



केन्द्रीय विद्यालय संगठन  
KENDRIYA VIDYALAYA SANGATHAN



**शिक्षा एवं प्रशिक्षण का आंचलिक संस्थान, चंडीगढ़**  
**ZONAL INSTITUTE OF EDUCATION AND TRAINING, CHANDIGARH**

**अध्ययन सामग्री /Study Material**

**शैक्षिक सत्र /Session - 2022-23**

**कक्षा / Class - ग्यारहवीं / XI**

**विषय / Subject - लेखांकन / ACCOUNTANCY**

**विषय कोड / Subject Code - 055**

**तैयारकर्ता - रवि कुमार, सह-प्रशिक्षक (वाणिज्य)**

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## निदेशक महोदय का संदेश



विद्यार्थियों की शैक्षिक प्रगति को ध्यान में रखते हुए उपयोगी अध्ययन सामग्री उपलब्ध कराना हमारा महत्वपूर्ण उद्देश्य है। इससे न केवल उन्हें अपने लक्ष्य को प्राप्त करने में सरलता एवं सुविधा होगी बल्कि वे अपने आंतरिक गुणों एवं अभिरुचियों को पहचानने में सक्षम होंगे। बोर्ड परीक्षा में अधिकतम अंक प्राप्त करना हर एक विद्यार्थी का सपना होता है। इस संबंध में तीन प्रमुख आधार स्तंभों को एक कड़ी के रूप में देखा जाना चाहिए- अवधारणात्मक स्पष्टता, प्रासंगिक परिचितता एवं आनुप्रयोगिक विशेषज्ञता।

राष्ट्रीय शिक्षा नीति 2020 के उद्देश्यों की मूलभूत बातों को गौर करने पर यह तथ्य स्पष्ट है कि विद्यार्थियों की सोच को सकारात्मक दिशा देने के लिए उन्हें तकनीकी आधारित समेकित शिक्षा के समान अवसर उपलब्ध कराया जाए। बोर्ड की परीक्षाओं के तनाव और दबाव को कम करने के उद्देश्य को प्रमुखता देना अति आवश्यक है।

यह सर्वमान्य है कि छात्र-छात्राओं का भविष्य उनके द्वारा वर्तमान कक्षा में किए गए प्रदर्शन पर ही निर्भर करता है। इस तथ्य को समझते हुए यह अध्ययन सामग्री तैयार की गई है। उम्मीद है कि प्रस्तुत अध्ययन सामग्री के माध्यम से वे अपनी विषय संबंधी जानकारी को समृद्ध करने में अवश्य सफल होंगे।

शुभकामनाओं सहित।

मुकेश कुमार  
उपायुक्त एवं निदेशक

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## **ACCOUNTANCY (Code No. 055)**

### **Rationale**

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

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

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

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

### **Objectives:**

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

**SYLLABUS**  
**Accountancy (Code No.055)**  
**Course Structure**  
**Class - XI (2022-23)**

**Theory: 80 Marks**

**3 Hours**

**Project: 20 Marks**

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

**PART A: FINANCIAL ACCOUNTING - I**

**Unit-1: Theoretical Frame Work**

Units/Topics	Learning Outcomes
<p><b>Introduction to Accounting</b></p> <ul style="list-style-type: none"> <li>Accounting- concept, meaning, as a source of information, objectives, advantages and limitations, types of accounting information; users of accounting information and their needs. Qualitative Characteristics of Accounting Information. Role of Accounting in Business.</li> <li>Basic Accounting Terms- Entity, Business Transaction, Capital, Drawings. Liabilities (Non Current and Current). Assets (Non Current, Current); Expenditure (Capital and Revenue), Expense, Revenue, Income, Profit, Gain, Loss, Purchase, Sales, Goods, Stock, Debtor, Creditor, Voucher, Discount (Trade discount and Cash Discount)</li> </ul> <p><b>Theory Base of Accounting</b></p> <ul style="list-style-type: none"> <li>Fundamental accounting assumptions: GAAP: Concept</li> <li>Basic accounting concept : Business Entity,</li> </ul>	<p><b>After going through this Unit, the students will be able to:</b></p> <ul style="list-style-type: none"> <li>describe the meaning, significance, objectives, advantages and limitations of accounting in the modern economic environment with varied types of business and non-business economic entities.</li> <li>identify / recognise the individual(s) and entities that use accounting information for serving their needs of decision making.</li> <li>explain the various terms used in accounting and differentiate between different related terms like current and non-current, capital and revenue.</li> <li>give examples of terms like business transaction, liabilities, assets, expenditure and purchases.</li> <li>explain that sales/purchases include both cash and credit sales/purchases relating to the accounting year. differentiate among income, profits and gains.</li> <li>state the meaning of fundamental accounting assumptions and their relevance in accounting.</li> <li>describe the meaning of accounting assumptions and the situation in which an assumption is applied during the accounting process.</li> </ul>

<p>Money Measurement, Going Concern, Accounting Period, Cost Concept, Dual Aspect, Revenue Recognition, Matching, Full Disclosure, Consistency, Conservatism, Materiality and Objectivity</p> <ul style="list-style-type: none"> <li>• System of Accounting. Basis of Accounting: cash basis and accrual basis</li> <li>• Accounting Standards: Applicability in IndAS</li> <li>• Goods and Services Tax (GST): Characteristics and Advantages.</li> </ul>	<ul style="list-style-type: none"> <li>• explain the meaning, applicability, objectives, advantages and limitations of accounting standards.</li> <li>• appreciate that various accounting standards developed nationally and globally are in practice for bringing parity in the accounting treatment of different items.</li> <li>• acknowledge the fact that recording of accounting transactions follows double entry system.</li> <li>• explain the bases of recording accounting transaction and to appreciate that accrual basis is a better basis for depicting the correct financial position of an enterprise.</li> <li>• Explain the meaning, advantages and characteristic of GST.</li> </ul>
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## Unit-2: Accounting Process

Units/Topics	Learning Outcomes
<p><b>Recording of Business Transactions</b></p> <ul style="list-style-type: none"> <li>• Voucher and Transactions: Source documents and Vouchers, Preparation of Vouchers, Accounting Equation Approach: Meaning and Analysis, Rules of Debit and Credit.</li> <li>• Recording of Transactions: Books of Original Entry- Journal</li> <li>• Special Purpose books:</li> <li>• Cash Book: Simple, cash book with bank column and petty cashbook Purchases book</li> <li>• Sales book</li> <li>• Purchases return book</li> <li>• Sales return book</li> <li>• Journal proper</li> </ul> <p><i>Note: Including trade discount, freight and cartage expenses for simple GST calculation.</i></p> <ul style="list-style-type: none"> <li>• Ledger: Format, Posting from journal and subsidiary books, Balancing of accounts</li> </ul> <p><b>Bank Reconciliation Statement:</b></p> <ul style="list-style-type: none"> <li>• Need and preparation, Bank Reconciliation Statement</li> </ul>	<p><b>After going through this Unit, the students will be able to:</b></p> <ul style="list-style-type: none"> <li>• explain the concept of accounting equation and appreciate that every transaction affects either both the sides of the equation or a positive effect on one item and a negative effect on another item on the same side of accounting equation.</li> <li>• explain the effect of a transaction (increase or decrease) on the assets, liabilities, capital, revenue and expenses. appreciate that on the basis of source documents, accounting vouchers are prepared for recording transaction in the books of accounts.</li> <li>• develop the understanding of recording of transactions in journal and the skill of calculating GST.</li> <li>• explain the purpose of maintaining a Cash Book and develop the skill of preparing the format of different types of cash books and the method of recording cash transactions in Cash book.</li> </ul>

<p><b>Depreciation, Provisions and Reserves</b></p> <ul style="list-style-type: none"> <li>• Depreciation: Meaning, Features, Need, Causes, factors</li> <li>• Other similar terms: Depletion &amp; Amortisation</li> <li>• Methods of Depreciation: <ul style="list-style-type: none"> <li>i. Straight Line Method (SLM)</li> <li>ii. Written Down Value Method (WDV)</li> </ul> </li> </ul> <p><b>Note: Excluding change of method</b></p> <ul style="list-style-type: none"> <li>• Difference between SLM and WDV; Advantages of SLM and WDV</li> <li>• Method of recoding depreciation <ul style="list-style-type: none"> <li>i. Charging to asset account</li> <li>ii. Creating provision for depreciation/accumulated depreciation A/c</li> </ul> </li> <li>• Treatment of disposal of asset</li> <li>• Provisions, Reserves, Difference Between Provisions and Reserves.</li> <li>• Types of Reserves: <ul style="list-style-type: none"> <li>i. Revenue reserve</li> <li>ii. Capital reserve</li> <li>iii. General reserve</li> <li>iv. Specific reserve</li> <li>v. Secret Reserve</li> </ul> </li> </ul> <p>Difference between capital and revenue reserve</p> <p><b>Trial balance and Rectification of Errors</b></p> <ul style="list-style-type: none"> <li>• Trial balance: objectives, meaning &amp; preparation</li> </ul> <p><b>(Scope: Trial balance with balance method only)</b></p> <ul style="list-style-type: none"> <li>• Errors: classification-errors of omission, commission, principles, and compensating; their effect on Trial Balance.</li> <li>• Detection and rectification of errors; <ul style="list-style-type: none"> <li>(i) Errors which do not affect trial balance</li> <li>(ii) Errors which affect trial balance</li> </ul> </li> <li>• preparation of suspense account.</li> </ul>	<ul style="list-style-type: none"> <li>• describe the method of recording transactions other than cash transactions as per their nature in different subsidiary books .</li> <li>• appreciate that at times bank balance as indicated by cash book is different from the bank balance as shown by the pass book / bank statement and to reconcile both the balances, bank reconciliation statement is prepared.</li> <li>• develop understanding of preparing bank reconciliation statement.</li> <li>• appreciate that for ascertaining the position of individual accounts, transactions are posted from subsidiary books and journal proper into the concerned accounts in the ledger and develop the skill of ledger posting.</li> <li>• explain the necessity of providing depreciation and develop the skill of using different methods for computing depreciation.</li> <li>• understand the accounting treatment of providing depreciation directly to the concerned asset account or by creating provision for depreciation account.</li> <li>• appreciate the method of asset disposal through the concerned asset account or by preparing asset disposal account.</li> <li>• appreciate the need for creating reserves and also making provisions for events which may belong to the current year but may happen in next year.</li> <li>• appreciate the difference between reserve &amp; reserve fund.</li> <li>• state the need and objectives of preparing trial balance and develop the skill of preparing trial balance.</li> <li>• appreciate that errors may be committed during the process of accounting.</li> <li>• understand the meaning of different types of errors and their effect on trial balance.</li> <li>• develop the skill of identification and location of errors and their rectification and preparation of suspense account.</li> </ul>
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## Part B: Financial Accounting - II

### Unit 3: Financial Statements of Sole Proprietorship

Units/Topics	Learning Outcomes
<b>Financial Statements</b> Meaning, objectives and importance; Revenue and Capital Receipts; Revenue and Capital Expenditure; Deferred Revenue expenditure. Opening journal entry. Trading and Profit and Loss Account: Gross Profit, Operating profit and Net profit. Preparation. Balance Sheet: need, grouping and marshalling of assets and liabilities. Preparation. Adjustments in preparation of financial statements with respect to closing stock, outstanding expenses, prepaid expenses, accrued income, income received in advance, depreciation, bad debts, provision for doubtful debts, provision for discount on debtors, Abnormal loss, Goods taken for personal use/staff welfare, interest on capital and managers commission. Preparation of Trading and Profit and Loss account and Balance Sheet of a sole proprietorship with adjustments.	<b>After going through this Unit, the students will be able to:</b> <ul style="list-style-type: none"><li>• state the meaning of financial statements the</li><li>• purpose of preparing financial statements.</li><li>• state the meaning of gross profit, operating profit and net profit and develop the skill of preparing trading and profit and loss account.</li><li>• explain the need for preparing balance sheet.</li><li>• understand the technique of grouping and marshalling of assets and liabilities.</li><li>• appreciate that there may be certain items other than those shown in trial balance which may need adjustments while preparing financial statements.</li><li>• develop the understanding and skill to do adjustments for items and their presentation in financial statements like depreciation, closing stock, provisions, abnormal loss etc.</li><li>• develop the skill of preparation of trading and profit and loss account and balance sheet.</li></ul>

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

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

#### PROJECT WORK

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

### Specific Guidelines for Teachers

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

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

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

A suggested list of different item is given below.

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

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

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

## Suggested Question Paper Design

### Accountancy (Code No. 055) Class XI (2022-23)

**Theory: 80 Marks**

**3 hrs.**

**Project: 20 Marks**

S.No.	Typology of Questions	Marks	Percentage
1.	<b>Remembering and Understanding:</b> 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.	<b>Applying:</b> Solve problems to new situations by applying acquired knowledge, facts, techniques and rules in a different way.	19	23.75%
3.	<b>Analysing, Evaluating and Creating:</b> Examine and break information into parts by identifying motives or causes. Make inferences and find evidence to support generalizations. Present and defend opinions by making judgments about information, validity of ideas, or quality of work based on a set of criteria. Compile information together in a different way by combining elements in a new pattern or proposing alternative solutions.	17	21.25%
<b>TOTAL</b>		<b>80</b>	<b>100%</b>

## Ch - 01: Introduction to Accounting

### **Accounting:-**

Accounting is an art of recording, classifying and summarizing the monetary transactions in an efficient manner and interpreting the results.

### **Functions of Accounting:-**

- **Identifying:** Identifying the business transactions from various sources is the first step of accounting. It involves observing all business activities and identifying those which are considered as financial transactions.
- **Recording:** Only those transactions are recorded in books of accounts which can be measured in terms of money. It involves recording them in a journal and keeping a systematic record of all of them.
- **Classifying:** After recording the transactions they are classified. Classification refers to the grouping of all the transactions of same nature at one place.
- **Summarising:** It is the process of putting the balances of all accounts at one place i.e. Trial balance.
- **Communicating:** Accounting also includes the communication of financial data like financial statements to the users who analyse them as per individual requirements.

### **Objectives of Accounting:-**

- a) To maintain proper records of business transactions according to specified rules which helps them to minimize the chance of omission and fraud.
- b) To ascertain the net profit or loss suffered on account of business transactions during a particular period and to know the exact reasons leading to profit or loss.
- c) To ascertain the financial position of business by means of financial statement i.e., Balance sheet.
- d) To ascertain the progress of business from year to year and to detect errors and frauds.
- e) To provide accounting information to various interested parties like owners, creditors, banks, employees etc. who perform an in depth analysis as per the requirement of the stakeholders.

### **Advantages of Accounting:-**

- a) Accounting provides permanent records for all business transactions and provides reliable information to various parties.
- b) Accounting provides the Profit and loss of a business for a given period of time.
- c) Accounting provides the facility of comparative study of the various aspects of business like profit sales, purchase, etc. with that of previous years and helps businessmen to make decisions.
- d) Accounting forms a basis in the process of performance evaluation to improve the performance of employees, divisions, activities, etc.
- e) Accounting records act as an approved evidence in legal matters.

### **Limitations of Accounting:-**

- One of the major limitations of accounting is that it considers only monetary transactions. Non monetary aspects like quality, honesty, skills are ignored in accounting.
- It considers only historical transactions and the figures given in the financial statement do not

consider price level changes.

- It is influenced by personal judgements and not free from personal bias which affects its credibility.
- It is affected by window dressing which means manipulation of accounts so that financial statements describe a more favourable position than the actual position.
- Financial accounts are unsuitable for forecasting because they are only records of past events.

#### **Book Keeping, Base of Accounting:-**

Book keeping is an art of recording the transactions in the books of accounts. Only those transactions which bear a monetary value are recorded. It is the first step of accounting.

#### **Difference between Book Keeping & Accounting:-**

<b>Basis of distinction</b>	<b>Book Keeping</b>	<b>Accounting</b>
<b>1. Scope</b>	It is concerned only with recording of monetary transactions.	It also includes classifying, summarizing, analysing and also communicating the results to users.
<b>2. Stage</b>	It's a primary stage.	It's a secondary stage.
<b>3. Objective</b>	To maintain systematic records of business.	To calculate the net profit or net loss in the business.
<b>4. Nature</b>	Routine and clerical.	Analytical.
<b>5. Staff involved</b>	It is done by junior level staff.	It is done by senior level staff.

#### **Subfields of Accounting:-**

**1. Financial Accounting:** The main purpose of this branch is to record the business transactions in a systematic manner, to ascertain profit or loss and to present the financial position of the business with the help of a balance sheet.

**2. Cost Accounting:** The main purpose of cost accounting is to ascertain the total cost and per unit cost of goods produced and services rendered by business.

**3. Management Accounting:** The main purpose of this branch is to present the accounting information in such a way as to assist the management in planning and controlling the operations of business.

#### **Users of Accounting Information:-**

Users may be categorised into internal users and external users.

##### **(A) Internal Users:-**

- **Owners:** Owners contribute capital in the business and thus they are exposed to maximum risk. So, they are always interested in the safety of their capital.
- **Management:** Accounting information is used by management for taking various decisions.
- **Employees:** Employees are interested in the financial statements to assess the ability of the business to pay higher wages and bonuses.

##### **(B) External Users:-**

- **Banks and financial institutions:** Banks and Financial Institutions provide loans to business. So, they are interested in financial information to ensure the safety and recovery of the loan.
- **Investors:** Investors are interested to know the earning capacity of business and safety of the investment.
- **Creditors:** Creditors provide the goods on credit. So they need accounting information to ascertain the financial soundness of the firm.

- **Government:** The government needs accounting information to assess the tax liability of the business entity.
- **Researchers:** Researchers use accounting information in their research work.
- **Consumers:** They require accounting information for establishing good accounting control, which will reduce the cost of production.

### **Qualitative Characteristics of Accounting Information:-**

Accounting information should be prepared and presented in such a way that is able to depict a clear view of business enterprise.

- 1. Reliability:** It implies that information must be factual and verifiable. And free from errors.
- 2. Relevance:** Accounting information must be relevant to the objectives of enterprise. To be relevant, information must help the users of accounting information in making decisions.
- 3. Understandability:** Accounting information should be presented in such a manner that they are understood easily by their users such as investors, employees, etc.
- 4. Comparability:** It is a very useful quality of accounting information. Financial statements should contain previous year data so that it can be compared with current year so that current performance be compared with past performance.

### **System of accounting:-**

There are following two systems of recording transactions in the books of accounts:

- A. Double Entry System
- B. Single Entry System

#### **A. Double Entry System:**

- The double entry system is based on the Dual Aspect Principle.
- Every transaction has two aspects, 'a Debit' and 'a credit' of an equal amount.
- This system of accounting recognises and records both aspects of the transaction.

### **Advantages of the Double-entry System of Accounting:**

Following are the main advantages of the double-entry system of accounting:

#### **1. Scientific system:**

As compared to the other systems, this system of recording transactions is more scientific and useful to achieve the objective of accounting.

#### **2. A complete record of the transaction:**

Since both the aspects of transactions are considered there is a complete recording of each and every transaction. Using these records we are able to compute profit or loss easily.

#### **3. Checks arithmetical accuracy of accounts:**

Under this system, by preparing a Trial Balance we are able to check the arithmetical accuracy of the records.

#### **4. Determination of profit/loss and depiction of financial position:**

Under this system by preparing 'Profit & Loss A/c' we get to know about the profit earned or loss incurred. By preparing the 'Balance Sheet' the financial position of the business can be ascertained, i.e. position of assets and liabilities is depicted.

#### **5. Helpful in decision making:**

Administration and management are able to take decisions on the basis of factual information under the double-entry system of accounting.

#### **B. Single entry system:-**

- Under this system, both aspects are not recorded for all the transactions.
- Either only one aspect is recorded or both the aspects are not recorded for all the transactions.

## Ch - 02: Basic Accounting Terms

In business, various accounting terms are used. It is as follows:

- 1. Entity:** An economic unit, which may be business entity (enterprise) or non-business entity.
- 2. Business Transaction:** A Business transaction is an economic activity of business that changes its financial position.
- 3. Account:** It is a record of all business transactions relating to a particular person or item. It is a T-Shaped Performa.
- 4. Capital:** It refers to the amount invested by the owner in a business. The amount invested could be in the form of cash, goods, etc.
- 5. Drawing:** Any cash or goods withdrawn by the owner for personal use made out of business funds are known as drawings.
- 6. Liabilities:** Liabilities refer to financial obligations of business. It denotes the amount which a business owes to others. eg.- Creditors, loan, etc. It is of 2 types;
  - (a) Non-current liabilities:** It refers to those which fall due for payment in a relatively longer period. For eg- long term loans.
  - (b) Current liabilities:** It refers to those which are to be paid in the near future.  
For Example-Creditors, Outstanding expenses etc..
- 7. Assets:-** These are properties or economic resources of an enterprises which can be expressed in monetary terms it can be divided in two parts.
  - (a) Non-Current Assets:-**
    - Fixed Assets : Tangible & Intangible assets ( more than 1 year period)

Tangible Assets	Intangible Assets
Land and Building	Goodwill
Plant and Machinery	Patents
Furniture	Trademarks
Office Equipments	Copyright
	Computer Software

**(b) Current assets (less than 1 year period)**

Examples of Current Assets are:

- (a) Debtors
  - (b) Bills Receivable
  - (c) Cash in hand
  - (d) Cash at bank
  - (e) Cheques in hand
  - (f) Drafts in hand
  - (g) Stock
  - (h) Prepaid Expenses.
- 8. Receipts:** Amount received from sale of goods and/ or services or both.
- 9. Expenditure:** It involves spending cash or incurring a liability for the purpose of acquiring



assets, goods or services. It is of 3 types.

**(a) Revenue Expenditure:** It refers to any expenditure, the full benefit of which is received during one accounting period. Example- salaries, rent etc.

**(b) Capital Expenditure:** It refers to expenditure, the benefit of which is received during more than one year. Example- Machinery.

**(c) Deferred Revenue Expenditure:** It refers to expenditure which are revenue in nature but benefit of which is likely to be derived over no of years. Example- Advertisement.

**10. Expenses:** It is the amount used in order to produce and sell goods and services.

**(a) Prepaid Expenses:** Expenses paid in the current year but relating to next financial year or years.

**(b) Outstanding Expenses:** Expenses incurred but not paid.

**11. Revenue:** Gross inflow of cash (Received or Receivable), receivables or other consideration in the normal course of business.

**12. Income:** It is the difference between revenue and expense.

**13. Profit:** It is the excess of total revenue over total expense of a business.  $Profit = Revenue - Expenses$ .

**14. Gain:** It is a monetary benefit resulting from events or transactions which are incidental to business like profit on sale of fixed assets.

**15. Loss:** The excess of expenses over related revenue is known as loss.  $Loss = Expenses - Revenue$ .

**16. Purchases:** It refers to the amount of goods bought by business for resale or use in production. It can be of cash or credit.

**17. Purchase return:** When purchased goods are returned to suppliers, it is referred to as purchase return.

**18. Sales:** It means transfer of goods or services for money in the normal course of business.

**19. Sales return:** When customers return the goods sold to them it is known as sales returns.

**20. Revenue from Operation:** Amount received or receivable from the sale of goods and/ or services or both.

**21. Goods:** Goods purchased for resale or for manufacturing product.

**22. Stock/ Inventory:** It includes goods unsold on a particular date.

**23. Trade Receivables:** Amount receivable against sale of goods and/or services or both.

**(a) Debtors:** A person or entity to whom goods are sold and / or services are rendered on credit.

**(b) Bills Receivable:** Acceptance (Bills of Exchange) received from a debtor.

**24. Trade Payables:** Amount payable against purchase of goods and /or services or both.

**(a) Creditors:** It refers to those persons whose business buys goods on credit and payment has not been done yet.

**(b) Bills Payable:** Acceptance (Bill of Exchange) given to a creditor.

**25. Cost:** Expenses on purchasing and/or manufacturing goods.



- 26. Voucher:** A voucher is a written document which is created in support of a particular transaction. It may be in the form of a cash memo, invoice or receipt. Voucher is a necessary component of auditing.
- 27. Discount:** It is the rebate given by the seller to the buyer. It is of 2 types: *Cash Discount and Trade Discount*.
- (a) **Trade Discount:** This is a type of discount allowed by the sellers to their customers at a fixed percentage on the list price of goods and also it is not entered in the books of accounts.
- (b) **Cash Discount:** When discount is allowed to customers for making prompt payment. It is always recorded in books of accounts.
- (c) **Rebate:** Reduction allowed in the sale value due to (say) poor quality, excess supply, etc.
- 28. Bad Debts:** It refers to the amount that debtor has not paid even after repeated reminders and has no intention of paying in the future.
- 29. Balance Sheet:** A statement of balances of assets and liabilities.
- 30. Book Value:** Value of assets as existing in the books of accounts.
- 31. Books of Accounts:** Books in which transactions are recorded or transferred (posted).
- 32. Credit:** Traditionally, right side of an account is credit side.
- 33. Debit:** Traditionally, left side of an account is debit side.
- 34. Depreciation:** Decrease in book value of an asset due to its use or efflux of time or obsolescence.
- 35. Entry:** Recording business transaction in the books of account.
- 36. Insolvent:** A person or entity unable to pay his/its debts.
- 37. Solvent:** A person or entity who is in a position to pay his/its debts.
- 38. Proprietor:** A person who owns the business.
- 39. Financial Statements or Final Accounts:** Statements prepared at the end of the accounting period to determine financial performance and financial position.

## **Ch - 03: Theory Base of Accounting, Accounting Standards and Indian Accounting Standards (Ind-AS)**

### **Accounting Principles:**

Accounting statements disclose the profitability and solvency of business to various parties. It is necessary to prepare such a statement in a standard language following a standard set of rules and regulations. These rules are known as “Generally Accepted Accounting Principles” or GAAP.

### **Features of Accounting Principles:**

1. Accounting principles are manmade.
2. Accounting principles are generally accepted.
3. Accounting principles are flexible in nature.

### **Need of Accounting Principles:**

To make the accounting information meaningful to its external and internal users, it is necessary that financial statements are prepared according to these principles.

### **Fundamental Accounting Assumptions or Concepts:-**

- 1. Going Concern Assumption:** As per this concept it is assumed that the business will continue to exist for a long period in future and the transactions are recorded in the books of business on the assumption that it is a continuing enterprise.
- 2. Consistency Assumption:** It states that accounting principles and methods should remain consistent from one year to another. It helps them to compare the profit and loss of different periods and draw meaningful conclusions.
- 3. Accrual Assumption:** As per this concept revenue is recorded when sales are made and it is immaterial whether cash received or not and same applies to expenses also. It provides more appropriate information about business enterprise as compared to cash basis.

### **Accounting Principles (Others):-**

- 1. Accounting Entity or Business Entity Principles:** As per this concept, business organisations are treated as separate entities and owners and persons are separate entities.
- 2. Money Measurement Principles:** As per the accounting conventions only those transactions are recorded which can be expressed in monetary terms. Example- the event of machinery breakdown is not recorded as it does not have a monetary value.
- 3. Accounting Period Principles:** An accounting period is the interval of time, at the end of which the financial statements are prepared to ascertain the financial performance of business. The accounting period is normally considered to be a period of 12 months.
- 4. Full Disclosure Principles:** Accounting statements should disclose fully and completely all the significant information, based on which, decisions can be taken by various interested parties.
- 5. Materiality Principles:** It requires the disclosure of the significant information, exclusion of which would influence the decisions. Unimportant information can be merged with other items.
- 6. Prudence or Conservatism Principles:** The essence of this principle is ‘anticipate no profit and provide for all possible losses’. This means that all prospective losses are taken into consideration.
- 7. Cost Concept Or Historical Cost Principle:** As per this concept, an asset is ordinarily recorded at the price actually paid or incurred to acquire it.

**8. Matching Concept or Matching Principle:** Matching the revenues earned during an accounting period with the cost associated with the period to ascertain the accurate result of business concern during that period is called matching concept.

**9. Dual Aspect or Duality Principle Concept:** It is the basis for the double entry system of book keeping that means all business transactions recorded in accounts have two aspects- debit and credit. The value of benefit received is equal to benefit given.

**10. Revenue Recognition or Realization Concept:** As per this concept, revenues should be accounted for only when it is actually realised or it has become certain that the revenue will be realized.

**11. Verifiable Objective Concept:** This principle of accounting specifies that the transactions should be recorded in an objective manner and should be unbiased in nature.

### **Accounting Standards:-**

Accounting standards are those written statements, which are issued from time to time by the accounting professional body, specifying uniform rules or practices for the preparation of the financial statements.

### **Need for Accounting Standards:**

Accounting standards are needed to improve reliability and bring uniformity in accounting practices and to ensure transparency, consistency and comparability in financial information.

### **Benefits of Accounting Standards:**

1. Accounting standards make the financial statements more reliable.
2. Accounting standards help in resolving conflict of financial interest among various groups.
3. Accounting standards ensure the consistency and comparability of financial statements.
4. Accounting standards significantly reduce the chances of manipulations and frauds.

**Note-** Accounting standards are applicable everywhere except the purely charitable organization.

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

The term IFRS refers to financial reporting standards issued by the International Accounting Standards Board (IASB) in order to make financial statements more consistent and transparent.

### **Need for IFRS**

The need for IFRS arises from the following reasons-

1. Easy access to global capital markets.
2. Easy to make Comparisons.
3. Uniformity in financial reporting.
4. True and fair valuation of assets.
5. Difficult to commit fraud and manipulate the accounts.

### **Practice Question:**

**Q.** State the accounting concepts/ conventions involved in each of the following situations:

- a) Advance received from a customer is not taken as income or sales.
- b) Revenue must be recognised when it is realised and expenses are recognised when incurred.
- c) Closing stock is valued at lower of cost or market value.
- d) Purchase of a pen is treated as expense.

## Ch - 04: Bases of Accounting

Profit earned or loss incurred by the business can be determined either by

1. **Cash Basis of Accounting and,**
2. **Accrual or Mercantile Basis of Accounting.**

### 1. Cash Basis of Accounting:

Under this method only cash transactions are recorded in the books of accounts. Entries are made only if cash is received or paid.

#### **Advantages:-**

- (a) It is simple basis of accounting as adjustment for outstanding expenses, Prepaid Expenses, Accrued income and income received in advance is not made.
- (b) This approach is more objective.
- (c) This basis of accounting is suitable for those enterprises where most of the transactions are on cash basis.

#### **Disadvantages:**

- (a) It does not give a true and fair view of the profit or loss and the financial position of an enterprise.
- (b) It does not follow the Matching Principle of accounting.
- (c) This system does not distinguish between capital and revenue items.

### 2. Accrual Basis of Accounting:

Under this method all transactions are recorded in the books of accounts (Cash and Non-Cash). Entries are made on the Accrual basis, it means cash and Non-cash both transactions are recorded in the books of accounts.

#### **Advantages:**

- (a) It is more scientific compared to Cash basis of Accounting.
- (b) This basis of accounting shows a complete picture of financial transaction of the business.
- (c) This basis discloses correct profit or loss for a particular period also exhibits true financial position of the business on a particular day.
- (d) It reflects true profit or loss during the accounting period and therefore has wide acceptability.

#### **Disadvantages:**

- (a) This system is not as simple as Cash Basis of Accounting.
- (b) The accounting process is too elaborate.
- (c) A quick appraisal of the profit/loss is not possible because many adjustments are required to ascertain the true financial position of the business.

### **Difference between Accrual Basis of Accounting and Cash Basis of Accounting:**

Basis	Accrual Basis of Accounting	Cash Basis of Accounting
<b>1. Nature of Transactions</b>	Both cash and credit transactions are recorded.	Cash transactions are recorded.
<b>2. Prepaid/Outstanding Expenses ; Accrued Income/</b>	Prepaid & Outstanding expenses are accounted in the Profit & loss A/c. Accrued income and income received	Prepaid & outstanding expenses are not adjusted. Similarly, accrued income and

<b>Income received in Advance</b>	in advance are also accounted and shown in the Balance Sheet.	income received in advance are not adjusted.
<b>3. Profit or Loss</b>	Correct profit or loss is ascertained because it records both cash and credit transactions.	Correct profit or loss is not ascertained because it records only cash transactions.
<b>4. Technical Knowledge</b>	The Accrual Basis of Accounting require technical knowledge as many adjustment like prepaid, outstanding, capital and revenue are required to be made.	It does not require much of technical knowledge as is required for Accrual Basis of Accounting.
<b>5. Legal Position</b>	Accrual basis of Accounting is recognised by the Companies Act, 2013.	Cash basis of Accounting is not recognised by the companies Act, 2013.
<b>6. Acceptability</b>	Accrual basis of Accounting is more acceptable in business as it reveals correct income and expenses besides assets and liabilities.	Cash basis of accounting is not acceptable in business as it does not reveal the required information.

## Ch - 05: Accounting Equation

Accounting equation shows the relationship between the assets, liabilities and owner's capital of a person or business

$$A=L+C$$

Where A=

assets

L= liabilities

C= capital

The above equation can be presented in the following forms as its derivatives to enable the determination of missing figures of Capital(C) or Liabilities (L).

(i)  $A - L = C$

(ii)  $A - L = C$

Since the accounting equation shows the fundamental relationship among the items of the balance sheet, it is also called the Balance Sheet Equation

The claim of the proprietors is called capital and that which is taken from another person from the outside is known as liabilities.

The asset side of the balance sheet records all the assets of the business. The liabilities side of the balance sheet is the detailed list of owner's capital and outsider's claims.

### Let us take an example:-

Parul started the business with a capital of ₹ 10, 00,000. From the accounting point of view, the resources of this business entity are in the form of cash, i.e. ₹ 10, 00,000. Sources of this business entity are the contribution by Parul (Proprietor) ₹ 10, 00,000 as Capital.

If we put this detail in the form of equality of resources and sources, the picture will emerge somewhat as follows:-

#### In the Books of Parul Balance sheet as on.....

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Liabilities	10,00,000	Asset	10,00,000

In the above balance sheet the total of assets is equal to the total of liabilities. Now we will analyse the transactions listed in example 1 & its effect on different elements and you will observe that the accounting equation always remain balanced:-

(1) Opened a bank account in bank of India with an amount of ₹ 5, 00,000.

*(Analysis of transaction: This transaction increases the cash at bank (assets) & decreases cash (asset) by ₹ 5, 00,000.)*

(2) Bought furniture for ₹ 1, 00,000 and a cheque was issued on the same day.

*(Analysis of transaction: This transaction increases furniture (assets) & decreases bank (assets) by ₹ 1, 00,000.)*

(3) Bought plant and machinery for the business for ₹ 1, 10,000 and an advance of ₹ 10,000 in cash is paid to M/s Ram.

*(Analysis of transaction: This transaction increases Plant and Machinery (assets) by ₹ 1, 10,000, decreases cash by ₹ 10,000 and increases liabilities (M/s Ram as creditor) by ₹ 1, 00,000.)*

(4) Goods purchased from M/s Akshat Traders for ₹ 55,000.

*(Analysis of transaction: This transaction increases goods (assets) and increases liabilities (M/s Akshat Traders as creditors) by ₹ 55,000.)*

(5) Goods costing ₹ 15,000 sold to Samul Enterprises for ₹ 25,000.

(Analysis of transaction: This transaction decreases stock of goods (assets) by ₹ 15,000 and increases assets (Samul Enterprises as debtor's ₹ 25,000) and capital (with the profit of ₹ 10,000)).

**In the Books of Parul**  
**Journal entries for the year ending.....**

Date	Particulars	L.F	Debit(₹)	Credit (₹)
1.	Bank A/c. Dr. To Cash /c (Being A/c opened in the bank.)		5,00,000	5,00,000
2.	Furniture A/c. Dr. To Bank A/c (Being furniture purchased and Payment made through the bank.)		1,00,000	1,00,000
3.	Plant and machinery A/c. Dr. To Cash A/c To Ram A/c (Being plant and machinery purchased on credit and some amount is paid in cash)		1,10,000	10,000 1,00,000
4.	Purchases A/c. Dr. To Akshat Traders A/c (Being goods purchased on credit from Akshat traders.)		55,000	55,000
5.	Cash A/c Dr. To Sales A/c To Profit and Loss A/c (Being goods sold on profit)		25,000	15,000 10,000

The final equation as per the above transactions analysis table can be summarised in the form of balance sheet:-

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Outsiders liability (creditors)	1,55,000	Cash	4,90,000
Capital	10,10,000	Bank	4,00,000
		Furniture	1,00,000
		Debtors	25,000
		Stock	40,000
		Plant and Machinery	1,10,000
	<b>11,65,000</b>		<b>11,65,000</b>

**Q1.** Show Accounting Equation on the basis of the following transactions:

1. Anil started business with cash ₹ 1, 00,000.
2. Purchased goods in cash ₹ 50,000.
3. Purchased furniture from M/s Sam Furniture ₹ 20,000.
4. Sold goods costing ₹ 25,000 for ₹ 35,000 against cash.
5. M/s Sam Furniture's was paid in cash.

**Solution:**

No.	Transactions	Assets ₹	=	Liabilities ₹	+	Capital ₹
1.	Anil started business with cash	1,00,000	=	0	+	1,00,000
2.	Purchased goods in cash	+ 50,000 – 50,000				
	<b>New Equation</b>	1,00,000	=	0	+	1,00,000
3.	Purchased furniture from M/s Sam Furnitures (Note 1)	+ 20,000	=	20,000	+	0
	<b>New Equation</b>	1,20,000	=	20,000	+	1,00,000
4.	Sold goods costing ₹25,000 for ₹ 35,000 (Note 2)	– 25,000 + 35,000				
	<b>New Equation</b>	1,30,000	=	20,000	+	1,10,000
5.	Payment to M/s Sam Furnitures	– 20,000	=	– 20,000	+	0
	<b>New Equation</b>	1,10,000	=	0	+	1,10,000

**Q2.** Prepare the Accounting Equation on the basis of the following:

₹

1. Ramesh commenced business with cash. 1,50,000
2. Furniture purchased for cash. 20,000
3. Purchased goods from Manish on credit. 25,000
4. Sold goods (costing ₹ 10,000) to Mohini for cash. 14,000
5. Additional capital introduced. 20,000
6. Commission received in advance. 2,000
7. Paid to creditor (Manish) in full settlement. 22,500
8. Sold goods (costing ₹ 15,000) for ₹ 18,000 out of which ₹ 5,000 received in cash
9. Depreciation on furniture provided @ 10%.

**Solution:**

No	Transactions	Assets				=	Liabilities		+	Capital	
		Cash	+ Furniture	+ Stock	+ Debtors	=	Creditors	+	Comm. Rec. in Advance	+ Capital	
		₹	₹	₹	₹		₹		₹	₹	
1	Ramesh Commenced business with cash	1,50,000	+ 0	+ 0	+ 0	=	0	+	0	+ 1,50,000	
2.	Furniture purchased for cash	– 20,000	+ 20,000	+ 0	+ 0	=	0	+	0	+ 0	
	<b>New Equation</b>	1,30,000	+ 20,000	+ 0	+ 0	=	0	+	0	+ 1,50,000	
3.	Purchased goods from Manish	0	+ 0	+ 25,000	+ 0	=	25,000	+	0	+ 0	
	<b>New Equation</b>	1,30,000	+ 20,000	+ 25,000	+ 0	=	25,000	+	0	+ 1,50,000	
4.	Cash Sales (Profit ₹ 14,000 – ₹ 10,000)	14,000	+ 0	– 10,000	+ 0	=	0	+	0	+ 4,000	
	<b>New Equation</b>	1,44,000	+ 20,000	+ 15,000	+ 0	=	25,000	+	0	+ 1,54,000	
5.	Additional capital introduced	20,000	+ 0	+ 0	+ 0	=	0	+	0	+ 20,000	
	<b>New Equation</b>	1,64,000	+ 20,000	+ 15,000	+ 0	=	25,000	+	0	+ 1,74,000	
6.	Commission received in advance	2,000	+ 0	+ 0	+ 0	=	0	+	2,000	+ 0	
	<b>New Equation</b>	1,66,000	+ 20,000	+ 15,000	+ 0	=	25,000	+	2,000	+ 1,74,000	
7.	Paid to creditor Manish ₹ 22,500 in full settlement	– 22,500	+ 0	+ 0	+ 0	=	– 25,000	+	0	+ 2,500	
	<b>New Equation</b>	1,43,500	+ 20,000	+ 15,000	+ 0	=	0	+	2,000	+ 1,76,500	
8.	Sold goods (costing ₹ 15,000) for ₹ 18,000 out of which ₹ 5,000 received in cash	5,000	+ 0	– 15,000	+ 13,000	=	0	+	0	+ 3,000	
	<b>New Equation</b>	1,48,500	+ 20,000	+ 0	+ 13,000	=	0	+	2,000	+ 1,79,500	
9.	Dep. on furniture @ 10% on ₹ 20,000	0	– 2,000	+ 0	+ 0	=	0	+	0	– 2,000	
	<b>New Equation</b>	1,48,500	+ 18,000	+ 0	+ 13,000	=	0	+	2,000	+ 1,77,500	



**Q3.** How are the following items dealt in Accounting Equation?

- (i) Interest due but not received ₹ 5,000.
- (ii) Rent received in advance ₹ 10,000.
- (iii) Insurance premium paid in advance ₹ 15,000.
- (iv) Salaries due but not paid ₹ 20,000.

**Solution:**

- (i) Interest due but not received shall be added to assets on one side & to the capital on other side.
- (ii) It will increase cash on the assets side and increase the liabilities.
- (iii) It will decrease one asset (cash) and increase another asset (Prepaid insurance).
- (iv) Salary being an expense will be deducted from the capital and being unpaid will be added to liabilities.

**Q4.** Give an example for each of the following types of transactions:

- 1. Increase in one asset, decrease in another asset.
- 2. Increase in asset, increase in liability.
- 3. Increase in asset, increase in owner's capital.
- 4. Decrease in asset, decrease in liability.
- 5. Decrease in asset, decrease in owner's capital.
- 6. Decrease in liabilities, increase in owner's capital.
- 7. Increase in one liability, decrease in another liability.
- 8. Increase in liabilities, decrease in owner's capital.

**Solution:**

- 1. Purchase of furniture for cash—*Increase in furniture and decrease in cash.*
- 2. Purchase of furniture on credit—*Increase in furniture and increase in liability.*
- 3. Capital introduced by proprietor—*Increase in cash and increase in capital.*
- 4. Payment to creditors—*Decrease in cash and decrease in creditors.*
- 5. Cash withdrawn by proprietor—*Decrease in cash and decrease in capital.*
- 6. Conversion of partner's loan into capital—*Increase in capital and decrease in loan.*
- 7. Bills Payable accepted—*Increase in bills payable and decrease in creditors.*
- 8. Outstanding expenses provided—*Increase in creditors for outstanding expenses and decrease in capital.*

**Practice Question:**

**Q.** Prepare Accounting Equation from the following.

- i) Raju started business with cash ₹ 1, 50,000
- ii) Bought goods for cash ₹ 80,000 and credit for ₹ 40,000.
- iii) Goods costing ₹ 75,000 sold at a profit of 100/3%. Half of the payment received in cash.
- iv) Goods costing ₹ 10,000 sold for ₹ 12,000 on credit.
- v) Paid for Rent ₹ 2,000 and for salaries ₹ 4,000.
- vi) Goods costing ₹ 20,000 sold for ₹ 18,500 for Cash.

## Ch - 06: Accounting Procedures - Rules of Debit and Credit

Transactions are recorded in the books of account on the basis of evidences, i.e., source documents, such as invoices for purchase, invoices for sale, debit and credit notes etc.

**Account:** Account is a record of transactions under a particular head. It records not only the amount of transactions but also their effect and direction.

### **Meaning of Debit and Credit**

Debit refers to the left side of an account and credit refers to the right side of an account. In the abbreviated form Dr. stands for debit and Cr. stands for credit.

### **Rules of debit and credit:-**

Under Double Entry System of accounting each transaction has two aspects. One aspect is debit, i.e., receiving or incoming aspect. Another aspect is credit, i.e., giving or outgoing aspect.

### **Classification of Accounts:**

Accounts can be classified in two ways:

**(A) Traditional Classification: and (B) Modern Classification.**

**(A) Traditional Classification:** Under this classification accounts are classified into two groups as shown below:

#### **1. Personal Accounts and, 2. Impersonal Accounts**

**1. Personal Accounts:** Accounts which relate to persons, i.e., individuals, firms, companies, debtors or creditors, etc. are Personal Accounts. Ex. of Personal A/c are the account of Mohan & Co., a customer (Debtor).

Personal Accounts can be classified into three categories:

**(i) Natural Personal A/c's:-** The term 'Natural Person' means persons who are creations of God. Therefore, these will include accounts in individual name. Like Sita's A/c, Mohan's A/c, etc.

**(ii) Artificial Personal A/c's:-** These accounts include accounts of corporate bodies or institutions which are recognised as person in business dealings. Like then account of a limited company, the account of a club etc.

**(iii) Representative Personal A/c's:-** These are accounts which represent a certain person or a group of persons. Like if rent is due to the landlord, an Outstanding Rent Account will be opened in the books.

#### **Rule of Debit and Credit - Debit the receiver, Credit the giver.**

**2. Impersonal Accounts:** Account which are not personal such as Machinery A/c, Furniture A/c, Cash A/c etc. are termed as Impersonal Account. These can be further subdivided into two accounts;

**(a) Real A/c's:** Real accounts are the accounts which relate to tangible or intangible assets of the firm (excluding debtors).

**Tangible assets like** – Building, Land, Plant and Machinery and Investment, Cash in hand or stock.

**Intangible assets like-** Patents, Trademark and Goodwill.

#### **Rule of Debit and Credit - Debit what comes in, Credit what goes out.**

**(ii) Nominal (Revenue or Expense) Accounts:-** Accounts which relate to expenses, losses, gains, revenue, etc. are termed as Nominal Accounts. These are Rent A/c, Salary A/c, Sales A/c, Commission Received A/c etc.

#### **Rule of Debit and Credit - Debit all expenses and losses, Credit all incomes and gains.**

**B. Modern Classification:-**

Under this classification, all the accounts are classified into the following five categories.

- |                             |                               |                             |
|-----------------------------|-------------------------------|-----------------------------|
| <b>1. Asset Accounts.</b>   | <b>2. Liability Accounts.</b> | <b>3. Capital Accounts.</b> |
| <b>4. Revenue Accounts.</b> | <b>5. Expense Accounts.</b>   |                             |

**1. Asset Accounts:** Asset account are those accounts which relate to the economic resources of an enterprise such as Plant & Machinery, Land & Building etc.

**Rule of Debit and Credit - Debit the increases, Credit the decreases.**

**2. Liability Accounts:-** Liability accounts are accounts of lenders, creditors for goods, outstanding expenses, etc.

**Rule of Debit and Credit - Debit the decreases, Credit the increases.**

**3. Capital Accounts:-** These are the accounts of proprietors/partners who have invested amount in the business. It includes both Capital and Drawings Account.

**Rule of Debit and Credit - Debit the decreases, Credit the increases.**

**4. Revenue Accounts:-** These are accounts of incomes and gains. Examples are- Sales, Discount received, Interest received, bad debts recovered etc.

**Rule of Debit and Credit - Debit the decreases, Credit the increases.**

**5. Expense Accounts:-** These are the accounts of expenses or losses incurred in carrying the business. Examples are: Purchases, Wages, Salaries Discount allowed etc.

**Rule of Debit and Credit - Debit the increases, Credit the decreases.**

## Ch - 07: Origin of Transactions - Source Documents and Preparation of Vouchers

### Source Documents:-

A written document which provides evidence of the transactions is called the Source Document. 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) **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.

(b) **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.

(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 acknowledgement of payment or cash received by firm.

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

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

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

### Voucher:-

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

#### **Classification of Accounting Vouchers:**

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

#### **(a) 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.

##### **(i) 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.

##### **(ii) 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.

#### **(b) Non-Cash Voucher /Transfer Voucher:-**

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

## Ch - 08: Journal

### **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 the 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.	Dr. (₹)	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.
- 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.
- 3. 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.
- 4. 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.

### **Transactions related to Goods:**

<b>1. Goods purchased for cash:</b> Purchase A/c Dr. To Cash A/c (Being goods purchased for cash)	<b>2. Goods purchased from ram on Credit:</b> Purchase A/c Dr. To Ram (Being goods purchased from Ram on credit)
<b>3. Goods sold for cash:</b> Cash A/C Dr. To Sales A/c (Being goods sold for cash)	<b>4. Goods sold on credit to Mohan:</b> Mohan Dr. To Sales A/c (Being goods sold to Mohan on credit)
<b>5. Withdrawal of goods by owner for personal use:</b> Drawings A/c Dr. To Purchase A/c (Being goods withdrew by owner for personal use)	<b>6. Goods distributed as free samples:</b> Advertisement A/c Dr. To Purchase A/c (Being goods distributed as free samples)
<b>7. Goods given as charity:</b> Charity A/c Dr. To Purchases A/c (Being goods given as charity)	<b>8. Goods lost by fire/flood/theft etc.:</b> Loss by fire/theft A/c Dr. To Purchase 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.

### **Transactions related to Bank:-**

**1. Cash deposited into the bank:**

Bank A/c..... Dr.

To Cash A/c

(Being cash deposited to 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:**

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

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

**Transactions related to Expense or Income:-**

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

**Transactions related to Assets/Liabilities:-**

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

**Some other Journal Entries:-**

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

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

**Discount:** There are two types of discount that are explained below:

(a) **Trade discount:-** Trade discount is allowed by wholesalers and manufacturers to the retailers at a fixed percentage. Trade discount is not to be shown in the books.

(b) **Cash discount:-** Cash discount is allowed to the customers for making an early payment.

**Ex: If a retailer sells goods of list price Rs.10000 at 10% trade discount & 2% cash discount**

**Solution:**

List price	10000
Less: Trade discount @ 10%	<u>(1000)</u>
	9000
Less: Cash discount @ 2%. ( $₹ 9000 \times 2 \div 100$ )	<u>(180)</u>
	<u>8,820</u>

**Practice Question:-**

**Q1.** Pass Journal Entries for the following:

- Goods worth ₹ 45,000 and cash ₹17,000 were stolen by an employee.
- Charge Depreciation @ 10% p.a. for two months on machine costing ₹ 25,000.
- Paid to landlord by cheque ₹ 12,000 for Rent. Half of the building is occupied by the proprietor for residential use.
- Sold goods to Raj costing ₹ 40,000 at a profit of 25% & allowed him 10% trade discount and paid for cartage ₹ 1,000 to be charged from him.

**Q2.** Journalise the following transactions with narrations:

- Withdrawn goods for personal use (Cost ₹ 700, Sales Price ₹ 800).
- Salaries due to Ram Prasad, Clerk ₹ 550.
- Rohan is declared insolvent. Received from his official receiver 70 paise in the rupee on a debt of ₹ 900.
- Goods costing ₹ 3,000 were destroyed by fire.
- Bought a horse of ₹ 1, 00,000 for business.
- Paid rent ₹ 600 of building by Cheque  $\frac{1}{3}^{\text{rd}}$  of the building is used by the proprietor for residential use.
- Paid to Manohar ₹ 6,800 & discount allowed by them ₹ 200.
- Received cash for a bad debts written off last year ₹ 330.



## Ch - 09: Ledger

**Meaning of 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.**

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

### Utility of Ledger:

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

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

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

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

### **Performa for Ledger**

Each ledger account is divided into two equal parts.

Left Hand Side →→ Debit side (Dr.)

Right Hand Side →→ Credit side (Cr.)

### **Name of the Account**

### **Format of Ledger Account**

Dr.				Cr.			
Date	Particulars	J.F	Amt. (₹)	Date	Particulars	J.F	Amt. (₹)

### **Example:-**

1. Capital introduced- ₹ 1,00,000 on 1/4/2019
2. Furniture & Equipment purchased- ₹ 15,000 on 1/4/2029
3. Goods purchased- ₹ 75,000 on 1/4/2019
4. Salaries paid- ₹ 10,000 on 30/4/2019.
5. Sold goods- ₹ 95,000 in 30/04/2019.

### **Journal Entries for the year ending.....**

Date	Particulars	L.F	Debit (₹)	Credit (₹)
1/4/2019	Cash A/c To Capital A/c (Being capital invested)		1,00,000	1,00,000

1/4/2019	Furniture and Equipment A/c Dr. To Cash A/c (Being furniture and equipment purchased)		15,000	15,000
1/4 /2019	Purchases A/c Dr. To Cash A/c (Being goods are purchased)		75,000	75,000
30/4/2019	Salaries A/c Dr. To Cash A/c (Being salaries paid)		10,000	10,000
30/4/2019	Cash A/c Dr. To Sales A/c (Being goods are sold)		95,000	95,000

### Ledger Accounts

**Dr.**

**Cash A/c**

**Cr.**

Date	Particulars	J.F	Amt. (₹)	Date	Particulars	J.F	Amt. (₹)
1/4/2019	To Balance b/d		-	1/4/2019	By Furniture & equipment		15,000
1/4/2019	To Capital A/c		1,00,000	1/4/2019	By Purchases A/c		75,000
30/4/2019	To Sales A/c		95,000	30/4/2019	By Salaries A/c		10,000
				30/4/2019	By Balance c/d		95,000
			<b>1,95,000</b>				<b>1,95,000</b>

**Dr.**

**Capital A/c**

**Cr.**

Date	Particulars	J.F	Amt. (₹)	Date	Particulars	J.F	Amt. (₹)
30/4/2019	To Balance c/d		1,00,000	1/4/2019	By Balance b/d		-
				1/4/2019	By Cash A/c		1,00,000
			<b>1,00,000</b>				<b>1,00,000</b>

**Dr.**

**Furniture A/c**

**Cr.**

Date	Particulars	J.F	Amt. (₹)	Date	Particulars	J.F	Amt. (₹)
1/4/2019	To Balance b/d		-	30/4/2019	By Balance c/d		15,000
1/4/2019	To Cash A/c		15,000				
			<b>15,000</b>				<b>15,000</b>

**Dr.**

**Purchases A/c**

**Cr.**

Date	Particulars	J.F	Amt. (₹)	Date	Particulars	J.F	Amt. (₹)
1/4/2019	To Balance b/d		-	30/4/2019	By Balance c/d		75,000
1/4/2019	To Cash A/c		75,000				
			<b>75,000</b>				<b>75,000</b>

Dr.				Sales A/c				Cr.	
Date	Particulars	J. F	Amt. (₹)	Date	Particulars	J. F	Amt. (₹)		
30/4/2019	To Balance c/d		95,000	1/4/2019	By Balance b/d		-		
				30/4/2019	By Cash A/c		95,000		
			<b>95,000</b>				<b>95,000</b>		

Dr.				Salaries A/c				Cr.	
Date	Particulars	J.F	Amt. (₹)	Date	Particulars	J.F	Amt. (₹)		
30/4/2019	To Balance c/d		20,000	1/4/2019	By balance b/d		10,000		
				30/4/2019	By Cash A/c		10,000		
			<b>20,000</b>				<b>20,000</b>		

## Ch - 10: Special Purpose Books I- Cash Book

### **Cash Book:**

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

### **Simple Cash Book:**

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

### **Points to Remember:**

- Cash in hand/opening balance of cash is shown in Dr. side of the Cash book as “To Balance b/d”.
- Only transactions 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.

### **Performa of Simple Cash book**

**Dr. Simple Cash book**  
**Cr.**

Date	Particulars	V.no	L.F	(₹)	Date	Particulars	V.no	L.F	(₹)
	To.....					By...			

**Let's practice it with a question :-**

**Illustration 1. Enter the following transaction in a single column cash book:-**

- 2022, March 01. Commenced business with cash ₹ 10,000.  
 March 02. Bought goods for cash ₹ 2,500.  
 March 05. Sold goods for cash ₹ 2,000.  
 March 10. Goods purchased from Ravi on credit ₹ 5,000.  
 March 13. Paid to Ravi ₹ 3,500.  
 March 15. Cash sale ₹ 4,000.  
 March 18. Purchased furniture for cash ₹ 3,000.  
 March 20. Paid wages ₹ 190.  
 March 24. Paid rent ₹ 200.  
 March 26. Received commission ₹ 300.  
 March 28. Withdrew for personal use ₹ 500.  
 March 31. Paid salary ₹ 450.

**Solution:-**

**Dr. Simple Cash Book Cr.**

Date	Particulars	L.f	(₹)	Date	Particulars	L.f	(₹)
2017, Mar 1	To Capital A/c		10,000	2017, Mar 2	By Purchases		2,500
5	To Sales A/c		2,000	13	By Ravi A/c		3,500
15	To Sales A/c		4,000	18	By Furniture A/c		3,000
26	To Commission A/c		300	18	By wages A/c		190
				20	By Rent A/c		200
				24	By Drawings A/c		500
				28	By salary A/c		450
				31	By Balance c/d		5,960
			<b>16,300</b>				<b>16,300</b>
2017, April 1	By Balance b/d		5,960				

**Double Column cash Book (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.

**Performa of Double Column Cash Book**

Dr.						Double Column Cash Book						Cr.	
Date	Particulars	V. no	L. F	Cash	Bank	Date	Particulars	V. no	L. F	Cash	Bank		
	To.....						By...						

**Important Entries:-**

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

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

Dr. Cash Book (with Cash & Bank Column) Cr.									
Date	Particulars	L.F.	Cash (₹)	Bank (₹)	Date	Particulars	L.F.	Cash (₹)	Bank (₹)
2021, Apr. 01	To Cash A/c	C		1,000	2021, Apr. 01	By Bank A/c	C	1,000	

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

Dr. Cash Book (with Cash & Bank Column) Cr.									
Date	Particulars	L.F.	Cash (₹)	Bank (₹)	Date	Particulars	L.F.	Cash (₹)	Bank (₹)
2021, Apr. 01	To Bank A/c	C	1,000		2021, Apr. 01	By Cash A/c	C		1,000

**(2) Entries relating to cheques:**

1. When any payment is made by cheque: It will reduce the bank balance and thus bank column will be credited.
2. 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.
3. When any payment is received in the form of cheque and it is deposited into bank on same day then bank A/c will be debited.

When payment is received in the form of cheque on one day & it is deposited into Bank on other day i.e. when two dates, one for the receipt of cheque and the other for deposit. In this case no entry is to be recorded at the time of receiving the cheque. Entry is to be made when cheque deposited in the bank, as bank column is debited.

**Illustration 2. - Enter the following transaction in a Double column cash book (Cash & Bank):-**

Date	Details	Amt. (₹)
Sep. 01, 2021	Bank balance.	21,000
Sep. 01.	Cash balance.	7,500
Sep. 04.	Purchased goods by cheque.	6,000
Sep. 08.	Sale of goods for cash.	3,000
Sep. 13.	Purchase of machinery by cheque.	2,750
Sep. 16.	Sold goods and received cheques (deposited same day.)	2,250
Sep. 17.	Purchase goods from Mira in cash.	8,700
Sep. 20.	Purchase stationery by cheque.	550
Sep. 24.	Cheque given to Rohit.	750
Sep. 27.	Cash withdrawn from the bank.	5,000
Sep. 31.	Rent paid by cheque.	1,250
Sep. 31.	Paid salary.	1,750

**Solution:-****Dr. Double column Cash Book Cr.**

Date	Particulars	LF	Cash(₹)	Bank(₹)	Date	Particulars	L.F	Cash(₹)	Bank(₹)
2021, 01 Sept	To balance b/d		7,500	21,000	2021, 04 Sept	By Purchases			6,000
08 Sept	To Sales A/c		3,000		13 Sept	By Machinery A/c			2,750
16 Sept	To Sales A/c			2,250	17 Sept	By Purchases A/c		8,700	
27 Sept	To Bank A/c	C	5,000		20 Sept	By Stationery A/c			550
					24 Sept	By Rohit			750
					27 Sept	By Cash A/c	C		5,000
					31 Sept	By Rent A/c			1,250
					31 Sept	By Salary A/c		1,750	
					31 Sept	By Balance c/d		5,050	6,950
			<b>15,500</b>	<b>23,250</b>				<b>15,500</b>	<b>23,250</b>
2021, Oct 1	To balance b/d		5,050	6,950					

**Illustration 3. Prepare Two-column Cash Book from the following transactions:**

2022, March 01. Cash in Hand ₹ 15,000; Cash at Bank ₹ 50,000.

March 03. Purchased goods for cash ₹ 6,000.

March 05. Deposited in bank ₹ 5,000.

March 08. Cash sales ₹ 10,000.

March 10. Cash withdrew from bank for office use ₹ 2,000.

March 12. Received cash from Kamini ₹ 3,000, allowed her discount of ₹ 100 against dues.

March 15. Received cheque from Simrat ₹ 2,000 and allowed her discount ₹ 75 against dues.

March 18. Received a post dated cheque (dated: 23<sup>rd</sup> March, 2022) from Deep for ₹ 5,000.

March 23. Cheque received from Deep deposited in the bank.

March 24. Issued cheque of ₹ 2,500 to Chandan, he allowed discount ₹ 125.

March 27. Withdrew from bank for personal use ₹ 1,500.

March 28. Sold goods to Alok ₹ 40,000.

March 30. Purchased goods from Chandan ₹ 50,000.

March 31. Received cheque from Alok ₹ 2,000 and deposited in the bank.

**Solution:-**

Dr. Double column Cash Book					Cr.				
Date	Particulars	L.F	Cash(₹)	Bank(₹)	Date	Particulars	L.F	Cash(₹)	Bank(₹)
2022, Mar.1	To Balance b/d		15,000	50,000	2022, Mar.3	By Purchases A/c		6,000	---
Mar.5	To Cash A/c	C	---	5,000	Mar.5	By Bank A/c	C	5,000	---
Mar.8	To Sales A/c		10,000	---	Mar.10	By Cash A/c	C	---	2,000
Mar.10	To Bank A/c	C	2,000	---	Mar.24	By Chandan		---	2,500
Mar.12	To Kamini		3,000	---	Mar.27	By Drawings A/c		---	1,500
Mar.15	To Simrat		---	2,000	Mar.31	By Balance c/d		19,000	58,000
Mar.23	To Cheque in Hand A/c		---	5,000					
Mar.31	To Alok		---	2,000					
			<b>30,000</b>	<b>64,000</b>				<b>30,000</b>	<b>64,000</b>
2021, Apr. 1	To balance b/d		19,000	58,000					

**Petty Cash Book:**

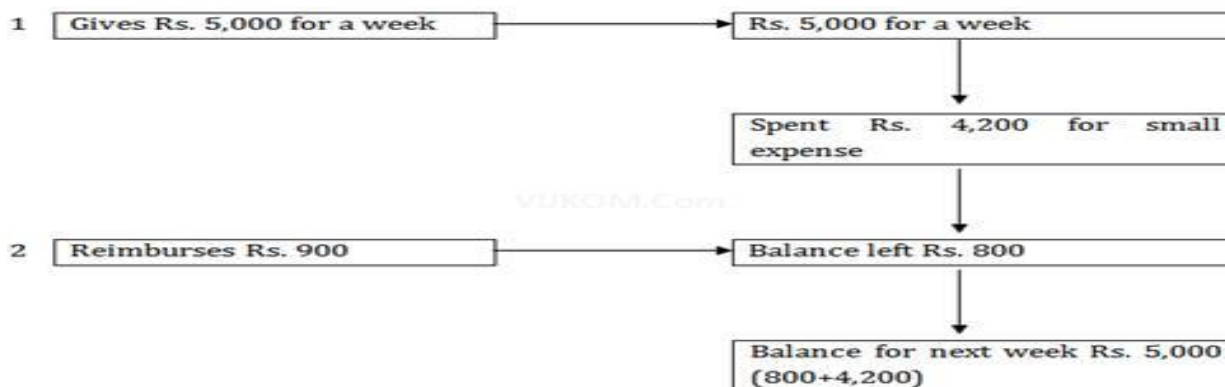
Business has to incur small expenses which are repetitive in nature. To save the time and efforts of head cashier, business appoints a petty cashier. He is entrusted with the duty of paying these expenses.

**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.

Head Cashier →→ Petty Cashier

**Advantage of Petty Cash Book:**

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

**Illustration 4.** Prepare an Analytical Petty Cash Book on the Imprest System from the following:

		₹
2022, Jan.01.	Received for Petty Cash.....	10,000
Jan. 02	Paid Metro fare.	50
Jan. 02	Paid Cartage.	250
Jan. 03	Paid for postage.....	500
Jan. 03	Paid wages for casual labours.	600
Jan. 04	Paid for stationery.	400
Jan. 04	Paid auto charges.....	200

Jan. 05	Paid for repairs of chairs.	1,500
Jan. 05	Paid Bus fare.	100
Jan. 05	Paid Cartage.	400
Jan. 06	Paid Postage.....	700
Jan. 06	Paid for conveyance charges.	300
Jan. 06	Paid Cartage.	300
Jan. 06	Paid Telephone bill .....	200

**Solution:**

**In the books of .....**

**Petty Cash Book**

Receipts	Date	V. No	Particulars	Total Pay-ments(₹)	Conveyance (₹)	Cartage (₹)	Stationery (₹)	Postage (₹)	Repairs (₹)	Telephone Expenses (₹)	Sundries (₹)
10,000	2022, Jan.1	1	To Cash A/c								
	Jan.2	1	By Conveyance A/c	50	50						
		2	By Cartage A/c	250		250					
	Jan.3	3	By Postage A/c	500				500			
		4	By Wages A/c	600							600
	Jan.4	5	By Stationery A/c	400			400				
		6	By Conveyance A/c	200	200						
	Jan.5	7	By Repairs A/c	1,500					1,500		
		8	By Conveyance A/c	100	100						
		9	By Cartage A/c	400		400					
	Jan.6	10	By Postage A/c	700				700			
	Jan.6	11	By Conveyance A/c	300	300						
	Jan.6	12	By Cartage A/c	300		300					
	Jan.6	13	By Telephone Expenses A/c	200						200	
				5,500	650	950	400	1,200	1,500	200	600
	Jan.6			4,500							
10,000				10,000							
4,500	Jan.7		To Balance b/d								
5,500	Jan.7		To Cash A/c								

**Practice Question:**

**Q1.** Prepare Double column Cash Book with Cash and Bank Columns from following information.

2022		(₹)
Feb. 1	Cash in Hand.....	15,000
	Bank Overdraft	70,000
Feb. 3	Paid wages	4,000
Feb. 5	Cash Sales	1,40,000
Feb. 10	Cash deposited in Bank.....	80,000
Feb. 14	Goods purchased against Cheque	40,000
Feb. 20	Paid Rent	10,000
Feb. 22	Drew from bank for personal use.....	8,000
Feb. 27	Salary paid	20,000



**Q2.** Entre the following transactions in the Triple-column Cash Book of Sh. Ramana:

2022	
Jan. 01	Cash at Office ₹ 146, & Bank Balance (Cr.) ₹ 5,500.
Jan. 03	Cash Sales ₹ 3,100.
Jan.04	Deposited into Bank ₹ 4,500.
Jan. 06	Mohan settled his account for ₹ 1,500 by giving a Cheque for ₹ 1,450.
Jan. 08	Mohan's Cheque deposited into bank.
Jan. 10	Bought goods for ₹ 900 & paid by Cheque.
Jan. 12	Purchased stationary for ₹ 250.
Jan. 15	Mohan's Cheque returned dishonoured.
Jan. 17	Received a Cheque for ₹ 3,500 from Prabhat which is deposited into bank.
Jan. 20	Withdrew for office use ₹ 950.
Jan. 25	Sold goods to Dharmesh for ₹ 5,000.
Jan. 30	Paid Rent by Cheque ₹ 1,000.

## Ch - 11: Special Purpose Books II - Other Books

### **Books of Original Entry/Special Purpose Books:**

As the business grows and number of transactions increase, it becomes necessary for the 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:-**

- (a) Division of work
- (b) Leads to Specialization
- (c) Easy to maintain Ledger
- (d) Check on frauds
- (e) Easy to fix responsibility
- (f) Quick availability of required information.

### **Special Purpose Subsidiary Books:-**

#### **Purchases Book:-**

In this book, only those transactions are recorded which are related to credit purchases of goods in which the business deals in. Recording is made on the basis of Bills/ 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 1.** From the following information of M/s Raghav & Co. Delhi, prepare the Purchases Book for the month of March, 2022:

2022 March 1. Purchased from M/S Browni & Co., Kolkata:  
5 gross pencils @ ₹ 1,200 per gross.  
2 dozen registers @ ₹ 500 per dozen.  
Less: Trade Discount @ 10%.

March 4. Purchased from The Paper Co., Delhi:  
8 reams of white paper @ ₹ 500 per ream.  
10 reams of ruled paper @ ₹ 600 per ream.  
Less: Trade Discount @ 10%.

March 5. Purchased 80 Reynolds Pen @ ₹ 5 each from M/s Verma Bros., Delhi.

**Solution:****Purchases Book**

Date	Particulars	Inv.No.	L.F	Details (₹)	Amt. (₹)
2022 Mar.1	M/S Browni & Co., Kolkata: 5 gross pencils @ ₹ 1,200 per gross. 2 dozen registers @ ₹ 500 per dozen.			6,000 1,000	
	Less: Trade Discount @ 10%			7,000 700	6,300
Mar. 4	The Paper Co., Delhi: 8 reams of white paper @ ₹ 500 per ream. 10 reams of ruled paper @ ₹ 600 per ream.			4,000 6,000 10,000	
	Less: Trade Discount @ 10%.			1,000	9,000
Mar. 5	M/s Verma Bros., Delhi. 80 Reynolds Pen @ ₹ 5 each from				400
Mar.31	<b>Purchases A/c .....Dr.</b>				<b>15,700</b>

**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 2.** Record the following transactions of M/s. Kishore & Sons, Delhi in their Sales Book:

2022, 1 Apr. Sold to M/s. Gupta & Verma, Delhi:

30 shirts @ ₹ 400 each.

20 trousers @ ₹ 600 each.

Less: Trade Discount @ 10%.

5 Apr. Sold old furniture to M/s Sehgal & Co. Delhi for ₹ 8,000.

7 Apr. Sold 50 shirts to M/s Jain & sons, Kanpur @ ₹ 400 each.

15 Apr. Sold M/s Mathur & Jain, Kolkata:

100 shirts @ ₹ 400 each.

10 Overcoats @ ₹ 1,000 each.

Less: Trade Discount @ 10%

**Solution:****Sales Book**

Date	Particulars	Inv.No.	L.F	Details (₹)	Amt. (₹)
2022, 1 Apr.	M/s. Gupta & Verma, Delhi: 30 shirts @ ₹ 400 each. 20 trousers @ ₹ 600 each.			12,000 12,000	
	Less: Trade Discount @ 10%.			24,000 2,400	21,600
7 Apr.	M/s Jain & sons, Kanpur: 50 shirts @ ₹ 400 each.				20,000
15 Apr.	M/s Mathur & Jain, Kolkata: 100 shirts @ ₹ 400 each. 10 Overcoats @ ₹ 1,000 each.			40,000 10,000	
	Less: Trade Discount @ 10%			50,000 5,000	45,000
30 Apr.	<b>Sales A/c .....Cr.</b>				<b>86,600</b>

**Purchases Returns/Returns Outward Book:**

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

**Illustration 2.** Enter the following transaction in the Purchases Return Book of Sh. Girdhari Lal:  
 2022 April 15. Returned goods from Ram Krishan & Sons for ₹ 2,000, allowed Trade Discount @ 10%.  
 April 20. Returned goods to Gopal & Sons for ₹ 5000, as the goods were not as per sample.

**Solution:****Purchase Return Book**

Date	Particulars	Inv.No.	L.F	Details (₹)	Amt. (₹)
2022, April, 15	Ram Krishan & Sons 30 shirts @ ₹ 400 each. Less: Trade Discount @ 10%.			2,000 200	1,800
April, 20	Gopal & Sons				5,000
April, 30	<b>Purchase Return A/c .....Cr.</b>				<b>6,800</b>

**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 4.** Prepare Sales Return Book in the Books of Lal & Co. Delhi from the following transactions:

2022 April 6. Goods returned by Ganga Prashad & Co. Delhi:  
 2 Table Fans @ ₹ 1,000 each.  
 Less: Trade Discount @ 15%.  
 April 12. Prabhat Electricals, Agra returned defective Room cooler ₹ 4,250.

**Solution:****Sales Return Book**

Date	Particulars	Inv.No.	L.F	Details (₹)	Amt. (₹)
2022, April, 15	Ganga Prashad & Co. Delhi: 2 Table Fans @ ₹ 1,000 each. Less: Trade Discount @ 15%.			2,000 300	
				1,800	1,700
April, 12	Prabhat Electricals, Agra				4,250
April, 30	<b>Sales Return A/c .....Dr.</b>				<b>5,950</b>

**Journal Proper or General Journal:**

Journal Proper is used for recording those transactions which cannot be recorded in any of the other subsidiary books.

**Practice Questions:**

Q1. Prepare Sales book from the following transactions of Gama Traders dealing in furniture:-

<b>2020 Jan. 01</b>	Sold to M/s Girja Furniture House, Dehradun: 100 Chairs @ ₹ 1,500 per Chair 40 Tables @ ₹ 2,000 per Table Less: Trade Discount @ 5%
<b>Jan. 15</b>	Sold to M/s Baljeet Singh & Sons, Agra: 150 Desks @ ₹ 1,000 per Desk 160 Chairs @ ₹ 1,500 per Chair Less: Trade Discount @ 5%
<b>Jan. 17</b>	Sold to M/s Ideal Furniture House, Darjeeling for cash: 10 Almirah @ ₹ 5,000 per Almirah.
<b>Jan. 20</b>	Sold to M/s Singhania Furniture House, Mathura: 10 Sofa sets @ ₹ 75,000 per Sofa set 5 Almirah @ ₹ 3,000 per Almirah. 25 Round Tables @ ₹ 4,000 per Round table. Less: Trade Discount @ 10%

Q2. Prepare Purchase Book & Sales Book from the following transactions:

<b>2022 1<sup>st</sup> April</b>	Bought from M/s Jai Dutt, Chennai, on Credit: 250 Copies of Economics @ ₹ 100 each 100 Copies of Accountancy of T.S Grewal @ ₹ 70. Less: 10% Trade discount.
<b>5<sup>th</sup> April</b>	Sold to Chand Bros, Delhi: 50 Copies of English @ ₹ 200 each. 45 Copies of Hindi @ ₹ 50 each.
<b>10<sup>th</sup> April</b>	Mohit Co. Mumbai, Purchased from us: 400 Copies of Accountancy @ ₹ 150. 250 Copies of Business Studies @ ₹ 90 each. Less: 5% Trade Discount.
<b>12<sup>th</sup> April</b>	Purchased from M/s Shri Ram & Sons, Chandigarh in cash: 2 Computers of @ ₹ 20,000 each.
<b>24<sup>th</sup> April</b>	Mahindra Singh & Sons, Meerut sold to us: 70 Copies of Economics @ ₹ 110 each. 85 Copies of Computer Science @ ₹ 100 each.

## Ch - 12: Accounting of Goods and Services Tax (GST)

### **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. 9%, 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 ratios (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 along with CGST.

Integrated GST (IGST) is levied on interstate supply (i.e. sales outside the state) and the entire amount will go to Central Government. Suppose, a dealer of Gujarat Sell Goods of Worth Rs.10,000

to a dealer of Maharashtra and IGST rate is 18%, the Rs. 1800 will be charged as IGST by the Seller and the whole amount will go to Central Government.

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

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

<b>put IGST paid</b>	<b>Input CGST paid</b>	<b>Input SGST paid</b>
↓↓	↓↓	↓↓
Set off against	Set off against	Set off against
Output IGST	Output IGST	Output IGST
Output CGST	Output IGST	Output IGST
Output SGST	Output IGST	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)	<b>For Purchase of Goods:</b> Purchase A/c           Dr. Input CGST A/c       Dr. Input SGST A/c       Dr. To Creditors/Bank A/c
(ii)	<b>For Sale of Goods:</b> Debtors/Bank A/c   Dr. To Sales A/c To output CGST A/c To output SGST A/c
(ii)	<b>For payment of expense:</b> Expense A/c           Dr. Input CGST A/c       Dr. Input SGST           Dr. To Bank A/c
(iv)	<b>For distributing goods as free samples:</b> Advertisement A/c   Dr. To Purchases A/c To Input CGST A/c To Input SGST A/c
(v)	<b>For Purchase returns:</b> Creditor's A/c       Dr. To purchase returns A/c To Input CGST A/c To Input SGST A/c
(vi)	<b>For Sales Returns:</b> Sales Return A/c     Dr. Output CGST A/c     Dr. Output SGST         Dr. To Debtor's A/c





4.	Computer printer A/c      Dr.	10,000	
	Input CGST A/c      Dr.	500	
	Input SGST A/c      Dr.	500	
	To Bank A/c		11,000
	(Being Computer printer purchased)		
5.	Postal charges A/c      Dr.	1,000	
	Input CGST A/c      Dr.	50	
	Input SGST A/c      Dr.	50	
	To Bank A/c		1,100
	(Being Postal charges paid)		

## Ch - 13: Bank Reconciliation Statement

### **Definition:**

- Bank Reconciliation Statement (BRS) is a statement that is prepared by a firm to reconcile the balances as per cash book prepared by the firm and the balances as per pass book recorded by the bank.
- The need for bank reconciliation statements arise from the fact that manytimes there is a difference in both the balances.

### **Causes of Differences in Balance:**

The differences in balances in Cash Book and Pass Book may arise due to:

- a. Difference in timings for recording the transaction
- b. Errors made by bank or firm while recording the transaction.

### **Difference in timings for recording the transaction**

There may be a difference in balance caused by the timings gap both for payment as well as for receipts. Some of the factors responsible for these gaps are:

- a. Cheques issued by banks not yet presented for payments.
- b. Cheques paid into the bank but not yet collected.
- c. Direct debits made by the bank on behalf of the customer.
- d. Amounts directly deposited in the bank account.
- e. Interest and dividends collected by the bank.
- f. Direct payments made by the bank on behalf of the customers.
- g. Cheques deposited/bills discounted dishonoured.

**Errors made by bank or firm while recording the transaction** Sometimes there may be an error while recording a transaction that can result in a difference in balances. Such errors can be made both by banks or firms, hence they are of two types:

#### **a. Errors committed by firm:**

- (i) Wrong amount debited or credited in the cash book.
- (ii) Omission of any transaction.
- (iii) Error in totalling or balancing the bank column of the Cash book.

#### **b. Errors committed by bank:**

- (i) Wrong amount debited or credited in the pass book.
- (ii) Omission of any transaction.
- (iii) Error in totaling or balancing the bank column of the Pass book.

### **Benefits of Bank Reconciliation Statement:**

- (a) Helps in tracking errors.
- (b) Helps terminate the risks of fraud.
- (c) Helps in tracking transaction status periodically.
- (d) Helps in achieving accurate balance.

### **Preparation of Bank Reconciliation Statement:**

- A BRS is prepared by taking either the balance of Pass book or Cash Book as a starting

point.

- Bank records all the deposits in the credit and withdrawals in the debit side of the Pass book.
- Tally the debit side of the cash book and the credit side of the pass book and vice-versa and note the point of differences.

### **Method for preparing Bank Reconciliation Statement:**

The format for preparing BRS is given below:

There can be an alternative format for preparing BRS with one column showing additions and another showing deductions:

Particulars	Amt. (+)	Amt. (-)
<b>Balance as per Cash Book</b>		
Items Credit in Pass Book but not recorded in Cash Book.	.....	
Items credit in Cash Book but not recorded in Pass Book.	.....	
Items debit in Cash Book but not recorded in Pass Book.		.....
Item debit in Pass Book but not recorded in Cash Book.		.....
<b>Balance as per the Pass Book</b>		.....

### **Points to remember:**

- If the BRS starts with Balance as per Cash Book it will give the Balance as per Pass Book at the end and vice-versa.
- The Debit balance as per Cash book or Credit balance as per Pass Book is written on the positive side. It denotes that the deposits of the firm are more than the withdrawals and is considered to be a favorable situation.
- The Credit balance as per Cash book or Debit Balance as per Pass Book is written on the negative side. It denotes that the deposits of the firm are less than the withdrawals and is considered to be an unfavorable situation or overdraft balance.
- The main concept behind adjustments is when the balance in a cash book is getting unnecessarily deducted (i.e., items credited in cash book not recorded in pass book or items credited in pass books not recorded in Cash Book) we increase the balance in Cash Book so we add in it.
- When the balance in the cash book is getting over-amounted (i.e., items debited in Pass book are not recorded in cash book, or items debited in Cash book are not recorded in Pass Book) we reduce the amount hence we subtract those items

### **Items which increase the Pass Book Balance or decrease the Cash Book Balance:**

- (a) Cheques issued but not yet presented.
- (b) Credits made by the bank for interests.
- (c) Amount directly deposited by the customers directly into the bank account.
- (d) Interest and dividend collected by the bank.
- (e) Cheques paid into the bank but omitted to be recorded in the Cash – Book

### **Items which decrease 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 or bills discounted in 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.

**Illustration 1.** From the following information, prepare Bank Reconciliation Statement as on 31<sup>st</sup> March, 2022:

- (i) Debit Balance of Bank Column as per Cash Book as on 31<sup>st</sup> March, 2022 ₹ 24,000.
- (ii) Balance (Credit) as per Bank Statement as on that date ₹ 33,000.
- (iii) Out of The total cheques issued of ₹ 14,000, cheques of ₹ 8,000 were debited on 5<sup>th</sup> April, 2022 and the remaining have not been presented yet.
- (iv) Cheques deposited of ₹ 7,000 were credited on 4<sup>th</sup> April, 2022.
- (v) Bank had debited ₹ 200 as bank charges and had collected ₹ 400 as interest on investment.
- (vi) A cheque issued to Mehta Ltd. for ₹ 6,800 was recorded in the Cash Book as ₹ 8,600.

**Solution:**

**Bank Reconciliation Statement as on 31<sup>st</sup> March, 2022**

Particulars	Plus Items (₹)	Minus Items (₹)
<b>Balance as per Cass Book (Dr.)</b>	24,000	
Cheques issued but not yet presented for payment.	14,000	
Cheques deposited but not yet credited.		7,000
Interest allowed by the bank.	400	
Bank charges charged by bank.		200
Cheques paid for ₹ 6,800 wrongly entered in Cash Book as ₹ 8,600	1,800	
<b>Balance as per Bank Statement (Cr.) (₹40,200 - ₹ 7,200)</b>		<b>33,000</b>
	<b>40,200</b>	<b>40,200</b>

*Alternatively, Bank Reconciliation Statement may be presented as follows:*

Particulars	Amt. Details (₹)	Amt. (₹)
<b>Balance as per Cash Book (Dr.)</b>		24,000
<b>Add:</b> Cheque issued but not yet presented for payment.	14,000	
Interest credited by Bank but not recorded in Cash Book.	400	
Cheque paid to Mehta Ltd. for ₹ 6,800 wrongly entered in the Cash Book as ₹ 8,600.	1,800	
		16,200
		40,200
<b>Less:</b> Cheques deposited but not yet credited.	7,000	
Bank charges charged by bank but not recorded in Cash Book.	200	
		7,200
<b>Balance as per Bank Statement (Cr.)</b>		<b>33,000</b>

**Illustration 2.** From the following particulars prepare Bank reconciliation statement of Arun Ltd. as on 31<sup>st</sup> March, 2021:

- (a) Balance as per Pass Book was ₹ 14,000.
- (b) Bank collected a cheque of ₹ 500 on behalf of Arun Ltd. but forgot to record it in the Pass Book.
- (c) Bank deposits a cash deposit of ₹ 2,589 as ₹ 2,598.
- (d) The payment of a cheque of ₹ 700 was recorded twice in the Pass Book.
- (e) Dividend collected by bank ₹ 450.
- (f) Bank charges ₹ 250 debited by the bank.

**Solution:****In the books of Arun Ltd****Bank Reconciliation Statement as on 31<sup>st</sup> March, 2021**

Particulars	Amt. Details(₹)	Amt. (₹)
<b>Balance as per Pass Book</b>		14,000
<b>Add:</b> Cheque omitted to be recorded	500	
Cheque recorded twice	700	
Bank charges debited by bank	250	1,450
		15,450
<b>Less:</b> Excess Credit for Cash Deposit	9	
Dividend collected by bank	450	459
<b>Balance as per the Cash book</b>		<b>14,991</b>

**Explanation:**

1. We start with Balance as per Pass Book as the starting point to arrive at Cash Book Balance.
2. When the bank collected the cheque on behalf of Arun Ltd. and omitted to record it in the pass book the balance is undercasted and hence it should be added so as to tally it with the cash balance.
3. Bank recorded an error of ₹ 9 in excess and hence it must be brought down. Therefore, it should be subtracted.
4. When the payment is recorded twice it will reduce the balance of the passbook with a twice amount (₹1400) but the balance in the cash book is reduced only once (₹ 700) and hence it must be added back.
5. Dividend collected by the bank will increase the balance in the Pass book but the Cash book balance is unchanged and hence it is deducted.
6. Bank charges paid by the bank will reduce the pass book balance and hence it must be added back to reconcile it with the Cash book.

**Practice Questions:**

**Q1.** Prepare a Bank Reconciliation Statement of Mahindra Ltd. as on 31 March, 2020 from the following information:

- a) Credit Balance (Overdraft) as per Cash Book ₹ 25,000.
- b) A Cheque of ₹ 3,500 issued to a Creditor, was entered by mistake in the Cash Column.
- c) Cheques paid into bank for collection ₹ 60,000 but cheques of ₹ 24,000, could only be collected in March, 2020.
- d) A bill receivable for ₹ 8,000 previously discounted with the bank had been dishonoured and bank charges debited in the Pass Book amount to ₹ 125.
- e) In the Cash Book, a bank charge of ₹ 150 was recorded twice while another bank charge of ₹ 40 was not recorded at all.
- f) A Cheque of ₹ 10,000 issued on 22<sup>nd</sup> March was not presented for payment whereas it was recorded twice in the Cash Book.

**Q2.** From the following particulars prepare a Bank Reconciliation Statement in the books of Sh. Kamalkant as on 30<sup>th</sup> June 2020.

- a) Balance as per Pass Book on 30<sup>th</sup> June, 2020 ₹ 6,000.
- b) Out of the total cheques amounting to ₹ 12,000 deposited, cheques aggregating ₹ 7,500 were credited in June 2020, Cheques aggregating ₹ 2,000 were credited in July 2020 & the rest have not been collected at all.

- c) Out of total cheques amounting to ₹ 37,500 drawn by Sh. Kamalkant, cheques aggregating ₹ 5,000 were encashed in June, 2020 cheques aggregating ₹ 4,000 were encashed in July 2020 and rest have not been presented at all.
- d) Amount wrongly debited by bank ₹ 2,400.
- e) Bank has charged ₹ 27 as its commission for collecting outstation cheques and has allowed interest ₹ 330 on his bank balance.
- f) A cheque of ₹ 13,300 paid into the bank was returned dishonoured but no intimation was received from the bank till June 2020.
- g) A cheque of ₹ 1,200 was entered in the Cash Book in June 2020, but was sent to the Bank in July 2020.

**Q3.** From the following particulars, prepare a Bank Reconciliation Statement as on 31<sup>st</sup> December, 2021:

- i) Debit balance as per the Cash Book ₹ 20,000.
- ii) A cheque for ₹ 590 deposited in the bank has been dishonoured.
- iii) Payment side of the Cash Book has been undercast by ₹ 400.
- iv) A cheque for ₹ 1,000 in favour of Karan has not been presented for payment.
- v) A bill for Rs 1,400 retired by bank under rebate of ₹ 40, the full amount of the bill was credited in the Cash Book.
- vi) A bill receivable for ₹ 2,000 (Discounted with the bank in November 2021) dishonoured on 31<sup>st</sup> December, 2021.
- vii) A sum of ₹ 800 deposited in the bank has been credited as ₹ 80 in the Pass Book.

## Ch - 14: Trial Balance

### Meaning of Trial Balance:

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.

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

### **Preparation : Steps (Only Balance Method)**

1. Ledger A/c's 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 show no balance i.e. whose Debit and Credit totals are equal are not entered in Trial Balance.
4. Then the two sides of the Trial Balance are totalled. If they are equal it is assumed that there is no arithmetical error in the posting and balancing of Ledger A/c's.

### **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/c's.
- Helps in the preparation of Final A/c's.

**Illustration 1:-** Prepare a Trail balance as on 31<sup>st</sup> March, 2022 from the following Ledger balances of Simple Bros.:

	(₹)
Computer A/c .....	2,46,000
Capital A/c	2,50,000
Debtor A/c	20,000
Creditors A/c .....	22,000
Purchases A/c	35,000
Sales A/c	53,000
Return Outwards A/c .....	500
Bills Payable A/c	4,000
Bills Receivable A/c	8,000
Bank Overdraft A/c .....	6,000
Cash in Hand A/c	1,000
Opening Stock A/c	7,500
Salaries A/c .....	15,000
Rent A/c	3,000

**Solution:-**

### **Trial Balance as on 31<sup>st</sup> March, 2022**

Heads of Accounts	L.F	Dr. Balance (₹)	Cr. Balance (₹)
Computer A/c		2,46,000	---
Capital A/c		---	2,50,000
Debtor A/c		20,000	---
Creditors A/c		---	22,000
Purchases A/c		35,000	---
Sales A/c		---	53,000
Return Outwards A/c		---	500

Bills Payable A/c		---	4,000
Bills Receivable A/c		8,000	---
Bank Overdraft A/c		---	6,000
Cash in Hand A/c		1,000	---
Opening Stock A/c		7,500	---
Salaries A/c		15,000	---
Rent A/c		3,000	---
		<b>3,35,500</b>	<b>3,35,500</b>

**Practice Question:**

**Q.** Following balances were extracted from the books of Sh. P. Paul on 31<sup>st</sup> March, 2013. You are required to prepare a Trial Balance:

	(₹)		(₹)
Opening Stock	2,05,200	Debtors	90,000
Return Outward	96,000	Carriage Outwards	30,000
Salaries	72,000	Capital	3,31,200
Creditors	1,68,000	Machinery	1,08,000
Bank	2,70,000	Return Inward	18,000
Carriage Inwards	36,000	Discount Received	24,000
Rent Received	18,000	Trade Expenses	36,000
Discount Allowed	12,000	Sales	8,40,000
Purchases	6,00,000	Building	60,000
Bills Payable	1,20,000		



## Ch - 15: Depreciation

### **Meaning:**

Depreciation is a decline in the book value of depreciable assets due to wear and tear, constant use and expiry of time during the estimated useful life of the asset.

### **Causes of Depreciation**

1. By constant use.
2. By the expiry of time.
3. By accident.
4. By depletion.
5. By permanent fall in the market price.

### **Importance/need of providing depreciation:-**

- For ascertaining the true profit or loss.
- For providing a true and fair view of the financial position.
- To ascertain the accurate cost of the product.
- To provide funds for the replacement of assets.
- For avoiding overpayment of income tax.

### **Factors determining the amount of Depreciation:-**

1. The total cost of the asset.
2. The estimated useful life of assets.
3. Estimated scrap value.

### **Methods of providing or allocating depreciation:-**

1. Straight-line method
2. Written down value method
3. Annuity method
4. Depreciation fund method
5. Insurance policy method
6. Revaluation method
7. Depletion method
8. Machine hour rate method.

### **Straight Line Method:-**

Depreciation is charged at a fixed percentage on the original cost of the asset.

The amount of depreciation remains equal from year to year and as such the method is also known as the 'Equal instalment method'.

### **(Accounting treatment)**

Following entries are passed in this method:-

#### **1. Entry for Purchase of Asset:-**

Asset A/c  
    To Bank A/c

#### **2. Entry for providing Depreciation at the end of each year:-**

Depreciation A/c  
    To Asset A/c

#### **3. Entry for the amount realized on the Sale of Asset:-**

Bank A/c  
    To Asset A/c

#### **4. Entry in case of Loss on Sale of Asset:-**

Profit /loss A/c

To Asset A/c

## 5. Entry in case of Profit on the Sale of Asset:-

Asset A/c

To Profit and Loss A/c

## Let's practice with a question:-

**Q1.** On 1<sup>st</sup> April 2009, Ram glass limited purchased a machine for ₹ 90,000 and spent ₹ 6,000 on its carriage and ₹ 4,000 on its erection. On the date of purchase, it was estimated that the effective life of the machine will be 10 years and after 10 years its scrap value will be ₹ 20,000.

**Prepare Machine A/c and depreciation A/c for 4 years after providing depreciation on the fixed installment method. Accounts are closed on 31<sup>st</sup> March every year.**

Ans: Dr.			Machine A/c		Cr.
Date	Particulars	Amt. (₹)	Date	Particulars	Amt. (₹)
2009, Apr. 1	To bank A/c	90,000	2010, Mar. 31	By depreciation A/c (8% on 1,00,000)	8,000
Apr. 1	To bank A/c (expenses)	6,000			92,000
Apr. 1	To bank A/c (expenses)	4,000	Mar. 31	By balance c/d	
		<b>1,00,000</b>			<b>1,00,000</b>
2010 Apr. 1	To balance b/d	92,000	2011, Mar. 31	By depreciation A/c (8% on 1,00,000)	8,000
			Mar. 31	By balance c/d	84,000
		<b>92,000</b>			<b>92,000</b>
2011, Apr. 1	To balance b/d	84,000	2012, Mar. 31	By depreciation A/c (8% on 1,00,000)	8,000
			Mar. 31	By balance c/d	76,000
		<b>84,000</b>			<b>84,000</b>
2012, Apr. 1	To balance b/d	76,000	2013, Mar. 31	By depreciation A/c (8% on 1,00,000)	8,000
			Mar. 31	By balance c/d	68,000
		<b>76,000</b>			<b>76,000</b>
2013, Apr. 1	To balance b/d	68,000			

Dr.			Depreciation A/c		Cr.
Date	Particulars	Amt. (₹)	Date	Particulars	Amt. (₹)
2009, Apr. 1	To bank A/c	8,000	2010, Mar. 31	By depreciation (10% on Rs.10,000)	1,000
Apr. 1	To bank A/c (expenses)	2,000	Mar. 31	By balance c/d	9,000
		<b>10,000</b>			<b>10,000</b>
2010, Apr. 1	To balance b/d	9,000	2011, Mar. 31	By depreciation (10% on Rs.9,000)	900
			Mar. 31	By balance c/d	8,100
		<b>9,000</b>			<b>9,000</b>
2011, Apr. 1	To balance b/d	8,100	2012, Mar. 31	By depreciation (10% on Rs.8,100)	810
			Mar. 31	By balance c/d	7,290
		<b>8,100</b>			<b>8,100</b>
2012, Apr. 1	To balance b/d	7,290	2013, Mar. 31	By depreciation (10% on Rs.7,290)	729
			Mar. 31	By balance c/d	6,561
		<b>7,290</b>			<b>7,290</b>
2013, Apr. 1	To balance b/d	<b>6,561</b>			

**Working note:-**

As the rate of depreciation is not given in the question, the amount of the annual depreciation will be arrived at as under:

$$\text{Annual depreciation} = \frac{\text{Cost of the asset} \times \text{estimated net residual value}}{\text{No. of years of expected life}} = \frac{1,00,000 - 20,000}{10} = ₹ 8,000$$

$$\text{Rate of depreciation} = \frac{\text{Amount of Depreciation}}{\text{Total Cost of Asset}} \times 100 = \frac{8,000}{1,00,000} \times 100 = 8\% \text{ p.a.}$$

**Written Down Value Method:**

Under this method, the value of assets goes on diminishing year after year, the amount of depreciation charged every year also goes on declining.

For example, if a machine is purchased for ₹ 20,000 and depreciation is to be charged at 10% p.a. according to written down value method the depreciation will be charged as:

- 1<sup>st</sup> year  
10% of ₹ 20,000 = ₹ 2,000
  - 2<sup>nd</sup> year  
₹ 20,000 - ₹ 2,000 = ₹ 18,000  
10% of ₹ 18,000 = ₹ 1,800
  - 3<sup>rd</sup> year  
₹ 18,000 - ₹ 1,800 = ₹ 16,200  
10% of ₹ 16,200 = ₹ 1,620
- And so on...

**Let's practice with a question:-**

Q1. Tesla traders purchased a machine on April 1, 2019, at a cost of ₹ 8,000 and spent ₹ 2,000 on its installation. The firm writes off depreciation @ 10% p.a. by a written down value method. The scrap value of the plant at the end of its economic life of 4 years is expected to be ₹ 6,561.

Show the machine account for 4 years in the books of Tesla traders. The books are closed on 31 March every year.

**Ans: Dr.**

**Machine A/c**

**Cr.**

Date	Particulars	Amt. (₹)	Date	Particulars	Amt. (₹)
2009, Apr. 1	To Bank A/c	8,000	2010, Mar. 31	By Depreciation (10% on Rs. 10,000)	1,000
Apr. 1	To Bank A/c (expenses)	2,000	Mar. 31	By Balance c/d	9,000
		<b>10,000</b>			<b>10,000</b>
2010, Apr. 1	To Balance b/d	9,000	2011, Mar. 31	By depreciation (10% on Rs. 9,000)	900
			Mar. 31	By Balance c/d	8,100
		<b>9,000</b>			<b>9,000</b>
2011, Apr. 1	To Balance b/d	8,100	2012, Mar. 31	By Depreciation (10% on Rs. 8,100)	810
			Mar. 31	By Balance c/d	7,290
		<b>8,100</b>			<b>8,100</b>
2012, Apr. 1	To Balance b/d	7,290	2013, Mar. 31	By Depreciation (10% on Rs. 7,290)	729
			Mar. 31	By Balance c/d	6,561
		<b>7,290</b>			<b>7,290</b>
2013, Apr. 1	To Balance b/d	<b>6,561</b>			

### Difference between the Straight line method and Written down value method.

Basis	Straight line method	Written down value method
<b>1. Amount of Depreciation</b>	Equal depreciation charged every year.	Depreciation goes on decreasing year after year.
<b>2. Basis of calculation of depreciation.</b>	Depreciation is charged on the original cost of the asset.	Depreciation is charged on the reducing balance of the asset.
<b>3. Zero levels.</b>	The book value of the asset can be reduced to zero.	The book value of the asset can never be reduced to zero.
<b>4. Approval of Income tax authorities.</b>	This method is not approved by income tax authorities.	This method is approved by income tax authorities.

### Methods of recording depreciation:-

- **First Method:-** By charging to an asset account.
- **Second Method:-** By creating provision for depreciation accounts.

### Let's practice with a question:-

XYZ Ltd. Purchased on April 1, 2008, a Second-hand Plant for ₹ 4,00,000 and immediately spent ₹ 80,000 for its overhauling and ₹ 20,000 for its instalment. On 1<sup>st</sup> Oct, 2011 the Plant became obsolete and was sold for ₹ 2,00,000. Depreciation is provided at 10% p.a. on the original cost method.

Accounts are closed each year on 31<sup>st</sup> March.

**Show necessary ledger accounts assuming that:-**

1. Provision for depreciation account is not maintained, and
2. Provision for depreciation account is maintained.

**Ans:**      **1. When provision for depreciation account is not maintained:-**

Dr.			Plant A/c		Cr.
Date	Particulars	Amt. (₹)	Date	Particulars	Amt. (₹)
2008, Apr.1 Apr.1	To Bank A/c	4,00,000	2009, Mar.31 Mar.31	By DepreciationA/c	50,000
	To Bank A/c(expense )	1,00,000		By Balance c/d	4,50,000
		5,00,000			5,00,000
2009, Apr.1	To Balance b/d	4,50,000	2010, Mar.31 Mar.31	By Depreciation A/c	50,000
				By Balance c/d	4,00,000
		4,50,000			4,50,000
2010. Apr.1	To Balance b/d	4,00,000	2011, Mar.31 Mar.31	By Depreciation A/c	50,000
				By Balance c/d	3,50,000
		4,00,000			4,00,000
2011 Apr.1	To Balance b/d	3,50,000	2011, Oct.1 Oct.1 Oct.1	By Bank A/c	2,00,000
				By Depreciation A/c(6 m)	25,000
				By Statement of P/L(B.F.)	1,25,000
		3,50,000			3,50,000

### 2. Provision for depreciation account is maintained.

Dr.			Plant A/c		Cr.
Date	Particulars	Amt. (₹)	Date	Particulars	Amt. (₹)
2008, Apr. 1	To Bank A/c	4,00,000	2009, Mar. 31	By Balance c/d	5,00,000
Apr. 1	To Bank A/c (expenses)	1,00,000			

		<b>5,00,000</b>			<b>5,00,000</b>
2009, Apr.1	To Balance b/d	<b>5,00,000</b>	2010, Mar.31	By Balance c/d	<b>5,00,000</b>
2010, Apr.1	To Balance b/d	<b>5,00,000</b>	2011, Mar.31	By Balance c/d	<b>5,00,000</b>
2011, Apr.1	To Balance b/d	<b>5,00,000</b>	2011, Oct.1	By Bank A/c	2,00,000
			Oct.1	By Provision for dep.	1,75,000
			Oct.1	By Statement of P/L	1,25,000
		<b>5,00,000</b>			<b>5,00,000</b>

<b>Dr.</b>			<b>Provision for Depreciation A/c</b>			<b>Cr.</b>	
<b>Date</b>	<b>Particulars</b>	<b>Amt. (₹)</b>	<b>Date</b>	<b>Particulars</b>	<b>Amt. (₹)</b>		
2009, Mar.31	To Balance c/d	<b>50,000</b>	2009, Mar.31	By Depreciation A/c	<b>50,000</b>		
2010, Mar.31	To Balance c/d	<b>1,00,000</b>	2009, Apr.1	By Balance b/d	50,000		
			2010, Mar.31	By Depreciation A/c	50,000		
		<b>1,00,000</b>					<b>1,00,000</b>
2011, Mar.31	To Balance c/d	1,50,000	2010, Apr.1	By Balance b/d	1,00,000		
			2011, Mar.31	By Depreciation A/c	50,000		
		<b>1,50,000</b>					<b>1,50,000</b>
2011, Oct.1	To Plant A/c (Transfer to Plant A/c)	1,75,000	2011, Apr.1	By balance b/d	1,50,000		
			Oct.1	By Depreciation A/c	25,000		
		<b>1,75,000</b>					<b>1,75,000</b>

#### **Asset Disposal Account:**

Asset Disposal A/c is opened when an asset (partially or fully) is sold or disposed of 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 a provision for depreciation A/c is maintained or not.

#### **Format of Assets Disposal Account:**

##### **(a) When provision for Depreciation Account is maintained**

<b>Particulars</b>	<b>Amt. (₹)</b>	<b>Particulars</b>	<b>Amt. (₹)</b>
To Asset A/c (Original Value)	—	By Provision for Depreciation A/c	—
To Statement of profile	—	By Bank A/c	—
Loss (if loss)	—	By Statement of profile	—
		Loss (if Profit)	—
	-		-

##### **(b) When provision for Depreciation Account is not maintained**

<b>Particulars</b>	<b>Amt. (₹)</b>	<b>Particulars</b>	<b>Amt. (₹)</b>
To Asset A/c (Original Value-Depreciation)	—	By Bank A/c	—
To Statement of Profile &	—	By Statement of profile	—
Loss (if loss)	—	Loss (if profit)	—
	-		-

### Practice Questions:

**Q1.** Gayatri Ltd. Purchased Machinery for ₹ 80,000 on 1<sup>st</sup> October, 2018. Depreciation is provided @ 10% p.a. on Diminishing Balance Method. On 1<sup>st</sup> January, 2021, one-fourth of Machinery was found unsuitable and disposed-off for ₹ 12,000. On the same date, a new machinery at a cost of ₹ 30,000 was purchased. Write-up the Machinery A/c for 4 years. The Accounts are closed on 31<sup>st</sup> March every year.

**Q2.** The following balances appear in the books of Kartar Ltd. as on 1<sup>st</sup> April 2021:

₹

Machinery Account	10,00,000
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Provision for Depreciation Account	4,50,000
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The machinery was depreciated at 10% p.a. on Fixed Instalment Method-the accounting year being April-March.

On 1<sup>st</sup> October 2021, a machinery which was purchased on 1<sup>st</sup> July 2018 for ₹ 2, 00,000 was sold for ₹ 84,000 and on the same date a fresh machinery was purchased for ₹ 4, 00,000.

Prepare the Machinery A/c and Provision for Depreciation A/c for the year 2021-22.

**Q3.** Dhruv Bros. purchased on 1<sup>st</sup> April, 2017 a second-hand machinery for ₹ 72,000 and spend ₹ 8,000 on its installation.

On 1<sup>st</sup> Oct. in the same year, another machinery costing ₹ 40,000 was purchased. On 1<sup>st</sup> Oct. 2019 machinery bought on 1<sup>st</sup> April, 2017 was sold off for ₹ 24,000 and a fresh machinery was purchased for ₹ 1, 28,000 on the same date. One more machinery was purchased on 1<sup>st</sup> Sept, 2020 for ₹ 2,40,000. Depreciation is provided annually on 31<sup>st</sup> March @ 10% p.a. on the written Down Value Method.

Show Machinery Account for 4 years ending 31<sup>st</sup> March, 2021.

**Q4.** Bhuwan & Company purchased a machinery on 1<sup>st</sup> April, 2018, for ₹ 54,000 and spend ₹ 6,000 on its installation. On 1<sup>st</sup> December, 2019, it purchased another machine for ₹ 30,000.

On 30<sup>th</sup> June, 2020 the first machine purchased on 1<sup>st</sup> April, 2018, is sold for ₹ 36,000 and on the same date it purchased a new machinery for ₹ 80,000.

On 1<sup>st</sup> Dec., 2021, the second machine (purchased on 1<sup>st</sup> Dec, 2019) was also sold off for ₹ 26,000. Depreciation was provided on machinery @ 10% p.a. on Original Cost Method annually on 31<sup>st</sup> March.

Give the Machinery Account for four years.

## Ch - 16: Provisions and Reserves

**Provision:-** Provision can be described as an amount kept aside to cover a known expense/liability in the future. This is the fund that is to be put aside by a company/organisation to cover the anticipated losses in the future.

Example:-

1. Provision for depreciation.
2. Provision for bad debts.
3. Provision for discount on debtors.

### Difference between provision and Reserve:

Basis	Provision	Reserve
1. Meaning	Provisions are created to meet a known liability.	Reserves are created to meet an unknown liability in future.
2. Object	The objective of creating provisions is to provide for depreciation and other specific liabilities.	The objective of creating reserves is to strengthen the financial position of the business.
3. Mode of creation	They are created even if there is insufficient profit.	They are created out of adequate profit only.
4. Investment outside	Provision cannot be invested outside the business.	Reserves can be invested outside the business.

### Types of Reserves:-

**Revenue Reserve:** These reserves come into existence out of profit earned in the course of the day to day business operations.

- General Reserves:- Retained profit of the business for the uncertainties.
- Specific Reserves:- Reserves created for specific purposes.

**Capital reserve:** Capital reserves are created to write off capital losses and to issue fully paid bonuses among the equity shareholders.

Example:-

- Profit on Sale of assets.
- Profit on redemption of the debenture

### Provision for doubtful debts accounting treatment:-

Profit and Loss A/c Dr.

To Provision for doubtful debts

### Example:-

Date	Particulars	L.F	Debit (₹)	Credit (₹)
1.	Sundry debtors		58,000	58,000

### Additional Information:

Bad debts proved bad but not recorded amounted to ₹ 8,000.

Provision is to be maintained at 10% of debtors.

**Ans:**

Date	Particulars	L.F	Debit (₹)	Credit (₹)
1.	Bad debts A/c Dr. To Sundry Debtors A/c (Bad debts written off)		8,000	8,000
2.	Profit and Loss A/c. Dr. To Bad Debts A/c (Bad debts debited to profit and loss A/c)		8,000	8,000
3.	Profit and loss A/c Dr. To Provision for doubtful debtsA/c (Provision for doubt debts created)		5,000	5,000

**Working note:**

**Calculation of Provision for doubtful debts.**

Provision for doubtful debts 10% on debtors,

Debtors = ₹ 58,000- ₹ 8,000= ₹ 50,000

₹ 50,000 x 10/100= ₹ 5,000.



## Ch - 17: Rectification of Errors

### **Rectification of Errors:**

Errors are of two types:

- a. Errors that do not affect the Trial Balance
- b. Errors that affect the Trial Balance.

### **Errors that do not affect the Trial Balance:**

These are those errors that are being committed in two or more accounts so that it doesn't affect the balances in Trial Balance. To rectify this rectifying journal entry is passed.

There are following types of errors that do not affect the Trial Balance:

**(i) Error of Omission:** When the transaction is omitted to be recorded in the books of account. For Example, Goods sold to Mohan were omitted to be recorded in the Sales Book.

**(ii) Compensating errors:** When the net effects of two or more errors result in nil it is referred to as compensating errors. For example, if the purchase account has an excess debit of Rs. 5,000 and the Sales Return Account is undercast by the same amount.

**(iii) Errors of Principle:** If any accounting principle is violated while recording the transaction such errors do not affect the Trial balance. For example, An addition to machinery was wrongly debited to Repairs and Maintenance Account considering as revenue expenditure instead of capital expenditure.

**i. Incorrect account in the original book:** Instead of Babu's account, Shyam account is maintained.

**ii. Posting to the wrong account:** Instead of posting in the purchase account, the transaction is posted in the sales account.

### **Errors that affects the Trial Balance:**

These are those errors that are being committed in one account and they can be rectified by opening The Suspense Account.

There are following errors that affect the Trial Balance:

**(i) Error of Omission:** When entry is not recorded in only one account giving rise to undercasting or overcasting of the account. For example, Credit Sales to Mohan was recorded in the Sales book but was not posted to Mohan's Account.

**(ii) Error of Commission:** When an error is made while adding, subtracting, or totaling the ledger accounts it affects the Trial Balance and is called as Error of commission.

**(iii) Wrong Posting:** There may be a chance that there is a wrong posting of amount or posting the amount on the wrong side in the ledger account. Sometimes the amount posted in the ledger is correct but while posting to the trial balance itself it is posted wrong. In such situations these errors affect the Trial balance.

### **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.

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

Example:

### Trial Balance

S.No.	Trial Dr. Total (Rs.)	Balance (Cr. Total) (Rs.)	Difference (Rs.)	Posted to 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 Debit)	Debit Side of Suspense A/c

### Closing of Suspense A/c

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

### Illustration: 1

**Trial Balance of ABC Ltd. doesn't meet; it showed an excess credit ₹ 20,000. They put the difference to a suspense account. The errors that they located were:**

- (i) Sales return book overcast by ₹ 2,000.
- (ii) Purchases book was undercast by ₹ 1200.
- (iii) In the sales book total of page no. 4 was carried forward to page 5 as ₹ 2,000 instead of ₹ 2,400 and total of page 8 was carried forward to page 9 as ₹ 11,200 instead of ₹ 10,000.
- (iv) Goods returned to Ram ₹ 2,000 were recorded through sales book.
- (v) Credit purchases from M & Co. ₹ 16,000 were recorded through sales books.
- (vi) Credit purchases from S & Co. ₹ 10,000 were recorded through sales books. However, S & Co. were correctly credited.
- (vii) Salary paid ₹ 4,000 was debited to employee's personal account.

### Ans: Rectification entries:

- (i) Sales return book overcast by Rs. 2,000.

Suspense A/c ..... Dr. To Sales Return A/c (Being Sales returns book overcast by ₹ 2,000, now corrected).	2,000	2,000
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- (ii) Purchases book was undercast by ₹ 1,200.

Purchase A/c.....Dr. To Suspense A/c (Being Purchase book undercast by ₹ 1200, now corrected)	1,200	1,200
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- (iii) In the sales book total of page no. 4 was carried forward to page 5 as ₹ 2,000 instead of ₹ 2,400 and total of page 8 was carried forward to page 9 as ₹ 11,200 instead of ₹ 10,000.

Sales A/c.....Dr. To Suspense A/c (Being Error in carry forward of sales book, now corrected)	800	800
---	-----	-----

- (iv) Goods returned to Ram ₹ 2,000 were recorded through sales book.

Sales A/c.....Dr. To Returns Outwards A/c (Being Return Outwards wrongly recorded through sales book, now rectified)	2,000	2,000
--	-------	-------

(v) Credit purchases from M & Co. ₹ 16,000 were recorded through salesbooks.

Purchase A/c..... Dr.	16,000	
Sales A/c .....Dr.	16,000	
To M & Co.'s A/c		32,000
(Being Credit purchases wrongly recorded through sales book, now rectified)		

(vi) Credit purchases from S & Co. ₹ 10,000 were recorded through sales books. However, S & Co. were correctly credited.

Purchase A/c..... Dr.	10,000	
Sales A/c .....Dr.	10,000	
To Suspense A/c		20,000
(Being Credit purchases wrongly recorded through sales book, however suppliers account correctly credited,now rectified)		

(vii) Salary paid ₹ 4,000 was debited to employee's personal account.

Salary A/c..... Dr.	4,000	
To Employees Personal A/c		4,000
(Being Salary paid wrongly debited to employee's personal account, now corrected)		

Dr.			Suspense A/c			Cr.		
Particulars	J.F	Amt. (₹)	Particulars	J.F	Amt. (₹)			
To Difference as per Trial balance		20,000	By Purchases		1,200			
To Sales Returns		2,000	By Sales		800			
			By Purchases		10,000			
			By Sales		10,000			
		22,000			22,000			

### Practice Question:

**Q.** Pass Journal Entries to rectify the following errors:-

1. An amount of ₹ 1,000 is withdrawn by the proprietor for his personal use has been debited to the Trade Expenses Account.
2. A purchase of goods from Ram amounting to ₹ 1,500 has been wrongly passed through Sales Book.
3. Bill for ₹ 820 received from Raju for repairs to Machinery was entered in the Purchase book as ₹ 720.

## Ch - 18: Financial Statements of Sole Proprietorship

### Financial Statements

Financial statement are those statement that show the profitability (Income statement) and the financial position (Balance Sheet) of the business at the end of accounting period.

In the word of John N. Myer “The financial statement provide a summary of the accounts of a business enterprise, the balance sheet reflecting the assets, liabilities and capital as on a certain date and the income statement showing the result of operation during a certain period”

**Financial statements include the following statements:**

1. **Income statement (Trading and Profit and Loss Account)** – prepared to ascertain gross profit/loss and net profit/loss during an accounting period.
2. **Statement of Financial Position (Balance Sheet)** – prepared to ascertain position (assets, liabilities and capital) of an enterprise at a particular point of time.
3. **Schedules and notes forming part of Balance sheet and Income statement** – to give details of various items shown in both the statements.

These two Financial Statements (Income Statement and Statement of Financial Position) are termed as ‘Final Accounts’.

### Objective of Preparing Financial Statements.

1. To present a true and fair view of the financial performance (Profit/Loss) of the business.
2. To present a true and fair view of the financial position (Assets/Liabilities) of the business.

#### (a) Expenditure:

Whenever there is a payment made for other than settling the existing liabilities it is called expenditure. On the basis of the nature of this payment expenditure are classified as:

**1. Capital Expenditure:** These are those non-recurring expenditure benefits of which are extended to more than one accounting year. For example, Expenditure incurred to purchase machinery, the benefits of machinery would definitely extend to more than one accounting year hence this is a capital expenditure. Capital expenditures are shown on the assets side of the Balance Sheet.

**2. Revenue Expenditure:** These are those recurring expenditures that are incurred for smooth conduct of the business benefits of which are extended to only one accounting year. Example, Salary paid to the employees, advertising expenditures, etc. These are shown on the debit side of Trading and Profit and Loss Account.

#### (b) Receipts:

Receipts are the cash inflows that may or may not result in obligation to pay in future. On the basis of this nature, receipts can be classified as:

**1. Capital receipts:** These are that receipt that implies a future obligation to return the money in future. These are those receipts that are irregular and not received in the normal course of business. Example: Sale of machinery, Long- term loan taken, Capital brought in by the owner, etc. These are shown in the balance sheet, either increase in liabilities (Loan taken) or decrease in assets (Sale of Machinery).

**2. Revenue Receipts:** These are receipts that do not imply a future obligation to return the money in future. These are regular receipts that are necessary for operational activities of the business. Example, Rent received, Interest or commission received, etc. These are shown in the credit side of the Trading and Profit and Loss Account.

### **(c) 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.

### **Types of Expenses**

**Direct Expenses:** Those expenses which are incurred on purchasing of goods and for converting the raw materials into the finished goods e.g. Manufacturing wages, Expenses on purchases (including all duties and taxes 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 expenses etc.

**These expenses are shown on the debit side of the Profit and Loss A/c.**

### **Calculation of Gross Profit**

**Gross Profit** = Net Sales – Cost of Goods Sold

**Net Sales** = Total Sales – Sales Return.

**Cost of goods sold** = Opening Stock + Net Purchases + Direct Expenses (Wages, Expenses on Purchases, Carriage inward etc.) – Closing Stock.

**Net Purchases** = Total Purchases – Purchases Return

### **Calculation of Operating Profit**

**Operating profit** = Net sales – Operating cost.

**OR** = Gross Profit – (Office and Administrative Expenses + Selling and distribution exp.)

**Operating Cost** = Cost of Goods Sold + Office and Administrative Expenses + Selling and distribution exp. **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.

### **1. Trading and Profit and Loss Account:**

It is the income statement that depicts the profit earned or the loss incurred at the end of the current accounting year. The net of revenue and expenditure is profit or loss.

### **Items come under Trading Account:**

#### **Items on the debit side:**

1. **Opening Stock:** It is the stock of goods that are in hand at the beginning of the year and is being carried forward from the previous year.
2. **Net Purchases:** Goods which are purchased during the year both cash and credit purchases less goods returned to the suppliers known as Purchase Returns gives Net Purchases.
3. **Wages:** These are direct wages paid to the factory workers as remuneration.

- 4. Carriage Inwards/ Freight inwards:** These are the transportation costs that are incurred for bringing items to the place of purchase.
- 5. Fuel/Water/Power/Gas:** These are those expenses that are incurred while production of goods.
- 6. Packaging Materials and packing charges:** These form part of direct expenses for packing and packaging expenses of goods to be sold.

**Items on the Credit Side:**

- 1. Net Sales:** It refers to the total sales made during the year both cash and credit sales less the Sales returns i.e., the goods returned by the customers.
- 2. Other Incomes:** Incomes in the form of Interest received, Commission received, rent received comes under the credit side of the Profit and Loss Account.
- 3. Closing Stock:** It is the stock of goods that are in hand at the end of the year and is being carried forward to the upcoming year.

**Format of Trading Account:**

**Name of Business Firm**

**Trading Account**

Particulars	Amt.(₹)	Particulars	Amt.(₹)
To Opening Stock		By Sales	
To Purchases		Less: Returns Inward/Sales Returns	
Less: Purchases Returns/Returns outwards		By Scrap sales	
To All Direct Expenses		By Closing Stock	
To Wages		By Gross Loss transferred to Profit & Loss A/c) (Balance figure)	
To Wages & Salaries			
To Carriage of Carriage Inwards or Carriage on purchases			
To Direct Expenses			
To Gas, Fuel and power			
To Freight, Octroi and cartage			
To Manufacturing Expenses or Productive expenses			
To Custom or import duty			
To Dock and clearing charge			
To Excise duty			
To Factory rent and lighting			
To other direct charges			
To Royalty			
To Gross Profit transferred to Profit & Loss A/c)(Balance figure)			

**Items come under Profit and Loss Account:-**

- 1. Salaries:** These are the remuneration paid to administrative, office or godown staff for their services in the business.
- 2. Rent Paid:** It is the expense of Rent for office, administration building, municipal taxes paid for running the business.
- 3. Interest Paid:** It is the interest component paid on liabilities, i.e., Interest on loans/debentures, etc.

- 4. Commission Paid:** It is the commission paid to sales agents that are an expense and are debited to Profit and Loss Account.
- 5. Repairs:** These include the revenue expenditure made on maintenance and repairs of fixed assets.
- 6. Miscellaneous Expenses:** Some petty or sundry expenses that are so small that cannot come under one head are clubbed together and are written as miscellaneous expenses.
- 7. Depreciation:** It refers to decrease in the value of asset on account of wear and tear and passage of time. It is treated as expense and debited to profit and loss account and in the balance sheet deducted from asset value.
- 8. Provision for bad debts:** It's not possible for the business to know the actual amount of bad debts; hence we make a reasonable estimate for the loss and provide the loss. It is known as provision for bad debts.

**Formal of Profit & Loss Account Profit & Loss A/c for the Year Ended.....**

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Gross Loss (Transferred from Trading A/c)		By Gross Profit (Transferred from Trading A/c)	
<b>To Office &amp; Admin. Expenses</b>		By Rent Received	
To Salaries		By Rent (Cr.)	
To Rent Rates Taxes		By Discount Received	
To Printing and Stationery		By Discount (Cr.)	
To Salaries & Wages		By Rebates	
To Postages and Telephones		By Commission Received	
To Office Lighting		By Interest Received	
To Insurance Premium		By Dividend Received	
To Legal Expenses		By Bad Debts Recovered	
To Establishment Expenses		By Apprentice fees or premium	
To Audit Fees		By Gain on Sale of Fixed Asset	
To Trade Expenses		By Miscellaneous Receipts	
To Travelling Expenses		By Net Loss (If Dr. side > Cr. side)	
To General Expenses		(Transferred to capital Account)	
<b>To Selling &amp; Distribution Exp.</b>		By Gross Profit (Transferred from Trading A/c)	
To Carriage and Freight Outwards		By Rent Received	
To Commission		By Rent (Cr.)	
To Brokerage		By Discount Received	
To Advertisement		By Discount (Cr.)	
To Publicity		By Rebates	
To Bad Debts		By Commission Received	
To Export Duty		By Interest Received	
To Packing Expenses		By Dividend Received	
To Salaries of Salesman		By Bad Debts Recovered	
To Delivery Van Expenses		By Apprentice fees or premium	
<b>To Financial Exp.</b>		By Gain on Sale of Fixed Asset	
To Interest paid on loans		By Miscellaneous Receipts	
To Interest (Dr.)			
To Discounts (Dr.)			
To Rebate Allowed			
To Bank Charges			
<b>To Miscellaneous Exp.</b>			
To Repairs			
To Depreciation on Fixed Assets		By Net Loss (If Dr. side > Cr. side)	
To Conveyance Expenses		(Transferred to capital Account)	
To Entertainment Expenses			
To Donations & Charity			
To Loss on Sale of Fixed Assets			



To Stable Expenses To Loss by Fire To Loss by theft To Unproductive Expenses  To Net Profit Transferred to Capital Account (If Cr. side > Dr, side)			

- The words 'To' and 'By' are generally not used these days.
- The name of Business Firm is stated on the top of trading & P & L A/c.

### **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.

#### **Items comes under Balance Sheet:**

- 1. Current Assets:** These are those assets that can be liquefied in cash easily i.e., they can be converted to cash within one year. For ex- Debtor, Bills receivables, Cash, Bank etc.
- 2. Current Liabilities:** These are those liabilities that are paid within a period of one year. Such as Creditors, Bills payable, outstanding expenses etc.
- 3. Fixed Assets:** These are those long-term assets that are not easily liquefied into cash and are kept in business for a longer period of time like, plant and Machinery.
- 4. Intangible Assets:** These are those assets that are not tangible in nature i.e., they cannot be seen or touched like goodwill, trademark, etc.
- 5. Investments:** These are the investments made in the securities of government or other businesses. They are generally represented at Cost price.
- 6. Long-term liabilities:** These are those liabilities that are payable after one year such as long-term bank loan, long-term debentures.
- 7. Capitals:** It is the amount brought in by the owner. It is the difference of liabilities due to outsiders from assets.
- 8. Drawings:** These are the amounts withdrawn by the proprietor or the owner for personal use that reduce the amount of capital.
- 9. Closing Stock:** It is the stock of goods that are in hand at the end of the year and is being carried forward to the upcoming year.

### **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	Amt. (₹)	Assets	Amt. (₹)
<b>Current Liabilities:</b> Bank Overdraft Bills Payable Sundry Creditors Outstanding Expenses Income received-in-advance <b>Long-term Liabilities:</b> Long term loan <b>Reserve and Surplus</b> <b>Capital:</b> Add : Interest on Capital Add : Net Profit Less : Drawings Less : Interest on Drawings Less : Income Tax Less : Life Insurance Premium Less : Net Loss		<b>Current Assets:</b> Cash-in hand Cash at Bank Bills Receivable Short Term Investment Sundry Debtors Prepaid Expenses Accrued Income Closing Stock <b>Investment: (Long term)</b> <b>Fixed Assets:</b> Furniture and Fixtures Plant & Machinery Building Land Goodwill	

**Order of Permanence:** This order is exactly reverse of the liquidity order

1. The assets are arranged in the order of their permanence 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 the order of permanence.

A general format of a Balance Sheet in the order of performance is shown below:

**Balance Sheet of .....As at.....**

Liabilities	Amt. (₹)	Assets	Amt. (₹)
<b>Capital:</b> Opening Balance   XX Add: Net Profit    XX (Less: Net Loss) Less: Drawings    XX <b>Long-term Liabilities:</b> Long term loan <b>Current liabilities:</b> Income received-in-advance Outstanding Expenses Sundry Creditors Bills Payable Bank Overdraft		<b>Fixed Assets:</b> Good will Land Building Plant & Machinery Furniture & Fixtures Investment: (long term) <b>Current Assets:</b> Closing stock Accrued income Prepaid expenses Sundry Debtors Bills Receivable Cash at Bank Cash in Hand	

**Illustration: 1**

From the following information prepare Trading and Profit and Loss Account and Balance Sheet for the year ended 31<sup>st</sup> March, 2021.

Heads of Accounts	Amt. (₹)	Heads of Accounts	Amt. (₹)
Capital	7,20,000	Salaries	1,20,000
Machinery	1,40,000	General Expenses	40,000
Sales	16,40,000	Rent	1,00,000
Purchases	8,00,000	Purchases Return	10,000
Sales Return	20,000	Debtors	6,00,000
Opening Stock	2,00,000	Cash	80,000
Drawings	80,000	Carriage Outwards	40,000
Wages	2,00,000	Advertising	40,000
Carriage Inwards	10,000	Creditors	1,00,000

Closing Stock was valued at ₹ 4, 00,000.

**Solution:**

**Dr.      Trading and Profit and Loss Account for the year ended 31<sup>st</sup> March, 2021      Cr.**

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Opening Stock	2,00,000	By Closing Stock	4,00,000
To Purchases                      8,00,000		By Sales                      16,40,000	
Less: Purchase Returns <u>(10,000)</u>	7,90,000	Less: Sales Return <u>20,000</u>	16,20,000
To Wages	2,00,000		
To Carriage Inwards	10,000		
To Gross Profit c/d	8,20,000		
	<b>20,20,000</b>		<b>20,20,000</b>
To Salaries	1,20,000	By Gross Profit b/d	8,20,000
To General Expenses	40,000		
To Rent	1,00,000		
To Carriage outwards	40,000		
To Advertising	40,000		
To Net Profit (trf. to capital A/c)	4,80,000		
	<b>8,20,000</b>		<b>8,20,000</b>

**Balance Sheet as t 31<sup>st</sup> March, 2021**

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Capital                      7,20,000		Fixed Assets:	
Less: Drawings        (80,000)		Machinery	1,40,000
Add: Net Profit <u>4,80,000</u>	11,20,000	Current Assets:	
Current Liabilities:		Debtors	6,00,000
Creditors	1,00,000	Cash	80,000
		Closing Stock	4,00,000
	<b>12,20,000</b>		<b>12,20,000</b>

**Practice Questions:****Q1.** Calculate Closing Stock from the following details:

Opening Stock ₹ 40,000; Cash Sales ₹ 1, 20,000; Credit Sales ₹ 80,000;

Purchase ₹ 1, 40,000; Carriage Outward ₹ 20,000. Rate of Gross Profit on cost  $33\frac{1}{3}\%$ .**Q2.** Calculate Opening Stock from the following details:

Cash Sales ₹ 40,000; Credit Sales ₹ 1,65,000; Purchase ₹ 1,24,000;

Carriage Inward ₹ 8,000; Closing Stock ₹ 36,000; Sales Return (out of Credit Sales)

₹ 5,000; Purchases Return ₹ 4,000. Rate of Gross Profit on Sales 40%.

**Q3.** Prepare the Trading and Profit & Loss account and Balance Sheet of M/s Mohit Traders as on 31<sup>st</sup> March 2021 from the given Trail Balance:

<b>Debit Balances</b>	<b>Amt (₹)</b>	<b>Credit Balances</b>	<b>Amt (₹)</b>
Opening stock	24,000	Sales	4,00,000
Purchases	1,60,000	Return outwards	2,000
Cash in hand	16,000	Capital	1,50,000
Cash at bank	32,000	Sundry creditors	64,000
Return inwards	4,000	Bills payable	20,000
Wages	22,000	Commission received	4,000
Fuel and Power	18,000		
Carriage Inward	6,000		
Insurance	8,000		
Building	1,00,000		
Plant	80,000		
Patents	30,000		
Salaries	28,000		
8% Loan to Mr. Xing (01-12-2020)	12,000		
Drawings	18,000		
Rent	2,000		
Debtors	80,000		
	<b><u>6,40,000</u></b>		<b><u>6,40,000</u></b>

## Ch - 19: Adjustments in Preparation of Financial Statements

### 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.

**1. Closing Stock:** the closing stock represents the cost of unsold goods lying in the stores at the end of the accounting period.

**2. 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.

**3. 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.

**4. 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. .

**5. 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.

**6. 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 and loss account.

This, in effect, amounts to writing-off a portion of the cost of an asset which has been used in the business for the purpose of earning profits.

<b>Closing Stock</b>	Closing Stock A/c To Trading A/c	Dr.	(i) Credit side of Trading A/c. (ii) Show on the assets side of Balance sheet.
<b>Outstanding/Unpaid Expenses</b>	Expenses A/c To Outstanding Expenses A/c	Dr.	(i) Add to the concerned item on the Debit side of Trading/Profit & Loss A/c. (ii) Shown on the liabilities side of Balance sheet.
<b>Prepaid expenses/Unexpired expenses</b>	Prepaid Expenses A/c To Expenses A/c	Dr.	(i) Deduct from the concerned expenses on the debit side of Profit & Loss A/c (ii) Show on the assets side of Balance sheet.
<b>Accrued income/Income due but not received</b>	Accrued Income A/c To Income A/c	Dr.	(i) Add to the concerned income on Credit side of Profit and Loss A/c (ii) Show on the assets side of Balance sheet.
<b>Unearned income/Income received in Advance</b>	Income A/c To Unearned Income A/c	Dr.	(i) Deduct from the concerned income on the credit side of Profit & Loss A/c (ii) Show on the liabilities side of Balance Sheet.

<b>Depreciation</b>	Depreciation A/c To Asset A/c	Dr.	(i) Show on the debit side of Profit Loss A/c (ii) Deduct from the concerned asset in the Balance Sheet.
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**7. 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.

**8. Further Bad Debts:** These Bad debts is a loss that occurred after reparation of Trial Balance. Further bad debts be added in the bad debts already appearing in the Profit and Loss A/c and Debtors would be reduced with the same amount.

**9. 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 know 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.

**10. 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.

<b>To write off bad debts</b>	Bad Debts A/c To Debtors	Dr.	(i) Debit side of P&L A/c. (ii) Deduct from debtors on the assets side of Balance Sheet.
<b>Provision for bad and doubtful debts</b>	Prov. for Doubtful Debts A/c To Debtors A/c	Dr.	(i) Debit side of P & L A/c. (ii) Deduct from debtors on the assets side of Balance Sheet.
<b>Provision for discount on debtors</b>	P & L A/c To Prov. for Discount on Debtors A/c	Dr.	(i) Debit side of P & L A/c. (ii) Deduct from debtors on the assets side of Balance Sheet.

### 11. 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

$$\text{Commission} = \text{Net profit before Commission} \times \frac{\text{Percentage of Commission}}{100}$$

#### 2. Commission on net profits after charging such commission

$$\text{Commission} = \text{Net profit before Commission} \times \frac{\text{Percentage of Commission}}{100 + \text{Percentage of Commission}}$$

<b>Interest on Capital</b>	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.
<b>Interest on drawings</b>	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.
<b>Interest payable on loan (borrowed)</b>	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.
<b>Commission payable to manager</b>	P& L A/c Dr. To Comm. Payable to Manager A/c	(i) Debit side of P & L A/c. (ii) Show on the liabilities side of Balance Sheet.

## 12. 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.

### Abnormal loss of goods by fire, theft, accident, etc.

Adjustment	Treatment in Trading & P & L A/c	Treatment in Balance Sheet
<b>1) Loss of Goods (By accident, Fire, Theft)</b>	1) Loss of ... A/c Dr. To Trading A/c (or) To Purchases A/c	(i) Gross Loss: Deduct from Purchases or show on the credit side of Trading A/c.
<b>If goods were not insured</b>	2) P & L A/c Dr. To Loss by ..... A/c	(ii) Net Loss: Debit side of P&L A/c.
<b>If goods were insured and full claim accepted by insurance company</b>	2) Insurance company A/c Dr. To Loss by ... A/c	(iii) Insurance claim: Assets side of Balance Sheet.
<b>If full claim not accepted by Insurance Company</b>	2) Insurance Company A/c Dr. Profit & Loss A/c Dr. To Loss By .... A/c	
<b>2) Goods taken by the proprietor for his personal use</b>	Drawings A/c Dr. To Purchases A/c	(i) Deduct the amount of goods from the purchases in Trading A/c. (ii) Deduct the amount from the capital on the liabilities side of Balance Sheet.
<b>3) Goods distributed as free samples</b>	Advertising A/c Dr. To Purchases A/c	(i) Deduct the amount of goods from the purchases in Trading A/c. (ii) Show on the debit side of P&LA/c.
<b>4) Goods given as charity</b>	Charity A/c Dr. To Purchases A/c	(i) Deduct the amount from the purchases on the debit side of Trading A/c. (ii) Show on the debit side of P&L A/c.

**Key Points:**

1. **If closing stock** is shown in Trial Balance then it will be shown in balance sheet only. It is assumed that purchases amount already gets adjusted in trial balance.
2. **Salary and wages** will be shown in profit and loss A/c debit side (assuming that salary is prominent) while wages and salary will be shown in trading A/c debit side, (wages are prominent).
3. **Freight, carriage, cartage** will be shown in Dr. side of trading A/c. if inward word attached with these then it also debited to trading A/c, if outward word attached with these item then it will be debited to profit and loss account.
4. Any expenses related to factory are debited to trading account like factory lighting, factory rent if factory word is not given then lighting and rent will be debited to profit and loss account.
5. **Trade expenses** always debited to profit and loss A/c not as name indicate trading A/c.
6. **Packaging material:** Cost of packaging material used in product are direct expenses as it refers to small containers which form part sold, it will debited to trading A/c.
7. **Packing:** the packing refers to the big containers that are used for transporting the goods and regarded as indirect expenses and debited to profit and loss account.
8. **Adjusted purchases** mean the amount of purchases is adjusted by way of adding opening stock and reduced by the amount of closing stock, e.g., purchases ₹ 1,00,000; opening stock ₹ 12,000, closing stock ₹ 8,000. Calculate adjusted purchases.

$$\text{Adjusted Purchases} = \text{Purchases} + \text{Opening stock} - \text{Closing stock}$$

$$= ₹ 1, 00,000 + ₹ 12,000 - ₹ 8,000 = ₹ 1, 04,000.$$

When adjusted purchases is given in trail balance, then there is no need of debiting opening stock and crediting closing stock in trading A/c.

In this case closing stock will be shown in balance sheet only.

**Remember:-**

While preparing Final Accounts 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.

**Illustration: 1**

From the following information prepare Trading and Profit and Loss Account and Balance Sheet for the year ended 31<sup>st</sup> March, 2021.

Heads of Accounts	Amt. (₹)	Heads of Accounts	Amt. (₹)
Capital	7,20,000	Salaries	1,20,000
Machinery	1,40,000	General Expenses	40,000
Sales	16,40,000	Rent	1,00,000
Purchases	8,00,000	Purchases Return	10,000
Sales Return	20,000	Debtors	6,00,000
Opening Stock	2,00,000	Cash	80,000
Drawings	80,000	Carriage Outwards	40,000
Wages	2,00,000	Advertising	40,000
Carriage Inwards	10,000	Creditors	1,00,000

**Adjustments:**

- (a) Closing Stock was valued at ₹ 4, 00,000.
- (b) Outstanding salaries amounting to be ₹ 20,000
- (c) Rent includes prepaid rent of ₹ 30,000.



(d) Bad debts amount to ₹ 50,000.

**Ans:**                **Trading and Profit and Loss Account for the year ended 31<sup>st</sup> March, 2021**

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Opening Stock	2,00,000	By Sales                      16,40,000	
To Purchases                      8,00,000		Less: Sales Return <u>(20,000)</u>	16,20,000
Less: Purchase Returns <u>(10,000)</u>	7,90,000	By Closing Stock	4,00,000
 To Wages	2,00,000		
To Carriage Inwards	10,000		
To Gross Profit c/d	8,20,000		
	<b>20,20,000</b>		<b>20,20,000</b>
To Salaries                      1,20,000		By Gross Profit b/d	8,20,000
Add: Outstanding Salary <u>(20,000)</u>	1,40,000		
To General Expenses	40,000		
To Rent                              1,00,000			
Less: Prepaid Rent <u>(30,000)</u>	70,000		
To Carriage outwards	40,000		
To Advertising	40,000		
To Bad Debts	50,000		
To Net Profit (trf to Capital A/c)	4,40,000		
	<b>8,20,000</b>		<b>8,20,000</b>

**Balance Sheet as at 31<sup>st</sup> March, 2021**

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Capital                              7,20,000		<b>Fixed Assets:</b>	
Less: Drawings                  (80,000)		Machinery	1,40,000
Add: Net Profit <u>4,40,000</u>	10,80,000	<b>Current Assets:</b>	
<b>Current Liabilities:</b>		Debtors (6,00,000-50,000)	5,50,000
Creditor	1,00,000	Cash	80,000
Outstanding Salary	20,000	Closing Stock	4,00,000
		Prepaid rent	30,000
	<b>12,00,000</b>		<b>12,00,000</b>

**Practice Questions:**

**Q1.** Prepare Trading and Profit & Loss Account for the year ended 31<sup>st</sup> March, 2022 and Balance Sheet as at that date from the following Trial Balance.

Heads of Accounts	Dr. (₹)	Cr. (₹)
Capital	---	1,00,000
Cash	15,000	---
Bank Overdraft	---	20,000
Purchases and Sales	1,20,000	1,50,000



Returns	10,000	20,000
Establishment Expenses	22,000	---
Taxes and Insurance	5,000	---
Bad Debts and Bad-debt Provision	5,000	7,000
Debtors and Creditors	50,000	20,000
Commission	---	5,000
Deposits	40,000	---
Opening Stock	30,000	---
Drawings	14,000	---
Furniture	6,000	---
B/R and B/P	<u>30,000</u>	<u>25,000</u>
	<b><u>3,47,000</u></b>	<b><u>3,47,000</u></b>

### Adjustments:

1. Salaries ₹ 1,000 and taxes ₹ 2,000 are outstanding but insurance ₹ 500 is prepaid.
2. Commission ₹ 1,000 is received in Advance for next year.
3. Interest ₹ 2,100 is to be received on Deposits & Interest on Bank Overdraft ₹ 3,000 is to be paid.
4. Bad-debts provision is to be maintained at ₹ 10,000 on Debtors.
5. Depreciate furniture by 10%.
6. Stock on 31<sup>st</sup> March, 2022 was valued at ₹ 45,000.

**Q2.** Prepare Trading and Profit & Loss Account for the year ended 31<sup>st</sup> March, 2022 and Balance Sheet as at that date from the following Trial Balance.

Heads of Accounts	Dr. (₹)	Cr. (₹)
Capital	---	50,000
Drawings	10,000	---
Debtors and Creditors	24,000	16,000
6% Loan	---	10,000
Interest on Loan	300	---
Cash	3,000	---
Provision for Bad debt	---	1,000
Wages	6,000	---
Opening Stock	16,700	---
Computer	10,000	---
Bank	7,500	---
Furniture	20,000	---
Carriage Outward	4,500	---
Carriage inward	5,000	---
Salaries	12,000	---
Rent	8,000	---
Bad Debts	600	---
Purchases and Sales	60,000	1,16,000
Returns	2,000	1,000
Advertising	4,500	---
Discount	---	2,600
Insurance Premium	2,000	---
B/R and B/P	10,000	8,000
Commission	---	1,500
	<b><u>2,06,100</u></b>	<b><u>2,06,100</u></b>

**Adjustment:**

- a) Depreciate furniture by 5% and Computer 10%.
- b) Salaries Outstanding by ₹ 1,200.
- c) Insurance Premium is paid for the year ending 30<sup>th</sup> June 2022.
- d) Wages have been paid upto 30<sup>th</sup> June, 2022.
- e) Provision for bad debts is to be maintained at 5% on Debtors. .
- f) Stock on 31<sup>st</sup> March, 2022 was valued at ₹ 19,400.

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