DIRECTORATE OF EDUCATION

Govt. of NCT, Delhi

SUPPORT MATERIAL
(2021-2022)

Class : XI

ACCOUNTANCY

Under the Guidance of

Sh. H. Rajesh Prasad
Secretary (Education)

Mr. Udit Prakash Rai
Director (Education)

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

<u>Coordinators</u>

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

Production Team

Anil Kumar Sharma

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H. RAJESH PRASAD
IAS

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

सत्यमेव जयते

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

MESSAGE

I would like to congratulate the members of Core Academic Unit and the subject experts of the Directorate of Education, who inspite of dire situation due to Corona Pandemic, have provided their valuable contributions and support in preparing the Support Material for classes IX to XII.

The Support Material of different subjects, like previous years, have been reviewed/ updated in accordance with the latest changes made by CBSE so that the students of classes IX to XII can update and equip themselves with these changes. I feel that the consistent use of the Support Material will definitely help the students and teachers to enrich their potential and capabilities.

Department of Education has taken initiative to impart education to all its students through online mode, despite the emergency of Corona Pandemic which has led the world to an unprecedented health crises. This initiative has not only helped the students to overcome their stress and anxiety but also assisted them to continue their education in absence of formal education. The support material will ensure an uninterrupted learning while supplementing the Online Classes.

(H. Rajesh Prasad)

UDIT PRAKASH RAI, IAS
Director, Education & Sports

सत्यमेव जयते

Directorate of Education
Govt. of NCT of Delhi
Room No. 12, Civil Lines
Near Vidhan Sabha,
Delhi-110054
Ph.: 011-23890172
Mob.: 8700603939
E-mail : diredu@nic.in

MESSAGE

The main objective of the Directorate of Education is to provide quality education to all its students. Focusing on this objective, the Directorate is continuously in the endeavor to make available the best education material, for enriching and elevating the educational standard of its students. The expert faculty of various subjects undertook this responsibility and after deep discussions and persistent efforts, came up with Support Material to serve the purpose.

Every year the Support Material is revised/updated to incorporate the latest changes made by CBSE in the syllabus of classes IX to XII. The contents of each lesson/chapter are explained in such a way that the students can easily comprehend the concept and get their doubts solved.

I am sure, that the continuous and conscientious use of this Support Material will lead to enhancement in the educational standard of the students, which would definitely be reflected in their performance.

I would also like to commend the entire team members for their contributions in the preparation of this incomparable material.

I wish all the students a bright future.

(UDIT PRAKASH RAI)

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

सत्यमेव जयते

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

D.O. No. PA/Addl.DE/Sch/31
Dated: 29.06.2021

MESSAGE

It gives me immense pleasure to present the revised edition of the Support Material. This material is the outcome of the tireless efforts of the subject experts, who have prepared it following profound study and extensive deliberations. It has been prepared keeping in mind the diverse educational level of the students and is in accordance with the most recent changes made by the Central Board of Secondary Education.

Each lesson/chapter, in the support material, has been explained in such a manner that students will not only be able to comprehend it on their own but also be able to find solution to their problems. At the end of each lesson/chapter, ample practice exercises have been given. The proper and consistent use of the support material will enable the students to attempt these exercises effectively and confidently. I am sure that students will take full advantage of this support material.

Before concluding my words, I would like to appreciate all the team members for their valuable contributions in preparing this unmatched material and also wish all the students a bright future.

(Rita Sharma)

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 सतत् प्रयास करे, जिससे राष्ट्र निरंतर बढ़ते हुए प्रयत्न और उपलब्धि की नई ऊँचाइयों को छू सके; और

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

CONSTITUTION OF INDIA

Part IV A (Article 51 A)

Fundamental Duties

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

सामाजिक, आर्थिक और राजनैतिक **न्याय,**

विचार, अभिव्यक्ति, विश्वास, धर्म

और उपासना की **स्वतंत्रता,**

प्रतिष्ठा और अवसर की **समता**

प्राप्त कराने के लिए,

तथा उन **सब में**

व्यक्ति की गरिमा और [2]**[राष्ट्र की एकता**

और अखंडता] सुनिश्चित करने वाली **बंधुता**

बढ़ाने के लिए

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

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

THE CONSTITUTION OF INDIA

PREAMBLE

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

JUSTICE, social, economic and political;

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

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

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

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

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

DIRECTORATE OF EDUCATION
Govt. of NCT, Delhi

SUPPORT MATERIAL
(2021-2022)

ACCOUNTANCY
Class : XI

NOT FOR SALE

PUBLISHED BY : DELHI BUREAU OF TEXTBOOKS

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

CLASS-XI
ACCOUNTANCY SUPPORT MATERIAL
2021-2022

GROUP LEADER

DR. BHAGWAN DASS
Principal
Rajkiya Pratibha Vikas Vidyalaya
INA Colony, New Delhi-110023

TEAM LEADER

1.	Ms. Jyotsna Davar Lecturer Commerce	RPVV, INA Colony, New Delhi
2.	Mr. Tarun Mittal Lecturer Commerce	RPVV, Paschim Vihar, New Delhi
3.	Mr. Shankar Dutt Fulara Lecturer Commerce	RPVV, Gandhi Nagar, New Delhi
4.	Mr. Puneet Gola Lecturer Commerce	RPVV, Link Road, Karol Bagh New Delhi

Accountancy (Code No. 055)

Rationale

The course in accountancy is introduced at plus two stage of senior 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 transations.

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 Syllabus (Code No. 055)

Class-XI (TERM WISE) (2021-22)

	TERM-1 (MCQ BASED QUESTION PAPER) THEORY : 40 MARKS TIME : 90 Minutes	MARKS
   1. 2.	**Part A : FINANCIAL ACCOUNTING-I** **UNIT 1** **THEORETICAL FRAMEWORK:** INTRODUCTION TO ACCOUNTING THEORY BASE OF ACCOUNTING	12
	UNIT 2 **ACCOUNTING PROCESS:** RECORDING OF BUSINESS TRANSACTION BANK RECONCILIATION STATEMENT DEPRECIATION PROVISIONS AND RESERVES	28
	TOTAL	**40**
	Project Work (Part-1) : 10 Marks	

TERM - I

Part- A : FINANCIAL ACCOUNTING-I

Unit-1 : Theoretical Frame Work	**Introduction to Accounting** • **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 Revenue), Expense, Income, Profit. Gain, Loss, Purchase, Sales, Goods, Stock, Debtor, Creditor, Voucher, Discount (Trade discount and Cash Discount) **Theory Base of Accounting** • Fundamental accounting assumptions GAAP : Concept. • Business Entity, Money Measurement, Going Concern, Accounting Period, Cost Concept, Dual Aspect, Revenue Recognition, Matching, Full Disclosure, Consistency, Conservatism, Materiality and Objectivity.

	• System of Accounting. Basis of Accounting : cash basis and accrual basis. • **Accounting Standards :** Applicability in IndAs. • **Goods and Services Tax (GST) :** Characteristics and Objective.
Unit-2 : Accounting Process	**Recording of Transactions** • **Voucher and Transactions :** Source documents and Vouchers, Preparation of Vouchers, Accounting equation Approach. Meaning and Analysis, Rules of Debit and Credit. • **Recording of Transactions :** Books of Original Entry-Journal • **Special Purpose books :** • Cash Book: Simple, cash book with bank column and petty cash book • Purchases book • Sales book • Purchases return book • Sales return book **Note:** Including trade discount, freight and cartage expenses for simple GST calculation. • **Ledger:** Format, Posting from journal and subsidiary books, Balancing of accounts **Bank Reconciliation Statement:** • Need and preparation **Depreciation, Provisions and Reserves** • Depreciation : Concept, Features, Causes, factors • Other similar terms : Depletion and Amortisation Methods of Depreciation: i. Straight Line Methods (SLM) ii. Written Down Value Method (WDV) **Note : Excluding Change of Method** • Difference between SLM and WDV; Advantages of SLM and WDV. • Accounting treatment of depreciation i. Charging to asset account ii. Creating provision for depreciation/ accumulated depreciation account iii. Treatment for disposal of asset • **Provisions and reserves :** Difference • Types of Reserves : i. Revenue reserve ii. Capital reserve iii. General reserve iv. Specific reserve v. Secret reserve • Difference between capital and revenue reserve

	TERM - II **THEORY : 40 MARKS**	**MARKS**
   1. 2.	**<u>Part A</u>** **<u>UNIT 2</u>** **<u>ACCOUNTING PROCESS:</u>** ACCOUNTING FOR BILLS OF EXCHANGE TRIAL BALANCE AND RECTIFICATION OF ERRORS	 12
	<u>Part B : FINANCIAL ACCOUNTING-II</u> **<u>UNIT 3</u>** FINANCIAL STATEMENTS OF SOLE PROPRIETORSHIP FROM COMPLETE AND INCOMPLETE RECORDS **<u>UNIT 4</u>** COMPUTERS IN ACCOUNTING	 20 8
	TOTAL	**40**
	ProjectWork (Part-2) : 10 Marks	

TERM - II

Accounting for Bills of Exchange	Accounting for Bills of exchange 20 Periods • **Bill of exchange and promissory Note** **Note :** Definition, Specimen, Features, Parties. • Difference between Bill of Exchange and Promissory Note • **Terms in Bill of Exchange :** i. Term of Bill ii. Accommodation bill (concept) iii. Days of Grace iv. Date of maturity v. Discounting of bill vi. Endorsement of bill vii. Bill after due date viii. Negotiation ix. Bill sent for collection x. Dishonour of bill

	xi. Retirement of bill xii. Renewal of bill • Accounting Treatment • Note: Excluding accounting treatment for accommodation bill. **Trial balance and Rectification of Errors** • **Trial balance :** Objectives and preparation (Scope: Trial balance with balance method only) • **Errors :** Types-errors of omission, commission, principles, and compensating; their effect on Trial Balance. • Detection and rectification of errors, preparation of suspense account.
PART-B : Financial Accounting-II	
Unit-3 : Financial Statements of Sole Proprietorship	**Financial Statements** • Meaning, Objectives and Importance; Revenue and Capital Receipts; Revenue and Capital Expenditure; Deferred expenditure • **Trading and profit and Loss Account :** Gross Profit, Operating Profit and Net Profit. • **Balance Sheet :** Need, Grouping and Marshalling of Assets and Liabilities. • **Adjustments** in preparation of financial statements with respect to closing stock, outstanding expenses, prepaid expenses, accrued income, income received in advance, depreciation, bad debts, provision for doubtful debts, provision for discount on debtors, Abnormal loss, Goods taken for personal use/staff welfare, interest on capital and managers commission. • **Preparation of Trading and Profit and Loss account and Balance Sheet** of a sole proprietorship with adjustments. • **Incomplete Records** • Features, Reasons and Limitations, Ascertainment of profit / loss by statement of affairs method.
Unit-4 : Computers in Accounting	**Introduction to computer and accounting information system (AIS):** • Introduction to computers (elements, capabilities, limitations of computer system)

	• **Scope:** (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. (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.

PART C : PROJECT WORK

The project work would be divided into two parts i.e. Term-I (10 marks) and Term-II (10 marks) for the purpose of assessment and will be covered as detailed below.

Comprehensive project of any sole proprietorship business. This may state with journal entries and their ledger postings, preparation of Trial balance. Trading and Profit and Loss Account and Balance Sheet. Expenses, incomes and profit (loss), assets and liabilities are to be depicted using pie chart / bar diagram.

TERM-I

PARTICULARS	**MARKS**
Project (Till Ledger Posting and Balancing of Accounts)	**10**

TERM-II

PARTICULARS	**MARKS**
Project (Financial Statements and Depiction using Diagrammatic / Graphical Tools)	**10**

NOTE :- Kindly See the CBSE Guidelines for Project Work.

Suggested Question Paper Design
Accountancy (Code No. 055)
Class XI (2021-22)

Theory : 80 Marks
Project : 20 Marks

Time : 3 Hrs.

S.No.	Typology of Questions	Marks	Percentage
1	**Remembering and Understanding :** Exhibit memory of previously learned material by recalling facts, terms, basic concepts and answers. Demonstrate understanding of facts and ideas by organizing, comparing, translating, interpreting, giving descriptions, and stating main ideas.	44	55%
2	**Applying :** Solve problems to new situations by applying acquired knowledge, facts, techniques and rules in a different way.	19	23.75%
3	**Analysing, Evaluating and Creating :** Examine and break information into parts by identifying motives or causes. Make inferences and find evidence to support generalizations. Present and defend opinions by making judgments about information, validity of ideas, or quality of work based on a set of criteria. Compile information together in a different way by combining elements in a new pattern or proposing alternative solutions.	17	21.25%
	TOTAL	**80**	**100%**

*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: *Th 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.*

ACCOUNTANCY CLASS - XI
2021-22
Unit-wise Weightage

Time: 3 Hours **80 Marks**

Units		Marks
	Part A: Financial Accounting-I	
1 2	Theoretical Framework Accounting Process	12 40 52
	Part B: Financial Accounting-II	
3 4	Financial Statements of Sole Proprietorship: from Complete and Incomplete Record Computers in Accounting	20 08 28
	Part C: Project Work	
	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
	TOTAL		**32**	**80**

CONTENT

CHAPTER - 1
INTRODUCTION TO ACCOUNTING

Learning Objectives

After studying this chapter, student will be able to

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

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

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

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

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

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

Objectives of accounting

1. **Maintaining Accounting Records:** To keep systematic and complete record of business transaction in the books of accounts according to specified principles and rules to avoid the possibility of omissions and fraud.
2. **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 various parties:** To provide useful accounting information to users like owners, investors, creditors, banks, employees and government authorities etc who analyse them as per their requirements.
5. **Facilitates Management:** To provide financial information to the management which help in decision making, budgeting and forecasting.

Advantages of accounting

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

Limitations of accounting

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

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

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

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

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

Book keeping– the basis of accounting

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

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

No.	Basis	Basis	Accounting
1.	Scope	Book-keeping includes the process of : (i) Identifying the transactions of financial nature	Accounting includes all the processes of book-keeping and the following: (i) Summarising the classified transactions i.e. preparation of financial statements (Trading and Profit & Loss Account, Balance sheet)

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

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.

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

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

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

- **Role of Accounting in Business**

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

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

BASIC ACCOUNTING TERMS

1. **Business transaction**

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

2. **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.

3. **Drawings**

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

4. **Liabilities:**

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

   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.

5. **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 operations. For example: land, building, machinery etc. They are further classified into:

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

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

6. Expenses

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

7. Expenditure

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

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

(ii) **Capital expenditure:**

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

8. Income

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

9. Profit

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

Profit = Revenue – Expenses

10. 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.

11. Loss

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

Loss = Expenses – Revenue

12. 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.

13. 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.

14. Purchase return

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

15. Sales

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

16. Sales Return

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

17. Stock

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

18. 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.

19. 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.

20. 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.

21. 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.

Questions

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

(i) Transfer of General Manager.

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

(iii) Quarrel between factory workers.

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

(v) Credit purchase of goods.

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

Q2. True or False

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

(ii) Book keeping is maintained by professional only.

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

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

(v) Employees are internal users of accounting information.

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

Q3. Fill in the blanks:

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

(ii) Scope of accountancy is wider than ______.

(iii) Accounting begins where ________ ends.

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

Ans. (i) Balance sheet (ii) Book-keeping, accounting

(iii) Book-keeping (iv) Junior

Q4. Arrange the following terms in chronological order :

(i) Summarising (ii) Analysis and interpretation

(iii) Recording (iv) Classifying

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

Q.5. Match the items of column A with appropriate items of coloumn B:

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

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

Q6. What do you mean by Accounting?

Q7. Give any two objectives of Accounting.

Q8. State any two limitations of Accounting.

Q9. Explain any two Qualitative characteristics of Accounting Information.

Q10. Explain the Accounting cycle with the help of diagram.

CHAPTER - 2

THEORY BASE OF ACCOUNTING

Learning Objectives

After studying this chapter, student will be able to:

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

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

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

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

Fundamental accounting assumptions

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

   Relevance:

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

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

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

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

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

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

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

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

   It is immaterial, whether the cash is receive or paid at the time of transaction or later date e.g., if a credit sale (credit for two months) for ₹15,000 is made on 15th Feb .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, than 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, transaction are expressed in a common unit of measurement-money, which is not stable.

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

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

   Relevance:

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

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

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

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

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

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

e.g., footnotes such as:

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

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

If the knowledge of any 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 ₹50,000 is immaterial for an enterprise having turnover of ₹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 ₹1,50,000 in cash and ₹20,000 was spent on installation of machine then ₹1,70,000 be recorded as cost of machine in the books and depreciation will be charged on this cost. If market value of machine due to inflation has gone upto ₹2,00,000 then the increased value will not be recorded. This cost is systematically reduced from year after year by charging depreciation and the assets are shown in the balance sheet at book value (cost –depreciation).

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

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

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

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

3) Accounting of closing stock.

4) Depreciation charged on fixed assets.

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

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

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

Assets = liabilities + capital

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

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

10. Revenue Recognition Concept: According to this concept, revenue is considered as realized when 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 .

11. Objectivity principle: This states that only factual, verifiable data may be used in books, never a subjective measurement of values.

Relevance: Data is based on facts and free from bias.

BASIS OF ACCOUNTING

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

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

Entry is not recorded when a payment or receipts is merely due i.e., outstanding expenses, accrued income are not treated.

This method is contrary to the matching principle.

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

Under this system, expenses such as outstanding expenses, 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 in ascertained correctly due to complete record of transactions.	Correct profit/loss is not ascertained because it records only cash transactions
Distinction between capital and revenue	This method makes a distinction between capital and revenue items.	This method does not make distinction between capital and revenue nature items
Legal position	The basis is recognized under the Companies Act.	This basis is not recognized under the Companies Act.

Accounting standards: Concept and objectives

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

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

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

Concept of Accounting Standards

Accounting Standard are 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 realiability of the financial statement: Accounts prepared by using accounting standards are reliable for various users, because these standards create a sense of confidence among the users .

3. To prevent frauds and manipulation by codifying the accounting methods and practices.
4. To help Auditors: Accounting Standards provide uniformity in accounting practices, so it helps auditors to audit the books of accounts.

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 statement are produced under IFRS:

1. Statement of financial position: The element of this statement are

   (a) Assets (b) liability © 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 bases 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 Maharastra 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.

Input IGST paid	**Input CGST paid**	**Input SGST paid**
↓	↓	↓
Set off against Output IGST Output CGST Output SGST	Set off against Output IGST Output IGST Output IGST	Set off against Output IGST Output IGST Output IGST

QUESTIONS

1. Which of the following is not on external user of accounting information?

   (a) Creditors (b) Lenders
   (c) Management (d) Bank

2. 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. Transaction, are recorded, analyzed and financial statement are prepared from business point of view and not of the owner

   (a) Accrual assumption (b) Consistency assumption
   (c) Accounting Period Principle (d) Business entity

Ans. (1) (c) (2) (c) (3) (a) (4) (b)
(5) (b) (6) (a) (7) (d)

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

Ans. Accrual basis of accounting.

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

Ans. Conservatism/Prudence

11. State whether the following statements one True or False

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

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

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

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

    (v) Every transaction has two aspects.

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

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

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

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

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

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

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

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

(iii) Full Disclosure Principle (iv) Materiality Principle

(v) Matching Principle

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 as a business are also equal to the total of its liabilities (Borrowing from outsides) 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 fo capital and liabilities are equal to assets.

ANALYSIS OF BUSINESS TRANSACTIONS

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

1. Transaction affecting both sides of the equation:

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

Effect

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

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

B. Bought goods from Ram ₹ 30,000

Effect

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

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

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

Effect

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

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

D. Paid to creditors ₹ 20,000

Effect

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

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

- **Transaction related to Expenses**

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

E. Rent paid ₹ 5,000

Effect

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

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

- **Transaction related to Income**

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

F. Commission received ₹ 8,000

Effect

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

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

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

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

A. Accrued Interest ₹ 10,000

Effect

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

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

- **Transaction related Advance Income**

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

B. Rent received in advanced ₹ 5,000

Effect

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

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

2. Transaction affecting one side of the equation:

(I) Transaction affecting Assets side of the equation:

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

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

A. Prepaid insurance paid ₹ 4,000

Effect

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

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

B. Purchased Machinery for Cash ₹ 80,000

Effect

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

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

(II) Transaction affecting Liability side of the equation:

- **Transaction related to outstanding Expense**

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

A. Salary outstanding ₹ 8,000

Effect

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

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

- **Transaction related to Interest on Capital**

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

B. Interest on Capital ₹10,000

Effect

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

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

- **Transaction related to interest on Drawing**

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

C. Interest on Drawing ₹1,000

Effect

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

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

- **Transaction related to Drawing**

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

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

Effect

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

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

Illustration : 1

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

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

Solution : Accounting Equation

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

Some Important Transactions

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

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

RULES OF DEBIT & CREDIT

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

Approaches for the rules of Debit & Credit

A. Traditional Approach

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

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

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

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

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

B. Rules of Debit/Credit under Traditional Approach

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

Illustration : 2

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

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

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

Solution : Analysis of Transactions

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

Rules of Debit/Credit under Modern Approach.

Modern Rules of Debit and Credit

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

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

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

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

Illustration : 3

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

Solution : Analysis of Transactions

S. N.	Transactions	Accounts Effected	Nature Of A/C	Rules	Debit (₹)	Credit (₹)
1	Commenced Business	Cash	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
1 0	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 Credit Vouchers	To show Cash Payment To show Cash Receipt
Non Cash Voucher	Transfer Voucher	To show Transactions not involving cash

CASH VOUCHERS

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

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

<table>
<tr><td rowspan="4">Received Rs.</td><td colspan="2">Mis Pratibha Furnitures
180. Nai Sarak. Delhi</td></tr>
<tr><td colspan="2">Voucher No .... Date ....</td></tr>
<tr><td>DEBIT ....</td><td>Amount (In ₹)</td></tr>
<tr><td>Total</td><td></td></tr>
<tr><td rowspan="2">Affix Revenue Stamp</td><td colspan="2"></td></tr>
<tr><td>Signature Manager</td><td>Signature Accountant</td></tr>
</table>

Illustration : 4

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

Aug. 1, 2021 Salary paid for the Month of July 2021 vide salary sheet No. 7 ₹ 15,000

<table>
<tr><td rowspan="4">Received Rs.</td><td colspan="2">M/s XYZ Traders
10, Patel Nagar, New Delhi</td></tr>
<tr><td>Voucher No. : 215</td><td>Date : -01/08/2021</td></tr>
<tr><td>DEBIT :- Salary A/C
(Being salary paid for July 2021
vide salary sheet No. - 7</td><td>Amount (In ₹)
15,000</td></tr>
<tr><td>Total</td><td>15,000</td></tr>
<tr><td rowspan="2">Affix Revenue Stamp</td><td colspan="2"></td></tr>
<tr><td>Signature Manager</td><td>Signature Accountant</td></tr>
</table>

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

<table>
<tr><td colspan="2">M/s Pratibha Furnitures
180, Nai Sarak, Delhi</td></tr>
<tr><td>Voucher No ....</td><td>Date..........................</td></tr>
<tr><td>Credit ....
....</td><td>Amount (In ₹)</td></tr>
<tr><td>Total</td><td></td></tr>
<tr><td>Signature Manager</td><td>Signature Accountant</td></tr>
</table>

Illustration: 5.

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

Oct. 5, 2021 Sold goods for cash vide cash memo no. 401 ₹ 16,600

Credit Voucher

Shyam Traders 156, Subhash Nagar, New Delhi	
Voucher No : 520	Date :- 05/10/2021
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. 2021 Sold goods to Ram Traders vide Invoice/Bill no. 120 ₹ 24.000

Shyam traders 156, Subhash Nagar, New Delhi	
Voucher No.:- **102**	Date:- 15/02/2021
DEBIT:- Ram Traders	Amount (₹)
	24,000
Total	24.000
CREDIT:- Sales A/C (Being Cash Sales vide (Invoice/Bill no.-120)	Amount (₹)
	24,000
Total	24.000
Signature Manager	Signature Accountant

JOURNAL

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

FORMAT OF JOURNAL

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

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

TYPES OF ENTRIES

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

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

JOURNAL

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

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

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

Example : A business firm pays rent ₹2,000; salaries ₹1,500; freight ₹ 500 on 1 Jan. 2021, the single compound entry is

JOURNAL

Date	Particulars		L.F.	Amount (₹) Dr.	Amount (₹) Cr.
2021	Rent A/C	Dr.		2,000	
Jan 1	Salaries A/C	Dr.		1.500	
	Freight A/C	Dr.		500	
	To Cash A/C				4000
	(Being Rent, Salary & freight Paid Cash)				

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

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

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

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

Example : The various balances of XYZ ltd on 1st April 2021 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.
2021 April 1	Cash A/C	Dr.		20,000	
	Furniture A/C	Dr.		50.000	
	Building NC	Dr.		1,00,000	
	Debtors A/C	Dr.		30,000	
	To Creditors A/C				50,000
	To Bank Loan A/C				25,000
	To Capital A/C				1,25,000
	(Being recording of the opening balances of Assets, Liabilities and Capital)				

Transaction related to Goods

1. Goods purchased for cash

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

2. Goods purchased from Ram on credit

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

3. Goods sold for cash

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

4. Goods sold on credit to Mohan

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

5. Withdrawal of goods by owner for personal use.

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

6. Goods distributed as free samples

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

7. Goods given as charity

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

8. Goods lost by fire/flood/ theft etc.

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

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

Transaction related to Bank

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

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

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

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

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

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

Illustration 7 : Pass necessary Journal entries relating to Mr. X for the month of January 2021.

2021

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.
2021	Cash A/c	Dr.		20,000	
Jan-01	Furniture A/c	Dr.		4,000	
	To capital A/c				24,000
	(Being business started with cash and furniture).				
	Furniture & Fitting A/C	Dr.		4,000	
Jan-01	Car A/C	Dr.		6,000	
	To Cash A/c				10,000
	(Being Purchase of Fitting & Car.)				
	Bank A/C	Dr.		8,000	
Jan-02	To Cash A/C				8,000
	(Being cash paid into Bank)				
	Rent A/C	Dr.		2,000	
Jan-03	To Bank A/C				2,000
	(Being rent paid by cheque)				
	Purchase A/C	Dr.		5,000	
Jan-10	To Mr. Khatana				5,000
	(Being goods purchased on Credit from Mr. Khatana)				
	Cash A/C	Dr.		10,000	
Jan-12	To Sales A/C				10,000
	(Being goods sold for cash)				
	Commission A/C	Dr.		200	
Jan-15	Wages A/C	Dr.		500	700
	To Cash				
	(Being wages & Commission paid by cash)				
	Shaym	Dr.		15,000	
Jan-20	To Sales A/C				15,000
	(Being goods to Shyam on credit)				

Date	Particulars		L.F.	Amount (₹) Dr.	Amount (₹) Cr.
2021	Bank Charges A/C	Dr.		500	
Jan-20	To Bank A/C				500
	(Being bank charges debited from bank A/C)				
	Drawing A/C	Dr.		5,000	
Jan-21	To Cash A/C				5,000
	(Being cash withdrew for personal use)				
	Purchase A/C	Dr.		14,000	
Jan-23	To cash A/C				14,000
	(Being goods purchased by cash)				
	Mr. Khatana	Dr.		5,000	
Jan-25	To Cash A/C				4,800
	To Discount Received A/C				200
	(Being cash paid to Mr. Khatana in full Sett.)				
	Cash A/C	Dr.		14,500	
Jan-28	Discount allowed A/C	Dr.		500	
	To Shyam				15,000
	(Being cash received from Shyam in full sett.)				
	Salary A/C	Dr.		5,000	
Jan-31	To Outstanding Salary A/C				5,000
	(Being salary due but not paid)				
	Prepaid Insurance A/C	Dr.		11,000	
	Insurance A/C	Dr.		1,000	
Jan-31	To Cash A/C				12,000
	(Being insurance paid for the whole year)				

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

Goods and Services tax (GST)

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

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

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

Characteristics of GST

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

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

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

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

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

Objectives of Goods and Services Tax

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

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

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

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

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

Types of Taxes Under GST

GST is levied under following three types

(1) Central GST (CGST)

(2) State GST (SGST)

(3) Integrated GST (IGST)

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

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

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

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

Input IGST paid	Input CGST paid	Input SGST paid
↓	↓	↓
Set off against Output IGST Output CGST Output SGST	**Set off against** Output CGST Output IGST	**Set off against** Output SGST Output IGST

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.

Output CGST	A/c	Dr.
Output SGST	A/c	Dr.
Output IGST	A/c	Dr.
To Bank	A/c	

Illustration on Setting of GST

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

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

JOURNAL

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

Illustration on Setting of GST

Illustration : 9 Journalise the following entries.

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

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

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

JOURNAL

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

Illustration based on GST and setting off GST

Illustration : 10

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

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

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

JOURNAL

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

Illustration based on GST and setting off GST

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

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

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

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

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

JOURNAL

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

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

BOOKS OF ORIGINAL 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:

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

Advantages of Maintaining Subsidiary Books

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

Cash Book : Cash book shows all the 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 12:

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

Date	*Transactions*	₹	*Date*	*Transactions*	₹
2021			*2021*		
Jan. 1	*Cash in Hand*	*12,000*	*Jan. 5*	*Received from Ram*	*3,000*
Jan. 7	*Paid rent*	*300*	*Jan. 8*	*Sold goods*	*3,000*
Jan. 10	*Paid to Shyam*	*7,000*	*Jan. 15*	*Purchased goods from Mohan*	*5,000*
Jan. 27	*Purchased furniture*	*2,000*	*Jan. 31*	*Paid Salaries*	*1,000*

Cash Book (Single Column)

Debit					**Credit**				
Date	*Particular*	*V.No*	*L.F.*	₹	*Date*	*Particular*	*V.No.*	*L.F.*	₹
2021					*2021*				
Jan. 01	*To Balance B/d*			*12,000*	*Jan. 07*	*By Rent A/C*			*300*
Jan. 05	*To Ram*			*3,000*	*Jan. 10*	*By Shyam*			*7,000*
Jan. 08	*To Sales A/C*			*3,000*	*Jan. 27*	*By Furniture A/C*			*2,000*
					Jan. 31	*By Salaries A/C*			*1,000*
					Jan. 31	*By Balacne C/d*			*7,700*
				18,000					*18,000*
Feb. 1	*To Balance b/d*			*7,700*					

Notes : One can draw the following conclusions:

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

Illustration 13 :

Enter the following transactions in the cash book for the month of April 2021.

April 1 Cash in hand ₹50,000

April 11 Cash Sales ₹25,000

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

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

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

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

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

April 27 Deposited into bank ₹ 5,000.

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

Cash Book

Debit					Credit				
Date	Particular	V.No.	L.F.	Amount ₹	Date	Particular	V.No.	L.F.	Amount ₹
2021					2021				
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. cjd			49,700
				94,500					94,500
Feb. I	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 / Paid into bank :** It will increase bank balance, so bank column is debited and cash balance will decrease, so cash column is credited.

Cash Book (with Cash & Bank Column)

Debit						Credit					
Date	Particulars	V.N.	L.F.	Cash ₹	Bank ₹	Date	Particulars	V.N.	L.F.	Cash ₹	Bank ₹
2021 April 01	To Cash A/C		C		1,000	2021 April 01	By Bank A/C		C	1000	

(b) **Withdrawn from bank for office use ₹1,000 / Chased a cheque :** It will increase cash balance, so cash column is debited and bank balance will decrease, so bank column is credited.

Cash Book (with Cash & Bank Column)

Debit						Credit					
Date	Particulars	V.N.	L.F.	Cash ₹	Bank ₹	Date	Particulars	V.N.	L.F.	Cash ₹	Bank ₹
2021 April 01	To Bank A/C		C		1,000	2021 April 01	By Cash A/C		C	1000	

(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 receive in the form of cheque on one day & its 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 it to be recorded at the time of receiving the cheque. Entry is to made when cheque deposited in the bank, as bank column is debited.

Illustration 14 :

Record the following transactions in the cash book with cash and Bank columns. (Year : 2021)

Jan.1 Cash balance ₹10,000 & Bank balance ₹7,000.

Jan.2 Cash received from sale of furniture ₹8,000 & paid into Bank ₹5,000.

Jan. 5 Paid to Mr. Kasana by cheque ₹2,000, who allowed discount of ₹50.

Jan.10 Received cheque from Mr. Nagar for ₹2,400 and allowed him discount of ₹100.

Jan.15 Paid wages by cash ₹500 and salaries by cheque ₹1,000.

Jan.20 Deposited Mr. Nagar cheque into Bank.

Jan.22 Drawn from Bank for office use ₹2,000.

Jan.25 Withdraw cash ₹1,000 and from bank ₹500 for personal use.

Jan.30 Received cheque from Mr. Lohiya for ₹2,500 and paid into Bank.

Cash Book (with Cash & Bank Column)

Debit						Credit					
Date	Particulars	V.N.	L.F.	Cash ₹	Bank ₹	Date	Particulars	V.N.	L.F.	Cash ₹	Bank ₹
2021 Jan 1	To Bal B/d			10000	7000	2021 Jan 2	By Bank A/C		C	5000	
Jan 2	To Furniture			8000		Jan 5	By Mr. Kasana				2000
Jan 2	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	Jan 31	By Bal. c/d			11500	13400
Feb 1	To Bal B/d			11500	13400					18000	18900

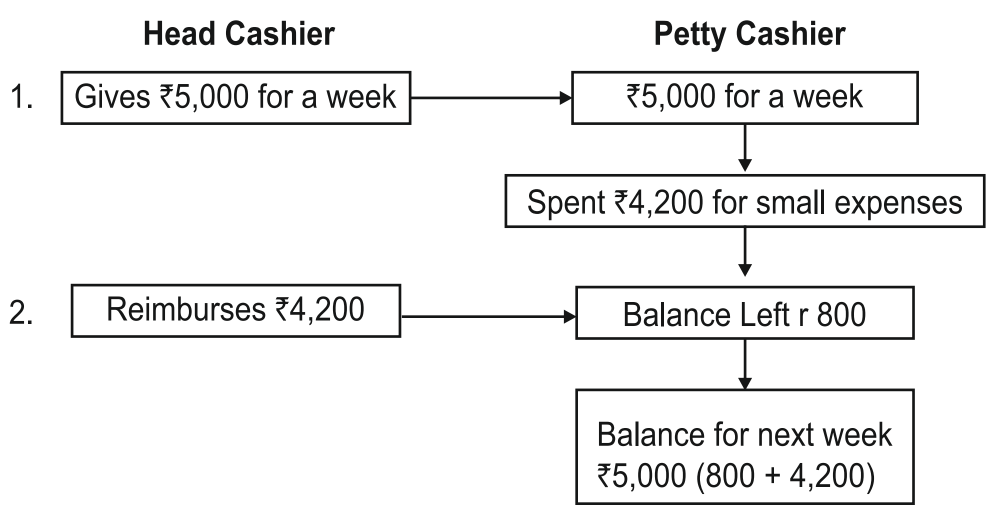
Petty Cash Book

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 : 15

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

2021		**Amt. (₹)**
Jan. 1	Receive cash from Head cashier	1000.00
Jan. 2	Bought stationery	80.00
Jan. 3	Paid for registered post	120.00
Jan. 4	Bought Pen/Pencils for office use	90.00
Jan. 4	Paid for Speed Post	50.00
Jan. 5	Paid for refreshment	250.00
Jan. 6	Bought postal stamps	40.00

Solution :

Petty Cash Book

Receipts	*Date*	*Particular*	*V. No.*	*Total Expense*	*Stationary*	*Postage*	*Sundries*
	2021						
1000	*Jan. 1*	*To Cash*					
	Jan. 2	*By Stationery*		*80*	*80*		
	Jan. 3	*By Postage*		*120*		*120*	
	Jan. 4	*By Stationery*		*90*	*90*		
	Jan. 4	*By Speed Post*		*50*		*50*	
	Jan. 5	*By Refreshment*		*250*			*250*
	Jan. 6	*By Postage*		*40*		*40*	
	Total Jan. 7			*630*	*170*	*210*	*250*
	Jan. 7	*By Bal. c/d*		*370*			
370	*Jan. 8*	*To Bal. b/d*					
630	*Jan. 8*	*To Cash A/C*					

Cash Book Involving GST

Illustration : 16

Prepare Single Column Cash Book for the month of June 2021, from the following transactions.

2021			₹
June	1	Cash in hand	17,500
June	4	Cash sales, including CGST and SGST @ 6% each	1,72,480
June	5	Deposited Cash into Bank	1,40,000
June	5	paid Cheque to a Creditor ₹34,930 after deducting Cash Discount of ₹2,170	
June	6	Salary paid in cash	15,750
June	6	Cash Sales of ₹1,26,000 plus CGST and SGST @ 6% each. Out of which ₹1,40,000 was deposited in Bank on June 9.	
June	11	Paid Cash ₹3,150 plus CGST and SGST @ 6% each to Delhi Transco Ltd. against their Bill No. 186.	
June	22	Paid Cash for Office Lighting repair Deposited CGST and SGST @6% each on above	1,400
June	23	Purchased Goods on Credit from Varun & Co. ₹10,500 plus IGST @ 12%	
June	25	paid Cash to Tarun, a creditor, after deducting discount ₹350.	6,650
June	27	Paid Telephone Bill in Cash	6,300
June	30	Cash Collected from Naman (Debtor) ₹31,500 after allowing discount of ₹1,750.	

Cash Book (Single Column)

Date	Particulars	L.F.	₹	Date	Particulars	L.F.	₹
2021 June 1	To Balance b/d		17,500	2021 June 5	By Bank A/c		1,40,000
June 4	To sales A/c		1,54,000	June 6	By Salary A/c		15,750
June 4	To Output CGST A/c		9,240	June 8	By Bank A/c		1,40,000
June 4	To Output SGST A/c		9,240	June 11	By Freight A/c		3,150
June 6	To Sales A/c		1,26,000		By Input CGST A/c		189
June 6	To Output CGST A/c		7,560		By Input SGST A/c		189
June 6	To Output SGST A/c		7,560	June 22	By Office Expenses A/c		1,400
June 30	To Naman		31,500	June 22	By Input CGST A/c		84
				June 22	By Input SGST A/c		84
				June 26	By Tarun		6,650
				June 27	By Telephone Exp. A/c		6,300
				June 30	By Balance c/d		48,804
			3,62,500				**3,62,500**
July 1	To Balance b/d		48,804				

Double Column Cash Book Question

Illustration : 17

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

2021		
June	1	Cash in Hand ₹ 1,440, Overdraft at bank ₹ 18,000
June	4	Capital introduced ₹ 24,000 out of which ₹ 19,200 is by cheque and is deposited in the bank.
June	5	Purchased goods from Tanu Traders, Jaipur for ₹ 3,600 CGST and SGST @ 6% each and they allowed trade discount ₹ 240. The amount was paid by cheque.
June	5	Good purchased for cash ₹ 4,800 plus CGST and SGST @ 6% each.
June	6	Sold good to Naresh on credit ₹ 6,000 plus CGST and SGST @ 6% each.

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

TWO COLUMN CASH BOOK

Dr. **Cr.**

Date	Particulars	L.F.	Cash ₹	Bank ₹	Date ₹	Peculators	L.F.	Cash ₹	Bank ₹
2021 June 1	To balance b/d		1,440	...	2021 June 1	By Balance b/d		...	18,000
June 4	To Capital A/c		4,800	19,200	June 5	By Purchases A/c		...	3,360
June 11	To Cheque in Hand A/c		...	2,940	June 5	By Input CGST A/c		...	202
June 13	To Naresh		5,700	...	June 5	By Input SGST A/c		...	202
June 17	To Bad Debts		...	...	June 5	By Purchases A/c		4,800	...
	Recovered A/c		1,200	...					
June 18	To Navjot		240	...	June 5	By input CGST A/c		288	...
June 21	To Furniture A/c		840	...	June 5	By Input SGST A/c		288	...
June 21	To Output CGST A/c		51	...	June 12	by Uday & co..		816	...
June 21	To Output SGST A/c		51	...	June 26	by cash A/c	C	...	3,600
June 26	To Bank A/c	C	3,600	...	June 26	By Drawings A/c		...	1,800
June 29	To Trupti		288	...	June 29	By Bank A/c	C	3,000	...
June 29	To Loan to Sunny A/c		3,600	...	June 30	By Interest A/c		...	450
June 29	To Cash A/c	C	...	3,000	June 30	By Bank A/c	C	10,218	...
June 30	To Cash A/c	C	...	10,218	June 30	By Balance c/d		2,400	7,744
				21,810	**35,358**			**21,810**	**35,358**
July 1	To Balance b/d		2,400	7,744					

Notes:

Cash in hand before retaining ₹2400

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

= 12618

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

SPECIAL PURPOSE SUBSIDIARY BOOKS

Purchase Book

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

Transactions not recorded in purchases Book

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

Illustration : 18

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

2021

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

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*
2021	*Agarwal Book House*		*205*			
Aug. 1	*25 Dozen Pencils @ Rs. 30 per dozen*				*750*	
	20 Dozen Ball pens @ Rs. 10 per pen				*2400*	
					3150	
	Less:-Trade discount@ 10%				*315*	*2835*

SALES BOOK

Date	Particular	Inv. No.	LF	Details	Amount
Aug. 8	<u>Shivani Bros.</u> 30 Registers @ ₹50 each 50 Note Books @ ₹20 each	626		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 : 19

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

2021

Jul.7 Sold to Anil furniture house (Invoice No. 107)
200 Tables @ ₹150 each
100 Chairs @ ₹100 each
Trade discount @ 10%

Jul.8 Sold Air Conditioner to Ram ₹12,000

Jul.20 Sold to Rama Furnitures (Cash Memo No. 3001)
10 Beds @ ₹ 2,500 each

Jul.29 Sold to Jitesh Woods (Invoice No. 506)
10 Dressing Tables @ ₹1,700 each
5 tables @ ₹500 each.
Trade Discount @ 10%

Solution :

In the books of M/s Subhash Furniture

Date	Particular	Inv. No	LF.	Details	Amount
2021	<u>Anil Furniture House</u>	107			
Jul-07	200 Tables @ ₹150 each			30.000	
	100 Chairs @ ₹100 each			10,000	
				40.000	
	Less:-Trade discount@ 10%			4,000	36.000
Jul-29	<u>Jitesh Woods</u>	506			
	10 Dressing tables @ ₹ 1.700 each			17,000	
	5 tables @ ₹ 500 each			2,500	
				19,500	
	Less:-Trade discount@ 10%			1950	17,550
Jul-31	Sales A/c Cr.				53,550

Note:-

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

PURCHASES RETURNS / RETURNS OUTWARD BOOK

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

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

Illustration : 20

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

2021

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

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

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

PURCHASE RETURNS BOOK

Date	Particular	Dr. Note	LF.	Details	Amount ₹
2021 Aug-5	Aggarwal Book House 5 Dozen Pencils @ ₹30 per dozen Less : Trade Discount @ 10%	105		150 15	135
Aug-10	Shivani Bros. 5 Registers @ ₹50 each	106		250	250
Aug-31	Purchase Returns A/c Cr.				385

SALES RETURNS BOOK

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

Illustration : 21

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

2021	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 ₹
2021 Jul-07	Anil Furniture House 5 Table @ ₹150 each 10 Chairs @ ₹100 each Less:-Trade discount @ 10%	209		750 1,000 1,750 175	1,575
Jul-29	Jitesh Woods I Dressing tables @ ₹1,700 each Less:-Trade discount @ 10%	210		1,700 170	1,530
Jul-31	Sales Returns A/c Dr.				3,105

Illustration : 22

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

2021

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

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

12 April Returned 6 dozen registers to Arora Book Depot.

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

Solution :-

PURCHASE BOOK

Date	Particulars	Invoice	Details	Input Cost	Input CGST	Input SGST	IGST	Total
2021								
April-1	Pareek Bros. Delhi							
	10 reams of paper @ ₹600 per ream		6000					
	12 registers @ ₹1000 per dozen		1000					
			7000					
	Less : Trade Discount @ 10%		700					
			6300					
	Add:							
	CGST @ 6%		378					
	SGST @ 6%		378					
			7056	6300	378	378	-	7056

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

PURCHASE RETURN BOOK

Date	Particulars	Debit Note No.	L F	Details	Cost	Input SGST	Input SGST	Input IGST	Total
2021									
April-12	Arora Book Depot								
	6 dozen registers @ ₹500 per dozen			3000					
	Less: Trade discount @ 10%			300					
				2700					
	Add: CGST @ 6%			162					
	SGST @ 6%			162					
				3024	2700	162	162	-	3024
April-15	Pareek Bros., Delhi								
	5 reams of papers @ ₹ 600 per ream			3000					
	Less: Trade Discount @ 10%			300					
				2700					
	Add: CGST @ 6%			162					
	SGST @ 6%			162					
April-30				3024	2700	162	162	-	3024
	Total				5400	324	324	-	6048

Illustration : 23

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

2021

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

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

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

Solution :-

M/s Virender & Co., Lucknow

SALES BOOK

Date	Particulars	Invoice No.	L F	Details	Sales Values	Output SGST	Output SGST	Output IGST	Total
2021									
Feb. 1	Anil Furniture House, Jabalpur	108							
	200 Tables @ ₹ 150 each			30,000					
	100 chairs @ ₹ 100 each			10,000					
				40,000					
	Less: Trade Discount 10%			4,000					
				36,000					
	Add: IGST 18%			6,480					
				42,480	36,000			6,480	42,430

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

Illustration : 24

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

2021

Feb. 4 Returned by Anil Furniture House, Jabalpur.

(Credit Note No. 215)

5 tables @ ₹150 each.

10 chairs @ ₹100 each

Trade Discount 10%

IGST is charge @ 18%

Feb. 9 Returned by Jitesh Furniture, Lucknow

(Credit Note No. 217)

1 dressing table @ ₹1700 each

Trade Discount 10%

CGST and SGST @ 9% each.

Solution :-

Books of M/s Virender & Co., Lucknow

SALES RETURN BOOK

Date	Particulars	Credit Note No.	L F	Details	Value	Output SGST (Dr.)	Output SGST (Dr.)	Output IGST	Total
2021									
Feb. 4	*Anil Furniture House Jabalpur*								
	5 Tables @ ₹ 150 each			750					
	10 Chairs @ ₹ 100 each			1000					
				1750					
	Less: Trade Discount 10%			175					
				1575					
	Add. IGST 18%			284					
				1859	*1575*			*284*	*1859*
Feb. 9	*Jitesh Furniture, Lucknow*								
	1 Drawing table @ ₹ 11700 each			1700					
	Less: Trade Discount 100%			170					
				1530					
	Add: CGST 9%			138					
	SGST 9%			138					
				1806	***1530***	***138***	***138***	***-***	***1806***
					3105	***138***	***138***	***274***	***3665***

TEST YOUR LEARNING

Objective Type Questions :-

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

Choose the Correct Answer :-

2. Double column cash book records
   - (i) All Transactions
   - (ii) Cash and Bank Transactions
   - (iii) Only cash transactions
   - (iv) Only bank transactions

3. Voucher is prepared for:
   (i) Cash received and paid
   (ii) Cash/Credit sales
   (iii) Cash/Credit purchase
   (iv) All of the above
4. Voucher is prepared from:
   (i) Documentary evidence
   (ii) Journal entry
   (iii) Ledger account
   (iv) All of the above
5. Recording of transaction in the Journal is called:
   (i) Casting
   (ii) Posting
   (iii) Journalising
   (iv) Recording
6. The journal entry to record the sale of services on credit should include:
   (i) Debit to debtors and credit to capital.
   (ii) Debit to cash and Credit to debtors.
   (iii) Debit to fees income and Credit to debtors.
   (iv) Debit to debtors and Credit to fees income.
7. The journal entry to record purchase of equipment for ₹ 5,00,000 cash and a balance of ₹ 1,00,000 due in 30 days include:
   (i) Debit equipment for ₹ 5,00,000 and Credit cash ₹ 5,00,000.
   (ii) Debit equipment for ₹ 6,00,000 and Credit cash ₹ 5,00,000 and creditors ₹ 1,00,000.
   (iii) Debit equipment ₹ 5,00,000and Credit debtors ₹ 6,00,000.
   (iv) Debit equipment ₹ 6,00,000 and Credit cash ₹ 6,00,000.
8. Credit balance of bank account in cash book shows :
   (i) Overdraft
   (ii) Cash deposited in our bank
   (iii) Cash withdrawn from bank
   (iv) None of these

9. If a transaction is properly analysed and recorded:
   (i) Only two accounts will be used to record the transaction.
   (ii) One account will be used to record transaction.
   (iii) One account balance will increase and another will decrease.
   (iv) Total amount debited will equals total amount credited.
10. Journal entry to record paid salaries will include:
   (i) Debit salaries Credit cash.
   (ii) Debit capital Credit cash.
   (iii) Debit cash Credit salary.
   (iv) Debit salary Credit creditors.
11. Cash withdrawn by the Proprietor should be credited to:
   (i) Drawings account
   (ii) Capital account
   (iii) Profit and loss account
   (iv) Cash account
12. Find the correct statement:
   (i) Assets decrease in the Credit
   (ii) Expenses increase in the Credit
   (iii) Revenue increase in the Debit
   (iv) Capital increase in the Credit
13. The book in which all accounts are maintained is known as:
   (i) Cash Book
   (ii) Journal
   (iii) Purchases Book
   (iv) Ledger
14. Goods purchased on cash are recorded in the
   (i) Purchases (journal) book
   (ii) Sales (journal) book
   (iii) Cash book
   (iv) Purchases return (journal) book

CHAPTER - 4
BANK RECONCILIATION STATEMENT

Learning Objectives

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

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

Vocabulary / Important points

- Balance as per Cash Book $\rightarrow$ Positive Balance / Debit Balance
- Overdraft as per Cash Book $\rightarrow$ Negative Balance / Credit Balance
- Balance as per Pass Book $\rightarrow$ Positive Balance / Credit Balance
- Overdraft as per Pass Book $\rightarrow$ Negative Balance / Debit Balance

CASH BOOK		PASS BOOK	
DEBIT (+) (deposit)	CREDIT(-) (withdrawn)	DEBIT (-) (withdrawn)	CREDIT(+) (deposit)

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

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

Causes of Differences in Cash Book and Pass Book

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

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

(C) Others transactions errors.

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

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

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

(iii) Cheques deposited but dishonored.

(iv) Wrongly entered either debit or credit side.

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

(i) Interest allowed by the Bank

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

(iii) Direct deposit by the customers into Bank.

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

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

(C) OtherTransactions :-

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

(ii) Transactions recorded twice in Cash Book.

(iii) Transactions recorded twice in Pass Book.

(iv) Error of recording by wrong amount.

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

Need and importance

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

Procedure of Preparing Bank Reconciliation Statement (BRS)

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

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

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

(3) Unticked items will be the points of differences.

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

Points To Be Remember

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

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

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

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

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

Bank Reconciliation Statement as on ....

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

Note

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

READY REFERENCE

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

(1) Cheques issued but not yet presented.

(2) Credits made by the bank for Interest.

(3) Amount directly deposited by the customers in our bank A/c.

(4) Interest and dividend collected by the bank.

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

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

(1) Cheques sent to the bank for collection but not yet credited by the bank.

(2) Cheques paid into the bank but dishonoured.

(3) Direct payments made by the bank

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

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

Example 1 : Balance as per Cash Book is given

Prepare Bank Reconciliation statement as on 31st July 2021

(1) Debit balance as per Cash Book is ₹20,000 as on 31st Jul 2021.

(2) Cheques for ₹5000 were deposited into the Bank in the month of July but only Cheques for ₹1000 were credited by bank till 31st July 2021.

(3) Cheques issued for ₹33,000 in July, out of which a cheque for ₹13,800 was presented for payment on 3rd August, 2021.

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

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

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

Solution :

Bank Reconciliation Statement as on 31st July 2021

Explanation

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

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

Alternative:

Bank Reconciliation statement as on 31st July 2021

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

Example 2 : When overdraft as per Cash Book is given

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

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

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

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

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

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

Prepare Bank Reconciliations Statement for the month of June 2021.

Solution:

Bank Reconciliations Statement as on 30th June 2021

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

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

Alternative

Bank Reconciliations Statement as on 30th June 2021

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

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

Bank Reconciliations Statement ....

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

READY REFERENCE

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

(1) Cheques deposited into the bank but dishonoured.

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

(3) Direct Payments made by the bank.

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

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

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

(1) Cheques issued but not yet presented.

(2) Credits made by the bank for interest.

(3) Amount directly deposited by the customers into the Bank.

(4) Interest and dividend collected by the Bank.

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

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

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

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

Solution

Bank Reconciliation Statement as on 31th July 2021

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

Alternative:

Bank Reconciliations Statement as on 30th July 2021

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

Example 4 : When Overdraft as per Pass Book is Given

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

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

Solution:

Bank Reconciliations Statement as on 30th June 2021

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

Alternative:

Bank Reconciliation Statement as on 30th June 2021

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

❖ **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.S. 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. S.

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. 2020 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, 2020 of which those for ₹2,500 were collected in December. One cheque for ₹200 was returned dishonored on 2nd Jan. 2021.

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

(4) Cash collected, on 31st Dec. 2020 totaling ₹850 was entered in the Cash Book in the Bank column on the same date but banked on 2nd Jan. 2021.

(5) Mr. Sagar issued cheques totaling ₹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

Particulars	(+) Items (Rs.) Dr.	(-) Items (Rs.) Cr.
(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)	-	*600*
(3) Cash collected entered in the Cash Book but not banked.		*850*
(4) Cheques issued but not presented till date	*1.000*	-
Total	**5,680**	**1,450**
Balance as per Pass Book (5,680 – 1,450) Cr.	**4,230**	

Amended Cash Book (Bank Column only) as on 31st Dec. 2020

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.

EXERCISE

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

Bank Reconciliation Statement as on ....

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

2. Bank Reconciliation statement is prepared by

(a) Debtors of firm (b) Creditors of firm

(c) Account holder of bank (d) Bank

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

(a) Pass Book

(b) Cash book

(c) Neither cash book nor pass book

(d) Either cash book or pass book

4. Unfavorable bank balance means

(a) Credit balance in the cash book

(b) Credit balance in the pass book

(c) Debit balance in the cash book

(d) Favorable balance in the cash book

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(viii) Dividend collected by Bank ₹125.

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

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

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

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

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

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

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

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

(vii) Credit side of the Bank column of the Cash book was under casted by ₹1000. (**Answer:** Overdraft as per Pass Book ₹60,000)

8. From the following information Overdraft balance shown by the pass book of Mrs. Nidhi is ₹25,000.

Prepare Bank Reconciliation statement on December 31, 2020:

(i) Bank charges debited as per pass book ₹ 500.

(ii) Cheques recorded in the cash book but not sent to the bank for collection ₹ 7,000.

(iii) Received a payment directly from a customer ₹ 7,500.

(iv) Cheques issued but not presented for payment ₹ 6,840

(v) Interest debited byu the bank ₹ 380.

(vi) Cheques deposited into bank but not yet collected ₹ 4,750.

(vii) Interest on investment collected by the bank and credited in the pass book ₹ 700.

(viii) A bill receivable for ₹ 3,600 previously discounted with the bank had been dishonoured and debited in the pass book.

(**Answer:** Overdraft as per cash book ₹ 23810)

MULTIPLE CHOICE QUESTIONS

1. Statement that explains the causes of difference between cash-book and bank statement is called:

a) Bank statement

b) Financial statement

c) Income statement

d) Bank reconciliation statement

2. Bank reconciliation statement is prepared by:

a) Bank

b) Customer's accountant

c) Auditors

d) None of the above

3. Bank statement is issued by:

a) Bank

b) Auditors

c) Depositor / Customer

d) None of the above

4. Bank reconciliation statement is:

a) Part of Bank statement

b) Memorandum statement

c) Part of journal

d) Ledger account

5. Bank Reconciliation statement is prepared in the books of:

a) Bank

b) Guarantor

c) Depositor/ trader

d) None of the above

6. Cheques issued but not presented in the bank are called:

a) Un-presented cheques

b) Un-credited cheques

c) Un-collected cheques

d) Un-cleared cheques

7. The differences between the cash-book and bank pass-book is caused by:

a) Timing differences on recording of the transactions.

b) Errors made by the business

c) Errors made by the bank

d) All of the above

8. Debit Balance as per Cash book shows:

a) Bank withdrawls are more than deposits.

b) Bank withdrawls are less than deposits

c) Bank deposits are less than withdrawls.

d) All of the above

9. Which of the following is not a part of Double Entry System?

(A) Cash-book

(B) Journal

C) Trial balance

(D) Bank reconciliation statement

10. Which of the following transaction will result in higher balance in the bank column of cash-book in comparison to pass-book?

(A) Cheques issued but not presented for payment.

(B) Interest allowed by bank.

(C) Bank charges entered twice in each book.

(D) Cheques paid into bank for collection but not yet credited.

11. Cheques deposited but not collected will result in:

(A) Increasing the balance of pass-book when compared to cash-book.

(B) Increasing the balance of cash-book when compared to pass-book.

(C) Decrease the balance of pass-book when compared to cash-book.

(D) Both (B) and (c).

12. When cheques issued by the trader but not yet presented for payment will:

(A) Decrease the pass-book, and no affect on the cash-book.

(B) No affect on the pass-book, and decrease the cash-book.

(C) Both (A) and (B)

(D) None of the above.

CHAPTER 5
LEDGER AND TRIAL BALANCE

Learning Objectives

After studying this chapter Students will be able to tell:

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

THE LEDGER

After recording the business transactions in the Journal or special purpose. Subsidiary Books, the next step is to transfer the entries to the respective accounts in the Ledger.

Ledger is a book where all the transactions related to a particular account are collected at one place.

Meaning: The ledger is the principal book of the accounting system. It contains different accounts where transactions relating to that account are recorded. A ledger is the collection of all the accounts prepared using the journal proper and various special journals.

In short Ledger is a book where all the transactions related to a particular account are collected at one place.

UTILITIES OR IMPORTANCE OF THE LEDGER

- It provides complete information of a Particular Account during a period.
- It provides information of incomes and expenses during a particular accounting period.
- It provides information for the preparation of Trial Balance.
- It is helpful in preparing final accounts for a particular accounting period.

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

FORMAT FOR THE LEDGER

Dr. **Name of the Account** **Cr.**

Date	*Particulars*	*J.F.*	*Amount (₹)*	*Date*	*Particulars*	*J.F.*	*Amount (₹)*

Note:- Each ledger account is divided Into two equal parts.

Left Hand Side → Debit side (Dr.)

Right Hand Side → Credit side (Cr.)

J.F (Journal Folio) → Page or Folio number of Journal

Posting in the Ledger

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

Case I : Posting from Journal Entries

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

Important

- To' is written before the A/c which appear on the debit side of Ledger
- "By" is written before the A/c appearing on the credit side Ledger.
- **Use of these words To' and 'By' is optional.**
- An account cannot have the same name on any side of the account. Ex. Cash Account never contain "To Cash Account or By Cash Account".

Example 1: Posting of a transaction from Journal to ledger.

Transaction:- On 1st August 2021. goods are sold for cash ₹12,000.

Solution

Dr. **Journal Entry** Cr.

Date	Particulars	L.F.	(₹)	(₹)
2021 Aug.1	Cash A/c Dr. To Sales A/c (For cash sales)		12,000	 12,000

Ledge Account

Cash A/c (an extract)

Dr. Cr.

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
2021 Aug.1	To Sales A/c		12,000				

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

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
				2021 Aug.1	By Cash A/c		12,000

Example 2 : Compound Journal Entry

Received ₹14,000 in full settlement of a debt of ₹15,000 from Ram on Aug 8, 2021.

Solution

Dr. **Journal Entry** Cr.

Date	Particulars	L.F.	(₹)	(₹)
2021 Aug.8	Cash A/c Dr. Discount Allowed A/c Dr. To Ram's A/c (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.	(₹)
2021 Aug.8	To Ram		14,000				

Dr. **Discount Allowed Account** Cr.

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
2021 Aug.8	To Ram		1,000				

Ram's Account

Dr. Cr.

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
2021				2021 Aug.8	By Cash A/c By Discount A/c Allowed A/c		14,000 1,000

Case II : Ledger Postings from Cash Book Important Points

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

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

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

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

RULES OF POSTING

(a) Posting from the Debit Side of Cash Book

By Cash A/c $\rightarrow$ if it is from the Cash Column

By Bank A/c $\rightarrow$ if it is from the Bank Column.

(b) Posting from the Credit Side of Cash Book

To Cash A/c $\rightarrow$ if it is from the Cash Column

To Bank A/c $\rightarrow$ if it is from the Bank Column

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

Example 3 : Given some Cash Book entries Post them into ledger Accounts.

Double Column Cash Book

Dr. Cr.

Date	Particulars	L.F	Cash (₹)	Bank (₹)	Date	Particulars	L.F	Cash (₹)	Bank (₹)
2021					2021				
Jan 10	To Capital A/c		40,000	-	Jan. 12	By Purchases A/c		5,000	-
Jan 15	To Cash A/c	C	-	10,000	Jan. 15	By Bank A/c	C	10,000	-
Jan 22	To Sales A/c		3,000	-	Jan. 25	By Sumit		-	4,500
Jan 28	To Anil		-	2,900	Jan. 31	By Balance C/d		28,000	8,400
			43,000	12,900				43,000	12,900

Solution:

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

Capital Account

Dr. Cr.

Date	*Particulars*	*J.F.*	*Amount (₹)*	*Date*	*Particulars*	*J.F.*	*Amount (₹)*
				2021 Jan. 10	By Cash A/c		40,000

Sales Account

Dr. Cr.

Date	*Particulars*	*J.F.*	*Amount (₹)*	*Date*	*Particulars*	*J.F.*	*Amount (₹)*
2021				2021 Jan. 22	By Cash A/c		3,000

Anil's Account

Dr. Cr.

Date	*Particulars*	*J.F.*	*Amount (₹)*	*Date*	*Particulars*	*J.F.*	*Amount (₹)*
				2021 Jan. 28	By Bank A/c		2,900

Purchase Account

Dr. Cr.

Date	*Particulars*	*J.F.*	*Amount (₹)*	*Date*	*Particulars*	*J.F.*	*Amount (₹)*
2021 Jan. 12	To Cash A/c		5,000				

Sumit's Account

Dr. Cr.

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2021 Jan. 25	To Cash A/c		4,500				

Case III : Ledger posting from Purchases book

Journal Entry for Credit Purchases is

Purchases A/c Dr

To Supplier (Creditor)

Therefore the rules of posting from Purchases Book are.

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

Example 4 :

Purchases Book

Date	Particulars	Invoice No.	L.F.	Detail (₹)	Total Amount (₹)
2021 June 4	Sahil & Co.				10,000
June 14	Geeta Industries Less : Trade discount @20%			20,000 (4,000)	16,000
June 26	Vijay & Co. Less : Trade discount @20%			12,000 (2,400)	9,600
June 30	Purchases A/c Dr.				35,600

Solution :

LEDGER A/cs

Purchases Account

Dr. Cr.

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2021 Jun. 30	To Sundries as per Purchase Book		35,600				

Sahil & Co. (Supplier)

Dr. Cr.

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
				2021 June 4	By Purchase A/c		10,000

Geeta Industries (Supplier)

Dr. Cr.

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
				2021 June 14	By Purchase A/c		16,000

Vijay & Co. (Supplier)

Dr. Cr.

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
				2021 June 26	By Purchase A/c		9,600

CASE IV : **Ledger Posting from Sales Book**

Journal Entry for Credit sales is

Customer (Debtor) Dr.

To Sales A/c

Hence rules for posting from sales Book are

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

Case V : Ledger Posting from Purchase Return Book

Journal Entry for purchase Return is

Personal A/C of Supplier Dr.

To Purchase Returns A/c

Hence the **rules for posting** are

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

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

Sales Returns A/c Dr.

To Customer

Hence the Rules for Posting are

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

CLOSING AND BALANCING OF ACCOUNT

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

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

Important

1. **Debit Balance** of a Personal A/c means the person is a Debtor of the firm whereas Credit Balance of a Personal A/c indicates that the person is a Creditor of the firm.
2. **Real A/cs** (which include Cash and all other Assets A/cs) will usually show Debit Balances.
3. **Nominal A/cs** (A/cs of Income and Expenses) are closed by transferred to **Trading and Profit and Loss A/c of the firm** at the end of the Accounting Period.
4. **Debit Balance of any A/c means** an **Asset** or an **Expense** whereas **Credit Balance** means a **liability, Capital or Revenue.**

TRIAL BALANCE

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

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

PREPARATION : STEPS (ONLY BALANCE METHOD)

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

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

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

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

Note:- While preparing the trial balance from the given list of ledger balance, following rules should be taken into care:

1. The balances of all (i) assets accounts (ii) expenses accounts (iii) losses (iv) drawings (v) cash and bank balances are placed in the debit column of the trial balance.
2. The balances of all (i) liabilities accounts (ii) income accounts (iii) profits (iv) capital are placed in the credit column of the trial balance

Objectives or Functions of Trial Balance

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

Preparation of Trial Balance

A trial balance can be prepared the following three ways:

1. Totals Method
2. Balances Method
3. Totals-cum-Balances Method

1. **Totals Method**

   Under this method, total of each side in the ledger (debit and credit) is ascertained separately and shown in the trial balance in the respective columns. The total of debit column of trial balance should agree with the total of credit column in the that balance because the accounts are based on double entry system. However, this method is not widely used in practice, as it does not help in assuming accuracy of balances of various accounts and preparation of the financial statements.

2. **Balances Method**

   This is the most widely used method In practice. Under this method trial balance is prepared by showing the balances of all ledger accounts and then totalling up the debit and credit columns of the trial balance to assure their correctness. The account balances are used because the balance summarises the net effect of all transactions relating to an account and helps in preparing the financial statements. It may be noted that in trial balance, normally in place of balances in individual accounts, of the debtors, a figure of sundry debtors is shown, and In place of individual accounts of creditors, a figure of sundry creditors is shown.

3. **Totals-cum-balances Method**

   This method is a combination of totals method and balances method. In this method four columns for amount are prepared. Two columns for writing the debit and credit totals of various accounts and two columns for writing the debit and credit balances of these accounts. However, this method is also not used in practice because it is time consuming and hardly serves any additional or special purpose.

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

Question : Enter the following transactions in proper Subsidiary Books, post them into Ledger Accounts, balance the accounts and prepare a Trial Balance, 2021.

Jun.1	**Assets :** Cash in hand ₹ 50.000: **Debtors :** Amit and Co. ₹15,000, Sumit Bros, ₹ 30.000, Stock ₹ 1.75,000, Machinery ₹1,20,000, Furniture 40,000. **Liabilities :** Bank overdraft ₹ 33,000. Creditors : Virat and Co. ₹ 24,000, Vishal ₹ 16.000.
Jun. 2	Purchased from Ramesh and Sons goods of the list price of ₹ 20,000 at 10% trade discount.
Jun. 5.	Returned to Ramesh & Sons goods of the list price of ₹ 2,000.
Jun. 10	Issued a cheque to Ramesh and Sons in full settlement of their account.
Jun. 12	Sold to Amit and Co., goods worth ₹ 25,000.
Jun. 15	Received cash ₹ 10,000 and cheque for ₹ 8,000 from Amit and Co. The cheque was immediately deposited into the bank.
Jun. 16	Withdraw for personal use cash ₹ 5,000 and goods for ₹ 3,000.
Jun. 19	Sold to Mohit Bros., goods for ₹ 16,000.
Jun. 20	Cash purchases ₹ 15,000.
Jun. 22	Withdraw from bank for office use ₹ 10,000.
Jun. 23	Purchased from Vishal goods valued ₹ 24,000.
Jun. 24	Amit and Co. returned goods worth ₹ 2,000.
Jun. 25	Received from Mohit Bros. ₹ 10.000.
Jun. 27	Paid by cheque. Rent ₹ 2,800.
Jun. 27	Received Commission in Cash ₹ 800.
Jun. 30	Paid salaries ₹ 5,000.

Cash Book (with cash and Bank Columns)

Dr. Cr.

Date	Particulars (Receipts) Vr No	L.F	Cash	Bank	Date	Particulars (Payments) Vr. No	L.F	Cash	Bank
2021			(₹)	(₹)	2021			(₹)	(₹)
June 1	*To Balance b/d		50,000	-	June 1	*By Balance b/d		-	33,000
June 15	To Amit & Co.		10,000	8,000	June 10	By Rames & Sons		-	16,200
June 22	*To Bank A/c	C	10,000	-	June 16	By Drawings A/c		5,000	-
June 25	To Mohit Brothers		10,000	-	June 20	By Purchases A/c		15,000	-
June 27	To Commission A/c		800		June 22	*By Cash A/c	C		10,000
					June. 27	By Rent A/c		-	2,800
June 30	To Balance C/d		-	54,000	June 30	By Salaries A/c		5,000	
					June 30	By Balance C/d		55,800	
	Total		80,800	62,000		Total		**80,800**	**62,000**
July 1	To Balance b/d		55,800	-	July 1	By Balance b/d (Bank overdraft)		-	54,000

Note : 1. Entries marked with *will not be posted any where in the ledger.

2. Closing Balances of Cash and Bank will be shown in the Trial Balance.

3. All other A/cs shown in the Debit side will be credited & All other A/cs shown in the Credit side will be debited.

Purchase Book

Date	Name of the Supplier (Account to be Credited)	Inv. No	L. F.	Detail (₹)	Total Amount (₹)
2021					
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 (₹)
2021					
June 12	Amit & Co.				25,000
June 19	Mohit Bros.				16,000
June 30	Sales A/c Cr.				**41,000**

Sales Return Book

Date	Name of the Supplier (Account to be Credited)	Inv. No.	L.F.	Detail (₹)	Total Amount (₹)
2021 June 24	Amit & Co.				2,000
June 30	Sales Return A/c Dr.				**2,000**

Purchase Return Book

Date	Name of the Supplier (Account to be Credited)	Inv. No.	L.F.	Detail (₹)	Total Amount (₹)
2021 June 5	Ramesh & Sons Less Trade Discount 10%			2.000 200	1.800
June 30	Purchases Return A/c Cr.				**1,800**

Posting of opening Entries :

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

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

Journal Proper

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2021					
June 1	Cash A/c	Dr.		50,000	
	Amit & Co.	Dr.		15,000	
	Sumit Brothers	Dr.		30,000	
	Stock A/c	Dr.		1,75,000	
	Machinery A/c	Dr.		1,20,000	
	Furniture A/c	Dr.		40,000	
	To Bank (Overdraft) A/c				33,000
	To Virat & Co.				24,000
	To Vishal				16,000
	To Capital A/c (Balancing fig)				3,57,000
	(opening Balances, b ought forward from the previous years books)				
June 16	Drawings A/c	Dr.		3,000	
	To Purchases A/c				3,000
	(Goods withdrawn for personal use)				

Ledger Accounts

Amit & Co.

Dr. Cr.

Date	Particulars	J.F	(₹)	Date	Particulars	J.F	(₹)
2021				2021			
Jun. 1	To Balance b/d		15,000	June 15	By Cash A/c		10.000
Jun. 12	To Sales A/c		25,000	June 15	By Bank A/c		8,000
				June 24	By Sale Return A/c		2,000
				June 30	By Balance c/d		20.000
			40,000				**40,000**
Juiy 1	To Balance b/d*		20,000				

Sumit Bros.

Dr. Cr.

Dale	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2021				2021			
June 1	To Balance b/d*		30,000				

Stock Account

Dr. Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2021				2021			
June 1	To Balance b/d*		1.75,000				

Machinery Account

Dr. Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2021				2021			
June 1	To Balance b d		1.20,000	June 30	By Balance c/d		1,20,000
			1,20.000				**1,20,000**
July 1	To Balance b d'		1.20,000				

Furniture Account

Dr. Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2021				2021			
June 1	To Balance b/d		40,000	June 30	By Balance c/d		40,000
			40.000				40,000
July 1	To Balance b/d		40,000				

Virat & Co.

Dr. Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
				2021			
				June 1	By Balance b/d		24,000

Vishal's A/C

Dr. Cr.

Date	Particulars	J.F	₹	Date	Particulars	J.F.	₹
2021				2021			
				June 1	By Balance b/d		16,000
Jun 30	To Balance c/d		40,000	June 23	By Purchases A/c		24,000
			40,000				**40,000**
				July 1	By Balance b/d		40,000

Capital Account

Dr. Cr.

Date	Particulars	J.F	₹	Date	Particulars	J.F.	₹
2021				2021			
Jun 30	To Balance c/d		3,57,000	June 1	By Balance b/d		3,57,000
			3,57,000				3,57,000
				July 1	By Balance b/d		3,57,000

Drawing Account

Dr. Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F	₹
2021				2021			
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.	₹
2021				2021			
June 5	To Purchase Return A/c		1,800	June 2	By Purchase A/c		18,000
June 10	To Bank A/c		16,200				
			18,000				18,000

Purchase Account

Dr. Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2021				2021			
Jun. 20	To Cash Ac		15,000	June 16	By Drawing A/c		3,000
Jun. 30	To Sundries as per Purchase Book		42,000	July 30	By Balance c/d		54000
			57,000				57,000
July 1	To Balance b/d'		54.000				

Mohit Brothers

Dr. Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2021				2021			
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.	₹
2021				2021			
Jun. 27	To Bank A/c		2,800	June 30	By Balance c/d		2,800
Jun. 30	To Balance b/d*		2,800				2,800

Commission Account

Dr. Cr.

Date	Particulars	J.F.	₹	Date	Particular	J.F.	₹
				2021 June 27	By Cash A/c		800

Salaries Account

Dr. Cr.

Date	Particulars	J.F.	(₹)	Date	Particular	J.F.	(₹)
2021 Jun. 30	To Cash A/c		5.000				

Sales Account

Dr. Cr.

Date	Particulars	J.F.	₹	Date	Particular	J.F.	₹
				2021 June 30	By Sundried as per Sales Book		41.000

Sales Return Account

Dr. Cr.

Date	Particulars	J.F.	₹	Date	Particular	J.F.	₹
2021 Jun. 30	To Sundries as per Sales Return Book		2,000				

Purchase Return Account

Dr. Cr.

Date	Particulars	J.F.	₹	Date	Particular	J.F.	₹
				2021 June 30	By Sundries as per Purchase Return Book		1,800

Trial Balance
As on 30th June, 2021

Name of the Accounts	L.F.	Debit Balances (₹)	Credit Balances (₹)
Cash A/c		55,800	-
Bank (overdraft) A/c		-	54,000
Amit & Co.		20,000	-
Stock A/c		1,75,000	-
Machinery A/c		1,20,000	-
Furniture A/c		40,000	-
Capital A/c		-	3,57,000
Drawings A/c		8,000	-
Purchases A/c		54,000	-
Mohit Brothers		6,000	-
Rent A/c		2,800	-
Commission A/c		-	800
Salaries A/c		5,000	-

Sales A/c		-	41,000
Sales Return A/c		2,000	–
Purchase Return A/c		–	1,800
Sumit Brothers		30,000	–
Virat & Co.		-	24,000
Vishal		-	40,000
Total		5,18,600	5,18, 600

SUSPENSE ACCOUNT

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

Trial Balance

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

Closing of Suspense Account

(a) The errors which led to the difference still remains to have to be located.

(b) These errors will be **rectified through Suspense A/c (One sided errors)** which will be explained in the topic Rectification of Errors.

(c) When all the errors are rectified, this Account closes down automatically. If the difference in Trial Balance persist, it is shown in the Balance Sheet.

(i) Debit Balance of Suspense Account is shown in the Asset Side of the Balance Sheet.

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

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

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

OBJECTIVE QUESTIONS BASED ON CHAPTER

Multiple Choice Questions

1. The process of transferring the debit and credit items from a Journal to their respective accounts in the ledger is termed as
(a) Posting
(b) Purchasing
(c) Balancing of an account
(d) Recording

2. The technique of finding the net balance of an account after considering the totals of both debits and credits appearing in the account is known as
(a) Posting
(b) Purchasing
(c) Balancing of an account
(d) None of the above

3. Journal and ledger records transactions in
(a) A chronological order and analytical order respectively.
(b) An analytical order and chronological order respectively.
(c) A chronological order only
(d) None of the above

4. Ledger book is popularly known as:
(a) Secondary book of accounts
(b) Principal book of accounts
(c) Subsidiary book of accounts
(d) Primary book of accounts

5. After the preparation of ledgers, the next step is the preparation of:
(a) Trading accounts
(b) Trial balance
(c) Profit and loss account
(d) Balance Sheet

6. After preparing the trial balance the accountant finds that the total of the debit side is short by 5,000. This difference will be ___________ .

(a) Debited to Suspense Account

(b) Credited to Suspense Account

(c) Debited to a ledger Account

(d) None of the above

True and False Questions

1. A ledger is also known as the principal book of accounts.
2. Cash account has a debit balance.
3. Posting is the process of transferring the accounts from ledger to journal.
4. Ledger records the transactions in a chronological order.
5. If the total debit side is greater than the total of credit side, we get a credit balance.
6. Ledger accounts of assets will always have debited balance.
7. Trial balance forms a base for the preparation of Financial statements.
8. Agreement of Trial balance is a conclusive proof of accuracy.
9. A Trial balance can find the missing entry from the journal.
10. Suspense account opened in a trial balance is a permanent account.
11. The balance of purchase returns account has a credit balance.

Answers of Objective Questions

MCQ's

1. (a)
2. (c)
3. (a)
4. (b)
5. (b)
6. (a)

True False Questions

1. True
2. True
3. False :- Posting is the process of transferring the balances from journal to ledger.
4. False:- Ledger records the transactions in analytical order.
5. False:- If the total debit side is greater than the total of credit side, we get a debit balance as the opening balance.
6. True
7. True
8. False:- There can be still amount errors in recording or posting
9. False:- Trial balance Cannot find entry error.
10. False:- Suspense account opened in a trial balance Is a Temporary Account.
11. True

CHAPTER-6
DEPRECIATION, PROVISIONS AND RESERVES

Learning Objectives

After studying this lesson you will be able to:

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

Teaching Methods

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

Depreciation : Concept

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

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

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

According to accounting standard - 6 (Revised) issued by the ICAI "Depreciation is a measure of wearing out, consumption or other loss of value of a depreciable asset arising from use, EFFLUX of time or obsolescence through technology and market changes. Depreciation is allocated so as to charge a fair proportion of the depreciable in each accounting period-during the expected useful life of the asset. Depreciation includes amortization of assets whose useful life is predetermined.

Some Important Terms

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

Need or objectives of providing Depreciation

1. **Ascertaining true profit or loss :**

(i) The true profit of an enterprise can be ascertained when all costs incurred for the purpose of earning revenues have been debited to the profit and loss account.

(ii) Fall in the value of assets used in business operations is a part of the cost and should be shown in the profit and loss account of concerned accounting period.

(iii) Keeping this in view, depreciation must be debited to profit & loss account, since loss in value of fixed assets is also an expense like other expenses.

2. **Presentation of True and Fair value of assets :** If depreciation is not provided, the value of assets shown in the Balance sheet will not present the true and fair value of assets because assets are shown at the cost price but actual value is less than cost price of the assets.
3. **To ascertain the accurate cost of the Production :** Depreciation is an item of expense, the correct cost of production cannot be calculated unless it is also taken into consideration. Hence, depreciation must be provided to ascertain the correct cost of production.

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

   (i) Income tax of an enterprise is determined after charging all the costs of production.

   (ii) If depreciation is not charged, the profits will be higher and the income tax will also be higher.

   (iii) If depreciation is charged, Tax liability is reduced.

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

Methods of providing depreciation

1. **Straight line method**

   (i) This method is also known as 'original cost method'

   (ii) Under this method, depreciation is charged at fixed percentage on the original cost of the asset, throughout its estimated life.

   (iii) Under this method, the amount of depreciation is uniform from year to year. That is why this method is also known as 'Fixed Installment Method' or 'Equal installment method'.

Calculation of the amount of depreciation:

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

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

For examples : A firm purchases a machine for ₹ 2,25,000 on April 1, 2020. The expected life of this machine is 5 years. After 5 years the scrap of this machine would be realized ₹ 25,000. Under straight line method, the amount of depreciation can be calculated as under :

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

$$= ₹\ 40,000$$

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

(b) When the Rate of deprecation is given:

Annual Depreciation =

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

For Example: A firm purchases a machine for ₹ 2,00,000 on Oct 1, 2019. If depreciation is charged @ 10% P.a. on original cost method and accounts are closed on 31st March every year, the amount of depreciation can be calculated for 2019-20 and 2020-21 as under:

2019-20

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

Since the usage of asset is from (Oct-March) 2019, the deprecation is calculated for 6 months.

2020-21

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

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 1.2016. It is decided to charge depreciation on this machine @ 10% p.a. The amounts of depreciation for first four years by using both the methods **(Straight line method and Diminishing balance method)** are shown as under :

Year	Book Value	Dep. @ 10%	Book Value	Dep. @ 10%
2016-17	20,000	2,000	20,000	2,000
2017-18	18,000 (20,000 - 2,000)	2,000	18,000 (20.000 - 2,000)	1,800
2018-19	16, 000 (18,000 - 2,000)	2,000	16.200 (18.000 - 1,800)	1,620
2019-20	14,000 (16,000 - 2,000)	2,000	14,580 (16.200 - 1,620)	1.458

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

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

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

Journal Entries

	Transaction	Journal Entry	
1.	For Purchase of Asset	Asset A/c To Bank/Cash A/c	Dr.
2.	For charging Depreciation	Depreciation A/c To Asset A/c	Dr.
3.	Transfer of Depreciation to profit and loss account and loss account	Profit & Loss A/c To Depreciation A/c	Dr.
4.	Sale of Asset	Bank/Cash A/c To Asset A/c	Dr.
5.	For loss on sale of Asset	Loss sale of Asset To Asset A/c	Dr.
6.	For gain on sale of Asset	Asset A/c To gain on sale of Asset A/c	Dr.

Illustration 1: On 1st, April 2017, a firm purchased a machine for ₹90,000 and spend ₹ 10,000 on its erection. It is decided to depreciate it @ 10% p.a. on straight line method. Show machinery account for three accounting years when books are closed on 31st March every year.

Solution :

Machinery Account

Dr. Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2017				2018			
Apr. 1	To Bank A/c		90,000	Mar. 31	By Depreciation A/c		10,000
Apr. 1	To Cash A/c		10,000	Mar. 31	By Balance c/d		90,000
			1,00,000				1,00,000
2018				2019			
Apr. 1	To Balance b/d		90,000	Mar. 31	By Depreciation A/c		10,000
				Mar. 31	By Balance c/d		80,000
			90,000				90,000
2019				2020			
Apr. 1	To Balance b/d		80,000	Mar. 31	By Depreciation A/c		10,000
				Mar. 31	By Balance c/d		70,000
			80,000				80,000

Illustration 2 : On the basis of information given in Illustration 1, show machinery account for three years if depreciation is charged @ 10% p.a. on diminishing balance method.

Solution :

Machinery Account

Dr. Cr.

Date	Particulars	J.F		Date	Particulars	J.F	₹
2017				2018			
Apr. 1	To Bank A/c		90,000	Mar. 31	By Depreciation A/c		10,000
Apr. 1	To Cash a/c		10,000	Mar. 31	By Balance c/d		90,000
			1,00,000				1,00,000
2018				2019			
Apr. 1	To Balance b/d		90,000	Mar. 31	By Depreciation A/c		9,000
				Mar. 31	By Balance c/d		81,000
			90,000				90,000
2019				2020			
Apr. 1	To Balance b/d		81,000	Mar. 31	By Depreciation A/c		8,100
				Mar. 31	By Balance c/d		72,900
			81,000				81,000

Illustration 3 : On April 1, 2017 Kannu bought Machinery costing ₹80,000. On July 1, 2019 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 Balance b/d		80,000	Mar. 31	By Depreciation A/c		8.000
				Mar. 31	By Balance cid		64.000
			80,000				**72,000**
2018				2019			
Apr. 1	To Balance b/d		72,000	Mar. 31	By Depreciation A/c		8.000
				Mar. 31	By Balance cid		64.000
			72,000				**72,000**
2019				2019			
Apr. 1	To Balance b/d		64,000	July 1	By Bank A/c		40,000
				July 1	By Depreciation A/c		2,000
				July 1	By Loss on sale of truck A/c		22,000
			64,000				**64,000**

Working notes:

Value of truck as on April 1, 2019	=	64,000
Less: depreciation till 1st July 2019		2,000
Value of truck at the time of sale	=	62,000
Less: sale price		40,000
Loss on sale on truck		**22,000**

Illustration 4

On the basis of information given in Illustration 3, prepare Truck account assuming depreciation is charged @ 10% on written down value method.

Solution

Machinery Account

Dr. Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2017				2018			
Apr. 1	To Bank A/c		80,000	Mar. 31	By Depreciation A/c		8.000
				Mar. 31	By Balance cid		72.000
			80,000				**80,000**
2018				2019			
Apr. 1	To Balance b/d		72,000	Mar. 31	By Depreciation A/c		7,200
				Mar. 31	By Balance c/d		64.000
			72,000				**72,000**
2019				2019			
Apr. 1	To Balance b/d		64,000	July 1	By Bank A/c		40,000
				July 1	By Depreciation A/c		2,000
				July 1	By Loss on sale of truck A/c		23,180
			64,800				**64,800**

Working notes:

Value of truck as on April 1, 2019	=	64,800
Less: depreciation till 1st July 2019		1,620
Value of truck at the time of sale	=	63,180
Less: sale price		40,000
Loss on sale on truck		**23,180**

Illustration : 5

A firm purchased on 1st January, 2018 certain Machinery for ₹ 5,82,000 and spent ₹ 18,000 on its erection. On 1st July, 2018 additional machinery costing ₹ 2,00,000 was purchased. On 1st July, 2020 the machinery purchased on 1st January, 2018 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 2018 to 2020.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2018				2018	By Depreciation A/C		
Jan. 1	To Bank A/c (i)		6,00,000	Dec. 31			
July 1	To Bank A/c (ii)		2,00,000		(i) (600,000x10/100)		
					= 60000		
					(ii) (200,00x10/100x		
					6/12) = 10000		70,000
				Dec. 31	By Balance c/d		
					(5,40,000+1,90,000)		7,30,000
							8,00,000
			8,00,000	2019			
				Dec. 31	By Depreciation A/c		
2019							
Jan. 1	To Balance b/d		**7,30,000**		(i) (5,40,000x10/100)		
	(5,40,000+1,90,000)				54,000		
					(ii) (1,90,000x10/100		73,000
					19,000		
				Dec.31	By Balance c/d		6,57,000
					(4,86,000+1,71,00)		**7,30,000**
2020			7,30,000				
Jan.1	To Balance b/d		6,57,000	2020	By Bank A/c (Sale)		2,86,000
	(4,86,000+1,71,000)			July 1			
July 1	To Bank A/c (iii)		4,00,000				
					By Dep. (4,86,000x		24,300
					10/100x6/12)		
					By P &L A/c (loss)		1,75,700
				Dec. 31	By Dep. A/c		
					(ii) (1,71,000x10/100)		
					17,100		
					(iii) (400,000x10/100x		37,100
					6/12)20,000		5,33,900
			10,57,000		By Balance c/d		**10,57,000**

Working Notes: Cost of 1st Machine = ₹ 5,82,000 + ₹ 18,000 = ₹ 6,00,000
Profit/Loss on sale of 1st
Loss on sale of 1st Machine = Book Value - Sale Value
(₹ 4,86,000 - ₹ 24,300) ₹ 4,61,700 – ₹ 4,61,700 – ₹ 2,86,000 = ₹ 1,75,700

Methods of Recording Depreciation

First Method
In this method one account is prepared :
(i) Asset A/c
In this case, each year, Depreciation is directly credited to the Asset A/c with the help of this entry:
Depreciation A/c Dr
To Asset A/c

Second Method
In this method two accounts are prepared :
(i) Asset A/c
(ii) Provision for Depreciation A/c
In such case, every year depreciation is directly credited to provision for Depreciation A/c.This A/C shows the accumulated amount of depreciation to date. At the time it sale of asset, the total accumulated depreciation of concerned asset is transferred to the credit side of asset with the help of following entry.

Accumulated Depreciation A/c or Prov. for Depreciation A/c Dr.
To Asset A/c

Illustration 6 :

Vinod limited purchased a machine for ₹ 2,50,000 including installation cost on January 1, 2018. On October 1, 2020, 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. 2018 to 2020.

Solution :

Machinery Account

Dr. Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2018				2018			
Jan. 1	To Bank A/c		2,50,000	Dec. 31	By Balance c/d		2,50,000
			2,50,000				2,50,000
2019				2019			
Jan. 1	To Balance b/d		2,50,000	Dec. 31	By Balance c/d		2,50,000
			2,50,000				2,50,000
2020				2020			
Jan. 1	To Balance b/d		2.50,000	Oct. 1	By Provision for Dep. A/c		68,750
				Oct. 1	By Bank A/c		1,50,000
				Oct. 1	By Loss on sale of Machinery A/c		31,250
			2,50,000				2,50,000

Provision for Depreciation Account

Dr. Cr.

Date	Particulars	J.F.	₹	Date	Particulars	₹
2018				2018		
Dec. 31	To Balance c/d		25,000	Dec. 31	By Depreciation A/C	25,000
			25,000			**25,000**
2019				2019		
Dec. 31	To Balance c/d		50,000	Jan. 1	By Balance b/d	25,000
				Dec. 31	By Depreciation a/c	25,000
			50,000			**50,000**
2020				2020		
Oct. 1	To Machinery a/c		68,750	Jan. 1	By Balance b/d	50,000
				Oct. 1	By Depreciation A/c	18,750
			68,750			**68,750**

Notes: Total Depreciation charged on Machinery from Jan 1, 2016 to Oct. 1, 2018 : ₹25,000+ ₹ 25.000 + ₹ 18,750 = ₹ 68,750.

Illustration 7 :

On the basis of information given in Illustration 5, show the Machinery Account and Provision for Depreciation is provided @ 20 % p.a. on Written Down Value Method.

Solution :

Machinery Account

Dr. Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2018				2018			
Jan. 1	To Bank A/c		2,50,000	Dec. 31	By Balance c/d		2,50,000
			2,50,000				2,50,000
2019				2019			
Jan. 1	To Balance b/d		2,50,000	Dec. 31	By Balance c/d		2,50,000
			2,50,000				2,50,000
2020				2020			
Jan. 1	To Balance b/d		2,50,000	Oct. 1	By Provision for Dep. A/c		1,14,000
Oct. 1	To gain On sale A/c		14,000	Oct. 1	By Bank A/c		1,50,000
			264,000				264,000

Provision for Depreciation Account

Dr. Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2018				2018			
Dec. 31	To Balance c/d		50,000	Dec. 31	By Depreciation a/c		50,000
			50,000				50,000
2019				2019			
Dec. 31	To Balance c/d		90,000	Jan. 1	By Balance b/d		50,000
				Dec. 31	By Depreciation a/c		40,000
			90,000				90,000
2020				2020			
Oct. 1	To Machinery		1,14,000	Jan 1	By Balance bid		90,000
				Oct. 1	By Depreciation a/c		24,000
			1,14,000				1,14,000

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

Illustration 8:

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

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

Machinery Account

Dr. Cr.

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

Provision for Depreciation Account

Dr. Cr.

Date	Particulars	J. F.	₹	Date	Particulars	J. F	₹
2018				2018			
Mar. 31	To Balance c/d		4,000	Mar. 31	By Depreciation A/c		4,000
			4,000				4,000
2019				2018			
Oct 1	To Machinery Disposal A/c		6,000	Apr. 1	By Balance b/d		4,000
				Oct. 1	By Depreciation A/c		2,000
			6,000				6,000

Machinery Disposal Account

Dr. Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2018				2018			
Oct. 1	To Machinery A c		40.000	Oct. 1	By Prov. For Dep. A/c		6,000
					By Cash A/c		13,000
					By loss on sale of machinery A/c		21,000
			40.000				40,000

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

Illustration 9 :

On Oct. 1, 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 or 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				
			1,04,000				**1,04,000**
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 Mar. 31	By Balance c/d		1,60,000
			2,64,000				**2,64,000**
2018				2019			
Apr. 1	To Balance b/d		1,60,000	Mar. 31	By Balance c/d		1,60.000
			1,60,000				**1,60,000**

Provision for Depreciation Account

Dr. Cr.

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

Furniture Disposal Account

Dr. Cr.

Date	Particulars	J. F.	₹	Date	Particulars	J.F.	₹
2017				2017			
Jul. 1	To Furniture Ac		1,04,000	Jul 1	By Prov. For Dep. A/c		11,408
					By Bank A/c		59,820
					By loss on sale A/c		32,772
			1,04,000				**1,04,000**

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

Working Notes :

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

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

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

Illustration 10 :

The following balances appear in the books of Sankalp on 01-01-2020

Machinery A/c ₹ 8,00,000

Provision for Depreciation a/c ₹ 3,18,000

On 01-01-2020 they decided to sell a machine for ₹ 34,500. This machine was purchased for ₹ 1,20,000 on 01-01-2016.

Show the machinery A/c, Provision for Depreciation A/c for the year ended December 31, 2020 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.	₹
2020				2020			
Jan. 1	To Balance b/d		8,00,000	Jan. 1	By Bank A/c		34,500
				Jan. 1	By Provision for Depreciation A/c		41,268
				Jan. 1	By Profit & Loss A/c		44,232
				Dec. 31	By Balance c/d		6,80,000
			8,00,000				**8,00,000**

Provision for Depreciation Account

Dr. Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2020				2020			
Jan. 1	To Machinery A/c		41,268	Jan. 1	By Balance b/d		3,18,000
Dec. 31	To Balance A/c		3,17,095	Dec. 31	By Depreciation A/c		40,363
			3,58,363				**3,58,363**

Working Notes

Depreciation charged on Sold Machinery

Cost of the Machinery on 01-01-2016	1,20,000
Less : Depreciation on 31-12-2016	-12,000
Book Value on 01-01-2017	1,08,000
Less Depreciation on 31-12-2017	-10,800
Book Value on 01-01-2018	97,200
Less : Depreciation on 31-12-2018	-9,720
Book Value on 01-01-2019	87,480
Less : Depreciation on 31-12-2019	-8,748
Book Value on 01-01-2020	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 01-01-2020	78,732
Less : Sale Price	-34,0500
Loss on sale of Machinery	44,232

Depreciation on Remaining Machinery	
Cost of Remaining Machinery (800,000 - 120,000)	6,80,000
Less : Accumulated Depreciation thereon (till 31-12-2019) (318,000 - 41,268)	-276,372
Book Value on 01-01-2018	4,03,628
Depreciation (4,03,628x10/100) = 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 ₹3,60000. 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

Dr. Cr.

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

PROVISION FOR DEPRECIATION ACCOUNT

Dr. Cr.

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

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

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	–	By Profit and loss – A/C (if profit)	
Loss (if loss)	–		–

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

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 charjing 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

Q1. On 1st April, 2016 Ashok & Brothers bought a second hand machine for ₹6,00,000 and spent ₹100000 for its repair and installation. On Oct. 1, 2018 the machine was sold for ₹5,00,000. Prepare Machine Account after charging depreciation @10% p.a. by Written down value Method, assuming that the books are closed on 31st March every year.

Q2. Vijay Ltd. purchased a plant on 1st April 2017 for ₹2,50,000. On 1st 2018, it purchased a new plant for ₹1,50,000. The part of the machine which was purchased on 1st April 2017 costing ₹50,000 was sold for ₹18000 on 30th september 2020. Prepare the plant A/c for four years. Depreciation is charged @10% p.a. on 31st March every year on the Diminishing Balance Method.

Ans. Loss on sale of plant 16627, Balance 31 March, 2019 ₹ 2,46,645

Q3. On 1st April 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 2018 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.

Q4. You are given the following balances as on 1st April 2019

Plant Account = ₹10,00,000

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

Depreciation is charged on plant at 10% p.a by the Diminishing Balance Method. A piece of plant purchased on 1st April 2017 for ₹2,00,000 was sold on 1st october 2020 for ₹1,20,000.

Prepare the Plant Account and provision for the Depreciation Account for the year ended 31st March 2019 and also prepare the plant Disposal Account.

Ans. Loss on sale Plant ₹233,900.

Balance of provision for Depreciation on A/c on April, 2019 ₹2,54,000

Q5. Fill up the missing information in the machinery account, provision for Depreciation Account and Disposal Account. You are informed that on 30th June 2018 it sold off the first machine purchased in 2016 for ₹5,24000 Accumulated Depreciation Account in maintained changing depreciation @ 10% on straight line method.

MACHINERY ACCOUNT

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

PROVISION FOR DEPRECIATION ACCOUNT

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

MACHINERY DISPOSAL ACCOUNT

Date (year)	Particular	Amount	Date (year)	Particular	Amount
-------	To ------- (20)	-----------	----------	By provission 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 is respect of a liability which is certain to be incurred, but its accurate amount is not known.
- It is charged in the profit and loss Account on estimate basis. It should be clearly understood that if the amount of a known liability can be determined with reasonable accuracy, it can not be a provision.

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

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

Reserves

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

DIFFERENCE BETWEEN PROVISION AND RESERVE

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

Types of Reserves

- Revenue Reserves
  - General Reserves
  - Specific Reserves
- Capital Reserves

Revenue Reserves

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

(1) General Reserves :- Those reserves which are created out of profit to meet out the unforseen contingencies are called general reserves. They are termed as 'Free Reserves' or 'Contingency Reserves'. Creation of general reserve is optional. It is an appropriation of profit so it is made only if adequate profit is earned by the company. They are shown on liability side of the balance sheet under the head," Reserve and surplus".

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

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

Capital Reserves:-

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

Examples of Capital Profit:

i) Profit on sale of fixed assets.

ii) Profit on revaluation of assets and liabilities.

iii) Securities premium earned on issue of share or debentures.

iv) Profit on the purchase of running business.

v) Profit earned on forfeiture of shares.

vi) Profit on redemption of debentures.

vii) Profit prior to the incorporation of a company

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

i) Articles of Associations of a company permits the declaration of dividend out of such profile.

ii) Capital profits realised in cash.

iii) Profile remains after revaluation of assets and liabilities.

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.

As per Section 5 of 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.

Type of Bills of Exchange:

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. **Accommodation Bill:** It is a bill of exchange which is drawn by one person and accepted by otter 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.

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 in 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 received money from the drawee (acceptor). He is a creditor for the drawee. The Bills of exchange is Bills 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 purchase 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.

Solution:

Case	**Drawer**	**Drawee**	**Payee**
Case I	X	Y	X
Case II	X	Y	Z
Case III	X	Y	Bank
Case IV	X	Y	X

New Delhi, 25th July 2020

₹ 50,000

Stamp

Three months after date pay to Sh. Anil or order sum of Rupees **Ten thousand only** for **value received.**

To
Vijay Kumar
55, Sunder Vihar
New Delhi-87

(Signed)
Sanjeev Kumar
10, Peera Garhi
New Delhi-87

Specimen of Bill of Exchange

In the above bill of exchange:

Sanjeev Kumar is the Drawer of the bill.

Vijay Kumar is the Drawee of the bill.

Anil is the Payee of bill.

PROMISSORY NOTE

A Promissory note is an instrument in writing (not beings a bank note a currency note) containing an **unconditional undertaking** signed 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 entitied to get the payment from the maker of promissory note. Payee is the person who has granted the credit.

Specimen of Promissory Note

New Delhi, 14th January 2020

₹ 30,000

Stamp

Three months after date pay to M/s Parag and Sons or
Order sum of Rupees **Thirty Thousand** for **value received.**

To	(Signed)
Parag & Sons	Harinder & Sons
25/4, Gaffer maket	2345 Rajinder Nagar
New Delhi-5	New Delhi-5

In this Promissory note:

Harinder & Sons are the maker of promissory note

Parag & Sons are the payee of promissory note

Distinction between Bills of Exchange and Promissory Note :

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

Important terms

1. **Term of Bill :-** The period intervening between the date on which a bill is drawn and the date on which it becomes due for payment is called "Term of Bill".

2. **Due Date :-** Due date is the date on which the payment of the bill is due.

   (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 ₹ 25,000 is drawn by A on B on 1st April, 2020 for 3 Months, B accepted the bill on 10th April, 2020. Find the due date and date of maturity in following case:

Cash I : The bill is Bill After date.

Cash II : The bill is Bill After Sight.

Solution :

	Due Date 2020	Date of Maturity
Case I- When the Bill is "Bill After date".	1st July 2019	4th July, 2020
Case II- When the Bill is " Bill After Sight".	10th July 2019	13th July, 2020

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 ₹ 60,000 at credit on 1st April, 2020 and draw a 3 months bill on Shyam. Ram discounts the bill with his bank on 4th May 2020 @ 9% per annum find -

(i) The amount of discounting charges.

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

Solution:

(i) Discounting Charges = Amount of Bill Discounted $\times \frac{\text{Rate}}{100} \times \frac{\text{Unexpired Period}}{12}$

$$= 60{,}000 \times \frac{9}{100} \times \frac{2}{12}$$

$$= ₹\ 900$$

(ii) Ram will receive from his bank ₹ 59,100 (i.e ₹ 60,000 – ₹ 900) 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 ₹ 50,000 for 3 month together with interest @ 18% p.a. Calculate the amount of new bill drawn on A.

Solution:

$$\text{Interest} = \text{Amount Outstanding} \times \frac{\text{Rate}}{100} \times \frac{\text{Period of New Bill}}{12}$$

$$= 50{,}000 \times \frac{18}{100} \times \frac{3}{12}$$

$$= 2{,}250$$

Amount of New Bill = ₹ 50,000 + ₹ 2,250 = ₹ 52,250

ACCOUNTING TREATMENT OF BILL TRANSACTIONS

The holder of the bill has the following options to deal with the bill:

1. Retain the bill till the date of maturity.
2. Discount the bill with bank.
3. Endorse the bill in favour of a creditor.
4. Send the bill to bank for collection.

Further, in all above options bill may be honoured by the drawee or it may get dishounoured (if drawee fails to pay the amount of bill on maturity).

A. On the Due Date bill is Honoured:-

Transactions	In the Books of Drawer	In the Books of Drawer
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 entires 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 Drawer
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 ₹ 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 endoised in fovour 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 Dr. To Sales A/C (Being Goods sold on credit to Y)		20,000	20,000
Apr-01	Bills Receivable A/C Dr. To Y (bill received from Y)		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.

Case -1 When the bill was retained by drawer till the date of maturity				
2019 Apr-04	Cash A/c Dr. To Bill receivable A/c (Bill met on maturity)		20,000	20,000
Case -II When the bill was discounted by owner before maturity				
Apr-04	Bank A/C Dr. Discount A/C Dr. To Bill receivable A/C (bill discounted from bank)		19,700 300	20,000
Case -II When the bill was endorse in favour of creditor by drawer/holder				
May-04	Z Dr. To Bill receivable A/C (Bill endrose in favour of Z)		20,000	20,000

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

In the Book of Z (Endorsee)

2019 May - 04	Bill Recivable Dr. To X (bill received from Ram)		20,000	20,000
July-04	Cash A/C Dr. To Bill receivable (bill met on maturity)		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 Dr. To Bills Receivable To Cash A/C (bill dishonoured & Nothing charges paid)	Bills Payable A/C Dr. Noting Charges A/C Dr. 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 Dr. 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 Dr. To Endorsee (bill dishonoured & Noting charges and paid by endorses)	Drawer Dr. 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	Drawee Dr. To Bank A/C To Bill Sent for collection (Being bill dishonoured & Nothing charges paid by bank)

Illustration 5 : A sold good to B on April 1, 2019 for ₹ 20,000 on credit and drew upon him a bill for the same amount payable after 3 months. B accepted the bill and returned 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 sent 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	B Dr. To Sales A/C (Goods sold on credit B)		10,000	10,000
Apr-01	Bills Receivable Dr. To B (bill received from B)		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

Case -1 When the bill was retained by drawer till the date of maturity				
2019 Jul-04	B Dr. To Bill receivable A/C To Cash A/C (bill Receirable/Dishonoured charges paid dishonoured		10,050	10,000 50
Case -II When the bill was discounted by owner before maturity				
2019 Jul-04	B Dr. To Bank A/C (bill Receirable/Dishonoured maturity & noting charges paid)		10,050	10,050

Case -III When the bill was endorse in favour of creditor by drawer/holder				
2019 Jul-04	B Dr. To C (bill receirable/dishonoured on maturity & noting charges paid)		10,050	 10,050
Case -IV When the bill sent to bank for collection				
2019 Jul-04	B Dr. To Bill receivable A/C To Bank A/C (bill dishonoured on maturity & noting charges paid by Bank)		10,050	 10,000 50

In the Book of C (Endorsee)

Date	Particular	L.F.	Dr. Amount	Cr. Amount
2019 Jul-04	A Dr. To Bill receivable A/C To Cash A/C (Noting charges) (bill dishonoured on maturity & noting charges paid)		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, 2021 Anil accepts a bill drawn by Sunil for 2 months for ₹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
2021 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. (Interet 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
2021 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, 2021 for ₹ 30,000 and drew a bill for the same amount for 3 months. Jitender accepted the bill and returned it to Mukesh, Jitender retired his acceptance on 4th August, 2021 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
2021 Jul-01	Purchase A/c Dr. To Mukesh (Being Goods Purchased)		30000	 30000
2021 Jul-01	Mukesh Dr. To Bills payable A/C (Being bill accepted & returned to mukesh)		30000	 30000
2021 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
2021 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

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

$$= 400$$

Summary of Journal entries when bill is honoured

Cash	Tarnsaction	In the books of Drawer (Say A)	In the books of Drawer (Say B)
Common Entries in all cases	For sale of goods by A	B/s A/c Dr. To Sales A/c	Purchase A/c Dr. To A's A/c
	For drawing of bill by A on B	Bill Receivable A/c Dr. To B's A/c	A's A/c Dr. To Bills Payable A/c
Retained till maturity	At the time of Maturity	Cash/Bank A/c Dr. To Bills Receivable A/c	Bills Payable A/c Dr. To Cash/Bank A/c
Discounted from bank	At the time of discounting of bill	Bank A/c Dr. Discounting Charges A/c Dr. To Bill Receivable A/c	---------------------------
	At the time of maturity of bill	----------------------------------	Bills payable A/c Dr. To Cash A/c
Bill sent to bank for collection	At the time of sending the bill for collection	Bill sent for collection A/c Dr. To Bills Receivable A/c	-------------------------------
	At the time of maturity of bill	Bank A/c Dr. To Bill sent for collection A/c	Bills payable A/c Dr. To Cash A/c
Endorsed to a creditor (Say C)	At the time of endorsing of bill	C's A/c Dr. To Bill receivable A/c	-------------------------
	At the time of maturity of bill	---------------------------------	Bills payable A/c Dr. To Cash A/c

In the books of Endorsee C

At the time of endosing of bill	Bill Receivabel A/c Dr. To A'c A/c
At the time of maturity of bill	Cash/Bank A/c Dr. To Bills Receivable A/c

Summary of Journal entries when bill is dishonoured

Case	Transaction	Drawer (Say A)
Retained till Maturity	For Dishonour	B's A/c Dr. (Amount bill + Noting Charges) To Bill Receivable A/c To Cash A/c (noting charges)
Discounted through bank	For Dishonour	B's A/c Dr. (Amount bill + Noting Charges) To Bank A/c (Amount bill + Noting Charges)
Bill Sent to bank for collection	For Dishonour	B's A/c Dr. (Amount bill + Noting Charges) To Bill sent for collection A/c To Bank A/c (noting charges)
Endorsed to a creditor (Say C)	For Dishonour	B's A/c Dr. (Amount bill + Noting Charges) To C's A/c (Amount bill + Noting Charges)

Journal in the books of Drawee (Say B)

Case	Transaction	Drawee (Say B)
In All Cases	For Dishonour	Bill Payable A/c Dr. Noting Charges A/c Dr. To A's A/c

Journal in the books of Endorsee (Say C)

Case	Transaction	Endorsee (Say C)
Whan bill is endorsed	For Dishonour	A's A/c Dr. (Amount bill + Noting Charges) To Bills Receivable A/c To Cash A/c (Noting Charges)

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.

EXERCISE

Objective Type Questions

1. Promissory note has __________ parties.
2. Number of parties in a bill of exchange are:
   (a) 2 (b) 1 (c) 3 (d) 4
3. State whether folio wining is true of false.
   Debtor is the drawer of b, 71 of exchange
4. A 4 months bill is drawn on 5th August 2020 its date of maturity will be-
   (a) 5th Dec 2020 (b) 8th Dec 2020
   (c) 8th Nov 2020 (d) 5th Nov 2020
5. A 3 months MI drawn on 1st January 2020 for ₹20,000 is discounted with bank Febuary 2020 @ 6% p.a., discounting charges will bank :-
   (a) ₹ 1,200 (b) ₹ 300 (c) ₹ 200 (d) ₹ 100

6. Nothing charges are borne by _____ (Drawer/ Drawee endorsee)

7. A Promissory note is made by the :-

   (a) Seller (b) Purchaser

   (c) Endorsee (d) Bank

Q.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 entries in the books of A and B.

Q.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 Entries in the books of A and B if.

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

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

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

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

Q.3 P sold goods to Q for ₹ 10,000 on Janauary 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 ₹ 9850. The acceptance is dishonoured on the due date and the Noting charges were paid by bank being ₹ 50. On 4th April, Q paid ₹ 2,050 (including 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.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.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 ₹ 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 ₹ 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.6 What Journal Entry will be passed in the banks of drawer & drawee at the time of dishonour of bill in the following cases:-

(i) It 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.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.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.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

Learning Objectives

After studying this topic the students will be able to :

- explain the types of errors;
- state various process of locating errors;
- identify the errors which affect the agreement of trial balance and those which do not affect the agreement of trial balance;
- rectify the errors without preparing suspense account; and
- rectify the errors with a suspense account.

INTRODUCTION

Accounts are prepared by an accountant; a human being is likely to commit mistakes at time of recording and posting in the books. However, such errors are located after some time and should be corrected by passing corrective journal entry, switch is known as rectification of errors.

Important : The errors whether affecting the Trial Balance or not must be detected and rectified.

NEED OF RECTIFICATION

1. For the preparation of correct Accounting Records.
2. Preparation of P & L A/c with corrected figures to ascertain correct Profit or Loss.
3. To find out the true financial position of the firm by preparing Balance Sheet with corrected figures.

Classification of Errors

(On the basis on Nature)

Type of Error with Meaning	Sub-Types with Examples
1. **<u>Error of Omission</u>** It refers to the error in which a transaction is completely or partially omitted to be recorded in books.	a) **<u>Error of complete Omission</u>** Good-sold to X on credit but not recorded in Sales Book. b) **<u>Partial Omission</u>** Purchase machinery ₹ 5,000 in cash, recorded in cash Book but not recorded in Machinery A/c.
2. **<u>Error of Commission</u>** It refers to those errors which are caused due to wrong recording of transactions, wrong totalling of subsidiary or Ledger A/cs. Wrong posting and wrong carry forward etc.	a) **<u>Error of Recording in the Book of Original Entry</u>** Goods purchased from Ravi for ₹ 450, but Goods recorded as ₹ 540, in the Purchases Book. b) **<u>Wrong Totalling of Subsidiary Book</u>** **Example :** Purchase Book has been undercast (short totalled) by ₹ 100. c) **<u>Error in Totalling or Balancing of Ledger A/cs*</u>** **Example :** Creditors A/c has been balanced short by ₹ 500. d) **<u>Error of Posting</u>** i) **Posting to the wrong side but correct account** Goods sold to X for ₹ 550, entered to the credit of ₹ X's A/c instead of posting to the debit side of his account.

	ii) Posting with wrong amount. **iii) Posting twice in an A/c** **iv) Errors in posting to the wrong A/c but correct side don't affect Trial Balance.** **e) <u>Error in carrying forward</u>** Total of purchases book ₹ 2,500 is carried forward as ₹ 2050.
3. <u>Errors of Principle</u> These error are caused due to the violation of accounting principle i.e. allocation between Capital and Revenue items	**a) <u>Treating capital items as revenue item</u>** **Example :** Wages paid for the installation of a new machinery charged to Wages A/c instead of machinery A/c. **b) <u>Treating revenue items as Capital Item</u>** **Example :** ₹ 200 paid for the repairs of an old Machinery but debited to Machinery A/c instead of Repairs A/c.
4. <u>Compensating Errors</u> Two or more errors committed in such a way that the net effect of these errors in nil. Means the effect of one error is nullified by the effect of another error of equal amount.	**Example :** Cash paid to Ram ₹ 5,000 but debited-him as ₹ 500 and paid Mohan ₹ 500 but debited him as ₹ 5,000 so, net effect will be nill.

<u>TYPES OF ERRORS FROM RECTIFICATION POINT OF VIEW</u>

From Rectification point of view, errors are classified into the following two categories only:

Case I : Errors which don't affect the Trial Balance **or** Two Sided Errors

Case II : Errors which affect the Trial Balance **Or** one Sided Errors.

Errors don't Affecting Trial Balance

1. Errors of complete Omission.
2. Wrong recording in the books of original entry.
3. Errors of Omission from posting.
4. Errors of posting to the wrong A/c but on the correct side.
5. Compensating errors.
6. Errors of principle.

Note: These errors cannot be identified by preparing Trial Balance. So, these errors are considered as limitations of Trial Balance.

Errors Affecting Trial Balance

* **Shown by Star in the Tale showing:**

1. Error in totalling of subsidiary books as undercast and overcast.
2. Error in the balancing of ledger accounts.
3. Error in posting to the correct Account but with wrong amount.
4. Error of partial omission.
5. Error in carrying forward.

Rectification of Errors

When the errors are detected, these have to be rectified in the books of accounts. Rectification of errors depends upon.

- The Type of error and
- The time of depiction of an error.

Time of Depiction of an error means.

i) Errors detected before the preparation of **Trial Balance.**

ii) Errors detected after preparing Trial Balance but **before** preparing **final** accounts.

iii) Errors detected after preparing Final Accounts.

RECTIFICATION OF TWO SIDED ERRORS

Two sided errors are those errors which affect two sides of Accounts. These errors don't affect Trial Balance as discussed earlier.

These errors are rectified by passing a journal entry irrespective of the *time of depiction. In other words their rectifying entry will be same whether*

(a) the error is depicted before Trial Balance or

(b) after the preparation of Trial Balance but before the Final A/cs are prepared.

Steps for Rectification

1. Locate the effect of Error on Different Accounts.
2. The Account showing excess Credit should be Debited.
3. The Account showing excess Debit should be Credited.
4. The Account showing short Debit should be Debited.
5. The Account showing short Credit should be Credited.

Examples (With Explanation)

i) When an account has wrongly been debited in place of another A/c.

- Rectification will be done by debiting the correct account and Crediting the A/c which was wrongly debited.

  Example : Machinery purchased for ₹ 10,000 has been debited to Purchases A/c.

Solution : This error affects the two A/c.

- Machinery A/c is not debited hence its debit side is short by ₹ 10,000 whereas purchases A/c debited by mistake. Purchases A/c debit side is in excess by ₹ 10,000.
- While rectifying this mistake Machinery A/c will be debited by ₹ 10,000 because it was not debited earlier and Purchases A/c will be credited because it was wrongly debited.

Rectifying Journal Entry

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Machinery A/c Dr.		10,000	
	To Purchases A/c			10,000
	(For Purchases of machinery wrongly debited to Purchases A/c)			

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

Example : ₹ 5,000 received from the sale of old furniture has been Credited to Sale A/c

Solution : This error also affects the two A/c.

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

Rectifying Entry

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Sales A/c	Dr.		5,000	
	To Furniture A/c (Sales of old Furniture wrongly Credited to Sales A/c)				5,000

iii) When there is a short debit in one A/c and a short Credit another A/c.

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

Solution :

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

Rectifying Journal Entry

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Seema	**Dr.**		**90**	
	To Sales A/c (For goods sold to Seema for ₹ 540 wrongly entered ₹ 450.)				90

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

Example : Goods Purchases from Mohan for ₹ 300 were recorded in Purchase Book ₹ 3000.

- Here Purchases A/c is Debited by ₹ 3,000 instead of ₹ 300, *i.e.* ₹ 2,700 more.
- Mohan's A/c is also Credited by ₹ 2,700 more.
- Rectification will be done by debiting Mohans' A/c & Crediting Purchases A/c by ₹ 2,700 i.e. **the entry in the reverse direction**.

Rectifying Entry

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Mohan Dr.		2,700	
	To Purchases A/c			2,700
	(For purchases of goods from Mohan for ₹ 300 wrongly entered ₹ 3000)			

Problem : Rectify the following Errors :

1. ₹ 5,000 paid for furniture purchased has been debited to purchases account.
2. Wages paid ₹ 7,000 for installation of new machinery were recorded in wages account.
3. Goods sold to Hari ₹ 10,000 not recorded anywhere.
4. ₹ 2,500 received from Monu has been credited to Sonu A/c.
5. Rent paid ₹ 1,000 wrongly debited to Landlord Account Personal Account.
6. Credit Purchase from Raman ₹ 15,000 were wrongly recorded in sales book.
7. Credit sales to Geeta ₹ 8800 were recorded as ₹ 8,000.
8. Goods ₹ 5,000 withdrawn by proprietor has not been recorded.

Solution :

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
1.	Furniture A/c Dr. To Purchases A/c (The furniture purchase wrongly debited to purchases A/c)		5,000	5,000
2.	Machinery A/c Dr. To Wages A/c (The wages for installation machinery wrongly debited to wages A/c.)		7,000	7,000
3.	Hari Dr. To Sales A/c (The goods sold to Hari not recorded.)		10,000	10,000
4.	Sonu Dr. To Monu (The amount wrongly credited to Sonu instead of Monu)		2,500	2,500
5.	Rent A/c Dr. To Landlord Personal A/c (The rent paid but wrongly debited to landlord A/c)		1,000	1,000
6.	Purchases A/c Dr. Sales A/c Dr. To Raman (The Credit purchase from wrongly credited to sales A/c		15,000 15,000	30,000

7.	Geeta Dr. To Sales A/c (Credit sales to Geeta recorded ₹800 short)		800	800
8.	Drawing A/c Dr. To Purchases A/c (The goods withdraw, by Proprietor for personal use)		5,000	5,000

Important : Rectification of double sided errors can easily be understood by the students. These are rectified by passing the journal entries as given irrespective of the time of detection of the errors.

RECTIFICATION OF ONE SIDED ERRORS

These errors affect only one side of an Account either debit or credit. Therefore these errors affect the Trial Balance.

Rectification of these errors is done differently, in these two cases i.e.

i) **Before preparing the Trial Balance.**

ii) **After preparing the Trial Balance.**

Case I : Rectification of one sided errors before preparing Trial Balance.

One-sided Errors are rectified directly by debiting or crediting the concerned ledger account.

For Short Debit	→	**Concerned A/c is Debited.**
For Excess Credit	→	**Concerned A/c is Debited.**
For Short Credit	→	**Concerned A/c is Credited.**
For Excess Debit	→	**Concerned A/c is Credited.**

Example 1 : Purchases Book under cast by ₹ 150.

Analysis : It means that the total of the Purchases Book is ₹ 150 short.

1. This total is posted to purchases A/c Debit side.

2. Hence Purchases A/c is debited or short by ₹ 150.
3. No effect on any other A/c.
4. Therefore purchases A/c will be debited by ₹ 150 to rectify this error as given below.

Purchase Account

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
	To Undercast of purchase book		150				

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

Example 2 : Purchases Book is overcast by ₹ 300.

Analysis

1. Means total of the Purchases Book is in excess by ₹ 300 which is posted to the debit side of purchases A/c.
2. Hence purchases A/c is debited in excess by ₹ 300.
3. No effect on any other A/c.
4. Therefore to rectify this error ₹ 300 will be credited to purchases A/c (i.e. opposite side)

Purchases Account

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
					By Overcast of purchase book		300

- **Here debit side of the purchases A/c was in excess, therefore the rectification is done by entering the amount on the opposite side i.e., Credit side of the Purchases A/c.**

Case II : Rectification of one Sided Error after preparing Trial Balance.

When the errors are detected after the preparation of Trial Balance then **one sided error is rectified** by passing a Journal entry **through**

Suspense Account.

1.	**Short debit in one Account → Debit that Account and Credit the Suspense A/c.**
2.	**Excess Credit in one Account → Debit that A/c and Credit the Suspense A/c.**
3.	**Short Credit in one Account → Credit that A/c and Debit the Suspense A/c.**
4.	**Excess Debit in one Account → Credit that A/c and Debit the Suspense A/c.**

Example 3 : Purchases Book undercast by ₹ 150.

Date	Particulars	C.F.	Dr. (₹)	Cr. (₹)
	Purchases A/c Dr.		150	
	To Suspense A/c			150
	(For undercast of purchases book, now corrected.)			

Example 4 : Sales Book was undercast by ₹ 200.

Analysis

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

Date	Particulars	C.F.	Dr. (₹)	Cr. (₹)
	Suspense A/c Dr.		200	
	To Sales A/c			200
	(For undercast of sales books, now corrected)			

Note : When nothing is mentioned in the question about the time of detection of an error, the students are advised to rectify one sided errors through Suspense A/c.

Problem : Rectify the following error

A) Without opening a Suspense A/c

B) By passing journal entries through Suspense A/c.

1) ₹ 5,000 paid to Mohit were entered in cash Book but omitted to be posted to the ledger.
2) ₹ 5,000 paid to Mohit were debited to his A/c as ₹ 500.
3) ₹ 5,000 paid to Mohit were debited to his A/c as ₹ 50,000.
4) ₹ 5,000 paid to Mohit were credited to his A/c.
5) ₹ 5,000 paid to Mohit were credited to his A/c as ₹ 500.
6) Sales Book was overcast by ₹ 2,000.
7) Sales Return Book undercast by ₹ 4,000.
8) Purchases Return book undercast by ₹ 5,000.

Solution :

A) Without opening a suspense A/c. These errors are rectified in the concerned ledger A/c, as these errors are before preparing Trial Balance.

1. Mohit will be the debited by ₹ 5,000 as it is a case of partial omission.
2. Mohit was debited ₹ 4500 (5,000-500) therefore the rectification will be done by debiting Mohit by ₹ 4,500.
3. Mohit was debited in excess by ₹ 45,000 (50,000-5,000) therefore rectification will be done by crediting the Mohit by ₹ 45,000.
4. Mohit was credited by ₹ 5,000 instead of debited by ₹ 5,000 therefore rectification will be done by debiting Mohit'by ₹ 10,000 (5,000+5,000)
5. Mohit was wrongly credited by ₹ 500 instead of debiting it by ₹ 5,000 so rectification will be done by debiting the Mohit'by ₹ 5,500.
6. Sales book overcast means sales is credited is excess by ₹ 2,000. Hence rectification will be done by debiting sales A/c by ₹ 2000.

7. Sales Return Book total undercast by ₹ 4,000 means sales return debit is short by ₹ 4,000 Hence rectification will be done by debiting sales return by ₹ 4,000.
8. Purchases Return Book undercast by ₹ 5,000 means purchases return is credited short by ₹ 5,000. Hence rectification will be done by crediting the purchases return by ₹ 5,000.

B) By opening suspense A/c.

Rectifying Journal Entry

Suspense Account and its Disposal

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

Important

- When inspite of all the efforts the Trial Balance does not tally, the difference is put to a newly opened account named Suspense A/c.
- Suspense A/c is an imaginary account, opened temporarily for the purpose of reconciling a Trial Balance.
- Later on when the errors affecting the Trial Balance are located, rectification entries are passed through the Suspense A/c.
- When all the errors are located and rectified, the Suspense A/c will be Automatically closed i.e., it will show zero balance.
- But if suspense A/c still shows a balance it will indicated that some error are still to be discovered and rectified.

Problem : An accountant of a trading concern could not agree the Trial Balance. There was an excess credit of ₹ 100 which he transferred to the suspense A/c. The following errors were subsequently discovered.

1. Received ₹ 550 from X, were posted to the debit of his account.
2. ₹ 100 being purchases return were posted to the debit of purchases A/c.
3. Discount received ₹ 200 Correctly entered in the Cash Book but posted to the debit of the discount A/c.

4. Salary paid ₹ 3,500 to X were posted to the salary A/c as ₹ 2,500.
5. A purchase of ₹ 400 has been passed through Sales Book. However the customer's account has been correctly credited.

Give Rectifying entries and Suspense A/c

Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
1.	Suspense A/c Dr.		1,100	
	To X			1,100
	(Amount receive from X was posted to the wrong side now corrected)			
2.	Suspense A/c Dr.		200	
	To Purchase A/c			100
	To Purchases Return A/c			100
	(For the purchases return wrongly posted to the purchases A/c)			
3.	Suspense A/c Dr.		400	
	To Discount Received A/c			400
	(Discount received was posted to the wrong side discount A/c)			
4.	Salary A/c Dr.		1,000	
	To Suspense A/c			1,000
	(Salary paid was posted to Salary A/c with lesser amount)			
5.	Purchases A/c Dr.		400	
	Sales A/c Dr.		400	
	To Suspense A/c			800
	(Purchases has been passed through sales book but the customer's A/c has been correctly credited)			

Dr. **Suspense Account** Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
	To Difference in the Trial Balance		1,100	(4)	By Salary A/c		1,000
				(5) (i)	By Purchases A/c		400
				(5) (ii)	By Sales A/c		400
(1)	To X		100				
(2)	To Purchases A/c		100		By Balance c/d		Nil
(3)	To Purchases Return A/c		400				
(4)	To Discount A/c		100				
			1,800				1,800

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

OBJECTIVE QUESTIONS

MULTIPLE CHOICE QUESTIONS

1. **What kind of accuracy is tested by Trial balance-**
   (a) Theoretical
   (b) Practical
   © Arithmetical
   (d) None of these.
2. **How many methods are there for preparing Trial Balance -**
   (a) One
   (b) Three
   © Four
   (d) None of these.
3. **Which of the following is prepared on the basis of Trial Balance**
   (a) Journal
   (b) Ledger
   (c) Final Accounts
   (d) None of these.
4. **If the two sides of Trial balance does not tally, which Account is opened -**
   (a) Suspense Account

(b) Personal Account

(c) Real Account

(d) None of these.

5. **Agreement of trial balance is affected by:**

(a) One sided errors only.

(b) Two sided errors only.

(c) Both (a) and (b).

(d) None of the above.

6. **Which of the following is not an error of principle:**

(a) Purchase of furniture debited to purchases account.

(b) Repairs on the overhauling of second hand machinery purchased debited to repairs account

(c) Cash received from Manoj posted to Saroj.

(d) Sale of old car credited to sales account.

7. **Which of the following is not an error of commission:**

(a) Overcasting of sales book.

(b) Credit sales to Ramesh ₹ 5,000 credited to his account.

(c) Wrong balancing of machinery account

(d) Cash sales not recorded in cash book.

8. **Which of following errors will be rectified through suspense account:**

(a) Sales return book undercast by ₹ 1,000.

(b) Sales return by Madhu ₹ 1,000 not recorded.

(c) Sales return by Madhu ₹ 1,000. recorded as ₹100.

(d) Sales return by Madhu ₹ 1,000 recorded through purchases returns book

9. **If the trial balance agrees, it implies that:**

(a) There is no error in the books.

(b) There may be two sided errors in the book.

(c) There may be one sided error in the books.

(d) There may be both two sided and one sided errors in the books.

10. **If suspense account does not balance off even after rectification of errors it implies that:**

(a) There are some one sided errors only in the books yet to be located.

(b) There are no more errors yet to be located.

(c) There are some two sided errors only yet to be located.

(d) There may be both one sided errors and two sided errors yet to be located.

11. If wages paid for installation of new machinery is debited to wages Account, it is:

(a) An error of commission.

(b) An error of principle.

(c) A compensating error.

(d) An error of omission.

12. Trial balance is:

(a) An account.

(b) A statement.

(c) A subsidiary book.

(d) A principal book.

13. A Trial balance is prepared:

(a) After preparing a financial statement.

(b) After recording transactions in subsidiary books.

(c) After posting to the ledger is complete.

(d) After posting to ledger is complete and accounts have been balanced

14. If a purchase return of ₹ 2,000 has been wrongly posted to the debit of the sales return account, but has been correctly entered in the suppliers' account, the total of the

(a) Trial balance would show the debit side to be ₹ 2,000 more than the credit.

(b) Trial balance would show the credit side to be ₹ 2,000 more than the debit.

(c) The debit side of the trial balance will be ₹ 4,000 more than the credit side.

(d) None of the above

15. If the amount is posted in the wrong account or it is written on the wrong side of the account, it is called

(a) Error of omission.

(b) Error of commission.

(c) Error of principle.

(d) Compensating Error.

TRUE AND FALSE

1. In case of error of complete omission, the trial balance does not tally.
2. When errors are detected after preparation of trial balance, a suspense account is opened.
3. When purchase of an asset is treated as an expense, it, is known as error of principle.
4. Trial balance agrees in case of compensating errors.
5. When an amount is written on the wrong side, it is known as an error of principle.
6. On purchase of furniture, the amount spent on repairs should be debited to the repairs account.
7. Rent paid to landlord of the proprietors house, must be debited to Rent account?
8. If the errors are detected after preparing a trial balance, then all the errors are rectified through a suspense account.

ANSWERS OF OBJECTIVE QUESTIONS

MCQ's

1. ©, 2. (b), 3. (c), 4. (a), 5. (c), 7. (d), 8. (a), 9. (b), 10. (a)

11. (b), 12. (b), 13. (d), 14. (c), 15. (b)

True False Questions

1. False
2. True
3. True
4. True
5. False
6. False
7. True
8. False

CHAPTER - 9

FINANCIAL STATEMENTS OF SOLE PROPRIETORSHIP

Learning Objectives

Financial Statement

- Meaning, objectives and importance.
- Revenue and Capital Receipts.
- Revenue and Capital Expenditure.
- Deferred Revenue expenditure.
- Trading and Profit and Loss Account: Gross Profit.
- Operating profit and Net profit. Preparation. Balance Sheet: need, grouping and marshalling of assets and liabilities. Preparation.
- Adjustments in preparation of financial statements with respect to closing stock, outstanding expenses, prepaid expenses, accrued income, income received in advance, depreciation, bad debts, provision for doubtful debts, provision for discount on debtors, Abnormal loss, Goods taken for personal use/staff welfare, interest on capital and managers commission.
- **Preparation of Trading and Profit and Loss account and Balance Sheet** of a sole proprietorship with adjustments.

Teaching Methodology

For teaching this topic the teacher should use discussion method, explanation method, illustration method etc.

Financial Statements

Financial statements are those statements that are prepared at the end of an accounting period to ascertain the performance and financial position of a business. These are also called final account. Financial statements of sale proprietorship are trading account Profit and loss Account and Balance sheet.

Final statements include these statements :

i) **Income statement (Trading and Profit and Loss Account) –** Prepared to ascertain gross profit and net profit/loss during an accounting period.

ii) **Statement of Financial Position (Balance Sheet) –** Prepared to ascertain position (assets, liabilities and capital) of an enterprise at a particular point of time.

iii) **Schedules and notes forming part of Balance sheet and income statement –** to give detail of various items shown in both the statements.

Objectives of Preparing Financial Statements.

a) To present a true and fair view of the financial performance of the business.

b) To present a true and fair view of the financial position of the business.

c) Helps in estimating the extent of a company's capacity to earn profit.

IMPORTANCE OF FINANCIAL STATEMENTS

a) **Importance to Management:** The financial statements helps the management to know about the current position of the business as up to date, accurate and systematic information relating to the business. It enables the management to identify the current position, progress of the business and the business prospects which leads the managers to take necessary remedies and plans to develop the business environment.

b) **Importance to Shareholders (Owners):** Financial statements enables the shareholders to know about the performance of the management and it will give the relevant information of the effectiveness, efficiency and the current financial position of the business.

c) **Importance to Leaders or Creditors:** The financial statements provides the useful. information or guide to the suppliers or the creditors of the enterprise. Financial Statements provide information of the company's short term solvency.

d) **Importance to staff:** The financial statements provide the profit and loss account of the business. This enables the staff to identify the profit condition of the business and helps to negotiate for the better salary because the profit of the company depends on the salary for the staff.

Capital Expenditure:

The non-recurring expenditure whose benefit is derived by the business for more than a year is called Capital Expenditure.

It includes amount spent or liabilities incurred to acquire or improve any fixed assets or acquiring any legal rights or first-time expenses incurred to make fixed assets workable e.g. purchase of machinery/building/furniture etc., expenses incurred to acquired Patents, Trade-mark etc. and expenditure incurred for getting an asset ready to use (like installation exp., carriage, first time expenses incurred on second hand fixed asset for making it ready to use).

Capital expenditures are shown on the assets side of the Balance sheet.

In Short: Capital expenditures either increases assets or decreases liabilities.

Revenue Expenditure

The recurring and routine nature expenditures which are incurred for operating the business smoothly and which help to maintain business's earning capacity, are called Revenue expenditure e.g. expenses incurred for producing finished goods such as direct expenses, purchase of raw material and other expenses as rent, salary, repairs etc.

The benefit of these expenses last in one year (give benefit up to one year). These expenses are shown in Debit side of income statement (trading and profit and loss account).

In short: Revenue expenditures neither increases assets nor decreases liabilities.

Deferred Revenue Expenditure

The expenditure which is revenue in nature, but the heavy amount spent and benefit likely to be derived over a number of years called deferred revenue expenditure e.g. heavy expenses on advertising on launching of a new product and hence it is capitalized like any fixed asset.

Accounting treatment of Deferred Revenue Expenditure

As per matching principle, expenses incurred in an accounting period are matched with the revenue recognized in that accounting period. So the whole deferred revenue expenditure should be spread over the number of years over which benefit is likely to be derived.

During the current accounting year (a) Only that portion of the expenditure should be charged to the profit and loss account which has facilitate the enterprise to earn revenue during current year (b) Remaining amount of expenditure be carried forward to the next year and shown in the assets side of balance sheet (It is also called a Fictitious Asset).

Capital Receipt

Capital receipts are those irregular receipts that don't affect profit or loss of business; it either increases the liabilities (raising of loan) or reduces the fixed assets (by sale of fixed assets), so it will be shown in Balance sheet.

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

In Short: Capital Receipts either increase Liabilities or decreases Assets.

Revenue Receipt

Revenue receipts are received in the normal and regular course of business like Receipts from sale of goods and rendering services to customers. Income from non-operating business activities (like income from investment i.e. interest and dividend received and rent received, Commission and other fees received for non-operating business etc. These receipts increases profit and shown in the credit side of the Trading and Profit &Loss account.

In short: Capital Receipts neither increases Liabilities nor decreases Assets.

Types of Expenses

Direct Expenses : Those expenses which are incurred on purchasing of goods and for converting raw material into the finished goods e.g.

Manufacturing wages, Expenses on purchases (including all duty and tax paid on purchases), Carriage/Freight/Cartage inwards, Production expenses (such as power and fuel, water etc.), factory expenses (e.g. lighting, rent and rates). Royalty based on Production etc.

Note : All direct expenses are debited to Trading account.

Indirect Expenses : Those expenses which are not directly related to production or purchase of the goods are called indirect expenses. It includes those expenses which are related to office and administration, selling and distribution of goods and financial expense etc.

These expenses are shown in the debit side of the Profit and Loss Account.

Calculation of Gross Profit

- Gross Profit = Net Sales – Cost of Goods Sold
- Cost of Goods Sold = Opening Stock + Net Purchases + Direct Expenses – Closing stock
- Net Purchases = Total Purchases - Purchase Return
- Net Sales = Total Sales - Sales Return

Calculation of Operating Profit

- Operating Profit = Net Sales – Operating Cost

  or
- = Gross Profit – (Office and Administrative Expenses + Selling and Distribution etc.)
- Operating Cost = Cost of Goods Sold + Office and Administrative Expenses + Selling and Distribution Expenses.
- Net Profit = Operating Profit + Non-operating income – Non-operating expenses.

Operating Expenses

The expenses which are related to the main or normal activities of the business e.g. office and Administrative expenses, selling and distribution expenses, Operating profit is also called EBIT (Earnings before interest and taxes)

INCOME STATEMENT

It is divided into two parts:

1. Trading Account which shows the gross profit or gross loss.
2. Profit and Loss Account which shows the net profit or net loss.

Format of Trading Account

Name of Business Firm

Trading Account

Dr. Cr.

Particulars	₹	Particulars	₹
To Opening Stock	......	By Sales	
To Purchases		Less : Sales Returns or	
Less : Purchases Return		Return inwards	
Returns outwards	......	By Scrap sales	......
To All Direct Expenses	......	By Closing Stock	......
To Wages	......		
To Carriage inwards			
To Gas, Fuel and power	......		
To Freight, octroi and cartage	......		
To Manufacturing Expenses			
To Custom or import duty	......		
To Dock and clearing charges	......		
To Excise duty	......		
To Factory rent	......		
To Royalty	......		
To Gross Profit transferred to		By Gross Loss transferred to	......
Profit and Loss A/c		Profit and Loss A/c	
(Balancing figure)	......	(Balancing figure)	

Illustration 1

Opening stock ₹30,000, Net Purchase ₹54600 expenses on purchase ₹5000, Net Sales ₹100,000, closing stock ₹40,000 calculate cost of goods sold and gross profit.

Solution :

Cost of Goods sold = Opening stock + Net Purchase + expenses on purchase – Closing Stock

= ₹ 30,000 + ₹ 54,600 + ₹ 5,000 – ₹ 40,000

= ₹ 49,600

Gross Profit = Net sales – Cost of goods sold

= ₹ 100,000 – ₹ 49,600

= ₹ 50,400

Illustration 2

Net sales during the year is ₹ 3,00,000, Gross profit is 25% on sales. Find out cost of goods sold.

Solution :

Gross Profit = ₹ 300,000 $\times \frac{25}{100}$ = ₹ 75,000

Cost of goods sold = Net Sales – Gross Profit

= ₹ 300,000 – ₹ 75,000

= ₹ 2,25,000

Illustration 3

Net sales during the year is ₹ 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 x $\frac{25}{125}$ = ₹ 1,20,000

Cost of goods sold = Net Sales – Gross Profit

= ₹ 6,00,000 – ₹ 1,20,000 = ₹ 4,80,000

Note : Gross profit 25% or $\frac{1}{4}$ th on cost is equal to $\frac{1}{5}$ th on sales

Gross profit = ₹ 6,00,000 × $\frac{1}{5}$ th = ₹ 1,20,000

Illustration 4

Calculate Net Sales and Gross Profit from the following information.

Cost of goods sold ₹ 2,00,000

Gross profit 20% on sale

Solution

Let sale = x

Sale = Cost of good sold + Gross Profit

x = ₹ 200,000 + .20x

x = ₹ 250,000

Gross Profit = ₹ 250,000 – ₹ 200,000 = ₹ 50,000

Note : Gross Profit 20% or $\frac{1}{5}$ th on sale, equal to $\frac{1}{4}$ th on cost

Gross Profit = ₹ 200,000 × $\frac{1}{4}$ = ₹ 50,000

Illustration 5

Calculate Gross Profit

	₹
Total Purchase	680,000
Purchase Return	30,000
Direct Expenses	70,000
Carriage Outwork	15,000

3/4 of the goods are sold ₹ 600,000

Solution

Cost of goods sold = Total Purchase – Purchase Return + Direct Expenses

= ₹ 6,80,000 – ₹ 30,000 + ₹ 70,000 = ₹ 7,20,000

Cost of 3/4 of the goods sold = ₹ 7,20,000 x $\frac{3}{4}$ = ₹ 5,40,000

Gross Profit = Sales – Cost of goods sold

= ₹ 6,00,000 – ₹ 5,40,000

= ₹ 60,000

Illustration 6

Calculate the amount of operating profit from the following balances:

	₹
Net sales	5,00,000
Cost of goods sold	3,00,000
Operating Expenses	1,20,000

Solution

Operating Cost = Cost of Goods Sold + Operating Expenses

= ₹ 3,00,000 + ₹ 1,20,000

= ₹ 4,20,000

Operating Profit = Net Sales – Operating Cost

= ₹ 5,00,000 – ₹ 4,20,000

= ₹ 80,000

Illustration 7

Calculate the value of closing stock from the following information :

	₹		₹
Purchase	93,000	Wages	20,000
Sales	1,20,000	Carriage Outward	3,200

Rate of Gross Profit 40% on sales

Solution

Trading Account for the year ended

Dr. Cr.

Particulars	₹	*Particulars*	₹
To Purchases	93,000	By Sales	1,20,000
To Wages	20,000	By Closing Stock (Bal. Fig.)	41,000
To Gross Profit (Transferred to Profit & Loss Account)	48,000		
	1,61,000		1,61,000

Illustration 8

This information is provided by Mr. Rohit

Stock as on 01.04.2021 ₹ 20,000

During the year Sales was ₹ 4,00,000; Purchases ₹ 2,90,000; Carriage Inwards ₹ 8,000; Clearing charges ₹ 10,000; Sales Returns ₹ 3,000; Purchases Returns ₹ 4,000; Carriage Outwards ₹ 5,000 and Stock on 31.03.2021 was ₹ 30,000.

Calculate cost of goods sold and prepare Trading Account for the year ending 31.03.2021.

Solution :

Trading Account for the year ended on March 31, 2021

Dr. Cr.

Particulars	₹	*Particulars*	₹
To Opening Stock	20,000	By Sales 4,00,000	
To Purchases 2,90,000		Less : Sales Returns (3,000)	3,97,000
Less: Returns 4,000	2,86,000	By Closing Stock	1,30,000
To Carriage Inwards	8,000		
To Clearing Charges	10,000		
To Gross Profit (Transferred to Profit & Loss Account)	1,03,000		
	4,27,000		4,27,000

Cost of goods sold = Net Sales – Gross Profit

= ₹3,97,000 – ₹1,03,000

= ₹2,94,000

Adjusted Purchase :

Sometimes the opening and closing stock are adjusted through purchases account. In that case, the entry recorded is as follows :

Closing Stock A/c Dr.

To Purchase A/c

This entry reduces the amount in the purchases account and is also known as adjusted purchases which is shown on the debit side of the Trading and profit & loss account.

When the opening and closing stocks are adjusted through purchases, the Trial Balance does not show any opening stock. Instead, the closing stock shall appear in the Trial Balance (not as additional information or as an adjustment item) and so also the adjusted purchases.

Illustration 9

Prepare the Trading Account for the year ended 31st March, 2021 from the following information. Adjusted purchase ₹ 25,00,000; Freight outwards ₹ 15,000; Wages ₹ 1,68,000; Octroi charges ₹ 2,000; Carriage inwards ₹ 20,000; Fuel & Power ₹ 30,000; Office rent ₹ 18,000; Trade expenses ₹ 10,000; Sales ₹ 32,00,000; Closing Stock ₹ 1,50,000

Solution :

Trading Account

for the year ending 31st March, 2021

Dr. Cr.

Particulars	₹	*Particulars*	₹
To Adjusted Purchases	25,00,000	By Sales	32,00,000
To Wages	1,68,000		
To Octroi Charges	2,000		
To Carriage Inwards	20,000		
To Fuel and Power	30,000		
To Gross Profit (transferred to profit or loss A/c.)	4,80,000		
	32,00,000		32,00,000

Format of Profit & Loss Account
Profit & Loss Account
for the year ending........

Dr. Cr.

Particulars	₹	***Particulars***	₹
To Gross Loss		By Gross Profit	
(Transferred from Trading A/c)		(Transferred from Trading A/c)	
Office & Admin. Expenses		By Rent Received	
To Salaries		By Discount Received	
To Rent, Rates & Taxes		By Rebates	
To Printing and Stationery		By Commission Received	
To Salaries & Wages		By Interest Received	
To Postages and Telephones		By Dividend Received	
To Office Lighting		By Bad Debts Recovered	
To Insurance Premium		By Apprentice fees or premium	
To Legal Expenses		By Gain on Sale of Fixed Asset	
To Establishment Expenses		By Miscellaneous Receipts	
To Audit Fees		By Net Loss	
To Trade Expenses		(Transferred to Capital Account)	
To Travelling Expenses		(Excess of Debit Side Over	
To General Expenses		Credit Side)	
Selling & Distribution Exp.			
To Carriage and Freight Outwards			
To Commission			
To Brokerage			
To Advertisement			
To Publicity			
To Bad Debts			
To Export Duty			
To Packing Expenses			
To Salaries of Salesman			
To Delivery Van Expenses			
Financial Exp.			
To Interest paid on loans			
To Interest Paid (Dr.)			
To Discounts Allowed (Dr.)			
To Rebate Allowed			

To Bank Charges **Miscellaneous Exp.** To Repairs To Depreciation on Fixed Assets To Conveyance Expenses To Entertainment Expenses To Donations & Charity To Loss on Sale of Fixed Assets To Stable Expenses To Loss by Fire To Loss by theft To Unproductive Expenses To Net Profit Transferred to Capital Account (Excess of Credit Side over Debit Side)			

* The words 'To' and 'By' are generally not used these days.
* The name of Business Firm is stated on the top of Trading and P & L Account.

Illustration 10

From the following information, prepare a Profit & Loss Account for the year ending 31st March 2021.

Gross Profit ₹70,000; Rent ₹5,000; Salary ₹15,000; Wages ₹8,000; Commission paid ₹7,000; Interest on loans ₹5,000; Advertising ₹3,000; Discount Received ₹2,000; Printing & Stationery ₹1,000; Legal charges ₹2,500; Bad Debts ₹1,500; Depreciation ₹1,000; Income received on Investment ₹3,000; Loss by Fire ₹2,200; Bad Debts recovered ₹200; Freight outward ₹600, Audit Fee ₹450.

Solution :

Profit and Loss A/C of ....

for the year ending 31st March, 2021

Dr. Cr.

Particulars	₹	***Particulars***	₹
To Rent	5,000	By Gross Profit	70,000
To Salary	15,000	By Discount received	2,000
To Commission	7,000	By Bad debts Recovered	200

To Interest on Loans	5,000	By Income from Investment	3,000
To Advertising	3,000		
To Printing and Stationery	1,000		
To Legal Charges	2,500		
To Bad Debts	1,500		
To Depreciation	1,000		
To Loss by Fire	2,200		
To Freight outward	600		
To Audit Fee	450		
To Net Profit	30,950		
(to transferred to Capital A/C)			
	75,200		75,200

Illustration 11

From the following balances obtained from the accounts of Mr. Hemant, prepare the Trading and Profit & Loss Accounts:

Particulars	₹	*Particulars*	₹
Stock on April 01, 2020	8,000	Bad debts	1,200
Purchases for the year	22,000	Rent	1,200
Sales for the year	42,000	Discount (Dr.)	600
Wages	2,500	Commission paid	1,100
Salaries & Wages	3,500	Sales Expenses	600
Advertisement	1,000	Repairs	600

Closing stock on March 31, 2021 is ₹ 4,500.

Solution :

Books of Mr. Hemant

Trading and Profit & Loss Account

for the year ended on March, 31, 2021

Dr. Cr.

Particulars	₹	*Particulars*	₹
Opening stock	8,000	Sales	42,000
Purchases	22,000	Closing stock	4,500
Wages	2,500		
Gross Profit c/d	14,000		
	46,500		46,500

Particulars	₹	*Particulars*	₹
Salaries and Wages	3,500	Gross Profit b/d	14,000
Rent	1,200	(transferred from Trading A/c)	
Advertisement	1,000		
Commission	1,100		
Discount	600		
Bad debts	1,200		
Sales Expenses	600		
Repairs	600		
Net Profit	4,200		
(transferred to capital)			
	14,000		14,000

BALANCE SHEET

Meaning of Balance Sheet

Balance sheet is a summarised statement of assets and liabilities, prepared generally at the end of financial year to show the financial position of the business. All liabilities are put on the left hand side of balance sheet where all assets are shown on its right hand side.

GROUPING AND MARSHALLING OF ASSETS AND LIABILITIES

Grouping : The term 'Grouping' means putting together items of a similar nature under a common heading. For example, under the heading 'Trade creditors, the balances of the ledger accounts of all the suppliers from whom goods have been purchased on credit, will be shown.

Marshalling : It refers to the order in which the various assets and liabilities are shown in the Balance Sheet. The assets and liabilities can be shown either **in the order of liquidity** or **in the order of permanence**.

☞ **Order of Liquidity**

1. The assets are arranged in the order of their liquidity *i.e.,* the most liquid asset (e.g., cash in-hand), is shown first. The least liquid asset (e.g., goodwill) is shown last.
2. The liabilities are arranged in the order of timing i.e., the liabilities which are to be paid immediately (e.g., Creditors) are shown first and which are to be paid later are shown at last (long-term loans).

A general format of a Balance Sheet in order of liquidity is shown below :

Balance Sheet of ....

As at..............

Liabilities		₹	***Assets***	₹
Current Liabilities:			**Current Assets:**	
Bank Overdraft		×××	Cash-in hand	
Bills Payable		×××	Cash at Bank	×××
Sundry Creditors		×××	Bills Receivable	×××
Outstanding Expenses		×××	Short Term Investment	×××
Income received-in-advance		×××	Sundry Debtors	×××
Long-term Liabilities:			Prepaid Expenses	×××
Long term loan		×××	Accrued Income	×××
Reserve and Surplus			Closing Stock	×××
Capital	×××		**Investment: (long term)**	×××
Add : Interest on Capital	×××		**Fixed Assets:**	×××
Add : Net Profit	×××		Furniture an Fixture	×××
Less : Drawings	×××		Plant & Machinery	×××
Less : Interest on Drawings	×××		Building	×××
Less : Income Tax	×××		Land	×××
Less : Life Insurance Premium	×××		Goodwill	×××
Less : Net Loss	×××	×××		

☞ **Order of Permanence :**

This order is exactly reverse of the liquidity order.

1. The assets are arranged in the order of their performance i.e., the least liquid asset (e.g., goodwill) is shown first and the most liquid asset (e.g., Cash-in-hand) is shown last.
2. The least urgent payment to be made (e.g., short-term creditors) is shown last.
3. A company is required to prepare the balance sheet in order of performance.

A general format of a Balance Sheet in the order of performance is shown below :

Balance Sheet of ....

Liabilities	₹	***Assets***	₹
Capital		**Fixed Assets:**	
Opening Balance XXX		Goodwill	XXX
Add: Net Profit XXX		Land	XXX
(Less: Net Loss)		Building	XXX
Less: Drawings XXX	XXX	Plant & Machinery	XXX
Long-term Liabilities:		Furniture & Fixtures	XXX
Long term loan	XXX	Investment: (long term)	XXX
Current liabilities:		Current Assets:	
Income received-in-advance	XXX	Closing stock	XXX
Outstanding Expenses	XXX	Accrued Income	XXX
Sundry Creditors	XXX	Prepaid expenses	XXX
Bills Payable	XXX	Sundry Debtors	XXX
Bank Overdraft	XXX	Bills Receivable	XXX
		Cash at Bank	XXX
		Cash in Hand	XXX
	XXX		XXX

Illustration 12

From the following Trial Balance of Shri Hemant Babu prepare Trading and Profit and Loss A/C for the year ending 31st March 2019 and Balance Sheet as on that date. The Closing Stock on 31st March 2019 was valued at ₹ 25,000.

Debit Balances	₹	**Credit Balances**	₹
Stock (1-4-2015)	20,000	Sundry Creditors	15,000
Purchases	75,000	Purchase Returns	3,000
Sales Return	8,000	Sales	2,50,000
Freight and Carriage	7,500	Commission	3,300
Wages	36,500	Capital	1,70,500
Salaries	12,000	Interest on Bank Deposit	2,000
Repairs	1,200	B/P	6,200
Trade Expenses	4,000		

Rent and Taxes	24,000		
Cash in Hand	5,700		
B/R	4,000		
Debtors	55,000		
Plant and Machinery	160,000		
Withdrawals (Drawings)	16,600		
Bank Deposit	20,500		
	450,000		450,000

(In the Books of Hemant Babu)

Solution

TRADING AND PROFIT AND LOSS ACCOUNT

for the year ending 31st, March 2019

Dr. Cr.

Particulars	₹	*Particulars*	₹
To Opening Stock	20,000	By Sales Return 2,50,000	
To Purchases 75,000		Less : Sales Return 8,000	2,42,000
Less : Purchase Returns 3,000	72,000	By Closing Stock	25,000
To Freight & Carriage	7,500		
To Wages	36,500		
To Gross Profit	1,31,000		
	2,67,000		2,67,000
To Salaries	12,000	By Gross Profit b/d	1,31,000
To Repairs	1,200	By Commission	3,300
To Trade Expenses	4,000	By Interest on Bank Deposit	2,000
To Rent & Taxes	24,000		
To Net Profit transferred to Capital A/c	95,100		
	1,36,300		1,36,300

BALANCE SHEET

as on 31st March, 2019

Liabilities	₹	Assets	₹
B/P	6,200	Cash in hand	5,700
Sundry Creditors	15,000	B/R	4,000
Capital 1,70,500		Sundry Debtors	55,000

Add : Net Profit	95,100		Closing Stock	25,000
	2,65,600		Bank Deposit	20,500
Less : Drawings	16,600	2,49,000	Plant & Machinery	1,60,000
		2,70,200		2,70,200

Note :– The heading of Trading A/c and Profit & Loss A/c is put collectively as 'Trading and Profit & Loss A/c'. The first part of this Account is Trading A/c, whereas the second part is Profit & Loss A/c.

Adjustment in preparation of financial statements of Sole-proprietor

Meaning of Adjustment entries : Those entries which need to be passed at the end of the accounting year to show the accurate profit or loss and fair financial position of the business.

Need of Adjustment : There are number of transactions that may not find the place in the Trial Balance due to any reason such as Closing Stock (because it is valued at the end of the year), Manager's Commission based on Net profits (because its calculation requires preparation of Income Statement first). These transactions can only be taken into account by passing Adjustment entries so that their impact on the profitability and financial position can be shown.

Closing Stock : The closing stock represents the cost of unsold goods lying in the stores at the end of the accounting period.

Outstanding Expenses : When expenses of an accounting period remain unpaid at the end of an accounting period, they are termed as outstanding expenses.

As they relate to the earning of revenue during the current accounting year, it is logical that they should be duly charged against the revenue for computation of the correct amount of profit or loss.

Prepaid Expenses : At the end of the accounting year, it is found that the benefits of some expenses have not yet been fully received; a portion of its benefit would be received in the next accounting year. This portion of expenses, is carried forward to the next year and is termed as prepaid expenses.

Accrued Income : It may sometime happen that certain items of income such as a interest on loan, commission, rent, etc. are earned during the current accounting year but have not been actually received by the end of the same year. Such incomes are known as accrued income.

Income Received in Advance : Sometimes, a certain income is received but the whole amount of it does not belong to the current period. The portion of the income which belongs to the next accounting period is termed as income received in advance or an Unearned Income.

Depreciation : It is the decline in the value of assets on account of wear and tear and passage of time. It is treated as a business expense and is debited to profit & loss account. In case of intangible assets it is termed as Amortisation.

This, in effect, amounts to writing-off a portion of the cost of an asset which has been used in the business for the purpose of earning profits.

Transactions	Journal Entries	Effects
Closing Stock	Closing Stock A/c Dr. To Trading A/c	(i) Credit side of Trading A/c. (ii) Show on the assets side of BALANCE SHEET.
Outstanding/Unpaid Expenses	Expenses A/c Dr. To outstanding Exp. A/c	(i) Add to the concerned item on the Debit side of Trading/Profit & Loss A/c. (ii) Show on the liabilities side of BALANCE SHEET.
Prepaid expenses/ Unexpired expenses	Prepaid Expenses A/c Dr. To expenses A/c	(i) Deduct from the concerned expenses on the debit side of Profit & Loss A/c (ii) Show on the assets side of BALANCE SHEET.
Accrued income / Income due but not received	Accrued Income A/c Dr. To Income A/c	(i) Add to the concerned income on Credit side of Profit and Loss A/c (ii) Show on the assets side of BALANCE SHEET.
Unearned income/ Income received in Advance	Income A/c Dr. To Unearned Income A/c	(i) Deduct from the concerned income on the credit side of Profit & Loss A/c (ii) Show on the liabilities side of BALANCE SHEET.
Depreciation	Depreciation A/c Dr. To Asset A/c	(i) Show on the debit side of Profit Loss A/c (ii) Deduct from the concerned asset in the Balance Sheet.

Illustration 13

The following were the balances extracted from the books of Roshan as on March 31, 2021.

Debit Balance	₹	*Credit Balance*	₹
Cash in hand	540	Sales	98,780
Cash at bank	2,630	Return	500
Purchases	40,675	Outwards	
Return inwards	680	Capital	62,000
Wages	8,480	Sundry	6,300
Fuel and Power	4,730	Creditors	
Carriage on sales	3,200	Rent	9,000
Carriage on purchases	2,040		
Opening stock	5,760		
Building	32,000		
Freehold land	10,000		
Machinery	20,000		
Salaries	15,000		
Patents	7,500		
General expenses	3,000		
Insurance	600		
Drawings	5,245		
Sundry Debtors	14,500		
	1,76,580		1,76,580

Taking into account the following adjustments, prepare Trading and Profit & Loss account and Balance Sheet as on March 31, 2021 :

a) Stock in hand on March 31, 2021 was ₹ 6,800.

b) Machinery is to be depreciated at the rate of 10% and patents @ 20% p.a.

c) Salaries for the month of March, 2021 amounting to ₹ 1,500 were outstanding.

d) Insurance includes a premium of ₹ 170 on a policy expiring on September 30, 2021.

e) Rent receivable ₹ 1,000.

Solution

Books of Roshan

Trading and Profit & Loss Account

for the year ended March 31, 2021

Dr. Cr.

Particulars		₹	*Particulars*		₹
Opening stock		5,760			
Purchases	40,675		Sales	98,780	
Less Return outwards	(500)	40,175	Less Return inwards	(680)	98,100
Wages		8,480	Closing stock		6,800
Fuel and Power		4,730			
Carriage on purchases		2,040			
Gross profit		43,715			
		1,04,900			1,04,900
Salaries	15,000		Gross profit		43,715
Add Outstanding Salaries	1,500	16,500	Rent	9,000	
Carriage		3,200	Add Accrued Rent	1,000	10,000
General expenses		3,000			
Insurance	600				
Less Prepaid Insurance	(85)	515			
Depreciation : machinery	2,000				
Patent	1,500	3,500			
Net profit (transferred to capital account)		27,000			
		53,715			53,715

Balance Sheet

as at March 31, 2021

Liabilities	₹	*Assets*	₹
Sundry creditors	6,300	Cash in hand	540
		Cash at bank	2,630
Salaries outstanding	1,500	Sundry debtors	14,500
		Insurance prepaid	85

Capital	62,000		Stock		6,800
Add Net Profit	27,000		Rent Accrued		1,000
			Freehold Land		10,000
	89,000				
			Building		32,000
Less Drawings	(5,245)	83,755	Machinery	20,000	
			Less Depreciation	(2,000)	18,000
			Patents	7,500	
			Less Depreciation	(1.500)	6,000
		91,555			91,555

Bad Debts : The debtors from whom amounts cannot be recovered are treated in the books of accounts as bad and are termed as bad debts.

Further Bad Debts : These Bad debts is a loss that occurred after preparation of Trial Balance. Further bad debts be added in the bad debts already appearing in the Profit & Loss A/c and Debtors would be reduced with the same amount.

Provision for Bad Debts : In the balance sheet, debtors appears on the assets side of the Balance Sheet, which is their estimated realisable value during next year. It is quite possible that the whole of the amount may not be realized in future. However, it is not possible to accurately ascertain the amount of such bad debts.

Hence, a reasonable estimate of such loss is provided in the book. Such provision is called provision for bad debts. Provision for doubtful debts is shown as a deduction from the debtors on the asset side of the balance sheet.

Note : The provision for doubtful debts brought forward from the previous year is called the opening provision or old provision. When such a provision already exists, the loss due to bad debts during the current year are adjusted against the same and while making provision for doubtful debts required at the end of the current year is called new provision. The balance of old provision as given in trial balance should also be taken into account.

Provision for discount on Debtors : Discount is allowed to customers to encourage them to make prompt payment. The discount likely to be allowed to customers in an accounting year can be estimated and provided for by creating a provision for Discount on debtors.

Provision for discount on debtors is made on good debtors which are arrived at by deducting further bad debts and provision for bad debts out of Debtors shown in the Balance sheet.

Transactions	Journal Entries	Effects
To write off bad debts	Bad Debts A/c Dr. To Debtors	(i) Debit side of P&L A/c. (ii) Deduct from debtors on the assets side of Balance Sheet.
Provision for bad and doubtful debts	(I) provision for Doubtful Debts A/c Dr. To Debtors A/c	(i) Debit side of P & L A/c. (ii) Deduct from debtors on the assets side of Balance Sheet.
Provision for Discount on debtors	(ii) P & L A/c Dr. To Provision for Discount on Debtors A/c	(i) Debit side of P & L A/c. (ii) Deduct from debtors on the assets side of Balance Sheet.

Illustration 14

An exact from a Trial Balance on March 31, 2019 is given below :

PARTICULARS	₹
Sundry Debtors	32,000
Bad Debts	2,000
Provision for Bad Debts	3,500

Additional Information

Write-off further Bad Debts ₹ 1,000 and create a provision for Doubtful Debts @ 5% on debtors.

Solution

Journal

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2019 March 31	(a) Bad debts A/c	Dr.		1,000	
	To sundry debtors A/c				1,000
	(Entry for further Bad Debts)				
	(b) Provision for Doubtful Debts A/c	Dr.		3,500	
	To Bad-debts A/c				3,500
	(Bad debts adjust against provision)				
	(c) Profit & Loss A/c	Dr.		1,050	
	To provision for doubtful debts A/c				1,050
	(Amount charges from P & L A/c)				

Profit and Loss Account'
for the year ended March 31, 2019

Dr. Cr.

Particulars		₹	*Particulars*	₹
Provision for doubtful debts:				
Bad debts	2,000			
Add: Further bad debts	1,000			
Add: New provision	1,550			
	4,550			
Less: Old provision	3,500			
		1,050		

'Only relevant items.

Extract of Balance Sheet* as at March 31, 2019

Liabilities	₹	*Assets*		₹
		Sundry debtors	32,000	
		Less Further Bad-debts	(1,000)	
			31,000	
		Less Provision for doubtful debts	(1,550)	29,450

*Only relevant items in debit side of P & L A/C

Note : The amount of new provision for doubtful debts has been calculated as follows : ₹ 31,000 × 5/100 = ₹1,550

Illustration 15

The following balances were extracted from the books of Shri Himanshu Traders on March 31, 2019.

Name of the Ledger A/c	₹	*Name of the Ledger A/c*	₹
Capital	1,00,000	Rent (Cr.)	2,100
Drawings	17,600	Railway freight on sales	16,940
Purchases	80,000	Carriage inwards	2,310
Sales	1,40,370	Office expenses	1,340
Purchases return	2,820	Printing and Stationery	660
Stock on April 01, 2018	11,460	Postage and Telegram	820
Bad debts	1,400	Sundry debtors	62,070
Bad debts Provision on		Sundry creditors	18,920
April 01, 2018	3,240	Cash in bank	12,400
		Cash in hand	2,210
Rates and Insurance	1,300	Office furniture	3,500
Discount (Cr.)	190	Salaries and Commission	9,870
B/R	1,240	Addition to buildings	7,000
Sales returns	4,240		
Wages	6,280		
Buildings	25,000		

Prepare the Trading and Profit & loss account and a Balance Sheet as on March 31, 2019 after keeping in view the following adjustments :

i) Depreciate old building by ₹ 625 and addition to building at 2% and office furniture at 5%.

ii) Write-off further Bad Debts ₹ 570.

iii) Increase the Bad Debts Reserve to 6% of Debtors.

iv) ₹ 570 are outstanding for salary.

v) Rent receivable ₹ 200 on March 31, 2019

vi) Interest on capital is to be charged @ 5%.

vii) Unexpired insurance ₹ 240.

viii) Stock was valued at ₹ 14,290 on March 31, 2019.

Solution

Books of Himanshu Traders
Trading and Profit & Loss Account
for the year ended on March 31, 2019

Dr. Cr.

Particulars		₹	*Particulars*		₹
Opening stock		11,460	Sales	1,40,370	
Purchases	80,000		Less : Sales Return	(4,240)	1,36,130
Less: Purchase return	(2,820)	77,180			
Carriage inwards		2,310			
Wages		6,280	Closing stock		14,290
Gross profit		53,190			
		1,50,420			1,50,420
Railway freight on sales		16,940	Gross profit		53,190
Office expenses		1,340	Rent	2,100	
Postage and Telegram		820	Add Accrued rent	200	2,300
Printing and Stationery		660	Discount		190
Salary and Commission	9,870				
Add Outstanding salary	570	10,440			
Rates and Insurance	1,300				
Less: Unexpired insurance	(240)	1,060			
Bad debts	1,400				
Add: Further bad debts	570				
Add: New bad debts provision	3,690				
	5660				
Less: Old provision for Bad debts	(3,240)	2,420			
Interest on capital		5,000			
Depreciation on building		625			
Depreciation on additions		140			
Depreciation on Furniture		175			
Net profit (transferred to capital account)		16,060			
		55,680			55,680

Balance Sheet as on March, 31, 2019

Liabilities		₹	*Assets*		₹
Sundry creditors		18,920	Cash at bank		12,400
Outstanding salaries		570	Cash in hand		2,210
			B/R		1,240
Capital	1,00,000				
Add: Net profit	16,060		Debtors	62,070	
	1,16,060				
Add: Interest capital	5,000		Less: Further Bad Debts	570	
Less: Drawings	(17,600)	1,03,460		61,500	
			Less: New provision for	(3.690)	57,810
			Bad Debts		
			Accrued Rent		200
			Prepaid Insurance		240
			Building	25,000	
			Less Depreciation	(625)	24,375
			Addition to building	7,000	
			Less Depreciation	(140)	6,860
			Office Furniture	3,500	
			Less Depreciation	(175)	3,325
			Closing stock		14,290
		1,22,950			1,22,950

Manager's Commission

The manager of the business is sometimes given the commission on the net profit of the company. The percentage of the commission is applied on the profit either before charging such commission or after charging such commission . In the absence of any such information, it is assumed that commission is allowed as a percentage of the net profit before charging such commission.

1. **Commission on net profits *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 Dr. Profit & Loss A/c Dr. To loss by .... A/c	
2) Goods taken by the proprietor for his personal use	Drawings A/c Dr. To Purchase A/c	1) Deduct the amount of goods from the purchases in Trading A/c. 2) Deduct the amount from the capital on the liabilities side of Balance Sheet.
3) Goods distributed as free sample	Advertisement A/c Dr. To Purchase A/c	1) Deduct the amount from the purchases on the debit side of Trading A/c. 2) Show on the debit side of P & L A/c.
4) Goods given as charity	Charity A/c Dr. To Purchase A/c	1) Deduct the amount of goods from the purchases in Trading A/c. 2) Show on the debit side of P & L A/c.

Key Points :

1. **If closing stock** shown in Trial Balance then it will be shown in balance sheet only. It is assumed that purchases amount already get adjusted in Trial Balance.
2. **Salary and** wages will be shown in profit & loss A/c debit side (assuming that salary is prominent) while wages and salary will be shown in Trading A/c debit side, (wages are prominent).
3. **Freight, carriage, cartage** will be shown in Dr. side of Trading A/c. if inward word attached with these then it also debited to Trading A/c, if outward word attached with these item then it will be debited to Profit & loss account.
4. **Any expenses** related to factory are debited to Trading account like factory lighting, factory rent if factory word is not given then lighting and rent will be debited to Profit and loss account.
5. **Trade expenses** always debited to Profit and loss A/c not as name indicate Trading Account.

6. **Packaging material :** Cost of packaging material used in product are direct expenses as it refers to small containers which form part of sale, it will be debited to Trading Account.

7. **Packing :** The packing refers to the big containers that are used for transporting the goods and regarded as indirect expenses and debited to Profit & loss account.

8. **Adjusted purchases** means the amount of purchases is adjusted by way of adding opening stock and reduced by the amount of closing stock, e.g., purchases ₹ 1,00,000; opening stock ₹ 12,000, closing stock ₹ 8,000. Calculate adjusted purchases.

   Adjusted purchases = purchases + opening stock - closing stock = ₹ 1,00,000 + ₹. 12,000 – ₹ 8,000 = ₹ 1,04,000

   When adjusted purchases is given in trial balance, then there is no need of debiting opening stock and crediting closing stock in Trading Account.

In this case closing stock will be shown in balance sheet only.

Remember

While preparing Final Account The items which are given inside the Trial Balance are written only once either in Income Statement or in the Balance Sheet. (Assuming that they have been already adjusted in the respective account). On the other hand, the items which are given outside the Trial Balance (known as adjustment) are to be written twice because the double entry in respect of all adjustments is to be completed in the final accounts itself.

Table Showing Adjustment at a Glance

	Adjustment	Adjustment Entry	Treatment in Trading A/c	Treatment in Profit & Loss A/c	Treatment in Balance Sheet
1.	Closing Stock	Closing Stock A/c Dr. To Trading A/c	Shown on the credit side		Shown on the credit side
2.	Outstanding Expenses	Expenses A/c Dr. To Outstanding Expenses A/c	Added to the respective expense on the debit side	Added to the respective expense on the debit side	Shown on the liabilities side
3.	Prepaid or unexpired expenses	Prepaid Expenses A/c Dr. To Expenses A/c	Deducted from the respective expense on the debit side	Deducted from the respective expense on the debit side	Shown on the assets side
4.	Depreciation	Depreciation A/c Dr. To Asset A/c		Shown on the debit side	Deducted from the concerned asset on the assets side
5.	Accured Income (Income earned but not received)	Accured Income A/c Dr. To Income A/c		Added to the respective income on the credit side	Shown on the assets side
6.	Unearned Income (Income received in advance)	Income A/c Dr. To Unearned Income A/c		Deducted from the respective income on the credit side	Shown on the liabilities side
7.	Interest on capital	Interest on Capital A/c Dr. To Capital A/c		Shown on the debit side	Added to the capital on the liabilities side
8.	Interest on Drawings	Drawings A/c Dr. To Interest on Drawings A/c		Shown on the credit side	Added to the drawings and then deducted fom capital
9.	Interest on Loan (taken from someone)	Interest on Loan A/c Dr. To Loan A/c		Shown on the credit side	Added to the loan on the liabilities side
10.	Further Bad-debts	Bad-debts A/c Dr. To Sundry Debtors A/c		Added to Bad-debts (given in Trial Balance) on the debit side.	Deducted from debtors on the assets side

11.	Provision for Doubtful debts	Profit & Loss A/c Dr. To Provision for Doubtful Debts A/c		Added to Bad-debts on the debit side	Deducted from Debtors on the assets side
12.	Provision for discount on Debtors	Profit & Loss A/c Dr. To Provision for Discount on Debtors A/c		Shown on the debit side as a separate item	Deducted from Debtors on the assets side
13.	Abnormal loss of stock	Insurance Company A/c Dr. Profit & Loss A/c Dr. To Purchases A/c	Total amount of loss is deducted from purchases on the debit side	Amount not recovered from the insurance company is shown on the debit side	Amount recovered from the insurance company is shown on the assets side.
14.	Charity in the form of goods	Charity A/c Dr. To Purchases A/c	Deducted from purchases on the debit side	Shown on the debit side	
15.	Goods distributed as free samples	Free samples A/c Dr. To Purchases A/c	-do-	Shown on the debit side	
16.	Drawings in goods	Drawings A/c Dr. To Purchases A/c	-do-		Deducted from capital on the liabilities side.
17.	Manager's Commission	Manager's Commission A/c Dr. To Outstanding Commission A/c		Shown on the debit side	Shown on the liabilities side.
18.	Goods sold but omitted to be recorded	Debtors A/c Dr. To Sales A/c	Added to sales on the credit side		Added to Debtors on the assets side.
19.	Goods purchased but omitted to be recorded	Purchases A/c Dr. To Creditors A/c	Added to purchases on the debit side		Added to Creditors on the liabilities side.
20.	Sale of goods in approval basis	(i) Sales A/c Dr. To Debtors A/c (Sale value of goods) (ii) Closing Stock A/c Dr. To Trading A/c (Cost price of goods)	Deducted from sales on the credit side Added to closing stock on the credit side		Deducted from debtors on the assets side. Added to closing stock on the assets side.

Illustration 16

From the following balances of Mr. Ashok. You are required to prepare Trading and Profit & loss account and a balance sheet on March 31, 2019.

Debit Balance	₹	Credit Balance	₹
Plant and Machinery	1,30,000	Sales	3,00,000
Debtors	50,000	Return outwards	2,500
Interest	2,000	Creditors	2,50,000
Wages	1,200	Bills payable	70,000
Salary	2,500	Provision for bad debts	1,550
Carriage Inwards	500	Capital Rent received	2,20,000
Carriage Outwards	700	Rent received	10,380
Return Inwards	2,000	Commission received	16,000
Factory rent	1,450		
Office rent	2,300		
Insurance	780		
Furniture	22,500		
Buildings	2,80,300		
Bills receivable	3,000		
Cash in hand	22,500		
Cash at bank	35,000		
Commission	500		
Opening stock	60,000		
Purchases	2,50,000		
Bad debts	3,500		
	8,70,430		8,70,430

Adjustment

1. Provision for Bad Debts @ 5% p.a. and further Bad debts ₹ 2,000.
2. Rent received in Advance ₹ 6,000.
3. Prepaid Insurance ₹ 200.
4. Depreciation on furniture @ 5% p.a., plant and machinery @ 6% p.a., building @ 7% p.a..
5. Closing stock amounting ₹ 70,000 on 31.03.2019.
6. Goods costing ₹ 1,000 were used by proprietor.

Solution

Books of Mr. Ashok
Trading and Profit and Loss Account
for the year ended March 31, 2019

Particulars		₹	Particulars		₹
Opening stock		60,000	Sales	3,00,000	
Purchases	2,50,000		Less Return	(2,000)	2,98,000
Less : Return	2,500		Closing Stock		70,000
Less : Goods Personal Use	1,000	2,46,500			
Wages		1,200			
Carriage inwards		500			
Factory rent		1,450			
Gross profit		58,350			
		3,68,000			3,68,000
Interest		2,000	Gross profit		58,350
Salary		2,500	Rent received	10,380	
Carriage outwards		700	Less Advance rent	(6,000)	4,380
Office Rent		2,300	Commission received		16,000
Insurance	780				
Less Prepaid Insurance	(200)	580			
Depreciation on furniture		1,125			
Depreciation on Plant and Machinery		7,800			
Depreciation on building		19,600			
Commission		500			
Bad debts	3,500				
Add : Further and debts	2,000				
Add : New provision	2,400				
	7,900				
Less old provision	(1.550)	6,350			
Net Profit (transferred to capital account)		35,272			
		77,730			78,730

Balance Sheet as at March 31, 2019

Liabilities		₹	Assets		₹
Creditors		2,50,000	Cash in hand		22,500
Bills Payable		70,000	Cash at Bank		35,000
Advance rent		6,000	Bills receivable		3,000
Capital	2,20,000		Prepaid insurance		200
Add Net Profit	35,275		Debtors	50,200	
	2,55,275		Less Further	(2.000)	
Less : Goods Taken	1,000		Bad debts	48,000	
for personalise		2,54,275	Less New Provision	(2,400)	45,600
			Plant and Machinery		1,22,200
			Furniture		21,375
			Buildings		2,60,400
			Closing stock		70,000
		5,80,275			5,80,275

Illustration 17

From the following Adjustments and with the help of Trial Balance prepare a Trading and Profit and Loss A/c and Balance sheet as on 31st Dec. 2019.

Dr. Balance	₹	Cr. Balance	₹
Insurance Charges	2,400	Capital	1,70,000
Salaries & Wages	19,400	S. Creditors	20,000
Cash in Hand	200	Sales	1,20,000
Cash at Bank	26,500	Returns outwards	1,200
Trade Expenses	400	Provision for doubtful debts	400
Postage & Telegrams	800	Discount	800
Drawings	6,000	Rent of Premises, Subject for	1,200
Plant & Machinery		one year to 30th June 2019	
Balance on 1st Jan, 2019	1,20,000		
Addition on 1st July, 2019	5,000		
Stock on 1st Jan, 2019	15,000		
Purchases	82,000		
Returns Inward	2,000		
S. Debtors	20,800		
Furniture & Fixture	5,000		
Freight & Duty	2,000		
Carriage Outwards	500		
Rent, Rates & Taxes	4,600		
Printing & Stationery	1,000		

Adjustments

1. Stock on 31st Dec. 2019 was valued at ₹ 24,000 and stationery unused at the end was ₹ 250.
2. The provision for Doubtful Debts is to be maintained at 6% on Sundry Debtors.
3. Create a provision for discount on Sundry Debtors at 2%.
4. Write off ₹ 800 as Bad-Debts.
5. Provide depreciation on Plant and Machinery @ 10% p.a.
6. Insurance is paid up to 31st March 2019.
7. A fire occurred on 25th Dec. 2019 in the Godown and Stock of the value of ₹ 6,000 was destroyed. It was insured and the Insurance co. admitted a claim of ₹ 4,000.

Solutions

Trading and Profit & Loss Account

the year ending 31st Dec. 2019

Dr. **Cr.**

Particulars		₹	*Particulars*		₹
To Opening Stock		15,000	By Sales	1,20,000	
			Less Return	2,000	1,18,000
To Purchases	82,000		By Closing stock		24,000
Less Return	(1,200)				
	80,800				
Less : Loss by fire	(6,000)	74,800			
To Freight & duty		2,000			
To Gross Profit		50,200			
		1,42,000			1.42 000
To Insurance charges	2,400		By Gross Profit		50,200
Less : Prepaid insurance	(600)	1,800			
To Salaries & wages		19,400	By Discount		800
To Trade expenses		400	By Rent of premises sublet	1,200	
			Less : Rent received in adv.	(600)	600
To Postage & telegram		800			
To carriage outwards		500			
To Rent, Rates & wages		4,600			
To Printing & Stationery	1,000				

Less : Unused	(250)	750			
To Bad debts	800				
Add : New reserve	1,200				
	2,000				
Less : Old reserve	(400)	1,600			
To Provision for discount on debtor		376			
To Depreciation on Plant & Mac. (12,000 + 250)		12,250			
To loss by fire	6,000				
Less : Insurance Claim	4,000	2,000			
To Net Profit transferred to Capital		7,124			
		51,600			**51,600**

Balance Sheet As on 31st Dec. 2019

Liabilities		₹	Assets		₹
S. Creditor		20,000	Cash in hand		200
Rent received in		600	Cash at Axis Bank		26,500
advance Capital	1,70,000				
Add : Net Profit	7,124		S. Debtor	20,800	
	1,77,124				
Less : Drawings	6,000	1,71,124	Less : Bad Debts	(800)	
				20,000	
			Less : New Reserve	(1,200)	
				18,800	
			Less : Discount	(376)	18,424
			Insurance company (Claim)		4,000
			Closing stock		24,000
			Stationery unused		250
			Prepaid insurance		600
			Furniture & fixture		5,000
			Plant & Mac.	1,20,000	
			Add : Addition	(5,000)	
				1,25,000	
			Less : Depreciation	(12,250)	1,12,750
		1,91,724			1,91,724

Illustration 18

Give journal entries for the following adjustments in final accounts :

(i) Closing Stock ₹70,000.

(ii) Outstanding salaries ₹15,000.

(iii) Insurance premium amounting to ₹18,000 is paid in advance.

(iv) ₹ 1900 received for rent related to the next accounting period.

(v) Interest accrued but not received during the accounting year ₹ 1,500.

(vi) Write off ₹ 600 as further bad debts.

(vii) Goods costing ₹8,000 destroyed by fire and insurance company admitted a claim for ₹5,000 only.

(viii) Goods costing ₹10,000 (Market value ₹11,000) were taken by proprietor for personal use.

Solution

JOURNAL

Particulars		L.F.	Dr. (₹)	Cr. (₹)
(I Closing Stock A/c	Dr.		70,000	
To Trading A/c				70,000
(Closing Stock transferred to Trading A/c				
(ii) Salaries A/c	Dr.		15,000	
To Outstanding Salaries A/c				15,000
(Outstanding salaries accounted in the books)				
(iii) Prepaid Insurance Premium A/c	Dr.		18,000	
To Insurance Premium A/c				18,000
(Prepaid Insurance accounted in the books)				
(iv) Rent Received A/c	Dr.		1,900	
To Rent Received in Advance A/c				1,900
(Rent received in advance accounted in the books)				
(v) Accrued Interest A/c	Dr.		1,500	
To Interest Received A/c				1,500
(Accrued interest accounted in the books)				
(vi) Bad debts A/c	Dr.		600	
To Sundry Debtors A/c				600
(Further Bad-debts written off)				
(vii) Loss by Fire A/c	Dr.		8,000	
To Purchase A/c				8,000
(Goods destroyed by fire)				
Insurance Co.	Dr.		5,000	
Profit & Loss A/c	Dr.		3,000	
To Loss by Fire A/c				8,000
(Claim accepted by insurance co. and balance transferred to Profit & Loss A/c)				
(viii) Drawings A/c	Dr.		10,000	
To Purchase A/c				10,000
(Goods taken by proprietor for personal use)				

Illustration 19

Give journal entries for the following adjustments in final account :

(i) Depreciation on furniture by 10% (cost of furniture ₹ 10,000)

(ii) Goods worth ₹ 1,800 distributed as free samples.

(iii) Rent received for 12 month ending 30th, June 2012 (Account closed 31st March, 2019) ₹ 6,000.

Solution

JOURNAL

Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i) Depreciation A/c Dr. To Furniture A/c (Depreciation charged on furniture)		1,000	1,000
(ii) Advertisement (or free sample) A/c Dr. To Purchase A/c (Goods distributed as free sample)		1,800	1,800
(iii) Rent A/c Dr. To Rent received in advance A/c (Rent for 3 month received in advance)		1,500	1,500

Illustration involving adjustment for GST and GST Set-off.

Illustration 20 From the following Trial balance, prepare Trading and Profit & loss Account and Balance sheet.

Debit Balances	₹	Credit balances	₹
Purchases	15,000	Capital	27,500
Opening Stock	3,000	Sales	33200
Salaries	4550	Creditors	10250
Bills Receivable	23000	Bills Payable	850
Machinery	6000	Outstanding Rent	350

Sundry Debtros	10,000	Commission	4500
Wages	2300	Output CGST	5000
Rent	1400	Output SGST	5000
Bad debts	600	Output IGST	4000
Discount Allowed	1250		
Insurance	300		
Bank	6000		
Advertisement	4250		
Input CGST	4000		
Input SGST	4000		
Input IGST	5000		
	90,650		**90,650**

Adjustments :

(i) Closing stock is ₹ 3000.

(ii) Goods costing ₹ 500 were distributed as free sample and goods of 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 1000	13500	By loss by fire	1120
To wages	2300	By closing stock	3000
To Gross profit	20020		
	38820		**38820**
To salaries	4550	By Gross profit	20000
To Rent	1400	By Commission	4500
To Bad debts	600		
To Discount allowed	1250		
To Insurance	300		
To Advertisement 4250			
(+) free sample 500	4750		
To Less by Fire	220		
To Net profit	11450		
transferred to Capital A/c			
	24520		**24520**

Balance Sheet

Liabilities		**Rs.**	**Assets**		**Rs.**
Capital	27500		Machinery		6000
(+) Net profit	11450		Bills Receivable		23000
	38950		Sundry debtors	10,000	
(+) Drawing	1120	37830	Add: Unrecorded	1680	11680
			Credit Sales		
			Bank		6000
Creditors		10250	Insurance Claim due		900
Bills Payable		850	Closing Stock		3000
Outstanding rent		350			
Output CGST		210			
Output SGST		1090			
		50580			**50580**

* Journal Entries for adjustment of GST and GST set off

Journal

Date	Particulars		LF.	Dr. (₹)	Cr. (₹)
	Advertisement A/c	Dr.		560	
	(free sample)				
	To purchases A/c				500
	To Input CGST A/c				30
	To Input SGST A/c				30
	(Being Goods distributed as free sample)				
	Drawing A/c Dr.			1120	
	To Purchases A/c				1000
	To Input CGST A/c				60
	To Input SGST A/c				60
	(Being goods used by proprietor)				
	Loss by Fire (Stock) A/c	Dr.		1120	
	To Trading A/c				1000
	To Input IGST A/c				120
	(Being loss of stock by Fire)				
	Insurance Company A/c	Dr.		900	
	Profit and Loss A/c	Dr.		220	
	To Loss by Fire (Stock) A/c				1120
	(Being claim admitted by Insurance Company)				
	Sundry Debtors A/c	Dr.		1580	
	To Sales A/c				1500
	To Output IGST A/c				180
	(Being Credit sales recorded)				
	Output IGST A/c	Dr.		4120	
	To Input 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 (M.C.Q.)

1. Statements prepared to know profit or loss and financial position of the business are called:
   (i) Financial Statement
   (ii) Bank Reconciliation Statement
   (iii) Trial Balance
   (iv) All of these
2. Account which shows Gross Profit or Gross Loss of the business is called:
   (i) Profit and Loss Account
   (ii) Balance Sheet
   (iii) Trial Balance
   (iv) Trading Account
3. Trading Account is prepared to know:
   (i) Net Profit or Loss of business
   (ii) Gross Profit or Loss of business
   (iii) Both (1)or (2)
   (iv) Financial Position of business
4. On debit side of trading Account we record:
   (i) Direct Expense
   (ii) Indirect Expense

(iii) Both of these
(iv) None of these

5. Closing stock is recorded in:
   (i) Profit and Loss Account
   (ii) Trading Account and Balance Sheet
   (iii) Balance Sheet only
   (iv) None of these
6. Profit and Loss Account shows the:
   (i) Total Capital Employed
   (ii) Profit and Loss through sale of assets
   (iii) Profit earned by business
   (iv) None of these
7. Operating expenses are recorded in:
   (i) Trading Account
   (ii) Profit and Loss Account
   (iii) Balance Sheet
   (iv) All of these
8. Expenses relating to sale of goods are shown in:
   (i) Profit and Loss Account
   (ii) Trading Account
   (iii) Trading and Profit & Loss A/c
   (iv) Balance Sheet
9. Profit and Loss Account is prepared:
   (i) At a particular point of time
   (ii) On fixed date
   (iii) For a certain period
   (iv) All of these
10. Carriage Outwards is an example of:
    (i) Direct Expenses
    (ii) Indirect Expenses
    (iii) Indirect Income
    (iv) Direct Income
11. Which are indirect expense of the fallowings?
    (i) Salaries Expenses

(ii) Insurance Expenses
(iii) Rent Income
(iv) All of these

12. Income earned from other than routine activities is called:
    (i) General Income
    (ii) Direct Income
    (iii) Indirect Income
    (iv) None of these
13. Discount received is an example of:
    (i) Indirect income
    (ii) Direct Income
    (iii) Net Income
    (iv) General Income
14. Which are indirect incomes of the followings?
    (i) Commission received
    (ii) interest on investment
    (iii) Dividend received
    (iv) All of these
15. On credit side of Profit and Loss Account we record:
    (i) Direct Expenses
    (ii) Direct Income
    (iii) Indirect Expenses
    (iv). Indirect Income
16. Balance Sheet is a statement of:
    (i) Assets
    (ii) Capital
    (iii) Liabilities
    (iv) All of these
17. Balance Sheet discloses the financial position of a business:
    (i) For a given period
    (ii) On a particular point of time
    (iii) On a certain fixed date
    (iv) All of these

18. Properties, things and receivables having certain value owned by business are called
    (i) Assets
    (ii). Liabilities
    (iii) Goods
    (iv) None of these
19. Any physical thing that has money value is:
    (i) Intangible asset
    (ii) Fictitious asset
    (iii) Goodwill
    (iv) Asset
20. Assets which have physical existence are called:
    (i) Tangible assets
    (ii) Fictitious assets
    (iii) Contingent assets
    (iv) Intangible assets

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, 2021 and Balance Sheet as on 31st March 2021.

Particulars	₹	Particulars	₹
Capital Account	6,60,000	Cash	15,000
Creditors	36,000	Drawings	24,000
Bank Overdraft	16,500	Freehold Property	2,10,000
Interest on Bank Overdraft	1,650	Plant and Machinery	3,80,000
Debtors	59,400	Computers	1,22,000
Purchases	2,47,400	Rent	6,900
Sales	4,30,950	Insurance and Taxes	12,300
Return Inward	11,400	Fire Insurance Premium	6,000
Return Outward	6,300	Electricity	2,700
Stock (Opening)	18,000	Factory Lighting	5,100
Freight Inward	5,700	Salaries to Storekeeper	8,400
Patents	12,000	Coal, Gas and Power	1,800

The following adjustments are to be made :

(i) The value of stock in hand on 31.3.2021 was ₹ 50,700.

(ii) Depreciation to be charged on Computers @ 10% p.a. and on Plant and Machinery @ 5% p.a.

(iii) Interest on bank overdraft was outstanding ₹ 300.

(iv) Insurance was prepaid ₹ 1,500.

(v) Manager's commission to be provided @ 10% p.a. on Net Profits after charging his commission.

Ans. Net Profit ₹ 1,18,727 Capital ₹ 75,472

Balance Sheet Total ₹ 8,19,400

Gross Profit ₹ 1,98,550

Q2. From the following figures, prepare Trading and Profit & loss account for the year 31st March, 2021 and a balance sheet as on that date :

	₹
Opening stock	40,000
Purchases	1,80,000
Sales	3,20,000
Sales returns	5,500
Wages	22,000
Carriage	1,200
Bad debts	600
Bad debts provision	1,000
Sundry debtors	50,300
Sundry creditors	15,800
Office furniture	5,300
Plant and machinery	78,000
Establishment charges	5,100
Advertisement	5,500
Goodwill	10,000
Duty and clearing charges	4,200

Commission (Cr.)	800
Capital	1,20,000
Personal expenses	15,000
Investments	16,100
Cash	16,000
Rent and insurance	2,800

Adjustments :

1) Rent outstanding amounted to ₹500 and insurance unexpired amounted to ₹300.
2) Commission amounting to ₹120 has been received in advance.
3) Write off ₹300 as bad debts and provision for doubtful debts at 2.5% on sundry debtors.
4) Depreciate plant and machinery by 5%.
5) Wages for March 2021 was unpaid.
6) Stock on 31st March, 2021 was ₹34,000. (market value ₹ 40,000)

Ans. Net Profit ₹ 81,130
Balance Sheet ₹ 2,04,550
Gross Profit ₹ 99,100

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, 2021 and a Balance Sheet as at that date :–

Particulars	Dr.(₹)	Cr.(₹)
Furniture	640	
Loose Tools	6,250	
Buildings	7,500	
Capital Account		13,500
Bad-Debts	125	
Provision for Bad-Debts		200
Sundry Debtors and Creditors	3,800	2500
Stock on 1st April, 2019	3,460	
Purchases and Sales	5,475	15,450
Bak Overdraft		2,850

Sales Return and Purchases Return	200	
Stationery	450	
Interest Account	118	
Commission		125
Cash in hand	1,650	
Taxes and Insurance	1,250	
General Expenses	782	
Salaries	3,300	
	35,000	35,000

The following adjustments are to be made :

(I) Stock in hand on 31st March, 2021 was ₹ 3,250.

(ii) Depreciate Building at 5% and Furniture at 10%. Loose Tools are revalued at ₹ 5,000 at the end of the year.

(iii) Salaries ₹ 300 and taxes ₹ 120 are outstanding.

(iv) Insurance amounting to ₹ 100 is prepaid.

v) Write off a further ₹ 100 as Bad-Debts and provision for Doubtful Debts to be made equal to 5% on Sundry Debtors.

vi) Half of the stationery was used by the proprietor for his personal purposes.

Ans. Net Profit ₹ 2,171, Gross Profit ₹ 9,690, Balance Sheet ₹ 21,216

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 2021 :–

	₹		₹
Stock (1st April 2020)	20,000	Goodwill	16,000
Purchases	2,92,000	Furniture are Fittings	58,000
Duty and Clearing Charges	34,000	Repair Charges	2,900
Capital	1,60,000	Bank	24,000
Sales	5,90,000	Salaries	1,10,000
Rent	10,000	General Expenses	18,000
Returns Inwards	16,000	Debtors	2,30,000
Cash Discount allowed	15,000	Creditors	1,35,000
Cash Discount received	19,000		
Drawings	58,100		

Take the following adjustments into account :

a) General expenses include ₹ 5,000 chargeable to Furniture purchased on 1st October 2020.

b) Create a reserve of 5% on debtors for Bad and Doubtful Debts after treating ₹ 30,000 as a bad-debt.

c) Rent for two months is outstanding.

d) Depreciation on Furniture and Fittings for the year is to be at the rate of 10% per annum.

e) Closing Stock was ₹ 42,000, but there was a loss by fire on 20th March to the extent of ₹ 8,000. Insurance Company admitted the claim in full.

f) (i) Goods costing ₹ 2,500 were used by the proprietor.

(ii) Goods costing ₹ 1,500 were distributed as free samples.

Ans. Gross Profit ₹ 2,82,000, Net Profit ₹ 1,00,550, Balance Sheet ₹ 3,36,950.

Q6. The following balances were extracted from the books of Mr. Sandeep Rana on 31st Dec. 2020.

Ledger Accounts	Dr. Balance	Cr. Balance
Capital		24,500
Drawings	2,000	
General Expenses	2,500	
Building	11,000	
Machinery	9,340	
Stock (1.1.2020)	16,200	
Power	2,240	
Taxes and Insurance	1,315	
Wages	7,200	
Sundry Debtors	6,280	
Sundry Creditors		2,500
Charity	105	
Bad Debts	550	
Bank Overdraft		11,180
Sales		65,360
Purchases	47,000	
Scooter	2,000	
Bad Debts Provision		900
Commission		1,320
Trade Expenses	1,780	
Bills Payable		3,850
Cash	100	
Total	**1,09,610**	**1,09610**

Prepare final accounts for the year ended 31st Dec. 2020 after taking into account the following :

1. Stock on 31st Dec. 2020 was valued at ₹ 23,500
2. Write off further Bad Debts ₹ 160 and maintain the provision for Bad Debts at 5% on Sundry Debtors.
3. Depreciate Machinery by 10% and Scooter by ₹ 240.
4. Provide ₹ 750 for outstanding interest on bank overdraft.
5. Prepaid insurance is to the extent of ₹ 50, Commission receivable amounting to ₹ 50.
6. Provide Manager's Commission at 10% on net profit after charging such commission.

Ans. Gross Profit 16,220, Net Profit 9000
Total of Balance sheet : 50,680

Q7. From the following balances of Mr. Ashok. You are required to prepare Trading and Profit & loss account and a Balance Sheet on March 31, 2021.

Debit Balance	₹	Credit Balance	₹
Plant and Machinery	1,30,000	Sales	3,00,000
Debtors	50,000	Return outwards	2,500
Interest	2,000	Creditors	2,50,000
Wages	1,200	Bills payable	70,000
Salary	2,500	Provision for bad debts	1,550
Carriage Inwards	500	Capital Rent received	2,20,000
Carriage Outwards	700	Rent received	10,380
Return Inwards	2,000	Commission received	16,000
Factory rent	1,450		
Office rent	2,300		
Insurance	780		
Furniture	22,500		
Buildings	2,80,300		
Bills receivable	3,000		
Cash in hand	22,500		
Cash at bank	35,000		
Commission	500		
Opening stock	60,000		
Purchases	2,50,000		
Bad debts	3,500		
	8,70,430		8,70,430

Adjustment

1. Provision for Bad Debts @ 5% p.a. and further Bad debts ₹ 2,000.
2. Rent received in Advance ₹ 6,000.
3. Prepaid Insurance ₹ 200.
4. Depreciation on furniture @ 5% p.a., Plant and Machinery @ 6% p.a., building @ 7% p.a..
5. Closing stock amounting ₹ 70,000 on 31.03.2021.
6. Goods costing ₹ 1,000 were used by proprietor.

Ans. Gross Profit 58,350, Net Profit 35,272
Total of Balance Sheet 5,80,275

Q.8 (Comprehensive) The following is the Trial Balance of Ali Mushabbar Traders on 31st March, 2021.

Particulars	L.F.	Debit (₹)	Credit (₹)
Purchases / Sales		2,12,000	3,15,000
Stock (1.4.2019)		16,000	
Returns		3,000	1,800
Debtors / Creditors		81,000	16,100
Goodwill		17,000	
Bills Receivable / Bills Payable		8,000	3,900
Machinery		70,000	
Drawings		48,000	
Motor Car		2,30,000	
Provision for Doubtful Debts			1,200
Cash Balance		11,700	
Freehold Property		2,13,000	
Fire Insurance Premium		2,400	
Bad Debts		1,200	
Carriage on Sales		1,350	
Carriage on Purchases		2,350	
Establishment Expenses		3,800	
Horses and Carts		11,000	
Custom Duty		2,100	
Donations (Charity)		3,100	
Loan			3,00,000
Interest on Loan		1,000	
Capital Account			3,00,000
		9,38,000	9,38,000

Prepare Trading and Profit & Loss Account and Balance Sheet as at 31st March, 2021 after considering the following adjustments :

(i) Value of goods on hand at the end of the year was ₹ 20,000.

(ii) Depreciate Machinery @ 10% p.a. and Motor car @ 5% p.a.

(iii) Provision for doubtful debts to be maintained @ 5% on Debtors.

(iv) Create provision for discount on Debtors @ 5%.

(v) Further bad debts are ₹1,400.

(vi) The manager is entitled to a commission @ 10% on net profit before charging his commission.

Ans Gross profit ₹1,01,350, Net Profit ₹55,835,
Total of Balance sheet ₹6,34,039

Q9. Problems based on missing information. Fill in the missing figures in the following.

TRADING AND PROFIT & LOSS ACCOUNT
for the year ended 31st March, 2021

Dr. Cr.

Particulars		₹	Particulars		₹
To Opening Stock		----------	By Sales	----------	
To Purchase	----------		Less : Sales Return	5000	----------
Less : Return	1,000	81,000			
To Wages		1,800	By Closing Stock		20,000
To Carriage Inward		200			
To Gross Profit b/d		17,000			
					1,15,000
To Insurance		600	By Gross Profit b/d		
To Rent		5,000	By Discount received		1,500
To Salaries	12,500				
Add: Outstanding Salaries	-----	----------	By Net Loss		----------
To Bad Debts	200				
Add: Further Bad Debts	100				
	300				
Add : New Provision	----------				
	900				
Less : Old Provision	----------	400			
To Provision for Discount on Debtors		388			
To Depreciation					
Building	2,250				
Furniture	700	2,950			
		22,838			22,838

CHAPTER - 10
ACCOUNTS FROM INCOMPLETE RECORDS

Learning Objectives

After studying this lesson you will be able to :

- Define the concept of incomplete records :
- Understand the features, reasons and limitations 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', since only one aspect of a financial transaction is recorded, at times.

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

Note: Nominal accounts are not maintained under this system.

FEATURES:

Under this system of maintaining accounts :

1. **Maintenance of personal accounts only:** Under this system, only personl a accounts are maintained whereas real and nominal accounts are ignored.
2. **Maintenance of cash book:** A cash book is maintained under this system which usually mixes up transaction of business as well as private transactions of the proprietor.
3. **Dependance on Original Vouchers:** In order to collect the required information, the businessman depends on original vouchers, which may not suffice.
4. **Lack of uniformity:** The books maintained under this system may differ from firm to firm because the system is only an adjustment of double entry system as per convenience or actual requirement of the business.
5. **Suitability:** This system is usually maintained by a sole trader or a partnership firm.
6. **Preparation of final records:** Final accounts can be prepared only after converting the available information into double entry records and ascertaining the missing figures, which may be just an estimate, at times.
7. **Statement of Affairs:** Statement of assets and liabilities is called statement of affairs.

   Under this system only the following accounts are maintained:

   - Cash book
   - The personal accounts
   - Some Real accounts according to need, capability and understanding of businessman.

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.

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 both the aspects, debits and credits, of every transaction are not recorded.
2. **Arithmatical 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 or both aspects of transactions may be 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	Trail 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 and loss.
(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 record 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 types of business concerns.	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.

   Profits = Closing Capital - 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.

   Losses = Opening Capital – 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.

Note :- 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 particular date. The difference in the total of two sides is known as capital.

Capital = Total Assets – Total liabilities

A Statement of Affairs is very similar to Balance 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 Receviables	XXXX
Outstanding Expenses	XXXX	Sundry Debtors	XXXX
Income Received in Advance	XXXX	Stock	XXXX
		Prepaid Expenses	XXXX
Capital (Balancing Figure)	XXXX	Accured Income	XXXX
		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	Based on actual figures, Balance sheet is reliable.	Since it is based partly on accounts and additional 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 ensure the arithmetical accuracy of accounting

Illustration 1: Nishant Raj keeps incomplete records of the business. He gives the following information.

	₹
Capital on 1st April 2020	20,000
Capital on 31st march 2021	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 and Loss
for the year 2020-21

Particular Particulars	Details	Amount
Closing Capital	25,000	
Add: Drawing made during the year	4,800	
	29,800	
Less: Additional capital introduced (1500+45)	(1,545)	
Adjusted capital at the end		28,255
Less: Opening capital		(20,000)
Profit or loss during the year		8,255

Working Notes: Premium received on selling the investment

$$= \frac{3}{100} \times 1500 = ₹\ 45$$

Illustration 2: Ms. Rama started her business on 1 st April 2020 with a capital of ₹ 1,00,000. She follows the single entry system. At the end of the year i.e. on 31st March, 2021 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, she introduced ₹ 15,000 as additional capital. Calculate profit & loss and prepare statement of affairs as on 31.3.21.

Solution:

Statement of Affairs
(as at 31st March, 2021)

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 2021)

Particular	Amt.
Closing Capital	95,000
Less: Additional capital	(15,000)
Adjusted 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 ₹ 1,50,000 and withdrew for household expenses ₹ 90,000. As certain her profit and prepare statement of affairs at the end of year.

Solution:

Statement of Affairs as at 31st March 2021

Liabilities	(₹)	Assets	(₹)
Sundry Creditors	80,000	Cash in Hand	15,000
Capital (Balancing figure)	6,40,000	Cash at Bank	70,000
		Sundry Debators	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	₹
Capital at the end	6,40,000
Add : Drawings (Household Expenses)	90,000
	7,30,000
Less: Additional capital Introduced	(1,50,000)
Adjusted 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, 2020, she started the business with a capital of ₹ 80,000. On March 31, 2022 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.

Solution:

STATEMENTS OF AFFAIRS

as at 31st March 2021

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 31st March 2021

Particular	₹
Capital at the end of the year	83,550
Add : Drawings (₹ 2,500 × 12)	30,000
	1,13,550
Less: Fresh capital introduced	(7,000)
Adjusted 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, 2020 was as follows: cash in hand ₹1250; Cash at bank ₹1,000, Debtors ₹ 2,000; Stock2,500, Furniture ₹750; Creditors ₹1,500; Plant and Machinery ₹3,000 His Position on 31st March, 2021 was follows:

Cash ₹300, Debtors ₹3,000, Stock ₹3,500, Furniture ₹1,000, Plant and Machinery, ₹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.

Solution:

STATEMENT OF AFFAIRS

As on 1st April, 2020

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
	10,500		10,500

STATEMENT OF AFFAIRS

As on 1st April, 2021

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
	12,300		12,300

STATEMENT OF PROFIT OR LOSS
for the year ended 31st March, 2021

Particular	₹
Capital on 31st March 2021	9,800
Add : Drawings	450
	10,250
Less: capital introduced during the year	(750)
Adjusted capital at the end	9,500
Less: Capital on 1st April 2020	(9,000)
Net profit during 2020-21	500

Illustration 6 : Mr. Naman Jain started business on January 1, 2020 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, 2020 his position was as follows:

	₹
Sundry Debtors	48,000
Bills Receivables	16,000
Cash in Hand	30,000
Stock	68,000
Creditors	5,000
Owing for Rent	1,500

Furniture and Fixtures to be depreciated by 10%

Ascertain the profit or loss made by Naman Jain during 2020

Solution:

Books of Naman Jain
STATEMENT OF AFFAIRS
as on Dec. 31, 2020

Liabilities	(₹)	Assets		₹
Wife's loan	50,000	Furniture and Fixtures	20,000	
		Less : Depreciation	(2,000)	18,000
Interest on loan outstanding	2,250	Cash in hand		30,000
(for 6 month)		Debtors		48,000
Rent Outstanding	1,500	Stock		68,000
Creditors	5,000	B/R		16,000
Capital(Bal. fig)	121,250			
	1,80,000			1,80,000

STATEMENT OF PROFIT OR LOSS
during 2018

Particular	₹
Capital on 31st Dec. 2020	1,21,250
Add : Drawings	36,000
	1,57,250
Less: capital introduced the year	
Adjusted capital at the end	(11,500)
Less: Capital as on 1st Jan. 2020	1,45,750
Profit during 2020	(1,00,000)
	47,750

Working Notes: Interest on wife's loan = $50,000 \times \frac{9}{100} \times \frac{9}{100} =$ ₹ 2,250

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 determmed 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	**Debit side exceeds Credit side**
Opening Cash/Bank	Closing Cash/Bank
Closing Bank Overdraft	Opening Bank Overdraft
Cash Sales	Cash Purchases
Sundry Income	Sundry Expenses
Capital Introduced	Drawings
Collection from Debtors	Payment to Creditors
Collection from Bills Receivables	Bills Revisable Discharged
Sale of Fixed Assets	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:

Dr.	Total Debtors Account		Cr.
Particulars	₹	Particulars	₹
To Balance b/d	–	By Cash/Bank A/c (received from debtors)	– –
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	–
To Bank A/c	–	By Sales Return A/c	–
(Discounted B/R Dishonored)	–	By Bad Debts A/c	–
		By Bills Receivable 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:

Dr.	Bills Receivable Account		Cr.
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:

Dr.	Total Creditors Account		Cr.
Particulars	₹	Particulars	₹
To Cash/Bank A/c (given to creditors)	–	By Balance b/d	–
To Discount Received A/c	–	By Bills Payble 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. **Bills Payable Account** **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

Total Sales:	**(₹)**
Bills Receivable (beginning)	18,000
Debtors (beginning)	65,000
Bills Receivables enchased 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. **Bills Receivable Account** **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

= ₹ 2,81,000

Illustration 8: Find Total Sales and Total Purchases from the

Following information:	(₹)
· 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 2020-21 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 31st March, 2021 and a Balance Sheet as at that time.

Solution :

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

Particulars	₹	**Particulars**	₹
To balance B/d (01.04.2020)	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 31.03.2021)	9600
	60000		**60000**

Dr. **Total Debtors Account** **Cr.**

Particulars	₹	**Particulars**	₹
To balance b/d (01.04.2020)	4320	By Cash received from Debtors	28800
To Credit sales (balancing Fig.)	31680	By Balance c/d (31.03.2021)	7200
	36000		**36000**

Dr. ***Total Creditors Account*** ***Cr.***

Particulars	₹	**Particulars**	₹
To Cash paid to Creditors	15000	By Balance b/d (01.04.2020)	3600
To Balance c/d (31.03.2021)	5100	By Credit Purchases	16500
	20100		**20100**

Opening Balance Sheet

as at 1st April 2020

Liabilities	₹	**Assets**	₹
Creditors	3600	Cash in hand	2520
Capital (Balancing Figure)	56040	Debtors	4320
		Stock	9000
		Investments	9000
		Furniture	4800
		Machinery	30000
	59,640		**59640**

Trading And Profit & Loss Account

For the year ending 31st March, 2021

Liabilities		**Rs.**	**Assets**		**Rs.**
To Opening Stock		9000	By Sales		
To Purchases			Cash Sales	21600	
Cash Purchases	10800		Credit sales	31680	53280
Credit Purchases	16500	27300	By Closing Stock		14400
To Wages		10500			
To Gross profit c/d		20880			
		67680			**67680**
To Salaries	5280		By Gross Profit b/d		20880
Add: Outstanding	480	5760	By Interest on Investments		1080
To Rent		3600			
To General Expenses		2040			
To Provision for doubtful Debts		360			
To Net Profit		10200			
		21960			**21960**

Balance Sheet
as at 31st March, 2019

Liabilities		₹	**Assets**		₹
Creditors		5100	Cash in hand		9600
Outstanding Salary		480	Debtos	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			
		74640			**74640**

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 31st March 2021 and Balance Sheet as on that date :

Particulars	**31.03.2020** ₹	**31.03.2021** ₹
Furniture	10000	15000
Stock	98000	132000
Debtors	180000	250000
Creditors	60000	45000

Analysis of other transactions is as follows :

Particulars	₹
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 31st March, 2020

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	60,000	Cash	50,000
Capital	2,78,000	Balance	
(Balancing Figures)		Debtors	1,80,000
		Stock	98,000
		Furniture	10,000
	3,38,000		**3,38,000**

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	20,0000	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
	6,93,000		**6,93,000**

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
	873000		**873000**

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	
	500000		**500000**

Trading and Profit and Loss Account
for the year ended 31st March, 2021

Particulars		Rs.	Particulars		Rs.
To opening stock		98000	By Sales		
To Purchases			Cash	15000	
Cash	50000		Credit	693000	
Credit (WN.4)	+ 440000		(WN-3)	7,08,000	
	490000				
Less: Return Outward	–8000		Less: Return	10000	
		4,82,000	Inward		6,98,000
To Gross profit c/d		2,50,000	By closing stock		1,32,000
		8,30,000			**8,30,000**
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					
transfered to Capital A/c		99,000			
		2,57,000			**2,57,000**

Balance Sheet
as at 31st March, 2021

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. 10000)			Furniture	15,000
Capital 1.4.2020 (WN-1)				
	278000			
Add: Capital	20000			
Introduced				
Net Profit	99000			
	3,97,000			
Less: Drawings	(30,000)			
		367000		
		417000		**417000**

Illustration 11: Mr. Rajan keeps his books according to single entry system as he 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 date.

Particulars	**As on** 31-3-2020 (₹)	**As on** 31-3-2021(₹)
Creditors	8000	5500
Debtors	22000	30000
Purniture	4000	4000
Office Premises	12000	12000
Stock	7000	11500

Additional Information:

		₹
(1)	Cash Sales	13000
(2)	Cash Callected 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 (amount)	27000
To sales A/c (Balancing figure)	35000	collected from Debtors)	
		By Balance c/d	30000
	57000		57000

Dr. Sundry Creditors Account Cr.

Particulars	₹	Particulars	₹
To Bank A/c (Amt. paid to Creditors)	15000	By Balance b/d	8000
		By Purchases A/c (Balancing Figure)	12500
To Balance C/d	5500		
	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
(as on 01-04-2020)

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 31-3-2021** **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

Balance Sheet

Dr. **as on 31-3-2021** **Cr.**

Liabilities	₹	Assets	₹
		Debtors 30000	
Capital – 32150		Provision for	
Drawings (1200)		Doubtful Debts (1000)	29000
Net Profits 19892			
Interest on capital 1608	52450	Furniture 4000	
		Less Dep. (200)	3800
Creditors	5500	Office Premises 12000	
		Less 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 01-01-2020	31-12-2020
Cash at Bank	1000	1800
Stock	20000	19500
Sundry Debtors	15000	16000
Machinery	40000	40000
Sundry Creditors	20000	18500

Dr. **Summary of Cash Transactions at Bank** **Cr.**

Particulars	₹	Particulars	₹
Opening Balance	1000	Payment to Creditors	35000
Received from Debtros	76500	Wages	15100
Cash Sales	8200	Salaries & Expenses	11600
Sale of old news paper	200	Building Purchased	20000
Loan from Mrs. Gupta on 1st october 2018	6000	Drawings	8400
		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 31-12-2020.

Solution: In the Books of Mohit Gupta

Dr. Sundry Debtors Account Cr.

Particulars	₹	Particulars	₹
To Balance b/d	15,000	By Bank A/c (Amount	
To sales A/c (Balancing figure)	78,100	collected from Debtors)	76,500
		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		By Balance b/d	20,000
Creditors)	35,000	By Purchases A/c	33,500
To Balance C/d	18,500	(Balancing Figure)	
	53,500		53,500

Balance Sheet

Dr. (as on 01-01-2020) 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 31-12-2020 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	200
To Depreciation on Machinery	6,000	News paper	
To Expenses owing	800		
To Bad Debts	600		
To Net Profit C/d	18,265		
	37,400		37,400

Balance Sheet

as on 31-12-2020

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

I. Objective Type Questions: (1 Mark).

Fill in the blanks:

1. Opening Capital of the accounting year is ascertained by preparing ___________. (Ans. Opening Statement of Affairs)
2. Single Entry System can be adopted by _____________.
   (Ans. Small firms)
3. Profit = Closing Capital + ___________ – Capital Introduced – opening capital. (Ans. Drawings)
4. Credit sales can be ascertained by preparing ____________Account.
   (Ans. Total Debtors)
5. Credit Purchases can be ascertained by preparing _________Account.
   (Ans. Total Creditors)
6. From incomplete records, it is possible to prepare
   (a) Ledger Accounts (b) Trial Balance
   (c) Statements of Affairs (d) None of these
   (Ans. C)

7. Which of the following items is not included in Total Debtors A/c
   (a) B/R Dishonoured (c) Cash received from Debtors
   (c) Bad Debts (d) B/P dishonoured

Ans. (d) B/P dishonoured

8. Which of the following items is not included is statement of affairs
   (a) B/R discounted (b) Prepaid Expenses
   (c) Plant and Machinery (d) Sundry Geditors

Ans. (c) B/R discounted

II. Multiple Option Questions

9. Which of the following are correct option and are to be included in the Cash Book :
   (a) Cash Purchases (b) Rent
   (c) Additional Capital (d) Provision for Bad Debts

Ans. (a) Cash Purchases
(b) Rent
(c) Additional Capital

10. Match the items of column A with appropriate items of Column B:

Column A	Column B
(i) Credit sales	(a) Goods purchased on credit
(ii) Credit purchases	(b) Portion of profit retained to meet liability arisen due to bad debts
(iii) Single entry system	(c) Good sad on credit
(iv) Provision for bad and doubtful debts	(d) Followed by small for business

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

III. Mr. Raghu started his business on April 1, 2020 with a capital of ₹ 2,00,000. During the year he introduced more capital of ₹ 60,000 in the business. He withdraw ₹40,000 for his personal expenses. On March 31, 2021, his assets and liabilities were as follows:
Loan from Bank ₹2,00,000; creditors ₹1,60,000; B/R ₹2,00,000; Debtors ₹ 3,02,400; Stock ₹ 99,000; Cash at bank ₹ 99,920.
He had no knowledge of accounting principles. Calculate the profit or loss of Mr. Raghu's business for the year 2020-2021 using the statement of Affairs Method.

Ans. Closing capital: ₹ 7,01,320; Profit: ₹ 1,21,320

IV. Himanshu Gupta who keeps his books on single entry, tells you that his capital on 31-03-2021 was Rs. 28,700 and his capital on1-4-2020 was Rs. 19,200. He further informs you that during the year he withdrow 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 2020-21.

Ans. Profit ₹7,720

V. Mr. Anand started a business with a capital of ₹ 4,50,000. At the end of the year his position was:

	Amount (₹)
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

VI. Ravi started business on Jan 01,2020 with a capital of ₹ 4,50,000 On Dec, 31,2020 his position was as under :

	Amount (₹)
Cash	100,000
Bills Receivable	75,000
Stock	48,000
Land and Building	1,80,000
Furniture	50,000

He owed ₹ 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, 2020.

Ans. Closing capital ₹4,07,000; Profit ₹54000

VII. Ms. Anjam does not keep proper records of business. Calculate her net loss or net profit during the year.

	Amount (₹)
Owner's capital at the beginning of the year	16,00,000
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
Drawings made during the period	80,000

Ans. Closing Capital ₹16,40,000; Loss ₹2,00,00

VIII. Mr. Mehta keeps incomplete records. His Assets and liabilities were as under.

	31st March, 2020 Amount (₹)	31st March, 2021 Amount (₹)
Cash	2,000	900
Sundry Debtors	39,000	45,000
Stock	34,000	32,000
Plant and Machinery	60,200	80,000
Sundry Creditor	15,000	14,000
Bills Payable	-	5,000

During the year, 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 2021.

Ans. Opening Capital ₹1,20,000; Closing Capital ₹1,38,000;

Profit ₹44000

IX. Mrs. Pooja started with a capital of ₹40,000 on 1st July, 2020. 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 31,2020 her position was :

	Amount (₹)
Cash	3,000
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

X. Problems based on missing information Fill in the missing figures in the following :

STATEMENT OF AFFAIRS

as on 31st December, 2020

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

31st 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. Profit during the year ₹34,000

CHAPTER - 11
COMPUTERS IN ACCOUNTING

Learning Objectives

After studying this topic the students will be able to :

- State the meaning of a computer, describe its components, capabilities and limitations.
- State the meaning of accounting information system.
- Appreciate the need for use of computers in accounting for preparing accounting reports.
- Develop the understanding of comparing the manual and computerized accounting process and appreciate the advantages and limitations of automation.
- Understand the different kinds of accounting software.

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, there is a software for preparing pay-roll of any organisation, there is a software for preparing financial statements of organisations and there is a software to manage the inventory of organisations. By selecting the correct software, various functions can be performed easily, correctly and speedily.

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 an 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 sometimes or a small range of tasks.

(c) **Application Software:** Application Software is a set of programmes which is designed and developed for performing certain tasks like accounting, work processing etc. for example Tally is the application software.

(d) **Language Processor:** These are the softwares, 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 and (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 the information as and 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 Advantages of a Computer system

A Computer system possesses the following advantages in comparison of human beings.

1. **High Speed :** Computers are known for its high speed of operations. The require less time in comparison to human beings in performing a task. Most of modern computers perform millions of operations in one second.
2. **Accuracy :** Computers are extremely accurate. Their operations are error free and as such the information obtained from them is highly reliable. However, 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:

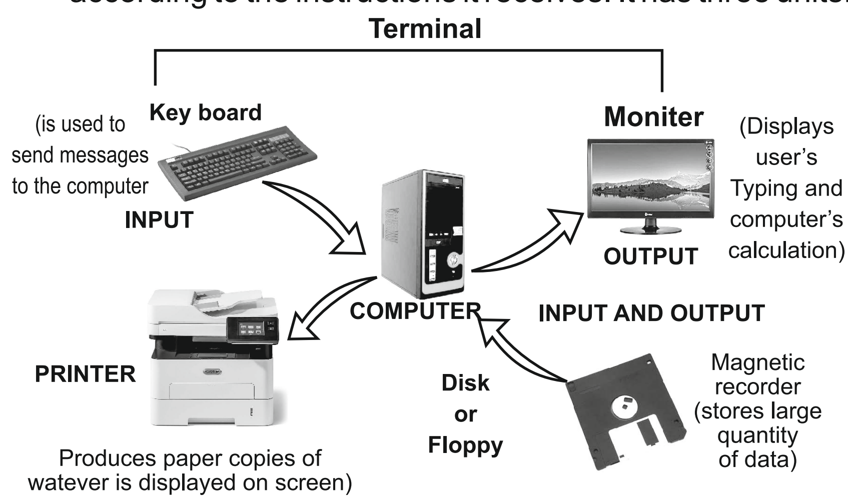


Diagram: Components used in a Computer

(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 has the sound of 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.

BRANCHES OF MIS

- Accounting information system
- Manufacturing information system
- Human Resource Information System
- Marketing Information System

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.

So, accounting functions like posting into ledgers, balancing of trial Balance and Final Accounts are prepared by computer.

Stages of Automation

There are different stages of automation such 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 requirements.

(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, a 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 under 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 acco-rding 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 softwares 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 preparation.

(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 adapt :** The accounting software must be such which is easily applicable or adaptable 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 :** 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 various 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.

A 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)**

There is many accounting software in the market. One of the software discussed here is Tally. ERP 9 and its usage.

Tally. ERP 9

Tally. ERP 9 is one of the most popular accounting software used in India. It is complete enterprise software for small & medium enterprises.

Tally. ERP 9 is a perfect business management solution and GST software with an ideal combination of function, control and in-built customizability. Process to use Tally. ERP 9

Tally is nothing but accounting in digital format. Maintaining accounts in manual books, we write accounting entries as debit and credit. In Tally, we create entries the same way. The following processes are followed-

Process 1: Installation

Tally software can be purchased and downloaded from the Tally website.

Process 2: Navigation : (After installation is complete, we use it's hardware supports or software supports to use the machine)

Tally. ERP 9 is designed to be navigated by using the keyboard. While we can click any option we want, everything in Tally has a keyboard shortcut. The Shortcut as we say is usually the key displayed next to each available option. Learning how to get around with the keyboard will increase efficiency.

Process 3: Create a Company: After we get some idea about the machine, we set the program for it to work.

To use Tally, we will first need to create a company in the program. Even when we are not using tally professionally, we still need to create a company using the following steps:

Step 1: In the opening menu, select "Create Company"

Step 2: Enter Company details :

Enter the company name as it appears on banking records

Enter the company address, statutory compliance, telephone number, and email

Step 3: Turn on "Auto Backup" to ensure that a copy of all your work is saved in case something happens to the original.

Step 4: Choose your currency like in India

Step 5: If you are using Tally to just manage your accounts, then select "Accounts only" in the Maintain menu and If you are using Tally for inventory management as well, select "Accounts with inventory".

Step 6: Enter the start of your financial year and the start date for the books

Process 4 : Usage: (Now since we were going to use the machine, it becomes important to first learn about the machine's usage)

Creating Ledgers

Understanding what ledgers are for: Ledgers in Tally record all of the transactions for that account. One will need to create a ledger for each account that they do business with. Two ledgers are included in Tally by default: "Cash" and "Profit and Loss Account". We can create as many other ledgers as we need. How to?

Step 1: Open Create Ledger window by following the given direction: Gateway of Tally > Account's Info > Ledger > Create

Step 2: Select the group. Here we will be required to select as to which group the ledger will be assigned to. Choosing the right group is important, as it will affect how numbers and sales are totaled later

Step 3: Give the ledger a name. Enter a name for your ledger to know what the ledger contains in it without having to open it

Step 4: Enter an opening balance (if any).

For Example: If you are creating a ledger for your bank account, this would be the amount currently in it. If you are starting a ledger for the amount owed to a Vendor, the amount you owe would be the starting balance

CREATING VOUCHERS

Understand the purpose of vouchers: It is a document that contains the details of a financial transaction. These are used for all aspects of a business, from sales to deposits. Tally. ERP 9 comes with several of the most popular types of vouchers pre-configured for usage. How to create different vouchers?

Step 1: Open the vouchers screen using the following direction: Gateway of Tally > Accounting Vouchers

Step 2: In this step, we can choose the voucher we want to create. Here's is the list:

F4: Contra : For recording money deposited into or withdrawn from the bank, or for recording any sum transferred between two accounts in the same company.

F5: Payment This voucher is used for payments made by the business.

F6: Receipts For recording any income earned by the company (sales, rent, interest, etc.) and for recording the proceeds received from Sundry debtors.

F7: Journal For recording all adjustment or due entries such as prepaid expense, accrued income etc., For recording purchase of assets for recording Input tax reversal entries, reverse charge entries under GST.

F8: Sales This is used for recording all the sales made by the company**.**

F9: Purchase This is used for recording all the inventories purchased by the company in the course of business.

Step 3: Enter the required information.

The information needed to complete the voucher will vary depending on the type of voucher we want to create. We will have to typically need to determine which ledger the voucher will be attached to, as well as enter the date and names of any involved parties.

Conclusion

Tally is the most popular and Highly Effective accounting tool which makes the life of an accountant easier. Anyone who is looking to enter in the field of accounting or wishes to lead a successful career in accounting must learn Tally. ERP 9 as the benefits of using Tally. ERP 9 are more for both small and medium-sized businesses. Moreover the simplicity is the driving force which allures the users of financial information to actively use Tally as the ERP solution for their businesses.

QUESTIONS & ANSWERS

Questions 1) Explain what is Tally and where it can be used?

Answers

Tally is a software for accounts and inventory management, which is used for performing many functions like.

Performing all basic accounting functions Estimating job costing

Storing details and managing inventory items Managing payroll

Filing tax return, managing profit, and loss statement, preparing a balance sheet, VAT forms, trial balance, cash-flow report, etc.

Maintaining budget scenarios

Calculating interest on the outstanding amount

Managing data over different locations and synchronize it

Questions 2) Mention what features are available in Tally ERP 9 for Accounting?

Answers

For Accounting Tally ERP 9 offers

Outstanding Management

Cost/Profit Centers Management

Invoicing

Budget/Scenario Management

Other features like Cheque Printing, etc.

Questions 3) Mention what are the functional enhancement or features included into Tally ERP 9?

Answers

E-mailing option: Users can send accounting reports to multiple recipients along with an additional facility like Net-banking and Printing in various format is provided.

Accounting Voucher: A new type of numbering feature is added to the voucher, it ensures that the voucher are numbered sequentially.

Print Bank Transaction Details: It provides an option to take the print of bank details on formal receipt.

Credit Limits: The Credit Limit control set for a party ledger will not be applied on sales order. A warning or alert message will pop up on the credit limit, and user can still save the voucher.

CST: Even in a simple format the CST form details entered in the invoice will get printed.

Excise for Manufacturers: All details related to buyers and suppliers can be displayed in the voucher also daily stock register can be maintained according to date wise, multi items types and Tariff wise.

Inventory Vouchers: For inventory section, you can now mention the Godown address and also print the name.

Payroll: New TALLY ERP 9, enables processing of salary according to the National Pension Scheme.

Service Tax: Under journal vouchers, the taxable amount, taxable percentage and notification number will be showed in the service tax details. Auto adjustment of service tax payable can be done against service tax input credit and cenvat.

VAT Option: Recording multiple items with different VAT rates is possible by configuring the setting of "Default Accounting Allocations for Selected Item In Invoice."

Tax Audit: Form like 3CB, 3CD and 3CA have been updated as per the requirements of CBDT.

XBRL: The document is constrained to only those companies that have the nature of the report set to consolidated.

Questions 4) Mention what are the types of ledger you can make in Tally ERP 9?

Answers

The types of ledger you can make in Tally ERP 9 are

Creating a sales/purchase ledger

Creating an Income/Expense ledger

Creating a party ledger

Creating bank account

Creating a tax ledger

Creating a current liabilities

Questions 5) Mention what is the shortcuts for Voucher Creati6n and Alteration Screen in Tally ERP 9?

Answers

For Tally ERP 9, to create any master (ledger, stock item) on the voucher or alteration screen, you have to enter Alt+C.

To alter or configure any master item on a voucher, you have to select specific ledger or stock item on the sales voucher screen and press Ctrl+Enter.

Questions 6) Mention what is the shortcut to repeat the narration on a voucher?

Answers

To repeat the narration on a voucher, press Ctrl+R.

Questions 7) Explain what is group in Tally ERP 9?

Answers

Group is a collection of ledgers of the same nature. In the business, expenses like electric bills, telephone bill, conveyance, etc. are commonly included in groups. Ledger based on these expenses are created to be used while accounting vouchers are entered.

Objective Type Questions

1. **State whether the following statements one True or False:**
   (i) Learning operations of computer is not meant for accountancy students.
   (ii) Computer System can enhance the speed and accuracy of accounting process.
   (iii) Computer has an intelligence of its own and can take decisions.
   (iv) Software is a set of instructions on the basis of which a computer operates.

2. **Fill in the blanks with suitable words/phrases:**
   (i) A computer is an electronic device, which is capable of performing a variety of operations as directed by as set of instructions called a ____________.
   (ii) ALU stands for ____________.
   (iii) Primary memory is also known ___________.
   (iv) CPU is said to be ________ of a computer.
   (v) Accounting information system processes the data and transforms it into ________.

3. **Multiple Choice Questions**
   (i) Which of the following is not an input device?
   (a) Printer (b) Keyboard (c) Mouse (d) Scanner
   (ii) Which of the following is not an advantage of Computerised Accounting?
   (a) Accuracy (b) Less paper work
   (c) Data corruption (d) Timely reporting
   (iii) Accounting software available are:
   (a) Tailor-made software (b) Customised software
   (c) Ready made software (d) All of the about
   (iv) Accounting Information System processes the data and transforms it into:
   (a) Software (b) Accounting results
   (c) Smart card (d) Cash Account

(v) Which of the following is not a capability of a computer system

(a) Reliability (b) Automation

(c) Accuracy (d) Journal

4. Match the items of column A with appropriate items/taxt under column B

Column A	**Column B**
(i) Mother board	(a) Liquid crystal display pand
(ii) Processor	(b) QWERTY
(iii) Keyboard	(c) Circuit
(iv) Primary Storage Memory	(d) CPU
(v) Monitor	(e) RAM

5. Multiple Option Questions:

Select the options which correctly match the word/sentence given:

(i) Element of a computer system:

(a) Hardware (b) Profit and Loss A/c

(c) Software (d) Humanware

(e) Trading A/c (f) Balance sheet

(ii) Parts of CPU:

(a) ALU (Arithmetic and Logical Unit)

(b) Keyboard (c) Memory Unit

(d) Control Unit (e) Printer

(f) Sound card

6. Very Short Answer Type Questions:

(a) What do you mean by a computer?

(b) What is accounting information system?

(c) What do you understand by Tailor-made software?

(d) What do you understand by customised software?

(e) What is meant by utility software?

7. Short Answer Questions:

(a) On the basis of (i) Adjustment and (ii) Financial statement, differentiate between manual and computerised accounting.

(b) Before sourcing an accounting software, what are some of the factors that should be kept in mind?

ANSWERS

1. (i) False (ii) True (iii) False (iv) True

2. (i) Computer Programme
   (ii) Arithmetic and logic Unit
   (iii) Random Access Memory
   (iv) Brain
   (v) Information

3. (i) (a) Printer
   (ii) (c) Data corruption
   (iii) (d) All of the above
   (iv) (b) Accounting results
   (v) (d) Journal

4. Match:
   (i) (c), (ii) (d), (iii) (b), (iv) e, (v) a

5. Multiple Option Questions:
   (i) (a) Hardware, (c) Software (d) Humanware
   (ii) (a) ALU (c) Memory Unit (d) Control Unit

6. (a) As per International Standards Organisation. "A computer is a data processor that can perform substantial computations, including numerous arithmetic and logic operations, without intervention of human operator during the run".
   (b) Accounting Information System (ASI) is a subsystem of Management Information System (MIS) that allows its users to collect and store business or financial data and transform it into information and communicate to its internal and external uses like management, consultants, CEO regulatory and tax authorities, employees etc.
   (c) Tailor-made software refers to designing and developing user specific softwares which meet the requirements of that user on the basis of discussion between the user and developers.
   (d) Customised software are those in which changes in the readymade software are done to suit the requirements of the user.

(e) Utility software is a software designed to analyse, configure, optimize or maintain a computer. It is used to support the computer infrastructure.

7. **(a) Difference between Manual and computerised Accounting System:**

Basic	**Manual Accounting**	**Computerised Accounting**
(i) Adjustment	In this system, all adjustments are done manually	In this system, all adjustments are done manually
(ii) Financial Statement	In this system, financial statements are prepared manually	In this system, financial statements are prepared manually

(b) Factor to be considered before Souring an Accounting Software:

(i) **Flexibility:** A computer software system must be flexible in respect of data handling and report preparation.

(ii) **Maintenance Cost:** Ideally, an accounting software must have low maintenance cost.

(iii) **Easy to Adapt:** An accounting software should be easy to adapt in any organisation.

(iv) **Secrecy of Data:** The accounting software must be such that it provides secrecy of data.

PROJECT SPECIMEN

VALIDITY CERTIFICATE

This is to certify that this Accountancy Project File belongs to

Name: ....

Roll No : .... Class: .... Section: ....

Session: ....

The Projects recorded in this Project Work Book have been done by the candidate under the guidance of the teacher.

The student's initiative, cooperation and participation during the practical classes .... (Excellent/Good/Average).

- His project presentation, visual appeal, expression and neatness is .... (Excellent/Good/Average).
- His content accuracy, creativity, originality and analysis of different perception is...................(Excellent/Good/Average).

Date: .... Teacher-Incharge

ACKNOWLEDGMENT

I would like to convey my heartfelt thanks to Mr./Mrs. .... My Accountancy Teacher, who always gave valuable suggestions and guidance for completion of my project. He/She helped me to understand and remember important details of the project that I would have otherwise lost. My project has been a success only because of his/herguidance.

Name of the Project : ....

Name of Student : ....

Class : .... Roll No: .... Section: ....

School Name : ....

COMPREHENSIVE PROJECT

Mr. Ravi Kumar completed his post-graduation from IIM Ahmadabad with masters in Business Administration (MBA) and International Relations. He has decided to purchase an existing business in Chennai which has been adversely affected by the flood. He is extremely inclined towards providing employment to the people in the affected areas nearby.

The owners of a business concern Mohan Bros, are in no position to recover the former condition of their factory and have therefore decided to sell it.

Mr. Ravi Kumar purchased the business of Mohan Bros, on 1st April 2018. The business is mainly concerned with manufacturing electronic goods i.e. Pen Drives, Battery Chargers, USB Cables etc.

Following assets were taken over by Mr. Ravi Kumar on the above mentioned date:

Land and Building	₹1,00,000
Plant and Machinery	₹80,000
Furniture & Fittings	₹25,000
Stock	₹30,000
Office Equipment	₹10,000

Mr. Ravi Kumar paid ₹ 2,50,000 as purchase consideration. On the same day he brought ₹ 2,00,000 as his capital and took loan of ₹50,000 from the bank @ 8% p.a. interest and borrowed ₹ 20,000 from his Friend @ 6% p.a. interest to meet the working capital requirements.

His transactions during the accounting period were as follows:

1. Total Purchases ₹2,80,000 including credit purchases worth ₹2,00,000.
2. He invested ₹20,000 in shares of Reliance Limited.
3. Total Sales ₹4,80,000 including credit sales worth ₹ 1,80,000.

Direct Expenses:

Wages	₹35,000
Manufacturing expenses	₹5,000
Factory Lighting	₹2,000
Carriage inwards	₹1,000
Commission on purchases	₹1,500
Freight	₹5,000

Indirect Expenses:

Salaries	₹20,000
Office Rent	₹1,000
Postage and Telephone exp	₹500
Stationery	₹300
Water & Electricity (office)	₹1,200
Conveyance	₹800
Advertising	₹1,200

(I) He withdrew ₹6,000 from the business to buy a second-hand Laptop, for personal use.

(ii) Goods worth ₹3,000 given as free samples,

(iii) Cash received from debtors ₹10,000.

(iv) Cash paid to Creditors ₹1,20,000.

(v) Interest paid on Bank Loan ₹2,800.

(vi) Interest paid on Friend's Loan ₹1,000.

(vii) Bills Receivable received from debtors ₹8,000.

(viii) Bill accepted in favour of creditors ₹10,000.

(ix) Interest received on investment ₹1,000. You are required to :

(i) Give journal entries for these transactions and post them into ledger account and prepare a Trial Balance.

(ii) Prepare Trading Account, Profit 85 Loss Account and Balance Sheet considering the following adjustments:

(a) Interest is outstanding on Bank Loan ₹1,200 and on Friend's Loan ₹200.

(b) Plant and Machinery is to be depreciated by 5% and Furniture by 10%.

(c) Closing Stock ₹35,000.

(d) Wages outstanding ₹3,000 and office rent outstanding ₹500.

Journal

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2018 1 Apr.	Bank A/c To Capital A/c. (Being capital introduced by Ravi)	Dr.		2,00,000	 2,00,00
2018 1 Apr.	Land and Building A/c Plant and Machinery A/c Furniture & Fittings A/c Stock A/c Office Equipments A/c Goodwill A/c (Bal. Fig.) To Bank A/c (Being assets purchased)	Dr. Dr. Dr. Dr. Dr. Dr.		1,00,000 80,000 25,000 30,000 10,000 5,000	 2,50,000
	Bank A/c To 8% Bank Loan A/c. (Being Loan obtained from bank)	Dr.		50,000	 50,000
	Bank A/c To 6% Friend's Loan (Being Loan obtained)	Dr.		20,000	 20,000
	Purchases A/c To Bank A/c (Being Loan purchased)	Dr.		80,000	 80,000
	Purchases A/c To Creditors A/c (Being goods purchased)	Dr.		20,000	 2.00,000
	Investment A/c To Bank A/c (Being money invested in shares of Reliance Ltd.)	Dr.		20,000	 2.00,000
	Bank A/c To Sales A/c (Being goods sold on cash basis)	Dr.		3,00,000	 3,00,000
	Debtors A/c To Sales A/c (Being goods sold on cash credit)	Dr.		1,80,000	 1,80,000

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Wages A/c To To Bank A/c (Being wages paid)	Dr.		35,000	35,000
	Manufacturing Expense A/c To Bank A/c (Being manufacturing expenses paid)	Dr.		5,000	5,000
	Factory Lighting A/c To Bank A/c (Being factory expenses paid)	Dr.		2,000	2,000
	Carriage Inwards A/c To Bank A/c (Being expenses on purchase paid)	Dr.		1,000	1,000
	Commissions of Purchase A/c A/c To Bank A/c (Being commission paid)	Dr.		1,500	1,500
	Freight A/c To Bank A/c (Being freight expenses paid)	Dr.		5,000	5,000
	Salaries A/c To Bank A/c (Being salaries paid)	Dr.		20,000	20,000
	Office Rent A/c To Bank A/c (Being office rend paid)	Dr.		1,000	1,000
	Postage and Telephone A/c To Bank A/c (Being postage & telephone expense paid)	Dr.		500	500
	Stationary A/c To Bank A/c (Being stationary expenses paid)	Dr.		300	300
	Water & Electricity A/c To Bank A/c (Being water & electricity expense paid)	Dr.		1,200	1,200

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Conveyance A/c	Dr.		800	
	To Bank A/c				800
	(Being conveyance expenses paid)				
	Advertising A/c	Dr.		1,200	
	To Bank A/c				1,200
	(Being advertising expenses paid)				
	Drawing A/c	Dr.		6,000	
	To Bank A/c				6,000
	(Being withdrawn for personal use)				
	Advertising A/c	Dr.		3,000	
	To Purchases A/c				3,000
	(Being goods give as free samples)				
	Bank A/c	Dr.		10,000	
	To Debtors A/c				10,000
	(Being cash received from Debtors)				
	Creditors A/c	Dr.		1,12,000	
	To Bank A/c				1,12,000
	(Being cash paid to Creditors)				
	Interest on Bank Loan	Dr.		2,800	
	To Bank A/c				2,800
	(Being interest paid on bank loan)				
	Interest on Friend's Loan	Dr.		1,000	
	To Bank A/c				1,000
	(Being interest paid on Friend's Loan)				
	Bills Receivable A/c	Dr.		8,000	
	To Debtors A/c				8,000
	(Being B/R received from debtors)				
	Creditors A/c	Dr.		10,000	
	To Bank Payable A/c				10,000
	(Being bill accepted in favour of Creditors)				
	Bank A/c	Dr.		1,000	
	To Int. on Investment A/c				1,000
	(Being Interest received on investment)				

Preparation of Ledger:

Bank Account

Dr. Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
	To Capital A/c	2,00,000		By Land and Building A/c	1,00,000
	To 8% Bank Loan A/c	50,000		By Plant and Machinery A/c	80,000
	To 6% Friend's Loan	20,000		By Furniture 8s Fittings A/c	25,000
	To Sales A/c	3,00,000		By Stock A/c	30,000
	To Debtors A/c	10,000		By Office Equipment A/c	10,000
	To Int. on Investment A/c	1,000		By Goodwill A/c	5,000
				By Purchases A/c	80,000
				By Investment A/c	20,000
				By Wages A/c	35,000
				By Manufacturing Exp. A/c	5,000
				By Factory Lighting A/c	2,000
				By Carriage Inward A/c	1,000
				By Commissions on Purchase	1,500
				By Freight A/c	5,000
				By Salaries A/c	20,000
				By Office Rent A/c	1,000
				By Postage & Telephone A/c	500
				By Stationery A/c	300
				By Water & Electricity A/c	1,200
				By Conveyance A/c	800
				By Advertising A/c	1,200
				By Drawings A/c	6,000
				By Creditors A/c	1,20,000
				By Int. on bank loan	2,800
				By Int. on Friend's loan	1,000
				By Balance c/d	26,700
		5,81,000			5,81,000

Capital Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Balance c/d	2,00,000		To Balance c/d	2,00,000
		2,00,000			2,00,000

Land and Building Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank	1,00,000		To Balance c/d	1,00,000
		1,00,000			1,00,000

Plant and Machinery Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank	80,000		To Balance c/d	80,000
		80,000			80,000

Furniture & Fittings Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank	25,000		To Balance c/d	25,000
		25,000			25,000

Stock Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank	30,000		To Balance c/d	30,000
		30,000			30,000

Office Equipment Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank	10,000		To Balance c/d	10,000
		10,000			10,000

Goodwill Equipment Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank	5,000		To Balance c/d	5,000
		5,000			5,000

8% Bank Loan Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Balance c/d	50,000		To Balance Ac	50,000
		50,000			50,000

6% Friend's Loan Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Balance c/d	20,000		To Balance Ac	20,000
		20,000			20,000

Purchases Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c To Creditors A/c	80,000 2,00,000		To Advertising To Balance c/d	3,000 2,77,000
		2,80,000			2,80,000

Creditors Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c To Bill Payable A/c To Balance c/d	1,20,000 10,000 70,000		By Purchases A/c To Balance c/d	2,00,000
		2,00,000			2,00,000

Investment Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	20,000		By Purchase c/d	20,000
		20,000			20,000

Dr. **Sales Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank c/d	4,80,000		By Bank A/c By Debtors A/c	3,00,000 1,80,000
		4,80,000			4,80,000

Dr. **Wages Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	35,000		By Balance c/d	35,000
		35,000			35,000

Dr. **Manufacturing Expenses Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	5,000		By Balance c/d	5,000
		5,000			5,000

Dr. **Factory Lighting Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	2,000		By Balance c/d	2,000
		2,000			2,000

Dr. **Carriage Inwards Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	1,000		By Balance c/d	1,000
		1,000			1,000

Dr. **Commissions on Purchase Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	1,500		By Balance c/d	1,500
		1,500			1,500

Freight Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	5,000		By Balance c/d	5,000
		5,000			5,000

Salaries Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	20,000		By Balance c/d	20,000
		20,000			20,000

Office Rent Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	1,000		By Balance c/d	1,000
		1,000			1,000

Postage and Telephone Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	500		By Balance c/d	500
		500			500

Stationery Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	300		By Balance c/d	300
		300			300

Water and Electricity Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	1,200		By Balance c/d	1,200
		1,200			1,200

Dr. **Conveyance Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	800		By Balance c/d	800
		800			800

Dr. **Advertising Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c To Purchases A/c	1,200 3,000		By Balance c/d	4,200
		4,200			4,200

Dr. **Drawing Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	6,000		By Balance c/d	6,000
		6,000			6,000

Dr. **Interest on Bank Loan Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	2,800		By Balance c/d	2,800
		2,800			2,800

Dr. **Interest on Friend's Loan Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	1,000		By Balance c/d	1,000
		1,000			1,000

Dr. **Bill Receivable Loan Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Debtors A/c	8,000		By Balance c/d	8,000
		8,000			8,000

Dr. **Bill Payable Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Balance c/d	10,000		By CreditorsA/c	10,000
		10,000			10,000

Int. on Investment Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Balance d/d	1,000		By Bank A/c	1,000
		1,000			1,000

Trail Balance

Particulars	Debit (₹)	Credit (₹)
Bank A/c	26,700	
Capital A/c		2,00,000
Land and Building A/c	1,00,000	
Plant and Machinery A/c	80,000	
Furniture & Fittings A/c	25,000	
Stock A/c	30,000	
Office Equipment A/c	10,000	
Goodwill A/c	5,000	
8% Bank Loan A/c		50,000
6% Friend's Loan A/c		20,000
Purchases A/c	2,77,000	
Creditors A/c		70,000
Investment A/c	20,000	
Debtors A/c	162,000	
Sales A/c		4,80,000
Wages A/c	35,000	
Manufacturing Expenses A/c	5,000	
Factory Lighting A/c	2,000	
Carriage Inward A/c	1,000	
Commissions on purchase A/c	1,500	
Freight A/c	5,000	
Salaries A/c	20,000	
Office Rent A/c	1,000	
Postage and Telephone Exp. A/c	500	
Stationery A/c	300	
Water and Electricity A/c	1,200	

Conveyance A/c	800	
Advertising A/c	4,200	
Drawings A/c	6,000	
Interest on Bank Loa	2,800	
Interest on Friend's Loan	1,000	
Bills Receivable	8,000	
Bills Payable		10,000
Int. on Investment		1,000
	8,31,000	**8,31,000**

Trading Account
for the year ending 31 March, 2018

Dr. Cr.

Particulars	(₹)	Particulars	(₹)
To Opening Stock	30,000	By Sales	4,80,000
To Purchases	2,77,000	By Closing Stock	35,000
To Wages 35,000			
Add : Outstanding 3,000	38,000		
To Manufacturing Exp.	5,000		
To Factory Lighting	2,000		
To Carriage Inward	1,000		
To Commissions on purchase	1,500		
To Freight	5,000		
To Gross Profit	1,55,500		
	5,15,000		5,15,000

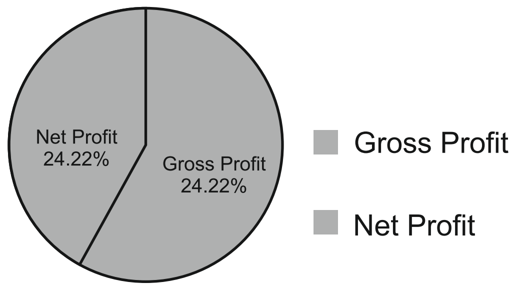
Profit and Loss Account

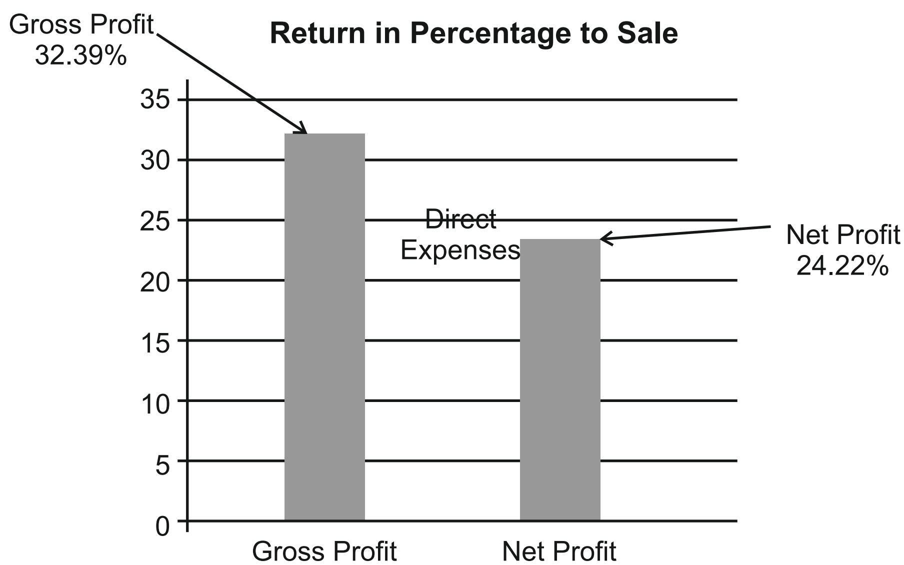
Particulars		(₹)	Particulars	(₹)
To Salaries		20,000	By Gross Profit b/d	1,55,500
To Office Rent	1,000	By	Int. on Investment	1,000
Add: Outstanding	500	1,500		
To Postage & Telephone		500		
To Stationery		300		
To Water 8s Electricity		1,200		
To Conveyance		800		
To Advertising		4,200		
To Int. on Bank Loan		2,800		
Add : Outstanding	1,200	4,000		
To Int. on Friend's Loan		1,200		
(1,000 + 200 due)				
To Dep. on plant 8& machinery		4,000		
To Dep. on Furniture		2,500		
To Net Profit		1,16,300		
		1,56,500		1,56,500

Balance Sheet

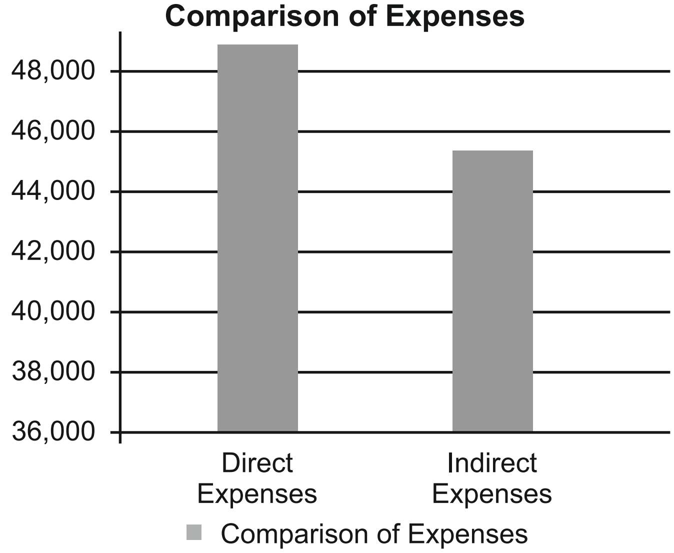
Liabilities		(₹)	Assets		(₹)
Capita		2,00,000	Goodwill		5,000
Add : N/P	1,16,300		Land and Building		1,00,000
Less : Drawings	6,000	3,10,300	Plant and Machinery	80,000	
8% Bank Loan	50,000		Less : Depreciation	4,000	76,000
Add: Interest due	1,200	51,200	Furniture & Fittings	25,000	
6% Friend's Loan	20,000		Less : Depreciation	2,5002	2,500
Add: Interest due	200	20,200	Office Equipment	10,000	
Creditors		70,000	Investment		20,000
Bills Payable		10,000	Debtors		162,000
Wages Outstanding		3,000	Bills Receivable		8,000
Office Rent Outstanding		500	Closing Stock		35,000
			Bank		26,700
		4,65,200			**4,65,200**

Return in Percentage to Sale





Comparison of Expenses



Comparison of Gross Profit with Similar Firm
Comparison of Gross Profit

COMPREHENSVIE PROJECT

Situation: On Ist January 2017, Mr. Vipul decided to start a computer Hardware store and decides to sell various components of computer Hardware. He purchased a Building for ₹18,00,000 for this purpose. Since he had shortage of funds, so he secured a Loan of ₹6,00,000.

(a) 10% per annum from State Bank of India. This loan was payable in three equal instalments along with interest due on 31 December 2017. He had following transactions for his business:

	Transactions	**Amount (₹)**
1.	Purchased computer Hardwares	4,00,000
2.	Purchased furniture	1,90,000
3.	Bought Computer Accessories	2,20,000
4.	Sale of Computer Accessories	17,50,000
5.	Wages paid	1,30,000
6.	Salaries Paid to staff	3,20,000
7.	Electricity charges	1,21,800
8.	Advertisement charges	1,05,000
9.	Postage charges	13,500
10.	General Expenses	21,000
11.	Insurance Premium paid	48,000
12.	Bought Laptop and Printer for office use	70,000
13.	Security deposited for Electricity Connection with NDPL	40,000
14.	Security Deposited with MTNL for telephone and Internet connection	1,10,000

Beside these, he also withdrew ₹20000 per month for his personal use out of his business.

You are required to

(i) Journalise all above transactions in the books the firm named " Computer Solutions."

(ii) Prepare necessary Ledger Accounts showing postings of all journal entries.

(iii) Prepare Trial Balance.

(iv) Prepare financial statements of the firm for the year ended 31st December 2018 showing.

(a) Trading and Profit and loss A/C

(b) Balance Sheet

You also need to consider the following additional informations –

(a) Depreciater building by 5% and furniture by 10% per annum.

(b) Salary outstanding ₹ 16000 at the end.

(c) Insurance prepaid ₹ 6500 at the end.

(d) Closing stock of computer Accessories is Rs. 9500

Solution Journal of "Computer Solutions"

Date	**Particulars**	**L.F.**	**Debit ₹**	**Credit ₹**
2017				
Jan 01	Building A/C Dr.		18,00,000	18,00,000
	To Capital A/C			
	(Capital invested in the business by way of Building)			
Jan 01	Bank A/C Dr.		6,00,000	
	To Bank loan A/C			6,00,000
	(Loan taken from SBI)			
Jan 01	Purchases A/C Dr.		4,00,000	
	To Bank A/C			4,00,000
	(Computer Hardwares purchased)			

	Furniture A/C Dr.			1,90,000
	To Bank A/C			1,90,000
	(Furniture purchased)			
	Purchases A/C Dr.		2,20,000	
	To Bank A/C			2,20,000
	(Computer Accessories Purchased)			
	Bank A/C Dr.		17,50,000	
	To sales A/C			17,50,000
	(Computer Accessories sold)			
	Wages A/C Dr.		1,30,000	
	Salaries A/C Dr.		3,20,000	
	Electricity charges A/C Dr.		1,21,800	
	Advertisement A/C Dr.		1,05,000	
	Postal charges A/C Dr.		13,500	
	General Expenses A/C Dr.		21,000	
	Insurance A/C Dr.		48,000	
	To Bank A/C			7,59,300
	(Various expenses incurred)			
	Laptop and printer A/C Dr.		70000	
	To Bank A/C			70,000
	(Laptop and Printer Purchased for Business)			
	NDPL A/C Dr.		40,000	
	MTNL A/C Dr.		1,10,000	
	To Bank A/C			1,50,000
	(Security deposit for Electricity connection and Internet connection)			

	Drawings A/C Dr. To Bank A/C (Drawing made @ Rs. 20,000 pm)		2,40,000	2,40,000
31 Dec	Interest on Bank Loan A/C Dr. To Bank loan A/C (Interest due @ 10% pa on Rs. 6,00,000)		60,000	60,000
2017 31 Dec	Bank Loan A/C Dr. To Bank A/C (Interest on loan along with loan paid i.e., 60,000 + 2,00,000)		2,60,000	2,60,000
31 Dec	Depreciation A/C Dr. To Building A/C To Furniture A/C (Depreciation charged on Building and Furniture)		1,09,000	90,000 19,000
31 Dec	Salary A/C Dr. To O/S salary A/C (Salary outstanding)		16,000	16,000
31 Dec	Prepaid Insurance A/C Dr. To Insurance A/C (Insurance prepaid)		6,500	6,500

Sample Vouchers—

(i) For Purchase of Building

Received	M/S Computer Solution	
Revenue Stamp	Voucher No (i)	Date– 01/01/17
		Amt ₹
	Debit: Building A/c	18,00,000
	(Building Purchased for cash vide cash memo N0—)	
		18,00,000
	Authorised by	Prepared by

(ii) For Pament of Salaries.

Receied ₹	M/S Computer Solution	
Revenue Stamp	Voucher No (ii)	Date– 31/12/17
		Amt ₹
	Debit: Salaries A/c	3,20,000
	(Salaries Paid for the year 2017 vide salary Sheet N0—)	
		3,20,000
	Authorised by	Prepared by

(iii) For sales (Cash)

Received ₹ ____ Revenue Stamp	M/S Computer Solution Voucher No (iii) Credit: Sales A/c (Sold goods for cash vide cash memo N0—) Authorised by	Date– /01/17 Amt ₹ 17,50,000 17,50,000 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	19,000
@ 10% p.a. on ₹ 1,90,000)	
Authorised by	Prepared by

Preparation of Ledger Accounts

Dr. **Building Account** Cr.

Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
01/01/17	To Capital A/c		18,00,000	31/12/17	By Depreciation A/C		90000
				31/12/17	By Balance cld		17,10,000
			18,00,000				18,00,000
01/1/18	To Balance b/d		17,10,000				

Bank Account							
Date	**Particular**	**J. F.**	**Amt ₹**	**Data**	**Particular**	**J. F.**	**Amt ₹ 4,00,000**
01/1/17	To Bank loan kdk A/c		6,00,000		By Purchases A/C		220,000 4,00,000
	To Sales A/C		17,50,000		By Purchases A/C		220,000
					By Furniture A/C		1,90,000
					By Wages A/C		1.30,000
					By Salaries A/C		3,20,000
					By Electricity Charges A/C		1,21,800
					By Advertise- A/C ment		1,05,000
					By Postal Charges A/C		13,500
					By General Expenses A/C		21,000
					By Insurance A/C		48,000
					By Laptop and Printer A/C		70,000
					By NDPL A/C		40,000
					By MTNL A/C		1,10,000
					By Drawings A/C		2,40,000
					By Bank loan A/C		2,60,000
				31/12/17	By balance c/d		60,700
			23,50,000				23,50,000
01/1/18	To Balance b/d		60700				

Dr. **Capital Account** Cr.

Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
31/12/17	To Balance c/d		18,00,000	01/1/17	By Building A/c		18,00,000
			18,00,000				
				01/1/18	By Balance b/d		18,00,000

Dr. **Bank loan Account** Cr.

Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
31/12/17	To Bank A/C		2,60,000	01/1/17	By Bank A/C		6,00,000
31/12/17	To Balance		4,00,000	31/12/17	By Interest on Bank Loan A/C		60,000
			6,60,000				6,60,000
				01/1/18	By Balance b/d		4,00,000

Dr. **Purchases Account** Cr.

Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
	To Bank A/C		4,00,000	31/12/17	By Trading A/C		6,10500
	To Bank A/C		2,20,000		By closing stock		9,500
			6,20,000				6,20,000

Dr. **Furniture Account** Cr.

Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
01/1/17	To Bank A/C		1,90,000	31/12/17	By Depreciation A/C		19000
				31/12/17	By Balance c/d		1,71000
			1,90,000				190,000
01/1/18	To Balance b/d		1,71,000				

Dr. **Sales Account** Cr.

Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
31/12/17	To Trading A/c		17,50,000		By Bank A/c		17,50,000
			17,50,000				17,50,000

Dr. **Wages Account** Cr.

Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
	To Bank A/C		1,30,000	31/12/17	By Trading A/c		1,30,000
			1,30,000				1,30,000

Dr. **Electricity Charges Account** Cr.

Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
	To Bank A/C		1,21,800	31/12/17	By Profit and Loss A/C		1,21,800
			1,21,800				1,21,800

Dr. **Advertisement Account** Cr.

Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
	To Bank A/C		1,05,000	31/12/17	By Profit and Loss A/C		1,05,000
			1,05,000				1,05,000

Dr. **Postal Charges Account** Cr.

Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
	To Bank A/C		13500	31/12/17	By Profit and Loss A/C		13500
			13500				13500

Dr. **General Expenses Account** Cr.

Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
	To Bank A/c		21000	31/12/17	By Profit and Loss A/C		21000
			21000				21000

Dr. **Salaries Account** Cr.

Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
	To Bank A/c		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		By Prepaid Insurance A/C		6500
				31/12/17	By Profit and Loss A/C		41,500
			48,000				48,000

Dr. **Laptop and Printer Account** Cr.

Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
	To Bank A/C		70000	31/12/17	By Balance c/d		70000
			70000				70000
01/1/18	To Balance b/d		70000				

Dr. **NDPL Account** Cr.

Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
	To Bank A/C		40000	31/12/17	By Balance c/d		40000
			40000				40000
01/1/18	To Balance b/d		40,000				

Dr. **MTNL Account** Cr.

Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
	To Bank A/C		1,10,000	31/12/17	By Balance c/d		1,10,000
			1,10,000				1,10,000
01/1/18	To Balance b/d		1,10,000				

Dr. **Drawings Account** Cr.

Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
	To Bank A/C		2,20,000	31/12/17	By Balance c/d		2,40,000
			2,40,000				2,40,000
01/1/18	To Balance b/d		2,40,000				

Dr. **Interest on Bank loan Account** Cr.

Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
31/12/17	To Bank Loan A/C		60000	31/12/17	By Profit and Loss A/C		60000
			60000				60000

Dr. **Depreciation Account** Cr.

Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
31/12/17	To Building A/ C		90,000	31/1/17	By Profit and Loss A/C		1,09,000
31/12/17	To Furniture A/C		19,000				
			1,09,000				1,09,000

Dr. **Outstanding Salary Account** Cr.

Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
31/12/17	To Balance c/d		16000	31/12/17	By Salary A/C		16000
			16000				16000
				01/1/18	By Balance b/d		16000

Dr. **Prepaid Insurance Account** Cr.

Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
31/12/17	To Insurance A/C		6500	31/12/17	By Balance c/d		6500
			6500				6500
01/1/18	To Balance b/d		6500				

Trial Balance

Dr. **as on 31st December 2017** Cr.

S.No.	Name of the Account	Debit	Credit
1.	Building A/C	17,10,000	–
2.	Bank A/C	60,700	–
3.	Capital A/C	–	800,000
4.	Bank Loan A/C	–	4,00,000
5.	Purchases A/C	6,20,000	–
6.	Furniture A/C	1,71,000	–
7.	Sales A/C	–	17,50,000
8.	Wages A/C	1,30000	–
9.	Salaries A/C	3,20,000	–
10.	Electricity Charges A/C	1,21,800	–
11.	Advertisement A/C	1,05000	–
12.	Postal Charges A/C	13,500	–
13.	General Expenses A/C	21,000	–
14.	Insurance A/C	48,000	–
15.	Laptop and Printer A/C	70,000	–
16.	NDPL A/C (Security)	40,000	–
17.	MTNL A/C (Security)	1,10,000	–
18.	Drawings A/C	2,40,000	–
19.	Interest on Bank Loan A/C	60,000	–
20.	Depreciation A/C	1,09,000	–
21.	Outstanding Salary A/C	–	16,000
22.	Prepaid Insurance A/C	6,500	–
23.	Closing Stock of Computer Accessories	9,500	–
		39,66,000	39,66,000

Trading and Profit & Loss A/C

Dr. **for the year ending 31st Dec. 2017** Cr.

Particulars	Amount	Particulars	Amount
To Purchases A/C	610,500	By Sales A/C	17,50,000
To Wages	1,30,000		
To Gross Profit c/d	100,9,500		
	17,50,000		17,50,000
To Salaries A/C	3,36000	By Gross Profit b/d	1009,500
To Electricity Charges A/C	121800		
To Advertisement A/C	1,05000		
To Postal Charges A/C	13500		
To General Expenses A/C	21000		
To Insurance A/C	41500		
To Interest on Bank Loan A/C			
To Depreciation A/C Building – 90000 Furniture – 19000	1,09,000		
To Net Profit c/d	20,1700		
(Carried forward to Capital A/C)	10,09,500		10,09,500

Balance Sheet
as at 31st December 2017

Liabilities	**Amount**	**Assets**	**Amount**
Capital 18,00,000 Drawings (2,40,000) Net Profit 20,1700	17,61700	Building 18,00,000 Depreciation 90,000	17,10,000
		Bank A/C	60700
Bank Loan	4,00,000	Furniture 1,90,000	

Outstanding Salaries	16000	Depreciation 19000	1,71,000
		Laptop and Printer	70000
		NDPL (Security Deposit)	40000
		MTNL (Security Deposit)	1,10,000
		Prepaid Insurance	6500
		Closing Stock	9500
	21,77,700		21,77,700

Calculation of Gross Profit and Net Profit Ratio

(i) Gross Profit Ratio = $\frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$

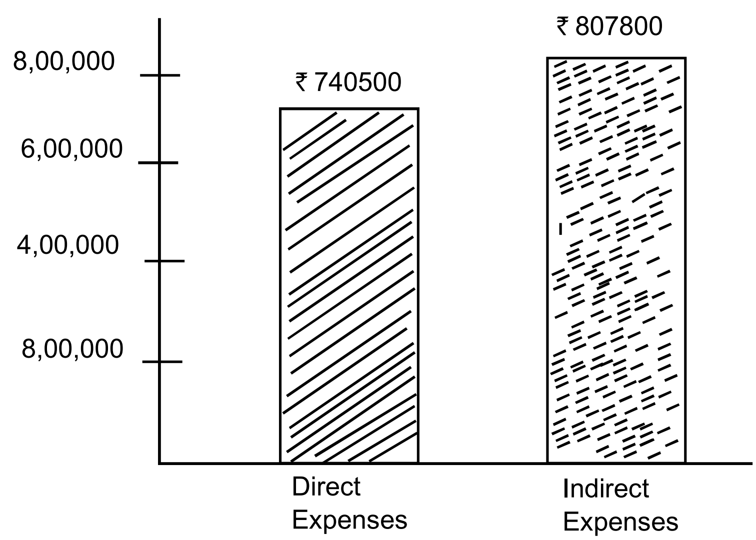
$$= \frac{10,09,500}{17,50,000} \times 100 = 57.68\%$$

(ii) Net Profit Ratio = $\frac{\text{Net Profit}}{\text{Net Sales}} \times 100$

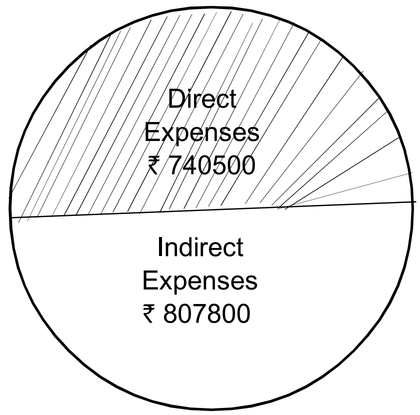
$$= \frac{2,01,700}{17,50,000} \times 100 = 11.52\%$$

Bar Diagrams and Pie Charts for Direct and Indirect Expeuses

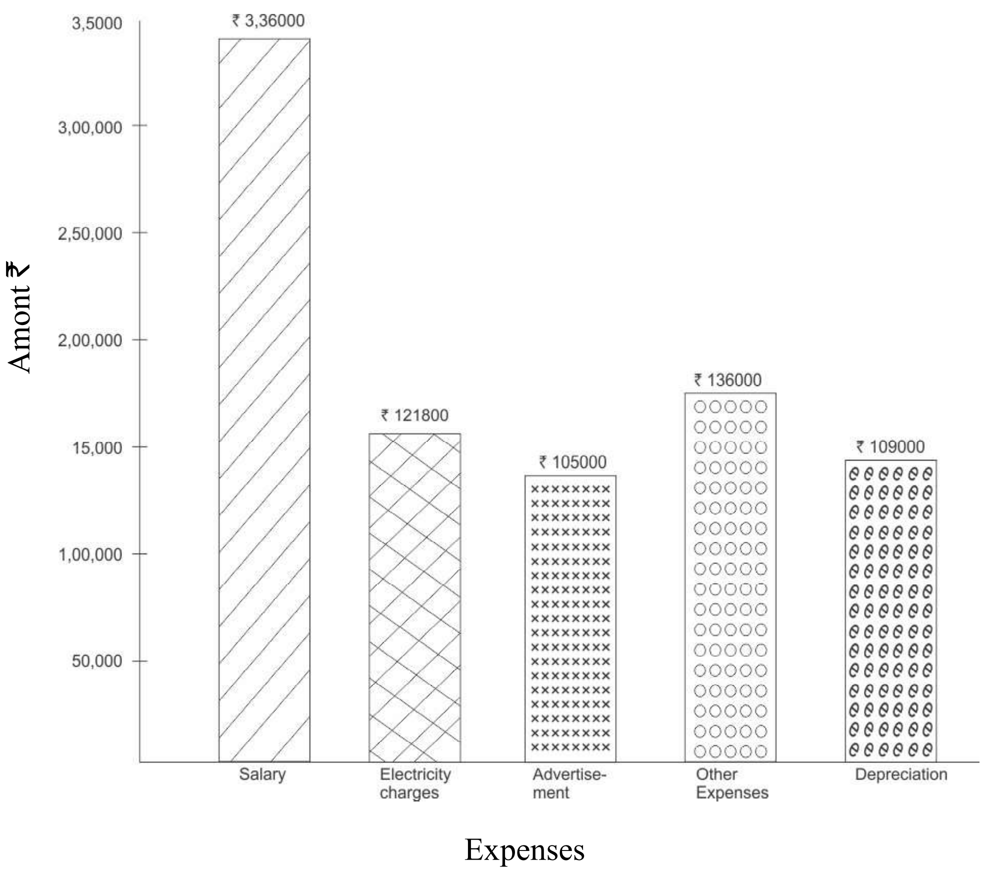
Bar Diagram of Direct and Indirect Expenses



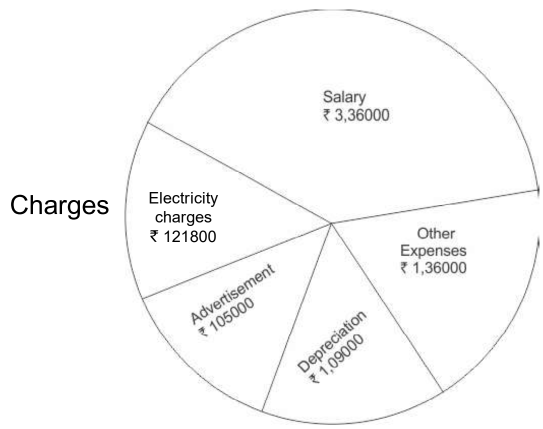
Pic Chart of Direct and Indirect Expeuses



Bar Diagram of Indirect Expenses

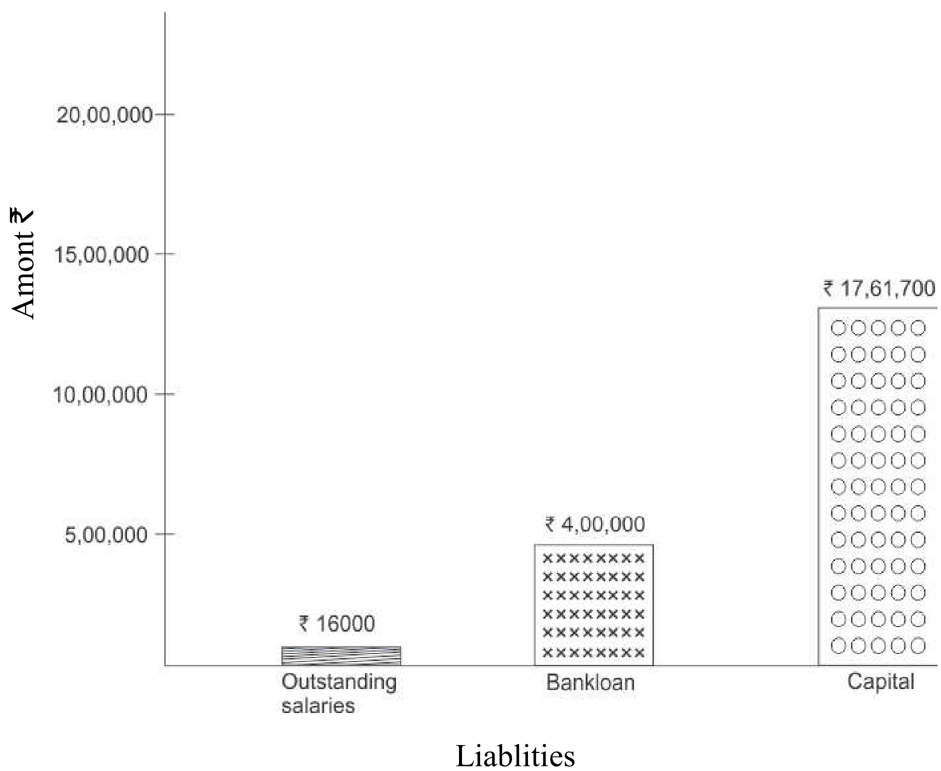


Pic chart of Indirect Expenses.

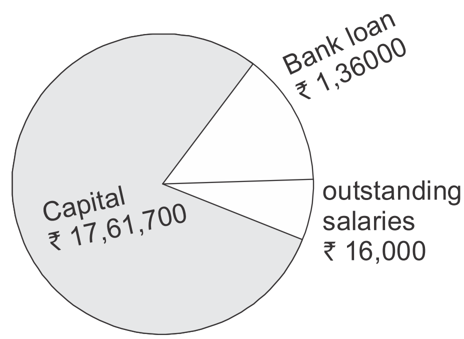


Bar Diagrams and pic charts for Assets and hiabilities.

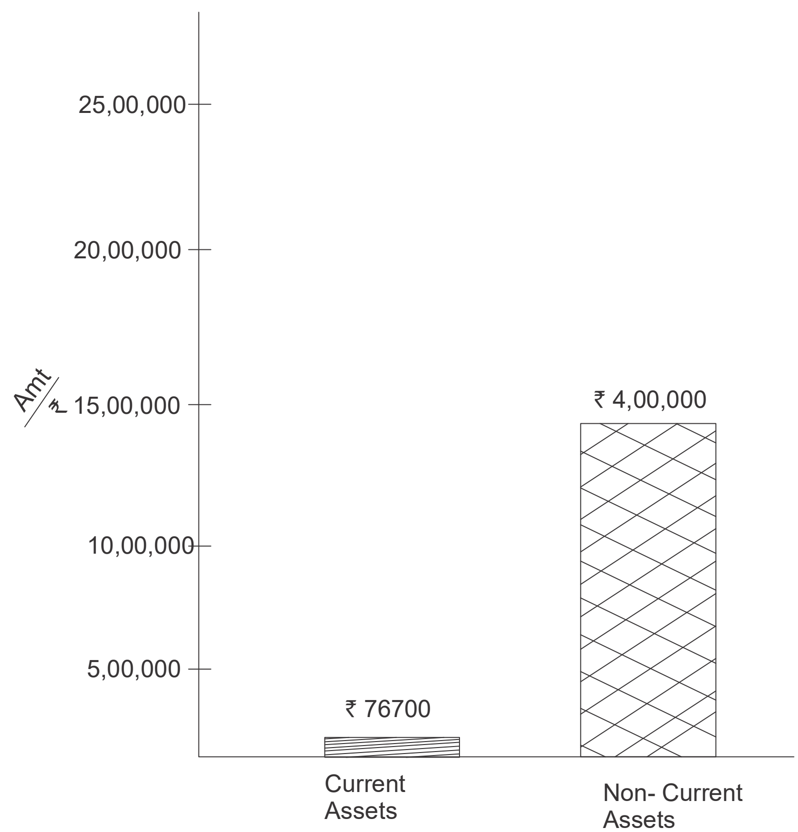
Bar Diagram of hiabilsties



Pic chart of hiabilities

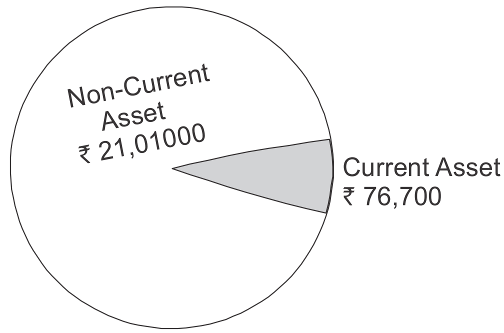


Bar siagram of Assets



– Assets

Pic Chart of Assets.



Conclusion:

(i) From all the above recording and analysing the results, we can say that vipul is very much able to handle his new business of selling computer Hardwares and Accessories. He is managing his business very well.

(ii) The Gross Profit and the Net Profit Ratios indicates that he is earning good return over his Investments.

(iii) If the business runs on the same track, he should pay his Bank loan first.

(iv) In order to run his business successfully in future, he should control his indirect Expenses.

ACCOUNTANCY XI

Time Allowed : 3 Hours **SAMPLE PAPER** *M.M. : 80*

General Instructions:

(i) All questions are compulsory.

(ii) Show your working notes clearly.

Q. No. **MARKS**

1. Which of the following is not a business transaction? 1

   (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

2. The documentary evidence in support of a transaction is known as ____________. 1

3. The liability arising from the purchase of goods on credit is called 1

   (a) Creditors (b) Bills Receivable

   (c) Trade Receivable (d) Payable expenses

4. Principle says, Anticipate no profits and provide for all possible losses. 1

   (a) Dual Aspect Principle (b) Materiality Principle

   (c) Consistency Principle (d) Conservatism Principle

5. A concept that a business enterprise will not be sold or liquidated in the near future is known as: 1

   (a) Going concern (b) Economic entity

   (c) Monetary unit (d) None of the above 1

6. __________ does not require any acceptance.

   (Bill of Exchange/Promissory Note) 1

7. State with the reason following statement is true or false. "Accounting of depreciation is done as per Accounting Standard AS-10". 1

8. A bill of ₹ 12,500 drawn by Shyam is accepted by Ram & Shyam gets it immediately 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

9. Match the fotlowing

	Column A	Column B
(i)	Decline in the Value of Coal Mine by ₹ 1,00,000	(a) Depreciation
(ii)	Value of Building decline by ₹ 1,00,000	(b) Amortisation
(iii)	Value of Patents Written off by ₹10,000	(c) Depletion

10. Credit balance of bank account in cash book shows : 1

(a) Overdraft

(b) Cash deposited in our bank

(c) Cash withdrawn from bank

(d) None of these

11. Which one of the following is the Book of Original Entry? 1

(a) Journal Proper (b) Sales Book

(c) Purchase Book (d) All of the Above

12. Goods and Services Tax applicable on Inter-state transactions is______________. 1

13. Which one is a liability for a business? 1

(a) Input CGST (b) Output IGST

(c) Input SGST (d) All of the above

14. Sale of goods to Mr. Amir is wrongly debited to Umair A/c(debtor) instead of Amir A/c(debtor), this is an example? 1

(a) Error of principle

(b) Error of omission

(c) Error of commission

(d) Error of original entry

15. "_______________" qualitative characteristic of accounting information is reflected when accounting information is clearly presented. 1

(a) Relevance

(b) Comparability

(c) Understandability

(d) Reliability

16. Accrued Income is _________ Assets. (Non-Current/Current) 1

17. State with the reason following statement is true or false. 1

"Window dressing is an advantage of Accounting"

18. Prepare Accounting Equation on the basis of the following transaction. 3

(i) Started business with cash ₹ 10,000.

(ii) Paid rent in advance ₹ 300.

(iii) Purchased goods for cash ₹ 5,000 and credit ₹ 2,000.

(iv) Sold goods for cash ₹ 8,000 costing ₹ 4,000.

(v) Paid salary ₹ 450 and salary outstanding being ₹ 100.

(vi) Bought motorcycle for personal use ₹ 3,000.

OR

Whet is **"Petty Cash Book**'? Explain **Imprest System** of Petty Cash Book.

19. Mr. Sunrise started a business for buying and selling stationery with ₹ 5,00,000 as an initial investment. Of which he paid ₹ 1,00,000 for furniture, ₹ 2,00,000 for buying stationery items. He employed a sales person and clerk. At the end of the nonth he paid ₹ 5,000 as their salaries. Out of the stationery bought he sold some stationery for ₹ 1,50,000 for cash and some other stationery for ?1,03,000 on credit basis to Mr. Ravi. Subsequently, he bought stationery items of ₹ 1,50,000 from Mr. Reace. In the first week of next month there was a fire accident and he lost ₹ 30,000 worth of stationery. A part of the machinery, whicn cost ₹ 40,000, was sold for ₹ 45,000.

From the above, answer the following :

(a) What is the amount of capital with which Mr. Sunrise started business?

(b) What are the fixed assets he bought?

(c) What is the value of the goods purchased?

(d) Who is the creditor and state the amount payable to him?

(e) What is the amount of expenses?

(f) What is the gain he earned?

(g) What is the loss he incurred?

(h) Who is the debtor? What is the amount receivable from him?

20. Journalise the following transactions in the books of Manoj & Bros.: 4

(a) Goods worth ₹ 20,000 were distributed as free samples and ₹ 10,000 goods given as charity.

(b) Charge depreciation @ 10% p.a for two month on a machine costing ₹ 20.000.

(c) Provide interest on capital of ₹ 1,50,000 at 6% p.a. for 9 months.

(d) Naresh (a debtor) became insolvent, who owed ₹ 8,000. 40 paise in a rupee could not be recovered.

21. Fill in the blanks: 4

(i) If a firm believes that some of its debtors may 'default', it should act on this by making sure that all possible losses are recorded in the books. This is an example of the _______ concept.

(ii) The fact that a business is separate and distinguishable from its owner is best exemplified by the _______ concept.

(iii) Everything a firm owns, it also owns out to somebody. This co-ir cidence is explained by the _________ concept.

(iv) The ___________ concept states that if straight line method of depreciation is used in one year, then it should also be used in the next year.

22. The following balances appear in the books of Vinod on 01-01-2020. 6

Machinery A/c ________________ ₹ 8,00,000

Provision for Depreciation a/c____ ₹ 3,18,000

On 01-01-2020 they decided to sell a machine for ₹ 34,500. This machine was purchased for ₹ 1,20,000 on 01-01-2016.

Show the machinery A/c, Provision for Depreciation A/c for the year ended Dec. 31, 2020 assuming that depreciation was charged at 10% p.a. on the written down value method.

23. Prepare doubie column cash book from the following transactions for the year August 2020:-

01 Cash in hand ₹ 17,500

Cash at bank ₹ 5,000

03 Purchased goods for cash ₹ 3,000

05 Received cheque from Naresh ₹ 10,000

08 Sold goods for cash ₹ 7,000

10 Naresh's cheque deposited into bank

12 Purchased goods and paid by cheque ₹ 20,000

15 Paid establishment expenses through bank ₹ 1,000

18 Cash sales ₹ 7,000

20 Deposited into bank ₹ 10,000

24 Paid trade expenses ₹ 500

27 Received commission by cheque ₹ 6,000

29 Paid Rent ₹ 2,000

30 Withdrew cash for personal use ₹ 1,200

31 Salary paid ₹ 6,000

OR

Trial balance of a firm did not agree. Subsequently the following errors were located:

(i) Cash received from Mohit ₹ 4,000 was posted to Mahesh as ₹ 1,000.

(ii) Cheque for ₹ 5,800 received from Arnav full settlement of his account of ₹ 6,000,was dishonoured. No entry was passed in the books on dishonour of the cheque.

(iii) ₹ 800 received from Khanna, whose account had previously been written off as bad, was credited to his account.

(iv) A credit sale to Manav for ₹ 5,000 was recorded through the purchases book as ₹ 2,000.

(v) Purchases book undercast by ₹ 1,000.

(vi) Repairs on machinery ₹ 1,600 wrongly debited to Machinery account as ₹ 1,000.

Pass Journal Entries to rectify the above errors and omissions.

24. From the following particulars, prepare the bank reconciliation statement of Shri Krishan as on March 31, 2021. 8

(a) Balance as per passbook is ₹ 10,000.

(b) Bank collected a cheque ₹ 500 on behalf on Shri Krishna but wrongly credited it to Shri Kishan's account.

(c) Bank recorded a cash book deposit of ₹ 1,589 as ₹ 1,598.

(d) Withdrawal column of the passbook under cast by ₹ 100.

(e) The credit balance of ₹ 1,500 as on the pass-book was recorded in the debit balance.

(f) The payment of a cheque of ₹ 350 was recorded twice in the passbook.

(g) The pass-book showed a credit balance for a cheque of ₹ 1,000 deposited by Shri Kishan.

(h) Insurance Premium paid by the bank ₹ 200

OR

Ashok sold goods ₹ 14,000 to Bishan on October 30, 2020 and drew three bills for ₹ 2,000, ₹ 4,000 & ₹ 8,000 payable after two, three, and four months respectively. The first bill was kept by Ashok with him till maturity. He endorsed the second bill in favour of his creditor Chetan. The third bill was discounted on December 03, 2020 at 12% p.a. The first and second bills were duly met on matturity but the third bill was dishonoured and the bank paid ₹ 50 as noting charges. On March 03, 2021 Bishan paid ₹ 4,000 and noting charges in cash and accepted a new bill at two months after date for the balance plus interest ₹100. The new bill was met on maturity by Bishan.

You are required to give the journal entries in the books of Ashok.

PART B

25. If rate of Gross Profit to cost is 25% on sales and Cost of Goods Sold is ₹ 2,10,000, then amount of Sales is ₹ _______ ? 1

26. Net profit of Profit and Loss Accounts indicates

    (i) Debit Balance of Profit and Loss Account

    (ii) Credit Balance of Profit and Loss Account

    (iii) Debit side of Trading Account

    (iv) None of the Above

27. _________ is not an advantage of Computerised Accounting.

(i) High Speed

(ii) Accuracy

(iii) Timely Reporting

(iv) High Cost of Training

28. Write any three limitations of the Computerised Accounting System? 3

29. From the following balances extracted from rhir 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.

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

(OR)

Explain Any two Accounting software

(a) Ready - made software

(b) Customized software

(c) Tailor made software

31. From the following information supplied by Ms. Sudha, calculate the amount of Net Sales' 6

	₹
Debtors on April 01, 2020	5,000
Debtors on March 31, 2021	50,000
Opening balance of bills receivable as on April 01, 2020	23,000
Closing balance of bills receivable as on March 31, 2021	29,000
Cash received from debtors	3,02,000
Discount allowed	8,000
Cash received against bills receivable	21,000
Bad debts	14,000
Bill receivables (dishonoured)	20,000
Cash sales	2,25,000
Sales return	17,000

OR

Distinguish between "Single Entry System" and "Double Entry System".

32. Prepare a trading and profit and loss account and Balance Sheet for the year ending March 31, 2021.

Debit Items	**₹**	**Credit Items**	**₹**
Sundry debtors	1,00,000	Bills payable	85,550
Bad debts	3,000	Sundry creditors	25,000
Trade expenses	2,500	Provision for bad debts	1,500
Printing and Stationary	5,000	Return outwards	4,500
Rent	3,450	Capital	2,50,000
Freight	2,250	Discount received	3,500
Sales return	6,000	Interest received	11,260
Motor car	25,000	Sales	1,00,000
Opening stock	75,550		
Furniture and Fixture	15,500		
Purchases	75,000		
Drawings	13,560		
Investments	65,500		
Cash in hand	36,000		
Cash in bank	53,000		
	4,81,310		**4,81,310**

Additional information:-

1. Interest on drawing @ 6%.
2. Depreciation charged on furniture and fixture @ 5%, motor car @ 10% .
3. Further bad debts ₹ 1,000 make a provision for bad debts @ 5% on sundry debtors.
4. Discount on debtors 2%.
5. Closing stock was valued ₹ 35,000.
6. Rent outstanding ₹ 200.

OR

The following were the balances extracted from the books of Raja and Sons as on March 31, 2021.

Debit Items	₹	Credit Items	₹
Carh in hand	540	Sales	98,780
Cash at bank	2,630	Return Outwards	500
Purchases	40,675	Capital	62,000
Return inwards	680	Sundry Creditors	6,300
Wages	8,480	Rent	9,000
Fuel and Power	4,730		
Carriage on sales	3,200		
Carriage on purchases	2,040		
Opening stock	5,760		
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 foHowing adjustments, prepare Trading and Profit & toss account and Balance Sheet as on March 31, 2021 :

(a) Stock in hand on March 31, 2021 was ₹ 6,800.

(b) Machinery is to be depreciated at the rate of 10% and patents @20%.

(c) Salaries for the month of March, 2021 amounting to ₹ 1,500 were outstanding.

(d) Insurance includes a premium of ₹ 170 on a policy expiring on September 30, 2021

(e) Rent receivable ₹ 1,000.

SOLUTION OF SAMPLE PAPER

Q. No.		Marks
1.	(c) Paid sons fees from her personal bank account	1
2.	20,000 Voucher	1
3.	(a) Creditors	1
4.	(d) Conservatism Principle	1
5.	(a) Going concern	1
6.	Promissory Note	1
7.	False, Accounting of Depreciation is based on AS-6	1
8.	(a) ₹375	1
9.	(i)- c, (ii)- a, (iii)-b	1
10.	(a) Overdraft	1
11.	(d) All of the Above	1
12.	IGST	1
13.	(b) Output IGST	1
14.	(b) Error of omission	1
15.	(c) Understandability	1
16.	Current	1
17.	False, Window dressing is a limitation of Accounting	1
18.	**Accounting Equation**	**I/2x 6**

S.No.	Transactions	Assets					=	Liabliities + Capital				
		Cash ₹	+	Prepaid ₹	+	Stock ₹	=	Creditors ₹	+	Outstanding ₹	+	Capital ₹
(i)	Started business with cash ₹ 10,000	10,000										10,000
		10,000					=					10,000
(ii)	Paid rent in advance ₹ 300	-300		300			=					
		9,700	+	300	+		=					10,000
(iii)	Purchased goods for cash ₹ 5,000 and credit ₹ 2,000	-5,000	+		+	5,000 2,000	= =	+	2,000			
		4,700	+	300	+	7,000	=	2,000			+	10,000
(iv)	Sold goods for cash ₹ 8,000 costing ₹ 4,000	8,000				-4,000						4,000 (Profit)
		12,700	+	300	+	3,000	=	2,000			+	14,000
(v)	Paid salary ₹ 450 and salary outstanding beign ₹ 100	-450					=			100		-450 (Expenses) -100 (Expenses)
		12,250	+	300	+	3,000	=	2,000	+	100	+	13,450
(vi)	Brought motorcycle for personal use ₹ 3,000	-3000					=					-3,000 (Drawings)
		9,250	+	300	+	3,000	=	2,000	+	100		10,450

OR

Petty Cash Book : Petty cash book is one kind of cash book which is prepared to record small (petty) expenses of the business. It is prepared by a Petty Cashier to save the time and efforts of the head cashier.

Imprest System : According to this system, Head cashier paid some amount in advance to petty cashier for petty expenses. Petty cashier paid petty expenses from this cash and record them in Petty Cash book.

19. (a) ₹ 5,00,000 (b) ₹ 1,00,000 1/2×8
    (c) ₹ 2,00,000 (d) Mr. Reace, ₹ 1,50,000
    (e) ₹ 5,000 (f) ₹ 5,000
    (g) ₹ 30,000 (h) Mr. Ravi, ₹ 1,00,000

20. **Journal**

(a)	Advertisement A/c Charity A/c To Purchases A/c (Goods given for free sample and Charity)	Dr. Dr. Dr.		20,000 10,000	 30,000
(b)	Depreciation A/c To Machinery A/c (Depreciation Charged on Machinery)	Dr.		2,000	 2,000
(c)	Interest on Capital A/c To Capital A/c (Interest on Capital allowed)	Dr.		6,750	 6,750
(b)	Cash A/c Bad Debts A/c To Naresh's A/c (Recovered some cash and proved some bad debts	Dr. Dr.		4,800 3,200	 8,000

21. (i) Conservatism concept/ Prudence. 1×4
    (ii) Business entity concept/ Separate Entity Concept.
    (iii) Dual aspect concept/ Duality Concept.
    (iv) Consistency concept.

22. **Machinery Account** (2+4)

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
2020			2020		
Jan. 1	To Balance b/d	8,00,000	Jan. 1	By Bank A/c (sale)	34,500
			Jan. 1	By Provision for Depreciation A/c	41,268
			Jan. 1	By Profit & Loss A/c (Loss on Sale)	44,232
			Dec. 31	By Balance c/d	6,80,000
		8,00,000			**8,00,000**

Dr. Provision for Depreciation Account Cr.

Date	Particulars	₹	Date	Particulars	₹
2020			2020		
Jan. 1	To Machinery A/c (Total Dep. of sold Mach.)	41,268	Jan. 1	By Balance b/d	3,18,000
			Dec. 31	By Dep. A/c (Remaining Machinery)	40,327
Dec. 31	To Balance c/d	3,17,059			
		3,58,327			**3,58,327**

Working Notes :

Depreciation charged on Sold Machinery

Cost of the Machinery on 01-01-2016	1,20,000
Less : Depreciation for 2016	-12,000
Book Value on 01-01-2017	1,08,000
Less : Depreciation for 2017	-10,800
Book Value on 01-01-2018	97,000
Less : Depreciation for 2018	-9,720

Book Value on 01-01-2019	87,480
Less : Depreciation for 2019	-8,748
Book Value on 01-01-2020	78,732

Loss on sale of Machinery = Book Value on date of sale - Sale Price

= 78732 -34,500 = 44,232

Depreciation on Remaining Machinery

Cost of Remaining Machinery (800,000 -120,000)	6,80,000
Less : Accumulated Depreciation thereon	-2,76,732
(till 31-12-2019) (318,000 - 41,268)	
Book Value on 01-01-2020	4,03,268

23.

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

Date	Particulars	LF	Cash	Bank	Date	Particulars	LF	Cash	Bank
2020					2020				
Aug 1	Balance b/d		17,500	5,000	Aug 3	Purchases A/c		3,000	
"8	Sales A/c		7,000		"12	Purchases A/c			20,000
"10	Cheque in Hand A/c			10,000	"15	Establishment Expenses A/c			1,000
"18	Sales A/c		7,000		"20	Bank Ac	C	10,000	
"20	Cash A/c	C		10,000	"24	Trade Exp. A/c		500	
"27	Commission A/c			6,000	"29	Rent A/c		2,000	
					"30	Drawing A/c		2,200	
					"31	Salary A/c		6,000	
					"31	Balance C/d		8,800	10,000
			31,500	31,500				31,500	31,500

Or

Journal

Date	Particulars	L.F.	Dr.(₹)	Cr. (₹)
1.	Mahesh's A/c Dr.		1,000	
	Suspense A/c Dr.		3,000	
	To Mohit's A/c			4,000
	(Error rectified)			
2.	Arnav's A/c Dr.		6,000	
	To Bank A/c			5,800
	To Discount Allowed A/c			200
	(Error rectified)			
3.	Khanna's A/c Dr		800	
	To Bad debts recovered A/c			800
	(Error rectified)			
4.	Manav's A/c Dr.		7,000	
	To Purchases A/c			2,000
	To Sales A/c			5,000
	(Error rectified)			
5.	Purchases A/c Dr.		1,000	
	To Machinery A/c			
	To Suspense A/c			1,000
	(Error rectified)			
6.	Repairs A/c Dr.		1,600	
	To Machinery A/c			1,000
	To Suspense A/c			600
	(Error rectified)			

24. Bank Reconciliation Statement **1×8**

	Particulars	(+) ₹	(–) ₹
1.	Credit balance as per passbook	10,000	
2.	Cheque wrongly credited to another customer account	500	
3.	Excess credit for cash deposit		9
4.	Under casting of withdrawal column		100
5.	Error in carrying forward	3,000	

6.	Cheque recorded twice	350	
7.	Wrong credit		1,000
8.	Insurance Premium paid by the bank	200	
	Debit balance as per cash book		12,941
		14,050	**14,050**

OR

Books of Ashok

Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2020 Oct. 30	Bishan's A/c Dr. To Sales A/c (Sold goods to Bishan on credit)		14,000	 14,000
Oct. 30	Bills Receivable A/c-I Dr. Bills Receivable A/c-II Dr. Bills Receivable A/c-III Dr. To Bishan's A/c (Received three acceptances from Bishan.)		2,000 4,000 8,000	 14,000
Oct. 30	Chetan's A/c Dr. To Bills Receivable A/c-II (Endorsed second bills to Chetan)			4,000
Dec. 03	Bank A/c Dr. Discount A/c Dr. To Bill receivable A/c-III (Third bill discounted at 12% p.a.)		7,760 240	 8,000
2021 Jan. 02	Bank A/c Dr. To Bills receivable A/c-I (Bishan met his first acceptance on due, date)		2,000	 2,000
Mar. 03	Bishan A/c Dr. To Bank A/c (Bishan dishonoured his third acceptance)		8,050	 8,050

Mar. 03	Cash A/c Dr. To Bishan's A/c (Cash received from Bishan)		4,050	4,050
Mar. 03	Bills Receivable A/c Dr To Bishan's A/c To Interest A/c (Received new acceptance from Bishan)		4,100	4,000 1,000
May 06	Bank A/c Dr. To Bills Receivable A/c (Bishan met his new acceptance on maturity)		4,100	4,100

25. ₹ 2,80,000 1

26. (ii) Credit Balance of Profit and Loss Account 1

27. (iv) High Cost of Training 1

28. Limitation of Computerised Accounting System are following:-

1×3

(i) **Cost of Training:** A huge training cost is incurred to understanc the use hardware and software used in computerised accounting systems.

(ii) **Staff Opposition:** Whenever the accounting system is compute rised, there is a significant degree of resistance from the existing accounting staff, f partly because of the fear that they shall be made redundant and largely because of the perception that they shall be less important to the / organisation.

(iii) **Disruption:** The accounting processes suffer a significant loss of work time / when an organisation switches over to the computerised accounting system. This / is due to changes in the working environment that requires accounting staff to / adapt to new systems and procedures.

29. (a) Cost of Goods Sold = Opening Stock + Net Purchases (Cash Purchases + Credit Purchases - Purchases Return) + Direct Expenses (Wages) - Closing Stock **(2+2)**

COGS = 25,000 + 10,40,000 + 1,00,000 - 30,000

= 11,35,000

(b) Gross Profit = Net Sales (Cash Sales + Credit Sales - Sales Return)

– Cost of Goods Sold

= 15,50,000 – 11,35,000

= 4,15,000

OR

(i) Expenditure on installation of a New Machinery is added to the value of Machinery. So, it is a Capital Expenditure.

(ii) Repair expenditure on repair of trucks is an expense. So , it is a Revenue Expenditure.

(iii) Wages paid for construction of a building is added to the Value of Building. So, it is a Capital Expenditure.

(iv) Huge amount spent on distribution of free samples for publicity. It is an advertisement expenditure whose benefit may transfer for many years. So, it is a Deferred Revenue Expenditure.

30. (1) **High Speed :** Computers are known for their high speed in performir g a task. Most modern computers perform millions of operations in one second.

(2) **Accuracy:** Computers are extremely accurate. Their operations are error free and as such the information obtained from it is highly reliable.

(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.

OR

(1) **Readymade Software:** Readymade Software is the software that is developed not for any specific user but for the users in

general. Some of the readymade softwares available are Tally, Ex, Busy. Such softwares are economical and ready to use. Such softwares do not fulfill the requirements of every user.

(2) **Customised Software:** Customised software means modifying the readymade softwares to suit the specific requirements of the user Readymade softwares are modified according to the need of the business Cost of installation, maintenance and training is relatively higher than that of readymade user. These packages are used by those medium or large business enterprises in which financial transactions are somewhat peculiar in nature.

(3) **Tailor-made Software :** The softwares that are developed to meet the requirement of the user on the basis of discussion between the user and developers. Such softwares helps in maintaining an effective management information system. The cost of these softwares in very high and specific training for using these packages is also required.

31. **Dr.** **Total Bills Receivable Account** **Cr.**

Particulars	**₹**	**Particulars**	**₹**
Balance b/d	23,000	Cash	21,000
Debtors (Bills receivable)	47,000	Bills receivable (dishonoured)	20,000
		Balance c/d	29,000
	70,000		**70,000**

Dr. **Total Debtors Account** **Cr.**

Particulars	**₹**	**Particulars**	**₹**
Balance b/d	65,000	Cash	3,02,000
Bills receivable	20,000	Discount allowed	8,000
(dishonoured)	3,53,000	Sales return	17,000
Sales (balancing fig.)		Bad debts	14,000
		Bills receivable (Transferred) from B/R A/c)	47,000
		Balance c/d	50,000
	4,38,000		**4,38,000**

Working Notes:

Net Sales = Cash Sales + Credit Sales – Sales return

= ₹ 2,25000 + ₹ 3,53,000 – ₹ 17,000

= ₹ 5,61,000

OR

Difference between Single Entry System and Double Entry System (Any Six)

Points of Distinction	Double entry System	Points of Distinction
(i) Aspects	Both aspects of transactions are recorded.	Incomplete Records system 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 prep red.
(iii) Trial Balance	Trail 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 Accc jnt Profit is calculated by preparing Statement of profit.
(v) Financial Position	Balance Sheet is prepared to ascertain financial position.	Balance Sheet is net 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 record 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.

32.

Trading and Profit and Loss Account
For the year ended March 31,2021

Dr. Cr.

Particulars		₹	Particulars	Cash	₹
Opening Stock		75,500	Sales	1,00,000	
Purchases	75,000		(-) Ret. In.	**(6,000)**	94,000
(-) Ret. Out. Freight	**(4,500)**	70,500	Closing Stock		35,000
Freight		2,250	Gross Loss c/d		19,300
		1,48,300			**1,48,300**
Gross Loss b/d		19,300	Discount Received		3,500
Bad Debts	3,000		Interest Received		11,260
(+) Further Bad-Debts	1,000		Int. on Drawings		814
(+) New Provision	4,950		Net Loss		27,482
(–) Old Provision	**(1,500)**	7,450			
Discount on Debtors		1,881			
Trade Expenses		2,500			
Printing and Stationery					
Rent	3,450				
(+) 0/S Rent	200	3,650			
Depreciation on Furniture		775			
Depreciation on Motor Car		2,500			
		43,056			**43056**

Balance Sheet
As at 31 March, 2021

Liabilities		₹	Assets		₹
Capital	2,50,000		Sundry Debtors	1,00,000	
(-) Drawings	(13,560)				
(-) Interest on Drawings	(814)		(-) Further Bad Debts	(1,000)	
(-) Net Loss	(27,482)	2,08,144	(-) New Provision	(4,950)	
Outstanding Rent		200	(-) Discount on		
Bills payable		85,550	Debtors	(1,881)	92,169
Sundry Creditors		25,000	Motor Car	25,000	22,500
			(i) Dep	(2,500)	
			Furniture & Fix.	15,500	
			(-) Dep	(775)	14,725
			Investments		65,500
		3,18,894			**3,18,894**

OR

Trading and Profit and Loss Account

For the year ended March 31,2021

Dr. Cr.

Particulars		₹	Particulars		₹
Opening stock		5,760	Sales	98,780	
Purchases	40,675		(-) Ret. Inwards	(680)	98,100
(-) Return outwards	(500)	40,175			
Wages		8,480	Closing stock		6,800
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
(+) O/S Salary	1,500	16,500	Rent	9,000	
Carriage on Sales		3,200	(+) Accrued rent	1,000	10,000
General expenses		3,000			
Insurance	600				
(–) Prepaid Insurance	(85)	515			
Depreciation on:					
Machinery	2,000				
Paten:	1,500	3,500			
Net profit		27,000			
		53,715			**53,715**

ACCOUNTANCY XI

Time Allowed : 3 Hours **SAMPLE PAPER** *M.M. : 80*

UNSOLVED QUESTION PAPER NO. - 1

General Instructions:

(i) This Question Paper contains of two parts. A and B

(ii) Total number of questions are 32.

1. Maturity date of a bill of exchange dated 31st March 2020 payable 90 days after date will be:
   (a) 1st July 2020
   (b) 2nd July 2020
   (c) 3rd July 2020
   (d) 4th July 2020 (1)
2. The process of accounting starts with __________and ends with__________. (1)
3. Identify the principle which states that "Valuation of closing stock at cost price or market value whichever is less". (1)
4. Decrease in the value of mines and quarries is known as:
   (a) Depreciation (b) Depletion
   (c) Amortisation (d) None of these (1)
5. Which of the following error will affect balancing of Trial Balance
   (i) Sale of goods ₹ 2,000 was recorded in Purchase Book.
   (ii) Goods returned by Sumit ₹ 5,000 entered in the books as ₹ 500.
   (iii) Purchase Book is overcast by ₹ 200.
   (iv) Wages paid for erection of machinery debited to wages account.

6. Match the following:

Column A	Column B
(a) Import Duty paid on purchase of machinery	(i) Revenue Expenditure
(b) ₹ 10,00,000 paid as rent of the office	(ii) Capital Expenditure
	(iii) Deferred Revenue Expenditure

7. Choose the correct option to fill in the blanks

   To decrease balance of machinery, machinery account is _______a_______and to increase balance of creditors, creditors account is_______ b_________ .

   (i) (a) debited (b) credited

   (ii) (a) credited (b) Debited

   (iii) (a) debited (b) debited

   (iv) (a) credited (b) credited (1)

8. Book value of a machine as on 31st March 2020 was ₹ 81,000. It is being depreciated at 10% p.a on reducing installment method. Find the value of machine as on 1st April 2018.

9. A firm paid rent of ₹10,000 during 2019-20 and rent of ₹ 3,000 is still unpaid for 2019-20. What will be the expenditure for the year 2019-20 in following cases.

   (a) Accounts are maintained on Cash Basis.

   (b) Account are maintained on Accrual Basis. (1)

10. A firm manipulated its accounts as to conceal vital facts and present the financial statement to show a better position than what actually is.

    Identify the limitation highlighted above. (1)

11. Which of the following will not be debited to purchase account while preparing accounts of a businessman dealing in stationery items

    (i) Purchase of pens and registers for resell.

    (ii) Purchase of a photocopy machine for the purpose of providing photocopy services to customers.

(iii) Purchase of Accountancy book to be sold to a customer.

(iv) Purchase of Drawing Sheets.

12. Harman purchased 1000 sq. yards of land to build a factory and paid ₹ 15 lakhs for it. At the end of the financial year the value of land came down to ₹ 13 lakhs and booked a loss of ₹ 2 lakhs. Which of the following principle of Accounting is being violated in this.

    (a) Consistency (b) Prudence (c) Cost (d) Accounting Entity (1)

13. Capital of Archana as on 31st March 2020 was ₹ 1,00,000 she made a profit of ₹ 30,000 during the year. Additional capital and Capital drawn by her in the year was ₹ 10,000 and ₹ 15,000 respectively. Calculate her capital as on 1st April 2019. (1)

14. A bill of exchange has _______ parties and promissory not has _______ parties.

15. Which of following will not be recorded in the books of accounts:

    (a) Transfer of funds from Saving account to Current Account.

    (b) Sold household furniture and deposited amount in Current Account.

    (c) Sold personal investment and deposited amount in Savings Account.

    (d) opened a fixed deposit account by transfer of money from Current Account. (1)

16. Manager of X Ltd. is quite worried as profit of his firm is 10% of Capital, whereas, when he sees the profit of Y Ltd.(a similar kind of business as to X Ltd.) he finds that Y Ltd. is earning a profit of 15% on capital.

    Identify the qualitative aspect of accounting information being highlighted here. (1)

17. Which of the following document is used to deposit money into bank:

    (a) Pay-in -slip (b) Invoice (c) Cash Memo (d) Cheque (1)

18. Explain the objectives of Accounting. (3)

19. Prepare Bank Reconciliation statement for Mr. Pritam as at 31 march 2020 on the basis of following informations -

    (i) Debit Balance as per Pass Book ₹ 10,000.

    (ii) Cheque of ₹10,000 deposited in Bank has been entered twice in Pass Book.

    (iii) Interest on Overdraft not entered in Cash Book ₹ 500.

    (iv) Out of the cheques of ₹ 10,000 issued in the month of March, Cheques of 6,000 have only been presented for payment.

(4)

20. Pass Journal Entries for following -

    (a) Paid rent to Anil ₹ 500

    (b) Goods costing ₹ 10,000 sold to Amit at a profit of 33 1/3 % on selling price.

    (c) Sold personal furniture and brought that money into business ₹ 25,000.

    (d) Paid Life Insurance Premium ₹ 5,000 (4)

21. Pass Journal entries to rectify the following errors -

    (i) Total of Sales Book has been overcast by ₹ 200.

    (ii) Purchase of goods for ₹ 500 posted as ₹ 5,000.

    (iii) ₹ 1,000 received from Anil has been posted to Debit of Anil as ₹ 100.

    (iv) Purchase of goods from Kanika ₹ 1,000 wrongly entered in the sales book as ₹ 10,000 and posted therefrom to the Credit of Anika as ₹ 100. (4)

22. (a) Distinguish between Reserve and Provision on the basis of

    (i) Objective (ii) Nature

(b) Prepare two column cash book from following information

(2+4=6)

2020		₹
Jan 1	Cash in Hand	5,000
	Bank Overdraft	10,000
Jan 2	Received a cheque from Rohan for sale of goods	7,000
Jan 5	Deposited money into Bank	1,000
Jan 6	Rohan's cheque deposited in Bank	
Jan 10	Amount drawn from Bank for personal use	2,000
Jan 15	Cheque receive from Rohan is dishonoured	
Jan 20	Interest on Overdraft	500

23. (a) Classify following into Real, Personal, and Nominal accounts:

(i) Capital (ii) Cash (iii) Outstanding Rent (iv) Bank Account

(b) Prepare Accounting Equation form following transactions:

(i) Started business with Cash ₹ 50,000, Goods ₹ 30,000 and furniture ₹ 10,000.

(ii) Sold 33 1/3 % of above goods at a profit of 20% on cost to Ashish and received half amount in cash.

(iii) Rent Outstanding ₹ 1000.

(iv) Goods destroyed by fire ₹ 5,000 (2+4=6)

24. Y purchased goods for ₹ 10,000 on 1st Jan. 2020 from X and on the same date accepted a bill payable after three months, 3 days later, X endorsed the bill to Z. On maturity, the Bill was dishonoured for non-payment and Z had to pay ₹ 50 as noting charges. On 10th April 2020, Y paids ₹ 3,050 and requested X to draw a second bill for the balance together with interest @ 6% pa payable after two months. X accepted the proposal and drew the bill on Y which was accepted by Y and was duly met on maturity.

Record the above transactions in the books of X.

Or

On 1-4-2017, a company purchased plant Machinery for ₹ 2,00,000. New Machinery for ₹ 10,000 was purchased on 1-1-2018 and for ₹ 20,000 on 1-10-2018. On 1-7-19, a machine whose book value had been ₹ 30,000 on 1-4-2017 was sold for ₹ 16,000. Depreciation has been charged at 10% p.a on straight line method. Accounts are closed on 31st march every year.

Show the plant and machinery account from 1-4-2017 to 31-3-20 (8)

PART 'B' (Financial Accounting II)

25. State whether following is true or false: (1)

    Tally and Busy are examples of Tailor made Accounting software.

26. The manager is entitled to a commission of 5% on profit after deduction of commission. Profit after all expenses but before commission was ₹ 1,05,000.

    Calculate manager's commission. (1)

27. Single Entry system of Book-Keeping is:

    (a) Inaccurate (b) Unsystematic

    (c) Unscientific (d) All of these (1)

28. Explain any three limitations of a computer system. (3)

29. Calculate closing stock from the following details:

    Opening Stock ₹ 40,000, Purchases ₹ 1,00,000

    Cash Sales ₹ 40,000, Credit Sales 150% of Cash Sales

    Gross Loss 20% on cost. (4)

30. Distinguish between a manual and computerized system of accounting. (4)

31. Archana runs a small Bakery Business. She was not maintaining her accounts on the double entry system. On April 12019, She had started the business with the capital of ₹ 80 000 On 31st March 2020, her incomplete records could provide the following data:

(i) Amount due to suppliers of raw materials ₹ 15,000

(ii) Fixed Assets ₹ 35,000

(iii) Stock of Raw Material ₹ 2,000 and finished products ₹ 2,500

(iv) Amount due from customers ₹ 40,000

(v) She had drawn ₹ 2,000 per month for her personal expenses.

(vi) She sold her personal investments of ₹ 10,000 and brought that money into the business as additional capital.

(vii) Outstanding electricity bill ₹ 2,000

Calculate the profit /loss of her business using statement of affairs method. (6)

32. Prepare Trading and Profit and loss Account and Balance sheet from the following information as on 31st march 2020 for M/s Tarun.

Name of Account	**Dr. (₹)**	**Cr. (₹)**
Plant and Machinery	2,50,000	
Carriage on Purchase	10,000	
Furniture	30,000	
Capital and Drawings	22,000	2,50,000
Carriage on Sales	20,000	
Purchase and Sales	3,00,000	6,00,000
Returns	20,000	10,000
Stock 01.04.2019	30,000	
Trading Expenses	10,000	
Debtors and Creditors	62,000	30,000
Bad debts	4,000	
Provision for bad debts		1,000
Commission		3,000
Cash in hand	20,000	
12% Loan to Ashok (1st Jan 2020)	1,00,000	
Interest on loan from Ashok		2,000
Rent	5,000	
Salaries	10,000	
Insurance	6,000	
Outstading Rent		3,000
Total	**8,99,000**	**8,99,000**

Adjustments:-

(i) Closing Stock was valued at ₹ 50,000

(ii) Write off ₹ 2,000 as further Bad debts and maintain 5% provision for doubtful debts.

(iii) Depreciate machinery by 10%

(iv) Commission received in advance ₹ 1,000.

(v) Insurance include annual premium of ₹ 1,000 on a policy expiring on 30th september 2020.

OR

(a) State with reasons whether the following are capital expenditure or revenue expenditure:

  (i) Wages paid for erection of a new machinery

  (ii) ₹ 30,000 spent on repainting the factory.

  (iii) ₹ 50,000 paid for electricity bill.

  (iv) Custom duty paid on import of machinery.

  (v) Amount spent to overhaul purchase of second hand motor truck.

  (vi) Amount spent on erection of cycle shed.

(b) Give Journal entry for the following adjustment in final account.

  (i) Accrued interest ₹ 500

  (ii) Goods costing ₹ 10,000 (market value ₹ 18,000) given as charity.

Answers

1. (b)
2. Identification of transaction and communication to the users.
3. Prudence/ Conservatism
4. (b)
5. iii

6. a-ii, b-i
7. iv
8. ₹ 1,00,000
9. (a) ₹ 10,000 (b) ₹ 13,000
10. Window Dressing
11. (ii)
12. (c)
13. ₹ 75,000
14. 2 and 3
15. (c)
16. Comparibility
17. (a)
18. Any 3 objectives
19. overdraft as per cash book ₹ 23,500

20. **Journal**

Date	Particulars		LF.	Dr. (₹)	Cr. (₹)
(a)	'Rent A/c	Dr.		500	
	To Cash A/c				500
(b)	Amit's A/c	Dr.		15,000	
	To Sales A/c				15,000
(c)	Cash A/c	Dr.		5,000	
	To Capital A/c	Dr.			5,000
(d)	Drawings A/c	Dr.		5,000	
	To Cash/ Bank a/c				5,000

21. **Journal**

Date	Particulars		LF.	Dr. (₹)	Cr. (₹)
(i)	Sales A/c	Dr.		200	
	To Suspense A/c				200
(ii)	Suspense A/c	Dr.		4,500	4,500
	To Purchase A/c				
(iii)	Suspense A/c	Dr.		1,100	
	To Anil's A/c				1,100
(iv)	Anika's A/c	Dr.		100	
	Sales A/c	Dr.		10,000	
	Purchase A/c	Dr.		1,000	
	To Kanika's A/c				1,000
	To Suspense A/c				10,100

22. Cash balance ₹ 4,000 bank overdraft ₹ 11,500
23. (a) Personal Account (i), (iii), (iv). Real (ii)
    (b) cash 56,000 + Stock 15,000 + Furniture 10,000 + Debtors 6,000= Capital 86,000 + Outstanding Rent 1,000
24. Loss on sale of Machinery ₹ 7,250, Balance of Machinery ₹ 1,43,750
25. False
26. ₹ 5,000
27. d
28. Any 3 limitations
29. 65,000
30. Any 4 differences
31. Closing Capital ₹ 62,500, Loss ₹ 3,500
32. Gross Profit ₹ 3,00,000, Net Profit ₹ 2,21,500 Balance Sheet Total ₹ 4,83,500

OR

(a) Capital Expenditure (i), (iv), (v), (vi)

Revenue Expenditure ii,iii

(b) journal

Date	Particulars		LF.	Dr. (₹)	Cr. (₹)
(i)	Accrued interest A/c	Dr.		500	
	To Interest A/c				500
(ii)	Charity A/c	Dr.		10,000	
	To Purchase A/c				10,000

SAMPLE PAPER (2021-22)

ACCOUNTANCY (055) CLASS-XI

UNSOLVED QUESTION PAPER NO. - 2

Time Allowed : 3 Hours *M.M. : 80*

General Instructions:

(i) All questions are compulsory.

(ii) Show your working notes clearly.

(iii) Marking Scheme: Q.No. 1 to 17 & Q.No. 25 to 27 (1 Marks)
Q.No. 18 & 28 (3 Marks)
Q.No. 19 to 21 & Q.No. 2 to 30 (4 Marks)
Q.No. 22, 23 & 31 (6 Marks)
Q.No. 24 & 32 (8 Marks)

Q.1. Which of the following is not an internal user of Financial Statements?

(a) Board of Directors

(b) Managers

(c) Employees

(d) Lenders

Q.2. Transactions are posted into Ledger Account from

(a) Vouchers

(b) Journal book

(c) Bank Statement

(d) None of these

Q.3 Purchase refers to the buying of

(a) Stationery for office use

(b) Assets for the Factory

(c) Goods for resale

(d) Investment

Q.4 According to Going Concern Concept, a business is viewed as having

(a) a limited life

(b) a very long life

(c) an indefinite life

(d) None of these

Q.5 Accrual Basis of Accounting recognizes '

(a) Outstanding and Prepaid Expenses

(b) Accrued Incomes and Incomes Received in Advance

(c) Both (a) and (b)

(d) None of the above

Q.6 Payment to a creditor means

(a) Increase in asset and decrease in liability.

(b) Decrease in asset and decrease in liability.

(c) Decrease in asset and increase in liability.

(d) Increase in asset and increase in liability.

(e) Decrease in asset and increase in liability.

(f) Increase in asset and increase in liability.

Q.7 Nominal accounts are related to:

(a) Assets and Liabilities

(b) Expenses and Revenue

(c) Debtors and creditors

(d) None of these

Q.8 When goods are sold on credit the seller prepares

(a) Cash Memo

(b) Invoice

(c) Accounting Voucher

(d) None of these

Q.9. ___________Vouchers are the documentary evidence of cash payments.

Q.10. __________Assets are the assets which do not have a physical existence, i.e., they cannot be seen or touched such as Computer Software and Goodwill.

Q.11. An Asset Account shows a _________ balance.

Q.12. When the bills of exchange are drawn and accepted for a genuine trade transaction, these are called ____________.

Q.13. Depreciation is considered as capital Expenditure. (T/F)

Q.14. General Reserve is the amount set aside out of profit for no specific purpose. (T/F)

Q.15. A starts a business and invests ₹ 50,000 on 1st April, 2020. On 31st March, 2021 his assets are ₹ 65,000 and liabilities are ₹ 6000. Find out the amount of capital on 31st March, 2021.

Q.16. Sold goods costing ₹ 10,000 to Y on 15th Feb, 2021. Draws a bill on him for 2 months which was accepted by Y. Find the date of Maturity of Bill.

Q.17 Identify the error: Goods sold on credit were recorded in Purchase Book.

Q.18 Prepare an accounting equation on the basis of the following transactions of M/s Shyam.

(i) Started business with cash ₹ 1,40,000 and goods ₹ 60,000.

(ii) Bought goods for cash ₹ 10,000 and on credit from Amar for ₹ 20,000.

(iii) Soods costing ₹ 20,000 sold for ₹ 26,000 to Dev.

(iv) Cleared the account of Amar by paying ₹ 19,500.

(v) Paid salary ₹ 6000 and still unpaid ₹ 3000.

(vi) Received commission ₹ 3000 including ₹ 1000 as advance.

OR

Explain the following Accounting Terms and give an example of each.

(a) Ficticious Assets

(b) Tangible Assets

(c) Deferred Revenue Expenditure

Q.19 Write the accounting concept while dealing with the following problems and explain the concept in brief.

(a) This concept results in understatement of profits and assets and overstatement of liabilities.

(b) Assets will be equal to capital if there are no liabilities.

OR

Write arty Four utility of accounting standards.

Q.20 Journalise the following transactions in the books of M/s Janki Das & Sons, Alipur Delhi:

(a) Purchased goods for ₹ 2,00,000 from M/s Kartik, Kanpur; GST@ 18%

(b) Sold goods costing ₹ 50,000 to Naman Stores, Punjab on credit at a profit of 10% on cost; at GST @ 18%.

(c) Advertisement Expenses of ₹ 10,000 paid by Bank Draft.

(d) Salary paid ₹ 12,000 and still outstanding ₹ 5,000.

Q.21 Prepare the bank Reconciliation statement from the Following transactions of Ramesh & sons for the month of April 2021.

1. Balance as per Pass Book is ₹ 50,000.

2. Cheques for ₹ 5,000 were deposited into the Bank in the month of April but only

   Cheques for ₹ 1,000 were credited by the bank till 30th April 2021.

3. Cheques issued for ₹ 33,000 in April, out of which a Cheque for ₹ 10,500 was presented for payment on 3rd May,2021.

4. Bank charged ₹ 250 as bank charges and credited interest of ₹ 450. JL A customer directly deposited ₹ 1,500 in the firm's bank A/c. 6. Bank paid the insurance Premium of ₹ 2,000 as per standing instruction.

Q.22 Record the following transactions in the double column cash book of Jagannath stores, Delhi:

2021		₹
Jan 1	Bank overdraft	12,000
	Cash in hand	8,300
Jan 4	Purchased goods for Rs. 20,000; Trade discount @ 15%, IGST 15 @ 12%; Payment made by cheque.	
Jan 7	Sold goods for Rs. 15,000; Trade discount 10%: IGST 12%; Payment received by cheque.	
Jan 8	Cheque received from Puneet	4,000
	Discount allowed	200
Jan 9	Cheque received from Puneet deposited into Bank	
Jan 12	Paid to Radhe shyam by Cheque	2,500
	Discount received	100
Jan 15	Paid Salary	3,500
Jan 11	Paid Into bank the entire cash balance after retaining ₹ 700 cash in hand.	

Enter the following transactions in purchases book of Ghanshyam Bros.,Pune.

2021

June 8 Purchased on credit from Delhi Electric Store, New Delhi.

100 Tubelights @ Rs.50 each

75 table fans @ Rs.600 each

Trade Discount 15%

June 15 Purchased from Twilight Traders, Patna

50 Desert Coolers @ Rs.2000 each

80 celling Fans @ Rs.1200 each

Trade Discount 10%

June 20 Purchased from Bluestar, Chennai

20 Doz. Mercury Bulb @ Rs.50 each

10 Doz. Halogen Bulb @ Rs.100 each

Trade discount 20%

Q.23 On 1st January, 2019, the Delhi Transport Company purchased a Truck for ₹ 5,00,000. On 1st July,2020, this truck was involved in an accident and was destroyed and it was sold for ₹ 4,00,000. On 1st July, 2020, another truck was purchased by the company for ₹ 8,00,000.

The company charges depreciation at the rate 20% p.a. following written down value method.

Prepare Truck account from 2019 to 2021when books are closed on 31st March every year.

OR

You are given following balances as on 1st April, 2020.

Machinery A/c	Rs. 6,00,000
Provision for depreciation A/c	Rs.1,08,000

Depreciation is charged on machinery at 20% p.a. by the Diminishing Balance Method. A piece of machinery purchased on 1st April, 2018 for ₹ 1,00,000 was sold on 1st October, 2020 for ₹ 60,000. Prepare the Machinery Account and Provision for Depreciation Account for the year ended 31st March, 2021. Also, prepare the Machinery Disposal Account.

Q.24 Pass Journal entries in the books of Garv.

Gary sold goods to Vasu for ₹ 25,000 on May 02, 2021 and drew a bill for the same amount payable after 3 months. The bill was accepted by Vasu which was later discounted ₹ 24,500 by Garv on June 02, 2021. On the due date bill was dishonoured, noting charts paid by Garv is ₹ 250. Vasu paid ₹ 5,450 immediately including ₹ 200 as interest and accepted a new bill for balance amount for a month. The new bill was duty met on the due date.

[Part-B]

Q.25 Cost of Goods sold ₹ 6,69,600; sales ₹ 7,44,000; Closing Stock ₹ 50,400. Gross Profit for the year is

(a) Rs.1,24,800

(b) Rs.74,400

(c) Rs.5,25,000

(d) None of these

Q.26 If sales are Rs.60,000 and the rate of Gross Profit on Cost of goods sold is 25%, Cost of Goods Sold will be

(a) Rs.45,000

(b) Rs.50,000

(c) Rs.48,000

(d) None of these

Q.27 Which of the following is not the type of Accounting Software?

(a) Readymade Software

(b) Tailor-made Software

(c) Human-made Software

(d) Customized Software

Q.28 What is Computerised Accounting System? Explain its two Advantages also.

Q.29 From the following balances extracted from the books of M/s Ahuja and Nanda. Calcuiate the amount of:

(a) Cost of goods available for sale (b) Gross Profit

Opening stock ₹ 30.0Q0; Credit purchases ₹ 6,00,000; Cash purchases ₹ 3,00,000; Total safes ₹ 18,00,000; Cash sales ₹ 4,00,000; wages ₹ 1,50,000; Salaries ₹ 1,00,000; Closing stock ₹ 70,000; return Inwards ₹ 50,000; Return outwards ₹ 20,000.

Q.30 "A computer system is capable of performing many things" Do you agree with this statement? Give atleast three reasons in support of your answer.

OR

What is Accounting Information System (AIS)? State its elements.

Q.31 From the following information, prepare the bills receivable account and total debtors account for the year ended March 31, 2021.

Opening balance of debtors	₹ 1,50,000
Opening balance of billsreceivable	₹ 65,000
Cash sales made during the year	₹ 1,50,000
Total sales made during the year	₹ 17,00,000
Return inwards	₹ 82,000
Cash received from debtors	₹ 9,50,000
Discount allowed to debtors	₹ 35,000
Bilk receivable endorsed to creditors	₹ 75,000
Cash received (bills matured).	₹ 93,000
bad debts	₹ 8,000

OR

(i) "Statement of affairs in not exactly a Balance Sheet " Do you agree with this Statement? Justify.

(i) Distinguish between Single entry system and Double Entry System.(any three)

Q32 From the following balances as on 31st March, 2021, prepare Trading and Profit and loss Account and Balance Sheet of Shah Bros., Delhi:

Capital account	₹ 1,50,000
Plant and machinery	₹ 1,00,000
Furniture	₹ 40,000
Sundry Debtors	₹ 28,000
Sundry Creditors	₹ 16,000
Drawings	₹ 12,000
Purchases	₹ 1,05,000
Wages	₹ 50,000
Bank	₹ 10,000
Repairs	₹ 500
Stock(Ist April, 2019)	₹ 20,000
Bank Loan	₹ 1,00,000
Returns Outward	₹ 5,000
Rent	₹ 5,000
Sales	₹ 1,64,000
Manufacturing Expenses	₹ 8,000
Trade Expenses	₹ 7,000
Bad Debts	₹ 2,000
Carriage	₹ 1,500
Bills payable	₹ 7,000
Returns Inward	₹ 4,000
Cash in hand	₹ 50,000

Adjustment:

(1) Rent is still outstanding ₹ 1000.

(2) Wages Paid in advance ₹ 5000.

(3) Charge Depreciation on Plant and Machinery @ 10% p.a. and on furniture @ 20% p.a.

(4) Provision for doubtful debt is 5% of Debtors.

Closing stock on 31st March, 2021 was valued at ₹ 14,500.

OR

What is Single Entry System of Accounting? Write its three advantages and disadvantages each.

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