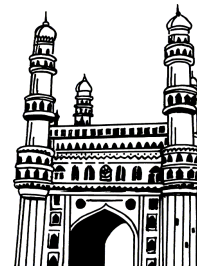


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FINANCIAL ACCOUNTING-I

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Financial Accounting: Introduction – Definition – Evolution – Functions-Advantages and Limitations –Users of Accounting Information- Branches of Accounting – Accounting Principles: Concepts and Conventions- Accounting Standards– Meaning – Importance –Types of Accounts – Accounting Cycle – Journal-Ledger and Trial Balance (Including problems).

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BANK RECONCILIATION STATEMENT:

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UNIT - IV

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1. What are the differences between Book Keeping and Accounting ?

Ans : (May-19, June-17, Imp.)

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2. Explain about Advantages and Limitations of Accounting.

Ans : (Dec.-18, June-18, Imp.)

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3. Discuss the various users of accounting information.

Ans : (Dec.-17, Imp.)

Refer Unit-I, Q.No. 8

4. "Accounting is classified into different branches" Explain.

Ans : (Dec.-18, Imp.)

Refer Unit-I, Q.No. 9

5. Discuss the various accounting concepts. (May-19, Dec.18, Dec.-17, June-17, Imp.)

Ans :

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6. Explain in detail the accounting conventions.

Ans : (May-19, Imp.)

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7. Discuss the list of Accounting Standards (AS) of ICAI.

Ans : (Dec.-16, Imp.)

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8. What is accounting process / cycle ? Explain the various steps involved in it.

Ans : (June-18, Imp.)

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9. What is journal ? Explain the objectives of journal.

Ans : (Dec.-17, Dec.-16, Imp.)

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10. Define ledger ? Explain the advantages of ledger.

Ans : (Dec.-16, Imp.)

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11. Distinguish between Journal Vs Ledger.

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1. Define Subsidiary Books. Explain the reasons for maintaining Subsidiary Books.

Ans : (May-19, Dec.-17, Imp.)

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2. Explain the different types of Subsidiary Books.

Ans : (May-19, Imp.)

Refer Unit-II, Q.No.2

3. What do you understand by Purchases Returns Book?

Ans : (Dec.-17)

Refer Unit-II, Q.No.4

4. What do you understand by Sales Returns Book?

Ans : (Dec.-17)

Refer Unit-II, Q.No.6

UNIT - III

1. What do you understand by Bank Reconciliation Statement.

Ans : (May-19, Imp.)

Refer Unit-III, Q.No. 1

2. Explain the need of Bank Reconciliation Statement.

Ans : (June-17, Dec.-16, Imp.)

Refer Unit-III, Q.No.2

3. What are the reasons for difference between cash book and pass book ?

Ans : (May-19, June-18, Dec.-17, Imp.)

Refer Unit-III, Q.No.4

4. Prepare Bank Reconciliation Statement from the following on 31st January, 2013.
1. Bank Balance as per Cash Book ` 18,500
 2. Cheques amount to ` 4,000 were issued on 28th Jan. out of which ` 2,400 were presented for payment in Feb. 2013.
 3. Cheques amounting to ` 9,000 were deposited for collection but cheque for ` 3,000 has not yet been collected by the bank.
 4. A wrong debit of ` 500 appears in Pass Book.
 5. Bank Charges ` 10 were entered twice in the Cash Book by oversight.
 6. A cheque issued to a supplier for ` 800 was not entered in the Cash Book.
 7. Interest on investments collected by the bank ` 1,000, was not entered in Cash Book.
 8. Pass Book showed a debit of ` 175 Insurance Premium and a credit of ` 45 as Interest for which no entries are found in Cash Book.

Sol :

(June-19)

Refer Unit-III, Prob.15

UNIT - IV

1. Define error ? Explain different types of errors.

Ans :

(May-19, Imp.)

Refer Unit-IV, Q.No.9

2. What are the causes of depreciation?

Ans :

(Dec.-17)

Refer Unit-IV, Q.No.15

3. X Ltd. purchased a machine on 1-1-2002 for ` 1,16,000 and spent ` 4,000 for installation. On 1-7-2002 another machine purchased costing ` 40,000. On 1-1-2004 the machine purchased on 1-1-2002 was sold for ` 57,200 and a new machine was purchased for ` 80,000 and installed on the same date by paying ` 20,000. Show the Machinery Account charging depreciation @10% p.a. On written Down Value Method for 4 years. Assume that books are closed every year on 31st December.

Sol :

(Dec.-17)

Refer Unit-IV, Prob. 24

UNIT - V

1. Define final accounts. What are the objectives of final accounts ?

Ans :

(Dec.-17)

Refer Unit-V, Q.No.1

2. Explain the uses of final accounts?

Ans : (Dec.-17, Imp.)

Refer Unit-V, Q.No.3

3. State the advantages and disadvantages of final accounts?

Ans : (Imp.)

Refer Unit-V, Q.No.4

4. Define Trading account ? What are the advantages of trading account.

Ans : (Imp.)

Refer Unit-V, Q.No.7

5. What is Profit & Loss Account? What are the advantages of Profit & Loss Account?

Ans : (Imp.)

Refer Unit-V, Q.No.9

6. Explain the Classification of various Assets and Liabilities.

Ans : (May-19)

Refer Unit-V, Q.No.13

7. Distinction between Profit and Loss Account and Balance Sheet.

Ans : (May-19, Imp.)

Refer Unit-V, Q.No.16

8. Explain the various adjustments in the treatment of final accounts.

Ans : (May-17, Dec.-16, Imp.)

Refer Unit-V, Q.No.19

9. Explain distinction between Profit and Loss Account and Balance Sheet.

Ans : (June-19)

Refer Unit-V, Q.No.20

UNIT I

Accounting Process :

Financial Accounting: Introduction - Definition - Evolution - Functions - Advantages and Limitations - Users of Accounting Information - Branches of Accounting Principles : Concepts and Conventions - Accounting Standards - Meaning - Importance - Types of Accounts - Accounting Cycle - Journal - Ledger and Trial Balance (Including Problems).

1.1 FINANCIAL ACCOUNTING - INTRODUCTION, DEFINITION

Q1. Define the term Financial Accounting.

Ans :

Introduction

Accounting is termed as a language of business which is used to communicate the information or the results of business operations to several interested people like proprietors, investors, creditors, government etc.

Accounting plays a vital role in the process of decision making. It is considered as a common language used in the world of industry and commerce. Accounting principles refer to those rules and regulations which are followed by the accountants for recording, classifying and summarizing the accounting transactions.

Accounting is an art and science of providing meaningful information about financial activities of the company's as a tool for management. This is used by a business for maintaining financial records on cash basis or accrual basis.

Accounting is an important part of information system. It is an important profession. Study of accounting is must for all the people concerned with business, trade and commerce.

Definitions of Accounting

Financial Accounting is "the art of recording, classifying and summarising in a significant manner in terms of money transactions and events which are in part, at least of a financial character and interpreting the results thereof."

— **American Institute of Certified Public Accountants**

Accounting is "the process of identifying, measuring, and communicating economic information to permit informed judgements and decisions by users of the information".

— **American Accounting Association**

Accounting is a service activity. Its function is to provide quantitative information, primarily financial in nature, about economic activities that is useful in making economic decision in making reasoned choices among alternative course of action. — **Accounting Principles Board (APB)**

Accounting may be defined "as the identifying, measuring, recording and communicating of financial information."

— **H. Bierman and AR Drebin**

"Accounting is the science of recording and classifying business transactions and events, primarily of a financial character and the act of making significant summaries analysis and interpretation of these transactions and events and communicating the results to persons who must , make decisions or form judgements." — **Smith & Ashburne**

From the above the following attributes of accounting emerge :

- (i) **Identifying the transactions and events**
Accounting identifies transactions and events of a separate entity. A transaction is a particular type of external event which can be expressed in terms of money and bring change in the financial position of a business unit. An event (whether internal or external) is a happening of consequence to an entity

(e.g. use of raw material for production). An entity means an economic unit that performs economic activities (e.g. Reliance Industries Ltd., TISCO).

(ii) It is the art of recording business transactions

First, all financial transactions should be recorded in the journal or in the books of original entry known as subsidiary books as and when they take place so that a complete record of financial transactions is available.

(iii) It is the art of classifying business transactions

All entries in the journal or subsidiary books should be classified by posting them to the appropriate ledger accounts to find out at a glance the total effect of all such transactions in a particular account. For example, all transactions relating to Shyam Sunder in the journal or various subsidiary books will be posted to Shyam Sunder's Account. It may be noted that business transactions are recorded and classified in such a way that it may be possible to determine profit or loss made by the business and its financial position on a specified date.

(iv) The transactions or events of a business must be recorded in monetary terms

If there are certain events which cannot be measured in terms of money, these will not be recorded in financial accounting. For example, a quarrel between production manager and financial manager may be affecting the business but it cannot be measured in terms of money and thus will not be recorded in the books of accounts.

(v) It is the art of summarising financial transactions

After recording and classifying financial transactions next stage is to prepare the trial balance and final accounts with a view to ascertaining the profit or loss made during a trading period and the financial position of the business on a particular date.

(vi) It is an art of analysis and interpretation of these transactions

The accounting information must be analysed and interpreted by calculating various ratios and percentages or other relationship in order to evaluate the past performance of the business and to make sound plans for the future.

(vii) The results of such analysis must be communicated to the persons who are to make decisions or form judgements

All information must be provided in time and presented to the different categories of the persons so that appropriate decisions may be taken at the right time.

1.2 EVOLUTION OF ACCOUNTING

Q2. Discuss briefly about Evolution of Accounting.

Ans :

Recounting has evolved in a manner similar to law, medicine and most other fields of human activity, in response to the social and economic needs of society. Book-keeping and accounting did not emerge as chance phenomena, but as a pragmatic response to a specific world need. This is true not only of the days of Paciolo but also important for present-day accounting survival. For centuries after the system of double-entry book-keeping appeared, accounting was practised without a uniform methodology or any form of theory. It was only during the 19th century that a distinct move from book-keeping to accounting — a move from relatively simple recording and analysis of transactions towards a comprehensive accounting information system — was effected. The close of 19th century was marked by the most extraordinary expansion of business.

Company form of organisation, a phenomenon which was becoming increasingly common in business world, grew at a great speed. Books about business transactions were written,

conventions were followed and accounting was recognised as a system of analysing and maintaining records of business transactions.

Modern business is marked by continuity, a never-ending flow of economic activities. Therefore, accounting has grown to meet a social requirement and to guide the business and industry accordingly. Accounting is moving away from its traditional procedural base, encompassing record-keeping and such related work as the preparation of budgets and final accounts, towards the adoption of a role which emphasises its social importance.

Traditionally, governmental accounting was linked to taxation and revenue control, and to the recording of, and accountability for, receipts and expenditure. Development in budgeting in the 20th century created a much larger scope for government accounting. The national budget became a managerial and policy-making instrument and developed into a mechanism for the forward planning of receipts and expenditure. Budgeting has now developed to form one of the bases of — and is closely associated with — economic planning and programming.

Accounting, thus, has gone through many phases — simple double-entry book-keeping, enterprise, government, and cost and management accounting, and recently, social accounting. These phases have largely been a product of changing economic and social environments. As business and society have become more complex over the years, accounting has developed new concepts and techniques to meet the ever increasing needs for financial information.

Meaning of Financial Accounting

Accountancy refers to the occupation of maintaining and auditing records and preparing financial reports for a business. It is a field of knowledge of accounting concerned with the principles and practice of accounting to meet the specific needs of a business concern. The term accountancy is usually used for accounting work of a higher order. According to Kohler, "Accountancy refers to the entire body of the theory and practice of accounting." The term accountancy is a broader term and can be divided in two parts:

- (i) Book keeping
- (ii) Accounting

(i) Meaning of Book-keeping

Book-keeping is the art and science of recording, classifying and summarizing business transactions in money or money's worth accurately and systematically so that the businessman may be able to know this profit or loss during a specified period and also his financial position on a particular date. Book-keeping is thus the recording business transactions in a systematic manner. In the words of Carter "Book-keeping is the science and art of correctly recording in books of accounts all those transactions that result in the transfer of money or money's worth".

(ii) Meaning of Accounting

The actual record making phase (i.e., recording, classifying and summarising) of accounting is usually called book-keeping. However, accounting extends far beyond the actual making of records. Accounting is concerned with the use to which these records are put, their analysis and interpretation. An accountant should be concerned with more than the record making phase. In particular he should be interested in the relationship between the financial results and the events which have created them. He should be studying the various alternatives open to the firm, and be using his accounting experience in order to aid the management to select the best plan of action for the firm. The owners and manager of a firm will need some accounting knowledge in order that they may understand what the accountant is telling them. Investors and others will need accounting knowledge in order that they may read and understand the financial statements issued by the firm and adjust their relationships with the firm accordingly. Thus accounting is a wider term and includes the recording, classifying the summarising of business transactions in term of money, the preparation of financial reports, the analysis and interpretation of these reports for the information and guidance of management.

The main purpose of accounting is to ascertain profit or loss during a specified period, to show financial position of the business on a particular date and to have control over the firm's property. Such accounting records are required to be maintained to measure the income of the business and communicate the information so that it may be used by managers, owners and other parties. Accounting is a discipline which records, classifies, summarises and interprets financial information about the activities of a concern so that intelligent decisions can be made about the concern.

Q3. Define book keeping? What are the objectives of book keeping?

Ans :

Book-Keeping is an activity concerned with the recording of financial data relating to business operations in a significant and orderly manner. Book-Keeping is the record making phase of accounting. Accounting is based on a careful and an efficient book-keeping system.

Definitions

Book-Keeping is defined by different authors. A few of such definitions are given below. Carter in his Advanced Accounts defined Book-keeping as "the Science and art of correctly recording in books of account are those business transactions that result in the transfer money or money's worth".

- i) **According to B.G. Vickery :** In his 'principles and Practice of Book-Keeping' defined Book-keeping as "The art of recording pecuniary or business transactions in a regular and systematic manner."
- ii) **According to Kohler** in his book 'A Dictionary for Accountant's defined Book-keeping as "the process of analysing, classifying and recording transactions in accordance with preconceived plan."

Objectives of Book-Keeping

- i) Book-keeping is concerned with recording of the financial transactions of business in a

methodical manner so that information on any point in relation to them may be quickly obtained.

- ii) Book-keeping activity is responsible for keeping all the financial records of a business (or only a minor segment such as maintenance of the customer's accounts).
- iii) Book-keeping is to prepare original books of accounts trial balance and final accounts.
- iv) To avoid financial frauds in business entity.

Q4. What are the differences between Book Keeping and Accounting ?

Ans : (May-19, June-17, Imp.)

Book-keeping is recording of the financial transactions of a business in a methodical manner so that information on any point in relation to them may be quickly obtained. A book-keeper may be responsible for keeping all the financial records of a business or only a minor segment such as maintenance of the customers' accounts in a departmental store. Much of the work of a book-keeper is clerical in nature and can be accomplished through the use of mechanical and electronic equipment.

On the other hand, Accounting is primarily concerned with the design of the system of records, the preparation of reports based on the recorded data, the interpretation of the reports and finally communicating the results of the interpretation to persons who are interested in such results. Accountants often direct and review the work of book-keepers. The work of accountants at the beginning may include some book-keeping but accountants must possess a much higher level of knowledge, conceptual understanding and analytical skill than is required of the book-keepers.

The main differences between Book-keeping and Accounting are as follows :

<i>Point of Distinction</i>	<i>Book-keeping</i>	<i>Accounting</i>
1. Object	The object of book-keeping is to prepare original books of accounts, trial balance and final accounts and to maintain systematic records of financial results.	The object of accounting is to record, classify, summarise, analyse and interpret the business transactions and to ascertain operating results & financial position and to communicate to various users.
2. Scope	It has limited scope and is concerned with recording, classifying, and summarising of business transactions.	It has a wide scope and covers book-keeping plus analysis and interpretation.
3. Level of Work	It is restricted to clerical work and is done by lower levels of management.	It is concerned with all levels of management. Lower level clerks prepare the accounts, medium level report it and top level interpret it.
4. Mutual Dependence	It has to depend on accounting for making the accounting records more useful.	It has to depend on book-keeping for getting the required information from accounting records and for making them useful for planning, control and decision making.
5. Results of the Business	It shows the net result and financial position of the business as the scope extends to the preparation of final accounts.	It analyses the operating results and financial position of the business.
6. Stages	Bookkeeping is a primary stage.	Accounting is the secondary stage. It begins where book-keeping ends.
7. Nature of Job	The job of book-keeper is often routine and clerical in nature.	The job of an accountant is analytical in nature.
8. Knowledge Required	The book-keeper is not required to have higher level of knowledge than that of an accountant.	The accountant must have higher level of knowledge than that of bookkeeper.
9. Staff for Performing Work	Book keeping work is performed by junior staff.	Accounting work is performed by senior staff.

Q5. What are the objectives of financial accounting ?

Ans:

I. To ascertain whether the business operations have been profitable or not

Accounting helps us to know whether a business has earned profit or suffered loss during the accounting period. It will give us an idea of efficiency of the business. To determine profit or loss of the accounting period, a Trading and Profit and Loss Account or an Income Statement is prepared

by matching revenues and expired costs (*i.e.*, revenue expenditures) incurred for earning the revenues. In the process of determination of profit or loss, it is expense or cost that is matched with revenue and not vice versa. Thus, first of all revenue is determined and then expenses incurred for earning the revenue are matched with the revenue for calculating the difference known as net profit or net loss.

2. To ascertain the financial position of the business

Balance Sheet or Position Statement is prepared to give an idea of the financial position of the business on a particular date. The financial position of an enterprise is indicated by its assets on a given date and its liabilities on that date. Excess of assets over liabilities represent the capital and is indicative of the financial soundness of an enterprise. A properly drawn up balance sheet gives information relating to (i) the nature and value of assets, (ii) the nature and extent of liabilities, (iii) whether the enterprise is solvent, (iv) whether the business concern is over trading.

3. To generate information

Accounting records generate information which may be helpful to various persons in planning, control, evaluation of performance and decision-making.

1.3 FUNCTIONS OF ACCOUNTING

**Q6. What are the Functions of Accounting.
(or)**

Elucidate the functions of Accounting.

Ans :

Accounting deals with recording, classifying, summarizing, analyzing and interpreting the financial transactions and communicating the end results to the interested parties.

The functions of accounting are as follows:

(i) Recording

Recording is a primary function of accounting. It mainly deals with recording all the financial transactions of business in a

sequential order. All financial transactions are recorded in a book called as 'Journal'. Journal is further divided into many subsidiary books and the number of subsidiary books to be maintained depends upon nature and size of the business.

(ii) Classifying

Classification deals with the organized analysis of recorded data, with an intention to group all the related entries at one place. Ledger account is the book where in all the similar entries are recorded. Ledger contains different accounts on different pages and accordingly related entries are recorded under one particular account. It helps in identifying the total expenditure incurred in one specific account.

(iii) Summarizing

Summarizing includes presenting the classified data in an acceptable and practical manner which is useful to both the internal and the external users of accounting statements. The process of summarizing involves preparing trial balance, income statement and the balance sheet.

(iv) Associated with Financial Transactions

In accounting, only those transactions are recorded which are financial in nature and are in terms of money. Transactions which are not expressed in terms of money and are non-financial in nature are not recorded in the books of account.

(v) Analyzing and Interpreting

Analyzing and interpreting is the last function of accounting. The financial data which was recorded earlier is now being analyzed and interpreted so that it can be effectively used by the end users in making various decisions related to the financial condition and profitability of the business. The data is also useful in preparing the future plans and designing the policies for accomplishing those plans.

(vi) Communicating

When accounting information is thoroughly analyzed and interpreted, it must be

communicated in an effective manner to the right person. The accounting information can be communicated by preparing and distributing the accounting reports which includes the income statement and the balance sheet along with some additional information in the form of ratios, graphs, funds flow statement, etc. An accountant must effectively utilize his innovative and imaginative abilities in this process.

1.4 ADVANTAGES AND LIMITATIONS OF ACCOUNTING

Q7. Explain about Advantages and Limitations of Accounting.

Ans : (Dec.-18, June-18, Imp.)

Advantages of Accounting

Following are main advantages of accounting:

1. Replacement of Memory

In a large business it is very difficult for a businessman to remember all the transactions. Accounting provides records which will furnish information as and when desired and thus it replaces human memory.

2. Evidence in Court

Properly maintained accounts are often treated as a good evidence in the court to settle a dispute.

3. Settlement of Taxation Liability

If accounts are properly maintained, it will be of great assistance to the businessman in settling the income tax and sale tax liability otherwise tax authorities may impose any amount of tax which the businessman will have to pay.

4. Comparative Study

It provides the facility of comparative study of the various aspects of the business such as profits, sales, expenses etc. with that of previous year and helps the businessman to locate significant factor leading to the change, if any.

5. Sale of Business

If accounts are properly maintained, it helps to ascertain the proper purchase price in case the businessman is interested to sell his business.

6. Assistance to the Insolvent Person

If a person is maintaining proper accounts and unfortunately he becomes insolvent (i.e. when he is unable to pay to his creditors), he can explain many things about the past with the help of accounts and can start a fresh life.

7. Assistance to Various Parties

It provides information to various parties, i.e., owners, creditors, investors, government, managers, research scholars, public and employees and financial position of a business enterprise from their own view point.

8. Facilitate in Raising Loans

Accounting facilitates raising loans from lenders by providing them the required financial information.

9. Assistance to the Management

Accounting assists the management in taking managerial decisions. For example, Projected Cash Flow Statement facilitates the management to know the future receipts and payments and to take decisions regarding anticipated surplus or shortage of funds.

10. Facilitate Control Over Assets

Accounting facilitates control over assets by providing information regarding Cash Balance, Bank Balance, Stock, Debtors, Fixed Assets, etc.

Limitations / Disadvantages of Accounting

Following are the main limitations of accounting:

1. Records only Monetary Transactions

Accounting records only those transactions which can be measured in monetary terms. Those transactions which cannot be measured in monetary terms as conflict between production manager and marketing

manager, efficient management etc., may be very important for a concern but not recorded in the business books.

2. Effect of Price Level Changes not Considered

Accounting transactions are recorded at cost in the books. The effect of price level changes is not brought into the books with the result that comparison of the various years becomes difficult.

For example, the sales to total assets in 2007 would be much higher than in 2002 due to rising prices, fixed assets being shown at cost and not at market price.

3. No realistic information

Accounting information may not be realistic as accounting statements are prepared by following basic concepts and conventions. For example, going concern concept gives us an idea that the business will continue and assets are to be recorded at cost but the book value which the asset is showing may not be actually realisable. Similarly, by following the principle of conservatism the financial statements will not reflect the true position of the business.

4. Personal bias of the Accountant affects the accounting statements

Accounting statements are influenced by the personal judgement of the accountant. He may select any method of depreciation, valuation of stock, amortisation of fixed assets, treatment of deferred revenue expenditure. Such judgement based on integrity and competency of the accountant will definitely affect the preparation of accounting statements.

5. Permits alternative treatments

Accounting permits alternative treatments within generally accepted accounting concepts and conventions. For example, method of charging depreciation may be straight line method or diminishing balance method or some other method. Similarly, closing stock may be valued by FIFO (First-in-First-Out) or LIFO (Last-in-First-out) or average price method. Application of different methods may give different results and results may not be comparable.

6. Profit no real test of managerial performance

Profit earned during an accounting period is the test of managerial performance. Profit may be shown in excess by manipulation of accounts by suppressing such costs as depreciation, advertisement and research and development or taking excess value of closing stock. Consequently real idea of managerial performance may not be available by manipulated profit.

7. Historical in nature

Usually accounting supplies information in the form of Profit and Loss Account and Balance Sheet at the end of the year. So, the information provided is of historical interest and only gives post-mortem analysis of the past accounting information. For control and planning purposes management is interested in quick and timely information which is not provided by financial accounting.

8. Window Dressing in Balance Sheet

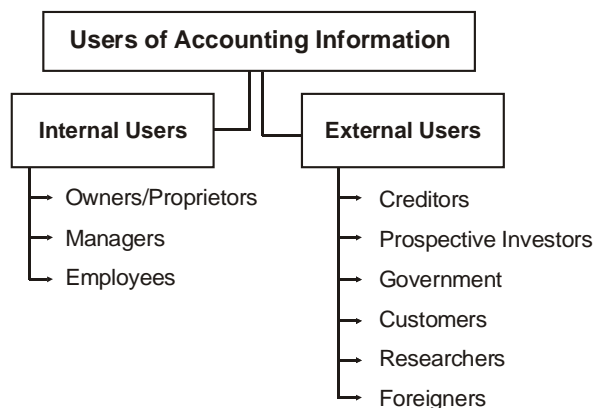
When an accountant resorts to window dressing in the Balance Sheet, then Balance Sheet cannot exhibit the true and fair view of the state of affairs of the business.

1.5 USERS OF ACCOUNTING INFORMATION

Q8. Discuss the various users of accounting information.

Ans : (Dec.-17, Imp.)

A classification of interested users/groups in accounting information disclosure may be done as under :



1. Internal Users

The internal users of accounting information are as follows :

- i) **Owners/Proprietors** : The business is done with a primary objective of making profit. The accounting records reflect the profitability, financial position and the financial soundness of the business. Owners are the sole-traders, partners, shareholders, etc., they refer accounts to know the safety of the amount on their capital.
- ii) **Managers** : In case of large industrial organizations, where the owners and managers are different, the managers are responsible for the day-to-day affair of the business. The accounting records provide the vital information of the performance of the business and analysis, which in turn helps the management to improve the performance by taking corrective actions.
- iii) **Employees** : The employees interested in the job security and the future growth. Both of these are related to the performance of the business.

2. External Users

The external users of accounting information are as follows:

- i) **Creditors** : Creditors are the persons who have extended credit to the company. The creditors include the suppliers of goods and services, bankers and other lenders. The financial statements help them in ascertaining the liquidity position of the business, i.e., the ability to meet the financial obligation, as and when they fall due.
- ii) **Prospective Investors** : A prospective investor is interested in knowing the financial strength of the business. The expected rate of return on investment could be estimated based on the study of the financial statements.
- iii) **Government** : The government is interested in the financial statements from the point of view of taxation, compliance to corporate and labour laws.

- iv) **Customers** : Customers who have developed loyalty to a business, are interested in the continuance of the business. They are also interested in knowing the future plans of the organisation with which they can also link their growth.
- v) **Researchers** : Researchers need financial information for testing financial hypothesis and development of theories and models.
- vi) **Foreigners** : The whole world has now become one big market due to modern means of transport and communication. Many foreign agencies and entrepreneurs are interested to have collaboration with Indian enterprises. Hence, the foreigners are interested to know the profitability and financial position of various enterprises of this country. On the basis of accounting information, the foreigners make up their mind for imports, exports also.

1.6 BRANCHES OF ACCOUNTING

Q9. "Accounting is classified into different branches" Explain.

Ans:

(Dec.-18, Imp.)

Accounting provides information to different end-users which helps them in analyzing the financial position. It is classified into three types. They are,

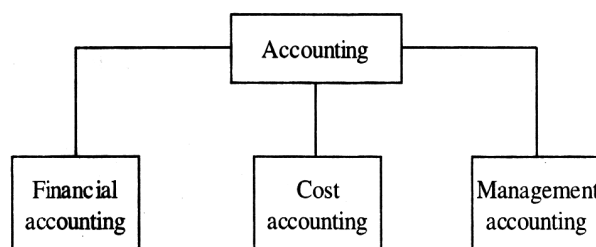


Fig: Classification of Branches of Accounting

1. Financial Accounting

Financial accounting deals with the preparation of financial statements such as

profit and loss account (P & L a/c) and balance sheet. It helps in communicating the accounting information of the business to its end users such as shareholders employees etc. The main objective of financial accounting is to analyze profit or loss and to depict the financial position of the business. In order to accomplish these objectives, it is very essential to maintain a systematic record of business transactions in accounting books.

2. Cost Accounting

For overcoming the drawbacks of financial accounting a new branch of accounting known as cost accounting was developed. The main aim of cost accounting is to evaluate the actual cost incurred by the business in producing goods and services. With the help of cost accounting a businessman can decide the price of product and can eliminate losses and wastes by controlling the cost.

3. Management Accounting

Management accounting helps in providing accounting information to the management so that effective decisions can be taken for carrying out the business smoothly. It facilitates the management in developing policies and monitoring the functions of the business.

Compare and contrast financial accounting, cost accounting and management accounting

	Point of Difference	Financial Accounting	Cost Accounting	Management Accounting
1.	Objective	Financial accounting records all the transactions relating to finance.	Cost accounting records by the firm in producing a product or service.	Management accounting helps the management in designing plans and policies.
2.	Periodicity	It is prepared at the end of the financial year.	It prepares its report weekly or monthly.	It provides information when ever it is required by the management.
3.	Importance	It is compulsory to prepare final accounts in every organization.	It is compulsory to prepare cost accounts only in some undertakings.	It is not compulsory. Principles and procedures are not followed in management accounting.
4.	Principles	It follows only some accounting principles and standards.	It is compulsory to follow all the principles and procedures in cost accounting.	
5.	Analysis or report	It discloses the financial position of the company as a whole.	It discloses the profits with regard to each process, product or service.	It prepares the budget and tax plans from the reports provided by financial and cost accounting.
6.	Nature	It mainly deals with the historical data.	It makes use of the historical data provided and outlines it.	It deals with the future plans and policies.
7.	Scope	In financial accounting, trading account, profit and loss account and balance sheet are prepared.	Cost accounting ascertaining the cost of a product or service.	It formulates policies for effective performance of management and covers cost and financial accounting.

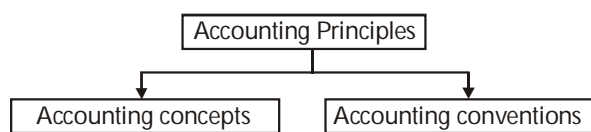
1.7 ACCOUNTING PRINCIPLES

Q10. What are Accounting Principles?

Ans :

As accounting acts as a language which is used to communicate the accounting information to the interested parties, it must follow some standards so that it runs smoothly. These standards are nothing but the accounting principles.

Accounting principles are those rules and regulations which are followed by the accountants at the time of recording the accounting transactions. Accounting principles are defined as "a list of principles that are usually linked with the theory and procedures of accounting serving as an explanation of current practices and as a guide for selection of conventions or procedures where alternatives exist".



These principles are categorized into two groups.

- (i) Accounting concepts and
- (ii) Accounting conventions.

1.7.1 Accounting Concepts

Q11. Explain in detail the various accounting concepts.

(or)

Discuss the various accounting concepts.

(May-19, Dec.18,

Ans. : Dec.-17, June-17, Imp.)

Accounting is based on few concepts which follows assumptions or rules for recording the transactions. Some important accounting concepts are as follows.

(a) Business Entity Concept

In accounting, proprietor treats its business as a separate entity so that his business transactions does not get mixed up with his personal life. If business and personal activities are mixed up then it would be difficult to derive/draw meaningful accounting information. The separate entity concept is applicable to all forms of business organizations for the accounting purpose. Usually, this concept seems to be unreasonable but it is very useful in drawing out the accounting information.

(b) Going Concern Concept

In this concept, the proprietor assumes that business will continue for a longer period of time in future. There is no intention of winding up the business in the near future. In this concept, accountant values the assets by calculating depreciation on the basis of expected life instead of the market values and he does not take into account the forced sale value of assets.

(c) Money Measurement Concept

This concept implies that only monetary transactions are taken into consideration at the time of preparation of accounting records.

Books of account does not consider any transaction which cannot be expressed in terms of money even though it may be useful for business but it is not recorded in the books of account.

(d) Cost Concept

The cost concept is similar to going concern concept. This concept implies that,

- Only the actual price of the asset is being recorded in books of accounts and,
- This actual cost is considered as a basis for further calculations of asset. This concept explains that an asset is recorded at its cost at the time of purchase but as the time passes on its value gets reduced due to depreciation charged on it. The preparation and presentation of financial statements becomes flawless and impartial with the help of cost concept.

(e) Dual Aspect Concept

The dual aspect concept is a primary concept of accounting, it implies that every business transaction has two-fold effect i.e., dual effect. The double effect of this concept can be expressed in form of an accounting equation as,

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

or

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

This equation can also be written as,

$$\text{Equities} = \text{Assets}$$

Hence, accounting equation explains the relationship between equities and assets. It implies that every debit has a credit which is equal to the sum of the debit.

(f) Accounting Period Concept

This concept explains that even though the life of business is very long but proprietor must calculate its position regularly after certain period of time usually after one year, this is known as accounting period. At the end of

every accounting period, accountant is supposed to prepare the income statement which displays the profit or loss earned during the accounting period and the balance sheet which shows the financial condition of the business till the last day of the accounting period. During the preparation of the statement, the capital and revenue expenditures must be taken carefully.

(g) Periodic Matching of Costs and Revenue Concept

The matching concept is based on the accounting period concept. According to this concept, a business in order to achieve its prime objective of profit maximization should always maintain a match between the costs and revenue within the accounting period. The term 'matching' refers to the adequate association of related revenues and expenditures.

(h) Realization Concept

According to this concept revenue is generated only through sales. The point of time when the property in goods is passed on to buyer and when he is legally entitled/liable to pay, it is considered as sales. The realization concept is not applicable for hire-purchase and contracts account.

1.7.2 Accounting Conventions

Q12. Explain in detail the accounting conventions.

Ans : (May-19, Imp.)

Accounting conventions involves those rituals and practices which helps the accountant in the preparation of accounting statements.

Some of the important accounting conventions are,

(a) Convention of Conservatism

According to this convention, accountant must adopt the policy of playing safe and follow the rule "anticipate no profit but provide for all possible losses". This implies

that accountant must make a provision for all possible or expected losses but unearned or unrealized profit must not be included. When convention of conservatism is used inventory is valued at lower price, either at cost or market price and provision is made for bad or doubtful debts. The main objective of this convention is to misrepresent the true financial position of the company in order to show lower net income and understated assets and liabilities.

(b) Convention of Full Disclosure

According to this convention, financial statements must provide the complete and true information about the company. Financial statements must be prepared in accordance to the laws so that it can be effectively used by proprietors, present and potential creditors and investors. The convention of full disclosure add notes to the accounting statements.

(c) Convention of Consistency

According to this convention, a company must follow same accounting practices and methods from one period to another. Any changing the accounting practices would result in several problems in calculating the true financial position of the company. If suppose for calculating depreciation a company follows a straight line method in one year and diminishing reducing balance method in another year, it becomes difficult to evaluate and compare the true financial position of the company. If any advanced technique is introduced, it must be mentioned clearly in the financial statements.

(d) Convention of Materiality

According to this convention, the accountant must give importance to material details and must avoid unnecessary/unimportant details. Kohler defined "materiality means the characteristic attaching to a statement, fact or item whereby its disclosure or method of giving it expression would be likely to influence the judgement of a reasonable person'.

Q13. Explain the characteristics of accounting principles.*Ans :*

The characteristics or features of accounting principles are as follows:

1. Reliable, Verifiable and Objective

Accountants are likely to be more reliable, verifiable and objective if they are following the principles of accounting since the accounts based on such principles have the universal acceptability. Verifiability can be done by matching the cost shown in the books with the vouchers and therefore the accounts will be reliable.

2. Consistency

Accountants are expected to be consistent when applying accounting principles, procedures and practices. For example, if a company is using the FIFO method of inventory or stock valuation, the users of the financial statements have every reason to expect that the company is using FIFO method. If the company changes this practice and begins using the LIFO method, then that change must be clearly disclosed.

3. Comparability

The users of accounting statements expect that the financial statements of one company can be compared to the statements of other companies of the same industry. The accounting principles may provide for comparability between the financial statements of different companies.

1.8 ACCOUNTING STANDARDS - MEANING**Q14. Explain briefly about Accounting Standards.***Ans :*

We know that Generally Accepted Accounting Principles (GAAP) aims at bringing uniformity and comparability in the financial statements. It can be seen that at many places,

GAAP permits a variety of alternative accounting treatments for the same item. For example, different methods for valuation of stock give different results in financial statements.

Such practices sometimes can misguide intended users in taking decision relating to their field. Keeping in view the problems faced by many users of accounting, a need for the development of common accounting standards was aroused.

For this purpose, the Institute of Chartered Accountants of India (ICAI), which is also a member of International Accounting Standards Committee (IASC), had constituted Accounting Standard Board (ASB) in the year 1977. ASB identified the areas in which uniformity in accounting was required. After detailed research and discussions, it prepared and submitted a draft to the ICAI. After proper examination, ICAI finalized them and notified for its use in financial statements.

Meaning of Accounting Standards

Accounting standards are the written statements consisting of rules and guidelines, issued by the accounting institutions, for the preparation of uniform and consistent financial statements and also for other disclosures affecting the different users of accounting information.

Accounting standards lay down the terms and conditions of accounting policies and practices by way of codes, guidelines and adjustments for making the interpretation of the items appearing in the financial statements easy and even their treatment in the books of account.

For accounting standards, to be useful tool to enhance the corporate governance and responsibility, two criteria must be satisfied, i.e.

- (i) A standard must provide a generally understood and accepted measure of the phenomena of concern.
- (ii) A standard should significantly reduce the amount of manipulation of the reported numbers and is likely to occur in the absence of the standards.

1.8.1 Importance**Q15. Explain the Importance of Accounting Standards.**

Ans :

Accounting standards facilities uniform preparation and reporting of general purpose financial statements published annually for the benefit of shareholders, creditors, employee and public at large. They are very useful to the investors and other external groups in assessing the progress and prospects of alternative investments in different companies in different countries.

On the basis of forgoing discussion we can say that accounting standards are guide, dictator, service provider and harmonizer in the field of accounting process.

(i) Serve as a guide to the accountants

Accounting standards serve the accountants as a guide in the accounting process. They provide basis on which accounts are prepared. For example, they provide the method of valuation of inventories.

(ii) Act as a dictator

Accounting standards act as a dictator in the field of accounting. Like a dictator, in some areas accountants have no choice of their own but to opt for practices other than those stated in the accounting standards. For example, Cash Flow Statement should be prepared in the format prescribed by accounting standard.

(iii) Serve as a service provider

Accounting standards comprise the scope of accounting by defining certain terms, presenting the accounting issues, specifying standards, explaining numerous disclosures and implementation date. Thus, accounting standards are descriptive in nature and serve as a service provider.

(iv) Act as a harmonizer

Accounting standards are not biased and bring uniformity in accounting methods. They

remove the effect of diverse accounting practices and policies. On many occasions, accounting standards develop and provide solutions to specific accounting issues. It is thus clear that whenever there is any conflict on accounting issues, accounting standards act as harmonizer and facilitate solutions for accountants.

Q16. Explain the Need for Accounting Standards

Ans :

Accounting standards can be seen as providing an important mechanism to help in the resolution of potential financial conflicts of interest between the various important groups in society. It is essential that accounting standards should command the greatest possible credibility among shareholders, creditors, employee and public at large.

For the following purposes, accounting standards are needed

(i) For bringing uniformity in accounting methods

Accounting standards are required to bring uniformity in accounting methods by proposing standard treatments to the accounting issue. For example, AS-6 (Revised) states the methods for depreciation accounting.

(ii) For improving the reliability of the financial statements

Accounting is a language of business. There are many users of the information provided by accountants who take various decisions relating to their field just on the basis of information contained in financial statements. In this connection, it is necessary that the financial statements should show true and fair view of the business concern. Accounting standards when used give a sense of faith and reliability to various users.

They also help the potential users of the information contained in the financial statements by disclosure norms which make it easy even for a layman to interpret the data. Accounting standards provide a concrete theory base to the process of accounting. They provide uniformity in accounting which makes the financial statements of different business units, for different years comparable and again facilitate decision making.

(iii) Simplify the accounting information

Accounting standards prevent the users from reaching any misleading conclusions and make the financial data simpler for everyone. For example, AS-3 (Revised) clearly classifies the flows of cash in terms of 'operating activities', 'investing activities' and 'financing activities'.

(iv) Prevents frauds and manipulations:

Accounting standards prevent manipulation of data by the management and others. By codifying the accounting methods, frauds and manipulations can be minimized.

(v) Helps auditors

Accounting standards lay down the terms and conditions for accounting policies and practices by way of codes, guidelines and adjustments for making and interpreting the items appearing in the financial statements. Thus, these terms, policies and guidelines etc. become the basis for auditing the books of accounts

Q17. Explain the Scope of Accounting Standards.

Ans :

1. The ASB will make every effort to issue Accounting Standards "which are in conformity with the provisions of the applicable laws, customs, usage and business environment of our country". However, if due to subsequent amendments in law, a particular Accounting Standard is found to be not in conformity with such law, the provisions of the said law will prevail and the financial statements should be prepared in conformity with such laws.
2. The Accounting standard by their very nature cannot and do not override the local

regulations which govern the preparation and presentation of financial statements in our country. However, the Institute will determine the extent of disclosure to be made in financial statements and the related Auditor's reports.

3. The Accounting standards are intended to apply to items which are material. Any limitations with regard to the applicability of a specific standard will be made clear by the Institute from time to time. The date from which a particular standard will come into effect, as well as the class of enterprises to which it will apply, will also be specified by the Institute.
4. The institute will use its best endeavours to persuade the Government, appropriate authorities, industrial and business community to adopt these standards in order to achieve uniformity in the presentation of financial statements.
5. In carrying out the task of formulating Accounting Standards the intention is to concentrate on basic matters. The endeavour would be to confine Accounting Standards to essentials and not to make them so complex that they cannot be applied effectively on nation-wide basis. In the years to come the Accounting standards are expected to undergo revision and may become more effective.

1.8.2 List of Accounting Standards

Q18. Discuss the list of Accounting Standards (AS) of ICAI.

Ans :

(Dec.-16, Imp.)

The 'Accounting Standards' are issued by the "Accounting Standards Board (ASB)" of the Institute of Chartered Accountants of India (ICAI) to establish uniform standards which have to be complied with to ensure that financial statements are prepared in accordance with generally accepted accounting standards. These standards are mandatory on the dates specified either in the respective document or by notification issued by the Council of the ICAI. Basically, the Accounting standards of the ICAI are to ensure that accounts are prepared uniformly and in line with the Indian GAAPs for better understanding of the users.

Mandatory Accounting Standards (AS)

The accounting standards board of the Institute of Chartered Accountants of India has issued the following Accounting Standards:

1. AS-1: Disclosure of Accounting Policies

ICAI issued AS-1 titled disclosure of accounting policies to facilitate easy understanding of the financial statements through disclosing the applicable financial accounting policies in those statements. It also ensure easy comparative and of financial statements of various firms. The rules, as per AS-1 are,

- (i) Firm should disclose all significant accounting policies and treat these disclosures as a part of preparation of financial statements.
- (ii) Firm should disclose, even the minor changes in the accounting policies.
- (iii) Firm should follow the general assumptions such as going concern consistency and accrual while preparing financial statements. It should disclose all the facts for not following the assumptions.
- (iv) The criteria for selection of accounting policy as per AS-1 is prudence, substance priority and materiality.

2. AS-2: Accounting for Inventory Valuation

Revised Accounting Standard-2 for Valuation of Inventories

The revised Accounting Standard-2 for valuation of inventories was initiated in June, 1981. But, its implementation started on or after 1st April, 1999. The essential requirements of AS-2 for valuation of inventories is as follows,

(a) Objective

The main aim behind introducing Accounting Standard-2 for valuation of inventories was to ascertain the stock value of inventories which need to be carried to financial statements till the goods are sold and profits are identified.

(b) Scope

Accounting Standard-2 is not applied to,

- (i) Work in progress emerging from construction contracts.
- (ii) Work in progress emerging from the normal business activities of service providers.

- (iii) Shares, debentures and other financial instruments used by financial services companies as stock in trade, and
- (iv) Agricultural products, forest product, mineral oils, producers of inventories of livestock, ores and gases, to the degree to which they are measured at the net realisable value as per the well established practices of those industries.

(c) Definitions

Accounting Standard-2 defined,

- (i) Inventories as the assets,
 - (a) Held for sale in the normal course of business.
 - (b) In the process of production for sale, and
 - (c) In the form of materials or supplies to be used in production or in rendering the services.
- (ii) Net realisable value is obtained by deducting the estimated selling price in the normal course of business from the estimated cost of completion and the estimated cost needed for making the sale.

Inventory includes the goods purchased and used for resale or the land and other property used for resale. It also includes finished goods produced or work in progress being produced by the firm and the materials, maintenance supplies, consumables and loose tools waiting for use in the production process. According to accounting standard-10 (AS- 10), inventories do not include the machinery spares that can be used only with an item of fixed asset and which has irregular use.

3. AS-3: Accounting for Cash Flow Statement

Cash flow Statements or the Accounting standard 3 (AS 3) are additional information for the user of the financial statement. Cash flow statements exhibit the flow of incoming and outgoing cash. This statement assesses the ability of the enterprise to generate cash and to utilize the cash. This statement is one of the tools for assessing the liquidity and solvency of the enterprise. This Accounting Standard 3, Cash flow statements, is not mandatory for Small and Medium Sized Companies. However, Such companies are encouraged to comply with the Standard.

4. AS-4: Accounting for Contingencies and Provisions after Balance Sheet Date

The objective of the AS-4 is to facilitate the accounting of the contingencies and provisions in the financial statement that will happen after the balance sheet date but before the approval by Board of directors. According to this standard, contingency is a situation in which the outcomes are dependent on the occurrence of uncertain future events. For events that occur after the balance sheet date, adjustment should be made. One should represent the nature of the events but not include the contingencies and provisions for liabilities if they are expected to have a substantial effect on the financial statement in the future years.

If the receipts of profits (on credit side) or loss (on debit side) from these events is certain they should be mentioned in the financial statements.

5. AS-5: Norms for Net Income; and Changes in Accounting Policies

The objective of AS-5 is to provide criteria for classification of items in the profit and loss account in order to facilitate the comparative analysis of different firms. It promotes the determination of profit/loss from different activities such as normal, extra-ordinary and prior period items, changes in accounting policies and estimates.

- (i) Extra-ordinary activities are different from normal activities including items from fire and flood.
- (ii) Prior period items are those that occur in the present year due to errors in Financial statements of previous year.

6. AS-6: Valuation of Depreciation

The revised accounting on depreciation accounting was introduced by the Institute of Chartered Accountants of India in September, 1994. The regulations or salient features of AS-6 are as follows,

1. Accounting standard-6 is not applied to the assets like,
 - (i) Forests, plantations and similar regenerative natural resources.
 - (ii) Wasting assets such as expenditure on exploration for extracting minerals, oils and natural gas.

- (iii) Expenditure on research and development.
- (iv) Goodwill.
- (v) Livestock.
- (vi) Land till it has a limited useful life for the firm.

2. The depreciable amount of a depreciable asset must be assigned systematically to each accounting period throughout the useful life of the asset.
3. The depreciation method which is selected must be used regularly and uniformly from period to period.

This method can be changed only when,

- (i) It is required by law.
- (ii) It is required for compliance with an accounting standard.
- (iii) It is needed for presenting the financial statement effectively.

If the depreciation method is changed then the depreciation must be recalculated according to the new method which came to use from the date of asset. The surplus or deficiency which occurs because of change in depreciation method must be taken into Account of profit and loss account during the year of change.

4. The useful life of a depreciable asset must be determined after examining the factors such as expected physical wear and tear, obsolescence and legal or other limits on the use of asset.
5. The profitable or useful lives of primary depreciable assets or classes of depreciable asset can be examined regularly. If there is a revision of estimated useful life of an asset then the unamortised depreciable amount must be charged above the revised remaining useful life.
6. The addition or extension which are very important for the current asset must be depreciated above the remaining useful life of that asset. This depreciation is charged at a rate applied to the current asset. If an

addition or extension maintains a separate identity and has the capacity to be used after the current asset is disposed of, then the depreciation is charged independently based on the estimation of its own useful life.

7. When the historical cost of a depreciable asset changes because of increase or decrease in long term liability due to exchange fluctuations, price adjustments, changes in duties or related factors, then the depreciation on the revised unamortised depreciable amount is charged above the residual useful life of asset.
8. When the depreciable assets are revalued, then the provision of depreciation depends on the revalued amount and on the estimate of the remaining useful lives of these assets. If the revaluation has a material effect on depreciation amount, then it must be revealed separately in the year in which revaluation is done.
9. When any depreciable asset is destroyed, disposed of, demolished or discarded, then the net surplus or deficiency (materials) must be disposed separately.
10. Financial statements must reveal,
 - (i) The historical cost or other amount replaced for historical cost of each class of depreciable assets.
 - (ii) Total depreciation for the period of all classes of assets
 - (iii) Related accumulated depreciation.
11. Financial statements must also reveal the following information along with the disclosure of other accounting policies,
 - (i) The methods of depreciation used
 - (ii) The rates of depreciation or useful lives of the assets when they are different from the primary rates defined in the law governing the firm.

Accounting standard-6 has become compulsory for the accounting periods which started on or after 1st April 1995.

7. AS-7: Accounting for Construction Contracts

This standard determines the accounting policy for accounting the revenues and costs regarding the construction contracts. According to this standard, one should be very careful in the allocation of revenues and costs to the different accounting periods in which the contract has performed. The revenue can be ascertained using percentage of completion method.

8. AS-8: Accounting for R&D

This standard prescribes accounting for R&D contracts but it has been deleted with the introduction of AS-26.

9. AS-9: Norms for Revenue Recognition

This standard prescribes the criteria for recognition of revenue that is generated from the normal activities of a firm such as sale of goods, rendering of services, use of firm's resources by others for an interest, rent etc. According to AS-9, the revenue recognition can be postponed under certain conditions by disclosing them. This standard is excepted for the revenue generated from construction contracts, hire purchase, lease, government grants and insurance companies.

10. AS-10: Accounting for Fixed Assets

Accounting Standards for Valuation of Fixed Assets

Accounting Standards AS-10 were issued by ICAI for valuation of fixed assets.

(a) Objective

The objective of AS-10 is to prescribe the principles, procedures and disclosure requirements for accounting fixed assets of a firm. AS-10 explains the significance of fixed assets.

(b) Coverage

The AS-10 is not applicable for the following assets,

- (i) Expenditure on forests and plantations.
- (ii) Regenerative natural resources.
- (iii) Wasting assets such as expenses on mineral and natural gas exploration.
- (iv) Live stock, goodwill and real estate development.

(c) Retirements and Disposals

According to AS-10, the fixed assets can be retired or disposed under the following conditions,

- (i) If the assets are no more able to produce benefits to the firm, those assets can be removed from financial statements.
- (ii) The value of the assets that are retired or held for disposal should be mentioned under net book value and net realisable value and also in financial statement separately.
- (iii) The profit or loss resulted from the disposal of fixed assets should be stated under profit and loss account. If it is loss it can reduce the revaluation reserve.

After the disposal, the remaining reserves should be transferred to general reserve.

(d) Disclosure Requirements

The disclosure requirements as per AS-10 for the valuation of fixed assets in balance sheet are,

- (i) Gross book values and net book values at the initial and end dates of the accounting period including any changes such as additions, disposals etc.
- (ii) Costs associated with acquisition or construction of fixed assets.
- (iii) Revaluation amount, method of revaluation, nature of indices, appraisal period and external values if present.

11. AS-11: Accounting Treatment for Changes in Foreign Exchange Rates

It provides criteria for accounting treatment of foreign currency transactions and revenue and

costs associated with foreign operations. The major aspects that should be considered while accounting foreign currency transactions are,

- (i) Exchange rates at that period
- (ii) The change in exchange rate
- (iii) The effect of change on financial statement.

12. AS-12: Accounting for Government Grants

The objective of AS-12 is to prescribe accounting treatment for only government grants but not for any other assistance provided by the government. The government grants are also called subsidiaries, cash incentives, duty drawbacks etc.

13. AS-13: Accounting for Investments

The objective of this standard is to prescribe accounting treatment for investment. Investments are the assets and revenue sources for the firm. The current and long term investments should be treated separately.

14. AS-14: Accounting for Amalgamations

This standard deals with accounting treatment of the amalgamations for the transferee company. The best method of accounting in this case is "pooling of interests".

15. AS-15: Accounting for Employee Retirement Benefits

This standard deals with the accounting treatment of employee benefits such as PF, defined contribution schemes employee contribution. The excess of amount paid in a year should be mentioned as prepayment and the short fall should be treated under profit and loss account.

16. AS-16: Accounting for Borrowing Costs

The objective of this standard is to prescribe accounting treatment for borrowing costs. Borrowing costs are direct costs associated with the acquisition, construction and production using long term fixed assets, interest and commitment charges. These costs should be charged under the value of the asset.

17. AS-17: Norms for Segment Reporting

It prescribes the criteria for reporting the financial information regarding different products and services and various locations of the firm. The financial report depicts the full picture of its financial performance to its stake holders in terms of profitability and value.

18. AS-18: Disclosure of Transactions with Related Parties

This standard prescribes the disclosure requirements for enclosing the transactions between the firm and related parties. The requirements include,

- (i) Name and nature of parties
- (ii) Description of nature, volume and proportion of transactions.
- (iii) Other important aspects related to the transactions.

All the transactions amount should be included in the financial statement.

19. AS-19: Accounting for Leases

This standard deals with the details of account policies and disclosure requirements for both lessor and lessee for operational and financial lease.

20. AS-20: Earnings per Share

This standard prescribes the guidelines for determining and presentation of earnings per share to enhance either the comparative analysis of firms performance over a period of time or with different firms.

21. AS-21: Norms for Consolidated Financial Statements

The financial statements of a group of firms are called consolidated statements. These are produced by parent firm which reflects the performance of its subsidiaries and parent firm as a single entity. AS-21 deals with the determination of accounting procedures for the preparation and presentation of consolidated financial statements.

This standard is excepted for the joint ventures and associated investments. This disclosure requirements under AS-21 include,

- (i) List of subsidiaries along with name, location, owner's share, proportion of voting power.

- (ii) Nature of relation between parent and subsidiary.

- (iii) List of subsidiaries whose reporting dates are different from that of parent firm.

22. AS-22: Accounting for Taxes

Tax is a key factor in the preparation of financial accounting. AS-22 provides the accounting policies for treatment of taxes on income. AS-22 defines deferred tax as the tax effect of timing differences i.e., the differences between the tax income and account income that occur in one period and can be reversed in the subsequent periods.

- (i) One should disclose the deferred tax assets/liabilities separately included under current assets and liabilities in balance sheet.
- (ii) The amounts of each aspect under deferred tax should be disclosed in the notes to accounting.
- (iii) The evidence for recognition of deferred tax should also be disclosed.

23. AS-23: Accounting for Associated Investments

It deals with the accounting treatment of investments in associates. Associates are the firms which are not subsidiaries and joint ventures where investors have a substantial share and control. The investments of an associate should be accounted under the consolidated financial statements using equity method. This statement represents the proportion of investor's share in the profits of the associated firm.

24. AS-24: Accounting for Discounting Operations

This standard does not prescribe any recognition and measurement principles recommend the firms to adopt the measurement principles that are given by other standards. AS-4 and AS-28 for reporting the discounting operations. Discounting operations are those activities that have been completely abandoned by the firm.

25. AS-25: Norms on Interim Financial Reporting

Timely and reliable interim financial reports enhances the understanding ability of the

stakeholders regarding the firm's performance and ability to generate profits and liquidity. The objective of the standard is to prescribe principles for preparation and presentation of the interim financial reports including condensed financial statement including recent changes.

26. AS-26: Valuation of Intangible Assets

The objective of this standard is to determine accounting policy for the treatment of intangible assets. It prescribes the criteria for recognition of intangible assets of a firm with the issue of AS-26. The other standards dealing with intangible assets have been deleted such as AS-8, AS-6 and AS-10. It is not applicable for the firms with,

- (i) Financial assets
- (ii) Mineral and exploration rights.

According to AS-26, intangible asset is a non-physical and non-monetary asset. That is used for the purpose of production of goods and services,

- (i) Each category of intangible assets should be disclosed along with their lives, amortization rates, gross and net amount, residual values, loss due to impairment etc.,
- (ii) The reasons for the long life of asset should be disclosed.
- (iii) The expenses on R&D should also be disclosed.

27. AS-27: Accounting for Joint Ventures

This standard prescribes the principles for accounting of investments in joint ventures and presentation of investments in joint venture assets, liabilities, income and expenses in financial statements of investors.

28. AS-28: Accounting for Impairment of Assets

This standard establishes procedure for the recognition of impaired assets and accounting treatment of the loss.

29. AS-29: Accounting for Provisions Contingencies

The objective of AS-29 is to prescribe the accounting treatment for provisions, contingent liabilities and assets. When AS-29 becomes

mandatory, firms have ignored the procedures given by other standards. The disclosure requirements as per AS-29 include,

- (i) The provision carry amount, additional provisions additional charges excluding provision and unused amounts should be disclosed.
- (ii) They should disclose the description of nature of the provision, assumptions for future events and amounts of reimbursements.

30. AS-30: Accounting for Financial Instruments

ICAI issued another accounting standard for the recognition and measurement of the financial instruments including fixed assets, fixed liabilities etc.,

31. AS-31: Norms for Reporting Financial Instruments

This standard prescribes the principles for reporting and presenting the financial instruments.

32. AS-32: Disclosure of Financial Instruments

This standard prescribes the disclosure requirements for accounting financial instruments. It helps the users of financial statements to evaluate the importance of financial institutions in the success of a firm.

1.9 ACCOUNTING SYSTEM

Q19. Define accounting system.

Ans :

Accounting system and process includes single entry system, double entry system and transactions of journal and ledger, which are very important for the initial steps of accounting. Single entry system is a system of book-keeping in which, as a rule only records of cash and of personal accounts are maintained, it is always incomplete double entry system.

Double entry system seeks to record every transactions in money in its double aspects. It is a complete record. Accounting process involves accounting equation, accounting terminology, accounting transactions, events, journal and ledger. A Journal is a chronological record of transactions

entered into by a business. Journalising is the process of recording entries in a journal. Ledger is an analytical record of transaction, as transactions are classified in the ledger.

Accounting equation is another form of dual aspect concept. It is balance concept where assets equal to liabilities. Accounting process involves debit and credit role of different accounts, where debit means increase and credit means decrease. Thus, accounting system and process is the most important parts of accounting.

Popular Way of Classification

There are many ways the system of classification of Book-keeping, which are as follows:

- Single Entry System of Book-keeping
- Double Entry System of Book-keeping.

Q20. What are the features of single entry system.

Ans :

Meaning of Single Entry System

Single entry system is an incomplete form of recording financial transactions. It is the system, which does not record two aspects or accounts of all the financial transactions. It is the system, which has no fixed set of rules to record the financial transactions of the business.

Single entry system records only one aspect of transaction. Thus, single entry system is not a proper system of recording financial transactions, which fails to present complete information required by the management. Single entry system mainly maintains cash book and personal accounts of debtors and creditors. Single entry system ignores nominal account and real account except cash account. Hence, it is incomplete form of double entry system, which fails to disclose true profit or loss and financial position of a business organization.

Features of Single Entry System

The following are the main features of single entry system:

1. No Fixed Rules

Single entry system is not guided by fixed set of accounting rules for determining the

amount of profit and preparing the financial statements.

2. Incomplete System

Single entry system is an incomplete system of accounting, which does not record all the aspects of financial transactions of the business.

3. Cash Book

Single entry system maintains cash book for recording cash receipts and payments of the business organization during a given period of time.

4. Personal Account

Single entry system maintains personal accounts of all the debtors and creditors for determining the amount of credit sales and credit purchases during a given period of time.

5. Variations in Application

Single entry system has no fixed set of principles for recording financial transactions and preparing different financial statements. Hence, it has variations in its application from one business to another

Q21. Explain advantages and disadvantages of single entry system.

Ans :

Advantages of Single Entry System

The following are the important advantages of single entry system:

1. Simple and Easy

Single entry system is simple to understand and easy to maintain as it has no fixed set of principles to follow while recording financial transactions.

2. Economy

Single entry system is an economical system of recording financial transactions. It does not require hiring skilled accounting personnel to record financial transactions of the business. Further, it does not require large number of books to record the limited number of financial transactions.

3. Easy to Calculate Profit

Under single entry system, the amount of profit can be determined easily. The amount of profit or loss of the period can be determined by making comparison between the amounts of closing capital and opening capital.

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4. Suitable for Small Business

The single entry system is simple, easy, and economical system. It is suitable for small businesses because they can not afford the cost of double entry system. Besides, small business are not required to maintain their books of accounts under double entry system.

Disadvantages of Single Entry System

The following are the notable disadvantages of single entry system:

1. Unscientific and Unsystematic

The single entry system is unsystematic and unscientific system of recording financial transactions. It does not have any set of fixed rules and principles for recording and reporting the financial transactions.

2. Incomplete System

Single entry system is incomplete system because it does not record the two aspects or accounts of all the financial transactions of the business. It does not maintain any record of the transactions relating to the nominal account and real account except cash account.

3. Lack of Arithmetical Accuracy

Single entry system is not based on the principles of debit and credit. It fails to provide the arithmetical accuracy of the books of accounts. Trial balance can not be prepared under this system to check the arithmetical accuracy of books of accounts.

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4. Does not Reflect True Profit or Loss

Under single entry system, the true amount of profit or loss can not be ascertained because it does not maintain the nominal accounts.

5. Does Not Reflect True Financial Position

The single entry system does not maintain real accounts except cash book. Therefore, it can not reveal the true financial position of the business.

6. Frauds and Errors

The single entry system of book-keeping is incomplete, inaccurate and unscientific. It does not help to check the arithmetical accuracy of the books of accounts. Therefore, there is always a possibility of committing frauds and errors in the books of accounts.

7. Unacceptable for Tax Purpose

The single entry of book keeping has incomplete records of the financial transactions of the business. Hence, the tax office can not accept the account maintained under this system for the purpose of assessment of tax.

Q22. What do you understand by double entry system? Discuss its features.

Ans :

Double entry also allows for the accounting equation (assets = liabilities + owner's equity) to always be in balance. In our example involving Advertising Expense, the accounting equation remained in balance because expenses cause owner's equity to decrease. In that example, the asset Cash decreased and the owner's capital account within owner's equity also decreased.

A third aspect of double entry is that the amounts entered into the general ledger accounts as debits must be equal to the amounts entered as credits.

Features of Double Entry System

The features of double entry system are as follows :

1. Set Rules

Every transaction is recorded as per the set rules of personal, real and nominal accounts. For this purpose every transaction is divided in two parts.

2. Entry in Two Accounts

Each transaction affects two accounts whether it is a cash or credit transaction.

3. Scientific System

Each transaction is divided in two parts which are personal and impersonal and then the rules of these accounts are applied. Since it has certain rules, it can be called as a scientific system.

4. Preparation of Trial Balance

Under double entry system, a trial balance is prepared to check the arithmetical accuracy of the accounts. If the total of debit column is equal to the total of credit column, then it means the accounts are arithmetically accurate.

5. Preparation of Final Accounts

Under double entry system, the final accounts are prepared through which one can know the profit and loss earned during the year. It also tells the final position of the business on the date of preparation of final accounts.

Q23. Explain advantages and disadvantages of double entry system.

Ans :

Advantages of Double Entry System

It has the following advantages :

1. Scientific System

Double entry is treated as a scientific system since there are certain principles and rules of recording the transaction according to which entries are made in the books of accounts.

2. Complete Record of Transactions

All types of transactions whether they are related with personal, real, nominal accounts are recorded in the books of accounts on the basis of specified rules. Thus, it is called a

complete system and helps to narrate the transactions in future easily.

3. Knowledge about Different Accounts

This system gives the information and knowledge about the different types of accounts which are maintained in the ledger. Therefore, any information relating to any person, expense or income can easily be obtained.

4. Knowledge about Financial Position

This system also enables the businessman to know the financial position of his business. It also presents the assets and liabilities of the business on a certain date.

5. Elasticity

This system is flexible in nature and it can be expanded or contracted as per the changed requirements of the business. For example, if the number of transactions in the business increases, the subsidiary books can be used.

6. Less Possibility of Fraud and Mistakes

Since this system is scientific in nature, each transaction is recorded on two sides. Thus there is less possibility of fraud, mistakes and misappropriation. In case of any fraud and mistake it can be detected and rectified quickly.

7. Suitable for all types of Businesses

This system can be used for all types of business houses whether they are sole proprietorship firms or partnership firms or joint stock companies. That's why this system of accounting is used throughout the world as it is adequate for all.

8. Comparative Study is Possible

The accounts of current year can be compared with the accounts of previous year in the double entry system. Thus, the progress of business can be measured along, with accounting. It also helps in controlling the unnecessary expenses.

9. Proof as Evidence

The books prepared under this system are recognised as evidences since they are treated as accurate, reliable and scientific.

10. Facility of Adjustments

Under this system, adjustments relating to unearned incomes, outstanding expenses, prepaid expenses and accrued income, etc. can be made at the end of the year. This helps in ascertaining the true profit or loss and actual financial position of the business.

Disadvantages of Double Entry System

The double entry system has the following disadvantages :

1. Costlier System

A number of accounting books such as journal, ledger, cash book and subsidiary journals, etc. are maintained under this system. Therefore this system becomes costlier especially for small business houses.

2. Accounting Errors

Only the arithmetical accuracy of accounts can be checked by preparing the trial balance. But many of accounting errors, like error of omission, error of principle, error of commission and compensating errors may remain takes despite the agreement of trial balance.

3. Requires Practical Knowledge

A person without the knowledge of accounts cannot record and understand the transactions. Therefore, the system needs a well educated, practical and trained professional to maintain and understand the accounts under this system.

Q24. What are the difference between Double Entry System and Single Entry System ?

Ans :

Double Entry System	Single Entry System
(i) It is a complete and scientific system of book-keeping and dual entries of a transaction should be made in two different accounts.	(ii) It is an incomplete unscientific unsatisfactory system of accounting, where each and every transaction is not kept under this system.
(ii) All accounts like personal, real and nominal trained by this system.	(ii) Only personal accounts and cash book are maintained under this system.
(iii) Financial position can be easily ascertained by preparing a Balance sheet, which is cannot be prepared without much records.	(iii) Financial position cannot be ascertained, by a Balance sheet because it is prepared with much records.
(iv) Under this system, the arithmetical accuracy of the books of accounts can be checked by preparing a Trial balance	(iv) Under single entry system the arithmetical accuracy cannot be checked because of a Trial balance cannot be prepared.
(v) This system has statutory recognition and records are maintained under this system. Which are accepted as evidence in the court of law.	(v) This system has no statutory recognition and are normally accepted by the court of law.

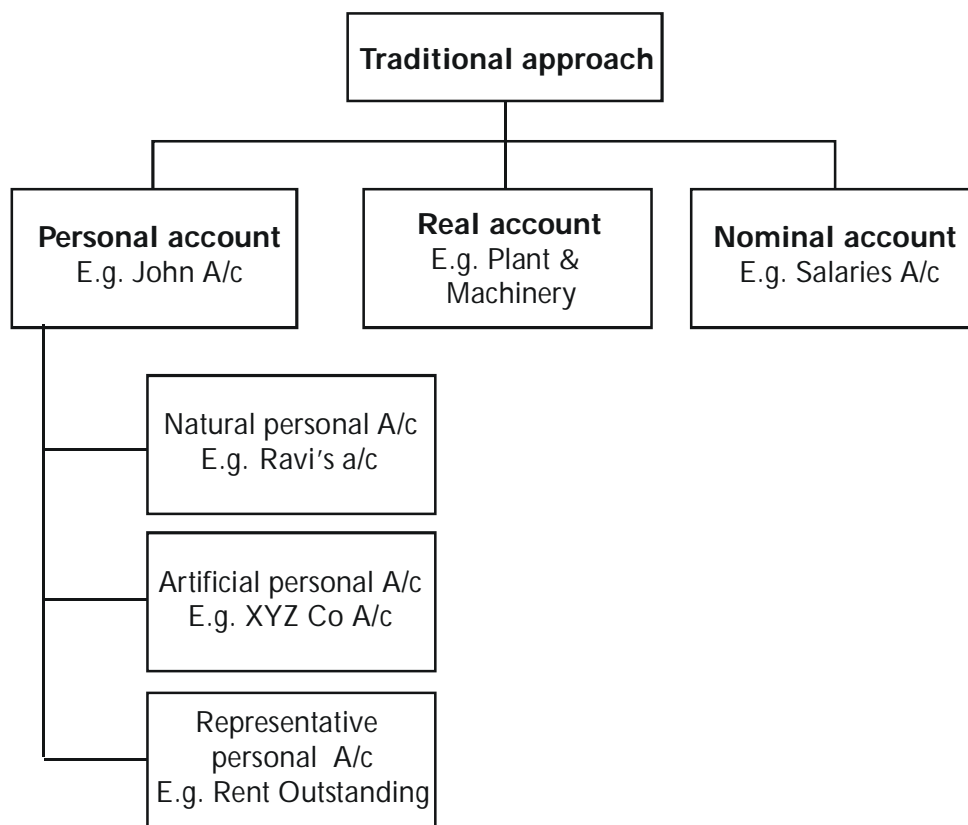
1.9.1 Types of Accounts**Q25. Briefly describe the classificatioin of accounts.**

Ans :

An account is a summary of relevant transaction and events at one place under a particular head. It records the amount of the transactions and also depicts their effect and direction. Classification of accounting is broadly divided into two heads:

1. Classification according to Traditional approach
2. Classification according to accounting equation

1. Classification of Accounts according to traditional approach



A) Personal Account

Account related to individual, banks, firm, companies, etc. are known as personal account. The personal accounts are related to natural person, artificial persons and representative person. It may be classified into three categories:

1. Natural Personal Account

Account of individuals (natural person) such as Rakesh a/c is known as natural personal account.

2. Artificial Personal Account

Accounts of firms, companies, banks, are artificial accounts. For examples, Tata Groups A/c, Coca Cola Corporation bank A/c.

3. Representative Account

The account related to outstanding expenses, prepaid expenses, income received in advance, accrued income is representative personal accounts. For examples, Rent outstanding, insurance Prepaid, Interest due but not paid, etc.

Rule

Debit the Receiver
Credit the Giver

B) Real Account

Real Account is related to tangible or intangible assets. Tangible assets are one which can be touch and seen such as building, plant, cash etc. Intangible assets are related to intangible objects which neither be touched or seen. For example, goodwill, trademarks, etc.

Rule

Debit what comes in
Credit what goes out

C) Nominal Account

The account related to income, expense, losses, and gains are classified as nominal accounts. For examples, wage accounts, salaries account, etc.

Rule

Debit all expenses and losses
Credit all incomes and gains (or) profits

2. Classification of account according to Accounting Equations

There are five types of accounts:

- 1. Assets A/c** : It relates to tangible or intangible assets. Ex. Plant A/c
- 2. Liabilities A/c** : These accounts represent the final obligation of the enterprise towards outsiders. Ex. Trade creditors, bills payable
- 3. Capital A/c** : These accounts relates to owners of an enterprise. Ex. Capital A/c, Drawings A/c
- 4. Revenue A/c** : These accounts relate to amount earned by the enterprise by rendering goods and services. Ex. Sales A/c, Discount received A/c
- 5. Expense A/c** : These accounts relate to the amount of loss or incurred in the process of earning revenue. Ex. Purchase A/c, Loss by Theft A/c.

1.10 ACCOUNTING CYCLE

**Q26. What is accounting process / cycle ?
Explain the various steps involved in it.**

Ans :

(June-18, Imp.)

The process which starts with the transactions taking place and ends up with preparation of final accounts is known as accounting process. This process involves a sequence of activities which are repeated in every accounting period, so it is also known as accounting cycle.

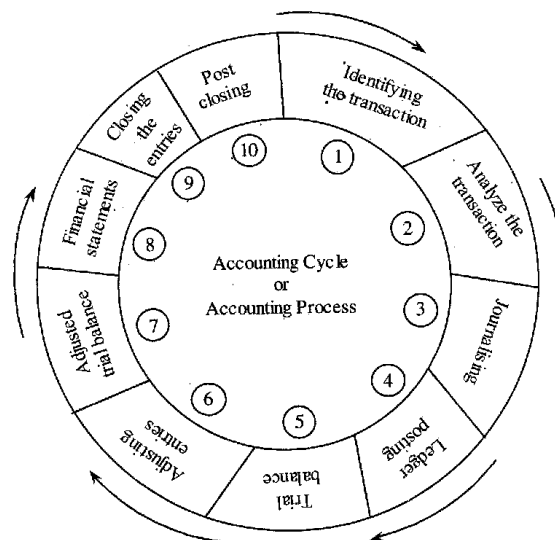


Fig : Accounting Cycle/Process

Various Steps of Accounting Cycle

Following are the steps involved in accounting cycle,

i) Identifying Transaction

The first step in accounting cycle is to identify the transaction and ascertain its source document like purchase order or sales invoice i.e., from where the transaction has been recorded.

ii) Analyzing Transaction

In this step transactions which are expressed in terms of money i.e., monetary transactions and the accounts which are affected by these transactions are identified and analyzed.

iii) Journalizing

After analyzing the transaction they are recorded in journal in the form of entries. These entries are based on principle of double entry in which every transaction has a two fold effect i.e., dual effect.

iv) Ledger Posting

When all the transactions are journalized they must be posted into ledger account. Ledger is a book wherein similar transactions are being recorded in one particular account.

v) Trial Balance

After posting the entries into ledger the entries must be posted in the trial balance in order to evaluate whether the balance of credit and debit side are equal to each other. All the ledger accounts which has debit balance are recorded in the left column and ledger accounts with credit balance are posted on the right column of the trial balance.

vi) Adjusting Entries

The accrued, deferred and estimated amounts are recorded with the help of adjustment entries. These adjustment entries are journalized and recorded into respective ledger account.

vii) Adjusted Trial Balance

The next step in accounting cycle after adjusting the accrued and deferred accounts is to prepare new trial balance which is similar to unadjusted trial balance with the only difference that the adjusting entries are included in the new trial balance.

viii) Financial Statements

In order to analyze the financial position of the company financial statements are prepared which include,

- a) Income Statement :** The income statement is prepared with the help of revenues and incomes earned by the company and losses and expenses incurred by the company.
- b) Balance Sheet :** Balance sheet is prepared with the help of assets, liabilities and equity accounts.
- c) Statement of Retained Earning :** It is prepared by using net income and dividend information.
- d) Cash Flow Statement :** Either direct or indirect method is used to extract cash flow statement from other financial statements of the company.

ix) Closing the Entries

After the preparation of financial statements the balances of temporary accounts are transferred to owner's equity.

x) After-closing Trial Balance

After closing the entries a new trial balance is prepared in order to verify whether the Debit balance is equal to the credit balance or not.

1.11 JOURNAL

Q27. What is journal ? Explain the objectives of journal.

Ans : (Dec.-17, Dec.-16, Imp.)

A journal is known as a primary book of accounts or a book of original entry. With the increase in the size of business, the number of business transactions also increases. It is very difficult for a human-being to remember all those transactions. Therefore, to overcome this drawback, journal is prepared. Although, as stated above, the transactions can be recorded directly in the ledger. But such procedure will be cumbersome and confusing. Under this process, it will be very difficult to locate a transaction after several recordings. But in journal, the transactions can easily be located as it provides chronological record of transactions.

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

According to L.C. Cropper, "A journal is a book employed to classify or sort out transactions in a form convenient for their subsequent entry in the ledger."

According to Roland, "Journal means a day book, diary or a log book. It is called prime subsidiary book of double entry system."

Objectives of Journal

The following are the objectives and importance of journal:

1. Complete Record of Each Transaction

Date-wise complete record of each business transaction is recorded in the journal. Summary of each transaction is also written which is known as narration. This narration is helpful in getting full information about the transaction.

2. As a Proof

Journal is treated as a proof in the eye of the court for settling down the disputes among two or more parties. In some countries like France, Italy, Germany, etc. it is mandatory to prepare ledger.

3. Ledger Hosting

To prepare ledger from the journal is easier than preparing directly from vouchers or memorandum book. Chances of mistakes or errors are very less when we post the entries in the ledger from journal.

4. Correct Knowledge

Each and every transaction is recorded by debiting and crediting two accounts. This helps in knowing which two accounts are affected by the transaction.

Q28. Explain the Proforma (or) Format of Journal

Ans :

JOURNAL

Date	Particulars	Ledger	Amount	Amount
		Folio	Dr.	Cr.

The description of the above columns is as follows :

- Date:** The date on which a particular transaction takes place is recorded here. The year is written on the top and the month and dates are written afterwards.
- Particulars:** The two aspects of transactions, i.e., debit and credit are recorded in first two lines. Every debit aspect is written in the first line with a word 'Dr.' at the end of column. The second line starts with 'To' and the credit aspect is written in this line. The second line starts a few spaces away from the margin of the first line. 'Cr.' is not written at the end of this column.
- Ledger Folio or L.F:** Ledger folio is the page number of the ledger on which the corresponding entry is posted. It shows whether an entry has been posted or not. If a page number does not appear against an entry, it indicates that the entry has not been posted to ledger.
- Debit Amount:** The amount to be debited is recorded against debit amount in this column.
- Credit Amount:** The amount to be credited is recorded against credit amount in this column.

Q29. Explain the Procedure of Journalising.*Ans :*

The procedure of journalising is as follows :

1. Nature of Transaction

First of all, we should see or classify the nature of transaction from the business point of view. Whether it has taken place or not, whether it can be expressed in money or money's worth or not and the effect of transaction on the business.

2. Selection of Two Aspects of Accounts

In the next step, where two or more accounts will be affected by the transaction are, selected.

3. To Know the Type of Accounts

Afterwards, the type of selected accounts is determined, whether they are personal or real or nominal.

4. To Determine the Effect of Account

After selecting the type of account, the effect of account is determined, i.e., whether the items are coming in or going out of the business or business is the receiver or giver, or whether business has made expenses or earned income, etc.

5. Application of Rules

At the end, the rules of journalising are applied as per their type and effect.

Q30. Explain various types of journal entries.*Ans :***1. Simple Entry**

When one account is debited and one account is credited in an entry. That entry is called as simple entry.

2. Compound Entry

When similar nature of transactions take place on the same date, then in place of passing a separate entry for each transaction, we pass only one combined entry, which is known as the compound entry.

3. Opening Entry

It is that entry which is passed to bring forward the balances of previous year on the first day of the new year. In this entry, all assets are debited and liabilities are credited. If the total of debit side is more than the credit side, the difference is known as capital. This amount is credited to the capital reserve account. If the total of credit is more than the total of debit, the difference will be debited in goodwill account.

4. Adjustment Entries

For the preparation of final accounts at the end of each year, every businessman has to make adjustments for outstanding and prepaid expenses, accrued and unearned incomes, depreciation of fixed assets, interest on loan and capital, provision for bad debts, etc. The entries, passed for this purpose are known as adjustment entries. For example, if the salaries are outstanding at the end of the year, the following entry will be passed :

Salaries A/c	Dr.
To Outstanding Salaries A/c	

PROBLEMS ON JOURNAL**1. Journalise the following transactions :****2008**

July 1	Opened a bank account	50,000
5	Purchased goods for cash	5,000
10	Purchased machinery from A	15,000
12	Paid wages	500
13	Goods sold to B for cash	2,000
15	Paid electricity bill	200
18	Paid to A on account	5,000
20	Sold old newspapers	50

*Sol :***Journal**

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
2008 July 1	Bank A/c Dr. To Cash A/c (Being an account opened with bank)		50,000	50,000
July 5	Purchases A/c Dr. To Cash A/c (Being goods purchased for cash)		5,000	5,000
July 10	Machinery A/c Dr. To A A/c (Being machinery purchased from A)		15,000	15,000
July 12	Wages A/c Dr. To Cash A/c (Being wages paid)		500	500
July 13	Cash A/c Dr. To Sales A/c (Being goods sold for cash)		2,000	2,000
July 15	Electricity bill A/c Dr. To Cash A/c (Being electricity bill paid)		200	200
July 18	A A/c Dr. To Cash A/c (Being amount paid to A for purchase of machinery)		15,000	15,000
July 20	Cash A/c Dr. To Newspaper A/c (Being old newspaper sold)		50	50

2. Journalise the following transactions:

1. Paid wages Rs. 500 and salaries Rs. 1,000 and rent Rs. 1,000.
2. Bought goods from A Rs. 10,000 and paid the half amount in cash.
3. Cash received from B Rs. 2,900 and allowed him a discount of Rs. 100.
4. Withdrew for personal use, cash Rs. 900 and goods Rs. 100.
5. Purchased building Rs. 50,000 and furniture for Rs. 10,000 for cash.

Sol :

Journal Entries

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
	1. Wages A/c Dr. Salaries A/c Dr. Rent A/c Dr. To Cash A/c (Being wages, salaries and rent paid in cash)		500 1,000 1,000	2,500
2.	Purchases A/c Dr. To Cash A/c To A A/c (Being goods purchased from A and half the amount paid in cash)		10,000	5,000 5,000
3.	Cash A/c Dr. Discount allowed A/c Dr. To B A/c (Being cash received and discount allowed)		2,900 100	3,000
4.	Drawings A/c Dr. To Cash A/c To Purchases A/c (Being cash and goods withdrawn by proprietor)		1,000	900 100
5.	Building A/c Dr. Furniture A/c Dr. To Cash A/c (Being building and furniture purchased)		50,000 10,000	60,000

3. Give the opening entry from following balances which appeared in the books of Mr. Mandeep Singh on 1st April, 2008:

Assets : Cash Balance Rs. 10,000; Bank Balance Rs. 25,000; Bills Receivable Rs. 5,000; Debtors Rs. 5,000; Stock Rs. 12,000; Investments Rs. 34,000; Machinery Rs. 75,000; Building Rs. 50,000.

Liabilities: Creditors Rs. 30,000; Loan Rs. 20,000; Bills Payable Rs. 13,000.

Sol :

Opening Entry

In the journal of Sh. Mandeep Singh

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
2008 April 1	Cash A/c Dr.		10,000	
	Bank A/c Dr.		25,000	
	Bills Receivable A/c Dr.		5,000	
	Debtors A/c Dr.		5,000	
	Stock A/c Dr.		12,000	
	Investment A/c Dr.		34,000	
	Machinery A/c Dr.		75,000	
	Building A/c Dr.		50,000	
	To Creditors A/c			30,000
	To Loan A/c			20,000
	To Bills Payable A/c			13,000
	To Capital (Bal. Fig.)			1,53,000
	(Being the balances of previous year brought forward)			

4. From the following data pass necessary journal entries.

2005, Jan 1 : Business commenced with cash Rs. 10,000

Jan 3 : Goods purchased from 'x' Rs. 5,000

Jan 4 : Goods sold to Mahesh Rs. 2,500

Jan 5 : Cash received from Raghu Rs. 3,000

Jan 6 : Cash paid to Shiva Rs. 4,000

Jan 7 : Cash sales Rs. 2,000

Jan 8 : Goods purchased from 'x' Rs. 1,500 for cash

Jan 9 : Cash withdrawn from bank for personal use Rs. 1,000

Jan 10 : Rent paid Rs. 2,000

Jan 11 : Salaries paid Rs. 3,000

*Sol.:***Journal Entries**

Date	Particulars	LF No.	Debit Amount	Credit Amount
2005 Jan 1	Cash A/c Dr To Capital A/c [Being Business Commenced with cash]		10,000 –	– 10,000
Jan 3	Purchases A/c Dr To 'x' A/c [Being goods purchased from 'x']		5,000 –	– 5,000
Jan 4	Mahesh A/c Dr To Sales A/c [Being goods sold to Mahesh]		2,500 –	– 2,500
Jan 5	Cash A/c Dr To Raghu A/c [Being cash received from Raghu]		3,000 –	– 3,000
Jan 6	Shiva A/c Dr To Cash A/c [Being cash paid to Shiva]		4,000 –	– 4,000
Jan 7	Cash A/c Dr To Sales A/c [Being goods sold for cash]		2,000 –	– 2,000
Jan 8	Purchases A/c Dr To Cash A/c [Being goods purchased for cash]		1,500 –	– 1,500
Jan 9	Drawings A/c Dr To Bank A/c [Being Cash withdrawn for personal use]		1,000 –	– 1,000
Jan 10	Rent A/c Dr To Cash A/c [Being rent paid]		2,000 –	– 2,000
Jan 11	Salaries A/c Dr To Cash A/c [Being salaries paid]		3,000 –	– 3,000

5. Journalize the following transactions in the journal of Mr. Ranbir Malhotra. 2004

Nov. 1st Ranbir commenced business with a capital of ₹ 1,00,000Nov. 4th Bought furniture for cash ₹ 10,000Nov. 6th Purchased goods for cash ₹ 5,000Nov. 7th Sold goods to Mr. Mahesh ₹ 25,000Nov. 10th Purchased a cycle for office use ₹ 2,000Nov. 15th Paid insurance premium ₹ 800Nov. 19th Purchased goods from Mr. Suresh ₹ 10,000Nov. 21st Rent paid ₹ 5,400Nov. 25th Returned goods to Mr. Suresh ₹ 1,250Nov. 30st Paid salaries ₹ 4,200.*Sol :*

Journal Entries in the books of Mr. Ranbir Malhotra

Date	Particulars	L.F	Debit Amount	Credit Amount
2004 Nov. 1 st	Cash a/c Dr To Capital a/c (Being the amount invested in business)		1,00,000 –	– 1,00,000
Nov. 4 th	Furniture a/c Dr To Cash a/c (Being furniture purchased)		10,000	– 10,000
Nov. 6 th	Purchases a/c Dr To Cash a/c (Being goods purchased for cash)		5,000 –	– 5,000
Nov. 7 th	Mahesh a/c Dr To Sales a/c (Being goods sold to Mahesh on credit)		25,000 –	– 25,000
Nov. 10 th	Cycle a/c Dr To Cash a/c (Being cycle purchased for office use)		2,000 –	– 2,000
Nov. 15 th	Insurance a/c Dr To Cash a/c (Being insurance premium paid)		800 –	– 800
Nov. 19 th	Purchases a/c Dr To Suresh a/c (Being goods purchased from Suresh on credit)		10,000 –	– 10,000

Nov. 21 st	Rent a/c To Cash a/c (Being rent paid)	Dr	5,400 –	– 5,400
Nov. 25 th	Suresh a/c To Purchase return a/c (Being goods returned to Suresh)	Dr	1,250 –	– 1,250
Nov. 30 th	Salaries a/c To Cash a/c (Being salaries paid)	Dr	4,200 –	– 4,200

6. Transactions of Ravi for April, 2010 are given below. Journalize them.

2010	Particulars	₹
April 1	Ravi started business with cash	50,000
April 2	Paid into SBI .	28,000
April 3	Bought goods for cash	2,500
April 4	Drew cash from bank for office use	1,000
April 5	Sold goods to Krishna on credit	2,000
April 10	Bought from Shyam goods on credit	4,200
April 15	Received from Krishna	1900
	Allowed him discount	100
April 20	Paid to Shyam	4,100
	Discount received	100
April 30	Cash sales for the month	10,000
April 30	Paid rent	5,000
April 30	Paid salaries	5,000

Sol :

Journal Entries in the Books of Ravi

Date	Particulars	LF	Debit Amount	Credit Amount
2010 April-1	Cash a/c To Capital a/c (Being cash invested in business)	Dr	50,000 –	– 50,000
April-2	Bank a/c To cash a/c (Being cash deposited in bank)	Dr	28,000 –	– 28,000
April-3	Purchases a/c To Cash a/c (Being good purchased on cash)	Dr	2,500 –	– 2,500

April-4	Cash a/c To Bank a/c (Being cash withdrawn from bank for office use)	Dr	1,000 –	– 1,000
April-5	Krishna a/c To Sales a/c (Being goods sold to Krishna on credit)	Dr	2,000 –	– 2,000
April-10	Purchases a/c To Shyam a/c (Being goods purchased from Shyam on credit)	Dr	4,200 –	– 4,200
April-15	Cash a/c Discount Allowed a/c To Krishna a/c (Being cash received and discount allowed to Krishna)	Dr Dr	1,900 100 –	– – 2,000
April-20	Shyam a/c To Cash a/c To Discount received a/c (Being cash paid and discount received from Shyam)	Dr	4,200 – –	– 4,100 100
April-30	Cash a/c To Sales a/c (Being goods sold for the month on cash)	Dr	10,000 –	– 10,000
April-30	Rent a/c To Cash a/c (Being rent paid)	Dr	5,000 –	– 5,000
April-30	Salaries a/c To Cash a/c (Being salaries paid)	Dr	5,000 –	– 5,000

7. Journalise the following transactions:

2008	Particulars	(Rs.)
July 1	X started business with cash	80,000
July 3	Goods purchased for cash	30,000
July 5	Goods purchased from A	5,000
July 7	Goods sold for cash	10,000
July 10	Goods sold to P	30,000
July 12	Cash paid to A	3,000
July 15	Cash received from P	10,000
July 21	Paid for wages	1,500
July 25	Purchased furniture from Sunil Kumar for cash	5,000
July 28	Paid rent	5,000
July 31	Paid for salaries	2,000

*Sol.:***Journal Entries**

Date 2008	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
July 1	Cash a/c Dr. To Capital a/c (Started business with cash)		80,000	80,000
July 3	Purchases a/c Dr. To Cash (Being the purchase of goods for cash)		30,000	30,000
July 5	Purchases a/c Dr. To A a/c (Being goods purchased from A)		5,000	5,000
July 7	Cash a/c Dr. To Sales a/c (Being goods sold on cash)		10,000	10,000
July 10	P a/c Dr. To Sales a/c (Being cash paid to A)		30,000	30,000
July 12	A a/c Dr. To Cash a/c (Being cash paid to A)		3,000	3,000
July 15	Cash a/c Dr. To P a/c (Being cash received from P)		10,000	10,000
July 21	Wages a/c Dr. To Cash a/c (Being wages paid)		1,500	1,500
July 25	Furniture a/c Dr. To Cash a/c (Being furniture purchased from Sunil Kumar)		5,000	5,000
July 28	Rent a/c Dr. To Cash (Being rent paid)		5,000	5,000
July 31	Salaries a/c Dr. To Cash (Being salaries paid)		2,000	2,000

1.11.1 Ledger**Q31. Define ledger ? Explain the advantages of ledger.***Ans :***(Dec.-16, Imp.)**

Ledger is a book where the journalized transactions are being classified. Ledger is a set of accounts and includes all the accounts of business i.e., personal, nominal or real.

A company can maintain ledger in two forms i.e., Bound Ledger and Loose-leaf Ledger. The process of transferring the debit and credit items from the journal to the ledger in their respective accounts is known as posting. Posting must be made/done before the preparation of final accounts. The accounts which are active in nature must be updated on the timely basis.

Advantages of Ledger

The main advantages of ledger are as follows:

1. Knowledge of Business Results

With the help of ledger the important information relating to business can easily be obtained as all the business transactions relating to an item are recorded in the form of separate accounts in the ledger in such a way as their effect on assets, liabilities and capital can easily be understood.

2. Knowledge of Incomes and Expenses

A separate account is opened for each item of income and expense. Thus, it enables to understand that what are the sources of income and where the amount is spent.

3. Helpful in Preparing Trial Balance

Ledger is also helpful in the preparation of trial balance. Without preparing the ledger, trial balance cannot be made.

4. Helpful in Preparing Final Accounts

It is mandatory for the businessman to prepare final accounts. Ledger helps in preparing the final accounts as the total or balances of accounts appear in Trading A/c, P/L A/c and balance sheet.

5. Overcoming the Limitations of Journal

Ledger fulfills all those objects which lack in journal. Journal does not provide complete description of all the transactions relating to an account in classified and summarised form, but the ledger provides it.

Q32. How is posting done in ledger accounting.*Ans :*

The bookkeeper posts the transactions from Journal to the Ledger by using any of the following methods,

- (i) Bookkeeper can post any specific side either debit or credit first and post all the transactions of that side in the ledger accounts. For instance, if the credit side is selected then all the entries of the credit side must be posted into the ledger first.
- (ii) Bookkeeper can post entries on basis of specific account and can complete all the debits and credits of that specific account and then move onto the other account.
- (iii) Bookkeeper can post entries in accounts in a sequence of journal entries. This method is effective as entries are posted as and when they are recorded in the journal.

Similar to Ledger Folio (L.F) in journal, a column of folio is prepared in ledger also for recording the page number of journal from which the posting is being done it is called as J.F (Journal Folio). The proforma of a ledger account is as follows,

Dr.				Name of the Account				Cr.			
Date	Particulars	JF	Amount	Date	Particulars	JF	Amount	Date	Particulars	JF	Amount

The following rules and principles should be kept in mind while posting:

1. An account has two sides Debit and Credit. Debit side is marked as Dr. at the top of left hand side and right hand side is marked as Cr. at the top.
2. Name of the account is mentioned at the top in the centre of the account. The account in the centre of it.
3. All postings on debit side starts with 'To' and credit side with 'By'.
4. All transactions relating to an account are recorded at one place in that particular account.
5. The A/c word is not written after the name of personal account.
6. If an account is debited in journal, then posting is made on the debit side of the account in which posting is made with the name and amount appearing in the credit of journal entry and vice-versa.

Q33. Distinguish between Journal Vs Ledger.*Ans. :***(Dec.-17, June-17, Imp.)**

S.No.	Basis	Journal	Ledger
1.	Meaning	Journal is a primary book wherein all the business transactions are recorded on a daily basis in a systematic manner.	Ledger is a book where the journalized transaction are being classified.
2.	Type of book	It is a book of primary record.	It is a book of final entry.
3.	Process	The process of recording transactions in a journal is called as 'Journalizing'.	The process of recording transactions in a ledger is called as posting.
4.	Organization of data	The organising of each of the data within journal is known as the transaction.	The organising of each of the data within ledger is known as the account.
5.	Nature	Journal is not balanced except for the cash book.	Every account in the ledger is balanced.
6.	Accuracy	It is very difficult to test the accuracy of the books.	The availability of lists of balances ensures easy accuracy testing.
7.	Narration	Narration is required for each entry.	Narration is not required.
8.	Record	It maintains the record in sequential manner.	It maintains the record in conclusive manner.
9.	Folio	It includes the ledger folio.	It includes the journal or sub-journal folio.
10.	Preparation of final accounts	It does not facilitate the preparation of final accounts.	It serves as a basis for the preparation of final accounts.
11.	Required information	It does not provide a ready information with relation to any accounts.	It enables easy availability of information with relation to any accounts, as the similar nature are recorded in a specific transactions of group.
12.	Recording transaction	The transactions debit and credit amount are recorded in two adjacent columns.	The transactions debit and credit amounts are recorded in two different sides of two different accounts.
13.	Appearance	Journal includes one debit column and one credit column.	Ledger includes two sides, the left side is known as the debit side and the right side is known as credit side.
14.	Importance	Computerization of accounting eliminates the importance of journal for recording routine transaction such as sales, purchases, etc.	Computerization of accounts cannot eliminate the importance of ledger. Ledger cannot be avoided as it is must.

PROBLEMS ON LEDGER

8. Journalise the following transactions, post them in the concerned ledger accounts and balance the accounts

1997	Particulars	Rs.
Jan. 1	Manoj commenced business with	80,000
" 2	Deposited in bank	75,000
" 5	Bought goods on credit from Srinath	8,000
" 8	Sold goods to Sridhar on credit	10,000
" 10	Purchased machinery, payment made by cheque	25,000
" 12	Paid Srinath - by cheque	6,000
" 16	Received cash from Sridhar	7,500
" 20	Bought Stationery from Govind Venkatesh for cash	300
" 24	Paid Rs. 500 as travelling expenses to Mukesh	
" 27	Bought goods for cash	3,000
" 31	Paid rent to landlord by cheque	400

Sol :

JOURNAL

Date	Particulars	LF No.	Debit Amount	Credit Amount
1997 Jan 1	Cash Account Dr. To Capital Account [Being cash brought into business]		80,000	80,000
Jan 2	Bank Account Dr. To Cash Account [Being cash deposited in bank]		75,000	75,000
Jan 5	Purchases Account Dr. To Srinath's Account [Being goods purchased on credit]		8,000	8,000
Jan 8	Sridhar's Account Dr. To Sales Account [Being goods sold on credit]		10,000	10,000
Jan 10	Machinery Account Dr. To Bank Account [Being machinery purchased]		25,000	25,000
Jan 12	Srinath's Account Dr. To Bank Account [Being cheque issued to Srinath]		6,000	6,000

Jan 16	Cash Account Dr. To Sridhar's Account [Being cash received from Sridhar]		7,500	7,500
Jan 20	Stationery Account Dr. To Cash Account [Being stationery purchased for cash]		300	300
Jan 24	Travelling Expenses Account Dr. To Cash Account [Being travelling expenses paid]		500	500
Jan 27	Purchases Account Dr. To Cash Account [Being goods purchased for cash]		3,000	3,000
Jan 31	Rent Account Dr. To Bank Account [Being rent paid by cheque]		400	400

Ledger Accounts**Capital Account**

Dr.				Cr.			
Date	Particulars	L.F.	Amount Rs.	Date	Particulars	L.F.	Amount Rs.
1997 Jan. 31	To Balance c/d		80,000	1997 Jan. 1	By Cash A/c		80,000
			80,000				80,000
				Jan. 1	By Balance b/d		80,000

Bank Account

Dr.				Cr.			
Date	Particulars	L.F.	Amount Rs.	Date	Particulars	L.F.	Amount Rs.
1997 Jan. 2	To Cash A/c		75,000	1997 Jan. 10	By Machinery A/c		25,000
				Jan. 12	By Srinath A/c		6,000
				Jan. 31	By Rent A/c		400
				Jan. 31	By Balance c/d		43,600
			75,000				75,000
Feb. 1	To Balance b/d		43,600				

Purchases Account

Dr.				Cr.			
Date	Particulars	L.F.	Amount Rs.	Date	Particulars	L.F.	Amount Rs.
1997 Jan. 5	To Srinath A/c		8,000	1997 Jan. 31	By Balance c/d		11,000
Jan. 27	To Cash A/c		3,000				
			11,000				11,000
Feb. 1	To Balance b/d		11,000				

Sales Account

Dr.				Cr.			
Date	Particulars	L.F.	Amount Rs.	Date	Particulars	L.F.	Amount Rs.
1997 Jan. 10	To Balance c/d		10,000	1997 Jan. 8	By Sridhar A/c		10,000
			10,000				10,000
				Feb. 1	By Balance b/d		10,000

Srinath Account

Dr.				Cr.			
Date	Particulars	L.F.	Amount Rs.	Date	Particulars	L.F.	Amount Rs.
1997 Jan. 10	To Bank A/c		6,000	1997 Jan. 5	By Purchase A/c		8,000
Jan. 31	To Balance c/d		2,000				
			8,000				8,000
				Feb. 1	By Balance b/d		2,000

Sridhar Account

Dr.				Cr.			
Date	Particulars	L.F.	Amount Rs.	Date	Particulars	L.F.	Amount Rs.
1997 Jan. 10	To Sales A/c		10,000	1997 Jan. 16	By Cash A/c		7,500
				Jan. 31	By Balance c/d		2,500
			10,000				10,000
Feb. 1	To Balance b/d		2,500				

Machinery Account

Dr.

Cr.

Date	Particulars	L.F.	Amount Rs.	Date	Particulars	L.F.	Amount Rs.
1997 Jan. 10	To Bank A/c		25,000	1997 Jan. 31	By Balance c/d		25,000
			25,000				25,000
Feb. 1	To Balance b/d		25,000				

Stationery Account

Dr.

Cr.

Date	Particulars	L.F.	Amount Rs.	Date	Particulars	L.F.	Amount Rs.
1997 Jan. 20	To Cash A/c		300	1997 Jan. 31	By Balance c/d		300
			300				300
Feb. 1	To Balance b/d		300				

Travelling Expenses Account

Dr.

Cr.

Date	Particulars	L.F.	Amount Rs.	Date	Particulars	L.F.	Amount Rs.
1997 Jan. 10	To Cash A/c		500	1997 Jan. 31	By Balance c/d		500
			500				500
Feb. 1	To Balance b/d		500				

Rent Account

Dr.

Cr.

Date	Particulars	L.F.	Amount Rs.	Date	Particulars	L.F.	Amount Rs.
1997 Jan. 10	To Bank A/c		400	1997 Jan. 31	By Balance c/d		400
			400				400
Feb. 1	To Balance b/d		400				

Cash Account

Dr.				Cr.			
Date	Particulars	L.F.	Amount Rs.	Date	Particulars	L.F.	Amount Rs.
1997 Jan. 1	To Capital A/c.		80,000	1997 Jan. 2	By Bank A/c		75,000
Jan. 10	To Sridhar A/c		7,500	Jan. 20	By Stationery		300
				Jan. 24	By Travelling expenses A/c		500
				Jan. 27	By Purchases A/c		3,000
				Jan. 31	By Balance (c/d)		8,700
			87,500				87,500
Feb. 1	To Balance (b/d)		8,700				

9. Enter the following transactions in the journal of Nayar and post them into ledger accounts.

1999	Particulars	Rs.
Dec. 1	Commenced business with cash	45,000
" 4	Purchased goods for cash	25,000
" 5	Paid wages	500
" 9	Goods sold for cash	8,000
" 11	Purchased goods from Lalitha	7,000
" 15	Goods sold to Sekhar	5,000
" 23	Received cas from Sekhar	1,000
" 31	Paid office Rent	400
" 31	Paid salaries	1,000

Ans.:

Journal of Nayar

Date	Particulars	LF No.	Debit Amount	Credit Amount
1999 Dec 1	Cash Account Dr To Nayar's capital account [Being capital brought into business]		45,000	45,000
Dec 4	Purchases Account Dr. To Cash Account [Being goods purchased for cash]		25,000	25,000
Dec 5	Wages Account Dr. To Cash Account [Being wages paid]		500	500

Dec 9	Cash Account Dr. To Sales Account [Being goods sold for cash]		8,000	8,000
Dec 11	Purchases Account Dr. To Lalitha's Account [Being goods purchased on credit from Lalitha]		7,000	7,000
Dec 15	Sekhar Account Dr. To Sales Account [Being goods sold to Sekhar]		5,000	5,000
Dec 23	Cash Account Dr. To Sekhar Account [Being Cash received from Sekhar]		1,000	1,000
Dec 31	Office Rent Account Dr. To Cash Account [Being Office Rent Paid]		400	400
Dec 31	Salaries Account Dr. To Cash Account [Being Salaries paid]		1,000	1,000

Nayar's Capital Account

Dr.

Cr.

Date	Particulars	L.F.	Amount Rs.	Date	Particulars	L.F.	Amount Rs.
1999 Dec. 31	To Balance (c/d)		45,000	1999 Dec. 1	By Cash Account		45,000
			45,000				45,000
				2000 Jan. 1	By Balance (b/d)		45,000

Cash Account

Dr.

Cr.

Date	Particulars	L.F.	Amount Rs.	Date	Particulars	L.F.	Amount Rs.
1999 Dec 1	To Nayar's capital account		45,000	1999 Dec. 4	By Purchase A/c		25,000
Dec 9	To Sales Account		8,000	Dec. 4	By Wages A/c		500
Dec 23	To Sekhar Account		1,000	Dec. 31	By Office rent A/c		400
				Dec. 31	By Salaries A/c		
				Dec. 31	By Balance (c/d)		28,100
			54,000				54,000
Jan 2000	To Balance (b/d)		28,100				

Purchase Account

Dr.				Cr.			
Date	Particulars	L.F.	Amount Rs.	Date	Particulars	L.F.	Amount Rs.
1999 Dec. 4	To Cash Account		25,000	1999 Dec. 31	By Balance (c/d)		32,000
Dec. 11	To Lalitha's A/c		7,000				
			32,000				32,000
2000 Jan. 1	To Balance (b/d)		32,000				

Sales Account

Dr.				Cr.			
Date	Particulars	L.F.	Amount Rs.	Date	Particulars	L.F.	Amount Rs.
1999 Dec. 31	To Balance (c/d)		13,000	1999 Dec. 9	By Cash Account		8,000
				Dec. 15	By Sekhar Account		5,000
			13,000				13,000
					By Balance (b/d)		13,000

Wages Account

Dr.				Cr.			
Date	Particulars	L.F.	Amount Rs.	Date	Particulars	L.F.	Amount Rs.
1999 Dec. 5	To Cash		500	1999 Dec. 31	By Balance (c/d)		500
			500				500
2000 Jan. 1	To Balance (b/d)		500				

Lalitha's Account

Dr.				Cr.			
Date	Particulars	L.F.	Amount Rs.	Date	Particulars	L.F.	Amount Rs.
1999 Dec. 31	To Balance (c/d)		7,000	1999 Dec. 11	By Purchases Account		7,000
			7,000				7,000
				2000 Jan. 1	By Balance (b/d)		7,000

Sekhar's Account

Dr.				Cr.			
Date	Particulars	L.F.	Amount Rs.	Date	Particulars	L.F.	Amount Rs.
1999 Dec. 15	To Sales Account		5,000	1999 Dec. 23	By Cash Account		1,000
				Dec. 31	By Balance (c/d)		4,000
			5,000				5,000
2000 Jan. 1	To Balance (b/d)		5,000				

Office Rent Account

Dr.				Cr.			
Date	Particulars	L.F.	Amount Rs.	Date	Particulars	L.F.	Amount Rs.
1999 Dec. 31	To Sales Account		400	1999 Dec. 31	By Balance (c/d)		400
			400				400
2000 Jan. 1	To Balance (b/d)		400				

Salaries Account

Dr.				Cr.			
Date	Particulars	L.F.	Amount Rs.	Date	Particulars	L.F.	Amount Rs.
1999 Dec. 31	To Cash Account		1,000	1999 Dec. 31	By Balance (c/d)		1,000
			1,000				1,000
2000 Jan. 1	To Balance (b/d)		1,000				

10. Record the following transactions in the journal of Divakar and post them to appropriate Ledger account,

2007	Particulars	
1-1-07	Capital brought in for the commencement of the business	2,50,000
3-1-07	Rental advance	50,000
3-1-07	Purchased furniture	30,000
5-1-07	Purchased goods	1,00,000
6-1-07	Purchased goods from Raman	50,000
7-1-07	Sold goods for cash	40,000
10-1-07	Sold goods to Ravi	60,000

12-1-07	Goods returned to Raman	2,000
15-1-07	Cash paid to Raman	40,000
18-1-07	Received cash from Ravi	40,000
22-1-07	Deposited cash in Bank	60,000
30-1-07	Paid Rent	5,000
31-1-07	Paid Salaries	10,000
31-1-07	Paid Electricity Bill	2,000
31-1-07	Insurance paid	5,000

Sol.:

Journal Entries in the Books of Ravi

Date	Particulars	LF	Debit Amount `	Credit Amount `
1 Jan 07	Cash a/c Dr To Capita a/c (Being capital brought into the business by Divakar)		2,50,000 –	– 2,50,000
3 Jan 07	Rent a/c Dr To Cash a/c (Being rent paid in advance)		50,000 –	– 50,000
3 Jan 07	Furniture a/c Dr To Cash a/c (Being the furniture purchased for cash)		30,000 –	– 30,000
5 Jan 07	Purchases a/c Dr To Cash a/c (Being goods purchased in cash)		1,00,000 –	– 1,00,000
6 Jan 07	Purchases a/c Dr To Raman a/c (Being goods purchased from Raman)		50,000 –	– 50,000
7 Jan 07	Cash a/c Dr To Sales a/c (Being cash sales made)		40,000 –	– 40,000
10 Jan 07	Ravi's a/c Dr To Sales a/c (Being goods sold to Ravi on credit)		60,000 –	– 60,000
12 Jan 07	Raman a/c Dr To Purchase returns a/c (Being purchase returns made to Raman)		2,000 –	– 2,000

15 Jan 07	Raman a/c To Cash a/c (Being cash paid to Raman)	Dr	40,000 –	– 40,000
18 Jan 07	Cash a/c To Ravi a/c (Being cash received from Ravi)	Dr	40,000 –	– 40,000
22 Jan 07	Bank a/c To Cash a/c (Being cash deposited in bank)	Dr	60,000 –	– 60,000
30 Jan 07	Rent a/c To Cash a/c (Being rent paid in cash)	Dr	5,000 –	– 5,000
31 Jan 07	Salaries a/c To Cash a/c (Being salaries paid in cash)	Dr	10,000 –	– 10,000
31 Jan 07	Electricity Bills a/c To Cash a/c (Being electricity bill paid in cash)	Dr	2,000 –	– 2,000
31 Jan 07	Insurance a/c To Cash a/c (Being insurance premium paid in cash)	Dr	5,000 –	– 5,000

Cash Account

Dr.

Cr.

Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount
1.Jan.07	To Capital a/c		2,50,000	3.Jan.07	By Prepaid Rent a/c		50,000
7.Jan.07	To Sales a/c		40,000	3.Jan.07	By Furniture a/c		30,000
18.Jan.07	To Ravi a/c		40,000	5Jan.07	By Purchases a/c		1,00,000
				15.Jan.07	By Raman a/c		40,000
				22.Jan.07	By Bank a/c		60,000
				30.Jan.07	By Rent a/c		5,000
				31.Jan.07	By Salaries a/c		10,000
				31. Jan.07	By Electricity Bills a/c		2,000
				31.Jan.07	By Insurance a/c		5,000
				31. Jan.07	By balance c/d		28,000
			3,30,000				3,30,000
1.Feb.07	To Balance b/d		28,000				

Capital a/c

Dr.

Cr.

Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount
31 Jan 07	To Balance c/d		2,50,000	1 Jan 07	By Cash a/c		2,50,000
			2,50,000				2,50,000
				1 Feb 07	By Balance b/c		2,50,000

Prepaid Rent a/c

Dr.

Cr.

Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount
3 Jan 07	To Cash a/c		50,000	31 Jan 07	To Balance c/d		50,000
			50,000				50,000
1 Feb 07	By Balance b/d		50,000				50,000

Furniture a/c

Dr.

Cr.

Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount
3 Jan 07	To Cash a/c		30,000	31 Jan 07	To Balance c/d		30,000
			30,000				30,000
1 Feb 07	By Balance b/d		30,000				

Purchases a/c

Dr.

Cr.

Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount
5 Jan 07	To Cash a/c		1,00,000	31 Jan 07	By Balance c/d		1,50,000
	To Raman's a/c		50,000				1,50,000
			1,50,000				
	To Balance b/d		1,50,000				

Raman's a/c

Dr.

Cr.

Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount
12 Jan 07	To Purchase returns a/c		2,000	6 Jan 07	To Purchase a/c		50,000
15 Jan 07	To Cash a/c		40,000				
31 Jan 07	To Balance c/d		8,000				50,000
			50,000	1 Feb 07	By Balance b/d		8,000

Purchase Returns a/c

Dr.

Cr.

Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount
31 Jan 07	To Balance c/d		2,000	12 Jan 07	By Raman a/c		2,000
			2,000				2,000
				1 Feb 07	By Balance b/ d		2,000

Sales a/c

Dr

Cr.

Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount
31 Jan 07	To Balance c/d			7 Jan 07	By Cash a/c		40,000
			1,00,000	10 Jan 07	By Ravi a/c		60,000
			1,00,000		1,00,000		
				1 Feb 07	By Balance b/d		1,00,000

Ravi's a/c

Cr.

Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount
10 Jan 07	To Sales a/c		60,000	18 Jan 07	By Cash a/c		40,000
				31 Jan 07	By Balance c/d		20,000
			60,000		60,000		
1 Feb 07	To Balance b/d		20,000				

Bank a/c

Cr.

Dr.

Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount
22 Jan 07	To Cash a/c		60,000	31 Jan 07	By Balance c/d		60,000
			60,000				60,000
1 Feb 07	To Balance b/d		60,000				

Rent a/c

Dr.

Cr.

Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount
30 Jan.07	To Cash a/c		5,000	31 Jan.07	By Balance c/d		5,000
			5,000				5,000
1 Feb.07	To Balance b/d		5,000				

Salaries a/c

Cr.

Dr.

Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount
31 Jan.07	To Cash a/c		10,000	31 Jan.07	By Balance c/d		10,000
			10,000				10,000
1 Feb.07	To Balance b/d		10,000				

Electricity Bill a/c

Dr.

Cr.

Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount
31 Jan.07	To Cash a/c		2,000	31 Jan.07	By Balance c/d		2,000
			2,000				2,000
1 Feb.07	To Balance b/d		2,000				

Insurance a/c

Dr.

Cr.

Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount
31 Jan.07	To Cash a/c		5,000	31 Jan.07	By Balance c/d		5,000
			5,000				5,000
1 Feb.07	To Balance b/d		5,000				

1.12 TRIAL BALANCE**Q34. Define trial balance ? What are the objectives of trial balance.***Ans :*

Trial balance is a worksheet in which the balances of all ledgers are compiled into debit and credit columns. Under the double entry system, the total of debits must be equal to total of credits. This worksheet helps in evaluating whether or not the total debits for the period are equal to total number of credits generated for the same period.

Every businessman prepares the trial balance after journal and ledger. It is a tradition to prepare the trial balance before the preparation of the final accounts. It serves as a tool to detect errors. If the trial balance is balanced, it means there are no mathematical errors in the ledgers. However this does not mean that there are no errors in a company's accounting system. By preparing a trial balance on a regular basis makes it possible to quickly identify a specific accounting period where the imbalance took place and correct it quickly. Therefore many businessman choose to prepare a trial balance on monthly basis.

Definitions of Trial Balance

- i) **According to Carter**, "Trial Balance is a statement of debit and credit balances derived from the ledger, including cash and bank balances."

- ii) **According to William Pickles**, "The statement prepared with the help of ledger balances, at the end of financial year or at any other date, to find out whether debit total agrees with credit total, is called a Trial Balance."
- iii) **According to J. R. Battiboi**, "Trial Balance is a statement prepared with the help of debit and credit balances derived from the ledger, the objective of which is to check the arithmetical accuracy of the ledger."
- iv) **According to M.S. Gosar**, "Trial Balance is a statement containing the balances of all ledger accounts, as at any given date, arranged in the form of debit and credit columns placed side by side and prepared with the object of checking the arithmetical accuracy of ledger posting."

Objectives of Trial Balance

The objectives of preparing trial balance are as follows:

1. Checking the Arithmetical Accuracy

One of the main objective or advantage of preparing the trial balance is to check the arithmetical accuracy of the ledger postings before the preparation of final accounts.

2. Knowledge of Balances

A main objective for preparing the trial balance is to know the balances of different accounts.

3. Full Proof of Recording

Another objective of preparing the trial balance is to know whether the double entry for all the transactions is complete or not. It is revealed by tallying of trial balance.

4. To Take Comparative Decisions

By comparing the balances of two or more years of different accounts, the comparative decisions can be taken.

5. Preparation of Final Accounts

Every businessman wants to check the arithmetical accuracy of the accounts before the preparation of final accounts. It is done with the help of trial balance. If the trial balance agrees, it means the accounts are arithmetically accurate.

6. Detection of Errors

Preparation of trial balance is also helpful in detecting the errors, e.g., error in totalling, error of omission and commission, etc.

Q35. Explain the advantages of trial balance.

Ans :

The trial balance has the following advantages:

- 1. It ensures that the transactions recorded in the books of accounts have identical debit and credit amount.
- 2. Balance of each ledger account has been computed correctly.
- 3. It helps in preparation of final accounts.
- 4. It makes the work of bookkeeping more active.
- 5. It summarises the business information.

Q36. Explain the Proforma of Trial Balance.*Ans :***Trial Balance as on**

Date	Particulars (Name of Account)	L.F.	Dr. Amount	Cr. Amount

1. **Name of Account** : Names of all the accounts are given in this column.
2. **Ledger Folio** : It is the page number of the ledger on which a particular account is opened.
3. **Debit Amount** : In this column, the balance of that account will be shown that has debit balance or the total of the debit side of the account will be written.
4. **Credit Amount** : In this column, the balance of that account will be shown that has credit balance or the total of the credit side will be written.

Important Points to Remember While Preparing Trial Balance

1. All assets have debit balance and all liabilities have credit balance.
2. Capital Account has credit balance.
3. Closing stock is not included in trial balance.
4. All incomes and gains appear in the debit column of trial balance.
5. Drawing account has debit balance.
6. Purchases and Sales Return Account has debit balance and sales account and purchases return account has credit balance.
7. If a difference in the debit and credit column appears, it is transferred to suspense account.

Q37. Explain the Methods of Preparing Trial Balance.*Ans :*

There are four methods of preparing trial balance:

1. Total Method

Under the total or Gross Method, the two sides of all the ledger accounts are totalled up. The total of debit side and credit side of each account is placed on 'Debit Amount' column and 'Credit Amount' column respectively of the trial balance. Then the two columns are added separately to see whether they are equal or not. This method is a simple one. But it is not followed widely.

2. Balance Method

It is the most popular method and generally followed by accountants. Under this method, balances of all ledger accounts are drawn first of all. Then the debit balances are recorded in 'Debit Amount' column and the credit balances are recorded in 'Credit Amount' column respectively. Therefore, the two columns are added separately to see whether they are equal or not.

3. Total Method but excluding Closed Accounts

This method is similar to total method except one difference. In this method, the closed accounts are not included in the trial balance. Closed accounts are those accounts which have equal debit and credit totals.

4. Total and Balance Method

This is not a separate method, rather it is a combination of first two methods. In this method, four columns of amount are made. The first two columns are made for balance method and the balance two are made for total method. This method is also not widely used.

Q38. Explain about errors disclosed by trial balance.

Ans :

Some of the errors disclosed by trial balance are as follows:

1. Error of Partial Omission

If an item is not posted from journal or subsidiary book to ledger, two sides of trial balance shall not agree, e.g., if goods are sold for cash are recorded properly in sales book but not debited in cash account, the debit side of the trial balance shall fall short.

2. Omission to Post an Account in Trial Balance

If an account is not written in the trial balance, the two sides of trial balance shall not agree.

3. Wrong Totalling or Balancing of Ledger Account

If any account in the ledger is wrongly totalled or balanced, then also the trial balance shall not agree.

4. Posting of Wrong Amount

If wrong amount is posted in one of the two accounts while posting, it will not allow the trial balance to agree, e.g., goods worth Rs. 560 have been sold to 'A' but 'A's account has been debited with Rs. 650. It will increase the debit side of trial balance by Rs. 90.

5. Posting on the Wrong Side

When an item is by mistake posted on the wrong side of the ledger account it would cause disagreement in the trial balance, e.g., if the goods are sold to Ram on credit for Rs. 500 and while posting into Ram's account the amount is credited to Ram's account

instead of being debited, it will result in a difference of Rs. 1,000 on two sides of trial balance.

6. Wrong Totalling of Subsidiary Books

If the totalling of any subsidiary book is wrongly made it would result into disagreement of trial balance.

7. Double Posting

If any posting is made twice in an account, then such errors are disclosed by the trial balance.

Q39. Explain about errors not disclosed by trial balance.

Ans :

The following errors are not disclosed by the trial balance. It means that the trial balance may agree inspite of some errors. These errors are :

1. Error of Omission

If any entry is not recorded in the books of original entry at all or omitted to be recorded, then the trial balance shall not be affected, e.g., furniture purchased from Ram Rs. 2,000 is not recorded in the journal at all, it means neither purchase account is debited nor Ram's account has been credited. Since neither account is debited nor credited, therefore trial balance will agree.

2. Error of Commission

If the correct amount is recorded in the wrong account but on the correct side, it is called as error of commission. For example, goods are sold to Ram for Rs. 1,000 but Ravi's A/c is debited instead of Ram's A/c with Rs. 1,000, it is the error of commission.

3. Error of Principle

When the rules of double entry system are not followed properly then it is called error of principle. or whenever any income and expenditure is not properly allocated between capital and revenue. For example, installation charges of machinery are not debited to machinery account but debited to Wages A/c or sale of newspaper is credited to sales account, etc. the trial balance shall remain unaffected by such errors.

4. Compensating Errors

These errors compensate each other and neutralizes the fact of errors. When one error is committed which affects the total of trial balance but at the same time another error of opposite effect neutralizes the effect of earlier errors. For example, over-posting of Rs. 1,000 in the debit side of one account may be compensated if there is underposting of Rs. 1,000 on the credit side of some other account.

Limitations of Trial Balance or Agreement of Trial Balance is not the Conclusive Proof of Accuracy

An agreed trial balance does not prove that :

1. All transactions have been correctly analyzed and recorded in proper accounts. For example wages paid for installation of fixed asset might have been wrongly debited to wages account.
2. All the transactions have been recorded.
3. Four type of errors explained above remain there even after the agreement of trial balance. Therefore it can be said that agreement of trial balance is not the conclusive proof of accuracy.

PROBLEMS ON TRIAL BALANCE

11. Prepare a trial balance as on 31st July 2009 from the following balances of Mr. Rajvansh.

Particulars	Amount	Particulars	Amount
Capital	10,000	Bank overdraft	8,700
Sales returns	1,000	Opening stock	15,000
Drawings	5,000	Cash	2,500
Bills payable	5,000	Purchases	9,000
Sales	15,000	Rent	1,000
Furniture	2,000	Bad debts	700
Creditors	12,000	Bills Receivable	3,500
Interest received	1,500	Debtors	14,500
Purchase returns	2,500		
Wages	500		

Sol :

Trial Balance of Mr. Rajvansh as on 31st July 2009

Particulars	Debit (₹)	Credit (₹)
Capital		10,000
Sales returns	1,000	-
Drawings	5,000	-
Bills payable	-	5,000
Sales	-	15,000
Furniture	2,000	-
Creditors	-	12,000

Interest received	-	1,500
Purchase returns	-	2,500
Wages	500	-
Bank overdraft	-	8,700
Opening stock	15,000	-
Cash	2,500	-
Purchases	9,000	-
Rent	1,000	-
Bad debts	700	-
Bills receivable	3,500	-
Debtors	14,500	-
	54,700	54,700

12. Prepare trial balance from the information given below.

Particulars	(₹)	Particulars	(₹)
Salaries account	12,000	Furniture account	25,000
Bank account	10,000	Cash account	18,000
Mahesh (pop) capital account	50,000	Prepaid insurance account	500
Insurance paid account	2000	Outstanding rent account	1,000
Goodwill account	15,000	Plant and Machinery account	20,000
Bank loan account (taken)	40,000	Sundry creditors account	28,000
Discount received account	500	Commission received account	1,000
Sundry debtors account	18,000		

Sol :

Trial Balance

Particulars	Debit Amount (₹)	Particulars	Credit Amount (₹)
Salaries	12,000	Mahesh (proprietor) capital	50,000
Bank	10,000	Bank loan (taken)	40,000
Insurance paid	2000	Discount received	500
Goodwill	15,000	Prepaid insurance	500
Sundry debtors	18,000	Sundry creditors	28,000
Furniture	25,000	Commission received	1,000
Cash	18,000	Suspense a/c (b/f)	1,000
Outstanding rent	1,000		
Plant & Machinery	20,000		
	1,21,000		1,21,000

13. Ramya is not an expert in accountig she prepared the following trial abalance your are requested to correct it and prepare a correct trial balance of Ramya.

Particulars	Dr	Cr
Ramya Capital		25,500
Ramya drawings	500	
Promises	7,000	
Sales		50,000
Debtors		5,500
Purchases	20,000	
Purchase returns	2,000	
Loan from the bank		2,500
Creditors	6,000	
Trade and Office expenses	700	
Cash at Bank	1,500	
Bills Payable	1,000	
Salaries	1,300	
Opening stock		3,000
Rent	2,500	
Sales returns	6,000	
Machinery	39,000	
Discount allowed		1,000
Discount received	1,000	
Bills receivable		1,000
Sold old news paper	500	-
Old Furniture Sold	-	500

Sol.:

Trial Balance

Particulars	Dr	Cr
Ramya Capital	-	25,500
Ramy drawings	500	-
Premises	7,000	-
Sales	-	50,000
Debtors	5,500	-
Purchases	20,000	-
Purchases returns	-	2,000
Loan from the bank	-	2,500

Creditors	–	6,000
Trade and Office Expenses	700	–
Cast at Bank	1500	–
Bills payable	–	1,000
Salaries	1,300	–
Opening Stock	3,000	–
Rent	2,500	–
Sales Returns	6,000	–
Machinery	39,000	–
Discount allowed	1,000	–
Discount received	–	1,000
Bills receivable	1,000	–
Sold old news papers	–	500
Old Furnitures	–	500
Total	<u>89,000</u>	<u>89,000</u>

14. Prepare Trial Balance from the following balance on 31-12-2014

	–		–
Capital	60,000	Drawings	5,000
Sales Returns	15,000	Bills Payable	5,000
Furniture	35,000	Sundry Debtors	10,000

Ans :

(May/June-19)

Trial Balance

Particulars	Debit	Credit
Capital		60,000
Drawings	5,000	
Sales Returns	15,000	
Bills Payable		5,000
Furniture	35,000	
Sundry debtors	10,000	
Total	65,000	65,000

Exercises Problems

1. On 1st April, 2013, the position of Mathur was as follows : Stock in Hand ₹ 2,400; Bills Payable ₹ 400; Cash at Bank, ₹ 4,800; Plant and Machinery, ₹ 4,000; Owing by Debtors ₹ 5,500; Owing to Creditors; ₹ 800; Investments ₹ 2,000, Loan from S. Sethi; ₹ 1,000.

What was the amount of Mathur's capital on this date ? Pass the opening journal entry.

Ans: (Capital ₹ 16,500)

2. Journalise the following transactions.

2013		₹	2013		₹
Jan. 3	Received cash from Ram	15,000	Jan. 17	Received from Hari	1,100
Jan. 4	Purchased goods for cash	2,500	Jan. 20	Bought furniture from Ram	2,200
Jan. 11	Sold goods to Hari	3,200	Jan. 27	Paid rent	480
Jan. 13	Paid Ramesh	1,400	Jan. 30	Paid salary	1,100

[Ans : Total of Journal ₹ 26,980]

3. Journalise the following transactions:

2013		₹	2013		₹
Jan. 1	Started business with cash	50,000	Jan. 15	Paid to M/s Singh and Co.	21,000
Jan. 2	Paid into bank	36,000	Jan. 15	Discount allowed by them	1,000
Jan. 3	Bought goods from M/s Singh & Co. on credit	22,000	Jan. 25	Sold goods to M/s Ray & Co.	5,000
Jan. 4	Purchased furniture	4,200	Jan. 26	Received cheque from M/s Shuda & Co. in full settlement of amount due by them	4,560
	Purchased adding machine and typewriter (Payment in all cases made by cheque)	8,400	Jan. 31	Paid for : Electric Charges	100
Jan. 6	Paid for postage	215		Paid salary	1,500
Jan. 8	Sold goods for cash	5,400		Paid rent by cheque	2,000
Jan. 9	Sold goods on credit to M/s Sharda & Co.	4,600		Drew for private use	3,500

[Ans : Total of Journal ₹ 1,69,515]

4. Prepare the Ledger account of Mr. Solkar from the following :

March 1 Debit balance ₹ to his account ₹ 2,000
 March 3 Sold goods on credit to him worth ₹ 10,800
 March 8 Received cash from him ₹ 12,600 and allowed discount of ₹ 200
 March 10 Solkar bought goods on credit ₹ 3,000
 March 15 Received cash from him ₹ 2,900 and allowed him discount ₹ 100
 March 20 Purchased goods on credit from Solkar worth ₹ 2,000
 March 25 Paid cash to Solkar ₹ 1,000
 March 28 Returned goods to him ₹ 200
 March 31 Paid cash to him in full settlement of his account ₹ 780

[Ans : Solkar's Account Total ₹ 17,800]

5. From the following transactions prepare only personal accounts in the ledger for April 2013.

- April 1 Govind started business with cash ₹ 2,000 goods ₹ 3,000 and furniture ₹ 4,000
 April 5 Sold goods to Raghu ₹ 600 and for cash ₹ 400
 April 9 Received from Raghu on account ₹ 400
 April 12 Bought goods from Mohan ₹ 1,000
 April 15 Paid Mohan ₹ 500
 April 20 Paid Interest to Mohan ₹ 25
 April 21 Cash withdrawn by Govind for personal use ₹ 200

[Ans : [Govind's Capital A/c ₹ 8,800 (Cr.); Raghu ₹ 200 (Dr.), Mohan ₹ 500 (Cr.)]

6. Prepare the personal A/c of Mr. Balaji from the following transactions in the books of Ganesh.

2013

March

- " 1 Debit balance of Balaji's A/c ₹ 8,200
 " 4 Bought of Balaji ₹ 1,500
 " 7 Cheque of ₹ 2,000 issued to Balaji
 " 10 Goods sold to Balaji ₹ 1,200
 " 13 Balaji sold goods to Ganesh ₹ 800
 " 16 Received an account payee cheque from Balaji ₹ 1,200
 " 20 Goods worth ₹ 230 returned to him
 " 24 Balaji bought goods from Ganesh ₹ 1,400
 " 26 Balaji claimed an allowance of ₹ 300 for damaged goods.
 " 28 A bearer cheque received from Balaji for ₹ 800
 " 29 Balaji received goods returned by Ganesh ₹ 270
 " 31 Received ₹ 8,500 in settlement of ₹ 8,700 from Balaji.

[Ans : Balaji's A/c Total ₹ 13,300]

7. Re-write the following Trial Balance to correct the same

Trial Balance on 31st March, 2013

Debit	₹	Credit	₹
Wages	2,630	Capital	10,000
Purchases	12,490	Sales	31,080
Salaries	520	Rent Paid	500
Carriage	50	Discount Received	120
Building	12,010	Light Charges	160
Bank Overdraft	470	Suppliers	800
Cash in Hand	60	opening Stock	9,260
Customers	1,490	Furnitures	3,250
	29,770		55,170

[Ans: Total of Correct Trial Balance ₹ 42,470]

8. Following Trial Balance of Durlabh Singh is being presented to you. It needs redrafting. You are required to redraft it correctly

TRIAL BALANCE (As on June 30, 2013)

Particulars	Dr. Balance	Cr. Balance
Capital (1-7-2012)	8,950	
Drawings		1,050
Stock (1-7-2012)	3,725	
Purchases	23,100	
Sales		39,425
Wages and Salaries	6,205	
Lighting and Heating	310	
Equipment	3,600	
Carriage Outward		230
Carriage Inward	105	
Returns Outward		290
Provision for Bad Debts	350	
Discount Allowed		315
Rent, Rates & Insurance	1,115	
Motor Vehicles	1,475	
Cash in hand	110	
Sundry Creditors	4,925	
Sundry Debtors		13,920
Bank Overdraft	975	
	55,230	55,230

9. Journalise the following transactions, post them into Ledger and prepare a Trial Balance.
2012

- September 1 Started business with ` 50,000, paid into Bank ` 20,000.
 2 Bought furniture for ` 5,000 and Machinery for ` 10,000.
 3 Purchased goods for ` 14,000. 6 Sold goods for ` 8,000.
 8 Purchased goods from Malhotra & Co. ` 11,000.
 10 Paid telephone rent for the year by cheque ` 500.
 11 Bought one typewriter for ` 2,100 from Universal Typewriter Co. on credit. 15
 Sold goods to Keshav Ram for ` 12,000.
 17 Sold goods to Rajesh Kumar for ` 2,000 for cash.

- 19 Amount withdrawn from bank for personal use ` 1,500.
- 20 Withdrew from bank for business use ` 3,500.
- 21 Received cash from Keshav Ram ` 11,900, discount allowed ` 100.
- 22 Paid into bank ` 5,800.
- 23 Bought 50 shares in XY and Co. Ltd. at ` 60 per share, brokerage paid ` 20.
- 25 Goods worth ` 1,000 found defective were returned to Malhotra & Co. and the balance of the amount due to them was settled by issuing a cheque in their favour.
- 28 Sold 20 shares of XY and Co. Ltd. at ` 65 per share, brokerage paid X 20.
- 28 Bought goods worth ` 2,100 from Ramesh and supplied them to Suresh at ` 3,000.
- 30 Suresh returned goods worth ` 100, which in turn were sent to Ramesh.
- 30 Issued a cheque for ` 1,000 in favour of the landlord for rent for September.
- 30 Paid salaries to staff ` 1,500 and received from travelling salesman ` 2,000 for goods sold by him, after deducting his travelling expenses ` 100.
- 30 Paid for : Charity ` 101 ; Stationery ` 450 ; Postage ` 249.

[Ans : Journal Total ` 1,83,370 ; T.B. Total ` 82,300]

Short Question and Answers

1. Define the term Financial Accounting.

Ans :

Introduction

Accounting is termed as a language of business which is used to communicate the information or the results of business operations to several interested people like proprietors, investors, creditors, government etc.

Accounting plays a vital role in the process of decision making. It is considered as a common language used in the world of industry and commerce. Accounting principles refer to those rules and regulations which are followed by the accountants for recording, classifying and summarizing the accounting transactions.

Accounting is an art and science of providing meaningful information about financial activities of the company's as a tool for management. This is used by a business for maintaining financial records on cash basis or accrual basis.

Accounting is an important part of information system. It is an important profession. Study of accounting is must for all the people concerned with business, trade and commerce.

Definitions of Accounting

Financial Accounting is "the art of recording, classifying and summarising in a significant manner in terms of money transactions and events which are in part, at least of a financial character and interpreting the results thereof."

— **American Institute of Certified Public Accountants**

Accounting is "the process of identifying, measuring, and communicating economic information to permit informed judgements and decisions by users of the information".

— **American Accounting Association**

Accounting is a service activity. Its function is to provide quantitative information, primarily financial in nature, about economic activities that is useful in making economic decision in making

reasoned choices among alternative course of action. — **Accounting Principles Board (APB)**

2. Define book keeping.

Ans :

Book-Keeping is an activity concerned with the recording of financial data relating to business operations in a significant and orderly manner. Book-Keeping is the record making phase of accounting. Accounting is based on a careful and an efficient book-keeping system.

Book-Keeping - Definitions

Book-Keeping is defined by different authors. A few of such definitions are given below. Carter in his Advanced Accounts defined Book-keeping as "the Science and art of correctly recording in books of account are those business transactions that result in the transfer money or money's worth".

According to B.G. Vickery : In his 'principles and Practice of Book-Keeping' defined Book-keeping as "The art of recording pecuniary or business transactions in a regular and systematic manner."

According to Kohler in his book 'A Dictionary for Accountant's defined Book-keeping as "the process of analysing, classifying and recording transactions in accordance with preconceived plan."

3. Objectives of Book-Keeping.

Ans :

- i) Book-keeping is concerned with recording of the financial transactions of business in a methodical manner so that information on any point in relation to them may be quickly obtained.
- ii) Book-keeping activity is responsible for keeping all the financial records of a business (or only a minor segment such as maintenance of the customer's accounts).

- iii) Book-keeping is to prepare original books of accounts trial balance and final accounts.
- iv) To avoid financial frauds in business entity.

4. Advantages of Accounting.

Ans :

Following are main advantages of accounting:

1. Replacement of Memory

In a large business it is very difficult for a businessman to remember all the transactions. Accounting provides records which will furnish information as and when desired and thus it replaces human memory.

2. Evidence in Court

Properly maintained accounts are often treated as a good evidence in the court to settle a dispute.

3. Settlement of Taxation Liability

If accounts are properly maintained, it will be of great assistance to the businessman in settling the income tax and sale tax liability otherwise tax authorities may impose any amount of tax which the businessman will have to pay.

4. Comparative Study

It provides the facility of comparative study of the various aspects of the business such as profits, sales, expenses etc. with that of previous year and helps the businessman to locate significant factor leading to the change, if any.

5. Sale of Business

If accounts are properly maintained, it helps to ascertain the proper purchase price in case the businessman is interested to sell his business.

5. Disadvantages of Accounting.

Ans :

1. Records only Monetary Transactions

Accounting records only those transactions which can be measured in monetary terms.

Those transactions which cannot be measured in monetary terms as conflict between production manager and marketing manager, efficient management etc., may be very important for a concern but not recorded in the business books.

2. Effect of Price Level Changes not Considered

Accounting transactions are recorded at cost in the books. The effect of price level changes is not brought into the books with the result that comparison of the various years becomes difficult.

For example, the sales to total assets in 2007 would be much higher than in 2002 due to rising prices, fixed assets being shown at cost and not at market price.

3. No realistic information

Accounting information may not be realistic as accounting statements are prepared by following basic concepts and conventions. For example, going concern concept gives us an idea that the business will continue and assets are to be recorded at cost but the book value which the asset is showing may not be actually realisable. Similarly, by following the principle of conservatism the financial statements will not reflect the true position of the business.

4. Personal bias of the Accountant affects the accounting statements

Accounting statements are influenced by the personal judgement of the accountant. He may select any method of depreciation, valuation of stock, amortisation of fixed assets, treatment of deferred revenue expenditure. Such judgement based on integrity and competency of the accountant will definitely affect the preparation of accounting statements.

6. Going Concern Concept.

Ans :

In this concept, the proprietor assumes that business will continue for a longer period of time in future. There is no intention of winding up the business in the near future. In this concept, accountant values the assets by calculating depreciation on the basis of expected life instead of the market values and he does not take into account the forced sale value of assets.

7. Dual Aspect Concept.*Ans :*

The dual aspect concept is a primary concept of accounting, it implies that every business transaction has two-fold effect i.e., dual effect. The double effect of this concept can be expressed in form of an accounting equation as,

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

or

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

This equation can also be written as,

$$\text{Equities} = \text{Assets}$$

Hence, accounting equation explains the relationship between equities and assets. It implies that every debit has a credit which is equal to the sum of the debit.

8. Convention of Conservatism.*Ans :*

According to this convention, accountant must adopt the policy of playing safe and follow the rule "anticipate no profit but provide for all possible losses". This implies that accountant must make a provision for all possible or expected losses but unearned or unrealized profit must not be included. When convention of conservatism is used inventory is valued at lower price, either at cost or market price and provision is made for bad or doubtful debts. The main objective of this convention is to misrepresent the true financial position of the company in order to show lower net income and understated assets and liabilities.

9. Accounting Standards.*Ans :*

Accounting standards are the written statements consisting of rules and guidelines, issued by the accounting institutions, for the preparation of uniform and consistent financial statements and also for other disclosures affecting the different users of accounting information.

Accounting standards lay down the terms and conditions of accounting policies and practices by way of codes, guidelines and adjustments for making

the interpretation of the items appearing in the financial statements easy and even their treatment in the books of account.

For accounting standards, to be useful tool to enhance the corporate governance and responsibility, two criteria must be satisfied, i.e.

- (i) A standard must provide a generally understood and accepted measure of the phenomena of concern.
- (ii) A standard should significantly reduce the amount of manipulation of the reported numbers and is likely to occur in the absence of the standards.

10. Importance of Accounting Standards.*Ans :*

On the basis of forgoing discussion we can say that accounting standards are guide, dictator, service provider and harmonizer in the field of accounting process.

(i) Serve as a guide to the accountants

Accounting standards serve the accountants as a guide in the accounting process. They provide basis on which accounts are prepared. For example, they provide the method of valuation of inventories.

(ii) Act as a dictator

Accounting standards act as a dictator in the field of accounting. Like a dictator, in some areas accountants have no choice of their own but to opt for practices other than those stated in the accounting standards. For example, Cash Flow Statement should be prepared in the format prescribed by accounting standard.

(iii) Serve as a service provider

Accounting standards comprise the scope of accounting by defining certain terms, presenting the accounting issues, specifying standards, explaining numerous disclosures and implementation date. Thus, accounting standards are descriptive in nature and serve as a service provider.

(iv) Act as a harmonizer

Accounting standards are not biased and bring uniformity in accounting methods. They remove the effect of diverse accounting practices and policies. On many occasions, accounting standards develop and provide solutions to specific accounting issues. It is thus clear that whenever there is any conflict on accounting issues, accounting standards act as harmonizer and facilitate solutions for accountants.

11. What are the difference between Double Entry System and Single Entry System ?

Ans :

Double Entry System	Single Entry System
(i) It is a complete and scientific system of book-keeping and dual entries of a transaction should be made in two different accounts.	(i) It is an incomplete unscientific unsatisfactory system of accounting, where each and every transaction is not kept under this system.
(ii) All accounts like personal, real and nominal are maintained by this system.	(ii) Only personal accounts and cash book are maintained under this system.
(iii) Financial position can be easily ascertained by preparing a Balance sheet, which is cannot be prepared without much records.	(iii) Financial position cannot be ascertained, by a Balance sheet because it is prepared with much records.
(iv) Under this system, the arithmetical accuracy of the books of accounts can be checked by preparing a Trial balance	(iv) Under single entry system the arithmetical accuracy cannot be checked because of a Trial balance cannot be prepared.
(v) This system has statutory recognition and records are maintained under this system. Which are accepted as evidence in the court of law.	(v) This system has no statutory recognition and are normally accepted by the court of law.

12. What is journal ? Explain the objectives of journal.

Ans :

A journal is known as a primary book of accounts or a book of original entry. With the increase in the size of business, the number of business transactions also increases. It is very difficult for a human-being to remember all those transactions. Therefore, to overcome this drawback, journal is prepared. Although, as stated above, the transactions can be recorded directly in the ledger. But such procedure will be cumbersome and confusing. Under this process, it will be very difficult to locate a transaction after several recordings. But in journal, the transactions can easily be located as it provides chronological record of transactions.

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

According to L.C. Cropper, "A journal is a book employed to classify or sort out transactions in a form convenient for their subsequent entry in the ledger."

According to Roland, "Journal means a day book, diary or a log book. It is called prime subsidiary book of double entry system."

13. Objectives of Journal.*Ans :*

The following are the objectives and importance of journal:

1. Complete Record of Each Transaction

Date-wise complete record of each business transaction is recorded in the journal. Summary of each transaction is also written which is known as narration. This narration is helpful in getting full information about the transaction.

2. As a Proof

Journal is treated as a proof in the eye of the court for settling down the disputes among two or more parties. In some countries like France, Italy, Germany, etc. it is mandatory to prepare ledger.

3. Ledger Hosting

To prepare ledger from the journal is easier than preparing directly from vouchers or memorandum book. Chances of mistakes or errors are very less when we post the entries in the ledger from journal.

4. Correct Knowledge

Each and every transaction is recorded by debiting and crediting two accounts. This helps in knowing which two accounts are affected by the transaction.

14. Define ledger.*Ans :*

Ledger is a book where the journalized transactions are being classified. Ledger is a set of accounts and includes all the accounts of business i.e., personal, nominal or real.

A company can maintain ledger in two forms i.e., Bound Ledger and Loose-leaf Ledger. The process of transferring the debit and credit items from the journal to the ledger in their respective accounts is known as posting. Posting must be made/done before the preparation of final accounts. The accounts which are active in nature must be updated on the timely basis.

15. Advantages of Ledger.*Ans :*

The main advantages of ledger are as follows:

1. Knowledge of Business Results

With the help of ledger the important information relating to business can easily be obtained as all the business transactions relating to an item are recorded in the form of separate accounts in the ledger in such a way as their effect on assets, liabilities and capital can easily be understood.

2. Knowledge of Incomes and Expenses

A separate account is opened for each item of income and expense. Thus, it enables to understand that what are the sources of income and where the amount is spent.

3. Helpful in Preparing Trial Balance

Ledger is also helpful in the preparation of trial balance. Without preparing the ledger, trial balance cannot be made.

4. Helpful in Preparing Final Accounts

It is mandatory for the businessman to prepare final accounts. Ledger helps in preparing the final accounts as the total or balances of accounts appear in Trading A/c, P/L A/c and balance sheet.

5. Overcoming the Limitations of Journal

Ledger fulfills all those objects which lack in journal. Journal does not provide complete description of all the transactions relating to an account in classified and summarised form, but the ledger provides it.

16. Define trial balance.*Ans :*

Trial balance is a worksheet in which the balances of all ledgers are compiled into debit and credit columns. Under the double entry system, the total of debits must be equal to total of credits. This worksheet helps in evaluating whether or not the total debits for the period are equal to total number of credits generated for the same period.

Every businessman prepares the trial balance after journal and ledger. It is a tradition to prepare the trial balance before the preparation of the final

accounts. It serves as a tool to detect errors. If the trial balance is balanced, it means there are no mathematical errors in the ledgers. However this does not mean that there are no errors in a company's accounting system. By preparing a trial balance on a regular basis makes it possible to quickly identify a specific accounting period where the imbalance took place and correct it quickly. Therefore many businessmen choose to prepare a trial balance on monthly basis.

Definitions of Trial Balance

According to Carter, "Trial Balance is a statement of debit and credit balances derived from the ledger, including cash and bank balances."

According to William Pickles, "The statement prepared with the help of ledger balances, at the end of financial year or at any other date, to find out whether debit total agrees with credit total, is called a Trial Balance."

According to J. R. Battiboi, "Trial Balance is a statement prepared with the help of debit and credit balances derived from the ledger, the objective of which is to check the arithmetical accuracy of the ledger."

According to M.S. Gosar, "Trial Balance is a statement containing the balances of all ledger accounts, as at any given date, arranged in the form of debit and credit columns placed side by side and prepared with the object of checking the arithmetical accuracy of ledger posting."

17. Explain the advantages of trial balance.

Ans :

The trial balance has the following advantages:

1. It ensures that the transactions recorded in the books of accounts have identical debit and credit amount.
 2. Balance of each ledger account has been computed correctly.
 3. It helps in preparation of final accounts.
 4. It makes the work of bookkeeping more active.
 5. It summarises the business information.
-

18. Business Entity Concept

Ans :

In accounting, proprietor treats its business as a separate entity so that his business transactions does not get mixed up with his personal life. If business and personal activities are mixed up then it would be difficult to derive/draw meaningful accounting information. The separate entity concept is applicable to all forms of business organizations for the accounting purpose. Usually, this concept seems to be unreasonable but it is very useful in drawing out the accounting information.

Choose the Correct Answer

1. The balance of cash book indicates The balance of cash book indicates [a]
(a) Cash in hand
(b) Cash at bank
(c) Net profit
(d) Only the difference between creditor and debtor.
2. All the transactions relating to a particular account and collected at one place in a book is called [b]
(a) Journal (b) Ledger account
(c) Single entry (d) Suspense account
3. Trial balance is prepared to find out [c]
(a) Profit or loss (b) Financial position
(c) Arithmetical accuracy of accounts (d) None
4. Trial balance can be prepared on [b]
(a) The end of accounting period (b) Any date
(c) Direction by the statutory provisions (d) None
5. The process of transferring the transactions relating to changes in a particular item at one place in the form of account is called _____ [b]
(a) Balancing (b) Posting
(c) Journalizing (d) None
6. Real account deals with [d]
(a) Cash (b) Fixed assets
(c) Intangible assets (d) All
7. The nominal accounts are closed by transferring to [b]
(a) Balance sheet (b) Profit and loss account
(c) Both (d) None
8. Real accounts always shows [a]
(a) Debit balance (b) Credit balance
(c) Nil balance (d) Cannot be balanced
9. Ledger is prepared after preparing [d]
(a) Income statement (b) Financial statement
(c) Balance sheet (d) Journal
10. The difference in the trail balance is known as [d]
(a) Drawings (b) Loss
(c) Profit (d) Suspense account
11. The amount withdrawn for personal use [d]
(a) Income for the business (b) Gain for the business
(c) Loss for the business (d) Drawings from the business
12. Ledger is prepared after preparing [d]
(a) Income statement (b) Financial statement
(c) Balance sheet (d) Journal

Fill in the Blanks

1. Real account consists of both tangible real accounts and _____ accounts
2. For every debt, there should be a corresponding _____.
3. For real account debit what _____ credit what _____.
4. Accounting equation must remain _____ at all times.
5. A daily record in which all daily transactions are first recorded chronologically is referred to as _____.
6. The two aspects of each business transaction are depicted in terms of _____.
7. Accounts in the name of natural persons accounts is a _____.
8. Trial balance is prepared as per the rules of _____.
9. _____ is a statement prepared with the debit and credit balance of ledger accounts.
10. Accounting has _____ branches.
11. LF stands for _____.

ANSWERS

1. Intangible real
2. Credit
3. What comes in, What goes out
4. Balance
5. Journal book
6. Debit and credit.
7. Personal account.
8. Double entry system
9. Trial balance
10. Three
11. Ledger folio

UNIT II

Subsidiary Books - Meaning : Types - Purchases Book - Purchases Returns Book - Sales Book - Sales Returns Book - Bills Receivable Book - Bills Payable Book - Cash Book : Single Column, Two Column, Three Column and Petty Cash Book - Journal Proper (Including Problems)

2.1 SUBSIDIARY BOOKS

2.1.1 Meaning

Q1. Define Subsidiary Books. Explain the reasons for maintaining Subsidiary Books.

Ans : (May-19, Dec.-17, Imp.)

All transactions are first entered in the Journal in the order in which they occur and from the journal they are posted to the respective accounts in the ledger. But this would involve a tremendous amount of work because each transaction requires a separate debit to the receiving account and a credit to the giving account to bring into record the two-fold aspect of each transaction.

A considerable saving of clerical labour can be brought about if transactions of similar nature are recorded in separate journals so as to permit the sub-divisions of the Journal. This would facilitate not only the division of the Journal but it would also make easier the job of posting in the ledger, as the postings can then be made in the form of totals being transactions of similar nature. These sub-divisions of the Journal into various books recording transactions of the similar nature are called subsidiary books. These subsidiary books are also known as books of original entry because transactions are first recorded in these books to be subsequently transferred to their respective accounts in the ledger.

Reasons for Maintaining the Subsidiary Books

The various reasons for maintaining the subsidiary books are given as under :

i) Economy in Labour

If the transactions are recorded in the books of accounts directly it will consume less time than if the transactions are recorded in the journal and then posted to the ledger.

ii) More Accuracy

There will be more accuracy in the books of accounts as entries are made in total only and that too once in a month.

iii) Statistical Records

Additional information can be collected while maintaining a subsidiary book. For example, sales book can collect the information relating to the sales of different areas or of different salesmen.

iv) Maintenance of Accounts

If specialised books are kept it may be possible to avoid maintenance of some accounts books. For example the date of payment, cheque number etc. can be noted in the purchases book which will obviate the need of maintaining the creditors account.

v) Division of Work

There will be division of accounting work as instead of one journal there will be so many subsidiary books.

vi) Specialization and Efficiency

When the work is divided among the accounting staff and one person is required to do that work again and again, he becomes specialist of that work and his efficiency also increases.

vii) Facility in Checking

The existence of separate books helps location of errors and detection of frauds in case the trial balance does not agree.

2.2 TYPES OF SUBSIDIARY BOOKS**Q2. Explain the different types of Subsidiary Books.**

Ans :

(May-19, Imp.)

The classification of various subsidiary books and the types of transactions to be recorded in these books are given as under :

(i) Cash Book

This book deals with the transactions relating to the receipts and payments of cash direct or through bank, discount allowed or received etc. and shows cash in hand and at bank.

(ii) Purchases Book

This book is meant for recording all transactions of credit purchases of all goods, dealt in or of the materials and stores required in the factory and will show the total credit purchases of goods and materials made during a particular period.

(iii) Sales Book

This book is maintained to record all credit sales (of goods dealt in) made during a particular period and will show total credit sales made during a particular period.

(iv) Purchases Returns (or Returns Outwards) Book

This book records all returns of goods and materials previously purchased and will show total purchases returns during a particular period.

(v) Sales Returns (or Return Inwards) Book

This book is maintained to record all sales /returns made by the customers and will show the total returns inwards during a particular period.

(vi) Bills Receivable Book

This book is maintained to record all bills received from the customers during a particular period. It will also tell the various dates on which payments are to be received by the business.

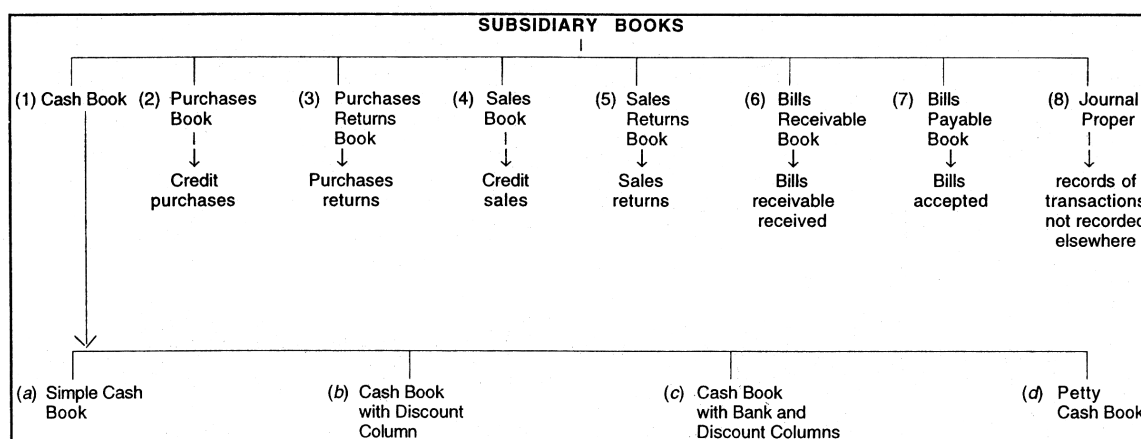
(vii) Bills Payable Book

This book records all acceptances made by the firm and will indicate the various dates on which payments of various bills are to be made.

(viii) Journal Proper

All those transactions which could not be recorded in any of the above subsidiary books will be recorded in this book.

Now cash book will be discussed in detail in this chapter and other books will be discussed in the next chapter.

**2.2.1 Purchases Book****Q3. What do you understand by Purchases Book?**

Ans :

This book is kept to maintain a record all credit purchases of those goods which are for sale. To be eligible for being recorded in the Purchases Book, the goods purchased on credit must be those in which the firm normally deals. Cash purchases of goods are entered in the Cash Book, so these are not recorded in the Purchases Book. This book is also known as Invoice Book. The ruling of the Purchases Book is as follows :

Date	Particulars	Invoice No.	L.F.	Details Rs.	Amount Rs.

In particulars column, name of the party and particulars of the goods purchased are written. While preparing this book, it should be remembered that:

- Cash purchases are not entered in this book because these are recorded in the Cash Book.
- Credit purchases of trading goods (i.e., goods purchased for resale) should be recorded in this book. Purchases of assets as office furniture, equipment etc. are not entered in this book.

Trade discount. It is a deduction allowed by the manufacturer to the wholesaler or by the wholesaler to the retailer on the gross value of list price of the goods to enable the seller to sell the goods further at list price and yet to make a profit for himself. Trade discount is allowed for one of the following reasons :

- i) Traders are often charged for goods at the retail price by manufacturers and wholesalers but a trade discount is deducted equalling the difference between the manufacturer's or wholesaler's price and the retail price. The net figure is, therefore, the price payable by the retailer and the trade discount will be the gross profit he will make if the latter sells the goods at the full retail price. Thus, the invoice will also act as information of the expected retail selling price of the goods. It also greatly simplifies matters where a firm sells both to the general public and to traders. All sales are priced out at the same figure to both kinds of customers but in case of traders a deduction of the percentage trade discount is made. Thus, the sales personnel will only have to consult one set of prices for both types of customers, the adjustment of the price as between the two kinds of customers being made by deduction of the trade discount for traders.
- ii) As a special discount to a trader buying goods in large quantities. To induce traders to place orders for bulk quantities, a higher percentage of trade discount is given.

There will be no entry for trade discount anywhere in the books as it is merely a means of calculating the net selling price of the goods and it is this latter figure that the firm is concerned with in the accounts. We have already seen that cash discount is an allowance made by a creditor to his debtor in consideration of the amount of the debt being paid either immediately or within a specified period called the period of credit. This discount is deducted by the debtor from sum when making the payment. It is recorded in the Cash Book.

Multi-column Purchases Book

Sometimes it is required to analyse the purchases of different types of goods or materials purchased and to maintain separate accounts for these goods in the ledger. In order to meet this requirement additional columns can be provided in the purchases book. Then this book is known as "Columnar Purchases Book". A specimen of such a book is given as under :

Columnar Purchases Book							
Date	Supplier's Name and Address	Invoice No.	L.F.	Total Amount	Cloth		
					Cotton	Woollen	Silk

Posting of Purchases Book

Each supplier's account is individually credited in the ledger with the amount of goods purchased from him because he is the giver of goods. The periodical total of the Purchases Book is posted to the debit of Purchases Account with the words "To Sundries as per Purchases Book."

2.2.2 Purchases Returns Book**Q4. What do you understand by Purchases Returns Book?***Ans :***(Dec.-17)**

Purchases returns book also called 'Returns outward book'. When the trader purchases goods, he verifies whether they are in good condition and agree with the terms and conditions of the order he placed. If the goods received are defective in quality or damaged in transit or not upto the sample shown at the time of order placing, the trader will return such goods to the supplier.' These returns are called as purchases returns, such returns to the suppliers will be entered in a separate book called 'Purchases returns book'. Allowances claimed for breakages, short weight, over-charge etc, also may be dealt with in the same book. This book is also known as 'Returns outwards book' as goods returned are going out of the business. When purchases returns are made to suppliers a 'debit note' will be sent to them giving reference that their accounts are debited in the books of the trader to the extent of goods returned to them. This is because suppliers account is credited with the whole amount when goods are purchased. The following is the proforma of purchases returns book.

Purchases Returns Book

Date	Particulars	L.F.	Debit Note No.	Amount Rs.

1. The first column is meant to record the date of return of goods to the supplier.
2. The second column is meant for recording the name of the supplier to whom the goods are returned.
3. The third column is meant for recording the ledger folio of the supplier.
4. The fourth column is used to record the number of debit note.
5. The fifth column is meant for recording the value of goods returned

2.2.3 Sales Book**Q5. What do you understand by Sales Book?***Ans :*

In many businesses a considerable proportion of sales will be made on credit rather than for immediate cash. In fact the sales of some businesses will consist entirely of credit sales. For each credit sale, the selling firm will send a document to the buyer showing full details of the goods sold and the price of the goods. This document is known as an Invoice and to the seller it is known as a Sales Invoice. The seller will keep one or more copies of each sales invoice for his own use.

It is from the copies of sales invoices that the seller prepares up his sales book. This book is merely a list in date order of each sales invoice showing the date, the name of the firm to whom the goods have been sold, the number of invoice for reference purposes and the net amount of the invoice. There is no need to show in the sales book a description of the goods sold as this information can be found by referring to the copy of the sales invoice which should be filed after recording it in the sales book.

There are two methods of pricing out goods sold in the invoice. Each invoice may just show the customer the actual amount that he is being charged for the goods. On the other hand, the goods may be shown at list price/catalogue price/retail price less an amount for trade discount, the net figure being the amount actually charged for the goods.

A specimen ruling of sales book is given below :

Sales Book

Date	Particulars	Invoice No.	L.F.	Details Rs.	Amount Rs.

While preparing sales book, it should be remembered that:

- i) Cash sales are not entered in this book because these are recorded in cash book,
- ii) Credit sales of trading goods (*i.e.*, goods purchased for sale) should be recorded in this book. Sales of assets are not recorded in this book.

Multi-column Sales Book

When it is required to maintain a separate record of various types of goods sold and information of total sales for each type of goods is also required, additional columns are provided in the sales book. Such sales book is called "Multi Column Sales Book". A specimen of such book is given as under :

Columnar Sales Book

Date	Customer' Name and Address	Invoice No.	L.F.	Total Amount	Cloth		
					Cotton	Woollen	Silk

Posting of Sales Book

Each customer's account is individually debited in the ledger with the amount of goods sold to him as he is the receiver of goods. The periodical total of the Sales Book is posted to the credit of Sales Account with the words "By Sundries as per Sales Book."

2.2.4 Sales Returns Book

Q6. What do you understand by Sales Returns Book?

Ans :

(Dec.-17)

This book is also known as 'Returns inwards book'. Just as we return goods to the suppliers, some times a trader may have to receive back some of the goods he might have sold to customers. Such returns by the customers are recorded in a special Journal meant for that purpose which is called 'Sales returns Book'. When sales returns are made by the customer to the trader, a note will be sent to the trader informing him that his account is credited in the books of the trader to the extent of goods returned by him. This is because of the fact that the customer's account is debited earlier with full amount when goods are sold to him.

The following is the proforma of Sales Returns Book.

Date	Particulars	L.F.	Credit Note Number	Amount

Just like other Journals, this Journal is also closed periodically and entries therein are posted to the ledger.

Debit Sales returns account with the periodical total.

Credit Customer's account who has returned the goods with the individual amount.

Credit Note :

When the seller receives back goods from the Purchaser along with a 'Debit Note' the seller has to acknowledge the same by sending a 'Credit Note' confirming the acceptance of the debit note. In other words this is a statement sent by the seller to the purchaser after the receipt of the goods returned by purchaser. The following is the specimen of 'Credit Note' sent by Maruthi Book Depot, Guntur, to Gupta Brothers of Visakhapatnam.

2.2.5 Bills Receivable Book

Q7. Explain briefly about Bills Receivable Book.

Ans :

When transactions relating to bills are numerous it is a common practice to maintain a separate Bills Receivable and Bills payable books. Bills Receivable book is maintained to record all the bills received from the debtors, by the trader. The following is the proforma of Bills Receive Book.

Bills Receivable Book

Date	Date of Receipt of bill	From whom Received	Term of bill	Due Date of Bill	Amount Rs	Remarks

Bills Receivable Book is also, just like other books, periodically totalled and closed by posting. Entries therein are posted to the ledger ad under.

Posting from Bills Receivable Book :

Debit the Bills Receivable account with the periodical total shown by the Bills Receivable Book.

Credit the Individual accounts with the amounts of the bills as shown against their names in the Bills Receivable Book.

2.2.6 Bills Payable Book**Q8. Explain Bills Payable book.**

Ans :

The details of the bills that are accepted by the trader are entered in this book. The following is the proforma of Bills Payable Book.

S.No.	Date of Acceptance of Bill	To whom given	Term of the bill	Due date of the bill	L.F.	Amount Rs.	Remarks

Posting from Bills Payable Book

Debit the Individual accounts of persons to whom the bills are granted.

Credit the periodical total of Bills Payable Book

PROBLEMS ON SUBSIDIARY BOOK

1. Transaction dated 11th January, 1996 is a cash transaction. Hence it should not be recorded in sales book.

Jan.,	2	Purchased goods from Ramakrishna	2,000
	3	Purchased goods from Sanjeev	3,000
	4	Bought from SriRam goods worth	1,500
	5	Purchased from Varma goods with trade discount of 10% Rs 1,000	
	6	Purchased goods of Sitharam for cost of	500
	7	Venkat sold us goods	2,500

Sol :

Purchases Book

Date	Particulars	L.F.	Amount Rs.
1997			
Jan., 2	Rama Krishna		2,000
3	Sanjeev		3,000
4	Sriram		1,500
5	Varma		900
7	Venkata		2,500
	Total		9,900
	(Nine thousand Nine hundred only)		

Note : Transaction dated 6th is a cash transaction. Hence Omitted.

2. Enter the following in suitable Subsidiary books and close the same.

Rs.

1987

Dec.,	1.	Purchased goods from Raman	3,000
	3	Sold goods to Krishnan	2,000
	5	Sold goods to M/s Brown & Co.,	1,500
	6	Purchased goods from Raghavan	1,200
	10	Krishnan returned goods to us	200
	13	Sold goods to Narayan	1,000
	14	Returned goods to Raman	300

14	Sold goods to Baghavathi	1,2000
16	Bought goods from Mirdha	1,600
17	Goods returned y Baghavathi	120
18	Sold goods to Sunder	1,500
27	Goods returned to Mirdha	160
28	Goods returned by Sunder	150

*Sol :***Purchases Book**

Date	Particulars	L.F.	Amount
1987			Rs.
Dec., 1	Raman		3,000
6	Raghavan		1,200
16	Mirdha		1,600
	Total		5,800

Purchases Returns Book

Date	Particulars	L.F.	Debit Note	Amount
1987				Rs.
Dec., 14	Raman			300
27	Mirdha			160
	Total			460

Sales Book

Date	Particulars	L.F.	Amount
1987			Rs.
Dec., 3	Krishnan		2,000
5	Brown & Co.,		1,500
13	Narayana		1,000
14	Bhagavathi		1,200
18	Sunder		1,500
	Total		7,200

Sales Returns Book

Date	Particulars	L.F.	Credit Note	Amount
1987				Rs.
Dec., 10	Krishnan			200
17	Bhagavathi			120
28	Sunder			150
	Total			470

3. Enter the following in the purchases Journal of M/s Modern Furniture Suppliers, Poona.

- April 1** Bought on credit from M/s. Prakash and Company at a trade discount of 10% 12 doz. Easy Chairs at the rate of Rs. 1,150 per doz.
6 doz. Folding Chairs at the rate Rs. 1,250 per doz.
10 Dining Tables at the rate of Rs. 1,450 each.
- April 15** Purchases from Shettar and Company, Hubli 20 steel cupboards at the rate of Rs. 1,450 each at a trade discount of 10% plus transport charges Rs. 900.

Sol :

Purchases Book

Date	Particulars	Inward Invoice No.	L.F.	Amount Rs.
April 1	Prakash & Company			32,220
" 15	Shettar & Company			27,000
	Total			59,220

Working Notes :

i) $13,800 + 7,500 + 14,500 = 35,800 - 3,580 : \text{Rs } 32,220.$

ii) $29,000 - 2,900 = 26,100 + 900 = \text{Rs. } 27,000.$

4. Prepare the sales day book from the following transaction.

2008

- Feb. 1** Sold goods to Ram. 200 meters cloth @ Rs. 100 per meter less trade discount 7%.

- Feb. 3 Sold to Rahim, 500 metres cloth @ Rs. 200 per meter less trade discount 5%, packing charges Rs. 3,000.
- Feb. 4 Sold to Shyam, 2,000 metres cloth @ Rs. 200 per meter less trade discount 5% other charges made of Rs.2,500.
- Feb. 7 Sold to Jadu, 300 metres cloth @ Rs. 250 per meter less trade discount of 10%

Sol.:

Sales Book			
Date	Particulars	Details (Rs.)	Amount (Rs.)
2008	Ram		
Feb. 1	200 meters cloth @ Rs. 100 per meter	20,000	
	Less : Trade discount 7%	1,400	18,600
Fed. 3	Rahim		
	500 meters cloth @ Rs. 200 per meter	1,00,000	
	Less : Trade discount 5%	5,000	
		95,000	
	Add : Packing charges	3,000	98,000
Feb. 4	Shyam		
	2000 meters cloth @ Rs. 200 per meter	4,00,000	
	Less : Trade discount 5%	20,000	
		3,80,000	
	Add : Other charges	2,500	3,82,500
Feb. 7	Jadu		
	300 meters cloth @ Rs. 250 per meter	75,000	
	Less : Trade discount 10%	7,500	67,500
	Total		5,66,600

5. Prepare purchase returns book (returns outward) from the following particulars:

- July 1 Returned to Sumit Prakash 50 m of cloth @ Rs. 20.
- July 15 Bharat Kumar & Sons 10 sarees @ Rs. 300.
- July 20 Prem Chandra 200 ml. of cloth @ Rs. 70.
- July 31 Bihari Brother 100 m of cloth @ Rs. 100.

Sol :

Purchase Returns Book			
Date	Particulars	Details Rs.	Amount Rs.
July 1	Sumit Prakash 50 m of cloth @ Rs. 20		1,000.00
July 15	Bharat Kumar & Sons 10 Sarees @ Rs. 300		3,000.00
July 20	Prem Chandara 200 m of cloth @ Rs. 70		14,000.00
July 31	Bihari Brothers 100 m of cloth @ Rs. 100		10,000.00
	Total		28,000.00

6. Enter the following transactions in the appropriate book.

2008

Aug. 1 Returned to us by Harish Gupta & Co. 200 bags coffee @ Rs. 100.

Aug. 17 Returned by Bipin Pal & Brothers, 300 chests tea @ Rs. 70 per chest.

Aug. 31 Returned by Bhagwan Das 50 tins of ghee @ Rs. 1,000 per tin.

Sol :

Returns Inwads Book			
Date	Particulars	Details Rs.	Amount Rs.
2008			
Aug. 1	Harish Gupta & Co. 200 bags coffee @ Rs. 100		20,000
Aug. 17	Bipin Pal & Bras. 300 chests tea @ Rs. 70 per chest		21,000
Aug. 31	Bhagwan Das 50 tins of ghee @ Rs. 1,000 per tin		50,000
	Total		91,000

7. Enter the following transaction in the sales book of M/s. Prem Kumar of New Delhi.

May 7 Sold to Manish Gupta, Delhi

100 bags of Rice @ Rs. 450/- per bag

10bags of wheat @ 500/- per bag

May 9 Sold to Rajinder Singh, Patiala

80 bags of Rice @ 500/- Rs. per bag

30bags of Rice @ 550/- per bag

Trade discount allowed @ 10%

May 11 Sold to Ravinder Singh, Agra

100 bags of Wheat @ Rs. 550/- per bag

Trade discount allowed 10%

Sol.:

Sales Book			
Date	Particulars	Details Rs.	Amount Rs.
2008	Manish Gupta, Delhi		
May 7	100 bags of Rice @ 450/-	45,000	
	10 bags of wheat @ 500/-	5,000	50,000
	Rajinder Singh, Patiala		
May 9	80 bags of Rice @ 500/-	40,000	
	30 bags of Rice @ 550/-	16,500	
		56,500	
	Less : Trade discount 10%	5,650	50,850
	Ravinder Singh Agra		
May 11	100 bags of wheat @ 550/-	55,000	
	Less : trade discount @ 10%	5,500	49,500
	Total (credited to sales a/c)		1,50,350

8. Prepare a Purchases Book from the following transactions of Shobharam, a general merchant.

2013

Jan. 1 Purchased from Ram Prasad :

3 doz. Wilson 81 pens @ ` 15

per pen

2 gross Parker ink bottles @

` 15 per dozen

Subject to 10% trade discount

- Jan. 10 Bought of Banwari Lal**
50 reams of ruled paper @ ₹ 11
per ream and paid cash
- Jan 15 Purchased from Din Dayal :**
6 doz. packets Parle Gluco biscuits
@ ₹ 2.50 per packet
20 doz. packets Salto biscuits
@ Rs 1.30 per packet
- Jan.20 Bought of Bholanath Furniture**
House on credit :
6 Godrej chairs @ ₹ 80 per chair
and 2 Office tables @ ₹ 500 per
table for office use
- Jan.25 Purchased from Shekhawati Stores :**
6 dozen packets Deluxe erasers
@ ₹ 1.10 per packet
20 doz. pen holders 'Swan'
@ ₹ 45 per gross
- Jan.30 Sold to Ramgopal on credit 2 doz.**
Wilson 81 @ ₹ 18 per pen

*Sol :***Purchase Book**

Date	Particulars	Invoice	L.F.	Details	Amount
2013					
Jan.1	Ram Prasad :				
	3 doz. Wilson 81 pens @ ₹ 15 per pen			540	
	2 gross Parker ink bottle @ ₹ 15 per doz.			360	
				<hr/> 900	
	Less : 10% Trade Discount			90	810.00

Jan.15	Din Dayal :				
	6 doz. packets Parle Gluco biscuits				
	@ ` 2.50 per packet			180	
	20 doz. packets Salto biscuits @ ` 1.30			312	492.00
Jan.25	Shekhawati Stores :				
	6 doz., packets Delux erasers @ ` 1.10				
	per packets			79.20	
	20 doz penholders Swan @ ` 45 per gross			75.00	
					154.20
	Total				1,456.20

9. Write up Sales Book from the following transactions.

2013

April

- 10 Sold goods to Sita Ram, Ahmedabad.
60 meters Silk @ ` 50 per meter
50 meters Velvet @ ` 80 per meter
Less : 10% trade discount
- 12 Sold goods to Radhey Shiam, Delhi.
30 meters Silk @ ` 55 per meter
20 meters Velvet @ ` 80 per meter
Less : 10% trade discount.
- 18 Roop Narain & Sons purchased from us.
10 meters Silk @ ` 60 per meter
5 meters Velvet @ ` 90 per meter
Less : 10% trade discount
- 23 Sold to Brij Mohan & Bros., Mathura.
Shirting Cloth ` 700
Saris ` 2,500

*Sol.:***Sales Book**

Date	Particulars	L.F.	Details	Total
2013			`	`
Apr. 10	Sita Ram, Ahmedabad.			
	60 meters Silk @ ` 50 per mt.		3,000	
	50 meters Velvet @ ` 80 per mt.		4,000	
			7,000	
	Less : 10% Trade Discount		700	6,300
Apr. 12	Radhey Shiam, Delhi			
	30 meters Silk @ ` 55 per mt.		1,650	
	20 meters Velvet @ ` 80 per mt.		1,600	
			3,250	
	Less : 10% Trade Discount		325	2,925
Apr. 18	Roop Narain & Sons			
	10 meters Silk @ ` 60 per mt.		600	
	5 meters Velvet @ ` 90 per mt.		450	
			1,050	
	Less : 10% Trade Discount		105	945
Apr. 23	Brij Mohan & Bros., Mathura			
	Shirting Cloth		700	
	Saris		2,500	3,200
	Sales A/c			<u>13,370</u>

10. From the following particulars taken from the books of Sorabjee & Co. prepare the Bills Receivable Book and Bills Payable Book.

2013

- March 1 Acceptance received from Roy payable three months after date for ` 6,500.
- " 5 Accepted Subhash's draft for ` 4,000 for 2 months.
- " 12 Drew a bill on Yusuf for ` 2,500 for 3 months.

- " 20 Gave Rajesh our acceptance for 5,000 ` payable 4 months after date.
- " 22 Roy's acceptance for ` 6,500 was retired under a rebate of ` 100.
- " 25 Received a bill from Naresh for ` 1,000 for 1 month.
- " 28 Accepted bill of Patel for ` 4,500 for 2 months.
- " 30 Accepted Subhash's draft for ` 2,000 for 1 month.
- " 30 Drew a bill on Yusuf for ` 2,000 for 2 months and accepted by him payable at Bank of India, Chandigarh.

Sol :

Bills Payable Book

Serial No.	Date of Receipt	From Whom Received	Name of Acceptor	Where Payable	Date of Bill	Term	When Due	L.F.	Amount	Remarks
1	2013 March 1	Roy	Self		2013 March 1	3 months	2013 June 4		6,500	Retired
2	March 12	Yusuf	Self		March 12	3 months	June 15		2,500	
3	March 15	Naresh	Self		March 25	1 month	April 28		1,000	
4	March 30	Yusuf	Self	Bank of India Chandigarh	March 30	2 months	June 2		2,000	
									<u>12,000</u>	

Bills Payable Book

Serial No.	Date of Bill	Name of Drawer	Name of Payee	Term	When Due	L.F.	Amount	How Met	Remarks
1	2013 March 5	Subhash	Subhash	2 months	2013 May 8		4,000		
2	March 20	Rajesh	Rajesh	4 months	July 23		5,000		
3	March 28	Patel	Patel	2 months	May 31		4,500		
4	March 30	Subhash	Subhash	1 month	May 3		2,000		
							15,500		

2.3 CASH BOOK**Q9. What do you understand by Cash Book?**

Ans :

In any business house, there will be numerous transactions relating to cash - receipts and payments of it. The student knows that on receipt, cash account is debited and on payment, cash account is credited. On this basis, the Cash Account can be prepared straightaway without the transactions being first journalised. When cash is received, the Cash Account can be directly debited and when cash is paid, it can be directly credited. A short explanation should be given with each entry. Thus, the clerical labour in first making the journal entry is saved. Since cash transactions will be numerous, it is better to keep a separate book to contain only the Cash Account. The book is known as Cash Book.

The objective of the Cash Book is to keep a daily record of the transactions relating to receipts and payments of cash. The number of transactions relating to cash are usually large because most of the business dealings ultimately resolve themselves into cash transactions, so it is necessary to keep a separate book for cash transactions. If every cash transaction were recorded in the Journal, a tremendous amount of work will be involved in debiting or crediting Cash Account every time cash is received or paid. If the cash book is maintained, the botheration of posting every item of receipt or payment of cash individually to Cash Account in the ledger is avoided.

Cash Book plays dual role as a book of original entry as well as a ledger. It is a subsidiary book because all cash transactions are first recorded in the Cash Book and then from Cash Book posted to various accounts in the ledger. The recording of transactions in the Cash Book takes the shape of a Ledger Account. As receipts of cash are entered on the debit side and payments of cash on the credit side, so there is no need of Cash Account in the ledger. Therefore, Cash Book serves the purpose of a ledger account also.

From the above, it is clear, that Cash Book fulfils the functions of a subsidiary book and ledger both.

Kind of Cash Book

Following are the three kinds of Cash Book :

- i) Simple Cash Book.
- ii) Cash Book with Discount Column.
- iii) Cash Book with Bank and Discount Columns.

Q10. What are the advantages of cash book?

Ans :

1. As the cash book provide detailed information about cash receipts and payments owner can easily calculate the closing balance of cash at any point of time.

2. Cash book perform functions of journal as well as ledger, due to which business does not require any cash account in the books of account.
3. It helps to compare the actual cash in hand with the cash balance showing in the cash book.
4. Owner can control cash expenditure of business by maintaining cash journal/book.
5. It enables the owner to take crucial decisions regarding cash movements in business.
6. It also helps in preparing estimated budgets related to cash transaction for subsequent years.

2.3.1 Single / Simple Column Cash Book

Q11. What is single column cash book ? How is it prepared ?

Ans :

Single - Column Cash Book

This cash book has one amount column on each side. All cash receipts are recorded on the debit side and all cash payments on the credit side. In fact, this book is nothing but a cash account.

Dr. Single - Column Cash Book (or) Simple Cashbook				Cr.			
Date	Particulars	LF	Amount (₹)	Date	Particulars	LF	Amount (₹)

Preparation of Single Column/Book

A single column cash book involves four columns i.e.,

1. Date Column

In date column of single column cash book, date of receiving cash is recorded on debit side whereas date of paying cash is recorded on the credit side.

2. Particulars Column

In particulars column of single column cash book, the name of account from which cash is received is recorded on the debit side while the name of the account to which payment is made is recorded on the credit side. A little explanation is given in particulars column which explains about the entry.

3. L.F Column

L.F column represents the ledger folio of the account wherein the transaction posted is being documented/recorded.

4. Amount Column

Amount column is prepared in order to record the amount which is received on the debit side and the amount which is paid on the credit side.

At the end time of the given period, the cash book must be balanced which would show cash in hand amount at the end of period. At the debit side total of cash book must be always more than the total of the credit side because the cash payments would not be more than the cash receipts.

2.3.2 Two / Double Column Cash Book

Q12. What is double column cash book ? How is it prepared ?

Ans :

Two - column Cash Book

This cash book has two amount columns, one for Cash and another for Discount on each side. All cash receipts and discount allowed are recorded on the debit side and all cash payments and discount received are recorded on the credit side. The format is as follows,

Dr. Cash Book with Discount Column (or) Two column Cashbook					Cr.				
Date	Particulars	LF	Discount allowed	Amount (`)	Date	Particulars	LF	Discount received	Amount (`)

Preparation Of Double/Two Column Cash Book

Double column cash book is the expansion/extension of the cash book. In double column cash book both on debit Side and credit side an extra column is added for recording discount allowed and discount received.

(i) Cash Discount

Cash discount refers to the rebate which is made by the receiver of cash to the payer. Cash discount takes place when payment is made prior to the stipulated period.

For example, the vendor may premise a discount of 5% if in case the payment is made before the stipulated period. This shows a debt of ` 100 can be paid-off by paying only ` 95 before the stipulated period and ` 5 would be treated as discount.

The cash discount allowed to his debtor by the trader is regarded as a loss for him and is known as "Discount Allowed". The discount allowed is recorded on the debit side of the cash book.

On the other hand, the cash discount received by traders from his creditor is called a gain which is also known as "Discount Received" which, is, recorded on credit side of the cash book.

Cash discount is different from trade discount and allowance is given by the manufacturer or wholesaler to the retailer on the catalogue price of goods sold is known as "Trade Discount".

The trade discount is misused i.e., taken out from the catalogue price and the remaining balance is recorded in the account books.

The actual cash received is entered in the cash column on the debit side, whereas in the discount column, the discount allowed is recorded. In the cash column, on the payment side, actual cash paid will be entered and in the discount column, discount received will be entered.

The discount columns are not balanced, they are just totalled. The amount of discount allowed for customer is shown on the discount column on the debit side of the discount account. In the discount account, total discount received is entered on credit side of discount column. Similarly, like single column cash book, cash columns are balanced in double column cash book.

Q13. What is triple column cash book ? How is it prepared ?

Cash book has three amount columns-one for Cash, one for Bank and one for Discount on each side. All cash receipts, deposits into bank and discount allowed are recorded on debit side and all cash payments, withdrawals from bank and discount received are recorded on the credit side.

One important feature of three-column cash book is that if a transaction involves both the cash and the bank account, it is entered on both the sides of the cash book, one in the cash column and second in the bank column, on the opposite side. This is called a 'contra' entry. The word 'C' is indicated in the L.F. column against that item.

The three-column cash book serves the purpose of Cash Account and Bank Account. Hence, there is no need to open these two accounts in the ledger. The format is as follows,

[illegible]

Points to be Considered

The three column cash book comprises cash, bank and discount columns. The following are the important points which need to be taken into consideration at the time of preparing three column cash book.

1. Opening Balance

On debit side of three column cash book, the opening balance of cash in hand and cash at bank is posted as "To Balance b/d". The amount of cash in hand is recorded in cash column and the amount of cash at bank is recorded in bank column. When there is bank overdraft, the amount of overdraft is recorded on credit side of three column cash book and is written as "By Balance b/d".

2. Receipts

All the receipts must be recorded on the debit side i.e., cash receipts are recorded in cash column and cheques in bank column. When cheque is received and deposited in the bank on the same day then it is recorded on debit side in bank column. If in case the cheque which is received but not deposited in bank on the same day, then it is debited in the cash column and it must be considered as deposit of cash in the bank when the cheque is deposited on the other day. If there is no information about cheque received, then it can be recorded in the Bank column by assuming that cheque is deposited in bank for collection on the same day. If any discount is provided when cash or cheque is received, then it must be recorded in discount column on the debit side.

3. Payments

On the credit side of three column cash book, all payments are recorded i.e., cash payments in cash column while the payments made through cheque are recorded in the bank column. Discount which is received at the time of making cash or bank payment is recorded in the discount column on the credit side.

4. Contra Entries

In case when the cash is deposited in the bank, it must be recorded twice i.e., once in bank column on the debit side as 'To Cash' and then again on the credit side in cash column as 'By Bank'. In case of withdrawing cash from bank for office use, then also it must be recorded twice i.e., once in cash column on debit side as "To Bank" and then again on credit side in bank column as "By Cash". This type of transactions are not recorded in ledger and for these entries letter 'C' is written in the L.F column on both the sides to show its double effect.

5. Drawings

When cheque is drawn for meeting the personal requirements, then it must be recorded in Bank column on credit side as "By Drawings Account". There is no contra entry involved in the case.

6. Bank Charges

If the bank debits the bank charges to the business concern's account, then it must be recorded in the Bank column of the cash book on the credit side as 'Bank Charges'.

7. Interest or Dividend

According to the standing instructions, if bank collects interest or dividend on securities, then it needs to be recorded in bank column on the debit side as 'To Interest/Dividends on securities'.

8. Dishonour of Cheque

If in case, the cheque gets dishonoured which is received and deposited by a customer in the bank, then the entry for receipt of cheque must be cancelled by reversing it i.e., by entering it on the credit side of cash book in the bank column as "By Concerned Party Account" (name of customer). In the same way, if a cheque which is being issued to creditor gets dishonoured then it must be recorded on the debit side in bank column as 'To Concerned Party Account' i.e., name of the creditor for cancelling the entry.

9. Balancing

In three column cash book, the discount columns are summed up but not balanced. Both cash and bank columns are balanced in the similar way as it is done in simple cash book. Bank gives overdraft facility to the firm, wherein the firm can withdraw more than the amount deposited in the bank.

At the end after balancing, the difference amount is recorded on opposite side as 'To Balance c/d' or 'By Balance c/d'. The balance for next period is recorded as 'By Balance c/d'.

2.3.4 Petty Cash Book

Q14. What is petty cash book ? Explain its features.

Ans :

This book is used for the purpose of recording the petty expenses, so that the main cash book is relieved of the detailed records of these petty expenses.

Normally, one person is handed over a small amount to meet the petty expenses of a given period (say a week, fortnight or a month) and is authorized to make such payments and record them in a separate Cash Book. Such person, such amount and such Cash Books are called as "Petty Cashier", "Imprest" and "Petty Cash Book" respectively. The Petty Cash Book may or may not be maintained on "Imprest System".

Under both the systems, the petty cashier submits the Petty Cash Book to the Head Cashier who examines the Petty Cash Book. Under the imprest system, the Head Cashier makes the reimbursement of the amount spent by the Petty Cashier but under non-imprest system, the Head Cashier may handover the Cash to the Petty Cashier equal to/ more than/less than the amount spent.

The form of petty cash book depends upon requirements of the business, however, the simple form is as follows,

Amount Received Rs.	Date	Particulars	Total Payment Rs.	Balance Rs.	Analysis of Payments					
					Postage	Printing	Cartage	Conveyance	Entertainment	Miscellaneous exp.
		Total								
		Payments								
		By Balance								
		c/d								
		To Bal b/d								

The following are the features of petty cash book,

1. Petty cash book records on its left hand side column, the amount received from cash receivers.
2. On the right hand side column, the payments of petty cash expenses are being recorded in the petty cash book.
3. An unspent petty cash in hand is shown as the balance of petty cash book.
4. As the cash payments do not exceed the cash receipts, the petty cash book will not have any credit balance.
5. Internal and external vouchers are taken as a base for the recording purpose.
6. In the ledger accounts all the column expenses are summed upon a periodical basis and these totals are posted to the debit side individually in their respective accounts. In the ledger, this transaction is represented as "To petty cash a/c" in the particulars column.
7. Petty cash book acts both as journal and also ledger. It is regarded as a journal because all petty cash payments are recorded in it for the first time from the vouchers. The petty cash book is also regarded as ledger account as the cash receipts from main cashier are posted on debit side and cash payments are posted on the credit side. Therefore, in the ledger account it is not essential to open the petty cash account.

Q15. What are the advantages of petty cash book ?

Ans :

The following are the advantages of petty cash book,

1. When the petty expenses are recorded in the petty cash book, it would save the time of chief cashier.

2. There is low possibility/probability of the mistakes taking place because the main cashier consistently scrutinizes the petty cash book.
3. In case of any misappropriation, it is always within the limits of imprest.
4. Due to the fact that the petty cashier cannot spend more than the petty cash available. Therefore, all the petty expenses are kept within the limits of imprest.
5. There exists advantages of specialization as recording of transactions is classified into main cash book and petty cash book.
6. Few accounts are opened for petty expenses only, thus the labour is saved for posting. The periodical totals of expenses of each and every column are posted on the debit side of their respective ledger accounts.

PROBLEMS ON CASH BOOKS

I. Simple / Single Column Cash Book

11. Enter the following transactions in Simple Cash Book.

2013

July 1 Balance of cash in hand Rs. 15,000

" 8 Purchased goods for cash from X for Rs. 3,200

" 15 Sold goods for cash Rs. 4,800 to Y.

" 20 Received commission Rs. 650 Paid commission Rs. 550

" 28 Paid to Satish on account Rs. 7,150

" 31 Paid salary to the office clerk Rs.1,000 and office rent Rs. 600.

Sol.:

Simple Cash Book

Date	Particulars	LF	Amount	Date	Particulars	LF	Amount
2013			Rs.	2013			Rs.
July 1	To Balance b/d		15,000	July 8	By Purchases		3,200
" 15	To Sales		4,800	" 20	By Commission		550
" 20	To Commission		650	" 28	By Satish		7,150
				" 31	By Salary		1,000
				" 31	By Office Rent		600
				" 31	By Balance c/d		7,950
			<u>20,450</u>				<u>20,450</u>
Aug. 1	To Balance b/d		7,950				

12. Enter the following transactions of Akbar in Single Column Cash Book :

2012	Rs.
Apr. 1 Commenced business with cash	45,000
2 Paid into Bank	39,000
3 Purchased goods for cash	4,500
4 Sold goods for cash	3,300
5 Paid for stationery	180
6 Received cash from Nariman	4,500
7 Paid cash to Gupta	2,400
8 Purchased office furniture for cash	1,800

Sol :

CASH BOOK

Dr.				Cr .			
Date	Particulars	LF	Amount Rs.	Date	Particulars	LF	Amount Rs.
2012				2012			
April 1	To Capital A/c		45,000	April 2	By Bank a/c		39,000
April 4	To Goods A/c		3,300	April 3	By Goods a/c		4,500
April 6	To Nariman		4,500	April 5	By Stationary A/c		180
				April 7	By Gupta		2,400
				April 7	By Office Furniture A/c		1,800
				April 7	By Balance c/d.		4,920
			<u>52,800</u>				<u>52,800</u>
April 8	To Balance b/d		4,920				

13. Enter the following transactions in a simple cash book.

1999		Rs.
Jun. 1	Cash Balance	4,200
" 2	Received from Gopal	1,000
" 4	Purchased goods	2,500
" 8	Sold goods for cash	650
" 13	Deposited in to bank	500
" 18	Paid to Kaladhar	200
" 24	Received fro Mukund	600
" 25	Sold goods for cash	800
" 26	Bought furniture	250
" 31	Paid rent	100
" 31	Received cash from Rani	500

Sol :

Dr				Cash Book				Cr			
Date	Particulars	L.F.	Amount Rs.	Date	Particulars	L.F.	Amount Rs.				
1999				1999							
Jan . 1	To balance b/d		4,200	Jan. 4	By Purchases		2,500				
" 2	To Gopal		1,000	" 13	By Bank		500				
" 8	To Sales		650	" 18	By Kaladhar		200				
" 24	To Mukund		600	" 26	By Furniture		250				
" 25	To sales		800	" 31	By Rent		100				
" 31	To Rani		500	" 31	By Balance c/d		4,200				
			7,750				7,750				
Feb. 1	To Balance b/d		4,200								

14. Anand stars business with Rs. 10,000 on 1st July 1998 of this, he pays Rs. 8,000 into his bank account. His cash transactions during the first week were.

1998		Rs.
July. 1	Purchased stationery, paid cash	40
	Purchased goods for cash	650
	Purchased office table and chair	200

2	Cash Purchases	150
3	Received from Gopal, as advance for consigning goods	200
4	Paid to Sethi & Co., Cash	140
5	Paid for Sign board	130
6	Cash Sales	160
6	Purchased old type writer	300

Make out the single column cash book.

Sol :

Dr. Cash Book				Cr.			
Date	Particulars	L.F.	Amount Rs.	Date	Particulars	L.F.	Amount Rs.
1998				1998			
July	1 To Anand's capital		10,000	July 1	By Bank		8,000
"	3 To Gopal		200	"	By Stationery		40
"	6 To Sales		160	"	By Purchases		650
				"	By Furniture		200
				" 2	By Purchases		150
				" 4	By Sethi & Co		140
				" 5	By Sign Board		130
				" 6	By Type writer		300
				" 6	By Balance c/d		750
			10,360				10,360
7	To Balance b/d		750				

15. Enter the following transactions in single column cash book of Ram.

2009

Jan. 1 Ram had a cash of ₹ 5,000 in hand

Jan. 5 Cash purchases ₹ 2,000

Jan. 8 Wages paid ₹ 500

Jan. 12 Cash withdrawn from bank for office use ₹ 3,000

Jan. 15 Cash sales ₹ 2,500

Jan. 20 Furniture purchased ₹ 4,000

Jan. 25 Drawings by Ram in cash ₹ 400

Jan. 28 Interest paid to Neeraj ₹ 100

Jan. 31 Paid to Majoj ₹ 200 towards the rent of January

Jan. 31 Cash in excess of ₹ 500 paid into bank.

*Sol.:***Dr. Single Column Cash Book Cr.**

Date	Particulars	LF	Amount (`)	Date	Particulars	LF	Amount (`)
2009				2009			
Jan.1	To balance b/d		5,000	Jan.5	By purchases		2,000
Jan.12	To bank		3,000	Jan.8	By wages		500
Jan.15	To sales		2,500	Jan.20	By furniture		4,000
				Jan.25	By drawings		400
				Jan.28	By interest		100
				Jan.31	By rent		200
				Jan.31	By bank		500
				Jan.31	By balance c/d		2,800
			<u>10,500</u>				<u>10,500</u>
Feb.1	To balance b/d		2,800				

II. Double / Two Column Cash Book**16. Enter the following transactions in a cash book with cash and discount columns.**

1998		Rs.
Jan. 1	Cash in hand	6,000
" 2	Received from Mukherjee	960
	and allowed him discount	40
" 6	Received from Champklal	1,000
" 8	Paid to GR Solanki	1,980
	and received a discount of	20
" 13	Received Interest on Investments	500
" 19	Received from Rao & Co.	635
	and allowed him a discount of	15
" 21	Goods Purchased for cash	1,000
" 24	Goods sold for cash	850
" 25	Paid cash for travelling expenses	75
" 27	Goods purchased on credit from Ramesh	2,500
" 31	Salaries paid	1,100

Sol.:

Cash Book with Cash and Discount Columns										Cr
Dr										
Date	Particulars	L.F.	Discount Rs.	Amount Rs.	Date	Particulars	L.F.	Discount Rs.	Amount Rs.	
1998					1998					
Jan. 1	To Balance b/d			6,000	Jan. 8	By G.R. Solanki		20	1,980	
" 2	To Mukherjee		40	960	" 21	By Purchases			1,000	
" 6	To Champaklal			1,000	" 25	By Travelling expenses			75	
" 13	To Interest			500	" 31	By Salaries			1,100	
" 19	To Rao & Co.		15	635	" 31	By Balance b/d		35	5,790	
" 24	To Sales			850						
				55				55	9,945	
Feb. 1	To Balance b/d		35	5,790						

17. Enter the following transactions in a Two Column Cash Book.**2013****Rs.**

June. 1	Cash in hand	8,900
" 3	Bought goods for cash	4,300
" 5	Paid for wages	4,400
" 7	Withdrew from bank for expenses	7,500
" 7	Cash paid to Yusuf	1,950
	discount allowed	50
" 10	Cash sales	13,500
" 13	Received cash from Banwari Lal	3,900
	Allowed him discount	100
" 15	Purchased stationary from Ram on credit	200
" 16	Paid for postage stamps	150
" 18	Amount introduced as capital	5,000
" 21	Received cash from Rajesh	7,840
	Allowed him discount	160
" 24	Paid cash for travelling expenses	120
" 26	Amount paid into bank	2,500
" 27	Cash paid to A.S.Mukherjee	975
	Discount allowed by him	25
" 28	Credit purchases from Mohammed Ali	3,800

" 30	Cash purchases	1,500
" 30	Paid salaries	2,800
" 30	Deposited into bank all cash in excess of	2,000

*Sol :***TWO COLUMN CASH BOOK**

Date 2013	Particulars	L.F.	Discount Rs.	Cash Rs.	Date 2013	Particulars	L.F.	Discount Rs.	Cash Rs.
June 1	To Balance b/d			8,900	June 3	By Purchases Account			4,300
" 7	To Bank Account			7,500	" 5	By Wages Account			4,100
" 10	To Sales Account			13,500	" 7	By Yusuf	50		1,950
" 13	To Banwari Lal		100	3,900	" 16	By Postage Account			150
" 18	To Capital Account			5,000	" 24	By Travelling Exp. A/c			120
" 21	To Rajesh		160	7,840	" 26	By Bank Account			2,500
					" 27	By A.S. Mukherjee	25		975
					" 30	By Purchases Account			1,500
					" 30	By Salaries Account			2,800
						By Bank Account			26,645
						(Amount deposited in excess of Rs.2000)			
					" 30	By Balance c/d	185		2,000
			<u>260</u>	<u>46,640</u>			<u>260</u>		<u>46,640</u>
July 1	To Balance b/d		185	2,000					

III. Triple / Three Column Cash Book

18. From the following transactions of Mr. Ratnam compile a cash book with cash and discount columns.

	1995	Rs.
May 1	The cashier had in hand	150
4	Received for cash sales	1,270
5	Received from Tiwari	1,040
	allowed him discount	60
7	Paid to Samrat in full settlement of his account for Rs. 500	480
8	Discount allowed to Tiwari on 5th May was wrong and hence cancelled	

10	Bought goods for cash	300
11	Paid for stationery	50
14	Sri Sinha settled his account of Rs. 700 by paying	
16	Received from Ramesh	375
	and he was allowed discount	25
17	Cash paid into State Bank of India	1,500
19	Settled Sudhakar's account of Rs. 200 by sending M.O. for	190
20	Remitted to Bindu	270
	and he allowed discount	
22	Sudhakar intimated that the discount claimed by us on 19th May is disallowed by him.	30
23	Received dividend on shares	40
27	Paid rent for the month of June	70
31	Salaries for May paid in cash	520

You are asked to show the entries in discount Accounts.

Sol:

Dr. Cash book with Cash, discount and Bank columns (or) Triple column cashbook Cr.

Date	Particulars	L.F	Discount allowed	Cash	Bank	Date	Particulars	L.F	Discount received	Cash	Bank
1995						1995					
May 1	To Balance b/d			150		May 7	By Samrat		20	480	
May 4	To sales			1,270		May 7	By Tiwari		60		
May 5	To Tiwari		60	1,040		May 10	By Purchases			300	
May 14	To Sinha			700		May 11	By Stationery			50	
May 16	To Ramesh		25	375		May 17	By Bank	C		1,500	
May 17	To Cash	C			1,500	May 19	By Sudhakar		10	190	
May 22	To Sudhakar		10			May 20	By Bindu		30	270	
May 23	To Dividends			40		May 27	By Rent			70	
						May 31	By Salaries			520	
						May 31	By Balance c/d			195	1,500
			95	3,575	1,500				120	3,575	1,500
June 1	To Balance b/d			195	1,500						

19. Enter the following transactions in three column cash book of Messers Bharat & Co.

1998

- Apr 1 Cash in hand, 6,237, Balance at Bank Rs. 6,594.
- 2 Received from Agarwalla Rs. 590, allowed him discount Rs. 10.
- 4 Paid Salaries by cash Rs. 200.
- 5 Paid Bose by cheque Rs. 300.
- 7 Paid Ahmed by cheque Rs. 584, discount received Rs. 26.
- 10 Withdrew from bank for office use Rs. 200, paid rent in cash Rs. 50.
- 11 Received from Dhar Rs. 194 by cheque, discount Rs. 6.
- 16 Deposited into Bank Rs. 1,000 purchased furniture for Rs. 5,800 and drew a cheque for the amount.
- 23 Received a cheque from Robert for Rs. 291, discount allowed Rs. 9.
- 28 Bank notifies that Robert cheque has been dishonoured.
30. Deposited with Bank Rs. 300, paid wages Rs. 72, Bank charges as shown in pass book Rs. 5.

Note : Assume cheques received are deposited into bank on the same day.

Sol :

Dr. Cash Book with Cash, Bank and discount columns (or) Triple column cash book Cr.

Date	Particulars	L.F	Discount allowed	Cash	Bank	Date	Particulars	L.F	Discount received	Cash	Bank
1998						1998					
Apr 1	To Balance b/d			6,237	6,594	Apr 4	By Salaries			200	
Apr 2	To Agarwalla		10	590		Apr 5	By Bose				300
Apr 10	To Bank	C		200		Apr 7	By Ahmed		26		584
Apr 11	To Dhar		6		194	Apr 10	By Cash	C			200
Apr 16	To Cash	C			1,000	Apr 10	By Rent			50	
Apr 16	To Bank	C		5,800		Apr 16	By Bank	C		1,000	
Apr 23	To Robert		9		291	Apr 16	By Furniture			5,800	
Apr 24	To Cash					Apr 16	By Cash	C			5,800

Apr 30	To Cash	C			300	Apr 28	By Robert (dishonour)		9		291
						Apr 30	By Bank	C		300	
						Apr 30	By Wages			72	
						Apr 30	By Bank charges				5
						Apr 30	By Balance c/d			5,405	1,199
			25	12,827	8,379				35	12,827	8,379
May 1	To Balance b/d			5,405	1,199						

20. From the following transactions of Mr. Ratnam compile a cash book with cash and discount columns.

Date		Rs.
1.9.97	Opening Balance cash Rs 5,000	15,000
3.9.97	Received from krishnamurthy	3,000
4.9.97	Deposited into bank	5,000
6.9.97	Paid rent by cheque	1,000
8.9.97	Cash sales	2,000
10.9.97	With drawn from bank	1,500
12.9.97	Paid salaries	1,200
14.9.97	Received cheque from Rao	2,500
16.9.97	Deposited Rao cheque into bank	

Sol:

Dr. Cash book with Cash, Bank and Discount Columns (or) Triple column cash book Cr.

Date	Particulars	L.F	Discount allowed	Cash	Bank	Date	Particulars	L.F	Discount received	Cash	Bank
1997						1997					
Sept 1	To Balance b/d			5,000	15,000	Sept 4	By Bank	C		5,000	
Sept 3	To Krishna Murty			3,000		Sept 6	By Rent				1,000
Sept 4	To Cash	C			5,000	Sept 10	By Cash	C			1,500
Sept 8	To Sales			2,000		Sept 12	By Salaries			1,200	
Sept 10	To Bank	C		1,500		Sept 16	By Bank	C		2,500	
Sept 14	To Rao			2,500		Sept	By Balance c/d			5,300	20,000
Sept 16	To Cash	C		14,000	22,500					14,000	22,500
Sept 17	To Balance b/d			5,300	20,000						

21. From the following Prepare Three Column cash book and ascertain the Cash balance.

1995

Rs.

Jan. 1	Raju commenced the business with	25,000
2	Deposited into bank	15,000
3	Goods purchased	3,000
4	Sale of goods	5,000
5	Cheque received from Mehata	6,000
6	Mehatas cheque deposited into bank	
7	Received cheque for Rs.1,750 from Sekhar, discount allowed to him Rs. 50. Cheque deposited into bank.	
8	Paid to Satya Rs. 1,950, discount received	50
15	Drawn for office use cheque	1,500
25	Drawn for personal use by cheque	500
30	Rent paid by cheque	400
30	Cash paid for wages	300
31	Salaries paid by cheque	500

Sol.:

(Imp.)

Dr.

Cash book with Cash, Bank and discount columns

Cr.

Date	Particulars	L.F	Discount allowed	Cash	Bank	Date	Particulars	L.F	Discount received	Cash	Bank
1994						1994					
Jan 1	To Raju Capital			25,000		Jan 2	By Bank	C		1,500	
Jan 2	To Cash	C			1,500	Jan 3	By Purchases			3,000	
Jan 4	To Sales			5,000		Jan 6	By Bank	C		6,000	
Jan 5	To Mehata			6,000		Jan 8	By Satya		50	1,950	
Jan 6	To Cash	C			6,000	Jan 15	By Cash	C			1,500
Jan 7	To Sekhar		50		1,850	Jan 25	By Drawings				500
Jan 15	To Bank	C		1,500		Jan 30	By Rent				400
						Jan 30	By Wages			300	
						Jan 30	By Salaries				500
						Jan 31	By Balance c/d			24,750	6,450
			50	37,500	9,350				50	37,500	9,350
Feb 1	To Balance b/d			24,750	6,450						

22. Enter the following transactions in three columns cash book and balance the same as on 15-12-2008.

2008

Dec.1 Cash in hand ₹ 1,800

Dec.1 Cash at bank ₹ 13,000

Dec.2 Paid into bank ₹ 500

Dec.6 Bought goods for cheque ₹ 1,300

Dec.7 Purchased furniture for cash ₹ 400

Dec.9 Received cash for cash ₹ 790

Discount allowed ₹ 10

Dec.12 Drew from bank for office use ₹ 400

Dec.13 Received from Prakash cheque ₹ 600

Dec.15 Cheque of Prakash returned by the bank on dishonour.

Sol.:

Dr. Three column Cash Book (Bank, Cash and Discount)						Cr.					
Date	Particulars	L.F	Discount	Cash	Bank	Date	Particulars	L.F	Discount	Cash	Bank
2008											
Dec 1	To balance b/d	—		1,800	13,000	Dec 2	By bank a/c	C		500	-
Dec 2	To cash a/c	C	—	—	500	Dec 6	By Purchase a/c		—		1,300
Dec 9	To cash a/c		10	790	—	Dec 7	By furniture a/c		—	400	
Dec 13	To bank a/c	C	—	400	—	Dec 12	By Cash a/c	C	—	—	400
Dec 13	To Prakash a/c			—	600	Dec 15	By Prakash a/c		—	—	600
				—	600	Dec 31	By balance c/d		—	2,090	11,800
			10	2,990	14,100					2,990	14,100
2009	To balance b/d			2,090	11,800						
Jan 1											

IV. Petty Cash Book

23. Prepare columnar petty cash book on imprest system from the following particulars.

1995		Rs.
Jan. 1	Received for petty cash payments	1,000
2	Paid for postage	80
5	Paid for stationery	50
8	Paid for advertisement	100
12	Paid for wages	40
16	Paid for conveyance	30
20	Paid for conveyance	44
25	Paid for travelling expenses	160
27	Paid for postage	100
28	Wages to office cleaner	20
30	Paid for telegrams	40
30	Sent Registered Notice to landlord	6

Sol.:

Cash Book with Cash, Bank and Discount Columns

Amount Received	Cash book Folio	Date	Particulars	Voucher No.	Payment	Postage & Telegrams	Printing & Stationery	Advertisement	Wages & Carriage	Conveyance	Travelling charges
Rs. 1,000		1995 Jan. 1	To Bank		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
		2	By Postage		80	80					
		5	By Stationery		50		50				
		8	By Advertisement		100		100				
		12	By Wages		40				40		
		16	By Carriage		30				30		
		20	By Conveyance		44					44	
		25	By Travelling expenses		160						160
		27	By Postage		100	100					
		28	By Wages to Office cleaner		20				20		
		30	By Telegrams		40	40					
		30	By Postage		6	6					
					670	226	50	100	90	44	160
			By Balance c/d		330						
1,000					1,000						
330		Feb. 1	To Balance b/d								
670		Feb. 1	To Bank								

24. Prepare Petty Cash Book from the following details.

	1996	Rs.
Jan. 1	Received from Head cashier	200
5	Paid Postage	15
7	Paid Carriage	10
10	Hostage	12
12	Repairs	23
14	Office clearing	10
19	Pens and Pencils	40
20	Paid Rama on account	15
24	Sundry charges	20
28	Telegram	10
30	Printing	5

Sol :

(Imp.)

Petty Cash Book

Amount Received Rs.	Cash book folio	Date	Particulars	Voucher No.	Payment Rs.	Postage & Telegrams	Carriage	Misc. exp.	Repairs	Printing & Stationery	Ledger Account
200		1996									
		Jan. 1	To Bank								
		" 5	By Postage		15	15					
		" 7	By Carriage		10		10				
		" 10	By Hostage		12			12			
		" 12	By Repairs		23				23		
		" 14	By office cleaning		10			10			
		" 19	By Pens and Pencils		40					40	
		" 20	By Rama		15						15
		" 24	By Sundry charges		20			20			
		" 28	By Telegram		10	10					
		" 30	By Printing		5						
					160	25	10	42	23	45	15
			By Balance c/d		40						
200					200						
40		Feb. 1	To Balance b/d								
160		Feb. 1	To Bank								

2.4 JOURNAL PROPER

Q16. What do you understand by Journal Proper?

Ans :

Journal proper is used for recording only those transactions as cannot be recorded in any of the other subsidiary books. Examples of such transactions are :

1. Opening entries
2. Transfer entries (transfer from one account to another).
3. Adjusting entries.
4. Closing entries.
5. Entries relating to rectification of errors.
6. Entries relating to dishonour of bills or promissory notes.
7. Withdrawal of goods by the proprietor for personal use or loss of goods by theft, fire, etc.
8. Credit purchase or sale of assets.
9. Bad debts

Exercises Problems

1. **Mr. Vohra starts business with Rs. 15,000 on 1st March 2008. Of this he pays Rs. 12,000 into his bank account. His cash transactions during the week were:**

March 1 Purchased goods for cash	4,000
March 2 Purchased stationery for cash	240
March 2 Purchased office table and chair	1,200
March 3 Cash sales	1,400
March 4 Received from Shri R.S. Bansal as loan	6,000
March 4 Paid to Mikha Singh Cash	880
March 5 Paid for advertisement	800
March 5 Cash Sales	1,000
March 6 Purchased old typewriter	2,000
Prepare his cash book (single columnner)	

[Ans: Cash in hand Rs. 11,280]

2. **Enter the following transactions in two columns Cash Book and prepare ledger accounts. 2006**

	Rs.
Dec. 1 Cash balance	32,000
Dec. 2 Cash purchases	8,000
Dec. 4 Cash sales	20,000
Dec. 8 Cash received from Mohan	35,200
allowed him discount	800
Dec. 12 Cash paid to Suresh	22,400
Dec. 15 Wages paid	800
Dec. 18 Rent received	2,800
Dec. 20 Paid salary	480
Dec. 21 Received from Mukesh	32,000
discount allowed	200
Dec. 22 Sold goods for cash	8,000

Dec. 22 Paid to Mukesh	20,000
discount received	120
Dec. 25 Purchased furniture	8,000
Dec. 26 Paid to Bal Kishan to settle his account of Rs. 16,000	15,200
Dec. 30 Paid salary	2,000
Dec. 30 Received commission	1,200

[Ans: Cash (Dr.) Rs. 54,320; Discount (Dr) Rs. 1000 (Cr.) Rs. 920]

3. Prepare a cash book with discount and bank columns from the following transactions:

2007	Rs.
Dec. 1 Bank balance	25,000
Dec. 2 Cheque received from Rahim	9,500
allowed him discount	500
Dec. 8 Issued cheque in favour of Kamal	4,750
and received discount	250
Dec. 15 Rahim's cheque dishonoured	95,000
Dec. 20 Paid salaries by cheque	5,000
Dec. 25 Received from Bimal by cheque	10,000
discount allowed	500
Dec. 30 Withdrew from Bank for personal use	5,000
Dec. 30 Withdrew for office use	5,000

[Ans: Bank balance Rs. 15,250; Dis. (Dr.) Rs. 1000, Dis. (Cr.) Rs. 750]

4. A petty cashier keeps a cash of Rs. 100 with a provision to demand more money, if his cash in hand is exhausted, so his cash in hand does not exceed Rs. 100 on any day during the month. Record following transactions in due petty Cash Book.

2008	Rs. P.
June 1 Cash balance in hand	8.20
June 1 Cash received from chief cashier	91.80
June 2 Paid for entertainment	18.70
June 3 Electric wires purchased	28.45
June 5 White paper purchased for office use	27.00
June 7 Repair for tables and chairs	25.75

June 8	To make a balance of Rs.	100
	cash received from chief cashier	
June 11	File covers purchased for office use	16.50
June 16	Stationery expenses	20.00
June 19	Expenses on parcel and registered letter	18.70
June 22	Postage tickets purchased	10.00
June 25	Required cash received from chief cashier and travelling expenses paid for the month	55.50
June 28	Advance paid to sweeper of the firm	20.00
June 30	Paid for customer entertainment	12.70
June 31	Paid cartage on goods	5.00
June 31	Postage expenses	5.70

[Ans: Balance Rs. 1.10]

5. Enter the following transaction in a petty cash book with the analytical columns. The petty cahier is started with an imprest amount of Rs. 300 on 1-1-1996

2000		Rs.
June 1	Postal Samps	7
6	Paid for office stationer	5
7	Paid for carriage	4
8	Paid for telegram	10
11	paid lorry hire for goods sent	5
15	Salary to office boy	25
16	Repairs to cycle	6
17	Purchased ink bottle	12
20	Advertisement bills paid	16
23	Tea to costumers	5
28	Bus fare	5
29	Purchased file for office file	5
31	Trunk call bills pail	8

[Ans : Cash balance Rs. 189; Cash to be reimbursed on Feb; Rs. 111]

6. Prepare petty cash book on the imprest system from the following 2000

2000		Rs. P.
Oct	1	Received Rs. 100 for Petty cash
	2	Paid Bus fare 0-50
		Paid Cartage 2-50
	3	Paid postage & Telegrams 5-00
		Paid Wages for casual workers 6-00
	4	Paid for stationery 4-00
		Paid Rickshaw charges 2-00
	5	Paid for repairs to chairs 15-00
		Bus fare 1-00
		Cartage 4-00
	6	Postage & telegrams 7-00
		Rickshaw expenses 3-00
		Cartage 3-00
	7	Refreshments to customers 15-00

[Ans : Cash balance Rs. 27; Amount to be reimbursed Rs. 73]

7. Prepare cash book on imprest system for the week ended 31st Dec. 1997.

Dec	25	Balance on hand Rs. 9-50
	26	Received from head cashier, amount required to make an imprest of Rs. 100
	27	Paid local conveyance Rs.6
	28	Paid cartage Rs.3, postage Rs. 2-25
	29	Stationery Rs. 11-25, STamps Rs.2-00, Refreshments to cumstomers Rs. 5-75.
	30	Office cleaning Rs.4, Wages to cooling Rs.1-25, Entertainment Rs.2-50.
	31	Cartage Rs.1-75, Postage Rs.4-75, Conveyance Rs.1-25, Entertainment Rs.2-50.

[Ans : Amount to be reimursed Rs. 60-75]

Short Question and Answers

1. Define Subsidiary Books.

Ans :

All transactions are first entered in the Journal in the order in which they occur and from the journal they are posted to the respective accounts in the ledger. But this would involve a tremendous amount of work because each transaction requires a separate debit to the receiving account and a credit to the giving account to bring into record the two-fold aspect of each transaction.

A considerable saving of clerical labour can be brought about if transactions of similar nature are recorded in separate journals so as to permit the sub-divisions of the Journal. This would facilitate not only the division of the Journal but it would also make easier the job of posting in the ledger, as the postings can then be made in the form of totals being transactions of similar nature. These sub-divisions of the Journal into various books recording transactions of the similar nature are called subsidiary books. These subsidiary books are also known as books of original entry because transactions are first recorded in these books to be subsequently transferred to their respective accounts in the ledger.

2. Purchases Book.

Ans :

This book is kept to maintain a record all credit purchases of those goods which are for sale. To be eligible for being recorded in the Purchases Book, the goods purchased on credit must be those in which the firm normally deals. Cash purchases of goods are entered in the Cash Book, so these are not recorded in the Purchases Book.

3. Sales Book.

Ans :

In many businesses a considerable proportion of sales will be made on credit rather than for immediate cash. In fact the sales of some businesses will consist entirely of credit sales. For each credit sale, the selling firm will send a document to the buyer showing full details of the goods sold and the price of the goods. This document is known as an Invoice and to the seller it is known as a Sales Invoice. The seller will keep one or more copies of each sales invoice for his own use.

It is from the copies of sales invoices that the seller prepares up his sales book. This book is merely a list in date order of each sales invoice showing the date, the name of the firm to whom the goods have been sold, the number of invoice for reference purposes and the net amount of the invoice. There is no need to show in the sales book a description of the goods sold as this information can be found by referring to the copy of the sales invoice which should be filed after recording it in the sales book.

There are two methods of pricing out goods sold in the invoice. Each invoice may just show the customer the actual amount that he is being charged for the goods. On the other hand, the goods may be shown at list price/catalogue price/retail price less an amount for trade discount, the net figure being the amount actually charged for the goods.

4. Bills Receivable Book.*Ans :*

When transactions relating to bills are numerous it is a common practice to maintain a separate Bills Receivable and Bills payable books. Bills Receivable book is maintained to record all the bills received from the debtors, by the trader. The following is the proforma of Bills Receive Book.

5. What do you understand by Cash Book?*Ans :*

In any business house, there will be numerous transactions relating to cash - receipts and payments of it. The student knows that on receipt, cash account is debited and on payment, cash account is credited. On this basis, the Cash Account can be prepared straightaway without the transactions being first journalised. When cash is received, the Cash Account can be directly debited and when cash is paid, it can be directly credited. A short explanation should be given with each entry. Thus, the clerical labour in first making the journal entry is saved. Since cash transactions will be numerous, it is better to keep a separate book to contain only the Cash Account. The book is known as Cash Book.

The objective of the Cash Book is to keep a daily record of the transactions relating to receipts and payments of cash. The number of transactions relating to cash are usually large because most of the business dealings ultimately resolve themselves into cash transactions, so it is necessary to keep a separate book for cash transactions. If every cash transaction were recorded in the Journal, a tremendous amount of work will be involved in debiting or crediting Cash Account every time cash is received or paid. If the cash book is maintained, the botheration of posting every item of receipt or payment of cash individually to Cash Account in the ledger is avoided.

6. What are the advantages of cash book?*Ans :*

1. As the cash book provide detailed information about cash receipts and payments owner can easily calculate the closing balance of cash at any point of time.
 2. Cash book perform functions of journal as well as ledger, due to which business does not require any cash account in the books of account.
 3. It helps to compare the actual cash in hand with the cash balance showing in the cash book.
 4. Owner can control cash expenditure of business by maintaining cash journal/book.
 5. It enables the owner to take crucial decisions regarding cash movements in business.
 6. It also helps in preparing estimated budgets related to cash transaction for subsequent years.
-

7. What is triple column cash book ?*Ans :*

Cash book has three amount columns-one for Cash, one for Bank and one for Discount on each side. All cash receipts, deposits into bank and discount allowed are recorded on debit side and all cash payments, withdrawals from bank and discount received are recorded on the credit side.

One important feature of three-column cash book is that if a transaction involves both the cash and the bank account, it is entered on both the sides of the cash book, one in the cash column and second in the bank column, on the opposite side. This is called a 'contra' entry. The word 'C' is indicated in the L.F column against that item.

The three-column cash book serves the purpose of Cash Account and Bank Account. Hence, there is no need to open these two accounts in the ledger.

8. What is petty cash book ?

Ans :

This book is used for the purpose of recording the petty expenses, so that the main cash book is relieved of the detailed records of these petty expenses.

Normally, one person is handed over a small amount to meet the petty expenses of a given period (say a week, fortnight or a month) and is authorized to make such payments and record them in a separate Cash Book. Such person, such amount and such Cash Books are called as "Petty Cashier", "Imprest" and "Petty Cash Book" respectively. The Petty Cash Book may or may not be maintained on "Imprest System".

Under both the systems, the petty cashier submits the Petty Cash Book to the Head Cashier who examines the Petty Cash Book. Under the imprest system, the Head Cashier makes the reimbursement of the amount spent by the Petty Cashier but under non-imprest system, the Head Cashier may handover the Cash to the Petty Cashier equal to/ more than/less than the amount spent.

9. Features of Petty Cash Book.

Ans :

1. Petty cash book records on its left hand side column, the amount received from cash receivers.
2. On the right hand side column, the payments of petty cash expenses are being recorded in the petty cash book.
3. An unspent petty cash in hand is shown as the balance of petty cash book.
4. As the cash payments do not exceed the cash receipts, the petty cash book will not have any credit balance.
5. Internal and external vouchers are taken as a base for the recording purpose.
6. In the ledger accounts all the column expenses are summed upon a periodical basis and these totals are posted to the debit side individually in their respective accounts. In the ledger, this transaction is represented as "To petty cash a/c" in the particulars column.
7. Petty cash book acts both as journal and also ledger. It is regarded as a journal because all petty cash payments are recorded in it for the first time from the vouchers. The petty cash book is also regarded as ledger account as the cash receipts from main cashier are posted on debit side and cash payments are posted on the credit side. Therefore, in the ledger account it is not essential to open the petty cash account.

10. Advantages of Petty Cash Book.*Ans :*

1. When the petty expenses are recorded in the petty cash book, it would save the time of chief cashier.
 2. There is low possibility/probability of the mistakes taking place because the main cashier consistently scrutinizes the petty cash book.
 3. In case of any misappropriation, it is always within the limits of imprest.
 4. Due to the fact that the petty cashier cannot spend more than the petty cash available. Therefore, all the petty expenses are kept within the limits of imprest.
 5. There exists advantages of specialization as recording of transactions is classified into main cash book and petty cash book.
 6. Few accounts are opened for petty expenses only, thus the labour is saved for posting. The periodical totals of expenses of each and every column are posted on the debit side of their respective ledger accounts.
-

11. Journal Proper.*Ans :*

Journal proper is used for recording only those transactions as cannot be recorded in any of the other subsidiary books. Examples of such transactions are :

1. Opening entries
2. Transfer entries (transfer from one account to another).
3. Adjusting entries.
4. Closing entries.
5. Entries relating to rectification of errors.
6. Entries relating to dishonour of bills or promissory notes.
7. Withdrawal of goods by the proprietor for personal use or loss of goods by theft, fire, etc.
8. Credit purchase or sale of assets.
9. Bad debts

Choose the Correct Answers

1. The cash book records [c]
(a) All cash payments (b) All cash receipts
(c) Both (d) Goods purchased for cash only.
2. A purchase book is used to record all _____ made by the business from its suppliers. [b]
(a) Purchases (b) Credit purchases
(c) Cash purchases (d) None of these
3. _____ is an allowance or deduction made from the invoice price of goods sold. [a]
(a) Trade discount (b) Cash discount
(c) Commission (d) None of these
4. _____ represents a note sent to the supplier for the value of goods returned by the business. [a]
(a) Debit note (b) Credit note
(c) Goods returned note (d) None of these
5. A statement showing particulars of the goods bought by a trader on credit is known as _____. [b]
(a) Bill (b) Invoice
(c) Voucher (d) None of these
6. A _____ is used for recording all residual transactions which cannot find place in any of the subsidiary books. [a]
(a) Journal proper (b) Ledger
(c) General journal (d) None of these
7. When goods are taken back from or an allowance is granted to a customer, the note is known as _____. [a]
(a) Debit note (b) Credit note
(c) Goods returned note (d) None of these
8. Sales Journal records all _____ sale of goods. [b]
(a) Debit (b) Credit
(c) Cost (d) None of these
9. An entry Which is made on both sides of a cash book called [a]
(a) Contra (b) Cash
(c) Payment (d) None
10. Cash book records [c]
(a) Cash receipts (b) Cash Payments
(c) Both (d) None

Fill in the Blanks

1. Cash Discount is allowed on _____ On repayment of debt.
2. Cash book is Prepared by _____ of Business.
3. _____ records Credit purchase transaction.
4. The most common Impress system is the _____ system.
5. Discount received is recorded on the _____ side of cash book.
6. The closing balance of petty cash book considered as _____.
7. Post dated cheques are considered as _____.
8. A credit balance in cash book indicates _____.
9. Petty cash fund is supposed to be replenished _____.
10. Postage stamps on hand are considered as _____.

ANSWERS

1. Prompt
2. Accountant
3. Purchase book
4. Petty cash
5. Payment
6. Asset
7. Accounts receivables
8. Bank overdraft
9. At the end of every accounting period
10. Prepaid expenses

UNIT III

Bank Reconciliation statement : Meaning - Need - Reasons for differences between cash book and pass book balances - Favourable and over draft balances - Ascertainment of correct cash book balance (Amended Cash Book)- Preparation of Bank Reconciliation Statement (Including Problems)

3.1 BANK RECONCILIATION STATEMENT - MEANING

Q1. What do you understand by Bank Reconciliation Statement.

Ans : (May-19, Imp.)

On a particular date, when the trader or business man compare his cash book with the bank pass book, there is a possibility that both the books may not tally, i.e., some entries may have been recorded in the cash book but not in the pass book and vice versa. After finding the reasons for non agreement of the bank balances of pass book and cash book, efforts are made for their reconciliation. Thus, Bank Reconciliation Statement (BRS) is a statement which reconciles the bank balance as per cash book with balance as per bank pass book by showing all the reasons for difference between these two.

Hence, the Bank Reconciliation Statement is simply defined as 'a statement prepared to reconcile the balances of Cash Book and Pass Book'. In other words, it can be said that the Bank Reconciliation Statement is a statement prepared to reconcile the difference between the balances as per the bank column of the cash book and pass book on any given date.

Following preliminary steps to be followed while preparing the bank reconciliation statement.

- Compare the bank balance as per bank statement of the pass book and the cash book of the trader.
- Find the discrepancies or differences between the bank balance as per cash book and pass

book balance and update the cash book with any omissions and errors detected

- Prepare the bank reconciliation statement.

3.1.1 Need Bank Reconciliation Statement

Q2. Explain the need of Bank Reconciliation Statement.

Ans : (June-17, Dec.-16, Imp.)

It is generally experienced that when a comparison is made between the bank balance as shown in the firm's cash book, the two balances do not tally.

Hence, we have to first ascertain the causes of difference thereof and then reflect them in a statement called Bank Reconciliation Statement to reconcile (tally) the two balances.

In order to prepare a bank reconciliation statement we need to have a bank balance as per the cash book and a bank statement as on a particular day along with details of both the books. If the two balances differ, the entries in both the books are compared and the items on account of which the difference has arisen are ascertained with the respective amounts involved so that the bank reconciliation statement may be prepared.

Q3. Explain advantages of bank reconciliation statements?

Ans :

Bank Reconciliation Statement is an important tool for internal control of cash flows. It helps in detecting errors, frauds, irregularities if anything is occurred all the time of passing of entries in the cash book or in the pass book. Following are the advantages of Bank Reconciliation Statement.

- i) With the help of reconciliation statement any errors or mistakes that may have occurred in cashbook or in pass book may be identified.
- ii) Any undue delay in clearance of cheques will be shown up by the reconciliation.
- iii) BRS helps in preventing fraud and misappropriations.
- iv) It enables the business concern to get up-to-date record of transactions from the bank, It ensures proper evidence of payments.
- vi) It helps in finding out the actual bank balance at a particular point of time.
- vii) Enabling a business concern to take up the matter with the bank in respect of cheques deposited but not collected on time.

As a whole, the preparation of the Bank Reconciliation Statement is always better and. It is useful to both the business concern and the bank.

3.1.2 Reasons for differences between cash book and pass book balances

Q4. What are the reasons for difference between cash book and pass book ?

Ans : (May-19, June-18, Dec.-17, Imp.)

1. Cheques Issued but not Presented for Payment

When the customer issues a cheque he immediately enters in the bank column on the credit side of cash book which will reduce his bank balance. The bank does not aware of these cheques unless and until they are presented for payment by the people to whom the cheques are issued and payment is actually made by the bank. So long as it is not presented, the balance shown by the pass book will be more than the balance shown by the bank column of cash book,

2. Cheques Deposited but not Collected

The customer makes an entry as soon as he deposits the cheques in the bank. He enters them in the bank column on the debit side of cash book which will increase his bank balance. Where as the banker gives credit to the customer only when the cheques are realized. Until the cheques are collected the

balance appearing in pass book will be less than the balance appearing in the cash book (bank column).

3. Direct Payments into Bank on Behalf of the Trader by the Customer

Some times payments due to the trader may be made into the bank directly by his customers. **But** the intimation relating there to might not have received by the trader. Until the trader receives the information the balance appearing in pass book will be more than the balance appearing in the cash book.

4. Bank Charges

Bank renders many services to its customers for that it charges some amount by way of. Incidental charges, collection charges etc, popularly known as bank charges'. As soon as these charges are made the bank debits the customer's account. The corresponding entry may not found in the cash book of trader, since it is not known to him till the banker records the entry in the pass book. Until then the balance as per pass book will be less than cash balance.

5. Interest

Banks credit the accounts of the customers with interest on Savings bank accounts, which increase his bank balance. But the corresponding entry will not appear in the books of trader since he does not know the amount of interest unless he receives the pass book. Until then the balance as per pass book will be more than the cash book balance.

6. Cheques Entered in the Bank Column of Cash Book but not Sent to Bank

Some times cheques may be entered in the bank column of cash book with an intention to send them to bank for collection. They may forget them occasionally due to pressure of work. Until these cheques are sent to bank the balance as per cash book will be more than the pass book balance.

7. Dishonour of Cheques

As soon as the cheques are sent to Bank for collection the trader enters them in the bank column on the debit side of cash book. But

the bank gives credit only when they are released. When the cheque is dishonoured the bank pass no entry in its books. In exceptional cases bank may give credit as soon as the cheque is presented for collection to the customers account. When the cheque is dishonoured, the bank debits the customer account in its books. In such a case the balance as per pass book will be less than the balance as per cash book.

8. Collections made by the Banker on Behalf of Customers

Some times on receiving instructions from customers the bank collects interest on securities, rents, commission, dividends etc. On behalf of customers and credit them to the accounts of customers in its books.

All such credits will be found in the pass book. Until the customers get information about such transactions there may be no entries in their cash book. In such a case the balance as per pass book will be more than the balance as per cash book.

9. Payments made by the Banker on Behalf of Customer

At times, the customers may issue standing instructions to their bankers to make payments on behalf of them towards insurance premium, municipal taxes, club bills etc. As soon as the bank pays them it debits the customer's account, with the amounts paid. No corresponding entries will be found in the cash book till customers get information about such payments from the bank. In such a case balance as per pass book will be less than the balance as per cash book.

10. Cheques drawn but not Recorded in cash Book

Some times, the trader may not record the cheques drawn, in the bank column on the credit side of cash book. Generally parties to whom cheques are issued will encash or endorse as soon as they receive them. As soon as the payments made by the bank against the cheques issued by the trader, it debits the customer's account. As a result of this, balance as per pass book will be less than the balance as per cash book.

11. Mistakes in Posting

The clerks at the bank may commit mistakes in posting the accounts of the customers. In such cases there will be wrong entries in the pass book which will naturally not correspond with entries in the cash book.

12. Frauds Committed by Bank Officials

Fraud committed by the bank officials or accountant would also result in discrepancies between the balances of the cash book and the pass book.

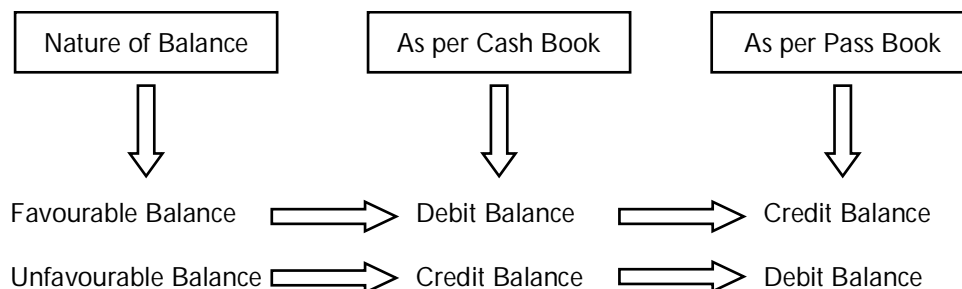
3.2 PROCEDURE FOR PREPARATION OF BANK RECONCILIATION STATEMENT

Q5. Explain the procedure for preparing of Bank Reconciliation Statement.

Ans :

Bank reconciliation statement is prepared to reconcile the two balances of Cash Book and Pass Book. The preparation of Bank Reconciliation statement starts with making adjustments to one balance to reach to the other balance, which ensures agreement between both the balances.

The balances of Cash book and Pass Book are two types which are shown below:



The Bank Reconciliation statement is prepared usually at the end of a period, i.e., a month, a quarter, half a year or a year, whichever is convenient to the firm. When both the books, i.e., cash book and pass book are given in problem, then see whether the two books related to the same period or for different periods. If the books are for different periods, then the common items should be considered and if it is for same period, then items not appearing in both the books should be taken into consideration.

The adjustments should be made is illustrated as below

Particulars	Amount (₹)	Amount (₹)
Balance as per Cash Book		
Or		
Overdraft Balance as per Pass Book		xxx
Add		
1. Cheques issued but not yet presented for payment	xxx	
2. Interest allowed by the bank	xxx	
3. Interest and dividend collected by the bank	xxx	
4. Direct payments into the bank by a customer	xxx	
5. Bills collected by the bank on behalf of the customer	xxx	
6. Wrong entry on the credit side of the pass book	xxx	xxx
Less		xxx
1. Cheques paid into the bank but not yet cleared	xxx	
2. Interest and expenses charged by the bank	xxx	
3. Direct payment by the Bank	xxx	
4. Dishonour of a bill discounted with the bank	xxx	
5. Cheques debited in cash book, but forgot to send to bank	xxx	
6. Wrong entry on the debit side of Pass book	xxx	xxx
Balance as per Pass Book (Credit Balance)		xxx
Or		
Overdraft Balance as per Cash Book (Credit Balance)		

The following tabular Presentation helps in understanding the preparation of BRS.

Procedure for Preparing Bank Reconciliation Statement.

S.No.	Transactions	Entries by Customer in the cash book (Bank column)	Entries by Bank in the pass book	Effect	Procedure to ascertain the balance as per pass book from cash book	
					Favaourable Balance	Unfavourable Balance
1.	When cash is deposited into bank	Customer enters in the debit side	Bank enters in the credit side	Cash book = Pass book	-	-
2.	When cash is withdrawn from the bank	Customer enters in the credit side	Bank enters in debit side	Cash book = Pass book	-	-
3.	Issue of cheques by trader/customer	Customer enters in the credit side immediately	Bank enters in the debit column only on the date when presented for payment	Cash book < Pass book	Add	Less
4.	Cheque received and entered in cash book and sent to bank for collection	Customer debits cash book	Only after collection, the amount will be entered in the credit side of the pass book	Cash book > Pass book	Less	Add
5.	Bank charges for services rendered by bank entered in pass book	No entry can be found in cash book till the pass book is verified.	Entered in the debit column of the pass book immediately.	Cash book > Pass book	Less	Add
6.	Interest and dividend collected by bank on behalf of customer	No entry can be found in cash book till the pass book is verified	Entered in the credit column of the pass book immediately	Cash book < Pass book	Add	Less
7.	Interest allowed by bank	No entry is made unless the pass book is verified.	Entered in the credit column of the pass book immediately	Cash book < Pass book	Add	Less
8.	Amount directly remitted into bank	No entry is found in cash book until the pass book is verified.	Entered in the credit column of the pass book immediately	Cash book < Pass book	Add	Less
9.	Subscriptions, premium paid by the bank as per standing instructions of the customer	No entry is made only after the pass book is verified.	Entered in the debit column of the pass book immediately	Cash book > Pass book	Less	Add

3.2.1 Preparation of Bank Reconciliation Statement under favourable balances

Q6. Explain the preparation of bank reconciliation statement under favourable balance.

Ans :

Before proceeding farther it should be understood that, Debit balance as per cash book or Credit balance as per pass book means deposits in the bank or cash at bank. Similarly, Credit balance as per cash book or Debit balance as per pass book means excess amount withdrawn from the bank or overdraft balance. After identifying the causes of difference between cash book balance and pass book balance the Bank Reconciliation statement is prepared, the Bank Reconciliation statement is prepared in two ways viz.

- Without adjusting in the Cash Book balance.
- After adjusting in the Cash Book balance.

While preparing the bank reconciliation statement the following different situations may be encountered with regard to balances:

Favourable balance

If the cash book shows debit balance and/or pass book shows credit balance it is known as favorable balance. For preparation of bank reconciliation statement, if debit balance as per cash book is given and the balance as per pass book is to be ascertained. If credit balance as per pass book is given and the balance as per cash book is to be ascertained.

The following Steps are to be followed to prepare the bank reconciliation statement:

Procedure

When debit balance as per cash book or credit balance as per pass book is given:

- Take balance as a starting point say, Balance as per Cash Book.
- Add all transactions that have resulted in increasing the balance of the pass book.
- Deduct all transactions that have resulted in decreasing the balance of pass book.
- Extract the net balance shown by the statement which should be the same as shown in the pass book'.

Q7. Explain the preparation of bank reconciliation statement under unfavourable balance.

Ans :

Bank overdraft is an amount drawn over and above the actual balance kept in the bank account. Sometimes trader or businessman may be allowed to draw extra amount than what he/she is having in his/her bank account. This facility is available only to the current account holders. Interest will be charged for the amount overdrawn i.e., overdraft. Under this circumstance the cash book shows unfavorable balance which is also called as Overdraft balance.

At any point of time, if the cash book shows credit balance or bank pass book shows debit balance it is known as unfavorable or overdraft balance.

Sometimes a businessman withdraws excess amount from the bank account and the closing bank balance of a month is a debit balance. This balance is called 'Overdraft Balance' as per Pass Book, This is shown as a Credit Balance in Cash Book.

If credit Balance as per Cash Book (Overdraft) is given, the balance as per Pass Book is to be ascertained. Similarly, if the balance as per Pass Book (Debit Balance/Overdraft Balance) is given, the balance as per Cash Book is to be ascertained. The procedure for preparation of reconciliation statement is same as shown in the case of favorable balance except, items which were added are to be deducted and items which were deducted should be added. The following procedure further helps in the preparation of BRS under unfavorable balance:

Procedure

When the credit balance as per cash book or debit balance as per pass book is given:

- Take balance as a starting point says Balance as per Cash Book.
- Deduct all transactions that have resulted in increasing the balance of the pass book.
- Add all transactions that have resulted in decreasing the balance of pass book.
- Extract the net balance shown by the statement which should be the same as shown in the pass book.

3.2.2 Ascertainment of correct cash book balance**Q8. What do you understand by Ascertainment of correct cash book balance?***Ans :*

When we look at the various items that normally cause the difference between the passbook balance and the cash book balance, we find a number of items, which appear only in the passbook. Why not first record such items in the cash book to work out the adjusted balance (also known as amended balance) of the cash book and then prepare the bank reconciliation statement. This shall reduce the number of items responsible for the difference and have the correct figure of balance at bank in the balance sheet. In fact, this is exactly what is done in practice whereby only those items which cause the difference on account of the time gap in recording appear in bank reconciliation statement.

These are as (i) cheques issued but not yet presented, (ii) cheques deposited but not yet collected, and (iii) due to an error in the passbook.

PROBLEMS

1. From the following details, prepare a bank reconciliation statement for M/s. Kakatiya Fertilizers as on December 31, 2018.

(i) Balance as per cash book ` 200

(ii) Cheques deposited but not yet collected by the bank ` 1,500

(iii) Cheque issued to Mr. Arjun has not yet been presented for payment ` 2,500

(iv) Bank charges debited in the pass book ` 200

(v) Interest allowed by the bank ` 100

(vi) Insurance premium directly paid by the bank as per standing instructions ` 500

*Sol.:***Bank Reconciliation Statement as on December 31, 2018**

Particulars	Amount `	Amount `
Balance as per cash book		200
Add : Cheque issued to Mr. Arjun not yet presented for payment	2,500	
Interest allowed by bank but not recorded in cash book	100	2,600
		2,800
Less : Cheques deposited but not yet collected by the bank	1,500	
Insurance premium directly paid by the bank as per standing instructions	500	
Bank Charges as per pass book	200	2,200
Balance as per Pass Book		600

2. On 31st October 1994, the cash book of a trader showed a favourable balance of ₹ 3,600 but the pass book showed a favourable balance of Rs. 3,850. The difference was due to the following reasons.
- Interest on investments of ₹ 75 was credited in pass book but no entry was passed in cash book.
 - Debit of ₹ 12.50 for bank charges appeared twice in pass book, but no entry was made in cash book.
 - Mr. Govindam deposited a cheque of ₹ 250 directly into Trader's Bank Account, for which there is no entry in cash book.
 - A cheque for ₹ 50 received from Mr. Gopalan and deposited into Bank was returned dishonoured by Bank on 31st October which the trader returned on 2nd on 1994.

Sol.:

Bank Reconciliation Statement as on 31st March 1996

Particulars	₹	₹
Balance as per Cash Book		3,600
Add : Interest on investments credited in pass book	75	
Direct deposit by the customer in trader's bank account	250	325
		3,925
Less : Bank charges debited twice in the pass book (12.50 + 12.50)	25	
Dishonour of cheque	50	75
Balance as per pass book		3,850

3. Prepare a Bank Reconciliation Statement from the following.

(a) Balance as per Cash Book	15,000
(b) Cheques issued but not presented	2,000
(c) Cheques deposited but not collected	1,500
(d) Interest credited in pass book only	50
(e) Wrong credit in pass book	3,000
(f) Bank charges debited in pass book only	20

Sol.:

Bank Reconciliation Statement

Particulars	₹	₹
Balance as per Cash Book		15,000
Add: 1. Cheques issued but not presented for payment	2,000	
2. Interest credited in pass book only	50	
3. Wrong credit in pass book	3,000	5,050
		20,050
Less: 1. Cheques deposited but not collected by banker	1,500	
2. Bank charges debited in pass book only	20	1,520
Balance as per pass book		18,530

4. From the following particulars of Krishna Mohan as 31.12.1986 prepare a Bank Reconciliation Statement.

- (i) The pass book showed a balance ₹ 50,000.
- (ii) Cheques deposited on 28th Dec. 1986, but not credited in the pass book ₹ 8,000
- (iii) Cheques issued prior to 26th December but not presented for payment ₹ 32,000
- (iv) Interest credited by the bank appear only in the pass book ₹ 1,000
- (v) Bank charges debited in the pass book but not entered in the cash book ₹ 50
- (vi) Dividend on shares collected by the bank but not entered in the cash book ₹ 800
- (vii) Insurance premium paid under instructions by the bank but not adjusted in the cash book ₹ 2,500

Sol.:

Bank Reconciliation Statement of Krishna Mohan as on 31-12-1986

Particulars	₹	₹
Balance as per pass book		50,000
Add: Cheques deposited into bank but not collected by the banker	8,000	
Bank charges debited in the pass book	50	
Insurance premium paid by the banker	2,500	10,550
		60,550
Less: Cheques issued but not presented for payment	32,000	
Interest credited in the pass book.	1,000	
Dividend on shares collected by the bank	800	33,800
Balance as per cash book.		26,750

5. From the following particulars ascertain the balance that would appear in the pass book of Mr. Pavan on 31st December, 2018

- i) The bank overdraft as per cash book on 31st December, 2018 ₹ 6,340
- ii) Interest on overdraft for 6 month ending 31st December, 2018 ₹ 160 is entered in pass book
- iii) Bank Charges of ₹ 30 are debited in the pass book only
- iv) Cheques issued but not cashed prior to 31st December, 2018 amounted to ₹ 1,168
- v) Cheques paid into bank but not cleared before 31st December, 2018 were for ₹ 2,170
- vi) Interest on investments collected by the bank and credited in the pass book ₹ 1,200

Sol.:

**Bank Reconciliation Statement
As on 31st December, 2018**

Particulars	Amount `	Amount `
Overdraft Balance as per Cash book		6,340
Add:		
Interest debited in pass book but not entered in cashbook	160	
Bank Charges debited in the pass book only	30	
Cheques Deposited but not yet credited in pass book	2,170	2,360
		8,700
Less:		
Cheques issued but not yet presented for payment	1,168	
Interest collected and credited by bank but not entered in cash book	1,200	2,368
Overdraft Balance as per Pass Book		6,332

6. Prepare a Bank Reconciliation Statement as at June 30, 2018 for M/s. XYZ Private Limited from the information given below.

i) Bank overdraft as per cash book	1,10,450
ii) Cheques issued on June 20, 2018 but not yet presented for payment	15,000
iii) Cheques deposited but not yet credited by bank	22,750
iv) Bills receivable directly collected by bank	47,200
v) Interest on overdraft debited by bank	12,115
vi) Amount wrongly debited by bank	2,400

Sol.:

Bank Reconciliation Statement as on June 30, 2018

Particulars	Amount `	Amount `
Overdraft Balance as per Cash book		1,10,450
Add: Cheques deposited but not yet credited	22,750	
Interest on overdraft debited by bank	12,115	
Wrong debit by bank	2,400	37,265
		1,47,715
Less: Cheques issued but not presented for payment	15,000	
Bills receivable directly collected by bank	47,200	62,200
Overdraft Balance as per Pass Book		85,515

7. Assist Mr. Ignorant in ascertaining his Cash Book balance. Following information is available :
- His Pass Book showed a debit balance of ₹ 9,550 as on 31-3-2013.
 - Cheque issued on 11-3-2013 for purchases for ₹ 5,900 was credited in the Pass Book as ₹ 5,400 on 25-3-2013.
 - A bill of ₹ 2,500 discounted at 5% flat was returned dishonoured and was wrongly credited in the Pass Book on 27-3-2013.
 - An Amount of ₹ 850 paid in cash, towards salary was wrongly posted to the salary account as ₹ 1,850.
 - A cheque for ₹ 2,150 received from Mr. Burman was entered twice in the cash Book on 20-3-2013 but the cheque was not collected by the Bankers till 31-3-2013.
 - A cheque for ₹ 1,725 appears to have been deposited directly by Mr. Clock on 20-3-2013 was returned dishonoured on 30-3-2013.
 - A cheque for ₹ 3,600 was issued on 17-3-2013 to Mr. Day on 19-3-2013. He returned the cheque and received cash. However the entry made on 17-3-2013 was not cancelled by mistake.

Sol.:

Bank Reconciliation Statement of Mr. Ignorant as on 31-3-2013

Particulars	₹	₹
Overdraft as per pass book :		9,550
Add:		
(i) Cheques issued for purchases and were credited in the pass book (₹ 5,900 + ₹ 5,400)	11,300	
(ii) Bills dishonoured returned and wrongly credited in the passbook (₹ 2,500 + ₹ 2,500)	5,000	
(iii) Cheque issued, later cancelled not recorded in the cash book	3,600	19,900
		29,450
Less : Cheques entered twice in cash book but not collected by bankers (₹ 2,150 + ₹ 2,150)		4,300
Overdraft as per cash book		25,150

Note :

Item V and VI do not show any impact on Bank Reconciliation Statement.

8. From the following particulars ascertain the balance that would appear in the Cash Book of Roy & Co., as on 31st March, before and after making the necessary adjustments:
- Overdraft as per Pass Book as on 31st March, 2013 540
 - Cheques drawn but not presented upto 31st March, 2013 2,800
 - Cheques paid into bank but not cleared upto 31st March 2013 3,900

- (iv) Interest on overdraft as per Pass Book, not entered in the Cash Book 20
- (v) Insurance premium paid by the bank not entered in the Cash Book 400
- (vi) Interest on investments collected by the bank appeared in the Pass Book 500
- (vii) In June Roy & Co. has discounted with the bank a bill for ₹ 500 and had entered this amount in the Cash Book but the proceeds credited in the Pass Book amounted to ₹ 490.

Sol.:

Bank Reconciliation Statement of Roy & Co. as on 31st March, 2013

Particulars	₹	₹
Overdraft as per Pass Book		540
Add : Cheques drawn but not presented for payment	2,800	
Interest on investments collected by the bank appeared in the Pass Book but not recorded in the Cash Book	500	3,300
		3,840
Less: Cheques paid into bank but not yet cleared and credited in the Pass Book	3,900	
Interest on overdraft recorded in the Pass Book but not entered in the Cash Book	20	
Insurance premium paid by the bank not entered in the Cash Book	400	
Discount on bill not recorded in the Cash Book	10	
		4,330
Debit Balance as per Cash Book		490

As the minus items exceed that of plus items, so there is a balance of ₹ 490 (not overdraft) as per Cash Book before making the necessary adjustments. We prepare the Cash Book with Bank Column to know the balance as per Cash Book after making the necessary adjustments. This balance is ₹ 560 calculated as follows :

CASH BOOK (Bank Column only)

2013	Particulars	₹	2013	Particulars	₹
March 31	To Balance b/d	490	March 31	By Interest on Overdraft	20
31	To Interest on Investments	500	" 31	By Insurance Premium	400
"			"	By Discount on Bills Receivable	10
			"	By Balance c/d	560
		990			990
April 1	To Balance b/d	560			

9. From the following particulars, prepare a Bank Reconciliation Statement of Alfa Electric Motor Private Ltd. as on 31st March, 2013.
- Overdraft on 31st March, 2013 as per bank pass book ` 10,000.
 - Cheque deposited in the bank but not recorded in cash book ` 100.
 - Cheque received and recorded in bank column but not sent to bank for collection Rs. 11,000.
 - Several cheques, were drawn in the last week of March, totalling Rs, 15,000. Of these, cheques totalling only ` 9,000 were cashed before 31st March.
 - Similarly, several cheques totalling ` 9,000 were sent for collection. Of these, cheques of the values of ` 1,500 were credited on 5th April and ` 2,000 on 7th April, the balance being credited before 31st March.
 - On 11th March, the credit side of the bank column of the cash book was cast ` 1,000 short and the credit balance of ` 2,600 on 15th March, 2013 was brought forward on 16th March, 2013 as debit balance of ` 2,600.
 - Fees of ` 250 were paid directly by the bank but were not recorded in the cash book.
 - In the Cash Book, a bank charge of ` 30, was recorded twice while another bank charge of ` 50, was not recorded at all.
 - Interest of ` 1,400 was charged by the bank but not recorded in the Cash Book.

Sol.:

Bank Reconciliation Statement as on 31st March, 2013

Particulars	`	`
Overdraft as per Pass Book		10,000
Add: Cheques deposited in the bank but omitted to be entered in Cash Book.	100	
Cheques issued but not presented for payment (` 15,000 - ` 9,000)	6,000	
Bank charges recorded twice in the Cash Book	30	6,130
		16,130
Less : Cheques entered in the Cash Book but omitted to be sent to the bank.	1,000	
Cheques deposited but not credited by the bank (1,500 + ` 2,000)	3,500	
Undercasting of credit side of bank column of Cash Book	1,000	
Credit balance of ` 2,600 brought forward as debit balance in Cash Book	5,200	
Fees paid by bank on standing instructions	250	
Bank charges omitted to be entered in Cash Book	50	
Interest charged by bank but not recorded in Cash Book	1,400	
		12,400
Overdraft as per Cash Book		3,730

10. From the following information, prepare a Bank reconciliation statement as at 31st December, 2017 for Telangana steels Ltd.

i) Bank Overdraft Balance as per Cash Book on 31 st December, 2017	24,590
ii) Interest debited by bank on 26 th December, 2017 but no advice received	2,787
iii) Cheques issued before 31 st December, but not yet presented for payment.	6,600
iv) Transport subsidy received from the state Government directly by Bank	4,250
v) Demand Draft deposited into the bank, but not credited till 31 st December	1,350
vi) Bills for collection credited by the bank till 31 st December, 2017 But no information received by the company in this regard	8,360
vii) Amount wrongly debited to company account by the bank	740

Sol.:

Bank reconciliation statement of M/s. Telangana steels Ltd. as on 31st December, 2017

Particulars	Amount (₹)	Amount (₹)
Overdraft Balance as per Cash book		24,590
Add: Interest debited by the bank	2,787	
Demand Draft deposited into the bank, but not credited	1,350	
Wrong debit by the bank in Passbook	740	4,877
		29,467
Less: Cheques issued but not yet presented	6,600	
Transport subsidy received by bank not recorded in cash book	4250	
Bills for collection credited by the bank not entered in cash book	8,360	19,210
Overdraft Balance as per Pass book		10,257

11. Mr. Banker is having two bank accounts (I and II) with INDIAN BANK. On 31st March, 2013, his ledger shows a balance of ₹ 5,000 in account I and an overdraft of ₹ 2,250 in account II. On verification of the ledger entries with the respective bank statements, the following mistakes were found :
- A deposit of ₹ 15,000 made into account I on 20th March, 2013 has been entered in the ledger in account II.
 - A withdrawal of ₹ 5,000 from account I on 2nd February, 2013 has been entered in the ledger in account II.

- (c) Two cheques of ₹ 5,000 and ₹ 7,500 deposited in account I on 1st March, 2013 (and entered in the book in Account II) have been dishonoured by the Bank. The entries for dishonour of these cheques have been entered in the books in account II.
- (d) Mr. Banker has issued cheques, on 29th March, 2013 of ₹ 10,000 from account I and for ₹ 1,000 from account II. These cheques were not encashed till 2nd April, 2013.
- (e) Incidental charges of ₹ 10 and ₹ 5 charged in accounts of I and II respectively have not been entered in the books.
- (f) Deposits of ₹ 5,000 and ₹ 3,500 made into the accounts of I and II respectively, on 30th March 2013 have not been given credit by Bank till 4th April, 2013.

Prepare a Bank Reconciliation statement as on 31st March, 2013 for the above two accounts.

Sol.:

Bank Reconciliation Statement For Account I as on 31st March, 2013

Particulars	₹	₹
Balance as per Cash Book		5,000
Add: Amount deposited into Account I but wrongly entered in the ledger in account II	15,000	
Cheques issued but not presented to bank for payment	10,000	25,000
		30,000
Less: Cheque issued from Account I but wrongly entered in the reducer in Account II	5,000	
Incidental charges charged by the bank but not entered in the ledger	10	
Cheque deposited but not cleared	5,000	10,010
Balance as per Pass Book		19,990

Bank Reconciliation Statement For Account II as on 31st March, 2013

Particulars	₹	₹
Overdraft as per Cash Book		2,250
Add: Deposit wrongly credited to account II in the ledger instead of account I	15,000	
Incidental charges charged by the bank but not entered in the ledger	25	
Cheques deposited but not cleared	3,500	18,525
		20,775
Less: Cheque wrongly entered in Account II although issued from Account I	5,000	
Cheques issued but not presented to bank for payment	1,000	
		6,000
Overdraft as per Pass Book		14,775

12. Following is the Cash Book (Bank columns only) of M/s B.R.S. Limited for the month of 31st March, 2013.

Particulars	₹	Particulars	₹
To Balance b/d	14,070	By Payments	1,55,200
To Receipts	1,50,730	By Balance c/d	9,600
	1,64,800		1,64,800

On scrutiny of the bank statement you find that:

- The bank statement shows an overdrawn balance at ₹ 1,240.
- Bank charges of ₹ 350 shown in the bank statement have not been entered in the cash book.
- A cheque drawn for ₹ 470 has been entered as a receipt.
- A cheque for ₹ 180 has been returned by the bank but not written back in the cash book.
- The opening balance should have been carried down as ₹ 14,700.
- The cheques paid to supplier for ₹ 2,140, ₹ 3,700 and ₹ 300 have not yet been presented to the bank.
- The last pay-in-slip of the month showing deposit of ₹ 15,420 has not yet been credited by the bank.
- The bank has debited a cheque for ₹ 720 by mistake to the company's account.

You are required to :

- Rewrite the cash book for the month, March, 2013 and
- Prepare a statement reconciling the adjusted balance in the cash book with the balance as per the bank statement.

Sol.:

CASH BOOK

Particulars	₹	Particulars	₹
To Balance b/d	14,700	By Payments	1,55,200
Receipts	1,50,730	By Bank Charges	350
		By Party's A/c	940
		By Party's (Cheque dishonoured)	180
		By Balance c/d	8,760
	1,65,430		1,65,430

Bank Reconciliation Statement as on 31st March 2013

Particulars	₹	₹
Revised Balance as per Cash Book		8,760
Add: Cheques issued but not presented for payment (₹ 2,140 + ₹ 3,700 + ₹ 300)		6,140
		14,900
Less : Amount deposited but not credited by bank	15,420	
Wrong debit in pass book	720	
		16,140
Overdraft as per Pass Book		1,240

13. Prepare Bank Reconciliation Statement as on 31st March, 2013 of Mr. Pandit from the following particulars after finding out the Adjusted Bank Balance as per Cash Book.

- (i) Bank overdraft as per Cash Book ₹ 3,500.
- (ii) Cheques issued but not encashed during the year ₹ 2,200.
- (iii) Cheques deposited but not credited by Bank during the year ₹ 660.
- (iv) Bank charges not recorded in the Cash Book ₹ 150.
- (v) Cheques deposited as per Bank Statement not entered in the cash book ₹ 950.
- (vi) Interest charged by the Bank recorded twice in the Cash Book ₹ 450.
- (vii) Club dues on Mr. Pandit paid by Bank as per standing instructions not recorded in Cash Book ₹ 100.
- (viii) Cheque issued by Mr. Pandit dishonoured ₹ 1,200.

Sol.:

Adjusted Cash Book

Particulars	₹	Particulars	₹
To Adjustment regarding		By Balance b/d	3,500
Interest (charged by Bank			
recorded twice in Cash Book)	450		
Balance c/d	3,050		
	3,500		3,500

Bank Reconciliation Statement as on 31st March, 2013

Particulars	₹	₹
Overdraft as per Adjusted Cash Book		3,050
Add: Cheques deposited but not credited by Bank	660	
Bank charges not recorded in Cash Book	150	
Club dues paid as per standing instructions	100	910
		3,960
Less: Cheques issued but not encashed	2,200	
Cheques deposited but net entered in Cash Book	950	
Cheque issued by Mr. Pandit dishonoured	1,200	
		4,350
Cr. Balance as per Pass Book		390

14. The following is the summary of a cash book for December, 2014.

Cash Book (Bank Column)

Receipts	13,221	Balance b/d	6,849
Balance c/d	4,986	Payments	11,358
	18,207		18,207

All receipts are banked and payments are made by cheques. On investigation the following are observed:

1. Bank charges of ₹ 1,224 entered in the bank statement have not been entered in cash book.
2. Cheques drawn amounting to ₹ 2,403 have not been presented to the bank for payment.
3. Cheques received totalling ₹ 6,858 have been entered in the cash book and deposited in the bank, but have not been credited by the bank until January, 2015.
4. A cheque for ₹ 198 has been entered as a receipt in the cash book instead of as payment.
5. A cheque for ₹ 225 has been debited by the bank in error.
6. A cheque received for ₹ 720 has been returned by the bank and marked "No funds available", no adjustment had been made in the cash book.
7. All dividends receivable are credited directly to the bank account. During December, an amount of ₹ 558 was credited by the bank and no entry is made in the cash book.
8. A cheque drawn for ₹ 54 has been incorrectly entered in the cash book as ₹ 594.
9. The balance brought forward should have been ₹ 639.
10. The bank statement as on December, 31, 2014 showed an overdraft of ₹ 10,458.
 - (a) You are required to prepare an amended cash book and
 - (b) Prepare a bank reconciliation statement as on Dec. 31, 2014.

Sol.:

Amended Cash Book (Bank column)

Dr.

Cr.

Date	Receipts	L.F.	Amount	Date	Payments	L.F.	Amount
	Dividends received		558		Balance b/d		4,986
	Bank charges		1,224				
	Adj: for cheque drawn for ₹ 54 entered as ₹ 594 entered as receipt		540		Adj: regarding cheque		396
	Adj: of balance brought forward		450		Adj: regarding cheque returned		720
					Balance c/d		5,778
			7,326				7,326
					Balance b/d		5,778

Bank Reconciliation Statement as on Dec. 31, 2014

Particulars	₹	₹
Overdraft as per bank statement		10,458
Add: Cheque issued but not yet presented for payment		2,403
		12,861
Less: Cheques deposited but not yet credited	6,858	
Cheque debited in error	225	7,083
Balance as per cash book		5,778

15. Prepare Bank Reconciliation Statement from the following on 31st January, 2013.

1. Bank Balance as per Cash Book ₹ 18,500
2. Cheques amount to ₹ 4,000 were issued on 28th Jan. out of which ₹ 2,400 were presented for payment in Feb. 2013.
3. Cheques amounting to ₹ 9,000 were deposited for collection but cheque for ₹ 3,000 has not yet been collected by the bank.
4. A wrong debit of ₹ 500 appears in Pass Book.
5. Bank Charges ₹ 10 were entered twice in the Cash Book by oversight.
6. A cheque issued to a supplier for ₹ 800 was not entered in the Cash Book.
7. Interest on investments collected by the bank ₹ 1,000, was not entered in Cash Book.
8. Pass Book showed a debit of ₹ 175 Insurance Premium and a credit of ₹ 45 as Interest for which no entries are found in Cash Book.

Ans :

(May/June-19)

Bank Reconciliation Statement

Particulars	Amount (₹)	Amount (₹)
Bank Balance as per Cash Book		18,500
Add :		
i) Cheques issued but not presented for payment in January	2,400	
ii) Bank charges ₹ 10 were entered twice in the Cash Book by oversight	10	
iii) Interest on investments collected by the bank, but not entered in Cash Book	1,000	
iv) Interest credited but omitted to be entered in Cash Book	45	3,455
		21,955
Less :		
i) Cheques deposited into bank for collection but not yet collected	3,000	
ii) Amount wrongly debited in the pass book	500	
iii) Cheque issued to a supplier but not entered in the cash book	800	
iv) Insurance premium debited in pass book but not entered in cash book	175	4,475
Bank Balance as per Pass Book		17,480

Exercise Problems

1. As per cash book the bank account of Harshini is showing an overdraft balance of ₹ 5,000. Prepare a Bank reconciliation statement taking into the following items.
- i) Cheques issued but not presented for payment till 31-03-2016 ₹ 12,000
 - ii) Cheques deposited but not collected by the bank till 31 -03-2016 ₹ 20,000
 - iii) Interest on term loan ₹ 10,000 debited by the bank on 31-03-2016 but not accounted in her books.
 - iv) Bank Charges ₹ 250 was debited by the bank during March, 2016 but accounted in her books on 4-4-2016
 - v) An amount of ₹ 1,00,000 representing collection of Sharath's cheque was wrongly credited into the account of Harshini by the bank.

(Ans : Balance as per pass book ₹ 76,750)

2. Pass Book of a trader shows a balance of ₹ 12,600. On comparing the Pass Book with the Cash Book, the following discrepancies were noted.
- a) Cheques deposited in bank but not collected ₹ 2,100
 - b) Cheques issued but not presented for payment ₹ 1,800
 - c) Bank Charges ₹ 175
 - d) Bank paid insurance premium ₹ 1500
 - e) The Debtor paid directly into bank account ₹ 1200

(Ans : Bank balance as per Cash Book ₹ 12,775)

3. Giri Ind Ltd's bank balance as per Pass Book is ₹ 8,900. There is disagreement between cash book and Pass Book balances as on 31-3-2018. Prepare Bank Reconciliation state-ment by considering following transactions.
- a) Cheque issued but not yet presented for payment ₹ 2100
 - b) Cheque deposited for collection, but not yet realized ₹ 900
 - c) A wrong debit given by bank in Pass Book ₹ 500
 - d) Bank charges debited only in Pass Book ₹ 210
 - e) Direct payment of insurance premium as per standing instructions ₹ 600

(Ans : Bank balance as per Cash Book ₹ 9010).

4. On comparing the bank Pass Book of BBR Ltd. With its Cash Book (bank column), the following differences were noticed. Prepare BRS with the help of Cash book Balance ₹ 15,000
- a) Cheque sent for collection, not yet realized ₹ 5,600
 - b) Cheques issued but not yet presented for payment ₹ 4,200
 - c) The receipts side of Cash Book has been overcast by ₹ 300
 - d) A cheque drawn on firm's current a/c, wrongly debited in its savings a/c, ₹ 2,100
 - e) A cheque of ₹ 900 deposited into bank, but forgot to enter in Cash Book

(Ans : Bank balance as per Pass Book ₹ 16,300)

5. From the following particulars prepare Bank Reconciliation statement as on 31st March, 2016.
- a) Overdraft balance as on 31-3-2016 as per Bank statement ` 22,470.
 - b) As per standing instructions given to bank, chamber of Commerce fee ` 2,530 was paid by the bank but was not recorded in the Cash Book.
 - c) On 23-3-2016, the credit side of the bank column of the Cash Book was cast ` 1,900 short.
 - d) Cheque deposited into the bank but not recorded in Cash Book ` 2,500
 - e) In the Cash Book, a Bank charge of ` 290 was recorded twice while another bank charge of ` 120 was not recorded at all.
 - f) Dividend on shares ` 3,200 was collected by bank directly the trader has no information.
 - g) Two cheques of ` 1850 and ` 1,500 were issued but out of them only one cheque of ` 1850 was presented for payment up to reconcile day.

(Ans : Overdraft balance as per Cash Book ` 25,410)

6. Prepare Bank Reconciliation statement of Karthik as on 31 -03-2017.
- a) Bank overdraft as per Pass Book ` 6500
 - b) Cheques deposited into bank ` 5000, but only ` 2000 was collected.
 - c) Cheques issued but not presented for payment ` 1500
 - d) A customer directly deposited in our bank ` 1200
 - e) Bank charges ` 200; Insurance premium ` 300 has debited in the Pass Book only
 - f) Divided ` 300 collected by the bank has credited in the Pass Book only

(Ans : Overdraft balance as per cash book ` 6,000)

7. Prepare Bank Reconciliation Statement of P.R.G Rao and Sons as on 31-03-2018
- a) Bank overdraft as per Cash Book ` 14,500
 - b) Cheques issued but not yet presented for payment ` 4,500
 - c) Directly deposited by a Customer in our bank account ` 3,500
 - d) Cheques deposited in bank but not credited ` 7,500
 - e) Bank charges debited in pass book only ` 200 f Interest debited in the pass book only ` 500

(Ans : Overdraft balance as per pass book ` 14,700)

Short Question and Answers

1. Bank Reconciliation Statement

Ans :

On a particular date, when the trader or business man compare his cash book with the bank pass book, there is a possibility that both the books may not tally, i.e., some entries may have been recorded in the cash book but not in the pass book and vice versa. After finding the reasons for non agreement of the bank balances of pass book and cash book, efforts are made for their reconciliation. Thus, Bank Reconciliation Statement (BRS) is a statement which reconciles the bank balance as per cash book with balance as per bank pass book by showing all the reasons for difference between these two.

Hence, the Bank Reconciliation Statement is simply defined as 'a statement prepared to reconcile the balances of Cash Book and Pass Book'. In other words, it can be said that the Bank Reconciliation Statement is a statement prepared to reconcile the difference between the balances as per the bank column of the cash book and pass book on any given date.

2. Need of Bank Reconciliation Statement

Ans :

It is generally experienced that when a comparison is made between the bank balance as shown in the firm's cash book, the two balances do not tally.

Hence, we have to first ascertain the causes of difference thereof and then reflect them in a statement called Bank Reconciliation Statement to reconcile (tally) the two balances.

In order to prepare a bank reconciliation statement we need to have a bank balance as per the cash book and a bank statement as on a particular day along with details of both the books. If the two balances differ, the entries in both the books are compared and the items on account of which the difference has arisen are ascertained with the respective amounts involved so that the bank reconciliation statement may be prepared.

3. Advantages of bank reconciliation statements

Ans :

- i) With the help of reconciliation statement any errors or mistakes that may have occurred in cashbook or in pass book may be identified.
- ii) Any undue delay in clearance of cheques will be shown up by the reconciliation.
- iii) BRS helps in preventing fraud and misappropriations.
- iv) It enables the business concern to get up-to date record of transactions from the bank, It ensures proper evidence of payments.
- vi) It helps in finding out the actual bank balance at a particular point of time.
- vii) Enabling a business concern to take up the matter with the bank in respect of cheques deposited but not collected on time.

4. Bank overdraft*Ans :*

Bank overdraft is an amount drawn over and above the actual balance kept in the bank account. Sometimes trader or businessman may be allowed to draw extra amount than what he/she is having in his/her bank account. This facility is available only to the current account holders. Interest will be charged for the amount overdrawn i.e., overdraft. Under this circumstance the cash book shows unfavorable balance which is also called as Overdraft balance.

At any point of time, if the cash book shows credit balance or bank pass book shows debit balance it is known as unfavorable or overdraft balance.

Sometimes a businessman withdraws excess amount from the bank account and the closing bank balance of a month is a debit balance. This balance is called 'Overdraft Balance' as per Pass Book, This is shown as a Credit Balance in Cash Book.

5. Ascertainment of correct cash book balance*Ans :*

When we look at the various items that normally cause the difference between the passbook balance and the cash book balance, we find a number of items, which appear only in the passbook. Why not first record such items in the cash book to work out the adjusted balance (also known as amended balance) of the cash book and then prepare the bank reconciliation statement. This shall reduce the number of items responsible for the difference and have the correct figure of balance at bank in the balance sheet. In fact, this is exactly what is done in practice whereby only those items which cause the difference on account of the time gap in recording appear in bank reconciliation statement.

6. Cash book and Pass book.*Ans :***Cash book**

A book that keeps a record of cash transactions is known as cash book.

Passbook

A book issued by the bank to the account holder that records the deposits and withdrawals is known as passbook.

Choose the Correct Answer

1. Favourable balance of cash book implies that [b]
 - (a) Credit balance of cash book
 - (b) Debit balance of cash book
 - (c) Bank overdraft
 - (d) Adjusted balance of cash book
2. A cash deposit made by business appears on the bank statement as _____ balance [b]
 - (a) Debit
 - (b) Credit
 - (c) Expenses
 - (d) Liability
3. Bank reconciliation statement is the comparison of a bank statement (sent by bank) with the _____ (prepared by business) [c]
 - (a) Cash receipt journal
 - (b) Cash payment journal
 - (c) Cash book
 - (d) Financial statements
4. A check returned by bank marked "NSF" means that [b]
 - (a) Bank can't verify your identity
 - (b) There are not sufficient funds in your account
 - (c) Check has been forged
 - (d) Check can't be cashed being illegal
5. In the Bank reconciliation statement "Deposit in transit" is usually [b]
 - (a) Subtracted from bank balance
 - (b) Added to bank balance
 - (c) Added to Cash book balance
 - (d) Subtracted from cash book balance
6. Bank reconciliation statement is prepared by [a]
 - (a) Accountant of the business
 - (b) Manager of the business
 - (c) Controller of the bank
 - (d) Accountant of the bank
7. Which of the following error results in unadjusted cash book balance? [d]
 - (a) Outstanding checks
 - (b) Unpresented checks
 - (c) Deposit in transit
 - (d) Omission of Bank charges

8. Uncollected checks also referred as [b]
(a) Unpresented checks (b) Uncredited checks
(c) Outstanding checks (d) Bounced checks
9. Favorable balance of bank statement implies that [a]
(a) Credit balance (b) Debit balance
(c) Bank overdraft (d) Adjusted balance
10. Standing orders are _____ [a]
(a) Credited in the cash book (b) Debited in the cash book
(c) Entered in the bank statement (d) Entered in the petty cash balance

Fill in the Blanks

1. In bank reconciliation statement the amount of outstanding checks is added to _____ balance of cash book.
2. Bank statement also called _____.
3. The balance of debit side cash book indicates _____.
4. In cash book bank charges recorded at _____ side.
5. Credit Balance as per cash book is _____.
6. Bank reconciliation statement is _____ statement.
7. When check is not paid by bank it is _____.
8. When bank statement shows a debit balance _____ as per bank book.
9. The _____ which is deposited into bank but not cleared at the end of a particular year.
10. When cash is deposited into bank then the _____ would be debited in the company accounts.

ANSWERS

1. Adjusted
2. Pass book
3. Cash at bank
4. Credit
5. Favorable balance
6. A separate
7. Dishonored
8. Unfavorable balance
9. Uncredited check
10. Bank account

UNIT IV

RECTIFICATION OF ERRORS AND DEPRECIATION:

Capital and Revenue Expenditure – Capital and Revenue Receipts: Meaning and Differences - Differed Revenue Expenditure. Errors and their Rectification: Types of Errors - Suspense Account – Effect of Errors on Profit (Including problems) Depreciation (AS-6): Meaning – Causes – Difference between Depreciation, Amortization and Depletion - Objectives of providing for depreciation – Factors affecting depreciation Accounting Treatment – Methods of depreciation: Straight Line Method - Diminishing Balance Method (Including problems)

4.1 CAPITAL AND REVENUE EXPENDITURE

Q1. What do you understand by capital expenditure? Give some examples of capital expenditure.

Ans :

It consists of expenditure the benefit of which is not fully consumed in one period but spread over several periods. It includes assets acquired for the purpose of earning and not for resale, improving and extending fixed assets, increasing the earning capacity of the business and raising capital for the business. Purchase of new plant, additions to the building, cost of removing the business to more spacious and better suited premises, brokerage and commission paid for procuring long term loans are few examples of such expenditure. Such expenses are taken to Balance Sheet and are determined by the fact whether:

- (i) The expenditure made is for the purpose of acquiring fixed assets and in placing the business in a position in which it can commence or continue operation;
- (ii) The expenditure results in some more or less long term benefit to the business;
- (iii) Expenditure increases the earning capacity of the business or reduces working expenses. Prima-facie it must be established whether the expenditure results in the acquisition of permanent asset and that the asset is to be used for the purpose of earning revenue. Suppose a permanent asset has been acquired for the business and that in addition to the cost of the asset, certain other expenditures were incurred on account of installation and erection etc., and travelling

expenses for a trip abroad for the purchase of the asset. The cost of the asset is a capital expenditure, no doubt, but other expenditures are also capital as these are incurred direct in connection with the acquisition of a permanent asset.

Examples

1. Purchase of land, building, plant and machinery, furniture, vehicles and any other fixed asset.
2. Cost of replacing a petrol driven engine to a diesel driven engine.
3. Expenditure incurred for increasing the sitting accommodation in a cinema hall or restaurant.
4. Amount spent on erection of plant and machinery.
5. Expenditure incurred for acquiring some right to carry on business, e.g., copyright, goodwill, trade mark, patent rights etc.
6. Expenditure incurred for reconditioning an old fixed asset.
7. Expenditure incurred on major repairs and replacement of plant and machinery or any other fixed asset which results in increased efficiency.

Q2. What do you understand by Revenue expenditure? Give some examples of revenue expenditure

Ans :

It consists of expenditure incurred in one period of account, the full benefit of which is consumed in that period. It includes purchasing assets required for resale at a profit or for being

made into saleable goods, maintaining fixed assets in good working order, meeting the day-to-day expenses of carrying on business. Cost of goods, raw materials and stores, replacements, renewals, repairs, depreciation of the fixed assets, rent, rates and taxes, wages and salaries, carriage, insurance and other trade expenses are few examples of such expenditures. Such items appear in the Trading and Profit and Loss Account and may be determined from the test as to whether the expenditure made is incurred for the maintenance of the earning capacity or for the upkeep of fixed asset in an efficient condition.

Examples

1. Cost of purchases and carriage paid on
 2. Cost of manufacture, Wages paid to labourers, Fuel etc.
 3. Expenditure incurred in the normal course of business.
 - (a) **Office and Ad ministration:** Salaries, Rent and Rates, Insurance, Postage, printing and Stationery etc.
 - (b) **Selling expenses:** Salaries of salesmen, advertisements etc.
 - (c) **Distribution expenses:** Salaries paid to distribution personnel, running expenditure of distribution vehicles.
 - (d) **Financial expenses:** Interest, depreciation etc.
 4. Up keep of fixed assets : ex. Repairs, Renewals etc.
 5. Loss on sale of fixed assets
- Revenue expenditure appears on the debit side Trading and Profit and Loss Account.

Q3. Distinguish between capital expenditure and revenue expenditure.

Ans :

(Imp.)

Sl. No.	Capital Expenditure	Revenue Expenditure
1.	It results in acquisition of fixed assets which are meant for use and not for resale. The assets acquired are used for earning profit as long as they can serve the purpose of the business and sold only when they become unfit or obsolete for business.	It does not result in acquisition of any fixed asset. This expenditure is incurred for meeting the day- to-day expenses of carrying on operations of business.
2.	It results in improving the earning capacity of the fixed assets, e.g., over-hauling the machinery for improving the business by increasing the earning capacity of the machinery.	It results in maintenance of business assets such as repairs and maintenance of machinery. It is helpful in maintaining the existing capacity of the asset.
3.	It represents unexpired cost i.e., cost of benefit to be taken in future.	It represents expired cost i.e., benefit of cost has been taken.
4.	It is a non-recurring expenditure.	It is a recurring expenditure.
5.	The benefit of such expenditure will be for more than one year. Only a portion of such expenditure known as depreciation is charged to Profit and Loss Account and balance amount of such expenditure unless it is written off is shown in the Balance Sheet as an asset.	The benefit of such expenditure expires during the year and the amount is charged to Revenue Account, (i.e., Trading and profit and Loss Account) of the same year.

6.	All items of capital expenditure which are not written off are shown in the Balance Sheet as assets and are carried forward to the next year.	All items of revenue expenditure the benefit of which has exhausted during the year are transferred to Trading and Profit and Loss Account and the accounts representing such items are closed by transferring them to Trading and Profit and Loss. Such items are not carried forward to the next year because their benefit has been taken during the year. Only a portion of the deferred revenue expenditure, (i.e., heavy advertisement) the benefit of which has not expired during the year is carried forward to the next year.
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4.1.1 Differed Revenue Expenditure

Q4. What do you understand by differed revenue expenditure?

Ans :

It is expenditure which would normally be treated as revenue expenditure but it is not written off in one period as its benefit is not completely exhausted in the year in which it is incurred or is of a non-recurring and special nature and is large in amount. It may be spread over a number of years, a proportionate amount being charged to the Profit and Loss Account of each year and the balance is carried forward to subsequent years as deferred revenue expenditure and is shown as an asset in the balance sheet.

Suppose for an advertisement campaign a sum of ₹ 20,000 has been spent and the benefit of this campaign does not exhaust in the year, the expenses made should be spread over the estimated years during which the benefit is to be derived. Such expenditures are called deferred revenue expenditures. The determining factor, therefore, is whether the particular revenue expenditure has the element of deriving benefit over some years and that the benefit does not exhaust within the particular accounting year.

The basis of charge should usually be proportionate to the benefit consumed/reaped. The deferred revenue expenditure not yet written off is shown on the assets side of the balance sheet.

Deferred revenue expenditure is revenue in character but:

- (i) The benefit of which is not exhausted in the same year; or
- (ii) Is applicable either wholly or in part to the future years; or
- (iii) Is accidental and heavy and it is not prudent to charge against the profit of one year.

Deferred revenue expenditure may be classified into the following three categories :

- (a) Expenditure where a portion of the benefit has been derived within the accounting period, the balance yet being unused and therefore, shown in the balance sheet as an asset.

Example: Special advertising expenditure for a new product.

- (b) Expenditure in respect of service rendered which for any sound reason is considered as an asset or more properly not considered to be allocable to the accounting period.

Example: Cost of experiments, discount on issue of debentures etc.

- (c) Amounts representing loss of an exceptional nature.

Example: Property confiscated in a foreign country, loss on uninsured assets, etc.

Q5. In what situations revenue expenditure becoming capital expenditure.*Ans :*

Following are some of the examples of revenue expenditure becoming capital expenditure:

1. Repairs

They are usually a revenue charge, but if we purchase a second hand plant and pay for immediate repairs necessary to make it efficient for our purpose, then such repairs become capital expenditure and must be added to the plant as part of its cost.

2. Wages

They are revenue item, but the wages paid to workmen to erect and fit some new machinery, the firm has bought, must be considered as an addition to the cost of the machinery. Similarly wages of workmen employed in the construction of any fixed asset are capital expenditure and must be treated as part of the cost of the asset.

3. Legal Expenses

They are revenue charge, but the legal expenses incurred in connection with the purchase of fixed asset must be treated as a part of the cost of the asset.

4. Transport Expenses

They are usually a revenue charge but payment made for transporting any plant and machinery is added on as part of the cost of plant and machinery.

5. Interest on Capital

Such interest, if paid, during the construction of works or buildings or plant may be capitalised.

6. Raw Materials and Stores

They are usually a revenue charge but if consumed in making of a fixed asset, must be treated as a part of the cost of the asset.

7. Carriage and Freight

Such expenses in connection with the acquisition of a fixed asset are capital expenditure.

8. Advertising

The cost of special advertising undertaken for the purpose of introducing a new line of goods may be treated as capital expenditure as the benefit of such advertising will be available in future also.

9. Development Expenditure

Some concerns such as tea and rubber plantations, horticulture, collieries etc. require a very long period of development before they can begin to earn any income. All such expenditure incurred during the period of development is called as development expenditure and must be treated as capital expenditure.

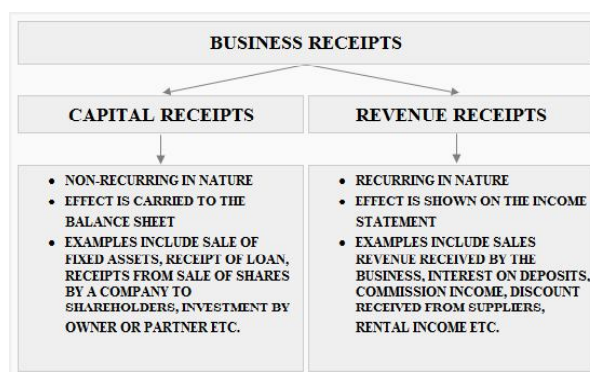
10. Preliminary or Formation Expenses

All expenses incurred before incorporation of a company are called Preliminary or Formation Expenses and must be treated as Capital Expenditure as the benefit of such expenses Will be available in future years also

**4.2 CAPITAL AND REVENUE RECEIPTS -
MEANING AND DIFFERENCES**
Q6. What do you understand by Capital and Revenue Receipts ?*Ans :*

Business receipts are inflow of economic resources mostly in the form of cash and cash equivalents. In accounting and finance, they can be divided into two types –

1. Capital Receipts
2. Revenue Receipts



A brief explanation of both the types is given below:

1. Capital receipts

Capital receipts are business receipts which are not related to the day to day business activities of a company. They occur occasionally and provide benefit for a long period of time.

Capital receipts are normally presented in the balance sheet of a company when realized and generally occur as a result of the following events:

- Sale of fixed assets
- Issuance of capital in the form of shares
- Issuance of debt instruments

Other common examples of capital receipts

- Cash received from sale of fixed assets.
- Amount of loan received by the company from a bank.
- Capital invested in the business by a new partner.
- Consideration received by a company through sale of its license to produce a well marketed drug to another company.

2. Revenue Receipts

Revenue receipts are receipts that occur routinely. They are realized from day to day business activities of a company and are needed by any business to survive and strive. Revenue receipts are normally received through the sale of stock-in-trade and the provision of services to customers in the ordinary course of business. The effect of revenue receipts is normally shown only in the income statement of the company.

Examples of revenue receipts

- Revenue received from sale of goods to customers.
- Revenue received from provision of services to clients
- Income received as interest on a saving account.
- Dividend income received from shares of various companies.
- Rental income received by a company.
- Bad debts recovered by a company
- Cash discount received from vendors.
- Commission income received by a company.

Q7. Compare and contrast capital receipts and revenue receipts.

Ans :

Capital Receipt		Revenue Receipt
1.	It is the amount realised by sale of fixed assets or by issue of shares or debentures.	It is the amount realised by sale of goods or rendering of services.
2.	It is a receipt in substitution of a source of income.	It is a receipt in substitution of art income,
3.	It is the amount received for surrender of certain rights under an agreement as a capital asset is being given up in the form of these rights.	It is the amount received as compensation under an agreement for the loss of future profits.

Q8. What do you understand by capital and revenue losses?

Ans :

1. Capital Losses

Capital losses are losses realized on sale of fixed assets or when a company issues shares at a discount to the general public. These losses are not recurring and are not realized through the normal business activities of a company.

Examples

- Accidental loss of fixed assets.
- The issue of securities at discount.
- Redemption of securities at the premium.
- Embezzlement of the case by the unauthorized person.
- Obsolescence losses. losses by flood and earthquake etc.

2. Revenue Losses

Revenue losses are losses which are realized by carrying on the normal business activities of a company. They occur as a result of sale of stock-in-trade or provision of services to customers at a price that is less than the cost.

Examples

- Embezzlement of cash by the cashier.
- Embezzlement of goods by the storekeeper.
- Bad debts.
- A loss by fire of unsecured goods.
- Depreciation loss on sale of depreciable asset.
- Provision for doubtful debts and loss of goods due to the carelessness of the employee.

4.3 RECTIFICATION OF ERRORS**4.3.1 Types of Errors****Q9. Define error ? Explain different types of errors.**

Ans :

(May-19, Imp.)

The fundamental principle of the double-entry system is that every debit has a corresponding credit of equal amount and vice-versa. Therefore, the total of all debit balances in different accounts must be equal to the total of all credit balances in different accounts, i.e., the total of the two columns should tally (agree). The tallying of the two totals (debit balances and credit balances) of the trial balance ensures only arithmetic accuracy but not accounting accuracy. If however, the two totals do not tally, it implies that some errors have been committed while recording the transactions in the books of accounts.

Errors are those mistakes which are committed in the process of recording Journal entries, costing them into Ledger or in the preparation of Trial Balance. It is essential to detect and rectify the errors in the accounting process to get the correct results of the financial statements i.e. the correct profit or loss and the real financial position of the business.

Errors may occur at any stage of the accounting process:

1. At the stage of Recording of transactions in Journal

- i) Error of Principle,
- ii) Error or omission,
- iii) Error of commission.

2. At the stage of Posting in Ledger

- i) Error of omission
 - a) Partial omission,
 - b) Complete omission
- ii) Error of Commission
 - a) Posting to wrong account
 - b) Posting on the wrong side
 - c) Posting of wrong amount

3. At the stage of balancing the ledger accounts

- i) Wrong totaling of accounts,
- ii) Wrong balancing of accounts.

4. At the stage of Preparing the trial balance

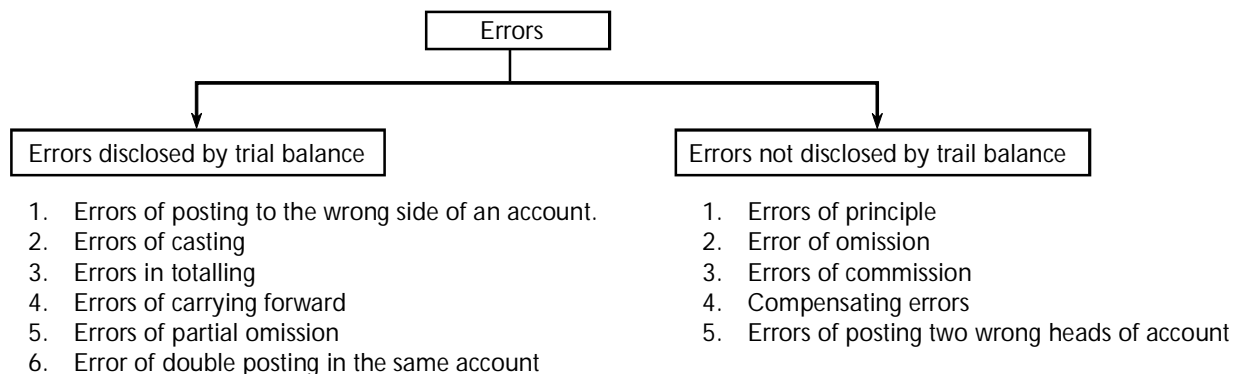
- i) Error of omission,
- ii) Error of commission.
 - a) Taking wrong account
 - b) Taking wrong amount
 - c) Taking to the wrong side

1. Types of Errors

On the basis of the impact of the errors on trial balance, errors may be classified into two categories Errors disclosed by trial balance, and Errors not disclosed by trial balance.

Types of Errors

- 1. Errors not disclosed by Trial Balance
- 2. Errors disclosed by Trial Balance.



(I) Errors not disclosed by Trial Balance

This type of Errors cannot be traced out in the preparation of Trial Balance, because these errors can not affect the agreement of Trial Balance.

1. Error of Principle

Transactions are recorded as per generally accepted accounting principles. If any of these principles are violated or ignored, errors resulting from such violation are known as errors of principle.

For example, Purchase of machinery recorded in the purchases book. It is an error of principle, because the purchases book is meant for recording credit purchases of goods meant for resale and not fixed assets. Trial balance will not disclose errors of principle. These errors may arise, when the distinction is not made between the Capital and Revenue nature items.

Example

- i) Purchase of Machinery, debited to purchases a/c

Machinery a/c is - Capital nature

Purchase a/c is - Revenue nature

Instead of debiting capital nature A/c (Machinery A/c), debiting a Revenue nature a/c (Purchases A/c) is an error of principle.

- ii) Rent paid to land lord, debited to his personal A/c

Rent A/c is - Nominal Account

Land lord A/c is - Personal Account

If Land lord A/c is debited instead of Rent A/c, it becomes an error of principle

2. Error of Omission

When a transaction is completely or partly omitted from the books of accounts such error is known as Error of Omission.

- (i) Error of Complete Omission:** This error arises when a transaction is totally omitted in the books of accounts.

For example, Furniture purchased from Saketh & Co. completely not recorded. This error does not affect the trial balance.

- (ii) Error of Partial Omission:** This error arises when only one aspect of the transaction either debit or 'credit is recorded.

For example, a credit sale of goods to Sunder is recorded in sales book but not posted in Sunder's account. This error affects the trial balance.

3. Error of Commission

This error arises due to wrong recording, wrong posting, wrong casting, wrong balancing, wrong carrying forward etc. Errors of commission may be classified as follows:

- (i) Error of Recording:** This error arises when a transaction is wrongly recorded in the books of original entry.

For example. Goods of ₹ 8,500, purchased on credit from Praveen, is recorded in the book as ₹ 5,800. This error does not affect the trial balance.

- (ii) Error of Posting:** This error arises when information recorded in the books of original entry are wrongly entered in the ledger. Error of posting may be

- Right amount in the right side of wrong account
- Right amount in the wrong side of correct account
- Wrong amount in the right side of correct account

- d) Wrong amount in the wrong side of correct account
- e) Wrong amount in the wrong side of wrong account
- f) Wrong amount in the right side of wrong account etc.

These errors may or may not affect the trial balance.

4. Compensating Errors

The errors arising from excess debits or under debits of accounts being neutralized by the excess credits or under credits to the same extent of some other account is compensating error. Since the errors in one direction are compensated by errors in another direction, arithmetical accuracy of the trial balance is not at all affected. In other words, If two or more errors are committed and one error nullifies another error, the net effect is unchanged.

Committing an error to compensate the previous or another error is known as compensating error.

Example: Amount paid to Ram ₹ 5000 recorded as ₹ 4500, and amount received from Syam ₹ 10,000 recorded as ₹ 9,500.

5. Error of Posting to Wrong Head of A/c

Instead of recording in one account, recording in another account is known as error of posting to wrong head of a/c

Example: Paid to Mahesh ₹ 1000 is debited to Suresh A/c.

II. Errors disclosed by Trial Balance

The errors which are revealed by the trial balance are known as errors disclosed by trial balance.

The following are the errors disclosed by trial balance:

1. Error of Posting of transaction to the wrong side of an account

Example: Discount allowed posted to the credit side of discount account

2. Error of Posting of wrong amount

Example: Sales of ₹ 25,000 posted as ₹ 2,500 to Sales account

3. Errors in totaling

Wrong totaling made either in subsidiary books or in ledgers affects the agreement of Trial Balance

Example: 1. Sales Returns Book over cast by ₹ 100

2. Furniture account totaled as ₹ 1,750 instead of ₹ 1,500.

4. Errors of Carrying Forward

If a mistake is committed in Carrying forward a total of one page to the next page. This error affects the agreement of Trial Balance.

Example: Purchase Book total is carried forward ₹ 1,500 instead of ₹ 150.

5. Error of partial omission

Some times accountant may post only one aspect of the entry to the ledger account.

Example: Purchase of goods from Ramesh ₹ 2,000 posted to Purchases account only

6. Error of double posting

An account may be recorded twice in the journal.

Example: Paid Salaries ₹ 600 debited twice to Salaries account.

Q10. What do you understand by rectification of errors.*Ans. :*

In accounting errors should not be corrected by overwriting. Correction of errors in the books of accounts is not done by erasing, rewriting or striking the figures which are incorrect. For Correcting the errors appropriate entry is passed or suitable explanatory note is written in the respective account or accounts to neutralize the effect of errors. From the point of rectification, errors may be classified as follows:

- i) Single sided errors are errors which affect one side of an account.
- ii) Double sided errors are errors which affect both the accounts in a transaction.

Errors which affect one account are called as one sided error, for which any journal entry is not required whereas. Errors which affect two accounts simultaneously are called two sided errors for which the following rules should be observed, while passing entries for rectifying the two sided errors.

- i) The account which is given an excess debit should be credited with similar amount in the rectifying entry.
- ii) The account which is given a short or lesser debit should be debited with similar amount in the rectifying entry.
- iii) The account which is given an excess credit should be debited with similar amount in the rectifying entry.
- iv) The account which is given a short credit should be credited in the rectifying entry.

The above discussed errors can be rectified and explained with the help of examples given below:

- i) When an account has wrongly been debited in place of another account.

Example: Machinery purchased for Rs. 5000 has been debited to purchases account. While rectifying this mistake machinery account will be debited because it was not debited earlier and the purchases account will be credited because wrongly debited.

Rectifying entry:

Machinery a/c	Dr.	5000
To Purchase a/c		5000

(Being the purchase of machinery debited to purchases a/c is rectified).

- ii) The following procedure should be followed for the rectification of entries:

a) Original Entry: Correct entry which should have been passed earlier

Machinery a/c	Dr.	5000
To Cash a/c		5000

b) Wrong Entry: Wrong entry which has been actually passed:

Purchases a/c	Dr.	200
To Sarayu a/c		200

c) Rectification Entry

Purchases a/c	Dr.	1800
To Sarayu a/c		1800

- iii) When there is an excess debit in one account and an excess credit in another account, **Example:** Goods sold to Manikantha for Rs.380 on credit was recorded in sales book as ` 830.

While rectifying this mistake Manikantha will be credited by ` 450 because it has been excess debited by a similar amount and Sales a/c will be debited by ` 450 because it has been "excess credited" by a similar amount.

a)	Original Entry	Manikantha A/c	Dr.	380	
		To Sales A/c			380
b)	Wrong Entry	Manikantha A/c	Dr.	830	
		To Sales A/c			830
c)	Rectification Entry	Sales A/c	Dr.	450	
		To Manikantha A/c			450

Q11. What are the various stages of rectification?

Ans :

The stage in which rectification is done depends on identification or beating the error. Rectification of errors may be explained in two stages.

- i) **Rectification before the preparation of trial balance:** In this stage errors are located before transferring the difference in the trial balance to Suspense Account.
- ii) **Rectification after the preparation of trial balance:** In this stage the difference in the trial balance would have been transferred to Suspense Account. So wherever applicable suspense account is used while passing rectification entries.

4.3.2 Suspense Account

Q12. Define Suspense Account.

Ans :

Sometimes, despite of an accountant's best efforts, the trial balance may not agree. In such circumstances, the difference between the debit and credit totals should be transferred to an account called Suspense Account. By doing so, the trial balance is made to agree and delay in the preparation of final accounts can be avoided.

Suspense account is an imaginary account, opened and used as a temporary measure to make two sides of the trial balance agree. As and when the errors which caused the disagreement in trial balance are detected, rectification entries should be passed through suspense account. Detection and rectification of all the errors will result in the automatic closure of Suspense Account'.

If the debit total in the trial balance is in excess of credit total, suspense account should be credited with the difference. Similarly, suspense account should be debited with the difference when credit side total is more than the debit side total. In other words, suspense account will appear on that side of the trial balance whose total is less than the total of other side.

Following points should be kept in mind while passing rectification entries through 'Suspense Account'.

- i) Suspense account is used to rectify those errors which affect the trial balance.
 - a) If the account which is to be rectified is debited in the rectifying entry, suspense account will be credited to complete the double entry.
 - b) If the account which is to be rectified is credited in the rectifying entry, suspense account will be debited to complete the double entry.

4.3.4 Effect of Errors on Profit

Q13. Explain the impact of errors on profits.

Ans :

The error affects the nominal account/accounts, it will increase or decrease the profit because all nominal accounts are transferred to Trading and Profit and Loss Account. In this connection following points may be noted:

1. Profit will increase or loss will reduce if a transaction is omitted to be debited to a nominal account

On rectification of an error of such a type, profit will decrease or loss will increase.

For example, depreciation on furniture is omitted to be posted to Depreciation Account. This error will increase profit because depreciation will not be debited to Profit and Loss Account. Depreciation Account will be debited on rectification of this error and as a result, profit will reduce.

2. Similarly, profit will reduce or loss will increase if a nominal account is wrongly debited

With the rectification of such an error, profit will increase or loss will decrease.

For example, an amount of ₹ 1,000 spent on erection of machinery wrongly debited to Repairs Account instead of Machinery Account will reduce net profit by ₹ 1,000.

On rectification of this error, Machinery Account will be given debit and Repairs Account will be credited. Consequently, profit will increase because Repairs Accounts will be transferred to the credit side of Profit and Loss Account.

3. Profit will increase or loss will decrease if a nominal account is wrongly credited

With the rectification of this type of error, profit will decrease or loss will increase.

For example, overcasting of the Sales Book by ₹ 100 will give more credit to Sales Account and consequently profit will increase. On rectification, Sales Account will be debited with ₹ 100 to cancel the excess credit given previously, so profit will reduce by ₹ 100.

4. Profit will decrease or loss will increase if a transaction is omitted to be credited to a nominal account

On rectification, the nominal account omitted to be credited will be credited and Profit will increase or loss will reduce.

Thus, profit is increased or decreased on account of errors in nominal accounts. Balance Sheet will also be affected by the errors in nominal accounts because profit is ultimately transferred to Capital Account which is a part of the Balance Sheet. So, it can be concluded that errors in nominal accounts will affect both Profit and Loss Account and Balance Sheet.

PROBLEMS ON RECTIFICATION OF ERRORS

1. Rectify the following errors

- a) Salary paid to Pavan ₹ 1200 has been debited to his account.
- b) Paid rent to owner of the house Mr. Murali ₹ 5,000, has been debited to his account.
- c) ₹ 2,000 paid for the repairs of building was debited to building a/c.

- d) ₹ 850 used by proprietor for his personal use has been debited to Trade Expenses a/c.
- e) Goods amounting to ₹ 235 returned by Ramesh were taken into stock, but no entry was made in the books.

Sol.:

Rectification Entries

Sl. No.	Particulars	L.F	Debit (₹)	Credit (₹)
a)	Salaries a/c Dr. To Pavan a/c (Being salary paid to Pavan debited to his a/c is rectified)		1200	1200
b)	Rent a/c Dr. To Murali's a/c (Rent paid to Murali, debited to his a/c by mistake, rectified)		5,000	5,000
c)	Repair's a/c Dr. To Buildings a/c (Being entry to rectify the mistake of debiting Building instead of repairs)		2,000	2,000
d)	Drawings a/c Dr. To Trade Expenses A/c (Being entry to rectify the mistake of debit ing Trade Expenses a/c instead of drawing account)		850	850
e)	Sales Returns a/c Dr. To Ramesh a/c (Being the omission of the entry is brought into books).		235	235

2. Rectify the following through passing Journal Entries:

- a) Office Furniture bought for ₹ 7200 wrongly debited to Office Expenses A/c.
- b) A credit sale ₹ 1500 to Pradeep has been passed through purchases book.
- c) Received cheque for amount ₹ 1600 from Venkat is dishonoured and wrongly entered in Sales Return Book.
- d) Goods sold to Sudha ₹ 4000, not recorded in the Books.
- e) 12000 received from Sudheer has been wrongly credited to Sandeep's A/c.

*Sol.:***Rectification Entries**

SI. No.	Particulars	L.F	Debit (₹)	Credit (₹)
a)	Office Furniture a/c Dr. To Office Expenses a/c (Being purchase of office Furniture debited to office expenses in rectified)		7,200	7,200
b)	Pradeep's a/c Dr. To Sales a/c To Purchases a/c (Being Credit sales wrongly recorded in purchases a/c rectified)		3,000	1,500 1,500
c)	Venkat a/c Dr. To Sales Returns a/c (Being received cheque from venkat dishonored, debited to sale return book is rectified)		1,600	1,600
d)	Sudha's a/c Dr. To Sales a/c (Being omission recording of credit sale to Mr. Sudha is rectified)		4,000	4,000
e)	Sandeep's a/c Dr. To Sudheer's a/c (Being cash received from Sudheer, credited to Sandeep a/c is rectified)		2,000	2,000

3. Pass journal entries to rectify the following errors discovered while preparing the trial balanced

- Commission of ₹ 200 received was wrongly credited to Interest account.
- Return outwards book was undercast by ₹ 500
- Furniture worth ₹ 600 purchased was debited to Purchases a/c.
- An amount of ₹ 300 received from Sri Bhima Raju was wrongly credited to the account of Sri Rama Raju.

*Sol.:***Rectification Entries**

Sl. No.	Particulars	L.F	Debit (₹)	Credit (₹)
a)	Interest a/c Dr. To Commission a/c (Being correction of wrong credit given to interest account instead of commission a/c)		200	200
b)	Suspense a/c Dr. To Return a/c (Being Return outward undercast by 500 now rectified)			
c)	Furnitures a/c Dr. To Purchase a/c (Being correction of wrong debit to purchases a/c for furniture purchased)		600	600
d)	Sri Rama Raju a/c Dr. To Sri Bhima Raju a/c (Being correction of wrong credit given to Sri Rama Raju instead of Sri Bhima Raju).		300	300

4. Rectify the following errors.

- Received cash from Laitha ₹ 200 has been posted to her account as ₹ 180.
- Goods sold to Ashok ₹ 75 were omitted to be entered in his account.
- Credit side of Hari's account was overcast by ₹ 200.
- Goods returned from Ramesh ₹ 650 were not posted to his account.
- Sales book under cast by ₹ 500.

*Sol.:***Rectification Entries**

Sl. No.	Particulars	L.F	Debit (₹)	Credit (₹)
a)	Suspense a/c Dr. To Lalitha a/c (Being wrong amount recorded in the Lalitha a/c rectified)		20	20
b)	Ashok a/c Dr. To Suspense a/c (Being the omission of posting of sales to Ashok account rectified)		75	75
c)	Hari's a/c Dr. To Suspense a/c (Being credit side of Hari's a/c over casting rectified)		200	200
d)	Suspense a/c Dr. To Ramesh's a/c (Being the omission of posting of sales returns in Ramesh a/c now rectified)		650	650
e)	Suspense a/c Dr. To Sales a/c (Being rectification of overcast in Sales Book)		500	500

5. Rectify the following errors.

- a) Received cash from Anand ₹ 188 has been posted to his a/c as ₹ 180.
- b) Goods sold to Vardhan ₹ 75 were omitted to be entered in his account.
- c) Credit side of Dikshith account was overcast by ₹ 20.
- d) Goods returned by Radhika ₹ 35 was not posted to her account.

Sol. :

Rectification Entries

Sl. No.	Particulars	L.F	Debit (₹)	Credit (₹)
a)	Suspense a/c Dr. To Anand a/c (Being wrong amount recorded in the Anand a/c rectified)		8	8
b)	Vardhan a/c Dr. To Suspense a/c (Being the omission of posting of sales to Vardhan account rectified)		75	75
c)	Dikshith a/c Dr. To Suspense a/c (Being credit side of Dikshith a/c over casting rectified)		20	20
d)	Suspense a/c Dr. To Radhika's a/c (Being omission of posting of sales returns in Radhika account rectified)		35	35

6. Rectify the following errors with the help of Suspense a/c

- a) Purchases book overcast by ₹ 400.
- b) Purchases returns book undercast ₹ 260.
- c) ₹ 660 received from Sunder has been entered in his account ₹ 1160.
- d) Goods sold to Param for ₹ 550 was posted to his account as ₹ 450.
- e) ₹ 1050 received from Kiran were posted to the debit side of his account.

*Sol.:***Rectification Entries**

Sl. No.	Particulars	L.F	Debit (₹)	Credit (₹)
a)	Suspense a/c Dr. To Purchase a/c (Being the entry to rectify over casting of purchase book)		400	400
b)	Suspense a/c Dr. To Purchases Returns a/c (Being the entry to rectify under casting of purchases returns book)		260	260
c)	Sunder's a/c Dr, To Suspense a/c (Being the entry to rectify under casting of purchase returns book)		1000	1000
d)	Param a/c Dr. To Suspense a/c (Being credit sale to Rajesh ₹. 550, posted as ₹. 450 is rectified)		100	100
e)	Suspense a/c Dr. To Kiran a/c (Being instead of credit, debit given to Kiran a/c is rectified)		2100	2100

7. An accountant could not tally the Trial balance. The difference of ₹ 75,180 was temporarily placed to the credit of suspense account for preparing the final accounts. The following errors were later located.

- Commission of ₹ 500 paid, was posted twice, once to discount allowed account and once to commission account.
- The sales book was undercast by ₹ 1,000.
- A credit sale of ₹ 2,780 to Sudha though correctly entered in sales book, was posted wrongly to her account as ₹ 3,860.
- A credit purchase from Nataraj of ₹ 1,500, though correctly entered in purchases book, was wrongly debited to his personal account
- Discount column of the payments side of the cash book was wrongly added as ₹ 2,800 instead of ₹ 2,400.

You are required to pass necessary rectifying entries and prepare suspense account.

*Sol.:***Rectification Entries**

Sl. No.	Particulars	L.F	Debit (₹)	Credit (₹)
a)	Suspense A/c Dr. To Discount allowed A/c (Amount wrongly debited to discount account, now rectified)		500	500
b)	Suspense A/c Dr. To Sales A/c (Sales book undercast by ₹ 1000, now rectified)		1000	1000
c)	Suspense A/c Dr. To Sudha A/c (Wrong posting of sale of ₹ 2,780 to Sudha as ₹ 3,860, now rectified)		1080	1080
d)	Suspense A/c Dr. To Nataraj A/c (Credit purchase of ₹ 1,500 from Nataraj wrongly debited to his personal account now rectified]		3000	3000
e)	Discount received A/c Dr. To Suspense A/c (Excess credit in discount account, now rectified)		400	400

8. The books of account A Co. Ltd for the year ending 31st December, 2013 were closed with a difference in books carried forward. The following errors were detected in 2014:

- Returns Outward Book was undercast by ₹ 150.
- ₹ 1,500 being the total of the discount column on the credit side of the Cash Book was not posted in General Ledger.
- ₹ 6,000 being the cost of purchase of office furniture was entered in the Purchase Account.
- A credit sale of ₹ 760 was wrongly posted as ₹ 670 to the Customer's Account in the Sales Ledger.
- Closing stock was overstated by ₹ 9,000, being casting error in the schedule of inventory.

Pass rectification entries, prepare Suspense Account and find out the effect of corrections on 2013 profit.

Sol.:

**In the books of A. Co Ltd.
Journal**

Date	Particulars	L.F.	Dr. ₹.	Cr. ₹.
(a)	Suspense A/c Dr. To Profit & Loss Adjustment A/c (Being return outward book was undercast by ₹.150, now rectified)		150	150
(b)	Suspense A/c Dr. To Profit & Loss Adjustment A/c (Being discount received was not posted from Cash Book to Ledger, now rectified)		1,500	1,500
(c)	Office Furniture A/c Dr. To Profit & Loss Adjustment A/c (Being purchase of office furniture was wrongly entered in the Purchases A/c, now rectified)		6,000	6,000
(d)	Customer A/c Dr. To Suspense A/c (Being credit sale of ₹. 760 was wrongly posted as ₹. 670 to the Customer's A/c, now rectified)		90	90
(e)	Profit & Loss Adjustment A/c Dr. To Opening Stock A/c (Being closing stock was overcast by ₹. 9,000, now rectified)		9,000	9,000

Dr.			Suspense Account		Cr.
Date	Particulars	₹.	Date	Particulars	₹.
	To Profits Loss Adjustment A/c	150		By Balance b/f (Balancing figure)	1,560
	To Profit & Loss Adjustment A/c	1,500		By Customer A/c	90
		1,650			1,650

Dr.			Profit & Loss Adjustment Account		Cr.
Date	Particular	₹.	Date	Particular	₹.
	To Opening Stock A/c	9,000		By Suspense A/c	150
				By Suspense A/c	1,500
				By Office Furniture A/c	6,000
				By Net Profit (transferred)	1,350
		9,000			9,000

Note : Effect of correction on 2013 profit – Profit will be reduced by ₹. 1,350 subject to Depreciation on Furniture of ₹. 6,000.

9. The Trial Balance of M/s Roy & Sen & Co at 31.3.2013 did not agree. In order to close the books, the accountant placed the difference to the Suspense Account newly opened and carried forward this difference to the next period for necessary adjustments. Later, the following errors, arising in 2012-2013 were detected:
- An item of purchase of ₹. 162 was recorded in the Purchase Day Book as ₹. 62 and posted to the debit of the Supplier's Account as ₹. 26.
 - Sales Day Book was overcast by ₹. 100 in January, 2013.
 - Furniture purchased for ₹. 2,500 cash was posted to the Purchase Account in the Ledger.
 - Credit sale of ₹. 97 was posted to the credit of the Customer's Account as ₹. 79.
 - ₹. 50 allowed as cash discount to a trade debtor was not debited to the Discount Account.

Show the necessary Journal entries to rectify these errors and show Suspense Account; and Profit and Loss Adjustment Account and state the ultimate effect of these correcting entries in the books for 2012-2013.

Sol.:

**In the books of M/s Roy & Sen & Co
Journal**

Date	Particulars	L.F.	Dr. ₹.	Cr. ₹.
(a) April 1	Profit & Loss Adjustment A/c Dr. Suspense A/c Dr. To Supplier A/c (Being purchase of ₹. 162 entered in the Purchases Book as ₹. 62 but posted to the debit of Supplier A/c as ₹. 26, now rectified)		100 88	188
(b)	Profit & Loss Adjustment A/c Dr. To Suspense A/c (Being Sales Day Book was overcast by ₹. 100, now rectified)		100	100
(c)	Furniture A/c Dr. To Profit & Loss Adjustment A/c (Being furniture purchased has been posted to the Purchases A/c, now rectified)		2,500	2,500
(d)	Customer A/c To Suspense A/c (Being credit sale of ₹. 97 wrongly posted to the credit of Customer's A/c, as ₹. 79)		176	176
(e)	Profit & Loss Adjustment A/c Dr. To Suspense A/c (Being discount allowed not posted to Discount Allowed A/c, now rectified)		50	50

Dr. Suspense Account			Cr.		
Date	Particulars	₹	Date	Particulars	₹
	To Balance b/f (Balancing figure)	238		By Profit & Loss Adjustment A/c	100
	To Supplier A/c	88		By Customer A/c	176
				By Profit & Loss Adjustment A/c	50
		326			326

Dr. Profit & Loss Adjustment Account			Cr.		
Date	Particulars	₹	Date	Particulars	₹
	To Supplier's A/c	100		By Furniture A/c	2,500
	To Suspense A/c	100			
	To Suspense A/c	50			
	To Partners' Capital A/c	2,250			
		2,500			2,500

10. The Trial balance of a merchant having disagreed to difference is carried to the credit of a suspense account as ₹. 333 Later the following errors were disclosed. Pass necessary Journal entries and show the suspense account.

- A purchase of goods for ₹. 429 from X has not been posted to his account.
- The purchases book is under cast by ₹. 15
- An item of interest allowed for ₹. 81 has been omitted to be posted to interest account.
- A sum of ₹. 750 spent towards repairs has been charged to buildings account.
- A sale of old machine for ₹. 1,500 is posted to sales account.

Sol.:

Rectifying Journal Entries

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
a)	Suspense Account Dr. To X Account (Being omission of posting in X account is rectified)		429	429
b)	Purchases Account Dr. To Suspense Account (Being purchases amount is increased to the extent of undercast)		15	15
c)	Interest Account Dr. To Suspense Account (Being omission of posting in interest account Rs. 81 is brought into books)		81	81
d)	Repairs Account Dr. To Buildings Account (Being wrong debit given to buildings account is cancelled)		750	750
e)	Sales Account Dr. To Machinery Account (Being wrong credit given to sales account is cancelled)		1,500	1,500

Dr.			Suspense Account			Cr.		
Date	Particulars	Rs	Date	Particulars	Rs			
	To X Account	429		By Balance b/d	333			
				By Purchases Account	15			
				By Interest Account	81			
		429			429			

11. Pass necessary Journal entries to rectify the following errors. Ascertain the opening balance in the suspense account and show the suspense account.

- An amount of ₹ 1,600 is due from Mr. Sampath. On his insolvency 0-50 paise in a rupee was received from him. An entry for the amount received only was passed in the books.
- The discount column on the credit side of the cash book was under cast by ₹ 30 and the total of the discount column on the debit side of the cash book ₹ 150 was posted in the 'Discount received' account in the ledger.
- An amount of ₹ 2,500 received from the insurance company towards the fire claim was credited to the insurance company.
- Sales returns from Sankar ₹ 300 was recorded in the purchases returns book. However the amount was posted in Sankar's account correctly.
- The total of the bills receivable book ₹ 5,800 was posted wrongly as ₹ 8,500 in the Bills receivable account.
- Credit sales to Sekhar ₹ 800, recorded properly in the sales book, but posted on the credit side of his account.

Sol.:

Rectifying Journal Entries

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
a)	Bad debts Account Dr To Sampath Account (Being the omission of recording 0-50 in the account of Sampath is rectified)	/	800	800
b)	(i) Suspense Account Dr To Discount received Account (Being the under cast in the total of discount column on credit side of cash book is rectified)		30	30
	(ii) Discount allowed Account Dr Discount received Account Dr To Suspense Account (Being the discount allowed is wrongly entered on credit side of discount account is cancelled and then recorded 150 on debit side of discount allowed account)		150 150	300

c)	Insurance Company Account To Fire claim Account (Being wrongly recorded in the Insurance Company is rectified by transferring to fire claim account)	Dr		2,500	2,500
d)	Sales Returns Account Purchases Returns Account To Suspense Account (Being the sales returns from a customer is wrongly entered in purchases returns is cancelled and then posted to sales returns account)	Dr Dr		300 300	600
e)	Suspense Account To Bills Receivable Account (Being wrong amount recorded in the Bills receivable book is rectified) (8,500 - 5,800)	Dr		2,700	2,700
f)	Sekhar Account To Suspense Account (Being sales to Sekhar entered on credit side of his account is cancelled and then debited his account with Rs. 800)	Dr		1,600	1,600

Suspense Account

Dr.			Cr.		
Date	Particulars	₹	Date	Particulars	₹
	To Discount received	30		By Balance B/d	
	To Bills Receivable	2,700		(balancing figure)	230
				By Discount allowed	150
				By Discount received	150
				By Sales returns	300
				By Purchases returns	300
				By Customer Account	1,600
		2,730			2,730

12. Rectify the following errors. Calculate the difference in the Trial Balance. Prepare Suspense Account and find out the effect of these errors on net profit of last year.

- (i) Goods of the value of ₹ 2,100 purchased from Ram Chandran were recorded through Sales Book.
- (ii) Received final dividend of ₹ 200 from Roy whose account had already written off as bad debt, was credited to his new opened account.
- (iii) An item of ₹ 2,000 relating to prepaid rent was omitted to be brought forward.

(iv) Bill received from Vasudev for repairs done to furniture ₹. 100 and furniture supplied for ₹. 1,000 was entered in the invoice book at ₹. 1,100.

(v) A sale of ₹. 347 to Kishore was entered in the Sales Book as ₹. 437. Kishore was, however, debited with ₹. 743.

Sol.:

Journal Entries

Date	Particulars	L.F.	Dr. ₹.	Cr. ₹.
(i)	<div>Purchases Account Dr.</div> <div>Sales Account Dr.</div> <div>To Ram Chandran</div> <div>(Being goods purchased wrongly entered in the Sales Book, now corrected)</div>		<div>2,100</div> <div>2,100</div>	4,200
(ii)	<div>Roy Dr.</div> <div>To Bad Debts Recovered Account</div> <div>(Being amount received from a customer which was previously written off as a bad debt wrongly credited to the Customer's Account, now corrected)</div>		200	200
(iii)	<div>Prepaid Rent Account Dr.</div> <div>To Suspense Account</div> <div>(Being prepaid rent omitted to be brought forward, now brought forward)</div>		2,000	2,000
(iv)	<div>Repair Account Dr.</div> <div>Furniture Account Dr.</div> <div>To Purchases Account</div> <div>(Being repairs done to furniture and purchase of furniture wrongly debited to Purchases Account, now corrected)</div>		<div>100</div> <div>1,000</div>	1100
(v)	<div>Sales Account Dr.</div> <div>Suspense Account Dr.</div> <div>To Kishore</div> <div>(Being excess credit ₹ 90 (i.e., ₹ 437 – ₹ 347) given to sales Account and excess debit ₹ 396 (i.e., ₹ 743 – ₹ 347) give to Kishore rectified)</div>		<div>90</div> <div>306</div>	396

Suspense Account

Date	Particulars	Rs	Date	Particulars	Rs
	To Difference in Books as per Trial Balance (Balancing figure)	1,694		By Prepaid Rent Account	2,000
	To Kishore	306			
		2,000			2,000

From the above, it is clear that the balance of Suspense Account appearing on the debit side of Trial Balance before the location of errors was ₹. 1,694. So, credit side of the Trial Balance exceeded debit side by ₹. 1,694 before the discovery of the errors.

Effect of Errors on Last Year's Profit and Loss Account

By error (i), profit was overstated by ₹. 4,200 because an amount of ₹. 2,100 was wrongly credited to Sales Account instead of being debited to Purchases Account.

By error (ii) profit was understated by ₹. 200 because amount of bad debts written off recovered was not credited to Bad Debts Recovered Account.

By error (iii), profit was overstated by ₹. 2,000 because rent paid in advance last year was not brought forward.

By error (iv), profit was overstated by ₹. 100 because no debit was given to Repairs Account for repairs done to furniture. Profit was also understated by ₹. 1,100 because wrong debit was given to Purchases Account.

By error (v), profit was overstated by ₹. 90 because excess credit was given to Sales Account. The combined effect of all these errors on the last year's Profit and Loss Account was that net profit was overstated by ₹. 5,090.

13. The difference of Trial Balance of a trader Rs. 559 has been transferred to Suspense Account. Later the following errors were discovered. Pass necessary rectifying entries, prepare the Suspense Account.

- (a) Total of Sales returns book was under cast by Rs. 50.
- (b) Instead of crediting Rs. 512 to Mohan's Account, Rs. 215 were debited to his account.
- (c) A machine of Rs. 2,000 was purchased but recorded in the purchases book.
- (d) A sale of Rs. 172 was recorded in Sales account as Rs. 217.
- (e) A discount of Rs. 41 was allowed to Ramesh, but in his account only Rs. 14 were recorded.
- (f) Depreciation of Rs. 100 charged on a Machine, was not recorded in depreciation account.

*Sol.:***Journal entries**

Date	Particulars	L.F.	Dr. ₹.	Cr. ₹.
(a)	Sales Returns Account Dr. To Suspense Account (Being the acceptance of Narender received for the bill)		50	50
(b)	Suspense Account Dr. To Mohan's Account (Being wrong debit given to Mohan's account Rs. 215 cancelled and Rs. 512 posted to the credit side of Account) (215 + 512)		727	727
(c)	Machine Account Dr. To Purchases Account (Being wrong debit given to purchases account is cancelled)		2,000	2,000
(d)	Sales Account Dr. To Suspense Account (Being excess credit given to sales account reduced) (217- 172)		45	45
(e)	Suspense Account Dr. To Ramesh Account (Being short record on credit side of Ramesh account is rectified) 41 - 14)		27	27
(f)	Depreciation Account Dr. To Suspense Account (Being Omission of recording depreciation in depreciation account, now rectified)		100	100

Dr.**Suspense Account****Cr.**

Particulars	₹.	Particulars	₹.
To Mohan's Account	727	By Balance b/d	559
To Ramesh Account	27	(Balancing figure)	
		By Sales Returns Account	50
		By Sales Account	45
		By Depreciation Account	100
	754		754

14. Rectify the following errors, prepare Suspense Account and find the opening balance of Suspense Account.

(i) A sale of rs. 632 to Rama has been debited to his account as Rs. 236.

(ii) The total purchases book is Rs. 2,000 short.

- (iii) The sales book is over cast by Rs. 1,200
 (iv) A purchase of rs. 600 from Gupta & co., has been entered in the sales book.
 (v) Goods taken by the proprietor Rs. 500 have not been entered in the books at all.
 (vi) Cash received from V. Gouri Rs. 600 posted in Account of G. Gouri.
 (vii) A sale of Rs. 608 to Mr. Ranga has been entered in the sales book as Rs. 806.

Sol.:

Rectifying Entries

Date	Particulars	L.F.	Dr. ₹.	Cr. ₹.
(i)	Rama Account Dr. To Suspense Account (Being short debit recorded on the debit side of Rama account is rectified (632 - 236))		396	396
(ii)	Purchases Account Dr. To Suspense Account (Being under casting of purchases rectified)		2,000	2,000
(iii)	Sales Account Dr. To Suspense Account (Being over casting sales rectified)		1,200	1,200
(iv)	Purchases Account Dr. Sales Account Dr. To Sales Account (Being wrong credit given to sales account cancelled and purchases recorded)		600 600	1,200
(v)	Drawings Account Dr. To Purchases Account (Being the error rectified by debiting to drawings account)		500	500
(vi)	G. Gouri Account Dr. To V. Gouri Account (Being wrong credit given to G. Gouri cancelled)		600	600
(vii)	Sales Account Dr. To Suspense Account (Being Excess credit recorded in sales account reduced (806 -608))		198	198

Dr.

Suspense Account

Cr

Particulars	₹.	Particulars	₹.
To Balance b/d (Balancing figure)	3,794	By Rama Account	396
		By Purchases Account	2,000
		By Sales Account	1,200
		By Sales Account	198
	3,794		3,794

15. An Accountant could not tally the Trial Balance. The difference was placed to Suspense Account. The following errors were located :

- (i) The Sales Book was Under cast by ₹ 3,500
- (ii) Legal Expenses paid ₹ 950 were not posted to Legal Expenses Account
- (iii) Discount allowed column of Cash Book was wrongly added as ₹ 1,400 instead of ₹ 1,200
- (iv) Commission paid ₹ 250 was posted twice in Commission Account
- (v) Sales of ₹ 1390 to Ramanath was posted to his account as ₹ 1930.

Give Rectification Entries and Prepare Suspense Account.

Sol :

(Nov./Dec.-19)

Rectification Entries

S.No.	Particulars	L.F	Debit (₹)	Credit (₹)
(i)	Suspense A/c Dr. To Sales book A/c (Being undercasting of sales book, now rectified)		3,500 –	– 3,500
(ii)	Legal Expenses A/c Dr. To Suspense A/c (Being legal expenses not posted, now rectified)		950 –	– 950
(iii)	Suspense A/c Dr. To Discount Allowed A/c (Being discount allowed column of cash book was wrongly added as ₹ 1,400 instead of ₹ 1,200, now rectified)		200 –	– 200
(iv)	Suspense A/c Dr. To Commission A/c (Being commission paid posted twice in commission a/c, now rectified)		250 –	– 250
(v)	Suspense A/c Dr. To Ramnath A/c (Being sales of ₹ 1,390 to Ramnath was posted as ₹ 1,930, now rectified)		540 –	– 540

Dr. Suspense A/c Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Sales book A/c	3,500	By legal expenses A/c	950
To Commission A/c	250	By difference in books as per Trial Balance (Balancing Figure)	3,540
To Discount allowed A/c	200		
To Ramnath A/c			540
	4,490		4,490

4.4 DEPRECIATION

4.4.1 Meaning

Q14. Define Depreciation.

(OR)

What do you understand by the concept of depreciation.

Ans :

The term depreciation is derived from the Latin words 'do' meaning down and 'pretium' meaning price. In common use it means putting down the value of an asset due to wear and tear, passage of time, obsolescence, etc.

Business is established for indefinite period. Fixed assets are constantly used in the business. The assets lose their value gradually due to their constant use. Loss in the value and utility of assets due to their constant use and expiry of time is termed as 'depreciation'.

It is very difficult to give a single definition of the term depreciation because under different situation this is handled differently and whatever seems to be correct in one situation may be improper in another. But even then some definitions are worth mentioning.

Definitions

- (i) **According to B.G Wickery** "Depreciation may be defined as the permanent decrease in the value of an asset through wear and tear in use or the passage of time."
- (ii) **According to J.R. Batliboi** "The term depreciation represents loss or diminution in the value of an asset consequent upon wear and tear, obsolescence, effluxion of time or permanent fall in market value."
- (iii) **According to Spicer and Peglar** "Depreciation may be defined as the measure of the exhaustion of the effective life of an asset from any cause during a given period."
- (iv) **According to The Institute of Chartered Accountants of England and Wales** "Depreciation is that part of the cost of fixed assets to its owner which is not recoverable when the asset is finally put out of use by him."

Provision against this loss of capital is and integral cost of conducting the business during the effective commercial life of the asset and is not dependent upon the amount of profit earned."

- (v) **According to Pickles** Depreciation is the permanent and continuing diminution or decrease in the quality, quantity or value of asset."
- (vi) **According to A.J. Sarvcross and P.M. Sharvcross** "Depreciation is an expense or loss involved in using machinery, motor vehicles, tools and other fixed assets in the process of production and has to be provided for; this is done by estimating the amount to be written off the value of a particular asset each year and setting up amount against the profits for that year."
- (vii) **According to S.W. Rowland** "The primary meaning of the word depreciation is loss of value through wear and tear (or) some other form of material deterioration. The secondary sense of depreciation is the operation of adjusting the book values of assets. As the machines or other assets get old, it is the practice of the accountant to reduce their values in the books of accounts and it is usual to call this as depreciation."

4.4.2 Causes

Q15. What are the causes of depreciation?

Ans :

(Dec.-17)

Causes of depreciation may be of two :

- (i) Internal causes and
- (ii) External causes.

(i) Internal Causes

Wear and tear, exhaustion, depletion, deterioration etc., causes depreciation of assets which are internal in nature.

1. Wear and tear

Assets diminish in their value as they are constantly used in the organization. The difference between the value of an asset when it was bought and its value being used for

sometime represents wear and tear. Although assets are kept in working conditions, a time comes when only scrap value remains.

2. Exhaustion

Assets are bound to lose their value as time progress. Consequently, productivity declines. Assets exhaust their value and are found useless after the elapse of a certain fixed period. It is true that assets have their definite age.

3. Depletion

Natural resources such as mines, quarries and oil wells are of a wasting character. As a result of gradual exhaustion, the value of wasting assets declines. They are consumed gradually. The process of earning income through extraction causes depletion of wasting assets.

4. Deterioration

Deterioration means erosion in value of those assets which have a very short life. Proper repairs and maintenance of these assets cause an additional loss by way of deterioration.

(ii) External Causes

Factors external to causes of depreciation include passage of time, obsolescence, permanent fall in market value and weather and accidental elements. These factors are not connected to the asset. Even then they cause depreciation.

1. Passage of time

The utility of some fixed assets is confined to a time frame. Assets like leasehold property become useless after a period. Relevant statutes may limit the period for which an organization can use assets in the production process. Assets like trademark, patents lose their value with the passage of time.

2. Obsolescence

Obsolescence implies the chance of an asset becoming out of fashion. This is a loss arising on account of new invention, technological changes, improvement in production methods, legal restraints etc. These factors

make it economical to replace the assets though they are still usable. Market changes are also a disturbing factor. For example, the demand for a product or service falls to such a level that it is no longer viable to continue with that product or service.

3. Permanent fall in the market value

Assets like investments lose their value due to a downfall in their market value. It is only the permanent fall in the value of asset. Temporary shrinkage in the value of assets should be ignored for depreciation calculation.

4. Weather and accidental elements

Assets lose their value due to weather, rain, sunshine or any accident like fire, earthquake, flood, tidal forces or similar other disasters. The effect of these factors enters into calculating depreciation.

4.4.3 Concepts

Q16. Discuss the concepts of depreciation?

Ans :

(i) Depletion

It is the exhaustion of an available but irreplaceable resource. Examples Mineral Mines, Oil Wells etc.

(ii) Amortization

It is the process of writing off an intangible asset like Goodwill, Patents and Copyrights etc.

(iii) Dilapidations

It is the damage done to a building or other property during tenancy. In such a case, the landlord / lessor may ask the tenant/ lessee to put the property in the same condition as it was at the time of let out. Therefore, at the beginning itself the amount such loss is estimated and debited to the property account and credited to the provision for dilapidation and the amount of depreciation is calculated on the total amount of the asset (cost of asset + provision for dilapidation).

4.4.3.1 Difference between Depreciation, Amortization and Depletion**Q17. Compare and contrast Depreciation, Amortization and Depletion?****(OR)****What are the difference between Depreciation, Amortization and Depletion***Ans :*

S.No.	Basis	Depreciation	Amortization	Depletion
1.	Meaning	Depreciation is the expense which results from the use of fixed/tangible assets like building, equipments etc.	Amortization is the expense which results from the use of intangible assets like goodwill, softwares etc.	Depletion is the expense which results from the use of natural resources like timber, oil etc.
2.	Similarity	It is similar to amortization but calculated only for tangible/fixed assets.	It is similar to depreciation but calculated only for intangible assets.	It is different from both methods.
3.	Method	There are nine methods of calculating depreciation. Straight line and diminishing balance method are most commonly used methods of depreciation.	It uses a table which shows ratio of principle and interest, as how principle amount decrease due to the use of assets.	It uses two methods for calculation, namely cost depletion and percentage depletion.
4.	Formulae	Annual Depreciation = $\frac{\text{Original Cost of Assets} - \text{Salvage Value}}{\text{Life of Asset}}$	Amortization = $\frac{\text{Original Cost of Asset}}{\text{Life of Asset}}$	Depletion = $\frac{\text{Original Cost of Asset} - \text{Salvage Value}}{\text{Amount of National Resource}}$
5.	Calculation	It is calculated based on percentages.	It is calculated based on cost (or) percentages.	It is also calculated on cost (or) percentages.
6.	Applicability	It is applied for reducing the value of assets like buildings, vehicles, machineries etc.	It is applied for reducing the value of assets like, computer softwares, goodwill, patents, copyrights etc.	It is applied for reducing the value of natural assets like timber, oil, water, steels etc.

4.4.4 Objectives of providing for depreciation**Q18. What are the objectives of providing depreciation?***Ans :*

The objectives of providing depreciation are :

- Ascertainment of true profits by charging depreciation to profit and loss account.
- Presentation of true financial position by showing the assets at their book values.
- Replacement of assets by setting aside a part of the profits of the business in the form of depreciation.

4.4.5 Factors affecting depreciation**Q19. What are the Factors affecting depreciation ?***Ans :*

Certain factors enter into consideration for determining depreciation. They are Value of assets, Estimated working life, Repairs and renewal, Addition and extension, Scrap value, Loss of interest on capital invested and Legal provisions. They are briefly discussed as below.

1. Value of Assets

Value of depreciable asset is the cost of the same asset that represents its money outlay or its equivalent in connection with its acquisition, installation and commissioning as well as for additions to improvements thereof. An increase or decrease in long term liability on account of exchange fluctuations, price adjustments, changes in duties or similar factors may cause changes in the historical cost a depreciable asset.

2. Estimated working Life

Working life is determined by

- Legal or contractual limits such as the expiry dates of related leases.
- Extraction or consumption.
- Extent of use and physical deterioration on account of wear and tear which again depends upon operational factors like number of shifts for which the asset is to be used, repair and maintenance policy of the enterprise.

3. Repairs and Renewals

Repairs and renewals keep the assets in good working condition. A well maintained asset yields good results over its stipulated life. If it is poorly maintained, it will become useless after a short period. So, repairs and renewals are an important consideration while determining the amount of depreciation.

4. Additions and Extensions

Additions and extensions are normally made to existing assets like plants and buildings. The purpose is to increase their capacity. Expenditures on additions and extensions are of capital nature. The dates of incurrence of such expenditures are considered to ascertain depreciation.

5. Residual Value

Scrap value of an asset represents the amount which the assets will fetch when discarded. Residual or scrap value of the assets should be deducted from their original cost.

6. Obsolescence

An asset is likely to become outdated due to change in technology. The possibility of an asset going out of fashion should be carefully weighed while calculating the amount of depreciation.

7. Loss of Interests

The purchase of an asset involves a heavy sum. It may be alternatively invested elsewhere. So, capital involved in the purchase of an asset implies a loss of interest on alternative investment.

8. Legal Requirements

Provision for depreciation on assets is subject to the Income Tax Act and Companies Act. Their legal provisions do enter into calculation of depreciation.

Q20. Explain the importance of depreciation.

Ans :

The importance or need for providing depreciation arises for the following reasons:

1. For Determination of Net Profit or Net Loss

Loss in the value of assets is undoubtedly a business expense. It must be recorded and shown in the debit side of P/L A/c for the correct calculation of net profit or net loss. The ultimate objective of accounting is to determine the correct net income. This objective will not be achieved unless depreciation is not recorded in the books of accounts.

2. For Showing Assets at Fair and True Value in the Balance Sheet

If depreciation is not charged, the asset will be shown at value more than its actual value. The purpose of recording assets is to show them at their true value. Provision for depreciation reduces the value of assets with the amount of depreciation and assets are shown at their true and fair value.

3. Provision of Funds for Replacement of Assets

The assets acquired and used in the business will become useless after expiry of their estimated life or even before that, one will have to replace the obsolete assets with another fresh asset. The replacement will require funds. Proper method of depreciation will make the funds available for the purchase of fresh assets.

4. Ascertaining Accurate Cost of Production

Depreciation on factory plant and machinery is factory overhead. It will increase the cost of production and the price of the commodity will be fixed at higher rates. In the absence of provision for depreciation, the sales price of the commodity will be fixed at lower rates, because cost of production will also be lower due to ignorance of depreciation. Profit will thus, be reduced.

5. Distribution of Dividend Out of Profit Only

Depreciation is charged out of profit and loss account, so the profit after charging depreciation will be lesser. Shareholders will get dividend out of this profit. If depreciation is not charged, the profit will be more and the excess dividend will be paid out of capital, which should have been paid out of profit.

6. Avoiding Over Payment of Income Tax

If depreciation is not charged, P/L A/c will show more profit. One will have to pay income tax on this profit. In this way, the payment of tax will be definitely more than what it should have actually been. The profit will reduce the amount of depreciation, so lesser or the actual income tax due will be paid. Provision for depreciation in this way avoids over payment of income tax.

4.4.6 Accounting Treatment**4.4.6.1 Methods of Depreciation****4.4.6.1.1 Straight Line Method**

Q21. Define Fixed or Equal Installment or Straight Line Method? Explain the advantages and disadvantages of straight line method.

Ans :

It is the simplest method of charging depreciation. In this, the depreciation is charged evenly every year throughout the effective life of the asset. The amount of depreciation is calculated by using the following formula:

$$\text{Depreciation} = \frac{\text{Original Cost of Assets} - \text{Estimated Scrap Value}}{\text{Life of Assets (Number of Accounting Periods)}}$$

For example, if an asset has been purchased for ₹ 1,00,000 and it will have scrap value of ₹ 10,000 at the end of the life after 10 years, the amount of the depreciation shall be calculated as follows:

$$\text{Depreciation} = \frac{\text{₹ } 1,00,000 - \text{₹ } 10,000}{10 \text{ years}} = \text{₹ } 9,000 \text{ per year}$$

Advantages

Following are the advantages of straight line method:

1. **Simplicity:** This is the simplest method of providing depreciation. This can be easily understood even by ordinary person. Calculation of depreciation according to this method is also very simple.
2. **Assets can be completely Written-off:** According to this method, assets can be written-off to zero. The depreciation is calculated on the original cost of the machine at the specified rate, so the value of asset is fully split over the useful life of asset.
3. **Knowledge of Total Depreciation Charged:** The amount of total depreciation charged can be easily known by multiplying the yearly amount of depreciation with number of years, machine has been used.
4. **Suitable for Small Firms:** Straight line method is the most suitable method for small firms. These firms use this method, because it is easy, simple and suitable to the size of the firms.
5. **Suitable for Firms Having Large Number of Old and New Machines:** The weakness of this method is removed, if the firm has both old and new machines. More maintenance charges on old machines and lesser on the new machines balance each other.
6. **Useful for Assets Having Lesser Value:** This method is the most suitable for charging depreciation on assets of lesser value such as furniture, fixture and patents.

Disadvantages

Following are the disadvantages of straight line method:

1. **Undue Pressure on Final Years:** The final years of the life of the asset have to bear more repairs and maintenance charges and also the same amount of depreciation, whereas initial years have to suffer lesser repair charges.
2. **No Provision for Replacement:** The amount charged as depreciation is retained in the business and used in the routine affairs. The firm has to bother for making arrangement of funds for the replacement of asset although depreciation has been charged every year.
3. **Loss of Interest:** The amount of depreciation charged every year is not invested outside the firm, so no interest is received. In certain methods of depreciation, the amount of depreciation is invested outside the business in securities and interest is received.
4. **Illogical Method:** It seems illogical to charge depreciation on the original cost of the asset every year when the balance of the asset is declining year after year.
5. **Unsuitable for Assets having Long Life and More Value:** This method is not suitable for those assets, which are subject to additions and extension from time to time, such as land and building and plant and machinery. It is not suitable for assets having more value.

PROBLEMS

16. A company purchased a Machine worth of ₹ 1,00,000 on 01.04.2004 and establishment expenses incurred was ₹ 10,000. The life of the Machine is 5 years. Show the Machinery Account for 4 years using Straight Line Method.

Sol :

$$\text{Depreciation} = \frac{\text{Investment} + \text{Establishment Expenses} - \text{Scrap Value}}{\text{Life of the Asset}}$$

$$\text{Depreciation} = \frac{1,00,000 + 10,000}{5} = ₹ 22,000$$

Dr.			Machinery A/c		Cr.
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2004 Apr 1	To Bank A/c (Purchase)	1,00,000	2005 Mar 31	By Depreciation A/c	22,000
	To Bank A/c	10,000		By Balance c/d	88,000
		1,10,000			1,10,000
2005 Apr 1	To Balance b/d	88,000	2006 Mar 31	By Depreciation A/c	22,000
		88,000		By Balance c/d	66,000
					88,000
2006 Apr 1	To Balance b/d	66,000	2007 Mar 1	By Depreciation A/c	22,000
		66,000		By Balance c/d	44,000
					66,000
2007 Apr 1	To Balance b/d	44,000	2008 Mar 1	By Depreciation A/c	22,000
		44,000		By Balance c/d	22,000
					44,000
2007 Apr 1	To Balance b/d	22,000			

17. A company, whose accounting year is financial year, purchased on 1st July, 2002 Machinery costing ₹ 40,000. It purchased further Machinery on 1st January of 2003 costing ₹ 20,000 and on 1st October, 2003 costing ₹ 20,000.

On 1st April 2004, one fourth of Machinery installed on 1st July, 2002 became obsolete and was sold for ₹ 3,000. Show how Machinery Account would appear in the books; if Machinery was depreciated by Fixed Installment Method @ 10% per annum.

Sol.:

Dr.			Machinery A/c		Cr.
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2002 July 1	To Bank A/c (I)	40,000	2003 Mar 31	By Depreciation A/c @ 10% (on 40,000 for 9 months on 20,000 for 3 month)	3,500
2003 Jan 1	To Bank A/c (II)	20,000		By Balance c/d	5,600
		60,000			60,000
2003 Apr 1	To Balance b/d (37,000 + 19,500) (I + II)	56,500	2004 Mar 31	By Depreciation A/c @ 10% (on 60,000 for 1 year on 20,000 for 6 months)	7,000
2003 Oct 1	To Bank (III)	20,000		By Balance c/d	69,500
		76,500			76,500

2004 Apr 1	To Balance b/d (33,000 + 17,500 + 19,000) (I + II + III)	69,500	2004 Apr 1	By Bank A/c (Sale) By Profit & Loss A/c (loss on sale)	3,000 5,250
			2005 Mar 31	By Depreciation A/c (I on 30,000 for 1 year 3,000 II On 20,000 for 1 year 2,000 III On 20,000 for 1 year 2,000) By Balance c/d	7,000 54,250
		69,500			69,500
2005 Apr 1	To Balance b/d	54,250			

Profit / Loss on sale of Machine :

Particulars	₹
$\frac{1}{4}$ of machine installed on 1 st July, 2002	10,000
Less : Depreciation for 9 months (2002)	750
Book Value as on 31 March 2003	9,250
Less : Depreciation for 2003	1,000
Book Value on 1 April, 2004	8,250
Less : Amount realized	3,000
Loss on sale of machinery	5,250
(OR)	
$\frac{1}{4}$ th of the Book Value of machine – 1 ($33,000 \times \frac{1}{4}$)	8,250
Sale value	3,000
Loss on Sale of Machinery	5,250

18. A Company writes off 10% of the original cost of Plant and Machinery every year. Full depreciation is written off, even if the Machinery is in use for part of the year. It follows financial year as the accounting year. On 1st April 2002, the balance in Plant Account is ₹ 1,95,150. The original cost of various items is as follows :

Items bought in 1990 or earlier	58,000
Items bought in 1991	31,000
Items bought in 1992	17,000
Items bought in 1993 or later	2,52,000
	<u>3,58,000</u>

During 2002 new Plant was bought at a cost of ₹ 29,500 and one Machine which had a cost of ₹ 5,500 in 1983 was sold for ₹ 350. During 2003 there were additions costing ₹ 18,000 and a Machine which had a cost of ₹ 7,000 in 1998 was sold on 1st April, 2003 for ₹ 3,500. Prepare Plant & Machinery Account for 2002-2003 and 2003-2004.

Sol:

Dr.			Machinery A/c			Cr.	
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)		
2002 Apr 1	To Balance b/d	1,95,150	2003 Mar 31	By Bank a/c (Sale of Machine bought in 1983 written off)	350		
	To Bank A/c (Purchase)	29,500		By Depreciation @ 10% (on Plant & Machinery since April 1993) (2,52,000 + 29,500)	28,150		
2003 Mar 31	To P & L a/c (Profit on sale of Machine written off)	350		By Balance c/d			
					1,96,000		
		2,25,000			2,25,000		
2003 Apr 1	To Balance b/d	1,96,500	2003 Apr 1	By Bank a/c (Sale of Machine brought in 1998 for Rs.7,000 written down value Rs 3,500)	*3,500		
	To Bank A/c	18,000					
			2004 Mar 31	By Depreciation A/c (10% on plant brought since 1993 i.e. 252000 + 29,500 + 18,000-7,000)	29,250		
				By Balance c/d			
					1,81,750		
2004 Jan 1	To Balance b/d	2,14,500			2,14,500		
		1,81,750					

Note :

Machines bought in 1990, 1991 and 1992 are written off in 10 years from their purchase. Depreciation is charged on purchase of Machinery since 1993 and later.

*Since the Machine is sold on 1st April, no depreciation is charged.

Cost on 1.4.1998	7,000
Depreciation for 5 years (upto 1.4.2003)	3,500
Book Value	3,500
Sale Value	3,500
Loss / Gain on Sale	NIL

19. On 1st January, 1992 machinery was purchased by X for ₹ 50,000. On July, 1993 additions were made to the extent of ₹ 10,000. On 1st April, 1994 further additions were made to the extent of ₹ 6,400. On 30th June 1995 Machinery, the original cost of which was ₹ 8000 on 1st January, 1992 was sold for ₹ 6000. X closes his books on 31st December each year.

Show the Machinery Account for the years from 1992 to 1995 in the books of X if depreciation is charged at 10% as per Original Cost Method.

Sol :

(Nov./Dec.-18)

Dr.			Machinery A/c			Cr.	
Date	Particulars	Amount (₹)	Date	Particulars		Amount (₹)	
1992			1992				
Jan.-1	To Bank A/c - I	50,000	Dec. 31	By Depreciation A/c [50,000 @ 10%]		5,000	
				By Balance c/d		45,000	
		50,000				50,000	
1993			1993				
Jan.-1	To Balance b/d	45,000	Dec. 31	By Depreciation A/c : [M1: 50,000×10%]	5,000		
Jan.-1	To Bank A/c - II	10,000	Dec. 31	[M2 : 10,000 @ 10% × $\frac{6}{12}$]	500	5,500	
			Dec. 31	By Balance c/d		49,500	
		55,000				55,000	
1994			1994				
Jan.-1	To Balance b/d	49,500	Dec.-31	By Depreciation A/c			
April-1	To Bank A/c - III	6,400		[M1 : 50,000 @ 10%]	5,000		
				[M2 : 10,000 @ 10%]	1,000		
				[M3 : 6400@10% × $\frac{9}{12}$]	480	6,480	
			Dec.-31	By Balance c/d		49,420	
		55,900				55,900	
1995			1995				
Jan.-1	To Balance b/d	49,420	June-30	By Depreciation A/c [8000@10% × $\frac{6}{12}$]		400	
June-30	To profit and loss A/c (Profit on Sale of Machinery)	800	June-30	By Bank A/c - I (Sales)		6,000	
			Dec.-31	By Depreciation A/c			
				[M1 : 42,000@10%] =	4,200		
				[M2: 10,000@10%] =	1,000		
				[M3: 6,400@10%] =	640	5,840	
			Dec.-31	By Balance c/d		37,980	
		50,220				50,220	
1996							
Jan.-1	To Balance c/d	37,980					

Working Notes

Calculation of Profit or Loss on Sale of Machinery

Particulars	Amount (₹)	Amount (₹)
1-1-1992 (Purchased)		8,000
Less : Depreciation		
(1992) 1 st year dep.	800	
(1993) 2 nd year dep.	800	
(1994) 3 rd year dep.	800	
(1995) 4 th year dep.	400	2,800
Book Value		5,200
Less : Sales Value		6,000
Profit on sale of Machinery		800

4.4.6.1.2 Diminishing Balance Method

Q22. Define Diminishing or Reducing or Written down value method.

Ans :

Under the written down value method, depreciation, according to a fixed percentage calculated upon the "original cost (in the first year) and written down value, (in subsequent years) of an asset, is written-off during each accounting period over the expected useful life of the asset. Under this method, the rate of depreciation remains constant year after year whereas the amount of depreciation goes on decreasing.

How to Calculate Depreciation under WDV Method: The rate of depreciation is calculated as follows:

$$R = \left[1 - \sqrt[n]{\frac{S}{C}} \right] \times 100$$

Where,

R = Rate of Depreciation (in %),

n = Useful life of the asset (in years)

S = Scrap value at the end of useful life of the asset

C = Cost of the asset

For example, if a machine has been acquired for ₹ 1,00,000 and depreciation is charged @ 10% according to written down value method the depreciation to be charged will be made as under:

$$\text{1st year on ₹ 1,00,000 @ 10\% } \frac{10}{100} \times 1,00,000 = 10,000$$

$$\text{2nd year on ₹ 90,000 i.e. ₹ 1,00,000 - 10,000 = 90,000} \times \frac{10}{100} = 9,000$$

$$\text{3rd year on ₹ 81,000 i.e. ₹ 90,000 - 9,000 = 81,000} \times \frac{10}{100} = 8,100$$

$$\text{4th year on ₹ 72,900 i.e. ₹ 81,000 - 8,100 = 72,900} \times \frac{10}{100} = 7,290 \text{ and so on.}$$

Q23. What are the advantages and disadvantages of Diminishing (or) Reducing (or) Written down value method.

Ans :

Advantages

Following are the advantages of written down value method:

1. Easy Calculation

Calculation of depreciation is easier as compared to other methods of calculating depreciation except straight line method. Depreciation is calculated every year on the opening balance of asset. Depreciation on additions is separately calculated.

2. Balanced Effect on the Profit and Loss Account of Different Years

In the initial years depreciation is more and the maintenance charges are lesser. In the final years, depreciation is lesser but repairs and maintenance charges are more. So every year bears the charges almost the same as regards depreciation and maintenance.

3. Approved Method by Income Tax Authorities: The method is approved by income tax authorities.

4. Logical Method: It seems logical even to layman that the value of asset goes on diminishing year after year, so the depreciation should also be charged on the reducing balances. .

5. Suitable for Assets having Long Life: This method is suitable for those assets, which have long life. It is also suitable for those assets where additions and extensions are common feature, such as land, building and plant and machinery.

Disadvantages

Following are the disadvantages of written down value method:

1. Value of Asset Cannot be Reduced to Zero: It is very difficult to determine a rate by which the value of asset could be written down to zero.

2. Loss of Interest: The amount charged as depreciation is not invested outside the business so no interest is received. In certain methods, the amount is invested outside the business in securities and interest is received.

3. No Fund for Replacement: Though depreciation is charged every year but the amount charged is retained in the business and used in routine business operations. At the time of replacing assets, firm has to bother for making arrangement of funds, although it has charged depreciation every year.

4. Higher Rate of Depreciation: The rate of depreciation in this method is higher, because it will require longer period to write off the asset, if the rate is lower and the assets may become useless earlier.

5. Unequal Burden on Profit and Loss Account: The amount of depreciation goes on declining year after year, whereas the asset is used equally by every year

PROBLEMS

- 20. M/s Ram Ltd. purchased a Plant costing ` 2,50,000 on 1st July, 2005 and labour charges were ` 20,000. Depreciation is charged at 10%. Using Written-down Value Method, prepare Plant Account for 4 Years.**

Sol.:

Dr.			Plant A/c			Cr.		
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)			
2005 July 1	To Bank A/c (Purchase)	2,50,000	2006 Mar 31	By Depreciation A/c (2,70,000 × 10% × 9/12)	20,250			
	To Bank A/c (Labour Cost)	20,000		By Balance c/d	2,49,750			
		2,70,000			2,70,000			
2006 Apr 1	To Balance b/d	2,49,750	2007 Mar 31	By Depreciation A/c	24,975			
		2,49,750		By Balance c/d	2,24,775			
					2,49,750			
2007 Apr 1	To Balance b/d	2,24,775	2008 Mar 31	By Depreciation A/c	22,478			
		2,24,775		By Balance c/d	2,02,297			
					2,24,775			
2008 Apr 1	To Balance b/d	2,02,297	2009 Mar 31	By Depreciation A/c	20,230			
		2,02,297		By Balance c/d	1,82,067			
					2,02,297			
2009 Apr 1	To Balance b/d	1,82,067						

21. Calculate depreciation for four years on reducing installment method on Plant and Machinery costing ₹ 4,00,000 @ 10%.

Sol.:

(May/June-18)

Written Down Value Method

Particulars	Amount
Cost of plant and Machinery	4,00,000
(-) I Year Depreciation $\left(4,00,000 \times \frac{10}{100}\right)$	40,000
	3,60,000
(-) II Year Depreciation $\left(3,60,000 \times \frac{10}{100}\right)$	3,600
	3,24,000
(-) III Year Depreciation $\left(3,24,000 \times \frac{10}{100}\right)$	32,400
	2,91,600
(-) IV Year Depreciation $\left(2,91,600 \times \frac{10}{100}\right)$	29,160
Net Book Value	2,62,440

22. On July 1st, 2001 A Company Ltd. Purchased a second hand Machinery for ₹ 30,000 and spent ₹ 6,000 on reconditioning and installing it. On January 1st, 2002 the firm purchased another Machinery for ₹ 12,000. On June 30, 2003 the machinery purchased on January 1, 2002 was sold for ₹ 8,000 and on July 1, 2003 a fresh plant was installed at a cost of ₹ 20,000. The company writes off 10% depreciation under Written Down Value Method. The Accounts are closed every 31st December. Show the machinery Account for the year ending 31st December, 2004.

Sol.:

(May/June-19)

Dr.			Machinery A/c			Cr.		
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)			
01-7-2001	To Bank A/c		31-12-01	By Depreciation A/c	1,800			
	(Machinery-I)	36,000		$\left(36,000 \times \frac{10}{100} \times \frac{6}{12} \right)$				
	(30,000 + 6,000)	36,000	31-12-01	By Balance c/d	34,200			
01-01-02	To Balance b/d	34,200	31-12-02	By Depreciation A/c:				
				(Machinery-I)				
				$\left(34,200 \times \frac{10}{100} \right)$	3,420			
01-01-02	To Bank A/c	12,000		(Machinery-II)				
	(Machinery-II)			$\left(12,000 \times \frac{10}{100} \right)$	1,200			
			31-12-02	By Balance c/d	41,580			
		46,200			46,200			
01-01-03	To Balance b/d	41,580	30-6-03	By Bank A/c (Sale	8,000			
				(Machinery-II)				
01-07-03	To Bank A/c (Machinery-III)	20,000	30-6-03	By Profit & Loss A/c	2,260			
				(Loss on Sale)				
			31-12-03	By Depreciation A/c				
				(Machinery-I)				
				$\left(30,780 \times \frac{10}{100} \right)$	3,078			
				Machinery-II				
				$\left(10,800 \times \frac{10}{100} \times \frac{6}{12} \right)$	540			
				Machinery-III				
				$\left(20,000 \times \frac{10}{100} \times \frac{6}{12} \right)$	1,000			
			31-12-03	By Balance c/d	46,702			
		61,580			61,580			

01-01-04	To Balance b/d	46,702	31-12-04	By Depreciation A/c (Machinery-I)	
				$\left(27,702 \times \frac{10}{100}\right)$	2770
				(Machinery-III)	
				$\left(19,000 \times \frac{10}{100}\right)$	<u>1,900</u>
				By Balance c/d	42,032
		46,702			46,702
01-05-05	To Balance c/d	42,032			

Working Notes**Calculation of profit/Loss on Sale of machinery-2**

Particulars	Amount (₹)
Books value of machine as on 1/1/02	12,000
Less : Depreciation as on 31/01/03 $\left(12,000 \times \frac{10}{100}\right)$	1,200
Book value of machine as on 01/01/03	10,800
Less : Depreciation as on 30/06/03 $\left(10,800 \times \frac{10}{100} \times \frac{6}{12}\right)$	540
Book value of machine as on 30/06/03	10,260
Less : Sale value as on 31/06/03	8,000
Loss on Sale	2,260

23. X purchased a second hand machine on 1-2-1993 for ₹ 50,000; Paid ₹ 11,000 for its overhauling and ₹ 5,000 for its installation which was completed by 31-03-1993. The company provides depreciation on its machinery at 15% per annum on diminishing balance method from the date it is put to use and closes its books on 31st December every year. On 1-1-1994, a repair work was carried out on the machine and ₹ 5,000 were paid for the same. The machine was sold on 31-10-1995 for a sum of ₹ 11,000 and an amount of ₹ 100 was paid as dismantling charges prepare Machinery A/c from 1993 to 1995.

Sol.:

(May/June-18)

Dr.

Machinery A/c

Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1/2/93	To bank A/c-I	66,000	31/12/93	By Depreciation $\left(66,000 \times 15\% \frac{9}{12}\right)$	7,425
			31/12/93	By Balance c/d	58,575
		66,000			66,000
1/1/94	To Balance b/d	58,575	31/12/94	By Depreciation $(58,574 \times 15\%)$	8,786
			31/12/94	By Balance C/d	49,789
		58,575			58,575
1/1/95	To Balance b/d	49,789	31/10/95	By Depreciation $\left(49,789 \times 15\% \frac{10}{12}\right)$	6,223
			31/10/95	By Bank	10,900
			31/10/95	By P & L A/c (Loss)	32,665
		49,789			49,789

Calculation of Profit / Loss on Machine

Cost of Machine = 66,000

(-) Depreciation of 1996 = 7,425

58,575

(-) Depreciation 1994 = 8,786

(-) Depreciation of 1996 = 49,789

(-) Depreciation of 1995 = 6,223

43,556

(-) Book value = 10,900

Loss on sale of Machine = 32,666

24. X Ltd. purchased a machine on 1-1-2002 for ₹ 1,16,000 and spent ₹ 4,000 for installation. On 1-7-2002 another machine purchased costing ₹ 40,000. On 1-1-2004 the machine purchased on 1-1-2002 was sold for ₹ 57,200 and a new machine was purchased for ₹ 80,000 and installed on the same date by paying ₹ 20,000. Show the Machinery Account charging depreciation @10% p.a. On written Down Value Method for 4 years. Assume that books are closed every year on 31st December.

Sol.:

(Dec.-17)

Dr. Machinery Account Cr.

Date	Particulars	Amount	Date	Particulars	Amount
1-1-02	To Bank A/c (Machine-I) (1,16,000 + 4,000)	1,20,000	31-12-02	By Depreciation A/c (Machine-I) $\left(1,20,000 \times \frac{10}{100}\right)$	12,000
1-7-02	To Bank A/c (Machine-II)	40,000	31-12-02	By Depreciation A/c (Machine-II) $\left(40,000 \times \frac{10}{100} \times \frac{6}{12}\right)$	2,000
			31-12-02	By Balance c/d	1,46,000
		1,60,000			1,60,000
1-1-03	To balance b/d	1,46,000	31-12-03	By Depreciation A/c (Machine-I) $\left(1,08,000 \times \frac{10}{100}\right)$	10,800
			31-12-03	By depreciation A/c (Machine-II) $\left(38,000 \times \frac{10}{100}\right)$	3,800
			31-12-03	By Balance c/d	1,31,400
		1,46,000			1,46,000

1-1-04	To Balance b/d	1,31,400	1-1-04	By Bank A/c (Sale) – I	57,200
1-1-04	To Bank A/c (Machine-III) (80,000 + 20,000)	1,00,000	1-1-04	By Profit and Loss A/c (Loss on Sale)	40,000
			31-12-04	By Depreciation A/c (Machine - II) $\left(34,200 \times \frac{10}{100}\right)$	3,420
			31-12-04	By Depreciation A/c (Machine - III) $\left(1,00,000 \times \frac{10}{100}\right)$	10,000
				By Balance c/d	1,20,780
		2,31,400			2,31,400
1-1-05	To Balance b/d	1,20,780	31-12-05	By Depreciation A/c (Machine-II) $\left(30,780 \times \frac{10}{100}\right)$	3,078
			31-12-05	By Depreciation A/c (Machine-III) $\left(90,000 \times \frac{10}{100}\right)$	9,000
			31-12-05	By Balance c/d	1,08,702
		1,20,780			1,20,780
1-1-06	To Balance b/d	1,08,702			

Calculation of Profit and Loss on sale of Machinery - I

Cost of the asset	–	1,20,000
(–) Dep. 1st year	–	12,000
		<u>1,08,000</u>
(–) Dep. 2 nd year		10,800
		<u>97,200</u>
(–) Sale value		<u>57,200</u>
Loss on Sale of Machinery		40,000

25. M/s Manikanta Industries purchased a Machine on 1st April, 2000 for ₹ 1,50,000 paid installation charges ₹ 60,000 and labor charges ₹ 10,000. Another Machine costing ₹ 80,000 was purchased on October 1st, 2001. On October 1st, 2002 a portion of Machine -1 (Value $\frac{1}{4}$ of Machine) was sold for ₹ 60,000. Depreciation is charged at 20% under Written-down Value Method. Show the Machinery Account for 4 years with necessary workings.

Sol.:

Dr.			Machinery A/c			Cr.		
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)			
2000	To Bank A/c I	1,50,000	2001	By Depreciation A/c	44,000			
Apr 1	To Bank A/c (installation)	60,000	Mar 31	(on 2,20,000@20%)				
	To Bank A/c (labour)	10,000	Mar 31	By Balance c/d	1,76,000			
		2,20,000			2,20,000			
2001			2002	By Depreciation	43,200			
Apr 1	To Balance b/d	1,76,000	Mar 31	(on 1-1,76,000@20%)				
				(on II-80,000@20% for 6 months) (35,200+8,000)				
Oct 1	To Bank A/c II	80,000		By balance c/d	2,12,800			
		2,56,000			2,56,000			
2002	To Balance b/d	2,12,800	2002	By Bank A/c (sales)	60,000			
Apr 1	(1,40,800 + 72,000)(I + II)		Oct 1	By Depreciation A/c	3,520			
				(on sold machine)				
2002			2003					
Oct 1	To P & L A/c		Mar 31	By Depreciation A/c				
	(Profit on sale of Machine)	28,320		(21,120 + 14,400)	35,520			
		2,41,120	Mar 31	By balance c/d	1,42,080			
					2,41,120			
2003			2004	By Depreciation A/c	28,416			
Apr 1	To Balance b/d	1,42,080	Mar 31	By Balance c/d	1,13,664			
		1,42,080			1,42,080			
2004								
Apr 1	To Balance b/d	1,13,664						

Profit or Loss on sale of Machine

$\frac{1}{4}$ of machine installed on 1 st April, 2000 ($2,20,000 \times \frac{1}{4}$)	55,000
Less : Depreciation for 2000-01	<u>11,000</u>
W.D.V on 1-4-2001	44,000
Less : Depreciation for 2001-02	<u>8,800</u>
W.D.V on 1-4-2002	35,200
Less : Depreciation for 2002 (6 months)	<u>3,520</u>
Book Value	31,680
Less : Amount realized on sale of machine	60,000
Profit on sale of machine	<u>28,320</u>

(or)

WDV on 1.4.2002 ($1,40,800 \times \frac{1}{4}$)	35,200
Less : Depreciation for 2002 (6 months)	<u>3,520</u>
Book Value	31,680
Less : Amount realized on sale of machine	<u>60,000</u>
Profit on sale of machine	<u>28,320</u>

Depreciation on remainine Machine

Machine I W.D.V. on 1.4.2002 ($1,40,800 \times \frac{3}{4}$)	1,05,600
Depreciation @20%	<u>21,120</u>
Machine II Depreciation @ 20% on 72,000	<u>14,400</u>

26. On 1st April, 2000, a limited company purchased Machinery for ₹ 15,000 and on 30th September, 2001 it brought additional machinery at a cost of ₹ 4,000. On 30th June, 2002, one of original Machines which had cost of ₹ 1,000 was found to have become obsolete and was sold as scrap for ₹ 100. It was replaced on that date by a new machine costing ₹ 800. Depreciation is to be provided at the rate of 15% on Written-down Value Method. Show Machinery Account for the first 3 years.

Sol.:

Particulars	₹
Profit or Loss on sale of Machine on 31-3-2002	
Cost of Machine sold (1.4.2000)	1,000
Less: Depreciation 2000-01 (15%)	<u>150</u>
W.D.V on 1.4.2001	850
Less: Depreciation 2001-02	<u>128</u>
W.D.V on 1-4-2002	722
Less: Depreciation upto 30.06.02 (for 3 months)	<u>27</u>
Book Value on 30.06.02	695
Less: Proceeds of sale	<u>100</u>
Loss on sale of Machine	<u>595</u>

Dr.			Machinery A/c			Cr.		
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)			
2000 Apr 1	To Bank A/c I	15,000	2001 Mar 31	By Depreciation A/c (15% on 15,000)	2,250			
				By Balance c/d	12,750			
		15,000			15,000			
2001 Apr 1	To Balance b/d	12,750	2002 Mar 31	By Depreciation A/c (on 12,750@15% for 1 Year-1913				
Sep 30	To bank A/c II	4,000		on 4,000 @ 15% for 6 months - 300)	2,213			
				By balance c/d	14,537			
		16,750			16,750			
2002 Apr 1	To Balance b/d	14,537	200 Jun 30	By Bank A/c (sale)	100			
June 30	To Bank A/c III	800		By Depreciation A/c	27			
				By P & L A/c	595			
				(Loss on sale of Machine)				
			2003 Mar 31	By Depreciation A/c (15% on 13,815 for 1 year & on 800 for 9 months) (2072+90)	2,162			
				By Balance c/d	12,453			
		15,337			15,337			
2003 Apr 1	To Balance b/d	12,453						

27. A Transport company purchased 6 Trucks at ₹ 4,00,000 each on July 1, 2006. The company observes financial year as its accounting year. On January 1, 2009 one of the Trucks was involved in an accident and was completely destroyed. Insurance company pays ₹ 1,90,000 in full settlement of claim. On Nov. 1, 2008 Company purchased second hand Truck for ₹ 2,00,000 and spends ₹ 20,000 on its overhauling.

Prepare Truck A/c for three years ending on March 31, 2009 if company writes off depreciation @ 20% p.a. on 1) Original Cost Method and 2) Written-down Value Method.

Sol.:

Dr.				Truck A/c				Cr.	
Date	Particulars	Amount (₹)	Amount (₹)	Date	Particulars	Amount (₹)	Amount (₹)		
		(I)	(II)			(I)	(II)		
2006 July 1	To Bank A/c	24,00,000	24,00,000	2007 Mar 31	By Depreciation	3,60,000	3,60,000		
					By Balance c/d	20,40,000	20,40,000		
		20,40,000	20,40,000			20,40,000	20,40,000		
2007 Apr 1	To balance b/d	20,40,000	20,40,000	2008 Mar 31	By Depreciation	4,80,000	4,08,000		
		20,40,000	20,40,000		By Balance c/d	15,60,000	16,32,000		
						20,40,000	20,40,000		
2008 Apr 1	To Balance b/d	15,60,000	16,32,000	2009 Jan 1	By Bank A/c	1,90,000	1,90,000		
					By Depreciation	60,000	40,800		
					By P & L A/c	10,000	41,200		
2008 Nov 1	To Bank A/c	2,00,000	2,00,000						
	To Bank A/c	20,000	20,000	2009 Mar 31	By Depreciation	4,07,333	2,79,333		
					By Balance c/d	11,12,667	13,00,667		
		17,80,000	18,52,000			17,80,000	18,52,000		
2009 Apr 1	To Balance b/d	11,12,667	13,00,667						

Loss on Sale of Truck

SLM (I)

DBM (II)

Cost of truck on 1-7-2006

4,00,000

4,00,000

Less : Depreciation for 2006-07 (9 months)

60,000

60,000

WDV on 1-4-2007

3,40,000

3,40,000

Less: Depreciation for 2007

80,000

68,000

WDV as on 1-4-2008

2,60,000

2,72,000

Less : Depreciation for 9 months (upto 31.12.09)

60,000

40,800

Book Value on 1.1.2009

2,00,000

2,31,200

Less: Amount from Insurance

1,90,000

1,90,000

Loss on Accident

10,000

41,200

Depreciation on Second hand Truck

$$= (2,00,000 + 20,000) \times 20/100 \times 2/12 = ₹ 7,333$$

Depreciation on Balance 5 trucks

$$\text{SLM : } 20,00,000 \times 20\% = ₹ 4,00,000$$

DBM : $13,60,000 \times 20\% = ₹ 2,72,000$

Total Depreciation : SLM : $4,00,000 + 7,333 = ₹ 4,07,333$

DBM : $2,72,000 + 7,333 = ₹ 2,79,333$

Q24. Distinguish between straight line method and written down value method.

Ans :

Basic of Distinction	Straight Line Method	Written Down Value Method
1) Basic of Calculation	Depreciation is calculated at a fixed percentage on the original cost.	Depreciation is calculated at a fixed percentage on original cost (in first year) and on written down value (in subsequent years).
2) Amount of Depreciation	The amount of depreciation remains constant.	The amount of depreciation goes on decreasing.
3) Total Charge (i.e., depreciation plus repairs and renewals)	Total charge in later years is more as compared to that in earlier years since the amount of repairs and renewals goes on increasing as the asset grows older, whereas the amount of depreciation remains constant year after year.	Total charge almost remains uniform year after year, since in earlier years the amount of depreciation is more and the amount of repairs and renewals is less whereas in latter years, the amount of depreciation is less and the amount of repairs & renewals is more.
4) Book Value/Zero-Level	The book value of the asset becomes zero or equal to its scrap value.	The book value of the asset does not become zero.
5) Suitability	This method is suitable for those assets in relation to which (a) repair charges are less (b) the possibility of obsolescence is less.	This method is suitable for those assets in relation to which (a) the amount of repairs & renewals goes on increasing as the asset grows older and (b) the possibilities of obsolescence are more.
6) Calculation-Easy or difficult	It is easy to calculate the rate of depreciation.	It is difficult to calculate the rate of depreciation,
7) Effect on profit and loss account	The initial years of the life of the asset bear lesser amount as depreciation and repairs but final years bear the same amount of depreciation but more repairs and maintenance charges.	Every year bears almost the same charges, Depreciation goes on declining, whereas repairs and maintenance charges go on increasing,

Exercises Problems

1. Give rectification entries for the following errors.

- (a) Wages payable to furniture maker ` 670 debited to Wages a/c.
- (b) A credit sale of ` 150 to Srinivas debited to Shiva Ram.
- (c) Payment of salary to Varshini not passed through books at all.
- (d) A credit purchase of ` 140 to Harshini, recorded in the books as ` 410.

2. Rectify the following errors.

- (a) An amount of ` 100 paid for the repairs of furniture was debited to furniture account.
- (b) Sales book total was overcast by ` 500.
- (c) Expenses 1500 were posted in the ledger as 150.
- (d) A sale of ` 200 to Mr. S. was wrongly debited to the account of Mr. V.
- (e) Old furniture sold has been credited to sales A/c ` 500.

3. Pass Journal entries for rectification of the following errors.

- (a) The total of purchases book was under cast by ` 200.
- (b) A credit purchase from Vaishnavi for ` 1000 has been wrongly passed through the sales book.
- (c) Wages paid ` 200 was wrongly debited to salaries account.
- (d) ` 100 received on account interest stands wrongly credited to commission account.
- (e) Salary of ` 500 paid to manager Mr. Krishna is debited to his personal account.

4. Rectify the following error discovered Before preparation of the trail balance.

- (a) Furniture purchased ` 3500 has been entered in the purchases book.
- (b) The returns inward book was overcast by ` 250.
- (c) ` 800 paid for repairs to machinery was debited to machinery account.
- (d) A sale of ` 750 made to Sriman Narayana was entered in sales book but credited to his account.
- (e) A purchase of ` 760 made from Radhika was credited to his account ` 670.

5. Pass necessary entries to rectify the following errors. After the preparation of trial balance.

- (a) ` 1500 received from Gopal has been wrongly credited to Chandu's a/c.
- (b) The purchase book was undercast by ` 1000.
- (c) Repairs to machinery ` 800 were debited to machinery account.
- (d) Discount allowed to Chintu ` 200 correctly entered in cash book, has not been posted to his account .
- (e) Bills payable from Mr. Gopichand ` 1000 was entered in the bills payables book.

6. A trader having failed to tally his trial balance, transferred the difference to Suspense Account. The following errors were subsequently discovered.

- (a) Goods purchased from Narayana for ₹ 600, was passed through the sales book.
- (b) An item of ₹ 300 relating to prepaid rent account was omitted to be brought forward.
- (c) Purchase returns ₹ 80 wrongly entered in the purchases book and there from was wrongly posted to the debit of personal account of the party.
- (d) ₹ 1,000 paid to Mehra, against the trader's acceptance were debited to Mehata's account.
- (e) ₹ 40 received from Diwakar whose account was earlier written off as bad, was credited to newly opened account in his Name and was included in the list of creditors.

Rectify the above errors and show the suspense account.

7. The Trial balance of Mr. Dixit did not agree.

The difference was carried to suspense account. Later on the following errors were located by the Accountant. Pass the necessary Journal entries to rectify them, and also prepare the Suspense Account.

- (a) Goods worth ₹ 100 were returned to Suri Stores. They were however, posted to the debit of purchases Account.
- (b) ₹ 250 were paid in connection with the repairing of the office building. The amount was, however debited to office buildings account.
- (c) Discount of ₹ 150 was received, but it is posted to the debit side of the discount account.
- (d) Goods worth ₹ 4,700 were bought on credit from Andhra Traders Mart. The amount was debited to their account as ₹ 7,400.
- (e) Goods worth ₹ 3,000 were sold to Janata Provision stores. This was however entered in the purchases book.
- (f) The sales book was under cast by ₹ 110.

8. The difference in Trial balance is kept in suspense account. Before preparing the final accounts the following errors were detected.

- (a) Purchase for ₹ 540 was written in sales book but was posted to the correct side of party's account.
- (b) Salary account total ₹ 12,600 in one page carried over to the next page as ₹ 1,260 on the wrong side.
- (c) Interest on overdraft ₹ 650 was not posted to the ledger from cash book.
- (d) ₹ 600 collected from a party in respect of old dues from him which were written off as bad debts two years ago, was credited to the party's account. Show rectification entries and suspense account.

9. The undermentioned errors would not be detected by the Book-keeper of G.D. Bose, a sole trader.

- (a) The sales day book was cast ` 500 short.
- (b) The purchase of an office Almirah for ` 450 was passed through the purchases day book.
- (c) The sale of goods worth ` 250 to B. Bose was credited to his account.
- (d) Goods worth ` 350 taken by G.D. Bose were not debited to any account.
- (e) Purchase of stationery for ` 50 was debited to office typewriter account.

The Trial Balance was agreed by keeping the difference in 'Suspense Account'.

(i) What items would affect the agreement of Trial Balance.

(ii) What was the amount in the Suspense Account.

Give the corrective Journal entries for rectification of errors.

10. Prashanth Industries, a manufacturing concern, purchased a Machinery for ` 1,60,00; on 1st April, 2003. Another Machinery was acquired for ` 50,000 on 30th Sept, 2004 and for ` 28,000 on 1st May, 2006. Certain Machinery which was purchased for ` 50,000 on 30th Sept, 2004 was sold for 40,000 on 30th Sept, 2006.

Give Machinery Account for the year 31st March, 2007 taking Depreciation @ 10% p.a on Written-down Value.

[Ans : Loss on Sale of Machine : ` 613; Balance on 31.03.2007 : ` 1,31,022]

11. M/S New Team purchased on 1st April 1997, a Second hand Plant for ` 80,000 and immediately spent ` 60,000 in putting the same in working condition. On 1st October 1997 additional Machinery costing ` 50,000 was purchased. On 1st April, 1999 the Plant purchased on 1st April, 1997 became obsolete and was sold for ` 80,000. On 1st October 1999, new Machinery was purchased at the cost of ` 1,40,000.

During the year 1997 to 2000 the firm provided depreciation on Straight Line Method at 10% per annum on the original cost of the asset. During the years 2001 to 2003, the firm has provided depreciation on Reducing Balance Method at 15% per annum. Show the Plant and Machinery account as it would appear in the books of the firm for the years 1997 to 2002 (both inclusive).

[Ans : Loss on sale of Machine II ` 32,000; Balance on 01.04.2003 ` 1,04,708]

Short Question and Answers

1. What do you understand by capital expenditure?

Ans :

It consists of expenditure the benefit of which is not fully consumed in one period but spread over several periods. It includes assets acquired for the purpose of earning and not for resale, improving and extending fixed assets, increasing the earning capacity of the business and raising capital for the business. Purchase of new plant, additions to the building, cost of removing the business to more spacious and better suited premises, brokerage and commission paid for procuring long term loans are few examples of such expenditure. Such expenses are taken to Balance Sheet and are determined by the fact whether:

- (i) The expenditure made is for the purpose of acquiring fixed assets and in placing the business in a position in which it can commence or continue operation.
- (ii) The expenditure results in some more or less long term benefit to the business.

2. Deferred revenue expenditure.

Ans :

It is expenditure which would normally be treated as revenue expenditure but it is not written off in one period as its benefit is not completely exhausted in the year in which it is incurred or is of a non-recurring and special nature and is large in amount. It may be spread over a number of years, a proportionate amount being charged to the Profit and Loss Account of each year and the balance is carried forward to subsequent years as deferred revenue expenditure and is shown as an asset in the balance sheet.

Suppose for an advertisement campaign a sum of ₹ 20,000 has been spent and the benefit of this campaign does not exhaust in the year, the expenses made should be spread over the estimated years during which the benefit is to be derived. Such expenditures are called deferred revenue expenditures. The determining factor, therefore, is whether the particular revenue expenditure has the element of deriving benefit over some years and

that the benefit does not exhaust within the particular accounting year.

The basis of charge should usually be proportionate to the benefit consumed/reaped. The deferred revenue expenditure not yet written off is shown on the assets side of the balance sheet.

Deferred revenue expenditure is revenue in character but:

- (i) The benefit of which is not exhausted in the same year; or
- (ii) Is applicable either wholly or in part to the future years; or
- (iii) Is accidental and heavy and it is not prudent to charge against the profit of one year.

3. Capital receipts

Ans :

Capital receipts are business receipts which are not related to the day to day business activities of a company. They occur occasionally and provide benefit for a long period of time.

Capital receipts are normally presented in the balance sheet of a company when realized and generally occur as a result of the following events:

- Sale of fixed assets
- Issuance of capital in the form of shares
- Issuance of debt instruments

Other common examples of capital receipts

- Cash received from sale of fixed assets.
- Amount of loan received by the company from a bank.
- Capital invested in the business by a new partner.
- Consideration received by a company through sale of its license to produce a well marketed drug to another company.

4. Revenue Receipts

Ans :

Revenue receipts are receipts that occur routinely. They are realized from day to day business activities of a company and are needed by any business to survive and thrive. Revenue receipts are

normally received through the sale of stock-in-trade and the provision of services to customers in the ordinary course of business. The effect of revenue receipts is normally shown only in the income statement of the company.

Examples of revenue receipts

- Revenue received from sale of goods to customers.
- Revenue received from provision of services to clients
- Income received as interest on a saving account.
- Dividend income received from shares of various companies.
- Rental income received by a company.
- Bad debts recovered by a company
- Cash discount received from vendors.
- Commission income received by a company.

5. Compare and contrast capital receipts and revenue receipts.

Ans :

Capital Receipt	Revenue Receipt
1. It is the amount realised by sale of fixed assets or by issue of shares or debentures.	It is the amount realised by sale of goods or rendering of services.
2. It is a receipt in substitution of a source of income.	It is a receipt in substitution of art income,
3. It is the amount received for surrender of certain rights under an agreement as a capital asset is being given up in the form of these rights.	It is the amount received as compensation under an agreement for the loss of future profits.

6. Define error.

Ans :

The fundamental principle of the double-entry system is that every debit has a corresponding credit of equal amount and vice-versa. Therefore, the total of all debit balances in different accounts must be equal to the total of all credit balances in different accounts, i.e., the total of the two columns should tally (agree). The tallying of the two totals (debit balances and credit balances) of the trial balance ensures only arithmetic accuracy but not accounting accuracy. If however, the two totals do not tally, it implies that some errors have been committed while recording the transactions in the books of accounts.

Errors are those mistakes which are committed in the process of recording Journal entries, costing them into Ledger or in the preparation of Trial Balance. It is essential to detect and rectify the errors in the accounting process to get the correct results of the financial statements i.e. the correct profit or loss and the real financial position of the business.

7. Error of Principle.

Ans :

Transactions are recorded as per generally accepted accounting principles. If any of these principles are violated or ignored, errors resulting from such violation are known as errors of principle.

For example, Purchase of machinery recorded in the purchases book. It is an error of principle, because the purchases book is meant or recording credit purchases of goods meant for resale and not

fixed assets. Trial balance will not disclose errors of principle. These errors may arise, when the distinction is not made between the Capital and Revenue nature items.

Example

- i) Purchase of Machinery, debited to purchases a/c
Machinery a/c is - Capital nature
Purchase a/c is - Revenue nature
Instead of debiting capital nature A/c (Machinery A/c), debiting a Revenue nature a/c (Purchases A/c) is an error of principle.
- ii) Rent paid to land lord, debited to his personal A/c
Rent A/c is - Nominal Account
Land lord A/c is - Personal Account
If Land lord A/c is debited instead of Rent A/c, it becomes an error of principle

8. Error of Omission

Ans :

When a transaction is completely or partly omitted from the books of accounts such error is known as Error of Omission.

- (i) **Error of Complete Omission:** This error arises when a transaction is totally omitted in the books of accounts.
For example, Furniture purchased from Saketh & Co. completely not recorded. This error does not affect the trial balance.

- (ii) **Error of Partial Omission:** This error arises when only one aspect of the transaction either debit or 'credit is recorded.

For example, a credit sale of goods to Sunder is recorded in sales book but not posted in Sunder's account. This error affects the trial balance.

9. Error of Commission

Ans :

This error arises due to wrong recording, wrong posting, wrong casting, wrong balancing, wrong carrying forward etc. Errors of commission may be classified as follows:

- (i) **Error of Recording:** This error arises when a transaction is wrongly recorded in the books of original entry.

For example. Goods of ₹ 8,500, purchased on credit from Praveen, is recorded in the book as ₹ 5,800. This error does not affect the trial balance.

- (ii) **Error of Posting:** This error arises when information recorded in the books of original entry are wrongly entered in the ledger. Error of posting may be

- a) Right amount in the right side of wrong account
- b) Right amount in the wrong side of correct account
- c) Wrong amount in the right side of correct account
- d) Wrong amount in the wrong side of correct account
- e) Wrong amount in the wrong side of wrong account
- f) Wrong amount in the right side of wrong account etc.

10. Compensating Errors

Ans :

The errors arising from excess debits or under debits of accounts being neutralized by the excess credits or under credits to the same extent of some other account is compensating error. Since the errors in one direction are compensated by errors in another direction, arithmetical accuracy of the trial balance is not at all affected. In other words, If two or more errors are committed and one error nullifies another error, the net effect is unchanged.

Committing an error to compensate the previous or another error is known as compensating error.

Example: Amount paid to Ram ₹ 5000 recorded as ₹ 4500, and amount received from Syam ₹ 10,000 recorded as ₹ 9,500.

11. What are the various stages of rectification?*Ans :*

The stage in which rectification is done depends on identification or beating the error. Rectification of errors may be explained in two stages.

- i) **Rectification before the preparation of trial balance:** In this stage errors are located before transferring the difference in the trial balance to Suspense Account.
- ii) **Rectification after the preparation of trial balance:** In this stage the difference in the trial balance would have been transferred to Suspense Account. So wherever applicable suspense account is used while passing rectification entries.

12. Define Suspense Account.*Ans :*

Sometimes, despite of an accountant's best efforts, the trial balance may not agree. In such circumstances, the difference between the debit and credit totals should be transferred to an account called Suspense Account. By doing so, the trial balance is made to agree and delay in the preparation of final accounts can be avoided.

Suspense account is an imaginary account, opened and used as a temporary measure to make two sides of the trial balance agree. As and when the errors which caused the disagreement in trial balance are detected, rectification entries should be passed through suspense account. Detection and rectification of all the errors will result in the automatic closure of Suspense Account'.

If the debit total in the trial balance is in excess of credit total, suspense account should be credited with the difference. Similarly, suspense account should be debited with the difference when credit side total is more than the debit side total. In other words, suspense account will appear on that side of the trial balance whose total is less than the total of other side.

13. Define Depreciation.*Ans :*

The term depreciation is derived from the Latin words 'do' meaning down and 'pretium' meaning price. In common use it means putting down the value of an asset due to wear and tear, passage of time, obsolescence, etc.

Business is established for indefinite period. Fixed assets are constantly used in the business. The assets lose their value gradually due to their constant use. Loss in the value and utility of assets due to their constant use and expiry of time is termed as 'depreciation'.

It is very difficult to give a single definition of the term depreciation because under different situation this is handled differently and whatever seems to be correct in one situation may be improper in another. But even then some definitions are worth mentioning.

Definitions

- (i) **According to B.G Wickery** "Depreciation may be defined as the permanent decrease in the value of an asset through wear and tear in use or the passage of time."
- (ii) **According to J.R. Batliboi** "The term depreciation represents loss or diminution in the value of an asset consequent upon wear and tear, obsolescence, effluxion of time or permanent fall in market value."
- (iii) **According to Spicer and Peglar** "Depreciation may be defined as the measure of the exhaustion of the effective life of an asset from any cause during a given period."
- (iv) **According to The Institute of Chartered Accountants of England and Wales** "Depreciation is that part of the cost of fixed assets to its owner which is not recoverable when the asset is finally put out of use by him. Provision against this loss of capital is an integral cost of conducting the business during the effective commercial life of the asset and is not dependent upon the amount of profit earned."
- (v) **According to Pickles** Depreciation is the permanent and continuing diminution or

decrease in the quality, quantity or value of asset."

- (vi) **According to A.J. Sarvcross and P.M. Sharvcross** "Depreciation is an expense or loss involved in using machinery, motor vehicles, tools and other fixed assets in the process of production and has to be provided for; this is done by estimating the amount to be written off the value of a particular asset each year and setting the amount against the profits for that year."

14. Causes of depreciation?

Ans :

Causes of depreciation may be of two :

- (i) Internal causes and
- (ii) External causes.

(i) Internal Causes

Wear and tear, exhaustion, depletion, deterioration etc., causes depreciation of assets which are internal in nature.

1. Wear and tear

Assets diminish in their value as they are constantly used in the organization. The difference between the value of an asset when it was bought and its value being used for sometime represents wear and tear. Although assets are kept in working conditions, a time comes when only scrap value remains.

2. Exhaustion

Assets are bound to lose their value as time progresses. Consequently, productivity declines. Assets exhaust their value and are found useless after the elapse of a certain fixed period. It is true that assets have their definite age.

3. Depletion

Natural resources such as mines, quarries and oil wells are of a wasting character. As a result of gradual exhaustion, the value of wasting assets declines. They are consumed gradually. The process of earning income through extraction causes depletion of wasting assets.

4. Deterioration

Deterioration means erosion in value of those assets which have a very short life. Proper repairs and maintenance of these assets cause an additional loss by way of deterioration.

(ii) External Causes

Factors external to causes of depreciation include passage of time, obsolescence, permanent fall in market value and weather and accidental elements. These factors are not connected to the asset. Even then they cause depreciation.

1. Passage of time

The utility of some fixed assets is confined to a time frame. Assets like leasehold property become useless after a period. Relevant statutes may limit the period for which an organization can use assets in the production process. Assets like trademark, patents lose their value with the passage of time.

2. Obsolescence

Obsolescence implies the chance of an asset becoming out of fashion. This is a loss arising on account of new invention, technological changes, improvement in production methods, legal restraints etc. These factors make it economical to replace the assets though they are still usable. Market changes are also a disturbing factor. For example, the demand for a product or service falls to such a level that it is no longer viable to continue with that product or service.

15. Factors affecting depreciation

Ans :

1. Value of Assets

Value of depreciable asset is the cost of the same asset that represents its money outlay or its equivalent in connection with its acquisition, installation and commissioning as well as for additions to improvements thereof. An increase or decrease in long term liability on account of exchange fluctuations, price adjustments, changes in duties or similar factors may cause changes in the historical cost of a depreciable asset.

2. Estimated working Life

Working life is determined by

- Legal or contractual limits such as the expiry dates of related leases.
- Extraction or consumption.
- Extent of use and physical deterioration on account of wear and tear which again depends upon operational factors like number of shifts for which the asset is to be used, repair and maintenance policy of the enterprise.

3. Repairs and Renewals

Repairs and renewals keep the assets in good working condition. A well maintained asset yields good results over its stipulated life. If it is poorly maintained, it will become useless after a short period. So, repairs and renewals are an important consideration while determining the amount of depreciation.

4. Additions and Extensions

Additions and extensions are normally made to existing assets like plants and buildings. The purpose is to increase their capacity. Expenditures on additions and extensions are of capital nature. The dates of incurrence of such expenditures are considered to ascertain depreciation.

16. Distinguish between straight line method and written down value method.

Ans :

Basic of Distinction	Straight Line Method	Written Down Value Method
1) Basic of Calculation	Depreciation is calculated at a fixed percentage on the original cost.	Depreciation is calculated at a fixed percentage on original cost (in first year) and on written down value (in subsequent years).
2) Amount of Depreciation	The amount of depreciation remains constant.	The amount of depreciation goes on decreasing.
3) Total Charge (i.e., depreciation plus repairs and renewals)	Total charge in later years is more as compared to that in earlier years since the amount of repairs and renewals goes on increasing as the asset grows older, whereas the amount of depreciation remains constant year after year.	Total charge almost remains uniform year after year, since in earlier years the amount of depreciation is more and the amount of repairs and renewals is less whereas in latter years, the amount of depreciation is less and the amount of repairs & renewals is more.
4) Book Value/Zero-Level	The book value of the asset becomes zero or equal to its scrap value.	The book value of the asset does not become zero.
5) Suitability	This method is suitable for those assets in relation to which (a) repair charges are less (b) the possibility of obsolescence is less.	This method is suitable for those assets in relation to which (a) the amount of repairs & renewals goes on increasing as the asset grows older and (b) the possibilities of obsolescence are more.
6) Calculation-Easy or difficult	It is easy to calculate the rate of depreciation.	It is difficult to calculate the rate of depreciation,
7) Effect on profit and loss account	The initial years of the life of the asset bear lesser amount as depreciation and repairs but final years bear the same amount of depreciation but more repairs and maintenance charges.	Every year bears almost the same charges, Depreciation goes on declining, whereas repairs and maintenance charges go on increasing,

Choose the Correct Answer

1. The errors in the books of account are broadly divided into: [a]
(a) Two groups (b) Three groups
(c) Four groups (d) Five groups
2. Errors which are made while recording transactions in the journal and posting them in the ledger are called: [b]
(a) Trial balance errors (b) Book keeping errors
(c) Balance sheet errors (d) None of these
3. When a transaction is completely omitted to be recorded it is called: [d]
(a) Error of commission (b) Error of omission
(c) Both (d) None of the above
4. Goods purchased from John for 2,000, no entry made in purchases book is an example of: [b]
(a) Error of posting (b) Error of omission
(c) Error of principle (d) Compensating error
5. When a transaction is wholly or partially recorded incorrectly, it is called: [a]
(a) Error of commission (b) Error of principle
(c) Error of omission (d) Error of posting
6. Salaries 5,100 wrongly posted to salaries account as \$1,500 is an example of: [c]
(a) Error of principle (b) Error of posting
(c) Error of commission (d) Compensating error
7. When a transaction is recorded without due regard of fundamental principles of accounting it is an example of: [d]
(a) Error of omission (b) Error of posting
(c) Error of casting (d) Error of principle
8. If no distinction between capital and revenue expenditures is made while recording transaction, it is: [b]
(a) Compensating error (b) Error of principle
(c) Error of omission (d) Error of posting
9. Inadequate provision for bad and doubtful debts is an example of: [b]
(a) Error of commission (b) Error of principle
(c) Error of costing (d) Error of posting
10. Insufficient depreciation is an example of: [c]
(a) Error of commission (b) Error of omission
(c) Error of principle (d) Compensating error

Fill in the Blanks

1. _____ Errors which affect one side of an account.
2. Failure to differentiate between capital and revenue expenditures is consider as _____.
3. If transaction is totally omitted from the books then it is a principle of _____.
4. Purchase of land is a _____ expenditure.
5. Wages paid to labourers is a _____ expenditure.
6. Cost of experiments, discount on issue of debentures etc. is a _____ expenditure.
7. Sale of fixed assets is a _____ receipt.
8. Rental income received by a company is a _____ receipt.
9. _____ are losses realized on sale of fixed assets or when a company issues shares at a discount to the general public.
10. _____ are losses which are realized by carrying on the normal business activities of a company.

ANSWERS

1. Single side
2. Error of Principles
3. Error of Commission
4. Capital
5. Revenue
6. Deferred revenue
7. Capital
8. Revenue
9. Capital losses
10. Revenue losses

UNIT V

FINAL ACCOUNTS:

Final Accounts of Sole Trader: Meaning -Uses -Preparation of Manufacturing, Trading and Profit & Loss Account and Balance Sheet – Adjustments – Closing Entries(Including problems).

5.1 FINAL ACCOUNTS OF SOLE TRADER: MEANING

Q1. Define final accounts. What are the objectives of final accounts ?

Ans : (Dec.-17)

Introduction

One of the main objectives of maintaining accounts is to know the profit or loss made by the business organization in a particular period. This period may be a year, half year to quarter of a year. for non statutory business concerns, it will be as per the convenience of the trader. But in general it is at the end of either calender year or financial year. Further one must know that by mere preparation of trial balance one may not be able to find out the profit or loss of a business entity. Hence it is needed to prepare the final accounts.

The term final accounts means statements which result finally from the preparation of accounts showing the profit earned or loss suffered by the firm and the financial state of affairs of the firm at the end of the period concerned. As already stated, the statement showing the profit or loss is known as Profit and Loss Account and the statement showing the financial state of affairs is called the Balance Sheets. The student must realise that in every concern, big or small, the accountant will be required to prepare these statements. Therefore, those who learn accountancy should become proficient in this. It is the trial balance that is the basis of these two statements and unless the student has mastered the preparation of the various books and ledger accounts and also of the trial balance, he will not be able to fully grasp the significance of the profit and loss account and the balance sheet and master the technique of preparing them.

Objectives

The main objectives of preparation of final accounts are :

- The ascertain the profit or loss of the business for a particular period (By preparing Trading and Profit & Loss Account)
- To find out the financial position of the business concern on a specified date or period. (By preparing of the Balance Sheet)

Q2. What are the features of final accounts?

Ans :

1. Based on Facts

On the basis of the facts and transactions recorded in accounting books, the final accounts are usually being prepared.

2. Implements Accounting Conventions

Accounting conventions act as the basis for preparing the final accounts/statement.

For instance, closing stock valuation at the market price or cost price which ever is less.

3. Follows Accounting Assumptions

The final accounts are prepared on the basis of few accounting assumptions such as, going concern assumption, money measurement assumption.

4. Laid on Personal Opinion, Judgements and Estimates

The final accounts are laid on the personal opinion, judgements and estimates like creation of provision for doubtful debts, valuation of the closing stock either at cost price or at market price which ever is less.

5.1.1 Uses of Final Accounts**Q3. Explain the uses of final accounts?***Ans :* (Dec.-17, Imp.)

1. It is used in evaluating approximately the organisation's earning ability.
2. It facilitates the investors to take appropriate investment decisions.
3. It assists in giving complete information about the cash inflows and outflows of the organisation to the financial institutions.
4. It helps in ascertaining the true and fair financial position of the organisation and helps in deciding about the credit worthiness of the organisation.
5. It also helps in making various fiscal policies for the organisation.

Q4. State the advantages and disadvantages of final accounts?*Ans :* (Imp.)**Advantages**

1. Business profit or loss can be known to the trader through the trading account and profit and loss account (Income statements).
2. Financial position can be revealed by the preparation of Balance Sheet.
3. Final accounts are important source of finance information and this help the trader or management to plan the financial activities of the business concern for any period or time.
4. Financial statement help the trader to take business decisions by comparing current year results with the results of the previous year statements.
5. As the profit & loss account discloses either profit or loss, based on which a trader prepare himself to pay the taxes correctly.
6. Tax authorities also needs financial statements to determine the amount of tax exactly.
7. As financial statements reveals the solvency position of the organization, the banks and other lending organizations may consider for extending the lona facility.

Disadvantages

1. Do not reflect the current prices as they are based on the historical costs.
2. Do not consider qualitative data, such as, quality, efficiency of workforce, employee and employer relationship, motivation level of employees, value of human resources etc.
3. Do not reveal the accurate picture of the business, as certain values of assets and some expenses and income items are based on the judgement of the management, who may have prejudice.

5.2 PREPARATION OF MANUFACTURING ACCOUNT
Q5. Explain the preparation of manufacturing account.*Ans :*

Those concerns which convert raw materials into finished goods are required to find out the cost of goods manufactured besides gross and net profit of the concern. These are manufacturing cum trading concerns. In order to have full information about the cost of goods manufactured, these concerns firstly prepare Manufacturing Account and then prepare. Trading and Profit and Loss Account.

The main objective of Manufacturing Account is to show

- (i) Cost of finished goods produced and
- (ii) Constituent items thereof such as cost of material consumed, productive wages, direct and indirect expenses.

Debit side of Manufacturing Account starts with the cost of materials consumed, i.e., opening stock of raw materials plus net purchases less the closing stock of raw materials. Procurement cost e.g., custom duty, landing charges, excise duty, carriage and freight inwards, insurance on incoming raw materials should also be included with the cost of raw materials.

Closing stock is taken and valued at lower of cost or net realisable value and is then deducted

from the sum of opening stock and purchases to eliminate the charge to manufacturing account for stock of raw materials in hand on closing date. Next to raw materials are listed productive wages and direct expenses.

It is followed by debits relating to indirect factory expenses e.g., rents, rates, salaries of supervising staff, power, light, heat and fuel, repairs and renewals, depreciation relating to factory property etc.

Total materials, productive wages and direct expenses should be adjusted for opening and closing stock of partly finished goods or work-in-progress etc. Opening stock of these items should be added at its factory cost value, as current periods production has benefitted by drawing on the opening stock of partly finished goods. Closing stock of work in progress should be taken and valued at factory cost and deducted from the resulting total to eliminate the charge in respect thereof. After this adjustment, the net amount will represent cost of production. Sale of scrap, if any, will be deducted from cost of production.

Total of debit side will then represent the cost of production of finished goods which is credited to Manufacturing Account and debited to Trading Account.

Trading Account will show the cost of production of finished goods, opening and closing stock of finished goods, purchases and sales of finished goods and gross profit.

Q6. Explain the proforma of manufacturing account.

Ans :

Manufacturing Account of XYZ Co for the year ended xx, xx, xxxx

Dr.

Cr.

Particulars	Amount ()	Amount ()	Particulars	Amount ()	Amount ()
To Opening stock			By Closing stock		
Raw materials	xxx		Raw materials	xxx	
Partly Finished Goods	xxx		Partly finished goods	xxx	
Finished goods	xxx	xxx	Finished goods	xxx	xxx
To Purchases	xxx				
Less: Returns	xxx	xxx			
To Wages (Production)		xxx			
To Carriage		xxx			
To Clearing Charges		xxx			
To Gas & Coal		xxx			
To Oil & Fuel		xxx			
To Factory Rent, insurance and Lighting		xxx	By Cost of Production (Transferred to Trading A/c)		
To Motive power		xxx			xxx
		xxx			xxx

PROBLEMS ON MANUFACTURING ACCOUNT

1. Following are the balances in the Ledger of Mr. Suresh for the year ended 31st March, 2013 :

Particulars	Rs	Particulars	Rs
Discount (Dr.)	2,500	Carriage outwards	12,400
Carriage Inwards	10,200	Advertisement	12,000
Rent, Taxes & Rates	13,300	Miscellaneous Expenses	3,300
Printing & Stationery	2,600	Interest paid	10,792
Purchase of Raw Materials	3,49,800	Fuel and Coal	11,200
Sales	5,60,000	Factory Power	25,600
Opening Stock of Raw Insurance (Fire)	1,760		
Materials	1,24,400	Staff Salaries	13,800
Opening Stock of Finished		Electricity	2,500
Goods	63,800	Bad Debts	6,080
Factory Wages	59,700	Depreciation on Plant & Machinery	11,690
Sale of Scrap	600	Depreciation on Furniture & Fixture	2,860

Prepare Manufacturing Account for the year ended 31 March, 2013. The Stock as at 31.3.2013 was Raw Materials ₹ 46,900 and Finished Goods ₹ 1,52,300.

Solution :

Manufacturing, Trading and Profit and Loss A/C of Mr. Suresh for the year ended 31st March, 2013			
Dr			Cr
Particulars	Rs	Particulars	Rs
To Raw Materials used		By Cost of Goods Manufactured	
Opening Stock 1,24,400		transferred to Trading A/c	5,45,090
Add: Purchases 3,49,800			
4,74,200			
Less : Closing Stock 46,900	4,27,300		
Carriage Inwards	10,200		
Factory Wages	59,700		
Fuel and Coal	11,200		
Factory Power	25,600		
Depreciation on Plant & Machinery	11,690		
	5,45,690		
Less : Sale of Scrap 600			
	<u>5,45,090</u>		<u>5,45,090</u>

5.3 PREPARATION OF TRADING ACCOUNT

Q7. Define Trading account ? What are the advantages of trading account.

Ans :

(Imp.)

Preparation of trading account is the first stage in final accounts. It is prepared to ascertain the 'Gross Profit or Gross Loss'. In other words, it is prepared to find out the difference between the actual cost of goods sold and sale proceeds. Generally the business organization purchases goods from others and incur certain expenditure and sell the same to earn profit. This process is known as trading activity. Hence trading account is prepared to know the results of trading activities carried during any specified accounting period.

Trading Account is a 'nominal account' in nature. All the trading expenses should be debited and trading incomes should be credited to this trading account. The balance in the trading account is either gross profit or gross loss.

Cost of Goods Sold = Purchase price of the goods + Expenses incurred on purchases

If opening stock of goods and closing stock of goods are given,

Cost of Goods Sold = Opening Stock + Net Purchases (Cash + Credit – Returns) + Direct expenses – Closing stock of goods

Gross Profit / Loss = Net Sales – Cost of Goods Sold

If the selling price of goods is more than cost price, it is known as gross profit. If the selling price of goods is less than cost price, it is known as gross loss. The gross profit or gross loss of trading account will be transferred to profit & loss account.

Advantages

1. It reveals either Gross Profit or Gross Loss
2. It helps in computing the Gross Profit / Loss Ratio
3. Trading expenses and incomes of the current year can be compared with that of the previous year or with any other year. This helps the trader in estimating his trade revenue for future years.

Q8. Explain the proforma of trading account.

Ans :

Trading Account for the year ending

Dr.

Cr.

Particulars	Amount ()	Amount ()	Particulars	Amount ()	Amount ()
To Opening stock		XX	By Sales	XXX	
To Purchases	XXX		Less: Sales Returns	XX	XX
Less: Purchase returns	XX	XXX	By Closing stock		XX

Purchase expenses:		XX		
To Carriage		XX		
To Cartage		XX		
To Freight		XX		
To Customs duties		XX		
To Import duties		XX		
To Clearing charges		XX		
To Octroi		XX		
To Excise duties		XX		
Direct Expenses:		XX		
To Wages		XX		
To Factory Rent		XX		
To Factory Insurance		XX		
To Gas and Coal		XX		
To Water Charges		XX		
To Factory Manager's Salary		XX		
To Works Manager's Salary		XX		
To Oil & fuel		XX		
To Manufacturing Expenses		XX		
To Heating and lighting		XX		
To Gross Profit			By Gross loss	
(Balancing figure)			(Balancing figure)	
(Transferred to Profit			(Transferred to	
and Loss account)		XX	Profit & Loss a/c)	XX
		<u>XXX</u>		<u>XXX</u>

Items Appearing in Trading Account

1. Opening Stock

The stock which remains unsold at the end of previous year becomes the opening stock of next year. There will be no opening stock in the first year. In a manufacturing concern, there may be opening stock of raw material, work-in-progress and finished goods. All are shown on the debit side of the trading account.

2. Purchases and Purchase Returns

Net purchases are shown on the debit side of the trading account. Net purchases mean the purchases less returns outward (if any). Purchases include both cash as well as credit purchases.

3. Sales less Returns Inward

Net sales of goods are shown on the credit side the trading account. Net sales are arrived by deducting sales return from the gross sales.

4. Closing Stock

The unsold stock at the end of the year is known as closing stock. It appears on the credit side of the trading account. Like opening stock, it may be of raw-material, work-in-progress and finished goods. It is calculated at the end of the year and therefore no account is maintained for it in the ledger. If it is valued before the preparation of trial balance, then it appears in trial balance. When it is given in trial balance, it is shown in the balance-sheet only.

If it is valued after the preparation of trial balance, then it appears in adjustments. When it appears in adjustments, then it appears on the credit side of trading account and asset side of balance sheet. Different methods are followed for the valuation of closing stock, like FIFO, LIFO, average price, etc. Whatever may be the method adopted, it must be followed consistently. A principle should be kept in mind while showing it in the books. That principle is cost price or market price whichever is less. This principle is based on the convention that prospective profits should not be shown in the books of accounts while prospective losses are to be provided for in the books.

5. Power, Coal, Gas, Water, Fuel, etc.

These expenses are incurred on the conversion of raw-material into finished goods. They are shown on the debit side of trading account.

6. Royalty

These expenses are paid for using the rights of a property. For example, royalty paid to the owner of mine for extracting minerals, coal, etc. It is also debited to trading account.

7. Custom Duty, Dock-Charges

These are paid for bringing the raw-material from another country to our country. These are also debited to trading account.

8. Other Expenses

Other expenses, which are paid for manufacturing or upgrading the raw-material into saleable condition, are also shown on the debit side of trading account. These may be wages, freight, carriage inward, factory rent and factory lighting, etc.

PROBLEMS ON TRADING ACCOUNT**2. Ascertain gross profit from the following :**

	Rs.
Opening Stock	5,570
Purchases	13,816
Sales	15,284
Purchases Returns	390
Returns Inwards	524
Warehouse Wages Paid	1,400
Import Charges	252
Closing Stock	8,880

Sol.:

Dr		Trading Account		Cr	
Particulars	Rs.	Particulars	Rs.		
To Opening Stock	5,570	By Sales	15,284		
To Purchases	13,816	Less : Returns	524		14,760
Less: Returns	390	By Closing Stock			8,880
To Warehouse Wages	1,400				
To Import Charges	252				
To Gross profit (transferred to profit and loss account)	2,992				
	<u>23,640</u>				<u>23,640</u>

3. Prepare Trading Account of Raji & Co. for the year ended 31 st March. 1989

Particulars	Rs.	Particulars	Rs.
Purchases	42,500	Wages	5,000
Manufacturing expenses	1,950	Opening stock	10,000
Carriage inwards	100	Sales returns	50
Sales	67,500	Purchase returns	200
Freight and duty	5,000	Stores consumed	200
Power	300	Closing stock	12,000

Sol.:

Dr		Trading Account for the year ending 31 st March, 1989.		Cr	
Particulars	Rs.	Particulars	Rs.		
To Opening Stock	10,000	By Sales	67,500		
To Purchases	42,500	Less : Returns	50		67,450
Less: Returns	200	By Closing Stock			12,000
To Wages	5,000				
To Stores consumed	200				
To Manufacturing expenses	1,950				
To Carriage inwards	100				
To Freight and duty	5,000				
To Power	300				
To Gross profit (transferred to P & L Account)	14,600				
	<u>79,450</u>				<u>79,450</u>

4. Prepare the Trading Account from the following balances.

Stock 1-1-1986	Rs.
Raw Materials	5,000
Partly finished goods	14,000
Finished goods	30,000
Purchases	50,000
Sales	1,55,000
Sales returns	2,500
Purchases Returns	2,000
Carriage & cartage	1,000
Productive wages	1,000
Coal & coke	1,000
Freight	1,000
Factory lighting & heating	2,000
Dock charges	1,000
Factory rent, rates and taxes	500
Marine Insurance	500
Stock 31-12-1986	
Raw materials	5,000
Partly finished goods	9,000
Finished goods	14,000

Sol :

Dr Trading Account for the year ending 31-12-1986 Cr			
Particulars	Rs.	Particulars	Rs.
To Opening stock		By Sales	1,55,000
Raw Materials	5,000	Less : Sales returns	2,500
Partly-finished goods	14,000		1,52,500
Finished goods	30,000	By Closing stock (31-12-'86)	
	49,000	Raw Materials	5,000
To Purchase returns	50,000	Partly finished goods	9,000
Less : Purchases		Finished goods	14,000
returns	2,000		28,000
	48,000		
To Productive Wages	1,000		
To Freight	1,000		
To Carriage & cartage	1,000		
To Coal & Coke	1,000		
To Factory lighting and heating	2,000		
To Factory rent, rates and taxes	500		
To Marine Insurance	500		
To Dock charges	1,000		
To Gross profit	75,500		
(Transferred to profit and loss Account)			
	<u>1,80,500</u>		<u>1,80,500</u>

5. From the following information prepare trading account of Shylaja Traders for the year ending 31.12.2018:

Opening Stock	40,000
Purchases	85,000
Sales	1,80,000
Purchase Returns	3,000
Sales Returns	5,000
Wages	8,000
Carriage	2,000
Coal & Gas and Fuel	7,000
Factory Rent	4,000
Closing Stock	9,000

Sol :

**Trading account of Shylaja Traders
for the year ended 31.12.2018**

Dr.

Cr.

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Opening Stock		40,000	By Sales	1,80,000	
To Purchases	85,000		Less: Sales Returns	5,000	1,75,000
Less: Purchase Returns	<u>3,000</u>	82,000	By Closing Stock		9,000
To Wages		8,000			
To Carriage		2,000			
To Coal ,Gas& Fuel		7,000			
To Factory Rent		4,000			
To Gross Profit		41,000			
(Transferred to Profit & Loss A/C)					
		<u>1,84,000</u>			<u>1,84,000</u>

6. From the following information, prepare Trading Account of Swamy as on 31.12.2018:

Opening Stock	8,000
Purchases	20,000
Sales	35,000
Carriage on Purchases	2,000
Factory Insurance	1,000
Gas & Water Charges	3,000
Return Inwards	2,000
Return Outwards	4,000
Wages	5,000
Import Duties	1,000
Closing Stock	6,000

Sol :

Trading account of Mr. Swamy for the year ended 31.12.2018

Dr.			Cr.		
Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Opening Stock		8,000	By Sales	35,000	
To Purchases	20,000		Less: Sales Returns	2,000	33,000
Less: Purchase Returns	4,000	16,000	By Closing Stock		6,000
To Carriage		2,000			
To Factory Insurance		1,000			
To Gas and Water		3,000			
To Wages		5,000			
To Import Duties		1,000			
To Gross Profit (Transferred to Profit & loss A/c)		3,000			
		39,000			39,000

5.4 PROFIT & LOSS ACCOUNT

Q9. What is Profit & Loss Account? What are the advantages of Profit & Loss Account?

Ans :

(Imp.)

After trading account, the second stage of the preparation of final account is the preparation of Profit & Loss account. It is prepared to find out the Net Profit or Net Loss of the business. This is also a nominal Account, so all the revenue expenses and losses should be debited and all the revenue incomes

and gains are to be credited to this Profit & Loss a/c. The balance of Profit & Loss Account is either net profit or net loss, which will be transferred to balance sheet. The net profit will be added to the capital account in the balance sheet at liabilities side and the net loss will be deducted from Capital Account.

$$\text{Net Profit / Loss} = \text{Gross Profit} + \text{Incomes and Gains} - \text{Expenses and Losses}$$

Advantages

1. It Reveals net profit or net loss.
2. It helps to find out net profit ratio.
3. It assists in comparison of Current year's administrative, selling and other expenses with the previous year's amounts.
4. It facilitates for the preparation of balance sheet.

Q10. Explain the proforma of Profit & Loss Account.

Ans :

Profit & Loss A/c of XXX for the year ending xx, xx, xxxx

Dr.

Cr.

Particulars	Amount ()	Amount ()	Particulars	Amount ()	Amount ()
To Gross Loss b/d		XXX	By Gross Profit b/d		XXX
To Administrative Expenses			By Discount received	XXX	
To Salaries	XXX		By Interest received	XXX	
To Rent	XXX		By Commission received	XXX	
To Rates & Taxes	XXX		By Rent received	XXX	
To Insurance	XXX		By Interest on Drawings	XXX	
To Printing & Stationary	XXX		By Apprentice Premium	XXX	
To Audit Expenses	XXX		By Profit on sale of assets	XXX	
To Legal Expenses	XXX		By Bad Debt recovered	XXX	
					XXX
To General Expenses	XXX				
To Repairs	XXX	XXX			
To Selling & Distribution Expenses					
To Carriage Outwards	XXX				
To Advertisements	XXX				
To Bank Charges	XXX				
To Commission	XXX				

To Bad Debts	XXX				
To Travelling Expenses	XXX				
To Packing Expenses	XXX	XXX			
To Financial Expenses:					
To Discount Allowed	XXX				
To Interest on Capital	XXX				
To Interest on Loans	XXX	XXX			
To Losses:					
To Loss on sale of assets	XXX				
To Depreciation	XXX				
To Loss due to Fire Accident	XXX				
To Net Profit (transferred to Capital Account) (Balance figure)	XXX	XXX	By Net Loss (Transferred to Capital Account) (Balance figure)		XXX
		<u>XXXX</u>			<u>XXXX</u>

PROBLEMS ON PROFIT & LOSS ACCOUNT

7. From the following balances prepare a profit and loss account for the year ending 31-12-1995.

Particulars	Rs.
Salaries	3,000
Carriage outwards	1,000
Discount allowed	500
Commission allowed	1,500
Bad debts	1,000
Repairs	1,000
Advertisements	1,000
Audit fee	500
General charges	1,000
Postage	1,000
Printing and stationery	1,500
Commission received	1,000
Rents received	1,000
Insurance premium paid	1,000
Office electricity charges	500
Gross profit	24,000

*Sol.:*Dr **Profit and Loss Account for the year ending 31-12-1995** Cr

Particulars	Rs.	Particulars	Rs.
To Salaries	3,000	By Gross profit b/d	24,000
To Carriage outwards	1,000	By Commission Received	1,000
To Discount allowed	500	By Rent Received	1,000
To Commission allowed	1,500		
To Bad debts	1,000		
To Repairs	1,000		
To Advertisements	1,000		
To Audit fee	500		
To General charges	1,000		
To Postage	1,000		
To Printing and Stationery	1,500		
To Insurance Premium Paid	1,000		
To Office Electricity Charges	500		
To Net profit	11,500		
(Transferred to capital account & of Balance Sheet)			
	<u>26,000</u>		<u>26,000</u>

8. From the following ledger balances prepare a profit and loss account of Genetic sports company for the year ending 31-12-1995

Particulars	Rs.
Rent paid	3,000
Salaries	4,000
Commission paid	1,000
Discount paid	1,000
Advertisements	1,000
Telephone charges	1,000
Interest paid on loans	2,000
Bad debts	1,000
Telephone charges paid	1,000
Printing and Stationery	1,000
Office Insurance	1,000
Postage	500
Repairs	500

The Gross profit was 40% of sales and sales amounted to Rs. 1,00,000

*Sol.:***Genetic Sports Company**Dr **Profit and Loss Account for the year ending 31 -12-1995** Cr

Particulars	Rs.	Particulars	Rs.
To Rent Paid	3,000	By Gross Profit b/d	40,000
To Salaries	4,000	$\left(1,00,000 \times \frac{40}{100}\right)$	
To Commission Paid	1,000		
To Discount Paid	1,000		
To Advertisements	1,000		
To Telephone charges	1,000		
To Interest Paid on Loans	2,000		
To Bad debts	1,000		
To Telephone charges paid	1,000		
To Printing and Stationery	1,000		
To Office Insurance	1,000		
To Postage	500		
To Repairs	500		
To Net Profit (transferred to capital account & of Balance Sheet)	22,000		
	<u>40,000</u>		<u>40,000</u>

9. Prepare Profit & Loss A/c of Naveen Kumar Traders as on 31.03.2018

Particulars	Rs.	Particulars	Rs.
Rent	1,500	Discount paid	3,500
Printing & Stationary	2,000	Telephone charges	1,500
Salaries & Wages	8,000	Interest	2,000
Interest received	3,000	Insurance	1,800
Bad Debts recovered	2,000	Repairs	800
Advertisements	5,000	Postage	1,200
Gross profit	39,500	Bad debts	3,200

*Sol.:***Profit & Loss A/c of Naveen Kumar Traders as on 31.12.2018**

Dr.

Cr.

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Rent		1,500	By Gross Profit b/d		39,500
To Discount Paid		3,500	By Interest received		3,000
To Telephone Charges		1,500	By Bad Debts recovered		2,000
To Interest		2,000			
To Insurance		1,800			
To Repairs		800			
To Postage		1,200			
To Bad Debts		3,200			
To Printing & Stationary		2,000			
To Salaries & Wages		8,000			
To Advertisements		5,000			
To Net Profit (Transferred to Capital Account of B/S)		14,000			
		44,500			44,500

10. From the following balances, prepare Profit & Loss a/c of Harini for the year ended 31-12-2018

Particulars	₹	Particulars	₹
General Charges	475	Discount received	950
Insurance	300	Profit on Sale of Investments	1200
Rent & Taxes	250	Gross loss	500
Commission	125		
Discount	275		
Depreciation	325		
Bad Debts	450		
Carriage on sales	250		
Interest on Capital	325		

*Sol:***Profit & Loss A/c of Harini for the year ended 31st Dec., 2018**

Dr.

Cr.

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Gross Loss b/d		500	By Discount Received		950
To General Charges		475	By Profit on sale of investments		1200
To Insurance		300	By Net Loss		1125
To Rent and Taxes		250	(Transferred to capital a/c of balance sheet)		
To Commission		125			
To Discount		275			
To Depreciation		325			
To Bad debts		450			
To Carriage on Sales		250			
To Interest on Capital		325			
		<u>3,275</u>			<u>3,275</u>

5.5 PREPARATION OF BALANCE SHEET**Q11. What do you understand by balance sheet?***Ans :*

A Balance Sheet is a statement prepared with a view to measure the financial position of a business on a certain fixed date. The financial position of a concern is indicated by its assets on a given date and its liabilities on that date. Excess of assets over liabilities represent the capital and is indicative of the financial soundness of a company. A Balance Sheet is also described as a 'statement showing the sources and applications of capital'. It is a statement and not an account and prepared from real and personal accounts. The left hand side of the balance sheet may be viewed as a description of the sources from which the business has obtained the capital with which it currently operates and the right hand side as a description of the form in which that capital is invested on a specified date.

On the left hand side of the Balance Sheet, the several liability items describe how much capital was obtained from trade creditors, from banks, from bill holders and other outside parties. The owner's equity section shows the capital supplied by the owner.

Capital obtained from various sources has been invested according to management's best judgement of the optimum mix or combination of assets for the business. A certain fraction is invested in buildings, another fraction in stock, another fraction is retained as cash for current needs of the business and so on. The assets side of the Balance Sheet, therefore, shows the result of these management judgements as on the date of the Balance Sheet.

A properly drawn up Balance Sheet gives information relating to (i) the nature and value of assets (ii) the nature and extent of liabilities, (iii) whether the firm is solvent, (iv) whether the firm is overtrading.

If assets exceed the liabilities, the firm is solvent i.e., able to pay its debts in full. A business is, therefore, solvent by the amount of ownership capital in it, as it is the excess of assets over liabilities. The last point i.e., (iv) concerns the stability of the business. If the total of the debts due to creditors (including bank overdraft) is greater than the liquid assets (i.e., cash, investments, bills etc.) The position of the firm may be financially unsound. Where the debts are being incurred without sufficient means of payment, the firm is said to be overtrading. For the position to be quite sound, there should be some working capital i.e., some spare liquid assets available for current expenditure. It is not a wise policy to lock up the entire capital in fixed assets. The concern may be solvent without being sound.

Q12. Explain the Characteristics of a Balance Sheet.

Ans :

Following are the main characteristics :

1. It is prepared on a particular date and not for a particular period.
2. It is prepared after the preparation of Trading and Profit & Loss Account.
3. As assets must be equal to total liabilities, the two sides of the Balance Sheet must have the same total.
4. It shows the financial position of a business as a going concern.
5. It is a statement of assets (debit balances) and liability (credit balances) and not an account. Information that Balance Sheet Convey to Outsiders

Following are the main items of information that the Balance Sheet convey to an outsider:

1. The nature and the value of assets.
2. It shows the nature and extent of liabilities.
3. It shows the owners' equity (i.e., assets - liabilities = capital)
4. It tells about creditworthiness and solvency of the firm.
5. It reflects the liquidity of a firm.
6. It reveals the financial position of a firm at a particular point of time.

Q13. Explain the Classification of various Assets and Liabilities.

Ans :

(May-19)

A) Assets

Assets are property and possession of a business. Stock, land, buildings, books debts, cash, bills receivable are some examples of assets. The classification of assets depends on their nature. The various types of assets are:

- (i) Fixed Assets :** Those assets which are acquired and held permanently in the business and are used for the purpose of earning profits are called fixed assets. Land and buildings, machinery, furniture and fixtures are some examples of these assets.
- (ii) Current (or Floating) Assets :** Those assets such as cash, debtors and stock that can be realised and readily available to discharge liabilities within an operating cycle of one year or are meant to be converted into cash as soon as possible are called current assets.
- (iii) Tangible Assets :** These are definite assets which can be seen, touched and have volume such as machinery, cash, stock, etc.
- (iv) Fictitious Assets :** These assets are fictitious in nature i.e., they are virtually not assets are valueless but shown in financial statements. These are either the past accumulated losses or expenses which are incurred once in the life of a business and are capitalized for the time being. Profit and Loss Account (debit balance), organisation expenses, discount on the issue of shares and advertisement expenses capitalized for the time being are examples of such assets.
- (v) Intangible Assets :** Those assets which cannot be seen, touched and have no volume but have value are called intangible assets. Goodwill, patents, licences and trade marks are examples of such assets but quite valuable to the undertaking. An intangible asset may not be fictitious. If on account of the past goodwill purchased along with an existing concern, sales are readily effected and profit is readily earned, the asset is certainly

not fictitious though it is intangible. However, if the amount of goodwill was paid in respect of a losing concern, the asset would be fictitious.

- (vi) **Wasting Assets** : Those fixed assets which have a fixed contact like mines, quarries etc. That become exhausted or reduce in value by their working are called wasting assets.
- (vii) **Liquid Assets** : These current assets which are already in the form of cash or such items as marketable securities which can be converted into cash quickly.
- (viii) **Contingent Asset** : It is an asset the existence, value and ownership of which is dependent on the occurrence or non-occurrence of a specified act. Suppose a firm has filed a suit for some specified property now in possession of someone else. If the suit is decided in firm's favour, the firm will get the property. At the moment it is a contingent asset. Similar would be the position of a patent applied for arising of a firm's own research effort. Contingent liability in respect of a contract for capital expenditure already entered into will give rise to an asset on payment, at present it is only a contingent asset.
- (ix) Working Capital is the difference between current assets and current liabilities.
- (x) Accounts Receivable will include sundry debtors and bills receivable.

B) Liabilities

A liability is an amount which a business is legally bound to pay. It is a claim by an outsider on the assets of a business. Liabilities may be classified into four categories :

- (i) **Fixed Liabilities** : These are those liabilities which are payable only on the termination of the business such as capital which is a liability to the owner.
- (ii) **Long term Liabilities** : Those liabilities which are not payable within the next accounting period but will be payable within next five to ten years are called long term liabilities such as debentures.

(iii) **Current Liabilities** : Those liabilities which are payable out of current assets within the next accounting period usually year or already due are called current liabilities. Sundry creditors, bills payable, short term bank overdraft are examples of such liabilities.

(iv) **Contingent Liabilities** : A contingent liability is one which is not an actual liability but which will become an actual one on the happening of some event which is uncertain. Thus such liabilities have two characteristics : (a) uncertainty as to whether the amount will be payable at all, and (b) uncertainty about the amount involved. It is sufficient if the amount of such liability is stated on the face of the Balance Sheet by way of a note unless there is a probability that a loss will materialise. In that event it is no more a contingent liability and a specific provision should be made therefor. Examples of such liabilities are:

- (a) Claims against the firm not acknowledged as debts.
- (b) Uncalled liability on partly paid up shares.
- (c) Arrears of fixed cumulative dividend.
- (d) Estimated amount of contracts remaining to be executed on capital account and not provided for.
- (e) Liability of a case pending in the court.
- (f) Bills of exchange, guarantees given against a particular firm or person.

Owners' Equity (or net worth) is the difference between assets and outside liabilities. It includes both capital and retained earnings.

Q14. Explain the uses of the Balance Sheet.

Ans :

The Balance Sheet is regarded as a prominent accounting report. The different interested parties may derive different information for their own use. Generally the following information can be derived from the Balance Sheet:

1. It enables us to ascertain the proprietary interest of a person or business organization.
2. It enables us to calculate the actual capital employed in the business.

3. The lender can ascertain the financial position of the business.
4. It may serve as the basis for determining purchase consideration of the business.
5. The trends of working capital of the business can be determined by comparison of Balance Sheet of successive years and corrective measures can be taken, where necessary.
6. Different ratios can be calculated from the Balance Sheet and these ratios can be utilised for better management of the business.

Q15. Explain Limitations of the Balance Sheet.

Ans :

Though the Balance Sheet is prepared by every organisation for disclosing its financial position, yet it is suffering from the following limitations :

1. Fixed assets are shown in the Balance Sheet at historical cost less depreciation upto date. A conventional Balance Sheet cannot reflect the true value of these assets. Again intangible assets are shown in the Balance Sheet at book values which may bear no relationship to market values.
2. Sometimes, Balance Sheet contains some assets which command no market value such as preliminary expenses, debenture discount, etc. The inclusion of these fictitious assets unduly inflate the total value of assets.
3. The Balance Sheet cannot reflect the value of certain factors such as skill and loyalty of staff.
4. A conventional Balance Sheet may mislead untrained readers in inflationary situations.
5. The value of majority number of current assets depend upon some estimates, so it cannot reflect the true financial position of the business.

Q16. Distinction between Profit and Loss Account and Balance Sheet.

Ans : (May-19, Imp.)

The main points of differences between a Profit and Loss Account and a Balance Sheet are as follows:

1. Profit and Loss Account is an account prepared with balances of nominal accounts whereas a Balance Sheet is a statement of assets and liabilities.
2. Profit and Loss Account discloses the profits earned or losses incurred for the accounting period usually a year whereas a Balance Sheet shows the financial position of the business on the last day of the accounting period.
3. Balances of nominal accounts are transferred to the Profit and Loss Account. Personal accounts and real accounts are shown in the Balance Sheet. Balance of Profit and Loss Account (i.e., net profit) is also shown on the liabilities side of the Balance Sheet.
4. Nominal accounts are closed by transferring them to the Profit and Loss Account. But the accounts that are shown in the Balance Sheet do not close and become the opening balances for the next accounting period.

Q17. Explain the various forms of balance sheets.

Ans :

Form of Balance Sheet

Assets Accounts show debit balances, where as liabilities show credit balances. All Assets are shown on the Assets side and all liabilities are shown on the Liabilities side. It is customary to show the assets and liabilities in a specific order. Arrangement of Assets and Liabilities in the Balance Sheet is called *Marshalling*. There are two methods of arranging the assets and liabilities.

1. The order of liquidity or releasability
2. The order of performance.

1. Balance Sheet under order of Liquidity

Generally Sole Trading Concerns and partnership firms follow the order of liquidity or realisability. The principle followed in this case is that those assets which can be easily converted into cash come first and then the assets which are more difficult to realise. Liabilities will be shown in the order in which they are payable, the most pressing liabilities being placed first and follows the less pressing liabilities. Following is the specimen of Balance Sheet where assets are arranged in the order of liquidity. Specimen Balance Sheet is given below.

Balance Sheet Under Order of Liquidity

Balance Sheet as at

Capital and Liabilities	Rs.	Assets	Rs.
Current Liabilities		Current Assets	
Sundry Creditors	xxx	Cash in hand	xxx
Bills payable	xxx	Cash at bank	xxx
Bank overdraft	xxx	Bills receivable	xxx
Mortgage	xxx	Sundry debtors	xxx
Outstanding expenses	xxx	Investments	xxx
Income received in advance	xxx	Closing stock	xxx
Loans		Unexpired expenses	xxx
Short term loans	xxx	Accrued income	xxx
Long term loans	xxx	Fixed Assets	
Reserve Fund		Furniture and Fittings	xxx
Capital	xxx	Plant and Machinery	xxx
Opening Balance	xxx	Land and Buildings	xxx
Add : Additional		Leasehold property	xxx
Capital introduced	xxx	Freehold property	xxx
Interest on capital	xxx	Motor vehicles	xxx
Net Profit	xxx	Intangible or Invisible Assets	
	xxx	Patents	xxx
Less : Drawings	xxx	Trade Marks	xxx
Interest on Drawings	xxx	Copy rights	xxx
Income tax	xxx	Goodwill	xxx
Insurance premium of			
Proprietor	xxx		
	xxx		xxx

2. Balance Sheet under Order of Performance

Under the second method i.e., where the order of performance is followed, the Balance Sheet appears as given below.

Balance Sheet as at

Capital and Liabilities	Rs.	Assets	Rs.
<i>Capital</i>		<i>Intangible or Invisible</i>	
Opening Balance	xxx	Assets	
Add : Additional		Goodwill	xxx
Capital introduced	xxx	Copy rights	
Interest on capital	xxx	Trade marks	xxx
Net Profit	xxx	Patents	xxx
	xxx	<i>Fixed Assets</i>	
		Motor vehicles	xxx
Less : Drawings	xxx	Freehold property	xxx
Interest on		Leasehold property	xxx
Drawing	xxx	Land & Buildings	xxx
Income Tax	xxx	Plant and Machinery	xxx
Insurance	xxx	Furniture and Fittings	xxx
Premium of		<i>Current Assets</i>	
properties	xxx	Accrued Income	xxx
<i>Reserve Fund</i>	xxx	Unexpired expenses	xxx
<i>Loans</i>		Closing stock	xxx
Long term loans	xxx	Investments	xxx
Short term loans	xxx	Sundry debtors	xxx
<i>Current Liabilities</i>		Bills Receivable	xxx
Income received in advance	xxx	Cash at bank	xxx
Outstanding expenses	xxx	Cash in hand	xxx
Mortgage	xxx		
Bank overdraft	xxx		
Bills payable	xxx		
Sundry creditors	xxx		
	xxx		xxx

PROBLEMS ON BALANCE SHEET

11. From the following particulars, prepare a Balance Sheet as on 31st March, 2013:

Particulars	`	Particulars	`
Capital	50,000	Loan to Smith	5,000
Business Premises	55,000	Investments	3,000
Furniture & Fixtures	2,500	Cash in Hand	200
Bills Receivable	3,500	Cash at Bank	3,500
Bills Payable	2,500	Proprietor's withdrawals	3,000
Sundry Debtors	20,000	Net Profit	38,900
Sundry Creditors	15,800	Closing Stock	7,000
Packing Machinery	4,500		

Sol.:

BALANCE SHEET
as on 31st March, 2013

Liabilities	₹	Assets	₹
Sundry Creditors	15,800	Cash in Hand	200
Bills Payable	2,500	Cash at Bank	3,500
Capital	50,000	Investments	3,000
Add: Net Profit	38,900	Sundry Debtors	20,000
	88,900	Bills Receivable	3,500
Less: Drawings	3,000	Closing Stock	7,000
	85,900	Loan to Smith	5,000
		Packing Machinery	4,500
		Furniture & Fixtures	2,500
		Business Premises	55,000
	<u>1,04,200</u>		<u>1,04,200</u>

- 12. Following balances are extracted from the books of Kautilya & Co. on 31st March, 2013. You are required to make the necessary closing entries and to prepare the Trading and Profit and Loss Account and a Balance Sheet as on that date :**

Particulars	₹	Particulars	₹
Opening Stock	500	Commission (Cr.)	200
Bills Receivable	2,250	Returns Outward	250
Purchases	19,500	Trade Expenses	100
Wages	1,400	Office Fixtures	500
Insurance	550	Cash in Hand	250
Sundry Debtors	15,000	Cash at Bank	2,375
Carriage Inward	400	Rent & taxes	550
Commission (Dr.)	400	Carriage Outward	725
Interest on Capital	350	Sales	25,000
Stationery	225	Bills Payable	1,500
Returns Inward	650	Creditors	9,825
		Capital	8,950

The Closing Stock was valued at ₹ 12,500.

Sol.:

TRADING & PROFIT & LOSS A/C OF MESSERS KAUTILYA & CO.
for the year ended 31st March, 2013

Particulars		Particulars	
To Opening Stock	500	By Sales	25,000
To Purchases	19,500	Less: Returns Inward	650
Less: Returns Outward	250		
	19,250	By Closing Stock	12,500
To Wages	1,400		
To Carriage Inward	400		
To Gross Profit c/d	15,300		
	36,850		36,850
To Insurance	550	By Gross Profit b/d	15,300
To Commission	400	By Commission	200
To Interest on Capital	350		
To Stationery	225		
To Trade Expenses	100		
To Rent and Taxes	550		
To Carriage Outward	725		
To Net Profit transferred to Capital A/c	12,600		
	15,500		15,500

BALANCE SHEET OF MESSRS KAUTILYA & CO.
as on March 31, 2013

Liabilities		Assets	
Creditors	9,825	Cash in Hand	250
Bills Payable	1,500	Cash at Bank	2,375
Capital		Bill Receivable	2,250
April 1, 2012	8,950	Stock	12,500
Add: Net Profit	12,600	Sundry Debtors	15,000
	21,550	Office Fixtures	500
	32,875		32,875

13. From the following balances of Ramesh, prepare trading and profit and loss account for the year ending 31st March, 2004 and a balance sheet as on that date.

Particulars	Amount	Particulars	Amount
Capital	70,000	Cash in hand	3,600
Buildings	37,500	S. Creditors	20,000
Returns Inwards	900	Debtors	14,000
Salaries	2,220	General Expenses	1,600
Discount allowed	400	Rent Paid	7,420
Stock (1.4.2003)	33,000	Drawings	1,300
Bills Payable	10,000	Electricity charges	380
Sales	1,27,000	Carriage Inwards	1,700
Purchases	93,700	Cash at Bank	6,000
Wages	5,000	Machinery	18,500
Returns Outwards	220		

Closing stock was valued at 36,420.

Sol.:

Trading and Profit and Loss Account of Ramesh as on 31.03.2004

Particulars	Amount	Particulars	Amount
To Opening Stock	33,000	By Sales	1,27,000
To Purchases	93,700	Less: Returns	900
Less: Returns Outward	220	By Closing Stock	36,420
To Wages	5,000		
To Carriage Inward	1,700		
To Gross Profit c/d	29,340		
	1,62,520		1,62,520
To Salaries	2,220	By Gross Profit b/d	29,340
To Discount allowed	400		
To General Expenses	1,600		
To Rent	7,420		
To Electricity charges	380		
To Net Profit (carried to Capital) A/c	17,320		
	29,340		29,340

Balance Sheet of Ramesh as on 31.03.2004

Liabilities	Amount	Assets	Amount
Sundry Creditors	20,000	Cash in hand	3,600
Bills Payable	10,000	Cash at Bank	6,000
Capital	70,000	Debtors	14,000
Add: Net Profit	17,320	Closing Stock	36,420
	87,320	Machinery	18,500
Less: Drawings	1,300	Buildings	37,500
	86,020		
	1,16,020		1,16,020

14. From the following trial balance of Kerala Sons prepare trading and profit and loss account and balance sheet.

Trial Balance as on 31.03.2003

Debit Balances	Amount	Credit Balances	Amount
Stock at the end	19,270	Capital	90,000
Purchases less Returns	24,720	Creditors	59,160
Investments	20,000	Loans	19,500
Wages & Salaries	15,965	Reserve	2,000
Furniture	9,840	Income from Investment	453
Carriage (Inward)	2,150	Sales	94,500
Premises	25,000		
Goodwill	30,000		
Taxes & Insurance	4,175		
Trade Expenses	8,142		
Debtors	88,140		
Horses and Carts	5,165		
Stable Expenses	2,473		
Discount	928		
Bad Debts	1,485		
Bank Charges	475		
Cash in hand and at bank	7,685		
	2,65,613		2,65,613

Dr. Trading and Profit and Loss Account Kerala Sons as on 31.03.2003 Cr.

Particulars	Amount	Particulars	Amount
To Purchase less returns	24,720	By Sales	94,500
To Wages and Salaries	15,965		
To Carriage Inward	2,150		
To Gross Profit c/d	51,665		
	<u>94,500</u>		<u>94,500</u>
To Stable Expenses	2,473	By Gross Profit b/d	51,665
To Taxes and Insurance	4,175	By Income from investments	453
To Trade Expenses	8,142		
To Discount	928		
To Bad Debts	1,485		
To Bank Charges	475		
To Net Profit	34,440		
	<u>52,118</u>		<u>52,118</u>

Balance Sheet of Kerala Sons as on 31.02.2003

Liabilities		Amount	Assets		Amount
Creditors		59,160	Cash in hand and at bank		7,685
Loan		19,500	Debtors		88,140
Reserve		2,000	Investments		20,000
Capital	90,000		Closing Stock		19,270
Add. Net Profit	<u>34,440</u>	1,24,440	Furniture		9,840
			Horses and Carts		5,165
			Premises		25,000
			Goodwill		30,000
		<u>2,05,100</u>			<u>2,05,100</u>

15. The following trial balance is extracted from the books of Vinit on 31st March, 2003. Stock is valued at Rs 11,360. Prepare Trading and Profit and Loss Account for the year ending 31st March, 2003 and a balance sheet as on that date :

Particulars	Dr. Amount	Cr. Amount
Sundry Debtors and Creditors	9,000	8,800
Cash at Bank	3,040	—
Furniture	10,000	—
Stock	9,180	—
Purchases and Sales	44,500	67,200
Returns	860	1,500
Salaries	9,000	—
Rent	1,000	—
Advertisement	400	—
Drawings	5,000	—
Printing and Stationary	100	—
Freight on Sales	180	—
Trade Expenses	1,600	—
Capital	—	16,000
Discount Received	—	360
	<u>93,860</u>	<u>93,860</u>

*Sol.:***Dr. Trading and Profit and Loss Account of Vinit as on 31st March, 2003 Cr.**

Particulars	Amount	Particulars	Amount
To Opening Stock	9,180	By Sales	67,200
To Purchases	44,500	Less : Returns	860
Less : Returns	1,500	By Closing Stock	11,360
To Gross Profit c/d	25,520		
	<u>77,700</u>		<u>77,700</u>
To Salaries	9,000	By Gross Profit b/d	25,520
To Rent	1,000	By Discount Received	360
To Advertisement	400		
To Printing and Stationery	100		
To Trade Expenses	1,600		
To Freight on Sales	180		
To Net Profit c/d	13,600		
	<u>25,880</u>		<u>25,880</u>

Balance Sheet of Vinit as on 31.03.2003

Liabilities	Amount	Assets	Amount
Creditors	8,800	Cash at Bank	3,040
Capital	16,000	Sundry Debtors	9,000
Add. Net Profit	13,600	Closing Stock	11,360
	<u>29,600</u>	Furniture	10,000
Less: Drawings	5,000		
	<u>24,600</u>		
	<u>33,400</u>		<u>33,400</u>

5.5.1 Adjustments - Closing Entries**Q18. What do you mean by Adjustments? Explain the objectives of Adjustments.***Ans.:*

Every adjustment has two fold effect according to the principle of double entry system. Hence, every item given as adjustment is to be shown two times i.e., one time either in Trading Account or in Profit and Loss Account and second time, it should be shown in the Balance Sheet. However, the items given in the Trial Balance should be shown only one time while preparing the final accounts.

Objective of Adjustments

1. To rectify the errors done in the recording of transactions in the books of accounts.
2. To record those transactions which are omitted to be recorded.
3. To record such expenses and incomes which have accrued but have not been paid or received.
4. To find out the correct profit or loss and financial position of the business.

Ans :

(May-17, Dec.-16, Imp.)

These adjustments will be recorded at two places because these are not recorded or wrongly recorded in the books. These are :

These are the goods which remain unsold at the end of the year. It is valued at cost price or market price whichever is less. Since it is not valued at the time of preparing trial balance, therefore it appears outside the trial balance. The following entry is passed for it.

Treatment : (i) Once it will appear on the Credit side of Trading A/c and secondly on the Assets side of Balance Sheet, (ii) If the Closing Stock is given in Trial balance, then only in Assets side of Balance Sheet.

The expenses which have become due but have not been paid at the end of the accounting year are called as outstanding expenses.

Treatment: (i) If they are appearing outside the trial balance, once they will be added to particular related expenses in trading or profit & loss account and secondly they will appear on the liability side of balance sheet, (ii) If they are appearing inside the trial balance, They will appear on the liability side of balance sheet.

Such expenses are the reverse of outstanding expenses. It means the expenses which have been paid but the benefit of which is not taken are called prepaid expenses.

Treatment: (i) If they are appearing as adjustments, once they will be deducted from the particular related expenses appearing on the debit side of trading or profit & loss account and will appear on the assets side of balance sheet, (ii) If they are given in Trial Balance, they will appear only on the asset side of balance sheet.

It is the decrease in the value of fixed assets due to use, accident or passage of time.

Entry: Depreciation A/c Dr.
 To Asset A/c
(being depreciation charged on particular asset)

Treatment: (i) If it is given as adjustment, it will appear on the debit side of profit & loss account and will be subtracted from the particular asset in the balance sheet, (ii) If it is given in trial balance, then only on the debit side of profit and loss account.

5. Outstanding Income or Accrued Income

The income which is earned but not received during the year is called accrued income.

Entry: Accrued Income A/c Dr.
 To Income A/c
 (being income receivable)

Treatment: (i) Outside the Trial Balance: It will be added to particular income on the credit side of profit and loss account and will be shown on the asset side of balance sheet, (ii) Given in the Trial Balance: In this case, it will appear on the asset side of balance sheet only.

6. Unearned Income or Income Received in Advance

It is the reverse of accrued income. It is the income which is received during the year but no services have been rendered for it in the year. This income is related for the next year.

Entry : Income A/c Dr.
 To Unearned Income A/c
 (being income received in advance)

Treatment : (i) Outside the Trial Balance: If these are given as adjustment, once these are to be deducted from particular income appearing on the credit side of profit & loss account and on the liability side of balance sheet, (ii) In the Trial Balance: If it is given in the trial balance, it will appear on the liability side of balance sheet.

7. Interest on Capital

The amount which is to be given to owner for interest on the amount invested by him in the business is called interest on capital.

Entry : Interest on Capital A/c Dr.
 To Capital A/c
 (being interest on capital allowed)

Treatment: It will be shown on the debit side of profit & loss account and will be added in capital on the liability side of balance sheet.

8. Interest on Drawings

The amount or the goods withdrawn by proprietor for personal use are called drawings. The business charges interest on these drawings from him. This is called as interest on drawings.

Entry: Drawings A/c Dr.
 To Interest on Drawings A/c
 (being interest charged on drawings)

Treatment: (i) It will appear on the credit side of profit & loss account and will be subtracted from the capital on the liability side of balance sheet.

9. Interest on Loan

If any amount is borrowed from the outside source, then the interest is to be paid on that amount. This is called as interest on loan. If this is not paid, then it will become outstanding interest.

Entry: Interest on Loan A/c Dr.

To Loan A/c

(Being interest due on loan)

Treatment: Since they are the expenses, they will be shown on the debit side of profit and loss account and will be added in the amount of loan on the liability side of the balance sheet.

10. Bad Debts

These are the amounts which are not received from the debtors or there is no possibility of realising them:

Entry: Bad Debts A/c Dr.

To Debtors A/c

(being bad-debts written off)

Treatment: (i) Outside the Trial Balance: If they are given outside the trial balance once they will be shown on the debit side of profit & loss account and secondly will be subtracted from the debtors on the assets side of balance sheet.

(ii) In the Trial Balance: If they are given in trial balance, then it will be shown on debit side of profit & loss account only.

11. Provision for Bad and Doubtful Debts

Doubtful debts are those debts about which there is an uncertainty and their recovery is doubtful. It is only anticipation of future loss. Therefore, it cannot be treated as bad debts. For such type of amounts, we create a reserve or provision which is called as provision for bad and doubtful debts.

Entry : Profit and Loss A/c Dr.

To Provision for Bad and

Doubtful Debts A/c

(Being provision for doubtful debts created)

Treatment: It will be debited to profit and loss account and will be subtracted from the amount of debtors on the asset side of the balance sheet.

Both Bad Debts and Provision for Doubtful Debts are given in Adjustments as well as in Trial Balance.

In this case, the following equation should be made

Bad Debts + Further Bad Debts + New Provision – Old Provision

(T.B.) (Adjustment) (Adjustment) (T.B.)

If this equation comes +ve, then it will appear on the debit side of profit and loss account.

If this equation comes -ve, then after taking -ve sign common and it will become as follows and will appear on the credit side of the profit and loss account.

Old Provision - Bad Debts - Further Bad Debts - New Provision (T.B.) (T.B.) (Adjustments)(Adjustment)

12. Provision for Discount on Debtors

Entry: Profit and Loss A/c Dr.
 To Provision for Discount on Debtors A/c
(Being provision for discount on debtors created)

The following sequence should be kept in mind.

	Rs.
Amount of Debtors as per T.B.	—
Less : Further Bad Debts (Adjustment)	—
Less : Provision for Doubtful Debts (Adjustment)	—
on the amount (a)	
Less : Provision for Discount on Debtors	
(Adjustment) on (b)	

Amount to be shown in Balance Sheet	

Entry: Provision for Discount on Creditors A/c Dr.
To Profit and Loss A/c
(Being provision for discount on creditors created)

If the amount of loan is appearing in trial balance and the rate of interest is also mentioned there, then the interest on that amount is to be paid as per time period. Now it should be ascertained whether the full amount of interest is given in trial balance or not. If the full amount is not included in trial balance, then the left out amount should be treated as outstanding interest. Since nothing will be mentioned in adjustments in this regard, therefore it is called as implied interest.

Sales tax is the amount which is to be paid by seller to the government. Seller collects this amount from the buyers.

- (i) If 'Sales Tax Collected' or 'Sales Tax' is mentioned and the amount is given on the credit side of trial balance, it will be shown on the liability side of the balance sheet.
- (ii) If 'Advance Sales Tax' is mentioned on the debit side of trial balance, it will be shown on the asset side of balance sheet.
- (iii) If 'Sales Tax Paid' is mentioned on the debit side of Trial Balance, it will be written on the debit side of Profit and Loss Account.
- (iv) If 'Sales Tax Paid' and 'Sales Tax Collected' both are given, and collected amount is more than paid, the balance amount after subtracting paid amount from collected amount will be shown on the liability side of balance sheet. But if the amount paid is more than the amount collected, the balance amount after their adjustment will be shown on the asset side of balance sheet.

Treatment: The amount of goods withdrawn will be deducted out of purchases in the trading account and will also be deducted from capital on the liabilities side of balance sheet.

Treatment: The goods withdrawn will be subtracted from purchases in the trading account and will be added or shown separately on the assets side of balance sheet.

Treatment: The goods distributed as free samples will be deducted from purchases in the trading account and will appear on debit side of profit and loss account.

Treatment: Goods given as charity will be subtracted from the purchases in the trading account and will appear on the debit side of profit and loss account.

20. Commission on Net Profit Payable to Manager

Sometimes commission on net profit is paid to manager in addition to his salary for making extra efforts to increasing the profitability of the firm.

Entry: Manager Commission A/c Dr.

To Outstanding Commission A/c

(Being commission to be paid to manager)

Treatment: It is a business expense, therefore, it will appear on the debit side of profit and loss account and since it is yet to be paid, it will also appear on the liability side of balance sheet.

Formulas for Calculation**i) On net profit before charging such commission :**

Commission = Net Profit before Commission x

ii) On net profit after charging such commission:

= Net Profit after Commission x

Process for Calculation

- i) Make all other adjustments in P/L A/c.
- ii) Make total of credit side of P/L A/c and write it in working notes.
- iii) Make a rough total of debit side of P/L A/c and write it in working notes.
- iv) Deduct their total of debit from the total of credit. The difference is used for calculating commission.
- v) Apply formula as per condition given and write down the calculated commission on the debit side of profit and loss account.
- vi) Now calculate the net profit.

21. Contingent Liability

The liability which is not a liability yet, but can become a liability on the happening of a certain event, e.g.,

- i) Pending cases in the court;
- ii) Guarantee of a loan of friend;
- iii) B/R discounted but not matured;
- iv) Liability for contracts undertaken till they are completed.

Treatment: These are shown as footnotes below the balance sheet only.

22. Deferred Revenue Expenditure

Sometimes an expenditure is made, the benefit of which is likely to be derived over next few years also, this is called as deferred revenue expenditure. Therefore, the amount of expenditure is spread over the period for which benefit will accrue. Every year the amount written off is transferred to profit and loss account.

Entry: Profit and Loss A/c Dr.

To Particular Expenditure A/c

(Being expenses written off)

Treatment: The amount calculated after dividing the total amount by number of years will be shown to debit of profit and loss account and the balance amount will be shown on the debit side of balance sheet.

23. Goods Sold and Despatched but Omitted to be Recorded

If the goods are sold to a customer but omitted to be recorded in the books, the following journal entry will be passed. This generally happens when the sales are made on credit basis.

Entry: Debtors A/c Dr.

 To Sales A/c

(Being goods sold on credit)

Treatment: Once the amount is added to sales on the credit side of trading account and secondly it is added to debtors on the assets side of balance sheet.

24. Goods Sold on 'Sales or Return Basis

When the goods are sold on sales or return basis and if this is treated as sales it is an error and has to be rectified.

Entry: Sales A/c Dr.

 To Debtors A/c

(Being error of goods sold on sales or return basis rectified)

Treatment: Once it will be deducted from sales in trading account and debtors in assets in balance sheet and secondly it will be added to closing stock in trading account and in balance sheet. The selling price is to be deducted from debtors and sales and cost price of goods is to be added in closing stock at both places.

25. Dishonour of Bills of Exchange

If the payment against the bills receivable is not received on maturity date, it is called as dishonour of bills of exchange.

Entry: Debtors A/c Dr.

 To Bills Receivable A/c

(Being B/R dishonoured)

Treatment: The amount will be subtracted from bills receivable on the asset side of balance sheet and will be added in the amount of debtors in balance sheet.

26. Capital Expenditure treated as Revenue Expenditure or vice-versa

Sometimes capital expenditure is treated as revenue expenditure or revenue expenditure is treated as capital expenditure, it is error of principal and hence has to be rectified.

Treatment:

- i) If the capital expenditure is treated as revenue expenditure, then the amount will be subtracted from the particular expenses appearing in the debit or trading or profit and loss account and will be added in particular asset in the balance sheet.
- ii) If the revenue expenditure is treated as capital expenditure, the amount will be deducted from the particular asset and will be added to the debit side of trading or profit and loss account.

PROBLEMS ON FINAL ACCOUNTS WITH ADJUSTMENTS

16. From the following trial balance of Mahindra Traders, prepare final accounts for the year ended 31.12.2018:

Trial Balance

Particulars	Debit Bal.	Credit Bal.
Capital		32,000
Salaries	1,000	
Purchases	20,000	
Purchase Returns		400
Sales		25,000
Cash	5,000	
Wages	1,200	
Factory Rent	200	
Insurance	750	
Carriage	400	
Office Expenses	800	
Carriage Outwards	200	
Machinery	10,000	
Furniture	7,000	
Discount allowed	450	
Discount received		1,600
Goodwill	5,000	
Opening stock	2,000	
Debtors	9,000	
Creditors		4,000
Total	63,000	63,000

Adjustments:

- | | | |
|-----|------------------------|-------|
| (1) | Value of Closing Stock | 2,500 |
| (2) | Prepaid Insurance | 250 |
| (3) | Outstanding Salaries | 300 |

Sol.:

**Trading and Profit & Loss Account of Mahindra Trader's
for the year ended 31.12.2018**

Dr.			Cr.		
Particulars	Amount	Amount	Particulars	Amount	Amount
To Opening Stock		2,000	By Sales		25,000
To Purchases	20,000		By Closing Stock		2,500
Less: Returns	400	19,600			
To Wages		1,200			
To Factory Rent		200			
To Carriage		400			
To Gross Profit c/d		4,100			
		<u>27,500</u>			<u>27,500</u>
To Salaries	1,000		By Gross Profit b/d		4,100
Add: Outstanding Salaries	300	1,300	By Discount Received		1,600
To Insurance	750				
Less: Prepaid Insurance	250	500			
To Office Expenses		800			
To Carriage outwards		200			
To Discount allowed		450			
To Net Profit (Transferred to Capital A/c)		2,450			
		<u>5,700</u>			<u>5,700</u>

Balance Sheet of Mahindra Trader's as on 31.12.2018

Liabilities	Amount	Amount	Assets	Amount	Amount
Capital	32,000		Cash		5,000
Add: Net Profit	2,450	34,450	Machinery		10,000
Creditors		4,000	Furniture		7,000
Outstanding Salaries		300	Goodwill		5,000
			Debtors		9,000
			Prepaid Insurance		250
			Closing Stock		2,500
		<u>38,750</u>			<u>38,750</u>

17. Prepare Final Accounts of Telangana Traders for the year ended 31.12.2018.**Trial Balance**

Debit Balances	Amount	Credit Balances	Amount
Opening Stock	7,000	Capital	1,00,000
Purchases	9,000	Interest	1,500
Rent	1,200	Return Outwards	500
Salaries	1,500	Sales	16,000
Wages	1,000	Commission	1,000
Carnage Inwards	1,050	Creditors	6,000
Carriage Outwards	450		
Land & Buildings	50,000		
Investments	20,000		
Loose Tools	12,000		
Discount	1,500		
Interest	500		
Telephone Charges	700		
Printing & Stationary	900		
Furniture	18,000		
Return Inwards	200		
	<u>1,25,000</u>		<u>1,25,000</u>

Adjustments

Closing Stock: 12000, Outstanding Wages: 500, Interest Received in Advance: 600, Commission Receivable: 400.

Sol/ :

**Trading and Profit & Loss Account of Telangana Trader's
for the year ended 31.12.2018**

Dr

Cr

Particulars	Amount	Amount	Particulars	Amount	Amount
To Opening Stock		7,000	By Sales	16,000	
To Purchases	9,000		Less: Returns	200	15,800
Less: Returns	500	8,500	By Closing Stock		12,000
To Wages	1,000				
Add: Outstanding Wages	500	1,500			
To Carriage		1,050			
To Gross Profit c/d		9,750			
		<u>27,800</u>			<u>27,800</u>

To Salaries	1,500	By Gross Profit b/d	9,750
To Rent	1,200	By Interest Received	1,500
To Carriage outwards	450	Less: Int. Recd in advance	600
To Discount	1,500	By Commission	1,000
To Interest	500	Add: Comm. Receivable	400
To Telephone charges	700		
To Printing & Stationary	900		
To Net Profit (Transferred to Capital A/c)	5,300		
	<u>12,050</u>		<u>12,050</u>

Balance Sheet of Telangana Trader's as on 31.12.2018

Liabilities	Amount	Amount	Assets	Amount	Amount
Capital	1,00,000		Land & Buildings		50,000
Add: Net Profit	5,300	1,05,300	Investments		20,000
Creditors		6,000	Loose tools		12,000
Interest Received in Advance		600	Furniture		18,000
Outstanding wages		500	Commission Receivable		400
			Closing stock		12,000
		<u>1,12,400</u>			<u>1,12,400</u>

- 18. From the following trial balance, prepare Mahesh Trader's final accounts for the year ended 31.03.2018:**

Trial Balance

Debit Balances	Amount	Credit Balances	Amount
Opening stock	5,000	Capital	22,000
Purchases	4,700	Creditors	3,000
Wages	800	Bills Payable	5,400
Carriage	500	Discount	2,400
Rent	1,000	Sales	9,000
Salaries	1,200	Overdraft	2,000
Discount	400		
Advertisement Expenses	800		
Customs Duty	600		

Factory Insurance	300		
Machinery	12,000		
Debtors	6,000		
Furniture	9,000		
Speed post charges	700		
Bad Debts	800		
	<u>43,800</u>		<u>43,800</u>

Adjustments

1. Value of Closing Stock: 5,400
2. Prepaid Wages: 300
3. Outstanding Rent: 400
4. Depreciation on Machinery: 5%, Depreciation on Furniture: 10%

Sol.:

**Trading and Profit & Loss Account of Mahesh Trader's
for the year ended 31.03.2018**

Dr.**Cr.**

Particulars	Amount	Amount	Particulars	Amount	Amount
To Opening Stock		5,000	By Sales		9,000
To Purchases		4,700	By Closing Stock		5,400
To Wages	800				
Less: Prepaid Wages	300	500			
To Carriage		500			
To Customs duty		600			
To Factory insurance		300			
To Gross Profit c/d		2,800			
		<u>14,400</u>			<u>14,400</u>
To Salaries		1,200	By Gross Profit b/d		2,800
To Rent	1,000		By Discount		2,400
Add: Outstanding Rent	400	1,400			
To Discount		400			
To Advertisement Expenses		800			
To Speed Post charges		700			
To Depreciation on Machinery		600			
To Depreciation on Furniture		900			
To Bad Debts		800	By Net Loss (Transferred to Capital A/c)		1,600
		<u>6,800</u>			<u>6,800</u>

Balance Sheet of Mahesh Trader's as on 31.12.2018

Liabilities	Amount	Amount	Assets	Amount	Amount
Capital	22,000		Machinery	12,000	
Less: Net loss	1,600	20,400	Less: Depreciation	600	11,400
Creditors		3,000	Furniture	9,000	
Bills Payable		5,400	Less: Depreciation	900	8,100
Overdraft		2,000	Debtors		6,000
Outstanding Rent		400	Prepaid Wages		300
			Closing Stock		5,400
		31,200			31,200

19. From the following trial balance of Arun Goyal, prepare trading and profit & loss account for the year ended on 31st March, 2006 and a balance sheet as on that date :

Name of Accounts	Dr.	Cr.
Capital	—	3,00,000
Drawings	22,000	—
Fixed Assets	2,90,000	—
Purchases and Sales	3,40,000	6,50,000
Returns Inwards	8,000	—
Returns Outwards	—	6,000
Carriage	15,600	—
Wages	36,000	—
Salaries	20,000	—
Rent	—	13,000
Insurance	1,200	—
Audit Fees	500	—
Debtors and Creditors	1,68,000	47,500
Bills Receivable and Bills Payable	4,800	3,600
Printing and Stationery	1,500	—
Commission	—	400
Opening Stock	45,000	—
Cash in hand	14,300	—
Cash at bank	62,250	—
Bank Loan	—	10,000
Interest on Loan	1,350	—
	<u>10,30,500</u>	<u>10,30,500</u>

Adjustments

1. Stock at the end Rs. 51,700.
2. Depreciate fixed assets by 10%.
3. Allow 7% p.a. interest on capital and charge Rs. 2,600 as interest on drawings.
4. Rent received in advance Rs. 1,000.
5. Commission earned but not received amounted to Rs. 150.
6. Interest on bank loan @ 18% p.a. is unpaid for the last 3 months.

Sol.:

**Trading and Profit and Loss Account for the
year ending 31st March, 2006**

Dr.		Cr.	
Particulars	Amount	Particulars	Amount
To Opening Stock	45,000	By Sales	6,50,000
To Purchases	3,40,000	Less: Returns	8,000
Less: Returns	6,000		
	3,34,000	By Closing Stock	51,700
To Carriage	15,600		
To Wages	36,000		
To Gross Profit c/d	2,63,100		
	6,93,700		6,93,700
To Salaries	20,000	By Gross Profit b/d	2,63,100
To Insurance	1,200	By Rent	13,000
To Audit Fees	500	Less: Received in Advance	1,000
To Printing and Advertising	1,500		
To Interest on Loan	1,350	By Commission	400
Add: Outstanding Interest	450	Add: Accured Commission	150
	1,800		
To Depreciation on Fixed Assets	29,000	By Interest on Drawings	2,600
To Interest on Capital	21,000		
To Net Profit c/d	2,03,250		
	2,78,250		2,78,250

Balance Sheet as on 31-03-2006

Liabilities	Amount	Assets	Amount
Bills Payable	3,600	Cash in hand	14,300
Creditors	47,500	Cash at Bank	62,250
Bank Loan	10,000	Bills Receivable	4,800
Add: Outstanding Interest	450	Debtors	1,68,000
Rent Received in Advance	1,000	Closing Stock	51,700
Capital	3,00,000	Accrued Commission	150
Add: Interest on Capital	21,000	Fixed Assets	2,90,000
Add: Net Profit	2,03,250	Less: Depreciation	29,000
	5,24,250		
Less: Drawings	22,000		
Less: Interest on Drawings	2,600		
	4,99,650		
	5,62,200		5,62,200

20. From the following figures, prepare the trading and profit and loss account for the year ended on 31 st December, 2008 and the balance sheet as on that date :

Particulars	Rs.
Stock on 1-1-2008	2,000
Book Debts	2,000
Plant and Machinery	1,000
Wages	500
Salaries	200
Capital	5,000
Land and Building	3,000
Creditors	1,000
Bad Debts	100
Trading Expenses	250
Provision for Bad Debts	950
Discount Received	50
Purchases	10,000
Sales	15,000
Cash	2,000
Drawings	1,050

The following adjustments are to be made :

- i) Stock on 31st December, 2008 was of Rs. 2,500.
- ii) Make a provision of 5% on debtors.
- iii) Bad debts Rs. 200.
- iv) Write off 10% depreciation on plant and machinery.
- v) Due to salesman for salary Rs. 50.
- vi) Wages paid in advance for Rs. 20
- vii) Make a provision for discount on debtors and creditors @2%.

Sol.:

Trading and Profit & Loss A/c as on 31-12-2008

Dr		Cr	
Particulars	Amount	Particulars	Amount
To Opening Stock	2,000	By Sales	15,000
To Purchases	10,000	By Closing Stock	2,500
To Wages 500			
Less: Prepaid Wages 20	480		
To Gross Profit c/d	5,020		
	17,500		17,500
To Salaries 200		By Gross Profit b/d	5,020
Add: Outstanding Salary 50	250	By Discount Received	50
To Trading Expenses	250	By Old Provision	950
To Depreciation on Machinery	100	Less: Bad Debts	100
To Provision for Discount on Debtors	34.20		850
To Net Profit c/d	5115.80	Less: Further Bad Debts	200
			650
		Less: New Provision	90
		By Provision for Discount on Creditors	560
	5,650		20
			5,650

Balance Sheet as on 31-12-2003

Liabilities		Amount	Assets		Amount
Creditors	1,000		Cash		2,000
Less: Prov. for Discount on creditors	20	980	Book Debts	2,000	
Capital	5000		Less: Further Bad debts	200	
Add: New Profit	5115.80			1,800	
	10115.80		Less: New Provision for Doubtful Debts on 1800 @ 5%	90	
Less: Drawings	1050.00	9,065.80		1710	
Outstanding Salary		50	Less: Provision for Discount on Debtors @ 2%	34.20	1,675.80

21. From the following balances of Ramesh, prepare trading and profit and loss account for the year ending 31st March, 2004 and a balance sheet as on that date.

Sol:

Particulars	Amount	Particulars	Amount
To Opening Stock	33,000	By Sales	1,27,000
To Purchases	93,700	Less: Returns	900
Less: Returns Outward	<u>220</u>	By Closing Stock	36,420
To Wages	5,000		
To Carriage Inward	1,700		
To Gross Profit c/d	29,340		
	<u>1,62,520</u>		<u>1,62,520</u>

To Salaries	2,220	By Gross Profit b/d	29,340
To Discount allowed	400		
To General Expenses	1,600		
To Rent	7,420		
To Electricity charges	380		
To Net Profit (carried to Capital)A/c	17,320		
	<u>29,340</u>		<u>29,340</u>

Balance Sheet of Ramesh as on 31.03.2004

Liabilities		Amount	Assets		Amount
Sundry Creditors		20,000	Cash in hand		3,600
Bills Payable		10,000	Cash at Bank		6,000
Capital	70,000		Debtors		14,000
Add: Net Profit	17,320		Closing Stock		36,420
	<u>87,320</u>		Machinery		18,500
Less: Drawings	1,300	86,020	Buildings		37,500
		<u>1,16,020</u>			<u>1,16,020</u>

22. From the following trial balance of Arun Goyal, prepare trading and profit & loss account for the year ended on 31st March, 2006 and a balance sheet as on that date:

Name of Accounts	Dr.	Cr.
Capital	—	3,00,000
Drawings	22,000	—
Fixed Assets	2,90,000	—
Purchases and Sales	3,40,000	6,50,000
Returns Inwards	8,000	—
Returns Outwards	—	6,000
Carriage	15,600	—
Wages	36,000	—
Salaries	20,000	—
Rent	—	13,000
Insurance	1,200	—
Audit Fees	500	—
Debtors and Creditors	1,68,000	47,500
Bills Receivable and Bills Payable	4,800	3,600
Printing and Stationery	1,500	—
Commission	—	400
Opening Stock	45,000	—
Cash in hand	14,300	—
Cash at bank	62,250	—
Bank Loan	—	10,000
Interest on Loan	1,350	—
	<u>10,30,500</u>	<u>10,30,500</u>

Adjustments

1. Stock at the end Rs. 51,700.
2. Depreciate fixed assets by 10%.
3. Allow 7% p.a. interest on capital and charge Rs. 2,600 as interest on drawings.
4. Rent received in advance Rs. 1,000.
5. Commission earned but not received amounted to Rs. 150.
6. Interest on bank loan @ 18% p.a. is unpaid for the last 3 months.

*Sol.:***Dr Trading and Profit and Loss Account for the year ending 31st March, 2006 Cr**

Particulars	Amount	Particulars	Amount
To Opening Stock	45,000	By Sales	6,50,000
To Purchases	3,40,000	Less: Returns	8,000
			<hr/>
Less: Returns	6,000	By Closing Stock	51,700
	<hr/>		
To Carriage	15,600		
To Wages	36,000		
To Gross Profit c/d	2,63,100		
	<hr/>		<hr/>
	6,93,700		6,93,700
	<hr/>		
To Salaries	20,000	By Gross Profit b/d	2,63,100
To Insurance	1,200	By Rent	13,000
To Audit Fees	500	Less: Received in Advance	1,000
			<hr/>
To Printing and Advertising	1,500	By Commission	400
To Interest on Loan	1,350	Add: Accured Commission	150
			<hr/>
Add: Outstanding Interest	450	By Interest on Drawings	2,600
	<hr/>		
To Depreciation on Fixed Assets	29,000		
To Interest on Capital	21,000		
To Net Profit c/d	2,03,250		
	<hr/>		<hr/>
	2,78,250		2,78,250
	<hr/>		<hr/>

Balance Sheet as on 31-03-2006

Liabilities	Amount	Assets	Amount
Bills Payable	3,600	Cash in hand	14,300
Creditors	47,500	Cash at Bank	62,250
Bank Loan	10,000	Bills Receivable	4,800
Add: Outstanding Interest	450	Debtors	1,68,000
Rent Received in Advance	1,000	Closing Stock	51,700
Capital	3,00,000	Accrued Commission	150
Add: Interest on Capital	21,000	Fixed Assets	2,90,000
Add: Net Profit	2,03,250	Less: Depreciation	29,000
	5,24,250		
Less: Drawings	22,000		
Less: Interest on Drawings	2,600		
	5,62,200		5,62,200

23. From the following balances and additional information you are required to prepare final accounts of Preethi & co. for the year ending 31st March, 2008.

Trial Balance

Dr.			Cr.
Particulars	✓	Particulars	✓
Plant and machinery	2,50,000	Capital	5,00,000
Stock on 1-4-2007	12,000	Sales	3,53,000
Furniture	18,000	Purchase returns	5,000
Purchases	1,75,000	Sundry creditors	20,000
Bad debts	2,000	Discounts	4,000
Carriage inwards	3,000	Bills payable	10,000
Carriage outwards	2,500	Commission	16,000
Sundry debtors	25,000		
Salaries	17,000		
Wages	4500		
Advertising	6000		
Sales returns	13,000		
Buildings	3,80,000		
	<u>9,08,000</u>		<u>9,08,000</u>

Additional information:

- (i) Closing stock on 31-3-2008 was ₹ 38,000.
- (ii) Salaries outstanding ₹ 3000 and commission received in advance ₹ 2000
- (iii) Provide depreciation on plant and machinery at 10% and on buildings at 5% p.a.

*Sol.:***Trading and Profit and Loss a/c for the year ending 31st March 2008.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening stock	12,000	By Closing stock	38,000
To Purchase 1,75,000		By Sales 3,53,000	
(-) Purchase return 5,000	1,70,000	(-) Sales return 13,000	3,40,000
To Wages	4,500		
To Carriage inward	3,000		
To Gross profit c/d	1,88,500		
	<u>3,78,000</u>		<u>3,78,000</u>
		By Gross profit c/d	1,88,500
To Carriage outwards	2,500		
To Salaries 17,000		By Commission 16,000	
(+) O/S 3,000	20,000	(-) Prepaid exp 2,000	14,000
To Advertising	6,000	By Discount	4,000
To Depreciation on			
p & m (10% on 2,50,000)	25,000		
To Depreciation on			
buildings (5% on 3,80,000)	19,000		
To Bad debts	2,000		
To Net profit c/d	1,32,000		
	<u>2,06,500</u>		<u>2,06,500</u>

Balance Sheet as on 31-3-08

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital	5,00,000	Plant and machinery	2,50,000
(+) Net profit	1,32,000	(-) Depreciation	25,000
	6,32,000	Furniture	18,000
Sundry Creditors	20,000	Buildings	3,80,000
Bills Payable	10,000	(-) Depreciation	19,000
Outstanding salaries	3,000	Sundry debtors	25,000
Prepaid commissions	2,000	Closing stock	38,000
	6,67,000		6,67,000

24. From the following Trial Balance of Warangal Trader's, prepare final accounts for the year ended 31-12-2018.

Trial Balance

Debit Balances	Amount (₹)	Credit Balances	Amount (₹)
Purchases	60,000	Sales	1,20,000
Salaries	4,500	Purchase Returns	2,000
Opening Stock	16,000	Sundry Creditors	20,000
Sales Returns	1,500	Bills Payable	12,000
Carriage	800	Bank Overdraft	9,000
Commission paid	300	Capital	70,000
Advertisement	1,800	Discount	3,000
Bad Debts	600	Interest Received	4,000
Discount	400	Provision for Bad & Doubtful Debts	1,000
Investments	25,000		
Plant & Machinery	30,000		
Buildings	50,000		
Factory Expenses	500		
Wages	1,000		
Insurance	700		
Sundry Debtors	40,000		
Cash in Hand	2,000		
Drawings	2,500		
General Expenses	3,400		
	2,41,000		2,41,000

Adjustments

1. Closing Stock ₹ 15000
2. Outstanding Wages ₹ 600; Accrued Interest ₹ 1000
3. Unexpired Insurance ₹ 200.
4. Depreciation on Plant & Machinery is 10%.
5. Bad Debts to be written off ₹ 1000 and provide 5% for Bad and Doubtful Debts.
6. Create 2% Provision for Discount on Debtors and on Creditors.

Sol.:

**Trading and Profit & Loss Account of Warangal Trader's
for the year ended 31.12.2018**

Dr.			Cr.		
Particulars	Amount	Amount	Particulars	Amount	Amount
To Opening Stock		16000	By Sales	120000	
To Purchases	60000		Less: Returns	1500	118500
Less: Returns	2000	58000	By Closing Stock		15000
To Wages	1000				
Add: Outstanding Wages	600	1600			
To Carriage		800			
To Factory Expenses		500			
To Gross Profit c/d		56600			
		<u>133500</u>			<u>133500</u>
To Salaries		4500	By Gross Profit b/d		56600
To Commission		300	By Discount		3000
To Advertisement Expenses		1800	By Interest Received	4000	
To Bad Debts	600		Add: Accrued Interest	1000	5000
Add: Further Bad Debts	1000	1600	By Reserve for Discount on Creditors (20000 × 2/100)		400
To Discount		400			
To Insurance	700				
Less: Unexpired Insurance	200	500			

To General Expenses		3,400		
To Depr. on Plant & Machinery (30000 x 10/100)		3,000		
To Prov. for Bad & Doubtful Debts (40000 – 1000 = 39000 × 5/100)	1,950			
Less: Old Provision for BCD	<u>1,000</u>	950		
To Reserve for Discount on Debtors (39000 – 1950 = 37050 × 2/100)		741		
To Net Profit (Transferred to Capital A/c)		47,809		
		<u>65,000</u>		<u>65,000</u>

**Balance Sheet of Warangal Trader's
as on 31.12.2018**

Liabilities	Amount	Amount	Assets	Amount	Amount
Capital	70,000		Plant & Machinery	30,000	
Add: Net Profit	<u>47,809</u>		Less: Depreciation	<u>3,000</u>	27,000
	1,17,809		Buildings		50,000
Less: Drawings	<u>2,500</u>	1,15,309	Investments		25,000
Sundry Creditors	20,000		Sundry Debtors	40,000	
Less : Reserve for Discount on Creditors	<u>400</u>	19,600	Less : Further Bad debts	<u>1,000</u>	
Bills Payable		12,000		39,000	
			Less: Prov. for Bad debts	<u>1,950</u>	
				37,050	
			Less: Prov. for Disc. on Debtors	<u>741</u>	36,309
Bank Overdraft		9,000	Cash in Hand		2,000
Outstanding Wages		600	Closing Stock		15,000
			Unexpired Insurance		200
			Accrued Interest		1,000
		<u>1,56,509</u>			<u>1,56,509</u>

Q20. Explain distinction between Profit and Loss Account and Balance Sheet.*Ans :***(June-19)**

S.No.	Basis of Difference	Profit and loss account	Balance Sheet
1.	Meaning	Profit and loss account is the statement which shows all indirect expenses incurred and indirect revenue earned during the particular period.	The Balance sheet is the statement showing the assets and Liabilities/capital of the business at the end of a particular accounting period.
2.	Object	It is prepared to know the Net profit or loss of the business for a particular period.	It is prepared to show the true or fair financial position of an entity.
3.	Accounts Included	It includes only one type of accounts, i.e. Nominal account.	It includes only two types of accounts, i.e. Real and Personal accounts.
4.	Gross Profit/Loss	Profit and loss account does provide information about Gross Profit/loss for the year.	Balance Sheet does not provide information about Gross Profit/loss for the year.
5.	Dependency	The Profit and Loss account is not dependent on the Balance sheet because it is prepared before the preparation of Balance sheet.	The balance sheet is dependent on the Profit and loss account because information about Net Profit/Loss is collected from Profit and Loss account.
6.	Balance	It has the Balance amount, which represents the net profit/loss for the year. Debit balance means net Loss if Credit balance it means Net Profit.	Both sides of the balance sheet always equal to each other. So, it does not have a balanced amount.
7.	Classification of Accounts	In the Profit and Loss account, only nominal accounts are classified into the balance of Incomes/gains and Expenses/loss.	In the Balance Sheet, personal and real accounts are classified into the balance of assets, liabilities and capital.
8.	Time of Preparation	It is prepared after preparing a Trading account and before the preparation of the Balance sheet.	It is prepared after preparing Trading and Profit & Loss account.
9.	Sides of Statement	Profit and loss account has two sides, on the left side, all expenses and losses are posted and on the right side, all incomes and gains are posted.	The Balance Sheet also has two sides (In horizontal form), on the left side, all Liabilities and Capital are posted and on the right side, all accounts of assets are posted.
10.	Information about Stock or inventories	In the Profit and Loss account, No Information is provided for opening or closing stock.	In the Balance Sheet, Information is provided only for closing stock.

Summary of Adjustments in Final Accounts

Name of the Adjustment	Adjustment Entry	First Time Either in Trading A/c or in Profit & Loss A/c	Second Time In the Balance Sheet	When adjustment given in the Trial Balance (Record only once)
1. Closing Stock	Closing Stock A/c Dr Trading A/c Cr	Should be shown on credit side of the Trading A/c	On the assets side of the Balance Sheet	On the assets side of the Balance Sheet
2. Expenses (a) Outstanding Expenses	Expenses A/c Dr Outstanding Exp. A/c Cr	Should be added to the concerned expense on debit side of the Trading A/c or Profit & Loss A/c	On the liabilities side of the Balance Sheet	On the liabilities side of the Balance Sheet
(b) Pre-paid Expenses	Pre-paid Exp. A/c Dr Expenses A/c Cr	Should be deducted from the concerned expense on debit side of the Trading A/c or Profit & Loss A/c	On the assets side of the Balance Sheet	On the assets side of the Balance Sheet
3. Income: (a) Accrued Income	Accrued Income A/c Dr Income A/c Cr	Should be added to the concerned income on credit side of the P&L A/c	On the assets side of the Balance sheet	On the assets side of the Balance Sheet
(b) Income received in advance	Income A/c Dr Income Received in Adv. A/c Cr.	Should be deducted from the concerned income on credit side of the Profit and Loss A/c	On the liabilities side of the Balance sheet	On the liabilities side of the Balance Sheet
4. Depreciation (Assets)	Depreciation A/c Dr Asset A/c Cr	Shown on debit side of the Profit and Loss A/c	Should be deducted from the concerned asset on the assets side of Balance sheet	Shown on debit side of the profit and loss A/c
5. Interest on Capital	Interest on Capital A/c Dr Capital A/c Cr.	Shown on debit side of the Profit and Loss A/c	Should be added to the capital on the liabilities side of the balance sheet	Shown on debit side of the profit and loss A/c

6. Interest on Drawings	Drawing A/c Dr. Interest on Drawings A/c Cr.	Shown on credit side of the Profit and Loss A/c	Drawings and interest on Drawings should be deducted from the capital on the liabilities side of the Balance Sheet	Shown on credit side of Profit and Loss A/c
7. Debtors: (a) Bad Debts	Bad Debts A/c Dr S. Debtors A/c Cr	Shown on debit side of the	Should be deducted from the sundry debtors on the assets side of the Balance Sheet	Shown on debit side of the Profit and Loss A/c
(b) Provision for Bad and Doubtful Debts	Profit & Loss A/c Dr To Provision for Bad and Doubtful Debts A/c	Shown on debit side of the Profit and Loss A/c	Should be deducted from the sundry debtors on the assets side of the Balance Sheet	Should be deducted from the sundry debtors on the assets side of the Balance Sheet
(i) If New Provision for Bad & Doubtful Debts is more than the old Provision	Profit & Loss A/c Dr To Provision for Bad and Doubtful Debts A/c	The difference between new Provision for Bad & Doubtful Debts and Old Provision Should be shown on debit side of the Profit & Loss A/c	Only new Provision should be deducted from the sundry debtors on the assets side of the Balance Sheet	-
(ii) If New Provision for Bad & Doubtful Debts is less than the old Provision	Provision for Bad and Doubtful Debts A/c Dr. To Profit and Loss A/c	The difference between new Provision for Bad & Doubtful Debts and New Provision Should be shown on credit side of the Profit & Loss A/c	Only new Provision should be deducted from the sundry debtors on the assets side of the Balance Sheet	-
(c) Provision for Discount on Debtors	Profit & Loss A/c Dr Provision for Discount on Debtors A/c Cr.	Shown on debit side of the Profit & Loss A/c	Should be deducted from the sundry debtors on the assets side of the Balance Sheet	Should be deducted from the sundry debtors on the assets side of the Balance Sheet

Note: If old provision for discount on debtors is given, the same accounting treatment is adopted as in the case of 7 b (i) and 7 b (ii).

8. Provision (Reserve) for Discount on Debtors	Provision for Discount on Debtors A/c Dr Profit & Loss A/c ... Cr	Shown on credit side of the Profit and Loss A/c	Should be deducted from the sundry creditors on the liabilities side of the Balance Sheet	Should be deducted from the sundry creditors on the liabilities side of the Balance Sheet
9. Loss of Stock by Fire	i) Insurance Co. A/c Dr. Trading A/c Cr. ii) Insurance Co. A/c Dr. Profit and Loss A/c Dr. (if loss) Loss of Stock by Fire A/c Cr.	Total loss of stock by fire Should be shown on credit side of the Trading A/c Unclaimed amount of loss should be shown on debit side of the Profit & Loss A/c	Claim to be received from the insurance company should be recorded on the assets side of the Balance Sheet	Shown on debit side of the Profit & Loss A/c
10. Goods Distributed as Free Samples	Advertisement A/c Dr Purchases A/c Cr	Should be deducted from the purchases on the debit side of the Trading A/c Second time it should be shown on debit side of the Profit & Loss A/c as an expense	No need to be shown in Balance Sheet	Shown on debit side of Profit & Loss A/c
11. Goods withdrawn by Owner	Drawings A/c Dr Purchases A/c Cr	Should be deducted from the purchases on the debit side of the Trading A/c	Should be deducted from the capital on the liabilities side of the Balance Sheet	Should be deducted from the capital on the liabilities side of the Balance Sheet
12. Manager's Commission	Profit & Loss A/c Dr M. Commission Payable A/c Cr	Shown on debit side of the Profit & Loss A/c	Should be recorded on the liabilities side of the Balance Sheet	Shown on debit side of the Profit & Loss A/c

Exercise Problems

1. From the following Trial Balance of M/s Manoj & Son's Trader's, prepare Trading, Profit and Loss A/c and Balance Sheet for the year ended 31.03.2018.

Trial Balance as on 31.03.2018

Debit Balances	Amount (₹)	Credit Balances	Amount (₹)
Purchases	20,000	Sales	52,000
Salaries	5,000	Creditors	18,500
Wages	7,800	Capital	30,000
Buildings	24,000	Interest Received	2,000
Carriage on purchases	400	Bills payable	5,200
Gas, Coal & Water	200	Bank Overdraft	5,500
Office expenses	600	Outstanding Rent	800
Commission	300		
Debtors	25,000		
Opening Stock	6,000		
Machinery	12,000		
Insurance	400		
Bank balance	4,000		
Bills Receivable	2,000		
Cash	1,300		
Furniture	5,000		
	1,14,000		1,14,000

Adjustments

(1) Closing Stock: 9000 (2) Outstanding salaries: 1000, (3) Prepaid insurance: 100, (4) Create 5% Provision for Bad Debts, (5) Depreciation on Furniture: 200 and on Machinery : 600, (6) Outstanding Wages: 1200.

(Ans: Gross Profit: ₹ 25,400; Net Profit: ₹ 20,150; Balance Sheet: ₹ 81,350).

2. Prepare Final Accounts from the Trial Balance of Brindavan Business for the year ended 31.03.2019.

Trial Balance as on 31.03.2019

Debit Balances	Amount (`)	Credit Balances	Amount (`)
Salaries	6,000	Sales	47,000
Purchases	22,000	Creditors	10,000
Wages	7,800	Capital	25,000
Carriage on Purchases	400	Bills Payable	5,800
Office Expenses	500		
Commission	600		
Debtors	30,000		
Furniture	3,000		
Machinery	10,000		
Insurance	400		
Bank Balance	4,000		
Bills Receivable	2,000		
Cash	1,100		
	87,800		87,800

Adjustments

- 1) Outstanding Wages: ` 2,000.
- 2) Outstanding Salaries: ` 1,000.
- 3) Prepaid Insurance: ` 50.
- 4) Create 5% Reserve for Bad Debts on Debtors.
- 5) Depreciation on Furniture ` 150 and on Machinery ` 500.
- 6) Closing Stock: ` 11,000.

(Ans: Gross Profit: ` 25,800; Net Profit: ` 15,200; Balance Sheet Total: ` 59,000).

3. From the following Trial balance of Vinayaka Enterprises, prepare final accounts for the year ending 31.12.2018.

Trial Balance as on 31.12.2018

Debit Balances	Amount (₹)	Credit Balances	Amount (₹)
Purchases	12,400	Capital	40,000
Furniture	8,000	Bills Payable	2,500
Opening stock	7,600	Creditors	5,900
Cash	1,500	Interest received	1,500
Sales Returns	1,500	Sales	28,500
Wages & Salaries	4,700	Purchase returns	400
Rent, Rates & Taxes	3,600	Commission	4,500
Sundry Debtors	13,500	Discount	3,600
Machinery	5,400	Miscellaneous Income	3,200
Investments	8,000		
Discount	1,100		
Commission	1,300		
Carriage	600		
Trade expenses	700		
Stationary	1,000		
Factory Rent	1,600		
Coal & Gas	2,200		
Interest on Capital	3,000		
Bad Debts	1,000		
Goodwill	10,000		
Accrued Dividend	1,400		
	90,100		90,100

Adjustments

(1) Closing stock: 10,500, (2) Bad debts: 1,500 and Provide Reserve for Doubtful Debts: 5%, (3) Outstanding Factory Rent: 400, (4) Depreciation on Furniture: 10%, (5) Interest received in advance: 500. (6) Stock worth of ₹ 10,000 destroyed in fire and Insurance Co. admitted a claim of ₹ 7,500.

(Ans: Gross Profit: ₹ 18,400; Net Profit: ₹ 13,600; Balance Sheet: ₹ 62,900)

4. Prepare final accounts of Yadadri Trader's as on 31.12.2018

Trial Balance as on 31.12.2018

Debit Balances	Amount (₹)	Credit Balances	Amount (₹)
Cash	4,200	Sales	20,000
Purchases	10,000	Interest	4,000
Carriage	1,000	Discount	3,500
Factory rent	1,200	Overdraft	2,500
Salaries & Wages	2,400	Capital	50,000
Machinery	6,000	Creditors	3,000
Discount	700		
Copyright	10,000		
Carriage on sales	400		
Clearing charges	300		
Bills Receivable	12,000		
Opening Stock	3,000		
Printing & Stationery	2,500		
Coal & Gas	800		
Debtors	10,000		
Drawings	1500		
Furniture	15,000		
Office Expenses	1,500		
Internet charges	500		
	83,000		83,000

Adjustments

(1) Closing stock: 6500, (2) Prepaid Salaries & Wages: 400, (3) Create 6% Provision for Bad & Doubtful Debts (4) Depreciation on Machinery: 10% (5) Interest on Capital: 6% (6) MD's Commission on Net Profit is 10% before charging such commission.

(Ans : GP: ₹ 10,200; Net Profit: ₹ 5,310; Balance Sheet: ₹ 62,900).

5. Prepare final Accounts of Srivasthava Traders as on 31-12-2018

Trial Balance as on 31.12.2018

Debit Balances	Amount (₹)	Credit Balances	Amount (₹)
Cash	4,000		
Opening Stock	2,100		
Wages	700		
Carriage on Purchases	600		
Carriage on Sales	400		
Audit Fee	800		
Drawings	4,500		
Debtors	15,000		
Freight	700		
Loose Tools	6,500		
Buildings	11,000		
Power & Fuel	500		
Salaries	850		
Purchases	10,000		
Sales Returns	1,000		
Goodwill	7,500		
Patents	5,000		
Postage & Stamps	850		
		Capital	40,000
		Creditors	5,000
		Interest Received In Adv.	250
		Bills payable	2,650
		Bank Overdraft	3,000
		Sales	16,000
		Rent Received	2,600
		Purchase Returns	500
		Bad Debts Reserve	2,000
	72,000		72,000

Adjustments

- 1) Closing stock value: ₹ 6000
- 2) Outstanding Salary: ₹ 450
- 3) Interest on Drawings: 10%
- 4) Provide Reserve for Doubtful Debts: 5% and Create Provision for Discount on Debtors 2%
- 5) Depreciation on Buildings: 10%
- 6) Goods worth of ₹ 2000 distributed as free samples.

(Ans : Gross Profit: ₹ 8,900; Net Profit: ₹ 6,465; Balance Sheet Total: ₹ 52,865).

6. From the following Trial Balance prepare Trading and Profit and Loss Account for the year ended 31st Dec. 1992 and Balance Sheet as on that date.

Particulars _p	Dr. `	Cr. `
Drawings	10,000	
Stock on 1-1-1992	46,000	
Purchases and purchases returns	1,50,200	600
Cash in hand	3,400	
Bank Balance	22,660	
Freehold premises	38,600	
Trade expenses	840	
Printing, Stationery and Advertising	1,640	
Professional charges	280	
Commission received	---	3,300
Investments as on 1st Jan @ 10%	4,000	
Interest on above	---	200
Sundry debtors and creditors	36,000	29,000
Wages	25,000	
Salaries	14,000	
Capital	1,14,000	
Income Tax	1,600	
Discount allowed and received	6,300	4,600
Sales returns and sales	550	2,08,950
Bills receivable /Bills payable	3,200	10,000
Office furniture	3,050	
Rent, Rates and Insurance	4,000	
Bad debts provision	670	
	3,71,320	3,71,320

Adjustments

1. Provide for wages ` 5,000.
2. Write off 5% depreciation on freehold premises and 10% on office furniture.
3. Insurance to the extent of ` 200 relates 1993.
4. Stock on 31-12-95 is ` 52,000.
5. Charge interest on capital at 5% and on drawings ` 300.
6. Further bad debts are ` 1,000.
7. Provide for doubtful debts @ 5% on sundry debtors.
8. Make provision for discount on debtors and reserve for discount on creditors @ 2%.

(Ans : Gross Profit ` 34,800 ; Net profit ` 6,440 ; Balance Sheet ` 1,57,660).

7. Prepare Trading Account and Profit and Loss Account for the period ending with 30th June 1996 and a Balance Sheet as at that date from the following particulars furnished by Jalaja Trading Company.

Balance Sheet

Debit Balances	Rs.	Credit Balances	Rs.
Cash in hand	540	Sales account	98,780
Cash at Bank	2,630	Returns outwards	500
Purchases	40,675	Capital account	62,000
Returns inwards	680	Sundry Creditors	6,300
Wages	8,480	Rent	9,000
Fuel and Power	4,730		
Carriage on sales	3,200		
Carriage on purchases	2,040		
Stock (1-7-95)	5,760		
Buildings	32,000		
Freenold land	10,000		
Machinery	20,000		
Patents	7,500		
Salaries	15,000		
General expenses	3,000		
Insurance	600		
Drawings	5,245		
Sundry debtors	14,500		

The following additional information is supplied to you.

- Stock on hand on 30th June 1996 is Rs. 6,800.
- Machinery is to be depreciated at the rate of 10% and Patents at the rate of 20%.
- Salaries for the month of June 1996 amounting to rs. 1,500 were unpaid.
- Insurance include an annual premium of Rs. 170 on a policy paid for the year ending on 31-12-96.
- Bad debts are Rs. 725
- Rent Receivable Rs. 1,000

(Ans : Gross Profit Rs. 43,715, Net Profit Rs. 26,275, Balance Sheet Total Rs. 90,830).

8. From the following Trial Balance of Mr. Anand as on 31st December 1997. You are required to prepare the Trading and Profit and Loss Account for the year ending 31st December 1997 and Balance Sheet as on that date.

Particulars	Dr. Rs.	Cr. Rs.
Capital	-	70,000
Trade Creditors	-	41,800
Stock 1-1-97	25,000	-
Purchases	80,000	-
General Reserve	-	20,000
Provision for doubtful debts	-	1,000
Carriage	1,500	-
Sales	-	1,32,500
Discounts	1,200	900
Returns	3,000	4,000
Furniture	10,000	-
Building	60,000	-
Book debts	52,000	-
Tavelling expenses	900	-
Salaries	24,000	-
Salaries unpaid	-	2,000
Sundry expenses	5,500	-
Repairs	1,300	-
Bad debts recovered	-	300
Cash at bank	8,000	-
Petty Cash	100	-
	2,72,500	2,72,500

The following adjustments are required.

1. Stock on 31-12-1997 amounted to Rs. 30,000.
2. Depreciation is to be written off at 10% on Furniture and 5% on Buildings.
3. Provision for doubtful debts required is Rs. 800.
4. Interest on capital at 5% p.a.
5. On 25th December 1997 a fire broke out and destroyed stock worth of Rs. 5,000 (Not covered by insurance).
6. 5% of Net Profit is to be credited to General Reserve.

(Ans : Gross Profit Rs. 62,000, Net Profit Rs. 1,800, Balance Sheet Total Rs. 1,55,300) (Hint: General Reserve Rs. 900).

Short Question and Answers

1. Define Final accounts.

Ans :

One of the main objectives of maintaining accounts is to know the profit or loss made by the business organization in a particular period. This period may be a year, half year to quarter of a year. for non statutory business concerns, it will be as per the convenience of the trader. But in general it is at the end of either calender year or financial year. Further one must know that by mere preparation of trial balance one may not be able to find out the profit or loss of a business entity. Hence it is needed to prepare the final accounts.

The term final accounts means statements which result finally from the preparation of accounts showing the profit earned or loss suffered by the firm and the financial state of affairs of the firm at the end of the period concerned. As already stated, the statement showing the profit or loss is known as Profit and Loss Account and the statement showing the financial state of affairs is called the Balance Sheets. The student must realise that in every concern, big or small, the accountant will be required to prepare these statements. Therefore, those who learn accountancy should become proficient in this. It is the trial balance that is the basis of these two statements and unless the student has mastered the preparation of the various books and ledger accounts and also of the trial balance, he will not be able to fully grasp the significance of the profit and loss account and the balance sheet and master the technique of preparing them.

2. Uses of final accounts?

Ans :

- i) It is used in evaluating approximately the organisation's earning ability.
- ii) It facilitates the investors to take appropriate investment decisions.
- iii) It assists in giving complete information about the cash inflows and outflows of the organisation to the financial institutions.
- iv) It helps in ascertaining the true and fair financial position of the organisation and helps

in deciding about the credit worthiness of the organisation.

- v) It also helps in making various fiscal policies for the organisation.

3. Advantages of Final Accounts

Ans :

- i) Business profit or loss can be known to the trader through the trading account and profit and loss account (Income statements).
- ii) Financial position can be revealed by the preparation of Balance Sheet.
- iii) Final accounts are important source of finance information and this help the trader or management to plan the financial activities of the business concern for any period or time.
- iv) Financial statement help the trader to take business decisions by comparing current year results with the results of the previous year statements.
- v) As the profit & loss account discloses either profit or loss, based on which a trader prepare himself to pay the taxes correctly.
- vi) Tax authorities also needs financial statements to determine the amount of tax exactly.
- vii) As financial statements reveals the solvency position of the organization, the banks and other lending organizations may consider for extending the lona facility.

4. Define trading account

Ans :

Preparation of trading account is the first stage in final accounts. It is prepared to ascertain the 'Gross Profit or Gross Loss'. In other words, it is prepared to find out the difference between the actual cost of goods sold and sale proceeds. Generally the business organization purchases goods from others and incur certain expenditure and sell the same to earn profit. This process is known as trading activity. Hence trading account is prepared to know the results of trading activities carried during any specified accounting period.

Trading Account is a 'nominal account' in nature. All the trading expenses should be debited and trading incomes should be credited to this trading account. The balance in the trading account is either gross profit or gross loss.

5. What is Profit & Loss Account

Ans :

After trading account, the second stage of the preparation of final account is the preparation of Profit & Loss account. It is prepared to find out the Net Profit or Net Loss of the business. This is also a nominal Account, so all the revenue expenses and losses should be debited and all the revenue incomes and gains are to be credited to this Profit & Loss a/c. The balance of Profit & Loss Account is either net profit or net loss, which will be transferred to balance sheet. The net profit will be added to the capital account in the balance sheet at liabilities side and the net loss will be deducted from Capital Account.

6. What do you understand by balance sheet?

Ans :

A Balance Sheet is a statement prepared with a view to measure the financial position of a business on a certain fixed date. The financial position of a concern is indicated by its assets on a given date and its liabilities on that date. Excess of assets over liabilities represent the capital and is indicative of the financial soundness of a company. A Balance Sheet is also described as a 'statement showing the sources and applications of capital'. It is a statement and not an account and prepared from real and personal accounts. The left hand side of the balance sheet may be viewed as a description of the sources from which the business has obtained the capital with which it currently operates and the right hand side as a description of the form in which that capital is invested on a specified date.

On the left hand side of the Balance Sheet, the several liability items describe how much capital was obtained from trade creditors, from banks, from bill holders and other outside parties. The owner's equity section shows the capital supplied by the owner.

Capital obtained from various sources has been invested according to management's best judgement of the optimum mix or combination of assets for the business. A certain fraction is invested in buildings, another fraction in stock, another fraction is retained as cash for current needs of the business and so on. The assets side of the Balance Sheet, therefore, shows the result of these management judgements as on the date of the Balance Sheet.

7. Characteristics of a Balance Sheet.

Ans :

- i) It is prepared on a particular date and not for a particular period.
- ii) It is prepared after the preparation of Trading and Profit & Loss Account.
- iii) As assets must be equal to total liabilities, the two sides of the Balance Sheet must have the same total.
- iv) It shows the financial position of a business as a going concern.
- v) It is a statement of assets (debit balances) and liability (credit balances) and not an account. Information that Balance Sheet Convey to Outsiders.

8. Contingent Asset

Ans :

It is an asset the existence, value and ownership of which is dependent on the occurrence or non-occurrence of a specified act. Suppose a firm has filed a suit for some specified property now in possession of someone else. If the suit is decided in firm's favour, the firm will get the property. At the moment it is a contingent asset. Similar would be the position of a patent applied for arising of a firm's own research effort. Contingent liability in respect of a contract for capital expenditure already entered into will give rise to an asset on payment, at present it is only a contingent asset.

Working Capital is the difference between current assets and current liabilities.

Accounts Receivable will include sundry debtors and bills receivable.

9. Uses of the Balance Sheet.

Ans :

The Balance Sheet is regarded as a prominent accounting report. The different interested parties may derive different information for their own use. Generally the following information can be derived from the Balance Sheet:

- i) It enables us to ascertain the proprietary interest of a person or business organization.
- ii) It enables us to calculate the actual capital employed in the business.
- iii) The lender can ascertain the financial position of the business.
- iv) It may serve as the basis for determining purchase consideration of the business.
- v) The trends of working capital of the business can be determined by comparison of Balance Sheet of successive years and corrective measures can be taken, where necessary.
- vi) Different ratios can be calculated from the Balance Sheet and these ratios can be utilised for better management of the business.

10. Limitations of the Balance Sheet.

Ans :

- i) Fixed assets are shown in the Balance Sheet at historical cost less depreciation upto date. A conventional Balance Sheet cannot reflect the true value of these assets. Again intangible assets are shown in the Balance Sheet at book values which may bear no relationship to market values.
- ii) Sometimes, Balance Sheet contains some assets which command no market value such as preliminary expenses, debenture discount, etc. The inclusion of these fictitious assets unduly inflate the total value of assets.
- iii) The Balance Sheet cannot reflect the value of certain factors such as skill and loyalty of staff.
- iv) A conventional Balance Sheet may mislead untrained readers in inflationary situations.
- v) The value of majority number of current assets depend upon some estimates, so it cannot reflect the true financial position of the business.

11. Distinction between Profit and Loss Account and Balance Sheet.

Ans :

The main points of differences between a Profit and Loss Account and a Balance Sheet are as follows:

- i) Profit and Loss Account is an account prepared with balances of nominal accounts whereas a Balance Sheet is a statement of assets and liabilities.

- ii) Profit and Loss Account discloses the profits earned or losses incurred for the accounting period usually a year whereas a Balance Sheet shows the financial position of the business on the last day of the accounting period.
 - iii) Balances of nominal accounts are transferred to the Profit and Loss Account. Personal accounts and real accounts are shown in the Balance Sheet. Balance of Profit and Loss Account (i.e., net profit) is also shown on the liabilities side of the Balance Sheet.
 - iv) Nominal accounts are closed by transferring them to the Profit and Loss Account. But the accounts that are shown in the Balance Sheet do not close and become the opening balances for the next accounting period.
-

12. What do you mean by Adjustments? Explain the objectives of Adjustments.

Ans :

Every adjustment has two fold effect according to the principle of double entry system. Hence, every item given as adjustment is to be shown two times i.e., one time either in Trading Account or in Profit and Loss Account and second time, it should be shown in the Balance Sheet. However, the items given in the Trial Balance should be shown only one time while preparing the final accounts.

Objective of Adjustments

- i) To rectify the errors done in the recording of transactions in the books of accounts.
- ii) To record those transactions which are omitted to be recorded.
- iii) To record such expenses and incomes which have accrued but have not been paid or received.
- iv) To find out the correct profit or loss and financial position of the business.

Choose the Correct Answer

1. Goodwill is a [c]
(a) Fixed asset (b) Current asset
(c) Intangible asset (d) Fictitious asset
2. Outstanding salaries are shown as [b]
(a) Expenses (b) Liability
(c) Asset (d) Income
3. Liabilities + Capital = [a]
(a) Assets (b) Liability
(c) Income (d) Expenses
4. Interest on drawings is [c]
(a) Expenditure for the business (b) Expense for the business
(c) Gain for the business (d) Loss for the business
5. Rent comes in which account [c]
(a) Balance sheet (b) Trading account
(c) Profit and loss account (d) Liabilities side
6. If the business's owner withdraws cash for his/her personal use what will be the effect on capital [c]
(a) Increase in capital (b) Remain the same
(c) Decrease in capital (d) No effect on capital
7. Which of the following shows summary of a company's financial position at a specific date? [c]
(a) Profit & Loss Account (b) Cash Flow Statement
(c) Balance Sheet (d) Income & Expenditure Account
8. Which of the following is NOT an example of intangible assets? [d]
(a) Franchise rights (b) Goodwill
(c) Patents (d) Land
9. Which of the following is an example of business liability? [d]
(a) Land (b) Building
(c) Cash (d) Creditors
10. The type of accounting which reports on the performance of the firm essential to the external user is called [c]
(a) Internal account (b) External accounts
(c) Final account (d) Management account.

11. Which of the following is not intangible asset [d]
(a) Patents (b) slogan
(c) Copyrights (d) Land
12. Balance sheet is a Statement of _____ [d]
(a) Assets (b) Liabilities
(c) Capital (d) All
13. The Concept of separate entity is applicable to which of the following businesses [d]
(a) Sole trading (b) Partnership
(c) Company (d) All
14. If the total assets of the company Rs 150000 and owners equity is 70000 the amount of liabilities will be _____ [b]
(a) 70000 (b) 80000
(c) 150000 (d) 220000
15. The term Fixed asset does not include _____ [d]
(a) Plant (b) Land
(c) Machinery (d) Goodwill

Fill in the Blanks

1. Carriage Outward is debited to _____.
2. Trial balance is the basis on which _____ are prepared.
3. Gross profit/loss transferred to _____.
4. Net profit/loss transferred to _____.
5. The amount provided by the owner is known as _____.
6. Any duty paid on purchases should be debited to _____ account.
7. Debts which have become bad and irrecoverable from the debtors are called _____.
8. _____ are the persons to whom business owes the money.
9. Cost of goods sold is _____.
10. The other name for sales returns is _____.
11. The other name for purchase return is _____.
12. When goods are brought with in multiple limits _____ is imposed.
13. Stock of unsold goods at the end of the accounting period is known as _____.
14. The personal expenses of a proprietor is treated as a _____.
15. _____ is a statement to know the financial position of a company.
16. _____ are property and possession of a business
17. _____ is an amount which a business is legally bound to pay.

ANSWERS

1. Profit & loss account
2. final accounts
3. profit and loss account.
4. balance sheet
5. capital
6. trading
7. bad debts
8. Creditors
9. Sales-GrossProfit
10. Returninwards
11. return outward
12. Octori duty
13. Closing stock.
14. Drawings
15. Balance sheet
16. Assets
17. Liability

FACULTIES OF COMMERCE
B.Com. I Year I-Semester (CBCS) Examination
(Common paper for General / Computers / Computer Applications / Advertising
/ Foreign Trade / Tax Procedure and Honours Courses)
November / December - 2019
FINANCIAL ACCOUNTING - I

Time: 3 Hours

Max. Marks: 80

PART - A (5 × 4 = 20 Marks)
(Short Answer Type)

ANSWERS

Note: Answer any FIVE of the following questions in not exceeding 20 lines each.

1. Explain Accounting Equation.

Ans :

The accounting equation is used in double-entry accounting. It shows the relationship between your business's assets, liabilities, and equity. By using the accounting equation, you can see if your assets are financed by debt or business funds. The accounting equation is also called the balance sheet equation.

The accounting equation requires liabilities and equity to equal assets. The following is the accounting calculation:

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

2. Explain advantages of Subsidiary Books.

Ans :

The advantages of subsidiary book are as follows :

1. Proper With Systematic Record of the Business Transactions

The business transactions are classified and grouped properly in cash and non-cash transactions, these are further classified as credit purchases, credit sales, and returns, etc. The books facilitate individual transactions, as they can be properly and systematically recorded in the subsidiary books.

2. Conveniency While Posting

The transactions of a nature are recorded at a single place, in one of the subsidiary books. Example, like all the credit purchases of the goods are recorded in the purchases book while all the credit sales of goods are recorded in the sales book.

3. Efficiency

The work is being divided here which gives the advantage of specialisation. When the same work is done by a person repeatedly and continuously the person becomes efficient in handling it.

4. Helpful in Decision Making

Subsidiary books provide accurate and complete details about each type of transaction separately. Thus, the management can use the information as the basis for deciding the future actions.

5. Errors and Frauds are Prevented

The Internal check becomes more effective as now the work can be divided in such a manner, where the work of one person is automatically checked by another person. With this internal check, the possibility of occurrence of the errors or fraud may be avoided and to the least minimised.

6. Availability of Requisite Information at a Glance

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

3. Prepare a Bank Reconciliation Statement from the following particulars,

- (i) Bank Balance (Credit) as per Cash Book on 31st December 2015 ₹ 10,000
- (ii) Dividends collected and credited in Pass Book but not entered in Cash Book ₹ 700
- (iii) A wrong debit of ₹ 200 appears in the Pass Book.

Bank Reconciliation Statement*Sol :*

Particulars	Amount	Amount
Bank overdraft balance per cash book		10,000
Add :		
A wrong debit given in passbook	200	200
		10,200
Less :		
Dividend collected by the bank not recorded in passbook	700	700
		9,500
Bank Overdraft balance as per passbook		

4. Explain Errors not disclosed by a Trial Balance.**(Unit-I, Q.No.38)****5. Pass necessary adjustment entries to the following:**

- (i) Closing Stock ₹ 15,000
- (ii) Outstanding Expenses ₹ 1,200
- (iii) Prepaid Expenses ₹ 150
- (iv) Interest Accrued ₹ 150

*Sol :***Adjustment Entries**

S.No.	Particulars	LF	Debit	Credit
1.	Closing stock a/c Dr. To Trading a/c (being closing stock amount transferred trading a/c)		15,000 –	– 15,000
2.	Expenses a/c Dr. To Outstanding expenses a/c (being outstanding expenses adjusted)		1,200 –	– 1,200

3.	Prepaid expenses a/c Dr.		150	–
	To expenses a/c (being prepaid expenses adjusted)		–	150
4.	Interest accrued a/c ... Dr.		150	–
	To Interest a/c (being interest accrued adjusted)		–	150

6. Explain Branches of Accounting. (Unit-I, Q.No.9)

7. Write out an Analytical Petty Cash Book from the following transactions,

2015 August

- 1 Issued a cheque of ` 1,000 to Petty Cashier
- 2 Paid Electricity Charges ` 150
- 4 Paid Telephone Expenses ` 200
- 8 Printing ` 375

Sol.:

Petty Cash Book

Cash Received	Date Particulars	Voucher no.	Total Payment (₹)	Electricity Charges	Telephone Expenses	Printing
1,000	2015 Aug.-1 To Bank					
	Aug.-2 By Electricity		150	150		
	Aug.-4 By Telephone Expenses		200		200	
	Aug.-8 By Printing		375			375
	Total Payments		725	150	200	375
	Aug.-31 By Balance c/d		275	150	200	375
1,000			1,000			
275	Sep.-1 To Balance b/d					
725	Sep.-1 To Cash					

8. Explain advantages of Bank Reconciliation Statement. (Unit-III, SQA.3)

PART – B (5 × 12 = 60 Marks)

(Essay Answer Type)

Note: Answer the following questions in not exceeding 4 pages each.

9. (a) Explain the Accounting Concepts and the Accounting Conventions. (Unit-I, Q.No.11, 12)

OR

- (b) Pass Journal entries, make Ledger postings and Prepare Trial Balance in the Books of Manik.

2015 Jan.

- 1 Commenced Business with cash ₹ 60,000
- 3 Deposited into Bank ₹ 40,000
- 10 Purchased Machinery, Payment made by Cheque ₹ 30,000
- 18 Purchased goods for cash ₹ 5,000
- 20 Sold goods for cash ₹ 8,000
- 30 Paid salary ₹ 2,000

*Sol.:***Journal Entries in the Books of Manil**

Date	Particulars	L.F	Debit (₹)	Credit (₹)
2015 Jan.-1	Cash A/c Dr. To Capital A/c (Being business commenced with cash)		60,000 –	– 60,000
Jan.-3	Bank A/c Dr. To Cash A/c (Being cash deposited into bank)		40,000 –	– 40,000
Jan.-10	Machinery A/c Dr. To Bank A/c (Being machinery purchased and paid by cheque)		30,000 –	– 30,000
Jan.-18	Purchases A/c Dr. To Cash A/c (Being goods purchased on cash)		5,000 –	– 5,000
Jan.-20	Cash A/c Dr. To Sales A/c (Being goods sold for cash)		8,000 –	– 8,000
Jan.-30	Salaries A/c Dr. To Cash A/c (Being salaries paid)	2,000	– –	– 2,000

Ledger Accounts**Dr****Cash Account****Cr.**

Date	Particulars	L.F	Amount(₹)	Date	Particulars	L.F	Amount(₹)
2015 Jan.-1	To Capital A/c		60,000	2015 Jan.-3	By Bank A/c		40,000
Jan.-20	To Sales A/c		8,000	Jan.-18	By Purchase A/c		5,000
				Jan.-30	By Salaries A/c		2,000
				Jan.-31	Balance c/d		21,000
			68,000				68,000
Feb.-01	To Balance b/d		21,000				

Dr. Capital Account Cr.

Date	Particulars	L.F	Amount(₹)	Date	Particulars	L.F	Amount(₹)
2015 Jan.-31	To Balance c/d		60,000	2015 Jan.-1	By Cash A/c		60,000
			60,000				60,000
				Feb.-1	By Balance b/d		60,000

Dr. Bank A/c Cr.

Date	Particulars	L.F	Amount(₹)	Date	Particulars	L.F	Amount(₹)
2015 Jan.-3	To Cash		40,000	2015 Jan.-10	By Machiner A/c		30,000
			40,000	Jan.-31	By Balance		10,000
Feb.-1	To Balance b/d		10,000				

Dr. Machinery Account Cr.

Date	Particulars	L.F	Amount(₹)	Date	Particulars	L.F	Amount(₹)
2015 Jan.-10	To Bank A/c		30,000	2015 Jan.-31	By Balance		30,000
			30,000				30,000
Feb.-1	To Balance b/d		30,000				

Dr. Purchase Account Cr.

Date	Particulars	L.F	Amount(₹)	Date	Particulars	L.F	Amount(₹)
2015 Jan.-18	To cash		5,000	2015 Jan.-31	By Balance c/d		5,000
			5,000				5,000
Feb.-1	To Balance b/d		5,000				

Dr. Sales A/c Cr.

Date	Particulars	L.F	Amount(₹)	Date	Particulars	L.F	Amount(₹)
2015 Jan.-31	To Balance c/d		8,000	2015 Jan.-20	By Cash A/c		8,000
			8,000				8,000
				Feb.-1	By Balance b/d		8,000

Dr. Salaries A/c Cr.

Date	Particulars	L.F	Amount(₹)	Date	Particulars	L.F	Amount(₹)
2015 Jan.-30	To cash		2,000	2015 Jan.-31	By Balance c/d		2,000
			2,000				2,000
Feb.-1	To Balance b/d		2,000				

Trial Balance of Manik as on 31st Jan.2015

Particulars	Debit (₹)	Credit (₹)
Capital		60,000
Bank	10,000	
Cash	21,000	
Machinery	30,000	
Sales		8,000
Purchases	5,000	
Salaries	2,000	
Total	68,000	68,000

10. (a) Make out the Three Column Cash Book of Ram from the following particulars :
2015

April

- 1 Cash in Hand ₹ 3,000
- 1 Bank Overdraft ₹ 4,500
- 2 Paid Salaries ₹ 2,500
- 3 Purchased goods for Cash ₹ 3,000
- 4 Cash Sales of ₹ 16,000
- 5 Issued cheque in favour of Krishna (Discount Received ₹ 300) ₹ 2,600
- 6 Received cash from Dhawan (Discount Allowed ₹ 150) ₹ 2,350
- 7 Received cheque from Ali Bro (in Full settlement and their debt ₹ 2,000) ₹ 1,900
- 8 Purchased Furniture ₹ 1,500
- 9 Cash sent to Bank ₹ 2,000
- 10 Cheque of Ali Bro. dishonoured
- 11 Bank Charges ₹ 20
- 12 Rent paid by cheque ₹ 1,000.

Sol.:

Dr.

Three Column Cash Book Ram

Cr.

Date	Particulars	LF	D.A	Cash	Bank	Date	Particulars	LF	D.A	Cash	Bank
2015						2015					
April-1	To Balance b/d			3,000		April-1	By Balance b/d				4,500
April-4	To Sales A/c			16,000		April-2	By Salaries A/c			2,500	
April-6	To Dhawan A/c		150	2,350		April-3	By Purchases A/c			3,000	
April-7	To Ali Bro A/c		100		1,900	April-5	By Krishna A/c		300		2,600
April-9	To Cash A/c	(C)			2,000	April-8	By Furniture A/c			1,500	
						April-9	By Bank A/c	(C)		2,000	
						April-10	By Ali Bro A/c		100		1,900
						April-11	By Bank charges A/c				20
						April-12	By Rent A/c				1,000
April-30	To Balance c/d				6,120	April-30	By Balance c/d			12,350	
			250	21,350	10,020				400	21,350	10,020
May-1	To Balance b/d				12,350	May-1	By Balance bd				6,120

Note: DA : Discount Allowed, DR : Discount Received

(b) Prepare relevant Subsidiary Books from the following :

2015

Jan.

2 Goods sold to Ramana ` 28,000

6 Purchased Goods from Raghava ` 18,000

8 Sold goods to Kishore ` 38,000

9 Purchased goods for cash from Manohar ` 23,000

12 Purchased goods from Rekha ` 75,000

15 Ramana returned goods ` 1,500

18 Goods purchased from Rajesh (Trade Discount 2%) ` 50,000

22 Goods sold to Madhava for cash ` 18,000

25 Goods returned to Rekha ` 500

27 Purchased Furniture from Godrej & Co. ` 45,000

30 Kishore returned goods ` 1,000.

Sol :

Purchase Book

Date	Particulars	Inward Invoice No.	L.F	Amount (`)	Amount (`)
2015					
Jan.-6	Raghava				18,000
Jan.-12	Rekha				75,000
Jan.-18	Rejesh			50,000	
	(-) Discount			1,000	49,000
					1,42,000

Sales Book

Date	Particulars	Outward Invoice No.	L.F	Amount (`)	Amount (`)
2015					
Jan.-2	Ramana				28,000
Jan.-8	Kishore				38,000
					66,000

Purchase Returns Book

Date	Particulars	L.F	Debit Note (`)	Amount (`)
2015				
Jan.-25	Rekha			500
				500

Sales Returns Book

Date	Particulars	L.F	Credit note (`)	Amount (`)
2015				
Jan.-15	Ramana			1,500
Jan.-30	Kishore			1,000
				2,500

11. (a) Prepare Bank Reconciliation Statement from the following on 31st Jan. 2013.
- Bank Balance as per Cash Book ₹ 16,500
 - Cheques amounting to ₹ 4,000 were issued on 28th Jan. out of which cheques amounting ₹ 2,400 were presented for payment in feb. 2013.
 - Cheques amounting to ₹ 9,000 were deposited for collection but cheque for ₹ 3,000 has not yet been collected by the bank.
 - A wrong debit of ₹ 400 appears in Pass Book
 - Interest on Investments collected by the Bank ₹ 1,000 was not entered in the Cash Book
 - Pass Book showed a debit of ₹ 175 for insurance Premium and credit of ₹ 350 as interest for which no entries were found in the Cash Book.

Sol :

Bank Reconciliation Statement as on 31st January 2013

Particulars	Amount (₹)	Amount (₹)
Bank Balance as per Cash Book		16,500
Add:		
i) Cheques issued but not presented for payment in January	2,400	
ii) Interest on investments collected by the bank, but not entered in cash book	1,000	
iii) Interest credited but omitted to be entered in cash book	350	3,750
		20,250
Less:		
i) Cheques deposited into bank for collection but not yet collected	3,000	
ii) Amount wrongly debited in the pass book	400	
iii) Insurance premium debited in pass book but not entered in cash book	175	3,575
Bank Balance as per Pass Book		16,675

- (b) Why is a Bank Reconcil Statement prepared ? Explain.

(Unit-III, Q.No.1, 2)

12. (a) An Accountant could not tally the Trial Balance. The difference was placed to Suspense Account. The following errors were located :
- The Sales Book was Under cast by ₹ 3,500
 - Legal Expenses paid ₹ 950 were not posted to Legal Expenses Account

- (iii) Discount allowed column of Cash Book was wrongly added as ₹ 1,400 instead of ₹ 1,200
- (iv) Commission paid ₹ 250 was posted twice in Commission Account
- (v) Sales of ₹ 1390 to Ramanath was posted to his account as ₹ 1930.
- Give Rectification Entries and Prepare Suspense Account.

Sol.:

Rectification Entries

S.No.	Particulars	L.F	Debit (₹)	Credit (₹)
(i)	Suspense A/c Dr. To Sales book A/c (Being undercasting of sales book, now rectified)		3,500 –	– 3,500
(ii)	Legal Expenses A/c Dr. To Suspense A/c (Being legal expenses not posted, now rectified)		950 –	– 950
(iii)	Suspense A/c Dr. To Discount Allowed A/c (Being discount allowed column of cash book was wrongly added as ₹ 1,400 instead of ₹ 1,200, now rectified)		200 –	– 200
(iv)	Suspense A/c Dr. To Commission A/c (Being commission paid posted twice in commission a/c, now rectified)		250 –	– 250
(v)	Suspense A/c Dr. To Ramnath A/c (Being sales of ₹ 1,390 to Ramnath was posted as ₹ 1,930, now rectified)		540 –	– 540

Dr.

Suspense A/c

Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Sales book A/c	3,500	By legal expenses A/c	950
To Commission A/c	250	By difference in books as per Trial Balance (Balancing Figure)	3,540
To Discount allowed A/c	200		
To Ramnath A/c	540		
	4,490		4,490

- (b) Mr. Srinu purchased a Machine on 1-1-2014 for ₹ 2,00,000. Paid Customs Duty and Freight ₹ 50,000 and incurred Erection charges ₹ 50,000. He purchased another Machine on 1-7-2014 for ₹ 1,00,000. On 1-7-2016 he sold 1/3rd of the First machine for ₹ 45,000 and purchased another Machine for ₹ 65,000. Depreciation is provided by him @ 25% p.a. on Straight Line Method. Assuming that the books are closed every year on 31 December. Prepare Machinery Account for the years 2014 to 2017.

Sol.:

Dr.			Machinery Account		Cr.	
Date	Particulars	Amount (`)	Date	Particulars	Amount (`)	
1-1-14	To Bank A/c (M-1)		31-12-14	By Depreciation A/c		
	(2,00,000 + 50,000 + 50,000)	3,00,000		M-I $\left(3,00,000 \times \frac{25}{100}\right)$	75,000	
1-7-14	To Bank A/c (M-II)	1,00,000	31-12-14	By Depreciation A/c M-II	12,500	
			31-12-14	By Balance c/d	3,12,500	
		4,00,000			4,00,000	
1-1-15	To balance b/d	3,12,500	31-12-15	By Depreciation A/c		
				M-I $\left(3,00,000 \times \frac{25}{100}\right)$	75,000	
			31-12-15	By Depreciation A/c		
				M-II $\left(1,00,000 \times \frac{25}{100}\right)$	25,000	
			31-12-15	By balance c/d	2,12,500	
		3,12,500			3,12,500	
1-1-16	To Balance b/d	2,12,500	1-7-16	By Bank A/c (sale of M-I)	45,000	
1-7-16	To Bank A/c (M-III)	65,000	1-7-16	By Depreciation A/c		
				M-I $\left(3,00,000 \times \frac{1}{3} \times \frac{25}{100} \times \frac{6}{12}\right)$	12,500	
1-7-16	To Profit and Loss A/c (Profit	7,500	31-12-16	By Depreciation A/c		
	on sale M-I $\left[\frac{1}{3}\right]$)			M-II $\left(1,00,000 \times \frac{25}{100}\right)$	25,000	
			31-12-16	By Depreciation A/c		
				M-III $\left(65,000 \times \frac{25}{100} \times \frac{6}{12}\right)$	8,125	
			31-12-16	By Depreciation A/c		

1-7-17	To Balance b/d		31-12-16	M-I $\left(3,00,000 \times \frac{2}{3} \times \frac{25}{100}\right)$	50,000
				By Balance c/d	1,44,375
		2,85,000			2,85,000
		1,44,375	31-12-17	By Depreciation A/c	
1-1-18	To balance b/d			M-I $\left(3,00,000 \times \frac{2}{3} \times \frac{25}{100}\right)$	50,000
			31-12-17	By Depreciation A/c	
				M-II $\left(1,00,000 \times \frac{25}{100}\right)$	25,000
			31-12-17	By Depreciation A/c	
				M-III $\left(65,000 \times \frac{25}{100}\right)$	16,250
			31-12-17	By Balance c/d	53,125
1-1-18	To balance b/d	1,44,375			1,44,375
		53,125			

Working Notes**Calculation of Profit/Loss on Sale of Machinery-1**

Particulars	Amount (₹)
Book value of machine-1 as on 1-1-14 $\left(3,00,000 \times \frac{1}{3}\right)$	1,00,000
Less: Depreciation on $\frac{1}{3}$ machine-I as in 31-12-14 $\left(1,00,000 \times \frac{25}{100}\right)$	25,000
Book value of machine-I as on 1-1-15	75,000
Less: Depreciation on $\frac{1}{3}$ machine-I as on 31-12-15 $\left(1,00,000 \times \frac{25}{100}\right)$	25,000
Book value of machine-I as on 1-1-16	50,000
Less: Depreciation on $\frac{1}{3}$ machine-I as on 1-7-16 $\left(1,00,000 \times \frac{25}{100} \times \frac{6}{12}\right)$	12,500
Book value of machine-I as on 1-1-16	37,500
Less: Sale value $\frac{1}{3}$ machine	45,000
Profit on Sale	7,500

13. (a) From the following particulars prepare Trading and Profit and Loss Account for the year ended 31st December 2015 and a Balance Sheet as on that date, also pass the closing entries.

Particulars		Particulars	
Capital	30,000	Drawings	6,000
Sundry Creditors	43,000	Bills Payable	4,000
Sundry Debtors	51,000	Bills Receivable	17,000
Furniture	8,500	Opening Stock	47,000
Cash in Hand	900	Cash at Bank	12,500
Bank Overdraft	6,000	Purchases	48,900
Duty and Clearing Expenses	3,500	Sales	1,27,000
Salaries	9,500	Travelling Expenses	4,700
General Expenses	2,500	Rent paid	2,000
Commission Received	4,000		
Closing Stock	50,000		

Sol:

Dr. Trading and Profit and Loss Account for the year ended 31st December 2015 Cr.

Particulars	Amount(₹)	Particulars	Amount(₹)
To Opening Stock	47,000	By Sales	1,27,000
To Purchases	48,900	By Closing Stock	50,000
To Duty and Clearing Expenses	3,500		
To Gross Profit c/d (Transferred to P&L A/c)	77,600		
	1,77,000		1,77,000
To Salaries	9,500	By Gross Profit b/d	77,600
To General Expenses	2,500	By Commission received	4,000
To Travelling Expenses	4,700		
To Rent	2,000		
To Net Profit (Transferred to capital A/c)	62,900		
	81,600		81,600

Balance Sheet as on 31/12/2015

Liabilities		Amount	Assets	Amount
Capital	30,000	86,900	Furniture	8,500
(-) Drawings	6,000		Cash in hand	900
	24,000		Cash at bank	12,500
(+) Net profit	62,900		Sundry debtors	51,000
		43,000	Bills Receivable	17,000
Creditors		6,000	Closing stock	50,000
Bank overdraft		4,000		
Bills Payable		1,39,900		1,39,900

Closing Entries

Date	Particulars	L.F	Debit (₹)	Credit (₹)
2015				
Dec.-31	Trading A/c Dr. To Opening Stock A/c To Purchase A/c To Duty and Clearing Expenses (Being debit items of Trading A/c transfered)		99,400 - - - -	- 47,000 48,900 3,500
Dec.-31	Sales A/c Dr. Closing Stock A/c Dr. To Trading A/c (Being the credit items of Trading A/c transfered)		1,27,000 50,000 - -	- 1,77,000
Dec.-31	Trading A/c Dr. To Profit and Loss A/c (Being the groups profit transfered to P&L A/c)		77,600 - -	- 77,600
Dec.-31	Profit and Loss A/c Dr. To Salaries A/c To General Expenses A/c To Rent A/c To Travelling Expenses A/c (Being the debit items of Profit and Loss A/c transfered)		18,700 - - - - -	- 9,500 2,500 2,000 4,700

Dec.-31	Commision Received A/c	Dr.	4,000	–
	To Profit and Loss A/c		–	4,000
	(Being credit items profit and Loss A/c transfered)			
Dec.-31	Profit and Loss A/c	Dr.	62,900	–
	To Capital A/c		–	62,900
	(being the Net Profit transfered to Capital A/c)			

- (b) From the following Trial Balance of Sri Kiran prepare Trading and Profit and Loss Account and Balance Sheet.

Particulars	Debit (₹)	Credit (₹)
Capital	–	60,000
Drawings	7,200	–
Opening Stock	20,500	–
Purchases	68,000	–
Carriage Inwards	1,500	–
Sales	–	1,40,500
Sundry Debtors	23,500	–
Sundry Creditors	–	14,300
Cash in Hand	500	–
Cash at Bank	2,200	–
Carriage Outwards	1,700	–
Salaries	16,000	–
Factory Rent	4,000	–
Bills Receivable	5,300	–
Bills Payable	–	4,200
Insurance	1,200	–
Furniture	10,000	–
Machinery	28,000	–
Office Rent	2,000	–
Manufacturing Wages	21,500	–
Provision for Doubtful Debts	–	1,000
Manufacturing Expenses	1,500	–
General Expenses	5,400	–
	2.20.000	2.20.000

The following adjustments are required:

- (a) Closing Stock ` 27,000
- (b) Write off ` 500 as Bad Debts and Maintain the Provision for Doubtful Debts at 5% on Sundry Debtors.
- (c) Unexpired Insurance is ` 300
- (d) Depreciate Machinery 5% and Furniture by 10%.

Sol.:

Dr.

Cr.

Trading and Profit and Loss Account of Sri Kiran for the year ended

Particulars	Amount (`)	Particulars	Amount (`)
To Opening Stock	20,500	By Sales	1,40,500
To Purchases	68,000	By Closing Stock	27,000
To Carriage Inwards	1,500		
To Factory Rent	4,000		
To Manufacturing Wages	21,500		
To Manufacturing Expenses	1,500		
To Gross Profit c/d [Transferred to P&L A/c]	50,500		
	1,67,500		1,67,500
To Carriage Outwards	1,700	By Gross Profit b/d	50,500
To Salaries	16,000		
To Office Rent	2,000		
To General Expenses	5,400		
To Bad debts written off	500		
To Provision for doubtful debts (WN)	150		
To Insurance 1,200			
Less: Unexpired Insurance 300	900		
To Depreciation on Furniture $\left[10,000 \times \frac{10}{100}\right]$	1,000		
To Depreciation on Machinery $\left[28,000 \times \frac{5}{100}\right]$ 1,400			
To Net Profit c/d [Transferred to Capital A/c]	21,450		
	50,500		50,500

Balance Sheet of Sri Kiran as on

Liabilities		Amount	Assets		Amount
Capital	60,000		Machinery	28,000	
(-) Drawings	<u>7,200</u>				
	52,800		(-) Depreciation	<u>1,400</u>	26,600
(+) Net profit	<u>21,450</u>	74,250	Furniture	10,000	
			(-) Depreciation	<u>1,000</u>	9,000
Sundry creditors		14,300	Debtors	23,500	
Bills Payable		4,200	(-) Bad debts	500	
			(-) Provisions	<u>1,150</u>	21,850
			Cash in hand		500
			Cash at bank		2,200
			Bills Receivable		5,300
			Prepaid insurance		300
			Closing stock		27,000
		<u>92,750</u>			<u>92,750</u>

FACULTIES OF COMMERCE
B.Com. I Year I-Semester (CBCS) Examination
(Common paper for General / Computers / Computer Applications / Advertising
/ Foreign Trade / Tax Procedure and Honours Courses)
May / June - 2019
FINANCIAL ACCOUNTING - I

Time: 3 Hours

Max. Marks: 80

PART - A (5 × 4 = 20 Marks)
(Short Answer Type)

ANSWERS

Note: Answer any FIVE of the following questions in not exceeding 20 lines each.

1. Book-Keeping Vs. Accounting (Unit-I, Q.No.4)
2. Journal Proper (Unit-II, SQA.11)
3. Give the adjustment entries
 - (a) Closing Stock
 - (b) Prepaid Insurance.

Sol :

Adjustment Entries

S.No.	Particulars	LF	Debit	Credit
1.	Closing stock A/c Dr. To Trading A/c (being closing stock amount transferred trading A/c)		-	-
2.	Prepaid InsuranceDr. To Insurance A/c (being Insurance amount paid in advance)		-	-

4. From the following transactions write up Sales Book 2014 Jan.

Date	Particulars	
2014		
Jan.-1	Sold goods to Rama Traders	25,000
Jan.- 2	Sold goods to Ramesh & Bros	5,000
Jan.- 3	Sold goods to Malik & Bros	10,000
Jan.- 4	Sold on credit to Ravi Traders	2,000
Jan.- 5	Cash received from Raja Rani	5,000

*Sol.:***Sales book**

Date	Particulars	Outword Invoice No.	LF	Amount
2014				
Jan 1	Ram Traders			25,000
Jan 2	Ramesh & Bros			5,000
Jan 3	Malik & Bros			10,000
Jan 4	Ravi Traders			2,000
	Total			42,000

5. Rectify the following errors:

1. Machinery purchased for ₹ 1,00,000 debited to Purchases Account
2. Sales Book is overcast by ₹ 1,250
3. Purchase Book total was overcast by ₹ 400
4. Goods sold to Ram ₹ 275 were not posted to his Account.

*Ans.:***Rectification Entries**

S.No.	Particulars	LF	Debit (₹)	Credit (₹)
1.	Machinery A/c Dr. To Purchases A/c (Being purchase of machinery was wrongly debited to purchases account, now rectified)		1,00,000	– 1,00,000
2.	Sales A/c To Suspense A/c Dr. (Being overcasting of sales book, now rectified)		1,250 –	– 1,250
3.	Suspense A/c Dr. To Purchases A/c (Being overcasting of purchases book, now rectified)		400 –	– 400
4.	Ram A/c Dr. To Suspense A/c (Being omission of posting to Ram's Account, now rectified)		275 –	– 275

6. Prepare Trial Balance from the following balance on 31-12-2014

Capital	60,000	Drawings	5,000
Sales Returns	15,000	Bills Payable	5,000
Furniture	35,000	Sundry Debtors	10,000

*Ans :***Trial Balance**

Particulars	Debit	Credit
Capital		60,000
Drawings	5,000	
Sales Returns	15,000	
Bills Payable		5,000
Furniture	35,000	
Sundry debtors	10,000	
Total	65,000	65,000

7. Classify the following under personal, real and nominal accounts:

Ans :

1. Stock 5. Fixtures
2. Goodwill 6. Bank Overdraft
3. Loan 7. Capital
4. Cash 8. Peters (Purchaser;
1. Stock – Real A/c
2. Goodwill – Real A/c
3. Loan – Personal A/c
4. Cash – Real A/c
5. Fixture – Real A/c
6. Bank O.D – Personal A/c
7. Capital – Personal A/c
8. Peters – Personal A/c

8. What do you mean by Cash Book and Pass Book ?

(Unit-III, SQA.6)**PART - B (5 × 12 = 60 Marks)****(Essay Answer Type)**

Note: Answer the following questions in not exceeding 4 pages each.

9. (a) Explain the various Accounting Concepts and Conventions.

(Unit-I, Q.No.11, 12)

OR

(b) Journalise the following transactions.

Date	Particulars	₹
2014		
Jan.-1	Started Business with cash	3,00,000
Jan.-2	Paid into Bank	50,000
Jan.-3	Bought goods for cash	5,000
Jan.-4	Drew Cash from Bank for Office use	6,000
Jan.-5	Received from Krishna ₹ 20,800 and allowed him discount ₹ 200	
Jan.-6	Paid to Kiran ₹ 21,700 and discount received ₹ 300	
Jan.-7	Received Commission	1,000
Jan.-8	Paid Salaries	20,000
Jan.-9	Goods returned to Raja	10,000
Jan.-10	Goods returned by Rani	

Sol.:

Journal Entries

Date	Particulars	LF	Debit (₹)	Credit (₹)
2014				
Jan.-1	Cash A/c Dr. To Capital A/c (Being capital brought in the business)		3,00,000 –	– 3,00,000
Jan.-2	Bank A/c Dr. To Cash A/c (Being cash deposited in bank)		50,000 –	– 50,000
Jan.-3	Purchases A/c Dr. To Cash A/c (Being goods purchased on cash)		5,000 –	– 5,000
Jan.-4	Cash A/c Dr. To Bank A/c (Being cash withdrawn from bank for office use)		6,000 –	– 6,000
Jan.-5	Cash A/c Dr. Discount Allowed A/c Dr. To Krishna A/c (Being cash received and discount allowed to krishna)		20,800 200 –	– – 21,000
Jan.-6	Kiran A/c Dr. To Cash A/c To Discount Received A/c (Being cash paid & discount received from kiran)		22,000 – –	– 21,700 300

Jan.-7	Cash A/c Dr.	1,000	–
	To Commission A/c (Being commission received)	–	1,000
Jan.-8	Salaries A/c Dr.	20,000	–
	To Cash A/c (Being salaries paid)	–	20,000
Jan.-9	Raja A/c Dr.	10,000	–
	To Purchase Returns A/c (Being Goods returned to Raja).	–	10,000
Jan.-10	Sales Returns A/c Dr.	5,000	–
	To Rani A/c (Being Goods returned by Rani)	–	5,000

10. (a) What do you understand by "Subsidiary Books" and explain the various types of subsidiary books?

(Unit-II, Q.No.1, 2)

OR

- (b) Enter the following transactions in a three column Cash Book.

Date	Particulars	₹
2015		
Jan.-1	Cash in hand	730
	Balance at Bank	9,200
Jan.-3	Received cheque from Raju with discount ` 32	868
Jan.-5	Paid for Advertising by cheque	300
Jan.-6	Cash Sales	500
Jan.-8	Paid Salaries	650
Jan.-9	Amount withdrawn from bank for office use	800
Jan.-10	Drawn cash for personal use	400
Jan.-12	Issued cheque in favour of Rao, discount received ` 50	790
Jan.-16	Received cheque from Dinesh and discount allowed ` 26	986
Jan.-20	Sales of Machinery, received cheque	4,000
Jan.-22	Bank returns cheque of Dinesh dishonoured	
Jan.-24	Bank Charges as per Pass Book	20

Sol :

Dr. Three Column Cash Book						Cr.					
Date	Particulars	LF	D. A.	Cash	Bank	Date	Particulars	LF	D.R.(`)	Cash (`)	Bank (`)
2015						2015					
Jan-1	To Balance h/d			730	9,200	Jaa-5	By Advertisement A/c				300
Jan-3	To Raju's A/c		32		868	Jaa-8	By Salaries A/c			650	
Jan-6	T Sales A/c			500		Jaa-9	By Cash A/c	(C)			800
Jan-9	To Bank A/c	(C)		800		JarL-10	By Drawings A/c			400	
Jan-10	To Dinesh A/c		26		986	Jaa-12	By Rao A/c		50		790
Jaa-20	To Machinery A/c				4,000	Jaa-22	By Dinesh A/c (Dishonoured)		26		986
						Jan-24	By Bank charges A/c				20
						Jan-31	By Balance c/d			980	12,158
			58	2,030	15,054				76	2,030	15,054
Feb.-1	To Balance b/d			980	12,158						

Note : DA : Discount Allowed. DR : Discount Received

11. (a) Define Bank Reconciliation Statement and explain causes for the difference between Cash Book Balance and Pass Book Balances.

(Unit-III, Q.No.1, 4)

OR

- (b) Prepare Bank Reconciliation Statement from the following on 31st January, 2013.

- Bank Balance as per Cash Book ` 18,500
- Cheques amount to ` 4,000 were issued on 28th Jan. out of which ` 2,400 were presented for payment in Feb. 2013.
- Cheques amounting to ` 9,000 were deposited for collection but cheque for ` 3,000 has not yet been collected by the bank.
- A wrong debit of ` 500 appears in Pass Book.
- Bank Charges ` 10 were entered twice in the Cash Book by oversight.
- A cheque issued to a supplier for ` 800 was not entered in the Cash Book.
- Interest on investments collected by the bank ` 1,000, was not entered in Cash Book.
- Pass Book showed a debit of ` 175 Insurance Premium and a credit of ` 45 as Interest for which no entries are found in Cash Book.

(Unit-III, Prob.15)

12. (a) Describe Error of Principle, Clerical Errors and explain Errors disclosed by Trial Balance.

(Unit-IV, Q.No.9)

OR

- (b) On July 1st, 2001 A Company Ltd. Purchased a second hand Machinery for ₹ 30,000 and spent ₹ 6,000 on reconditioning and installing it. On January 1st, 2002 the firm purchased another Machinery for ₹ 12,000. On June 30, 2003 the machinery purchased on January 1, 2002 was sold for ₹ 8,000 and on July 1, 2003 a fresh plant was installed at a cost of ₹ 20,000. The company writes off 10% depreciation under Written Down Value Method. The Accounts are closed every 31st December. Show the machinery Account for the year ending 31st December, 2004.

(Unit-IV, Prob.22)

13. (a) Define Assets and Liabilities and explain distinction between Profit and Loss Account and Balance Sheet.

(Unit-V, Q.No.13,20)

OR

- (b) From the following details prepare final accounts of Srinivas Co. for the year ended 31st March, 2016.

Ans :

Dr. Trading and P&L A/c of Srinivas Co. for the Year Ending 31st March, 2016 Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	35,000	By Sales	2,00,200
To Purchases	1,20,000	By Closing Stock	40,000
To Wages 16,000			
Add: O/S wages 3,000	19,000		
To Gross Profit c/d (Transferred to P & L A/c)	66,200		20,000
	2,40,200		2,40,200
To Salaries 20,000		By Gross Profit b/d	66,200
Add: O/S salaries 4,000	24,000		
To Depreciation on Plant & Machinery (60,000 × 5%)	3,000		
To Depreciation on Furniture (15,000 × 10%)	1,500		
To Reserve for bad debt (New – Old) (1,250 – 1,000)	250		
To Rent, Taxes 10,000			
Add: O/S Rent 2,000	12,000		
To Net Profit c/d (Transferred to Capital A/c)	25,450		
	66,200		66,200

Balance Sheet of Srinivasat Co. as on 31/3/2016

Liabilities		Amount	Assets		Amount
Capital	1,00,000	1,25,450	Plant and Machinery	60,000	57,000
(+) Net profit	25,450		(-) Depreciation	3,000	
Bills Payable	22,000		Furniture	15,000	13,500
Creditors	24,000		(-) Depreciation	1,500	
Outstanding Wages	3,000		Debtors	50,000	48,750
Outstanding Rent	2,000		(-) Reserves	1,250	
Outstanding Salaries	4,000		Cash in hand		1,200
			Bills Receivable		20,000
		1,80,450	Closing stock		1,80,450

FACULTIES OF COMMERCE
B.Com. I Year I-Semester (CBCS) Examination
(Common paper for General / Computers / Computer Applications / Advertising
/ Foreign Trade / Tax Procedure and Honours Courses)
November / December - 2018
FINANCIAL ACCOUNTING - I

Time : 3 Hours]

[Max. Marks : 80

PART - A (5 × 4 = 20 Marks)

Note: Answer any **FIVE** of the following questions

ANSWERS

(Unit-I, Q.No. 9)

1. Explain the different types of Accounting.
2. From the following transactions, prepare Cash Book with Cash Column.

2017

Jan.-1 Started business with a Capital of ₹ 50,000

Jan.-2 Purchased Furniture worth ₹ 5000 for cash and machinery for ₹ 2000 on credit

Jan.-31 Paid for wages ₹ 30,000

Jan.-31 Goods sold for cash ₹ 25,000.

Ans :

Dr.				Cash Book				Cr.			
Date		Particulars		LF	Amount	Date		Particulars		LF	Amount
2017					2017						
Jan.-1		To Capital A/c			50,000	Jan.-2		By Furniture			5,000
Jan.-31		To Sales A/c			25,000	Jan.-31		By Wages			30,000
						Jan.-31		By Balance c/d			40,000
					75,000						75,000
Feb.-1		To Balance c/d			40,000						

3. Prepare Bank Reconciliation Statement as on 28-02-2017.
 - (a) Favourable balance as per Cash Book on 28-02-2017 ₹ 12,345
 - (b) Cheques issued, but not presented before 28.02.2017 ₹ 1,000
 - (c) Cheques paid into bank, but not collected before 28.02.2017 ₹ 2,000
 - (d) Bank charges appearing only in Pass Book ₹ 150.

*Ans :***Bank Reconciliation Statement As on 28/2/2017**

Particular	Amount	Amount
Balance As per cash book		12,345
(+) Cheques issued but not presented	1,000	1,000
		13,345
(-) Cheques deposited but not collected	2,000	
Bank charges appearing only in pass book	150	2,150
Balance as per pass book		11,195

4. Give the adjustment entries.

Wages Outstanding ` 2000

Prepaid Insurance ` 1500.

*Ans :***Adjustment Entries**

S.No.	Particulars	LF	Debit	Credit
1.	Wages A/c Dr. To outstanding wages A/c (Being outstanding wages adjustment made)		2,000 –	– 2,000
2.	Prepaid Insurance A/c Dr. To Insurance A/c (Being insurance amount paid in advance)		1,500 –	– 1,500

5. Calculate Depreciation @ 10% on reducing instalment method for 4 years on the asset costing ` 1,00,000.

*Ans :***Asset A/c**

Date	Particulars	Amount	Date	Particulars	Amount
I Year	To Bank A/c	1,00,000	I Year ending	By Depreciation $\left(1,00,000 \times \frac{10}{100}\right)$	10,000
			I Year ending	By balance c/d	90,000
		1,00,000			1,00,000
II Year	To balance b/d	90,000	II Year ending	By Depreciation $\left(90,000 \times \frac{10}{100}\right)$	9,000
			II Year	By balance c/d	81,000
		90,000			90,000

III Year	To Balance b/d	81,000	III Year ending	By Depreciation $\left(81,000 \times \frac{10}{100}\right)$	8,100
			III Year ending	By Balance c/d	72,900
		81,000			81,000
IV Year	To Balance b/d	72,900	IV Year ending	By Depreciation $\left(72,900 \times \frac{10}{100}\right)$	7,290
			IV Year ending	By balance c/d	65,610
		72,900			72,900

6. Prepare Trial Balance:

Plant and Machinery	₹ 25,000
Land and Building	₹ 75,000
Furniture and Fixtures	₹ 1,00,000
Wages and Salaries	₹ 20,000
Capital	₹ 1,20,000
Bank Loan	₹ 1,00,000

Ans :

Trial Balance

Particulars	Debit	Credit
Capital	–	1,20,000
Plant and Machinery	25,000	–
Land and Buildings	75,000	–
Furniture and fixtures	1,00,000	–
Wages and Salaries	20,000	–
Bank loan	–	1,00,000
Total	2,20,000	2,20,000

7. Pass Journal Entries for the following transactions

2017

Jan.-1	Started business with	₹ 75,000
Jan.-2	Bought goods for cash	₹ 5,000
Jan.-5	Bought goods on credit from Shyam	₹ 2,000
Jan.-10	Cash Sales	₹ 5,000

*Ans :***Journal Entries**

S.No.	Particulars	LF	Debit	Credit
Jan. 1	Cash A/c Dr. To capital A/c (Being started business with cash)		75,000 –	– 75,000
Jan. 2	Purchase A/c Dr. To cash A/c (Being goods purchased for cash)		5,000 –	– 5,000
Jan. 5	Purchase A/c Dr. To Shyam A/c (Being goods purchased from Shaym on credit)		2,000 –	– 2,000
Jan. 10	Cash A/c Dr. To Sales (Being goods sold for cash)		5,000 –	– 5,000

8. Explain money measurement concept and business entity concept.

(Unit-I, Q.No. 11)**PART - B (5 × 12 = 60 Marks)****Note:** Answer **ALL** the questions

9. (a) Explain the advantages and limitation of Financial Accounting.

(Unit-I, Q.No. 7)

OR

(b) Prepare Ram's Account.

Date	Particulars	₹
Jan.-1	Sold goods to Ram	5,000
Jan.-4	Bought goods from Ram	8,000
Jan.-10	Ram returned goods to us	1,000
Jan.-12	Returned goods to Ram	1,200
Jan.-20	Sold goods to Ram for cash	500
Jan.-25	Paid cash to Ram	4,000
Jan.-30	Ram Paid cash to us	1,500

Ans :

Dr. Ram A/c				Cr.			
Date	Particulars	LF	Amount	Date	Particulars	LF	Amount
2017				2017			
Jan. 1	To Sales		5,000	Jan. 4	By Purchases		8,000
Jan. 12	To Purchase Returns		1,200	Jan. 10	By Sales		1,000
Jan. 25	To Cash		4,000	Jan. 30	By Cash		1,500
Jan. 31	To balance C/d		300				
			10,500				10,500
				Feb. 1	By Balance b/d		300

10. (a) Prepare the three column cash book from the following information.

Date	Particulars	₹
2017		
Jan.-1	Bank Balance (Credit)	5,000
	Cash Balance (Debit)	25,000
Jan.-2	Cash Sales	1,00,000
Jan.-3	Purchased Machinery and paid by cheque	1,000
Jan.-4	Deposited Cash into Bank	50,000
Jan.-15	Sold goods to Vishnu on credit	75,000
Jan.-20	Received interest on Investment	5,000
Jan.-25	Received cheque from Vishnu in full settlement of his Account	74,500

Ans :

Dr. Three Column Cash Book Cr.

Date	Particulars	L.F	D.A. (₹)	Cash (₹)	Bank (₹)	Date	Particulars	L.F	D.R. (₹)	Cash (₹)	Bank (₹)
2017						2017					
Jan.-1	To Balance b/d			25,000		Jan.-1	By Balance b/d				5,000
Jan.-2	To Sales A/c			1,00,000		Jan.-3	By Machinery A/c				1,000
Jan.-4	To Cash A/c	(C)			50,000	Jan.-4	By Bank A/c	(C)		50,000	
Jan.-20	To Interest			5,000							
Jan.-25	To Vishnu A/c		500		74,500	Jan.-31	By Balance c/d			80,000	1,18,500
			500	1,30,000	1,24,500					1,30,000	1,24,500
Feb.-1	To Balance b/d			80,000	1,18,500						

Note: DA = Discount Allowed, DR = Discount Received

OR

- (b) Prepare a Petty Cash Book with four analysis columns for (i) Postage and Telegrams (ii) Travelling Expenses (iii) Carriage and (iv) Office Expenses.

The book is kept on imprest system, the amount of imprest being ₹ 1,000

Jan.-2 Petty Cash in Hand ₹ 210; Received cash to makeup the imprest

Jan.-5 Paid Railway Fare ₹ 39 and Bus Fare ₹ 9; Telegrams ₹ 46; bought pencils for office ₹ 20.

Jan.-6 Paid Carriage on Small parcels ₹ 56

Jan.-8 Paid for postal Stamps ₹ 35

Jan.-10 Paid office cleaner ₹ 120

*Ans :*Dr. **Petty Cash Book** Cr.

Cash Received (₹)	Date	Particulars	V.N	Total Payment (₹)	Postage and Telegram (₹)	Travelling Expenses (₹)	Carriage (₹)	Office Expenses (₹)
1000	2017							
	Jan.-1	To Balance b/d						
210	Jan.-2	To Cash						
	Jan.-5	By Railway charges		39	—	39	—	—
	Jan.-5	By Bus fare		9	—	9	—	—
	Jan.-5	By Telegram		46	46	—	—	—
	Jan.-5	By Pencils for office		20	—	—	56	20
	Jan.-6	By Carriage		56	—	—	—	—
	Jan.-8	By Postal stamps		35	35	—	—	—
	Jan.-10	By office cleaner		120	—	—	—	120
		Total Payments		325	81	48	56	140
		By Balance c/d		885				
1,210				1,210				
885	Feb.-1	By Balance b/d						
325	Feb.-2	To cash						

Note: VN = Voucher Number

11. (a) Prepare Bank Reconciliation Statement on 30th November 2016 from the following information of Mr. Merchant.
- Balance as per Pass Book on 30-11-2016 Overdraft ₹ 20,000.
 - On 5-10-2016 Mr. Merchant deposited a cheque for collection of ₹ 1000 and made entry in the Cash Book, appears in the Pass Book on 6-12-2016 at ₹ 990.
 - Cheques issued to parties but not presented for payment till 30-11-2016 are of ₹ 525, ₹ 805 and ₹ 900.
 - Interest on Investments collected by the bankers on 30-11-2016 ₹ 955 entered in Cash book on 4-12-2016.
 - Bank Charges ₹ 90 (dated 27-11-2016) not entered in the Cash book.
 - Cheque returned dishonoured by the bank on 28-11-2016 was not shown in Cash Book till 30-11-2016 ₹ 1000/-.

*Ans :***Bank Reconciliation Statement of Mr. Merchant as on 30/11/2016**

Particulars	Amount	Amount
Overdraft balance as per pass book		20,000
Add:		
i) Cheques issued to parties but not presented for payment	2,230	
ii) Interest on investment collected by the banker entered in cashback	955	3,185
		23,185
Less:		
i) Cheques deposited for collection was entered in pass book	1,000	
ii) Bank charges not entered in cash book	90	
iii) Cheques deposited for collection but returned dishonoured	1,000	2,090
Overdraft Balance as per Cash Book		21,095

OR

- (b) Explain the reasons for difference between Cash Book and Pass Book Balances. **(Unit-III, Q.No. 4)**

12. (a) Pass the rectification entries and show the Suspense Account for the following Errors, detected after the preparation of Trial Balance.
- A cheque for the ` 220 received from a tenant for rent has been entered in the Cash Book, but not shown in rent account.
 - The account of Rama Rao, a debtor for ` 160 has been written off as bad, but the entry has been made only in his personal account.
 - The discount column on the debit side of the Cash Book ` 200 has been posted to the credit of Discount Received Account.
 - The Sales Day Book is undercast by ` 3,150.
 - ` 95 received for Commission is not posted to Commission Account.
 - Goods returned ` 27, to R.K. and company though entered in the Returns Book, is left unposted in the other book.

*Ans :***Journal Entries**

S.No.	Particulars	LF	Debit	Credit
1.	Suspense A/c Dr. To Rent A/c (Being a cheque received for Rent)		220 -	- 220
2.	Bad debts A/c Dr. To Suspense A/c (Being A/c of Rama Rao written off as bad and entered only in personal A/c)		160 -	- 160

Dr.		Suspense A/c		Cr.	
Particulars		Amount	Particulars		Amount
To Rent A/c		220	By bad debts A/c		160
To Sales A/c		3,150	By discount received A/c		200
To Commission A/c		95	By Discount allowed A/c		200
			By RK Company		27
			By Difference in Book		2,878
		3,465			3,465

(b) On 1st January, 1992 machinery was purchased by X for ₹ 50,000. On July, 1993 additions were made to the extent of ₹ 10,000. On 1st April, 1994 further additions were made to the extent of ₹ 6,400. On 30th June 1995 Machinery, the original cost of which was ₹ 8000 on 1st January, 1992 was sold for ₹ 6000. X closes his books on 31st December each year. Show the Machinery Account for the years from 1992 to 1995 in the books of X if depreciation is charged at 10% as per Original Cost Method.

13. (a) The following is the Trial Balance of M/s XYZ agencies as on 31st March, 1998. Prepare Trading and Profit & Loss A/c for the year ended 31-3-1998 and a Balance Sheet as on that date;

Particulars	Dr. (₹)	Cr. (₹)
Capital	–	1,00,000
Drawings	18,000	–
Buildings	15,000	–
Furniture & Fittings	7,500	–
Motor Van	25,000	–
Loan from Hari @ 12% interest	–	15,000
Interest paid on above	900	–
Sales	–	1,00,000
Purchases	75,000	–
Opening stock	25,000	–
Establishment Expenses	15,000	–85
Wages	2,000	–
Insurance	1,000	–
Commission received	–	4,500
Sundry Debtors	28,100	–
Bank balance	20,000	–
Sundry Creditors	–	10,000
Interest	–	3,000
	2,32,500	2,32,500

Adjustments

- The value of stock on 31.03.1998 was ₹ 32,000
- Outstanding Wages ₹ 500
- Prepaid Insurance ₹ 300
- Commission received in advance ₹ 1300
- Allow Interest on Capital @ 10%
- Depreciate Buildings @ 5%, Furniture & Fittings @ 10% & Motor van @ 10%
- Charge Interest on Drawings ₹ 500.

Ans :

Dr.		Trading and Profit and Loss A/c		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)		
To Opening Stock	25,000	By Sales	1,00,000		
To Purchases	75,000	By Closing Stock	32,000		
To wages	2,000				
Add: Outstanding Wages	300				
	2,500				
To Gross Profit c/d (Transferred to P & L A/c)	29,500				
	1,32,000				1,32,000
		By Gross' Profit b/d	29,500		
To Establishment Expenses	15,000	By Interest on Drawings	500		
To Interest on Capital	10,000	By Commission received	4,500		
To Depreciation on building	750	Less: Received in advance	1,300		3,200
To Depreciation on Furniture and fitting	750	By Interest			3,000
To Depreciation on Motor van	2,500				
To Interest on loan paid (Given)	900				
Add: Outstanding Interest on Loan	900				
	1800				
Insurance	1,000				
Less: Prepaid Insurance	300				
	4,700				
Net Profit c/d (Transferred to Capital A/c)					
	36,200				36,200

Balance Sheet of XYZ Agencies as on 31-3-1998

Liabilities	Amount	Assets	Amount
Capital	1,00,000	Buildings	15,000
(-) Drawings	18,000	(-) Depreciation	750
(+) Interest on Drawings	500	Furniture and Fittings	7,500
	81,500	(-) Deprecation	750
(+) Interest on capital	10,000	Motor van	25,000
(+) Net Profit	4,700	(-) Depreciation	2,500
	96,200	Debtors	28,100
Loan from Hari	15,000	Bank balance	20,000
Outstanding Interest	900	Prepaid Insurance	300
Outstanding wages	500	Closing stock	3,200
Commission received in advance	1,300		
Sundry creditors	10,000		
	1,23,900		1,23,900

OR

- (b) Pass adjustment entries for the following :
- (i) Closing Stock of raw materials ` 1,00,000
 - (ii) ` 20,000 for wages was outstanding
 - (iii) ` 2000 for Insurance was paid in advance
 - (iv) Write off depreciation on Machinery ` 50,000
 - (v) ` 15000 were received in advance for Commission
 - (vi) Goods for personal use ` 12,000.

*Ans :***Adjustment Entries**

S.No.	Particulars	LF	Debit	Credit
1.	Closing stock A/c Dr. To Trading A/c (Being closing stock transferred to trading A/c)		1,00,00 –	– 1,00,000
2.	Wages A/c Dr. To Outstanding wages A/c (Being out standing wages payable)		20,000 –	– 20,000
3.	Prepaid Insurance A/c Dr. To Insurance A/c (Being insurance amount paid in advance)		2,000 –	– 2,000
4.	Depreciation A/c Dr. To Machinery A/c (Being depreciation written on machinery)		50,000 –	– 50,000
5.	Commission A/c Dr. To Commission receiver in advance A/c (Being commission received in advance)		15,000 –	– 15,000
6.	Drawing A/c Dr. To Purchases A/c (Being commission received in advance)		12,000 –	– 12,000

FACULTIES OF COMMERCE
B.Com. I Year I-Semester (CBCS) Examination
(Common paper for General / Computers / Computer Applications / Advertising
/ Foreign Trade / Tax Procedure and Honours Courses)
May / June - 2018
FINANCIAL ACCOUNTING - I

Time : 3 Hours]

[Max. Marks : 80

PART - A (5 × 4 = 20 Marks)

Note: Answer any **FIVE** of the following questions

ANSWERS

1. Explain the stages of accounting. (Unit-I, Q.No. 26)
2. Compile the Cash Book of Mr. Hussain who started his business with ₹ 15,000 on 20.01.1998.

Date	Particulars	Amount (₹)
1998		
Jan.-21	Purchased office table for cash	500
Jan.-24	Sold goods for cash	950
Jan.-25	Paid for Sign Board	225
Jan.-28	Paid Auto Charges	10
Jan.-30	Paid Wages	150

Ans :

Dr.				Cr.			
Date	Particulars	LF	Amount	Date	Particulars	LF	Amount
1998				1998			
Jan.-20	To Balance b/d		15,000	Jan.-21	By Office Table A/c		500
Jan.-24	To Sales A/c		950	Jan.-25	By Sign board		225
				Jan.-28	By Auto Charges		10
				Jan.-28	By Wages		150
				Jan.-31	By Balance a/c		15,065
			15,950				15,950
Feb.-1	To Balance b/d		15,065				

3. List out any four reasons for differences between cash book and pass book. (Unit-III, Q.No. 4)
4. Rectify the following errors by passing journal entries:
- Purchases of ₹ 300 from Raman passed through sales book
 - Bills Received from Ramu passed through Bills Payable book.

Ans :

Journal Entries

S.No.	Particulars	LF	Debit	Credit
1.	Purchases A/c Dr. Sales A/c Dr. To Raman A/c (Being goods purchased from Raman wrongly passed through sales book)		300 300 –	– – 600
2.	Bills Receivable A/c Dr. Bills Payable A/c Dr. To Ramu A/c (Being bills drawn on Ramu passed through bills payable book, now Rectified)		– – –	– – –

5. Pass necessary journal entries for the following adjustments:
- Depreciation @ 5% is to be charged on Plant and Machinery worth ₹ 10,000/-
 - Prepaid insurance ₹ 800/-

Ans :

Adjustment Entries

S.No.	Particulars	LF	Debit	Credit
1.	Depreciation A/c Dr. To plant and machinery A/c $\left(10,000 \times \frac{5}{100} = 500\right)$ (Being plant and Machinery is depreciated at 5%)		500 –	– 500
2.	Prepaid Insurance A/c Dr. To Insurance A/c (Being adjustment made for prepaid Insurance)		800 –	– 800

6. Prepare Bank Reconciliation Statement as on 31-12-2017
- Overdraft as per Cash Book ₹ 1,000/-
 - Cheques issued but not presented ₹ 2,000/-
 - Cheques deposited but not collected ₹ 5,000/-
 - Dividends collected and credited only in the pass book only ₹ 1200/-

*Ans :***Bank Reconciliation Statement as on**

Particulars	Amount	Amount
Overdraft balance as per cash book	–	1,000
(+) Cheques deposited but not collected	5,000	5,000
		6,000
i) Cheques issued but not presented	2,000	
ii) Dividends	1,200	3,200
Overdraft balance as per pass book	–	2,800

7. Prepare Trading Account for the year ended 31.03.2017

Particulars	₹
Stock as on 01.04.2017	55,000
Wages and Salaries	45,000
Purchases	2,00,000
Fuel, gas and water	10,000
Stock as on 31.03.2017	60,000
Sales	4,40,000

*Ans :***Dr.****Trading A/c for the year ending 31/3/2017****Cr.**

Particular	Amount	Particular	Amount
To Opening stock	55,000	By Sales	4,40,000
To Wages and Salaries	45,000	By Closing Stock	60,000
To Purchases	2,00,000		
To Fuel, Gas and Water	10,000		
To Gross Profit C/d	1,90,000		
	5,00,000		5,00,000

8. Calculate depreciation for four years on reducing installment method on Plant and Machinery costing ₹ 4,00,000 @ 10%.

(Unit-IV, Prob.)

PART - B (5 × 12 = 60 Marks)**Note:** Answer **ALL** the questions

9. (a) The following Trial Balance is prepared wrongly. You are asked to prepare the trial balance correctly.

Head of Account	Dr. Balance	Cr. Balance
	(`)	(`)
Capital	22,000	
Stock		10,000
Debtors	8,000	
Creditors		12,000
Machinery		20,000
Cash in hand		2,000
Bank Overdraft	14,000	
Sales Returns		8,000
Purchases Returns	4,000	
Miscellaneous Expenses	12,000	
Sales		44,000
Purchases	26,000	
Wages	10,000	
Salaries		12,000
Prepaid Insurance		200
Bills Payable	10,800	
Outstanding Salaries	1,400	
	1,08,200	1,08,200

*Sol :***Corrected Trial Balance**

Particular	Debit	Credit
Capital	–	22,000
Stock	10,000	–
Debtors	8,000	–
Machinery	20,000	–
Creditors	–	12,000
Cash in hand	2,000	–
Bank Overdraft	–	14,000
Sales Returns	8,000	–
Purchases Returns	–	4,000
Miscellaneous Expenses	12,000	–

Sales	–	44,000
Purchases	26,000	–
Wages	10,000	–
Salaries	12,000	–
Prepaid Insurance	200	–
Bills Payable	–	10,800
Outstanding Salaries	–	1,400
	1,08,200	1,08,200

OR

(b) Record the following transactions in the Personal Account of Raman:

Date	Particulars	₹
Sept.-1	Sold goods to Raman	5,420
Sept.-4	Received Cash from Raman	5,150
	and allowed him a discount of	270
Sept.-15	Raman bought goods	6,000
Sept.-28	Received cash from Raman on Account	2,000
Oct.-1	Balance from last month brought down	4,000
Oct.-13	Sold goods to Raman	10,000
Oct.-20	Received Cash from Raman	3,960
	and allowed him a discount of	40
Oct.-31	Received Cash in full settlement of Raman's Account	9,800

Sol :

Dr.				Raman's Account				Cr.			
Date	Particulars	LF	Amount	Date	Particulars	LF	Amount				
1998				1998							
Sep. 1	To Sales A/c		5,420	Sep. 4	By Cash A/c		5,150				
Sep.15	To Sales A/c		6,000	Sep. 4	By Discount A/c		270				
				Sep. 28	By Cash A/c		2,000				
				Sep. 30	By balance c/d		4,000				
			11,420				11,420				
Oct. 1	To Balance b/d		4,000	Oct. 20	By Cash A/c		3,960				
Oct.13	To Sales A/c		10,000	Oct. 20	By Discount A/c		40				
				Oct. 31	By Cash A/c		9,800				
				Oct. 31	By Discount A/c		200				
			14,000				14,000				
Nov. 1	By Balance b/d		200								

10. (a) Prepare a purchases book from the following transactions of Shobha Raa. a general merchant and post it into ledger.

Date	Particulars
1998	
Jan.-1	Purchased from Ram Prasad: 3 dozen Wilson Pens @ ` 15 per pen; 2 dozen Parker ink bottles @ ` 15 Per ink bottle subject to a trade discount of 10%
Jan.-10	Bought from Banwarilal 50 reams of ruled paper @` 11 per ream and paid cash
Jan.-15	Purchased from Din Dayal; 6 Dozen packets Parle Gluco biscuits @` 2.50 per packet
Jan.-20	Bought from Bolanadh Furniture House on credit. 6 Godrez chairs @` 80 per chair and office tables @` 500 per table for office use.
Jan.-25	Purchased from Shakawathi Stores : 6 dozen packets Deluxe erasers @` 1.10 per packet; 20 dozen pen Holders' Swan Gross @` 45
Jan.-30	Sold to Ramgopal on credit 2 dozen Wilson Pens @` 18 per pen

Sol.:

Purchase Book of Shobha Ram

Date	Particulars	Inwards Invoice No.	Amount	Amount
1998	Ram Prasad			
Jan. 1	3 dozen wilson pens @ 15 each (36×15)		540	
	2 dozen parker ink bottles @ 15 each (24×15)		360	
			900	
	(-) Discount 10%		90	810
Jan. 15	Din Dayal			
	6 dozen Glucose biscuit (72 × 2.50)			180
Jan. 25	Shakwathi store 6 dozen Deluxe erasers @ 1.10 per packet (72×1.10)		79.2	
	20 dozen pen holders swan gross @ 45 (240× 45)		10,800	10,879.2
	Total			11,869.20

OR

- (b) From the following particulars, prepare Three Column Cash Book for January 1998 and find the balance on 31st January 1998:

Date	Particulars
Jan.-1	Cash in hand ` 500; Credit balance with Canara Bank ` 1,000
Jan.-5	Sales proceeds of household furniture ` 7,000 was deposited with the bank
Jan.-9	A cheque of ` 10,000 was given to M. Patel on Account
Jan.-12	Received a cheque of ` 3,000 in full settlement from Khanna & Co.

Jan.-13	The above cheque was deposited in the bank
Jan.-16	The bank returned the cheque of Khanna & Co as dishonoured
Jan.-18	Cash Sales ` 2,500
Jan.-20	Cash advance ` 1,000 for travelling given to salesmen
Jan.-25	Received ` 2,500 from Rao Bros in full settlement of ` 2,600 due from him
Jan.-28	Paid cash ` 1,500 to Cheri & Coin full settlement of ` 1,650
Jan.-29	Drew for office use ` 3,000 from bank
Jan.-30	Paid salaries ` 2,300 rent ` 1,000 and Sundry Expenses ` 700 by cash

Sol.:

Dr. Three Column Cash Book Cr.

Date	Particulars	L.F	D.A.	Cash	Bank	Date	Particulars	L.F	D.R.	Cash	Bank
Jan.-1	To Balance b/d			500		Jan.-1	By Balance b/d				1,000
Jan.-5	To Sales of house hold furniture				7,000	Jan.-9	By Patel A/c				10,000
						Jan.-13	By Bank A/c			3,000	
						Jan.-16	By Khanna and co. A/c				3,000
Jan.-12	To Khanna A/c			3,000		Jan.-20	By Sales Man A/c			1,000	
Jan.-13	To Cash A/c	C			3,000	Jan.-28	By Cheri		150	1,500	
Jan.-18	To Slaes A/c			2,500		Jan.-29	By Cash	C			3,000
Jan.-25	To Rao and Bro.		100			Jan.-30	By Salaries			2,300	
Jan.29	To Bank A/c	C		3,000		Jan.-30	By Rent			1,000	
Jan.31	To Balance c/d				7,000	Jan.-30	By Expenses			700	
						Jan.-31	By Balance c/d			2,000	
			100	11,500	17,000				150	11,500	17,000
Feb.01	To Balance b/d			2,000							

11. (a) On 31st March 1998 has cash book of a firm showed a bank balance of ` 3,000. From the following information, prepare Bank Reconciliation Statement, showing the Balance as per Pass Book:
- Cheques have been issued for ` 25,000 out of which cheques worth ` 2,000 only were presented for payment
 - Cheques worth ` 700 were deposited on 28th March but had not been credited by the Bank. One cheque for ` 250 was entered in the cash book on 30th March but was banked on 3rd April 1998
 - A cheque from Mohan for ` 200 was paid in on 26th March but was dishonoured and the advice was received on 2nd April, 1998
 - Pass Book showed Bank Charges ` 10 debited by the bank. It also showed ` 400 collected by the Bank as Interest.
 - One of the debtors deposited a sum of ` 250 in the account of the firm on 20th March. Intimation in this respect was received from the bank on 2nd April, 1998.

*Ans :***Bank Reconciliation Statement as on 31/3/1998**

Particulars	Amount	Amount
Bank Balance as per cash book		3,000
(+)		
i) Cheques issued but not presented for payment	23,000	
ii) Cheques directly deposited by a customer	250	
ii) Interest collected by bank	400	23,650
		26,650
(-)		
i) Cheques deposited but yet to be credited by bank	700	
ii) Cheques received and recorded in cash book but yet to be banked	250	
iii) Cheque dishonoured by bank but the entry is yet to be passed in cash book	200	
iv) Bank charges not recorded in cash book	10	1,160
		25,490

Bank Balance as per passbook

OR

- (b) The Cash Book of Mehta showed a balance of ₹ 5,380 on 31st March 1998 at the Bank. This figure did not agree with the Pass Book. A comparison of the two revealed the following;
- The bank has debited Mehta with ₹ 960, the annual premium on his life policy according to his standing instructions and with ₹ 30 as Bank Charges
 - The Bank has credited Mehta by ₹ 1,400 the proceeds of a bill
 - Mehta paid in cheques totaling ₹ 2,100 on 26th March, of which those for ₹ 150 was returned dishonoured on 31st March, the information of which was received by Mehta on 2nd April, 1998. The cash collected on 31st March 1998 totaling ₹ 610 was entered in the cash book in the bank column on the same day but it was banked on 2nd April, 1998
 - In March, 1998 Mehta issued Cheques totaling ₹ 2,870 of which those for ₹ 850 had not been presented by 31st March, 1998
- Mehta has not yet recorded in the cash book matters entered in (i) and (ii) and the dishonoured cheque mentioned in (iii) above.

Sol :

Dr.			Amended Cash Book			Cr.	
Date	Particulars	Amount	Date	Particulars	Amount		
1998			1998				
Mar. 31	To Balance b/d	5,380	Mar. 31	By Insurance premium A/c	960		
Mar. 31	To Bills for collection A/c	1,400	Mar. 31	By Bank charges A/c	30		
			Mar. 31	By Customers A/c	150		
			Mar. 31	By Balance C/d	5,640		
		6,780			6,780		
April 1	To Balance C/d	5,640					

Bank Reconciliation Statement as on 31/3/1998

Particulars	Amount	Amount
Bank Balance as per cash book		5,646
(+) Add :		
i) Cheques issued but not presented for payment	850	850
		6,490
(-) Less :		
i) Cheques paid into bank but not cleared	1,950	
ii) Cash collection entered in the cash book, but was omitted to be banked.	610	2,560
Favourable balance as per pass Book		3,930

12. (a) Rectify the following errors:

- (i) Purchase of ` 5,000 from Ram were entered in the Sales Book
- (ii) Bill received from 'A' for ` 5,000 was passed through Bills Payable Book
- (iii) The Sales Day Book was undercast by ? 3,150
- (iv) Transistor Sold to 'X' for ` 10,000 was passed through Sales Book twice
- (v) The Discount Column on the debit side of the cash book ? 200 had been posted to the credit of Discount Received Account
- (vi) Sales of goods to 'P' ` 2,000 was entered in the Purchases Book.

Ans :

Journal Entries

S.No.	Particulars	LF	Debit	Credit
1.	Purchases A/c Dr. Sales A/c Dr. To Ram A/c (Being sales book was wrongly credit instead of purchase book)		5,000 5,000 –	– 10,000
2.	Bills Receivable A/c Dr. Bills Payable A/c Dr. To 'A' A/c (Being the entry which was wrongly passed in bills payable book instead of bills receivable books)		5,000 5,000 –	– 10,000

3.	Suspense A/c To sales A/c (Being under cast of sales book now rectified)	Dr.		3,150 –	– 3,150
4.	Sales A/c To 'X' A/c (Being the sales account wrongly recorded the entry in a twice)	Dr.		10,000 –	– 10,000
5.	Discount received A/c Discount Allowed A/c To Suspense A/c (Being discount column of cash book posted credit to discount received a/c)	Dr. Dr.		200 200 –	– – 400
6.	P's A/c To Purchase A/c To Sales A/c (Being sales of goods to 'p' wrongly passed through purchase book)	Dr. Dr.		400 – –	– 2,000 2,000

OR

- (b) X purchased a second hand machine on 1 -2-1993 for ₹ 50,000; Paid ₹ 11,000 for its overhauling and ₹ 5,000 for its installation which was completed by 31-03-1993. The company provides depreciation on its machinery at 15% per annum on diminishing balance method from the date it is put to use and closes its books on 31st December every year. On 1 -1 -1994, a repair work was carried out on the machine and ₹ 5,000 were paid for the same. The machine was sold on 31 -10-1995 for a sum of ₹ 11,000 and an amount of ₹ 100 was paid as dismantling charges prepare Machinery A/c from 1993 to 1995.

(Unit-IV, Prob.)

13. (a) From the following details, prepare final accounts of Viswanadh for the year ended 31-03-2017:

Item	₹	Item	₹
Capital	1,00,000	Cash in hand	1,200
Purchases	12,000	Bills Payable	2,200
Stock as on 01-04-2016	35,000	Debtors	5,000
Creditors	24,000	Plant and Machinery	60,000
Furniture	15,000	Sales	2,00,200
Bills Receivable	20,000	Rent and Taxes	10,000
Wages	16,000	Reserve for bad debts	1,000
Salaries	20,000		

Adjustments:

- (i) Stock on 31-03-2017 ` 40,000
- (ii) Outstanding rent ` 2,000; wages ` 3,000, salaries ` 4,000
- (iii) Provide depreciation on Plant and Machinery at 5% and furniture at 10 %
- (iv) Increase reserve for Bad debts on debtors to 3%.

Sol.:

Dr. Trading and Profit and Loss A/c for the year ending 31/3/2017				Cr.	
Particulars	Amount (`)	Particulars	Amount (`)		
To Opening Stock	35,000	By Sales	2,00,200		
To Purchases	12,000	By Closing Stock	40,000		
To wages	16,000				
Add: Outstanding Wages	3,000				
	19,000				
To Gross Profit c/d (Transferred to P & L A/c)	1,74,200				
	2,40,200				
To Rent and Taxes	10,000	By Gross Profit b/d	1,74,200		
Add: Outstanding rent	2,000	By Reserves for bad debts (3%)	850		
	12,000				
To Salaries	20,000				
Add: Outstanding Salaries	4,000				
	24,000				
To Depreciation on Plant and Machinery $\left(60,000 \times \frac{5}{100}\right)$	3,000				
To Depreciation on furniture $\left(15,000 \times \frac{10}{100}\right)$	1,500				
To Net Profit c/d (Transferred to capital account)	1,34,550				
	1,75,050				
			1,75,050		

Balance Sheet of Viswanadh as on 31/3/2017

Liabilities	Amount	Assets	Amount
Capital	1,00,000	Furniture	75,000
(+) Net profit	1,34,550	(-) Dep.	1,500
Creditors	24,000	Plant and Machinery	60,000
Outstanding wages	3,000	(-) Dep.	3,000
Outstanding Rent	2,000	Debtors	5,000
Outstanding salaries	4,000	(-) Reserves	150
Bills payable	2,200	Cash in hand	1,200
		Bills receivable	20,000
		Closing stock A/c	40,000
		Suspense A/c	1,33,200
	2,69,750		2,69,750

(b) From the following figures, you are required to show (i) Provision for Doubtful Debts Account (ii) Bad Debts Account and (iii) Profit and Loss Account:

Provision for doubtful debts on 31-03-1998	20,000
--	--------

Bad debts written off in 1997-98	1,200
----------------------------------	-------

Ans :

Dr.			Provision for doubtful debts A/c			Cr.		
Date	Particulars	Amount	Date	Particulars	Amount			
1998								
March 31	To Baddebts written off	1,200	1/4/97	By balance b/d	10,000			
March 31	To Balance c/d	20,000	31/3/98	By P and L A/c	11,200			
		21,200			21,200			

Dr.			Bad debts A/c		Cr.	
Date	Particulars	Amount	Date	Particulars	Amount	
31/3/98	To Balance b/d	1,200	March 31	By provision for bad debts	1,200	
		1,200			1,200	

Dr.		Profit and Loss A/c		Cr.	
Date	Particulars	Amount	Date	Particulars	Amount
March 31	To Bad debts	1,200			
March 31	To provision for doubtful debts (20,000 – 10,000) (New - Old)	10,000			
		11,200			

FACULTIES OF COMMERCE
B.Com. I Year I-Semester (CBCS) Examination
(Common paper for General / Computers / Computer Applications / Advertising
/ Foreign Trade / Tax Procedure and Honours Courses)
December - 2017
FINANCIAL ACCOUNTING - I

Time : 3 Hours]

[Max. Marks : 80

PART - A (5 × 4 = 20 Marks)

Note: Answer any **FIVE** of the following questions

ANSWERS

- | | |
|--|------------------------|
| 1. Explain the Business Entity and Cost concept. | (Unit-I, Q.No. 11) |
| 2. Debit note and Credit note. | (Unit-II, Q.No. 4, 6) |
| 3. What do you mean by bank reconciliation statement? Why do you prepare it? | (Unit-III, SQA - 1, 2) |
| 4. Give the adjustment entries for the following: | |
| (a) Provision for bad debts ` 1,000 | |
| (b) Prepaid insurance ` 600 | |

Ans :

Adjustment Entries

Date	Particulars	LF	Debit	Credit
(a)	P and L A/c Dr. To provision for bad debts A/c (Being provision for bad debts made)		1,000 -	- 1,000
(b)	Prepaid Insurance A/c Dr. To Insurance A/c (Being insurance amount paid in advance)		600 -	- 600

5. From the following transactions write up purchases book of M/s. Subbalakshmi Ltd. Co. for April 2015.
- | | |
|----------|--|
| April-8 | Purchased on credit from Vijay Co.
5 TV sets @ 2,500
3 EC TV @ 2,800 |
| April-15 | Purchased on cash from Modi Co. ` 5,000 |
| April-22 | Purchased on credit from Bombay market
5 Philips transistors @ 400
8 Bush Radios @ 500
Trade discount 10% |
| April-28 | Cash sales 6,000 |
| April-30 | Purchased Motor cycle and paid cheque 6,000/- |

*Ans :***Purchase Books of M/s Subbalakshmi Ltd. Company**

Date	Particulars	Inward Invoice No.	LF	Amount	Amount
8/4/15	Vijay Co. 5 TV sets @ 2,500 3 EC TV @ 2,800			12,500 8,400 20,900	17,765
	(-) Discount @ 15%			3,135	
22/4/15	Bombay Market 5 philips transistors @ 400 8 Brush radio @ 500			2,000 4,000 6,000	
	(-) Discount @ 10%			600	5,400
	Total				23,165

6. Prepare Trial Balance from the following balances on 31-3-2015.

Capital	1,68,000	Sales	7,20,000
Drawings	50,000	Discount allowed	7,000
Stock	2,10,000	Purchase returns	20,000
Purchases	3,60,000	Sales returns	30,000
Debtors	45,000	Creditors	67,000
Wages	12,000	Cash	2,61,000

*Ans :***Trial Balance as on 31/3/2015**

Particulars	Debit	Credit
Capital	–	1,68,000
Drawings	50,000	–
Stock	2,10,000	–
Purchases	3,60,000	–
Debtors	45,000	–
Wages	12,000	–
Sales	–	7,20,000
Discount allowed	7,000	–
Purchase Returns	–	20,000
Sales Returns	30,000	–
Creditors	–	67,000
Cash	2,61,000	–
Total	9,75,000	9,75,000

7. Rectify the following errors:

- (a) Rent paid ₹ 450 was posted as ₹ 540
 (b) A credit purchases of goods from Raman ₹ 2,500 was entered as ₹ 5,200

Ans :

Rectification Entries

Sl.No.	Particulars	LF	Amount	Amount
a)	Suspense A/c Dr. To Rent A/c (Being rent paid was posted with 540 instead of 450)		90 –	– 90
b)	Raman A/c Dr. To Purchases A/c (Being goods purchased from Raman 2,500 were posted as Rs. 5,200)		2,700 –	– 2,700

8. Ascertain the cost of Goods sold:

Opening stock	20,000
Purchases	1,18,000
Direct Expenses	22,000
Closing stock	30,000

Ans :

Calculation of cost of Goods Sold

$$\begin{aligned}
 &= \text{Opening stock} + \text{Purchases} + \text{Direct expenses} - \text{Closing stock} \\
 &= 20,000 + 1,18,000 + 22,000 - 30,000 \\
 &= 1,60,000 - 30,000 = 1,30,000.
 \end{aligned}$$

PART - B (5 × 12 = 60 Marks)

Note: Answer the following questions not exceeding **FOUR** pages each.

9. (a) Define Journal and Ledger and distinguish between the journal and the Ledger. (Unit-I, Q.No. 27, 31, 33)

OR

- (b) Journalize the following transactions:

Date	Particulars	Amount (₹)
2015		
Nov.-1	Agarwal commenced business with	3,00,000
Nov.-2	Purchased Machinery	25,000
Nov.-3	Purchased furniture from Godrej	10,000

Nov.-4	Purchased goods	12,000
Nov.-5	Goods purchased from Krishna Mohan	60,000
Nov.-6	Sold goods for cash	20,000
Nov.-7	Cash deposited into bank	6,000
Nov.-8	Issued cheque to Godrej Co.	50,000
Nov.-9	Cash withdrawn for personal use	6,000
Nov.-10	Paid salaries by cheque	40,000
Nov.-11	Goods returned to Krishna Mohan	6,000
Nov.-12	Goods returned by Rajesh & Co.	300

Ans :

Date	Particulars	LF	Debit (₹)	Credit (₹)
2015				
Nov.-1	Cash A/c Dr. To Capital A/c (Being business commenced by Agarwal with cash)		3,00,000	3,00,000
Nov.-2	Machinery A/c Dr. To Cash A/c (Being Machinery Purchased)		25,000	25,000
Nov.-3	Furniture A/c Dr. To Godrej A/c (Being furniture purchased from Godrej on credit)		10,000	10,000
Nov.-4	Purchases A/c Dr. To Cash A/c (Being goods purchased on cash)		12,000	12,000
Nov.-5	Purchases A/c Dr. To Krishna Mohan A/c (Being goods purchased from Krishna Mohan on credit)		60,000	60,000
Nov.-6	Cash A/c Dr. To Sales A/c (Being goods sold on Cash)		20,000	20,000

Nov.-7	Bank A/c To Cash A/c (Being Cash deposited into the bank)	Dr.		6,000	6,000
Nov.-8	Godrej co. A/c To Bank A/c (Being cheque issued to Godrej co. against the purchase of furniture)	Dr.		50,000	50,000
Nov.-9	Drawings A/c To Cash A/c (Being Cash withdrawn for personal use)	Dr.		6,000	6,000
Nov.-10	Salaries A/c To Bank A/c (Being salaries paid through cheque)	Dr.		40,000	40,000
Nov.-11	Krishna Mohan A/c To Purchase returns A/c (Being goods returned to Krishna Mohan)	Dr.		6,000	6,000
Nov.-12	Sales return A/c To Rajesh & Co A/c (Being goods returned by Rajesh & Co)	Dr.		300	300

10. (a) What are the subsidiary books and what do they record? Explain the advantages of subsidiary books.

Ans :

(Unit-II, Q.No. 1)

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

1. 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.

2. 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.

3. 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.

4. Efficiency

The sub-division of work gives the advantage of specialization. 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.

5. 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.

6. 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.

7. 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.

8. 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.

OR

(b) Make out the three column cash book of M/s. Ram and Mohan from the following particulars.

Date	Particulars	Amount (₹)
2015		
April-1	Cash in hand	300
April-1	Bank overdraft	450
April-2	Paid salaries for March	250
April-2	Purchased goods for cash	30
April-2	Cash sales	80
April-3	Issued cheque in favour for Krishna and Co. to settle his account for 270	260
April-4	Received Cash from Dhawan. (Discount allowed ₹ 15)	235
April-5	Received cheque from Ali Bros, (in full settlement of their debt of ₹ 200)SA	190
April-6	Cash sent to bank	200
April-7	Cheque issued in favour of Ravi Bros, for purchase of furniture	150
April-8	Cheque of Ali Bros, is dishonoured, bank debits in respect of charges	2
April-9	Paid rent by cheque	100
April-9	Bank collects interest on securities	150

*Ans :***Three Column Cash Book****Dr.****Cr.**

Date	Particulars	LF	DA	Cash	Bank	Date	Particulars	LF	DR	Cash	Bank
1/4/15	To Balance b/d			300		1/4/15	By balance b/d				450
2/4/15	To Sale a/c			80		2/4/15	By Salaries			250	
4/4/15	To Dhawan		15	235		2/4/15	By purchases			30	
5/4/15	To Ali Bros.		10		190	3/4/15	By Krishna & Co.		10		260
6/4/15	To Cash	C			200	6/4/15	By Bank	C		200	
9/4/15	To Interest on securities				150	7/4/15	By Furniture				150
						8/4/15	By Ali bros.		10		190
30/4/15	To Balance c/d				612	8/4/15	By Bank charges				2
						9/4/15	By Rent				100
						30/4/15	By Balance c/d			135	
			24	615	1152				20	615	1152
1/5/15	To Balance b/d			135		1/5/15	By Balance b/d				612

Note : DA = Discount Allowed

DR = Discount Received

11. (a) Define cash book and pass book and explain causes for the differences between both the books in bank reconciliation statement. **(Unit-III, Q.No. 4, SQA - 6)**

(OR)

- (b) On 31-3-2009 the cash book of Ramesh showed a credit balance of ` 7,200. From the following information prepare bank reconciliation statement
- Interest debited by the bank ` 225 is not appearing in cash book.
 - Interest on investments collected by the bank ` 1,200
 - A cheque of ` 750 issued to Srinivas was cashed on 10-4-2009.
 - A credit of ` 90 rebating to some other account was found in the pass book.
 - Out of cheques deposited in the bank for collection on 25th March a cheque for ` 750 was collected after 31st March, 2009.
 - Direct payment made of customer into bank 900.

Ans :

Bank Reconciliation Statement of Ramesh as on 31/3/2009

Particulars	Amount	Amount
Bank overdraft as per cash book		7,200
(+) ADD		
i) Interest debited by the bank is not recorded in cash book	225	
ii) Cheque deposited in the bank but are not collected and recorded in pass book	750	975
		8,175
(-) LESS		
i) Interest on investment collected by the bank	1200	
ii) Wrong credit recorded in pass book	90	
iii) Cheques issued to srinivas was cashed on 10/4/2009	750	
iv) Direct payment by a customers	900	2,940
		5,235
Bank overdraft balance as per pass book		

12. (a) What are the causes of Depreciation? Explain the various methods of calculating depreciation.

(Unit-IV, Q.No.15,21,22)

(OR)

- (b) X Ltd. purchased a machine on 1-1-2002 for ₹ 1,16,000 and spent ₹ 4,000 for installation. On 1-7-2002 another machine purchased costing ₹ 40,000. On 1-1-2004 the machine purchased on 1-1-2002 was sold for ₹ 57,200 and a new machine was purchased for ₹ 80,000 and installed on the same date by paying ₹ 20,000. Show the Machinery Account charging depreciation @10% p.a. On written Down Value Method for 4 years. Assume that books are closed every year on 31st December.

Ans :

Dr.			Machinery Account			Cr.	
Date	Particulars	Amount	Date	Particulars	Amount		
1-1-02	To Bank A/c (Machine-I)	1,20,000	31-12-02	By Depreciation A/c (Machine-I)	12,000		
	(1,16,000 + 4,000)			$\left(1,20,000 \times \frac{10}{100}\right)$			
1-7-02	To Bank A/c (Machine-II)	40,000	31-12-02	By Depreciation A/c (Machine-II)	2,000		
				$\left(40,000 \times \frac{10}{100} \times \frac{6}{12}\right)$			
			31-12-02	By Balance c/d	1,46,000		
		1,60,000			1,60,000		

1-1-03	To balance b/d	1,46,000	31-12-03	By Depreciation A/c (Machine-I)	10,800
				$\left(1,08,000 \times \frac{10}{100}\right)$	
			31-12-03	By depreciation A/c (Machine-II)	3,800
				$\left(38,000 \times \frac{10}{100}\right)$	
			31-12-03	By Balance c/d	1,31,400
		1,46,000			1,46,000
1-1-04	To Balance b/d	1,31,400	1-1-04	By Bank A/c (Sale) – I	57,200
1-1-04	To Bank A/c (Machine-III)	1,00,000	1-1-04	By Profit and Loss A/c (Loss on Sale)	40,000
	(80,000 + 20,000)		31-12-04	By Depreciation A/c (Machine - II)	3,420
				$\left(34,200 \times \frac{10}{100}\right)$	
			31-12-04	By Depreciation A/c (Machine - III)	10,000
				$\left(1,00,000 \times \frac{10}{100}\right)$	
				By Balance c/d	1,20,780
		2,31,400			2,31,400
1-1-05	To Balance b/d	1,20,780	31-12-05	By Depreciation A/c (Machine-II)	3,078
				$\left(30,780 \times \frac{10}{100}\right)$	
			31-12-05	By Depreciation A/c (Machine-III)	9,000
				$\left(90,000 \times \frac{10}{100}\right)$	
			31-12-05	By Balance c/d	1,08,702
		1,20,780			1,20,780
1-1-06	To Balance b/d	1,08,702			

Calculation of Profit and Loss on sale of Machinery - I

Cost of the asset	–	1,20,000
(–) Dep. 1st year	–	12,000
		<u>1,08,000</u>
(–) Dep. 2 nd year		10,800
		<u>97,200</u>
(–) Sale value		57,200
Loss on Sale of Machinery		<u>40,000</u>

13. (a) Define Final Accounts and name the parties or groups interested in acquiring Accounting information.

(Unit-V, Q.No. 1)**(Unit-I, Q.No. 8)**

(OR)

- (b) Prepare the Final Accounts from the following Trial Balance for the year ended 31-3-2009.

Trial Balance as on 31-3-2009

Debit	Amount	Credit	Amount
Purchases	4,50,000	Sales	7,21,005
Machinery	1,15,500	Capital	1,25,000
Returns	18,000	Returns	24,009
Sundry Debtors	1,42,000	Sundry creditors	98,000
Cash at bank	34,655	Provision for bad debts	7,500
Stock (1-4-2008)	64,504		
Rates and Taxes	9,800		
Wages	55,000		
Salaries	67,000		
Freight	6,555		
Furniture	12,500		
	<u>9,75,514</u>		<u>9,75,514</u>

Adjustments:

- (i) Closing stock ` 98,000
- (ii) Outstanding salaries ` 18,000
- (iii) Write off ` 4,500 as bad debts
- (iv) Create a provision for bad debts at 4% on sundry debtors
- (v) Provide 6% depreciation on machinery
- (vi) Interest on capital @ 3% is allowed.

*Ans :*Dr. **Manufacturing A/c for the year ending 31/3/2015** Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening stock	64,504	By Sales	7,21,005
To Purchases	4,50,000	Less : Returns	18,000
Less: Returns	<u>24,009</u>	By Closing stock	98,000
To Wages	55,000		
To Freight	6,555		
To Gross Profit c/d (Transferred to P & L A/c)	2,48,955		
	8,01,005		8,01,005
To Salaries	67,000	By Gross Profit b/d	2,48,955
Add: Outstanding	<u>18,000</u>	By Provision for bad debts	7,500
To Rates and Taxes	9,800	Less: New provision	<u>5,500</u>
To Bad debts written off	4,500		2,000
To Depreciation on machinery	6,930		
$\left(1,15,500 \times \frac{6}{100}\right)$			
To Interest on Capital	3,750		
To Net profit C/d (Transferred to Capital Account)	1,40,975		
	2,50,955		2,50,955

Dr. **Balance Sheet** Cr.

Liabilities	Amount	Assets	Amount
Capital	1,25,000	Machinery	1,15,500
(+) Inter est	<u>3,750</u>	(-) Depreciation	<u>6,930</u>
	1,28,750	Furniture	12,500
(+) Net Profit	<u>1,40,975</u>	Cash at bank	34,655
Outstanding Salaries	18,000	Debtors	1,42,000
Sundry Creditors	98,000	(-) Bad Debts	4,500
		(-) Provision for baddebts	<u>5,500</u>
		Closing stock	98,000
	3,85,725		3,85,725

B.Com. I Year I-Semester (CBCS) Examination
(Common paper for General / Computers / Computer Applications / Advertising
/ Foreign Trade / Tax Procedure and Honours Courses)

May / June - 2017

FINANCIAL ACCOUNTING - I

Time : 3 Hours]

[Max. Marks : 80

PART - A (5 x 4 = 20 Marks)

(Short Answer Type)

Note : Answer any FIVE of the following questions.

ANSWERS

(Unit-I, Q.No. 33)

1. Differentiate between Journal and Ledger.
2. From the following transactions write up sales book of 2016 Jan.
 - 1 Sold goods to Raju Trades Rs. 20,000
 - 2 Sold goods to Krishna and Bros. Rs. 24,000
 - 6 Sold goods to Mani and Bros. Rs 16,000
 - 14 Sold on credit to Raju traders Rs. 13,000
 - 15 Cash received from Raju Traders RS. 12,000

Ans :

Sales Book

Date	Invoice No.	Name of the Customer (Account to be debited)	LF	Details Amount	Total
2016		Raju Traders			20,000
Jan. 1		Krishna and Bros			24,000
		Mani and Bros			16,000
		Raju Traders			13,000
		Sales A/c			<u>73,000</u>

3. Prepare a Bank Reconciliation Statement and find out the balance.
 - (a) Overdraft as per cash book as on 31-12-2014 Rs. 10,540
 - (b) Interest on O.D. for six months recorded in Pass book on Rs. 240
 - (c) Interest on investment collected by the bank Rs. 900
 - (d) Cheque paid into bank but not collected before 31st December 2014 Rs. 4,200

*Ans :***Bank Reconciliation Statement**

Particulars	Amt.	Amt.
Overdraft balance as per cashbook		10,540
Add : Interest on O.D recorded in pass book	240	
Cheques paid but not collected	4,200	4,440
		14,980
Less : Interest on investment collected by the bank		900
Overdraft balance as per pass book		14,080

4. Give the adjustment entries.

- (a) Closing stock Rs. 2,00,000
 (b) Outstanding wages Rs. 5,000

Ans :

S.No.	Particulars	LF	Debit	Credit
(a)	Closing stock A/c Dr. To Trading A/c (Being closing stock brought in to the books)		2,00,000	2,00,000
(b)	Wages A/c Dr. To Outstanding wages A/c. (Being wages outstanding)		5,000	5,000

5. Prepare Trial Balance from the following balances on 31-3-2014 Capital Rs. 6,10,000, Sales Rs.9,00,000, Drawing Rs.1,00,000 Debtors Rs. 1,00,000, Machinery Rs.5,00,000, Creditors Rs.90,000 Bank Rs. 5,00,000, Cash Rs. 4,00,000.

*Ans :***Trial Balance as on 31-3-2014**

Particulars	Dr. Amount	Cr. Amount
Capital	—	6,10,000
Sales	—	9,00,000
Drawing	1,00,000	—
Debtors	1,00,000	—
Machinery	5,00,000	—
Creditors	—	90,000
Bank	5,00,000	—
Cash	4,00,000	—
Total	16,00,000	16,00,000

6. Calculate the amount of annual depreciation for 3 years by Diminishing Balance method.

(i) Cost of Plant and Machinery Rs. 5,50,000

(ii) Expected life 4 years

(iii) Rate of depreciation 20%

(iv) Scrap value Rs. 50,000

Ans :

Calculation of Depreciation Under Diminishing Balance Method

Particulars	Amount
Cost of Plant and Machinery	5,50,000
(-) I Year Depreciation $\left(5,50,000 \times \frac{20}{100}\right)$	1,10,000
Net Book vlaue	4,40,000
(-) II year Depreciation $\left(4,40,000 \times \frac{20}{100}\right)$	88,000
Net Book Value	3,52,000
(-) III Year Depreciation $\left(3,52,000 \times \frac{20}{100}\right)$	70,000
Net Book value of plant and Machinery	2,81,600

7. Give the journal entries for the following transactions:

2014	Rs.
April 1 Started business with	50,000
3 Bought goods from Suma	82,000
5 Goods sold to Sonu	14,000
10 Cash sales	7,000
12 Goods sold to Naresh	40,000
18 Paid to Suma on account	4,000
24 Paid salaries by cheque	2,000
26 Purchased Machinery by cheque	25,000

Ans :

Date	Particulars	Dr. Amount	Cr. Amount
2014 April 1	Cash A/c Dr. To Capital A/c (Being started business with cash)	50,000	50,000
3	Purchases A/c Dr. To Suma A/c (Being goods bought)	82,000	82,000
5	Sonu A/c Dr. To Sales A/c (Being goods sold)	14,000	14,000
10	Cash A/c Dr. To Sales A/c (Being goods sold on cash)	7,000	7,000
12	Naresh A/c Dr. To Sales A/c (Being goods sold to naresh)	40,000	40,000
18	Suma A/c Dr. To Bank A/c (Being paid to suma on account)	4,000	4,000
24	Salaries A/c Dr. To Bank A/c (Being salaries paid)	2,000	2,000
26	Machinery A/c Dr. To Bank A/c (Being machinery purchased)	25,000	25,000

8. Explain the following principles:

(Unit-I, Q.No. 11)

- (a) Business entity concept
- (b) Going concern concept

PART - B (5 x 12 = 60 Marks)**Note :** Answer ALL the questions.

9. (a) Explain the differences between Book-keeping and Accounting. **(Unit-I, Q.No. 4)**
- (b) The following Trial Balance has been prepared wrongly. You are asked to prepare the Trial balance correctly.

Heads of account	Dr. Balance (Rs)	Cr. Balance (Rs.)
Capital	22,000	—
Stock	—	10,000
Debtors	8,000	—
Creditors	—	12,000
Machinery	—	20,000
Cash in hand	—	2,000
Bank overdraft	14,000	—
Sales returns	—	8,000
Purchases returns	4,000	—
Misc. Expenses	12,000	—
Sales	—	44,000
Purchases	26,000	—
Wages	10,000	—
Salaries	—	12,000
Prepaid Insurance	—	200
Bills Payable	10,800	—
Outstanding salaries	1,400	—
	<u>1,08,200</u>	<u>1,08,200</u>

Sol :

Particulars	Dr. Balance	Cr. Balance
Capital	—	22,000
Stock	10,000	—
Debtors	8,000	—
Creditors	—	12,000
Machinery	20,000	—

Cash in hand	2,000	—
Bank overdraft	—	14,000
Sales returns	8,000	—
Purchases returns	—	4,000
Misc. Expenses	12,000	—
Sales	—	44,000
Purchases	26,000	—
Wages	10,000	—
Salaries	12,000	—
Prepaid Insurance	200	—
Bills Payable	—	10,800
Outstanding salaries	—	1,400
	<u>1,08,200</u>	<u>1,08,200</u>

10. (a) Prepare the Three column cash book from the following information:

2015 Jan.		Rs.
1	Cash balance	30,000
	Bank balance	60,000
2	Cash sales	40,000
5	Furniture purchased and issued cheque	9,000
6	Rent paid by the cheque	4,000
7	Cash deposited in the bank	40,000
9	Received interest on Investment	4,000
9	Paid salaries	6,000
10	Received from Vishnu	16,000
	Discount allowed	500
12	Received cheque from Sona and deposited in the bank	8,000
13	Sona cheque dishnoured	8,000

Sol.:

Three Column Cash Book as on Jan 2015

Date	Receipts	DA	Cash	Bank	Date	Payments	DA	Cash	Bank
2015									
Jan. 1	To Balance		30,000	60,000	Jan. 5	By Furniture		—	9,000
2	To Sales		40,000	—	6	By Rent		—	4,000
7	To Cash	(C)	—	40,000	7	By Bank	(C)	40,000	—
9	To Interest		4,000	—	9	By Salaries		6,000	—
10	To Vishnu	500	16,000	—	13	By Sona		—	8,000
12	To Sona		—	8,000	31	By Balance c/d	500	44,000	87,000
		500	90,000	1,08,000			500	90,000	1,08,000
Feb. 1	To Balance b/d	500	44,000	87,000					

Note: DA = Discount Allowed, DR = Discount Received

OR

(b) Prepare Columnar Petty Cash Book on imprest system from the following particulars

2014 June	Rs.	2014 June	Rs.
1 Received for petty cash payments	1,000	20 Paid for conveyance	44
2 Paid for postage	80	25 Paid for travelling expenses	160
5 Paid for stationery	50	27 Paid for cartage	100
8 Paid for Advertisement	100	28 Wages to office cleaner	20
12 Paid for wages	40	30 Paid for telegram	40
16 Paid for carriage	30	30 Sent registered notice to landlord	6

*Sol.:***Petty Cash Book**

Cash Received	Date	Particulars	LF	Total Payments	Analysis of Payments					
					Pastage & Telegrams	Carriage & Cartage	Printing & Advertise- ment	Travelling & Wages	Station- ary	Sundry
Rs. 1,000	2014 June 1	To Cash								
	2	By Postage		80	80					
	5	By Stationery		50					50	
	8	By Advertisement		100			100			
	12	By Wages		40				40		
	16	By Carriage		30		30				
	20	By Conveyance		44						44
	25	By Travelling Exp.		160				160		
	27	By Cartage		100		100				
	28	By Wages		20				20		
	30	By Telegram		40	40					
	30	By Registered Notice to Landlord		6	6					
				670	126	130	100	220	50	44
	30	By Balance c/d		330						
1,000				1000						
330	July 1	To Balance b/d								
70	July 1	To Cash								

11. (a) Explain the various reasons for preparation of Bank Reconciliation Statement.

(Unit-III, Q.No. 2)

OR

- (b) From the following particulars ascertain the balance that should appear in the Cash Book of Roy and Co., as on 31st March, 2015.

On 31-3-2015 your Pass Book showed a credit balance of Rs.5000. Before that date you had issued cheques worth Rs. 1,000 of which cheques worth Rs. 300 were not yet cashed. On 26th March, you deposited a cheque for Rs.150 in the bank but yet did not enter it in cash book. The pass book showed a credit of Rs. 40 for interest and a debit of Rs. 10 for bank charges and the cash book had a no corresponding entries for them. A cheque for Rs. 1,200 deposited in your account No. 2 was wrongly credited by the Bank to this account. Dishonoured bill was debited in the pass book only Rs. 500 cheque for Rs. 700 paid into the bank were not yet credited in the pass book.

A wrong debit of Rs. 100 appears in the Pass Book. A cheque of Rs. 150 received from a customer was entered in the Cash Book in March, 2015 but the same was omitted to be paid into the bank.

Determine the balance as per Cash Book as on that date.

Sol.:

Bank Reconciliation Statement as on 31st March 2015

Particulars	Rs.	Rs.
Credit Balance as per pass book	–	5,000
Add : Bank charges not recorded in cash book	10	
Dishonoured bill debited only in pass book	500	
Cheques paid into bank but not yet credited in PB	700	
Wrong debit in the pass book	100	
Cheques received but not presented with the bank	150	1460
		6460
Less : Cheques issued but not yet encashed (1,000 – 700)	300	
Cheque deposited but not recorded in cash book	150	
Interest not recorded in cash book	40	
A wrong credit appears only in pass book	1200	1690
Debit balance as per cash book		4770

12. (a) Pass the rectification entries and show the Suspense account for the following errors, detected after the preparation of the Trial Balance.
- A cheque for Rs. 220 received from a tenant for rent has been entered in the cash book, but the double entry has not be completed.
 - The account of Rama Rao, a debtor for Rs. 160 had been written off as bad, but the entry has been made only in the personal account.
 - The discount column on the debit side of the Cash Book Rs. 200 had been posted to the credit of Discount Received Account.
 - The Sales Day Book is undercast by Rs. 3,150

- (v) Rs. 95 received for commission is not posted to commission account.
 (vi) Goods returned Rs 27, to R.K. and Company, though entered in the Returns Book is left unposted.

*Sol.:***Rectification Entries**

Date	Rectifying Entries	L.F.	Dr.	Cr.
(a)	Suspense Account Dr. To Rent Account (Being the double entry completed by crediting rent account)		220	220
(b)	Baddebts Account Dr. To Suspense Account (Being the error rectified)		160	160
(c)	Discount Account Dr. To Suspense Account (Being wrong credit given to discount account cancelled and the discount allowed is recorded)		400	400
(d)	Suspense Account Dr. To Sales Account (Being the sale account is increased to the extent of undercast)		3,150	3,150
(e)	Suspense Account Dr. To Commission Account (Being the commission credited)		95	95
(f)	R.K. Company Account Dr. To Suspense Account (Being goods returned to R.K. company recorded)		27	27

Dr.		Suspense Account		Cr.	
Particulars	Amt.	Particulars	Amt.		
To Rent Account	220	By Difference in T.B			
To Sales	3,150	(Balancing figure)			2,878
To Commission	95	By Baddebts			160
		By Discount			400
		By R.K. Company A/c			27
	<u>3,465</u>				<u>3,465</u>

OR

(b) Rectify the following errors.

- (i) Purchases of Rs. 3,000 from Somanna were entered in the Sales Book
- (ii) Bill received from Kamesh for Rs. 5,000 passed through Bills Payable book
- (iii) An item of Rs. 1500 relating to Prepaid Rent was omitted to be brought forward from last year.
- (iv) Rs. 4000 paid to Mahesh, against out acceptance was debited to Mallesh.
- (v) Received Rs. 2,000 from Ajit whose account for Rs. 3,000 was written off and posted to the credit of Amit.
- (vi) Transistor sold to Karan for Rs. 7,500 passed through Sales Book twice.

Sol.:

Rectifying Entries

S.No.	Particulars	L.F.	Dr. Amt.	Cr. Amt.
(i)	<div style="display: flex; justify-content: space-between;"> Purchase Account Dr. </div> <div style="display: flex; justify-content: space-between;"> Sales Account Dr. </div> <div style="text-align: center;"> To Somanna A/c (Being the amount passed through sales book cancelled and debited to purchase account) </div>		<div style="text-align: right;">3,000</div> <div style="text-align: right;">3,000</div>	6,000
(ii)	<div style="display: flex; justify-content: space-between;"> Bills Receivable Account Dr. </div> <div style="display: flex; justify-content: space-between;"> Bills Payable Account Dr. </div> <div style="text-align: center;"> To Kamesh A/c (Being the amount cancelled passed through bills payable book and debited to bills received account) </div>		<div style="text-align: right;">5,000</div> <div style="text-align: right;">5,000</div>	10,000
(iii)	<div style="display: flex; justify-content: space-between;"> Prepaid Rent Account Dr. </div> <div style="text-align: center;"> To Suspense Account (Being prepaid rent omitted to bring into books of accounts earling now brought into book or accounts) </div>		1,500	1,500
(iv)	<div style="display: flex; justify-content: space-between;"> Bills Payable Account Dr. </div> <div style="text-align: center;"> To Mallesh A/c (Being the amount wrongly debited to mallesh cancelled) </div>		4,000	4,000
(v)	<div style="display: flex; justify-content: space-between;"> Ajit Account Dr. </div> <div style="display: flex; justify-content: space-between;"> Amit Account Dr. </div> <div style="text-align: center;"> To Baddebts recovered account (Being the amount credited to ajit account cancelled and credited to baddebts recovered) </div>		<div style="text-align: right;">3,000</div> <div style="text-align: right;">3,000</div>	6,000
(vi)	<div style="display: flex; justify-content: space-between;"> Sales Account Dr. </div> <div style="text-align: center;"> To Karan A/c (Being wrong credit given to sales account cancelled) </div>		7,500	7,500

13. (a) The following are the figures extracted from the books of Murthy on 31-12-2012. Prepare Trading, Profit and Loss account and Balance Sheet.

Particulars	Dr. Balance (Rs)	Cr. Balance (Rs.)
Capital	–	50,000
Plant and Machinery	20,000	–
Furniture	11,300	–
Sundry Debtors and Creditors	15,000	20,000
Bills receivable and Payable	10,000	5,000
Opening stock on (1 -1 -12)	20,000	–
Purchased and Sales	60,000	90,000
Depreciation	1,200	–
Outstanding Salaries	–	800
Salaries	10,000	–
Wages	22,000	–
Insurance	1,000	–
Prepaid insurance	100	–
Carriage	400	–
10% loan	–	5,400
	<u>1,71,200</u>	<u>1,71,200</u>

Adjustments:

- Write off Rs.1,000 as bad debts and provide 5% on debtors for provision for bad debts.
- Closing stock was valued at Rs. 40,000
- Allow 10% interest on capital

Sol.:

Dr. Trading, Profit & Loss A/c for the year ended 31-12-2012		Cr.	
Particulars	Amt.	Particulars	Amt.
To Opening Stock	20,000	By Sales	90,000
To Purchases	60,000	By Closing stock	40,000
To Wages	22,000		
To Carriage	400		
To Gross profit c/d	27,600		
	<u>1,30,000</u>		<u>1,30,000</u>

To Salaries	10,000	By Gross Profit b/d	27,600
To Depreciation	1,200		
To Insurance	1,000		
To Baddebts	1,000		
To Provision for baddebts	700		
To Interest on capital	5,000		
To Net profit c/d	8,700		
	<u>27,600</u>		<u>27,600</u>

Balance Sheet as on 31-12-2012

Liabilities		Amt.	Assets		Amt.
Capital	50,000		Plant & Machinery		20,000
(+) Interest	5,000		Furniture		11,300
	<u>55,000</u>		Sundry debtors	15,000	
(+) Net Profit	8,700	63,600	(-) Baddebts	1,000	
10% Loan		5,400		<u>14,000</u>	
Sundry Creditors		20,000	(-) Provision	700	13,300
Bills payable		5,000	Bills Receivable		10,000
Outstanding salaries		800	Closing Stock		40,000
			Prepaid insurance		100
			Suspense		200
		<u>94,900</u>			<u>94,900</u>

OR

- (b) Prepare the Manufacturing Trading and Profit and Loss Account from the following figures relating to the year ending 31st March, 2015.

Particulars	1-4-2015 (Rs)	31-3-2015 (Rs.)
Stock	33,000	27,500
Finished Goods	16,000	18,300
Raw Materials	11,000	9,400
Work-in-Progress(in Prime cost)		1,50,900
Purchases of Materials		4,100
Carriage on Purchases		65,000
Wages		26,000
Factory Salaries		18,000
Office Salaries		8,300

Repair and Maintenance:

Machinery 1,700

Office equipment

Depreciation & Maintenance:

25,000

Machinery 8,100

Office equipment 5,300

Sundry Expenses : 17,800

Factory 3,00,000

Office

Sales

It is firm's practice to transfer goods from the factory to the sales godown at cost plus 10%.

*Sol/ :***Manufacturing account for the year ended**

Particulars	Amt.	Amt.	Particulars	Amt.	Amt.
To Materials Consumed			By Trading A/c		3,12,400
Opening stock	16,000		(Transfer)		
(+) Purchases	1,50,900				
(+) Carriage on					
Purchases	4,100				
	1,71,000				
Less : Closing stock	18,300	1,52,700			
Wages		65,000			
		2,17,700			
Add : Work-in-progress					
(Closing)		11,100			
		2,28,800			
Less : Work-in-progress					
(Opening)		9,400			
Prime Cost		2,19,000			
Works Indirect Expenses :					
Factory salaries	26,000				
Repairs & Maintenance	8,300				
Depreciation	25,000				
Sundry expenses	5,300	64,600			
Cost of goods purchases		2,84,000			
Profit & Loss A/c					
(10% of Rs. 2,84,000)		28,400			
		3,12,400			3,12,400

Trading & Profit & Loss A/c

Dr.			Cr.		
Particulars	Amt.	Amt.	Particulars	Amt.	Amt.
To Cost of finished goods			By Sales (finished goods)		3,00,000
Opening stock	33,000		By Gross loss c/d		17,900
(+) Manufacturing Account (Transfer)	3,12,400				
(-) Closing stock	27,500	3,17,900			
		3,17,900			3,17,900
To Gross loss b/d		17,900	By Manufacturing A/c (Profit)		28,400
To Office salaries		18,000	By Net loss (Transferred to capital A/c)		35,100
To Repairs & maintenance (Office equipment)		1,700			
To Depreciation (Office equipment)		8,100			
To Sundry expenses (Office)		17,800			
		63,500			63,500

B.Com. I Year I-Semester (CBCS) Examination
(Common paper for General / Computers / Computer Applications / Advertising
/ Foreign Trade / Tax Procedure and Honours Courses)

December - 2016

FINANCIAL ACCOUNTING - I

Time : 3 Hours]

[Max. Marks : 80

PART - A (5 x 4 = 20 Marks)

(Short Answer Type)

Note : Answer any FIVE of the following questions.

ANSWERS

(Unit-I, Q.No. 32)

1. Explain advantages and disadvantages of Ledger.
2. Explain "Valuation of Inventory" Accounting Standard.

Ans :

Objective

The objective of this standard is to formulate the method of computation of cost of inventories/ stock, determine the value of closing stock/ inventory at which, the inventory is to be shown in balance sheet till it is not sold and recognized as revenue.

Definition

Inventories consist of the following:

- Held for sale in the ordinary course of business (finished goods)
 - In the process of production of such sale (raw material and work- in-progress)
 - In the form of materials or supplies to be consumed in production process or in the rendering of services (stores, spares, raw material, consumables). Inventories do not include machinery.
3. From the following particulars prepare Purchase Book of Mr. Sony Electronics.
 2016 Jan. 1 Pruchased goods from Mahender of the list price of Rs. 4,00,000 less 10% discount
 Jan. 3 Bought of Ideal furniture, Pune 100 chairs @ Rs. 500
 15 tables @ Rs. 1,000 Delivery and cartage Rs. 4,000
 Jan. 8 Pruchased from Godrej Co., Delhi
 150 collapsible chairs @ Rs. 2,500

Ans :

Purchases Book

Date	Particulars	Invoice	L.F	Amount	Total Amount
2016 Jan. 1	Mahender : Goods			4,00,000	3,60,000
Jan. 1	Less : 10% discount			40,000	
Jan. 3	Ideal furniture, pune				69,000
	100 chairs @ 500			50,000	
	15 tables @ Rs. 1000			15,000	
	Delivery & cartage charge			4,000	
Jan. 8	Gody Co Delhi				3,75,000
	150 collapsible chairs @ 2,500				
	Purchase Account				8,04,000

Ans :

Ans :

Ans :

$$\begin{aligned}\text{Cost price} &= \text{Depreciated value} \times \frac{100}{90} \\ &= 72,900 \times \frac{100}{90} = 81,000\end{aligned}$$

8. From the following balances prepare Trial Balance as on 31-12-2014.

	Rs.
Capital	50,000
Cash at bank	10,000
Furniture	15,000
Buildings	25,000
Debtors	10,000
Creditors	10,000
Stock	60,000
Bank overdraft	43,500
Bills payable	16,500

Ans :

Trial Balance

Particulars	Debit	Credit
Capital		50,000
Cash at bank	10,000	
Furniture	15,000	
Buildings	25,000	
Debtors	10,000	
Creditors		10,000
Stock	60,000	
Bank overdraft		43,500
Bills payable		16,500
	1,20,000	1,20,000

9. (a) What is Journal ? What are the items to be observed while passing journal entries? (Unit-I, Q.No. 27, 28)

OR

- (b) Give the Journal entries for the following transactions:

			Rs.	
a.	2014 April	1	Started business with	4,00,000
b.		3	Pruchased goods	2,00,000
c.		10	Cash sales	50,000
d.		12	Goods sold to Ramu	60,000
e.		13	Pruchased goods from Suma	1,00,000
f.		18	Paid to Suma on Account	50,000
g.		23	Paid commission	4,000
h.		25	Paid tax by cheque	6,000
i.		27	Draw for office use from the bank	8,000
j.		30	Purchased furniture by cheque	30,000

Ans. :

Date	Particulars	LF	Dr. Amount	Cr. Amount
2014 April 1	Cash A/c Dr. To Capital A/c (Being cash introduced in the business)		4,00,000	4,00,000
April 3	Purchases A/c Dr. To Cash A/c (Being goods purchased)		2,00,000	2,00,000
April 10	Cash A/c Dr. To Sales A/c (Being goods sold)		50,000	50,000
April 12	Ramu A/c Dr. To Sales A/c (Being goods sold to Ramu)		60,000	60,000
April 13	Purchases A/c Dr. To suma A/c (Being goods purchased from suma)		1,00,000	1,00,000
April 18	Suma A/c Dr. To Cash A/c (Being cash paid to Suma)		50,000	50,000
April 23	Commission A/c Dr. To Cash A/c (Being commission paid)		4,000	4,000
April 25	Tax paid A/c Dr. To Bank A/c (Being tax paid through cheque)		6,000	6,000
April 27	Cash A/c Dr. To Bank A/c (Being cash draw for office use)		8,000	8,000
April 30	Furniture A/c Dr. To Bank A/c (Being furniture purchased through cheque)		30,000	30,000

10. (a) Enter the following transactions in the Three Column cash book :

2014 July	1	Cash in hand	45,000
		Balance at Bank	1,12,000
	3	Cash sales	17,000
	6	Paid into Bank	18,000
	7	Received a Cheque from Priya	33,000
	9	Paid into Bank Shivani's cheque	28,000
	10	Paid to Amar by cheque Rs. 9800 (in full settlement of his account Rs. 10,000)	
	11	Withdrew from bank for office use	36,000
	12	Goods purchased from Naveen	14,000
	13	Purchased furniture	25,500
	14	Received a cheque from John	
		(Paid into bank on the same day)	10,000

Ans :

Three Column Cash Book as on Jan 2015

Date	Particulars	L.F	Dis	Cash	Bank	Date	Particulars	LF	Dis	Cash	Bank	
1-7-14	To Balance b/d			45,000	1,12,000	5-7-17	By Bank A/c			18,000		
3-7-14	To sales A/c			17,000		9-7-17	By Shivani A/c				28,000	
5-7-14	To cash A/c				18,000	10-7-17	By Amar A/c		200		9,800	
7-7-14	To Priya A/c				33,000	11-7-17	By cash A/c				36,000	
11-7-14	To Bank A/c			36,000		13-7-17	By Furniture A/c			25,500		
14-7-14	To John A/c				10,000	31-7-17	By Balance c/d			54,500	99,200	
				98,000	1,73,000					200	98,000	1,73,000

OR

(b) A Businessman given the following information of his business, you are required to record them in proper subsidiary books

March		Rs.
1	Bought goods from Devender	25,500
3	Sold goods to Praveen	18,300
4	Returns goods to Devender	800
5	Praveen returned goods	200
6	Sold goods to Anand	35,600
8	Anand returned goods	2,400
10	Bought from Narayana	13,700

12	Goods returned to Narayana	3,700
14	Cash received from Devender	15,000
16	Cash paid to Praveen	10,000
18	Goods sold to Das	14,280
20	Goods purchased from Devender	18,000
25	Goods returned to Devender	2,000
26	Goods sold to Praveen	15,000
28	Goods returned to Praveen	2,500
31	Goods sold for cash	20,000

Ans :

Purchases Book

Date	Particulars	L.F	Details	Totals
March 1, 2014	Devender : Goods			25,500
March 10	Narayana : Goods			13,700
March 20	Devender : Goods			18,000
March 31 st	Prurchases A/c Dr.			57,200

Sales Book

Date	Particulars	L.F	Details	Totals
March 3, 2014	Praveen : Goods			18,300
March 6	Anand : Goods			35,600
March 18	Das : Goods			14,280
March 26	Praveen : Goods			15,000
March 31st	Sales A/c Cr			83,180

Return outward Book

Date	Particulars	L.F	Details	Totals
March 4, 2014	Devender : Goods			800
March 12	Narayana : Goods			3,700
March 25	Devender : Goods			2,000
	Return outward A/c Cr			6,500

Return Inward Book

Date	Particulars	L.F	Details	Totals
March 5, 2014	Praveen : Goods			200
March 8	Anand : Goods			2,400
March 28	Praveen : Goods			2,500
	Return Inward A/c Dr:			5,100

Dr.

Cash A/c

Cr.

Date	Particulars	Amount	Date	Particulars	Amount
14-3-2014	To Devender A/c	15,000	16-3-14	By Praveen A/c	10,000
3-3-14	To sales A/c	20,000	31-3-14	By balance c/d	25,000
		35,000			35,000

11. (a) From the following particulars ascertain the pass book balance of Palani Kumar as on 31-12-2015.
- Bank overdraft as per cash book Rs. 1,18,340
 - Interest on overdraft debited in pass book Rs. 10,500
 - Bank Charges debited in the pass book Rs. 1,900
 - Cheques issued but not cashed upto 31st December, 2015 Rs. 14,800
 - Interest on investments recorded in Pass book only Rs. 11,200
 - Cheques paid into bank but not cleared before 31st December, 2015 Rs. 22,500
 - A wrong credit has been given by the banker for Rs. 500 in the pass book

*Ans :***Bank Reconciliation Statement as on 31/12/2015**

Particulars	Amount	Amount
Bank overdraft as per cash book		1,18,340
Add: Interest on O.D debited in pass book	10,500	
Bank charges debited in pass book	1,900	
Cheques paid in to bank but not cleared	22,500	34,900
		1,53,240
Less: Cheques issued but not cashed	14,800	
Interest on investment recorded in pass baook only	11,200	
Wrong credit in P.B only	500	26,500
Overdraft Balance as per pass book		1,26,740

OR

- (b) On checking the Bank pass book it was found that it showed in Bank balance Rs. 45,220 as on 31-12-2015. The following differences were noted
- Cheques deposited but not yet credited by bank Rs. 16,000
 - Cheques dishonored and debited by bank but not given effect in the ledger Rs. 4,800
 - Bank charges debited by bank but debit memo not received from bank Rs. 500
 - Interest on overdraft excess credited in the cash book Rs. 4,200
 - Cheques issued but not presented for payment Rs. 20,400 You are required to prepare a Bank Reconciliation statement as on 31-12-2015.

*Ans :***Bank Reconciliation Statement**

Particulars	Dr.	Cr.
Balance as per pass book		45,220
Add : Cheques deposited but not credited by bank	16,000	
Cheques dishonored but not effected in cash book	4,800	
Bank charges not recored in cash book	500	
Interest on overdraft excess credited in cash book	4,200	25,500
		70,720
Less : Cheques issued but not presented	20,400	20,400
Balance as per cash book		50,320

12. a) Pass the rectifying entries for the following :
- Goods sold to Ravi Rs. 1,750 were not posted to account
 - A credit sale of Rs. 2,400 to Srinivas has been entered in the purchases book
 - Rs. 150 paid towards conveyance expenses to Kiran was debited to his personal account.
 - Rs. 2000 paid Saikumar is debited to Sri Kumar
 - Good taken by proprietor Rs. 4,000 have not been entered in the books at all
 - Purchases returns book total was under cast by Rs. 2,000.

*Ans :***Rectifying Entries**

Date	Particulars	LF	Dr.	Cr.
(i)	Ravi A/c Dr To Sales A/c (Being goods sold)		1750	1750

(ii)	Creditor A/c To Sales A/c To Purchase A/c (Being wrongly entered in the purchases book)	Dr		4,800	2,400 2,400
(iii)	Conveyance A/c To Kiran A/c To Suspense A/c (Being wrongly debited)	Dr		300	150 150
(iv)	Saikumar A/c To Saikumar A/c (Being wrongly debited)	Dr		2,000	2,000
(v)	Drawing A/c To Cash A/c (Being goods taken by proprietor)	Dr		4,000	4,000
(vi)	Suspense A/c To purchase returns A/c (Being the less amount increased)	Dr		2,000	2,000

OR

- (b) On July 1st 2010 a company purchases a second hand machine for Rs.8,00,000 and spent Rs. 1,20,000 on overhauling. The company has Purchased another Machinery on 1st January 2012 for Rs. 4,80,000. On 30th June 2012, the machinery purchased on 1st July, 2010 was sold for Rs. 3,20,000 and on 1st July 2012 a new plant was installed at a cost of Rs. 6,00,000. The company provided depreciation at 10% on the original cost. The accounts are closed every 31st December. Show the machinery account for 3 years.

Ans :

Dr.			Machinery A/c			Cr.	
Date	Particulars	Amount	Date	Particulars	Amount		
1-7-10	To Bank A/c	8,00,000	31-12-10	By dep	92,000		
	To Installation expenses	1,20,000	31-12-10	By balance c/d	8,28,000		
		9,20,000			9,20,000		
1-1-11	To Balanace b/d	8,28,000	31-12-11	By Dep	92,000		
			31-12-11	By balance c/d	7,36,000		
		8,28,000			8,28,000		
1-1-12	To Balance b/d	7,36,000	30-6-12	By dep	46,000		

1-1-12	To Bank A/c	4,80,000	30-6-12	By Bank	3,20,000
			30-6-12	By loss on sale of machinery	3,70,000
1-7-12	To Bank A/c	6,00,000	31-12-12	By depreciation (48,000 + 30,000)	78,000
			31-12-12	By Balance c/d	10,02,000
		18,16,000			18,16,000
1-1-13	To balance b/d	10,02,000			

13. (a) From the following prepare a Trading and Profit and Loss account on Balance Sheet as on 31-03-2015.

Particulars	Rs.
Capital	85,500
Plant and Machinery	19,000
Opening Stock as on 1-4-2014	29,200
Purchases	2,07,240
Sales	2,38,120
Drawings	14,200
Purchase returns	5,820
Sales returns	4,200
General expenses	8,800
Rent	6,400
Apprentice premium	1,600
Bank overdraft	4,800
Bad debts	3,440
Debtors	84,000
Creditors	48,000
Cash on hand	960
Bad debts reserve	2,100

Adjustment:

- Depreciation plant at 10%
- Increase bad debts reserve to 5% on debtors
- Rent accrued is Rs.800
- Stock on hand as on 31st March, is Rs. 34,000
- Apprentice premium received in advance Rs. 400

Ans :

Dr. **Trading Profit and Loss account for the year ended 31-3-2015** Cr.

Particulars	Amount	Particulars	Amount
To opening stock	29,500	By Sales	2,38,120
To Purchases	2,07,240	(-) Returns	4,200
(-) Returns	5,820	By closing stock	34,000
To Gross profit c/d	37,300		2,67,920
	2,67,920		
To General expenses	8,800	By Gross profit b/d	37,300
To Rent	6,400	By Apprentice premium	1,600
Add: Accrued	800	(-) Received in	400
To Baddebts	3,440	By Baddebts	2,100
To Dep. on Plant	1,900		
To provision for Bad debts	4,200		
To Net profit	15,060		
	40,600		40,600

Balance Sheet as on 31-3-2015

Liabilities	Amount	Assets	Amount
Capital	85,000	Plant and Machinery	19,000
(-) Drawing	14,200	(-) Dep.	1,900
	70,800	Debtors	84,000
(+) Net Profit	15,060	(-) Baddebts	4,200
Bank over draft	4,800	Cash on hand	960
Creditors	48,000	Closing stock	34,000
Outstanding	800	Suspense a/c	8,000
Prepaid apprentice premium	400		
	1,39,860		1,39,860

OR

- (b) The following balances are extracted from the books of Kautilya & Co, on 31-03-2014. You are required to make the necessary closing entries.

	Rs.		Rs.
Stock on April 1st, 2013	500	Bills Receivable	2,250
Purchases	19,500	Wages	1,400
Insurance	550	Sundry Debtors	15,000

Carriage inward	400	Commission (Dr)	400
Interest on Capital	350	Stationery	225
Returns inwards	650	Commission (Cr)	200
Returns outwards	250	Trade expenses	100
Office Fixtures	500	Cash in hand	250
Cash at Bank	2,375	Rent and taxes	550
Carriage outwards	725	Sales	25,000
Bills Payable	1,500	Creditors	9,825
Capital	8,950		

Ans :

Dr. **Manufacturing Account** Cr.

Particulars	Amount	Particulars	Amount
To Material Consumed		By Trading A/c (Transfer)	3,12,400
Opening stock	16,000		
Add :- Purchases	1,50,900		
Carriage on purchahses	4,100		
	1,71,000		
Less: Closing stock	18,300		
	1,52,700		
To wages	65,000		
	2,17,700		
Add : Work in progress	11,100		
(closing)	2,28,800		
Less : Work in progress	9,400		
(Opening)			
Prime cost	2,19,400		
To works indirect expenses			
Factory salaries	26,000		
Repairs and Maintenance	8,300		
(Machinery)			
Depreciation (Machinery)	25,000		
Sundry expenses (Factory)	5,300		
	64,600		
To cost of goods Produced	2,84,000		
To profit and loss a/c (10% of			
Rs. 2,84,000 i.e., cost of goods	28,400		
Produced)			
	3,12,400		3,12,400

Dr. Trading and Profit and Loss Account for the Year Ended 31-3-12 Cr.

Particulars	Amount	Particulars	Amount
To cost of finished goods:		By Sales (finished goods)	3,00,000
Opening stock 33,000		By Gross loss	17,900
Add: - Manufacturing			
account (Transfer) 3,12,400			
	3,45,500		
Less:- Closing stock 27,500	3,17,900		
	3,17,900		3,17,900
To Gross loss	17,900	By manufacturing A/c (profit)	28,400
To Office Salaries	18,000		
To Repairs and maintenance	1,700	By Net loss transfered to	
(office expenses)		capital account	35,100
To Dep (office)	8,100		
To sundry expenses (office)	17,800		
	63,500		63,500

FACULTIES OF COMMERCE
B.Com. I Year I-Semester (CBCS) Examination
(Common paper for General / Computers / Computer Applications / Advertising
/ Foreign Trade / Tax Procedure and Honours Courses)
MODEL PAPER - I
FINANCIAL ACCOUNTING - I

Time : 3 Hours]

[Max. Marks : 80

SECTION - A (5 × 4 = 20 M)
Short Answer Type Questions. Answer any 5 Questions

ANSWERS

1. Define the term Financial Accounting (Unit-I, SQA. 1)
2. Journalize the following transactions in the journal of Mr. Ranbir Malhotra. 2004
Nov. 1st Ranbir commenced business with a capital of ₹ 1,00,000
Nov. 4th Bought furniture for cash ₹ 10,000
Nov. 6th Purchased goods for cash ₹ 5,000
Nov. 7th Sold goods to Mr. Mahesh ₹ 25,000
Nov. 10th Purchased a cycle for office use ₹ 2,000
Nov. 15th Paid insurance premium ₹ 800
Nov. 19th Purchased goods from Mr. Suresh ₹ 10,000
Nov. 21st Rent paid ₹ 5,400
Nov. 25th Returned goods to Mr. Suresh ₹ 1,250
Nov. 30st Paid salaries ₹ 4,200. (Unit-I, Prob. 5)
3. What are the advantages of cash book? (Unit-II, SQA. 6)
4. Journal Proper. (Unit-II, SQA. 11)
5. Need of Bank Reconciliation Statement (Unit-III, SQA. 2)
6. Rectify the following through passing Journal Entries:
(a) Office Furniture bought for ₹ 7200 wrongly debited to Office Expenses A/c.
(b) A credit sale ₹ 1500 to Pradeep has been passed through purchases book.
(c) Received cheque for amount ₹ 1600 from Venkat is dishonoured and wrongly entered in Sales Return Book.
(d) Goods sold to Sudha ₹ 4000, not recorded in the Books.
(e) 12000 received from Sudheer has been wrongly credited to Sandeep's A/c. (Unit-IV, Prob. 2)

7. Deferred revenue expenditure. (Unit-IV, SQA. 2)
 8. Define final accounts. (Unit-V, SQA. 1)

SECTION - B (5 × 12 = 60 M)**Long Answer Type Questions :**

9. (a) Discuss various accounting concepts and conventions. (Unit-I, Q.No. 10, 11)

OR

- (b) Discuss the list of Accounting Standards (AS) of ICAI. (Unit-I, Q.No. 18)

10. (a) Define Subsidiary Books. Explain the reasons for maintaining Subsidiary Books. (Unit-II, Q.No. 1)

OR

- (b) From the following transactions of Mr. Ratnam compile a cash book with cash and discount columns.

1995		Rs.
May 1	The cashier had in hand	150
4	Received for cash sales	1,270
5	Received from Tiwari	1,040
	allowed him discount	60
7	Paid to Samrat in full settlement of his account for Rs. 500	480
8	Discount allowed to Tiwari on 5th May was wrong and hence cancelled	
10	Bought goods for cash	300
11	Paid for stationery	50
14	Sri Sinha settled his account of Rs. 700 by paying	
16	Received from Ramesh	375
	and he was allowed discount	25
17	Cash paid into State Bank of India	1,500
19	Settled Sudhakar's account of Rs. 200 by sending M.O. for	190
20	Remitted to Bindu	270
	and he allowed discount	
22	Sudhakar intimated that the discount claimed by us on 19th May is disallowed by him.	30
23	Received dividend on shares	40
27	Paid rent for the month of June	70
31	Salaries for May paid in cash	520

You are asked to show the entries in discount Accounts.

(Unit-II, Prob. 18)

11. (a) What do you understand by Bank Reconciliation Statement?

Explain advantages of bank reconciliation statements?

(Unit-III, Q.No. 1, 3)

OR

- (b) From the following particulars of Krishna Mohan as 31.12.1986 prepare a Bank Reconciliation Statement.

- (i) The pass book showed a balance ₹ 50,000.
- (ii) Cheques deposited on 28th Dec. 1986, but not credited in the pass book ₹ 8,000
- (iii) Cheques issued prior to 26th December but not presented for payment ₹ 32,000
- (iv) Interest credited by the bank appear only in the pass book ₹ 1,000
- (v) Bank charges debited in the pass book but not entered in the cash book ₹ 50
- (vi) Dividend on shares collected by the bank but not entered in the cash book ₹ 800
- (vii) Insurance premium paid under instructions by the bank but not adjusted in the cash book ₹ 2,500

(Unit-III, Prob. 4)

12. (a) The books of account A Co. Ltd for the year ending 31st December, 2013 were closed with a difference in books carried forward. The following errors were detected in 2014:

- (i) Returns Outward Book was undercast by ₹ 150.
- (ii) ₹ 1,500 being the total of the discount column on the credit side of the Cash Book was not posted in General Ledger.
- (iii) ₹ 6,000 being the cost of purchase of office furniture was entered in the Purchase Account.
- (iv) A credit sale of ₹ 760 was wrongly posted as ₹ 670 to the Customer's Account in the Sales Ledger.
- (v) Closing stock was overstated by ₹ 9,000, being casting error in the schedule of inventory.

Pass rectification entries, prepare Suspense Account and find out the effect of corrections on 2013 profit.

(Unit-IV, Prob. 8)

OR

- (b) A Company writes off 10% of the original cost of Plant and Machinery every year. Full depreciation is written off, even if the Machinery is in use for part of the year. It follows financial year as the accounting year. On 1st April 2002, the balance in Plant Account is ₹ 1,95,150. The original cost of various items is as follows :

Items bought in 1990 or earlier	58,000
Items bought in 1991	31,000
Items bought in 1992	17,000
Items bought in 1993 or later	2,52,000
	<u>3,58,000</u>

During 2002 new Plant was bought at a cost of ₹ 29,500 and one Machine which had a cost of ₹ 5,500 in 1983 was sold for ₹ 350. During 2003 there were additions costing ₹ 18,000 and a Machine which had a cost of ₹ 7,000 in 1998 was sold on 1st April, 2003 for ₹ 3,500. Prepare Plant & Machinery Account for 2002-2003 and 2003-2004.

(Unit-IV, Prob. 18)

13. (a) What is Profit & Loss Account? What are the advantages of Profit & Loss Account?

(Unit-V, Q.No. 9)

OR

- (b) From the following trial balance of Mahindra Traders, prepare final accounts for the year ended 31.12.2018:

Trial Balance

Particulars	Debit Bal.	Credit Bal.
Capital		32,000
Salaries	1,000	
Purchases	20,000	
Purchase Returns		400
Sales		25,000
Cash	5,000	
Wages	1,200	
Factory Rent	200	
Insurance	750	
Carriage	400	
Office Expenses	800	
Carriage Outwards	200	
Machinery	10,000	
Furniture	7,000	
Discount allowed	450	
Discount received		1,600
Goodwill	5,000	
Opening stock	2,000	
Debtors	9,000	
Creditors		4,000
Total	63,000	63,000

Adjustments:

- | | |
|----------------------------|-------|
| (1) Value of Closing Stock | 2,500 |
| (2) Prepaid Insurance | 250 |
| (3) Outstanding Salaries | 300 |

(Unit-V, Prob. 16)

FACULTIES OF COMMERCE

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MODEL PAPER - II

FINANCIAL ACCOUNTING - I

Time : 3 Hours]

[Max. Marks : 80

SECTION - A (5 × 4 = 20 M)

Short Answer Type Questions. Answer any 5 Questions

ANSWERS

1. What is journal ? (Unit-I, SQA. 12)
2. Define trial balance. (Unit-I, SQA. 16)
3. What do you understand by Cash Book? (Unit-II, SQA. 5)
4. Transaction dated 11th January, 1996 is a cash transaction. Hence it should not be recorded in sales book.

Jan., 2	Purchased goods from Ramakrishna	2,000
3	Purchased goods from Sanjeev	3,000
4	Bought from SriRam goods worth	1,500
5	Purchased from Varma goods with trade discount of 10% Rs 1,000	
6	Purchased goods of Sitharam for cost of	500
7	Venkat sold us goods	2,500

(Unit-II, Prob. 1)
5. Ascertainment of correct cash book balance (Unit-III, SQA. 5)
6. What do you understand by capital expenditure? (Unit-IV, SQA. 1)
7. Rectify the following errors
 - (a) Salary paid to Pavan ` 1200 has been debited to his account.
 - (b) Paid rent to owner of the house Mr. Murali ` 5,000, has been debited to his account.
 - (c) ` 2,000 paid for the repairs of building was debited to building a/c.
 - (d) ` 850 used by proprietor for his personal use has been debited to Trade Expenses a/c.
 - (e) Goods amounting to ` 235 returned by Ramesh were taken into stock, but no entry was made in the books.

(Unit-IV, Prob. 1)

8. Ascertain gross profit from the following :

	Rs.
Opening Stock	5,570
Purchases	13,816
Sales	15,284
Purchases Returns	390
Returns Inwards	524
Warehouse Wages Paid	1,400
Import Charges	252
Closing Stock	8,880

(Unit-V, Prob. 2)

SECTION - B (5 × 12 = 60 M)

Long Answer Type Questions :

9. (a) What is accounting process / cycle ? Explain the various steps involved in it.

(Unit-I, Q.No.26)

OR

- (b) Ramya is not an expert in accountig she prepared the following trial abalance your are requested to correct it and prepare a correct trial balance of Ramya.

Particulars	Dr	Cr
Ramya Capital		25,500
Ramya drawings	500	
Promises	7,000	
Sales		50,000
Debtors		5,500
Purchases	20,000	
Purchase returns	2,000	
Loan from the bank		2,500
Creditors	6,000	
Trade and Office expenses	700	
Cash at Bank	1,500	
Bills Payable	1,000	
Salaries	1,300	
Opening stock		3,000
Rent	2,500	
Sales returns	6,000	
Machinery	39,000	
Discount allowed		1,000
Discount received	1,000	
Bills receivable		1,000
Sold old news paper	500	–
Old Furniture Sold	–	500

(Unit-I, Prob. 13)

10. (a) Explain the different types of Subsidiary Books. (Unit-II, Q.No. 2)

OR

- (b) Enter the following transactions in single column cash book of Ram.

2009

- Jan. 1 Ram had a cash of ₹ 5,000 in hand
Jan. 5 Cash purchases ₹ 2,000
Jan. 8 Wages paid ₹ 500
Jan. 12 Cash withdrawn from bank for office use ₹ 3,000
Jan. 15 Cash sales ₹ 2,500
Jan. 20 Furniture purchased ₹ 4,000
Jan. 25 Drawings by Ram in cash ₹ 400
Jan. 28 Interest paid to Neeraj ₹ 100
Jan. 31 Paid to Majoj ₹ 200 towards the rent of January
Jan. 31 Cash in excess of ₹ 500 paid into bank.

(Unit-II, Prob. 15)

11. (a) What are the reasons for difference between cash book and pass book ?

(Unit-III, Q.No. 4)

OR

- (b) From the following particulars, prepare a Bank Reconciliation Statement of Alfa Electric Motor Private Ltd. as on 31st March, 2013.

- (1) Overdraft on 31st March, 2013 as per bank pass book ₹ 10,000.
- (2) Cheque deposited in the bank but not recorded in cash book ₹ 100.
- (3) Cheque received and recorded in bank column but not sent to bank for collection Rs. 11,000.
- (4) Several cheques, were drawn in the last week of March, totalling Rs. 15,000. Of these, cheques totalling only ₹ 9,000 were cashed before 31st March.
- (5) Similarly, several cheques totalling ₹ 9,000 were sent for collection. Of these, cheques of the values of ₹ 1,500 were credited on 5th April and ₹ 2,000 on 7th April, the balance being credited before 31st March.
- (6) On 11th March, the credit side of the bank column of the cash book was cast ₹ 1,000 short and the credit balance of ₹ 2,600 on 15th March, 2013 was brought forward on 16th March, 2013 as debit balance of ₹ 2,600.
- (7) Fees of ₹ 250 were paid directly by the bank but were not recorded in the cash book.
- (8) In the Cash Book, a bank charge of ₹ 30, was recorded twice while another bank charge of ₹ 50, was not recorded at all.
- (9) Interest of ₹ 1,400 was charged by the bank but not recorded in the Cash Book.

(Unit-III, Prob. 9)

12. (a) In what situations revenue expenditure becoming capital expenditure. **(Unit-IV, Q.No. 5)**

OR

- (b) Pass necessary Journal entries to rectify the following errors. Ascertain the opening balance in the suspense account and show the suspense account.
- (i) An amount of ₹ 1,600 is due from Mr. Sampath. On his insolvency 0-50 paise in a rupee was received from him. An entry for the amount received only was passed in the books.
- (ii) The discount column on the credit side of the cash book was under cast by ₹ 30 and the total of the discount column on the debit side of the cash book ₹ 150 was posted in the 'Discount received' account in the ledger.
- (iii) An amount of ₹ 2,500 received from the insurance company towards the fire claim was credited to the insurance company.
- (iv) Sales returns from Sankar ₹ 300 was recorded in the purchases returns book. However the amount was posted in Sankar's account correctly.
- (v) The total of the bills receivable book ₹ 5,800 was posted wrongly as ₹ 8,500 in the Bills receivable account.
- (vi) Credit sales to Sekhar ₹ 800, recorded properly in the sales book, but posted on the credit side of his account.

(Unit-IV, Prob. 11)

13. (a) Explain the Classification of various Assets and Liabilities.

(Unit-V, Q.No. 13)

OR

- (b) From the following balances and additional information you are required to prepare final accounts of Preethi & co. for the year ending 31st March, 2008.

Trial Balance

Dr.			Cr.
Particulars	₹	Particulars	₹
Plant and machinery	2,50,000	Capital	5,00,000
Stock on 1-4-2007	12,000	Sales	3,53,000
Furniture	18,000	Purchase returns	5,000
Purchases	1,75,000	Sundry creditors	20,000
Bad debts	2,000	Discounts	4,000
Carriage inwards	3,000	Bills payable	10,000
Carriage outwards	2,500	Commission	16,000
Sundry debtors	25,000		

Salaries	17,000	
Wages	4500	
Advertising	6000	
Sales returns	13,000	
Buildings	3,80,000	
	<u>9,08,000</u>	<u>9,08,000</u>

Additional information:

- (i) Closing stock on 31-3-2008 was ` 38,000.
- (ii) Salaries outstanding ` 3000 and commission received in advance ` 2000
- (iii) Provide depreciation on plant and machinery at 10% and on buildings at 5% p.a.

(Unit-V, Prob. 23)