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IN ACCOUNTANCY
CLASS - XI**

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UNIT-1

INTRODUCTION TO ACCOUNTING

Learning Objectives

After studying the chapter, you will be able to :

- Explain the accounting cycle
- Explain the users of accounting information and their needs
- Understand the basic terms used in Accounting.

Suggested teaching methods : Discussion method

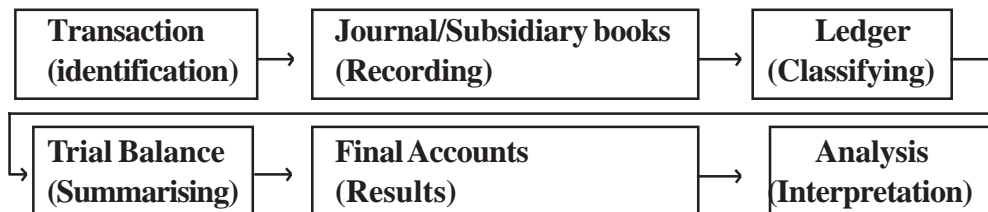
Meaning of Accounting

Accounting is an information system that provides accounting information to the users for correct decision-making.

“Accounting is the art of recording, classifying , and summarising in a significant manner and in terms of money, transactions and events which are, in part at least, of financial character, and interpreting the results thereof..”

The American Institute of Certified Public Accountants

ACCOUNTING CYCLE



Objectives of Accounting

1. To provide useful information to Various interested parties.
2. To Maintain systematic and complete Records of Business Transactions
3. To Calculate Profit and Loss
4. To ascertain the financial position of the business.

Interested Users of Information

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 on their investment, financial health of their company/business
	2. Management	to evaluate the performance, to take various decisions

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. Employees	Profitability to claim higher wages and bonus, whether their dues (PF, ESI etc.) deposited regularly.
	6. 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 possess the following characteristics :

1. Reliability

Means the information must be based on facts and be verified through source documents by anyone. It must be free from bias.

2. Relevance

To be relevant, information must be available in time and must influence the decisions of users by helping them form prediction about the outcomes.

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.

Limitations of Accounting

The accounting information suffers from the following limitations :

1. Based on historical data
2. Biasness
3. Qualitative information not shown
4. Ignores price level changes

BASIC ACCOUNTING TERMS

Transaction

An economic activity that affects financial position of the business and can be measured in terms of money e.g. sale of goods, paying for expenses etc.

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 on credit we get an invoice, when we make a payment we get a receipt and so on.

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.

Assets

Assets are economic resources of an enterprise useful in its operations. Assets can be broadly classified into two types :

1. Fixed Assets are assets used for normal operations and held on a long-term basis, such as land, buildings, machinery, plant, furniture and fixtures etc.

2. Current Assets are assets held for a short-term and converted into cash within one year such as debtors, stock etc.

Liabilities

Liabilities are obligations or debts that an enterprise has to pay at some time in the future. Liabilities can be classified as :

1. Long-term liabilities are those that are usually payable after a period of one Year e.g. a long term loan from a financial institution.

2. Short-term liabilities are obligations that are payable within a period of one year, for example, creditors, bills payable, bank overdraft etc.

Sales

Sales are total revenues from goods sold or services provided to customers.

Sales may be cash sales or credit sales.

Revenues

Revenue means the income from any source. It should be of regular nature.

For example sales of goods/providing services to customer, commission, interest, dividends etc.

Expenses

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

Expenditure

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

1. Revenue expenditure : If the benefit of expenditure is received within a year it is called revenue expenditure e.g. rent, interest etc.

2. Capital expenditure : If any expenditure lasts for more than a year, it is treated capital expenditure such as purchase of machinery, furniture etc.

Profit

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

Profit = Revenue- Expenses.

Gain

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

Loss

The excess of expenses of a period over its related revenues its termed as loss. e.g., cash or goods lost by theft of fire etc.

$$\text{Loss} = \text{Expenses} - \text{Revenue}$$

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 account 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 account books.

Goods

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

Drawings

If the owner withdraw money and/ or goods from the business for personal use it is known as drawings.

Purchases

The term 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 this is purchase of raw materials. Purchases may be cash purchases or credit purchases.

Closing Stock

It is the value of the goods lying unsold at the end of accounting year. Closing stock of one year becomes the opening stock of next year.

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.

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.



UNIT-2

THEORY BASE OF ACCOUNTING

Learning objectives

After studying this chapter, students will be able to :

- Describe the meaning of Accounting assumptions and Accounting principles
- Explain the Accounting Standard and IFRS
- Describe the systems of Accounting
- Distinguish between Cash Basis of Accounting and Accrual Basis of Accounting

Accounting principles, concepts and conventions 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.

Fundamental Accounting Assumptions :

1. Going Concern Assumption : This concept assumes that an enterprise has an **indefinite life or existence**. It means that the intentions of the business are to continue for sufficiently longer period of time. It will not be dissolved or liquidated in the immediate future. If a machinery purchased is expected to last (to be used for) next 10 year, then the cost of machinery will be spread over the next 10 year for calculating net profit or loss of each year (Dep. Charged.)

The full cost of the machine would not be treated as expense in the year of purchase itself.

Market value of the asset is irrelevant and is **not recorded in the balance sheet**, as these assets are not going to be sold in the near future.

Relevance :

- (a) Distinction is made between a capital expenditure and revenue expenditure.
- (b) Classification of assets and liabilities into short term and long term respectively.
- (c) Depreciation charged on fixed assets or fixed assets appears in the balance Sheet at book value, without having reference to their market value.

2. Consistency Assumption :

- (a) It implies that **accounting practices once selected and adopted, should be applied consistently year after year**.

- (b) Same Accounting practices will be followed for similar items year after year. This will ensure a meaningful study of the performance of the business for a number of years.
- (c) When the accounting principles and practices are uniformly/consistently followed from year to year that the result obtained will be comparable.

Consistency assumption does not mean that particular practices 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 financial position (Balance Sheet) of the year in which that change is made

- **This assumption is important when alternative accounting practices are equally acceptable.** E.g. two methods of charging depreciation, written down value method and Straight line method are equally acceptable. If a firm adopts one method in the previous year and the other method in next year, the result will not be comparable.

3. Accrual Assumption : Accrual concept applies **equally to revenue and expenses.**

As per this assumption, **revenue is recognized when it is accrued/ earned**, that is, when sale is complete or services are rendered. It is immaterial, whether the cash is received or not. E.g. if a credit sale for ₹ 15,000 of two month is made on 15th Feb. 2011, then the revenue earned is to be recorded on 15th Feb. 2011 not on the date of cash realized, i.e, after two months.

Similarly, **expenses are recognized in the accounting period in which they facilitate in earning the revenues**, whether the cash is paid for them or not. E.g. if at the end of year the two month 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 consumption of a resource (expenses) can be accurately matched to a particular accounting period

Accounting Principles

1. Accounting Entity. / 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 business transactions 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 (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.
- **This concept is applicable to all forms of business organizations - sole proprietorship, partnership or a company.**

2. Money Measurement Principle : According to this principle, only those transactions that are measured in money or can be translated in term of money are recorded in the books of accounts of the enterprises.

- Money means the currency of a country.
- Money is a common measuring unit for recording and reporting business transactions.

Example : purchases cost ₹ 15,000 will be recorded in the books of accounts but the good human relationship within organization will not be recorded.

Limitations :

1. it ignores qualitative aspects e.g. efficient human resources (Assets), satisfied customers (Assets) and dishonest employee (liabilities)
2. Self-generated goodwill not recorded.
3. Value of money (currency) is not stable.

- The facts which cannot be expressed in money cannot be recorded.
- To make accounting records simple, relevant, understandable and homogeneous, facts are expressed in a common unit of measurement - money.

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

Accounting period is defined as **interval of time**, at the end of which the profit and loss account and balance sheet are prepared. So the **performance is measured at regular intervals** and decision can be taken at the appropriate time. This interval may be quarterly, half-yearly and one year.

Accounting period is usually a period of one year and that year may be financial year or calendar year.

Relevance :

1. As per SEBI and Companies Act Annual reports are to be prepared and submitted to registrar annually.
2. As per income tax law, tax on income is calculated on annual basis from 1st April to 31st March (Financial Year)
3. **Accounting period concept is responsible for the preparation of income statement on accrual basis as distinguished from cash basis of accounting.**

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 statement and accompanying footnotes.**

- Disclosure of material information will result in better understanding of users, so, they take good and sound decision from the information. E.g. footnotes such as :
 1. Contingent liabilities in respect to a claim of a 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.

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

5. Materiality Principle : According to this principle, only those items or information should be disclosed that have material effect and relevant to the users. So, item having an insignificant effect or being irrelevant to user need not be disclosed separately, these may be merged with other item.

If the knowledge of any information may effect the decision of a user of account, 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 material for an enterprise having turnover of ₹ 1,50,000 but it is not material for an enterprise having turnover of ₹ 100 crore.

The nature of transaction should be taken into consideration for materiality of information. E.g. a difference of ₹ 200 in the valuation of stock may be immaterial but the difference of ₹ 50 in cash could be termed as material.

6. Prudence/ conservatism Principle : According to this principle, **profit in anticipation should not be recorded but loss in anticipation should immediately be recorded.** The objective of this principle is profit of the enterprise in no case overstated.

When there are 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 debtor is made.
3. Ignore provision for discount on creditors.

7. Cost or Historical Cost Principle : According to this Principle, **an assets 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 ₹ 5,000 was spent for installation of machine and ₹ 15,000 spent on carriage of machine. Then the cost of machine ₹ 1,70,000 will be in the books and depreciation will be charged on this cost. If market value of machine due to inflation has gone up to ₹ 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-dep.). This principle brings **objectivity into the accounts.**

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 / loss incurred in a particular period by deducting the related expenses from the revenue recognized 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 transaction based on this principle 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.

Total Assets = External Liabilities + Capital

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

Total assets ₹ 1,00,000 = External liabilities + Capital ₹ 1,00,000

₹ 1,00,000 = ₹ 1,00,0000

Double Entry System

Concept : According to this system every business transaction affects at least two accounts in opposite directions. e.g. **if machinery is purchased for cash, machinery is increased whereas the cash is decreased.** The amount of every transaction is written twice, once as a debit and again as a credit. The person or the account receiving a benefit is debited and the person or the account who gives something to the business is credited.

Bases of Accounting

There are two bases of ascertaining profit or loss, namely (1) Cash Basis, and (2) Accrual Basis.

1. **Cash Basis of Accounting :** Under this system of accounting transactions is recorded in the books of accounts on the receipt/ payment of cash. Entry is not recorded when a payment or receipt merely due i.e. outstanding expenses, Accrued income are not treated.

This method is contrary to the matching principle.

2. **Accrual Basis of Accounting :** Under this system of accounting, revenue and expenses are recorded when they are recognized i.e.

Income is recorded as income when it is accrued (when transaction take place) irrespective of 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 these system outstanding expenses, prepaid expenses, accrued income and income received in advance are indentified.

Under the companies Act 1956, all companies are required to maintain their accounts according to accrual basis of accounting.

Difference between Accrual Basis of Accounting and Cash Basis of Accounting.

Basis	Accrual Basis of Accounting	Cash Basis of Accounting
1. Recording of transactions	Both cash and credit transactions are recorded	Only cash transactions are recorded
2. Profit or Loss	Corrected profit or loss is ascertained due the complete of record of transaction	Correct profit of loss is not ascertained because it records only cash transactions.
3. distinction between capital and revenue item	This method makes a distinction between capital and revenue nature item	This method does not make a distinction between capital and revenue nature item
4. Legal position	This basis is recognized under the companies Act 1956	This basis is not recognized under the companies Act 1956

Accounting Standard : Concept and Objectives

The accounting principles or GAAP in the form of concepts and conventions have been developed to bring comparability and uniformity in the financial statements. But GAAP also allow 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 period. As a result, the financial statements become inconsistency and incomparable.

As result 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 1977** to identify the areas in which uniformity in accounting required.
- ASB prepare and submit a draft accounting standard to the Council ICAI.
- The Council ICAI issue the draft for the comments of the Govt., industry and professionals etc.
- After due consideration fo comments received, the **Council ICAI** notify it for its use in financial statements.

Concept of Accounting Standard

Accounting standards are written statements, issued from time to time by institutions of accounting professional, specifying uniform rules or practices for drawing the financial statements.

Objectives of Accounting Standard

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 reliabilty of the financial statement-accounts prepared by using accounting standard are reliable for various users, because these standard create a sense of confidence among the users.
3. To prevent frauds and mainpulation- by codifying the accounting methods and practice.
4. To help auditors- accounting standard provide uniformity in accounting practice, so it help auditors to audit the books of accounts.

IFRS- International Financial Reporting Standard

Concept- this term refers to the financial standard issued by International Accounting Standard Board (IASB).

Numbers of IFRS issued so far is 8.

GAAP is being replaced by the use of IFRS.

Applicability of IFRS in India

Govt. of India opted for a stage implementation :

stages	Date of implementation	To be adopted by
1 st stage	1 st April 2011	companies that are listed in Nifty/SENSEX/Over seas/or net worth of over ₹ 1,000 crores.
2 nd stage	1 st April 2012	Insurance companies
3 rd stage	1 st April 2013	Listed companies with net worth of over ₹ 500 crore. Banks and large Non-Banking Finance Companies (NBFC)
4 th stage	1 st April 2014	Listed companies over ₹ 500 crore, NBFC with net worth of over ₹ 500 crore. Urban co-operative Bank with net worth of over ₹ 200 crore.

Note : The following organizations won't be required to adopt IFRS :

1. Unlisted companies with a net worth under 500 crore and ;
2. Urban co-operative Bank with a net worth of under 200 crore.
3. Rural co-operative Bank.



UNIT - 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 Methods : Discussion method, Illustration method, Problem solving method etc.

Source Document

A document which provides evidence of the transactions is called the Source Document such as Cash memo, Invoice etc. At times, there may be no documentary proof for certain items in such case voucher may be prepared showing the necessary details and it must be approved by appropriate authority. All recording in books of account is done on the basis of Voucher.

Classification of Accounting Vouchers

Vouchers	Further classification	Purpose
Cash Vouchers	Debit Vouchers	To show Cash Payments
Non Cash Vouchers	Credit Vouchers Transfer Vouchers	To show Cash Receipts To show Transactions not involving cash

Debit Voucher

This voucher is prepared for all the cash payments made by the business e.g. Payment of Salary, Purchses of Goods and services, Payment made to any Creditor etc.

Format of Debit Voucher

M/s Pratibha Furnitures 180, Nai Sarak, Delhi	
Voucher No.	Date
DEBIT	Amount
.....	(Ins Rs.)
.....	
Total	
Signature Manager	Signature Accountant

Credit Voucher

This voucher is prepared by the business in case of cash receipt from any source such as Sale of goods for Cash, Payment received from any of Debtors, Income received etc.

Format of Debit Voucher

M/s Pratibha Furnitures 180, Nai Sarak, Delhi	
Voucher No.	Date
CREDIT	Amount (In Rs.)
.....	
..... Total	
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.

Format of Transfer Voucher

M/s Pratibha Furnitures 180, Nai Sarak, Delhi	
Voucher No.	Date
DEBIT	AMOUNT
.....	
..... Total	
CREDIT	AMOUNT
.....	
..... Total	
Signature Manager	Signature Accountant

ACCOUNTING EQUATION

An accounting equation is based on the dual concept of accounting. According to this concept every transaction has two aspects - Debit and Credit.

$$\boxed{\text{Assets} = \text{Capital} + \text{Liabilities}}$$

A transaction may affect either both sides of the equation by the same amount or one side of the equation only, by both increasing or decreasing it by equal amount. It can be said "Accounting equation holds good under all circumstances."

Analysis of Business Transactions :

1. Transactions affecting both sides of the equation

A. Commenced business with Cash Rs. 2,00,000.

This transactions will affect the assets as the firm is receiving asset in the form of Cash and the owner of the business has invested amount, this will affect the Capital of the business.

	<i>ASSETS</i>	=	<i>CAPITAL + LIABILITIES</i>
	Cash		
Transaction	2,00,000	=	2,00,000 + 0

B. Bought goods from Ram Rs. 25,000.

This transaction will affect both assets as well as liabilities of the business. The goods and Creditors are increasing.

	<i>ASSETS</i>		=	<i>CAPITAL + LIABILITIES</i>	
	Cash	Goods		Creditors	
Old Equation	2,00,000		=	2,00,000	+ 0
Transactions	0	+ 25,000		0	+ 25,000
New Eq.	2,00,000	+ 25,000	=	2,00,000	+ 25,000

2. Transactions affecting only assets side of the equation :

A. Bought goods for Cash Rs. 35,000

This transaction will affect the Cash and Goods by Rs. 35,000. the firm is paying the money resulting in decrease of Cash. Goods are increasing.

	<i>ASSETS</i>		=	<i>CAPITAL + LIABILITIES</i>	
	Cash	Goods		Creditors	
Old Equation	2,00,000	+ 25,000	=	2,00,000	+ 25,000
Transaction	-35,000	+ 35,000		0	+ 0
New Eq.	1,65,000	+ 60,000	=	2,00,000	+ 25,000

B. Bought Furniture for cash Rs. 50,000

This transactions has brought about two changes in the assets side only. One asset i.e. Cash is decreasing and other asset i.e. Furniture is increasing.

	<i>ASSETS</i>			=	<i>CAPITAL + LIABILITIES</i>	
	Cash	Goods	Furniture	=	Creditors	
Old Equation	1,65,000	+ 60,000		=	2,00,000	+25,000
Transaction	-50,000	+ 0	+ 50,000	=	0	+ 0
New Eq.	1,15,000	+ 60,000	+ 50,000	=	2,00,000	+ 25,000

3. Transactions affecting only liabilities side of the equation

A. Accepted a bill drawn by Ram for Rs. 25,000 for 3 months.

This transaction will affect Creditors and Bills Payable. As one liability i.e. Creditor is decreasing and other liability i.e. Bills payable is increasing.

	<i>ASSETS</i>			=	<i>CAPITAL + LIABILITIES</i>	
	Cash	Goods	Furniture	=	Creditors + B/P	
Old Equation	1,15,000	+ 60,000	+ 50,000	=	2,00,000	+ 25,000
Transaction	0	+ 0	+ 0	=	-25,000	+ 25,000
New Eq.	1,15,000	+ 60,000	+ 50,000	=	2,00,000	+ 0 + 25,000

4. Transaction affecting the Capital only

A. Interest on Capital provided Rs. 2000

	<i>ASSETS</i>			=	<i>CAPITAL + LIABILITIES</i>	
	Cash	Goods	Furniture	=	Creditors + B/P	
Old Equation	1,15,000	+ 60,000	+ 50,000	=	2,00,000	+ 0 + 25,000
Transaction	0	+ 0	+ 0	=	-2000	+ 2000
New Eq.	1,15,000	+ 60,000	+ 50,000	=	2,00,000	+ 0 + 25,000

B. Interest on Drawings charged Rs. 1000

	<i>ASSETS</i>			=	<i>CAPITAL + LIABILITIES</i>	
	Cash	Goods	Furniture	=	Creditors + B/P	
Old Equation	1,15,000	+ 60,000	+ 50,000	=	2,00,000	+ 0 + 25000
Transaction	0	+ 0	+ 0	=	-1000	+ 1000
New Eq.	1,15,000	+ 60,000	+ 50,000	=	2,00,000	+ 0 + 25,000

In the above transactions, Capital is increasing and decreasing at the same time. It is owner's duty to pay all the expenses and it is the owner who takes all the profits arising out of business.

5. Transactions related to Expenses

A. Salary Paid Rs. 5000

	ASSETS			=	CAPITAL + LIABILITIES		
	Cash	Goods	Furniture		Creditors + B/P		
Old Equation	1,15,000	+ 60,000	+ 50,000	=	2,00,000	+ 0	+ 25,000
Transaction	- 5000			=	- 5000		
New Eq.	1,10,000	+ 60,000	+ 50,000	=	1,95,000	+ 0	+ 25,000

This transaction affects cash and capital because Cash is decreasing and Capital (Owner) is responsible to pay all the expenses.

6. Transactions related to Income

A. Commission Received Rs. 2000

	ASSETS			=	CAPITAL + LIABILITIES		
	Cash	Goods	Furniture		Creditors + B/P		
Old Equation	110000	+ 60000	+ 50,000	=	200,000	+ 0	+ 25000
Transactions	+ 2000			=	+ 2000		
New Eq.	112000	+ 60000	+ 50,000	=	197,000	+ 0	+ 25000

This transaction affects cash and capital because Cash is increasing and Capital (Owner) is rightful for every income.

RULES OF DEBIT AND CREDIT

TRADITIONAL APPROACH

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

A. Personal accounts : It includes all those accounts which are related to any person i.e. individuals, firms, companies, Banks etc. This can further be classified into three categories :

1. **Natural persons :** All accounts of human beings/persons are included such as Ram's a/c, Shyam's a/c etc.

2. **Artificial persons :** This includes all accounts related to organizations which are treated as persons in the eyes of law and having all the legal rights as a natural person have such as buying/selling assets in its name, suing and be sued etc. Some of the examples are Reliance industries Ltd. Punjab National Bank etc.

3. **Representative persons :** In this category, accounts which represents some person are included e.g. Capital a/c (representing Owner),

Outstanding salary (representing the employee to whom salary is due) etc.

B. Impersonal accounts : all ledger accounts which are not related to persons are included in this category. This can be classified as :

1. **Real accounts :** under this category, mainly assets (excluding debtors) are included. These assets can be **tangible** (which can be touched, seen and measured such as furniture, cash, stock etc.) and **intangible** (which can't be seen, touched or measured but still have monetary value such as patents, trademark etc.)

2. **Nominal accounts :** all this, all accounts which are related to income/gain and expenses/losses are included e.g. Salary paid, Commission received etc.

RULES OF DEBIT/CREDIT UNDER TRADITIONAL APPROACH

CLASSIFICATION OF ACCOUNTS		RULES OF DR/CR	
PERSONAL	1. NATURAL PERSONS	DR	THE RECEIVER
	2. ARTIFICIAL PERSONS		
	3. REPRESENTATIVE PERSONS	CR	THE GIVER
IMPERSONAL			
REAL	1. TANGIBLE	DR	WHAT COMES IN
	2. INTANGIBLE	CR	WHAT GOES OUT
NOMINAL	1. EXPENSES/LOSSES	DR	EXP/LOSSES
	3. INCOME/GAINS	CR	INCOME/GAINS

Illustrations 1: Analyse the following transactions by using the “**TRADITIONAL APPROACH**”

2011		Amount (in Rs.)
Jan 1	Prateek started business with cash	1,00,000
Jan 5	Bought goods for Cash	20,000
Jan 7	Bought goods from Pravesh	10,000
Jan 10	Sold goods for cash	5,000
Jan 12	Sold goods to Vikas	12,000
Jan 15	Paid Salary	5,000
Jan 20	Received Commission	2,000

Solution : **Analysis of Transactions**

S. no.	Transaction	Accounts Affected	Nature of Accounts	Changes	Debit (Rs.)	Credit (Rs.)
1.	Commenced business	Cash Capital	Real Personal	Comes in Giver	1,00,000	1,00,000
2.	Purchased goods	Purchases Cash	Nominal Real	Expenses Goes out	20,000	20,000
3.	Bought goods on credit	Purchases Pravesh	Nominal Personal	Expenses Giver	10,000	10,000

4.	Sold goods for cash	Cash Sales	Real Nominal	Comes in Income	5,000	5,000
5.	Sold goods on Credit	Vikas Sales	Personal Nominal	Receiver Income	12,000	12,000
6.	Paid Salary	Salary Cash	Nominal Real	Expenses Goes Out	5,000	5,000
7.	Received Commission	Cash Commis- sion	Real Nominal	Comes in Income	2,000	2,000

RULES OF DEBIT/CREDIT UNDER MODERN APPROACH

Assets/Expenss		Capital/Liabilities/Revenue	
Increase Debit	Decrease Credit	Increase Credit	Decrease Debit

Illustration 2: Analyse the transactions given in Illustration 1 by using the

“MODERN APPROACH”

Solution :

S. no.	Transaction	Accounts Affected	Nature of Accounts	Changes	Debit (Rs.)	Credit (Rs.)
1.	Commenced Business	Cash Capital	Asset Capital	Increase Increase	1,00,000	1,00,000
2.	Purchased goods	Purchases Cash	Expenses Asset	Increase Decrease	20,000	20,000
3.	Bought goods on credit	Purchases Pravesh	Expenses Liabilities	Increase Increase	10,000	10,000
4.	Sold goods for cash	Cash Sales	Assets Income	Increase Increase	5,000	5,000
5.	Sold goods on Credit	Vikas Sales	Assets Income	Increase Increase	12,000	12,000
6.	Paid Salary	Salary Cash	Expenses Assets	Increase Decrease	5,000	5,000
7.	Received Commission	Cash Commis- sion	Assets Income	Increase Increase	2,000	2,000

JOURNAL

Journal is a book in which transactions are originally recorded in a chronological order (as per the occurrence) after analyzing the transaction and applying the rules of debit and credit.

PROCESS OF RECORDING

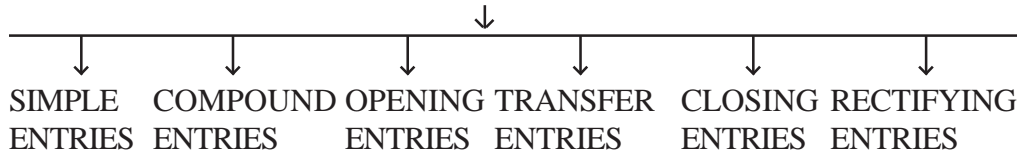
1. Identification of financial transactions
2. Analysis of transactions
3. Application of rules of debit and credit
4. Recording in Journal

Illustration 3 : By using illustration 1, record the transactions in Journal.

JOURNAL

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
2011				
Jan 1	Cash a/c Dr. To Capital a/c (Being business commenced)		1,00,000	1,00,000
Jan 5	Purchases a/c Dr. To Cash a/c (Being goods bought for cash)		20,000	20,000
Jan 7	Purchases a/c Dr. To Pravesh's a/c (Being goods bought on credit)		10,000	10,000
Jan 10	Cash a/c Dr. To Sales a/c (Being goods sold for cash)		5,000	5,000
Jan 12	Vikas's a/c Dr. To Sales a/c (Being goods sold on credit)		12,000	12,000
Jan 15	Salary a/c Dr. To Cash a/c (Being salary paid)		5,000	5,000
Jan 20	Cash a/c Dr. To Commission a/c (Being Commission received)		2,000	2,000

CLASSIFICATION OF JOURNAL ENTRIES



Simple Entries : The entries in which only two accounts are affected, one a/c is debited and other one is credited. All entries in the above illustration 3 are this nature.

Compound Entries : The entries in which there are at least two accounts are debited and at least one account is credited or vice versa.

Example 1 Received Rs. 3,900 from Ram in full settlement of a claim of Rs. 4,000.

Cash a/c	Dr.	3,900	
Discount allowed a/c	Dr.	100	
To Ram			4,000

(Being cash received in full settlement)

Example 2 Paid Rs. 4,900 to Shyam in full settlement who owes us Rs. 5,000.

Shyam's a/c	Dr.	5,000	
To Cash a/c			4,900
To Discount received a/c			100

(Being Cash paid in full settlement)

SPECIAL TRANSACTIONS RELATED TO GOODS

1. Withdrawal of goods by owner for personal use.

Drawings a/c	Dr.	
To Purchases a/c		
2. Goods given as charity.

Charity a/c	Dr.	
To Purchases a/c		
3. Goods distributed as free samples

Advertisement a/c	Dr.	
To Purchases a/c		
4. Goods lost by fire/ flood/theft etc.

Loss by fire/theft a/c	Dr.	
To Purchases a/c		

Note : Purchases a/c is credited in the above entries because the goods are going out of our business on cost and it is not a sale hence, deducted from the purchases a/c.

TRANSACTIONS RELATED BANKS

1. Cash deposited into the bank

Bank a/c	Dr.	
To Cash a/c		
2. Cash withdrawn for office use.

Cash a/c	Dr.	
To Bank a/c		

7. Depreciation provided on fixed assets.
 Depreciation a/c Dr.
 To Related asset's a/c
8. Interest on Capital provided.
 Interest on capital a/c Dr.
 To Capital a/c
9. Interest on Drawings charged.
 Drawings a/c Dr.
 To Interest on Drawings a/c

BOOKS OF ORIGINAL ENTRY/SPECIAL PURPOSE BOOKS

As size of the business grows and number of transactions increases, it becomes necessary for the business to divide the recording work. The books maintained are illustrated below :

Tansactions	Further classification	subsidiary Books Maintained
Cash & Bank Related Transactions	Only Cash Transactions Cash & Bank Transactions Cash payment of small amount	Simple Cash Book Double Column Cash book Petty Cash Book
Transactions Other than Cash & Bank	Credit Sale Credit Purchases Sales Returns Purchases Returns Transactions of Bill receivable Transactions of Bill Payable Any other transaction	Sales Book Purchases Book Sales returns Book Purchases Returns Book Bill Receivable Book Bill Payable Book 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.

CASH BOOK

Cash book shows all the transactions related to cash receipts and payments. Cash book serves two purposes. First, all the cash transactions are recorded first time in cash book it becomes **BOOK OF ORIGINAL ENTRY**. Second, there is no need to prepare Cash a/c in ledger it also play the role of Principal Book.

Simple Cash Book

All the cash receipts are shown in left hand side i.e. Debit side and all the cash payments are shown in right hand side i.e. Credit side.

Points to Remember

- Cash in hand/opening balance of cash is shown in Dr. side of the Cash book as “to Bal b/d”.
- Only transactions of cash receipts and payments are recorded in this book.
- This book never show a credit balance because one can't pay more than the cash one have.
- Illustrations 4

Enter the following transactions in a Simple Cash Book :

2011	₹	2011	₹		
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	2,000	Jan. 31	Paid Salaries	1,000
	furniture				

Solution :

In the Books of... CASH BOOK

Dr. Receipts				Payments				Cr.			
Date	Particulars	L.F.	₹	Date	Particulars	L.F.	₹	Date	Particulars	L.F.	₹
2011				2011							
Jan. 1	To Balance b/d		12,000	Jan. 7	By Rent A/c		300				
Jan. 5	To Ram		3,000	Jan.10	By Shyam		7,000				
Jan. 8	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 Balance 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 transactions are not recorded. Purchase 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.

Cash book with Bank column

A two column cash book enable the management to know the cash and bank balance instantly. In this book, amount column is divided into Cash and Bank columns.

Dr. FORMAT OF DOUBLE COLUMN CASH BOOK Cr.									
Date	Particulars	V.N.	L.F.	Cash Bank	Date	Particulars	V.N.	L.F.	Cash Bank
	Receipts side					Payments side			

Points to Remember

- Bank column can show a credit balance as banks give overdraft facility to its reputed customers.
- If there is an overdraft or credit bank balance “By Bal b/d” will be shown in bank column in credit side.
- If bank balance increases, the bank column is debited and if decreases bank column is credited.

Some Special entries

Contra entries : If both cash and bank columns are affected by any transaction, it is called a contra entry. To indicate contra entry “C” is mentioned in the L.F. column.

- July 5 Cash deposited into bank Rs. 5,000

Cash Book (Extract)

Dr.					Cr.				
Date	Particulars	V.N.	L.F.	Cash Bank	Date	Particulars	V.N.	L.F.	Cash Bank
July 5	To Cash		C	5,000	July 5	By Bank		C	5,000

As bank balance is increasing bank column is debited and cash balance is decreasing, cash column is credited in the above entry.

- July 7 Withdrawn from Bank for office use Rs. 2,000

Cash Book (Extract)

Dr.					Cr.				
Date	Particulars	V.N.	L.F.	Cash Bank	Date	Particulars	V.N.	L.F.	Cash Bank
July 7	To Bank		C	2,000	July 7	By Cash		C	2,000

As cash balance is increasing so it is debited because of withdrawal of money bank balance is decreasing hence credited.

Treatment of cheques received from customers under different situations

1. If there is no information about the disposal of received cheque.

- July 1 Received a cheque from Anu Rs. 2,500

Cash Book (Extract)

Dr.					Cr.				
Date	Particulars	V.N.	L.F.	Cash Bank	Date	Particulars	V.N.	L.F.	Cash Bank
July 1	To Anu			2,500					

When there is no information given in question, it is considered that the cheque has been deposited into bank the same day it is received.

2. When received cheque is deposited into bank later.
 July 1 Received a cheque from Anu Rs. 2500
 July 3 Anu's cheque deposited into bank.

Cash Book (Extract)

Dr.				Cr.					
Date	Particulars	V.N.	L.F.	Cash Bank	Date	Particular	V.N.	L.F.	Cash Bank
July 1	To Anu			2,500	July 3	By Bank	C		2,500
July 3	To Cash		C	2,500					

When cheque is not deposited into Bank same day, it is considered as Cash. When the received cheque is deposited at later date, it will be considered as cash being deposited into bank hence contra entry has been passed.

3. If cheque is endorsed in favour of creditor of business.
 July 1 Received a cheque from Anu Rs. 2,500
 July 3 Anu's cheque endorsed in favour of Ram

Cash Book (Extract)

Dr.				Cr.					
Date	Particulars	V.N.	L.F.	Cash Bank	Date	Particular	V.N.	L.F.	Cash Bank
July 1	To Anu			2,500	July 3	By Ram			2,500

Anu's cheque is being treated as Cash hence it is considered that Cash given to Ram.

4. When cheque is dishonoured due to any reason.
 July 1 Received a cheque from Anu Rs. 2,500
 July 3 Anu's cheque dishonoured

Cash Book (Extract)

Dr.				Cr.					
Date	Particulars	V.N.	L.F.	Cash Bank	Date	Particular	V.N.	L.F.	Cash Bank
July 1	To Anu			2,500	July 3	By Anu			2,500

The effect of dishonour : Anu is again considered as Debtor and bank balance decreases hence bank balance is credited.

Illustration 4 : Prepare a Cash book with Bank column from the following information :

2011		
Jan. 1	Cash in hand	12,000
Jan. 1	Bank Overdraft	3,000
Jan. 5	Deposited into Bank	2,000
Jan. 7	Received a cheque from Pujan	10,000

Jan. 10	Goods sold for cash	6,000
Jan. 12	Sold goods to Naveen	7,000
Jan. 15	Received a Cheque from Naveen	7,000
Jan. 20	Salary paid by cheque	5,000
Jan. 21	Naveen's cheque deposited into bank	
Jan. 25	Payment made to Shyam by cheque	2,000
Jan. 30	Bank charged interest on overdraft	100

Double Column Cash Book

Dr.

Cr.

Date	Particulars	V.N.	L.F.	Cash	Bank	Date	Particular	V.N.	L.F.	Cash	Bank
2011						2011					
Jan. 1	To Bal b/d			12,000		Jan. 1	By Bal b/d				3,000
Jan. 5	To Cash		C		2,000	Jan. 3	By Bank		C	2,000	
Jan. 7	To Pujan				10,000	Jan. 20	By Salary				5,000
Jan. 10	To Sales			6,000		Jan. 21	By Bank		C	7,000	
Jan. 15	To Naveen			7,000		Jan. 25	By Shyam				2,000
Jan. 21	To Cash		C		7,000	Jan. 30	By Interest				100
						Jan. 31	By Bal c/d			16,000	8,900
				25,000	19,000					25,000	19,000
2011											
Feb. 1	To Bal b/d			16000	8900						

Note :

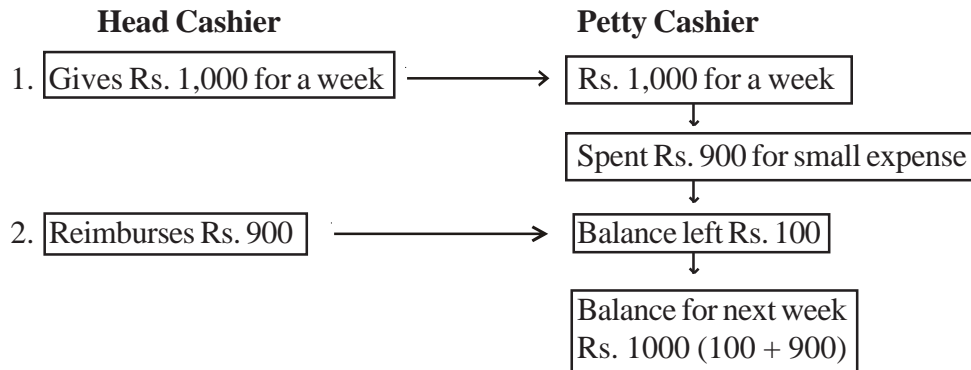
- Bank column debited as there is no information about Pujan's cheque.
- Transaction of Jan. 12 is related to credit sales hence not recorded in cash book.
- Cash column debited in transaction of Jan. 15 because cheque has been deposited into bank at a later date.

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.

IMPREST 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.



Advantages of Petty Cash book

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

Illustrations 5: Prepare a Petty Cash book on the imprest system from the following transactions

2010		Amt (Rs.)
Jan. 1	Received from Head cashier	500
Jan. 2	Bought stationery	50
Jan. 3	Paid for registered post	30
Jan. 4	Bought Pen/Pencils for office use	80
Jan. 4	Paid for Telegram	60
Jan. 5	Paid for refreshment	50
Jan. 6	Bought postal stamps	30

Solution :

Petty Cash Book

Dr		Cr				
Receipts	Date Particulars	V.N.	Total Payments	Analysis of Payments		
				Stationery	Postage	Sundries
	2010					
500	Jan. 1 To Cash					
	Jan. 2 By Stationery		50	50		
	Jan. 3 By Postage		30		30	
	Jan. 4 By Satationery		80	80		
	Jan. 4 By Telegram		60		60	
	Jan. 5 By Refreshment		50			50
	Jan. 6 By Postage		30		30	
500	Total		300	130	120	50
	Jan. 7 By Bal c/d		200			
			500			
200	Jan. 8 To Bal b/d					
300	Jan. 8 To Cash					

Note :

- V.N. stands for Voucher number,
- The petty cashier can prepare different columns in “Analysis of Payments” as per his requirement depending upon the number of transactions.

SPECIAL PURPOSE SUBSIDIARY BOOKS**PURCHASES 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/Invoice issued by the Suppliers.

Transactions not in purchases Book

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

Illustration 5: Enter the following transactions in the Purchases Book of M/s Ramesh Stationers :

2011

- Aug 1 Bought from Agarwal Book House (Invoice no. 205)
25 Dozen Pencils @ Rs. 30 per dozen
20 Dozen Ball pens @ Rs. 10 per pen
Trade discount @ 10%
- Aug 5 Bought furniture of Rs. 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 @ Rs. 20 each
- Aug 17 Bought from Tushar stationers for (Cash memo no 101)
300 Refills @ Rs. 5 each
10 Ink pads @ Rs. 50 each

Solution :

**In the books of M/s Ramesh Stationers
PURCHASES BOOK**

DATE	NAME OF THE SUPPLIER	INV. NO.	L.F.	DETAIL	AMOUNT ₹
2011					
Aug 1	Agarwal Book House	205		25 Dozen Pencils @ Rs. 30 per dozen	750
	20 Dozen Ball Pens @ Rs. 10 per pen			2400	
	Less : Trade Discount @ 10%			315	2835
Aug 8	Shivani Stationers	626		30 Resisters @ Rs. 50 each	1500
	50 Note Books @ Rs. 20 each			1000	2500
Aug 31	Purchases a/c Dr.				5335

1. Transaction of Aug. 5 is related to credit purchases of furniture i.e. an Asset.
2. On Aug. 17, goods bought for cash,
Hence both the transactions are not recorded in Purchases Book.

SALES BOOK/SALES JOURNAL

In this book, transactions of credit sales of goods are recorded. The source document 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 6: from the following transactions, Prepare a SALES BOOK of Alvin Furnitures:

- July 7 Sold to Anil furniture house (Invoice no. 107)
200 Tables @ Rs. 150 each
100 Chairs @ Rs. 100 each
Trade discount @ 10%
- July 15 Sold Air Conditioner to Ram Rs. 12000
- July 20 Sold to Rama Furnitures (Cash Memo no. 3001)
10 Beds @ Rs. 2500 each
- July 29 Sold to Jitesh Woods (Invoice no.-506)
10 Dressing tables @ Rs. 1700 each
5 tables @ Rs. 500 each
Trade Discount @ 10%

Solution :

In the books of M/s Alvin furnitures

SALES BOOK

DATE	Name of the Customers	INV. NO.	L.F.	DETAIL	AMOUNT ₹
2011					
July 7	ANIL FURNITURE HOUSE 200 Tables @ Rs. 150 each 100 Chairs @ Rs. 100 each	107		30,000 10,000 40,000	36,000
	Less : Trade Discount @ 10%			4000	
July 29	Jitesh Woods 10 Dressing tables @ Rs. 1700 each 5 tables @ Rs. 500 each	506		17000 2500 19500	17550
	Trade discount @ 10%			1950	
July 31	Sales a/c Cr.				53500

Note :

- Transaction of July 15 is related to sale of asset,
- Sale to Rama furnitures 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 goods are being returned, details of goods returned.

Illustration 7: Enter the following transactions in the Purchases returns book of Ramesh stationery house :

2011

- Aug. 5 Returned to Agarwal Book House (Debit note no. -105)
 5 Dozen Pencils @ Rs. 30 per dozen
 Trade discount @ 10%
- Aug. 10 Returned to Shivani Bros. (Debit note no. 106)
 5 Resisters @ Rs. 50 each

Solution :

In the books of M/s Ramesh Stationers
PURCHASES RETURNS BOOK

DATE	NAME OF THE SUPPLIER	DEBIT NOTE.	L.F.	DETAIL	AMOUNT (IN ₹)
2011					
Aug 5	AGARWAL BOOK HOUSE 5 Dozen @ Rs. 30 each Less : Trade Discount @ 10%	105		150 15	135
Aug 10	Shivani Stationers 5 Resisters @ Rs. 50 each	106			250
Aug 31	Purchases Returns a/c Cr.				385

NOTE : Trade discount will be deducted if it was allowed at the time of purchase of goods.

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 8: From the following transactions, Prepare a SALES RETURNS BOOK of furnitures :-

Alvin Furnitures :2011
 July 9 Returned by Anil furniture house (Credit note no. 209)
 5 Tables @ Rs. 150 each
 10 Chairs @ Rs. 100 each
 Trade discount @ 10%
 July 30 Returned by Jitesh Woods (Credit note no. 210)
 1 Dressing tables @ Rs. 1700 each
 Trade discount @ 10%

Solution :

In the books of M/s Alvin furnitures

SALES RETURNS BOOK

DATE	NAME OF THE CUSTOMERS	CR .	L.F.	DETAIL	AMOUNT
2011		NOTE			(IN ₹)
July 9	ANIL FURNITURE HOUSE 5 Tables @ Rs. 150 each 10 Chairs @ Rs. 100 each	209		750 1000 1750	1575
	Less : Trade discount @ 10%			175	
July 29	Jitesh Woods 1 Dressing tables @ Rs. 1700 each Less : Trade Discount @ 10%	210		1700 170	1530
July 31	Sales Returns a/c Dr.				3105

BILLS RECEIVABLE BOOK

This book is prepared when bills receivable is a routine matter of business. A bill receivable is drawn by the seller of goods to the buyer and is returned by the buyer after accepting it. This book keeps the records of all the bill receivable and how it is being disposed by the firm.

FORMAT OF BILLS RECEIVABLE BOOK

Date of Receipt	From Whom Received	Period of the bill	Due date	L.F.	Amount (In Rs.)	How of disposed

BILLS PAYABLE BOOK

This book keeps the records of all the bill payable that are accepted by the firm.

FORMAT OF BILLS PAYABLE BOOK

Date of Acceptance	To Whom Given	Period of The bill	Due date	L.F.	Amount (In Rs.)	How disposed

JOURNAL PROPER

All those transactions, which can not be recorded in any of the subsidiary books mentioned above, are recorded in the journal proper or General journal.

The following types of transactions are recorded in this :-

1. Opening entries
2. Closing entries
3. Transfer entries
4. Adjustment entries
5. Rectifying entries
6. Other entries



UNIT - 4

LEDGER AND TRIAL BALANCE

Learning Objectives – Students will be able to tell -

1. Meaning and Importance of Ledger.
2. Format of Ledger.
3. Postings from Journal.
4. Postings from Cash Book and other Subsidiary Books.
5. Closing and Balancing of Ledger Accounts.
6. Trial Balance - Meaning, objectives and Preparation.
7. Meaning and importance of Suspense A/c.

LEDGER

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

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

Importance : Main point is

To know the collective effect of all the transaction pertaining to one particular A/c

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

- How much amount is due from each customer and how much amount the firm has to pay to each supplier/ creditor.
- The amount of Purchase and Sales during a particular period.
- Amount paid or received on account of various items.
- Ultimate position of Assets and Capital.
- For the preparation of Trial Balance which helps in ascertaining the Arithmetic Accuracy of the Accounts.

Important :

Ledger is also called the Principal Book of Accounts

Performa for Ledger

Each ledger account is divided into two equal parts.

Left Hand Side → Debit side (Dr)

Right Hand Side → Credit side (Cr)

Name of the Account

Dr.				Cr.			
Date	Particular	J.F	Amount	Date	Particulars	J.F	Amount
			(₹)				(₹)

Posting in the Ledger – This will be dealt separately from Journal Entries and each Subsidiary Book.

Case I – Posting from Journal Entries.

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

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

Important :

- ‘To’ is written before the A/cs which appear on the debit side of ledger.
- “By” is written before the A/cs appearing on the credit side.
- Use of these words ‘To’ and ‘By’ is optional.

Example 1 : Simple Journal Entry.

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

SOLUTION -

Journal Entry

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

Ledger A/c

Cash A/c (extract)

Dr				Cr			
Date	Particular	J.F	(₹)	Date	Particulars	J.F	(₹)
2011 Aug.1	To sales A/c		2,000				

Sales A/c (extract)

Dr				Cr			
Date	Particular	J.F	(₹)	Date	Particulars	J.F	(₹)
2011				Aug.1	By Cash A/c		2,000

Example 2 : Compound Journal Entry.

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

SOLUTION - Journal Entry

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

Ledger A/c**Cash A/c****Dr****Cr**

Date	Particulars	L.F	(₹)	Date	Particulars	L.F	(₹)
2011 Aug.8	To Ram		14,500				

Discount Allowed A/c**Dr****Cr**

Date	Particular	L.F	(₹)	Date	Particulars	L.F	(₹)
2011 Aug.8	To Ram		500				

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

Date	Particular	L.F	(₹)	Date	Particulars	L.F	(₹)
				2011 Aug. 8	By cash A/c		14,500
					By Discount Allowed A/c		500

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 anywhere.

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

Rules of Posting

(a) Posting from the Debit Side of Cash Book

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

‘By Cash A/c’ → if it is from the Cash Column

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

(b) Posting from the Credit Side of Cash Book

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

‘To Cash A/c’ → if it is from the Cash Column

‘By Bank A/c’ → if it is from the Bank Column

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

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

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

SOLUTION :

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

Capital A/c

Dr				Cr			
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
			(₹)				(₹)
				2011			
				Jan. 10	By Cash A/c		20,000

Sales A/c

Dr				Cr			
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
			(₹)				(₹)
				2011			
				Jan. 22	By Cash A/c		3,000

Anil's A/c

Dr				Cr			
Date	Particulars	L.F	(₹)	Date	Particulars	L.F	(₹)
				2011 Jan. 28	By Bank A/c		2,900

Purchases A/c

Dr				Cr			
Date	Particulars	L.F	(₹)	Date	Particulars	L.F	(₹)
2011 Jan. 12	To Cash A/c		5,000				

Sumit's A/c

Dr				Cr			
Date	Particulars	L.F	(₹)	Date	Particulars	L.F	(₹)
2011 Jan. 25	To Bank A/c		4,500				

Case III- Ledger posting from Purchases book

Journal Entry for Credit Purchases is

Purchases A/c Dr
To Supplier

Therefore the rules of posting from Purchases Book are.

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

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

EXAMPLE :

Purchases Book

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

SOLUTION : LEDGER A/cs**Purchases A/c**

Dr				Cr			
Date	Particulars	L.F	Amount	Date	Particulars	L.F	Amount
			(₹)				(₹)
2011 June30	To Sundries as per Purchases Book		35,600				

Sahil & Co.

Dr				Cr			
Date	Particulars	L.F	Amount	Date	Particulars	L.F	Amount
			(₹)	2011 June 4	By Purchases A/c		(₹) 10,000

Geeta Industries

Dr				Cr			
Date	Particulars	L.F	Amount	Date	Particulars	L.F	Amount
			(₹)	2011 June 14	By Purchases A/c		(₹) 16,000

Vijay & Co.

Dr				Cr			
Date	Particulars	L.F	Amount	Date	Particulars	L.F	Amount
			(₹)	2011 June26	By Purchases A/c		(₹) 9,600

Case IV- Ledger Postings from Sales Book

Journal Entry for Credit sales is

Customer Dr
To Sales A/c

Hence rules for posting from sales Book are

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

Case V- Ledger Postings from Purchase Return Book

Journal Entry for purchase Return is

Personal A/c of Supplier Dr
To Purchase Return A/c.

Hence the **rules for posting** are.

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

Case VI - Ledger Postings of Sales Return Book

Journal Entry for the Sales Return is -

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

(7) Ledger Postings from Bills Receivable Book.

Bills Receivable book shows the names of the persons from whom the Bills are Received. Therefore the Journal Entry is

B / R A/c Dr
To Personal A/c

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

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

(8) Ledger Postings of Bills Payable Book

Bills payable is a liability, therefore the Journal Entry is

Personal A/c Dr
To Bills Payable A/c.

Hence the rules of Posting are

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

Closing and Balancing of Accounts

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

- (1) Debit and Credit sides of each A/c are totalled.
- (2) The **difference between the two sides is 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 Side** the **difference** is a **Debit Balance** where as.
- (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 transferred to **Trading and Profit and Loss A/c of the firm** at the end of the Accounting Period.

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

TRIAL BALANCE

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

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

III Preparation – Steps (Only Balance Method)

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

(2) The A/c 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 totalled. If they are equal it is assumed that there is at least no arithmetical error in the posting and balancing of Ledger A/cs.

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.

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.

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

2011

June 1. **Assets :** Cash in hand Rs. 20,000; **Debtors :** Amit and Co. Rs. 15,000, Sumit Bros. Rs. 30,000, Stock Rs. 1,75,000, Machinery Rs. 1,20,000, Furniture Rs. 40,000.

Liabilities : Bank overdraft Rs. 33,000, **Creditors :** Virat and Co. Rs. 24,000, Vishal Rs. 16,000.

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

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

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

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

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

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

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

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

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

June 20 Cash purchases Rs. 15,000.

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

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

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

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

June 27 Accepted a bill for Rs. 25,000 for 1 month draw by Vishal.

June 27. Paid by cheque, Rent Rs. 2,800

June 27 Received Commission in Cash Rs. 800

June 30 Paid salaries Rs. 5,000.

Cash Book (with cash and Bank Columns)

Dr.

Cr.

Date	Particulars (Receipts)	Vr No	L F	Cash (Rs.)	Bank (Rs.)	Date	Particulars (Payments)	Vr No	L G	Cash (Rs.)	Bank (Rs.)
2011						2011					
June 1	*To Balance b/d			20,000	-	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 30	To Balance C/d			-	54,000	June 27	By Rent A/c			-	2,800
	Total			50,800	62,000	June 30	By Salaries A/c			5,000	-
July 1	To Balance b/d			25,800		June 30	By Balance C/d			25,800	-
							Total			50,800	62,000
							*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.

Purchases Book

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

Sales Book

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

Sales Return Book

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

Purchases Return Book

Date	Name of the Supplier (Account to be Debited)	Debit Note No.	L.F	Details (₹)	Total Amount (₹)
2011 June 5	Ramesh & Sons. Less Trade Discount 10%			2,000 200	1,800
June 30	Purchases Return A/c Cr				1,800

Bills Receivable Book

Date of Receipt	From whom received	Period of the bill	Due Date	L.F	Amount (₹)	How Disposed
2011 June 18	Sumit Bros.	30 days	July 21		30,000	
June 30	Bill Receivable A/c Dr				30,000	

Ledger Accounts
Amit & Co.

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

Sumit Bros.

Date	Particular	J.F	Amount (Rs)	Date	Particular	J.F	Amount (Rs)
2011				2011			
June 1	To Balance b/d*		30,000	June 18	By B/R. A/c		30,000

Stock Account

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

Machinery A/c

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

Furniture A/c

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

Virat & Co.

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

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

Vishal's A/c

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

Capital A/c

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

Drawings A/c

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

Ramesh & Sons

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

Purchases A/c

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

Mohit Brothers

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

Rent A/c

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

Commission A/c

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

Salaries A/c

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

Sales A/c

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

Sales Return A/c

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

Purchase Return A/c

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

Bills Receivable A/c

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

Bills Payable A/c

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

**TRIAL BALANCE
as on 30th June, 2011**

Name of the Accounts	L.F	Debit Balances (Rs)	Credit Balances (Rs)
Cash A/c		25,800	–
Bank (overdraft) A/c		–	54,000
Amit & Co.		20,000	–
Stock A/c		1,75,000	–
Machinery A/c		1,20,000	–
Furniture A/c		40,000	–
Vishal's A/c		–	15,000
Capital A/c		–	3,27,000
Drawings A/c		8,000	–
Purchases A/c		54,000	–
Mohit Brothers		6,000	–
Rent A/c		2,800	–
Commission A/c		–	800
Salaries A/c		5,000	–
Sales A/c		–	41,000
Sales Return A/c		2,000	–
Purchase Return A/c		–	1,800
Bills Receivable A/c		30,000	–
Bills Payable A/c		–	49,000
Total		4,88,600	4,88,600

Suspense Account

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

1. If there is <u>Excess Debit</u> in the <u>Trial Balance</u>	→	<u>Defference is posted</u> to the <u>Credit side</u> of Suspense A/c
2. If there is <u>Excess Credit</u> in the <u>Trial Balance</u>	→	Difference is posted to the <u>Debit side</u> of <u>Suspense Account</u> .

Example :

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

Closing of Suspense A/c :

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

(a) Debit Balance of Suspense Account is shown in the Asset Side of the B/Sheet.
(b) Credit Balance of Suspense Account is shown in the Liability Side of the Balance Sheet.

Suggested Methodology

- (1) Explanation and Illustration Method.



BANK RECONCILIATION STATEMENT

Learning objectives

- (1) Meaning of B.R.S.
- (2) Causes of Differences in Bank Balance as per Cash Book and Pass Book.
- (3) Importance of Bank Reconciliation Statement.
- (4) Procedure of preparation of B.R.S.
- (5) Preparation of Adjusted Cash Book.

Introduction

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

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

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

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

Causes of Differences in Cash Book and Pass Book

The differences may be caused by either

- (A) Time gap in recording transactions or
- (B) Errors Committed in recording transactions.

(A) Differences Caused by the time gap

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

- (1) Cheques issued but not yet presented for payment in the bank.
- (2) Cheques deposited or paid into the bank for collection but not yet credited by the bank.
- (3) Cheques deposited but dishonoured by the bank.
- (4) Interest allowed by the bank.
- (5) Interest on overdraft, bank charges, commission etc. charged by the bank.
- (6) Direct Deposit by the customers into the bank.

(7) Interest, Dividend etc. collected by the bank.

(8) Direct payments made by the bank on behalf of customer as per standing instruction.

(B) Defferences caused by Errors Committed

Such errors may be of two types

(1) Errors committed by the firm

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

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

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

(2) Errors committed by the bank

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

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 Reconcilliation Statement

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

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

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

(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.

Important Points

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

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

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

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

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

Starting Point	→	End Point
Cash Book	→	Pass Book
Less Balance	+ item	More Balance
More Balance	- item	Less Balance

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

1. First of all write

Under Plus Item – If the Cash Book Balance is debit or favourable or simple balance.

Under Minus Item – If the Credit Balance or overdraft as per Cash Book is given.

2. Now study the point of difference.

(a) If the entry is done in the Cash Book and not in the Pass Book then .

(i) if it is done on the debit side of Cash Book, Balance in the Cash Book will be more as compared to Pass Book and hence the item will be – item as shown in the box above.

(ii) where as if the entry is done on the Credit side of Cash Book, the Balance in the Cash Book will be less as compared to Pass Book and hence the item will be + item.

(b) If the entry is done in the Pass Book and not in the Cash Book then.

(i) if done on the Credit side of Pass Book –
Pass Book Balance is more as compared to Cash Book – item.

(ii) If it is done on the Debit side of Pass Book –
Pass Book Balance is less as compared to Cash Book → (-) item

3. At the end + items and – items are totalled.

(a) If total of Plus Items is more than the total of (-) items → Difference is Cr Balance or favourable balance as per Pass Book.

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

Ready Reference

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

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

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

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

Example 1 : Balance as per Cash Book is given

Prepare BRS as on 31st July 2011

- (1) Balance as per Cash Book is Rs. 25,000 as on 31st July 2011.
- (2) Cheques for Rs. 15,000 were deposited into the Bank in the month of July but only cheques for Rs. 11,000 were credited by the bank till 31st July 2011.
- (3) Cheques issued for Rs. 13,000 in July, out of which a cheque for Rs. 3,800 was presented for payment on 3rd August.
- (4) Bank charged Rs. 50 as Bank charges and credited interest of Rs. 370.
- (5) A customer directly deposited Rs. 1,550 in firm's bank A/c.
- (6) Bank paid the Insurance Premium of Rs. 1,200 as per standing instructions on 25.07.2011.

SOLUTION

**Bank Reconciliation Statement
as on 31st July 2011**

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

Explanation :

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

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

– item

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

Cash book Balance is less by Rs. 3800 as compared to Pass Book → + item.

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

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

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

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

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

EXAMPLE 2– when overdraft as per Cash Book is given

Given (1) Overdraft as per Cash Book is Rs. 10,500 on 30th June 2011.

(2) Cheques deposited but not yet collected Rs. 2,000.

(3) Cheques issued but not yet presented for payment of Rs. 2,800.

(4) Bank charges of Rs. 50 and Interest on overdraft of Rs. 250 are. charged by the bank.

(5) A customer directly deposited Rs. 1,200 into the Bank.

(6) Insurance Premium of Rs. 1,500 is paid by the bank as per standing instructions.

Prepare Bank Reconciliation Statement for the month of June 2011.

SOLUTION :

**Bank Reconcilliation Statement
as on 30th June 2011**

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

Overdraft means unfavourable balance or Negative Balance

Hence put it under – item.

Explanation for all other items is similar as example 1 except the following.

1. Item No. 4 (b) – Interest on overdraft decreases the Pass Book Balance hence it is to be deducted from Cash Book Balance to reach at Pass Book Balance → item.

2. This time the total of (–) items Rs. 14,300 is more to the total of + item is Rs. 4,000 by Rs. 10,300.

Hence this is a (–) item or in other words overdraft as per Pass Book.

Case II – Starting with Pass Book Balance / overdraft.

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

1. First of all write under

+ **Item** – If Cr Balance, favaurable balance or Simply Balance as per Pass Book is given.

- (-) **Item** → If Debit Balance or overdraft as per Pass Book is given.
2. Now study the point of difference between the Cash Book and Pass Book.
 - (a) If the entry is done in the Cash Book and not in the Pass Book then.
 - (i) If is done on the Debit side of Cash Book Balance in the Cash will be more as compared to Pass Book and hence the item is to be added in the Pass Book Balance to get the Cash Book Balance i.e. + item.
 - (ii) Where as if the entry is done on the Credit side of Cash Book → Cash Book Balance will be less as compared to Pass Book hence (-) item
 - (b) If the entry is done in the Pass Book and not in the Cash Book then.
 - (i) if it is done on the Debit side of Pass Book → Pass Book Balance is less as compared to Cash Book → item is to be added in Pass Book Balance to get the Cash Book Balance + item.
 - (ii) if is done on the Credit side of Pass Book Pass Book Balance is more as compare to Cash Book item. → (-) item
 3. At the end + item and - item are totalled
 - (a) If total of (+) items is more than the total of (-) ⇒ Differences is favourable Balance or Debit Balance as per Cash Book .
 - (b) Where as if the total of (-) items is more than the total of + items ⇒ Difference is unfavourable or overdraft as per Cash Book.

Ready Reference

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

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

- Item [Items which decreases the Cash Book Balance or increases the Pass Book Balance]

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

EXAMPLE 3 – Balance as per Pass Book is given

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

SOLUTION :

**Bank Reconciliation Statement
as on 31th July 2011**

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

Important Points –

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

Example 4 – Overdraft as per Pass Book is given.

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

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

SOLUTION

Bank Reconciliation Statement as on 30th June 2011

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

Important Points –

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

Amended Cash Book Method

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

Procedure

- (1) Adjusted Cash Book is prepared starting with the Balance of the Cash Book given in the question.
- (2) All errors that have been committed in the Cash Book will have to be rectified by passing adjusting entries in the Cash Book.

Usual or General Errors are

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

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

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

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

Important

- It should be noted that the following items must not be recorded in the Amended Cash Book.
- Cheques deposited into the Bank but not yet credited by the bank.
- Cheques Issued but yet not presented for payment.
- Any wrong entry in the Pass Book.

EXAMPLE 5 –

The Cash Book of Mr. Sharma showed a balance of ₹ 3,560 as on 31st Dec. 2010 at the Bank where as Pass Book showed a balance of ₹ 4,230

Comparison of the Cash Book and Pass Book revealed the following.

(1) The Bank has debited Mr. Sharma with ₹ 460, the annual premium of his life policy according to his standing instructions and ₹ 20 as Bank charges.

(2) Mr. Sharma paid into the Bank cheques totalling ₹ 3,100 on Dec. 26th 2010 of which those for ₹ 2,500 were collected in December. One cheque for ₹ 200 was returned deshonoured on 2nd Jan. 2011.

(3) The Bank has credited Mr. Sharma by ₹ 1,600, the proceeds of a bill.

(4) Cash collected on 31st Dec. 2010 totalling ₹ 850 was entered in the Cash Book in the Bank column on the same date but banked on 2.1.2011.

(5) Mr. Sharma issued cheques totalling ₹ 2,300 in the month of Dec. out of which cheques for ₹ 1000 have not been presented for payment till 31st Dec.

SOLUTION

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

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

**Bank Reconciliation Statement
as on 31st Dec. 2010**

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

Points to Remember

- Amended or adjusted Cash Book is started with the given balance of bank as per Cash Book.
- Closing Balance of the adjusted Cash Book is the opening balance of Bank Reconciliation statement.
- Entry for the dishonour of the cheques of Rs. 200 is not done.
 - (a) In the Cash Book as its was dishonoured after 31st Dec.
 - (b) In Bank Reconciliation Statement it is included in the adjustment (Rs. 3100–2500)

Methodology Suggested

Teachers are suggested

To show the actual Bank Statement and them by Discussion and Project Method the topic can be explained.

Depreciation, Provisions and Reserves

Depreciation : An Introduction

Suppose you have purchased a car. After some time you noticed that if you want to sell this car, its value is less than its cost price. Similarly, the value of all fixed assets is decreased due to the passage of time and some other reasons. **The reduction in value of fixed assets is known as depreciation**

Expenditure on assets of the business like furniture, fixtures and fittings of the shop, motor vans, machines and equipments are neither expenditure on purchase of goods nor expenses.

Expenditure of this nature gives service to the business for **many years** and thus called fixed assets. Would you like to deduct the expenditure on the fixed assets from the profit of any one year? It would be wrong to do so since their benefit is enjoyed by the business for more than one year. The correct thing will be to distribute their cost over the years of their useful life to the business. The portion of the cost of fixed assets charged each year as expense is known as depreciation.

Learning Objectives

After studying this lesson you will be able to :

- State the meaning and concept of depreciation;
- Explain the causes of depreciation.
- Explain the methods of charging depreciation;
- Show the Accounting Treatment of Depreciation;
- State the meaning of Provision and Reserve;
- Differentiate between Provision and Reserve.

Teaching Methods :

Teachers are advised to use various examples from daily life in order to clear the concept of depreciation.

‘Provision for Depreciation Account’ is to be taught through various exercises solved by both the Accounting Treatment of Depreciation, i.e. Charging Depreciation in Asset Account and Charging Depreciation in Provision for Depreciation Account.

Journal entries for creating Provision for Depreciation are also to be explained.

Depreciation : Concept

Business enterprises require fixed assets for their business operations such as furniture and fixtures, office equipments, plant and machinery, motor vehicles, land and building etc. 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.

Depreciation is a part of the cost of a fixed asset which has expired :

- On account of usage;
- Lapse of time.

In other words, the process of allocation of the cost of a fixed asset over its useful life is known as depreciation

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 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 that amount of depreciation charged to profit and loss accounts 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'.

(iv) The annual amount of depreciation can be easily calculated by the following formula:

$$\text{Annual Depreciation} = \frac{\text{Original cost} - \text{Estimated scrap value}}{\text{Estimated life}}$$

For example :

A firm purchases a machine for ₹ 2,25,000 on April 1, 2011. 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.

$$\text{Annual Depreciation} = \frac{2,25,000 - 25,000}{5} = 40,000$$

Hence, ₹ 40,000 will be charged each year as depreciation on this machine

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 of the asset.

For example :

A machine is purchased for ₹ 2,00,000 on April 1, 2008. It is decided to charge depreciation on this machine @ 10% p.a. on diminishing balance method. The amounts of depreciation for first four years are as under :

Year	Book Value (₹)	Depreciation @ 10% (₹)
2008-09	20,000	2,000
2010-10	20,000--2,000=18,000	1,800
2010-11	18,000--1,800=16,200	1,620
2011-12	16,200--1,620=14,580	1,458

Hence, in this method, **rate of depreciation is same** but **same** but **amount of depreciation goes on decreasing every year**. Therefore, this method is also known as 'written Down Value Method' and 'Reducing Installment Methodo'.

Illustration 1.

On January 1, 2008, a firm bought a machine for ₹ 90,000 and spend ₹ 6,000 on its installation and ₹ 4,000 on its carriage. It is decided to charge depreciation @ 10% on straight line method. Books are closed on December 31, each year.

Show Machinery Account for the year 2008 to 2010.

Solution

Dr.				Cr.			
Machinery Account							
Date	Particulars	J.F	₹	Date	Particulars	J.F	₹
2008				2008			
Jan. 1	To Bank A/c		90,000	Dec 31	By Depreciation A/c		10,000
Jan. 1	To Cash a/c		6,000	Dec 31	By Balance c/d		90,000
Jan. 1	To Cash a/c		4,000				
			1,00,000				1,00,000
2009				2009			
Jan. 1	To Balance b/d		90,000	Dec 31	By Depreciation A/c		10,000
				Dec 31	By Balance c/d		80,000
			90,000				90,000
2010				2010			
Jan 1	To Balance b/d		80,000	Dec 31	By Depreciation A/c		10,000
				Dec 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 the year 2008 to 2010 if depreciation is charged @ 10% on diminishing balance method.

Solution :

Dr.				Cr.			
Machinery Account							
Date	Particulars	J.F	₹	Date	Particulars	J.F	₹
2008				2008			
Jan. 1	To Bank A/c		90,000	Dec 31	By Depreciation A/c		10,000
Jan. 1	To Cash a/c		6,000	Dec 31	By Balance c/d		90,000
Jan. 1	To Cash a/c		4,000				
			1,00,000				1,00,000
2009				2009			
Jan. 1	To Balance b/d		90,000	Dec 31	By Depreciation A/c		9,000
				Dec 31	By Balance c/d		81,000
			90,000				90,000
2010				2010			
Jan 1	To Balance b/d		81,000	Dec 31	By Depreciation A/c		8,100
				Dec 31	By Balance c/d		72,900
			81,000				81,000

Illustration 3

On April, 1, 2008 Prakash & Sons bought furniture costing ₹ 60,000. On July, 1, 2010. Furniture was sold for ₹ 30,000

Prepare Furniture Account assuming depreciation was charged @ 10% per annum on March 31 each year.

Solution :

Machinery Account

Date	Particulars	J.F	₹	Date	Particulars	J.F	₹
2008				2008			
Apr. 1	To Bank A/c		60,000	Mar.31	By Depreciation A/c		6,000
				Mar.31	By Balance c/d		54,000
			60,000				60,000
2009				2009			
Apr. 1	To Balance b/d		54,000	Mar.31	By Depreciation A/c		6,000
				Mar.31	By Balance c/d		48,000
			54,000				54,000
2010				2010			
Apr. 1	To Balance b/d		48,000	Jul. 1	By Bank A/c		30,100
				Jul. 1	By Depreciation A/c		1,500
				Jul. 1	By Profit & Loss A/c		16,500
			48,000				48,000

On the basis of information given in Illustration 3, prepare Furniture Account assuming depreciation was charged @ 15% per annum on reducing installment method.

Solution :

Machinery Account

Date	Particulars	J.F	₹	Date	Particulars	J.F	₹
2008				2008			
Apr. 1	To Bank A/c		60,000	Mar. 31	By Depreciation A/c		6,000
				Mar. 31	By Balance c/d		51,000
			60,000				60,000
2009				2009			
Apr. 1	To Balance b/d		51,000	Mar. 31	By Depreciation A/c		7,650
				Mar. 31	By Balance c/d		43,350
			51,000				51,000

2010			2010		
Apr. 1	To Balance b/d	43,350	Jul. 1	By Bank A/c	30,000
			Jul. 1	By Depreciation A/c	1,626
			Jul. 1	By Profit & Loss A/c	11,724
		43,350			43,350

There is another treatment for charging Depreciation. In this treatment, Provision for Depreciation Account is opened and depreciation charged in this account instead of Asset Account. Following Journal entries are passed at the end of each accounting period.

Date	Particulars	L.F	Dr. (₹)	Cr. (₹)
	Depreciation Account Dr. To Provision for Depreciation Account			
	Profit and Loss Account Dr. To Depreciation Account			

In this treatment the balance of Asset Account remains same throughout its useful life. Provision for Depreciation is show liabilities side of Balance Sheet.

Illustration 5

Krishna lifestyle limited purchased a machine for ₹ 1,25,000 including installation cost on January 1, 2008. On October 1, 2010, machine was sold for ₹ 50,000. Depreciation was provided @ 20% 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 2008 to 2010.

Solution :

Machinery Account

Date	Particulars	J.F	₹	Date	Particulars	J.F	₹
2008				2008			
Jan. 1	To Bank A/c		1,25,000	Dec. 31	By Balance c/d		1,25,000
2009				2009			
Jan. 1	To Balance b/d		1,25,000	Dec. 31	By Balance c/d		1,25,000
2010				2010			
Jan. 1	To Balance b/d		1,25,000	Oct. 1	By Provision for Dep. A/c		68,750
				Oct. 1	By Bank A/c		50,000
				Oct. 1	By Profit & Loss A/c		6,250
			1,25,000				1,25,000

Provision for Depreciation Account

Date	Particulars	J.F	₹	Date	Particulars	J.F	₹
2008				2008			
Dec.31	To Balance c/d		25,000	Dec.31	By Depreciation A/c		25,000
2009				2009			
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
2010				2010			
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

Important Point :

Total Depreciation is charged on Machine : $25,000+25,000+18,750 = 68,750$

Illustration 6

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 :

Machinery Account

Date	Particulars	J.F	₹	Date	Particulars	J.F	₹
2008				2008			
Jan. 1	To Bank A/c		1,25,000	Dec.31	By Balance c/d		1,25,000
2009				2009			
Jan. 1	To Balance b/d		1,25,000	Dec. 31	By Balance c/d		1,25,000
2010				2010			
Jan. 1	To Balance b/d		1,25,000	Dec. 31	By Provision for Dep. A/c		57,000
				Oct. 1	By Bank A/c		50,000
				Oct. 1	By Profit & Loss A/c		18,000
			1,25,000				1,25,000

Provision of Depreciation Account

Date	Particulars	J.F	₹	Date	Particulars	J.F	₹
2008 Dec.31	To Balance c/d		25,000	2008 Dec. 31	By Depreciation A/c		25,000
2009 Dec.31	To Balance c/d		45,000	2009 Jan. 1	By Balance b/d		25,000
			45,000	Dec. 31	By Depreciation A/c		20,000
							45,000
2010 Oct. 01	To Machinery A/c		57,000	2010 Jan. 1	By Balance b/d		45,000
				Oct. 1	By Depreciation A/c		12,000
			57,000				57,000

Important Point :

Total Depreciation is charged on Machine : 25000+20,000+12,000 = 57,000

Illustration 7

A Company purchased a machine for ₹ 40,000 on January 1, 2010. On July 1, 2011 it was sold for ₹13000. 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 Decemeber 31 each year.

Solution :

Machinery Account

Date	Particulars	J.F	₹	Date	Particulars	J.F	₹
2010 Jan.1	To Cash A/c		40,000	2010 Dec. 31	By Balance c/d		40,000
2011 Jan.1	To Balanceb/d		40,000	2011 July 1	By Machinery Disposal A/c		40,000

Provision for Depreciation Account

Date	Particulars	J.F	₹	Date	Particulars	J.F	₹
2010 Dec.31	To Balance c/d		4,000	2010 Dec.31	By Depreciation A/c		4,000
2011 Dec.31	To Machinery Disposal A/c		6,000	2011 Jan.1	By Balance b/d		4,000
			6,000	July 1	By Depreciation A/c		2,000
							6,000

Machinery Disposal Account

Dr.

Cr.

Date	Particulars	J.F	₹	Date	Particulars	J.F	₹
2011 July 1	To Machinery A/c		40,000	2011 July 1	By Prov. For Dep. A/c		6,000
				July 1	By Cash A/c		13,000
				July 1	By profit & loss A/c		21,000
			40,000				40,000

Important Point :

Total Depreciation is charged on Machine : $4,000+2,000 = 6,000$

Illustration 8 :

On July 1, 2008, Porwal Auto Limited purchased Furniture for ₹ 1,00,000 and spent ₹ 4,000 towards its installation. On April 1, 2009, the Furniture was disposed off for ₹ 59,820 and on the same day furniture costing ₹ 1,60,000 were purchased. Show th Furniture Account, Provision for Depreciation Account and Furniture Disposal Account for the year 2008, 2009 and 2010 if the rate of Depreciation is 15% by Diminishing Balance method.

Furniture Account

Dr.

Cr.

Date	Particulars	J.F	₹	Date	Particulars	J.F	₹
2008 July 1	To Bank A/c To Cash A/c		1,00,000 4,000	2008 Dec.31	By Balance c/d		1,04,000
			1,04,000				1,04,000
2009 Jan. 1	To Balance b/d		1,04,000	2009 Apr. 1	By Furniture Disposal A/c		1,04,000
Apr. 1	To Bank A/c		1,60,000	Dec. 31	By Balance c/d		1,60,000
			2,64,000				2,64,000
2010 Jan 1	To Balance b/d		1,60,000	2010 Dec 31	By Balance c/d		1,60,000

Provision for Depreciation Account

Dr.				Cr.			
Date	Particulars	J.F	₹	Date	Particulars	J.F	₹
2008 Dec.31	To Balance c/d		7,800	2008 Dec.31	By Depreciation A/c		7,800
2009 Apr.31	To Furniture Disposal A/c		11,408	2011 Jan. 1	By Balance b/d		7,800
	To Balance c/d		18,000	Apr. 1	By Depreciation A/c		3,608
			29,408	Dec. 31	By Depreciation A/c		18,000
							29,408
2010 Dec.31	To Balance c/d		39,300	Jan 1	By Balance b/d		18,000
			39,300	Dec.31	By Depreciation A/c		21,300
							39,300

Furniture Disposal Account

Dr.				Cr.			
Date	Particulars	J.F	₹	Date	Particulars	J.F	₹
2009 Apr. 1	To Furniture A/c		1,04,000	2009 Apr. 1	By Prov. For Dep. A/c		11,408
				Apr. 1	By Bank A/c		59,820
				Apr. 1	By profit & loss A/c		32,772
			1,04,000				1,04,000

Important Point :

Total Depreciation is charged on Machine sold : $7,800+3,608 = 11,408$

Provisions :

1. Provision is to be made in **respect of a liability**, which is **certain** to be incurred, but its **accurate amount is not known**.

2. 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 a provision.

Note : Provision is a charge against profits it means provision has to be made irrespective of business enterprise is earning enough profit or loss.

Examples of Provisisons :

1. Provision for Depreciation of assets.
2. Provision for Repairs and Renewals of assets.
3. Provision for Taxation.
4. Provision for Discount on Debtors.
5. 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 Reserve, Dividend Equalization Reserve 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 reduces the divisible profits**. General Reserves and Specific Reserves Capital Reserves and Secret Reserves.

General Reserve :

If the purpose of creating the reserve is to meet any **unforeseen contingency (Liability which is not known)** in future, the reserve is called 'General Reserve'. These are retained for strengthening the financial position of the enterprise.

Specific Reserve :

Specific reserves are those reserves which are created **for a specific purpose and can be utilized only for that purpose**. 'Dividend Equalization Reserve' and 'Reserve for Replacement of Asset' are the examples of Specific Reserve.

Capital Reserve :

In addition to the normal profits, capital profits are also earned in the business from many sources. Reserves created out of capital profits which are.

1. **Not of recurring nature**
2. **Not readily available for distribution as dividend among the shareholders.**
3. These reserve can be **utilized for writing off capital losses**.

Capital Reserves may be created out of such profits as :

- I. Profit on sale of any fixed asset.
- II. Profit on revaluation of assets.
- III. Profit from forfeiture of shares,
- IV. Profit prior to incorporation of company.

Secret Reserve :

A secret reserve is created by undervaluing the fixed assets. Existence of secret reserve

- 1. Reduce the profits of the business enterprise and
- 2. Reduces its tax liability.
- 3. Secret reserve is secret in the sense that it is not known to the outsiders.
- 4. such reserves are created by showing the assets at a lower amount and liabilities at a higher amount.

Difference between Provisions and Reserve

Basis	Provision	Reserve
1. Meaning	It is created meet a known liability.	It is created to strengthen the financial position of business enterprise.
2. charge or Appropriation	Provisions are charge against profits.	Reserve is an appropriate of profit.
3. Objective	The object is to provide for known liability but 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 & Loss Account. Hence, profit is reduced.	Reserve reduces divisible profits.
5. Creation	Provisions are to be created even if there are insufficient profit only.	Reserve is created out of adequate profits only.
6. Mode of creation	Provision are created by debiting the Profit & loss account.	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.

Points to Remember :

1. Fixed assets are those assets which are used for many years.
2. Depreciation means reduction in value of fixed assets.
3. Through accounting treatment of depreciation we can distribute the total cost of fixed assets over the years of their useful life.
4. There are two main methods of charging of charging depreciation : Straight Line Method and Diminishing Balance Method.
5. Depreciation is charged on fixed assets only and at the end of accounting period.
6. In Staight Line Method, depreciation is charged on original cost and the amount of depreciation remains same year after year.
7. In Diminishing Balance Method the amount of depreciation is reducing year after year becaused depreciation is charged on opening balance of the asset in every year.
8. In Staight Line Method, the book value of asset can be reduced to zero but in Diminishing Balance Method, the book value of asset can not be reduced to zero.
9. Provisions are made for known liabilities which can not be calculated accurately.
10. Reserves are created for strengthening the financial position of enterprise but can be created if adequated profits are available.



UNIT-6

ACCOUNTING FOR BILLS OF EXCHANGE

Learning objectives:

After studying this chapter, students shall be able to :

- Explain the concept of Bill of Exchange and Promissory Note.
- Distinction between Bill of Exchange and Promissory Note.
- Define Important terms of Bill of Exchange and Promissory Note.
- Record the Accounting Treatment of Bill of Exchange under different Circumstances

Suggested Methodology :

Illustration - cum - Explanation method.

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

BILL OF EXCHANGE

“A Bill of Exchange is an instrument in writing containing an unconditional order signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of, a certain person or to the bearer of the instrument.”

Section 5 of the Negotiable Instrument Act, 1881

Features of a Bill of Exchange are :

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

PARTIES TO A BILL OF EXCHANGE

1. DRAWER :

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

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

3. PAYEE :

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

- (i) When the **bill is discounted** by the drawer from his bank- **payee is the bank.**
- (ii) When the **bill is endorsed** by the drawer to his creditors :

payee is the endorsee.

SPECIMEN OF A BILL OF EXCHANGE

₹ 50000 — [3]	New delhi 6th August, 2011 — [1]
Stamp — [4]	
[2] — Three months after date pay to me or my order, the sum of	Value received
[3] — ₹ Fifty thousand only for	[6]
“Accepted,, (Signed) (Mukesh Chand.)	(Signed)
To MUKESH CHAND D-24, Sector-15 Rohini Delhi -89	} [5] { SANT KANWAR 151, Sector-9 Rohini Delhi-85

CONTENTS OF BILL EXCHANGE

1. DATE –

The date on which a bill is drawn, is written on the top right corner of the bill. It helps in determining the date of maturity of the bill.

2. Term/Tenure –

Term specifies the time period for which a bill is written. It should be specified in the body of the bill.

3. Amount –

Amount in figure should be mentioned in the top left corner and amount in words should be mentioned in body of the bill.

4. Stamp –

Stamp of proper value depending upon the amount of bill must be affixed on the bills of exchange.

5. Name of parties –

The name and addresses of the drawer and the drawee should be mentioned in the bill of exchange.

6. For Value Received –

It means the bill has been issued in exchange of some consideration. These words are very important because law does not consider those agreements which have been made without consideration.

ADVANTAGES OF BILL OF EXCHANGE

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

PROMISSORY NOTE

A Promissory note is an instrument in writing (not being a bank note or a currency note) containing an **unconditional undertaking** signed by the maker to pay a certain sum of money only to or to the order of a certain person or to the bearer of the instrument.


FEATURES OF A PROMISSORY NOTE

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

PARTIES TO A PROMISSORY NOTE

1. **The maker** : The maker is the person **who makes the promise to pay** the amount on a certain date. Maker of a bill must sign the promissory note before giving it to the payee.

2. **The payee** : The payee is the person **who is entitled to get the payment** from the maker of promissory note. Payee is the person who has granted the credit

₹ 2,00,000	SPECIMEN OF A PROMISSORY NOTE	New Delhi
		7th August, 2011
	These months after date we promise to pay Gulab Singh or order a sum of two lakhs only, for value received.	
To		(Signed)
Gulab Singh		Rajiv Verma
18, Paschim Vihar		95, Sector - 16
New Delhi - 63		Rohini Delhi - 85

DISTINCTION BETWEEN BILLS OF EXCHANGE AND PROMISSORY NOTE:-

Basis of difference	Bills of Exchange	Promissory Note
1. Drawer	The Drawer is the creditor.	The Drawee is the debtor.
2. No. of Parties.	It has three parties namely : <ul style="list-style-type: none"> ● The drawer ● The drawee ● The payee 	It has two parties namely : <ul style="list-style-type: none"> ● The maker ● The payee
3. Order or Promise	It contains an order to make the payment.	It contains a promise to make the payment
4. Acceptance	It is valid only when accepted by the drawee.	It does not require any acceptance from the drawee.
5. Payee	It case of bill of exchange, drawer can be the payee of the bill.	Drawer or maker cannot be the payee of promissory note.
6. Noting	It case of dishonour of bill noting becomes important.	Noting is not necessary in case of dishonour of promissory note.
7. Liability	The liability of the drawer arises only if the drawee fails to make payment.	The liability of the drawer (maker) is primary.

IMPORTANT TERMS

1. Term of Bill :

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

2. Due Date :

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

Due date is ascertained in the following manner :

(i) In case of 'Bill at sight' - Due date is the date on which a bill is presented for the payment.
(ii) In case of 'Bill after Date' - Due Date = Date of Drawing + Term of Bill.
(ii) In case of ' Bill after sight' – Due date = Date of Acceptance + Term of Bill.

3. Days of Grace :

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

4. Date of Maturity :

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

Illustration 1

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

Find the DUE DATE and DATE OF MATURITY if

Cash I - The bill is Bill After date

Case II - The bill is Bill After Sight

Solution:

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

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

5. Bill at sight/Bill on Demand

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

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

6. Bill after Date

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

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

7. Discounting of Bill

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

Illustration 2

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

- The amount of discounting charges.
- The amount that Ram will receive from his bank at the time of discounting the bill.

Solution :

(i) Discounting Charges =

$$\begin{aligned} \text{Amount of Bill Discounted} &\times \frac{\text{Rate}}{100} \times \text{Unexpired Period} \\ &= 3000 \times \frac{9}{100} \times \frac{2}{12} = \text{₹ } 450 \end{aligned}$$

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

8. Endorsement of Bill

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

The person transferring the title is called "Endorser" and the person to whom the bill is transferred called 'Endorsee'. **The endorsee can further endorse the bill in favour of his creditors.**

Endorsement is executed by putting the signature at the back of the bill.

9. Bill sent for Collection

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

10. Dishonour of Bill

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

11. Noting of Bill

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

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

12. Retirement of a Bill

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

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

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

Illustration 3

On 1st January, 2011 A sold good to B for Rs. 30,000 and drew upon him a bill at 3 months for the amount. B accepted the bill and returned it to A. On 4th March, 2011, B retired the bill under rebate of 12% per anum.

Calculate the amount of Rebate.

Solution :

$$\begin{aligned}\text{Rebate} &= \frac{\text{Amount of Bill}}{\text{Bill}} \times \frac{\text{Rate}}{100} \times \frac{\text{Unexpired Period}}{\text{Period}} \\ &= 30,000 \times \frac{12}{100} \times \frac{1}{12} \\ &= ₹ 300\end{aligned}$$

B will pay ₹ 29,700 (₹ 30,000 - ₹ 300) to A at the time of retiring the bill.

13. Renewal of a Bill

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

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

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

Illustration 4

Narender requests Rajneesh to renew his acceptance for ₹ 25,000 for 3 months together with interest @ 18% p.a.

Calculate the amount of new bill drawn on Narender

Solution :

$$\begin{aligned}\text{Interest} &= \frac{\text{Amount*}}{\text{Outstanding}} \times \frac{\text{Rate}}{100} \times \frac{\text{Period of}}{\text{New Bill}} \\ &= 25000 \times \frac{18}{100} \times \frac{3}{12} = ₹ 1,125\end{aligned}$$

$$\begin{aligned}\text{Amount of New Bill} &= ₹ 25,000 + ₹ 1,125 \\ &= ₹ 26,125\end{aligned}$$

● Amount Outstanding = Amount of Bill cancelled – any part payment made in cash at the time of renewal of bill

14. Insolvency of Acceptor –

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

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

Accounting Treatment of Bill Transactions

A. On the Due Date bill is Honoured –

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

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

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

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

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

Note :

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

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

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

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

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

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

Note :

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

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

Illustration 5

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

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

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

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

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

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

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

Solution :

In the book of X (Drawer)

Journal

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
2011 April, 1	Y Dr. To Sales A/c (Being goods sold to Y on credit)		20,000	
April, 1	Bills Recivable A/c Dr. To Y (Being acceptance received from Y)		20,000	20,000
July, 4	Case – I When bill is retained by X till the date of maturity Cash/Bank A/c Dr. To Bills Receivable A/c (Being amount received from B against bill)		20,000	20,000
April, 4	Case – II When bill is discounted by X from his bank Bank A/c Dr. Discounting Charges A/c Dr. To Bills Receivable A/c (Being the bill discounted from the bank, discounting Charges are $= 2000 \times \frac{6}{100} \times \frac{3}{12} = ₹ 300$)		19,700 300	20,000
May, 4	Case – III when bill is Endorsed in favour of Z Z Dr. To Bills Receivable A/c (Being bill endorsed in favour of Z)		20,000	20,000
	Case – IV When bill is sent to bank for collection			

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
July, 1	Bills Sent for Collection A/c Dr. To bills Receivable A/c (Being bill sent for collection to bank.)		20,000	20,000
July, 4	Bank A/c Dr. To Bill sent for Collection A/c (Being amount realised from bill sent for Collection)		20,000	20,000

Note :

1. First two entries passed on April 1, 2011 will be same in the books of X (Drawer) in all the 4 cases.
2. If a bill is honoured on the date of maturity.
NO ENTRY is passed on the date of maturity in the books of drawer, if :
 - Bill is discounted from the bank ; or
 - Bill is endorsed in favour of creditor.

(In all 4 cases)

In the Books of Y (Drawee)

Journal

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

(Case - III)
In the books of Z (Endorsee)

Journal

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

B. When Bill is dishonoured on date of maturity.

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

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

Note :

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

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

In the books of DRAWER

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

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

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

(At the time of Dishonour of a bill)
In the books of ENDORSEE

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

Case IV- When Bill is sent for collection to Bank
(At the time of Dishonour of a Bill)
In the books of DRAWER

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

Notes :

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

2. In the books of Drawer

(At the time of Dishonour of Bill)

Drawee Dr. (In all Cases)

To Bills Receivable A/c (Case-I)

To Cash A/c (Noting Charges)

OR

To Bank A/c (Case-II)

(Including noting Charges)

OR

To Endorsee A/c (Case-III)

(Including noting charges)

OR

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

To Bank A/c (Noting Charges)

Illustration 6

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

Pass Journal entries in the books of A and B if

Case I : Bill is retained by A till the date of maturity.,

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

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

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

Solution :**In the books of A (Drawer)****Journal**

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

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

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

In the Books of B (DRAWEE)

(In All Cases)

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

Illustration 7

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

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

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

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

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

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

Solution :

In the Books of A (DRAWER)

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

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

In the Book of B (DRAWEE)

(In all Cases)

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

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

C. Renewal of a Bill

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

Note :

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

% per annum (Time is important)
 or
 % .

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

Example :

A bill is renewed for a period of 3 months. Amount of old bill cancelled is ₹ 50,000. Find the amount of interest for the extended period if.

Case I Rate of Interest is 8% per annum.

Case II Rate of Interest is 6%.

Solution :

Case I :

$$\text{Interest} = 50000 \times \frac{8}{100} \times \frac{3}{12} = ₹ 1000$$

Cas II :

$$\text{Interest} = 50000 \times \frac{6}{100} = ₹ 3000$$

Illustration - 8 :

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

Pass Journal entries in the books of both the parties.

Solution :**In the books of Sunil****Journal**

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
2011 April, 1	Bills Receivable A/c Dr. To Anil (Being acceptance received)		15,000	15,000
June, 4	Anil Dr. To Bills Receivable A/c To Cash A/c (Being bill dishonoured and noting charges paid)		15,150	15000 150

June, 4	Anil To Interest A/c (Being interest charged $= 15150 \times \frac{15}{100} \times \frac{73}{365}$)	Dr.	454.50	454.50
June, 4	Cash A/c To Anil (Being interest received in cash)	Dr.	454.50	454.50
June, 4	Bills Receivable A/c To Anil (Being a new bill drawn M Anil and acceptance received)	Dr.	15,1,50	15,1,50
Aug., 19	Bank A/c To Bills Receivable A/c (Being amount received on maturity of bill)	Dr.	15,1,50	15,1,50

**In the Books of Anil (DRAWEE)
Journal**

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
2011 April, 1	Sunil To Bills Payable A/c (Being acceptance gave)	Dr.	15,000	15,000
June, 4	Bills Payable A/c Noting Charges A/c To Sunil (Being bill dishonoured and noting charges due)	Dr. Dr.	15,000 150	15,150
June, 4	Interest A/c To Sunil (Being interest payable to Sunil)	Dr.	454.50	454.50

June, 4	Sunil To Cash A/c (Being interest paid in cash)	Dr.		454.50	454.50
June, 4	Sunil To Bills Payable A/c (Being acceptance of new bill given)	Dr.		15,150	15,150
Aug. 19	Bills Payable A/c To Bank A/c (Being bill accepted, paid on maturity)	Dr.		15,150	15,150

Illustration 9

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

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

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

Solution :

Journal of P

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
2011 Jan., 1	Q To Sales A/c (Being goods sold to Q)	Dr.	10,000	10,000
Jan., 1	Bills Receivable A/c To Q (Being acceptance received)	Dr.	10,000	10,000
Jan., 10	Bank A/c Discounting Charges A/c To Bills Receivable A/c (Being bill discounted from Bank)	Dr. Dr.	9,850 150	10,000

April, 4	Q To Bank (Being bill discounted from bank dishonoured and noting charges paid by bank)	Dr.	10,050	10,050
April, 4	Cash A/c To Q (Being part payment received in cash)	Dr.	2050	2050
April, 5	Q To Interest A/c (Being interest charged $= 8000 \times \frac{12}{100} \times \frac{3}{12}$)	Dr.	240	240
April, 4	Bills Receivable A/c To Q (Being a new bill drawn on Q together with interest)	Dr.	8240	8240

Journal of Q (DRAWEE)

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
2011 Jan., 1	Purchases A/c To P (Being goods purchased on credit)	Dr.	10,000	10,000
Jan., 1	P To Bills Payable A/c (Being acceptance given to P)	Dr.	10,000	10,000
April, 4	Bills Payable A/c Noting Charges A/c To P (Being bill dishonoured and noting charges due)	Dr. Dr.	10,000 50	10,050

April, 4	P	Dr.	2,050	2,050
	To Cash A/c (Being part payment made in cash)			
April, 4		Dr.	240	240
	Interest A/c To P (Being interest payable on outstanding amount for 3 months)			
April, 4	P	Dr.	8,240	8,240
	To Bills Payable A/c (Being acceptance given to P)			

D. Retiring a bill under Rebate

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

Note :

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

Illustration 10

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

Solution :

In the books of MUKESH

Journal

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

In the books of JITENDER

Journal

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
2011 July, 1	Purchases A/c Dr. To Mukesh (Being goods purchased on credit)		30,000	30,000
July, 1	Mukesh Dr. To Bills Payable A/c (Being acceptance given to Mukesh)		30,000	30,000

Aug., 4	Bill Payable A/c To Cash A/c To Rebate A/c (Being acceptance retired with rebate)	Dr.	30,000	29,600 400
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E. Insolvency of Acceptor :

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

Illustration - II

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

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

Give Journal Entries in the books of Rajiv and Pankaj.

Solution :

In the Books of RAJIV (DRAWER)

Journal

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

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

In the Books of PANKAJ (DRAWEE)

Journal

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

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

Points to Remember :

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

- (i) In case of “Bill at sight” or “Bill on demand” 3 days of grace are NOT allowed.
- (ii) When the term of bill is mentioned in no of days, then
 - Date of drawing the bill is not included.
 - Date of payment is included in determining date of maturity .
 - If date of maturity falls on a day which is public holiday, the maturity date of the bill shall be “PRECEDING DAY”.
 - If maturity date is on an emergent holiday declared under the Negotiable Instolement Act. 1881, the next working day immediately after the holi day will be considered as the date of maturity.
- (iii) When the period is stated in months the date of maturity shall be calculated in terms of calender months ignoring the no. of days in a month.

2. Noting Charges :

- (i) Noting charges are not an expense for the drawer.
- (ii) It is always debited as ‘Noting chargers in the books of drawee.
- (iii) Noting charges are recovered by drawer from drawee.
- (iv) Noting charges are paid only when noting of the bill is necessary any at the time DISHONOUR of bill.
- (v) Noting of the bill is NOT required when the bill is CANCELLED with the consent of both the parties, specially at the time of RENEWAL of Bill.



UNIT - 7

RECTIFICATION OF ERROR

LEARNING OBJECTIVES : After studying this topic the student will be able to :

- Explain Types of Errors and their examples
- Rectification the Errors :
- Two sided i.e. Errors not affecting Trial Balance one sided i.e. Errors which affect Trial Balance.
- To Explain Meaning and Utility of Suspense A/c
- Maintain Suspense A/c.

INTRODUCTION

In the previous chapter we have learnt that a Trial Balance is prepared to check the arithmetic accuracy of transactions recorded in a Journal, posting them into the ledger and balancing the ledger account. If a Trial Balance agrees, it is assumed that recording, posting etc. have been done correctly. But this is only partially correct because even if Trial Balance agrees, there may be some errors in the accounting records.

For example if a credit sale is omitted to be entered in the Sales Book, it will not affect the trial balance because both the Debit and the Credit aspects of this transaction are not recorded. In other words errors in the records may or may not affect Trial Balance.

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 & LA/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.

CLASSIFICATION OF ERRORS
(on the basic of Nature)

Type of Error with Meaning	Sub-Types with Examples
<p>I. Error of Omission (When a transaction is completely or partially omitted to be recorded in the books)</p>	<p>(a) Error of Complete Omission Goods sold to X on Credit but not recorded in Sales Book.</p> <p>*(b) Partial Omission Goods sold to X on Credit recorded in Sales Book but not posted to the A/c of X, thus sales A/c is credited but X is not debited creating short debit. This error will affect Trial Balance.</p>
<p>II. Error of Commission (These errors are caused due to wrong recording of transactions wrong totalling of subsidiary books or Ledger A/cs, Wrong posting and wrong carry forward)</p>	<p>(a) Error of Recording in the Book Of Original Entry Goods purchased from Ravi for Rs. 450, recorded as Rs. 540, in the Purchase Book. (This error will not affect Trial Balance as same amount will be posted in both the A/cs, Purchase A/c as well as Ravi.)</p> <p>*(b) Wrong Totalling of Subsidiary Book. Example : Purchase Book has been undercast (short totalled) by Rs. 100, Purchase A/c will be debited short by Rs. 100, decreasing the debit side of Trial Balance by Rs. 100.</p> <p>(c) Error in Totalling or Balancing of Ledger A/cs* Example : Creditors A/c has been balanced short by Rs. 500, then Trial Balance will Rs. 500 short in Credit side.</p>

<p>III. Errors of Principles. (These errors are caused due to the violation of accounting principles i.e. allocation between Capital and Revenue Items.</p> <p>IV. Compensation Errors (Two or more errors committed in such a way that the net effect of these errors of the debit and credits of A/cs is nil).</p>	<p>(d) Error of Posting</p> <p>*(i) Posting to the wrong side but correct account. Goods sold to X for Rs. 550, entered to the credit of X's A/c instead of posting to the debit side of his account.</p> <p>*(ii) Posting with wrong amount.</p> <p>*(iii) Posting twice in an A/c.</p> <p>(iv) Errors in posting to the wrong A/c but correct side don't affect Trial Balance.</p> <p>*(e) Error in carrying forward. Total of purchase book Rs. 2,500 is carried forward as Rs. 2050 Creating short debit of Rs. 450, in Purchase A/c and in turn short debit in Trial Balance.</p> <p>(a) Treating capital items as revenue item Example : Wages paid for the installation of a new machinery charged to Wages A/c instead of Machinery A/c.</p> <p>(b) Treating Revenue Items as Capital Item Example : Rs. 200 paid for the repairs of an old Machinery but debited to Machinery A/c instead of Repairs A/c.</p> <p>Example : On July, 1st 2011 a sum of Rs. 2,000 paid to Mohit is posted as Rs. 200 to the Debit of his A/c and on July 20th, 2011 a sum of Rs. 200 paid to Sonil has been posted as Rs. 2,000 to the Debit of his A/c. Net Effect will be zero.</p>
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Important 1 :

1. Errors of Principles and compensating Errors don't affect Trial Balance.
2. Errors shown by star in the above table affect Trial Balance.

TYPES OF ERRORS FROM RECTIFICATION POINT OF VIEW

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) Complete omission from posting to the A/cs.
- (4) Errors of posting to the wrong A/c but on the correct side.
- (5) Compensating errors.
- (6) Errors of principle.

Errors Affecting Trial Balance.

Shown by star in the table showing

Errors : Types and Examples.

- (1) Errors in totalling of Subsidiary books or ledger A/cs - i.e. overcast or undercast.
- (2) Error in the Balancing of Ledger A/cs.
- (3) Error in posting to the correct A/c but with the wrong amount or to the wrong side or both.
- (4) Errors of Paitial omission
- (5) Omitting to show an A/c in the Trial Balance.

RECTIFICATION OF ERRORS

When th 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 Depiciation 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) Error detected after preparing Final Accounts.

Rectification of Errors detected after preparing Final Accounts is not in the syllabus. Hence we will discuss only type (i) and (ii)

I 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 deficiation. In other words their rectifying entry will be same whether (a) the error is depicted before preparing 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 Rs. 10,000 has been debited to Purchases A/c

Solution : Here two A/cs are affected

- Machinery A/c is not debited its debit side is short by Rs. 10,000, where as purchases A/c is debited by mistake purchases A/c debit side is in excess by Rs. 10,000.
- While rectifying this mistake machinery A/c will be debited by Rs. 10,000 because it was not debited earlier and purchases A/c will be credited because it was wrongly debited Hence.

Rectifying Entry is :

		Dr. (₹)	Cr. (₹)
Machinery A/c To Purchases A/c (For purchase of machinery wrongly debited to purchas A/c)	Dr.	10,000	10,000

(II) When an account has wrongly been Credited in place of another account.

Example : Rs. 5,000 received from the sale of old furniture has been Credited to Sales A/c.

Solution : This errors also affects the two A/cs

- Furniture A/c is not Credited its credit side is short by Rs. 5,000.
- Sales A/c is credited by mistake its credit side is in excess or Rs. 5,000.
- Therefore for rectifying this mistake Sales A/c will be debited because it was arongly Credited and Furniture A/c which was not Credited earlier will now be credited by Rs. 5,000.

Hence Rectifying entry is :

		Dr. (₹)	Cr. (₹)
Sales A/c	Dr.	5,000	
To Furniture A/c			5,000
(Sale of old furniture wrongly Credited to Sales A/c)			

(III) - When there is a short dobit in one A/c and a short Credit in another A/c.

Example : Goods sold to Seema for Rs. 540 was entered in the Sales Book as Rs. 450.

Solution :

- Here Seema's A/c is debited by Rs. 90 short and Sales A/c is credited by Rs. 90 short.
(Instead of Rs. 540 by Rs. 450)
- Therefore rectification will be done by Debiting Seema's A/c and Crediting Sales A/c. Hence Rectifying entry is :

		(₹)	(₹)
Seema	Dr.	90	
To Sales A/c			90
(Goods sold to Seema for Rs. 540 wrongly entered as for Rs. 450)			

(IV) - When there is an Excess Debit in one A/c and Excess Credit in another A/c.

Example : Goods purchased from Mohan for Rs. 300, was recorded in Purchase Book as Rs. 3000.

Solution -

- Here Purchases A/c is Debited by Rs. 3000, instead of Rs. 300, ie. Rs. 2700, more.
- Mohan's A/c is also Credited by Rs. 2700 more.
- Rectification will be done by debiting Mohan's A/c and Crediting purchases A/c by Rs. 2700, ie. the entry in the reverse direction.

Rectifying Entry

		(₹)	(₹)
Mohan	Dr.	2700	
To Purchases A/c			2700
(Purchase of goods from Mohan for Rs. 300 wrongly entered as Rs. 3000)			

Problem :**Rectify the following errors :**

1. Credit purchases from Amit not recorded for Rs. 8,000 (Error of Complete omission).
2. Wages paid Rs. 500 for the installation of a new Machinery were recorded in wages A/c. (Error of Principle)
3. Credit sales to Anil for Rs. 5,000 were posted to Amit's A/c (Error of Commission)
4. Goods purchased from Ram for Rs. 900 were recorded in Sales Book (Error of Commission)
5. Goods returned to Amit for Rs. 1,000 entered as Rs. 100 (Error of Commission)
6. Rent paid Rs. 400 wrongly debited to Landlord's A/c (Error of Principle)
7. Rs. 500, paid for the proprietor's medical bill were debited to "Sundry Expenses A/c" [Error of Principle]
8. Rs. 2,500, received from Anil were recorded in the Cash Book as Rs. 5,200 [Error of Commission]

Solution : Note that

- In Error No. 4. more than two Account are affected.

(a) **Wrong Entry done**

Ram	Dr.	900	
To Sales A/c			900

(b) **Correct Entry Required**

Purchases A/c	Dr.	900	
To Ram			900

Here to cancel the effect of wrong entry we have to do the entry

Sales A/c	Dr.	900	
To Ram			900

Now the **Rectifying entry will be**

Entry (b) + Entry (c) ie.

Purchase A/c	Dr.	900	
Sales A/c	Dr.		900
To Ram			1,800

Complete Solution

Date/ Error	Particular	L.F	Dr. (₹)	Cr. (₹)
1.	Purchases A/c Dr. To Amit (For the credit purchases to Amit omitted to be recorded)			8,000 8,000

2.	Machinery A/c Dr. To Wages A/c (Wages paid for the installation of a new machinery wrongly debited to wages A/c)		500	500
3.	Anil Dr. To Amit (Credit sale to Anil wrongly debited to Amit's A/c)		5,000	5,000
4.	Purchases A/c Dr. Sales A/c Dr. To Ram (Credit purchase from Ram wrongly passed through sales book.)		900 900	1,800
5.	Amit Dr. To Purchase Returns A/c (Goods returned to Amit entered short by Rs. 900)		900	900
6.	Rent A/c Dr. To Landlord (Rent paid wrongly debited to landlord's A/c)		400	400
7.	Drawing A/c Dr. To Sundry Expenses A/c (Proprietor's personal expenses wrongly debited to S.Expenses)		500	500
8.	Anil Dr. To Cash A/c (Cash received from Anil was recorded in excess by Rs. 2,700) (5,200-2,500)		2,700	2,700

Important :

Rectification of double sided errors can easily be understood by the students. There are rectified by passing the journal entries as given above irrespective of the time of defiction 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 difference in the 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.

When there errors are rectified before preparing Trial Balance i.e transferring the difference in the Trial Balance to the Suspense Account.

(Which will be explained later on), then it is done 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) Purchase Book undercast by Rs. 150

Analysis : It means that the total of the Purchase Book is Rs. 150 short.

- This total is posted to purchase A/c - Debit side
- Hence purchase A/c is debited short by Rs. 150
- No effect on any other A/c
- Therefore purchase A/c will be debited by Rs. 150 to rectify this error as given below.

Dr		Purchases A/c		Cr			
Date	Particular	J.F	(₹)	Date	Particular	J.F	(₹)
	To Undercast of purchase book for the month of		150				

Here debit side of the Purchase A/c was short therefore the rectification is done by debiting the A/c.

Example 2 - Purchase Book is overcast by Rs. 300

Analysis

- Means total of the purchase Book is in excess by Rs. 300 which is posted to the debit side of purchase A/c
- Hence purchase A/c is debited in excess by Rs. 300
- No effect on any other A/c.
- Therefore to rectify this error Rs. 300 will be credited to purchase A/c (ie. opposite side)

Dr		Purchases A/c		Cr			
Date	Particular	J.F	(₹)	Date	Particular	J.F	(₹)
					By Overcast of Purchases 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 every single sided error is rectified by passing a Journal entry through the Suspense Account.

- For short Debit in one Account → Debit that Account and Credit the Suspense A/c

Excess Credit in one Account → Debit that Account and Credit the Suspense A/c

Short Credit in one Account → Credit that A/c and Debit the Suspense A/c

Excess Debit in one Account → Credit that A/c and Debit the Suspense A/c

Example 3 : Hence for the same error as given in example No in case I, the following Journal Entry will be passed.

		(₹)	(₹)
Purchases A/c	Dr.	150	
To Suspense A/c			150
(For undercast of purchase book, now corrected)			

Example 4 : Sales Book was undercast by Rs. 200.

Analysis

- Sales book totalled short by Rs. 200 which is posted to the credit side of sales A/c.
- Therefore sales A/c credit side is short by Rs. 200.
- Hence rectification will be done by crediting the sales A/c and Debiting the Suspense A/c by Rs. 200.

		(Rs.)	(Rs.)
Suspense A/c	Dr.	200	
To Sales A/c			200
(For the undercast of Sales Book, now corrected)			

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 errors

- (A) Without opening a Suspense A/c
- (B) By passing Journal entries through Suspense A/c.

(1) Rs. 400 Paid to X were entered in the Cash Book but omitted to be posted to the Ledger.

(2) Rs. 400 Paid to X were debited to his A/c as Rs. 40

(3) Rs. 400 paid to X were debited to his A/c as Rs. 4000 (for Thousand)

(4) Rs.400 Paid To X were Credited to his A/c

(5) Rs.400 Paid To X were Credited to his A/c as Rs. 40

(6) Sales Book was overcast by Rs. 200.

(7) Sales Return Book undercast by Rs. 400

(8) Purchase Return Book undercast by Rs. 500.

Solution : (A) Without opening a Suspense A/c

As explained earlier, if the errors (single side) are detected before preparing Trial Balance then these are rectified by directly the amount in the concerned Ledger Accounts.

Solution :

1. X's A/c will be debited by Rs. 400 as it is a case of partial omission.

2. X's A/c was **debited** short by Rs. 360 (400-40) therefore the rectification will be done **by debiting X's A/c by Rs. 360.**

3. X's A/c was **debited in excess by Rs. 3600** (4000-400) therefore rectification will be done by **Crediting the X's A/c by Rs. 3,600.**

4. X's A/c was Credited by Rs. 400 instead of debiting by Rs. 400, therefore rectification will be done by **debiting the X's A/c by Rs. 400+400 ie. Rs. 800** (Rs. 400 to cancel the effect of wrong credit and Rs. 400 for actually debiting the A/c).

5. X's is wrongly **Credited by Rs. 40 instead of Debiting it by Rs. 400.** Hence rectification will be done by **Debiting the x's A/c by Rs. 440.**

6. Sales Book overcast means **Sales A/c is Credited in excess by Rs. 200** whereas customer's have been debited by the correct amount.

Hence rectification will be done by **debiting - Sales A/c by Rs. 200.**

7. **Sales Return Book total Undercast by Rs. 400** means Sales Return A/c is **debited short by Rs. 400.** Hence Rectification will be done by **debiting the Sales Return A/c by Rs. 400.**

8. Purchase Return Book **undercast** by Rs. 500 means **Purchase Return A/c is credited short by Rs. 500.**

Hence rectification will be done by Crediting the Purchase Return A/c by Rs. 500.

Exact Solution :

In this example the rectification in X's A/c from Error No. 1 to 4 will be shown as follows :

Dr		X's Account			Cr.		
Error/ Date	Particular	L.F	(₹)	Date	Particular	L.F	(₹)
(1)	To ommission of posting of Cash Paid		400	(3)	By Error in Posting With the wrong Amount		3,600
(2)	To Error in Posting with the Wrong Amount		360				
(4)	To Error in Posting to the Wrong side		800				

(B) By opening Suspense A/c

only Rectifying Journal Entries are done.

Date/ Error	Particulars	L.F	Debit Amount (₹)	Credit Amount (₹.)
(1)	X Dr To Suspense A/c (Cash paid to X omitted to be posted to X's A/c)		400	400
(2)	X Dr To Suspense A/c (Cash paid to X was debited to his A/c with the lesser amount)		360	360
(3)	Suspense A/c Dr To X (X's A/c was debited with excess amount)		3,600	3,600

(4)	X	Dr	800	800
	To Suspense A/c (For posting to X account was done on the wrong side (Cr) by Rs. 400)			
(5)	X	Dr	440	440
	To Suspense A/c (For posting made with the wrong amount on the wrong side, now corrected)			
(6)	Sales A/c	Dr	200	200
	To Suspense A/c (Overcast of Sales Book rectified)			
(7)	Sales Return A/c	Dr	400	400
	To Suspense A/c (For the undercast of sales return book, rectified)			
(8)	Suspense A/c	Dr	500	500
	To Purchase Return A/c (For the rectification of undercast of purchase return book)			

Suspense Account and its Disposal :

In the chapter of Trial Balance we have learnt about the Suspense A/c

Important :

- When inspite of the effects, 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 purpos 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 ie it will show zero balance.

- But if suspense A/c still shows a balance it will indicate that certain errors 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 Rs. 100 which he transferred to the suspense A/c.

The following errors were then subsequently discovered :

- (1) Received Rs. 550 from X, were posted to the debit of his account.
- (2) Rs. 100 being purchase return were posted to the debit of purchases A/c.
- (3) Discount received Rs. 200 Correctly entered in the Cash Book but posted to the debit of the discount A/c.
- (4) Salary paid Rs. 3,500 to x were posted to the salary A/c as Rs. 2,500.
- (5) A purchase of Rs. 400 has been passed through Sales Book. However the customer's account has been correctly credited.

Give Rectifying entries and Suspense A/c

Rectifying Journal Entries

Date	Particulars	L.F	Debit Amount (₹)	Credit Amount (₹)
(1)	Suspense A/c Dr To X (Amount received from x was posted to the wrong side now corrected)		1,100	1,100
(2)	Suspense A/c Dr To Purchase A/c To Purchase Returns A/c (For the purchase return wrongly posted to the purchases A/c)		200	100 100
(3)	Suspense A/c Dr To Discount A/c (Discount received was posted to the wrong side of discount A/c)		400	400

(4)	Salary A/c Dr To Suspense A/c (Salary paid was posted to salary A/c with lesser amount)	1,000	1,000
(5)	Purchases A/c Dr Sales A/c Dr To Suspense A/c (Purchases has been passed through sales book but the customer's A/c has been correctly credited)	400 400	800

Dr		Suspense A/c				Cr	
Date/ Error	Particular	J.F	(₹)	Date	Particular	J.F	(₹)
	To Defference in the Trial Balance		100	(4)	By Salary A/c		1,000
				(5) (i)	By Purchases A/c		400
				(ii)	By Sales A/c		400
(1)	To ×		1,100				
(2)	To Purchase A/c		100		Balance c/d		Nil
(3)	To Return A/c		100				
(4)	To Discount A/c		400				
			1,800				1,800

Since the Balance of the suspense A/c is nil, it indicates that all the errors have been rectified.

Suggested Methodology

Discussion and Explanation method is suggested.



UNIT - 8

FINANCIAL STATEMENT OF SOLE PROPRIETORSHIP

Learning Objectives

After studying this chapter, you will be able to :

- ◆ state the nature of the financial statements;
- ◆ distinguish between the capital and revenue expenditure and receipts;
- ◆ explain the concept of trading and profit and loss account and its preparation;
- ◆ State the nature of gross profit, net profit and operating profit;
- ◆ describe the concept of balance sheet and its preparation;
- ◆ explain grouping and marshalling of assets and liabilities;
- ◆ prepare profit and loss account and balance sheet of a sole proprietary firm.

Teaching methodology : for teaching this topic the teacher should use discussion method, explanation method, illustration method.

Financial Statement

Financial statements are the statement which give information about the profitability (income statement) and the financial position (Balance Sheet) of the business **at the end of accounting period.**

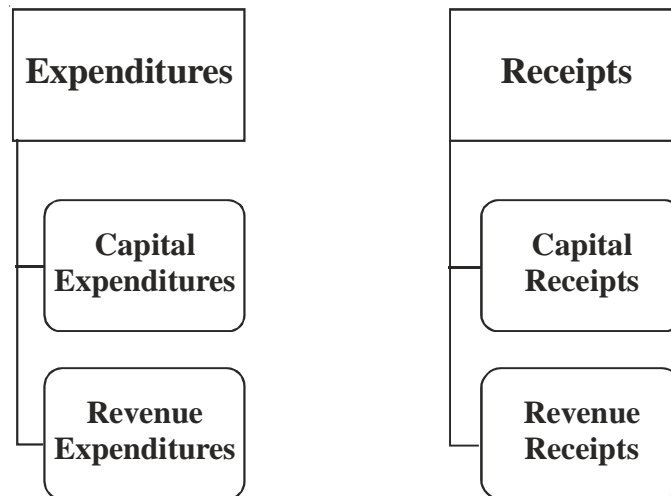
financial statements include two basic statements :

- (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 financial position (assets, liabilities and capital) of an enterprise at a particular point of time.

In addition to the above two basic financial statements, two other statements also included in financial statements :

- (i) **Statement of Retained Earnings.**
- (ii) **Cash Flow Statements.**

But in class XI accountancy syllabus only two basic two statement treatment is to be done.



Capital Expenditure :

The amount which is incurred in **acquiring or improving** the value of **fixed assets** is called capital expenditure e.g. purchase of machinery / building/ furniture etc. and expenditure incurred for prepare an asset to ready for use (like installation exp., carriage, expenses incurred on second hand, fixed asset for ready to use).

Nature of Capital Expenditure :

- (i) When expenditure incurred for **increasing the earning capacity** of the business.
- (ii) Capital expenditure gives **benefit over a long period** (more than one accounting year).
- (iii) **Capital expenditure is recorded in balance sheet.**
- (iv) When an amount is incurred in **non-recurring** in nature.

Examples of Capital Expenditure :

1. Purchase of fixed assets such as land, building, machinery, furniture, motor vehicle etc.
2. Wages paid for erection of machinery.
3. Expenses of overhauling second-hand purchased machinery. (only at first time)

4. Interest on loan raised to purchase a fixed assets (upto the point of time ready to use of fixed assets).
5. Preliminary expenses for floating a company.
6. Expenses for obtaining a licence.
7. Initial expenditure for acquiring patent right.
8. Expenses incurred on purchase of goodwill, patents, trademark & copy-right etc.
9. Legal expenses incurred in connection with acquiring or defending suit for protecting fixed assets.
10. Expense incurred for on repair and whitewashing for the first time on the purchase of old building.
11. Expenses incurred on purchase of fixed assets e.g. registration expenses.
12. Cost of air-conditioning of the office or factory premises.

Revenue Expenditure :

The expenditure which is incurred for the **day to day running of the business** like expenses incurred for producing finished goods such as direct expenses, purchase of raw material and other expenses as rent, salary, repair etc.

Nature of Revenue Expenditure :

1. When an amount incurred on maintaining the earning capacity of the business (keep the assets in efficient working condition) e.g. repair of machinery.
2. The **benefit** of expenses would **last in one year**. (give benefit maximum of one year)
3. Revenue expenditure are recurring in nature and recorded in income statement (trading and profit and loss account)

Examples of Revenue Expenditure :

1. Renewal expenses/fee of patent.
2. Depreciation on fixed assets.
3. Repair of machinery normal or due to negligence of operator.
4. Insurance premium for an assets including tax on insurance.
5. Electricity bill paid, salary paid, wages paid, trading expenses, establishment changes, bad debt etc.

Deferred Revenue Expenditure :

The expenditure which is **revenue in nature**, but the **amount is heavy and benefit** of the likely to be derived **over a number of years** called deferred revenue expenditure. e.g. large expenses on advertising of a new product and hence it is treated same just like a fixed assets. Sometimes heavy losses due to natural calamities can also be treated as deferred revenue expenses.

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 year over which benefit is likely to occur.

During the current accounting year (a). Only that portion of the expenditure should be charge to the profit and loss account which has facilitated 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 (actually it is a fictitious assets).

Examples of deferred revenue expenditure :

1. Heavy amount spent on advertisement on launching a new product.
2. Heavy repair expenditure incurred on machinery (which has not increased earning capacity of machinery) may be treated as deferred revenue expenditure and spread over a number of years.

Capital Receipt

Capital receipts don't affect profit or loss of business; it either increase the liabilities or reduces the fixed assets (by sale of fixed assets). So **it will be shown in balance sheet.**

Capital receipt includes following receipts :

I. Fresh capital introduced or additional capital introduced

II. Loan raised.

III. Amount received which is not is the normal and ordinary course of business like sale of fixed assets.

Capital receipts are not made available for distribution of profit to the owner.

Revenue Receipt

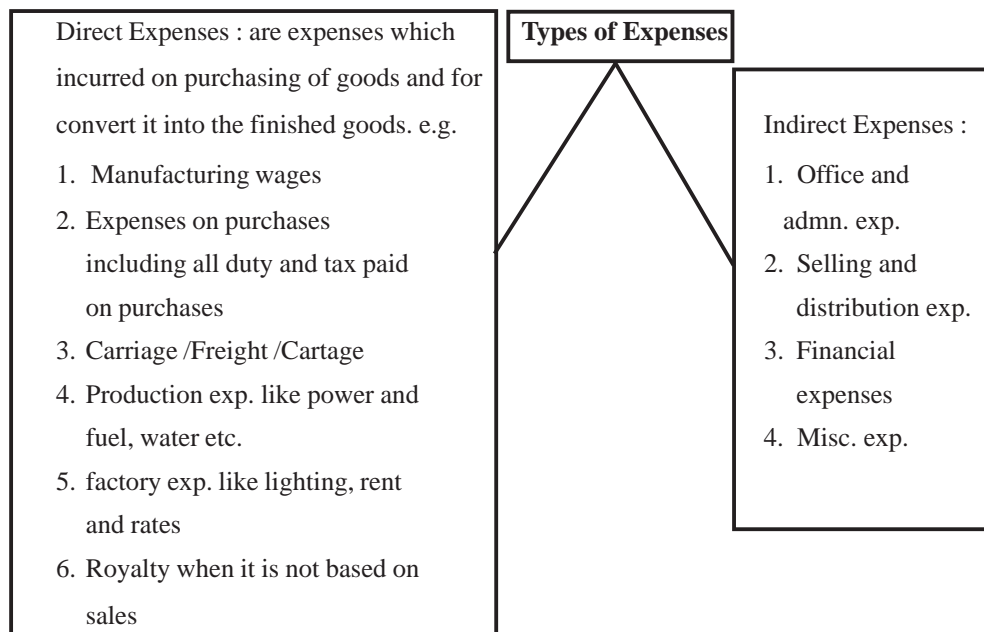
Revenue receipts are the which received in the normal and regular course of business like

- (i) Receipts from sale of goods and fendering services to customers.
- (ii) Income from non-operating business activities (like income from investment i.e. interest and dividend received and rent received).
- (iii) Commission and other fees received for non-operating business service rendered.

Accounting Treatment : **These receipts increases profit and shown in the credit side of the Trading and Profit and Loss account.**

Income Statement

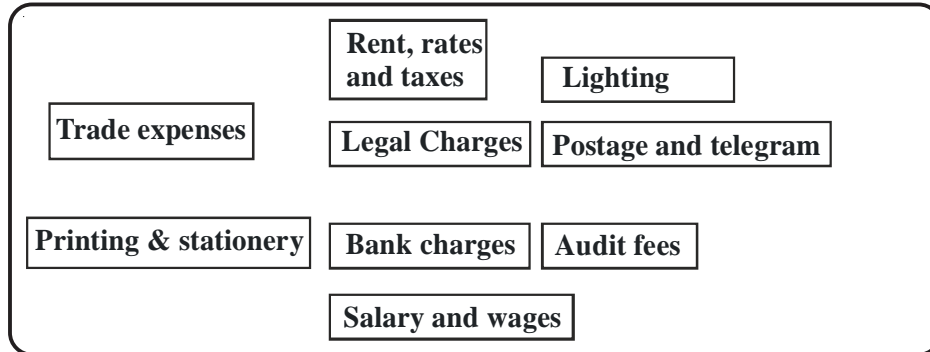
1. it is a **nominal account**.
2. it has two parts (a) Trading Account : for calculating gross profit/loss.
(b) Profit and Loss account : for calculating net profit/loss.



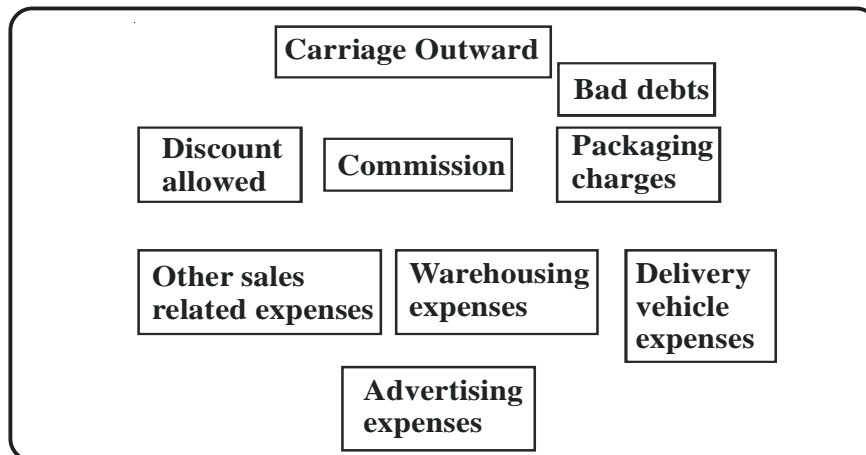
Note : all direct expenses are debited to Trading account and all indirect expenses are debited to Profit and Loss account.

Examples of Indirect Expenses :

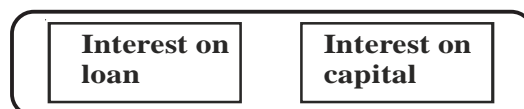
(1) Office and admn. Expenses :



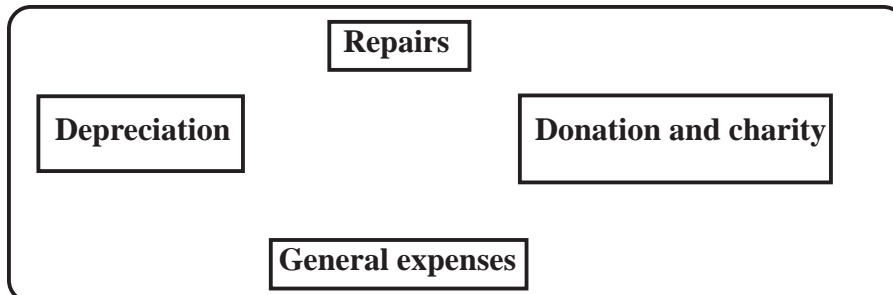
(2) Selling and distribution Expenses :



(3) Financial Expenses :



(4) Misc. Expenses :



Calculation of Gross Profit : $\text{Gross Profit} = \text{Net Sales} - \text{Cost of Goods Sold}$ $\text{Cost of Goods Sold} = \text{Net Sales} - \text{Gross Profit}$

OR

$= \text{Opening Stock} + \text{Purchases} + \text{Direct Expenses} - \text{Closing Stock.}$

Calculation of Operating Profit : $\text{Operating profit} = \text{Net sales} - \text{Operating cost.}$

Operating Cost = Cost of Goods Sold+office and admn. Expenses+selling and distribution exp.

OR

Operating Profit = Gross Profit – (Office Admn. Expenses+selling and distribution exp.)

Net Profit = Operating Profit +Non–operating profit -non-operating expenses.

Operating expense : the expenses which are related to the main or normal activities of the business e.g. office and admn. expenses, selling and distribution expenses.

Operating profit also called **EBIT** (earning before interest and taxes)

Format of a Trading and Profit and Loss Account

Trading and Profit and Loss Account

(for the year ending.....)

Particulars	Amount ₹	Particulars	Amount ₹
To opening stock	By Sales.....	
To purchases		Less : Return inward.....	.....
Less : return outward	By loss on sales of abnormal events	.....
To Direct expenses	By Closing stock	.....
To Gross profit (transferred to profit and loss account Cr. side)	By Gross loss (Transferred to profit & loss A/c Dr. side)	.....
To Gross loss (transferred from trading A/c)	By Gross Profit (transferred from A/c)	.....
To office and Admn. Exp.	By Non-operating income	.....
To selling and distribution exp.		By Net Loss (to be transferred to capital A/c)	.....
To financial exp.		
To misc. exp.		
To Net Profit (to be			

transferred to capital A/c)

.....

BALANCE SHEET

In Trading and Profit and Loss account all nominal A/cs balances are transferred and balances of all the personal and real accounts grouped as assets and liabilities. Liabilities are shown on the left hand side of the balance sheet and assets on the right hand side of the balance sheet.

Main purpose of preparing balance sheet is to ascertain the financial position of the business at a particular point of time.

Grouping and marshalling of assets and liabilities :

Grouping : means putting various assets and liabilities having the same nature under some common heading. e.g. the amount receivable from various customers will be shown under heading 'Sundry Debtors'. Similarly, under heading 'Current Assets' the balance of cash, bank, debtor, stock etc. will be shown.

Marshalling : is the arrangement of various assets and liabilities in a particular order like (a) in the order of liquidity (b) in the order of permanence-exactly the reverse of the order of liquidity.

(a) in the order of liquidity-More Liquid Assets → less liquid → permanent Assets

First item to Last item of assets →

Short term liabilities → **medium term liabilities** → **Long term liabilities**

(b) in order of **permanence- More permanence assets** → **less permanence** → **liquid assets**

Long term liabilities → **medium term liabilities** → **short term liabilities**

Balance Sheet

As on

Liabilities	Amount ₹	Assets	Amount ₹
Sundry Creditors	Cash in hand	.....
Bills Payable	Cash at bank	.....
Bank Loan	Bills Receivables	.....
Outstanding expense	Sundry debtors	.....
Income received in advance	Advance payments	.....

Loan on mortgages	.....	Stock	.....
Reserves and surplus	.....	Investment	.....
Capital	.....	Furniture and fixture	.....
		Plant and machinery	.....
		Land and building	.....
		Trade mark	.....
		Copyrights	.....
		Patents	.....
		Goodwill	.....

The above balance sheet is given in the order of liquidity, if you need in permanency order reverse the order of assets and liabilities.

Note 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 and 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 and 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 a/c.
6. **Packaging material** : cost of packaging material used in product are direct expenses as it refers to small containers which form part sold, it will debited to trading a/c.
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 and loss account.

8. **Adjusted purchases** mean 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 trail balance, then there is no need of debiting opening stock and crediting closing stock in trading a/c. In this case closing stock will be shown in balance sheet only.

Calculation of cost of goods sold and preparation of trading account :

Illustration :1.

Stock as on 01.04.2010 Rs. 10,000;

Sales Rs. 2,00,000; Purchases Rs. 1,45,000; carriage inwards Rs. 4,000; clearing charges Rs. 5,000; sales returns Rs. 1,500; purchases return Rs.2,000; carriage outward Rs. 2,500; stock as on 31.03.2011 Rs. 15,000.

Calculate cost of goods sold and prepare trading account for the year ending 31.03.2011.

Trading Account

Dr. (for the year ending 31st march 2011) **Cr.**

Particulars	Amount	Particulars	Amount
To Opening stock	10,000	By Sales 2,00,000	
To Purchases 1,45,000		Less: return <u>1,500</u>	1,98,500
Less: Return <u>2,000</u>	1,43,000		
To Carriage inward	4,000	By Closing Stock	15,000
To Clearing charges	5,000		
To Gross profit (to be transferred to profit & loss a/c)	51,000		
	2,13,500		2,13,500

Cost of goods sold = net sales – gross profit

$$= 1,98,500 - 51,500 = ₹ 1,47,000$$

Or opening stock + net purchases + direct expenses - closing stock

$$= 10,000 + 1,43,000 + 4,000 + 5,000 - 15,000 = 1,47,000$$

Illustration :2. Calculate cost of goods sold and prepare trading account for the year ending 31.03.2011 from the following information.

Opening stock Rs. 2,00,000; purchases Rs. 3,50,000; closing stock Rs. 1,20,000; Wages Rs. 2,500; freight Rs. 4,500; carriage outward Rs. 5,500; trade expenses Rs. 2,500.

The percentage of gross profit on sales is 20%

Sol: Calculation of cost of goods sold = opening stock + purchases + direct exp. Closing stock

$$= 2,00,000 + 3,50,000 + 2,500 + 4,500 - 1,20,000$$

$$= ₹ 4,37,000$$

Let sales = ₹ 100; then gross profit = ₹ 20,

Therefore cost of goods sold will be = ₹. $100 - 20 = ₹ 80$

If cost of goods sold is ₹ 80, then sales is = ₹ 100

If cost of goods sold is ₹. 4,37,000, then sales = $100/80 \times 4,37,000 = ₹ 5,46,250$

Trading Account

Dr.

(for the year ending 31st March 2011)

Cr.

Particulars	Amount	Particulars	Amount
To Opening stock	20,000	By Sales	5,46,250
To Purchases	3,50,000	By Closing stock	1,20,000
To Wages	2,500		
To Freight	4,500		
To Gross profit (to be transferred to profit loss a/c)	1,09,250		
	6,66,250		6,66,250

If gross profit is $\frac{1}{5}$ of sales given (e.g. $\frac{20}{100}$), then Gross profit = 20, sales = 100 And cost of goods sold = $100 - 20 = 80$ i.e. gross profit is $\frac{20}{80}$ of cost. (25% of cost)

OR

If gross profit is 20% of sales then it means 25% on cost

Gross profit is ₹ 20 and sales is ₹ 100 ($\frac{20}{100}$) = (Cost $100 - 20 = 80$)
gross profit is 20 and cost is 80 ($\frac{20}{80}$) i.e.

20% of sales = 25% of cost

Illustration 3 : Calculate cost of goods sold and prepares trading account for the year ending 31.03.2011 form the following information :

Opening stock Rs. 30,000; cash sales Rs. 1,60,000; credit sales Rs. 80,000; direct expenses Rs. 5,000; purchases Rs. 1,90,000.

Rate of Gross profit on cost is $33\frac{1}{3}\%$.

Sol. Total sales = cash sales + credit sales

= 1,60,000+80,000

= 2,40,000

Let sales Rs. 100 and gross profit ₹ $33\frac{1}{3}$

If sales is 2,40,000 then gross profit = $\frac{100}{3} \times \frac{1}{100} \times 2,40,000 = 80,000$

Then cost of goods sold = net sales – Gross profit

= 2,40,000–80,000 = ₹ 1,60,000

Calculation of closing stock

Cost of goods sold = opening stock + purchases + direct expense– closing stock

1,60,000=30,000+1,90,000+5000–closing stock

closing stock = 2,25,000–1,60,000 = ₹ 65,000

Trading Account

(for the year ending 31st March 2011)

Dr.		Cr.	
Particulars	Amount ₹	Particulars	Amount ₹
To Opening stock	30,000	By Sales	2,40,000
To Purchases	1,90,000	By Closing stock	65,000
To Direct exp.	5,000		
To Gross profit (to be transferred to profit loss a/c)	80,000		
	3,05,000		3,05,000

Illustration 4. From the following information, prepare a profit and loss account for the year ending 31st March 2011.

Gross profit ₹ 70,000; Rent ₹ 5,000; Salary ₹ 15,000; Wages ₹ 8,000;
 Commission paid Rs. 7,000; Interest paid on long term loan ₹ 5,000; Advertising ₹ 3,000;
 Discount Received ₹ 2,000; Printing and Stationery ₹ 1,000; Legal Charges ₹ 2,500;
 Bad debts ₹ 1,500; Depreciation ₹ 1,000; Income received from investment ₹ 3,000;
 Loss by fire ₹ 2,200; Bad debts recovered ₹ 200; freight outward ₹ 600; Audit fees ₹ 450.

Profit and Loss Account

(for the year ended 31st March, 2011)

Dr.		Cr.	
Particulars	Amount ₹	Particulars	Amount ₹
To Rent	30,000	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 long term-loan	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 fees	450		
To Net profit (to be transferred to Capital Account)	30,950		
	<u>75,200</u>		<u>75,200</u>

Illustration 5. From the illustration no. 4 information calculate operating profit.

Sol. Operating profit = Net profit – non operating income (income from investment) + non operating expenses (loss by fire and interest paid on long term loan)

$$= 30,950 - 3,000 + 2,200 + 5,000$$

$$= ₹ 35,150$$

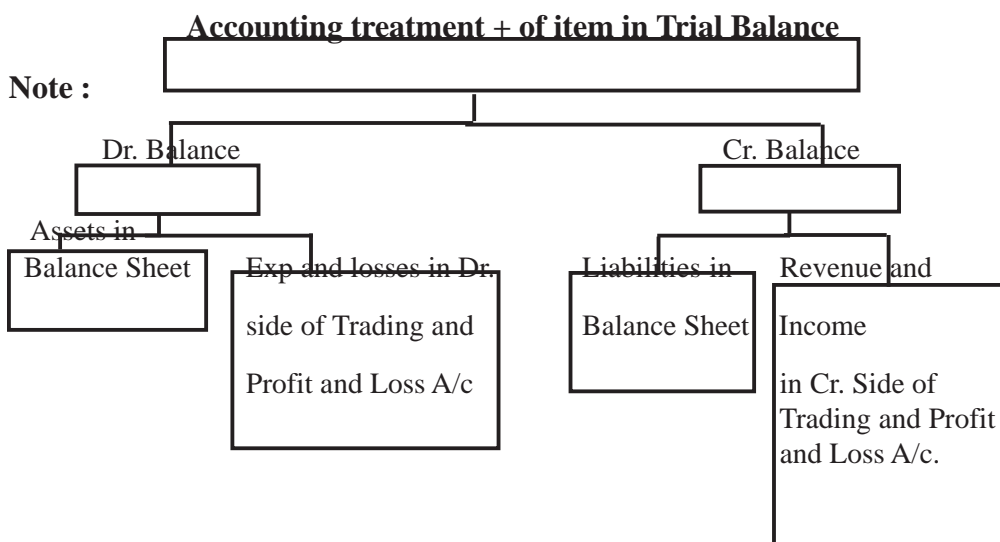


Illustration No 6.

Following is the Trial Balance of Aradhya Trader as on 31st March, 2011.

Particulars	Dr. ₹	Cr. ₹
Plant and Machinery	1,45,000	—
Furniture	1,27,500	—
Motor Vehicles	337,250	—
Buildings	97,750	—
Stock as on 1 st April 2010	75,500	—
Stock as on 31 st March 2011	80,000	—
Purchases and Sales	7,00,000	11,75,000
Return	25,000	15,000
Carriage Inward	1,500	—
Carrage Outward	2,500	—
Salary and Wages	25,000	—
Power and fuel	2,000	—
Discount	2,500	2,000
Commission	1,500	2,500
Interest	2,500	2,500
Repairs	3,000	—
Postage and Telegrams	2,000	—
Trade Expenses	1,500	—
Rent	1,200	—
Sales Promotion exp.	2,500	—
Bad debts	1,500	—

Depreciation	70,000	—
Misc. Exp./Income	2,000	15,000
Debtors/Creditors	90,000	50,000
Bills Receivable/Bills Payable	25,000	12,500
Investment	50,000	—
Drawing	12,500	—
Cash in hand	2,500	—
Cash at bank	10,000	—
Capital	----	5,34,700
Loan from Bank (Long term)	----	90,000
Total	<u>19,00,200</u>	<u>19,00,200</u>

Prepare the Trading and Profit and Loss Account for the year ended 31st March, 2011 and the Balances Sheet as at that date.

Trading and Profit and Loss Account

(for the year ended 31st March, 2011)

Dr.		Cr.	
Particulars	Amount ₹	Particulars	Amount ₹
To Opening Stock	75,500	By Sales	11,75,000
To Purchases	7,00,000	<i>Less: Return Inward</i> <u>25000</u>	11,50,000
<i>Less: Return outward</i> <u>15000</u>	6,85,000		
To Carriage Inward	1,500		
To Power and Fuel	2,000		
To Gross Profit (transferred to P and L A/c)	3,86,000		
	<u>11,50,000</u>		<u>11,50,000</u>
To Carriage Outward	2,500	By Gross Profit	3,86,000
To Salary & Wages	25,000	(transferred from Trading A/c)	

To Discount Allowed	2,500	By Discount Received	2,000
To Commission paid	1,500	By Commission received	1,500
To Interest Paid	2,500	By Interest received	2,500
To Repairs	3,000	By Misc. Incomes	15,000
To Postage and Telegrams	2,000		
To Trade Exp.	1,500		
To Rent	1,200		
To Sales Promotion Exp.	2,500		
To Bad debts	1,500		
To Depreciation	70,000		
To Misc. Exp.	2,000		
To Net Profit (trans ferred to Capital A/c)	2,89,300		
Total	<u>4,07,000</u>		
	<u>4,07,000</u>		

BALANCE SHEET

As on 31 st March, 2011			
Liabilities	Amount ₹	Assets	Amount ₹
Creditors	50,000	Plant and Machinery	1,45,000
Bills Payables	12,500	Furniture	1,27,500
Loan from Bank	90,000	Motor Vehicles	3,37,250
Capital 5,35,700		Buildings	97,750
Less : Drawings <u>12500</u>		Closing Stock	80,000
5,23,200		Debtors	90,000
Add: Net <u>2,89,300</u>		Bills Receivables	25,000
Profit	8,12,500	Investment	50,000
		Cash in Hand	2,500
		Cash at Bank	10,000
	<u>9,65,000</u>		<u>9,65,000</u>

Accounting Treatment : (i) outstanding expenses are shown as **current liabilities in liabilities side of balance Sheet.**

(ii) The amount actually paid for the concerned expenses will be **increased** by the outstanding expenses amount in the **Dr. side of trading or profit loss A/c** as per the case.

If **outstanding expenses have been mentioned inside** the Trial Balance, they will be shown on the liabilities side of Balance sheet only.

3. Prepaid expenses (Exp. paid in advance) : These are expenses which have been paid in current year and benefit of it will be available in next accounting year also like prepaid insurance, prepaid rent.

Adjustment entry : Prepaid expenses A/c Dr.

To concerned expenses A/c

(Being exp. paid in advance recorded in the books)

The word expenses may be replaced by the name of exp. like salary, wages, rent etc.

Accounting Treatment : (i) Prepaid expenses are shown as **current Assets in Assets side of balance sheet.**

(ii) The amount actually paid for the concerned expenses will be **reduced** by the prepaid expenses amount in the **Dr. side of trading or profit and loss A/c** as per the case.

If **prepaid expenses have been mentioned inside the Trial Balance, they will be shown on the Asset side only.**

4. Accrued income or outstanding income / income receivable : Income which have been earned during the current accounting period but not received till the end of accounting period is called accrued income. *e.g.* interest on investment due but not yet received.

Adjustment entry : Accrued Income A/c Dr.

To Concerned Income A/c

(Being income accrued during the year)

The word income may be replaced by the name of income like commission, interest etc.

Accounting Treatment : (i) Accrued income are shown as **current Assets in Assets side of balance sheet.**

(ii) The concerned income will be **increased** by the amount of accrued income amount in the **credit side of Trading or Profit and loss Account.**

If **Accrued Incomes have been mentioned inside the Trial Balance, they will be shown on the Asset side only.**

Provision for doubtful debts A/c Dr.

 To Bad Debts A/c

(Being bad debts written from old provision)

(ii) for creating New provision : with the amount of difference :

Profit and Loss A/c Dr.

 To Provision for doubtful debts A/c

(New provision debts [old Provision total Bad debts])

Illustration No. 7.

Trial Balance

As on.....

Particulars	Dr.	Cr.
Bad Debts	3,000	
Privision for doubtful debts		5,000
Sundry Debtors	1,51,000	

Additional Infomation : Further Bad Debts amounted Rs. 1,000 and create provision for Doubtful Debts @ 5%.

Profit and Loss Account

for the year ended.....

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Bad Debts	3,000		
Add: further Bad Debts	<u>1,000</u>		
	4,000		
Add: New Provision	<u>7,500</u>		
(1,50,000@%)	11,500		
Less: Old Provision	<u>5,000</u>		
	<u>6,500</u>		

Sundry Debtors A/c

Dr.				Cr.		
Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
To Balance b/d		1,51,000		By Bad debts A/c		1,000
				By Balance c/d		1,50,000
		<u>1,51,000</u>				<u>1,51,000</u>

Special Note : If the amount of old Provision for doubtful debts (Trial balance) is more than the total of Bad debts (Old + New) and New Provision for doubtful debts.

Illustration No. 8.

Trial Balance Asset

Particulars	Amount Dr. ₹	Amount Cr. ₹
Bad Debts	2,000	
Provison for doubtful debts		25,000
Sundry Debtors.	2,02,500	

Additional information : (i) Further bad debts 2,500.

(ii) Create a provision for doubtful debts @5% on Sundry debtors.

Dr.		Profit and Loss Account		Cr.	
Particulars	Amount ₹	Particulars	Amount ₹		
		By Old Provision for doubtful debts	25,000		
		Less: Bad debts-	2,000		
		further bad debts	2,500		
		New Provision	<u>10,000</u> 14,500	10,500	

Balance Sheet

As at.....

Particulars	Amount ₹	Particulars	Amount ₹
		Debtors	2,02,500
		Less: further bad debts	<u>2,500</u>
			2,00,000
		Less: 5% New Provision	<u>10,000</u>
		for doubtful debts	1,90,000

9. Provision for discount on debtors : Generally, the business to allow cash discount to those debtors whom the payment is received within a fixed period. Since a provision for such discount is made in the current year for that debtors who will make early payment in the next accounting period.

Note : This provision is made only for good debtors at the end of year.
 Good Debtor = total debtor – further bad debts-new provision for doubtful debts.

Adjustment entry : Profit and Loss A/c Dr.

To Provision for discount on debtors A/c

(Being provision made for discount on debtors)

Accounting Treatment : (i) The amount of provision of discount on debtor will be debited to profit and loss account.

(ii) The amount of sundry debtor will be reduced by the amount of provision for discount on debtor in the **Assets side of Balance Sheet.**

10. Manager's Commission : Generally, to motivate managers the business may allow a commission to managers in addition to salary. Such commission is calculated at the end of accounting period, so it is treated as outstanding expenses.

Commission rate is generally related to net profit.

Adjustment entry :

(i) Manager's Commission A/c Dr.

To Outstanding manager's Commission A/c

(Being commission due to the managers)

(ii) Profit and Loss A/c Dr.

To Manager's Commission A/c

(Being manager's commission transferred to profit and loss A/c).

Accounting Treatment : (i) The amount of manager's commission is to be debited to profit and loss account.

(ii) The amount of outstanding manager's commission will be shown as **current liabilities in the liabilities side of Balance sheet.**

There are two methods for calculation of commission :

(i) Commission allowed on the net profit before charging such commission :

Net profit before charging such commission XX% of commission / 100. e.g. if Net profit before charging such commission is 99,000 and rate of commission is 10% then, manager commission will be = $99,000 \times 10 / 100 = 9,900$

(ii) Commission allowed on the net profit **after** charging such commission:

Net profit before charging such commission XX% of commission/100+ rate of commission.

e.g. if Net profit before charging such commission is 99,000 and rate of commission is 10% then, manager commission will be = $99,000 \times 10 / 110 = 9000$.

11. **Abnormal loss :** Sometimes losses occur due to some abnormal circumstances such as accident, fire, flood, earthquakes etc. such loss are called abnormal losses.

(A) Loss of goods/ stock :

(i) Loss by Accident A/c Dr.

To Trading A/c

(Being the accidental loss of goods transferred to Cr. Side of trading a/c)

(ii) Insurance Co. A/c Dr. (Amount of claim accepted by the Insurance co.)

Profit and Loss A/c Dr. (Value of irrecoverable loss)

To Loss by Accident A/c (Total loss)

(Being the loss transferred to profit and loss A/c and claim admitted by Insurance Co.)

Accounting Treatment : 1. Amount of loss of goods will be transferred to the **credit side of trading account** or it may **be deducted from the purchases.**

2. The claim admitted by the Insurance Co. **will be shown in the assets side of balance sheet.**

3. Amount **irrecoverable or uninsured** will be **debited to profit and loss Account.**

(B) Abnormal Loss of Fixed Assets :

Profit and Loss A/c Dr.

To fixed assets A/c

(Abnormal loss of fixed assets recorded)

12. **Goods taken for personal use :** it is treated as drawing.

Drawing A/c Dr.

To Purchases A/c

(Being goods taken for personal use)

Accounting treatment : (1) cost of goods taken will be **deducted from the purchase in debit side of trading account.**

(ii) Amount of drawing will be **deducted from the capital on the liabilities side of balance sheet.**

13. **Goods distributed as free samples :** This is a sales promotion method, it is assumed as advertisement expenses.

Advertisement A/c Dr.

To Purchases A/c

(Goods distributed as free sample)

Accounting treatment : (i) cost of goods distributed as free samples will be **deducted from purchases in the debit side of trading account.**

(ii) Advertisement expenses account will be **debited to profit and loss account.**

Illustration No. 9.

Following is the Trial Balance of Rajesh Export as on 31st March, 2011.

Dr.**Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
Opening Stock	18,000	Sales	5,70,000
Purchases	3,50,000	Return outward	20,000
Return inward	30,000	Discount Received	1,100
Carriage inward	1,200	Interest Received	9,500
Carriage outward	1,500	VAT collected	21,600
Discount allowed	900	Supplier's A/c's	25,000
Factory heating and lighting	12,000	Bank overdraft	35,000
Wages and Salary	25,000	Capital A/c	3,10,000
Insurance	1,200	Commission	2,800
Postage and Telegrams	500	Misc. receipt	5,000
Rent	10,000	12% Loan from Bank	2,00,000
VAT Paid	13,800		
Manufacturing Exp.	9,900		
Plant and Machinery	1,50,000		
12% Investment	1,00,000		
Land and Building	3,85,000		
Interest paid on Loan	15,000		
Income tax	11,000		
Customer's A/cs.	45,000		
Cash in hand	20,000		
	<u>12,00,000</u>		<u>12,00,000</u>

Additional Information (i). Closing Stock at market value as on 31/03/2011 is Rs. 50,000, However its cost was Rs. 60,000.

(ii) Provide depreciation on Plant and machinery and Land and Building @ 10% and 5% respectively.

(iii) Insurance was prepaid to the interest of Rs. 200.

(iv) Outstanding liabilities in respect of Wages and Salary is Rs. 5,000.

(v) Loan taken from Bank on 1st July 2010.

(vi) Investment was purchased on 01st April, 2010.

(vii) 10% of the Commission received is in respect of work to be done in next year.

You are required to prepare (i) Trading and Profit and Loss account for the year ended 31st March, 2011. and

(ii) Balance sheet as at that date.

Solution :

Trading and Profit and Loss Account

for the year ended 31st March, 2011

Dr.

Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To Opening Stocks	18,000	By Sales 5,70,000	
To Purchases 3,50,000		Less: Return <u>30,000</u>	
Less : Return outward <u>20,000</u>	3,30,000	Inward	5,40,000
To Carriage Inward	1,200	By Closing Stock	50,000
To factory heating and Lighting	12,000		
To Wages and Salary 25,000			
Add: Outstanding <u>5,000</u>	30,000		
To Manufacturing Exp.	9,900		
To Gross Profit			
(to be transferred	1,88,900		
to profit and loss A/c)	<u>5,90,000</u>		<u>5,90,000</u>

To Carriage outwards	1,500	By Gross Profit	1,88,900
To Discount allowed	900	By Discount received	1,100
To Insurance	1200	By Interest Received	9,500
Less: Prepaid Insurance— <u>200</u>	1,000	Add: Interest Received <u>2,500</u>	12,000
To Postage and Telegram	500		
To Rent	10,000	By Commission	2,800
To Interest on Loan	15,000	Less: Commission <u>280</u>	2,520
Add: outstanding Int. <u>3,000</u>	18,000	Received in Advance	
To Dep. on Plant and Machinery	15,000	By Misc. Receipts	5,000
To Dep. on Land and Building	19,250		
To Net Profit (to be transferred to Capital A/c).	1,43,370		
	<u>2,09,520</u>		<u>2,09,520</u>

Balance Sheet

As at 31st March, 2011

Liabilities	Amount ₹	Assets	Amount ₹
Creditors	25,000	Cash in hand	20,000
Bank overdraft	35,000		
Outstanding Wages and Salary	5,000	Debtors	45,000
Commission Received in Advance	280	Prepaid Insurance	200
Bank Loan	2,00,000	Closing Stock	50,000
Add: Outstanding Interest	<u>3,000</u>	12% Investment	1,00,000
	2,03,000	Accrued interest on Invest.	2,500
VAT collected	21,600	Plant and Machinery	1,50,000
Less: VAT Paid <u>13,800</u>	7,800	Less: Dep. <u>1,5000</u>	1,35,000
Capital A/c	3,10,000	Land Building	3,85,000
Less: Income tax <u>11000</u>		Less: Dep. <u>19,250</u>	3,65,750
(Drawing)	2,99,000		
Add: Net Profit <u>1,43,370</u>	4,42,370		
	<u>7,18,450</u>		<u>7,18,450</u>

Note : (1) Closing stock is recorded cost or market price whichever is lower.

(2) Outstanding Wages and Salary Rs. 5,000 added to Wages and Salary in debit side of Trading A/c and Shown in liabilities side of B/S.

(3) Interest Loan is calculated for 9 Months.

01/07/2010 to 31/03/2011 — 9 Months.

$$\text{Int. due } 200,000 \times \frac{9}{12} \times \frac{12}{100} = 18,000$$

Int. Due 18,000

Less Int. Paid 15,000

Outstanding Int. 3,000

$$\frac{9}{12} \times \frac{12}{100}$$

Outstanding Interest 3000 Shown in profit and loss Dr. side and Liabilities side of Balance sheet.

(4) Interest on Investment is due for 12 month

$$100,000 \times \frac{12}{100} = 12,000$$

Less Interest Received 9,500

Interest accrued but not received ₹2,500

Rs. 2,500 will be added to interest received amount in profit and loss Credit side and in Assets side it will shown in balance sheet.

Illustration No. 10.

From the following Trial Balance of M/s Rahul Traders as on 31st March 2011. Prepare Trading and Profit and Loss Account and Balance Sheet on that date.

Dr.		Cr.	
Particulars	Amount ₹	Particulars	Amount ₹
Purchases	2,80,000	Sales	4,30,000
Drawings	72,000	Capital	3,00,000
Stock (01/04/2010)	90,000	Return Outward	5,000
Return Inward	4,000	10% Bank Loan (01/04/2010)	50,000
Wages and Salary	10,000	Creditors	32,000
Power and Fuel	6,000	Provision for Doubtful Debts	3,000
Plant and Machinery	1,50,000		
Furniture	50,000		
Rent	10,000		

Insurance	3,600		
Sundry Debtors	70,000		
Bad debts	4,400		
Trade Exp.	8,000		
Cash in Hand	12,000		
Cash at Bank	50,000		
	8,20,000		8,20,000

Additional Information :

- (1) Cost of stock as on 31.03.2011 stand at Rs. 1,20,000, while market value of the same was Rs. 1,00,000.
- (2) Provide depreciation on Plant and Machinery and furniture @ 10% and @5% respectively.
- (3) Sundry debtors Includes an amount, ₹ 500 due from Sohan, who has become Insolvent.
- (4) A provision for doubtful is to be creats @5% on Sundry debtor and a provision for discount on debtor @2% to be made on debtors.
- (5) Goods costing Rs. 8,000 have been destroyed by fire and insurance company admitted a claim for Rs. 5,000 only.
- (6) Goods costing Rs. 2,000 were distributed as free samples while goods costing Rs. 1500 were taken by the proprietor for personal use.
- (7) Provide for manager's commission at 5% on Net profit after charging such commission.

Trading and Profit and Loss A/c

(for the year ended 31st March, 2011)

Dr.		Cr.	
Particulars	Amount ₹	Particulars	Amount ₹
To Opening Stock	90,000	By Sales 4,30,000	
To Purchases 2,80,000		Less: Return <u>4,000</u>	4,26,000
Less: Return outward -5000		Inward	
-free sample - 2000		By Goods Cost by fire	8,000
-Drawing of goods- <u>15,000</u>	2,71,500	By Closing Stock	1,00,000
To Wages and Salary	10,000		

To Power and Fuel	6,000		
To Gross Profit	1,56,500		
(To be transferred to profit and loss A/c)	5,34,000		5,34,000
To Goods Lost by fire	3,000	By Gross Profit	1,56,500
To Advertising	2,000		
To Rent	10,000		
To Insurance	3,600		
To Interest on Bank Loan	5,000		
To Trade Expenses	8,000		
To Dep. on Machinery	15,000		
To Dep. on Furniture	2,500		
To Bad Debts. 4,400			
Add: further Bad debts 5000			
Add: New Provision <u>5,200</u>			
14,600			
Less: old provision 3000	11,600		
Doubtful debts. _____			
To provision for Discount on Debtors	1,196		
To Manager's commission	4,505		
$\frac{94604 \times 5}{105}$			
To Net Profit (to be transferred to Capital A/c)	90,099		
	1,56,500		1,56,500

Balance Sheet

As on 31st March, 2011

Liabilities	Amount ₹	Assets	Amount ₹
Creditors	32,000	Cash in hand	12,000
Bank Loan 50,000		Cash at Bank	50,000
Add: Outstanding		Insurance Company	5,000

Interest	<u>5,000</u>	55,000	Stock	1,00,000
Mananer's commission		4505	Debtors	70,000
Payable	3,00,000		Less: further Bad debts	5000
Less: Drawing			Less: New Provision	
(72000+1500) = <u>73500</u>			@ 8%	<u>-5200</u>
2,26,500				59800
Add: Net Profit <u>90,099</u>		31,6599	Less: 2% Provision- <u>1196</u>	58604
			for discount debtors	
			Machinery	1,50,000
			Less 10% Dep. <u>15,000</u>	1,35000
			Furniture	50,000
			Less: 5% Dep. <u>2,500</u>	47,500
		<u>4,08,104</u>		<u>4,08,104</u>

Note:.

- (1) Net profit before charging manager's commission is ₹. 94,604
(1,56,500 – 61,896)
- (2) The amount of purchases is redirect by the amount of good distributed as free sample and the drawing of goods.
- (3) Goods lost by fire credited to Trading A/c by cost 8,000 ₹ 3,000 is net loss because it is not recoverable from insurance co. So ₹ 3,000 debited to P & LA/c and Rs. 5,000 claim accepted by musurance Co. is Treated as assets in balance sheet.
- (4) Provision for discount on Debtors is always calculate on the good debtors *i.e.*, after deducting bad debts and New provision *i.e.*, 70,000–5,000–5,200 New provision = $59,800 \times \frac{2}{100} = 1,196$.
- (5) New provision for doubtful debt is calculating on debtors which are not bad *i.e.* the amount of bad debt is reduced from sundry debtor & then we calculate new provision *i.e.* 70,000 – 5,000 Bad debts = $65,000 \times \frac{8}{100} = 5,200$ New provision.

UNIT-9

Not-for Profit Organization

IMPORTANT POINTS

Learning Objectives :

After studying this lesson you will be able to

State the meaning of Not - for - Profit organization :

Explain the various items of accounting in Not-for-Profit organization;

Explain about the Financial Statements of Not-for-Profit organization.

Show the According Treatment of various items of accounting in Not-for-Profit organization.

Teaching Methods :

Teachers are advised to use various examples of Not-for-Profit organizations.

Story telling method can also be used for various items of Not-for-Profit organization.

Meaning of Not-for-Profit organization

The primary motive of Not-for-Profit organizations is to render services to their member or to promote culture, art, education and other religions, social and charitable activities. These institutions or organizations do not maintain their accounts on the basis of business enterprises. The non-profit seeking entities exists with a **primary objective of providing service**. For this reason, these institutions **do not prepare profit and loss Account**.

Examples of not-for-organizations :

Hospitals, dispensaries, sports clubs, recreation clubs, temples, dharamshalas, orphanage, school and College etc.

Such organizations prepares following **financial statements at the end of accounting period :**

1. Receipts and Payments Account
2. Income and Expenditure Account
3. Balance Sheet

Receipts and Payments Account :

This account is merely a **summary of the transactions appearing in the cash book**. After preparation of this account, it is easy to prepare the income and expenditure account as well as the balance sheet. **All receipts** are shown **on its**

debit side and **all payments** are shown on its **credit side**. All the receipts and payments during an accounting period are included in it under appropriate headings. For example, if a club receives subscription for its members on different dates, they will be recorded in the cash book in a chronological order, where as the receipts and payments account will contain the total subscriptions received during the year.

Features of Receipts and Payment Account :

It is clear from above discussion that the Receipt and Payment Account is merely a summary of the all receipt and all payment during the year. Special features of Receipts and Payment Account are as follows :

1. It is a **real account**. Thus Receipts are on its debit side and payments on the credit side.
2. Excess of receipt of over payment is the **closing balance of cash** which is shown in **Balance sheet on asset side**.
3. This account begins with the opening balance of cash or bank.
4. An item may be repeated many times in a cash book, but it is shown once in 'Receipts and Payment Account'.
5. All cash payments are shown on its credit side irrespective of the fact whether these are of **capital nature or of revenue nature** and whether they relate to **current year, previous year or next year**.
6. Receipt and Payment Account records only the **actual receipt and payment of cash**. Non-cash items such as depreciation, outstanding expenses and accrued incomes are ignored while preparing it.

Limitations of Receipts and Payment Account

1. It is **not prepared on accrual basis**, therefore no adjustment are made in it.
2. This account does not show the income or expenditure of the accounting period.
3. It does not show the amount received or paid is only for a particular accounting priod.

Income and Expenditure Account

Income and Expenditure Account serves the same purpose for a Not-for profit organization as the Profit and Loss Account for a business enterprise. This account is a **nominal account**. This account is prepared by Not-for-Profit organization period. So, we can say that it is the summary of Income and

Expenditure of a particular accounting period **whether income received or not and whether expenditure paid or not.**

Features of Income and Expenditure Account :

1. It is a **nomial account.**
2. **No capital item** is entered in this account.
3. Its debit side includes all the expenses pertaining to the particular period and credit side includes all the income pertaining to the same period.
4. **No opening and closing balance** are recorded in it.
5. **No item**, either revenue or expenditure, **pertaining to the past period or the future period** is entered in this account.
6. This account is prepared in the same manner in which a profit and loss Account is prepared.
7. Credit balance is called 'Excess of Income over Expenditure' and debit balance is called "Excess of Expenditure over Income".

Concept of Fund based Accounting :

Not for profit organization receive some funds for some specific purposes and these funds are used only for those purposes for which they have been contributed. Fund Based Accounting refers to the accounting whereby receipt and income pertaining to a particular fund are credited to that particular fund and payments and expenses are debited to it. These funds are created for some specific purposes such as prize fund, building fund, sports fund etc.

Thus, a separate accounting is needed for these specific funds. This type of accounting is called Fund based accounting.

Important Items of Not for Profit Organisations

1. Legacy : Legacy represents the **amount or property received** by organization **under a will on death of the contributors.** In other words we can say that ligacies are the donations made by a person in his will, so their donation are called legacy.

- (i) Legacies received for a **specific purpose** must be **capitalized** in the name of concerned fund for which it is received.
- (ii) Legacies received **not for any sprcific fund/general** may be added to the **capital fund.**

Example :

Mr. Shyam lal writes his will that his property will be transferred (after his

death) to a Not-for-profit Organization. After death of Mr. Shyam Lal, his property will be treated as capital receipt by concerned Not-for-profit Organization under the head legacy.

2. Entrance Fees : Entrance fee is called admission fee. It refers to the amount received from the persons for becoming members. It is a fee paid by members at the time of joining a not-for-Profit organization.

- (i) It is an item of **recurring** nature.
- (ii) Generally Entrance fees are **treated as income**.

3. Grants : Grants are an aid issued by any Govt. agency to any Not-for profit organization for specific purpose or general purpose.

- (i) It is an aid from Government.
- (ii) **Specific grant** should be **capitalized**
- (iii) **General grant** should be treated as **revenue income** and shown on the credit side of Income and Expenditure Account.

4. Donation : Donation is the amount received by Not-for-profit Organizations from **any person or institution without any consideration and not periodically**.

Donation can be categorized as under :

- (i) **General Donation :** If donation received for not a specific purpose and can be utilized for any purpose, is known as general donation.

It is treated as **Revenue Receipt**.

- (ii) **Specific Donation :** If donation received for a particular purpose and can be used/spent for the same purpose only, it is known as specific donation. For example, donation received for the construction of the building.

It is treated as **Capital Receipt**.

5. Subscription : Subscription is the amount payable by members of Not-for-profit Organizations for renewal of membership periodically.

- (i) It is **recurring in nature**.
- (ii) It is treated as **Revenue Receipt**.

Example : There are 60 members of a Not-for-profit Organization and each member is required to pay a sum of 300 per annum to continue his/her membership. Hence this amount is known as Subscription.

6. Life Membership : Life membership is the fee received from those members who do not pay periodic fee or subscription but pay a lump sum amount to become life time members.

(i) These members are generally permanent members.

(ii) Life membership fees can be **added to capital fund** or **separately on the liabilities side of Balance Sheet.**

7. Endowment Funds : 1. This fund is created from the bequest, legacy or gifts received by the Not-for-Profit organization. These funds are **invested outside.**

2. The **income from the investment** of such funds is used for some **specific purposes only.**

3. Endowment funds shall be shown on the **liabilities side of the balance sheet** of Not-for-Profit organization.

Example :

An amount of ₹5,00,000 is received as Donation with condition that this amount will be invested as Fixed Deposit in a Bank. Income from this Investment will be used to distribute prizes to meritorius students of the society.

8. Honorarium : Honorarium is an amount paid to a person (other than employee) for rendering some special services for Not-for-Profit organization. It is treated as an expense fo Not-for Profit organization.

Calculation of Subscriptions to be shown in the Income and Expenditure Account for current year

Particulars	
Amount received during the year	
Add: (i) Outstanding at the end of current year	XXXX
Advance received in previous year	XXXX
Less: (i) Outstanding in the beginning of the current year	
(Out of this, the actual amount received in current year)	(XXXX)
(ii) Advance received in current year	(XXXX)
Subscriptions to be shown in the Income and Expenditure A/c	XXXX

**Calculation of Rent (An Expense) to be shown in expenditure side of
Income and Expenditure**

Particular	
Rent paid during the year	XXXX
Add: (i) Outstanding at the end of current year	XXXX
(ii) Advance paid in previous year	XXXX
Less: (i) Rent paid in current year but pertains to previous year	(XXXX)
(ii) Rent paid in current year but pertains to next year	(XXXX)
Rent to be shown in the Income and Expenditure A/c	XXXX

**Calculation of Stationery (A consumable item) to be shown in Income
and Expenditure Account**

Particular	
Amount paid for stationery during current year	XXXX
Add: (i) Opening stock of the stationery	XXXX
(ii) Creditors for stationery at the end fo current year	XXXX
Less: (i) Creditor for stationery in the beginning of current year	(XXXX)
(ii) Closing stock of the stationery	(XXXX)
Stationery to be shown in the Income and Expenditure A/c	XXXX

Illustration 1

From the following extracts of the Receipt and Payments Account and the additional information, you are required to compute the income from subscriptions for the year ended March 31, 2011 and show it in the Income and Expenditure Account for the year ended on March 31, 2011:

**Receipts and Payments Account
for the year ended on March 31, 2011**

Dr.		Cr.	
Receipts	₹	Payments	₹
To subscriptions	50,000		

	March 31, 2010	March 31, 2011
	₹	₹
Subscriptions outstanding	10,000	20,000
Subscriptions received in advance	15,000	10,000

Solution : Income and Expenditure Account.

for the year ended on March 31, 2011

Expenditure	₹	Income	₹
		By Subscriptions	50,000
		Add: Outstanding	20,000
		Add: Advance received in 2009-10	<u>15,000</u>
			85,000
		Less: Advance received in 2010-11	<u>10,000</u>
			75,000
		Less: For 2009-10	<u>10,000</u>
			65,000
			<u>65,000</u>

Importance Point :

Subscription for the current year only is shown in Income and Expenditure Account for the same year, whether received or not.

Illustration 2.

On the basis of the following information, calculate the amount of stationery to be debited Income and Expenditure Account for the year on March 31, 2011:

	₹
Stock of stationery on April 1, 2010	6,000
Creditors for stationery on April 1, 2010	4,000
Amount paid stationery on March 31, 2011	21,600
Stock of stationery on March 31, 2011	1,000
Creditors for stationery on March 31, 2011	2,600

Solution :

Particulars	₹
Amount paid for stationery during current year	21,600
Add: Opening stock of stationery	6,000
Creditors at the end of current year	2,600
Less: Closing Stock	1,000
Creditors For 2009-10	4,000
Stationery used during 2010-11	26,200

Importance Points :

Amount of Stationery consumed during the year is shown in income and Expenditure Account irrespective of that whether it is paid or not.

Illustration 3.

Following is the Receipts and Payments Account of women club for the year ended March 31, 2011. Prepare the Income and Expenditure Account for the year ended on March 31, 2011 and also the balance sheet as at the date :

Receipts	₹	Payments	₹
To Balance b/d	28,260	By Rent and Taxes	17,220
To Entrance Fee	11,040	By Salaries	18,800
To Subscriptions	44,000	By Electricity Charges	840
To Donations	21,220	By General Expenses	2,500
To Interest	820	By Books	6,240
To Profit from Entertainment	1,640	By Office Expenses	9,000
		By Investments	28,000
		By Balance c/d	24,380
	1,06,980		1,06,980

Additional information :

- (i) In the beginning of the year, the club had books worth ₹ 60,000 and Furniture worth ₹ 11,600.
- (ii) Subscription in arrears on April 1, 2010 were ₹ 1,200 and on March 31, 2011 ₹ 1,400.
- (iii) ₹ 3,600 were due by Rent in the beginning as well as at the end of the year.
- (iv) Write off ₹ 1,000 as depreciation on Furniture and ₹ 6,000 on Books.
- (v) On March 31, 2011 Salaries ₹ 3,000 and Electricity Charges ₹ 400 were outstanding.

Solution :

**Balance Sheet
as on April 1, 2010**

Liabilities	₹	Assets	₹
Rent outstanding	3,600	Cash	28,260
Capital Fund (Bal. Fig.)	97,460	Subscriptions Outstanding	1,200
		Books	60,000
		Furniture	11,600
	<u>1,01,060</u>		<u>1,01,060</u>

**Income and Expenditure Account
for the year ended on March 31, 2011**

Dr.

Cr.

Expenditure	₹	Income	₹
To Rent and Taxes 17,220		By Subscriptions 44,000	
Add: Outstanding 3,600		Add: Outstanding 1,400	
			45,400
Less: For 2009-10 3,600		Less: For 2009-10 1,200	
	17,220		44,200
To Salaries 18,800		By Entrance Fees	11,040
Add: Outstanding 3,000		By Donations	21,220
	21,800	By Interest	820
To Electricity Charges 840		By Profit from Entertainment	1,640
Add: Outstanding 400			
	1,240		
To General Expenses	2,500		
To Office Expenses	9,000		
To Depreciaton on:			
Books 6,000	7,000		
Furniture <u>1,000</u>			
To Surplus	20,160		
	<u>78,920</u>		<u>78,920</u>

**Balance Sheet
as on March 31, 2011**

Liabilities	₹	Assets	₹
Capital Fund (Bal.) 97,460		Cash is hand	24,380
Add: Surplus <u>20,160</u>		Investments	28,000
	1,17,620	Books 60,000	
Rent Outstanding	3,600	Add: Additions 6,240	

Salaries outstanding	3,000	66,240	
Electricity charge outstanding	400	Less: Depreciaton 6,000	60,240
		Furniture 11,600	
		Less: Depreciation 1,000	10,600
			1,400
	1,24,620		1,24,620

Importante Point : Expenses for the current year only is shown in In come and Expenditure Account for the same year, whether paid or not.

Illustration 4.

Following is the Receipts and Payments Account of Literary Society for the year ended March 31, 2011:

Dr.		Cr.	
Receipts	₹	Payments	₹
To Balance b/d	3,075	By Salaries	12,000
To Subscriptions		By Rent	3,600
2009-10 500		By Postage	150
2010-11 21,500		By Printing and	
2011-12 <u>750</u>		Stationery	1,275
	22,750	By Electricity Charges	1,500
To Interest on Investments	10,000	By Meeting Expenses	750
To Bank Interest	125	By Library Books	5,000
To Sale of Furniture	1,500	By Investments	5,000
		By Balance c/d	8,175
	<u>37,450</u>		<u>37,450</u>

Following additional information is to be considered:

(i) On April 1, 2010 the society had the following assets and liabilities :

Investments ₹2,00,000; Furniture ₹15,000; library books ₹25,000; liability for Rent ₹300 and for Salaries ₹1,000. Subscription in Arrears was ₹600.

(ii) On March 31, 2011 Rent of ₹400 and Salaries ₹1,250 were in arrears. All the Subscription for the year 2010-11 has been received.

(iii) The book value of Furniture sold was ₹1,250.

Prepare the Income and Expenditure Account of the society for the year ended on March 31, 2011 and the Balance Sheet as at that date.

Solution :**Balance Sheet
as on April 1, 2010**

Liabilities	₹	Assets	₹
Outstanding expenses		Furniture	15,000
Rent 300		Library Books	25,000
Salaries <u>1,000</u>		Investments 2,00,000	
	1,300	Cash	3,075
Capital Fund	2,42,375	Subscription	
(Balancing Figure)		in arrears	600
	<u>2,43,675</u>		<u>2,43,675</u>

**Income and Expenditure Account
for the year ended on March 31, 2011**

Expenditure	₹	Income	₹
To Salaries 12,000		By Subscriptions 22,750	
Less: For 2009-10 <u>1,000</u>		Less: For 2009-10 <u>500</u>	
	11,000		22,250
Add: Outstanding <u>1,250</u>		Less: For 2011-12 <u>750</u>	
	12,250		21,500
To Rent 3,600		By Interest on Investment	10,000
Less: For 2009-10 <u>300</u>			
	3,300	By Bank Interest	125
Add: Outstanding 400		By Profit on Sale of Furniture	250
	3,700	(1,500-1,250)	
To Postage 150			
To Printing and Stationery 1,275			
To Electricity Charges 1,500			
To Meeting Expenses 750			
To Surplus 12,250			
	<u>31,875</u>		<u>31,875</u>

Liabilities	₹	Assets	₹
Subscriptions in advance	750	Furniture 15,000	
Outstanding expenses:		Less: sold <u>1,250</u>	13,750
Salaries 1,250		Library books 25,000	
Rent <u>400</u>	1,650	Add: Additions <u>5,000</u>	30,000
Capital Fund 2,42,375		Investments 2,00,000	
Add: Surplus <u>12,250</u>	2,54,625	Add: Additions <u>5,000</u>	2,05,000
		Cash	8,175
		Subscription in Arrears (2009-10)	100
	<u>2,57,025</u>		<u>2,57,025</u>

Important Points :

In the beginning of the year, Subscription of ₹600 was in arrear but out of this amount, only ₹500 has been received during current year. Hence only ₹500 is deducted from the amount received on account of subscription.

Illustration 5.

On the basis of the information given below, calculate the amount of stationery to be shown in the 'Income and Expenditure Account' of 'Vishvamitra Literary Society' for the year ended March 31, 2011:

	April 1, 2010	March 31, 2011
	₹	₹
Stock of stationery	4,000	3,000
Creditors for stationery	4,500	5,500

Stationery purchased during the year ended March 31, 2011 was ₹23,500.

Solution : **Income and Expenditure Account**
for the year ended on March 31, 2011

Dr.		Cr.
Expenditure	₹	Income
		₹
To Stationery	23,500	
Add: Opening Stock	<u>4,000</u>	
	27,500	
Less: Closing Stock	<u>3,000</u>	
	24,500	

Important Points : 1. Stationery used during current year only is shown in Income and Expenditure Account for the same year. 2. Creditors for Stationery is not considered because 'Stationery purchased during the year' is given and not 'Amount paid to Creditors during the year'.

Illustration 6

From the following informations of Arjun Sports Club, show the 'Sports Material' in the 'Income and Expenditure Account' for the year ending March 31, 2011 and the Balance Sheets as on March 31, 2010 and March 31, 2011 :

	March 31, 2010	March 31, 2011
	₹	₹
Stock of sports material	4,400	11,600
Creditors for sports material	15,600	18,400
Advance to suppliers of sports material	30,000	50,000

Payment to suppliers for the Sports Material during 2010-11 was ₹2,40,000.
No sports material purchased on cash basis during the year 2010-11.

Balance Sheet as on April 1, 2010

Liabilities	₹	Assets	₹
Creditors for Sports	15,600	Advance to suppliers of Sports Material	30,000
		Stock of sports material	4,400

Income and Expenditure Account

Dr. for the year ended on March 31, 2011 Cr.

Expenditure	₹	Income	₹
To Sports Material	2,40,000		
Less: For 2009-10	<u>1,000</u>		
	2,24,400		
Add: Advance in 2009-10	30,000		
Add: Opening stock	<u>4,400</u>		
	2,58,800		
Less: For 2011-12	<u>50,000</u>		
	2,08,800		
Less: Closing Stock	<u>11,600</u>		
	1,97,200		
Add: Creditors at the End	<u>18,400</u>		
	2,15,600		

You are required to prepare 'Income and Expenditure Account' for the year ended on March 31, 2011 and 'Balance Sheet' as on that date.

Balance Sheet
as on March 31, 2010

Liabilities	₹	Assets	₹
Amount due for Medicines	16,000	Cash	17,000
Subscriptions in Advance	2,000	Investments	2,00,000
Capital Fund (Bal.Fig.)	4,10,000	Subscriptions in Arrears	1,000
		Stock of Medicines	20,000
		Equipments	50,000
		Buildings	1,40,000
	<u>4,28,000</u>		<u>4,28,000</u>

Income and Expenditure Account

Dr. for the year ended on March 31, 2011 **Cr.**

Expenditure	₹	Income	₹
To Medicines	66,000	By subscriptions:	96,000
Add: Opening Balance	<u>20,000</u>	Less: for 2009-10	<u>1,000</u>
	86,000		95,000
Less: Closing Stock	<u>30,000</u>	Less: for 2011-12	<u>1,000</u>
	56,000		94,000
Less: For 2009-10	<u>16,000</u>	Add: arrears	2,000
	40,000	Add: Advance received	
Add: Creditors at End	<u>24,000</u>	in 2009-10	<u>2,000</u>
	64,000		98,000
To Fees to Doctors	48,000	By Donations	30,000
To Salaries	54,000	By Interest on investments	18,000
To Charity Show Ex.	8,000	By Proceeds from Charity Show	24,000
To Sundry Expenses	2,400	By Grant in Aid	40,000
To Depreciation on Equipments:			
Opening Balance	50,000		

Add: Additions	<u>30,000</u>		
	80,000		
Less: Closing Balance	<u>66,000</u>		
To Depreciation on Buildings:		14,000	
Opening Balance	1,40,000		
Less: Closins Balance	<u>1,30,000</u>		
		10,000	
To Surplus		9,6000	
		<u>2,10,000</u>	<u>2,10,000</u>

Balance Sheet

as on March 31, 2010

Liabilities	₹	Assets	₹
Amount due for Medicines	24,000	Cash	16,600
Subscriptions in Advance	1,000	Investments	2,00,000
Capital Fund (Bal. Fig.)	4,10,000	Subscriptions in	
Add: Surplus	9,600	Arrears	2,000
	419,600	Stock of Medicines	30,000
		Equipments	66,000
		Buildings	1,30,000
	<u>4,44,600</u>		<u>4,44,600</u>

Important Points : Interest of Investment is given in the question but value of investment is not shown in 'Receipts and Payments Account', it means this investment was purchased before the current year and was mentioned in the Balance Sheet at the beginning of the year. Therefore the value of the investement is calculated as under. Value of investments = $\frac{18,000 \times 10}{9} = 2,00,000$

Illustration 8.

From the following information related to Amar Nath Charitable Society, prepare Income and Expenditure Account for the year ended March 31, 2011.

Receipts and Payments Account

for the year ended March 31, 2011

Receipts	₹	Payments	₹
To Balance b/d	4,400	By Furniture	6,000
To Interest on Investments	4,600	By Salaries	29,000
To Donations	34,000	By Miscellaneous Exp.	400
To Subscriptions	56,000	By Telephone charges	25,800
To Rent Received	24,000	By Fax Machine	12,000

To Sale of old Newspapers	600	By Investments	30,000
		By Printing and Sationery	800
		By Balance c/d	19,600
	1,23,600		1,23,600

Additional Information :

Subscription received includes ₹ 1,200 for 2011-12. The amount of subscription outstanding on March 31, 2011 ₹ 1,000; Salaries unpaid for the year 2010-11 ₹ 400; 60% of the Donations are to be capitalized.

Solution :

Income and Expenditure Account

for the year ended on March 31, 2011

Expenditure		₹	Income		₹
To Salaries	29,000		By Subscriptions	56,000	
Add: outstanding	<u>1,400</u>		Add: outstanding	<u>1,000</u>	
		30,400		57,000	
To Miscellaneous Expenses	400		Less: Received in Advance	<u>1,200</u>	
					55,800
To Telephone charges	25,400		By Interest on Investments		4,600
To Printing charges	800		By Donations (40%)		13,600
			By Rent Received	24,000	
To Surplus	41,600		Add: Receivable	<u>400</u>	
					24,400
			By Sale of old Newspapers	600	
		99,000			99,000

Important Points : Only 60% Donation is to be Capitalised as clear instruction is given in question, Remaining 40% Donation is to be treated as income.

Illustration 9.

Following is the Receipt and Payment Account of Tulsi Literary Society for the ended March 31, 2011. Prepare Income and Expenditure Account for the year ended March 31, 2011 and the Balance Sheet as on that date.

Receipt and Payment Account

for year ended March 31, 2011

Receipts	₹	Payments	₹
To Balance b/d	65,000	By Honorarium to cashier	4,000
To Life Membership Fee	10,000	By Stationary	1,000
To Subscriptions	30,000	By Books	6,000
To Sale of old Newspaper	1,000	By Telephone charges	2,400
To Lockers Rent	1,400	By Computer	90,000
		By Repairs	2,000
		By Wages	5,000
		By Balance c/d	11,000
	<u>1,21,400</u>		<u>1,21,400</u>

On April 1, 2010 the society had Books of ₹10,000 Investments ₹20,000 and Future ₹10,000. Subscriptions outstanding as on April 1, 2010 were ₹1,200 and as on March 31, 2011 were ₹1,400.

Creditors for stationery on April 1, 2010 were ₹400.

Additional books and computers are purchased on April 1, 2010.

Bills outstanding for repairs as on March 31, 2011 were ₹2,200 and wages outstanding were ₹1,000.

75% of the Entrance Fee is to be capitalized.

Depreciation is to be provided on computers @ 25% p.a. and books @ 10% p.a.

Solution :

Balance Sheet

as on April 1, 2010

Liabilities	₹	Assets	₹
Creditors for Stationery	400	Cash	65,000
Capital Fund (Bal. Fig.)	1,05,800	Subscriptions in Arrears	1,200
		Books	10,000
		Investments	20,000
		Furniture	10,000
	<u>1,06,200</u>		<u>1,06,200</u>

Income and Expenditure Account
for the year ended on March 31, 2011

Expenditure	₹	Income	₹
To Honorarium to cashier	4,000	By Entrance Fees	2,500
To Stationary 1,000		By Subscriptions 14,000	
Less: For 2009-10 <u>400</u>		Add: Outstanding <u>1,400</u>	
	600	15,400	
To Depreciation on		Less: For 2009-10 <u>1,200</u>	
Computer 22,500			14,200
Books <u>1,600</u>		By Sale of old Newspapers	1,000
	24,100	By Locker Rent	1,400
To Telephone charges	2,400	By Deficit Investments	22,200
To Repairs 2,000			
Add: Outstanding <u>2,200</u>			
	4,200		
To wages 5,000			
Add: Outstanding <u>1,000</u>			
	6,000		
	<u>41,300</u>		<u>41,300</u>

Balance Sheet

as at March 31, 2011

Liabilities	₹	Assets	₹
Outstanding Wages	1,000	Cash	11,000
Outstanding Repairs	2,200	Subscriptions in Arrears	1,400
Capital Fund 1,05,800		Computers 90,000	
Add: Entrance Fee 7,500		Less: Depreciation <u>22,500</u>	
Add: Life Membership Fee <u>30,000</u>			67,500
	1,43,300	Books 10,000	
Less: Deficit <u>22,200</u>		Add: Purchases <u>6,000</u>	
	1,21,100		16,000
			<u>1,600</u>
			14,400
		Investments	20,000
		Furniture	<u>10,000</u>
	<u>1,24,300</u>		<u>1,24,300</u>

Important Points :

In the absence of any instruction, Entrance Fee is treated as Income.

Points to Remember :

1. **Not-for-profit Organisations established for providing services to its members and society and not to earn profit.**
2. Financial statements prepared by **Not-for-Profit Organizations** at the end of accounting period :
 - (i) Receipts and Payments Account
 - (ii) Income and Expenditure Account
 - (iii) Balance Sheet
3. Receipts and Payment Account records only the **actual receipt and payment of cash during the concerned accounting period.**
4. Debit side of Income Expenditure Account includes all the expenses pertaining to a particular period and credit side includes all the income pertaining to the same period.
5. **Closing balance of Income and Expenditure Account** shows 'Surplus' or 'Deficit'.
6. **Surplus is added to the Capital fund and Deficit is subtracted from Capital Fund.**
7. **'Capital fund' is also known as 'General Fund' or 'Accumulated Fund'**
8. **Life Membership Fees, Legacy and Specific Fund Donations are capitalized.**
9. **Subscription and Donation are treated as income.**
10. **'Income from investment of Specific Fund' is added to concerned fund and not to be shown in Income and Expenditure Account.**



UNIT – 10

ACCOUNTS FROM INCOMPLETE RECORDS

Learning Objective:

After studying this chapter, students shall be able to :

- Define the concept of incomplete records
- Distinguish between **Double entry system** and **Accounts from Incomplete records**.
- Ascertain the amount of profit or loss using "Statement of Affairs" method.
- Differentiate between Balance Sheet and Statement of Affairs.
- Prepare Statement of Affairs using given data.

Suggested Methodology

- Illustration Method
- Discussion Method

Some small size business entities do not follow the double entry system of maintaining the accounting records because :

- It is very costly system.
- It is a time consuming method, and
- It requires expert staff to adhere the principles and accounting standards of this system.

Due to the above mentioned reasons, some business entities maintain books of accounts under the system **Accounting from Incomplete records**.

Under this system only the following accounts are maintained

- The cash book, and
- The personal accounts of debtors and creditors.

NOTE : Real and Nominal accounts are not maintained under this system.

Under this system of maintaining accounts:

- Both the aspects of only certain transactions are recorded. For example cash received from debtors or cash paid to creditors.
- One aspect of some transactions are recorded. For example cash paid for purchase of goods.
- Some financial events are not recorded at all. For example depreciation charged on fixed assets.

Kohler defines it as :

A system of book keeping in which as a rule, only records of cash and of personal accounts are maintained; It is always incomplete double entry system, varying with circumstances.

Points to Remember :

- Accounting Principles and Accounting Standards are not followed properly under this system.
- Original vouchers provide base for preparing the accounts.
- This method is highly flexible because it can be adjusted according to the need of the organisation.
- Profit or loss is ascertained by either Statement of Affairs method or 'Conversion into 'Double Entry System Method'.

SUITABILITY OF INCOMPLETE RECORDS

Books according to this system can be maintained only by those small entities in the form of

- **Sole Proprietorship ; or**
- **Partnership**

That are not bound to keep records of business transactions as per double entry system. Companies cannot maintain books under this system because of legal provisions.

Limitations of Incomplete Records

1. **Incomplete method**– This method is incomplete method of maintaining the accounting records as both the aspects, debit and credit, of every transaction are not recorded.
2. **Unscientific System**– This system is an unscientific system as not set rules are followed for recording the business transactions.
3. **Arithmetical Accuracy cannot be checked**–Under this system no real and nominal accounts are maintained. As such a trial balance cannot be prepared to check the arithmetical accuracy of the books of accounts.
4. **True Profit or Loss cannot be ascertained**–In the absence of trial balance, a trading and profit and loss account cannot be prepared and hence the profit or loss ascertained during a particular period is based on estimates, hence cannot be relied upon.
5. **True financial position of the business cannot be Judged**–Since real accounts are not maintained, it is not possible to prepare a balance sheet showing the true financial position of the business.
A Statement of Affairs is prepared to show the financial position of the business which itself shows the estimated values of assets and liabilities.

- 6. Changes of Errors and Frauds**– Under this system the principles of double entry system are not followed hence internal checking is not possible. It leads to changes of errors and frauds. Also, it becomes very difficult to detect them.

DIFFERENCE BETWEEN DOUBLE ENTRY SYSTEM AND INCOMPLETE RECORDS

Basis of Difference	Double Entry System	Incomplete Records
1. Recording of both aspects	Under this system both aspects of every transaction are recorded.	Under this system both the aspect of only few transactions are recorded. For some other transactions one aspect and yet for other no aspect at all is recorded.
2. Maintenance of accounts	All types of accounts are maintained.	Only cash book and personal accounts are maintained.
3. Trial balance	Arithmatical accuracy of the books can be checked by preparing a trial balance.	Arithmatical accuracy of the books cannot be checked as no trial balance is prepared.
4. True profit or loss	Profits ascertained by preparing a Trading and Profit and Loss account are more reliable.	Profit ascertained by preparing Statement of Affairs are based on estimates and hence can not be relied upon.
5. Financial position	True and fair financial position of the business can be ascertained by preparing the balance sheet.	A statement of affair, prepared on the basis of incomplete records, cannot show the true and fair financial position of the business.
6. Proof	Books maintained under this system can be produced as evidence in the court of law.	As this system is incomplete and unscientific therefore books maintained cannot be produced as evidence in the court of law.
7. Suitability	This method is suitable for business of all size and all types.	This method is suitable only for business of small size where most of the transactions are in cash.

ASCERTAINMENT OF PROFIT OR LOSS

The main objective of any business enterprise is to earn profits. Businessmen is always interested to know the amount of profit earned or loss incurred during an accounting period. In case of organizations maintaining accounts under incomplete records the amount of profit or loss can be ascertained by Statement of Affairs method or **Net Worth method**.

STATEMENT OF AFFAIRS METHOD

Under this method, profits or losses of the business are ascertained by comparing the

- Capital at the end, and
- Capital at the beginning of the accounting period.

Note : 1 When Capital at the end of an accounting Period	>	Capital at the Begining of the Accounting period
$\text{Profits} = \text{Capital at the End} - \text{Capital at the beginning}$		

Note : 2 When Capital at the Beginning of the Accounting Period	>	Capital at the End of an Accounting Period
$\text{Losses} = \text{Capital at the Beginning} - \text{Capital at the End}$		

For ascertainment of profit or loss, the following steps shall be taken:

Step 1 –Calculate the amount of ‘Opening capital’—

Opening Capital is ascertained by preparing Statement of Affair at the **beginning of the accounting period**.

Step 2 –Calculate the amount of ‘Closing Capital’—

Closing capital is ascertained by preparing ‘Statement of Affair’, at the **and of the accounting period**’.

Step 3–**Calculation of Profit or Loss**

Profit on Loss is ascertained by preparing Statement of Profit or Loss in the follwing manner :

**STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED ON.....**

Particulars	₹
Capital at the end closing (As ascertained by closing statement of affairs)	_____
Add - Drawings during the year	_____
Less - Additional capital introduced during the year	(_____)
Adjusted capital at the end	_____
Less - CAPITAL at the beginning of the period (As ascertained by Opening Statement of Affairs)	_____
	+/-
Profit or loss for the year	_____

STATEMENT OF AFFAIRS

A Statement of affairs is a statement showing the balances of assets (including cash and bank balance) on the right hand side and the balance of liabilities on the left hand side, on a particulars date. The difference in the total of two sides is known as capital.

CAPITAL = Total Assets – Total liabilities

A statement of affair is very similar to Balance Sheet as prepared for the business entities maintaining accounts under double entry system, though it should not be described as a Balance Sheet.

A Statement of Affairs is prepared as follows :

STATEMENT OF AFFAIRS

as on.....

Liabilities	₹	Assets	₹
-Bank Overdraft		-Cash in hand	
-Sundry Creditors		-Cash at bank	
-Bills Payable		-Bills Receivables	
-Outstanding Expenses		-Sundry Debtors	
-Income Received in Advance		-Stock	
Capital (Balancing figure)		-Prepaid Expenses	
		-Accrued Income	
		-Furniture	

DISTINCTION BETWEEN BALANCESHEET AND STATEMENT OF AFFAIRS

Basis of Difference	Balance Sheet	Statement of Affairs
1. Accounting Method	Balance sheet is prepared when accounts are	Statements of affairs is prepared when accounts are

	maintained under Double entry system.	maintained under Accounts from Incomplete Records' method.
2. Objective	Balance sheet is prepared to ascertain the financial position of the business.	Statement of Affairs is prepared to find out the amount of capital at a certain point of time.
3. Reliability	Balance sheet is considered as a reliable statement because it is based on principles of double entry system.	Since it is based on incomplete records and estimates, it is not a reliable statements
4. Aritmactical accuracy	The tallying of balance sheet indicates about the arithmactical accuracy of the accounts as there is no balancing figure.	A Statement of Affairs does not prove the arithmactical accuracy of the accounts as 'capital' is the balancing figure.
5. Value of Assets and Liabilities	The value of assets and liabilities shown in a balance sheet are based on actual figures.	The value of assets and liabilities shown in a Statement of Affairs are based on estimates and on physical inspection.

Case I – When opening and closing capital are not given.

Illustration -1

Aarushi maintains incomplete records of her business. She wants to know the result of her business on 31st march, 2011 and for that, following information are available :

	1st April, 2010	31st march, 2011
	₹	₹
Cash in hand	3,00,000	3,50,000
Bank balance	15,00,000	12,00,000
Furniture and fixture	2,00,000	2,00,000
Stock	10,00,000	9,00,000
Bills payable	7,00,000	8,00,000
Debtors	5,00,000	6,00,000

Personal expenses of Aarushi paid from business account amounted to ₹ 12,40,000 and goods worth ₹ 2,60,000 were **withdrawn** by her for personal use. She sold her car for ₹ 5,00,000 and invested that amount in to the business.

Calculate her profit or loss.

Solution :

Step -1 : Calculate the amount of Opening Capital by preparing Statement of Affairs at the beginning of the accounting period.

STATEMENT OF AFFAIRS

as on 1st April, 2010

Liabilities	₹	Assets	₹
Bills payable	7,00,000	Cash in hand	3,00,000
Capital (balancing figure)	28,00,000	Bank balance	15,00,000
		Furniture and Fixture	2,00,000
		Stock	10,00,000
		Debtors	5,00,000
	35,00,000		35,00,000

Step 2- : Calculate the amount of 'Closing Capital' by preparing 'Statement of Affairs' at the end of the accounting period.

STATEMENT OF AFFAIRS

AS ON 31st March, 2011

Liabilities	₹	Assets	₹
Bills Payable	8,00,000	Cash in Hand	3,50,000
Capital (Balancing Figure)	24,50,000	Bank balance	12,00,000
		Furniture and Fixture	2,00,000
		Stock	9,00,000
		Debtors	6,00,000
	32,50,000		32,50,000

Step 3- : Calculate the amount of 'profit or loss' by preparing 'Statement of profit or loss'
Statement of profit or loss

for the year ending on 31st March, 2011

Particulars	₹
Closing capital as on 3 March, 2011	24,50,000
<i>Add:</i> Drawings	
(i) In cash	12,40,000
(ii) In goods	<u>2,60,000</u>
<i>Less:</i> Further capital introduced	39,50,000
(car sold)	(5,00,000)
Adjusted closing capital	34,50,000
<i>Less:</i> Opening Capital as on 1st April	(28,00,000)
Profits for the Year	<u>6,50,000</u>

Case II - When opening and closing capital are given.

Illustration : 2

Simran tells you that her capital on 31st march, 2011 is ₹ 25,00,000 and her capital on 31st march,2010 was ₹ 18,00,000. She further informed you that during the year she gave a loan of ₹ 4,00,000 to her sister on private account and withdrew ₹ 15,000 per month for personal purposes. She also used a flat for her personal use, the rent of which ₹ 8,000 per month and electricity charges at an average rate of ₹ 6000 per quarter were paid from the business account.

During the year Simran sold her 10,000 shares of ABC Ltd.in the open market at a price of ₹ 150 per share and brought that money in to the business. Besides this, there is no further information.

You are required to prepare a statement or profit or loss for the year ending on 31st March, 2011 to ascertain the amount of profit or loss.

Solution :

**STATEMENT OF PROFIT OR LOSS
for the year ending on 31st march, 2011**

Particulars	₹
Closing capital as on 31 st March, 2011	25,00,000
<i>Add:</i> Drawings during the year	
(i) Loan to Sister	4,00,000
(ii) Personal Expenses:	
(a) Drawing @ ₹15000 per month (1500 × 12)	1,80,000
(b) Rent of flat@ ₹ 8000 per month (8000 × 12)	<u>96,000</u>
(c) Electricity Charges @ ₹ 6000 per quarter (6000 × 4)	<u>24,000</u>
	3,00,000
	32,00,000
<i>Less:</i> Further capital introduced during the year (Sale of shares in ABC Ltd. 10000 shares × 150 each)	(15,00,000)
Adjusted closing capital	17,00,000
<i>Less:</i> Opening capital as on 31 st March, 2010	<u>(18,00,000)</u>
Loss for the Year	<u>(1,00,000)</u>

Note :

When calculating the amount of expenses incurred during the year, it should be carefully noticed that whether the expenses are give on monthly or quarterly or half-yearly basis.

Case-I : If expenses are given on monthly basis :

Total expenses incurred during the year = Monthly Expenses \times 12

Case -II : If expenses are given on quarterly basis :

Total expenses incurred during the year = Quarterly Expenses \times 4

Case-III : If expenses are given on half-yearly basis :

Total expenses incurred during the year = Half Yearly Expenses \times 2

Case-IV : If expenses are given on bi-monthly basis :

Total expenses incurred during the year = Bi-monthly Expenses \times 6

Cash-III : When opening capital is given**Illustration 3**

Ms. Preeti started a business with a capital of ₹ 10,00,000. At the and of the year her position was :

Particulars	Amount(₹)
Cash in Hand	1,50,000
Cash at Bank	1,50,000
Sundry Debtors	80,000
Bills Receivables	70,000
Stock	2,00,000
Furniture	3,00,000
Machinery	7,50,000

Sundry creditors on this date was ₹ 1,00,000 . During the year she introduced a further capital of ₹ 4,50,000 and withdraw for household expenses ₹ 1,50,000. You are required to ascertain the profit or loss during the year

Solution :

STATEMENT OF AFFAIRS (CLOSING)

As at the end of the year

Liabilities	₹	Assets	₹
Sundry Creditors	1,00,000	Cash in Hand	1,50,000
		Cash at Bank	1,50,000
Capital	16,00,000	Sundry Debtor	80,000
(Balancing Figure)		Bills Receivables	70,000
		Stok	2,00,00
		Furniture	3,00,00
		Machinery	7,50,000
	<u>17,00,000</u>		<u>17,00,000</u>

Statement of Profit or loss

For the year ended on

Particulars	₹
Capital at the end	16,00,000
<i>Add.</i> Drawing (Household Expenses)	1,50,000
	17, 50, 000
<i>Less :</i> Further Capital Introduced	(4,50,000)
Adjusted Closing Capital	13,00,000
<i>Less :</i> Capital in the beginning	(10,00,000)
Profits for the Year	3,00,000

Note :

‘Statement of Affairs’ at the beginning of the period is not prepared because Opening capital is given in the question.

UNIT - II

COMPUTER IN ACCOUNTANCY

Meaning of Computers : A computer is an electronic device, which is capable of performing a variety of operations as directed by a set of instructions. This set of instructions is called a computer programme.

Elements of Computer System

A computer system is a combination of six elements :

1. Hardware
2. Software
3. People
4. Procedure
5. Data
6. Connectivity.

1. Hardware : Hardware of computers consists of physical components such as keyboard, mouse, monitor, processor etc. These are electronic and electromechanical components.

2. Software : In order to solve a particular problem with the help of computers, a sequence of instructions written in proper language will have to be fed into the computers. A set of such instructions is called a 'Program' and the set of programs is called 'Software'.

For example, a computer by feeding a particular software can be used to prepare pay-roll, whereas by feeding a second software it can be used to prepare accounts, by feeding a third software it can be used for inventory control and so on.

3. People : People are basically those individuals who use hardware and software to develop, maintain and use the information system residing in the computer memory. They constitute the most important part of the Computer System. The main categories of people involved with the computer system are :

- (a) System Analysis
- (b) Operators
- (c) Programmers.

4. Procedures : The Procedure means a series of operations in a certain order or manner to achieve desired results. These are of three types :

- (a) **Software-oriented**– provides a set of instructions required for using the software of a computer system.

(b) **Hardware - Oriented** – Provides details about the components and their methods of operations.

(c) **Internal Procedure** – Helps to ensure smooth flow of data to computers sequencing the operations of each sub-system of over all computer system.

5. Data : These are the facts (may consist of numbers, text etc) gathered and entered into a computer system. The computer system in turn stores, retrieves, classifies, organises and synthesises the data to produce information when desired.

Examples – (1) Bio-data of various applicants when the computer is used for recruitment of staff.

(2) Marks obtained by various students in various subjects when the computer is used to prepare results.

6. Connectivity : The manner in which a particular computer system is connected to others (say through telephone lines, microwave transmission-satellite link etc) is called element of connectivity.

Features or Advantages of Computer System

A Computer system possesses the following advantages in comparison of human beings:

1. **High Speed** – Computers are known for their lightning speed of operations and requires less time in comparison to human beings in performing a task. Most of modern computers perform millions of operations in one second.

2. **Accuracy** – Computers are extremely accurate. Their operations are error-free and as such the information obtained from it is highly reliable. But sometimes errors occur due to bad programming or inaccurate data feeding. In computer terminology, it is referred to as Garbage in, garbage out (GIGO).

3. **Reliability** – Its reliability refers to the ability with which a computer remains functional to serve the user. Unlike human beings, computers are immune to tiredness, boredom or fatigue, and can perform jobs of repetitive nature any number of times.

4. **Versatility** – It refers to the ability of computers to perform a variety of tasks. It can switch over from one programme to another. The same computer can be used for accounting work, stock control, sales analysis and even for playing games by the use of different softwares.

5. **Storage** – Memory or Storage capacity of a computer is so large that it can store any volume of information or data. Such data can be stored in it on magnetic discs, Floppy discs, punched cards or microfilms etc. The information stored can be recalled at any time and also correction can be done within no time.

Limitations – In spite of so many qualities, computers suffer from the following limitations.

- (1) **Lack of Commonsense** – Since computer work according to the stored programmes, they simply lack of common sense.
- (2) **Zero I.Q** – Computers are dumb devices with zero Intelligence Quotient (IQ). They can't visualize and think what exactly to do under a particular situation unless they are programmed to tackle that situation.
- (3) **Lack of Feeling** – Computers lack feelings like human beings because they are machines. No computer passes the equivalent of a human heart and soul.
- (4) **Lack of Decision-making** – Decision making is a complex process involving information, knowledge, intelligence, wisdom & ability to judge, Computers cannot make decisions of their own.

Some more limitations related to computerised System in Accounting

(1) **High cost of Training** – Besides the high cost of computer system, huge money is required to get the trained specialised staff to ensure efficient and effective use of computerised systems.

(2) **Danger of System Failure** – The danger of system crashing due to hardware failures and the subsequent loss of work is a serious limitation of this system.

(3) **Staff opposition** – Whenever the Accounting System is computerised, there is a significant degree of resistance from the existing staff because of the fear that they shall be less important to the organisation.

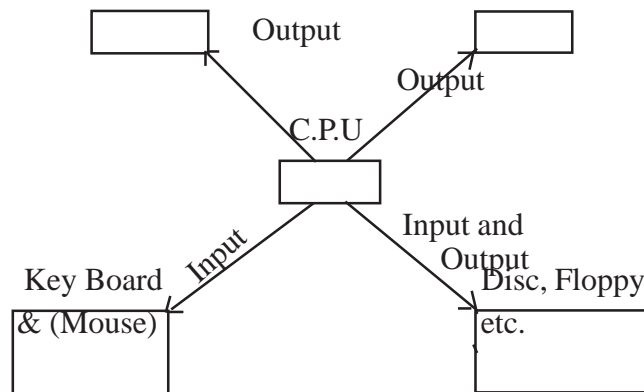
(4) **Disruption** – The accounting process suffer a significant loss of work and time when an organisation switches over to this system. This is due to the changes in the working environment that requires accounting staff to adapt to new system and procedures.

COMPONENTS OF COMPUTERS

The functional components consists of Input Unit, Central Processing Unit (CPU) and the out Unit related as follows :

Monitor

Printer



(1) **Input Unit** : It is for entering the data into the computer system. Keyboard and Mouse are the most commonly used input devices. Other such devices are magnetic tapes, disc, light pen, optical scanner, smart card reader etc. Besides there are some devices which respond to voice and physical touch.

(2) **Central Processing Unit (CPU)** : It is the main part of computer hardware that actually processes the data according to the instructions it receives. It has three units :

(a) **Arithmetic and Logic Unit (ALU)** : Responsible for performing all the arithmetic calculations such as addition, subtraction etc and logical operations involving comparison among variables.

(b) **Memory Unit** : For storing the data.

(c) **Control Unit** : Responsible for controlling and co-ordinating the activities of all other units of the computer system.

(3) **Output Unit** : After processing the data, the information produced is required in human readable and understandable form. Output devices perform this function. The commonly used devices are monitor, printer, graphic plotter (external) and magnetic stage devices (internal). A new device which is capable of producing verbal output that sound in human speech is also developed.

Features of Computerised Accounting System

Computerised accounting system is based on the concept of database. This system offers the following features :

- (1) Online input and storage of accounting data.
- (2) Printout of purchase and sales invoices.
- (3) Every account and transaction is assigned a unique code.
- (4) Grouping of accounts is done from the beginning.
- (5) Instant reports for management, for example : Stock statement, Trial Balance, Income Statement, Balance Sheet, Payroll Reports, Tax Reports etc.

DATA BASE MANAGEMENT SYSTEM (DBMS)

Meaning of Data Base : A data base is a collection of related data that is stored in a system. This data is stored in such a way that it can be updated, modified or retrieved as and when required.

Meaning of DBMS : It is a computerized Record keeping system (software) that allows access to data contained in a database. The DBMS makes possible to share the data in the database among multiple users.

Advantages of DBMS – Following are some of the advantages of DBMS :

1. It helps in effective and efficient management of data.
2. Better data provided by DBMS help to generate better information and reports.
3. It ensures rapid access to all stored data needed at any time which is updated from time to time ensuring better decision making.
4. It is easy to understand and user friendly.
5. It helps in quick answering of queries.
- 6.
7. It helps in ensuring data security and integrity.

Uses or Functions of DBMS in Accounting System

Some of the functions of DBMS in a Business are :

- (1) **Data Storage Management** : It stores a variety of data, reports, etc. related to accounting system.
- (2) **Data Dictionary Management** : The data dictionary is automatically updated in case of any modification the data base. Hence there is no need to modify all the programs.
- (3) **Security Management** : Since many people uses the same data base, the DBMS ensures Security and privacy within the data base by the establishment of security rules.
- (4) **Backup and Recovery Management** : DBMS ensures the data safety and integrity by providing adequate backup and data recovery procedures.
- (5) **Data base Communication Interfaces** : It provides the facility of faster communication by the use of internet. The users can publish their reports on internet, can send e-mails and find answers to their queries by exploring the websites.

Accounting Softwares

(1) Readymade Softwares :

Readymade Software are the software that are developed not for any specific user but for the users in general. Some of the readymade softwares available are Tally, Ex, Busy, Such softwares are economical and ready to use. such softwares do not fulfill the requirement of very user.

(2) Customised Software :

Customised software means modifying the readymade softwares to suit the specific requirements of the user. Readymade softwares are modified according to the need of the business. Cost of installation, maintenance and training is relatively higher than that of readymade user. These packages are used by those medium or large business enterprises in which financial transactions are somewhat peculiar in nature.

(3) Tailor-made Software :

The softwares that are developed to meet the requirement of the user on the basis of discussion between the user and developers. Such softwares help in maintaining effective management information system. The cost of these softwares is very high and specific training for using these packages is also required.

UNIT-12

PROJECT I

PROJECT WORK IN ACCOUNTANCY CLASS XI

In Accounting, it is for the first time that the Project Work is introduced at XI class for 10 marks. At this level, the accountancy teachers require to help the students in the project in the following ways :

1. To provide knowledge to the students about Accounting Process.
2. Give the imaginary transactions data.
3. Show the original source document (Which is easily available).
4. To train the students for preparing vouchers.
5. Tell the students how to record transaction from vouchers.
6. To motivate students to collect various source documents.
7. To encourage students to prepare books of accounts with the help of vouchers.

So, the commerce teacher will play a important role in preparation of project in class XI. The teacher may provide various transactions to the students. Some transactions are given below :

Ayan started business under the name AYAN & BROTHERS at NOIDA on April 1, 2011 to deal in Books and Stationary material. He introduced 5,00,000 as capital out of which 1,00,000 was in cash and balance by cheque. He enclosed the original papers relating to his business transactions for the month of April, 2011.

Students should analyse the transaction on the basis of these papers and process the information through :

various stages of accounting cycle.

Preparation of vouchers for each financial transaction.

Recording in the journal and subsidiary books.

Source Documents

Transac

HDFC BANK PAYABLE AT PAR THROUGH CLEARING/TRANSFER AT ALL BRANCHES OF HDFC BANK LTD

Date:.....

PAY _____ OR BEARER

RUPEES _____ Rs. _____

A/c No. **15881000000000** SB A/C

HDFC BANK LTD.
100 Ft. Road, 7th Street
Gandhipuram, Coimbatore-641012, Tamilnadu

RTGS / NEFT IFSC : **HDFC0001588**

BALAKRISHNAN

00057 000000006: 000005* 31

PAYABLE AT PAR	1.4.2011
Pay Ayan & Brother	OR BEARER
RUPEES FOUR LAC ONLY	
A/C NO. 1500010084	4,00,000
HDFC BANK LTD.	AYAN
NEW DELHI	
110010254	
'110052' : '124564'	63

Transaction 2				
RAM & SONS				
KAROL BAGH,				
DELHI				
M/S AYAN & BROTHERS, NOIDA				
Bill no. 126		Date : 02.04.2011		
<u>S.No.</u>	<u>Particulars</u>	<u>Quantity</u>	<u>Rate</u>	<u>₹</u>
1.	Shelves	20	2500	50,000
2.	Chairs	5	400	20,000
3.	Tables	4	500	2000
4.	Show Case	3	10,000	30,000
5.	Cabinets with Glass	4	4,000	16,000
		Gross Total		1,00,000
		Trade		
	Less 5%	Discount		-5,000
		Net Amount		95,000
E.&O.E.		for Ram & Sons		

Transaction 3

CASH MEMO				
Rama Stores				
KAROL BAGH, DELHI				
M/s AYAN & BROTHER, NOIDA				
Bill No. 626		Date 03-04-2011		
<u>S.No.</u>	<u>Particulars</u>	<u>Quantity</u>	<u>Rate</u>	<u>₹</u>
1.	17×17 cms. size exercise book	1000	17.25	17,250
2.	Ruled Sheets (24 Sheet Packet)	500	15.5	7750
3.	Drawing Sheets (24 Sheets Packet)	1000	12	12000
4.	Drawing Copies (12 no.)	200	240	48,000
	Net Amount			85,000
	(Rupees eighty five thousand only)			
	Received by cheque no. 186926			
	HDFC BANK LTD.			
E.&O.e.		for Ram & Sons		

Transaction 4

CASH MEMO				
QUICK SOLUTIONS				
NEHRU PLACE, DELHI				
M/s AYAN & BROTHER, NOIDA				
Bill No. 715		Date 05-04-2011		
<u>S.No.</u>	<u>Particulars</u>	<u>Quantity</u>	<u>Rate</u>	<u>₹</u>
1.	Computer	2	27,500	55,000
2.	Printer	1	12,000	12,000
3.	Billing machine	1	8,000	8,000
	Net Amount			75,000
	(Rupees Seventy five thousand only)			
	Received by cheque no. 186927			
	HDFC BANK LTD.			
E. & O. E.		for QUICK SOLUTIONS		

Transaction 5

Sunlight Ltd.				
KAROL BAGH, DELHI				
M/s AYAN & BROTHER, NOIDA				
Bill no. 526			Date 06-04-2011	
<u>S.No.</u>	<u>Particulars</u>	<u>Quantity</u>	<u>Rate</u>	<u>₹</u>
1.	Sketch Book	1000	50	50,000
2.	Practical Sheet (24 Sheets)	500	48	24,000
3.	Graph Pad	500	25	12,500
4.	Graph Exercise Book	500	25	12,500
5.	Long Exercise Book 288 Pages (12 Pcs.)	250	600	1,50,000
6.	Note Pad 115×180 mm Size (12 Pcs.)	110	100	11,000
		Gross Total		2,60,000
	Less 10%	Trade Discount		- 2,6000
		Net Amount		2,34,000
(Rupees two lac thirty four thousand only)				
E.&O.e.			for Sunlight Ltd.	

Transaction 6

CASH MEMO				
M/s AYAN & BROTHER,				
NOIDA				
M/s Vikas Ltd.				
Bill No. 1			Date 07-04-2011	
<u>S.No.</u>	<u>Particulars</u>	<u>Quantity</u>	<u>Rate</u>	<u>₹</u>
1.	Long Exercise Book 288 Page (12 Pcs.)	38	650	24,700
2.	Graph Pad	6	50	300
	Gross Total			25,000
	Cash Discount			- 500
	Net Amount			24,500
(Rupees Twenty Four Thousand Five Hundred only)				
Received by cheque no. 369531 AXIS BANK LTD.				
E. & O.E.			for M/S AYAN & BROTHER	

Transaction 7

CASH MEMO				
M/s Sohan Furniture Ltd.				
Kirti Nagar, DELHI				
M/s AYAN & BROTHER, NOIDA				
Bill No. 236			Date 08-04-2011	
<u>S.No.</u>	<u>Particulars</u>	<u>Quantity</u>	<u>Rate</u>	<u>₹</u>
1.	Wooden Screens	5	1000	5,000
	Net Amount (Rupees Five Thousand only)			5,000
	Received Cash AXIS BANK LTD.			
E.&O.e.			for Sohan Furniture Ltd.	

Transaction 8

CASH MEMO				
M/s Advertise Ltd.				
Shastri Nagar, DELHI				
M/s AYAN & BROTHER, NOIDA				
Bill No. 25			Date 10-04-2011	
<u>S.No.</u>	<u>Particulars</u>	<u>Quantity</u>	<u>Rate</u>	<u>₹</u>
1.	Neon Sign Board	1	2,500	2,500
	Net Amount (Rupees Two Thousand Five Hundred only)			2,500
	Received Cash			
E.&O.E.			for Sun Advertise Ltd.	

Transaction 9

M/s AYAN & BROTHER,				
NOIDA				
M/s Ramesh Trading Co.				
Inv. No. 1			Date 12-04-2011	
<u>S.No.</u>	<u>Particulars</u>	<u>Quantity</u>	<u>Rate</u>	<u>₹</u>
1.	Long Exercise Book 288 Pages (12 Pcs.)	212	650	1,37,800
2.	Graph Pad	494	50	24,700
3.	Note Pad 115×180 mm Size (12 Pcs.)	84	125	10,500

4.	Graph Exercise Book	500	40	20,000
5.	Sketch Book	950	60	57,000
	Gross Total			2,50,000
	Trade			
	Less 2% Discount			- 5,000
	Net Amount			2,45,000
	(Rupees Two Lac Forty Five Thousand Only)			
E.&O.e.		for M/s AYAN & BROTHER		

Transaction 10

Ram & Sons	
Karol Bagh, Delhi	
No. 256	Receipt (Original) Date 12-04-2011
Received with thanks from M/s Ayan & Brothers, Noida sum of Rupees fifty thousand only as part payment of Bill on. 126, dated April 2, 2011 through cheque no. 186928 on HDFC BANK LTD. DELHI.	
50,000	for Ram & Sons

Transaction 11

M/s AYAN & BROTHER,				
NOIDA				
M/s Vikas Ltd.				
Inv. No. 2		Date 12-04-2011		
S.No.	Particulars	Quantity	Rate	₹
1.	Sketch Book	1000	18.75	18,750
	Pages (12 Pcs.)	212	650	,37,800
2.	Practical Sheet (24 Sheets)	85	60	5,100
3.	Note Pad 115×180 mm Size (12 Pcs.)	26	125	32,50
4.	Graph Exercise Book	499	40	19,960
5.	Sketch Book	49	60	2,940
	Gross Total			50,000
	Trade			
	Less 10% Discount			- 5,000
	Net Amount			45,000
	(Rupees Forty Five Thousand Only)			
E.&O.E.		for M/s AYAN & BROTHERS		

Transaction 12

M/s Ayan & Brothers,		
NOIDA		
No. 256	Receipt (Original)	Date 14-04-2011
Received with thanks from M/s Ramesh Trading Co. sum of Rupees one lac fifty thousand only as part payment of Invoice on. 1, dated April 12, 2011 through cheque no. 486958 on ICICI BANK LTD. DELHI.		
1,50,000		
FOR AYAN & BROTHERS		

Transaction 13

Sunlight Ltd.				
KAROL BAGH,				
DELHI				
M/s AYAN & BROTHER, NOIDA			Date 14-04-2011	
Bill no. 671				
S.No.	Particulars	Quantity	Rate	₹
1.	Setch Book	100	50	5,000
2.	Practical Sheet (24 Sheets)	100	50	5,000
3.	Graph Pad	100	25	2,500
4.	Graph Exercise Book	100	25	2,500
	Net Amount			15,000
	(Rupees Fifteen Thousand Only)			
E.&O.E.			for Sunlight Ltd.	

Transaction 14

Carriage paid for unloading of goods ₹ 500 cash.

Transaction 15

CASH MEMO				
Shyam Trading Co.				
Gole market, DELHI				
M/s AYAN & BROTHER, NOIDA			Date 15-04-2011	
Bill No. 25				
S.No.	Particulars	Quantity	Rate	₹
1.	Long Exercise Book	50	500	25,000
	288 Page (12 Pcs.)			
	Net Amount			25,000
	(Rupees Twenty Five Thousand Only)			
	Received - vide cheque no. 186829, HDFC BANK LTD.			
E.&O.E.			For Shyam Trading Co.	

Transaction 16

BILL OF EXCHANGE	
NOIDA	
Stamp	Date 19-04-2011
One month after date pay M/s Ayan & Brothers or order the sum of Rupees twenty thousand only, value received.	
₹ 20,000	
for AYAN & BROTHERS	
AYAN	
To, M/s Vikas Ltd.	

Transaction 17

Mr. Ayan withdrew ₹ 3,000 from Bank Account for personal use vide cheque no. 186930. on 20th April, 2011.

Transaction 18

₹ 25,000 Wages paid to worker vide cheque no. 186931 on 20th April, 2011.

Transaction 19

PROMISSORY NOTE	
NOIDA	
₹ 10,000	Date : 21/04/2011
Two months after date, I/We promise to pay M/s Sunlight Ltd. Or order sum of Rupees Ten Thousand only for the value received.	
for AYAN & BROTHERS	
AYAN	

Transaction 20

Payment made for purchasing Printing and Stationary Material vide cheque no. 186932, HDFC BANK LTD. 25th April, 2011.

Transaction 21

Salary of ₹ 15,000 paid for the month of April, 2011 by cheque no. 186935.

Event as on 30th, April 2011

Inventory was counted and valued ₹ 1,08,950.

VOUCHERS
In the Books of Ayaan & Brothers
VOUCHERS for Transaction 1

AYAN & BROTHERS NOIDA DATE : 01/04/2011	
VOUCHER No. 01	₹ ₹
Credit : Capital A/c (Being capital introduced through cheque)	4,00,000
	4,00,000
Sd/- Manager	Sd- Accountant

AYAN & BROTHERS NOIDA DATE : 01/04/2011	
VOUCHER No. 02	₹
Credit : Capital A/c (Beng business started with cash)	1,00,000
	1,00,000
Sd/- Manager	Sd- Accountant

VOUCHERS for Transaction 2

AYAN & BROTHERS NOIDA DATE : 02/04/2011	
VOUCHER No. 01	₹
Debit : Furniture & Fixtures A/c	95,000
	95,000
Credit : Ram & Sons (Being furniture purchased from Ram & Sons Vide Bill No. 126)	95,000
	95,000
Sd/- Manager	Sd- Accountant

VOUCHER for Transaction 3

AYAN & BROTHERS NOIDA		DATE : 03/04/2011
VOUCHER No. 01		₹
Debit : Purchases A/c (Being goods purchases vide cash Memo no. 626)		85,000
		85,000
Sd/- Manager	Sd- Accountant	
Received Rs. 85,000 vide cheque no. 186926		
		<div style="border: 1px solid black; display: inline-block; padding: 2px 10px;">Stamp</div> Receiver Signature

VOUCHER for Transaction 4

AYAN & BROTHERS NOIDA		DATE : 05/04/2011
VOUCHER No. 02		₹
Debit : Office Equipment A/c (Being office equipment purchases vide cash Memo no. 715)		75,000
		75,000
Sd/- Manager	Sd- Accountant	
Received Rs. 75,000 vide cheque no. 186927		
		<div style="border: 1px solid black; display: inline-block; padding: 2px 10px;">Stamp</div> Receiver Signature

VOUCHER for Transaction 5

AYAN & BROTHERS NOIDA		DATE : 06/04/2011
VOUCHER No. 02		₹
Debit : Purchases A/c		2,34,000
		2,34,000
Credit : Sunlight Ltd. (Being goods purchased from sunlight Ltd. Vide Bill No. No. 565)		2,34,000
		2,34,000
Sd/- Manager	Sd- Accountant	

VOUCHER for Transaction 6

AYAN & BROTHERS NOIDA DATE : 07/04/2011	
VOUCHER No. 03	₹
Sales Credit : A/c (Being goods sold to Vikas Ltd. Vide cash memo no. 01	24,500
	24,500
Sd/- Manager	Sd- Accountant

VOUCHER for Transaction 6

AYAN & BROTHERS NOIDA DATE : 07/04/2011	
VOUCHER No. 03	₹
Debit : Discount Allowed A/c	500
	500
Credit : Sales A/c (Being discount allowed on sales vide cash memo no. 01)	500
	500
Sd/- Manager	Sd- Accountant

VOUCHER for Transaction 7

AYAN & BROTHERS NOIDA DATE : 08/04/2011	
VOUCHER No. 03	₹
Debit : Furniture & Fixtures A/c (Being purchases vide cash memo no. 256)	5,000
	5,000
Sd/- Manager	Sd- Accountant
Received Rs. 5,000 (Rupees Five Thousand only)	
<div style="border: 1px solid black; display: inline-block; padding: 2px 10px;">Stamp</div> Receiver Signature	

VOUCHER for Transaction 8

AYAN & BROTHERS NOIDA DATE : 10/04/2011	
VOUCHER No. 04	₹
Debit : Advertisement Expenses A/c (Being amount paid for neon signboard Vide Cash memo no. 25)	2,500
	2,500
Sd/- Manager	Sd- Accountant
Received Rs. 2,500 (Rupees two Thousand five hundred only)	
	<div style="border: 1px solid black; padding: 2px; display: inline-block;">Stamp</div> Receiver Signature

VOUCHER for Transaction 9

AYAN & BROTHERS NOIDA DATE : 12/04/2011	
VOUCHER No. 04	₹
Ramesh Trading	2,45,000
Debit : Co.	2,45,000
Sales	2,45,000
Credit :A/c (Being goods sold vide invoice no. 01)	2,45,000
Sd/- Manager	Sd- Accountant

VOUCHER for Transaction 10

AYAN & BROTHERS NOIDA DATE : 12/04/2011	
VOUCHER No. 04	₹
Debit : Ram & Sons (Being part payment made against bill no.126 dated 02/04/2011)	50,000
	50,000
Sd/- Manager Received Rs. 50,000 vide cheque no.	Sd- Accountant <div style="border: 1px solid black; display: inline-block; padding: 2px 10px;">Stamp</div> Receiver Signature

VOUCHER for Transaction 11

AYAN & BROTHERS NOIDA DATE : 12/04/2011	
VOUCHER No. 05	₹
Debit : Vikas Ltd.	45,000
	45,000
Credit :A/c Sales (Being goods sold vide invoice no. 02)	45,000
	45,000
Sd/- Manager	Sd- Accountant

VOUCHER for Transaction 12

AYAN & BROTHERS NOIDA DATE : 14/04/2011	
VOUCHER No. 04	₹
Credit :Ramesh Trading Co.	1,50,000
(Being cheque received part payments against invoice no. 01)	1,50,000
Sd/- Manager	Sd- Accountant

VOUCHER for Transaction 13

AYAN & BROTHERS NOIDA DATE : 14/04/2011	
VOUCHER No. 04	₹
Debit : Purchase A/c	15,000
Credit : Sunlight A/c (Being goods purchase vide bill no. 671)	15,000
Sd/- Manager	Sd- Accountant

VOUCHER for Transaction 14

AYAN & BROTHERS NOIDA DATE : 15/04/2011	
VOUCHER No. 05	₹
Debit : Carriage Inward A/c Co. (Being amount paid for carriage inward vide cash memo no. 75)	500
Sd/- Manager	Sd- Accountant
Received Rs. 500 (Rupees five hundred only)	
<div style="border: 1px solid black; display: inline-block; padding: 2px;">Stamp</div> Receiver Signature	

VOUCHER for Transaction 15

AYAN & BROTHERS NOIDA DATE : 15/04/2011	
VOUCHER No. 06	₹
Debit : Purchases A/c (Being goods purchase vide cash memo no. 175)	25,000
Sd/- Manager	Sd- Accountant
Received Rs. 25,000 vide cheque no. 186929	
<div style="border: 1px solid black; display: inline-block; padding: 2px;">Stamp</div> Receiver Signature	

VOUCHER for Transaction 16

AYAN & BROTHERS NOIDA DATE : 19/04/2011	
VOUCHER No. 07	₹
Debit : Bills Receivable A/c	20,000
	20,000
Credit : Vikas Ltd. (Being bills receivable against invoice no. 02 for part payment)	20,000
	20,000
Sd/- Manager	Sd- Accountant
Received Rs. 25,000 vide cheque no. 186929	
Stamp Receiver Signature	

VOUCHER for Transaction 17

AYAN & BROTHERS NOIDA DATE : 19/04/2011	
VOUCHER No. 07	₹
Debit : Drawings A/c (Being Amount withdrawn from bank vide cheque no. 186930)	3,000
	3,000
Sd/- Manager	Sd- Accountant
Received Rs. 3,000 vide cheque no. 186930	
Stamp Receiver Signature	

VOUCHER for Transaction 18

AYAN & BROTHERS NOIDA DATE : 20/04/2011	
VOUCHER No. 08	₹
Debit : Wages A/c (Being Wages paid vide wages sheet no. 01) Vide Cheque no. 186931)	25,000 <hr style="width: 50%; margin: 0 auto;"/> 25,000
Sd/- Manager	Sd- Accountant
Received Rs. 25,000 vide cheque no. 186931 <div style="text-align: right; margin-top: 10px;"> <div style="border: 1px solid black; display: inline-block; padding: 2px 10px;">Stamp</div> Receiver Signature </div>	

VOUCHER for Transaction 19

AYAN & BROTHERS NOIDA DATE : 21/04/2011	
VOUCHER No. 08	₹
Debit : Sunlight Ltd. Credite Bills Payable A/c (Being promissery note issued, two months after date)	10,000 <hr style="width: 50%; margin: 0 auto;"/> 10,000 <hr style="width: 50%; margin: 0 auto;"/> 10,000 <hr style="width: 50%; margin: 0 auto;"/> 10,000
Sd/- Manager	Sd- Accountant
Received Rs. 3,000 vide cheque no. 186930 <div style="text-align: right; margin-top: 10px;"> <div style="border: 1px solid black; display: inline-block; padding: 2px 10px;">Stamp</div> Receiver Signature </div>	

VOUCHER for Transaction 20

AYAN & BROTHERS NOIDA DATE : 25/04/2011	
VOUCHER No. 09	₹
Debit : Trade Expenses A/c (Being trade exp. paid vide cheque no. 186932) Cheque no. 186931)	2,000 2,000
Sd/- Manager	Sd- Accountant
Received Rs. 2,000 vide cheque no. 186932	
<div style="border: 1px solid black; display: inline-block; padding: 2px;">Stamp</div> Receiver Signature	

VOUCHER for Transaction 21

AYAN & BROTHERS NOIDA DATE : 30/04/2011	
VOUCHER No. 10	₹
Debit : Salary A/c (Being salary paid vide salary sheet no. 01)	15,000 15,000
Sd/- Manager	Sd- Accountant
Received Rs. 15,000 vide cheque no. 186935	
<div style="border: 1px solid black; display: inline-block; padding: 2px;">Stamp</div> Receiver Signature	
Memorandum for event of on 30th April 2011	

AYAN & BROTHERS

Memorandum	
Enclosed is a list of unsold good in stock on April, 30, 2011, the 1,08,900/- only	
Dated : 30 Apr.- 2011	Signature of valuer

Project -II

Project work 2 (procedure)

Preparation of Bank Reconciliation Statement with the help of given cash book and Pass Book.

If both the books (cash book and passbook) are given, the following procedure will be adopted.

Step 1.

Tick off the items which are found both in the cash book and passbook/bank statement. Put sign (✓) before such items.

Items ticked (✓) will neither be recorded in amended cash book nor in Bank Reconciliation Statement.

Step 2.

The unticked items in the passbook will indicate items that have not yet been recorded in cash book.

These items will usually consist of:

- (i) Direct deposits by customers in bank.
- (ii) Bank charges.
- (iii) Interest charged by bank.
- (iv) Interest allowed by bank.

These items are to be recorded in the amended cash book.

Step 3.

Balance the bank columns of cash book to know an updated balance. Bank Reconciliation Statement is to be prepared on the basis of this updated balance.

Step 4.

Identify the unticked items on the Receipts side of the Cash Book. These items generally consist of 'cheques deposit to the bank but not collected'.

Step 5.

Amended Cash Book is to be prepared on the basis of items identified in step 1, 2, 3.

Bank reconciliation statement is to be prepared on the basis of items identified in steps 4 and 5.

Project : 1

The cash book of Shivalik Global Limited, showing the bank columns only, is given below along with a copy of the Pass Book of its bank account with Allahabad Bank for April 2011.

You are required to prepare amended Cash Book and reconcile it with Pass Book.

Shivalik Global Limited
Cash Book (Bank Column only)

Date	Receipts	L.F	₹	Date	Particulars	L.F	₹
2011				2011			
Apr. 1	Balance b/d		5,70,000	Apr. 1	Bishan Hari Bros.		39,200
Apr. 1	Bishambar & Co.		62,800	Apr. 1	Maruti Suzuki India		20,000
Apr. 4	P.L. Kataria		97,200	Apr. 3	J.P Infra Ltd.		2,16,000
Apr. 8	Reliance Power Ltd.		36,400	Apr. 9	Surendra Pal		16,800
Apr. 13	Meena Singh		30,000	Apr. 9	India Visions Ltd.		1,96,000
Apr. 20	Krishna & Company		1,68,000	Apr.10	Reliance Insurance		1,20,000
Apr. 28	House of Fashines Ltd.		37,600	Apr. 16	Shivam Garage		44,000
				Apr. 23	Petty Cah		20,000
				Apr.27	Sanjay & Co.		48,000
				Apr. 28	Balance c/d		2,82,000
			10,02,000				10,02,000

Allahabad Bank, Sansad Marg, New Delhi

Statement of Account No. 5984758722: Global Limited

Date	Details	Debit	Credit	Balance
2011				
Apr. 1	Balance			5,70,000cr.
Apr. 2	Bishambar & Co.		62,800	6,32,800cr.
Apr. 4	Maruti Suzuki India Ltd.	20,000		6,12,800cr.
Apr. 5	Bishan Hari Bros.	39,200		5,73,600cr.
Apr 6	P.L. Kataria		97,200	6,70,800cr.
Apr. 10	Reliance Power Ltd.		36,400	7,07,200cr.
Apr. 14	Reliance Insurance	1,20,000		5,87,200cr.

Apr. 23	Meena Singh		30,000	65,120cr.
	India Vision Ltd.	1,96,000		4,21,200cr.
Apr.25	Krishna & Co.		1,68,000	5,89,200cr.
Apr.25	Someshwar	41,200		5,48,000cr.
Apr.25	Self	20,000		5,28,000cr.
Apr.27	Chandramani		88,000	6,16,000cr.
Apr.28	Bank charge	15,200		6,00,800cr.

Solution :

Step 1.

Tick off the items which are found both in cash book and pass book. Put (✓) sign before such items. Items ticked (✓) will neither be recorded in amended cash book nor in Bank Reconciliation Statement.

Step 2.

Unticked items in the Pass Book indicate items that have not yet been recorded in the cash book. These are :

- (i) Payment of ₹41,200 made to Someshwar on April 25.
- (ii) Direct deposit by Chandramani ₹ 88,000 on April 27.
- (iii) Bank charges of ₹ 15,200 charged by bank on April 28.

These items are to be recorded in Cash Book to update it.

Amended Cash Book

Date	Receipts	₹	Date	Payments	₹
Apr. 28	Balance b/d	2,82,000	Apr. 28	Someshwar	41,200
Apr. 28	Chandramani	88,000	Apr. 28	Bank Charges	15,200
			Apr. 28	Balance c/d	3,13,600
		3,70,000			3,70,000
2011					
Apr. 28	Balance b/d	3,13,600			

Step 3.

Balance the bank columns of amended cash book to know an updated balance.

Step 4.

Identify the unticked items on receipt side of cash book. It is 'cheque deposited into bank but not collected'; 'House of fashions Ltd.' ₹ 37,600.

Step 5.

Identify unticked items on the payment side of cash book, These are:

JP infra Ltd.	2,16,000
Surendra Pal	16,800
Shivam Garage	44,000
Sanjay & Co.	48,000

Items identified in step 4 and 5 are to be shown in Bank Reconciliation Statement.

Bank Reconciliation Statement

as on April 30, 2011

Particulars	Plus items	Minus items
Balance as per Cash Book	3,13,600	
Less: Cheques deposited but not cleared, house of fashines Ltd.		37,600
Add: Cheques issued but not yet presented for payment		
J.P Infra Ltd 2,16,000		
Surendra Pal 16,800		
Shivam Garage 44,000		
Sanjay & Co. <u>48,000</u>		
	3,24,800	
Balance as per Pass Book		6,00,800
	<u>6,38,400</u>	<u>6,38,400</u>



Blue Print

Accounting : Class XI

Weightage Difficulty level of questions

S.No.	Estimated Difficulty	Level	Percentage
1.	Easy	20%	
2.	Average	60%	
3.	Difficult	20%	

S. No.	Name of unit	Marks to questions					Total	
		1	3	4	6	8	Questions	Marks
PART A: Financial Accounting -I								
1.	Introduction to Accounting	1		1			2	5
2.	Theory base of Accounting	1			1		2	7
3.	Recording of transaction	1		2			3	9
4.	Ledger, Trial Balance & B.R.S.		1		1		2	9
5.	Depreciation, Provisions & Reserve	2			1		3	8
6.	Accounting for Bills of Exchange				1		1	8
7.	Rectifications of Errors		1	1			2	7
8.	Financial Statements of sole prop.	1	1			1	3	12
Total							18	65
PART B: Financial Accounting -II								
9.	Financial Statement of N.P.O.	1	1		1		3	10
10.	Accounts from incomplete records	1		1			2	5
11.	Computers in Accounting	1	1		1		3	10
Total							08	25
Grand Total		9	5	5	5	2	26	90

SAMPLE QUESTION PAPER

Accounts Class XI

Time 3 Hours

Maximum Marks: 100

General Instructions:

(i) This paper consists of two parts: A and B. Both parts are compulsory.

Number of question is 26

(ii) Other all parts of a particular question at one place.

Part A: Financial Accounting

1. What is a cash transaction ? 1
2. When should revenue be recognised ? 1
3. What is imprest system of petty cash Book ? 1
4. What is 'Provision' ? 1
5. State any one important purpose for which reserves are created. 1
6. Give two examples of 'Capital Expenditure'. 1
7. **Prepare a bank reconciliation statement from the following:-** 3

On 31st December 2009 I had an overdraft of Rs. 750 as shown by my pass-book. I had issued cheques amounting to Rs. 250 of which Rs. 200 worth only seen to have been presented for payment. Cheques amounting to Rs. 100 had been paid in by me on 30th December but of these only Rs. 75 were credited in the passbook. I also find that a cheque for Rs. 10 which I had debited to bank account in my books has been omitted to be banked. There is a debit of Rs. 25 in my passbook for interest. An entry of Rs.30 of a payment by a customer direct into the bank appears in the passbook. My pass book also shows a credit of Rs.60 to my account for interest on investments directly collected by my bankers.

8. What is suspense Account ? When is it opened ? 3
9. On April 1, 2010 the balance of Provision for Doubtful Debts Accounts was ₹ 3,000. Bad Debts amounted to ₹ 2,000 during the year. Debtors stood at ₹ 1,30,000 on March 31, 2011, Make a provision for doubtful debts @5%. During

2011-12 Bad debts are ₹2,200. Debtors stood at ₹7,600 on March 31, 2012 and provision @5% is to be made for doubtful debts. Prepare Bad Debts account for the year 2010-11 and 2011-12.

3

10. Mention the names of any two fixed assets and any two current assets. 4

11. On the basis of following transactions of Nishtha, develop Accounting equation. 4

	₹
(a) Business started with cash	1,75,000
(b) Purchased goods from Hina	50,000
(c) Sold goods to Megha (Costing ₹ 17,500)	20,000
(d) Purchased Furniture	10,000
(e) Cash paid to Hina in full settlement	48,500
(f) Cash received from Megha	20,000
(g) Rent paid	1,000
(h) Cash withdrew for personal use	3,000

12. (a) Explain cash book as a subsidiary book and a principal book. 2

(b) Explain the imprest system of petty cash book. 2

13. What are the different types of errors ? Explain 4

14. Explain the following concepts 6

1. Money measurement concept
2. Business entity concept
3. Matching concept

15. State any six reasons when the 'Cash book balance' will be higher than the 'pass book balance'.

16. The following balances appears in the books of Hans stores.

2010		
April	Machinery Account	2,75,000
	Provision for depreciation account	1,25,000

On April 2010 'Hans stores' decided to sell a machine for ₹ 29,500 which was purchased for ₹ 55,000 on April 1, 2006.

You are required to prepare 'Machinery Account' and Provision for Depreciation Account' for the year 2010-11 assuming that the Hans stores charges depreciation @ 10% per annum on straight line method.

7. A purchased goods for Rs.15,000 from B on March 1, 2011 and gives him two bills one for Rs.10,000 at two months and the other for Rs.5000 at four months. A meets the first bill at maturity but on June 25, 2011 he is declared insolvent and a dividend of 60 paise in a rupee is paid from his property on August 20, 2011. Give journal entries in the books of B and prepare A's Account in B's Ledger. 8

OR

On July 1, 2011 Amita draws a bill on Ramlakhan for Rs. 10,000 payable after three months for goods sold of the same amount. Amita gets the bill discounted with her bank on August 4, 2007 at a discount of 9% p.a.. On due date bank returned the bill as dishonoured with nothing charges of Rs.50.

Ramlakhan paid Rs.2,050 in cash and requested to draw another bill on him for the balance amount for 2 month with interest @ 12% p.a., Which Amita did. Before due date Ramlakhan became insolvent and his estate paid 40% as first and final instalment.

Give Journal entries in the books of Amita.

18. Sunita started business on April 1, 2010. The following Trial Balance was drawn up from her books at the end of the year :-

Name of Account	Debit ₹	Name of Account	Credit ₹
Drawings	4,500	Capital	40,000
Plant & Mixture	8,000	Sales	1,60,000
Purchases	1,16,000	Creditors	12,000
Carriage Inward	2,000	Bills payable	9,000
Wages	8,000		
Return Inward	4,000		

Salaries	10,000		
Printing	800		
Advertisement	1,200		
Trade charges	600		
Rent	1,400		
Debtors	25,000		
Bills receivable	5,000		
Investments	15,000		
Discount	500		
Cash at Bank	16,000		
Cash in hand	3,000		
	<u>2,21,000</u>		<u>2,21,000</u>

The value of stock as at March 31,2011 was ₹ 26,000 You are required to prepare her Trading and Profit & Loss Account for the year ended March 31,2011 and a Balance sheet as on that date after the following facts into account:-

Plant & Mixtures are to be depreciated by 10% p.a.

Accrued interest on investment amounted to ₹ 750

OR

From the following trial balance of Ramneek & Company, prepare Trading and Profit & Loss account for Account for the year ended on March 31,2011 and a Balance Sheet as on that date:-

Name of Account	Debit Balance ₹	Credit balance ₹
Purchase	21,750	
Sales		35,000
Discount	1,300	
Capital		13,000
Wages	6,500	

Cremitors		2,100
Salaries	2,000	
Travelling Expenses	400	
Commission	425	
Carriage Inwards	275	
Administrative Exp.	105	
Trade Expenses	600	
Interest	250	
Building	5,000	
Furniture	200	
Debtors	4,250	
Cash	7,045	
	<u>50,100</u>	<u>50,000</u>

Stock on March 31,2011 was ₹ 6,000 Depreciate building by 20% create a provision of bad debts @10% on debtors and outstanding wages amounted to ₹475.

Part B: Financial Accounting -II

19. Why the 'Profit and Loss Account ' is not prepared in not for profit organisations ? Give any one reason.
20. What is meant by 'Accounts from Incomplete records ? 1
21. Explain any one feature of computer.
22. Distinguish between 'Receipts and payments Account' and cash book. (Any three points)
23. What is database system ?
24. Radha started her business on January 1,2010 with capital of ₹1,10,000. On July 1,2010 she borrowed ₹ 80,000 from her friend on interest @ 12% p.a. (which is not yet paid). On December 31,2010 her position was as under:

	₹
Cash in hand	18,000
Stock	86,000
Debtors	1,27,200
Creditors	13,500
Drawings during the year	36,000

Ascertain her profit or loss for the year 2010. 4

25. The following is the receipts and payments account of Harekrishna Club for the year ending Dec.31,2010

Receipts	₹	P ayments	₹
To balance b/d	5,000	By Affiliation free	1,000
To Subscriptions		By furniture (July 2010)	3,000
2009- 500		By Sports Expenses	2,500
2010- 15000		By Sundry Expenses	15,200
2011 <u>1000</u>	16,500	By Balance c/d	14,000
To life Membership free	12,000		
To Sale of scrap	200		
To Interest on sports			
Fund Investment	2,000		
	<u>35,700</u>		<u>35,700</u>

The club has 1600 members each paying annual subscription of ₹ 10. Subscription of ₹ 450 are still in arrears for 2009.

On January 1,2010, the club's assets and liabilities included: Furniture ₹ 2000 ; Sports Fund and 10% sports Fund Investment ₹30,000 each. Depreciation on Furniture @20% p.a. and prepare Income and Expenditure Account for the year ended on December 31,2010.

26. What is meant by computer ? Describe in brief the basic components of a computer.

SAMPLE QUESTION PAPER

Accountancy XI

Time allowed: 3Hrs

Max marks:-90

General Instructions:-

- (i) This paper consists of two parts A and B both are compulsory.
- (ii) Attempt all parts of a particular question at a place.

Part A:- Financial Accounting -I

- 1. What is meant by “purchases”? 1
- 2. Briefly explain the term “Accounting standards” 1
- 3. Give any one transaction that “increases one asset and decreases the other asset”. 1
- 4. Write any one distinction between provisions and reserves. 1
- 5. What do you mean by “Direct expenses”? 1
- 6. Write any one advantage of maintaining secret reserves. 1
- 7. On which side of the trial balance, the following ledger balances will appear :
(a) Machinery (b) Drawings (c) Bank loan (d) Commission received
(e) Carriage inwards (f) Carriage outwards. 3
- 8. What do you mean by one-sided errors ? Explain with the help of two examples. 3
- 9. Write the treatment of following items while preparing final accounts:-
(a) Outstanding Expenses (b) Accrued Income 3
- 10. Name any four users of accounting information. Why do they need accounting information ? 4
- 11. Pass journal for the following transactions :

- (i) Purchased furniture for Rs 25000/- and paid Rs. 200/- for its carriage.
- (ii) Goods worth Rs 1500/- and cash Rs 500/- were given as charity.
- (iii) Wages due to labourers Rs 5000/-
- (iv) Received cash Rs 2000/- from Tushar for bad- debts written off last year 4

12. Enter the following transactions in a cash book with bank column:-

2010	Rs.
Jan 1 Cash in hand	100000
Jan 1 Bank overdraft	5000
Jan 3 Sold goods to Ram	10000
Jan 4 Sold goods for cash	5000
Jan 5 Received a cheque from Ram	10000
Jan 6 Cash deposited into bank	20000
Jan 15 Paid salary by cheque	8000
Jan 17 Received a cheque from Yogesh	9000
Jan 20 Paid to Mohan Rs.1485 in full settlement of	1500
Jan 21 Yogesh's cheque returned dishonoured.	4

13. Rectify the following errors assuming that suspense A/c was opened:-

- (a) Repairs on machinery Rs 1000 debited to machinery account by Rs 10000
- (b) Balance of sales returns book of Rs 350 was not included in the accounts.
- (c) Sales Book was overcast by Rs 1000/
- (d) Discount allowed to Mahesh Rs 180 has not been posted to discount allowed A/c 4

14. Explain the following:-

- A. Going concern concept
- B. Materiality principle
- C. Conservatism principle 6

15. Prepare a bank reconciliation statement Mr. Iendulakan as on 31st Dec. 2010:-

- (i) Credit balance as per pass book Rs 20,000
- (ii) The payment of cheques for Rs 550- was recorded twice in the pass book.

- (iii) Withdrawal column of the pass book under cost by Rs 200.
- (iv) A cheque of Rs 200 has been debited in the bank column of cash book but not sent to bank at all.
- (v) A cheque of Rs 300 debited to bank account of the pass book has been omitted to record in cash book.
- (vi) Rs500 in respect of dishonoured cheque were entered in the pass book but not in the cash book. 6
16. Machinery A/c of the Kamal Ltd is showing a balance of Rs 145,800 on Jan 1, 2010 the company bought this machinery on Jan 1, 2007 and providing depreciation @ 10% on diminishing balance method. You are required to calculate the original cost of the machinery and difference between the book values if company would have adopted 'straight line method' for providing depreciation @10%p.a..
17. Lucky sold goods of Rs 15000 to Nikki taking a bill at three months dated July 2007. On 4 th August the bill was returned by the bankers dishonoured noting charge being Rs 50 Nikki paid Rs 5000 and gave Lucky another bill at three months for the balance at 16% interest. But before maturity She was declared insolvent and her receiver paid 50 paise in a rupee to her creditors Pass the entries in Lucky's journal recording the above transactions.
18. From the following trial balance of m/s Nasir Brothers as on 31st Dec,2010, prepare trading and profit and loss A/c and balance sheet:-

Name of accounts	Dr. (Rs)	Cr. (Rs)
Capital		40,000
Purchases and sales	41,300	77,500
Stock (1.1.2010)	21,000	
Return outward		800
Carriage inward	600	
Wages	2000	

Power	3000	
Machinery	25,000	
Furniture	7000	
Rent	11,000	
Salary	7500	
Insurance	1800	
10% Bank loan	12500	
Debtors & creditors	10,300	9450
Cash in hand	750	
Drawings	9000	
	<u>140250</u>	<u>140250</u>

Adjustment:-

1. Closing stock Rs32,000
2. Wages outstanding Rs. 1200
3. Bad debts Rs 300 and provision for bad and doubtful debts @ 5% on debtors.
4. Rent is paid for 11 months.
5. Provide depreciation a machinery @ 10% p.a.
6. Loan from the bank was taken on July 1. 2010. 8

Part B - Financial Accounting II

19. Give two main sources of income for not for profit organisations. 1
20. Can a limited company maintain its accounts under single entry system? 1
21. What is the use of data base management? 1
22. Show the following information in financial statement of not for profit organisation:-

(a)

Details	Amount(Rs)
Prizes Distributed	400,000
Prize fund	200,000
Donatian for prizes fund	300,000

- (b) What will be the effect if amount spent on prizes distributed goes up by Rs 150,000 other things remaining the same.

23. Write any three limitations of computerised accounting system.
24. Sonam started a business on 1 Jan 2009. with a capital of Rs 900,000. During the year she withdrew Rs 160,000 for personal use and assets and liabilities as at 31 Dec., 2009 was as under.

	Rs.	
Cash in hand	200,000	
Bills receivable	10,000	
Debtors	90,000	
Machinery	15,00,000	
Creditors	250,000	
Bills payable	50,000	4

25. Following is the Receipt and payment A/c of Mumbai sports club for the year ending 31-12-09 :

Receipts	Amounts ₹	Payments	Amounts ₹
Balance b/d	5000	Salary	7500
Subscriptions	26,000	Billiard Table	10000
Entrance free	2500	office expenses	3000
Tournament free	1300	Tournament Exp.	15500
Sale of old newspapers	500	Sports Equipment	2000
Legacy	18500	Balance c/d	9500
	<u>65500</u>		<u>65500</u>

Other information:- On 31-12-09 Subscription outstanding was Rs 1000 and on 31-12-08 Subscription outstanding was Rs 1500. Salary outstanding on 31-12-09-was Rs 1000.

On 1.1.09 the club had building Rs. 40,000 furniture Rs . 9,000, 12% investment Rs. 15,000 and sports equipments Rs. 15,000. Depreciation charged on furniture and sports equipments including purchases was 10%.

Prepare Income and Expenditure Account of the club for the year 31-12-09 ascertain the capital fund on 31.12.08

26. Explain the types of accounting softwares used in business. 6