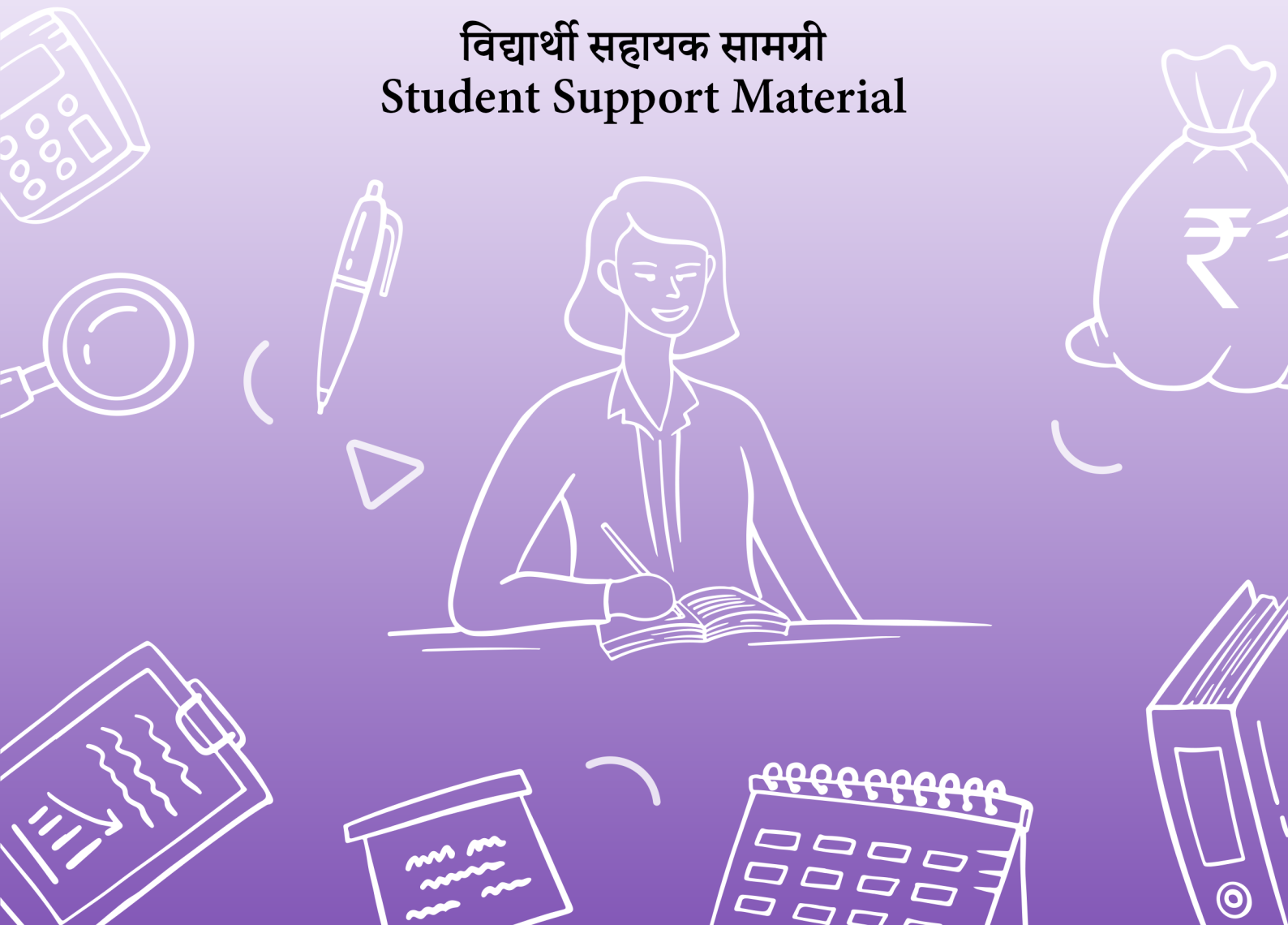




लेखाशास्त्र Accountancy

कक्षा / Class XI
2025-26

विद्यार्थी सहायक सामग्री
Student Support Material



संदेश

विद्यालयी शिक्षा में शैक्षिक उत्कृष्टता प्राप्त करना एवं नवाचार द्वारा उच्च - नवीन मानक स्थापित करना केन्द्रीय विद्यालय संगठन की नियमित कार्यप्रणाली का अविभाज्य अंग है। राष्ट्रीय शिक्षा नीति 2020 एवं पी. एम. श्री विद्यालयों के निर्देशों का पालन करते हुए गतिविधि आधारित पठन-पाठन, अनुभवजन्य शिक्षण एवं कौशल विकास को समाहित कर, अपने विद्यालयों को हमने ज्ञान एवं खोज की अद्भुत प्रयोगशाला बना दिया है। माध्यमिक स्तर तक पहुँच कर हमारे विद्यार्थी सैद्धांतिक समझ के साथ-साथ, रचनात्मक - विशेषणात्मक एवं आलोचनात्मक चिंतन भी विकसित कर लेते हैं। यही कारण है कि वह बोर्ड कक्षाओं के दौरान विभिन्न प्रकार के मूल्यांकनों के लिए सहजता से तैयार रहते हैं। उनकी इस यात्रा में हमारा सतत योगदान एवं सहयोग आवश्यक है - केन्द्रीय विद्यालय संगठन के पाँचों आंचलिक शिक्षा एवं प्रशिक्षण संस्थान द्वारा संकलित यह विद्यार्थी सहायक- सामग्री इसी दिशा में एक आवश्यक कदम है। यह सहायक सामग्री कक्षा 9 से 12 के विद्यार्थियों के लिए सभी महत्वपूर्ण विषयों पर तैयार की गयी है। केन्द्रीय विद्यालय संगठन की विद्यार्थी सहायक- सामग्री अपनी गुणवत्ता एवं परीक्षा संबंधी - सामग्री संकलन की विशेषज्ञता के लिए जानी जाती है और शिक्षा से जुड़े विभिन्न मंचों पर इसकी सराहना होती रही है। मुझे विश्वास है कि यह सहायक सामग्री विद्यार्थियों की सहयोगी बनकर निरंतर मार्गदर्शन करते हुए उन्हें सफलता के लक्ष्य तक पहुँचाएगी।

शुभाकांक्षा सहित ।

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Accountancy (CODE NO – 055)

CLASS–XI (2025-26)

Theory: 80 Marks

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Units	Particulars	Marks
Part A : Financial Accounting-1		
	Unit-1: Theoretical Framework	12
	Unit-2: Accounting Process	44
Part B: Financial Accounting-II		
	Unit-3: Financial Statements of Sole Proprietorship	24
Part C	Project Work (One)	20

Question Paper Design

Accountancy

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Class XI (2025-26)

March 2026 Examination

Marks: 80

Duration: 3 hrs.

S N	Typology of Questions	Marks	Percent age
1	Remembering and Understanding: Exhibit memory of previously learned material by recalling facts, terms, basic concepts, and answers. Demonstrate understanding of facts and ideas by organizing, comparing, translating, interpreting, giving descriptions, and stating main ideas	32	40%
2	Applying: Solve problems to new situations by applying acquired knowledge, facts, techniques and rules in a different way.	24	30%
3	Analysing, Evaluating and Creating: Examine and break information into parts by identifying motives or causes. Make inferences and find evidence to support generalizations. Present and defend opinions by making judgments about information, validity of ideas, or quality of work based on a set of criteria. Compile information together in a different way by combining elements in a new pattern or proposing alternative solutions.	24	30%
	Total	80	100%

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Chapter 1: Introduction to Accounting

What is accounting?

Accounting is the process of recording, classifying, summarizing, and interpreting financial information to help in decision-making.

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:

1. To maintain proper records of business transactions according to specified rules which helps them to minimize the chance of omission and fraud.
2. 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.
3. To ascertain the financial position of business by means of financial statement i.e., Balance sheet.
4. To ascertain the progress of business from year to year and to detect errors and frauds.
5. 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

1. Accounting provides permanent records for all business transactions and provides reliable information to various parties.
2. Accounting provides the Profit and loss of a business for a given period of time.
3. 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.
4. Accounting forms a basis in the process of performance evaluation to improve the performance of employees, divisions, activities, etc.
5. 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 recording 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. Its main purpose is record keeping or maintenance of books of accounts, It should not be confused with accounting. Differences between the two are as follows.

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

Users of Accounting Information:

Internal: Owners, management.

External: Investors, creditors, government, tax authorities.

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.
4. Tax Accounting: This branch is used for tax purposes. Income tax and gst are computed on the basis of this accounting.

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.

Chapter 2: Basic Accounting Terms

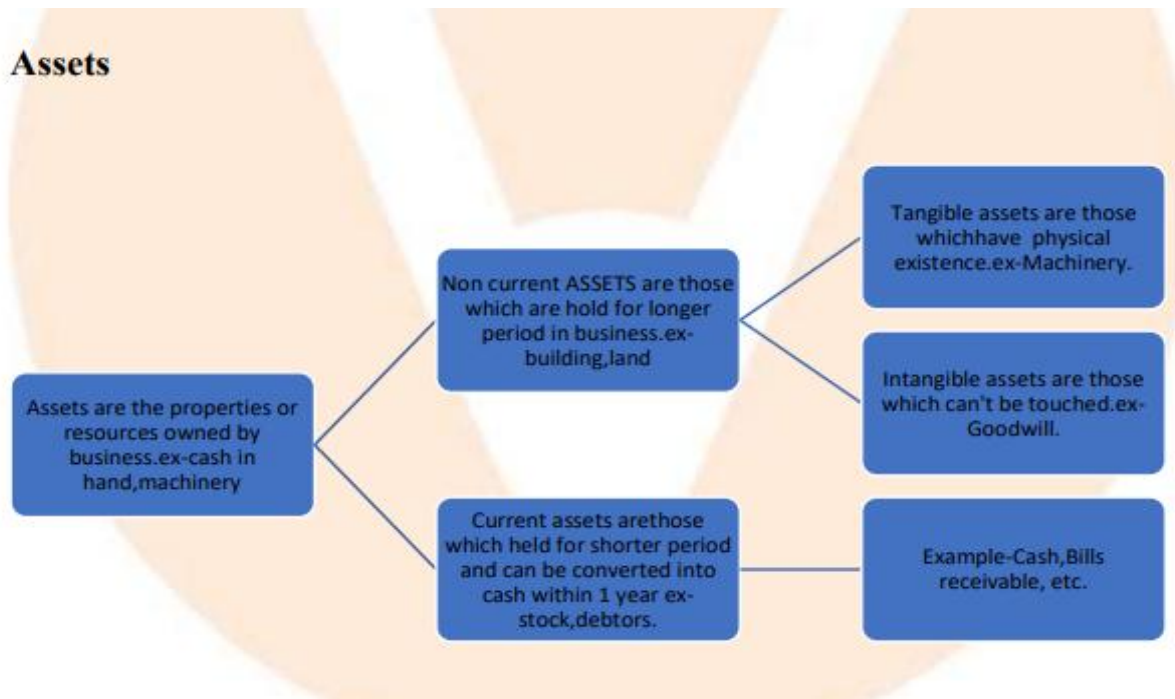
1. **Business Transaction:** A Business transaction is an economic activity of business that changes its financial position.
2. **Account:** It is a record of all business transactions relating to a particular person or item. It is a T Shaped proforma.
3. **Capital:** It refers to the amount invested by the owner in a business. The amount invested could be in the form of cash, goods, etc.
4. **Drawing:** Any cash or goods withdrawn by the owner for personal use made out of business funds are known as drawings.
5. **Profit:** It is the excess of total revenue over total expense of a business. $\text{Profit} = \text{Revenue} - \text{Expenses}$.
6. **Loss:** The excess of expenses over related revenue is known as loss. $\text{Loss} = \text{Expenses} - \text{Revenue}$.
7. **Gain:** It is a monetary benefit resulting from events or transactions which are incidental to business like profit on sale of fixed assets.
8. **Stock:** It includes goods unsold on a particular date.
9. **Purchases:** It refers to the amount of goods bought by business for resale or use in production. It can be of cash or credit.
10. **Purchase return:** When purchased goods are returned to suppliers, it is referred to as purchase return.
11. **Sales:** It means transfer of goods or services for money in the normal course of business.
12. **Sales return:** When customers return the goods sold to them it is known as sales returns.
13. **Debtors:** It refers to those persons whose business has been sold goods on credit and payment has not been received yet.
14. **Creditors:** It refers to those persons whose business buys goods on credit and payment has not been done yet.
15. **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.
16. **Income:** It is the difference between revenue and expense.
17. **Expense:** It is the amount used in order to produce and sell goods and services.
18. **Discount:** It is the rebate given by the seller to the buyer.
It is of 2 types: Cash Discount and Trade Discount.
19. **Cash Discount:** When discount is allowed to customers for making prompt payment. It is always recorded in books of accounts.
20. **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.

21. 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.

Liabilities

Liabilities refers to financial obligations of business.it denote the amount which a business owes to others.ex- Creditors,loan,etc.It is of 2 types;

1. Non current liabilities: It refers to those which fall due for payment in a relatively longer period. For ex- long term loans.
2. Current liabilities: It refers to those which are to be paid in the near future. Ex-Creditors, Outstanding expenses



Expenditure

It involves spending cash or incurring a liability for the purpose of acquiring assets, goods or services. It is of 3 types.

1. Revenue Expenditure: It refers to any expenditure, the full benefit of which is received during one accounting period. ex-salaries, rent.
2. Capital Expenditure: It refers to expenditure, the benefit of which is received during more than one year. Ex- Machinery.
3. 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.

Chapter 3 - Theory Base of Accounting, Accounting Standards and Indian Accounting standards (IND-AS)

Meaning and Nature of Accounting Principles

Meaning of Accounting Principles:

Accounting principles are the standardized rules, concepts, and guidelines that govern the field of accounting. They provide a framework for recording, analyzing, and reporting financial transactions and information in a consistent, understandable, and comparable manner.

These principles are essential to ensure accuracy, transparency, and fairness in financial reporting and to help stakeholders make informed decisions.

Nature of Accounting Principles:

Generally Accepted:

Accounting principles are widely accepted and used by the accounting community and financial institutions, often referred to as GAAP (Generally Accepted Accounting Principles).

Man-Made:

These principles are not natural laws but have been developed over time through experience, logic, and consensus among experts.

Consistent and Uniform:

They ensure consistency in financial reporting across different entities and time periods, which aids comparison and evaluation.

Guided by Concepts:

They are based on foundational concepts such as accrual, matching, conservatism, consistency, and materiality.

Objective and Reliable:

Good accounting principles promote the use of objective, verifiable, and unbiased information.

Helpful in Decision Making:

They ensure that financial information is presented in a manner that helps stakeholders like investors, creditors, and management make sound decisions.

Fundamental Accounting Assumptions or Concepts: Meaning

Fundamental accounting assumptions (also called **basic accounting concepts**) are the underlying principles that form the foundation for preparing financial statements. These are **assumed to be followed** in financial reporting unless stated otherwise. They ensure consistency, reliability, and comparability in accounting practices.

Here are the **three main fundamental accounting assumptions**:

1. Going Concern Assumption

Meaning:

It is assumed that the business will continue to operate for the foreseeable future and will not be liquidated or closed down soon.

Implication:

Assets are recorded at their historical cost, not at liquidation or market value, because it is assumed they will be used over time.

2. Consistency Assumption

Meaning:

The same accounting methods and principles should be applied consistently from one accounting period to the next.

Implication:

It allows meaningful comparison of financial statements across different time periods. If any change is made, it must be disclosed along with its effect.

3. Accrual Assumption

Meaning:

Transactions are recorded when they occur (not when cash is received or paid), and they are reported in the financial statements of the period to which they relate.

Implication: Revenues and expenses are matched to the period in which they are earned or incurred, ensuring accurate profit measurement.

1. Accounting Entity Principle

The Accounting Entity Principle says that a business and its owner(s) are separate entities in the eyes of accounting. Even if a person owns the business, the business's money, property, and transactions must be kept separate from the owner's personal finances.

It helps in clearly measuring the **performance and financial position** of the business, not mixed with the owner's personal wealth.

2. Money Measurement Principle

The Money Measurement Principle says that only things that can be measured in money are recorded in accounting. If something cannot be given a monetary value, it is not recorded in the financial books.

Non-financial items, like employee skill, company reputation, or customer loyalty, **are not recorded** in accounting books.

3. Accounting Period Principle

The **Accounting Period Principle** says that the life of a business is divided into **specific time periods** to record and report financial results. This helps to **track performance regularly** and compare results over time.

4. Full Disclosure Principle

The **Full Disclosure Principle** says that a company must **share all important information** related to its financial statements that can affect the understanding or decisions of users (like investors, creditors, or regulators).

If there's **anything important** that isn't shown directly in the numbers, it should be **explained clearly in the notes** to the financial statements.

5. Materiality Principle

The **Materiality Principle** says that **only important items** (those that can affect decisions) need to be recorded and reported in financial statements.

If something is **too small or insignificant** to matter, you can **ignore or simplify** how it's recorded.

6. Prudence or Conservatism principle

In accounting, the prudence principle, also known as the conservatism principle, means anticipating possible future losses but not future gains. It suggests that when faced with uncertainty, accountants should choose the solution that is least likely to overstate assets and income, and thus avoid understating liabilities and expenses.

This principle ensures financial statements are not overly optimistic, but rather present a more realistic and conservative picture of a company's financial health.

7. Cost Concept of Accounting

The Cost Concept says that assets should be recorded in the books at their original purchase price (historical cost), not at their current market value or resale value.

This means when a business buys something like land, a machine, or furniture it records the amount, it paid for it, including any related costs like transport or installation.

8. Dual Aspect Principle of Accounting

The **Dual Aspect Principle** states that **every business transaction has two effects** one **debit** and one **credit** and both must be recorded in the accounting books.

It is the **core principle of double-entry bookkeeping**, ensuring that the **accounting equation stays balanced**:

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

9. Revenue Recognition Concept

The Revenue Recognition Concept says that revenue should be recorded when it is earned, not when cash is received.

This means a business recognizes income at the time of sale or service delivery, even if the customer pays later.

10. Matching Concept of Accounting

The Matching Concept says that expenses should be recorded in the same accounting period as the revenues they help to earn.

This ensures that the financial statements accurately show the profit or loss for a specific period by matching income with related expenses.

Accounting Standards

Meaning

Accounting Standards are written rules and guidelines issued by recognized authorities (like ICAI in India or IASB Internationally) that tell how financial transactions should be recorded, presented, and disclosed in financial statements.

They ensure that companies follow the same accounting principles, which makes their financial statements comparable, transparent, and reliable.

Nature (Features) of Accounting Standards

1. **Uniformity:** They bring consistency in how accounting is done across different companies.
2. **Reliability:** Financial statements prepared using standards are more accurate and trustworthy.
3. **Comparability:** Helps investors, lenders, and others compare financial reports of different companies easily.
4. **Transparency:** Standards require companies to disclose important information, avoiding hidden facts.
5. **Legal Recognition:** In many countries, following accounting standards is mandatory for companies.

Meaning of Indian Accounting Standards (Ind AS):

Indian Accounting Standards (Ind AS) are a set of accounting principles and standards notified by the **Ministry of Corporate Affairs (MCA), Government of India**, and are **converged with International Financial Reporting Standards (IFRS)**. These standards are meant to bring transparency, consistency, and comparability in the financial statements of Indian companies.

Importance of Indian Accounting Standards (Ind AS):

1. **Global Comparability:** Ind AS being aligned with IFRS helps Indian companies attract foreign investors by making their financials understandable globally.
2. **Transparency and Reliability:** Improves the quality and credibility of financial reporting by providing a clear, consistent framework.
3. **Better Decision-Making:** Investors, regulators, and other stakeholders can make more informed decisions based on standardized and comparable data.
4. **Improved Corporate Governance:** Standardized disclosures and accounting treatments enhance trust and reduce financial manipulation.
5. **Facilitates Mergers and Acquisitions:** Common reporting standards simplify due diligence and valuation processes during cross-border mergers and acquisitions.
6. **Compliance with Legal Requirements:** Following Ind AS ensures companies meet the regulatory requirements set by Indian authorities like SEBI and the Companies Act.

MCQs

1. **Which of the following is not a branch of accounting?**

- a) Financial Accounting
- b) Management Accounting
- c) Social Accounting
- d) Logical Accounting

Answer: d) Logical Accounting

2. **Which accounting assumption assumes that a business will continue for a foreseeable future?**

- a) Money Measurement
- b) Accrual
- c) Going Concern
- d) Matching

Answer: c) Going Concern

3. The concept that a business is separate from its owner is called:

- a) Dual Aspect
- b) Business Entity
- c) Consistency
- d) Realization

Answer: b) Business Entity

4. Which concept requires accounting for all foreseeable losses but not future profits?

- a) Consistency
- b) Materiality
- c) Prudence (Conservatism)
- d) Accrual

Answer: c) Prudence (Conservatism)

5. Which principle states that revenue should be recognized when it is earned, regardless of when it is received?

- a) Matching
- b) Accrual
- c) Conservatism
- d) Money Measurement

Answer: b) Accrual

6. Which concept requires that only items that can be expressed in monetary terms are recorded in the books of accounts?

- a) Dual Aspect
- b) Money Measurement
- c) Matching
- d) Disclosure

Answer: b) Money Measurement

7. The matching concept refers to:

- a) Matching revenues with cash
- b) Matching expenses with liabilities
- c) Matching expenses with revenues of the same period
- d) Matching profits with investments

Answer: c) Matching expenses with revenues of the same period

8. Which accounting standard deals with the disclosure of accounting policies?

- a) AS-2
- b) AS-1
- c) AS-10
- d) AS-6

Answer: b) AS-1

9. Which of the following is not a fundamental accounting assumption?

- a) Going Concern
- b) Consistency
- c) Prudence
- d) Accrual

Answer: c) Prudence

10. Accounting standards in India are issued by:

- a) SEBI
- b) RBI
- c) ICAI
- d) MCA

Answer: c) ICAI

Case based Question:

Bright Vision Pvt. Ltd. is a company that manufactures LED lights. The management prepares its financial statements every year in accordance with recognized accounting standards. The

accountant records only those transactions in the books which can be measured in monetary terms. The company has followed the same method of depreciation for the last five years. During the current financial year, a lawsuit was filed against the company, which may lead to a loss in the future. However, the company has not accounted for the loss because it is not yet confirmed. Based on the above case, answer the following questions:

Questions:

1. **Which accounting concept is followed when only monetary transactions are recorded?**
 - a) Going Concern
 - b) Money Measurement
 - c) Dual Aspect
 - d) Prudence
2. **Which accounting assumption is followed when the company prepares its financial statements annually?**
 - a) Consistency
 - b) Accrual
 - c) Going Concern
 - d) Accounting Period
3. **Which accounting concept is followed when the company uses the same method of depreciation every year?**
 - a) Full Disclosure
 - b) Matching
 - c) Consistency
 - d) Conservatism
4. **Why has the company not accounted for the lawsuit loss yet? Which principle is being applied?**
 - a) Money Measurement
 - b) Prudence
 - c) Going Concern
 - d) Business Entity

Answers:

1. **b) Money Measurement**
2. **d) Accounting Period**
3. **c) Consistency**
4. **b) Prudence**

Theoretical Questions

Q: What are Accounting Standards? Explain their significance in accounting.

Answer:

Meaning of Accounting Standards:

Accounting Standards are **written policy documents** issued by recognized expert accounting bodies such as the **Institute of Chartered Accountants of India (ICAI)**. They provide a framework and set of rules to ensure **uniformity, consistency, transparency, and comparability** in the financial statements of businesses.

They are **mandatory** and must be followed by companies while preparing financial statements.

Significance of Accounting Standards:

1. **Uniformity in Accounting Policies:** Accounting Standards bring consistency by ensuring that all companies follow the **same accounting rules**.
2. **Comparability of Financial Statements:** They make it easier for users (investors, regulators, etc.) to **compare the financial statements** of different companies.
3. **Improved Reliability and Transparency:** By following standards, companies provide **trustworthy and clear information** to stakeholders.

Practice questions

Q1: Explain the following accounting concepts with suitable examples:

a) Business Entity Concept

b) Going Concern Concept

c) Money Measurement Concept

d) Accounting Period Concept

Q2: Which financial statements are prepared under Ind-AS?

Q3: What is the main objectives of setting accounting standards?

Q4: Why it is necessary for accountants to assume that a business entity will remain a going concern?

CHAPTER 4– BASES OF ACCOUNTING

Cash Basis of Accounting is a method of accounting where revenues and expenses are recorded only when cash is actually received or paid.

Under the **cash basis of accounting**, a business:

- Records income when cash is **received**.
- Records expenses when cash is **paid**.

This method is typically used by small businesses and individuals because of its simplicity.

Advantages of Cash Basis Accounting:

1. **Simple to Use:** Easy to understand and implement, especially for small businesses.
2. **Clear Cash Flow Tracking:** Gives a real-time picture of how much cash the business actually has.
3. **Less Record-Keeping:** Fewer entries are needed compared to accrual accounting.
4. **Tax Benefits:** In some jurisdictions, Income is not taxed until received, which can delay tax liabilities.

Disadvantages of Cash Basis Accounting:

1. **Not GAAP-Compliant:** Not accepted under Generally Accepted Accounting Principles (GAAP) for larger businesses.
2. **Incomplete Financial Picture:** Doesn't show liabilities or accounts receivable, which can mislead business performance.
3. **Poor Matching of Income and Expenses:** Revenue and expenses may not be recorded in the same period, leading to distorted profits.
4. **Limited Use:** Often not suitable or allowed for larger companies or those with inventory.

Accrual Basis of Accounting is an accounting method in which revenues and expenses are recorded when they are **earned or incurred**, regardless of when the cash is actually received or paid.

Under the **accrual basis of accounting**, a business:

- Records **income** when it is **earned** (e.g., when a service is provided or goods are delivered), not when payment is received.
- Records **expenses** when they are **incurred**, not when they are paid.

This method provides a more accurate picture of a company's financial position and performance over a period of time.

Advantages of Accrual Basis Accounting:

1. **Accurate Financial Picture:** Reflects actual financial status by including receivables and payables.
2. **Better Matching:** Revenues are matched with related expenses in the same period, improving profitability analysis.
3. **GAAP-Compliant:** Required by Generally Accepted Accounting Principles (GAAP) for most businesses.
4. **Useful for Decision-Making:** Helps stakeholders make informed decisions based on complete financial data.

Disadvantages of Accrual Basis Accounting:

1. **More Complex:** Requires more accounting knowledge and record-keeping than cash basis.
2. **Does Not Reflect Actual Cash Flow:** Can show profits even when there's no cash in hand.
3. **Can Be Costly:** May require professional accounting services, increasing business expenses.
4. **Tax Timing Issues:** Income may be taxed before it is actually received, affecting cash flow.

Difference between Cash Basis and Accrual Basis of Accounting

Basis of Difference	Cash Basis of Accounting	Accrual Basis of Accounting
---------------------	--------------------------	-----------------------------

Basis of Difference	Cash Basis of Accounting	Accrual Basis of Accounting
1. Timing of Income Recording	Recorded when cash is received	Recorded when income is earned
2. Timing of Expense Recording	Recorded when cash is paid	Recorded when expenses are incurred
3. Complexity	Simple and easy to implement	Complex and requires proper accounting knowledge
4. Recognition of Receivables/Payables	Not recognized	Recognized in financial statements
5. Accuracy of Financial Position	May not reflect true financial status	Gives a more accurate financial picture
6. Compliance with Standards	Not GAAP-compliant	GAAP-compliant and accepted globally
7. Suitability	Best for small businesses or individuals	Suitable for large businesses and companies
8. Focus	Focuses on cash flow	Focuses on profitability and performance
9. Tax Implications	Taxes may be delayed until cash is received	Taxes may apply even before cash is received
10. Financial Decision Usefulness	Less useful for long-term decisions	Better suited for strategic planning and analysis

1. Under which basis of accounting are revenues and expenses recorded when they are earned or incurred, regardless of cash flow?

- A. Cash Basis
- B. Accrual Basis
- C. Hybrid Basis
- D. Single Entry System

Answer: B. Accrual Basis

2. Which of the following is not a feature of cash basis of accounting?

- A. Records cash transactions only
- B. Recognizes income when earned
- C. Simple to maintain
- D. Ignores outstanding expenses

Answer: B. Recognizes income when earned

3. Which basis of accounting gives a more accurate picture of financial performance?

- A. Cash Basis
- B. Accrual Basis
- C. Mixed Basis
- D. Single Entry

Answer: B. Accrual Basis

4. Which basis of accounting is accepted under Generally Accepted Accounting Principles (GAAP)?

- A. Cash Basis
- B. Accrual Basis
- C. Hybrid Basis
- D. Manual Basis

Answer: B. Accrual Basis

5. In accrual basis accounting, expenses are recorded when:

- A. Cash is paid
- B. Goods are purchased

- C. Expense is incurred, whether paid or not
D. None of the above

Answer: C. Expense is incurred, whether paid or not

6. Which of the following is best suited for small businesses and individuals?

- A. Accrual Basis
B. Cash Basis
C. Double Entry System
D. Balance Sheet Method

Answer: B. Cash Basis

7. Accrual accounting recognizes:

- A. Only cash transactions
B. Cash and credit transactions
C. Only credit transactions
D. Only revenue, not expenses

Answer: B. Cash and credit transactions

Competency Based questions

Ms. Priya runs a tuition centre. The following information is available for the year ending 31st March 2024:

Particulars	Amount (₹)
Fees received during the year	1,80,000
Fees outstanding at the end of the year	20,000
Fees received in advance for the next year	15,000
Salary paid during the year	60,000
Salary outstanding at the end of the year	10,000
Rent paid (includes ₹5,000 for next year)	25,000

Questions:

- What is the Net Income according to the Cash Basis of Accounting?
- What is the Net Income according to the Accrual Basis of Accounting?

1. Cash Basis of Accounting

Under the **cash basis**, only actual cash receipts and payments are considered.

- **Revenue (Fees received):** ₹1,80,000
- **Less: Expenses Paid**
 - Salary paid: ₹60,000
 - Rent paid: ₹25,000
- **Net Income (Cash Basis) =**
 $₹1,80,000 - ₹60,000 - ₹25,000 = ₹95,000$

2. Accrual Basis of Accounting

Under the **accrual basis**, incomes and expenses are recorded in the period they are earned or incurred, not when cash is received or paid.

Revenues:

- Fees received: ₹1,80,000
 - **Add:** Fees outstanding: ₹20,000
 - **Less:** Fees received in advance: ₹15,000
- Total Revenue = ₹1,80,000 + ₹20,000 – ₹15,000 = ₹1,85,000**

Practice Questions

1. Mr. Raj operates a consultancy firm. The following information is available for the year ending 31st March 2025:

Particulars	Amount (₹)
-------------	------------

Particulars	Amount (₹)
Consultancy fees received during the year	1,50,000
Consultancy fees earned but not received (outstanding)	20,000
Consultancy fees received in advance for next year	10,000
Office rent paid during the year	36,000
Rent outstanding at year-end	4,000
Telephone expenses paid (includes ₹1,000 for next year)	6,000

Questions:

1. Calculate **Net Income under Cash Basis**.
2. Calculate **Net Income under Accrual Basis**.

2. Ravi runs a retail shop and has the following information for the financial year 2024-25:

- Sales made during the year: ₹1,50,000
- Cash received from customers: ₹1,30,000
- Rent paid during the year: ₹24,000
- Salaries paid during the year: ₹36,000

Required:

Calculate the **Net Income under Cash Basis of Accounting**.

3. The following information is available for Arun's business for the year ending 31st March 2025:

- Sales made during the year: ₹3,00,000
- Cash received from customers: ₹2,50,000
- Rent due but not paid at year-end: ₹5,000
- Rent paid for the year: ₹20,000
- Salaries paid during the year: ₹60,000
- Salaries outstanding at year-end: ₹5,000

Required:

1. Calculate the **Net Income under Accrual Basis of Accounting**.
2. Explain the difference in the net income under both bases.

CHAPTER 5 - ACCOUNTING EQUATION

The **accounting equation** is the foundation of double-entry bookkeeping and represents the relationship between a company's assets, liabilities, and equity. The equation is:

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

Why it matters:

It ensures that every financial transaction keeps the books balanced. If a company buys an asset, it must pay for it either by borrowing money (liability) or using the owner's funds (equity).

Process of Preparing the Accounting Equation

Preparing the accounting equation involves analyzing each financial transaction to determine how it affects **assets**, **liabilities**, and **equity**—while keeping the equation balanced:

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

1. Identify the Transaction

- Review the transaction details (e.g., invoice, receipt, bank statement).
- Determine what is being exchanged (e.g., cash, goods, services, loans).

2. Classify the Accounts Involved

- Decide which elements of the equation are affected:
 - Is it an **asset** (e.g., cash, inventory)?
 - A **liability** (e.g., loan, accounts payable)?
 - Or **equity** (e.g., capital, revenue, expenses)?

3. Determine the Increase or Decrease

- Figure out if each affected account increases or decreases.
 - Buying an asset increases **assets**.
 - Taking a loan increases both **assets** (cash) and **liabilities** (loan payable).
 - Paying rent decreases **assets** (cash) and decreases **equity** (expense).

4. Apply the Change to the Equation

- Record the changes in the form of the accounting equation.
- Ensure **Assets = Liabilities + Equity** after the transaction is applied.

5. Repeat for All Transactions

- Continue this process for each transaction in the period.
- Maintain a cumulative update to the accounting equation after each one.

Illustration 1

Find the capital of the business if total assets are ₹1,70,000 and its liabilities are ₹70,000

Solution:

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

$$\text{So, Capital} = \text{Assets} - \text{Liabilities}$$

$$\text{Capital} = ₹1,70,000 - ₹70,000 = ₹1,00,000$$

Illustration 2

X commenced business on 1st April, 2016 with a capital of ₹50,000. On 31st March, 2017, his assets were worth ₹95,000 and liabilities of ₹30,000. Find the capital at the end of the year and profit earned during the year

Solution:

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

$$\text{So, Capital} = \text{Assets} - \text{Liabilities}$$

$$\text{Closing capital} = 95,000 - 30,000 = 65,000$$

$$\text{profit} = \text{Closing capital} - \text{Opening capital}$$

Profit=65,000-50,000=₹ 15,000

Illustration 3

1. Started business with cash ₹1,50,000
2. Purchased goods for cash ₹40,000
3. Purchased goods on credit ₹30,000
4. Sold goods for cash ₹50,000 (Cost ₹30,000)
5. Paid salary ₹5,000

Show the effect on the accounting equation.

Solution:

Transaction	Assets (₹)	Liabilities (₹)	Capital (₹)
1.Started business with cash ₹1,50,000	1. Cash +₹1,50,000	0	+₹1,50,000
2.Purchased goods for cash ₹40,000	2. Cash -₹40,000, Stock +₹40,000	0	No change
3.Purchased goods on credit ₹30,000	3. Stock +₹30,000	Creditors +₹30,000	No change
4. Sold goods for cash ₹50,000 (Cost ₹30,000)	4. Cash +₹50,000, Stock -₹30,000	0	+₹20,000 (profit)
5.Paid salary ₹5,000	5. Cash -₹5,000	0	-₹5,000 (expense)

Illustration 4

1. Started business with ₹2,00,000
2. Bought machinery for ₹50,000
3. Took loan from bank ₹1,00,000
4. Deposited ₹20,000 into bank
5. Bought goods ₹40,000; half in cash, half on credit

Find the accounting equation.

Solution:

Transaction	Assets (₹)	Liabilities (₹)	Capital (₹)
1.Started business with ₹2,00,000	1. Cash +₹2,00,000	0	+₹2,00,000
2.Bought machinery for ₹50,000	2. Cash -₹50,000, Machinery +₹50,000	0	No change
3.Took loan from bank ₹1,00,000	3. Cash +₹1,00,000	Loan +₹1,00,000	No change
4.Deposited ₹20,000 into bank	4. Bank +₹20,000, Cash - ₹20,000	0	No change
5.Bought goods ₹40,000; half in cash, half on credit	5. Stock +₹40,000, Cash - ₹20,000	Creditors +₹20,000	No change

MCQs

1. A business started with ₹1,00,000. Later, goods worth ₹40,000 were purchased on credit. What will be the effect on the accounting equation?

- A. Assets increase ₹40,000, Liabilities increase ₹40,000
- B. Assets decrease ₹40,000, Capital increases ₹40,000
- C. Liabilities decrease ₹40,000, Capital decreases ₹40,000
- D. Assets and Capital increase ₹40,000 each

Correct Answer: A

(Stock increases = Asset; Creditors increase = Liability)

2. If a firm buys furniture worth ₹20,000 for cash, what is the net effect on the accounting equation?

- A. No change
- B. Assets increase ₹20,000
- C. Assets decrease ₹20,000
- D. Capital increases ₹20,000

Correct Answer: A

(Cash decreases and Furniture increases – both are assets – no net effect)

3. Goods worth ₹15,000 (cost) sold for ₹18,000. What is the impact on the accounting equation?

- A. Capital increases by ₹3,000
- B. Assets decrease by ₹15,000
- C. Assets increase by ₹18,000
- D. All of the above

Correct Answer: D

(Stock ↓ ₹15,000, Cash ↑ ₹18,000, Capital ↑ ₹3,000 profit)

4. Owner withdrew ₹10,000 for personal use. What is the effect?

- A. Capital decreases by ₹10,000
- B. Cash decreases, Capital remains unchanged
- C. Liabilities decrease by ₹10,000
- D. No effect

Correct Answer: A

(It is drawings → reduces capital)

5. Rent paid ₹5,000. What happens in the accounting equation?

- A. Asset and liability increase
- B. Asset decreases, Capital decreases
- C. Capital increases
- D. No effect

Correct Answer: B

(Cash decreases → Asset; Rent is an expense → Capital decreases)

1. Assertion (A): The accounting equation remains balanced after every business transaction.

Reason (R): Every transaction affects two or more elements of the accounting equation.

- A. Both A and R are true, and R is the correct explanation of A
- B. Both A and R are true, but R is not the correct explanation of A
- C. A is true, but R is false
- D. A is false, but R is true

Correct Answer: A

(All business transactions follow dual aspect – hence the equation stays balanced.)

2. Assertion (A): Purchase of machinery on credit increases liabilities and decreases assets.

Reason (R): Buying machinery on credit reduces cash and increases creditors.

- A. Both A and R are true, and R is the correct explanation of A
- B. Both A and R are true, but R is not the correct explanation of A
- C. A is false, but R is true
- D. Both A and R are false

Correct Answer: C

(Liabilities increase, but assets also increase. Cash does not reduce. So A is false, R is true.)

3. Assertion (A): Capital increases when income is earned.

Reason (R): Income is an inflow of assets that increases the owner's equity.

- A. Both A and R are true, and R is the correct explanation of A
- B. Both A and R are true, but R is not the correct explanation of A
- C. A is true, but R is false
- D. A is false, but R is true

Correct Answer: A

(Income increases capital, and the reason explains it correctly.)

4. Assertion (A): When the owner brings cash into the business, it is a liability.

Reason (R): Capital is considered a liability of the business toward the owner.

- A. Both A and R are true, and R is the correct explanation of A
- B. Both A and R are true, but R is not the correct explanation of A
- C. A is false, but R is true
- D. Both A and R are false

Correct Answer: C

(Capital is a liability, but bringing cash in is not a "liability" transaction. A is false, R is true.)

5. Assertion (A): Withdrawal of cash by the owner for personal use increases business capital.

Reason (R): Drawings are shown as assets of the business.

- A. Both A and R are true
- B. A is true, R is false
- C. A is false, R is true
- D. Both A and R are false

Correct Answer: D

(Drawings decrease capital and are not shown as assets.)

Practice questions

Question 1

Show the effect of the following transactions on the accounting equation:

1. Commenced business with cash ₹2,00,000
2. Bought machinery for ₹50,000
3. Took a loan from bank ₹1,00,000
4. Bought goods ₹60,000 (50% on credit)
5. Sold goods for ₹40,000 (cost ₹25,000)

Question 2

Show the effect of the following transactions on the accounting equation:

1. Started business with cash ₹1,00,000
2. Purchased goods for cash ₹30,000
3. Bought furniture for ₹10,000
4. Sold goods (costing ₹20,000) for ₹25,000 on credit
5. Paid rent ₹5,000

Question 3

Use the accounting equation to show the effect of the following:

1. Ram started business with cash ₹50,000
2. Purchased goods from Ramesh on credit ₹20,000
3. Deposited ₹10,000 into bank
4. Purchased machinery for ₹15,000
5. Paid Ramesh ₹5,000
6. Withdrew ₹2,000 for personal use

Question 4

Show the effect of the following transactions on the accounting equation:

1. Harsh started business with cash ₹1,00,000
2. Purchased goods for cash ₹30,000
3. Purchased goods from Mohan on credit ₹20,000
4. Sold goods (cost ₹10,000) for ₹15,000 on credit
5. Paid salary ₹5,000

6. Paid ₹10,000 to Mohan
7. Withdrawn cash by Harsh for personal use ₹2,000

Chapter 6

Rules of Debit and Credit

Using Debit and Credit:

As already stated, every transaction involves a give and take aspect. In double entry accounting, every transaction affects and is recorded in at least two accounts. When recording each transaction, the *total amount debited must equal to the total amount credited*. In accounting, the terms — *debit* and *credit* indicate whether the transactions are to be recorded on the left-hand side or right-hand side of the account. In its simplest form, an account looks like the letter T. Because of its shape, this simple form is called a T-account. Notice that the T format has a left side and a right side for recording increases and decreases in the item. This helps in ascertaining the ultimate position of each item at the end of an accounting period.

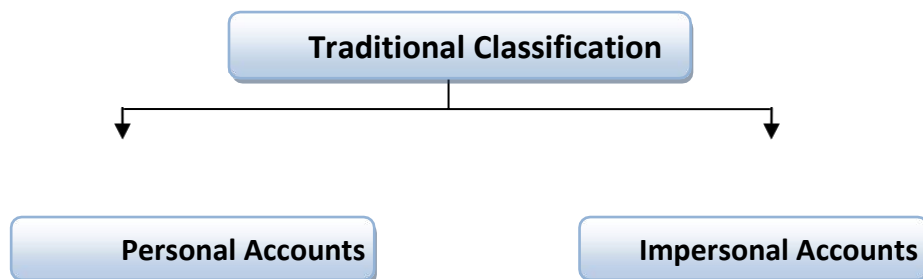
➤ *Rules of Debit and Credit:*

Classification of Accounts:

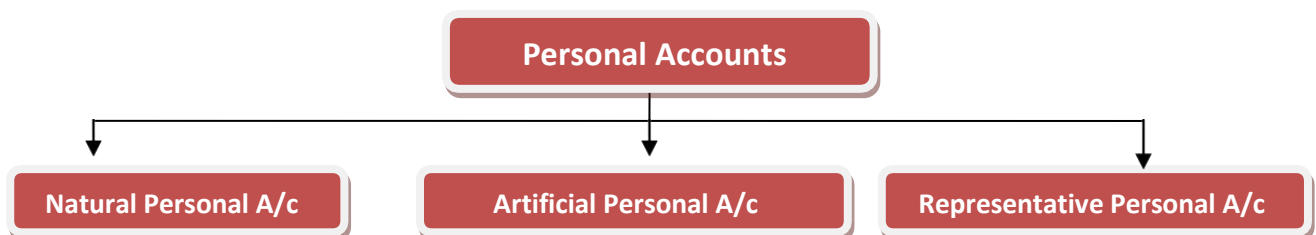
Accounts can be classified in two ways:

(a) Traditional Classification: and (b) Modern Classification.

(a) Traditional Classification:



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 the 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 & gains.

B. Modern Classification:-

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

1. Asset Accounts.

2. Liability Accounts.

3. Capital Accounts.

4. Revenue Accounts.

5. Expense Accounts.

categories.

1. Asset Accounts: Asset accounts 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.

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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

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

Account.

- 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.

- The rules applicable to the different kinds of accounts have been summarised in the following chart:

Rules of Debit and Credit			
Asset		Liabilities	
(Increase) + Debit	(Decrease) - Credit	(Decrease) - Debit	(Increase) + Credit
Capital		Expenses/Losses	
(Decrease) - Debit	(Increase) + Credit	(Increase) + Debit	(Decrease) - Credit
Revenues/Gains			
(Decrease) - Debit	(Increase) + Credit		

Example : On which side will increase in following accounts be recorded? Also, mention the nature of accounts are debited and credited?

1. Cash	2. Creditors	3. Bank loan
4. Stock	6. Salary paid	7. Salary payable
5. Rent received	9. Suman (debtor)	10. Sharan (Customer)
8. Rajan(owner)	12. Sales	13. Interest Payable
11. Purchase	15. Drawings	16. Discount received
14. Accrued Commission		
17. Depreciation		

Solution:

S/No.	Name of the Account	Nature of the A/c	Side in which Increase will be recorded
1.	Cash	Asset	Debit
2.	Creditors	Liability	Credit

3.	Bank loan	Liability	Credit
4.	Stock	Asset	Debit
5.	Rent Received	Income/ Revenue	Credit
6.	Salary Paid	Expenses/ losses	Debit
7.	Salary Payable	Liability	Credit
8.	Rajan (Owner)	Capital	Credit
9.	Suman (Debtor)	Asset	Debit
10.	Sharan (Customer)	Asset	Debit
11.	Purchase	Expenses/ losses	Debit
12.	Sales	Income/ Revenue	Credit
13.	Interest Payable	Liability	Credit
14.	Accrued Commission	Asset	Debit
15.	Drawings	Capital	Credit
16.	Discount received	Income/ Revenue	Credit
17.	Depreciation	Expenses/ losses	Debit

Prepare T shape account of furniture and enter the following transactions

- Furniture purchased Rs.50,000**
- Furniture sold--costing Rs.10,000**
- Furniture purchased |Rs.15,000**
- Old furniture discarded Rs.5,000**
- Depreciation on furniture Rs.3,000**

Solution:

FURNITURE ACCOUNT

1.	Cash- furniture purchase	Rs.50,000	2. Cash - sale of furniture	
	Rs.10,000			
2.	Cash-furniture purchase	Rs.15,000	4. Furniture discarded	
	RS.5,000			
			5.Depreciation	Rs.3,000
			6.Balance	
	Rs.47,000			
		65,000		65,000

Chapter 7

Origin of Transaction: Source documents and Preparation of Vouchers

Course outline:

Units/Topics	Learning Outcomes
<ul style="list-style-type: none"> Voucher and Transactions: Source documents and Vouchers, Preparation of Vouchers, 	<p>After going through this Unit, the students will be able to:</p> <p>Appreciate that on the basis of source documents, accounting vouchers are prepared for recording transaction in the books of accounts.</p>

Chapter at a glance:

Business Transaction: A business transaction is the one showing the happenings in a business on daily basis. It has a two fold effect, affecting at least two accounts.

Source Document: It is a document evidencing business transaction. Different documents are prepared for different transactions.

Types of source documents:

- Cash Memo-**when a businessman sells and purchase goods for cash he gives and received cash memo.
- Invoice or Bill-** when a businessman sells goods on credit he prepares a sale invoice which contain of all detail of transaction.
- Debit Note-**when a businessman returns goods to supplier, he prepares a debit note and sends to the supplier with the returned goods.
- Credit Note-** when goods are received back from a customer a credit note is sent to him that the customer account has been credited in our books.
- Pay in slip-** this is a form available in a bank and is used to deposit money in the bank.

Sample Formats of various source documents

<div style="display: flex; align-items: center; justify-content: space-between;"> <div style="border: 1px solid black; border-radius: 50%; width: 40px; height: 40px; display: flex; align-items: center; justify-content: center; font-weight: bold;">FA</div> <div style="font-size: 24px; font-weight: bold;">CASH MEMO</div> </div>		
Sr. No.	Description	Amount
	TOTAL	

Apex Solutions

No. 26, Opposite Metro Pillar No 195, Rohlak Road, New Delhi 110064

GSTIN: 07PTAFF9867H1Z4

TAX INVOICE

PARTY'S DETAILS

TechGuruPlus

A-55, Sarita Vihar,

New Delhi-110076

GSTIN:

INVOICE NO:	0023/2017-18	DATE	03-10-2014		
S.NO.	DESCRIPTION	HSN CODE	QTY.	RATE	AMOUNT
1	CANOPY CHARGES FOR THE MONTH OF SEPTEMBER ON DAILY BASIS				
Total Amount					-
Add : SGST				14%	-
Add : CGST				14%	-
Grand Total					-
TOTAL AMOUNT					
Rupees : _____ Only					For Apex Solutions
					Authorised Signatory
Computer Generated Invoice					

SAMPLE DEBIT NOTE

CUSTOMER / SUPPLIER NUMBER		INVOICE / CHEQUE REFERENCE	
CUSTOMER / SUPPLIER NAME AND ADDRESS			
SYSTEM REFERENCE NO		BATCH NUMBER	
	AMOUNT (£)	COST CODE	
NET			
VAT			
TOTAL			
REASON ADJUSTMENT REQUIRED			
INPUT BY	INPUT DATE	SYSTEM REFERENCE NUMBER	
SYSTEM: THEIR REFERENCE		SYSTEM: OUR REFERENCE	

Company Name
Address

Credit Note

To

Address

VAT No.
VAT Invoice No.
Credit Note No.
Your Order No.

[illegible]

CASH DEPOSIT SLIP TEMPLATE

Account Number	OR	Credit Card Number	Account Holder's Branch	Date
PAN Number*				
Account Holder's Name				

Bank Name & Branch	Cheque/DD No.	₹	Ps.	Cash Denomination	₹	Ps.
				1000 X		
				500 X		
				100 X		
				50 X		
				20 X		
				10 X		
				X		
	Total			Total		

Total Amount (in Words) Rupees _____ **Tel. No. / Mobile No.** _____

Name of Depositor : _____ **Signature of Depositor** : _____

*For all cash deposits of ₹ 50,000/- and above, the depositor shall provide the PAN number. In case PAN number is not available, the depositor shall provide Form 60/61.
 Note: i) PLEASE USE SEPARATE SLIPS FOR CASH, LOCAL & OUTSTATION CHEQUE(S) ii) PLEASE MENTION YOUR ACCOUNT NO. & NAME ON THE BACK OF THE CHEQUES (S) ALSO
 The depositor understands that cheques not specifically crossed and made 'account payee only' - may lead to fraudulent encashment and that Citibank, N.A., shall not be liable or responsible for any such loss/alleged loss.
 CITIBANK, N.A., (Incorporated with limited liability in the U.S.A.).

Vouchers

Document supporting a business transaction is called a voucher. It is prepared from a source document.

Type of voucher:

1. Cash voucher- Cash voucher are prepared for cash transaction i.e. cash receipt and cash payments. These are of two type

- (i) debit voucher-its prepared for cash payment
- (ii) credit voucher- its prepared for cash receipts.

2. Non –cash voucher/Transfer Voucher-these vouchers are prepared for credit transactions like credit sale and purchase, depreciation, bad debts.

A accounting voucher must contain the following essential elements :

- It is written on a good quality paper;
- Name of the firm must be printed on the top;
- Date of transaction is filled up against the date and not the date of recording of transaction is to be mentioned;
- The number of the voucher is to be in a serial order;
- Name of the account to be debited or credited is mentioned
- Debit and credit amount is to be written in figures against the amount;
- Description of the transaction is to be given account wise;
- The person who prepares the voucher must mention his name along with signature; and
- The name and signature of the authorised person are mentioned on the voucher.

Debit Voucher				
Voucher No : Credit Account : Amount :	Name of Firm : Date :			
Debit Accounts				
S. No.	Code	Account Name	Amount Rs.	Narration (i.e. Explanation)
Authorised By :		Prepared By :		

Credit Voucher				
Voucher No : Debit Account : Amount :	Name of Firm : Date :			
Credit Accounts				
S. No.	Code	Account Name	Amount Rs.	Narration (i.e. Explanation)
Authorised By :		Prepared By :		

Transactions with multiple *debits* and multiple *credits* are called complex transactions and the accounting voucher prepared for such transaction is known as *Complex Voucher/ Journal Voucher*

Journal Voucher				
Voucher No :	Name of Firm : Date :			
Debit Accounts				
S. No.	Code	Account Name	Amount ₹	Narration (i.e. Explanation)
Credit Accounts				
S. No.	Code	Account Name	Amount ₹	Narration (i.e. Explanation)
Authorised By :		Prepared By :		

Question Bank

MCQs/ VSA

Q1. Debit Note is issued for purchased goods returned to

- (a) Debtors
- (b) Creditor**
- (c) Bank
- (d) Customer

Q2. When a customer returns the goods to supplier, which document is sent to him

- (a) An invoice is sent to him
- (b) A Debit Note is sent to him
- (c) A Credit Note is sent to him**
- (d) None of the above.

Q3. Which document is used to deposit money in a bank account?

- (a) Debit Note
- (b) Credit Note
- (c) Pay in slip**
- (d) Accounting voucher

Q4. When a trader sells goods on credit, he prepares-

- (a) Cash memo
- (b) invoice**
- (c) receipts
- (d) debit note

Q5. name the source of document send to supplier when a business return goods;

- (a)debit note**
- (b)credit note
- (c) invoice
- (d) cash memo

Q6 The document which is prepare for the purpose of recording of transaction called:

- (a) Source of documents
- (b) voucher**
- (c) journal
- (d) ledger.

Q7. " It is a form available from a bank and is used to deposit money in the bank and has a counter foil which is returned to the depositor duly stamped and signed by the cashier of the bank

- (a) C redit Note
- (b) Debit Note
- (c) Cheque
- (d) Pay-in-slip**

Q8 Evidence documents to support transaction are:

- (a) Source document**
- (b) Origin document
- (c) Business document
- (d) Resource document

Q9. A document showing a transaction that contains multiple debits and one credit a which contains multiple credits and one debit is called _____

- (a) Debit Voucher
- (b) Credit Voucher
- (c) Compound voucher**
- (d) Transfer voucher

Q10. "Document of correct recording o f a transaction is"

- (a) Source document
- (b) Journal
- (c) Invoice and Bill
- (d) Voucher**

Q11. All of the following stated are vouchers except:

- (a) Debit voucher
- (b) Credit Voucher
- (c) Transfer voucher
- (d) Cheque**

Short Answers

Q1. What do you mean by voucher? Explain any three vouchers.

Ans. A voucher is an accounting record of business transactions that is supported by various Source documents.

Various type of vouchers Debit voucher, Credit voucher transfer voucher ,compound voucher.(Explain any three)

Q2. Give essential elements of an accounting voucher.

Ans. • It is written on a good quality paper;

- Name of the firm must be printed on the top;
- Date of transaction is filled up against the date and not the date of recording of transaction is to be mentioned;
- The number of the voucher is to be in a serial order;
- Name of the account to be debited or credited is mentioned
- Debit and credit amount is to be written in figures against the amount;
- Description of the transaction is to be given account wise;
- The person who prepares the voucher must mention his name along with signature; and
- The name and signature of the authorised person are mentioned on the

Voucher

Q3. Why is the evidence provided by source documents important to accounting?

Ans.

The evidence provided by the source document is important in the following manners:

1. It provides evidence that a transaction has actually occurred.
2. It provides important and relevant information about date, amount, parties involved and other details of a particular transaction.
3. It acts as a proof in the court of law
4. It helps in verifying transactions during the auditing process.

Q4. What are source of documents? Explain its types.

Ans. Source of documents are the first record about the details of a business transaction.

1. **Cash memo**-when a businessman sells and purchase goods for cash he gives and received cash memo.
2. **Invoice or bill**- when a businessman sells goods on credit he prepares a sale invoice which contain of all detail of transaction.
3. **Debit note**-when a businessman returns goods to supplier, he prepares a debit note and sends to the supplier with the returned goods.
4. **Credit note**- when goods are received back from a customer a credit note is sent to him that the customer account has been credited in our books.
5. **Pay in slip**- this is a form available in a bank and is used to deposit money in the bank.

Q5. Name and explain the two types of vouchers.

Ans. Debit voucher (i) credit voucher.

(i) debit voucher-its prepared for cash payment

(ii) credit voucher- its prepared for cash receipts.

Q6. What is debit note.

Ans. When a business return goods to supplier. Business prepare a debit note and send it to the supplier with the return goods.

Long Answers

Q1. Describe the events recorded in accounting systems and the importance of source documents in those systems?

Ans.

It is beyond human capabilities to memorise each financial transaction and that is why, source documents have their own importance in accounting system. They are considered as an evidence of transactions and can be presented in the court of law. Transactions supported by evidence can be verified. Source documents also ensure that transactions recorded in the books are free from personal biases.

A few events that are supported by source document are given below.

1. Sale of goods worth Rs 200 on credit, supported by sales invoice/bill
2. Purchase of goods worth Rs 500 on credit, supported by purchase invoice/bill
3. Cash sales worth Rs 1,000, supported by cash memo
4. Cash purchase of goods worth Rs 400, supported by cash memo
5. Goods worth Rs 100 returned by customer, supported by credit note
6. Return of goods purchased on credit worth Rs 200, supported by debit note
7. Payment worth Rs 1,200 through bank, supported by cheques
8. Deposits into bank worth Rs 500, supported by pay-in slips.

Out of the above events, only those events that can be expressed in monetary terms, are recorded in the books of accounts. However, the non-monetary events are not recorded in accounts; for example, promotion of manager cannot be recorded but increment in salary can be recorded at the time when salary is paid or due.

Source document in accounting is important because of the below given reasons.

1. It provides evidence that transaction has actually occurred.
2. It provides information about the date, amount and parties involved and other details of a particular transactions.
3. It acts as an evidence in the court of law.
4. It helps in verifying the transaction during the auditing process

Q2. Differentiate between source documents and vouchers

Ans.

Basis of Difference	Source Documents	Vouchers
Meaning	It refers to the documents in writing, containing the details of events or transactions.	It is the document evidencing a business record.
Purpose	It is used for preparing accounting vouchers.	It is used for analysing the transactions.
Recording	It acts as a basis for preparing accounting voucher that helps in recording.	It acts as a basis for preparing accounting records.
Preparation	It is prepared at the time when an event or a transaction occurs.	It can be prepared either when transaction occurs, or later on
Legality/Validity	It can be used as evidence in the court of law.	It acts as a basis for recording transactions.
Prepared By	It is prepared by the persons who are directly involved in the transactions, or who are authorised to prepare or approve these documents.	It is prepared by authorised accountants.
Examples	Cash memo, invoice, and pay-in-slip, etc	Cash voucher, credit voucher, transfer voucher etc.

CHAPTER 8 & 9

Journal and Ledger

Course outline:

Units/Topics	Learning Outcomes
<ul style="list-style-type: none"> Recording of Transactions: Books of Original Entry- Journal Ledger: Format, Posting from journal and subsidiary books, Balancing of accounts 	<p>After going through this Unit, the students will be able to:</p> <ul style="list-style-type: none"> Develop the understanding of recording of transactions in journal and the skill of calculating GST. 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.

Chapter at a Glance:

Books of Original Entry: Journal- It is The book in which the transaction is recorded for the first time in the chronological order. This sequence causes the journal to be called the Book of Original Entry.

The process of recording transactions in journal is called journalising.

Format of Journal

Date	Particulars	LF	Debit	Credit

Types of Entries:

- 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.
- 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.
- 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.

Ledger:

The ledger is the principal book of accounting system. It contains different accounts where transactions relating to that account are recorded. The net result of all transactions in respect of a particular account on a given date can be ascertained only from the ledger.

Format of a ledger

Date	Particulars	JF	Amount	Date	Particulars	JF	Amount

Posting from Journal

Posting is the process of transferring the entries from the books of original entry (journal) to the ledger. In other words, posting means grouping of all the transactions in respect to a particular account at one place for meaningful conclusion and to further the accounting process.

Step 1 : Locate in the ledger, the account to be debited as entered in the journal.

Step 2 : Enter the date of transaction in the date column on the debit side.

Step 3 : In the 'Particulars' column write the name of the account through which it has been debited in the journal.

Step 4 : Enter the page number of the journal in the folio column and in the journal write the page number of the ledger on which a particular account appears.

Step 5 : Enter the relevant amount in the amount column on the debit side. Same procedure is followed for making the entry on the credit side of that account to be credited.

Difference between journal and ledger

1. The Journal is the book of *first* entry (original entry); the ledger is the book of *second* entry.
2. The Journal is the book for *chronological* record; the ledger is the book for *analytical* record.
3. The Journal, as a book of source entry, gets greater importance as *legal evidence* than the ledger.
4. *Transaction* is the basis of classification of data within the Journal; *Account* is the basis of classification of data within the ledger.
5. Process of recording in the Journal is called Journalising; the process of recording in the ledger is known as *Posting*.

MCQs/VSAs

Q1. As per double entry system each transaction records:

- (a) **One account debit and one account credit** (b) both credit
(c) both debit (d) only debit

Q2. which book is called as books of original entry;

- (a) **Journal** (b) cash book
(c) subsidiary books (d) all of these

Q3. Name the book in which all account are opened at a separate page:

- (a) Journal (b) **ledger**
(c) cash book (d) subsidiary books

Q4. Ledger is prepared from the:

- (a) Journal (b) cash book
(c) subsidiary books (d) **all of these**

Q5. Goods or cash withdrawn by the proprietor is debited to _____ account.

- (a) Cash (b) Cash or goods
(c) **Drawings** (d) Purchase

Q6. A furniture merchant used 2 chairs for his office use. Here credits to _____ account.

- (a) Furniture A/c (b) **Purchase A/c**
(c) Drawings A/c (d) Asset A/c

Q7. The process of recording a business transaction in the journal is called _____.

- (a) Costing (b) Posting
(c) Balancing (d) **Journalising**

Q8. How many columns are there in a Ledger (on one side) _____.

- (a) Six (b) **Four**
(c) Five (d) Seven

Q9. The journal entry to record the sale of services on credit should include:

- (a) Debit to debtors and credit to capital.
(b) Debit to cash and Credit to debtors.
(c) Debit to fees income and Credit to debtors.
(d) **Debit to debtors and Credit to fees income**

Q10. Find the correct statement:

- (a) **Credit a decrease in assets**
(b) Credit the increase in expenses
(c) Debit the increase in revenue
(d) Credit the decrease in capital

Q11. The process of transferring of items from a journal to their respective ledger accounts is called as-

- (a) Entry
- (b) Arithmetic
- (c) Balancing
- (d) Posting**

Q12. Refer to the left side of the ledger account as.

- (a) Debit side**
- (b) Credit side
- (c) Footing
- (d) Balance

Q13. Why is journal called Books of original entry.

Ans. Because the transaction in this book recorded first of all.

Q14. What is compound entry.

Ans. Some time two or more transaction relating to one particular account take place on the same date. In such cases instead of passing separate entries for all transactions only one entry is passed is called compound entry.

Q15. Main objective of preparing a 'Journal' is :

- (a) To ascertain the financial position of the business
- (b) To journalize the cash transactions
- (c) To make posting in the ledger

(d) To record the business transactions first of all

Q16. Payment of Rs 6,000 as wages to workmen for installation of a machine should be debited to:

- (a) Wages A/c
- (b) Repairs A/c
- (c) Machinery A/c**
- (d) Cash A/c

Q17. Rs 5,000 received from Mohan whose account was written off as bad in the previous year should

be credited to:

- (a) Mohan's A/c
- (b) Bad Debts A/c
- (c) Bad Debts Recovered A/c**
- (d) None of these

Q18. Loss of goods by fire should be credited to:

- (a) Sales A/c
- (b) Loss A/c
- (c) Profit and Loss A/c
- (d) Purchase A/c**

Q19. Paid to Rahul on behalf of Sanjay Rs 12,000 will be debited to:

- (a) Rahul's Personal Account**
- (b) Sanjay's Account
- (c) Drawings Account
- (d) Cash Account

Q20. Dinesh who owed us Rs 8,000 became insolvent and paid us 60% in full settlement. Posting will be made to Dinesh A/c:

- (a) Rs 8,000 on Debit Side
- (b) Rs 8,000 on Credit Side**
- (c) Rs 4,800 on Debit Side
- (d) Rs 4,800 on Credit Side

Short Answers

Q1. Should a transaction be first recorded in a journal or ledger? Why?

Ans. A transaction should be recorded first in a journal because journal provides complete details of a transaction in one entry. Further, a journal forms the basis for posting the transactions into their respective accounts into ledger. Transactions are recorded in journal in chronological order,

i.e. in the order of occurrence with the help of source documents. Journal is also known as 'book of original entry', because with the help of source document, transactions are originally recorded in books.

Q2. Journalise the following transactions

- Rs 1,000 due from Rohit are now bad debts.
- Goods worth Rs 2,000 were used by the proprietor.
- Charge depreciation on machine Rs 30,000.
- Commission paid Rs 50,000.
- Rahul become insolvent, who owed is Rs 2,000 a final dividend of 60 paise in a rupee is received from his estate.
- Withdrew for personal use Rs 10,000

Ans:

Bad Debts a/c	Dr	1,000	
To Rohit a/c			1,000
(Being amount due from Rohit are now bad debts)			
Drawings A/c Dr		2,000	
To Purchases A/c			2,000
(Being goods sold on credit to Swathi)			
Depreciation a/c	Dr	30,000	
To Machinery a/c			30,000
(Being Depreciation on machinery charged)			
Commission A/c	Dr	50,000	
To Cash A/c			50,000
(Being rent paid)			
Cash a/c	Dr	1,200	
Bad debt a/c	Dr	800	
To Rahul a/c			2,000
(Being Cash received from Rahul and bad debt incurred)			
Drawings A/c	Dr	10,000	
To Cash a/c			10,000
(Being cash withdrawn for personal use)			

Q3. Jouranlise the following transactions

- Dec. 07 Purchased goods for cash Rs10, 000
 Dec. 09 Sold goods to Swathi Rs 5,000
 Dec. 12 Purchased furniture Rs 3,000
 Dec. 18 Cash received from Swati in full settlement Rs 4,000
 Dec. 25 Paid rent Rs 1,000
 Dec. 30 Paid salary Rs1, 500

Ans

Purchases a/c	Dr	10,000	
To Cash a/c			10,000
(Being goods purchased for cash)			
Swathi A/c	Dr	5,000	
To Sales A/c			5,000
(Being goods sold on credit to Swathi)			
Furniture a/c	Dr	3,000	
To Cash A/c			3,000

(Being furniture purchased.)

Cash a/c	Dr	4,000	
Discount a/c	Dr	1,000	
To Swathi a/c			5,000
(Being Cash received from Swathi)			
Rent A/c	Dr	1,000	
To Cash A/c			1,000
(Being rent paid)			
Salary a/c	Dr	1,500	
To Cash A/c			1,500
(Being Salary paid)			

Q4. Give journal entries for the following adjustments in final accounts

- (a) Salaries Rs 6,000 outstanding
- (b) Insurance Rs 2,500 is paid in advance
- (c) Commission earned but not received Rs 500.
- (d) Rs 5,000 for rent have been received in advance

Ans.

(a) Salary a/c	Dr	6,000	
To Outstanding salary a/c			6,000
(Being Salary outstanding)			
(b) Prepaid insurance a/c	Dr	2,500	
To Insurance a/c			2,500
(Being insurance pre-paid)			
C) Accrued Commission ac...	Dr	500	
To Commission a/c			500
(Being commission outstanding)			
(d) Rent a/c ...	Dr	5,000	
To Pre received rent a/c			5,000
(Being rent pre paid)			

Long Answers

Q1. Ananth is a trader dealing in textiles. For the following transactions, pass journal entries for the month of January, 2018.

- 1 Commenced business with cash 70,000
- 2 Purchased goods from X and Co. on credit 30,000
- 3 Cash deposited into bank 40,000
- 4 Bought a building from L and Co. on credit 95,000
- 5 Cash withdrawn from bank for office use 5,000
- 6 Cash withdrawn from bank for personal use of Ananthu 4,000
- 7 Towels given as charities 3,000
- 8 Shirts taken over by Ananth for personal use 12,000
- 9 Sarees distributed as free samples 3,000
- 10 Goods (table clothes) used for office use 200

Ans:

In the books of Ananth
Journal entries

Date	Particulars	L.F.	Debit ₹	Credit ₹
2018 Jan. 1	Cash A/c Dr. To Ananth's capital A/c (Commenced business with cash)		70,000	70,000
2	Purchases A/c Dr. To X and Co. A/c (Credit purchases made)		30,000	30,000
3	Bank A/c Dr. To Cash A/c (Cash deposited into bank)		40,000	40,000
4	Buildings A/c Dr. To L and Co. A/c (Building bought on credit)		95,000	95,000
5	Cash A/c Dr. To Bank A/c (Cash withdrawn from bank for office use)		5,000	5,000
6	Drawings A/c Dr. To Bank A/c (Cash withdrawn from bank for personal use)		4,000	4,000
7	Charities A/c Dr. To Purchases A/c (Goods given for charities)		3,000	3,000
8	Drawings A/c Dr. To Purchases A/c (Goods taken over for personal use)		12,000	12,000
9	Sales promotion A/c Dr. To Purchases A/c (Goods distributed as free samples)		3,000	3,000
10	Office expenses A/c Dr. To Purchases A/c (Goods used for office use)		200	200

Q2.

<i>Date</i>	<i>Details</i>	<i>Amt. (₹)</i>
Dec. 01	Business started with cash	1,20,000
Dec. 02	Opened a bank account with ICICI	4,00,00
Dec. 04	Goods purchased for cash	12,000
Dec. 10	Paid cartage	500
Dec. 12	Goods sold on credit to M/s Lara India	25,000
Dec. 14	Cash received from M/s Lara India	10,000

Dec. 16	Goods returned from Lara India	3,000
Dec. 18	Paid trade expenses	700
Dec. 19	Goods purchased on credit from Taranum	32,000
Dec. 20	Cheque received from M/s Lara India for final settlement and deposited same day into bank	11,500
Dec. 22	Goods returned to Taranum	1,500
Dec. 24	Paid for stationery	1,200
Dec. 26	Cheque given to Taranum on account	20,000
Dec. 28	Paid rent by cheque	4,000
Dec. 29	Drew cash for personal use	10,000
Dec. 30	Cash sales	12,000
Dec. 31	Goods sold to M/s Rupak Traders	11,000

ANS:

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2022	Cash A/c Dr.		1,20,000	1,20,000
Dec. 01	To Capital A/c (Business started with cash)			
02	Bank A/c To Cash A/c (Opened a current account with ICICI bank)	Dr.	40,000	40,000
04	Purchases A/c To Cash A/c (Goods purchased for cash)	Dr.	12,000	12,000
10	Cartage A/c Dr. To Cash A/c (Cartage paid)		500	500
12	Lara India A/c Dr. To Sales A/c (Goods sold on credit)		25,000	25,000
14	Cash A/c To Lara India A/c (Cash received from Lara India)	Dr.	10,000	10,000
16	Sales Return A/c To Lara India A/c (Goods returned from Lara India)	Dr.	3,000	3,000
18	Trade Expenses A/c To Cash A/c (Trade expenses paid)	Dr.	700	700
19	Purchases A/c To Taranum's A/c (Goods purchased on credit)	Dr.	32,000	32,000
20	Bank A/c Dr. Discount A/c Dr. To Lara India A/c (Cheque received for final settlement)		11,500 500	12,000
22	Taranum's A/c To Purchase Return's A/c (Goods returned to Taranum)	Dr.	1,500	1,500
24	Stationery A/c	Dr.	1,200	

	To Cash A/c		1,200
	(Cash paid for stationery)		
26	Taranum's A/c	Dr. 20,000	
	To Bank A/c		20,000
	(Cheque given to Taranum)		
28	Rent A/c	Dr. 4,000	
	To Bank A/c		4,000
	(Rent paid by cheque)		
29	Drawings A/c	Dr. 10,000	
	To Cash A/c		10,000
	(Cash withdrawn for personal use)		
30	Cash A/c	Dr. 12,000	
	To Sales A/c		12,000
	(Goods sold for cash)		
31	Rupak Trader A/c	Dr. 11,000	
	To Sales A/c		11,000
	(Goods sold on credit)		

Posting in the Ledger books:

Cash Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2023				2023			
Dec. 01	Capital		1,20,000	Dec. 02	Bank		40,000
Dec. 14	Lara India		10,000	Dec. 04	Purchase		12,000
Dec. 30	Sales		12,000	Dec. 10	Cartage		500
				Dec. 18	Trade		700
					Expenses		
				Dec. 24	Stationery		1,200
				Dec. 29	Drawings		1,000

Capital Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
				2023			
				Dec.01	Cash		1,20,000

Bank Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2023				2023			
Dec.02	Cash		40,000	Dec.26	Taranum's		20,000
Dec.20	Lara India		11,500	Dec.28	Rent		4,000

Purchases Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2023 Dec.04 Dec.19	Cash Taranum		12,000 32,000				

Cartage Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2023 Dec.10	Cash		500				

Lara India Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2023 Dec.12	Sales		25,000	2023 Dec. 14 Dec. 16 Dec. 20	Cash Sales return Bank Discount		10,000 3,000 11,500 500

Sales Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
				2023 Dec.12 Dec.30 Dec.31	Lara India Cash Rupak Traders		25,000 12,000 11,000

Sales Return Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2023 Dec.16	Lara India		3,000				

Trade Expenses Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2023 Dec.18	Cash		700				

Taranum Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2023 Dec.22 Dec.26	Purchase Return Bank		1,500 20,000	2023 Dec.19	Purchase		32,000

Discount Paid Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2023 Dec.20	Lara India		500				

Purchases Return Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
				2023 Dec.22	Taranum		1,500

Stationery Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2023 Dec.	Cash		1,200				

Rent Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2023 Dec. 28	Bank		4,000				

Drawings Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2023 Dec. 29	Cash		10,000				

Rupak Traders Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2023 Dec. 31	Sales		11,000				

Q3. From the following information prepare journal and posting in ledger

July	:	Ramu started business with a capital of 75,000
1st		
1st	:	Purchased goods from Manu on credit 25,000
2nd	:	Sold goods to Sonu 20,000
3rd	:	Purchased goods from Meenu 15,000
4th	:	Sold goods to Tanu for cash 16,000
5th	:	Goods returned to Manu 2,000
6th	:	Bought furniture for 15,000
7th	:	Bought goods from Zenu 12,000
8th	:	Cash paid to Manu 10,000
9th	:	Sold goods to Jane 13,500
10th	:	Goods returned from Sonu 3,000
11th	:	Cash received from Jane 5,500
12th	:	Goods taken by Ramu for domestic use 3,000
13th	:	Returned Goods to Zenu 1,000
14th	:	Cash received from Sonu 12,000
15th	:	Bought machinery for 18,000
16th	:	Sold part of the furniture for 1,000
17th	:	Cash paid for the purchase of bicycle for Ramu's son 1,500
19th	:	Cash sales 15,000
20th	:	Cash purchases 13,500

Ans:

Journal in the books of M/s Rama & Sons for the period from July 1st, _5 to July 31st, _5

Date	V/R No.	Particulars	L/F	Amount (Dr)	Amount (Cr)
July 1st	—	Cash a/c	Dr — —	75,000	
		To Capital a/c			75,000
[Being the amount received from Mr. Ramu, the proprietor as his capital contribution vide receipt no:___ dated:___]					
July 1st	—	Purchase a/c	Dr — —	25,000	
		To Manu a/c			25,000
[Being the value of stock purchased from Mr. Manu vide bill no:___ dated:___]					
July 2nd	—	Sonu a/c	Dr — —	20,000	
		To Sales a/c			20,000
[Being the value of stock sold to Mr.Sonu vide bill no:___ dated:___]					
July 3rd	—	Purchase a/c	Dr — —	15,000	
		To Meenu a/c			15,000

[Being the value of stock purchased from Mr.Meenu on credit vide bill no:___ dated:___]

July	– Cash a/c	Dr	– –	16,000	
4th	To Sales a/c				16,000

[Being the value of stock sold to Mr. Tanu for cash vide receipt no:___ dated:___]

July	– Manu a/c	Dr	– –	2,000	
5th	To Purchase Return a/c				2,000

[Being the value of stock returned to Mr. Manu vide bill no:___ dated:___]

July	– Furniture a/c	Dr	– –	15,000	
6th	To Cash a/c				15,000

[Being the value of furniture purchased from M/s ___vide bill no:___ dated:___]

July	– Purchase a/c	Dr	– –	12,000	
7th	To Zenu a/c				12,000

[Being the value of stock Purchased from Mr. Zenu vide bill no:___ dated:___]

July	– Manu a/c	Dr	– –	10,000	
8th	To Cash a/c				10,000

[Being the amount paid to Mr. Manu vide voucher no:___ dated:___]

July	– Jane a/c	Dr	– –	13,500	
9th	To Sales a/c				13,500

[Being the value of stock Sold to Ms.Zane vide bill no:___ dated:___]

July	– Sales Return a/c	Dr	– –	3,000	
10th	To Sonu a/c				3,000

[Being the value of stock returned from Mr. Sonu vide bill no:___ dated:___]

July	– Cash a/c	Dr	– –	5,500	
11th	To Jane a/c				5,500

[Beging the amount of cash received from Ms. Jane vide cash receipt no.noted]

July	– Drawings a/c	Dr	– –	3,000	
12th	To Purchase a/c				3,000

[Being the amount of stock taken by Ramu for domestic use vide bill no:___ dated:___]

July	– Zenu a/c	Dr	– –	1,000	
13th	To Purchase Return a/c				1,000

[Being the amount of stock returned to Mr. Zenu vide bill no:___ dated:___]

July – Cash a/c Dr – – 12,000
14th To Sonu a/c 12,000

[Being the amount of cash received from Mr. Sonu vide cash receipt no: ___ dated: ___]

July – Machinery a/c Dr – – 18,000
15th To Cash a/c 18,000

[Being the amount paid for machinery purchased to M/s ___ vide voucher no: ___ dated: ___]

July – Cash a/c Dr – 1,000
16th To Furniture a/c – 1,000

[Being the amount received on sale of furniture vide cash receipt no: ___ dated: ___]

July – Drawings a/c Dr – 15,000
17th To Cash a/c – 15,000

[Being the amount of cash paid for bicycle purchases for proprietor's son vide voucher no: ___ dated: ___]

July – Cash a/c Dr – 15,000
19th To Sales a/c – 15,000

[Being the value of stock sold for cash vide receipt no: ___ dated: ___]

July – Purchase a/c Dr – 13,500
20th To Cash a/c – 13,500

[Being the value of stock Purchased for vide voucher no: ___ dated: ___]

Cash A/c

Date	Particulars	JF	Amount	Date	Particulars	JF	Amount
01/7/05	To Capital a/c		75,000	06/07/ 05	By Furniture a/c		15,000
04/07/05	To Sales a/c		16,000	08/07/ 05	By Manu a/c		10,000
11/07/05	To jane a/c		5500	15/07/ 05	By Machinery A/c		18000
14/07/05	To Sonu a/c		12000	17/07/ 05	By Drawings A/c		15000
16/07/05	To Furniture a/c		1000	20/07/ 05	By Purchases a/c		13500
19/07/05	To Sales a/c		15000	31/07/ 05	By Balance c/d		53000
			124500				124500
31/07/05	To Balance b/d		53000				

**Sales
A/c**

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
31/07/05	To Balance c/d		64500	02/07/05	By <u>Sonu a/c</u>		20,000
				04/07/05	By Cash a/c		16,000
				09/07/05	By Jane <u>a/c</u>		13,500
				19/07/05	By Cash a/c		15,000
			64500				64500

Dr				Capital a/c				Cr
Date	Particulars	J/F	Amount		Particulars	J/F	Amount	
31/07/ 5	To Balance c/d		75,000	1/07/ 05	By Cash a/c		75,000	
			75,000				75,000	

Purchases A/c

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
1/07/ 05	To <u>Manu a/c</u>		25,000	12/07/ 05	By <u>Drawings a/c</u>		3,000
3/07/ 05	To <u>Meenu a/c</u>		15,000	31/07/05	By Balance C/d		62500
7/07/ 05	To <u>Zenu a/c</u>		12,000				
20/07/ 05	To <u>Cash a/c</u>		13,500				
			65,500				65500

**Purchase Return
A/c**

Dr							
Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
31/07/05	To balance c/d		3000	05/07/ 05	By Manu a/c		2,000
				13/07/ 05	By <u>Zenu a/c</u>		1,000
			3000				3000

Sales return A/c

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
10/07/ 05	To Sonu a/c		3,000	31/07/05	By balance c/d		3000
			3000				3000

Manu A/c

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
05/07/05	To Purchase return a/c		2000	01/07/ 05	By Purchases A/c		25000
08/07/05	To Cash a/c		10000				
31/07/05	To Balance c/d		13000				
			25000				25000

Dr				Sonu a/c				Cr	
Date	Particulars	JF	Amount	Date	Particulars	J/F	Amount		
2/07/05	To Sales a/c		20,000	10/07/05	By Sales return a/c		3,000		
				14/07/05	By Cash a/c		12,000		
				31/07/5	By Balance a/c		5,000		
			20,000				20,000		



Dr				Meenu a/c				Cr	
Date	Particulars	JF	Amount	Date	Particulars	JT	Amount		
30/07/5	To Balance c/d		15,000	3/07/05	By Purchases a/c		15,000		
			15,000				15,000		
				31/07/5	By Balance b/d		15,000		

Furniture A/c

Dr				Cr			
Date	Particulars	JF	Amount	Date	Particulars	JF	Amount
6/07/05	To cash a/c		15,000	16/07/05	By Cash a/c		1,000
				31/07/5	By Balance c/d		14,000
			15,000				15,000
31/07/5	To Balance b/d		14,000				



Zenu
a/c

Dr				Cr			
Date	Particulars	JF	Amount	Date	Particulars	JF	Amount
13/07/05	To Purchase return a/c		1,000	7/07/05	By Purchases a/c		12,000
30/07/05	To Balance c/d		11,000				
			12,000				12,000
				31/07/5	By Balance b/d		11,000

Jane
a/c

Dr				Cr			
Date	Particulars	JF	Amount	Date	Particulars	JF	Amount
9/07/05	To Sales a/c		13,500	11/07/05	By Cash a/c		5,500
				31/07/5	By Balance c/d		8,000
			13,500				13,500

Drawings
a/c

Dr				Cr			
Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
12/07/05	To Purchases a/c		3,000	31/07/_5	By Balance c/d		18,000
17/07/05	To cash a/c		15,000				
			18,000				18,000
31/07/05	To Balance b/d		18,000				



Machinery
a/c

Dr				Cr			
Date	Particulars	JF	Amount	Date	Particulars	JF	Amount
15/07/05	To Cash a/c		18,000	31/07/05	By Balance c/d		18,000
			18,000				18,000
31/07/05	To Balance b/d		18,000				

CHAPTER 10

CASH BOOK AND OTHER SUBSIDIARY BOOKS

Cash book.

Cash book used to record all cash receipts and payments in an accounting system. this book act as both journal and ledger.

Types of Cash Books:

- ❖ **Single Column Cash Book:** It records only cash receipts and payments transactions.
- ❖ **Double Column Cash Book:** It Records cash receipts, payments, and bank transactions.
- ❖ **Petty Cash Book:** Records small cash payments of business.

Imprest system of petty cash book - this is the method for managing petty cash where a fixed amount of money is initially provided to a petty cashier, and then replenished at the end of a period after expenses have been incurred.

Types of petty cash book

- Simple Petty cash book
- Analytical Petty cash book

Subsidiary Books:

These are special books that record specific types of transactions.

Types of Subsidiary Books:

- ❖ **Purchase Book:** Records all credit purchases of the business.
- ❖ **Sales Book:** Records all credit sales of the business.
- ❖ **Purchase Return Book:** Records all goods returned to suppliers.
- ❖ **Sales Return Book:** Records all goods returned by customers.
- ❖ **Bills Receivable Book:** Records all bills receivable transactions.
- ❖ **Bills Payable Book:** Records all bills payable transactions.
- ❖ **Journal Proper:** Records transactions that cannot be categorized into any of the other special purpose books.

Numerical Problems.

Double column cash book without GST

Q 1. Record the following transactions in a bank column cash book for December 2024:

	₹
01 Started business with cash	80,000
04 Deposited in bank	50,000
10 Received cash from Rahul	1,000
15 Bought goods for cash	8,000
22 Bought goods by cheque	10,000
25 Paid to Shyam by cash	20,000
30 Drew from Bank for office use	2,000
31 Rent paid by cheque	1,000

Cash book

For the month of December 2024

Dr					Cr				
Date	Particulars	L. F	Cash	Bank	Date	Particulars	L.F	Cash	Bank
2024 Dec 01	To Capital A/c		80000		2024 Dec 04	By bank A/c		50000	
04	To Cash A/c	C		50000	15	By Purchases A/c	C	8000	
10	To Rahul A/c		1000		22	By Purchases A/c			10000
					25	By Shyam A/c		20000	
30	To Bank A/c	C	2000		30	By Cash A/c	C		2000
					31	By Rent A/c			1000
					31	By Balance c/d		5000	37000
			83000	50000				83000	50000

For Practice.

Q 1. Prepare a double column cash book with the help of following information for December 2024:

	₹
01 Started business with cash	1,20,000
03 Cash paid into bank	50,000
05 Purchased goods from Sushmita	20,000
06 Sold goods to Dinker and received a cheque	20,000
10 Paid to Sushmita cash	20,000
14 Cheque received on December 06, 2016 deposited into bank	
18 Sold goods to Rani	12,000
20 Cartage paid in cash	500
22 Received cash from Rani	12,000
27 Commission received	5,000
30 Drew cash for personal use	2,000

Answers - Balance - Cash - ₹ 64500 , bank - ₹ 70000

Q 2. On January 1, 2024, Mr X commence a business with a cash balance of Rs.50,000 in hand and a bank balance of Rs.80,000. During the month of January 2024, the following transactions took place:

- Jan 3: Purchased goods for cash Rs.20,000
- Jan 8: Sold goods for cash Rs.15,000
- Jan 12: withdrew cash for office use Rs.10,000
- Jan 18: Deposited Rs.25,000 into the bank
- Jan 25: Received a loan from Mr. Y and deposited it into the bank Rs.30,000
- Jan 31: Paid rent by cheque Rs.5,000

Record these transactions in the double column cash book with cash and bank columns and provide the closing balance at the end of January

Answers - Balance - Cash - ₹ 30000 , bank - ₹ 120000

Double column cash book with GST

Q 1. Prepare Two-column Cash Book of Vimal, Lucknow from the following transactions 2024

- June 1 Cash Balance 5,000
- June 1 Bank Balance 17,500

June 5 Cash received from sale of shares 5,000
 June 6 Cheque received as advance against sale, paid into bank 50,000
 June 7 Paid S. Bose by cheque 12,500
 June 9 Paid wages in cash 3,000
 June 20 Received a cheque from A. Mukherji and sent to the bank 6,000.
 June 21 Drawn from Bank 5,000
 June 29 Paid office salaries in cash 4,000
 June 30 Sold goods in cash for ₹ 8,000 plus CGST and SGST @ 6% each and banked the same
 June 30 Paid rent by cheque including CGST and SGST @ 6% each 1,120
 June 30 Paid into bank 7,500 Discount received 200

Cash book
For the month of December 2024

Dr					Cr				
Date	Particulars	L. F	Cash	Bank	Date	Particulars	L. F	Cash	Bank
2024 June 01	To Balance b/d		5000	17500	2024 June 07	By S. Bose A/c			12500
05	To Investment A/c		5000		09	By Wages A/c		3000	
06	To Advances A/c			50000	21	By Cash A/c	C		5000
20	To A Mukherji A/c			6000	29	By Office Salaries A/c		4000	
21	To Bank A/c	C	5000		30	By Ren A/c			1000
30	To Sales A/c			8000	30	By Input CGST A/c			60
30	To Output CGST A/c			480	30	By Input SGST A/c			60
30	To Output SGST A/c			480					
30	To Cash A/c	C		7500	30	By Bank A/c	C	7500	
					30	By Balance c/d		500	71340
			15000	89960				15000	89960

For Practice.

Q 1. Prepare Two-column Cash Book of Raman, Delhi from the following transactions:

2024 ₹
 Oct. 1 Cash in Hand 25,000
 Oct. 1 Cash at Bank 75,000
 Oct. 7 Bought goods for ₹ 15,000 plus IGST @ 12% against cheque
 Oct. 8 Bought goods for ₹ 5,000 plus CGST and SGST @ 6% each
 Oct. 10 Honoured our own acceptance by cheque 5,000
 Oct. 14 Paid petty expenses 150
 Oct. 18 Rama who owed ₹ 5,000 became bankrupt and paid us 50 paise in a rupee Oct. 20
 Received cash from Manoj 7,500 Allowed discount 250
 Oct. 23 Withdrew from bank 4,000
 Oct. 24 Paid to shyam & Co. 3,000 Received discount 100
 Oct. 25 Withdrew from bank for personal expenses 3,000
 Oct. 27 Sold goods for ₹ 11,000 plus CGST and SGST @ 6% against cash
 Oct. 28 Received cheque for goods sold for ₹ 9,000 plus CGST and SGST @ 6% each Oct. 29
 Received repayment of a loan of ₹ 5,000 and deposited ₹ 3,000 out of it.
 Answers - Cash Balance - ₹ 44,570
 Bank balance - ₹ 59,280

Q 2. Enter the following transactions in the Cash Book of Chanda of Chandigarh:

2024
 Jan 1 Chanda commences business with cash 1,00,000
 Jan 3 She opened a Bank Current Account with her Savings Account cheque 19,00,000

Jan 4 She receives cheque from Kartik & Co. on account 60,000
 Jan 7 She pays into Bank Kartik & Co.'s cheque-- 60,000
 Jan 10 She advanced Ratanam & Co. by cheque 35,000
 Jan 12 Tripti & Co. pays into her Bank A/c 47,500
 Jan 15 She receives cheque from Nitara and allows him discount of ₹ 3,500, 45,000.
 Jan 20 She receives cash ₹ 7,500 and cheque ₹ 10,000 from Kalyani against credit balance
 Jan 25 She pays int Bank, including cheques received on 15th and 20th January 1,00,000
 Jan 27 She pays by cheque for purchases of ₹ 27,500 plus CGST and SGST @ 6% each
 Jan 28 Cheque received from Nitara was dishonoured
 Jan 30 She pays sundry expenses in cash Rs 50.
 Jan 30 She pays John & Co. in cash and is allowed discount of ₹ 3,500, 37,500.
 Jan 31 She pays office rent ₹ 20,000 plus CGST and SGST @ 6% each by cheque
 Jan 31 She draws a cheque for office use 40,000
 Jan 31 She pays staff salaries by cheque 30,000
 Jan 31 She pays cash for stationery ₹ 2,500 plus CGST and SGST @ 6% each
 Jan 31 She purchases goods for cash ₹ 12,500 plus CGST and SGST @ 6% each
 Jan 31 She pays Jagpal by cheque for commission ₹ 30,000 plus CGST and SGST @ 6% each
 Jan 31 She receives cheque for commission of ₹50,000 plus CGST and SGST @ 6% each from Raghbir & Co. and pays the same into bank
 Jan 31 Cash sales ₹ 45,000 plus CGST and SGST @ 6% each.

Answers - Cash Balance - ₹ 98,550
 Bank balance - ₹ 19,26,7 00

CHAPTER 11 AND 12

OTHER SUBSIDIARY BOOKS AND GST

Subsidiary Books:

As the business grows and number of transactions increase, it becomes necessary for the business to divide the recording work. These are special books that record specific types of transactions.

Types of Subsidiary Books:

- ❖ **Purchase Book:** Records all credit purchases of the business.
- ❖ **Sales Book:** Records all credit sales of the business.
- ❖ **Purchase Return Book:** Records all goods returned to suppliers purchased on credit.
- ❖ **Sales Return Book:** Records all goods returned by customers sold on credit.
- ❖ **Bills Receivable Book:** Records all bills receivable transactions.
- ❖ **Bills Payable Book:** Records all bills payable transactions.
- ❖ **Journal Proper:** Records transactions that cannot be categorized into any of the other special purpose books.

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.

Purchase Book Format (Analytical)

Date	Particulars	Invoice No	LF	Details	Cost	Input CGST	Input SCGT	Input IGST	Total
------	-------------	------------	----	---------	------	------------	------------	------------	-------

Or (Simple)

Date	Name of the Suppliers (Account to be credited)	Invoice No	LF	Details	Cost
------	--	------------	----	---------	------

Sales Book Format (Analytical)

Date	Particulars	Invoice No	LF	Details	Cost	Output CGST	Output SCGT	Output IGST	Total
------	-------------	------------	----	---------	------	-------------	-------------	-------------	-------

Or (Simple)

Date	Name of the Customers (Account to be Debited)	Invoice No	LF	Details	Cost
------	---	------------	----	---------	------

Purchase Returns Book Format

Date	Name of the Suppliers (Account to be Debited)	Debit Note No	LF	Details	Cost	Remarks
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Sales Returns Book Format

Date	Name of the Customers (Account to be Credited)	Credit Note No	LF	Details	Cost	Remarks
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GST - Goods and Services Tax

It is an indirect tax which replaces many other indirect taxes. It came into force on July 1 2017.

Types of GST

- ❖ CGST - Central goods and services tax. This applies to within the state transactions of goods and services
- ❖ SGST - State goods and services tax. This applies to within the state transactions of goods and services
- ❖ IGST - Integrated goods and service tax. This applies when transactions of goods and services takes place between two states.

Tax Structure

GST has 4 Tiers of taxation - 5%, 12% 18% and 28 %

Advantages of GST

- ❖ It is a Single Indirect Tax
- ❖ GST removes the traditional 'tax-on-tax' effect.
- ❖ GST reduces tax evasion.
- ❖ GST improves transparency and lower costs for goods and services.
- ❖ It is a simplified tax as it replaces many indirect taxes.

Characteristics of GST

- ❖ GST is an indirect tax.
- ❖ It is comprehensive as it covers wide range of product.
- ❖ Both central and state government collects and administer the GST.
- ❖ It focus upon unified system of taxation.
- ❖ It is a destination based tax as it collected from customer.

MCQs

Q1. Which of the following is not a type of GST?

- (a) IGST (b) CGST (c) SGST **(d) KGST**

Q2. When a firm maintains a cash book, it need not maintain _____

- a) Journal Proper b) Purchases (journal) book
c) Sales (journal) book **d) Bank and cash account in the ledger**

Q3. Purchase returns book records

- (a) Cash purchase
(b) Credit sales
(c) Return of sold goods
(d) Return of goods purchased on credit

Q4. When a customer returns the goods to supplier, which document is sent to him

- (a) An invoice is sent to him
(b) A Debit Note is sent to him
(c) A Credit Note is sent to him
(d) None of the above.

Q5. Closing entries are recorded in

- (a) Cash Book
(b) Ledger
(c) Journal Proper
(d) Balance Sheet

Q6. Purchase of fixed assets on credit is originally recorded in

- (a) Purchases book
- (b) Ledger
- (c) Cash book
- (d) Journal proper**

Q7. Goods purchased from Mr. Z, the payment for which is due after two months is recorded in

- (a) Purchase Book**
- (b) Purchase Return Book
- (c) Journal Proper
- (d) None

Q8. The periodic total of sales return journal is posted to :

- (i) Sales account
- (ii) Goods account
- (iii) Purchases return account
- (iv) Sales return account**

Q9. Ramesh, a dealer of Television, sold an old furniture to Rafeeqe for Rs. 3000 on credit. Identify

the day book to record this transaction.

- a) Purchase day book
- b) Journal proper**
- c) Sales day book
- d) Cash book

Q10. The balance of sales day book is Rs 30,000. Rs5,000 were recovered from debtors. Then balance of day book will be transferred by which amount?

- (a) Rs 25,000
- (b) Rs 30,000**
- (c) Rs 20,000
- (d) Rs 35,000

LAs

Q1. Explain any four Characteristics of GST.

Ans. Characteristics of Goods and Service Tax (GST) are as follows:

GST is a Comprehensive Indirect Tax: GST is a comprehensive indirect tax which has replaced all indirect taxes levied by Centre and State Governments except Custom Duty, electricity, taxes on petroleum, taxes on alcoholic drinks and taxes levied by Local Bodies. All indirect taxes have been merged in a Single Tax i.e., GST.

Uniform GST Rates: There are uniform rates of GST across all States and Union Territories.

GST Paid is not a Cost: GST Paid on purchase of goods and services (termed as Input GST) is not a cost for the purchaser but is an Asset because it can be set off against GST Collected (termed as Output GST).

GST is a Value Added Tax: GST is a value added tax because GST Paid is set off against GST Collected.

Q2. A Ltd. a manufacturing company has now expanded its operations. Its sales are increasing rapidly and the demand for its products is also rising. It is expanding geographically to different states. Initially when the operations were small, its accountant Mr. Kumar maintained only a journal. But as the business expands and the number of transactions becomes large, it becomes cumbersome to journalise each transaction. So now a need is felt to prepare special journals or

subsidiary books. So accordingly, Mr. Kumar instructs his subordinates to prepare various subsidiary books.

1. What will be the advantage of preparing these subsidiary books?

- (a) Quick, efficient and accurate recording of business transactions
- (b) Time consuming
- (c) They prove economical and make division of labour possible in accounting work
- (d) Both (a) and (c)

2. Sales book does not record cash sales of merchandise.

- (a) True
- (b) False
- (c) Can't say
- (d) Partially true

3. If A Ltd. purchased furniture of Rs 40,000 on credit; Mr. Kumar will record this transaction in

- (a) Purchases book
- (b) Cash book
- (c) Journal proper
- (d) None of the above Direction

Q3. Explain any six points depicting advantages of GST.

Ans. Objectives or Advantages of GST:

(1) Decrease in the Cost of Goods: The Cost of goods will decrease since tax on tax is eliminated in GST regime. In the pre-GST regime, there were many indirect taxes levied by both center and state. For example, Centre charged excise duty on goods manufactured and States charged VAT on the same goods. This led to a tax on tax also known as cascading effect of taxes. GST avoids this cascading effect as the tax is calculated only on the value added at each stage of transfer of ownership.

(2) Ease of Doing Business: In a pre-GST period, there were multiple types of indirect taxes such as Excise Duty, Sales Tax, Service Tax etc. and as a result., a business was required to register itself separately under each such Act. The introduction of GST has eased the doing of business because now it will be registered and administered only under one indirect tax i.e. GST.

(3) Developing Common National Market: GST is levied at the same rate on similar goods and services across all States and Union Territories. For example, electronic goods sold across India are levied at the rate of 18%. It has developed common national market.

(4) Reduction in Tax Evasion: GST is administered through computer system. Electronic return filing and assessment has reduced tax evasion and compliance cost.

(5) Goods Becoming Cheaper: In the pre-GST period, there were many indirect taxes and there was no set off of tax paid (e.g., Excise Duty) against taxes collected. In GST structure, GST Paid (Input GST) is set off against GST Collected (Output GST). As such it does not have cascading effect and goods and services shall become cheaper.

(6) Attracting Foreign Investment: Foreign investment in India was hindered because of multiple indirect taxes. GST has removed this obstruction with the introduction of one single tax. As such, it will help to increase the Foreign Direct Investment (FDI) in India.

Subsidiary Books

Q1. Record the following in the Purchase Book (assume all are credit transactions):

Date	Particulars
May 2	Purchased from M/s Ramesh Traders: 10 fans @ ₹1,200 each
May 5	Bought from M/s Kumar Electronics: 5 heaters @ ₹800 each

Date	Particulars
May 9	Purchased office table for ₹5,000

Solution: Purchase Book (without GST)

Date	Particulars	Invoice No.	Amount (₹)
May 2	M/s Ramesh Traders 10 fans @ ₹1,200	---	12,000
May 5	M/s Kumar Electronics 5 heaters @ ₹800	---	4,000
	Total		16,000

Q2. Purchases Book with GST

From the following transactions, prepare the Purchases Book of M/s Gupta Traders for April 2025. All purchases are intra-state.

April 01: Purchased from M/s Verma Electronics
10 LED TVs @ ₹20,000 each, Trade Discount 10%, GST @12%

April 05: Bought from M/s Batra Appliances
5 Refrigerators @ ₹30,000 each, Trade Discount 5%, GST @18%

April 10: Cash purchase from M/s Arya Traders – ₹15,000 (Ignore as it cash basis)

Solution: Purchases Book of M/s Gupta Traders for April 2025

Date	Invoice No.	Name of Supplier	Details	Amount (₹)	CGST (₹)	SGST (₹)	IGST (₹)	Total (₹)
April 01	101	M/s Verma Electronics	10 LED TVs @ ₹20,000 = ₹2,00,000 Less: 10% T.D. = ₹20,000 Taxable Value = ₹1,80,000	1,80,000	10,800	10,800	—	2,01,600
April 05	102	M/s Batra Appliances	5 Refrigerators @ ₹30,000 = ₹1,50,000 Less: 5% T.D. = ₹7,500 Taxable Value = ₹1,42,500	1,42,500	12,825	12,825	—	1,68,150
			Total	3,22,500	23,625	23,625	—	3,69,750

Q3. Sales Book with IGST

From the following details, prepare Sales Book for M/s Royal Traders. Transactions are inter-state.

May 01: Sold to M/s Oberoi & Co.
15 Air Coolers @ ₹6,000 each, Trade Discount 5%, GST @18%

May 10: Sold goods to M/s Northern Distributors
10 Microwave Ovens @ ₹8,000 each, Trade Discount 10%, GST @12%

Sales Book of M/s Royal Traders – May 2025

Date	Invoice No.	Name of Customer	Details	Amount (₹)	CGST (₹)	SGST (₹)	IGST (₹)	Total (₹)
May 01	201	M/s Oberoi & Co.	15 Air Coolers @ ₹6,000 = ₹90,000 Less: 5% = ₹4,500 Taxable = ₹85,500	85,500	—	—	15,390	1,00,890
May 10	202	M/s Northern Distributors	10 Microwaves @ ₹8,000 = ₹80,000 Less: 10% = ₹8,000 Taxable = ₹72,000	72,000	—	—	8,640	80,640
			Total	1,57,500	—	—	24,030	1,81,530

Q4. Enter the following transactions in the Purchases Book of Rozy Electronics Delhi.

2020
Jan.3

Bought from Bharat Electric Co. Dwarka Delhi on credit (Invoice No. 1238))
100 Tube light @ Rs. 40 each
50 Table fans @ Rs. 415 each
30 Electric Iron -Bajaj @ Rs. 200 each
Trade Discount 10%

Jan.9 Purchased from Ashoka Traders, Karol Bag, New Delhi on credit (Invoice No. 551)
30 Table fans – Polar @ 600 each
20 Mix grinders – Usha @ Rs.500 each
Trade Discount 15%

Jan. 16 Bought goods from Royal Electric Co. Kashmiri Gate, Delhi on credit (Invoice No. 252)
20 Duson Bulbs @ Rs.100 per dozen
10 Table fans @ Rs. 500 each
Less : Trade Discount 15%

Jan. 22 Bought from Prakash Lamps, Delhi for cash (Memo No. 715)
10 Table fans – Orient @ Rs. 600 each

Jan. 29 Bought from Laxmi Furniture, Rohtak on credit (Invoice No. 4312)
2 Tables @ 2000 each
10 Chairs @ Rs. 400 each.

In the books of Rozy Electronics, Delhi
Purchases Book or Purchases Journal

Date	Name of the Supplier	Invoice No.	L.F	Detail	Amount(Rs.)
2020	Bharat Electric Co: Dwarka, Delhi 100 Tube lights @ Rs. 40 each 50 Table Fans @ Rs. 415 each 30 Electric iron @ Rs. 200 each	1238		4,000 20,750 <u>6,000</u> 30,750	
	Less : Trade Discount 10% Ashoka Traders, Karol Bag, New Delhi 30 Table fans – Polar @ 600 each 20 Mix grinders – Usha @ Rs.500 each	581		3,075 18,000 <u>10,000</u> 28,000	27.675

	Less : Trade Discount 15% Royal Electric Co. K Gate Delhi 20 Dozen Bulbs @ Rs.100 Dozen 10 Table Fans @ Rs. 500 each	252		4,200 2,000 <u>5,000</u> 7,000	23,800
	Less: Trade Discount 15% Purchases A/c Dr			1,050	<u>5,950</u> 57,425

Practice Questions

Q1: Prepare a Sales Book for M/s Ahuja Electronics for May 2025. All sales are intra-state.

May 01: Sold to M/s Galaxy Traders

10 Air Conditioners @ ₹30,000 each, Trade Discount 10%, GST @12%

May 10: Sold to M/s Breeze Solutions

5 Refrigerators @ ₹25,000 each, Trade Discount 5%, GST @18%

May 15: Sold goods for cash ₹50,000 (Ignore – Cash transaction)

Answer - Grand Total ₹4,42,525

Q2: Prepare the Purchases Book of M/s Raghav Traders for June 2025. All purchases are inter-state (IGST applicable).

June 03: Bought from M/s Rishi Distributors

20 Washing Machines @ ₹18,000 each, Trade Discount 10%, GST @18%

June 07: Bought 10 Vacuum Cleaners @ ₹8,000 each from M/s Sparkle Ltd., Trade Discount 5%, GST @12%

Answer - Grand Total ₹4,67,440

Q3: Enter the following in the Sales Return Book. (Intra-state returns)

July 05: M/s Royal Enterprises returned 2 out of 10 ACs sold on May 01 @ ₹30,000 each, with 10% T.D., GST @12%

July 12: M/s Breeze Solutions returned 1 Refrigerator @ ₹25,000, 5% T.D., GST @18%

Answer - Grand Total ₹88,505

Q4. Enter the following transactions in the Subsidiary Books:-
2019

March1 sold goods to Ramesh Rs.3,000 at 5% Trade discount.

March4 Purchased goods from Ravi Prasad worth Rs.1,000 at 10% trade discount.

March7 Received a Debit note of Rs.200 from Kabir.

March10 Sent a Debit Note of Rs.200 to Ravi Prasad.

March14 Sent Invoice of Rs5,000 to Anand Nath subject to 10% trade discount.

March18 Returned to Debasis worth Rs.5,000 at 10% trade discount.

March22 Placed an order worth Rs5,000 to Neha kumari.

March26 Sent a credit note to Anand Nath of Rs.400 (Including trade discount)

ANS: Purchase Book Rs.900; Purchase Return Book Rs.4,680 Sales Book Rs.7,350

Sales return Book Rs590

Journal Proper

Use Journal Proper for:

- ❖ Opening entries
- ❖ Rectification entries
- ❖ Credit purchases/sales of assets
- ❖ Goods given as charity/loss
- ❖ Dishonour of bills

Q1: Pass journal proper entries for the following:

April 01: Opening balances – Cash ₹20,000; Stock ₹50,000; Creditors ₹30,000

April 10: Purchased furniture from M/s Modern Decor ₹25,000 on credit

April 15: Goods worth ₹2,000 given as charity

April 20: Purchased a computer for office use ₹40,000 from M/s Comp Tech on credit

April 25: Goods stolen – ₹5,000 (no insurance)

Solution: Journal Proper

Date	Particulars	L. F.	Dr. (₹)	Cr. (₹)
Apr 01	Cash A/c Dr.		20,000	
	Stock A/c Dr.		50,000	
	To Creditors A/c			30,000
	To Capital A/c (Bal. fig.)			40,000
	(Being opening entry passed)			
Apr 10	Furniture A/c Dr.		25,000	
	To M/s Modern Décor			25,000
	(Being furniture purchased on credit)			
Apr 15	Charity A/c Dr.		2,000	

Date	Particulars	L. F.	Dr. (₹)	Cr. (₹)
	To Purchases A/c (Being goods given as charity)			2,000
Apr 20	Computer A/c Dr.		40,000	
	To M/s Comp Tech (Being computer purchased on credit for office)			40,000
Apr 25	Loss by Theft A/c Dr.		5,000	
	To Purchases A/c (Being goods stolen, not insured)			5,000

Practice Question

Q1. Pass Journal Proper entries for the following transactions:

April 1: Opening balances – Cash ₹10,000; Stock ₹15,000; Debtors ₹20,000; Creditors ₹18,000; Capital (Balancing Figure).

April 5: Purchased furniture worth ₹25,000 from M/s Oak Furnishers on credit.

April 8: Goods worth ₹2,000 distributed as free samples.

April 10: Received a credit note of ₹1,000 from M/s Rawat & Sons for damaged goods returned.

April 12: Sold old typewriter for ₹1,500 (Book Value ₹2,000).

April 15: Paid ₹500 to Mohan, our creditor, in full settlement of ₹550.

April 18: Goods worth ₹1,000 were used for personal use.

April 20: Paid rent of ₹5,000 which includes ₹2,000 as advance for next month.

April 22: Wages paid for installation of machinery ₹1,200.

April 25: Goods worth ₹3,000 stolen; not insured.

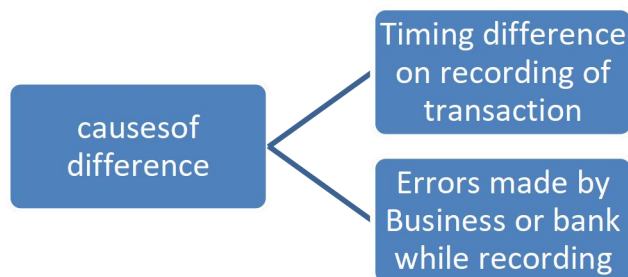
April 28: Received ₹950 from Ram in full settlement of ₹1,000.

April 30: Purchased calculator for office use ₹1,200 in cash.



CHAPTER 13

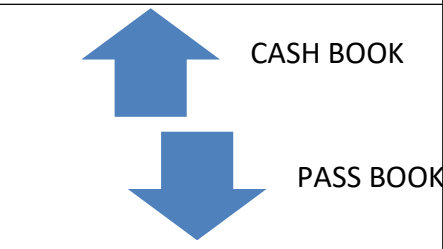
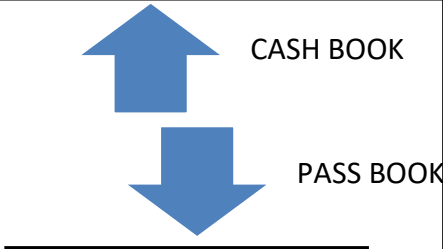
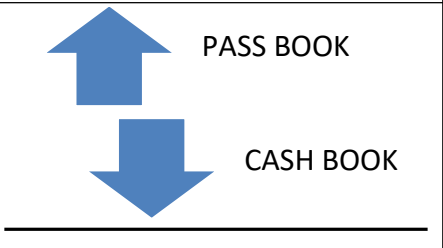
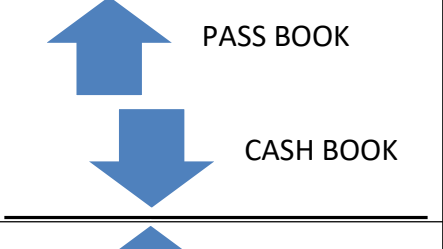
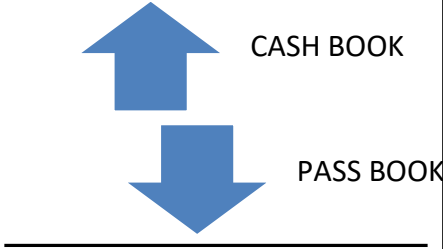
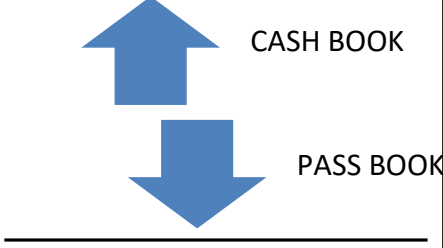
BANK RECONCILIATION STATEMENT

- **DEFINITION** - A bank reconciliation statement is a financial document used to match the balance in the cash book with the balance shown on the bank statement (Pass Book). It helps identify and correct discrepancies between the two records.
- **NEED AND IMPORTANCE** - This statement helps the account holders to check and keep track of their funds and update the transaction record that they have made.. The balance mentioned in the bank passbook of the statement must tally with the balance mentioned in the cash book bank balance, when the balance does not tally it is important to determine the cause for the difference and display them in the bank reconciliation statement and then tally the two balances.
- **SOME BASIC CONCEPTS –**
 - I. CASH BOOK- It is the Bank account maintained by business/firm
 - II. PASS BOOK – it is the firms/Business account maintained by Bank
 - III. For the purpose of Bank reconciliation statement cashbook balance mean balance as per Bank column of cash Book
 - IV. If cash book is debited then pass book will be credited. e.g. Cash deposited into bank
 - V. If cash book is credited then pass book will be debited. e.g. Cash withdrawn from bank
- **Causes of Difference in cash Book and Pass book balances -**

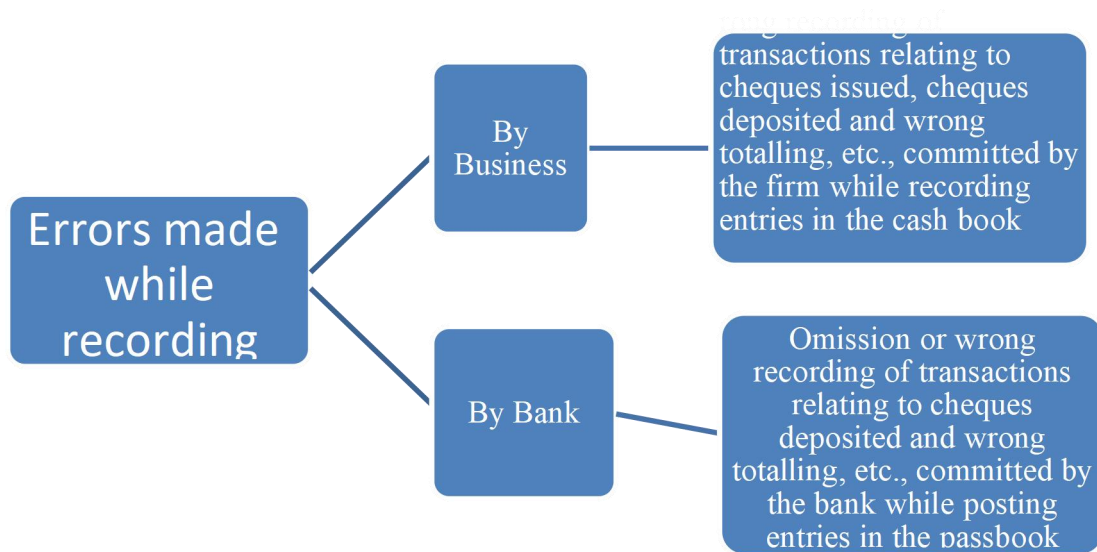


- **The difference in timing can be caused by many factors which are:**

<u>S N.</u>	<u>CAUSE</u>	<u>EXPLANATION</u>	<u>EFFECT ON CASH BOOK AND PASS BOOK BALANCES</u>
1	Cheques issued by firm are not yet presented for payment	Cheques issued by the firm to the suppliers or creditors are immediately recorded on the credit side of the cashbook. However, there will be a time gap when the receiving party presents it to the bank. So the bank cannot debit the amount	<div> PASS BOOK  CASH BOOK</div>

<u>2</u>	Cheques paid into the bank but not yet collected	A firm receives cheques from its debtors/customers, which are then immediately recorded on the debit side of the cashbook. However, when those cheques are deposited in the bank, the bank credits the firm's account only after the cheques are actually realised.	
<u>3</u>	Direct debits are made by the bank on behalf of the customer	Bank deducts various charges like cheque collection charges, interest on overdraft, and check bounce charges. The firm will not be aware of such debits, and hence these changes will not be reflected in the firm's cash book	
<u>4</u>	Amounts directly deposited in the bank account	When debtors or customers directly deposit money into the firm's bank account, the firm will not be aware of such deposits. Due to this, these entries will not be recorded into the cashbook	
<u>5</u>	Interest and dividends are collected by the bank	The bank collects interest and dividends on behalf of the customer. It will not be known to the customer and hence will not be recorded into the firm's cash book.	
<u>6</u>	Direct payments are made by the bank on behalf of the customers	When the customers give standing instructions to the bank for making payments to third parties, like paying telephone bill, insurance premium, rent taxes etc., the firm will not be aware of these payments, and hence such transactions will not be recorded in the firm's cashbook.	
<u>7</u>	Cheques deposited/bills discounted dishonoured	A cheque deposited by the firm if dishonoured or a bill of exchange drawn by the business firm which is discounted with the bank is dishonoured on the date of maturity, the same is debited to customer's account by the bank. This information is not available to the firm immediately, and it will not be recorded in the firm's cashbook	

- **Errors made by Business or bank while recording**



- **We may have four different situations while preparing the bank reconciliation statement. These are**

1. When debit balance (favourable balance) as per cash book is given and the balance as per passbook is to be ascertained.
2. When credit balance (favourable balance) as per passbook is given and the balance as per cash book is to be ascertained.
3. When credit balance as per cash book (unfavourable balance/overdraft balance) is given and the balance as per passbook is to be ascertained.
4. When debit balance as per passbook (unfavourable balance/overdraft balance) is given and the cash book balance as per is to be ascertained.

- **Steps to solve problems –**

1. Find out the origin/starting point (Cash book or Pass book)
2. If cash book is the origin then Pass book becomes destination(End point) or vice versa
3. If origin/starting point (Cash book or Pass book) is Favourable balance then it will be written in plus column and if origin/starting point (Cash book or Pass book) is unfavourable / overdraft balance then it will be written in minus column
4. If due to any cause origin is high then write in minus column
5. If due to any cause origin is low then write in plus column
6. After all addition and subtraction we will find out balances as per destination (Pass book or Cash book) . It may be positive (Favourable balance) or negative (overdraft balance)

MULTIPLE CHOICE QUESTIONS

1. The main purpose of preparing a bank reconciliation statement is?
 - a) To know bank balance
 - b) To know the balance of bank statement

- c) To correct the cash book
- d) To identify the cause of difference between cash book and bank balance**

2. Debit balance as per cash book of ABC enterprise as on 31.3.2006 is ₹. 1500 cheques deposit but not cleared amount to ₹. 100 and cheques issued but not presented of ₹ 150. The bank allowed interest amounting ₹. 50 and collected dividend ₹ 50 on behalf of ABC enterprises Balance as per pass book should be

- a) 1600
- b) 1450
- c) 1850
- d) 1650**

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

- a) Cash-book
- b) Journal
- c) Trial balance
- d) Bank reconciliation statement**

4. A business receives its bank statement showing the closing balance as ₹.8,500 overdrawn. It is found that there were unpresented cheques of Rs.2000 and uncredited deposits of ₹.1,500. Overdraft as per cash book is

- a) ₹5,000
- b) ₹.8000
- c) ₹.9000**
- d) ₹.12,000

5. bank reconciliation statement is prepared with the balance of

- (a) Cash Book
- (b) Pass Book
- (c) Either Cash Book or Pass Book**
- (d) Neither Cash Book nor Pass Book

6. Unfavourable bank balance means

- (a) Credit balance in the Cash Book**
- (b) Credit balance in the Pass Book
- (c) Debit balance in the Cash Book
- (d) Favourable balance in the Cash Book

7. Which of the following transactions will result in higher balance in the bank column of Cash Book in comparison to Pass Book?

- (a) Cheques issued but not presented for payment
- (b) Interest allowed by bank
- (c) Bank charges entered twice in Cash Book
- (d) Cheques paid into bank for collection but not yet credited**

8. Bank charges Rs 5,000 debited twice in pass book. What should be done in BRS if overdraft as per cash book is the starting point?

- (a) Rs 5,000 must be deducted
- (b) Rs 5,000 must be added**
- (c) Rs 10,000 must be deducted
- (d) Rs 10,000 must be added

9. A Pass Book is a copy of

- (a) A customer's account in the bank's books**
- (b) Cash Book relating to bank column
- (c) Cash Book relating to cash column

(d) Firm's receipts and payments

10. Cheque issued but not presented for payment will _____ the balance as per cash book.

- a) Reduce b) Increase
- c) No change d) None of the above

ON THE BASIS OF THE FOLLOWING TWO STATEMENTS, IDENTIFY THE CORRECT OPTION OUT OF THE FOLLOWING:

- a) Assertion (A) and Reason (R) are correct but the Reason (R) is not the correct explanation of Assertion (A).
- b) Both Assertion (A) and Reason (R) are correct and Reason (R) is correct explanation of Assertion (A)
- c) Assertion (A) is correct but Reason (R) is not correct.
- d) Assertion (A) is not correct but the Reason (R) is correct.

1. Assertion (A): The difference in the balances as per Cash Book and Pass Book may arise due to time gap in recording transactions.

Reason (R): The factors causing time gap include cheques issued but not yet presented for payment in the Bank.

2. Assertion (A): Favorable bank balance as per the Cash Book will be less than the Bank Pass Book balance when there are unpresented cheques for payment in the bank.

Reason (R): When payments are made by the bank as per the standing instructions of the customer, the balance in the passbook will be more when compared to the Cash Book.

3. Assertion (A): Cheques issued but not yet presented for payment will reduce the balance as per the Pass Book.

Reason (R): Cheques deposited into bank but not yet collected will result in increasing the balance of the Cash Book when compared to Pass Book.

4. Assertion (A): Overdraft balance as per Pass Book means negative balance as per Pass Book

Reason (R): An overdraft balance is treated as negative figure in a Bank Reconciliation Statement.

5. Assertion (A): Bank Reconciliation Statement is prepared to reconcile bank balance as per Cash Book with the balance as per Bank Pass Book (or Statement), by showing all causes of differences between the two

Reason (R): Bank Reconciliation Statement is prepared to detect the errors committed by bank.

Answer -

- 1. (b) Both Assertion (A) and Reason (R) are correct and Reason (R) is correct explanation of Assertion (A)
- 2. (c) Assertion (A) is correct but Reason (R) is not correct.
- 3. (d) Assertion (A) is not correct but the Reason (R) is correct.
- 4. (a) Assertion (A) and Reason (R) are correct but the Reason (R) is not the correct explanation of Assertion (A).
- 5. (a) Assertion (A) and Reason (R) are correct but the Reason (R) is not the correct explanation of Assertion (A).

PRACTICAL PROBLEMS (solved) –

1. On 30th June 2014, the Cash Book of a trader shows a bank overdraft of Rs. 2,500. Following information's are available: -
1. Cheques amounting to Rs. 14,600 had been paid to the bank, but of these only Rs.12,200 were credited in the Pass Book, up to 30th June, 2014.
 2. He had also issued cheques amounting to Rs.10,000, out of which only Rs. 3,600 had been presented for payment.
 3. A cheque of Rs. 500 which he had debited to the bank account was not sent to bank for collection by mistake.
 4. There is a debit in the Pass Book of Rs. 10 for Bank Charges and Rs. 50 for interest.
 5. A customer directly paid into his bank Rs. 1,000, but it was not shown in the Cash Book.
 6. Bank has paid insurance premium of Rs. 400 according to his instructions, but this is not recorded in the Cash Book.
- Prepare a Bank Reconciliation Statement.

Bank Reconciliation as on 30th June, 2014

Particulars	Amount (+)	Amount (-)
Credit Balance(overdraft) as per cash book		2,500
Add:		
Cheques issued but not presented for payment (10,000-3600)	6,400	
Amount directly deposited by customer	1,000	
Less:		
Cheques deposited into bank but not collected by bank (14,600-12,200)		2,400
Bank charges		10
Bank Interest		50
Cheque not sent to bank for collection		500
Insurance premium paid by bank as per Standing instruction		400
Credit balance as per pass book		1,540
	7,400	7,400
	=====	=====

2. Mr. Banshidhar (my accountant) was careless in his duty and due to less accounting knowledge he failed to record few of the important transactions which resulted in the differences in my cash book with the pass book. On 31st October, 2024 my cash book showed a credit balance of ₹ 8,800. I had paid into bank three cheques amounting to ₹6,000 on 24th October of which I found ₹3,200 have been credit in the Pass Book under date 5th November, 2024. It was because they were deposited in the month of November by the accountant. I had issued cheques amounting to ₹.8,000 before 31st October of which I

found ₹.2,500 have been debited in the pass book after 1st November, 2024. After enquiry it was found that my accountant handed over the cheque to the persons after 1st November. I find a debit of ₹.50 in respect of Bank Charges in the Pass Book which I have adjusted in the Cash Book on 31st Oct. There is a credit of ₹.360 for interest on securities in the pass book which remains to be adjusted. A cheque of ₹.1,200 deposited into Bank has been dishonoured. Prepare a Bank Reconciliation Statement on 31st October, 2024.

ANS-

Bank Reconciliation Statement

(As at 31st October 2024)

	Plus	Minus
Credit Balance (overdraft) as per Cash Book		8800
1. Cheques paid into the bank for collection but not credited in the pass book		3200
2. Cheques issued but not debited in the Pass Book until 31 st October	2,500	1,200
3. Interest on securities credited in the Pass Book but not debited in the Cash Book	360	
4. Cheques deposited but dishonoured		
5. Debit Balance (Overdraft) as per Pass Book	10,340	
	13,200	13,200

3. State four causes of difference that occurred due to time lag.

Ans: The following are the causes of difference that occurred due to time lag

- The cheque issued by the firm is not yet presented for payment.
- The cheque was deposited into the bank but is yet to be realized.
- Direct debits did by the bank on behalf of the customer.
- The amount is deposited directly into the bank account

4. Bank Reconciliation is prepared on 31st March, 2024 starting with debit balance as per cash book. State whether the following transactions will be shown in the Bank Reconciliation statement by adding or deducting from the given balance giving reasons:

- (i) Receipts side of the cash book was overcast by Rs.5000
- (ii) Payments side of the cash book was overcast by Rs.500
- (iii) Receipts side of the cash book was undercast by Rs.10,000
- (iv) Payment side of the cash book was undercast by Rs.10,000

Answer:

- i. Rs. 5000 will be deducted from the cash book balance since cash book balance is erroneously increased.
- ii. Rs. 500 will be added to the cash book balance since cash book balance is erroneously decreased
- iii. Rs. 10,000 will be added to the cash book balance since cash book balance is erroneously decreased
- iv. Rs. 10,000 will be deducted from the cash book balance since cash book balance is erroneously increased

PRACTICAL PROBLEMS (self assessment) –

1. 1. From the following particulars of Asha & Co. Prepare a Bank Reconciliation Statement on Dec.31,2018:-

- a. Overdraft as per pass Book Rs. 20,000.
- b. Interest on overdraft Rs. 2000.
- c. Insurance Premium paid by the bank Rs. 200.
- d. Cheque issued but not presented for payment Rs. 6,500.
- e. Cheques deposited but not yet cleared Rs. 6,000.
- f. Wrongly debited by the bank Rs. 500

(Ans- Balance as per Cash Book (overdraft) ₹17,800)

2. The Cash Book and Pass Book of Abhishek Trader is not matching. So Prepare BRS for same as on 31st July 2025

- a. Balance as per Cash Book is Rs. 25,000 as on 31st July 2025.
- b. Cheques for ₹. 15,000 were deposited into the Bank in the month of July but only cheques for ₹. 11,000 were credited by the bank till 31st July 2025.
- c. Cheques issued for ₹. 13,000 in July, out of which a cheque for ₹. 3,800 was presented for payment on 3rd August.
- d. Bank charged ₹. 50 as Bank charges and credited interest of ₹. 370.
- e. A customer directly deposited ₹. 1,550 in firm's bank A/c.
- f. Bank paid the Insurance Premium of ₹. 1,200 as per standing instructions 25.07.2025

(Ans- Balance as per Book (30,720 – 5,250)=₹. 25,470

3. On 31st December, 2024, bank pass book of Taneja & Co. showed an overdraft of ₹. 7,700. On the basis of the following particulars, prepare a Bank Reconciliation Statement:

- (i) Cheques issued before 31st December, 2024, but not yet presented for payment amounted to ₹ 3,500.
- (ii) Cheques paid into the bank, but cheque amounting to ₹ 2,600 has not been collected yet.
- (iii) Interest on loan amounting to ₹ 554 directly debited by the bank did not appear in the cash Book.
- (iv) ₹ 4,800 directly deposited by the customer in the pass book, but not in the cash book

(Ans- Overdraft as per Cash book(Cr.) –₹. 12, 846)

CHAPTER 14

TRIAL BALANCE

Meaning of Trial Balance:

A trial balance is a statement showing the balances, or total of debits and credits, of all the accounts in the ledger with a view to verify the arithmetical accuracy of posting into the ledger accounts. Trial balance is an important statement in the accounting process as it shows the final position of all accounts and helps in preparing the final statements.

Format of a trial balance

Trial Balance of as on March 31, 2023

Account Title.	L. F	Debit Bal. (₹)	Credit Bal. (₹)
Total			

It is normally prepared at the end of an accounting year. However, an organisation may prepare a trial balance at the end of any chosen period, which may be monthly, quarterly, half yearly or annually depending upon its requirements.

In order to prepare a trial balance following steps are taken:

- Ascertain the balances of each account in the ledger.
- List each account and place its balance in the debit or credit column, as the case may be. (If an account has a zero balance, it may be included in the trial balance with zero in the column for its normal balance).
- Compute the total of debit balances column.
- Compute the total of the credit balances column.
- Verify that the sum of the debit balances equal the sum of credit balances. If they do not tally, it indicate that there are some errors. So one must check the correctness of the balances of all accounts. It may be noted that all assets expenses and receivables account shall have debit balances whereas all liabilities, revenues and payables accounts shall have credit balances.

Objectives of Preparing the Trial Balance:

The trial balance is prepared to fulfil the following objectives:

1. To ascertain the arithmetical accuracy of the ledger accounts.
2. To help in locating errors.
3. To help in the preparation of the financial statements. (Profit & Loss account and Balance Sheet).

Illustrative Trial Balance:

Account Title	L.F .	DebitBal. (₹)	CreditBal. (₹)
<ul style="list-style-type: none">• Capital• Land and Buildings			

<ul style="list-style-type: none"> • Plant and Machinery • Equipment • Furniture and Fixtures • Cash in Hand • Cash at Bank • Debtors • Bills Receivable • Stock of Raw Materials • Stock of Finished Goods • Purchases • Carriage Inwards • Carriage Outwards • Sales • Sales Return • Purchases Return • Interest Paid • Commission/Discount Received • Salaries • Long Term Loan • Bills Payable • Creditors • Advances from Customers • Drawings 			
Total		Xx x	xxxx

Preparation of Trial Balance

Theoretically spreading, a trial balance can be prepared in the following three ways:

- (i) Totals Method
- (ii) Balances Method
- (iii) Totals-cum-balances Method

1. Totals method:

Under this method, total of each side in the ledger (debit and credit) is ascertained separately & shown in the trial balance in the respective columns. However, this method is not widely used in practice, as it does not help in assuming accuracy of balances of various accounts and preparation of the financial statements.

2. Balances Method:

This is the most widely used method in practice. Under this method trial balance is prepared by showing the balances of all ledger accounts and then totalling up the debit and credit columns of the trial balance to assure their correctness.

3. Totals-cum-balances Method:

This method is a combination of totals method and balances method. Under this method four columns for amount are prepared. Two columns for writing the debit and credit totals of various accounts and two columns for writing the debit and credit balances of these accounts. However, this method is also not used in practice because

it is time consuming and hardly serves any additional or special purpose.

Significance of Agreement of Trial Balance:

It is important for an accountant that the trial balance should tally. Normally a tallied trial balance means that both the debit and the credit entries have been made correctly for each transaction. However, as stated earlier, the agreement of trial balance is not an absolute proof of accuracy of accounting records.

MCQs

1. A trial balance is:
(a) a part of journal (b) a part of ledger
(c) an account **(d) a statement**
2. A trial balance is prepared with the help of:
(a) trading account **(b) ledger balances**
(c) balance sheet (d) all of the above
3. Trial balance is helpful:
(a) in checking the arithmetical accuracy
(b) to serve as a proof of recording as per the double-entry system
(c) in locating the errors
(d) all of the above
4. Which of the following is not an advantage of trial balance?
(a) summaries business information
(b) indicates complete recording of transactions
(c) not a conclusive proof of arithmetical accuracy
(d) aid location of errors
5. Which of the following, generally, is not shown in trial balance?
(a) Building **(b) Closing stock**
(c) Opening Stock (d) Cash in hand
6. If after full enquiry, the totals of debit and credit columns of trial balance, do not agree, the amount of difference is transferred to:
(a) Suspense A/c (b) Profit and Loss A/c
(c) Trading A/c (d) Capital A/c
7. Which of the following is a method of preparation of trial balance?
(a) Balance method (b) Total Amount method
(c) Total cum-balance method **(d) All of the above**
8. Which of the following is shown on the debit side of trial balance?
(a) Commission Received A/c (b) Rent Received A/c
(c) Discount Allowed A/c (d) Discount Received A/c
9. Which of the following is shown on the credit side of trial balance?
(a) Furniture and Fixtures **(b) Creditors**
(c) Drawings (d) Patents
10. Trial balance is prepared for those concerns which follow:
(a) Single entry system **(b) Double entry system**
(c) IFRS (d) None of the above

Q1. The following is the Trial Balance prepared by an inexperienced accountant. Redraft it in a correct form:-

Trial Balance
as at 31st March, 2019

Particulars	L.F.	Dr. Amount	Cr. Amount
Capital A/c		1,35,000	
Sales A/c			3,00,000
Expenses A/c			30,000
Opening Stock		90,000	
Fixed Assets		75,000	
Creditors			45,000
Debtors			90,000
Closing Stock			60,000
Cost of Goods Sold		2,25,000	
Salary A/c			20,000
Suspense A/c		20,000	
Total		<u>5,25,000</u>	<u>5,45,000</u>

Ans:

Trial Balance
as at 31st March, 2019

Particulars	L.F.	Dr. Amount	Cr. Amount
Capital A/c			1,35,000
Sales A/c			3,00,000
Expenses A/c		30,000	
Fixed Assets		75,000	
Creditors			45,000
Debtors		90,000	
Closing Stock		60,000	
Cost of Goods Sold		2,25,000	
Salary A/c		20,000	
Suspense A/c			20,000
Total		<u>5,00,000</u>	<u>5,00,000</u>

Q2. Make out a Trial Balance from the following balances as on 31st March, 2017:

Particulars	Amount	Particulars	Amount
Repair	5,000	Provision for Doubtful Debts	2,000
Closing Stock	9,00,000	Carriage and Freight	5,000
Debtors	60,000	Capital	3,00,000
Sales	2,50,000	Sales Return	3,000
Trade Expenses	12,000	Plant and Machinery	90,000
Creditors	10,000	Loans and Advances	20,000
Rent	2,500	Cash in hand	3,000
Interest Received	1,200	Travelling Expenses	6,000
Wages	32,000	Bank	20,000
Purchase Return	2,000	Drawing	25,000
Purchases	2,00,000	Stock (1 st April, 2019)	50,000
Discount Received	1,800	Insurance	6,300
Furniture	25,000	Discount Allowed	2,200

Ans.

Trial Balance as at 31st March, 2020

Particulars	Amount	Particulars	Amount
Repair	5,000	Sales	2,50,000
Debtors	60,000	Creditors	10,000
Trade Expenses	12,000	Interest Received	1,200
Rent	2,500	Purchase Return	2,000
Wages	32,000	Discount Received	1,800
Purchases	2,00,000	Provision for Doubtful Debts	2,000
Furniture	25,000	Capital	3,00,000
Carriage and Freight	5,000		
Sales Return	3,000		
Plant and Machinery	90,000		
Loans and Advances	20,000		
Cash in hand	3,000		
Travelling Expenses	6,000		
Bank	20,000		
Drawing	25,000		
Stock (1 st April, 2019)	50,000		
Insurance	6,300		
Discount Allowed	2,200		
	<u>5,67,000</u>		<u>5,67,000</u>

Q3. From the following ledger balances draw up the Trial balance:

6

Particulars	Balances
Capital	50,000
Purchase	18000
Carriage	2000
Sales	30000
Return inward	3000
Salaries	7000
Sundry debtors	20000
Cash	10000
Rent and taxes	2000
Drawing	3000
Bank balances	5000
Furniture	10000

TRIAL BALANCE

Particular	Dr	Cr
Capital		50000

Purchase	18000	
Carriage	2000	
Sales		30000
Return inward	3000	
Salaries	7000	
Sundry debtors	20000	
Cash	10000	
Rent and taxes	2000	
Drawing	3000	
Bank balances	5000	
Furniture	10000	
	80000	80000

Q4. From the following ledger balances draw up the Trial balances:

8

particulars	Balances
Capital	1,00,000
Purchases	36000
Carriage	4000
Sales	60000
Sales return	6000
Sundry debtors	40000
Cash	20000
Rent	4000
Drawing	6000
Creditors	10000
building	40000
salaries	14000

TRIAL BALANCE

Particular	Rs	Rs
Capital		<u>100000</u>
Purchases	36000	

Carriage	4000	
Sales		60000
Sales return	6000	
Sundry debtors	40000	
Cash	20000	
Rent	4000	
Drawing	6000	
Creditors		<u>10000</u>
Building	40000	
Salaries	14000	
	<u>1,70000</u>	<u>1,70000</u>

CHAPTER 15

DEPRECIATION

Concept of depreciation:

“Depreciation is the diminution in intrinsic value of the Fixed Tangible asset due to use, lapse of time, accident or obsolescence”.

In other words, if a business enterprise procures a machine and uses it in the production process then the value of the machine declines with its usage. Even if the machine is not used in the production process, we can not expect it to realise the same sales price due to the passage of time or arrival of a new model (obsolescence) or accident. It implies that fixed tangible assets are subject to decline in value and this decline is technically referred to as *depreciation*

Features of Depreciation

1. It is a decline in the book value of fixed tangible assets.
2. It includes loss of value due to efflux of time, usage and accident or obsolescence.
3. It is a continuing process.
4. It is an expired cost and hence must be deducted before calculating taxable profits
5. It is a non-cash expense. It does not involve any cash outflow

Need for Depreciation:

1. Matching of Costs and Revenue
2. Consideration of Tax
3. True and Fair Financial Position
4. Compliance with Law

Causes of Depreciation:

1. Wear and Tear due to Use or Passage of Time
2. Expiration of Legal Rights
3. Obsolescence
4. Abnormal factors such as accidents due to fire, earthquake, floods, etc.

Factors Affecting the Amount of Depreciation:

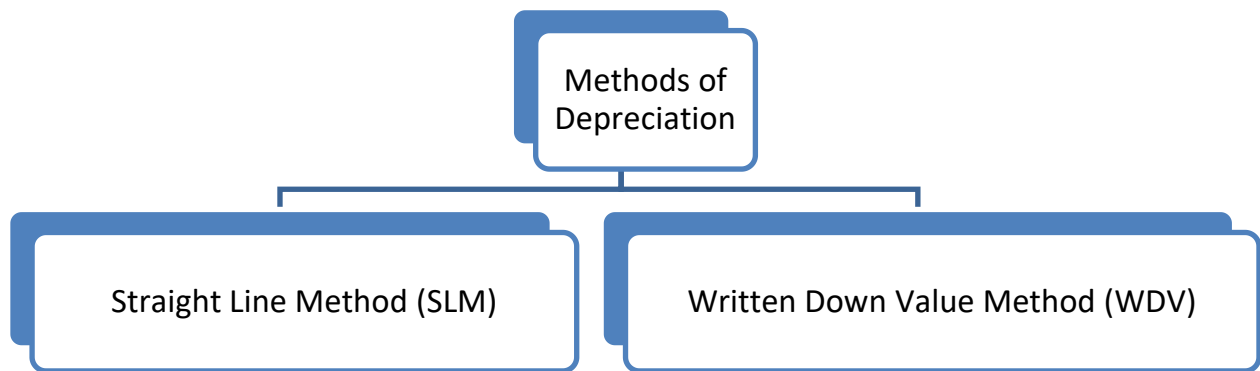
The determination of depreciation depends on three parameters, viz.

- i. Cost
- ii. estimated useful life and
- iii. probable salvage value.

Other similar terms: Depletion and Amortisation

- i. Depletion - The term depletion is used in the context of extraction of natural resources like mines, quarries, etc. that reduces the availability of the quantity of the material or asset
(Decrease due to use)
- ii. Amortisation - Amortisation refers to writing-off the cost of intangible assets like patents, copyright, trademarks, franchises, goodwill which have utility for a specified period of time
(Decrease due to lapse of time)

METHODS OF DEPRECIATION



Straight Line Method- It is also called fixed instalment method because the amount of depreciation remains constant from year to year over the useful life of the asset. According to this method, a fixed and an equal amount is charged as depreciation in every accounting period during the lifetime of an asset

Depreciation =	$\frac{\text{Cost of asset - Estimated net residential value}}{\text{Estimated useful life of the asset}}$
----------------	--

Written Down Value Method (WDV)- Under this method, depreciation is charged on the book value of the asset. Since book value keeps on reducing by the annual charge of depreciation, it is also known as ‘reducing balance method’

Difference between Straight Line Method and Written Down Value Method-

Basis	Straight Line Method	Written Down Value Method
Basis of charging	Original cost	Book value
Annual Depreciation	Fixed	Declining
Combined cost of Depreciation and repair	Unequal (increases in later years)	Equal every year
Recognition by Income tax law	Not recognised	Recognised
Suitability	suitable for assets in which repair charges are low the possibility of obsolescence is low	suitable for assets which are affected by technological changes and require more repair expenses with passage of time

Advantage of straight line method

very simple, easy to understand
Asset can be depreciated up to the net scrap value or zero value
Every year, same amount is charged as depreciation
method is suitable for those assets whose useful life can be estimated accurately

Advantage of written down value method

more realistic assumption that the benefits from asset go on diminishing (reducing) with the passage of time
equal burden of depreciation and repair expenses taken together every year
Income Tax Act accept this method
loss due to obsolescence gets reduced

Methods of recoding depreciation

1. **Charging to asset account** - According to this arrangement, depreciation is deducted from the depreciable cost of the asset (credited to the asset account) and charged (or debited) to profit and loss account.
2. **Creating provision for depreciation/accumulated depreciation account**- This method is designed to accumulate the depreciation provided on an asset in a separate account generally called 'Provision for Depreciation' or 'Accumulated Depreciation' account. By such accumulation of depreciation, the asset account need not be disturbed in any way and it continues to be shown at its original cost over the successive years of its useful life.

Recording of Depreciation –

Transaction	Charging to asset account	Creating provision for depreciation
Purchase of asset	Asset a/c -----Dr. To Bank//Vendor	Asset a/c -----Dr. To Bank//Vendor
For Depreciation	Depreciation a/c -----Dr. To Asset A/c	Depreciation A/c ----Dr. To Provision for Depreciation A/c
For transfer of Depreciation to p&l a/c.	P&L a/c -----Dr. To Depreciation A/c	P&L a/c -----Dr. To Depreciation A/c
For sale of Asset	Bank A/c----- Dr. (sale value) P&L A/c -----Dr. (If loss) To Asset A/c (B.V of Asset) To P & L A/c. (If Gain)	Bank A/c----- Dr. (sale value) PFD-----Dr. (Accu.Dep.) P&L A/c -----Dr. (If loss) To Asset A/c (original cost) To P & L A/c. (If Gain)

Use of Asset Disposal Account

- Asset disposal account is designed to provide a complete and clear view of all the transactions involved in the sale of an asset under one account head.
- The concerned variables are the original cost of the asset, depreciation accumulated on the asset upto date, sale price of the asset, value of the parts of the asset retained for use, if any and the resultant profit or loss on disposal.
- The balance of this amount is transferred to the profit and loss account.

Journals –

1. For transfer of Asset to Asset Disposal at the time of sale of asset -

2	<div>Asset Disposal A/c -----Dr. To Asset</div>
---	---

or transfer of Accumulated Depreciation to Asset Disposal (If provision for depreciation is created)

<div>Provision for Depreciation -----Dr. To Asset Disposal A/c</div>
--

3. Sale of Asset

<div>Bank A/c-----Dr. (Sale value) P&L a/c -----Dr. (If loss on sale of asset) To Asset Disposal A/c To P &L A/c. (If Gain on sale of Asset)</div>

MCQ

1. If cost price of an asset is ₹ 2,00,000 and useful life is 10 years and annual depreciation is 15,000 on SLM. Its scrap value is-
 - a) ₹. 50,000
 - b) ₹. 40,000
 - c) ₹ 1,00,000
 - d) ₹ 1,85,000
2. Scrap Value is-
 - a) Market price of fixed asset
 - b) Cost price of fixed asset
 - c) Expected value at the end of useful life of asset
 - d) Sale price minus cost price
3. If the cost price of an asset is Rs.5,00,000 and depreciation is charged @20% p.a. on diminishing balance method, then book value at end of two years is-
 - a) ₹.3,20,000
 - b) ₹. 4,00,000
 - c) ₹. 3,00,000
 - d) ₹.5,00,000
4. Which of the following is not a feature of the straight line method?
 - a) Amount of depreciation is same every year
 - b) Book value becomes zero at the end of life
 - c) It is simple method
 - d) Scrap value is zero
5. Which of the following is not true about the Diminishing Balance Method?
 - a) Book value of machine never comes to zero
 - b) It is a scientific method
 - c) It is difficult method
 - d) Amount of depreciation is same every year

6. The amount of depreciation goes on decreasing every subsequent year under which method
- Written down value method.
 - Straight line method
 - both(a) and (b)
 - None
7. If the original cost is ₹ 1,36,000, salvage value is ₹ 10,000 and useful life is six years, depreciation will beunder straight line method.
- 18,000
 - 19,000
 - 21,000
 - 25,000

ON THE BASIS OF THE FOLLOWING TWO STATEMENTS, IDENTIFY THE CORRECT OPTION OUT OF THE FOLLOWING:

- Assertion (A) and Reason (R) are correct but the Reason (R) is not the correct explanation of Assertion (A).
 - Both Assertion (A) and Reason (R) are correct and Reason (R) is correct explanation of Assertion (A).
 - Assertion (A) is not correct but Reason (R) is correct.
 - Both Assertion (A) and Reason (R) are incorrect.
- 8.. . Assertion (A) Depreciation is the permanent fall in the market value of Fixed asset.
Reason (R) : Depreciation Accounting is the process of valuation and not allocation.

9. Assertion (A): Depreciation is allocation of cost of asset over its estimated useful life.
Reason (R) : By charging depreciation, cost of fixed asset is written off over the estimated useful life of the asset.

10. The term 'Depletion' is used for which types of assets?

- Liquid assets
- Fixed Assets
- Wasting assets
- Intangible assets

(Ans - 1A, 2C ,3A ,4D ,5D ,6A,7C,8D,9B,10C)

PRACTICAL PROBLEMS -

1. (WDV Method)

A business purchased a Machine of Rs. 4,80,000 on 1st April 2015. Purchased another machine for Rs. 4,20,000 on 1st Oct 2015 and Third machine for Rs 4,00,000 on 1st July 2016

On 1st July 2017 business sold 1/3rd part of the machine purchased on 1st April 2015 sold at Rs. 1,00,000, and on the same day it purchases another machine for Rs 1,20,000.

Business charged depreciation @10%p.a. Diminishing Balance Method on 31st March each year.

Prepare Machine A/c upto March 2018.

ANS-

Dr			Cr.		
Date	Particulars	Amount(₹)	Date	Particulars	Amount(₹)
1-4-2015	To Bank A/c	4,80,000	31-3-2016	By Depreciation A/c	69,000
1-10-2015	To Bank A/c	4,20,000	31-3-2016	By Balance c/d	8,31,000

		9,00,000			9,00,000
1-4-2016	To Balance b/d	8,31,000	31-3-2017	By Depreciation A/c	1,13,100
1-07-2016	To Bank A/c	4,00,000		By Balance c/d	11,17,900
		12,31,000			12,31,000
1-4-2017	To Balance b/d	11,17,900	1-07-2017	By Depreciation A/c	3,240
1-07-2017	To Bank A/c	1,20,000		By Bank A/c	1,00,000
				By P & L A/c	26,360
				By Depreciation A/c	1,07,830
				By Balance c/d	10,00,470
		12,37,900			12,37,900

Working Notes-

1-4-2015 to 31-03-2016

Dep –I 4,80,000 x 10/100 = 48,000

Dep –II 4,20,000 x 10/100 x 6/12 = 21,000
69,000

1-4-2016 to 31-03-2017

Dep –I & II 8,31,000 x 10/100 = 83,100

Dep –III 4,00,000 x 10/100 x 9/12 = 30,000
1,13,100

1-4-2017 to 31-03-2018

Profit and Loss on the sale of 1/3 rd part of machine purchased on 1-4-2015

1-4-2015 (4,80,000 x 1/3)	1,60,000	
(-) dep 10% for full year	<u>16,000</u>	(1,60,000 x 10/100)
1-4-2016	1,44,000	
(-) dep 10% for full year	<u>14,400</u>	(1,44,000 x 10/100)
1-4-2017	1,29,600	*
(-) dep 10% for 3 months	<u>3,240</u>	(1,29,600 x 10/100 x 3/12)
1-7-2017	1,26,360	
(-) sale Value	<u>1,00,000</u>	
Loss	<u>26,360</u>	

Remaining value of Machine I, II and III = 11,17,900 - 1,29,600 = 9,88,300

Dep 9,88,300 x 10/100 = 98,830

Dep –IV 1,20,000 x 10/100 x 9/12 = 9,000
1,07,830

2. **(Fixed instalment method/SLM)**

A company purchased a second hand machinery on 1st Apr 2013 for Rs.37,000 and immediately spent Rs.2,000 on its repairs and Rs.1,000 on its erection. On 1st Oct 2014, it purchased another machine for Rs.10,000 and 1st Oct 2015, it sold off the first machine for Rs.28,000 and on the same date bought another for Rs.25,000. On 1st Oct 2016, the second machinery was sold for Rs.2,000. Depreciation was charged at 10% pa on fixed instalment method. Give machinery a/c for 4 yrs

Date	Particulars	(₹)	Date	Particulars	(₹)
2013 Apr 1	To Bank A/c (i)	40000	2014 Mar 31	By Dep A/c	4000
				By Bal c/d	36000

2014		40000	2015		40000
Apr 1	To Bal b/d	36000	Mar 31	By Dep i A/c	4000
Oct 1	To Bank A/c (ii)	10000		By Dep ii A/c	500
		46000		By Bal c/d	41500
2015			2015		46000
Apr 1	To Bal b/d i	32000	Oct 1	By Dep i A/c	2000
	ii	9500		By Bank A/c	28000
Oct 1	To Bank (iii)	25000	2016	By P&L A/c	2000
		66500	Mar 31	By Dep ii A/c	1000
2016				By Dep iii A/c	1250
Apr 1	To Bal b/d ii	8500		By Bal c/d	32250
	iii	23750	2016		66500
		32250	Oct 1	By Dep ii A/c	500
				By Bank A/c	2000
			Mar 31	By P&L A/c	6000
				By Dep iii A/c	2500
				By Bal c/d	21250
					32250

3. (Provision for Depreciation and Asset disposal A/c)

On 1-4-2015, X Ltd. purchased a machinery for Rs.15,00,000. Depreciation is provided @ 20% p.a on the original cost of the machinery and books are closed on 31st March each year. On 30th September 2017, a part of this machine purchased on 1-4-2015 for Rs.3,00,000 was sold for .1,40,000 and on the same date a new machinery was purchased for Rs.4,00,000.

You are required to prepare (a) Machinery A/c (b) Provision for Depreciation A/c and (c) Machinery Disposal A/c for the Years ending 31st March 2016, 2017 and 2018

ANS-

MACHINERY A/C

Dr.			Cr.		
Date	Particulars	Amount	Date	Particulars	Amount
2015 Apr-1	To Bank (I)	1500000	2016 Mar-31	By Bal c/d(I)	1500000
		1500000			1500000
2016 Apr-1	To Bal b/d(I)	1500000	2017 Mar-31	By Bal c/d(I)	1500000
		1500000			1500000
2017 Apr-1 Sep-30	To Bal b/d(I) To Bank(II)	1500000 400000	2017 Sep-30 2018 Mar-31	By Mach Disposal A/c By Bal c/d: (I)1200000 (II)400000	300000 1600000
		1900000			1900000

PROVISION FOR DEPRECIATION A/C

Date	Particulars	Amount	Date	Particulars	Amount
2016 Mar-31	To Bal c/d(I)	300000	2016 Mar-31	By Dep(I)	300000
		300000			300000
2017 Mar-31	To Bal c/d(I)	600000	2016 Apr-1 2017 Mar-31	By Bal b/d(I)	300000
		600000		By Dep(I)	300000
2017 Sep-30 2018 Mar-31	To Mach Disposal A/c (60000+60000+30000)	150000	2017 Apr-1 Sep-30 2018 Mar	By Bal b/d(I)	600000
	To Bal c/d: (I)720000 (II)40000	760000		By Dep	30000
		910000		By Dep: (I)240000 (II)40000	280000
		910000			910000

MACHINERY DISPOSAL A/C

Date	Particulars	Amount	Date	Particulars	Amount
2017 Sep-30	To Machinery A/c	300000	2017 Sep-30	By Prov for Dep A/c	150000
				By Bank	140000
				By P&L A/c(Loss)	10000
		300000			300000

4. (WDV Method)

Abhimanu Ltd. purchased on 1st January, 2009 a machinery for Rs. 36,000 and spent Rs. 4,000 on its installation. On 1st July, 2009 another machine purchased for Rs. 20,000. On 1st July, 2011, machine bought on 1st January, 2009 was sold for Rs. 12,000 and a new machine purchased for Rs. 64,000 on the same date. Depreciation is provided on 31st December @ 10% p.a. on the written down value method. Prepare machinery A/c from 2009 to 2011

ANS-

Dr Machinery a/c
Cr.

Date	Particulars	J. F .	Rs.	Date	Particulars	J. F .	Rs.
2009 Jan 1	To Bank A/c (M-I)		40,000	2009 Dec 31	By Depreciation A/c (M-I Rs. 4,000 + M-II Rs. 1,000)		5,000
July 1	(36,000 + 4,000)			Dec 31	By Balance c/d (M-I Rs. 36,000 + M-II Rs. 19,000)		55,000
	To Bank A/c		20,000				
			60,000				60,000

2010 Jan 1				2010 Dec 31	By Depreciation A/c (M-I Rs. 3,600 + M-II Rs. 1,900)	5,500
	To Balance b/d		55,000	Dec 31	By Balance c/d (M-I Rs. 32,400 + M-II Rs. 17,100)	49,500
			55,000			55,000
2011 Jan 1	To Balance b/d		49,500	2011 July 1	By Bank A/c (Sale)	12,000
July 1	To Bank A/c (M-III)		64,000	July 1	By Depreciation A/c (M-I)	1,620
				July 1	by Profit and Loss A/c (profit on sale)	18,780
				Dec 31	By Depreciation A/c (M-II Rs. 1,710 + M-III Rs. 3,200)	4,910
				Dec 31	By Balance c/d (M-II Rs. 15,390 + M-III Rs. 60,800)	76,190
			1,13,500			1,13,500
20 12 Jan 1	To balance b/d		76,190			

5. (Written Down Value Method) On 1st July 2014, Ashwani purchased a machine for Rs.2,00,000 on credit from Dushyant. Installation expenses Rs.25,000 are paid by cheque. Depreciation is to be charged on written down value method @ 10% per annum. Prepare necessary ledger accounts for first three years, assuming that Ashwani closes his books on 31st December.

Sol. Dr.				Machinery Account				Cr.	
Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)		
2014 July 1	To Dushyant		2,00,000	2014 Dec 31	By Deprecation A/c		11,250		
	To Bank A/c		25,000	Dec 31	By Balance c/d		2,13,750		
			2,25,000				2,25,000		
2015 Jan 1	To Balance b/d		2,13,750	2015 Dec 31	By Deprecation A/c		21,375		
				Dec 31	By Balance c/d		1,92,375		
			2,13,750				2,13,750		
2016 Jan 1	To Balance b/d		1,92,375	2016 Dec 31	By Deprecation A/c		19,237.5		
				Mar 31	By Balance c/d		1,73,137.5		
			1,92,375				1,92,375		
2017 Jan 1	To Balance b/d		173,137.5						

Dr. Depreciation Account				Cr.			
Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
2014 Dec 31	To Machinery A/c		11,250	2014 Dec 31	By Profit and Loss A/c		11,250
			11,250				11,250
2015 Dec 31	To Machinery A/c		21,375	2015 Dec 31	By Profit and Loss A/c		21,375
			21,375				21,375
2016 Dec 31	To Machinery A/c		19,237.5	2016 Dec 31	By Profit and Loss A/c		19,237.5
			19,237.5				19,237.5

For Self Assessment -

6. (Provision for Depreciation Account)

The books of Mumbai Chemicals Ltd. showed the following balances on January 1, 2016:

Machinery Account ₹ 10,00,000

Provision for Depreciation Account ₹ 4,05,000

On January 1, 2016, a machine which had a cost of ₹ 2,00,000 on 1st July 2013 was sold for ₹ 80,000. The firm writes off depreciation @10% p.a. under the reducing balance method and its accounts are made up on 31st December each year. You are required to prepare the Machinery A/c and Provision for Depreciation A/c for the year ending 31st December 2016

7. (WDV Method)

On 1st January 2018, Bharat Toys Ltd purchased a Machinery for ₹ 12,00,000. The firm writes off depreciation at 10% p.a. on the diminishing balance and the books are closed on 31st December each year. On 1st April, 2019 another machinery was purchased for ₹ 5,00,000. On 1st January 2020 first machinery purchase on 1st January 2018 was sold for ₹ 9,00,000. and on the same date a new machinery was purchased for ₹ 4,00,000. Show the Machinery Account for three years.

CHAPTER 16

PROVISIONS AND RESERVES

Provisions-

Provision is an amount set aside from the profits for meeting any liability in future, the amount of which is not known accurately at the time of finalisation of statements

In other words, Provision is to be made in respect of a liability, which is certain to be incurred, but its exact amount is not known.

- Provision is a charge against profits, which means that irrespective of the fact whether business enterprises is earning sufficient profit or not, provision has to made in the financial statements
- It is necessary to take into account such an expected loss while calculating true and fair profit/loss according to the principle of Prudence or Conservatism.
- Example 1.Provisions for depreciation 2. Provisions for bad debts 3. Provisions for tax etc.
- In the balance sheet, the amount of provision may be shown either:
 - ✓ By way of deduction from the concerned asset on the assets side. For example provision for doubtful debts
 - ✓ In the liabilities side of the balance sheet alongwith current liabilities, for example provision for taxes and provision for repairs and renewals

Reserve

Reserve means an amount set aside out of profits and other surpluses to meet future uncertainty, in other words a reserve is meant for meeting any unknown liability or loss in the future.

- It is created out of profits (Appropriation of profit)for Strengthening the financial position
- Creation of reserve is not legal necessity
- it is a source of internal financing and enhances the reputation of the business
- e.g. General reserve , Capital reserve etc

Difference between Provisions and Reserves

Basis	Provision	Reserve
Basic Nature	To satisfy a known liability	To satisfy an unknown liability.
Purpose	created to compensate for a particular loss	created to strengthen the financial position of the business
Accounting treatment	Provisions are shown in the debit side of Profit and loss account	Reserves are shown in the debit side of Profit and loss appropriation account
Presentation in Balance Sheet	It is either seen on the asset side by deduction from the respective asset or on the liabilities side as a separate item	It is seen under the heading 'Reserves and Surplus' in liabilities side of Balance sheet
Compulsion	Creation of provision is necessary as per law	The creation of reserves is not compulsory as per law
Use for payment of dividend	It cannot be used by owners as dividends for shareholders	It may be used by shareholders as dividends

Difference between capital and revenue reserve

Basis	Revenue Reserve	Capital Reserve
Source	created out of revenue profit, i.e., revenue earned from normal activities of business operations	created out of capital profit, i.e., gain from other than normal activities of business operations, such as sale of fixed assets, etc
Dividend	It can be used for distribution of dividends	It cannot be used for distribution of dividend
Purpose	created for strengthening the financial position of the business	created for the purpose laid down in the Companies Act

MCQ

1. Which of the following statements is NOT true about Provisions?
 - (a) It is an appropriation of profit.
 - (b) It is a charge against profits.
 - (c) It is shown on the liability side of Balance sheet.
 - (d) It is not used for distribution as dividend
2. Any reserve which is not apparent on the face of Balance sheet is known |
 - (a) Secret reserve.
 - (b) General Reserve
 - (c) Revenue reserve
 - (d) Capital Reserve
3. Provision is a _____ against profits to meet _____ liabilities.
 - (a) Charge & unknown
 - (b) Appropriation & Known
 - (c) Appropriation & unknown.
 - (d) Charge & Known
4. _____ is a specific Reserve?
 - (a) Workmen's Compensation Fund
 - (b) Investment Fluctuation Fund
 - (c) Debenture redemption reserve
 - (d) All of the above
5. Provision is created by debiting:
 - (a) Profit and Loss Account
 - (b) None of these
 - (c) Profit and Loss Appropriation Account
 - (d) Trading Account
6. Which of the following statements are correct about a "Provision"?
 - (i) Provisions are a charge against the profits of an enterprise
 - (ii) Provisions are created out of divisible profits
 - (iii) Creation of provisions are not necessary for a business
 - (iv) Provisions are created to meet a known liability
 - (a) (i), (ii) and iii)
 - (b) i) and (iv) only
 - (c) (i), (ii) and (iv)
 - (d) (i) and (iv) only

ANS- 1a ,2a ,3d ,4d ,5a .6d

CHAPTER 17 RECTIFICATION OF ERRORS

A tallied trial balance only proves, to a certain extent, that the posting to the ledger is arithmetically correct. But it does not guarantee that the entry itself is correct. There can be errors, which affect the equality of debits and credits, and there can be errors, which do not affect the equality of debits & credits.

Some common errors include the following:

- Error in totaling of the debit and credit balances in the trial balance.
- Error in totaling of subsidiary books.
- Error in posting of the total of subsidiary books.
- Error in showing account balances in wrong column of the trial balance, or in the wrong amount.
- Omission in showing an account balance in the trial balance.
- Error in the calculation of a ledger account balance.
- Error while posting a journal entry: a journal entry may not have been posted properly to the ledger, i.e., posting made either with wrong amount or on the wrong side of the account or in the wrong A/c.
- Error in recording a transaction in the journal: making a reverse entry, i.e., account to be debited is credited and amount to be credited is debited, or an entry with wrong amount.
- Error in recording a transaction in subsidiary book with wrong name or wrong amount.

Classification of Errors:

Keeping in view the nature of errors, all the errors can be classified into the following four categories:

- Errors of Commission
- Errors of Omission
- Errors of Principle
- Compensating Errors

Errors of Commission:

These are the errors which are committed due to wrong posting of transactions, wrong totalling or wrong balancing of the accounts, wrong casting of the subsidiary books, or wrong recording of amount in the books of original entry, etc.

For example:

Raj Traders paid ₹ 25,000 to Preetpal Traders (a supplier of goods). This transaction was correctly recorded in the cashbook. But while posting to the ledger, Preetpal's account was debited with ₹ 2,500 only. This constitutes an error of commission.

Errors of Omission:

The errors of omission may be committed at the time of recording the transaction in the books of original entry or while posting to the ledger. These can be of two types:

- (i) Error of complete omission.
- (ii) Error of partial omission.

When a transaction is completely omitted from recording in the books of original record, it is an error of complete omission. For example, credit sales to Mohan ₹ 10,000, not entered in the sales book. When the recording of transaction is partly

omitted from the books, **it is an error of partial omission.**

If in the above example, credit sales had been duly recorded in the sales book but the posting from sales book to Mohan's account has not been made, **it would be an error of partial omission.**

Errors of Principle:

Accounting entries are recorded as per the generally accepted accounting principles. If any of these principles are violated or ignored, errors resulting from such violation are known as errors of principle. An error of principle may occur due to incorrect classification of expenditure or receipt between capital and revenue. This is very important because it will have an impact on financial statements. It may lead to under/over stating of income or assets or liabilities, etc.

For example, amount spent on additions to the buildings should be treated as capital expenditure & must be debited to the asset account. Instead, if this amount is debited to maintenance and repairs account, it has been treated as a revenue expense. This is an error of principle. Similarly, if a credit purchase of machinery is recorded in purchases book instead of journal proper or rent paid to the landlord is recorded in the cash book as payment to landlord, these errors of principle. *These errors do not affect the trial balance.*

Compensating Errors:

When two or more errors are committed in such a way that the net effect of these errors on the debits and credits of accounts is nil, such errors are called **Compensating errors**. *Such errors do not affect the tallying of the trial balance.*

For example, if purchases book has been overcast by ₹ 10,000 resulting in excess debit of ₹ 10,000 in purchases account and sales returns book is undercast by ₹ 10,000 resulting in short debit to sales returns account is a case of two errors compensating each other's effect. One plus is set off by the other minus, the net effect of these two errors is nil and so they do not affect the agreement of trial balance.

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 ₹ 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's 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 are 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* (ii) *Error of Commission* (iii) *Wrong Posting*

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 Baal	→	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

S.No	Trial Dr. Total (₹)	Balance (Cr. Total) (₹)	Difference (₹)	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

Example:

Trial Balance

Closing of Suspense A/c

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

(a) Total of Return Inward Book ₹ 3,300 posted to Purchase A/c.

- | | | |
|----------------------|-------|-------|
| Sales Return A/c Dr. | 3,300 | |
| To Purchases A/c | | 3,300 |

- | | | | |
|--------------|------------------|-------|-------|
| Sales A/c | Dr. | 2,000 | |
| Suspense A/c | Dr. | 3,000 | |
| | To Furniture A/c | | 5,000 |

- | | | |
|------------------|-------|-------|
| Suspense A/c Dr. | 1,605 | |
| To Customer | | 1,605 |

- | | | | | |
|---------------|-------------------|-------|-------|-----------------|
| Purchases A/c | Dr. | 8,000 | | |
| Sales A/c | Dr | 4,000 | | |
| | To Manorama & Co. | | | |
| | A/c | | 5,000 | To Suspense A/c |
| | | | | 7,000 |

- Illustration 2:** 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:

- Ans: Rectification entries:*

- | | | | |
|---|-----|-------|-------|
| Suspense A/c | Dr. | 2,000 | |
| To Sales Return A/c | | | 2,000 |
| (Being Sales returns book overcast by ₹ 2,000 now corrected). | | | |

- | | | | |
|---|-----|-------|-------|
| Purchase A/c | Dr. | 1,200 | |
| To Suspense A/c | | | 1,200 |
| (Being Purchase book under cast by ₹ 1,200 now corrected) | | | |

- (ii) In the sales book total of page no. 4 was carried forward to page 5 as ₹ 2,000 instead of ₹ 2,400 & total of page 8 was carried forward to page 9 as ₹ 11,200 instead of ₹ 10,000.

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

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

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

- (iv) Credit purchases from M & Co. ₹ 16,000 were recorded through sales books.

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)			

- (v) 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)			

- (vi) 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)			

Suspense A/c

Cr.

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

PRACTICE QUESTIONS:

1. Prepare a Trial Balance from the following balances as at 31st March 2023:

	(₹)		(₹)
Purchases	82,000	Interest on Investment	2,400

Sales	1,60,000	Return Inwards	7,500
Stock on 01-04-2022	28,800	Return Outwards	5,600
Wages	16,160	Carriage Inwards	1,640
Salaries	6,400	Carriage Outwards	3,200
Repair Charges	1,500	Furniture	12,000
Commission Received	1,800	Motor Car	80,000
Sundry Debtors	24,200	Cash in Hand	4,700
Sundry Creditors	7,300	Bank Overdraft	35,400
Capital	90,000	Investment	30,000
Drawings	4,400		

2. A newly appointed clerk prepared the following Trial Balance from the balances of ledger. It seems to be correct, but it is not correct. Prepare a corrected Trial Balance:

Particular	L.F	Dr. (₹)	Cr. (₹)
Purchases		60,000	
Sales			45,000
Reserve Fund		5,000	
Opening Stock		5,000	
Closing Stock		10,000	
Outstanding expenses			5,000
Machinery		40,000	
Capital			50,000
Suspense A/c			20,000
Total		<u>1,20,000</u>	<u>1,20,000</u>

3. Rectify the following errors:
- Credit purchases from Raghu ₹ 20,000
- Were not recorded.
 - Were recorded as ₹ 10,000.
 - Were recorded as ₹ 25,000.
 - Were not posted to his account.
 - Were posted to Raghav's account.
 - Were posted to the debit of Raghu's account.
 - Were posted to the debit of Raghav.
 - Were recorded through sales book.
4. Trial balance of Anurag did not agree. It showed an excess credit ₹ 10,000. Anurag put the difference to suspense account. He located the following errors:
- Sales return book over cast by ₹ 1, 000.
 - Purchase book was under cast by ₹ 6,000.
 - Goods returned to Ram ₹ 1,000 were recorded through sales book.
 - Credit purchases from M & Co. ₹ 8,000 were recorded through sales book.
 - Salary paid ₹ 2,000 was debited to employee's personal account.
5. Tick the correct

- I) Agreement of trial balance is affected by:
- One sided errors only.
 - Two sided errors only.
 - Both (a) and (b).
 - None of the above.
- II) Which of the following is not an error of principle:
- Purchase of furniture debited to Purchases account.
 - Repairs on the overhauling of second hand machinery purchased debited to Repair account.
 - Cash received from Manoj posted to Saroj.
 - Sale of old car credited to Sales account.
- III) Which of the following is not an error of commission:
- Over casting of Sales book.
 - Credit sales to Ramesh ₹ 5,000 credited to his account.
 - Wrong balancing of machinery account.
 - Cash sales not recorded in cash book.
- IV) If suspense account does not balance off even after rectification of errors it implies that:
- There are some one-sided errors only in the books yet to be located.
 - There are no more errors yet to be located.
 - There are some two-sided errors only yet to be located.
 - There may be both one sided errors and two sided errors yet to be located.
6. Give two examples of errors of principle?
7. Give two examples of errors of commission?
8. What is a suspense account? Is it necessary that a suspense account will? Balance off after rectification of the errors detected by the accountant? If Not, then what happens to the balance still remaining in suspense account?
9. Rectify the following errors:
- Credit sales to Mohan ₹ 7,000 were not recorded.
 - Credit purchases from Rohan ₹ 9,000 were not recorded.
 - Goods returned from Mahesh ₹ 1,000 were not recorded.
 - Goods returned to Rakesh ₹ 4,000 were not recorded.
10. Rectify the following errors:
- Salary paid ₹ 5,000 was debited to employee 's personal account.
 - Rent Paid ₹ 4,000 was posted to landlord 's personal account.
 - Cash received from Kohli ₹ 2,000 was posted to Kapur's account.
 - Cash paid to Babu ₹ 1,500 was posted to Sabu's account.
11. Rectify the following errors & ascertain the amount of difference in trial balance by preparing Suspense A/c:
- Credit sales to Mohan ₹ 7,000 were posted as ₹ 9,000.

- (ii) Credit purchases from Rohan ₹ 9,000 were posted as ₹ 6,000.
 - (iii) Goods returned to Rakesh ₹ 4,000 were posted as ₹ 5,000.
 - (iv) Goods returned from Mahesh ₹ 1,000 were posted as ₹ 3,000.
 - (v) Cash sales ₹ 2,000 were posted as ₹ 200.
12. Rectify the following errors assuming that suspense account was opened.
Ascertain the difference in trial balance.
- (i) Furniture purchased for ₹ 10,000 wrongly debited to purchase account as ₹ 4,000
 - (ii) Repairs on machinery ₹ 1,400 debited to Machinery account as ₹ 2,400
 - (iii) Repairs on overhauling of second hand machinery purchased ₹ 2,000 was debited to Repairs account as ₹ 200.
 - (iv) Sale of old machinery at book value ₹ 3,000 was credited to sales account as ₹ 5,000
13. Trial balance of Anuj did not agree. It showed an excess credit of ₹ 6,000. He put the difference to suspense account. He discovered the following error:
- (i) Cash received from Ravish ₹ 8,000 posted to his account as ₹ 6,000.
 - (ii) Returns inwards book overcast by ₹ 1,000.
 - (iii) Total of sales book ₹ 10,000 was not posted to Sales account.
 - (iv) Credit purchases from Nanak ₹ 7,000 were recorded in sales Book. However Nanak's account was correctly credited
 - (v) Machinery purchased for ₹ 10,000 was posted to purchases account as ₹ 5,000.
- Rectify the errors and prepare Suspense account
14. Pass Journal Entries to rectify the following errors:-
- (a) An amount of ₹ 1,000 is withdrawn by the proprietor for his personal use has been debited to the Trade Expenses Account.
 - (b) A purchase of goods from Ram amounting to ₹ 1,500 has been wrongly passed through Sales Book.
 - (c) Bill for ₹ 820 received from Raju for repairs to Machinery was entered in the Purchase book as ₹ 720.
15. Rectify the following errors by passing the rectifying entries using Suspense A/c.
- (a) Credit Sale of ₹ 2,000 to Rohan was posted to Raman's A/c.
 - (b) Sales Return book is under cast by ₹ 1,000
 - (c) Paid ₹ 20,000 as wages for construction of building debited to wages A/c ₹ 20,000
 - (d) ₹ 1,000 paid in cash for a typewriter was charged to office expense account.
16. Pass necessary Journal Entries in the book of X to rectify the following errors:
- (a) Bought Machinery for ₹ 2,500 for the proprietor was debited to General Expenses A/c's ₹ 500.
 - (b) Goods returned by Mohan ₹ 960 have been debited to his account ₹ 1,680.
 - (c) Bought goods from Krishan ₹ 2,000 was passed through the sales book, however, the account of Ramesh was credited correctly.
17. Which types of error has been made in these sentences? Identify the errors & explain about them.
- (a) Purchased goods from Raj on credit but were recorded in the purchases book.
 - (b) Sale of ₹ 10,000 recorded as ₹ 1,000 and Purchase of ₹ 10,000 recorded as ₹ 1,000.

(c) Sales of some parts of old car was credited to Sales A/c.

CHAPTER 18

FINANCIAL STATEMENTS -1

Meaning of Financial Statements:

Financial Statements means such statements which reflects the profitability and financial position of the business at the end of accounting period. A set of financial statements or Final Accounts include:

- (i) Income Statement (Trading and Profit and Loss Account): It shows financial performance in the form of Profit earned or Loss incurred by an enterprise, at the end of accounting period.
- (ii) Statement of Financial Position (Balance Sheet): It shows financial position with the help of assets and liabilities of an enterprise at a particular point of time.

(Nowadays, in addition to the above mentioned two basic financial statements. Two other statements namely a Statement of Retained Earnings and a Cash Flow Statement are also generally included in financial statements.)

Objectives of Preparing Financial Statements:

- (i) To provide an accurate and reliable representation of financial performance (*i.e.* profit or loss) of the business.
- (ii) To provide an accurate and reliable representation of financial position (*i.e.* Assets/Liabilities) of the business.

Importance of Financial Statements:

Financial Statements (Final Account) generally includes preparation of Trading and Profit and Loss Account (Also known as Income statement) and Balance Sheet (Also known as Position statement). So the importance of preparing both the statements is as follows:

(1) Trading and Profit and Loss Account:

- (i) Computation of Gross profit of Gross Loss: Trading account is prepared to compute the gross profit/loss incurred by the business during the accounting period.
- (ii) Computation of Net profit of Net Loss: Profit and Loss account is prepared to compute the Net profit/loss incurred by the business during the accounting period.
- (iii) To make comparisons with the previous year's financial performance.
- (iv) To get the details of direct and indirect expenses, revenues, and other incomes of the business for taking appropriate decisions.
- (v) To determine the amount to be set aside from net profit in the form of reserves to meet future uncertainties.

(2) Balance Sheet:

- (i) Balance sheet is prepared to know the asset owned and liabilities owed by the business at a particular point of time.
- (ii) This helps to determine solvency position by computing Current Ratio and Debt to Equity Ratio which are computed from the balance sheet.
- (iii) This also helps to make comparison of current year's financial position with previous year's financial position.

Users of financial Statements:

Name	Type of User	Accounting Information required
Owner	Internal	They are interested to know the profit earned or loss incurred, besides safety of their investment (<i>i.e.</i> capital)
Management	Internal	They use accounting information to make informed decisions such as determining selling price, cost control and reduction etc.
Government	External	Government authorities make use of financial statements to compile national income accounts and other information. The information so available enables them to take policy decisions. Government levies taxes such as GST and Income Tax. The government authorities assess the correct tax dues from analysis of the financial statements.
Prospective Owners	External	They require information about the past profits and financial position as indication of likely future.
Banks	External	Banks provide loans to businesses. They require performance of business to know whether it is progressing as projected to ensure safety, service and recovery of loan advanced.

Capital vs. Revenue Expenditures:

Most important difference in accounting is between capital and revenue items. The difference is important for making the trading and profit and loss account and balance sheet. The revenue items form part of the trading and profit and loss account, the capital items help in the preparation of a balance sheet

Expenditure:

- Whenever payment and/or incurrence of an outlay are made for a purpose other than the settlement of an existing liability, it is called expenditure.
- The expenditures are incurred with a viewpoint they would give benefits to the business.

Revenue Expenditure:

- Revenue Expenditure is an expenditure benefit of which is consumed or exhausted within the accounting period.
- In other words, an expenditure which is not capital expenditure is revenue expenditure.
- Normally, they are incurred for the day-to-day conduct of the business.

Examples of Revenue Expenditure:

- Expenses incurred on purchase of stock of raw material and goods to the extent that they are consumed during the accounting year.
- Expenses incurred in operations of the business such as rent, salaries, wages, power, fuel, etc.
- Expenses incurred for repairs and maintenance of fixed assets.
- Depreciation on fixed assets.

Capital Expenditure:

- If the benefit of expenditure extends more than one accounting period, it is termed as *capital expenditure*.
- It is of non-recurring nature.

- It brings into existence a new fixed asset.
- It results in an increase in the value of fixed assets already occupied, e.g., development of property.
- Normally, it involves a large amount.

Examples of capital Expenditure:

- Purchase of fixed assets such as building, land, machinery furniture, etc.
- Purchase of intangible assets such as goodwill, patents, trademark, etc.
- Expenses for extension or improvement of fixed assets.
- Expenses incurred to bring the purchased fixed assets to the place of their use and its installation or erection.
- Expenses incurred for reconditioning of old fixed assets.
- Expenses incurred to obtain rights to do business.
- Legal expenses to obtain fixed assets.

Accounting Treatment

Expenditure	Treatment in Final Accounts
Revenue Expenditure	Shown in the Debit Side of Trading A/c or Profit and Loss A/c
capital Expenditure	Debited to the relevant asset account and shown in the assets side of the Balance Sheet.

Deferred Revenue Expenditure:

Revenue expenditures, which are likely to give benefit for more than one accounting period, are termed as deferred revenue expenditure. In normal usage, the advertising expenditure is termed as revenue expenditure but the heavy expenditure incurred on advertising is likely to benefit the business firm for more than one accounting period is treated as deferred revenue expenditure.

Important points of difference between capital and revenue expenditure are as follows :

- Capital expenditure increases the earning capacity of business whereas revenue expenditure is incurred to maintain the earning capacity.
- Capital expenditure is incurred to acquire fixed assets for operation of business whereas revenue expenditure is incurred on day-to-day conduct of business.
- Revenue expenditure is generally recurring expenditure and capital expenditure is non-recurring by nature.
- Capital expenditure benefits more than one accounting year whereas revenue expenditure normally benefits one accounting year.
- Capital expenditure (subject to depreciation) is recorded in the balance sheet whereas revenue expenditure (subject to adjustment for outstanding and prepaid amount) is transferred to trading and profit and loss accounts.

Difference between Capital and Revenue Expenditure:

Basis of Difference	Revenue Expenditure	Capital Expenditure
Purpose	To carry on Day-to-Day Business	To purchase of fixed assets

	activities	
Period	Benefit is consumed within the accounting period	Benefits to more than one accounting period
Recording	Debited to Concerned expense account	Debited to a concerned assets account.
Capacity	Maintain earning capacity of business.	Increases the earning capacity of business
Nature of Account	It is a Nominal/Expense account.	It is a Real/Asset Account.

Capital vs. Revenue Receipts:

To determine the true and fair financial performance and financial position of a business concern it is important to make a difference between capital receipts and revenue receipts.

Capital Receipts:

- Receipts that are not received from operating activities.
- If the receipts imply an obligation to return the money, these are capital receipts.
- Capital receipts do not affect profit or loss of the business. Hence, they are shown in the balance sheet.
- Examples are capital contributed by owner, borrowings and sale proceeds of fixed assets.

Revenue Receipts:

- The amount received or receivable in the normal course of business for example sale of goods or rendering of services.
- Revenue receipts arise from operating activities in the normal course of business.
- These are transferred to credit side of Trading Account or Profit or Loss Account.
- Examples are Cash Sales, cash received from debtors, commission received, bad debts recovered etc.

Financial Statements or Final Accounts

Financial Statements or Final Accounts are prepared at the end of accounting period to assess financial performance (profit or Loss) during the accounting period and financial position at the end of accounting period. It consists of:

- (1) Trading and Profit and Loss Account (Income statement)
- (2) Balance Sheet (Position Statement)

Balance Sheet shows financial position in the form of assets, liabilities, and capital. These are prepared based on trial balance and additional information, if any.

Trading and Profit and Loss Account

Trading and Profit and Loss account, also known as Income statement, shows the financial performance in the form of profit earned or loss sustained by the business. Let us discuss these two accounts in detail:

(A) Trading Account:

1. It is the first stage in the preparation of financial statements (final accounts) of an enterprise.
2. Net Sales is transferred to the credit and Cost of Goods Sold is transferred to the debit of the account.

3. It is prepared on an accrual basis of accounting.
4. Balance of this account is either Gross Profit or Gross Loss
5. Gross Profit or Gross Loss is transferred to Profit & Loss Account.

Relevant Items in Trading Account:

1. **Opening stock or Inventory:** It is the stock of goods in hand at the beginning of the accounting year. This is the stock of goods which has been carried forward from the previous year and remains unchanged during the year and appears in the trial balance. In the trading account **it appears on the debit side** because it forms the part of cost of goods sold for the current accounting year
2. **Purchases and Purchases Return:** Goods, which have been bought for resale appear as purchases **on the debit side of** the trading account. They include both cash as well as credit purchases. Goods which are returned to suppliers are termed as purchases return. It is shown **by way of deduction from purchases** and the computed amount is known as Net purchases
Besides Purchase return, following are also deducted from purchase
 - (a) Goods taken by owner for personal use
 - (b) Goods donated in charity
 - (c) Goods given as a free sample.
3. **Direct Expenses:** expenses which are incurred on purchase of goods and/or raw material for manufacturing of goods. These are shown in the Debit Side of Trading account.
 - (i) Carriage of Freight or Cartage Inwards: these refers to the cost of bringing the goods purchased into the place of business. These are **shown in the Debit side of the Trading account.**
 - (ii) Wages: amount paid to the workers in a factory or stores. It is shown **on the debit side of the Trading account.**
 - (iii) Fuel/Water/Power/Gas : These items are used in the production process and hence are part of expenses. These are shown in the **Debit side of the Trading account.**
 - (iv) Other factory expenses/ Consumable Stores: These are incurred to keep the machine in the working condition and include engine oil, oil grease, etc. consumed in the factory.
4. Sales and Sales Return: Sales account in trial balance shows gross total sales (cash as well as credit) made during the year. It is shown **on the credit side of the trading account.** Goods returned by customers are called **return inwards** and are shown as deduction from total sales and the computed amount is known as **net sales.**
5. **Closing Stock or Inventory:** Closing Stock (Inventory) is the value of unsold goods, raw materials and semi- finished (WIP) goods at the end of the accounting period. Closing Stock is valued at cost or net realisable (market value), whichever is less. Closing stock is usually given outside the Trial Balance. It is recorded in the books by passing entry which is given below:
 Closing Stock A/c Dr
 To Trading A/c.
 (Closing Stock brought into books)
Due to this, closing stock is shown in the credit side of trading account and on the asset side of balance sheet.

If closing stock is shown inside the trial balance, it means that it has been adjusted by debiting closing stock and crediting purchases account. In case of **Adjusted purchase**, the following entry will be passed for closing stock

Closing Stock A/cDr

To Purchase A/c.

(Closing Stock brought into books)

Due to this, closing stock is then **not shown in the credit side of the trading account** but it is **shown on the asset side of the balance sheet**.

Closing Entries related to Trading Account:

(1) For items in the debit side:

Trading A/c.Dr

To Opening Stock A/c

To Purchase A/c

To Sales Return A/c

To Direct Expenses A/c

(2) For items in the credit side:

Sales A/cDr

Purchase return A/c ...Dr

Closing Stock A/cDr

To Trading A/c

(3) For transferring gross profit

Trading A/c ...Dr

To Profit and Loss A/c.

(4) or transferring gross loss

Profit and Loss A/c. ...Dr

To Trading A/c

Format of Trading Account:

Trading Account (For the year ended _____)			
Dr			Cr
Particular	Amount (₹)		Amount (₹)
To Opening Stock	xxx	By Sales	
To Purchase		xxx	
xxx		Less: Sales Return/ Return Inwards	xxx xxx
Less: Purchase Return/ Return outwards xxx		xxx	
Drawings of Goods		By Closing Stock	
xxx		By Gross Loss c/d* (Transferred to Profit and Loss Account)	
Free sample xxx			
Donation/charity of goods	xxx		
xxx	xxx		
Loss of stock	xxx		
xxx			
To wages			
To freight/carriage inwards			
To Fuel/Water/Power/Gas			
To Octroi			

To Excise Duty			
To Royalty			
To Factory Expenses			
To Gross Profit c/d*			
(Transferred to Profit and Loss Account)			

*Either Gross Profit or Gross Loss will exist.

Concept of Gross Profit:

1. Trading Account shows Gross Profit or Gross Loss
2. Gross profit can be calculated with the help of following equation
Gross Profit = Net Sales – Cost of Goods Sold

Or

Gross Profit = Net Sales – (Adjusted Purchase + Direct Expenses)

Net Sales = Sales – Sales Return

Net Purchase = Total Purchase – Purchase Return

Cost of Goods Sold = Opening Stock + Net Purchase + Direct Expenses – Closing

Stock

Adjusted Purchase = Opening Stock + Net Purchase – Closing Stock

(B) Profit and Loss Account

- It is the second stage in the preparation of final accounts.
- Gross profit and non-operating incomes are transferred to the credit side while indirect expenses and losses are transferred to debit side of the account.
- It relates to a particular accounting period and is prepared at the end of that period.
- Balance of the account is either Net Profit or Net Loss.
- Net profit or Net Loss affects the capital. Net profit increases the capital, while net loss decreases it.
- It shows financial performance of business during an accounting period.

Items in Profit and Loss Account:

Indirect Expenses are transferred to the debit and Indirect Incomes are transferred to the credit of Profit & Loss Account. Profit & Loss Account is balanced and the balance (Net Profit or Net Loss) is transferred to Capital Account.

Items of Debit Side

Salaries, Office Rent, Office Electricity, Printing and Stationery, Postage, Courier, telephone and Internet, Administrative Expenses, Salesmen Commission, Freight on Sales or Freight Outwards,

Insurance Expenses, Advertisement Expenses, Selling and Distribution expenses, Interest on loan, Discount allowed, Bad debts, Depreciation, Loss of goods by fire or theft or Damage, Insurance Premium, General/Sundry Expenses

Items of Credit Side

- Interest on fixed deposit, Rent received, Cash discount received, gain on sale of fixed assets, Interest on Drawings, Bad Debts Recovered

Format of Profit and Loss Account:

Dr Profit and Loss Account(For the year ended_____) Cr			
Particular	Amount (₹)		Amount (₹)
To Gross Loss*	xxx	By Gross Profit*	xxx
(Transferred from Trading A/c)	xxx	(Transferred from Trading A/c)	xxx
To Salaries	xxx		xxx
To Rent Rates Taxes	xxx	By Discount Received (Cr.)	xxx
To Printing and Stationery	xxx	By Commission Received	xxx
To Salaries & Wages	xxx	By Bad Debts Recovered	xxx
To Postages and Telephones	xxx	By Income From Investment	xxx
To Office Lighting	xxx	By Rent Received (Cr.)	xxx
To Insurance Premium	xxx	By Interest Received	xxx
To Legal Expenses	xxx	By Dividend Received	xxx
To Establishment Expenses	xxx	By Apprentice fees or premium	xxx
To Audit Fees	xxx	By Gain on Sale of Fixed Asset	xxx
To Trade Expenses	xxx		
To Travelling Expenses	xxx	By Miscellaneous Income	
To General Expenses	xxx	By To Net Loss Transferred to Capital A/c*	
To Carriage and Freight Outwards	xxx		
To Commission	xxx		
To Brokerage	xxx		
To Advertisement	xxx		
To Publicity	xxx		
To Bad Debts	xxx		
To Export Duty	xxx		
To Packing Expenses	xxx		
To Interest (Dr.)	xxx		
To Discounts (Dr.)	xxx		
To Rebate Allowed	xxx		
To Bank Charges	xxx		
To Repairs	xxx		
To Depreciation on Fixed Assets	xxx		
To Conveyance Expenses	xxx		
To Entertainment Expenses	xxx		
To Donations & Charity	xxx		
To Loss on Sale of Fixed Assets	xxx		
To Loss by Fire or Theft	xxx		
To Net Profit Transferred to Capital A/c*	xxx		
	Xxx		xxx

*Either of the two will appear.

Closing Entries related to Profit and Loss Account:

(1) For items in the debit side:

Profit and Loss A/c	....Dr
To Rent Paid (Dr.)	
To Printing and Stationary	
To Repairs	
To Interest	
To General Expenses	

To Salaries
 To Postage and Courier
 To Electricity Expenses
 To Loss by fire or theft or Damage
 To Commission
 To Advertisement
 To Freight Outwards
 To Discount Allowed(Dr.)
 To Bad Debts
 To Depreciation
 To Insurance Expenses
 To Telephone and Internet expenses

(2) For items in the credit side:

Discount Received A/c	....Dr
Commission Received A/c	....Dr
Bad Debts Recovered A/c	....Dr
Income From Investment A/c	....Dr
Rent Received A/c	....Dr
Interest Received A/c	....Dr
Miscellaneous Income A/c	....Dr
To Profit and Loss A/c	

(3) In Case of Net Profit:

Profit and Loss A/c	....Dr
To Capital A/c	

(4) Or in Case of Net Loss

Capital A/c	....Dr
To Profit and Loss A/c	

Concept of Net Profit:

The gross profit or the gross loss is transferred to profit and loss account. The indirect expenses are transferred to the debit side of the second part, viz. profit and loss account. All revenue/gains other than sales are transferred to the credit side of the profit and loss account. If the total of the credit side of the profit and loss account is more than the total of the debit side, the difference is the net profit for the period of which it is being prepared. On the other hand, if the total of the debit side is more than the total of the credit side, the difference is the net loss incurred by the business firm. In an equation form, it is shown as follows :

$$\text{Net Profit} = \text{Gross Profit} + \text{Other Incomes} - \text{Indirect Expenses}$$

Operating Profit (EBIT) and Net Profit:

- It is the profit earned through the normal operations and activities of the business.
- Operating profit is the excess of operating revenue over operating expenses. It is also called Earning Before Interest & Tax (EBIT)
- Net Profit is a profit earned through operating and non-operating activities of business.
- Operating expenses are expenses that are associated with operating activities of the business such as cost of goods sold, salary paid to staff, rent, repair, depreciation etc.
- Non-Operating Expenses are expenses that are not associated with operating activities of the business such as interest on loan, charity, donation, loss on sale of fixed assets etc.

- Operating Incomes are incomes that arise from its operating activities of the business such as income earned from sale of goods.
- Non-operating income are incomes that are earned not from business activities but as an indirect income of business such as interest received on investment, profit on sale of fixed assets etc.

Operating Profit = Gross Profit – Operating Expenses

Or

Operating Profit = Net sales – Cost of Goods Sold – Operating Expenses

Or

Operating Profit = Net Profit + Non- Operating Expenses – Non-Operating Incomes

Operating Profit = Net Sales – Operating Cost

Operating Cost = Cost of Goods sold + Operating Expenses

Balance Sheet:

- The balance sheet is a statement prepared for showing the financial position of the business summarising its assets and liabilities at a given date.
- The assets reflect debit balances and liabilities (including capital) reflect credit balances.
- It is prepared at the end of the accounting period after the trading and profit and loss account have been prepared.
- It is called balance sheet because it is a statement of balances of ledger accounts that have not been transferred to trading and profit and loss account and are to be carried forward to the next year with the help of an opening entry made in the journal at the beginning of the next year.

Preparation of Balance Sheet:

- All the account of assets, liabilities and capital are shown in the balance sheet.
- Accounts of capital and liabilities are shown on the left-hand side, known as *Liabilities*.
- Assets and other debit balances are shown on the right-hand side, known as *Assets*.
- There is no prescribed form of Balance sheet, for a proprietary and partnership firms.
- *Schedule III Part I of the Companies Act 2013* prescribes the format and the order in which the assets and liabilities of a company should be shown.

Important Items in the Balance Sheet:

- **Capital:** It is the excess of assets over liabilities due to outsiders. It represents the amount originally contributed by the proprietor/ partners as increased by profits and interest on capital and decreased by losses drawings and interest on drawings.
- **Drawings:** Amount withdrawn by the proprietor is termed as drawings and has the effect of reducing the balance on his capital account. Therefore, the drawings account is closed by transferring its balance to his capital account. However, it is shown by way of deduction from capital in the balance sheet.
- **Long-term Liabilities:** All liabilities other than the current liabilities are known as long-term liabilities. Such liabilities are usually payable after one year of the date of the balance sheet. The important items of long-term liabilities are long-term loans from bank and other financial institutions.
- **Current Liabilities:** Current liabilities are those liabilities which are expected to be paid within a year and which are usually to be paid out of current assets. The examples of such

liabilities are bank overdraft, bills payable, sundry creditors, short-term loans, outstanding expenses, etc

- **Current Assets:** Current assets are those which are either in the form of cash or can be converted into cash within a year such as cash in hand/bank, bills receivable, stock of raw materials, semi-finished goods and finished goods, sundry debtors, short term investments, prepaid expenses, etc
- **Fixed Assets:** Fixed assets are those assets, which are held on a long-term basis in the business. Such assets are not acquired for the purpose of resale, e.g. land, building, plant and machinery, furniture, and fixtures, etc.
- **Intangible Assets:** These are such assets which cannot be seen or touched. Goodwill, Patents, Trademarks are some of the examples of intangible assets.
- **Investments:** Investments represent the funds invested in government securities, shares of a company, etc. They are shown at cost price. If, on the date of preparation the balance sheet, the market price of investment is lower than the cost price, a footnote to that effect may be appended to the balance sheet.

Format of Balance Sheet:

Balance Sheet of _____ (As on _____)

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital xxx		Plant & Machinery xxx	
Add: Net Profit for the year xxx		Land and Building xxx	
Interest on capital xxx		Goodwill xxx	
Less: Net Loss for the year xxx		Patents and trademark xxx	
Drawings xxx		Furniture and fittings xxx	
Income Tax xxx		Investment xxx	
Interest on drawings <u>xxx</u>	xxx	Debtors xxx	
General Reserves xxx	xxx	Cash at bank xxx	
Bank Loans xxx	xxx	Cash in Hand xxx	
Creditors xxx	xxx	Prepaid Expenses xxx	
Bank Overdraft xxx	xxx	Accrued Income xxx	
Bills Payable xxx	xxx	Closing Stock xxx	
Outstanding Expenses xxx	xxx		
Income received in advance xxx	xxx		

Marshalling and Grouping of Assets and Liabilities

A major concern of accounting is about preparing and presenting the financial statement. The information so provided should be a decision useful for the users. Therefore, putting items of similar nature under a common accounting head is called **Grouping**.

In a balance sheet, the assets and liabilities are arranged either in the order of liquidity or permanence. Arrangement of assets and liabilities in a particular order is known as **Marshalling**.

In case of permanence, assets, which are to be used permanently in the business are written first followed by the current assets and assets that are most liquid such as cash in hand are written last.

Liabilities are also shown in order of permanency as capital is shown first, then long term liabilities and short-term liabilities and creditors in last.

Format of a Balance Sheet in the order of performance**Balance Sheet of----- (As on -----)**

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

In case of liquidity, assets that are most liquid are written first followed by less liquid assets and fixed assets in the last.

Liabilities first shown are short-term liabilities and then long-term liabilities and capital in last.

Format of a Balance Sheet in the order of liquidity**Balance Sheet of----- (As on -----)**

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

MCQs

1	Which statement shows financial position of the business? (a) Trading Account (b) Profit and Loss Account (c) Balance Sheet (d) Trail Balance Answer: (c) Balance Sheet
2	Which type of expenses out of the following are shown in Trading Account? (a) Direct Expenses (b) Indirect Expenses (c) Direct and Indirect Expenses (d) None of these

	Answer: Direct Expenses
3	Revenue Expenditure if accounted as capital expenditure will result in (a) Profit overstated (b) Profit understated (c) Asset Understated (d) No effect Answer: Profit overstated
4	The heavy expenditure incurred on advertising is likely to benefit the business firm for more than one accounting period is classified as: (a) Revenue expenditure (b) Deferred revenue expenditure (c) Capital expenditure (d) Expenses Answer: Deferred revenue expenditure
5	Annual insurance premium paid for machinery is considered as: (a) Revenue expenditure (b) Deferred revenue expenditure (c) Capital expenditure (d) Expenses Answer: Revenue expenditure
Assertion- Reason Based MCQs	
6	Assertion (A): Expenditure which results in acquisition of fixed asset is a Capital Expenditure Reason (R): It gives benefit of enduring nature and help in revenue generation over more than one accounting period or periods. Based on the above statements which of the following options is correct? a) Both (A) and (R) are true and (R) is the correct explanation of (A) b) Both (A) and (R) are true and (R) is not the correct explanation of (A) c) (A) is true, but (R) is false d) (A) is false, but (R) is true Answer: a) Both (A) and (R) are true and (R) is the correct explanation of (A)
7	Assertion (A): Distinction between Capital and Revenue Expenditure is necessary for preparing Cash Book. Reason (R): Distinction between Capital and Revenue Expenditure is required for preparation of Profit & Loss Account. Based on the above statements which of the following options is correct? a) Both (A) and (R) are true and (R) is the correct explanation of (A) b) Both (A) and (R) are true and (R) is not the correct explanation of (A) c) (A) is true, but (R) is false d) (A) is false, but (R) is true Answer: d) (A) is false, but (R) is true
8	Assertion (A): Profit and Loss Account is a periodic statement because it is prepared for a particular period Reason (R): Balance Sheet is a point statement because it is prepared on a particular date. Based on the above statements which of the following options is correct? a) Both (A) and (R) are true and (R) is the correct explanation of (A) b) Both (A) and (R) are true and (R) is not the correct explanation of (A) c) (A) is true, but (R) is false d) (A) is false, but (R) is true Answer: b) Both (A) and (R) are true and (R) is not the correct explanation of (A)
Competency Based Questions	
9	Cost of Goods sold ₹1,50,000; closing stock ₹ 40,000; Opening Stock ₹ 60,000; Amount of purchase will be: (a) ₹170000 (b) ₹130000 (c) ₹120000 (d) None of These Answer: 130000
10	Sales ₹ 1.00. ,000; Cost of Goods Sold ₹ 80,000; Closing Stock ₹ 10,000; Operating Expenses ₹ 5,000; Freight Inward ₹ 1,000; Freight Outward ₹ 3,000. The Operating Profit is

	(a) ₹ 15,000 (b) ₹ 18,000 (c) ₹ 20,000 (d) None of these Answer: 15,000
11	If sales are ₹2,000 and the rate of gross profit on cost of goods sold is 25%, then the cost of goods sold will be: (A) ₹1,500 (B) ₹1,600 (C) ₹1,700 (D) ₹1,800 Answer: (B) ₹1,600
12	Choose the correct chronological order of ascertainment of the following profits from the profit and loss account: (i) Operating Profit, Net Profit, Gross Profit (ii) Operating Profit, Gross Profit, Net Profit (iii) Gross Profit, Operating Profit, Net Profit (iv) Gross Profit, Net Profit, Operating Profit Answer: (iii) Gross Profit, Operating Profit, Net Profit
13	State whether each of the following statement is True' or 'False' (i) Balance Sheet is prepared on a particular date and not for a particular accounting period. (ii) Prepaid expenses are treated as liquid assets. (iii) Goodwill is tangible asset. (iv) Rent, rates and taxes are an example of direct expenses. (v) If the total of the credit side of the profit and loss account is more than the total of the debit side, the difference is the net profit
14	Opening Stock ₹ 8,500, Purchases ₹30,700, Wages ₹ 4,800, Interest on Loan ₹ 2,800, Closing Stock ₹ 9,000. Cost of Goods Sold Will Be.. (A) ₹ 30000 (B) ₹ 32000 (C) ₹ 35000 (D) ₹ 40000 Answer: 35000
15	Which of the following is an example of a capital receipt? (A) Sales made by the firm (B) Interest on investment received (C) Rent received (D) Sale of furniture Answer: (D) Sale of furniture
	3-4 marks questions:
16	Ascertain cost of goods sold from the following: (₹) Indirect Expenses 30400 Direct Expenses 37200 Sales 240000 Net Purchases 144000 Return Inwards 24000 Return Outwards 16000 Closing Inventory 56000 Opening Inventory 32000 Solution: Cost of Goods Sold = Net Purchases + Opening Inventory + Direct Expenses - Closing Inventory $= 144000 + 32000 + 37200 - 56000$ $= ₹157200$
17	Compute Operating Profit from the following: Revenue from operation (Sales) ₹ 22,20,000 Cost of goods sold ₹ 20,00,000 Opening Inventory ₹ 2,20,000 Purchases ₹ 20,00,000

	Closing Inventory ₹ 2,20,000 Selling and distribution expenses ₹ 9,150 Office and Administrative expenses ₹ 1,73,250 (including interest on loans ₹ 11,000; Loss on sale of furniture ₹ 17500; Donation ₹ 2,550 and Loss by fire ₹ 10,000) Solution: Operating Profit = Gross profit (Revenue from operation – COGS) – Operating Expenses = ₹ 2,20,000 – {(173250-11,000-17,500-2,550-10,000) + (9,150)} = ₹ 2,20,000- {1,32,200+ 9,150} = ₹ 78,650																																																																																														
18	State whether the following are capital expenditure, revenue expenditure or deferred revenue expenditure? (1) Payment of ₹ 10,000 annual fire insurance premium. (2) Advertisement expenditure incurred for launching a new product. (3) ₹ 15,000 installation paid on new machinery. (4) ₹ 20,000 spent on repairing of various machines during the year. (5) Payment of wages ₹ 5,000 for constructing a building. (6) ₹ 28,000 spent on white washing of an office. Solution: 1) Revenue expenditure. 2) Deferred revenue expenditure. 3) Capital expenditure. 4) Revenue expenditure. 5) Capital expenditure 6) Revenue expenditure																																																																																														
19	Operating profit earned by M/s Tarun and Varun in 2025-25 was ₹ 34, 00,000. Its non-operating incomes were ₹ 3, 00,000 and non-operating expenses were ₹ 7, 50,000. Calculate the amount of net profit earned by the firm. Solution: Net Profit = Operating Profit + Non-operating Income – Non-operating Expenses = 34, 00,000 + 3, 00,000 – 7, 50,000 = ₹ 29, 50,000																																																																																														
20	Following balance is extracted from the books of a trader to ascertain gross profit, operating profit and net profit for the year ended March 31, 2025. <table border="1" data-bbox="239 1160 1481 1603"> <thead> <tr> <th>Particulars</th><th>Amount</th><th>Particulars</th><th>Amount</th></tr> </thead> <tbody> <tr> <td>Sales</td><td>1,50,500</td><td>Commission paid</td><td>300</td></tr> <tr> <td>Purchases</td><td>64500</td><td>Office expenses</td><td>3200</td></tr> <tr> <td>Opening stock</td><td>15200</td><td>Wages</td><td>5200</td></tr> <tr> <td>Sales return</td><td>2500</td><td>Profit on sale of investment</td><td>1000</td></tr> <tr> <td>Purchases return</td><td>500</td><td>Depreciation</td><td>1600</td></tr> <tr> <td>Rent</td><td>600</td><td>Dividend on investment</td><td>5000</td></tr> <tr> <td>Stationery and printing</td><td>500</td><td>Loss on sale of old furniture</td><td>600</td></tr> <tr> <td>Salaries</td><td>6000</td><td>Closing stock(March 31, 2025) valued at</td><td>16000</td></tr> <tr> <td>Misc. expenses</td><td>400</td><td></td><td></td></tr> <tr> <td>Travelling expenses</td><td>1000</td><td></td><td></td></tr> <tr> <td>Advertisement</td><td>3600</td><td></td><td></td></tr> </tbody> </table> Sol: Dr. Trading and Profit & Loss Account for the year ended 31st March, 2025 Cr. <table border="1" data-bbox="239 1639 1481 2045"> <thead> <tr> <th>Expenses/ Losses</th><th>Amt. (₹)</th><th>Revenues/ Gains</th><th>Amt. (₹)</th></tr> </thead> <tbody> <tr> <td>To Opening stock</td><td>15200</td><td>By Sales 1,50,500</td><td></td></tr> <tr> <td>To Purchases 64500</td><td></td><td>Less : Sales return (2500)</td><td>148000</td></tr> <tr> <td>Less: Purchases return (500)</td><td>64000</td><td>By Closing stock</td><td>16000</td></tr> <tr> <td>To Wages</td><td>5200</td><td></td><td></td></tr> <tr> <td>To Gross profit c/d</td><td>79600</td><td></td><td></td></tr> <tr> <td></td><td>164000</td><td>By Gross profit b/d</td><td>164000</td></tr> <tr> <td>To Rent</td><td>600</td><td></td><td>79600</td></tr> <tr> <td>To Stationery and printing</td><td>500</td><td></td><td></td></tr> <tr> <td>To Salaries</td><td>6000</td><td></td><td></td></tr> <tr> <td>To Misc. expenses</td><td>400</td><td></td><td></td></tr> </tbody> </table>			Particulars	Amount	Particulars	Amount	Sales	1,50,500	Commission paid	300	Purchases	64500	Office expenses	3200	Opening stock	15200	Wages	5200	Sales return	2500	Profit on sale of investment	1000	Purchases return	500	Depreciation	1600	Rent	600	Dividend on investment	5000	Stationery and printing	500	Loss on sale of old furniture	600	Salaries	6000	Closing stock(March 31, 2025) valued at	16000	Misc. expenses	400			Travelling expenses	1000			Advertisement	3600			Expenses/ Losses	Amt. (₹)	Revenues/ Gains	Amt. (₹)	To Opening stock	15200	By Sales 1,50,500		To Purchases 64500		Less : Sales return (2500)	148000	Less: Purchases return (500)	64000	By Closing stock	16000	To Wages	5200			To Gross profit c/d	79600				164000	By Gross profit b/d	164000	To Rent	600		79600	To Stationery and printing	500			To Salaries	6000			To Misc. expenses	400		
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To Office expenses	3200		
To Depreciation	1600		
To Operating profit c/d	62400		
	79600		79600
To Loss on sale of old furniture	600	By Operating profit b/d	62400
To Net Profit (transferred to capital A/c)	67800	By Profit on sale of investment	1000
	68400	By Dividend on investment	5000
			68400

- 21 Given below is the Trial Balance of Bimal Bros. as at 31st March, 2025. You are required to prepare a Trading and Profit & Loss A/c for the year ended 31st March, 2025 and Balance Sheet as at that date:

Debit Balances	Amount	Credit Balances	Amount
Opening stock	22500	Sundry Creditors	11050
Purchase	60000	Return Outwards	1250
Return Inwards	1600	Sales	175000
Carriage Inwards	1200	Capital	100000
Carriage outwards	750	Loan From Bank	12000
office furniture	4000	Discount Received	1000
Sundry Debtors	34000	Commission	800
Dock Charges	2500		
Electric Power	5000		
Fuel Gas and Water	6000		
Bad Debts	550		
Advertisement	12500		
Salary	18000		
Cash in Hand	4050		
Cash at Bank	15000		
Motor Vehicle	29000		
Motor Repair	1500		
Interest on Bank Loan	1200		
Rent and Insurance	12250		
Business Premises	53000		
Household Expenses	16500		
	301100		301100

Closing Stock is Rs.37500.

Solution:

Trading and Profit and Loss A/c
For The Year Ended 31st March 2025

Particular	Amount	Particular	Amount
To Opening Stock	22500	By Sales	175000
To Purchase 60000		Less: Return inwards <u>1600</u>	173400
Less: Return Outwards <u>1250</u>	58750	By Closing Stock	37500
To Carriage Inwards	1200		
To Dock Charges	2500		
To Electric Power	5000		
To Fuel Gas and Water	6000		

	To Gross Profit c/d	114950	By Gross Profit b/d By Discount Received By Commission	
		210900		210900
	To Carriage outwards	750		114950
	To Bad Debts	550		1000
	To Advertisement	12500		800
	To Salary	18000		
	To Motor Repair	1500		
	To Interest on Bank Loan	1200		
	To Rent and Insurance	12250		
	To Net Profit transferred to Capital A/c	70000		
		116750		116750
Balance Sheet As on 31st March 2025				
	Liabilities	Amount	Assets	Amount
	Loan from Bank	12000	Cash in Hand	4050
	Sundry Creditors	11050	Cash at Bank	15000
	Capital 100000		Sundry Debtors	34000
	Add: Net Profit 70000		office furniture	4000
	Less: Household Exp(Drawings) 16500	153500	Motor Vehicle	29000
			Closing Stock	37500
			Business Premises	53000
		176550		176550

Practice Questions:

- While calculating operating profit, which of the following is NOT taken into account?
 - Interest received
 - Sales
 - Purchases
 - Wages
- A petition of ₹ 2,00,000 was lodged against a machinery with a book value of ₹ 2,50,000 that was destroyed in the company. The following is an example of an insurance claim that has been received:
 - Capital Expenditure
 - Revenue Receipt
 - Revenue Expenditure
 - Capital Receipt
- Compute cost of goods sold for the year 2023-24 with the help of the following information.

Stock on 1st April, 2023	3,00,000
Stock on 31st March, 2025	4,00,000
Purchases during the year	15,00,000
Sales during the year	20,00,000
Wages	1,20,000

4. From the following information, calculate Gross Profit and Operating profit for the year ending 31st March ,2025:

Opening Stock	1,00,000
Net Sales	24,00,000
Net Purchases	12,00,000
Direct expenses	1,20,000
Operating expenses	2,20,000
Closing Stock	1,40,000

5. From the following balances, prepare the final accounts of M/s Mangal & Sons for the year ended 31st March 2025:

Opening Stock	12,500	Interest	900
B/R	2,000	Printing	250
Sales	70,000	B/P	3,150
Purchases	37,500	Sales Returns	1,300
Creditors	20,000	Purchase Return	500
Salaries	3,850	Bank	5,250
Insurance	200	Rent and Taxes	1,300
Debtors	32,500	Furniture	1,000
Carriage	1,450	Capital	7,100
Commission	750		

Closing Stock on 31-3-2025 Rs.15,000

6. From the following balances prepare a trading and profit and loss account and balance sheet for the year ended March 31, 2025

Account Title	Amount	Account Title	Amount
Opening stock	15,310	Capital	2,50,000
Purchases	82,400	Drawings	48,000
Sales	256,000	Sundry debtors	57,000
Returns (Dr.)	4,000	Sundry creditors	12,000
Returns (Cr.)	2,400	Depreciation	4,200
Factory rent	18,000	Charity	500
Custom duty	11,500	Cash balance	4,460
Coal, gas & power	6,000	Bank balance	4,000
Wages and salary	36,600	Bank charges	180
Discount (Dr.)	7,500	Establishment expenses	3,600
Commission (Cr.)	1,200	Plant	42,000
Bad debts	5,850	Leasehold building	1,50,000
Bad debts recovered	2,000	Sales tax collected	2,000
Apprenticeship premium	4,800	Goodwill	20,000
Production expenses	2,600	Patents	10,000
Administrative expenses	5,000	Trademark	5,000
Carriage	8,700	Loan (Cr.)	25,000
Interest on loan	3,000		

The value of closing stock on March 31, 2025 was Rs.25,400.

CHAPTER 19

ADJUSTMENTS IN PREPARATION OF FINANCIAL STATEMENTS

Meaning of Adjustment entries:

Adjustment entries are journal entries made at the end of an accounting period to update and correct account balances before preparing financial statements. They ensure that financial statements accurately reflect a business's financial position based on the accrual method of accounting.

Need for Adjustments:

- To ensure the accuracy and completeness of financial statements and to make them align with the accrual basis of accounting.
- To determine the true net profit or loss of a business by including all relevant income and expenses for the period.
- Adjustments are also essential for reflecting the true financial position of a company on the balance sheet. They ensure that assets and liabilities are accurately stated, including items like outstanding expenses, accrued incomes, and depreciation.
- Adjustment entries are used to rectify errors made in the books of account during the accounting period.
- To record unrecorded items such as incomes that have accrued but have not been received, and expenses that have been incurred but not yet paid.

The purpose of making various adjustments is to ensure that the final accounts reveal the true profit or loss and the true financial position of the business.

The items which usually need adjustments are:

- 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
- Manager's commission.

IMPORTANT POINT

It must be remembered that while preparing Final Accounts the items which are given inside the Trial Balance are written only once either in Trading & Profit and Loss Account or in the Balance Sheet. On the other hand, the items which are given outside the Trial Balance (known as adjustments) are to be **written twice** because the double entry in respect of all these adjustments is to be completed in the final accounts itself.

Meaning and Accounting Treatment of Adjustments:

S.N	Adjustment	Meaning	Entry	Treatment
1	Closing Stock:	The closing stock represents the cost of unsold goods lying in the stores at the end of the accounting period.	Closing Stock A/c .....Dr To Trading A/c	(i) Credit side of Trading A/c. (ii) Show on the assets side of Balance sheet.
2	Outstanding/Unpaid Expenses	Expenses due but not paid	Expenses A/c .....Dr. To Outstanding Expenses A/c	(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.
3	Prepaid expenses/Unexpired expenses	Expenses paid in advance.	Prepaid Expenses A/c .....Dr To Expenses A/c	(i) Deduct from the concerned expenses on the debit side of Trading/Profit & Loss A/c (ii) Show on the assets side of Balance sheet.
4	Accrued income/ Income due but not received	Income earned during the current accounting year but have not been actually received by the end of the same year	Accrued Income A/c ...Dr To Income A/c	(i) Add to the concerned income on Credit side of Profit and Loss A/c (ii) Show on the assets side of Balance sheet.
5	Unearned income/Income received in Advance	The portion of the income received which belongs to the next accounting period is termed as income received in advance or an Unearned Income.	Income A/c .....Dr To Unearned Income A/c	(i) Deduct from the concerned income on the credit side of Profit & Loss A/c (ii) Show on the liabilities side of Balance Sheet.
6	Depreciation	It is the decline in the value of assets on account of wear and tear and passage of time.	Depreciation A/c .....Dr To Asset A/c	(i) Show on the debit side of Profit & Loss A/c (ii) Deduct from the concerned asset in the Balance Sheet
7.	Interest on Capital	Interest on capital is allowed to owner for providing capital to business.	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.

8	Interest on drawings	Interest is also charged from owner for draw cash or goods for personal use.	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
9.	Interest payable on loan (borrowed)	Interest at a fixed rate is charged by loan provider from business.	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.
10.	Further Bad debts	The debtors from whom amounts cannot be recovered are treated as bad debts. Further Bad debts means entry for bad debts is yet to be passed in the books of accounts.	Bad Debts A/c ....Dr To Debtors A/c	(i) Debit side of P&L A/c. (ii) Deduct from debtors on the assets side of Balance Sheet.

Note: Adjustment of Bad debts is not required if Bad Debts is given within the Trial Balance. It means that amount of bad debts has already been adjusted from Debtors shown in Balance Sheet.

11. Provision for bad and doubtful debts: Even after deducting the amount bad-debts from the debtors, the list of debtors at the end of the year may include debts which are either bad or doubtful. As the amount of actual loss on current year bad-debts would be known only in the next year when the amount realised from debtors, a provision is created to cover any possible loss on account of bad-debts likely to occur in future Such a provision is created at a fixed rate on debtors every year and is called Provision for Bad and Doubtful Debts.

Note: If the amount of the Provision for bad and doubtful debts is given in the credit side of the trial balance it means it is an old provision. If further Provision for bad and doubtful debts is made for current year it is known as new provision. Bad debts given outside the trial balance as adjustment are known as further bad debts.

Further bad debts (if any) are first deducted from the sundry debtors and then the percentage given is applied to the balance amount of sundry debtors for calculating New Provision for Doubtful Debts Further bad debts and Provision for Doubtful Debts (New) are deducted from the sundry debtors in the assets side of the Balance Sheet.

12. 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 & provided for by creating a provision for Discount on debtors. Provision for discount on debtors is made on good debtors who are arrived at by deducting further bad debts and provision for bad debts out of Debtors shown in the Balance sheet.

Presentation in Final Account:

Dr.
Cr

Profit and Loss A/c

Particular	Amount	Particular	Amount
To Debts			

Add: Further Bad Debts	xxx		

Add: To New Provision for bad and doubtful debts	xxxx		
Less: Old Provision			

To Provision for discount on Debtors			

Balance Sheet

Liabilities	Amount	Assets	Amount
		Sundry Debtors	
		Less: Further Bad Debts	
		Less: To New Provision for bad and doubtful debts	

		Less: Provision for discount on Debtors	
		_____	xxxx

Adjustment Entries:

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

13. Manager's Commission:

Sometimes, in addition to his regular salary, the manager is entitled to a commission on net profit. This is done to induce him to take more interest in the business. The percentage of the commission is applied on the profit either before charging such commission or after charging such commission. Since the Commission is always calculated at the end of the accounting period, it is treated as outstanding expenses and the following adjusting entry is passed for it:

Manager's Commission A/cDr
 To Outstanding Commission A/c

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

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

Adjustment		Treatment-1	Treatment-2	Entry
14.	Loss of Goods (By accident, Fire, Theft) and goods were not insured	Deduct the amount of goods lost from Purchases or show on the credit side of Trading A/c.	Net loss shown in the debit side of P & L A/c.	1) Loss of ... A/c Dr To Trading A/c (or) To Purchases A/c
(i)	If goods were insured and full claim accepted by insurance company	Deduct the amount of goods lost from Purchases or show on the credit side of Trading A/c.	Show as an Insurance claim in the assets side of Balance Sheet.	Loss of ... A/c Dr To Trading A/c (or) To Purchases A/c Insurance company A/c Dr To Loss by ... A/c
(ii)	If full claim not accepted by Insurance Company	Deduct the amount of goods lost from Purchases or show on the credit side of Trading A/c.	(I) Net Loss: Dr. Side of P & L A/c. (ii) Insurance claim is shown in Assets Side of Balance.	Insurance Company A/c Dr Profit & Loss A/c Dr To Loss By A/c
15	Goods taken by the proprietor for his personal use	Deduct the amount of goods from the purchases in Trading A/c.	Deduct the amount from the capital on the liabilities side of Balance Sheet.	Drawings A/c Dr To Purchases A/c
16	Goods distributed as free samples	Deduct the amount of goods from the purchases in Trading A/c.	Show on the debit side of P & L A/c.	Advertising A/c Dr To Purchases A/c
17	Goods given as charity	Deduct the amount from the purchases on the debit side of Trading A/c.	Show on the debit side of P & LA/c	Charity A/c To Purchases A/c
Contingent liabilities: - Liabilities the happening of which is uncertain are called contingent liabilities. For exp. – case of bonus pending in the court, bill discounted not yet matured. It is stated as footnote below the balance sheet				

MCQs	
1	If the insurance premium paid Rs. 1,000 and prepaid insurance Rs. 300. The amount of insurance Premium shown in the profit and loss account will be _____. (a) Rs. 1,300 (b) Rs. 1,000 (c) Rs. 300 (d) Rs. 700 Answer: (d) Rs. 700
2	If manager is entitled to a commission of 5% on the profits before charging his commission, he will get a commission of Rs. _____ on a net profit of Rs.16800.

	(a) 800 (b) 884 (c) 840 (d) 1020 Answer: (c) 840																																									
3	In the Trial Balance are shown Debtors Rs.2,400, Bad Debts Rs.221, Bad Debts Provision Rs.324. For creating a Provision for Doubtful debts @ 10% on debtors the P & L A/c will be debited by : (a) 137 (b) 173 (c) 373 (d) 82 Answer: (a) 137																																									
4	Bills Receivable discounted but not due till the date of final accounts is shown: (a) P & LA/c (b) Liabilities (c) Assets (d) Foot notes Answer: (d) Foot notes																																									
5	Accrued income is: (a) A Liability (b) Revenue (c) An Asset (d) An expense Answer: (c) An Asset																																									
3-4 Marks Questions:																																										
1	Suresh's Trail Balance as on 31 st March, 2025 gives the following information: <table><tr><td>Heads of Accounts</td><td>Dr. (Rs.)</td><td>Cr. (Rs.)</td></tr><tr><td>10% Investment</td><td>2,00,000</td><td>-</td></tr><tr><td>Interest Received</td><td>-</td><td>5,000</td></tr></table> Show how the above items would appear in the Profit and Loss Account and Balance Sheet. Solution: <div>Profit and Loss A/c For the year ended.....<table><tr><td>Particular</td><td>Amount</td><td>Particular</td><td>Amount</td></tr><tr><td></td><td></td><td>Interest</td><td>5000</td></tr><tr><td></td><td></td><td>Add: Accured Interest</td><td>15000</td></tr><tr><td></td><td></td><td></td><td>20000</td></tr></table></div> <div>Balance Sheet As on<table><tr><td>Liabilities</td><td>Amount</td><td>Assets</td><td>Amount</td></tr><tr><td></td><td></td><td>Investment</td><td>200000</td></tr><tr><td></td><td></td><td>Add: Accured Interest</td><td>15000</td></tr><tr><td></td><td></td><td></td><td>215000</td></tr></table></div>	Heads of Accounts	Dr. (Rs.)	Cr. (Rs.)	10% Investment	2,00,000	-	Interest Received	-	5,000	Particular	Amount	Particular	Amount			Interest	5000			Add: Accured Interest	15000				20000	Liabilities	Amount	Assets	Amount			Investment	200000			Add: Accured Interest	15000				215000
Heads of Accounts	Dr. (Rs.)	Cr. (Rs.)																																								
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			215000																																							

- 2 Following is the extract from the trial balance of a firm as on 31st March 2025.

Trial Balance

Head of Accounts	Dr. Amount	Cr. Amount
Debtors	410000	
Provision for doubtful debts		20000
Bad Debts	6000	

Additional Information:

(1) Additional Bad Debts Rs.10000

(2) Maintain the provision for Doubtful Debts @10% of Debtors.

Show how the above items would appear in the Profit and Loss Account and Balance Sheet.

Solution:

Profit and Loss A/c
for the year ended.....

Particular	Amount	Particular	Amount
Bad Debts	6000		
Add: Further Bad Debts	10000		
Add: New Provision for Doubt. Debts	40000		
Less: Old Provision	20000		
	36000		

Balance Sheet

As on

Liabilities	Amount	Assets	Amount
		Debtors	
		410000	
		Less: Further Bad Debts	
		10000	
		Less: New Provision	
		40000	
			360000

6 Marks Question

- 1 From the following Trial Balance and other information, prepare Trading and Profit and Loss Account for the year ended 31st March, 2025 and Balance Sheet as at that date:

Particular	Dr	Cr
Sundry Debtors	350000	
Stock on 1st Apr, 2023	250000	
Cash in Hand	400	
Cash at Bank	18000	
Plant and Machinery	200000	
Sundry Creditors		120000
General Expenses	12000	
Sales		1450000
Salaries	25000	
Carriage Inwards	5000	
Rent	10000	
Bills Payable		80000
Purchases	1250000	
Discounts	11000	
Premises	400000	
Capital on 1st Apr, 2018		850000
Insurance	1000	
Commission Received		32400
Total	2532400	2532400

Additional Information:

1. Closing stock Rs. 25,000
2. Provide bad debts Rs. 12,000 and create provision for doubtful debts @ 5%
3. Charge depreciation @ 10% on Plant and Machinery
4. There is prepaid insurance of Rs. 500
5. Outstanding rent Rs. 1,000

Solution:

Trading and Profit and Loss A/c for the year ended 31st March 2025

Particular	Amount	Particular	Amount
To Opening Stock	2,50,000	By Sales	14,50,000
To Purchases	12,50,000	By Closing Stock	25,000
	5,000	By Gross Loss (Transfer to P&L A/c)	30,000
To Carriage Inwards	15,05,000		15,05,000
To Gross Loss	30,000	By Commission	32,400
To General Expenses	12,000	By Net Loss (Transfer to capital)	1,06,000
To Salaries	25,000		
To Bad Debts	12,000		
To Provision for Doubtful Debts	16,900		
To Depreciation on Plant & Machinery	20,000		
To Rent 10000			
Add: Outstanding Rent 1000	11000		
To Insurance 1000			
Less: Prepaid Insurance - 500	500		
To Discounts	11000		
	1,38,400		1,38,400

Balance Sheet

As on 31st March 2025

Liabilities	Amount	Assets	Amount
Capital 850000		Sundry Debtors 3,50,000	
Less: Net Loss 106000	7,44,000	Less: Bad Debts 12,000	
		Less: Provision for Doubtful debts 16,900	3,21,100
Sundry Creditors	1,20,000	Closing Stock	25,000
Bills Payable	80,000	Cash in Hand	400
Outstanding Rent	1,000	Cash at Bank	18,000
		Plant and Machinery 2,00,000	
		Less: Depreciation 20,000	1,80,000
		Prepaid Insurance	500
		Premises	4,00,000
Total	9,45,000	Total	9,45,000

Practice Questions

1 If the rent of one month is still to be paid the adjustment entry will be :

	(a) Debit outstanding rent account and Credit rent account (b) Debit profit and loss account and Credit rent account (c) Debit rent account and Credit profit and loss account (d) Debit rent account and Credit outstanding rent account.																																												
2	If the opening capital is Rs.50,000 as on April 01, 2025 and additional capital introduced Rs.10,000 on January 01, 2025. Interest charge on capital 10% p.a. The amount of interest on capital shown in profit and loss account as on March 31, 2025 will be : (a) Rs 5,250 (b) Rs 6,000 (c) Rs 4,000 (d) Rs 3,000																																												
3	Extract of Trial Balance as on 31 st March, 2025: <table><tr><td></td><td>Amt.(Rs)</td><td>Amt.(Rs)</td></tr><tr><td>Debtors (including Varun for dishonored bill of Rs 1,000)</td><td>30000</td><td>-----</td></tr><tr><td>Bad Debts</td><td>1500</td><td>-----</td></tr></table> Adjustments: (i) Half of Varun's bill is irrecoverable. (ii) Create a provision of 5% on Debtors.		Amt.(Rs)	Amt.(Rs)	Debtors (including Varun for dishonored bill of Rs 1,000)	30000	-----	Bad Debts	1500	-----																																			
	Amt.(Rs)	Amt.(Rs)																																											
Debtors (including Varun for dishonored bill of Rs 1,000)	30000	-----																																											
Bad Debts	1500	-----																																											
4	Following is the extract from the trial balance of a firm as on 31 st March 2025. <p style="text-align: center;">Trial Balance</p> <table><tr><td>Head of Accounts</td><td>Dr. Amount</td><td>Cr. Amount</td></tr><tr><td>Debtors</td><td>500000</td><td></td></tr><tr><td>Provision for doubtful debts</td><td></td><td>25000</td></tr><tr><td>Bad Debts</td><td>5000</td><td></td></tr></table> Additional Information: (1) Additional Bad Debts Rs.10000 (2) Maintain the provision for Doubtful Debts @10% of Debtors (3) Make a provision for discount on Debtors @ 2% of Debtors Show how the above items would appear in the Profit and Loss Account and Balance Sheet	Head of Accounts	Dr. Amount	Cr. Amount	Debtors	500000		Provision for doubtful debts		25000	Bad Debts	5000																																	
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Debtors	500000																																												
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5	From the following figures prepare Trading and Profit and Loss Account for the year ended 31 st March, 2025 and a Balance Sheet as on that date: <table><tr><th>Particular</th><th>Amt.(Rs.)</th></tr><tr><td>Opening Stock</td><td>73,200</td></tr><tr><td>Purchases</td><td>3,72,000</td></tr><tr><td>Sales</td><td>6,10,000</td></tr><tr><td>Sales return</td><td>10,000</td></tr><tr><td>Wages</td><td>44,000</td></tr><tr><td>Carriage</td><td>8,400</td></tr><tr><td>Bad debts</td><td>1400</td></tr><tr><td>Bad debts provision</td><td>4,200</td></tr><tr><td>Sundry debtors</td><td>80,800</td></tr><tr><td>Sundry creditors</td><td>51,400</td></tr><tr><td>Furniture</td><td>16,000</td></tr><tr><td>Plant and machinery</td><td>100,000</td></tr><tr><td>Salaries</td><td>22,000</td></tr><tr><td>Advertisement</td><td>8,800</td></tr><tr><td>Goodwill</td><td>12,000</td></tr><tr><td>Freight</td><td>12,600</td></tr><tr><td>Commission(Cr.)</td><td>2,000</td></tr><tr><td>Capital</td><td>173,600</td></tr><tr><td>Drawing</td><td>30,000</td></tr><tr><td>Investments</td><td>28,000</td></tr><tr><td>Cash</td><td>16,000</td></tr></table>	Particular	Amt.(Rs.)	Opening Stock	73,200	Purchases	3,72,000	Sales	6,10,000	Sales return	10,000	Wages	44,000	Carriage	8,400	Bad debts	1400	Bad debts provision	4,200	Sundry debtors	80,800	Sundry creditors	51,400	Furniture	16,000	Plant and machinery	100,000	Salaries	22,000	Advertisement	8,800	Goodwill	12,000	Freight	12,600	Commission(Cr.)	2,000	Capital	173,600	Drawing	30,000	Investments	28,000	Cash	16,000
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Adjustments:																																																																																		
(a) Stock on 31st March 2025 was Rs.63,000.																																																																																		
(b) Salary and wages for March 2025 were unpaid.																																																																																		
(c) Rent outstanding amounted to Rs.1200 and insurance unexpired amounted to Rs. 800.																																																																																		
(d) Commission amounting to Rs.400 has been received in advance.																																																																																		
(e) Write off Rs.400 as bad debts, create provision for doubtful debts at 5% on Sundry debtors & provide 2% provision for discount on debtors and creditors.																																																																																		
(f) Depreciate furniture and plant and machinery by 10%.																																																																																		
6	The following is the Trial Balance of Sh. Aman Rathor on 31st March 2025. You are required to prepare the final Accounts after giving effects to the adjustments:																																																																																	
	<table><tr><th>Debit Balance</th><th>Amt.(Rs.)</th><th>Credit Balance</th><th>Amt.(Rs.)</th></tr><tr><td>Sundry Debtors</td><td>72500</td><td>Sundry Creditors</td><td>31500</td></tr><tr><td>Drawings</td><td>26225</td><td>Capital A/c</td><td>355000</td></tr><tr><td>Insurance</td><td>3000</td><td>Return Outward</td><td>2500</td></tr><tr><td>General Expenses</td><td>15000</td><td>Sales</td><td>493900</td></tr><tr><td>Salaries</td><td>75000</td><td></td><td></td></tr><tr><td>Patents</td><td>37500</td><td></td><td></td></tr><tr><td>Machinery</td><td>100000</td><td></td><td></td></tr><tr><td>Freehold Land</td><td>50000</td><td></td><td></td></tr><tr><td>Building</td><td>150000</td><td></td><td></td></tr><tr><td>Stock(1st April, 2023)</td><td>28800</td><td></td><td></td></tr><tr><td>Cash at Bank</td><td>13150</td><td></td><td></td></tr><tr><td>Carriage on Purchases</td><td>10200</td><td></td><td></td></tr><tr><td>Carriage on Sales</td><td>16000</td><td></td><td></td></tr><tr><td>Fuel & Power</td><td>23650</td><td></td><td></td></tr><tr><td>Wages</td><td>52400</td><td></td><td></td></tr><tr><td>Return Inwards</td><td>3400</td><td></td><td></td></tr><tr><td>Purchases</td><td>203375</td><td></td><td></td></tr><tr><td>Cash in Hand</td><td>2700</td><td></td><td></td></tr><tr><td></td><td>882900</td><td></td><td>882900</td></tr></table>	Debit Balance	Amt.(Rs.)	Credit Balance	Amt.(Rs.)	Sundry Debtors	72500	Sundry Creditors	31500	Drawings	26225	Capital A/c	355000	Insurance	3000	Return Outward	2500	General Expenses	15000	Sales	493900	Salaries	75000			Patents	37500			Machinery	100000			Freehold Land	50000			Building	150000			Stock(1 st April, 2023)	28800			Cash at Bank	13150			Carriage on Purchases	10200			Carriage on Sales	16000			Fuel & Power	23650			Wages	52400			Return Inwards	3400			Purchases	203375			Cash in Hand	2700				882900		882900	
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(a) Stock on 31st March 2025 was valued at Rs 34,000.																																																																																		
(b) A Provision for Bad & Doubtful Debts is to be made to the extent of 5% on Sundry Debtors.																																																																																		
(c) Depreciate Machinery by 10%; Patents by 20% & Building by 5%.																																																																																		
(d) Wages include a sum of Rs.10, 000 spent on construction of a cycle shed.																																																																																		
(e) Salaries for the month of February and March 2025 were not paid.																																																																																		
(f) Insurance includes a premium of Rs.850 on a policy expiring on 30th Sep. 2025.																																																																																		

Chapter 20 Single Entry System

Meaning:

It is a system where all accounts are not maintained properly as per double entry. It is used by small businesses.

Features:

1. Only personal and cash accounts are maintained.
2. Real and nominal accounts may not be recorded.
3. It is simple and easy to use.
4. It is not reliable for financial decisions.

Limitations:

1. True profit or loss cannot be calculated.
2. Financial position cannot be known accurately.
3. Errors and frauds cannot be easily detected.

How to Ascertain Profit:

Capital at the end	*****
Add – Drawings during the year	*****
Less – Capital introduced during year	(*****)

Adjusted capital at the end	*****
Less – capital at beginning of year	(*****)

Profit/(loss) during the year	*****

Meaning of statement of Affairs method (Net worth Method): A statement of Affairs is a statement of assets and liabilities. Difference between the amounts of the two sides is taken as capital.

- Under this single-entry system, it is necessary to prepare statement of affairs at the end of the year and also in the beginning of the year, to determine profit.
- Statement of affairs like balance sheet, has two sides- right –hand side for Assets and left hand side for liabilities.
- The difference between the total of assets and liabilities is capital, ie Capital = total assets – liabilities
- For determining the profit, capital in the beginning of the year must be determined by preparing statement of affairs in the beginning of the year and capital at the end is determined by preparing statement of affairs at the end.
- If the capital at the end of the year exceeds that in the beginning, then it is taken as a profit.
- If the capital in the beginning was more than that at the end, then it is a loss.

Test Your Knowledge

1 Mark Questions:

1. What is the system of incomplete records?
2. Name one feature of this system.
3. Write the formula to find profit under this system.

3 Mark Questions:

1. Write any three features of the system of incomplete records.

2. What are the limitations of this system?
3. Explain the steps to calculate profit using the Statement of Affairs method.

Single Entry System – Practical Questions with Solutions and Explanations

Question 1:

From the following information, calculate the profit using the Statement of Affairs method:

Opening Capital: ₹50,000

Closing Capital: ₹80,000

Drawings during the year: ₹10,000

Additional Capital introduced: ₹5,000

Solution:

$$\begin{aligned}\text{Profit} &= \text{Closing Capital} - \text{Opening Capital} + \text{Drawings} - \text{Additional Capital Introduced} \\ &= ₹80,000 - ₹50,000 + ₹10,000 - ₹5,000 \\ &= ₹30,000 + ₹10,000 - ₹5,000 \\ &= ₹35,000\end{aligned}$$

Explanation:

We use the Statement of Affairs method because full records are not available. The formula helps to estimate the profit by comparing the change in capital, adjusted for any drawings or additional capital.

Question 2:

Given:

Assets on 1st April: ₹1,20,000

Liabilities on 1st April: ₹40,000

Assets on 31st March: ₹1,80,000

Liabilities on 31st March: ₹60,000

Drawings during the year: ₹20,000

Capital introduced during the year: ₹10,000

Solution:

$$\begin{aligned}\text{Opening Capital} &= ₹1,20,000 - ₹40,000 = ₹80,000 \\ \text{Closing Capital} &= ₹1,80,000 - ₹60,000 = ₹1,20,000 \\ \text{Profit} &= \text{Closing Capital} - \text{Opening Capital} + \text{Drawings} - \text{Capital Introduced} \\ &= ₹1,20,000 - ₹80,000 + ₹20,000 - ₹10,000 \\ &= ₹40,000 + ₹20,000 - ₹10,000 = ₹50,000\end{aligned}$$

Explanation:

Capital is calculated by subtracting liabilities from assets. The profit is then determined by the increase in capital, adjusted for drawings and new capital introduced.

BIBLIOGRAPHY

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- www.studiestoday.com
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