INTERMEDIATE FIRST YEAR

ACCOUNTANCY MANUAL

FOR
BUSINESS & COMMERCE VOCATIONAL COURSES

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PREFACE

Life long learning is a journey with many pathways and Vocational Education is an integral part of the voyage. The goal of Vocational Education is to fulfill the skilled manpower requirement for sustainable development.

The present manual has some characterization to make it an effective learning aid itself. First, it assumes that all vocational students are ready to find out something new and student–friendly in the field of 'Accountancy'. The present "Manual" first of its kind for the Business and Commerce Vocational Courses, written according to the Revised Syllabus of Intermediate Vocational Course in order to provide necessary information and make the students understand the subject in a easy way.. A second assumption made by the writer is that it is the principal job of any institution to teach something effective.

Deligent attempts are made to make the subject more practical one, following the guidelines laid down by the Board of Intermediate, Vocational Education Department.

The present manual does not claim perfection, there is a lot remains to be incorporated. The writer shall gratefully acknowledge constructive criticism and suggestions for further improvement. I am highly thankful to the Officials of the State Institute of Vocational Education, Board of Intermediate Education.

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I. INTRODUCTION:

The main objective of any business is 'earning profit'. For this purpose, a businessman conducts various economic activities. In business, there are various transactions like cash and credit, sale and purchase, expenditure and revenue transactions and exchange of money. It is difficult to remember all these transactions and it is also not easy to find out the profit or loss and financial status of a business at the end of the year by recollecting all those transactions of that year. Hence, these should be recorded in the books of accounts systematically. Then, it is possible to present the 'Accounting Information' to the management, partners in the business, creditors, government, workers and others.

1. BOOK-KEEPING:

Meaning: In business, transactions are so numerous that it is not possible to remember all. Therefore, the trader records these transactions in a set of books. The recording of transactions in a set of books is called Book keeping. It teaches us to maintain the books of accounts in a systematic manner.

Objects:

- To have permanent accurate and complete record of all business transactions
- To find out the net profit or net loss of a business for a given period.
- To know the position of assets and liabilities on a particular date.
- To know the names of debtors and creditors
- To keep records up-to-date.
- To detect and minimize errors and frauds.
- To keep control on expenses with a view to minimize the same.
- To have important information for legal and tax purposes

Advantages:

1. A firm can know the exact profit or loss made by it in a particular period.
2. The reasons leading to profit or loss can also be ascertained.
3. At the end of the year Balance sheet can be prepared, which discloses the financial position of the business.
4. The firm can know the amount due by debtors and amount due to creditors.
5. Errors can be revealed by the preparation of trial balance.
6. The tax liability of the firm can be easily calculated.
7. It helps the traders and firms in planning, reviewing, controlling and decision-making.

2. ACCOUNATANCY:

Definition:

Accounting is the' method of identifying, arranging and passing on the required financial information to the decision makers in business'.

As per the American Institute of Certified Public Accountants " Accountancy is the art of classifying, analyzing, recording and summarizing the available financial information for the purpose of passing on the results of these exercises to the business managers and to the management.

It tells us why and how to maintain books of account and how to summarize and communicate accounting information. It is the actual process of doing it i.e. actually maintaining the books of account, preparing and presenting the accounts.

Advantages of Accounting:

1. The net profit /net loss of the business in a financial year can be known.
2. The efficiency / performance of the department/ section can be ascertained
3. The approximate cost of production of goods manufactured can be known
4. Based on the financial results, it can decide which products are to be manufactured, which activities should be continued and which should be dropped.
5. The financial position of the business concern can be assessed.
6. Accounting is useful in submitting the statutory returns like Income Tax, Sales Tax, Commercial Tax etc., to the government in time.

Concepts:

Accounting is a commercial language; to make this language more meaningful and useful and to make it uniform in practice certain concepts are adopted:

1. **Business Entity Concept**: While recording the business transactions in the books, it should be noted that the business and owners are separate entities. The activities of the concern and personal transactions of the owners should not be mixed. The final accounts are prepared to reflect the profit/loss of the business concern only.

2. **Money Measurement Concept**: accounting records only transactions that are expressed in terms of money. The transactions, which cannot be expressed in money, fall beyond the scope of accounting.

3. **Cost Concept**: Business activity is an exchange of money. The price paid at the time of purchase is called 'cost'. All fixed assets are recorded in the books at their original purchase price.

4. **Going Concern Concept**: accounts are recorded assuming that the business will continue for a long time. In absence of this view, there is no need to maintain books of account. This is useful to determine the value of fixed assets and intangible assets like' goodwill'.

5. **Realisation Concept**: As per this concept 'imaginary profits should not be recorded at all. All transactions should be recorded only after it actually takes place. Similarly profits should not be recorded unless it is actually realised.

6. **Dual Aspect concept**: As per this, every transaction should have two aspects. One is 'receiving aspect' and other is 'giving aspect'. The receiving aspect is called 'debit' and giving aspect is called 'credit'. Therefore, for every debit there is an equal corresponding credit.

Conventions: Accountancy is based on usages or customs. These are termed as 'conventions' in accounting. The following are some of the important conventions:

1. **Consistency:** It means that business concern should follow uniform accounting methods for all years. This is useful as and when the businessman wants to compare the present year performance with that of last year or with different firms.

2. **Disclosure:** The results of the business have to be disclosed from time to time to the shareholders and creditors, government, employees etc.; Care should be taken to disclose all material information.
3. **Relevance:** the firm should give relevant accounting information as and when required with documentary proof like invoices, vouchers and cash and credit memos.

4. **Feasibility:** the practice of comparing expenses incurred for the business transactions with that of the income received during the year by the firm is called feasibility. As per this convention the expenditure should be less than the income.

5. **Conservation:** As per this the accountant has to record the actual financial position, he should not give a different picture of the business either by inflating or deflating the value of transaction.

TERMINOLOGY:

1. **Business transactions**: Every business operation deals with exchange of cash, goods and services. This results in change in the financial position of the business.
2. **Goods**: Goods are those with which the business concern does business.
3. **Debtor**: a person owing money to the business firm is called 'Debtor'
4. **Creditor**: Creditor is a person who lent money or sell goods on credit to the firm.

5. **Accoun**t: Account is a summarized statement of Debit and credit. There are two parts for every account. The left hand side is called 'Debit' and the right hand side is called ' Credit'
6. **Assets**: Assets are those, which are essential and beneficial for running the business operations. Like Furniture, Machinery, land building etc.,
7. **Liabilities**: The debts owned by the firm to outsiders and also to the investors. For example, creditors/ Bank overdraft, bills payable and loans and capital.
8. **Capita**l: the amount invested by the owner for running the business. It can be in the form of goods or cash. It the excess of liabilities over assets.
9. **Invoice**: Invoice is a statement sent by the seller to the purchaser, which contains the details of the quantity of goods sold, and price of the goods/ products, terms and conditions of payment particulars.
10. **Cheque**: A Cheque is an instrument, by means of which a depositor can order the bank to pay a certain sum of money only top the order of a person or to the bearer of the instrument.

Model Questions:

1. Define Accountancy and its advantages?
2. What is Book Keeping and its main objects?
3. What is the concept of accounting and describe the major concepts of accounting?
4. Write about the conventions in the accounting?
5. Define a) Capital b) Debtor c) Creditor d) Assets e) Liabilities

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II. DOUBLE ENTRY SYSTEM:

A businessman records the business transactions in two ways. They are
1) Single Entry system and 2) Double Entry system.

1. Single Entry System: This method is incomplete and unscientific. It records only one aspect of the transaction (either debit or credit). So complete information is not available for the preparation of final accounts. It will not be possible to arrive at the accurate profit. The trader cannot obtain the total information as they maintain only cash and personal accounts leaving the nominal accounts aside. A businessman cannot take accurate and timely decisions due to this unscientific method.

2. Double Entry System: This system was invented by a trader called "Luci Paciolo" in Italy in the year 1434. According to him every transaction takes place between either two persons or two firms. When such a transaction takes places one person receives benefit and the other person gives benefit. These two are inseparable.

In accountancy, the Receiving benefit is called 'Debit' aspect and Giving Benefit is called ' Credit' aspect. Thus, the procedure of recording both the receiving and giving aspects related to business transactions is called " Double Entry Book-keeping".

The proforma of an Account:

Dr **Cr**

Date	Particulars	Ledger Folio No	Amount Rs.	Date	Particulars	Ledger Folio No	Amount Rs.
	To (Debit side**)**				**By (**Credit side**)**		

CLASSIFICATION OF ACCOUNTS:

ACCOUNTS:

Accounts can be broadly classified in to Personal Accounts and Impersonal Accounts. Impersonal Accounts can be subdivided into two:

1. Real Accounts 2. Nominal accounts.

1. **Personal Accounts**: accounts opened in the names of individuals and institutions are called 'Personal accounts'. For example: Raju's Account, M/s. Ramesh & Co account.

Dr **Cr**

Date	Particulars	Journal Folio No	Amount Rs.	Date	Particulars	Journal Folio No	Amount Rs.
	To (Debit side**)**				**By (**Credit side**)**		

Real Accounts: All the accounts, which record transactions related to Assets is known as Real Account. A separate account will be opened for every asset in the business concern.

Ex. Machinery, furniture, stock, cash etc.,

Nominal Account: Account that gives information related to expenditure and income is known as Nominal account. Separate accounts will be opened to record expenditure, losses, income and profit of a business. These are also known as 'Fictitious Accounts'.

Ex. Salaries, Rent, Depreciation etc.,

PRINCIPLES OF DOUBLE ENTRY SYSTEM:

Personal Accounts: " *Debit the receiver and Credit the Giver"*

Real Accounts: *"Debit what comes in and Credit what goes out*"

Nominal Account: " *Debit all Losses and expenses and Credit all Gains and Incomes*"

Important factors to be considered while recording the transactions while implementing the principles of Double entry system:

1. It should be noted that the business firm is different from the person who owns it. The firm has got its own entity and account; its transactions should be recorded in its own name but not in the name of the owner.
2. Identify those accounts which are being involved in the business transaction and classify them according to their nature i.e., Personal Accounts, Real Accounts and Nominal Accounts.
3. After identifying /classifying the accounts, we should apply the principles of Debit and Credit and debit all the accounts which are to be debited and credit all the accounts which are to be credited.
4. The name of the proprietor should not be recorded in the books of the firm. Since he is the part of all the transactions, he should be treated as the representative of the business concern only.

Advantages of Double Entry System:

Almost all the business concerns are practicing only the double Entry system, which is proven to be scientific method of recording the transactions. If this system is followed the business firm gets the following advantages:

1. It gets accurate, comprehensive and reliable record of all its business transactions.
2. Comprehensive information relating to assets, liabilities, and profit and loss of the business will be made available.
3. It facilitates to know the actual profit or loss of the business firm for a given period.
4. By preparing the Balance Sheet the financial position of the business and other related information can be known.
5. Errors and frauds can be easily identified and can be prevented.
6. Information regarding the total debtors and creditors can be ascertained easily.
7. It will help in comparing the financial position with that of previous years and also with the similar line business competitors.
8. It is helpful in preparing the trial balance from the closing balances of the ledger accounts and in turn can prepare the Balance Sheet to know the fixed and current assets as well as liabilities and capital of the business concern.
9. This scientific method of accountancy enables the management to take appropriate decision in business
10. By preparing the Trial Balance and Trading Account and Profit and Loss account, we can arrive at exact profit or loss.

Model Questions:

1. What is the meaning of the Double entry system?
2. How do you classify the accounts and what are their principles?
3. What are the factors to be considered while implementing the principles of Double Entry System?
4. What are the advantages of Double Entry System?

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III. JOURNAL:

Meaning: The book in which the business transactions are recorded in a chronological order, after analyzing them and classifying the benefits according to the principles of debit and credit is called 'Journal". It is also called as Daily record or Day book.

All the transactions like, purchases, returns, sales, cash receipts and payments, loans and advances, advances given, assets acquired and disposed etc., are first recorded in the 'Journal'. Hence, this book is also called as "Book of Prime Entry or Original entry'.

When the size of the business is large, the number of transactions increases. If all the transactions are recorded in a single journal, there will be complication. Hence modern firms are preparing different journals, which are called 'Subsidiary Journals".

Proforma of Journal

Date	Particulars	Ledger Folio	Debit Rs.	Credit Rs.

Journal entry: The process of recording the business transactions in a chronological order in the journal after analyzing, classifying and identifying them as 'Debit' and 'Credit' is called 'Entry'. All these transactions are in the form of entries; hence, these are called " Journal Entries'. For easy identification, a brief description is given under each entry within brackets, which is called as ' narration'.

Advantages of Journal entries:

1. A trader can find out the required information quickly and easily as the transactions are recorded in a chronological order (date-wise)

2. It helps in the preparation of the final accounts at the end of the year.

POSTING OF JOURNAL ENTRIES:

Journalise the following transactions in the books of Raju:

2002.

April 1	- Raju commenced business with a cash of	Rs. 40,000
" 3	- Cash purchases	Rs. 20,000
" 5	- Paid salaries	Rs. 10,000
" 13	- Sold goods to Ravi	Rs. 35,000
" 15	- Sold Furniture	Rs. 25,000
" 20	- Commission Received	Rs. 1,000
" 22	- Discount allowed	Rs. 2,000
" 28	- Bought goods from Venkat	Rs. 50,000
" 29	- Sold goods for cash	Rs. 15,000

JOURNAL ENTRIES

Date	Particulars	Ledger Folio	Debit Rs.	Credit Rs.
2002 April 1	Cash A/c………………… Dr. To Capital A/c (Being the business commenced with investment)		40,000	40,000
2002 April 3	Purchases A/c …………… Dr To Cash A/c (Being the goods purchased for cash)		20,000	20,000
2002 April 5	Salaries A/c ……………… Dr To Cash A/c Being the salaries paid)		10,000	10,000
2002 April 13	Ravi A/c ……………… Dr To Sales A/c Being the salaries paid)		35,000	35,000
2002 April 15	Cash A/c ……………… Dr To Furniture A/c (Being the Furniture sold for Cash)		35,000	35,000
2002 April 20	Cash A/c ……………… Dr To commission A/c (Being the commission received)		1,000	1,000
2002 April 22	Discount A/c ……………… Dr To Cash A/c (Being the discount allowed)		2,000	2,000
2002 April 28	Purchases A/c ……………… Dr To Venkat A/c (Being goods purchased from Venkat on credit)		50,000	50,000
2002 April 29	Cash A/c ……………… Dr To Sales A/c (Being goods sold for cash)		15,000	15,000

Model Questions:

1. Define the Term “ Journal” and its advantages?
2. Journalise the following in the books of Praveen:

2002 Dec. 1: commenced business with Cash Rs.2,000, Goods Rs. 15,000
Furniture Rs. 5,000

2. Sold goods to Kiran	Rs.5,000
5. Purchased Furniture	Rs. 3,200
7. Paid Wages	Rs. 1,200
9. Sold machinery for cash	Rs. 8,000
12. Received interest	Rs. 500
14. Received	Rs. 1,500

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IV. L E D G E R

Introduction: Journal records all business transactions separately and date-wise. The transactions relating to a particular person, asset, expense or income are recorded at different places in the journal as they occur on different dates. Hence, it fails to bring the similar transactions together at one place. Thus, to have a consolidated view of the similar transactions different accounts are prepared in the Ledger.

A Ledger account may be defined as a summary statement of all the transactions relating to a person, asset, expense or income, which have taken place during a given period of time and show their net effect. So every entry recorded in the journal must be posted into the Ledger. It is a register having a number of pages, which are serially numbered. One account is usually assigned one page in the Ledger. It is the principal book of accounts.

Proforma of an Account

Dr **Account** **Cr**

Date	Particulars	Journal Folio	Amount Rs.	Date	Particulars	Journal Folio	Amount Rs.

- Debit on the left hand side and Credit on the right hand side.
- The left side of the account describes the benefit received by the firm and the right side describes the information about the benefit given by the firm.
- The debit aspect of business transaction should be recorded on the debit side, this is known as debiting the account
- The credit aspect of the transaction is recorded on the credit side of the account, which is known as crediting the account.

CLASSIFICATION OF LEDGER:

The number of transactions depends on the size of the business firm. When the firm is small in size, its transactions are usually limited, hence, only one Ledger account maybe enough but with the expansion of business, the number of transactions will also increase, so there is a possibility of have more number of Ledger Accounts that is why large scale business organizations maintain different Ledger accounts like:

Debtors Ledger: When the customer purchases goods on credit basis, they become the Debtors of the firm and all their transactions are recorded in one book known as 'Debtors Ledger', which show only debit balances, the total of these accounts indicate the amount to be received from debtors.

Creditors Ledger: When the firm purchases goods on credit basis the suppliers become 'creditors' and these transactions are recorded in one book known as 'Creditors Ledger' on the credit side. The total balances of these accounts indicate the total amount to be paid by the company to the supplier.

General Ledger: When the company record all the accounts related to assets, income and expenditure in one book, which is known as ' General Ledger'. In this accounts related to real account and the balances of all types of accounts related to nominal accounts always show only debit balance. On the other hand all the accounts related to incomes show only credit balances.

Self Ledger: When accounts relating to the proprietor of the business are recorded in one book which is known as ' Self Ledger'. Which is very confidential.

BALANCING THE ACCOUNT:

Generally, the balances of various accounts in the Ledger are tallied either at the end of the accounting year or whenever the business needs information.

The following is the procedure to balance the account:

- Take the totals of both sides and find out the difference between debit and credit.
- The total of lesser side should deducted from the total amount of the higher side, the difference is called as balance carried down (Balance C/d) that difference should be put in total column of lesser side, to get the same amount on both sides.
- Date of balancing should be written in the date column.
- The balance c/d should be shown as balance b/d on the next day, on the opposite side.
- Some times the totals of both the sides of an account are equal. In such case balance c/d or balance b/d does not occur.

LEDGER POSTINGS: ILLUSTRATION

Journalise the following transactions, post them into Ledger and balance the accounts:.

2003 May 1	Ratan commenced business with a capital of	Rs. 50,000
" 2	Purchased goods from Jagan	Rs. 5,000
4	Sold goods to Gopal	Rs.10,000
5	Cash purchases	Rs. 10,000
7	Paid salaries	Rs. 3,000
8	Cash sales	Rs. 10,000
9	Bought machinery and paid through bank	Rs.2,000
14	Cash paid to Jagan in full settlement	Rs. 4,800
17	Cash received from Gopal and discount allowed	Rs. 9,500 Rs. 500
18	Deposited with bank	Rs. 5,000
24	Sold old machinery	Rs. 1,500
26	Interest received through Cheque	Rs. 500
31	Ratan's personal use	Rs. 1,000

Solution:
JOURNAL ENTRIES

Date	Particulars	Ledger Folio	Debit Rs.	Credit Rs.
2003 May1	Cash A/c…………………. Dr. To Capital A/c (Being the business commenced with investment)		50,000	50,000
" 2	Purchases A/c …………… Dr To Jagan A/c (Being the goods purchased on credit)		5,000	5,000
4	Gopal A/c ……………… Dr To Sales A/c Being the goods sold on credit paid)		10,000	10,000
5	Purchases A/c …………… Dr To Cash A/c Being the goods purchased for cash)		10,000	10,000
7	Salaries A/c ……………… Dr To Cash A/c (Being the Salaries paid received)		3,000	3,000
8	Cash A/c ……………… Dr To Sales A/c Being the goods sold for cash)		10,000	10,000
9	Machinery A/c ……………… Dr To Bank A/c (Being machinery bought and paid through cheque)		2,000	2,000
14	Jagan A/c …………… Dr To Cash A/c To Discount A/c (Being Jagan,s account settled)		5,000	4,800 200
17	Cash A/c …………………. Dr Discount allowed A/c ……. Dr To Gopal's A/c (Being Cash received with discount)		9,500 500	10,000
18	Bank A/c ……………… Dr To Cash A/c (Being the Being cash deposited with bank)		5,000	5,000
24	Cash A/c ……………… Dr To Machinery A/c (Being the sale of old machinery)		1,500	1,500
26	Bank A/c ……………… Dr To Interest A/c (Being the interest received through cheque)		500	500
31	Drawings A/c ……………… Dr To Cash A/c (Being the owner used cash for personal use)		1,000	1,000

Dr **Cash Account** **Cr**

Date	Particulars	J. F No	Amount Rs.	Date	Particulars	J. F No	Amount Rs.
2003				2003			
May1	To capital A/c		50,000	May5	By Purchases A/c		10,000
8	To Sales A/c		10,000	7	By Salaries A/c		3,000
17	To Gopal A/c		9,500	14	By Jagan A/c		4,800
24	To Machinery A/c		1,500	18	By Bank A/c		5,000
				31	By Drawings		1,000
				31	By Balance c/d		47,200
			71,000 ======				**71,000** ======
2003 June1	To Balance b/d		**47,200**				

Dr **Capital Account** **Cr**

Date	Particulars	J. F No	Amount Rs.	Date	Particulars	J. F No	Amount Rs.
2003				2003			
May1	To Balance c/d		50,000	May1	By cash A/c		50,000
			50,000 =====				**50,000** =====
				2003 June1	By Balance b/d		**50,000**

Dr **Purchases Account** **Cr**

Date	Particulars	J. F No	Amount Rs.	Date	Particulars	J. F No	Amount Rs.
2003				2003			
May2	To Jagan A/c		5,000	May31	By Balance C/d		15,000
5	To Cash A/c		10,000				
			15,000 =====				**15,000** =====
2003 June1	To Balance b/d		**15,000**				

Dr **Jagan Account** **Cr**

Date	Particulars	J. F No	Amount Rs.	Date	Particulars	J. F No	Amount Rs.
2003 May14 14	 To Cash a/c To Discount Received		 4,800 200	2003 May 2	 By Purchases A/c		 5,000
			5,000 ======				5,000 ======

Dr **Sales Account** **Cr**

Date	Particulars	J. F No	Amount Rs.	Date	Particulars	J. F No	Amount Rs.
2003 May31	 To Balance c/d		 20,000	2003 May 4 8	 By Gopal A/c By Cash A/c		 10,000 10,000
			20,000 ======				**20,000** ======
				2003 June1	By Balance b/d		**20,000**

Dr **Gopal Account** **Cr**

Date	Particulars	J. F No	Amount Rs.	Date	Particulars	J. F No	Amount Rs.
2003 May4	 To Sales a/c		 10,000	2003 May 17 17	 By cash A/c By discount allowed		 9,500 500
			10,000 ======				**10,000** ======

Dr **Salaries Account** **Cr**

Date	Particulars	J. F No	Amount Rs.	Date	Particulars	J. F No	Amount Rs.
2003 May7	 To Cash a/c		 3,000	2003 May31	 By Balance c/d		 3,000
			3,000 ======				**3,000** ======
2003 June1	To Balance b/d		**3,000**				

Dr **Machinery Account** **Cr**

Date	Particulars	J. F No	Amount Rs.	Date	Particulars	J. F No	Amount Rs.
2003 May9	To Bank a/c		2,000	2003 May24	By cash A/c		1,500
				31	By Balance c/d		500
			2,000 ======				**2,000** ======
2003 June1	To Balance b/d		**500**				

Dr **Bank Account** **Cr**

Date	Particulars	J. F No	Amount Rs.	Date	Particulars	J. F No	Amount Rs.
2003 May18	To Cash a/c		5,000	2003 May9	By Machinery A/c		2,000
26	To Interest a/c		500	31	By Bal c/d		3,500
			5,500 =====				**5,500** ======
2003 June1	To Balance b/d		**3,500**				

Dr **Discount Received Account** **Cr**

Date	Particulars	J. F No	Amount Rs.	Date	Particulars	J. F No	Amount Rs.
2003 May31	To Balance c/d		200	2003 May 14	By Jagan A/c		200
			200 =====				**200** =====
				2003 June1	By Balance b/d		**200**

Dr **Discount Allowed Account** **Cr**

Date	Particulars	J. F No	Amount Rs.	Date	Particulars	J. F No	Amount Rs.
2003 May17	To Gopal a/c		500	2003 May 31	By Balance c/d		500
			500 ======				**500** ======
2003 June1	By Balance b/d		**500**				

Dr **Interest Account** **Cr**

Date	Particulars	J. F No	Amount Rs.	Date	Particulars	J. F No	Amount Rs.
2003 May31	To Balance c/d		**500**	2003 May 26	By Bank A/c		500
			500 ======				**500** ======
				2003 June1	By Balance b/d		**500**

Dr **Drawings Account** **Cr**

Date	Particulars	J. F No	Amount Rs.	Date	Particulars	J. F No	Amount Rs.
2003 May31	To Cash a/c		1,000	2003 May 31	By Balance c/d		1,000
			1,000 ======				**1,000** ======
2003 June1	By Balance b/d		**1,000**				

Model Questions:

1. What is a Ledger and briefly explain about the advantages of Ledger?
2. How do you balance an account?
3. Prepare Raju Account in the books of Ramesh from the following transactions:
   2003:

October 1.	Purchased goods from Raju	Rs. 20,000
3.	Sold goods to Raju	Rs. 10,000
7.	Goods returned to Raju	Rs. 500
10	Cheque received from Raju	Rs. 1,000
12	Purchased goods from Raju	Rs. 3,000
20	Cash paid to Raju	Rs. 5,000
30	Goods returned to Raju	Rs. 300

**

V. SUBSIDIARY BOOKS:

When the size and the number of transactions of the business increase, it would be difficult to record the transactions and post them in various Ledger accounts. To overcome, such problems, a separate book is maintained to record each transaction. As all the other similar kind of transactions is recorded in a separate book, it becomes easier to post all such transactions in Ledger at a time.

Thus, the different transactions are classified into various groups and relevant transactions are recorded in a separate journal. Such journal is called "Subsidiary journal' or 'Books of original entry'.

KINDS OF SUBSIDIARY BOOKS:

PURCHASE BOOK: Only the credit purchases of goods are recorded in this book. Cash purchases and purchase of assets are not recorded in this book.

SALES BOOK: Only the credit sale of goods is recorded in the sales book. Cash sales and sale of assets are not recorded her in this book.

PURCHASE RETURNS BOOK: This book keeps a record of the returns outwards. When goods are purchased on credit basis and returned to the supplier for some reasons.

SALES RETURNS BOOK: This book keeps a record of all return inwards. When goods are sold on credit basis and returned by the customer due to some reasons.

CASH BOOK: This book is maintained to record all cash transactions. All cash receipts and payments are recorded in the book.

BILLS RECEIVABLE BOOK: The bills on which the amount is yet to be received and promissory notes drawn by the seller or creditor are recorded in this book.

BILLS PAYABLE BOOK: All bills and promissory notes accepted by the buyer or debtor are recorded in this book.

JOURNAL PROPER: This book is used for recording only those transactions, which cannot be recorded in any other subsidiary books.

PROFORMA OF PURCHASE BOOK

Date	Particulars	Invoice No.	Ledger Folio No	Amount Rs.

PROFORMA OF SALES BOOK

Date	Particulars	Outward Invoice No.	Ledger Folio No	Amount Rs.

PROFORMA OF PURCHASE RETURNS BOOK

Date	Particulars	Debit Note No.	Ledger Folio No	Amount Rs.

DEBIT NOTE: when the trader returns the material purchased for any reason, the net amount is calculated and the purchaser prepares a **debit note**. The amount is debited to supplier a/c and the debit note should be sent to him.

PROFORMA OF SALES RETURNS BOOK

Date	Particulars	Credit Note No.	Ledger Folio No	Amount Rs.

CREDIT NOTE: when the goods are sold on credit, an account is opened under the customer's name and the total amount of goods sold is noted in the debit side of his account. When he returns the goods, his account should be credited with the exact amount of the goods returned. To inform the customer about this a **credit note** is prepared and sent to him.

PROFORMA OF CASH BOOK

Dr **Cash Account** **Cr**

Date	Particulars	L. F No	Discount Allowed	Cash Rs.	Bank Rs	Date	Parti-culars	L. F No	Discount received	Cash Rs.	Bank Rs

The proforma of a cash book resembles the Ledger a/c and consists of debit and credit columns. All the amounts received directly or by Cheque, draft, money order is recorded on the debit side. All transactions in which cash is paid by the firm through Cheque, draft or money order are recorded on the credit side of the cash book.

PROFORMA OF BILLS RECEIVABLE BOOK

S.No	Date	From whom received	Acceptor	Date of Bill	Term	Matu-rity Date	Amount Rs.	L.F No	How disposed off	Remarks

PROFORMA OF BILLS PAYABLE BOOK

S.No	Date	Drawn by	Payee	Term	Maturity Date	Amount Rs.	L.F No	Payable at	How met	Remarks

PROFORMA OF JOURNAL PROPER

Date	Particulars	Ledger Folio No	Debit Amount Rs.	Credit Amount Rs.

ADVANTAGES OF SUBSIDIARY BOOKS:

No narration is required while writing in subsidiary books as done in journal entries. So, labour is reduced**.**

- The accounting staff can record the transactions quickly and easily, as there are eight different books.
- Efficiency and specialization can be attained as the work is classified and allocated to the accountants.
- The rectification of errors, if any, becomes easy.
- They will provide the information related to a particular transaction with in the stipulated time.

Model Questions:

1. What are subsidiary books and explain the various types of subsidiary books?
2. Write in brief about a) Debit note and b) Credit note.
3. What are the advantages of subsidiary books?

4. Record the following transactions in the subsidiary books:

2003:

January 1.	Purchased goods from Ramani	Rs. 10,000
5.	Sold goods to Ramesh	Rs. 30,000
10.	Purchased Goods from Raju	Rs. 5,500
15.	Sold goods to Govind	Rs. 4,000
18	Purchased goods from Raju	Rs. 3,000
30	Sold goods to Krishna	Rs. 5,000

**

VI. CASH BOOK: The cash book or cash account is most important of all subsidiary books. Only cash transactions are recorded in this book. Cash transactions are two types:
1. Cash receipts and 2) Cash payments. Cash receipts should be shown on debit side and cash payments on the credit side. The difference between the debit total and credit total reveals the cash balance available within the firm. Under any circumstances payments should not exceed receipts as no business concern can pay more than what it receives. Sometimes balance of debit and credit will be equal. Then the cash balance of the firm is 'nil'.

It can be used either as a book of original entry or a Ledger. It is also called as 'Book of original entry'.

***TYPES OF CASH BOOK*:**

The form of the cash book depends on the need, nature and scope of business activity of a business firm. The cash book is of the following types:

1. Simple Cash book
2. Double column cash book:
    a) Containing Cash and Discount columns
    b) Containing Bank and Discount columns
3. Triple column cash book
4. Petty cash book

Simple Cash book: It is maintained usually by newly started business firms, whose trade transactions are limited. Only cash transactions are recorded in this book.

Cash Book Containing Cash and Discount columns: The transactions pertaining to cash and cash discounts are also recorded. The transactions involving discounts are recorded here. There are 2 types of discounts: 1) Trade discount 2) Cash discount:

Trade discount: The discount offered by the seller to the buyer on the price of the goods purchased. It is shown in invoice only and does appear either in the cash book or any other book.

Cash discount: If a debtor clears his debt before or on the date specified, he may receive some rebate in the form of cash from the creditor, which is treated as 'cash discount received'. In the same way rebate given by the creditor it is treated by him as 'discount allowed'. This always related to transactions involving cash, so it is recorded in cash book. The discount column on the debit side should be named 'discount allowed' and that on the credit side should be named 'discount received'. The balance of the discount columns should not be balanced.

Cash Book Containing Bank and Discount columns: The modern business concerns, do not usually carry on their transactions only in the form of cash, for safety reasons the transactions are usually carried out through banks. The receipts and payments are usually made through Cheques. The cash and Cheques deposited in the bank are recorded on the debit side and Cheques drawn are shown on the credit side. Usually the bank column shows a debit balance, but sometimes, it can show a credit balance also, if it shows a credit balance we call it overdraft.

Triple Column Cash Book: The modern organizations, in which the cash transactions are made in big amounts, deal with banks regularly to get the following advantages:

- Cheques received can be deposited in their bank accounts
- All payments can be made through Cheques
- Interest can be earned by depositing the cash balance in the bank.

As the business firms deal largely with banks they prepare a cash book containing cash, discount and bank columns. So this book is called 'Triple Column Cash Book'.

Important points to be noted while recording the transactions:

- When opening cash and bank balances are given, record on the debit side of cash and bank columns
- When opening bank balance is given as overdraft, it should be recorded on the credit side in the bank column
- When cash is received, it should be recorded on the debit side cash column, in the same way cash payments made by the firm shown in the cash column on credit side.
- When cash or Cheque is received from debtors through cash sales or any other sources, it is recorded in the cash column on debit side, if the Cheque is deposited into bank on the same day or assumed to be deposited on the same day, it is recorded in the bank column on the debit side.
- If any payment is made or debt is cleared in the form of Cheques, it is recorded in the bank column on the credit side.
- If the firm allows discount, it is recorded in the discount column on the debit side.
- If the discount is received, it is recorded on the discount column on the credit side.
- If the Cheques sent to bank for collection are dishonored, these should be recorded in the bank column on the credit side. Similarly, if we receive any information that the Cheques issued by us are dishonored, it should be promptly noted in the bank column on the debit side.
- If cash is withdrawn from the bank for the business use, it should be recorded in the cash column on debit side and bank column on the credit side.
- If we deposit cash into bank it should be recorded in the bank column on debit side and credit side in the cash column. This type of transaction is called as **contra entry**. Where both the sides are affected. To indicate that is a contra entry, the alphabet 'C" is mentioned in the Ledger folio column on the both sides.

Contra entries will appear in the following occasions:

- When an account is opened with a bank
- The firm's cash is deposited in the bank
- The cash is withdrawn from bank for office use
- The Cheques received from debtors, are deposited in the bank.

ILLUSTRATION:

Prepare a triple column Cash Book forma the following particulars:

2004 Jan. 1 Opening balance Cash Rs.50, 000
Bank balance Rs. 75,000
"2. Drawn from bank for personal use Rs. 22,000
3. Cash purchases Rs. 10,000
4. Cheque given to Sam Rs. 8,500
5. Wages paid by cash Rs. Rs. 12,000
6. Credit sales to Rajan Rs. 18,000
8. Received from Rani Rs. 9,900: discount Rs. 100
10. Cash withdrawn for private use Rs. 6,000
12. Cheque received from Rajan 17,500 in full settlement of his bill
And the Cheque is deposited in the bank on 15th Jan.
15. Old furniture sold for Rs. 750
16. Credit purchases from Shyam Rs. 16,000
17. Income tax paid by Cheque Rs. 3,250
20. Rent paid Rs. 15,000
21. Cash sales Rs. 16,000
22. Deposited in bank Rs. 5,000
25 cash given to Shyam Rs. 15950 discount Rs. 50
30 sales tax paid by Cheque Rs. 2,2,50
31 Interest on investments received Rs. 2,000.

Dr **Triple Column Cash Book** **Cr**

Date	Particulars	L F No	Discount Allowed	Cash Rs.	Bank Rs	Date	Particulars	L. F No	Discount received	Cash Rs.	Bank Rs
2004						2004					
Jan.1	To Opening balance			50,000	75,000	Jan.2	By Drawings				22,000
						3	By Purchases			10,000	
6	To Sales			15,000		4	By Sam				8,500
8	To Rani		100	9,900		5	By Wages			12,000	
12	To Rajan		500	17,500		10	By Drawings			6,000	
15	To Furniture			750		15	By Bank	C		17,500	
15	To Cash	C			17,500	17	By Income Tax				3,250
21	To Sales			16,000		20	By Rent			15,000	
22	To Cash	C			5,000	22	By Bank	C		5,000	
31	To Interest on Investments			2,000		25	By Shyam		50	15,950	
						30	By Sales Tax				2,250
						31	By Balance c/d			29,700	61,500
			600	1,11,150	97,500				50	1,11,150	97,500
Feb 1	To Balance B/d			29,700	61,500						

ANALYTICAL PETTY CASH BOOK:

Large firms maintain their transactions through bank. They deposit cash and Cheques to meet their obligations to the creditors by issuing Cheques. Besides these transactions, the firm has to pay for petty and small expenses like postage, transportation, stationery that require very small amount, to pay these expenses through bank is very time consuming process. So, to facilitate immediate and easy payment, firms maintain a small amount of cash with them always. All the payments made through this amount and recorded in a separate cash book called ‘ petty cash book’. The person who assists the head cashier in maintaining these books is called ‘ petty cashier’.

The proforma resembles the cash book. All receipts are recorded on the debit side and all payments on the credit side. A detailed analysis of expenses will be shown on the credit side. Hence, the petty cash book is called as analytical petty cash book. These books help us to know the expenditure spent on each head.

IMPREST SYSTEM: In this system, petty cash requirements for a specific period of time, a week or month is estimated and that money is given to the petty cashier. The petty cashier makes payments for various expenses during the period and is reimburse exactly by the cashier at the end of the period. So, that he can start the next week or month with the full estimated money. This system of book keeping is called the ‘ imprest system’.

Example:
Prepare a petty cash book from the following transactions:

2004 March 1. A petty cashier has received a Cheque for an amount of Rs. 200/- from head cashier.

1.	Paid for postage stamps	Rs. 10
3.	Paid for bus fares	Rs. 5
7.	Paid for stationary	Rs. 25
10.	Paid for Printing charges	Rs. 75
12.	Paid for envelops	Rs. 20
15.	Paid for carriage	Rs. 15
21.	Paid for refreshments	Rs. 15
30.	Paid for pens and pencils	Rs.15

Ans:

Dr. ANALYTICAL PETTY CASH BOOK Cr.

Cash received Rs.	Cash Book folio	Date	Particulars	Voucher No	Total payments Rs	Analysis of payments				
						Postage Rs	Traveling Rs.	Printing & Stationery Rs	Carriage Rs	Miscellaneous Rs
		2004								
200		March 1	To Bank							
		3	By Postage stamps		10	10				
		7	By Bus fares		5		5			
		10	By stationery		25			25		
		12	By Printing Charges		75			75		
		15	By Envelopes		20			20		
		21	By Carriage		15				15	
		30	By Refreshments		15			15		
		31	By Pens, pencils		15					15
		Apr. 1	By Balance c/d		20					
200					200	10	5	135	15	15
20		Apr. 1	To Balance b/d							
180		Apr. 1	To Bank							

Model Questions:

1. Define Cash book and explain the various types of cash book?
2. Draw the proforma of Triple column cash book.
3. Prepare Three Column Cash Book from the following particulars:

2004		
March 1	Cash in hand	Rs.10,000
	Cash at Bank	Rs. 8,500
3	Cash Purchases	Rs. 4,000
5	Issued to Cheque to Ravi	Rs. 5,000
9	Drawn cash from bank for office use	Rs. 2,000
12	Received cash from Raman	Rs. 5,000
16	Paid to Laxman by cheque	Rs1,400
	Discount received	Rs. 100
25	Paid Salaries	Rs.2,000
28	Cash sales	Rs.6,000
30	Deposited into bank	Rs. 3,000

***

VII. BANK RECONCILIATION STATEMENT:

The primary function of a bank is to accept deposits in the form of cash from the public and pay cash on the Cheques issued by the customer against his balance. To record all these transactions, the banks will open accounts in the name of customers in its books. One who starts an account in the bank is called ' a customer' of that bank. The bank is supposed to record all the transactions pertaining to the account and issue a duplicate of that account which is called "Pass Book". Which is a true copy of the bank Ledger account maintained in the bank.

PROCEDURE TO OPEN A BANK ACCOUNT:

The person / firm who wishes to start a new bank account is supposed to fill the application form duly introduced by a customer of the bank and submit it to the bank. If the banker is satisfied with the information supplied in the form in all respects, an account will be opened in the name of the applicant, after accepting the initial deposit by way of 'pay-in-slip'. After opening an account /after accepting the initial deposit the applicant will now become its customer. Now the customer is permitted to draw Cheque, which is an unconditional written order to the banker to pay money fro his account. When the cash or Cheques received are deposited in the bank the same will be **'credited'** in the Pass book. On the other hand if a Cheque has been issued or the bank makes payment to a third party on behalf of the customer on his standing order for any bill payments like electricity, telephone etc., the same will be **'debited'** in the pass book.

The cash book is maintained by the trader and similarly the pass book is written by the banker. The banker records all the transactions i.e receipts from the customer and payments made to him/others, the balance as shown in pass book at any date is exactly equal to the bank balance as shown by the cash book of the trader. Naturally the balance shown by these two should be the same. Of course the nature of the balance will just be opposite to the business debits which the bank credits and vice versa. In practice these balances seldom agree. The main reason for this may be due to non- recording of entries simultaneously, communication gap or time lag between the operations.

BANK RECONCILIATION STATEMENT –it s need:

When we compare the balance of the cash book with pass book, the entries shown in these tow books are different. Hence, there is a need for reconciling the balances shown by these two books, after taking all the points of disagreement into consideration. The statement prepared for reconciling both the balances is known as "Bank Reconciliation statement'. It's a statement prepared with uncommon adjustments of cash book and pass book to find out the reasons of difference in the balance as shown by the trader's cash book and banker's pass book. The preparation of this statement is not a part of double entry system but is prepared in the interests of the management and the accountant.

REASONS FOR DISAGREEMENT BETWEEN THE BALANCES OF CASH BOOK AND PASS BOOK:

Cheques deposited but not collected before the date of reconciliation. – Cash book show a higher balance than the pass book balance.

Cheques issued but not presented for payment before the date of reconciliation: - the balance of the cash book is lower than the balance shown in the pass book.

Cheques /cash directly deposited in the bank by the customers: the balance of the cash book is lower than the balance shown in the pass book.

Payments directly made by the bank on behalf of the business: the pass book shows a lower balance than the cash book

Dividends or interest collected or credited by the bank: The pass book will show a higher balance than the cash book.

Interest on overdraft, commission, bank charges etc., debited by the bank in the pass book: the pass book shows a lower balance than the cash book

Cheques received and entered in the cash book but forgotten to sent to bank: the pass book shows a lower balance than the cash book

Cheques sent to collection but dishonored: the pass book shows a lower balance than the cash book.

Mistakes in cash book:

Mistakes in pass book:

Characteristics of Band Reconciliation Statement:

A bank reconciliation statement is prepared to reconcile the balance and explains the reasons of difference on a particular date generally at the end a period**.**

The BRS is prepared essentially to ascertain the reasons for disagreement of bank balances shown by cash book and pass book.

- This statement is prepared by the customer only.
- It may be prepared to examine the mistakes committed in [ass book
- It is prepared to find out exact bank balance.

PROCEDURE FOR PREPARATION OF BANK RECONCILIATION STATEMENT:

Comparing the entries recorded in cash book / pass book with the relevant entries recorded in pass book / cash book and find out and list out the reasons for the differences.

The Bank reconciliation Statement is prepared by taking pass book / cash book balance as a starting point, to adjust the differences which are affecting the balances.

TABLE SHOWING ITEMS AND THEIR TREATMENT

S. No	Items	What to do if you start with	
		Cash Book (Dr) Balance Rs.	Pass Book (Dr) Balance Rs
1.	Cheques issued but not cashed	Add	Less
2.	Cheques / cash directly deposited by the customer but not known to the trader	Add	Less
3.	Interest on investments, dividend and other amounts collected by bank but not entered in the cash book	Add	Less
4.	Cheques deposited into Bank but omitted to be recorded in the cash book	Add	Less
5.	Wrong credits recorded in pass book or wrong debits in the cash book	Add	Less
6.	Cheques issued but dishonoured by the bank	Add	Less
7.	Posting or lower amount (under casting) in the debit side of cash book/ pass book	Add	Less
8.	Posting or excess amount (Overcasting) in the credit side of cash book/ pass book	Add	Less
9	Cheques sent for collection but not credited or collected by the bank before the date of reconciliation	Less	Add
10.	Deposited Cheques dishonoured but not recorded in cash book	Less	Add
11.	Discounted bill dishonoured but not recorded in cash book	Less	Add
12.	Interest ion investment, commission, bank charges, Insurance Premium subscription debited in pass book only	Less	Add
13.	Cheques debited in the cash book but forgotten to sent to bank for collection	Less	Add
14.	Wrong debits in the pass book or wrong credits in cash book	Less	Add
15.	Crediting lower amount in respect of Cheques deposited	Less	Add
16.	Overcastting or excess amount posting in debit side of cash book / pass book	Less	Less
17.	Under casting or posting of lower amount in the credit side of cash book / pass book	Less	Less

Example: (Starting with favourable balance of Cash book)

1. The Cash book of M/s Raju & Co. has shown a debit balance of Rs. 15,000 as on 31st March 2003. On examination of the bank pass book for the same period it is found that:

1. Cheques amounting to Rs. 2000 were deposited in the bank, but Cheques for Rs. 800 have not been collected.
2. Cheques issued for Rs. 1,400 but were not presented for payment before 31st March 2003.
3. Interest on investments credited in the pass book Rs. 50.
4. Bank charges debited in the pass book.
5. Prepare a bank reconciliation statement.

Ans: BANK RECONCILIATION STATEMENT AS ON 31-3-2003.

Particulars	Amount Rs.	Amount Rs
Balance As per Cash Book (Dr)		15,000
Add :		
Cheques issued but not presented for payment before 2003	1,400	
Interest on investment credited in Pass book only	50	1,450
		16,450
Less:		
Cheques deposited into bank but not collected before 31-3-2003	800	
Bank charges debited in the Pass book only	20	820
Bank Balance as per Pass Book		15,630
		=====

Example: 2. (Starting with favourable balance of Pass book)

The Pass book balance as on 3Ost April 2002 was Rs. 2,000. On examination of the cash book for the same period it is found that:

1. A Cheque received on 30-4-2002 for Rs. 600 was entered in the bank column of the cashbook but forgotten to sent to bank.
2. Cheques issued for Rs. 400 has not been cashed before 30-4-2002.
3. A Cheque issued by M/s Rajan & Co for Rs. 50 was wrongly paid by the bank from our account i.e./s Rajan enterprises.
4. Bank commission debited in pass book was Rs. 15 and was not recorded in cash book
5. A Cheque for Rs. 200 was deposited in bank and the same was returned by the bank as ‘ dishonored cheque’ for which no entry was made in the cash book.
6. A customer directly deposited Rs. 50 in our bank account.
7. Prepare a bank reconciliation statement.

2. Ans: BANK RECONCILIATION STATEMENT AS ON 30-4-2002

Particulars	Amount Rs.	Amount Rs
Balance As per Pass Book (Dr)		2,000
Add :		
Cheques entered in the cash book but forgotten to sent to bank	600	
Wrong debits given in the Pass book	50	
Bank commission debited in the Pass book only	15	
Cheques sent for collection and dishonoured and debited in pass book only	200	865
		2,865
Less:		
Cheques issued, but not cashed before 30-4-2002	400	
Amount deposited in the bank directly by the customer	50	450
Bank Balance as per Cash Book		2,415
		=====

BANK RECONCILIATION STATEMENT WITH OVER DRAFT BALANCE (UNFAVOURABLE BALANCE)

Overdraft is nothing but an arrangement made by the customer with the banker to draw an amount excess of what the customer has in his bank account as balance subject to a specific predetermined limit. This facility is available to a few reputed firms that on their current accounts only. .If the overdraft is existing, it means the customer is in debited to the banker for the overdraft balance and it appears as debit balance in pass book credit balance in cash book. Interest will be charged for the overdraft amount utilized. On any given date the credit (Overdraft) balance shown by cash book should be equal to debit balance as shown in the pass book. However, the cash book and pass book differ to agree regarding its balance due to following reasons:

- Cheques issued but not presented for payment before the date of reconciliation
- Cheques sent to collection but not credited before the date of reconciliation.
- Bank charges, interest on overdraft etc., debited in pass book only
- Amount directly deposited by the debtor
- Amounts collected and credited in the pass book only
- Cheques debited in cash book but forgotten to sent to bank.
- Cheques sent for collection but dishonoured.

TABLE SHOWING ITEMS AND THEIR TREATMENT

S.No	Items	What to do if you start with	
		Cash Book Overdraft Balance Rs.	Pass Book Overdraft Balance Rs
1.	Cheques issued but not cashed	Less	Add
2.	Cheques / cash directly deposited by the customer but not known to the trader	Less	Add
3.	Interest on investments, dividend and other amounts collected by bank but not entered in the cash book	Less	Add
4.	Cheques deposited into Bank but omitted to be recorded in the cash book	Less	Add
5.	Wrong credits recorded in pass book or wrong debits in the cash book	Less	Add
6.	Cheques issued but dishonoured by the bank	Less	Add
7.	Cheques deposited but not collected	Add	Less
8.	Cheques sent for collection but dishonoured	Add	Less
9.	Excess debits in cash book	Add	Less
10.	Interest on overdraft, commission, bank charges, Insurance Premium subscription debited in pass book only	Add	Less
11.	Cheques debited in the cash book but forgotten to sent to bank for collection	Add	Less
12.	Wrong debits in the pass book or wrong credits in cash book	Add	Less
13	Crediting lower amount in respect of Cheques deposited	Add	Less

Illustrations On Overdraft:

Example 1.

Prepare the Bank reconciliation statement of Sri. Srinivas as on 31-12-2003.
Overdraft as per cash book as on 31-12-2003 is. Rs. 7,000
Interest on overdraft Rs. 300, bank charges, Rs. 100 debited in pass book only
Cheques issued, but not cashed before 31-12-2003 are Rs.1,600
Cheques paid into bank, but not collected are Rs. 2,000
Interest on government securities collected and credited in the pass book only are Rs. 2,000.

Ans:

BANK RECONCILIATION STATEMENT OF Sri. SRINVIAS AS ON 31-12-2003.

Particulars	Amount Rs.	Amount Rs.
Overdraft balance as per Cash book		6,000
Add:		
Interest debited in the pass book only	300	
Bank Charges	100	
Cheques sent for collection but not collected before 31-12-2003	2,000	2,400
		8,400
Less:		
Cheques issued but not presented for payment	1,600	
Interest on Government securities collected and credited pass book only	2,000	3,600
Overdraft balance as per Pass book		**4,800**
		======

Example: 2

The Bank Pass Book of Sri. Ravi has been showing a debit balance of Rs.15,000 as on 31-3-2004. Find out the balance of cash book by preparing a Bank Reconciliation Statement.

1. 5 Cheques worth Rs. 3000 each sent to bank for collection, only Rs. 3,000 Cheque has been collected before reconciliation date.
2. Out of the total Cheques worth Rs. 15,000 issued, Rs. 6,000 Cheques were not cashed before 31-3-2004.
3. A Cheque issued for Rs. 1,000 on Sri. Shanker account has been debited to Sri. Shankaran account.
4. Bank charges Rs. 50 and interest Rs. 300 were debited only in pass book.
5. Annual subscription to Nizam's Club, Hyderabad of Rs. 200 has been paid by the bank 0n 30-3-2004.
6. Amount collected by bank on promissory note Rs. 400.
7. Overcasting in the credit side of cash book Rs. 150.

Ans:

BANK RECONCILIATION STATEMENT OF Sri. RAVI As On 31-3-2004.

Particulars	Amount Rs.	Amount Rs.
Overdraft balance as per Pass book		15,000
Add:		
Cheques issued but not collected		
Amount collected by bank on a promissory note	6,000	
Overcasting of total on the credit side of the cash book	400	
	150	6,550
		21,550
Less:		
Cheques sent to bank but not collected before 31-3-2004	12,000	
Bank charges debited in pass book	50	
Interest debited in pass book only	300	
Annual subscription paid by the bank, but not recorded in cash book	200	
Wrong debit given in pass book of Sri. Shankaran	1,000	13,550
Overdraft balance as per Cash book		**8,000**
		======

In some cases we may come across such a situation where the cash book will show favourable balance (Dr) for the same period that pass book may show overdraft balance and vice versa. We can start the Bank reconciliation Statement with one of the balances and arrive to the balance as shown by the other book.

Example 3. Where Cash book shows overdraft balance and on the same date pass book shows favourable balance.

The cash book of Mr. Raman has been showing an overdraft balance of Rs. 14,000 on 31-12-2004, whereas on the same date, his pass book showing a favourable balance of Rs. 4,270. He is requesting you to reconcile the above balances through a suitable statement:

1. Out of the Cheques issued for Rs. 10,600 in December 2004 only Cheques for Rs. 4,000 were cashed.
2. A Cheque received from a customer Rs. 1,700 has been debited in cash book, but forgotten to be sent to bank.
3. Cheques amounting to Rs. 6,000 were deposited into bank, but Cheques worth Rs. 4,800 only were collected before reconciliation date.
4. The debit side total of Rs. 10,000 in the cash book has been carried and posted as Rs. 8,000 in the next page.
5. A Cheque for Rs. 10,000 has been sent to the bank for collection but omitted to record in the cash book.

6. Interest on investment Rs. 2,000 has been collected by the bank, the same has not been recorded in the cash book
7. Bank charges Rs. 50, insurance premium Rs. 200 and interest on overdraft Rs. 400 have been debited in the pass book only.

Ans: BANK RECONCILIATION STATEMENT OF Sri. RAMAN As On 31-12-2004.

Particulars	Amount Rs.	Amount Rs.
Overdraft balance as per Cash book		14,,000
Add:		
Cheques debited in the Cash book, but forgotten to be sent to the bank	1,700	
Cheques deposited but not collected before 31-12-2004	1,200	
Items debited in the Pass book only:		
a) Bank charges Rs. 50		
b) Insurance premium Rs. 200		
c) Interest on overdraft Rs. 400	650	3,550
		17,550
Less:		
Cheques issued but not presented for pavement (10600- 4000)	6,600	
Amount carried forward posted in the debit side of cash book (10000-8000)	2,000	
Cheques deposited in the bank for collection, but omitted to be recorded in the cash book	10,000	
Interest on investments collected by the bank credited in pass book only	2,000	20,600
Balance as per Pass book		**3,050**
		=======

Model Questions:

1. What is Bank reconciliation Statement/ Explain its need?
2. Explain the procedure for Opening a Bank account?
3. Prepare bank Reconciliation statement of Mr. Rama Rao as on 31-12-2002 from the following particulars:

a) Bank Balance as per cash book	Rs. 7,500
b) Cheques issued but presented on 2-1-2003	Rs. 800
c) Cheques deposited in bank were not	Rs. 600
collected	Rs. 400
d) Interest on investments of Rs.400 collected	
by bank but not entered in Pass book.	Rs. 30
e) Bank Commission of Rs.30/- entered only	
in pass book	

***

VIII. TRIAL BALANCE

It is a must for the businessman to prepare 'final accounts' with a specific object to find out the profitability of the transactions made and the true and fair financial position of the firm. These final accounts are prepared from the balances of Ledger accounts which are available in a common list called 'Trial Balance'. It contains the Debit and Credit balances of all Ledger accounts and are very essential for preparation process of final accounts.

Trial Balance may be simply defined as a statement prepared by putting all debits on one side and all credits on the other side to check the arithmetical accuracy of the Ledger accounts. It is a link between the Ledger accounts and final accounts.

M.S. Gosav: defined the Trial balance as " it a statement containing the balances of all Ledger accounts, as at any given date, arranged in the form of debit and credit columns laced side by side and prepared with the object of checking the arithmetical accuracy of the Ledger postings.

- **Characteristics of Trial Balance:**
- It is a statement or a list
- It contains all the debit and credit balances
- The total of debit balances and credit balances must be equal.
- It is the only base for preparation of final accounts
- It can be prepared at any time.

Advantages:

- Preparation of final accounts will become easy
- One can rely on the results derived out of trial balance when the total of debit is equal to the total balance of credit.
- Some accounting flaws in respect of postings can easily be detected by p[repairing trial balance.
- The work of accountant will become easy for ascertaining the profitability and financial position with the preparation of trial balance.

PREPARATION OF TRIAL BALANCE:

A: The following accounts will always appear with <u>debit balances</u> in Trial Balance:

Asset Accounts: Land accounts, building accounts, machinery accounts, furniture accounts, Debtors account, stock account, Bills receivable etc.,
Accounts relating to expenses and losses: Salaries account, wages account, rent account, carriage account, discount account, bad debts account, depreciation account, and also purchases account, return inward account etc.,

B: **The following accounts will always appear with credit balances in Trial Balance:**

Liabilities accounts: Creditors account. Loan account, mortgage account, Bills Payable account, Bank overdraft account. All types of Reserves and Funds accounts.
Income and gain accounts: Interest realsied account, rent collected account, discount received account, and sales account, return outward account etc.,

The Trial Balance is prepared at any given date but not for a particular period:

PROFORMA:

S.No.	Particulars (Name of the account)	LF No.	Debit Balance Rs.	Credit Balance Rs.

METHODS OF PREPARING TRIAL BALANCE:

There are two methods of preparing trial balance**:**

1) Total balances method 2) Net balances method.

Total balances method: In this, debit as well as credit sides of all the accounts will be summed up and with this totals the Trial Balance will be prepared. It is called as ' gross trial balance method'. This is method is out of use now

Net balances method: This is most commonly used method in preparing the Trial Balance. In this the net balance of the accounts were ascertained on a particular date and arranged in the proforma of Trial balance. If these totals of debit and credit agree, we can say the Trial Balance has the arithmetical accuracy.

EXAMPLE : Prepare a Trial Balance from the following Ledger balance relate to M/s. Vandana and co. as on 31-3-2003.

Particulars	Amount Rs.	Particulars	Amount Rs.
Cash in bank	200	Debtors	34,000
Capital	78,000	Bills payable	1,140
Lease Property	46,000	Opening Stock	5,000
Furniture	10,500	Bank Loan	46,000
Sales	1,31,020	Plant and Machinery	48,000
Discount allowed	540	Purchases	81,900

Carriage Inward Returns Inward Wages & Salaries Advances paid Bank charge Creditors	350 1,500 17,000 29,960 1,000 22,760	Discount Received Carriage outward Returns outward Sundry expenses Taxes Commission received Drawings	70 240 380 1,370 500 1,690 3,000

Solution:

Trial Balance of M/s. Vandana & Co. as on 31-3-2003

Particulars (Name of the account)	**LF No.**	**Debit Balance Rs.**	**Credit Balance Rs.**
Cash in bank		200	
Capital			78,000
Lease Property		46,000	
Furniture		10,500	
Sales			1,31,020
Discount allowed		540	
Carriage Inward		350	
Returns Inward		1,500	
Wages & Salaries		17,000	
Advances paid		29,960	
Bank charge		1,000	
Creditors			22,760
Debtors		34,000	
Bills payable			1,140
Opening Stock		5,000	
Bank Loan			46,000
Plant and Machinery		48,000	
Purchases		81,900	
Discount Received			70
Carriage outward		240	
Returns outward			380
Sundry expenses		1,370	
Taxes		500	
Commission received			1,690
Drawings		3,000	
		2,81,060 =======	**2,81,060** =======

Model Questions:

1. Define ‘Trial Balance’ and its need.
2. List out the various accounts, which appear on Debit side and credit side.
3. Prepare a Trial Balance from the following Ledger balances:

Particulars	Rs	Particulars	Rs
Capital	1,00,000	Wages	8,000
Motor van	60,000	Rent	10,000
Purchases	50,000	General Expenses	5,000
Sales	90,000	Cash in Hand	13,000
Debtors	30,000	Bank Overdraft	1,000
Creditors	10,000	Furniture	16,000
Salaries	12,000	Investments	7,000
Depreciation Fund	10,000		

****

IX. FINAL ACCOUNTS:

The package of accounts and statements that are used to ascertain the Gross Profit, Net Profit and Financial position are called “Final Accounts. The Trial Balance is the base from which the final accounts are prepared.

OBJECTIVES:

- To assess the profit earned or loss incurred by the business in a specific period.
- To find out the financial position of the firm and to know the total assets and liabilities and the net capital of the business on a particular date.

A trading concern will prepare final accounts in 3 stages:

1.	Trading Account	- To find out Gross profit / loss for the period
2.	Profit & Loss account	- The assess the net profit
3.	Balance Sheet	- To show total assets and liabilities

A Manufacturing concern will prepare final accounts in 4 stages:

1.	Manufacturing Account	- To know the total cost of production
2.	Trading Account	- To find out Gross profit
3.	Profit & Loss account	- The assess the net profit / Net loss for the period
4.	Balance Sheet	- To show total assets and liabilities

The total transactions of the business are divided into:

Transactions of Capital nature: i) Capital Expenditure ii) Capital income
Transactions of Revenue nature: i) Revenue Expenditure ii) Revenue income

The classification of transactions is a key factor in the Accountancy: From the expenditure point of view, we can classify the total items of expenditure into: a) Capital Expenditure b) Revenue Expenditure

Capital Expenditure: The transactions of capital expenditure give benefits for more than one accounting period, such as acquisition and improvement of assets, acquisition of special rights, increasing of earning capacity, restoration of operating efficiency. It is non-recurring in nature. Therefore, they are shown on the assets side of the Balance Sheet.

Revenue Expenditure: It is incurred for generating revenue in the current accounting period and its benefit expires with such period. It helps to maintain the normal working condition of a business. It is charged as expenses in Trading / Profit & Loss Account on debit side. Ex: Purchases, carriage expenses, wages, fuel, salaries, postage, telephone rent, rates, taxes salaries, advertisements, traveling charges, interest and depreciation.

The receipts of a business firm can be divided into a) Capital receipts and b) Revenue receipts.

Capital receipts: are defined as "non-recurring receipts' from the owner of the business or lender of money creating a liability to either of them". Which include proceeds out of sale of assets: capital, bank loan, issue of debentures, loan, sale of assets. They are to be shown on liabilities side of the balance sheet or deducted from the asset value on assets side of the balance sheet.

Revenue receipts: Revenue receipts are defined as " a recurring receipt against sale of goods in the normal course of business. It may be a non-trading income of regular or recurring nature. Ex. Interest, discount, dividend received etc., these items should be credited to Trading account, Profit and Loss account.

TRADING ACCOUNT:

Trading account is prepared at the end of each accounting period to assess the gross profit or Gross loss. Gross profit is nothing but the excess of the total of credit column over the total of the debit column. If the net sales amount is more than the 'cost of production' the difference is called 'Gross profit', it should be transferred to Profit and Loss Account and posted on credit side and if the sale proceeds are lower, the result is called 'gross loss'. It should be transferred to Profit and Loss account on the debit side.

PROFORMA OF TRADING ACCOUNT

Trading Account of. ……………..For the period ended…………….

Dr **Cr**

Particulars	Amount Rs	Amount Rs	Particulars	Amount Rs	Amount Rs
To Opening stock		Xx	By Sales	Xxx	
To Purchases	Xxx		Less Sales returns	xx	Xx
Less: Returns	xx	xx	By Closing stock		Xx
To Carriage inward		Xx	By goods destroyed by fire		Xx
To wages		Xx			
To Freight/ cartage		Xx	By Gross Loss (Transferred to P& L a/c)		xxx
To Import/ Export duty		Xx			
		Xx			
To Royalties/Octroi		Xx			
To coal, fuel & power		Xx			
To Factory expenses		Xx			
To Manufacturing Expenses		Xx			
To Gross Profit (Transfer to P & L a/c)		xxx			
		xxxx			xxxx

Importance of Trading Account:

Trading account is the first step in the preparation of the process of final accounts.
We can ascertain Gross Profit / Gross Loss
We can observe the changes in direct expenses
We can establish the relation between the costs and revenues
We can analyse the trend in sales
We can decide the earning capacity of the firm.

Illustration:

1. From the following balances of Mr. Ram ascertain the Gross profit by preparing a Trading Account for year ended 31-3-2002.

Stock	Rs. 15,000
Sales	Rs. 28,000
Purchase returns	Rs. 400
Carriage inward	Rs. 500
Wages	Rs. 5,000
Sales Returns	Rs. 1,000
Manufacturing expenses	Rs. 200
Octroi	Rs. 600
Fuel	Rs. 800
Electricity	Rs. 600
Purchases	Rs.10,000
Closing stock	Rs. 9,000

Trading Account of Mr. Ram For the period ended 31-3-2002

Dr **Cr**

Particulars	Amount Rs	Amount Rs	Particulars	Amount Rs	Amount Rs
To Opening stock		15,000	By Sales	28,000	
To Purchases	10,000		Less Sales returns	1,000	27,000
Less: Returns	400	9,600			
To Carriage inward		500	By Closing stock		9,000
To Wages		5,000			
To Manufacturing Expenses		200			
To Octroi		600			
To Fuel		800			
To Electricity		600			
To Gross Profit (Transfer to P & L a/c)		3,700			
		36,000			36,000

PROFIT AND LOSS ACCOUNT:

Profit and loss account has to be prepared to ascertain the net profit or net loss of the firm for the accounting period. It can be arrived by deducting the ' Administrative expenses' from the Gross profit. It is a common practice to prepare the Profit and Loss account in continuation to the Trading Account. By nature Profit and Loss account is a nominal account and should not have any opening balance or closing balance. It is started either with Gross profit or Gross and the Trading and bon-trading incomes are credited to this account. Similarly all the administrative, general and financial charges, writing down of assets values are to be debited to profit and loss account.

If the total of the credit column exceeds the total of debit column the difference is called' Net profit' which is to be transferred to the Capital Account or added to the existing share capita while preparing the balance sheet. If the total of the debit column exceeds the total of the credit column the difference is "net loss' which is to be deducted from the capital in the balance sheet. That is to say that the net profit will increase the capital where as the net loss will decrease the capital.

FORMAT OF PROFIT AND LOSS ACCOUNT:

Profit and Loss Account of Sri………………. For the period ended…………

Dr **Cr**

Particulars	Amount Rs	Amount Rs	Particulars	Amount Rs	Amount Rs
To Gross Loss		Xx	By Gross profit		Xx
General Administrative Expenses:			By Discount Received		Xx
			By Interest received		Xx
			By commission received		Xx
To Salaries		Xx			
To Rent, Rates and Taxes		Xx	By Reserve for bad Debts (decrease)		Xx
To Postage, printing & Stationery		Xx	By Interest on Drawings		Xx
			By reserve for Discount On Creditors		Xx
To Legal charges		Xx			
To Audit Fee		Xx	By dividends Received		Xx
To Telephone		Xx	By Apprentice Premium		Xx
To Electricity		xx	By Profit on sale of Assets		Xx
To Insurance		xx			
Selling and Distribution Expenses					
To Salaries to staff		Xx			
To Travel Expenses		Xx			
To Advertisements		Xx			
To commission and Brokerage		Xx			

To Carriage outward To Commission on Sales To Packing charges To Godown expenses To Free Samples To Van expenses To trade Expenses **Maintenance and Financial charges** To Interest on capital To interest To Discount allowed To Repairs To Loss on sale of assets To Depreciation on Assets To Bad debts To Reserve for Bad Debts To Discount on Debtors To Net Profit		Xx Xx Xx Xx Xx Xx Xx Xx Xx Xx Xx Xx Xx Xx Xx Xx Xx Xx			
		xxxx			xxxx

<u>Items not be shown in the Profit and Loss Account</u>:

1. **Income tax**: is a tax on the income of the proprietor, but not the firm. So, it should not be shown in the Profit and Loss account. But it should be deducted from the capital in the Liabilities side of the Balance sheet.
2. **Domestic Expenses:** Household expenses like, taking material to home, paying club membership subscription from business are drawings. They are also to be deducted from the capital in the liabilities of the balance sheet.
3. **Capital Expenses:** Expenses incurred to purchase an asset, installation expenses, wages paid for installation are some of the examples, which increase the value of the asset, hence they should not be debited to the Profit and Loss Account.

IMPORTANCE OF PROFIT & LOSS ACCOUNT:

1. The main purpose is to ascertain Net profit / Net Loss of a firm for a specific period.
2. It is useful to establish a relationship between the sales and total indirect expenses through percentages.
3. To analyse the trend in profit earning by preparing a net profit and operating ratios.
4. To compare the actual expenses with the standards already set. Which is useful to analyse the positive and the negative variances.
5. It will make it possible to allocate funds for reserves and other provisions for future contingencies.

1. Example:

From the following Ledger balance of M/s. Ram & Co. Prepare a Trading and a Profit and Loss Account for the period ended 31-12-2003.

Stock 1-1-2003	5,000
Purchases	50,000
Returns outward	5,000
Sales	1,00,000
Returns inward	5,000
Direct Wages	2,000
Indirect wages	1,000
Carriage	500
Carriage outward	1,000
Distribution expenses	500
Office Rent	2,000
Repairs	1,000
Import Duty	500
Coal & Gas	1,500
Office Lighting	1,000
Closing Stock	15,000

Solution:

Trading Account and Profit & Loss Account of Mr. Ram & Co
For the period ended 31-12-2003.

Dr **Cr**

Particulars	Amount Rs	Amount Rs	Particulars	Amount Rs	Amount Rs
To Opening stock		5,000	By Sales	1,00,000	
To Purchases	50,000		Less Sales returns	5,000	95,000
Less: Returns	5,000	45,000			
To Carriage		500	By Closing stock		15,000
To Direct Wages		2,000			
To Import Duty		500			
To coal and Gas		1,500			
To Gross Profit (Transfer to P & L a/c)		55,500			
		1,10,000 =======			1,10,000 ======
To Indirect wages		1,000	By Gross Profit		55,500
To Carriage outwards		1,000			
To Distribution Expenses		500			
To Office Rent		2,000			
To Repairs		1,000			
To Office Lighting		1,000			
To Net Profit (Transfer to Capital A/c)		49,000			
		55,500 ======			**55,500** =====

BALANCE SHEET:

The preparation of Balance Sheet is the third and final stage of final accounts. **Balance Sheet is a statement prepared on a particular date to show the financial position of the firm with all assets and liabilities of the firm.** The Trading A/c and Profit & Loss Account are prepared for a period of time where as the Balance Sheet is prepared on a particular date.

The excess of assets over the third party liabilities is called 'Capital'. The balances of the Real accounts and personal accounts appearing in Trial balance are grouped as assets or liabilities depending on their nature of balance. Which are arranged in a systematic manner i.e. all the assets on the right side and all the liabilities on the left side of the balance sheet after making all the adjustments like depreciation, provision for bad debts etc.,

Characteristics of Balance Sheet:

1. Balance sheet is prepared on a particular date. So, the financial information is restricted to the particular date.
2. It is a statement but not an account. Hence, the Dr and Cr should not be used
3. It is aimed at to reveal the true financial position of the firm on a particular date.

Classification of Assets and Liabilities:

Assets can be divided into three types:

1. Fixed Assets 2. Current Assets 3. Fictitious or Intangible Assets

1. **Fixed Assets**: Fixed assets are permanent assets. They are long lasting and useful to the production, re-use and increase the earning capacity of the business.
   Ex: land, Buildings, plant, machinery, vehicles, furniture etc.,

2. **Current Assets**: Cash and other short-term assets or circulating assets like debtors, stock, bills receivable which can easily be converted into cash are called current assets.
   Ex: Prepaid expenses, accrued incomes

3. **Fictitious Assets:** These are type of peculiar assets whose existence is invisible but whose benefit is enjoyed.

   Ex. Good will, copyrights, patents.

Like wise **Liabilities are classified into three types**:

1. Fixed liabilities 2. Current liabilities 3. Contingent liabilities

1. **Fixed liabilities:** Fixed or long term liabilities are the loans payable after a reasonable long-term duration say 5 to 10 years. Ex. Debentures, long term loans, Mortgage loans.
2. **Current liabilities:** Current liabilities are the repayment obligations payable from one year to three years. Sundry creditors, Bills payable, Bank loan etc., Liquid liabilities which are to be paid at very short notice can be included in this category. Ex. Outstanding expenses, income received in advance, bank over draft etc.,
3. **Contingent liabilities:** are the liabilities, which may arise in future depending on happening of an uncertain event**. Ex.** Damages payable but still under dispute, bills discounted but likely to be dishonoured.

DIFFERENCE BETWEEN TRIAL BALANCE AND BALANCE SHEET:

TRIAL BALANCE	BALANCE SHEET
1. Trial balance is prepared to prove the arithmetic accuracy of the accounts	1. The balance sheet is prepared to show the financial position of a firm on a particular date.
2. It contains the balances of all the accounts	2. It contains the information pertaining to the assets and liabilities
3. No adjustments are seen Trial balance	3. All types of adjustments should be done in balance sheet
4. It can be prepared at any time	4. it is prepared only at the closure of the accounting year.
5. Headings of debit and credit are seen in the trial balance	5. Assets at the right side and liabilities at the left side can be seen in the Balance sheet
6. No information regarding the profit or loss can be found	6. Clear information regarding profit or loss can be found in the Balance Sheet.

The balance sheet is prepared in any one of the models:

a) Rigidity Preference Order
b) Liquidity Preference Order

Proforma of Balance Sheet of Sri……………………. As on ……….
***(Under Rigidity Preference Order*)**

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital	Xx		Intangible Assets		
Add Addnl. Capital	Xx		Goodwill, Copy right, patents, trade marks		xxx
Add Interest on capital					
Add Net Profit	Xx		Fixed Assets:		
Less drawings	Xx		Land and buildings		xxx
" Interest on drawings	xx		Plant and Machinery		xxx
" Net Loss	xx		Leasehold property		xxx
" Income Tax	xx	xxx	Loose Tools		xxx
Long Term Debits		xxx	Furniture & Fittings		xxx
Short Term Debits		xxx			
Current Liabilities:			Current Assets:		
Creditors		xxx	Investments		xxx
Bills Payable		xxx	Debtors		xxx
Bank Overdraft		xxx	Bills receivable		xxx
Outstanding Expenses		xxx	Closing stock		xxx
Income received in advance		xxx	Cash at Bank		xxx
			Cash in Hand		xxx
			Prepaid Expenses		xxx
			Accrued Incomes		xxx
		xxxx ======			xxxx =====

2. Proforma of Balance Sheet of Sri……………………. As on ……….
(Under Liquidity Preference Order)

Liabilities	**Rs.**	**Rs.**	**Assets**	**Rs.**	**Rs.**
urrent Liabilities:			Current Assets:		
Outstanding Expenses		Xxx	Prepaid Expenses		xxx
Income received in		Xxx	Accrued Incomes		xxx
advance Bills Payable		Xxx	Cash at Bank		xxx
Bank Overdraft		xxx	Cash in Hand		xxx
Creditors		xxx	Bills receivable		xxx
			Closing stock		xxx
Loans			Investments		xxx
Long Term Debits		xxx	Debtors		xxx
Short Term Debits		xxx			
			Fixed Assets:		
Capital	xxx		Land and buildings		xxx
Add Addnl. Capital	xx		Plant and Machinery		xxx
" Interest on capital	xx		Leasehold property		xxx
" Net Profit	xx		Loose Tools		xxx
	xxx		Furniture & Fittings		xxx
Less drawings	xx		Intangible Assets		
" Interest on drawings	xx		Patents		xxx
" Net Loss	xx		Trade marks		xxx
" Income Tax	xx	xxx	Copy right		xxx
			Goodwill		xxx
		xxxx ======			xxxx =====

FINAL ACCOUNTS – ADJUSTMENTS:

The final Accounts are prepared with a view to assess the Profit / loss of the business transactions and to know the financial position. The results revealed by the final accounts are reliable and accurate only when all the transactions are brought into the purview of the final accounts. But sometimes, some transactions pertaining to certain incomes/ expenses may not enter into their respective accounts due to some reason or the other.

For example: Salaries of December 2001 will be paid on 1-1-2002. These, outstanding salaries are to be added to the existing balance of the salaries account. Otherwise the net profit will be shown at a higher level, which is not a true profit. Similarly, it the 'salaries outstanding' for December was not considered while preparing the balance sheet, the financial position shown by the Balance Sheet is not true and real. Hence, all these transactions are to be considered in the preparation process of the final accounts.

The adjustments are those posted in an account to show the correct balance for the accounting year. The items that were not included in the respective accounts can be included with the adjustment entry. When the adjustments relating to incomes and expenses are taken up, the item will first appear in the Trading Account or Profit and Loss Account at one time and in the Balance sheet at the second time.

The common Adjustment items and their relevant entries to be shown in Trading A/c, Profit & Loss A/c and Balance sheet

Adjustment	Trading and Profit & Loss A/c	Balance Sheet
1. Outstanding Expenses	**Add** to the respective expenses on the Debit side	Show on the Liabilities side
2. Prepaid expenses or Un-expired Expenses	**Deduct** from respective expenses on the Debit side	Show on the Assets side
3. Accrued Income	**Add** to the respective income on the Credit side	Show on the Assets side
4. Income received in advance	**Deduct** from the respective income on the credit side	Show on the Liabilities side
5. Depreciation	**Show** on the Debit side of P/L A/c	Deduct from the respective item asset on the Assets side
6. Bad Debts	**Add** to the Bad debts given in Trial Balance and show on the Debit side of P/ L A/c.	Deduct from the Debtors on the Assets side
7. Bad Debts Reserve		
a) When it is given in the adjustment	**Show** on the Debit side of P/L A/c	Deduct from the Debtors on the Assets side
b) When Bad debts Reserve is given both in Trial Balance and adjustment		
i) To increase the old Reserve	When the new reserve is **more than** old reserve the difference should be **debited to** P/L A/c	Deduct the new reserve from the Debtors on the Assets side

ii) To reduce the old Reserve c) When Bad debts reserve is given only in Trial Balance	When the new reserve is **less than** old reserve the difference should be **credited** to P/L A/c No need to show in any a/c	Deduct the new reserve from the Debtors on the Assets side Deduct the reserve from debtors on assets side
8. Discount on debtors	Show on the debit side of P/L a/c	Deduct from debtors and show on the assets side
9. Discount on creditors	Show on the credit side of P/L a/c	Deduct from creditors and show on the liabilities side
10. Interest on capital	Show on the debit side of P/L a/c	Add to the capital and show on the liabilities side
11. Interest on Drawings	Show on the credit side of P/L a/c	Deduct from the capital and show on the liabilities side
12. Interest on loan	Show on the debit side of P/L a/c	Show on the liabilities side
13. Interest on investments	Show on the credit side of P/L a/c	Show on the assets side
14. Closing Stock	Show on the credit side of trading a/c	Show on the assets side

Illustration: From the following trial balance prepare the Final accounts of Mrs. Laxmi as on 31-3-2003.

Trial Balance of Mrs. Laxmi as on 31-3-2003.

Particulars	**Amount Rs.**	**Particulars**	**Amount Rs.**
Cash in hand	800	Sales	69,400
Goodwill	40,000	10 % loan 1-1-2003	51,000
Purchases	68,000	reserve for Bad Debts	500
Cash at bank	1,200	Creditors	8,000
Direct wages	2,000	Capital	90,000
Opening stock	35,000	Bills payable	2,000
Interest on loan	2,500		
Insurance	900		
Carriage on sales	900		
Carriage on purchases	400		
Commission	500		
Fittings	5,000		
Bad debts	200		
Buildings	25,000		
Plant and Machinery	10,000		
Postage & Telegram	500		
Debtors	25,000		
Salaries	3,000		
	2,20,900		2,20,900

Adjustments:

1. Stock as on 31-3-2003 Rs. 75,000
2. Provide 5% for doubtful debts
3. Provide depreciation 10% on fittings, 10% on Plant and Machinery and 5% on buildings
4. Mrs. Laxmi has taken Rs. 500 worth of stock for her domestic use
5. Stock worth Rs. 10,000 was destroyed in a fire accident for which the insurance company agreed to reimburse Rs. 2,000

Solution:

Trading Account and Profit & Loss Account of Mrs. Laxmi
For the period ended 31-03-2003.

Dr **Cr**

Particulars	**Amount Rs**	**Amount Rs**	**Particulars**	**Amount Rs**	**Amount Rs**
To Opening stock		35,000	By Sales		69,400
To Purchases	68,000		By Closing stock		75,000
Less: Stock taken for personal use	500	67,500	By loss of stock in Fire accident		10,000
To Carriage on purchases		400			
To Direct Wages		2,000			
To Gross Profit (Transfer to P & L a/c)		49,500			
		1,54,400			1,54,400
		=======			======
To Salaries		3,000	By Gross Profit (Transferred from Trading a/c)		49,500
To Insurance		900			
To Postage & Telegrams		500			
To Carriage on sales		900			
To Commission		500			
To Interest on loan	2,500				
Add Outstanding Interest on loan	2,600	5,100			
To Loss of stock in fire accident (10,000 – 2,000)		8,000			
To Bad Debts		200			
To Reserve bad debts	1,250				
Less Old fund	500	750			

To **Depreciation** On Fittings (5000 x10/100)		500			
On Plant (10,000 x10/100)		1,000			
On Buildings (25,000 x5/100)		1,250			
To Net Profit (Transfer to Capital A/c)		26,900			
		49,500 ======			**49,500** =====

Proforma of Balance Sheet of Smt Laxmi As on 31-03-2003

(Under Rigidity Preference Order)

Liabilities	**Rs.**	**Rs.**	**Assets**	**Rs.**	**Rs.**
Capital	90,000		Goodwill		40,000
Add Net Profit	26,900		Buildings	25,000	
	1,16,900		**Less** Depreciation	1,250	23,750
Less Drawings	500	1,16,400			
			Plant and Machinery	10,000	
10 % Loan	51,000		**Less** Depreciation	1,000	9,000
Add Outstanding interest on loan	2,600	53,600	Fittings	5,000	
			Less Depreciation	500	4,500
Creditors		8,000	Debtors	25,000	
Bills Payable		2,000	**Less** Provision for Bad debts	1,250	23,750
			Closing stock		75,000
			Cash at Bank		1,200
			Cash in Hand		800
			Claim from insurance company		2,000
		1,80,000 ======			1,80,000 =====

Note: 1. **10 % interest on loan**: the business has to pay interest on the loan taken on 1-1-2003 as per the trial balance. Total interest payable for the year 2003 is: 51,000 x 10/100 = Rs. 5,100

But, the trial balance shows that an amount of Rs. 2,500 was paid as interest on loan. The outstanding interest on loan is Rs. 5,100 – 2,500 = Rs. 2,600.

2. **Reserve for Bad debts:** Reserve for Bad Debts (New reserve) on debtors at 5% 25,000 x 5/100= 1,250 reserve for bad debts given in Trial balance (old reserve) = Rs. 500. New Reserve Rs. 1,250 is more than Rs. 500 old reserve. Hence, excess of Rs. 750 should be debited to P/L a/c. In the Balance Sheet, asset side new reserve Rs. 1,250 has to be deducted from debtors.

3. **Loss of stock in the fire accident:** The impact of the stock lost in fire accident should not be on Trading a/c, the Stock lost is fire accident Rs. 10,000 should be credited to Trading a/c. However, as the insurance company accepted a claim of Rs. 2,000, the net loss to the business is (Rs. 10,000-2,000) Rs. 8,000. So, Rs. 8,000 is to be debited on the P/L a/c. The insurance company will pay Rs. 2,000, this is to shown as an asset in the Balance Sheet.

4. **Goods for personal use:** Purchases are to be reduced to the extent of goods used for personal, should be de4cuted from the Capital as drawings in the Balance Sheet on the liabilities side.

Illustration.2:

Prepare Trading, Profit and Loss account and Balance Sheet as on 31-12-2002 from the following Trial Balance of Natasha.

Trial Balance as 31-12-2002

	Debit (Rs)		Credit (Rs)
Cash on hand	3,000	Capital	50,000
Purchases	40,000	Sales	72,000
Returns	500	Returns	300
Wages	5,000	Creditors	4,000
Salaries	3,200	Bills payable	3,700
Stock 1-1-2002	22,000		
Carriage inwards	800		
Carriage outwards	1,200		
Buildings	25,000		
Machinery	15,000		
Insurance	700		
Debtors	8,000		
Bills Receivable	5,600		
	1,30,000		1,30,000

Make the following adjustments:

1. Closing stock Rs. 26,000
2. Outstanding salaries Rs. 550
3. Write off bad debts Rs. 600 and provision @ 5% has to be made on debtors
4. Machinery and Buildings are to be depreciated by 700 and 1,200 respectively.
5. Prepaid insurance Rs. 200

Ans:

Trading Account for the year ending 31-12-2002

Dr **Cr**

Particulars	**Amount Rs**	**Amount Rs**	**Particulars**	**Amount Rs**	**Amount Rs**
To Opening stock		22,000	By Sales	72,000	
To Purchases	40,000		**Less** Returns	500	71,500
Less: Returns	300	39,700	By Closing stock		26,000
To Carriage inwards		800			
To Wages		5,000			
To Gross Profit (Transfer to P & L a/c)		30,000			
		97,500			97,500

Profit & Loss Account for the year ending 31-12-2002

To Salaries	3,200		By Gross Profit (Transferred from Trading a/c)		30,000
Add Outstanding	550	3,750			
To Carriage outwards		1,200			
To Insurance	700				
Less Prepaid	200	500			
To Bad debts		600			
To Provision for Bad debts		370			
To Depreciation on Machinery		700			
To Depreciation on Building		1,200			
To Net Profit (Transfer to Capital A/c)		21,680			
		30,000			30,000

Balance Sheet of Natasha as on 31-12-2002

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital	50,000		Buildings	25,000	
Add Net Profit	21,680	71,680	**Less** Depreciation	1,200	23,800
Creditors		4,000	Machinery	15,000	
Bills Payable		3,700	**Less** Depreciation	700	14,300
Outstanding Salaries		550	Debtors	8,000	
			Less Bad Debts	600	
				7,400	
			Less Provision for Bad debts	370	7,030
			Bills Receivable		5,600
			Prepaid Insurance		200
			Closing stock		26,000
			Cash in Hand		3,000
		79,930			79,930

Working Notes:

Provision for bad debts:

Debtors as per Trial Balance	Rs. 8,000
Less Bad debts	Rs. 600
	Rs. 7,400

Reserve for Bad debts = 7400 x 5 / 100 = 370

Model Questions:

1. What is a Balance Sheet? How do you prepare a Balance sheet?
2. What is the importance of adjustments in the preparation of Final Accounts?
3. From the following information prepare Final accounts of Mr. Pavan Kumar for the year 31-12-2002.

Particulars	Debit Rs	Credit Rs.
Capital		80,000
Drawings	10,000	
Furniture	5,200	
Bank Overdraft		8,400
Taxes and Insurance	4,000	
Creditors		17,600
Buildings	40,000	
Stock	44,000	
Debtors	36,000	
Rent	2,000	
Purchases	2,20,000	
Sales		3,00,000
Returns inward	4,000	
General Expenses	8,000	
Salaries	18,000	
Commission	4,400	
Carriage on purchases	3,600	
Bad Debts	1,600	
Discount	3,200	4,000
Bills Receivable	10,000	
Bills Payable		4,000
	4,14,000	4,14,000

Adjustments:

1. Stock on 31-12-2002 Rs. 42,000
2. Provide depreciation of Rs. 2,000 on building and 5 % on furniture
3. Provide 4% for provision for doubtful debts
4. Charge interest on capital @ 5% per annum
5. Outstanding wages Rs. 300.

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