

**DIRECTORATE OF EDUCATION**  
**Govt. of NCT, Delhi**

**SUPPORT MATERIAL**  
**(2020-2021)**

**Class : XI**

**ACCOUNTANCY**

Under the Guidance of

**Smt. Manisha Saxena**  
Secretary (Education)

**Mr. Binay Bhushan**  
Director (Education)

**Dr. Saroj Bala Sain**  
Addl. DE (School & Exam.)

**Coordinators**

**Ms. Mukta Soni**  
DDE (Exam)

**Dr. Raj Kumar**  
OSD (Exam)

**Mr. Krishan Kumar**  
OSD (Exam)

Production Team

**Anil Kumar Sharma**

---

Published at Delhi Bureau of Text Books, 25/2 Institutional Area, Pankha Road, New Delhi-110058 by **Prabhjot Singh**, Secretary, Delhi Bureau of Text Books and Printed by Arihant Offset, New Delhi-110043

**MANISHA SAXENA**  
IAS



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

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

DO No. DE. 5/228/Exam/Message/S.M./2018  
Dated

**MESSAGE**

The importance of adequate practice during examinations can never be overemphasized. I am happy that support material for classes IX to XII has been developed by the Examination Branch of Directorate of Education. This material is the result of immense hard work, co-ordination and cooperation of teachers and group leaders of various schools. The purpose of the support material is to impart ample practice to the students for preparation of examinations. It will enable the students to think analytically & rationally and test their own capabilities and level of preparation.

The material is based on latest syllabus prepared by the NCERT and adopted by the CBSE for the academic session 2020-21 and covers different levels of difficulty. I expect that Heads of Schools and Teachers will enable and motivate students to utilize this material during zero periods, extra classes and regular classes best to their advantage.

I would like to compliment the team of Examination Branch for their diligent efforts of which made it possible to accomplish this work in time. I also take this opportunity to convey my best wishes to all the students for success in their endeavours.

  
24.6.2020  
(MANISHA SAXENA)

**BINAY BHUSHAN, IAS**



**Director**  
Education & Sports  
Govt. of NCT of Delhi  
Old Secretariat, Delhi- 110054  
Tel.: 23890172, Fax : 23890355  
E-mail : [dired@nic.in](mailto:dired@nic.in)  
Website : [www.edudel.nic.in](http://www.edudel.nic.in)

**D.O. No.**

**Date :**

**Dear Students,**

Directorate of Education is committed to providing qualitative and best education to all its students. The Directorate is continuously engaged in the endeavor to make available the best study material for uplifting the standard of its students and schools.

Every year, the expert faculty of Directorate reviews and updates Support Material. The expert faculty of different subjects incorporates the changes in the material as per the latest amendments made by CBSE to make its students familiar with new approaches and methods so that students do well in the examination.

The book in your hand is the outcome of continuous and consistent efforts of senior teachers of the Directorate. They have prepared and developed this material especially for you. A huge amount of money and time has been spent on it in order to make you updated for annual examination.

Last, but not the least, this is the perfect time for you to build the foundation of your future. I have full faith in you and the capabilities of your teachers. Please make the fullest and best use of this Support Material.

  
**BINAY BHUSHAN**  
**DIRECTOR (EDUCATION)**

**Dr. (Mrs.) Saroj Bala Sain**

Addl. Director of Education  
(School / Exam / EVGB/IEB/ VOC.)



सत्यमेव जयते

Govt. of NCT of Delhi  
Directorate of Education  
Old Secretariat, Delhi-110054  
Tel.: 23890023, 23890093

D.O. No. PA/Addl.DE(su)/86

Date : 03-10-2019

I am very much pleased to forward the Support Material for classes IX to XII. Every year, the Support Material of most of the subjects is updated/revised as per the most recent changes made by CBSE. The team of subject experts, officers of Exam Branch, members of Core Academic Unit and teachers from various schools of Directorate has made it possible to make available unsurpassed material to students.

Consistence use of Support Material by the students and teachers will make the year long journey seamless and enjoyable. The main purpose to provide the Support Material for the students of government schools of Directorate is not only to help them to avoid purchasing of expensive material available in the market but also to keep them updated and well prepared for exam. The Support Material has always been a ready to use material, which is matchless and most appropriate.

I would like to congratulate all the Team Members for their tireless, unremitting and valuable contributions and wish all the best to teachers and students.

(Dr. Saroj Bala Sain)  
Addl.DE (School/Exam)

**भारत का संविधान**  
**भाग 4क**  
**नागरिकों के मूल कर्तव्य**

**अनुच्छेद 51क**

**मूल कर्तव्य** - भारत के प्रत्येक नागरिक का यह कर्तव्य होगा कि वह -

- (क) संविधान का पालन करे और उसके आदर्शों, संस्थाओं, राष्ट्रध्वज और राष्ट्रगान का आदर करे;
- (ख) स्वतंत्रता के लिए हमारे राष्ट्रीय आंदोलन को प्रेरित करने वाले उच्च आदर्शों को हृदय में संजोए रखे और उनका पालन करे;
- (ग) भारत की संप्रभुता, एकता और अखंडता की रक्षा करे और उसे अक्षुण्ण बनाए रखे;
- (घ) देश की रक्षा करे और आह्वान किए जाने पर राष्ट्र की सेवा करे;
- (ङ) भारत के सभी लोगों में समरसता और समान भ्रातृत्व की भावना का निर्माण करे जो धर्म, भाषा और प्रदेश या वर्ग पर आधारित सभी भेदभावों से परे हो, ऐसी प्रथाओं का त्याग करे जो महिलाओं के सम्मान के विरुद्ध हों;
- (च) हमारी सामासिक संस्कृति की गौरवशाली परंपरा का महत्त्व समझे और उसका परिरक्षण करे;
- (छ) प्राकृतिक पर्यावरण की, जिसके अंतर्गत वन, झील, नदी और वन्य जीव हैं, रक्षा करे और उसका संवर्धन करे तथा प्राणिमात्र के प्रति दयाभाव रखे;
- (ज) वैज्ञानिक दृष्टिकोण, मानववाद और ज्ञानार्जन तथा सुधार की भावना का विकास करे;
- (झ) सार्वजनिक संपत्ति को सुरक्षित रखे और हिंसा से दूर रहे;
- (ञ) व्यक्तिगत और सामूहिक गतिविधियों के सभी क्षेत्रों में उत्कर्ष की ओर बढ़ने का सतत प्रयास करे, जिससे राष्ट्र निरंतर बढ़ते हुए प्रयत्न और उपलब्धि की नई ऊँचाइयों को छू सके; और
- (ट) यदि माता-पिता या संरक्षक हैं, छह वर्ष से चौदह वर्ष तक की आयु वाले अपने, यथास्थिति, बालक या प्रतिपाल्य को शिक्षा के अवसर प्रदान करे।

# CONSTITUTION OF INDIA

Part IV A (Article 51 A)

## Fundamental Duties

**Fundamental Duties :** It shall be the duty of every citizen of India —

1. to abide by the Constitution and respect its ideals and institutions, the National Flag and the National Anthem;
2. to cherish and follow the noble ideals which inspired our national struggle for freedom;
3. to uphold and protect the sovereignty, unity and integrity of India;
4. to defend the country and render national service when called upon to do so;
5. to promote harmony and the spirit of common brotherhood amongst all the people of India transcending religious, linguistic and regional or sectional diversities; to renounce practices derogatory to the dignity of women;
6. to value and preserve the rich heritage of our composite culture;
7. to protect and improve the natural environment including forests, lakes, rivers and wild life, and to have compassion for living creatures.
8. to develop the scientific temper, humanism and the spirit of inquiry and reform;
9. to safeguard public property and to adjure violence;
10. to strive towards excellence in all spheres of individual and collective activity so that the nation constantly rises to higher levels of endeavour and achievement.
11. who is a parent or guardian to provide opportunities for education to his child or, as the case may be, ward between the age of six and fourteen years.

## भारत का संविधान उद्देशिका

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

सामाजिक, आर्थिक और राजनैतिक न्याय,

विचार, अभिव्यक्ति, विश्वास, धर्म

और उपासना की स्वतंत्रता,

प्रतिष्ठा और अवसर की समता

प्राप्त कराने के लिए,

तथा उन सब में

व्यक्ति की गरिमा और <sup>2</sup>[राष्ट्र की एकता

और अखंडता] सुनिश्चित करने वाली बंधुता

बढ़ाने के लिए

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

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

# **THE CONSTITUTION OF INDIA**

## **PREAMBLE**

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

**JUSTICE**, social, economic and political;

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

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

**FRATERNITY** assuring the dignity of the individual and the <sup>2</sup>[unity and integrity of the Nation];

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

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



**DIRECTORATE OF EDUCATION**  
**Govt. of NCT, Delhi**

**SUPPORT MATERIAL**  
**(2020-2021)**

**ACCOUNTANCY**  
**Class : XI**

**NOT FOR SALE**

---

**PUBLISHED BY : DELHI BUREAU OF TEXTBOOKS**



## CONTENT

<b>S.No.</b>	<b>Chapter Name</b>	<b>Page No.</b>
1.	Introduction to Accounting	1
2.	Theory base of Accounting	9
3.	Recording of Transactions	22
4.	Preparation of Bank Reconciliation Statement, Ledger and Trial Balance	77
5.	Ledger and Trial Balance	89
6.	Depreciation, Provisions and Reserves	107
7.	Accounting for Bills of Exchange	132
8.	Rectification of Errors	153
9.	Financial Statements of Sole Proprietorship	170
10.	Accounts from Incomplete Records	231
11.	Computers in Accounting	263
	Practice Questions Papers	290



---

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

---

**CLASS-XI**

<b>S.No.</b>	<b>Name</b>	<b>Designation</b>	<b>School</b>
1.	Sanjeev Kumar	Vice Principal	Govt. Boys Sr. Sec. School, Mata Sundri Road, New Delhi
2.	Rajeev Kohli	Lecturer Commerce	Rajkiya Pratibha Vikas Vidyalaya, Surajmal Vihar, Delhi
3.	Anju Pathak	Lecturer Commerce	Govt. Girls Sr. Sec. School, New Kondli, Delhi
4.	Shankar Dutt Fulara	Lecturer Commerce	Rajkiya Pratibha Vikas Vidyalaya, Gandhi Nagar, Delhi
5.	Sonu Bala	Lecturer Commerce	Sarvodya Kanya Vidyalaya, Pooth Kalan, Delhi

## Accountancy (Code No. 055)

### Rationale

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

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

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

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

### Objectives

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

**ACCOUNTANCY (Code No. 055)**  
**Course Structure**  
**CLASS-XI (2020-21)**

**One Paper**

**Time : 3 Hours**

**Theory : 90 Marks**

Units	Periods	Marks
<b>Part A: Financial Accounting-I</b>		
Unit-1: Theoretical Framework	25	15
Unit-2: Accounting Process	105	40
<b>Part B: Financial Accounting-II</b>		
Unit-3: Financial Statements of Sole Proprietorship from Complete and Incomplete Records	55	20
Unit-4: Computers in Accounting	15	08
<b>Part C: Project Work</b>	<b>20</b>	<b>20</b>

**Part- A : FINANCIAL ACCOUNTING-I**

**55 Marks**

**Unit-1 : Theoretical Frame Work**

**25 Marks**

Units/Topics	Learning Outcomes
<b>Introduction to Accounting 11 Periods</b> * Accounting-concept, objectives, advantages and limitations, types of accounting information, users of accounting information and their needs. Qualitative characteristics of Accounting information. Role of Accounting in Business. * Basic Accounting Terms–Business Transaction. Capital Drawings. Liabilities (Non-current and current) Assets (Non Current, Current); Fixed assets (tangible and Intangible), Expenditure (Capital and	<b>After going through this Unit, the students will be able to:</b> * Describe the meaning, significance, objectives, advantages and limitations of accounting in the modern economic environment with varied types of business and non-business economic entities. * Identify/recognise the individual(s) and entities that use accounting information for serving their needs of decision making. * Explain the various terms used in accounting and differentiate between different related terms like current and non-current, capital and revenue.

<p>Revenue), Expense, Income, Profit, Gain, Loss, Purchase, Sales, Goods, Stock, Debtor, Creditor, Voucher, Discount (Trade discount and Cash Discount)</p> <p><b>Theory Base of Accounting      14 Periods</b></p> <ul style="list-style-type: none"> <li>• <i>Fundamental accounting assumptions GAAP Concept.</i></li> <li>• <i>Business Entity, Money Measurement, Going Concern, Accounting Period, Cost Concept, Dual Aspect, Revenue Recognition, Matching, Full Disclosure, Consistency, Conservatism, Materiality and Objectivity.</i></li> <li>• <i>System of Accounting. Basis of Accounting cash basis and accrual basis.</i></li> <li>• <i>Accounting Standards : Need, benefits, limitations, applicability, IFRS-Need.</i></li> <li>• <i>Goods and Services Tax (GST) : Characteristics and Objective.</i></li> </ul>	<ul style="list-style-type: none"> <li>* Give examples of terms like business transaction, liabilities, assets, expenditure and purchases.</li> <li>* Explain that sales purchases include both cash and credit sales/purchases relating to the accounting year.</li> <li>* Differentiate among income, profits and gains.</li> <li>* State the meaning of fundamental accounting assumptions and their relevance in accounting.</li> <li>* Describe the meaning of accounting assumptions and the situation in which an assumption is applied during the accounting process.</li> <li>* Explain the meaning and objectives of accounting standards.</li> <li>* Appreciate that various accounting standards developed nationally and globally are in practice for bringing parity in the accounting treatment of different items.</li> <li>* Acknowledge the fact that recording of accounting transactions follows double entry system.</li> <li>* Explain the bases of recording accounting transaction and to appreciate that accrual basis is a better basis for depicting the correct financial position of an enterprise.</li> <li>* Understand the need of IFRS.</li> <li>* Explain the meaning, objective and characteristic of GST.</li> </ul>
--	--

## Unit-2 ACCOUNTING PROCESS

**105 Periods**

Units/Topics	Learning Outcomes
<p><b>Recording of Transactions      30 Periods</b></p> <ul style="list-style-type: none"> <li>* Voucher and Transactions—Source documents and Vouchers, Preparation of Vouchers, Accounting equation Approach. Meaning and Analysis, Rules of Debit and Credit.</li> <li>* Recording of Transactions—Books of Original Entry. <ul style="list-style-type: none"> <li>* Journal</li> <li>* Special Purpose books</li> <li>* Cash Book: Simple, cash book with bank column and petty cash book</li> <li>* Purchases book</li> <li>* Sales book</li> <li>* Purchases return book</li> <li>* Sales return book</li> </ul> </li> </ul>	<p><b>After going through this Unit, the students will be able to:</b></p> <ul style="list-style-type: none"> <li>* Explain the concept of accounting equation and appreciate that every transaction affects either both the sides of the equation or a positive effect on one item and a negative effect on another item on the same side of accounting equation.</li> <li>* Explain the effect of a transaction (increase or decrease) on the assets, liabilities, capital, revenue and expenses,.</li> <li>* Appreciate that on the basis of source documents, accounting vouchers are prepared for recording transaction in the books of accounts.</li> <li>* Develop the understanding of recording of transactions in journal and the skill of calculating GST.</li> </ul>

<p><i>Note: Including simple GST calculations</i></p> <ul style="list-style-type: none"> <li>* Ledger: Format, Posting from journal and subsidiary books, Balancing of accounts</li> </ul> <p style="text-align: right;"><b>15 periods</b></p> <p><b>Bank Reconciliation Statement:</b></p> <ul style="list-style-type: none"> <li>* Need and preparation, Bank Reconciliation Statement with Adjusted Cash Book</li> </ul> <p><b>Depreciation, Provisions and Reserves</b></p> <p style="text-align: right;"><b>20 Periods</b></p> <ul style="list-style-type: none"> <li>* Depreciation—Concept, Features, Causes, factors</li> <li>* Other similar terms—Depletion and Amortisation</li> <li>* Methods of Depreciation: <ul style="list-style-type: none"> <li>i. Straight Line Methods (SLM)</li> <li>ii. Written Down Value Method (WDV)</li> </ul> </li> </ul> <p><i>Note : Excluding Change of Method</i></p> <ul style="list-style-type: none"> <li>* Difference between SLM and WDV; Advantages of SLM and WDV.</li> <li>* Accounting treatment of depreciation <ul style="list-style-type: none"> <li>i. Charging to asset account</li> <li>ii. Creating provision for depreciation/ accumulated depreciation account</li> <li>iii. Treatment for disposal of asset</li> </ul> </li> <li>* Provisions and reserves : Difference</li> <li>* Types of Reserves : <ul style="list-style-type: none"> <li>i. Revenue reserve</li> <li>ii. Capital reserve</li> <li>iii. General reserve</li> <li>iv. Specific reserve</li> <li>v. Secret reserve</li> </ul> </li> <li>* Difference between capital and revenue reserve</li> </ul> <p><b>Accounting for Bills of exchange 20 Periods</b></p> <ul style="list-style-type: none"> <li>* Bill of exchange and promissory Note : Definition, Specimen, Features, Parties.</li> <li>* Difference between Bill of Exchange and Promissory Note</li> <li>* Terms in Bill of Exchange. <ul style="list-style-type: none"> <li>i. Term of Bill</li> <li>ii. Accommodation bill (concept)</li> <li>iii. Days of Grace</li> <li>iv. Date of maturity</li> <li>v. Discounting of bill</li> <li>vi. Endorsement of bill</li> <li>vii. Bill after due date</li> <li>viii. Negotiation</li> <li>ix. Bill sent for collection</li> <li>x. Dishonour of bill</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>* Explain the purpose of maintaining a Cash Book and develop the skill of preparing the format of different types of cash books and the method of recording cash transaction in cash book.</li> <li>* Describe the method of recording transactions other than cash transactions as per their nature in different subsidiary books.</li> <li>* Appreciate that at times bank balance as indicated by cash book is different from the bank balance as shown by the pass book/bank statement and to reconcile both the balance, bank reconciliation statement is prepared.</li> <li>* Develop understanding of preparing bank reconciliation statement.</li> <li>* Appreciate that for ascertaining the position of individual accounts, transactions are posted from subsidiary books and journal proper into the concerned accounts in the ledger and develop the skill of ledger posting.</li> <li>* Explain the necessity of providing depreciation and develop the skill of using different methods for computing depreciation.</li> <li>* Understand the accounting treatment of providing depreciation directly to the concerned asset account or by creating provision for depreciation account.</li> <li>* Appreciate the method of asset disposal through the concerned asset account or by preparing asset disposal account.</li> <li>* Appreciate the need for creating reserves and also making provisions for events which may belong to the current year but may happen in next year.</li> <li>* Appreciate the difference between reserve and reserve fund.</li> <li>* Acquire the knowledge of using bills of exchange and promissory notes for financing business transactions.</li> <li>* Understand the meaning and distinctive features of these instruments and develop the skill of their preparation.</li> <li>* State the meaning of different terms used in bills of exchange and their implication to accounting.</li> <li>* Explain the method of recording of bill transactions.</li> <li>* State the need and objectives of preparing trial balance and develop the skill of preparing trial balance.</li> <li>* Appreciate that errors may be committed during the process of accounting.</li> </ul>
---	--

<ul style="list-style-type: none"> <li>xi. Retirement of bill</li> <li>xii. Renewal of bill</li> </ul> <p>* Accounting Treatment</p> <p><b>Note:</b> <i>Excluding accounting treatment for accommodation bill.</i></p> <p><b>Trial balance and Rectification of Errors</b> <b>20 Periods</b></p> <ul style="list-style-type: none"> <li>* Trial balance : objectives and preparation (Scope: Trial balance with balance method only)</li> <li>* Errors: types-errors of omission, commission, principles, and compensating; their effect on Trial Balance.</li> <li>* Detection and rectification of errors, preparation of suspense account.</li> </ul>	<ul style="list-style-type: none"> <li>* Understand the meaning of different types of errors and their effect on trial balance.</li> <li>* Develop the skill of identification and location of errors and their rectification and preparation of suspense account.</li> </ul>
--	---

## Part B : Financial Accounting-II

### Unit-3 Financial Statements of Sole Proprietorship : From Complete and Incomplete Records

Units/Topics	Learning Outcomes
<p><b>Financial Statements</b></p> <ul style="list-style-type: none"> <li>* Receipts and expenditure : Revenue receipts and capital receipts. Capital expenditure, Revenue expenditure and deferred expenditure</li> <li>* Objective and Importance.</li> <li>* Trading and profit and Loss Account: Gross profit, Operating profit and net profit.</li> <li>* Balance Sheet: need, grouping and marshalling of assets and liabilities.</li> <li>* Adjustment in preparation of financial statements with respect to closing stock, outstanding expenses, prepaid expenses, accrued income, income received in advance, depreciation, bad debts, provision for doubtful debts, provision for discount on debtors, Abnormal loss, Goods taken for personal use/staff welfare, interest on capital and managers commission.</li> <li>* Preparation of Trading and Profit &amp; Loss account and Balance Sheet of a sole proprietorship with adjustments.</li> </ul> <p><b>Incomplete Records</b></p> <ul style="list-style-type: none"> <li>* Features, Reasons and Limitations.</li> <li>* Ascertainment of profit/loss by statement of affairs method.</li> <li>* Difference between Accounts from incomplete records and Statement of Affairs, Preparation of Trading, Profit &amp; Loss account and Balance Sheet.</li> </ul>	<p><b>After going through this Unit, the students will be able to:</b></p> <ul style="list-style-type: none"> <li>* State the meaning of financial statements the Purpose of preparing financial statements.</li> <li>* State the meaning of gross profit, operating profit and net profit and develop the skill of preparing trading and profit &amp; loss account.</li> <li>* Explain the need for preparing balance sheet.</li> <li>* Understand the technique of grouping and marshalling of assets and liabilities.</li> <li>* Appreciate that there may be certain items other than those shown in trial balance which may need adjustments while preparing financial statements.</li> <li>* Develop the understanding and skill to do adjustments for items and their presentation in financial statements like depreciation, closing stock, provisions, abnormal loss etc.</li> <li>* Develop the skill of preparation of trading and profit and loss account and balance sheet.</li> <li>* State the meaning of incomplete records and their uses and limitations.</li> <li>* Develop the understanding and skill of computation of profit / loss using the statement of affairs method.</li> </ul>

## Unit-4 Computers in Accounting

20 Periods

<ul style="list-style-type: none"><li>* Introduction to computer and accounting information system (AIS): introduction to computers (elements, capabilities, limitations of computer system)</li><li>* Introduction to operating software, utility software and application software introduction to accounting information system (AIS) as a part of management Information System.</li><li>* Automation of accounting process: meaning</li><li>* Stages in automation: (a) Accounting process in a computerised environment; comparison between manual accounting process and computerised accounting process, (b) Sourcing of accounting software; kinds of software: readymade software; customised software and tailor-made software; generic considerations before sourcing accounting software (c) creation of account groups and hierarchy (d) generation of reports-trial balance, profit &amp; loss account and balance sheet.</li></ul> <p><b>Scope:</b></p> <ul style="list-style-type: none"><li>(i) The scope of the unit is to understand accounting as an information system for the generation of accounting information and preparation of accounting reports.</li><li>(ii) It is presumed that the working knowledge of any appropriate accounting software will be given to the students to help them learn basic accounting operations on computers.</li></ul>	<p>After going through this Unit, the students will be able to :</p> <ul style="list-style-type: none"><li>* State the meaning of a computer, describe its components, capabilities and limitations.</li><li>* State the meaning of accounting information system.</li><li>* Appreciate the need for use of computers in accounting for preparing accounting reports.</li><li>* Develop the understanding of comparing the manual and computerised accounting process and appreciate the advantages and limitations of automation.</li><li>* Understand the different kinds of accounting software.</li></ul>
---	---

### Part C: Project Work (Any One)

10 Marks 30 Periods

1. Collection of source documents, preparation of vouchers, recording of transactions with the help of vouchers.
2. Preparation of Bank Reconciliation Statement with the given cash book and the pass book with twenty to twenty-five transactions.
3. Comprehensive project starting with journal entries regarding any sole proprietorship business, posting them to the ledger & preparation of Trial balance. The students will then prepare Trading and Profit and Loss Account and Balance Sheet on the basis of the prepared trial balance. Expenses, incomes and profit (loss), assets and liabilities are to be depicted using pie chart / bar diagram.

**Suggested Question Paper Design**  
**Accountancy (Code No. 055)**  
**Class XI (2020-21)**

Theory : 80 Marks  
Project : 20 Marks

3 hrs.

S. No.	Typology of Questions	Objective Type/MCQ 1 Mark	Short Answer II 4 Mark	Short Answer I 3 Mark	Long Answer I 6 Mark	Long Answer II 8 Mark	Marks
1	<b>Remembering:</b> Exhibit memory of previously learned material by recalling facts, terms, basic concepts, and answers.	5	1	1	1	–	18
2	<b>Understanding:</b> Demonstrate understanding of facts and ideas by organizing, comparing, translating, interpreting, giving descriptions, and stating main ideas	5	1	1	1 –	1	26
3	<b>Applying:</b> Solve problems to new situations by applying acquired knowledge, facts, techniques and rules in a different way.	5	–	2	1 –	–	19
4	<b>Analysing and Evaluating:</b> Examine and break information into parts by identifying motives or causes. Make inferences and find evidence to support generalizations. Present and defend opinions by making judgments about information, validity of ideas, or quality of work based on a set of criteria.  <b>Creating:</b> Compile information together in a different in a new pattern or proposing alternative solutions.	5	–	1	–	1	17
	<b>TOTAL</b>	<b>20 x 1 = 20</b>	<b>2 x 3 = 6</b>	<b>5 x 4 = 20</b>	<b>3 x 6 = 18</b>	<b>2 x 8 = 16</b>	<b>80 (32)</b>

There will be **internal choice** in questions of 3 marks, 4 marks, 6 marks and 8 marks. All question carrying 8 marks will have an internal choice.

**Note:** The Board has introduced Learning Outcomes in the syllabus to motivate students to constantly explore all levels of learning. However these are only indicative. These do not in any way restrict the scope of questions asked in the examinations. The examination questions will be strictly based on the prescribed question paper design and syllabus.

# CHAPTER 1

## INTRODUCTION TO ACCOUNTING

---

### LEARNING OBJECTIVES

After studying this chapter, student will be able to

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

According to American institute of certified public accountants, “accounting is the art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character, and interpreting the results thereof.”

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

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

### Objectives of accounting

1. **Maintaining Accounting Records:** To keep systematic and complete record of business transaction in the books of accounts according to specified principles and rules to avoid the possibility of omissions and fraud.
2. **Calculation Profit or Loss:** To ascertain the profit earned or loss incurred during a particular accounting period which further help in knowing the financial performance of a business.
3. **Ascertaining Financial Position:** To ascertain the financial position of the business by means of financial statement i.e. balance sheet which shows assets on one side and capital & liabilities on the other side.
4. **Provide Information to varuous parties:** To provide useful

accounting information to users like owners, investors, creditors, banks, employees and government authorities etc who analyse them as per their requirements.

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

#### **Advantages of accounting**

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

#### **Limitations of accounting**

1. It is historical in nature, it does not reflect the current worth of a business. Moreover, the figures given in financial statements ignore the effects of changes in price level.
2. It contains only those information's which can be expressed in terms of money. It ignore qualitative elements such as efficiency of management, quality of staff, customers satisfaction etc.
3. It may be affected by window dressing i.e. manipulation in accounts to present a more favourable position of a business firm than its actual position.
4. It is not free from personal bias and personal judgment of the people dealing with it for example different people have different opinions regarding life of asset for calculating depreciation, provision for doubtful debts etc.

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

### **Book keeping– the basis of accounting**

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

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

<b>Book keeping</b>	<b>Accounting</b>
1. It is the recording phase of an accounting system.	1) It is the summarizing phase of an accounting system.
2. It is a primary stage and basis for accounting.	2) It is a secondary stage which begins where the book keeping process ends.
3. It is routine in nature and does not require any special skill or knowledge	3) It is analytical in nature and required special skill or knowledge.
4. It is done by junior staff called book-keepers.	4) It is done by senior staff called accountants.
5. It does not give the complete picture of the financial conditions of the business unit.	5) It gives the complete picture of the financial conditions of the business unit.

### **Types of accounting information**

Accounting information can be categorized into following:

1. Information relating to profit or loss i.e. income statement. It shows the net result of business operations of a firm during a particular accounting period.
2. Information relating to financial position i.e. balance sheet. It shows assets on one side and capital & liabilities on the other side.

3. Schedules and notes forming part of balance sheet and income statement to give details of various items shown in Profit and loss statement and Balance sheet.

### **Interested user/parties of accounting information and their needs**

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

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

### **Qualitative characteristics of accounting information**

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

1. **Reliability** : Means the information must be based on facts and be verified through source document by anyone. It must be free from bias and errors.

2. **Relevance** : To be relevant, information must be available in time and must influence the decisions of users by helping them to 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.

- **Role of Accounting in Business**

### **Basic accounting terms**

#### **Business transaction**

An economic activity that affect financial position of the business and can be measured in terms of money e.g., purchase of goods for use in business.

#### **Capital**

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

#### **Drawings**

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

#### **Liabilities:**

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

#### **Liabilities can be classified as:**

1. **Current liabilities:** Current liabilities are obligation or debts that are payable within a period of one year. For example: creditors, bill payable etc.
2. **Non-current liabilities:** Non-current liabilities are those obligation or debts that are payable after a period of one year. Example: bank loan, debentures etc.

## Assets

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

1. **Current assets:** Current assets are those assets which are held for short period and can be converted into cash within one year. For example: debtors, stock etc.
2. **Non-current assets:** Non-current assets are those assets which are held for long period and used for normal business operation. For example: land, building, machinery etc. They are further classified into:
  - a) **Tangible assets:** Tangible assets are those assets which have physical existence and can be seen and touched. For example: furniture, machinery etc.
  - b) **Intangible assets:** Intangible assets are those assets which have no physical existence and can be felt by operation. For example: goodwill, patent, Trade mark 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. For example: rent, interest etc.
2. **Capital expenditure:** If benefit of expenditure is received for more than one year, it is called capital expenditure. Example purchase of machinery.
3. **Income:** Income is a wider term which includes profit also. Income means increase in the wealth of the enterprise over a period of time.

**Profit**

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

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

**Gain**

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

**Loss**

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

$$\text{Loss} = \text{expenses} - \text{revenue}$$

**Goods**

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

**Purchase**

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

**Purchase return**

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

**Sales**

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

**Stock**

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

**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.

## **Voucher**

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

## **Discount**

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

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

## CHAPTER 2

### THEORY BASE OF ACCOUNTING

---

#### LEARNING OBJECTIVES

After studying this chapter , student will be able to:

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

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

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

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

#### **Fundamental accounting assumptions**

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

#### **Relevance:**

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

- b) Classification of assets and liabilities into current and non-current.
- c) Depreciation is charged on fixed assets, and fixed assets appear in the balance sheet at book value, without having reference to their market value.

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

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

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

**Relevance :** It helps the management in decision-making by utilizing the comparable financial information .

**3. Accrual assumption:** Accrual concept applies equally to revenue and expenses. As per this assumption, all revenue and cost are recognized when they are earned or incurred.

It is immaterial, whether the cash is received or paid at the time of transaction or later date e.g., if a credit sale (credit for two months) for ₹ 15,000 is made on 15th Feb. 2016, then the revenue earned is to be recorded on 15th Feb. 2016 not on the date of cash realized, i.e., after two months. In case of expenses, if at the end of the year the two months salary is due but not paid, then the expenses of salary will be recorded in the current year in which salary is due, not in the next year in which it will be paid.

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

## ACCOUNTING PRINCIPLES

1. **Business Entity:** An entity has a separate existence from its owner. According to this principle, business is treated as an entity, which is separate and distinct from its owner. Therefore transaction are recorded; analyzed and financial statements are prepared from the business point of view and not of the owner.

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

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

### Limitations:

- (i) It ignores qualitative aspect e.g., efficient human resources (assets), satisfied customers (assets) and dishonest employee (liabilities).
- (ii) Value of money (currency) is not stable.

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

3. **Accounting Period Principle:** According to this principle, the whole indefinite life of an enterprise is divided into parts , know 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 that the performance is measured at regular intervals and decision can be taken at the appropriate time. Accounting period is usually a period of one year.

### Relevance:

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

2. Portion of capital expenditure that is consumed during the current year is charged to income statement and rest of the portion i.e., unconsumed portion is shown as an asset in the balance sheet.
3. As per income tax law, tax on income is calculated on annual basis from 1st April to 31st March (financial year).
4. Timely action for corrective measures can be taken by management.

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

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

e.g., footnotes such as:

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

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

If the knowledge of any information may affect the user's decision, it is termed as material information.

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

6. **Conservation\Prudence 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 not to overstate the profit of the enterprise in any case. When different equally acceptable alternative methods are available, the method which having least favourable immediate effect on profit should be adopted, e.g.,

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

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

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

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

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

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

- 1) Ascertainment of prepaid expenses.

- 2) Ascertainment of income received in advance.
- 3) Accounting of closing stock.
- 4) Depreciation charged on fixed assets.

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

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

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

Assets = liabilities + capital

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

Assets (Rs. 1,00,000) = liabilities + capital (Rs. 1,00,000)

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

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

### **Base 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 are recorded in the books of accounts only on the receipt/payment of cash. The income is calculated as the excess of actual cash receipts (in respect of sale of goods, service, properties etc.) over actual cash payments (regarding purchase of goods, rent , electricity, salaries etc.)

Entry is not recorded when a payment or receipts is 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 takes 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 this system, expenses such as outstanding expenses, prepaid expenses, accrued income and received in advance are identified and taken into account.

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

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

### **Accounting standards: Concept and objectives**

The accounting principles or GAAP in the form of concepts and convention 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 periods. As a result, the financial statements become inconsistency and incomparable.

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

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

### **Concept of Accounting Standards**

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

### **Objectives of Accounting Standards**

1. Accounting standards are required to bring uniformity in accounting practices and policies by proposing standard treatment in preparation of financial statements.
2. To improve reliability of the financial statement: Accounts prepared by using accounting standards are reliable for various users, because these standards create a sense of confidence among the users .
3. To prevent frauds and manipulation by codifying the accounting methods and practices.
4. To help Auditors: Accounting Standards provide uniformity in accounting practices, so it helps auditors to audit the books of accounts.

### **IFRS (International Financial Reporting Standards)**

This term refers to the financial standards issued by International Accounting Standards Board (IASB). It is the process of improving the financial reporting internationally to help participants in various capital markets of the world and other users.

### **IFRS based financial statements**

Following financial statements are produced under IFRS:

1. Statement of financial position: The elements of this statement are  
(a) Assets                      (b) liability                      (c) Equity
2. Comprehensive income statement: The elements of this statement are  
(a) Revenue                      (b) Expense
3. Statement of changes in equity
4. Statement of cash flow
5. Notes and significant accounting policies

### **Main difference between IFRS and IAS (Indian Accounting Standards)**

1. IFRS are principle based while IAS are rule based.
2. IFRS are based on fair value while IAS are based on historical cost

### **Goods and Services tax (GST)**

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

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

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

### **Characteristics of GST**

- (1) Most of the indirect taxes of the Centre and states are integrated under the GST.
- (2) The Centre and States will store GST tax revenues at 50:50 ratio (except the IGST). The GST going to the centre is called Central GST and that goes to the states is known as State GST.
- (3) GST belongs to the VAT family as tax revenues are collected on the basis of value added i.e. GST paid (Input GST) is SET OFF AGAINST GST COLLECTED (OUTPUT GST) and thus GST is levied on the incremental value of goods or services supplied.
- (4) GST integrates goods and service taxes into one unified tax regime. Earlier goods and services were imposed and administered differently.
- (5) GST proposes a four-tier rate structure. The tax slabs are fixed at 5%, 12%, 18% and 28% besides the 0% tax on essentials.

### **Objectives of Goods and Services Tax**

- (1) GST has eased the doing of business as most of the indirect taxes of centre and states are integrated under it (GST).
- (2) GST reduces the cost of goods as GST paid (input GST) is set off against GST collected (output GST) and thus tax on tax is eliminated.
- (3) GST ensure timely collection of taxes and electronic return filing which reduces the possibilities of tax evasion.
- (4) Introduction of GST and removal of multiple indirect taxes will increase foreign direct investment also in the country.
- (5) GST integrates goods and service taxes into one unified tax regime by eliminating various unnecessary indirect taxes.

### **Types of Taxes Under GST**

GST is levied under following three types

- (1) Central GST (CGST)

(2) State GST (SGST)

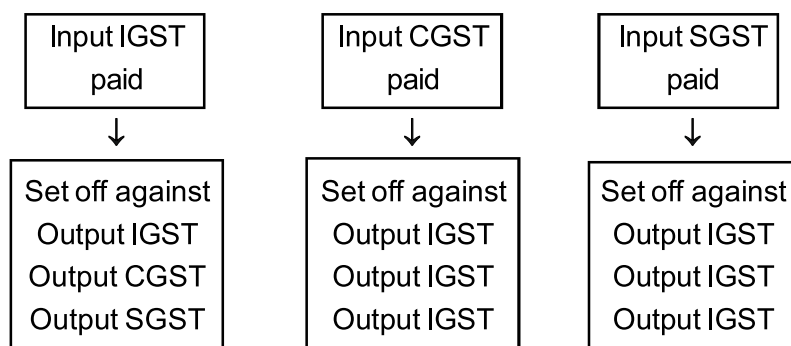
(3) Integrated GST (IGST)

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

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

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

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



### QUESTIONS

- Which is not external user of accounting information  
(a) Creditors (b) Lenders  
(c) Management (d) Tax
- Which of these is not a fundamental accounting assumption

- (a) Going concern                      (b) Accrual  
(c) Materiality                              (d) Consistency
3. Cost of Pen is accounted as an expense and not shown as an asset in a final statement of a business entity due to –  
(a) Materiality convention  
(b) Cost Concept  
(c) Matching Principle  
(d) Money measurement Principle
4. A Person from whom money is receivable by the firm for sale of goods is called  
(a) Creditor                                      (b) Debtor  
(c) Supplier                                      (d) Manager
5. “Revenue is recognized when sale is made or service is rendered rather than cash is received” is based on  
(a) Going concern assumption              (b) Matching Principle  
(c) Prudence Principle                      (d) Materiality Principle
6. Every business transaction has two aspects a debit and a credit of equal amount  
(a) Dual Aspect Principle                      (b) Matching Principle  
(c) Accrual assumption                      (d) Full disclosure Principle
7. Transactions are recorded analyzed and financial statements are prepared from business point of view and not of the owner  
(a) Accrual assumption                      (b) Consistency assumption  
(c) Accounting Period Principle              (d) Business entity
8. Name the fundamental ascending assumptions “It is assumed that the business has neither intention to liquidate nor to scale down its operations significantly”.

Ans. Going concern assumption

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

Ans. Accrual basis of accounting.

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

Ans. Conservatism/Prudence

- |         |         |         |         |
|---------|---------|---------|---------|
| (1) (b) | (2) (c) | (3) (a) | (4) (b) |
| (5) (b) | (6) (a) | (7) (d) |         |

## CHAPTER - 3

# RECORDING OF TRANSACTIONS

---

### LEARNING OBJECTIVES

After studying this chapter, you will be able to:

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

**Suggested Method:** Discussion Method, Illustration method, problem solving method etc.

### ACCOUNTING EQUATION

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

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

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

### ANALYSIS OF BUSINESS TRANSACTIONS

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

**1. Transaction affecting both sides of the equation:**

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

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

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

**B. Bought goods from Ram ₹. 30,000**  
Effect

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

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

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

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

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

**D. Paid to creditors ₹ 20,000**  
Effect

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

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

- **Transaction related to Expenses**

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

E. Rent paid ₹ 5,000.

Effect

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

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

- **Transaction related to Income**

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

F. Commission received ₹ 8,000.

Effect

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

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

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

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

A. Accrued Interest ₹ 10,000

Effect

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

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

- **Transaction related Advance Income**

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

A. Rent received in advanced ₹ 5,000

Effect

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

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

2. **Transaction affecting one side of the equation:**

(I) **Transaction affecting Assets side of the equation:**

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

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

A. Prepaid insurance paid ₹ 4,000

Effect

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

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

B. Purchased Machinery for Cash ₹ . 80,000

Effect

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

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

**(II) Transaction affecting Liability side of the equation:**

- **Transaction related to outstanding Expense**

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

A. Salary outstanding ₹ 8,000

Effect

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

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

- **Transaction related to Interest on Capital**

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

A. Interest on Capital Rs. 10,000

Effect

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

=	308000	+	10000	+	5000	+	8000			
=	-10000									
=	+10000	+	0	+	0	+	0			
=	308000	+	10000	+	5000				8000	

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

- **Transaction related to interest on Drawing**

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

A. Interest on Drawing ₹ 1,000

Effect

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

=	308000	+	10000	+	5000				8000	
=	-10000									
=	+10000	+	0	+	0	+				
=	308000	+	10000	+	5000				8000	

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

- **Transaction related to Drawing**

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

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

Effect

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

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

### Illustration: 1.

Prepare the Accounting Equation for the year ended on 31st March 2019 on the basis of the following information:

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

Solution:

Accounting Equation

	Assets						=	Capital + Liability		
Transaction	Cash	Stock	Machinery	Furniture	B.R.	Prepaid Insurance		Capital	O/S Comm	Creditors
1. Commenced business	150000	+ 30000	200000	+ 50000	+ -	-	=	430000	+ -	-
2. Sold goods at 20 % profit	+15000	- 25000	0	+ 0	+ 15000	-	=	+5000	+ -	-
N.E.	165000	+ +5000	200000	+ 50000+	+ 15000	-	=	435000	+ -	-
3. Paid salary & Comm. and comm. Outstanding	-12000	+ +0	0	+ 0	+ 0	-	=	-13000	+ 1000	-
N.E.	153000	+ + 5000+	200000	+ 50000	+ 15000	-	=	422000	+ 1000	-



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

#### Rules of Debit/Credit under Traditional Approach

Classification of Accounts	Rules of Dr./ Cr.
Personal Accounts (All Personal Accounts)	Debit the receiver. Credit the Giver
Real Account	Debit what Comes In, Credit what Goes Out
Nominal Account	Debit all Losses/Expenses, Credit all Income / Gains.

#### Illustration 2.:

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

S. No.	Transactions	Amount in (₹)
1	Ram Started business with cash	1,00,000
2	He purchased goods for cash	20,000
3	sold goods to Ram	30,000
4	paid salary	5,000
5	withdrew cash for personal use	10,000
6	cash deposited into Bank	20,000
7	bought goods from Mohan	15,000
8	sold goods for cash	16,000
9	purchased machinery for cash	50,000
10	Depreciate machinery	5,000

### Solution : Analysis of Transactions

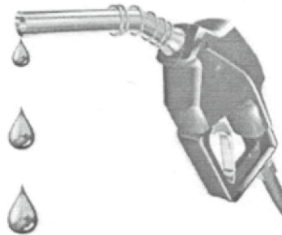
S. N.	Transactions	Accounts Effected	Nature Of A/C	Rules	Debit (₹)	Credit (₹)
1	Commenced Business	Cash Capital	Real Personal	Debit what comes in Credit the Giver	1,00,000	1,00,000
2	Bought Goods for cash	Purchase Cash	Nominal Real	Debit all Expense Credit what, goes out	20,000	20,000
3	Sold goods to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

**Example:-** Vimal wants to start transport business. He introduces initial Capital of ₹ 1,50,000. He took a Bank loan(Liabilities) to purchase a truck (Assets) costing ₹ 20,00,000/-

So in this case Diesel (Fuel) is an example of Expense to run the truck . And freight charged from customers is Revenue.



**Assets (Truck)**

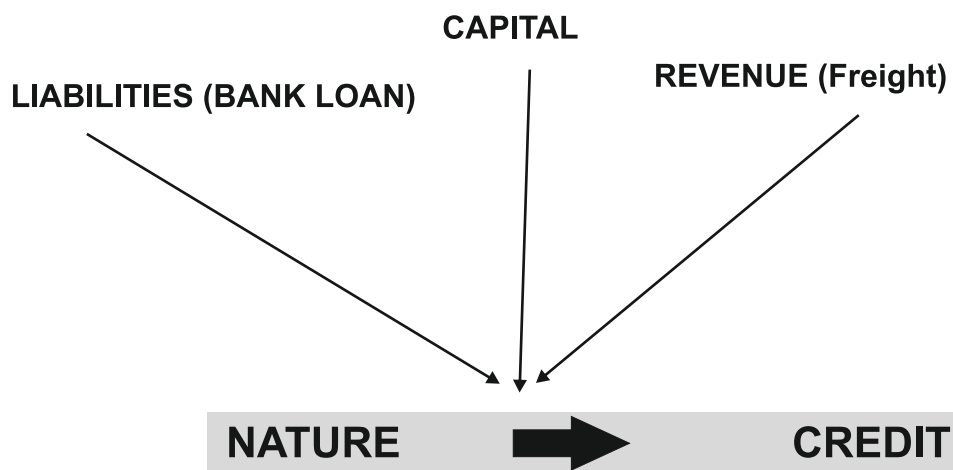


**Expense (Diesel)**

**NATURE**



**DEBIT**



## Rules of Debit/Credit under Modern Approach.

### Modern Rules of Debit and Credit

- i) Increase(+) in assets are debits; decreases(-) are credits.
- ii) Increase in expenses(+) are debits; decreases(-) are credits.
- iii) Increase(+) in liabilities are credits; decreases(-) are debits.
- iv) Increase(+) in revenues are credits; decreases(-) are debits.
- v) Increase(+) in owner's capital are credits; decreases(-) are debits.

### DEBIT-CREDIT-MATHEMATICS OF ACCOUNTS

"Debit" and "Credit" are like "Plus" and "Minus"

But a very important Difference is there.....

"PLUS" always means..... to 'ADD'

"MINUS" always means.....to 'SUBTRACT'

Whereas, MEANING (use) of DEBIT & CREDIT depends upon  
the NATURE OF ACCOUNT.

In case of : **Assets and Expense**

**"Debit" is "Plus" & "Credit" is "Minus"**

**FOR Liabilities, Capital and Revenue**

**"Credit" means "Plus" & "Debit" means "Minus"**

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

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

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

### Illustration 3.

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

#### Solution : Analysis of Transactions

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

7	Bought goods from Mohan	Purchase	Expense	Increase	15,000	
		Mohan	Liabilities	Increase		15,000
8	Sold goods for cash	Cash	Assets	Increase	16,000	
		Sales	Revenue	Increase		16,000
9	Machinery purchased	Machinery	Assets	Increase	50,000	
		Cash	Assets	Decrease		50,000
10	Depreciate machinery	Depreciate	Expense	Increase	5,000	
		Machinery	Assets	Decrease		5,000

### SOURCE DOCUMENTS

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

- (a) **Invoice (Bill):-** An invoice is prepared by Seller at the time of sale of goods on credit. It contains details such as the goods sold, the party to whom goods are sold, sales amount, date etc.
- (b) **Cash Memo :-** It is prepared by the Seller at the time of Sale of goods on Cash. It contains details such as goods sold, quantity, amount received, date etc.
- (c) **Pay-in-Slip :-** It is used to deposit cash or cheque into bank. It has a counterfoil which is returned to the depositor with the Signature of the authorized person.
- (d) **Receipt:-** It is used when a customer give cash to the Business firm. It is an acknowledgment of payment or cash received by firm.
- (e) **Cheque :-** A cheque is a order in writing, drawn upon a specified banker and payable on demand.
- (f) **Debit Note :-** It is prepared when a buyer returned goods to seller or when purchased return transaction is entered in the books of accounts. It is prepared by the buyer of the goods.
- (g) **Credit Note :-** It is prepared when a seller received goods from buyer or when Sales return transaction is entered in the books of accounts. It is prepared by the Seller of the goods.

### VOUCHER

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

### Classification of Accounting Vouchers

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

### CASH VOUCHERS

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

#### Debit Voucher

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

#### Format of Debit Voucher

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

#### Illustration: 4.

Prepare a Debit vouchers of XYZ traders, 10, Patel Nagar, New Delhi from the following information. Aug. 1 2019 Salary paid for the Month of July 2019 vide salary sheet No. 7 ₹ 15,000

Received Rs. ....	M/s XYZ Traders 10, Patel Nagar, New Delhi	
	Voucher No. : 215	Date : -01/08/2019
	DEBIT :- Salary A/C (Being salary paid for July 2019 vide salary sheet No. - 7	Amount (In ₹ ) 15,000
	Total	15,000
Affix Revenue Stamp		
	Signature Manager	Signature Accountant

### Credit Voucher

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

#### Format of Credit Voucher

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

#### Illustration: 5.

Prepare a Credit vouchers of Shyam traders, 156, Subhash Nagar, New Delhi from the following information:- Oct.5, 2019 Sold goods for cash vide cash memo no. 401 ₹ 16,600

### Credit Voucher

<b>Shyam Traders</b> <b>156, Subhash Nagar, New Delhi</b>	
Voucher No : 520	Date :- 05/10/2019
Credit :- Sales A/C (Being Cash Sales Vide Cash Memo No. 401)	Amount (In ₹)
	16,600
Total	16,600
Signature Manager	Signature Accountant

### Transfer Voucher/Non-Cash Voucher

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

### Transfer Voucher

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

**Illustration: 6**

Prepare a Transfer voucher of Shyam traders. 156, Subhash Nagar, New Delhi from the following information:- Feb. 15, 2019 Sold goods to Ram Traders vide Invoice/Bill no. 120 ₹ 24,000

Shyam traders 156, Subhash Nagar, New Delhi	
Voucher No.:- <b>102</b>	Date:- 15/02/2015
DEBIT:- Ram Traders	Amount ( ₹ )
	24,000
<b>Total</b>	24,000
CREDIT:- Sales A/C (Being Cash Sales vide (Invoice/Bill no.-120)	Amount ( ₹ )
	24,000
<b>Total</b>	24,000
Signature Manager	Signature Accountant

**JOURNAL**

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

**FORMAT OF JOURNAL**

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

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

**TYPES OF ENTRIES**

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

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

**JOURNAL**

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

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

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

Example : A business firm pays rent ₹ 2,000, salaries ₹ 1,500. freight ₹ 500 on 1 Jan. 2019, the single compound entry is

### JOURNAL

Date	Particulars	L. F.	Amount ( ₹ ) Dr.	Amount ( ₹ ) Cr.
2019 Jan 1	Rent A/C Dr. Salaries A/C Dr. Freight A/C Dr. To Cash A/C (Being Rent, Salary & freight Paid Cash)		2,000 1,500 500	4000

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

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

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

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

Example : The various balances of XYZ Ltd on 1st April 2019 were as follows Debt Balance : Cash ₹ 20,000 furniture ₹ 50,000 Building ₹ 1,00,000 & Debtors ₹ 30,000 Credit Balance : Creditors ₹ 50,000, Bank loan ₹ 25,000.

## JOURNAL

Date	Particulars	L. F.	Amount ( ₹ ) Dr.	Amount ( ₹ ) Cr.
2019 April 1	Cash A/C Dr. Furniture A/C Dr. Building A/C Dr. Debtors A/C Dr. To Creditors A/C To Bank Loan A/C To Capital A/C (Being recording of the opening balances OF Assets, Liabilities and Capital)		20,000 50,000 1,00,000 30,000	50,000 25,000 1,25,000

### Transaction related to Goods

- |  |   |
|--|---|
| <p>1. Goods purchased for cash</p> <p style="margin-left: 40px;">Purchase A/C Dr.<br/>To Cash A/C<br/>(Being goods purchased for cash)</p> <p>3. Goods sold for cash</p> <p style="margin-left: 40px;">Cash A/C Dr.<br/>To Sales A/C<br/>(Being goods sold for cash on credit)</p> <p>5. Withdrawal of goods by owner for personal use.</p> <p style="margin-left: 40px;">Drawings A/c Dr.<br/>To Purchases A/c<br/>(Being goods withdrawn by owner for personal use)</p> <p>7. Goods given as charity</p> <p style="margin-left: 40px;">Charity A/c Dr.<br/>To Purchases A/c<br/>(Being goods given as charity)</p> | <p>2. Goods purchased from ram on credit</p> <p style="margin-left: 40px;">Purchase Dr.<br/>To Ram<br/>(Being goods purchased from ram on credit)</p> <p>4. Goods sold on credit to mohan</p> <p style="margin-left: 40px;">Mohan Dr.<br/>To Sales A/C<br/>(Being goods sold to mohan)</p> <p>6. Goods distributed as free samples</p> <p style="margin-left: 40px;">Advertisement A/c Dr.<br/>To Purchases A/c<br/>(Being goods distributed as free samples)</p> <p>8. Goods lost by fire/flood/theft etc.</p> <p style="margin-left: 40px;">Loss by fire/theft A/c Dr.<br/>To Purchase A/c<br/>(Being goods lost by fire/flood/theft)</p> |
|--|---|

**Note :** Purchases A/c is credited in the above mentioned entries at

**S. No. 5 to 8 because the goods are going out of our business on cost and it is not a sale hence, deducted from the purchases A/c.**

**Transaction related to Bank**

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

**Note:-** Bank A/C will be debited if the amount is deposited/credited by bank & Bank A/C will be credited if the amount is withdrawn/debited by bank.

**Note:-** Cash will be debited if business receives it & Credited if Business paid it.

### Transaction related to Expense or Income

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

### Transaction related to Assets /Liabilities

- |   |  |
|---|--|
| <p>1. When Assets is purchased in Cash/Bank<br/>Assets A/C      Dr.<br/>    To Cash/Bank A/C<br/>(Being Assets purchased in cash/Bank.)</p> | <p>2. Depreciation charged on assets<br/>Depreciation A/C Dr.<br/>    To Assets A/C<br/>(Being Depreciation charged on assets @.....%)</p> |
| <p>3. Assets Sold by the business</p>   | <p>4. Liability arise when business raise funds.</p>   |

<p>Cash/Bank A/C   Dr.</p> <p>    To Assets A/C</p> <p>(Being Assets sold in cash/Bank)</p> <p>5.   Payment of Liability</p> <p>    Liability A/C       Dr.</p> <p>        To Cash/Bank A/C</p> <p>(Being Liability paid in cash/Bank)</p>	<p>Cash/Bank A/C   Dr.</p> <p>    To Liability A/C</p> <p>(Being fund raised)</p>
--	---

#### Some other Journal Entries

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

**Illustration 7 :** Pass necessary Journal entries relating to Mr. X for the month of January 2019.

**2019**

- Jan. 1      Started business with ₹ 20,000 and furniture ₹ 4,000
- Jan. 1      Bought shop fitting ₹ 4,000 and a car ₹ 6,000 and payment made in cash.
- Jan. 2      Paid into Bank ₹ 8,000
- Jan. 3      Paid rent ₹ 2,000 by cheque.
- Jan. 10     Purchased on credit goods for ₹ 5,000 from Mr. Khatana.
- Jan. 12     Cash Sales ₹ 10,000
- Jan. 15     Paid wages ₹ 500 and Commission ₹ 200 by cash.
- Jan. 20     Sold good to Shyam ₹ 15000 Bank charges ₹ 500
- Jan. 21     Withdrew cash for personal use ₹ 5,000
- Jan. 23     bought goods for cash ₹ 14,000.
- Jan. 25     paid to Mr. Khatana by cash ₹ 4,800 in full settlement of his account.
- Jan. 28     Received cash from Shyam ₹ 14,500 in full settlement of his account.
- Jan.31     salary outstanding for the month ₹ 5,000
- Jan. 31     Paid insurance charges for whole year in advance ₹ 12,000

Solution : In the books of Mr. X.

### Journal

Date	Particulars	L. F.	Amount ( ₹ ) Dr.	Amount ( ₹ ) Cr.
2019 Jan-01	Cash A/c Dr. Furniture A/c Dr. To capital A/c (Being business started with cash and furniture).		20,000 4,000	24,000
Jan-01	Furniture & Fitting A/C Dr. Car A/C Dr. To Cash A/c (Being Purchase of Fitting & Car.)		4,000 6,000	10,000
Jan-02	Bank A/C Dr. To Cash A/C (Being cash paid into Bank)		8,000	8,000
Jan-03	Rent A/C Dr. To Bank A/C (Being rent paid by cheque)		2,000	2,000
Jan-10	Purchase A/C Dr. To Mr. Khatana (Being goods purchased on Credit from Mr. Khatana)		5,000	5,000
Jan 12	Cash A/C Dr. To Sales A/C (Being goods sold for cash)		10,000	10,000
Jan-15	Commission A/C Dr. Wages A/C Dr. To Cash A/C (Being wages & Commission paid by cash)		200 500	700
Jan-20	Shaym Dr. To Sales A/C (Being goods to shyam on credit)		15,000	15,000

Date	Particulars	L. F	Amount ( ₹ ) Dr.	Amount ( ₹ ) Cr.
2019 Jan-20	Bank Charges A/C Dr. To Bank A/C (Being bank charges debited from bank A/C)		500	500
2019 Jan-21	Drawing A/C Dr. To Cash A/C (Being cash withdrew for personal use )		5,000	5,000
2019 Jan-23	Purchase A/C Dr. To cash A/C (Being goods purchased by cash)		14,000	14,000
2019 Jan-25	Mr. Khatana Dr. To Cash A/C To Discount Received A/C (Being cash paid to Mr. Khatana in full Sett.)		5,000	4,800 200
2019 Jan-28	Cash A/C Dr. Discount allowed A/C Dr. To Shyam (Being cash received from shyam in full sett.) )		15,500 500	15,000
2019 Jan-31	Salary A/C Dr. To Outstanding Salary A/C (Being salary due but not paid )		5,000	5,000
2019 Jan-31	Prepaid Insurance A/C Dr. Insurance A/C Dr. To Cash A/C (Being insurance paid for the whole year)		11,000 1,000	12,000

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

### **Goods and Services tax (GST)**

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

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

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

### **Characteristics of GST**

- (1) Most of the indirect taxes of the Centre and states are integrated under the GST.
- (2) The Centre and States will store GST tax revenues at 50:50 ratio (except the IGST). The GST going to the centre is called Central GST and that goes to the states is known as State GST.
- (3) GST belongs to the VAT family as tax revenues are collected on the basis of value added i.e. GST paid (Input GST) is SET OFF AGAINST GST COLLECTED (OUTPUT GST) and thus GST is levied on the incremental value of goods or services supplied.
- (4) GST integrates goods and service taxes into one unified tax regime. Earlier goods and services were imposed and administered differently.
- (5) GST proposes a four-tier rate structure. The tax slabs are fixed at 5%, 12%, 18% and 28% besides the 0% tax on essentials.

### **Objectives of Goods and Services Tax**

- (1) GST has eased the doing of business as most of the indirect taxes of centre and states are integrated under it (GST).
- (2) GST reduces the cost of goods as GST paid (input GST) is set off against GST collected (output GST) and thus tax on tax is eliminated.
- (3) GST ensure timely collection of taxes and electronic return filing which reduces the possibilities of tax evasion.
- (4) Introduction of GST and removal of multiple indirect taxes will increase foreign direct investment also in the country.

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

### Types of Taxes Under GST

GST is levied under following three types

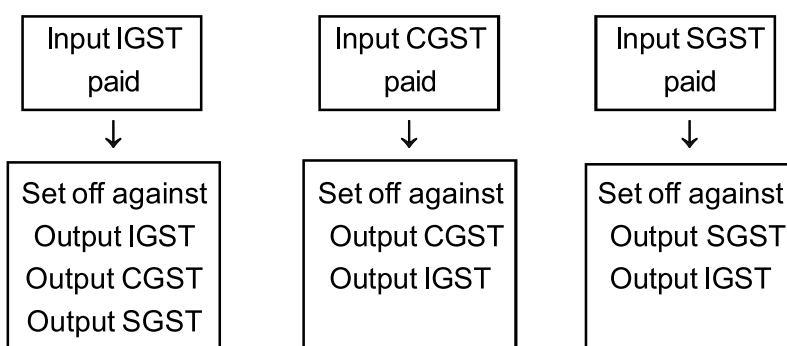
- (1) Central GST (CGST)
- (2) State GST (SGST)
- (3) Integrated GST (IGST)

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

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

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

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



**Note:** Input IGST is first set off against output IGST, then against output CGST and then against output CGST, if required.

Input CGST is first set off against output CGST & then against output IGST. Similarly Input SGST is set off first against output SGST and then against output IGST, if required.

**Accounting Entries/Journal Entries involving GST**

(i) For Purchase of Goods

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

(ii) For Sale of Goods

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

(iii) For payment of expense

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

(iv) For distributing goods as free samples

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

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

## Illustration on Setting of GST

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

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

# JOURNAL

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

### Illustrations based on GST

**Illustration :** Journalise the following entries.

- (i) Goods costing ₹ 5000 were given as charity, which were purchased after payment of CGST and SGST @6% each.
- (ii) Goods costing ₹2000 were used by the prope proprietor, which were purchased after payment of CGST and SGST @12% each.
- (iii) Goods of ₹ 2000 were destroyed by fire which were purchased after payment of CGST and SGST @6% each.

#### JOURNAL

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
(i)	Charity A/c Dr. <div style="margin-left: 40px;">To Purchase A/c</div> <div style="margin-left: 40px;">To Input CGST A/c</div> <div style="margin-left: 40px;">To Input SGST A/c</div> <div style="margin-left: 20px;">(Being goods given as charity)</div>		5,600	5,000 300 300
(ii)	Drawings A/c Dr. <div style="margin-left: 40px;">To Purchase A/c</div> <div style="margin-left: 40px;">To Input CGST A/c</div> <div style="margin-left: 40px;">To Input SGST A/c</div> <div style="margin-left: 20px;">(Being goods used by proprietor)</div>		2,480	2,000 240 240
(iii)	Loss of Goods by Fire A/c Dr. <div style="margin-left: 40px;">To Purchase A/c</div> <div style="margin-left: 40px;">To Input CGST A/c</div> <div style="margin-left: 40px;">To Input SGST A/c</div> <div style="margin-left: 20px;">(Being goods destroyed by Fire)</div>		2,240	2,000 120 120

**Illustration**

- (i) Goods costing ₹ 1,00,000 were sold to Ram at a profit of 25% on cost less 10% Trade discount plus CGST and SGST @6% each.
- (ii) Ram was allowed rebate of ₹ 5,000 due to poor quality of goods sold to him.
- (iii) Goods having list price ₹ 40,000 were sold to Ravi at a trade discount of 10% plus CGST and SGST @6% each and allowed cash discount @10%. Half of the amount was paid immediately.

**JOURNAL**

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
(i)	Ram Dr. To sales A/c To output CGST A/c To output SGST A/c (Being goods sold to Ram)		1,26,000	1,12,500 6,750 6,750
(ii)	Rebate A/c Dr. Output CGST A/c Dr. Output SGST A/c Dr. To Ram (Being rebate allowed to Ram and output CGST & SGST reversed)		5,000	300 300 5,600
(iii)	Cash A/c Dr. Ravi Dr. Discount allowed A/c Dr. To Sales A/c To output CGST A/c To output SGST A/c (Being goods sold and cash discount allowed on half payment received in cash)		18,144 20,160 2,016	36,000 2,160 2,160

**Illustration based on GST and setting off GST.****Illustration—**Journalise the following entries. Also set-off GST.

- (i) Purchased goods costing ₹ 1,50,000 within state after paying CGST and SGST @6% both.
- (ii) Sold goods for ₹ 2,00,000, CGST and SGST both levied on them @6%.
- (iii) Purchased goods for ₹ 1,00,000 from other state, IGST paid was 12%.
- (iv) Sold goods of ₹ 80,000 to other states, IGST paid was 12%.

**JOURNAL**

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

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

## BOOKS OF ORIGINAL ENTRY/SPECIAL PURPOSE BOOKS

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

<i>Transactions</i>	<i>Further classification</i>	<i>Subsidiary Books Maintained</i>
<i>Cash &amp; Bank Related Transactions</i>	<i>Only Cash</i> <i>Cash &amp; Bank Transactions</i> <i>Cash payment of small amount</i>	<i>Simple Cash Book</i> <i>Double Column Cash book</i> <i>Petty Cash Book</i>
<i>Transaction Other than Cash &amp; Bank</i>	<i>Credit Sale</i> <i>Credit Purchases</i>  <i>Sales Returns/ Returns Inward</i> <i>Purchases Returns /Returns outward</i> <i>Any other transaction</i>	<i>Sales Book</i> <i>Purchases Book</i>  <i>Sales returns Book</i> <i>Purchases Returns Book</i> <i>Journal Proper</i>

### 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 transaction related to cash receipt and payments. Cash book serves two purpose. 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 Balance b/d"

- Only transaction of cash receipts and payments are recorded in this book.
- This book never shows a credit balance because one can't pay more than the cash one have.

### Illustrations 8:

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

2019	Transactions	₹	2019	Transactions	₹
Jan. 1	Cash in Hand	12,000	Jan. 5	Received from Ram	3,000
Jan. 7	Paid rent	300	Jan. 8	Sold goods	3,000
Jan. 10	Paid to Shyam	7,000	Jan. 15	Purchased goods from Mohan	5,000
Jan. 27	Purchased furniture	2,000	Jan. 31	Paid Salaries	1,000

Dr.					Cash Book (Single Column)					Cr.
Date	Particular	V.No	L.F.	₹	Date	Particular	V.No.	L.F.	₹	
2019					2019					
Jan. 01	To Balance B/d			12,000	Jan. 07	By Rent A/C			300	
Jan. 05	To Ram			3,000	Jan. 10	By Shyam			7,000	
Jan. 08	To Sales A/C			3,000	Jan. 27	By Furniture A/C			2,000	
					Jan. 31	By Salaries A/C			1,000	
					Jan. 31	By Balacne C/d			7,700	
				18,000					18,000	
Feb. 1	To Balance b/d			7,700						

**Notes :** One can draw the following conclusions:

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

**Illustration 9 :** Enter the following transactions in the cash book for the month of April 2019. April

1. Cash in hand ₹ 50,000
11. Cash Sales ₹ 25,000

12. Goods sold to Aryan on credit for ₹ 20,000
13. Purchased goods from Khushi on credit for ₹ 30,000.
14. Purchased stationary for ₹ 1,000 in cash.
25. Received from Aryan ₹ 19,500 in full settlement.
26. Paid to Khushi ₹ 29,000 as full & final payment.
27. Deposited into bank ₹ 5,000.
30. Paid to Vishal, on old creditor ₹ 9,800 and received discount of ₹ 200.

Dr.					Cash Book					Cr.				
Date	Particular	V	N	L.F.	Amount	Date	Particular	V	N	L.F.	Amount			
					₹	2019					₹			
2019						2019								
April 01	To Balance B/d				50,000	Apr-14	By Stationery				1,000			
April 11	To Sales A/C				25,000	Apr-26	By Khushi				29,000			
April 25	To Aryan				19,500	Apr-27	By Bank A/C				5,000			
						Apr-30	By Vishal				9,800			
						Apr-30	By Bal. c/d				49,700			
					94,500							94,500		
Feb. 1	To Balance b/d				49,700									

### CASH BOOK WITH CASH AND BANK COLUMN

In this case the Cash Book is ruled with two amount columns on either side of the cash book namely, "Cash and Bank". Cash columns in such a case will record actual cash received in the debit side and payments in the credit side. Cheques received should be entered on the debit side of the bank column when it deposited in the bank. The payments by cheques should be entered on the credit side in bank column and also when cash is withdrawn from the bank.

### IMPORTANT ENTRIES

(1) **Contra Entries** : These entries affect cash and bank columns both at the same time. To indicate contra entry "C" is mentioned in the L.F column of the cash Book. Following two cases result in Contra entries.

- (a) Depositing cash into Bank ₹ 1,000. It will increase bank balance, so bank column is debited and cash balance will decrease, so cash column is credited.

Dr.						Cash Book (with Cash & Bank Column)						Cr.					
Date	Particulars	V.N.	L.F.	Cash ₹	Bank ₹	Date	Particulars	V.N.	L.F.	Cash ₹	Bank ₹						
2019 April 01	To Cash A/C		C		1,000	2019 April 01	By Bank A/C		C	1000							

- (b) Withdrawn from Bank for office use ₹ 1,000. It will increase cash balance, so cash column is debited and bank balance will decrease, so bank column is credited.

Dr. Cash Book (with Cash & Bank Column)						Cr.					
Date	Particulars	V.N.	L.F.	Cash ₹	Bank ₹	Date	Particulars	V.N.	L.F.	Cash ₹	Bank ₹
2019 April 01	To Bank A/C		C	1,000		2019 April 01	By Cash A/C		C		1,000

## (2) Entries relating to cheques :

- (a) When any payment is made by cheque : It will reduce the bank balance and thus bank column will be credited.
- (b) When any payment is received in the form of cheque and no information about its deposit into bank is given. In this case it is assumed that the cheque is deposited into bank on the same day when it is received & so bank A/c will be debited.
- (c) When any payment is received in the form of cheque and it is deposited into bank on same day than bank A/c will be debited. When payment is received in the form of cheque on one day & it is deposited into Bank on other day i.e. when two dates, one for the receipt of cheque and the other for deposit. In this case no entry is to be recorded at the time of receiving the cheque. Entry is to be made when cheque is deposited in the bank, as bank column is debited.

**Illustration 10 :** Record the following transactions in the cash book with cash and Bank columns:- 2019

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

Dr. Cash Book (with Cash & Bank Column)						Cr.					
Date	Particulars	V.N.	L.F.	Cash ₹	Bank ₹	Date	Particulars	V.N.	L.F.	Cash ₹	Bank ₹
2019 Jan 01	To Bal B/d			10000	7000	Jan. 2	By Bank A/C		C	5000	
Jan 02	To Furniture			8000		Jan 5	By Mr. Kasana				2000
Jan 02	To Cash A/C		C		5000	Jan 5	By Wages A/C			500	
Jan 20	To Chque in Hand A/C				2400	Jan 15	By Salaries A/C				1000
Jan 22	To Bank A/C		C		2000	Jan 22	By Cash		C		2000
Jan 30	To Mr. Lohiya				2500	Jan 25	By Drawing A/C			1000	500
				18000	18900					11500	13400
Feb 01	To Bal B/d			11500	13400	Jan 31	By Bal. c/d			18000	18900

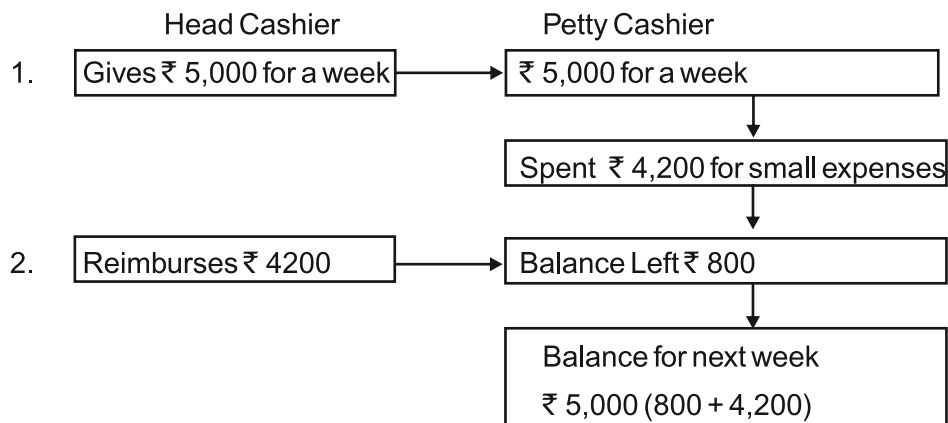
### Petty Cash Book

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.



### Advantage of Petty Cash Book

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

**Illustrations 11:** Prepare a Petty Cash book on the imprest system from the following transactions:-

2019		Amt. (₹)
Jan. 1	Receive cash from Head cashier	1000
Jan. 2	Bought stationary	80
Jan. 3	Paid for registered post	120
Jan. 4	Bought Pen/Pencils for office use	90
Jan. 4	Paid for Speed Post	50
Jan. 5	Paid for refreshment	250
Jan. 6	Bought postal stamps	40

**Solution :**

**Petty Cash Book**

Receipts	Date	Particular	V. No.	Total Expense	Stationary	Postage	Sundries
1000	2019 Jan. 1	To Cash					
	Jan. 2	By Stationary		80	80		
	Jan. 3	By Postage		120		120	
	Jan. 4	By Stationary		90	90		
	Jan. 4	By Speed Post		50		50	
	Jan. 5	By Refreshment		250			250
	Jan. 6	By Postage		40		40	
	Total Jan. 7			630	170	210	250
	Jan. 7	By Bal. c/d		370			
370	Jan. 8	To Bal. b/d					
630	Jan. 8	To Cash A/C					

### Cash Book Involving GST

Prepare Single Column Cash Book for the month of June 2019, from the following transactions.

2019			₹
June	1	Cash in hand	17,500
June	4	Cash sales, including CGST and SGST @ 6% each	1,72,480
June	5	Deposited Cash into Bank	1,40,000
June	5	paid Cheque to a Creditor Rs. 34,930 after deducting Cash Discount of Rs. 2,170	
June	6	Salary paid in cash	15,750
June	6	Cash Sales of Rs. 1,26,000 plus CGST and SGST @ 6% each. Out of which Rs. 1,40,000 was deposited in Bank on June 9.	
June	11	Paid Cash Rs. 3,150 plus CGST and SGST @ 6% each to Delhi Transco Ltd. against their Bill No. 186.	
June	22	Paid Cash for Office Lighting repair Deposited CGST and SGST @6% each on above	1,400
June	23	Purchased Goods on Credit from Varun & Co. Rs. 10,500 plus IGST @ 12%	
June	25	paid Cash to Tarun, a creditor, after deducting discount Rs. 350.	6,650
June	27	Paid Telephone Bill in Cash	6,300
June	30	Cash Collected from Naman (Debtor) Rs. 31,500 after allowing discount of rs. 1,750.	

### Cash Book (Single Column)

Date	Particulars	L.F.	₹	Date	Particulars	L.F.	₹
2019 June 1	To Balance b/d		17,500	June 5	By Bank A/c		1,40,000
June 4	To sales A/c		1,54,000	June 6	By Salary A/c		15,750
June 4	To Output CGST A/c		9,240	June 8	By Bank A/c		1,40,000
June 4	To Output SGST A/c		9,240	June 11	By Freight A/c		3,150
June 6	To Sales A/c		1,26,000		By Input CGST A/c		189
June 6	To Output CGST A/c		7,560		By Input SGST A/c		189
June 6	To Output SGST A/c		7,560	June 22	By Office Expenses A/c		1,400
June 30	To Naman		31,500	June 22	By Input CGST A/c		84
				June 22	By Input SGST A/c		84
				June 26	By Tarun		6,650
				June 27	By Telephone Exp. A/c		6,300
				June 30	By Balance c/d		48,804
			<b>3,62,500</b>				<b>3,62,500</b>
July 1	To Balance b/d		48,804				

### Double Column Cash Book Question

Prepare Double Column Cash Book for the month of June 2019, from the following transactions.

2019		
June	1	Cash in Hand ₹ 1,440, Overdraft at bank ₹ 18,000
June	4	Capital introduced ₹ 24,000 out of which ₹ 19,200 is by cheque and is deposited in the bank.
June	5	Purchased goods from Tanu Traders, Jaipur for ₹ 3,600 CGST and SGST @ 6% each and they allowed trade discount ₹ 240. The amount was paid by cheque.
June	5	Good purchased for cash ₹ 4,800 plus CGST and SGST @ 6% each.
June	6	Sold good to Naresh on credit ₹ 6,000 plus CGST and SGST @ 6% each.

2019		
June	7	Received cheque from Sanjay ₹ 2,940. Allowed him discount ₹ 60.
June	11	Cheque received from Sanjay deposited into bank.
June	12	Settled the account of Uday & Co. ₹ 900 by paying cash ₹ 816
June	13	Cash received from Naresh ₹ 5,700 in full settlement of his account of ₹ 6,000
June	17	An amount of ₹ 1,200 due from Pawan & Sons written off as bad debts in the previous year, now received.
June	18	Received from Naveen on behalf of Navjot ₹ 240.
June	20	Received a cheque for ₹ 960 from Naman, which was endorsed to Om.
June	21	Old furniture sold for ₹ 840 plus CGST and SGST @ 6% each, payment received in cash.
June	26	Withdrawn from bank ₹ 3,600.
June	26	Drew from bank for household expenses ₹ 1,200 and for income tax ₹ 600
June	29	Trupti, who owed ₹ 480 became insolvent and paid 60 paise in a rupee.
June	29	Received repayment of a loan advanced to Sunny ₹ 3,600 and deposited out of it ₹ 3,000 into the bank.
June	30	Interest debited by bank ₹ 450.
June	30	Deposited with the bank the entire balance after retaining ₹ 2,400 at office.

## TWO COLUMN CASH BOOK

Date	Particulars	L.F.	Cash ₹	Bank ₹	Date	Peculators	L.F.	Cash ₹	Bank ₹
2019 June 1	To balance b/d		1,440	...	2019 June 1	By Balance b/d		...	18,000
June 4	To Capital A/c		4,800	19,200	June 5	By Purchases A/c		...	3,360
June 11	To Cheque in Hand A/c		...	2,940	June 5	By Input CGST A/c		...	202
June 13	To Naresh		5,700	...	June 5	By Input SGST A/c		...	202
June 17	To Bad Debts		...	...	June 5	By Purchases A/c		4,800	...
	Recovered A/c		1,200	...					
June 18	To Navjot		240	...	June 5	By input CGST A/c		288	...
June 21	To Furniture A/c		840	...	June 5	By Input SGST A/c		288	...
June 21	To Output CGST A/c		51	...	June 12	by Uday & co..		816	...
June 21	To Output SGST A/c		51	...	June 26	by cash A/c	C	...	3,600
June 26	To Bank A/c	C	3,600	...	June 26	By Drawings A/c		...	1,800
June 29	To Trupti		288	...	June 29	By Bank A/c	C	3,000	...
June 29	To Loan to Sunny A/c		3,600	...	June 30	By Interest A/c		...	450
June 29	To Cash A/c	C	...	3,000	June 30	By Bank A/c	C	10,218	...
June 30	To Cash A/c	C	...	10,218	June 30	By Balance c/d		2,400	7,744
				<b>21,810</b>	<b>35,358</b>			<b>21,810</b>	<b>35,358</b>
July 1	To Balance b/d		2,400	7,744					

### SPECIAL PURPOSE SUBSIDIARY BOOKS

#### **Purchase Book**

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

#### **Transactions not recorded in purchases Book**

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

**Illustration 12 :** Enter the following transaction in the Purchase Book of M/s Ajeet Stationers.

2019

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

#### **Note :-**

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 transaction are not recorded in Purchases Book.

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

#### **PURCHASE BOOK**

Date	Particular	Inv. No	LF.	Details	Amount
2019	Agarwal Book House	205			
Aug. 1	25 Dozen Pencils @ Rs. 30 per dozen			750	
	20 Dozen Ball pens @ Rs. 10 per pen			2400	
				3150	
	Less:-Trade discount@ 10%			315	2835

Date	Particular		Inv. No.	LF	Details	Amount
Aug. 8	Shivani Bros. 30 Registers @ ₹ 50 each 50 Note Books @ ₹ 20 each		636		1500 1000	2500
Aug. 31	Purchase A/c Dr.					5335

### Sales Books/Sales Journal

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

### Transactions not recorded in Sales Book

- Sales of goods for cash
- Sales of Assets

**Illustration 13 :** From the following transactions. Prepare a Sales Book of Subhash Furnitures.

2019

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

### Solution :

In the books of M/s Subhash Furniture

### Sales Book

Date	Particular		Inv. No	LF.	Details	Amount
2019	Anil Furniture House		107			
Jul-07	200 Tables @ ₹150 each				30,000	
	100 Chairs @ ₹100 each				10,000	
					40,000	
	Less:- Trade discount@ 10%				4,000	36,000
Jul-29	Jitesh Woods		506			
	10 Dressing tables @ ₹ 1,700 each				17,000	
	5 tables @ ₹ 500 each				2,500	
					19,500	
	Less:- Trade discount@ 10%				1,950	17,550
Jul-31	Sales A/c	Cr.				53,550

**Note:-**

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

### PURCHASE RETURNS/RETURNS OUTWARD BOOK

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

**Illustration 14 :** Enter the following transactions in the Purchases Returns Book of Vikas Traders

- 2019      Returned to Agarwal Book House (Debit Note No. 105)
- Aug. 5      5 Dozen Pencils @ Rs. 30 per Dozen
- Trade Discount @ 10%
- Aug. 10      Returned to Shivani Bros. (Debit Note No. 106)
- 5 Resistors @ Rs. 50 each.

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

**PURCHASE RETURNS BOOK**

Date	Part:cular	Dr. Note	LF.	Details	Amount
2019 Aug.5	Aggarwal Book House 5 Dozen Pencils @ ₹ 30 per Dozen	105		150	
	Less:-Trade discount@ 10%			15	135
Aug. 10	Shivani Bros. 5 Registers @ ₹ 50 each	106		250	250
Aug. 31	Purchase Returns A/c Cr.				385

**Sales Returns Book**

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

**Illustration 15 :** From the following transactions, Prepare a Sales Returns Book of Subhash Furnitures.

- 2019      Returned by Anil furniture house (Credit Note No.209)
- Jul-09      5 Table @ ₹ 150 each  
                  10 Chairs @ ₹100 each Trade discount @ 10%
- Jul-30      Returned by Jitesh Woods (Credit Note No.210)
- 1 Dressing tables @ ₹ 1700 each  
                  Trade discount @ 10%

**Solution:-** In the books of M/s Subhash furnitures

**Sales Returns Book**

Date	Particular	Cr. Note	LF.	Details	Amount ₹
2019 Jul-07	Anil Furniture House 5 Table @ Rs. 150 each 10 Chairs @ Rs. 100 each	209		750 1,000 1,750	
	Less:-Trade discount @ 10%			175	1,575
Jul-29	Jitesh Woods 1 Dressing tables @ Rs. 1,700 each Less:-Trade discount @ 10%	210		1,700 170	1,530
Jul-31	Sales Returns A/c Dr.				3,105

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

**2018**

- 1 April Purchased on Credit from Pareek Bros., Delhi  
 10 reams of paper @ ₹ 600 per ream  
 12 registers @ ₹ 1000 per dozen  
 Less: Trade Discount @ 10%.
- 10 April Purchased on Credit from Arora Book depot., Delhi.  
 10 dozen registers @ ₹ 500 per dozen  
 12 boxes of pencils @ ₹ 1000 per box.  
 Less : Trade Discount @ 10%
- 12 April Returned 6 dozen registers to Arora Book Depot.
- 15 April Returned 5 reams of papers to Pareek Bros. Delhi.

**PURCHASE BOOK**

Date	Particulars	Invoice	Details	Input Cost	Input CGST	Input SGST	IGST	Total
<b>2019</b>								
April 1	Pareek Bros. Delhi 10 reams of paper @ ₹ 600 per ream 12 registers @ ₹ 1000 per dozen  Less : Trade Discount @ 10%  Add: CGST @ 6% SGST @ 6%			6000 1000 7000 700 6300  378 378 6300 7056				
				7056	378	378	-	7056

April 10	Arora Book Depot								
	10 dozen registers @ ₹ 500 per dozen			5000					
	12 boxes of pencils @ ₹ 1000 per box			12000					
				17000					
	Less: Trade Discount @ 10%			1700					
				15300					
	Add:								
	CGST @ 6%			918					
	SGST @ 6%			918					
				15,300					
April 30				17,136	918	918	-	17136	
				21,600	1296	1296	-	24,192	

### PURCHASE RETURN BOOK

Date	Particulars	Debit Note No.	L F	Details	Cost	Input SGST	Input SGST	Input IGST	Total
<b>2019</b>									
April 12	Arora Book Depot								
	6 dozen registers @ ₹ 500 per dozen			3000					
	Less: Trade discount @ 10%			300					
				2700					
	Add: CGST @ 6%			162					
	SGST @ 6%			162					
				3024	2700	162	162	-	3024
April 15	Pareek Bros., Delhi								
	5 reams of papers @ ₹ 600 per ream			3000					
	Less: Trade Discount @ 10%			300					
				2700					
	Add: CGST @ 6%			162					
	SGST @ 6%			162					
				3024	2700	162	162	-	3024
April 30					5400	324	324	-	6048

### Illustration

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

2019

- Feb. 1      Sold to Anil Furniture House, Jabalpur Invoice No. 108 200 Tables @ ₹ 150 each.  
                 100 chairs @ ₹ 100 each.  
                 Trade Discount @ 10%  
                 and IGST is charged 18%.
- Feb. 6      Sold to Rama furniture, Lucknow (Cash Memo No. 3005) 10 Beds @ ₹ 2500 each. and charged CGST and SGST @ 9% each.
- Feb. 7      Sold to Jitesh Furniture, Lucknow (Invoice No. 121)  
                 10 Dressing table @ ₹ 1700 each.  
                 S. Tables @ ₹ 500 Each.  
                 Trade Discount @ 10%  
                 and charged CGST and SGST @ 9% each.

### M/s Virender & Co., Lucknow

#### Sales Book

Date	Particulars	Invoice No.	L F	Details	Sales Values	Output SGST	Output SGST	Output IGST	Total
2019									
Feb. 1	Anil Furniture House, Jabalpur 200 Tables @ ₹ 150 each 100 chairs @ ₹ 100 each  Less: Trade Discount 10%  Add: IGST 18%	108							
				30,000					
				10,000					
				40,000					
				4,000					
				36,000					
				6,480					
				42,480	36,000			6,480	42,430

Feb. 7	Jitesh Furniture, Lucknow 10 Drawing table @ ₹ 1200 each 5 Tables @ ₹ 500 each Less: Trade Discount 10%  Add: CGST 9% SGST 9%	121		17000 2500 10500 1950 17550 1580 1580					
Feb. 28				20710	17550	1580	1580		20710
				53500	1580	1580	6480	63190	

### Illustration :

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

2019

Feb. 4      Returned by Anil Furniture House, Jabalpur.

(Credit Note No. 215)

5 tables @ ₹ 150 each.

10 chains @ ₹ 100 each

Trade Discount 10%

IGST is charge @ 18%

Feb. 9      Returned by Jitesh Furniture, Lucknow

(Credit Note No. 217)

1 Dressing table @ ₹ 1700 each

Trade Discount 10%

CGST and SGST @ 9% each.

**Sollution :**

**Books of M/s Virender & Co., Lucknow**

**Sales Return Book**

Date	Particulars	Debit Note No.	L F	Details	Value	Output SGST (Dr.)	Output SGST (Dr.)	Output IGST	Total
<b>2019</b>									
Feb. 4	Anil Furniture House Jabalpur								
	Stakes @ ₹ 150 each			750					
	10 above @ ₹ 100 each			1000					
				1750					
	Less: Trade Discount 10%			175					
				1575					
	Add. IGST 18%			284					
				1859	1575			284	1859
Feb. 9	Jitesh Furniture, Lucknow								
	1 Drawing table @ ₹ 11700 each			1700					
				170					
	Less: Trade Discount 100%			1530					
	Add: CGST 9%			138					
	SGST 9%			138					
				<b>1806</b>	<b>1530</b>	<b>138</b>	<b>138</b>	<b>-</b>	<b>1806</b>
					<b>3105</b>	<b>138</b>	<b>138</b>	<b>274</b>	<b>3665</b>

**Test Your Learning**

**1. State whether following statements are true or false**

- A journal is known as a book of final entry.
- The term credit, as it is used in recording journal entries, means to increase the balance of an account.
- A journal entry in which more than two accounts are involved is known as a combined journal entry.
- Cash sales are entered in sales journal.
- Ledger is a subsidiary book.
- Transaction recorded both on debit and credit side of cash book is known as contra entry.
- Prepaid Insurance will increase when debited.
- The left side of an account is always the debit side and always the increase side.
- Journal is a book of secondary entry.

- (x) One debit account and more than one credit account in a entry is called compound entry.
- (xi) Assets sold on credit are entered in sales journal.
- (xii) Cash and credit purchases are entered in purchase Journal.
- (xiii) Cash book records transactions relating to receipts and payments.
- (xiv) Petty cash book is a book having record of big payments.
- (xv) Cash received is entered on the debit side of cash book.
- (xvi) Balancing of account means total of debit and credit side.
- (xvii) Credit purchase of machine is entered in purchase journal.

**Choose the Correct Answer:**

**2. Double column cash book records**

- (i) All Transactions
- (ii) Cash and Bank Transactions
- (iii) Only cash transactions
- (iv) Only bank transactions

**3. Voucher is prepared for:**

- (i) Cash received and paid
- (ii) Cash/Credit sales
- (iii) Cash/Credit purchase
- (iv) All of the above

**4. Voucher is prepared from:**

- (i) Documentary evidence
- (ii) Journal entry
- (iii) Ledger account
- (iv) All of the above

**5. Recording of transaction in the Journal is called:**

- (i) Casting (ii) Posting (iii) Journalising (iv) Recording

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

- (i) Debit to debtors and credit to capital.
- (ii) Debit to cash and Credit to debtors.
- (iii) Debit to fees income and Credit to debtors.
- (iv) Debit to debtors and Credit to fees income.

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

- (i) Debit equipment for ₹ 5,00,000 and Credit cash ₹ 5,00,000.
- (ii) Debit equipment for ₹ 6,00,000 and Credit cash ₹ 5,00,000 and creditors ₹ 1,00,000.
- (iii) Debit equipment ₹ 5,00,000 and Credit debtors ₹ 6,00,000.
- (iv) Debit equipment ₹ 6,00,000 and Credit cash ₹ 6,00,000.

- 8. Credit balance of bank account in cash book shows :**
- (i) Overdraft
  - (ii) Cash deposited in our bank
  - (iii) Cash withdrawn from bank
  - (iv) None of these
- 9. If a transaction is properly analysed and recorded:**
- (i) Only two accounts will be used to record the transaction.
  - (ii) One account will be used to record transaction.
  - (iii) One account balance will increase and another will decrease.
  - (iv) Total amount debited will equals total amount credited.
- 10. Journal entry to record paid salaries will include:**
- (i) Debit salaries Credit cash.
  - (ii) Debit capital Credit cash.
  - (iii) Debit cash Credit salary.
  - (iv) Debit salary Credit creditors.
- 11. Cash withdrawn by the Proprietor should be credited to:**
- (i) Drawings account
  - (ii) Capital account
  - (iii) Profit and loss account
  - (iv) Cash account
- 12. Find the correct statement:**
- (i) Assets decrease in the Credit
  - (ii) Expenses increase in the Credit
  - (iii) Revenue increase in the Debit
  - (iv) Capital increase in the Credit
- 13. The book in which all accounts are maintained is known as:**
- (i) Cash Book
  - (ii) Journal
  - (iii) Purchases Book
  - (iv) Ledger
- 14. Goods purchased on cash are recorded in the**
- (i) Purchases (journal) book
  - (ii) Sales (journal) book
  - (iii) Cash book
  - (iv) Purchases return (journal) book

## CHAPTER-4

# BANK RECONCILIATION STATEMENT

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

### LEARNING OBJECTIVES

- (1) Meaning of Bank Reconciliation statement.
- (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 bank Reconciliation statement
- (5) Preparation of Adjusted Cash 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

- (A) Transactions recorded in Cash Book but not in Pass Book.
  - (B) Transactions recorded in Pass Book but not in Cash Book.
  - (C) Others transactions errors.
- 
- (A) Transactions recorded in Cash Book but not in Pass Book
    - (i) Cheques issued but not presented for payment in the bank.
    - (ii) Cheques deposited or paid into the bank for collection but not yet credited by bank.
    - (iii) Cheques deposited but dishonored.
    - (iv) Wrongly Debit or credit entered.
  - (B) Transactions recorded in Pass Book but not in Cash Book :-
    - (i) Interest allowed by the Bank
    - (ii) Interest on overdraft, bank charges and commission etc. charges by Bank.

- (iii) Direct deposit by the customers into Bank.
  - (iv) Interest, dividend etc. collected by the Bank.
  - (v) Direct payment made by the Bank on behalf of customer as per standing instruction.
- (C) Other transactions :-
- (i) Error in totaling or balancing of Cash Book.
  - (ii) Transactions recorded twice in Cash Book.
  - (iii) Transactions recorded twice in Pass Book.
  - (iv) Error of recording by wrong amount.
  - (v) Error of recording in wrong side like Debit instead of credit and vice-versa.

#### **Need and importance**

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

#### **Procedure of Preparing Bank Reconciliation Statement (BRS)**

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

- (1) First of all tally the Debit side entries of the cash book with the Credit side entries of the Pass Book and vice versa.
- (2) Tick the items appearing in both the books.
- (3) Unticked items will be the points of differences.
- (4) A BRS is then prepared by taking either the balance as per Cash Book or Pass Book as a starting point.

#### **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

deposit at the bank (also called favourable balance) write the amount under (+) items.

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

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

Bank Reconciliation Statement as on .....

Particulars	+ ITEM	- ITEM
Balance as per Cash Book		
Add : - Items Credit in Pass Book but not recorded in Cash Book.		
Less : - Items debit in Cash Book but not recorded in Pass Book.		
Less : Item debit in Pass Book but not recorded in Cash Book		
Add: Items credit in Cash Book but not recorded in Pass Book		
Total	P	M
Balance as per Pass Book (P — M) =		

**Note**

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

**Ready Reference**

**Items which increase the Pass Book Balance or decreases the Cash Book Balance**

- (1) Cheques issued but not yet presented.
- (2) Credits made by the bank for Interest.
- (3) Amount directly deposited by the customers in our bank A/c.
- (4) Interest and dividend collected by the bank.

- (5) Cheques paid into the bank but omitted to be recorded in the Cash Book.

**Items which, decreases the Pass Book Balance or increase the Cash Book Balance**

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

**Example 1 :** Balance as per Cash Book is given

Prepare Bank Reconciliation statement as on 31st July 2018

- (1) Dr. Balance as per Cash Book is ₹ 20,000 as on 31st Jul 2018.
- (2) Cheques for ₹ 5000 were deposited into the Bank in the month of July but only Cheques for ₹ 1000 were credited by bank till 31st July 2018.
- (3) Cheques issued for ₹ 33000 in July, out of which a cheque for ₹ 13,800 was presented for payment on 3rd August, 2018.
- (4) Bank charged ₹ 150 as Bank charges and credited interest of ₹ 400.
- (5) A Customer directly deposited ₹ 2,500 in firms's bank A/C.
- (6) Bank paid the insurance Premium of ₹ 1200 as per standing instruction on 25.7.2018.

**Solution :**

**Bank Reconciling Statement as on 31st July 2018**

**Explanation**

1. Balance as per Cash Book means favourable Balance, hence (+)

Particulars	+ Item (₹)	- Item (₹)
(1) Balance as per Cash Book.	20,000	
(2) Cheques deposited but not yet collected by the bank (5,000-1,000)	-	4,000
(3) Cheques issued but not yet Present for payment	13,800	-
(4) (a) Bank. Charges	-	150
(b) Interest credited by the bank	400	-
(5) Directly deposited by the customers not recorded in the Cash Book	2,500	-
(6) Insurance Premium paid by the bank not recorded in Cash Book.		1,200
Total	36,700	5,350
Balance as per Pass Book (36,700- 5,350)	31,350	

Item. If **nothing (i.e. Debit or Credit)** is written the Balance given, it is treated as favourable.

2. Cheques were deposited into the bank for ₹5,000 but credited by the bank for ₹1,000 in the month of July, implies that cheques for ₹4,000 (5,000-1,000) are entered in the Cash Book but not in the Pass Book Increasing the Cash Book Balance by ₹4,000 as compared to Pass Book. Hence to get pass Book Balance from the Cash Book ₹4,000 will have to be deducted.
3. Cheques issued but not presented for payment till 31st July is for ₹13800 which is entered on the credit side of Cash Book as compared to Pass Book (Cash book Balance is less by ₹13,800 as compared to Pass Book Item)
4.
  - (a) Bank charges of ₹150 entered in the Pass Book will decrease the Balance of Pass Book. To reach Pass Book Balance from Cash Book Balance, this item has to be deducted i.e. minus item.
  - (b) Interest credited by the Bank ₹400 interest in Pass Book Increases the, balance of Pass Book, hence to reach the Balance from cash book and this item is to be added to (+) item.
5. Direct deposit by a customer ₹2,500 Increase the Pass Book Balance plus item.
6. Payment made by the bank for insurance premium decreases the Pass Book Balance Minus Item.
7. Plus items total ₹36,700 is more than Minus item total ₹5,350 by ₹31,350 Hence the difference of ₹31,350 will be (+) item i.e. Favourable Balance or Cr. balance as per Pass Book.

**Example 2 :** When overdraft as per Cash Book is given

- (1) Overdraft as per Cash Book is ₹41,000 on 30th June 2018.
- (2) Cheques deposited but not yet collected ₹13,000.
- (3) Cheques issued but not yet presented for payment of ₹2,500.
- (4) Bank Charges of ₹100 and Interest on overdraft of ₹300 are charged by the bank.
- (5) A customer directly deposited ₹1,500 into the Bank.
- (6) Insurance Premium of ₹2,500 is paid by the bank as per standing instructions.

Prepare Bank Reconciliations Statement for the month of June 2018.

### Bank Reconciliations Statement as on 30th June 2018

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

**Overdraft means unfavorable balance or Negative Balance Hence put it under (–ive) items.**

**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 ₹ 56,900 is more than the total (+) items ₹ 4,000 by ₹ 52,900 by
3. At the end (+) item and (-) item are totalled
  - (a) If total of (+) items is more than the total of (-) items Difference 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 which increases the Cash Book Balance or decreases the Pass Book Balance**

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

**Items which decreases the Cash Book Balance or increase the Pass Book Balance**

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

**Examples 3 :** Balance as per Pass Book is given

Given (1) Balance as per Pass Book is Rs. 70,000 Point No. (2) to (6) are same as given in example (1) Prepare Bank Reconciliation Statement as on July 31.2018.

**Solution :**

**Bank Reconciliation Statement as on 31st July 2018**

<i>Particulars</i>	<i>(+) Items (Rs.)</i>	<i>(-) Items (Rs.)</i>
(1) <i>Balance as per Pass Book (Cr).</i>	70,000	—
(2) <i>Cheques deposited but not yet collected by the Bank (5,000 - 1,000).</i>	4,000	-
(3) <i>Cheques issued but not yet Presented for payment</i>		13,800
(4) (a) <i>Bank Charges</i>	150	-
(b) <i>Interest allowed by Bank.</i>	-	400
(5) <i>Directly deposited by the customer, not recorded in the Cash Book.</i>	-	2,500
(6) <i>Insurance Premium paid by the Bank, not recorded in Cash Book.</i>	1,200	-
<i>Total</i>	75,350	16,700
<i>Balance as per Cash Book (75,350- 16,700)</i>	58,650	

**Important Points :**

- Starting and Ending points are reversed compared to Example No. 1 Hence (+) items (–) items are interchanged.

- Favourable balance whether of Cash Book or Pass Book is always a (+) items.
- If (+) items total is more than (–) 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 ₹ 48,000 Rest of the contents (points 2 to 6) are same as given example No. 2

Prepare Bank Reconciliation Statement as on June 30, 2018

#### Bank Reconciliations Statement as on 30th June 2018

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

#### 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 of 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 General Errors are**

- (a) Overcasting or Under casting 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 correct 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.
  - (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 pass Book.
- 

**Example :** The cash Book of Mr. Sagar showed a balance, of ₹ 3,560 as on 31st Dec. 2018 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. Sagar With ₹ 460. the annual premium of his life Policy according to his standing instructions and ₹ 20 as Bank charges.
- (2) Mr. Sagar paid into the Bank cheques totalling ₹ 3,100 on Dec. 26, 2018 of which those for ₹ 2,500 were collected in December. One cheque for ₹ 200 was returned dishonored on 2nd Jan. 2019.
- (3) The Bank has credited Mr. Sagar by ₹ 1,600. the proceeds of a bill.
- (4) Cash collected, on 31st Dec. 2018 totaling ₹ 850 was entered in the Cash Book in the Bank column on the same date but banked on 2.1.2019.
- (5) Mr. Sagar issued cheques totalling ₹ 2,300 in the month of Dec. out of which cheques for ₹ 1,000 have not been presented for payment for payment till 31st Dec.

**Solution :**

#### Bank Reconciliation Statement

Receipt side	Payment side
Particulars	(+ ) Items (Rs.)
(1) Balance as per Adjusted Cash Book (Dr.)	4,680
(2) Cheques paid into the Bank but not Credited by Dec. 31, 2018 (3,100-2,500)	-
(3) Cash collected entered in the Cash Book but not banked.	850
(4) Cheques issued but not presented till date	1,000
<b>Total</b>	<b>5,680</b>
<b>Balance as per Pass Book (5,680 -1,450)</b>	<b>4,230</b>

#### Amended Cash Book (Bank Column only) as on 31st Dec. 2018

Particulars	Rs.	Particulars	Rs.
Top 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

#### 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 Reconciliations statement.
- Entry for the dishonour of the cheques of ₹ 200 is not done.
  - (a) In the Cash Book as it was dishonoured after 31st Dec.
  - (b) In Bank Reconciliation Statement it is included in the adjustment (₹3,100-2,500)

### Methodology Suggested

Teachers are suggested to show the actual Bank Statement to students and the topic can be explained through discussion and Project Method.

1. In the following Bank Reconciliation statement determine the missing amounts”

#### Bank Reconciliation Statement as on .....

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

(a) (₹ 65,000)

(b) (500)

(c) (11,000)

(d) (1,500)

(e) (1,600)

(d) (57,600)

2. Bank Reconciliation statement is prepared by

(a) Debtors of firm

(b) Creditors of firm

(c) Account holder of bank

(d) Bank

3. A Bank reconciliation statement is prepared with the balance of

(a) Pass Book

(b) Cash book

(c) Neither cash book nor pass book

(d) Either cash book or pass book

**4. Unfavorable bank balance means**

- (a) Credit balance in the cash book
- (b) Credit balance in the pass book
- (c) Debit balance in the cash book
- (d) Favorable balance in the cash book

**5. A Bank Reconciliation statement is prepared to .....**

- (2) c (3) d (4) a (5) Reconcile the balance of cash book and pass book.

**Overdraft balance shown by the pass book of Mrs. Nidhi is ₹ 25,000.**

**Prepare Bank Reconciliation statement on December 31, 2018:**

- (i) Bank charges debited as per pass book ₹ 500.
- (ii) Cheques recorded in the cash book but not sent to the bank for collection ₹ 7,000.
- (iii) Received a payment directly from a customer ₹ 7,500.
- (iv) Cheques issued but not presented for payment ₹ 6,840
- (v) Interest debited by the bank ₹ 380.
- (vi) Cheques deposited into bank but not yet collected ₹ 4,750.
- (vii) Interest on investment collected by the bank and credited in the pass book ₹ 700.
- (viii) A bill receivable for ₹ 3,600 previously discounted with the bank had been dishonoured and debited in the pass book.

## CHAPTER 5

# LEDGER AND TRIAL BALANCE

### LEARNING OBJECTIVES

After studying this chapter Students will be able to tell:

- Meaning and Importance of Ledger.
- Format of Ledger.
- Posting from Journal.
- Postings from Cash Book and other Subsidiary Books.
- Closing and Balancing of Ledger Accounts.
- Trial Balance - Meaning, objectives and Preparation.

### LEDGER

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

**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.

### UTILITY OF LEDGER

**To know the collective effect of all the transactions pertaining to one particular account.**

By this classification, we are able to know the following-

- It provides complete information about all accounts.
- It provides position of Assets and Liabilities.
- It facilitates to prepare Trial Balance.

**Important :** Ledger is also called the Principal Book of Accounts or the Book of Final Entry.

#### **Format of Ledger Account**

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

Journal Folio (Jifi) denotes the folio or page number on which journal Entry is written.

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

### Important

- 'To' is written before the A/cs which appear on the debit side of Ledger
- "By" is written before the A/cs appearing on the credit side Ledger.
- Use of these words 'To' and 'By' is optional.
- They do not have any specific meaning in Accountancy.

**Example 1 : Posing of Simple Journal Entry**

On 1st August 2018 goods are sold for cash ₹ 12,000.

**Solution :****Journal Entry**

Date	Particulars	L. F	Dr. (₹)	Cr. (₹)
1 Aug., 2018	Cash A/c Dr. To Sales A/c (For cash sales)		12,000	12,000

**Ledge Account**

Dr. **Cash A/c (an extract)** Cr.

Date	Particulars	J.F	(₹)	Date	Particulars	J.F	(₹)
2018 Aug., 1	To Sales A/c		12,000				

**Sales A/c (an extract)**

Dr. Cr.

Date	Particulars	J.F	(₹)	Date	Particulars	J.F	(₹)
				2018 Aug., 1	To Sales A/c		12,000

**Example 2 : Compound Journal Entry**

Received ₹ 14,000 in full settlement of a debt of Rs. 15,000 from Ram on Aug 8, 2018.

**Solution****Journal**

Date	Particulars	L.F	Dr. (₹)	Cr. (₹)
2018 Aug. 8	Cash A/c Dr. Discount Allowed A/C Dr. To Ram (Cash received and discount allowed)		14,000 1,000	15,000

Ledger A/c

**Cash Account**

Dr. Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2018 Aug. 8	To Ram		14,000				

### Discount Allowed Account

Dr.				Cr.			
Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2018 Aug. 8	To Ram		1,000				

### Ram's Account

Dr.				Cr.			
Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2018				2018	By Cash A/c		14,000
				Aug. 8	By Discount Allowed A/c		1,000

### Case II : Ledger Postings from Cash Book

#### Important Points

- (1) Cash Book itself serves as a cash A/c also, therefore when cash book is maintained, cash A/c is not opened in the ledger.
- (2) When Bank column is maintained in the Cash Book, Bank A/c is also not opened in the ledger. The Bank column itself serves the purpose of Bank A/c.
- (3) Opening and closing balances of Cash Book will not be entered in the ledger.
- (4) As Cash Book serves the purpose of Cash/Bank A/c, it means that, only the second A/c (other than Cash A/c or Bank A/c) is to be opened in the ledger and posting is to be made for each entry in the Cash Book.

#### Rules of Posting

##### (a) Posting from the Debit Side of Cash Book

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

By 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 them into ledger Accounts.

**Double Column Cash Book**

Dr.

Cr.

Date	Particulars Vr.	L.F	Cash (Rs.)	Bank (Rs.)			L.F	Cash (Rs.)	Bank (Rs.)
2018 Jan 10	To Capital A/c	C	40,000	-	2018 Jan. 12	By Purchases A/c	C	5,000	-
Jan 15	To Cash A/c		-	10,000	Jan. 15	By Bank A/c		10,000	-
Jan 22	To Sales A/c		3,000	-	Jan. 25	By Sumit		-	4,500
Jan 28	To Anil		-	2,900	Jan. 31	By Balance C/d		28,000	8,400
			43,000	12,900				43,000	12,900

**Solution:**

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

**Capital Account**

Dr.

Cr.

Date	Particulars	J.F.	Amt. ₹	Date	Particulars	J.F.	Amt. ₹
				2018 Jan. 10	By Cash A/c		40,000

**Sales Account**

Dr.

Cr.

Date	Particulars	J.F.	Amt. ₹	Date	Particulars	J.F.	Amt. ₹
				2018 Jan. 22	By Cash A/c		3,000

**Anil's Account**

Dr.

Cr.

Date	Particulars	J.F.	Amt. ₹	Date	Particulars	J.F.	Amt. ₹
				2018 Jan. 28	By Bank A/c		2,900

### Purchase Account

Dr.				Cr.			
Date	Particulars	J.F.	₹	Date	Particulars	J.F.	Amt. ₹
2018 Jan. 12	To Cash A/c		5,000				

### Sumits

Dr.				Cr.			
Date	Particulars	J.F.	₹	Date	Particulars	J.F.	Amt. ₹
2018 Jan., 25	To Bank A/c		45,00				

**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 Purchase Book** will be posted to the **Debit side of Purchase A/c** and the words **"To Sundries as per Purchase Book"** will be written in the particulars column.
2. Each of the **Supplier's A/c** will be **Credited** and the words. "By Purchases A/c" will be written in the particulars column.

**Example :**

### Purchases Book

Date	Particulars	Inv. No.	L.F.	Detail (₹)	Total Amount (₹)
2018 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)	9600
June 30	Purchases A/c Dr.				35,600

Solution : **LEDGER A/cs**

**Purchases Account**

Dr.

Cr.

Date	Particulars	J.F.	Amt. ₹	Date	Particulars	J.F.	Amt. ₹
2018 Jun. 30	To Sundries as Per Purchases Book		35,600				

**Sahil & Co. (Supplier)**

Dr.

Cr.

Date	Particulars	J.F.	Amt. ₹	Date	Particulars	J.F.	Amt. ₹
				2018 June 4	By Purchases A/c		10,000

**Geeta Industries (Supplier)**

Dr.

Cr.

Date	Particulars	J.F.	Amt. ₹	Date	Particulars	J.F.	Amt. ₹
				2018 June 14	By Purchases A/c		16,000

**Vijay & Co. (Supplier)**

Dr.

Cr.

Date	Particulars	J.F.	Amt. ₹	Date	Particulars	J.F.	Amt. ₹
				2018 June 26	By Purchases A/c		9,600

**CASE IV :** Ledger Posting 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 Posting from Purchase Return Book

Journal Entry for purchase Return is

Personal A/C of Supplier

Dr.

To Purchase Returns A/c

Hence the **rules for posting** are

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

**Case VI:** Ledger Postings of Sales Returns Book. Journal Entry for the sales Return is -

Sales Returns A/c

Dr.

To Customer

Hence the Rules for Posting are

1. Individual Customer's A/cs by whom the goods are returned are Credited by writing the word "By Sales Return A/c."
2. The total of the Sales Returns Book is posted to the Debit of Sales Returns A/c by writing the words. "To Sundries as per Sales Returns Book".

### CLOSING AND BALANCING OF ACCOUNT

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

1. Debit and Credit sides of each A/c are totalled.
2. The **difference between the two sides is inserted** on the **side which is shorter** so as to make their totals equal.
3. The words 'Balance c/d i.e., the balance carried down and written against the amount of difference.
4. In the next period, the balance is brought down on the other side by writing the words 'Balance b/d'.
5. If the **Debit side exceeds the Credit Sides**, the difference is a **Debit Balance**.
6. If the **Credit side exceeds the Debit side**, the difference is a **Credit Balance**.

#### Important

1. **Debit Balance** of a Personal A/c means the person is a Debtor of the firm whereas Credit Balance of a Personal A/c indicates that the person is a Creditor of the firm.
2. **Real A/cs** (which include Cash and all other Assets A/cs) will usually show Debit Balances.

3. **Nominal A/cs** (A/cs of Income and Expenses) are closed by transferred to **Trading and Profit and Loss A/c of the firm** at the end of the Accounting Period.
4. **Debit Balance of any A/c means** an **Asset** or an **Expense** whereas **Credit Balance** means a **liability, Capital or Revenue**.

### TRIAL BALANCE

- I. **Meaning** : When posting of all the transactions into the Ledger is completed and accounts are balanced off, then the balance of each account is put on a list called Trial Balance.
- II. **Definition** : Trial Balance is the list or statement of debit and credit balances taken out from ledger. "It also includes the balances of Cash and bank taken from the Cash Book".

It is based upon Dual Aspect Concept.

- 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 tallied. If they are equal it is assumed that there is no arithmetical error in the posting and balancing of Ledger A/cs.

It also means that both aspects of transaction have been recorded in the correct side of ledger accounts.

- (5) Matching of two sides of Trial Balance does not mean that recording of transaction is free from errors.
- (6) Always Remember
 

Debit Balance = Assets, Drawings, Debtors, Expenses and losses.

Credit Balances = Liabilities, Capital, Creditors, incomes and Gains.

### 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 Accounts.
- Helps in the preparation of Final Accounts.

**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, 2018.

- Jun.1      **Assets :** Cash in hand ₹ 50,000: **Debtors :** Amit and Co. ₹ 15,000, Sumit Bros, ₹ 30,000, Stock ₹ 1,75,000, Machinery ₹ 1,20,000, Furniture 40,000.
- Liabilities :** Bank overdraft ₹ 33,000. Creditors : Virat and Co. Rs. 24,000, Vishal ₹ 16,000.
- Jun. 2      Purchased from Ramesh and Sons goods of the list price of ₹ 20,000 at 10% trade discount.
- Jun. 5.      Returned to Ramesh & Sons goods of the list price of ₹ 2,000.
- Jun. 10      Issued a cheque to Ramesh and Sons in full settlement of their account.
- Jun. 12      Sold to Amit and Co., goods worth ₹ 25,000.
- Jun. 15      Received cash ₹ 10,000 and cheque for ₹ 8,000 from Amit and Co. The cheque was immediately deposited into the bank.
- Jun. 16      Withdraw for personal use cash ₹ 5,000 and goods for ₹ 3,000.
- Jun. 19      Sold to Mohit Bros., goods for ₹ 16,000.
- Jun. 20      Cash purchases ₹ 15,000.
- Jun. 22      Withdraw from bank for office use ₹ 10,000.
- Jun. 23      Purchased from Vishal goods valued Rs. 24,000.
- Jun. 24      Amit and Co. returned goods worth Rs. 2,000.
- Jun. 25      Received from Mohit Bros. Rs. 10,000.
- Jun. 27      Paid by cheque. Rent Rs. 2,800.
- Jun. 27      Received Commission in Cash ₹ 800.
- Jun. 30      Paid salaries ₹ 5,000.

### Cash Book (with cash and Bank Columns)

Dr.

Cr.

Date	Particulars (Receipts) Vr. No	L.F	Cash ₹	Bank ₹	Date	Particulars (Payments) Vr. No	L.F	Cash ₹	Bank ₹
2018			(₹)	(₹)	2018			(₹)	(₹)
June 1	To Balance b/d		50,000	-	June 1	By Balance b/d		-	33,000
June 15	To Amit & Co.		10,000	8,000	June 10	By Rames & Sons		-	16,200
June 22	*To Bank A/c	C	10,000	-	June 16	By Drawings A/c		5,000	-
June 25	To Mohit Brothers		10,000	-	June 20	By Purchases A/c		15,000	-
June 27	To Commission A/c		800	-	June 22	*By Cash A/c	C	-	10,000
					June. 27	By Rent A/c		-	2,800
June 30	To Balance C/d		-	54,000	June 30	By Salaries A/c		5,000	-
					June 30	By Balance C/d		55,800	-
	Total		80,800	62,000		Total		80,800	62,000
July 1	To Balance b/d		55,800	-	July 1	By Balance b/d (Bank overdraft)		-	54,000

#### Note :

- Entries marked with \*will not be posted anywhere in the ledger.
- Closing Balances of Cash and Bank will be shown in the Trial Balance.
- All other A/cs shown in the Debit side will be credited & All other A/cs shown in the Credit side will be debited.

### Purchase Book

Date	Name of the Supplier (Account to be Credited)	Inv. No	L. F.	Detail (₹)	Total Amount (₹)
2018					
June 2	Ramesh & Sons			20,000	
	Less Trade Discount 10%			2,000	18,000
June 23	Vishal				24,000
June 30	Purchases A/c Dr.				42,000

### Sales Book

Date	Name of the Supplier (Account to be Credited)	Inv. No.	L.F.	Details (₹)	Total Amount (₹)
2018					
June 12	Amit & Co.				25,000
June 19	Mohit Bros.				16,000
June 30	Sales A/c Cr.				41,000

2018

### Sales Return Book

Date	Name of the Supplier (Account to be Credited)	Inv. No.	L.F.	Detail (₹)	Total Amount (₹)
2018 June 24	Amit & Co.				2,000
June 30	Sales Return A/c Dr.				<b>2,000</b>

### Purchase Return Book

Date	Name of the Supplier (Account to be Credited)	Inv. No.	L.F.	Detail (₹)	Total Amount (₹)
2018 June 5	Ramesh & Sons			2,000	
	Less Trade Discount 10%			200	1,800
June 30	Purchases Return A/c Cr.				<b>1,800</b>

### Posting of opening Entries :

1. First of all opening Journal Entry is done in the Journal proper.
2. All Assets A/cs are Debited and Liabilities A/cs are Credited. Difference between the totals of the two sides is the Capital.

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

### Journal Proper

Date	Particulars	L.F.	Amount. Dr.	Cr. Rs. Cr.
2018 June 1	Cash A/c Dr		50,000	
	Amit & Co. Dr		15,000	
	Sumit Brothers Dr		30,000	
	Stock A/c Dr		1,75,000	
	Machinery A/c Dr		1,20,000	
	Furniture A/c Dr		40,000	
	To Bank (Overdraft) A/c			33,000
	To Virat & Co.			24,000
	To Vishal			16,000
	To Capital A/c (Balancing fig) (opening Balances, brought forward from the previous years books)			3,57,000
June 16	Drawings A/c Dr.		3,000	
	To Purchases A/c (Goods withdrawn for personal use)			3,000

**Ledger Accounts**  
**Amit & Co.**

Dr.				Cr.			
Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
2018				2018			
Jun. 1	To Balance b/d		15,000	June 15	By Cash A/c		10,000
Jun. 12	To Sales A/c		25,000	June 15	By Bank A/c		8,000
				June 24	By Sale		2,000
					Return A/c		
				June 30	By Balance c/d		20,000
			<b>40,000</b>				<b>40,000</b>
July 1	To Balance b/d*		20,000				

**Sumit & Co.**

Dr.				Cr.			
Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
2018				2015			
June 1	To Balance b/d*		30,000				

**Stock Account**

Dr				Cr.			
Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
2018				2018			
June 1	To Balance b/d*		1,75,000				

**Machinery Account**

Dr.				Cr.			
Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
2018				2018			
June 1	To Balance b/d		1,20,000	June 30	By Balance c/d		1,20,000
			<b>1,20,000</b>				<b>1,20,000</b>
July 1	To Balance b/d'		1,20,000				

### Furniture Account

Dr.

Cr.

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
2018 June 1	To Balance b/d		40,000	2018 June 30	By Balance c/d		40,000
			40,000				40,000
July 1	To Balance b/d		40,000				

### Virat & Co.

Dr.

Cr.

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
				2018 June 1	To Balance b/d		24,000

### Vishal's A/C

Dr.

Cr.

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
2018 Jun. 30	To Balance cid		40,000	2018 June 1	By Balance b/d		16,000
			40,000	June 23	By Purchases A/c		24,000
				July 1	By Balance bid'		40,000

### Capital Account

Dr.

Cr.

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
2018 Jun. 30	To Balance c/d		3,57,000	2015 June 1	By Balance b/d		3,57,000
			3,57,000				3,57,000
				July 1	By Balance b/d		3,57,000

### Drawing Account

Dr.

Cr.

Date	Particulars	J. F.	(₹)	Date	Particulars	J.F	(₹)
2018				2018			
Jun. 16	To Cash Ac		5,000	June 30	By Balance b/d		8,000
Jun. 16	To Purchases A/c		3,000				
			8,000				8,000
July 1	To Balance b/d'		8,000				

### Ramesh & Sons

Dr.

Cr.

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
2018				2018			
June 5	To Purchase		1,800	June 2	By Purchase A/c		18,000
	Return A/c						
June 10	To Bank A/c		16,200				
			18,000				18,000

### Purchase Account

Dr.

Cr.

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
2018				2018			
Jun. 20	To Cash Ac		15,000	June 16	By Drawing A/c		3,000
Jun. 30	To Sundries as per Purchase Book		42,000	July 30	By Balance c/d		54,000
			57,000				57,000
July 1	To Balance b/d'		54,000				

### Mohit Brothers

Dr.

Cr.

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
2018				2018			
Jun. 19	To Sales A/c		16,000	June 25	By Cash A/c		10,000
				June 30	By Balance c/d		6,000
			16,000				16,000
July 1	To Balance b/d'		6,000				

### Rent Account

Dr.

Cr.

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
2018 Jun. 27	To Bank A/c		2,800	2018 June 30	By Balance c/d		2,800
Jun. 30	To Balance b/d*		2,800				

### Commission Account

Dr.

Cr.

Date	Particulars	J.F.	(₹)	Date	Particular	J.F.	(₹)
				2018 June 27	By Cash A/c		800

### Salaries Account

Dr.

Cr.

Date	Particulars	J.F.	(₹)	Date	Particular	J.F.	(₹)
2018 Jun. 30	To Cash A/c		5,000				

### Sales Account

Dr.

Cr.

Date	Particulars	J.F.	(₹)	Date	Particular	J.F.	(₹)
				2018 June 30	By Sundries as per Sales Book		41,000

### Sales Return Account

Dr.

Cr.

Date	Particulars	J.F.	(₹)	Date	Particular	J.F.	(₹)
2018 Jun. 30	To Sundries as per Sales Return Book		2,000				

### Purchase Return Account

Dr.

Cr.

Date	Particulars	J.F.	(₹)	Date	Particular	J.F.	(₹)
				2018 June 30	By Sundries as per Purchase Return Book		1,800

**Trial Balance**  
**As on 30th June, 2018**  
**(From balances of each ledges accounts)**

Name of the Accounts	L.F.	Debit Balance ₹	Credit Balances ₹
Cash A/c		55,800	
Bank (overdraft) A/c			54,000
Amit & Co.		20,000	-
Stock A/c		1,75,000	
Machinery A/c		1,20,000	
Furniture A/c		40,000	-
Capital A/c		-	3,57,000
Drawings A/c		8,000	-
Purchases A/c		54,000	-
Mohit Brothers		6,000	-
Rent A/c		2,800	
Commission A/c			800
Salaries A/c		5,000	
Sales A/c		-	41,000
Sales Return A/c		2,000	
Purchase Return A/c			1,800
Sumit Brothers		30,000	
Virat & Co.		-	24,000
Vishal		-	40,000
Total		5,18,600	5,18,600

**Suspense Account :**

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

Suspense Account is used for rectifying one sided errors which affect the trail Balance to match.

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

Example :

**Trial Balance**

S. No.	Dr. Balance Total (₹)	(Cr) Balance Total (₹)	Difference (₹)	Posted to the Suspense A/c
1.	2,25,00	2,16,500	8,500 (Excess Debit)	Credit Side of Suspense A/c
2.	2 16,500	2,25,000	8,500 (Excess Credit)	Debit Side of Suspense A/c

**Closing of Suspense Account**

- 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 Balance Sheet.
  - (b) Credit Balance of Suspense Account is shown in the Liability Side of the Balance Sheet.

# CHAPTER-6

## DEPRECIATION, PROVISIONS AND RESERVES

### LEARNING OBJECTIVES

After studying this lesson you will be able to:

- State the meaning and concept of depreciation.
- Explain the need and factors affecting depreciation.
- Explain the methods of charging depreciation.
- Find the amount of depreciation using different methods.
- Show the Accounting Treatment of Depreciation.
- State the meaning of Provisions and Reserve
- Differentiate between Provision and Reserve.

### Teaching Methods

Discussions, Brainstorming etc. Teachers are advised to use various examples of real life context of the students to clear the concept of depreciation.

### Depreciation : Concept

Fixed assets are held on a long term basis and used to generate periodic revenue. That portion of assets, which is believed to have been consumed or expired to earn the revenue, needs to be charged as cost. Such an appropriate proportion of the cost of fixed assets is called Depreciation.

Business enterprises require fixed assets such as furniture and fixtures, office equipments, plant and machinery, motor vehicles, land and building etc. for their business operation. In the process of converting **Raw material into finished products, the fixed assets depreciate in value over a period of time, i.e. its useful life.**

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

According to accounting standard - 6 (Revised) issued by the ICA "Depreciation is a measure of wearing out, consumption or other loss of value of a depreciable asset arising from use, effusion of time or

obsolescence through technology and market changes. Depreciation is allocated so as to charge a fair proportion of the depreciable in each accounting period-during the expected useful life of the asset. Depreciation includes amortization of assets whose useful life is predetermined.

### **Some Important Terms**

1. **Obsolescence :-** When a fixed tangible asset becomes useless or unwanted due to new invention.
2. **Amortization :-** The term amortization is used for writing off intangible assets such as goodwill, copyright, patents, etc.
3. **Depletion :-** The term depletion is used in relation to decreasing the value of wasting assets or natural resources such as mines, oil wells, timber trees & fishing etc. due to the continuous removal or extraction of things.

### **Need or objectives of providing Depreciation**

1. **Ascertaining true profit or loss :**
  - (i) The true profit of an enterprise can be ascertained when all costs incurred for the purpose of earning revenues have been debited to the profit and loss account.
  - (ii) Fall in the value of assets used in business operations is a part of the cost and should be shown in the profit and loss account of concerned accounting period.
  - (iii) Keeping this in view, depreciation must be debited to profit & loss account, since loss in value of fixed assets is also an expense like other expenses.
2. **Presentation of True and Fair value of assets :** If depreciation is not provided, the value of assets shown in the Balance sheet will not present the true and fair value of assets because assets are shown at the cost price but actual value is less than cost price of the assets.
3. **To ascertain the accurate cost of the Production :** Depreciation is an item of expense, the correct cost of production cannot be calculated unless it is also taken into consideration. Hence, depreciation must be provided to ascertain the correct cost of production.

**4. Computation of correct income tax:**

- (i) Income tax of an enterprise is determined after charging all the costs of production.
- (ii) If depreciation is not charged, the profits will be higher and the income tax will also be higher.
- (iii) If depreciation is charged, Tax liability is reduced.

**5. Provision of funds and replacement of assets:**

Depreciation is a non cash expense. So the amount of depreciation charged to profit & loss account is retained in business every year. These funds are available for replacement of the assets when its useful life is over.

**Methods of providing depreciation**

**1. Straight line method**

- (i) This method is also known as 'original cost method'
- (ii) Under this method, depreciation is charged at fixed percentage on the original cost of the asset, throughout its estimated life.
- (iii) Under this method, the amount of depreciation is uniform from year to year. That is why this method is also known as 'Fixed Installment Method' or 'Equal installment method'.

**Calculation of the amount of depreciation:**

- (a) When Estimated life of asset and scrap value are given:

$$\text{Annual Depreciation} = \frac{\text{Original Cost} - \text{Estimated scrap value}}{\text{Estimated Life in year}}$$

For examples : A firm purchases a machine for Rs. 2,25,000 on April 1, 2018. The expected life of this machine is 5 years. After 5 years the scrap of this machine would be realized Rs. 25,000. Under straight line method, the amount of depreciation can be calculated as under :

$$\begin{aligned}\text{Annual Depreciable} &= \frac{2,25,000 - 25,000}{5} \\ &= ₹ 40,000\end{aligned}$$

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

- (b) When the Rate of depreciation is given:

Annual Depreciation =

$$\frac{\text{Original cost of asset} \times \text{Rate of Depreciation}}{100}$$

For Example: A firm purchases a machine for ₹ 2,00,000 on Oct 1, 2017. If depreciation is charged @ 10% P.a. on original cost method and accounts are closed on 31st March every year, the amount of depreciation can be calculated for 2017-18 and 2018-19 as under:

**2017-18**

$$\text{Depreciation} = 2,00,000 \times \frac{10}{100} \times \frac{6}{12} = ₹ 10,00,00$$

Since the usage of asset is from (Oct-March) 2017, the depreciation is calculated for 6 months.

**2018-19**

$$\text{Depreciation} = 2,00,000 \times \frac{10}{100} = ₹ 20,00,00$$

2. **Diminishing balance method** : Under this method, depreciation is charged as a fixed percentage on the book value of the asset every year. In first year the depreciation will be charged at the end of the year, on the total cost the asset.

**Example:** A machine is purchase for ₹ 2,00,000 on April 1.2015. It is decided to charge depreciation on this machine @ 10% p.a. The amounts of depreciation for first four years by using both the methods (**Straight line method and Diminishing balance method**) are shown as under :

Year	Book Value	Dep. @ 10%	Book Value	Dep. @ 10%
2015-16	20,000	2,000	20,000	2,000
2016-17	18,000 (20,000 - 2,000)	2,000	18,000 (20,000 - 2,000)	1,800
2017-18	16,000 (18,000 - 2,000)	2,000	16,200 (18,000 - 1,800)	1,620
2018-19	14,000 (16,000 - 2,000)	2,000	14,580 (16,200 - 1,620)	1,458

Hence, in Straight Line method, amount of depreciation is same but in Diminishing Balance Method amount of depreciation goes on decreasing every year. Depreciation can be recorded by crediting it to the Assets account.

Difference Between Straight line Method and written down value method of charging depreciation

Basis	Straight Lime Method	Diminishing Balance Method
Charge	Calculated on the original the original cost of the asset	Calculated on reducing balance of fixed asset
Amount	Remains the same	Reduces year after year
Zero Balance	Zero Balance in Asset Account, at the expiry of the working life	The Asst Account balance never reduces to zero.
Suitability	For assets which get depreciated on account of expiry of working life of asset.	For assets which require more repairs in the later years due to wear and tear.

**Illustration 1:** On January 1, 2016, 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 diminishing balance method. Books are closed on December 31st each year. Show Machinery Account for the year 2016 to 2018.

**Solution :**

### Machinery Account

Dr.				Cr.			
Date	Particulars	J.F		Date	Particulars	J.F	₹
2016				2016			
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
2017				2017			
Jan. 1	To Balance b/d		90,000	Dec. 31	By Depreciation A/c		9,000
			90,000	Dec. 31	By Balance c/d		81,000
							90,000
2018				2018			
Jan. 1	To Balance c/d		81,000	Dec. 31	By Depreciation A/c		8,100
			81,000	Dec. 31	By Balance c/d		72,900
							81,000

**Illustration 2 :** On the basis of information given in Illustration I, Show machinery Account for the year 2016 to 2018 if depreciation is charged @ 10% on straight line method.

**Solution :**

### Machinery Account

Dr.

Cr.

Date	Particulars	J.F.	Rs.	Date	Particulars	J.F.	₹
2016				2016			
Jan. 1	To Bank A/c		90,00	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
2017				2017			
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
2018				2018			
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 3 :** On April 1, 2017 Kannu bought Machinery costing ₹80,000. On July 1, 2018 Machinery was sold for ₹40,000. Prepare Machinery Account from April, 1 2017 till July 1. 2019 assuming depreciation was charged @ 10% per annum on March 31, every year on the basis of Original cost method.

**Solution :**

### Machinery Account

Dr.

Cr.

Date	Particulars	J.F.		Date	Particulars	J.F.	
2017				2018			
Apr. 1	To Bank A/c		80,000	Mar. 31	By Depreciation A/c		8,000
				Mar. 31	By Balance c/d		72,000
			80,000				80,000

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2018 Apr. 1	To Balance b/d		72,000	2018 Mar. 31	By Depreciation A/c		8,000
				Mar. 31	By Balance cid		64,000
			<b>72,000</b>				<b>72,000</b>
2019 Apr. 1	To Balance b/d		64,000	2019 July 1	By Bank A/c		40,000
				July 1	By Depreciation A/c		2,000
				July 1	By Loss on sale of Machinery A/c		22,000
			<b>64,000</b>				<b>64,000</b>

#### Illustration 4

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

#### Solution

#### Machinery Account

Dr.

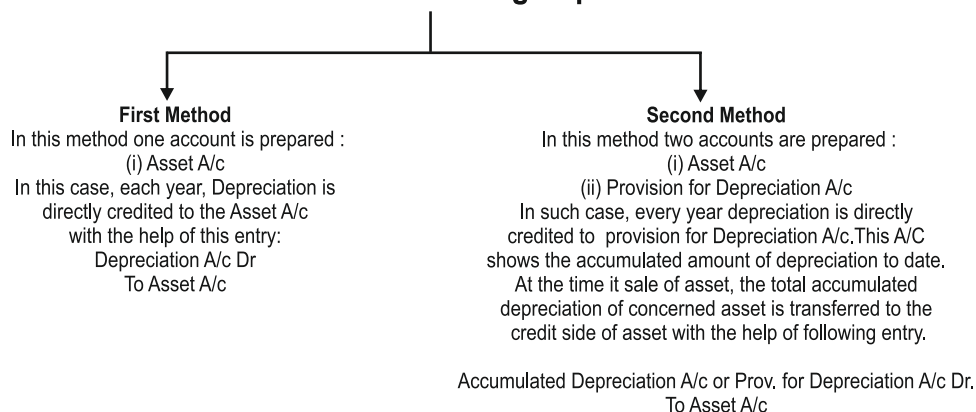
Cr.

Date	Particulars	J.F.	₹	Date	Particulars	₹
2017 April 1	To Bank A/c		80,000	2018 Mar. 31	By Depreciation A/C	12,000
				Mar. 31	By Balance C/d	68,000
			<b>80,000</b>			<b>80,000</b>
2018 April 1	To Balance b/d		68,000	2019 Mar. 31	By Depreciation A/c	10,200
2019 April 1	To Balance b/d		<b>68,000</b>	Mar. 31	By Balance c/d	57,800
						<b>68,000</b>
			57,800	2019 Jul. 1	By Bank A/c	40,000
			<b>57,800</b>	Jul. 1	By Depreciation A/c	2168
				Jul. 1	By Loss on Sale	15,632
				Jul. 1	of Machinery	<b>57,800</b>

There is another treatment for charging Depreciation. In this treatment, Provision for Depreciation Account is opened and depreciation is charged in this account instead of Asset Account.

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

## Methods of Recording Depreciation



### Illustration 5 :

Vinod limited purchased a machine for ₹ 2,50,000 including installation cost on January 1, 2016. On October 1, 2018, machine was sold for ₹1,50,000. Depreciation was provided @ 10% p.a. on Fixed Installment method and accounts are closed on December 31, each year.

Show the Machinery Account and Provision for Depreciation Account for the year. 2016 to 2018.

### Solution :

#### Machinery Account

Dr.				Cr.			
Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2016 Jan. 1	To Bank A/c		2,50,000	2016 Dec. 31	By Balance c/d		2,50,000
			2,50,000				2,50,000
2017 Jan. 1	To Balance b/d		2,50,000	2017 Dec. 31	By Balance c/d		2,50,000
			2,50,000				2,50,000
2018 Jan. 1	To Balance b/d		2,50,000	2018 Oct. 1	By Provision for Dep. A/c		68,750
				Oct. 1	By Bank A/c		1,50,000
				Oct. 1	By Profit & Loss A/c		31,250
			2,50,000				2,50,000

### Provision for Depreciation Account

Dr.

Cr.

Date	Particulars	J.F.	₹	Date	Particulars	₹
2016 Dec. 31	To Balance c/d		25,000	2016 Dec. 31	By Depreciation A/C	25,000
			<b>25,000</b>			<b>25,000</b>
2017 Dec. 31	To Balance c/d		50,000	2017 Jan. 1	By Balance b/d	25,000
			<b>50,000</b>	2017 Dec. 31	By Depreciation a/c	25,000
						<b>50,000</b>
2018 Oct. 1	To Machinery a/c		68,750	2018 Jan. 1	By Balance b/d	50,000
			<b>68,750</b>	2018 Oct. 1	By Depreciation A/c	18,750
						<b>68,750</b>

**Notes:** Total Depreciation charged on Machinery from Jan 1, 2016 to Oct. 1, 2018 : ₹ 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

Dr.

Cr.

Date	Particulars	J.F.		Date	Particulars	J.F.	
2016 Jan. 1	To Bank A/c		2,50,000	2016 Dec. 31	By Balance c/d		2,50,000
			<b>2,50,000</b>				<b>2,50,000</b>
2017 Jan. 1	To Balance b/d		2,50,000	2017 Dec. 31	By Balance c/d		2,50,000
			<b>2,50,000</b>				<b>2,50,000</b>
2018 Jan. 1	To Balance b/d		2,50,000	2018 Oct. 1	By Provision for Dep. A/c		1,14,000
2018 Oct. 1	To Profit & Loss A/c		14,000	2018 Oct. 1	By Bank A/c		1,50,000
			<b>264,000</b>				<b>264,000</b>

### Provision for Depreciation Account

Dr.

Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2016 Dec. 31	To Balance c/d		50,000	2016 Dec. 31	By Depreciation a/c		50,000
			50,000				50,000
2017 Dec. 31	To Balance c/d		90,000	2017 Jan. 1	By Balance b/d		50,000
			90,000	2017 Dec. 31	By Depreciation a/c		40,000
							90,000
2018 Oct. 1	To Machinery		1,14,000	2018 Jan 1	By Balance b/d		90,000
			1,14,000	2018 Oct. 1	By Depreciation a/c		24,000
							1,14,000

**Note :** Total Depreciation charged on Machinery from Jan. 1, 2016 to Oct. 1, 2018: ₹ 50,000 + ₹ 40,000 + 24,000 = ₹ 1,14,000

#### Illustration 7 :

A Company purchased a machine for Rs. 40,000 on April 1, 2017. On October 1, 2018 it was sold for Rs. 13,000. The company charges depreciation @ 10% p.a. on straight line method.

Show Machinery Account, Provision for Depreciation Account and Machinery Disposal account if books are closed on March 31 each year.

#### Machinery Account

Dr.

Cr.

Date	Particulars	J. F.	₹	Date	Particulars	J. F.	₹
2017 Apr. 1	To Bank A/c		40,000	2018 Mar. 31	By Balance c/d		40,000
			40,000				40,000
2018 Apr. 1	To Balance b/d		40,000	2019 Oct. 1	By Machinery Disposal A/c		40,000
			40,000				40,000

### Provision for Depreciation Account

Dr.

Cr.

Date	Particulars	J. F.	₹	Date	Particulars	J. F.	₹
2018 Mar. 31	To Balance c/d		4,000	2018 Mar. 31	By Depreciation A/c		4,000
			4,000				4,000
2018 Oct 31	To Machinery Disposal A/c		6,000	2018 Apr. 1	By Balance b/d		4,000
			6,000	Oct. 1	By Depreciation A/c		2,000
							6,000

### Machinery Disposal Account

Dr.

Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2018 Oct. 1	To Machinery A c		40,000	2018 Oct. 1	By Prov. For Dep. A/c		6,000
					By Cash A/c		13,000
					By profit & loss A/c		21,000
			40,000				40,000

**Note :** Total Depreciation charged on Machine : ₹ 4,000 + ₹ 2,000 = ₹ 6,000

#### Illustration 8 :

On Oct. 1, 2016, Arora Auto Limited Purchased Furniture for ₹1,00,000 and spent ₹ 4,000 towards its installation. On July 1, 2017, the Furniture was disposed off ₹59,820 and on the same day furniture costing ₹1,60,000 were purchased.

Show the Furniture Account, Provision for Depreciation Account and Furniture Disposal Account for the year 2016–17 and 2017–18 and 2018-19 if the rate of Depreciation is 15% per annum by Diminishing Balance method and accounts are closed on 31st march of every year.

**Solution :**

**Furniture Account**

Dr.

Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2016				2017			
Oct. 1	To Bank A/c		1,00,000	Mar. 31	By Balance c/d		1,04,000
Oct. 1	To Bank A/c		4,000				
			<b>1,04,000</b>				<b>1,04,000</b>
2017				2017			
Apr. 1	To Balance bid		1,04,000	Jul. 1	By Furniture Disposal A/c		1,04,000
Jul. 1	To Bank A/c		1,60,000	2018	By Balance c/d		1,60,000
			<b>2,64,000</b>	Mar. 31			<b>2,64,000</b>
2018				2019			
Apr. 1	To Balance b/d		1,60,000	Mar. 31	By Balance c/d		1,60,000
			<b>1,60,000</b>				<b>1,60,000</b>

**Provision for Depreciation Account**

Dr.

Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2017				2017			
Mar. 31	To Balance c/d		7,800	Mar. 31	By Depreciation A/c		7,800
			<b>7,800</b>				<b>7,800</b>
2017				2017			
Jul. 1	To Furniture Disposal A/c		11,408	Apr. 1	By Balance b/d		7,800
2018					By Depreciation A/c		3,608
Mar. 31	To Balance c/d		18,000	2018	By Depreciation A/c		18,000
			<b>29,408</b>	Mar. 31			<b>29,408</b>
2019				2018			
Mar. 31	To Balance c/d		39,300	1 Apr.	By Balance b/d		18,000
			<b>39,300</b>	2019	By Depreciation A/c		21,300
				Mar. 31			<b>39,300</b>

### Furniture Disposal Account

Dr.

Cr.

Date	Particulars	J. F.	₹	Date	Particulars	J.F.	₹
2017 Jul. 1	To Furniture Ac		1,04,000	2017 Jul 1	By Prov. For Dep. A/c		11,408
					By Bank A/c		59,820
					By profit & loss A/c		32,772
			<b>1,04,000</b>				<b>1,04,000</b>

**Note :** Total Depreciation charged on Machinery sold : ₹ 7,800 + ₹ 3,608 = ₹ 11,408.

#### Illustration 9 :

A firm purchased on 1st January, 2016 certain Machinery for ₹ 5,82,000 and spent ₹ 18, 000 on its erection. On 1st July, 2016, additional machinery costing ₹ 2,00,000 was purchased. On 1st July, 2018, the machinery purchased on 1st January, 2016 was auctioned for ₹ 2,86,000 and a fresh machinery for ₹ 4,00,000 was purchased on same date. Depreciation was provided annually on 31st December at the rate of 10% on written down value method. Prepare Machinery account from 2010 to 2018.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2016 Jan. 1	To Bank A/c (i)		6,00,000	2016 Dec. 31	By Depreciation A/C		
2016 July 1	To Bank A/c (ii)		2,00,000		(i) $(600,000 \times 10/100)$ = 60000		
					(ii) $(200,00 \times 10/100 \times 6/12) = 10000$		
				2016 Dec. 31	By Balance c/d (5,40,000+1,90,000)		70,000
							7,30,000
			<b>8,00,000</b>				<b>8,00,000</b>
2017 Jan. 1	To Balance b/d (5,40,000+1,90,000)		<b>7,30,000</b>	2017 Dec. 31	By Depreciation A/c		
					(i) $(5,40,000 \times 10/100)$ 54,000		
					(ii) $(1,90,000 \times 10/100)$ 19,000		
				2017 Dec.31	By Balance c/d (4,86,000+1,71,00)		73,000
							6,57,000
							<b>7,30,000</b>
2018 Jan.1	To Balance b/d (4,86,000+1,71,000)		<b>7,30,000</b>	2018 July 1	By Bank A/c (Sale)		2,86,000
2018 July 1	To Bank A/c (iii)		4,00,000				

					By Dep. (4,86,000x 10/100x6/12)		24,300
					By P & L A/c (loss)		1,75,700
				Dec. 31	By Dep. A/c		
					(ii) (1,71,000x10/100)		17,100
					(iii) (400,000x10/100x 6/12)20,000		37,100
					By Balance c/d		5,33,900
			10,57,000				<b>10,57,000</b>

#### Working Notes :

Cost of 1st Machine = ₹ 5,82,000 + ₹ 18,000 = ₹ 6,00,000 Profit/Loss on sale of 1st

Loss on Sale of 1st Machine = Book Value – Sale Value

(₹ 4,86,000 – ₹ 24,300) ₹ 4,61,700 – ₹ 2,86,000 = ₹ 1,75,700

#### Illustration 10 :

The following balances appear in the books of Sankalp on 01-01-2015

Machinery A/c Rs. 8,00,000

Provision for Depreciation a/c Rs. 3,18,000

On 01-01-2018 they decided to sell a machine for Rs. 34,500. This machine was purchased for Rs. 1,20,000 on 01-01-2014.

Show the machinery A/c, Provision for Depreciation A/c for the year ended December 31, 2018 assuming that depreciation was charged at 10% p.a. on Written Down value method.

#### Machinery Account

Dr.

Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2018				2018			
Jan. 1	To Balance b/d		8,00,000	Jan. 1	By Bank A/c		34,500
				Jan. 1	By Provision for Depreciation A/c		41,268
				Jan. 1	By Profit & Loss A/c		44,232
				Dec. 31	By Balance c/d		6,80,000
			<b>8,00,000</b>				<b>8,00,000</b>

### Provision for Depreciation Account

Dr.

Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2018				2018			
Jan. 1	To Machinery A/c		41,268	Jan. 1	By Balance b/d		3,18,000
Dec. 31	To Balance A/c		3,17,095	Dec. 31	By Depreciation A/c		40,363
			<b>3,58,363</b>				<b>3,58,363</b>

Working Notes

#### Depreciation charged on Sold Machinery

Cost of the Machinery on 01-01-2014	1,20,000
Less : Depreciation on 31-12-2014	-12,000
Book Value on 01-01-2015	1,08,000
Less Depreciation on 31-12-2015	-10,800
Book Value on 01-01-2016	97,200
Less : Depreciation on 31-12-2016	-9,720
Book Value on 01-01-2017	87,480
Less : Depreciation on 31-12-2017	-8,748
Book Value on 01-01-2018	78,732
Cost of Machinery	1,20,000
Dep. Charged till Sale	41,268

(12,000+10,809+9,720+8,748)	
Book Value on 01-01-2018	78,732
Less : Sale Price	-34,500
Loss on sale of Machinery	44,232

<b>Depreciation on Remaining Machinery</b>	
Cost of Remaining Machinery (800,000 - 120,000)	6,80,000
Less : Accumulated Depreciation thereon (till 31-12-2017) (318,000 - 41,268)	-276,372
Book Value on 01-01-2018	4,03,628
Depreciation $(4,03,628 \times 10/100) = 40362.8 = 40363$	

**Illustration 11**

(Problem Based on Missing Figures)

On 1st July 2016 Tata Private Ltd. purchased a machinery for ₹60,000. On 1st Oct. 2017 another machinery was purchased for ₹3,60,000. On 1st July 2018, the machine purchased on July 2016 was sold for ₹3,36,000 and on the same date a fresh machinery was purchased for ₹4,00,00. Depreciation was provided @10% p.a. on the written down value method. Books are closed on 31st March every year.

You are required to prepare machinery account and provision for Depreciation for three years ending 31st March 2019.

**MACHINERY ACCOUNT**

Date	Particular	Amount (₹)	Date	Particular	Amount (₹)
2016 Jul-01	To Bank A/C	6,00,000	2017 March 31	By Balance c/d	6,00,000
		6,00,000			6,00,000
2017 April Oct1	To Balance b/d	6,00,000	2017 March 31	By Balance c/d	9,60,000
	To Bank A/C	360,000			9,60,000
		9,60,000			
2018 April-01 July 1	To Balance b/d	9,60,000	2018 July 1	By Bank A/C	3,36,000
	To Bank A/C	4,00,000	—	By Prov. for Dep. A/C	(-----) (5)
			—	By Profit & Loss A/C	(-----) (7)
			2019 Mar 31	By Balance c/d	
		13,60,000			13,60,000

### PROVISION FOR DEPRECIATION ACCOUNT

Date	Particular	Amount (₹)	Date	Particular	Amount (₹)
2017 Mar-31	To Bank c/d	45000	2017 March 31	By Depreciation A/C	45000
		45000			45000
2018 Mar 31	To Balance b/d	(-----)	2017 Apr-1	By Balance b/d	45000
		(-----)			
2018 July 1 2019 Mar-31	To Machinery A/C	(5) (-----)	2018 March 31	By Depreciation A/C	(-----) (1)
		(6) (-----)			(-----)
	To Balance c/d	(-----)	2018 Apr 31	By Balance b/d	(-----) (2)
					(-----) (3)
					(-----) (4)
		(-----)	2019 Mar 31		(-----)

- Answer:-**
- 1) ₹ 73,500
  - 2) ₹ 1,18,500
  - 3) ₹ 12,488
  - 4) ₹ 64,200
  - 5) ₹ 1,12,988
  - 6) ₹ 82,200
  - 7) ₹ 1,33,012

#### Asset Disposal Account

Asset Disposal A/c is opened when an asset (partially or fully) is sold or disposed off. All entries related to sold asset are recorded in the asset disposal A/c. Methods of recording the entries in Asset Disposal A/C will depend on a fact whether provision for depreciation account is maintained or not.

### Format of Assets Disposal Account

(a) When Provision for Depreciation Account is maintained

To Asset A/c (Original Value)	—	By provision for Depreciation A/c	—
		By Bank A/c	—
To Profit and loss A/C Loss (if loss)	— —	By Profit and Loss A/C (if Profit)	— —

(b) When Provision for Depreciation Account is not maintained

To Asset A/c (Original value - Depreciation)	—	By Bank A/c	—
To Profit and loss A/C Loss (if loss)	— —	By Profit and loss A/C (if profit)	— —

### Illustration No. 12:

(Problem based on missing figures)

Fill up the missing figures in the plant Account given below. You are informed that the plant purchased on 1st October 2016 was sold on 1st April, 2018 for ₹ 95,000 . The depreciation is provided at the rate of 10% p.a on diminishing balance by the company.

### PLANT ACCOUNT

Date	Particular	Amount (₹)	Date	Particulars	Amount (₹)
2014 Apr-31	To Bank A/C	(-----) -----	2015 March 31	By Depreciation A/C By Balance c/d (1)	30000 (-----) -----
2015 Apr 1	To Balance b/d	(-----) -----	2016 March 31	By Depreciation A/C (2)	(-----)
2016 Apr 1	To Balance c/d	(-----)	March 31	By Balance c/d (3)	(-----) -----
2016 Oct 1	To Balance A/C	(-----) 100,000 -----	2017 Mar 31	By Depreciation A/C (4)	(-----)
2017 Apr 1	To Balance c/d	(-----) -----	Mar 31	By Balance c/d (5)	(-----) -----
2018 Apr 1	To statement of profit & Loss (10)	(-----) -----	2018 Mar 31	By Depreciation A/C (6) By Balance c/d (7)	(-----) (-----) -----
2018 Apr 1		(-----) (11)	2018 Apr 1	Bank A/C	95000
			2019 Mar 31	By Depreciation A/C (8) By Balance c/d (9)	(-----) (-----) -----

Answer:-

- |               |             |
|---------------|-------------|
| 1) ₹ 2,70,000 | 2) ₹ 27,000 |
| 3) ₹ 2,43,000 | 4) ₹ 27300  |
| 5) ₹ 3,13,700 | 6) ₹ 31,370 |
| 7) ₹ 2,82,330 | 8) ₹ 19,683 |
| 9) ₹ 1,77,147 | 10) ₹ 9500  |
| 11) ₹ 2,91830 |             |

**More questions for Practice:**

Objective Type: (1 Mark)

1. Change of old plant and machinery due to technological development is called \_\_\_\_\_. (Ans. Obsolescence)
2. Depreciation in the second year of use of an asset will be \_\_\_\_\_ in straight line method than Diminishing Balance Method. (Ans. Lower)
3. Depreciation Under Written Down Value method is computed on \_\_\_\_\_ of fixed asset. (Ans. Book Value)
4. Depreciation is a process of :  
(a) Valuation of asset                      (b) Allocation of cost  
(c) Both the above                      (d) None (Ans. (b))
5. If an asset costing ₹ 20,000 is depreciated by original cost method @ 10% P.a, it will be zero after:  
(a) 6 yrs                                      (b) 8 yrs  
(c) 10 yrs                                      (d) 12 yrs
6. Find the book value of a machine (Original cost ₹ 1,00,000) after 3 yrs of charging depreciation @ 10% P.a, on diminishing balance method. (Ans. ₹ 72,900)
7. Depreciation is charged due to :  
(a) Wear and tear of asset              (b) Inflation  
(c) Fall in the value of asset              (d) None (Ans. (a))
8. The loss on sale of an asset is debited to \_\_\_\_\_. (Ans. Profit and Los A/c)

### Practical Questions

- 1) On 1st April, 2016 Ashok & Brothers bought a second hand machine for ₹ 6,00,000 and spent ₹ 100,000 for its repair and installation. On Oct. 1, 2016 the machine was sold for ₹ 5,00,000. Prepare Machine Account after charging depreciation @10% p.a. by Written down value Method, assuming that the books are closed on 31st March every year.
- 2) Vijay Ltd. purchased a plant on 1st April 2015 for ₹ 2,50,000. On 1st 2016, it purchased a new plant for ₹ 1,50,000. The part of the machine which was purchased on 1st April 2015 costing ₹ 50,000 was sold for ₹ 18,000 on 30th September 2018. Prepare the plant A/c for four years. Depreciation is charged @10% p.a. on 31st March every year on the Diminishing Balance Method.

Ans.: Loss on sale of plant 16,627, Balance 31 March, 2019 ₹ 2,46,645

Q.No.3: On 1st April 2016 a firm purchased a machinery for ₹ 8,00,000. On 1st Oct. in the same accounting year, an additional machinery costing ₹ 4,00,000 was purchased. On 1st 2017, the machinery purchased on 1st April 2016 was sold off for ₹ 3,60,000. On 1st October 2018, a new machinery was purchased for ₹ 10,00,000 while the machinery purchased on 1st October 2016 was sold for ₹ 3,40,000 on the same date. The firm provides depreciation on its machinery @ 10% p.a. on original cost 31st March every year.

Prepare Machinery Account (ii) Provision for Depreciation Account (iii) Machinery Disposal Account

Ans:- Balance of Machinery Account 9,50,000 Loss on Sale of 1st Machinery 3,20,000 Profit on sale of second Machinery ₹ 20,000.

Q.No.4: You are given the following balances as on 1st April 2018

Plant Account = ₹ 10,00,000

Provision for Depreciation on Account = ₹ 2,32,000

Depreciation is charged on plant at 10% p.a by the Diminishing Balance Method. A piece of plant purchased on 1st April 2016 for ₹ 2,00,000 was sold on 1st October 2019 for ₹ 1,20,000.

Prepare the Plant Account and provision for the Depreciation Account for the year ended 31st March 2011 and also prepare the plant Disposal Account.

Ans. : Loss on sale Plant 233,900.

Balance of provision for Depreciation on A/c on April, 2018 ₹ 2,54,000

Q.No.5: Fill up the missing information in the machinery account, provision for Depreciation Account and Disposal Account. You are informed that on 30th June 2018 it sold off the first machine purchased in 2016 for ₹ 5,24,000 Accumulated Depreciation Account in maintained changing depreciation @ 10% on straight line method.

### MACHINERY ACCOUNT

Date	Particular	Amount	Date	Particular	Amount
2016 Oct-01	To Bank A/C	6,55,000	2017 March 31	By----- 1	-----
2017 March-01	To Bank A/C	<u>2,40,000</u> <u>8,95,000</u>			<u>-----</u> <u>-----</u>
2017 April-01	To Balance b/d (2)	----- <u>-----</u>	2018 March 31	By Balance c/d (3)	----- <u>-----</u>
2018 April-01	To Balance b/d (4)	----- <u>-----</u>	2018 June 30	----- (5)	-----
			2019 March 31	By Balance c/d (6)	----- <u>-----</u>

### PROVISION FOR DEPRECIATION ACCOUNT

Date	Particular	Amount	Date	Particular	Amount
-----	To ----- (7)	----- <u>-----</u>	-----	----- (8)	----- <u>-----</u>
2018 March-31	To Balance c/d (11)	----- <u>-----</u>	2017 April 1	By ----- (9)	-----
			2018 March 31	By ----- (10)	----- <u>-----</u>
2018 June-30	----- (15)	----- <u>-----</u>	2019 April 31	By ----- (12)	-----
			-----	By ----- (13)	-----
2019 March-31	----- (16)	----- <u>-----</u>	2019 March 31	By ----- (14)	(-----) <u>-----</u>

### MACHINERY DISPOSAL ACCOUNT

Date (year)	Particular	Amount	Date (year)	Particular	Amount
-----	To ----- (20)	-----	-----	By provision for	-----
				Depreciation A/C (17)	-----
			-----	Bank A/C (18)	-----
			-----	Statement of Profit &	
				Loss (19)	-----
		=====			=====

- Ans:-
- 1) By Balance b/d ₹ 8,95,000
  - 2) ₹8,95,000
  - 3) ₹8,95,000
  - 4) ₹8,95,000
  - 5) Machinery Disposal A/C ₹ 6,55,000
  - 6) ₹2,40,000
  - 7) By Depreciation D/C ₹ 34750
  - 8) To Balance c/d ₹ 34750
  - 9) By Balance b/d ₹ 34750
  - 10) By Depreciation A/C (1) ₹ 89500
  - 11) To Balance c/d ₹ 1,14,250
  - 12) By Balance c/d ₹ 1,24,250
  - 13) By Depreciation A/C (1) ₹ 16375
  - 14) By Depreciation A/C (4) ₹ 24000
  - 15) To Machinery Disposal A/C ₹ 1,14,250
  - 16) To Balance c/d ₹ 50,000
  - 17) ₹ 1,14,625
  - 18) ₹ 5,24,000
  - 19) ₹ 16375
  - 20) To Machinery A/C 6,55,000

## Provisions

- Provision is to be made in respect of a liability which is certain to be incurred, but its accurate amount is not known.
- It is charged in the profit and loss Account on estimate basis. It should be clearly understood that if the amount of a known liability can be determined with reasonable accuracy, it can not be a provision.

**Notes:** Provision is a charge against profits, it means provision has to be made irrespective of business enterprise is earning enough profits or incurring losses.

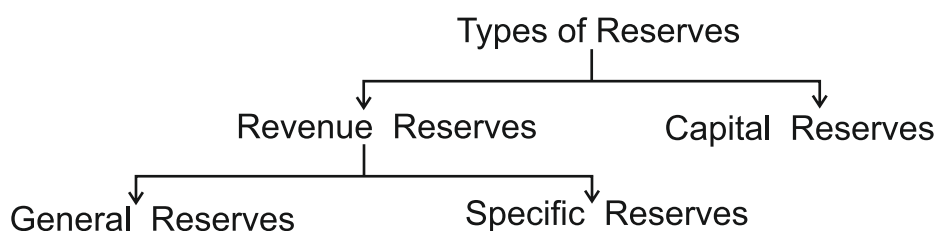
**Examples of provisions :** Provisions for Depreciation on assets, Provision for Repairs and Renewals of assets. Provision for Taxation. Provision for Discount on Debtors , Provision for Bad and Doubtful Debts.

## Reserves

- Reserves are the amount set aside out of profits. It is an appropriation of profits and not a charge on the profits.
- The amount of profit retained is used in the business when difficult time comes. Since reserves are neither expenses nor losses. so these are not charged to profit & loss Account rather these are debited to Profit & Loss Appropriation Account which is prepared after Profit and Loss Account.
- Reserves are also known as 'Ploughing Back of Profits'.
- Reserves are created to strengthening the financial positions of the business enterprise.
- Examples are General Reserves, Divided Equalization Reserves etc.
- If the amount of reserve is invested outside the business then, it is called 'Reserve Fund'.
- Creation of reserve does not reduce the net profit but only reduced the divisible profits.

## DIFFERENCE BETWEEN PROVISION AND RESERVE

Basis	Provision	Reserve
1. Meaning	It is created to meet a known liability.	It is create to strengthen the financial position of business enterprise.
2. Charge or Appropriation	Provision are charge against profits	Reserve is an appropriation of profit.
3. Objective	The object is to provide for known liability cannot be calculated accurately.	It is created to strengthen the financial position and to meet unforeseen liability.
4. Effect on profit & Loss A/c	It is debited to the profit. Hence' profit is reduced.	Reserve reduces divisible profits.
5. Creation	Provisions are to be created even if there are insufficient profits.	Reserve is created out of adequate profits only.
6. Mode of creation	Provision are created by debiting the Profit & loss A/c.	It is created through Profit & Loss Appropriation Account.
7. Investment	It cannot be invested outside the business	Reserve can be invested outside the business.
8. Necessity	Creation of provision is necessary as per law.	Its creation is not necessary. It is created as a matter of prudence.



### Revenue Reserves

Revenue Reserves are those reserves which are created by setting aside a part of the net profit of business. Since reserves represent undistributed profit of the company so they are available for declaration of dividend and distribution among shareholders. Revenue reserves are of two types namely. (1) General Reserves (2) Specific Reserves.

**(1) General Reserves :-** Those reserves which are created out of profit to meet out the unforeseen contingencies is called general reserves. They are termed as 'Free Reserves' or 'Contingency Reserves'. Creation of general reserve is optional. It is an appropriation of profit so it is made only if adequate profit is earned

by the company. They are shown on liability side of the balance sheet under the head, "Reserve and surplus".

- (2) **Specific Reserves:-** These reserves are created for specific purpose and can be utilised for that purpose only. Examples:- Dividend Equalization Reserves, Debentures Redemption Reserve, workmen Compensation fund, Investment Fluctuation Reserves etc.

**Reserve fund :-** If reserves are invested in outside securities, it is known as Reserve fund.

**Capital Reserves:-**

The reserves created out of capital profits are known as capital Reserve. Such reserves, generally are not available for distribution as cash dividend among the share holders of a company.

Examples of Capital Profit:

- i) Profit on sale of fixed assets.
- ii) Profit on revaluation of assets and liabilities.
- iii) Securities premium earned on issue of share or debentures.
- iv) Profit on the purchase of running business.
- v) Profit earned on forfeiture of shares.
- vi) Profit on redemption of debentures.
- vii) Profit prior to the incorporation of a company

Capital profits can be used to (1) write off capital losses (2) to issue fully paid up bonus shares among the equity share holders. However, company can declare dividend out of capital profits on the fulfilment of the following conditions.

- i) Articles of Associations of a company permits the declaration of dividend out of such profile.
- ii) Capital profits realised in cash.
- iii) Profile remains after revaluation of assets and liabilities.

# CHAPTER 7

---

## ACCOUNTING FOR BILLS OF EXCHANGE

---

### LEARNING OBJECTIVES

After studying this chapter, students shall be able to:

- Understand the concept of Bill of Exchange and Promissory Note
- Distinguish between Bill of Exchange and Promissory Note.
- Define Important terms of Bill Exchange and Promissory Note. Record the Accounting Treatment of Bill of Exchange under different circumstances.

### **Suggested Methodology :- Illustration-cum-Explanation Problem Solving Method and Brain Storming 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 of time. Both of these are legal instruments under the Negotiable Instruments Act, 1881.

In India, instruments of Credit have been in use since time immemorial and are popularly known as Hundies. The hundies are written in Indian languages and have a large variety. Ex. Shahjog Hundi, Muddati Hundi, Nam-Jog Hundi, Jawabee Hundi, Hokhami Hundi, and so on.

1. **Trade Bill:** It is the Bill of Exchange which is drawn by the seller and accepted by the buyer to settle a credit trade transaction (Credit Purchase or Credit Sale)

2. **Accomodation Bill:** It is a bill of exchange which is drawn by one person and accepted by other person for mutual seep. The Bill is for mutual benefit with out a trade it a. It does not involve any sale or put chase of goods or series.

### **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 the order of, a certain person or to

the bearer of the instruments". Section 5 of the Negotiable instrument Act, 1881.

#### **Features of a Bill 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 bill.
7. It must be accepted by the drawee by signing on it.
8. The amount specified in the bill 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 certain person or to his order or to the bearer of the bill.
10. It must be stamped as per legal requirement.

#### **Parties of Bill of Exchange**

1. **Drawer or maker :-** Drawer is the person who makes or writes the bill of exchange. Drawer is a person who has sold goods on credit or granted credit to the person on whom the bill of exchange is drawn. The drawer is entitled to receive money from the drawee (acceptor). He is a creditor for the drawee. The bill of exchange is bill receivable for him.
2. **Drawee or Acceptor :** Drawee is the person on whom the bill of exchange is drawn for acceptance. Drawee is the person who purchases goods on credit or to whom credit has been granted by 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 is 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.

**Example:** X sold goods worth ₹ 5,000 to Y and drew a bill of exchange upon her for the same amount payable after three months.

Here X is the drawer of the bill and Y is the drawer

- Case I If the bill is retained by X for three months and the amount of ₹ 5000 is received by is on the due date then X will be the payee.
- Case II If X gives this bill to her creditor Z then Z will be the payee.
- Case III If X gets this bill discounted from the bank, then the bankers will be the payee.
- Case IV If X retains bill and send the bill for collection to his bank then X is the payee.

### **Types of Bills of Exchange**

- 1) **Trade Bill** : Those bills that are written because of business transactions are called trade bills.
- 2) **Accommodation Bill** : Those bills that the business writes for mutual help are called accommodation bill.

**Trial Balance as on 31 March 2018.**

Name of the Accounts	L.F.	Debit Balance ₹	Credit Balance ₹
Cash in hand		8,000	—
Machinery		—	50,000
Purchases		—	1,12,000
Sunday Debtors		—	48,000
Sunday Creditors		—	31,000
Carriage Inwards		4000	—
Carriage Outwards		6000	—
Wages		16000	—
Rent & Tares		—	10000
Discount Allowed		—	5000
Bank Overdraft		1,90,000	—
Drawings		—	120,000
Bank loan		20,000	—
Opening stock		—	22000
Sales		—	2,60,000
Discount Received		3000	—
Prepaid Expenses		10000	—
Outstanding Wages		1500	—
Investments		2,90,000	—
Interest on Investment		1500	—
Total		6,00,000	6,00,000

**Note**– Difference between the Debit and Credit Balances is Capital as balancing figure.

**Answer:** Capital (balancing figure) = Rs. 77,000

### Specimen of Bill of Exchange

<b>Amount</b> →	Rs. 50,000	<div style="border: 1px solid black; padding: 5px; margin: 10px auto; width: 80%;">           New Delhi            15th July,            2019         </div>	→ <b>Place</b> → <b>Date</b>
<div style="border: 1px solid black; display: inline-block; padding: 5px 20px; margin-bottom: 10px;">Stamp</div> <p>Three months after date pay to me or my order, the sum of Rs <b>Fifty thousand only</b> for <b>value Received</b>.</p> <p>"Accepted"          (Signed)          (Mukesh Chand)</p>			
<b>Drawee</b> →	To Mukesh Chand D-24, Sector-15 Rohini Delhi-39	(Signed) SANT KANWAR 151-, Sector-9 Rohini Delhi- 39	→ <b>Drawer</b>

**Note :-** Value Received 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.

## 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 for the order of a certain person or to be the bearer of the instrument

### Features of 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 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 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.

### Specimen of Promissory Note

Amount → ₹ 50,000	Place → Delhi Date → Nov. 1, 2019
<b>Stamp</b> Two months after date, we promise to pay M/S Ram & Co. Or order sum of Rupees <b>fifty thousand only</b> for <b>value received</b> .	
To Ram & Co. 20, Karol Bagh, New Delhi-05	(Signed) Sohan Lai & Sons 8, Chauhan Bangar Delhi

### Distinction between Bills of Exchange and Promissory Note :

S.No	Basis of difference	Bills of Exchange	Promissory Note
1.	<b>Drawer</b>	The Drawer is the creditor.	The Drawer is the debtor.
2.	<b>No. of parties</b>	It has three parties namely: • The drawer • The drawee • The payee	It has two parties namely: • The Maker • The payee
3.	<b>Order or promise</b>	It contains an order to make the payment.	It contains a promise to make the payment.
4.	<b>Acceptance</b>	It is valid only when accepted by the drawee.	It does not require any acceptance from the drawee.
5.	<b>Payee</b>	In case of bill of exchange, drawer can be the payee of the bill	Drawer or maker cannot be payee of promissory note.
6.	<b>Noting</b>	In case of dishonour of bill Noting becomes important.	Noting is not necessary in case of dishonour of promissory note.
7.	<b>Liability</b>	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.
  - (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.
  - (iii) In case of 'Bill after sight' :- Due date = Date of Acceptance + Term of Bill.
- 3. Days of Grace:** Drawee is allowed three extra days after the due date of bill for making payments. Such 3 days are known as 'Days of Grace'. It is a custom to add the days of grace.
- 4. Date of Maturity:** The date which comes after adding three days of grace to the due date of a bill is called "Date of Maturity".

**Illustration 1:** A bill of exchange for Rs. 25,000 is drawn by A on B on 1st April, 2019 for 3 Months, B accepted the bill on 10th April, 2019. Find the

DUE DATE and DATE OF MATURITY if

**Cash I :** The bill is Bill After date.

**Cash II :** The bill is Bill After Sight.

**Solution :**

	Due Date 2019	Date of Maturity
Case I- When the Bill is "Bill After date".	1st July 2019	4th July, 2019
Case II- When the Bill is " Bill After Sight".	10th July 2019	13th July, 2019

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

**Illustration 2 :** Ram sold goods to Shyam for Rs. 30,000 at credit on 1st April, 2019 and draw a bill for same, accepted by Shyam. Ram discounts the bill with his bank on 4th May 2019 @ 9% per annum find out. If maturity date is 1st July 2019.

- (i) The amount of discounting charges.
- (ii) The amount that Ram will receive from his bank at the time of discounting the Bill.

**Solution:**

$$\begin{aligned}\text{(i) Discounting Charges} &= \text{Amount of Bill Discounted} \times \frac{\text{Rate}}{100} \times \frac{\text{Unexpired Period}}{12} \\ &= 30,000 \times \frac{9}{100} \times \frac{2}{12} \\ &= \text{Rs. 450}\end{aligned}$$

- (ii) Ram will receive from his bank Rs. 29,550 (i.e Rs. 30,000-Rs. 450) at the time of discounting the bill.

**6. Endorsement of Bill :** Endorsement of bill means the process by which drawer or holder of bill transfer the title of bill in favour of his/her creditors. The person transferring the title is called "Endorser" and the person to whom the bill is transferred called "Endorsee". Endorsement is executed by putting the signature at the back of the bill.

**7. Bill sent for collection:** It is a process when the bill is sent to back with instruction to keep the bill till maturity and collect its amount from the acceptor on the date of maturity.

**8. 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.

- 9. 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 who charges a small fee for providing this service known as Noting charges.
- 10. Retirement of a Bill:** When the drawee makes the payment of the bill before its due date it is called 'Retirement of a bill'.
- 11. Renewal of a Bill:** Sometimes drawee is not in the position to pay the amount of the bill on maturity. Thus drawee request to the drawer to cancel the old bill & write a new bill with interest and if drawer agree, new bill is drawn with new maturity date. This process is called the 'Renewal of Bill'. The interest may be paid in cash or may be added in the amount of the new bill.

**Illustration 3 :** A requests B to renew his acceptance for Rs. 25,000 for 3 month together with interest @ 18% p.a. Calculate the amount of new bill drawn on A.

**Solution:**

$$\begin{aligned}\text{Interest} &= \text{Amount Outstanding} \times \frac{\text{Rate}}{100} \times \frac{\text{Period of New Bill}}{12} \\ &= 25,000 \times \frac{18}{100} \times \frac{3}{12} \\ &= 1,125\end{aligned}$$

Amount of New Bill = Rs. 25,000 + Rs. 1,125 = Rs. 26,125

Amount Outstanding = Amount of Bill cancelled - any part payment made cash at the time of renewal of bill.

## ACCOUNTING TREATMENT OF BILL TRANSACTIONS

### A. On the Due Date bill is Honoured:-

Transactions	In the Books of Drawer	In the Books of Drawee
When goods are sold on credit by drawer	Drawee's A/c Dr To sales A/c (good sold on credit)	Purchase A/C Dr To Drawer's A/c (goods Purchased)
When Bill is drawn & Accepted by the Drawee	Bill Receivable A/c Dr To Drawee's A/c (Bill received from drawee)	Drawer's A/c Dr To Bill Payable A/c

**Note:** First Two entries are common in all the cases which we are going to discuss below.

**Case -I When the bill was retained by drawer till maturity**

Transactions	In the Books of Drawer	In the Books of Drawee
All the time of Maturity of bill	Cash/Bank A/C                      Dr To Bill Receivable A/C (Being bill met on maturity)	Bill Payable A/C                      Dr. To Cash/Bank/A/C (Being bill met on maturity)

**Case -II When the bill was discounted from the bank by owner before maturity .**

Transactions	In the Books of Drawer	In the Books of Drawer
At the time of Discounting the bill from Bank	Bank A/C                      Dr Discount A/C                      Dr To Bill Receivable A/C	No Entry
At the time of Maturity of bill	No Entry	Bill Payable A/C                      Dr. To Cash/Bank/A/C (Being bill met on maturity)

**Case -III When the bill was endrose in favour of creditor by drawer/holder**

Transactions	In the Books of Drawer	In the Books of Drawer
At the time of endorsing of bill	Endorsee's A/c                      Dr To Bill Receivable A/C (bill endrose in favour of Endorses)	No Entry
At the time of Maturity of bill	No Entry	Bill Payable A/C                      Dr. To Cash/Bank/A/C (Being bill met on maturity)

**Note :- In this case one additional book may be asked to maintained i.e. Endrosee Book**

Transactions	In the Books of Endorse
At the time of Receiving the bill from Drawer/ Debtor	Bill Receivable A/C                      Dr To Drawer (Being Bill received from drawer)
At the time of Maturity of bill	Cash/Bank A/C                      Dr. To Bill Receivable A/C (Being Bill met on maturity)

#### Case -IV When the bill is sent to bank for collection

Transactions	In the Books of Drawer	In the Books of Drawee
At the time of bill sent for collection to bank	Bill sent for collection A/C Dr To Bill Receivable A/C (Being bill sent from collection to bank)	No Entry
At the time of Maturity of bill	Bank A/C To Bill sent for collection (Being bill sent for collection realised of maturity)	Bill Payable A/C Dr. To Cash/Bank/A/C ( bill met on 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 4:** X sold goods to Y on 1st April, 2019 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 2019.

Case IV: Bill is sent to Bank for collection on 1st July, 2019.

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

#### In the Book of Y (Drawee)

Date	Particular	L.F.	Dr. Amount	Cr. Amount
2019 Apr-01	Purchase A/C Dr To X (Being Goods purchased)		20,000	20,000
Apr-01	X Dr. To Bills Payable A/C (Bill accepted returned to Ram)		20,000	20,000
July-04	Bills payable A/C Dr. To Cash A/C (Being bill met on maturity)		20,000	20,000

**Note:** In the books of drawee these three entries remains same in all the cases

**In the Book of (X)**

Date	Particular	L.F.	Dr. Amount	Cr. Amount
2019 Apr-01	Y To Sales A/C (Being Goods sold on credit to Y)	Dr.	20,000	20,000
Apr-01	Bills Receivable A/C To Y (bill received from Y)	Dr.	20,000	20,000

1. First two entries passed on April 1, 2019 will be same in the books of X (Drawer) in all the 4 cases.

<b>Case -I When the bill was retained by drawer till the date of maturity</b>				
2019 Apr-04	Cash A/c To Bill receivable A/c (Bill met on maturity)	Dr.	20,000	20,000
<b>Case -II When the bill was discounted by owner before maturity</b>				
Apr-04	Bank A/C Discount A/C To Bill receivable A/C (bill discounted from bank)	Dr. Dr.	19,700 300	20,000
<b>Case -II When the bill was endorse in favour of creditor by drawer/holder</b>				
May-04	Z To Bill receivable A/C (Bill endorse in favour of Z)	Dr.	20,000	20,000

<b>Case - IV When the bill is sent to bank for collection</b>				
2019 July 01	Bill sent for the collection A/C To Bill receivable A/C (Bill sent for collection)	Dr.	20,000	20,000
July 04	Bank A/C To Bill sent for collection A/C (bill sent for collection realised on maturity)	Dr.	20,000	20,000

### In the Book of Z (Endorsee)

2019 May - 04	Bill Recivable To X (bill received from Ram)	Dr.	20,000	20,000
July-04	Cash A/C To Bill receivable (bill met on maturity)	Dr.	20,000	20,000

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.

B. When Bill is dishonoured on the date of maturity.

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

Transactions	In the Books of Drawer	In the Books of Drawee
When bill is dishonoured	Drawee To Bills Receivable To Cash A/C (bill dishonoured & Nothing charges paid)	Bills Payable A/C Noting Charges A/C To Drawer (bill dishonoured)

#### Note:

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

#### Case II : When the bill was discounted by owner before maturity

Transactions	In the Books of Drawer	In the Books of Drawee
When bill is dishonoured	Drawee To Bank A/C (Being bill dishonoured & Nothing charges paid by bank)	Bills payable A/c Dr Noting charges A/c Dr To Drawer (Bill dishonoured)

#### Case III: When the bill was entered in favour of creditor by drawer/holder

Transactions	In the Books of Drawer	In the Books of Endorsee
When bill is dishonoured	Drawee To Endorsee (bill dishonoured & Noting charges and paid by endorses)	Drawer To Bills Receivable A/C To Cash A/C (Being bill dishonoured & Noting Charges paid)

**Case IV When the bill is sent to bank for collection**

Transactions	In the Books of Drawer
When bill is dishonoured	<div>Drawee Dr.</div> <div>To Bank A/C</div> <div>To Bill Sent for collection</div> <div>(Being bill dishonoured &amp; Nothing charges paid by bank)</div>

**Illustration 5 :** A sold good to B on April 1, 2019 for Rs. 20,000 on credit and drew upon him a bill for the same amount payable after 3 months. B accepted the bill and returned it to A. On the due date bill was dishonoured.

**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, 2019 @ 6% per annum

**Case III :** Bill is endorsed in favour of C on April, 4th, 2019

**Case IV :** Bill is spent to bank for collection on July 1, 2019

(Note : Nothing charges paid ₹ 50 in each case)

**Solution :-**

**In the Book of A (Drawer)**

Date	Particular	L.F.	Dr. Amount	Cr. Amount
2019 Apr-01	<div>B Dr.</div> <div>To Sales A/C</div> <div>(Goods sold on credit B)</div>		10,000	10,000
Apr-01	<div>Bills Receivable Dr.</div> <div>To B (bill received from B)</div>		10,000	10,000

**Note:**

1. First two entries passed on April 1, 2019 will be same in the books of X (Drawer) in all 4 Cases

<b>Case -I When the bill was retained by drawer till the date of maturity</b>				
2019 Jul-04	B To Bill receivable A/C To Cash A/C (bill Receivable/Dishonoured charges paid dishonoured)	Dr.	10,050	10,000 50
<b>Case -II When the bill was discounted by owner before maturity</b>				
2019 Jul-04	B To Bank A/C (bill Receivable/Dishonoured maturity & noting charges paid)	Dr.	10,050	10,050
<b>Case -III When the bill was endorse in favour of creditor by drawer/holder</b>				
2019 Jul-04	B To C (bill receivable/dishonoured on maturity & noting charges paid)	Dr.	10,050	10,050
<b>Case -IV When the bill sent to bank for collection</b>				
2019 Jul-04	B To Bill receivable A/C To Bank A/C (bill dishonoured on maturity & noting charges paid by Bank)	Dr.	10,050	10,000 50

**In the Book of C (Endorsee)**

Date	Particular	L.F.	Dr. Amount	Cr. Amount
2019 Jul-04	A To Bill receivable A/C To Cash A/C (Noting charges) (bill dishonoured on maturity & noting charges paid)	Dr.	10,050	10,000 50

**Note:** In the books of drawee following three entries remains same in all the cases.

### In the books B (Drawee)

Date	Particular	L.F.	Dr. Amount	Cr. Amount
2019 Apr-01	Purchase A/c Dr. To A (Being Goods Purchased)		10,000	10,000
Apr-01	A Dr. To Bills payable A/C (Being bill accepted & returned to A)		10,000	10,000
July-04	Bills Payble A/C Dr. Noting charges A/C Dr. To Cash A/C (Being bill met on maturity)		10,000 50	10,050

### C. Renewal of a Bill

Transactions	In the Books of Drawer	In the Books of Drawee
Cancelling the original Bill	Drawee Dr. To Bill Receivable A/C (Being the cancellation of bill receivable)	Bills Payable A/c Dr. To Drawer (Being the cancellation of bill payable)
Recording of Interest for extended period	Drawee Dr. To Interest A/C (interest charged for extended period)	Interest A/C To Drawer (Interest payable for extended period)
Part payment Received or paid	Cash/Bank A/C Dr. To Drawee (Being the part payment Received)	Drawer Dr. To Cash/Bank A/C (Being the part payment paid)
New bill Drawn/ Accepted	Bill Receivable A/c Dr. To Drawee A/C (Bills receivable drawn)	Drawer A/C Dr. To Bills Payable A/c (Bill accepted)

**Illustration 6:** On 1st April, 2019 Anil accepts a bill drawn by Sunil for 2 months for Rs. 15,000 in payment of a debt. Before the date of maturity Anil request sunil that he is not in the position to pay the due amount, so kindly cancel the bill & draw a new bill for the amount due 3 months Sunil agreed to draw a new bill for 3 months but he charged interest @ 15% per annum in cash. This bill is duly met on the maturity. Pass Journal entires in the books of both the parties.

**Solution: In the Book of Anil (Drawee)**

Date	Particular	L.F.	Dr. Amount	Cr. Amount
2019 Apr-01	Sunil Dr. To Bills payable A/C (Bill accepted & returned to Sunil)		15,000	15,000
Jun-01	Bills Payable A/C Dr. To Sunil (Being Bill Cancelled)		15,000	15,000
Jun-01	Interest A/C Dr. To Sunil Dr. ( Interest payable on due amount)		563	563
Jun-01	Sunil Dr. To Bills Payable A/C To Cash A/C (New Bill sell accepted & returned to sunil and interest paid in cash)		15,563	15,000 563
Sep-04	Bills Payable A/C Dr. To Cash A/C (bill met on maturity)		15,000	15,000

**In the Book of Sunil (Drawer)**

Date	Particular	L. F.	Dr. Amount	Cr. Amount
2019 Apr-01	Bill Receivable A/C Dr. To Anil (Bill received from Anil)		15,000	15,000
Jun-01	Anil Dr. To Bill Receivable A/C (Being bill Cancelled)		15,000	15,000
Jun-01	Anil Dr. To Interest A/C Dr. (Interest charged on due amount)		563	563
Jun-01	Cash A/C Dr. Bill Receivable A/C Dr. To Anil (Being New bill received from Anil and interest received in cash)		563 15,0000	15,563
Sep-04	Cash A/C Dr. To Bill Receivable A/C (bill met on maturity)		15,000	15,000

### D. Retiring a bill under Rebate

Transactions	In the Books of Drawer	In the Books of Endorsee
When Drawee retires the bill before Maturity	Cash A/C Dr. Rebate A/C Dr. To Bill Receivable A/C (The bills is retire under rebate before the date of maturity)	Bills Payable A/c Dr. To Cash A/C To Rebate A/C (The bills is retired under rebate before the date of maturity)

**Illustration 7:** Mukesh sold goods to Jitender on July 1, 2019 for Rs. 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, 2019 under rebate of 8% per annum. Give Journal entries in the books of Mukesh and Jitender.

**Solution : In the Book of JITENDER (Drawee)**

Date	Particular	L.F.	Dr. Amount	Cr. Amount
2019 Jul-01	Purchase A/c Dr. To Mukesh (Being Goods Purchased)		30000	30000
2019 Jul-01	Mukesh Dr. To Bills payable A/C (Being bill accepted & returned to mukesh)		30000	30000
2019 Aug-04	Bills Payble A/C Dr. To Cash A/C To Rebate A/C (Being bill retire under rebate)		30000	29,600 400

#### In the Book of Mukesh (Drawer)

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
2019 Jul-01	Jitender Dr. To Sales A/C (Being Goods sold on credit)		30,000	30,000
Jul-01	Bills receivable A/C Dr. To Jitender (Being bill received from Jitender)		30,000	30,000
Aug-04	Cash A/C Dr. Rebate A/C Dr. To Bills Receivable A/C (Being bill retire under rebate)		29,600 400	30,000

$$\text{Rebate} = 30000 \times \frac{8}{100} \times \frac{2}{12}$$

$$= 400$$

## POINTS TO REMEMBER

---

**1. While calculating Date of Maturity the following point must be considered :**

- (i) In case "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 "PRECEEDING DAY".
  - If maturity date is on an emergent holiday declared under the Negotiable Installment Act. 1881, the next working day immediately after the holiday will be considered as the date of maturity.

**2. 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.**

### EXCERSICE

Q. No.:-1 A sold goods to B on 1st May 2019 for ₹ 20,000 and drew 3 bills on B for (i) ₹ 7,000 payable 1 months (ii) ₹ 7,500 payable after 2 months and (iii) 5,500 payable after 3 months. All the bills duly accepted. The first bill is retained by A till maturity. The second bill is endorsed to C (Creditor of A) immediately after receiving and third bill was discounted from bank for ₹ 5,250 on 5th May 2019. All the 3 bills were duly met on maturity. Pass entires in the books of A and B.

Q.No. 2 A sold goods to B on May 1st, 2019 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. Pass Journal Entires 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 sent the bill to his bank for collection on July 1, Bank and paid the noting charges.

Q.No.: -3 P sold goods to Q for Rs. 10,000 on January 1, 2019 and on the same day draws a bill on Q for the same amount for three months. Q accept it and returns it to P, who discounts it on 10th January, 2019 with his bank for Rs, 9850. The acceptance is dishonoured on the due date and the Noting charges were paid by bank being Rs.50. On 4th April, Q paid Rs. 2,050 (including Nothing charges) in cash and accepted new bill at 3 months for the amount together with interest @ 12% per annum. Make Journal Entries in the books of P and Q to record transaction.

Q.No.: -4 Rajiv sold goods to Pankaj for ₹ 40,000 on January 1st, 2019. On the same date Rajiv drew a bill of the same amount for 3 months on Pankaj. The bill was accepted by Pankaj. Rajiv discounted the bill with his bank on 4th February, 2019 @ 12% per annum. On date of maturity, the bill was dishonoured and Noting charges amounted ₹ 200. Pankaj agreed to Pay ₹ 10,200 and accepted another bill for the remaining amount for 3 months together with interest @ 9% per annum. On due date Pankaj make the payment.

Give Journal Entries in the books of Rajiv and Pankaj.

Q.No.: -5 On 1st March 2019, Amit drew three bills of exchange on his debtor Shyam. First for ₹ 7000 for 1 month, second for ₹ 8,000 for two months and third for ₹ 10,000 for 4 months. Shyam accepted these bills.

Amit endorsed the first bill to his creditor, Ram in full settlement of his account Rs. 7,100. This bill was met on maturity on 1st April, Amit discounted the second bill from his bank for ₹ 7,800. This bill was dishonoured on due date and bank paid ₹ 100 towards noting charges. Amit drew another bill on Shyam for the amount due along with Rs. 200 towards interest for 2 months for which Shyam agreed.

The third bill was paid by Shyam under rebate of 12% p.a. One month prior to date of maturity. The fourth bill was lodged with bank for collection and it was duly met. Pass necessary Journal entries in the books of Amit and Shyam.

Q.No. 6: What Journal Entry will be passed in the books of drawer & drawee at the time of dishonour of bill in the following cases:-

- (i) If bill of ₹ 10,000 was discounted from bank and noting charges paid by the bank were ₹ 100.
- (ii) If B/R of ₹ 10,000 was endorsed in favour of C. Noting charges paid by the C were ₹ 100.

(iii) If B/R is retained with drawer and noting charges were ₹ 100.

Q.No 7: Journalise the following in the books of Mohan under following circumstances:-

(i) A bill of ₹ 4500 is drawn by Mohan & co. on Ram & Co. and accepted by later.

(ii) If bill is retained till the date and realised on maturity.

(iii) He discounted the bill with Bank of Baroda for ₹ 4380.

Q.No 8: Ashok sold goods to Susheem for ₹ 2,00,000 on 1st July 2019. Susheem immediately accepted the bill for ₹ 1,20,000 only for the 3 months and send the balance by a Cheque. Ashok discounted the bill with his bank on 4 August 2019 at 5% p.a. On the due date, the bill was dishonoured, bank paying ₹ 500 as noting charges. Susheem paid cash ₹ 40,000 and accepted another bill for the due amount for the further period of 2 months together with interest at 10% p.a. On due date bill was honoured. Give journal Entries in the books of Ashok & Susheem.

Q.No 9: Journal of -----

Date	Particular	L.F.	Dr. Amount	Cr. Amount
2019 Jan-01	Vikas Dr. To Sales (Pradeep sold goods to Vikas on 1 Jan 2015 for 3 months)		5,00,000	5,00,000
-----	----- Dr. To ----- (Acceptance received from Vikas on the same date)		5,00,000	5,00,000
Jun-04	----- Dr. To ----- Dr. ( Bill endorsed to Anirudh)		5,00,000	5,00,000
Apr-04	----- Dr. To ----- ( Bill dishonoured and noting charges said by Anirudh for ₹1000)		-----	-----
-----	----- Dr. To ----- (the ₹3,00,000 Received as part payment)		-----	-----

-----	----- Dr. To ----- (₹2000 Interest due for renewal & Bite)		-----	-----
-----	----- Dr. To Vikas (New acceptance received)		-----	-----
-----	----- Dr. To ----- (The amount of the bell received)		-----	-----

## CHAPTER – 8

---

# RECTIFICATION OF ERRORS

---

### Introduction

Trial balance is a statement prepared with debit and credit totals or balances extracted from the ledger to verify the arithmetic accuracy of accounts. The objectives of Trial balance are :

- 1) To ascertain the arithmetic accuracy of accounts.
- 2) To help in locating errors.
- 3) To help in preparation of single account.

**Learning objectives :** After studying this topic the students will be able to :

- Differentiate different types of errors and their examples.
- Rectify the Error : Two sided errors i.e. Error not affecting Trial Balance and One sided i.e. errors which affect Trial Balance.
- To understand meaning and Utility of Suspense A/c.
- Maintain the suspense A/c.

**Important :** The errors whether affecting the Trial Balance or not must be detected and rectified.

### Need of Rectification

1. For the preparation of correct Accounting Records.
2. Preparation of P&L A/c with corrected figures to ascertain correct Profit or Loss.
3. To find out the true financial position of the firm by preparing Balance Sheet with corrected figures.

**Classification of Errors**  
(On the basis on Nature)

Type of Error with Meaning	Sub-Types with Examples
<b>1. Error of Omission</b> (When a transaction is completely or partially omitted to be recorded in the books)	<b>a) Error of complete Omission</b> Good-sold to X on credit but not recorded in Sales Book. <b>b) Partial Omission</b> Purchase machinery ₹ 5,000 in cash, recorded in cash Book but not recorded in Machinery A/c.
<b>2. Error of Commission</b> (These errors are caused due to wrong recording of transaction, wrong totalling of subsidiary books of Ledger A/c, Wrong posting wrong carry forward) and wrong balancing etc.	<b>a) Error of Recording in the Book of Original Entry</b> Goods purchased from Ravi for ₹ 450, but Goods recorded as ₹ 540, in the Purchases Book. <b>b) Wrong Totalling of Subsidiary Book Example :</b> Purchase Book has been undercast (short totalled) by ₹ 100. <b>c) Error in Totalling or Balancing of Ledger A/cs*</b> <b>Example :</b> Creditors A/c has been balanced short by ₹ 500. <b>d) Error of Posting</b> i) Posting to the wrong side but correct account Goods sold to X for ₹ 550, entered to the credit of ₹ X's A/c instead of posting to the debit side of his account.

- ii) Posting with wrong amount.
- iii) Posting twice in an A/c
- iv) Errors in posting to the wrong A/c but correct side don't affect Trial Balance.

**e) Error in carrying forward**

Total of purchases book ₹ 2,500 is carried forward as ₹ 2050.

**3. Errors of Principle**

(These error are caused due to the violation of accounting principle i.e. allocation between Capital and Revenue items)

**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.

**b) Treating revenue items as Capital Item Example :**

₹ 200 paid for the repairs of an old Machinery but debited to Machinery A/c instead of Repairs A/c.

**4. Compensating Errors**

(Two or more errors committed in such a way that the net effect of these errors is nil). Means the effect of one error is nullified by the effect of another error of equal amount.

**Example :** Cash paid to Ram ₹ 5,000 but debited him as ₹ 500 and paid Mohan ₹ 500 but debited him as ₹ 5,000 so, net effect will be nil.

**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. Errors of Omission from posting.
4. Errors of posting to the wrong A/c but on the correct side.
5. Compensating errors.
6. Errors of principle.

It should be kept in mind that Trial Balance is not a conclusive proof of accuracy. Such errors are considered as "limitations of Trial Balance."

**Errors Affecting Trial Balance**

1. Error in totalling of subsidiary books as undercast and overcast.
2. Error in the balancing of ledger accounts.
3. Error in posting to the correct Account but with wrong amount.
4. Error of partial omission.
5. Error in carrying forward.

**Rectification of Errors**

When the errors are detected, these have to be rectified in the books of accounts. Rectification of errors depends upon.

- The Type of error and
- The time of depiction of an error.

**Time of Depiction of an error means.**

- i) Errors detected before the preparation of **Trial Balance**.
- ii) Errors detected after preparing Trial Balance but **before** preparing **final** accounts.
- iii) Errors detected after preparing Final Accounts.

## RECTIFICATION OF TWO SIDED ERRORS

Two sided errors are those errors which affect two sides of Accounts. These errors don't affect Trial Balance as discussed earlier.

These errors are rectified by passing a journal entry irrespective of the time of depiction. In other words their rectifying entry will be same whether (a) the error is depicted before Trial Balance or (b) after the preparation of Trial Balance but before the Final A/cs are prepared.

### Steps for Rectification

1. Locate the effect of Error on Different Accounts.
2. The Account showing excess Credit should be Debited.
3. The Account showing excess Debit should be Credited.
4. The Account showing short Debit should be Debited.
5. The Account showing short Credit should be Credited.

### Examples (With Explanation)

i) When an account has wrongly been debited in place of another A/c.

- Rectification will be done by debiting the correct account and Crediting the A/c which was wrongly debited.

*Example : Machinery purchased for ₹ 10,000 has been debited to Purchases A/c.*

- Machinery A/c is not debited hence its debit side is short by ₹ 10,000 whereas purchases A/c debited by mistake. Purchases A/c debit side is in excess by ₹ 10,000.
- While rectifying this mistake Machinery A/c will be debited by ₹ 10,000 because it was not debited earlier and Purchases A/c will be credited because it was wrongly debited.

### Rectifying Entry is

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Machinery A/c Dr.		10,000	
	To Purchases A/c (For Purchases of machinery wrongly debited to Purchases A/c)			10,000

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

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

**Solution :** This error also affects the two accounts.

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

**Hence Rectifying Entry is**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Sales A/c Dr.		5,000	
	To Furniture A/c (Sales of old Furniture wrongly Credited to Sales A/c)			5,000

ii) When there is a short debit in one A/c and a short Credit another A/c.

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

**Solution :**

- Here Seema's A/c is debited by ₹ 90 short and Sales A/c is credited by ₹ 90 short.
- Therefore rectification will be done by Debiting Seema's A/c and Crediting Sales A/c. Hence Rectifying entry is:

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Seema Dr.		90	
	To Sales A/c (For goods sold to Seema for ₹ 540 wrongly entered ₹ 450.)			90

**IV) When there is an Excess Debit in one account and Excess Credit in another account.**

**Example :** *Goods Purchases from Mohan is Debited and credited by ₹ 3,000 instead of ₹ 300 i.e. ₹ 2,700 more.*

- *Here Purchases A/c is Debited by ₹ 3,000 instead of ₹ 300, i.e. ₹ 2,700 more.*
- *Mohan's A/c is also Credited by ₹ 2,700 more.*
- *Rectification will be done by debiting Mohan's A/c & Crediting Purchases A/c by ₹ 2,700 i.e. the entry in the reverse direction.*

**Rectifying Entry**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Mohan Dr. To Purchases A/c (For purchases of goods from Mohan for ₹ 300 wrongly entered ₹ 3000)		2,700	2,700

**Remember:**

1. If an error is committed in the books of original entry then assume that posting into the ledger accounts is also wrong.
2. If the error is committed in posting, then assume that recording in the subsidiary books and journal is correct.

**Problem :**

**Rectify the following Errors :**

1. ₹ 5,000 paid for furniture purchased has been debited to purchases account.
2. Wages paid ₹ 7,000 for installation of new machinery were recorded in wages account.
3. Goods sold to Hari ₹ 10,000 not recorded.
4. ₹ 2,500 received from Monu has been credited to Sonu A/c.
5. Rent paid ₹ 1,000 wrongly debited to Landlord Account.
6. Credit Purchase from Raman ₹ 15,000 were wrongly

recorded in sales book.

7. Credit sales to Geeta ₹ 8800 were recorded as ₹ 8,000.
8. Goods ₹ 5,000 withdrawn by proprietor has not been recorded.

**Solution :**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
1.	Furniture A/c Dr. To Purchases A/c (The furniture purchase wrongly debited to purchases A/c)		5,000	5000
2.	Machinery A/c Dr. To Wages A/c (The wages for installation machinery wrongly debited to wages A/c.)		7,000	7,000
3.	Hari Dr. To Sales A/c (The goods sold to Hari not recorded.)		10,000	10,000
4.	Sonu Dr. To Monu (The amount wrongly credited to Sonu instead of Monu)		2,500	2,500
5.	Rent A/c Dr. To Landlord (The rent paid but wrongly debited to landlord A/c)		1,000	1,000
6.	Purchases A/c Dr. Sales A/c Dr. To Raman (Credit purchase from Raman wrongly recorded in sales book)		15,000 15,000	30,000

7.	Geeta To Sales A/c (Credit sales to Geeta recorded ₹ 800 short)	Dr.	800	800
8.	Drawing A/c To Purchases A/c (The goods withdraw, by Proprietor for personal use)	Dr.	5,000	5,000

*Important : Rectification of double sided errors can easily be understood by the students. These are rectified by passing the journal entries as given irrespective of the time of detection of the errors.*

### **RECTIFICATION OF ONE SIDED ERRORS**

*These errors affect only one side of an Account either debit or credit. Therefore these errors affect the Trial Balance.*

*Rectification of these errors is done differently, in these two cases i.e.*

- i) *Before preparing the Trial Balance.*
- ii) *After preparing the Trial Balance.*

#### **Case 1 : Rectification of one sided errors before preparing Trial Balance.**

*One-sided Errors are rectified directly by debiting or crediting the concerned ledger account.*

*For Short Debit → Concerned A/c is Debited.*

*For Excess Credit → Concerned A/c is Debited.*

*For Short Credit → Concerned A/c is Credited.*

*For Excess Debit → Concerned A/c is Credited.*

**Example :** (1) *Purchases Book under cast by ₹ 150.*

**Analysis :** *It means that the total of the Purchases Book is ₹ 150 short.*

- *This total is posted to purchases A/c Debit side.*
- *Hence Purchases A/c is debited or short by ₹ 150.*

- No effect on any other A/c.
- Therefore purchases A/c will be debited by ₹ 150 to rectify this error as given below.

*Purchase Account*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
	To Undercast of purchase book		150				

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

**Example :** Purchases Book is overcast by ₹ 300.

**Analysis**

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

**Purchases Account**

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
					To Overcast of purchase book		300

- Here debit side of the purchases A/c was in excess, therefore the rectification is done by entering the amount on the opposite side i.e., Credit side of the Purchases A/c.

**Cash 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 Suspense Account.

- *Short debit in one Account → Debit that Account and Credit the Suspense A/c.*
- *Excess Credit in one Account → Debit that A/c 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 :** Hence for the same error as given in example No. 1 in case I, the following Journal Entry will be passed.

Date	Particulars	C.F.	Dr. (₹)	Cr. (₹)
	Purchases A/c Dr. To Suspense A/c (For undercast of purchases book, now corrected.)		150	150

**Example 4 :** Sales Book was undercast by ₹ 200.

#### Analysis

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

Date	Particulars	C.F.	Dr. (₹)	Cr. (₹)
	Suspense A/c Dr. To Sales A/c (For undercast of sales books, now corrected)		200	200

**Note :** When nothing is mentioned in the question about the time of detection of an error, the student are advised to rectify one sided errors through Suspense A/c.

**Problem :** Rectify the following error

- A) Without opening a Suspense A/c
- B) By passing journal entries through Suspense A/c.
  - 1) ₹ 5,000 paid to Mohit were entered in cash Book but omitted to be posted to the ledger.
  - 2) ₹ 5,000 paid to Mohit were debited to his A/c as ₹ 500.
  - 3) ₹ 5,000 paid to Mohit were debited to his A/c as ₹ 50,000.
  - 4) ₹ 5,000 paid to Mohit were credited to his A/c.
  - 5) ₹ 5,000 paid to Mohit were credited to his A/c as ₹ 500.
  - 6) Sales Book was overcast by ₹ 2,000.
  - 7) Sales Return Book undercast by ₹ 4,000.
  - 8) Purchases Return book undercast by ₹ 5,000.

**Solution**

- A) Without opening a suspense A/c. These errors are rectified in the concerned ledger A/c, as these errors are before preparing Trial Balance.
  - 1. Mohit will be the debited by ₹ 5,000 as it is a case of partial omission.
  - 2. Mohit was debited ₹ 4500 (5,000-500) therefore the rectification will be done by debiting Mohit by ₹ 4,500.
  - 3. Mohit was debited in excess by ₹ 45,000 (50,000-5,000) therefore rectification will be done by crediting the Mohit by ₹ 45,000.
  - 4. Mohit was credited by ₹ 5,000 instead of debited by ₹ 5,000 therefore rectification will be done by debiting Mohit by ₹ 10,000 (5,000+5,000)
  - 5. Mohit was wrongly credited by ₹ 500 instead of debiting it by ₹ 5,000 so rectification will be done by debiting the Mohit by ₹ 5,500.
  - 6. Sales book overcast means sales is credited is excess

by ₹ 2,000. Hence rectification will be done by debiting sales A/c by ₹ 2000.

7. Sales Return Book total undercast by ₹ 4,000 means sales return debit is short by ₹ 4,000 Hence rectification will be done by debiting sales return by ₹ 4,000.

8. Purchases Return Book undercast by ₹ 5,000 means purchases return is credited short by ₹ 5,000.

Hence rectification will be done by crediting the purchases return by ₹ 5,000.

B) By opening suspense A/c.

### Journal

Sr. No.	Particulars	L.F.	Dr. (₹)	Cr. (₹)
1.	Mohan Dr. To Suspense A/c (For cash paid to Mohit omitted to be posted to his A/c)		5,000	5,000
2.	Mohit Dr. To Suspense A/c (For Mohit A/c was debited with excess amount)		4,500	4,500
3.	Suspense A/c Dr. To Mohit (For Mohit A/c was credited with excess amount.)		45,000	45,000
4.	Mohit Dr. To Suspense A/c (For posting to Mohit's A/c was done on wrong side)		10,000	10,000
5.	Mohit Dr. To Suspense A/c (For posting made with wrong amount and wrong side)		5,500	5,500

6.	Sales A/c To Suspense A/c (For overdraft of sales book rectified)	Dr.	2,000	2,000
7.	Sales Return A/c To Suspense A/c (For undercast of sales return book rectified)	Dr.	4,000	4,000
8.	Suspense A/c To Purchases Return A/c (For undercast of purchase return Book, rectified)	Dr.	5,000	5,000

### Suspense Account and its Disposal

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

#### Important

- When inspite of all the efforts the Trial Balance does not tally, the difference is put to a newly opened account named Suspense A/c.
- Suspense A/c is an imaginary account, opened temporarily for the purpose of reconciling a Trial Balance.
- Later on when the errors affecting the Trial Balance are located, rectification entries are passed through the Suspense A/c.
- When all the errors are located and rectified, the Suspense A/c will be Automatically closed i.e., it will show zero balance.
- But if suspense A/c still shows a balance it will indicated that some error are still to be discovered and rectified.

**Problem :** An accountant of a trading concern could not agree the Trial Balance. There was an excess credit of ₹ 100 which he transferred to the suspense A/c. The following errors were subsequently discovered.

1. Received ₹ 550 from X, were posted to the debit of his account.
2. ₹ 100 being purchases return were posted to the debit of purchases A/c.
3. Discount received ₹ 200 Correctly entered in the Cash Book but posted to the debit of the discount A/c.

4. Salary paid ₹ 3,500 to X were posted to the salary A/c as ₹ 2,500.
5. A purchase of ₹ 400 has been passed through Sales Book. However the customer's account has been correctly credited.

**Give Rectifying entries and Suspense A/c  
Journal**

Error	Particulars	L.F.	Dr. (₹)	Cr. (₹)
1.	Suspense A/c Dr. To X (Amount receive from X was posted to the wrong side now corrected)		1,100	1,100
2.	Suspense A/c Dr. To Purchase A/c To Purchases Return A/c (For the purchases 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 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. <b>Suspense Account</b>				Cr.			
Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
	To Difference in the Trial Balance		100	(4)	By Salary A/c		1,000
				(5) (i)	By Purchases A/c		400
				(5) (ii)	By Sales A/c		400
(1)	To X		1,100				
(2)	To Purchases A/c		100		By Balance c/d		Nil
(3)	To Purchases Return A/c		100				
(4)	To Discount A/c		400				
			1,800				1,800

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

### Rectification of Errors (Practical Questions)

#### A) Rectify the following errors.

1. Salary paid ₹ 50,000 wrongly debited to Sundry Expenses A/c.
2. ₹ 75,000 paid by Cheque as salary, debited to personal A/c.
3. A sale of old furniture for ₹ 2,00,000 has been credited to sales A/c.
4. Sales of ₹ 10,000 to Ramesh were recorded as ₹ 1,000 in the Sales Book.
5. Goods for ₹ 2,50,000 were purchases from Kashmir Singh Trader on credit, but no entry has yet been passed.
6. Purchases return for ₹ 15,000 not recorded in the book.
7. An invoice for goods sold to X was overcast by ₹ 22,000.
8. A credit sales of good to Sunil ₹ 50,000 has been wrongly passed through the Purchases Book.
9. Bill for ₹ 9990 received from Rahul for repairs to machinery was entered in the purchases book 999.
10. A bill payable ₹ 81,000 given to Vijay was wrongly passed through bill receivable book.

11. Goods costing ₹ 4,000 market price ₹ 5,000 taken by the proprietor have not been entered in the books at all.
  12. A return of goods worth ₹ 25,000 from Pradeep was entered in the Purchases Return Book.
  13. Goods worth ₹ 500 were given as charity by the owner of the firm not recorded in the books of accounts.
  14. ₹ 20,000 paid for proprietor life insurance were debited to Miscellaneous Expenses Account.
  15. A Cheque for ₹ 30,000 received from Sonakshi was dishonored and debited to Discount Allowed Account.
- B) There was a difference of ₹ 50,000 in a Trial Balance. It was placed on the debit side of a Suspense account later on following errors were discovered. Pass rectifying Journal entries and prepare suspense Account.
1. Purchases Book was overcast by ₹ 2,000.
  2. Sales book was overcast by ₹ 5,000.
  3. Goods for ₹ 20,000 purchases from Vijay entered in the purchases book, has not been posted to his account.
  4. An amount of ₹ 5,000 has been posted to the credit side of commission account instead of ₹ 5700.
  5. Goods sold to B for ₹ 4,400 has been posted to his account as ₹ 4,000.
  6. Cash ₹ 3,000 paid by Raman posted to Raja's Account.

## CHAPTER – 9

---

# FINANCIAL STATEMENTS OF SOLE PROPRIETORSHIP

---

### Learning Objectives

After studying this lesson 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 proprietor firm.

### Teaching Methodology

For teaching this topic the teacher should use discussion method, explanation method, illustration method etc.

### Financial Statements

Financial statements are those statements that are prepared at the end of an accounting period to ascertain the performance and financial position of a business. These are also called final account. Financial statements of sole proprietorship are trading account Profit and loss Account and Balance sheet.

Final statements include these statements :

- i) Income statement (Trading and Profit and Loss Account) – Prepared to ascertain gross profit and net profit/loss during an accounting period.

- ii) **Statement of Financial Position (Balance Sheet)** – Prepared to ascertain position (assets, liabilities and capital) of an enterprise at a particular point of time.
- iii) **Schedules and notes forming part of Balance sheet and income statement** – to give detail of various items shown in both the statements.

#### **Objectives of Preparing Financial Statements.**

- a) To present a true and fair view of the financial performance of the business.
- b) To present a true and fair view of the financial position of the business.
- c) Helps in estimating the extent of a company's capacity to earn profit.

#### **Importance of Financial Statements**

- a) **Importance to Management:** The financial statements helps the management to know about the current position of the business as up to date, accurate and systematic information relating to the business. It enables the management to identify the current position, progress of the business and the business prospects which leads the managers to take necessary remedies and plans to develop the business environment.
- b) **Importance to Shareholders (Owners):** Financial statements enables the shareholders to know about the performance of the management and it will give the relevant information of the effectiveness, efficiency and the current financial position of the business.
- c) **Importance to Leaders or Creditors:** The financial statements provides the useful. information or guide to the suppliers or the creditors of the enterprise. Financial Statements provide information of the company's short term solvency.

- d) **Importance to staff:** The financial statements provide the profit and loss account of the business. This enables the staff to identify the profit condition of the business and helps to negotiate for the better salary because the profit of the company depends on the salary for the staff.

### **Capital Expenditure:**

The non-recurring expenditure whose benefit is derived by the business for more than a year is called Capital Expenditure.

It includes amount spent or liabilities incurred to acquire or improve any fixed assets or acquiring any legal rights or first-time expenses incurred to make fixed assets workable e.g. purchase of machinery/building/furniture etc., expenses incurred to acquire Patents, Trade-mark etc. and expenditure incurred for getting an asset ready to use (like installation exp., carriage, first time expenses incurred on second hand fixed asset for making it ready to use).

Capital expenditures are shown on the assets side of the Balance sheet.

### **Revenue Expenditure**

The recurring and routine nature expenditures which are incurred for operating the business smoothly and which help to maintain business's earning capacity, are called Revenue expenditure e.g. expenses incurred for producing finished goods such as direct expenses, purchase of raw material and other expenses as rent, salary, repairs etc.

The benefit of these expenses last in one year (give benefit up to one year). These expenses are shown in Debit side of income statement (trading and profit and loss account).

### **Deferred Revenue Expenditure**

The expenditure which is revenue in nature, but the heavy amount spent and benefit likely to be derived over a number of years called deferred revenue expenditure e.g. heavy expenses on advertising on launching of a new product and hence it is capitalized like any fixed asset.

### **Accounting treatment of Deferred Revenue Expenditure.**

As per matching principle, expenses incurred in an accounting period are matched with the revenue recognized in that accounting period. So the whole deferred revenue expenditure should be spread over the number of years over which benefit is likely to be derived.

During the current accounting year (a) Only that portion of the expenditure should be charged to the profit and loss account which has facilitate the enterprise to earn revenue during current year (b) Remaining amount of expenditure be carried forward to the next year and shown in the assets side of balance sheet (It is also called a fictitious asset).

### **Capital Receipt.**

Capital receipts are those irregular receipts that don't affect profit or loss of business; it either increases the liabilities (raising of loan) or reduces the fixed assets (by sale of fixed assets), so it will be shown in balance sheet.

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

### **Revenue Receipt**

Revenue receipts are received in the normal and regular course of business like Receipts from sale of goods and rendering services to customers. Income from non-operating business activities (like income from investment i.e. interest and dividend received and rent received, Commission and other fees received for non-operating business etc. These receipts increases profit and shown in the credit side of the Trading and Profit & Loss account.

### **Types of Expenses**

Direct Expenses : Those expenses which are incurred on purchasing of goods and for converting raw material into the finished goods e.g.

Manufacturing wages, Expenses on purchases (including all duty and

tax paid on purchases), Carriage/Freight/Cartage inwards, Production expenses (such as power and fuel, water etc.), factory expenses (e.g. lighting, rent and rates). Royalty based on Production etc.

**Note :** All direct expenses are debited to Trading account.

**Indirect Expenses :** Those expenses which are not directly related to production or purchase of the goods are called indirect expenses. It includes those expenses which are related to office and administration, selling and distribution of goods and financial expense etc.

These expenses are shown in the debit side of the Profit and Loss Account.

#### **Calculation of Gross Profit**

Gross Profit = Net Sales – Cost of Goods Sold

Cost of Goods Sold = Opening Stock + Net Purchases + Direct Expenses – Closing stock

#### **Calculation of Operating Profit**

**Operating Profit** = Net Sales – Operating Cost

or

= Gross Profit – (Office and Administrative Expenses + Selling and Distribution etc.)

**Operating Cost** = Cost of Goods Sold + Office and Administrative Expenses + Selling and Distribution Expenses.

**Net Profit** = Operating Profit + Non-operating income – Non-operating expenses.

#### **Operating Expenses**

The expenses which are related to the main or normal activities of the business e.g. office and Administrative expenses, selling and distribution expenses, Operating profit is also called EBIT (Earnings before interest and taxes)

## INCOME STATEMENT

It is divided into two parts:

1. Trading Account which shows the gross profit or gross loss.
2. Profit and Loss Account which shows the net profit or net loss.

### Format of Trading Account

Name of Business Firm			
Trading Account			
Dr.			Cr.
Particulars	₹	Particulars	₹
To Opening Stock	.....	By Sales	.....
To Purchases	.....	Less : Sales Returns or	
Less : Purchases Return		Return inwards	.....
Returns outwards	.....	By Scrap sales	.....
To All Direct Expenses	.....	By Closing Stock	.....
To Wages	.....		
To Wages & Salaries	.....		
To Carriage of Carriage inwards			
Carriage on purchases	.....		
To Direct Expenses	.....		
To Gas, Fuel and power	.....		
To Freight, octroi and cartage	.....		
To Manufacturing Expenses or			
Productive expenses	.....		
To Custom or import duty	.....		
To Dock and clearing charge	.....		
To Excise duty	.....		
To Factory rent and lighting	.....		
To Other direct charges	.....		
To Royalty	.....		
To Gross Profit transferred to		By Gross Loss transferred to	.....
Profit and Loss A/c		Profit and Loss A/c	
(Balancing figure)	.....	(Balancing figure)	

**Illustration 1**

Opening stock ₹30,000, Net Purchase ₹54,600 expenses on purchase ₹5,000, Net Sales ₹100,000, closing stock ₹40,000 calculate cost of goods sold and gross profit.

**Solution :**

$$\begin{aligned}\text{Cost of Goods sold} &= \text{Opening stock} + \text{Net Purchase} + \text{expenses on purchase} - \text{Closing Stock} \\ &= ₹ 30,000 + ₹ 54,600 + ₹ 5,000 - ₹ 40,000 \\ &= ₹ 49,600 \\ \text{Gross Profit} &= \text{Net sales} - \text{Cost of goods sold} \\ &= ₹ 100,000 - ₹ 49,600 \\ &= ₹ 50,400\end{aligned}$$

**Illustration 2**

Net sales during the year is ₹ 3,00,000, Gross profit is 25% on sales. Find out cost of goods sold.

**Solution :**

$$\text{Gross Profit} = ₹ 300,000 \times \frac{25}{100} = ₹ 75,000$$

$$\begin{aligned}\text{Cost of goods sold} &= \text{Net Sales} - \text{Gross Profit} \\ &= ₹ 300,000 - ₹ 75,000 \\ &= ₹ 2,25,000\end{aligned}$$

**Illustration 3**

Net sales during the year is ₹ 6,00,000. Gross profit is 25% on cost. Find out gross profit and cost of good sold.

**Solution :**

Here, Gross Profit is 25% on cost

Hence, If cost is ₹ 100, Gross Profit will be ₹ 25 and sales will be ₹ 125

Thus, If sales is ₹ 125, Gross Profit will be ₹ 25

If sales is ₹ 600,000, Gross Profit will be  $600,000 \times \frac{25}{125} = ₹ 1,20,000$

Cost of goods sold = Net Sales – Gross Profit

$$= ₹ 6,00,000 - ₹ 1,20,000 = ₹ 4,80,000$$

Note : Gross profit 25% or  $\frac{1}{4}$ <sup>th</sup> on cost is equal to  $\frac{1}{5}$ <sup>th</sup> on sales

$$\text{Gross profit} = ₹ 6,00,000 \times \frac{1}{5} = ₹ 1,20,000$$

#### Illustration 4

Calculate Net Sales and Gross Profit from the following information.

Cost of goods sold ₹ 2,00,000

Gross profit 20% on sale

#### Solution

Let sale =  $x$

Sale = Cost of good sold + Gross Profit

$$x = ₹ 200,000 + .20x$$

$$x = ₹ 250,000$$

$$\text{Gross Profit} = ₹ 250,000 - ₹ 200,000 = ₹ 50,000$$

Note : Gross Profit 20% or  $\frac{1}{5}$ <sup>th</sup> on sale, equal to  $\frac{1}{4}$ <sup>th</sup> on cost

$$\text{Gross Profit} = ₹ 200,000 \times \frac{1}{4} = ₹ 50,000$$

#### Illustration 5

Calculate Gross Profit

	₹
Total Purchase	680,000
Purchase Return	30,000
Direct Expenses	70,000
Carriage Outwork	15,000
3/4 of the goods are sold ₹ 600,000	

**Solution**

$$\begin{aligned}\text{Cost of goods sold} &= \text{Total Purchase} - \text{Purchase Return} + \text{Direct Expenses} \\ &= 6,80,000 - 30,000 + 70,000 = 7,20,000 \\ \text{Cost of } 3/4 \text{ of the goods sold} &= 7,20,000 \times \frac{3}{4} = 5,40,000\end{aligned}$$

$$\begin{aligned}\text{Gross Profit} &= \text{Sales} - \text{Cost of goods sold} \\ &= 6,00,000 - 5,40,000 \\ &= 60,000\end{aligned}$$

**Illustration 6**

Calculate the amount of operating profit from the following balances:

Net sales	5,00,000
Cost of goods sold	3,00,000
Operating Expenses	1,20,000

**Solution**

$$\begin{aligned}\text{Operating Cost} &= \text{Cost of Goods Sold} + \text{Operating Expenses} \\ &= 3,00,000 + 1,20,000 \\ &= 4,20,000 \\ \text{Operating Profit} &= \text{Net Sales} - \text{Operating Cost} \\ &= 5,00,000 - 4,20,000 \\ &= 80,000\end{aligned}$$

**Illustration 7**

Calculate the value of closing stock from the following information :

Purchase	93,000	Wages	20,000
Sales	1,20,000	Carriage Outward	3,200

Rate of Gross Profit 40% on sales

**Solution****Trading Account for the year ended**

Dr.

<i>Particulars</i>	₹	<i>Particulars</i>	₹
To Purchases	93,000	By Sales	1,20,000
Wages	20,000	By Closing Stock (Bal. Fig.)	41,000
To Gross Profit (Transferred to Profit & Loss Account)	48,000		
	1,61,000		1,61,000

**Illustration 8**

This information is provided by Mr. Rohit

Stock as on 01.04.2019 ₹ 20,000

During the year Sales was ₹ 4,00,000; Purchases ₹ 2,90,000; Carriage Inwards ₹ 8,000; Clearing charges ₹ 10,000; Sales Returns ₹ 3,000; Purchases Returns ₹ 4,000; Carriage Outwards ₹ 5,000 and Stock on 31.03.2019 was ₹ 30,000.

Calculate cost of goods sold and prepare Trading Account for the year ending 31.03.2019.

**Solution :****Trading Account for the year ended on March 31, 2019**

Dr.

<i>Particulars</i>	₹	<i>Particulars</i>	₹
To Opening Stock	20,000	By Sales 4,00,000	
To Purchases 2,90,000		Less : Sales Returns (3,000)	3,97,000
Less: Returns <u>4,000</u>	2,86,000	By Closing Stock	1,30,000
To Carriage Inwards	8,000		
To Clearing Charges	10,000		
To Gross Profit (Transferred to Profit & Loss Account)	1,03,000		
	4,27,000		4,27,000

Cost of goods sold = Net Sales – Gross Profit

= ₹2,94,000

**Adjusted Purchase :**

Sometimes the opening and closing stock are adjusted through purchases account. In that case, the entry recorded is as follows :

Closing Stock A/c Dr.

To Purchase A/c

This entry reduces the amount in the purchases account and is also known as adjusted purchases which is shown on the debit side of the Trading and profit & loss account.

When the opening and closing stocks are adjusted through purchases, the Trial Balance does not show any opening stock. Instead, the closing stock shall appear in the Trial Balance (not as additional information or as an adjustment item) and so also the adjusted purchases.

### Illustration 9

**Prepare the Trading Account for the year ended 31st March, 2019 from the following information.** Adjusted purchase ₹ 25,00,000; Freight outwards ₹ 15,000; Wages ₹ 1,68,000; Octroi charges ₹ 2,000; Carriage inwards ₹ 20,000; Fuel & Power ₹ 30,000; Office rent ₹ 18,000; Trade expenses ₹ 10,000; Sales ₹ 32,00,000; Closing Stock ₹ 1,50,000

**Solution :**

**Trading Account**  
**for the year ending 31st March, 2019**

Dr.

Cr.

<i>Particulars</i>	<i>₹</i>	<i>Particulars</i>	<i>₹</i>
To Adjusted Purchases	25,00,000	By Sales	32,00,000
To Wages	1,68,000		
To Octroi Charges	2,000		
To Carriage Inwards	20,000		
To Fuel and Power	30,000		
To Gross Profit transferred to profit or loss A/c	4,80,000		
	32,00,000		32,00,000

## Format of Profit & Loss Account

### Profit & Loss Account for the year ending.....

Dr.

Cr.

<b>Particulars</b>	<b>₹</b>	<b>Particulars</b>	<b>₹</b>
To Gross Loss (Transferred from Trading A/c)		By Gross Profit (Transferred from Trading A/c)	
<b>Office &amp; Admin. Expenses</b>		By Rent Received	
To Salaries		By Rent (Cr.)	
To Rent Rates Taxes		By Discount Received	
To Printing and Stationery		By Discount (Cr.)	
To Salaries & Wages		By Rebates	
To Postages and Telephones		By Commission Received	
To Office Lighting		By Interest Received	
To Insurance Premium		By Dividend Received	
To Legal Expenses		By Bad Debts Recovered	
To Establishment Expenses		By Apprentice fees or premium	
To Audit Fees		By Gain on Sale of Fixed Asset	
To Trade Expenses		By Miscellaneous Receipts	
To Travelling Expenses		By Net Loss (If Dr. Side > Cr. Side)	
To General Expenses		(Transferred to Capital Account)	
<b>Selling &amp; Distribution Exp.</b>			
To Carriage and Freight Outwards			
To Commission			
To Brokerage			
To Advertisement			
To Publicity			
To Bad Debts			
To Export Duty			
To Packing Expenses			
To Salaries of Salesman			
To Delivery Van Expenses			
<b>Financial Exp.</b>			
To Interest paid on loans			
To Interest (Dr.)			
To Discounts (Dr.)			
To Rebate Allowed			

To Bank Charges			
<b>Miscellaneous Exp.</b>			
To Repairs			
To Depreciation on Fixed Assets			
To Conveyance Expenses			
To Entertainment Expenses			
To Donations & Charity			
To Loss on Sale of Fixed Assets			
To Stable Expenses			
To Loss by Fire			
To Loss by theft			
To Unproductive Expenses			
To Net Profit Transferred to Capital Account			
(If Cr. side > Dr. side)			

- \* The words 'To' and 'By' are generally not used these days.
- \* The name of Business Firm is stated on the top of Trading and P & L Account.

### Illustration 10

From the following information, prepare a Profit & Loss Account for the year ending 31st March 2019.

Gross Profit ₹70,000; Rent ₹5,000; Salary ₹15,000; Wages ₹8,000; Commission paid ₹7,000; Interest on loans ₹5,000; Advertising ₹3,000; Discount Received ₹2,000; Printing & Stationery ₹1,000; Legal charges ₹2,500; Bad Debts ₹1,500; Depreciation ₹1,000; Income received on Investment ₹3,000; Loss by Fire ₹2,200; Bad Debts recovered ₹200; Freight outward ₹600, Audit Fee ₹450.

**Solution :**

#### Profit and Loss A/C of ..... for the year ending 31st March, 2019

Dr.		Cr.	
<b>Particulars</b>	<b>₹</b>	<b>Particulars</b>	<b>₹</b>
To Rent	5,000	By Gross Profit	70,000
To Salary	15,000	By Discount received	2,000
To Commission	7,000	By Bad debts Recovered	200

To Interest on Loans	5,000	By Income from Investment	3,000
To Advertising	3,000		
To Printing and Stationery	1,000		
To Legal Charges	2,500		
To Bad Debts	1,500		
To Depreciation	1,000		
To Loss by Fire	2,200		
To Freight outward	600		
To Audit Fee	450		
To Net Profit	30,950		
(to transferred to Capital A/C)			
	75,200		75,200

### Illustration 11

From the following balances obtained from the accounts of Mr. Hemant, prepare the Trading and Profit & Loss Accounts:

<i>Particulars</i>	₹	<i>Particulars</i>	₹
Stock on April 01, 2015	8,000	Bad debts	1,200
Purchases for the year	22,000	Rent	1,200
Sales for the year	42,000	Discount (Dr.)	600
Wages	2,500	Commission paid	1,100
Salaries & Wages	3,500	Sales Expenses	600
Advertisement	1,000	Repairs	600

Closing stock on March 31, 2019 is ₹ 4,500.

**Solution :**

### Books of Mr. Hemant Trading and Profit & Loss Account for the year ended on March, 31, 2019

Dr.

Cr.

<i>Particulars</i>	₹	<i>Particulars</i>	₹
Opening stock	8,000	Sales	42,000
Purchases	22,000	Closing stock	4,500
Wages	2,500		
Gross Profit c/d	14,000		
	46,500		46,500

<i>Particulars</i>	₹	<i>Particulars</i>	₹
Salaries and Wages	3,500	Gross Profit b/d	14,000
Rent	1,200		
Advertisement	1,000		
Commission	1,100		
Discount	600		
Bad debts	1,200		
Sales Expenses	600		
Repairs	600		
Net Profit (transferred to capital)	4,200		
	14,000		14,000

### BALANCE SHEET

#### Meaning of Balance Sheet

Balance sheet is a summarised statement of assets and liabilities, prepared generally at the end of financial year to show the financial position of the business. All liabilities are put on the left hand side of balance sheet where all assets are shown on its right hand side.

#### GROUPING AND MARSHALLING OF ASSETS AND LIABILITIES

**Grouping :** The term 'Grouping' means putting together items of a similar nature under a common heading. For example, under the heading 'Trade creditors, the balances of the ledger accounts of all the suppliers from whom goods have been purchased on credit, will be shown.

**Marshalling :** It refers to the order in which the various assets and liabilities are shown in the Balance Sheet. The assets and liabilities can be shown either in the order of liquidity or in the order of performance.

#### Order of Liquidity

1. The assets are arranged in the order of their liquidity *i.e.*, the most liquid asset (e.g., cash in-hand), is shown first. The least liquid asset (e.g., goodwill) is shown last.
2. The liabilities are arranged in the order of timing *i.e.*, the liabilities which are to be paid immediately (e.g., Creditors) are shown first and which are to be paid later are shown at last (long-term loans).

A general format of a Balance Sheet in order of liquidity is shown below :

**Balance Sheet of .....**

**As at.....**

<b>Liabilities</b>	<b>₹</b>	<b>Assets</b>	<b>₹</b>
<b>Current Liabilities:</b>		<b>Current Assets:</b>	
Bank Overdraft	xxx	Cash-in hand	
Bills Payable	xxx	Cash at Bank	xxx
Sundry Creditors	xxx	Bills Receivable	xxx
Outstanding Expenses	xxx	Short Term Investment	xxx
Income received-in-advance	xxx	Sundry Debtors	xxx
<b>Long-term Liabilities:</b>		Prepaid Expenses	xxx
Long term loan	xxx	Accrued Income	xxx
<b>Reserve and Surplus</b>		Closing Stock	xxx
<b>Capital</b>	xxx	<b>Investment: (long term)</b>	xxx
Add : Interest on Capital	xxx	<b>Fixed Assets:</b>	xxx
Add : Net Profit	xxx	Furniture an Fixture	xxx
Less : Drawings	xxx	Plant & Machinery	xxx
Less : Interest on Drawings	xxx	Building	xxx
Less : Income Tax	xxx	Land	xxx
Less : Life Insurance Premium	xxx	Goodwill	xxx
Less : Net Loss	xxx		

**Order of Permanence :** This order is exactly reverse of the liquidity order.

1. The assets are arranged in the order of their performance i.e., the least liquid asset (e.g., goodwill) is shown first and the most liquid asset (e.g., Cash-in-hand) is shown last.
2. The least urgent payment to be made (e.g., short-term creditors) is shown last.
3. A company is required to prepare the balance sheet in order of performance.

A general format of a Balance Sheet in the order of performance is shown below :

**Balance Sheet of .....**

<b>Liabilities</b>	<b>₹</b>	<b>Assets</b>	<b>₹</b>
<b>Capital</b>		<b>Fixed Assets:</b>	
Opening Balance      XXX		Goodwill	XXX
Add: Net Profit <u>XXX</u>		Land	XXX
(Less: Net Loss)		Building	XXX
Less: Drawings <u>XXX</u>	XXX	Plant & Machinery	XXX
<b>Long-term Liabilities:</b>		Furniture & Fixtures	XXX
Long term loan	XXX	Investment: (long term)	XXX
<b>Current liabilities:</b>		<b>Current Assets:</b>	
Income received-in-advance	XXX	Closing stock	XXX
Outstanding Expenses	XXX	Accrued Income	XXX
Sundry Creditors	XXX	Prepaid expenses	XXX
Bills Payable	XXX	Sundry Debtors	XXX
Bank Overdraft	XXX	Bills Receivable	XXX
		Cash at Bank	XXX
		Cash in Hand	XXX
	XXX		XXX

**Illustration 12**

From the following Trial Balance of Shri Hemant Babu prepare Trading and Profit and Loss A/C for the year ending 31st March 2019 and Balance Sheet as on that date. The Closing Stock on 31st March 2019 was valued at ₹ 25,000.

<b>Debit Balances</b>	<b>₹</b>	<b>Credit Balances</b>	<b>₹</b>
Stock (1-4-2015)	20,000	Sundry Creditors	15,000
Purchases	75,000	Purchase Returns	3,000
Sales Return	8,000	Sales	2,50,000
Freight and Carriage	7,500	Commission	3,300
Wages	36,500	Capital	1,70,500
Salaries	12,000	Interest on Bank Deposit	2,000
Repairs	1,200	B/P	6,200
Trade Expenses	4,000		

Rent and Taxes	24,000		
Cash in Hand	5,700		
B/R	4,000		
Debtors	55,000		
Plant and Machinery	160,000		
Withdrawals (Drawings)	16,600		
Bank Deposit	20,500		
	450,000		450,000

(Books of Hemant Babu)

### Solution

### TRADING AND PROFIT AND LOSS ACCOUNT

for the year ending 31st, March 2019

Dr.

Cr.

<i>Particulars</i>	₹	<i>Particulars</i>	₹
To Opening Stock	20,000	By Sales Return 2,50,000	
To Purchases 75,000		Less : Sales Return <u>8,000</u>	2,42,000
Less : Purchase Returns <u>3,000</u>	72,000	By Closing Stock	25,000
To Freight & Carriage	7,500		
To Wages	36,500		
To Gross Profit c/d	1,31,000		
	2,67,000		2,67,000
To Salaries	12,000	By Gross Profit b/d	1,31,000
To Repairs	1,200	By Commission	3,300
To Trade Expenses	4,000	By Interest on Bank Deposit	2,000
To Rent & Taxes	24,000		
To Net Profit transferred to Capital A/c	95,100		
	1,36,300		1,36,300

### BALANCE SHEET

as on 31st March, 2019

<i>Liabilities</i>	₹	<i>Assets</i>	₹
B/P	6,200	Cash in hand	5,700
Sundry Creditors	15,000	B/R	4,000
Capital 1,70,500		Sundry Debtors	55,000

Add : Net Profit	95,100		Closing Stock	25,000
	<u>2,65,600</u>		Bank Deposit	20,500
Less : Drawings	16,600	2,49,000	Plant & Machinery	1,60,000
		<u>2,70,200</u>		<u>2,70,200</u>

**Note :-** The heading of Trading A/c and Profit & Loss A/c is put collectively as 'Trading and Profit & Loss A/c'. The first part of this Account is Trading A/c, whereas the second part is Profit & Loss A/c.

### **Adjustment in preparation of financial statements of Sole-proprietor**

**Meaning of Adjustment entries :** Those entries which need to be passed at the end of the accounting year to show the accurate profit or loss and fair financial position of the business.

**Need of Adjustment :** There are number of transactions that may not find the place in the Trial Balance due to any reason such as Closing Stock (because it is valued at the end of the year), Manager's Commission based on Net profits (because its calculation requires preparation of Income Statement first). These transactions can only be taken into account by passing Adjustment entries so that their impact on the profitability and financial position can be shown.

**Closing Stock :** The closing stock represents the cost of unsold goods lying in the stores at the end of the accounting period.

**Outstanding Expenses :** When expenses of an accounting period remain unpaid at the end of an accounting period, they are termed as outstanding expenses.

As they relate to the earning of revenue during the current accounting year, it is logical that they should be duly charged against the revenue for computation of the correct amount of profit or loss.

**Prepaid Expenses :** At the end of the accounting year, it is found that the benefits of some expenses have not yet been fully received; a portion of its benefit would be received in the next accounting year. This portion of expenses, is carried forward to the next year and is termed as prepaid expenses.

**Accrued Income :** It may sometime happen that certain items of income such as a interest on loan, commission, rent, etc. are earned during the current accounting year but have not been actually

received by the end of the same year. Such incomes are known as accrued income.

**Income Received in Advance :** Sometimes, a certain income is received but the whole amount of it does not belong to the current period. The portion of the income which belongs to the next accounting period is termed as income received in advance or an Unearned Income.

**Depreciation :** It is the decline in the value of assets on account of wear and tear and passage of time. It is treated as a business expense and is debited to profit & loss account.

This, in effect, amounts to writing-off a portion of the cost of an asset which has been used in the business for the purpose of earning profits.

Closing Stock	Closing Stock A/c To Trading A/c	Dr.	(i) Credit side of Trading A/c. (ii) Show on the assets side of BALANCE SHEET.
Outstanding/Unpaid Expenses	Expenses A/c To outstanding Exp. A/c	Dr.	(i) Add to the concerned item on the Debit side of Trading/Profit & Loss A/c. (ii) Show on the liabilities side of BALANCE SHEET.
Prepaid expenses/ Unexpired expenses	Prepaid Expenses A/c To expenses A/c	Dr.	(i) Deduct from the concerned expenses on the debit side of Profit & Loss A/c (ii) Show on the assets side of BALANCE SHEET.
Accrued income / Income due but not received	Accrued Income A/c To Income A/c	Dr.	(i) Add to the concerned income on Credit side of Profit and Loss A/c (ii) Show on the assets side of BALANCE SHEET.
Unearned income/ Income received in Advance	Income A/c To Unearned Income A/c	Dr.	(i) Deduct from the concerned income on the credit side of Profit & Loss A/c (ii) Show on the liabilities side of BALANCE SHEET.
Depreciation	Depreciation A/c To Asset A/c	Dr.	(i) Show on the debit side of Profit Loss A/c (ii) Deduct from the concerned asset in the Balance Sheet.

**Illustration 13**

The following were the balances extracted from the books of Roshan as on March 31, 2019.

<i>Debit Balance</i>	₹	<i>Credit Balance</i>	₹
Cash in hand	540	Sales	98,780
Cash at bank	2,630	Return	500
Purchases	40,675	Outwards	
Return inwards	680	Capital	62,000
Wages	8,480	Sundry	6,300
Fuel and Power	4,730	Creditors	
Carriage on sales	3,200	Rent	9,000
Carriage on purchases	2,040		
Opening stock	5,760		
Building	32,000		
Freehold land	10,000		
Machinery	20,000		
Salaries	15,000		
Patents	7,500		
General expenses	3,000		
Insurance	600		
Drawings	5,245		
Sundry Debtors	14,500		
	1,76,580		1,76,580

Taking into account the following adjustments, prepare Trading and Profit & Loss account and Balance Sheet as on March 31, 2019 :

- Stock in hand on March 31, 2019 was ₹ 6,800.
- Machinery is to be depreciated at the rate of 10% and patents @ 20% p.a.
- Salaries for the month of March, 2019 amounting to ₹ 1,500 were outstanding.
- Insurance includes a premium of ₹ 170 on a policy expiring on September 30, 2019.
- Rent receivable ₹ 1,000.

**Solution**

**Books of Roshan**  
**Trading and Profit & Loss Account**  
**for the year ended March 31, 2019**

Dr.

Cr.

<i>Particulars</i>	₹	<i>Particulars</i>	₹
Opening stock	5,760	Sales	98,780
Purchases 40,675		Less Return inwards (680)	98,100
Less Return outwards (500)	40,175	Closing stock	6,800
Wages	8,480		
Fuel and Power	4,730		
Carriage on purchases	2,040		
Gross profit c/d	43,715		
	1,04,900		1,04,900
Salaries 15,000		Gross profit b/d	43,715
Add Outstanding Salaries 1,500	16,500	Rent	9,000
		Add Accrued Rent 1,000	10,000
Carriage	3,200		
General expenses	3,000		
Insurance 600			
Less Prepaid Insurance (85)	515		
Depreciation : machinery 2,000			
Patent 1,500	3,500		
Net profit (transferred to capital account)	27,000		
	53,715		53,715

**Balance Sheet**  
**as at March 31, 2019**

<i>Liabilities</i>	₹	<i>Assets</i>	₹
Sundry creditors	6,300	Cash in hand	540
		Cash at bank	2,630
Salaries outstanding	1,500	Sundry debtors	14,500
		Insurance prepaid	85

Capital	62,000		Stock	6,800
Add Net Profit	27,000		Rent Accrued	1,000
			Freehold Land	10,000
	<u>89,000</u>			
			Building	32,000
Less Drawings	<u>(5,245)</u>	83,755	Machinery	20,000
			Less Depreciation	<u>(2,000)</u>
			Patents	7,500
			Less Depreciation	<u>(1,500)</u>
				6,000
		91,555		91,555

**Bad Debts** : The debtors from whom amounts cannot be recovered are treated in the books of accounts as bad and are termed as bad debts.

**Further Bad Debts** : These Bad debts is a loss that occurred after preparation of Trial Balance. Further bad debts be added in the bad debts already appearing in the Profit & Loss A/c and Debtors would be reduced with the same amount.

**Provision for Bad Debts** : In the balance sheet, debtors appears on the assets side of the Balance Sheet, which is their estimated realisable value during next year. It is quite possible that the whole of the amount may not be realized in future. However, it is not possible to accurately ascertain the amount of such bad debts.

Hence, a reasonable estimate of such loss is provided in the book. Such provision is called provision for bad debts. Provision for doubtful debts is shown as a deduction from the debtors on the asset side of the balance sheet.

**Note** : The provision for doubtful debts brought forward from the previous year is called the opening provision or old provision. When such a provision already exists, the loss due to bad debts during the current year are adjusted against the same and while making provision for doubtful debts required at the end of the current year is called new provision. The balance of old provision as given in trial balance should also be taken into account.

**Provision for discount on Debtors** : Discount is allowed to

customers to encourage them to make prompt payment. The discount likely to be allowed to customers in an accounting year can be estimated and provided for by creating a provision for Discount on debtors.

Provision for discount on debtors is made on good debtors which are arrived at by deducting further bad debts and provision for bad debts out of Debtors shown in the Balance sheet.

To write off bad debts	Bad Debts A/c Dr. To Debtors	(i) Debit side of P&L A/c. (ii) Deduct from debtors on the assets side of Balance Sheet.
Provision for bad and doubtful debts	(I) provision for Doubtful Debts A/c Dr. To Debtors A/c	(i) Debit side of P & L A/c. (ii) Deduct from debtors on the assets side of Balance Sheet.
Provision for Discount on debtors	(ii) P & L A/c Dr. To Provision for Discount on Debtors A/c	(i) Debit side of P & L A/c. (ii) Deduct from debtors on the assets side of Balance Sheet.

#### Illustration 14

An extract from a Trial Balance on March 31, 2019 is given below :

PARTICULARS	₹
Sundry Debtors	32,000
Bad Debts	2,000
Provision for Bad Debts	3,500

#### Additional Information

Write-off further Bad Debts ₹ 1,000 and create a provision for Doubtful Debts @ 5% on debtors.

### Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2019 March 31	(a)                      Bad debts A/c                      Dr. To sundry debtors A/c (Entry for further Bad Debts)		1,000	1,000
	(b)                      Provision for Doubtful Debts A/c                      Dr. To Bad-debts A/c (Bad debts adjust against provision)		3,500	3,500
	(c)                      Profit & Loss A/c                      Dr. To provision for doubtful debts A/c (Amount charges from P & L A/c)		1,050	1,050

### 'Profit and Loss Account' for the year ended March 31, 2019

Dr.

Cr.

Particulars	₹	Particulars	₹
Provision for doubtful debts:			
Bad debts                      2,000			
Add: Further bad debts    1,000			
Add: New provision        1,550			
	4,550		
Less: Old provision        3,500			
	<u>1,050</u>		

'Only relevant items.

### Balance Sheet\* as at March 31, 2019

Liabilities	₹	Assets	₹
		Sundry debtors                      32,000	
		Less Further Bad-debts        (1,000)	
			31,000
		Less Provision for                (1,550)	
		doubtful debts	<u>29,450</u>

\*Only relevant items in debit side of P & L A/C

Note : The amount of new provision for doubtful debts has been calculated as follows : ₹ 31,000 × 5/100 = ₹1,550

### Illustration 15

The following balances were extracted from the books of Shri Himanshu Traders on March 31, 2019.

Name of the Ledger A/c	₹	Name of the Ledger A/c	₹
Capital	1,00,000	Rent (Cr.)	2,100
Drawings	17,600	Railway freight on sales	16,940
Purchases	80,000	Carriage inwards	2,310
Sales	1,40,370	Office expenses	1,340
Purchases return	2,820	Printing and Stationery	660
Stock on April 01, 2018	11,460	Postage and Telegram	820
Bad debts	1,400	Sundry debtors	62,070
Bad debts Provision on April 01, 2018	3,240	Sundry creditors	18,920
		Cash in bank	12,400
Rates and Insurance	1,300	Cash in hand	2,210
Discount (Cr.)	190	Office furniture	3,500
B/R	1,240	Salaries and Commission	9,870
Sales returns	4,240	Addition to buildings	7,000
Wages	6,280		
Buildings	25,000		

Prepare the Trading and Profit & loss account and a Balance Sheet as on March 31, 2019 after keeping in view the following adjustments :

- Depreciate old building by ₹ 625 and addition to building at 2% and office furniture at 5%.
- Write-off further Bad Debts ₹ 570.
- Increase the Bad Debts Reserve to 6% of Debtors.
- ₹ 570 are outstanding for salary.
- Rent receivable ₹ 200 on March 31, 2019
- Interest on capital is to be charged @ 5%.
- Unexpired insurance ₹ 240.
- Stock was valued at ₹ 14,290 on March 31, 2019.

## Solution

### Books of Himanshu Traders Trading and Profit & Loss Account for the year ended on March 31, 2019

Dr.

Cr.

Particulars	₹	Particulars	₹
Opening stock	11,460	Sales	1,40,370
Purchases 80,000		Less : Sales Return (4,240)	1,36,130
Less: Purchase return (2,820)	77,180		
Carriage inwards	2,310		
Wages	6,280	Closing stock	14,290
Gross profit c/d	53,190		
	1,50,420		1,50,420
Railway freight on sales	16,940	Gross profit c/d	53,190
Office expenses	1,340	Rent	2,100
Postage and Telegram	820	Add Accrued rent	200
Printing and Stationery	660	Discount	190
Salary and Commission 9,870			
Add Outstanding salary 570	10,440		
Rates and Insurance	1,300		
Less: Unexpired insurance (240)	1,060		
Bad debts	1,400		
Add: Further bad debts 570			
Add: New bad debts provision 3,690			
	5660		
Less: Old provision for (3,240)	2,420		
Bad debts			
Interest on capital	5,000		
Depreciation on building	625		
Depreciation on additions	140		
Depreciation on Furniture	175		
Net profit (transferred to capital account)	16,060		
	55,680		55,680

### Balance Sheet as on March, 31, 2016

Liabilities	₹	Assets	₹
Sundry creditors	18,920	Cash at bank	12,400
Outstanding salaries	570	Cash in hand	2,210
		B/R	1,240
Capital 1,00,000		Debtors 62,070	
Add: Net profit 16,060		Less: Further Bad Debts 570	
1,16,060		61,500	
Add: Interest capital 5,000		Less: New provision for (3,690)	57,810
Less: Drawings (17,600)	1,03,460	Bad Debts	
		Accrued Rent	200
		Prepaid Insurance	240
		Building 25,000	
		Less Depreciation (625)	24,375
		Addition to building 7,000	
		Less Depreciation (140)	6,860
		Office Furniture 3,500	
		Less Depreciation (175)	3,325
		Closing stock	14,290
	1,22,950		1,22,950

### Manager's Commission

The manager of the business is sometimes given the commission on the net profit of the company. The percentage of the commission is applied on the profit either before charging such commission or after charging such commission. In the absence of any such information, it is assumed that commission is allowed as a percentage of the net profit before charging such commission.

#### 1. Commission on net profits before charging such commission

$$\text{Commission} = \frac{\text{Net profit before commission} \times \text{Rate of Commission}}{100}$$

#### 2. Commission on net profits after charging such commission.

$$\text{Commission} = \frac{\text{Net profit before commission} \times \text{Rate of Commission}}{100 + \text{Rate of Commission}}$$

Interest on capital	Interest on Capital A/c Dr. To Capital A/c	(i) Debit side of P&L A/c. (ii) Add to capital on the liabilities side of Balance Sheet.
Interest on drawings	Capital/Drawings A/c Dr. To Interest on Drawings A/c	(i) Credit side of P&L A/c. (ii) Deduct from capital on the liabilities side of Balance Sheet.
Interest payable on loans (borrowed)	Interest on Loan A/c Dr. To Loan A/c	(i) Debit side of P&L A/c. (ii) Add to loan on the liabilities side of Balance Sheet.
Commission payable to manager	P & L A/c Dr. To commission payable to manager A/c	(i) Debit side of P&L A/c. (ii) Show on the liabilities side of Balance Sheet.

### ADJUSTMENT IN RESPECT OF GOODS

**Abnormal Loss** : Sometimes losses occur due to some abnormal circumstances such as accident, fire, flood, earthquakes etc. Such losses are called Abnormal losses. These may be divided into two categories :—

(A) Loss of Goods (B) Loss of fixed assets

**Good taken for personal use (Drawings in goods)** : When the goods are withdrawn by proprietor for personal use the cost of such goods deduct from purchases and the amount should be deduct from capital in Balance Sheet.

**Goods distributed as free samples** : Sometime goods are distributed as free sample by the businessman for the purpose of advertisement. The cost of free sample deduct from purchase and shown in Debit side of profit and loss account.

### Adjustment Entry in respect of goods

Adjustment	Treatment in Trading & P & L A/c	Treatment in Balance Sheet
1) Loss of Goods (By accident, Fire, Theft)	1) Loss of ..... A/c Dr. To Trading A/c Or To Purchase A/c	1) Gross Loss : Deduct from Purchase or show on the credit side of Trading A/c 2) Net Loss : Debit side of P & L A/c
If goods were not insured	2) Profit & Loss A/c Dr. To loss by ..... A/c	3) Insurance claim: Assets side of Balance Sheet.
If goods were insured and full claim accepted by insurance company	2) Insurance Company A/c Dr. To loss by..... A/c	

If full claim not accepted by Insurance Company	2) Insurance Company A/c Profit & Loss A/c To loss by ..... A/c	Dr. Dr.	
2) Goods taken by the proprietor for his personal use	Drawings A/c To Purchase A/c	Dr.	1) Deduct the amount of goods from the purchases in Trading A/c. 2) Deduct the amount from the capital on the liabilities side of Balance Sheet.
3) Goods distributed as free sample	Advertisement A/c To Purchase A/c	Dr.	1) Deduct the amount from the purchases on the debit side of Trading A/c. 2) Show on the debit side of P & L A/c.
4) Goods given as charity	Charity A/c To Purchase A/c	Dr.	1) Deduct the amount of goods from the purchases in Trading A/c. 2) Show on the debit side of P & L A/c.

### Key Points :

1. **If closing stock** shown in Trial Balance then it will be shown in balance sheet only. It is assumed that purchases amount already get adjusted in Trial Balance.
2. **Salary and wages** will be shown in profit & loss A/c debit side (assuming that salary is prominent) while wages and salary will be shown in Trading A/c debit side, (wages are prominent).
3. **Freight, carriage, cartage** will be shown in Dr. side of Trading A/c. if inward word attached with these then it also debited to Trading A/c, if outward word attached with these item then it will be debited to Profit & loss account.
4. Any expenses related to factory are debited to Trading account like factory lighting, factory rent if factory word is not given then lighting and rent will be debited to Profit and loss account.
5. **Trade expenses** always debited to Profit and loss A/c not as name indicate Trading Account.

6. **Packaging material** : Cost of packaging material used in product are direct expenses as it refers to small containers which form part of sale, it will be debited to Trading Account.
7. **Packing** : The packing refers to the big containers that are used for transporting the goods and regarded as indirect expenses and debited to Profit & loss account.
8. **Adjusted purchases** means the amount of purchases is adjusted by way of adding opening stock and reduced by the amount of closing stock, e.g., purchases ₹ 1,00,000; opening stock ₹ 12,000, closing stock ₹ 8,000. Calculate adjusted purchases.

$$\text{Adjusted purchases} = \text{purchases} + \text{opening stock} - \text{closing stock} \\ = ₹ 1,00,000 + ₹ 12,000 - ₹ 8,000 = ₹ 1,04,000$$

When adjusted purchases is given in trial balance, then there is no need of debiting opening stock and crediting closing stock in Trading Account.

In this case closing stock will be shown in balance sheet only.

### **Remember**

While preparing Final Account The items which are given inside the Trial Balance are written only once either in Income Statement or in the Balance Sheet. (Assuming that they have been already adjusted in the respective account). On the other hand, the items which are given outside the Trial Balance (known as adjustment) are to be written twice because the double entry in respect of all adjustments is to be completed in the final accounts itself.

**Table Showing Adjustment at a Glance**

Adjustment	Adjustment Entry	Treatment in Trading A/c	Treatment in Profit & Loss A/c	Treatment in Balance Sheet
1. Closing Stock	Closing Stock A/c To Trading A/c	Dr. Shown on the credit side		Shown on the credit side
2. Outstanding Expenses	Expenses A/c To Outstanding Expenses A/c	Dr. Added to the respective expense on the debit side	Added to the respective expense on the debit side	Shown on the liabilities side
3. Prepaid or unexpired expenses	Prepaid Expenses A/c To Expenses A/c	Dr. Deducted from the respective expense on the debit side	Deducted from the respective expense on the debit side	Shown on the assets side
4. Depreciation	Depreciation A/c To Asset A/c	Dr. Shown on the debit side	Shown on the debit side	Deducted from the concerned asset on the assets side
5. Accrued Income (Income earned but not received)	Accrued Income A/c To Income A/c	Dr. Shown on the credit side	Added to the respective income on the credit side	Shown on the assets side
6. Unearned Income (Income received in advance)	Income A/c To Unearned Income A/c	Dr. Deducted from the respective income on the credit side	Deducted from the respective income on the credit side	Shown on the liabilities side
7. Interest on capital	Interest on Capital A/c To Capital A/c	Dr. Shown on the debit side	Shown on the debit side	Added to the capital on the liabilities side
8. Interest on Drawings	Drawings A/c To Interest on Drawings A/c	Dr. Shown on the credit side	Shown on the credit side	Added to the drawings and then deducted from capital
9. Interest on Loan (taken from someone)	Interest on Loan A/c To Loan A/c	Dr. Shown on the credit side	Shown on the credit side	Added to the loan on the liabilities side
10. Further Bad-debts	Bad-debts A/c To Sundry Debtors A/c	Dr. Added to Bad-debits (given in Trial Balance) on the debit side.	Added to Bad-debits (given in Trial Balance) on the debit side.	Deducted from debtors on the assets side

11.	Provision for Doubtful debts	Profit & Loss A/c To Provision for Doubtful Debts A/c	Dr. Dr.		Added to Bad-debts on the debit side	Deducted from Debtors on the assets side
12.	Provision for discount on Debtors	Profit & Loss A/c To Provision for Discount on Debtors A/c	Dr. Dr.		Shown on the debit side as a separate item	Deducted from Debtors on the assets side
13.	Abnormal loss of stock	Insurance Company A/c Profit & Loss A/c To Purchases A/c	Dr. Dr.	Total amount of loss is deducted from purchases on the debit side	Amount not recovered from the insurance company is shown on the debit side	Amount recovered from the insurance company is shown on the assets side.
14.	Charity in the form of goods	Charity A/c To Purchases A/c	Dr.	Deducted from purchases on the debit side	Shown on the debit side	
15.	Goods distributed as free samples	Free samples A/c To Purchases A/c	Dr.	-do-	Shown on the debit side	
16.	Drawings in goods	Drawings A/c To Purchases A/c	Dr.	-do-		Deducted from capital on the liabilities side.
17.	Manager's Commission	Manager's Commission A/c To Outstanding Commission A/c	Dr.		Shown on the debit side	Shown on the liabilities side.
18.	Goods sold but omitted to be recorded	Debtors A/c To Sales A/c	Dr.	Added to sales on the credit side		Added to Debtors on the assets side.
19.	Goods purchased but omitted to be recorded	Purchases A/c To Creditors A/c	Dr.	Added to purchases on the debit side		Added to Creditors on the liabilities side.
20.	Sale of goods in approval basis	(i) Sales A/c To Debtors A/c (Sale value of goods) (ii) Closing Stock A/c To Trading A/c (Cost price of goods)	Dr. Dr.	Deducted from sales on the credit side Added to closing stock on the credit side		Deducted from debtors on the assets side. Added to closing stock on the assets side.

**Illustration 16**

From the following balances of Mr. Ashok. You are required to prepare Trading and Profit & loss account and a balance sheet on March 31, 2019.

Debit Balance	₹	Credit Balance	₹
Plant and Machinery	1,30,000	Sales	3,00,000
Debtors	50,000	Return outwards	2,500
Interest	2,000	Creditors	2,50,000
Wages	1,200	Bills payable	70,000
Salary	2,500	Provision for bad debts	1,550
Carriage Inwards	500	Capital Rent received	2,20,000
Carriage Outwards	700	Rent received	10,380
Return Inwards	2,000	Commission received	16,000
Factory rent	1,450		
Office rent	2,300		
Insurance	780		
Furniture	22,500		
Buildings	2,80,300		
Bills receivable	3,000		
Cash in hand	22,500		
Cash at bank	35,000		
Commission	500		
Opening stock	60,000		
Purchases	2,50,000		
Bad debts	3,500		
	8,70,430		8,70,430

**Adjustment**

1. Provision for Bad Debts @ 5% p.a. and further Bad debts ₹ 2,000.
2. Rent received in Advance ₹ 6,000.
3. Prepaid Insurance ₹ 200.
4. Depreciation on furniture @ 5% p.a., plant and machinery @ 6% p.a., building @ 7% p.a..
5. Closing stock amounting ₹ 70,000 on 31.03.2019.
6. Goods costing ₹ 1,000 were used by proprietor.

**Solution**

**Books of Mr. Ashok**  
**Trading and Profit and Loss Account**  
**for the year ended March 31, 2019**

Particulars	₹	Particulars	₹
Opening stock	60,000	Sales	3,00,000
Purchases	2,50,000	Less Return	(2,000)
Less : Return	2,500	Closing Stock	70,000
Less : Goods Personal Use	1,000		
	2,46,500		
Wages	1,200		
Carriage inwards	500		
Factory rent	1,450		
Gross profit c/d	58,350		
	3,68,000		3,68,000
Interest	2,000	Gross profit b/d	58,350
Salary	2,500	Rent received	10,380
Carriage outwards	700	Less Advance	(6,000)
		rent	4,380
Office Rent	2,300	Commission	16,000
		received	
Insurance	780		
Less Prepaid Insurance	(200)		
	580		
Depreciation on furniture	1,125		
Depreciation on Plant and Machinery	7,800		
Depreciation on building	19,600		
Commission	500		
Bad debts	3,500		
Add : Further and debts	2,000		
Add : New provision	2,400		
	7,900		
Less old provision	(1,550)		
	6,350		
Net Profit (transferred to capital account)	35,272		
	77,730		78,730

### Balance Sheet as at March 31, 2019

Liabilities	₹	Assets	₹
Creditors	2,50,000	Cash in hand	22,500
Bills Payable	70,000	Cash at Bank	35,000
Advance rent	6,000	Bills receivable	3,000
Capital	2,20,000	Prepaid insurance	200
Add Net Profit	35,275	Debtors	50,200
	2,55,275	Less Further	(2,000)
Less : Goods Taken	1,000	Bad debts	48,000
for personalise	2,54,275	Less New Provision	(2,400)
		Plant and Machinery	1,22,200
		Furniture	21,375
		Buildings	2,60,400
		Closing stock	70,000
	5,80,275		5,80,275

### Illustration 17

From the following Adjustments and with the help of Trial Balance prepare a Trading Profit and Loss A/c and Balance sheet as on 31st Dec. 2019.

Dr. Balance	₹	Cr. Balance	₹
Insurance Charges	2,400	Capital	1,70,000
Salaries & Wages	19,400	S. Creditors	20,000
Cash in Hand	200	Sales	1,20,000
Cash at Bank	26,500	Returns outwards	1,200
Trade Expenses	400	Provision for doubtful debts	400
Postage & Telegrams	800	Discount	800
Drawings	6,000	Rent of Premises, Subject for one year to 30th June 2019	1,200
Plant & Machinery			
Balance on 1st Jan, 2019	1,20,000		
Addition on 1st July, 2019	5,000		
Stock on 1st Jan, 2019	15,000		
Purchases	82,000		
Returns Inward	2,000		
S. Debtors	20,800		
Furniture & Fixture	5,000		
Freight & Duty	2,000		
Carriage Outwards	500		
Rent, Rates & Taxes	4,600		
Printing & Stationery	1,000		

### Adjustments

1. Stock on 31st Dec. 2019 was valued at ₹ 24,000 and stationery unused at the end was ₹ 250.
2. The provision for Doubtful Debts is to be maintained at 6% on Sundry Debtors.
3. Create a provision for discount on Sundry Debtors at 2%.
4. Write off ₹ 800 as Bad-Debts.
5. Provide depreciation on Plant and Machinery @ 10% p.a.
6. Insurance is paid up to 31st March 2019.
7. A fire occurred on 25th Dec. 2019 in the Godown and Stock of the value of ₹ 6,000 was destroyed. It was insured and the Insurance co. admitted a claim of ₹ 4,000.

### Solutions

#### Trading and Profit & Loss Account the year ending 31st Dec. 2019

Particulars	Amount	Particulars	Amount
To Opening Stock	15,000	By Sales 1,20,000	
To Purchases 82,000		Less Return 2,000	1,18,000
Less Return (1,200)		By Closing stock	24,000
80,800			
Less : Loss by fire (6,000)	74,800		
To Freight & duty 2,000			
To Gross Profit c/d 50,200			
	1,42,000		1,42,000
To Insurance charges 2,400		By Gross Profit	50,200
Less : Prepaid insurance (600)	1,800	By Discount	800
To Salaries & wages 19,400		By Rent of premises sublet 1,200	
To Trade expenses 400		Less : Rent received in adv. (600)	600
To Postage & telegram 800			
To carriage outwards 500			
To Rent, Rates & wages 4,600			
To Printing & Stationery 1,000			

Less :Unused	(250)	750		
To Bad debts	800			
Add :New reserve	1,200			
	2,000			
Less :Old reserve	(400)	1,600		
To Provision for discount on debtor		376		
To Depreciation on Plant & Mac. (12,000 + 250)		12,250		
To loss by fire	6,000			
Less :Insurance Claim	4,000	2,000		
To Net Profit transferred to Capital		7,124		
		<b>51,600</b>		<b>51,600</b>

### Balance Sheet As on 31st Dec. 2019

Liabilities	₹	Assets	₹
S. Creditor	20,000	Cash in hand	200
Rent received in advance	600	Cash at Axis Bank	26,500
Capital	1,70,000	S. Debtor	20,800
Add : Net Profit	7,124	Less : Bad Debts	(800)
	1,77,124		20,000
Less : Drawings	6,000	Less : New Reserve	(1,200)
	1,71,124		18,800
		Less : Discount	(376)
		Insurance company (Claim)	4,000
		Closing stock	24,000
		Stationery unused	250
		Prepaid insurance	600
		Furniture & fixture	5,000
		Plant & Mac.	1,20,000
		Add : Addition	(5,000)
			1,25,000
		Less : Depreciation	(12,250)
			1,12,750
	1,91,724		1,91,724

**Illustration 18**

The following balances were extracted from the books of Mr. Sandeep Rana on 31st Dec. 2019.

Ledger Accounts	Dr. Balance	Cr. Balance
Capital		24,500
Drawings	2,000	
General Expenses	2,500	
Building	11,000	
Machinery	9,340	
Stock (1.1.2019)	16,200	
Power	2,240	
Taxes and Insurance	1,315	
Wages	7,200	
Sundry Debtors	6,280	
Sundry Creditors		2,500
Charity	105	
Bad Debts	550	
Bank Overdraft		11,180
Sales		65,360
Purchases	47,000	
Scooter	2,000	
Bad Debts Provision		900
Commission		1,320
Trade Expenses	1,780	
Bills Payable		3,850
Cash	100	
<b>Total</b>	<b>1,09,610</b>	<b>1,09,610</b>

Prepare final accounts for the year ended 31st Dec. 2019 after taking into account the following :

1. Stock on 31st Dec. 2019 was valued at ₹ 23,500
2. Write off further Bad Debts ₹ 160 and maintain the provision for Bad Debts at 5% on Sundry Debtors.
3. Depreciate Machinery by 10% and Scooter by ₹ 240.

4. Provide ₹ 750 for outstanding interest on bank overdraft.
5. Prepaid insurance is to the extent of ₹ 50, Commission receivable amounting to ₹ 50.
6. Provide Manager's Commission at 10% on net profit after charging such commission.

**Solution :**

**Trading and Profit & Loss Account  
For the year ending 31st Dec. 2019**

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Opening Stock	16,200	By Sales	65,360
To Purchase	47,000	By Closing Stock	23,500
To Power	2,240		
To Wages	7,200		
To Gross Profit (B.F.)	16,220		
	88,860		88,860
To General Expenses	2,500	By Gross Profit	16,220
To Taxes & Insurance 1,315		By Commission 1,320	
Less : Prepaid (50)	1,265	Add : Receivable Com. 50	1,370
To Interest on Bank Overdraft	750		
To Dep. on Machinery 934			
Scooter 240	1,174		
To Bad Debts 550			
Add : Further bad debts 160			
Add : New Reserve 306			
	1,016		
Less : Old Reserve (900)	116		
To Charity	105		
To Trade Expenses	1,780		
To Manager Commission	900		
Payable (9,900 × 10/110)			
To Net Profit transferred to Capital A/c	9,000		
	17,590		17,590

### Balance Sheet As on Dec. 31,2019

Liabilities	₹	Assets	₹
S. Creditors	2500	Cash	100
Bank Overdraft      11,180		Debtors                      6,280	
Add : O/s Interest      (750)	11,930	Less : Further Bad Debts      (160)	
		<u>6,120</u>	
		Less: New Reserve      (306)	5,814
Bills Payable	3,850	Prepaid Insurance	50
Manager Commission Payable	900	Closing Stock	23,500
Capital                      24,500		Machinery                      9,340	
Add : Net Profit              9,000		Less : Depreciation      (934)	8,406
Less : Drawings      (2,000)	31,500		
		Scooter                      2,000	
		Less : Depreciation      (240)	1,760
		Building	11,000
		Commission Receivable	50
	50,680		50,680

### Illustration 19

From the following balances of Mr. Ashok. You are required to prepare Trading and Profit & loss account and a Balance Sheet on March 31, 2019.

Debit Balance	₹	Credit Balance	₹
Plant and Machinery	1,30,000	Sales	3,00,000
Debtors	50,000	Return outwards	2,500
Interest	2,000	Creditors	2,50,000
Wages	1,200	Bills payable	70,000
Salary	2,500	Provision for bad debts	1,550
Carriage Inwards	500	Capital Rent received	2,20,000
Carriage Outwards	700	Rent received	10,380
Return Inwards	2,000	Commission received	16,000
Factory rent	1,450		
Office rent	2,300		
Insurance	780		
Furniture	22,500		
Buildings	2,80,300		
Bills receivable	3,000		

Cash in hand	22,500		
Cash at bank	35,000		
Commission	500		
Opening stock	60,000		
Purchases	2,50,000		
Bad debts	3,500		
	8,70,430		8,70,430

### Adjustment

1. Provision for Bad Debts @ 5% p.a. and further Bad debts ₹ 2,000.
2. Rent received in Advance ₹ 6,000.
3. Prepaid Insurance ₹ 200.
4. Depreciation on furniture @ 5% p.a., Plant and Machinery @ 6% p.a., building @ 7% p.a..
5. Closing stock amounting ₹ 70,000 on 31.03.2019.
6. Goods costing ₹ 1,000 were used by proprietor.

### Solution

#### Books of Mr. Ashok Trading and Profit and Loss Account for the year ended March 31, 2019

Particulars	₹	Particulars	₹
Opening stock	60,000	Sales	3,00,000
Purchases	2,50,000	Less Return	(2,000)
Less : Return	2,500	Closing Stock	70,000
Less : Goods Personal Use	1,000		
	2,46,500		
Wages	1,200		
Carriage inwards	500		
Factory rent	1,450		
Gross profit c/d	58,350		
	3,68,000		3,68,000
Interest	2,000	Gross profit b/d	58,350
Salary	2,500	Rent received	10,380
Carriage outwards	700	Less Advance	(6,000)
		rent	4,380

Office Rent	2,300	Commission received	16,000
Insurance 780			
Less Prepaid Insurance (200)	580		
Depreciation on furniture	1,125		
Depreciation on Plant and Machinery	7,800		
Depreciation on building	19,600		
Commission	500		
Bad debts 3,500			
Add : Further and debts 2,000			
Add : New provision 2,400			
	7,900		
Less old provision (1,550)	6,350		
Net Profit (transferred to capital account)	35,272		
	77,730		78,730

### Balance Sheet as at March 31, 2019

Liabilities	₹	Assets	₹
Creditors	2,50,000	Cash in hand	22,500
Bills Payable	70,000	Cash at Bank	35,000
Advance rent	6,000	Bills receivable	3,000
Capital 2,20,000		Prepaid insurance	200
Add Net Profit 35,275		Debtors 50,200	
	2,55,275	Less Further (2,000)	
Less : Goods Taken 1,000		Bad debts 48,000	
for personalise	2,54,275	Less New Provision (2,400)	45,600
		Plant and Machinery	1,22,200
		Furniture	21,375
		Buildings	2,60,400
		Closing stock	70,000
	5,80,275		5,80,275

**Illustration 20**

(Comprehensive) The following is the Trial Balance of Ali Mushabbar Traders on 31st March, 2019.

Particulars	L.F.	Debit (₹)	Credit (₹)
Purchases / Sales		2,12,000	3,15,000
Stock (1.4.2019)		16,000	
Returns		3,000	1,800
Debtors / Creditors		81,000	16,100
Goodwill		17,000	
Bills Receivable / Bills Payable		8,000	3,900
Machinery		70,000	
Drawings		48,000	
Motor Car		2,30,000	
Provision for Doubtful Debts			1,200
Cash Balance		11,700	
Freehold Property		2,13,000	
Fire Insurance Premium		2,400	
Bad Debts		1,200	
Carriage on Sales		1,350	
Carriage on Purchases		2,350	
Establishment Expenses		3,800	
Horses and Carts		11,000	
Custom Duty		2,100	
Donations (Charity)		3,100	
Loan			3,00,000
Interest on Loan		1,000	
Capital Account			3,00,000
		9,38,000	9,38,000

Prepare Trading and Profit & Loss Account and Balance Sheet as at 31st March, 2019 after considering the following adjustments :

- (i) Value of goods on hand at the end of the year was ₹ 20,000.

- (ii) Depreciate Machinery @ 10% p.a. and Motor car @ 5% p.a.
- (iii) Provision for doubtful debts to be maintained @ 5% on Debtors.
- (iv) Create provision for discount on Debtors @ 5%.
- (v) Further bad debts are ₹ 1,400.
- (vi) The manager is entitled to a commission @ 10% on net profit before charging his commission.

### Solution

#### Books of Ali Mushabbar Traders TRADING AND PROFIT & LOSS ACCOUNT for the year ended 31st March, 2019

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Opening Stock	16,000	By Sales	3,15,000
To purchases	2,12,000	Less : Returns	<u>3,000</u>
Less : Returns	<u>1,800</u>	By Closing Stock	20,000
To Carriage on Purchases	2,350		
To Custom Duty	2,100		
To Gross Profit c/d	1,01,350		
	<u>3,32,000</u>		<u>3,32,000</u>
To Carriage on Sales	1,350	By Gross Profit b/d	1,01,350
To Fire Insurance Premium	2,400		
To Bad Debts	1,200		
Add : Further Bad Debts	<u>1,400</u>		
	2,600		
Add : New Provision	<u>3,980</u>		
	6,580		
Less : Old Provision	<u>1,200</u>		
To Provisions for Discount on Debtors	3,781		
To Interest on Loan	1,000		
To Establishment Expenses	3,800		
To Donations	3,100		
To Depreciation on Machinery	7,100		
To Depreciation on Motor Car	11,500		
To Manager's Commission	6,204		
To Net Profit transferred to Capital A/c	55,835		
	<u>1,01,350</u>		<u>1,01,350</u>

**BALANCE SHEET**  
**as at 31st March, 2019**

Liabilities	₹	Assets	₹
Creditors	16,100	Cash Balance	700
Bills Payable	3,900	Debtors	81,000
Outstanding Commission	6,204	Less : Bad Debts	1,400
Loan	3,00,000		79,600
Capital	3,00,000	Less : Provision for	
Add : Net Profit	55,835	Bad Debts	3,980
	3,55,835		75,620
Less : Drawings	48,000	Less : Provision for	
	3,07,835	Discount	3,781
			71,839
		Bills Receivable	8,000
		Stock	20,000
		Horses and Carts	11,000
		Motor Car	2,30,000
		Less : Depreciation	11,500
			2,18,500
		Machinery	70,000
		Less : Depreciation	7,000
			63,000
		Free hold property	2,13,000
		Goodwill	17,000
	6,34,039		6,34,039

**Note :-** Net profit before commission ₹ 62,039  
Commission @ 10% ₹ 6,204

**Illustration 21**

Give journal entries for the following adjustments in final accounts :

- (i) Closing Stock ₹ 70,000.
- (ii) Outstanding salaries ₹ 15,000.
- (iii) Insurance premium amounting to ₹ 18,000 is paid in advance.
- (iv) ₹ 1900 received for rent related to the next accounting period.
- (v) Interest accrued but not received during the accounting year ₹ 1,500.
- (vi) Write off ₹ 600 as further bad debts.
- (vii) Goods costing ₹ 8,000 destroyed by fire and insurance company admitted a claim for ₹ 5,000 only.

- (viii) Goods costing ₹ 10,000 (Market value ₹ 11,000) were taken by proprietor for personal use.

**Solution**

**JOURNAL**

Particulars	L.F.	Dr. (₹)	Cr. (₹)
(I Closing Stock A/c Dr. To Trading A/c (Closing Stock transferred to Trading A/c)		70,000	70,000
(ii) Salaries A/c Dr. To Outstanding Salaries A/c (Outstanding salaries accounted in the books)		15,000	15,000
(iii) Prepaid Insurance Premium A/c Dr. To Insurance Premium A/c (Prepaid Insurance accounted in the books)		18,000	18,000
(iv) Rent Received A/c Dr. To Rent Received in Advance A/c (Rent received in advance accounted in the books)		1,900	1,900
(v) Accrued Interest A/c Dr. To Interest Received A/c (Accrued interest accounted in the books)		1,500	1,500
(vi) Bad debts A/c Dr. To Sundry Debtors A/c (Further Bad-debts written off)		600	600
(vii) Loss by Fire A/c Dr. To Purchase A/c (Goods destroyed by fire)		8,000	8,000
Insurance Co. Dr. Profit & Loss A/c Dr. To Loss by Fire A/c (Claim accepted by insurance co. and balance transferred to Profit & Loss A/c)		5,000 3,000	8,000
(viii) Drawings A/c Dr. To Purchase A/c (Goods taken by proprietor for personal use)		10,000	10,000

**Illustration 22**

Give journal entries for the following adjustments in final account :

- (i) Depreciation on furniture by 10% (cost of furniture ₹ 10,000)
- (ii) Goods worth ₹ 1,800 distributed as free samples.
- (iii) Rent received for 12 month ending 30th, June 2012 (Account closed 31st March, 2019) ₹ 6,000.

**Solution****JOURNAL**

Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i) Depreciation A/c Dr. To Furniture A/c (Depreciation charged on furniture)		1,000	1,000
(ii) Advertisement (or free sample) A/c Dr. To Purchase A/c (Goods distributed as free sample)		1,800	1,800
(iii) Rent A/c Dr. To Rent received in advance A/c (Rent for 3 month received in advance)		1,500	1,500

**Illustration involving adjustment for GST and GST Set-off.**

**Illustration 23** From the following Trial balance, prepare Trading and Profit & loss Account and Balance sheet.

Debit Balances	Rs.	Credit balances	Rs.
Purchases	15,000	Capital	27,500
Opening Stock	3,000	Sales	33200
Salaries	4550	Creditors	10250
Bills Receivable	23000	Bills Payable	850
Machinery	6000	Outstanding Rent	350

Sundry Debtors	10,000	Commission	4500
Wages	2300	Output CGST	5000
Rent	1400	Output SGST	5000
Bad debts	600	Output IGST	4000
Discount Allowed	1250		
Insurance	300		
Bank	6000		
Advertisement	4250		
Input CGST	4000		
Input SGST	4000		
Input IGST	5000		
	<b>90,650</b>		<b>90,650</b>

**Adjustments :**

- (i) Closing stock is ₹ 3000.
- (ii) Goods costing ₹ 500 were distributed as free sample and goods of Rs. 1000 were taken by the proprietor for personal use. CGST and SGST @ 6% each were levied on these goods.
- (iii) Goods costing ₹ 1000 were destroyed by fire. IGST @ 12% was levied on these goods.  
  
The goods were insured and the Insurance Company admitted a claim of ₹ 900.
- (iv) A credit sales of ₹ 1500, on which IGST @ 12% was levied was not recorded in the sales Book.

Dr.		Trading and Profit and Loss Account		Cr.	
Particulars	₹	Particulars	₹		
To opening stock	3000	By sales	33200		
To Purchases	15000	Add: unrecorded	1500		
Less: Advertisement	500				34700
(Free Sample)	14500				

Less: Drawings	<u>1000</u>	13500	By loss by fire	1120
To wages		2300	By closing stock	3000
To Gross profit c/d		20020		
		<b>38820</b>		<b>38820</b>
To salaries		4550	By Gross profit s/d	20000
To Rent		1400	By Commission	4500
To Bad debts		600		
To Discount allowed		1250		
To Insurance		300		
To Advertisement	4250			
(+) free sample	<u>500</u>	4750		
To Less by Fire		220		
To Net profit		11450		
transferred to Capital A/c				
		<b>24520</b>		<b>24520</b>

#### Balance Sheet

Liabilities		Rs.	Assets	Rs.
Capital	27500		Machinery	6000
(+) Net profit	11450		Bills Receivable	23000
	38950		Sundry debtors 10,000	
(+) Drawing	<u>1120</u>	37830	Add: Unrecorded	<u>1680</u>
			Credit Sales	
			Bank	6000
Creditors		10250	Insurance Claim due	900
Bills Payable		850	Closing Stock	3000
Outstanding rent		350		
Output CGST		210		
Output SGST		1090		
		<b>50580</b>		<b>50580</b>

\* Journal Entries for adjustment of GST and GST set off

### Journal

Date	Particulars	LF.	Dr. Rs.	Cr. Rs.
	Advertisement A/c Dr. (free sample)		560	
	To purchases A/c			500
	To Input CGST A/c			30
	To Input SGST A/c			30
	(Being Goods distributed as free sample)			
	Drawing A/c Dr.		1120	
	To Purchases A/c			1000
	To Input CGST A/c			60
	To Input SGST A/c			60
	(Being goods used by proprietor)			
	Loss by Fire (Stock) A/c Dr.		1120	
	To Trading A/c			1000
	To Input IGST A/c			120
	(Being loss of stock by Fire)			
	Insurance Company A/c Dr.		900	
	Profit and Loss A/c Dr.		220	
	To Loss by Fire (Stock) A/c			1120
	(Being claim admitted by Insurance Company)			
	Sundry Debtors A/c Dr.		1580	
	To Sales A/c			1500
	To Output IGST A/c			180
	(Being Credit sales recorded)			
	Output IGST A/c Dr.		4120	
	To Input IGST A/c			4120
	(Being input IGST set of against output IGST)			

	Output CGST A/c	Dr.		3910	
	To Input CGST A/c				3910
	(Being input CGST set off against output CGST)				
	Output SGST A/c	Dr.		3910	
	To Input SGST A/c				3910
	(Being input SGST set off against output SGST)				
	Output CGST A/c	Dr.		880	
	To Input IGST A/c				880
	(Being input IGST set off against output CGST)				

### Test Your Learnings

- Statements prepared to know profit or loss and financial position of the business are called:
  - Financial Statement
  - Bank Reconciliation Statement
  - Trial Balance
  - All of these
- Account which shows Gross Profit or Gross Loss of the business is called:
  - Profit and Loss Account
  - Balance Sheet
  - Trial Balance
  - Trading Account
- Trading Account is prepared to know:
  - Net Profit or Loss of business
  - Gross Profit or Loss of business
  - Both (1) or (2)
  - Financial Position of business
- On debit side of trading Account we record:
  - Direct Expense
  - Indirect Expense

- (iii) Both of these
  - (iv) None of these
5. Closing stock is recorded in:
- (i) Profit and Loss Account
  - (ii) Trading Account and Balance Sheet
  - (iii) Balance Sheet only
  - (iv) None of these
6. Profit and Loss Account shows the:
- (i) Total Capital Employed
  - (ii) Profit and Loss through sale of assets
  - (iii) Profit earned by business
  - (iv) None of these
7. Operating expenses are recorded in:
- (i) Trading Account
  - (ii) Profit and Loss Account
  - (iii) Balance Sheet
  - (iv) All of these
8. Expenses relating to sale of goods are shown in:
- (i) Profit and Loss Account
  - (ii) Trading Account
  - (iii) Trading and Profit & Loss A/c
  - (iv) Balance Sheet
9. Profit and Loss Account is prepared:
- (i) At a particular point of time
  - (ii) On fixed date
  - (iii) For a certain period
  - (iv) All of these
10. Carriage Outwards is an example of:
- (i) Direct Expenses
  - (ii) Indirect Expenses
  - (iii) Indirect Income
  - (iv) Direct Income
11. Which are indirect expense of the followings?
- (i) Salaries Expenses

- (ii) Insurance Expenses
  - (iii) Rent Income
  - (iv) All of these
12. Income earned from other than routine activities is called:
- (i) General Income
  - (ii) Direct Income
  - (iii) Indirect Income
  - (iv) None of these
13. Discount received is an example of:
- (i) Indirect income
  - (ii) Direct Income
  - (iii) Net Income
  - (iv) General Income
14. Which are indirect incomes of the followings?
- (i) Commission received
  - (ii) interest on investment
  - (iii) Dividend received
  - (iv) All of these
15. On credit side of Profit and Loss Account we record:
- (i) Direct Expenses
  - (ii) Direct Income
  - (iii) Indirect Expenses
  - (iv). Indirect Income
16. Balance Sheet is a statement of:
- (i) Assets
  - (ii) Capital
  - (iii) Liabilities
  - (iv) All of these
17. Balance Sheet discloses the financial position of a business:
- (i) For a given period
  - (ii) On a particular point of time
  - (iii) On a certain fixed date
  - (iv) All of these

18. Properties, things and receivables having certain value owned by business are called
- Assets
  - Liabilities
  - Goods
  - None of these
19. Any physical thing that has money value is:
- Intangible asset
  - Fictitious asset
  - Goodwill
  - Asset
20. Assets which have physical existence are called:
- Tangible assets
  - Fictitious assets
  - Contingent assets
  - Intangible assets

### EXCERCISE

Q1. The Trial Balance of Veer Singh Bros. show the following balances. Prepare Trading and Profit and Loss Account for the year ended 31st March, 2019 and Balance Sheet as on 31st March 2019.

Particulars	₹	Particulars	₹
Capital Account	6,60,000	Cash	15,000
Creditors	36,000	Drawings	24,000
Bank Overdraft	16,500	Freehold Property	2,10,000
Interest on Bank Overdraft	1,650	Plant and Machinery	3,80,000
Debtors	59,400	Computers	1,22,000
Purchases	2,47,400	Rent	6,900
Sales	4,30,950	Insurance and Taxes	12,300
Return Inward	11,400	Fire Insurance Premium	6,000
Return Outward	6,300	Electricity	2,700
Stock (Opening)	18,000	Factory Lighting	5,100
Freight Inward	5,700	Salaries to Storekeeper	8,400
Patents	12,000	Coal, Gas and Power	1,800

The following adjustments are to be made :

- (i) The value of stock in hand on 31.3.2019 was ₹ 50,700.
- (ii) Depreciation to be charged on Computers @ 10% p.a. and on Plant and Machinery @ 5% p.a.
- (iii) Interest on bank overdraft was outstanding ₹ 300.
- (iv) Insurance was prepaid ₹ 1,500.
- (v) Manager's commission to be provided @ 10% p.a. on Net Profits after charging his commission.

Ans. Net Profit ₹ 1,18,727      Capital ₹ 75,472

Balance Sheet Total ₹ 8,19,400

Gross Profit ₹ 1,98,550

Q2. From the following figures, prepare Trading and Profit & loss account for the year 31st March, 2019 and a balance sheet as on that date :

	₹
Opening stock	40,000
Purchases	1,80,000
Sales	3,20,000
Sales returns	5,500
Wages	22,000
Carriage	1,200
Bad debts	600
Bad debts provision	1,000
Sundry debtors	50,300
Sundry creditors	15,800
Office furniture	5,300
Plant and machinery	78,000
Establishment charges	5,100
Advertisement	5,500
Goodwill	10,000
Duty and clearing charges	4,200

Commission (Cr.)	800
Capital	1,20,000
Personal expenses	15,000
Investments	16,100
Cash	16,000
Rent and insurance	2,800

**Adjustments :**

- 1) Rent outstanding amounted to ₹500 and insurance unexpired amounted to ₹300.
- 2) Commission amounting to ₹120 has been received in advance.
- 3) Write off ₹300 as bad debts and provision for doubtful debts at 2.5% on sundry debtors.
- 4) Depreciate plant and machinery by 5%.
- 5) Wages for March 2019 was unpaid.
- 6) Stock on 31st March, 2019 was ₹34,000. (market value ₹40,000)

Ans. Net Profit ₹ 81,130

Balance Sheet ₹ 2,04,550

Gross Profit ₹ 99,100

Q3. From the following Trial Balance extracted from the books of Lucky Gupta prepare Trading and Profit & Loss Account for the year ending 31st March, 2019 and a Balance Sheet as at that date :—

Particulars	Dr.(₹)	Cr.(₹)
Furniture	640	
Loose Tools	6,250	
Buildings	7,500	
Capital Account		13,500
Bad-Debts	125	
Provision for Bad-Debts		200
Sundry Debtors and Creditors	3,800	2500
Stock on 1st April, 2019	3,460	
Purchases and Sales	5,475	15,450
Bak Overdraft		2,850

Sales Return and Purchases Return	200	
Stationery	450	
Interest Account	118	
Commission		125
Cash in hand	1,650	
Taxes and Insurance	1,250	
General Expenses	782	
Salaries	3,300	
	35,000	35,000

The following adjustments are to be made :

- (i) Stock in hand on 31st March, 2019 was ₹ 3,250.
- (ii) Depreciate Building at 5% and Furniture at 10%. Loose Tools are revalued at ₹ 5,000 at the end of the year.
- (iii) Salaries ₹ 300 and taxes ₹ 120 are outstanding.
- (iv) Insurance amounting to ₹ 100 is prepaid.
- v) Write off a further ₹ 100 as Bad-Debts and provision for Doubtful Debts to be made equal to 5% on Sundry Debtors.
- vi) Half of the stationery was used by the proprietor for his personal purposes.

Ans. Net Profit ₹ 2,171, Gross Profit ₹ 9,690, Balance Sheet ₹ 21,216

Q4. Give journal entries for the following adjustment in final accounts.

- i) Salaries ₹ 15,000 are outstanding.
- ii) Insurance amounting to ₹ 20,000 is paid in advance.
- iii) ₹ 2,000 for rent have been received in advance.
- iv) Goods cost ₹ 3,000 used by owner.
- v) Goods worth ₹ 5,000 distributed as free sample.
- vi) Write off ₹ 1,000 as further bad debts.
- vii) Commission earned but not received ₹ 2,000.
- viii) Stock of the value of ₹ 4,000 was destroyed by fire a claim of ₹ 3,000 has been admitted by insurance company.

Q5. From the following balances, prepare Trading, Profit and Loss A/c and Balance Sheet as at 31st March 2019 :—

	₹		₹
Stock (1st April 2015)	20,000	Goodwill	16,000
Purchases	2,92,000	Furniture and Fittings	58,000
Duty and Clearing Charges	34,000	Repair Charges	2,900
Capital	1,60,000	Bank	24,000
Sales	5,90,000	Salaries	1,10,000
Rent	10,000	General Expenses	18,000
Returns Inwards	16,000	Debtors	2,30,000
Cash Discount allowed	15,000	Creditors	1,35,000
Cash Discount received	19,000		
Drawings	58,100		

**Take the following adjustments into account :**

- General expenses include ₹ 5,000 chargeable to Furniture purchased on 1st October 2019.
- Create a reserve of 5% on debtors for Bad and Doubtful Debts after treating ₹ 30,000 as a bad-debt.
- Rent for two months is outstanding.
- Depreciation on Furniture and Fittings for the year is to be at the rate of 10% per annum.
- Closing Stock was ₹ 42,000, but there was a loss by fire on 20th March to the extent of ₹ 8,000. Insurance Company admitted the claim in full.
- Goods costing ₹ 2,500 were used by the proprietor.
  - Goods costing ₹ 1,500 were distributed as free samples.

Ans. Gross Profit ₹ 2,82,000, Net Profit ₹ 1,00,550, Balance Sheet ₹ 3,36,950.

Q6. Problems based on missing information. Fill in the missing figures in the following :—

**TRADING AND PROFIT & LOSS ACCOUNT**  
for the year ended 31st March, 2019

Dr.

Cr.

Particulars	₹	Particulars	₹
To Opening Stock		By Sales	
To Purchase		Less : Sales Return	5000
Less : Return	1,000		
To Wages	1,800	By Closing Stock	20,000
To Carriage Inward	200		
To Gross Profit b/d	17,000		1,15,000
		By Gross Profit b/d	
To Insurance	600	By Discount received	1,500
To Rent	5,000		
To Salaries	12,500	By Net Loss	
Add: Outstanding Salaries			
To Bad Debts	200		
Add: Further Bad Debts	100		
	300		
Add : New Provision			
	900		
Less : Old Provision	400		
To Provision for Discount	388		
on Debtors			
To Depreciation			
Building	2,250		
Furniture	700		
	2,950		
	22,838		22,838

**Balance Sheet**  
**as at 31st March, 2019**

Liabilities	₹	Assets	₹
Bills Payable	3,000	Cash in hand	-----
Creditors	-----	Cash in bank	15,000
Outstanding Salaries	1,000	Sundry Debtors 20,100	
		Less : Further Bad Debts ----	
Capital -----		Less: Provision for 600	
Less Net Loss -----		Bad-debts	-----
	75,662		
		Less : Provision for discount	
		on debtors -----	19,012
		Closing Stock	
		Furniture 7,000	
		Less : Depreciation 700	-----
		Building 45,000	
		Less Depreciation 2,250	42,750
	1,08,162		1,08,162

Ans. Sales ₹ 95,000, Stock ₹ 15,000, Salaries ₹ 13,500, Capital ₹ 80,000, Net Loss ₹ 4,338, Creditors ₹ 28,500, Cash ₹ 5,100

## Chapter-10

---

# ACCOUNTS FROM INCOMPLETE RECORDS

---

### LEARNING OBJECTIVES

**After studying this lesson you will 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.
- Prepare Trading and Profit & loss Account and balance sheet from incomplete records.
- Find missing figures by preparing relevant accounts.

### **Suggested Methodology**

- Illustration Method
- Discussion Method

### **Introduction :**

Some small size business entities do not follow the double entry system of maintaining the accounting records instead they maintain books of accounts under the system Accounting from incomplete records. The system in which no set rules of double entry system are followed is called Accounts from incomplete records. Sometimes, it is also termed as 'Single Entry System'

Under this system only the following accounts are maintained:

- Cash book
- The personal A/C
- Some Real A/C according to need

**Note:** Nominal accounts are not maintained under this system.

Under this system of maintaining accounts :

- Both the aspects of only certain transactions are recorded e.g. cash received from debtors or cash paid to creditors.
- One aspect of some transactions are recorded e.g. cash paid for the purchase of goods.

- Some financial events are not recorded at all e.g. depreciation charged on fixed assets.

#### **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 needs of the organisation.
- Profit or loss is ascertained by either Statement of Affairs method or 'Conversion into Double entry Method' :

#### **Uses of Incomplete Records**

Books according to this system can be maintained only by those small entities in the form of sole Proprietorship or Partnership firms 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.

#### **Uses of Reasons for keeping incomplete Records**

1. **Simple Method** : It is easy and simple as under this method one does not require any special knowledge of the principles for recording of transactions.
2. **Less Expensive** : As under this method only few accounts are prepared therefore business firm does not requires expert staff for recording the transactions.
3. **Flexible Method** : This method is highly flexible because it can be adjusted according to the needs of the organisation.
4. **Suitable for small Concerns** : This method is most suitable to small business concerns which have mostly cash transactions and very few Assets & Liabilities.
5. **Easy to calculate profit or / loss** : It is easier to calculate profit or loss under this method.

#### **Limitations of Incomplete Records**

1. **Incomplete method** : This method is incomplete method of maintaining the accounting records as the aspects, debits and credits, of every transaction are recorded.
2. **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.

3. **True profit or loss cannot be ascertained** : As under this system all the accounts are not prepared like Nominal A/C which is the base for calculating actual profit. So the profit ascertained under this method is not reliable.
4. **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.
5. **No recognition in the assessment of income Tax & Sales Tax** : The system fails to reveal the true profit and sales of a business. As such, the accounts maintained under the system are not accepted by Tax authorities.
6. **Preparation of Trial Balance not possible** : This method does not record both the aspect of a transaction. So trial balance is not possible as all debit and credit items was not there.

#### **Distinction between Single Entry System and Double Entry System**

Points of Distinction	Double entry system	Incomplete Records system
(i) Aspects	Both aspects of transactions are recorded.	One aspect of transactions is recorded.
(ii) Types of Accounts	All the three types of accounts personal real and nominal are prepared.	Only personal and cash accounts are prepared.
(iii) Trial Balance	Trial balance is prepared.	Trial balance cannot be prepared.
(iv) Profit & loss	Profit is ascertained by preparing profit and Loss Account.	It is not possible to prepare Profit and Loss Account. Profit is calculated by preparing Statement of profit.
(v) Financial Position	Balance Sheet is prepared to ascertain financial position.	Balance Sheet is not prepared. Statement of affairs gives a rough idea of financial position.
(vi) Proof	Accounting records are treated as proof in the Court of Law.	Accounting records are not treated as proof in the court of Law.
(vii) Tax Authorities	Tax authorities recognise this system.	Tax authorities do not recognise this system.
(viii) Suitability	It is suitable in all the cases.	It is suitable only in case of small business houses.

#### **Ascertainment of Profit or Loss**

The main objective of any business enterprise is to earn profits. In case of organization maintaining accounts under incomplete records the

amount of profit or loss can be ascertained by following two method

- 1) Statement of affairs method or net worth method
- 2) Conversion in Double entry 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.

- 1) When Capital at the end is more than the capital in the beginning during an Accounting period (with the necessary adjustment) there will be profit.

$$\text{Profits} = \text{Closing Capital} - \text{Opening Capital}$$

- 2) When Capital at the beginning is more than capital at the end during an Accounting Period. (with the necessary adjustment) there will be loss.

$$\text{Losses} = \text{Opening Capital} - \text{Closing Capital}$$

Capital at the beginning is calculated by preparing an 'Opening statement of Affairs' and similarly, capital at the end is calculated by preparing a 'Closing Statement of Affairs'.

### **Notes**

Under this method two statements are prepared :

1. Statement of affairs, for calculating opening and closing capital.
2. Statement of profit or loss, for calculating profit or loss.

### **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.

$$\text{Capital} = \text{Total Assets} - \text{Total liabilities}$$

A statement of affairs is very similar to Balances Sheet as prepared for the business entities maintaining accounts under double entry system, through it should not be described as a Balance Sheet

**A Statement of Affairs is prepared as follows :**

**Statement of Affairs**

Liabilities	Amount	Assets	Amount
Bank Overdraft	XXXX	Cash in Hand	XXXX
Sundry Creditors	XXXX	Cash at Bank	XXXX
Bills Payable	XXXX	Bills Receivables	XXXX
Outstanding Expenses	XXXX	Sundry Debtors	XXXX
Income Received in Advance	XXXX	Stock	XXXX
		Prepaid Expenses	
Capital (Balancing Figure)	XXXX	Accured Income furniture	XXXX
		Plant & machinery etc.	XXXX

**For ascertainment of profit or loss, the following steps shall be taken:**

- Step 1:** Calculate the amount of 'Opening capital' (If not given in the Question) by preparing Statement of Affairs at the beginning of the accounting period.
- Step 2:** Calculate the amount of 'Closing Capital' by preparing 'Statement of Affair' at the end of the accounting period.
- Step 3:** Calculation of Profit or Loss by preparing Statement of profit or Loss in the following manner

**Statement of Profit or Loss for the year ended.**

Particulars	Details	Amount
Closing Capital	XXX	
Add: Drawing made during the year	XXX	
Less: Additional capital introduced during the year	XXX	
Adjusted capital at the end.		XXX
Less: Opening capital		XXX
Profit or loss during the year (Profit if amount is positive, loss if amount is Negative)		XXX

**Difference between balance sheet and statement of affairs.**

Basis	Balance-Sheet	Statement of Affairs
Objective	To know about the financial position of the business.	To know capital at a point of time.
Accounting method	Accounts are maintained under. Double entry system.	Accounts are maintain under single entry system.
Reliability	being based on actual figures, Balance sheet is reliable.	Since it is based partly on accounts and addition information, it is less reliable
Trial balance	Trial balance is prepared before balance sheet.	Trial balance is not prepared
Arithmetical	The tallying of balance sheet implies arithmetical accuracy	Statement of affairs does not people the arithmetical accuracy of accounting

**Illustration 1:** Nishant Raj Keeps incomplete records of the business. He gives the following information.

	₹
Capital on 1st April 2018	20,000
Capital on 31st march 2019	25,000
Drawings made during the year	4,800

He sold his investment of 1500 at 3% premium and brought that money into the business. You are required to prepare a statement of profit or loss.

**Solution :**

**Statement of Profit  
for the year 2018-19**

Particular Particulars	Details	Amount
Closing Capital	25,000	
Add: Drawing made during the year	4,800	
	<u>29,800</u>	
Less: Additional capital introduce (1500+45)	<u>1,545</u>	
Adjusted capital at the end		28,255
Less: Opening capital		<u>20,000</u>
Profit or loss during the year		<u>8,255</u>

**Illustration 2:** Mr. Hemant started his business on 1 st April 2018 with a capital of ₹ 1,00,000. He follow the single entry system. At the end of the year i.e. on 31st March, 2019 the position of Assets & Liabilities was :

Cash in hand	20,000
Furniture	30,000
Machinery	45,000
Debtors	15,000
Stock	20,000
Creditors	35,000

During the year, he introduced ₹ 15,000 as additional capital. Calculate profit & loss and prepare statement of affairs as on 31.3.19.

Statement of affairs  
(as at 31<sup>st</sup> March, 2019)

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Creditors	35,000	Cash	20,000
Capital	95,000	Furniture	30,000
(Balancing Figure)		Machinery	45,000
		Debtors	15,000
		Stock	20,000
	1,30,000		1,30,000

**Statement of Profit & Loss**  
(for the year ended 31st March 2019)

Particular	Amt.
Closing Capital	95,000
Less: Additional capital	(15,000)
Adjust capital at the end	80,000
Less: Opening capital	(100,000)
Loss during the year	(20,000)

**Illustration 3:** Aarushi started a business with a capital of ₹ 5,00,000, At the end of the year her position was.

Particular	Amount (₹)
Cash in Hand	15,000
Cash at Bank	70,000
Sundry Debtors	1,20,000
Stock	2,40,000
Furniture	75,000
Machinery	2,00,000

Sundry creditors on this date totalled ₹ 80,000. During the year she introduced a further capital m 1,50,000 and withdrew for household expenses ₹ 90,000. A certain her profit and prepare statement of affairs at the end of year.

Liabilities	(₹)	Assets	(₹)
Sundry Creditors	80,000	Cash in Hand	15,000
Capital (Balancing figure)	6,40,000	Cash at Bank	70,000
		Sundry Debtors	1,20,000
		Stock	2,40,000
		Furniture	75,000
		Machinery	2,00,000
	7,20,000		7,20,000

**Statement of Profit or Loss**

Particular	m
Capital at the end	6,40,000
Add : Drawings (Household Expenses)	90,000
	7,30,000
Less: Additional capital Introduced	1,50,000
Adjust capital at the end	5,80,000
Less: Capital in the beginning	5,00,000
Profit for the year	80,000

**Illustration 4:** Miss Pooja runs a business. She was not maintaining her accounts on the double entry system. On April, 2018 She started the business with a capital of ₹ 80,000. On March 31, 2019 her incomplete records could provide the following data.

- (i) Amount due to suppliers of raw materials ₹ 17,500
- (ii) Stock of raw material ₹ 2,000 and finished product ₹ 2,500
- (iii) Fixed assets ₹ 34,000
- (iv) Amount due from customers ₹ 42,000
- (v) She had withdrawn ₹ 2,500 per month for meeting her personal expenses.
- (vi) She had introduced ₹ 7,000 as capital during the year.
- (vii) She has cash at bank ₹ 21,000 and cash in hand ₹ 1,800
- (viii) Outstanding electricity bill ₹ 2,250

Calculate the profit / loss of her business during the year using statement of affairs method.

### SOLUTIONS

#### STATEMENTS OF AFFAIRS

as at 31<sup>st</sup> March 2019

Liabilities	(₹)	Assets	(Amount)
Creditors (Supplier)	17,500	Stock :	
Outstanding Electricity Bill	2,250	Raw Material	2,000
Capital (Balancing figure)	83,550	Finished Products	2,500
		Fixed Assets	34,000
		Debtors	42,000
		Cash at Bank	21,000
		Cash in Hand	1,800
	1,03,300		1,03,300

#### STATEMENTS OF PROFIT AND LOSS

for the year ended 31<sup>st</sup> march 2019

Particular	₹
Capital at the end of the year	83,550
Add : Drawings (m 2,500x12)	30,000
	1,13,550
Less: Fresh capital introduced	7,000
Adjust capital at the end	1,06,550
Less: Capital in the beginning	80,000
profit for the period	26,550

**Illustration 5 :** Mr. Shiva keeps his book by single entry. His position on 1st April, 2018 was as follows: cash in hand ₹1250; Cash at bank ₹1,000 Debtors ₹ 2,000; Stock ₹2,500. Furniture ₹750; Creditors ₹1,500; Plant and Machinery ₹3,000 His Position on 31st March, 2019 was follows:

Cash ₹300, Debtors ₹3,000, Stock ₹3,500, Furniture ₹1,000, Plant and Machines, ₹4,500 Creditors ₹2,000 Bank Overdraft ₹500

During the year he withdrew ₹450 for his domestic expenses and introduced ₹750 as fresh Capital.

Prepare the Statement of Affairs and ascertain his profit or loss for the year.

### STATEMENT OF AFFAIRS

As on 1st April, 2018

Liabilities	(₹)	Assets	₹
Creditors	1,500	Cash in Hand	1,250
Capital (Balancing figure)	9,000	Cash at Bank	1,000
		Sundry Debtors	2,000
		Stock	2,500
		Furniture	750
		Plant & Machinery	3,000
	<u>1,0,500</u>		<u>10,500</u>

### STATEMENT OF AFFAIRS

As on 1st April, 2019

Liabilities	(₹)	Assets	₹
Creditors	2,000	Cash in Hand	300
Bank overdraft	500	Debtors	3,000
Capital (Balancing figure)	9,800	Stock	3,500
		Furniture	1,000
		Plant & Machinery	4,500
	<u>12,300</u>		<u>12,300</u>

**STATEMENT OF PROFIT OR LOSS**  
**for the year ended 31 st march, 2019**

Particular	₹
Capital on 31st march 2019	9,800
Add : Drawings	450
	<u>10,250</u>
Less: capital introduced the year	750
Adjust capital at the end	9,500
Less: Capital on 1st April 2018	9,000
	<u>500</u>
Net profit during 2018-19	

**Illustration 6 :** Mr. Naman Jain started business on January 1, 2018 with a capital of ₹ 1,00,000

He immediately bought furniture and fixtures for ₹20,000. On 30th June, he borrowed ₹50,000 from his wife @ 9% p.a. (interest not yet paid) and introduced a further capital of his own amounting to 11,500. He drew at the rate of 3,000 per month at the end of each month for his household expenses. On 31st December, 2018 his position was as follows:

Liabilities	(₹)	Assets	₹
Cash in hand	30,000	Sundry Debtors	48,000
Stock Creditors	68,000	Bills Receivables	16,000
		Owing for Rent	1,500

Furniture and Fixtures to be depreciated by 10%

Ascertain the profit or loss made by Naman Jain during 2018

**Books of Naman Jain**  
**STATEMENT OF AFFAIRS**  
**as on Dec. 31, 2018**

Liabilities	(₹)	Assets	₹
Wife is loan	50,000	Furniture and Fixtures 20,000	18,000
		Less : Depreciation <u>2,000</u>	
Interest on loan outstanding (for 6 month)	2,250	Cash in hand	30,000
Rent Outstanding	1,500	Debtors	48,000
Creditors	5,000	Stock	68,000
Capital(Bal. fig)	121,250	B/R	16,000
	<u>1,80,000</u>		<u>1,80,000</u>

## STATEMENT OF PROFIT OR LOSS during 2018

Particular	₹
Capital on 31st Dec. 2018	1,21,250
Add : Drawings	<u>36,000</u>
	1,57,250
Less: capital introduced the year	
Adjust capital at the end	<u>11,500</u>
Less: Capital as on 1st Jan. 2018	1,45,750
Profit during 2018-19	<u>1,00,000</u>

### Conversion of single entry system into Double Entry System

OR

Preparation of Final Accounts From Incomplete Records.

In the profit or loss of the enterprise is to be determined by preparing final accounts, then the single entry Records are converted into Double Entry Records.

#### Following Steps are Taken:

1. Opening Statement of Affairs:

It is to find missing figures such as opening capital, creditors, stock, etc.

2. Cash Book:

Cash book is prepared to find the missing value in the following cases (as the case may be)

#### Credit side exceeds Debit side

- Opening Cash/Bank
- Closing Bank Overdraft
- Cash Sales
- Sundry Income
- Capital Introduced
- Collection from Debtors
- Collection from Bills Receivables
- Sale of Fixed Assets

#### Debit Side Exceeds Credit Side

- Closing Cash/Bank
- Opening Bank Overdraft
- Cash Purchases
- Sundry Expenses
- Drawings
- Payment to Creditors
- Bills Revisable Discharged
- Purchase of Fixed Assets

#### Total Debtors Account:

It is prepared to find the missing values of credit sales or closing balance of debtors or cash received from debtors or the opening balance of debtors.

**Any one of the above figure can be missing:**

<b>Dr. Total Debtors Account</b>		<b>Cr.</b>	
Particulars	₹	Particulars	₹
To Balance b/d	—	By Cash/Bank A/c	—
To Bill Receivables A/c (Dishonored)	—	By Bills Receivable A/c (B/R accepted)	—
To Bank A/c (Cheques Dishonored)	—	By Discount Allowed A/c	—
		By Sales Return A/c	—
To Bank A/c (Discounted B/R Dishonored)	—	By Bad Debts A/c	—
	—	By Bills Revisable A/c	—
To Total Creditors A/c (Endorsed B/R Dishonoured)	—	By Balance C/d	—
To Credit Sales	—		

**Bills Receivable Account:**

It is prepared to find the opening or closing balance of bill receivable or any other figure:

<b>Dr. Bills Receivable Account</b>		<b>Cr.</b>	
Particulars	₹	Particulars	₹
To Balance b/d	—	By Cash/Bank A/c	—
To Total Debtors A/c (B/R Received)	—	By Bank A/c (B/R discounted)	—
		By Total Debtors A/c (B/R dishonored)	—
		By Total Creditors A/c (B/R endorsed)	—
		By Balance C/d	—

**Total Creditors Account:**

**It is Prepared to find the missing Figures (any one) from below:**

<b>Dr. Total Creditors Account</b>		<b>Cr.</b>	
Particulars	₹	Particulars	₹
To Cash/Bank A/c	—	By Balance b/d	—
To Discount Received A/c	—	By Bills Payable A/c (B/P dishonored)	—
To Bills Receivable A/C (Endorsed B/R)	—	By Total Debtors A/c (Endorsed B/R Dishonored)	—
To Bills Payable A/c	—		

(B/P accepted)		By Credit Purchases A/c	–
To Purchases Return A/c	–		
To Balance C/d	–		

### **Bills Payable Account**

**It is prepared to find the missing figure (any one) from below:**

Dr.	<b>Bills Payable Account</b>		Cr.
Particulars	₹	Particulars	₹
To Cash/Bank A/c	–	By Balance b/d	–
(B/P discharged)		By Total Creditors A/c	–
To Bills Receivable A/c	–	(B/P accepted)	
(Endorsed B/R)			
To Creditors A/c	–		
(B/P dishonored)			
To Balance C/d	–		

Total Sales and Total Purchases

Total Sales = Cash Sales + Credit Sales

Total Purchases = Cash Purchases + Credit Purchases

**Illustration 7:** From the following information, calculate

<b>Total Sales:</b>	(₹)
Bills Receivable (beginning)	18,000
Debtors (beginning)	65,000
Bills Receivables encashed during the year	42,000
Cash received from Debtors	1,50,000
Bad debts written off	5,000
Sales Return	19,000
Bills Receivable (Dishonored)	3,500
Bills Receivable (end)	11,000
Debtors (end)	52,000
Cash Sales.	85,000

**Solution:**

Dr.	<b>Bills Receivable Account</b>		Cr.
Particulars	₹	Particulars	₹
To Balance b/d	18,000	By Cash/Bank A/c	42,000
To Total Debtors		By Total Debtors A/c	3,500
A/c (B/R Received)	38,500	By Balanced C/d	11,000
(Missing Figure)			
	56,500		56,500

Dr.		Total Debtors Account		Cr.	
Particulars	₹	Particulars	₹		
To Balance b/d	65,000	By Cash/Bank A/c	1,50,000		
To Bills Receivable A/c	3,500	By Bad Debts A/c	5,000		
To Sales A/c Credit sales	1,96,000	By Bills Receivable A/c	38,500		
	52,000	By Sales return A/c	19,000		
Balance figure		By Balance C/d	52,000		
	2,64,500		2,64,500		

Total Sales = Cash Sales + Credit Sales = ₹ 85,000 + ₹ 1,96,000  
= Rs. 2,81,000

**Illustration 8:** Find Total Sales and Total Purchases from the

Following information:

(Rs.)

• Opening Debtors	12,400
• Cash Received	49,300
• Discount Allowed	2,500
• Bad debts written off	1,300
• Sales return	1,800
• Bills Receivables received	7,100
• Closing Debtors	11,800
• Opening Creditors	7,800
• Cash paid to creditors	26,100
• Discount received	1,300
• Purchases Return	1,600
• Bills Payable issued	4,100
• Closing Creditors	6,400

Additional Information:

Cash Sales—₹ 1,00,000

Cash Purchases— 60,000

**Solution:** Calculation of credit sales:

Dr.		Total Debtors Account		Cr.	
Particulars	₹	Particulars	₹		
To Balance b/d	12,400	By Cash/Bank A/c	49,300		
To Sales A/c		By Discount Allowed A/c	2,500		
(Credit Sales)	61,400	By Bad Debts A/c	1,300		
Bal. figure		By Sales Return A/c	1,800		

	By Bill receivable A/c	7,100
	By Balance c/d	11,800
73,800		73,800

Total Sales = Cash Sales + Credit Sales = ₹1,00,000 + ₹61,400 = ₹1,61,400

Dr.		Total Creditors Account	Cr.
Particulars	₹	Particulars	₹
To Cash/Bank A/c	26,100	By Balance b/d	7,800
To discount Received A/c	1,300	By Purchases A/c	31,700
To Purchases Return A/c	1,600	(Credit Purchases)	
To Bill Payable A/c	4,100	Bal. Figure	
To Balance c/d	6,400		
	39,500		39,500

Total Purchases = Cash Purchases + Credit Purchases

= ₹. 60,000 + ₹. 31,700 = ₹91,700

### Preparation of Trading and profit & Loss A/c and Balance Sheet of conversion Method.

Sanjay keeps incomplete records. During the year 2018-19 he kept a Cash Book of which the following is an analysis :

#### Illustration 9:

Receipts from	₹	Payments to	₹
Received from Debtors	28800	Paid to Creditors	15,000
Cash sales	21600	Salaries	5,280
Additional Capital Introduced	6,000	Rent	3600
Interest on Investments	1080	General Expenses	2040
		Wages	10500
		Drawings	3180
		Cash Purchases	10800

#### Adjustments :

1. Provide 5% on debtors for doubtful debts.
2. Outstanding salary @ ₹ 480.

From the above information, prepare the Trading & Profit & Loss A/c for the year ended 31<sup>st</sup> March, 2019 and a Balance Sheet as at that time.

**Solution :**

<b>Cash Book</b>			
<b>Dr.</b>			<b>Cr.</b>
<b>Particulars</b>	<b>₹</b>	<b>Particulars</b>	<b>₹</b>
To balance B/d (01.04.2018)	2520	By Payment to Creditors	15000
To Receipt from Debtors	28800	By Salaries	5280
To Cash Sales	21600	By Rent	3600
To Additional Capital	6000	By General Expenses	2040
To Interest on Investments	1080	By Wages	10500
		By Drawings	3180
		By Cash Purchases	10800
		By Balance c/d (Balancing figure on 31.03.2019)	9600
	<b>60000</b>		<b>60000</b>

<b>Total Debtors Account</b>			
<b>Dr.</b>			<b>Cr.</b>
<b>Particulars</b>	<b>₹</b>	<b>Particulars</b>	<b>₹</b>
To balance b/d (01.04.2018)	4320	By Cash received from Debtors	28800
To Credit sales (balancing Fig.)	31680	By Balance c/d (31.03.2019)	7200
	<b>36000</b>		<b>36000</b>

<b>Total Creditors Account</b>			
<b>Dr.</b>			<b>Cr.</b>
<b>Particulars</b>	<b>₹</b>	<b>Particulars</b>	<b>₹</b>
To Cash paid to Creditors	15000	By Balance b/d (01.04.2018)	3600
To Balance c/d (31.03.2018)	5100	By Credit Purchases	16500
	<b>20100</b>		<b>20100</b>

### Opening Balance Sheet

as at 1<sup>st</sup> April 2018

Liabilities	₹	Assets	₹
Creditors	3600	Cash in hand	2520
Capital (Balancing Figure)	56040	Debtors	4320
		Stock	9000
		Investments	9000
		Furniture	4800
		Machinery	30000
	<b>59,640</b>		<b>59640</b>

### Trading And Profit & Loss Account

For the year ending 31st March, 2019

Liabilities	Rs.	Assets	Rs.
To Opening Stock	9000	By Sales	
To Purchases		Cash Sales           21600	
Cash Purchases       10800		Credit sales       31680	53280
Credit Purchases <u>16500</u>	27300	By Closing Stock	14400
To Wages	10500		
To Gross profit c/d	20880		
	<b>67680</b>		<b>67680</b>
To Salaries               5280		By Gross Profit b/d	20880
Add: Outstanding <u>480</u>	5760	By Interest on Investments	1080
To Rent	3600		
To General Expenses	2040		
To Provision for doubtful Debts	360		
To Net Profit	10200		
	<b>21960</b>		<b>21960</b>

**Balance Sheet**  
**as at 31st March, 2019**

<b>Liabilities</b>	<b>₹</b>	<b>Assets</b>	<b>₹</b>
Creditors	5100	Cash in hand	9600
Outstanding Salary	480	Debtors 7200	
Capital 56040		Less: provision for 360	6840
		Doubtful Debts	
Add: Additional Capital 6000		Stock	14400
	62040	Investments	9000
Add: Net Profit 10200		Furniture	4800
	72240	Machinery	30000
Less: Drawings 3180	69060		
	<b>74640</b>		<b>74640</b>

**Illustration 10**

Yashpal does not maintain proper books of account. From the following particulars, prepare the trading and profit and loss account for the year ended 31<sup>st</sup> March 2019 and Balance Sheet as on that date :

<b>Particulars</b>	<b>31.03.2018</b>	<b>31.03.2019</b>
	<b>₹</b>	<b>₹</b>
Furniture	10000	15000
Stock	98000	132000
Debtors	180000	250000
Creditors	60000	45000
Analysis of other transactions is as follows :		
<b>Particulars</b>		<b>₹</b>
Cash collected from Debtors		608000
Cash paid to creditors		440000
Salaries		120000
Rent		15000
Office Expenses		18000
Additional Capital Introduced		20000

Drawings	30000
Cash Sales	15000
Cash Purchases	50000
Discount Received	7000
Discount Allowed	3000
Return Inward	10000
Return outward	8000
Bad debts	2000

He had Rs. 50000 as cash Balance in the beginning of the year.

**Solution:**

**Working Notes:**

**WN-1.** Calculation of Opening Capital.

**Balance Sheet as at 31<sup>st</sup> March, 2018**

<b>Liabilities</b>	<b>Amount ₹</b>	<b>Assets</b>	<b>Amount ₹</b>
Creditors	60,000	Cash	50,000
Capital	2,78,000	Balance	
(Balancing Figures)		Debtors	1,80,000
		Stock	98,000
		Furniture	10,000
	<b>3,38,000</b>		<b>3,38,000</b>

**WN-2****Cash Book****Dr.****Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance B/d	50,000	By Creditors	4,40,000
To Debtors	6,08,000	By Rent	15,000
To Capital	20,000	By Salaries	1,20,000
To Sales	15,000	By Drawings	30,000
		By office Expenses	18,000
		By Purchases	50,000
		By balance C/d (Bal. Fig.)	20,000
	<b>6,93,000</b>		<b>6,93,000</b>

**WN-3****Total Debtors Account****Dr.****Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Balance B/d	180000	By Cash	608000
To Sales	693000	By Discount Allowed	3000
(Credit Sales)		By Return Inwards	10000
Balancing Figure		By Bad Debts	2000
		By Balance b/d	250000
	<b>873000</b>		<b>873000</b>

**WN-4****Total Creditors Accounts****Dr.****Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To cash	4,40,000	By Balance b/d	60,000
To discount Received	7,000	By Purchases	
To Return outward	8,000	(Credit purchases)	4,40,000
To Balance c/d	45,000	Balancing Figure	
	<b>500000</b>		<b>500000</b>

**Trading and Profit and Loss Account**  
for the year ended 31st March, 2019

Particulars	Rs.	Particulars	Rs.
To opening stock	98000	By Sales	
To Purchases		Cash                      15000	
Cash                      50000		Credit                      693000	
Credit (WN.4)              + 440000		(WN-3) <u>7,08,000</u>	
	490000		
Less: Return Outward <u>–8000</u>		Less: Return              10000	
	4,82,000	Inward	6,98,000
To Gross profit c/d	2,50,000	By closing stock	1,32,000
	<b>8,30,000</b>		<b>8,30,000</b>
To Salaries	1,20,000	By Gross profit B/d	2,50,000
To Rent	15,000	By Discount Received	7,000
To office expenses	18,000		
To Discount Allowed	3,000		
To bad Debt	2,000		
To Net profit			
transfers to Capital A/c	99,000		
	<b>2,57,000</b>		<b>2,57,000</b>

**Balance Sheet**  
**as at 31st March, 2019**

Liabilities	Amount ₹	Assets	Amount ₹
Creditors	45,000	Cash (WN-2)	20,000
		Debtors	2,50,000
Creditors for Furniture	5,000	Stock	1,32,000
Rs. 15000 - Rs. 1000)		Furniture	1,50,00
Capital 1.4.2017 (WN-1)			
	278000		
Add: Capital	+20000		
Introduced			
Net Profit	99000		
	3,97,000		
Less:	-30,000		
Drawings	367000		
	<b>417000</b>		<b>417000</b>

**Illustration 11:** Mr. Rajan keeps His books according to single entry system as the runs his business on small scale. From the following information provided to you prepare

- (i) Trading and Profit loss Account for the year ended 31-3-2019
- (ii) Balance Sheet as on that data.

Particulars	As on 31-3-2018 (₹)	As on 31-3-2019(₹)
Creditors	8000	5500
Debtors	22000	30000
Purniture	4000	4000
Office Premises	12000	12000
Stock	7000	11500

**Additional Information:**

	₹
(1) Cash Sales	13000
(2) Cash Collected from Debtors	27000
(3) Closing Cash Balance	400
(4) Closing Bank Balance	1850
(5) Payment to creditors	15000
(6) Expenses	8500
(7) Salaries and Wages	7900
(8) Drawings	100 p.m
(9) Sundry Expenses	300

Provide 5% p.a. interest on capital at the beginning, ₹ 1000 for doubtful debts and office premises at the end.

Solution In the Books of Mr. Rajan

Dr.	Sundry Debtors Account		Cr.
Particulars	₹	Particulars	₹
To Balance b/d	22000	By Bank A/c (amt collected from Debtors)	27000
To sales A/c (Balancing figure)	35000	By Balance c/d	30000
	57000		57000

Sundry Creditors Account			
Dr.			Cr.
Particulars	₹	Particulars	₹
To Bank A/c (Amt. paid to Creditors)	15000	By Balance b/d	8000
To Balance C/d	5500	By Purchases A/c (Balancing Figure)	12500
	20500		20500

Dr.	Cash and Bank Account		Cr.
Particulars	₹	Particulars	₹
To Sales A/c	13,000	By Balance b/d (balancing figure)	4850
To Debtors A/c	27,000	By Creditors A/c	15000
		By Expenses A/c	8500
		By Salaries & wages A/c	7900
		By Drawings A/c	1200

	By Sundry Expenses A/c	300
	By Balance C/d	
	Cash – 400	
	Bank – 1850	2250
40,000		40,000

#### Balance Sheet

Dr.	(as on 01-04-2018)		Cr.
Particulars	₹	Particulars	₹
Creditors	8000	Stock	7000
Bank Overdraft	4850	Debtors	22000
Capital (Balancing Figure)	32150	Furniture	4000
		Office Premises	12000
	45000		45000

#### Trading and Profit and Loss Account for the

Dr.	Year ended 31-3-2019		Cr.
Particulars	₹	Particulars	₹
To Opening stock	7000	By sales	
To Purchases	12500	Cash – 13000	
To Gross Profit C/d	4000	Credit – 35000	48000
		By Closing Stock	11500
	59,500		59,500
To Expenses	8500	By Gross Profit b/d	40000
To Salaries & wages	7900		
To Sundry Expenses	300		
To Interest on capital	1608		
To Deprecation			
Furniture – 200			
Office Premises – 600	800		
To Prorision for doubtful debts	1000		
To Net Profit	19,892		
	40,000		40,000

<b>Balance Sheet</b>			
<b>as on 31-3-2019</b>			
<b>Dr.</b>			<b>Cr.</b>
Particulars	₹	Particulars	₹
Capital – 32150		Debtors 30000	
Drawings (1200)		– Provision for	
Net Profits 19892		Doubtful Debts (1000)	29000
Interest on capital 1608	52450	Furniture 4000	
		– Dep. 200	3800
Creditors	5500	Office Premises 12000	
		– Dep. 600	11400
		Stock	11500
		Cash Balance	400
		Bank Balance	1850
	57950		57950

**Illustration 12:** Mohit Gupta did not keep proper books of accounts. However he provides the following information about his business related to the year 2018

Particulars	As on 01-01-2018`	31-12-2018`
Cash at Bank	1000	1800
Stock	20000	19500
Sundry Debtors	15000	16000
Machinery	40000	40000
Sundry Creditors	20000	18500

<b>Summary of Cash Transactions at Bank</b>			
<b>Dr.</b>			<b>Cr.</b>
Particulars	₹	Particulars	₹
Opening Balance	1000	Payment to Creditors	35000
Received from Debtors	76500	Wages	15100
Cash Sales	8200	Salaries & Expenses	11600
Sale of old news paper	200	Building Purchased	20000
Loan from Mrs. Gupta on 1st	6000	Drawings	8400
october 2018		closing balance	1800
	91900		91900

During the year ₹ 600 had to be written off as bad debts. Machinery is to be depreciated by 15% p.a. Expenses owing are ₹ 800.

Prepare Mohit Gupta's Trading and Profit & Loss A/c and Balance sheet as on 31-12-2018.

**Solution:** In the Books of Mohit Gupta

Dr.	Sundry Debtors Account		Cr.
Particulars	₹	Particulars	₹
To Balance b/d	15,000	By Bank A/c (amt)	
To sales A/c (Balancing figure)	78,100	collected from Debtors)	76,500
(Balancing figure)		By Balance c/d	16,000
		By Bad Debts	600
	93,100		93,100

Dr.	Sundry Creditors Account		Cr.
Particulars	₹	Particulars	₹
To Bank A/c (Amt. paid to Creditors)	35,000	By Balance b/d	20,000
To Balance C/d	18,500	By Purchases A/c (Balancing Figure)	33,500
	53,500		53,500

#### Balance Sheet

Dr.	(as on 01-01-2018)		Cr.
Liabilities	₹	Assets	₹
Sundry Creditors	20,000	Cash at Bank	1,000
Capital (Balancing Figure)	56,000	Stock	20,000
		Sundry Debtors	15,000
		Machinery	40,000
	76,000		76,000

#### Trading and Profit and Loss Account for the

Dr.	Year ended 31-12-2018		Cr.
Particulars	₹	Particulars	₹
To Opening stock	20,000	By sales A/c	
To Purchases A/c	33,500	Cash – 8200	
To Wages A/c	15,100	Credit – 78100	86,300
To Gross Profit C/d	37,200	By Closing stock	19,500
	1,05,800		1,05,800
To Salaries and Expenses	11,600	By Gross Profit b/d	37,200

To Interest on Loan	135	By Sale of old News paper	200
To Depreciation on Machinery	6,000		
To Expenses owing	800		
To Bad Debts	600		
To Net Profit C/d	18,265		
	37,400		37,400

### Balance Sheet

Dr.	as on 31-12-2018		Cr.
Liabilities	₹	Assets	₹
Creditors	18500	Cash at Bank	1,800
Loan from Mrs. Gupta	600	Stock	19,500
Expenses owing	800	Debtors	16,000
Interest on Loan from Mrs. Gupta	135	Machinery 40,000	
		– Depreciation 6,000	34,000
Capital 56000			
Drawings (8400)			
Net Profits 18265	65,865		
	91,300		91,300

### Objective Type Questions: (1 Mark).

- Opening Capital of the accounting year is ascertained by preparing \_\_\_\_\_.  
(Ans. Opening Statement of Affairs)
- Single Entry System can be adopted by \_\_\_\_\_.  
(Ans. Small firms)
- Profit = Closing Capital + \_\_\_\_\_ – Capital Introduced – opening capital.  
(Ans. Drawings)
- Which Generally Accepted Accounting Principle (GAAP) is ignored while using single entry system.  
(Ans. Dual Aspect Concept)
- State any two limitations of single entry system.
- From incomplete records, it is possible to prepare
  - Ledger Accounts
  - Trial Balance
  - Statements of Affairs
  - None of these

(Ans. C)

7. Credit sales can be ascertained by preparing \_\_\_\_\_ Account.

(Ans. Total Debtors)

8. Credit Purchases can be ascertained by preparing \_\_\_\_\_ Account.

(Ans. Total Creditors)

Mr. A a trader does not keep proper books of accounts. However, A provides the following particular.

	31-03-2018	31-03-2019
	₹	₹
Cash in Hand	300	4,000
Cash in Bank	4,500	3,000
Stock	40,000	45,000
Debtors	12,200	20,000
Equipment	5,000	5,000
Creditor	30,000	20,000
Furniture	4,000	4,000

During the year 2018-19, Mr A introduced ₹6,000 as additional capital and withdraw ₹4,000 as drawings. He writes off 10% on furniture and 5% on equipment as depreciation. Prepare a statement showing the profit or loss made by him for the year ended 31 st March 2019.

Liabilities	(₹)	Assets	(₹)
Cash in hand	36,000	Furniture	4,000
Creditors	30,000	Equipment	5,000
		Debtors	12,200
		Stock	40,000
		Cash at Bank	4,500
		Cash in hand	300
	66,000		66,000

- Himanshu Gupta who keeps his books on single entry, tells you that his capital on 31-03-2019 was Rs. 28,700 and his capital on 1-4-2018 was Rs. 19,200. He further informs you that during the year he withdraw for his household purposes Rs. 8,420. He sold his investments of Rs. 10,000 at 2% premium and brought that money into the business. You are required to calculate profit or loss for the year 2016.

**Ans.(Profit ₹7,720)**

- Mr. Anand started a business with a capital of ₹ 4,50,000. At the end of the year his position was:

	<b>Amount (₹)</b>
Cash in Hand	15,000
Cash in Bank	75,000
Sundry Debtors	1,10,000
Stock	2,30,000
Furniture	55,000
Building	1,75,000

Sundry creditors at this date totalled ₹ 80,000 During the year he introduced a fresh Capital of ₹ 1,80,000 and withdraw for household expenses ₹ 90,000 You are required to calculate profit or loss during the year.

**Ans.(Capital ₹580,000, Profit during the year 40,000)**

- Ravi started business on Jan 01,2018 with a capital of ₹ 4,50,000 On Dec, 31,2018 his position was as under :

	₹
Cash	100,000
Bills Receivable	75,000
Stock	48,000
Land and Building	1,80,000
Furniture	50,000

He owned ₹ 45,000 to her friend Parul on that date. He withdrew ₹ 8,000 per month for household purposes. Ascertain his Profit or loss for the year ended Dec, 31,2018.

**Ans.(Closing capital ₹4,07,000 Profit ₹54000)**

- Ms. Anjam does not keep proper records of business. She provided loss for the year.

	₹
Owner's Enquiry at the beginning of the year	1600,000
Bills Receivable	60,000
Cash in hand	80,000
Furniture	9,00,000
Building	10,00,000
Creditors	6,00,000
Stock in trade	2,00,000
Further capital introduced	3,20,000
Drawing made during the period	80,000

**Ans.(Closing Capital ₹16,40,000; Loss ₹2,00,000)**

- Mr. Mehta keeps incomplete records his Assets and liabilities were as under.

	31st March, 2018	31st March, 2019
	₹	₹
Cash	2,000	900
Sundry Debtors	39,000	45,000
Stock	34,000	32,000
Plant and Machinery	60200	80,000
Sundry Creditor	15,000	14,000
Bills Payable	-	5,000

During 20-15-19 he introduced 10,000 as new capital. He withdraw 3,000 every month for his household expenses. Ascertain his Profit for the year ended 31st March 2019.

**Ans.Opening Capital ₹1,20,000 Closing Capital ₹1,38,000 Profit ₹44000**

- Mrs. Pooja started with a capital of ₹40,000 on 1st July, 2018 . She borrowed from her friend a sum of ₹100,000 @ 10% per annum (Interest paid) for business and brought further amount for capital ₹7500. On December 31,2018 her position was :

	₹
Cash	30,00
Stock	47,000
Debtors	35,000
Creditors	30,000

She withdraw ₹800 per month for the year calculate profit or loss for the year.

Ans. (Closing Capital 45,000, Profit 2300)

7) Problems based on missing information Fill in the missing figures in the following :

**STATEMENT OF AFFAIRS**  
**as on 31<sup>st</sup> December, 2018**

Liabilities	(₹)	Assets	₹
Creditors	80,000	Cash	-----
loan	-----	Stock	1,80,000
Capital at the end	1,50,000	Debtors	1,40,000
	-----		350,000

**STATEMENT OF PROFIT**  
**for the year ending**  
**31<sup>st</sup> December 2018**

Particular	₹
Capital at the end	150,000
Add : Drawings	-----
	1,74,000
Less: Additional Capital	40,000
Less: Opening Capital	-----
	1,00,000
profit made during the year	-----

**Ans.(Profile during the year ₹34,000)**

## CHAPTER – 11

---

# COMPUTERS IN ACCOUNTING

---

**Learning Objective:** After studying this Lesson the students will be able to :

- Classify the elements/Components of Computer system.
- Understand the characteristics/utilities of a computer system.
- Acquire knowledge about management information system & Accounting Information System.
- Apply Accounting Software in report generation.
- Develop the skill of different styles of computerized accounting.

**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

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 electro mechanical 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 a '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.

**Computer software can be divided into following categories:**

- (a) **Operating Software:** Operating Software is a set of programmes that is used by computers for various purposes. Operating Software is essential part of computer system. In absence of operating software computer can not operate. There are many operating software like Windows, Excel etc.
  - (b) **Utility Software:** Utility Software is a set of computer programmes used to perform supporting operations in a computer. Utility Software are highly specialized and designed to perform only a single task or a small range of tasks.
  - (c) **Application Software:** Application Software is a set of programmes which is designed and developed for performing certain task like accounting, work processing etc. for example Tally is the application software.
  - (d) **Language Processor:** These are the software, which check for language syntax and translate the source programme (Programme written in a computer language) into machine language (language which the computer understands)
  - (e) **System Software:** These are a set of programmes which control such internet functions as reading data from input devices, transmitting processed data to output devices. It also checks the system to ensure that its components are functioning properly.
  - (f) **Connectivity Software:** These are a set of programmes which create and control a connection between a computer and a server so that the computer is able to connect with server and other connected computers.
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 Analysts
  - (b) Operators
  - (c) Programmers

4. **Procedures** : 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 facts (may consist of numbers, text etc.) collected and entered into a computer system. The computers system in turn stores, retrieves, classifies, organizes and synthesis 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.

**Capabilities or Advantage of Computer system**

A Computer system possesses the following advantages in comparison of human beings.

1. **High Speed** : Computers are known for their high speed of operations and requires less time in comparison to human beings in performing a task. Most of modem 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 called Garbage in Garbage out (GIGO).
3. **Reliability** : Its reliability refers to the ability with which computer remains functional to serve the user. Unlike human

beings these 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 software.
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** : Inspite of so many advantages, computers suffer from the following limitations.

- (1) **Lack of Common Sense** : Since computers work according to their stored programme, they don't have 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 unlike human beings because they are machines. No computer possesses 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 decision on their own.

#### **Some more limitations related to computerized System in Accounting**

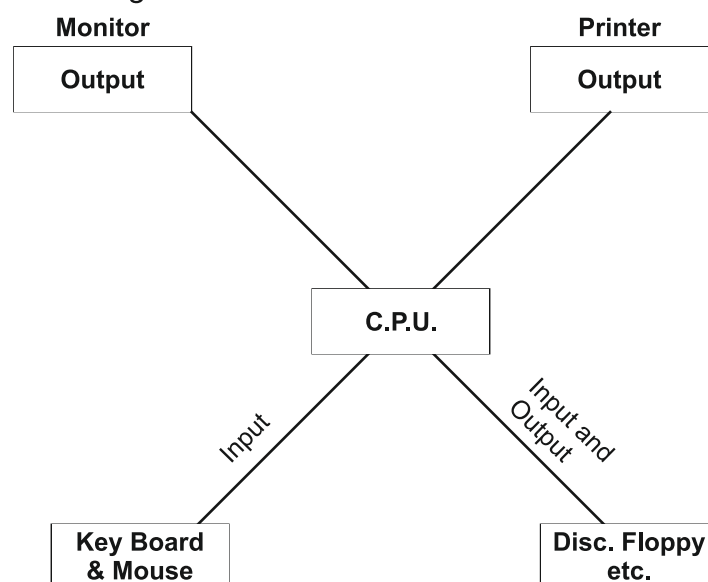
- (1) **High Cost of Training** : Besides the high cost of computers system, huge money is required to get the trained specialized staff to ensure efficient and effective use of computerized systems.
- (2) **Danger of System Failure** : The danger of system crashing due to hardware failure and the subsequent loss of work is a serious limitation of this system.

- (4) **Staff Opposition** : Whenever the Accounting System is computerized, there is a significant degree of resistance from the existing staff because of the fear that they shall be less important to the organisation.
- (5) **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 output unit described as follows

- (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:



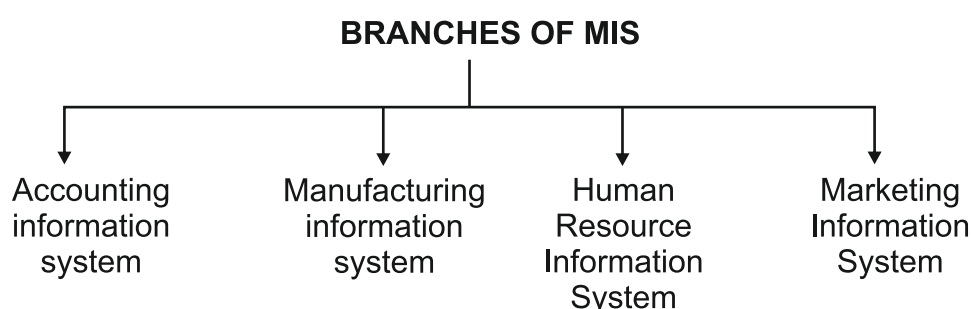
- (a) **Arithmetic and Logic Unit (ALU)** : Responsible for performing all the arithmetic calculations such as addition, subtraction etc. and logical operations involving comparison among variables.
- (b) **Memory Unit**: For storing the data.
- (c) **Control Unit** : Responsible for controlling and 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.

### Accounting Information System (AIS)

Accounting Information System is a system of collecting, processing, summarizing and reporting information about a business organisation in monetary terms. It maintains a detailed financial record of the business operation and transfer the data into valuable information.

So, Accounting Information System (AIS) is a sub-system of MIS (Management Information System). AIS is a structure that allow its user to collect and use business data.

**Management Information System (MIS)** : It is a planned System of collecting , processing, storing & disseminating the data in the form of Information to perform the task of decision making and management of an organization.



### Application of Computers in Accounting

1. **Recording of transaction** : Record all the business transactions properly and timely.

2. **Preparation of ledger account** : Computers prepares all ledger accounts on the basis of given transactions, like cash, A/c debtors, A/c sales a/c etc.
3. **Preparation of Trial Balance** : It prepares the Trial Balance according to ledger accounts.
4. **Preparation of Final A/c** : It has utility to prepare Trading A/c, P&L A/c and Balance Sheet.

### **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 purchases 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.

### **Automation of Accounting Process**

When accounting functions are done by computerized accounting software it is known as automation of accounting process. Under the automation of accounting process human activity is less than that of accounting software which is more used.

So, accounting functions like posting into ledger, Balancing. Trial Balance and Final Accounts are prepared by computer.

### **Stages of Automation**

There are different stages of automation as:

- (i) **Planning** : Under this stage the assessment of size, and business transactions is done for which automation has to be made.
- (ii) **Selection of Accounting Software** : As there are many accounting softwares available in the market, So, appropriate accounting software is to be selected according to company's need.
- (iii) **Selection of Accounting Hardware** : Under this stage of automation the computer hardware is selected. This hardware should be such which can fulfill the accounting requirements and support the accounting software.

- (iv) **Chart of Accounts** : Under this stage list of required heads of accounts is prepared.
- (v) **Grouping of Accounts** : There are various transactions for Expenses, Income, Assets, Liabilities. All these transactions can not be shown directly. So, these transactions are grouped as salary, wages, discount and commission etc.
- (vi) **Generation of Reports** : This is final stage of automation under this final reports are prepared in the form of Cash Book, Journal, Ledger, Trial Balance, P&L A/c and Balance Sheet etc.

### Comparison of Manual and Computerised Accounting System

	Base	Manual Accounting	Computerised Accounting
1.	Identifying Financial Transaction	In this system, it is done manually according to principles.	In this system, it is also done manually according to principles.
2.	Recording	In this system, entries are recorded manually and other calculation are also done manually.	In this, entries are recorded manually but other calculation are done by computers
3.	Adjustment	In this system, all adjustment entries are done manually.	In this system entries related to posting are done by computer.
4.	Financial statement	In this system, final statements are prepared manually.	In this system final statements are prepared by computer with help of software.

### Sourcing of Accounting Software

India is one of the software making countries so, accounting software are easily available in Indian Market. But it is more important to know what is our need of accounting software.

Generally, Tally accounting software is used in India which is easily available in the market.

### Accounting Software

- (1) **Ready-made Software** : Ready-made Software are the software that are developed not for any specific user but for

the users in general. Some of the Ready-made software available are Tally, Ex, Busy. Such software are economical and ready to use. Such software do not fulfill the requirement of every user.

- (2) **Customized Software** : Customized Software means modifying the Ready-made software to suit the specific requirements of the user. Ready-made software are modified according to the need of the business. Cost of installation, maintenance and training is relatively higher than that of Ready-made software. These packages are used by those medium or large business enterprises in which financial transactions are peculiar in nature.
- (3) **Tailor-made Software** : The software which are developed to meet the requirements of the user on the basis of discussion between the user and developers. Such software help in maintaining effective management information system. The cost of these software is very high and specific training is required for using these packages.

#### **Generic Consideration Before Sourcing Accounting Software**

- (i) **Flexibility** : A computer software system must be flexible in respect of data handling and report preparing.
- (ii) **Maintenance cost** : The accounting software must be such which has less Maintenance cost.
- (iii) **Size of Organisation** : The accounting software must be according to the need and size of organisation.
- (iv) **Easy to adaptation** : The accounting software must be such which is easily applicable in any organization.
- (v) **Secrecy of data** : The accounting software must be such which provides the secrecy of business data, from others.
- (vi) Cost of installation and Maintenance must be less.

#### **Preparation of Accounts Groups**

Groups of accounts means classifying the accounting transactions into different heads like assets Group, Liabilities Group, Income Group and Expenses group. By these grouping of accounts the final Accounts are meaningful for its users.

### Generation of Accounting Reports

After collecting business data, it is converted into meaningful information. Such summarized and converted information is known as a report.

The report is more effective if it is based on accurate and timely data.

A report must be relevant to users and contain all relevant information like Debtor's Report, Creditor's Report, Trial Balance and financial Statement Report and others.

#### Only for Teachers

##### Scope

- (i) The scope of this unit is to understand accounting as an information system for the generation of accounting information and preparation of accounting reports.
- (ii) It is advised that the working knowledge of Tally software will be given to the students for generation of accounting software. For this, the teachers may refer chapter 4 of Class XII text book on Computerised Accounting System.

### Objective Type Questions

1. Language syntax is checked by software called as \_\_\_\_\_.  
(Ans. Language Processors)
2. \_\_\_\_\_ is the brain of the computer. (Ans. CPU)
3. Which of the following is a limitation of a computer \_\_\_\_\_.  
(a) Speed (b) Accuracy  
(c) Intelligence (d) Reliability (Ans. (c))
4. The report is more effective if it is based on \_\_\_\_\_ and \_\_\_\_\_ data. (Ans. Accurate, timely)
5. Name any one Accounting software. (Ans. Tally)

## PROJECT SPECIMEN

### VALIDITY CERTIFICATE

This is to certify that this Accountancy Project File belongs to

Name: .....

Roll No : ..... Class: ..... Section: .....

Session: .....

The Projects recorded in this Project Work Book have been done by the candidate under the guidance of the teacher.

The student's initiative, cooperation and participation during the practical classes ..... (Excellent/Good/Average).

- His project presentation, visual appeal, expression and neatness is ..... (Excellent/Good/Average).
- His content accuracy, creativity, originality and analysis of different perception is .....(Excellent/Good/Average).

Date: .....

Teacher-Incharge

## ACKNOWLEDGMENT

I would like to convey my heartfelt thanks to Mr./Mrs. ....

My Accountancy

Teacher, who always gave valuable suggestions and guidance for completion of my project. He/She helped me to understand and remember important details of the project that I would have otherwise lost. My project has been a success only because of his/her guidance.

Name of the Project : .....

Name of Student : .....

Class : ..... Roll No: ..... Section: .....

School Name : .....

## COMPREHENSIVE PROJECT

Mr. Ravi Kumar completed his post-graduation from IIM Ahmadabad with masters in Business Administration (MBA) and International Relations. He has decided to purchase an existing business in the Chennai which has been adversely affected by the flood. He is extremely inclined towards providing employment to the people in the affected areas nearby.

The owners are in no position to recover the former condition of the factory and have therefore decided to sell it.

Mr. Ravi Kumar purchased the business of Mohan Bros, on 1st April 2018. The business is mainly concerned with manufacturing electronic goods i.e. Pen Drives, Battery Chargers, USB Cables etc.

Following assets were taken over by Mr. Ravi Kumar on the above mentioned date:

Land and Building	₹1,00,000
Plant and Machinery	₹80,000
Furniture & Fittings	₹25,000
Stock	₹30,000
Office Equipment	₹10,000

Mr. Ravi Kumar paid ₹2,50,000 as purchase consideration. On the same day he brought ₹2,00,000 as his capital and took loan ₹50,000 from the bank @ 8% p.a. interest and ₹20,000 from his Friend @ 6% p.a. interest to meet the working capital.

His transactions during the accounting period were as follows:

1. Total Purchases ₹2,80,000 including credit purchases worth ₹2,00,000.
2. He invested ₹20,000 in shares of Reliance Limited.
3. Total Sales ₹4,80,000 including credit sales worth ₹1,80,000.

### Direct Expenses:

Wages	₹35,000
Manufacturing expenses	₹5,000
Factory Lighting	₹2,000
Carriage inwards	₹1,000
Commission on purchases	₹1,500
Freight	₹5,000

**Indirect Expenses:**

Salaries	₹20,000
Office Rent	₹1,000
Postage and Telephone exp	₹500
Stationery	₹300
Water & Electricity (office)	₹1,200
Conveyance	₹800
Advertising	₹1,200

- (i) He withdrew ₹6,000 from the business to buy a personal Laptop,
- (ii) Goods worth ₹3,000 given as free samples,
- (iii) Cash received from debtors ₹10,000.
- (iv) Cash paid to Creditors ₹1,20,000.
- (v) Interest paid on Bank Loan ₹2,800.
- (vi) Interest paid on Friend's Loan ₹1,000.
- (vii) Bills Receivable received from debtors ₹8,000.
- (viii) Bill accepted in favour of creditors ₹10,000.
- (ix) Interest received on investment ₹1,000. You are required to :
  - (i) Give journal entries for these transactions and post them into ledger account and prepare a Trial Balance.
  - (ii) Prepare Trading Account, Profit & Loss Account and Balance Sheet considering the following adjustments:
    - (a) Interest is outstanding on Bank Loan ₹1,200 and on Friend's Loan ₹200.
    - (b) Plant and Machinery is to be depreciated by 5% and Furniture by 10%.
    - (c) Closing Stock ₹35,000.
    - (d) Wages outstanding ₹3,000 and office rent outstanding ₹500.

## Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2018 1 Apr.	Bank A/c Dr. To Capital A/c. (Being capital introduced by Ravi)		2,00,000	2,00,00
2018 1 Apr.	Land and Building A/c Dr. Plant and Machinery A/c Dr. Furniture & Fittings A/c Dr. Stock A/c Dr. Office Equipments A/c Dr. Goodwill A/c (Bal. Fig.) Dr. To Bank A/c (Being assets purchased)		1,00,000 80,000 25,000 30,000 10,000 5,000	2,50,000
	Bank A/c Dr. To 8% Bank Loan A/c. (Being Loan obtained from bank)		50,000	50,000
	Bank A/c Dr. To 6% Friend's Loan (Being Loan obtained)		20,000	20,000
	Purchases A/c Dr. To Bank A/c (Being Loan purchased)		80,000	80,000
	Purchases A/c Dr. To Creditors A/c (Being goods purchased)		20,000	2,00,000
	Investment A/c Dr. To Bank A/c (Being money invested in shares of Reliance Ltd.)		20,000	2,00,000
	Bank A/c Dr. To Sales A/c (Being goods sold on cash basis)		3,00,000	3,00,000
	Debtors A/c To Dr. Sales A/c (Being goods sold on cash credit)		1,80,000	1,80,000

Wages A/c To To Bank A/c (Being wages paid)	Dr.	35,000	35,000
Manufacturing Expense A/c To Bank A/c (Being manufacturing expenses paid)	Dr.	5,000	5,000
Factory Lighting A/c To Bank A/c (Being factory expenses paid)	Dr.	2,000	2,000
Carriage Inwards A/c To Bank A/c (Being expenses on purchase paid)	Dr.	1,000	1,000
Commissions of Purchase A/c A/c To Bank A/c (Being commission paid)	Dr.	1,500	1,500
Freight A/c To Bank A/c (Being freight expenses paid)	Dr.	5,000	5,000
Salaries A/c To Bank A/c (Being salaries paid)	Dr.	20,000	20,000
Office Rent A/c To Bank A/c (Being office rent paid)	Dr.	1,000	1,000
Postage and Telephone A/c To Bank A/c (Being postage & telephone expense paid)	Dr.	500	500
Stationary A/c To Bank A/c (Being stationary expenses paid)	Dr.	300	300
Water & Electricity A/c To Bank A/c (Being water & electricity expense paid)	Dr.	1,200	1,200

Conveyance A/c To Bank A/c (Being conveyance expenses paid)	Dr.	800	800
Advertising A/c To Bank A/c (Being advertising expenses paid)	Dr.	1,200	1,200
Drawing A/c To Bank A/c (Being withdrawn for personal use)	Dr.	6,000	6,000
Advertising A/c To Purchases A/c (Being goods give as free samples)	Dr.	3,000	3,000
Bank A/c To Debtors A/c (Being cash received from Debtors)	Dr.	10,000	10,000
Creditors A/c To Bank A/c (Being cash paid to Creditors)	Dr.	1,12,000	1,12,000
Interest on Bank Loan To Bank A/c (Being interest paid on bank loan)	Dr.	2,800	2,800
Interest on Friend's Loan To Bank A/c (Being interest paid on Friend's Loan)	Dr.	1,000	1,000
Bills Receivable A/c To Debtors A/c (Being B/R received from debtors)	Dr.	8,000	8,000
Creditors A/c To Bank Payable A/c (Being bill accepted in favour of Creditors)	Dr.	10,000	10,000
Bank A/c To Int. on Investment A/c (Being Interest received on investment)	Dr.	1,000	1,000

**Preparation of Ledger:****Bank Account**

Date	Particulars	`	Date	Particulars	`
	To Capital A/c	2,00,000		By Land and Building A/c	1,00,000
	To 8% Bank Loan A/c	50,000		By Plant and Machinery A/c	80,000
	To 6% Friend's Loan	20,000		By Furniture & Fittings A/c	25,000
	To Sales A/c	3,00,000		By Stock A/c	30,000
	To Debtors A/c	10,000		By Office Equipment A/c	10,000
	To Int. on Investment A/c	1,000		By Goodwill A/c	5,000
				By Purchases A/c	80,000
				By Investment A/c	20,000
				By Wages A/c	35,000
				By Manufacturing Exp. A/c	5,000
				By Factory Lighting A/c	2,000
				By Carriage Inward A/c	1,000
				By Commissions on Purchase	1,500
				By Freight A/c	5,000
				By Salaries A/c	20,000
				By Office Rent A/c	1,000
				By Postage & Telephone A/c	500
				By Stationery A/c	300
				By Water & Electricity A/c	1,200
				By Conveyance A/c	800
				By Advertising A/c	1,200
				By Drawings A/c	6,000
				By Creditors A/c	1,20,000
				By Int. on bank loan	2,800
				By Int. on Friend's loan	1,000
				By Balance c/d	26,700
		5,81,000			5,81,000

**Capital Account**

Dr.

Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Balance c/d	2,00,000		To Balance c/d	2,00,000
		2,00,000			2,00,000

Dr. <b>Land and Building Account</b>			Cr.		
Date	Particulars	₹	Date	Particulars	₹
	To Bank	1,00,000		To Balance c/d	1,00,000
		1,00,000			1,00,000

Dr. <b>Plant and Machinery Account</b>			Cr.		
Date	Particulars	₹	Date	Particulars	₹
	To Bank	80,000		To Balance c/d	80,000
		80,000			80,000

Dr. <b>Furniture &amp; Fittings Account</b>			Cr.		
Date	Particulars	₹	Date	Particulars	₹
	To Bank	25,000		To Balance c/d	25,000
		25,000			25,000

Dr. <b>Stock Account</b>			Cr.		
Date	Particulars	₹	Date	Particulars	₹
	To Bank	30,000		To Balance c/d	30,000
		30,000			30,000

Dr. <b>Office Equipment Account</b>			Cr.		
Date	Particulars	₹	Date	Particulars	₹
	To Bank	10,000		To Balance c/d	10,000
		10,000			10,000

Dr. <b>Goodwill Equipment Account</b> Cr.					
Date	Particulars	₹	Date	Particulars	₹
	To Bank	5,000		To Balance c/d	5,000
		5,000			5,000

Dr. <b>8% Bank Loan Account</b> Cr.					
Date	Particulars	₹	Date	Particulars	₹
	To Balance c/d	50,000		To Balance Ac	50,000
		50,000			50,000

Dr. <b>6% Friend's Loan Account</b> Cr.					
Date	Particulars	₹	Date	Particulars	₹
	To Balance c/d	20,000		To Balance Ac	20,000
		20,000			20,000

Dr. <b>Purchases Account</b> Cr.					
Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	80,000		To Advertising	3,000
	To Creditors A/c	2,00,000		To Balance c/d	2,77,000
		2,80,000			2,80,000

Dr. <b>Creditors Account</b> Cr.					
Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	1,20,000		By Purchases A/c	2,00,000
	To Bill Payable A/c	10,000		To Balance c/d	
	To Balance c/d	70,000			
		2,00,000			2,00,000

Dr. <b>Investment Account</b> Cr.					
Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	20,000		By Purchase c/d	20,000
		20,000			20,000

Dr. **Sales Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank c/d	4,80,000		By Bank A/c	3,00,000
				By Debtors A/c	1,80,000
		4,80,000			4,80,000

Dr. **Wages Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	35,000		By Balance c/d	35,000
		35,000			35,000

Dr. **Manufacturing Expenses Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	5,000		By Balance c/d	5,000
		5,000			5,000

Dr. **Factory Lighting Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	2,000		By Balance c/d	2,000
		2,000			2,000

Dr. **Carriage Inwards Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	1,000		By Balance c/d	1,000
		1,000			1,000

Dr. **Commissions on Purchase Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	1,500		By Balance c/d	1,500
		1,500			1,500

Dr. <b>Freight Account</b>			Cr.		
Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	5,000		By Balance c/d	5,000
		5,000			5,000

Dr. <b>Salaries Account</b>			Cr.		
Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	20,000		By Balance c/d	20,000
		20,000			20,000

Dr. <b>Office Rent Account</b>			Cr.		
Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	1,000		By Balance c/d	1,000
		1,000			1,000

Dr. <b>Postage and Telephone Account</b>			Cr.		
Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	500		By Balance c/d	500
		500			500

Dr. <b>Stationery Account</b>			Cr.		
Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	300		By Balance c/d	300
		300			300

Dr. <b>Water and Electricity Account</b>			Cr.		
Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	1,200		By Balance c/d	1,200
		1,200			1,200

Dr. **Conveyance Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	800		By Balance c/d	800
		800			800

Dr. **Advertising Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	1,200		By Balance c/d	4,200
	To Purchases A/c	3,000			
		4,200			4,200

Dr. **Drawing Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	6,000		By Balance c/d	6,000
		6,000			6,000

Dr. **Interest on Bank Loan Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	2,800		By Balance c/d	2,800
		2,800			2,800

Dr. **Interest on Friend's Loan Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	1,000		By Balance c/d	1,000
		1,000			1,000

Dr. **Bill Receivable Loan Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Debtors A/c	8,000		By Balance c/d	8,000
		8,000			8,000

Dr. **Bill Payable Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Balance c/d	10,000		By Creditors A/c	10,000
		10,000			10,000

Dr. **Int. on Investment Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Balance d/d	1,000		By Bank A/c	1,000
		1,000			1,000

**Trail Balance**

Particulars	Debit (₹)	Credit (₹)
Bank A/c	26,700	
Capital A/c		2,00,000
Land and Building A/c	1,00,000	
Plant and Machinery A/c	80,000	
Furniture & Fittings A/c	25,000	
Stock A/c	30,000	
Office Equipment A/c	10,000	
Goodwill A/c	5,000	
8% Bank Loan A/c		50,000
6% Friend's Loan A/c		20,000
Purchases A/c	2,77,000	
Creditors A/c		70,000
Investment A/c	20,000	
Debtors A/c	162,000	
Sales A/c		4,80,000
Wages A/c	35,000	
Manufacturing Expenses A/c	5,000	
Factory Lighting A/c	2,000	
Carriage Inward A/c	1,000	
Commissions on purchase A/c	1,500	
Freight A/c	5,000	
Salaries A/c	20,000	
Office Rent A/c	1,000	
Postage and Telephone Exp. A/c	500	
Stationery A/c	300	
Water and Electricity A/c	1,200	

Conveyance A/c	800	
Advertising A/c	4,200	
Drawings A/c	6,000	
Interest on Bank Loa	2,800	
Interest on Friend's Loan	1,000	
Bills Receivable	8,000	
Bills Payable		10,000
Int. on Investment		1,000
	<b>8,31,000</b>	<b>8,31,000</b>

**Trading Account  
for the year ending 31 March, 2018**

Dr.		Cr.	
Particulars	(₹)	Particulars	(₹)
To Opening Stock	30,000	By Sales	4,80,000
To Purchases	2,77,000	By Closing Stock	35,000
To Wages 35,000			
Add : Outstanding 3,000	38,000		
To Manufacturing Exp.	5,000		
To Factory Lighting	2,000		
To Carriage Inward	1,000		
To Commissions on purchase	1,500		
To Freight	5,000		
To Gross Profit	1,55,500		
	<b>5,15,000</b>		<b>5,15,000</b>

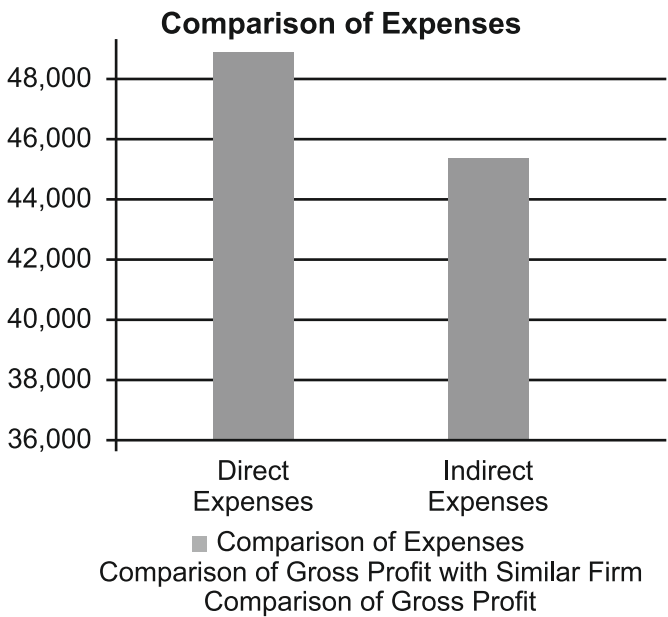
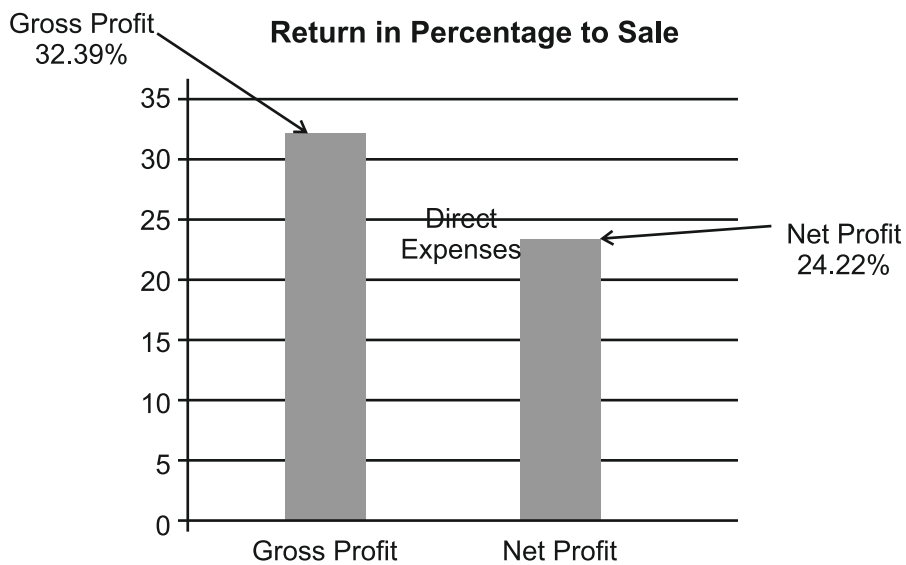
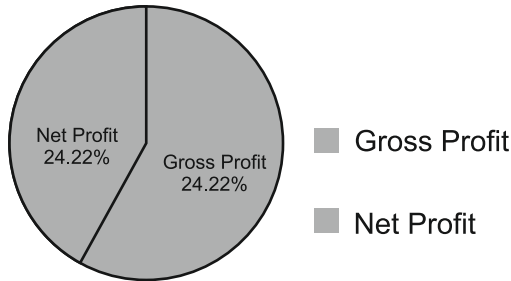
**Profit and Loss Account**

Particulars	(₹)	Particulars	(₹)
To Salaries	20,000	By Gross Profit b/d	1,55,500
To Office Rent      1,000		By Int. on Investment	1,000
Add: Outstanding      500	1,500		
To Postage & Telephone	500		
To Stationery	300		
To Water & Electricity	1,200		
To Conveyance	800		
To Advertising	4,200		
To Int. on Bank Loan	2,800		
Add : Outstanding   1,200	4,000		
To Int. on Friend's Loan	1,200		
(1,000 + 200 due)			
To Dep. on plant & machinery	4,000		
To Dep. on Furniture	2,500		
To Net Profit	1,16,300		
	1,56,500		1,56,500

**Balance Sheet**

Liabilities	(₹)	Assets	(₹)
Capital	2,00,000	Goodwill	5,000
Add : N/P      1,16,300		Land and Building	1,00,000
Less : Drawings      6,000	3,10,300	Plant and Machinery   80,000	
8% Bank Loan      50,000		Less : Depreciation      4,000	76,000
Add: Interest due      1,200	51,200	Furniture & Fittings   25,000	
6% Friend's Loan      20,000		Less : Depreciation   2,500	2,500
Add: Interest due      200	20,200	Office Equipment      10,000	
Creditors	70,000	Investment	20,000
Bills Payable	10,000	Debtors	162,000
Wages Outstanding	3,000	Bills Receivable	8,000
Office Rent Outstanding	500	Closing Stock	35,000
		Bank	26,700
	4,65,200		4,65,200

**Return in Percentage to Sale**



---

### Comprehensvie Project

---

**Situation:** On 1st January 2017, Mr. Vipul decided to start a computer Hardware store and decides to sell various components of computer Hardware. He purchased a Building for Rs. 18,00,000 for this purpose. Since he had shortage of funds, so he secured a Loan of Rs 6,00,000 (a) 10% per annum from State Bank of India. This loan was payable in three equal instalments along with interest due on 31 December 2017. He had following transactions for his business:

	Transactions	Amount (Rs)
1.	Purchased computer Hardwares	4,00,000
2.	Purchased furniture	1,90,000
3.	Bought Computer Accessories	2,20,000
4.	Sale of Computer Accessories	17,50,000
5.	Wages paid	1,30,000
6.	Salaries Paid to staff	3,20,000
7.	Electricity charges	1,21,800
8.	Advertisement charges	1,05,000
9.	Postage charges	13,500
10.	General Expenses	21,000
11.	Insurance Premium paid	48,000
12.	Bought Laptop and Printer for office use	70,000
13.	Security deposited for Electricity Connection with NDPL	40,000
14.	Security Deposited with MTNL for telephone and Internet connection	1,10,000

Beside these, he also withdrew Rs 20000 per month for his personal use out of his business.

**You are required to**

- (i) Journalise all above transactions in the books the firm named “ Computer Solutions.”
- (ii) Prepare necessary Ledger Accounts showing postings of all journal entries.
- (iii) Prepare Trail Balance.
- (iv) Prepare financial statements of the firm for the year ended 31st December 2018 showing.

(a) Trading and Profit and loss A/C

(b) Balance Sheet

You also need to consider the following additional informations –

(a) Depreciate building by 5% and furniture by 10% per annum.

(b) Salary outstanding Rs. 16000 at the end.

(c) Insurance prepaid Rs. 6500 at the end.

(d) Closing stock of computer Accessories is Rs. 9500

Solution		Journal of	“Computer Solutions”	
Date	Particulars	L.F.	Debit ₹	Credit ₹
2017				
Jan 01	Building A/C Dr. To Capital A/C (Capital invested in the business by way of Building)		18,00,000	18,00,000
Jan 01	Bank A/C Dr. To Bank loan A/C (Loan taken from SBI)		6,00,000	6,00,000
Jan 01	Purchases A/C Dr. To Bank A/C (Computer Hardwares purchased)		4,00,000	4,00,000

Furniture A/C	Dr.	1,90,000	
To Bank A/C			1,90,000
(Furniture purchased)			
Purchases A/C	Dr.	2,20,000	
To Bank A/C			2,20,000
(Computer Accessories Purchased)			
Bank A/C	Dr.	17,50,000	
To sales A/C			17,50,000
(Computer Accessories sold)			
Wages A/C	Dr.	1,30,000	
Salaries A/C	Dr.	3,20,000	
Electricity charges A/C	Dr.	1,21,800	
Advertisement A/C	Dr.	1,05,000	
Postal charges A/C	Dr.	13,500	
General Expenses A/C	Dr.	21,000	
Insurance A/C	Dr.	48,000	
To Bank A/C			7,59,300
(Various expenses incurred)			
Laptop and printer A/C	Dr.	70000	
To Bank A/C			70,000
(Laptop and Printer Purchased for Business)			
NDPLA/C	Dr.	40,000	
MTNLA/C	Dr.	1,10,000	
To Bank A/C			1,50,000
(Security deposit for Electricity connection and Internet connection)			

2017	31Dec	Drawings A/C Dr. To Bank A/C (Drawing made @ Rs. 20,000 pm)	2,40,000	2,40,000
		Interest on Bank Loan A/C Dr. To Bank loan A/C (Interest due @ 10% pa on Rs. 6,00,000)	60,000	60,000
	31Dec	Bank Loan A/C Dr. To Bank A/C (Interest on loan along with loan paid i.e., 60,000 + 2,00,000)	2,60,000	2,60,000
	31Dec	Depreciation A/C Dr. To Building A/C To Furniture A/C (Depreciation charged on Building and Furniture)	1,09,000	90,000 19,000
	31Dec	Salary A/C Dr. To O/S salary A/C (Salary outstanding)	16,000	16,000
	31Dec	Prepaid Insurance A/C Dr. To Insurance A/C (Insurance prepaid)	6,500	6,500

### Sample Vouchers—

(i) For Purchase of Building

<div style="text-align: center;"> <div style="border: 1px solid black; padding: 5px; display: inline-block;">Revenue Stamp</div> </div>	Received	M/S Computer Solution	
		Voucher No (i)	Date— 01/01/17
		Debit: Building A/c	Amt ₹
		(Building Purchased for cash	18,00,000
		vide cash memo N0—)	18,00,000
		Authorised by	Prepared by

(ii) For Payment of Salaries.

<div style="text-align: center;"> <div style="border: 1px solid black; padding: 5px; display: inline-block;">Revenue Stamp</div> </div>	Received ₹	M/S Computer Solution	
		Voucher No (ii)	Date— 31/12/17
		Debit: Salaries A/c	Amt ₹
		(Salaries Paid for the year	3,20,000
		2017 vide salary Sheet N0—)	3,20,000
		Authorised by	Prepared by

(iii) For sales (Cash)

<div style="border: 1px solid black; padding: 5px; text-align: center;"> Revenue Stamp </div>	Received ₹ _____	M/S Computer Solution	
		Voucher No (iii)	Date— /01/17
		Credit: Sales A/c (Sold goods for cash vide cash memo NO—)	Amt ₹ 17,50,000
		<div style="border: 1px solid black; padding: 2px;">17,50,000</div>	
		Authorised by	Prepared by

M/S Computer Solutions	
Voucher No (iv)	Date 31/12/17
Debit : Depreciation A/c	19,000
Credit: Furniture A/c	19,000
(Deprecialron Charged on furnitare @ 10% p.a. on ₹ 1,90,000)	19,000
Authorised by	Prepared by

### Preparation of Ledger Accounts

Dr. Building Account							
Date	Particular	J. F.	Amt ₹	Date	Particular	J. F.	Amt ₹
01 01 17	To Capital A/c		18,00,000	31 12 17	By Deprec- iation A/C		90000
				31 12 17	By Balance cld		17,10,000
			18,00,000				18,00,000
01 1 18	To Balance b/d		17,10,000				

Bank Account							
Date	Particular	J. F.	Amt ₹	Date	Particular	J. F.	Amt ₹
							4,00,000
01 1 17	To Bank loan kdk A/c		6,00,000		By Purchases A/C		220,000
	To Sales A/C		17,50,000		By Purchases A/C		4,00,000
					By Furniture A/C		220,000
					By Wages A/C		1,90,000
					By Salaries A/C		1,30,000
					By Electricity Charges A/C		3,20,000
					By Advertise-ment A/C		1,21,800
					By Postal Charges A/C		1,05,000
					By General Expenses A/C		13,500
					By Insurance A/C		21,000
					By Laptop and Printer A/C		48,000
					By NDPL A/C		70,000
					By MTNL A/C		40,000
					By Drawings A/C		1,10,000
					By Bank loan A/C		2,40,000
				31 12 17	By balance c/d		2,60,000
			23,50,000				60,700
							23,50,000
01 1 18	To Balance b/d		60700				

**Dr** **Capital Account** **Cr**

Date	Particular	J. F.	Amt ₹	Date	Particular	J. F.	Amt ₹
31 12 17	To Balance c/d		18,00,000	01 1 17	By Building A/c		18,00,000
			18,00,000	01 1 18	By Balance b/d		18,00,000

**Dr** **Bank loan Account** **Cr**

Date	Particular	J. F.	Amt ₹	Date	Particular	J. F.	Amt ₹
31 12 17	To Bank A/C		2,60,000	01 1 17	By Bank A/C		6,00,000
31 12 17	To Balance		4,00,000	31 12 17	By Interest on Bank Loan A/C		60,000
			6,60,000				6,60,000
				01 1 18	By Balance b/d		4,00,000

**Cr** **Purchases Account** **Cr**

Date	Particular	J. F.	Amt ₹	Date	Particular	J. F.	Amt ₹
	To Bank A/C		4,00,000	31 12 17	By Trading A/C		6,10,500
	To Bank A/C		2,20,000		By closing stock		9,500
			6,20,000				6,20,000

**Cr** **Furniture Account** **Cr**

Date	Particular	J. F.	Amt ₹	Date	Particular	J. F.	Amt ₹
01 1 17	To Bank A/C		1,90,000	31 12 17	By Depreciation A/C		19,000
				31 12 17	By Balance c/d		1,71,000
			1,90,000				1,90,000
01 1 18	To Balance b/d		1,71,000				

Dr.				Sales Account				Cr			
Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹				
31/12/17	To Trading A/c		17,50,000		By Bank A/c		17,50,000				
			17,50,000				17,50,000				

Dr.				Wages Account				Cr			
Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹				
	To Bank A/C		1,30,000	31 12 17	By Trading A/c		1,30,000				
			1,30,000				1,30,000				

Dr.				Electricity Charges Account				Cr			
Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹				
	To Bank A/C		1,21,800	31 12 17	By Profit and Loss A/C		1,21,800				
			1,21,800				1,21,800				

Dr				Advertisement Account				Cr			
Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹				
	To Bank A/C		1,05,000	31 12 17	By Profit and Loss A/C		1,05,000				
			1,05,000				1,05,000				

Dr				Postal Charges Account				Cr			
Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹				
	To Bank A/C		13500	31 12 17	By Profit and Loss A/C		13500				
			13500				13500				

Dr				General Expenses Account				Cr			
Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹				
	To Bank A/c		21000	31 12 17	By Profit and Loss A/C		21000				
			21000				21000				

Dr				Salaries Account				Cr			
Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹				
	To Bank A/c		3,20,000	31 12 17	By Profit and Loss A/c		3,36,000				
	Tools salary A/c		3,36,000				3,36,000				

Dr				Insurance Account				Cr			
Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹				
	To Bank A/C		48000	31 12 17	By Prepaid Insurance A/C By Profit and Loss A/C		6500				
							41,500				
			48,000				48,000				

Dr				Laptop and Printer Account				Cr			
Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹				
	To Bank A/C		70000	31 12 17	By Balance c/d		70000				
			70000				70000				
01 1 18	To Balance b/d		70000								

Dr				NDPL Account				Cr			
Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹				
	To Bank A/C		40000	31 12 17	By Balance c/d		40000				
			40000				40000				
01 1 18	To Balance b/d		40,000								

Dr				MTNL Account				Cr			
Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹				
	To Bank A/C		1,10,000	31 12 17	By Balance c/d		1,10,000				
			1,10,000				1,10,000				
01 1 18	To Balance b/d		1,10,000								

**Dr Drawings Account Cr**

Date	Particular	J. F.	Amt ₹	Date	Particular	J. F.	Amt ₹
	To Bank A/C		2,20,000	31 12 17	By Balance c/d		2,40,000
			2,40,000				2,40,000
01 1 18	To Balance b/d		2,40,000				

**Dr Interest on Bank loan Account Cr**

Date	Particular	J. F.	Amt ₹	Date	Particular	J. F.	Amt ₹
31 12 17	To Bank Loan A/C		60000	31 12 17	By Profit and Loss A/C		60000
			60000				60000

**Dr Depreciation Account Cr**

Date	Particular	J. F.	Amt ₹	Date	Particular	J. F.	Amt ₹
31 12 17	To Building A/ C		90,000	31 1 17	By Profit and Loss A/C		1,09,000
31 12 17	To Furniture A/C		19,000				1,09,000
			1,09,000				

**Dr Outstanding Salary Account Cr**

Date	Particular	J. F.	Amt ₹	Date	Particular	J. F.	Amt ₹
31 12 17	To Balance c/d		16000	31 12 17	By Salary A/C		16000
			16000				16000
				01 1 18	By Balance b/d		16000

**Dr Prepaid Insurance Account Cr**

Date	Particular	J. F.	Amt ₹	Date	Particular	J. F.	Amt ₹
31 12 17	To Insurance A/C		6500	31 12 17	By Balance c/d		6500
			6500				6500
01 1 18	To Balance b/d		6500				

Trial Balance			
Dr		Cr	
as on 31st December 2017			
S.No.	Name of the Account	Debit	Credit
1.	Building A/C	17,10,000	–
2.	Bank A/C	60,700	–
3.	Capital A/C	–	800,000
4.	Bank Loan A/C	–	4,00,000
5.	Purchases A/C	6,20,000	–
6.	Furniture A/C	1,71,000	–
7.	Sales A/C	–	17,50,000
8.	Wages A/C	1,30000	–
9.	Salaries A/C	3,20,000	–
10.	Electricity Charges A/C	1,21,800	–
11.	Advertisement A/C	1,05000	–
12.	Postal Charges A/C	13,500	–
13.	General Expenses A/C	21,000	–
14.	Insurance A/C	48,000	–
15.	Laptop and Printer A/C	70,000	–
16.	NDPL A/C (Security)	40,000	–
17.	MTNL A/C (Security)	1,10,000	–
18.	Drawings A/C	2,40,000	–
19.	Interest on Bank Loan A/C	60,000	–
20.	Depreciation A/C	1,09,000	–
21.	Outstanding Salary A/C	–	16,000
22.	Prepaid Insurance A/C	6,500	–
23.	Closing Stock of Computer Accessories	9,500	–
		39,66,000	39,66,000

### Trading and Profit & Loss A/C

**Dr** **for the year ending 31st Dec. 2017** **Cr**

Particulars	Amount	Particulars	Amount
To Purchases A/C	610,500	By Sales A/C	17,50,000
To Wages	1,30,000		
To Gross Profit c/d	100,9,500		
	17,50,000		17,50,000
To Salaries A/C	3,36,000	By Gross Profit b/d	10,09,500
To Electricity Charges A/C	12,180		
To Advertisement A/C	1,05,000		
To Postal Charges A/C	13,500		
To General Expenses A/C	21,000		
To Insurance A/C	41,500		
To Interest on Bank Loan A/C			
To Depreciation A/C			
Building – 90,000			
Furniture – 19,000	1,09,000		
To Net Profit c/d	20,170		
(Carried forward to Capital A/C)	10,09,500		10,09,500

### Balance Sheet as at 31st December 2017

Liabilities	Amount	Assets	Amount
Capital 18,00,000		Building 18,00,000	
Drawings (2,40,000)		Depreciation 90,000	17,10,000
Net Profit 20,170	17,61,700	Bank A/C	60,700
Bank Loan	4,00,000	Furniture 1,90,000	

Outstanding Salaries	16000	Depreciation 19000 Laptop and Printer NDPL (Security Deposit) MTNL (Security Deposit) Prepaid Insurance Closing Stock	1,71,000 70000 40000 1,10,000 6500 9500
	21,77,700		21,77,700

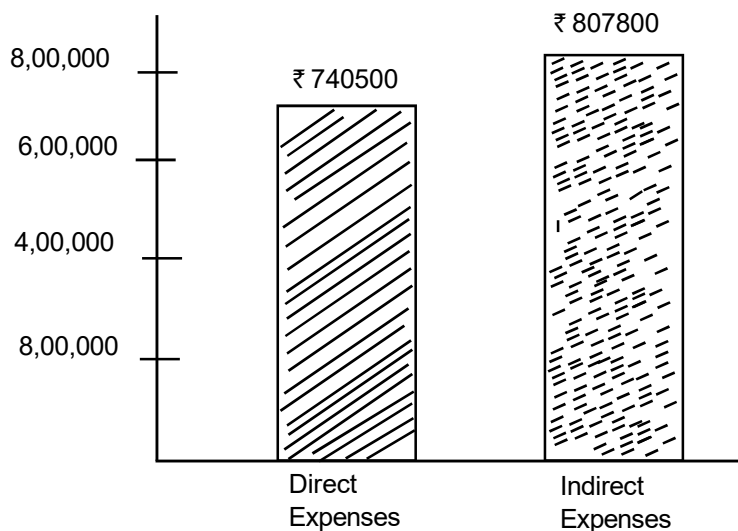
### Calculation of Gross Profit and Net Profit Ratio

$$\begin{aligned}
 \text{(i) Gross Profit Ratio} &= \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100 \\
 &= \frac{10,09,500}{17,50,000} \times 100 = 57.68\%
 \end{aligned}$$

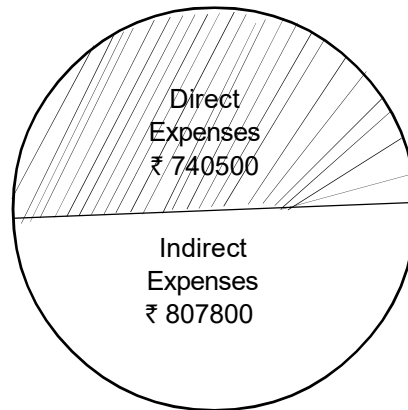
$$\begin{aligned}
 \text{(ii) Net Profit Ratio} &= \frac{\text{Net Profit}}{\text{Net Sales}} \times 100 \\
 &= \frac{2,01,700}{17,50,000} \times 100 = 11.52\%
 \end{aligned}$$

### Bar Diagrams and Pie Charts for Direct and Indirect Expenses

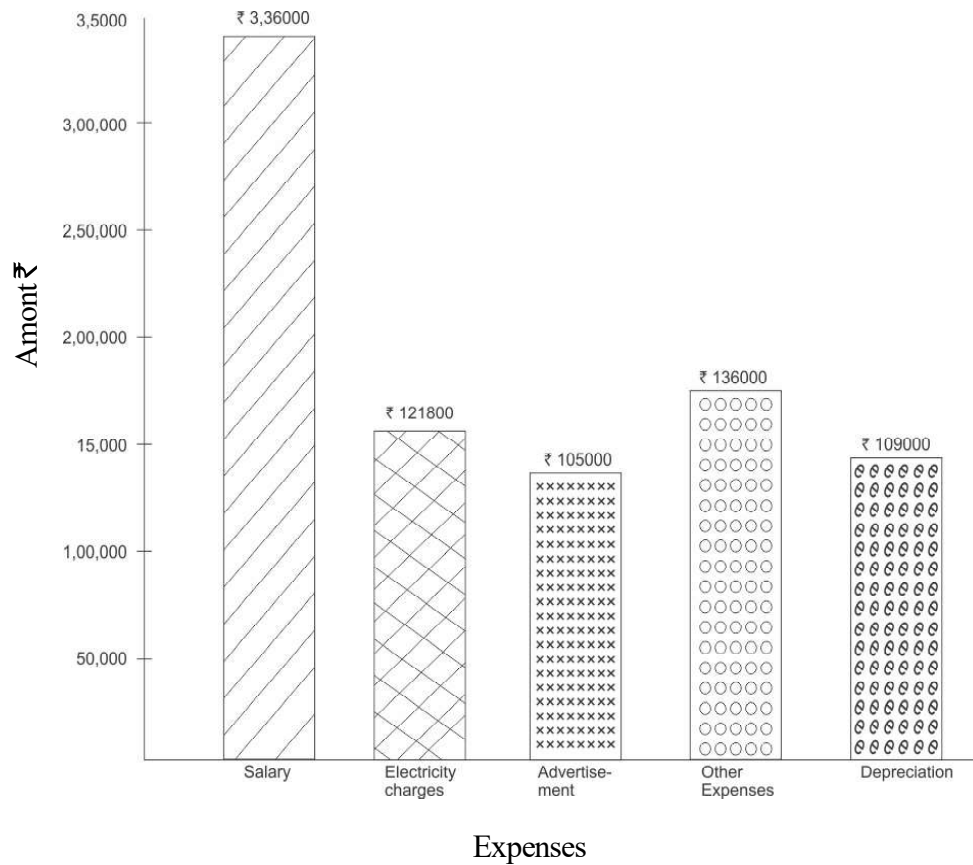
#### Bar Diagram of Direct and Indirect Expenses



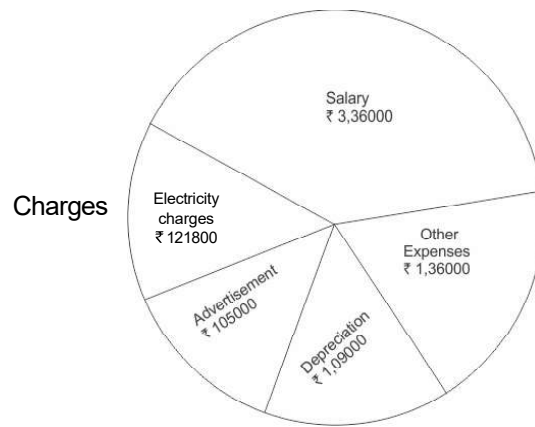
### Pie Chart of Direct and Indirect Expenses



### Bar Diagram of Indirect Expenses

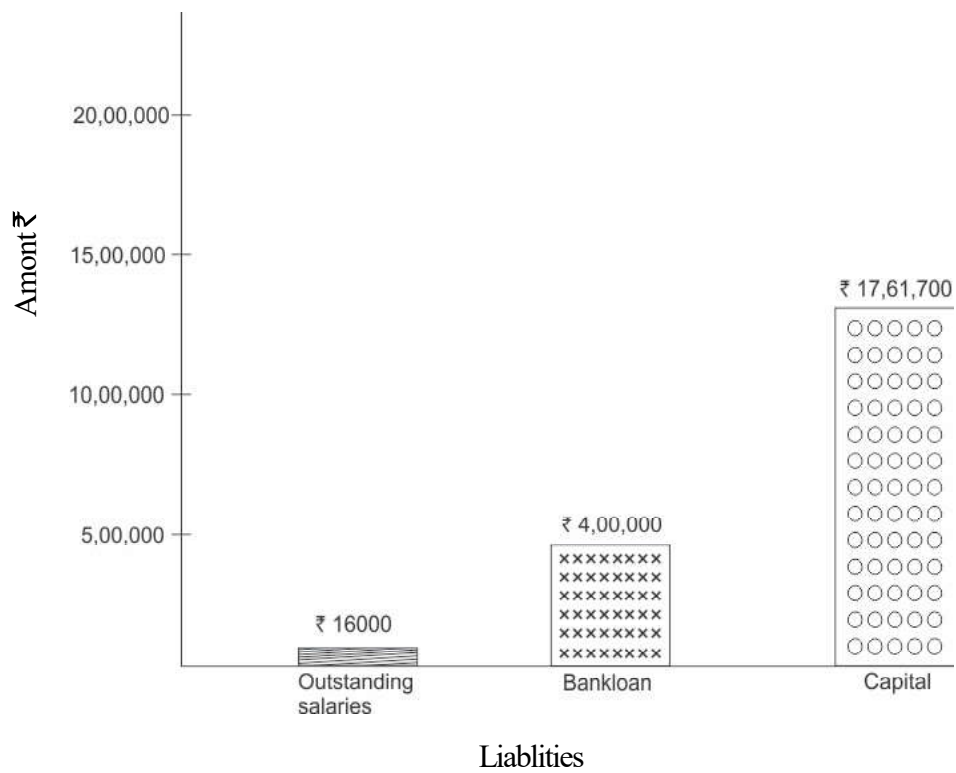


### Pic chart of Indirect Expenses.

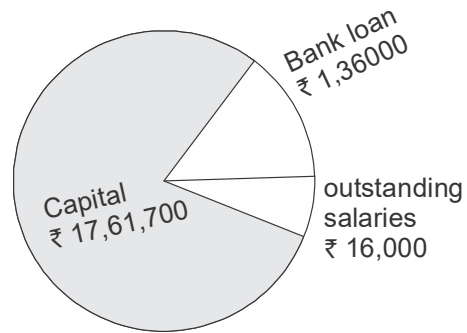


### Bar Diagrams and pic charts for Assets and hiabilities.

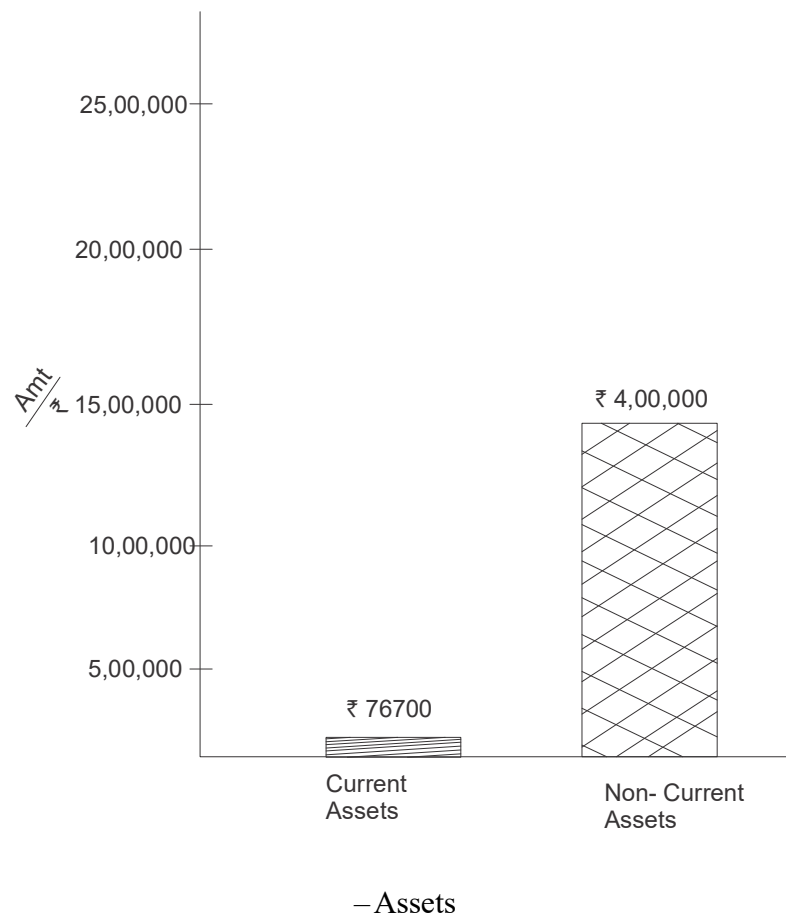
#### Bar Diagram of hiabilsties



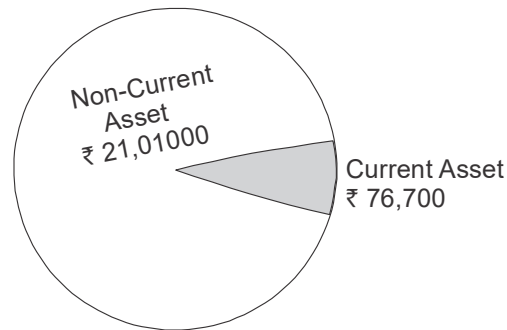
### Pie chart of liabilities



### Bar diagram of Assets



**Pic Chart of Assets.**



**Conclusion:**

- (i) From all the above recording and analysing the results, we can say that vipul is very much able to handle his new business of selling computer Hardwares and Accessories. He is managing his business very well.
- (ii) The Gross Profit and the Net Profit Ratios indicates that he is earning good return over his Investments.
- (iii) If the business runs on the same track, he should pay his Bank loan first.
- (iv) In order to run his business successfully in future, he should control his indirect Expenses.

---

## Answer

---

### General Instructions:

- (i) All questions are compulsory
  - (ii) Attempt all parts of a particular question at one place
1. The amount invested by the proprietor in a business is called. (1)
- (a) Capital      (b) Cash      (c) Creditor      (d) Debtor
- स्वामी द्वारा व्यवसाय में निवेश की गई राशि को कहते हैं।
- (a) पूंजी      (b) रोकड़      (c) लेनदार      (d) देनदार
2. Which of the following is not a current assets. (1)
- (a) Stock      (b) cash
- (c) Trade Receivables      (d) Goodwill
- निम्न में से कौन-सी मद चालू सम्पत्ति नहीं है।
- (a) रहितया (माल) (b) रोकड़      (c) व्यापारिक प्राप्य      (d) ख्याति
3. This is a set of instructions on the basis of which a computer operates. (1)
- (a) Hardware      (b) Software      (c) Output      (d) Control
- यह निर्देशों का एक सेट है जिसके अनुसार कम्प्यूटर कार्य करता है।
- (a) हार्डवेयर      (b) सॉफ्टवेयर      (c) प्रदा      (d) नियंत्रण
4. Prepaid rent is shown as (1)
- (a) Expense      (b) Liability      (c) Asset      (d) Income
- पूर्वदत्त किराया दिखाया जाता है।
- (a) व्यय      (b) देयता      (c) सम्पत्ति      (d) आय
5. Goodwill is a \_\_\_\_\_ (1)
- (a) Fictitious Asset      (b) Tangible Asset
- (c) Intangible Asset      (d) Expenses
- ख्याती ..... है।

- (a) काल्पनिक सम्पत्ति (b) मूर्त सम्पत्ति  
(c) अमूर्त सम्पत्ति (d) व्यय

6. A suspense Account will give the (1)

- (a) Debit balance  
(b) Debit or Credit balance as the case may be  
(c) Credit balance  
(d) None of above

उचन्ती खाता दर्शाता है

- (a) डेबिट शेष (b) डेबिट या क्रेडिट शेष जैसी भी स्थिति हो  
(c) क्रेडिट शेष (d) उपरोक्त में कोई नहीं

7. A Promissory Note is made by the (1)

- (a) Purchaser (b) Seller (c) Endorsee (d) Debtor

प्रतिज्ञा पत्र लिखा जाता है।

- (a) क्रेता (b) विक्रेता (b) ऋणदाता (d) देनदार

8. A 3 months bill drawn on 2nd August 2018 will mature for payment on. (1)

- (a) 1st November 2018 (b) 2nd November 2018  
(c) 4th November 2018 (d) 5th November 2018

एक 3 महीने का बिल 2 अगस्त 2018 को लिखा गया तो इसकी परिपक्वता तिथि होगी।

- (a) 1 नवम्बर 2018 (b) 2 नवम्बर 2018  
(c) 4 नवम्बर 2018 (d) 5 नवम्बर 2018

9. A machinery which costs Rs 40,000 is depreciated at 10% per year using the written down value Method At the end of three years. In book value is. (1)

- (a) Rs 28000 (b) Rs 29160 (c) Rs 40000 (d) Rs 28160

एक मशीन जिसकी कीमत ₹ 40,000 है उसका ह्रास 10% वार्षिक घटती हुई शेष विधि से होता है तो तीन वर्ष बाद इसका मूल्य

- (a) ₹ 28000      (b) ₹ 29160      (c) ₹ 40,000      (d) ₹ 28160

10. A Trial Balance shows (1)

- (a) Both debited credit balance      (b) Debit balance  
(c) Credit balance      (d) Either debit or credit balance

तलपट दिखाता है खातों के

- (a) डेबिट और क्रेडिट शेष      (b) केवल डेबिट शेष  
(c) केवल क्रेडिट शेष      (d) डेबिट या क्रेडिट शेष को

11. Bank Reconciliation statement is Prepared by. (1)

- (a) Creditors      (b) Debtors  
(c) Account holder      (d) Bank

बैंक समाधान विवरण तैयार किया जाता है।

- (a) लेनदार      (b) देनदार  
(c) बैंक के ग्राहक व्यासायी      (d) बैंक

12. On inter - state sale of goods, GST charged is. (1)

- (a) Cust      (b) IGST  
(c) SGST      (d) CGST and SGST

13. Name Two type of petty cash Book \_\_\_\_\_ and \_\_\_\_\_ (1)

14. The Process of Transferring the transaction written in the journal to a ledger is called \_\_\_\_\_ (1)

15. \_\_\_\_\_ is the discount allowed to the debtor for making prompt payment. (1)

16. A sale of goods to Nishtha for cash is debited to \_\_\_\_\_ (1)

17. Tick Right or wrong (1)

Askash commenced business on 1st April 2018 with a capital of Rs

5,00,000 on 31st March 2019 his assets were worth Rs 7,00,000 and liabilities Rs 60,000 Then his closing capital is Rs 6,40,000

18. Tick Right or wrong (1)  
Purchase refers to the buying of Goods for resale.
19. Name the concept (1)  
Advance received from a customer is not taken as Income or sales
20. What is meant of Error of Principle. (1)
21. Prepare Accounting equation on the basis of the following (1)
  1. Sagar started business with cash Rs 2,50,000 and goods Rs 50,000
  2. Sold goods (costing Rs 12000) for Rs 15,000 out of which Rs 4000 received in cash.
  3. Rent paid Rs 5000 and salaries out standing Rs 8000.
22. Explain any three limitation of computer system. (3)

OR

Explain three advantages of computerised Accounting.

23. Form the following ledger balances draw up Trial Balance in the books of M/s Ashu Traders as on 31.3.2018. Capital Rs 50,000; Purchases Rs 18,000; Carriage Rs 2,000; Sales Rs 30,000; Return Inwards Rs 3,000; Salaries Rs 7,000; Sundry Debtors Rs 20,000; Cash Rs 10,000; Rent & Taxes Rs 2,000; Drawings Rs 3,000; Bank Balance Rs 5,000; Furniture Rs 10,000. (3)

Or

Prepare two - Column Cash Book with Cash and Bank column with the following information:

Date 2019	Particulars	₹
April, 1	Cash in hand	50,000
	Bank Overdraft	35,000
April, 2	Cash Sales	30,000
April, 4	Paid Salaries	5,000

April,8	Cash Deposits into Bank	10,000
April,10	Goods purchased from Ram Lal	10,000
April,12	Payment made to Ram Lal in full settlement by cheque	9,750
April,14	Goods sold to Ram	20,000
April,20	Received cheque from Ram and allowed him discount of Rs 200	19,800
April,24	Cheque received from Ram Deposited into Bank.	
April,25	Withdrew cash from Bank for personal use	500
April,28	Paid Rent by cheque	5,000

24. You are given the following balances as on April 1, 2018 (4)

Machinery A/C ₹ 15,00,000

Provision for Depreciation A/c ₹ 3,96,000

Depreciation is charged on machinery @ 20% p.a. by the diminishing balance method. A piece of machinery purchased on April 1, 2016 for Rs 3,00,000 was sold on October 1, 2018 for Rs 1,80,000. Prepare the machinery account and Provision for Depreciation A/c and Machinery Disposal A/c for the year ended 31st March, 2019

**Or**

- (a) Veenu purchased a machine for Rs 50,000 on 1st January, 2016. Further addition were made on 1 July, 2016 and 1 April, 2017 for Rs 40,000 and Rs 30,000 respectively. On 1st October 2018 machine was sold for Rs 28,500 and new machine was purchased for Rs 60,000. (4)

Prepare Machine A/c for three year ending 31st December, 2018 depreciation is to be charged @ 10% p.a. on straight line basis.

- (b) Name different parties of Bill of Exchange. (4)
25. Explain Any two Accounting software (4)
- (a) Ready - made software (b) Customized software
- (c) Tailor made software
26. What's the difference between single entry system and Double entry system. (4)
27. State the following.
- (a) Debtors (b) Assets (c) Capital (d) Drawing
- 28A. Pass the Journal entries to rectify the following errors: (6)
- (a) Sale of goods of Rs 2,000 to Ravi was wrongly passed through purchase book however, A/c was correctly debited.
- (b) Cash received Rs 5,000 from AB & Co. was wrongly recorded as received from BA & Co.
- (c) Sales book was under cast by Rs 1,000.

B. Write two Difference between provisions and Reserve

29. Anu who keeps her books on single entry system, provides the following information. (6)

Particulars	1-4-2017 ₹	31-3-2018 ₹
Cash	24,000	32,000
BR	—	48,000
Debtors	3,36,000	5,44,000
Stock	4,48,000	4,88,000
Investment	—	1,60,000
Furniture	1,50,000	1,60,000
Creditors	2,80,000	3,04,000

During the year, she withdrew Rs 2,000 per week for personal expenses. She sold her gold chain of Rs 3,20,000 at 2% premium and introduced that amount into business.

Prepare a statement of Profit & Loss to calculate profit or loss for the year ended 31st March, 2018.

- (b) Why is statement of affairs prepared under single entry system not called a Balance Sheet?

30. Explain the following accounting principles/concepts: (6)
- (i) Going concern concept
  - (ii) Matching concept
  - (iii) Accounting period principle.
31. On 31st March, 2018, the bank column of the cash book of Mr. Dinesh disclosed an overdraft balance of Rs 16,600. On examining the cash book and bank statement, you find that: (8)
- (i) Cheques were deposited into bank for Rs 32,000 but of these Cheques for Rs 9,200 were collected and credited in April.
  - (ii) Cheques were issued for Rs 15,000, out of which cheques for Rs 12,000 had been presented for payment in march.
  - (iii) In March, Mr. Dinesh had discounted with a bill of exchange for Rs 20,000 at a discount of Rs 800 but Rs 20,000 were entered in the cash book.
  - (iv) No entry is made in the cash book of an amount of Rs 12,200 directly deposited by a customer in the bank.
  - (v) Payment of insurance premium of Rs 4,000 and receipt of insurance claim of Rs 16,000 appear in the pass book but not entered in the cash book.
  - (vi) A cheque of Rs 7,000 issued to Mrs. Anju was omitted to be recorded in the book.
  - (vii) Bank column of the payment side of the cash book was undercost by Rs 2,000.
  - (viii) A cheque of Rs 5,600 issued to Mr. Ashu was entered in the cash column of the cash book. prepare a Bank Reconciliation Statement as on 31 Ist March, 2018.

**OR ( अथवा )**

On 1st January, 2018, Askash sold goods for Rs 30,000 to Nishtha and drew three bills of ₹ 8,000; ₹ 10,000 and ₹ 12,000 payable after one, two and three months respectively. On 16th Jan., 2018 Aakash endorsed the first bill to his creditor Akshit in full settlement of his account of ₹ 8,240. This bill was duly met on maturity.

On 20th Jan, 2018, the second bill was discounted from the bank for Rs 9,700. This bill was dishonoured on the due date and bank paid Rs 80 as noting charges. On Nishtha request Aakash drew a fourth bill for two month for the amount due plus Rs 400 as interest. Third bill was paid under a rebate of 15% p.a., on month before maturity. The fourth bill was sent to bank for collection on 4th May, 2018 and was duly met on maturity. You are required to give journal entries in the books Aakash and Akshit.

32. From the following information of Raj Traders, prepare Trading and Profit & Loss Account and a Balance Sheet as on March 31<sup>st</sup>, 2018:

(8)

Name of Account	Dr. ₹	Cr. ₹
Cash in hand	4,000	
Cash at bank	36,000	
Purchases and Sales	4,40,000	7,00,000
Returns	12,000	15,000
Freight inward	8,800	
Freight outward	4,200	
Fuel and power	31,000	
Stock (1-4-2017)	72,000	
Bad debts	12,400	
Bad debts provision		5,000
Debtors and Creditors	1,64,000	60,000
Capital		4,34,000
Investment	40,000	
Interest on investment		4,000
Loan from X @ 18% p.a. (1-8-17)		20,000
Repair	3,040	
General Expenses	21,200	
Land and Building	3,60,000	
Wages and Salaries	36,000	
Misc, receipts		240
Stationery	4,000	
Bills payable		10,400
	12,48,640	12,48,640

**The following additional informations are available:**

- (i) Write off Rs 4,000 as further bad debts and provision for doubtful debts is to be maintained at 5% on debtors.
- (ii) Included in general expenses is insurance premium Rs 2,400 paid for one year ended 30th June, 2018.
- (iii) 1/3 of wages and salaries is to be charged Trading Account and the balance to Profit and Loss Account.
- (iv) Entire stationery was used by Raj for own purpose.
- (v) Closing stock was valued on March 31<sup>st</sup>, 2018 was Rs 1,00,000.

OR

Mr. Sanjeev keeps his books on the basis of incomplete records. During the year 2018-19 the analysis of his cash book was as under:

Receipts	₹	Payments	₹
Receipts from debtors	2,00,000	Bank overdraft (1-4-18)	30,000
Additional capital introduced		Payment to creditors	1,35,000
on 1-12-2018		General expenses	45,000
6% loan from Body (1-10-18)	15,000	Salaries	15,000
		Drawing	20,000
		Bank balance (31-3-19)	45,000
	2,90,000		2,90,000

**Additional information:**

On 1st April 2018 the following balances were recorded:

Building	₹ 1,25,000
Stock	₹ 90,000
Debtors	₹ 2,65,000
Creditors	₹ 75,000

The balances on 31st March, 2019 were:

Debtors	₹ 3,00,000
Creditors	₹ 95,000
Stock	₹ 1,30,000

Charge 5% depreciation on building.

Prepare Trading and Profit and Loss Account and a Balance Sheet on March 31, 2019

## ACCOUNTANCY XI

Time Allowed : 3 Hours

### SAMPLE PAPER

M.M. : 80

---

#### **General Instructions:**

- (i) This Question Paper contains 32 questions in all.
- (ii) All questions are compulsory.
- (iii) Marks are indicated against each question.
- (iv) Give calculations and working notes neatly and clearly wherever required.

#### **Note: Questions number 1 to 20 carries one mark each.**

1. Mr. Nath who owed us 50,000 became insolvent and paid only 40% of this amount. What is term used for the amount not received and in which side of Profit and loss Account this amount is shown?
2. The concept that a Business enterprise will not sold or liquidated in the near future is known as:
  - (a) Going Concern
  - (b) Economic Entity
  - (c) Money measurement Concept
  - (d) None of these
3. Provision is created for:
  - (a) Known Liability
  - (b) Unknown Liability
  - (c) Strengthening Financial Position
  - (d) Distribution of Dividend
4. What do you mean by GAAP?
5. Under which basis of accounting, Outstanding Expenses are not recorded?
6. What is Journalising?
7. Define Drawings?

8. Which of the following account will be credited on giving Cash Donations?
  - (a) Purchases A/C
  - (b) Cash A/C
  - (c) Donation A/C
  - (d) Drawings A/C
9. On inter - state purchase of goods, which of the following GST is levied:
  - (a) CGST
  - (b) SGST
  - (c) IGST
  - (d) None of the above
10. What do you mean by Suspense A/C?
11. State the formula to calculate the depreciation as per "Straight line method."
12. A Three months Bill of Exchange drawn on 1 July 2018 will mature for payment on:
  - (a) 1 October 2018
  - (b) 3 October 2018
  - (c) 4 October 2018
  - (d) d.5 October 2018
13. Wrong totaling of Subsidiary Books \_\_\_\_\_ allow Trial Balance to match.
14. Cost of Plant and Machinery is an example of \_\_\_\_\_ Expenditure.
15. Salaries and Wages are taken to the Debit side of \_\_\_\_\_ Account.
16. Give two examples of Intangible Assets.
17. Which Book is maintained in Single Entry System?
18. Which of the following can be prepared under Single Entry system?
  - (a) Trial balance
  - (b) Ledger Accounts
  - (c) Statement of Affairs
  - (d) All of the above.
19. What are Tailor-made software?
20. Cost of Goods sold = \_\_\_\_\_ + \_\_\_\_\_ + Direct Expenses – Closing stock.

21. Enter the following transactions in the Cash Book (Double column) of Mehra & Sons: 3 Marks

Date	Transactions	Amount (₹)
<b>2019</b>		
Jan-1	Cash in Hand	96,000
	Cash at Bank	16,000
Jan-5	Cheque received from Rehman and deposited in the bank	40,000
Jan-9	Cheque paid to Rahul	25,500
Jan-15	Money withdrawn from Bank for office use.	10,000
Jan-31	Life Insurance Premium paid	750

22. Discuss any three capabilities of Computer System for Accounting Purposes. 3 Marks
23. Rectify the following errors: 4 Marks
- Cash Sales Rs. 16,000 were not posted to Sales Account.
  - Credit sales to Mohan Rs. 7,000 were recorded as Rs. 700.
  - Salary paid Rs. 5,000 was debited to employee's personal account.
  - A credit sale of Rs. 102 to KISHAN was posted to Krishna's Account.
24. Nandu sold goods to Basu for Rs. 4,000 and Basu accepted a bill Brawn by Nandu amounted to Rs. 4,000 on 1<sup>st</sup> January 2019 and payable after four months. Nandu discounted it with banker @ 18% per annum. On the due date bill was dishonoured. Bank paid Rs. 40 as noting charges. After one month Basu paid the amount due to Nandu. Pass the journal entries in the books of Nandu. 4 Marks.

25. Fill in the missing information in the following journal entries

4 Marks

S. No.	Particulars	L.F.	Dr. ₹	Cr. ₹
1.	_____ Account Dr. To _____ (goods costing Rs. 5,000 destroyed by fire)		_____	_____
2.	Purchases Account _____ Account Dr. _____ Account Dr. To _____ To Ayush (Purchased goods from Ayush for ₹ 20000 plus CGST and @ 6% each, issued a cheque to him for ₹ 10000, balance payable after one month.)	Dr.	_____ _____ _____	_____  10000 _____
3.	_____ Account Dr. To _____ (Salary outstanding at the end of the year.)		25,000	25,000
4.	_____ Account Dr. To _____ (Being depreciation provided on computers costing Rs 1,50,000 @ 20% p.a)		_____	_____

26. What do you mean by Computer Software? Explain the following:

- (a) Operating Software
- (b) Utility Software
- (c) Application Software

4 Marks

27. Ashutosh maintains his accounts on Single Entry System. Calculate his profits on 31st March 2019 from the following information:

Particulars	1 April 2018 ₹	1 April 2019 ₹
Cash	3,000	1,000
Bank	9,000	7,000
Furniture	4,000	4,000
Stock	2,000	6,000
Creditors	8,000	6,000
Debtors	6,000	8,000

**Additional Information:**

During the year his drawings were Rs 2,000 and additional capital invested Rs 4,000.

28. Supriya Limited purchased a Machinery for Rs 5,00,000 on 1st January 2015. Depreciation is provided @ 20% p.a. on cost of the Machinery every year. On 1st January 2017, the Machinery got an accident and damaged badly. The company disposed off it for Rs 1,00,000. On the same date a new Machinery at a cost of Rs 9,00,000 was purchased. Prepare Machinery Account for four years. The accounts are closed on 31st December every year.
29. On March 31, 2019, the Cash Book of Kumar Brothers showed a debit balance of Rs 2,14,460. From the following particulars make out a Bank Reconciliation Statement and ascertain the Balance as per Pass Book.
- Cheque issued but not presented for payment Rs 7,375.
  - Cheques paid into bank but not yet cleared Rs 1,175.
  - Interest credited by bank but not entered in cash book Rs 2,150.
  - Bank charges debited in the Pass Book but not entered in the Cash Book Rs 700.
  - Bank deposited a dividend of Rs 5,000 to the Bank Account. This transaction was not recorded in Cash Book.

30. Explain the following:

- (a) Dual Aspect Concept
- (b) Prudence or Conservatism Principle
- (c) Accounting Standards (AS)

31. Differentiate between Capital Reserve and Revenue Reserve. (any two)

- (b) Why there is a need of preparing Financial statements?
- (c) Prepare a Purchase Day book of Shiv Stationery from the following information.

Date	Particulars
2018	Purchased from Gagan Stationery Mart on credit
June 1	(a) 70 dozen pencils @ ₹ 25 dozen (b) 10 dozen registers @ ₹ 15 per register
June 10	Purchased from Amrit Furniture 2 tables @ ₹ 1,500 per table.
June 15	Purchased 3 dozen ink pots @ ₹ 80 per dozen from Mehar paper Company and received cash discount of ₹ 50
June 18	Purchased from Rehman Bros. on credit (a) 5 reams of white paper @ ₹ 50 per ream (b) 120 pens @ ₹ 60 per dozen. Less Trade Discount of 10%

32. The following Trial Balance was drawn up from Mrs. Bhumika's books at the end of the year ending 31-03-2019. Prepare Trading and Profit & Loss Account and Balance Sheet as on 31-03-2019:

Particular	Amount	Particular	Amount
Stock (01-04-2018)	16,000	Capital	1,00,000
Debtors	32,000	Sales	98,800
Machinery	30,000	Trade Payables	9,000
Wages	10,000	Discount Received	1,000
Salary	4,000		
Building	60,000		
Trade Expenses	5,000		
Cash	16,000		
Purchase	35,000		
Drawing	800		
	2,08,800		2,08,800

**Adjustments:**

The following adjustments are to be considered:

- (a) Stock on 31-03-2019 ₹ 21,000
- (b) Machinery is to be depreciated by 10% p.a.
- (c) Salary outstanding ₹ 200.

**Or**

From the following Trial Balance Prepare Trading Account, Profit & Loss Account and the Balance Sheet.

Particular	₹	Particular	₹
Purchase	80,000	Capital	2,10,000
Bank balance	11,000	Bills payables	6,500
Wages	34,000	Sales	2,00,000

Debtors	70,300	Creditors	50,000
Cash in hand	1,200	Return outwards	4,000
Legal expenses	4,000		
Building	60,000		
Machinery	1,20,000		
Bills receivable	7,000		
Office expenses	3,000		
Opening stock	45,000		
Gas and fuel	2,700		
Freight and carriage	3,500		
Factory lighting	5,000		
Office furniture	5,000		
Patents	18,800		
	<b>4,70,500</b>		<b>4,70,500</b>

**Adjustments:**

- (a) Machinery is depreciated @ 10% p.a. and Building depreciated @ 6% p.a.
- (b) Interest on capital @ 4% p.a.
- (c) Outstanding wages ₹ 50.
- (d) Closing stock ₹ 50,000.

### SAMPLE PAPER (2019-20)

Q. N.	Suggested Answers	Marks																																																
1.	Bad Debts, shown in the Debit side of Profit & Loss Account	1/2+1/2																																																
2.	a.	1																																																
3.	a.	1																																																
4.	Set of Accounting Standards developed by IASB	1																																																
5.	Cash Basis	1																																																
6.	Correct meaning	1																																																
7.	Correct meaning	1																																																
8.	Cash A/C	1																																																
9.	IGST	1																																																
10.	Correct meaning	1																																																
11.	$\frac{\text{Cost of asset - estimate scrap value}}{\text{Estimated life of asset}}$	1																																																
12.	c. 4 October 2018	1																																																
13.	does not	1																																																
14.	Capital	1																																																
15.	Profit and Loss A/C	1																																																
16.	Goodwill, Patents	1																																																
17.	Cash Book	1																																																
18.	Statement of Affairs	1																																																
19.	Correct meaning	1																																																
20.	Opening Stock, Net Purchases	1																																																
21.	<div><div><div><b>Dr.</b></div><div><b>Cash Book (Two columnar)</b></div><div><b>Cr.</b></div></div><table><tr><th>Date</th><th>Particular</th><th>Cash</th><th>Bank</th><th>Date</th><th>Particular</th><th>Cash</th><th>Bank</th></tr><tr><td>Jan-1</td><td>To Balance b/d</td><td>96,000</td><td>16,000</td><td>Jan-9</td><td>By Rahul</td><td>_____</td><td>25,500</td></tr><tr><td>Jan-5</td><td>To Rehman</td><td>_____</td><td>40,000</td><td>Jan-15</td><td>By Cash A/c (c)</td><td>_____</td><td>10,000</td></tr><tr><td>Jan-15</td><td>To Bank A/C (c)</td><td>10,000</td><td>_____</td><td>Jan-31</td><td>By Drawings A/C</td><td>750</td><td>_____</td></tr><tr><td></td><td></td><td></td><td></td><td></td><td>By Balance c/d</td><td>1,05,250</td><td>20,500</td></tr><tr><td></td><td></td><td>1,06,000</td><td>56,000</td><td></td><td></td><td>1,06,000</td><td>56,000</td></tr></table></div> <div>1/2 mark for correct entry of each transaction = 3 marks</div>	Date	Particular	Cash	Bank	Date	Particular	Cash	Bank	Jan-1	To Balance b/d	96,000	16,000	Jan-9	By Rahul	_____	25,500	Jan-5	To Rehman	_____	40,000	Jan-15	By Cash A/c (c)	_____	10,000	Jan-15	To Bank A/C (c)	10,000	_____	Jan-31	By Drawings A/C	750	_____						By Balance c/d	1,05,250	20,500			1,06,000	56,000			1,06,000	56,000	
Date	Particular	Cash	Bank	Date	Particular	Cash	Bank																																											
Jan-1	To Balance b/d	96,000	16,000	Jan-9	By Rahul	_____	25,500																																											
Jan-5	To Rehman	_____	40,000	Jan-15	By Cash A/c (c)	_____	10,000																																											
Jan-15	To Bank A/C (c)	10,000	_____	Jan-31	By Drawings A/C	750	_____																																											
					By Balance c/d	1,05,250	20,500																																											
		1,06,000	56,000			1,06,000	56,000																																											
22.	One mark each for any three correct explanations.	3 Marks																																																

**23. Journal Entries**

(i)	Suspense Account To Sales Account	Dr.	16,000	16,000	1M
(ii)	Mohan To Sales Account	Dr.	6,300	6,300	1M
(iii)	Salary Account To Employee's Personal Account	Dr.	5,000	5,000	1M
(iv)	Kishan To Krishna	Dr.	102	102	1M

1  
marks  
each  
for  
correct  
entry  
= 4  
marks

**24. Journal Entries  
In the Books of Nandu**

4

Date 2019	Particular		Amount	Amount	Marks
Jan-1	Basu To Sales Account	Dr.	4,000	4,000	1/2 M
Jan-1	Bills Receivable Account To Basu	Dr.	4,000	4,000	1/2 M
Jan-1	Bank Account Discounting charges Account To Bills Receivable Account	Dr. Dr.	3,760 240	4,000	1/2 M
May-4	Basu Account To Bank	Dr.	4,040	4,040	1/2 M
May-4	Cash Account To Basu	Dr.	4,040	4,040	1/2 M

**25. One mark for each correct entry.**

**Journal Entries**

Date	Particular		Amount	Amount	Marks
1.	Loss by Fire Account To Purchases Account	Dr.	5,000	5,000	1 M
2.	Purchases Account Input CGST Account Input SGST Account.	Dr. Dr. Dr.	20000 1200 1200		1 M
	To Bank Account To Ayush			10000 124000	
3.	Salary Account To Salary Outstanding Account	Dr.	25000	25000	1 M
4.	Depreciation Account To Computers Account	Dr.	30000	30000	1 M

4

26. 1 mark for correct meaning of software. 3 marks for each correct explanation. 4 marks

27. **Statement of Affairs**

Liabilities	₹ (2018)	₹ (2019)	Assets	₹ (2018)	₹ (2019)
Creditors	8,000	6,000	Furniture	4,000	4,000
<b>Capital (B.F)</b>	<b>16,000</b>	<b>20,000</b>	Stock	2,000	6,000
			Debtors	6,000	8,000
			Cash	3,000	1,000
			Bank	9,000	7,000
	<b>24,000</b>	<b>26,000</b>		<b>24,000</b>	<b>26,000</b>

4

**Statement of Profit and Loss**

1 mark

Particulars	Amount (₹)
Closing Capital	20,000
Add: Drawing	2,000
Less: Additional Capital	4,000
Less: Opening Capital	16,000
Profit for the year	2,000

28. **Machinery Account**

Date	Particular	(₹)	Date	Particular	(₹)
01.01.15	To Bank A/c	5,00,000 (1/2 M)	31.12.15	By Depreciation	1,00,000 (½ M)
				By Balance c/d	4,00,000
01.01.16	To Balance b/d	4,00,000 (1/2 M)	31.12.16	By Depreciation	1,00,000 (½ M)
				By Balance c/d	3,00,000
01.01.17	To Balance b/d	3,00,000	01.01.17	By Bank A/C	1,00,000 (½ M)
		9,00,000		By P&L A/C	2,00,000 (1 M)
	Bank A/c	(1/2 M)	31.12.17	By Depreciation	1,80,000 (1 M)
				By Balance c/d	7,20,000 (½ M)
01.01.18	To Balance b/d	7,20,000	31.12.18	By Depreciation	1,80,000 (½ M)
				By Balance c/d	5,40,000

Marks as distributed in the given Solution. Total = 6 marks

**29. Bank reconciliation Statement**

	Particulars	Plus Items (₹)	Minus Items (₹)	Marks
	Balance as per Cash Book	2,14,460	—	1/2 M
(i)	Cheque issued but not presented for payment	7,375	—	1 M
(ii)	Cheques paid into bank but not yet collected	—	1,175	1M
(iii)	Interest credited by bank but not entered in cash book	2,150	—	1 M
(iv)	Bank charges debited in the Pass Book	—	700	1 M
(v)	Customer directly deposit in Bank Account	5,000	—	1 M
	Total	2,28,985	1,875	
	Balance as per Pass Book	—	2,27,110	1/2 M
		2,28,985	2,28,985	

30. Two marks each for correct explanation.  $2 \times 3 = 6$  marks  
 31. (i) Any two correct differences.  $2 + 2 + 4 = 8$  marks  
 (ii) Any two needs.  
 (iii) Total of Purchase book Rs 4315

**32. Trading & Profit and Loss A/c**

Particulars	Amount	Particulars	Amount	Trading A/c 2M P&L A/c 3M Balance Sheet 3 M 2+3+3 = 8 Marks
To opening Stock	16,000	By Sales	98,800	
To Purchase	35,000	By Closing Stock	21,000	
To Wages	10,000			
To Gross Profit	58,800			
	<b>1,19,800</b>		<b>1,19,800</b>	
To Salary 4,000		To Gross Profit	58,800	
(+) O/s 200	4,200			
To Trade Expenses	5,000	By Discount Received	1,000	
To Dep. On Machinery	3,000			
To Net Profit T/f to Cap. A/c	47,600			
	<b>59,800</b>		<b>59,800</b>	

Balance Sheet  
As on 31st March 2019

Liabilities		Amount	Assets		Amount
Capital	1,00,000		Machinery	30,000	
(-) Drawing	<u>800</u>		(-) Dep.	<u>3000</u>	27,000
	99,200				
(+) N/P	<u>47,600</u>	1,46,800			
Trade Payables		9,000	Building		60,000
Salary Outstanding		200	Debtors		32,000
			Cash		16,000
			Closing Stock		21,000
		<b>1,56,000</b>			<b>1,56,000</b>

Or

Gross Profit ₹ 83,750; Net Profit ₹ 52,750; Total of Balance Sheet ₹ 3,19,250

**SAMPLE QUESTION PAPER**  
**CLASS – XI**  
**ACCOUNTANCY**

---

**Time : 3 Hours**

**Max. Marks : 80**

---

**General Instructions**

- (i) *This Question paper contain 32 questions in all.*
  - (ii) *All questions are compulsory.*
  - (iii) *Marks are indicated against each question.*
  - (iv) *Give calculations and working notes neatly and clearly wherever requested.*
- 

**Choose the correct answer**

1. Which of the following is shown in the trail balance? (1)
  - (a) Journal Folio
  - (b) List of Account Balances
  - (c) Data of Recording the Transactions
  - (d) All the Above
2. Mukesh, a businessman, had paid the house rent where he lives from the business. Is this a business transaction? Give reason. (1)
3. Give two differences between cash basis and accrual basis of accounting. (1)
4. Cash sales 1.5 times of credit sales. Credit sales ₹ 1,20,000, Purchases ₹ 1,40,000 Rate of gross Profit 25% on cost. What is the value of closing stock? (1)
5. Outstanding expenses are not recorded in cash basis of accounting. State True or False. (1)
6. If there is current probability of outflow of uncertain funds for settlement of on obligatin, which of hte following is said to be recognised? (1)
  - (a) Loan
  - (b) Liability
  - (c) Provision
  - (d) Contingent Liability.

7. Which of the following account should be debited for the goods worth ₹ 5,000 withdrawn for personal use? (1)
- (a) Sales A/c (b) Drawings A/c  
(c) Purchases A/c (d) Stock A/c
8. \_\_\_\_\_ is prepared for showing the financial position of the business summarising its assets and liabilities at a given date. (1)
- (a) Statement of profit and loss  
(b) Balance sheet  
(c) Statement of shareholders equity  
(d) Cash flow statement.
9. A sequence of actions taken to transform the data into useful decision making information is called (1)
- (a) Data flow (b) Data process  
(c) Data sequence (d) DBMS
10. What are the basic requirements of every computerised accounting system? (1)
11. In a computerised system of accounting, the framework of storing and processing large volume of data is known as (1)
- (a) Operating Environment (b) Operating system  
(c) Accounting Framework (d) DBMS
12. What is the amount of commission to be shown in books of accounts? (1)
- Gross Profit : ₹ 1,00,000, salaries : ₹ 44,000 Depreciation  
Expense : ₹ 6,000, Insurance : ₹ 4,000 Salaries are paid for 11  
months
- Manager is allowed a commission of 5% on net profit after charging  
such commission
- (a) ₹ 1,895 (b) ₹ 2,000  
(c) ₹ 2,190 (d) ₹ 2,285

13. XYZ Ltd. has filed a case against PQR Ltd. for copying their registered Trademark. Compensation demanded amounts to ₹ 10,00,000. The case was to be decided in five proceedings out of which 4 are already over and in favour of XYZ Ltd. The final Hearing is to be held next Saturday.
- How will this transaction be Recorded in books of PQR Ltd. (1)
- (a) As an Asset (b) As a Fictitious Asset  
(c) As a Contingent Asset (d) As a Contingent Liability.
14. \_\_\_\_\_ is an interactive link or a dialogue between the user and database oriented software through which the user communicates to the back-end database. (1)
- (a) Back-end Database (b) Back-end Interface  
(c) Front-end Database (d) Front-end Interface
15. When double entry system is followed to record the business transactions then: (1)
- (a) Debit and Credit amount must be equal  
(b) Debit and Credit amount may not be equal  
(c) Only two accounts are affected  
(d) Balance of one account increases and other account decreases.
16. Which of the following is not a personal account. (1)
- (a) Bank Account (b) Drawings Account  
(c) Proprietor's Account (d) Livestock Account
17. In case loan is taken to purchase goods, then two accounts that are affected are: (1)
- (a) Stock and Capital (b) Capital and Liability  
(c) Stock and Liability (d) Cash and Stock
18. If the owner withdraws cash or goods for his personal use, it is known as: (1)
- (a) Drawings (b) Personal Expenses  
(c) Goods in Transit (d) Abnormal loss

19. Given any two differences between Book Keeping and Accounting. (1)
20. Which of the following is not a part to a bill of exchange? (1)
- (a) Payee (b) Signatory
- (c) Drawee (d) Drawer
21. Give journal entries for the following transactions. (3)

Date 2015	Transactions
Jan 1	Started business with cash ₹ 1,50,000
Jan 2	Cash purchases ₹ 52,000
Jan 3	Sold goods to Ram ₹ 10,000
Jan 6	Returned Defective goods by Ram ₹ 2,000
Jan 8	Paid rent ₹ 1800
Jan 10	Withdraw from bank for house rent ₹ 6,000.

Or

Explain the following terms:

- (a) Stock (b) Loss
- (c) Depreciation
22. Determine whether the following statement is correct and support your answer with an appropriate explanation. (3)
- “Financial Statements are prepared just to know the profits earned or loss incurred during an accounting period.”
23. From the following calculate operating profit. (4)

Particulars	Amount ₹
Net Profit	1,50,000
Rent received	15,000
Gain on sale of machine	20,000
Interest on Loans	35,000
Donation	5,000

24. (a) State with reasons whether the following are revenue or capital expenditure: (2 × 2 = 4)

1. ₹ 2,00 spent on repairing a second hand machine before put to use.
2. ₹ 10,000 on repainting the factory.

(b) What do you mean by Specific Reserve?

25. A Company purchased a machine for ₹ 5,00,000 (including a boiler worth ₹ 1,00,000) The company provides depreciation @ 10% as per straight line method. After four years the boiler becomes useless and it was discarded for ₹ 20,000. Prepare machine A/c for four years. (4)

26. Prepare a Trial Balance from the following data and consider capital as the difference in their total of Debit and Credit Side. (4)

Particulars	Amt. (₹)	Particulars	Amt. (₹)
Building	60,000	Machinery	17,000
Return outward	2,600	Bank Overdraft	10,000
Bad Debt	2,800	Creditors	50,000
Cash	400	Purchases	1,00,000
Discount received	3,000	Sales	1,04,000
Debtors	60,000	Fixtures	5,600
Interest received	2,600		

27. Rectify the following errors: (4)

1. Suresh ₹ 650 recorded as ₹ 560 in the sales book.
2. Typewriter of ₹ 8,000 purchased for office use debited to purchases A/c.
3. Wages paid for construction of building ₹ 15,000 debited to wages A/c.
4. Goods worth ₹ 400 taken by proprietor for personal use not recorded.

28. Prepare a bank reconciliation statement as on 31<sup>st</sup> Dec. 2018 from the following information. (6)
- (1) Bank Overdraft as per passbook ₹ 22,000 as on 3<sup>rd</sup> Dec.
  - (2) On 28<sup>th</sup> Dec, a cheque had been issued for ₹ 50,000 of which cheque worth ₹ 6,000 had been encashed upto 31<sup>st</sup> Dec.
  - (3) Cheques amounted to ₹ 4,500 had been paid into the bank for collection but out of these only ₹ 1,000 had been credited in the passbook.
  - (4) The bank has charged ₹ 1,500 as interest on overdraft and the intimation of which has not been received as yet.
  - (5) Bank has collected ₹ 1,600 directly in respect of interest on investment.
  - (6) A cheque of ₹ 1,200 has been debited in bank column of cash book, but it was not sent to bank at all.
29. 'Qualitative characteristics are attributes that make the accounting information useful to users. Discuss these attributes. (6)

Or

What are the generic considerations before sourcing an accounting software?

30. (a) Aslam purchased 1000 sq.mts Land for ₹ 3 crores to build a factory. At the end of the year market value of land was ₹ 2.70 crores. Is this a correct treatment?
- (b) Shweta dealing in electronic goods sold 20 TV sets costing ₹ 30,000 each at ₹ 40,000. Out of this ₹ 5,00,000 were received in cash and the balance is not yet received. State the amount of revenue.
- (c) The Factory workers of XYZ Ltd. Went on a labour strike as a result the production had to stop for a week. The owner estimated the loss of production and the likely loss of profit due to this situation and accordingly directed his accountant to book a loss in the accounts. The accountant did the same was the accountant correct in recording the likely loss? Give suitable reasons in support of your answer.

31. Prepare final accounts for the year ending 31-03-2018.

Particulars	Debit (₹)	Credit (₹)
Furniture	6,400	
Motor vehicles	62,500	
Building	75,000	
Capital		1,25,000
Bad-Debts	1,250	
Provision for Doubtful Debts		2,000
Stock	34,600	
Debtors/Creditors	38,000	25,000
Bank Overdraft		28,500
Returns	2,000	1,250
Advertisements	4,500	
Interest	1,180	
Commission		3,750
Cash	6,500	
Taxes and Insurances	12,500	
General Expenses	7,820	
Salary	33,000	
Purchases/Sales	54,750	1,54,500

Adjustments:

1. Stock as on 31-03-2018 ₹ 32,500.
2. Salary outstanding ₹ 3,000.

3. Depreciation on building @ 5%
4. Write of ₹ 1,000 as bad debts and create a provision of 5% on debtors.
5. 1/3 of commission received is in respect of next year.

Or

Rosina, a retailer, has not maintained proper books of account but it has been possible to obtain the following details:

Particulars	2017-18 (₹)	2018-19 (₹)
Trade Creditors	6,270	5,890
Loan from Iqbal	5,000	5,000
Stock	12,350	11,980
Cash in Hand	570	650]
Shop Fittings	7,250	7,800
Trade Debtors	5,280	4,560
Bank Balance	3,990	4,130

Calculate net profit for this year and draft the statement of affairs at the end of the year after noting that:

- (a) Shop Fittings are to be depreciated by ₹ 780.
- (b) Rosina has drawn ₹ 100/week for her own use.
- (c) Included in the Trade Debtors is an irrecoverable balance of ₹ 270.
- (d) Interest at 5% p.a. is due on the loan from Iqbal but has not been paid form the year.

32. Prepare a Double Column Cash Book with cash and Bank column from the following information: (8)

Date	Particulars	Amt. (₹)
2018	Bank Overdraft	8,500
Sept. 1	Cash in hand	40,200
Sept. 2	Received a cheque form Hari and paid it into bank the same day.	16,300
Sept. 5	Sold goods for cash	7,000
Sept. 10	Cash deposited into Bank	4,000
Sept. 12	Goods purchased worth ₹ 8,000 half amount paid in cash and half amount paid by cheque	
Sept. 15	Goods purchased from sohan on credit.	3,500
Sept. 17	Draw from bank for personal use	3,000
Sept. 18	Salary paid	2,000
Sept. 20	Paid to sohan in cash	3,500
Sept. 22	Reveived a cheque from Naresh	4,800
Sept. 24	Bank charges	150
Sept. 26	Income tax paid by cheque	1,000
Sept. 27	Naresh's cheque deposited into the bank.	
Sept. 28	Bank credited interest	500
Sept. 28	Hari's cheque dishonoured	

Or

Yogesh Ltd. purchased a plant on 1st April, 2015 for ₹ 1,50,000. It purchased another plant on 1st october, 2015 costing ₹ 2,00,000 and on 1st July 2016 costing ₹ 3,00,000. On 1st January, 2017 the plant purchased on 1st April, 2015 become useless and was sold for ₹ 20,000.

Show plant Account charging 10% p.a. depreciation by diminishing balance method for four years 2015-16, 2016-17, 2017-18, 2018-19. The plant purchased on 1st October, 2015 was sold for ₹ 80,000 on 1st January 2018. Accounts of the company are closed on 31st December each year.

**ACCOUNTANCY CLASS - XI**  
**2019-20**

**Unit-wise Weightage**

**Time: 3 Hours**

**80 Marks**

Units		Marks
	<b>Part A: Financial Accounting-I</b>	
1	Theoretical Framework	12
2	Accounting Process	40
		52
	<b>Part B: Financial Accounting-II</b>	
3	Financial Statements of Sole Proprietorship: from Complete and Incomplete Record	20
4	Computers in Accounting	08
		28
	<b>Part C: Project Work</b>	
	Project Work	20

S. No.	Forms of Questions	Marks for each Question	No. of Questions	Total Marks
1.	Objective Type MCQ	1	20	20
2.	Short Answer Type I	3	2	06
3.	Short Answer Type II	4	5	20
4.	Long Answer Type I	6	3	18
5.	Long Answer Type II	8	2	16
	<b>TOTAL</b>		<b>32</b>	<b>80</b>

**SAMPLE PAPER  
ACCOUNTANCY  
CLASS - XI**

**Time: 3 Hours**

**80 Marks**

---

**General Instruction**

1. All questions are compulsory.
  2. Show your working notes clearly.
- 

**Part A**

1. Which of the following is not a business transaction?
  - (a) Bought furniture of ₹ 10,000 for business
  - (b) Paid for salaries of employees ₹ 5,000
  - (c) Paid sons fees from her personal bank account ₹ 20,000
  - (d) Paid sons fees from the business ₹ 2,000 [1]
2. The art of recording, classifying and summarizing is called:
  - (a) Journalizing
  - (b) Accounting
  - (c) Bookkeeping
  - (d) Record Keeping [1]
3. Double Entry means:
  - (a) Entry for the two aspects of books
  - (b) Entry at two dates
  - (c) Entry in two aspects of transaction
  - (d) All of the above [1]
4. Cash or goods taken away by the proprietor is called
  - (a) Drawings
  - (b) Sales
  - (c) Charity
  - (d) Expense [1]
5. The liability arising from the purchase of goods on credit is called
  - (a) Creditors
  - (b) Accounts Receivable
  - (c) Loan
  - (d) Payable expenses [1]

6. The paper containing evidence of payment is called  
(a) Debit voucher (b) Debit note  
(c) Credit note (d) Credit voucher [1]
7. Distinction between an expenditure whose benefit will be for a long period and whose benefit for a short period of say up to one year, is made under which of the following.  
(a) Accounting Entity (b) Going concern Entity  
(c) Money Measuring Entity (d) Accounting Period [1]
8. Anticipate no profits and provide for all possible losses. This is essence of which of the following accounting principles:  
(a) Dual Aspect Principle (b) Materiality Principle  
(c) Consistency Principle (d) Conservatism Principle
9. A bill of ₹12,500 drawn by Shyam is accepted by Ram & Shyam gets its discounted @ 12% p.a. due 3 months hence. The discounting charges borne by Shyam is :  
(a) ₹ 375 (b) ₹ 1,500  
(c) ₹ 250 (d) ₹ 1,000 [1]
10. The cost of the asset is 60000 and depreciated at 12% p.a. using the written down method, at the end of three years, it will have a net book value of -  
(a) ₹ 40888.32 (b) ₹ 43888.90  
(c) ₹ 45322 (d) ₹ 40000 [1]
11. Unfavorable balance means?  
(a) Credit balance in the cash book  
(b) Credit balance in Bank statement  
(c) Debit balance in cash book  
(d) Debit balance in petty cash book [1]

12. What are the taxes levied on an intra-State Supply?  
(a) CGST (b) SGST  
(c) CGST and SGST (d) IGST [1]
13. Which of the following item is not included in the Cash Book?  
(a) Purchases of ₹ 10,000  
(b) Sales of ₹ 5,000  
(c) Received cash for Salman ₹ 2,000  
(d) Credit sales of ₹ 22,000
14. Disagreement of trial balance includes which errors?  
(a) Errors of omission  
(b) Wrongly totaling of subsidiary books  
(c) Compensating errors  
(d) a and c only [1]
15. Sale of goods to Mr. Amir is wrongly debited to Umair A/c(debtor) instead of Amir A/c(debtor), this is an example?  
(a) Error of principle (b) Error of omission  
(c) Error of commission (d) Error of original entry [1]
16. Retirement of a bill of exchange means-  
(a) Cancellation of bill (b) Premature payment of bill  
(c) Discounting of bill (d) Endorsement of bill [1]
17. Choose the correct answer from the options given below:  
What will be the value of an asset at the end of fifth year from its date of purchase, if the asset was purchased for ₹ 75,000 with salvage value ₹ 5,000 at the end of its useful life of 7 years? The depreciation would be charged as per Straight Line Method.  
(a) ₹ 26,000 (b) ₹ 40,000  
(c) ₹ 47,000 (d) ₹ 75,000 [1]

18. Show Accounting Equation on the basis of the following transactions:-

- (a) Mr. Ajay started business with cash ₹ 80,000, Inventory ₹ 50,000 and Machinery ₹ 5,000.
- (b) Purchased furniture for cash ₹ 4,000 and purchased goods from Naveed store of ₹ 5,000
- (c) Sold goods to Rashid on credit basis for ₹ 8,000, costing ₹ 6,500.
- (d) Open a bank account and deposited ₹ 40,000
- (e) Sold goods for cash ₹ 15,000, which is 20% above cost.
- (f) Paid rent and salaries for the month ₹ 4,000 and wages outstanding for month ₹ 1,000. [3]

OR

Explain the following Accounting Terms

- (a) Current Assets
- (b) Drawings
- (c) Deferred Revenue Expenditure

19. Explain any two of the followings

- (a) Going Concern Concept
- (b) Accounting Period concept
- (c) Duality Principle [3]

OR

Explain four limitations of Financial Accounting. [4]

20. Journalise the following transactions in the books of Harpreet Bros.

- (a) Goods worth ₹ 2,000 were used by the proprietor.
- (b) Charge depreciation @ 10% p.a for two month on machine costing ₹ 30,000.
- (c) Provide interest on capital of ₹ 1,50,000 at 6% p.a. for 9 months.
- (d) Rahul become insolvent, who owed is ₹ 2,000 a final dividend of 60 paise in a rupee is received from his estate. [4]

21. From the following particulars prepare a bank reconciliation statement showing the balance as per cash book on December 31, 2018.

- (a) Two cheques of ₹ 2,000 and ₹ 5,000 were paid into bank in October, 2018 but were not credited by the bank in the month of December.
- (b) A cheque of ₹ 800 which was received from a customer was entered in the bank column of the cash book in December 2016 but was omitted to be banked in December, 2018.
- (c) Cheques for ₹ 10,000 were issued into bank in November 2016 but not credited by the bank on December 31, 2018.
- (d) Interest on investment ₹ 1,000 collected by bank appeared in the passbook.

Balance as per Passbook was ₹ 50,000. [4]

22. Prepare double column cash book from the following transactions for the year August 2018:

01 Cash in hand	₹ 17,500
02 Cash at bank	₹ 5,000
03 Purchased goods for cash	₹ 3,000
05 Received cheque from Naresh	₹ 10,000
08 Sold goods for cash	₹ 7,000
10 Naresh's cheque deposited into bank	
12 Purchased goods and paid by cheque	₹ 20,000
15 Paid establishment expenses through bank	₹ 1,000
18 Cash sales	₹ 7,000
20 Deposited into bank	₹ 10,000
24 Paid trade expenses	₹ 500
27 Received commission by cheque	₹ 6,000
29 Paid Rent	₹ 2,000
30 Withdrew cash for personal use	₹ 1,200
31 Salary paid	₹ 6,000

OR

Enter the following transactions in purchases book of Rajendra Electric Store, Delhi

2018

- June 3 Purchased on credit from Rama Electric Store, Faridabad.  
200 Tubelights @ ₹ 50 each  
50 table fans @ ₹ 600 each  
20 Desert Coolers @ ₹ 2000 each  
Trade discount 15%
- June 12 Purchased from Newlights Traders, New Delhi for cash  
40 Doz. Bulb @ ₹ 100 per Doz.  
40 ceiling Fans @ ₹ 1200 each  
10 room coolers @ ₹1500 each  
Trade Discount 10%
- June 20 Purchased from Litstar ind. On credit  
2 Doz. Murcury Bulb @ ₹ 50 each  
1 Doz. Hologen Bulb @ ₹ 100 each  
50 Doz. Bulb @ ₹ 120 per Doz.  
100 Box jagmag Bulb @ ₹ 50 per box  
Trade discount 20% Packing [6]

23. The following balances appear in the books of Crystal Ltd, on April 01, 2018 Machinery account on ₹ 15,00,000 Provision for depreciation account ₹ 5,50,000 On April 01, 2018 a machinery was purchased on April 01, 2015 for ₹ 2,00,000 was sold for ₹ 75,000. A new machine was purchased on Oct 01, 2018 for ₹ 6,00,000. Depreciation is provided on machinery at 20% p.a. on Straight line method and books are closed on March 31 every year. Prepare the machinery account and provision for depreciation account for the year ending March 31, 2018.

OR

Vinod Ltd., purchased a Plant on 1st April, 2015 for ₹ 15,000. It purchased another plant on 1st October, 2015 costing ₹ 20,000 and on 1st July, 2006 costing ₹ 30,000. On 1st January, 2017 the Plant purchased on 1st April, 2015 became useless and was sold for ₹ 2,000. Show Plant Account charging 10% p.a. depreciation by fixed instalment method for three years. The plant purchased on 1st October, 2005 was sold for ₹ 8,000 on 1st January, 2008. Accounts of the company are closed on 31st March each year.

[6]

24. Pass journal entries in the books of A.

A sold goods to B for ₹ 10,000 on December 10, 2018 and drew a bill for the same amount payable after 3 months. The bill was accepted by B which was later discounted for ₹ 9,500 by A on January 02, 2019. On the due date bill was dishonoured. B paid ₹ 4,200 immediately including ₹ 200 as interest and accepted a new bill for ₹ 6,000. The new bill was endorsed by A to C, one of his creditor for ₹ 6,000. The new bill was duly met by B.

Name the process of transferring entries from the journal to their respective accounts in the ledger.

[8]

### Part B

25. When closing stock is given in trial balance, where it will be recorded:

- (a) Trading account only
- (b) Balance sheet only
- (c) Owner's equity only
- (d) Both Trading account and Balance sheet [1]

26. If opening capital is ₹ 60,000, drawings ₹ 5,000, capital introduced during the period ₹ 10,000, closing capital ₹ 90,000. The value of profit earned during the period will be :

- (a) ₹ 20,000
- (b) ₹ 25,000
- (c) ₹ 30,000
- (d) ₹ 40,000 [1]

27. Which of the following is not the type of Accounting software?
- (i) Readymade Software
  - (ii) Tailor-made Software
  - (iii) Human-made Software
  - (iv) Customised Software [1]
28. Distinguish between a manual and Computerised Accounting System. [3]
29. From the following balances extracted from the books of M/s Ahuja and Nanda. Calculate the amount of:

(a) Cost of goods available for sale (b) Gross Profit

Opening stock 25,000, Credit purchases 7,50,000, Cash purchases 3,00,000, Credit sales 12,00,000, Cash sales 4,00,000, Wages 1,00,000, Salaries 1,40,000, Closing stock 30,000, Sales return 50,000, Purchases return 10,000. [4]

OR

State with reason, which of the following expenditure is Capital Expenditure, Revenue Expenditure or Deferred Revenue Expenditure:-

- (i) Expenditure on installation of a New Machinery.
  - (ii) Repair expenditure on repair of truck.
  - (iii) Wages paid for construction of a building
  - (iv) Huge amount spent on distribution of free samples for publicity.
30. "A computer system is capable of performing many things". Explain any four capabilities of a computer system [4]

(OR)

What is Accounting Information System (AIS)? List any four features of good Accounting Information System.

31. From the following information, prepare the bills receivable account and total debtors account for the year ended March 31, 2019.

	₹
Opening balance of debtors	1,80,000
Opening balance of bills receivable	55,000
Cash sales made during the year	95,000
Credit sales made during the year	14,50,000
Return inwards	78,000
Cash received from debtors	10,25,000
Discount allowed to debtors	55,000
Bills receivable endorsed to creditors	60,000
Cash received (bills matured)	80,500
Bad Debts	10,000
Closing balance of bills receivable on March 31, 2019	₹ 75,500

OR

State Difference between

- (i) Statement of Affairs and Balance Sheet (any three).
- (ii) Single entry System and Double Entry System. (any three) [6]

32. From the following Trial Balance of M/s. Vinod and Sons as on 31<sup>st</sup> March 2019, prepare Trading and Profit & Loss Account and Balance Sheet. [8]

Particulars	(₹)	Particulars	(₹)
Office expenses	300	Stock (opening)	9,000
Selling expenses	11,100	Plant & Machinery (1.4.2018)	20,000
General expenses	1,000	Plant & Machinery (addition 1.10.2018)	5,000
Sundry debtors	20,600	Drawings	6,000
Furniture and Fixtures	5,000	Capital	75,000
Return inwards	13,000	Reserve for doubtful debts	800
Printing and stationery	400	Rent for Premises Sublet	1,600
Rent, Rates and taxes	4,600	Insurance charges	700
Sundry creditors	15,000	Administrative expenses	11,000
Sales	1,31,000	Cash in hand	8,500
Return outwards	1,000	Cash at Bank	18,200
Purchases	90,000		

**Adjustments:**

- (i) Stock in hand at the end ₹ 14,000.
- (ii) Write off ₹ 600 as bad debts.
- (iii) Create 5% provision for bad and doubtful debts.
- (iv) Depreciate furniture and fixtures at 5% p.a. and Plant & Machinery at 20% p.a.
- (v) Insurance prepaid was ₹ 100.
- (vi) A fire occurred in the godown and stock of the value of ₹ 5,000 was destroyed. It was insured and the insurance company admitted full claim.

(OR)

Explain Single Entry System of Accounting and its features.

## This image shows a full page of blank white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page, providing a template for writing or drawing. There are no margins, text, or other markings on the paper.

[illegible]

## This image shows a full page of blank white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page, providing a template for writing or drawing. There are no margins, text, or other markings present.

[illegible]

## This image shows a full page of blank white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page, providing a template for writing or drawing. There are no margins, text, or other markings present.