

ACCOUNTANCY

VOLUME - I

HIGHER SECONDARY FIRST YEAR

Untouchability is Inhuman and a Crime

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E-Book

Assessment

Digi-Link

Lets use the QR code in the text books! How?

- Download the QR code scanner from the Google PlayStore/ Apple App Store into your smartphone
- Open the QR code scanner application
- Once the scanner button in the application is clicked, camera opens and then bring it closer to the QR code in the text book.
- Once the camera detects the QR code, a url appears in the screen. Click the url and goto the content page.

Dear Students!

This Accountancy textbook is the source of knowledge to provide you with the basic understanding of Accountancy and to make use of your analytical ability to make you an excellent person in applying the accounting principles to real business situations through various activities given in the textbook.

The book contains 14 units, within which the subdivisions and various student activities are given in an organised way to make learning easy, systematic and a pleasure.

The method of using this book effectively to learn the concepts and methods contained in it and explanation of the important items included in the text book are given below to have a better learning experience.

UNITS

Units are the broad divisions of the book which contain several subdivisions in each of them so that the students can have understanding of the specific substance in various parts of Accountancy education. Each unit gives the specialised knowledge on the content discussed. The units are to be learnt in the order given in the book to have continuity of learning and proper understanding of the subject matter.

SUBDIVISIONS

All the 14 units in the textbook have been divided into subdivisions that give the basic theory and practice of Accountancy today in an orderly manner.

HOW TO USE THE BOOK



Learning objectives give the level of knowledge to be attained by the students while learning the contents given in the unit.

POINTS TO RECALL

These help in proper understanding of the unit contents by providing a base for learning by recalling what is learnt earlier.

KEY TERMS

The key terms are the important concepts that the students are to be thorough within each unit. The students must be clear about these concepts to have clarity of thought and an able learning about the subject matter.



This section of the unit gives the various information about the present or past events or useful practices in the field of Accountancy relevant to the subject matter discussed in the specific unit.



This is an exercise given to the students to do as class work or home work or as field work on the chosen topic in each unit. Accountancy education requires practical exposure to various business environment around the world. Student activity will ensure practical application of the principles learnt in the real business situations and help to develop the analytical and entrepreneurial ability of the students.



This is an online support to enrich learning. Using a smart phone with applied QR code app, the students can have access to short lectures or demonstrations by experts or experienced teachers. This is to be a leisure time exercise or else teachers can display them in class rooms.



It provides a summary of important subject matter discussed in the unit.

SELF-EXAMINATION QUESTIONS

This section contains theoretical questions and practical problems to be answered by the students. Multiple choice questions help in thorough understanding of the concepts and procedures.



Case study helps in application of accounting principles and practices learnt in real business environment by analysing a particular situation. It enables the students to reach higher levels of knowledge, namely, applying, analysing, evaluating and creating new models.

TO EXPLORE FURTHER

This section enables the students to make a further analysis of the concepts and methods learnt through browsing or learning from the reference books. This again is to enrich learning and to help the students to pursue higher education or professional courses.

GLOSSARY

This section helps in understanding the important terminologies used in the text book through comparison of corresponding Tamil terms.

We wish you a meaningful and successful learning.

Team of Authors.

SCOPE OF ACCOUNTANCY EDUCATION

"Accountancy" as a field of knowledge is all pervasive in nature. It offers enormous opportunities for higher education and employment both in India and abroad. The scope after higher secondary programme in Accountancy is given below:

EDUCATIONAL OPPORTUNITIES

Any of the following Degree Programmes can be pursued by the students both on regular mode and distance education mode	Any of the following professional courses/ programmes	Any of the following programmes in India or abroad after a formal degree programme anywhere in colleges, Universities	Any of the following professional courses/ programmes after a formal degree programme	Any of the research programme after a formal post graduation
B.Com-Bachelor of Commerce (General) B.Com-(Hons.) B.Com-(Accounting & Finance) B.Com-(Corporate Secretaryship) B.Com-(Computer Applications) B.Com-(International Business) B.Com-(Bank Management) B.B.A-(Bachelor of Business Administration) B.B.M-(Bachelor of Bank Management) B.Com-(Co-operation) M.Com-(Co-operation) M.Com-(Master of Commerce-Five year Integrated programme)	CA-Chartered Accountancy CMA-Cost and Management Accountancy CS-Company Secretaryship BL-Bachelor of Law - Five year Integrated Programme CIMA (Chartered Institute of Management Accountants ACCA (Association of Chartered Certified Accountants (UK)) CPA (Certified Public Accountant (USA)) CFP-Certified Financial Planner(USA)	 M.Com-Master of Commerce M.Com-(Accounting and Finance) M.Com-(Corporate Secretaryship) M.Com- (Computer Applications) M.Com- (International Business and Banking) M.Com- (Co operative Management) M.B.A-Master of Business Administration M.B.A-(Finance) M.B.A-(Human Resource Management) M.B.A-(Hospital Management) M.B.A-(Hospital Management) MHRM (Master of Human Resource Management) MHRM (Master of Labour Management) 	Indian Administrative Service (IAS) Indian Police Service (IPS) Indian Foreign Service (IFS) Indian Revenue Service (IRS) Indian Audit and Account Service (IA&AS) B.Ed., (Bachelor of Education) and followed by M.Ed., (Master of Education) Programmes PG Diploma programme	M.Phil– Master of Philosophy Ph.D– Doctor of Philosophy

EMPLOYMENT OPPORTUNITIES

Accounts assistant
Audit assistant
Cost analyst
Investment consultant
Financial advisor
Chartered Accountant
Company Secretary
Cost and Management Accountant
Teaching
State and Central Government jobs

Details of some of the professional courses in India

Professional course	Name of the institute	Southern India Regional Office address	Chapters in Tamil Nadu
Chartered Accountancy	The Institute of Chartered Accountants of India	ICAI Bhawan, 122, Mahatma Gandhi Road Post box No.3314 Nungambakkam, Chennai - 600034	Coimbatore Erode Madurai Salem Tiruchirapalli Tirunelveli Tirupur Tuticorin Kanchipuram Kumbakonam Sivakasi
Company Secretaryship	The Institute of company secretaries of India	9,Wheat Crofts Road, Nungambakkam, Chennai-600034	Coimbatore Madurai Salem
Cost and Management Accountancy	The Institute of Cost Accountants of India	Southern India Regional Council, CMA Bhawan 4,Montieth Lane, Egmore Chennai - 600008	Coimbatore Erode Madurai Mettur-Salem Nellai-Pearl Neyveli Ranipet-Vellore Tiruchirapalli

SCOPE ABROAD

Accountancy students have a wide range of scope abroad.

- 1. Higher studies
- 2. Employment opportunities as
 - Teachers
 - Accountants
 - Auditors
 - Financial consultants
 - Export and Import consultants
 - Tax advisors
 - Project consultants.

Unit 1

INTRODUCTION TO ACCOUNTING



Contents

- 1.1 Introduction to Accounting
- 1.2 Evolution of Accounting
- 1.3 Meaning and Definition of Accounting
- 1.4 Accounting cycle
- 1.5 Objectives of Accounting
- 1.6 Functions of Accounting
- 1.7 Importance of Accounting
- 1.8 Basic Accounting terminologies
- 1.9 Branches of Accounting
- 1.10 Bases of Accounting
- 1.11 Users of Accounting information
- 1.12 Role of an accountant



Points to recall

The following points are to be recalled before learning introduction to Accounting:

- Barter system
- Money as a medium of exchange
- Activities involving transfer of money or money's worth





Learning Objectives

To enable the students to

- Understand the meaning and functions of accounting
- Analyse the importance of accounting
- Understand the basic accounting terminologies
- Analyse the role of an accountant

Key terms to know

- Accounting
- Accountant
- Cash basis
- Accrual basis

1.1 Introduction to Accounting

Business entities and other organisations carry on activities which involve exchange of money or money's worth or economic resources. Where the volume of these activities are large in number it is necessary that these are recorded for the purpose of taking important decisions as to whether the activities are viable, gainful and are to be continued or not. Information about the business and other organisations is required not only to the proprietors and managers of business and other organisations but also to various other interested users such as the government, investors, customers, employees and researchers.

Raising and utilising of finance for various purposes must be recorded systematically, scientifically and uniformly. It is very important because finance is the most important resource next to the human element for any economic activity. Hence, there is a need for principles, methods and procedures to be followed to record all these information and to derive from these information, the feasibility and benefit of the activities carried out. Accountancy provides the basic theory, principles and methods to be followed to account for all financial activities taking place in an organisation. Accounting the financial activities in a systematic way helps in ascertaining the efficiency of performance of these activities and provides data about the state of affairs of the organisation for further analysis and planning.

Accounting is the language of business. The most important function of a language is to facilitate communication. The information about business entities regarding their operating performance and financial status can be obtained from the financial information recorded in the accounting records. This information is communicated to the interested users of business information such as proprietors, management, investors, customers and the government.

1.2 Evolution of Accounting

In India, 23 centuries ago, Chandragupta Maurya's Minister Kautilya wrote a book named 'Arthashastra', wherein some references can be traced regarding the way of maintaining accounting records.

In the earliest days of civilisation, accounting was done by stewards who managed the properties of wealthy people. They rendered accounts periodically to the owners of property. The stewardship accounting is said to be the root of accounting. Records of debit and credit were found in the 12th century itself.

In 1494, Luca Pacioli an Italian developed double-entry book-keeping system. Due to the industrial revolution in the 18th and 19th centuries, large scale operations were carried on and joint stock companies emerged as an important form of organisation which required separation of ownership from management. Hence, to safeguard the interest of owners and investors, the business establishments required detailed information about business which paved the way for development of comprehensive financial accounting information system.

In the 20th century, the need for analysis of financial information for managerial decision making caused emergence of Management Accounting as a separate branch of accounting.

Though accounting was individual centric in the initial stage of evolution of accounting, it has gradually developed into Social Responsibility Accounting in the 21st century, due to the vast growth in business activities as a result of development in various fields. Thus, accounting has become inevitable in the modern world for business.

1.3 Meaning and Definition of Accounting



Student activity

Think: Before the evolution of money, commodities were exchanged for commodities. In such situations, how would people have maintained their accounts?

Accounting is the systematic process of identifying, measuring, recording, classifying, summarising, interpreting and communicating financial information. Accounting gives information on:

- (i) the resources available
- (ii) how the available resources have been employed and
- (iii) the results achieved by their use.

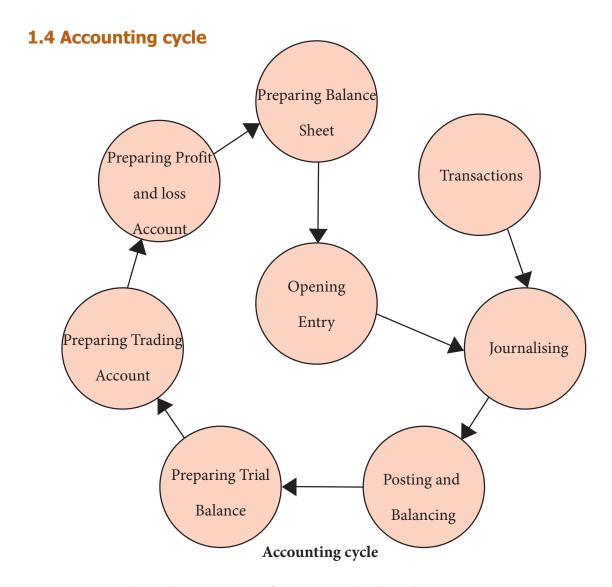
The profit earned or loss incurred during the accounting period, value and nature of assets, liabilities and capital can be ascertained from the information recorded in accounts.

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

American Accounting Association has defined accounting as "the process of identifying, measuring, and communicating economic information to permit informed judgements and decisions by users of the information".

From the above definitions, the following attributes of accounting emerge:

- i) Accounting is an art. It requires the expertise and skill of accountants to design accounting system and policies, to decide the accounting process in order to suit the requirements of an organisation.
- ii) The transactions or events of a business must be recorded in monetary terms.
- iii) Accounting process involves recording, classifying and summarising of transactions and analysis and interpretation of the results.
- iv) The results of such analysis must be communicated to the persons who are interested in such information.



Accounting cycle is the sequence of steps involved in the accounting process. Accounting cycle starts with the identification and recording of financial transactions of an organisation and ends with the preparation of final accounts for the accounting year. The cycle continues for the next accounting year with the opening balances of assets and liabilities which are the closing balances of the preceding year. The steps involved are:

(i) Identifying the transactions and journalising

The first step in the accounting process is identifying the financial transactions of a business. All the monetary transactions are recorded in the books of original entry called journals. Recording the transactions in the journal is called journalising. Entries are made in the journals on the basis of source documents in the chronological order, i.e., the order of occurrence of the transactions.

(ii) Posting and balancing

Transferring the entries from the journal to the ledger is called posting. In the ledger, entries are made in each account after classifying them under common heads. Finding the difference

between the total of the debit column and credit column of all the ledger accounts is called balancing.

(iii) Preparation of trial balance

The list of ledger balances namely trial balance is prepared as the next step. On the basis of ledger balances the financial statements are prepared.

(iv) Preparation of trading account

Next step is preparation of trading account for a particular accounting period. All the direct revenues and direct expenses are transferred to trading account. The balance in the trading account is the gross profit or gross loss.

(v) Preparation of profit and loss account

Profit and loss account is prepared next for a particular accounting period. All the indirect revenues and indirect expenses along with gross profit or gross loss are transferred to profit and loss account. The balance in the profit and loss account is the net profit or net loss.

(vi) Preparation of balance sheet

A statement showing the balances of assets and liabilities namely balance sheet is prepared as the final step in the accounting process. It is prepared on a particular date, normally, on the last day of the accounting period.

The closing balances of an accounting year are taken as the opening balances for the next accounting year. The transactions identified and recorded for the next year are followed by posting and other steps.

The results are communicated to the users of accounting information for the purpose of analysis and decision making.

1.5 Objectives of Accounting

Following are the objectives of accounting:

- i) To keep a systematic record of financial transactions and events
- ii) To ascertain the profit or loss of the business enterprise
- iii) To ascertain the financial position or status of the enterprise
- iv) To provide information to various stakeholders for their requirements
- v) To protect the properties of an enterprise and
- vi) To ascertain the solvency and liquidity position of an enterprise

1.6 Functions of Accounting

The main functions of accounting are as follows:

(i) Measurement

The main function of accounting is to keep systematic record of transactions, post them to the ledger and ultimately prepare the final accounts. Accounting works as a tool for measuring the performance of the business enterprises. It also shows the financial position of the business enterprises.

(ii) Forecasting

With the help of the various tools of accounting, future performance and financial position of the business enterprises can be forecasted.

(iii) Comparison

Accounting helps to compare the actual performance with the planned performance. It is also possible to compare with the accounting policies. Through comparison of the actual financial results of the business enterprises with projected figures and standards, effective measures can be taken to enhance the efficiency of various operations.

(iv) Decision making

Accounting provides relevant information to the management for planning, evaluation of performance and control. This will help them to take various decisions concerning cost, price, sales, level of activity, etc.



Decision refers to choosing a desirable course of action from alternative courses of action.

(v) Control

As accounting works as a tool of control, the strengths and weaknesses are identified to provide feedback on various measures adopted. It serves as a tool for evaluating compliance of business policies and programmes.



Control refers to comparison of actual performances with planned performances, measure deviation and take corrective action.

(vi) Assistance to government

Government needs full information on the financial aspects of the business for various purposes such as taxation, grant of subsidy, etc. Accounting provides relevant information about the business to exercise government control on business enterprises.

1.7 Importance of Accounting

Accounting is a basic necessity for all enterprises. Importance of accounting is enumerated as below:

(i) Systematic records

All the transactions of an enterprise which are financial in nature are recorded in a systematic way in the books of accounts. The records are classified under common heads and summaries are prepared.



(ii) Preparation of financial statements

Results of business operations and the financial position of the concern can be ascertained from accounting periodically through the preparation of financial statements namely, income statement or trading and profit and loss account and balance sheet. This helps in distribution of profits to the owners and to provide funds for future growth of the business.

(iii) Assessment of progress

Analysis and interpretation of financial data can be done to assess the progress made in different areas and to identify the areas of weaknesses. Management is provided with a complete picture of the liquidity, profitability and solvency of the business.

(iv) Aid to decision making

Management of a firm has to make routine and strategic decisions while discharging its functions. Accounting provides the relevant data to make appropriate decisions. Future policies and programmes can be planned by the management based on the accounting data provided.

(v) Satisfies legal requirements

Various legal requirements like maintenance of Provident Fund (PF) for employees, Employees State Insurance (ESI) contributions, Tax Deducted at Source (TDS), filing of tax returns are properly fulfilled with the help of accounting. Preparation of accounts and financial statements as per the legal requirements is also facilitated.

(vi) Information to interested groups

Accounting supplies appropriate information to different interested groups like owners, management, creditors, employees, financial institutions, tax authorities and the government.

(vii) Legal evidence

Accounting records are generally accepted as evidence in courts of law and other legal authorities in the settlement of disputes.

(viii) Computation of tax

Accounting records are the basic source for computation and settlement of income tax and other taxes.

(ix) Settlement during merger

When two or more business units decide to merger, accounting records provide information for deciding the terms of merger and any compensation payable as a consequence of merger.



Two or more business units forming a single entity is known as merger.

1.8 Basic Accounting terminologies

Accounting is a versatile system which serves a large number of purposes in the modern business world. Hence, the following terminologies need to be understood.

Transaction	An activity which involves transfer of money or money's worth (goods, services, ideas) from one person to another.
Cash transaction	It is a transaction which involves immediate cash receipt or immediate cash payment.
Credit transaction	It is a transaction in which cash is not received or paid immediately, but will be received or paid later.
Account	It is the basic unit for measurement in accounting. It is used for identifying a person, or an item in accounting. An account is opened individually for a person, asset, expense, income, etc. In ledger, an account is a summary of transactions under a head.
Capital	It is the amount invested by the owner or proprietor in an organisation.
Drawings	It is the amount of cash or value of goods, assets, etc., withdrawn from the business by the owner for the personal use of the owner.
Voucher	Any written or printed document in support of a business transaction is called a voucher. Examples: cash receipt, invoice, cash memo, bank pay-in- slip, etc.
Invoice	It is a statement prepared by a seller of goods to be sent to the buyer. It shows details of quantity, price, value, etc. of the goods and any discount given, finally showing the net amount payable by the buyer.
Goods	It includes articles, things or commodities in which a business is dealing with. Example: Furniture will be goods for those who deal in furniture.

Purchases	Buying of goods with the intention of resale is called purchases.		
Purchases returns or	When goods bought are returned to the suppliers, it is known as		
returns outward	purchases returns or returns outward.		
Sales	When goods meant for resale are sold, it is called sales.		
Sales returns or When goods sold are returned by the customers, it is call			
returns inward	returns or returns inward.		
Stock	Unsold goods lying in a business on a particular date are known as stock.		
Income	It is the amount receivable or realised from sale of goods and earnings from interest, dividend, commission, etc.		
Expense	It is the amount incurred in order to produce and sell the goods and services.		
Solvency	Solvency is the capability of a person or an enterprise to pay the debts.		
Insolvency	Insolvency is the incapability of a person or an enterprise to pay the debts.		
Asset	Any physical thing or right owned that has a monetary value is called asset.		
Liability	It refers to the financial obligation of the business.		
Debtor	A person who receives a benefit without giving money or money's worth immediately, but liable to pay in future or in due course of time.		
Creditor	A person who gives a benefit without receiving money or money's worth immediately but to claim in future.		
Depreciation	It refers to the gradual reduction in the value of fixed assets due to usage and passage of time.		
Bad debt	It is a loss to the business arising out of failure of a debtor to pay the dues. It is irrecoverable debt.		

1.9 Branches of Accounting

Depending on the informational needs of various users of accounting information, several branches or subfields of accounting have been developed.

The various branches of accounting are:

(i) Financial Accounting

It involves recording of financial transactions and events. It is historical in nature and records are maintained for transactions and events which



have already occurred. It provides financial information to the users for taking decisions. It is concerned with identification, recording, classifying and summarising of financial transactions

and events and ends up with the preparation of financial statements, namely, trading and profit and loss account or income statement and balance sheet and communication of the same to the interested users. Trading and profit and loss account shows the profit or loss made during an accounting period and the balance sheet shows the financial position of the business as on a particular date.

(ii) Cost Accounting

It involves the collection, recording, classification and appropriate allocation of expenditure for the determination of the costs of products or services and for the presentation of data for the purposes of cost control and managerial decision making.

(iii) Management Accounting

It is concerned with the presentation of accounting information in such a way as to assist management in decision making and in the day-to-day operations of an enterprise. The information collected from financial accounting, cost accounting, etc. are grouped, modified and presented as per the requirements of management for discharging their functions and for decision making.

(iv) Social Responsibility Accounting

It is concerned with presentation of accounting information by business entities and other organisations from the view point of the society by showing the social costs incurred such as environmental pollution by the enterprise and social benefits such as infrastructure development and employment opportunities created by them. It arises because of corporate social responsibility.

(v) Human Resources Accounting

It is concerned with identification, quantification and reporting of investments made in human resources of an enterprise.



Student activity

Think: Do you think financial accounting, cost accounting and management accounting can be maintained by the same person?

1.10. Bases of Accounting

There are three bases of accounting in common usage, namely

- i. Cash basis
- ii. Accrual or mercantile basis
- iii. Mixed or hybrid basis.

(i) Cash basis

Under cash basis of accounting, actual cash receipts and actual cash payments are recorded. In this basis, revenue is recognised when cash is received and expenses are recognised when cash is paid. Credit transactions are not recorded till cash is actually received or paid. Under this basis,

- a. Any income received
- b. Any expenditure paid
- c. Any asset purchased for which cash is paid
- d. Any liability paid during the accounting period whether related to the past, present or future is taken into account.

(ii) Accrual or mercantile basis

Under accrual basis of accounting, the revenue whether received or not, but has been earned or accrued during the accounting period and expenses incurred whether paid or not are recorded. In other words, revenue is recognised when it is earned or accrued and expenses are recognised when these are incurred. Under this basis,

- a. Any income earned whether received or not
- b. Any expenditure incurred whether paid or not
- c. Any asset purchased whether cash is paid or not
- d. Any liability incurred whether paid or not during the accounting period is recorded.

Under section 128(3) of the Indian Companies Act, 2013, all the companies are required to maintain the books of accounts according to the accrual basis of accounting.

(iii) Hybrid or mixed basis

This basis is a combination of cash basis and accrual basis of accounting. Under mixed basis of accounting, both cash basis and accrual basis are followed. Revenues and assets are generally recorded on cash basis whereas expenses and liabilities are generally taken on accrual basis.

1.11 Users of Accounting information



Student activity

Think: 'Accounting is useful only to the owner of the business' – Do you agree?

There are several persons who need the accounting information for various purposes. They can be classified into two:

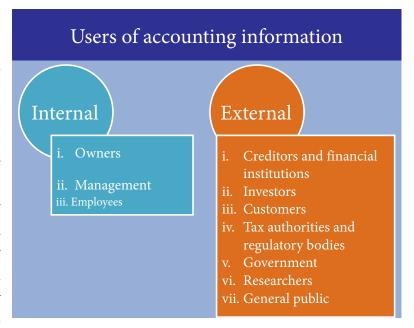
- A) Internal users and
- B) External users

A) Internal Users

The internal users are owners, management and employees who are within the organisation.

(i) Owners

The owners of a business provide capital to be used in the business. They are interested to know whether the business has earned profit or not during a particular period and also its financial position on a particular date. They want accounting reports in order to



have an appraisal of performance and also for an assessment of future prospects to ensure that they will get their expected returns from the business and get back their capital safely.

(ii) Management

Accounting data are the basis for most of the decisions made by the management. The trends in sales and purchases, relationship of expenses to the sales, efficiency of employees, comparative profitability of different departments, capital structure and solvency position are some of the vital data required by management for planning and controlling the business operations. Financial statements and other reports prepared under financial accounting provide this information to the management.



Capital structure refers to the mix of a firm's permanent long-term financing represented by debt, preference share capital and equity shareholders' funds.

(iii) Employees

The employees are interested in the profit earning capacity of the business which will affect their remuneration, working conditions and retirement benefits and stability and growth of the enterprise.

B) External users

External users are the persons who are outside the organisation but make use of accounting information for their purposes. They are:

(i) Creditors and financial institutions

Suppliers of goods and services, commercial banks, public deposit holders and debentureholders are included in this category. They are interested in knowing the liquidity position and repaying capacity of the business to ensure the safety of getting the amount due to them or interest and the principal amount.

(ii) Investors

Persons who are interested in investing their funds in an organisation should know about the financial condition of a business unit while making their investment decisions. They are more concerned about future earnings and risk bearing capacity of the organisation which will affect the return to the investors.

(iii) Customers

Customers who buy and use the products and services of business enterprises are interested in knowing the details of the products and the prices charged to them. They are interested in knowing the stability and profitability of an enterprise to ensure continued supply of the products or services by the enterprise.

(iv) Tax authorities and other regulatory bodies

Accounting information helps the tax authorities in computing income tax and taxes on goods and services and other taxes to be collected from business units. Other regulatory bodies also require information about revenues, expenses and other financial aspects of business to ensure that the enterprises comply with statutory requirements.

(v) Government

The scarce resources of the country are used by business enterprises. Information about performance of business units in different industries helps the government in policy formulation for development of trade and industry, allocation of scarce resources, grant of subsidy, etc. Government also administers prices of certain commodities. In such cases, government agencies have to ensure that the guidelines for pricing are followed.

(vi) Researchers

Researchers to carry out their research can use accounting information and make use of the published financial statements for analysis and evaluation.

(vii) General public

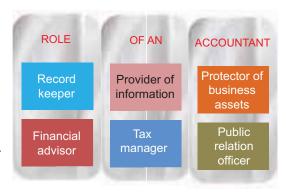
From accounting information, the general public at large can get a view of the earning capacity and stability of the enterprise as well as the social responsibility measures undertaken by the enterprise particularly in its area of operation and also the employment opportunities provided to the local people.

1.12 Role of an accountant

An accountant designs the accounting procedures for an enterprise. He plays several roles in an organisation as follows:

(i) Record keeper

The accountant maintains a systematic record of financial transactions. He also prepares the financial statements and other financial reports.



(ii) Provider of information to the management

The accountant assists the management by providing financial information required for decision making and for exercising control.

(iii) Protector of business assets

The accountant maintains records of assets owned by the business which enables the management to protect and exercise control over these assets. He advises the management about insurance of various assets and the maintenance of the same.

(iv) Financial advisor

The accountant analyses financial information and advises the business managers regarding investment opportunities, strategies for cost savings, capital budgeting, provision for future growth and development, expansion of enterprise, etc.

(v) Tax manager

The accountant ensures that tax returns are prepared and filed correctly on time and payment of tax is made on time. The accountant can advise the managers regarding tax management, reducing tax burden, availing tax exemptions, etc.

(vi) Public relation officer

The accountant provides accounting information to various interested users for analysis as per their requirements.

Points to remember

- Accounting is termed as the language of the business.
- There are various branches of accounting such as financial accounting, cost accounting, management accounting, social responsibility accounting and human resource accounting.
- There are three bases of accounting namely cash basis, accrual or mercantile basis and mixed or hybrid basis.

- There are several persons who need the accounting information internal users and external users.
- Accountants have several roles and responsibilities.

Self-examination questions

I Multiple choice questions

Choose the correct answer

- 1. The root of financial accounting system is
 - (a) Social accounting
- (b) Stewardship accounting
- (c) Management accounting
- (d) Responsibility accounting
- 2. Which one of the following is not a main objective of accounting?
 - (a) Systematic recording of transactions
 - (b) Ascertainment of the profitability of the business
 - (c) Ascertainment of the financial position of the business
 - (d) Solving tax disputes with tax authorities
- 3. Which one of the following is not a branch of accounting?
 - (a) Financial accounting
- (b) Management accounting
- (c) Human resources accounting
- (d) None of the above.
- 4. Financial position of a business is ascertained on the basis of
 - (a) Journal
- (b) Trial balance
- (c) Balance Sheet
- (d) Ledger
- 5. Who is considered to be the internal user of the financial information?
 - (a) Creditor
- (b) Employee
- (c) Customer
- (d) Government

Answers

1 (b)	2 (d) 3 (d	4 (c)	5 (b)
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II Very short answer questions

- 1. Define accounting.
- 2. List any two functions of accounting.
- 3. What are the steps involved in the process of accounting?

- 4. Who are the parties interested in accounting information?
- 5. Name any two bases of recording accounting information.

III Short answer questions

- 1. Explain the meaning of accounting.
- 2. Discuss briefly the branches of accounting.
- 3. Discuss in detail the importance of accounting.
- 4. Why are the following parties interested in accounting information?
 - (a) Investors (b) Government
- 5. Discuss the role of an accountant in the modern business world.

A Self-Help Group (SHG) is an informal, self-managed voluntary group of 5-20 individuals, who come together to address their common problems and are generally engaged in credit and savings activities operating on principles of mutuality and solidarity. Most SHG members are minimally educated. Regardless, every SHG should be aware of the status of its outstanding loans to members, the status of its loans from external institutions and the member payments due. Book-keeping is a difficult task for SHGs.

Now, discuss on the following points:

How do SHGs maintain their accounting?

Do you think that financial accounting system is suitable for all businesses?

To explore further

Can each business unit follow its own way for maintaining accounting records?

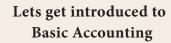
Will it serve the requirements of different users of accounting information?

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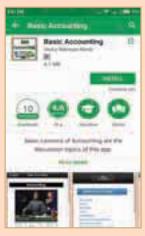
INTRODUCTION TO ACCOUNTANCY





Steps:

- This is an Android app activity. Open the Browser and type the URL given (or) Scan the QR Code. (Or) search for "Basic Accounting" in google play store. Install and open the app. This is Hands on Lesson.
- Select any one of the topic you want to learn. Open "Introduction to Accounting.
- In the Next page you have sub menus. Select one by one and go through the lesson.



Step1



Step2
Pictures are indicatives only*



Step3

scan the QR Code



CONCEPTUAL FRAMEWORK OF ACCOUNTING



Contents

- 2.1 Book-keeping An introduction
- 2.2 Book- keeping Vs. Accounting
- 2.3 Relationship among Book-keeping, Accounting and Accountancy
- 2.4 Accounting Principles
- 2.5 Accounting Standards (AS)
- 2.6 International Financial Reporting Standards (IFRS)
- 2.7 Accounting Standards in India



Points to recall

The following points are to be recalled before learning conceptual framework of accounting:

- Meaning and definition of Accounting
- Functions of Accounting
- Users of Accounting
- Basic Accounting terminologies





Learning Objectives

To enable the students to

- Understand the meaning, definition and features of book-keeping
- Evaluate the advantages and limitations of book-keeping
- Understand the accounting concepts and conventions
- Understand the meaning of and need for Accounting Standards

Key terms to know

- Book-keeping
- Accountancy
- Accounting cycle
- Accounting concepts
- Accounting Standards

2.1 Book-keeping-An introduction

The first tstep in the accounting process is identifying and recording of transactions in the books of accounts. This is necessary for any business as the transactions happening in a business entity must be recorded so that the information is available for further analysis.

Book-keeping forms the base for the preparation of financial statements and interpretation which are the important functions of accounting. In a broad sense, accounting includes book-keeping also. In a small business, the entire accounting work may be performed by a single accountant. In a large firm, there may be a separate person or department for book-keeping work.

2.1.1 Meaning of book-keeping

Book-keeping is the process of recording financial transactions in the books of accounts. It is the primary stage in the accounting process. It includes recording the transactions and classifying the same under proper heads. Book-keeping work is of routine nature. Transactions may be recorded in the accounting note books and ledgers or may be recorded in a computer.

2.1.2 Definition of book-keeping

"Book-keeping is an art of recording business dealings in a set of books". - J.R. Batliboi.

"Book-keeping is the science and art of recording correctly in the books of account all those business transactions of money or money's worth". -R.N.Carter.

2.1.3 Features of book-keeping

Following are the features of book-keeping:

- i. It is the process of recording transactions in the books of accounts.
- ii. Monetary transactions only are recorded in the accounts.
- iii. Book-keeping is the primary stage in the accounting process.
- iv. Book-keeping includes journalising and ledger processing.

2.1.4 Objectives of book-keeping

Following are the objectives of book-keeping:

- i. To have a complete and permanent record of all business transactions in chronological order and under appropriate headings.
- ii. To facilitate ascertainment of the profit or loss of the business during a specific period.
- iii. To facilitate ascertainment of financial position.
- iv. To know the progress of the business.
- v. To find out the tax liabilities.
- vi. To fulfil the legal requirements.

2.1.5 Advantages of Book-keeping

Book-keeping has the following advantages:

- i. Transactions are recorded systematically in chronological order in the book of accounts. Thus, book-keeping provides a permanent and reliable record for all business transactions.
- ii. Book-keeping is useful to get the financial information.
- iii. It helps to have control over various business activities.
- iv. Records provided by business serve as a legal evidence in case of any dispute.
- v. Comparison of financial information over the years is possible. Also comparison of financial information of different business units is facilitated.
- vi. Book-keeping is useful to find out the tax liability.

2.1.6 Limitations of book-keeping

Book-keeping has the following limitations:

- i. Only monetary transactions are recorded in the books of accounts.
- ii. Effects of price level changes are not considered.
- iii. Financial data recorded are historical in nature, i.e., only past data are recorded.

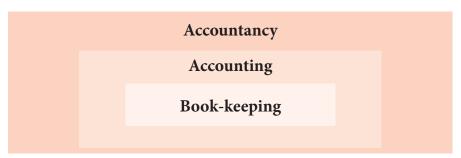
2.2 Book-keeping Vs. Accounting

Following are the differences between book-keeping and accounting:

S. No	Basis of distinction	Book-keeping	Accounting
1	Scope	It is concerned with recording	It is concerned with recording,
		and classifying the business	classifying, summarising,
		transactions.	analysing and interpreting the
			financial data.
2	Stage	Book-keeping is the primary	Apart from the primary stage,
		stage in accounting. It is the	it includes secondary stage of
		base for accounting.	analysis and interpretation.
3	Nature of job	It is routine and clerical in	It is analytical in nature.
		nature.	
4	Knowledge required	It requires basic knowledge of	It requires thorough
		the principles of journalising	knowledge of accounting
		and posting.	principles, procedures and
			practices.
5	Skill required	Analytical skill is not required	It requires analytical skill.
		for book-keeping.	

2.3 Relationship among Book-keeping, Accounting and Accountancy

Book-keeping is part of Accounting. It is the primary stage in accounting. It is the process of recording transactions in the books of accounts. Accounting is part of Accountancy. Accounting is the process of reording, classifying, analysing and interpreting of financial data. Accountancy is the systematic knowledge of accounting process and contains the standards, principles, policies and procedures to be followed in accounting.



2.4 Accounting Principles

Accounting principles are the basic norms and assumptions developed and established as the basis for accounting system. These principles are adopted by the accountants universally. These accounting principles provide uniformity and consistency in the accounting methods and process. Such accounting principles are known as Generally Accepted Accounting Principles (GAAP).

Accounting principles provide the basic framework within which the accounting records and accounting reports are to be prepared. Accounting standards have been issued by national and international regulatory authorities to ensure uniformity of accounting procedure and accounting results. These accounting standards and GAAPs provide the theoretical base of accounting. Accounting principles may be accounting concepts or accounting conventions. Accounting concepts are the basic assumptions whereas conventions are the guidelines based upon practice or usage.

Accounting concepts are the basic assumptions or conditions upon which accounting has been laid. Accounting concepts are the results of broad consensus. The word concept means a notion or abstraction which is generally accepted. Accounting concepts provide unifying structure to the accounting process and accounting reports.

The word convention refers to traditions or usage. The accounting conventions are the usage or practices which are followed as a guide to the preparation of accounting statements.

The utility of these accounting conventions have been recognised by regulatory authorities of accountancy in making financial statements more realistic, reliable, and useful to all concerned parties.

The important accounting concepts and conventions are discussed below:

(i) Business entity oncept

This concept implies that a business unit is separate and distinct from the owner or owners, that is, the persons who supply capital to it.

Based on this concept, accounts are prepared from the point of view of the business and not from the owner's point of view. Hence, the business is liable to the owner for the capital contributed by him/her.

According to this concept, only business transactions are recorded in the books of accounts. Personal transactions of the owners are not recorded. But, their transactions with the business such as capital contributed to the business or cash withdrawn from the business for the personal use will be recorded in the books of accounts. It implies that the business itself owns assets and owes liabilities.

(ii) Moneym ea urement concept

This concept implies that only those transactions, which can be expressed in terms of money, are recorded in the accounts. Since, money serves as the medium of exchange transactions expressed in money are recorded and the ruling currency of a country is the measuring unit for accounting.

Transactions which do not involve money will not be recorded in the books of accounts. For example, working conditions in the work place, strike by employees, efficiency of the management, etc. will not be recorded in the books, as they cannot be expressed in terms of money.

It helps in understanding of the state of affairs of the business as money serves as a common measure by means of which heterogeneous facts about the business are recorded. For example, if a business has 5 computers, 2 tables and 3 chairs, the assets cannot be added to give useful information, unless, they are expressed in monetary terms `1,00,000 for computers, `10,000 for tables and `1,500 for chairs.

(iii) Going oncern concept

It is the basic assumption that business is a going concern and will continue its operations for a foreseeable future. Going concern concept influences accounting practices in relation to valuation of assets and liabilities, depreciation of the fixed assets, treatment of outstanding and prepaid expenses and accrued and unearned revenues. For example, assets are generally valued at historical cost. Any increase or decrease in the value of assets in the short period is ignored.

(i) Cost concept

An asset is recorded in the books on the basis of the historical cost, that is, the acquisition cost. Cost of acquisition will be the base for all further accounting. It does not mean that the asset will always be shown at cost. It is recorded at cost at the time of its purchase, but is systematically reduced in its book value by charging depreciation.

The cost concept has the following limitations:

- a) In an inflationary situation, when prices of commodities increase, valuing the assets at historical cost may not represent the true position of the business.
- b) The results of business units established at different dates are not comparable if assets are recorded on historical basis.
- c) Assets which do not have acquisition cost such as human resources are not recognised under this concept.

(y Duh a pect concept

According to this concept, every transaction or event has two aspects, i.e., dual effect.

For example, when Arun starts a business with cash `5,00,000, on the one hand, the business gets cash of `5,00,000 and on the other hand, a liability arises, that is, the business has to pay Arun a sum of `5,00,000.



This is the concept which recognises the fact that for every debit, there is a corresponding and equal credit. This is the basis of the entire system of double entry book-keeping.

From this concept arises the basic accounting equation, that is,

Capital + Liabilities = Assets

(iv) Periodicity oncept

This concept deals with preparing accounts for a particular period. As the proprietors, investors, creditors, employees and the government are interested in knowing the performance of the business unit periodically, it becomes necessary to select a particular period, normally one year for measuring performance. Hence, financial statements are prepared after every accounting period and not at the end of its life.

This concept helps the business in distribution of income to the owners and comparing and evaluating performance of different periods.

(iv i) Ma ching oncept

According to this concept, revenues during an accounting period are matched with expenses incurred during that period to earn the revenue during that period. This concept is based on accrual concept and periodicity concept. Periodicity concept fixes the time frame for measuring performance and determining financial status.

All expenses paid during the period are not considered, but only the expenses related to the accounting period are considered.

On the basis of this concept, adjustments are made for outstanding and prepaid expenses and accrued and unearned revenues. Also due provisions are made for depreciation of the fixed assets, bad debt, etc., relating to the accounting period. Thus, it matches the revenues earned during an accounting period with the expenses incurred during that period to earn the revenues before sharing any profit or loss.

(iv ii) Reh ista ion concept

According to realisation concept, any change in value of an asset is to be recorded only when the business realises it. When assets are recorded at historical value, any change in value is to be accounted only when it realises.

(ix Objective evidence concept

Objective evidence concept requires that all accounting transactions recorded should be based on objective evidence. The objective evidence includes documentary evidence like cash receipts, invoices, etc. It ensures authenticity, accuracy and reliability of transactions entered in the books of accounts.

(x Accruh concept

According to accrual concept, the effects of the transactions are recognised on mercantile basis, i.e., when they occur and not when cash is paid or received. Revenue is recognised when it is earned and expenses are recognised when they are incurred. All expenses and revenues related to the accounting period are to be considered irrespective of the fact that whether revenues are received in cash or not and whether expenses are paid in cash or not. For example, i) Credit sale is recognised as sale though the amount has not been received immediately. ii) Rent for the month of March-2018 has not been paid and if the accounting period is 1.4.2017 to 31.3.2018, it will still be recorded as an expense for the accounting year 2017-2018 because it had become due.

(xi) Convention of consistency

The consistency convention implies that the accounting policies must be followed consistently from one accounting period to another. The results of different years will be comparable only when same accounting policies are followed from year to year. For example, if a firm follows the straight line method of charging depreciation since its purchase or construction, the method should be followed without any change. However, it does not mean that changes are not possible.

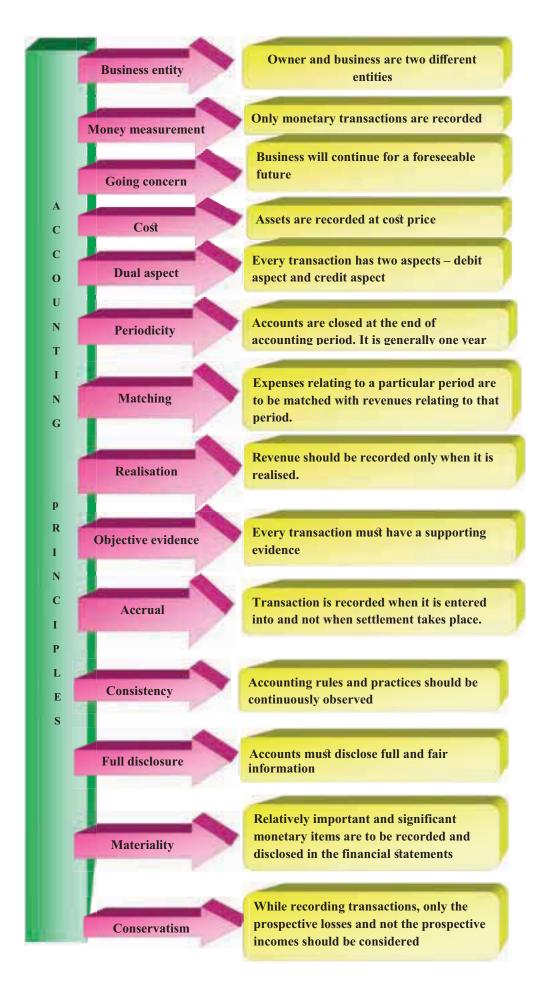
Change in accounting policy can be incorporated in the following circumstances:

- a) To comply with the provision of law
- b) To comply with accounting standards issued and
- c) To reflect true and fair view of state of affairs of the business.

(xii) Convention of full disclosure

It implies that the accounts must be prepared honestly and all material information should be disclosed in the accounting statement. This is important because the management is different from the owners in most of the organisations.

The disclosure should be full, fair and adequate so that the users of the financial statements can make correct assessment about the financial position and performance of the business unit.



(xiii) Convention of materiality

According to this convention, financial statements should disclose all material items which might influence the decisions of the users of financial statements. Hence, any item which is not significant and is not relevant to the users need not be disclosed in the financial statements.

This principle is basically an exception to the full disclosure principle. The term materiality is subjective in nature. Materiality depends on the amount involved in the transaction, size of the business, nature of information, requirements of the person making decision, etc. An item material to one person may be immaterial to another person.

(xiv) Convention of conservatism or prudence

It is a policy of caution or playing safe. While recording the business transactions one has to anticipate no income but provide for all possible losses.

For example, the closing stock in the factory is valued at `35,000 at cost price and `25,000 at its realisable price. But while recording in the books the value of `25,000 will be considered being the lower of the two. According to realisation concept, any increase in value is not to be accounted unless it has materialised. The conservatism convention puts further restriction on it. Any unrealised gain is not to be anticipated but provision can be made against all possible losses.



Going concern concept, Convention of consistency and Accrual concept are considered as fundamental accounting assumptions.

2.5 Accounting Standards (AS)



Student activity

Think: In your school, there are some basic rules to be followed by every student. What are they? What will happen if there is no such rule?

Accounting Standards provide the framework and norms to be followed in accounting so that the financial statements of different enterprises become comparable. It is necessary to standardise the accounting principles to ensure consistency, comparability, adequacy and reliability of financial reporting.

In the words of Kohler, "Accounting standards are codes of conduct imposed by customs, law or professional bodies for the benefit of public accountants and accountants generally"

Thus, Accounting Standards are written policy documents issued by the expert accounting body or by government or other regulatory body covering the aspects of recognition, measurement, treatment, presentation and disclosure of accounting transactions and events in the financial statements.

2.5.1 Need for accounting standards

The need for accounting standards is as follows:

- i. To promote better understanding of financial statements
- ii. To help accountants to follow uniform procedures and practices
- iii. To facilitate meaningful comparison of financial statements of two or more entities.
- iv. To enhance reliability of financial statements
- v. To meet the legal requirements effectively

2.6 International Financial Reporting Standards (IFRS)

International Financial Reporting Standards (IFRS) are issued by the International Accounting Standard Board (IASB). IFRS is a set of International Accounting Standards stating how particular types of transactions and other events should be reported in financial statements. IFRS are issued to develop Accounting Standards that would be acceptable worldwide and to improve financial reporting internationally.

2.7 Accounting Standards in India

In India, Standards of Accounting is issued by the Institute of Chartered Accountants of India (ICAI). The Council of the Institute of Chartered Accountants of India constituted Accounting Standards Board (ASB) on 21st April, 1977 recognising the need for Accounting Standards in India. ASB formulates Accounting Standards so that such standards may be established by the Council of the Institute in India. The ASB will consider the applicable law, custom, usage, business environment and the International Accounting Standards while framing Accounting Standards (AS) in India.

Due to globalisation, the accounts prepared in India must be compatible with accounts prepared in other countries. This has resulted in the existing AS being converged with the IFRS. This convergence has resulted in what is known as Ind AS. Ind AS are basically the International Accounting Standards which have been modified in accordance with Indian accounting practices, customs and traditions. Presently, all big companies have to follow Ind AS rules, but smaller business units are allowed to continue using AS. In future, it is expected that all business entities in India will migrate to Ind AS.



Student activity

Visit icai.org. Refer under Resources, Accounting Standards and Ind AS.

Points to remember

- There are established accounting principles available which are to be applied in the preparation of accounting records and financial statements.
- The Accounting Standards are designed to ensure uniformity in the accounting methods and practices.

Self-examination questions

I Multiple choice questions

Choose the correct answer

- 1. The business is liable to the proprietor of the business in respect of capital introduced by the person according to
 - (a) Money measurement concept

(b) Cost concept

(c) Business entity concept

(d) Dual aspect concept

2. The profounder of double entry system of book-keeping is

(a) J. R. Batlibai

(b) Luca Pacioli

(c) Old Kesal

(d) Menhar

3. The concept which assumes that a business will last indefinitely is

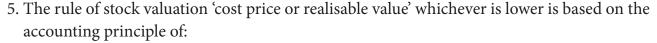
(a) Business Entity

(b) Going concern

(c) Periodicity

(d) Conservatism

- 4. GAAPs are:
 - (a) Generally Accepted Accounting Policies
 - (b) Generally Accepted Accounting Principles
 - (c) Generally Accepted Accounting Provisions
 - (d) None of these



(a) Materiality

(b) Money measurement

(c) Conservatism

(d) Accrual

- 6. In India, Accounting Standards are issued by
 - (a) Reserve Bank of India
 - (b) The Cost and Management Accountants of India
 - (c) Supreme Court of India
 - (d) The Institute of Chartered Accountants of India
- 7. Which of the following does not follow dual aspect concept?
 - (a) Increase in one asset and decrease in other asset
 - (b) Increase in both asset and liability
 - (c) Decrease in one asset and decrease in other asset
 - (d) Increase in one asset and increase in capital

Answers

- 1	, ,		(# \)				
	1(c)	2(b)	3(b)	4(c)	5(c)	6(d)	7(c)
	1(0)	2(0)	3(0)	T(C)	J(C)	$0(\mathbf{u})$	/(0)



II Very short answer questions

- 1. Define book-keeping.
- 2. What is meant by accounting concepts?
- 3. Briefly explain about revenue recognition concept.
- 4. What is "Full Disclosure Principle" of accounting.
- 5. Write a brief note on 'Consistency' assumption.

III Short answer questions

- 1. What is matching concept? Why should a business concern follow this concept?
- 2. "Only monetary transactions are recorded in accounting". Explain the statement.
- 3. "Business units last indefinitely". Mention and explain the concept on which the statement is based.
- 4. Write a brief note on Accounting Standards.



Magesh started a new trading business. He buys and sells packing materials. He wants to be honest in doing his business. He has plans to establish his business in the future. He has little accounting knowledge but has excellent leads to the end of his first year of trading he wanted to value his closing stock.

business skills. At the end of his first year of trading, he wanted to value his closing stock. He finds some of the goods are damaged. If he wants to sell them, then he has to spend some amount for making them in a saleable condition. He also takes some money from his business bank account for his personal use. But, he forgot to record that.

Now, discuss on the following points

- Does every businessman need accounting knowledge?
- Identify some of the accounting concepts in this case study.
- How should his closing stock be valued?
- Is it possible for him to compare his business results with that of his competitors?

To explore further

Is it possible to compare the accounting records of an Indian company with that of an International company? Do all the countries follow the same accounting practices?

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CONCEPTUAL FRAME WORK

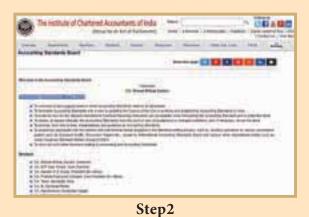
Learn the functions, objectives, terms of reference about the accounting standard.



Steps:

- Open the Browser and type the URL given (or) Scan the QR Code.
- "The Institute of Chartered Accountants of India" site will open. Click on "Resources" and in the drop-down menu select "Accounting Standard" menu and then click "Knowledge page of Accounting Standards Board "
- Accounting Standards Board page will open. In the page go through the Functions/Objectives/Terms of Reference and go back to see other two menus and explore. Also explore the site to learn other activities related to your book.





Pictures are indicatives only*

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Unit 3

BOOKS OF PRIME ENTRY



Contents

- 3.1 Introduction
- 3.2 Source documents
- 3.3 Double entry system
- 3.4 Transaction
- 3.5 Account
- 3.6 Approaches of recording transactions
- 3.7 Accounting rules
- 3.8 Journal entries



Points to recall

The following points are to be recalled before learning books of prime entry:

- Business entity concept
- Money measurement concept
- Dual aspect concept
- Revenue realisation concept
- Accrual concept
- Materiality concept
- Cost concept



Learning Objectives

To enable the students to

- Understand the meaning and principles of double entry system
- Analyse the transactions on the basis of accounting equation approach
- Apply the rules of double entry system to pass journal entries for transactions



Key terms to know

Source documents

Cash receipt

Invoice

Debit note

Credit note

Pay-in-slip

Cheque

Double entry system

Accounting equation

Golden rules of accounting

Journal entry

3.1 Introduction



Student activity

Think: A trader sold goods on credit to one of his customers for `2,000. After two days, the customer returned some of the goods worth `300, which were in damaged condition. The trader received back the goods. Later, when the customer paid `1,700, the trader demanded for full payment. He forgot about the returned goods. How can this situation be avoided?

Accounting process starts with identifying transactions involving money or money's worth and recording these financial transactions in the books of accounts. Transactions are recorded as and when they take place based on authentic documents or proofs or evidences. The authentic proofs are called as the source documents.

3.2. Source documents

Source documents are the authentic evidences of financial transactions. These documents show the nature of transaction, the date, the amount and the parties involved. Source documents include cash receipt, invoice, debit note, credit note, pay-in-slip, salary bills, wage bills, cheque record slips, etc. They are the bases of recording transactions in the books of accounts. They also serve as legal evidence in case of any legal dispute. The source documents commonly used are discussed below:

(i) Cash receipt/voucher

It is a document that shows the date, amount and details of cash purchases and cash sales or other cash transactions. Business persons receive cash receipt for cash purchases and issue cash receipt for cash sales.



(ii) Invoice

Invoice is used for credit purchases and credit sales. The date, amount and details of credit purchases and credit sales are given in the invoices. Invoice is generally prepared by the seller in three copies. The first copy is given to the purchaser, the second copy is sent along with the goods for checking and the third is retained by the seller and used as the source document for recording the transaction.

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Specimen of an invoice

(iii) Debit note

A buyer may return the goods to the seller in various situations such as when goods are defective or damaged, goods do not meet the specifications, etc. When goods are returned by a buyer, the buyer prepares a debit note and sends it to the seller. It contains details such as the description of the goods, quantity returned and also their value. Two copies are prepared in general, one copy is sent to the seller and another one is retained by the buyer. It is a document issued by a buyer stating the amount owed by the seller. A debit note is also called as debit memo.

Specimen of a debit note

STATE CODE						
	(A Govt. of ithapuram-639 Telephon Fax:	Tamil Nac	lu Enterpris District, Ta	se)		
	D	EBIT NOTE				
GST SERIAL NO		DATE				
TRANSACTION NO		TRANSA	CTION DATE	Ē		
SALES ORDER NO			ORDER DATE			
ORIGINAL AR INVOICE NO		# version version	AL AR INVOI	the state of the s		
ORIGINAL GST INVOICE		-	AL GST INV	UNIVERSAL PROPERTY.		
411	00	RANGE	& DIVISION SSIONERATE			
RECIPIENT BILLTO CODE NAME ADDRESS STATE STATE CODE GSTIN/UIN PAN		SHIP TO CODE CUSTOMER ADDRESS STATE STATE STATE CODE GSTIN / UIN PAN				
PAN	HSNCODE	ITEM NO	INV OTV	HOM	DATE/De \	AMOUNT/Pe 1
	HSNCODE	ITEM NO.	INV QTY	UOM	RATE(Rs.)	AMOUNT(Rs.)
PAN	HSNCODE	ITEM NO.		UOM ble Amou		AMOUNT(Rs.)
PAN	HSNCODE	ITEM NO.			nt CGST@6%	AMOUNT(Rs.)
PAN	HSNCODE	ITEM NO.		ble Amou	nt CGST@6% SGST@6%	AMOUNT(Rs.)
PAN	HSNCODE	ITEM NO.		ble Amou	nt CGST@6%	AMOUNT(Rs.)
S. No. DESCRIPTION Taxable Amount (in	HSNCODE	ITEM NO.		ble Amou	nt CGST@6% SGST@6%	AMOUNT(Rs.)
PAN S. No. DESCRIPTION Taxable Amount (in words)	HSNCODE	ITEM NO.		ble Amou	nt CGST@6% SGST@6%	AMOUNT(Rs.)
S. No. DESCRIPTION Taxable Amount (in words) Tax Amount (in words)	HSNCODE	ITEM NO.		ble Amou	nt CGST@6% SGST@6%	AMOUNT(Rs.)
S. No. DESCRIPTION Taxable Amount (in words) Tax Amount (in words) Net Amount (in words)	HSNCODE	ITEM NO.		ble Amou	nt CGST@6% SGST@6%	AMOUNT(Rs.)
PAN S. No. DESCRIPTION Taxable Amount (in words) Tax Amount (in words) Net Amount (in words) Net Amount (in words) Dealer Code 8	HSNCODE	ITEM NO.	Taxal	ble Amou	nt CGST@6% SGST@6% ET AMOUNT	AMOUNT(Rs.)



Student activity

Think: A customer has returned the goods to his supplier along with a debit note. But, the supplier does not agree with the customer's claim that the goods are damaged. Can the customer consider his debit note as a valid source document and enter the purchases returns?

(iv) Credit note

It is a statement prepared by the seller who receives back from his customer the goods sold. It contains details such as the description of the goods, quantity returned and also their value. It is a document sent by a seller to the buyer, stating that a certain amount is owed to the buyer. It is also called as credit memo.

Specimen of a credit note



(v) Pay-in slip

When cash or cheque is deposited in bank, a form is to be filled by a customer and submitted to the banker along with cash or cheque. This is called as pay-in slip or deposit slip. The main part of this will be retained by the bank and the counterfoil duly stamped and signed by the banker is returned to the customer.

DEPOSIT / PAY IN BLIP ox " OSBI ummba ebe due Date A/c No. / Credt Card No. 500 s 51 Proper mention stay (in the sect flavor or took of the Compa

Specimen of a pay-in slip

(vi) Cheque

Cheque is a negotiable instrument. Cheque book is issued by a bank to its customers for withdrawing money for own use or for making payment to others. By issue of cheque, a bank is directed to pay a specific amount of money from a person's account either to the same person or to the person in whose favour the cheque has been issued. Each cheque book has record slips for entering the details of cheques issued. It remains with the account holder for future reference.





Think: Crossed cheque is preferred to a bearer cheque. Why?

3.3. Double entry system

Double entry system of book keeping is a scientific and complete system of recording the financial transactions of an organisation. According to this system, every transaction has a two fold effect. That is, there are two aspects involved, namely, receiving aspect and giving aspect. It is denoted by debit (Dr.) and credit (Cr.). The basic principle of double entry system is that for every debit there must be an equivalent and corresponding credit. Debit denotes an increase in assets or expenses or a decrease in liabilities, income or capital. Credit denotes an increase in liabilities, income or capital or a decrease in assets or expenses.



'Dr.' is abbreviation of 'addebitare', the Italian word and debere, the Latin word meaning 'debit'. Hence, though there is no 'r' in the word debit. It has been abbreviated as 'Dr.' based on the Italian and Latin words having 'r' in these.

3.3.1. Definition

"Every transaction involving money or money's worth has two fold aspects, the receiving of a value on the one hand and the giving of the same value on the other. This two fold nature in all transactions must be recorded in the books and this gives rise to the term Double Entry Book keeping".

- Munro and Palmer

"Every business transaction has a two-fold effect and that it affects two accounts in opposite directions and if a complete record is to be made of each such transaction it is necessary to debit one account and credit another account. It is this recording of two fold effect of every transaction that has given rise to the term Double Entry".

- J.R Batliboi

3.3.2. Principles of double entry system

Following are the principles of double entry system:

- (i) In every business transaction, there are two aspects.
- (ii) The two aspects involved are the benefit or value receiving aspect and benefit or value giving aspect.
- (iii) These two aspects involve minimum two accounts; at least one debit and at least one credit.
- (iv) For every debit, there is a corresponding and equivalent credit. If one account is debited the other account must be credited.

3.3.3. Advantages of double entry system

Following are the advantages of double entry system:

(i) Accuracy

In this system, the two aspects of each transaction are recorded in the books of accounts. This helps in checking the accuracy in accounting.

(ii) Ascertainment of business results

Details regarding expenses, losses, incomes, gains, assets, liabilities, debtors, creditors, etc., are readily available. This helps to ascertain the net profit earned or loss incurred during an accounting period and also to know the financial position as on a particular date.

(iii) Comparative study

The business results of the current year can be compared with those of the previous years and also with other business firms. It facilitates business planning for future.

(iv) Common acceptance

The business records maintained under this system are accepted by financial institutions, government and others, because it is a systematic and scientific system.

3.4. Transaction

Transaction involves transfer of money or money's worth (goods or services or ideas) from one person to another. Transaction can be classified into cash transaction, bank transaction and credit transaction.

(a) Cash transaction

When immediate cash is involved in a transaction, it is called cash transaction. For example, goods are sold for cash ` 5,000. In this case, cash ` 5,000 comes into the business and goods worth ` 5,000 go out of the business.

(b) Bank transaction

In a transaction, if bank is involved, it is a bank transaction. Bank transaction includes the following:

- (i) Cash deposited into the bank
- (ii) Income of the business directly received by the bank
- (iii) Receipts through Cash Deposit Machine (CDM)
- (iv) Payment made by the customers of the business through debit card, credit card, net banking, National Electronic Funds Transfer (NEFT), Real Time Gross Settlement (RTGS), etc.
- (v) Cash withdrawn from the bank
- (vi) Bank charges levied by the bank

- (vii) Payments made by the bank as per standing instructions
- (viii) Payments made by cheque
- (ix) Payments made by the business through debit card, credit card, net banking, NEFT and RTGS



Automated Teller Machine (ATM): ATM is a computerised machine that provides the customers of banks the facility of accessing their account for dispensing cash and to carry out other financial and non-financial transactions without the need to actually visit their bank branch.

Cash Deposit Machine (CDM): It is an ATM like machine that allows depositing cash directly into a customer's account without any manual intervention of the bank employee. There is no need to fill deposit slips.

Debit card: The debit cards are used to withdraw cash from an ATM, to purchase goods and services at Point of Sale (POS) and in E-commerce (online purchase). A customer can use debit card for the money he has in the bank account with some restrictions.

Credit card: The credit cards are used to purchase goods and services at Point of Sale (POS) and in E-commerce (online purchase). A customer can use credit card within the limit specified by the bank even if there is inadequate balance in the account The bank may charge interest and other charges for credit card usage.

NEFT: National Electronic Funds Transfer (NEFT) is a nation-wide payment system facilitating one-to-one funds transfer. Under this scheme, any person can electronically transfer funds from any bank branch to any person having an account with any other bank branch in the country.

RTGS: The acronym 'RTGS' stands for Real Time Gross Settlement, which can be defined as the continuous (real-time) settlement of funds transfers individually on an order by order basis.

(c) Credit transaction

When settlement is not made by cash or through bank immediately in a transaction, it is called credit transaction. But, the amount is to be settled within a specified period. For example, purchase of goods on credit for `3,000. In this case, goods worth `3,000 come into the business and a liability of creditors worth `3,000 arises.

3.5. Account

Every transaction has two aspects and each aspect affects minimum one account. An account is the basic unit of identification in accounting. A ledger account is a summary of relevant

transactions at one place relating to a particular head. Account is the systematic presentation of all material information regarding a particular person or item at one place, under one head.

3.6. Approaches of recording transactions

There are two approaches for recording transactions, namely, i) Accounting equation approach and ii) Traditional approach.

3.6.1. Accounting equation approach

The relationship of assets with that of liabilities to outsiders and to owners in the equation form is known as accounting equation.

Under the double entry system of book keeping, every transaction has two fold effect, which causes the changes in assets and liabilities or capital in such a way that an accounting equation is completed and equated.

Capital + Liabilities = Assets

Capital can also be called as owner's equity and liabilities as outsider's equity.

Accounting equation is a mathematical expression which shows that the total of assets is equal to the total of liabilities and capital. This is based on the dual aspect concept of accounting. This means that total claims of outsiders and the proprietor against a business enterprise will always be equal to the total assets of the business enterprise.

As the revenues and expenses will affect capital, the expanded equation may be given as under:

Assets = Liabilities + Capital + Revenues - Expenses

Therefore, under this approach, accounts are classified into five categories: (i) Asset account, (ii) Liability account, (iii) Capital account, (iv) Revenue account and (v) Expense account as follows:



(i) Asset account

Any physical thing or right owned that has a monetary value is called asset. The assets are grouped and shown separately; for example, Land and Buildings account, Plant and Machinery account.

(ii) Liability account

Financial obligations of the enterprise towards outsiders are shown under separate heads as liabilities; for example, creditors account, expenses outstanding account.

(iii) Capital account

Financial obligations of a business enterprise towards its owners are grouped under this category; for example, capital contributed by owner.

(iv) Revenue account

Accounts relating to revenues of an enterprise are grouped under this category, for example; revenues from sale of goods, rent received.

(v) Expense account

Expenses incurred and losses suffered for earning revenue are grouped under this category; for example, purchase of goods, salaries paid.

A transaction may have the effect on either side of the equation by the same amount or it may have the effect on one side of the equation only, by both increasing and decreasing it by an equal amount.

Recording of transactions as per accounting equation approach is explained below:

(a) Increase in capital and increase in asset

Commenced business with cash ` 1,00,000

Effects: (i) Cash comes in \rightarrow Increase in asset

(ii) Capital provided by the owner → Increase in capital of owner

Capital = Assets

Capital = Cash

(+) $^{\cdot}$ 1, 00,000 = (+) $^{\cdot}$ 1, 00,000

(b) Decrease in liability and decrease in asset

Paid creditors ` 10,000

Effects: (i) Cash goes out → Decrease in asset

(ii) Creditors are paid → Decrease in liability

Liabilities = Assets

Creditors = Cash

(-) 10,000 = (-) 10,000

(c) Decrease in one asset and increase in another asset

Bought furniture costing $\hat{\ }$ 5,000 by paying cash

Effects: (i) Furniture comes in \rightarrow Increase in asset

(ii) Cash goes out \rightarrow Decrease in asset

Liabilities = Assets

Liabilities = Cash + Furniture

= (-) $^{\circ}$ 5,000 (+) $^{\circ}$ 5,000

(d) Decrease in one liability and increase in another liability

Accepted a bill drawn by creditors for `20,000

Effects:

- (i) Bills payable arises → Increase in liability
- (ii) Reduction in creditors → Decrease in liability

Liabilities = Assets

+ Bills payable – Creditors = Assets

(+) ` 10,000 (-) ` 10,000 = Assets

(e) Transactions affecting more than two accounts:

Goods costing `30,000 sold for `40,000

Effects:

- (i) Goods go out → Decrease in assets
- (ii) Cash comes in → Increase in assets
- (iii) Sold goods at a profit → Increase in capital

Liabilities + Capital = Assets

Capital = Cash - Stock

(+) $^{10,000} = (+)$ 40,000 (-) 30,000

Illustration 1

Complete the missing items.

	Assets =	Liabilities `+	Capital `
(a)	30,000	20,000	?
(b)	60,000	25,000	?
(c)	?	25,000	30,000
(d)	?	10,000	80,000
(e)	25,000	?	15,000
(f)	40,000	?	30,000

Solution

	Assets`=	Liabilities `+	Capital `
(a)	30,000	20,000	10,000
(b)	60,000	25,000	35,000
(c)	55,000	25,000	30,000
(d)	90,000	10,000	80,000
(e)	25,000	10,000	15,000
(f)	40,000	10,000	30,000

Illustration 2

Show the accounting equation on the basis of the following transactions for Rani, who is dealing in automobiles.

(i)	Started business with cash	` 80,000
(ii)	Goods bought on credit from Ramesh	` 10,000
(iii)	Purchased furniture for cash	` 6,000
(iv)	Paid creditors by cash	` 8.000

Solution

In the books of Rani

Transaction	Assets				Canital `	Creditors`	
Transaction	Cash `	Stock`	Furniture `		Capital `	Creditors	
(i) Started business with cash	+80,000				+80,000		
Equation	+80,000			Ш	+80,000		
(ii) Credit purchases		+10,000				+10,000	
Equation	+80,000	+10,000		Ш	+80,000	+10,000	
(iii) Cash purchase of furniture	-6,000		+6,000				
Equation	+74,000	+10,000	+6,000	Ш	+80,000	+10,000	
(iv) Paid creditors by cash	-8,000					-8,000	
Equation	+66,000	+10,000	+6,000	Ш	+80,000	+2,000	

Illustration 3

Show the accounting equation on the basis of the following:

(a)	Started business with cash	` 60,000
(b)	Purchased goods for cash	20,000
(c)	Sold goods for cash costing ` 10,000 for	15,000
(d)	Paid rent by cash	500

Solution

Tuonaatian	Ass	sets		Comital :
Transaction	Cash`	Stock`		Capital`
(a) Started business with cash	+60,000		=	+60,000
Equation	+60,000			+60,000
(b) Cash purchases	-20,000	+20,000		
Equation	+40,000	+20,000	=	+60,000
(c) Sold goods for cash	+15,000	-10,000		+5,000

Equation	+55,000	+10,000	=	+65,000
(d) Paid rent by cash	-500			-500
Equation	+54,500	+10,000	=	+64,500

Illustration 4

Selvi is a dealer in furniture. Show the accounting equation for the following transactions.

Started business with cash	1,00,000
Deposited cash into bank	` 60,000
Borrowed loan from bank	25,000
Bought goods and paid by cheque	` 10,000
Cash withdrawn for personal use	5,000
	Deposited cash into bank Borrowed loan from bank Bought goods and paid by cheque

(vi) Cash withdrawn from bank for office use

Solution

In the books of Selvi

` 3000

Transaction		Assets				Bank
Transaction	Cash`	Stock `	Bank`		Capital `	loan`
(i) Started business with cash	+1,00,000			=	+1,00,000	
Equation	+1,00,000				+1,00,000	
(ii) Deposited cash with bank	- 60,000		+60,000			
Equation	+40,000		+60,000	=	+1,00,000	
(iii) Borrowed loan from bank			+25,000			+25,000
Equation	+40,000		+85,000	=	+1,00,000	+25,000
(iv) Bought goods and paid by cheque		+10,000	-10,000			
Equation	+40,000	+10,000	+75,000	=	+1,00,000	+25,000
(v) Cash withdrawn for personal use	- 5,000				-5,000	
Equation	+35,000	+10,000	+75,000	=	+95,000	+25,000
(vi) Cash withdrawn from bank for	. 2.000		2 000			
office use	+3,000		-3,000			
Equation	+38,000	+10,000	+72,000	=	+95,000	+25,000

Illustration 5

Show the effect of following business transactions on the accounting equation.

(i)	Anbu started business with cash ` 20,000; goods ` 12,000 and machine	` 8,000
(ii)	Purchased goods from Ramani on credit	` 7,000
(iii)	Payment made to Ramani in full settlement	` 6,900

- (iv) Sold goods to Rajan on credit costing 5,400 for 6,000
- (v) Received from Rajan ` 5,800 in full settlement of his account
- (vi) Wages outstanding `400

Solution

	Assets					Capital	Liabilities
Transaction	Cash	Cash Stock Machine Debtors			Capitai	Liabilities	
(i) Started business with cash, stock & machine	+20,000	+12,000	+8,000			+40,000	
Equation	+20,000	+12,000	+8,000		=	+40,000	
(ii) Credit purchases		+7,000					+7,000
Equation	+20,000	+19,000	+8,000		=	+40,000	+7,000
(iii) Payment made to Ramani in full settlement	-6,900					+100	-7,000
Equation	+13,100	+19,000	+8,000		=	+40,100	
(iv) Credit sales		-5,400		+6,000		+600	
Equation	+13,100	+13,600	+8,000	+6,000	=	+40,700	
(v) Cash receipt from Rajan. in full settlement	+5,800			-6,000		-200	
Equation	+18,900	+13,600	+8,000		=	+40,500	
(vi) Wages outstanding						-400	+400
Equation	+18,900	+13,600	+8,000		=	+40,100	+400

Illustration 6

Veena is a dealer in text iles. On January 1, 2018, her business showed the following balances: Cash in hand: `20,000; Bank balance: `70,000; Stock: `15,000. Following are the transactions made during January 2018. Show the effect of the transactions on accounting equation.

(a) Purchased goods (readymade shirts) on credit from Subbu ` 20,000 (b) Goods returned to Subbu and no cash is received ` 5,000 Goods (shirts) costing ` 1,600 was sold to Janani on credit (c) 2,000 (d) Janani returned 1 shirt of sales value ` 500 (e) Janani deposited the money due in cash deposit machine in a bank ` 1,500 Insurance on building paid through net banking 1,000 (f) Of the insurance paid, prepaid during the year is ` 100 (g)

Solution

		1	Assets				,	, S	
Transaction	Cash `	Bank`	Stock	Debtors	Prepaid insurance		Capital	Creditors	
To Balance b/d	+20,000	+70,000	+15,000				+1,05,000		
Equation	+20,000	+70,000	+15,000			=	+1,05,000		
(a) Purchased goods on credit			20,000					+20,000	
Equation	+20,000	+70,000	+35,000			=	+1,05,000	+20,000	
(b) Goods returned and no cash received			-5,000					-5,000	
Equation	+20,000	+70,000	+30,000			=	+1,05,000	+15,000	
(c) Goods sold on credit			-1,600	2,000			+400		
Equation	+20,000	+70,000	+28,400	+2,000		=	+1,05,400	+15,000	
(d) Sales return the cost of which is `400 and no cash paid			+400	-500			-100		
Equation	+20,000	+70,000	+28,800	+1,500		=	+1,05,300	+15,000	
(e) Customer deposited the money in CDM		+1,500		-1,500					
Equation	+20,000	+71,500	+28,800			=	+1,05,300	+15,000	
(f) Insurance premium paid through net banking		-1,000					-1,000		
Equation	+20,000	+70,500	+28,800			=	+1,04,300	+15,000	
(g) Prepaid insurance					+100		+100		
Equation	+20,000	+70,500	+28,800		+100	=	+1,04,400	+15,000	

3.6.2. Traditional approach

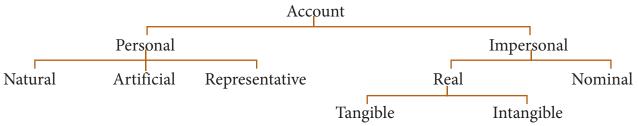
Under this approach, the two fold aspects (debit and credit) in each transaction are recorded in the journal by following double entry system. For the purpose of recording the transactions, accounts are classified into personal and impersonal accounts.

3.6.2.1. Classification of accounts:

Under double entry system of book keeping, for the purpose of recording the various financial transactions, the accounts are classified as personal accounts and impersonal accounts.

- (i) **Personal account**: Account relating to persons is called personal account. The personal account may be natural, artificial or representative personal account.
 - (a) Natural person's account: Natural person means human beings. Example: Vinoth account, Malini account.
 - (b) **Artificial person's account:** Artificial person refers to the persons other than human beings recognised by law as persons. They include business concerns, charitable institutions, etc. Example: BHEL account, Bank account.
 - (c) Representative personal accounts: These are the accounts which represent persons natural or artificial or a group of persons. Example: Outstanding salaries account, Prepaid rent account. When expenses are outstanding, it is payable to a person. Hence, it represents a person.
- (ii) Impersonal accounts: All accounts which do not affect persons are called impersonal accounts. These are further classified into a) Real accounts and b) Nominal accounts.
 - (a) Real account: All accounts relating to tangible and intangible properties and possessions are called real accounts.
 - 1. **Tangible real accounts:** These include accounts of properties and possessions which can be seen and touched. These have physical existence. Example: Plant, Machinery, Building, Furniture, Stock.
 - 2. **Intangible real accounts**: These include accounts of properties and possessions which can not be seen and touched. These do not have physical existence. Example: Goodwill, Patents, Copy rights.
 - (b) Nominal account: The accounts relating to expenses, losses, revenues and gains are called nominal accounts. Example: Salaries, wages, rental income, interest income, etc. These are temporary accounts and are transferred to Trading and Profit and Loss account depending on whether these are direct or indirect respectively.

Classification of account



3.7. Accounting rules

All the above classified accounts have two rules each, one related to debit and another related to credit for recording the transactions which are termed as golden rules of accounting or rules of double entry system.

Golden rules of double entry system

Personal account	Debit the receiver	Credit the giver
Real account	Debit what comes in	Credit what goes out
Nominal account	Debit all expenses and losses	Credit all incomes and gains

Illustration 7

Classify the following into personal, real and nominal accounts.

(a) Capital (b) Building

(c) Carriage inwards (d) Cash

(e) Commission received (f) Bank

(g) Purchases (h) Chandru

(i) Outstanding wages

Solution

Sl. No.	Items	Classification
(a)	Capital	Personal account
(b)	Building	Real account
(c)	Carriage inwards	Nominal account
(d)	Cash	Real account
(e)	Commission received	Nominal account
(f)	Bank	Personal account
(g)	Purchases	Nominal account
(h)	n) Chandru Personal account	
(i)	Outstanding wages	Personal account



- Purchases is treated as a nominal account as it is an expenditure and sales is treated as a nominal account as it is a revenue to the business.
- Purchases, Purchases returns, Sales and Sales returns may also be treated as real accounts as they are related to goods.

3.8 Journal entries

The word journal has been derived from the French word 'Jour' which means day. So, journal means daily. Transactions are recorded daily in the journal as and when the transactions take place. As soon as a transaction takes place, its debit and credit aspects are analysed and recorded in the journal together with a short description called narration. This facilitates making entries in the ledger. Since transactions are first recorded in the journal, it is called book of original entry or prime entry or primary entry or preliminary entry, or first entry. Journalising is the beginning of the accounting process for the financial transactions.

3.8.1 Meaning

Journal is the book of original entry in which business transactions are recorded in chronological order, that is, in the order of occurrence. Transactions are recorded for the first time in the journal. Entries are made in the journal based on source documents. Record of business transactions in the journal is known as Journal entry. The process of recording the transactions in journal is called as journalising.

According to Professor Carter, "The journal as originally used, is a book of prime entry in which transactions are copied in order of date from a memorandum or waste book. The entries as they are copied are classified into debits and credits, so as to facilitate their being correctly posted, afterwards in the ledger".

3.8.2. Format of Journal

The format of journal is given below:

In the books of...

Journal

Date	Particulars	L.F.	Debit `	Credit `

A journal contains five columns; Date, Particulars, L.F., Debit and Credit.

Date column: In this column the date of the transaction is recorded.

Particulars column: The accounts involved in the transaction are recorded in this column. The account debited is recorded first with the word 'Dr.' entered towards the end of the row and the account credited is entered in the next line after leaving a little space on the left and preceded by the word 'To'.

Leder Folio column (L.F.): The page number of ledger in which the accounts debited and credited are maintained is recorded here. Folio means page and ledger folio means page number of ledger. This L.F. helps in cross verification of accounts in the ledger and helps in audit of accounts.

Debit column: The amount to be debited is recorded in this column. The unit of measurement, that is, amount expressed in the currency of the country is recorded in this column. For example, in India amount is recorded in rupees (`).

Credit column: The amount to be credited is recorded in this column. The unit of measurement, that is, the currency of the country is written in this column. For example, in India amount is recorded in rupees (`).

Narration: A short description of each transaction is written under each entry which is called narration.

Tutorial note

- (i) While entering the date, the year may be written at the top, then the month and then the particular date.
- (ii) The narration must be simple and complete. The words 'Being' or 'For' may also be prefixed before the narration.
- (iii) It is customary to write 'Dr' and 'To' in the journal entries.
- (iv) L.F. column is filled when the transaction is posted to the ledger. In computerised accounting, it is the reference number.
- (v) The amount columns of a journal may be totalled at the end of the each page and the grand total may be given at the end of the month.
- (vi) To show each journal entry separately, a line may be drawn after narration in particulars column.
- (vii) When transactions of similar nature take place on the same date, they may be combined while they are journalised.

3.8.3 Steps in journalising

The process of analysing the business transactions under the heads of debit and credit and recording them in the journal is called journalising. An entry made in the journal is called a journal entry. The following steps are followed in journalising:

- (1) Analyse the transactions and identify the accounts (based on aspects) which are involved in the transaction.
- (2) Classify the above accounts under Personal account, Real account or Nominal account
- (3) Apply the rules of debit and credit for the above two accounts.
- (4) Find which account is to be debited and which account is to be credited by the application of rules of double entry system

- (5) Record the date of transaction in the date column.
- (6) Enter the name of the account to be debited in the particulars column very close to the left hand side of the particulars column followed by the abbreviation 'Dr.' at the end in the same line. Against this, the amount to be debited is entered in the debit amount column in the same line.
- (7) Write the name of the account to be credited in the second line starting with the word 'To' prefixed a few spaces away from the margin in the particulars column. Against this, the amount to be credited is entered in the credit amount column in the same line.
- (8) Write the narration within brackets in the next line in the particulars column.

3.8.4 Different types of journal entries

The journal entries may be of the following types:

- (i) Single entry
- (ii) Compound entry
- (iii) Opening entry
- (iv) Closing entry
- (v) Rectifying entry
- (vi) Adjusting entry
- (vii) Transferring entry
- (i) Single entry: Single entry is an entry in which only two accounts are involved, one account is debited and another is credited.
- (ii) Compound entry: Compound entry is an entry in which more than two accounts are involved. Either more than one account is debited or more than one account is credited or both.
- (iii) Opening entry: Through opening entry the balances of assets and liabilities at the end of the previous accounting year are brought forward to the current accounting year. This is dealt in chapter 6.
- (iv) Closing entry: At the end of the accounting period, the nominal accounts are closed by transferring to trading account or profit and loss account. All direct expenses and direct revenues are transferred to Trading Account. All indirect expenses and indirect revenues are transferred to Profit and Loss Account. This is dealt in chapter 6.
- (v) Rectifying entry: Rectifying entries are passed to make correction of errors in accounting. This is dealt in chapter 9.

- (vi) Adjusting entry: Adjusting entry is the entry made for the transactions which remain unrecorded or require adjustment after closing the accounts for the accounting year. This is dealt in chapter 13.
- (vii) **Transfer entry:** Transfer entry is the entry through which amount is transferred from one account to another account.

3.8.5 Application of rules of double entry system

Rules of double entry system of book-keeping are applied for business transactions as follows:

(i) Personal account

'Debit the receiver and Credit the giver'. In case of personal accounts, the rule is debit the account of the person who receives the benefit and credit the account of the person who gives the benefit.

Example : Paid Anbu ` 10,000 by cheque

Accounts affected : Anbu account and Bank account

Nature of accounts : Both are personal accounts in nature

Rule : Debit the receiver and credit the giver

Applying the rule : Anbu is the receiver and the Bank is the giver

Debit Anbu account

Credit Bank account

(ii) Real account

'Debit what comes in and Credit what goes out'. In case of real accounts, the rule is debit what comes in and credit what goes out.

Example : Furniture purchased for cash ` 5,000

Accounts affected : Furniture account and Cash account

Nature of accounts : Both are real accounts in nature

Rule : Debit what comes in and credit what goes out

Applying the rule : Furniture comes in and cash goes out

Debit Furniture account

Credit Cash account

(iii) Nominal account

'Debit all expenses and losses and Credit all incomes and gains'. For nominal accounts, the rule is debit all expenses and losses and credit all incomes and gains.

Example : Paid rent of `5,000 in cash

Accounts affected : Rent account and cash account

Nature of accounts : Rent is a nominal account and cash account is a real account

Rule : Debit all the expenses and losses and credit all the

incomes and gains

Applying the rule : Rent is an expense and cash goes out

Debit Rent account

Credit Cash account

3.8.6 Analysis of transactions

Example 1

Transaction: Somu commenced printing business with cash ` 50,000.

Analysis: This is a cash transaction as cash is involved.

Transaction	Accounts involved	Nature of accounts	How affected in business	Debit / Credit
Somu commenced business with	Cash A/c	Real A/c	Cash comes in	Debit
cash ` 50,000	Somu's capital A/c	Personal A/c	Somu is the giver	Credit

Journal entry

Date	Particulars		L.F.	Debit `	Credit `
	Cash A/c	Dr.		50,000	
	To Somu's capital A/c				50,000
	(Somu commenced business with capital)				

Example 2

Transaction: Bought goods for cash `4,000

Analysis: This is a cash transaction as cash is involved.

Transaction	Accounts involved	Nature of accounts	How affected in business	Debit / Credit
Bought goods for cash ` 4,000	Purchases A/c Cash A/c	Nominal A/c Real A/c	Expenses made Cash goes out	Debit Credit

Journal entry

Date	Particulars	L.F.	Debit `	Credit `
	Purchases A/c Dr.		4,000	
	To Cash A/c			4,000
	(Cash purchase made)			

Example 3

Transaction: Purchased goods from Rahul for ` 10,000 on credit

Analysis: This is a credit transaction.

Transactions	Accounts involved	Nature of accounts	How affected in business	Debit / Credit
Purchased goods from Rahul for `10,000 on credit			Expenses made Rahul is the giver	Debit Credit

Journal entry

	Date	Particulars	L.F.	Debit `	Credit `
I		Purchases A/c Dr.		10,000	
		To Rahul A/c			10,000
		(Bought goods from Rahul on credit)			

Example 4

Transaction: Cash paid to Rahul ` 4,000

Analysis: This is a cash transaction as cash is involved.

Transaction	Accounts involved	Nature of accounts	How affected in business	Debit / Credit
Paid Rahul ` 4,000	Rahul A/c	Personal A/c	Rahul is the receiver	Debit
	Cash A/c	Real A/c	Cash goes out	Credit

Journal entry

Date	Particulars	L.F.	Debit `	Credit `
	Rahul A/c Dr.		4,000	
	To Cash A/c			4,000
	(Paid Rahul)			

Example 5

Transaction: Withdrew cash for personal use `8,000

Analysis: This is a cash transaction as cash is involved.

Transactions	Accounts involved	Nature of accounts	How affected in business	Debit / Credit
Withdrew cash for personal use	Drawings A/c	Personal A/c	Propreitor is the receiver	Debit
` 8,000	Cash A/c	Real A/c	Cash goes out	Credit

Journal entry

Date	Particulars	L.F.	Debit `	Credit `
	Drawings A/c Dr.		8,000	
	To Cash A/c			8,000
	(Cash withdrawn for personal use)			

Example 6

Transaction: Cash deposited into bank ` 5,000

Analysis: This is a cash transaction as cash is involved.

Transaction			Accounts involved	Nature of accounts	How affected in business	Debit / Credit	
Cash	deposited	into	bank	Bank A/c	Personal A/c	Bank is the receiver	Debit
`5,000)			Cash A/c	Real A/c	Cash goes out	Credit

Journal entry

Date	Particulars	L.F.	Debit `	Credit `
	Bank A/c Dr.		5,000	
	To Cash A/c			5,000
	(Cash deposited into bank)			

Example 7

Transaction: Paid salary by cheque `3,000

Analysis: This is a bank transaction as bank is involved.

Transaction	Accounts involved	Nature of accounts	How affected in business	Debit / Credit
Paid salary by cheque ` 3,000	Salary A/c	Nominal A/c	Expense made	Debit
	Bank A/c	Personal A/c	Bank is the giver	Credit

Journal entry

Date	Particulars	L.F.	Debit`	Credit `
	Salaries A/c Dr.		3,000	
	To Bank A/c			3,000
	(Salary paid by cheque)			

Example 8

Transaction: Sold goods to Mahesh on credit ` 9,000

Analysis: This is a credit transaction.

Transaction	Accounts involved	Nature of accounts	How affected in business	Debit / Credit
Sold goods to Mahesh on credit	Mahesh A/c	Personal A/c	Mahesh is the receiver	Debit
` 9,000	Sales A/c	Nominal A/c	Revenue earned	Credit

Journal entry

Date	Particulars	L.F.	Debit `	Credit `
	Mahesh A/c Di	,	9,000	
	To Sales A/c			9,000
	(Sold goods to Mahesh on credit)			

Example 9

Transaction: Goods sold to Mahendran for cash ` 5,000

Analysis: This is a cash transaction as cash is involved.

Transaction	Accounts involved	Nature of accounts	How affected in business	Debit / Credit
Cash sales made to Mahendran	Cash A/c	Real A/c	Cash comes in	Debit
for ` 10,000	Sales A/c	Nominal A/c	Revenue earned	Credit

Journal entry

Date	Particulars	L.F.	Debit `	Credit `
	Cash A/c D		5,000	
	To Sales A/c			5,000
	(Cash sales made)			

Example 10

Transaction: Borrowed loan from Bank ` 10,000

Analysis: This is a cash transaction as cash is involved.

Transaction	Accounts involved	Nature of accounts	How affected in business	Debit / Credit
Borrowed loan from Bank	Cash A/c	Real A/c	Cash comes in	Debit
`10,000	Bank loan A/c	Personal A/c	Bank is the giver	Credit

Journal entry

	Date	Particulars	L.F.	Debit `	Credit `
ı		Cash A/c Dr.		10,000	
ı		To Bank loan A/c			10,000
ı		(Borrowed loan from bank)			

Example 11

Transaction: Received commission of `5,000 by cash

Analysis: This is a cash transaction as cash is involved.

Transaction	Accounts involved	Nature of accounts	How affected in business	Debit / Credit
Received commission	Cash A/c	Real A/c	Cash comes in	Debit
` 5,000	Commission A/c	Nominal A/c	Receipt of commission	Credit

Journal entry

Date	Particulars	L.F.	Debit `	Credit `
	Cash A/c Di		5,000	
	To Commission received A/c			5,000
	(Commision received)			

Example 12

Transaction: Paid `4,800 in full settlement of `5,000 due to the creditor, Keerthana.

Analysis: This is a cash transaction as cash is involved.

Transaction	Accounts involved	Nature of accounts	How affected in business	Debit / Credit
Paid ` 4,800 in full	Keerthana A/c	Personal A/c	Keerthana is the receiver	Debit
settlement of ` 5,000 to Keerthana	Cash A/c	Real A/c	Cash goes out	Credit
to Neer thana	Discount received A/c	Nominal A/c	Discount is a gain	Credit

Journal entry

Date	Particulars	L.F.	Debit `	Credit `
	Keerthana A/c Dr		5,000	
	To Cash A/c			4,800
	To Discount received A/c			200
	(Paid Keerthana in full settlement)			

Example 13

Transaction: Dinesh, a customer is declared insolvent and 40 paise in a rupee is received from the estate for his due ` 10,000.

Analysis: This is a cash transaction as cash is involved.

Transaction	Accounts involved	Nature of accounts	How affected in business	Debit / Credit
Dinesh who owed ` 10,000,			Cash comes in	Debit
became insolvent and 40 paise in a rupee is received from his	Bad debts A/c	Nominal A/c	Bad debts is a loss	Debit
estate	Dinesh A/c	Personal A/c	Dinesh is the giver	Credit

Journal entry

Date	Particulars		L.F.	Debit `	Credit `
	Cash A/c	Dr.		4,000	
	Bad debts A/c	Dr.		6,000	
	To Dinesh A/c				10,000
	(Cash received in final settlement on insolvency)				

Tutorial note

Though the procedure for analysis of transactions, classification of accounts and rules for recording transactions under accounting equation approach and traditional approach are different, the accounts affected and entries in affected accounts remain the same under both approaches. In other words, accounts to be debited and credited to record the dual aspect remain the same under both the approaches.

Illustration 8

Jeyaseeli is a sole proprietor having a provisions store. Following are the transactions during the month of January, 2018. Journalise them.

Jan.

1 Commenced business with cash 80,000

2 Deposited cash with bank 40,000

3	Purchased goods by paying cash	5,000
4	Purchased goods from Lipton & Co. on credit	10,000
5	Sold goods to Joy and received cash	11,000
6	Paid salaries by cash	5,000
7	Paid Lipton & Co. by cheque for the purchases made on 4th Jan.	
8	Bought furniture by cash	4,000
9	Paid electricity charges by cash	1,000
10	Bank paid insurance premium on furniture as per standing instructions	9 0

Solution

In the books of Jeyaseeli Journal entries

Date	Particulars	L.F.	Debit `	Credit `
2018				
Jan. 1	Cash A/c Dr.		80,000	
	To Jeyaseeli's Capital A/c			80,000
	(Jeyaseeli commenced business with cash)			
2	Bank A/c Dr.		40,000	
	To Cash A/c			40,000
	(Deposited cash into bank)			
3	Purchases A/c Dr.		5,000	
	To Cash A/c			5,000
	(Goods purchased by cash)			
4	Purchases A/c Dr.		10,000	
	To Lipton & Co. A/c			10,000
	(Goods purchased on credit)			
5	Cash A/c Dr.		11,000	
	To Sales A/c			11,000
	(Cash sales made)			

6	Salaries A/c	Dr.	5,000	
	To Cash A/c			5,000
	(Salaries paid)			
7	Lipton & Co. A/c	Dr.	10,000	
	To Bank A/c			10,000
	(Payment made by cheque)			
8	Furniture A/c	Dr.	4,000	
	To Cash A/c			4,000
	(Furniture bought for cash)			
9	Electricity charges A/c	Dr.	1,000	
	To Cash A/c			1,000
	(Electricity charges paid)			
10	Insurance premium A/c	Dr.	300	
	To Bank A/c			300
	(Insurance premium on furniture paid)			

Illustration 9

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

Jan.		`
1	Commenced business with cash	70,000
2	Purchased goods from X and Co. on credit	0 ,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	3000
8	Shirts taken over by Ananth for personal use	12,000
9	Sarees distributed as free samples	3000
10	Goods (table clothes) used for office use	200

Solution

In the books of Ananth Journal entries

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

Illustration 10

Arun is a trader dealing in automobiles. For the following transactions, pass journal entries for the month of January, 2018

Jan.		•
1	Commenced business with cash	90,000
2	Purchased goods from X and Co. on credit	40,000
3	Accepted bill drawn by X and Co.	20,000
4	Sold goods to D and Co. on credit	10,000
5	Paid by cash the bill drawn by X and Co.	
6	Received cheque from D and Co. in full settlement and deposited the same in bank	9,000
7	Commission received in cash	5,000
8	Goods costing `40,000 was sold and cash received	50,000
9	Salaries paid in cash	4,000
10	Building purchased from Kumar and Co. for `1,00,000 and an advance of `20,000 is given in cash	

Solution

In the books of Arun Journal entries

Date	Particulars		L.F.	Debit `	Credit `
2018 Jan. 1	Cash A/c To Arun's capital A/c (Arun commenced business with cash)	Dr.		90,000	90,000
2	Purchases A/c To X and Co. A/c (Credit purchases made)	Dr.		40,000	40,000
3	X and Co. A/c To Bills payable A/c (Bill drawn by X and Co. accepted)	Dr.		20,000	20,000
4	D and Co. A/c To Sales A/c (Goods sold on credit)	Dr.		10,000	10,000

5	Bills payable A/c To Cash A/c (Bills payable paid)	Dr.	20,000	20,000
6	Bank A/c Discount A/c To D and Co. A/c (Cheque received from D and Co. in full settlement)	Dr. Dr.	9,000 1,000	10,000
7	Cash A/c To Commission A/c (Commission received in cash)	Dr.	5,000	5,000
8	Cash A/c To Sales A/c (Cash sales made)	Dr.	50,000	50,000
9	Salaries A/c To Cash A/c (Salaries paid in cash)	Dr.	4,000	4,000
10	Buildings A/c To Cash A/c To Kumar and Co. A/c (Building bought by giving advance money)	Dr.	1,00,000	20,000 80,000

Bragathish is a trader dealing in electronic goods who commenced his business in 2015. For the following transactions took place in the month of March 2018, pass journal entries.

March		`
1.	Purchased goods from Y and Co. on credit	60,000
2.	Sold goods to D and Co. on credit	0 ,000
3	Paid Y and Co. through bank in full settlement	58,000
4.	D and Co. accepted a bill drawn by Bragathish	0 ,000
5.	Sold goods to L on credit	20,000
6.	Sold goods to M on credit	40,000
7.	Received a cheque from M in full settlement and deposited the same to the bank	9 ,000
8.	Goods returned to Y and Co.	4,000

- 9. L became insolvent and only 90 paise per rupee is received by cash in final settlement
- 10. Goods returned by M

3000

Solution

In the books of Bragathish Journal entries

Date	Particulars		L.F.	Debit`	Credit `
2018					
March 1	Purchases A/c	Dr.		60,000	
	To Y and Co. A/c				60,000
	(Goods purchased on credit)				
2	D and Co. A/c	Dr.		30,000	
	To Sales A/c				30,000
	(Credit sales made to D and Co.)				
3	Y and Co. A/c	Dr.		60,000	
	To Bank A/c				58,000
	To Discount received A/c				2000
	(Payment made to Y and Co. and discount received)				
4	Bills Receivable A/c	Dr.		30,000	
	To D and Co. A/c				30,000
	(Bills received from D and Co.)				
5	L A/c	Dr.		20,000	
	To Sales A/c				20,000
	(Goods sold on credit to L)				
6	M A/c	Dr.		40,000	
	To Sales A/c				40,000
	(Goods sold on credit to M)				
7	Bank A/c	Dr.		39,000	
	Discount allowed A/c	Dr.		1000	
	To M A/c				40,000
	(Cheque received and discount allowed)				
8	Y and A/c	Dr.		4,000	
	To Purchases returns A/c				4,000
	(Goods returned to Y and Co.)				
9	Cash A/c $(20,000 \times 0.9)$	Dr.		18,000	
	Bad debts A/c	Dr.		2,000	
	To L A/c				20,000
	(Cash received from L in final settlement)				
10	Sales returns A/c	Dr.		3,000	
	To M A/c				
	(Goods returned by M)				3,000

Valluvar is a sole trader dealing in tex iles. From the following transactions, pass journal entries for the month of March, 2018.

March

1	Commenced business with cash	90,000
	with goods	60,000
2	Purchased 20 readymade shirts from X and Co. on credit	10,000
3	Cash deposited into bank through Cash Deposit Machine	0 ,000
4	Purchased 10 readymade sarees from Y and Co. by cash	6,000
5	Paid X and Co. through NEFT	
6	Sold 5 sarees to A and Co. on credit	4,000
7	A and Co. deposited the amount due in Cash Deposit Machine	
8	Purchased 20 sarees from Z & Co. and paid through debit card	12,000
9	Stationery purchased for and paid through net banking	6,000
10	Bank charges levied	200

Solution

In the books of Valluvar Journal entries

Date	Particulars		L.F.	Debit`	Credit `
2018 March 1	Cash A/c	Dr.		90,000	
iviaich i	Stock A/c To Valluvar's Capital A/c (Valluvar commenced business with cash and goods)	Dr.		60,000	1,50,000
2	Purchases A/c To X and Co. A/c (Credit purchases made)	Dr.		10,000	10,000
3	Bank A/c To Cash A/c (Deposited cash into bank)	Dr.		30,000	30,000
4	Purchases A/c To Cash A/c (Goods purchased by cash)	Dr.		6,000	6,000

5	X and Co. A/c To Bank A/c (Deposited cash into bank)	Dr.	10,000	10,000
6	A and Co. A/c To Sales A/c (Credit sales made to A and Co.)	Dr.	4,000	4,000
7	Bank A/c To A and Co. A/c (Money received through CDM)	Dr.	4,000	4,000
8	Purchases A/c To Bank A/c (Purchases made)	Dr.	12,000	12,000
9	Stationery A/c To Bank A/c (Stationery purchased)	Dr.	6,000	6,000
10	Bank charges A/c To Bank A/c (Bank charges levied)	Dr.	200	200

Deri is a sole trader dealing in automobiles. From the following transactions, pass journal entries for the month of January, 2018.

Jan.

1	Commenced business with cash	1,00,000
	with goods	2,00,000
	with buildings	5,00,000
2	Purchased goods from A and Co. on credit	300,000
3	Cash deposited into bank	80,000
4	Purchased goods from B and Co. and payment made through credit card	5,000
5	Paid A and Co. through RTGS	
6	Sold goods to C and Co. and cheque received	50,000
7	Deposited the cheque received from C and Co. with the bank	
8	Purchased goods from Z & Co. and paid through debit card	12,000

- 9 Stationery purchased for and paid through net banking 6,000
- 10 Income taxof Deri is paid by cheque

10,000

Solution

In the books of Deri Journal entries

Date	Particulars		L.F.	Debit `	Credit `
2018					
Jan. 1	Cash A/c Stock A/c	Dr. Dr.		1,00,000	
	Buildings A/c	Dr. Dr.		2,00,000 5,00,000	
	To Deri's capital A/c			,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	8,00,000
	(Deri commenced business with cash, goods and buildings)				
2	Purchases A/c	Dr.		3,00,000	
	To A and Co. A/c				3,00,000
	(Credit purchases made)				
3	Bank A/c	Dr.		80,000	00.000
	To Cash A/c (Amount deposited in the bank)				80,000
4	Purchases A/c	D.		5,000	
4	To Bank A/c	Dr.		5,000	5,000
	(Goods purchased through credit card)				2,000
5	A and Co. A/c	Dr.		3,00,000	
	To Bank A/c			, ,	3,00,000
	(Payment through RTGS)				
6	Cash A/c	Dr.		50,000	
	To Sales A/c				50,000
	(Sales made and cheque received)				
7	Bank A/c To Cash A/c	Dr.		50,000	50,000
	(Cheque received from C and Co. deposited in the				30,000
	bank)				
8	Purchases A/c	Dr.		12,000	
	To Bank A/c			,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	12,000
	(Goods purchased by debit card)				
9	Stationery A/c	Dr.		6,000	
	To Bank A/c				6,000
	(Stationery purchased through net banking)				
10	Drawings A/c	Dr.		10,000	10 000
	To Bank A/c (Income tax of the owner paid)				10,000
	(moone tax of the office paid)				

Chandran is a sole trader dealing in sports items. From the following transactions, pass journal entries for the month of March, 2018.

March

1	Commenced business with cash	4,00,000
2	Cash deposited into bank	300,000
3	Purchased goods from Ravi and payment made through net banking	90,000
4	Sales made to Kumar, who deposited the money through CDM	10,000
5	Sales made to Vivek, who made the payment by debit card	60,000
6	Sold goods to Keerthana, who made the payment through credit card	50,000
7	Dividend directly received by bank	2,000
8	Money withdrawn from ATM	3000
9	Salaries paid through ECS	6,000
10	Cricket bats donated to a trust	10,000

Solution

In the books of Chandran Journal entries

Date	Particulars		L.F.	Debit `	Credit `
2018 March 1	Cash A/c To Chandran's capital A/c (Capital contributed by Chandran)	Dr.		4,00,000	4,00,000
2	Bank A/c To Cash A/c (Cash deposited into bank)	Dr.		3,00,000	3,00,000
3	Purchases A/c To Bank A/c (Goods purchased and payment made by net banking)	Dr.		90,000	90,000
4	Bank A/c To Sales A/c (Sales made and money received through CDM)	Dr.		10,000	10,000

5	Bank A/c To Sales A/c (Sales made and money credited through debit card)	Dr.	60,000	60,000
6	Bank A/c To Sales A/c (Sales made and money credited through credit card)	Dr.	50,000	50,000
7	Bank A/c To Dividend A/c (Dividend directly received by bank)	Dr.	2,000	2,000
8	Cash A/c To Bank A/c (Cash withdrawn through ATM)	Dr.	3,000	3,000
9	Salaries A/c To Bank A/c (Salaries paid through ECS)	Dr.	6,000	6,000
10	Donation A/c To Purchases A/c (Cricket bats donated to a trust)	Dr.	10,000	10,000

Deepak is a dealer in stationery items. From the following transactions, pass journal entries for the month of January and February, 2018.

Jan.

1	Commenced business with cash	2,00,000
2	Opened a bank account by depositing cash	1,00,000
3	'A 4 papers' sold on credit to Padmini and Co.	60,000
4	Bills received from Padmini and Co. for the amount due	
5	Bills received from Padmini and Co. discounted with the bank	58,000
Feb.		

15 Bills of Padmini and Co. dishonoured

Solution

In the books of Deepak Journal entries

Date	Particulars	L.F.	Debit `	Credit `
2018 Jan. 1	Cash A/c Dr. To Deepak's capital A/c (Capital contributed by Deepak)		2,00,000	2,00,000
2	Bank A/c Dr. To Cash A/c (Cash deposited with the bank)		1,00,000	1,00,000
3	Padmini and Co. A/c Dr. To Sales A/c (Credit sales to Padmini and Co.)		60,000	60,000
4	Bills receivable A/c Dr. To Padmini and Co. A/c (Bill received for the amount due)		60,000	60,000
5	Bank A/c Dr. Discount A/c Dr. To Bills receivable A/c (Bills receivable discounted with the bank)		58,000 2,000	60,000
Feb. 15	Padmini and Co. A/c Dr. To Bank A/c (Bill discounted with the bank dishonoured)		60,000	60,000

3.8.7 Advantages of journal

Following are the advantages of journal:

- (i) Complete information about the business transactions can be obtained on time basis as the transactions are recorded in chronological order.
- (ii) Correctness of the entry can be checked through narration.
- (iii) Journal forms the basis for posting the entries in the ledger.

Points to remember

- Transactions are recorded in the books of account with the help of source documents.
- There are two aspects involved in every business transaction namely debit and credit.
- Every debit has a corresponding and equal credit.
- Every credit has a corresponding and equal debit.
- Accounts can be classified into personal, real and nominal.
- Assets = Capital + Liabilities
- Transactions are first recorded in journal.

Golden rules of accounting:

Personal account	Debit the receiver	Credit the giver
Real account	Debit what comes in	Credit what goes out
Nominal account	Debit all expenses and losses	Credit all incomes and gains

Self-examination questions

I Multiple choice questions

Choose the correct answer:

- 1. Accounting equation signifies
 - (a) Capital of a business is equal to assets
 - (b) Liabilities of a business are equal to assets
 - (c) Capital of a business is equal to liabilities
 - (d) Assets of a business are equal to the total of capital and liabilities
- 2. 'Cash withdrawn by the proprietor from the business for his personal use' causes
 - (a) Decrease in assets and decrease in owner's capital
 - (b) Increase in one asset and decrease in another asset
 - (c) Increase in one asset and increase in liabilities
 - (d) Increase in asset and decrease in capital
- 3. A firm has assets of `1,00,000 and the external liabilities of `60,000. Its capital would be
 - (a) \ 1,60,000

(b) 60,000

(c) \ 1,00,000

(d) \ 40,000



4.	The incorrect accounting equation is				
	(a) Assets = Liabilities + Capital	(b) Assets = Capital + Liabilities			
	(c) Liabilities = Assets + Capital	(d) Capital = Assets – Liabilities			
5.	Accounting equation is formed based on the	ne accounting principle of			
	(a) Dual aspect	(b) Consistency			
	(c) Going concern	(d) Accrual			
6.	Real account deals with				
	(a) Individual persons	(b) Expenses and losses			
	(c) Assets	(d) Incomes and gains			
7.	Which one of the following is representative	re personal account?			
	(a) Building A/c	(b) Outstanding salary A/c			
	(c) Mahesh A/c	(d) Balan & Co			
8.	Prepaid rent is a				
	(a) Nominal A/c	(b) Personal A/c			
	(c) Real A/c	(d) Representative personal A/c			
9.	Withdrawal of cash from business by the proprietor should be credited to				
	(a) Drawings A/c	(b) Cash A/c			
	(c) Capital A/c	(d) Purchases A/c			
10.	In double entry system of book keeping,	every business transaction affects			
	(a) Minimum of two accounts	(b) Same account on two different dates			
	(c) Two sides of the same account	(d) Minimum three accounts			
Ans	wers				
1.	(d) 2. (a) 3. (d) 4. (c) 5. (a)	6. (c) 7. (b) 8. (d) 9. (b) 10. (a)			
II	Very short answer questions				
1. What are source documents?					
2. What is accounting equation?					
3. Write any one transaction which					
a) Decreases the assets and decreases the liabilities					
b'	b) Increases one asset and decreases another asset				

- 4. What is meant by journalising?
- 5. What is real account?
- 6. How are personal accounts classified?
- 7. State the accounting rule for nominal account.
- 8. Give the golden rules of double entry accounting system.

III Short answer questions

- 1. Write a brief note on accounting equation approach of recording transactions.
- 2. What is an Account? Classify the accounts with suitable examples.
- 3. What are the three different types of personal accounts?
- 4. What is the accounting treatment for insurance premium paid on the life of the proprietor?
- 5. State the principles of double entry system of book keeping.
- 6. Briefly explain about steps in journalising.
- 7. What is double entry system? State its advantages.

IV Exercises

1. Complete the accounting equation

(a)	Assets	=	Capital	+	Liabilities
	1,00,000	=	` 80,000	+	?
(b)	Assets	=	Capital	+	Liabilities
	2,00,000	=	?	+	` 40,000
(c)	Assets	=	Capital	+	Creditors
	?	=	1,60,000	+	` 80,000

2. For the following transactions, show the effect on accounting equation.

(a) Raj Started business with cash	` 40,000
(b) Opened bank account with a deposit of	` 30,000
(c) Bought goods from Hari on credit for	` 12,000
(d) Raj withdrew cash for personal use	` 1,000
(e) Bought furniture by using debit card for	` 10,000
(f) Sold goods to Murugan and cash received	` 6,000
(g) Money withdrawn from bank for office use	1,000

- 3. Prepare accounting equation for the following transactions.
 - (a) Murugan commenced business with cash `80,000
 - (b) Purchased goods for cash \ 30,000
 - (c) Paid salaries by cash \ 5,000
 - (d) Bought goods from Kumar for `5,000 and deposited the money in CDM.
 - (e) Introduced additional capital of ` 10,000
- 4. What will be the effect of the following on the accounting equation?
 - (a) Sunil started business with `1,40,000 cash and goods worth `60,000
 - (b) Purchased furniture worth ` 20,000 by cash
 - (c) Depreciation on furniture `800
 - (d) Deposited into bank `40,000
 - (e) Paid electricity charges through net banking `500
 - (f) Sold goods to Ravi costing `10,000 for `15,000
 - (g) Goods returned by Ravi > 5,000
- 5. Create an accounting equation on the basis of the following transactions:
 - (i) Rakesh started business with a capital of `1,50,000
 - (ii) Deposited money with the bank `80,000
 - (iii) Purchased goods from Mahesh and paid through credit card `25,000
 - (iv) Sold goods (costing `10,000) to Mohan for `14,000 who pays through debit card
 - (v) Commission received by cheque and deposited the same in the bank `2,000
 - (vi) Paid office rent through ECS ` 6,000
 - (vii) Sold goods to Raman for ` 15,000 of which ` 5,000 was received at once
- 6. Create an accounting equation on the basis of the following transactions:
 - (i) Started business with cash `80,000 and goods `75,000
 - (ii) Sold goods to Shanmugam on credit for `50,000
 - (iii) Received cash from Shanmugam in full settlement `49,000
 - (iv) Salary outstanding `3,000
 - (v) Goods costing `1,000 given as charity
 - (vi) Insurance premium paid ` 3000
 - (vii) Out of insurance premium paid, prepaid is `500

- 7. Create accounting equation on the basis of the following transactions:
 - (i) Opening balance on 1st January, 2018 cash ` 20,000; stock ` 50,000 and bank ` 80,000
 - (ii) Bought goods from Suresh ` 10,000 on credit
 - (iii) Bank charges ` 500
 - (iv) Paid Suresh ` 9,700 through credit card in full settlement.
 - (v) Goods purchased on credit from Philip for `15,000
 - (vi) Goods returned to Philip amounting to `4,000
- 8. Enter the following transactions in the journal of Manohar who is dealing in textiles:

2018

March		`
1	Manohar started business with cash	60,000
2	Purchased furniture for cash	10,000
3	Bought goods for cash	25,000
6	Bought goods from Kamalesh on credit	15,000
8	Sold goods for cash	28,000
10	Sold goods to Hari on credit	10,000
14	Paid Kamalesh	12,000
18	Paid rent	500
25	Received from Hari	8,000
28	Withdrew cash for personal use	4,000

9. Pass journal entries in the books of Sasi Kumar who is dealing in automobiles.

2017

Oct		`
1	Commenced business with goods	40,000
3	Cash introduced in the business	60,000
4	Purchased goods from Arul on credit	70,000
6	Returned goods to Arul	10,000
10	Paid cash to Arul on account	60,000
15	Sold goods to Chandar on credit	30,000
18	Chandar returned goods worth	6,000
20	Received cash from Chandar in full settlement	23,000
25	Paid salaries through ECS	2,000
30	Sahil took for personal use goods worth	10,000

10. Pass Journal entries in the books of Hari who is a dealer in sports items

2017

Jan.		`
1	Commenced business with cash	50,000
2	Purchased goods from Subash on credit	20,000
4	Sold goods to Ramu on credit	15,000
8	Ramu paid the amount through cheque	
10	Cheque received from Ramu is deposited with the bank	
15	Sports items purchased from Gopal on credit	10,000
18	Paid rent for the proprietor's residence	1,500
20	Paid Gopal in full settlement after deducting 5 % discount	
25	Paid Subash ` 4,750 and discount received	` 250
28	Paid by cash: wages ` 500; electricity charges ` 3,000	
	and trade expenses	` 1,000

11. Karthick opened a provisions store on 1st April, 2017. Journalise the following transactions in his books:

2017

April

1	Paid into bank for opening a current account	2,00,000
3	Goods purchased by cheque	` 40,000
5	Investments made in securities	` 40,000
6	Goods sold to Radha for ` 20,000 and cheque received and deposited into bank	
7	Amount withdrawn from bank for office use	` 15,000
10	Purchased goods from Kamala and cash deposited in CDM	`10,000
12	Sold goods to Vanitha who paid through debit card	` 10,000
15	Interest on securities directly received by the bank	` 1,000
20	Insurance paid by the bank as per standing instructions	` 2,000
25	Sales made to Kunal who made payment through CDM	` 6,000

12. Journalise the following transactions in the books of Ramesh who is dealing in computers:

2018

March

- 1 Ramesh started business with cash ` 3,00,000, Goods ` 80,000 and Furniture ` 27,000.
- 2 Money deposited into bank ` 2,00,000
- Bought furniture from M/s Jayalakshmi Furniture for `28,000 on credit.
- 4 Purchased goods from Asohan for `5,000 by paying through debit card.
- 5 Purchased goods from Guna and paid through net banking for cash ` 10,000
- 6 Purchased goods from Kannan and paid through credit card ` 20,000
- 7 Purchased goods from Shyam on credit for `50,000
- 8 Bill drawn by Shyam was accepted for `50,000
- Paid half the amount owed to M/s Jayalakshmi Furniture by cheque
- 10 Shyam's bill was paid

13. Journalise the following transactions in the books of Sundar who is a book seller.

1	Λ	1	$\overline{}$
Z	v	1	/

Dec		`
1	Commenced business with cash	2,00,000
2	Bought goods from X and Co. on credit	80,000
4	Opened a bank account with	50,000
5	Sold goods to Naresh who paid the amount through net banking	5,000
6	Sold goods to Devi who paid through credit card	7,000
7	Sold goods to Ashish on credit	700
8	Money withdrawn from bank through ATM for office use	1,000
9	Purchased a furniture and paid through debit card	2,000
10	Salaries paid by cash	6,000
11	Furniture purchased from Y for `25,000 and advance given	5,000

14. Raja has a hotel. The following transactions took place in his business. Journalise them.

Jan.

1	Started business with cash	3,00,000
2	Purchased goods from Rajiv on credit	1,00,000
3	Cash deposited with the bank	2,00,000

20	Borrowed loan from bank	1,00,000
22	Withdrew from bank for personal use	800
23	Amount paid to Rajiv in full settlement through NEFT	99,000
25	Paid club bill of the proprietor by cheque	200
26	Paid electricity bill of the proprietor's house through debit card	2,000
31	Lunch provided at free of cost to a charity	1,000
31	Bank levied charges for locker rent	1,000

15. From the following transactions of Shyam, a stationery dealer, pass journal entries for the month of August 2017.

Aug.

March

- Commenced business with cash `4,00,000, Goods `5,00,000
- 2 Sold goods to A and money received through RTGS ` 2,50,000
- Goods sold to Z on credit for 20,000
- 5 Bill drawn on Z and accepted by him \ 20,000
- 8 Bill received from Z is discounted with the bank for `19,000
- Goods sold to M on credit ` 12,000
- Goods distributed as free samples for 2,000
- Goods taken for office use `5,000
- 17 M became insolvent and only 0.80 per rupee is received in final settlement
- 20 Bill of Z discounted with the bank is dishonoured

16. Mary is a cement dealer having business for more than 5 years. Pass journal entries in her books for the period of March, 2018.

1	Cement bags bought on credit form Sibi	20,000
2	Electricity charges paid through net banking	500
3	Returned goods bought form Sibi	5,000
4	Cement bags taken for personal use	1,000
5	Advertisement expenses paid	2,000
6	Goods sold to Mano	20,000
7	Goods returned by Mano	5,000
8	Payment received from Mano through NEFT	

Payment received from Mano through NEFT



Student activity

Fill in the missing information in the following journal entries:

Date	Particulars	Particulars				
	A/c	Dr.				
	ToA/c					
	(Goods purchased for cash ` 20,000)					
	A/c	Dr.				
	A/c	Dr.				
	To Niha A/c					
	(Received ` 18,800 from in full settlement of the					
	due ` 19,000)					



Student activity

Write the narration with reference to the following journal entries.

In the books of Shyam

Journal entries

Date	Particulars	L.F.	Debit `	Credit `
2018	2018 Cash A/c Dr.		3,00,000	
April 1	pril 1 To Shyam's capital A/c			3,00,000
	()			
2	Bank A/c Dr.		2,70,000	
	To Cash A/c			2,70,000
	()			

Pearlita is a trader. She buys and sells electronic goods. She maintains double entry book- keeping. She purchases and sells goods both on cash and credit bases. If the purchased goods are not in good condition, she sends them back to her supplier. At the same time, she also accepts if her customers return the goods sold to them, when the goods are not in good condition. She maintains a bank account for her business. She receives and pays money through bank transactions.

Now, discuss on the following:

- Why does she maintain double entry book keeping?
- Do all the business units engage in credit transaction?
- Can you think of some business units that have only cash transactions?
- Is it necessary for Pearlita to maintain a separate bank account for business?
- What will happen if she uses her personal bank account for her business transactions?
- Identify the business documents involved in this case study.
- Can you think of some assets and liabilities for Pearlita's business?

To explore further

For small business entities generally full set of accounts ay not be maintained. Is it possible to calculate profit or loss for such entities? How?

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Unit 4

LEDGER



Contents

- 4.1 Introduction
- 4.2 Utilities of ledger
- 4.3 Format of ledger account
- 4.4 Distinction between journal and ledger
- 4.5 Procedure for posting
- 4.6 Balancing of ledger accounts



Points to recall

The following points are to be recalled before learning Ledger:

- Classification of accounts
- Golden rules of double entry system of book keeping
- Steps in journalising the transactions and passing journal entries





Learning Objectives

To enable the students to

- Understand the meaning of ledger account
- Understand the procedure for posting
- Post the journal entries to the ledger accounts and balance the ledger accounts

Key terms to know

Ledger

Ledger posting

Balancing the ledger account

Debit balance

Credit balance

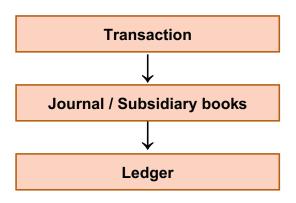
4.1 Introduction



Student activity

Think: A trader has been selling goods both on cash and credit bases. Most of the goods are sold on credit. The owner has lost track of 'who has to pay how much?' Is there any quick way to get this information?

Ledger account is a summary statement of all the transactions relating to a person, asset, liability, expense or income which has taken place during a given period of time and it shows their net effect. From the transactions recorded in the journal, the ledger account is prepared. Ledger is known as principal book of accounts. It is a book which contains all sets of accounts, namely, personal, real and nominal accounts. Accountwise balance can be



determined from the ledger. The ledger accounts are prepared based on journal entries passed.

The balances in the ledger accounts show the net effect of transactions during a particular period in various accounts. The personal accounts give the net amount due to creditors and the net amount due from debtors, real accounts show the values of assets and nominal accounts show incomes and expenses. The financial statements can be prepared from the ledger balances.

Ledger may be maintained in the business enterprises in the form of a bound register or in the form of loose sheets with spiral binding. Normally one page or one sheet may be provided for one account. An index is provided in the beginning of the ledger giving details of the accounts contained in it such as specific code for each account, page number, etc. Where computerised accounting is followed, once the transactions are recorded in the journal, ledger accounts are automatically prepared.

4.2. Utilities of ledger

Following are the utilities of ledger:

i) Quick information about a particular account

Ledger account helps to get all information about a particular account like sales, purchases, machinery, etc., at a glance. For example, where there are several transactions with a debtor, the net amount due from a debtor can be known from the ledger account.

ii) Control over business transactions

From the ledger balances extracted, a thorough analysis of account balances can be made which helps to have control over the business transactions.

iii)Trial balance can be prepared

With the balances of ledger accounts, trial balance can be prepared to check the arithmetical accuracy of entries made in the journal and ledger.

iv) Helps to prepare financial statements

From the ledger balances extracted, financial statements can be prepared for ascertaining net profit or loss and the financial position.

4.3 Format of ledger account

The ledger account is prepared in T format. It is divided into two parts. Left side is debit side and right side is credit side. Each side contains four columns. The name or title of the account is placed at the top middle and the details are entered in the ledger. The format of ledger account is given below:

Cr.

Dr. Name of the ledger account

Date	Particulars	J.F.	Amount`	Date	Particulars	J.F.	Amount`

Following are the details contained in the various columns in the ledger:

Date: Date of the transaction is recorded in this column.

Particulars: The account debited or credited is recorded in this column. On the debit side, the entries are made starting with 'To' and on the credit side, entries are made starting with 'By'.

Journal Folio (J.F.): In this column, the page number of the journal or subsidiary books from which the entry has been posted to the ledger is noted.

Amount: The amount of the transaction is recorded in this column.

4.4 Distinction between journal and ledger

Following are the differences between journal and ledger:

Basis	Journal	Ledger
1. Recording	As and when transactions take	In ledger, entries may be posted either
	place entries are made in journal.	on the same day or at the end of a
		specified period such as weekly or
		fortnightly especially when subsidiary
		books are maintained.
2. Stage of recording	Recording in the journal is the first	Recording in the ledger is the second
	stage	stage, which is done on the basis of
		entries made in the journal.

3. Order of recording	Entries are made in the chronological order, i.e., datewise in the order of occurrence.	
4. Process	The process of recording in journal is called journalising	The process of recording in the ledger is called posting.
5. Facilitating preparation of trial balance	Amount from the journal does not serve as the basis for preparing trial balance.	Ledger balances serve as the basis for preparing trial balance.
6. Basis of entries	Entries in the journal are made on the basis of source documents.	Posting is done in ledger on the basis of journal entries.
7. Net position	Net position of an account cannot be ascertained from journal.	Net position of an account can be ascertained from ledger account.

4.5 Procedure for posting

The process of transferring the debit and credit items from the journal to the ledger accounts is called posting. The procedure of posting from journal to ledger is as follows:

- a) Locate the ledger account that is debited in the journal entry. Open the respective account in the ledger, if already not opened. Write the name of the account in the top middle. If already opened, locate the account from the ledger index. Now entries are to be made on the debit side of the account.
- b) Record the date of the transaction in the date column on the debit side of that account.
- c) Record the name of the account credited in the journal with the prefix 'To' in particulars column.
- d) Record the amount of the debit in the 'amount column'.
- e) Locate the ledger account that is credited in the journal entry. Open the respective account in the ledger, if already not opened. Write the name of the account in the top middle. If already opened, locate the account from the ledger index. Now entries are to be made on the credit side of the account. Record the date of the transaction in the date column. Record the name of the account debited in the journal entry in the particulars column with the prefix 'By' and write the amount in the amount column.

Tutorial note

The name of the account in the top never appears in the particulars column. In the particulars column the account entered is the other account in the journal entry.



Student activity

Think: What will happen if an account debited or credited is left out while posting from journal to ledger?

Pass journal entries for the following transactions and post them in the ledger accounts.

2017

- June 1 Basu started business with cash ` 50,000
 - 4 Purchased furniture by paying cash for `6,000
 - 7 Purchased machinery on credit from Harish ` 10,000
 - Bought goods for cash ` 4,000
 - Paid insurance premium ` 100

Solution

In the books of Basu Journal entries

Date	Particulars	L.F.	Debit `	Credit `
2017	Cash A/c Dr.		50,000	
June 1	To Basu's capital A/c			50,000
	(Started business with cash)			
June 4	FurnitureA/c Dr.		6,000	
	To Cash A/c			6,000
	(Furniture bought for cash)			
June 7	Machinery A/c Dr.		10,000	
	To Harish A/c			10,000
	(Machinery bought on credit from Harish)			
June 10	Purchases A/c Dr.		4,000	
	To Cash A/c			4,000
	(Goods bought for cash)			
June 18	Insurance premium A/c Dr.		100	
	To Cash A/c			100
	(Insurance premium paid)			

Ledger accounts

Dr. Cash account Cr.

Date	Particulars	J.F.	`	Date	Particulars	J.F.	`
2017				2017			
June 1	To Basu's capital A/c		50,000	June 4	By Furniture A/c		6,000
				10	By Purchases A/c		4,000
				18	By Insurance premium A/c		100

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Basu's Capital account

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Date	Particulars	J.F.	`	Date	Particulars	J.F.	`
				2017			
				June 1	By Cash A/c		50,000

Dr.

Furniture account

Cr.

Date	Particulars	J.F.	`	Date	Particulars	J.F.	`
2017							
June 4	To Cash A/c		6,000				

Dr.

Machinery account

Cr.

Date	Particulars	J.F.	`	Date	Particulars	J.F.	,
2017							
June 7	To Harish A/c		10,000				

Dr.

Harish account

Cr.

Date	Particulars	J.F.	`	Date	Particulars	J.F.	`
				2017			
				June 7	By Machinery A/c		10,000

Dr.

Purchases account

Cr.

Date	Particulars	J.F.	`	Date	Particulars	J.F.	`
2017							
June 10	To Cash A/c		4,000				

Dr.

Insurance premium account

Cr.

Date	Particulars	J.F.	`	Date	Particulars	J.F.	`
2017							
June 18	To Cash A/c		100				

4.5.1 Posting of opening journal entry

In case of existing business enterprises, opening entry is made at the beginning of the accounting period to bring into account the balances of accounts which were not closed in the preceding accounting period. The accounts not closed are capital, liabilities and assets appearing in the balance sheet of the previous year. The entry passed is as follows:

Assets A/c (individually)

Dr. xxx

To Liabilities A/c (individually)

XXX

To Capital A/c

XXX

While posting the opening entry in the individual ledgers, the term balance brought down (balance b/d) is used. The steps involved in posting the opening entry are as follows:

- Step 1: The items debited in the opening entry are entered on the debit side of respective accounts. The words 'To Balance b/d' are written in the particulars column with respective amounts in the amount column, date being the first day of the accounting period.
- **Step 2:** The items credited in the opening entry are entered on the credit side of respective accounts. The words 'By Balance b/d' are written in the particulars column with respective amounts in the amount column, date being the first day of the accounting period.

Illustration 2

Prepare necessary ledger accounts in the books of Joy from the following opening entry:

In the books of Joy Journal entries

Date	Particulars		L.F.	Debit `	Credit `
2017					
Jan 1	Cash A/c	Dr.		45,000	
	Stock A/c	Dr.		50,000	
	Sohan A/c	Dr.		35,000	
	Furniture A/c	Dr.		50,000	
	To Ram A/c				20,000
	To Joy's capital A/c				1,60,000
	(Balances of assets and liabilities brought	forward)			

Solution Ledger accounts

Dr. Cash account Cr.

Date	Particulars	J.F.	`	Date	Particulars	J.F.	`
2017							
Jan 1	To Balance b/d		45,000				

Dr. Stock account Cr.

Date	Particulars	J.F.	`	Date	Particulars	J.F.	`
2017							
Jan 1	To Balance b/d		50,000				

Dr. Sohan account Cr.

Date	Particulars	J.F.	`	Date	Particulars	J.F.	`
2017							
Jan 1	To Balance b/d		35,000				

Dr. Furniture account Cr.

Date	Particulars	J.F.	`	Date	Particulars	J.F.	`
2017							
Jan 1	To Balance b/d		50,000				

Dr. Ram account Cr.

Date	Particulars	J.F.	`	Date	Particulars	J.F.	`
				2017			
				Jan 1	By Balance b/d		20,000

Dr. Joy's capital account Cr.

Date	Particulars	J.F.	,	Date	Particulars	J.F.	`
				2017			
				Jan 1	By Balance b/d		1,60,000

4.5.2 Posting of compound journal entry

When a journal entry has more than one debit or more than one credit or both, it is called a compound entry. For items debited in the compound entry, entries are made on the debit side in the respective accounts with the respective amount debited. For items credited in the compound entry, entries are made on the credit side in the respective accounts with the respective amount credited. Posting of such entries to ledger accounts is explained in illustrations 3 and 4.

Illustration 3

Journalise the following transactions and post them to ledger. On May 20, 2018, Ram paid salaries `15,000; Electricity charges `8,000 and wages `2,000.

Solution

In the books of Ram Journal entries

Date	Particulars		L.F.	Debit `	Credit `
2018					
May 20	Salaries A/c	r.		15,000	
	Electricity charges A/c	r.		8,000	
	Wages A/c	r.		2,000	
	To Cash A/c				25,000
	(Expenses paid)				

Ledger accounts

Dr. Salaries account Cr.

Date	Particulars	J.F.	`	Date	Particulars	J.F.	`
2018							
May 20	To Cash A/c		15,000				

Dr. Electricity charges account Cr.

Date	Particulars	J.F.	`	Date	Particulars	J.F.	`
2018							
May 20	To Cash A/c		8,000				

Dr. Wages account Cr.

Date	Particulars	J.F.	`	Date	Particulars	J.F.	`
2018							
May 20	To Cash A/c		2,000				

Dr. Cash account Cr.

Date	Particulars	J.F.	`	Date	Particulars	J.F.	`
				2018			
				May 20	By Salaries A/c		15,000
					By Electricity		
					charges A/c		8,000
					By Wages A/c		2,000

Illustration 4

On 15th March, 2017, Ramesh paid `13,800 in full settlement of his account `15,000 due to his creditor Dinesh. Pass journal entry and prepare ledger accounts.

Solution

In the books of Ramesh Journal entry

Date	Particulars	L.F.	Debit `	Credit `
2017				
March 15	Dinesh A/c Dr.		15,000	
	To Cash A/c			13,800
	To Discount received A/c			1,200
	(Paid Dinesh in full settlement of his account)			

Ledger accounts

Dr. Dinesh account Cr.

Date	Particulars	J.F.	`	Date	Particulars	J.F.	`
2017							
March 15	To Cash A/c		13,800				
	To Discount						
	received A/c		1,200				

Dr. Cash account Cr.

Date	Particulars	J.F.	`	Date	Particulars	J.F.	`
				2017			
				March 15	By Dinesh A/c		13,800

Dr. Discount received account Cr.

Date	Particulars	J.F.	`	Date	Particulars	J.F.	`
				2017			
				March 15	By Dinesh A/c		1,200



Student activity

Think: What will happen to the ledger account postings? Do you think that it will continue for an indefinite period of time? Where will the accounting process stop?

4.6 Balancing of ledger accounts

After posting the transactions, the business person is interested to know the position of various accounts. For this purpose, the accounts are balanced at the end of the accounting period or after a certain period to ascertain the net balance in each account. Balancing means that the debit side and credit side amounts are totalled and the difference between the total of the two sides is placed in the amount column as 'Balance c/d' on the side having lesser total, so that the total of both debit and credit columns are equal.

When the total of the debit side is more than the total of credit side the difference is debit balance and is placed on the credit side as 'By Balance c/d'. If the credit side total is more than the total of debit side, the difference is credit balance and is placed on the debit side as 'To Balance c/d'.

4.6.1 Procedure for balancing an account

Following is the procedure for balancing an account:

- i) The debit and credit columns of an account are to be totalled separately.
- ii) The difference between the two totals is to be ascertained.
- iii) The difference is to be placed in the amount column of the side having lesser total. 'Balance c/d' is to be entered in the particulars column against the difference and in the date column the last day of the accounting period is entered.
- iv) Now both the debit and credit columns are to be totalled and the totals will be equal. The totals of both sides are to be recorded in the same line horizontally. The total is to be distinguished from other figures by drawing lines above and below the amount.
- v) The difference has to be brought down to the opposite side below the total. 'Balance b/d' is to be entered in the particulars column against the difference brought down and in the date column, the first day of the next accounting period is entered.
- vi) If the total on the debit side of an account is higher, the balancing figure is debit balance and if the credit side of an account has higher total, the balancing figure is credit balance. If the two sides are equal, that account will show nil balance.

The rules for determining the balance is as follows:

Total of debit	>	Total of credit	=	Debit balance (By balance c/d and To balance b/d)
Total of credit	>	Total of debit	=	Credit balance (To balance c/d and By balance b/d)
Total of debit	=	Total of credit	=	Nil balance

It may be noted that totalling of a ledger account is known as casting. At the time of balancing an account, debit balance is the balancing figure on the credit side and credit balance is the balancing figure on the debit side. This balance is known as closing balance. The closing balance of an accounting period is the opening balance of the next accounting period.

Tutorial note

- i. Cash account cannot have a credit balance
- ii. Balances in real accounts and personal accounts are carried forward to the next accounting year.
- iii. Balances in the nominal accounts are not carried forward to next accounting year. They are closed by transferring to trading and profit and loss account.
- iv. Instead of the abbreviations c/d and b/d the abbreviations c/o and b/o (carried over and brought over) may be recorded if the balance is taken to the next successive page. If the balance is taken to a different non-successive page the abbreviation c/f and b/f (carried forward and brought forward) may be used.

Thmizhanban started book selling business on 1st January, 2018. Following are the transactions took place in his business for the month of January, 2018. Pass journal entries and prepare ledger accounts.

2018

- Jan. 1 Started business with cash `3,00,000
 - 2 Opened bank account by depositing `2,00,000
 - 5 Goods bought from Tamilnadu Textbook Corporation for cash ` 10,000
 - 15 Sold goods to MM Traders for cash ` 5,000
 - 22 Purchased goods from X and Co. for ` 15,000 and the payment is made through net banking.
 - 25 Sold goods to Y and Co. for `30,000 and the payment is received through NEFT

Solution

In the books of Thamizhanban Journal entries

Date	Particulars		L.F.	Debit	Credit
2018					
Jan. 1	Cash A/c	Dr.		3,00,000	
	To Thamizhanban's capital A/c				3,00,000
	(Started business with cash)				
2	Bank A/c	Dr.		2,00,000	
	To Cash A/c				2,00,000
	(Cash deposited with the bank)				
5	Purchases A/c	Dr.		10,000	
	To Cash A/c				10,000
	(Goods purchased for cash)				
15	Cash A/c	Dr.		5,000	
	To Sales A/c				5,000
	(Goods sold for cash)				
22	Purchases A/c	Dr.		15,000	
	To Bank A/c				15,000
	(Goods purchased and payment made through net				
	banking)				
25	Bank A/c	Dr.		30,000	
	To Sales A/c				30,000
	(Goods sold and the payment is received through N	EFT)			

Date	Particulars	J.F.	`	Date	Particulars	J.F.	`
2018				2018			
Jan. 1	To Thamizhanban's			Jan. 2	By Bank A/c		2,00,000
	capital A/c		3,00,000	5	By Purchases A/c		10,000
15	To Sales A/c		5,000	31	By Balance c/d		95,000
			3,05,000				3,05,000
Feb. 1	To Balance b/d		95,000				

Dr. Thamizhanban's capital account

Cr.

Date	Particulars	J.F.	,	Date	Particulars	J.F.	,
2018				2018			
Jan. 31	To Balance c/d		3,00,000	Jan. 1	By Cash A/c		3,00,000
			3,00,000				3,00,000
				Feb. 1	By Balance b/d		3,00,000

Dr. Bank account Cr.

Date	Particulars	J.F.	`	Date	Particulars	J.F.	`
2018				2018			
Jan. 2	To Cash A/c		2,00,000	Jan. 22	By Purchases A/c		15,000
25	To Sales A/c		30,000	31	By Balance c/d		2,15,000
			2,30,000				2,30,000
Feb. 1	To Balance b/d		2,15,000				

Dr. Purchases account Cr.

Date	Particulars	J.F.	`	Date	Particulars	J.F.	`
2018				2018			
Jan. 5	To Cash A/c		10,000	Jan. 31	By Balance c/d		25,000
22	To Bank A/c		15,000				
			25,000				25,000
Feb. 1	To Balance b/d		25,000				

Date	Particulars	J.F.	`	Date	Particulars	J.F.	`
2018				2018			
Jan. 31	To Balance c/d		35,000	Jan. 15	By Cash A/c		5,000
				25	By Bank A/c		30,000
			35,000				35,000
				Feb. 1	By Balance b/d		35,000

Bharathi is a sole trader dealing in oil products for the past five years. The books of accounts showed the following balances on 1st April, 2018: Cash in hand ` 25,000; Cash at bank ` 3,00,000. The following transactions took place for the month of April 2018.

April 1 Goods bought by giving cheque `30,000

- 5 Goods sold to Naveen and payment received through NEFT ` 40,000
- 6 Goods sold to Xavier for cash \ 20,000
- 9 Goods sold on credit to Abdul for `25,000
- 18 Cash received from Abdul ` 10,000

Pass Journal entries for the above transactions and prepare ledger accounts.

Solution

In the books of Bharathi Journal entries

Date	Particulars	L.F.	Debit	Credit
2018				
Apr. 1	Purchases A/c Dr.		30,000	
	To Bank A/c			30,000
	(Goods purchased and payment made			
	through cheque)			
5	Bank A/c Dr.		40,000	
	To Sales A/c			40,000
	(Goods sold and payment received			
	through NEFT)			
6	Cash A/c Dr.		20,000	
	To Sales A/c			20,000
	(Goods sold for cash)			

	9	Abdul A/c Dr.	25,000	
		To Sales A/c		25,000
		(Goods sold on credit to Abdul)		
	18	Cash A/c Dr.	10,000	
		To Abdul A/c		10,000
L		(Cash received from Abdul)		

Dr. Cash account Cr.

Date	Particulars	J.F.	`	Date	Particulars	J.F.	`
2018				2018			
Apr. 1	To Balance b/d		25,000	Apr 30	By Balance c/d		55,000
6	To Sales A/c		20,000				
18	To Abdul A/c		10,000				
			55,000				55,000
May 1	To Balance b/d		55,000				

Dr. Bank account Cr.

Da e	Pa ticula s	J .	`	Da e	Pa ticula s	J .	`
2018				2018			
Apr. 1	To Balance b/d		300,000	Apr. 1	By Purchases A/c		₿,000
5	To Sales A/c		40,000	Ø	By Balance c/d		•
			3 40,000				340,000
May 1	To Balance b/d		310,000				

Dr. Purchases account Cr.

Da e	Pa ticula s	J .	`	Da e	Pa ticula s	J .	`
2018				2018			
Apr. 1	To Bank A/c		9 ,000	Apr. 0	By Balance c/d		9 ,000
			₿,000				₿,000
May 1	To Balance b/d		₿,000				

Dr. Sales account Cr.

Date	Particulars	J.F.	`	Date	Particulars	J.F.	`
2018				2018			
Apr. 30	To Balance c/d		85,000	Apr. 5	By Bank A/c		40,000
				6	By Cash A/c		20,000
				9	By Abdul A/c		25,000
			85,000				85,000
				May. 1	By Balance b/d		85,000

Da e	Pa ticula s	J .	`	Da e	Pa ticula s	J .	`
2018				2018			
Apr. 9	To Sales A/c		25,000	Apr. 18	By Cash A/c		10,000
				в	By Balance c/d		15,000
			25,000				25,000
May 1	To Balance b/d		15,000				

4.6.2 Direct ledger posting

Illustration 7

Prepare cash account from the following transactions for the month of January 2018.

- Jan 1 Commenced business with cash ` 62,000
 - 3 Goods purchased for cash ` 12,000
 - 10 Goods sold for cash \`10,000
 - 12 Wages paid ` 4,000
 - 25 Furniture purchased for cash ` 6,000

Solution

Dr. Cash account Cr.

Date	Particulars	J.F.	`	Date	Particulars	J.F.	`
2018				2018			
Jan 1	To Capital A/c		62,000	Jan 3	By Purchases A/c		12,000
10	To Sales A/c		10,000	12	By Wages A/c		4,000
				25	By Furniture A/c		6,000
				31	By Balance c/d		50,000
			72,000]			72,000
Feb 1	To Balance b/d		50,000	1			

Illustration 8

The following are the transactions of Kumaran, dealing in stationery items. Prepare ledger accounts.

2017

June 5 Started business with cash 2,00,000

- 8 Opened bank account by depositing `80,000
- Bought goods on credit from Sri Ram for `30,000
- 15 Sold goods on credit to Selva for ` 10,000
- Goods sold for cash ` 15,000
- 25 Paid Sri Ram ` 30,000 through NEFT
- Received a cheque from Selva and deposited the same in bank ` 10,000

Solution

Ledger accounts.

Dr.			Cash	account			Cr.
Date	Particulars	J.F.	,	Date	Particulars	J.F.	Amount `
2017				2017			
June 5	To Kumaran's			June 8	By Bank A/c		80,000
	capital A/c		2,00,000	25	By Balance c/d		1,35,000
22	To Sales A/c		15,000				
			2,15,000				2,15,000
July 1	To Balance b/d		1,35,000				

Dr.

Kumaran's capital account

Cr.

	Date	Particulars	J.F.	,	Date	Particulars	J.F.	,
ſ	2017				2017			
	June 30	To Balance c/d		2,00,000	June 5	By Cash A/c		2,00,000
				2,00,000				2,00,000
					July 1	By Balance b/d		2,00,000

Dr. Bank account Cr.

Date	Particulars	J.F.	`	Date	Particulars	J.F.	`
2017				2017			
June 8	To Cash A/c		80,000	June 25	By Sri Ram A/c		30,000
28	To Selva A/c		10,000	30	By Balance c/d		60,000
			90,000				90,000
July 1	To Balance b/d		60,000				

Dr. Purchases account Cr.

Date	Particulars	J.F.	`	Date	Particulars	J.F.	`
2017				2017			
June 12	To Sri Ram A/c		30,000	June 30	By Balance c/d		30,000
			30,000				30,000
July 1	To Balance b/d		30,000				

Dr. Sri Ram account Cr.

Date	Particulars	J.F.	`	Date	Particulars	J.F.	`
2017				2017			
June 25	To Bank A/c		30,000	June 12	By Purchases A/c		30,000
			30,000				30,000

Dr. Selva account Cr.

Date	Particulars	J.F.	`	Date	Particulars	J.F.	`
2017				2017			
June 15	To Sales A/c		10,000	June 28	By Bank A/c		10,000
			10,000				10,000

Dr. Sales account Cr.

Date	Particulars	J.F.	`	Date	Particulars	J.F.	`
2017				2017			
June 30	To Balance c/d		25,000	June 15	By Selva A/c		10,000
				22	By Cash A/c		15,000
			25,000				25,000
				July 1	By Balance b/d		25,000

After posting the journal entries to ledger accounts and extracting the balance of ledger accounts, the trial balance is prepared. Trial balance is a statement which shows debit and credit balances of all accounts in the ledger. It helps to test the arithmetical accuracy of entries made in the journal and ledger.



The three accounting concepts – business entity, duality and money measurement - associated with double-entry book keeping are applied in ledger.

Points to remember

- Left side of the ledger account is Debit [Dr.]
- Right side of the ledger account is Credit [Cr.]
- For each type of asset, liability, expense and income, separate ledger accounts are prepared.
- If the total on the debit side exceeds the total on the credit side, it results in debit balance.
- If the total on the credit side exceeds the total on the debit side, it results in credit balance.
- Closing balance of the current year in the ledger account is the opening balance of the next year.

Self-examination questions

I Multiple choice questions

Choose the correct answer

- 1. Main objective of preparing ledger account is to
 - (a) Ascertain the financial position
 - (b) Ascertain the profit or loss
 - (c) Ascertain the profit or loss and the financial position
 - (d) Know the balance of each ledger account
- 2. The process of transferring the debit and credit items from journal to ledger accounts is called
 - (a) Casting
- (b) Posting
- (c) Journalising
- (d) Balancing

- 3. J.F means
 - (a) Ledger page number
- (b) Journal page number
- (c) Voucher number
- (d) Order number
- 4. The process of finding the net amount from the totals of debit and credit columns in a ledger is known as
 - (a) Casting
- (b) Posting
- (c) Journalising
- (d) Balancing
- 5. If the total of the debit side of an account exceeds the total of its credit side, it means
 - (a) Credit balance
- (b) Debit balance
- (c) Nil balance
- (d) Debit and credit balance
- 6. The amount brought into the business by the proprietor should be credited to
 - (a) Cash account
- (b) Drawings account
- (c) Capital account
- (d) Suspense account

Answers

1 (4)	2 (b)	3 (b)	4 (4)	5 (b)	6 (c)
1 (d)	Z (U)	3 (b)	4 (u)	3 (0)	0 (0)

II Very short answer questions

- 1. What is a ledger?
- 2. What is meant by posting?
- 3. What is debit balance?
- 4. What is credit balance?
- 5. What is balancing of an account?

III Short answer questions

- 1. Distinguish between journal and ledger.
- 2. What is ledger? Explain its utilities.
- 3. How is posting made from the journal to the ledger?
- 4. Explain the procedure for balancing a ledger account.



IV Exercises

1. Journalise the following transactions and post them to ledger.

2016

Jan 1 Started business with cash 10,000

5 Paid into bank 5,000

7 Purchased goods from Ram for cash 1,000

Answer:

Cash A/c	` 4,000	Dr.	Bank A/c	` 5,000 Dr.
Capital A/c	` 10,000	Cr.	Purchases A/c	` 1,000 Dr.

2. Give journal entries for the following transactions and post them to ledger.

2015

Mar 1 Goods sold to Somu on credit 5,000

7 Furniture purchased for cash 300

15 Interest received 1,800

Answer:

Somu A/c	` 5,000	Dr.	Furniture A/c	` 300	Dr.
Cash A/c	` 1,500	Dr.	Sales A/c	` 5,000	Cr.
Interest received A/c	` 1,800	Cr.			

3. Pass journal entries for the following transactions and post them to ledger.

2017

Aug. 1 Dharma started business with cash 70,000

6 Cash received from Ganesan 10,000

10 Rent paid 3000

20 Received commission from Anand 5000

Answer:

Cash A/c	` 82,000	Dr.	Capital A/c	` 70,000	Cr.
Ganesan A/c	` 10,000	Cr.	Rent A/c	` 3,000	Dr.
Commission received A/c	` 5,000	Cr.			

4. Record the following transactions in the journal of Banu and post them to the ledger.

2018

Sep 1 Commenced business with cash 90,000

5 Rent received 4,000

12 Purchased 6 tables from Gobu& Co. for cash 6,000

Answer:

Cash A/c	` 88,000	Dr.	Capital A/c	` 90,000	Cr.
Rent received A/c	` 4,000	Cr.	Furniture A/c	` 6,000	Dr.

5. The following balances appeared in the books of Vinoth on Jan 1, 2018
Assets: Cash ` 40,000; Stock ` 50,000; Amount due from Ram ` 20,000;

Machinery `40,000 Liabilities: Amount due to Vijay `10,000

Pass the opening journal entry and post them to Vinoth's Capital account.

Answer:

Vinoth's Capital A/c	` 1,40,000 Cr.
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6. Prepare Furniture A/c from the following transactions

2016

Jan 1	Furniture in hand	2,000
1	Purchased furniture for cash	4,000
30	Sold furniture	400

Answer:

Furniture A/c	` 5,600	Dr.
---------------	---------	-----

7. The following balances appeared in the books of Kumaran on April 1, 2017.

Assets: Cash ` 1,00,000; Stock ` 40,000; Amount due from Rohit ` 10,000;

Furniture ` 10,000; Liabilities: Amount due to Anush ` 40,000;

Kumaran's capital ` 1,20,000

Find the capital and show the ledger posting for the above opening balances.

Answer:

Cash A/c	` 1,00,000	Dr.	Stock A/c	` 40,000 Dr.
Rohit A/c	` 10,000	Dr.	Furniture A/c	` 10,000 Dr.
Anush A/c	` 40,000	Cr.	Kumaran's capital	` 1,20,000 Cr.

8. Give journal entries and post them to cash account.

2016

June 1 Commenced business with cash 1,10,000 10 Introduced additional capital 50,000 28 Withdrawn for personal use 20,000

Answer:

Cash A/c	` 1,40,000	Dr.
----------	------------	-----

9. Give journal entries from the following transactions of Mohit, dealing in Textiles and post them to ledger:

2014

Aug 1 Commenced business with cash 1,10,000
7 Opened bank account with SBI 50,000

3 Purchased furniture for cash

20,000

Answer:

Cash A/c	` 40,000	Dr.	Capital A/c	` 1,10,000	Cr.
SBI A/c	` 50,000	Dr.	Furniture A/c	` 20,000	Dr.

10. Give journal entries for the following transactions and post them to ledger.

2016

Sep 1 Commenced business with cash 80,000
7 Bought goods for cash from Roopan 10,000
10 Purchased goods from Hema on credit 42,000
22 Goods returned to Hema 2,000

23 Cash paid to Hema

10,000

Answer:

Purchases A/c	` 52,000	Dr.	Cash A/c	` 60,000	Dr.
Hema A/c	` 30,000	Cr.	Purchases return A/c	` 2,000	Cr.

11. Give Journal entries for the following transactions and post them to Cash a/c and Sales A/c. 2017

Aug 10 Sold goods and cheque received but not deposited 30,000

14 Sold goods on credit to Gopi 12,000

20 Received cash from Gopi 12,000

Answer:

Sales A/c \ 42,000 Cr. Cash A/c	` 42,000 Dr.
---------------------------------	--------------

12. Journalise the transactions given below and post them to ledger.

2017

Oct 18 Paid trade expenses 1,000

25 Bought postage stamps 100

30 Commission received 6,000

30 Rent paid 4,000

Answer:

Trade expenses A/c	` 1,000	Dr.	Stationery A/c	` 100	Dr.
Commission received A/c	` 6,000	Cr.	Cash A/c	` 900	Dr.
Rent A/c	` 4,000	Dr.			

13. Journalise the following transactions and prepare ledger accounts.

2015

Feb 1 Sold goods for cash 5,000

2 Purchased goods from Kumar on credit 4,000

5 Sold goods to Prabu on credit 8,000

12 Received cash from Prabu 1,200

20 Paid to Kumar 2,000

25 Paid salary 3,000

Answer:

Sales A/c	` 13,000	Cr.	Cash A/c	` 1,200	Dr.
Purchases A/c	` 4,000	Dr.	Kumar A/c	` 2,000	Cr.
Prabu A/c	` 6,800	Dr.	Salary A/c	` 3,000	Dr.

14. Enter the following transactions in the books of Ganesan and post them into ledger.

2017

Oct 1	Started business with cash	25,000
5	Deposited into bank	12,500
10	Purchased furniture and payment by cheque	2,000
15	Goods purchased for cash	5,000
19	Sold goods to Vasu on credit	4,000

Goods worth ` 500 taken for personal use

Answer:

Cash A/c	` 7,500	Dr.	Capital A/c	` 25,000	Cr.
Bank A/c	` 10,500	Dr.	Furniture A/c	` 2,000	Dr.
Purchases A/c	` 4,500	Dr.	Sales A/c	` 4,000	Cr.
Vasu A/c	` 4,000	Dr.	Drawings A/c	` 500	Dr.

15. Journalise the following transactions in the books of Arun and post them to ledger accounts.

2017

Dec 1	Arun started his business with cash	10,000
3	Bought goods for cash	1,500
8	Sold goods to Krishna on credit	4,000
14	Purchased goods from Govind on credit	2,000
25	Received cash from Krishna	3,000
28	Cash paid to Govind	1,000

Answer:

Cash A/c	` 10,500	Dr.	Capital A/c	` 10,000	Cr.
Krishna A/c	` 1,000	Dr.	Sales A/c	` 4,000	Cr.
Purchases A/c	` 3,500	Dr.	Govind A/c	` 1,000	Cr.

16. Journalise the following transactions and post them to ledger in the books of Raja.

2018

Mar 1 Sold goods to Senthil for cash 9,000

5 Sold goods to Murali on credit 4,500

9 Cash sales 6,000

18 Bought goods from Mani on credit 3,200

23 Received `4,000 from Murali in full settlement of his account

Answer:

Cash A/c	` 19,000	Dr.	Purchases A/c	` 3,200	Dr.
Mani A/c	` 3,200	Cr.	Sales A/c	` 19,500	Cr.
Discount allowed A/c	` 500	Dr.			

17. Journalise the following transactions and post them to the ledger.

2017

July 1	Cash in hand	50,000
5	Goods purchased by cash	30,000
7	Insurance paid	2,500
10	Machinery purchased for cash	9,000
15	Interest received	2,000
18	Goods sold for cash	7,000

Answer:

Purchases A/c	` 30,000	Dr.	Cash A/c	` 17,500	Dr.
Insurance A/c	` 2,500	Dr.	Machinery A/c	` 9,000	Dr.
Interest received A/c	` 2,000	Cr.	Sales A/c	` 7,000	Cr.

18. Journalise the following transactions in the books of Vasu and post them to ledger accounts.

2017

Nov 1 Cash in hand `1,00,000; Cash at bank: `30,000

- 2 Vasu sold goods to Jothi for ` 25,000 against a cheque and deposited the same in the bank
- 4 Received as commission 5,000
- 8 Bank paid ` 15,000 directly for insurance premium of Vasu.
- 15 Cash deposited into bank ` 30,000
- 20 Cash withdrawn from bank for personal use `45,000.

Answer:

Bank A/c	` 25,000	Dr.	Commission received A/c	` 5,000	Cr.
Insurance premium A/c	` 15,000	Dr.	Cash A/c	` 75,000	Dr.
Drawings A/c	` 45,000	Dr.	Sales A/c	` 25,000	Cr.

19. Prepare Anand's account from the following details.

2017

July 1	Credit balance of Anand's A/c	4,000
15	Amount paid to Anand	2,000
18	Goods purchased from Anand on credit	8,000
20	Paid to Anand	3,960
	Discount allowed by him	40
25	Goods purchased from Anand	5,000

Answer:

20. Prepare a Sales account from the following transactions.

2018

Jan 1	Sold goods to Sam	4,000
4	Sold goods to Suresh	2,500
11	Sold goods to Joy	8,000
17	Sold goods to Rajan	3,000

Answer:

21. Show the direct ledger postings for the following transactions:

2017

June 1 Raja commenced business with cash ` 50,000,

- 6 Sold goods for cash `8,000
- 8 Sold goods to Devi on credit ` 9,000
- 15 Goods purchased for cash `4,000
- 20 Goods purchased from Shanthi on credit ` 5,000

Answer:

Cash A/c	` 54,000	Dr.	Capital A/c	` 50,000	Cr.
Sales A/c	` 17,000	Cr.	Devi A/c	` 9,000	Dr.
Purchases A/c	` 9,000	Dr.	Shanthi A/c	` 5,000	Cr.

22. Show the direct ledger postings for the following transactions:

2017

July 1 Shankar commenced business with a cash of ` 1,00,000

- 5 Sold goods for cash ` 10,000
- 9 Wages paid ` 6,000
- 19 Salaries paid `8,000
- 20 Advertisement expenses paid ` 4,000

Answer:

Cash A/c	` 92,000	Dr.	Capital A/c	` 1,00,000	Cr.
Sales A/c	` 10,000	Cr.	Wages A/c	` 6,000	Dr.
Salaries A/c	` 8,000	Dr.	Advertisement A/c	` 4,000	Dr.



Imagine you have been called for an interview with an auditor. The auditor shows you the following ledger account of Mr. Raheem, a dealer in food products.

Dr. SitaA/c Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F	Amount
			`				`
2017				2017			
April 1	To Balance b/d		7,000	April 12	By Bank A/c		5,000
Sept. 25	To Sales A/c		10,000	May 2	By Cash A/c		2,000
Dec. 29	To Sales A/c		10,000	Oct. 3	By Sales returns A/c		1,000
				Nov. 17	By Cash A/c		3,000
				Dec. 21	By Bank A/c		4,000
				2018			
				Mar. 31	By Balance c/d		12,000
			27,000				27,000
2018							
Apr 1	To Balance b/d		12,000				

The auditor wants you to explain each posting in the above account and also to state where will the double entry for each posting be found.

To explore further

'Accounts of debtors will always have debit balance'. - Do you agree?

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Unit 5

TRIAL BALANCE



Contents

- 5.1 Introduction to trial balance
- 5.2 Need for preparing trial balance
- 5.3 Definition of trial balance
- 5.4 Features of trial balance
- 5.5 Objectives of preparing trial balance
- 5.6 Limitations of trial balance
- 5.7 Methods of preparing trial balance
- 5.8 Suspense account



Points to recall

The following points are to be recalled before learning trial balance:

- Rules of double entry
- Balancing ledger accounts
- Dual aspect concept





Learning Objectives

To enable the students to

- Understand the meaning and features of trial balance
- Understand the objectives of preparing trial balance
- Prepare the trial balance

Key terms to know

Trial balance

Debit balance

Credit balance

Arithmetical accuracy

5.1 Introduction to trial balance



Student activity

Think: Do you think that the ledger account postings are error free? If not, how do you make sure that the entries are correct?

Trial balance is a statement containing the debit and credit balances of all ledger accounts on a particular date. It is arranged in the form of debit and credit columns placed side by side and prepared with the object of checking the arithmetical accuracy of entries made in the books of accounts and to facilitate preparation of financial statements.

The fundamental principle of the double-entry system of book-keeping is that every debit has a corresponding and equal credit and vice-versa. Therefore, the total of the debit balances must be equal to the total of the credit balances. When such an agreement between the total of all debit balances and the total of all credit balances takes place, it offers an immediate and apparent proof of arithmetical accuracy of the book-keeping work on a particular day. At the same time, it should not be taken as the conclusive proof of arithmetical accuracy as certain errors such as error of principle, compensating errors and complete omission of a transaction are not disclosed by the trial balance.

Though the trial balance can be prepared on any day (at the end of the month, quarter, etc.), it is normally prepared at the end of the accounting period.

The preparation of trial balance is the third step in the accounting process. The first step is recording the business transactions in subsidiary books or journal. The second step is preparing ledger accounts on the basis of subsidiary books or journal.



5.2 Need for preparing trial balance

Trial balance helps to check the arithmetical accuracy of entries made in the accounting records. Trial balance serves as a lubricant for the smooth movement and completion of the accounting cycle, because, it is with the help of the trial balance that discrepancies in the book keeping work are detected. If these discrepancies are not detected and set right, the cycle cannot be completed properly. The trial balance helps in discovering errors which may have been committed in the accounting records. However, in computerised accounting system, once the transactions are recorded in the journals, all the



other records are made simultaneously, i.e., ledger postings, trial balance and final accounts. Hence, arithmetic errors and errors in posting the entries from journal to ledger and further will not occur in computerised accounting.

5.3 Definition of trial balance

"A trial balance is a statement, prepared with the debit and credit balances of the ledger accounts to test the arithmetical accuracy of the books".

- J.R. Batliboi

5.4 Features of trial balance

Following are the features of trial balance:

- a) Trial balance contains the balances of all ledger accounts.
- b) It is prepared on a specific date. That is why, the word, "as on..." is used at the top.
- c) When double entry system is followed, the totals of the debit and the credit columns of the trial balance must be equal. Thus, trial balance helps to check the arithmetical accuracy of entries made in the books of accounts.
- d) If there is a difference between the totals of debit column and credit column of the trial balance, it is an indication of errors being committed somewhere.
- e) If both the debit column and the credit column of the trial balance have the same total, it does not mean that there is no mistake in accounting, since some errors are not disclosed by the trial balance.

5.5 Objectives of preparing trial balance

Trial balance is prepared with the following objectives:

i) Test of arithmetical accuracy

Trial balance is the means by which the arithmetical accuracy of the book-keeping work is checked. When the totals of debit column and credit column in the trial balance are equal, it is assumed that posting from subsidiary books, balancing of ledger accounts, etc. are arithmetically correct. However, there may be some errors which are not disclosed by trial balance.

ii) Basis for preparing final accounts

Financial statements, namely, trading and profit and loss account and balance sheet are prepared on the basis of summary of ledger balances obtained from the trial balance.

iii) Location of errors

When the trial balance does not tally, it is an indication that certain errors have occurred. The errors may have occurred at one or more of the stages of accounting process, namely, journalising or recording in subsidiary books, totalling subsidiary books, posting in ledger

accounts, balancing the ledger accounts, carrying ledger account balances to the trial balance, totalling the trial balance columns, etc. Hence, the errors should be located and rectified before preparing the financial statements.

iv) Summarised information of ledger accounts

The summary of ledger accounts is shown in the trial balance. Ledger accounts have to be seen only when details are required in respect of an account.

5.6 Limitations of trial balance

The following are the limitations of trial balance:

- a) It is possible to prepare trial balance of an organisation, only if the double entry system is followed.
- b) Even if some transactions are omitted, the trial balance will tally.
- c) Trial balance may tally even though errors are committed in the books of account.
- d) If trial balance is not prepared in a systematic way, the final accounts prepared on the basis of trial balance may not depict the actual state of affairs of the concern.
- e) Agreement of trial balance is not a conclusive proof of arithmetical accuracy of entries made in the accounting records. This is because there are certain errors which are not disclosed by trial balance such as complete omission of a transaction, compensating errors and error of principle.

5.7 Methods of preparing trial balance

A trial balance can be prepared in the following methods:

i) Balance method

In this method, the balance of every ledger account either debit or credit, as the case may be, is recorded in the trial balance against the respective accounts. The balance method is widely used, as it helps in the preparation of financial statements.

ii) Total method

Under this method, the total amounts on the debit side of the ledger accounts and the total amounts on the credit side of the ledger accounts are ascertained and recorded in the trial balance. This method is not commonly used as it cannot help in the preparation of financial statements.

iii) Total and Balance method

This method is a combination of both total method and balance method. Under this method, four columns are provided, namely, a) totals of debit side of the ledger accounts, b) totals of the credit side of the ledger accounts c) debit balances of ledger accounts and d) credit balances of the ledger accounts. This method is not in practice.

5.7.1 Balance method

Following are the steps to be followed to prepare trial balance under this method:

- Step 1: Calculate the balances of all ledger accounts including the cash book.
- *Step 2:* Record the names of the accounts in the particulars column and the amounts of debit balances in the debit column and credit balances in the credit column.
- **Step 3:** Enter the page number of ledger from which the balance is taken in the Ledger Folio column.
- *Step 4:* Total the debit and credit columns. It must be equal. If not equal, locate the errors and make the trial balance agree.

Trial balance is prepared in the following format under the balance method:

Trial balance as on ...

S. No.	Name of account / Particulars	L.F.	Debit balance `	Credit balance `

Specimen of a trial balance

Trial balance of Mr. X as on ...

S.No.	Particulars	L.F.	Debit `	Credit `
1	Cash in hand		XXX	
2	Cash at bank		XXX	
3	Bills receivable		XXX	
4	Sundry debtors		XXX	
5	Opening stock		XXX	
6	Plant and Machinery		XXX	
7	Land and Building (Premises)		xxx	
8	Furniture and Fixtures		XXX	
9	Vehicles		XXX	
10	Goodwill		XXX	
11	Investment		XXX	
12	Drawings		xxx	
13	Purchases		XXX	
14	Sales returns		xxx	
15	Carriage inwards		XXX	
16	Carriage outwards		xxx	
17	Rent paid		XXX	
18	Commission paid		XXX	
19	Interest paid		XXX	
20	Bad debts		XXX	

21	Insurance premium	XXX	
22	General expenses	XXX	
23	Sundry expenses	XXX	
24	Electricity charges	XXX	
25	Selling expenses	XXX	
26	Travelling expenses	XXX	
27	Wages	XXX	
28	Sales		XXX
29	Purchases returns		XXX
30	Capital		XXX
31	Bank loan		XXX
32	Sundry creditors		XXX
33	Bills payable		XXX
34	Bank overdraft		XXX
35	Rent received		XXX
36	Interest received		XXX
37	Provision for bad debts		XXX
	Total	XXX	XXX

Tutorial note

- 1. If the value of closing stock is known on the day when trial balance is prepared, then opening stock and closing stock are adjusted with purchases. Hence, opening stock will not appear in the trial balance. Closing stock and adjusted purchases will appear in the trial balance. If the value of closing stock is not known then opening stock and purchases will appear in the trial balance. Thus, either opening stock and purchases or closing stock and adjusted purchases will appear in the trial balance.
- 2. Under balance method, if an account does not have a balance, it is excluded.

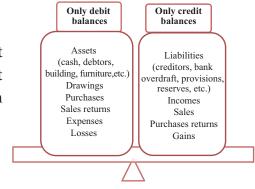


Student activity

Think: Analyse the above format. Can you identify accounts that have only debit balances/ credit balances always?

Tutorial note

There are certain accounts which have only debit balances. Similarly, certain accounts have only credit balances. The following chart gives examples of such accounts:



For example, the following transactions took place in the business of Rathna Kumar, who deals in textiles.

2017

January		•
1	Commenced business with capital	5,00,000
5	Bought furniture for cash	6,000
10	Purchased goods for cash	10,000
15	Bought goods on credit from Jeyanthi	25,000
18	Returned goods to Jeyanthi	2,500
20	Sold goods for cash	32,000
25	Sold goods to Elizabeth on credit	72,000
30	Paid salaries to Krishnan by cash	7,000
31	Received commission from Kumar by cash	2,800
31	Received cash from Elizabeth	22,000

The journal entries, ledger postings and trial balance for the transactions will appear as below in the books of Rathna Kumar.

In the books of Rathna Kumar

Journal entries

Date	Particulars		L.F.	Debit `	Credit `
2017	Cash A/c	Dr.		5,00,000	
Jan 1	To Rathna Kumar's capital A/c				5,00,000
	(Business commenced with capital)				
Jan 5	Furniture A/c	Dr.		6,000	
	To Cash A/c				6,000
	(Furniture purchased for cash)				
Jan 10	Purchases A/c	Dr.		10,000	
	To Cash A/c				10,000
	(Goods purchased for cash)				
Jan 15	Purchases A/c	Dr.		25,000	
	To Jeyanthi A/c				25,000
	(Credit purchases from Jeyanthi)				
Jan 18	Jeyanthi A/c	Dr.		2,500	
	To Purchases returns a/c				2,500
	(Goods returned to Jeyanthi)				
Jan 20	Cash A/c	Dr.		32,000	
	To Sales A/c				32,000
	(Goods are sold for cash)				
Jan 25	Elizabeth A/c	Dr.		72,000	
	To Sales A/c				72,000
	(Goods sold on credit)				

Jan 30	Salaries A/c	Dr.	7,000	
	To Cash A/c			7,000
	(Salary paid by cash)			
Jan 31	Cash A/c	Dr.	2,800	
	To Commission A/c			2,800
	(Commission received by cash)			
Jan 31	Cash A/c	Dr.	22,000	
	To Elizabeth A/c			22,000
	(Cash received from Elizabeth)			

Ledger

Dr. Cash Account Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F	Amount
			`				`
2017				2017			
Jan 1	To Rathnakumar's capital A/c		5,00,000	Jan 5	By Furniture A/c		6,000
Jan 20	To Sales A/c		32,000	Jan 10	By Purchases A/c		10,000
Jan 31	To Commission A/c		2,800	Jan 30	By Salaries A/c		7,000
Jan 31	To Elizabeth A/c		22,000	Jan 31	By Balance c/d		5,33,800
			5,56,800				5,56,800
Feb 1	To Balance b/d		5,33,800				

Dr. Rathna Kumar's Capital Account

Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F	Amount
2017				2017			
	W D 1 /1				D 0 1 4/		
Jan 31	To Balance c/d		5,00,000	Jan 1	By Cash A/c		5,00,000
			5,00,000				5,00,000
				Feb 1	By Balance b/d		5,00,000

Dr. Furniture Account Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F	Amount
			`				`
2017				2017			
Jan 5	To Cash A/c		6,000	Jan 31	By Balance c/d		6,000
			6,000				6,000
Feb 1	To Balance b/d		6,000				

Dr. Purchases Account Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F	Amount
2017				2017			
Jan 10	To Cash A/c		10,000	Jan 31	By Balance c/d		35,000
Jan 15	To Jayanthi A/c		25,000				
			35,000				35,000
Feb 1	To Balance b/d		35,000				

Dr. Jeyanthi Account Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F	Amount
			`				`
2017				2017			
Jan 18	To Purchases returns A/c		2,500	Jan 15	By Purchases A/c		25,000
Jan 31	To Balance c/d		22,500				
			25,500				25,000
				Feb 1	By Balance b/d		22,500

Dr. Purchases returns Account Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F	Amount
			`				`
2017				2017			
Jan 31	To Balance c/d		2,500	Jan 18	By Jeyanthi A/c		2,500
			2,500				2,500
				Feb 1	By Balance b/d		2,500

Dr. Sales Account Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F	Amount
			`				`
2017				2017			
				Jan 20	By Cash A/c		32,000
Jan 31	To Balance c/d		1,04,000	Jan 25	By Elizabeth A/c		72,000
			1,04,000				1,04,000
				Feb 1	By Balance b/d		1,04,000

Date	Particulars	J.F.	Amount	Date	Particulars	J.F	Amount
2017				2017			
Jan 25	To Sales A/c		72,000	Jan 31	By Cash A/c		22,000
				Jan 31	By Balance c/d		50,000
			72,000				72,000
Feb 1	To Balance b/d		50,000				

Dr. Salaries Account Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F	Amount
2017				2017			
Jan 30	To Cash A/c		7,000	Jan 31	By Balance c/d		7,000
			7,000				7,000
Feb 1	To Balance b/d		7,000				

Dr. Commission Account Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F	Amount
			`				`
2017				2017			
Jan 31	To Balance c/d		2,800	Jan 31	By Cash A/c		2,800
			2,800				2,800
				Feb 1	By Balance b/d		2,800

Trial balance under balance method

Trial balance as on 31st January, 2017

S. No	Particulars	L.F.	Debit balance	Credit balance
			,	`
1	Cash A/c		5,33,800	-
2	Rathnakumar's capital A/c		-	5,00,000
3	Furniture A/c		6,000	-
4	Purchases A/c		35,000	-
5	Jeyanthi A/c		-	22,500
6	Purchases returns A/c		-	2,500
7	Sales A/c		-	1,04,000
8	Elizabeth A/c		50,000	-
9	Salaries A/c		7,000	-
10	Commission A/c		-	2,800
	Total		6,31,800	6,31,800

5.7.2 Total method

Steps to be followed to prepare trial balance under total method are given below:

- **Step 1:** Calculate the totals of debit side and credit side of all the ledger accounts including cash book individually.
- **Step 2:** Enter the name of the account in the particulars column and enter the debit total in the debit column and credit total in the credit column for each account separately.
- **Step 3:** Enter the page number of ledger from which the balance is taken in the Ledger Folio column.
- *Step 4:* Find the sum of the debit total and credit total columns. It must be equal. If not equal, locate the errors and make the trial balance agree.

For the above example, trial balance will be prepared under total method as follows:

Trial balance as on 31st January, 2017 (total method)

S. No	Particulars	L.F.	Debit total	Credit total
			`	`
1	Cash A/c		5,56,800	23,000
2	Rathnakumar's capital A/c		-	5,00,000
3	Furniture A/c		6,000	-
4	Purchases A/c		35,000	-
5	Jeyanthi A/c		2,500	25,000
6	Purchases returns A/c		-	2,500
7	Sales A/c		-	1,04,000
8	Elizabeth A/c		72,000	22,000
9	Salaries A/c		7,000	-
10	Commission A/c		-	2,800
	Total		6,79,300	6,79,300

5.7.3 Total and Balance method

Steps to be followed to prepare trial balance under total and balance method are given below:

- **Step 1:** Calculate the totals of debit and credit columns of all ledger accounts and calculate the balances in each ledger account.
- Step 2: Enter the name of the account in the particulars column and enter the debit total in the debit total column and credit total in the credit total column for each account separately. Also enter the debit balances in the debit balance column and credit balances in the credit balance column for each account.
- Step 3: Enter the page number of ledger from which the balance is taken in the Ledger Folio column

Step 4: Total all the amount columns. Total of debit total column and total of credit total column must be equal. Also total of debit balance column and total of credit balance column must be equal. If not equal, locate the errors and make the trial balance agree.

For the above example, trial balance will be prepared under total and balance method as follows:

S.No.	Particulars	L.F.	Debit total	Credit total	Debit	Credit
			`	`	balance`	balance `
1	Cash A/c		5,56,800	23,000	5,33,800	-
2	Rathnakumar's capital A/c		-	5,00,000	-	5,00,000
3	Furniture A/c		6,000	-	6,000	-
4	Purchases A/c		35,000	-	35,000	-
5	Jeyanthi A/c		2,500	25,000	-	22,500
6	Purchases returns A/c		-	2,500	-	2,500
7	Sales A/c		-	1,04,000	-	1,04,000
8	Elizabeth A/c		72,000	22,000	50,000	-
9	Salaries A/c		7,000	2,800	7,000	-
10	Commission A/c		-	-	-	2,800
	Total		6,79,300	6,79,300	6,31,800	6,31,800

Note: Students will be tested on balance method only

5.8 Suspense account



Student activity

Think: Do you think the trial balance tallies all the time? What should be done when it does not tally?

After transferring all the ledger account balances, if the trial balance does not tally, steps must be taken to locate and rectify errors. If the errors cannot be rectified, then trial balance is tallied by transferring the difference between the total of debit balances and the total of credit balances to a temporary account, called suspense account for timely preparation of the financial statements. If the trial balance shows lesser debit total, suspense account will be debited. Similarly, if the trial balance shows lesser credit total, suspense account will be credited. Later, when errors are located and rectified, the trial balance will get tallied.

Illustration 1

State whether the balance of each of the following accounts should be placed in the debit or the credit column of the trial balance:

- 1) Sundry debtors
- 2) Sundry creditors
- 3) Cash in hand
- 4) Bank overdraft

- 5) Salary
- 6) Discount allowed
- 7) Plant and machinery
- 8) Furniture

S.No.	Name of account	Debit balance	Credit balance
1	Sundry debtors	Debit	
2	Sundry creditors		Credit
3	Cash in hand	Debit	
4	Bank overdraft		Credit
5	Salary	Debit	
6	Discount allowed	Debit	
7	Plant and machinery	Debit	
8	Furniture	Debit	

Illustration 2

From the following balances extracted from the books of Raju a trader on automobiles, prepare trial balance as on 31st March, 2017:

Particulars	`	Particulars	`
Cash in hand	5,500	Direct expenses	5,000
Discount received	300	Carriage outwards	3,500
Creditors	15,000	Capital	45,000
Buildings	50,000	Purchases	49,700
Opening stock	6,000	Sales	59,400

Solution

In the books of Raju Trial balance as on 31st March, 2017

S. No	Name of account	L.F.	Debit balance `	Credit balance `
1	Cash in hand		5,500	
2	Discount received			300
3	Creditors			15,000
4	Buildings		50,000	
5	Opening stock		6,000	
6	Direct expenses		5,000	
7	Carriage outwards		3,500	
8	Capital			45,000
9	Purchases		49,700	
10	Sales			59,400
	Total		1,19,700	1,19,700

Illustration 3

From the following balances extracted from the books of Pearl, a trader, prepare trial balance as on 31st March, 2017.

Particulars	`	Particulars	`
Capital	44,000	Interest on investment	2,000
Bills receivable	5,000	Customs duty	3,000
Wages	800	Computer	20,000
Drawings	4,000	Sales	72,000
Purchases	75,000	Opening stock	10,200

Solution

In the books of Pearl
Trial balance as on 31st March, 2017

S. No.	Name of account	L.F.	Debit balance `	Credit balance `
1	Capital			44,000
2	Bills receivable		5,000	
3	Wages		800	
4	Drawings		4,000	
5	Purchases		75,000	
6	Interest on investment			2,000
7	Customs duty		3,000	
8	Computer		20,000	
9	Sales			72,000
10	Opening stock		10,200	
	Total		1,18,000	1,18,000

Illustration 4

The following balances are extracted from the books of Murali, as on 31st March, 2017. Prepare trial balance.

Particulars	`	Particulars	`
Sales	35,000	Audit fees	1,000
Interest paid	350	Octroi duty	8,000
Returns inward	2,500	Land	90,000
Depreciation	2,400	Capital	60,000
Office rent	2,000	Bank overdraft	11,250

In the books of Murali

Trial balance as on 31st March, 2017

S. No.	Name of account	L.F.	Debit balance `	Credit balance `
1	Sales			35,000
2	Interest paid		350	
3	Returns inward		2,500	
4	Depreciation		2,400	
5	Office rent		2,000	
6	Audit fees		1,000	
7	Octroi duty		8,000	
8	Land		90,000	
9	Capital			60,000
10	Bank overdraft			11,250
	Total		1,06,250	1,06,250

Illustration 5

From the following balances extracted from the books of Ashok, a merchant of Chennai, prepare trial balance as on 31st December, 2017.

Particulars	`	Particulars	`
Buildings	20,000	Conveyance charges	3,500
Bills payable	3,000	Salary	5,600
Debtors	20,000	Capital	40,000
Cash at bank	16,800	Furniture	10,000
Insurance paid	1,600	Motor vehicles	5,000
Rent received	5,000	Patents	2,000
Donation given	2,500	Goodwill	3,000
Loan borrowed	42,000		

In the books of Ashok

Trial balance as on 31st December, 2017

S. No.	Name of account	L.F.	Debit balance `	Credit balance `
1	Buildings		20,000	
2	Bills payable			3,000
3	Debtors		20,000	
4	Cash at bank		16,800	
5	Insurance paid		1,600	
6	Rent received			5,000
7	Donation given		2,500	
8	Loan borrowed			42,000
9	Conveyance charges		3,500	
10	Salary		5,600	
11	Capital			40,000
12	Furniture		10,000	
13	Motor vehicles		5,000	
14	Patents		2,000	
15	Goodwill		3,000	
	Total		90,000	90,000

Illustration 6

Prepare trial balance as on 31st December, 2017 from the following balances of Balaraman.

Capital	2,20,000	Repairs	2,400
Drawings	24,000	Office lighting	2,600
Furniture	63,500	Printing and stationery	2,700
Stock at the beginning	62,050	Bank loan	7,500
Bills receivable	9,500	Computer	25,000
Bills payable	8,750	Debtors	46,500
Purchases	88,100	Cash in hand	15,000
Sales	1,35,450	Cash at bank	27,250
Discount allowed	7,100	General expenses	7,100
Discount received	3,500	Creditors	7,600

In the books of Balaraman

Trial balance as on 31st December, 2017

S. No.	Name of account	L.F.	Debit balance `	Credit balance `
1	Capital			2,20,000
2	Drawings		24,000	
3	Furniture		63,500	
4	Stock at the beginning		62,050	
5	Bills receivable		9,500	
6	Bills payable			8,750
7	Purchases		88,100	
8	Sales			1,35,450
9	Discount allowed		7,100	
10	Discount received			3,500
11	Repairs		2,400	
12	Office lighting		2,600	
13	Printing and stationery		2,700	
14	Bank loan			7,500
15	Computer		25,000	
16	Debtors		46,500	
17	Cash in hand		15,000	
18	Cash at bank		27,250	
19	General expenses		7,100	
20	Creditors			7,600
	Total		3,82,800	3,82,800

Illustration 7

The following balances are extracted from the books of Prabhu, as on 31st March, 2017. Prepare trial balance and transfer the difference if any to suspense accoount.

Particulars	`	Particulars	`
Discount allowed	250	Loan borrowed	7,000
Cash in hand	4,200	Lighting	12,000
Capital	50,000	Commission paid	3,000
Salaries	12,000	Purchases	29,050
Furniture	7,500	Sales	35,000

In the books of Prabhu

Trial balance as on 31st March, 2017

S. No.	Name of account	L.F.	Debit balance `	Credit balance `
1	Discount allowed		250	
2	Cash in hand		4,200	
3	Capital			50,000
4	Salaries		12,000	
5	Furniture		7,500	
6	Loan borrowed			7,000
7	Lighting		12,000	
8	Commission paid		3,000	
9	Purchases		29,050	
10	Sales			35,000
11	Suspense account*		24,000	
	Total		92,000	92,000

^{*} *Note:* Since the credit balance is more than the debit balance, the difference is transferred to suspense account.

Illustration 8

From the following balances extracted from the books of Chitra, prepare trial balance as on 31st March, 2017.

Particulars	`	Particulars	`
Adjusted purchases	60,000	Advertisement	4,000
Rent paid	2,000	General expenses	700
Discount received	1,000	Commission paid	1,500
Carriage inward	2,700	Capital	40,000
Closing stock	18,600	Sales	48,500

In the books of Chitra

Trial balance as on 31st March, 2017

S. No.	Name of account	L.F.	Debit balance `	Credit balance `
1	Adjusted purchases		60,000	
2	Rent paid		2,000	
3	Discount received			1,000
4	Carriage inward		2,700	
5	Closing stock		18,600	
6	Advertisement		4,000	
7	General expenses		700	
8	Commission paid		1,500	
9	Capital			40,000
10	Sales			48,500
	Total		89,500	89,500

Illustration 9

The following trial balance has certain errors. Redraft it.

Trial balance as on 31st March, 2017

Name of account	Debit balance `	Credit balance `
Building	60,000	
Machinery	17,000	
Returns outward	2,600	
Bad debts	2,000	
Cash	400	
Discount received	3,000	
Bank overdraft	10,000	
Creditors	50,000	
Purchases	1,00,000	
Capital		72,800
Fixtures		5,600
Sales		1,04,000
Debtors		60,000
Interest received		2,600
Total	2,45,000	2,45,000

Redrafted Trial balance as on 31st March, 2017

Name of account	Debit balance `	Credit balance `
Building	60,000	
Machinery	17,000	
Returns outward		2,600
Bad debts	2,000	
Cash	400	
Discount received		3,000
Bank overdraft		10,000
Creditors		50,000
Purchases	1,00,000	
Capital		72,800
Fixtures	5,600	
Sales		1,04,000
Debtors	60,000	
Interest received		2,600
Total	2,45,000	2,45,000



Duality concept is applied in trial balance. This concept requires two aspects to be entered for every transaction. This means that there are at least two accounts involved for every transaction.

Points to remember

- Trial balance is prepared on a particular date. The date must be mentioned in the title of trial balance.
- A trial balance is prepared with the help of balances of ledger accounts.
- Trial balance is prepared to check the arithmetical accuracy of entries made in the books of accounts.
- Under balance method, the debit balances of the accounts are to be written in debit column, and the credit balances of the accounts are to be written in the credit column of trial balance. Under balance method, if an account does not have a balance, it is excluded.
- If the trial balance does not tally, the difference between debit and credit columns should be taken to a temporary account called 'suspense account' if financial statements are to prepared immediately.

Self-examination questions

I Multiple choice questions

(c) Drawings account

Cho	ose the correct a	nswer					
1.	Trial balance is a				回数实验数 eguntr		
	(a) Statement	(b) Account	(c) Ledger	(d) Journal	пасити		
2.	After the preparation of ledger, the next step is the preparation of						
	(a) Trading accou	nt	(b) Trial bal	ance			
	(c) Journal		(d) Profit an	d loss account			
3.	The trial balance	contains the ba	lances of				
	(a) Only personal	accounts	(b) Only rea	l accounts			
	(c) Only nominal	accounts	(d) All accou	unts			
4.	Which of the follo	owing is/are the	objective(s) of p	oreparing trial ba	lance?		
	(a) Serving as the		, -				
	(b) Helping in the	•	C				
	(c) Examining ar	ithmetical accu	racy of accounts				
	(d) a, b and c						
5.	While preparing t	he trial balance	, the accountant	finds that the tot	al of the credit colu	mn	
	is short by ` 200.	This difference	will be				
	(a) Debited to sus	spense account					
	(b) Credited to su	ispense accoun	t				
	(c) Adjusted to an	•					
	(d) Adjusted to an	•					
6.	A list which conta are matched is	iins balances of	accounts to know	w whether the de	bit and credit balan	ces	
	(a) Journal (b	o) Day book	(c) Trial balance	(d) Balance she	eet		
7.	Which of the follo	owing method(s	s) can be used fo	r preparing trial	balance?		
	(a) Balance metho	od	(b) Total me	thod			
	(c) Total and Bala	nce method	(d) a, b and	С			
8.	The account which	ch has a debit	balance and is s	hown in the deb	oit column of the tr	rial	
	(a) Sundry credito	ors account	(b) Bills pay	able account			

(d) Capital account

- 9. The difference of totals of both debit and credit side of trial balance is transferred to:
 - (a) Trading account

- (b) Difference account
- (c) Suspense account
- (d) Miscellaneous account
- 10. Trial balance is prepared:
 - (a) At the end of the year
- (b) On a particular date

(c) For a year

(d) None of the above

Answers

1 (a)	2 (b)	3 (d)	4 (d)	5 (b)
6 (c)	7 (d)	8 (c)	9 (c)	10 (b)

II Very short answer questions

- 1. What is trial balance?
- 2. Give the format of trial balance.
- 3. What are the methods of preparation of trial balance?
- 4. State whether the balance of the following accounts should be placed in the debit or the credit column of the trial balance:
 - (i) Carriage outwards
- (ii) Carriage inwards
- (iii) Sales

(iv) Purchases

- (v) Bad debts
- (vi) Interest paid

- (vii) Interest received
- (viii) Discount received
- (ix) Capital

(x) Drawings

- (xi) Sales returns
- (xii) Purchase returns

III Short answer questions

- 1. What are the objectives of preparing trial balance?
- 2. What are the limitations of trial balance?
- 3. 'A trial balance is only a prima facie evidence of the arithmetical accuracy of records'. Do you agree with this statement? Give reasons.

IV Exercises

1. Prepare a trial balance with the following information:

Name of the account	`	Name of the account	`
Purchases	1,00,000	Sales	1,50,000
Bank Loan	75,000	Creditors	50,000
Debtors	1,50,000	Cash	90,000
Stock	35,000	Capital	1,00,000

(Answer: Trial balance total `3,75,000)

2. Prepare the trial balance from the following information:

Name of the account	`	Name of the account	`
Bank loan	2,00,000	Purchases	1,80,000
Bills payable	1,00,000	Sales	3,00,000
Stock	70,000	Debtors	4,00,000
Capital	2,50,000	Bank	2,00,000

(Answer: Trial balance total `8,50,000)

3. Prepare the trial balance from the following balances of Chandramohan as on 31st March, 2017.

Capital	1,24,500	Bank overdraft	5,800
Drawings	2,000	Motor car	20,000
Loan borrowed	7,000	General expenses	2,500
Sales	53,400	Building	1,10,000
Purchases	40,000	Stock	16,200

(Answer: Trial balance total `1,90,700)

4. Prepare the trial balance from the following balances of Babu as on 31st March, 2016.

Cash in hand 7,000 Bills receivable 7,000 Sundry debtors 5,400 Sundry creditors 11,800 Salaries 6,800 Capital 25,000 Bad debts 200 Purchases 45,000 Opening stock 15,400 Sales 50,000

5. From the following balances of Arjun, prepare the trial balance as on 31st March, 2018.

 Cash at bank
 12,500
 Discount received
 1,675

 Opening stock
 25,000
 Postage
 425

 Insurance
 1,500
 Bills payable
 5,600

 Purchases
 45,000
 Capital
 20,000

 Wages
 1,750
 Sales
 58,900

(Answer: Trial balance total `86,175)

(Answer: Trial balance total `86,800)

6. Prepare the trial balance from the following balances of Rajesh as on 31st March, 2017.

Bills receivable	13,000	Drawings	7,000
Bank charges	750	Sundry debtors	17,100
Conveyance charges	350	Bills payable	12,000
Discount received	1,300	Capital	25,900
Cash in hand	1,000		

(Answer: Trial balance total `39,200)

7. Prepare the trial balance from the following balances of Karthik as on 31st March, 2017.

`		`
Rent and Taxes 5,000	Rent	6,000
Discount allowed 350	General expenses	3,000
Capital 10,000	Legal expenses	2,000
Insurance premium 4,000) Purchases	40,000
Drawings 5,000) Sales	55,350

(Answer: Trial balance total `65,350)

8. From the following balances of Rohini, prepare the trial balance as on 31st March, 2016.

	,		•
Capital	60,000	Sales	82,000
Discount received	3,250	Lighting	800
Purchases	58,000	Drawings	5,250
Plant and machinery	40,000	Car expenses	1,200
Advertising expenses	5,000	Motor car	35,000

(Answer: Trial balance total `1,45,250)

9. Balan who has a car driving school gives you the following ledger balances. Prepare trial balance as on 31st December, 2016.

	`		`
Computer	26,000	Freehold land	30,000
Salaries to drivers	4,000	Bank loan	15,000
Taxes and insurance	16,500	Fees received	18,150
Fuel and Power	2,000	Capital	53,850
Rent and rates	1,500	Advertisement	7,000
		(Answer: Trial balance total	87,000)

10. The following balances are extracted from the books of Ravichandran on 31st December, 2016. Prepare the trial balance.

	`		`
Capital	1,50,000	Sales	75,000
Debtors	22,800	Return inwards	1,000
Rent received	500	Discount allowed	800
Bank overdraft	3,100	Discount received	1,000
Creditors	5,500	Wages	2,900
Premises	1,46,000	Salaries	3,500
Opening stock	10,000	Commission paid	1,100
Purchases	45,000	General expenses	2,000

(Answer: Trial balance total `2,35,100)

11. From the following balances, prepare trial balance of Baskar as on 31st March, 2017. Transfer the difference, if any, to suspense account.

Opening stock	40,000	Debtors	25,000
Capital	90,000	Carriage inwards	16,500
Sales	1,77,200	Bills receivable	20,000
Salaries	12,000	Commission received	5,550
Bills payable	9,450	Cash at bank	17,000
Telephone charges	2,350	Furniture	19,000
Creditors	16,000	Plant & Machinery	55,800
Purchases	85,000	Repairs	550

(Answer: Suspense account: `5,000 (Dr.) Trial balance Total: `2,98,200)

12. From the following balances extracted from the books of Rajeshwari as on 31st March, 2017, prepare the trial balance.

Cash at bank	28,000	Rent and rates	4,000
Sundry debtors	59,600	Bank charges	400
Furniture and Fixtures	1,72,000	Bad debts	4,000
Office equipment	1,10,000	Drawings	20,000
Adjusted purchases	2,80,000	Insurance premium	4,000
Sales returns	3,000	Capital	3,00,000
Closing stock	15,000	Sundry creditors	64,000
Sales	2,36,000	Loan (Cr.)	1,00,000

(Answer: Trial balance total `7,00,000)

13. Correct the following trial balance:

Particulars	Debit Balance `	Credit Balance `
Opening Stock	1,00,000	
Salaries	36,000	
Creditors	1,32,000	
Bank	35,000	
Carriage inwards	18,000	
Rent received	9,000	
Discount allowed	6,000	
Purchases	3,48,000	
Bills payable	60,000	
Debtors		45,000
Carriage outwards		15,000
Capital		1,63,000
Returns inward		9,000
Discount received		12,000
Trade expenses		18,000
Sales		3,68,000
Building		1,14,000
Total	7,44,000	7,44,000

(Answer: Trial balance total `7,44,000)



Student activity

Imagine that you start a small shop with an investment of `10,000. Record imaginary business transactions for 10 days [include cash and credit transactions]. Prepare journal, ledger and trial balance with them.



Mary runs a textile store. She has prepared the following trial balance from her ledger balances. Her trial balance does not tally. She needs your help to check whether what she has done is correct.

S. No.	Name of account	L.F.	Debit balance `	Credit balance
1	Capital		50,000	
2	Discount received			3,000
3	Rent paid			15,000
4	Salaries paid		1,000	
5	Purchases of textiles			20,000
6	Sale of textiles			30,000
7	Salesmen commission paid			9,000
8	Transport charges paid		6,000	
9	Cash balance		32,000	
	Total		89,000	77,000

To explore further

Is it possible to find out the profit earned by the business by preparing trial balance? What can be done to know the profit?

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Unit 6

SUBSIDIARY BOOKS - I



Contents

- 6.1 Introduction
- 6.2 Meaning of subsidiary books
- 6.3 Types of subsidiary books
- 6.4 Advantages of subsidiary books
- 6.5 Purchases book
- 6.6 Purchases returns book
- 6.7 Sales book
- 6.8 Sales returns book
- 6.9 Bills of exchange
- 6.10 Bills receivable book
- 6.11 Bills payable book
- 6.12 Journal proper



Points to recall

The following points are to be recalled before learning subsidiary books:

- Goods
- Cash purchases
- Credit purchases
- Cash sales
- Credit sales
- Purchases returns
- Sales returns
- Assets
- Ledger account



Learning Objectives

To enable the students to

- Understand the meaning and kinds of subsidiary books
- Apply the knowledge of accounting process in the preparation of subsidiary books
- Understand the method of recording of bill transactions
- Post entries from subsidiary books to ledger accounts

Key terms to know

- Purchases book
- Sales book
- Purchases returns book
- Sales returns book
- Debit note
- Credit note
- Bill of exchange
- Bills receivable book
- Bills payable book
- Journal proper

6.1 Introduction

Business entities carry on transactions of different nature. The types of transactions depend on the nature of business and the management policy. Many transactions may be of repetitive type, that is, similar nature of transactions take place repeatedly in a business entity. Therefore, transactions can be classified and grouped conveniently according to their nature. Generally, transactions are of two types: cash and non cash transactions (credit). Cash receipts and payments can be grouped in one category and credit transactions in another category. Thus, in practice, for easy, convenient, speedy and appropriate maintenance of accounts, the main journal may be sub-divided in such a way that a separate book is used for each category or group of transactions which are repetitive and sufficiently large in number. Each subdivision of the books is a special journal and a book of primary record or a book of primary entry or subsidiary book.

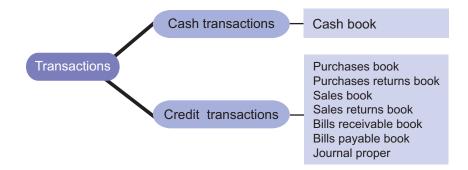
Journal entries are not passed when records are made in subsidiary books. When journal is the only book of prime entry it is possible for only one book-keeper to enter transaction in it at a time. In case of business entities having large volume of transactions, one person cannot do all the recording work by himself. There is a need for sub-division of the book-keeping work leading to the sub-division of the journal into parts or subsidiary journals.

6.2 Meaning of subsidiary books

Subsidiary books are sub-divisions of journal in each of which transactions of similar nature are recorded. These are the books of prime entry. Instead of recording in one journal, the transactions are recorded in a number of prescribed books.

6.3 Types of subsidiary books

The number of subsidiary books may vary according to the requirements of each business. Based on the nature of business and the volume of transactions, the following subsidiary books are maintained:



- (i) Subsidiary book for entering cash transactions Cash book
- (ii) Subsidiary books (special journal) for entering non-cash transactions:
 - (a) Purchases book or purchases journal for recording only credit purchase of goods in which the trader deals.

- (b) Sales book or sales journal–for recording only credit sale of goods dealt in by the trader.
- (c) Purchases returns or returns outward book for recording return of goods purchased by the trader, for which no cash is immediately received.
- (d) Sales returns or returns inward book for recording the goods returned (out of previous sale) by customers for which no cash is immediately paid.
- (e) Bills receivable book to record bills drawn or promissory notes received.
- (f) Bills payable book to record bills accepted or promissory notes given.
- (iii) Journal proper The general journal or all purpose journal to record transactions which do not find a place in the above seven subsidiary books.

6.4 Advantages of subsidiary books

The advantages of maintaining subsidiary books can be summarised as under:

(i) Proper and systematic record of business transactions

All the business transactions are classified and grouped conveniently as cash and non cash transactions, which are further classified as credit purchases, credit sales, returns, etc. As separate books are used for each type of transactions, individual transactions are properly and systematically recorded in the subsidiary books.

(ii) Convenient posting

All the transactions of a particular nature are recorded at one place, i.e., in one of the subsidiary books. For example, all credit purchases of goods are recorded in the purchases book and all credit sales of goods are recorded in the sales book. It facilitates posting to purchases account, sales account and concerned personal accounts.

(iii) Division of work

As journal is sub-divided, the work will be sub-divided and different persons can work on different books at the same time and the work can be speedily completed.

(iv) Efficiency

The sub-division of work gives the advantage of specialisation. When the same work is done by a person repeatedly the person becomes efficient in handling it. Thus, specialisation leads to efficiency in accounting work.

(v) Helpful in decision making

Subsidiary books provide complete details about every type of transactions separately. Hence, the management can use the information as the basis for deciding its future actions. For example, information regarding sales returns from the sales returns book will enable the management to analyse the causes for sales returns and to adopt effective measures to remove deficiencies.

(vi) Prevents errors and frauds

Internal check becomes more effective as the work can be divided in such a manner that the work of one person is automatically checked by another person. With the use of internal check, the possibility of occurrence of errors or fraud may be avoided or minimised.

(vii) Availability of requisite information at a glance

When all transactions are entered in one journal, it is difficult to locate information about a particular item. When subsidiary books are maintained, details about a particular type of transaction can be obtained from subsidiary books. The maintenance of subsidiary books helps in obtaining the necessary information at a glance.

(viii) Detailed information available

As all transactions relating to a particular item are entered in a subsidiary book, it gives detailed information. It is easy to arrive at monthly or quarterly totals.

(ix) Saving in time

As there are many subsidiary books, work of entering can be done simultaneously by many persons. Thus, it saves time and accounting work can be completed quickly.

(x) Labour of posting is reduced

Labour of posting is reduced as posting is made in periodical totals to the impersonal account, for example, Purchases account.



Student activity

Think: Visit some business units in your area. Find out the books maintained by them. Do they maintain special subsidiary books? If not, discuss with them the need and guide them on maintaining the special subsidiary books.

6.5. Purchases book

Purchases book is a subsidiary book in which only credit purchases of goods are recorded. When business wants to know the information about the credit purchases of goods at a glance, the information can be made available if purchases of goods on credit are separately recorded.

Goods here mean the items in which the business entity is dealing. In other words, it is the item which is purchased for regular sales. For example, furniture will be treated as goods in the case of the firm dealing in furniture. For other firms, which are not dealing in furniture it will be an asset. Hence, while recording transactions in the purchases book, it must be ascertained whether the credit purchase is related to the item in which the firm is dealing. Purchases of assets and purchase of goods for cash are not entered in purchases book.

Format of purchases book / purchases journal

Date	Particulars (Name of the	Invoice No.	L.F.	Am	ount`
	suppliers and details of			Details	Total
	goods purchased)				
(i)	(ii)	(iii)	(iv)	(v)	(vi)
	Purchase A/c Dr.				

(i) Date

In the date column, the date of purchases of goods on credit is recorded.

(ii) Particulars

In this column the name of the supplier from whom goods have been purchased and details of goods purchased are given. It contains the name, quantity, quality and rate of goods purchased, trade discount and any other specification and specialties of the goods are recorded in this column.

(iii) Invoice number

Invoice is the statement prepared by the seller of goods. It contains details about the goods, its price and other expenses incurred. The invoice number is entered in this column.

(iv) Ledger Folio (L.F.)

The page number of the ledger in which the supplier's account appears is recorded in this column. Purchases of goods must be posted to the personal accounts of suppliers. Purchases book contains the page number of supplier's account in the ledger. It helps in posting and also in checking the records.

(v) Amount column (Details)

Amount column is divided into two parts, i.e., details and total. The details column is used to record the amount of various individual items purchased from a particular supplier. The amount of trade discount allowed is deducted. This column is used for adjustment of additions and subtractions.

(vi) Total amount column (Total)

The net amount payable to the supplier of goods is recorded in the total amount column.

6.5.1 Invoice

Entries in the purchases day book are made from invoices which are popularly known as bills. Invoice is a business document or bill or statement, prepared and sent by the seller to the buyer giving the details of goods sold, such as quantity, quality, price, total value, etc. Thus, the invoice is a source document of prime entry both for the buyer and the seller.

6.5.2 Trade discount

Trade discount is a deduction given by the supplier to the buyer on the list price or catalogue price of the goods. It is given as a trade practice or when goods are purchased in large quantities. It is shown as a deduction in the invoice. Trade discount is not recorded in the books of accounts. Only the net amount is recorded. Example: Suppose the sale of goods for `10,000 was made and 10% was allowed as trade discount, the entry regarding sales will be made for `9,000 (10,000 – 10 per cent of 10,000). In the same way, purchaser of goods will also record purchases as `9,000).



Student activity

Think: Is trade discount the same as cash discount?

Illustration 1

Record the following transactions in the purchases book of Shanthi Furniture Mart:

2017

March 1 Purchased from Mohan Furniture Mart, Madurai

20 chairs @ ` 450 each

2 tables @ ` 1,000 each

Less: Trade discount @ 10%

March 7 Bought from Ramesh & Co., Royapettah

2 stools @ \cdot 500 each

10 rolling chairs @ ` 200 each

Delivery charges and cartage ` 150

March 21 Purchased from Kamal & Co., Karaikkal

10 chairs @ ` 750 each

15 steel cabinets @ ` 1,500 each

Packing and delivery charges \ 250

Less: Trade discount @ 10%

March 25 Purchased from Jemini & Sons, Chennai

2 typewriters @ ` 7,750 for office use

Solution

In the books of Shanthi Furniture Mart Purchases book / Purchases journal

Date	Particulars	Invoice	L.F.	Amou	ınt`
		No.		Details	Total
2017	Mohan Furniture Mart, Madurai				
March 1	20chairs@`450 each			9,000	
	2 tables@` 1,000 each			2,000	
				11,000	
	Less: Trade discount @ 10%			1,100	9,900
March 7	Ramesh & Co., Royapettah				
	2 stools @`500 each			1,000	
	10 rolling chairs @ ` 200 each			2,000	
				3,000	
	Add: Delivery charges and cartage			150	3,150
March 21	Kamal & Co., Karaikal				
	10 chairs @ ` 750 each			7,500	
	15 steel cabinets @ ` 1,500 each			22,500	
				30,000	
	Less: Trade discount @ 10%			3,000	
				27,000	
	Add: Packing and delivery charges			250	27,250
	Purchases A/c Dr.				40,300

Tutorial note

- 1. Trade discount is allowed on the purchase price of goods excluding delivery charges and cartage.
- 2. Delivery charges and cartage are direct expenses, chargeable from purchaser, so they are added to the amount payable.



Student activity

Think: Why the purchase of typewriter is not recorded? How do you record this transaction?

Illustration 2

Record the following transactions in the purchases book of Raja Furniture:

2017

May 4 Purchased from Kasi Furnitures, Kanyakumari

10 chairs @ ` 300 each

4 tables @ ` 800 each

May 6 Purchased for cash from Welcome Furniture, Vellore

2 almirahs @ ` 2,000 each

4 chairs @ ` 200 each

Less: Trade discount 5%

May 10 Bought furniture from Murugan Furniture Mart, Nagapattinam

10 chairs @ ` 250 each

5 tables @ ` 750 each

Delivery and packing charges ` 150

May 20 Purchased 2 computers for office use from Anandan & Co., Adyar on credit

for `15,550 each

May 25 Purchased from Gowtham & Co., Chennai

10 chairs @ ` 550 each

15 steel cabinets @ 2,000 each

Delivery charges 200

Less: Trade discount 10%

Solution

In the books of Raja Furniture Purchases Book / Purchases Journal

Date	Particulars	Invoice	L.F.	Amo	unt`
		No.		Details	Total
2017					
May 4	Kasi Furnitures, Kanyakumari				
	10 chairs @ ` 300 each			3,000	
	4 tables @` 800 each			3,200	6,200
May 10	Murugan Furniture Mart, Nagapattinam				
	10 chairs @ ` 250 each			2,500	
	5 tables @ ` 750 each			3,750	
				6,250	
	Add: Delivery and packing charges			150	6,400
May 25	Gowtham & Co., Chennai				
	10 chairs @ ` 550 each			5,500	
	15 steel cabinets @ ` 2,000 each			30,000	
				35,500	
	Less: Trade discount @ 10%			3,550	
				31,950	
	Add: Delivery charges			200	32,150
	Purchases A/c Dr.				44,750

Note:

- (a) Purchases on 6th May, 2017 will not be recorded in the purchases book, because it is cash purchases.
- (b) Purchases of computers on 20th May, 2017 will not be recorded in the purchases book, because computer is an asset for the firm dealing in furniture and it is for office use.

6.5.3 Posting from purchases book

After the transactions are recorded in the purchases book, posting them to ledger involves two steps:

- *Step 1:* **Posting to personal accounts of creditors:** Every day, each entry is posted to the credit side of the respective personal account of the creditor by entering the words 'By Purchases account'.
- **Step 2: Posting to purchases account:** Generally, at the end of the month, the purchases book is totalled. The monthly total of purchases is posted to the debit side of purchases account by writing the words 'To Sundry creditors A/c'.

Illustration 3

From the following transactions of Ram Home Appliances for July, 2017 prepare purchases book and ledger accounts connected with this book:

2017

July 5 Purchased on credit from Kannan & Co.

50 iron boxes @ ` 500 each

10 grinders @ ` 3,000 each

July 6 Purchased for cash from Siva & Bros.

25 fans @ ` 1,250 each

July 10 Purchased from Balan & Co. on credit

20 grinders @ ` 2,500 each

10 mixies @ ` 3,000 each

Trade discount 10%

Delivery charges ` 1,000

July 20 Purchased on credit, one copier machine from Kumar for `35,000

Solution

In the books of Ram Home Appliances Purchases book

Date	Particulars	Invoice No.	L.F.	Amo	unt`
Date	1 articulars	invoice ivo.	1.1.	Details	Total
2017					
July 5	Kannan & Co.				
	50 iron boxes @ ` 500			25,000	
	10 grinders @ ` 3,000			30,000	55,000
July 10	Balan & Co.				
	20 grinders @ ` 2,500			50,000	
	10 Mixies @ ` 3,000			30,000	
				80,000	
	Less: Trade discount 10%			8,000	
				72,000	
	Add: Delivery charges			1,000	73,000
	Purchases A/c Dr.				1,28,000

Ledger Accounts

Dr. Purchases A/c Cr.

Date	Particulars	J.F.	Amount`	Date	Particulars	J.F.	Amount`
2017							
July 31	To Sundry creditors		1,28,000				

Dr. Kannan & Co. Account Cr.

Date	Particulars	J.F.	Amount `	Date	Particulars	J.F.	Amount`
				2017			
				July 5	By Purchases A/c		55,000

Dr. Balan & Co. Account Cr.

Date	Particulars	J.F.	Amount `	Date	Particulars	J.F.	Amount`
				2017			
				July 10	By Purchases A/c		73,000

Note: 6th July, transaction is a cash transaction and 20th July, transaction is purchase of an asset. Hence, both will not be recorded in the purchases book.

6.6 Purchases returns book

After purchases of goods, the business unit may find that some of the goods are not upto the satisfactory level because of the following reasons:

- (a) Goods may be defective.
- (b) They might have been damaged in transit.
- (c) Quantities delivered may not agree with the invoice.
- (d) They might have been received quite late (off-season).
- (e) They might not be as per the samples or specifications.
- (f) There may be a breach of agreement.

Therefore, the buyer may return them to the suppliers.

Purchases returns book is a subsidiary book in which transactions relating to return of previously purchased goods to the suppliers, for which cash is not immediately received are recorded. Since goods are going out to the suppliers, they are also known as returns outward and the book is called as 'returns outward book or returns outward journal'. This book is prepared like purchases book and details are entered as mentioned in the format given below:

Format

Purchases returns book

Date	Particulars	L.F.	Debit Note	Amount `		Remarks
Date	Particulars	L,F,	No.	Details	Total	Kemarks
Date	Names of persons to whom	Posting		Detailed		
of	goods are returned and the	reference		calculations		
return	details of goods returned					
	Purchases Returns A/c Cr.					

6.6.1 Posting from the purchases returns book

After the transactions are recorded in the purchases returns book, posting them to ledger involves two steps:

- **Step 1:** Posting to personal accounts of creditors: Every day, each entry in purchases returns book is posted to the debit side of the respective personal account of the creditor by writing the words 'To Purchases Returns account'.
- **Step 2: Posting to Purchases returns account:** At the end of the month, the aggregate of the purchases returns is ascertained. It is the total purchases returns for the month and is posted to the credit side of purchases returns account by debiting 'Sundry creditors account'.

6.6.2 Debit note – the source document for returns outward

A 'debit note' is a document, bill or statement sent to the person to whom goods are returned. This statement informs that the supplier's account is debited to the extent of the value of goods returned. It contains the description and details of goods returned, name of the party to whom goods are returned and net value of the goods so returned with reason for return.



Student activity

Think: Do you think the supplier will accept the debit note sent by the customer, as it is? If not, why will he not accept?

Illustration 4

Enter the following transactions in the purchases returns book of Hari who is dealing in automobiles and post them into the ledger.

2017

Jan. 5 Returned to Anand 5 clutch plates @ ` 200 each, not in accordance with order.

Jan. 14 Returned to Chandran 4 brake shoes @ ` 200 each and 10 rear view mirrors @ ` 350 each, due to inferior quality.

Solution

In the books of Hari Purchases returns book

Date	Particulars	Debit	L.F.	Amo	ount	Remarks
		Note No.		Details	Total	
2017						
Jan 5	Anand					Not in
	5 clutch plates @ ` 200 each				1,000	accordance with
Jan 14	Chandran					order
	4 brake shoes @ ` 200 each			800		
	10 rear view mirrors @ ` 350					Due to inferior
	each			3,500	4,300	quality
	Purchases Returns A/c Cr.				5,300	

Ledger Accounts

Dr. Purchases returns A/c

Cr.

	Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
ľ					2017	By Sundry		
l					Jan 31	creditors A/c		5,300

Dr. Anand Account Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2017	To Purchases						
Jan 5	returns A/c		1,000				

Dr. Chandran Account Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2017	To Purchases						
Jan 14	returns A/c		4,300				

6.7 Sales book

Sales book is a subsidiary book maintained to record credit sale of goods. Goods mean the items in which the business is dealing. These are meant for regular sale. Cash sale of goods and sale of property and assets whether for cash or on credit are not recorded in the sales book. This book is also named as sales day book, sold day book, sales journal or sale register.

The preparation of the sales book is similar to that of purchases book. The entries are made in the sales book on the basis of copies of the invoice sent to the buyer.

Format

Sales Book

				Amou	nt`
Date	Particulars	L.F.	Invoice No.	Details	Total
Date of sale	Name of the customers and the details of goods sold	Posting reference		Detailed calculations	Net amount of the invoice
	Sales A/c Cr.				

In the date column of the sales book, the date of credit sales is recorded. Particulars column contains the name of party purchasing goods or the party to whom goods have been sold. It also shows the details of goods as regards its quantity, quality, other descriptions and the rate of trade discount allowed. In Ledger Folio (L.F.) column the page number of debtors account in the ledger is recorded for reference. The amount of various items of the goods sold is entered in the details column. Adjustments for trade discount, packing charges, etc., are made in the details column. In the total column, the net amount payable by individual customer is recorded. The total of the amount column is the total credit sales during the period.

6.7.1 Posting from sales book

After the transactions are recorded in the sales book, posting them to ledger involves two steps:

- *Step 1:* **Posting to personal accounts of debtors:** Every day, each entry is posted to the debit side of the respective personal account of the debtor.
- **Step 2:** Posting to Sales account: At the end of the month, the aggregate of the sales is posted to the credit side of sales account by writing the words 'By Sundry debtors A/c'.

Illustration 5

From the transactions given below, prepare the sales book of Kumar Stationery for July 2017.

2017

July 5 Sold on credit to Saravana Traders of Sayalkudi

10 packs of A4 sheets @ ` 250 per pack

10 dozens of writing pads @ `850 per dozen

Less: 10% trade discount for both

July 8 Sold to Raja for cash

15 packs of A4 sheets @ \ 250 per pack

July 20	Sold to Mohan & Co. of Mudukulathur
	5 white boards @ ` 2,200 each
	10 dozens of writing pads @ `850 per dozen
July 23	Sold on credit to Narayanan old motor car for ` 5,000
July 28	Sold to Kumaran for cash 15 packets of marker pens @ ` 250 per packet

Solution

In the books of Kumar Stationery

Sales book

Date	Particulars	Invoice	L.F.	Amo	ount
		No.		Details`	Total `
2017	Saravana Traders, Sayalkudi				
July 5	10 packs of A4 Sheets @ ` 250 per pack			2,500	
	10 dozens writing pads @ `850 per dozen			8,500	
				11,000	
	Less: 10% Trade discount			1,100	9,900
July 20	Mohan & Co., Mudukulathur				
	5 white boards @ ` 2,200 each			11,000	
	10 dozens writing pads @ ` 850 per dozen			8,500	19,500
	Sales A/c Cr.				29,400
July 20	Mohan & Co., Mudukulathur 5 white boards @ ` 2,200 each 10 dozens writing pads @ ` 850 per dozen			11,000	

Ledger Accounts

Dr. Sales A/c Cr.

Date	Particulars	J.F.	Amount `	Date	Particulars	J.F.	Amount`
				2017	By Sundry		
				July 31	debtors A/c		29,400

Dr. Saravana traders A/c Cr.

Date	Particulars	J.F.	Amount`	Date	Particulars	J.F.	Amount`
2017							
July 5	To Sales A/c		9,900				

Dr. Mohan & Co. A/c Cr.

Date	Particulars	J.F.	Amount `	Date	Particulars	J.F.	Amount`
2017							
July 20	To Sales A/c		19,500				

Note:

- (a) Sales on 8th July and 28th July will not be recorded in the sales because they are cash sales.
- (b) Sale of old motor car on 23rd July will not be recorded in the sales book, because motor car is an asset for the firm dealing in stationery.

6.8 Sales returns book

Sales returns book is a subsidiary book, in which, details of return of goods sold for which cash is not immediately paid are recorded. Just as goods may be returned to suppliers, goods may be returned by customers for the following reasons:

- (i) Defect in the goods
- (ii) Delay in the dispatch of goods to the customers
- (iii) Over-supply of goods
- (iv) Goods not being in accordance with the samples and specifications
- (v) Violation of the terms of the contract, etc.

Goods returned by the customers is known as 'returns inwards'.

This book is not concerned with the return of assets or return of goods for which cash is paid. This book is prepared just like the other day books.

6.8.1 Posting from sales returns book

After the transactions are recorded in the sales returns book, posting them to ledger involves two steps:

- *Step 1:* **Posting to personal accounts of debtors:** Each entry in the sales returns book is posted to the credit side of the respective personal account of the debtor on daily basis by writing the words 'By Sales returns account'.
- **Step 2: Posting to Sales returns account:** At the end of the month, the aggregate of the sales returns is posted to the debit side of sales returns account by writing the words 'To Sundry debtors A/c'.

6.8.2 Credit note – Source document for returns inward

A credit note is prepared by the seller and sent to the buyer when goods are returned indicating that the buyer's account is credited in respect of goods returned. Credit note is a statement prepared by a trader who receives back from his customer the goods sold. It contains details such as the description of goods returned by the buyer, quantity returned and also their value.

Format

Sales returns book

			Credit	Amo			
Date	Name of suppliers	L.F.	Note No.	Details	Total	Remarks	
Date of return	Names of persons from whom goods are received back and details of goods returned	Posting reference		Detailed calculations	Net amount of the invoice		
	Sales returns A/c Dr.						

Illustration 6

Enter the following transactions in returns inward book of Magesh a textile dealer:

2017 April 6	Returned by Shankar 30 shirts each costing ` 150 due to inferior quality.
April 8	Amar Tailors returned 10 T-shirts, each costing ` 100, on account of being not in accordance with their order.
April 21	Prema Stores returned 12 Salwar sets each costing ` 200, being not in accordance with order.

Solution

In the books of Magesh Sales returns book

Date	Particulars	L.F.	Credit	Amo	ount	Remarks
			Note No.	Details `	Total `	
2017						
April 6	Shankar					
	30 Shirts @ ` 150			4,500		Due to inferior
April 8	Amar Tailors					quality
	10 T-Shirts @ ` 100			1,000		Not in accordance
April 21	Prema Stores					with the order
	12 Salwar sets @ `200			2,400	7,900	Not in accordance
						with the order
	Sales Returns A/c Dr.			,	7,900	

Ledger Accounts

Dr. Sales returns A/c Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2017	To Sundry						
April 30	debtors A/c		7,900				

Dr. Shankar A/c Cr.

	Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
					2017			
l					April 6	By Sales returns A/c		4,500

Dr. Amar Tailors A/c Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
				2017			
				April 8	By Sales returns A/c		1,000

Dr. Prema Stores A/c Cr.

	Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
					2017 April 21	By Sales returns A/c		2,400
L					April 21	By Sales leturns A/C		2,400



Student activity

Think: Visit a stationery shop nearby. Observe its business activities for a week. After having discussed with the shop keeper, prepare a list of purchased and sold items by the shop. Record them in the appropriate books.

6.9 Bills of exchange

6.9.1 Introduction

To increase the sales, a seller sells the goods on credit to his customers. If sale is made on credit, cash will not be received immediately. The seller may draw a bill on the customer for the amount due from him. If the customer accepts it, the seller can get the same discounted with the bank and get cash immediately.

6.9.2 Definition of bill of exchange

According to the Negotiable Instruments Act, 1881, "Bill of exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of a certain person or to the bearer of the instrument".

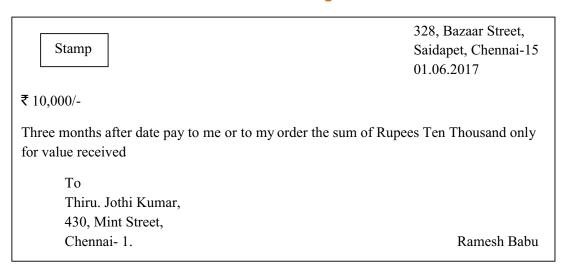
6.9.3 Features of bills of exchange

An analysis of the definition given above, highlights the following important features of a bill of exchange:

- (i) It is a written document.
- (ii) It is an unconditional order.
- (iii) It is an order to pay a certain sum of money.
- (iv) It is signed by the drawer.
- (v) It bears stamp or it is drafted on a stamp paper.
- (vi) It is to be accepted by the acceptor.
- (vii) The amount of the bill is paid to the drawer or the endorsee.

6.9.4 Specimen of bill of exchange

Bill of exchange



6.9.5 Important terms

Explanation of some terms connected with bill of exchange is given below:

(i) Drawing of a bill

The seller (creditor) prepares the bill in the form presented above. The act of preparing the bill by the seller or creditor in its complete form with the signature is known as 'drawing' a bill.

(ii) Parties

There are three parties to a bill of exchange as under:

- (a) *Drawer:* The person who prepares the bill is called the drawer, i.e., a creditor
- (b) *Drawee:* The person who has to make the payment or who accepts to make the payment is called the drawee, i.e., a debtor
- (c) *Payee:* The person who receives the payment is payee. He may be a third party or the drawer of the bill.

In the above specimen, drawer and payee is Ramesh Babu. Jothi Kumar is the drawee.

(iii) Acceptance

In a bill, drawee gives his/her acceptance by writing the word 'accepted' and signs the same with the date. Now the bill becomes a legal document enforceable in the court of law.

(iv) Due date and days of grace

When a bill is drawn payable after a specified period, the date on which the payment should be made is called '**Due date**'. In the calculation of the due date, three extra days are added to the specified period of the bills called '**Days of grace**'. If the date of maturity falls on a holiday, the bill will be due for payment on the preceding day.

Example:

Date of bill	Period of bill	Days of grace	Due date
1st March	2 months	3	4th May
12th July	1 month	3	14 th August, since 15 th August (being Independence day) is a public holiday.
1 st October	30 days	3	3rd November



If the maturity date falls on an emergency holiday, succeeding day will be the due date for payment.

(v) Endorsement

Endorsement means signing on the face or back of a bill for the purpose of transferring the title of the bill to another person. The person who endorses is called the "Endorser". The person to whom a bill is endorsed is called the "Endorsee". The endorsee is entitled to collect the money.

(vi) Discounting

When the holder of a bill is in need of money before the due date of a bill, cash can be received by discounting the bill with the banker. This process is referred to as the discounting of bill. The banker deducts a small amount of the bill which is called discount and pays the balance in cash immediately to the holder of the bill.

(vii) Retiring of bill

An acceptor may make the payment of a bill before its due date and may discharge the liability on the bill. It is called as retirement of a bill. Usually, the holder of the bill allows a concession called rebate to the drawee for the unexpired period of the bill.

(viii) Renewal

When the acceptor of a bill knows in advance that he/she will not be able to meet the bill on its due date, he/she may request the drawer for extension of time for payment. The drawer of the bill may agree to cancel the original bill and draw a new bill for the amount due with interest thereon. This is referred to as renewal.

(ix) Dishonour

Dishonour of the bill means the non payment of the amount of the bill, when it is presented for payment.

6.10 Bills receivable book

Bills receivable refers to bills drawn, the payment for which has to be received. In case of credit sales of goods, the entity may draw a bill on the buyer (debtor), for a certain period. This is called bills receivable for the business entity and bills payable for the debtor who has accepted the bill. Where number of bills receivable is large, then a separate bills receivable book may be maintained by a business entity to record the details of bills receivable. Such bills are drawn on debtor for a specified amount payable at sight on or after specified period. Bills receivable book contains the details of bills drawn and its disposal. The format of the bills receivable book is given below:

Format

Bills receivable book

Date of receipt of bill	From whom bill is received	Term of the bill	Due date of the bill	L.F.	Amount of the Bill	Remark
(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)

- (i) **Date:** In this column, the date of the acceptance of the bill is recorded.
- (ii) **From whom received:** In this column, the name of the debtor, who has accepted the bill and promised to make its payment, is recorded. The bill legally comes into existence after its acceptance.
- (iii) **Term or period:** The bill is drawn for a specified period. This period may be one month, two months, three months, etc. or even 60 days, 90 days, 120 days, etc. Period of the bill for which the bill has been drawn is mentioned here.
- (iv) **Due date:** Due date is the date on which the payment of the bill is actually due. It is also known as date of maturity. In order to calculate the due date, three days of grace is added to the term of the bill.

- (v) **Ledger Folio (L.F.):** This column contains the page number of the ledger in which the account of the acceptor of the bill appears.
- (vi) **Amount of the bill:** The actual amount of the bill is recorded in this column.
- (vii) **Remark:** This column contains the details of disposal of the bill, whether the bill has been discounted or endorsed, honoured or dishonoured etc.

6.11 Bills payable book

Details recorded in the bills payable book are the names of the parties whose bills are accepted, date of the bills payable, due date, amount, etc. The individual accounts of the parties whose bills are accepted will be debited with the corresponding amount in the bills payable book. The specimen of bills payable book is given below:

Format

Bills payable book

]	Date of acceptance of the bill	To whom acceptance is given		Due date of the bill		Amount of the bill	Remark
	(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)

These columns record almost the same particulars which are recorded in the bills receivable book. When there is credit purchases of goods, the business entity may accept a bill drawn by the supplier or creditor. It is called bills payable for the business entity. Where there are large number of such bills payable, a separate bills payable book may be maintained. Thus, bills payable book is a subsidiary book maintained to record the details of bills payable.

The preparation of the bills receivable and bills payable book is explained through the following example:

2017	
July 1	Acceptance received from Nirmala for `5,000 payable after 3 months.
July 20	Acceptance given to Shailaja's bill for ` 3,000 payable after 3 months.
July 31	Acceptance received from Faisal for ` 1,000 payable after 60 days.
Aug. 5	Farid's bill for ` 1,000 payable after 6 months accepted.
Aug.11	Mohan's acceptance for `700 payable after 90 days received.

The bills receivable and bills payable books are prepared as follows:

Bills Receivable Book

Date	From whom received	Term	Due date	L.F.	Amount `	Remark
2017			2017			
July 1	Nirmala	3 months	October 4		5,000	
July 31	Faisal	60 days	October 1		1,000	
Aug 11	Mohan	90 days	November 12		700	
	Total				6,700	

Note: On 31st July, for Faisal bill, due date is 1st October, since 2nd October, (being Gandhi Jayanthi) is a public holiday.

Bills Payable Book

Date	To whom accepted	Term	Due date	L.F.	Amount`	Remark
2017			2017			
July 20	Shylaja	3 months	October 23		3,000	
			2018			
Aug 5	Farid	6 months	February 8		1,000	
	Total			·	4,000	

6.12 Journal proper

Journal proper is a residuary book which contains record of transactions, which do not find a place in the subsidiary books such as cash book, purchases book, sales book, purchases returns book, sales returns book, bills receivable book and bills payable book. Thus, journal proper or general journal is a book in which the residual transactions which cannot be entered in any of the sub divisions of journal are entered. The usual entries that are passed through this journal are given below:

- (i) Opening journal entry
- (ii) Closing journal entry
- (iii) Adjusting entries
- (iv) Transfer entries
- (v) Rectifying entries
- (vi) Miscellaneous entries

(i) Opening journal entry

At the end of the accounting year, all nominal accounts are closed but the business has to be carried on with previous year's assets and liabilities. Hence, these accounts are to be brought into the accounts of the current year. Journal entry made in the beginning of the current year with the balances of assets and liabilities of the previous year is opening journal entry. In this entry, asset accounts are debited, liabilities and capital accounts are credited.

Example

Ramnath carried forward the following items. Make the opening entry in journal proper as on 1st January, 2017.

Cash 30,000 Stock 15,000

Furniture 3,000 Sundry Creditors 10,000

Opening Entry

Date	Particulars		L.F.	Debit `	Credit `
2017	Cash A/c	Dr.		30,000	
Jan 1	Stock A/c	Dr.		15,000	
	Furniture A/c	Dr.		3,000	
	To Sundry creditors A/c				10,000
	To Capital A/c				38,000
	(Balance of assets and liabilities brought fo	orward)			

(ii) Closing journal entry

At the end of the accounting period, all the ledger accounts relating to purchases, sales, purchases returns, sales returns, stock and other accounts concerning expenses, losses, incomes and gains are closed by transfer to trading and profit and loss account so that financial statements can be prepared. It should be noted that closing entries are made for nominal accounts only.

Example: Salaries account ` 10,000. The closing entry as on 31st December, 2017 is:

Closing Entry

Date	Particulars		L.F.	Debit `	Credit `
2017	Profit and Loss A/c	Dr.		10,000	
December 31	To Salaries A/c				10,000
	(Salaries A/c transferred to Profit and				
	Loss A/c)				

iii) Adjusting entries

After preparing the trial balance, but before preparing the final accounts, if any adjustment is required in the accounts for items or transactions left out, adjusting entries are made.

Example

Book value of the machinery as on 1st January, 2017 ` 1,00,000. Rate of depreciation is 10% p.a. Adjusting entry as on 31st December, 2017 is:

Adjusting Entry

Date	Particulars	L.F.	Debit `	Credit `
2017	Depreciation A/c $(1,00,000 \times 10\%)$ Dr.		10,000	
Dec 31	To Machinery A/c			10,000
	(Depreciation written off)			

(iv) Transfer entries

Transfer entries are passed in the journal proper for transferring an item entered in one account to another account. For example, transferring net profit of `5,000 to capital account, the following entry is passed:

Transfer Entry

	Date	Particulars		L.F.	Debit `	Credit `
ſ		Profit and Loss A/c	Dr.		5,000	
		To Capital A/c				5,000
		(Net profit transferred to capit	cal account)			

(v) Rectifying entries

Rectifying entries are passed for rectifying errors which are committed in the books of accounts.

Example

Purchase of furniture by a stationery dealer for ` 10,000 was debited to purchases account. Pass rectifying entry on December 31, 2017.

Rectifying Entry

Date	Particulars		L.F.	Debit `	Credit `
2017	Furniture A/c	Dr.		10,000	
Dec 31	To Purchases A/c				10,000
	(Wrong debit to purchases account rectified)				

(vi) Miscellaneous entries

These are entries which do not occur frequently such as:

(i) Credit purchases and credit sale of assets which cannot be recorded through purchases or sales book.

- (ii) Endorsement, renewal and dishonor of bill of exchange which cannot be recorded through bills book.
- (iii) Other adjustments like interest on capital, bad debts, reserves, etc.
- (iv) Goods withdrawn by the owner for personal use.
- (v) Goods distributed as samples for sales promotion.
- (vi) Loss of goods by fire, theft and spoilage.

Illustration 7

Record the following transactions of Vijay Electrical & Co., in the purchases book, purchases returns book, sales book and sales returns book.

2017

Jan 1 Purchased on credit from Preethi & Co.,

25 table fans @ ` 1,400 each

10 fans @ 2,000 each

Add: Auto charges @ ` 100

Jan 5 Sold on credit to Sheela & co.,

10 electric iron box @ ` 1,250 each

20 electric stoves @ ` 450 each

Less: 10% Trade discount

Jan 10 Purchased for cash from Brinda & Co.,

10 electric stoves @ \ 1,300 each

Jan 18 Returned to Preethi & Co.,

5 table fans being defective for which cash is not received

Jan 20 Purchased from Sathya & Co.,

10 fans @ \ 1,200 each

Less: Trade discount 5%

- Jan 21 Sheela & Co., returned 3 electric iron boxes as defective for which cash is not paid
- Jan 23 Purchased from Elizabeth & Co., 10 water purifiers @ `4,700 each on credit
- Jan 25 Sold on credit to M/s. Bhavani & Co., 7 fans @ ` 1,450 each
- Jan 27 Returned to Sathya & Co., 2 damaged fans for which cash is not received

Solution

In the books of Vijay Electrical & Co. Purchases Book

Duta	Dead and an	Invoice	LE	Amount`		
Date	Particulars		No.	L.F.	Details	Total
2017						
Jan. 1	Preethi & Co.					
	25 table fans @ ` 1400 each				35,000	
	10 fans @ ` 2,000 each				20,000	
					55,000	
Jan. 20	Add: Auto charges				100	55,100
Jan. 20	Sathya & Co.					
	10 fans @ ` 1,200 each				12,000	
	Less: Trade discount (5%)				600	11,400
Jan. 23	Elizabeth & Co					
	10 water purifiers @ ` 4,700 each					47,000
	Purchases A/c	Or.				1,13,500

Sales Book

Date	Particulars	Invoice	I E	Amount `	
Date	Particulars	No.	L.F.	Details	Total
2017					
Jan. 5	Sheela & Co.				
	10 electric iron boxes @ ` 1,250 each			12,500	
	20 electric stoves @ ` 450 each			9,000	
				21,500	
Jan. 25	Less: Trade discount (10%)			2,150	19,350
	M/s. Bhavani & Co.				10,150
	7 fans @ ` 1,450 each				10,130
	Sales A/c Cr.				29,500

Purchases Returns Book

Data	Particulars	Debit	I E	Am	ount`	Domontro
Date	Particulars	Note No.	L.F.	Details	Total	Remarks
2017						
Jan. 18	Preethi & Co.					Being
	5 table fans @ ` 1,400 each				7,000	defective
Jan. 27	Sathya & Co.					
	2 fans @ ` 1,140 each				2,280	Damaged
	(List Price – Trade discount)					fans
	(1,200 – 60)					
	Purchase Returns A/c Cr.				9,280	

Sales Returns Book

Data	Particulars	Credit Note No.	I D	Amount `		Remarks
Date			Details	Total		
2017						
Jan. 21	Sheela & Co.					
	3 electric Iron boxes @ ` 1,125 each				3,375	Being
	(List Price – Trade discount)					defective
	(1,250 – 125)					
	Sales Returns A/c Dr.				3,375	



Student activity

Think: Prepare a flow chart/mind map to show how entries are posted from subsidiary books to ledger?

Points to remember

- Business transactions are entered in the subsidiary books before they are posted to the ledger.
- Sales book is meant for recording sales of goods on credit.
- Sales book is prepared with the help of invoices sent to the customers.
- Sales returns book is prepared based on the credit notes issued to the customers.
- Purchases book is meant for recording purchases of goods on credit.
- Purchases returns book is prepared based on the credit notes received from the suppliers.
- At the end of each month, totals of the sales, purchases, and returns b are transferred to the sales, purchases, and returns accounts respectively.

Self-examination questions

I Multiple choice questions

Choose the correct answer

- 1. Purchases book is used to record
 - (a) all purchases of goods

- (b) all credit purchases of assets
- (c) all credit purchases of goods
- (d) all purchases of assets
- 2. A periodic total of the purchases book is posted to the
 - (a) debit side of the purchases account
- (b) debit side of the sales account
- (c) credit side of the purchases account
- (d) credit side of the sales account

- 3. Sales book is used to record
 - (a) all sales of goods

(b) all credit sales of assets

(c) all credit sales of goods

- (d) all sales of assets and goods
- 4. The total of the sales book is posted periodically to the credit of
 - (a) Sales account

(b) Cash account

(c) Purchases account

- (d) Journal proper
- 5. Purchase returns book is used to record
 - (a) returns of goods to the supplier for which cash is not received immediately
 - (b) returns of assets to the supplier for which cash is not received immediately
 - (c) returns of assets to the supplier for which cash is received immediately
 - (d) None of the above

6.	Sales return book is used to record						
	(a) Returns of goods by the customer for w	(a) Returns of goods by the customer for which cash is paid immediately					
	(b) Returns of goods by the customer for w	(b) Returns of goods by the customer for which cash is not paid immediately					
	(c) Returns of assets by the customer for which cash is not paid immediately						
	(d) Returns of assets by the customer for w	which cash is paid immediately					
7.	Purchases of fixed assets on credit basis is r	recorded in					
	(a) Purchases book	(b) Sales book					
	(c) Purchases returns book	(d) Journal proper					
8.	The source document or voucher used for a	recording entries in sales book is					
	(a) Debit note	(b) Credit note					
	(c) Invoice	(d) Cash receipt					
9.	Which of the following statements is not tr	rue?					
	(a) Cash discount is recorded in the books of accounts						
	(b) Assets purchased on credit are recorded in journal proper						
	(c) Trade discount is recorded in the books of accounts						
	(d) 3 grace days are added while determining	ing the due date of the bill					
10.	Closing entries are recorded in						
	(a) Cash book	(b) Ledger					
	(c) Journal proper	(d) Purchases book					
Ans	wer						
1	(c) 2. (a) 3. (c) 4. (a) 5. (a)	6. (b) 7. (d) 8. (c) 9. (c) 10. (c)					
1.	(c) 2. (a) 3. (c) 4. (a) 3. (a)	0. (b) 7. (d) 6. (c) 9. (c) 10. (c)					
II	Very short answer questions						
1.	Mention four types of subsidiary books.						

- What is purchases book? 2.
- What is purchases returns book? 3.
- What is sales book? 4.
- What is sales returns book? 5.
- 6. What is debit note?
- 7. What is credit note?

- 8. What is journal proper?
- 9. Define bill of exchange.
- 10. What is an opening entry?
- 11. What is an invoice?

III Short answer questions

- 1. Give the format of purchases book.
- 2. Mention the subsidiary books in which the following transactions are recorded.
 - (i) Sale of goods for cash
 - (ii) Sale of goods on credit
 - (iii) Purchases of goods on credit
 - (iv) When the proprietor takes goods for personal use
 - (v) Goods returned to suppliers for which cash is not received immediately
 - (vi) Asset purchased as credit.
- 3. What are the advantages of subsidiary books?
- 4. Write short notes on:
 - (a) Endorsement of a bill and
 - (b) Discounting of a bill

IV Exercises

1. Enter the following transactions in the Purchases book of M/s. Subhashree Electric Co., which deals in electric goods.

2017

- April 5 Purchased from Karthik Electric Co., on credit 10 Electric iron box @ ` 2,500 each 5 electric stoves @ ` 2,000 each
- April 19 Purchased on credit from Khaitan Electric Co., 3 electric heaters @ ` 6,000 each
- April 25 Purchased from Polar Electric Co., on credit 10 Fans @ ` 2,000 each
- April 29 Purchased from M & Co. for cash 10 electric stoves @ ` 3,000 each

(Answer: Purchases A/c. (Dr.) 73,000)

2. Enter the following credit transactions in the purchases book of Manoharan, a Provisions Merchant. 2017 May 2 Bought from Vasu 100 bags of rice @ `800 per bag May 8 Bought from Cheyyar Sugar Mills Ltd., 20 bags of sugar @ 2,600 per bag Bought from Ram Flour Mill, Coimbatore, 10 bags of wheat flour @ 750 May 10 per bag May 15 Bought from Nilgiri Tea Co., Nilgiris, 15 cases of tea @ ` 900 per case May 25 Bought from Sairam Coffee Works Ltd., 100 kgs of Coffee @ ` 190 per kg. May 29 Bought from X & Co. furniture worth \`2,000 (**Answer:** Purchases A/c (Dr.) ` 1,72,000) From the following transactions write up the Sales day book of M/s. Ram & Co., a 3. stationery merchant. 2017 Jan. 1 Sold to Anbu& Co., on credit 20 reams of white paper @ ` 150 per ream Jan. 2 Sold to Jagadish& Sons on credit 6 dozen pens @ ` 360 per dozen Jan. 10 Sold old newspapers for cash @ `620 Jan. 15 Sold on credit M/s. Elango Co., 10 drawing boards @ 170 per piece Jan. 20 Sold to Kani & Co., 4 writing tables at `1,520 per table for cash (**Answer:** Sales A/c (Cr.) ` 6,860) Enter the following transactions in the Sales book of Kamala Stores, a furniture shop. 4. 2017 May 2 Sold to Naveen Stores, Trichy on credit 5 computer tables @ ` 1,750 per May 9 Sold to Deepa & Co., Madurai on credit 6 dining tables @ ` 1,900 per dining table May 15 Sold to Rajesh 10 dressing tables @ 2,750 each on credit Sold to Anil 5 wooden tables @ ` 1,250 per table on credit May 24

(**Answer:** Sales A/c (Cr.) ` 53,900)

Sold to Gopi 3 old computers @ ` 3,500 each

Sold 50 chairs to Anil @ ` 275 each for cash

May 27

May 29

5 Enter the following transactions in the purchases and sales books of Kannan, an automobile dealer, for the month of December, 2017.

2017		`
Dec. 1	Bought from Sumathi gear boxes on credit	17,800
Dec. 4	Sold goods to Rani on credit	15,200
Dec. 6	Purchased goods on credit from Mani	7,000
Dec. 10	Sold goods on credit to Saranya	12,500
Dec. 17	Sold goods to Hussain on credit	13,250
Dec. 21	Purchased goods on credit from Raghunathan	10,000
Dec. 26	Sold goods to Shyam for cash	3,000
	(Answer: Purchases A/c (Dr.): ` 34,80	00 Sales A/c (Cr.): `40,950)

6. Prepare Purchases book and Sales book in the books of Santhosh Textiles Ltd., from the following transactions given for April, 2017.

2017

April 1 Purchased goods from Prasad, Kancheepuram on credit 100 meters Silk @ ` 450 per meter 75 meters Velvet @ ` 180 per meter

April 10 Sold goods to Rathinam, Chennai on credit 60 meters Silk @ ` 490 per meter 50 meters Velvet @ ` 210 per meter

April 18 Nathan & Sons purchased from us on credit 100 meters Silk @ ` 510 per meter

April 20 Purchased goods from Hari Ram & Sons, Madurai on credit 50 rolls kada cloth @ ` 730 per roll 80 rolls cotton cloth @ ` 650 per roll

April 24 Purchased from Mohan, Karur for cash Shirting cloth @ ` 7,000 Sarees @ ` 25,000

(**Answer:** Purchases A/c (Dr.): 1,47,000 & Sales A/c (Cr.) 90,900)

7. From the following information, prepare purchase day book and purchases returns book for the month of June, 2017 and post them into ledger accounts in the books of Robert Furniture Mart.

2017

June 1 Purchased from Balu Traders 20 chairs @ ` 150 each on credit

June 13 Bought from Subash @ Co., on credit

2 Almirah @ ` 3,100 each

10 tables @ ` 1,500 each

15 chairs @ ` 200 each

Less: 10 % Trade discount on all items

Add: Freight charges ` 220

- June 21 Returned 2 damaged chairs to Balu Traders and cash not received
- June 24 Purchased from Sunrise Furniture Mart on credit

25 Almirahs @ ` 1,300 each

June 27 Purchased from Mouli Traders on credit 10 executive tables @ ` 3,275 each

June 29 Returned 3 Almirahs to Sunrise Furniture Mart and cash not received (Answer: Purchases A/c(Dr.): `90,250 Purchases Returns A/c (Cr.) `4,200)

8. Enter the following transactions in the proper subsidiary books of Suman who is dealing in electronic goods for the month of January, 2017.

2017

- Jan. 2 Purchased from M/s. Raj Electronics on credit 20 cell phones @ ` 5,500 per piece 10 colour TVs @ ` 14,500 per piece
- Jan. 5 Purchased from M/s. Ruby Electronics on credit
 10 radios @ ` 1,650 per piece
 8 Tape recorders @ ` 2,500 per piece
 Trade discount on all items @ 10%
- Jan. 10 Returned to M/s. Raj Electronics 4 cell phones damaged and cash not received
- Jan. 20 Purchased from M/s. Suganthi Electronics on credit
 10 radios @ ` 3,700 per piece
 2 Sony colour TVs @ ` 27,000 per piece
 Trade discount @ 5% on all items

(**Answer:** Purchases A/c. (Dr.) ` 3,74,300; Purchases returns A/c (Cr.): ` 22,000)

9. Enter the following transactions in the sales book and sales returns book of M/s. Guhan & Sons, who is a textile dealer.

2017

May 2 Sold to M/s. Karan & Co., on credit 100 pieces towels @ ` 280 per piece 200 metres shirtings @ ` 270 per metre

May 5	Sold to M/s. Veeran & Sons on credit
	10 pieces ready-made dress @ ` 1,500 per piece
May 16	Sold to M/s. Jain & Sons on credit
	50 blankets @ ` 240 each
May 20	Damaged 10 pieces towels returned by Karan & co. and cash not paid
May 25	Sold old furniture to M/s. Saran & Co., on credit ` 18,000
May 27	Returned 2 pieces ready-made dresses by M/s. Veeran & Sons due to inferior quality and cash not paid

10. Record the following transactions in the sales book and sales returns book of M/s. Ponni & Co., and post them to ledger.

2017

- Aug 1 Sold goods to Senthil as per Invoice No. 68 for ` 20,500 on credit
- Aug 4 Sold goods to Madhavan as per Invoice No. 74 for ` 12,800 on credit
- Aug 7 Sold goods to Kanagasabai as per Invoice No. 78 for ` 7,500 on credit
- Aug 15 Returns inward by Senthil as per Credit Note no. 7 for ` 1,500 for which cash is not paid
- Aug 20 Sold goods to Selvam for `13,300 for cash
- Aug 25 Sales returns of ` 1,800 by Madhavan as per Credit Note No. 11 for which cash is not paid

(Answer: Sales A/c (Cr.) ` 40,800; Sales Returns A/c (Dr.) ` 3,300; Senthil A/c (Dr.) ` 19,000; Madhavan A/c (Dr.) ` 11,000 & Kanagasabai A/c (Dr.) ` 7,500)

(**Answer:** Sales A/c. (Cr.) ` 1,09,000 Sales Returns A/c (Dr.) ` 5,800)

11. Prepare necessary subsidiary books in the books of Niranjan and also Sachin account and Mukil account from the following transactions for the month of February, 2017.

2017		`
Feb. 1	Purchased goods from Mukil Traders on credit	12,480
Feb. 4	Goods sold to Sachin Traders on credit	15,000
Feb. 6	Sold goods to Manish Traders on credi	12,100
Feb. 7	Sachin Traders returned goods for which cash is not paid	1,200
Feb. 9	Returned goods to Mukil Traders for which cash is not receive	ed 1,500
Feb. 10	Sold goods to Manish & Co., on credit	13,300
Feb. 14	Purchased from Mukil Traders on credit	15,200
	(Answer: Purchases A/c (Dr.) ` 27,680; Sales A/c	(Cr.) ` 40,400,
	Purchases Returns A/c (Cr.) ` 1,500, Sales Returns A/	c (Dr.) ` 1,200;

Mukil A/c (Cr.) ` 26,180; Sachin A/c (Dr.) ` 13,800)

12. From the following information, prepare the necessary subsidiary books for Nalanda Book Stores.

2017

Dec. 1 Bought from M/s. Umadevi on credit 100 copies Business Statistics Book @`80 each 100 copies Accountancy Book @`150 each

Dec. 7 Sold to Sridevi & Co., on credit 240 copies Business Statistics @ ` 90 each 250 copies Accountancy books @ ` 170 each

Dec. 10 Bought from Subha & Co., 40 Copies Economics books @`80 each Less: 15% Trade Discount

Dec. 15 Returned to M/s. Uma Devi 10 copies of damaged Accountancy book for which cash is not received

Dec. 18 Sold to Gupta Bros., on credit 200 copies of Economics book @ ` 95 each

Dec. 26 Returned 6 copies of Economics books to Subha & Co.,

(Answer: Purchases A/c (Dr.) ` 25,720, Sales A/c (Cr.) ` 83,100, Purchases Returns A/c (Cr.) ` 1,908) Mr. Joseph started a trading business of selling readymade clothes. In the earlier period, he dealt only with cash, because he felt that would be risk-free.

But, later on, he had to give credit period for his regular customers in order to retain them. For some customers, when they made bulk purchase, he offered them some discount. That brought him even more customers. But, some of his customers are not prompt in making the payment.

He expanded his business and employed few staff. As the credit transactions were numerous, he found it difficult to maintain properly. One of his friends, who is a Chartered Accountant advised him to maintain subsidiary books.

Discuss on the following points.

- What could be the reason for Joseph's feeling that dealing in cash is risk free?
- What type of discount is offered by Joseph?
- Suggest some ways to Joseph for making his customers to pay on time.
- Do you think that maintaining the subsidiary books will be useful to Joseph?
- What business documents are needed to maintain the subsidiary books?

To explore further

How do you make sure that the subsidiary books are maintained without any error?

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Unit 7

SUBSIDIARY BOOKS - II CASH BOOK



Contents

- 7.1 Introduction
- 7.2 Meaning of cash book
- 7.3 Cash book A subsidiary book and principal book of accounts
- 7.4 Importance of cash book
- 7.5 Types of cash book
- 7.6 Single column cash book
- 7.7 Cash discount and trade discount
- 7.8 Double column cash book
- 7.9 Three column cash book
- 7.10 Petty cash book



Points to recall

The following points are to be recalled before learning Subsidiary books-II cash book:

- Golden rules of accounting
- Journal entries
- Ledger account
- Subsidiary books





Learning Objectives

To enable the students to

- Understand the meaning and importance for cash book
- Apply the rules of double entry system in the preparation of various types of cash book
- Understand the meaning and types of petty cash book
- Prepare petty cash book



- Cash book
- Petty cash book
- Bank overdraft
- Cheque

7.1 Introduction



Student activity

Think: A stationery shop keeper maintains only one register to record all her business transactions. She finds it difficult to know and check her shop's cash balance at the end of the day. Is there any way to help her? She needs your suggestion.

In any business, many transactions take place every day involving cash such as cash sales, receipts from debtors, cash purchases, payment to creditors and payment towards different expenses. It is therefore necessary, that all the cash transactions are recorded in a separate book, i.e., cash book. Cash book is the most important subsidiary book, because it keeps the initial record of cash transactions of the business. Cash book is maintained by every business, whether small or large in size. It is simply because every business is very cautious about its cash management, i.e., cash receipts and cash payments. The cash book presents the true position of cash transactions. Cash book also serves as a documentary evidence for the available cash balance.

7.2 Meaning of cash book

Cash book is the book in which only cash transactions are recorded in the chronological order. The cash book is the book of original entry or prime entry as cash transactions are recorded for the first time in it. Cash transactions here may include bank transactions also. Cash receipts are recorded on the debit side while cash payments are recorded on the credit side.

7.3 Cash Book - A subsidiary book and principal book of accounts

All the cash transactions are recorded first in the cash book. It is therefore a subsidiary book. When cash book is maintained, there is no need for preparing cash account and bank account in the ledger because in the cash book cash receipts and cash payments are compared and the cash and bank balances at the end are arrived at. Thus, it serves as a ledger account also. Hence, the cash book, unlike any other subsidiary book, is both a subsidiary book and a principal book.

7.4 Importance of cash book

Importance of cash book is discussed below:

(i) Serves as both journal and ledger

When cash book is maintained, it is not necessary to open a separate cash account in the ledger. Thus, cash book serves the purpose of a journal and a ledger.

(ii) Saves time and labour

When cash transactions are recorded through journal entries, a lot of time and labour will be involved. To avoid this, all cash transactions are straightaway recorded in the cash book, which saves time and labour.

(iii) Shows the cash and bank balance

It helps to know the cash and bank balance at any point of time by comparing the total cash receipts and cash payments.

(iv) Benefit of division of labour

As cash book is a separate subsidiary book, an independent person can maintain it. Hence, business can get the benefit of division of labour.

(v) Effective cash management

Cash book provides all information regarding total receipts and payments of the business concern during a particular period. It helps in formulating effective policy for cash management.

(vi) Prevents errors and frauds

Balance as per cash book and the balance in the cash box can be compared daily. If there is any deficit or surplus, it can be found easily. It helps in preventing any fraud or error in cash dealings.

7.5 Types of cash book

The main cash book may be of various types and following are the three most common types.

- (i) Simple or single column cash book (only cash column)
- (ii) Cash book with cash and discount column (double column cash book)
- (iii) Cash book with cash, discount and bank columns (three column cash book).

Apart from the main cash book, petty cash book may also be prepared to enter the petty expenses, i.e., expenses involving small amount.

7.6 Single column cash book

Single column cash book or simple cash book, like a ledger account has only one amount column, i.e., cash column on each side. Only cash transactions are recorded in this book. All cash receipts and payments are recorded systematically in this book. The format of simple cash book is given as under:

Dr. Simple Cash Book Cr.

Date	Receipts	R.N.	L.F.	Amount`	Date	Payments		L.F.	Amount`	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	

The format of simple cash book shows that it has been divided into two parts. The left hand side is 'Debit' which represents all cash receipts and the right hand side is 'Credit', showing all cash payments.

Columns (1) and (6) – Date: Date of receiving cash is recorded in the debit side and date of paying cash is recorded in the credit side.

Column (2) Receipts: Receipts column shows name of persons or parties from whom cash has been received, income received, sale of asset like plant, cash sales and other receipts.

Column (3) Receipt Number (R.N.): This column contains the serial numbers of the cash receipts.

Columns (4) and (9) – Ledger Folio (L.F.): This column is provided both on the debit and credit side of the cash book. It is used for reference. The Ledger page number of every account in the cash book is recorded in this column. This column facilitates vouching and verification of transactions recorded.

Columns (5) and (10) – Amount: This is the last column of the cash book on both the debit and credit sides. In case of cash receipt, the amount of actual cash receipts and in case of payments, the amount of actual cash payment is recorded. The opening balance of cash is recorded on the debit side and the closing balance is the balancing figure on the credit side. Opening balance or capital contributed by cash in case of new business is the first item on the debit side and the closing balance is the last item on the credit side.

The word 'To' is conventionally used before different accounts at the debit side of cash book in particulars column. The word 'By' is used before the different accounts at the credit side of the cash book in particulars column.

Column (7) Payments: The accounts to which payments are made are recorded here such as names of persons to whom payment has been made, expenses paid, assets purchased, cash purchases, etc.

Column (8) Voucher Number (V.N.): This column contains the serial number of the voucher towards which payment is made.



Student activity

Think: Credit transactions are not recorded in the cash book. Where will they be recorded?

7.6.1 Balancing of single column cash book

Since the cash book serves as cash account, it must be balanced regularly. The balancing procedure is the same like any other ledger account. It must be remembered that one cannot pay more cash than what one has received. Therefore, the total of receipts is always more than (or at least equal to, but never less than) the credit total (payments) and the cash book always shows a debit balance (or nil balance, but never credit balance).

Illustration 1

Enter the following transactions in a simple cash book of Kunal:

Jan.		`
1	Cash in hand	11,200
5	Received from Ramesh	300
7	Paid rent	30
8	Sold goods for cash	300
10	Paid Mohan	700
27	Purchased furniture for cash	200
31	Paid salaries	100

Solution

Dr.

In the books of Kunal

Cash Book (Single column)

Cr.

Date	Receipts	L.F.	Amount `	Date	Payments	L.F.	Amount`
2017				2017			
Jan 1	To Balance b/d		11,200	Jan 7	By Rent A/c		30
Jan 5	To Ramesh A/c		300	Jan 10	By Mohan A/c		700
Jan 8	To Sales A/c		300	Jan 27	By Furniture A/c		200
				Jan 31	By Salaries A/c		100
				Jan 31	By Balance c/d		10,770
			11,800				11,800
Feb 1	To Balance b/d		10,770				

Explanation

Jan 1: Cash in hand is the opening balance with the firm. This would have been the closing balance on 31st December, 2017. Cash account always has debit balance so it has been shown in the debit side of the cash book.

Jan 5: It is a receipt from Ramesh, so it has been recorded in receipt side (debit side) of the cash book.

Jan 7: Payment of rent will decrease cash, so it has been recorded in payment side (credit side) of the cash book.

Jan 8: Cash sales of goods will bring cash and increases the cash balance, so it has been recorded in the debit side of the cash book.

- Jan 10: Payment to Mohan decreases cash, so it has been recorded in the credit side.
- Jan 27: Purchase of furniture for cash reduces cash, so it has been recorded in credit side.
- **Jan 31**: Payment of salaries in cash reduces cash, so it has been recorded in the credit side of cash book.



Student activity

Think: In cash book, receipts are entered on the debit side and payments are entered on the credit side. Why?

Illustration 2

Enter the following transactions in a single column cash book of Pradeep for April, 2017

April		
1	Commenced business with cash	27,000
5	Bought goods for cash	6,000
10	Goods sold for cash	11,000
13	Paid into bank	5,000
14	Goods sold to Sangeetha for cash	9,000
17	Goods purchased from Preethi on credit	13,000
21	Purchased stationery by cash	200
25	Paid Murugan by cash	14,000
26	Commission paid by cash	700
29	Drew from bank for office use	4,000
30 Solution	Rent paid by cheque	3,000

In the books of Pradeep

Dr. Cash Book (Single column) Cr.

Date	Receipts	L.F.	Amount`	Date	Payments	L.F.	Amount`
2017				2017			
April 1	To Pradeep's			April 5	By Purchases A/c		6,000
	capital A/c		27,000	13	By Bank A/c		5,000
10	To Sales A/c		11,000	21	By Stationery A/c		200
14	To Sales A/c		9,000	25	By Murugan A/c		14,000
29	To Bank A/c		4,000	26	By Commission A/c		700
				30	By Balance c/d		25,100
			51,000				51,000
May 1	To Balance b/d		25,100				

Note: The transaction dated April 17th will not be recorded in the cash book as it is a credit transaction. The transaction on 30th is not recorded as the payment is made through bank which does not involve cash.

7.6.2 Posting from single column cash book

Since cash book serves as 'journal' as well as 'ledger account', there is no need for preparing separate cash account and posting thereto. But entering cash transactions in cash book means recording only cash aspect of each transaction. The other aspect of the transaction remains to be posted. When the related accounts are posted, the double entry will be completed. The procedure for posting is:

- Credit the accounts mentioned on the receipts (or) debit side by entering 'By Cash account' and
- Debit the accounts mentioned on the payment (or) credit side by entering 'To Cash account'.

For example, for illustration 2, posting is made to sales account and purchases account as follows:

Dr. Sales Cr.

Date	Particulars	L.F.	Amount`	Date	Particulars	L.F.	Amount`
2017				2017			
April				April 10	By Cash A/c		11,000
				14	By Cash A/c		9,000

Dr. Purchases A/c Cr.

Date	Particulars	L.F.	Amount`	Date	Particulars	L.F.	Amount`
2017				2017			
April 5	To Cash A/c		6,000	April			

7.7 Cash discount and trade discount

a) Cash discount

Cash discount is allowed to the parties making prompt payment within the stipulated period of time or early payment. It is discount allowed (loss) for the creditor and discount received (gain) for the debtor who makes payment. The discount is allowed when payment is received or made and hence, the entry for discount is also passed with the entry of payment. The earlier the payment, the more may be the discount. Cash discount motivates the debtor to make the payment at an earlier date to avail discount facility. For example, the terms may be.

"5% discount will be allowed if the payment is made within one month.

3% discount will be allowed if the payment is made within two months".

Discount allowed account will be shown on the debit side of profit and loss account and discount received account will be shown on the credit side of profit and loss account. When cash discount is allowed in respect of sale of goods or services, the seller allows cash discount to the buyer when payment is made.

b) Trade discount

Trade discount is a deduction given by the supplier to the buyer on the list price or catalogue price of the goods. It is given as a trade practice or when goods are purchased in large quantities. It is shown as a deduction in the invoice. Trade discount is not recorded in the books of accounts. Only the net amount is recorded. Example: Suppose the sale of goods for 10,000 was made and 10% was allowed as trade discount, the entry regarding sales will be made for 9,000 (10,000 – 10 per cent of 10,000). In the same way, purchaser of goods will also record purchases as 9,000).

7.7.1 Differences between cash discount and trade discount

Following are the difference between cash discount and trade discount:

Basis	Cash discount	Trade discount
1. Purpose	Cash discount is allowed to encourage the buyers of goods to make payment at an early date.	Trade discount is allowed to encourage buyers to buy goods in large quantities.
2. Time of allowance	Cash discount is allowed by the seller or creditor to the buyer or debtor at the time of making payment.	Trade discount is allowed by the seller to the buyer when goods are sold.
3. Amount of discount	Cash discount is related to time. The earlier the payment, the more will be the cash discount.	Trade discount is generally related to the quantity of purchase or sale. The more the purchases, the more will be the rate and amount of discount.
4. Recording in books of accounts	Cash discount is recorded in the books of account. Cash discount allowed is shown on the debit side of cash book. Cash discount received is shown on the credit side of the cash book.	Trade discount is not recorded in the books of account. No journal entry is made for the same. Details are just shown in the purchases or sales book.
5. Deduction from invoice value	Cash discount is not deducted from the invoice value of goods.	Trade discount is deducted from the list price of the goods.

7.8 Double column cash book (Cash book with cash and discount column)

It is a cash book with cash and discount columns. As there are two columns, i.e., discount and cash columns, both on debit and credit sides, this cash book is known as 'double column cash book'.

The double column cash book is prepared on the lines of simple cash book. It has only one additional column, i.e., discount column on each side. Discount column represents discount allowed on the debit side and discount received on the credit side.

In the discount columns, cash discount, i.e., cash discount allowed and cash discount received are recorded. The net amount received is entered in the amount column on the debit side and the net amount paid is entered in the amount column on the credit side. For the seller who allows cash discount, it is a loss and hence it is debited and shown on the debit side of the cash book. For the person making payment, discount received is a gain because less payment is made and it is credited and shown on the credit side of the cash book.

The cash columns are balanced. Discount columns are not balanced, since debit represents discount allowed and credit represents discount received. They are totalled, separately.

The format of double column cash book is given below:

Dr. Cash book with cash and discount columns

Cr.

Date	Receipts	R.N	L.F	Amount`		Date	Payments	R.N	L.F.	Amou	nt`
				Discount	Cash					Discount	Cash



Student activity

Think: Cash account cannot have a credit balance. Why?

7.8.1 Balancing the double column cash book

The cash columns should be balanced as usual and the balance should be carried forward to the next date or period.

However, discount columns are not to be balanced. They are to be totalled on the debit side and credit side separately. The total of discount column on the debit side represents total discount allowed to customers and is debited to discount allowed account. Total of discount column on the credit side represents total discount received and is credited to discount received account. The periodical totals of discount columns are posted as under:

- (i) Debit Discount allowed account as 'To Sundry Accounts as per Cash book', with the periodical total of the discount allowed column.
- (ii) Credit Discount received account as 'By Sundry Accounts as per Cash Book' with the periodical total of the discount received column.

Illustration 3

Enter the following transactions in a cash book with cash and discount columns:

2017		`
Jan 1	Cash in hand	11,500
Jan 5	Paid to Ramanathan by depositing in cash deposit machine	300
	Discount allowed by him	10
Jan 8	Purchased goods for cash	400
Jan 10	Cash received from Rajagopal	980
	Discount allowed	20
Jan 15	Sold goods for cash	400
Jan 21	Paid cash to Shanthi	295
	Discount received	5
Jan 25	Paid wages by cash	50
Jan 31	Paid to Sanjeev ` 390 in full settlement of his account	400

Solution

Dr. Cash book with cash and discount columns

Date	Receipts	L.F	Amount`		Date	Payments	L.F.	Amount`	
			Discount	Cash				Discount	Cash
2017					2017				
Jan 1	To Balance b/d			11,500	Jan 5	By Ramanathan A/c		10	300
10	To Rajagopal A/c		20	980	8	By Purchases A/c			400
15	To Sales A/c			400	21	By Shanthi A/c		5	295
					25	By Wages A/c			50
					31	By Sanjeev A/c		10	390
					31	By Balance c/d			11,445
			20	12,880				25	12,880
Feb 1	To Balance b/d			11,445					

Cr.

Note: Discount column is not to be balanced.

7.8.2 Posting from double column cash book

Following is the procedure for posting entries from double column cash book:

(a) Cash columns: Debit the accounts mentioned on the credit side and the credit is to Cash A/c with the amount mentioned in cash column; credit the accounts mentioned on the debit side and the debit is for Cash A/c with the amount mentioned in cash column.

(b) Discount columns: Debit the concerned personal account mentioned on the credit side and the credit is to Discount received A/c with the amount mentioned in the discount received column. Credit the concerned personal account mentioned on the debit side and the debit is for Discount allowed A/c with the amount entered in the discount allowed column.

7.9 Three column cash book (Cash book with cash, discount and bank column)



Student activity

Think: Is it safe and convenient to carry on the business transactions only in cash?

A three column cash book includes three amount columns on both sides, i.e., cash, bank and discount. This cash book is prepared in the same way as simple and double column cash books are prepared. The transactions which increase the cash and bank balance are recorded on the debit side of the cash and bank columns respectively. Opening balance of cash and favourable bank balance appear as the first item on the debit side of the three column cash book in case of existing business. If the business is a new one, capital contributed in cash and/or bank deposit appear as the first item on the debit side.

All the transactions which decrease the cash and bank balance are recorded in the cash and bank columns on the credit side. The balancing figures will be the closing balances of cash and bank. Cash will always have debit balance. Bank balance may be debit or credit depending on whether the balance is favourable or unfavourable respectively. If there is any discount allowed it is entered in the discount column on the debit side against the particular account. Similarly, if there is any discount received, it is entered in the discount column on the credit side.

7.9.1. Format

Format of three column cash book is as follows:

Dr. Cash book with cash, discount and bank columns or three column cash book Cr.

	Date	Receipts	L.F	Aı	nount`		Date	Payments	L.F.	An	nount`	
				Discount	Cash	Bank				Discount	Cash	Bank
Ī										·		

Tutorial note

- (i) If a business entity has more than one bank account, columns may be provided in the cash book for each bank account separately.
- (ii) Treatment of cheques: In addition to cash dealings every business may use cheques as a means of payment. For the purpose of accounting, cheques received are treated as cash received. When cheques received are banked on the same day the amount is to be directly debited to the bank account. When payments is made by cheque, the bank account is credited.

7.9.2. Contra entry

When the two accounts involved in a transaction are cash account and bank account, then both the aspects are entered in cash book itself. As both the debit and credit aspects of a transaction are recorded in the cash book, such entries are called contra entries.

Example

- (i) When cash is paid into bank, it is recorded in the bank column on the debit side and in the cash column on the credit side of the cash book.
- (ii) When cash is drawn from bank for office use, it is entered in cash column on the debit side and in the bank column on the credit side of the cash book.

To denote that there are contra entries, the alphabet 'C' is written in L.F. column on both sides. Contra means that particular entry is posted on the other side (contra) of the same book, because Cash account and Bank account are there in the cash book only and there are no separate ledger accounts needed for this purpose. The alphabet 'C' indicates that no further posting is required and the relevant account is posted on the opposite side.

Illustration 4

Prepare three column cash book in the books of Thiru Durairaj.

2017		`
March 1	Cash in hand	12,000
	Cash at bank	15,000
2	Cash paid into bank	11,000
3	Goods sold `18,500. Half of it is received in cash and half of it is received by cheque which is immediately deposited in the bank	
4	Sold on credit to Jayaraj for	7,000
8	Jayaraj sent a cheque in full settlement	6,900
12	Jayaraj's cheque was sent to bank	
14	Bought goods from Iqbal and issued a cheque to him immediately	8,500
15	Bought goods from Murali on credit	4,000
19	Received a cheque from Kannappan in full settlement of his account of ` 2,000	1,975
20	Drew cash ` 3,000 and by cheque ` 5,000 for personal use	
25	Paid Vinod by cheque in full settlement of his account of ` 2,000	1,850

In the books of Durairaj

2 8,500 5,000 1,850 26,800 42,150 Вапк Amount 30,125 11,000 9,225 6,900 3,000 Cash Received 150 150 Discount V.N L.F. C C By Purchases A/c By Drawings A/c **Particulars** By Balance c/d By Vinod A/c By Bank A/c By Bank A/c Three-column cash book 15,000 Mar 2 Date 14 12 20 25 31 2017 11,000 9,250 6,900 26,800 42,150 Вапк 12,000 30,125 Amount 9,250 1,975 9,225 6,900 Cash 25 100 125 Allowed Discount L.F C C R.N To Kannappan A/c **Particulars** To Balance b/d To Balance b/d To Jayaraj A/c To Cash A/c To Cash A/c To Sales Mar 1 Date Apr 1 19 2017 12 7 ∞ <u>د</u>

Illustration 5

Record the following transactions in three column cash book of Gunasekaran.

\sim	- 1	$\overline{}$
711		

Jan		`
1	Cash in hand	50,000
1	Cash at bank	90,000
2	Goods sold on credit to Rohini	15,000
5	Cheque received from Rohini in full settlement and deposited	
	into bank	14,500
6	Cash deposited into bank through cash deposit machine	18,000
7	Goods sold to Sridhar for `12,000. He made the payment	
	of `11,800 by debit card in full settlement by availing	
	a cash discount of `200	
10	Money withdrawn from bank for office use	2,000
12	Purchased goods from Raja for ` 10,000 and paid through credit	
	card in full settlement by availing a cash discount of `200	9,800
14	Nathiya who owed money made the payment through NEFT	18,000
27	Cheque of Rohini dishonoured	
_		

(See the solution in pg number \$

Illustration 6

Padmini is a dealer in stationery. She maintains three column cash book. Record the following transactions in her cash book for the month of April, 2018.

20	1	8

Apı	ril	`
1	Cash in hand: ` 1,00,000; Cash at bank:	1,00,000
3	Goods sold to Raji who made the payment through credit card	10,000
5	Goods purchased for ` 10,000 from Padma Traders. The payment	
	is made after getting a cash discount of `500 through net banking	9,500
6	Purchased furniture from ABC Co. and the payment is	
	made by cheque	8,000
9	Purchased goods from TNPL for `2,10,000 and the payment is	
	made through RTGS after availing a cash discount of ` 10,000	2,00,000
21	Supplied stationery items to BHEL for `33,000 and received the payr	ment
	through NEFT after allowing a cash discount of for ` 1,000	32,000
23	Supplied goods to Thangaraj who made the payment by cheque	
	which is deposited in the bank	20,000
27	Thangaraju's cheque is dishonoured	
30	Bank charged for overdraft facility	200
30	Cash deposited into bank	10,000
(See th	e solution in pg number \$	

In the books of Gunasekaran

u	Dr.					Thre	Three column cash book	cash b	ook					r.
					A	Amount						Aı	Amount	
	Date	Particulars	Z.	L.F.	B.N. L.F. Allowed	Cash	Bank	Date	Particulars	×.	L.F.	Discount V.N. L.F. Received	Cash	Bank
` `	2017							2017						
	Jan. 1	Jan. 1 To Balance b/d			ı	50,000	90,000	Jan. 6	90,000 Jan. 6 By Bank A/c		C	ı	18,000	ı
	7.	5 To Rohini A/c			200	I	14,500	10	10 By Cash A/c			ı	I	2,000
	9	6 To Cash A/c		C	ı	l	18,000	12	12 By Purchases A/c			200	I	9,800
10	7	7 To Sales A/c			200	I	11,800	27	27 By Rohini A/c			ı	I	14,500
4	10	10 To Bank A/c			I	2,000	I	31	31 By Balance c/d			ı	34,000	1,26,000
	14	14 To Nathiya A/c		·	1	l	18,000				<u>l</u>			
					200	52,000	1,52,300					200	52,000	1,52,300
	Feb. 1	Feb. 1 To Balance b/d				34,000	1,26,000							

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ooks
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Dr.					Th	Three column cash book	ın cas	h book					Cr.
				7	Amount						· F	Amount	
				Discount							Discount		
Date	Particulars	R.N.	L.F.	R.N. L.F. Allowed	Cash	Bank	Date	Particulars	V.N.	L.F.	V.N. L.F. Received	Cash	Bank
2018							2018						
Apr							Apr						
П	To Balance b/d			1	1,00,000	1,00,000	5	By Purchases A/c			200	ı	9,500
3	3 To Raji A/c			1	ı	10,000	9	6 By Furniture A/c			ı	ı	8,000
21	21 To Sales A/c			1,000	ı	32,000	6	9 By Purchases A/c			10,000	ı	2,00,000
23	To Sales A/c			l	ı	20,000	27	27 By Thangaraj A/c			ı	ı	20,000
30	30 To Cash A/c		C	1	ı	10,000	30	30 By Bank charges			ı	ı	200
30	To Balance c/d			l	ı	65,700	30	30 By Bank A/c		C	ı	10,000	1
			·				30	30 By Balance c/d		•	1	90,000	1
				1,000	1,00,000	2,37,700				•	10,500	1,00,000	2,37,700
May 1	May 1 To Balance b/d				90,000		May 1	May 1 By Balance b/d					65,700

Illustration 7

From the following transactions prepare three column cash book of Udhayakumar

2017		`
Sep 1	Cash balance	25,000
1	Bank Balance (cr.)	13,070
3	Paid into bank	15,000
4	Received cash from Shyamala & Co.,	9,380
	Discount allowed to them ` 120	
10	Goods sold for cash	7,600
11	Cash purchases	11,750
12	Gave Padma a Cheque for `21,375 and was allowed a discount of	125
18	Purchased a printer by cheque	7,600
23	Received cash from Rajasekar	14,320
	Discount allowed to him ` 180	

(See the solution in pg number \$

In the books of Udhayakumar

Dr.						Three	Three column cash book	cash boo	K					Cr.
						Amount							Amount	, 1
	Date	Particulars	R.N	L.F	Discount Allowed	Cash	Bank	Date	Particulars	N.Y	L.F.	Discount Received	Cash	Вапк
2	2017							2017						
	Sep 1	To Balance b/d				25,000		Sep 1	By Balance b/d					13,070
187	3	To Cash A/c		C			15,000	3	By Bank A/c		C		15,000	
	4	To Shyamala & Co. A/c			120	9,380		11	By Purchases A/c				11,750	
	10	To Sales A/c				7,600		12	By Padma A/c			125		21,375
	23	To Rajasekar A/c			180	14,320		18	By Printer A/c					7,600
	30	To Balance c/d					27,045	30	By Balance c/d				29,550	
					300	56,300	42,045					125	56,300	42,045
ŏ	Oct 1	To Balance b/d				29,550		Oct 1	By Balance b/d		II			27,045

7.10 Petty cash book



Student activity

Think: A cashier finds it difficult to maintain record of large volume of cash payments, ranging from ` 5 to ` 10,00,000. Can you suggest a way to reduce his work burden?

Business entities have to pay various small expenses like taxi fare, bus fare, postage, carriage, stationery, refreshment and other sundry items. These are small payments and repetitive in nature. If all these small payments are recorded in the main cash book, it will be loaded with lot of entries. Hence, all petty payments of the business may be recorded in a separate book, which is called as petty cash book and the person who maintains the petty cash book is called the petty cashier. Thus business concerns may maintain main cash book and petty cash book separately.

All the small payments must be supported by vouchers, that is, documentary evidences. The vouchers must be numbered and filed in order. Petty cashier makes only cash payments. He must not be allowed to receive any cash except for reimbursement. Petty cashier has to make payments only within the specified limit. Payments involving large amounts must be made only by main cashier. At the end of the relevant period, petty cash book is balanced. Balancing of petty cash book is similar to the balancing of simple cash book.



Student activity

Think: The main cashier thinks that the petty cashier spends too much on everyday business activities. Is there any way to have a control on such expenses?

7.10.1 Imprest system of petty cash

Under this system, a fixed amount necessary or sufficient to meet petty payments determined on the basis of past experience is paid to the petty cashier on the first day of the period. (It may be a week or fortnight or month). The amount given to the petty cashier in advance is known as "Imprest Money". The word imprest means payment in advance. The petty cashier makes payments from this amount and records them in petty cash book. At the end of a particular period, the petty cashier submits the petty cash book to the head cashier. The head cashier scrutinises the petty payments and gives amount equal to the amount spent by petty cashier so that the total amount with the petty cashier is now equal to the amount he had received in the beginning as advance. Under the system, the total cash with the petty cashier never exceeds the imprest at any time during the period. This method thus provides an effective control over petty payments.

For example, On 1st June, 2017, `1,000 was given to the petty cashier. He had spent `940 during the month. He will be paid `940 on 30th June by the cashier so that he may again have `1,000 for the next month i.e., July, 2017.

7.10.2 Advantages of maintaining petty cash book

Following are the advantages of maintaining petty cash book:

- (i) There can be better control over petty payments.
- (ii) There is saving of time of the main cashier.
- (iii) Cash book is not loaded with many petty payments.
- (iv) Posting of entries from main cash book and petty cash book is comparatively easy.

7.10.3 Types of petty cash book

There are two types of petty cash books. They are:

- (i) Simple petty cash book
- (ii) Analytical petty cash book

(i) Simple petty cash book

A simple petty cash book resembles the single column cash book. But the columns are different. On the debit side, only the advance received from the head cashier is recorded. On the credit side, all payments are recorded in only one column. This is known as simple petty cash book.

(ii) Analytical petty cash book

In analytical petty cash book, a separate column is provided for different heads of payments and one column for total payments. When the petty expenses are recorded in the total payment column, same amount is also recorded in the appropriate expense column. This is known as analytical petty cash book.

work of applications potter and book

Dr.				For	mat of	analyti	cal peti	ty cash	book				Cr.
Receipts	C.B.E.N	Date	Particulars	V.N.	Total payments	Postage	Stationery	Carriage	Travelling expenses	Refreshments	Sundries	Personal accounts	T.F.

Details entered in the various columns of the petty cash book are as follows:

1) Receipts

This is the first column of the petty cash book. The amount received by the petty cashier for meeting petty expenses is recorded in this column. Generally, amount is received once on the first day of every week or month. The opening balance of petty cash is recorded in this column as the first item. This column shows the total amount available with the petty cashier.

2) Cash Book Folio Number (C.B.F.N.)

In this column, the page number of the cash book in which the entry is made is recorded.

3) Date

In this column, the date of receipt of petty cash and payment of every petty expense is recorded.

4) Particulars

The details of transactions are entered in this column. Cash received in the beginning is recorded as 'To Cash A/c' and all the petty expenses are recorded as 'By Concerned Expense A/c' (name of the expense).

5) Voucher Number (V.N.)

Every transaction in accounting must be supported by documentary evidence. All the payments must have vouchers which must be arranged in the chronological order of payment and serially numbered. Voucher number of every payment is written in this column.

6) Total

The amount of every petty expense is recorded in this column. At the end of the week or month expenses are totalled. The total expenses of the week or the month is compared with the total of the receipts column and balance is obtained.

7) Postage

Postal expenses incurred for post card, envelope, inland letter, postage stamps, registered letter, parcel, etc. are recorded in this column.

8) Stationery

It includes expenses incurred for purchasing materials such as paper, ink, pencil, eraser, carbon paper and other similar stationery items.

9) Carriage

It includes amount paid as wages, transport charges and other expenses.

10) Travelling or conveyance expenses

In this column fare for auto rickshaw, taxi, bus, train, etc., are recorded.

11) Refreshments

Amount spent for tea, coffee, snacks, etc., is recorded.

12) Sundries

There may be certain expenses which are infrequent for which specific columns are not provided. These are recorded in this column.

13) Personal accounts

Small amount of money paid to individuals are entered in this column.

14) Ledger Folio (L.F.)

This refers to the page number of the ledger where the respective account is recorded.

7.10.4 Balancing petty cash book

At the end of the period, i.e., week or month the total of the total column, individual expenses columns and sundries columns, is obtained. The total of the individual petty expenses column must be equal to the total in the total column. The sum of the total column is compared with the total of receipts column and the balance is obtained. The closing balance is shown as 'By Balance c/d'. The closing balance is carried forward to the next week or month. It is shown as 'To Balance b/d'. Cash received from the main cashier at the beginning of the next period is entered as 'To Cash A/c' and the amount is recorded in the Receipts column.

7.10.5 Posting of entries from petty cash book to ledger

1. When petty cash is advanced at the beginning:

A separate petty cash account is opened in the ledger. When advance is received by the petty cashier, petty cash account is debited and cash account is credited.

2. When individual expenses columns are periodically totalled:

The total of various petty expenses are debited and the petty cash account is credited with the total of the payments made.

The petty cash account will show the balance of petty cash. This balance will be shown in the balance sheet as part of cash balance.

Tutorial note

Instead of debiting the total of each petty expense directly, a separate journal entry may also be made and then credited to petty cash account. The journal entries are:

(a) For receiving petty cash:

Petty cash A/c Dr.

To Cash A/c

(b) For expenses paid:

Respective expense A/c Dr.

To Petty cash A/c

Illustration 8

Prepare a analytical petty cash book from the following information on the imprest system:

2017		`
Jan. 1	Received for petty cash	500
Jan. 2	Paid rickshaw charges	5
	Paid cartage	12
Jan. 3	Paid for postage	15
	Paid wages to casual labourer	66
Jan. 4	Paid for stationery	134
	Paid for auto charges	18
Jan. 5	Paid for repairs	65
	Paid for bus fare	11
	Paid for cartage	24

(See the solution in pg number 9

Illustration 9

Prepare analytical petty cash book in the books of Robert from the following transactions.

2017 Sept		`
Зері		
1	Balance in hand	230
	Received a cheque to make the imprest amount	2,270
2	Postage	314
8	Railway freight	280
10	Repairs to computer	405
12	Printing charges	500
16	Refreshments to customers	72
20	Pen and ink purchased	183
22	Paid auto Charges	75

(See the solution in pg number 🦻

Solution for illustration 8

Ç.	L.F.																
	Sundries									65			65				
	Wages						99						99				
	Postage					15							15				
	Stationery							134					134				
	Cartage				12							24	36				
book (in)	Conveyance			T.					18		11		34				
Analytical petty cash book (in `)	Total Payments			Z	12	15	99	134	18	65	11	24	350	150	500		
nalytic	V.N.												•				
A	Particulars		To Cash	By Conveyance	By Cartage	By Postage	By Wages	By Stationery	By Conveyance	By Repairs	By Conveyance	By Cartage	Total expenses	By Balance c/d		To Balance b/d	To Cash
	Date	2017	Jan. 1	Jan. 2		Jan. 3		Jan. 4		Jan. 5				Jan. 6		Jan. 6	Jan. 6
	C.B F.N																
Dr.	Receipts	200													500	150	350

Solution for illustration 9

In the books of Robert

Ç.	L.F.															
	Sund- ries								72			72				
	Repair to computers						405					405				
	Travelling Expenses										75	75				
nts (in `)	Carriage					280						280				
Analytical Petty Cash Book - Analysis of Payments (in $^{\circ}$)	Printing & Stationery							200		183		683				
ook - Analys	Postage				314							314				
etty Cash B	Total Payments				314	280	405	200	72	183	75	1,829	671	2,500		
/tical P	V.N.															
Analy	Particulars		To Balance b/d	To Cash A/c	2 By Postage	By Railway Freight	10 By Computer Repairs	12 By Printing Charges	16 By Refreshment	20 By Pen and ink	By Auto charges	Total expenses	30 By Balance c/d		To Balance b/d	To Cash
	Date	2017	Sep. 1		2	∞	10	12	16	20	22		30		Oct.1	Oct.1
	C.B F.N															
Dr.	Receipts		230	2270										2,500	671	1,829



Student activity

- 1) Interview a banker or invite a banker to your class to know the procedure for opening various types of bank accounts.
- 2) Imagine you have got a cash gift of `5,000. Come up with a small business plan. [Example: creating birthday cards on your own and selling them, buying and selling stationery items, etc.] Prepare cash book using imaginary transactions relevant to your chosen business.

Points to remember

- Three column cash book contains columns for discount, cash and bank on either side.
- Contra entry appears on both sides of a three column cash book. A contra entry occurs when cash is withdrawn from the bank or cash is deposited into the bank.
- A petty cash book is maintained to record small cash payments.

Self-examination questions

I Multiple choice questions

Choose the correct answer

- 1. Cash book is a
 - (a) Subsidiary book
 - (c) Journal proper

- (b) Principal book
- (d) Both subsidiary book and principal book

- 2. The cash book records
 - (a) All cash receipts

(b) All cash payments

(c) Both (a) and(b)

- (d) All credit transactions
- 3. When a firm maintains a simple cash book, it need not maintain
 - (a) Sales account in the ledger
- (b) Purchases account in the ledger
- (c) Capital account in the ledger
- (d) Cash account in the ledger
- 4. A cash book with discount, cash and bank column is called
 - (a) Simple cash book

- (b) Double column cash book
- (c) Three column cash book
- (d) Petty cash book



5.	In Triple column cash in	book, the	balance	of bank o	verdraft l	brought f	orward w	ill appear	
	(a) Cash column debit	side		(b) Cas	sh colum	n credit s	ide		
	(c) Bank column debit	side		(d) Bar	nk colum	n credit s	ide		
6.	Which of the following	g is record	ed as con	tra entry?					
	(a) Withdrew cash from	m bank fo	r persona	al use					
	(b) Withdrew cash fro	m bank fo	or office u	ise					
	(c) Direct payment by	the custo	mer in th	e bank ac	count of t	the busin	ess		
	(d) When bank charge	s interest							
7.	If the debit and credit a	aspects of	a transac	tion are re	ecorded i	n the cas	h book, it	is	
	(a) Contra entry			(b) Co	mpound	entry			
	(c) Single entry			(d) Sin	nple entry	y			
8.	The balance in the pett	y cash bo	ok is						
	(a) An expense			(b) A p	profit				
	(c) An asset			(d) A l	(d) A liability				
9.	Petty cash may be used	l to pay							
	(a) The expenses relati	ng to pos	tage and	conveyand	ce				
	(b) Salary to the Mana	ger							
	(c) Purchase of furnitu	re and fix	tures						
	(d) Purchase of raw m	aterials							
10.	Small payments are rec	corded in	a book ca	ılled					
	(a) Cash book			(b) Pur	rchase bo	ok			
	(c) Bills payable book			(d) Pet	ty cash b	ook			
Ans	wers								
1.	(d) 2. (c) 3. (d)	4. (c)	5. (d)	6. (b)	7. (a)	8. (c)	9. (a)	10. (d)	
п	Very short answer q	uestions							
1.	What is cash book?								
2.	What are the different	types of c	ash book	?					
3	What is simple cash bo	• •							

- 4. Give the format of 'Single column cash book'.
- 5. What is double column cash book?
- 6. Give the format of 'Double column cash book'.
- 7. What is three column cash book?
- 8. What is cash discount?
- 9. What is trade discount?
- 10. What is a petty cash book?

III Short answer questions

- 1. Explain the meaning of imprest system of petty cash book.
- 2. Bring out the differences between cash discount and trade discount.
- 3. Write the advantages of maintaining petty cash book.
- 4. Write a brief note on accounting treatment of discount in cash book.
- 5. Brifly explain about contra entry with examples.

IV Exercises

Single Column Cash Book

1. Enter the following transactions in a single column cash book of Seshadri for May, 2017.

May		`
1	Cash in hand	40,000
5	Cash received from Swathi	4,000
7	Paid wages in cash	2,000
10	Purchased goods from Sasikala for cash	6,000
15	Sold goods for cash	9,000
18	Purchased computer	15,000
22	Cash paid to Sabapathi	5,000
28	paid salary	2,500
30	Interest received	500

(Answer: Cash Balance `23,000)

2. Enter the following transactions in a single column cash book of Pandeeswari for the month of June, 2017

June		`
2	Started business with cash	50,000
8	Paid rent in cash	4,000
10	Purchased printer for cash	7,500
11	Cash purchases	15,000
14	Cash sales	10,000
17	Commission received in cash	6,000
19	Interest paid for loan in cash	2,000
20	Cash withdrawn for personal use	3,000
21	Paid speed post charges in cash	3,500
		(Answer: Cash Balance `31,000)

3. Enter the following transactions in a single column cash book of Ramalingam for month of July, 2017.

July		`
1	Cash in hand	32,000
5	Received from Keerthana	5,000
6	Paid packing charges in cash	300
7	Cash purchases	12,400
8	Sold goods for cash	2,600
10	Paid salary to manager in cash	7,000
11	Paid to Bala	3,000
12	Purchased goods from Bose	2,500
24	Cash deposited into bank through CDM	4,000
27	Withdraw cash from bank	2,000
31	Paid office rent in cash	6,000
		(Answer: Cash Balance `8,900)

Double column cash book

4. Enter the following transactions in Ahamed's cash book with discount and cash columns.

2017		
Oct		`
1	Cash balance	37,500
3	Cash Sales	33,000
7	Paid to Velan Rs. 15,850 and Discount allowed by him	150
13	Sold goods to Perumal on credit	19,200
15	Cash withdrawn for personal expenses	4,800
16	Purchased goods from Subramanian	14,300
22	Paid to Bank	22,700
25	Cash received from Perumal in full settlement	19,000
26	Draw a cheque for office use	17,500
27	Paid cash to Gopalakrishnan	2,950
	Discount received from him	50
28	Paid cash to Subramanian and settled his account	14,200
29	Cash purchases	13,500
30	Cash paid for advertising	1,500
	(Answer	r : Cash Balance ` 31,500)

5. Enter the following transaction in Chandran's cash book with cash and discount column.

2017		
Nov		
1	Cash balance	22,000
2	Cash Sales	14,000
3	Credit sales to Govindan	12,000
4	Credit purchases from Balaraman	27,000
5	Cash purchases	8,800
8	Govindan settled his account @ 2% cash discount	
12	Paid Balaraman ` 26,800 and settle his account	
15	Cash withdrawn for personal expenses	4,000

		(Answer : Cash balance ` 18.900)
30	Paid salaries in cash	4,000
	of his account for	5,000
29	Received from Madhan `4,800 in settlement	
28	Cash paid into Bank	5,000

6. Enter the following transactions in cash book with discount and cash column of Anand 2017

Dec.		•	
1	Cash in hand	19,500	
4	Sold goods for cash	32,000	
5	Credit purchases from Gandhi	20,000	
9	Received from Gopu	11,800	
	Discount allowed to him	200	
15	Cash paid for Electricity charges	12,500	
17	Bought computer and its accessories by cash	16,800	
25	Paid cash to Gandhi ` 19,700 in full settlement of his account	ınt	
28	Received cash from Thiruvengadam	8,900	
	Discount allowed to him	100	
30	Paid trade expenses in cash	3,500	

(Answer: Cash balance ` 19,700)

Three column cash book

7. Write out a cash book with discount, cash and bank columns in the books of Mahendran.

2017 Oct		
1	Cash balance	12,000
	Bank balance	48,500
3	Received a cheque from Kesavan	15,850
	Allowed him discount	150
4	Paid Shanmuganathan cheque for ` 7950 and discount allowed by him	50
6	Cash Sales	17,800

7	Paid Sivasamy in cash	10,000	
15	Withdrew cash from bank	6,000	
17	Purchased goods and payment made through credit card	14,500	
20	Received cash from Janarthanam Rs. 10,000 and discount allowed to him	100	
21	Cash remitted into bank through CDM	12,000	
24	Bought furniture for office use by cash	15,000	
28	Deepavali advance paid to staff through bank	10,000	
30	Salary for staff paid by cash	4,500	
	Salary of Manager paid by through net banking	12,500	

(Answer: Cash Balance ` 23,050, Bank Balance ` 9,550)

8. Enter the following transactions in the three column cash book of Kalyana Sundaram

2017

Jan.		
1	Balance in hand	42,500
	Balance at bank	35,000
3	Received for cash sales	15,700
4	Cash paid into bank	11,500
6	Cash purchases	14,300
9	Received dividend directly by the bank through ECS	2,000
10	Pongal advance to staff paid through bank	17,000
12	Received cash from Nagarajan	11,850
	and allowed him discount	150
17	Paid Magesh in full settlement of his account ` 20,000	19,700
20	Cash withdrawn for personal expenses	20,000
30	Withdrawn cash from ATM for office use	1,500

(Answer: Cash Balance ` 6,050, Bank Balance ` 30,000)

9. Enter the following transactions of Fathima in the cash book with cash, bank and discount columns for the month of May, 2017.

2017 May		
1	Cash balance	17,200
	Bank balance	43,000
4	Received from Rajkumar by cheque on account	6,500
9	Sold goods to Kumar for cash	12,000
15	Bought laptop for business use and payment made through NEFT	21,000
17	Withdrawn cash from Bank	9,600
24	Goods purchased for cash ` 12,400 and by cheque	18,200
25	Deposited cash with bank	14,000
28	Paid staff salaries by cheque	8,000
29	Dividend received in cash	4,700
30	Paid office rent in cash	12,000
	(Answer: Cash Balance	11 600 Rank Balance ` 200)

(Answer: Cash Balance ` 11,600, Bank Balance ` 200)

10. Enter the following transactions in the three column cash book of Chozhan.

2017 April		`
1	Chozhan started business with cash	50,000
_		-
2	Opened a current account with a bank	32,000
10	Cash sales	14,000
11	Cash paid in the bank	10,000
19	Purchased computer for office use by cheque	24,000
22	Withdrawn cash from bank	9,000
25	Purchased goods by cheque	7,600
27	Interest on overdraft charged by the bank	350
28	Paid salary by ECS to employees	30,000
30	Drew cahs for household expenses	6,500

(Answer: Cash Balance ` 24,500, Bank Balance (Cr.) ` 28,950)

11. Enter the following transactions in a cash book with cash, bank and discount columns of Sundari.

2017 April		
1	Commenced business with cash	80,000
1	Cash at bank	44,000
10	Bought goods for and paid by cheque	13,850
11	Bought furniture for cash	9,500
18	Bought stationery for cash	1,850
20	Received cheque from Santhosh and deposited in the bank	6,800
	Discount allowed to him	200
22	Cheque issued to Rama	4,000
24	Paid to Muralidharan half by cheque, half by cash	12,400
	Discount received from him	100
25	Salaries paid through bank	6,500
27	Withdrawn cash from bank	1,000
31	Locker rent charged by the bank	150
	(Answer: Cash Balance ` 69,650, Ban	k Balance ` 12,900)

12. Record the following transaction in the three column cash book of Rajeswari for the month of June, 2017.

2017		
June		`
1	Cash balance	30,000
	Bank balance	2,55,000
5	Money withdrawn from bank for personal use	7,500
7	Sold goods for cash	9,000
8	Received cheque from Nirmala for ` 9,900 in full settlement of ` 10,000	
10	Nirmala's cheque deposited with bank	
11	Sold goods to Dhanalakshmi on credit	7,000
16	Nirmala's cheque returned dishonoured	
25	Withdrawn cash from bank for office use	5,000

	(Answer: Cash Balance ` 29,000, Banl	k Balance ` 67,600)
30	Payment made to Aavin through RTGS	2,00,000
30	Interest credited by the bank	100
30	Cash deposited in CDM	15,000
28	Chelladurai a customer paid money into bank by debit card	10,000

13. Record the following transactions in three column cash book of Ramachandran.

2017 Jan.		
1	Cash in hand	25,000
	Cash at bank	75,000
2	Paid into bank	5,000
5	Goods purchased by cash	5,000
10	Cash received from Manickam	9,800
	Discount allowed to him	200
15	Goods sold for cash	8,000
17	Payment made to Janaki by cheque	14,500
	Discount received from her	500
19	Withdrawn cash from Bank for personal use	6,000
21	Parthiban, a customer made payment through NEFT	15,000
30	Withdrawn from ATM for office use	20,000
30	Paid postal expenses by cash	2,800
	(American Cook Polomon) 50 000	Darala Dalaman \ 74

(Answer: Cash Balance ` 50,000, Bank Balance ` 54,500)

14. Record the following transactions in the three column cash book of John Pandian.

2017 Dec.		
1	Cash balance brought forward	12,600
1	Bank overdraft brought forward	36,000
1	Advance paid to petty cashier by cheque	3,000
5	Goods sold for cash	12,000
7	Dividend on shares collected by the banker	1,000
13	Cash paid into Bank	10,000

14	Interest charged by the bank for bank overdraft	1,500
18	Cheque issued to Siddique	8,000
	Discount received from him	200
24	Insurance claim received by cheque and deposited into bank	17,000
28	Cash received from Baskar	15,000
	Discount allowed to him	150
31	Deposited into Bank all cash excess of `18,600	
	(Answer: Cash Balance: ` 18,600, Bank Bala	ance: ` 9,500 (Cr.),
	Excess cash deposited into	Bank (Cr.) 11,000)

15. Prepare a triple column cash book of Rahim from the following transactions:

2	Λ	1	\neg
\mathcal{L}	U	1	/

Feb.		`		
1	Cash in hand	25,000		
	Cash at bank	10,000		
5	Water purifier purchased for office use by cheque	8,000		
6	Purchased goods for cash	9,000		
8	Received cash from Daniel	9,900		
	Discount allowed to him	100		
10	Cheque received for goods sold and deposited in the bank	40,000		
12	Paid to Amala by cheque	14,500		
	Discount received from her	500		
13	Paid transport charges by cash	5,000		
14	Withdrawn cash from bank for office use	20,000		
24	Cheque received from Kumar and deposited into the bank	15,000		
28	Kumar's cheque dishonoured			
(Amoryon, Cook Polongo, `25,000 Pouls Polongo, `7,500				

(Answer: Cash Balance: `25,900, Bank Balance: `7,500)

Petty cash book

16. Prepare analytical petty cash book from the following particulars under imprest system:

2017 July		`
1	Received advance form cashier	2,000
7	Paid for writing pads and registers	100
8	Purchased white papers	50
10	Paid auto charges	200
15	Paid wages	300
18	Postal charges	100
21	Purchased stationery	450
23	Tea expenses	60
25	Paid for speed post	150
27	Refreshment expenses	250
31	Paid for carriage	150
		(Answer : ` 190)

17. From the following information prepare an analytical petty cash book under imprest system:

2017		
Oct.		`
1	Received from the cashier	2,500
2	Paid for wages	260
5	Paid for stationery	300
6	Bus fare to workmen	200
12	Refreshment to customers	180
16	Paid for carriage	160
20	Paid for conveyance	188
25	Paid for travelling expenses	320
27	Paid for revenue stamps	48
28	Paid for office cleaning	140
29	Pain for letters by registered post to suppliers	180
30	Paid for taxi hire	219
		(Answer: ` 305)

18. Record the following transactions in an analytical petty cash book and balance the same. On 1st November, 2017, the petty cashier started with imprest cash ` 2,000.

2017			
Nov.		`	
1	Postage stamps purchased	155	
2	Paid to sweeper and scavenger	170	
3	Conveyance to Manager	125	
6	Lorry hire for goods sent	260	
7	Greeting cards purchased	110	
10	Carriage paid	70	
11	Repairs to furniture	100	
13	Ink and gum purchased	50	
17	Computer servicing charges paid	250	
20	Cleaning charges paid	120	
22	Gave charity to beggars	40	
23	Paid to Rammohan	80	
25	Paid railway fare	150	

19. Enter the following transactions in Iyyappan's petty cash book with analytical columns under imprest system.

120

(Answer: `200)

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2017		
Jan.		•
1	Balance on hand	250
1	Cash received from the chief cashier	1,050
2	Purchased pencil, rubber and paper	200
4	Sent documents to Head Office by registered post	120
5	Travelling expenses paid to salesman	150
7	Paid for sundry expenses	60
9	Paid for office expenses	50
11	Paid for letter pad	175
13	Paid to Amutha on account	66
15	Paid for repairs to furniture	78
18	Carriage paid	83
20	Bought postal stamps	55
22	Paid for telephone charges	175
		(Answer: `88)



Vetri is a sole trader selling food products. He maintains a simple cash book. He sells and purchases goods both on cash and credit. He maintains the cash book by himself. He allows discount and receives discount. He has

his personal bank account. He also has so many petty expenses. Now, he wants to establish his business. But he wants to maintain the cash book all by himself.

Now, discuss on the following points:

- What could be the reason that Vetri maintains the cash book by himself?
- Is it convenient for him to record all the cash transactions in the simple cash book?
- Will his personal bank account serve the purpose of his business transactions?
- Suggest him some better ways of maintaining the cash transactions.
- When his business becomes large, what other books will he be maintaining?

To explore further

When our country is moving towards cashless economy, will there be any change in the existing system of maintaining cash book?

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BANK RECONCILIATION STATEMENT



Contents

- 8.1. Introduction
- 8.2. Bank Reconciliation Statement (BRS)
- 8.3. Reasons why bank column of cash book and bank statement may differ
- 8.4. Preparation of bank reconciliation statement





Points to recall

The following points are to be recalled before learning bank reconciliation statement:

- When transactions are more in number, subsidiary books are used.
- Cash and bank transactions are recorded in the cash book.
- Deposit made into the bank is debited in the bank column of the cash book.
- Payment made by the bank is credited in the bank column of the cash book.
- Debit balance as per bank column of the cash book is favourable balance.
- Credit balance as per bank column of the cash book is overdraft.



Learning Objectives

To enable the students to

- Understand the meaning and purpose of preparing bank reconciliation statement
- Analyse the causes of disagreement between balance shown by bank column of the cash book and balance shown by bank statement
- Prepare bank reconciliation statement

Key terms to know

Bank statement

Bank overdraft

Unpresented Cheques

Uncleared Cheques

Dishonoured cheques

Standing instructions

Bank reconciliation statement.

8.1 Introduction



Student activity

Imagine that you are the owner of a small shop. You maintain the three column cash book for your business. Now, think on the following points and discuss with the whole class:

- How often would you check your cash balance in hand? Everyday/once in a week?
- Why do you check your cash balance?
- How will you make sure that the bank column in cash book is correct and is the same as shown by the bank statement?

From the above activity, it is clear that physical cash in hand can be checked easily with the cash column of cash book. But, checking the accuracy of transactions in the bank column of the cash book cannot be done without bank statement (pass book).

8.1.1 Bank statement or bank pass book

It is very common in business these days, to deposit cheques received and cash, with the bank. Payments can also be made through bank. Because, dealing cash through bank is always safe. Also, it is legally necessary to operate the transactions through bank beyond a certain limit.

When any bank transaction is undertaken, two records are kept of the transactions. One is kept by the business [customers to the bank], which is the cash book. The other one is kept by the bank, which is bank record [bank statement]. In other words, it can be said that the cash book maintained by the business [customer of a bank] and the ledger accounts maintained by the bank, record the same transactions. Bank statement or bank pass book is simply a copy of the customer's account in the books of a bank. A bank may send a statement at regular intervals to its customers. It shows all the deposits, withdrawals and the balance available in its customer's account, on a particular date. In recent times, the copy of the records can be obtained by the customer electronically, which is called E-statement.



Bank provides various services to its customers

Business units are customers to banks

Various types of accounts such as savings account, fixed deposit account, current account, etc., can be opened with the bank by different types of customers. But, current account is the most suitable for business concerns. The facility of bank overdraft is not available to any account other than current account.

Riff4 Date	लेन-देन का विवरण Particular of transactions	जमा Credit	Presit Debit	शेष Balance	पुडर / हरता. Stamp/ Sign.

Inside the pass book



Specimen of E-Statement



Student activity

Think: Observe the above format. Why the withdrawals are shown as debit and deposits are shown as credit in a bank statement? [Remember: in the cash book it is the reverse]

When the entries in the bank statement are compared with the cash book, it will be found that the accounting treatment is reverse in the cash book. This is because the cash book is prepared from the point of view of business, whereas the bank statement is prepared from the bank's point of view.

Following the double entry system, the credit balance in the bank pass book represents the debit balance as per the cash book and vice-versa. This is because, bank is a debtor for the business and business unit (customer to the bank) is a creditor for the bank when there is a favourable balance in the bank. When money is deposited by the business into the bank, customers account is credited in the bank's book, as this is the amount owed by the bank to its customer. Similarly, when the money is withdrawn or taken out of the bank by the business, customer's account is debited as this decreases the amount owed by the bank to the customer. As a result of this, favourable balance, as per bank statement (bank pass book), will appear as a credit balance and overdrawn balance as a debit balance.

8.1.2 Bank overdraft

It is not possible to have unfavourable cash balance in the cash book. But, it is possible to have unfavourable balance in the bank account. When the business is not having sufficient money in its bank account, it can borrow money from the bank. As a result of this, amount is overdrawn from bank.

Record	Debit balance	Credit balance
Bank statement	Overdraft (negative balance)	Favourable balance (positive balance)
Cash book	Favourable balance (positive balance)	Overdraft (negative balance)

8.1.3 Differences between bank column of cash book and bank statement

Following are the differences between bank column of cash book and bank statement:

S.No.	Bank column of cash book	Bank statement
1	It is prepared by business concern.	It is prepared by bank (banker).
2	Cash deposits are entered on the debit side.	Cash deposits are entered in the credit column.
3	Cash withdrawals are entered on the credit side.	Cash withdrawals are entered in the debit column.
4	Cheque deposits are debited on the day of deposit.	Cheque deposits are credited only at the time of realisation of cheque.
5	Cheques issued are credited on the day of issue of cheque.	Cheques issued by customers are debited by bank on the date on which the payment is made.
6	Collections and payments as per standing instructions of the business are entered only after checking with the bank statement.	Collections and payments as per standing instructions of the business are entered in the banker's book on the date of realisation or payment.
7	It is balanced at the end of a specific period.	It is balanced after each transaction.

8.2 Bank Reconciliation Statement (BRS)

If every entry in the cash book matches with the bank statement, then bank balance will be the same in both the records. But, practically it may not be possible. When the balances do not agree with each other, the need for preparing a statement to explain the causes arises. This statement is called bank reconciliation statement (BRS). The bank reconciliation statement is a statement that reconciles the balance as per the bank column of cash book with the balance as per the bank statement by giving the reasons for such difference along with the amount. As a result of this, internal record of a business (bank column of cash) can be reconciled with external record (bank statement).

8.2.1 Need for bank reconciliation statement

It is important to compare the bank statement and bank column of cash book. If the two balances do not match, it is necessary to reconcile them to explain why the differences have occurred. It may be prepared every month, every week or even daily depending on the number of transactions and the needs of the business.



Balance as per cash book / bank statement



Balance as per cash book / bank statement

The need for bank reconciliation statement is as follows:

- (i) To identify the reasons for the difference between the bank balance as per the cash book and bank balance as per bank statement.
- (ii) To identify the delay in the clearance of cheques.
- (iii) To ascertain the correct balance of bank column of cash book.
- (iv) To discourage the accountants of the business as well as bank from misusing funds.

8.3 Reasons why bank column of cash book and bank statement may differ

The need for reconciliation arises only when there are differences in entries recorded in the cash book and bank statement. Sometimes, the bank balance as per both the records may be the same, but the entries may not match. In such cases also, bank reconciliation statement is to be prepared. But, before preparing the bank reconciliation statement, it is necessary to find out the reasons for the disagreement.

Difference between the two records (bank column of cash book and bank statement) generally occur because of the following reasons:

- (i) Timing differences The different times at which the same items are entered
- (ii) Errors in recording Difference arising due to errors in recording the entries

(i) Timing differences

- (a) cheques issued but not yet presented for payment
- (b) cheques deposited into bank but not yet credited
- (c) bank charges and interest on loan and overdraft
- (d) interest and dividends collected by the bank
- (e) dishonour of cheques and bills
- (f) amount paid by parties directly into the bank
- (g) payment made directly by the bank to others
- (h) bills collected by the bank on behalf of its customer

(ii) Errors in recording

- (a) errors committed in recording the transactions by the business in the cash book
- (b) errors committed in recording the transactions by the bank.

8.3.1 Timing differences

(a) Cheques issued but not yet presented for payment

When the cheques are issued by the business, it is immediately entered on the credit side of the cash book by the business. But, this may not be entered in the bank statement on the same day. It will be entered in the bank statement only after it is presented with the bank.

For example, the balances as per cash book and bank statement are `20,000 for X & Co. X & Co. issued a cheque in favour of Y & Co for `10,000, on 27th March 2017. So, X & Co's cash book is credited with `10,000 on 27th March 2017. But, the cheque is presented to bank on 2nd April 2017. In case, bank sends a statement to X & Co, upto 31st March 2017, it will not contain this transaction. As a result, there will be a difference of `10,000, between balance shown as per cash book and balance as per bank statement. As a result of this,



Balance as per bank statement (` 20,000) is more than balance as per cash book



Balance as per cash book
(` 10,000) is less than balance
as per bank statement

(b) Cheques deposited into bank but not yet credited

When the cheques are deposited into bank, the amount is debited in the cash book on the same day. But, these may not be shown in the bank pass book on the same day because these will be entered in the bank statement only after the collection of the cheques.

For example, the balances as per cash book and bank statement are `20,000 for X & Co. X & Co. receives a cheque on 25th March 2016, from ABC Limited for `5,000. On the same day, X & Co, debits its cash book with `5,000. But bank credits X & Co's account only when the cheque is collected from ABC Limited's bank. This shows that is a time gap between depositing the cheque by the customer (X & Co) and collection of cheque by the bank. As a result of this,



Balance as per cash book (` 25,000) is more than balance as per bank statement

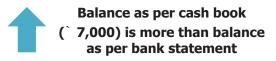


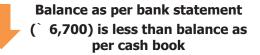
Balance as per bank statement (` 20,000) is less than balance as per cash book

(c) Bank charges and interest on loan and overdraft charged by the bank

The bank has to cover the cost of running the customer's account. So debit is given to the account of the business towards bank charges. Also, if the business had taken any loan or overdrawn, interest has to be paid by the business. These entries for bank charges and interest are made in the bank statement. But, the entry is made in the cash book only when the bank statement is received by the business. Till then, the cash book shows more balance than bank statement.

For example, the opening balance as per cash book and the bank statement as on 1st March 2017 is `7,000. Bank debits for bank charges ` 300 as on 27th March 2017. But there is no entry for the same in the cash book as on such date. As a result of this,





(d) Interest and dividends collected by the bank

The bank may collect dividends on its customer's investment in shares and also interest on any investment. The entry for this will be made in the bank statement on the date of collection. But the entry is made in the cash book only when the bank statement is received by the customer. Till then, the cash book shows less balance than the bank statement.

For example, the balances as per cash book and bank statement are `15,000. The bank has collected dividends of `1,000. As a result of this, the balance as per bank statement is increased to `16,000, whereas until the customer receives such information and records the same, balance as per cash book is lesser by `1000. As a result of this,



Balance as per bank statement (` 16,000) is more than balance as per cash book



Balance as per cash book
(` 15,000) is less than balance
as per bank statement

(e) Dishonour of cheques and bills

When the cheque is received from outside parties, it is deposited with the bank and debited in the cash book. If the cheque is dishonoured, the bank cannot collect the amount of such cheque from outside parties' bank. It is not credited in the bank statement. As a result of this, the two records would differ.

While discounting the bills receivables, in the cash book it is entered in the debit side and in the bank statement it is credited. When the bill is presented by the bank to the drawee of the bill and the payment is not received, the bank debits the same to cancel the credit. But, credit is made in the cash book only when the customer gets the entries made in the bank statement is received. The bank may also charge some amount for such dishonour.

For example, opening balance as per cash book and bank statement is `5,000 as on 1st January, 2017. A cheque for `1,000 deposited by the business into bank on 25th January, 2017 is dishonoured and no entry for such transaction is made in the cash book as on that date. As a result of this,



Balance as per cash book
(` 6,000) is more than balance
as per bank statement



Balance as per bank statement (` 5,000) is less than balance as per cash book

(f) Amount paid by parties directly into the bank

Sometimes, debtors or the customers of the business may directly deposit the money into bank account of the business. It may be done by directly visiting the branch of the bank by paying cash (including NEFT, RTGS) or swiping debit or credit or business card or depositing the money in cash deposit machine or transfer through online banking facility. This will be credited in the banker's book. But the entry is made in the cash book only when the bank statement is received by the customer. Until then, the cash book shows less balance than bank statement.

For example, as on 1st January, 2017, the balance as per cash book and the balance as per bank statement show the same balance of `10,000, but on 22nd January, a debtor directly deposits `5,000 into the bank account of the business. But no entry is made in the cash book as on that date. As a result of this,



Balance as per bank statement (` 15,000) is more than balance as per cash book



Balance as per cash book
(` 10,000) is less than balance
as per bank statement

(g) Amount paid directly by the bank to others

Sometimes the bank may be instructed to make payments such as, insurance premium, instalment of loan, etc., as an agent of the customer on behalf of its customer. In all such cases, debit is made in bank statement. But, the entry is made in the cash book only when the bank statement is received by the customer. Till then, the cash book shows more balance than bank statement.

For example, on 1st, March, 2017, balance as per cash book and balance as per bank statement show the same amount of `12,000. But, as per the standing instruction of its customer the bank pays `2,000 as insurance premium as on 28th March, 2017. But, no entry for such transaction is made in the cash book as on such date. As a result of this,



Balance as per cash book (` 12,000) is more than balance as per bank statement



Balance as per bank statement
(` 10,000) is less than balance
as per cash book

(h) Bills collected by the bank on behalf of its customers

When goods are sold by the business, the documents may be sent through the bank. When the bank collects the amount, it is credited in bank records. But, the entry is made in the cash book only when the bank statement is received by the business. Till then, the bank statement shows more balance than cash book.



Balance as per bank statement is more than balance as per cash book



Balance as per cash book is less than balance as per bank statement

8.3.2 Errors in recording

(a) Errors committed in recording the transactions by the business in the cash book

Sometimes, errors may be committed in the cash book. For example, omission or wrong recording of transaction relating to cheques deposited or issued, wrong balancing, etc. In these cases, obviously, there will be differences between bank balance as per bank statement and bank balance as per cash book.

For example, the cheque received for ` 10, 000 is not entered in the cash book, but has been deposited with the bank. As a result, on collecting the money the balance as per bank statement will be more by ` 10, 000.

(b) Errors committed in recording the transactions by the bank

Sometimes errors may be committed in the banker's book. For example, omission or wrong recording of transaction relating to cheques deposited and wrong balancing. In these cases, obviously, there will be differences between bank balance as per bank statement and bank balance as per cash book.

For example, the cheque deposited for `50000, wrongly entered by the bank as `15,000. This will lead to a difference of `35,000 between the cash book balance and the balance as per bank statement.

In a nutshell, based on the differences,

1. Amounts deposited into
bank but not yet credited
2. No entry made in cash book for
a) Bank charges and bank interest
b) Dishonoured cheques
c) Amount paid directly by
the bank to others
d) Debit made in the pass book
3. Any error in addition to
these in the cash book or
bank statement which has the
effect of high balance as per
cash book

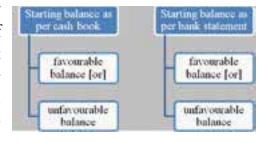
- 1. Cheques issued but not yet presented
- 2. No entry made in cash book for
- a) Interest and dividends collected by the bank
- b) Amount paid by customer of the business directly in to the bank
- c) Bills collected by the bank on behalf of the customer
- Any error in addition to these in the cash book or bank statement which has the effect of low balance as per cash book

he cash book baland vill be less than the ban tatement balance when:

8.4 Preparation of bank reconciliation statement

After having identified the causes of differences, the reconciliation may be done in the following way:

Bank reconciliation statement can be prepared either from the balance as per cash book or bank statement. If it is prepared from the balance of cash book, the effect of the transaction will be studied on the balance as per bank statement. If it is prepared from the balance as per bank statement, the effect of the transaction will be studied on the balance as per cash book.





Adjusting the cash book before preparing the bank reconciliation statement is not compulsory, if reconciliation is done during different months. But if reconciliation is done at the end of the accounting year or financial year, the cash book must be updated so as to reflect the correct bank balance in the balance sheet.



Student activity

Think: Think on the following causes. Complete the following table (Two transactions are done for you):

Reasons for the differences between cash book balance and balance as per bank statement			How to find out balance as per bank statement from cash book balance?
(1)	Cheques are issued by the business, but not yet presented for payment	Bank statement balance > cash book balance	Add
(2)	Cheque deposited into bank but not yet credited by the bank	Bank statement balance < cash book	Less
(3)	Bank charges not yet informed by the bank to the customer		
(4)	Rent paid by bank as per standing instruction		
(5)	Dividend directly collected by the bank on behalf of the customer		
(6)	Debtor directly paid the amount into bank		
(7)	Cheque dishonoured		
(8)	Wrong credit in the bank statement		
(9)	Wrong debit in the bank statement		

Given the causes of disagreement, the balance of one record (cash book or bank statement) can be either more or less compared to the other record (cash book or bank statement).

For example, if the reconciliation is started with debit balance as per cash book and there is a cheque deposited in the bank, but not cleared, the balance as per bank statement will be less. In this case, the amount of cheque should be subtracted from the cash book balance to arrive at the balance as per bank statement. Similarly, after making all the adjustments the balance as per the other book is obtained. It is important to note that the debit balance as per cash book means the credit balance as per bank statement and vice-versa.

To illustrate it further, take an example of bank charges. The balance as per bank statement will be lesser as compared to cash book. This is because, the bank balance has already been reduced with the bank charges, but, it has not yet been recorded in the cash book. In this case, if balance as per cash book is taken to prepare the reconciliation statement, the amount of bank charges has to be subtracted, because the balance as per bank statement is lesser than cash book balance.

Bank reconciliation statement can be prepared on the basis of

- (a) 'Balance' presentation, or
- (b) 'Plus & Minus' presentation

8.4.1 Balance presentation method

When balance of cash book or bank statement is given:

Format

Bank Reconciliation Statement as on -----

Particulars	Amount`	Amount`
Balance as per cash book (favourable balance)		XXX
Add:		
1. Cheques issued but not presented	XXX	
2. Credits in the pass book only		
(a) Interest credited in bank statement	XXX	
(b) Dividend and other income	XXX	
(c) Direct deposit by a party	XXX	
3. Any error in cash book/ bank statement which has the		
effect of increasing the balance as per bank statement	XXX	XXX
Less:		XXX
1. Cheques deposited but not credited	xxx	
2. Cheques dishonoured but not entered in cash book	XXX	
3. Debits in bank statement only		
(a) Interest debited	XXX	
(b) Insurance premium, loan instalment, etc., paid as		
per standing instructions	XXX	
(c) Direct payment by banker	XXX	
4. Any error in cash book/ bank statement which has the		
effect of decreasing the balance as per bank statement	xxx	XXX
Balance as per bank statement		XXX

The abridged version of the above statement is given below:

Bank Reconciliation Statement as on _____

Particulars	Amount `	Amount`
Balance as per cash book		
Add: The transactions which increase the balance as per bank statement		
Less: The transactions which decrease the balance as per bank statement		
Balance as per bank statement		

If unfavourable balance as per cash book is the starting point, then reverse is the procedure for preparing bank reconciliation statement. This means that, items that are added are to be subtracted and items that are subtracted are to be added.

Based on the earlier explanation the following table has been prepared for ready reference when reconciliation is done on the basis of 'balance presentation'. The final balance, which is obtained after addition and subtraction, will be the balance as per the other book.

Sl. No	Causes of differences	Favourable balance (Dr.) as per cash book	Unfavourable balance (Cr.) as per cash book	Favourable balance (Cr.) as per bank statement	Unfavourable balance (Dr.) as per bank statement
1	Cheque issued but not presented to bank	Add	Subtract	Subtract	Add
2	Cheque directly deposited in bank by a customer	Add	Subtract	Subtract	Add
3	Income directly received by bank	Add	Subtract	Subtract	Add
4	Wrong credit in the cash book	Add	Subtract	Subtract	Add
5	Under casting of debit side of bank column of the cash book	Add	Subtract	Subtract	Add

6	Over casting of credit side of bank column of the cash book	Add	Subtract	Subtract	Add
7	Bill receivable collected directly by bank	Add	Subtract	Subtract	Add
8	Cheque deposited but not cleared	Subtract	Add	Add	Subtract
9	Expenses directly paid by bank on standing instructions	Subtract	Add	Add	Subtract
10	Bank charges levied by bank	Subtract	Add	Add	Subtract
11	Locker rent levied by bank	Subtract	Add	Add	Subtract
12	Wrong debit in the cash book	Subtract	Add	Add	Subtract
13	Wrong debit in the bank statement	Subtract	Add	Add	Subtract
14	Over casting of debit side of bank column of the cash book	Subtract	Add	Add	Subtract
15	Under casting of credit side of bank column of the cash book	Subtract	Add	Add	Subtract
16	Interest on bank overdraft charged	Subtract	Add	Add	Subtract
17	Final balance	If answer is positive, then favourable balance (Cr.) as per bank statement and If, negative then unfavorable balance (Dr.) as per bank statement	If answer is positive, then unfavourabe balance (Dr.) as per bank statement and If, negative then favorable balance (Cr.) as per bank statement	If answer is positive, then favourable balance (Dr.) as per cash book and If, negative then unfavorable balance (Cr.) as per cash book	If answer is positive, then unfavourabe balance (Cr.) as per cash book and If, negative then favorable balance (Dr.) as per cash book



Student activity

Think: Remember, an item entered on the debit side of cash book is entered on the credit side of bank statement and vice-versa. Now, keep this in mind, think on the following:

Is it possible to prepare bank reconciliation statement with bank statement as starting point and ascertain the cash book balance? Prepare a specimen of bank reconciliation statement with balance as per bank statement as the starting point.

When balances of cash book and/or bank statement is given:

Illustration 1 (When balance as per cash book is favourable)

From the following information, prepare bank reconciliation statement to find out balance as per bank statement on 31st March, 2017.

	Particulars	`
i)	Cheques deposited but not yet collected by the bank	500
ii)	Cheque issued but not yet presented for payment	1,000
iii)	Bank interest charged	100
iv)	Rent paid by bank as per standing instruction	200
vi)	Cash book balance	300

Solution

Bank reconciliation statement as on 31st March, 2017

Particulars		Amount`	Amount `
Balance as per cash book			300
Add: Cheque issued but not yet presented	l for payment		1,000
			1,300
Less: Cheques deposited but not yet colle	cted by the bank	500	
Bank interest charged		100	
Rent paid by bank as per standing is	nstruction	200	800
Balance as per bank statement		500	



Student activity

Think: In the above illustration, what will be the bank statement balance if the cash book balance is unfavourable?

Illustration 2

On 31st March, 2018, the bank column of the cash book of Senthamarai Traders showed a debit balance of `40,200. On examining the cash book and the bank statement, it was found that:

- (a) A cheque for `2,240 deposited on 29th March, 2018 was credited by the bank only on 4th April, 2018.
- (b) A payment made through net banking for ` 180 has been entered twice in the cash book.
- (c) A bill of exchange for `1,000 was discounted by Senthamarai Traders with its bank. This bill was dishonoured on 30th March, 2018 but no entry had been made in the books of Senthamarai Traders.
- (d) Cheques amounting to `500 which were issued to trade payables and entered in the cash book before 31st March, 2018 were not presented for payment until that date.
- (e) Cheque amounting to `2,000 had been recorded in the cash book as having been deposited into the bank on 30th March, 2018, but was entered in the bank statement on 3rd April, 2018.
- (f) Transport subsidy amounting to ` 3,000 received from the Government of Tamilnadu directly by the bank, but not advised to the Senthamarai Traders.
- (g) A sum of `1,500 was wrongly debited to Senthamarai Traders by the bank, for which no details are available.
- (h) On 31st March, 2018 the payment side of the cash book was undercast by ` 1,200

Solution

Bank reconciliation statement of Senthamarai traders as on 31st March, 2018

Particulars	Amount`	Amount `
Balance as per cash book		40,200
Add:		
Net payment entered twice in the cash book	180	
Cheques issued to trade payables not yet presented	500	
Transport subsidy collected by bank	3,000	3,680
Less:		43,880
Cheques deposited but not yet credited by bank	2,240	
Bill of exchange dishonoured	1,000	
Cheques deposited but not yet credited by bank	2,000	
Wrong debit by bank	1,500	
Undercasting of credit side of cash book	1,200	7,940
Balance as per bank statement		35,940

Illustration 3 (When balance as per cash book shows overdraft)

From the following information, prepare bank reconciliation statement as on 31st December, 2017 to find out the balance as per bank statement.

Particulars		
(i) Overdraft as per cash book	10,000	
(ii) Cheques deposited but not yet credited	5,000	
(iii) Cheque issued but not yet presented for payment	1,000	
(iv) Payment received from the customer directly by the bank	500	
(v) Interest on overdraft debited by bank	1,000	
(vi) Amount wrongly debited by bank	300	

Solution

Bank reconciliation statement as on 31st December, 2017

Particulars	Amount `	Amount `
Overdraft as per cash book		10,000
Add: Cheques deposited but not yet credited	5,000	
Interest on overdraft debited by bank	1,000	
Amount wrongly debited by bank	300	6,300
		16,300
Less: Cheque issued but not yet presented for payment	1,000	
Payment received from the customer directly by the bank	500	1,500
Overdraft balance as per bank statement		14,800

Illustration 4

Rony is the proprietor of Veena photos. The bank column of cash account of his business was balanced on 31st March 2018. It showed an overdraft of `12,000. The bank statement of Veena photos showed a credit balance of `5,000. Prepare a bank reconciliation statement taking the following into account.

- a) The bank had directly collected dividend ` 3,000 but was not entered in the cash book.
- b) Cheques amounting to `9,000 were issued on 27th March, 2018, of which, cheques amounting to `7,000 were not presented for payment before 31st March 2018.
- c) The debit balance in the cash book of `4,100 was brought forward as a credit balance.
- d) Cheque book charges of `200 debited by the bank but not recorded in cash book.
- e) Bank locker rent of ` 1,000 debited by the bank but not recorded in cash book.

Solution

Bank reconciliation statement of Veena photos as on 31st March, 2018

Particulars	Amount `	Amount `
Overdraft as per cash book		12,000
Add: Cheque book charges not recorded in cash book	200	
Bank locker charges debited by bank	1,000	1,200
		13,200
Less: Dividend directly collected by the bank	3,000	
Cheque issued but not yet presented for payment	7,000	
Debit balance of cash book wrongly brought forward		
as credit balance	8,200	18,200
Favourable balance as per bank statement*		-5,000

^{*}*Note:* Since the balance obtained is negative, it is favourable balance.

Illustration 5 (When balance as per bank statement is favourable)

Prepare bank reconciliation statement as on 31st December, 2017 from the following information:

- (a) Balance as per bank statement (pass book) is 25,000
- (b) No record has been made in the cash book for a dishonour of a cheque for `250
- (c) Cheques deposited into bank amounting to `3,500 were not yet collected
- (d) Bank charges of `300 have not been entered in the cash book.
- (e) Cheques issued amounting to `9,000 have not been presented for payment

Solution

Bank reconciliation statement as on 31st December, 2017

	Particulars	Amount`	Amount`
Balance	as per bank statement		25,000
Add:	Dishonour of a cheque	250	
	Cheques deposited into bank, but not yet collected	3,500	
	Bank charges not entered in the cash book	300	4,050
			29,050
Less:	Cheques issued, but not presented for payment		9,000
Balance	as per cash book		20,050

Illustration 6

From the following information, prepare bank reconciliation statement as on 31st December, 2017 to find out the balance as per bank statement.

	Particulars	`
(i)	Balance as per bank statement	6,000
(ii)	Cheques deposited on 28th December, 2017 but not yet credited	2,000
(iii)	Cheques issued for 10,000 on 20th December, 2017 but not yet presented for	
	payment	3,000
(iv)	Interest on debentures directly collected by the bank not recorded in cash	
	book	4,000
(v)	Insurance premium on building directly paid by the bank	1,000
(vi)	Amount wrongly credited by bank	500

Solution

Bank reconciliation statement as on 31st December, 2017

Particulars	Amount`	Amount`
Balance as per bank statement		6,000
Add:		
Cheque deposited but not yet credited	2,000	
Insurance premium on building directly paid by the bank	1,000	3,000
Less:		9,000
Cheque issued but not yet presented for payment	3,000	
Interest on debentures directly collected by the bank not		
entered in cash book	4,000	
Amount wrongly credited by bank	500	7,500
Balance as per cash book		1,500

Illustration 7 (When balance as per bank statement is an overdraft)

From the following data, ascertain the cash book balance as on 31st December, 2017.

	Particulars	`
1)	Overdraft balance as per bank statement	6,500
2)	Cheques deposited into the bank but not yet credited	10,500
3)	Cheques issued, but not yet presented for payment	3,000
4)	Wrong debit by the bank	500
5)	Interest and bank charges debited by bank	180
6)	Insurance premium on goods directly paid by the bank as per standing instructions	
		100

Solution

Bank reconciliation statement as on 31st December, 2017

	Particulars	Amount`	Amount`
Overd	raft balance as per bank statement		6,500
Add:	Cheques issued, but not yet presented for payment	3,000	3,000
			9,500
Less:	Cheques deposited into the bank but not credited	10,500	
	Wrong debit by the bank	500	
	Interest and bank charges debited by bank	180	
	Insurance premium directly paid by the bank as per		
	standing order	100	11,280
Baland	ce as per cash book*		-1,780

^{*} *Note:* Since the balance obtained is negative, it is favourable balance.



Student activity

Think: In the above illustration, what will be the cash book balance, if the balance as per bank statement is favourable?

Illustration 8

The bank statement of Sudha and Company showed an overdraft of `10,000 on 31st December, 2017, prepare a bank reconciliation statement.

- (a) A cheque deposited on 30th December 2017 for ` 15,000 was not credited by the bank.
- (b) Interest on term loan ` 500 was debited by bank on 31st December, 2017 but not accounted in the books of Sudha and Company.
- (c) A cheque issued for `550 on 24th December, 2017, paid by the bank was recorded as `505 in the bank column of the cash book.
- (d) One outgoing cheque on 27th December, 2017 of ` 200 was recorded twice in the cash book.
- (e) Bank recorded a cash deposit of 2,598 as 2,589.
- (f) A sum of `2,000 deposited in cash deposit machine by a customer of the business on 31st December, 2017 was not recorded in the books of Sudha and Company.
- (g) Interest on overdraft of `600 was not recorded in the books of Sudha and Company.
- (h) Two cheques issued on 29th December, 2017 for ` 500 and ` 700, but only the first cheque was presented for payment before 31st December, 2017.

Solution

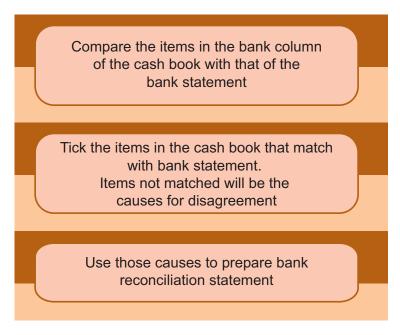
Bank reconciliation statement of Sudha and Company as on 31st December, 2017

Particulars	Amount`	Amount`
Overdraft as per bank statement (debit balance)		10,000
Add:		
Cheque issued recorded twice in cash book	200	
Direct cash deposit not entered in cash book	2,000	
Unpresented cheque	700	2,900
		12,900
Less:		
Cheque deposited but not credited by bank	15,000	
Interest on term loan not entered in cash book	500	
Cheque issued amount entered lesser in cash book (550-505)	45	
Cash deposit recorded lesser in bank statement (2,598-2,589)	9	
Interest on overdraft not entered in cash book	600	16,154
Favourable balance as per cash book*		-3,254

^{*} *Note:* Since the balance obtained is negative, it is favourable balance.

When an extract of cash book and bank statement is given

When an extract of the cash book and bank statement is given, the following points are to be remembered:



Remember, the starting balance in the bank reconciliation statement can be either cash book balance or balance as per bank statement.

Illustration 9 (When an extract of cash book and bank statement is given)

Given below are the entries in the bank column of the cash book and the bank statement. Prepare a bank reconciliation statement as on 31st October, 2017.

Cash book

(Bank column)

Dr. Cr.

Date	Particulars	Amount `	Date	Particulars	Amount `
2017			2017		
Oct. 1	To Balance b/d	20,525	Oct. 8	By Kamala A/c	12,000
18	To Ram A/c	6,943	26	By Magesh A/c	9,740
19	To Sales A/c (Ravi)	450	28	By Mala A/c	11,780
20 20	To Commission A/c (Kala)	200	30	By Salaries A/c	720
20	To Nirmala A/c	7,810	31	By Balance c/d	1,688
Nov. 1	To balance b/d	35,928			35,928
	To balance o/ a	1,688			

Bank statement

Date	Particulars	Dr. Withdrawals	Cr. Deposits	Balance Dr./Cr.
1.10.17	By Balance b/d			20525 Cr
9.10.17	To Kamala	12,000		8525 Cr
19.10.17	By Ram		6,943	15468 Cr
25.10.17	By Ravi		450	15918 Cr
26.10.17	To Magesh	9,740		6178 Cr
27.10.17	By Kala		200	6378 Cr
28.10.17	To Rajan (salaries)	720		5658 Cr
30.10.17	By Bills receivable		20,000	25658 Cr
	By Interest on Investment		1,820	27478 Cr
31.10.17	To Bills payable	4,000		23478 Cr

Solution

Bank reconciliation statement as on 31st October 2017

Particulars	Amount`	Amount`
Balance as per cash book		1,688
Add: Bills receivable collected, not entered in cash book	20,000	
Interest on investment collected, not entered in cash book	1,820	
Cheques issued but not presented - Mala	11,780	33,600
		35,288
Less: Cheques deposited into bank, but not yet collected -Nirmala	7,810	
Bills payable paid, not entered in cash book	4,000	11,810
Balance as per bank statement		23,478

8.4.2 Plus or Minus presentation

Bank reconciliation statement can also be presented in an alternative method. In such presentation, two columns are given, one to record items that increase the balance (plus items) and the other one to record items that decrease the balance (minus items). Balances as per the cash book or bank statement are written as the starting balance.

Points to be noted:

- (a) Debit balance of cash book is written in the "Plus" column.
- (b) Credit balance of cash book (overdraft) is written in the "Minus" column.
- (c) Debit balance as per bank statement (overdraft) is written in the "Minus" column.
- (d) Credit balance as per bank statement is written in the "Plus" column.

After the causes of difference are written, the two columns (plus column and minus column) are totalled and the difference is ascertained. The difference is the balance/ overdraft as per cash book / bank statement, as per the given starting point.

Balance as per bank statement is arrived by comparing the total of plus amount and the minus amount. If the plus amount is more than the minus amount, then show the difference amount in minus column. This represents favourable balance as per bank statement.

If the plus amount is less than the minus amount, then show the difference amount in plus column. This represents bank overdraft (unfavourable balance) as per bank statement.

Format of Plus or minus presentation of bank reconciliation statement:

Dank vasansiliskian	ababamant of	
Bank reconciliation	statement or	as on

Particulars	Plus amount `	Minus amount `
Balance as per cash book	(if positive) xxx	(if negative) xxx
Cheques issued but not yet presented for payment	XXX	
Amount directly deposited in bank	XXX	
Standing instructions: dividend, interest, etc. directly collected by the bank	XXX	
Wrong credit in the cash book	XXX	
Interest credited by bank	XXX	
Undercasting of debit side in the bank column of cash book	XXX	
Overcasting of credit side in the bank column of cash book	XXX	
Bills receivable collected directly by bank	XXX	
Cheques deposited but not yet collected / cleared		XXX
Expenses directly paid by bank on standing instructions		XXX
Bank charges levied by bank		XXX
Wrong debit in the cash book		XXX
Wrong debit in the bank statement		XXX
Overcasting of debit side of bank column in cash book		XXX
Undercasting of credit side of bank column in cash book		XXX
Interest charged on bank overdraft		XXX
Total	XXX	XXX
Balance as per bank statement		

Solution as per"Plus" and "Minus" presentation for illustration 1

Bank reconciliation statement as on 31st March, 2017

Particulars	Plus amount `	Minus amount `
Balance as per cash book	300	
Cheques deposited but not yet collected by the bank		500
Cheque issued but not yet presented for payment	1,000	
Bank interest charged		100
Rent paid by bank as per standing instruction		200
Total	1,300	800
Balance as per bank statement		500

^{*}Note: Students will be tested on balance presentation method only.



Banks provide facility to maintain savings bank account for individuals and trusts. Banks allow interest for such accounts. In such cases, adjustments need to be made in bank reconciliation statement for interest allowed by the bank on savings bank account.

Points to remember

- Debit balance as per cash book is favourable
- Credit balance as per bank column of the cash book is an overdraft
- Debit balance as per bank statement is unfavourable
- Credit balance as per bank statement is favourable
- Bank reconciliation statement is prepared by the business entity
- The purpose of preparing bank reconciliation statement is to explain the causes of disagreement between balance as per bank column of cash book and bank statement
- Most of the differences are caused by differences in the time at which items are recorded.
- Some items cannot be recorded in the bank column of the cash book until the bank statement is received.

Self-examination questions

I Multiple choice questions

Choose the correct answer

- 1. A bank reconciliation statement is prepared by
 - (a) Bank

(b) Business

(c) Debtor to the business

- (d) Creditor to the business
- 2. A bank reconciliation statement is prepared with the help of
 - (a) Bank statement
 - (b) Cash book
 - (c) Bank statement and bank column of the cash book
 - (d) Petty cash book
- 3. Debit balance in the bank column of the cash book means
 - (a) Credit balance as per bank statement
 - (b) Debit balance as per bank statement
 - (c) Overdraft as per cash book
 - (d) None of the above



- 4. A bank statement is a copy of
 - (a) Cash column of the cash book
 - (b) Bank column of the cash book
 - (c) A customer's account in the bank's book
 - (d) Cheques issued by the business
- 5. A bank reconciliation statement is prepared to know the causes for the difference between:
 - (a) The balance as per the cash column of the cash book and bank column of the cash book
 - (b) The balance as per the cash column of the cash book and bank statement
 - (c) The balance as per the bank column of the cash book and the bank statement
 - (d) The balance as per petty cash book and the cash book
- 6. When money is withdrawn from bank, the bank
 - (a) Credits customer's account
 - (b) Debits customer's account
 - (c) Debits and credits customer's account
 - (d) None of these
- 7. Which of the following is not the salient feature of bank reconciliation statement?
 - a) Any undue delay in the clearance of cheques will be shown up by the reconciliation
 - b) Reconciliation statement will discourage the accountant of the bank from embezzlement
 - c) It helps in finding the actual position of the bank balance
 - d) Reconciliation statement is prepared only at the end of the accounting period
- 8. Balance as per cash book is ` 2, 000. Bank charge of ` 50 debited by the bank is not yet shown in the cash book. What is the bank statement balance now?
 - (a) 1,950 credit balance
 - (b) \ 1,950 debit balance
 - (c) 2,050 debit balance
 - (d) 2,050 credit balance
- 9. Balance as per bank statement is ` 1, 000. Cheque deposited, but not yet credited by the bank is ` 2, 000. What is the balance as per bank column of the cash book?
 - (a) 3,000 overdraft

(b) 3,000 favourable

(c) \ 1,000 overdraft

(d) \ 1,000 favourable

- 10. Which one of the following is not a timing difference?
 - (a) Cheque deposited but not yet credited
 - (b) Cheque issued but not yet presented for payment
 - (c) Amount directly paid into the bank
 - (d) Wrong debit in the cash book

Answers

-										
- [- / >	3. (a)			. /3 \	(1)	- / \	- (3.)	
- 1	1 (b) l	2 (c)	3 (2)	A(c)	5 (c)	6 (b)	7 (d)	l & (a)	9 (b)	L 10 (d)
	1. (0)	2. (C)	3. (a)	4. (C)	J. (C)	0. (0)	7. (u)	0. (a)	J. (U)	10. (u)

II Very short answer questions

- 1. What is meant by bank overdraft?
- 2. What is bank reconciliation statement?
- 3. State any two causes of disagreement between the balance as per bank column of cash book and bank statement.
- 4. Give any two expenses which may be paid by the banker as per standing instruction.
- 5. Substitute the following statements with one word/phrase
 - (a) A copy of customer's account issued by the bank
 - (b) Debit balance as per bank statement
 - (c) Statement showing the causes of disagreement between the balance as per cash book and balance as per bank statement
- 6. Do you agree on the following statements? Write "yes" if you agree, and write "no" if you disagree.
 - (a) Bank reconciliation statement is prepared by the banker.
 - (b) Adjusting the cash book before preparing the bank reconciliation statement is compulsory.
 - (c) Credit balance as per bank statement is an overdraft.
 - (d) Bank charges debited by the bank increases the balance as per bank statement.
 - (e) Bank reconciliation statement is prepared to identify the causes of differences between balance as per bank column of the cash book and balance as per cash column of the cash book.

III Short answer questions

- 1. Give any three reasons for preparing bank reconciliation statement.
- 2. What is meant by the term "cheque not yet presented?"
- 3. Explain why does money deposited into bank appear on the debit side of the cash book, but on the credit side of the bank statement?
- 4. What will be the effect of interest charged by the bank, if the balance is an overdraft?
- 5. State the timing differences in BRS with examples.

IV Exercises

- 1. From the following particulars prepare a bank reconciliation statement of Jayakumar as on 31st December, 2016.
 - (a) Balance as per cash book `7,130
 - (b) Cheque deposited but not cleared ` 1,000
 - (c) A customer has deposited `800 into the bank directly

(**Answer:** Balance as per bank statement `6,930)

- 2. From the following particulars of Kamakshi traders, prepare a bank reconciliation statement as on 31st March, 2018.
 - (a) Debit balance as per cash book ` 10,500
 - (b) Cheque deposited into bank amounting to `5,500 credited by bank, but entered twice in the cash book
 - (c) Cheques issued and presented for payment amounting to `7,000 omitted in the cash book
 - (d) Cheque book charges debited by the bank ` 200 not recorded in the cash book.
 - (e) Cash of ` 1,000 deposited by a customer of the business in cash deposit machine not recorded in the cash book.

(**Answer:** Overdraft as per bank statement `1,200)

3. From the following information, prepare bank reconciliation statement to find out the bank statement balance as on 31st December, 2017.

	Particulars	`
1.	Balance as per cash book	15,000
2.	Cheques deposited but not yet credited	1,000
3.	Cheques issued and entered in the cash book before 31st December 2017 but not presented for payment until that date	1,500
4.	Dividend directly received by bank	200
5.	Direct payment made by bank for rent	1,000
6.	Locker rent charged by the bank not recorded in cash book	1,200
7.	Wrong debit given by the bank on 30th December 2017	500
8.	A payment made through net banking has been entered twice in the cash	
	book	300

(**Answer:** Balance as per bank statement `13,300)

- 4. On 31st March, 2017, Anand's cash book showed a balance of `1,12,500. Prepare bank reconciliation statement.
 - (a) He had issued cheques amounting to `23,000 on 28.3.2017, of which cheques amounting to `9,000 have so far been presented for payment.
 - (b) A cheque for `6,300 deposited into bank on 27.3.2017, but the bank credited the same only on 5th April 2017.
 - (c) He had also received a cheque for `12,000 which, although entered by him in the cash book, was not deposited in the bank.
 - (d) Wrong credit given by the bank on 30th March 2017 for `2,000.
 - (e) On 30th March 2017, a bill already discounted with the bank for ` 3,000 was dishonoured, but no entry was made in the cash book.
 - (f) Interest on debentures of `700 was received by the bank directly.
 - (g) Cash sales of `4,000 wrongly entered in the bank column of the cash book.

(**Answer:** Balance as per bank statement `1,03,900)

- 5. From the following particulars of Siva and Company, prepare a bank reconciliation statement as on 31st December, 2017.
 - (a) Credit balance as per cash book ` 12,000
 - (b) A cheque of `1,200 issued and presented for payment to the bank, wrongly credited in the cash book as `2,100.
 - (c) Debit side of bank statement was undercast by ` 100

(**Answer:** Overdraft as per bank statement ` 11,000)

- 6. From the following particulars of Raheem traders, prepare a bank reconciliation statement as on 31st March, 2018.
 - (a) Overdraft as per cash book `2,500
 - (b) Debit side of cash book was undercast by `700
 - (c) Amount received by bank through RTGS amounting to ` 2,00,000, omitted in the cash book.
 - (d) Two cheques issued for `1,800 and `2,000 on 29th March 2018. Only the second cheque is presented for payment.
 - (e) Insurance premium on car for ` 1,000 paid by the bank as per standing instruction not recorded in the cash book.

(**Answer:** Balance as per bank statement `1,99,000)

7. From the following information, prepare bank reconciliation statement as on 31st December, 2017 to find out the balance as per bank statement.

	Particulars	`
(i)	Bank overdraft as per cash book	20,000
(ii)	Cheques deposited but not yet credited	4,000
(iii)	Cheque issued but not yet presented for payment	1,000
(iv)	Rent collected by the bank as per standing instruction	500
(v)	Interest on overdraft debited by bank	2,000
(vi)	Amount wrongly debited by bank	300
(vii)	Cheque issued on 30th December 2017 dishonoured by the bank	5,000
(viii)	A customer's cheque deposited in the bank dishonoured by bank not	
	recorded in the cash book	2,000

(**Answer:** Overdraft as per bank statement `21,800)

8. Prepare bank reconciliation statement from the following data.

Particulars	`
Credit balance as per cash book	5,000
Cheques issued, but not yet presented for payment	3,000
Cheques deposited but not yet credited	4,000
Interest on overdraft charged by the bank, not yet entered in the cash book	120
Dividend collected by the bank not shown in the cash book	760
Interest charged by bank recorded twice in the cash book	300
Bills of exchange discounted with the bank, dishonoured	520
Bank charges debited by the bank on dishonour of the bill	55

(**Answer:** Overdraft as per bank statement `5,635)

- 9. From the following particulars of Veera traders, prepare a bank reconciliation statement as on 31st December, 2017.
 - a) Credit balance as per bank statement ` 6,000
 - b) Amount received by bank through NEFT for `3,500, entered twice in the cash book.
 - c) Cheque dishonoured amounting to `2,500, not entered in cash book.

(**Answer:** Balance as per cash book ` 12,000)

10. Prepare bank reconciliation statement from the following data and find out the balance as per cash book as on 31st March, 2018.

	Particulars				
(i)	Bank balance as per bank statement	15,000			
(ii)	Cheques issued but not yet presented for payment	2,500			
(iii)	Bank charges not recorded in the cash book	250			
(iv)	Interest charged by bank not recorded in the cash book	500			
(v)	Bank paid insurance premium as per standing instruction but not recorded in the cash book	300			
(vi)	Cheques deposited but not yet credited	900			

(**Answer:** Balance as per cash book ` 14,450)

- 11. Ascertain the cash book balance from the following particulars as on 31st December, 2017:
 - (i) Credit balance as per bank statement ` 2,500
 - (ii) Bank charges of `60 have not been entered in the cash book
 - (iii) Cheque deposited on 28th December 2017 for ` 1,000 was not yet credited by the bank
 - (iv) Cheque issued on 24th December 2017 for `700, not yet presented for payment
 - (v) A dividend of `400 collected by the bank directly but not entered in the cash book
 - (vi) A cheque of `600 had been dishonoured, but no entry was made in the cash book
 - (vii) Interest on term loan ` 1,200 debited by bank but not accounted in cash book
 - (viii) No entry had been made in the cash book for a trade subscription of ` 500 paid vide banker's order on 23rd December 2014

(**Answer:** Balance as per cash book `4,760)

- 12. From the following particulars of Raja traders, prepare a bank reconciliation statement as on 31st January, 2018.
 - (a) Balance as per bank statement ` 5,000
 - (b) Cheques amounting to `800 had been recorded in the cash book as having been deposited into the bank on 25th January 2018, but were entered in the bank statement on 2nd February 2018.
 - (c) Amount received by bank through NEFT amounting to `3,000, omitted in the cash book.
 - (d) Two cheques issued for `3,000 and `2,000 on 29th March 2018. Only the first cheque is presented for payment.
 - (e) Insurance premium on motor vehicles for `1,000 paid by the bank as per standing instruction not recorded in the cash book.
 - (f) Credit side of cash book was undercast by `700
 - (g) Subsidy received directly by the bank from the state government amounting to 10,000, not entered in cash book.

(**Answer:** Overdraft as per cash book `7,500)

- 13. From the following particulars of Simon traders, prepare a bank reconciliation statement as on 31st March, 2018.
 - (a) Debit balance as per bank statement `2,500
 - (b) Cheques deposited amounting to `10,000, not yet credited by bank.
 - (c) Payment through net banking for `2,000, omitted in the cash book

(**Answer:** Balance as per cash book ` 9,500)

- 14. From the following particulars, ascertain the cash book balance as on 31st December, 2016.
 - (i) Overdraft balance as per bank statement `1,26,640
 - (ii) Interest on overdraft entered in the bank statement, but not yet recorded in cash book `3,200
 - (iii) Bank charges entered in bank statement, but not found in cash book `600
 - (iv) Cheques issued, but not yet presented for payment `23,360
 - (v) Cheques deposited into the bank but not yet credited `43,400
 - (vi) Interest on investment collected by the bank ` 24,000

(Answer: Overdraft as per cash book ` 1,26,800)

- 15. From the following particulars of John traders, prepare a bank reconciliation statement as on 31st March, 2018.
 - (a) Bank overdraft as per bank statement `4,000
 - (b) Cheques amounting to `2,000 had been recorded in the cash book as having been deposited into the bank on 26th March 2018, but were entered in the bank statement on 4th April 2018.
 - (c) Amount received by bank through cash deposit machine amounting to `5,000, omitted in the cash book.
 - (d) Amount of ` 3,000 wrongly debited to John traders account by the bank, for which no details are available.
 - (e) Bills for collection credited by the bank till 29th March 2017 amounting to `4,000, but no advice received by John traders.
 - (f) Electricity charges made through net banking for `900 was wrongly entered in cash column of the cash book instead of bank column.
 - (g) Cash sales wrongly recorded in the bank column of the cash book for `4,000.

(**Answer:** Overdraft as per cash book ` 3,100)

16. Prepare bank reconciliation statement from the following data.

Particulars	`
Bank overdraft as per bank statement	6,500
Cheques issued, but not yet presented for payment	8,750
Cheques deposited but not yet credited by the bank	500
Business customer directly deposited into cash deposit machine	3,500
Bank charges not entered in the cash book	200
Bank paid rent as per standing instruction	1,980

(Answer: Overdraft as per cash book ` 16,070)

17. Prepare bank reconciliation statement as on 31st March, 2017 from the following extracts of cash book and bank statement.

Dr. Cash book (Bank column only) Cr.

Date	Particulars	Amount`	Date	Particulars	Amount`
2017			2017		
March 1	To Balance b/d	9,000	Mar 4	By Drawings	1,700
3	To Ram	2,200	8	By Sumi	3,300
9	To Prem	1,500	12	By Salary	2,800
16	To Pavithra	3,400	16	By Kayal	1,700
23	To Devi	2,600	18	By Pooja	4,200
27	To Mani	1,100	26	By Sam	2,000
30	To Shankar	350	28	By Raheem	1,100
			30	By Rent	1,100
			30	By Balance c/d	2,250
		20,150			20,150

Bank statement

Date	Particulars	Dr. Withdrawals	Cr. Deposits	Balance Dr./Cr.
		`	`	
2017				
March 1	By balance b/d			9000 Cr.
4	To cheque- drawings	700		8,300 Cr.
5	By cheque- Ram		2,200	10,500 Cr.
9	To cheque – Sumi	3,300		7,200 Cr.
11	By cheque- Prem		1,500	8,700 Cr.
12	To cheque – Salary	2,800		5,900 Cr.
17	To cheque – Kayal	1,700		4,200 Cr.
20	By cheque- Devi		2,600	6,800 Cr.
30	By interest received		900	7,700 Cr.
30	To bank charges	15		7,685 Cr.

- 18. A trader received his bank statement on 31st December, 2017 which showed an overdraft balance of `12,000. On the same day, his cash book showed a debit balance of `2,000.
 - Analyse the following transactions. Choose the possible causes and prepare a bank reconciliation statement to show the causes of differences.
 - (a) Cheque deposited for `2,000 on 21st December, 2017. Bank credited the same on 26th December, 2017.
 - (b) Cheque issued for payment on 26th December, 2017 amounting to `2,500, not yet presented until 31st, December, 2017.
 - (c) Bank charges amounting to `200 not yet entered in the cash book.
 - (d) Online payment for `1,500 entered twice in the cash book.
 - (e) Cheque deposited amounting to `1,000, but omitted in the cash book. The same cheque was dishonoured by bank, but not yet entered in cash book.
 - (f) Cheque deposited, not yet credited by bank amounting to `17,800.



Student activity

Think: Ram enterprises received a bank statement on 31st March, 2018, which showed a credit balance of ` 13,500. On the same date, the balance as per cash book was ` 11,000.

Think of minimum five possible causes of difference [with amount] between these two balances.

The Bank Reconciliation Game

Roll your dice to start. Advance three steps if you land on green. Go back one step if you land on orange.

Final balance as per bank statement	55	54	Interest on bank overdraft charged	52	51	50
43	Income directly received by bank	45	46	47	48	49
42	41	40	39	38	37	Wrong debit in bank statement
29	Bill receivable collected directly by bank	31	32	Bank charges levied by bank	34	35
28	27	Wrong debit in the cash book	25	24	23	Wrong credit in the cash book
15	16	in the cash	25	Locker rent levied by bank	23	in the cash book
		in the cash book		Locker rent levied by		in the cash book



Magesh, an enthusiastic young entrepreneur, started a business on 1st December, 2017. He opened a current account with a nationalised bank for his business transaction. In the same bank, he maintains his personal savings bank

account too. He did not find time to maintain his cash book. So he appointed a person called Dinesh to take care of bank transactions. But that person was inexperienced.

On 1st December, 2017, the opening balance as per cash book and bank record was the same. On 2nd December, Magesh issued a cheque for `2,000 to a supplier, but the same was entered in the credit side of the cash book as `200.

On 3rd, December, Magesh issued his savings bank account cheque for his personal expenses amounting to `2,500, but Dinesh assumed this as current account cheque and the same was entered in the cash book as drawings.

Dinesh was asked to deposit cash of `1,000 in cash deposit machine in order to make a payment to one of the business' supplier. He credited the same in the bank column of the cash book.

On 15th December, one of his customers made online payment to Magesh's current account, amounting to `1,000. There was no entry in the cash book for this.

Dinesh received his salary in cash for `5,000. He credited this amount in the bank column of cash book.

Bank made payment on 23rd December, amounting to `2,500, as per standing instruction. But, there is no entry in the cash book for the same.

On 31st, December 2017, Magesh received a bank statement from his bank, which showed a credit balance of `19,700. He instructed Dinesh to check the statement with the cash book. On comparing both, Dinesh found that the cash book showed a balance of `14,500. He was puzzled.

He needs your help to reconcile the balances.

To explore further

- Are there ways to reduce the number of entries in the bank reconciliation statement? If so, what is to be done?
- "Ten years from now, there will not be any need to prepare bank reconciliation statement"
 Do you agree? Why? Or why not?
- Can the concept of reconciliation be used other than banking transactions?

Reference

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Account (A/c)	கணக்கு (க/கு)
Accountancy	கணக்குப் பதிவியல்
Accountant	கணக்காளர்
Accounting	கணக்கியல்
Accounting concepts	கணக்கியல் கரு <u>த்து</u> கள்
Accounting conventions	கணக்கியல் மரபுகள்
Accounting cycle	கணக்கியல் சுழல்
Accounting equation	கணக்கியல் சமன்பாடு
Accounting principles	கணக்கியல் கொள்கைகள்
Accounting standards	கணக்கியல் தரம்
Accounting Standards Board	கணக்கியல் தரக்குழு
Accounting terminologies	கணக்கியல் கலைச்சொற்கள்
Accrued income	பெறவேண்டிய வருமானம்
Adjusted purchases	சரிக்கட்டப்பட்ட கொள்முதல்
Adjusting entries	சரிக்கட்டுப் பதிவுகள்
Amortisation	போக்கெழுதுதல்
Analytical petty cash book	பாகுபடுத்தப்பட்ட சில்லறை ரொக்க ஏடு
Annuity method	ஆண்டுத் தொகை முறை
Artificial person	சட்டமுறை அமைப்புகள்
Assets	சொத்துகள்
Bad debts	வாராக் கடன்
Balance	இருப்பு
Balance b/d	இருப்பு கீ/கொ (கீழ் கொண்டு வரப்பட்டது)
Balance c/d	இருப்பு கீ/இ (கீழ் இறக்கப்பட்டது)

Balance method	இருப்பு முறை
Balance Sheet	இருப்பு நிலைக் குறிப்பு
Balancing	இருப்புக் கட்டுதல்
Bank	வங்கி
Bank overdraft	வங்கி மேல்வரைப் பற்று
Bank pass book	வங்கிச் செல்லேடு
Bank reconciliation statement	வங்கிச் சரிகட்டும் பட்டியல்
Bank statement	வங்கிப் பட்டியல்
Bank transactions	வங்கி நடவடிக்கைகள்
Barter system	பண்டமாற்று முறை
Bill of exchange	மா <u>ற்று</u> ச்சீட்டு
Bills payable	செலுத்துதற்குரிய மாற்றுச்சீட்டு
Bills receivable	பெறுதற்குரிய மாற்றுச்சீட்டு
Book keeping	கணக்கேடுகள் பராமரிப்பு
Books of prime entry	முதன்மைப் பதிவு ஏடுகள்
Branches of accounting	கணக்கியல் பிரிவுகள்
Capital	முதல்
Capital expenditure	முதலினச் செலவினம்
Capital receipts	முதலின வரவுகள்
Capital transaction	முதலின நடவடிக்கை
Carriage	தூக்குக் கூலி
Carriage inwards	உள் தூக்குக் கூலி
Carriage outwards	வெளி தூக்குக் கூலி
Cash	ரொக்கம்
Cash book	ரொக்க ஏடு
Cash discount	ரொக்கத் தள்ளுபடி
Cash receipt	ரொக்கச் சீட்டு

Cash transaction	ரொக்க நடவடிக்கை
Cheque	காசோலை
Closing balance	இறுதி இருப்பு
Closing entries	இறுதிப் பதிவுகள்
Closing stock	இறுதிச் சரக்கிருப்பு
Columnar petty cash book	பல பத்திகளுடையச் சில்லறை ரொக்க ஏடு
Company	நிறுமம்
Compensating errors or Offsetting errors	ஈடுசெய் பிழைகள்
Compound journal entry	கூட்டுக் குறிப்பேட்டுப் பதிவு
Computer	கணினி
Computerised accounting	கணினிமயமாக்கப்பட்ட கணக்கியல்
Contra entry	எதிர்ப் பதிவு
Cost accounting	அடக்கவிலைக் கணக்கியல்
Credit	ഖரഖു
Credit balance	ഖரவு இருப்பு
Credit card	கடன் அட்டை
Credit note	வரவுக் குறிப்பு
Credit side	வரவுப் பக்கம்
Credit transaction	கடன் நடவடிக்கை
Creditor	கடனீந்தோர் -
Current account	நடப்புக் கணக்கு
Current asset	₋ நடப்புச் சொத்து
Current liability	நடப்புப் பொறுப்பு
Days of Grace	சலுகை நாட்கள்
Debit	பற்று
Debit balance	பற்று இருப்பு
Debit card	எடுப்பு அட்டை

Debit note	பற்றுக் குறிப்பு
Debit side	பற்றுப் பக்கம்
Debtor	கடனாளி
Deferred revenue expenditure	நீள்பயன் வருவாயினச் செலவு
Depreciation	தேய்மானம்
Discount	கழிவு
Discounting	தள்ளுபடி செய்தல்
Dishonour	மறுக்கப்படுதல்
Dividend	பங்காதாயம்
Double column cash book	இருபத்தி ரொக்க ஏடு
Double entry system	இரட்டைப் பதிவுமுறை
Drawings	எடுப்புகள்
Error	பிழை
Error of complete omission	முழு விடு பிழை
Error of partial omission	பகுதி விடு பிழை
Errors in accounting	கணக்கியல் பிழைகள்
Errors of recording	பதிவு செய்தல் பிழைகள்
Errors of balancing	இருப்புக் கட்டல் பிழைகள்
Errors of carrying forward	முன் எடுத்து எழுதுதல் பிழைகள்
Errors of casting	கூட்டல் பிழைகள்
Errors of commission	செய் பிழைகள்
Errors of omission	ഖിடு பிழைகள்
Errors of posting	எடுத்தெழுதுதல் பிழைகள்
Errors of principle	விதிப்பிழைகள்
Expenses	செலவுகள்
Fictitious assets	கற்பனைச் சொத்துகள்
Final Accounts	இறுதிக் கணக்குகள்
Financial accounting	நிதிநிலைக் கணக்கியல்

Financial statement	நிதிநிலை அறிக்கை
Fixed assets	நிலைச் சொத்துகள்
Freight	வண்டிக் கட்டணம்
Furniture	அறைகலன்
General reserve	பொதுக் காப்பு
Goods	சரக்கு
Goodwill	நற்பெயர்
Gross profit	மொத்த இலாபம்
Hardware	வன்பொருள்
Human resources accounting	மனிதவளக் கணக்கியல்
Impersonal accounts	ஆள்சாராக் கணக்குகள்
Imprest system	முன்பண மீட்பு முறை
Income	வருமானம்
Income received in advance	முன்கூட்டிப் பெற்ற வருமானம்
Insolvency	நொடிப்பு நிலை
Institute of Chartered Accountants of India	இந்தியப் பட்டயக் கணக்காளர் நிறுவனம்
Insurance	காப்பீடு
Intangible asset	புலனாகாச் சொத்துகள்
Interest	ഖட്ட
Interest on capital	முதல் மீது வட்டி
Interest on drawings	எடுப்புகள் மீது வட்டி
Interest on investments	முதலீடுகள் மீதான வட்டி
Interest on loan	கடன் மீதான வட்டி
International Accounting Standards Committee	பன்னாட்டு கணக்கியல் தரக்குழு
International Financial Reporting Stan- dards	பன்னாட்டு நிதி அறிக்கை தரம்

Invoice	இடாப்பு
Journal	குறிப்பேடு
Journal entry	குறிப்பேட்டுப் பதிவு
Journal proper	உரிய குறிப்பேடு
Journalising	குறிப்பேட்டில் பதிவு செய்தல்
Ledger	С ЦСЛЪ
Ledger posting	பேரேட்டில் எடுத்தெழுதுதல்
Liabilities	பொறுப்புகள்
Liquidity	நீர்மைத் தன்மை
Long term liabilities	நீண்டகாலப் பொறுப்புகள்
Loss	நட்டம்
Machinery	இயந்திரம்
Management accounting	மேலாண்மைக் கணக்கியல்
Merger	இணைப்பு
Narration	விளக்கக் குறிப்பு
Net profit	நிகர இலாபம்
Nominal Accounts	பெயரளவுக் கணக்குகள்
Opening balance	தொடக்க இருப்பு
Opening entry	தொடக்கப் பதிவு
Opening Stock	தொடக்கச் சரக்கிருப்பு
Outstanding	கொடுபட வேண்டியது
Pay-in-slip	செலுத்துச்சீட்டு
Personal A/c	ஆள்சர் கணக்கு
Petty cash book	சில்லறை ரொக்க ஏடு
Posting	எடுத்தெழுதுதல்
Preliminary expenses	தொடக்கச் செலவுகள்
Premium	(முனைமம்

Prepaid	முன் கூட்டிச் செலுத்தியவை
Profit	இலாபம்
Profit and Loss A/c	இலாபநட்டக் கணக்கு
Provision	ஒதுக்கீடு
Provision for bad and doubtful debts	வாரா ஐயக்கடன் ஒதுக்கு
Provision for discount on debtors	கடனாளிகள் மீதான தள்ளுபடி ஒதுக்கு
Purchase returns / Return outwards	கொள்முதல் திருப்பம் / வெளித் திருப்பம்
Purchases	கொள்முதல்
Purchases book	கொள்முதல் ஏடு
Purchases returns book	கொள்முதல் திருப்ப ஏடு
Real accounts	சொத்துக் கணக்குகள்
Rectification of errors	பிழைகளைத் திருத்துதல்
Rectifying entries	திருத்தப் பதிவுகள்
Rent	வாடகை
Representative personal account	பிரதிநிதித்துவ நபர் கணக்கு
Reserve	காப்பு
Revenue	வருவாய்
Revenue expenditure	வருவாய்சர் செலவுகள்
Revenue receipts	வருவாய்சர் வரவுகள்
Revenue transactions	வருவாயின நடவடிக்கைகள்
Salary	ஊதியம்
Sale	<u></u> ബി <u>ന്</u> പത്തെ
Sales book	விற்பனை ஏடு
Sales returns / Returns inwards	விற்பனைத் திருப்பம் / உள்திருப்பம்
Sales returns book	விற்பனைத் திருப்ப ஏடு
Savings account	சேமிப்புக் கணக்கு
Scrap	எறி மதிப்பு

Share	பங்கு
Single column cash book	தனிப்பத்தி ரொக்க ஏடு
Single entry system	ஒற்றைப் பதிவுமுறை
Social Responsibility Accounting	சமூகப் பொறுப்புக் கணக்கியல்
Software	மென்பொருள்
Sole proprietor	தனி ஆள் உரிமையாளர்
Solvency	கடன் தீர்க்கும் சக்தி
Source documents	ஆதார ஆவணங்கள்
Stock	சரக்கிருப்பு
Straight line method	நேர்கோட்டு முறை
Subsidiary books	துணை ஏடுகள்
Sundry creditors	பற்பல கடனீந்தோர்
Sundry debtors	பற்பல கடனாளிகள்
Sundry expenses	பற்பல செலவுகள்
Suspense account	அனாமத்துக் கணக்கு
Tangible assets	புலனாகும் சொத்துகள்
Three column cash book	முப்பத்தி ரொக்க ஏடு
Total method	மொத்தத் தொகை முறை
Trade discount	வியாபாரத் தள்ளுபடி
Frading account	வியாபாரக் கணக்கு
Γransaction	நடவடிக்க <u>ை</u>
Transfer entries	மாற்றுப் பதிவுகள்
Travel expenses	பயணச் செலவுகள்
Trial Balance	இருப்பாய்வு
Voucher	சான்று ஆவணம்
Wage	கூலி
Written down value	குறைந்து செல் மதிப்பு

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