- Non-operating

(b) Operating profit Net profit + Non-operating Expenses + Non-operating incomes

(c) Operating profit = Net profit + Non-operating Expenses Non-operating incomes

(d) Operating profit= Net profit-Non-operating Expenses + Non-operating incomes

OR

If Gross Profit ₹ 1,00,000, Indirect Expenses ₹ 20,000, Other Income ₹ 25,000. The Net Profit amount will be:

(a) ₹1,10,000

(b) ₹45,000

(c) ₹1,05,000

(d) ₹80,000

4. Pass book balance shows ₹ 30,000(Dr.). When compared with Cash Book (Bank Column), it was found that one of the debtors has deposited ₹ 12,000 directly into the bank and Bank Charges ₹ 1000 has not been recorded in Cash Book. Balance of the Cash Book is

(a) ₹17,000 (Dr.)

(b) ₹42,000 (Dr.)

(c) ₹42,000 (Cr.)

(d) ₹43,000 (Dr.)

5. Goods worth ₹ 10,000 used by proprietor for his personal use should be debited to **(1)**

(a) Sales Account

(b) Purchases Account

(c) Goods Account

(d) Drawings Account

OR

Journal Entry for Sales of goods on credit to Neeraj

(a) Debit Neeraj and Credit Sales Account

(b) Debit Cash Account and Credit Neeraj

(c) Debit Cash Account and Credit Sales Account

(d) Debit Sales Account and Credit Cash Account

6. Which of the following book is both- Book of original entry and Principal Book? **(1)**

(a) Journal Proper

(b) Purchases book

(c) Sales book

(d) Cash Book

7. Credit Sales of Furniture to Sunil will be recorded in **(1)**

(a) Purchase Book

(b) Sales Book

(c) Journal Proper

(d) Cash Book

8. Which one of the following is not a**" Contra Entry"**?

(a) Cash deposited in the bank.

(b) Cash withdraw from bank for personal use

(c) Cash withdrawn from bank for office use

(d) None of the above

OR

Which of the following will be recorded in the Cash Book? **(1)**

(a) Bad Debts

(b) Credit Purchase

(c) Trade Discount

(d) None of the above

9. The asset arising from the sale of goods on credit is called **(1)**

(a) Debtors

(b) Bank

(c) Stock

(d) Creditor

10. According to which Assumption, accounting practices once selected and adopted should be applied consistently year after year:

(a) Going concern

(b) Consistency

(c) Accrual

(d) None of the above

OR

Principle says, all the significant and material information related to economic affairs of the entity should be completely disclosed in the financial statements and accompanying notes to account.

(a) Dual Aspect Principle

(b). Materiality Principle

(c) Consistency Principle

(d) Full Disclosure Principle

11. A Machinery purchased for ₹ 3,00,000 and depreciation Charged @ 10%p.a. on Straight line Method. Value of the machinery after

3 years will be

(a) ₹ 2,10,000

(b) ₹ 2,40,000

(c) ₹ 2,70,000

(d) None of the above

12. Match the following

Column A	Column B
(i) Decline in the Value of Coal Mine by 2,00,000	(a) Depreciation
(ii) Value of Furniture decline by ₹1,00,000	(b) Amortisation
(ii) Value of Goodwilll Written off by 10,000	(c) Depletion

(a) (i)-(a), (ii)-(b), (iii)- (c)

(b) (i)-(b), (ii)-(c), (iii)- (a)

(c) (i)-(a), (ii)-(c), (iii)- (b)

13. Debit balance of bank account in cash book shows: **(1)**

(a) Overdraft

(b) Cash deposited in our bank

(c) Cash withdrawn from bank

(d) Cash balance in the bank

14. Which one of the following is the **"Book of Original Entry"**? **(1)**

(a) Bank A/c

(b) Cash A/c

(c) Cash Book

(d) All of the Above

15. Which one is the expense for a business? **(1)**

(a) Input CGST

(b) Output IGST

(c) Input SGST

(d) None of the above

OR

Goods and Services Tax applicable on Intra-state transactionis

(a) CGST

(b) SGST

(c) Both SGST and CGST

(d) IGST

16. Sale of Furniture to Mr. Rohit is wrongly credited to Sales A/c, this is an example of which error? **(1)**

(a) Error of principle

(b) Error of omission

(c) Error of commission

(d) Compensating Error

17. "____________" qualitative characteristic of accounting information is reflected when accounting information is clearly free from error and biasness. **(1)**

(a) Relevance

(b) Comparability

(c) Understandability

(d) Reliability

18. "Manipulation in accounts to present a more favourable position of a business firm than its actual position" is known as

(a) Window Dressing

(b) Monetary expression

(c) Qualitative exploitation

(d) Appreciation

19. If rate of Gross Profit is 25% on sales and Cost of Goods Sold is ₹3,00,000, then amount of Sales is **(1)**

(a) ₹3,20,000

(b) ₹4,00,000

(c) ₹3,75,000

(d) None of the above

OR

Revenue Expenditure are recorded in

(a) Trading Account

(b) Profit and Loss Account

(c) Both of the above

(d) Balance Sheet

20. Net Loss of Profit and Loss Accounts indicates **(1)**

(a) Debit Balance of Profit and Loss Account

(b) Credit Balance of Profit and Loss Account

(c) Debit side of Trading Account

(d) None of the Above

21. How will you show the following in the Balance Sheet of a firm

Extract of Trial Balance

Particulars	**Dr.(₹)**	**Cr.(₹)**
Debtors	2,00,000	
Bad Debts	25,000	
Provision for Doubtful Debts		15,000

Additional Information: Further Bad Debts ₹ 10,000 and Provision for Doubtful debts maintained at 10%.

22. Write any three advantages of Petty Cash Book. **(3)**

23. Give any three differences in Provisions and Reserves **(3)**

24. Prepare Accounting Equation on the basis of the following transactions. 3

    (i) Started business with cash ₹30,000 and Furniture ₹ 25,000

    (ii) Paid wages ₹3000.

    (iii) Purchased goods for cash ₹ 15,000 and credit ₹20,000.

    (iv) Sold goods for cash ₹18,000 costing ₹10,000.

    (v) Paid salary ₹4000 and salary outstanding being ₹2,000.

    (vi) Bought furniture for personal use ₹5,000

    OR

    Give an example for each of the following transactions

    (i) Increase in one asset and decrease in another assets.

    (ii) Decrease in assets and Decrease in liability.

    (iii) Decrease in assets and Decreases in Owner's Capital.

25. Journalise the following transactions in the books of Suresh & Bros.

    (a) Charge depreciation 10% p.a for two month on a machine costing ₹3,20,000.

    (b) Provide interest on capital of ₹2,50,000 at 10% p.a. for 9 months.

    (c) Goods worth ₹30,000 were distributed as free samples and ₹15,000 goods given as charity.

26. Explain any two advantages of Accounting. **(3)**

    OR

    State any three characteristics of GST.

27. Fillin the blanks. **(4)**

    (i) Provision of doubtful debts is created for possible defaults by some of the debtors. This is an example of the _______ concept.

(ii) "Money invested in the business by the owner is recorded separately in the accounts in the form of Capital". This is best exemplified by the __________ Concept.

(iii) "Only those items or information should be disclosed that may have material effect and relevant to the users" is explained by the ___________ Concept.

(iv) The __________ concept states that an asset is recorded in the books of accounts at its original cost comprising cost of acquisition and related expenditures incurred for making the asset ready to use.

OR

Mr. Rajeev started a business for buying and selling stationery with initial investment. Of which he paid ₹10,00,000 as an ₹2,00,000 for furniture, ₹1,00,000 for buying stationery items. He employed a sales person and clerk. At the end of the month he paid ₹10,000 as their salaries. Out of the stationery bought he sold some stationery for ₹2,00,000 for cash and some other stationery for ₹50,000 on credit basis to Mr. Sudhir. Subsequently, he bought stationery items of ₹2,50,000 from Mr. Vijay. In the first week of next month, there was a fire accident and he lost ₹40,000 worth of stationery. A part of the furniture, which cost ₹50,000, was sold for ₹30,000. From the above, answer the following:

(a) What is the amount of capital with which Mr. Rajeev started business.

(b) What are the fixed assets he bought?

(c) What is the value of the goods purchased?

(d) Who is the creditor and state the amount payable to him?

(e) What is the amount of expenses?

(f) What is the gain he earned?

(g) What is the loss he incurred?

(h) Who is the debtor? What is the amount receivable from him?

28. Trial balance of a firm did not agree. Subsequently the following errors were located: **(4)**

    (i) A credit purchase from Ranjana for ₹10,000 was recorded through the sales book as ₹12,000.

    (ii) ₹800 received from Karuna, whose account had previously been written off as bad, was credited to his account.

    (iii) Cash received from rohit ₹5,000 was posted to Rakesh as ₹3,000

    (iv) Cheque for ₹10,000 received from Araav in full settlement of his account of ₹16,000 was dishonoured. No entry was passed in the books on dishonour of the cheque.

    Pass Journal Entries to rectify the above errors and omissions.

29. From the following balances extracted from the books of M/s Sharma and Nanda, calculate the amount of: **(4)**

    (a) Cost of goods available for sale

    (b) Gross Profit

    Opening stock ₹1,25,000, Credit purchases ₹8,50,000, Cash purchases ₹4,00,000, Credit sales ₹10,00,000, Cash sales ₹5,00,000, Wages ₹90,000, Salaries ₹1,00,000, Closing stock ₹50,000, Sales return ₹40,000, Purchases return ₹20,000.

30. The following balances appear in the books of Tarun on 01-01-2022 **(6)**

    Machinery A/c ... ₹10,00,000

    Provision for Depreciation a/c.... ₹3,00,000

    On 01-01-2022 they decided to sell a machine for ₹40,000. This machine was ₹10,00,000 purchased for 1,20,000 on 01-01-2018.

    Show the machinery A/c, Provision for Depreciation A/c for the year ended Dec 31, 2022 assuming that depreciation was charged at 10% p.a. on the Written Down value method.

31. From the following particulars, prepare the bank reconciliation on March 31, 2022. statement of Sanjay as **(6)**

(a) Balance as per Passbook is ₹40,000.

(b) The debit balance of ₹11,000 as on the pass-book was recorded in the credit balance

(c) Bank collected a cheque of ₹5,000 on behalf of Sanjay but wrongly credited it to Sanjeev account.

(d) Bank recorded a cash book deposit of ₹15,000 as ₹51,000.

(e) Withdrawal column of the passbook over cast by ₹1000.

(f) The payment of a cheque of ₹3,000 was recorded thrice in the passbook.

32. Prepare double column cash book from the following transactions for the year October 2022: **(6)**

01 Cash in hand ₹25,500

Cash at bank ₹50,000

03 Purchased goods for cash ₹13,000

05 Received cheque from rakesh ₹20,000

08 Sold goods for cash ₹10,000

10 Rakesh's cheque deposited into bank

12 Purchased goods and paid by cheque ₹25,000

15 Paid establishment expenses through bank ₹5,000

18 Cash sales ₹10,000

20 Deposited into bank ₹20,000

24 Paid travelling expenses ₹5000

27 Received commission by cheque ₹6,000

30 Withdrew cash for personal use ₹10,000

OR

Prepare Sales book and Purchases book of M/s Rajan & Bros. from the following transactions-

2022	
Aug 10	**Purchased from Anumap & Co. Delhi**
	25 Chairs @ ₹ 3,000 each
	10ta bles@ ₹ 4,000 each
	Trade Discount10%
Aug 15	**Sold to Virat Furniture, Punjab**
	10 Almirah @ ₹6,000 each
	Less-Trade Discount@10%
Aug 16	**Sold to Jeean & co, for Cash**
	20 tables@ ₹20,000 each
Aug 18	**Purchased from Manish, Ghaziabad**
	30 Chairs @ ₹1,500 each
	30 Tables @ ₹3,000 Each
	Trade Discount 5%
Aug 20	**Purchased from Nihar Furniture, Delhi**
	20 Almirah@ ₹6,000 each
	Trade Discount10%
Aug 21	**Sold to Viney Verma, Delhi**
	5 Dining tables@₹10,000 each
	Less-Trade Discount @10 %
Aug 23	**Purchased from Sohan Lal, Delhi**
	10 Cutting Machine@ ₹ 20,000
	Trade Discount10 %

Aug 25	**Sold to Kumar & Co, Noida**
	10 Chairs @ ₹3,00 each
	10 Tables @ ₹1,000 each
	Less: Trade Discount @ 10 %

33. State with reasons whether following are Capital or Revenue Expenditures: **(6)**
    a. Repairs for ₹12,000 necessitated by negligence of an operator of the machine.
    b. ₹20,000 paid for power bill
    c. Goods worth ₹20,000 distributed as free samples. Custom duty paid on import of machinery.
    d. Wages paid in connection with the erection of a new machinery.
    e. ₹15,000 spent on repainting the Building

34. Prepare a trading account and profit and loss account for the year ending March 31, 2022 **(6)**

Debit Items	₹	**Credit Items**	₹
Sundry debtors	80,000	Bills payable	85,550
Bad debts	3,000	Sundry creditors	25,000
Trade expenses	22,500	Provision for bad	
		Debts	1,000
Printing and Stationary	5,000	Return outwards	5,000
Rent	23,450	Capital	1,50,000
Freight	2,250	Discount received	3,500
Sales return	6,000	Interest received	11,260
Motor car	25,000	Sales	3,00,000
Opening stock	55,500		
Furniture and Fixture	15,500		

Purchases	75,000		
Drawings	13,560		
Investments	65,500		
Cash in hand	1,36,000		
Cash in bank	53,000		
	5,81,310		5,81,310

Additional Information:

(a) Interest on drawing @ 6% p.a.

(b) Depreciation charged on motor car @ 10% p.a.

(c) Further bad debts ₹2,000.

(d) Make a provision for bad debts @ 5% on sundry debtors.

(e) Closing stock was valued ₹40,000.

(f) Rent outstanding ₹2000.

OR

The following were the balances extracted from the books of Raja and Sons as on March 31, 2022.

Debit Balance	₹	**Credit Balance**	₹
Cash in hand	50,540	Sales	1,43,780
Cash at bank	52,630	Return Outwards	5,500
Purchases	40,675	Capital	62,000
Return inwards	680	Sundry Creditors	56,300
Wages	8,480	Rent	9,000
Fuel and Power	4,730		
Carriage on sales	3,200		
Carriage on purchases	2,040		
Opening stock	5,760		

Building	32,000		
Freehold land	10,000		
Machinery	20,000		
Salaries	5,000		
Patents	7,500		
General expenses	13,000		
Insurance	600		
Drawings	5,245		
Sundry Debtors	14,500		
	2,76,580		2,76,580

Taking into account the following adjustments, prepare Trading and Profit & loss account and Balance Sheet as on March 31, 2022. Stock in hand on March 31, 2022 was ₹20,800.

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