DIRECTORATE OF EDUCATION Govt. of NCT, Delhi

SUPPORT MATERIAL (2023-2024)

ACCOUNTANCY

Class: XI

Under the Guidance of

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MESSAGE

Remembering the words of John Deway, "Education is not preparation for life, education is life itself, I highly commend the sincere efforts of the officials and subject experts from Directorate of Education involved in the development of Support Material for classes IX to XII for the session 2022-23.

The Support Material is a comprehensive, yet concise learning support tool to strengthen the subject competencies of the students. I am sure that this will help our students in performing to the best of their abilities.

I am sure that the Heads of School and teachers will motivate the students to utilise this material and the students will make optimum use of this Support Material to enrich themselves.

I would like to congratulate the team of the Examination Branch along with all the Subject Experts for their incessant and diligent efforts in making this material so useful for students.

I extend my Best Wishes to all the students for success in their future endeavours.

(Ashok Kumar)

HIMANSHU GUPTA, IAS Director, Education & Sports



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MESSAGE

"A good education is a foundation for a better future."
- Elizabeth Warren

Believing in this quote, Directorate of Education, GNCT of Delhi tries to fulfill its objective of providing quality education to all its students.

Keeping this aim in mind, every year support material is developed for the students of classes IX to XII. Our expert faculty members undertake the responsibility to review and update the Support Material incorporating thelatest changes made by CBSE. This helps the students become familiar with the new approaches and methods, enabling them to become good at problem solving and critical thinking. This year too, I am positive that it will help our students to excel in academics.

The support material is the outcome of persistent and sincere efforts of our dedicated team of subject experts from the Directorate of Education. This Support Material has been especially prepared for the students. I believe its thoughtful and intelligent use will definitely lead to learning enhancement.

Lastly, I would like to applaud the entire team for their valuable contribution in making this Support Material so beneficial and practical for our students.

Best wishes to all the students for a bright future.

(HIMANSHU GUPTA)

Dr. RITA SHARMA

Additional Director of Education (School/Exam)



Govt. of NCT of Delhi

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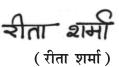
Dated: 01 मितम्बर, 2022

<u>संदेश</u>

शिक्षा निदेशालय, दिल्ली सरकार का महत्वपूर्ण लक्ष्य अपने विद्यार्थियों का सर्वांगीण विकास करना है। इस उद्देश्य को ध्यान में रखते हुए शिक्षा निदेशालय ने अपने विद्यार्थियों को उच्च कोटि के शैक्षणिक मानकों के अनुरूप विद्यार्थियों के स्तरानुकूल सहायक सामग्री कराने का प्रयास किया है। कोरोना काल के कठिनतम समय में भी शिक्षण अधिगम की प्रक्रिया को निर्वाध रूप से संचालित करने के लिए संबंधित समस्त अकादिम समूहों और क्रियान्वित करने वाले शिक्षकों को हार्दिक बधाई देती हूँ।

प्रत्येक वर्ष की भाँति इस वर्ष भी कक्षा 9वीं से कक्षा 12वीं तक की सहायक सामग्रियों में सी.बी.एस.ई के नवीनतम दिशा–िनर्देशों के अनुसार पाठयक्रम में आवश्यक संशोधन किए गए हैं। साथ ही साथ मूल्यांकन से संबंधित आवश्यक निर्देश भी दिए गए हैं। इन सहायक सामग्रियों में कठिन से कठिन सामग्री को भी सरलतम रूप में प्रस्तुत किया गया है ताकि शिक्षा निदेशालय के विद्यार्थियों को इसका भरपूर लाभ मिल सके।

मुझे आशा है कि इन सहायक सामग्रियों के गहन और निरंतर अध्ययन के फलस्वरूप विद्यार्थियों में गुणात्मक शैक्षणिक संवर्धन का विस्तार उनके प्रदर्शनों में भी परिलक्षित होगा। इस उत्कृष्ट सहायक सामग्री को तैयार करने में शामिल सभी अधिकारियों तथा शिक्षकों को हार्दिक बधाई देती हूँ तथा सभी विद्यार्थियों को उनके उज्जवल भविष्य की शुभकामनाएं देती हूँ।



DIRECTORATE OF EDUCATION

Govt. of NCT, Delhi

SUPPORT MATERIAL (2023-2024)

ACCOUNTANCY

Class: XI

NOT FOR SALE

PUBLISHED BY: DELHI BUREAU OF TEXTBOOKS

भारत का संविधान

नागरिकों के मूल कर्तव्य

अनुच्छेद 51 क

मूल कर्तव्य - भारत के प्रत्येक नागरिक का यह कर्तव्य होगा कि वह -

- (क) संविधान का पालन करे और उसके आदशाँ, संस्थाओं, राष्ट्रध्वज और राष्ट्रगान का आदर करे:
- (ख) स्वतंत्रता के लिए हमारे राष्ट्रीय आंदोलन को प्रेरित करने वाले उच्च आदर्शों को हृदय में संजोए रखे और उनका पालन करे;
- (ग) भारत की संप्रभुता, एकता और अखंडता की रक्षा करे और उसे अक्षुण्ण बनाए रखे;
- (घ) देश की रक्षा करे और आह्वान किए जाने पर राष्ट्र की सेवा करे;
- (ङ) भारत के सभी लोगों में समरसता और समान भ्रातृत्व की भावना का निर्माण करे जो धर्म, भाषा और प्रदेश या वर्ग पर आधारित सभी भेदभावों से परे हो, ऐसी प्रथाओं का त्याग करे जो महिलाओं के सम्मान के विरुद्ध हों;
- (च) हमारी सामासिक संस्कृति की गौरवशाली परंपरा का महत्त्व समझे और उसका परिरक्षण करे:
- (छ) प्राकृतिक पर्यावरण की, जिसके अंतर्गत वन, झील, नदी और वन्य जीव हैं, रक्षा करे और उसका संवर्धन करे तथा प्राणिमात्र के प्रति दयाभाव रखे;
- (ज) वैज्ञानिक दृष्टिकोण, मानववाद और ज्ञानार्जन तथा सुधार की भावना का विकास करे;
- (झ) सार्वजनिक संपत्ति को सुरक्षित रखे और हिंसा से दूर रहे;
- (ञ) व्यक्तिगत और सामूहिक गतिविधियों के सभी क्षेत्रों में उत्कर्ष की ओर बढ़ने का सतत् प्रयास करे, जिससे राष्ट्र निरंतर बढ़ते हुए प्रयत्न और उपलब्धि की नई ऊँचाइयों को छू सके; और
- (ट) यदि माता-पिता या संरक्षक है, छह वर्ष से चौदह वर्ष तक की आयु वाले अपने, यथास्थिति, बालक या प्रतिपाल्य को शिक्षा के अवसर प्रदान करे।

Constitution of India

Part IV A (Article 51 A)

Fundamental Duties

It shall be the duty of every citizen of India —

- (a) to abide by the Constitution and respect its ideals and institutions, the National Flag and the National Anthem;
- (b) to cherish and follow the noble ideals which inspired our national struggle for freedom;
- (c) to uphold and protect the sovereignty, unity and integrity of India;
- (d) to defend the country and render national service when called upon to do so;
- (e) to promote harmony and the spirit of common brotherhood amongst all the people of India transcending religious, linguistic and regional or sectional diversities; to renounce practices derogatory to the dignity of women;
- (f) to value and preserve the rich heritage of our composite culture;
- (g) to protect and improve the natural environment including forests, lakes, rivers, wildlife and to have compassion for living creatures;
- (h) to develop the scientific temper, humanism and the spirit of inquiry and reform;
- (i) to safeguard public property and to abjure violence;
- (j) to strive towards excellence in all spheres of individual and collective activity so that the nation constantly rises to higher levels of endeavour and achievement;
- *(k) who is a parent or guardian, to provide opportunities for education to his child or, as the case may be, ward between the age of six and fourteen years.

Note: The Article 51A containing Fundamental Duties was inserted by the Constitution (42nd Amendment) Act, 1976 (with effect from 3 January 1977).

*(k) was inserted by the Constitution (86th Amendment) Act, 2002 (with effect from 1 April 2010).

भारत का संविधान उद्देशिका

हम, भारत के लोग, भारत को एक ¹[संपूर्ण प्रभुत्व-संपन्न समाजवादी पंथनिरपेक्ष लोकतंत्रात्मक गणराज्य] बनाने के लिए, तथा उसके समस्त नागरिकों को :

सामाजिक, आर्थिक और राजनैतिक न्याय, विचार, अभिव्यक्ति, विश्वास, धर्म और उपासना की स्वतंत्रता, प्रतिष्ठा और अवसर की समता प्राप्त कराने के लिए, तथा उन सब में

> व्यक्ति की गरिमा और ²[राष्ट्र की एकता और अखंडता] सुनिश्चित करने वाली बंधुता

बढ़ाने के लिए

दृढ़संकल्प होकर अपनी इस संविधान सभा में आज तारीख 26 नवंबर, 1949 ई. को एतद्द्वारा इस संविधान को अंगीकृत, अधिनियमित और आत्मार्पित करते हैं।

संविधान (बयालीसवां संशोधन) अधिनियम, 1976 की धारा 2 द्वारा (3.1.1977 से) "प्रभुत्व-संपन्न लोकतंत्रात्मक गणराज्य" के स्थान पर प्रतिस्थापित।

^{2.} संविधान (बयालीसवां संशोधन) अधिनियम, 1976 की धारा 2 द्वारा (3.1.1977 से) ''राष्ट्र की एकता'' के स्थान पर प्रतिस्थापित।

THE CONSTITUTION OF INDIA

PREAMBLE

WE, THE PEOPLE OF INDIA, having solemnly resolved to constitute India into a ¹[SOVEREIGN SOCIALIST SECULAR DEMOCRATIC REPUBLIC] and to secure to all its citizens:

JUSTICE, social, economic and political;

LIBERTY of thought, expression, belief, faith and worship;

EQUALITY of status and of opportunity; and to promote among them all

FRATERNITY assuring the dignity of the individual and the ²[unity and integrity of the Nation];

IN OUR CONSTITUENT ASSEMBLY this twenty-sixth day of November, 1949 do HEREBY ADOPT, ENACT AND GIVE TO OURSELVES THIS CONSTITUTION.

Subs. by the Constitution (Forty-second Amendment) Act, 1976, Sec. 2, for "Sovereign Democratic Republic" (w.e.f. 3.1.1977)

Subs. by the Constitution (Forty-second Amendment) Act, 1976, Sec. 2, for "Unity of the Nation" (w.e.f. 3.1.1977)

LIST OF GROUP LEADER AND SUBJECT EXPERTS FOR PREPARATION / REVIEW OF SUPPORT MATERIAL

CLASS-XI ACCOUNTANCY SUPPORT MATERIAL 2023-2024

GROUP LEADER

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Principal
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TEAM I FADER

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	Lecturer Commerce	Rohini, Delhi
2.	Mr. Tarun Mittal Lecturer Commerce	RPVV, Paschim Vihar, New Delhi
3.	Mr. Shankar Dutt Fulara Lecturer Commerce	RPVV, Gandhi Nagar, New Delhi
4.	Mr. Puneet Gola Lecturer Commerce	RPVV, Link Road, Karol Bagh New Delhi

ACCOUNTANCY (Code No. 055)

Rationale

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

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

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

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

Objectives:

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

Accountancy (Code No.055)

Course Structure

Class-XI (2023-24)

Theory: 80 Marks Project: 20 Marks

Part C: Project Work

3 Hours

20

20

Units		Periods	Marks
Part A:	Financial Accounting-1		
	Unit-1: Theoretical Framework	25	12
	Unit-2: Accounting Process	115	44
Part B:	Financial Accounting-II		1 7 7 1
	Unit-3: Financial Statements of Sole Proprietorship	60	24

PART A: FINANCIAL ACCOUNTING -1

Unit-1: Theoretical Frame Work

Unit-1: Theoretical Frame Work			
Units/Topics	Learning Outcomes		
Introduction to Accounting	After going through this Unit, the students will be		
Accounting- concept, meaning, as a source	able to:		
of information, objectives, advantages and	 describe the meaning, significance, 		
limitations, types of accounting information;	objectives, advantages and limitations of		
users of accounting information and their	accounting in the modem economic		
needs. Qualitative Characteristics of	environment with varied types of business		
Accounting Information. Role of Accounting in	and non-business economic entitles.		
Business.	 identify / recognise the individual(s) and 		
 Basic Accounting Terms- Entity, Business 	entities that use accounting information for		
Transaction, Capital, Drawings. Liabilities	serving their needs of decision making.		
(Non Current and Current). Assets (Non	 explain the various terms used in accounting 		
Current, Current); Expenditure (Capital and	and differentiate between different related		
Revenue), Expense, Revenue, Income,	terms like current and non-current, capital		
Profit, Gain, Loss, Purchase, Sales, Goods,	and revenue.		
Stock, Debtor, Creditor, Voucher, Discount	 give examples of terms like business 		
(Trade discount and Cash Discount)	transaction, liabilities, assets, expenditure		
	and purchases.		
Theory Base of Accounting	explain that sales/purchases include both		
Fundamental accounting assumptions:	cash and credit sales/purchases relating to		
GAAP: Concept	the accounting year.		
Basic accounting concept : Business Entity,			

- Money Measurement, Going Concern,
 Accounting Period, Cost Concept, Dual
 Aspect, Revenue Recognition, Matching, Full
 Disclosure, Consistency, Conservatism,
 Materiality and Objectivity
- System of Accounting. Basis of Accounting: cash basis and accrual basis
- · Accounting Standards: Applicability in IndAS
- Goods and Services Tax (GST): Characteristics and Advantages.

- · differentiate among income, profits and gains.
- state the meaning of fundamental accounting assumptions and their relevance in accounting.
- describe the meaning of accounting assumptions and the situation in which an assumption is applied during the accounting process.
- explain the meaning, applicability, objectives, advantages and limitations of accounting standards.
- appreciate that various accounting standards developed nationally and globally are in practice for bringing parity in the accounting treatment of different items.
- acknowledge the fact that recording of accounting transactions follows double entry system.
- explain the bases of recording accounting transaction and to appreciate that accrual basis is a better basis for depicting the correct financial position of an enterprise.
- Explain the meaning, advantages and characteristic of GST.

Unit-2: Accounting Process

Special Purpose books:

Units/Topics **Learning Outcomes Recording of Business Transactions** After going through this Unit, the students will be Voucher and Transactions: Source able to: documents and Vouchers, Preparation of explain the concept of accounting equation Vouchers, Accounting Equation Approach: and appreciate that every transaction affects Meaning and Analysis, Rules of Debit and either both the sides of the equation or a positive effect on one item and a negative Recording of Transactions: Books of Original effect on another item on the same side of Entry- Journal accounting equation.

- Cash Book: Simple, cash book with bank column and petty cashbook
- explain the effect of a transaction (increase or decrease) on the assets, liabilities, capital, revenue and expenses.

- Purchases book
- Sales book
- Purchases return book
- Sales return book
- Journal proper

Note: Including trade discount, freight and cartage expenses for simple GST calculation.

 Ledger: Format, Posting from journal and subsidiary books, Balancing of accounts

Bank Reconciliation Statement:

 Need and preparation, Bank Reconciliation Statement

Depreciation, Provisions and Reserves

- Depreciation: Meaning, Features, Need, Causes, factors
- Other similar terms: Depletion and Amortisation
- Methods of Depreciation:
 - i. Straight Line Method (SLM)
 - ii. Written Down Value Method (WDV)

Note: Excluding change of method

- Difference between SLM and WDV;
 Advantages of SLM and WDV
- Method of recoding depreciation
 - i. Charging to asset account
 - ii. Creating provision for
 - depreciation/accumulated depreciation
- Treatment of disposal of asset
- Provisions, Reserves, Difference Between Provisions and Reserves.
- · Types of Reserves:
 - i. Revenue reserve
 - ii. Capital reserve
 - iii. General reserve
 - iv. Specific reserve
 - v. Secret Reserve
- Difference between capital and revenue reserve

- appreciate that on the basis of source documents, accounting vouchers are prepared for recording transaction in the books of accounts.
- develop the understanding of recording of transactions in journal and the skill of calculating GST.
- explain the purpose of maintaining a Cash Book and develop the skill of preparing the format of different types of cash books and the method of recording cash transactions in Cash book.
- describe the method of recording transactions other than cash transactions as per their nature in different subsidiary books.
- appreciate that at times bank balance as indicated by cash book is different from the bank balance as shown by the pass book / bank statement and to reconcile both the balances, bank reconciliation statement is prepared.
- develop understanding of preparing bank reconciliation statement.
- appreciate that for ascertaining the position of individual accounts, transactions are posted from subsidiary books and journal proper into the concerned accounts in the ledger and develop the skill of ledger posting.
- explain the necessity of providing depreciation and develop the skill of using different methods for computing depreciation.
- understand the accounting treatment of providing depreciation directly to the concerned asset account or by creating provision for depreciation account.
- appreciate the method of asset disposal through the concerned asset account or by preparing asset disposal account.
- · appreciate the need for creating reserves and

Trial balance and Rectification of Errors

 Trial balance: objectives, meaning and preparation

(Scope: Trial balance with balance method only)

- Errors: classification-errors of omission, commission, principles, and compensating; their effect on Trial Balance.
- Detection and rectification of errors;
 - (i) Errors which do not affect trial balance
- (ii) Errors which affect trial balance
- preparation of suspense account.

- also making provisions for events which may belong to the current year but may happen in next year.
- appreciate the difference between reserve and reserve fund.
- state the need and objectives of preparing trial balance and develop the skill of preparing trial balance.
- appreciate that errors may be committed during the process of accounting.
- understand the meaning of different types of errors and their effect on trial balance.
- develop the skill of identification and location of errors and their rectification and preparation of suspense account.

Part B: Financial Accounting - II

Units/Topics

Unit 3: Financial Statements of Sole Proprietorship

Financial Statements Meaning, objectives and importance; Revenue and Capital Receipts; Revenue and Capital Expenditure; Deferred Revenue expenditure. Opening journal entry. Trading and Profit and Loss Account: Gross Profit, Operating profit and Net profit. Preparation. Balance Sheet: need, grouping and marshalling of assets and liabilities. Preparation. Adjustments in preparation of financial statements with respect to closing stock, outstanding expenses, prepaid expenses, accrued income, income received in advance, depreciation, bad debts, provision for doubtful debts, provision for discount on debtors, Abnormal loss, Goods taken for personal use/staff welfare, interest on capital and managers commission. Preparation of Trading and Profit and Loss account and Balance Sheet of a sole

Learning Outcomes

After going through this Unit, the students will be able to:

- . state the meaning of financial statements the
- · purpose of preparing financial statements.
- state the meaning of gross profit, operating profit and net profit and develop the skill of preparing trading and profit and loss account.
- explain the need for preparing balance sheet.
- understand the technique of grouping and marshalling of assets and liabilities.
- appreciate that there may be certain items other than those shown in trial balance which may need adjustments while preparing financial statements.
- develop the understanding and skill to do adjustments for items and their presentation in financial statements like depreciation, closing stock, provisions, abnormal loss etc.
- develop the skill of preparation of trading and profit and loss account and balance sheet.

Incomplete Records:

proprietorship with adjustments.

Features, reasons and limitations. Ascertainment of profit/loss by statement off affairs method. (excluding conversion method).

Part C: Project Work (Any One)

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

PROJECT WORK

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

Specific Guidelines for Teachers

9. A stationery shop

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

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

18. A shoe shop

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

A suggested list of different item is given below.

1. Rent
2. Advance rent [approximately three months]
3. Electricity deposit
4. Electricity bill
5. Electricity fitting
6. Water bill
29. Wages and Salary
20. Newspaper and magazines
21. Petty expenses
22. Tea expenses
23. Packaging expenses
24. Transport

7. Water connection security deposit
8. Water fittings
9. Telephone bill
25. Delivery cycle or a vehicle purchased
26. Registration
27. Insurance

10. Telephone security deposit
10. Telephone security deposit
11. Telephone instrument
12. Furniture
13. Computers
14. Internet connection
15. Stationery
16. Instructed
28. Auditors fee
29. Repairs & Maintenance
30. Depreciations
31. Air conditioners
32. Fans and lights
33. Interior decorations

16. Advertisements
17. Glow sign
18. Rates and Taxes
33. Refrigerators
34. Refrigerators
35. Purchase and sales

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

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

Suggested Question Paper Design Accountancy (Code No. 055) Class XI (2022-23)

Theory: 80 Marks Project: 20 Marks 3 hrs.

S N	Typology of Questions	Marks	Percentage
1	Remembering and Understanding: Exhibit memory of previously learned material by recalling facts, terms, basic concepts, and answers. Demonstrate understanding of facts and ideas by organizing, comparing, translating, interpreting, giving descriptions, and stating main ideas	44	55%
3	Applying: Solve problems to new situations by applying acquired knowledge, facts, techniques and rules in a different way.	19	23.75%
4	Analysing, Evaluating and Creating: Examine and break information into parts by identifying motives or causes. Make inferences and find evidence to support generalizations. Present and defend opinions by making judgments about information, validity of ideas, or quality of work based on a set of criteria. Compile information together in a different way by combining elements in a new pattern or proposing alternative solutions.	17	21.25%
	TOTAL	80	100%

CONTENT

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CHAPTER - 1 INTRODUCTION TO ACCOUNTING

Learning Objectives

After studying this chapter, student will be able to

- Describe the meaning, significance, objectives, advantages and limitations of accounting
- Identify the individuals and entities that use accounting information and their needs of decision making.
- Explain the various terms used in accounting and differentiate between different related terms.

Concept: All businessmen wish to know whether their business is profitable, what is the amount they owe to others i.e., payables, what is the amount that is owed to them i.e. receivables, and by whom.

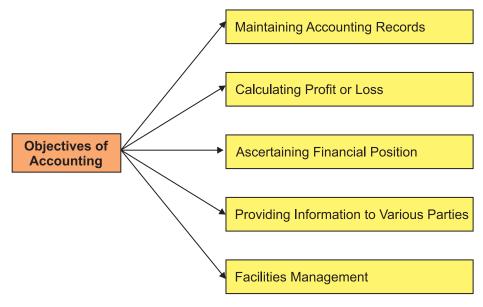
During an accounting period, the total purchases done, sales, expenses and the amount of profit earned or loss incurred during the year can be ascertained by keeping a compete and systematic record of every business dealing. The financial position of the business, correct assessment of Income-tax and Goods and service tax (GST) can be done through proper accounting.

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

Accounting Principles Board (APB) defined accounting as follows. "Accounting is a service activity. Its function is to provide quantitative information primarily financial in nature, about economic entities that is intended to be useful in making economic decisions in making reasoned choices among alternative courses of action."

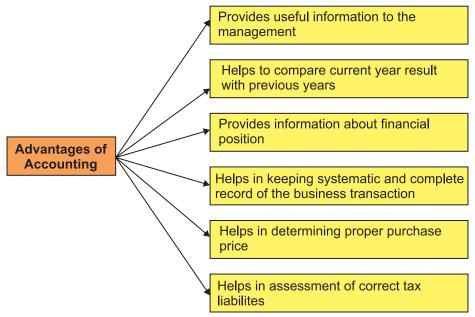
In simple words, accounting is the process of identifying, recording, classifying, summarizing, interpreting and communicating financial information to the users for judgement and decision marking.

Objectives of accounting



- Maintaining Accounting Records: To keep systematic and complete record of business transaction in the books of accounts according to specified principles and rules to avoid the possibility of omissions and fraud.
- 2. Calculating Profit or Loss: To ascertain the profit earned or loss incurred during a particular accounting period which further help in knowing the financial performance of a business.
- 3. Ascertaining Financial Position: To ascertain the financial position of the business by means of financial statement i.e. balance sheet which shows assets on one side and capital & liabilities on the other side.
- **4. Provide Information to various parties:** To provide useful accounting information to users like owners, investors, creditors, banks, employees and government authorities etc who analyse them as per their requirements.
- **5. Facilitates Management:** To provide financial information to the management which help in decision making, budgeting and forecasting.

Advantages of accounting



- 1. **It provides information** which is useful to management for making economic decisions.
- 2. **It helps owners to compare one year's results** with those of other years to know the factors which leads to changes.
- 3. It **provides information** about the financial position of the business by means of balance sheet which shows assets on one side and capital and liabilities on the other side.
- 4. It helps in keeping systematic and complete record of business transactions in the books of accounts according to specified principles and rules, which is accepted by the courts as evidence.
- 5. It helps a firm in the assessment of its correct tax liabilities such as income tax, goods & service tax (GST) etc.
- 6. Properly maintained accounts help a business entity in **determining its proper purchase price**.

Limitations of accounting

1. It is **historical in nature**, it does not reflect the current worth of a business. Moreover, the figures given in financial statements ignore the effects of changes in price level.

- 2. It contains only those information which can be expressed in terms of money. It **ignores qualitative elements** such as efficiency of management, quality of staff, customers satisfaction etc.
- 3. It may be **affected by window dressing** i.e. manipulation in accounts to present a more favourable position of a business firm than its actual position.
- 4. It is **not free from personal bias** and personal judgment of the people dealing with it for example different people have different opinions regarding life of asset for calculating depreciation, provision for doubtful debts etc.
- 5. It is **based on various concepts** and conventions which may hamper the disclosure of realistic financial position of a business firm. For example, assets in balance sheet are shown at their cost and not at their market value which could be realized on their sale.

Book keeping- the basis of accounting

Book keeping is the record-making phase of accounting which is concerned with the recording of financial transaction and events relating to business in a significant and orderly manner.

Book keeping should not be confused with accounting. Book keeping is the recording phase while accounting is concerned with the summarizing phase of an accounting system. The distinction between the two are as under.

No.	Basis	Book keeping	Accounting
1.	Scope	Book-keeping includes the process of :	Accounting includes all the processes of book-keeping and the following:
		(i) Identifying the transactions of financial nature (ii) Measuring the identified transactions in terms fo money (currency being used, for example, rupees in India)	(i) Summarising the classified transactions i.e. preparation of financial statements (Trading and Profit & Loss Account, Balance sheet) (ii) Analysis and interpretation of financial statements.

No.	Basis	Basis	Accounting
		(iii) Chronologically (datewise) recording the transactions in the books of accounts.	(iii) Communication of financial information to various users.
		(iv) Classifying them into ledgers (posting)	
2.	Stage	Book-keeping is a primary stage.	Accounting is a secondary stage.
3.	Objective	To maintain systematic records of transactions of financial nature.	(i) To ascertain the net results and financial position of the business (ii) To communicate the results to the users of accounting data.
4.	Nature of job	The job is of routine type and clerical in nature	The job is analytical in nature.
5.	Who performs	This is performed by junior staff.	This is performed by senior staff.
6.	Require- ment of analytical skill	No analytical skill is required to perform this function.	Analytical skill is required to perform this function.
7.	Know- ledge level	Book keeping can be performed by persons having limited level of knowledge.	Accounting can be performed by persons having higher level of knowledge than that of a book keeper.

Meaning of Accounting information

Accounting information refers to the financial statements such as profit and loss account and Balance Sheet, that are generated through Book Keeping and helps in decision making.

Types of accounting information

Accounting information can be categorized into following:

- 1. Information relating to **profit or loss** i.e. **income statement**. It shows the net result of business operations of a firm during a particular accounting period.
- 2. Information relating to **financial position** i.e. **balance sheet**. It shows assets on one side and capital & liabilities on the other side.
- 3. **Schedules and notes** forming part of balance sheet and income statement to give details of various items shown in Profit and loss statement and Balance sheet.

Interested users/parties of accounting information and their needs

There are number of users interested in knowing about the financial soundness and the profitability of the business.

Users	Classification	Information the user want
Internal	1. Owner	Return of their investment, financial health of their company/business.
	2. Management	To evaluate the performance to take various decisions.
	3. Employees	Profit earned by an enterprise whether their dues (PF, ESI) deposited.
External	Investors and potential investors	Safety and growth of their investments, future of the business.
	2. Creditors	Assessing the financial capability, ability of the business to pay its debts.
	3. Lenders	Repaying capacity, credit worthiness.
	4. Tax Authorities	Assessment of due taxes, true and fair disclosure of accounting information,
	5. Others	Customers, researchers etc., may seek different information for different reasons.

Qualitative characteristics of accounting information

Accounting information is useful for interested users only if it posses the following characteristics:

- Reliability: The information must be based on facts and be verified through source document. It must be free from bias and errors.
- 2. Relevance: Information must be readily available as and when required. It must be capable of making a difference in decisions taken by management, investors, creditors and other users of the accounting information.
- **3. Understandability**: The information should be presented in such a manner that users can understand it well.
- **4. Comparability**: The information should be disclosed in such a manner that it can be compared with previous years figures of business itself and other firm's data.

Role of Accounting in Business

Role of accounting has been changing with the changes in statutory requirements of law, with the changes in business environment and increasing demands of various users. Presently, accounting plays following different roles:

- 1. **Role as a language of Business:** Accounting plays a vital role as a language of Business. The financial statements, notes to accounts and other financial data prepared by accounting communicate information regarding the business enterprise.
- 2. **Role of Historical Record Keeping:** Accounting keeps a chronological record of all financial transactions. This is supplied to various end users in the form of financial statements at the end of accounting period.
- 3. **Role of Information System:** Accounting acts as an Information system. All events which are of financial nature are recorded in accounting, with proper evidence.
- 4. Role of Service Provider: Accounting plays a role of service provider since it provides quantitative financial information to various users.
- 5. **Role of Ensuring Statutory Compliance:** Accounting systems and processes help businesses in ensuring statutory compliance, depending on the form of business organisation.

BASIC ACCOUNTING TERMS

1. Entity: It is an economic unit which perform economic activities as per the law such as Tata Steel, Maruti etc.

2. Business transaction

An economic activity that affects financial position of the business and can be measured in terms of money e.g., purchase of goods for sale.

3. Capital

Amount invested by the owner in the firm is known as capital. It may be brought in the form of cash or assets by the owner. It is a liability of the business entity to its owners.

4. Drawings

The money or goods or both withdrawn by owner from business for personal use is known as drawings. Example: purchase of car for personal use by withdrawing money from business.

4. Liabilities:

Liabilities are obligations or debts that an enterprise has to pay after some time in the future.

5. Liabilities can be classified as:

- 1. Current liabilities: Current liabilities are obligation or debts that are payable within a period of one year or expected to be settled in company's normal operating cycle. For example: creditors, bill payable etc.
- 2. Non-current liabilities: Non-current liabilities are those obligation or debts that are payable after a period of one year or expected to be settled beyond company's normal operating cycle. Example: bank loan, debentures etc.

6. Assets

Assets are valuable and economic resources of an enterprise useful in its operations. Assets can be broadly classified as:

- 1. Current assets: Current assets are those assets which are held primarily for the purpose of trade and expected to be realized within 12 months or within the normal operating cycle of the firm. For example: debtors, stock, cash etc.
- 2. Non-current assets: Non-current assets are those assets which are held for long period and used for normal business operations. For example: land, building, machinery etc. They are further classified into:

- a) Tangible assets: Tangible assets are those assets which have physical existence and can be seen and touched. For example: furniture, machinery, etc.
- b) Intangible assets: Intangible assets are those assets which have no physical existence but can be felt. For example: goodwill, patent, Trade mark etc.

7. Expenses

Costs incurred by a business for earning revenue are known as expenses. For example: rent, wages, salaries, interest etc.

8. Expenditure

Spending money or incurring a liability for acquiring assets, goods or services is called expenditure. The expenditure is classified as:

(i) Revenue expenditure: If the benefit of expenditure is received within a year, it is called revenue expenditure. For example: rent, interest etc.

(ii) Capital expenditure:

If benefit of expenditure is received for more than one year, it is called capital expenditure. Example purchase of machinery.

9. Revenue: Revenue is the amount received or receivable by the enterprise from its operating activities and from the use of entity resources by others.

10. Income

Income is a wider term which includes profit also. Income means increase in the wealth of the enterprise over a period of time.

11. Profit

The excess of revenues over its related expenses during an accounting year is profit.

Profit = Revenue – Expenses

12. Gain

A non- recurring profit from event or transaction incidental to business such as sale of fixed assets, appreciation in the value of an assets etc.

13. Loss

The excess of expenses of a period over its related revenue is termed as loss.

Loss = Expenses – Revenue

14. Goods

The products in which the business deal in. The items that are purchased for the purpose of resale and not for use in the business are called goods.

15. Purchases

The terms purchases is used only for the goods procured by a business for resale. In case of trading concerns it is purchase of final goods and in manufacturing concern it is purchase of raw materials. Purchases may be cash purchases or credit purchases.

16. Purchases return

When purchased goods are returned to the suppliers, these are known as purchases return.

17. Sales

Sales are total revenues from goods sold or serviced provided to customers. Sales may be cash sales or credit sales.

18. Sales Return

Goods sold to a customer returned to business due to variation in size, specifications, quality etc. are called sales return.

19. Stock

The goods available with the business for sale on a particular date is known as stock.

20. Debtors

Debtors are persons and/or other entities to whom business has sold goods and services on credit and amount has not received yet. These are assets of the business.

21. Creditors

If the business buys goods/services on credit and amount is still to be paid to the persons and /or other entities, these are called creditors. These are liabilities for the business.

22. Voucher

The documentary evidence in support of a transaction is known as voucher. For example if we buy goods for cash we get cash memo, if we buy goods on credit, we get an invoice, when we make a payment we get a receipt.

23. Discount

Discount is the rebate given by the seller to the buyer. It can be classified as:

- 1. Trade discount: The purpose of this discount is to persuade the buyer to buy more goods. It is offered at an agreed percentage of list price at the time of selling goods. This discount is not recorded in the accounting books as it is deducted in the invoice/cash memo..
- 2. Cash discount: The objective of providing cash discount is to encourage the debtors to pay the dues promptly. This discount is recorded in the accounting books.

24. Bad Debts

Bad Debts is the amount owed to the business, that is written off because it has become irrecoverable.

25. Operating Cycle is the time between the acquisition of asset and its conversion into cash and cash equivalents.

Questions

- **Q1.** Transactions of financial nature are recorded in accounting Select transactions which can not be recorded.
 - (i) Transfer of General Manager.
 - (ii) Goods worth $\stackrel{?}{\sim}$ 5000/- given as a gift by the proprietor to his wife.
 - (iii) Quarrel between factory workers.
 - (iv) Sale of old bike for ₹12000/- belonging to proprietor costing ₹20,000/-
 - (v) Credit purchase of goods.

Ans. (i), (iii), (iv)

- **Q2.** Which of the following is not an external user of accounting information?
 - (i) Creditors

(ii) Lenders

(iii) Management

(iv) Bank

Ans. (iii)

Q3. A person from whom money is receivable by the firm for sale of goods is called	
(i) Creditors	(ii) Debtor
(iii) Supplier	(iv) Manager
Ans. (ii)	
Q4. True or False	
(i) Accounting is the source of information for its users.	
(ii) Book keeping is maintained by professional only.	
(iii) Accounting is known as the language of business.	
(iv) Balance sheet is prepared at the end of each accounting period.	
(v) Employees are internal users of accounting information.	
Ans. (i) T, (ii) F, (iii) T, (iv) T, (v) T	
Q5. Fill in the blanks:	
(i) To know the financial position of a business, is prepared.	
(ii) Scope of accountancy is wider than	
(iii) Accounting begins where	ends.
(iv) Book-keeping is maintaine	ed bystaff.
Ans. (i) Balance sheet	
(ii) Book-keeping	
(iii) Book-keeping	
(iv) Junior	
Q6. Arrange the following terms in chronological order:	
(i) Summarising	
(ii) Analysis and interpretation	
(iii) Recording	
(iv) Classifying	
Ans. (iii), (iv), (i), (ii)	

Q.7. Match the items of column A with appropriate items of coloumn B:

Column A (Users)	Column B (Objectives)
(i) Proprietor	(a) Their bread and butter depends on good
(ii) Management	results. (b) To know whether they shall get their dues
(iii) Government	on time, from the business. (c) To estimate the trading results, know
(iv) Creditors	future prospects (d) To fix taxes, computing national income
(v) Employees	(e) For planning and controlling purpose; to improve efficiency of business.

Ans. (i) c, (ii) e, (iii) d, (iv) b, (v) a

Q8. Fill in the blanks

- (ii) is the amount invested by the proprietor or partner in the business.
- (iii)is the amount of money or the value of asset which proprietor withdraw for personal law.
- (iv)is the evidence of a business transaction.
- (v) is the amount owed to business that is irrecoverable and so it is written off.
- Ans. (i) Tangible assets, land, building, furniture or any other assets.
 - (ii) Capital
 - (iii) Drawing
 - (iv) Vouchers
 - (v) Bad Debts.
- **Q9.** Identify the qualitative characteristic of the following accounting information:
 - (i) Journal entries are based on facts and can be verified through source documents such as cash memo, receipts etc.
 - (ii) Last 5 years profits of a company can be compared as these are drawn on standard format to take decisions.

- (iii)Insignificant or small amount items are grouped so that financial statements have fewer items and main conclusions can be drawn easily. For example Sundry debtors, Sundry creditors etc.
- (iv)Now a days, Statement of profit and loss are made quarterly by almost all companies so that informed decisions can be taken by its users.

Ans. (i) Reliability

- (ii) Comparability
- (iii) Understandability
- (iv) Relevance

Q10. Give examples of

- (i) Intangible assets (ii) Current assets
- (iii) Fixed assets (iv) Current Liability.
- (v) Trade Payables (vi) Trade Receivables
- Ans. (i) Goodwill, Patent, Trade Mark
 - (ii) Cash, Bank, Stock
 - (iii) Land, Building, Goodwill
 - (iv) Sundry Creditors, Bills Payable, Bank Overdraft
 - (v) Sundry Creditors, Bills Payable
 - (vi) Debtors and Bills Receivable
- **Q11.** Neeraj started a business by introducing Rs. 3,50,000. He borrowed Rs. 3,40,000 from his friend Ramesh for 2 years and purchased shirts worth Rs. 2,60,000 for selling them at higher price. He invested Rs. 2,50,000 in the business again during the year. He also purchased furniture of Rs. 20,000 and Computer Rs. 40,000 for official usage. He paid Rs. 30,000 as salary to the employees and Rs. 10,000 as tuition fees of his child. Other sunday expenses were 1,20,000 and he made a profit of Rs. 2,40,000 at the end of year.

Answer the following questions on the bases of above case study:

- (i) How much capital is invested by Neeraj?
- (ii) What is the amount of sales made by him?
- (iii) What is the amount of revenue expenses in the above case?
- (iv) How much capital expenditures were incurred during the year?
- (v) What is the amount of Drawing?

Ans. (i) Rs. 6,00,000

- (ii) 2,60,000 + 30,000 + 1,20,000 + 2,40,000 = Rs. 6,50,000
- (iii) Rs. 1,50,000
- (iv) 20,000 + 40,000 = Rs. 60,000
- (v) Rs. 10,000
- Q12. Define Accounting?
- Q13. Write any two objectives of Accounting.
- Q14. State any two limitations of Accounting.
- **Q15.** Write any 3 advantages of accounting.

CHAPTER - 2 THEORY BASE OF ACCOUNTING

Learning Objectives

After studying this chapter, student will be able to:

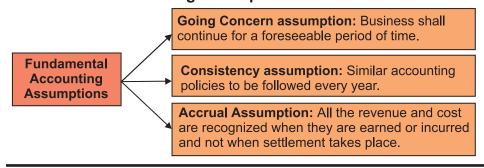
- Describe the meaning of Accounting Assumptions and Accounting Principles.
- Explain the Accounting Standards and IFRS along with their objectives.
- · Describe the Bases of Accounting.
- Distinguish between Cash Basis of Accounting and Accrual Basis of Accounting

Main objective of accounting is to provide appropriate, useful and reliable information about the financial performance of the business to its various users to enable them in judicious decision. This objective can be achieved only when accounting records are maintained on the basis of uniform rules and principles.

GAAP: Accounting principles, concepts and convention are known as generally accepted accounting principles (GAAP). These principles are the base of accounting. Generally accepted accounting principles (GAAP) refers to the rules or guidelines adopted for recording and reporting of business transactions, in order to bring uniformity and consistency in the preparation and the presentation of financial statements.

These principles have evolved over a long period of time on the basis of experiences of the accountants, customs, legal decisions etc., and which are generally accepted by the accounting professionals.

Fundamental accounting assumptions



1. Going concern assumption: This concept assumes that an enterprise has an indefinite life or existence. It is assumed that the business has neither intention to liquidate nor to scale down its operations significantly.

Relevance:

- a) Distinction is made between capital expenditure and revenue expenditure.
- b) Classification of assets and liabilities into current and non-current.
- c) Depreciation is charged on book value of fixed assets in a systematic manner and fixed assets appear in the balance sheet at book value, without any reference to their market value.
- 2. Consistency assumption: According to this assumption, accounting practices once selected and adopted, should be applied consistently year after year. This will ensure a meaningful study of the performance of the business for a number of years.

Consistency assumption does not mean that a particular practice, once adopted, cannot be changed. The only requirement is that when a change is desirable, it should be fully disclosed in the financial statements along with its effect on income statement and balance sheet.

Any accounting practice may be changed if the law or accounting standard requires, to make the financial information more meaningful and transparent.

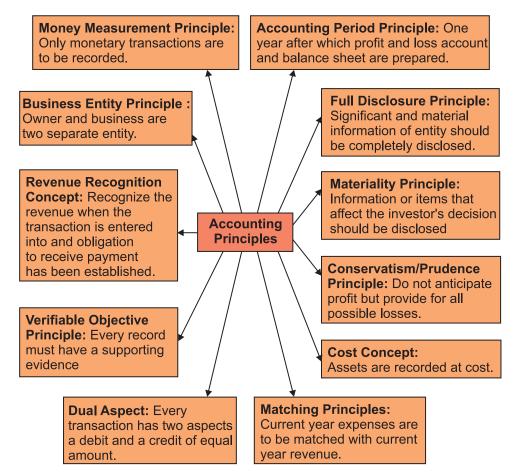
Relevance: It helps the management in decision-making by removing the personal bassness and utilizing the comparable financial information.

3. Accrual assumption: Accrual concept applies both to revenue and expenses. As per this assumption, all revenue and cost are recognized when they are earned or incurred and not when settlement takes place.

It is immaterial, whether the cash is receive or paid at the time of transaction or later date e.g., if a credit sale (credit for two months) for ₹15,000 is made on 15th Feb. 2022 then the revenue earned is to be recorded on 15th Feb. 2022 not on the date of cash realized, i.e., after two months. In case of expenses, if at the end of the year the two months salary is due but not paid, then the expenses of salary will be recorded in the current year in which salary is due, not in the next year in which it will be paid.

Relevance: Earning of a revenue and expenses can be accurately matched to a particular accounting period.

ACCOUNTING PRINCIPLES



1. **Business Entity:** An entity has a separate existence from its owner. According to this principle, business is treated as an

entity, which is separate and distinct from its owner. Therefore transaction are recorded; analyzed and financial statements are prepared from the business point of view and not of the owner.

The owner is treated as a creditor (internal liability) for his investment in the business, as if the firm has borrowed from its owner instead of the outside parties. Interest on capital is treated as expense like any other business expense. His private expenses are treated as drawings leading to reduction in capital.

2. Money measurement principle: According to this principle, only those transactions that are measured in money or can be expressed in term of money are recorded in the books of accounts of the enterprise. Non-monetary events like death of any employee/manager, strikes, disputes etc., are not recorded at all, even though these events also affect the business operations significantly.

Limitations:

- (i) It ignores qualitative aspect e.g., efficient human resources (assets), satisfied customers (assets) and dishonest employee (liabilities).
- (ii) Value of money (currency) is not static.

To make accounting records simple, relevant, understandable and homogeneous, transaction are expressed in a common unit of measurement-money, which is not stable.

3. **Accounting Period Principle:** According to this principle, the whole indefinite life of an enterprise is divided into smaller parts, known as accounting period.

Accounting period is defined as an interval of time, at the end of which the profit and loss account and balance sheet are prepared, so that the performance is measured at regular intervals and decision can be taken at the appropriate time. Accounting period is usually a period of one year.

Relevance:

- 1. This assumption requires showing the allocation of expenses between capital and revenue.
- 2. Portion of capital expenditure that is consumed during the current year is charged to income statement and rest of the portion i.e., unconsumed portion is shown as an asset in the balance sheet.

- 3. As per income tax law, tax on income is calculated on annual basis from 1st April to 31st March (financial year).
- 4. Timely action for corrective measures can be taken by management.
- 4. Full disclosure principle: According to this principle, apart from legal requirements all significant and material information relating to the Economic affairs of the entity should be completely disclosed in its financial statements and accompanying notes to accounts.

The financial statements should act as means of conveying and not concealing the information. Disclosure of information will result in better understanding and the parties may be able to take sound decisions on the basis of the information provided.

e.g., footnotes such as:

- 1. Contingent liabilities in respect to a claim of very big amount against the business are pending in a Court of Law.
- 2. Change in the method of providing depreciation.
- 3. Market value of investment.
- Materiality principle: Disclosure of all material facts is compulsory but it does not imply that even those figures which are irrelevant are to be included in financial statements. According to this principle, only those items or information should be disclosed that have material effect and relevant to the users. So, items having an insignificant effect or being irrelevant to user need not be disclosed separately, these may be merged with other items.

If the knowledge of any item affect the investor's decision, then it is termed as material information.

It should be noted that an item material for one enterprise may not be material for another enterprise, e.g., an item of expenses ₹50,000 is immaterial for an enterprise having turnover of ₹100 crore.

6. Conservatism\Prudence Principle: According to this principle, profit in anticipation should not be recorded but loss in anticipation should immediately be recorded. In other words, "Donot anticipate a profit, but provide for all possible losses."

The objective of this principle is not to overstate the profit of the enterprise in any case. When different equally acceptable alternative methods are available, the method which having least favourable immediate effect on profit should be adopted, e.g.,

- Valuation of stock at cost or realizable values, whichever is lower.
- Provision for doubtful debts and provision for discount on debtors is made in anticipation of actual bad debts and discounts.
- 7. Cost Concept: According to this principle, an asset is recorded in the books of accounts at its original cost comprising cost of acquisition and all expenditure incurred for making the assets ready to use.

This cost becomes the basis of all subsequent accounting transactions for the asset, since the acquisition cost relates to the past, it is referred to as historical cost. Example: machinery purchased for ₹1,50,000 in cash and ₹20,000 was spent on installation of machine then ₹1,70,000 be recorded as cost of machine in the books and depreciation will be charged on this cost. If market value of machine due to inflation has gone upto ₹2,00,000 then the increased value will not be recorded. This cost is systematically reduced from year after year by charging depreciation and the assets are shown in the balance sheet at book value (cost –depreciation).

Relevance: Cost concept brings objectivity in preparation and presentation of financial statements and remove personal biasness.

8. Matching principle: According to this principle, all expenses incurred by any enterprise during an accounting period are matched with the revenue recognized during the same period.

The matching principle facilitates to ascertain the correct amount of profit or loss incurred in a particular period by deducting the related expenses from the revenue recognized during that period.

The following treatment of expenses and revenue are done due to matching principle:

- (1) Ascertainment of prepaid expenses.
- (2) Ascertainment of income received in advance.

- (3) Accounting of closing stock.
- (4) Depreciation charged on fixed assets.
- 9. **Dual Aspect Principle:** According to this principle, every business transaction has two aspects-a debit and a credit of equal amount. In other words, for every debit there is a credit of equal amount in one or more accounts and vice-versa.

The system of recording transactions based on this principles is called as "Double Entry System".

Due to this principle, the two sides of Balance Sheet are always equal and the following accounting equation will always hold good at any point of time.

Assets = Liabilities + Capital

Example: Ram started business with cash ₹1,00,000. It increases cash in assets side and capital in liabilities side by ₹1,00,000.

Assets (₹1,00,000) = liabilities + capital (₹1,00,000)

10. Revenue Recognition Concept: According to this concept, revenue is considered as realized when a transaction, has been entered and the obligation to receive its payment has been established. The recognition of revenue and receipt of payment are two different aspects.

Example: Nishtha sold goods in Feb 2018, and got its payment in Aug. 2018 Recognition of revenue of this transaction is Feb 2018. i.e. the date of the sale as the legal obligation to pay the payment has been established on the date.

11. Objectivity principle: This states that only factual and verifiable accounting transactions should be adhered in books.

Relevance: Data is based on facts and free from bias. It can be verified through supporting documents such as cash memo, invoice, sales bills etc.

BASIS OF ACCOUNTING

There are two basis of accounting to ascertain profit or loss, namely (i) cash basis, and (ii) accrual basis.

(i) Cash Basis of Accounting: Under this system of accounting transactions are recorded in the books of accounts only on the receipt/payment of cash. The income is calculated as the

excess of actual cash receipts (in respect of sale of goods, service, properties etc.) over actual cash payments (regarding purchase of goods, rent, electricity, salaries etc.)

Entry is not recorded when a payment or receipt is merely due i.e., outstanding expenses, accrued income etc.

This method is contrary to the matching principle.

(ii) Accrual Basis of Accounting: Under this system of accounting, revenue and expenses are recorded when they are recognized i.e., income is recorded even when it is accrued (when transaction takes place), irrespective of the fact whether cash is received or not. Similarly expenses are recorded when they are incurred or become due and not when the cash is paid for them.

Under this system, expenses such as outstanding expenses and prepaid expenses and income such as accrued income and income received in advance are identified and taken into account.

Under the Companies Amendments Act 2013, all companies are required to maintain their accounts according to accrual basis of accounting.

Basis	Accrual basis of accounting	Cash basis of accounting				
Recording of transactions	Both cash and credit transactions are . recorded	Only cash transaction are recorded.				
Profit or loss	Profit or loss in ascertained correctly due to complete record of transactions.	Correct profit/loss is not ascertained because it records only cash transactions				
Distinction between capital and revenue	This method makes a distinction between capital and revenue items.	This method does not make distinction between capital and revenue nature items				
Legal position	The basis is recognized under the Companies Act.	This basis is not recognized under the Companies Act.				

Accounting standards: Concept and objectives

The accounting standards or GAAP (Generally Accepted Accounting Principle) in the from of concepts and conventions have been developed to bring comparability and uniformity in the financial statements. But GAAP also allows a large number of alternative treatments for the same item. Different organizations may adopt different accounting policies for the same transaction or an organization may follow different accounting policies for the same item over different accounting periods. As a result, the financial statements become inconsistence and incomparable.

So it was felt that certain minimum standards should be universally applicable, so that the accounting statements have the qualitative characteristics of reliability, relevance, understandability and comparability.

International Accounting Standard Committee (IASC) was set up in 1973. (now renamed as International Financial Reporting committee IFRC). The Institute of Chartered Accountants of India (ICAI) and the Institute of Cost and Works Accountants of India (ICWAI) are members of this committee. ICAI set up the Accounting Standard Board (ASB) in 1997 to identify the areas in which uniformity in accounting is required. ASB prepares and submits a draft accounting standard to the council of ICAI. The council of ICAI issues the draft for the comments to the govt., industry and professionals etc. After due consideration on comments received, the council of ICAI notifies it for its use in financial statements.

Concept of Accounting Standards

Accounting Standard are a set of guidelines, issued from timeto-time by institutions of accounting professionals, specifying uniform rules or practices for preparation and presentation of the financial statements.

Objectives of Accounting Standards

- 1. Accounting standards are required to bring uniformity in accounting practices and policies by proposing standard treatment in preparation of financial statements.
- 2. To <u>improve reliability of the</u> financial statement: Accounts prepared by using accounting standards are reliable for various

- users, because these standards create a sense of confidence among the users.
- 3. To prevent frauds and manipulation by codifying the accounting methods and practices.
- To help Auditors: Accounting Standards provide uniformity in 4

Τ.	a	•			-	auditors to audit the books of				
				QUEST	ION	IS				
1.	(a)	ich of thes Going cor Materiality	ncern		(b	tal accounting assumption? (b) Accrual (d) Consistency				
2.	ass (a) (b) (c)	et in a fina Materiality Cost Cond Matching	l state / con cept Princ	ement of a bu vention	ısine	expense and not shown as an ess entity due to –				
3.	rath (a)	ner than ca	sh is cern	received" is assumption	oase (b)	is made or service is rendered ed on b) Matching Principle d) Materiality Principle				
4.	equ (a)	ery busines ual amount Dual Aspe Accrual as	: ect Pr	rinciple	(b)	o aspects, a debit and a credit of o) Matching Principle d) Full disclosure Principle				
5.	pre (a)	pared fron Accrual as	n bus ssum	iness point o ption	f viev (b	ed and financial statement are wand not of the owner b) Consistency assumption d) Business entity				
Ans.	(1)	(c)	(2)	(a)	(3)	(b)				
	(4)	(a)	(5)	(d)						

6. Name the fundamental ascending assumptions "It is assumed that the business has neither intention to liquidate nor to scale down its operations significantly".

Ans. Going concern assumption

7. Under which basis of accounting revenue and expenses are recorded when they are recognized irrespective of fact whether cash is received or not

Ans. Accrual basis of accounting.

8. Which accounting convention takes into account all prospective losses but leaves all prospective profits.

Ans. Conservatism/Prudence

- 9. State whether the following statements are True or False
 - (i) Accountants can use any method for accounting cash basis of accounting or accrual basis of accounting.
 - (ii) Closing stock is valued at cost or market price, whichever is higher.
 - (iii) Income is treated as being earned on the date on which it is realized.
 - (iv) Businessman is treated as the creditor of the business to the extent of his capital.
 - (v) Every transaction has two aspects.
- Ans. (i) False (ii) True (iv) True (v) True
- 10. State the principle, concept or contention on which the following are based:
 - (i) Capital introduced by the proprietor is treated as liability for the business.
 - (ii) Strike by workers affect the business, yet it cannot be recorded in the books.
 - (iii) All contingent liabilities are shown as a footnote in the balance sheet.
 - (iv) Purchase of a pen is recorded as an expense even if the pen purchased is an asset.
 - (v) Heavy advertisement expenditure is deferred over a certain period, till when its benefit is assumed to be received.
- Ans. (i) Business Entity Principle (ii) Money Measurement Principle
 - (iii) Full Disclosure Principle (iv) Materiality Principle
 - (v) Matching Principle

11. Under which accounting principle, quality aspect of management is not recorded in the books of account?

Ans. Money Measurement Principle.

- 12. What is the relevance of "Accounting Period Principle"?
- Ans. Financial Statements are prepared at the end of accounting period so that timely action for correct measures can be taken by management.
- **13.** Market Price of the Land purchased is much higher then the price paid for it at the time of its purchase, still it is shown at the cost price due to which accounting concept?

Ans. Cost Concept

14. Rent of ₹ 24,000 paid for two years 2021-22 and 2022-23. At the end of 2021-22, only ₹12,000 is considered as rent for the current year 2021-22 and rest is shown as prepaid rent. Which accounting concept is used here?

Ans. Accrual Concept

15. Provision for doubtful debts is created due to which accounting concept?

Ans. Prudence Concept.

16. Due to which accounting concept, advance received against the sales of goods is recognized as advance against sales and not as sales?

Ans. Revenue Recognition Concept.

- **17.** Identify the accounting concept used here:
 - (i) Distinction between Capital expenditure and revenue expenditure is made.
 - (ii) Same method of depreciation on machinery is used every year.
 - (iii) The owners of business are treated as creditors and their personal expenses are considered as Drawing.
 - (iv) Footnotes are prepared to disclose the current value of the investment done in shares of other companies.
 - (v) Purchase of staplers are treated as expense even though these will be used for a number of years.
 - (vi) Every transaction has 2 aspects -a debit and a credit of equal amount.

- (vii) Every expense can be verified through supporting documents such as Cash memo, invoices etc.
- Ans. (i) Going Concern Assumption
 - (ii) Consistency Assumption.
 - (iii) Business Entity Principle
 - (iv) Full disclosure Principle.
 - (v) Materiality Principle
 - (vi) Dual Aspect Principle.
 - (vii) Verifiable Objective Concept.
- **18.** Quality of manpower is not recorded in the books of account due to which accounting principle?
- Ans. Money Measurement Principle.
- **19.** What is the reason for dividing the entire life of the business into intervals?
- Ans. To ascertain the amount of profit earned or loss suffered by the firm at such regular intervals so that timely decisions can be taken.
- 20. Write any two limitations of Money Measurement Principle.
- **21.** Write any two obectives of Accounting standards.

CHAPTER - 3 RECORDING OF TRANSACTIONS

Learning Objectives

After studying this chapter, you will be able to:

- · Explain how to prepare accounting Vouchers.
- · Apply accounting equation to explain the effect of transactions.
- · Record transactions using rules of debit and credit.
- Record transactions in journal and other subsidiary books.

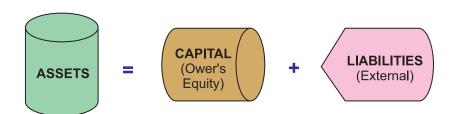
Suggested Method: Discussion Method, Illustration Method, Problem Solving Method etc.

ACCOUNTING EQUATION

ACCOUNTING EQUATION

Accounting equation signifies that the assets of a business are always equal to the total of its liabilities and capital (owner's equity).

The equation reads as follows:



Accounting equation indicates that all the assets of a business are also equal to the total of its liabilities (Borrowing from outsides) and capital (Borrowing from owners). It is based on duality principle of accounting.

Assets = Capital + Liabilities or Capital (Net Worth) = Assets – Liabilities.

Note:- All Assets are procured from the amount of capital (owner's fund) and liabilities (outsides funds) therefore the sum of capital and liabilities are equal to assets.

ANALYSIS OF BUSINESS TRANSACTIONS

Business transaction may effect either both sides of the equation or one side of the equation but the ultimate effect must be equal on the both sides. Some of the effects are as follows:-

1. Transaction affecting both sides of the equation:

A. Commenced business with Cash ₹ 3,00,000

Effect

Ass	sets	=	Capital + Liabilities
	Cash		Capital
Transaction	3,00,000	=	3,00,000

Explanation:- As Cash is invested by the owner, it should be shown in Capital (anything which is bring in by the owner is termed as Capital) and Business is receiving asset in the form of cash, it is to be shown in the Assets side as Cash.

B. Bought goods from Ram ₹30,000

Effect

	Assets		=	Capital + Liabilities	
	Cash	+	Stock		Capital + Creditors
Old Equation	300000	+	_	=	300000 + -
Transactions	0	+	30000	=	0 + 30000
N.E.	300000	+	30,000	=	300000 + 30000

Explanation:- As goods is purchased on credit, one effect is that it should be shown in the assets side as Goods and other effect is that goods are purchased on credit so it is to be shown in Liabilities as Creditors.

C. Sold goods (costing ₹ 10000) for cash at ₹ 13000

Effect

	Assets] =	Capital + Liabilities
	Cash + Stock	1	Capital + Creditors
Old Equation	300000 + 30,000] =	300000 + 30000
Transactions	13000 - 10000] =	3000 +
N.E.	313000 + 20,000] =	303000 + 30000

Explanation:- The transaction will affect both sides as cash has been received so it is to be added back in cash (₹13,000) & Goods are to be reduced by ₹10,000 as goods has been sold. Also profit of ₹3,000 Is to be added back in Capital. Net effect will remain same for both sides.

D. Paid to creditors ₹ 20,000

Effect

А	ssets		=	Capital + Liabilities
	Cash	+ Stock		Capital + Creditors
Old Equation	313000	+ 20,000	=	303000 + 30000
Transactions	-20000	+ 0	=	0 - 20000
N.E.	293000	+ 20,000	=	303000 + 10000

Explanation:- The transaction will affect both sides as cash has been paid so it is to be deducted from cash as well from creditors as payment made to them.

• Transaction related to Expenses

All the expense or Losses is to borne by the owner although business has separate legal entity from its owner as he/she is the person who has taken risk to do business.

E. Rent paid ₹ 5,000

Effect

	Assets] =	Capital + Liabilities
	Cash	+ Stock		Capital + Creditors
Old Equation	293000	+ 20,000	=	303000 + 10000
Transactions	-5000	+ 0	=	-5000 + 0
N.E.	288000	+ 20,000] =	298000 + 10000

Explanation:- The transaction will affect both sides as cash has been paid so it is to he reduced as well as Capital is to be reduced because expense is to be born by the owner.

• Transaction related to Income

Income or Profit is the reward for taking risk, as risk is taken by the owner so it is to be added in Capital.

F. Commission received ₹ 8,000

Effect

	Assets	=	Capital + Liabilities	
	Cash	+ Stock		Capital + Creditors
Old Equation	288000	+ 20,000	=	298000 + 10000
Transactions	+8000	+ 0	=	+8000 + 0
N.E.	296000	+ 20,000	=	306000 + 10000

Explanation: The transaction will affect both sides as cash has been received so it is to be added back in cash as well as in Capital.

• Transaction related to Accrued/outstanding Income

Income is to be added back into the capital but as it is not received should be shown in the Assets Side as accrued Income because it meant to be received in this financial year.

A. Accrued Interest ₹ 10,000

Effect

] =	Capital + Liabilities			
				Accrued] =	Capital + Creditors
	Cash	+	Goods	+ Income		
Old Equation	296000	+ 2	20000	+ -	=	306000 + 10,000
Transactions	0		0	+ 10000] =	+10000 + 0
N.E.	296000	+ 2	20000	+ 10000]=	316000 + 10000

Explanation:- The transaction will effect both sides as Accrued Income has been added back to the capital & as it is not received so it is to be shown in the assets side as an asset.

• Transaction related Advance Income

As Income received in advance so it does not belong to current financial year, so it can not be added back to the Capital. It is an amount which is received by the business firm for the future course of activity till the activity not happened it is the Liability of the business.

B. Rent received in advanced ₹ 5,000

Effect

	Assets							+ [_iabilitie	es	
	Cash	+	Goods	+	Accrued		Capital	+ Creditors +		Advar	
					Income						Rent
Old Equation	296000	+	20000	+	10000	=	316000	+1	0000	+	
Transactions	+5000	+	0	+	0	=	+0	+	0	+	5000
N.E.	301000	+	20000	+	10000	=	316000	+1	0000	+	5000

Explanation:-The transaction will effect both sides as Advance Income is a Liability should be shown in the Liability side & Cash received by the business should be added back to the Cash column of assets side.

2. Transaction affecting one side of the equation:

(I) Transaction affecting Assets side of the equation:

• Transaction related to Prepaid or Advance Expense

As Expense paid in advance so it does not belong to current financial year, so it can not be deducted from Capital. It is an amount which is paid by the business firm for the future course of activity as the activity is not happened it is the Assets of the business.

A. Prepaid insurance paid ₹4,000

Effect

Assets											
	+ Accrued	+	Prepaid								
			Income		Expense						
Old Equation	301000	+ 20000	+ 10,000	+	_						
Transactions	-4000	+ 0	+ 0	+	4000						
N.E.	297000	+ 20000	+ 10000	+	4000						

=	Capital + Liabilities											
	Capital	+	Creditors	3 + A	Advance							
					Rent							
=	316000	+	10000	+	5000							
=	+0	+	0	+	0							
=	316000	+	10000	+	5000							

Explanation:- The transaction will affect one side as Prepaid expense is a Asset should be shown in the Assets side & Cash paid by the business should be deducted from Cash column of assets side.

B. Purchased Machinery for Cash ₹80,000

Effect

Lilect							_				
			Assets				=	Сар	ital	+ Liabilities	3
	Cash	+	Stock +	Accrued +	Prepaid +	Machinery		Capital	+	Creditors +	Advance
				Income	Expense						Rent
Old Equation	297000	+	20000 +	10000 +	4000 +	_	=	316000	+	10000 +	5000
Transactions	-80000	+	0 +	0 +	0 +	80,000	=	+ 0	+	0 +	0
N.E.	217000	+	20000 +	10000 +	4000 +	80,000	=	316000	+	10000 +	5000

Explanation:- The transaction will affect one side as cash has been paid for purchased of machinery & Machine is a fixed asset so it is separately shown in the asset side as well as cash is to be reduced.

(II) Transaction affecting Liability side of the equation:

• Transaction related to outstanding Expense

As Expense not paid yet or Outstanding but belong to current financial year so it is deducted from Capital & business has to pay it in near future so it is the liability of the firm.

A. Salary outstanding ₹8,000

Effect

			Assets					=	Capital +	+ Lia	bilitie	s		
	Cash	+	Stock	+ Accrued	+Prepa	id	+Machinery		Capital +	- Cre	editor	'S +	Advance -	+Outstanding
				Income	Expens	se							Rent	Expense
Old Equation	217000	+	20000 +	10000 +	4000	+	80,000	=	316000	+100	000 -	+	5000	
Transactions	0	+	0 +	0 +	0	+	0	=	-8000 ·	+	0	+	0 +	8000
N.E.	217000	+	20000 +	10000 +	4000	+	80,000	=	308000	+100	000 -	+	5000 +	8000

Explanation:- The transaction will affect Liability side as outstanding expense is a Liability should be shown in the Liability side & Expense should be deducted from Capital.

• Transaction related to Interest on Capital

As interest on capital Is the Expense of business it should be shown or deducted in the capital as well as interest of capital is the amount which is to be given to the owner as capital is the amount which is invested by the owner, therefore it is to be added back to Capital.

B. Interest on Capital ₹10,000

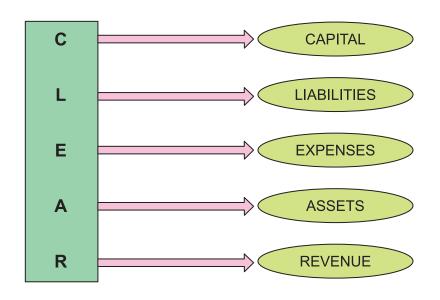
Effect

			Asse	ts					=			Capital	+[iabilities		
	Cash	+	Stock	+ /	Accrued +	Prepaid	+	Machinery		Capital	+	Creditors	3 +	Advance	+	Outstanding
					Income	Expense								Rent		Ехр.
Old Equation	217000	+	20000	+	10000 +	4000	+	80,000	=	308000	+	10000	+	5000	+	8000
Transactions	-0	+	0	+	0 +	0	+	0	=	-10000	+	0	+	0	+	0
									=	+10000	+	0	+	0	+	0
N.E.	217000	+	20000	+	10000 +	4000	+	80,000	=	308000	+	10000	+	5000	+	8000

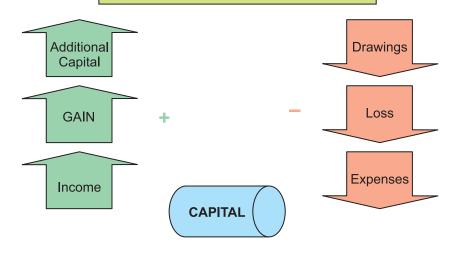
Explanation:- The transaction will affect Liability side as Interest of Capital should be added back & deducted from Capital as both of them belong to the owner.

Transaction related to interest on Drawing

As interest on Drawing is the Income of business it should be shown or added back in the capital as well as interest of Drawing is the amount which is to be given by the owner to the business so it is treated as drawing and deducted from the Capital.



TRANSACTIONS AFFECTING CAPITAL



C. Interest on Drawing ₹10,000

Effect

	-					•				
		Assets	=	Capital + Liabilities						
	Cash +	Stock +	Accrued +	Prepaid +	Machinery		Capital + C	Creditors +	Advance +	Outstanding
			Income	Expense					Rent	Ехр.
Old Equation	217000	+ 20000 +	10000 +	4000 +	80,000	=	308000 +	10000 +	5000 +	+ 8000
Transactions	0	+ 0 +	0 +	0 +	0	=	-10000			
						=	+10000	+ 0 +	0 +	
N.E.	217000	+ 20000 +	10000 +	4000 +	80,000	=	308000 +	10000 +	5000 +	8000

Explanation:- The transaction will effect Liability side as Interest of Drawing should be added back & deducted from Capital as both of them belong to the owner.

Transaction related to Drawing

As Drawing is the amount withdrawn by owner from business for personal use so it is to be deducted from Capital & also from the Cash.

D. Owner withdrew cash of ₹ 10,000 for personal use

Effect

			Asse	ets					=		(Capital	+	Liabilities		
	Cash	+	Stock	+	Accrued	+	Prepaid +	Machinery		C	Capital + C	Creditors	; +	Advance	+ C	utstanding
					Income		Expense							Rent		Ехр.
Old Equation	217000	+	20000	+	10000	+	4000 +	80,000	=	30	+ 00080	10000	+	5000	+	8000
Transactions	-10000	+	0	+	0	+	0 +	. 0	=	-	-10000 +	0	+	0	+	0
N.E.	207000	+	20000	+	10000	+	4000 +	80,000	=	29	98000 +	10000	+	5000	+	8000

Explanation:- The transaction will effect both sides as Drawing should be deducted from Capital & also deducted from Cash as withdraw by owner.

Illustration: 1

Prepare the Accounting Equation for the year ended on 31st March 2021 on the basis of the following information:

- 1. Mr. X Started business with Cash ₹1,50,000, Furniture ₹50,000, Goods/ Stock ₹30,000 & Machinery ₹2,00,000
- 2. He sold goods Costing ₹ 25,000 at a profit 20% above cost & half of the payment received in Cash and received a bill for the remaining balance.
- 3. He paid salary ₹10,000, commission ₹2,000 & Commission Still outstanding ₹1,000.
- 4. He purchased goods from Ram of ₹25,000.
- 5. Deprecate Machinery at 20 % p.a. and Furniture at 10 % p.a.
- 6. He paid Insurance ₹12,000 p.a. (from 1st October 2020 to 30th September 2021)
- 7. He withdrew ₹ 10,000 for personal use.
- 8. He paid to Ram ₹ 23,500 in full settlement of his account.
- 9. He received cash on the maturity of Bill.
- 10. Interest on Capital is to be credited at 5 % p.a.

Solution : Accounting Equation

			Capita	al +	· Liability									,	Assets		
Transaction	Cash	+	Stock	+	Machinery	+	Furniture	+	B.R.	+	Prepaid Insurance	=	Capital	+C)/S Comn	n +	Creditors
1. Commenced business	150000	+	30000	+	200000	+	50000	+	-	+	-	=	430000	+	_	+	-
2. Sold goods at 20 % profit	+15000	-	25000	+	0	+	0	+	15000	+	_	=	+5000	+	-	+	-
N.E.	165000	+	5000	+	200000	+	50000	+	15000	+	_	=	435000	+	-	+	_
Paid salary & Comm. Outstanding	-12000	+	+0	+	0	+	0	+	0	+	-	=	-13000	+	1000	+	-
N.E.	153000	+	+ 5000	+	200000	+	50000	+	15000	+	-	=	422000	+	1000	+	_
4. Purchased goods from ram 25000	0	+	25000	+	0	+	0	+	0	+	-	=	0	+	0	+	25000
N.E.	153000	+	30000	+	200000	+	50000	+	15000	+	_	=	422000	+	1000	+	25000
5. Depreciates Machine @ 20% & Furniture @ 10%	0	+	0	+	-40000	+	-5000	+	0	+	-	=	-45000	+	0	+	0
N.E.	153000	+	30000	+	+160000	+	45000	+	15000	+	-	=	377000	+	1000	+	25000
6. Insurance paid for one year Rs. 12,000	-12000	+	0	+	0	+	0	+	0	+	6000	=	-6000	+	0	+	0
N.E.	141000	+	30000	+	160000	+	45000	+	15000	+	6000	=	371000	+	1000	+	25000
7. Drawing Rs. 10,000	-10000	+	0	+	0	+	0	+	0	+	0	=	-10000	+	0	+	0
N.E.	131000	+	30000	+	160000	+	45000	+	15000	+	6000	=	361000	+	1000	+	25000
8. Paid to Ram in Full Settlement	-23500	+	0	+	0	+	0	+	0	+	0	=	+1500	+	0	-	25000
N.E.	107500	+	30000	+	160000	+	45000	+	15000	+	6000	=	365200	+	1000	+	0
9. Received cash for bill at maturity	+15000	+	0	+	0	+	0	-	15000	+	0	=	0	+	0	+	0
N.E.	122500	+	30000	+	160000	+	45000	+	0	+	6000	=	362500	+	1000	+	0
10. Interest on Capital @ 5% p.a.	0	+	0	+	0	+	0	+	0	+	0	=	-21500 +21500	+	0	+	0 0
N.E.	122500	+	30000	+	160000	+	45000	+	0	+	6000	=	362500	+	1000	+	0

Some Important Transactions

S.No.	Transaction	Effect	Explanation				
1.	Started business with cash	Cash (Assets)+ Capital+	Cash will increase in assets and capital will also increase				
	Purchased goods	Stock (Assets) +	Stock will increase under				
2.	for cash	Cash(Assets) -	Assets and cash will reduce from assets.				
3.	Sold goods for cash	Cash(Assets) + Stock (Assets)-	Cash will increase under assets and stock will decrease under assets				
4.	Purchased goods on credit	Stock(Assets) + Creditors(Liabilities)+	Stock will increase under assets and liability will increase by creditors				
5.	Sold goods on credit	Stock(Assets) - Debtors (Assets) +	Stock will reduce and since goods are sold on credit debtors will increase				

S.No.	Transaction	Effect	Explanation
6.	Paid Salaries	Cash (Assets) - Capital -	Capital is reduced by expenses and cash is going out.
7.	Received Rent	Cash(Assets)+ Capital+	Capital increases by Incomes and cash is increasing.
8.	Amount drawn for personal use	Cash(Assets) - Capital -	Cash is decreasing and capital is also reduced.
9.	Depreciation on Asset	Asset- Capital -	Particular asset will reduce and depreciation is a expense so, capital will reduce.
10.	Goods costing ₹ ₹10,000 sold for ₹ ₹15,000	Stock(Assets)-10,000 Cash(Assets) + 15,000 Capital + 5,000	Goods will be reduced by ₹10,000 i.e cost, cash is increasing by ₹15,000 and profit will be added to capital.
11.	Outstanding Expenses (Say Rent)	Capital - Outstanding Rent (Liabilities) +	Outstanding rent is a liability as firm owe this to landlord and this is a expense, so will be deducted from capital.
12.	Prepaid expenses (Prepaid Insurance)	Cash (Assets) – Prepaid Insurance (Asset)+	Cash will reduce and prepaid expense is an asset for a business so, new asset will be opened)
13.	Accrued Incomes (Earned but not received)	Accrued Income (Asset) + Capital +	New asset (accrued Income) 1 will increase as amount is to be received and as per accrual concept capital will increase.
14.	Income received in advance	Unearned income (Liabilities) + Cash +	Cash is increasing and advance income is liability for! business since, it is to be returned.
15.	Interest on Capital	Capital – Capital +	it is expense so capital will reduce and it is to be given to owner hence will be added to capital.
16.	Interest on drawings	Capital + Capital –	It is a income for business so capital will increase and to be taken from owner hence deducted from capital.

RULES OF DEBIT & CREDIT

Every business transaction affects two or more accounts. An account is summarized record of transaction at one place relating to a particular head. An account is divided into two parts i.e. debit and credit. Debit refer to the left side of an account and Credit refers to the right side of an account.

Approaches for the rules of Debit & Credit

A. Traditional Approach

Under this approach, all ledger accounts are mainly classified into two categories:-

- (I) <u>Personal Accounts:</u>- It includes all those accounts which are related to any person i.e. Individuals, firms, companies, Banks etc. This can further classified into three categories:
 - 1. **Natural Persons**: All the accounts of human beings/ Persons are included such Ram's A/c, Shyam's A/c. etc.
 - 2. <u>Artificial Persons:</u> This includes all such accounts which are treated as persons in the eyes of law and have separate legal entity such as Reliance Ltd., Banks, etc.
 - 3. Representative Persons: This includes all such accounts which represents some persons such as Capital (Represent Owner) Outstanding Salary (Represent Employee)
- (II) <u>Impersonal Accounts:</u> It includes all those accounts which are not related to any person this can be classified as:-
 - Real Accounts: Under this all accounts related to assets are included (except Debtors Bank). These can be Tangible i.e. Machinery, Furniture. Building, Cash etc. and Intangible I.e. Goodwill, Trade Mark, Patents, copy Rights etc.
 - Nominal Accounts: This includes all the accounts related to Expenses / Losses and Incomes / Gains e.g. Salary, Rent, Commission received etc.

B. Rules of Debit/Credit under Traditional Approach

Classification of Accounts	Rules of Dr./ Cr.
Personal Accounts (All Personal Accounts)	Debit the <u>receiver</u> . Credit the <u>Giver</u>
Real Account	Debit what comes in , Credit what goes out.
Nominal Account	Debit all <u>losses / expenses,</u> Credit all <u>incomes / gains</u> .

Illustration: 2

Analyse the following transactions by using the "Traditional Approach" of Debit/ Credit

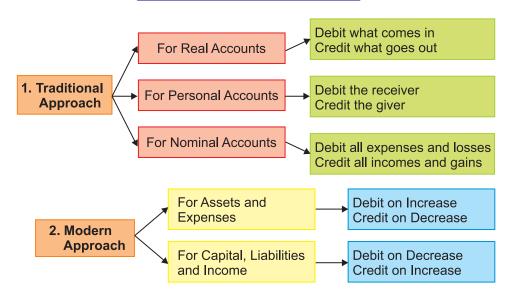
S.I	No. Transactions	Amount in (₹)
1	Ram Started business with cash	1,00,000
2	He purchased goods for cash	20,000

3	Sold goods to Ram	30,000
4	Paid salary	5,000
5	Withdrew cash for personal use	10,000
6	Cash deposited into Bank	20,000
7	Bought goods from Mohan	15,000
8	Sold goods for cash	16,000
9	Purchased machinery for cash	50,000
10	Depreciate machinery	5,000

Solution : Analysis of Transactions

S. N	. Transactions	Accounts Effected	Nature Of A/C	Rules	Debit (₹)	Credit (₹)
1	Commenced	Cash	Real	Debit what comes in	1,00,000	
	Business	Capital	Personal	Credit the Giver		1,00,000
2	Bought Goods for	Purchase	Nominal	Debit a ll Expense	20,000	
	cash	Cash	Real	Credit what, goes out		20,000
3	Sold goods to Ram	Ram	Personal	Debit the receiver	30,000	
		Sales	Nominal	Credit all Incomes		30,000
4	paid salary	Salary	Nominal	Debit all Expense	5,000	
		Cash	Real	Credit what goes out		5,000
5	Drawing	Drawing	Personal	Debit the receiver	10,000	
		Cash	Real	Credit what goes out		10,000
6	Cash deposited	Bank	Personal	Debit the receiver	20,000	
	into bank	Cash	Real	Credit what goes out		20,000
7	Bought goods	Purchase	Nominal	Debit all Expense	15,000	
	from Mohan	Mohan	Personal	Credit the Giver		15,000
8	Sold goods for cash	Cash	Real	Debit What comes in	16,000	
		Sales	Nominal	Credit all Incomes		16,000
9	Machinery	Machinery	Real	Debit what comes in	50,000	
	purchased	Cash	Real	Credit what goes out		50,000
10	Depreciate	Depreciation	Nominal	Debit all Expense	5,000	
	machinery	Machinery	Real	Credit what goes out		5,000

RULES OF DEBIT AND CREDIT



Rules of Debit/Credit under Modern Approach.

Modern Rules of Debit and Credit

- I) Increase(+) in assets are debits; decreases(-) are credits.
- ii) Increase in expenses(+) are debits; decreases(-) are credits.
- iii) Increase(+) in liabilities are credits; decreases(-) are debits.
- iv) Increase(+) in revenues are credits; decreases(-) are debits.
- v) Increase(+) in owner's capital are credits; decreases(-) are debits.

	For Increase (Plus) +		For Decr (Minus) -	
Assets	Debit ↑		Credit	\
Expenses	Debit ↑		Credit	V
	For Increase (Plus) +		For Decrea (Minus) –	ase
Liabilities	Credit	Credit 1		V
Revenue	Credit	↑	Debit	V
Capital	Credit	^	Debit	\

NOTE: The accounts of Assets and Expenses show Debit Balance and accounts of Liabilities, Capital and Revenue show Credit Balance.

Illustration: 3

Analyze the transactions of illustration 2 by using the "Modern Approach" of Debit/Credit

Solution : Analysis of Transactions

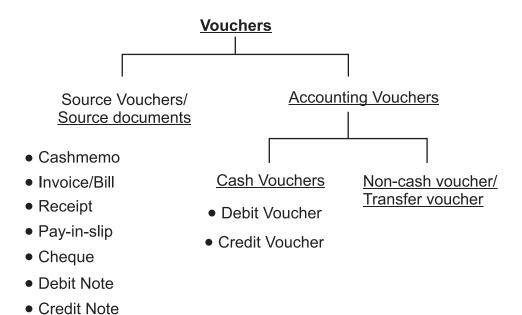
S.N.	Transactions	Accounts Effected	Nature Of A/C	Rules	Debit (₹)	Credit (₹)
1	Commenced	Cash	Assets	Increase	1,00,000	
	Business					
		Capital	Capital	Increase		1,00,000
2	Bought Goods	Purchase	Expense	Increase	20,000	
	for cash					
		Cash	Assets	Decrease		20,000
3	Sold goods to ram	Ram	Assets	Increase	30,000	
		Sales	Revenue	Increase		30,000
4	paid salary	Salary	Expense	Increase	5,000	
		Cash	Assets	Decrease		5,000
5	Drawing	Drawing	Capital	Decrease	10,000	
		Cash	Assets	Decrease		10,000
6	Cash deposited into bank	Bank	Assets	Increase	20,000	
		Cash	Assets	Decrease		20,000
7	Bought goods from Mohan	Purchase	Expense	Increase	15,000	
		Mohan	Liabilities	Increase		15,000
8	Sold goods for cash	Cash	Assets	Increase	16,000	
		Sales	Revenue	Increase		16,000
9	Machinery	Machinery	Assets	Increase	50,000	
	purchased					
		Cash	Assets	Decrease		50,000
10	Depreciate	Depreciate	Expense	Increase	5,000	
	machinery	Machinery	Assets	Decrease		5,000

VOUCHER

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

SOURCE DOCUMENTS (Supporting documents/Source Vouchers)

A written document which provides evidence of the transactions is called the Source Documents. Source document is the first evidence of a transaction which takes place such as Cash Memo, Bill or Invoice, Receipt, Pay-in-slip, cheques, Debit-Note and Credit-Note. It contains the details of transaction.



- (a) <u>Invoice (Bill):</u> An invoice is prepared by Seller at the time of sale of goods on credit. It contains details such as the goods sold, the party to whom goods are sold, sales amount, date etc.
- **(b)** Cash Memo: It is prepared by the Seller at the time of Sale of goods on Cash. It contains details such as goods sold, quantity, amount received, date etc.
- (c) Pay-in-Slip: It is used to deposit cash or cheque into bank. It has a counterfoil which is returned to the depositor with the Signature of the authorized person.
- (d) Receipt: It is used when a customer give cash to the Business firm. It is an acknowledgment of payment or cash received by firm.
- **(e)** Cheque: A cheque is a order in writing, drawn upon a specified banker and payable on demand.
- (f) <u>Debit Note:</u> It is prepared when a buyer returned goods to seller or when purchased return transaction is entered in the books of accounts. It is prepared by the buyer of the goods.
- (g) <u>Credit Note:</u> It is prepared when a seller received goods from buyer or when Sales return transaction is entered in the books of accounts. It is prepared by the Seller of the goods.

ACCOUNTING VOUCHERS

It is a written document prepared by accountant, on the basis of supporting vouchers, containing business transaction analysis for recording purposes.

Source vouchers	Accounting vouchers
 These comes into existence when a transaction entered into. It is signed by the maker. It contains complete details of transactions. 	 It is prepared on the basis of evidence of the transaction. It is prepared and signed usually by an accountant and counter signed by authorised signatory. It is an analysis of a transaction.

Classification of Accounting Vouchers

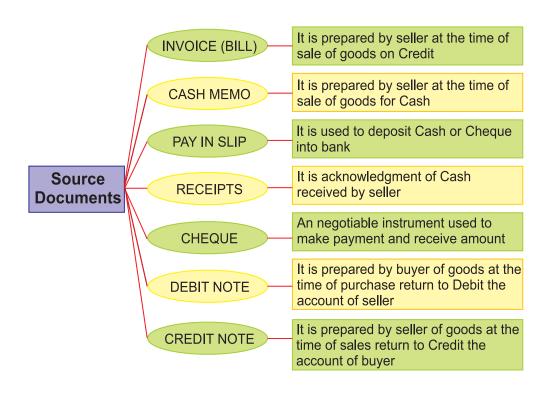
Vouchers	Further classification	Purpose
Cash Vouchers	Debit Vouchers Credit Vouchers	To show Cash Payment To show Cash Receipt
Non Cash Voucher	Transfer Voucher	To show Transactions not involving cash

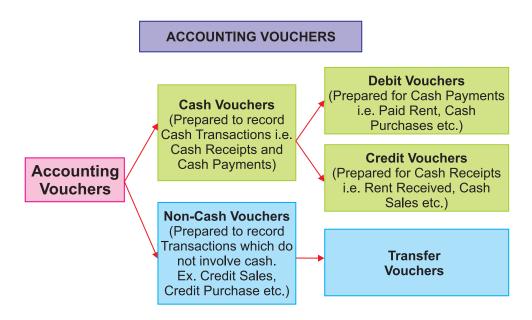
CASH VOUCHERS

Cash voucher is prepared to record all the transactions which involve cash either in the form of receipt or payment. Thus cash voucher is further classified into Debit Voucher & Credit Voucher.

Debit Voucher

Debit voucher is prepared for all cash payment made by the business firm such as Payment of Rent. Payment of salary, payment for purchase of goods etc.





Format of Debit Voucher

Recei	Mis Pratibha Furnitures 180. Nai Sarak. Delhi	
Received Rs.	Voucher No	Date
	DEBIT	Amount (In ₹)
	Total	
Affix Revenue		
Stamp	Signature Manager	Signature Accountant

Illustration: 4

Prepare a Debit vouchers of XYZ traders, 10, Patel Nagar, New Delhi from the following information.

Aug. 1, 2022 Salary paid for the Month of July 2022 vide salary sheet No. 7₹15,000

Received Rs	M/s XYZ Traders 10, Patel Nagar, New Delhi	
d Rs.	Voucher No.: 215	Date: -01/08/2022
	DEBIT :- Salary A/C (Being salary paid for July 2022 vide salary sheet No 7	Amount (In ₹) 15,000
	Total	15,000
Affix Revenue Stamp	Signature Manager	Signature Accountant

Credit Voucher :- Credit voucher is prepared for cash received by the business firm Such as Sale of goods for Cash, Payment received from any of Debtors, Income received etc.

Format of Credit Voucher

M/s Pratibha Furnitures 180, Nai Sarak, Delhi	
Voucher No	Date
Credit	Amount (In ₹)
Total	
Signature Manager	Signature Accountant

Illustration: 5.

Prepare a Credit vouchers of Shyam traders, 156, Subhash Nagar, New Delhi from the following information.

Oct. 5, 2022 Sold goods for cash vide cash memo no. 401 ₹ 16,600

Credit Voucher

Shyam Traders 156, Subhash Nagar, New Delhi				
Voucher No : 520		Date :- 05/10/2022		
Credit :- Sales A/C (Being Cash Sales Vide Cash Memo No. 401)		Amount (In ₹)		
(Soing Such Suice View Such Meline (161)		16,600		
	Total	16,600		
Signature Manager		Signature Accountant		

Transfer Voucher/Non-Cash Voucher

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

Transfer Voucher

Shyam traders	
156, Subhash Nagar, New Delhi	
Voucher No -	Date:
DEBIT:	Amount (₹)
Total	
CREDIT:	Amount (₹)
Total	
Signature Manager	Signature Accountant

Illustration: 6

Prepare a Transfer voucher of Shyam traders. 156. Subhash Nagar, New Delhi from the following information.

Feb. 15. 2022 Sold goods to Ram Traders vide Invoice/Bill no. 120 ₹ 24.000

Shyam traders 156, Subhash Nagar, New D	elhi	
Voucher No.:- 102		Date:- 15/02/2022
DEBIT:- Ram Traders		Amount(₹)
		24,000
	Total	24.000
CREDIT:- Sales A/C		Amount (₹)
(Being Cash Sales vide (Invoice/Bill no120)		24,000
	Total	24.000
Signature Manager		Signature Accountant

JOURNAL

The first book in which the transactions of a business unit are recorded is called Journal. Here, business **transactions are recorded in chronological order i.e.** in the order in which they occur. Each record in a journal is called an entry. As a journal is the first book in which entries are recorded. It is also known as a book of **original entry**.

FORMAT OF JOURNAL

Date	Particulars	L.F.	Amount (₹)	Amount (₹)
			Dr.	Cr.

Ledger Folio (L.F.): Ledger Folio is the page No. of Ledger on which the Debit A/c & Credit A/c are to be posted.

TYPES OF ENTRIES

(1) Simple Entry: It is that entry in which only two accounts are affected i.e. one account is debited and another account is credited with an equal amount.

Example: Purchase of goods worth ₹ 5,000 from Ramesh by the business firm. The simple entry is.

JOURNAL

Date	Particulars	L.F.	Amount (₹) Dr.	Amount (₹) Cr.
	Purchase A/c Dr.		5,000	
	To Ramesh			5,000
	(Being goods purchased from ramesh)			

(2) Compound Entry: It is that entry in which more than two accounts are involved. Compound Entries can further be classified into single compound entry and double compound entry.

In Single Compound Entry Several accounts are to be debited and only one account is to be credited or only one account is to be debited and several accounts are to be credited.

Example: A business firm pays rent ₹ 2,000; salaries ₹ 1,500; freight ₹ 500 on 1 Jan. 2022, the single compound entry is

JOURNAL

Date	Particulars		L.F.	Amount(₹) Dr.	Amount (₹) Cr.
2022	Rent A/C	Dr.		2,000	
Jan 1	Salaries A/C	Dr.		1.500	
	Freight A/C	Dr.		500	
	To Cash A/C				4000
	(Being Rent, Salary & freight Paid Cash)				

In Double Compound Entry, several accounts are to be debited which are accompanied by several credit accounts.

Example: A firm receives cash ₹ 20,000 and cheque ₹ 10,000 in return of sale of goods for ₹ 25,000 and furniture ₹ 5,000.

Date	Particulars		L.F.	Amount (₹) Dr.	Amount (₹) Cr.
	Cash A/C	Dr.		20,000	
	Bank A/C	Dr.		10,000	
	To Sales A/C				25,000
	To Furniture A/C				5,000
	(Being goods & Furniure sold for cash	1)			

(3) Opening Entry:- The entry passed to record the closing balances of the previous year is called opening entry. While passing an opening entry, all assets accounts are debited and all liabilities accounts are credited.

Example : The various balances of XYZ ltd on 1st April 2022 were as follows Debt Balance: Cash ₹20,000 furniture ₹ 50,000 Building ₹1,00,000 & Debtors ₹30.000 Credit Balance : Creditors ₹50,000, Bank loan ₹25,000.

JOURNAL

Date	Particulars		Amount (₹) Dr.	Amount (₹) Cr.
2022 April 1	Cash A/C Furniture A/C Building NC Debtors A/C To Creditors A/C To Bank Loan A/C To Capital A/C (Balancing Fig.)		20,000 50.000 1,00,000 30,000	50,000 25,000 1,25,000
	(Being recording of the opening ba of Assets, Liabilities and Capital)	lances		

Transaction related to Goods

1. Goods purchased for cash

Purchases A/c Dr.
To Cash A/c
(Being goods purchased for cash)

3. Goods sold for cash

Cash A/C Dr.
To Sales A/C
(Being goods sold for cash)

5. Withdrawal of goods by owner for personal use.

Drawings A/c Dr.
To Purchases A/c
(Being goods withdrew
by owner for personal use)

7. Goods given as charity

Charity A/c Dr.
To Purchases A/c
(Being goods given as charity)

2. Goods purchased from Ram on credit

Purchases A/c Dr.
To Ram
(Being goods purchased from Ram on credit)

4. Goods sold on credit to Mohan

Mohan Dr.
To Sales A/c
(Being goods sold to Mohan

on credit)

6. Goods distributed as free samples

Advertisement A/c Dr.
To Purchases A/c
(Being goods distributed as free samples)

8. Goods lost by fire/flood/ theft etc.

Loss by fire/theft A/c Dr.
To Purchases A/c
(Being goods lost by fire/flood/theft)

Note: Purchases A/c is credited in the above mentioned entries at S. No. 5 to 8 because the goods are going out of our business on cost and it is not a sale hence, deducted from the purchases A/c.

Transaction related to Bank

1. Cash deposited into the bank

Bank A/c Dr.
To Cash A/c
(Being cash deposited into bank)

3. When cheque is received from customer and deposited into bank same day.

Bank A/c Dr.
To Customer's personal A/c
(Being cheques deposited into bank)

5. When cheque is received from customer and not deposited into bank same day.

Cheque-in-hand A/c Dr.
To customer's personal A/c

7. When payment is made through

cheque

Personal A/c Dr
To Bank A/c
(being payment made to.....by
cheque)

9. When interest is allowed by the bank.

BankA/c Dr To InterestA/c

(Being interest allowed by bank)

2. Cash withdrawn for office use.

Cash A/c Dr.
To Bank A/c
(Being cash withdrew
from bank for office use)

4. <u>Cash withdrawn for</u> <u>personal use by owner.</u>

Drawing A/c Dr.
To Bank A/c
(Being cash withdrew for personal use)

6. When above cheque (Point 5) is deposited later into bank

Bank A/c Dr
To cheque-in-hand A/c
(Being cheques deposited into bank received from......On......)

8. When expense is paid

through cheque.

Expense A/c Dr To Bank A/c (Being expense paid by cheque)

10. When Bank charges for the services provided.

Bank Charges A/c Dr To Bank A/c (Being Bank charges deducted)

Note:- (i) Bank A/c will be debited if the amount is deposited/credited by bank & Bank A/c will be credited if the amount is withdrawn/debited by bank.

(ii) Cash will be debited if business receives it & Credited if Business paid it.

Transaction related to Expense or Income

Expense paid by bank / Cash by the Business

Expense A/C Dr.

To Cash/ Bank A/C

(Being expense paid by cash/Bank)

3. Expense paid in advance Cash/Bank

Prepaid Expense A/C Dr.
To Cash/Bank A/C
(Being expense paid in advance by cash/ Bank)

5. Income due but not received

Accrued/Outstanding Income A/C Dr.
To Income A/C
(Being Income due but not received)

2. <u>Expense is outstanding</u> <u>during a current F.Y.</u>

Expense A/C Dr.
To Outstanding Exp. A/C
(Being expense is due but not paid)

4. <u>Income received in</u>

Cash/Bank A/C Dr To Income A/C (Being Income received in cash / bank)

6. <u>Income received in cash</u> /Bank in advance.

Cash/Bank A/C Dr.
To Prepaid Income A/C
(Being income received in advance)

Transaction related to Assets /Liabilities

When Assets is purchased in Cash/Bank

Assets A/C Dr.
To Cash/Bank A/C
(Being Assets purchased in cash/Bank.)

3. Assets Sold by the business

Cash/Bank A/C Dr.
To Assets A/C
(Being Assets sold in cash/Bank)

5. Payment of Liability

Liability A/C Dr.
To Cash/Bank A/C
(Being Liability paid in cash/Bank)

2. <u>Depreciation charged on</u> assets

Depreciation A/C Dr.
To Assets A/C
(Being Depreciation charged on assets @......%)

4. <u>Liability arise when</u> <u>business raise funds</u>

Cash/Bank A/C
To Liability A/C
(Being fund raised)

Dr.

Some other Journal Entries

1. <u>Bad Debts (when Debtors fail</u> to pay due)

Bad Debts

A/c

To Debtors A/C

(Being amount Bad Debts)

3. **Debtors Become insolvent**

Cash/Bank A/C Dr. (Amt. Received) Bad Debts Dr. (Amt. not rec.)

To Debtors A/C (the due amount) (Being Debtors become insolvent could pay only.....Paise in a Rupees)

5. Interest on drawing

Capital A/C

Dr.

To Interest on Drawing A/C (Being Interest on Drawing charged by business from capital A/C)

2. Bad Debts Recovered

Cash / Bank A/C Dr.

To Bad Debts Recovered

(Being bad debts recovered)

4. Interest on Capital

Interest on Capital A/C Dr.

To Capital A/C (Being Interest on capital credited by business in capital A/C)

Illustration 7: Pass necessary Journal entries relating to Mr. X for the month of January 2022.

2022

- Jan. 1 Started business with ₹20,000 and furniture ₹4,000
- Jan. 1 Bought shop fitting ₹4,000 and a car ₹6,000 and payment made in cash.
- Jan. 2 Paid into Bank ₹8,000.
- Jan. 3 Paid rent ₹2,000 by cheque.
- Jan. 10 Purchased on credit goods for ₹5,000 from Mr. Khatana.
- Jan. 12 Cash Sales ₹10,000.
- Jan. 15 Paid wages ₹500 and Commission ₹200 by cash.
- Jan. 20 Sold good to Shyam ₹15000 Bank charges ₹500.
- Jan. 21 Withdrew cash for personal use ₹5,000.
- Jan. 23 Bought goods for cash ₹14,000.
- Jan. 25 Paid to Mr. Khatana by cash ₹4,800 in full settlement of his account.
- Jan. 28 Received cash from Shyam ₹14,500 in full settlement of his account.
- Jan. 31 Salary outstanding for the month ₹5,000.
- Jan. 31 Paid insurance charges for whole year in advance ₹12,000.

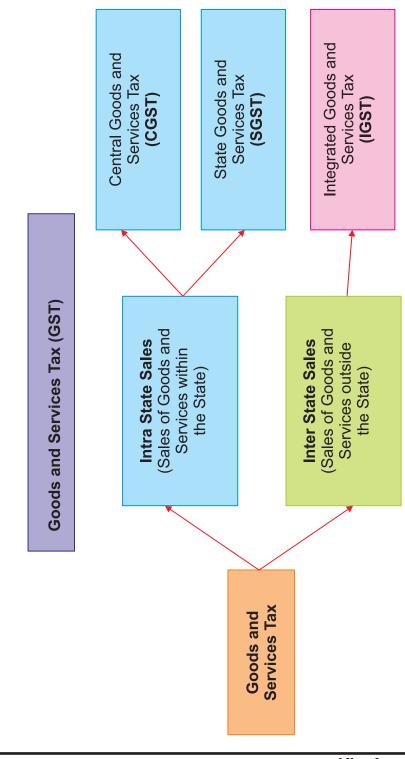
Solution: In the books of Mr. X.

Journal

Date	Particulars		L.F.	Amount (₹) Dr.	Amount (₹) Cr.
2022	Cash A/c	Dr.		20,000	
Jan-01 F	Furniture A/c	Dr.		4,000	
	To capital A/c				24,000
1	(Being business started with cash and furniture).				
F	Furniture & Fitting A/C	Dr.		4,000	
Jan-01 (Car A/C	Dr.		6,000	
	To Cash A/c				10,000
((Being Purchase of Fitting & Car.)				
E	Bank A/C	Dr.		8,000	
Jan-02	To Cash A/C				8,000
	(Being cash paid into Bank)				
F	RentA/C	Dr.		2,000	
Jan-03	To Bank A/C				2,000
	(Being rent paid by cheque)				
F	Purchases A/C	Dr.		5,000	
Jan-10	To Mr. Khatana				5,000
	Being goods purchased on Credit rom Mr. Khatana)				
	Cash A/C	Dr.		10,000	
Jan-12	To Sales A/C				10,000
	(Being goods sold for cash)				
	Commission A/C	Dr.		200	
Jan-15	Wages A/C	Dr.		500	
	To Cash				700
1 1 2	Being wages & Commission paid by cash)				
5	Shaym	Dr.		15,000	
Jan-20	To Sales A/C				15,000
((Being goods to Shyam on credit)				

Date	Particulars		L.F.	Amount (₹) Dr.	Amount (₹) Cr.
2022	Bank Charges A/C	Dr.		500	
Jan-20	To Bank A/C				500
	(Being bank charges debited from bank A/C)				
	Drawing A/C	Dr.		5,000	
Jan-21	To Cash A/C				5,000
	(Being cash withdrew for personal use))			
	Purchases A/C	Dr.		14,000	
Jan-23	To cash A/C				14,000
	(Being goods purchased by cash)				
	Mr. Khatana	Dr.		5,000	
Jan-25	To Cash A/C				4,800
	To Discount Received A/C				200
	(Being cash paid to Mr. Khatana in full Sett.)				
	Cash A/C	Dr.		14,500	
Jan-28	Discount allowed A/C	Dr.		500	
	To Shyam				15,000
	(Being cash received from Shyam in full sett.)				
	Salary A/C	Dr.		5,000	
Jan-31	To Outstanding Salary A/C				5,000
	(Being salary due but not paid)				
	Prepaid Insurance A/C	Dr.		11,000	
	Insurance A/C	Dr.		1,000	
Jan-31	To Cash A/C				12,000
	(Being insurance paid for the whole year)				

Note:- In the last entry insurance is paid for the whole year that's why insurance for 11 month is treated as prepaid & insurance for the month of January is treated as expense.



Goods and Services tax (GST)

Gst is an indirect tax levied on the sale of goods and rendering of services. **GST came into effect from July 1, 2017** and replaced existing multiple cascading taxes levied by the Central and State Governments.

GST is levied at every step in the production process, but is refunded to all parties in the chain of production other than the final consumer.

Goods and Services are divided into five tax slabs for collection of tax i.e. 0%, 5% 12%, 18% and 28% except petroleum products and alcoholic drinks.

Characteristics of GST

- Most of the indirect taxes of the Centre and states are integrated under the GST.
- (2) The Centre and States will store GST tax revenues at 50:50 ratio (except the IGST). The GST going to the centre is called Central GST and that goes to the states is known as State GST.
- (3) GST belongs to the VAT family as tax revenues are collected on the basis of value added i.e. GST paid (Input GST) is SET OFF AGAINST GST COLLECTED (OUTPUT GST) and thus GST is levied on the incremental value of goods or services supplied.
- (4) GST integrates goods and service taxes into one unified tax regime. Earlier goods and services were imposed and administered differently.
- (5) GST proposes a four-tier rate structure. The tax slabs are fixed at 5%, 12%, 18% and 28% besides the 0% tax on essentials.

Objectives of Goods and Services Tax

- (1) GST has eased the doing of business as most of the indirect taxes of centre and states are integrated under it (GST).
- (2) GST reduces the cost of goods as GST paid (input GST) is set off against GST collected (output GST) and thus tax on tax is eliminated.
- (3) GST ensure timely collection of taxes and electronic return filing which reduces the possibilities of tax evasion.
- (4) Introduction of GST and removal of multiple indirect taxes will increase foreign direct investment also in the country.
- (5) GST integrates goods and service taxes into one unified tax regime by eliminating various unnecessary indirect taxes.

Types of Taxes Under GST

GST is levied under following three types

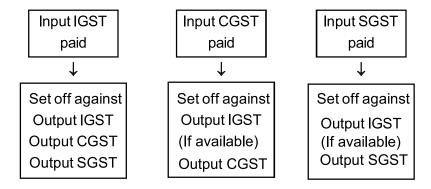
- (1) Central GST (CGST)
- (2) State GST (SGST)
- (3) Integrated GST (IGST)

Both CGST and SGST are levied on intra-state supply (i.e. sales within the state) at half of the prescribed rate of tax. Suppose the rate of GST is 18% then 9% will be levied as CGST and 9% as SGST. In fact, CGST indicate the share of Central Government while SGST indicate the share of State Government. In case of Union Territory like Delhi, Chandigarh etc. Union territory GST (UTGST) is levied instead of SGST alongwith CGST.

Integrated GST (IGST) is levied on inter state supply (i.e. sales out side the state) and the entire amount will go to Central Government. Suppose, a dealer of Gujarat Sell Goods of Worth ` 10,000 to a dealer of Maharastra and IGST rate is 18%, the ` 1800 will be charged as IGST by the Seller and the whole amount will go to Central Government.

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

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



Note: Input IGST is first set of against output IGST, then against output CGST and then against output SGST, if required.

Input CGST is fi rstset of against output IGST (If available) & then against output IGST

Similarly Input SGST is set of first against output IGST (If available) and then against output SGST, if required.

Accounting Entries/Journal Entries involving GST

(i)	For Purchase of Goods	3	
	Purchases	A/c	Dr
	Input CGST	A/c	Dr.
	Input SGST	A/c	Dr.
	To creditors/BankA/c		
(ii)	For Sale of Goods		
	Debtors/Bank	A/c	Dr.
	To Sales	A/c	
	To output CGST	A/c	
	To output SGST	A/c	
(iii)	For payment of expense		
	Expense	A/c	Dr.
	Input CGST	A/C	Dr.
	Input SGST	A/c	Dr.
	To Bank	A/c	
(iv)	For distributing goods as free	samples	
	Advertisement	A/c	Dr.
	To Purchases	A/c	
	To Input CGST	A/C	
	To Input SGST	A/c	

(v)	For Purchases returns		
	Creditor's	A/c	Dr.
	To purchases returns A	Vc	
	To Input CGST	A/c	
	To Input SGST	A/c	
(vi)	For Sales Returns		
	Sales Return	A/c	Dr.
	Output CGST	A/C	Dr.
	Output SGST	A/c	Dr.
	To Debtor's	A/c	
(vii)	For Purchase of Fixed Asse	ets.	
	Fixed Asset	A/c	Dr.
	Input CGST	A/c	Dr.
	Input SGST	A/c	Dr.
	ToBan kWendor	A/c	
(viii)	For setting off Input CGST	against output CGST.	
	Output CGST	A/c	Dr.
	To Input CGST	A/c	
(ix)	For setting off input SGST a	against output SGST.	
	Output SGST	A/c	Dr.
	To Input SGST	A/c	
(x)	For setting off input IGST ag	gainst output IGST	
	Output IGST	A/c	Dr.
	To InputIGST	A/c	
(xi)	For payment of GST to Gov	vernment.	
	Output CGST	A/c	Dr.
	Output SGST	A/c	Dr.
	OutputIGST	A/c	Dr.
	To Bank	A/c	

Illustration on Setting of GST

Illustration: 8 Based on following information make journal entries for setting of GST.

Input	CGST	4,000
Input	SGST	4,000
Input	IGST	5,000
Output	CGST	5,000
Output	SGST	5,000
Output	IGST	4,000

Date	Particulars			L.F.	Dr. ₹	Cr. ₹
	Output IGST	A/c	Dr.		4,000	
	To Input IGST	A/c				4,000
	(Being input IGST set of output IGST)	f agains	t			
	Output CGST	A/c	Dr.		5,000	
	To Input IGST	A/c				1,000
	To Input CGST	A/c				4,000
	(Being input CGST and set off against output C	•	ST			
	Output SGST	A/c	Dr.		5,000	
	To Input SGST	A/c				4,000
	To Bank	A/c				1,000
	(Being Input SGST Set	of again:	st output			
	SGST and balance paid	.)				

Illustration on Setting of GST

Illustration: 9 Journalise the following entries.

- (i) Goods costing ₹ 5000 were given as charity, which were purchased after payment of CGST and SGST @6% each.
- (ii) Goods costing ₹2000 were used by the proprietor, which were purchased after payment of CGST and SGST @12% each.
- (iii) Goods of ₹ 2000 were destroyed by fire which were purchased after payment of CGST and SGST @6% each.

Date	Particulars		L.F.	Dr. ₹	Cr. ₹
(i)	Charity A/c	Dr.		5,600	
	To Purchase A/c				5,000
	To Input CGSTA/c				300
	To Input SGSTA/c				300
	(Being goods given as charity)				
(ii)	Drawings A/c	Dr.		2,480	
	To Purchase A/c				2,000
	To Input CGSTA/c				240
	To Input SGSTA/c				240
	(Being goods used by proprietor)				
(iii)	Loss of Goods by Fire A/c	Dr.		2,240	
	To Purchase A/c				2,000
	To Input CGSTA/c				120
	To Input SGSTA/c				120
	(Being goods destroyed by Fire)				

Illustration based on GST and setting of GST

Illustration: 10

- (i) Goods costing ₹ 1,00,000 were sold to ram at a profit of 25% on cost less 10% Trade discount plus CGST and SGST @6% each.
- (ii) Ram was allowed rebate of ₹ 5,000 due to poor quality of goods sold to him.
- (iii) Goods having list price ₹40,000 were sold to Ravi at a trade discount of 10% plus CGST and SGST @6% each and allowed cash discount @10%. Half of the amount was paid immediately.

Date	Particulars		L.F.	Dr. ₹	Cr. ₹
(i)	Ram	Dr.		1,26,000	
	To sales A/c				1,12,500
	To output CGSTA/c				6,750
	To output SGSTA/c				6,750
	(Being goods sold to Ram)				
(ii)	RebateA/c	Dr.		5,000	
	Output CGSTA/c	Dr.		300	
	Output SGSTA/c	Dr.		300	
	To Ram				5,600
	(Being rebate allowed to Ram and out	put			
	CGST & SGST reversed)				
(iii)	Cash A/c	Dr.		18,144	
	Ravi	Dr.		20,160	
	Discount allowed A/c	Dr.		1,800	
	To Sales A/c				36,000
	To output CGSTA/c				2,052
	To output SGSTA/c				2,052
	(Being goods sold and cash discount				
	allowed on half payment received in ca	ash)			

Illustration based on GST and setting of GST

Illustration: 11 Journalise the following entries. Also set-off GST.

- (i) Purchased goods costing ₹ 1,50,000 within state after paying CGST and SGST @6% both.
- (ii) Sold goods for ₹ 2,00,000, CGST and SGST both levied on them @6%.
- (iii) Purchased goods for ₹ 1,00,000 from other state, IGST paid was 12%.
- (iv) Sold goods of ₹80,000 to other states, IGST paid was 12%.

Date	Particulars		L.F.	Dr. ₹	Cr. ₹
(i)	Purchase A/c	Dr.		1,50,000	
	Input CGSTA/c	Dr.		9,000	
	Input SGSTA/c	Dr.		9,000	
	To BankA/c				1,68,000
	(Being goods purchased for cash)				
(ii)	BankA/c	Dr.		2,24,000	
	To Sales A/c				2,00,000
	To output CGSTA/c				12,000
	To output SGSTA/c				12,000
	(Being goods sold for cash)				
(iii)	Purchase A/c	Dr.		1,00,000	
	Input IGSTA/c	Dr.		12,000	
	To BankA/c				1,12,000
	(Being goods purchased from other	state)			

Date	Particulars		L.F.	Dr. ₹	Cr. ₹
(iv)	BankA/c	Dr.		89,600	
	To Sales A/c				80,000
	To output IGSTA/C				9,600
	(Being goods sold to other state)				
			-		
(v)	Output IGSTA/c	Dr.		9,600	
	To Input IGSTA/C				9,600
	(Being Input IGST set off against				
	output IGST)				
(vi)	Output CGSTA/c	Dr.		12,000	
	To Input IGSTA/C			,	2,400
	To Input CGSTA/c				9,000
	To BankA/c				600
	(Being Input CGST & Input IGST set	off			
	against output CGST and balance pa	aid)			
(vii)	Output SGSTA/c	Dr.		12,000	
	To Input SGSTA/c				9,000
	To BankA/c				3,000
	(Being Input SGST set off against ou	tput			
	SGST and balance paid.)				

BOOKS OF ORIGINAL ENTERY/SPECIAL PURPOSE BOOKs

As the business grow in size so the number of transactions increases. It is therefore necessary for the business to look out for some way which is simple and time saving, so recording of transaction are done on the basis of nature of transactions like cash transactions, credit purchases/sale of goods, etc.

Following table will illustrate how transactions are classified and in which subsidiary book they are recorded:

S. No.	Nature of Transactions	Subsidiary Book Maintained
1.	Cash Transactions	Simple Cash Book (For transaction
		involving only cash)
		Double Column Cash book (For
		Cash and Bank Transactions)
		Petty Cash Book (For recording
		Petty Expenses)
2.	Credit Purchase of Goods	Purchases Book
3.	Credit Sale of Goods	Sales Book
4.	Sales Returns/ Return Inward	Sales Return Book
5.	Purchases Returns/ Return	Purchases Return Book
	Outward	
6.	All other transactions	Journal Proper

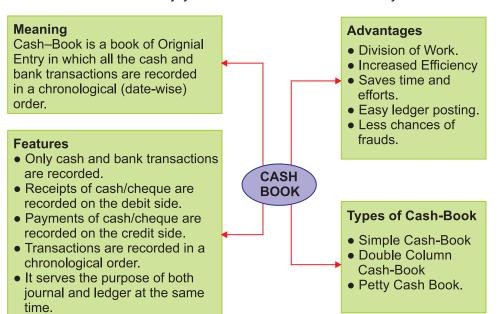
Advantages of Maintaining Subsidiary Books

- Division of work
- Leads to Specialization
- Easy to maintain Ledger
- Check on frauds
- Easy to fix responsibility
- · Quick availability of Required information.

Test your Understanding:

State in which book following transactions will be recorded:

- 1. Purchase of goods on credit.
- 3. Sale of goods to Archana.
- 5. Goods returned to Vijay.
- 2. Cash paid to creditors.
- 4. Purchase of furniture on credit.
- 6. Goods returned by Tarun.



Difference Between Cash book and Cash Account

Basis	Cash Book	Cash Account
1. Meaning	It is one of the book of original	t is a part of a Ledger,
	entry in which cash and bank	wherein transactions are
	transactions are recorded.	recorded from journal.
2. Need for	There is no need to maintain a	ransactions are posted
journal	separate journal for cash	from the journal so journal
	transactions.	needs to be maintained.
3. Journal or	Cash book is both journal and	Cash account is a ledger
Ledger	ledger as it is both subsidiary	
	book and principal book.	

Answer to Test Your Understanding

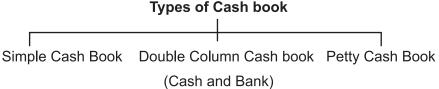
- 1. Purchases Book
- 2. Cash Book
- 3. Sales Book

- 4. Journal Proper
- 5. Purchases Returns Book
- 6 Sales Return Book

4. Recording	Bank transactions are	For Bank transactions a
of Bank	recorded In the double-	separate bank account need
transactions	column cash book itself and	to be maintained.
	there is no need to maintain	
	separate bank account.	

(1) Cash book

- ☐ Cash book is book in which cash as well as bank transaction are recorded in order of their occurrence (chronological order).
- All receipts are recorded on debit side of cash book (as cash is an asset and to increase asset it is debited)
- All payments are recorded on credit side of cash book (as cash is an asset and to decrease asset it is credited)
- □ Cash Book is both book of original entry (Journal) as well as Primary Book (Ledger). It is so because all cash and bank transactions are firstly recorded in cash book hence it is a journal and from there NO separate ledgers of cash and bank are maintained and cash book in itself is considered as ledger of cash and bank so it is also a Primary Book (Ledger).



A. Simple Cash Book

- Only cash receipts and cash payments are recorded in simple cash book.
- ☐ Transactions related to bank are not recorded in simple cash book.
- Receipts of cash are recorded on Dr. side of cash book.
- ☐ Payments of cash are recorded on Cr. side of cash book.
- □ Simple cash book can never have credit balance (negative balance) as one can't pay more that what one have e.g. if I have ₹100 in my pocket I cannot give ₹101 to any one. At the most it can have zero balance.

Format of simple cash book:

Dr. (+) Cash Book Cr. (–)

Date	Particulars	L.F.	₹	Date	Particulars	L.F.	₹
	Receipts of cash are recorded on Dr. Side				Receipts of cash are recorded on Cr. Side		

Illustrations 12:

Record the following transactions in the Cash Book (Single Column)

Date	Transactions	₹	Date	Transactions	₹
2022 Jan. 1	Cash in Hand	12,000	2022 Jan. 5	Received from Ram	3,000
Jan. 7	Paid rent	300	Jan. 8	Sold goods	3,000
Jan. 10	Paid to Shyam	7,000	Jan. 15	Purchased goods from Mohan	5,000
Jan. 27	Purchased furniture	2,000	Jan. 31	Paid Salaries	1,000

Cash Book (Single Column)

Dr. Cr.

Date	Particular	V.No	L.F.	₹	Date	Particular	V.No.	L.F.	₹
2022					2022 Jan. 07	By Rent A/C			300
Jan. 01	To Balance B/d			12,000	Jan. 10	By Shyam			7,000
Jan. 05	To Ram			3,000	Jan. 27	By Furniture A/C			2,000
Jan. 08	To Sales A/C			3,000	Jan. 31	By Salaries A/C			1,000
				10.000	Jan. 31	By Balacne C/d			7,700
				18,000					18,000
Feb. 1	To Balance b/d			7,700					70,000

Notes: One can draw the following conclusions:

- 1. In a Simple Cash Book only cash receipts and cash payments are recorded. Credit transaction are not recorded. Purchases from Mohan of ₹5,000 on 15th Jan is a credit purchase hence, is not recorded in the Cash Book.
- 2. The debit side is always bigger than the credit side since the payments can never exceed the available cash. This is true even for daily balances.
- 3. It is like an ordinary account.

Illustration 13:

Enter the following transactions in the cash book for the month of April 2022.

- April 1 Cash in hand ₹50,000
- April 11 Cash Sales ₹25,000
- April 12 Goods sold to Aryan on credit for ₹20,000
- April 13 Purchased goods from Khushi on credit for ₹30,000.
- April 14 Purchased stationary for ₹1,000 in cash.

- April 25 Received from Aryan ₹19,500 in full settlement.
- April 26 Paid to Khushi ₹29,000 as full & final payment.
- April 27 Deposited into bank ₹ 5,000.
- April 30 Paid to Vishal, on old creditor ₹9,800 & received discount of ₹200.

	Dr.			Cash B	Cash Book					
Date	Particular	V.No.	L.F.	Amount ₹	Date	Particular	V.No.	L.F.	Amount ₹	
2022 April 01 April 11 April 25	To Balance B/d To Sales A/C To Aryan			50,000 25,000 19,500	2022 Apr-14 Apr-26 Apr-27 Apr-30 Apr-30	By Stationery By Khushi By Bank A/C By Vishal By Bal. cjd			1,000 29,000 5,000 9,800 49,700	
				94,500					94,500	
Feb. I	To Balance b/d			49,700						

Double Column Cash Book (Cash and Bank)

In a business all transactions do not take place in cash only. Almost every business has bank account and deposit some of its cash into bank. Bank balance is nothing but cash at bank. Bank balance is nothing but cash at bank i.e, that cash which a business has kept in bank. There are transactions when bank balance increases and decreases.

So, it is feasible that along with cash a business maintain record of bank transactions too in same subsidiary book, as bank balance is nothing but cash which is in bank.

Preparation of Double Column Cash Book:

Format of Double Column Cash Bank

Dr.	Cash Book	C.
171-	CASH DOOK	Laf-

Date	Particulars	V.N.	L.F.	Cash ₹	Bank ₹	Date	Particulars	V.N.	L.F.	Cash ₹	Bank ₹

Whenever any payments are made through cheques, they are recorded on Cr. side of cash book but in bank column e.g. Paid rent by cheque ₹ 500

Similarly, when there is an increase in bank balance they are recorded on Dr. side of cash book but in bank column e.g., Received cheque from Pooja and deposited in bank $\rateright 1,000$

Lets see this with simple transactions:

Jan. 6 Received cheque from Pooja and deposited in bank ₹ 1,000

Jan. 8 Paid rent by cheque ₹ 500

Dr.											Cr.
Date	Particulars	V.N.	L.F.	Cash ₹	Bank ₹	Date	Particulars	V.N.	L.F.	Cash ₹	Bank ₹
Jan 6	To Pooja				1,000	Jan 8	By Cash A/C		С		500

Besides this there two more very important concepts to understand while preparing Double Column Cash Book.

- Treatment of Contra Entries.
- Treatment of cheques when they are received.

(i) Treatment of Contra Entries

Contra Entries are those entries in which cash and bank are affected at the same time i.e., when cash is increased and at the time same time bank is decreased and vice-vera. There are two types of contra entries:

(a) Cash paid into bank/Deposited into bank/Banked

In this transaction cash is being deposited in bank hence cash balance will decrease but at the same bank balance will increase.

Journal entry for this will be:

Bank A/c Dr. (Bank balance will increase)

To Cashs A/c (Cash balance will decrease)



Lets See posting of this:

Jan 7. Deposited cash into bank ₹ 600

Dr. Cr.

Date	Particulars	V.N.	L.F.	Cash ₹	Bank ₹	Date	Particulars	V.N.	L.F.	Cash ₹	Bank ₹
Jan 7	To Cash		С		600	Jan 7	By Bank A/C		O	600	

- To indicate contra entry 'C' is mentioned in L.F. column.
- In this bank balance is being increased so bank column is debited and cash is decreased so cash column is credited.

(b) Cash drawn from bank for office use/Cash drawn from bank/Cashed a cheque

In this transaction cash is being drawn from bank hence cash balance will debited and cash is decreased so cash column is credited.

Journal entry for this will be:

Cash A/c Dr. (Cash balance will increase)

To bank A/c (Bank balance will decrease)



Lets see posting of this:

Jan 9. Drawn form bank ₹ 700

Cash Book

Date	Particulars	V.N.	L.F.	Cash ₹	Bank ₹	Date	Particulars	V.N.	L.F.	Cash ₹	Bank ₹
Jan 9	To Bank A/c		С		700	Jan 9	By cash A/c		С		700

- To indicate contra entry 'C' is mentioned in L.F. column.
- In this cash balance is being icreased so cash column is debited and bank is decreased so bank column is credited.

(ii) Treatment of cheques when they are received.

Another concept to understand is treatment of any amount received in from of cheque. Here, point to notice is the whether cheque received is deposited on the same date i.e., on the date of receipt or later.

Let us understand this with following transactions:

Jan 4. Received a cheque from Kapil and deposited in bank ₹ 500

Jan 6. Received a cheque from Nikhil ₹ 700

Jan 10. Deposited Nikhil's cheque into bank

Jan 15. Received a cheque from Tarun ₹ 800

Dr. Cash Book Cr. Particulars V.N. L.F. Date Date Cash Bank Particulars V.N. L.F. Cash Bank 500 Jan 4 To Kapil To Cheques 700 Jan 10 in hand A/c Jan 15 To Tarun

When it is given that cheque is received and deposited in bank on same day it is debited to bank column on same day e.g on Jan 4 cheque is received from Kapil and deposited in bank.

When a cheque is received and nothing is mentioned wether it is deposited in bank on same day or not then read the question till end and see whether that cheque is deposited on some later day or not.

Now, two possibilities can be there-

- (i) That cheque is deposited on later date e.g. Cheque is received from Nikhil on Jan 6 but after reading the questions further we notice that Nikhil's cheque is deposited in bank on Jan 10. In this case we will not enter any entry in cash book on Jan 6 (when cheque is received) we will treat cheque as cheque in hand in hand till the day when it is deposited in bank. On jan 10 (When cheque is deposited in bank) bank account will be debited with cheque in hand.
- (ii) When nothing is mentioned about whether cheque is deposited on same day or later then it is assumed that cheque is deposited on the same day when it is received. As in above case, cheque is received from Tarun on jan 15 and nothing is mentoned about Tarun's cheque hence it is debited to bank column on same day.

Illustration 14:

Record the following transactions in the cash book with cash and Bank columns. (Year: 2022)

- Jan.1 Cash balance ₹10,000 & Bank balance ₹7,000.
- Jan.2 Cash received from sale of furniture ₹8,000 & paid into Bank ₹5,000.
- Jan. 5 Paid to Mr. Kasana by cheque ₹2,000, who allowed discount of ₹50.
- Jan.10 Received cheque from Mr. Nagar for ₹2,400 and allowed him discount of ₹100.
- Jan.15 Paid wages by cash ₹500 and salaries by cheque ₹1,000.
- Jan.20 Deposited Mr. Nagar cheque into Bank.
- Jan.22 Drawn from Bank for office use ₹2,000.
- Jan.25 Withdraw cash ₹1,000 and from bank ₹500 for personal use.
- Jan.30 Received cheque from Mr. Lohiya for ₹2,500 and paid into Bank.

Cash Book (with Cash & Bank Column)

		Dr.				Cr.					
Date	Particulars	V.N.	L.F.	Cash ₹	Bank ₹	Date	Particulars	V.N.	L.F.	Cash ₹	Bank ₹
2022 Jan 1	To Bal b/d			10,000	7,000	2022 Jan 2	By Bank A/C		С	5,000	
Jan 2	To Furniture			8,000		Jan 5	By Mr. Kasana				2,000
Jan 2	To Cash A/c		С		5,000	Jan 15	By Wages A/C			500	
Jan 20	To Cheque in Hand				2,400	Jan 15	By Salaries A/C				1,000
Jan 22	To Bank A/c		С	2,000		Jan 22	By Cash		С		2,000
Jan 30	To Mr. Lohiya			20,000	2,500 16,900	Jan 25	By Drawing A/C By Bal. c/d			1,000 13,500	500 11,400
				20,000	16,900	Jan 31	_,			20,000	16,900
Feb 1	To Bal. b/d			13,500	11,400						

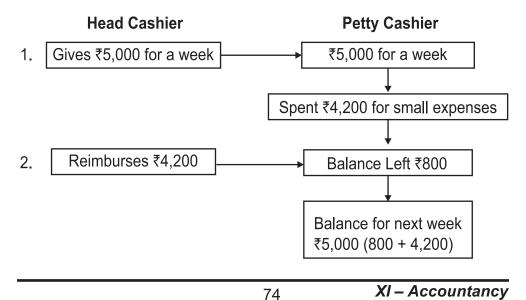
Petty Cash Book

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

Imprest System of Petty Cash Book

Under this system, Head cashier gives a fixed amount to petty cashier for a definite period. At the end of given period, Head cashier reimburses the amount actually spent by the petty cashier resulting the same amount with petty cashier which he had in the beginning of the period

This can be illustrated as under.



Advantage of Petty Cash Book

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

Illustrations: 15

Prepare a Petty Cash book on the imprest system from the following transactions:-

2022		Amt. (₹)
Jan.1	Receive cash from Head cashier	1000.00
Jan.2	Bought stationery	80.00
Jan.3	Paid for registered post	120.00
Jan.4	Bought Pen/Pencils for office use	90.00
Jan.4	Paid for Speed Post	50.00
Jan.5	Paid for refreshment	250.00
Jan.6	Bought postal stamps	40.00

Solution:

Petty Cash Book

Receipts	Date	Particular	V. No.	Total Expense	Stationary	Postage	Sundries
	2022						
1000	Jan. 1	To Cash					
	Jan. 2	By Stationery		80	80		
	Jan. 3	By Postage		120		120	
	Jan. 4	By Stationery		90	90		
	Jan. 4	By Speed Post		50		50	
	Jan. 5	By Refreshment		250			250
	Jan. 6	By Postage		40		40	
	Total Jan. 7			630	170	210	250
	Jan. 7	By Bal. c/d		370			
370	Jan. 8	To Bal. b/d					
630	Jan. 8	To Cash A/C					

Cash Book Involving GST

Illustration: 16
Prepare Single Column Cash Book for the month of June 2022, from the following transactions.

20:	22		₹
June	1	Cash in hand	17,500
June	4	Cash sales, including CGST and SGST @ 6% each	1,72,480
June	5	Deposited Cash into Bank	1,40,000
June	5	paid Cheque to a Creditor ₹34,930 after	
		deducting Cash Discount of ₹2,170	
June	6	Salary paid in cash	15,750
June	6	Cash Sales of ₹1,26,000 plus CGST and	
		SGST @ 6% each. Out of which ₹1,40,000	
		was deposited in Bank on June 9.	
June	11	Paid Cash ₹3,150 plus CGST and SGST @ 6%	
		each to Delhi Transco Ltd. against their Bill No. 186.	
June	22	Paid Cash for Office Lighting repair Deposited CGST and SGST @6% each on above	1,400
June	23	Purchased Goods on Credit from Varun &	
		Co. ₹10,500 plus IGST @ 12%	
June	25	paid Cash to Tarun, a creditor, after deducting	
		discount ₹350.	6,650
June	27	Paid Telephone Bill in Cash	6,300
June	30	Cash Collected from Naman (Debtor)	
		₹31,500 after allowing discount of ₹1,750.	

Dr.	Cash Book	Cr.

Date	Particulars	L.F.	₹	Date	Particulars	L.F.	₹
2022 June 1	To Balance b/d		17,500	2022 June 5	By Bank A/c		1,40,000
June 4	To sales A/c		1,54,000	June 6	By Salary A/c		15,750
June 4	To Output CGSTA/c		9,240	June 8	By Bank A/c		1,40,000
June 4	To Output SGSTA/c		9,240	June 11	By Freight A/c		3,150
June 6	To Sales A/c		1,26,000		By Input CGSTA/c		189
June 6	To Output CGST A/c		7,560		By Input SGSTA/c		189
June 6	To Output SGSTA/c		7,560	June 22	By Office Expenses A/c		1,400
June 30	To Naman		31,500	June 22	By Input CGSTA/c		84
				June 22	By Input SGSTA/c		84
				June 26	By Tarun		6,650
				June 27	By Telephone Exp. A/c		6,300
				June 30	By Balance c/d		48,804
			3,62,500				3,62,500
July 1	To Balance b/d		48,804				

Double Column Cash Book Question

Illustration: 17

Prepare Double Column Cash Book for the month of June 2022, from the following transactions.

2022		
June	1	Cash in Hand ₹ 1,440, Overdraft at bank ₹ 18,000
June	4	Capital introduced ₹ 24,000 out of which ₹ 19,200 is by cheque and is deposited in the bank.
June	5	Purchased goods from Tanu Traders, Jaipur for ₹ 3,600 CGST and SGST @ 6% each and they allowed trade discount ₹ 240. The amount was paid by cheque.
June	5	Good purchased for cash ₹ 4,800 plus CGST and SGST @ 6% each.
June	6	Sold good to Naresh on credit ₹ 6,000 plus CGST and SGST @ 6% each.

2021		
June	7	Received cheque from Sanjay₹ 2,940. Allowed him discount ₹ 60.
June	11	Cheque received from Sanjay deposited into bank.
June	12	Settled the account of Uday & Co. ₹ 900 by paying cash ₹816
June	13	Cash received from Naresh ₹ 5,700 in full settlement of his account of ₹6,000
June	17	An amount of ₹ 1,200 due from Pawan & Sons written off as bad debts in the previous year, now received.
June	18	Received from Naveen on behalf of Navjot ₹ 240.
June	20	Received a cheque for ₹ 960 from Naman, which was endorsed to Om.
June	21	Old furniture sold for ₹ 840 plus CGST and SGST @ 6% each, payment received in cash.
June	26	Withdrawn from bank₹ 3,600.
June	26	Drew from bank for household expenses ₹1,200 and for income tax ₹ 600
June	29	Trupti, who owed ₹480 became insolvent and paid 60 paise in a rupee.
June	29	Received repayment of a loan advanced to Sunny ₹ 3,600 and deposited out of it ₹ 3,000 into the bank.
June	30	Interest debited by bank ₹450.
June	30	Deposited with the bank the entire balance after retaining ₹ 2,400 at office.

TWO COLUMN CASH BOOK

Dr. Cr.

Date	Particulars	L.F.	Cash ₹	Bank ₹	Date ₹	Peculators	L.F.	Cash ₹	Bank ₹
2022 June 1	To bala nce b/d		1,440	1 11	2022 June 1	By Bala nce b/d		111	18,000
June 4	To Cap ital A/c		4,800	19,200	June 5	By Purc hases A/c			3,360
June 11	To Che que in Hand A/ c			2,940	June 5	By hp ut CGST A/c			202
June 13	To Naresh		5,700		June 5	By Input SCST A/c			202
June 17	To Bad Debts				June 5	By Purc hases A/c		4,800	
	Recover ed A/c		1,200						
June 18	To Navjot		240		June 5	By in put CGST A/c		288	
June 21	To Fur rit ure A/c		840		June 5	By Input SCST A/c		288	
June 21	To Output G S T A/c		51		June 12	by Uda y & co		816	111
June 21	To Output SGST		51		June 26	by cas h A/c	С		3,600
	A/c								
June 26	To Ba nk A/c	С	3,600		June 26	By Drawnig s A/c			1,800
June 29	To Tup ti		288	• •	June 29	By Bank A/c	С	3,000	
June 29	To Lo an to Sunny A/ c		3,600		June 30	By Intee st A/c			450
June 29	To Cas h A/c	С	1 11	3,000	June 30	By Bank A/c	С	10,218	
June 30	To Cas h A/c	С	•••	10,218	June 30	By Bal ance c/d		2,400	7,744
			21,810	35,358	35,358			21,810	35,358
July 1	To Bala nce b/d		2,400	7,744					

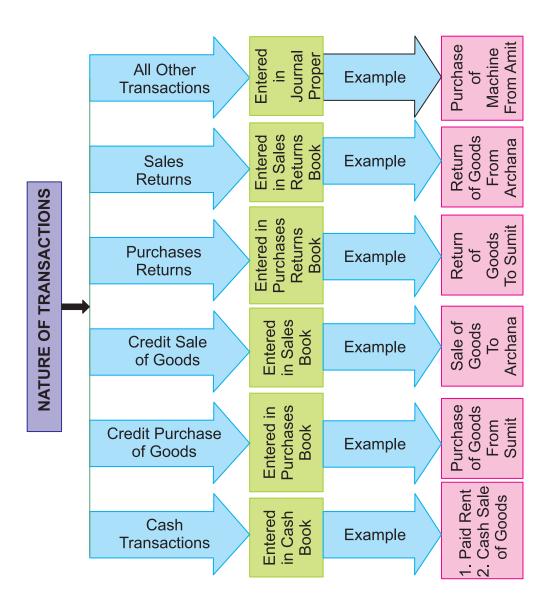
Notes:

Cash in hand before retaining ₹2400

$$= (1440 + 4800 + 5700 + 1200 + 240 + 840 + 51 + 51 + 3600 + 2800 + 3600) - (480 + 288 + 288 + 816 + 3000)$$

= 12618

Out of this ₹2400 is retained and remaining transferred to bank i.e. 12618 – 2400 = 10218



SPECIAL PURPOSE SUBSIDIARY BOOKS

Purchase Book

In this book, only those transactions are recorded which are related to credit purchases of goods in which the business deals in. Recording is made on the basis of Bills/ Invoices issued by the Suppliers.

Transactions not recorded in purchases Book

- Purchases of goods for cash.
- Purchases of Assets meant for long term, not for resale.

Illustration: 18

Enter the following transaction in the Purchase Book of M/s Ajeet Stationers.

2022

Aug.1	Bought from Aggarwal Book House (Invoice No. 205)
	25 Dozen Pencils @ ₹30 per dozen
	20 Dozen Ball pens @ ₹10 per pen Trade discount @₹10%

Aug. 5 Brought furniture of ₹20,000 on credit from M/s Interior Decor (Invoice No. 109)

Aug.8 Shivani Bros, sold to us (Invoice No. 626)

30 Registers @ ₹50 each

50 Note Books @ ₹20 each

Aug.17 Brought from Tushar stationers: (Cash Memo No. 101)

300 Refills @ ₹5 each

10 Ink pads @ ₹50 each

Trade discount @ 10%

Solution: In the Books of M/s Ajeet Stationers.

PURCHASES BOOK

Date	Particular	Inv. No	LF.	Detai/s ₹	Amount ₹
2022	Agarwal Book House	205			
Aug. 1	25 Dozen Pencils @ Rs. 30 per dozen			750	
	20 Dozen Ball pens @ Rs. 10 per pen			2400	
				3150	
	Less:-Trade discount@ 10%			315	2835

SALES BOOK

Date	Particular		Inv. No.	LF	Details ₹	Amount ₹
Aug. 8	<u>Shivani Bros.</u>		626			
	30 Registers @ ₹50 each 50 Note Books @ ₹20 each				1500	2500
					1000	2500
Aug. 31	Purchase A/c	Dr.				5335

- 1. Transaction of Aug 5 is related to purchase of furniture and not goods
- 2. On Aug 17 goods are bough for cash, hence to be recorded by cash book.

Sales Books/Sales Journal

In this book, transactions for credit sales of goods are recorded. The source documents for this book is duplicate copy of invoice/bills issued to the customers.

Transactions not recorded in Sales Book

- Sales of goods for cash
- Sales of Assets

Illustration: 19

From the following transactions. Prepare a Sales Book of Subhash Furnitures.

2022

Jul.7	Sold to Anil furniture house (Invoice No. 107)				
	200 Tables @ ₹150 each				
	100 Chairs @ ₹100 each				
	Trade discount @ 10%				
Jul.8	Sold Air Conditioner to Ram ₹12,000				
Jul.20	Sold to Rama Furnitures (Cash Memo No. 3001)				
	10 Beds @ ₹ 2,500 each				
Jul.29	Sold to Jitesh Woods (Invoice No. 506)				
	10 Dressing Tables @ ₹1,700 each				
	5 tables @ ₹500 each.				
	Trade Discount @ 10%				

Solution:

In the books of M/s Subhash Furniture

Date	Particular		Inv. No	LF.	Details ₹	Amount ₹
2022	Anil Furniture House		107			
Jul-07	200 Tables @ ₹150 each				30.000	
	100 Chairs @ ₹100 each				10,000	
					40.000	
	Less:-Trade discount@ 10%				4,000	36.000
Ju⊦29	<u>Jitesh Woods</u>		506			
	10 Dressing tables @ ₹ 1.700 each				17,000	
	5 tables @ ₹ 500 each				2,500	
		•			19,500	
	Less:-Trade discount@ 10%				1950	17,550
Jul-31	Sales A/c	Cr.				53,550

Note:-

- 1. Transaction of July 08 is related to sale of asset,
- 2. Sale of Rama Furniture is made for cash, hence not recorded in Sales Book.

PURCHASES RETURNS / RETURNS OUTWARD BOOK

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

A Debit note contains the name of the supplier to whom good are returned, details of goods returned.

Illustration: 20

Enter the following transactions in the Purchases Returns Book of Vikas Traders

2022

Aug. 5 Returned to Agarwal Book House (Debit Note No. 105)

5 Dozen Pencils @ ₹30 per Dozen

Trade Discount @ 10%

Aug. 10 Returned to Shivani Bros. (Debit Note No. 106)

5 Resisters @ ₹50 each.

Solution: In the Books of M/s Vikas Traders

PURCHASE RETURNS BOOK

Date	Particular		Dr. Note	LF.	Details ₹	Amount ₹
2022 Aug-5	Aggarwal Book House 5 Dozen Pencils @ ₹30 per dozen		105		150	
riag o	Less : Trade Discount @ 10%				15	135
Aug-10	<u>Shivani Bros.</u> 5 Registers @ ₹50 each		106		250	250
Aug-31	Purchase Returns A/c	Cr.				385

SALES RETURN BOOK

This book includes all the returns by customers of credit sales of goods. The Credit Note is used for recording entries in this book. The credit note contains the details of customers and goods returned.

Illustration: 21

From the following transactions, Prepare a Sales Returns Book of Subhash Furnitures.

2022 Returned by Anil furniture house (Credit Note No.209)

Jul-09 5 Table @ ₹150 each

10 Chairs @ ₹100 each Trade discount @ 10%

Jul-30 Returned by Jitesh Woods (Credit Note No.210)

1 Dressing tables @ ₹1700 each

Trade discount @ 10%

Solution: In the books of M/s Subhash Furnitures

SALES RETURN

Date	Particular	Cr. Note	LF.	Details ₹	Amount ₹
2022	Anil Furniture House	209			
Ju⊦07	5 Table @ ₹150 each			750	
	10 Chairs @ ₹100 each			1,000	
				1,750	
	Less:-Trade discount @ 10%			175	1,575
Jul-29	<u>Jitesh Woods</u>	210			
	I Dressing tables @ ₹1,700 each			1,700	
	Less:-Trade discount @ 10%			170	1,530
Ju⊦31	Sales Returns A/c Dr.				3,105

Illustration: 22

Prepare the Purchase Book and Purchase return book from following assuming CGST and SGST is levied @ 6% each.

2022

1April Purchased on Credit from Pareek Bros., Delhi

10 reams of paper @ ₹ 600 per ream

12 registers @ ₹ 1000 per dozen

Less: Trade Discount @ 10%.

10 April Purchased on Credit from Arora Book Depot, Delhi.

10 dozen registers @ ₹ 500 per dozen

12 boxes of pencils @ ₹ 1000 per box.

Less: Trade Discount @ 10%

12 April Returned 6 dozen registers to Arora Book Depot.

15 April Returned 5 reams of papers to Pareek Bros. Delhi.

Solution :-

PURCHASE BOOK

				Input	Input	Input		
Date	Parti culars	Invoice	Details ₹	Cost ₹	CGST ₹	SGST ₹	IGST ₹	Total ₹
2022								
April-1	Pareek Bros. Delhi							
	10 reams of paper @ ₹600 per ream		6000					
	12 registers @ ₹1000 per dozen		1000					
	g @ µ		7000					
	Less: Trade Discou nt @ 10%		700					
			6300					
	Add:							
	CGST @ 6%		378					
	SGST @ 6%		378					
			7056	6300	378	378	-	7056

April-10	Arora Book Depot						
	10 dozen registers @ ₹500 per dozen	5000					
	12 boxes of pencils @ ₹1000 per box	12000					
		17000					
	Less: Trade Dicou nt @ 10%	1700					
		15300					
	Add:						
	CGST @ 6%	918					
	SGST @ 6%	918					
April-30		17,136	15,300	918	918	-	17,136
	Total		21,600	1296	1296	-	24,192

PURCHASE RETURN BOOK

Date	Particulars	Debit	L	Details	Cost	Input	Input SGST	Input IGST	Total
		Note No.	F	₹	₹	SGST ₹	₹	₹	₹
2022									
April-12	Arora Book Depot								
	6 dozen registers @ ₹500 per dozen			3000					
	Less: Trade dis∞unt @ 10%			300					
				2700					
	Add: CGST @ 6%			162					
	S GST @ 6%			162					
				3024	2700	162	162	-	3024
April-15	Pareek Bros., Delhi								
	5 reams of papers @ ₹ 600 per ream			3000					
	Less: Trade Discount @ 10%			300					
				2700					
	Add: CGST @ 6%			162					
	SGS T @ 6%			162					
April-30				3024	2700	162	162	-	3024
	Tot	al			5400	324	324	-	6048

Illustration: 23

From the following transactions of M/S Virender & Co. of Lucknow. Prepare Sales Book.

2022

Feb. 1 Sold to Anil Furniture House, Jabalpur (Invoice No. 108)

200 tables @ ₹150 each

100 chairs @ ₹100 each

Trade Discount @ 10%

and IGST is charged 18%.

Feb. 6 Sold to Rama furniture, Lucknow (Cash Memo No. 3005)

10 beds @ ₹ 2500 each

and charged CGST and SGST @ 9% each

Feb. 7 Sold to Jitesh Furniture, Lucknow (Invoice No. 121)

10 dressing table @ ₹ 1700 each.

5 tables @₹ 500 Each.

Trade discount @ 10%

and charged CGST and SGST @ 9% each.

Solution:

M/s Virender & Co., Lucknow

SALES BOOK

Date	Particula rs	Invoice No.	L F	Details ₹	Sales Values ₹	Output SGS T ₹	Output SGST ₹	Output IGST ₹	Total ₹
2022									
Feb. 1	Anil Furniture House,	108							
	Jabalp ur								
	200 Tables @ ₹150 each			30,000					
	100 chairs @ ₹ 100 each			10,000					
				40,000					
	Less: Trad e Discount 10%			4,000					
				36,000					
	Add: IGST 18%			6,480					
				42,480	36,000			6,480	42,430

Feb. 7	Jitesh Furniture, Lucknow	121						
	10 Drawing table @ ₹ 1700 each		17000					
	5 Tables @ ₹ 500 each		2500 19500					
	Less: Trade Discount 10%		1950					
			17550					
	Add: CGST 9%		1580					
	SGST 9%		1580					
Feb. 28			20710	17550	1580	1580		20710
			53500	1580	1580	6480	63190	

Illustration: 24

From the following transactions, prepare Sales Return Book of M/s. Virender & Co. of Lucknow.

2022

Feb. 4 Returned by Anil Furniture House, Jabalpur.

(Credit Note No. 215)

5 tables @ ₹150 each.

10 chairs @ ₹100 each

Trade Discount 10%

IGST is charge @ 18%

Feb. 9 Returned by Jitesh Furniture, Lucknow

(Credit Note No. 217)

1 dressing table @ ₹1700 each

Trade Discount 10%

CGST and SGST @ 9% each.

Solution :-

Books of M/s Virender & Co., Lucknow

SALES RETURN BOOK

Date	Particulars	Credit Note No.	L F	Details ₹	Value ₹	Output SGST (Dr.) ₹	Output SGST (Dr.) ₹	Output IGST ₹	Total ₹
202 2 Feb. 4	Anil Furniture House Jabalpur 5 Tables @ ₹ 150 each 10 Chairs @ ₹ 100 each Less: TradeD si count 10% Add. IGST 18% Jitesh Furniture, Lucknow 1 Dra wing table @ ₹ 11700 each Less: Trade Discount 100% Add: CGST 9% SGST 9%			750 1000 1750 175 1575 284 1859 1700 170 1530 138 138	1575			284	1859
				1806	1530	138	138	=	1806
					3105	138	138	274	3665

TEST YOUR LEARNING

Objective Type Questions:-

- 1. State whether following statements are true or false
 - (i) A journal is known as a book of final entry.
 - (ii) The term credit, as it is used in recording journal entries, means to increase the balance of an account.
 - (iii) A journal entry in which more than two accounts are involved is known as a combined journal entry.
 - (iv) Cash sales are entered in sales journal.
 - (v) Ledger is a subsidiary book.
 - (vi) Transaction recorded both on debit and credit side of cash book is known as contra entry.
 - (vii) Prepaid Insurance will increase when debited.
 - (viii) The left side of an account is always the debit side and always the increase side.
 - (ix) Journal is a book of secondary entry.
 - (x) One debit account and more than one credit account in a entry is called compound entry.
 - (xi) Assets sold on credit are entered in sales journal.
 - (xii) Cash and credit purchases are entered in purchase Journal.
 - (xiii) Cash book records transactions relating to receipts and payments.
 - (xiv) Petty cash book is a book having record of big payments.
 - (xv) Cash received is entered on the debit side of cash book.
 - (xvi) Balancing of account means total of debit and credit side.
 - (xvii) Credit purchase of machine is entered in purchase journal.

Choose the Correct Answer: -

- 2. Double column cash book records
 - (i) All Transactions
 - (ii) Cash and Bank Transactions
 - (iii) Only cash transactions
 - (iv) Only bank transactions
- 3. Voucher is prepared for:

- (i) Cash received and paid
- (ii) Cash/Credit sales
- (iii) Cash/Credit purchase
- (iv) All of the above
- 4. Voucher is prepared from:
 - (i) Documentary evidence
 - (ii) Journal entry
 - (iii) Ledger account
 - (iv) All of the above
- 5. Recording of transaction in the Journal is called:
 - (i) Casting
 - (ii) Posting
 - (iii) Journalising
 - (iv) Recording
- 6. The journal entry to record the sale of services on credit should include:
 - (i) Debit to debtors and credit to capital.
 - (ii) Debit to cash and Credit to debtors.
 - (iii) Debit to fees income and Credit to debtors.
 - (iv) Debit to debtors and Credit to fees income.
- 7. The journal entry to record purchase of equipment for ₹ 5,00,000 cash and a balance of ₹ 1,00,000 due in 30 days include:
 - (i) Debit equipment for ₹5,00,000 and Credit cash ₹5,00,000.
 - (ii) Debit equipment for ₹ 6,00,000 and Credit cash ₹ 5,00,000 and creditors ₹ 1,00,000.
 - (iii) Debit equipment ₹5,00,000 and Credit debtors ₹6,00,000.
 - (iv) Debit equipment ₹6,00,000 and Credit cash ₹6,00,000.
- 8. Credit balance of bank account in cash book shows:
 - (i) Overdraft
 - (ii) Cash deposited in our bank
 - (iii) Cash withdrawn from bank
 - (iv) None of these
- 9. If a transaction is properly analysed and recorded:
 - (i) Only two accounts will be used to record the transaction.

- (ii) One account will be used to record transaction.
- (iii) One account balance will increase and another will decrease.
- (iv) Total amount debited will equals total amount credited.
- 10. Journal entry to record paid salaries will include:
 - (i) Debit salaries Credit cash.
 - (ii) Debit capital Credit cash.
 - (iii) Debit cash Credit salary.
 - (iv) Debit salary Credit creditors.
- 11. Cash withdrawn by the Proprietor should be credited to:
 - (i) Drawings account
 - (ii) Capital account
 - (iii) Profit and loss account
 - (iv) Cash account
- 12. Find the correct statement:
 - (i) Assets decrease in the Credit
 - (ii) Expenses increase in the Credit
 - (iii) Revenue increase in the Debit
 - (iv) Capital increase in the Credit
- 13. The book in which all accounts are maintained is known as:
 - (i) Cash Book
 - (ii) Journal
 - (iii) Purchases Book
 - (iv) Ledger
- 14. Goods purchased on cash are recorded in the
 - (i) Purchases (journal) book
 - (ii) Sales (journal) book
 - (iii) Cash book
 - (iv) Purchases return (journal) book

EXERCISE

- 1. Pass journal entries
 - (i) Mukesh started business with cash ₹ 20,000, furniture ₹ 5,000 and machinery ₹ 10,000.
 - (ii) Paid into bank ₹ 5,000.
 - (iii) Purchased goods from Kapil ₹ 10,000.
 - (iv) Sold goods to Nikhii ₹ 16,000.
 - (v) Paid to Kapil ₹ 9.500, discount received ₹ 500.
 - (vi) Received from Nikhii ₹ 15,000, Discount allowed ₹ 1,000.
 - (vii) Amount drawn for personal use ₹ 2,000.
 - (viii) Paid salaries ₹ 4,000.
 - (ix) Received rent ₹5,000.
- 2. Pass journal entries in the books of Rahul
 - (a) Started business with ₹20,000.
 - (b) Opened a current account ₹ 10,000.
 - (c) Purchased a furniture and paid by cheque ₹7,000.
 - (d) Paid rent of building by cheque ₹ 6,000, one third of building is used by proprietor for residential use.
 - (e) Drew from bank ₹ 1,000.
 - (f) Drew from bank for personal use ₹ 500.
 - (g) Sold household furniture ₹ 2,000 and paid the money into business.
- 3. Journalise
 - (a) Amount due from Sushil ₹ 2,000 is not recoverable.
 - (b) 'X' became insolvent and first and final compensation of 75 paise in rupee was received from his official receiver. He owed me a debt of ₹2,000.
 - (c) Received cash for bad debts written off last year ₹ 2,000.
 - (d) Rent due to landlord ₹500.
 - (e) Salaries due to managers ₹ 2,000.
 - (f) Depreciation on machinery @ 10% p.a. for 3 months (value of machinery-₹20,000).
 - (g) Interest on capital ₹ 1,000.
 - (h) Interest on drawings ₹ 500.
- 4. Pass journal entries
 - (a) Goods given as charity ₹3,000.(Cost price ₹2,000)

- (b) Goods given as free samples ₹ 2,000.(Cost price ₹ 3,000)
- (c) Goods destroyed by fire ₹ 10,000, insurance claim admitted ₹ 6,000.
- (d) Goods used by proprietor for domestic use ₹ 400.
- (e) Goods used for making tools for use in the factory ₹700.
- (f) Paid wages for installation of new machinery ₹ 500.
- (g) Paid cartage for newly purchased furniture ₹ 1,000.
- (h) Paid acquisition charges at the time of purchase of buildings ₹ 600.
- (i) Paid custom duty on import of machinery ₹ 6,000.

5. Journalise

- (a) Purchased goods for cash ₹ 3,000.
- (b) Purchased machinery for cash ₹ 4,000.
- (c) paid rent ₹500.
- (d) Paid rent to Sushil ₹ 400.
- (e) Paid salaries to Mukesh ₹ 500.
- (f) Received a cheque from Sumit ₹ 600.
- (g) Sumit's cheque returned dishonoured.
- (h) Paid cartage for newly purchased furniture ₹ 600.
- (i) Amount drawn for personal use ₹ 700.
- (j) Bricks of ₹ 15,000 and timber of ₹ 4,000 purchased for construction of buildings. Payment is made by cheque.
- (k) Received ₹ 500 from Mukesh for an amount which was written off as bad debts in previous year.
- 6. Prepare Two column cash book from following transactions: 2022
 - Jan.1 Cash in Hand ₹ 5,000, Cash at Bank ₹ 7,000(Cr.)
 - Jan.2 Purchased goods from Ashish for ₹ 10,000 they allowed trade discount ₹ 300. The amount was paid by cheque
 - Jan.3 Further capital introduced ₹ 20,000 out of which ₹ 5,000 deposited in bank.
 - Jan.4 Sold goods to Mohit ₹4,000.
 - Jan. 5 Received cheque from Mohit for ₹ 3,000, allowed him discount ₹ 200.
 - Jan.6 Settled account of Raghav ₹ 1,000 by paying cash ₹ 900.
 - Jan.7 Cheque received from Mohit deposited in bank.
 - Jan 8 Cash received from Varun ₹ 4,900 in full settlement of ₹ 5,000.
 - Jan 9 Banked ₹1,000.

- Jan.10 Drawn from bank ₹2,000.
- Jan. 11 Received a cheque for ₹ 500 from Mukesh, which had endorsed to Kapil on Jan. 15.
- Jan. 13 Cheque received from Mohit returned by bank as dishonoured.
- Jan.14 Discounted a bill of exchange of ₹ 5,000 at 1% through bank.
- Jan.18 Cashed a cheque ₹ 1,000.
- Jan 22 Interest debited by bank ₹ 200 (Ans. ₹26,000, Bank (Cr.) ₹8950)
- 7. Prepare Two column cash book from following transactions:
 - Jan.1 Cash in hand ₹20000, Cash at Bank ₹8,000
 - Jan.2 Pays into current account ₹ 500.
 - Jan.4 Draw a cheque for personal use ₹ 500.
 - Jan.6 Paid rent by cheque ₹ 300
 - Jan.7 Received repayment of a loan of ₹ 5,000 and deposited? 3,000 out of it into bank
 - Jan 10. Ramesh who owed us ₹ 2 000 became bankrupt and paid us 50 paise in the rupee.
 - Jan.12 Honoured our own acceptance by cheque ₹ 1,000
 - Jan.13 Bank charges as per pass book ₹ 100.
 - Jan.15 Deposited in bank entire cash balance after retaining ₹ 1,000 at office. (Ans. Cash ₹21,500, Bank ₹30,000)
- 8. Record following transactions in two-column cash book
 - Jan. 1 Cash in hand ₹8,000, Cash at bank ₹10,000.
 - Jan. 2 Purchased goods for Cash ₹ 3,000.
 - Jan. 4 Paid rent ₹ 2,000 in cash and salary ₹ 3,000 by cheque.
 - Jan. 6 Sold goods for cash ₹ 5,000.
 - Jan. 7 Paid into bank ₹3,000.
 - Jan. 9 Amount drawn for personal use ₹ 1,000.
 - Jan. 11 Sold goods and received cheque for ₹ 3,000(Banked on same day)
 - Jan. 12 Cash Sales ₹ 6,000.
 - Jan. 14 Paid for cartage ₹ 1,000.
 - Jan. 17 Drawn from bank for office use ₹3,000.

(**Ans.** Cash ₹12,000, Bank ₹10,000)

9. Record following transactions in two-column cash book 2022

- July 1 Cash in hand ₹ 10,000 and cash at bank ₹ 15,000.
- July 3 Purchased goods from Amit ₹ 4,000.
- July 4 Paid by cheque to Amit in full settlement ₹ 3,900.
- July 5 Sold goods to Parag ₹ 7,000.
- July 6 Deposited in bank ₹ 3,000.
- July 7 Received a cheque from Parag ₹4,000.
- July 9 Paid electricity bill by cheque ₹ 1,000.
- July 13 Parag's cheque deposited in bank.
- July 14 Received a cheque from Ashish ₹ 3,000.
- July 17 Drawn from Bank ₹4,000.
- July 20 Drawn from bank for office use ₹ 2,000.

(**Ans.** Cash ₹13,000, Bank ₹14,100)

- 10. Prepare Purchases Book for Mohit who deals in Electronic items. 1.
 - July. 1 Purchased from Bobby Enterprises vide. Invoice Number 235 10 Air conditioner @Rs. 20,000 each.

5 TV@ Rs. 15,000 each

He allowed trade discount of 10%

July 6. Purchased from Kapil and Sons vide Cash Memo Number 478 15 Washing Machines @Rs. 10,000 each.

7 Room Heaters @Rs. 3,000 each.

- July 16. Purchased from Harinder vile Invoice Number 908 2 Tables for office use @ Rs. 5,000 each.
- July 25. Purchased from Parag Enterprises vide Bill No. 762

20 Refrigerators Rs. 15,000 each.

10 Home Theatre @Rts: 5,000 each.

He allowed trade discount of 10%

(Ans. Purchases A/c Dr. 5,62,500)

- 11. Prepare Purchases Book for Nikhil who deals in Furniture Items in Delhi.
 - 2023 Purchased from Sanjeev from Delhi vide Invoice Number 8890202
 - Aug. 5 20 Tables @Rs. 5,000 each.

10 Chairs @ Rs. 3,000 each.

He allowed trade discount of 10%, GST 12%.

Aug. 16 Purchased from Rahul From Haryana vide Invoice Number 908

10 Dining Tables @Rs. 10,000 each.

5 Sofa set @ Rs. 5,000 each.

GST 12%

Cartage paid Rs. 1,000

(Ans. Cost of Purchases 2,42,000 Input CGST 7020, Input SGST 7,020 Input IGST-15,000, 12% Cartage-1,000, Total 2,72,040

(**Ans.** Cash ₹13,000, Bank ₹14,100)

12. Prepare Sales book from following information for Ashok Enterprises (Delhi) who deals in garments 2020

June 3. Sold to Varun Traders, Delhi, vide Invoice No. 345

100 jeans @ Rs. 500 each.

100 Skirts @Rs. 300 each.

GST 5%, Cartage Rs. 2,000.

June 5. Sold to Nismish, Delhi vide Cash Memo No. 346

50 Shirts @Rs. 200 each.

30 Trousers @Rs. 300 each.

GST 5%, Cartage Rs. 2,000,

July 15. Sold to Harinder Garments, Punjab, vide Invoice No. 347

50 Coats Rs. 1,000 each.

50 Skirts @Rs. 300 each.

GST5%

(Ans. Value of Sales 1,45,000, Output CGST 2000, Output, Output IGST-3,250, Cartage-2,000, Total-1,54,250)

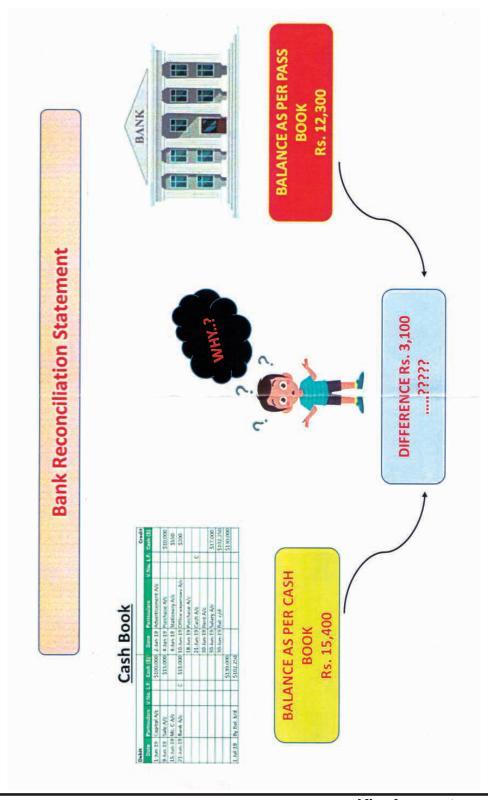
- 13. Prepare Purchases Return book from following information for Mr. Vinod (Punjab) who deals in stationery 2020
 - June 15. Returned goods to Naresh & Sons (Punjab), Debit note No. 25 500 pens purchased for Rs. 50 each, purchased at 10% trade discount.

GST 12%

June 25. Returned goods to Vijay (Delhi), Debit note No. 26

300 pens purchased for Rs. 50 each GST 12%

(Ans. Cost of Purchases return 37,500, Input CGST(Cr.) 1,350, Input SGST(CR.) 1,350, Input IGST(Cr.)-1,800,, Total-42000)



CHAPTER - 4 BANK RECONCILIATION STATEMENT

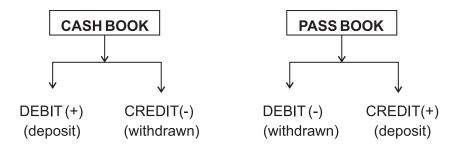
Learning Objectives

After studying this chapter, you will be able to :-

- State the meaning and need for the preparation of bank reconciliation statement.
- Appreciate that at times, bank balance as indicated by cash book is different from the bank balance as shown by Pass Book / Bank Statement and to reconcile both the balances, bank reconciliation statement is prepared.
- Identify causes of difference between bank balance as per cash book and pass book.
- Prepare the bank reconciliation statement.
- Ascertain the correct bank balance as per cash book.

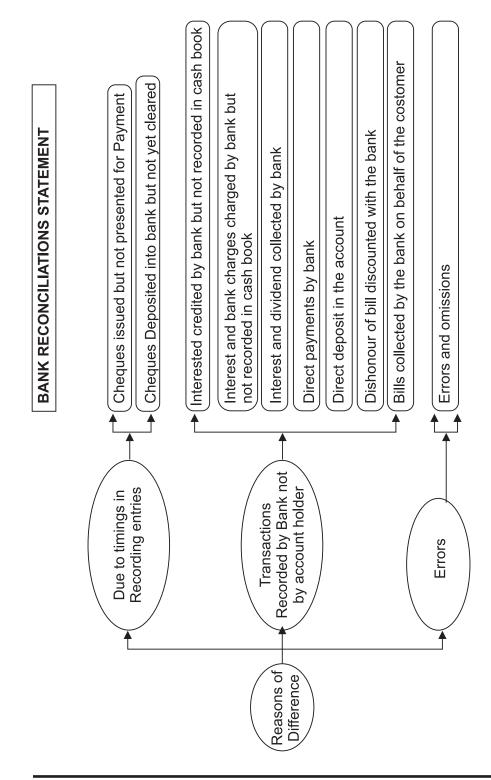
Vocabulary / Important points

- Balance as per Cash Book → Positive Balance / Debit Balance
- Overdraft as per Cash Book ightarrow Negative Balance / Credit Balance
- Balance as per Pass Book → Positive Balance / Credit Balance
- Overdraft as per Pass Book → Negative Balance / Debit Balance



Bank Reconciliation Statement is prepared to reconcile the difference between the bank balance shown by the cash book and bank passbook.

Definition: As per schedule showing the items of difference between the bank statement and the bank column of cash book is known as Bank Reconciliation Statement.



Causes of Differences in Cash Book and Pass Book

- (A) Transactions recorded in Cash Book but not in Pass Book.
- (B) Transactions recorded in Pass Book but not in Cash Book.
- (C) Others transactions errors.

(A) Transactions recorded in Cash Book but not in Pass Book :-

- (i) Cheques issued but not presented for payment in the bank.
- (ii) Cheques deposited or paid into the bank for collection but not yet credited by bank.
- (iii) Cheques deposited but dishonored.
- (iv) Wrongly entered either debit or credit side.

(B) Transactions recorded in Pass Book but not in Cash Book :-

- (i) Interest allowed by the Bank
- (ii) Interest on overdraft, bank charges and commission etc. charges by Bank.
- (iii) Direct deposit by the customers into Bank.
- (iv) Interest, dividend etc. collected by the Bank.
- (v) Direct payment made by the Bank on behalf of costumer as per standing instruction.

(C) Other Transactions:-

- (i) Error into tallying or balancing of Cash Book.
- (ii) Transactions recorded twice in Cash Book.
- (iii) Transactions recorded twice in Pass Book.
- (iv) Error of recording by wrong amount.
- (v) Error of recording in wrong side like debit instead of credit and vice-versa.

Need and importance

- It helps in locating and rectifying the errors or omissions committed either by the firm or by the bank.
- Customer becomes sure of the correctness of the bank balance shown by the cash book.
- Facilitates the preparation of amended or revised Cash Book.
- Reduces the chances of fraud by the staff of the firm or bank.
- Helps in keeping a track of the cheques deposited for collection.

Procedure of Preparing Bank Reconciliation Statement (BRS)

A Bank Reconciliation Statement is prepared when we get the duly completed Pass Book from the Bank.

- (1) First of all tally the Debit side entries of the cash book with the Credit side entries of the Pass Book and vice versa.
- (2) Tick the items appearing in both the books.
- (3) Unticked items will be the points of differences.
- (4) A BRS is then prepared by taking either the balance as per Cash Book or Pass Book as a starting point.

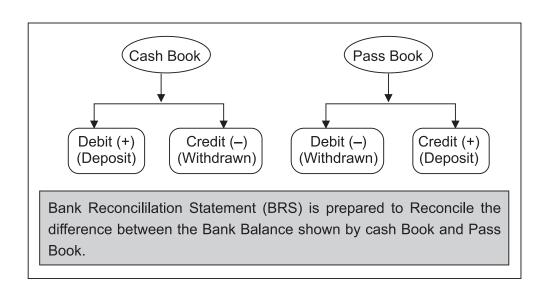
Points To Be Remember

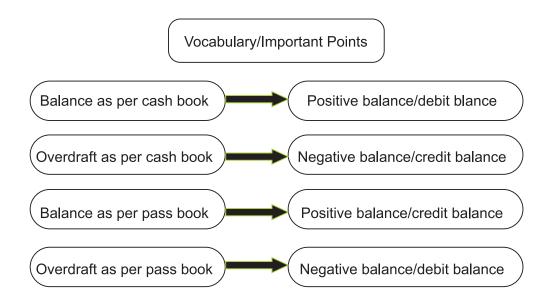
- (1) If the Starting point is Cash Book Balance then the ending point will be Pass Book Balance.
- (2) If the starting point is Pass Book Balance then the ending point will be the Balance as per Cash Book.
- (3) Debit Balance as per Cash Book or Credit Balance as per Pass Book, means that the firm has that much amount of deposit at the bank (also called favourable balance) write the amount under (+) items.
- (4) Credit Balance as per Cash Book or Debit Balance as per Pass Book, means that this much amount has been withdrawn in excess of deposit (also called overdraft or unfavorable balance) write the amount under (–) items.

Method of Preparing BRS Starting with the Balance/overdraft as per Bank Column of Cash Book.

Bank Reconciliation Statement as on

	Dr.	Cr.
Particulars	+ ITEM	- ITEM
Balance as per Cash Book (Dr.)		
Add : - Items Credit in Pass Bork but not recorded in Cash Book.	xxx	
Less: - Items debit in Cash Book but not recorded in Pass Book.		xxx
Less : Item debit in Pass Book but not recorded in Cash Book		xxx
Add: Items credit in Cash Book but not recorded in Pass Book	XXX	
Balance as per Pass Book (Cr.)		xxx
Total	xxx	xxx





Note

- If total of (+) Items is more than the total of (–) items then difference is Credit Balance or favourable balance as per Pass Book.
- Where as if the(–)total is more than the (+) items total then difference is Debit Balance or overdraft as per Pass Book.
- If BRS is started with Balance as per Cash Book then ending point is Balance as per Pass Book and Vice-Versa.
- Debit balance of Cash Book means favourable balance or(+) balance
- Debit balance of Pass Book means unfavorable balance or (–)balance.
- Credit balance of Pass Book means favourable balance or(+) balance
- Credit Balance of Cash Book Means unfavourable balance or (–) Balance.

READY REFERENCE

Items which increase the Pass Book Balance or decreases the Cash Book Balance

- (1) Cheques issued but not yet presented.
- (2) Credits made by the bank for Interest.
- (3) Amount directly deposited by the customers in our bank A/c.
- (4) Interest and dividend collected by the bank.
- (5) Cheques paid into the bank but omitted to be recorded in the Cash Book.

Items which, decreases the Pass Book Balance or increase the Cash Book Balance

- (1) Cheques sent to the bank for collection but not yet credited by the bank.
- (2) Cheques paid into the bank but dishonoured.
- (3) Direct payments made by the bank
- (4) Bank charges, commission etc. debited by the bank.
- (5) Cheques issued but omitted to be recorded in the Cash Book.

Example 1: Balance as per Cash Book is given

Prepare Bank Reconciliation statement as on 31st July 2022.

- (1) Debit balance as per Cash Book is ₹20,000 as on 31st Jul 2022.
- (2) Cheques for ₹5000 were deposited into the Bank in the month of July but only Cheques for ₹1000 were credited by bank till 31st July 2022.
- (3) Cheques issued for ₹33,000 in July, out of which a cheque for ₹13,800 was presented for payment on 3rd August, 2022.

- (4) Bank charged ₹150 as Bank charges and credited interest of ₹400.
- (5) A Customer directly deposited ₹2,500 in firms's bank A/C.
- (6) Bank paid the insurance Premium of ₹1200 as per standing instruction on 25th July 2021.

Solution:

Bank Reconciliation Statement as on 31st July 2022

Explanation

1. Balance as per Cash Book means favourable Balance, hence (+) Item. If nothing (i.e. Debit or Credit) is written the Balance given, it is treated as favourable.

Particulars	+ Item (₹) Dr.	- Item (₹) Cr,
(1) Balance as per Cash Book. (Dr.) (2) Cheques deposited but not yet collected by the bank (5.000-1.000)	20,000	4,000
(3) Cheques issued but not yet Present for payment (4) (a) Bank. Charges (b) Interest credited by the bank	13,800 - 400	- 150 -
(5) Directly deposited by the customers not recorded in the Cash Book	2,500	-
(6) Insurance Premium paid by the bank not recorded in Cash Book.		1.200
Balance as per Pass Book (36,700- 5,350) (Cr.)		
Total	36700	36700

Alternative:

Bank Reconciliation statement as on 31st July 2022

Particulars	Amount Details (₹)	Amount (₹)
Balance as per Cash Book (Dr.)		20,000
Add:		
Cheques issued but not yet presented for payment	13,800	
Interested credited by Bank	400	
Directly Deposited by customers into bank		
but not recorded in Cash Book	2,500	16,700
		36,700
Less:		
Cheques deposited but not yet collected by		
bank (5,000–1,000)	4,000	
Bank Charges	150	
Insurance premium paid by the bank not		
recorded in the Cash Book	1,200	(5,350)
Balance as per Pass Book (Cr.)		31,350

Example 2: When overdraft as per Cash Book is given

- (1) Overdraft as per Cash Book is ₹41,000 on 30th June 2022.
- (2) Cheqes deposited but not yet collected ₹13,000.
- (3) Cheqes issued but not yet presented for payment of ₹2,500.
- (4) Bank Charges of ₹100 and Interest on overdraft of ₹300 are charged by the bank.
- (5) A customer directly deposited ₹1,500 into the Bank.
- (6) Insurance Premium of ₹2,500 is paid by the bank as per standing instructions.

Prepare Bank Reconciliations Statement for the month of June 2022

Solution:

Bank Reconciliations Statement as on 30th June 2022

Particulars	(+) Items (₹) Dr.	(–) Items (₹) Cr.
(1) Overdraft as per Cash Book*. (Cr.)	-	41,000
(2) Cheques deposited but not yet collected	-	13,000
(3) Cheques issued but not yet Presented for payment	2,500	-
(4) (a) Bank Charges	-	100
(b) Interest on overdraft charged		300
(5) Directly deposited by a customer in the bank.	1,500	-
(6) Insurance Premium paid by the bank not entered — in Cash Book.	-	2,500
Overdraft as per Pass Book (56,900 – 4,000) (Dr.)	52,900	
Total	56,900	56,900

Overdraft means unfavorable balance or Negative Balance Hence put it under (–I've) items.

Alternative

Bank Reconciliations Statement as on 30th June 2022 READY REFERENCE

Particulars	Amount Details (₹)	Amount (₹)
Overdraft as per Cash Book (Cr.)		41,000
* Cheques deposited but not yet collected	13,000	
* Bank charges	100	
*Interested on Bank overdraft charged		
but not recorded in Cash Book	300	
*Insurance premium paid by bank but not		
recorded in the cash book	2,500	15,900
		56,900
Less:		
*Cheques issued but not yet presented for payment	2,500	
*Directly Deposited by customers into bank	1,500	(4,000)
Overdraft as per Pass Book (Dr.)		52,900

Method of preparing BRS starting with balance/overdraft as per Bank passbook.

Bank Reconciliations Statement

Particulars	(+) Items (Cr)	(–) Items (Dr)
Balance as per pass book (Cr.)	xxx	
or		
Overdraft as per pass book (Dr.)		xxx
Add: Items Debit in cash book but not recorded in		
pass book	xxx	
Less: items credit in pass book but not recorded in		
cash book		xxx
Add : Items debit in pass book but not recorded in		
cash book	xxx	
Less: Items credit in cash book but not recorded		
in pass book		xxx
Balance as per cash book (Dr.)		xxx
or		
Overdraft as per cash book (Cr.)	xxx	
Total	XXX	xxx

Items which increases the Cash Book Balance or decreases the Pass Book Balance

- (1) Cheques deposited into the bank but dishonoured.
- (2) Cheque sent for collection but not yet collected.
- (3) Direct Payments made by the bank.
- (4) Bank charges, commission etc. debited by the bank.
- (5) Cheques issued but omitted to be recorded in the Cash Book.

Items which decreases the Cash Book Balance or increase the Pass Book Balance

- (1) Cheques issued but not yet presented.
- (2) Credits made by the bank for interest.
- (3) Amount directly deposited by the customers into the Bank.
- (4) Interest and dividend collected by the Bank.
- (5) Cheques paid into the bank but omitted to be recorded in the Cash Book.

Examples 3: When Balance as per Pass Book is Given.

Prepare the bank Reconciliation statement from the Following transactions of Ram Ial & sons for the month of July 2022.

- 1. Balance as per Pass Book is ₹70,000.
- 2. Cheques for ₹5,000 were deposited into the Bank in the month *of* July but only Cheques for ₹1,000 were credited by the bank till 31st July 2022.
- 3. Cheques issued for ₹33,000 in July, out of which a Cheque for ₹13,800 was presented for payment on 3rd August, 2022.
- 4. Bank charged ₹150 as bank charges and credited interest of ₹400.
- 5. A customer directly deposited ₹2,500 in the firm's bank A/c.
- 6. Bank paid the insurance Premium of ₹1,200 as per standing instruction.

Solution

Bank Reconciliation Statement as on 31th July 2022 Example 4: When Overdraft as per Pass Book is Given

	Particulars	(+) Items (₹)	(–) Items (₹)
(1)	Balance as per Pass Book (Cr).	70,000	_
(2)	Cheques deposited but not yet collected	4,000	_
	by the Bank (5,000-1,000).		
(3)	Cheques issued but not yet Presented for		13,800
	payment		
(4)	(a) Bank Charges.	150	_
	(b) Interest allowed by Bank.	<u> </u>	400
(5)	Directly deposited by the customer,	_	
	not recorded in the Cash Book.	-	2,500
(6)	Insurance Premium paid by the Bank,	-	
	not recorded in Cash Book.	1200	
	Balance as per Cash Book (75,350-16,700) Dr.		58,650
	Total	75,350	75,350

Alternative:

Bank Reconciliations Statement as on 30th July 2022

Particulars	Amount Details (₹)	Amount (₹)
Balance as per Pass Book (Cr).		70,000
Add:		
* Cheques deposited but not yet collected	4,000	
*Bank charges	150	
*Insurance premium paid by bank but not recorded		
int he cash book	1,200	5,350
Less:		75,350
*Cheques issued but not yet presented for payment	13,800	
*Interest allowed by Bank	400	
*Directly Deposited by customers into bank not		
recorded in Cash Book	2,500	(16,700)
Balance as per Cash Book (Dr.)		58,650

Prepare the bank Reconciliation statement from the Following transactions of M/s R. Gupta for the month of June 2022.

- 1. Overdraft as per Pass Book is ₹48,000
- 2. Cheques Deposited but not yet collected by bank ₹13,000
- 3. Cheques issued but not yet presented for payment of ₹2,500
- 4. Bank Charges of ₹100 and interest on overdraft of ₹300 are charged by the Bank.
- 5. A customer directly deposited ₹1,500 into the bank.
- 6. Insurance Premium of ₹2,500 is paid by the bank as per standing instructions.

Solution:

Bank Reconciliations Statement as on 30th June 2022

Particulars	(+) Items (Cr.)	(–) Items (Dr.)
(1) Over draft as per Pass Book. (Dr.)	-	48,000
(2) Cheques deposited but not yet collected	13,000	-
(3) Cheques issued but not yet presented for	-	2,500
payment		
(4) (a) bank Charges not entered in Cash Book	100	-
(b) Interest on overdraft charged by the bank	300	-
(5) Directly deposited by a customer in the Bank	-	1,500
(6) Insurance Premium paid by the Bank	2,500	-
Overdraft as per Cash Book (52,000-15,900) (Cr.)	36,100	
Total	52,000	52,000

Alternative:

Bank Reconciliation Statement as on 30th June 2022

Particulars	Amount Details (Rs.)	Amount (Rs.)
Over draft as per Pass Book. (Dr.)	-	48,000
Add:		
*Cheques issued but not yet presented for payment	2,500	-
*Directly deposited by a customer in the Bank		
but not recorded in Cash Book	1,500	4,000
		52,000
Less:		
*Cheques deposited but not yet collected by bank	13,000	
*Bank charges not entered in Cash Book	100	-
*Interest on overdraft charged by the bank	300	-
*Insurance Premium paid by the Bank	2,500	(15,900)
Overdraft as per Cash Book (Cr.)		36,100

Solved Exercises

L Multiple Choice Questions

statement?

(a) Added to Bank Balance

(b) Subtracted From Bank Balance

(c) Subtracted From the Cash Book Balance

1.	In the cash book, the favourable	balance	indicates:
	(a) Credit Balance	(b)	Debit Balance
	(c) Bank Overdraft	(d)	Adjusted Balance
2.	M/s. Shri Ram Bring out the E cash deposited by the Firm, into		tement. On the bank statement, is known as:
	(a) Credit	(b)	Debit
	(c) Liability	(d)	Expenses
3.	Bank reconciliation statement co	ompares	a bank statement with
	(a) Cash payment journal	(b)	Cash receipt journal
	(c) Financial statements	(d)	Cashbook
4.	What is the treatment of "Dep	osit in tr	ansit" in the bank reconciliation

5	` '	Added to Cashbook Balance	urod	Chagua) sont back by the bank	
5.		cates:	ureu	Cheque) sent back by the bank	
	(a)	Cheque has been forged			
		A bank couldn't verify the identi	ty		
	(c)	Not sufficient funds			
	(d)	A cheque cannot be cashed be	cause	e it's illegal	
6.	Unp	oresented cheques also referred	d to as	::	
	(a)	Bounced cheques	(b)	Outstanding cheques	
	(c)	Uncredited cheques	(d)	Uncollected cheques	
7.	In c	ash book, bank charges of ₹ 1,0	00 wa	as not recorded. Name the correct	
	cas	h book adjustment.			
	(a)	It will be debited in cash book			
	(b)	It will be credited in cash book			
	(c)	No adjustment needed in the ca	ash b	ook	
	(d)	Charges will be added to the ca	ish bo	ook balance	
8.	What type of cheque is that which is issued by a firm but not yet presented				
		ne bank?			
	(a)	Uncredited cheques	(b)	• •	
	(c)	Uncollected cheques	(d)	Bounced cheques	
9.	Wh	en a cheque is not paid by the ba	ank, it	is called?	
	(a)	Honoured	(b)	Endorsed	
	` ,	Dishonoured	` '	A and B	
10.		nk reconciliation is not a			
	` '	Reconcile records			
	` '	Memorandum statement			
	` '	Ledgeraccount			
	` '	Procedure to provide cash boo	-		
11.				column of cash book indicates?	
	(a)	The total amount has drawn fro	m the	ebank	
	(b)	Cash at bank			
	(c)		ne bar	nk	
	` '	None of above			
12.		nk statement also called?			
	` '	Pass book	(b)	Cash book	
	(c)	Credit book	(d)	Debit book	

13. T	he main p	urpose of pr	eparing a l	bank red	conciliation s	tatement is?	
(8	(a) To know the bank balance						
(k	(b) To know the balance of bank statement						
(0	c) To corr	ect the cash	book				
(0	d) To ide	ntify cause	s of diffe	erence	between ca	sh book and	d bank
	stateme	ent					
14. V	Vhich of th	ne following	items is r	not a re	ason for the	difference be	etween
ba	ank baland	ce as per ca	sh book ar	nd Passl	oook?		
(8	a) Dishon	oured cheq	ue				
(k	o) Chequ	es deposite	d but not y	et cleare	ed		
(0	c) Credit:	sales					
(0	d) Chequ	es issued bı	ut not yet p	resente	d for paymer	nt	
15. A	cheque th	at bears a d	late latter t	han date	e of issue is c	alled?	
(8	a) Anti-da	ited cheque		(b)	Post-dated	cheque	
(0	c) Dishon	oured cheq	ue	(d)	Outdated ch	eque	
			Ans	swers:			
					6. b,		
	9. c,	10. c,	11. b,	12. a,	13. d,	14. c,	
15. b							
	ill in the P	lonko					
	ill in the B			oc it	annoars in th	a ladgar of the	n hank
						e ledger of the	
(II) V		_accounto			iik, tile balik	· ·	เกษ
(iii) N					ehit halance	e, passbook	shows
()	ioiiiiaiiy,	balance.		io a a	obit bajarioc	, passbook	OHOW C
(iv) F	avourable			ash boo	k means	bala	ance in
		lumn of the					
(v) If	the cash b	ook baland	e is taken	as a sta	rting point, th	ne items whic	h make
th	ne cash	book ba	lance s	maller	than the	passbook	must
b	e		for the pur	pose of	reconciliatio	n.	
` '	•					if it is taken	
	•					ion statemer	
	-		t presente	d for pa	yment shoul	d be	to
fir	nd out casl	h balance.					
				113		XI – Accour	tancy

as per the cash book is	than that of the passbook.
	Is and credits the account passbook
overdraft showsba	
	ook is taken as the starting point, the
cheques issued but not presented	are to bein the bank
reconciliation statement.	
. ,	aken as the starting point, items which
	than the balance in the cash
book must be deducted for the purp	
(XI) Bank Reconciliation Statement iswith balance as per E	prepared to Reconcile balance as per Bank Statement.
(xii) Balance as per Cash Book is	₹30,000, Cheques of ₹2,600 were
•	d by the bank and Cheques of ₹3,000
issued have not been presented fo	r payment. Balance as per Passbook is
(xiii) Overdraft as ner Pass Book	is ₹21,000 if a direct deposit of
	0 are not recorded in the Cash Book.
Overdraft as per Cash Book will b	
·	 ₹23,000, Cheques of ₹4,500 were
collected but not deposited in the	bank and Cheques of ₹2,000 issued
have not been presented for pay	yment. Balance as per Cash Book is
(xv)Dehit halance in the Bank St	atement or Bank Passbook means
balance as per Cash	
Ans	wers:
(i) Customer account	(ii) Debit
(iii) Credit	(iv) Debit
(v) Added	(vi) Deducted
(vii) less	(viii) Less
(ix) Added	(x) Higher
(xi) Cash Book	(xii) ₹49,400
(xiii)₹25,000	(xiv) ₹25,500
(xv) Credit	

III. True or False

- (i) Bank Reconciliation Statement is prepared by the Bank.
- (ii) Bank Reconciliation Statement is prepared at the end of every month.
- (iii) A bank reconciliation statement is prepared by the Bank Account holder.
- (iv) Bank Reconciliation Statement is prepared to detect the errors that take place in accounting.
- (v) Bank Reconciliation Statement is prepared to Reconcile the balance of Cash Book with Balance of Passbook and vice versa.
- (vi) Bank balance as per Cash Book means debit balance as per Cash Book.
- (vii) Overdraft as per Cash Book means Credit balance as per Cash Book.
- (viii) Bank balance as per Passbook means debit balance as per Passbook.
- (ix) Overdraft as per Passbook means Credit balance as per Passbook.
- (x) Direct deposit made by debtors into businessman's bank account is recorded on the credit side of Pass Book.
- (xi) Cash Book balance was Rs. 1,580 (debit) when compared with the bank statement, it was identified that unpresented cheques were Rs. 1,200 and deposits not credited were Rs. 320. The balance of the bank statement will be Rs. 700 credit.
- (xii) Cash Book normally shows a Credit Balance.
- (xiii) Errors in the Bank Statement are considered while preparing an amended Cash Book.
- (xiv) Cheques issued but not presented for payment will reduce the balance as per the Passbook.
- (xv) Cheques deposited but not collected will result in increasing the balance of the cash book when compared to Passbook.

Answers:

(i)	False	(ii)	True
(iii)	True	(iv)	False
(v)	True	(vi)	True
(vii)	True	(viii)	False
(ix)	False	(x)	True
(xi)	True	(xii)	False
(xiii)	False	(xiv)	False
(xv)	True		

IV. Prepare the Bank Reconciliation Statement in the following Questions.

- 1. M/s. Karori Mai Called his Accountant for the Reconciliation of Bank statement with the Cash Book for the month of April 2023. Cashbook shows a balance of Rs. 22,500. On comparing the cash book with the passbook the following discrepancies were noted.
 - (i) Cheque issued but not yet presented for payment Rs. 5,000
 - (ii) Cheque deposited in the bank but not collected Rs. 8.000
 - (iii) Bank paid insurance premium Rs. 6,000
 - (iv) Bank charges Rs. 1,300
 - (v) Directly deposited by a customer into the bank account Rs. 8,000
 - (vi) Interest on Investment collected by bank Rs. 1,200
 - (vii) Cash discount allowed Rs. 500 was recorded on the debit side of the bank column.

Solution:

Bank Reconciliation Statement for the month of April 2023

Particulars	Amount	Amount
	Plus	Minus
Balance as per Cashbook (Debit)	22,500	
(i) Cheque issued but not yet presented for payment	5,000	
(ii) Cheque deposited in the bank but not collected		8,000
(iii) Bank paid insurance premium		6,000
(iv) Bank Charges		1,300
(v) Directly deposited by a customer into the bank		
account.	8,000	
(vi) Interest on Investment collected by the bank.	1,200	
(vii) Cash discount allowed was recorded on		
the debit side of the bank column.		500
Balance as per Pass Book (Cr.)		20,900
Total	36,700	36,700

Alternative:

Bank Reconciliation Statement for the month of April 2023

Particulars	Amount	Amount
	Details	
Balance as per Cashbook (Debit)		22,500
Add:		
- Cheque issued but not yet presented for payment	5,000	
- Directly deposited by a customer into the bank		
account	8,000	
- Interest on Investment collected by the bank.	1,200	14,200
		36,700
Less:		
- Cheque deposited in the bank but not collected.	(8,000)	
– Bank paid insurance premium.	(6,000)	
-Bank charges.	(1,300)	
- Cash discount allowed was recorded on the debit		
side of the bank column.	(500)	(15,800)
Balance as per Pass Book (Cr.)		20,900

- 2. (i) On 31st March 2023 Bank Passbook of X Limited showed a balance of ₹25,000 to her credit.
 - (ii) Before that date, she had issued cheques amounting to ₹5,000 out of which cheque amounting to ₹1,200 have so far been presented for payment.
 - (iii) A cheque of ₹2,000 deposited by her into the bank on 25th of March 2023 is not yet credited in the passbook.
 - (iv) She had also received a cheque of ₹1,500 which although recorded by her in the bank column of the cash book, was omitted to be deposited in the bank.
 - (v) On 30th March, 2023 a cheque of ₹1,670 received by her was paid into the bank but the same was omitted to be recorded in the cash book.
 - (vi) There was a Credit of ₹200 for interest on the current account and a debit of ₹250 for the bank charges.

Solution:

Bank Reconciliation Statement for the mouth of March 2023

Particulars	Amount	Amount
	Plus	Minus
(i) Balance as per Passbook (Credit)	25,000	
(ii) Cheque issued but not yet presented for payment		3,800
(iii) Cheque deposited in the bank but not collected.	2,000	
(iv) Cheque received but not yet deposited into Bank	1,500	
(v) Cheque collected but omitted to be recorded in		
the cashbook.		1,670
(vi) Interest Credited to Bank		200
Bank Charges	250	
Balance as per Cash Book (Dr.)		23,080
Total	28,750	28,750

Alternative:

Particulars	Amount	Amount
	Details	
Balance as per Passbook (Credit)		25,000
Add:		
Cheque deposited in the bank but not collected	2,000	
Cheque received but not yet deposited into Bank	1,500	
 Bank Charges 	250	3,750
		28,750
Less:		
Cheque issued but not yet presented for payment	(3,800)	
Cheque collected but omitted to be recorded in the		
cashbook	(1,670)	
 Interest Credited by Bank 	(200)	(5,670)
Balance as per Cash Book (Dr.)		23,080

UNSOLVED EXERCISE

1. In the following Bank Reconciliation statement determine the missing amounts"

Bank Reconciliation Statement as on

Particulars	Plus Item ₹	Minus Item ₹
(a) Overdraft as per cash book (CR) ₹ 65000		
(b) Bank charges debited in the pass book but not yet entered in the cash book ₹ 500		
(c) Cheque issued but not yet presented ₹ 11,000	• • • • • • • • • • • • • • • • • • • •	
(d) Interest debited in the pass book but not yet entered in the cash book amounting ₹1,500		
(e) Cheque paid in but not yet called by the bank ₹1600		
(f) Overdraft Balance as Per Pass Book (Dr.)		

- 2. Bank Reconciliation statement is prepared by
 - (a) Debtors of firm
 - (b) Creditors of firm
 - (c) Account holder of bank
 - (d) Bank
- 3. A Bank reconciliation statement is prepared with the balance of
 - (a) Pass Book
 - (b) Cash book
 - (c) Neither cash book nor pass book
 - (d) Either cash book or pass book
- 4. Unfavorable bank balance means
 - (a) Credit balance in the cash book
 - (b) Credit balance in the pass book
 - (c) Debit balance in the cash book
 - (d) Favorable balance in the cash book

- 5. From the following information, prepare bank Reconciliation Statement as on 31st March, 2021.
- (I) On 31st March, 2021 balance as per cashbook ₹18,000.
- (ii) Out of the total cheques of ₹12,000 issued, cheques aggregating ₹3000 were presented in March, 2021, cheques aggregating ₹4000 were presented in April, 2021 and the remaining have not been presented yet.
- (iii) Out of the total cheques amounting to ₹5000 deposited, cheques only aggregating ₹1500 were credited till March, 2021.
- (iv) Bank has debited ₹100 as bank charges and has credited ₹200 as interest.
- (v) Bank had reversed bank charges of ₹200 wrongly debited earlier.
- (vi) Bank paid Insurance premium of ₹2000 but it was recorded as ₹200 in the Cashbook.
- (vii) Receipts side of Cashbook was under casted by ₹500.

(**Answer:** Balance as per passbook ₹22,500)

- 6. Prepare bank Reconciliation Statement of Raman as on 31st March, 2021:
- (i) Balance as per Bank Pass Book as on the date is ₹8000.
- (ii) Bank collected a cheque of ₹500 on behalf of Raman but wrongly credited it to Rajan's Account (a customer).
- (iii) Bank recorded a cash deposit of ₹2580 as ₹2590.
- (iv) Withdrawal column of the Pass Book under casted by ₹100.
- (v) Credit *Balance* of ₹1500 as on Page 10 of the Pass Book was recorded on Page 11 as a debit balance.
- (vi) Payment of a cheque of ₹350 was recorded twice in the Pass book.
- (vii) Pass Book showed a credit for a cheque of ₹1000 deposited by Rajan's (another customer of the Bank).
- (viii) Dividend collected by Bank ₹125.

(Answer: Balance as per Cash Book ₹12,615)

- 7. From the following information determine the balance as per Bank Pass Book of Amit on 31st March, 2021:
- (i) Bank overdraft as per Cash Book on 31st March, 2021 ₹60,000.
- (ii) Interest on overdraft for 6 months ended 31st March, 2021, ₹1600 entered in the Pass Book.

- (iii) Bank charges of ₹300 for the above period are debited in the pass book.
- (iv) Cheques issued but not cashed prior to 31st March, 2021, amounted to ₹12,600.
- (v) Cheques paid into the bank but not cleared before 31st March, 2021 were for ₹21,700.
- (vi) Interest on investments collected by the bank and credited in the Pass Book, ₹12,000.
- (vii) Credit side of the Bank column of the Cash book was under casted by ₹1000. (Answer: Overdraft as per Pass Book ₹60,000)
- 8. From the following information Overdraft balance shown by the pass book of Mrs. Nidhi is ₹25,000.

Prepare Bank Reconciliation statement on December 31, 2020:

- (i) Bank charges debited as per pass book ₹500.
- (ii) Cheques recorded in the cash book but not sent to the bank for collection ₹7.000.
- (iii) Received a payment directly from a customer ₹7,500.
- (iv) Cheques issued but not presented for payment ₹ 6,840
- (v) Interest debited by the bank ₹380.
- (vi) Cheques deposited into bank but not yet collected ₹4,750.
- (vii) Interest on investment collected by the bank and credited in the pass book ₹700.
- (viii) A bill receivable for ₹ 3,600 previously discounted with the bank had been dishonoured and debited in the pass book.

(Answer: Overdraft as per cash book ₹ 23810)

- 9. Prepare Bank Reconciliation Statement as on 31 st May 2022 for Ratan sales private limited from the information given below:
 - (i) Bank overdraft as per Cashbook on 31 st May 2020 ₹ 1,10,000.
 - (ii) Cheque issued on 28 may, 2022 but not yet presented ₹25,000.
 - (iii) Cheques deposited but not yet credited by the bank ₹ 12,750.
 - (iv) Bills for collection not advised by the bank but credited to the account ₹27,200.
 - (v) Interest debited by the bank on 27th may but no advice received ₹11,500

- (vi) Subsidy received from the authorities by the bank on our behalf, credited to the account ₹15,000.
- (vii) Amount wrongly debited by the bank ₹3,400
- (viii) Amount wrongly credited by the bank ₹6,000

(Answer. Balance (overdraft) as per pass Book ₹ 64,450)

- 10. On 31st January 2022 the Passbook of Gurmeet & sons shows a Debit balance of ₹ 52,000. prepare bank reconciliation statement from the following particulars.
 - (i) Cheques amounting to ₹ 15,600 were drawn on 27th January 2022. Out of which Cheques for ₹ 11,000 were encashed up to 31 st January.
 - (ii) wrong debit of ₹1,800 has been given by the bank in the passbook.
 - (iii) A Cheque of ₹ 1,200 was credited in the passbook but was not recorded in the Cash Book.
 - (iv) Cheques amounting to ₹ 18,000 were deposited from the collection. But out of these, cheques for ₹ 6,400 have been credited in the passbook on 5th February 2022.
 - (v) A cheque for ₹ 1,000 was returned dishonoured by the bank and was debited in the passbook only.
 - (vi) Interest on overdraft and Bank charges amount to ₹ 100 were not entered in the Cash book.
 - (vii) A cheque of ₹ 1,500 debited in the cash book was omitted to be banked.

(Answer: Overdraft as per Cash book (Cr.) ₹ 47,000.)

MULTIPLE CHOICE QUESTIONS

- 1. Statement that explains the causes of difference between cashbook and bank statement is called:
 - a) Bank statement
 - b) Financial statement
 - c) Income statement
 - d) Bank reconciliation statement
- 2. Bank reconciliation statement is prepared by:
 - a) Bank
 - b) Customer's accountant
 - c) Auditors
 - d) None of the above

3. Bank statement is issued by:

- a) Bank
- b) Auditors
- c) Depositor/Customer
- d) None of the above

4. Bank reconciliation statement is:

- a) Part of Bank statement
- b) Memorandum statement
- c) Part of journal
- d) Ledger account

5. Bank Reconciliation statement is prepared in the books of:

- a) Bank
- b) Guarantor
- c) Depositor/trader
- d) None of the above

6. Cheques issued but not presented in the bank are called:

- a) Un-presented cheques
- b) Un-credited cheques
- c) Un-collected cheques
- d) Un-cleared cheques

7. The differences between the cash-book and bank pass-book is caused by:

- a) Timing differences on recording of the transactions.
- b) Errors made by the business
- c) Errors made by the bank
- d) All of the above

8. Debit Balance as per Cash book shows:

- a) Bank withdrawls are more than deposits.
- b) Bank withdrawls are less than deposits
- c) Bank deposits are less than withdrawls.
- d) All of the above

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

- (A) Cash-book
- (B) Journal
- C) Trial balance
- (D) Bank reconciliation statement

10. Which of the following transaction will result in higher balance in the bank column of cash-book in comparison to pass-book?

- (A) Cheques issued but not presented for payment.
- (B) Interest allowed by bank.
- (C) Bank charges entered twice in each book.
- (D) Cheques paid into bank for collection but not yet credited.

11. Cheques deposited but not collected will result in:

- (A) Increasing the balance of pass-book when compared to cash-book.
- (B) Increasing the balance of cash-book when compared to pass-book.
- (C) Decrease the balance of pass-book when compared to cash-book.
- (D) Both (B) and (c).

12. When cheques issued by the trader but not yet presented for payment will:

- (A) Decrease the pass-book, and no affect on the cash-book.
- (B) No affect on the pass-book, and decrease the cash-book.
- (C) Both (A) and (B)
- (D) None of the above.

CHAPTER 5 LEDGER AND TRIAL BALANCE

Learning Objectives

After studying this chapter Students will be able to tell:

- Meaning and Importance of Ledger.
- Format of Ledger.
- Posting from Journal to Ledgers.
- Postings from Cash Book & other Subsidiary Books to Ledgers.
- Closing and Balancing of Ledger Accounts.
- Trial Balance Meaning, objectives and Preparation.

THE LEDGER

After recording the business transactions in the Journal or special purpose. Subsidiary Books, the next step is to transfer the entries to the respective accounts in the Ledger.

Ledger is a book where all the transactions related to a particular account are collected at one place.

Meaning: The ledger is the **principal book** of the accounting system. It contains different accounts where transactions relating to that account are recorded. A ledger is the collection of all the accounts **prepared using the journal proper and various special journals.**

In short Ledger is a book where all the transactions related to a particular account are collected at one place.

UTILITIES OR IMPORTANCE OF THE LEDGER

- It provides complete information of a Particular Account during a period.
- It provides information of incomes and expenses during a particular accounting period.
- It provides information for the preparation of Trial Balance.
- It is helpful in preparing final accounts for a particular accounting period.

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

FORMAT FOR THE LEDGER

D	r.	Name of the Account					Cr.	
Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)	

Note: - Each ledger account is divided Into two equal parts.

Left Hand Side → Debit side (Dr.)

Right Hand Side \rightarrow Credit side (Cr.)

J.F (Journal Folio) → Page or Folio number of Journal

Posting in the Ledger

This will be dealt separately from Journal Entries and each Subsidiary Book.

Case I: Posting from Journal Entries

- For the A/c Debit in the Journal entry:- The posting in the ledger should be made on the debit side of that particular account. In the particulars Column the name of the other account (which has been credited in the Journal entry) should be written for reference.
- For the A/c credited in the Journal entry:- The posting in the ledger should be made on the credit side of that particular A/c. In the particulars column, the name of the other account that has been debited (in the Journal entry) is written for reference.

Important

- To' is written before the A/c which appear on the debit side of Ledger
- "By" is written before the A/c appearing on the credit side Ledger.
- Use of these words To' and 'By' is optional.
- An account cannot have the same name on any side of the account.
 Ex. Cash Account never contain "To Cash Account or By Cash Account".

Example 1: Posting of a transaction from Journal to ledger.

Transaction:- On 1st August 2022. goods are sold for cash ₹12,000.

Solution

Dr.		Journal Entry			Cr.
Date	Particulars		L.F.	(₹)	(₹)
2022 Aug.1	Cash A/c	Dr.		12,000	
Aug.1	To Sales A/c				12,000
	(For cash sales)				

Ledge Account

Dr.			sh A/c (Cr.			
Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
2022 Aug.1	To Sales A/c		12,000				

Dr.		Sales A/c (an extract)					Cr.	
Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)	
				2022 Aug.1	By Cash A/c		12,000	

Example 2 : Compound Journal Entry

Received ₹14,000 in full settlement of a debt of ₹15,000 from Ram on Aug 8, 2022.

Solution

Dr.	Journal En	try			Cr.
Date	Particulars		L.F.	(₹)	(₹)
2022	Cash A/c	Dr.		14,000	
Aug.8	Discount Allowed A/c	Dr.		1,000	
	To Ram's A/c				15,000
	(Cash received and discount allowed)				

Ledger A/c

Dr.			Cash Account				Cr.		
Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)		
2022 Aug.8	To Ram		14,000						

Dr.	Di	Discount Allowed Account					Cr.	
Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)	
2022 Aug.8	To Ram		1,000					

Dr.		Ram's A	Accour	nt	Cr.

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
2021				2022	By Cash A/c		14,000
				Aug.8	By Discount A/c		
					Allowed A/c		1,000

Case II: Ledger Postings from Cash Book Important Points

- Cash Book itself serves as a cash A/c also, therefore when cash book is maintained, cash A/c is not opened in the ledger.
- (2) When Bank column is maintained in the Cash Book, Bank A/c is also not opened in the ledger. The Bank column itself serves the purpose of Bank A/c.
- (3) Opening and closing balances of Cash Book will not be entered in the ledger.
- (4) As Cash Book serves the purpose of Cash/Bank A/c, it means that, only the second A/c (other than Cash A/c or Bank A/c) is to be opened in the ledger and posting is to be made for each entry in the Cash Book.

RULES OF POSTING

(a) Posting from the Debit Side of Cash Book

By Cash A/c \rightarrow if it is from the Cash Column

By Bank A/c \rightarrow if it is from the Bank Column.

(b) Posting from the Credit Side of Cash Book

To Cash A/c → if it is from the Cash Column

To Bank A/c → if it is from the Bank Column

(c) All contra entries marked "C" are ignored while posting from the Cash Book to the Ledger because double aspect of such transactions is completed in the Cash Book itself.

Example 3: Given some Cash Book entries Post them into ledger Accounts.

Double Column Cash Book

Dr. Cr.

Date	Particulars	L.F	Cash (₹)	Bank (₹)	Date	Particulars	L.F	Cash (₹)	Bank (₹)
2022					2022				
Jan 10	To Capital A/c		40,000	-	Jan. 12	By Purchases A/c		5,000	-
Jan 15	To Cash A/c	С	-	10,000	Jan. 15	By Bank A/c	С	10,000	-
Jan 22	To Sales A/c		3,000	-	Jan. 25	By Sumit		-	4,500
Jan 28	To Anil		-	2,900	Jan. 31	By Balance C/d		28,000	8,400
			43,000	12,900				43,000	12,900

Solution:

Dr.

Note:- 15th Jan. entry will not be posted (Contra Entry). Closing Balance will not be posted in the ledger.

Capital Account

Dr. Cr.

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
				2022 Jan. 10	By Cash A/c		40,000

Sales Account

Dr. Cr.

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2021				2022 Jan. 22	By Cash A/c		3,000

Anil's Account

Dr. Cr.

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
				2022 Jan. 28	By Bank A/c		2,900

Purchase Account

Cr.

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2022 Jan. 12	To Cash A/c		5,000				

Sumit's Account

Case III: Ledger posting from Purchases book

Journal Entry for Credit Purchases is

Purchases A/c Dr

To Supplier (Creditor)

Therefore the rules of posting from Purchases Book are.

- 1. The total of the Purchase Book will be posted to the Debit side of Purchase A/c and the words "To Sundries as per Purchase Book" will be written in the particulars column.
- 2. Each of the **Supplier's** A/c will be **Credited** and the words. "**By Purchases** A/c" will be written in the particulars column.

Example 4:

Purchases Book

Date	Particulars	Invoice No.	L.F.	Detail (₹)	Total Amount (₹)
2022					
June 4	Sahil & Co.				10,000
June 14	Geeta Industries			20,000	
	Less : Trade discount @20%			(4,000)	16,000
June 26	Vijay & Co.			12,000	
	Less : Trade discount @20%			(2,400)	9,600
June 30	Purchases A/c Di	r			35,600

Solution:

LEDGER A/cs

Purchases Account

Dr.Cr.DateParticularsJ.F. Amount (₹)Date ParticularsJ.F. Amount (₹)2022To Sundries as per Jun. 30Purchase Book35,600

Sahil & Co. (Supplier)

Dr.							Cr.
Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
				2022 June 4	By Purchase A/c		10,000

Geeta Industries (Supplier)

Dr.							Cr.
Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
				2022 June 14	By Purchase A/c		16,000

Vijay & Co. (Supplier)

Dr.		_	_		•		Cr.
Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
				2022 June 26	By Purchase A/c		9,600

CASE IV : Ledger Posting from Sales Book

Journal Entry for Credit sales is

Customer (Debtor)

Dr.

To Sales A/c

Hence rules for posting from sales Book are

- Total of the Sales book will be posted to the credit side of sales A/c by writing the words "By sundries as per Sales Book"
- Customer's personal .A/cs are debited by writing the words "To Sales A/c"

Case V: Ledger Posting from Purchase Return Book

Journal Entry for purchase Return is

Personal A/C of Supplier Dr.

To Purchase Returns A/c

Hence the rules for posting are

- 1. Supplier's A/c (to whom the goods are returned) is **debited** by writing the words **"To Purchase Return A/c"**
- 2. The total of the Purchases return Book is credited to the Purchases Return A/c by writing the words "By Sundries as per Purchases Return Book"

Case VI: Ledger Postings of Sales Returns Book.

Journal Entry for the sales Return is -

Sales Returns A/c

To Customer

Hence the Rules for Posting are

 Individual Customer's A/cs by whom the goods are returned are Credited by writing the word "By Sales Return A/c."

Dr.

 The total of the Sales Returns Book is posted to the Debit of Sales Returns A/c by writing the words. "To Sundries as per Sales Returns Book".

CLOSING AND BALANCING OF ACCOUNT

Normally after every month or whenever a businessman is interested in knowing the position of various A/cs, the accounts are balanced. Various steps for this purposes are:

- 1. Debit and Credit sides of each A/c are totalled.
- 2. The difference between the two sides is inserted on the side which is shorter so as to make their totals equal.
- 3. The words 'Balance c/d i.e., the balance carried down and written against the amount of difference.
- 4. In the next period, the balance is brought down on the other side by writing the words 'Balance b/d'.
- 5. If the **Debit side exceeds** the **Credit Sides**, the difference is a **Debit Balance**.
- 6. If the Credit side exceeds the Debit side, the difference is a Credit Balance.

Important

- Debit Balance of a Personal A/c means the person is a Debtor of the firm whereas Credit Balance of a Personal A/c indicates that the person is a Creditor of the firm.
- Real A/cs (which include Cash and all other Assets A/cs) will usually show Debit Balances.
- 3. **Nominal A/cs** (A/cs of Income and Expenses) are closed by transferred to **Trading and Profit and Loss A/c of the firm** at the end of the Accounting Period.
- 4. **Debit Balance of any A/c means** an **Asset** or an **Expense** whereas **Credit Balance** means a **liability**, **Capital or Revenue**.

TRIAL BALANCE

- **I. Meaning**: When posting of all the transactions into the Ledger is completed and accounts are balanced off, then the balance of each account is put on a list called Trial Balance.
- **II. Definition**: Trial Balance is the list or statement of debit and credit balances taken out from ledger. "It also includes the balances of Cash and bank taken from the Cash Book".

PREPARATION: STEPS (ONLY BALANCE METHOD)

- (1) Ledger A/cs which shows a **debit balance** is put on the **Debit side** of the trial balance.
- (2) The A/c Showing credit balance is put on the Credit side of Trial Balance.
- (3) Accounts which shows **no balance** i.e. whose **Debit** and **Credit** totals are equal are not entered in Trial Balance.
- (4) Then the two sides of the Trial Balance are to totalled. If they are equal it is assumed that there is no arithmetical error in the posting and balancing of Ledger A/cs.
 - **Note:-** While preparing the trial balance from the given list of ledger balance, following rules should be taken into care:
- The balances of all (i) assets accounts (ii) expenses accounts (iii) losses (iv) drawings (v) cash and bank balances are placed in the debit column of the trial balance.
- 2. The balances of all (i) liabilities accounts (ii) income accounts (iii) profits (iv) capital are placed in the credit column of the trial balance

Objectives or Functions of Trial Balance

- It helps in ascertaining the arithmetic accuracy of ledger accounts.
- Helps in locating errors.
- Provides the summary of Ledger A/cs.
- Helps in the preparation of Final A/cs.

Preparation of Trial Balance

A trial balance can be prepared the following three ways: (only Balances method is in Syllabus).

- 1. Totals Method
- 2 Balances Method
- 3. Totals-cum-Balances Method

1. Totals Method

Under this method, total of each side in the ledger (debit and credit) is ascertained separately and shown in the trial balance in the respective columns. The total of debit column of trial balance should agree with the total of credit column in the that balance because the accounts are based on double entry system. However, this method is not widely used in practice, as it does not help in assuming accuracy of balances of various accounts and preparation of the financial statements.

2. Balances Method

This is the most widely used method In practice. Under this method trial balance is prepared by showing the balances of all ledger accounts and then totalling up the debit and credit columns of the trial balance to assure their correctness. The account balances are used because the balance summarises the net effect of all transactions relating to an account and helps in preparing the financial statements. It may be noted that in trial balance, normally in place of balances in individual accounts, of the debtors, a figure of sundry debtors is shown, and In place of individual accounts of creditors, a figure of sundry creditors is shown.

3. Totals-cum-balances Method

This method is a combination of totals method and balances method. In this method four columns for amount are prepared. Two columns for writing the debit and credit totals of various accounts and two columns for writing the debit and credit balances of these accounts. However, this method is also not used in practice because it is time consuming and hardly serves any additional or special purpose.

Recording in the journal and Subsidiary Books, Posting into the Ledger and Preparation of Trial Balance can be clearly understood with the help of the example given on next pages.

Question: Enter the following transactions in proper Subsidiary Books, post them into Ledger Accounts, balance the accounts and prepare a Trial Balance, 2022.

- Jun.1 **Assets**: Cash in hand ₹ 50.000: **Debtors**: Amit and Co. ₹15,000, Sumit Bros, ₹ 30.000, Stock ₹ 1.75,000, Machinery ₹1,20,000, Furniture 40,000.
 - **Liabilities**: Bank overdraft ₹ 33,000. Creditors: Virat and Co. ₹ 24,000, Vishal ₹ 16.000.
- Jun.2 Purchased from Ramesh and Sons goods of the list price of ₹20,000 at 10% trade discount.
- Jun. 5. Returned to Ramesh & Sons goods of the list price of ₹2,000.
- Jun. 10 Issued a cheque to Ramesh and Sons in full settlement of their account.
- Jun. 12 Sold to Amit and Co., goods worth ₹25,000.
- Jun. 15 Received cash ₹ 10,000 and cheque for ₹ 8,000 from Amit and Co.
 The cheque was immediately deposited into the bank.
- Jun.16 Withdraw for personal use cash ₹ 5,000 and goods for ₹3,000.
- Jun. 19 Sold to Mohit Bros., goods for ₹ 16,000.
- Jun. 20 Cash purchases ₹15,000.
- Jun. 22 Withdraw from bank for office use ₹ 10,000.
- Jun. 23 Purchased from Vishal goods valued ₹24,000.
- Jun. 24 Amit and Co. returned goods worth ₹2,000.
- Jun. 25 Received from Mohit Bros. ₹10.000.
- Jun. 27 Paid by cheque. Rent ₹2,800.
- Jun. 27 Received Commission in Cash ₹800.
- Jun. 30 Paid salaries ₹5,000.

Cash Book (with cash and Bank Columns)

Dr.									Cr.
Date	Particulars	L.F	Cash	Bank	Date	Particulars	L.F	Cash	Bank
	(Receipts) Vr No					(Payments) Vr. No			
2022			(₹)	(₹)	2022			(₹)	(₹)
June 1	*To Balance b/d		50,000	-	June 1	*By Balance b/d		-	33,000
June 15	To Amit & Co.		10,000	8,000	June 10	By Rames & Sons		-	16,200
June 22	*To Bank A/c	С	10,000	-	June 16	By Drawings A/c		5,000	-
June 25	To Mohit Brothers		10,000	-	June 20	By Purchases A/c		15,000	-
June 27	To Commission A/c		800		June 22	*By Cash A/c	С		10,000
					June. 27	By Rent A/c		-	2,800
June 30	To Balance C/d		-	54,000	June 30	By Salaries A/c		5,000	
					June 30	By Balance C/d		55,800	
	Total		80,800	62,000		Total		80,800	62,000
July 1	To Balance b/d		55,800	-	July 1	By Balance b/d		-	54,000
						(Bank overdraft)			

Note: 1. Entries marked with *will not be posted any where in the ledger.

- 2. Closing Balances of Cash and Bank will be shown in the Trial Balance.
- 3. All other A/cs shown in the Debit side will be credited & All other A/cs shown in the Credit side will be debited.

Purchase Book

Date	Name of the Supplier (Account to be Credited)	Inv. No	L. F.	Detail (₹)	Total Amount (₹)
2022					
June 2	Ramesh & Sons			20.000	
	Less Trade Discount 10%			2.000	18,000
June 23	Vishal				24,000
June 30	Purchases A/c Dr.				42,000

Sales Book

Date	Name of the Supplier (Account to be Credited)	Inv. No.	L.F.	Details (₹)	Total Amount (₹)
2022					
June 12	Amit & Co.				25,000
June 19	Mohit Bros.				16,000
June 30	Sales A/c Cr.				41,000

Sales Return Book

Date	Name of the Supplier (Account to be Credited)	Inv. No.	L.F.	Detail (₹)	Total Amount (₹)
2022 June 24	Amit & Co.				2,000
June 30	Sales Return A/c Dr.				2,000

Purchase Return Book

Date	Name of the Supplier (Account to be Credited)	Inv. No.	L.F.	Detail (₹)	Total Amount (₹)
2022 June 5					
	Ramesh & Sons			2.000	
	Less Trade Discount 10%			200	1.800
June 30	Purchases Return A/c Cr.				1,800

Posting of opening Entries:

- 1. First of all opening Journal Entry is done in the Journal proper.
- 2. All Assets A/cs are Debited and Liabilities A/cs are Credited. Difference between the totals of the two sides is the Capital.

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

Journal Proper

Date	Particulars	-	L.F.	Dr. (₹)	Cr. (₹)
2022					
June 1	Cash A/c	Dr.		50,000	
	Amit & Co.	Dr.		15,000	
	Sumit Brothers	Dr.		30,000	
	Stock A/c	Dr.		1,75,000	
	Machinery A/c	Dr.		1,20,000	
	Furniture A/c	Dr.		40,000	
	To Bank (Overdraft) A/c				33,000
	To Virat & Co.				24,000
	To Vishal				16,000
	To Capital A/c (Balancing fig)				3,57,000
	(opening Balances, b ought forward from the previous years books)				
June	Drawings A/c	Dr.		3,000	
16	To Purchases A/c				3,000
	(Goods withdrawn for personal use)				

Ledger Accounts Amit & Co.

Dr.			Aiiiic	u 00.			Cr.
Date	Particulars	J.F	(₹)	Date	Particulars	J.F	(₹)
2022				2021			
Jun. 1	To Balance b/d		15,000	June 15	By Cash A/c		10.000
Jun. 12	To Sales A/c		25,000	June 15	By Bank A/c		8,000
				June 24	By Sale		2,000
					Return A/c		
				June 30	By Balance c/d		20.000
			40,000				40,000
Juiy 1	To Balance b/d*		20,000				

Sumit Bros.

Dr.							Cr.
Dale	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2022				2022			
June 1	To Balance b/d*		30,000				

Stock Account

Dr.							Cr.
Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2022				2022			
June 1	To Balance b/d*		1.75,000				

Machinery Account

Dr.							Cr.
Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹⊸
2022				2022			
June 1	To Balance b d		1.20,000	June 30	By Balance c/d		1,20,000
			1,20.000				1,20,000
July 1	To Balance b d'		1.20,000				

Furniture Account

Dr							<u> </u>
Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2022				2022			
June 1	To Balance b/d		40,000	June 30	By Balance c/d		40,000
			40.000				40,000
July 1	To Balance b/d		40,000				

Virat & Co.

	vii at a oo.	
Dr.		

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹ .
				2022			
				June 1	By Balance b/d		24.000

Vishal's A/C

Dr	Cr
171	(7)

Date	Particulars	J.F	₹	Date	Particulars	J.F.	₹
2022				2022			
				June 1	By Balance b/d		16,000
Jun 30	To Balance c/d		40,000	June 23	By Purchases A/c		24,000
			40,000				40,000
				July 1	By Balance b/d		40,000

Capital Account Dr.

Dr.		Capital Account								
Date	Particulars	J.F	₹	Date	Particulars	J.F.	₹			
2022				2022						
Jun 30	To Balance c/d		3,57,000	June 1	By Balance b/d		3,57,000			
			3,57,000				3,57,000			
				July 1	By Balance b/d		3,57,000			

Drawing Account

Dr. Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F	₹
2022				2022			
Jun. 16	To Cash Ac		5,000	June 30	By Balance b/d		8,000
Jun. 16	To Purchases A/c		3,000				
			8,000				8,000
July 1	To Balance b/d		8,000				

Ramesh & Sons

Cr. Dr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2022				2022			
June 5	To Purchase		1,800	June 2	By Purchase A/c		18,000
	Return A/c						
June 10	To Bank A/c		16,200				
			18,000				18,000

Cr.

Purchases Account

Dr.	Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2022				2022			
Jun. 20	To Cash Ac		15,000	June 16	By Drawing A/c		3,000
Jun. 30	To Sundries as per Purchase Book		42,000	July 30	By Balance c/d		54000
			57,000				57,000
July 1	To Balance b/d'		54.000				

Mohit Brothers

Dr.

Dr.							Cr.
Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2022				2022			
Jun. 19	To Sales A/c		16,000	June 25	By Cash A/c		10,000
				June 30	By Balance c/d		6,000
			16,000				16,000
July 1	To Balance b/d		6,000				

Rent Account

Dr.

Dr.

Dr.

Dr.							Cr.
Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2022				2022			
Jun. 27	To Bank A/c		2,800	June 30	By Balance c/d		2,800
Jun. 30	To Balance b/d*		2,800				2,800

Commission Account

Cr.

Date	Particulars	J.F.	₹	Date	Particular	J.F.	₹
				2022 June 27	By Cash A/c		800

Salaries Account

Cr.

Date	Particulars	J.F.	(₹)	Date	Particular	J.F.	(₹)
2022	To Cash A/c		5.000				
Jun. 30							

Sales Account

Dr.							Cr.
Date	Particulars	J.F.	₹	Date	Particular	J.F.	₹
				2022 June 30	By Sundried as per Sales Book		41.000

Sales Return Account

Dr.							Cr.
Date	Particulars	J.F.	₹	Date	Particular	J.F.	₹
2022 Jun. 30	To Sundries as per Sales Return Book		2,000				

Purchase Return Account

Dr.							Cr.
Date	Particulars	J.F.	₹	Date	Particular	J.F.	₹
				2022 June 30	By Sundries as per Purchase Return Book		1,800

Trial Balance As on 30th June, 2022

Name of the Accounts	L.F.	Debit	Credit
		Balances	Balances
		(₹)	(₹)
Cash A/c		55,800	-
Bank (overdraft) A/c		-	54,000
Amit & Co.		20,000	-
Stock A/c		1,75,000	-
Machinery A/c		1,20,000	-
Furniture A/c		40,000	-
Capital A/c		-	3,57,000
Drawings A/c		8,000	-
Purchases A/c		54,000	-
Mohit Brothers		6,000	-
Rent A/c		2,800	-
Commission A/c		-	800
Salaries A/c		5,000	-

Sales A/c	-	41,000
Sales Return A/c	2,000	-
Purchase Return A/c	-	1,800
Sumit Brothers	30,000	-
Virat & Co.	-	24,000
Vishal	-	40,000
Total	5,18,600	5,18,600

SUSPENSE ACCOUNT

When Trial Balance does not agree, then first of all we try to locate the errors. Sometimes, in spite of the best efforts, all the errors are not located and the Trial Balance does not tally. Then in order to avoid delay in the preparation of final accounts, a new account is opened which is known as "Suspense Account." Difference in Trial Balance is posted to this Account.

Trial Balance

S. No.	Dr. Balance Total (₹)	(Cr) Balance Total) (₹)	Difference (₹)	Posted to the Suspense A/c
1.	2,25,000	2,16,500	8,500 (Excess Debit)	Credit Side of Suspense A/c
2.	2,16,500	2,25,000	8,500 (Excess Credit	Debit Side of Suspense A/c

Closing of Suspense Account

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

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

OBJECTIVE QUESTIONS BASED ON CHAPTER

Multiple Choice Questions

- **1.** The process of transferring the debit and credit items from a Journal to their respective accounts in the ledger is termed as
 - (a) Posting
 - (b) Purchasing
 - (c) Balancing of an account
 - (d) Recording
- 2. The technique of finding the net balance of an account after considering the totals of both debits and credits appearing in the account is known as
 - (a) Posting
 - (b) Purchasing
 - (c) Balancing of an account
 - (d) None of the above
- 3. Journal and ledger records transactions in
 - (a) A chronological order and analytical order respectively.
 - (b) An analytical order and chronological order respectively.
 - (c) A chronological order only
 - (d) None of the above
- **4.** Ledger book is popularly known as:
 - (a) Secondary book of accounts
 - (b) Principal book of accounts
 - (c) Subsidiary book of accounts
 - (d) Primary book of accounts
- **5.** After the preparation of ledgers, the next step is the preparation of:
 - (a) Trading accounts
 - (b) Trial balance
 - (c) Profit and loss account
 - (d) Balance Sheet

- **6.** After preparing the trial balance the accountant finds that the total of the debit side is short by 5,000. This difference will be ______.
 - (a) Debited to Suspense Account
 - (b) Credited to Suspense Account
 - (c) Debited to a ledger Account
 - (d) None of the above

True and False Questions

- 1. A ledger is also known as the principal book of accounts.
- 2. Cash account has a debit balance.
- 3. Posting is the process of transferring the accounts from ledger to journal.
- 4. Ledger records the transactions in a chronological order.
- 5. If the total debit side is greater than the total of credit side, we get a credit balance.
- 6. Ledger accounts of assets will always have debited balance.
- 7. Trial balance forms a base for the preparation of Financial statements.
- 8. Agreement of Trial balance is a conclusive proof of accuracy.
- 9. A Trial balance can find the missing entry from the journal.
- 10. Suspense account opened in a trial balance is a permanent account.
- 11. The balance of purchase returns account has a credit balance.

Answers of Objective Questions

MCQ's

- 1. (a)
- 2. (c)
- 3. (a)
- 4. (b)
- 5. (b)
- 6. (a)

True False Questions

- 1. True
- 2. True
- 3. False:-Posting is the process of transferring the balances from journal to ledger.
- 4. False:- Ledger records the transactions in analytical order.
- 5. False:- If the total debit side is greater than the total of credit side, we get a debit balance as the opening balance.
- 6. True
- 7. True
- 8. False:- There can be still amount errors in recording or posting
- 9. False:- Trial balance Cannot find entry error.
- 10. False:- Suspense account opened in a trial balance Is a Temporary Account.
- 11. True

CHAPTER-6 DEPRECIATION, PROVISIONS AND RESERVES

Learning Objectives

After studying this lesson you will be able to:

- State the meaning and concept of depreciation.
- Explain the need and factors affecting depreciation.
- Explain the methods of charging depreciation.
- Find the amount of depreciation using different methods.
- Show the Accounting Treatment of Depreciation.
- State the meaning of Provisions and Reserve
- Differentiate between Provision and Reserve.

Teaching Methods

Discussions, Brainstorming etc. Teachers are advised to use various examples of real life context of the students to clear the concept of depreciation.

Meaning **Objectives** Depreciation is the 1. Determine correct profit/loss reduction in value of asset 2. To show true and fair view due to its wear and tear or with efflux of time or due to of the Financial Position obsolescence or accidenty 3. To Determine correct cost of production **Depreciation** Causes

- 1. Use of Asset
- 2. Efflux of time
- 3. Obsolescence
- 4. Accidents

Factors of Providing Depreciation

- 1. Cost of Asset
- 2. Estimated residual value of scrap value
- 3. Estimated useful life of the Asset

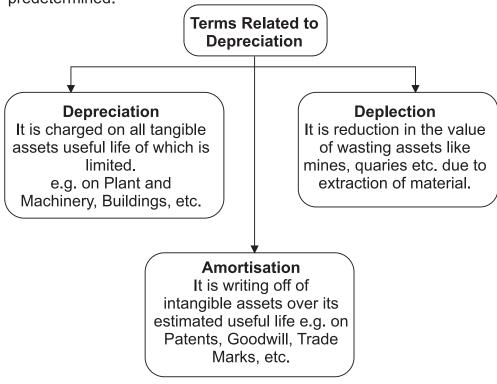
Depreciation: Concept

Fixed assets are held on a long term basis and used to generate periodic revenue. That portion of assets, which is believed to have been consumed or expired to earn the revenue, needs to be charged as cost. Such an appropriate proportion of the cost of fixed assets is called Depreciation.

Business enterprises require fixed assets such as furniture and fixtures, office equipments. plant and machinery, motor vehicles. land and building etc. for their business operation. In the process of converting Raw material into finished products, the fixed assets depreciate in value over a period of time, i.e. its useful life.

In other words, the process of allocation of the cost of a fixed asset over its useful life is known as depreciation.

According to accounting standard - 6 (Revised) issued by the ICAI "Depreciation is a measure of wearing out, consumption or other loss of value of a depreciable asset arising from use, EFFLUX of time or obsolescence through technology and market changes. Depreciation is allocated so as to charge a fair proportion of the depreciable in each accounting period-during the expected useful life of the asset. Depreciation includes amortization of assets whose useful life is predetermined.



Some Important Terms

- 1. **Obsolescence:** When a fixed tangible asset becomes useless or unwanted due to new invention.
- **2. Amortization :-** The term amortization is used for writing off intangible assets such as goodwill, copyright, patents, etc.
- 3. **Depletion :-** The term depletion is used in relation to decreasing the value of wasting assets or natural resources such as mines, oil wells, timber trees & fishing etc. due to the continuous removal or extraction of things.

Need or objectives of providing Depreciation

- 1. Ascertaining true profit or loss:
- (i) The true profit of an enterprise can be ascertained when all costs incurred for the purpose of earning revenues have been debited to the profit and loss account.
- (ii) Fall in the value of assets used in business operations is a part of the cost and should be shown in the profit and loss account of concerned accounting period.
- (iii) Keeping this in view, depreciation must be debited to profit & loss account, since loss in value of fixed assets is also an expense like other expenses.
- 2. Presentation of True and Fair value of assets: If depreciation is not provided, the value of assets shown in the Balance sheet will not present the true and fair value of assets because assets are shown at the cost price but actual value is less than cost price of the assets.
- 3. To ascertain the accurate cost of the Production:

 Depreciation is an item of expense, the correct cost of production cannot be calculated unless it is also taken into consideration. Hence, depreciation must be provided to ascertain the correct cost of production.

4. Computation of correct income tax:

- (i) Income tax of an enterprise is determined after charging all the costs of production.
- (ii) If depreciation is not charged, the profits will be higher and the income tax will also be higher.
- (iii) If depreciation is charged, Tax liability is reduced.
- 5. Provision of funds and replacement of assets: Depreciation is a non cash expense. So the amount of depreciation charged to profit & loss account is retained in business every year. These funds are available for replacement of the assets when its useful life is over.

Methods of providing depreciation

1. Straight line method

- (i) This method is also known as 'original cost method'
- (ii) Under this method, depreciation is charged at fixed percentage on the original cost of the asset, throughout its estimated life.
- (iii) Under this method, the amount of depreciation is uniform from year to year. That is why this method is also known as 'Fixed Installment Method' or 'Equal installment method'.

Calculation of the amount of depreciation:

(a) When Estimated life of asset and scrap value are given:

For examples: A firm purchases a machine for ₹ 2,25,000 on April 1, 2020. The expected life of this machine is 5 years. After 5 years the scrap of this machine would be realized ₹ 25,000. Under straight line method, the amount of depreciation can be calculated as under:

Hence ₹ 40,000 will be charged every year as depreciation on this machine.

(b) When the Rate of deprecation is given:

Annual Depreciation =

Original cost of asset x Rate of Depreciation

100

For Example: A firm purchases a machine for ₹ 2,00,000 on Oct 1, 2019. If depreciation is charged @ 10% P.a. on original cost method and accounts are closed on 31st March every year, the amount of depreciation can be calculated for 2019-20 and 2020-21 as under:

2019-20

Depreciation = 2,00,000 x
$$\frac{10}{100}$$
 x $\frac{6}{12}$ = ₹ 10,000

Since the usage of asset is from (Oct-March) 2019, the deprecation is calculated for 6 months.

2020-21

Depreciation = 2,00,000 x
$$\frac{10}{100}$$
 = ₹ 20,000

2. Diminishing balance method: Under this method, depreciation is charged as a fixed percentage on the book value of the asset every year. In first year the depreciation will be charged at the end of the year, on the total cost the asset.

Example: A machine is purchase for ₹ 2,00,000 on April 1.2016. It is decided to charge depreciation on this machine @ 10% p.a. The amounts of depreciation for first four years by using both the methods (Straight line method and Diminishing balance method) are shown as under:

Straight Line Method

Diminishing Balance Method

Year	Book Value	Dep. @ 10%	Book Value	Dep. @ 10%
2016-17	20,000	2,000	20,000	2,000
2017-18	18,000 (20,000 - 2,000)	2,000	18,000 (20.000 - 2,000)	1,800
2018-19	16,000(18,000 - 2,000)	2,000	16.200 (18.000 - 1,800)	1,620
2019-20	14,000 (16,000 - 2,000)	2,000	14,580 (16.200 - 1,620)	1.458

Hence, in Straight Line method, amount of depreciation is same but in Diminishing Balance Method amount of depreciation goes on decreasing every year. Depreciation can be recorded by crediting it to the Assets account. Difference Between Straight line Method and written down value method of charging depreciation

Basis	Straight Line Method	Diminishing Balance Method
Charge	Calculated on the original cost of the asset	Calculated on reducing balance of fixed asset
Amount	Remains the same	Reduces year after year
Zero Balance	Zero Balance in Asset Account, at the expiry of the working life	The Asst Account balance never reduces to zero.
Suitability	For assets which get depreciated on account of expiry of working life of asset.	For assets which require more repairs in the later years due to wear and tear.

Journal Entries

	Transaction	Journal Entry	
1.	For Purchase of Asset	AssetA/c Dr. To Bank/CashA/c	
2.	For charging Depreciation	Depreciation A/c Dr. To Asset A/c	
3.	Transfer of Depreciation to profit and loss account and loss account	Profit & Loss A/c Dr. To Depreciation A/c	
4.	Sale of Asset	Bank/Cash A/c Dr. To Asset A/c	
5.	For loss on sale of Asset	Loss sale of Asset Dr. To Asset A/c	
6.	For gain on sale of Asset	Asset A/c Dr. To gain on sale of Asset A/c	

Illustration 1: On 1st, April 2019, a firm purchased a machine for ₹90,000 and spend ₹10,000 on its erection. It is decided to depreciate it @ 10% p.a. on straight line method. Show machinery account for three accounting years when books are closed on 31st March every year.

Solution:

Machinery Account

Dr. Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2019				2020			
Apr. 1	To Bank A/c		90,000	Mar. 31	By Depreciation A/c		10,000
Apr. 1	To Cash A/c		10,000	Mar. 31	By Balance c/d		90,000
			1,00,000				1,00,000
2020			_	2021			
Apr. 1	To Balance b/d		90,000	Mar. 31	By Depreciation A/c		10,000
				Mar. 31	By Balance c/d		80,000
			90,000				90,000
2021				2022			
Apr. 1	To Balance b/d		80,000	Mar. 31	By Depreciation A/c		10,000
				Mar. 31	By Balance c/d		70,000
			80,000				80,000

Illustration 2: On the basis of information given in Illustration 1, show machinery account for three years if depreciation is charged @ 10% p.a. on diminishing balance method.

Solution:

Machinery Account

Dr. Cr.

Date	Particulars	J.F		Date	Particulars	J.F	₹
2019				2020			
Apr. 1	To Bank A/c		90,000	Mar. 31	By Depreciation A/c		10,000
Apr. 1	To Cash a/c		10,000	Mar. 31	By Balance c/d		90,000
			1,00,000				1,00,000
2020				2021			
Apr. 1	To Balance b/d		90,000	Mar. 31	By Depreciation A/c		9,000
				Mar. 31	By Balance c/d		81,000
			90,000				90,000
2021				2022			
Apr. 1	To Balance b/d		81,000	Mar. 31	By Depreciation A/c		8,100
				Mar. 31	By Balance c/d		72,900
			81,000				81,000

Illustration 3: On April 1, 2019 Sanju bought Machinery costing ₹80,000. On July 1, 2022 Machinery was sold for ₹40,000. Prepare Machinery Account from April 1, 2019 till July 1, 2021 assuming depreciation was charged @ 10% per annum on March 31, every year on the basis of Original cost method.

Solution:

Machinery Account

Dr. Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2019				2020			
Apr. 1	To Balance b/d		80,000	Mar. 31	By Depreciation A/c		8.000
				Mar. 31	By Balance cid		64.000
			80,000				72,000
2020				2021			
Apr. 1	To Balance b/d		72,000	Mar. 31	By Depreciation A/c		8.000
				Mar. 31	By Balance cid		64.000
			72,000				72,000
2021				2021			
Apr. 1	To Balance b/d		64,000	July 1	By Bank A/c		40,000
				July 1	By Depreciation A/c		2,000
				July 1	By Loss on sale		
					of truck A/c		22,000
			64,000				64,000

Working notes:

Value of truck as on April 1, 2021= 64,000Less: depreciation till 1st July 20212,000Value of truck at the time of sale= 62,000Less: sale price40,000Loss on sale on truck22,000

Illustration 4

On the basis of information given in Illustration 3, prepare Truck account assuming depreciation is charged @ 10% on written down value method.

Solution

Machinery Account

Dr. Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2019				2020			
Apr. 1	To Bank A/c		80,000	Mar. 31	By Depreciation A/c		8.000
				Mar. 31	By Balance cid		72.000
			80,000				80,000
2020				2021			
Apr. 1	To Balance b/d		72,000	Mar. 31	By Depreciation A/c		7,200
				Mar. 31	By Balance c/d		64.000
			72,000				72,000
2021				2021			
Apr. 1	To Balance b/d		64,000	July 1	By Bank A/c		40,000
				July 1	By Depreciation A/c		2,000
				July 1	By Loss on sale		
					of truck A/c		23,180
			64,800				64,800

Working notes:

Value of truck as on April 1, 2021 = 64,800
Less: depreciation till 1st July 2021 1,620
Value of truck at the time of sale = 63,180
Less: sale price 40,000
Loss on sale on truck 23,180

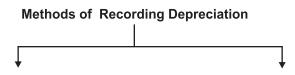
Illustration: 5

A firm purchased on 1st January, 2019 certain Machinery for ₹ 5,82,000 and spent ₹ 18,000 on its erection. On 1st July, 2019 additional machinery costing ₹ 2,00,000 was purchased. On 1st July, 2021 the machinery purchased on 1st January, 2019 was auctioned for ₹ 2,86,000 and a fresh machinery for ₹ 4,00,000 was purchased on same date. Depreciation was provided annually on 31st December at the rate of 10% on written down value method. Prepare Machinery account from 2019 to 2021.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2019				2019	By Depreciation A/C		
Jan. 1	To Bank A/c (i)		6,00,000	Dec. 31			
July 1	To Bank A/c (ii)		2,00,000		(i) (600,000x10/100)		
					= 60000		
					(ii) (200,00x10/100x		
					6/12) = 10000		70.000
				Dec. 31	By Balance c/d		70,000
					(5,40,000+1,90,000)		7,30,000
							8,00,000
			8,00,000	2020			
				Dec. 31	By Depreciation A/c		
2020							
Jan. 1	To Balance b/d		7,30,000		(i) (5,40,000x10/100)		
	(5,40,000+1,90,000)				54,000		73,000
					(ii) (1,90,000x10/100		70,000
					19,000		
				Dec.31	By Balance c/d		6,57,000
					(4,86,000+1,71,00)		7,30,000
2021			7,30,000				
Jan.1	To Balance b/d		6,57,000	2021	By Bank A/c (Sale)		2,86,000
	(4,86,000+1,71,000)			July 1			
July 1	To Bank A/c (iii)		4,00,000				
					By Dep. (4,86,000x		24,300
					10/100x6/12)		
					By P &L A/c (loss)		1,75,700
				Dec. 31	By Dep. A/c		
					(ii) (1,71,000x10/100)		
					17,100		
					(iii) (400,000x10/100x		37,100
					6/12)20,000		5,33,900
			10,57,000		By Balance c/d		10,57,000

Working Notes: Cost of 1st Machine = ₹ 5,82,000 + ₹ 18,000 = ₹ 6,00,000 Profit/Loss on sale of 1st

Loss on sale of 1st Machine = Book Value - Sale Value



First Method

In this method one account is prepared : (i) Asset A/c
In this case, each year, Depreciation is directly credited to the Asset A/c with the help of this entry:
Depreciation A/c Dr
To Asset A/c

Second Method

In this method two accounts are prepared:

(i) Asset A/c

(ii) Provision for Depreciation A/c
In such case, every year depreciation is directly credited to provision for Depreciation A/c.
This A/C shows the accumulated amount of depreciation to date. At the time it sale of asset, the total accumulated depreciation of concerned asset is transferred to the credit side of asset with the help of following entry.

Accumulated Depreciation A/c or Prov. for Depreciation A/c Dr. To Asset A/c

(₹4,86,000 - ₹24,300) ₹4,61,700 - ₹4,61,700 - ₹2,86,000 = ₹1,75,700 **Illustration 6**:

Suhani limited purchased a machine for ₹2,50,000 including installation cost on January 1, 2020. On October 1, 2022, machine was sold for ₹1,50,000. Depreciation was provided @ 10% p.a. on Fixed Installment method and accounts are closed on December 31, each year.

Show the Machinery Account and Provision for Depreciation Account for the year. 2020 to 2022. In the books of Suhani Limited.

Solution:

Machinery Account

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2020				2020			
Jan. 1	To Bank A/c		2,50,000	Dec. 31	By Balance c/d		2,50,000
			2,50,000				2,50,000
2021				2021			
Jan. 1	To Balance b/d		2,50,000	Dec. 31	By Balance c/d		2,50,000
			2,50,000				2,50,000
2022				2022			
Jan. 1	To Balance b/d		2.50,000	Oct. 1	By Provision for		68,750
					Dep. A/c		
				Oct. 1	By Bank A/c		1,50,000
				Oct. 1	By Loss on sale		31,250
			2,50,000		of Machinery A/c		2,50,000

Dr. Cr. Provision for Depreciation Account

P _{bate}	Particulars	J.F.	₹	Date	Particulars	Cŧŧ
2020				2020		
Dec. 31	To Balance c/d		25,000	Dec. 31	By Depreciation A/C	25,000
			25,000			25,000
2021				2021		
Dec. 31	To Balance c/d		50,000	Jan. 1	By Balance b/d	25,000
				Dec. 31	By Depreciation a/c	25,000
			50,000			50,000
2022				2022		
Oct. 1	To Machinery		68,750	Jan. 1	By Balance b/d	50,000
	a/c			Oct. 1	By Depreciation A/c	18,750
			68,750			68,750

Notes: Total Depreciation charged on Machinery from Jan 1, 2020 to Oct. 1, 2022:₹25,000+₹25.000+₹18,750=₹68,750.

Illustration 7:

On the basis of information given in Illustration 5, show the Machinery Account and Provision for Depreciation is provided @ 20 % p.a. on Written Down Value Method.

Solution: In the books of Suhani Limited

Machinery Account

Drate	Particulars	J.F.	₹	Date	Particulars	J.F.C	r. ₹
2020				2020			
Jan. 1	To Bank A/c		2,50,000	Dec. 31	By Balance c/d		2,50,000
			2,50,000				2,50,000
2021				2021			
Jan. 1	To Balance		2,50,000	Dec. 31	By Balance c/d		2,50,000
	b/d						
			2,50,000				2,50,000
2022				2022			
Jan. 1	To Balance		2,50,000	Oct. 1	By Provision for		1,14,000
	b/d				Dep. A/c		
Oct. 1	To gain		14,000	Oct. 1	By Bank A/c		1,50,000
	On sale A/c						
			264,000				264,000

Provision for Depreciation Account

Dr. Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2021				2021c			
Dec. 31	To Balance c/d		50,000	Dec. 31	By Depreciation a/c		50,000
			50,000				50,000
2021				2021			
Dec. 31	To Balance c/d		90,000	Jan. 1	By Balance b/d		50,000
				Dec. 31	By Depreciation a/c		40,000
			90,000				90,000
2022				2022			
Oct. 1	To Machinery		1,14,000	Jan 1	By Balance bid		90,000
				Oct. 1	By Depreciation a/c		24,000
			1,14,000				1,14,000

Note: Total Depreciation charged on Machinery from Jan. 1,2016 to Oct. 1, 2018:₹50,000+₹40,000+24,000=₹1,14,000

Illustration 8:

A Company purchased a machine for ₹40,000 on April 1, 2020. On October 1, 2021 it was sold for ₹ 13,000. The company charges depreciation @ 10% p.a. on straight line method.

Show Machinery Account, Provision for Depreciation Account and Machinery Disposal account if books are closed on March 31 each year.

Machinery Account

Dr. Cr.

Date	Particulars	J. F.	₹	Date	Particulars	J. F.	₹
2020				2021			
April 1	To Bank A/c		40,000	Mar. 31	By Balance c/d		40,000
			40,000				40,000
2021				2021			
April 1	To Balance b/d		40,000	Oct. 1	By Machinery		40,000
					Disposal A/c		
			40,000				40,000

Provision for Depreciation Account

Dr. Cr		
	Dr.	Cr.

Date	Particulars	J. F.	₹	Date	Particulars	J. F	₹
2021				2021			
Mar. 31	To Balance c/d		4,000	Mar. 31	By Depreciation A/c		4,000
			4,000				4,000
2021				2021		į.	
Oct 1	To Machinery		6,000	Apr. 1	By Balance b/d		4,000
	Disposal A/c						
				Oct. 1	By Depreciation A/c		2,000
			6,000				6,000

Machinery Disposal Account

<u>Dr.</u>						<u>C</u>	<u>r. </u>
Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2021				2021			
Oct. 1	To Machinery A c		40.000	Oct. 1	By Prov. For Dep. A/c		6,000
					By Cash A/c		13,000
					By loss on sale of machinery A/c		21,000
			40.000				40,000

Note: Total Depreciation charged on Machine: ₹4,000 + ₹2,000 = ₹6,000

Illustration 9:

On Oct. 1, 2019, Arora Auto Limited Purchased Furniture for₹1,00,000 and spent ₹ 4,000 towards its installation. On July 1, 2020, the Furniture was disposed off ₹59,820 and on the same day furniture costing ₹1,60,000 were purchased.

Show the Furniture Account, Provision for Depreciation Account and Furniture Disposal Account for the year 2019–20 and 2020–21 and 2021-22 if the rate of Depreciation is 15% per annum by Diminishing Balance method and accounts are closed or 31st march of every year.

Solution:

Furniture Account

Dr.			Furnitu	re Accou	ınt		Cr.
Date Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2019 Oct. 1 Oct.1	To Bank A/c To Bank A/c		1,00,000 4,000	2020 Mar. 31	By Balance c/d		1,04,000
			1,04,000				1,04,000
2020				2020			
Apr. 1	To Balance bid		1,04,000	Jul. 1	By Furniture Disposal A/c		1,04,000
Jul. 1	To Bank A/c		1,60,000	2021	By Balance c/d		1,60,000
				Mar. 31			
			2,64,000				2,64,000
2021				2022			
Apr. 1	To Balance b/d		1,60,000	Mar. 31	By Balance c/d		1,60.000
			1,60,000				1,60,000

Provision for Depreciation Account

Dr. Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2020 Mar. 31	To Balance c/d		7,800	2020 Mar. 31	By Depreciation A/c		7,800
			7,800				7,800
2020 Jul. 1	To Furniture Disposal A/c		11,408	2020 Apr. 1 July 1	By Balance b/d By Depreciation A/c		7,800 3,608
2021	Вюрования			2021	By Depreciation A/C		3,000
Mar. 31	To Balance c/d		18,000	Mar. 31	By Depreciation A/c		18,000
			29,408	2021			29,408
2022				1 Apr.	By Balance b/d		18,000
Mar. 31	To Balance c/d		39,300	2022 Mar. 31	By Depreciation A/c		21,300
			39,300				39,300

Furniture Disposal Account

Dr. Cr.

Date	Particulars	J. F.	₹	Date	Particulars	J.F.	₹
2020				2020			
Jul. 1	To Furniture A/c		1,04,000	Jul 1	By Prov. For Dep. A/c		11,408
					By Bank A/c		59,820
					By loss on sale A/c		32,772
			1,04,000				1,04,000

Note: Total Depreciation charged on Machinery sold: ₹7,800 + ₹3,608 = ₹11,408.

Working Notes:

Cost of 1st Machine = ₹ 5,82,000 + ₹ 18,000 = ₹ 6,00,000 Profit/Loss on sale of 1st

Loss on Sale of 1st Machine = Book Value – Sale Value (₹4,86,000 – ₹24,300) ₹4,61,700 – ₹2,86,000 = ₹1,75,700

Illustration 10:

The following balances appear in the books of Sankalp on 01-01-2021

Machinery A/c ₹ 8,00,000

Provision for Depreciation a/c ₹ 3,18,000

On 01-01-2021 they decided to sell a machine for ₹ 34,500. This machine was purchased for ₹ 1,20,000 on 01-01-2017.

Show the machinery A/c, Provision for Depreciation A/c for the year ended December 31, 2021 assuming that depreciation was charged at 10% p.a. on Written Down value method.

Machinery Account

Dr. Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2021				2021			
Jan. 1	To Balance b/d		8,00,000	Jan. 1	By Bank A/c		34,500
				Jan. 1	By Provision for		41,268
					Depreciation A/c		
				Jan. 1	By Profit & Loss A/c		44,232
				Dec. 31	By Balance c/d		6,80,000
			8,00,000				8,00,000

Provision for Depreciation Account

Dr.							Cr.
Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2021				2021			
Jan. 1	To Machinery A/c		41,268	Jan. 1	By Balance b/d		3,18,000
Dec. 31	To Balance A/c		3,17,095	Dec. 31	By Depreciation A/c		40,363
			3,58,363				3,58,363

Working Notes

Depreciation charged on Sold Machinery

Cost of the Machinery on 01-01-2017 Less: Depreciation on 31-12-2017	1,20,000 -12,000
Book Value on 01-01-2018	1,08,000
Less Depreciation on 31-12-2018	-10,800
Book Value on 01-01-2019	97,200
Less: Depreciation on 31-12-2019	- 9,720
Book Value on 01-01-2020	87,480
Less: Depreciation on 31-12-2020	-8,748
Book Value on 01-01-2021	78,732
Cost of Machinery	1,20,000
Dep. Charged till Sale (12000 + 10800 + 9720 + 8748)	41,268
(12,000,10,900,10,720,19,749)	
(12,000+10,809+9,720+8,748)	
Book Value on 01-01-2020	78,732
Less: Sale Price	34,500
Loss on sale of Machinery	44,232
Depreciation on Remaining Machinery	
Cost of Remaining Machinery (800,000 - 120,000)	6,80,000
Less: Accumulated Depreciation thereon (till 31-12-2020)	-276,372
(318,000 - 41,268)	
(318,000 - 41,268) Book Value on 01-01-2019	4,03,628

Illustration 11

(Problem Based on Missing Figures)

On 1st July 2019 Tata Private Ltd. purchased a machinery for ₹6,00,000. On 1st Oct. 2020 another machinery was purchased for ₹3,60000. On 1st July 2021, the machine purchased on July 2019 was sold for ₹3,36,000 and on the same date a fresh machinery was purchased for ₹4,00,00. Depreciation was provided @10% p.a. on the written down value method. Books are closed on 31st march every year.

You are required to prepare machinery account and provision for Depreciation for three years ending 31st March 2022.

MACHINERY ACCOUNT

Date	Particular	Amount (₹)	Date	Particular	Amount (₹)
20 ¹⁹ Jul-01	To Bank A/C	6,00,000 6,00,000	20 ²⁰ March 31	By Balance c/d	6,00,000 6,00,000
20 ²⁰ April Oct1	To Balance b/d To Bank A/C	6,00,000 360,000 9,60,000	20 ²¹ March 31	By Balance c/d	9,60,000
20 ²¹ April 1 July 1	To Balance b/d To Bank A/C	9,60,000 4,00,000	20 ²¹ July 1 20 ²²	By Bank A/C By Prov. for Dep. A/C By Profit & Loss A/C	3,36,000 () (5) () (7)
		13,60,000	Mar 31	By Balance c/d	() (8) 13,60,000

PROVISION FOR DEPRECIATION ACCOUNT

Dr.					Cr.
Date	Particular	Amount (₹)	Date	Particular	Amount (₹)
20 ²⁰ Mar-31	To Bank c/d	45000 45000	20 ²⁰ March 31 20 ²⁰	By Depreciation A/C	45000 45000
			Apr-1	By Balance b/d	45000
₂₀ 21 Mar 31	To Balance b/d	() ()	₂₀ 21 March 31	By Depreciation A/C	() (1) ()
20 ²¹ July 1 20 ²² Mar-31	To Machinery A/C To Balance c/d	(5) () (6) ()	20 ²¹ Apr 31 July 1 20 ²² Mar 31	By Balance b/d By Depreciation A/C By Depreciation A/C	() (2) () (3) () (4)

Answer:- 1) ₹ 73,500

- 2) ₹ 1,18,500
- 3) ₹12,488
- 4) ₹ 64,200
- 5) ₹1,12,988
- 6) ₹82,200
- 7) ₹ 1,51,012
- 8) ₹7,60,000

Asset Disposal Account

Asset Disposal A/c is opened when an asset (partially or fully) is sold or disposed off. All entries related to sold asset are recorded in the asset disposal A/c. Methods of recording the entries in Asset Disposal A/C will depend on a fact whether provision for depreciation account is maintained or not.

Format of Assets Disposal Account

(a) When Provision for Depreciation Account is maintained

To Asset A/c	_	By provision for Depreciation	
(Original Value)		A/c	_
		By Bank A/c	_
To Profit and loss	_	By Profit and Loss A/C	_
A/C Loss (if loss)	_	(if Profit)	_

(b) When Provision for Depreciation Account is not maintained

To Asset A/c	_	By Bank A/c	_
(Original value - Depreciation)		By Profit and loss –	
To Profit and loss A/C	_	A/C (if profit)	
Loss (if loss)	_		_

Questions for practice:

1.	Estimated sales value of an asset its useful life is called	

- 2. Reduction in the value of asset due to new technological development is called .
- 3. Amount of depreciation on asset will be ____ in initial years under straight line method than Diminishing Balance method.
- 4. Reduction in the value of wasting assets like mines is called ____.
- 5. Book Value of assets reduced to zero under ____ method.
- 6. Wages paid at the time of installation on machinery is debited to _____ account.
- 7. Original Cost of an asset is ₹ 3,50,000; its salvage value is ₹ 25,000 useful life 5 years. Annual Depreciation under Straight Line Method:
 - (a) ₹65,000
 - (b) ₹85,000
 - (c) ₹ 35,000
 - (d) ₹ 17,500

- 8. Book Value of an asset after 2 years is ₹ 80,000; Rate of depreciation is 10% p.a. under Straight Line method. The Original Cost of an asset would be
 - (a) ₹8,000
 - (b) ₹ 1,00,000
 - (c) ₹8,00,000
 - (d) ₹80,000
- 9. The balance of Machinery Account as on March 31, 2022 is ₹ 1,08,000. The machinery was purchased on April 1, 2017. Depreciation is charged @10% p.a. by Diminishing Balance Method. What is the original cost of an asset purchased on April, 2021?
 - (a) ₹ 1,30,000
 - (b) ₹ 1,25,000
 - (c) ₹ 1,20,000
 - (d) ₹ 1,00,000
- 10. The balance of Machinery Account as on March 31, 2022 is ₹ 91,125. The machinery was purchased on April 1, 2019. Depreciation is charged @10% p.a. by Diminishing Balance Method. What is the book value of machinery as on 1st April 2019?
 - (a) ₹ 1,30,000
 - (b) ₹ 1,25,000
 - (c) ₹ 1,20,000
 - (d) ₹80,000

Answer:

1.	Scrap Value	2. Obsolescence
3.	Less	4. Depletion
5	Straight line method	6 Machinery A/c

7. (a)

8. (b)

9. (c)

10.(b)

Practical Questions

- Q1. On 1st April, 2016 Ashok & Brothers bought a second hand machine for ₹6,00,000 and spent ₹100000 for its repair and installation. On Oct. 1, 2018 the machine was sold for ₹5,00,000. Prepare Machine Account after charging depreciation @10% p.a. by Written down value Method, assuming that the books are closed on 31st March every year. (Loss on sale 38650)
- Q2. Vijay Ltd. purchased a plant on 1st April 2017 for ₹2,50,000. On 1st 2018, it purchased a new plant for ₹1,50,000. The part of the machine which was purchased on 1st April 2017 costing ₹50,000 was sold for ₹18000 on 30th september 2020. Prepare the plant A/c for four years. Depreciation is charged @10% p.a. on 31st March every year on the Diminishing Balance Method.
- Ans. Loss on sale of plant 16627, Balance 31 March, 2019 ₹2,46,645
- Q3. On 1st April 2018 a firm purchased a machinery for ₹8,00,000. On 1st Oct. in the same accounting year, an additional machinery costing ₹4,00,000 was purchased. On 1st Oct 2019, the machinery purchased on 1st April 2018 was sold off for ₹3,60,000. On 1st October 2020, a new machinery was purchased for ₹10,00,000 while the machinery purchased on 1st October 2018 was sold for ₹3,40,000 on the same date. The firm provides depreciation on its machinery @ 10% p.a. on original cost 31st March every year.
 - Prepare Machinery Account (ii) Provision for Depreciation Account (iii) Machinery Disposal Account
- Ans. Balance of Machinery Account ₹10,00,000 Loss on Sale of 1st Machinery ₹3,20,000 Profit on sale of second Machinery ₹20,000.
- **Q4.** You are given the following balances as on 1st April 2019 Plant Account = ₹10,00,000

Provision for Depreciation on Account = ₹2,32,000

Depreciation is charged on plant at 10% p.a by the Diminishing Balance Method. A piece of plant purchased on 1st April 2017 for ₹2,00,000 was sold on 1st october 2020 for ₹1,20,000.

Prepare the Plant Account and provision for the Depreciation Account for the year ended 31st March 2019 and also prepare the plant Disposal Account.

Ans. Loss on sale Plant ₹233,900.

Balance of provision for Depreciation on A/c on April, 2019 ₹2,54,000

Q5. Fill up the missing information in the machinery account, provision for Depreciation Account and Disposal Account. You are informed that on 30th June 2018 it sold off the first machine purchased in 2016 for ₹5,24000 Accumulated Depreciation Account in maintained changing depreciation @ 10% on straight line method.

MACHINERY ACCOUNT

Dr.					Cr.
Date	Particular	Amount	Date	Particular	Amount
20 ¹⁶ Oct-01	To Bank A/C	6,55,000	20 ¹ 7 March 31	Ву 1	
20 ¹ 7 March-01	To Bank A/C	_2,40,000 _8,95,000			
20 ¹ 7 April-01	To Balance b/d (2)		20 ¹ 8 March 31	By Balance c/d (3)	
20 ¹ 8 April-01	To Balance b/d (4)		20 ¹ 8 June 30	(5)	
			20 ¹ 9 March 31	By Balance c/d (6)	

PROVISION FOR DEPRECIATION ACCOUNT

Dr.					Cr.
Date	Particular	Amount	Date	Particular	Amount
	To (⁸)			(7)	
20 ¹ 8	To Balance c/d (11)		20 ¹ 7 April 1	By (9)	
March-31			20 ¹ 8 March 31	By (10)	
20 ¹ 8 June-30	(15)		20 ¹⁹ April 31	By (12)	
				By (13)	
20 ¹ 9	(16)		20 ¹ 9 March 31	By (14)	()
March-31					

MACHINERY DISPOSAL ACCOUNT

Date (year)	Particular	Amount	Date (year)	Particular	Amount
	To (20)			By provision for	
				Depreciation A/C (17)	
				Bank A/C (18)	
				Statement of Profit &	
				Loss (19)	

- **Ans.** 1) By Balance b/d ₹8,95,000
 - 2) ₹8,95,000
 - 3) ₹8,95,000
 - 4) ₹8,95,000
 - 5) Machinery Disposal A/C ₹6,55,000
 - 6) ₹2,40,000
 - 7) By Depreciation A/C ₹34750
 - 8) To Balance c/d ₹34750
 - 9) By Balance b/d ₹34750
 - 10) By Depreciation A/C (1) ₹89500
 - 11) To Balance c/d ₹1,24,250
 - 12) By Balance c/d ₹1,24,250
 - 13) By Depreciation A/C (1) ₹16375
 - 14) By Depreciation A/C (4) ₹24000
 - 15) To Machinery Disposal A/C ₹1,14,250
 - 16) To Balance c/d ₹50,000
 - 17) ₹1,14,625
 - 18) ₹5,24,000
 - 19) ₹16375
 - 20) To Machinery A/C ₹6,55,000

Provisions

- Provision is to be made is respect of a liability which is certain to be incurred, but its accurate amount is not known.
- It is charged in the profit and loss Account on estimate basis.
 It should be clearly understood that if the amount of a known liability can be determined with reasonable accuracy, it can not be a provision.

Notes: Provision is a charge against profits, it means provision has to be made irrespective of business enterprise is earning enough profits or Incurring losses.

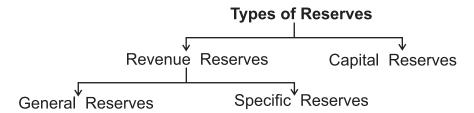
Examples of provisions: Provisions for Depreciation on assets, Provision for Repairs and Renewals of assets. Provision for Taxation. Provision for Discount on Debtors, Provision for Bad and Doubtful Debts.

Reserves

- Reserves are the amount set aside out of profits. It is an appropriation of profits and not a charge on the profits.
- The amount of profit retained is used in the business when difficult time comes. Since reserves are neither expenses nor losses, so these are not charged to profit & loss Account rather these are debited to Profit & Loss Appropriation Account which is prepared after Profit and Loss Account.
- Reserves are also known as 'Ploughing Back of Profits'.
- Reserves are created to strengthening the financial positions of the business enterprise.
- Examples are General Reserves, Divided Equalization Reserves etc.
- If the amount of reserve is invested outside the business then, it is called 'Reserve Fund'.
- Creation of reserve does not reduce the net profit but only reduced the divisible profits.

DIFFERENCE BETWEEN PROVISION AND RESERVE

Basis	Provision	Reserve
Dasis	1 100131011	reserve
1. Meaning	It is created to meet a known	It is create to strengthen the
	liability.	financial position of business
		enterprise.
2. Charge or	Provision are charge against	Reserve is an appropriation of
Appropriation	profits	profit.
3. Objective	The object is to provide for	It is created to strengthen the
	known liability cannot be	financial position and to meet
	calculated accurately.	unforeseen liability.
4. Effect on	It is debited to the profit.	Reserve reduces divisible
profit	Hence' profit is reduced.	profits.
	rionee premieredaeed.	
5. Creation	Provisions are to be created	Reserve is created out of
	even if there are insufficient	adequate profits only.
	profits.	
6. Mode of	Provision are created by	It is created through Profit &
creation	debiting the Profit & loss A/c.	Loss Appropriation Account.
7. Investment	It cannot be invested outside	Reserve can be invested
	the business	outside the business.
8. Necessity	Creation of provision is	Its creation is not necessary. It
	necessary as per law.	is created as a matter of
		prudence.



Revenue Reserves

Revenue Reserves are those reserves which are created by setting aside a part of the net profit of business. Since reserves represent undistributed profit of the company so they are available for declaration of dividend and distribution among shareholders. Revenue reserves are of two types namely. (1) General Reserves (2) Specific Reserves.

(1) General Reserves:-Those reserves which are created out of profit to meet out the unforseen contingencies are called general reserves. They are termed as 'Free Reserves' or 'Contingency Reserves'. Creation of general reserve is optional. It is an appropriation of profit so it is made only if adequate profit is earned by the company. They are shown on liability side of the balance sheet under the head," Reserve and surplus".

(2) **Specific Reserves:**- These reserves are created for specific purpose and can be utilised for that purpose only. Examples:- Dividend Equalization Reserves, Debentures Redemption Reserve, workmen Compensation Reserve, Investment Fluctuation Reserves etc.

Reserve fund:- If reserves are invested in outside securities, it is known as Reserve fund.

Capital Reserves:-

The reserves created out of capital profits are known as capital Reserve. Such reserves, generally are not available for distribution as cash dividend among the share holders of a company.

Examples of Capital Profit:

- (i) Profit on sale of fixed assets.
- (ii) Profit on revaluation of assets and liabilities.
- (iii) Securities premium earned on issue of share or debentures.
- (iv) Profit on the purchase of running business.
- (v) Profit earned on forfeiture of shares.
- (vi) Profit on redemption of debentures.
- (vii) Profit prior to the incorporation of a company

Capital profits can be used to (1) write off capital losses (2) to issue fully paid up bonus shares among the equity share holders. However, company can declare dividend out of capital profits on the fulfilment of the following conditions.

- (i) Articles of Associations of a company permits the declaration of dividend out of such profile.
- (ii) Capital profits realised in cash.
- (iii) Profile remains after revaluation of assets and liabilities.

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Provision is a _____ against profit.
 Provision is charged to _____ Account.
 Reserve is an _____ of profit.
 Profit on sale of fixed asset is a capital profit and therefore it will

True and False

- 5. Provision can be invested outside the business.
- 6. If the amount of reserve in invested outside the business then it is called as Reserve Fund. (True)
- 7. Creation of Provision is necessary as per law.
- 8. Provision is the amount of any known liability to be determined with substantial accuracy.
- 9. Provision is an appropriation of profit.
- 10. Reserve is a charge against profit.

be transferred to _____.

Answer

- 1. Charge
- 2. Profit and Loss
- 3. Appropriation
- 4. Capital Reserve
- 5. False
- 6. True
- 7. True
- 8. True
- 9. False
- 10. False

CHAPTER - 7 RECTIFICATION OF ERRORS

Learning Objectives

After studying this topic the students will be able to:

- explain the types of errors;
- state various process of locating errors;
- identify the errors which affect the agreement of trial balance and those which do not affect the agreement of trial balance;
- rectify the errors without preparing suspense account; and
- · rectify the errors with a suspense account.

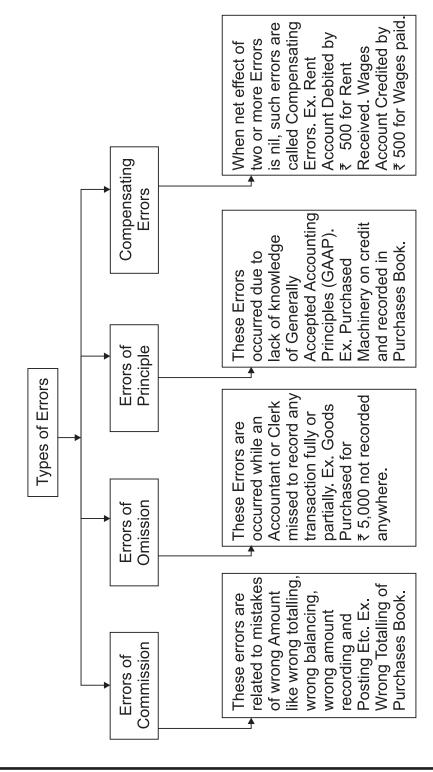
INTRODUCTION

Accounts are prepared by an accountant; a human being is likely to commit mistakes at time of recording and posting in the books. However, such errors are located after some time and should be corrected by passing corrective journal entry, switch is known as rectification of errors.

Important: The errors whether affecting the Trial Balance or not must be detected and rectified.

NEED OF RECTIFICATION

- 1. For the preparation of correct Accounting Records.
- 2. Preparation of P & L A/c with corrected figures to ascertain correct Profit or Loss.
- 3. To find out the true financial position of the firm by preparing Balance Sheet with corrected figures.



Classification of Errors (On the basis on Nature)

Type of Error with Meaning	Sub-Types with Examples		
1. Error of Omission It refers to the error in which a transaction is completely or partially omitted to be recorded in books.	not recorded in Sales Book.		
2. Error of Commission It refers to those errors which are caused due to wrong recording of transactions, wrong totalling of subsidiary or Ledger A/cs. Wrong posting and wrong carry forward etc.	Goods purchased from Ravi for ₹ 450, but Goods recorded as ₹ 540, in the Purchases Book.		
	c) Error in Totalling or Balancing of Ledger A/cs* Example: Creditors A/c has been balanced short by ₹ 500. d) Error of Posting i) Posting to the wrong side but correct account* Goods sold to X for ₹ 550, entered to the credit of ₹ X's A/c instead of posting to the debit side of his account.		

in in a country with the congruence	l ii	i)	Posting	ı with	wrong	amount.
-------------------------------------	------	----	---------	--------	-------	---------

- iii) Posting twice in an A/c*
- iv) Errors in posting to the wrong A/c but correct side don't affect Trial Balance.
- e) Error in carrying forward*

 Total of purchases book
 ₹ 2,500 is carried forward as
 ₹ 2050.*

3. Errors of Principle

These error are caused due to the violation of accounting principle i.e. allocation between Capital and Revenue items

a) <u>Treating capital items as</u> revenue item

Example: Wages paid for the installation of a new machinery charged to Wages A/c instead of machinery A/c.

b) <u>Treating revenue items as</u> <u>Capital Item</u>

Example: ₹ 200 paid for the repairs of an old Machinery but debited to Machinery A/c instead of Repairs A/c.

4. Compensating Errors

Two or more errors committed in such a way that the net effect of these errors in nil. Means the effect of one error is nullified by the effect of another error of equal amount.

Example: Cash paid to Ram 5,000 but debited-him as ₹ 500 and paid Mohan ₹ 500 but debited him as ₹ 5,000 so, net effect will be nill.

TYPES OF ERRORS FROM RECTIFICATION POINT OF VIEW

From Rectification point of view, errors are classified into the following two categories only:

Case I: Errors which don't affect the Trial Balance or Two Sided Errors

Case II: Errors which affect the Trial Balance Or one Sided Errors.

^{*} Trial Balance will not tally with these errors.

Errors don't Affecting Trial Balance

- 1. Errors of complete Omission.
- 2. Wrong recording in the books of original entry.
- 3. Errors of Omission from posting.
- 4. Errors of posting to the wrong A/c but on the correct side.
- 5. Compensating errors.
- 6. Errors of principle.

Note: These errors cannot be identified by preparing Trial Balance. So, these errors are considered as limitations of Trial Balance.

Errors Affecting Trial Balance

* Shown by Star in the Table showing Classification of Errors

- Error in totalling of subsidiary books as undercast and overcast.
- 2. Error in the balancing of ledger accounts.
- 3. Error in posting to the correct Account but with wrong amount.
- 4. Error of partial omission.
- 5. Error in carrying forward.

Rectification of Errors

When the errors are detected, these have to be rectified in the books of accounts. Rectification of errors depends upon.

- The Type of error and
- The time of depiction of an error.

Time of Depiction of an error means.

- i) Errors detected before the preparation of **Trial Balance**.
- ii) Errors detected after preparing Trial Balance but **before** preparing **final** accounts.
- iii) Errors detected after preparing Final Accounts.

RECTIFICATION OF TWO SIDED ERRORS

Two sided errors are those errors which affect two sides of Accounts. These errors don't affect Trial Balance as discussed earlier.

These errors are rectified by passing a journal entry irrespective of the time of depiction. In other words their rectifying entry will be same whether

- (a) the error is depicted before Trial Balance or
- (b) after the preparation of Trial Balance but before the Final A/cs are prepared.

Steps for Rectification

- Locate the effect of Error on Different Accounts.
- 2. The Account showing excess Credit should be Debited.
- 3. The Account showing excess Debit should be Credited.
- 4. The Account showing short Debit should be Debited.
- 5. The Account showing short Credit should be Credited.

Examples (With Explanation)

- i) When an account has wrongly been debited in place of another A/c.
 - Rectification will be done by debiting the correct account and Crediting the A/c which was wrongly debited.

Example: Machinery purchased for ₹10,000 has been debited to Purchases A/c.

Solution: This error affects the two A/c.

- Machinery A/c is not debited hence its debit side is short by ₹10,000 whereas purchases A/c debited by mistake. Purchases A/c debit side is in excess by ₹ 10,000.
- While rectifying this mistake Machinery A/c will be debited by d 10,000 because it was not debited earlier and Purchases A/c will be credited because it was wrongly debited.

Rectifying Journal Entry

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Machinery A/c	Dr.		10,000	
	To Purchases A/c				10,000
	(For Purchases of machinery debited to Purchases A/c)	wrongly			

ii) When an account has wrongly been Credited in place of another account.

Example: ₹ 5,000 received from the sale of old furniture has been Credited to Sale A/c

Solution: This error also affects the two A/c.

- Furniture A/c is not Credited, hence its credit side is short by ₹5,000.
- Sales A/c is credited by mistake, its credit side is excess of ₹ 5,000.
- Therefore for rectifying this mistake. Sales A/c will be debited because it was wrongly Credited and Furniture A/c which was not Credited earlier will now be credited by ₹ 5,000.

Rectifying Entry

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Sales A/c	Dr.		5,000	
	To Furniture A/c (Sales of old Furniture wrongly Credited to Sales A/c)				5,000

iii) When there is a short debit in one A/c and a short Credit another A/c.

Example : Goods sold to Seema for ₹ 540 was entered in the Sales Book as f 450.

Solution:

- Here Seema's A/c is debited by ₹ 90 short and Sales A/c is credited by f 90 short. (Instead of ₹ 540 by ₹ 450)
- Therefore rectification will be done by Debiting Seema's A/c and Crediting Sales A/c.

Rectifying Journal Entry

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Seema Dr.		90	
	To Sales A/c (For goods sold to Seema for ₹ 540 wrongly entered ₹ 450.)			90

IV) When there is an Excess Debi`in one account and Excess Credit in another A/c.

Example : Goods Purchases from Mohan for ₹ 300 were recorded in Purchase Book ₹ 3000.

- Here Purchases A/c is Debited by ₹ 3,000 instead of ₹ 300,
 i.e. ₹ 2,700 more.
- Mohan's A/c is also Credited by ₹ 2,700 more.
- Rectification will be done by debiting Mohans' A/c & Crediting Purchases A/c by ₹ 2,700 i.e. the entry in the reverse direction.

Rectifying Entry

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Mohan Dr.		2,700	
	To Purchases A/c			2,700
	(For purchases of goods from Mohan for ₹ 300 wrongly entered ₹ 3000)			

Problem: Rectify the following Errors:

- 1. ₹ 5,000 paid for furniture purchased has been debited to purchases account.
- 2. Wages paid ₹ 7,000 for installation of new machinery were recorded in wages account.
- 3. Goods sold to Hari ₹ 10,000 not recorded anywhere.
- 4. ₹2,500 received from Monu has been credited to Sonu A/c.
- 5. Rent paid ₹1,000 wrongly debited to Landlord Account Personal Account.
- 6. Credit Purchase from Raman ₹15,000 were wrongly recorded in sales book.
- 7. Credit sales to Geeta ₹8800 were recorded as ₹8,000.
- 8. Goods ₹5,000 withdrawn by proprietor has not been recorded.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
1.	Furniture A/c Dr.		5,000	
	To Purchases A/c			5,000
	(The furniture purchase wrongly debited to purchases A/c)			
2.	Machinery A/c Dr.	1	7,000	
	To Wages A/c			7,000
	(The wages for installation machinery wrongly debited to wages A/c.)			
3.	Hari Dr.		10,000	
	To Sales A/c			10,000
	(The goods sold to Hari not recorded.)			
4.	Sonu Dr.		2,500	
	To Monu			2,500
	(The amount wrongly credited to Sonu instead of Monu)			
5.	Rent A/c Dr.]	1,000	
	To Landlord Personal A/c			1,000
	(The rent paid but wrongly debited to landlord A/c)			
6.	Purchases A/c Dr.		15,000	
	Sales A/c Dr.		15,000	30,000
	To Raman			
	(The Credit purchase from wrongly credited to sales A/c			

7.	Geeta	Dr.	800	
	To Sales A/c			800
	(Credit sales to Geeta recorded short)	1₹800		
8.	Drawing A/c To Purchases A/c (The goods withdraw, by Propri personal use)	Dr. etor for	5,000	5,000

<u>Important</u>: Rectification of double sided errors can easily be understood by the students. These are rectified by passing the journal entries as given irrespective of the time of detection of the errors.

RECTIFICATION OF ONE SIDED ERRORS

These errors affect only one side of an Account either debit or credit. Therefore these errors affect the Trial Balance.

Rectification of these errors is done differently, in these two cases i.e.

- i) Before preparing the Trial Balance.
- ii) After preparing the Trial Balance.

Case I : Rectification of one sided errors before preparing Trial Balance.

One-sided Errors are rectified directly by debiting or crediting the concerned ledger account.

For Short Debit \rightarrow	Concerned A/c is Debited.
For Excess Credit \rightarrow	Concerned A/c is Debited.
For Short Credit \rightarrow	Concerned A/c is Credited.
For Excess Debit \rightarrow	Concerned A/c is Credited.

Example 1: Purchases Book under cast by ₹ 150.

Analysis: It means that the total of the Purchases Book is ₹ 150 short.

1. This total is posted to purchases A/c Debit side.

- 2. Hence Purchases A/c is debited or short by ₹ 150.
- 3. No effect on any other A/c.
- 4. Therefore purchases A/c will be debited by ₹ 150 to rectify this error as given below.

Purchase Account

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
	To Undercast of purchases book		150				

Here debit side of the Purchase A/c was short therefore the rectification is done by debiting the A/c.

Example 2: Purchases Book is overcast by ₹300.

Analysis

- 1. Means total of the Purchases Book is in excess by ₹ 300 which is posted to the debit side of purchases A/c.
- 2. Hence purchases A/c is debited in excess by ₹ 300.
- 3. No effect on any other A/c.
- 4. Therefore to rectify this error ₹ 300 will be credited to purchases A/c (i.e. opposite side)

Purchases Account

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
					By Overcast of purchases book		300

 Here debit side of the purchases A/c was in excess, therefore the rectification is done by entering the amount on the opposite side i.e., Credit side of the Purchases A/c.

Case II: Rectification of one Sided Error after preparing Trial Balance.

When the errors are detected after the preparation of Trial Balance then **one sided error is rectified** by passing a Journal entry **through**

Suspense Account.

- 1. Short debit in one Account \rightarrow Debit that Account and Credit the Suspense A/c.
- 2. Excess Credit in one Account \rightarrow Debit that A/c and Credit the Suspense A/c.
- 3. Short Credit in one Account \rightarrow Credit that A/c and Debit the Suspense A/c.
- 4. Excess Debit in one Account \rightarrow Credit that A/c and Debit the Suspense A/c.

Example 3: Purchases Book undercast by ₹ 150.

Date	Particulars			Dr. (₹)	Cr. (₹)
	Purchases A/c	Dr.		150	
	To Suspense A/c				150
	(For undercast of purchases book, now corrected.)	,			

Example 4: Sales Book was undercast by ₹200.

Analysis

- Sales book totalled short by ₹ 200 which is posted to the credit side of sales A/c.
- 2. Therefore Sales A/c credit side is short by ₹ 200.
- 3. Hence rectification will be done by crediting the sales A/c and Debiting the Suspense A/c by ₹ 200.

Date	Particulars			Dr. (₹)	Cr. (₹)
	Suspense A/c	Dr.		200	
	To Sales A/c				200
	(For undercast of sales books, no corrected)	OW			

Note: When nothing is mentioned in the question about the time of detection of an error, the students are advised to rectify one sided errors through Suspense A/c.

Problem: Rectify the following error

- (A) Without opening a Suspense A/c
- (B) By passing journal entries through Suspense A/c.
 - (1) ₹5,000 paid to Mohit were entered in cash Book but omitted to be posted to the ledger.
 - (2) ₹5,000 paid to Mohit were debited to his A/c as ₹500.
 - (3) ₹5,000 paid to Mohit were debited to his A/c as ₹50,000.
 - (4) ₹5,000 paid to Mohit were credited to his A/c.
 - (5) ₹5,000 paid to Mohit were credited to his A/c as ₹500.
 - (6) Sales Book was overcast by ₹ 2,000.
 - (7) Sales Return Book undercast by ₹4,000.
 - (8) Purchases Return book undercast by ₹ 5,000.

Solution:

- (A) Without opening a suspense A/c. These errors are rectified in the concerned ledger A/c, as these errors are before preparing Trial Balance.
 - 1. Mohit's A/c will be the debited by ₹ 5,000 as it is a case of partial omission.
 - 2. Mohit was debited ₹ 4500 (5,000-500) therefore the rectification will be done by debiting Mohit's A/c by ₹ 4,500.
 - 3. Mohit's A/c was debited in excess by ₹ 45,000 (50,000-5,000) therefore rectification will be done by crediting the Mohit's A/c by ₹ 45,000.
 - 4. Mohit's A/c was credited by ₹ 5,000 instead of debited by ₹ 5,000 therefore rectification will be done by debiting Mohit' by ₹ 10,000 (5,000+5,000)
 - 5. Mohit was wrongly credited by ₹ 500 instead of debiting it by ₹ 5,000 so rectification will be done by debiting the Mohit's A/c by ₹ 5,500.
 - 6. Sales book overcast means sales is credited is excess by ₹ 2,000. Hence rectification will be done by debiting sales A/c by ₹ 2000.

- 7. Sales Return Book total undercast by ₹ 4,000 means sales return debit is short by ₹ 4,000 Hence rectification will be done by debiting sales return by ₹ 4,000.
- 8. Purchases Return Book undercast by ₹ 5,000 means purchases return is credited short by ₹ 5,000. Hence rectification will be done by crediting the purchases return by ₹ 5,000.

B) By opening suspense A/c.

Rectifying Journal Entry

Suspense Account and its Disposal

In the chapter of Trial Balance we have learnt about the Suspense A/c.

Important

- When inspite of all the efforts the Trial Balance does not tally, the difference is put to a newly opened account named Suspense A/c.
- Suspense A/c is an imaginary account, opened temporarily for the purpose of reconciling a Trial Balance.
- Later on when the errors affecting the Trial Balance are located, rectification entries are passed through the Suspense A/c.
- When all the errors are located and rectified, the Suspense A/c will be Automatically closed i.e., it will show zero balance.
- But if suspense A/c still shows a balance it will indicated that some error are still to be discovered and rectified.

Problem : An accountant of a trading concern could not agree the Trial Balance. There was an excess credit of ₹ 100 which he transferred to the suspense A/c. The following errors were subsequently discovered.

- 1. Received 550 from X, were posted to the debit of his account.
- 2. ₹ 100 being purchases return were posted to the debit of purchases A/c.
- 3. Discount received ₹ 200 Correctly entered in the Cash Book but posted to the debit of the discount A/c.

- 4. Salary paid ₹ 3,500 to X were posted to the salary A/c as ₹2,500.
- 5. A purchase of ₹ 400 has been passed through Sales Book. However the customer's account has been correctly credited.

Give Rectifying entries and Suspense A/c Journal

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
1.	Suspense A/c	Dr.		1,100	
	То Х				1,100
	(Amount receive from X was pos the wrong side now corrected)	ted to			
2.	Suspense A/c	Dr.		200	
	To Purchase A/c				100
	To Purchases Return A/c				100
	(For the purchases return wrongl posted to the purchases A/c)	У			
3.	Suspense A/c	Dr.		400	
	To Discount Received A/c				400
	(Discount received was posted to wrong side discount A/c)	the			
4.	Salary A/c	Dr.		1,000	
	To Suspense A/c				1,000
	(Salary paid was posted to Salary with lesser amount)	y A/c			
5.	Purchases A/c	Dr.		400	
	Sales A/c	Dr.		400	
	To Suspense A/c				800
	(Purchases has been passed three sales book but the customer's A/o				
	been correctly credited)				

Date	Particulars	J.F.		Date	Particulars	J.F.	
	To Difference in the Trial Balance		100	(4)	By Salary A/c		1,000
				(5) (i)	By Purchases A/c		400
				(5) (ii)	By Sales A/c		400
(1)	To X		1,100				
(2)	To Purchases A/c		100		By Balance c/d		Nil
(3)	To Purchases Return A/c		100				
(4)	To Discount Received A/c		400				
			1,800				1,800

Since the Balance of the suspense A/c is nil, indicates that all the errors have been certified.

OBJECTIVE QUESTIONS

MULTIPLE CHOICE QUESTIONS

- 1. What kind of accuracy is tested by Trial balance-
 - (a) Theoretical
 - (b) Practical
 - (c) Arithmetical
 - (d) None of these.
- 2. How many methods are there for preparing Trial Balance -
 - (a) One
 - (b) Three
 - (c) Four
 - (d) None of these.
- 3. Which of the following is prepared on the basis of Trial Balance
 - (a) Journal
 - (b) Ledger
 - (c) Final Accounts
 - (d) None of these.
- 4. If the two sides of Trial balance does not tally, which Account is opened -
 - (a) Suspense Account

- (b) Personal Account
- (c) RealAccount
- (d) None of these.

5. Agreement of trial balance is affected by:

- (a) One sided errors only.
- (b) Two sided errors only.
- (c) Both (a) and (b).
- (d) None of the above.

6. Which of the following is not an error of principle:

- (a) Purchase of furniture debited to purchases account.
- (b) Repairs on the overhauling of second hand machinery purchased debited to repairs account
- (c) Cash received from Manoj posted to Saroj.
- (d) Sale of old car credited to sales account.

7. Which of the following is not an error of commission:

- (a) Overcasting of sales book.
- (b) Credit sales to Ramesh ₹ 5,000 credited to his account.
- (c) Wrong balancing of machinery account
- (d) Cash sales not recorded in cash book.

8. Which of following errors will be rectified through suspense account:

- (a) Sales return book undercast by ₹ 1,000.
- (b) Sales return by Madhu ₹ 1,000 not recorded.
- (c) Sales return by Madhu ₹ 1,000. recorded as ₹100.
- (d) Sales return by Madhu ₹ 1,000 recorded through purchases returns book

9. If the trial balance agrees, it implies that:

- (a) There is no error in the books.
- (b) There may be two sided errors in the book.
- (c) There may be one sided error in the books.
- (d) There may be both two sided and one sided errors in the books.

10. If suspense account does not balance off even after rectification of errors it implies that:

- (a) There are some one sided errors only in the books yet to be located.
- (b) There are no more errors yet to be located.

- (c) There are some two sided errors only yet to be located.
- (d) There may be both one sided errors and two sided errors yet to be located.

11. If wages paid for installation of new machinery is debited to wages Account, it is:

- (a) An error of commission.
- (b) An error of principle.
- (c) A compensating error.
- (d) An error of omission.

12. Trial balance is:

- (a) An account.
- (b) Astatement.
- (c) A subsidiary book.
- (d) A principal book.

13. A Trial balance is prepared:

- (a) After preparing a financial statement.
- (b) After recording transactions in subsidiary books.
- (c) After posting to the ledger is complete.
- (d) After posting to ledger is complete and accounts have been balanced

14. If a purchase return of ₹ 2,000 has been wrongly posted to the debit of the sales return account, but has been correctly entered in the suppliers' account, the total of the

- (a) Trial balance would show the debit side to be ₹ 2,000 more than the credit.
- (b) Trial balance would show the credit side to be ₹ 2,000 more than the debit.
- (c) The debit side of the trial balance will be ₹ 4,000 more than the credit side.
- (d) None of the above

15. If the amount is posted in the wrong account or it is written on the wrong side of the account, it is called

- (a) Error of omission.
- (b) Error of commission.
- (c) Error of principle.
- (d) Compensating Error.

TRUE AND FALSE

- 1. In case of error of complete omission, the trial balance does not tally.
- 2. When errors are detected after preparation of trial balance, a suspense account is opened.
- 3. When purchase of an asset is treated as an expense, it, is known as error of principle.
- 4. Trial balance agrees in case of compensating errors.
- 5. When an amount is written on the wrong side, it is known as an error of principle.
- 6. On purchase of furniture, the amount spent on repairs should be debited to the repairs account.
- 7. Rent paid to landlord of the proprietors house, must be debited to Rent account?
- 8. If the errors are detected after preparing a trial balance, then all the errors are rectified through a suspense account.

Fill in the Blanks Questions

- 1. Trial balance isnot an Account. (Ledger/Statement)
- 2. Errors of committed due to lack of knowledge of accounting principles. (Compensating/Principle)
- 3. Errors of occurred due to incorrect posting of amount from journal to ledger. (Commission/Principle)
- 4. Suspense Account is prepared to correct Errors. (One sided/Two sided)

PRACTICAL PROBLEMS FOR PRACTICE

1. Rectify the following errors:

Credit purchases from Rajesh ₹ 10,000

- i. were not recorded.
- ii. were recorded as ₹ 5,000.
- iii. were recorded as ₹ 15,000.
- iv. were not posted to his account.
- v. were posted to his account as ₹ 1,000.
- vi. were posted to Rakesh's account.
- vii. were posted to the debit of Rajesh's account.

- viii. were posted to the debit of Rakesh.
- ix. were recorded through sales book.
- 2. Rectify the following errors:

Cash sales ₹ 6,000

- i. were not posted to sales account.
- ii. were posted as ₹ 600 in sales account.
- iii. were posted to commission account.
- 3. Rectify the following Errors:

Depreciation written-off as the machinery ₹ 20,000

- i. was not recorded anywhere.
- ii. was not posted to machinery account
- iii. was not posted to depreciation account
- 4. Trial balance of Dinesh did not agree. It showed an excess credit ₹ 5,000. Anurag put the difference to suspense account. He located the following errors:
 - i. Sales return book overcast by ₹ 500.
 - ii. Purchases book was undercast by ₹300.
 - iii. In the sales book total of page no. 6 was carried forward to page 7 as ₹ 500 instead of ₹ 600 and total of page 10 was carried forward to page 11 as ₹ 2,800 instead of ₹ 2,500.
 - iv. Goods returned to Shyam ₹ 500 were recorded through sales book.
 - v. Credit purchases from Rohan ₹ 400 were recorded through sales book.
 - vi. Credit purchases from Puneet ₹ 2,500 were recorded through sales book. However, Puneet was correctly credited.
 - vii. Salary paid ₹ 1,000 was debited to employee's personal account.
- 5. Rectify the following errors:
 - i. Credit sales to X ₹ 4,000 were not recorded.
 - ii. Credit purchases from Nitin ₹1,000 were not recorded.
 - iii. Good sreturned to Lalit ₹ 5,000 were not recorded.

- iv. Goods returned from Y₹7,000 were not recorded.
- v. Credit sales to Mohit ₹ 1,000 were recorded as ₹100.
- vi. Credit purchases from Raj ₹ 2,000 were recorded as ₹ 200.
- vii. Goods returned to Aakash ₹ 3,000 were recorded as ₹ 300.
- viii. Goods returned from X ₹ 1,000 were recorded as ₹ 100.
- ix. Credit sales to Rohan ₹ 5,000 were recorded as ₹ 4,200.
- x. Credit purchases from Nandan ₹ 6,000 were recorded as ₹ 6,600.
- xi. Goods returned to Raj ₹ 1,000 were recorded as ₹ 1,010.
- xii. Goods returned from Himesh ₹ 2,000 were recorded as ₹ 2.600.
- xiii.Salary paid ₹ 8,000 was debited to employee's personal account.
- xiv. Rent Paid ₹ 7,000 was posted to landlord's personal account.
- xv. Goods withdrawn by proprietor for personal use ₹ 10,000 were debited to sundry expenses account.
- xvi.Cash received from Sohail ₹ 5,000 was posted to Sohan's account.
- xvii. Cash paid to Kalu ₹ 6,500 was posted to Balu's account.
- xviii. Credit Sales to Brijesh ₹ 8,000 were recorded in the purchase book.
- xix.Credit Purchases from Madan ₹ 9,000 were recorded in the sales book.
- xx. Goods returned to Suresh ₹ 40,000 were recorded in the sales return book.
- xxi.Goods returned from John ₹ 2,000 were recorded in the purchase's return book.
- xxii. Goods returned from Dinesh ₹ 3,000 were recorded in the purchase book.
- xxiii. Sales book overcast by ₹7,000.
- xxiv. Purchases book overcast by ₹ 5,000.
- xxv. Sales return book overcast by ₹ 3,300.

ANSWERS OF OBJECTIVE QUESTIONS

MCQ's

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

11. (b), 12. (b), 13. (d), 14. (c), 15. (b)

True False Questions

- 1. False
- 2. True
- 3. True
- 4. True
- 5. False
- 6. False
- 7. True
- 8. False

Fill in the Blanks

- 1. Statement
- 2. Principle
- 3. Commission
- 4. One Side

CHAPTER - 8 FINANCIAL STATEMENTS OF SOLE PROPRIETORSHIP

Learning Objectives

Financial Statement

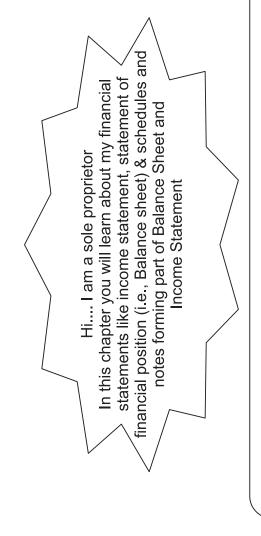
- Meaning, objectives and importance.
- Revenue and Capital Receipts.
- Revenue and Capital Expenditure.
- Deferred Revenue Expenditure.
- Trading and Profit and Loss Account: Gross Profit.
- Operating profit and Net profit. Preparation. Balance Sheet: need, grouping and marshalling of assets and liabilities. Preparation.
- Adjustments in preparation of financial statements with respect to closing stock, outstanding expenses, prepaid expenses, accrued income, income received in advance, depreciation, bad debts, provision for doubtful debts, provision for discount on debtors, Abnormal loss, Goods taken for personal use/staff welfare, interest on capital and managers commission.
- Preparation of Trading and Profit and Loss account and Balance Sheet of a sole proprietorship with adjustments.

Teaching Methodology

For teaching this topic the teacher should use discussion method, explanation method, illustration method etc.

Financial Statements

Financial statements are those statements that are prepared at the end of an accounting period to ascertain the performance and financial position of a business. These are also called final account. Financial statements of sole proprietorship are trading account Profit and loss Account and Balance sheet.



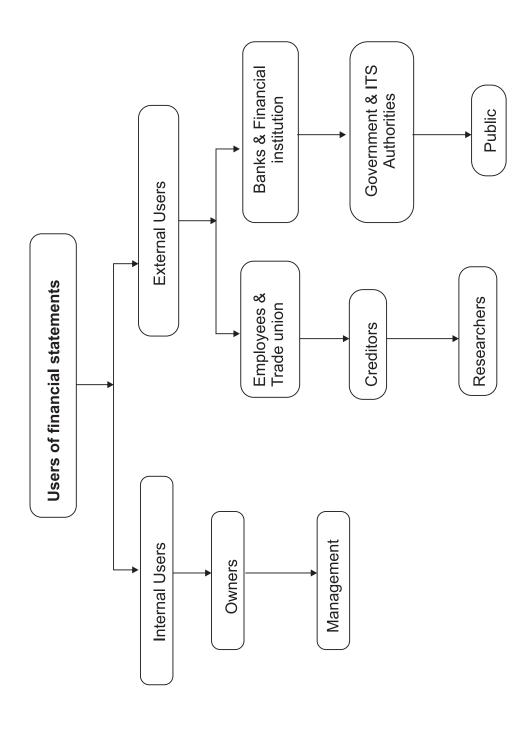
a. to present a true and fair view of the financial performance of the business b. to present a true and fair view of the financial position of the business c. helps in estimating the extent of a company's capacity to earn profit. For preparing financial statements I have the following objectives:

My financial statements are management important for >>

ent Shareholders (Owners)

Iders | Financers

Staff



Final statements include these statements:

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

Objectives of Preparing Financial Statements.

- a) To present a true and fair view of the financial performance of the business.
- b) To present a true and fair view of the financial position of the business.
- c) Helps in estimating the extent of a company's capacity to earn profit.

IMPORTANCE OF FINANCIAL STATEMENTS

- a) **Importance to Management:** The financial statements helps the management to know about the current position of the business as up to date, accurate and systematic information relating to the business. It enables the management to identify the current position, progress of the business and the business prospects which leads the managers to take necessary remedies and plans to develop the business environment.
- b) Importance to Shareholders (Owners): Financial statements enables the shareholders to know about the performance of the management and it will give the relevant information of the effectiveness, efficiency and the current financial position of the business.
- c) Importance to Leaders or Creditors: The financial statements provides the useful. information or guide to the suppliers or the creditors of the enterprise. Financial Statements provide information of the company's short term solvency.

d) Importance to staff: The financial statements provide the profit and loss account of the business. This enables the staff to identify the profit condition of the business and helps to negotiate for the better salary because the profit of the company depends on the salary for the staff.

Capital Expenditure:

The non-recurring expenditure whose benefit is derived by the business for more than a year is called Capital Expenditure.

It includes amount spent or liabilities incurred to acquire or improve any fixed assets or acquiring any legal rights or first-time expenses incurred to make fixed assets workable e.g. purchase of machinery/building/furniture etc., expenses incurred to acquired Patents, Trade-mark etc. and expenditure incurred for getting an asset ready to use (like installation exp., carriage, first time expenses incurred on second hand fixed asset for making it ready to use).

Capital expenditures are shown on the assets side of the Balance sheet.

In Short: Capital expenditures either increases assets or decreases liabilities.

Revenue Expenditure

The recurring and routine nature expenditures which are incurred for operating the business smoothly and which help to maintain business's earning capacity, are called Revenue expenditure e.g. expenses incurred for producing finished goods such as direct expenses, purchase of raw material and other expenses as rent, salary, repairs etc.

The benefit of these expenses last in one year (give benefit up to one year). These expenses are shown in Debit side of income statement (trading and profit and loss account).

In short: Revenue expenditures neither increases assets nor decreases liabilities.

Deferred Revenue Expenditure

The expenditure which is revenue in nature, but the heavy amount spent and benefit likely to be derived over a number of years called deferred revenue expenditure e.g. heavy expenses on advertising on launching of a new product and hence it is capitalized like any fixed asset.

Difference Between Capital Receipt and Revenue Receipt

Basis	Capital Receipt	Revenue Receipt
1. Nature	It is the amount realised by sale of fixed	It is the amount realised by sale of
spoob		
	assets or received as capital or loan taken.	and/or rendering services.
2. Presentation	It is shown in balance sheet.	It is shown in trading account or profit
and		loss account.
3. Recurring/nor	3. Recurring/non Capital receipts are normally of non	It is shown in trading account or profit
and		
recurring	recurring nature.	nature.
4. Trading/non trading	Capital receipts are the receipts which are not received in the normal course of business.	Revenue received are received in the s. course of normal trading operations.
5. Availability	Capital receipts are normally not available	Revenue Receipts i.e. net of Revenue

Difference Between Capital Expenditure and Revenue Expenditure

Basis		
	Capital Expenditue	Revenue Expenditure
1. Purpose	It is incurred for purchase of fixed assets for	It is incurred for running fo business.
	use in business.	
2.Capacity	It increases earning capacity of the business	It is incurred for earning profits.
3. Period	Its benefit extends to more than one year	Its benefit is exhausted within the year
4. Recording	It is debited to related Asset Account	It is debited to related expense Account
5. Nature of	It is an Asset Account	It is an Expense Account.
Account		
6. Depiction	It the shown in the Balance Sheet	It is shown in the Trading or Profit & loss
		Account
7. Examples	(a) Cost of Plant and Machinery.	(a) Depreciation on Plant and Machinery
	(b) Cost of land and Building	(b) Rent.

Accounting treatment of Deferred Revenue Expenditure

As per matching principle, expenses incurred in an accounting period are matched with the revenue recognized in that accounting period. So the whole deferred revenue expenditure should be spread over the number of years over which benefit is likely to be derived.

During the current accounting year (a) Only that portion of the expenditure should be charged to the profit and loss account which has facilitate the enterprise to earn revenue during current year (b) Remaining amount of expenditure be carried forward to the next year and shown in the assets side of balance sheet (It is also called a Fictitious Asset).

Capital Receipt

Capital receipts are those irregular receipts that don't affect profit or loss of business; it either increases the liabilities (raising of loan) or reduces the fixed assets (by sale of fixed assets), so it will be shown in Balance sheet.

Capital receipts are not made available for distribution of profit to the owner.

In Short: Capital Receipts either increase Liabilities or decreases Assets.

Revenue Receipt

Revenue receipts are received in the normal and regular course of business like Receipts from sale of goods and rendering services to customers. Income from non-operating business activities (like income from investment i.e. interest and dividend received and rent received, Commission and other fees received for non-operating business etc. These receipts increases profit and shown in the credit side of the Trading and Profit &Loss account.

In short: Capital Receipts neither increases Liabilities nor decreases Assets.

Types of Expenses

Direct Expenses: Those expenses which are incurred on purchasing of goods and for converting raw material into the finished goods e.g.

Manufacturing wages, Expenses on purchases (including all duty and tax paid on purchases), Carriage/Freight/Cartage inwards,

Production expenses (such as power and fuel, water etc.), factory expenses (e.g. lighting, rent and rates). Royalty based on Production etc.

Note: All direct expenses are debited to Trading account.

Indirect Expenses: Those expenses which are not directly related to production or purchase of the goods are called indirect expenses. It includes those expenses which are related to office and administration, selling and distribution of goods and financial expense etc.

These expenses are shown in the debit side of the Profit and Loss Account.

Calculation of Gross Profit

Gross Profit = Net Sales – Cost of Goods Sold

• Cost of Goods Sold = Opening Stock + Net Purchases + Direct

Expenses - Closing stock

Net Purchases = Total Purchases - Purchase Return

Net Sales = Total Sales - Sales Return

Calculation of Operating Profit

Operating Profit = Net Sales – Operating Cost

or

• = Gross Profit – (Office and Administrative

Expenses + Selling and Distribution etc.)

Operating Cost = Cost of Goods Sold + Office and

Administrative Expenses + Selling and

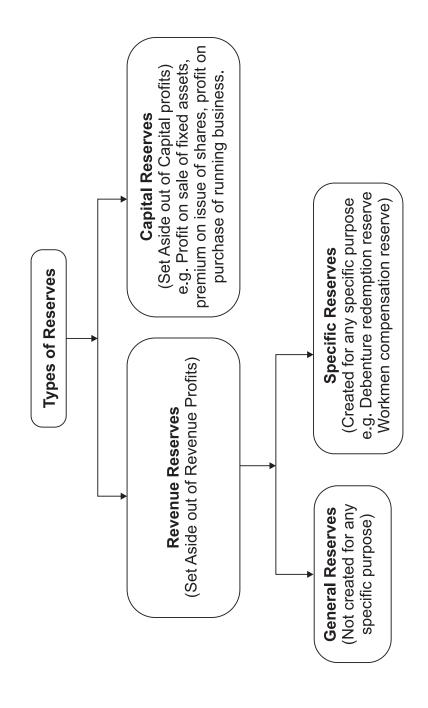
Distribution Expenses.

Net Profit = Operating Profit + Non-operating income

-Non-operating expenses.

Operating Expenses

The expenses which are related to the main or normal activities of the business e.g. office and Administrative expenses, selling and distribution expenses, Operating profit is also called EBIT (Earnings before interest and taxes)



INCOME STATEMENT

It is divided into two parts:

- 1. Trading Account which shows the gross profit or gross loss.
- 2. Profit and Loss Account which shows the net profit or net loss.

Format of Trading Account

Name of Business Firm Trading Account

Dr. For the y	ear en	ding 31 March	Cr.
Particulars	₹	Particulars	₹
To Opening Stock		By Sales	
To Purchases		Less : Sales Returns or	
Less : Purchases Return		Return inwards	
Returns outwards		By Scrap sales	
To All Direct Expenses		By Closing Stock	
To Wages			
To Carriage inwards			
To Gas, Fuel and power			
To Freight, octroi and cartage			
To Manufacturing Expenses			
To Custom or import duty			
To Dock and clearing charges			
To Excise duty			
To Factory rent			
To Royalty			
To Gross Profit transferred to		By Gross Loss transferred to	
Profit and Loss A/c		Profit and Loss A/c	
(Balancing figure)		(Balancing figure)	

Illustration 1

Opening stock ₹30,000, Net Purchase ₹54600 expenses on purchase r5000, Net Sales ₹100,000, closing stock ₹40,000 calculate cost of goods sold and gross profit.

Solution:

Cost of Goods sold = Opening stock + Net Purchase + expenses

on purchase – Closing Stock

= ₹30,000 + ₹54,600 + ₹5,000 – ₹40,000

= ₹49,600

Gross Profit = Net sales - Cost of goods sold

= ₹100,000 **-**₹49,600

= ₹50,400

Illustration 2

Net sales during the year is ₹ 3,00,000, Gross profit is 25% on sales. Find out cost of goods sold.

Solution:

Gross Profit = ₹300,000 × $\frac{25}{100}$ = ₹75,000

Cost of goods sold = Net Sales – Gross Profit

= ₹300,000 –₹75,000

= ₹2,25,000

Illustration 3

Net sales during the year is ₹ 6,00,000. Gross profit is 25% on cost. Find out gross profit and cost of good sold.

Solution:

Here, Gross Profit is 25% on cost

Hence, If cost is ₹100, Gross Profit will be ₹25 and sales will be ₹125

Thus, If sales is ₹ 125, Gross Profit will be ₹ 25

If sales is r 600,000, Gross Profit will be 600,000 x $\frac{25}{125}$ = ₹ 1,20,000

Cost of goods sold = Net Sales – Gross Profit

= ₹ 6,00,000 – ₹ 1,20,000 = ₹ 4,80,000

Note: Gross profit 25% or $\frac{1}{4}$ th on cost is equal to $\frac{1}{5}$ th on sales Gross profit = ₹ 6,00,000 × $\frac{1}{5}$ th = ₹ 1,20,000

Illustration 4

Calculate Net Sales and Gross Profit from the following information.

Cost of goods sold ₹2,00,000

Gross profit 20% on sale

Solution

Let sale = x

Sale = Cost of good sold + Gross Profit

$$x = ₹200,000 + .20x$$

Note: Gross Profit 20% or $\frac{1}{5}$ th on sale, equal to $\frac{1}{4}$ th on cost Gross Profit = $₹200,000 \times \frac{1}{4} = ₹50,000$

Illustration 5

Calculate Gross Profit

	₹
Total Purchase	680,000
Purchase Return	30,000
Direct Expenses	70,000
Carriage Outwork	15,000
3/4 of the goods are sold	₹600,000

Solution

$$= 76,80,000 - 30,000 + 70,000 = 7,20,000$$

Cost of 3/4 of the goods sold = ₹7,20,000 x
$$\frac{3}{4}$$
 = ₹5,40,000

Illustration 6

Calculate the amount of operating profit from the following balances:

	₹
Netsales	5,00,000
Cost of goods sold	3,00,000
Operating Expenses	1,20,000

Solution

Operating Profit = Net Sales – Operating Cost

Illustration 7

Calculate the value of closing stock from the following information:

	₹		₹
Purchase	93,000	Wages	20,000
Sales	1,20,000	Carriage Outward	3,200

Rate of Gross Profit 40% on sales

Solution

Dr. Trading Account for the year ended 31st March Cr.

Particulars	₹	Particulars	₹
To Purchases To Wages To Gross Profit (Transferred to Profit & Loss Account)		By Sales By Closing Stock (Bal. Fig.)	1,20,000 41,000
·	1,61,000		1,61,000

Illustration 8

This information is provided by Mr. Rohit

Stock as on 01.04.2021 ₹20,000

During the year Sales was ₹ 4,00,000; Purchases ₹ 2,90,000; Carriage Inwards ₹ 8,000; Clearing charges ₹ 10,000; Sales Returns ₹ 3,000; Purchases Returns ₹ 4,000; Carriage Outwards ₹ 5,000 and Stock on 31.03.2021 was ₹ 30,000.

Calculate cost of goods sold and prepare Trading Account for the year ending 31.03.2021.

Solution:

Trading Account for the year ended on March 31, 2021

Dr. Cr.

Particulars	₹	Particulars	₹
To Opening Stock	20,000	By Sales 4,00,000	
To Purchases 2,90,000		Less : Sales Returns (3,000)	3,97,000
Less: Returns 4,000	2,86,000	By Closing Stock	30,000
To Carriage Inwards	8,000		
To Clearing Charges	10,000		
To Gross Profit (Transferred to	1,03,000		
Profit & Loss Account)			
	4,27,000		4,27,000

Cost of goods sold = Net Sales – Gross Profit

= ₹3,97,000 - ₹1,03,000

= ₹2,94,000

Adjusted Purchase:

Sometimes the opening and closing stock are adjusted through purchases account. In that case, the entry recorded is as follows:

Closing Stock A/c

Dr.

To Purchase A/c

This entry reduces the amount in the purchases account and is also known as adjusted purchases which is shown on the debit side of the Trading and profit & loss account.

When the opening and closing stocks are adjusted through purchases, the Trial Balance does not show any opening stock. Instead, the closing stock shall appear in the Trial Balance (not as additional information or as an adjustment item) and so also the adjusted purchases.

Illustration 9

Prepare the Trading Account for the year ended 31st March, 2021 from the following information. Adjusted purchase ₹25,00,000; Freight outwards ₹15,000; Wages ₹1,68,000; Octroi charges ₹2,000; Carriage inwards ₹20,000; Fuel & Power ₹30,000; Office rent ₹18,000; Trade expenses ₹10,000; Sales ₹32,00,000; Closing Stock ₹1,50,000

Solution:

Trading Account

Dr.	for the yea	r ending	31st March, 2021	Cr.
	Darthandana		Deutiendens	

Particulars	₹	Particulars	₹
To Adjusted Purchases	25,00,000	By Sales	32,00,000
To Wages	1,68,000		
To Octroi Charges	2,000		
To Carriage Inwards	20,000		
To Fuel and Power	30,000		
To Gross Profit (transferred	4,80,000		
to profit or loss A/c.)			
	32,00,000		32,00,000

Format of Profit & Loss Account Profit & Loss Account

Dr. for the year ending...... Cr.

Dr. for the	year	enaing	Cr.
Particulars	₹	Particulars	₹
To Gross Loss		By Gross Profit	
(Transferred from Trading A/c)		(Transferred from Trading A/c)	
Office & Admin. Expenses		By Rent Received	
To Salaries		By Discount Received	
To Rent, Rates & Taxes		By Rebates	
To Printing and Stationery		By Commission Received	
To Salaries & Wages		By Interest Received	
To Postages and Telephones		By Dividend Received	
To Office Lighting		By Bad Debts Recovered	
To Insurance Premium		By Apprentice fees or premium	
To Legal Expenses		By Gain on Sale of Fixed Asset	
To Establishment Expenses		By Miscellaneous Receipts	
To Audit Fees		By Net Loss	
To Trade Expenses		(Transferred to Capital Account)	
To Travelling Expenses		(Excess of Debit Side Over	
To General Expenses		Credit Side)	
Selling & Distribution Exp.		Great Grae)	
To Carriage and Freight Outwards			
To Commission			
To Brokerage			
To Advertisement			
To Publicity			
To Bad Debts			
To Export Duty			
To Packing Expenses			
To Salaries of Salesman			
To Delivery Van Expenses			
Financial Exp.			
To Interest paid on loans			
To Interest Paid (Dr.)			
To Discounts Allowed (Dr.)			
To Rebate Allowed			

To Bank Charges	
Miscellaneous Exp.	
To Repairs	
To Depreciation on Fixed Assets	
To Conveyance Expenses	
To Entertainment Expenses	
To Donations & Charity	
To Loss on Sale of Fixed Assets	
To Stable Expenses	
To Loss by Fire	
To Loss by theft	
To Unproductive Expenses	
To Net Profit Transferred to Capital	
Account (Excess of Credit Side	
over Debit Side)	

- * The words 'To' and 'By' are generally not used these days.
- * The name of Business Firm is stated on the top of Trading and P&L Account.

Illustration 10

From the following information, prepare a Profit & Loss Account for the year ending 31st March 2021.

Gross Profit ₹70,000; Rent ₹5,000; Salary ₹15,000; Wages ₹8,000; Commission paid ₹7,000; Interest on loans ₹5,000; Advertising ₹3,000; Discount Received ₹2,000; Printing & Stationery ₹1,000; Legal charges ₹2,500; Bad Debts ₹1,500; Depreciation ₹1,000; Income received on Investment ₹3,000; Loss by Fire ₹2,200; Bad Debts recovered ₹200; Freight outward ₹600, Audit Fee ₹450.

Solution:

Profit and Loss A/C of for the year ending 31st March, 2021

Dr. Cr.

Particulars	₹	Particulars	₹
To Rent	5,000	By Gross Profit	70,000
To Salary	15,000	By Discount received	2,000
To Commission	7,000	By Bad debts Recovered	200

To Interest on Loans	5,000	By Income from Investment	3,000
To Advertising	3,000		
To Printing and Stationery	1,000		
To Legal Charges	2,500		
To Bad Debts	1,500		
To Depreciation	1,000		
To Loss by Fire	2,200		
To Freight outward	600		
To Audit Fee	450		
To Net Profit	30,950		
(to transferred to Capital A/C)			
	75,200		75,200

Illustration 11

From the following balances obtained from the accounts of Mr. Hemant, prepare the Trading and Profit & Loss Accounts:

Particulars	₹	Particulars	₹
Stock on April 01, 2020	8,000	Bad debts	1,200
Purchases for the year	22,000	Rent	1,200
Sales for the year	42,000	Discount (Dr.)	600
Wages	2,500	Commission paid	1,100
Salaries & Wages	3,500	Sales Expenses	600
Advertisement	1,000	Repairs	600

Closing stock on March 31, 2021 is ₹4,500.

Solution:

Books of Mr. Hemant Trading and Profit & Loss Account for the year ended on March, 31, 2021

Dr. Cr.

Particulars	₹	Particulars	₹
Opening stock	8,000	Sales	42,000
Purchases	22,000	Closing stock	4,500
Wages	2,500		
Gross Profit c/d	14,000		
	46,500		46,500

Particulars	₹	Particulars	₹
Salaries and Wages	3,500	Gross Profit b/d	14,000
Rent	1,200	(transferred from Trading A/c)
Advertisement	1,000		
Commission	1,100		
Discount	600		
Bad debts	1,200		
Sales Expenses	600		
Repairs	600		
Net Profit	4,200		
(transferred to capital)			
	14,000		14,000

BALANCE SHEET

Meaning of Balance Sheet

Balance sheet is a summarised statement of assets and liabilities, prepared generally at the end of financial year to show the financial position of the business. All liabilities are put on the left hand side of balance sheet where all assets are shown on its right hand side.

GROUPING AND MARSHALLING OF ASSETS AND LIABILITIES

Grouping: The term 'Grouping' means putting together items of a similar nature under a common heading. For example, under the heading 'Trade creditors, the balances of the ledger accounts of all the suppliers from whom goods have been purchased on credit, will be shown.

Marshalling: It refers to the order in which the various assets and liabilities are shown in the Balance Sheet. The assets and liabilities can be shown either in the order of liquidity or in the order of permanence.

Order of Liquidity

- 1. The assets are arranged in the order of their liquidity *i.e.*, the most liquid asset (e.g., cash in-hand), is shown first. The least liquid asset (e.g., goodwill) is shown last.
- 2. The liabilities are arranged in the order of timing i.e., the liabilities which are to be paid immediately (e.g., Creditors) are shown first and which are to be paid later are shown at last (long-term loans).

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

Balance Sheet of

As at.....

Liabilities		₹	Assets	₹
Current Liabilities:			Current Assets:	
Bank Overdraft		×××	Cash-in hand	
Bills Payable		×××	Cash at Bank	×××
Sundry Creditors		×××	Bills Receivable	×××
Outstanding Expenses		×××	Short Term Investment	×××
Income received-in-advance		×××	Sundry Debtors	×××
Long-term Liabilities:			Prepaid Expenses	×××
Long term loan		×××	Accrued Income	×××
Reserve and Surplus			Closing Stock	×××
Capital	×××		Investment: (long term)	×××
Add : Interest on Capital	×××		Fixed Assets:	×××
Add : Net Profit	×××		Furniture an Fixture	×××
Less : Drawings	×××		Plant & Machinery	×××
Less : Interest on Drawings	×××		Building	×××
Less : Income Tax	×××		Land	×××
Less : Life Insurance Premiun	n×××		Goodwill	×××
Less : Net Loss	×××	×××		

Order of Permanence :

This order is exactly reverse of the liquidity order.

- 1. The assets are arranged in the order of their performance i.e., the least liquid asset (e.g., goodwill) is shown first and the most liquid asset (e.g., Cash-in-hand) is shown last.
- 2. The least urgent payment to be made (e.g., short-term creditors) is shown last.
- 3. A company is required to prepare the balance sheet in order of performance.

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

Balance Sheet of	
-------------------------	--

as 31 March

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

Illustration 12

From the following Trial Balance of Shri Hemant Babu prepare Trading and Profit and Loss A/C for the year ending 31st March 2019 and Balance Sheet as on that date. The Closing Stock on 31st March

2019 was valued at ₹ 25,00	0. ₹	Credit Balances	₹
Stock (1-4-2015)	20,000	Sundry Creditors	15,000
Purchases	75,000	Purchase Returns	3,000
Sales Return	8,000	Sales	2,50,000
Freight and Carriage	7,500	Commission	3,300
Wages	36,500	Capital	1,70,500
Salaries	12,000	Interest on Bank Deposit	2,000
Repairs	1,200	B/P	6,200
Trade Expenses	4,000		

	1	I	1
Rent and Taxes	24,000		l
Cash in Hand	5,700		l
B/R	4,000		l
Debtors	55,000		l
Plant and Machinery	160,000		l
Withdrawals (Drawings)	16,600		l
Bank Deposit	20,500		l
	450,000		ſ
			П

(In the Books of Hemant Babu)

Solution

TRADING AND PROFIT AND LOSS ACCOUNT

for the year ending 31st, March 2019

Dr. Cr.

Particulars	₹	Particulars	₹
To Opening Stock	20,000	By Sales Return 2,50,000	
To Purchases 75,000		Less : Sales Return 8,000	2,42,000
Less : Purchase Returns 3,000	72,000	By Closing Stock	25,000
To Freight & Carriage	7,500		
To Wages	36,500		
To Gross Profit	1,31,000		
	2,67,000		2,67,000
To Salaries	12,000	By Gross Profit b/d	1,31,000
To Repairs	1,200	By Commission	3,300
To Trade Expenses	4,000	By Interest on Bank Deposit	2,000
To Rent & Taxes	24,000		
To Net Profit transferred to			
Capital A/c	95,100		
	1,36,300		1,36,300

BALANCE SHEET as on 31st March, 2019

₹	Assets	₹
6,200	Cash in hand	5,700
15,000	B/R	4,000
	Sundry Debtors	55,000
	· ·	6,200 Cash in hand 15,000 B/R

Add : Net Profit	95,100		Closing Stock	25,000	
	2,65,600		Bank Deposit	20,500	l
Less : Drawings	16,600	2,49,000	Plant & Machinery	1,60,000	
		2,70,200		2,70,200	
					1

Note: The heading of Trading A/c and Profit & Loss A/c is put collectively as 'Trading and Profit & Loss A/c'. The first part of this Account is Trading A/c, whereas the second part is Profit & Loss A/c.

Adjustment in preparation of financial statements of Soleproprietor

Meaning of Adjustment entries: Those entries which need to be passed at the end of the accounting year to show the accurate profit or loss and fair financial position of the business.

Need of Adjustment: There are number of transactions that may not find the place in the Trial Balance due to any reason such as Closing Stock (because it is valued at the end of the year), Manager's Commission based on Net profits (because its calculation requires preparation of Income Statement first). These transactions can only be taken into account by passing Adjustment entries so that their impact on the profitability and financial position can be shown.

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

Outstanding Expenses: When expenses of an accounting period remain unpaid at the end of an accounting period, they are termed as outstanding expenses.

As they relate to the earning of revenue during the current accounting year, it is logical that they should be duly charged against the revenue for computation of the correct amount of profit or loss.

Prepaid Expenses: At the end of the accounting year, it is found that the benefits of some expenses have not yet been fully received; a portion of its benefit would be received in the next accounting year. This portion of expenses, is carried forward to the next year and is termed as prepaid expenses.

Accrued Income: It may sometime happen that certain items of income such as a interest on loan, commission, rent, etc. are earned during the current accounting year but have not been actually

received by the end of the same year. Such incomes are known as accrued income.

Income Received in Advance: Sometimes, a certain income is received but the whole amount of it does not belong to the current period. The portion of the income which belongs to the next accounting period is termed as income received in advance or an Unearned Income.

Depreciation: It is the decline in the value of assets on account of wear and tear and passage of time. It is treated as a business expense and is debited to profit & loss account. In case of intangible assets it is termed as Amortisation.

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

Transactions	Journal Entries		Effects
Closing Stock	Closing Stock A/c To Trading A/c	Dr.	(i) Credit side of Trading A/c.(ii) Show on the assets side of BALANCE SHEET.
Outstanding/Unpaid Expenses	Expenses A/c To outstanding Exp. A/c	Dr.	(i) Add to the concerned item on the Debit side of Trading/Profit & Loss A/c.(ii) Show on the liabilities side of BALANCE SHEET.
Prepaid expenses/ Unexpired expenses	Prepaid Expenses A/c To expenses A/c	Dr.	(i) Deduct from the concerned expenses on the debit side of Profit & Loss A/c(ii) Show on the assets side of BALANCE SHEET.
Accrued income / Income due but not received	Accrued Income A/c To Income A/c	Dr.	(i) Add to the concerned income on Credit side of Profit and Loss A/c(ii) Show on the assets side of BALANCE SHEET.
Unearned income/ Income received in Advance	Income A/c To Unearned Income	Dr. A/c	(i) Deduct from the concerned income on the credit side of Profit & Loss A/c(ii) Show on the liabilities side of BALANCE SHEET.
Depreciation	Depreciation A/c To Asset A/c	Dr.	(i) Show on the debit side of Profit Loss A/c(ii) Deduct from the concerned asset in the Balance Sheet.

Illustration 13The following were the balances extracted from the books of Roshan as on March 31, 2021.

Debit Balance	₹	Credit Balance	₹
Cash in hand	540	Sales	98,780
Cash at bank	2,630	Return	500
Purchases	40,675	Outwards	
Return inwards	680	Capital	62,000
Wages	8,480	Sundry	6,300
Fuel and Power	4,730	Creditors	
Carriage on sales	3,200	Rent	9,000
Carriage on purchases	2,040		
Opening stock	5,760		
Building	32,000		
Freehold land	10,000		
Machinery	20,000		
Salaries	15,000		
Patents	7,500		
General expenses	3,000		
Insurance	600		
Drawings	5,245		
Sundry Debtors	14,500		
	1,76,580		1,76,580

Taking into account the following adjustments, prepare Trading and Profit & Loss account and Balance Sheet as on March 31, 2021:

- a) Stock in hand on March 31, 2021 was ₹6,800.
- b) Machinery is to be depreciated at the rate of 10% and patents @ 20% p.a.
- c) Salaries for the month of March, 2021 amounting to ₹1,500 were outstanding.
- d) Insurance includes a premium of ₹ 170 on a policy expiring on September 30, 2021.
- e) Rent receivable ₹1,000.

Solution

Books of Roshan Trading and Profit & Loss Account for the year ended March 31, 2021

Dr. Cr.

Particulars	₹	Particulars	₹
Opening stock	5,760		
Purchases 40,675		Sales 98,780	
Less Return outwards (500)	40,175	Less Return inwards (680)	98,100
Wages	8,480	Closing stock	6,800
Fuel and Power	4,730		
Carriage on purchases	2,040		
Gross profit	43,715		
	1,04,900		1,04,900
Salaries 15,000		Gross profit	43,715
Add Outstanding Salaries 1,500	16,500	Rent 9,000	
Carriage	3,200	Add Accrued Rent 1,000	10,000
General expenses	3,000		
Insurance 600			
Less Prepaid Insurance (85)	515		
Depreciation : machinery 2,000]		
Patent <u>1,500</u>	3,500		
Net profit (transferred to	27,000		
capital account)			
	53,715		53,715

Balance Sheet as at March 31, 2021

Liabilities	₹	Assets	₹
Sundry creditors	6,300	Cash in hand	540
		Cash at bank	2,630
Salaries outstanding	1,500	Sundry debtors	14,500
		Insurance prepaid	85

Capital	62,000		Stock		6,800
Add Net Profit	27,000		Rent Accrued		1,000
			Freehold Land		10,000
	89,000				
			Building		32,000
Less Drawings	(5,245)	83,755	Machinery	20,000	
			Less Depreciation	(2,000)	18,000
			Patents	7,500	
			Less Depreciation	(1.500)	6,000
		91,555			91,555

Bad Debts: The debtors from whom amounts cannot be recovered are treated in the books of accounts as bad and are termed as bad debts.

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

Provision for Bad Debts: In the balance sheet, debtors appears on the assets side of the Balance Sheet, which is their estimated realisable value during next year. It is quite possible that the whole of the amount may not be realized in future. However, it is not possible to accurately ascertain the amount of such bad debts.

Hence, a reasonable estimate of such loss is provided in the book. Such provision is called provision for bad debts. Provision for doubtful debts is shown as a deduction from the debtors on the asset side of the balance sheet.

Note: The provision for doubtful debts brought forward from the previous year is called the opening provision or old provision. When such a provision already exists, the loss due to bad debts during the current year are adjusted against the same and while making provision for doubtful debts required at the end of the current year is called new provision. The balance of old provision as given in trial balance should also be taken into account.

Provision for discount on Debtors: Discount is allowed to customers to encourage them to make prompt payment. The discount likely to be allowed to customers in an accounting year can be estimated and provided for by creating a provision for Discount on debtors.

Provision for discount on debtors is made on good debtors which are arrived at by deducting further bad debts and provision for bad debts out of Debtors shown in the Balance sheet.

Transactions	Journal Entries	Effects
To write off	Bad Debts A/c Dr.	(i) Debit side of P&L A/c.
bad debts	To Debtors	(ii) Deduct from debtors on the assets side of Balance Sheet.
Provision for bad and	(I) provision for Doubtful Debts A/c Dr.	(i) Debit side of P & L A/c.
doubtful debts	To Debtors A/c	(ii) Deduct from debtors on the assets side of Balance Sheet.
Provision for Discount	(ii) P & L A/c Dr.	(i) Debit side of P & L A/c.
on debtors	To Provision for Discount on Debtors A/c	(ii) Deduct from debtors on the assets side of Balance Sheet.

Illustration 14

An exact from a Trial Balance on March 31, 2019 is given below:

PARTICULARS	
Sundry Debtors	32,000
Bad Debts	2,000
Provision for Bad Debts	3,500

Additional Information

Write-off further Bad Debts ₹ 1,000 and create a provision for Doubtful Debts @ 5% on debtors.

Solution

Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2019 March 31	(a) Bad debts A/c Dr. To sundry debtors A/c Entry for further Bad Debts)		1,000	1,000
	(b) Provision for Doubtful Debts A/c Dr. To Bad-debts A/c (Bad debts adjust against provision)		3,500	3,500
	(c) Profit & Loss A/c Dr. To provision for doubtful debts A/c (Amount charges from P & L A/c)		1,050	1,050

Profit and Loss Account' for the year ended March 31, 2019

Dr. Cr.

Particulars			Particulars	₹
Provision for doubtful de	ebts:			
Bad debts	2,000			
Add: Further bad debts	1,000			
Add: New provision	1,550			
	4,550			
Less: Old provision	3,500			
		1,050		

^{&#}x27;Only relevant items.

Extract of Balance Sheet* as at March 31, 2019

Liabilities	₹	Assets		₹
		Sundry debtors	32,000	
		Less Further Bad-debts	(1,000)	
			31,000	
		Less Provision for	(1,550)	29,450
		doubtful debts	-	

^{*}Only relevant items in debit side of P&L A/C

Note: The amount of new provision for doubtful debts has been calculated as follows: ₹31,000 × 5/100 = ₹1,550

Illustration 15

The following balances were extracted from the books of Shri Himanshu Traders on March 31, 2019.

Name of the Ledger A/c	₹	Name of the Ledger A/c	₹
Capital	1,00,000	Rent (Cr.)	2,100
Drawings	17,600	Railway freight on sales	16,940
Purchases	80,000	Carriage inwards	2,310
Sales	1,40,370	Office expenses	1,340
Purchases return	2,820	Printing and Stationery	660
Stock on April 01, 2018	11,460	Postage and Telegram	820
Bad debts	1,400	Sundry debtors	62,070
Bad debts Provision on		Sundry creditors	18,920
April 01, 2018	3,240	Cash in bank	12,400
		Cash in hand	2,210
Rates and Insurance	1,300	Office furniture	3,500
Discount (Cr.)	190	Salaries and Commission	9,870
B/R	1,240	Addition to buildings	7,000
Sales returns	4,240		
Wages	6,280		
Buildings	25,000		

Prepare the Trading and Profit & loss account and a Balance Sheet as on March 31, 2019 after keeping in view the following adjustments:

- i) Depreciate old building by ₹ 625 and addition to building at 2% and office furniture at 5%.
- ii) Write-off further Bad Debts ₹ 570.
- iii) Increase the Bad Debts Reserve to 6% of Debtors.
- iv) ₹570 are outstanding for salary.
- v) Rent receivable ₹200 on March 31, 2019
- vi) Interest on capital is to be charged @ 5%.
- vii) Unexpired insurance ₹240.
- viii) Stock was valued at ₹14,290 on March 31, 2019.

Solution

Books of Himanshu Traders Trading and Profit & Loss Account for the year ended on March 31, 2019

Dr. Cr.

Particulars	₹	Particulars	₹
Opening stock	11,460	Sales 1,40,370	
Purchases 80,000		Less : Sales Return (4,240)	1,36,130
Less: Purchase return (2,820)	77,180		
Carriage inwards	2,310		
Wages	6,280	Closing stock	14,290
Gross profit	53,190		
	1,50,420		1,50,420
Railway freight on sales	16,940	Gross profit	53,190
Office expenses	1,340	Rent 2,100	
Postage and Telegram	820	Add Accrued rent 200	2,300
Printing and Stationery	660	Discount	190
Salary and Commission 9,870			
Add Outstanding salary570	10,440		
Rates and Insurance 1,300			
Less: Unexpired (240)	1,060		
insurance			
Bad debts 1,400			
Add: Further bad debts 570			
Add: New bad debts provision 3,690			
5660			
Less: Old provision for (3,240)	2,420		
Bad debts			
Interest on capital	5,000		
Depreciation on building	625		
Depreciation on additions	140		
Depreciation on Furniture	175		
Net profit (transferred to	16,060		
capital account)	55,680		55,680

Balance Sheet as on March, 31, 2019

Liabilities		₹	Assets		₹
Sundry creditors		18,920	Cash at bank		12,400
Outstanding salaries		570	Cash in hand		2,210
			B/R		1,240
Capital	1,00,000				
Add: Net profit	16,060		Debtors	62,070	
	1,16,060				
Add: Interest capital	5,000		Less: Further Bad Debts 570		
Less: Drawings	(17,600)	1,03,460		61,500	
-			Less: New provision for (3.690)		57,810
			Bad Debts ————		
			Accrued Rent		200
			Prepaid Insurance		240
			Building	25,000	
			Less Depreciation	(625)	24,375
			Addition to building	7,000	
			Less Depreciation	(140)	6,860
			Office Furniture	3,500	
			Less Depreciation	(175)	3,325
			Closing stock		14,290
		1,22,950			1,22,950

Manager's Commission

The manager of the business is sometimes given the commission on the net profit of the company. The percentage of the commission is applied on the profit either before charging such commission or after charging such commission . In the absence of any such information, it is assumed that commission is allowed as a percentage of the net profit before charging such commission.

1. Commission on net profits before charging such commission

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

2. Commission on net profits <u>after</u> charging such commission.

Interest on capital	Interest on Capital A/c Dr. To Capital A/c	(i) Debit side of P&L A/c.(ii) Add to capital on the liabilities side of Balance Sheet.
Interest on drawings	Capital/Drawings A/c Dr. To Interest on Drawings A/c	(i) Credit side of P&L A/c.(ii) Deduct from capital on the liabilities side of Balance Sheet.
Interest payable on loans (borrowed)	Interest on Loan A/c Dr. To Loan A/c	(i) Debit side of P&L A/c.(ii) Add to loan on the liabilities side of Balance Sheet.
Commission payable to manager	P & L A/c Dr. To commission payable to manager A/c	(i) Debit side of P&L A/c.(ii) Show on the liabilities side of Balance Sheet.

ADJUSTMENT IN RESPECT OF GOODS

Abnormal Loss: Sometimes losses occur due to some abnormal circumstances such as accident, fire, flood, earthquakes etc. Such losses are called Abnormal losses. These may be divided into two categories:—

(A) Loss of Goods (B) Loss of Fixed Assets

Good taken for personal use (Drawings in goods): When the goods are withdrawn by proprietor for personal use the cost of such goods deduct from purchases and the amount should be deduct from capital in Balance Sheet.

Goods distributed as free samples: Sometime goods are distributed as free sample by the businessman for the purpose of advertisement. The cost of free sample deduct from purchase and shown in Debit side of profit and loss account.

Adjustment Entry in respect of goods

Adjustment	Treatment in Trading & P & L A/c	Treatment in Balance Sheet
1) Loss of Goods (By accident, Fire, Theft)	1) Loss of A/c Dr. To Trading A/c Or To Purchase A/c	1) Gross Loss: Deduct from Purchase or show on the credit side of Trading A/c 2) Net Loss: Debit side of P & L A/c
If goods were not insured	2) Profit & Loss A/c Dr. To loss by A/c	Insurance claim: Assets side of Balance Sheet.
If goods were insured and full claim accepted by insurance company	2) Insurance Company A/c Dr. To loss by A/c	

If full claim not accepted by Insurance Company	2) Insurance Company A/c Profit & Loss A/c To loss by A/c	Dr. Dr.	
2) Goods taken by the proprietor for his personal use	Drawings A/c To Purchase A/c	Dr.	Deduct the amount of goods from the purchases in Trading A/c.
			Deduct the amount from the capital on the liabilities side of Balance Sheet.
3) Goods distributed as free sample	Advertisement A/c To Purchase A/c	Dr.	Deduct the amount from the purchases on the debit side of Trading A/c.
			2) Show on the debit side of P & L A/c.
4) Goods given as charity	Charity A/c To Purchase A/c	Dr.	Deduct the amount of goods from the purchases in Trading A/c.
			2) Show on the debit side of P & L A/c.

Key Points:

- 1. **If closing stock** shown in Trial Balance then it will be shown in balance sheet only. It is assumed that purchases amount already get adjusted in Trial Balance.
- 2. **Salary and** wages will be shown in profit & loss A/c debit side (assuming that salary is prominent) while wages and salary will be shown in Trading A/c debit side, (wages are prominent).
- 3. **Freight, carriage, cartage** will be shown in Dr. side of Trading A/c. if inward word attached with these then it also debited to Trading A/c, if outward word attached with these item then it will be debited to Profit & loss account.
- 4. **Any expenses** related to factory are debited to Trading account like factory lighting, factory rent if factory word is not given then lighting and rent will be debited to Profit and loss account.
- 5. **Trade expenses** always debited to Profit and loss A/c not as name indicate Trading Account.

- 6. **Packaging material**: Cost of packaging material used in product are direct expenses as it refers to small containers which form part of sale, it will be debited to Trading Account.
- 7. **Packing**: The packing refers to the big containers that are used for transporting the goods and regarded as indirect expenses and debited to Profit & loss account.
- 8. **Adjusted purchases** means the amount of purchases is adjusted by way of adding opening stock and reduced by the amount of closing stock, e.g., purchases ₹ 1,00,000; opening stock ₹ 12,000, closing stock ₹ 8,000. Calculate adjusted purchases.

Adjusted purchases = purchases + opening stock - closing stock = ₹1,00,000 + ₹. 12,000 - ₹8,000 = ₹1,04,000

When adjusted purchases is given in trial balance, then there is no need of debiting opening stock and crediting closing stock in Trading Account.

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

Remember

While preparing Final Account The items which are given inside the Trial Balance are written only once either in Income Statement or in the Balance Sheet. (Assuming that they have been already adjusted in the respective account). On the other hand, the items which are given outside the Trial Balance (known as adjustment) are to be written twice because the double entry in respect of all adjustments is to be completed in the final accounts itself.

Table Showing Adjustment at a Glance

	Treatment in Balance Sheet	Shown on the credit side	Shown on the ise liabilities side	Shown on the assets side	it Deducted from the concerned asset on the assets side	Shown on the assets on side	he Shown on the on liabilities side	it Added to the capital on the liabilities side	lit Added to the drawings and then deducted fom capital	Jit Added to the loan on the liabilities side	s Deducted from debtors on the assets
	Treatment in Profit & Loss A/c		Added to the respective expense on the debit side	Deducted from the respective expense on the debit side	Shown on the debit side	Added to the respective income on the credit side	Deducted from the respective income on the credit side	Shown on the debit side	Shown on the credit side	Shown on the credit side	Added to Bad-debts (given in Trial
,	Treatment in Trading A/c	Shown on the credit side	Added to the respective expense on the debit side	Deducted from the respective expense on the debit side							
		Dr.	Dr.	Dr.	Dr.	Dr.	Dr.	Ö.	Ö.	Dr.	Ģ.
	Adjustment Entry	Closing Stock A/c To Trading A/c	Expenses A/c To Outstanding Expenses A/c	Prepaid Expenses A/c To Expenses A/c	Depreciation A/c To Asset A/c	Accured Income A/c To Income A/c	Income A/c To Unearned Income A/c	Interest on Capital A/c To Capital A/c	Drawings A/c To Interest on Drawings A/c	Interest on Loan A/c To Loan A/c	Bad-debts A/c To Sundry Debtors A/c
	Adjustment	Closing Stock	Outstanding Expenses	Prepaid or unexpired expenses	Depreciation	Accured Income (Income earned but not received)	Unearned Income (Income received in advance)	Interest on capital	Interest on Drawings	Interest on Loan (taken from someone)	Further Bad-debts
		1.	2.	ა.	4.	5.	.9	7.	ω̈	о́	10.

	11. Provision for Doubtful debts	Profit & Loss A/c Dr. To Provision for Doubtful Debts A/c			Added to Bad-debts on the debit side	Added to Bad-debts Deducted from Debon the debit side side
12.	Provision for discount on Debtors	Profit & Loss A/c Dr. To Provision for Discount on Debtors A/c	rs A/c		Shown on the debit side as a separate item	Deducted from Debtors on the assets side
	13. Abnormal loss of stock	Insurance Company A/c Dr. Profit & Loss A/c Dr. To Purchases A/c	r. Total amount of loss r. is deducted from purchases on the debit side	of loss om the	Amount not recovered from the insurance company is shown on the debit side	Amount recovered from the insurance company is shown on the assets side.
	14. Charity in the form of goods	Charity A/c To Purchases A/c	n. Deducted from purchases on the debit side	n the	Shown on the debit side	
15.	Goods distributed as free samples	Free samples A/c Dr. To Purchases A/c	-op-		Shown on the debit side	
16.	Drawings in goods	Drawings A/c To Purchases A/c	-do-			Deducted from capital on the liabilities side.
17.	Manager's Commission	Manager's Commission A/c Dr. To Outstanding Commission A/c	ت.		Shown on the debit side	Shown on the liabilities side.
	18. Goods sold but omitted to be recorded	Debtors A/c To Sales A/c	r. Added to sales on the credit side	on the		Added to Debtors on the assets side.
19.	Goods purchased but omitted to be recorded	Purchases A/c To Creditors A/c	. Added to purchases on the debit side	chases		Added to Creditors on the liabilities side.
	20. Sale of goods in approval basis	(i) Sales A/c Dr. To Debtors A/c (Sale value of goods)	r. Deducted from sales on the credit side	n sales side		Deducted from debtors on the assets side.
		(ii) Closing Stock A/c Dr. To Trading A/c (Cost price of goods)	. Added to closing stock on the credit side	ing redit		Added to closing stock on the assets side.

Illustration 16

From the following balances of Mr. Ashok. You are required to prepare Trading and Profit and loss account and a balance sheet on March 31, 2023.

Debit Balance	₹	Credit Balance	₹
Plant and Machinery	1,30,000	Sales	3,00,000
Debtors	50,000	Return outwards	2,500
Interest	2,000	Creditors	2,50,000
Wages	1,200	Bills payable	70,000
Salary	2,500	Provision for bad debts	1,550
Carriage Inwards	500	Capital Rent received	2,20,000
Carriage Outwards	700	Rent received	10,380
Return Inwards	2,000	Commission received	16,000
Factory rent	1,450		
Office rent	2,300		
Insurance	780		
Furniture	22,500		
Buildings	2,80,300		
Bills receivable	3,000		
Cash in hand	22,500		
Cash at bank	35,000		
Commission	500		
Opening stock	60,000		
Purchases	2,50,000		
Bad debts	3,500		
	8,70,430		8,70,430

Adjustment

- 1. Provision for Bad Debts @ 5% p.a. and further Bad debts ₹ 2,000.
- 2. Rent received in Advance ₹ 6,000.
- 3. Prepaid Insurance ₹200.
- 4. Depreciation on furniture @ 5% p.a., plant and machinery @ 6% p.a., building @ 7% p.a..
- 5. Closing stock amounting ₹ 70,000 on 31.03.2023.
- 6. Goods costing ₹1,000 were used by proprietor.

Solution

Books of Mr. Ashok Trading and Profit and Loss Account for the year ended March 31, 2023

Particulars	₹	Particulars	₹
Opening stock	60,000	Sales 3,00,000	
Purchases 2,50,000		Less Return (2,000)	2,98,000
Less : Return 2,500		Closing Stock	70,000
Less : Goods Personal Use 1,000	2,46,500		
Wages	1,200		
Carriage inwards	500		
Factory rent	1,450		
Gross profit	58,350		
	3,68,000		3,68,000
Interest	2,000	Gross profit	58,350
Salary	2,500	Rent received 10,380	
Carriage outwards	700	Less Advance (6,000)	4,380
		rent	
Office Rent	2,300	Commission	16,000
		received	
Insurance 780			
Less Prepaid Insurance (200)	580		
Depreciation on furniture	1,125		
Depreciation on Plant and	7,800		
Machinery			
Depreciation on building	19,600		
Commission	500		
Bad debts 3,500			
Add: Further and debts 2,000			
Add: New provision 2,400			
7,900			
Less old provision (1.550)	6,350		
Net Profit (transferred to	35,275		
capital account)			
	78,730		78,730

Balance Sheet as at March 31, 2023

Liabilities		₹	Assets		₹
Creditors		2,50,000	Cash in hand		22,500
Bills Payable		70,000	Cash at Bank		35,000
Advance rent		6,000	Bills receivable		3,000
Capital	2,20,000		Prepaid insurance		200
Add Net Profit	35,275		Debtors	50,200	
	2,55,275		Less Further	(2.000)	
Less : Goods Taken	1,000		Bad debts	48,000	
for personalise		2,54,275	Less New Provision	(2,400)	45,600
			Plant and Machinery		1,22,200
			Furniture		21,375
			Buildings		2,60,400
			Closing stock		70,000
		5,80,275			5,80,275

Illustration 17

From the following Adjustments and with the help of Trial Balance prepare a Trading and Profit and Loss A/c and Balance sheet as on 31st Dec. 2022.

Dr. Balance	₹	Cr. Balance	₹
Insurance Charges	2,400	Capital	1,70,000
Salaries & Wages	19,400	S. Creditors	20,000
Cash in Hand	200	Sales	1,20,000
Cash at Bank	26,500	Returns outwards	1,200
Trade Expenses	400	Provision for doubtful debts	400
Postage & Telegrams	800	Discount	800
Drawings	6,000	Rent of Premises, Subject for	1,200
Plant & Machinery		one year to 30th June 2019	
Balance on 1st Jan, 2019	1,20,000		
Addition on 1st July, 2019	5,000		
Stock on 1st Jan, 2019	15,000		
Purchases	82,000		
Returns Inward	2,000		
S. Debtors	20,800		
Furniture & Fixture	5,000		
Freight & Duty	2,000		
Carriage Outwards	500		
Rent, Rates & Taxes	4,600		
Printing & Stationery	1,000		

Adjustments

- 1. Stock on 31st Dec. 2022 was valued at ₹ 24,000 and stationery unused at the end was ₹ 250.
- 2. The provision for Doubtful Debts is to be maintained at 6% on Sundry Debtors.
- 3. Create a provision for discount on Sundry Debtors at 2%.
- 4. Write off ₹800 as Bad-Debts.
- 5. Provide depreciation on Plant and Machinery @ 10% p.a.
- 6. Insurance is paid up to 31st March 2022.
- 7. A fire occurred on 25th Dec. 2022 in the Godown and Stock of the value of ₹ 6,000 was destroyed. It was insured and the Insurance co. admitted a claim of ₹ 4,000.

Solutions

Trading and Profit & Loss Account the year ending 31st Dec. 2022

Dr. Cr. ₹ Particulars Particulars To Opening Stock 15,000 By Sales 1,20,000 *Less* Return 1,18,000 2,000 To Purchases 82,000 By Closing stock 24,000 (1,200)*Less* Return 80,800 Less: Loss by fire (6,000)74,800 To Freight & duty 2,000 To Gross Profit 50,200 1,42,000 1.42 000 50,200 To Insurance charges 2,400 By Gross Profit 1,800 Less: Prepaid insurance (600) To Salaries & wages 19,400 By Discount 800 To Trade expenses 400 By Rent of premises sublet 1,200 Less: Rent received in adv. (600) 600 800 To Postage & telegram To carriage outwards 500 4,600 To Rent, Rates & wages To Printing & Stationery 1,000

Less : Unused	(250)	750
To Bad debts	800	
Add: New reserve	1,200	
	2,000	
Less: Old reserve	(400)	1,600
To Provision for discoudebtor	unt on	376
To Depreciation on Pla Mac. (12,000 + 250)	ant &	12,250
To loss by fire	6,000	
Less:Insurance Claim	ո 4,000	2,000
To Net Profit transferr	ed to	7,124
Capital		
		51,600

Balance Sheet As on 31st Dec. 2022

Liabilities		₹	Assets		₹
S. Creditor		20,000	Cash in hand		200
Rent received in		600	Cash at Axis Bank		26,500
advance Capital	1,70,000				
Add : Net Profit	7,124		S. Debtor	20,800	
	1,77,124				
Less : Drawings	6,000	1,71,124	Less : Bad Debts	(800)	
				20,000	
			Less : New Reserve	(1,200)	
				18,800	
			Less : Discount	(376)	18,424
			Insurance company (Claim)	4,000
			Closing stock		24,000
			Stationery unused		250
			Prepaid insurance		600
			Furniture & fixture		5,000
			Plant & Mac.	1,20,000	
			Add : Addition	(5,000)	
				1,25,000	
			Less : Depreciation	(12,250)	1,12,750
		1,91,724	•		1,91,724

Illustration 18

Give journal entries for the following adjustments in final accounts:

- (i) Closing Stock ₹70,000.
- (ii) Outstanding salaries ₹15,000.
- (iii) Insurance premium amounting to ₹18,000 is paid in advance.
- (iv) ₹ 1900 received for rent related to the next accounting period.
- (v) Interest accrued but not received during the accounting year ₹1,500.
- (vi) Write off 600 as further bad debts.
- (vii) Goods costing ₹8,000 destroyed by fire and insurance company admitted a claim for ₹5,000 only.
- (viii) Goods costing ₹10,000 (Market value ₹11,000) were taken by proprietor for personal use.

Solution

JOURNAL

Particulars		L.F.	Dr. (₹)	Cr. (₹)
(I Closing Stock A/c To Trading A/c (Closing Stock transferred to Trading A/c	Dr.		70,000	70,000
(ii) Salaries A/c To Outstanding Salaries A/c (Outstanding salaries accounted in the books	Dr.		15,000	15,000
(iii) Prepaid Insurance Premium A/c To Insurance Premium A/c (Prepaid Insurance accounted in the books)	Dr.		18,000	18,000
(iv) Rent Received A/c To Rent Received in Advance A/c (Rent received in advance accounted in the b	Dr.		1,900	1,900
(v) Accrued Interest A/c To Interest Received A/c (Accrued interest accounted in the books)	Dr.		1,500	1,500
(vi) Bad debts A/c To Sundry Debtors A/c (Further Bad-debts written off)	Dr.		600	600
(vii) Loss by Fire A/c To Purchase A/c (Goods destroyed by fire)	Dr.		8,000	8,000
Insurance Co. Profit & Loss A/c To Loss by Fire A/c (Claim accepted by insurance co. and balantransferred to Profit & Loss A/c)	Dr. Dr. ce		5,000 3,000	8,000
(viii) Drawings A/c To Purchase A/c (Goods taken by proprietor for personal use)	Dr.		10,000	10,000

Illustration 19

Give journal entries for the following adjustments in final account:

- (i) Depreciation on furniture by 10% (cost of furniture ₹10,000)
- (ii) Goods worth ₹1,800 distributed as free samples.
- (iii) Rent received for 12 month ending 30th, June 2023 (Account closed 31st March, 2023) ₹6,000.

Solution

JOURNAL

Particulars		L.F.	Dr. (₹)	Cr. (₹)
(i) Depreciation A/c To Furniture A/c (Depreciation charged on furniture)	Dr.		1,000	1,000
(ii) Advertisement (or free sample) A/c To Purchase A/c (Goods distributed as free sample)	Dr.		1,800	1,800
(iii) Rent A/c To Rent received in advance A/c (Rent for 3 month received in advance)	Dr.		1,500	1,500

Illustration involving adjustment for GST and GST Set-off.

Illustration 20 From the following Trial balance, prepare Trading and Profit & loss Account and Balance sheet.

Debit Balances	₹	Credit balances	₹
Purchases	15,000	Capital	27,500
Opening Stock	3,000	Sales	33200
Salaries	4550	Creditors	10250
Bills Receivable	23000	Bills Payable	850
Machinery	6000	Outstanding Rent	350

	90,650		90,650
Input IGST	5000		
Input SGST	4000		
Input CGST	4000		
Advertisement	4250		
Bank	6000		
Insurance	300		
DiscountAllowed	1250		
Bad debts	600	Output IGST	4000
Rent	1400	Output SGST	5000
Wages	2300	Output CGST	5000
Sundry Debtros	10,000	Commission	4500

Adjustments:

- (i) Closing stock is ₹ 3000.
- (ii) Goods costing ₹ 500 were distributed as free sample and goods of
 ₹ 1000 were taken by the proprietor for personal use. CGST and SGST
 @ 6% each were levied on these goods.
- (iii) Goods costing ₹ 1000 were destroyed by fire. IGST @ 12% was levied on these goods.
 - The goods were insured and the Insurance Company admitted a claim of ₹ 900.
- (iv) A credit sales of ₹1500, on which IGST @ 12% was levied was not recorded in the sales Book.

Trading and Profit and Loss Account
Dr. for the year ended, 31st march

Particulars	₹	Particulars		₹
To opening stock	3000	By sales	33200	
To Purchases 15000		Add: unrecorded	1500	
Less: Advertisement 500				34700
(Free Sample) 14500				

Cr.

	Less: Drawings	1000	13500	By loss by fire	1120
То	wages		2300	By closing stock	3000
То	Gross profit		20020		
			38820		38820
То	salaries		4550	By Gross profit	20000
То	Rent		1400	By Commission	4500
То	Bad debts		600		
То	Discount allowed		1250		
То	Insurance		300		
То	Advertisement	4250			
	(+) free sample	500	4750		
То	Less by Fire		220		
То	Net profit		11450		
	transferred to Capita	al A/c			
			24520		24520
	transferred to Capita	al A/c	24520		24

Balance Sheet as at 31st March

Liabilities		Rs.	Assets	Rs.
Capital	27500		Machinery	6000
(+) Net profit	11450		Bills Receivable	23000
	38950		Sundry debtors 10,000	
(+) Drawing	1120	37830	Add: Unrecorded 1680	11680
			Credit Sales	
			Bank	6000
Creditors		10250	Insurance Claim due	900
Bills Payable		850	Closing Stock	3000
Outstanding rent		350		
Output CGST		210		
Output SGST		1090		
		50580		50580

^{*} Journal Entries for adjustment of GST and GST set off

Journal

Date	Particulars		LF.	Dr. (₹)	Cr. (₹)
	Advertisement A/c	Dr.		560	
	(free sample)				
	To purchases A/c				500
	To Input CGST A/c				30
	To Input SGST A/c				30
	(Being Goods distributed as free sa	ample)			
	Drawing A/c Dr.			1120	
	To Purchases A/c				1000
	To Input CGST A/c				60
	To Input SGST A/c				60
	(Being goods used by proprietor)				
	Loss by Fire (Stock) A/c	Dr.		1120	
	To Trading A/c				1000
	To Input IGST A/c				120
	(Being loss of stock by Fire)				
	Insurance Company A/c	Dr.		900	
	Profit and Loss A/c	Dr.		220	
	To Loss by Fire (Stock) A/c				1120
	(Being claim admitted by Insurance Comp	oany)			
	Sundry Debtors A/c	Dr.		1680	
	To Sales A/c				1500
	To Output IGST A/c				180
	(Being Credit sales recorded)				
	Output IGST A/c	Dr.		4120	
	To Input IGSTA/c				4120
	(Being input IGST set of against outpu	t IGST)			

Output CGSTA/c	Dr.	3910	
To Input CGSTA/c			3910
(Being input CGST set off against outp	out CGST)		
Output SGSTA/c	Dr.	3910	
To Input SGSTA/c			3910
(Being input SGST set off against outp	out SGST)		
Output CGSTA/c	Dr.	880	
To Input IGSTA/c			880
(Being input IGST set off against outpu	ut CGST)		

Multiple Choice Questions

1.	Current liabilities	are those	obligations	which	are to	be	paid	by
	the business		_				-	_

- (a) within one year. (b) within two years.
- (c) within operating cycle (d) a and c both
- 2. Plant and Machinery owned by a firm is classified as
 - (a) Tangible Assets.(b) Current Assets(c) Liquid Assets(d) Intangible Assets
- 3. Loss on sale of Fixed Assets is debited to:
 - (a) Profit and Loss A/c. (b) Fixed Assets A/c.
 - (c) Depreciation A/c. (d) Trading Account.
- 4. Sales of the business can be calculated by:
 - (a) Cost of Goods Sold + Gross Profit.
 - (b) Cost of Goods Sold Gross Profit.
 - (c) Gross Profit Cost of Goods Sold.
 - (d) Purchases + Gross Profit.

- 5. Income tax paid by a sole trader is shown: (a) on the debit side of the Trading Account. (b) on the debit side of the Profit and Loss Account. (c) as deduction from capital in the Balance Sheet. (d) as addition to capital in the Balance Sheet. 6. Goodwill of the firm can be classified as: (a) Fictitious Asset. (b) Tangible Asset. (c) Intangible Asset. (d) Current Asset. 7. Returns Inward given in the Trial Balance is (a) deducted from Purchases. (b) deducted from Sales. (c) Added in Returns outward. (d) Added in Sales 8. Financial Statements includes (a) Trial Balance (b) Trading and Profit and Loss Account (c) Balance Sheet (d) b and c both 9. Which type of expenses are shown in Trading Account? (a) Direct Expenses. (b) Indirect Expenses. (c) Opening Expenses. (d) Direct and Indirect Expenses both 10. Which statement shows financial position of the business? (a) Trading Account. (b) Profit and Loss Account.
 - (a) Capital Expenditures (b) Revenue Expenditures

11. Expenditure which either decreases liabilities or increases

(d) Trial Balance.

(c) Financial Expenditures (d) None of the above

(c) Balance Sheet.

assets are:

12.	Carriage Outwards is shown i	n
	(a) Trading Account.	
	(b) Profit and Loss Account.	
	(c) Balance Sheet.	
	(d) Either Trading Account or I	Profit and Loss Account.
13.	Expenditure incurred on acqu	uiring a fixed asset, which increases
	the earning capacity is accoun	nted as
	(a) General Expenditure.	
	(b) Revenue Expenditure.	
	(c) Deferred Revenue Expend	diture.
	(d) Capital Expenditure	
14.	Opening stock shown inside t	he Trial Balance is shown in :
	(a) Trading Account.	(b) Profit and Loss Account
	(c) Balance Sheet.	(d) None of these.
15.	Which of the following is not s	hown in Balance Sheet?
	(a) Opening Stock	(b) Closing Stock
	(c) Patents	(d) Debtors
16.	Purchase of machinery for pro	oduction is
	(a) Revenue Evnenditure	

- (a) Revenue Expenditure.
- (b) Capital Expenditure.
- (c) Deferred Revenue Expenditure.
- (d) None of these.
- 17. Furniture purchased for re-sale is:
 - (a) Capital expenditure.
 - (b) Revenue Expenditure.
 - (c) Deferred Revenue Expenditure.
 - (d) None of these.

	purchase is
	(a) Revenue Expenditure.
	(b) Capital Expenditure.
	(c) Deferred Revenue Expenditure.
	(d) None of these
19.	Expenses on Repairing of Plant and Machinery is:
	(a) Revenue Expenditure.
	(b) Capital Expenditure
	(c) Deferred Revenue Expenditure.
	(d) None of these
20.	Balance Sheet is
	(a) a list of all the accounts in the books of a business.
	(b) an account showing trading activities of a business.
	(c) an account showing the financial position of a business as on
	a certain date.
	(d) a list of assets, liabilities and capital of a business at a certain
	date.
	Answers:
	d, 2. a, 3. a, 4. a, 5. c, 6. c, 7.b, 8. d, 9. a, 10. c, 1. a, 12. b, 13. d, 14. a, 15. a, 16. b, 17. b, 18. b, 19. a, 20. d
<u>II.</u>	Fill in the Blanks:
(i)	Revenue Expenditures are transferred to the of
(ii)	Revenue Incomes is transferred to the of,
(iii)	Closing Stock in the Trial Balance is transferred to,
(iv)	Capital expenditure is shown in
	247 XI – Accountancy
	241 2 3.000amanoy

18. Insurance premium paid to insure the machinery at the time of its

(v)	Expenses on overhauling a second-hand machine purchase is expenditure.
(vi)	Prepaid wages ₹ 2,500 appears in a Trial balance. It will be shown in
(vii)	Income tax paid by proprietor of ₹ 10,000. It will be
(viii)	Operating profit=+ Non-operating Expenses -Non-operating Incomes.
(ix)	Capital Receipts are shown in
(x)	Purchase of machinery for production is expenditure.
(xi)	Excess of total of debit side over total of credit side in the trading account means
(xii)	Stock of goods on hand is valued at cost or net realizable value (market value) whichever is
(xiii)	All indirect expenses are recorded in,
(xiv)	Expenses related to Salary and Wages of the employees areExpenditure.
(xv)	Carriage inwards isexpense.
(xvi)	The sole proprietor may not be able to raise adequatefor the expansion of business.
(xvii)	The life of the business depends on the life of the,
(xviii) Due to limited financial resources and limitation of the expertise of the owner, the business may lack professional, .
(xix)	Sole Proprietorship business is suitable for simple business whereskill is required.
(xx)	Sole proprietorship best caters the needs of customers where the market for the product is and Localized.
[Ans	s: (i) Debit, Profit and Loss Account; (ii) Credit, Profit and Loss Account; (iii) Balance Sheet; (iv) Balance Sheet; (v) Capital; (vi) Balance Sheet; (vii) deducted from capital as drawings; (viii) Net Profit; (ix) Balance Sheet; (x) Capital; (xi) Gross Loss; (xii) Less;

(xiii) Profit and Loss A/c.; (xiv) Revenue (xv) Direct; (xvi) capital; (xvii) Proprietor /owner; (xviii) Management; (xix) Manual/ less; (xx) Limited]

III. True or False

- (i) Profit and Loss Account shows the financial position of the entity.
- (ii) Trial balance is prepared after preparing the Trading & Profit And Loss Account.
- (iii) Goodwill is an Intangible asset.
- (iv) Freight and Carriage expenses paid on purchase of goods are shown in the debit side of the Trading account.
- (v) Income Tax paid by a sole trader is debited to profit and loss account.
- (vi) Grouping and Marshalling have the same meaning regarding the balance sheet.
- (vii) Closing stock is always valued at cost price.
- (viii) Legal fee paid to acquire a property in Capital Expenditure.
- (ix) All Indirect Expenses are taken into Trading Account whereas Direct Expenses are taken into Profit and Loss Account.
- (x) A Profit & Loss Account is a periodic statement and a Balance Sheet is a point statement.
- (xi) Financial Statements are organised summaries of detailed information about the financial performance and financial position of an enterprise.
- (xii) Balance Sheet is also known as Position Statement.

- (xiii) Expenditure incurred on improvement of existing Assets is known as Revenue Expenditure.
- (xiv) Sales and Closing Stock are the items credited to the Trading Account.
- (xv) Excess of total of debit side over total of credit side in the trading account results in Gross Profit.

Answers:

(i) False	(ii) False	(iii) True	(iv) True
(v) False	(vi) False	(vii) False	(viii) True
(ix) False	(x) True	(xi) True	(xii) True
(xiii) False	(xiv) True	(xv) False	

IV Other Questions:

State whether the following expenses are Capital or Revenue in nature:

- (i) Expenses on renovation of a Office building purchased to make it ready for use.
- (ii) ₹20,000 spent on constructing warehouse for keeping Goods.
- (iii) Repair expenses of ₹ 5,000 incurred for whitewashing of factory building.
- (iv) Insurance premium paid for the renewal.
- (v) Purchased a new Truck for Delivery of Goods.
- (vi) Excise duty paid on purchase of new Plant and Machinery.
- (vii) Wages paid for installation of a new Machine.
- (viii) Repairs carried out on existing Delivery Van.
- (ix) Furniture work done in **office** premises.
- (x) Paid Electricity bill ₹ 1,500.

ANSWERS:

- (i) Capital Expenditure: Paid to make a Asset, to make it ready to use
- (ii) Capital Expenditure: Paid to make a New Asset
- (iii) Revenue Expenditure: Expenses paid to make for the maintenance of Asset
- (iv) Revenue Expenditure: Insurance is a Part of normal operating cost
- (v) Capital Expenditure: Paid to make a long term asset.
- (vi) Capital Expenditure: Paid for the acquisition of new asset.
- (vii) Capital Expenditure: Installation expenses, paid to make the as ready to use
- (viii) Revenue Expenditure: Paid for the running and maintenance of Delivery van.
- (ix) Capital Expenditure: Paid to make a long term asset
- (x) Revenue Expenditure: Part of normal operating cost

Test Your Learnings (M.C.Q.)

- 1. Statements prepared to know profit or loss and financial position of the business are called:
 - (i) Financial Statement
 - (ii) Bank Reconciliation Statement
 - (iii) Trial Balance
- (iv) All of these
- 2. Account which shows Gross Profit or Gross Loss of the business is called:
 - (i) Profit and Loss Account
- (ii) Balance Sheet

(iii) Trial Balance

- (iv) Trading Account
- 3. Trading Account is prepared to know:
 - (i) Net Profit or Loss of business
 - (ii) Gross Profit or Loss of business
 - (iii) Both (1)or (2)
 - (iv) Financial Position of business
- 4. On debit side of trading Account we record:
 - (i) Direct Expense
- (ii) Indirect Expense

- (iii) Both of these
- (iv) None of these
- 5. Closing stock is recorded in:
 - (i) Profit and Loss Account
 - (ii) Trading Account and Balance Sheet
 - (iii) Balance Sheet only
 - (iv) None of these
- 6. Profit and Loss Account shows the:
 - (i) Total Capital Employed
 - (ii) Profit and Loss through sale of assets
 - (iii) Profit earned by business
 - (iv) None of these
- 7. Operating expenses are recorded in:
 - (i) Trading Account
 - (ii) Profit and Loss Account
 - (iii) Balance Sheet
 - (iv) All of these
- 8. Expenses relating to sale of goods are shown in:
 - (i) Profit and Loss Account
 - (ii) Trading Account
 - (iii) Trading and Profit & Loss A/c
 - (iv) Balance Sheet
- 9. Profit and Loss Account is prepared:
 - (i) At a particular point of time
 - (ii) On fixed date
 - (iii) For a certain period
 - (iv) All of these
- 10. Carriage Outwards is an example of:
 - (i) Direct Expenses
 - (ii) Indirect Expenses
 - (iii) Indirect Income
 - (iv) Direct Income
- 11. Which are indirect expense of the fallowings?
 - (i) Salaries Expenses

- (ii) Insurance Expenses
- (iii) Rent Income
- (iv) All of these
- 12. Income earned from other than routine activities is called:
 - (i) General Income
 - (ii) Direct Income
 - (iii) Indirect Income
 - (iv) None of these
- 13. Discount received is an example of:
 - (i) Indirect income
 - (ii) Direct Income
 - (iii) Net Income
 - (iv) General Income
- 14. Which are indirect incomes of the followings?
 - (i) Commission received
 - (ii) interest on investment
 - (iii) Dividend received
 - (iv) All of these
- 15. On credit side of Profit and Loss Account we record:
 - (i) Direct Expenses
 - (ii) Direct Income
 - (iii) Indirect Expenses
 - (iv). Indirect Income
- 16. Balance Sheet is a statement of:
 - (i) Assets
 - (ii) Capital
 - (iii) Liabilities
 - (iv) All of these
- 17. Balance Sheet discloses the financial position of a business:
 - (i) For a given period
 - (ii) On a particular point of time
 - (iii) On a certain fixed date
 - (iv) All of these

18.	-	operties, things and receivables having certain value owned business are called		
	(i)	Assets		
	(ii).	Liabilities		
	(iii)	Goods		
	(iv)	None of these		
19.	Any p	y physical thing that has money value is:		
	(i)	Intangible asset		
	(ii)	Fictitious asset		
	(iii)	Goodwill		
	(iv)	Asset		
20.	` '			
	(i)	Tangible assets		
	(ii)	Fictitious assets		
	(iii)	Contingent assets		
	(iv)	Intangible assets		
II.	. Fill in the Blanks			
	(i)	Patents and Copyrights areAssets.		
	(ii)	Return Outward appearing in the trial balance is deducted from		
	(iii)	The Balance Sheet of a firm or a Company shows the Position of concern.		
	(iv)	profit is the item to be shown on the credit of profit and loss account, brought forward from Trading Account.		
	(v)	Theloss of the business firm is calculated by taking the difference of the credit side and debit side of Trading A/c.		
	(vi)	Stationery purchase for the office use is a expense.		
	(vii)	Depreciation charged on fixed assets will be taken on the debit side of account.		
	(viii)	Brokerage paid in connection with the purchase of land for constructing office building is expense.		

(ix)	Commission received by the business will be taken atside ofaccount.
(x)	expenditure is that expenditure, benefits of which is exhausted within the accounting year in which it is incurred.
(xi)	of balance sheet means putting item of similar nature under the common heading.
(xii)	is prepared to check the arithmetical accuracy of the posting of transaction to the ledger.
(xiii)	Payment of office rent is an example of expense.
(xiv)	of balance sheet means arranging the Assets and liabilities in a praticular manner i.e., in order of permanence or in order of liquidity.
(xv)	Large expenditure incurred on advertising to introduce a new product in the market are called expenditure.
III. True or	False
(i)	Financial Statements helps management to take various decisions.
(ii)	Deferred Revenue Expenditure once incurred can be recovered back.
(iii)	Expenses which are paid but not yet due are considered as prepaid expenses.
(iv)	Interest on loan is an example of Non-operating expense.
(v)	Net Profit calculated from Profit and Loss account is transferred to Capital Account
(vi)	Loss on sale of fixed assets is considered as operating expenses.
(vii)	A trial balance is prepared after preparing the Profit and Loss Account.
(viii)	Trial Balance is prepared to check the arithmetical accuracy of the posting of transaction of the ledger.

- (ix) Marshalling of balance sheet means putting item of similar nature under the common heading.
- (x) Brokerage paid in connection with the purchase of land is a Revenue Expenditure.
- (xi) Closing Stocks are the Goods which remain unsold at the end of the each year.
- (xii) Contingent Liabilities are those liabilities which become payable on happening of an event.
- (xiii) Order of Liquidity and Order of Permanence are the types of grouping.
- (xiv) The nature of Profit and loss account is nominal.
- (xv) A Deferred Revenue Expenditure is a fictitious asset.

IV Other Questions:

1. From the following information ascertain the Gross Profit for the year ended 31st March 2023.

Opening Stock	₹42000
Goods purchased during the year	₹2,40,000
Freight	₹18,000
Closing stock	₹80,000
Sales	₹2,90,000
Packaging	₹16,000

(Answer. ₹70,000 Gross Profit)

2. Calculate the Closing Stock from the following information of M/s. Hira Lal for the year ended 31 st March 2023.

Opening slock	₹5,000
Sales	₹2,00,000
Purchases	₹1,23,000
Return Inward	₹5,000
Return outward	₹10,000
Carriaged inward	₹4,000
Gross profit	₹80,000

(Answer. ₹7,000 Closing Stock)

3. From the following information prepare the trading account for the year ended 31st March 2023.

Sales	₹9,50,000
Adjusted Purchase	₹8,00,000
Closing stock	₹35,800
Carriage inward	₹5,200
Wages	₹11,000
Carnage outward	₹6,000

(Answer. ₹ 1,33,800 Gross Profit)

4. From the following formation prepare a Profit and Loss Account for the year ending 31st March 2023.

Gross profit	₹80,000
Rent	₹6,000
Salary	₹30,000
Commission paid	₹23,000
Interest on loan	₹5,500
Advertisement	₹7,500
Interest received	₹6,000
Discount received	₹8,000
Printing and Stationery	₹4,000
Legal charges	₹9,000
Bad debts	₹3,000
Loss by fire	₹3,000
Depreciation	₹7,000
(Answer. ₹4,000 Net Loss)	

5. From the following information prepare a balance sheet of a Trader as at 31 st March 2023, arranging the Assets and liabilities (i) in order of permanence and (ii) in order of liquidity.

Goodwill	₹ 15,000.
Bank	₹22,000
Capital	₹1,75,000
Sundry Creditors	₹ 63,000
Liabiliities for expenses	₹ 3,200

Bills receivable	₹ 18,000	
Cash in hand	₹ 1,000	
Plant and Machinery	₹ 40,000	
Investment	₹ 20,000	
Provision for bad debts	₹ 2,500	
Bills payable	₹ 15,700	
Closing stock	₹ 80,000	
Net Profit	₹ 92,600	
Furniture	₹ 24,000	
Sundry Debtors	₹ 50,000	
Drawings	₹ 30,000	
Land and Building	₹ 52,000	
(Answer: Total of Balance Sheet Rs. 3,19,500)		

EXCERCISE

Q6. The Trial Balance of Veer Singh Bros. show the following balances. Prepare Trading and Profit and Loss Account for the year ended 31st March, 2023 and Balance Sheet as on 31st March 2023.

Particulars	₹	Particulars	₹
Capital Account	6,60,000	Cash	15,000
Creditors	36,000	Drawings	24,000
Bank Overdraft	16,500	Freehold Property	2,10,000
Interest on Bank Overdraft	1,650	Plant and Machinery	3,80,000
Debtors	59,400	Computers	1,22,000
Purchases	2,47,400	Rent	6,900
Sales	4,30,950	Insurance and Taxes	12,300
Return Inward	11,400	Fire Insurance Premium	6,000
Return Outward	6,300	Electricity	2,700
Stock (Opening)	18,000	Factory Lighting	5,100
Freight Inward	5,700	Salaries to Storekeeper	8,400
Patents	12,000	Coal, Gas and Power	1,800

The following adjustments are to be made:

- (i) The value of stock in hand on 31.3.2023 was ₹ 50,700.
- (ii) Depreciation to be charged on Computers @ 10% p.a. and on Plant and Machinery @ 5% p.a.
- (iii) Interest on bank overdraft was outstanding ₹ 300.
- (iv) Insurance was prepaid ₹1,500.
- (v) Manager's commission to be provided @ 10% p.a. on Net Profits after charging his commission.
- Ans. Net Profit ₹1,18,727 Capital ₹75,472

 Balance Sheet Total ₹8,19,400

 Gross Profit ₹1,98,550
- **Q7.** From the following figures, prepare Trading and Profit & loss account for the year 31st March, 2023 and a balance sheet as on that date:

on that date.	₹
Opening stock	40,000
Purchases	1,80,000
Sales	3,20,000
Sales returns	5,500
Wages	22,000
Carriage	1,200
Bad debts	600
Bad debts provision	1,000
Sundry debtors	50,300
Sundry creditors	15,800
Office furniture	5,300
Plant and machinery	78,000
Establishment charges	5,100
Advertisement	5,500
Goodwill	10,000
Duty and clearing charges	4,200

Commission (Cr.)	800
Capital	1,20,000
Personal expenses	15,000
Investments	16,100
Cash	16,000
Rent and insurance	2,800

Adjustments:

- 1) Rent outstanding amounted to ₹500 and insurance unexpired amounted to ₹300.
- 2) Commission amounting to ₹120 has been received in advance.
- 3) Write off ₹300 as bad debts and provision for doubtful debts at 2.5% on sundry debtors.
- 4) Depreciate plant and machinery by 5%.
- 5) Wages for March 2021 was unpaid.
- 6) Stock on 31st March, 2023 was ₹ 34,000. (market value ₹ 40,000)

Ans. Net Profit ₹81,130

Balance Sheet ₹2,04,550

Gross Profit ₹99,100

Q8. From the following Trial Balance extracted from the books of Lucky Gupta prepare Trading and Profit & Loss Account for the year ending 31st March, 2023 and a Balance Sheet as at that date:—

Particulars	Dr.(₹)	Cr.(₹)
Furniture	640	
Loose Tools	6,250	
Buildings	7,500	
Capital Account		13,500
Bad-Debts	125	
Provision for Bad-Debts		200
Sundry Debtors and Creditors	3,800	2500
Stock on 1st April, 2022	3,460	
Purchases and Sales	5,475	15,450
Bak Overdraft		2,850

Sales Return and Purchases Return	200	
Stationery	450	
Interest Account	118	
Commission		125
Cash in hand	1,650	
Taxes and Insurance	1,250	
General Expenses	782	
Salaries	3,300	
	35,000	35,000

The following adjustments are to be made:

- (I) Stock in hand on 31st March, 2023 was ₹ 3,250.
- (ii) Depreciate Building at 5% and Furniture at 10%. Loose Tools are revalued at ₹ 5,000 at the end of the year.
- (iii) Salaries ₹ 300 and taxes ₹ 120 are outstanding.
- (iv) Insurance amounting to ₹ 100 is prepaid.
- v) Write off further Bad-Debts ₹100 and provision for Doubtful Debts to be made equal to 5% on Sundry Debtors.
- vi) Half of the stationery was used by the proprietor for his personal purposes.

Ans. Net Profit ₹ 2,171, Gross Profit ₹ 9,690, Balance Sheet ₹ 21,216

- **Q9.** Give journal entries for the following adjustment in final accounts.
 - i) Salaries ₹ 15,000 are outstanding.
 - ii) Insurance amounting to ₹ 20,000 is paid in advance.
 - iii) ₹ 2,000 for rent have been received in advance.
 - iv) Goods cost ₹ 3,000 used by owner.
 - v) Goods worth ₹ 5,000 distributed as free sample.
 - vi) Write off ₹ 1,000 as further bad debts.
 - vii) Commission earned but not received ₹ 2,000.
 - viii) Stock of the value of ₹ 4,000 was destroyed by fire a claim of ₹ 3,000 has been admitted by insurance company.

Q10. From the following balances, prepare Trading, Profit and Loss A/c and Balance Sheet as at 31st March 2023:—

	₹		₹
Stock (1st April 2022)	20,000	Goodwill	16,000
Purchases	2,92,000	Furniture are Fittings	58,000
Duty and Clearing Charges	34,000	Repair Charges	2,900
Capital	1,60,000	Bank	24,000
Sales	5,90,000	Salaries	1,10,000
Rent	10,000	General Expenses	18,000
Returns Inwards	16,000	Debtors	2,30,000
Cash Discount allowed	15,000	Creditors	1,35,000
Cash Discount received	19,000		
Drawings	58,100		

Take the following adjustments into account:

- a) General expenses include ₹ 5,000 chargeable to Furniture purchased on 1st October 2022.
- b) Create a reserve of 5% on debtors for Bad and Doubtful Debts after treating ₹ 30,000 as a bad-debt.
- c) Rent for two months is outstanding.
- d) Depreciation on Furniture and Fittings for the year is to be at the rate of 10% per annum.
- e) Closing Stock was ₹ 42,000, but there was a loss by fire on 20th March to the extent of ₹ 8,000. Insurance Company admitted the claim in full.
- f) (i) Goods costing ₹ 2,500 were used by the proprietor.
 - (ii) Goods costing ₹ 1,500 were distributed as free samples.

Ans. Gross Profit ₹ 2,82,000, Net Profit ₹ 1,00,550, Balance Sheet ₹ 3,36,950.

Q11. The following balances were extracted from the books of Mr. Sandeep Rana on 31st Dec. 2023.

Ledger Accounts	Dr. Balance	Cr. Balance
Capital		24,500
Drawings	2,000	
General Expenses	2,500	
Building	11,000	
Machinery	9,340	
Stock (1.1.2023)	16,200	
Power	2,240	
Taxes and Insurance	1,315	
Wages	7,200	
Sundry Debtors	6,280	
Sundry Creditors		2,500
Charity	105	
Bad Debts	550	
Bank Overdraft		11,180
Sales		65,360
Purchases	47,000	
Scooter	2,000	
Bad Debts Provision		900
Commission		1,320
Trade Expenses	1,780	
Bills Payable		3,850
Cash	100	
Total	1,09,610	1,09610

Prepare final accounts for the year ended 31st Dec. 2023 after taking into account the following:

- 1. Stock on 31st Dec. 2023 was valued at ₹23,500
- 2. Write off further Bad Debts ₹ 160 and maintain the provision for Bad Debts at 5% on Sundry Debtors.
- 3. Depreciate Machinery by 10% and Scooter by ₹ 240.
- 4. Provide ₹ 750 for outstanding interest on bank overdraft.
- 5. Prepaid insurance is to the extent of ₹ 50, Commission receivable amounting to ₹ 50.
- 6. Provide Manager's Commission at 10% on net profit after charging such commission.

Ans. Gross Profit 16,220, Net Profit 9000 Total of Balance sheet: 50,680

Q12. From the following balances of Mr. Ashok. You are required to prepare Trading and Profit & loss account and a Balance Sheet on March 31, 2023.

Debit Balance	₹	Credit Balance	₹
Plant and Machinery	1,30,000	Sales	3,00,000
Debtors	50,000	Return outwards	2,500
Interest	2,000	Creditors	2,50,000
Wages	1,200	Bills payable	70,000
Salary	2,500	Provision for bad debts	1,550
Carriage Inwards	500	Capital Rent received	2,20,000
Carriage Outwards	700	Rent received	10,380
Return Inwards	2,000	Commission received	16,000
Factory rent	1,450		
Office rent	2,300		
Insurance	780		
Furniture	22,500		
Buildings	2,80,300		
Bills receivable	3,000		
Cash in hand	22,500		
Cash at bank	35,000		
Commission	500		
Opening stock	60,000		
Purchases	2,50,000		
Bad debts	3,500		
	8,70,430		8,70,430

Adjustment

- 1. Provision for Bad Debts @ 5% p.a. and further Bad debts ₹ 2,000.
- 2. Rent received in Advance ₹ 6,000.
- 3. Prepaid Insurance ₹ 200.
- 4. Depreciation on furniture @ 5% p.a., Plant and Machinery @ 6% p.a., building @ 7% p.a..
- 5. Closing stock amounting ₹ 70,000 on 31.03.2023.
- 6. Goods costing ₹ 1,000 were used by proprietor.

Ans. Gross Profit 58,350, Net Profit 35,272 Total of Balance Sheet 5,80,275

Q13.(Comprehensive) The following is the Trial Balance of Ali Mushabbar Traders on 31st March, 2023.

Particulars	L.F.	Debit	Credit
		(₹)	(₹)
Purchases / Sales		2,12,000	3,15,000
Stock (1.4.2022)		16,000	
Returns		3,000	1,800
Debtors / Creditors		81,000	16,100
Goodwill		17,000	
Bills Receivable / Bills Payable		8,000	3,900
Machinery		70,000	
Drawings		48,000	
Motor Car		2,30,000	
Provision for Doubtful Debts			1,200
Cash Balance		11,700	
Freehold Property		2,13,000	
Fire Insurance Premium		2,400	
Bad Debts		1,200	
Carriage on Sales		1,350	
Carriage on Purchases		2,350	
Establishment Expenses		3,800	
Horses and Carts		11,000	
Custom Duty		2,100	
Donations (Charity)		3,100	
Loan		,	3,00,000
Interest on Loan		1,000	, , , , , , , ,
Capital Account			3,00,000
		9,38,000	9,38,000

Prepare Trading and Profit & Loss Account and Balance Sheet as at 31st March, 2023 after considering the following adjustments:

(i) Value of goods in hand at the end of the year was ₹ 20,000.

- (ii) Depreciate Machinery @ 10% p.a. and Motor car @ 5% p.a.
- (iii) Provision for doubtful debts to be maintained @ 5% on Debtors.
- (iv) Create provision for discount on Debtors @ 5%.
- (v) Further bad debts are ₹1,400.
- (vi) The manager is entitled to a commission @ 10% on net profit before charging his commission.
- **Ans** Gross profit ₹1,01,350, Net Profit ₹55,835, Total of Balance sheet ₹6,34,039
- **Q14.** Problems based on missing information. Fill in the missing figures in the following.

TRADING AND PROFIT & LOSS ACCOUNT for the year ended 31st March, 2023

Dr. Cr.

Particulars	₹	Particulars	₹
To Opening Stock		By Sales	
To Purchase		Less : Sales Return 5000	
Less : Return 1,000	81,000		
To Wages	1,800	By Closing Stock	20,000
To Carriage Inward	200		
To Gross Profit b/d	17,000		
			1,15,000
To Insurance	600	By Gross Profit b/d	
To Rent	5,000	By Discount received	1,500
To Salaries 12,500			
Add: Outstanding Salaries		By Net Loss	
To Bad Debts 200			
Add: Further Bad Debts 100]		
300			
Add : New Provision			
900			
Less : Old Provision	400		
To Provision for Discount	388		
on Debtors			
To Depreciation			
Building 2,250			
Furniture 700	2,950		
	22,838		22,838

CHAPTER - 9 ACCOUNTS FROM INCOMPLETE RECORDS

Learning Objectives

After studying this topic the students will be able to:

- Define the concept of incomplete records:
- Understand the features, reasons and limitations of Incomplete records.
- Distinguish between Double entry system and Accounts from in complete records.
- Ascertain the amount of profit or loss using "Statement of Affairs method.
- Differentiate between Balance Sheet and Statement of Affairs.
 Prepare Statement of Affairs using given data.
- Prepare Trading and Profit and loss Account and balance sheet from incomplete records.
- Find missing figures by preparing relevant accounts.

Suggested Methodology

- Illustration Method
- Discussion Method

Introduction:

Some small size business entities do not follow the double entry system of maintaining the accounting records instead they maintain books of accounts under the system Accounting from incomplete records. The system in which no set rules of double entry system are followed is called Accounts from incomplete records. Sometimes, it is also termed as 'Single Entry System', since only one aspect of a financial transaction is recorded, at times.

Kohler defines it as, "A system of book keeping in which, as a rule, only records of cash and of personal accounts are maintained; it is always incomplete double entry system, varying with circumstances.

Note: Nominal accounts are not maintained under this system.

FEATURES:

Under this system of maintaining accounts:

- 1. **Maintenance of personal accounts only:** Under this system, only person a accounts are maintained whereas real and nominal accounts are ignored.
- 2. **Maintenance of cash book:** A cash book is maintained under this system which usually mixes up transaction of business as well as private transactions of the proprietor.
- 3. **Dependance on Original Vouchers:** In order to collect the required information, the businessman depends on original vouchers, which may not suffice.
- 4. **Lack of uniformity:** The books maintained under this system may differ from firm to firm because the system is only an adjustment of double entry system as per convenience or actual requirement of the business.
- 5. **Suitability:** This system is usually maintained by a sole trader or a partner ship firm.
- 6. **Preparation of final records:** Final accounts can be prepared only after converting the available information into double entry records and ascertaining the missing figures, which may be just an estimate, at times.
- 7. **Statemen0t of Affairs:** Statement of assets and liabilities is called statement of affairs.

Under this system only the following accounts are maintained:

- Cash book
- The personal accounts
- Some Real accounts according to need, capability and understanding of businessman.

Points to remember

 Accounting Principles and Accounting Standards are not followed properly under this system.

- Original vouchers provide base for preparing the accounts.
- This method is highly flexible because it can be adjusted according to the needs of the organisation.
- Profit or loss is ascertained by either Statement of Affairs. method or Conversion into Double entry Method:

Uses of Incomplete Records

Books according to this system can be maintained only by those small entities in the form of sole Proprietorship or Partnership firms that are not bound to keep records of business transactions as per double entry system. Companies cannot maintain books under this system because of legal provisions.

Reasons for keeping incomplete Records

- 1. **Simple Method:** It is easy and simple as under this method one does not require any special knowledge of the principles for recording of transactions.
- 2. Less Expensive: As under this method only few accounts are prepared therefore business firm does not requires expert staff for recording the transactions. 3. Flexible Method: This method is highly flexible because it can be adjusted according to the needs of the organisation.
- 4. **Suitable for small Concerns:** This method is most suitable to small business concerns which have mostly cash transactions and very few Assets & Liabilities.
- 5. **Easy to calculate profit or/loss:** It is easier to calculate profit or loss under this method.

Limitations of Incomplete Records

- 1. **Incomplete method:** This method is incomplete method of maintaining the accounting records as both the aspects, debits and credits, of every transaction are not recorded.
- Arithmatical Accuracy cannot be checked: Under this system
 no real and nominal accounts are maintained. As such a trial
 balance cannot be prepared to check the arithmetical accuracy of
 the books of accounts.

- 3. **True profit or loss cannot be ascertained:** As under this system all the accounts are not prepared like Nominal A/c which is the base for calculating actual profit. So the profit ascertained under this method is not reliable.
- 4. True financial position of the business cannot be judged: Since real accounts are not maintained. It is not possible to prepare a balance sheet showing the true financial position of the business.
- 5. No recognition in the assessment of income Tax and Sales Tax: The system fails to reveal the true profit and sales of a business. As such, the accounts maintained under the system are not accepted by Tax authorities.
- 6. **Preparation of Trial Balance not possible:** This method does not record both the aspect of a transaction. So trial balance is not possible as all debit and credit items was not there.

Distinction between Single Entry System and Double Entry System

Points of Distinction	Double entry system	ncomplete Records System
(i) Aspects	Both aspects of transactions	One or both aspects of transactions
	are recorded.	may be recorded.
(ii) Types of	All the three types of accounts	Only personal and cash accounts
Accounts	personal real and nominal are	are prepared.
	prepared.	
(iii) Trial Balance	Trail balance is prepared.	Trial Balance cannot be prepared.
(iv) Profit & loss	Profit is ascertained by preparing	It is not possible to prepare Profit and
	profit and Loss Account	Loss Account. Profit is calculated by
		preparing Statement of profit and loss.
(v) Financial	Balance Sheet is prepared to ascertain	Balance Sheet is prepared to
Position	financial position.	ascertain financial position.
(vi) Proof	Accounting records are treated as	Accounting record are not treated
	proof in the Court of Law.	as proof in the Court of Law.
(vii) Tax Authorities	Tax authorities recognise	Tax authorities do not recognise
	this system.	this system.
(viii) Suitability	It is suitable in all types of	It is suitable only in case of
	business concerns.	small business houses.

Ascertainment of Profit or Loss

The main objective of any business enterprise is to earn profits. In case of organization maintaining accounts under incomplete records the amount of profit or loss can be ascertained by following two method

- 1. Statement of affairs method or net worth method
- 2. Conversion in Double entry method (Not in Syllabus)

Statement of Affairs Method

Under this method, Profits or losses of the business are ascertained by comparing the Capital at the end and Capital at the beginning of the accounting period.

- When Capital at the end is more than the capital in the beginning during an Accounting period (with the necessary adjustment) there will be profit. Profits Closing Capital - Opening Capital
- 2. When Capital at the beginning is more than capital at the end during an Accounting Period. (with the necessary adjustment) there will be loss.

Losses = Opening Capital - Closing Capital

Capital at the beginning is calculated by preparing an 'Opening statement of Affairs' and similarly, Capital at the end is calculated by preparing a 'Closing Statement of Affairs.

Note: Under this method two statements are prepared:

- 1. Statement of affairs, for calculating opening and closing capital.
- 2. Statement of profit or loss, for calculating profit or loss.

STATEMENT OF AFFAIRS

A Statement of affairs is a statement showing the balances of assets (including cash and bank balance) on the right hand side and the balance of liabilities on the left hand side, on a particular date. The difference in the total of two sides is known as capital.

Capital = Total Assets - Total liabilities

A Statement of Affairs is very similar to Balance Sheet as prepared for the business entities maintaining accounts under double entry system, through it should not be described as a Balance Sheet.

A Statement of Affairs is prepared as follows:

Statement of Affairs

Liabilities	Amount	Assets	Amount
Bank Overdraft	XXXX	Cash in Hand	XXXX
Sundry Creditors	XXXX	Cash in Bank	XXXX
Bill Payable	XXXX	Bill Receviables	XXXX
Outstanding	XXXX	Sundry Debtors	XXXX
Expenses			
Income Received	XXXX	Storck	XXXX
in Advance			
		Prepaid Expenses	XXXX
Capital	XXXX		
(Balancing Figure)		Accured Income	xxxx
Bank Overdraft	XXXX	furniture	
Bank Overdraft	XXXX	Plant & machinery etc.	XXXX

For ascertainment of profit or loss, the following steps shall be taken:

- **Step 1:** Calculate the amount of 'Opening capital' (If not given in the Question) by preparing Statement of Affairs at the beginning of the accounting period.
- **Step 2:** Calculate the amount of 'Closing Capital' by preparing Thpra' Statement of Affair' at the end of the accounting period.
- **Step 3:** Calculation of Profit or Loss by preparing Statement of profit or Loss in the following manner

Statement of Profit or Loss for the year ended.

Particulars	Details	Amount
Closing Capital	XXX	
Add: Drawing made during the year	XXX	
Less: Additional capital introduced during		
the year Adjusted capital at the end.	XXX	XXX
Less: Opening capital	XXX	XXX
Profit or loss during the year		
(Profit if amount is positive,		XXX
loss if amount is Negative)		
	1	1

Difference between balance sheet and statement of affairs.

Basis	Balance-Sheet	Statement of Affairs
Objective	To know about the financial	To know capital at a point of time.
	position of the business.	
Accounting	Accounts are maintained under.	Accounts are maintain under
method	Double entry system. Based	single entry system. Since it is
Reliability	on actual figures. Balance sheet	based partly on accounts and
	in reliable.	additional information, it is less
		reliable.
Trial balance	Trial balance is not prepared	Trial balance is prepared.
	before balance sheet.	
Arithmetical	The tallying of balance sheet	Statement of affairs does not
	implies arithmetical accuracy	ensure the arithmetical accuracy
		of accounting

Illustration 1: Nishant Raj keeps incomplete records of the business. He gives the following information.

₹

Capital on 1st April 2020 20,000
Capital on 31st march 2021 25,000
Drawings made during the year 4,800

He sold his investment of 1500 at 3% premium and brought that money into the business. You are required to prepare a statement of profit or loss.

Solution: Statement of Profit and Loss for the year 2020-21

Particular Particulars	Details	Amount
Closing Capital	25,000	
Add: Drawing made during the yea	4,800	
	29,800	
Less: Additional capital introduced (1,545)		
(1500+45)		
Adjusted capital at the end		28,255
		(20,000)
Less: Opening capital Profit or loss during the year		8,255

Working Notes: Premium received on selling the investment.

$$=\frac{3}{100}$$
 × 1500 = ₹45

Illustration 2: Ms. Rama started her business on 1 st April 2020 with a capital of 1,00,000. She follows the single entry system. At the end of the year Le on 31st March, 2021 the position of Assets & Liabilities was:

	₹
Cash in hand	20,000
Furniture	30,000
Machinery	45,000
Debtors	15,000
Stock	20,000
Creditors	35,000

During the year, she introduced 15,000 as additional capital. Calculate profit and loss and prepare statement of affairs as on 31.3.21.

Solution:

Statement of Affairs (as at 31st March, 2021)

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	35,000	Cash	20,000
Capital	95,000	Furniture	30,000
(Balancing		Machinery	45,000
Figure)		Debtors	15,000
		Stock	20,000
	1,30,000		1,30,000

Statement of Profit and Loss (for the year ended 31st March 2021)

Particular	Amount (₹)
Closing Capital	95,000
Less: Additional capital	(15,000)
Adjusted capital at the end	80,000
Less: Opening capital	(100,000)
Loss during the year	(20,000)

Illustration 3: Aarushi started a business with a capital of 5,00,000, At the end of the year her position was.

Particular	Amount (₹)
Cash in Handl	15,000
Cash at Bank	70,000
Sundry Debtors	1,20,000
Stock	2,40,000
Furniture	75,000
Machinery	2,00,000

Sundry creditors on this date totalled ₹ 80,000. During the year she introduced a further capital ₹ 1,50,000 and withdrew for household expenses ₹ 90,000. As certain her profit and prepare statement of affairs at the end of year.

Solution:

Statement of Affairs as at 31st March 2021

Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry Creditors	80,000	Cash in Hand	15,000
Capital (Balancing	6,40,000	Cash at Bank	70,000
Figure)		Sundry Debators	1,20,000
		Stock	2,40,000
		Furniture	75,000
	7,20,000	Machinery	2,00,000

Statement of Profit and Loss

Particular	Amount (₹)
Closing at the end	6,40,000
Add : Drawings (Household	90,000
Expenses)	7,30,000
Less: Additional capital	1,50,000
Introduced	5,80,000
Adjusted capital at the end	(5,00,000)
Less: Capital in the beginning profit the year	80,000

Illustration 4: Miss Pooja runs a business. She was not maintaining her accounts on the double entry system. On April, 2020, she started the business with a capital of $\stackrel{?}{\stackrel{}{\sim}}$ 80,000. On March 31, 2022 her incomplete records could provide the following data.

- (i) Amount due to suppliers of raw materials ₹ 17,500.
- (ii) Stock of raw material ₹ 2,000 and finished product.
- (iii) Fixed assets ₹34,000.
- (iv) Amount due from customers ₹42,000.
- (v) She had withdrawn ₹ 2,500 per month for meeting her personal expenses.
- (vi) She had introduced ₹ 7,000 as capital during the year.
- (vii) She has cash at bank ₹21,000 and cash in hand ₹1,800.
- (viii) Outstanding electricity bill ₹ 2,250.

Calculate the profit/loss of her business during the year using statement of affairs method.

Solution:

Statement of Affairs As at 31st March 2021

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors (Supplier)	17,000	Stock:	
Outstanding Electricity Bill	2,250	Raw Material	2,000
Capital (Balancing figure)	83,550	Finished Products	2,500
		Fixed Assets	34,000
		Debtors	42,000
		Cash at Bank	21,000
		Cash at Hand	1,800
	1,03,300		1,03,3000

Statement of Profit and Loss (for the year ended 31st March 2021)

Particular	Amount (₹)
Capital at the end of the year	95,000
Add: Drawings (2,500 × 12)	(30,000)
	1,13,550
Less: Fresh capital introduced	_(7,000)
Adjusted capital at the end	1,06,555
Less: Capital in the beginning	80,000
Profit for the period	26,550

Illustration 5: Mr. Shiva keeps his book by single entry His position on 1st April, 2020 was as follows: cash in hand ₹ 1250; Cash at bank ₹ 1,000. Debtors ₹ 2,000, Stock ₹ 2,500. Furniture ₹ 750, Creditors ₹ 1,500; Plant and Machinery ₹ 3,000 His Position on 31st March, 2021 was follows:

Cash ₹ 300, Debtors ₹ 3,000, Stock ₹ 3,500, Furniture ₹ 1,000, Plant and Machinery, 24,500 Creditors ₹ 72,000 Bank Overdraft ₹ 500.

During the year he withdrew 450 for his domestic expenses and introduced 750 as fresh Capital.

Prepare the Statement of Affairs and ascertain his profit or loss forthe year.

Solution:

Statement of Affairs As on 1st April, 2020

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	15,00	Cash in Hand	1,250
Capital (Balancing figure)	9,000	Cash at Bank	1,000
		Sundry Debtors	2,000
		Stock	2,500
		Furniture	750
		Plant and Machinery	3,000
	10,500		10,500
		•	

Statement of Affairs As on 1st April, 2021

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	2,000	Cash in Hand	300
Bank overdraft	500	Debtors	3,000
Capital (Balancing figure)	9,800	Stock	3,500
		Furniture	1,000
		Plant and Machinery	4,500
	12,300		12,300

Statement of Profit or Loss for the year ended 31st March, 2021

Particular	Amount (₹)
Capital on 31st March 2021	9,800
Add: Drawings	450
	10,250
Less: Capital introduced during the year	(750)
Adjusted capital at the end	9,500
Less: Capital on 1st April 2020	(9,000)
Net profit 2020-21	500

Illustration 6: Mr. Naman Jain started business on January 1, 2020 with a capital of ₹1,00,000.

He immediately bought furniture and fixtures for ₹ 20,000. On 30th June, he borrowed ₹ 50,000 from his wife @ 9% p.a. (interest not yet paid) and introduced a further capital of his own amounting to 11,500. He drew at the rate of ₹ 3,000 per month at the end of each month for his household expenses. On 31st December, 2020 his position was as follows:

	₹
Sundry Debtors	48,000
Bills Receivables	16,000
Cash in Hand	30,000
Stock	68,000
Creditors	5,000
Owing for Rent	1,500

Furniture and Fixtures to be depreciated by 10%

Ascertain the profit or loss made by Naman Jain during 2020

Solution:

Books of Naman Jain Statement of Affairs as on Dec. 31, 2020

3,000
,000
8,000
8,000
6,000
0,000

I. Objective Type Questions: (1 Mark).

Fill in the blanks:

	ini tile blanks.				
1.	Opening Capital of the acpreparing	counting year	is aso	certained	by
		Ans. Opening S	Stateme	ent of Affa	irs
2.	Single Entry System can be ad	dopted by			
			(Ans.	. Small firr	ns
3.	Profit = Closing Capital + opening.			Introduce s. Drawing	
4	Credit sales can be ascertaine	d by preparing	,		
٠.	ordan dalos carros accortante			otal Debto	
5	Credit Purchases can be asce	rtained by prepa	aring	Ассоц	ınt
_		•		tal Credito)rs
6.	From incomplete records, it is				
	(a) Ledger Accounts	• •			
	(c) Statements of Affairs	(d) None of thes	se	(Ans. (c)))
7.	Which of the following items is	not included in 7	Гotal De	btors A/c	
	(a) B/R Dishonoured	(b) Cash receiv	ed from	Debtors	
	(c) Bad Debts	(d) B/P dishone	oured	(Ans. (d))
8.	Which of the following items is	not included sta	itement	of affairs	
	(a) B/R Dishonoured	(b) Prepaid Exp	enses		
	(c) Plant and Machinery	(d) Sundry Geo	ditors	(Ans. (c))

II. Multiple Option Questions

9. Which of the following are correct option and are to be included in the Cash Book:

(a) Cash Purchases

(b) Rent

(c) Additional Capital

(d) Provision for Bad Debts

(Ans. (a))

10. Match the items of column A with appropriate items of Column B:

(i) Credit sales (ii) Credit purchases (iii) Credit purchases (b) Portion of profit retained to meet liability arisen due to bad debts (iii) Single entry system (iv) Provision for bad and doubtful debts Ans. (i) (c), (ii) (a), (iii) (d), (iv) (b)

III. Mr. Raghu started his business on April 1, 2020 with a capital of ₹2,00,000. During the year he introduced more capital of ₹60,000 in the business. He withdraw 40,000 for his personal expenses. On March 31, 2021, his assets and liabilities were as follows:

Loan from Bank ₹ 2,00,000; creditors ₹ 1,60,000; B/R ₹ 2,00,000, Debtors ₹ 3,02,400; Stock ₹ 99,000; Cash at bank ₹ 99,920.

He had no knowledge of accounting principles. Calculate the profit or loss of Mr. Raghu's business for the year 2020-2021 using the statement of Affairs Method.

Ans. Closing capital: ₹7,01,320; Profit: ₹1,21,320.

IV. Hanshu Gupta who keeps his books on single entry, tells you mat his capital on 31-03-2021 was ₹ 28,700 and his capital ont-4-2020 was ₹ 19,200. He further informs you that during the year he withdrow for his household purposes ₹ 8.420 He sold his investments of ₹ 10,000 at 2% premium and brought that money into the business. You are required to calculate profit or loss for the year 2020-21.

Ans. Profit ₹7,720

V. Ansad in the Mr. Anand started a business with a capital of 4,50,000. At the end of the year his position was:

	Amount (₹)
Cash in Hand	15,000
Cash in Bank	75,000
Sundry Debtors	1,10,000
Stock	2,30,000
Furniture	55,000
Building	1,75,000

Sundry creditors at this date totalled ₹ 80,000 During the year he introduced a fresh Capital of ₹ 1,80,000 and withdraw for household expenses ₹ 90,000 You are required to calculate profit or loss during the year.

Ans. Capital 580,000, Profit during the year ₹ 240,000

VI. Ravi started business on Jan 01,2020 with a capital of ₹ 4,50,000 On Dec, 31,2020 his position was as under:

	Amount (₹)
Cash	100,000
Bills Receivable	75,000
Stock	48,000
Land and Building	1,80,000
Furniture	50,000

He owed ₹ 45,000 to her friend Parul on that date. He withdrew ₹ 8,000 per month for household purposes. Ascertain his Profit or loss for the year ended Dec. 31, 2020.

Ans. Closing capital ₹4,07,000; Profit ₹54000.

VII. Ms. Anjam does not keep proper records of business. Calculate her net loss or net profit during the year.

	Amount (₹)
Owner's capital at the beginning of the year	15,000
Bills Receivable	75,000
Cash in hand	1,10,000
Furniture	2,30,000
Creditors	55,000
Stock in trade	55,000
Further capital introduced	55,000
Drawings made during the period	55,000

Ans. Closing Capital 16,40,000; Loss 2,00,00

VIII. Mr. Mehta keeps incomplete records. His Assets and liabilities were as under.

	31st March, 2020	31st March, 2020
	Amount (₹)	Amount (₹)
Cash	2,000	900
Sundry Debtors	39,000	45,000
Stock	34,000	32,000
Plant and Machinery	60,200	80,000
Sundry Creditor	15,000	14,000
Bills Payable	_	5,000

During the year, he introduced 10,000 as new capital. He withdraw 3,000 every month for his household expenses. Ascertain his Profit for the year ended 31st March 2021.

Ans. Opening Capital 1,20,000; Closing Capital 1,38,000; Profit 44000

IX. Mrs. Pooja started with a capital of ₹ 40,000 on 1st July, 2020. She borrowed from her friend a sum of ₹ 100,000 @ 10% per annum (Interest paid) for business and brought further amount for capital ₹ 7500. On December 31,2020 her position was:

	Amount (₹)
Cash	3,000
Stock	47,000
Debtors	35,000
Creditors	30,000

She withdraw 800 per month for the year calculate profit or loss for the year.

Ans. (Closing Capital ₹45,000; Profit 2300.

X. Problems based on missing information full in the missing figures in the following:

Statement of Affairs As on 31st December, 2020

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	80,000	Cash	
loan		Stock	1,80,000
Capital at the end	1,50,000	Debtors	1,40,000
			350,000

Statement of Profit for the year ending 31st December, 2018

Particular	Amount (₹)
Capital at the end	150,000
Add: Drawings	
	1,74,000
Less: Additional Capital	40,000
Less: Opening Capital	
	1,00,000
profit made during the year	

Ans. Profit during the year 34,000.

Test Your Learnings

A. MCQ's

1.	Statement of affairs is a		
	(a) Statement of income and e	expenditure	
	(b) Statement of assets and liabilities		
	(c) Summary of cash transact	ions	
	(d) Summary of credit transac	tions	
2.	Generally, incomplete records	s are maintained by	
	(a) Trader	(b) Society	
	(c) Company	(d) Government	
3.		60,000, drawings ₹ 5.000, capital ₹ 10,000, closing capital ₹ 90,000. ing the period will be	
	(a)₹20,000	(b)₹25,000	
	(c)₹30,000	(d)₹40,000	
4.	Liabilities and assets amorespectively. The difference a	ount to ₹ 50,000 and ₹ 78,000 mount will represent	
	(a) Creditors	(b) Debentures	
	(c) Profit	(d) Capital	
5.	A system of accounting that is is called	not based on a double-entry system	
	(a) Cash system		
	(b) Mahajani system of accou	nting	
	(c) Incomplete accounting sys	stem	
	(d) None of these		
6.	Credit purchase during the ye	ar is ascertained by preparing	
	(a) Total creditor's account		
	(b) Total debtor's account		
	(c) Cash account		
	(d) Opening statement of affair	irs	

7.	Accounts that are maintained	under a single en	try system is
	(a) Personal accounts		
	(b) Impersonal accounts		
	(c) both (a) and (b)		
	(d) None of these		
8.	The single entry system can b	e adopted by	
	(a) Small firms	(b) Joint Stock C	companies
	(c) Co-operative Societies	(d) None of thes	е
9.	Opening capital is ascertained	d by preparing	
	(a) Total debtor's account		
	(b) Total creditor's account		
	(c) Cash account		
	(d) Opening statement of affai	rs	
10.	When closing capital exceeds	opening capital,	this means
	(a) Profit		
	(b) Profit, if there is no introduc	ction of fresh capi	tal
	(c) No Profit or no Loss		
	(d) Loss		
11.	If opening capital is Rs. 0 are profit or loss is	nd closing capital	is Rs. 5,000, then
	(a) Loss of Rs. 5.000	(b) Profit of Rs. 2	.500
	(c) Profit of Rs. 5,000	(d) None of these	e
12.	Incomplete record mechanism	n of bookkeeping	is
	(a) Scientific	(b) Unscientific	
	(c) Unsystematic	(d) Both (b) and	(c)
13.	Statement of affairs is prepare	ed to	
	(a) Know about assets	(b) Know about I	iabilities
	(c) Calculate capital	(d) Know financi	al position
14.	Accounts are usually held usir	ng a single entry s	cheme by
	(a) Society	(b) Company	
	(c) Sole trader	(d) Government	
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15. In	complete records are generally maintained by
(a)Acompany
(b) Government
(c) Small-sized sole trader business
(d) Multinational enterprises
B. Fi	II in the Blanks:
1.	Statement of Affairs is just like
2.	Under Single Entry System, Profit – Closing Capital Less
3.	In order to find out the correct profit, drawings are capital to the closing capital.
4.	In Book Keeping System, in every business transactions we find two effects.
5.	The difference between Assets and Liabilities is called
6.	Single Entry System is more popular for
7.	Additional Capital introduced during the year isCapital in order to find out the correct profit. from Closing.
8.	Single Entry System is Suitable forbusiness.
9.	Capital in the beginning of the accounting year is ascertained by preparing Statement of Affair.
10.	Capital at the end of the accounting year is ascertained by preparing Statement of Affair.
C. Tru	ue or False:
1.	Double Entry System of Book-keeping is scientific method of books of accounts.
2.	Preparation of Trial Balance is not possible under Single Entry System.
3.	Statement of Affairs and Balance Sheet are one and the same.
4.	Single Entry System is not useful for large organization.
5.	Only Cash and Personal accounts are maintained under Single Entry System.

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his/herguidance.
Name of the Project :
Name of Student:
Class:Section:
School Name:

COMPREHENSIVE PROJECT

Mr. Ravi Kumar completed his post-graduation from IIM Ahmadabad with masters in Business Administration (MBA) and International Relations. He has decided to purchase an existing business in Chennai which has been adversely affected by the flood. He is extremely inclined towards providing employment to the people in the affected areas nearby.

The owners of a business concern Mohan Bros, are in no position to recover the former condition of their factory and have therefore decided to sell it.

Mr. Ravi Kumar purchased the business of Mohan Bros, on 1st April 2021. The business is mainly concerned with manufacturing electronic goods i.e. Pen Drives, Battery Chargers, USB Cables etc.

Following assets were taken over by Mr. Ravi Kumar on the above mentioned date:

Land and Building	₹1,00,000
Plant and Machinery	₹80,000
Furniture & Fittings	₹25,000
Stock	₹30,000
Office Equipment	₹10,000

Mr. Ravi Kumar paid $\ref{2,50,000}$ as purchase consideration. On the same day he brought $\ref{2,50,000}$ as his capital and took loan of $\ref{50,000}$ from the bank @ 8% p.a. interest and borrowed $\ref{20,000}$ from his Friend @ 6% p.a. interest to meet the working capital requirements.

His transactions during the accounting period were as follows:

- 1. Total Purchases ₹ 2,80,000 including credit purchases worth ₹2,00,000.
- 2. He invested ₹ 20,000 in debentures of Reliance Limited.
- 3. Total Sales ₹4,80,000 including credit sales worth ₹1,80,000.

Direct Expenses:

Wages	₹35,000
Manufacturing expenses	₹5,000
Factory Lighting	₹2,000
Carriage inwards	₹1,000

Commission on purchases	₹1,500
Freight	₹5,000

Indirect Expenses:

Salaries	₹20,000
Office Rent	₹1,000
Postage and Telephone exp	₹500
Stationery	₹300
Water & Electricity (office)	₹1,200
Conveyance	₹800
Advertising	₹1,200

- (I) He withdrew ₹ 6,000 from the business to buy a second-hand Laptop, for personal use.
- (ii) Goods worth ₹ 3,000 given as free samples,
- (iii) Amount received from debtors ₹ 10,000 by cheque.
- (iv) Paid to Creditors ₹ 1,20,000 by cheque.
- (v) Interest paid on Bank Loan ₹2,800.
- (vi) Interest paid on Friend's Loan ₹ 1,000.
- (vii) Bills Receivable received from debtors ₹8,000.
- (viii) Bill accepted in favour of creditors ₹ 10,000.
- (ix) Interest Received on investment ₹ 1,000. You are required to :
 - (i) Give journal entries for these transactions and post them into ledger account and prepare a Trial Balance.
 - (ii) Prepare Trading Account, Profit and Loss Account and Balance Sheet considering the following adjustments:
 - (a) Interest is outstanding on Bank Loan ₹ 1,200 and on Friend's Loan ₹ 200.
 - (b) Plant and Machinery is to be depreciated by 5% and Furniture by 10%.
 - (c) Closing Stock ₹35,000.
 - (d) Wages outstanding ₹3,000 and office rent outstanding ₹500.

Journal

Date	Particulars		L.F.	Dr. (()	Cr. (()
2021 1 Apr.	Bank A/c To Capital A/c. (Being capital introduced by Ravi)	Dr.		2,00,000	2,00,00
2021 1 Apr.	Land and Building A/c Plant and Machinery A/c Furniture & Fittings A/c Stock A/c Office Equipments A/c Goodwill A/c (Bal. Fig.) To Bank A/c (Being assets purchased)	Dr. Dr. Dr. Dr. Dr.		1,00,000 80,000 25,000 30,000 10,000 5,000	2,50,000
	Bank A/c To 8% Bank Loan A/c. (Being Loan obtained from bank)	Dr.		50,000	50,000
	Bank A/c To 6% Friend's Loan (Being Loan obtained)	Dr.		20,000	20,000
	Purchases A/c To Bank A/c (Being Loan purchased)	Dr.		80,000	80,000
	Purchases A/c To Creditors A/c (Being goods purchased)	Dr.		2,00,000	2,00,000
	Investment A/c To Bank A/c (Being money invested in shares of Reli	Dr. ance Ltd.)		20,000	2,00,000
	Bank A/c To Sales A/c (Being goods sold on cash basis)	Dr.		3,00,000	3,00,000
	Debtors A/c To Sales A/c (Being goods sold on cash credit)	Dr.		1,80,000	1,80,000

Date	Particulars		L.F.	Dr. (()	Cr. (()
	Wages A/c To To Bank A/c (Being wages paid)	Dr.		35,000	35,000
	Manufacturing Expense A/c To Bank A/c (Being manufacturing expenses paid)	Dr.		5,000	5,000
	Factory Lighting A/c To Bank A/c (Being factory expenses paid)	Dr.		2,000	2,000
	Carriage Inwards A/c To Bank A/c (Being expenses on purchase paid)	Dr.		1,000	1,000
	Commissions of Purchase A/c A/c To Bank A/c (Being commission paid)	Dr.		1,500	1,500
	Freight A/c To Bank A/c (Being freight expenses paid)	Dr.		5,000	5,000
	Salaries A/c To Bank A/c (Being salaries paid)	Dr.		20,000	20,000
	Office Rent A/c To Bank A/c (Being office rend paid)	Dr.		1,000	1,000
	Postage and Telephone A/c To Bank A/c (Being postage & telephone expense pa	Dr.		500	500
	Stationary A/c To Bank A/c (Being stationary expenses paid)	Dr.		300	300
	Water & Electricity A/c To Bank A/c (Being water & electricity expense pa	Dr id)		1,200	1,200

Date	Particulars		L.F.	Dr. (()	Cr. (()
	Conveyance A/c To Bank A/c (Being conveyance expenses paid)	Dr.		800	800
	Advertising A/c To Bank A/c (Being advertising expenses paid)	Dr.		1,200	1,200
	Drawing A/c To Bank A/c (Being withdrawn for personal use)	Dr.		6,000	6,000
	Advertising A/c To Purchases A/c (Being goods give as free samples)	Dr.		3,000	3,000
	Bank A/c To Debtors A/c (Being cash received from Debtors)	Dr.		10,000	10,000
	Creditors A/c To Bank A/c (Being cash paid to Creditors)	Dr.		1,12,000	1,12,000
	Interest on Bank Loan To Interest outstanding on Bank L To Bank A/c (Being interest paid & outstanding on Ba			4,000	1,200 2,800
	Interest on Friend's Loan To Bank A/c To outstanding Interest on Friend's L (Being interest paid on Friend's Loan)	Dr.		1,200	1,000 200
	Bills Receivable A/c To Debtors A/c (Being B/R received from debtors)	Dr.		8,000	8,000
	Creditors A/c To Bank Payable A/c (Being bill accepted in favour of Credit	Dr. ors)		10,000	10,000
	Bank A/c To Int. on Investment A/c (Being Interest received on investment)	Dr.		1,000	1,000

Preparation of Ledger:

Dr. Bank Account Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
	To Capital A/c	2,00,000		By Land and Building A/c	1,00,000
	To 8% Bank Loan A/c	50,000		By Plant and Machinery A/c	80,000
	To 6% Friend's Loan	20,000		By Furniture 8s Fittings A/c	25,000
	To Sales A/c	3,00,000		By Stock A/c	30,000
	To Debtors A/c	10,000		By Office Equipment A/c	10,000
	To Int. on Investment A/c	1,000		By Goodwill A/c	5,000
				By Purchases A/c	80,000
				By Investment A/c	20,000
				By Wages A/c	35,000
				By Manufacturing Exp. A/c	5,000
				By Factory Lighting A/c	2,000
				By Carriage Inward A/c	1,000
				By Commissions on Purchase	1,500
				By Freight A/c	5,000
				By Salaries A/c	20,000
				By Office Rent A/c	1,000
				By Postage & Telephone A/c	500
				By Stationery A/c	300
				By Water & Electricity A/c	1,200
				By Conveyance A/c	800
				By Advertising A/c	1,200
				By Drawings A/c	6,000
				By Creditors A/c	1,20,000
				By Int. on bank loan	2,800
				By Int. on Friend's loan	1,000
				By Balance c/d	26,700
		5,81,000			5,81,000

Dr. Capital Account

Date	Particulars	₹	Date	Particulars	₹
	To Balance c/d	2,00,000		To Balance c/d	2,00,000
		2,00,000			2,00,000

Land and Building Account

Dr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank	1,00,000		To Balance c/d	1,00,000
		1 00 000			1 00 000

Plant and Machinery Account

Dr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank	80,000		To Balance c/d	80,000
		80,000			80,000

Furniture & Fittings Account

Dr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank	25,000		To Balance c/d	25,000
		25,000			25,000

Stock Account

Dr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank	30,000		To Balance c/d	30,000
		30,000			30,000

Office Equipment Account

Dr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank	10,000		To Balance c/d	10,000
		10.000			10.000

Cr.

Cr.

Cr.

Cr.

Goodwill	Equipment	Account
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Dr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank	5,000		To Balance c/d	5,000
		5,000			5,000

Dr. 8% Bank Loan Account Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Balance c/d	50,000		To Balance Ac	50,000
		50,000			50,000

Dr. 6% Friend's Loan Account Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Balance c/d	20,000		To Balance Ac	20,000
		20,000			20,000

Dr. Purchases Account Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	80,000		To Advertising	3,000
	To Creditors A/c	2,00,000		To Balance c/d	2,77,000
		2,80,000			2,80,000

Dr. Creditors Account Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	1,20,000		By Purchases A/c	2,00,000
	To Bill Payable A/c	10,000		To Balance c/d	
	To Balance c/d	70,000			
		2,00,000			2,00,000

Dr. Investment Account Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	20,000		By Purchase c/d	20,000
		20,000			20,000

Dr.	Sales Account	Cr.
Dr.	Sales Account	С

Date	Particulars	₹	Date	Particulars	₹
	To Bank c/d	4,80,000		By Bank A/c By Debtors A/c	3,00,000 1,80,000
		4,80,000			4,80,000

Dr. Wages Account Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	35,000		By Balance c/d	35,000
		35,000			35,000

Dr. Manufacturing Expenses Account Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	5,000		By Balance c/d	5,000
		5,000			5,000

Dr. Factory Lighting Account Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	2,000		By Balance c/d	2,000
		2,000			2,000

Dr. Carriage Inwards Account Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	1,000		By Balance c/d	1,000
		1,000			1,000

Dr. Commissions on Purchase Account Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	1,500		By Balance c/d	1,500
		1,500			1,500

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	5,000		By Balance c/d	5,000
		5,000			5,000

Dr. Salaries Account Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	20,000		By Balance c/d	20,000
		20,000			20,000

Dr. Office Rent Account Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	1,000		By Balance c/d	1,000
		1,000			1,000

Dr. Postage and Telephone Account Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	500		By Balance c/d	500
		500			500

Dr. Stationery Account Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	300		By Balance c/d	300
		300			300

Dr. Water and Electricity Account Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	1,200		By Balance c/d	1,200
		1,200			1,200

Dr.		Conveyand	ce Accou	nt	Cr.
Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	800		By Balance c/d	800
		800			800
Dr.	Advertising Account				
Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	1,200		By Balance c/d	4,200
	To Purchases A/c	3,000			
		4,200			4,200
Dr.		Drawing	Account		Cr.
Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	6,000		By Balance c/d	6,000
		6,000			6,000
Dr.	Interest on Bank Loan Account				Cr.
Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	2,800		By Balance c/d	2,800
		2,800			2,800
Dr.	Interes	st on Friend	d's Loan <i>i</i>	Account	Cr.
Date	Particulars	₹	Date	Particulars	₹
	To Bank A/c	1,000		By Balance c/d	1,000
		1,000			1,000
Dr.	Bill Receivable Loan Account				
Date	Particulars	₹	Date	Particulars	₹
	To Debtors A/c	8,000		By Balance c/d	8,000
		8,000			8,000
Dr.		Bill Payabl	le Accoui	nt	Cr.
Date	Particulars	₹	Date	Particulars	₹
1	1			1	. 7

10,000

10,000

By CreditorsA/c

10,000

10,000

To Balance c/d

Date	Particulars	₹	Date	Particulars	₹
	To Balance d/d	1,000		By Bank A/c	1,000
		1,000			1,000

Trial Balance as on 31 March

Particulars	Debit (₹)	Credit (₹)
Bank A/c	26,700	0.00.000
Capital A/c		2,00,000
Land and Building A/c	1,00,000	
Plant and Machinery A/c	80,000	
Furniture & Fittings A/c	25,000	
Stock A/c	30,000	
Office Equipment A/c	10,000	
Goodwill A/c	5,000	
8% Bank Loan A/c		50,000
6% Friend's Loan A/c		20,000
Purchases A/c	2,77,000	
Creditors A/c		70,000
Investment A/c	20,000	
Debtors A/c	162,000	
Sales A/c		4,80,000
Wages A/c	35,000	
Manufacturing Expenses A/c	5,000	
Factory Lighting A/c	2,000	
Carriage Inward A/c	1,000	
Commissions on purchase A/c	1,500	
Freight A/c	5,000	
Salaries A/c	20,000	
Office Rent A/c	1,000	
Postage and Telephone Exp. A/c Stationery A/c	500 300	
Water and Electricity A/c	1,200	

Conveyance A/c	800	
Advertising A/c	4,200	
Drawings A/c	6,000	
Interest on Bank Loa	2,800	
Interest on Friend's Loan	1,000	
Bills Receivable	8,000	
Bills Payable		10,000
Int. on Investment		1,000
	8,31,000	8,31,000

Trading Account for the year ending 31 March, 2022

Dr.			Cr.
Particulars	(₹)	Particulars	(₹)
To Opening Stock	30,000	By Sales	4,80,000
To Purchases	2,77,000	By Closing Stock	35,000
To Wages 35,000			
Add: Outstanding 3,000	38,000		
To Manufacturing Exp.	5,000		
To Factory Lighting	2,000		
To Carriage Inward	1,000		
To Commissions on purchase	1,500		
To Freight	5,000		
To Gross Profit	,55,500		
	5,15,000		5,15,000

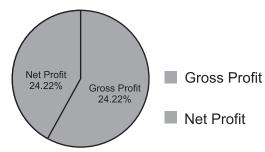
Profit and Loss Account for the year ending 31 March, 2022

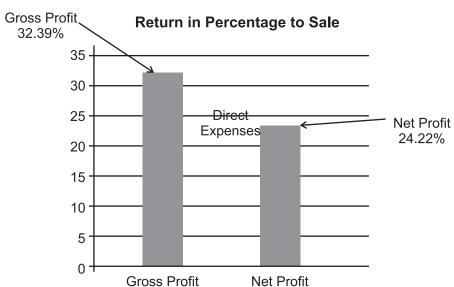
tor the year e	nuing si i	viarcii, 2022	
Particulars	(₹)	Particulars	(₹)
To Salaries	20,000	By Gross Profit b/d 1,	5,500
To Office Rent 1,000	Ву	Int. on Investment	1,000
Add: Outstanding 500	1,500		
To Postage & Telephone	500		
To Stationery	300		
To Water 8s Electricity	1,200		
To Conveyance	800		
To Advertising	4,200		
To Int. on Bank Loan	2,800		
Add: Outstanding 1,200	4,000		
To Int. on Friend's Loan	1,200		
(1,000 + 200 due)			
To Dep. on plant 8& machinery	4,000		
To Dep. on Furniture	2,500		
To Net Profit	1,16,300		
	1,56,500		1,56,500

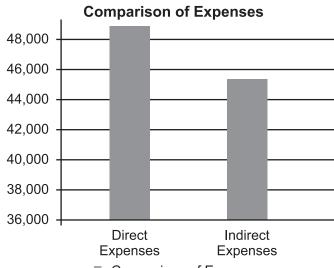
Balance Sheet As on date 31, March 2022

Liabilities		(₹)	Assets		(₹)
Capita		2,00,000	Goodwill		5,000
Add : N/P	1,16,300		Land and Building		1,00,000
Less : Drawings	6,000	3,10,300	Plant and Machinery	80,000	
8% Bank Loan	50,000		Less : Depreciation	4,000	76,000
Add: Interest due	1,200	51,200	Furniture & Fittings	25,000	
6% Friend's Loan	20,000		Less : Depreciation	2,5002	2,500
Add: Interest due	200	20,200	Office Equipment	10,000	
Creditors		70,000	Investment		20,000
Bills Payable		10,000	Debtors		162,000
Wages Outstanding		3,000	Bills Receivable		8,000
Office Rent Outstand	ing	500	Closing Stock		35,000
			Bank		26,700
		4,65,200			4,65,200









 Comparison of Expenses
 Comparison of Gross Profit with Similar Firm Comparison of Gross Profit

COMPREHENSVIE PROJECT

Situation: On 1st January 2017, Mr. Vipul decided to start a computer Hardware store and decides to sell various components of computer Hardware. He purchased a Building for ₹18,00,000 for this purpose. Since he had shortage of funds, so he secured a Loan of ₹6,00,000.

(a) 10% per annum from State Bank of India. This loan was payable in three equal instalments along with interest due on 31 December 2017. He had following transactions for his business:

	Transactions	Amount (₹)
1.	Purchased computer Hardwares	4,00,000
2.	Purchased furniture	1,90,000
3.	Bought Computer Accessories	2,20,000
4.	Sale of Computer Accessories	17,50,000
5.	Wages paid	1,30,000
6.	Salaries Paid to staff	3,20,000
7.	Electricity charges	1,21,800
8.	Advertisement charges	1,05,000
9.	Postage charges	13,500
10.	General Expenses	21,000
11.	Insurance Premium paid	48,000
12.	Bought Laptop and Printer for office use	70,000
13.	Security deposited for Electricity Connection with NDPL	40,000
14.	Security Deposited with MTNL for telephone and Internet connection	1,10,000

Beside these, he also withdrew ₹20000 per month for his personal use out of his business.

You are required to

- (i) Journalise all above transactions in the books the firm named "Computer Solutions."
- (ii) Prepare necessary Ledger Accounts showing postings of all journal entries.
- (iii) Prepare Trial Balance.
- (iv) Prepare financial statements of the firm for the year ended 31st December 2018 showing.
 - (a) Trading and Profit and loss A/C
 - (b) Balance Sheet

You also need to consider the following additional informations -

- (a) Depreciater building by 5% and furniture by 10% per annum.
- (b) Salary outstanding ₹ 16000 at the end.
- (c) Insurance prepaid ₹ 6500 at the end.
- (d) Closing stock of computer Accessories is Rs. 9500

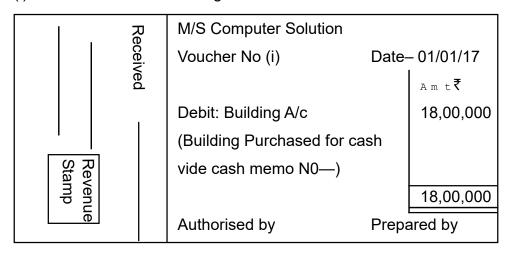
Solution	Journal of		"C	omputer	Solutions"
Date	Particulars		L.F.	Debit ₹	Credit ₹
2017					
Jan 01	Building A/C	Dr.		18,00,000	18,00,000
	To Capital A/C				
	(Capital invested in the				
	business by way of Buil	ding)			
Jan 01	Bank A/C	Dr.		6,00,000	
	To Bank loan A/C				6,00,000
	(Loan taken from SBI)				
Jan 01	Purchases A/C			4,00,000	
	To Bank A/C				4,00,000
	(Computer Hardwares				
	purchased)				

Furniture A/C	Dr.		1,90,000
To Bank A/C			1,90,000
(Furniture purchased)			
Purchases A/C	Dr.	2,20,000	
To Bank A/C			2,20,000
(Computer Accessories			
Purchased)			
Bank A/C	Dr.	17,50,000	
To sales A/C			17,50,000
(Computer Accessories	sold)		
Wages A/C	Dr.	1,30,000	
Salaries A/C	Dr.	3,20,000	
Electricity charges A/C	Dr.	1,21,800	
Advertisement A/C	Dr.	1,05,000	
Postal charges A/C	Dr.	13,500	
General Expenses A/C	Dr.	21,000	
Insurance A/C	Dr.	48,000	
To Bank A/C			7,59,300
(Various expenses incur	red)		
Laptop and printer A/C	Dr.	70000	
To Bank A/C			70,000
(Laptop and Printer			
Purchased for Business)			
NDPL A/C Dr.		40,000	
MTNL A/C Dr.		1,10,000	
To Bank A/C			1,50,000
(Security deposit for Electronnection and Internet connection)	ctricity		

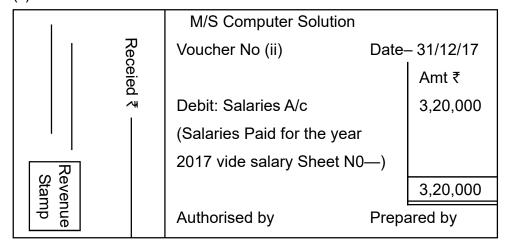
	Drawings A/C To Bank A/C (Drawing made @ Rs. 20 pm)	Dr.),000	2,40,000	2,40,000
31 Dec	Interest on Bank Loan A/C To Bank loan A/C (Interest due @ 10% pa on Rs. 6,00,000)	Dr.	60,000	60,000
2017				
31 Dec	Bank Loan A/C To Bank A/C (Interest on loan along with loan paid i.e., 60,00 + 2,00,000)	Dr. 00	2,60,000	2,60,000
31 Dec	Depreciation A/C To Building A/C To Furniture A/C (Depreciation charged of Building and Furniture)	Dr. n	1,09,000	90,000 19,000
31 Dec	Salary A/C To O/S salary A/C (Salary outstanding)	Dr.	16,000	16,000
31 Dec	Prepaid Insurance A/C To Insurance A/C (Insurance prepaid)	Dr.	6,500	6,500

Sample Vouchers—

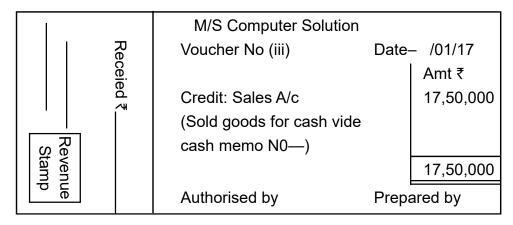
(i) For Purchase of Building



(ii) For Pament of Salaries.



(iii) For sales (Cash)



M/S Computer Solutions		
Voucher No (iv)	Date	31/12/17
Debit : Depreciation A/c		19,000
Credit: Furniture A/c		19,000
(Deprecialron Charged on furnitare		19,000
@ 10% p.a. on ₹ 1,90,000)		
Authorised by	Prepa	ared by

Preparation of Ledger Accounts

Dr.	Building Account						Cr.
Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
01/01/17	To Capital A/c		18,00,000	31/12/17	By Deprec- iation A/C		90000
01/1/18	To Balance b/d		18,00,000 17,10,000	31/12/17	By Balance cld		17,10,000

	Bank Account						
Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹ 4,00,000
01/1/17	To Bank loan kdk A/c		6,00,000		By Purchases A/C		220,000 4,00,000
	To Sales A/C		17,50,000		By Purchases		
					A/C		220,000
					By Furniture A/C		1,90,000
					By Wages A/C		1.30,000
					By Salaries A/C		3,20,000
					By Electricity		
					Charges A/C		1,21,800
					By Advertise-		
					A/C ment		1,05,000
					By Postal		13,500
					Charges A/C		
					By General		21,000
					Expenses A/C		
					By Insurance A/C		48,000
					By Laptop and		
					Printer A/C		70,000
					By NDPL A/C		40,000
					By MTNL A/C		1,10,000
					By Drawings A/C		2,40,000
					By Bank loan A/C		2,60,000
				31/12/17	By balance		
					c/d		60,700
			23,50,000				23,50,000
01/1/18	To Balance b/d		60700				

Dr.	Capital Account	Cr.
-----	-----------------	-----

Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
31/12/17	To Balance c/d		18,00,000 18,00,000		By Building A/c		18,00,000
			10,00,000	01/1/18	By Balance b/d		18,00,000

Dr. Bank loan Account Cr.

Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
31/12/17	To Bank A/C		2,60,000	01/1/17	By Bank A/C		6,00,000
31/12/17	To Balance		4,00,000	31/12/17	By Interest on		60,000
					Bank Loan A/C		
			6,60,000				6,60,000
				01/1/18	By Balance b/d		4,00,000

Dr. Purchases Account Cr.

Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
	To Bank A/C		4,00,000	31/12/17	By Trading A/C		6,10500
	To Bank A/C		2,20,000		By closing stock		9,500
			6,20,000				6,20,000
	To Bank A/C		, ,		By closing stock		

Dr. Furniture Account Cr.

Date	Particular	J.	Amt ₹	Data	Particular	J.	Amt ₹
		F.				F.	
01/1/17	To Bank A/C		1,90,000	31/12/17	By Depreciation		19000
					A/C		
				31/12/17	By Balance c/d		1,71000
			1,90,000				190,000
01/1/18	To Balance b/d		1,71,000				
			_				

Dr.		Sales Account									
Date 31/12/17	Particular To Trading A/o	J.	Amt ₹	Data	Particular	J. F.	Amt ₹				
			17,50,0	00	By Bank A/c		17,50,000				
			17,50,0	00			17,50,000				
Dr. Wages Account Cr.											
Date	Particular	J.	Amt ₹	Data	Particular	J.	Amt ₹				
	To Bank A/C	F.	1,30,000	31/12/17	By Trading A/c	F.	1,30,000				
			1,30,000				1,30,000				
Dr.		Elec	tricity Cha	ges Acco	unt		Cr.				
Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹				
	To Bank A/C		1,21,800	31/12/17	By Profit and Loss A/C		1,21,800				
1				I	1	1					

Dr.	Advertisement Account								
Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹		
	To Bank A/C		1,05,000	31/12/17	By Profit and Loss A/C		1,05,000		
			1,05,000				1,05,000		

1,21,800

Dr.	Postal Charges Account									
Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹			
	To Bank A/C		13500	31/12/17	By Profit and Loss A/C		13500			
			13500				13500			

Dr.	General Expenses Account									
Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹			
	To Bank A/c		21000	31/12/17	By Profit and Loss A/C		21000			
			21000				21000			

1,21,800

Salaries Account	Cr.
	Salaries Account

Date	Particular	J.	Amt ₹	Data	Particular	J.	Amt ₹
		F.				F.	
	To Bank A/c		3,20,000	31/12/17	By Profit and		3,36,000
	Tools salary				Loss A/c		
	A/c		3,36,000				3,36,000

Dr. Insurance Account Cr.

Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
	To Bank A/C		48000		By Prepaid Insurance A/C		6500
				31/12/17	By Profit and Loss A/C		41,500
			48,000		2003740		48,000

Dr.	Or. Laptop and Printer Account						
Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
	To Bank A/C		70000	31/12/17	By Balance c/d		70000
			70000]	-		70000
01/1/18	To Balance		70000				

Dr. **NDPL Account** Cr.

Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
	To Bank A/C		40000	31/12/17	By Balance c/d		40000
			40000				40000
01/1/18	To Balance b/d		40,000				

Dr. MTNL Account Cr.

Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
	To Bank A/C		1,10,000	31/12/17	By Balance c/d		1,10,000
			1,10,000				1,10,000
01/1/18	To Balance b/d		1,10,000				

	Drawings Account
--	-------------------------

Dr.

Date	Particular	J.	Amt ₹	Data	Particular	J.	Amt ₹
		F.				F.	
	To Bank A/C		2,20,000	31/12/17	By Balance c/d		2,40,000
			2,40,000				2,40,000
01/1/18	To Balance b/d		2,40,000				

Dr. Interest on Bank Ioan Account Cr.

Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
31/12/17	To Bank Loan A/C		60000	31/12/17	By Profit and Loss A/C		60000
			60000				60000

Dr. **Depreciation Account** Cr.

Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
31/12/17	To Building A/ C		90,000	31/1/17	By Profit and Loss A/C		1,09,000
31/12/17	To Furniture A/C		19,000				
			1,09,000				1,09,000

Dr. Outstanding Salary Account

Date	Particular	J.	Amt ₹	Data	Particular	J.	Amt ₹
		F.				F.	
31/12/17	To Balance		16000	31/12/17	By Salary A/C		16000
	c/d						
			16000			l ,	16000
				01/1/18	By Balance b/d		16000

Dr. **Prepaid Insurance Account** Cr.

Date	Particular	J. F.	Amt ₹	Data	Particular	J. F.	Amt ₹
31/12/17	To Insurance A/C		6500	31/12/17	By Balance c/d		6500
			6500				6500
01/1/18	To Balance b/d		6500				

Cr.

Cr.

S.No.	Name of the Account	Debit	Credit
1.	Building A/C	17,10,000	_
2.	Bank A/C	60,700	_
3.	Capital A/C	_	800,000
4.	Bank Loan A/C	_	4,00,000
5.	Purchases A/C	6,20,000	-
6.	Furniture A/C	1,71,000	-
7.	Sales A/C	_	17,50,000
8.	Wages A/C	1,30000	-
9.	Salaries A/C	3,20,000	_
10.	Electricity Charges A/C	1,21,800	_
11.	Advertisement A/C	1,05000	_
12.	Postal Charges A/C	13,500	-
13.	General Expenses A/C	21,000	-
14.	Insurance A/C	48,000	-
15.	Laptop and Printer A/C	70,000	-
16.	NDPL A/C (Security)	40,000	-
17.	MTNL A/C (Security)	1,10,000	-
18.	Drawings A/C	2,40,000	-
19.	Interest on Bank Loan A/C	60,000	-
20.	Depreciation A/C	1,09,000	-
21.	Outstanding Salary A/C	_	16,000
22.	Prepaid Insurance A/C	6,500	_
23.	Closing Stock of Computer Accessories	9,500	_
		39,66,000	39,66,000

Trading and Profit & Loss A/C

Dr. for the year ending 31st Dec. 2017 Cr.

	your orraining	0 101 2001 2011	
Particulars To Purchases A/C	Amount 610,500	Particulars By Sales A/C	Amount 17,50,000
		by Gales 7 v G	17,50,000
To Wages	1,30,000		
To Gross Profit c/d	10,09,500		
	17,50,000		17,50,000
To Salaries A/C	3,36000	By Gross Profit b/d	1009,500
To Electricity Charges	121800		
A/C			
To Advertisement A/C	1,05000		
To Postal Charges A/C	13500		
To General Expenses	21000		
A/C			
To Insurance A/C	41500		
To Interest on Bank			
Loan A/C	60,000		
To Depreciation A/C			
Building – 90000			
Furniture – 19000	1,09,000		
To Net Profit c/d	2,01,700		
(Carried forward to			
Capital A/C)	10,09,500		10,09,500

Balance Sheet as at 31st December 2017

Liabilities	Amount	Assets	Amount
Capital 18,00,000		Building 18,00,000	
Drawings (2,40,000)		Depreciation 90,000	17,10,000
Net Profit 20,1700	17,61700	Bank A/C	60700
Bank Loan	4,00,000	Furniture 1,90,000	

Outstanding Salaries	16000	Depreciation 19000 Laptop and Printer NDPL (Security	1,71,000 70000
		Deposit) MTNL (Security	40000
		Deposit) Prepaid Insurance Closing Stock	1,10,000 6500 9500
	21,77,700		21,77,700

Calculation of Gross Profit and Net Profit Ratio

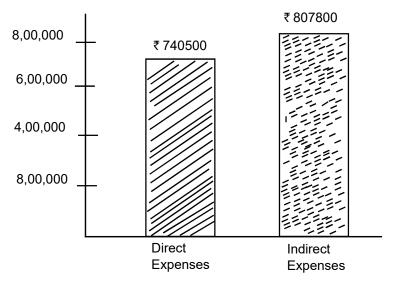
(i) Gross Profit Ratio =
$$\frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$$

= $\frac{10,09,500}{17,50,000} \times 100 = 57.68\%$

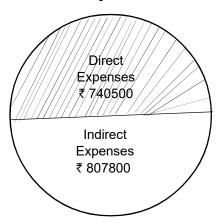
(ii) Net Profit Ratio =
$$\frac{\text{Net Profit}}{\text{Net Sales}} \times 100$$

= $\frac{2,01,700}{17,50,000} \times 100 = 11.52\%$

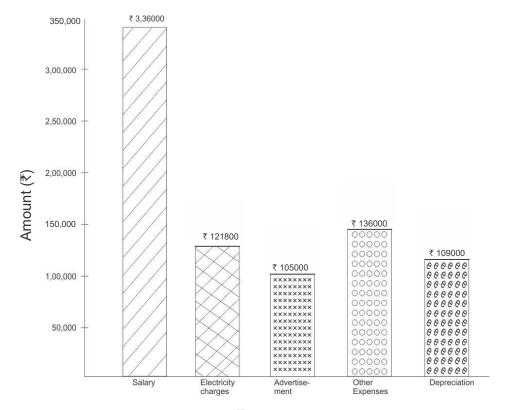
Bar Diagrams and Pie Charts for Direct and Indirect Expenses Bar Diagram of Direct and Indirect Expenses



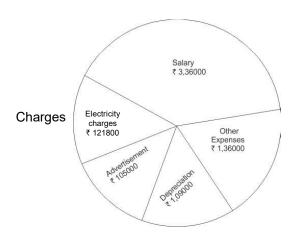
Pic Chart of Direct and Indirect Expenses



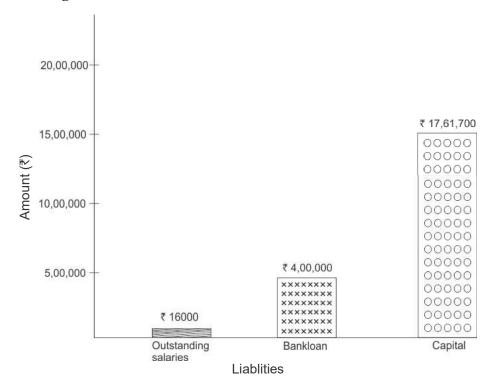
Bar diagram of Indirect Expenses



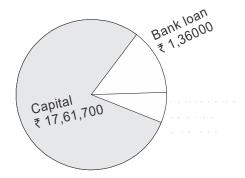
Pic chart of Indirect Expenses.



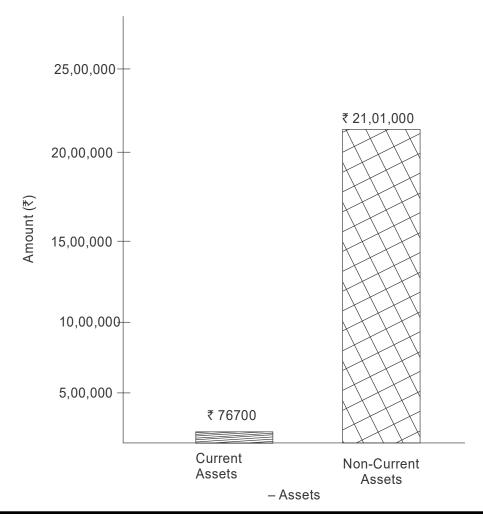
Bar Diagrams and pic charts for Assets and Liabilities. Bar Diagram of Liabilities.



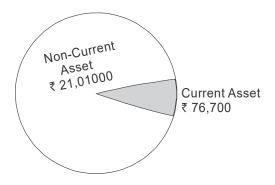
Pic chart of Liabilities.



Bar Diagram of Assets



Pic Chart of Assets.



Conclusion:

- (i) From all the above recording and analysing the results, we can say that vipul is very much able to handle his new business of selling computer Hardwares and Accessories. He is managing his business very well.
- (ii) The Gross Profit and the Net Profit Ratios indicates that he is earning good return over his Investments.
- (iii) If the business runs on the same track, he should pay his Bank loan first.
- (iv) In order to run his business successfully in future, he should control his indirect Expenses.

Class-XI

Sample Paper

Accountancy 2023-24

Time: 3 Hours Max. Marks: 80

General Instructions:

- 1. This question paper contains 34 questions. All questions are
- 2. Question 1 to 20 carries compulsory. 1 mark each.
- 3. Questions 21 to 26. carries 3 marks each.
- 4. Questions from 27 to 29 carries 4 marks each
- 5. Questions from 30 to 34 carries 6 marks each
- 6. There is no overall choice. However, an internal choice has been provided in 7 questions of one mark, 2 questions of three marks, 1 question of four marks and 2 questions of six marks.
- While preparing Financial Statement of a firm, Closing Stock given in Trial Balance will be recorded in (1)
 - (a) Trading Account
 - (b) Profit&Loss Account
 - (c) Balance sheet
 - (c) None of these

OR

Which of the following is an Indirect Expense:

- (a) Wages
- (b) Manufacturing Expenses
- (c) Salary
- (d) Carriage Inward
- 2. **Assertion (A):** Manufacturing Expenses is shown in Profit and Loss Alc.

Reason (R): Manufacturing expenses in an Indirect Expense.

- (a) (A) is correct but (R) is wrong
- (b) Both (A) and (R) are correct, but (R) is not the correct explanation of (A)

- (c) Both (A) and (R) are incorrect.
- (d) Both (A) and (R) are correct, and (R) is the correct explanation of (A) (1)
- 3. Which of the following is correct

(1)

- (a) Operating Profit = Net profit Non-operating expenses Non-operating incomes operating.
- (b) Operating profit = Net profit + Non-operating Expenses + Non-operating incomes.
- (c) Operating profit = Net profit + Non-operating Expenses Non-operating incomes.
- (d) Operating profit = Net profit- Non-operating Expenses+ +Non-operating incomes.

OR

If Net Profit ₹50,000, Indirect Expenses ₹10,000, Other Income ₹8,000. The Gross Profit amount will be:

- (a) ₹48,000
- (b) ₹52,000
- (c) ₹55,000
- (d) ₹60,000
- 4. Cash book balance ₹3,000 (Dr.). When composed with Pass Book (Bank Statement), it was found that one of the debtors has deposited ₹2,000 directly into the bank and Bank Charges ₹100 has not been recorded in Cash Book. Balance of the Pass Book is

(1)

- (a) ₹4,000 (Dr.)
- (b) ₹4,900 (Dr.)
- (c) ₹4,900 (Cr.)
- (d) ₹5,000 (Dr.)

	be Credited to	(1)
	(a) Sales Account	
	(b) Purchases Account	
	(c) Goods Accounts	
	(d) Drawings's Account	
	OR	
	Journal Entry for Sale of goods for Cash to Mohan	
	(a) Debit Mohan and Credit Sales Account	
	(b) Debit Cash Account and Credit Mohan	
	(c) Debit Cash Account and Credit Sales Account	
	(d) Debit Sales Account and Credit Cash Account	
6.	When a firm maintains a cash book, it need not	maintain (1)
	(a) Journal Proper	
	(b) Purchases book	
	(c) Sales book	
	(d) Bank and cash account in the ledger	
7.	Credit Purchases of Machinery will be recorded in	(1)
	(a) Purchase Book	
	(b) Sales Book	
	(c) Journal Proper	
	(d) Cash Book	
8.	Which one of the following is a" Contra Entry"?	(1)
	(a) Cash paid to a Debtor	
	(b) Cash withdrawn from bank for personal use	
	(c) Cash withdrawn from bank for office use	

Goods worth 10,000 used by Proprietor for his personal use should

	OR
	Which of the following will be recorded in the Cash Book?
	(a) Cash Sales
	(b) Credit Purchase
	(c) Trade Discount
	(d) Bad Debts
9.	The liability arising from the purchase of goods on credit is called (1)
	(a) Creditors
	(b) Bills Receivable
	(c) Trade Receivable
	(d) Payable expenses
10.	A concept that a business enterprise will not be sold or liquidated in the near future is known as: (1)
	(a) Going concern
	(b) Economic entity
	(c) Monetary unit
	(d) None of the above
	OR
	Principle says, Anticipate no profits and provide for all possible losses.
	(a) Dual Aspect Principle
	(b) Materiality Principle
	(c) Consistency Principle
	(d) Conservatism Principle

(d) Cheque sent to bank for collection

- 11. A Machinery purchased for ₹4,00,000 and depreciation Charged② 10% on Reducing Balance Method. Value of the machinery after 3 years will be(1)
 - (a) ₹2,91,600
 - (b) ₹2,80,000
 - (c) ₹3,00,00
 - (d) None of the above
- 12. Match the following

Column A	Column B
(i) Decline in the Value of Coal	(a) Depreciation
Mine by ₹ 1,00,000	
(ii) Value of Building decline by	(b) Amortisation
₹1,00,000	
(iii) Value of patents Written off	(c) Depletion
by ₹10,000	

- (a) (i)-(a), (ii)-(b), (iii)-(c)
- (b) (i)-(b), (ii)-(c), (iii)-(a)
- (c) (i)-(c), (ii)-(a), (iii)-(b)
- (d) (i)-(a), (ii)-(c), (iii)-(b)
- 13. Credit balance of bank account in cash book shows
 - (a) Overdraft
 - (b) Cash deposited in our bank
 - (c) Cash withdrawn from banck
 - (d) Cash balance in the bank
- 14. Which one of the following is the "Book of Original Entry"? (1)
 - (a) Journal Proper
 - (b) Sales Book

(1)

	(c) Purchase Book	
	(d) All of the Above	
15.	Which one is a liability for a business?	1)
	(a) Input CGST	
	(b) Output IGST	
	(c) Input SGST	
	(d) Input IGST	
	OR	
	Goods and Services Tax applicable on Inter-state transaction is	S
	(a) CGST	
	(b) SGST	
	(c) Both SGST and CGST	
	(d) IGST	
16.	Sale of goods to Mr. Amir is wrongly debited to Umair Alc(debto instead of Amir Alc (debtor), this is an example?	r) 1)
	(a) Error of principle	
	(b) Error of omission	
	(c) Error of commission	
	(d) Compensatory Error	
17.	"" qualitative characteristic of accounting information reflected when accounting information is clearly presented. (is 1)
	(a) Relevance	
	(b) Comparability	
	(c) Understandability	
	(d) Reliability	
18.	"Window dressing is an of Accounting" (1)
	(a) Limitation	

	(b) Advantage	
	(c) Either a or b	
	(d) None of the above	
19.		is (1)
	(a) ₹2,20,000	
	(b) ₹1,20,000	
	(c) ₹2,00,000	
	(d) None of the above	
	OR	
	Capital Expenditure are recorded in	
	(a) Trading Account	
	(b) Balance Sheet	
	(c) Profit and Loss Account	
	(d) Cash Book	
20.	Net profit of Profit and Loss Accounts indicates	(1)
	(a) Debit Balance of Profit and L0ss Account	
	(b) Credit Balance of Profit and Loss Account	
	(c) Debit side of Trading Account	

21. How will you show the following in the Balance Sheet of a firm(3)

Extract of Trial Balance

(d) None of the Above

Particulars	Dr. (₹)	Cr. (₹)
Debtors	1,00,000	
Bad Debts	10,000	
Provision for Doubtful Debts		5,000

Additional Information:- Further Bad Debts ₹ 6,000 and Provision for Doubtful debts Maintained at 8%.

22. Write any three differences in Cash Discount and Trade Discount.

(3)

- 23. Give any three differences in Provisions and Reserves (3)
- 24. Prepare Accounting Equation on the basis of the following transactions. (3)
 - (i) Started business with cash ₹10,000.
 - (ii) Paid rent in advance ₹300.
 - (iii) Purchased goods for cash ₹5,000 and credit ₹2,000.
 - (iv) Sold goods for cash ₹8,000 costing ₹4,000.
 - (v) Paid salary ₹450 and salary outstanding being ₹100.
 - (vi) Bought motorcycle for personal use ₹3,000.

OR

Give an example for each of the following transactions

- (i) Increase in one asset and decrease in another assets
- (ii) Increase in assets and increase in liability.
- (iii) Decrease in assets and Decreases in Owner's Capital
- 25. Journalise the following transactions in the books of Manoj & Bros.

(3)

- (a) Goods worth ₹20,000 were distributed as free samples and ₹10,000 goods given as charity.
- (b) Charge depreciation @ 10% p.a for two month on a machine costing ₹1,20,000.
- (c) Provide interest on capital of ₹1,50,000 at 6% p.a. for 9 months.
- 26. Explain any two limitations of Accounting. (3)

OR

State any three characteristics of GST.

in the next year.

(i)	act on this by ma	that some of its debtors may king sure that all possible lo s is an example of the	sses are recorded
(ii)		usiness is separate and dis	•
(iii)	, ,	m owns, it also owns out to explained by the	•
(iv)		concept states that if strainsed in one year, then it sho	•

OR

Mr. Sunrise started a busines for buying and selling stationery with ₹5,00,000 as an initial investment. Of which he paid ₹1,00,000 for furniture, ₹2,00,000 for buying stationery items. He employed a sales person and clerk. At the end of the month he paid ₹5,000 as their salaries. Out of the stationery bought he sold some stationery tor ₹1,50,000 for cash and some other stationery for ₹1,00,000 on credit basis to Mr. Ravi. Subsequently, he bought stationery items of ₹1,50,000 from Mr. Peace. In the first week of next month there was a fir accident and he lost ₹30,000 worth of stationery. A part of the furniture Which cost ₹40.000, was sold for ₹45,000.

From the above, answer the following:

- (a) What is the armount of capital with which Mr. Sunrise started business.
- (b) What are the fixed assets he bought?
- (c) What is the value of the goods purchased?
- (d) Who is the creditor and state the amout payable to him?
- (e) What is the amount of expenses?
- (f) What is the gain he earned?

- (g) What is the loss he incurred?
- (h) Who is the debtor? What is the amount receivable from him?
- 28 Trial balance of a firm did not agree. Subsequently the following errors were located: (4)
 - (i) Cash received from Mohit ₹4,000 was posted to Mahesh as ₹1,000.
 - (ii) Cheque for ₹5,800 received from Arnar in full settlement of his account of ₹6,000, was dishonoured. No entry was passed in the books on dishonour of the cheque.
 - (iii) ₹800 received from Khanna, whose account had previously been written off as bad, was credited to his account.
 - (iv) A credit sale to Manav for ₹5,000 was recorded through the purchases book as ₹2,000.

Pass Journal Entries to rectify the above errors and omissions.

29. From the following balances extracted from the books of M/s Ahuja and Nanda. Calculate the amount of: (a) Cost of goods available for sale (b) Gross Profit

Opening stock ₹25,000, Credit purchases ₹7,50,000, Cash purchases ₹3,00,000, Credit sales ₹12,00,000, Cash sales ₹4,00.000, Wages ₹1,00,000, Salaries ₹1,40,000, Closing stock ₹30,000, Sales return ₹50,000, Purchases return ₹10,000.

30. The following balances appear in the books of Vinod on 01-04-2020

Machinery Alc- ₹ 8,00,000

Provision for Depreciation a/c ₹3,18,000

On 01-04-2020 they decided to sell a machine for ₹34,500. This machine was purchased for ₹1,20,000 on 01-04-2016.

Show the machinery Alc, Provision for Depreciation A/c for the year ended March 31, 2021 assuming that depreciation was charged at 10% p.a. on the straight line method.

- 31. From the following particulars, prepare the bank reconciliation statement of Shri Krishan as on March 31, 2022. (6)
 - (a) Balance as per passbook is ₹10,000.
 - (b) Bank collected a cheque of ₹500 on behalf of Shri Krishan but wrongly credited it to Shri Kishan's account.
 - (c) Bank recorded a cash book deposit of ₹1,589 as ₹1,598.
 - (d) Withdrawal column of the passbook under cast by ₹100.
 - (e) The credit balance of ₹1,500 as on the pass-book was recorded in the debit balance.
 - (f) The payment of a cheque of ₹350 was recorded twice in the passbook.
- 32. Prepare double column cash book from the following transactions for the month August 2022 (6)
 - 01 Cash in hand ₹17,500 Cash at bank ₹5,000
 - 03 Purchased goods for cash ₹3,000
 - 05 Received cheque from Naresh ₹10,000
 - 08 Sold goods for cash ₹7,000
 - 10 Naresh's cheque deposited into bank
 - 12 Purchased goods and paid by cheque ₹20,000
 - 15 Paid establishment expenses through bank ₹1,000
 - 18 Cash sales ₹7,000
 - 20 Deposited into bank ₹10,000
 - 24 Paid trade expenses ₹500
 - 27 Received commission by cheque ₹6,000
 - 30 Withdrew cash for personal use ₹1,200

OR

Prepare Sales book and Purchases book of M/s Ranjan & Bros. from the following transactions.

2022		
Aug 10	Purchased from Anil & Co. Delhi	
	10 Chairs@ ₹2,000 each	
	2 tables@ ₹6,000 each	
	Trade Discount @ 10%	
Aug 15	Sold to Neeraj Furniture, Punjab	
	2 Almirah@ ₹5,000 each	
	Less-Trade Discount15 %	
Aug 16	Sold to Jagat & co, for Cash	
	10 tables @ ₹10,000 each	
Aug 18	Purchased from Sohan Lal, Ghaziabad	
	20 Chairs @ ₹500 each	
	10 Tables @ ₹1,000 Each	
	Trade Discount @ 10%	
Aug 20	Purchased from Mohan Furniture, Delhi	
	10 Almirah@ ₹600 each	
	Trade Discount @ 10%	

33. Mr. X keeps his books as per Single Entry system and provided following information:

Particulars	April 01, 2022	March 31, 2023
Cash in hand	1,000	1,500
Cash at bank	15,000	10,000
Stock	1,00,000	95,000
Debtors	42,500	70,000
Business premises	75,000	1,35,000
Furniture	9,000	7,500
Creditors	66,000	87,000
Bills payable	44,000	58,000

During the year he withdrew ₹ 45,000 and introduced 25,000 as further capital in the business. Compute the profit of loss of the business.

OR

Vineet started his business on April 01, 2022 with a capital of 4,50,000. On March 31, 2023 his position was as under:

Cash	₹ 99,000
Bills receivalbe	₹ 75,000
Plant	₹ 48,000
Land and Building	₹ 1,80,000
Furniture	₹ 50,000

He owed ₹ 45,000 from his friend Aqeel on that date. He withdrew ₹ 8,000 per month for his household purposes.

Ascertain his profit or loss for this year ended March 31, 2023.

34. Prepare a trading account and profit and loss account for the year ending March 31, 2022, (6)

Debit Items	₹	Credit Items	₹
Sundry debtors	1,00,000	Bills payable	85,550
Bad debts	3,000	Sundry creditors	25,000
Trade expenses	2,500	Provision for bad	
		Debts	1,500
Printing and Stationary	5,000	Return outwards	4,500
Rent	3,450	Capital	2,50,000
Freight	2,250	Discount received	3,500
Sales return	6,000	Interest received	11,260
Motor car	25,000	Sales	1,00,000
Opening stock	75,550		
Furniture and Fixture	15,500		
Purchases	75,000		
Drawings	13,560		
Investments	65,500		
Cash in hand	36,000		
Cash in bank	53,000		
	4,81,310		4,81,310

Additional Information:

- (a) Interest on drawing @ 6% p.a.
- (b) Depreciation charged on motor car @ 10% p.a.
- (c) Further bad debts ₹1,000.
- (d) Make a provision for bad debts @ 5% on sundry debtors.
- (e) Closing stock was valued ₹35,000.
- (f) Rent outstanding ₹200.

- 1. (c) Balance sheet Or (c) salary
- 2. (c)
- 3. (c) Or (b) 52,000
- 4. (c) 4900 (Cr.)
- 5. (b) Purchases A/c Or (c)
- 6. (d)
- 7. (c) Journal Proper
- 8. (c) OR (a)
- 9. (a)
- 10. (a) OR (d)
- 11. (a)
- 12. (c)
- 13. (a)
- 14. (d)
- 15. (b) Or (d)
- 16. (c)
- 17. (c)
- 18. (a)
- 19. (d) Or (b)
- 20. (b)

21. Extract of Balance Sheet

Lab	₹	Assets	₹	
		Debtors 94000		
		Less: Prov. for		
		Doubtful debts 7520	86480	

- 22. Any 3 differences
- 23. Any 3 differences

24. Accounting Equation

S.No.	Transactions	Capital + Liabilities = Assest					
		C ap ita	Capital+Creditors+Outstanding				
				Sala	ry = Cash +		
						rent	
1.	Started business with	10000			= 10,000)	
	cash				(-) 300	+ 300	
2.	Paid rent in Advance						
	New Equation	10,000			= 9700 +	300	
3.	Purchased goods for cash						
	and on credit.		+ 2000		(–)500	0	+ 7000
	New Equation	10,000	+ 2000		= 4700 +	300	+ 7000
4.	Sold goods for cash	+4000			+ 8000	(<u>–)</u> 4000
	New Equation	14000	+ 2000		= 12700	+ 300	+ 3000
5.	Paid salary and outsandary	-550		+ 100	– 450)	
	Salary New Equation	13450	+ 2000	+ 100	= 12250	+ 300	+ 300
6.	Bought motorcycle for	-3000			(-) 300	0	
	Personal use	10450	+ 2000	+ 100	= 9250	+ 300	+ 300
		10450	+ 2100		= 12550		

OR

- (i) Purchase of machinery on cash
- (ii) Purchase of furniture on credit
- (iii) Amount drawn for personal use (or any other correct answers)

25. Journal

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
(a)	Advertisement A/c Dr.		20,000	
	Charity A/c Dr.		10,000	
	To Purchases A/c			30,000
	(Being goods given as free			
	sample & chanty)			
(b)	Depreciation A/c Dr.		2,000	
	To Machineny A/c			2,000
	(Being Depreciation charged			
	on machinery)			
(c)	Interest on capital A/c Dr.		6,750	
	To Capital A/c			6,750
	(Being int on capital provided)			

26. Any 2 limitations (or)

Any 3 Characteristics of GST

- 27. (i) Conservations
 - (ii) Separate Entity
 - (iii) Dual Aspect
 - (iv) Consistency

OR

- (a) ₹ 5,00,000
- (b) ₹ 1,00,000
- (c) $\stackrel{7}{\sim} 3,50,000 (2,00,000 + 1,50,000)$
- (d) Mr. Peace ₹ 1,50,000
- (e) ₹ 5,000 (salaries)
- (f) ₹ 5,000

(g) ₹ 30000

(h) Mr. Ravi (₹ 1,00,000)

28. Rectifying Journal

(i)	Suspense A/c Dr.	3,000	
(')	·		
	Mahesh Dr.	1,000	
	To Mohit		4,000
	(Being cash received prem Mohit		
	credited to Mahes by ₹1000)		
(ii)	Arnar's A/c Dr.	6,000	
	To Bank A/c		5,800
	To Discount Allowed A/c		200
	(Being cheque received but		
	dishoured sand not recorded any		
	where)		
(iii)	Khanna's A/c Dr.	800	
	To Bad debts Recovered A/c		800
	(Being cash received as		
	bad debts recovered A/c)		
(iv)	Manav's A/c Dr.	7,000	
	To Sales A/c		5,000
	To Purchase A/c		2,000
	(Being goods sold is considered		
	as goods purchased)		

29. (a) Cost of goods sold = opening stock + Net purchase + Direct expenses – Closing stock

=
$$25,000 + (7,50,000 + 3,00,000 - 10000) + 1,00,000 - 30,000$$

= $₹ 11,35,000$

(b) Gross Profit = Net sales – Cost of goods sold.

$$= (12,00,000 + 400,000 - 50,000) - 11,35,000$$

= 15,50,000 - 11,35,000

= ₹ 4,15,000

30. **Dr.**

Machinery A/c

Cr.

Date	Particulars	₹	Date	Particulars	₹
2020	To Balance b/d	8,00,000	2020	By provision for	
April 1			April 1	Depreciation A/c	48000
			"	By Bank A/c–Sale	34500
			"	By Loss on sale	
				of Machinery	37500
			2021		
			Mar. 31	By Balance c/d	680000
		800000			800000

Dr. Provision for Depreciation A/c

Cr.

Date	Particulars	₹	Date	Particulars	₹
2020	To Machinery A/c	48000	2020	By Balance b/d	3,18,000
April 1	(12000 × 4)		April 1		
2021			2021		
31 Mar	To Balance c/d	338000	31 Mar	By Deprecication	68,000
				A/c (@ 10% of	
				680,000)	
		386000			3,86000

31. Bank Reconcilation Statement

	Particulars	+	-
(a)	Balance as per passbook (Cr.)	10,000	
(b)	Cheques Recieve but wrongly Credited		
	by bank in another's A/c	500	
			9
(c)	Bank recorded a cash deposit		
	by ₹ 9 more		
(d)	withdrawal column of passbook under		
	cast		100
(e)	credit balance as per pass-book was	3000	
	recorded in the debit balance		
(f)	payment of a cheque of ₹350 recorded	350	
	twice in the pass book		
	Balance as per cashbook (Dr)		13741
		13,850	13,850

32. Dr. Double column cash book

Date	Particulars	LF	Cash	Bank	Date	Particulars	LF		Bank
			₹	₹				₹	₹
2022					2022				
Aug 1	To Balance b/d		17,500	5,000	Aug 3	By Purchases A/c		3000	
Aug 8	To Sales A/c		7,000		Aug12	By Purchases A/c			20,000
Aug10	To Cheque			10,000	Aug15	By establishment		1000	
	inhand					Expense A/c			
Aug18	To sales A/c		7,000		Aug20	By Bank A/c	С	10,000	
Aug20	To Cash A/c	С		10000					
Aug27	To Commission			6,000	Aug24	By Trade			
	A/c					Expenses A/c		500	
					Aug30	By Drawings A/c		1200	
					Aug31	ByBalance c/d		16800	10,000
			31500	31000				31500	31000
sep1	To Balance b/d		16,800	10000				_	_

Or In the books of M/s Ranjan an Bros. Purchases Book

Date	Particulars	LF	V. No.	Details	Amount
2022	Anil & Co. Delhi				
Aug10	10 chairs @ ₹ 2,000 each			20,000	
	2 tables @ ₹ 6,000 each			12,000	
				32,000	
	less trade discount			3,200	
	@ 10%				
				28,800	28,800
Aug18	Sohan Lal, Ghaziabad				
	20 chairs@ ₹ 500 each			10,000	
	10 tables @ ₹1,000 each			10,000	
				20,000	
	Less Trades discount				
	+ @ 10%			2.000	
				18,000	18,000
Aug20	Mohan Furniture, Delhi				
	10 Almirah@ ₹ 600 each			6000	
	Less trade Discount @ 10%			600	
				5400	5400
	Purchases A/c Dr.				52,200

Sales Book

Date	particulars	LF	V. No	Details	Amount
2022	Neraj Furnitures, Punjab				
	2 A lm irah @ ₹5000 each			10,000	
	Less trade Discount				
	@ 15%			1500	
				8,500	8500
	Sales A/c Cr.		•		8500

33. Statement of Profit and Loss for the year ended 31 March, 2023

Particulars		Amount ₹
Closing Capital		1,74,000
Add: Drawings	45,000	45,000
		2,19,000
Less: Opening capital	1,32,500	
Additional capital	25,000	1,57,500
Profit for the year		61,4000

Working Notes:

Statement of Affairs as at 01 April, 2022

Liabilities	₹	Assets	₹
Creditors	66,000	Cash in hand	1,000
Bills Paybles	44,000	Cash in Bank	15,000
Capital (Bal. fig.)	1,32,500	Stock	1,00,000
		Debtors	42,500
		Business Premises	75,000
		Furniture	9,000
	2,42,500		2,42,500

Statement of Affairs as at 31-04-2023

Liabilities	₹	Assets	₹
Creditor	87,000	Cash in hand	1,500
Bills Paybles	58,000	Cash in Bank	10,000
Capital (Bal. fig.)	1,74,000	Stock	95,000
		Debtors	70,000
		Business Premises	1,35,000
		Furniture	7,500
	3,19,000		3,19,000

 $$\operatorname{\textsc{OR}}$$ Statement of Profit and Loss for the year ended 31 March, 2023

Particulars		Amount ₹
Closing capital		4,07,000
Add: Drawings (8,000×12)	96,000	96,000
		5,03,000
Less: Opening capital	4,50,000	(4,50,000)
Profit for the year		53,000

Working Notes:

Statement of Affairs as at 31 March, 2023

Liabilities	₹	Assets	₹
Loan from Aqeel	45,000	Cash	99,000
Capital (Bal. fig.)	4,07,000	Bills Receivable	75,000
		Plant	48,000
		Land & Building	1,80,000
		Furniture	50,000
	4,52,000		4,52,000

34. Trading and Profit loss A/c

For the fear ended 31 march 2022

Dr.			Cr.
Particulars	₹	Particulars	₹
To opening stock	75,550	By Sales 1,00,000	
To Purchases 75,000		Less: returns 6,000	94,000
Less; returns 4500	70,500		
To Freight	2250	By closing stock	35,000
		By Gross loss c/d	19300
	1,48,300		148300
To Gross loss b/d	19300		
To Bad debts 3,000		By Discount discount	3,500
+ Further bad debts 1,000			
+ New Provision 4950		By Interest received	11,260
8950		By Interest on drawings	814
(–)old provision 1500	7450		
To Trade expenses	2,500	By net loss transterred	
To printing stationery	5,000	to capital	24826
To Rent 3450			
Add outsanding 200	3650		
To Depreciation on			
motor car	2,500		
	40400		40400

Practice Paper-1

Accountancy 2023-24

Time: 3 hours Max. Marks: 80 **General Instructions:** 1. This question paper contains 34 questions. All questions are compulsory. 2. Question 1 to 20 carries 1 mark each. 3. Questions 21 to 26, carries 3 marks each. 4. Questions from 27 to 29 carries 4 marks each. 5. Questions from 30 to 34 carries 6 marks each. There is no overall choice. However, an internal choice has been 6. provided in 7 questions of one mark, 2 questions of three marks, 1 question of four marks and 2 questions of six marks. 1. Which of following is not an intangible asset: (1) (a) Goodwill (b) Livestock (c) Patents (d) Copyrights 2. Which of following is not a qualitative characteristics of accounting information: (1) (a) Readibility (b) Understandability (c) Comparability (d) Reliability 3. Arrange following in order of their occurrence in accounting process: (1) (i) Classification (ii) Recording

(b) (ii), (i), (iii), (iv)

(d) (iv), (iii), (ii), (i)

(iii) Analysis and Interpretation

(iv) Summarisation

(a) (i), (ii), (iii), (iv)

(c) (ii), (i), (iv), (iii)

	(a) Summarisation	(b) Communication to users
	(c) Recording	(d) Identification
4.	Which of following is a limita	tion of accounting (1)
	(a) Replaces memory	(b) Assistance to managers
	(c) Historical in nature	(d) Evidence in court
5.	year 30 shirts were left unsold price of each shirt has increase	at a cost of ₹ 500 each, at the end of I. Due to high demand of shirts market sed to ₹ 700. Mr. Tarun valued closing e principle which is being violated, if (1)
	(a) Money Measurement	(b) Prudence
	(c) Cost Principle	(d) No Violation
		OR
	•	ments and in her firm a quarrel occur ecorded expense of ₹ 10,000 due to not followed by her (1)
	(a) Cost Principle	(b) Materiality
	(c) Full Disclosure	(d) Money measurement
6.	•	pense in number of years of estimated on is charged on asset. This is as per (1)
	(a) Full Disclosure	(b) Cost Principle
	(c) Going Concern	(d) Accounting Period
7.	Given below are two statem and the other labelled as Re	ents, one labelled as Assertion (A) ason (R)
	Assertion (A): Owners are in by the business.	terested in knowing the profits earned
	Reason (R): Owners supply	goods on credit.

Which step will come after classification in accounting process:

In the context of the above statements, which one of the following is correct?

Codes:

- (a) (A) is correct, but (R) is wrong.
- (b) Both (A) and (R) are correct.
- (c) (A) is wrong, but (R) is correct.
- (d) Both (A) and (R) are wrong.

OR

When goods are given as charity then which of following:

(a) Goods

(b) Sales

(c) Charity

(d) Purchases

8. Archana started business with ₹ 50,000 she also took a 5 years loan from HDFC bank of ₹ 30,000. She bought machinary from for ₹ 10,000 and goods on credit for ₹ 5,000. She sold goods costing ₹ 3,000 for ₹ 8,000 (half of which is sold on credit) (1)

Identify the amount of

- (i) Fixed Assets
- (ii) Debtors

(iii) Creditors

- (iv) Long term liabilities
- (a) (i) ₹ 30,000, (ii) ₹ 5,000, (iii) ₹ 4,000, (iv) ₹ 50,000
- (b) (i) ₹ 5,000, (ii) ₹ 30,000, (iii) ₹ 50,000, (iv) ₹ 4,000
- (c) (i) ₹ 10,000, (ii) ₹ 4,000, (iii) ₹ 5,000, (iv) ₹ 30,000
- (d) (i) ₹ 30,000, (ii) ₹ 4,000, (iii) ₹ 5,000, (iv) ₹ 10,000

OR

Match the following:

(1) Co	st Accounting	(A) ascertainment of profit or loss
(2) Fir	nancial Accounting	(B) ascertainment and control on the cost of goods and services
(3) Ma	nagement Accounting	(C) assistance in making decisions
	(a)	(1)-(A), (2)-(C), 3-(B)	(b) (1)-(B), (2)-(A), 3-(C)
	(c)	(1)-(B), (2)-(C), 3-(A)	(d) (1)-(C), (2)-(A), 3-(B)
9.	lde	ntify which of following	is not true: (1)
	(a)	Book-keeping is follow	ved by accounting
	(b)	Accounting involve transactions	s recording and classification of
	(c)	Book Keeping is a rooskills	utine job and does not require special
	(d)	Accounting is done to financial position.	o ascertain results of operations and
			OR
	Wii	nning a court case an e	example of:
	(a)	Profit	(b) Income
	(c)	Gain	(d) None of the above
10.		ren below are two stat d the other labelled as	ements, one labelled as Assertion (A) Reason (R) (1)
	Ass	sertion (A): if bank over	draft is paid it is debited
	Rea	ason (R): To increase li	abilities, liabilities are debited
		ne context of the above orrect?	statements, which one of the following
	Cod	des:	

(a) (A) is correct, but (R) is wrong.

(c) (A) is wrong, but	(R) is co	rrect.	
(d) Both (A) and (R)	are wror	ıg.	
11. Which of following is	not a so	urce document:	(1)
(a) Cheque		(b) Invoice	
(c) Debit Note		(d) Debit Voucher	
12. Match the following f	or a deal	er dealing in statione	ery items: (1)
(1) Purchases book	` '	rchase of photocopy ice use on credit	machine for
(2) Sales Book	(B) Pa	yment of rent by che	que
(3) Cash Book	(C) Pu	rchase of registers o	n credit
(4) Journal Proper	(D) Sa	le of Pens to Amit	
(a) (1)-(B), (2)-(A), 3	-(C), 4-([D)	
(b) (1)-(D), (2)-(C), 3	-(A), 4-(E	3)	
(c) (1)-(A), (2)-(B), 3	-(C), 4-([D)	
(d) (1)-(C), (2)-(D), 3	-(B), 4-(A	\)	
13. Match the following			
(1) Commission rec	eived	(A) Liabilities	
(2) Investments		(B) Assets	
(3) Insurance		(C) Income	
(4) Outstanding Exp	enses	(D) Expense	
(a) 1-(B), 2-(A), 3-(C), 4-(D)		
(b) 1-(D), 2-(C), 3-(A	.), 4-(B)		
(c) 1-(A), 2-(B), 3-(C), 4-(D)		
(d) 1-(C), 2-(B), 3-(D), 4-(A)		(1)

(b) Both (A) and (R) are correct.

14.	On which side of Trial Balance	ce following balances will be shown:	
	(i) Cash	(ii) Purchases (1))
	(iii) Return inwards	(iv) Loan advanced	
	(a) Dr. side-(i), (iii); Cr side-(ii), (iv)	
	(b) Dr. side- (ii), (iv); Cr side-	- (i), (iii)	
	(c) Cr. side (i), (ii), (iii), (iv)		
	(d) Dr. side (i), (ii), (iii), (iv)		
15.		31st March 2023 is X 64,800. It is o.a on written down value method. oril 2021 would be: (1)	
	(a) ₹ 52,488	(b) ₹ 80,000	
	(c) ₹ 77,760	(d) ₹ 1,00,000	
16.	Identify the type of error if pa 10,000 was debited to wage:	yment of Installation of machinery ₹ s account. (1)	
	(a) Error of Commission	(b) Error of Omission	
	(c) Error of Principle	d) Compensating error	
	(OR	
	Which of following error will a	affect matching of Trial Balance	
	(a) Sale of goods ₹ 5,000 red	corded in Purchases Book as ₹ 500.	
	(b) Depreciation on machine	ery ₹ 1,000 omitted to be recorded.	
	(c) Payment of rent ₹ 3,000	posted as ₹ 300.	
	(d) Purchase of furniture pas	sed through purchases book₹ 4,000.	
17.	Given below are two statem and the other labelled as Re	ents, one labelled as Assertion (A) ason(R)	,
	Assertion (A): Non- current as	ssets are shown after current assets	
	` '	lling of assets is done in order of are shown after current assets.	•

In the context of the above statements, which one of the following is correct? (1)

Codes:

- (a) (A) is correct, but (R) is wrong.
- (b) Both (A) and (R) are correct.
- (c) (A) is wrong, but (R) is correct.
- (d) Both (A) and (R) are wrong.
- 18. Match the following:

(1)

- (1) Capital Expenditure
- (2) Revenue Expenditure
- (3) Deferred Revenue
- (4) Expenditure

- (A) Purchase of Machinery
- (B) Sale of Goods on credit
- (C) Payment of Rent
- (D) Heavy amount spent of Advertisement whose benefit will accrue for 3 years
- (a) 1-(A), 2-(C), 3-(D)
- (b) 1-(A), 2-(D), 3-(C)
- (c) 1-(B), 2-(D), 3-(C)
- (d) 1-(C), 2-(A), 3-(D)
- 19. Calculate Operating profit from following information: (1)

Gross profit ₹ 50,000, Wages ₹ 10,000, Salaries ₹ 10,000, Rent received ₹ 5,000, Loss on sale of machinery ₹ 7,000

(a) ₹ 28,000

b) ₹40,000

(c) ₹ 38,000

(d) 42,000

OR

Calculate amount of Gross Profit from following information:

Net Profit ₹ 40,000, loss by fire ₹ 10,000, cartage inwards ₹ 10,000, Rent paid ₹ 20,000 and Interest earned ₹ 5,000

(a) ₹ 65,000

(b) ₹ 50,000

(c) ₹ 75,000

(d) 80,000

20.	Which one of the following is profit or loss.	the correct formula of ascertain	ing (1)
	(a) Closing capital + Drawing	+ additional capital - opening cap	oital
	(b) Closing capital + Drawing	ן - additional capital - opening cap	ital
	(c) Closing capital - Drawing	+ additional capital - opening cap	ital
	(d) Closing capital + Drawing	+ additional capital + opening cap	oital
21.	Ascertain profit for the 2022 business woman maintains a	-23 from following information if taccounts on accrual basis:	the
	credit) Cash received in 20. 1,00,000 Received cash in 20. 24 ₹ 2,00,000 Expenses for	₹ 5,00,000 (it include ₹ 2,00,000 22-23 for goods sold in 2021-22 022-23 for goods to be sold in 202 2022-23 ₹ 1,50,000 (out of which aid expense in 2022-23 ₹ 10,000	2 ₹ 23- h ₹
	(OR	
	Distinguish between Cash Ba	asis and Accrual Basis of Accounti	ing. (3)
22.	On which side will the decr recorded? Also state the nat	ease in the following accounts ure of account	be
	(i) Buildings	(ii) Outstanding Salary	
	(iii) Cash	(iv)Sales	
	(v) Purchases	(vi)Bank	(3)
23.	Explain:		
	(i) Debit Note	(ii) Invoice	
	(iii) Pay in slip		(3)
24.	Distinguish between Provision	ons and Reserves.	(3)
	(OR	

Classify following into Revenue Reserve, Capital Reserve and Provisions

- (i) Gain on sale of Fixed assets
- (ii) General Reserve
- (iii) Provision for doubtful debts
- (iv) Gain on forfeiture and reissue of shares
- (v) Workmen Compensation Reserve
- (vi) Provisions for repairs

(3)

- 25. Mrs.Palak stated business on 1st April 2022 with cash in hand
 - ₹ 40,000, cash paid in bank ₹ 50,000 and goods ₹ 20,000. During the year she withdrew goods for personal use ₹ 20,000 and once sold personal 500 shares of Mata Motors bought at a price of ₹ 30 each in 2018 at ₹ 50 each and invested that amount in business. At the end of year, she had assets of ₹ 2,00,000 and he owed ₹ 20,000 to creditors. Calculate amount of profit earned by Palak.
- 26. Calculate amount of Closing stock from following information:

Sales ₹ 5,20,000, Return Inwards ₹ 20,000, Return Outwards ₹ 10,000, Purchases ₹ 4,00,000, Wages ₹ 40,000, Opening Stock ₹ 50,000, Rate of Gross Profit on Cost 25%. (3)

27. Show how following will be shown while preparing Final Accounts of a sole proprietor. Extract of Trial Balance as on 31st March 2023

Name of Account	Dr.(₹)	Cr.(₹)
Debtors	43,000	
Bad Debts	5,000	
Provision for doubtful debts		15,000

Additional information:

- (i) Additional Bad debts ₹ 3,000.
- (ii) Make a provision @ 10% on debtors for doubtful debts. (4)

OR

Prepare Balance Sheet of Rohit Enterprises as on 31st March 2023 in order of Solvency(Permanence)

Name of Account	Dr.(₹)	Cr.(₹)
Debtors	20,000	
Creditors		30,000
Land	1,00,000	
Machinery	60,000	
Capital		2,30,000
Drawings	10,000	
Long term Loan from bank		70,000
Bank overdraft		40,000
Bills Payable		30,000
Cash	30,000	
Bank Balance	20,000	
Goodwill	40,000	
Outstanding Expenses		10,000
Accrued Interest	10,000	
Buildings	70,000	
Furniture	50,000	
Total	4,10,000	4,10,000

- 28. Prepare Accounting Equation of following transactions:
 - (i) Pooja started business with cash ₹ 50,000, machine ₹ 30,000 and goods ₹ 30,000
 - (ii) Sold I/3rd of above goods at a profit of 20% on cost on credit.
 - (iii) Rent Outstanding ₹ 5,000.

- (iv) Received cash from debtor ₹ 6,000 and allowed him discount ₹ 1,000. (4)
- 29. Mr.Sanju maintains his books on single entry system and from following information calculate profits earned or loss incurred by him in 2022-23

Particulars	31st March 2022	31st March 2023
Furniture	40,000	50,000
Machinery	50,000	60,000
Cash	30,000	40,000
Bank	10,000	10,000(Cr.)
Creditors	20,000	30,000
Outstanding expenses	10,000	10,000
Investments	50,000	70,000
Outstanding rent	10,000	Nil
Debtors	40,000	50,000

Depreciate Furniture and machinery by 10% on closing balance. Make provision for doubtful debts @ 10% on debtors.

During the year he withdrew ₹ 100 every week and introduced additional capital of ₹ 20,000 during the year. (4)

- 30. Pass Journal entries of following transactions and prepare ledger of Suhani, Cash and Discount Received.
 - (i) Purchased good costing ₹ 20,000 from Suhani.
 - (ii) Paid Cash to Suhani in full settlement ₹ 18,000.

OR

Pass Journal of following transactions:

(i) Sold goods costing ₹ 20,000 at profit of 20% on cost to Rohit and allowed 10% trade discount and 5% cash discount. He paid full amount immediately.

- (ii) Goods costing ₹ 10,000(Market Value ₹ 12,000) lost by fire.
- (iii) Received 40 paise in a rupee from Amit who was declared insolvent. He owed us ₹ 1,000
- (iv) Bricks of ₹ 15,000 and timber of ₹ 4,000 purchased for construction of buildings. Payment is made by cheque.
- (v) Sold personal car for ₹ 80,000 for cash which was deposited in this savings account.
- (vi) Purchased a machine from Parag and Sons for ₹ 50,000 on credit. An old machine valued at ₹ 5,000(book value 8,000) was adjusted against the payment. (6)
- 31. Prepare Bank Reconciliation Statement from following information as on 31st March 2023
 - (i) Debit Balance of bank Pass Book ₹ 50,000.
 - (ii) During March cheques of ₹ 20,000 were issued out of which cheques of ₹ 15,000 were presented in the month of March 2023.
 - (iii) Dividends collected by bank but not recorded in cash book ₹ 1,000.
 - (iv) During March cheques of ₹15,000 were deposited in bank but was omitted to be entered in cash book.
 - (v) In March a customer directly deposited ₹ 5,000 in bank account and same has not been entered in cash book.
 - (vi) Interest on overdraft entered in pass book but not in cash book ₹ 1,000 (6)
- 32. Following balances appeared in the books of Ajay Ltd. on 1st April 2022.

Machinery ₹ 5,00,000

Provision for depreciation ₹ 2,00,000

On 31st July 2022, a machine purchased on 1st Jan 2019 for

₹ 2,00,000 was sold for ₹ 40,000 and on the same date another machine was purchased for ₹ 3,00,000. Depreciation is charged @ 10% p.a. on straight line method. Prepare machinery and provision for depreciation A/c.

OR

X Ltd. Purchased machine on 1st oct 2021 for ₹ 60,000 and on 1st January 2022 for ₹ 40,000. On 1st January 2023 another machine costing ₹ 1,00,000 was purchased for which ₹ 20,000 was paid immediately and rest to be paid after one year. On 1st July 2023 one-third of machine purchasec on 1st oct 2014 became obsolete and was sold at a gain of 20 % on book value. Depreciation to be charged @ 10% p.a on fixed installment method. Prepare machinery account when accounts are closed on 31st March.

- 33. Pass journal entries to rectify following errors.
 - (i) Sales of ₹ 10,000 to Anil passed through Purchases book.
 - (ii) Wages paid for installation on machinery debited to wages account ₹ 1,000.
 - (iii) Depreciation of ₹ 2,000 charged on machinery omitted to be entered in depreciation account.
 - (iv) Purchase of goods ₹ 10,000 on cash posted as ₹ 1,000.
 - (v) Return inward book is overcast by ₹ 1,000.
 - (vi) Cash of ₹ 2,060 received from Asha has been entered as received from Usha as ₹ 2,600. (6)
- 34. From following information of Ashok prepare Trading and Profit and Loss Account for the year 2022-23

Trial balance as on 31st March 2023

Name of Account	Dr.(₹)	Cr.(₹)
Capital		3,12,000
Sales and Purchases(Adjusted)	1,00,000	2,00,000
Returns	10,000	20,000
Creditors and Debtors	54,000	35,000
Discount received and allowed	5,000	3,000
Closing Stock	20,000	
Rent	5,000	
Commission		10,000
Wages and Salaries	20,000	
Cartage	5,000	
Insurance	12,000	
Investments	80,000	
12% Loan (taken on 1 st Oct 2022)		60,000
Buildings	3,00,000	
Cash	20,000	
Drawings	10,000	
Provision for doubtful debts		3,000
Interest on loan	2,000	
Total	6,43,000	6,43,000

Additional information:

- (i) Bad debts written off ₹ 4,000
- (ii) Make provision for doubtful debts 5% on debtors.
- (iii) 3/4th of wages and salaries pertains to factory.
- (iv) Insurance includes annual premium on a policy of ₹ 6,000 which will expire on 30th June 2023.
- (v) Commission received in advance ₹ 2,000. (6)

Practice Paper-2

Accountancy 2023-24

Time: 3 hours Max. Marks: 80

General Instructions:

- 1. This question paper contains 34 questions. All questions are compulsory.
- 2. Question 1 to 20 carries 1 mark each.
- 3. Questions 21 to 26, carries 3 marks each.
- 4. Questions from 27 to 29 carries 4 marks each.
- 5. Questions from 30 to 34 carries 6 marks each.
- 6. There is no overall choice. However, an internal choice has been provided in 7 questions of one mark, 2 questions of three marks, 1 question of four marks and 2 questions of six marks.
- 1. While preparing Financial Statement of a firm, Prepaid Expenses given outside the Trial Balance will be recorded in (1)
 - (a) Trading Account and Profit & Loss Account
 - (b) Profit & Loss Account and Balance sheet
 - (c) Balance sheet only
 - (d) None of these

OR

Which of the following is a direct Expense:

- (a) Wages
- (b) Advertising Expenses
- (c) Salary
- (d) Carriage Outward
- 2. **Assertion (A):** Office Expenses is shown in Profit and Loss A/c.

Reason (R): Office expenses in an Indirect Expense.

- (a) (A) is correct but (R) is wrong
- (b) Both (A) and (R) are correct, but (R) is not the correct explanation of (A)

- (c) Both (A) and (R) are incorrect
- (d) Both (A) and (R) are correct, and (R) is the correct explanation of (A). (1)
- 3. Whichof the following is correct:

(1)

- (a) Cost of Goods Sold = Net Sales Opening Inventory
- (b) Cost of Goods Sold = Opening Inventory + Purchases (Net) + Direct Expenses – Closing Inventory
- (c) Cost of Goods Sold = Cross Profit Opening Inventory
- (d) Cost of Goods Sold = Net Sales Net Profit

OR

If Net Profit ₹ 2,50,000, Indirect Expenses ₹ 40,000, Other Income ₹ 25,000 and Cost of Goods Sold ₹ 70,000, then Net Sales amount will be :

- (a) ₹ 1,95,000
- (b) ₹ 2,65,000
- (c) ₹3,35,000
- (d) ₹ 3,95,000
- 4. Pass book balance (Bank Statement) ₹ 30,000 (Dr). When compared with Cash Book, it was found that electricity bill of office has been deducted directly from the bank ₹ 15,000 and Bank Charges ₹ 1,000 has not been recorded in Cash Book. Balance of the Cash Book is
 - (a) ₹ 14,000 (Dr.)
 - (b) ₹ 16,000 (Dr.)
 - (c) ₹ 14,000 (Cr.)
 - (d) ₹ 46,000 (Dr.)
- 5. Furniture worth ₹15,000 used by Proprietor for his personal use should be debited to (1)
 - (a) Furniture Account

- (b) Purchases Account (c) Sundry Expenses Account (d) Drawings Account OR Journal Entry for Purchase of goods from Rakesh (a) Debit Purchases Account and Credit Cash Account (b) Debit Purchases Account and Credit Bank Account (c) Debit Purchases Account and Credit Rakesh (d) Debit Rakesh and Credit Purchases Account 6. When a firm maintains a cash book, it needs to maintain ____(1) (a) Journal Proper (b) Cash Account in the ledger (c) Bank account in the ledger (d) None of the above 7. Purchases of Building through Loan from the bank will be recorded (1) (a) Purchase Book (b) Sales Book (c) Journal Proper (d) Cash Book
- 8. Which one of the following is a "Contra Entry"?
 - (a) Cash paid to a Creditor
 - (b) Cash deposited to the bank
 - (c) Cash withdrawn from bank for personal use
 - (d) Cheque sent to bank for collection

OR

	Which of the following will not be recorded in the Cash Book?	
	(*	1)
	(a) Cash Sales	
	(b) Credit Purchase	
	(c) Cash Paid to creditors	
	(d) Cash withdrawn for personal use	
9.	During the year, Wages Expenses amounts to ₹ 20,000 but paid only ₹ 15,000. ₹ 5,000 wages expenses not paid will be shown a in the Financial statements	
	(a) Assets	
	(b) Expenses	
	(c) Liability	
	(d) Income	
10.	According to which concept, every record/ entry must have supporting evidence:	а 1)
	(a) Verifiable Objective Principle	
	(b) Dual Aspect Principle	
	(c) Materiality Principle	
	(d) Matching Principle	
	OR	
	Principle says, information or items that affect the investor's decision should be disclosed	ct
	(a) Dual Aspect Principle	
	(b) Materiality Principle	
	(c) Consistency Principle	
	(d) Conservatism Principle	

- 11. A Machinery purchased for ₹ 5,00,000 and depreciation Charged@ 10% on Straight line Method. Value of the machinery after 4 years will be(1)
 - (a) ₹ 3,91,600
 - (b) ₹ 3,64,500
 - (c) ₹ 3,00,00
 - (d) None of the above
- 12. Match the following

Column A	Column B	
(i) Value of Trade Mark Written off	(a) Depreciation	
by 50,000		
(ii) Value of Furniture decline by	(b) Amortisation	
₹ 20,000		
(ii) Decline in the Value of Gold	(c) Depletion	
Mine by ₹ 2,00,000		

- (a) (i)-(a), (ii)-(b), (iii)-(c)
- (b) (i)-(b), (ii)-(a), (iii)-(c)
- (c) (i)-(c), (ii)-(a), (iii)-(a)
- (d) (i)-(a), (ii)-(c), (iii)-(b)
- 13. Debit balance of bank account in cash book shows: (1)
 - (a) Overdraft
 - (b) Cash deposited in our bank
 - (c) Cash withdrawn from bank
 - (d) Cash balance in the bank
- 14. Which one of the following is the "Book of Original Entry"? (1)
 - (a) Journal Proper
 - (b) Sales Book

	(c) Purchase Book	
	(d) All of the Above	
15.	Which one is an asset for a business? (1)
	(a) Input CGST	
	(b) Output IGST	
	(c) Both (a) and (b)	
	(d) Neither (a) nor (b)	
	OR	
	Goods and Services Tax applicable on Intra-state transaction is	i
	(a) CGST	
	(b) SGST	
	(c) Both SGST and CGST	
	(d) IGST	
16.	Expenses related to White wash of Second hand building purchased debited to Sundry Expenses. This error is an example of? (1)	9
	(a) Error of principle	
	(b) Error of omission	
	(c) Error of commission	
	(d) Error of orginal entry	
17.	"" qualitative characteristic of accounting information is reflected when accounting information is readily avail able as and when required. (1	-
	(a) Relevance	
	(b) Comparability	
	(c) Understandability	
	(d) Reliability	

18.	"Accounting information is not free from personal biasness" is one of the Accounting
	(a) Limitation
	(b) Advantage
	(c) Either (a) or (b)
	(d) None of the above
19.	If rate of Gross Profit is 25% on sales and Cost of Goods Sold is ₹ 3,00,000, then amount of Sales is ₹ (1)
	(a) ₹ 3,75,000
	(b) ₹ 3,20,000
	(c) ₹ 2,25,000
	(d) None of the above
	OR
	Revenue Expenditure are recorded in
	(a) Trading Account
	(b) Profit and Loss Account
	(c) Balance Sheet
	(d) Both (a) and (b)
20.	Accrued Commission will be shown finally in (1)
	(a) Profit and Loss Account
	(b) Trading Account
	(c) Balance Sheet
	(d) None of the Above

21. How will you show the following in the Balance Sheet of a firm

Extract of Trial Balance

Particulars	Dr.(₹)	Cr.(₹)
Debtors	2,00,000	
Bad Debts	30,000	
Provision for Doubtful Debts		15,000

Additional Information: Further Bad Debts ₹ 5,000 and Provision for Doubtful debts maintained at 10%.

- 22. (a) Give two examples of Source documents (1+2)
 - (b) Write any two examples of contra entry in respect of Cash Book.
- 23. Give any three differences in Revenue Reserves and Capital Reserves. (3)
- 24. Prepare Accounting Equation on the basis of the following transactions. (3)
 - (i) Started business with cash ₹ 90,000 and Furniture ₹ 30,000.
 - (ii) Purchased goods for cash ₹ 15,000 and on credit ₹ 8,000.
 - (iii) Sold goods for cash ₹ 10,000 costing ₹ 5,000.
 - (iv) Paid salary 12000 and salary outstanding being ₹ 1000.
 - (v) Bought furniture for personal use ₹ 12,000.
 - (vi) Goods worth ₹ 4,000 given as charity.

OR

Give an example for each of the following transactions

- (i) Increase in one asset and Increase in Owner's Capital.
- (ii) Decrease in assets and Decrease in liability.
- (iii) Decrease in assets and Decreases in Owner's Capital.

25.	Journalise the following transactions in the books of Sunil & Bros		
	(a) G oods worth ₹ 1,30,000 were distributed as free samples		
		Charge depreciation @ 10% p.a. for two month on a machine costing ₹ 1,50,000.	
		Provide interest on capital of ₹ 1,50,000 at 10% p.a. for 6 months.	
26.	Ехр	lain any two advantages of Accounting. (3)	
		OR	
	Stat	e any three characteristics of GST.	
27.	Fill i	n the blanks. (4)	
	(i)	Every transaction has two aspects a debit and a credit of equal amount. This is explained by the concept.	
	(ii)	The concept states that if written down method of depreciation is used in one year, then it should also be used in the years afterwards.	
	(iii)	If a firm believes that it may be fined for not following the environmental guidelines as per the govt direction, it should act on this by making sure that all possible losses are recorded in the books. This is an example of the concept.	
	(iv)	The fact that a business is separate and distinguishable from its owner is best exemplified by the concept.	
		OR	
	item which item of the bou for Rak	Demogy started a business for buying and selling Electrical is components with ₹ 14,00,000 as an initial investment. Of the paid ₹ 1,40,000 for furniture, ₹ 6,00,000 for buying electric is. He employed two sales persons and one clerk. At the end he month he paid ₹ 15,000 as their salaries. Out of the Items ght, he sold some electric items components for ₹ 2,50,000 cash and some other for ₹ 3,00,000 on credit basis to Mr. tesh. Subsequently, he bought electric items components of 50,000 from Mr. Namesh. In the first week of next month,	

there was a fire accident and he lost ₹ 50,000 worth of goods. A part of the furniture, which cost ₹ 40,000, was sold for ₹25,000

From the above, answer the following:

- (a) What is the amount of capital with which Mr. Demogy started business.
- (b) What are the fixed assets he bought?
- (c) What is the value of the goods purchased?
- (d) Who is the creditor and state the amount payable to him?"
- (e) What is the amount of expenses?
- (f) What is the gain he earned?
- (g) What is the loss he incurred?
- (h) Who is the debtor? What is the amount receivable from him?
- 28. Trial balance of a firm did not agree. Subsequently the following errors were located: (4)
 - (i) ₹ 18,000 received from Karishma, whose account had previously been written off as bad, was credited to her account as ₹ 1,800.
 - (ii) A credit sale to Sushma for 26,000 was recorded through the purchases book as ₹ 60,000.
 - (iii) Cheque for ₹ 15,000 received from Sanjay in full settlement of his account of ₹ 20,000, was dishonoured. No entry was passed in the books on dishonour of the cheque.
 - (iv) Cash received from Manish ₹ 4,000 was posted to Mahesh as ₹ 40,000.

Pass Journal Entries to rectify the above errors and omissions.

- 29. From the following balances extracted from the books of M/s Kapoor and Sons. Calculate the amount of: (4)
 - (a) Cost of goods available for sale
 - (b) Gross Profit

Opening stock ₹ 1,25,000, Credit purchases ₹ 6,00,000, Cash purchases 12,00,000, Credit sales ₹ 15,00,000, Cash sales ₹ 7,00,000, Wages ₹ 30,000, Salaries ₹ 1,50,000, Closing stock ₹ 1,00,000, Sales return ₹ 80,000, Purchases return ₹ 40,000.

30. The following balances appear in the books of Mahender on 01-01-2021 (6)

Machinery A/c 12,00,000

Provision for Depreciation a/c 2,00,000

On 01-01-2021 they decided to sell a machine for ₹ 40,500. This machine was purchased for 1,00,000 on 01-01-2018.

Show the machinery A/c, Provision for Depreciation A/c for the year ended Dec 31, 2021 assuming that depreciation was charged at 10% p.a. on the Written Down value method.

- 31. From the following particulars, prepare the bank reconciliation statement of Arun Raj Sharma as on March 31, 2022. **(6)**
 - (a) Balance as per passbook is ₹ 90,000.
 - (b) Withdrawal column of the passbook over cast by ₹ 3,000.
 - (c) The debit balance of ₹ 12,000 as on the pass-book was recorded in the credit balance.
 - (d) The payment of a cheque of ₹ 5,000 was recorded thrice in the passbook.
 - (e) Bank collected a cheque of ₹ 15,000 on behalf of Arun Raj Sharma but wrongly credited it to Raj Arun account.
 - (f) Bank recorded a cash book deposit of ₹ 11,000 as ₹ 1,000.
- 32. Prepare double column cash book from the following transactions for the year September 2022: (6)
 - 01 Cash in hand ₹ 35,500

Cash at bank ₹ 40,000

- 03 Purchased goods for cash ₹ 10,000
- 05 Received cheque from Kumar ₹ 40,000

- 08 Withdrew cash for personal use ₹12,000
- 10 Paid trade expenses ₹ 1,500
- 12 Purchased goods and paid by cheque ₹ 30,000
- 15 Paid establishment expenses through bank ₹ 5,000
- 18 Cash sales ₹ 20,000
- 20 Deposited into bank ₹ 25,000
- 24 Kumar's cheque deposited into bank
- 27 Received commission by cheque ₹ 9,000
- 30 Sold goods for cash ₹ 20,000

OR

Prepare Sales book and Purchases book of M/s Neeraj & Bros. from the following transactions:

2022			
Aug 10	Purchased from Mohan Furniture, Delhi		
	10 Almirah @ 600 each		
	Trade Discount @ 10%		
Aug 15	Sold to Mohan Verma, Delhi		
	4 Dining tables @ 16,000 each		
	Less: Trade Discount @15%		
Aug 16	Purchased from Sourabh Lal, Delhi		
	2 Cutting Machine @ 25,000		
	Trade Discount @ 15 %		
Aug 18	Sold to Gaurav & Co, Noida		
	30 Chairs @9,000 each		
	6 Tables @ 15,000 each		
	Less Trade Discount @ 12%		

Aug 20	Purchased from Rajesh & Co. Delhi
	20 Chairs @ ₹ 6,000 each
	3 tables @ ₹ 11,000 each
	Trade Discount @ 20%
Aug 21	Sold to Sudhir Furniture, Punjab
	2 Almirah @ ₹ 13,000 each
	Less-Trade Discount @ 10%
Aug 23	Sold to Pawan & co, for Cash
	10 tables @ ₹ 14,000 each
Aug 25	Purchased from Mahesh Shinde, Pune
	25 Chairs @ ₹ 5,000 each
	20 Tables @ ₹ 10,000 Each
	Trade Discount @ 15%

33. Mr. Gupta keeps his books as per Single Entry system and provided following information: (6)

Particulars	April 01, 2022 (₹)	March 31, 2023 (₹)	
Cash in hand	1,20,000	1,45,000	
Cash at bank	75,000	60,000	
Stock	3,00,000	2,10,000	
Debtors	40,000	60,000	
Business premises	1,75,000	3,35,000	
Furniture	40,000	30,000	
Creditors	60,000	90,000	
Bills payable	35,000	75,000	

During the year he withdrew ₹ 56,000 and introduced ₹ 1,45,000 as further capital in the business Compute the profit or loss of the business.

Vijay started his business on April 01, 2022 with a capital of ₹ 6,50,000. On March 31, 2023 his position was as under:

Cash	₹ 2,30,000
Bills receivable	₹ 1,75,000
Plant	₹ 3,45,000
Land and Building	₹ 4,80,000
Furniture	₹ 1,20,000

He owed ₹ 1,25,000 from his friend Amit on that date. He withdrew 6,000 per month for his household purposes. Ascertain his profit or loss for this year ended March 31, 2023.

34. Prepare a Trading Account and Profit and Loss account for the year ending March 31, 2023 (6)

Debit Items	₹	Credit Items	₹
Sundry debtors	1,90,000	Bills payable	83,000
Bad debts	8,000	Sundry creditors	2,10,000
Trade expenses	4,500	Provision for bad	
		Debts	12,000
Printing and Stationary	8,000	Return outwards	5,000
Rent	3,000	Capital	4,50,000
Freight	2,000	Discount received	10,000
Sales return	6,000	Interest received	10,000
Motor car	85,000	Sales	5,00,000
Opening stock	1,05,500		
Furniture and Fixture	25,500		
Purchases	2,65,000		

Drawings	13,000	
Investments	1,55,500	
Cash in hand	1,46,000	
Cash in bank	2,63,000	
	12,80,000	12,80,000

Additional Information:

- (a) Interest on drawing @ 6% p.a.
- (b) Depreciation charged on motor car @ 20% p.a.
- (c) Further bad debts 10,000.
- (d) Make a provision for bad debts @ 5% on sundry debtors.
- (e) Closing stock was valued ₹ 55,000.
- (f) Rent outstanding ₹ 12,000.

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