

**Netaji Subhas Open University**  
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Management)**

**Paper: V**  
**Accounting and Finance**

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# Unit 1: Basics of Accounting

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## 1.0 Objectives

After studying this unit, you will be able to understand the concept of-

- Accounting;
- Evolution of Accounting;
- Book-keeping;
- Accounting Information;
- Relation of Accounting with Other Disciplines;
- Golden Rules with Various Accounts;
- Various Approaches of Accounting;
- Debit and Credit under Traditional Approaches;
- Accounts;
- Transactions;
- Journal;
- Accounting Equation Approach;
- Traditional Approach;
- Ledger; and
- Trial Balance.

### 1.1 Introduction

In our daily life, we as human being, we do few types of performance. Like giving money to our maids, payments of power bill, grocery bill, playing football, going to morning walk etc. All these are treated as actions. These events can be subdivided into two categories, among all these events there are few financial or monetary events and there are some non-monetary events. The economic events are being recognized as transactions as it changes our monetary positions. Example- Mr. Roy purchases an umbrella for Rs. 600/- from the marketplace. Here, Mr. Roy gets an umbrella from the shop and pays Rs.600/- to the shop. So, his financial position is being sorted out. But again, Miss Puja goes to morning walk each day. Though, it's an occasion but it's not a transaction; as her financial position does not get changed due to this event.

### 1.2 Meaning of Accounting

Accounting can be as distinct as the methodical footage, measure and communication of data which concerns the monetary transaction. As per the explanation, accounting is fundamentally an art of evidence preservation. The procedure of accounting starts by ascertaining the events and the transaction which are of monetary in nature and consequently this transaction will be recorded in the books of account. This recording is compiled in journal or primary books. After the transaction and events are recorded, they are transferred to ledger; these are also recognized as secondary books. In ledger, transactions and events are classified further in provisions of income, expenses, assets and liabilities consequent to their kind and summarised in profit and loss account and balance sheet.

In 1970, the Accounting Principles Board (APB) of American organization of authorized public accounts (AICPA) predicted the purpose of accounting as follows:

“The purpose of accounting is to provide quantitative data, chiefly of economic nature, about monetary entities, that is essential to be helpful in making financial decision”.

In March 1971, the Accounting Principles Board (APB) of American organization of authorized public accounts (AICPA) considered the function of accounting as follows:

“Provides guidance for determining when the equity process should be functional to common stock.”

In April 1972, considered the function of accounting as follows: “The function of accounting is to provide direction which connect to the exposé of accounting principles in the financial statements”.

In October 1972, considered the function of accounting as follows: “Establishes accounting and reporting strategy for stock provided as reimbursement to employees”.

### 1.2.1 Evolution of Accounting

The Evolution of Accounting has been defined as such, the oldest form of accounting helps the stewards to conduct their stewardship function. The wealthy men used to engage the stewards for the purpose of managing their assets; The “stewardship accounting” was the source of financial accounting method. The Double entry Book-keeping which has been currently followed has been promoted only in the 15<sup>th</sup> century. It is also evident that historians found traces of accounts of debit and credit which dates back to the 12<sup>th</sup> century. In India too, stewardship accounting was recognized till the surfacing of huge scale enterprises in the form of public limited companies. In the second part, the idea of economic accounting emerged with the idea of Joint Stock Company and division of ownership from the organization. To defend the interest of the shareholders and investors, exposé of monetary statements and other accounting data was moulded by law. Financial report gives cyclic performance statement by the method of profit and loss account. It got the lawful status due to altering the relationships amid the owners, financial entity and the managers. Thus, financial accounting expanded as an information system to classify the way and communicate helpful information for knowledgeable judgement and choice by a broad group of users.

Lastly, Social Responsibility Accounting is in the formative procedure, which aims at accounting for the communal cost incurred by the company as well as the social help, formed by it. It emerges from the rising social awareness about the need of ‘products of economic activities.

Social science study means as a member of society; the anxiety about social procedure and the effect and outcome of social relationship. The helpfulness of accounting to society as an entirety is the main rule to treat it as a communal science. It serves the communal purposes, it contributes for communal development, and also it is being customized to keep speed with social progress. So accounting is treated as a social science.

### 1.2.2 Objectives of Accounting

The main objectives of accounting are as-

- **Maintaining Systematic Records:** Accounting is completed to maintain methodical records of monetary transaction. Right decision creation and profit examination are not possible if the books are not maintained methodically in a business. Even tracking earlier transaction would not be possible without maintaining these records.
- **Estimating Profit and Loss:** It is not possible to compute the estimated profit or loss of a company if the methodical accounting records are not completed. As the profit & loss account assists the organization and dissimilar organizations in taking logical decisions.
- **Balance Sheet:** It is simple to understand the monetary place of the anxiety when a correct balance sheet is maintained by the company. While Balance Sheet is a declaration of assets and liabilities. The profits owned by a business (assets) and declare against such income (liabilities) are exposed in the balance sheet.
- **Simplify Logical Decision Making:** As an outcome of accounting in any existing company it is simple for a company to create reasonable conclusion in matters connecting to the investment of assets, raising the salaries and provided that motivation to the working employees.
- **True Financial Statement:** In an appropriate understanding of economic rank and place of a company, auditing is actually very important. As an outcome, the concern can realize whether or not it is headed to the accurate way.

- **Prevention and Detection of Errors:** When sensible monetary records are maintained, an appropriate trial and mistake is conducted as an outcome of which no mistakes are dedicated and the future faults are corrected.
- **Management, Tax and Social Audit:** Individually from expenditure and wealth audit, association tax and communal auditing is too conducted by the economics of accounting. In a difficulty it is not possible to maintain a company without the assist of an accountant in general.

### 1.2.3 Book-keeping

Bookkeeping is the performance parameter through which the methodical recording of monetary information of an association are being maintained in a methodical way. It is principally a record maintenance function to complete for assisting in the procedure of accounting. It is an input segment in forming the monetary reports of the business at the completion of the financial year. Bookkeeping is also essentially appropriate organisation of transaction and events. Such categorization and transaction are significant to preserve appropriate financial accounts. The necessary thought after maintaining book keeping records is to explain accurate circumstances about each head of income and expenditure. Whether correct record is not maintained, it is impossible to get particulars of the transactions to observe to income and expenditure.

There are several procedures of book keeping. The most common procedures are the double entry system and the single-entry system.

### 1.2.4 Objectives of Book-keeping

The main objectives of Book-keeping are as-

- **Complete Recording of Transaction:** The chief purpose of book-keeping is to complete evidence of business transactions as per basis of accounting regulations and instruction. It's supportive to decrease the errors, for stable record of business. Hence primary record of all transaction in our journal and after that we transferred it in ledger accounts.
- **Determination of Financial Effect on the Business:** After preparing the profit and loss account, a declaration called balance sheet is arranged which displays the assets and their worth on the one hand and the liabilities and the capital on the other hand. A balance sheet in fact displays the financial place of the organizations.
- **Know Profit or Loss of Business:** The second major objective of bookkeeping is to identify the profit or loss of business association. For this reason, we make the trading and profit and loss account of the commerce and display all the incomes and expenses in it. In case the total income is more than total expenses, we will obtain net revenue of the business and whether our total costs is more than our total revenue we will obtain net loss of the business.
- **Others:** Apart from above major objectives of bookkeeping, following are common objectives in it... (a) Determine the amount of tax liabilities. (Both income and sales tax). (b) Give the data of total sales and purchases of the business. (c) Providing the data of creditors and debtors of business. (d) Attain the information of quantity and value of stock etc.

### 1.2.5 Distinction between Book-keeping and Accounting

Bookkeeping delivers important information for accounting and accounting starts where bookkeeping ends. Some difference amid bookkeeping and accounting are as follows.

Sl. No.	Basis	Book-keeping	Accounting
1	<b>Meaning</b>	It is an activity of recording the financial transaction of the company.	It is a process concerned with summarising of the recorded transaction.
2	<b>Nature</b>	It is the subset of accounting.	It is regarded as the language of the business.
3	<b>Choice making</b>	On the foundation of book-keeping records, decision cannot be taken.	Decisions can be occupied on the foundation of accounting records.
4	<b>Objectives</b>	The main objectives of book-keeping are to keep the records of all transactions systematically.	The main objectives of accounting are to estimate the financial situation and additionally communicate the information to the relevant authorities.
5	<b>Preparation of financial statement</b>	Not done in the bookkeeping process.	Done in the accounting process.
6	<b>Tools</b>	Journal and ledger.	Balance sheet, profit and loss account, cash flow statement.
7	<b>Methods</b>	Single entry system and double entry system.	Financial accounting, cost accounting, Management accounts, social responsibility accounting.
8	<b>Determination of financial position</b>	Book-keeping does not imitate the financial position of an organization.	Accounting evidently shows the financial position of the entity.

### 1.2.6 Users of Accounting Information

Usually, the users of accounts are categorized into two parts, viz- (a) internal users i.e., management and owners and (b) external users i.e., outsiders.

a) Internal users (Primary users) of accounting decontaminate following...

- **Management:** Management conduct the accounting data for the scrutiny of the business status and place and take the suitable decisions to develop the companies' outcome. One of the major roles of organization is to set regulations and process to get the association goals.
- **Employees:** Development of the employees is openly connected to the development of the organizations for measurement of companies' productivity and its significance on their future salary and job safety.
- **Owners:** Owners devote money to start and run Company with the main aspiration is to make profit. They desire to correct financial data to identify what they have earned or lost during an exact time.

b) External Users (secondary users) of accounting data consist of the following.

- **Creditors:** For deciding the credit capability of the business. Business that usually sells products or raw resources to other commerce on credit. They apply accounting data to have

a thought in relative to the upcoming creditworthiness of the association and to create a decision whether or not to carry on provided that the merchandise on credit.

- **Investors:** They provide risk capital to the company. They want information to estimate whether to obtain, grasp or sell their investment. The accounting data is used by equally real and likely investors. Real investors apply this data to identify how their money is used by the management. And what is the predictable presentation of business in future in circumstances of profitability and expansion. Probable investors use in accounting data to build a choice whether or not a particular business is suitable for their investment requirements.
- **Government Agencies:** Government agencies utilize monetary information of commerce for the cause of calculation and payment of tax.
- **Public:** Public also conduct accounting data of business association. Example: (a) Basis of teaching for student of accounting and economics. (b) A foundation of data for the public looking for job opportunities. (c) Foundation of information concerning the upcoming of a particular business.
- **Customers:** Customers are also anxious with the potency and profitability of the enterprise. Accounting data delivers significant business information to client about present positions of commerce and to make a decision about its future. Consumers can be alienated into three groups – manufacture, wholesalers and retailers, and end users. As well as manufactures or producers at each phase of meeting out the needed guarantee that the business in question will go on to deliver that input such as raw resources, parts, machinery and carry etc. And the other surface the whole sellers and the retailers must be assured the delivery of product and the final financial consumers are involved in non-stop attendance of products and connected goods.

### 1.2.7 Relation of Accounting with Other Disciplines

Accounting is strongly connected with some other system. Accounting is a regulation of defining, ascertaining and communication of an association of monetary health. The other regulation of accounting which is more and more seen to interrelate with its: Arithmetic, Economics, Act, Statistics and Supervision. Let's, talk about briefly the correlation of accounting with its correlated system.

**Accounting and Economics:** Economic is viewed as a skill of logical conclusion which make concerning the uncommon possessions and it is a science linked to human performance to complete order with restricted wealth. Economic examination how persons earn and spend and how purchasers and sellers are acting under dissimilar circumstances etc. On the other hand, accounting files transaction of income and expenditure in which it is computable in conditions of money and delivers essential and appropriate data to purchasers and sellers for pleasing decisions. Though, accountants got the information of value, income and capital preservation from economists but change according to the situation to make them serviceable in sensible situation. Accounts urbanized the evaluation, amount and decisions making may be grateful to the financial theorems for foundation but there are moulded in the work of atmosphere and correctly tempered with the situations of importance, verifiability, independence from prejudice, timeliness, comparability, consistency, and understanding the capacity. So, these two topics are interconnected. In this viewpoint bringing concern of a mixture amid the idea of money matters and accounting, the thought of social sciences is being applied.

**Accounting and Statistics:** Accounting and statistics are severely connected. The main purpose of these two sciences is to make mathematical statistics reasonable and rational and to current these in the shape of declaration, by making them serviceable to owners, manager or all others anxious. The chief role of statistics is to assemble classify, analysis the quantitative information of several actions and present them to the persons or organization anxious. On the other hand, in accounting after achievement of some



accounting procedure of transaction, Final accounts and thereafter on the foundation of different information declarations are prepared of such financial statements.

**Accounting and Mathematics:** Accounting and arithmetic are intimately correlated. Accounting is the words of the business.

On the other hand, arithmetic is the words of accounting, at dissimilar phases of accounting it calculates, subtract, multiply and division of mathematics are applied. Accounting publishes all its transaction and events of monetary changes in the words of arithmetic. At all phases of accounting i.e., in preparing journal, ledger, trial balance and financial declaration of mathematical doctrine are applied.

For this cause, the procedure of maintenance accounts become simple and short. So, mathematics is an essential part of accounting.

**Accounting and Management:** Management is direction of business. It includes organization and domineering of the relations of a business or a division of a business. Management includes lot of function and submission of lot of disciplines such as money matters, mathematics, statistics and computer etc. Accounting expert are superior off with what they study through their path to be aware of and use the information for providing the necessary accounting data for organizing and facilitating the choice of making procedure.

### 1.2.8 Limitations of Accounting

The limitations of accounting areas are as follows:

- **Monetary Transaction Only:** Transaction of non-monetary character does not discover position in accounting. Accounting is restricted to financial transaction only. It excludes qualitative basics like business reputation, status, labour strike etc.
- **Reflection:** The balance sheet cannot replicate the price of definite factors like constancy and ability of the employees which may be the most expensive assets of an enterprise these days.
- **Balance Sheet:** Balance sheet displays the circumstances of the business on the day of its preparation and not going on the upcoming date though the users of the books are involved sensitively in the positions of the commerce in the near future and also in long run and not for the earliest times.
- **Cost Concept:** Cost idea is inducted in accounting. Value changes are not calculated. Money worth is essential to change frequently from time to time. This is a strong drawback of accounting.
- **Accounting Policies:** Dissimilar book-keeping policies are constructed by the accountant. The data of balance sheet are mainly resulted by the individual judgment of accountant hence it is the prejudiced issue is established in accounting and aim factor is ignored.
- **Proper Scheme:** Monetary accounting does not set up an appropriate system of amendable tools and goods. Obviously, if resources and goods are not guarded in a manufacturing anxiety, they will perform to sufferers of account of fraud, scrap, defective etc.
- **Allocation Process:** Distribution procedure is an essential difficulty in accounting scheme. The worth of fixed resources is bushed charging reduction for owed period. The effectual life of fixed property is fixed up theoretically which does not arise precisely in most cases.

### 1.3 Golden Rules with Various Accounts

Debit is derived from the Latin term '**debitum**'. But precisely, to debit an account means to write on the left-hand side of an account which is called 'Debit Side'. It is written in short form Dr.

Credit' is derived from the Latin word 'creditum'(loan). But to credit an account means to write on the right-hand side of an account which is called the 'Credit Side'. It is written in short form Cr.

Transaction should be recorded on the Debit Side or Credit Side of an account Depends on the following approaches:

- 1) American Approach or Modern Approach; and
- 2) British Approach or Traditional Approach / Golden Rule (also known as Double Entry System).

### 1.3.1 Various Approaches of Accounting

#### ▪ American Approach / Modern Approach

This is nothing but the Accounting Equation Approach. The system of Debit and Credit build on the character of an account. All Accounts is classified under the following heads-

- |                             |                              |
|-----------------------------|------------------------------|
| A. Assets Account           | B. Liabilities Account       |
| C. Capital Account          | D. Revenue or Income Account |
| E. Expenses or loss account |                              |

#### Rules:

##### Assets Account-

Increase in Assets = Debit

Decrease in Assets = Credit

##### Liabilities Account-

Increase in Liabilities = Credit

Decrease in Liabilities = Debit

##### Capital Account-

Increase in Capital = Credit

Decrease in Capital = Debit

##### Revenue or Income account-

Increase in Revenue = Credit

Decrease in Revenue = Debit

##### Expenses or Loss Account-

Increase in Expenses = Debit

Decrease in Expenses = Credit

**Example-1:** The following accounts have been increased. State in Which side they will be recorded and state also the nature of an account-

- |                   |            |                  |
|-------------------|------------|------------------|
| a) Creditors      | b) Debtors | c) Furniture     |
| b) Insurance Paid | e) Capital | f) Rent Received |

**Ans.**

Sl. No.	Accounts	Nature of Accounts	Debit / Credit
a)	Creditors	Liabilities	Credit
b)	Debtors	Assets	Debit
c)	Furniture	Assets	Debit
d)	Insurance Paid	Expenses	Debit
e)	Capital	Liabilities	Credit
f)	Rent Received	Income	Credit

**Example-2:** Following accounts have been increased. State on which side they will show-

- a) Outstanding Salary
- b) Bank overdraft
- b) Rent paid
- d) Plant

Ans.

Sl. No.	Accounts	Nature of Accounts	Debit / Credit
a)	Outstanding Salary	Liabilities	Credit
b)	Bank Overdraft	Liabilities	Credit
c)	Rent Paid	Expenses	Debit
d)	Plant and Machinery	Assets	Debit

▪ **British Approach / Traditional Approach**

This method was invented by an “Italian merchant “Luca Pacioli” in 1494 in Venice. According to this method, each transaction has two aspects i.e., one party given benefits and the other receiving the benefits. In Traditional Approach all the accounts are categorized into two parts i.e., ‘Personal’ and ‘Impersonal Accounts’. The rules of debit, credit under Traditional Approach is recognized as **golden rules**.

**Classification of Accounts:**

**1. Personal Accounts-**

- Natural Personal Account
- Artificial Personal Account
- Representative Personal Account

**2. Impersonal Accounts-**

- **Real Account**  
-Tangible Real Account
- **Nominal account**  
-Intangible Real Account

**1.3.2 Instructions for Debit and Credit under the Old-style Method**

Sr. No.	Type of Accounts	Explanation	Accounting Treatment
1.	Personal Account	Personal account is a naming word. Ex. Rama, Shyam, Jadu, Madhu, A. Co. Ltd., B. Co. Ltd. etc.	Dr. the receiver of benefit & Cr. the giver of benefit.
2.	Real Account	Any asset except the dealing commodity. Ex. Land & Building, Plant & Machinery, Furniture & Fixtures, Office Equipment etc.	Dr. what comes in & Cr. what goes out.
3.	Nominal Account	Any income/ gains, expenses/ losses which are revenue in nature. Ex. Wages, salaries, Interest, Rents, etc.	Dr. all expenses/losses & Cr. all income/gains

**Example-3:** As per Traditional Approach identify the name of accounts-

- |              |                  |                       |
|--------------|------------------|-----------------------|
| a) Cash A/c  | b) Capital A/c   | c) Goods Purchase A/c |
| d) Mr. Y A/c | e) Salary A/c    | f) Sales A/c          |
| g) Rent A/c  | h) Furniture A/c | i) Plant A/c          |

### Solution-

Sl. No.	Accounts	Nature of Accounts	Sl. No.	Accounts	Nature of Accounts
a)	Cash A/c	Real Account	f)	Sales A/c	Real account
b)	Capital A/c	Personal Account	g)	Rent A/c	Nominal account
c)	Purchase A/c	Real Account	h)	Furniture A/c	Real Account
d)	Mr. Y A/c	Personal Account	i)	Plant A/c	Real account
e)	Salary A/c	Nominal Account			

## 1.4 Journal

Double entry method of book-keeping has arisen in the procedure of growth of dissimilar accounting system. It is the only methodical system of accounting. The double entry has two equivalent and parallel sides recognized as debit and credit. The left-hand side is debit and the right-side is credit.

### 1.4.1 Advantages of Double Entry System

Following are the major advantages of double entry method-

- **Ascertaining Profit:** The revenue earned or loss during a time can be determined concurrently with details.
- **Keep Complete Account:** Under this technique together the aspects of each and every transaction are filed. So, it is probable to maintain complete account.
- **Financial Position:** The monetary position of the business or association can be defined at the end of each stage through preparation of the balance sheet.
- **Mistake Detection:** Under this method errors can be detected.
- **Obtaining Essential Transaction Easily:** All the necessary particulars about a transaction can be acquired rapidly and easily.
- **Appropriate Decision Making:** Under this method the required data is easily obtainable so that the organization can take suitable decisions and run the organization smoothly.
- **Outstanding Amount Identify Easily:** The total amount outstanding by the debtors and the total amount outstanding to creditors can be found out easily.

### 1.4.2 Account

Account is nothing but a proof in the common ledger that is used to accumulate and store debit and credit amounts. For example, a concern will have a Cash account in which each transaction connecting cash is recorded. A design of account is given below-

#### Account

Dr.

Cr.

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.

### 1.4.3 Transactions

A transaction is to conform it amid a purchaser and a supplier to exchange goods, services or monetary instruments. Examples of transaction are as follows-

- Paying a seller for services performed or goods delivered.
- Paying an employee for hours worked.
- Receiving payment from a purchaser for goods or services delivered.

### 1.4.4 Accounting Equation Approach

According to accounting ethics, each debit in a transaction has the corresponding credit. It means the worth of benefits received should be equivalent to the worth of benefits given. As per accounting equation-

$$\text{Assets} = \text{liabilities} + \text{capitals}$$

A commerce transaction purpose outcome in the change in the either of the assets, liabilities or capital of the business and even after the change the assets will be again the same to the total capital and liabilities. If a business transaction outcome in the augment of assets, there will also be equivalently raise the amount of either capital or liabilities by the same amount.

### 1.4.5 Traditional Approach

Under traditional method of recording transaction, one should initial understand the word debit and credit and their system.

Transaction in the journal is recorded on the base of the regulations of the debit and credit only. For the reason of recording, these transactions are categorized in three groups.

- Personal transaction.
- Transaction connected to the assets and properties.
- Transaction associated to the expenses or losses and incomes or gains.

### 1.4.6 Journal

In accounting and book-keeping, a journal is a recording of financial transaction in order by date.

**Example-4:** Mr. Roy started business with a capital of Rs.20, 000/- on 1<sup>st</sup> April, 2018. He incurred the following expenses-

- a) Purchases goods Rs.10, 000/-.
- b) Purchases Plant & Machinery Rs.4, 000/-.
- c) Wages Paid Rs.4, 000/-.
- d) Salaries paid Rs.4, 000/-.
- e) Sales Rs.20, 000/-.
- f) Miscellaneous expenses Rs.2, 000/-.
- g) Closing stock Rs.4, 000/-.

As Mr. Roy does not know the proper way of double entry system of accounting, on 31<sup>st</sup> March, 2018 he seeks your advice.

**Solution:**  
**Journal**

In the Books of Mr. Roy  
Journal Entries

		Dr.	Cr.
Date	Particulars	Amount Rs.	Amount Rs.
2018 Apr. 1	Cash / Bank A/C . . . . . Dr. To, Capital A/C (Being business started with Rs.20, 000/-.)	20, 000	20, 000
?	Purchase A/C . . . . . Dr. To, Cash A/C (Being goods purchased for Rs.10, 000/-.)	10, 000	10, 000
	Plant & Machinery A/C . . . . . Dr. To, Cash A/C (Being Plant purchased for Rs.4, 000/-.)	4, 000	4, 000
	Wages A/C . . . . . Dr. To, Cash A/C (Being wages paid for Rs.4, 000/-.)	4, 000	4, 000
	Salaries A/C . . . . . Dr. To, Cash A/C (Being salary paid for Rs.4, 000/-.)	4, 000	4, 000
	Cash A/C . . . . . Dr. To, Sales A/C (Being goods sold for Rs.20, 000/-.)	20, 000	20, 000
	Miscellaneous Expenses A/C . . . Dr. To, Cash A/C (Being goods sold for Rs.2, 000/-.)	2,000	2, 000
	Stock A/C . . . . . Dr. To, Trading A/C (Being closing stock valued Rs.4, 000.)	4, 000	4, 000

**Example-5:** Transaction of Mr. Roy for April, 2018 is given below journalise them.

- a. Mr. Roy started a business with Rs.50,000/-
- b. Paid into bank Rs.5, 000/-
- c. Paid Rama cash Rs. 2 ,00/- and Discount allowed Rs.30/-
- d. Bought goods for cash Rs.10, 000/-
- e. Drew cash from bank for credit Rs.5, 00/-
- f. Sold goods to Ram Rs.5, 000/-
- g. Paid telephone charges Rs.2, 000/-
- h. Paid to stationery Rs.5, 00 and Rent Rs.2, 000/-
- i. Goods distributed by way of free Sample Rs.3, 000/-

**Solution:  
Journal-**

In the books of Mr. Roy  
Journal entries

Date	Particulars	L.F.	Dr.	Cr.
			Amount Rs.	Amount Rs.
2018 April ?	Cash/ Bank A/c.....Dr. To Capital A/c (Being business started with Rs. 50000)		50,000	50,000
	Bank A/c.....Dr. To Cash A/c (Being the amount paid into bank)		5000	5000
	Rama A/c.....Dr. To Cash A/c To Discount allowed A/c (Being cash paid to Rama and discount allowed by him)		230	200 30
	Purchase A/c.....Dr. To Cash A/c (Being goods purchase for cash)		10,000	10,000
	Cash A/c.....Dr. To Bank A/c (Being cash withdraw from bank)		500	500
	Ram A/c.....Dr. To Sales A/c (Being goods sold)		5000	5000
	Telephone Expenses A/c.....Dr. To Cash A/c (Being telephone expenses paid)		2000	2000
	Stationery expenses A/c.....Dr. Rent A/c.....Dr. To Cash A/c (Being Expenses paid)		2000 500	2500
	Advertisement expenses A/c.....Dr. To Purchase A/c (Being distribution of goods by way of free sample)		3000	3000

**1.4.7 Advantages of Journal**

The main advantages of Journal are-

- **Providing Records:** Journal delivers records of all commerce transaction in one place on the period and data basis.
- **Confirmation:** All transaction is recorded on the base of receipts or invoice. So, we can identify the genuineness of each journal entries with their bills.
- **Date Basis System:** There is lowest chance to keep away from any particular transaction for the reason that in journal transactions are recorded at a chronological order.

- **Basis of Posting in Ledger:** Journal is the foundation of posting in ledger accounts. Without making of journal, accountant cannot make ledger accounts.
- **Rectify:** If there is error in ledger, we can resolve it with the assist of journal.
- **Others:** The entire opening journal entries, closing journal entries and every other transaction which is not recorded in any other secondary books, will be recorded in journal.

## 1.5 Ledger

Ledger is the second stage of accounting. After recording the transaction in the journal, recorded entries are serialised and well-organized into by preparation of accounts and the book, which contains all position of accounts (Personal, real, nominal accounts) is identified as ledger. It is the ultimate destination of all the accounts formed in the main books. It is the ultimate foundation of all accounting data. The following are the major meaning of ledger:

**V.J. Vickery-** “Ledger is a book of account which hold in a properly classified structure the last and the stable record of trader’s transaction”.

**W. Pickles-** “A ledger is the most significant book of accounts and is the ultimate destination of the entries made in the subsidiary book”.

### 1.5.1 Balancing of an Account

At the finish of every month or year or any particular day it may be necessary to find out the balance in an account. This is not a too hard thing to do. Suppose a person has purchased goods value Rs. 5,000/- and he has paid only Rs. 3,000/- and he has concern with Rs. 2,000/- and that his balance in his account. To determine the balance of any account, what is completed is too entire the sides, and ascertains the distinction, the distinction is the balance. If the credit side is greater than the debit side, it is a credit balance and the other case it is a debit balance. The credit balance written in the debit side as ‘To balance c/d’. c/d means – ‘carried down’. By doing this, both sides will be equal. Whereas, the credit balance is written on the credit side is ‘By balance b/d’ i.e., brought down. This is the opening balance for the new time. Equally, the debit balance is written on the credit side is ‘By balance c/d’, the totals then are written on the two sides as revealed above as then the debit balance written on the debit side as ‘To balance b/d’ as the opening balance of the new period.

**Example-6:** Mr. Das started business with a capital of Rs.40, 000/- on 1<sup>st</sup> April, 2017. He incurred the following expenses-

- h) Purchases goods Rs.20, 000/-.
- i) Purchases Plant & Machinery Rs.8, 000/-.
- j) Wages Paid Rs.8, 000/-.
- k) Salaries paid Rs.8, 000/-.
- l) Sales Rs.40, 000/-.
- m) Miscellaneous expenses Rs.4, 000/-.
- n) Closing stock Rs.8, 000/-.

As Mr. Das does not know the proper way of double entry system of accounting, on 31<sup>st</sup> March, 2018 he seeks your advice. Journalise the transactions and post into the ledger account.



**Solution:**

**Journal-**

In the Books of Mr. Das  
Journal Entries

Date	Particulars	L.F.	Dr.	Cr.
			Amount Rs.	Amount Rs.
2018 Apr. 1	Cash / Bank A/C .....Dr. To, Capital A/C (Being business started with Rs.40, 000/-.)		40, 000	40, 000
?	Purchase A/C . . . . .Dr. To, Cash A/C (Being goods purchased for Rs.20, 000/-.)		20, 000	20, 000
	Plant & Machinery A/C . . . . .Dr. To, Cash A/C (Being Plant purchased for Rs.8, 000/-.)		8, 000	8, 000
	Wages A/C . . . . .Dr. To, Cash A/C (Being wages paid for Rs.8, 000/-.)		8, 000	8, 000
	Salaries A/C . . . . .Dr. To, Cash A/C (Being salary paid for Rs.8, 000/-.)		8, 000	8, 000
	Cash A/C . . . . .Dr. To, Sales A/C (Being goods sold for Rs.40, 000/-.)		40, 000	40, 000
	Miscellaneous Expenses A/C . . .Dr. To, Cash A/C (Being goods sold for Rs.4, 000/-.)		4,000	4, 000
	Stock A/C . . . . .Dr. To, Trading A/C (Being closing stock valued Rs.8, 000.)		8, 000	8, 000

**Ledger:**

Cash A/C

Dr.				Cr.			
Date	Particulars	J. F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2018 Apr.1	To, Capital A/C		40,000	?	By, Purchases A/C		20,000
?	„ Sales A/C		40,000		„Plant & Machinery A/C		8, 000
					„ Wages A/C		8, 000
					„ Salaries A/C		8, 000
					„ Misc. Exp. A/C		4, 000
					„ Balance c/d		32,000
			<b><u>80,000</u></b>				<b><u>80,000</u></b>
	To, Balance b/d		32,000				

Capital A/C

Dr.				Cr.			
Date	Particulars	J. F.	Amount Rs.	Date	Particulars	J. F.	Amount Rs.
2018 Apr.30	By, Balance c/d		40,000	2017 Apr.1	By, Cash A/C		40,000
			<b><u>40,000</u></b>				<b><u>40,000</u></b>
				2018 May.1	By, Balance b/d		40,000

Purchase A/C

Dr.				Cr.			
Date	Particulars	J. F.	Amount Rs.	Date	Particulars	J. F.	Amount Rs.
?	To, Cash A/C		20,000	2018 Mar.31	By, Balance c/d		20,000
			<b><u>20,000</u></b>				<b><u>20,000</u></b>
2018 Apr.1	To, Balance b/d		20,000				

Sales A/C

Dr.				Cr.			
Date	Particulars	J. F.	Amount Rs.	Date	Particulars	J. F.	Amount Rs.
2018 Mar.31	To, Balance c/d		40,000	?	By, Cash A/C		40,000
			<b><u>40,000</u></b>				<b><u>40,000</u></b>
				2018 Apr.1	By, Balance b/d		40,000

Wages A/C

Dr.				Cr.			
Date	Particulars	J. F.	Amount Rs.	Date	Particulars	J. F.	Amount Rs.
?	To, Cash A/C		8,000	2018 Mar.31	By, Balance c/d		8,000
			<b><u>8,000</u></b>				<b><u>8,000</u></b>
2018 Apr.1	To, Balance b/d		8,000				

Sales A/C

Dr.				Cr.				
Date	Particulars	J. F.	Amount Rs.	Date	Particulars	J. F.	Amount Rs.	
?	To, Cash A/C		8, 000	2018 Mar.31	By, Balance c/d		8, 000	
			<b><u>8, 000</u></b>					<b><u>8, 000</u></b>
2018 Apr.1	To Balance b/d		8,000					

Misc. Expenses A/C

Dr.				Cr.				
Date	Particulars	J. F.	Amount Rs.	Date	Particulars	J. F.	Amount Rs.	
?	To, cash A/C		4, 000	2018 Mar.31	By, Balance c/d		4, 000	
			<b><u>4, 000</u></b>					<b><u>4, 000</u></b>
2018 Apr.1	To Balance b/d		4,000					

Plant & Machinery A/C

Dr.				Cr.				
Date	Particulars	J. F.	Amount Rs.	Date	Particulars	J. F.	Amount Rs.	
?	To, Cash A/C		8, 000	2018 Mar.31	By, Balance c/d		8, 000	
			<b><u>8, 000</u></b>					<b><u>8, 000</u></b>
2018 Apr.1	To, Balance b/d		8, 000					

**Example-7:** From the following details prepare the stationery account

2018

Jan.1 Stock in hand Rs.2, 000/-

April.5 Purchase of stationery by cheque Rs3, 000/-

June.20 Purchase of stationery on credit from sun ltd. Rs.6, 000/-

Aug.31 Stock in hand Rs. 1,000/-

**Solution:**

## Stationery Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
1.1.2018	To, Balance b/d		2,000	31.8.2018	By, Profit and loss A/c (Balancing figure)		9,000
5.4.2018	To, Bank A/c		3,000	31.8.2018	By, balance c/d		2,000
20.6.2018	To, Sun Ltd. A/c		6,000				
			<u>11,000</u>				<u>11,000</u>
1.9.2018	To, Balance b/d		9,000				

**Example- 8:** Mr. Shyam started a business with capital of Rs. 60,000/- on 1<sup>st</sup> Jan 2018. From the following information prepare the necessary accounts.

Debit balance on Jan 2018:

Cash in hand Rs.20, 000/- Cash at bank Rs. 30,000/- Stock of goods Rs. 30,000/- Buildings Rs.20,000/-  
Sundry debtors 60,000/-

Similarly, Credit balance on Jan 2018:

Sundry creditors Rs. 60,000/-

Further transaction in the month as follows-

Jan.1 Purchase goods worth Rs.60, 000/- for cash less 10% trade discount.

Jan.5 Received Rs. 10,000/- from Ram, Sundry debtor.

Jan.9 Payment to Sundry creditors Rs. 14,000/-

Jan.12 Sold goods to Manik for cash Rs. 20,000/-

**Solution:**

## Cash Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2018				2018			
Jan.1	To, Balance b/d		20,000	Jan.1	By, Purchases A/c		6,000
Jan.5	To, Ram A/c		10,000	Jan.9	By, Sundrycreditors A/c		14,000
Jan.12	To, Sales A/c		20,000	Jan.31	By, Balance c/d		30,000
			<u>50,000</u>				<u>50,000</u>
Feb.1	To, Balance b/d		30,000				

Bank Account

Dr.

Cr.

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2018 Jan.1	To, Balance b/d		30,000	2018 Jan.31	By, Balance C/d		30,000
			<b><u>30,000</u></b>				<b><u>30,000</u></b>
2018 Feb.1	By, Balance b/d		30,000				

Stock Account

Dr.

Cr.

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2018 Jan.1	To, Balance b/d		30,000	2018 Jan.31	By, Balance C/d		30,000
			<b><u>30,000</u></b>				<b><u>30,000</u></b>
2018 Feb.1	To, Balance b/d		30,000				

Building Account

Dr.

Cr.

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2018 Jan.1	To, Balance b/d		20,000	2018 Jan.31	By, Balance C/d		20,000
			<b><u>20,000</u></b>				<b><u>20,000</u></b>
2018 Feb.1	To, balance b/d		20,000				

Sundry Debtors Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2018 Jan.1	To, Balance b/d		60,000	2018 Jan.31	By, Balance C/d		60,000
			<b><u>60,000</u></b>				<b><u>60,000</u></b>
2018 Feb.1	To, Balance b/d		60,000				

Capital Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2018 Jan.31	To Balance c/d		100,000	2018 Jan.1	By Balance b/d		100,000
			<b><u>100,000</u></b>				<b><u>100,000</u></b>
				2018 Feb.1	By, Balance b/d		100,000

Purchases Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2018 Jan.1	To, Cash A/c		54,000	2018 Jan.31	By, Balance C/d		60,000
Jan.1	To, Discount A/c		6,000				
			<b><u>60,000</u></b>				<b><u>60,000</u></b>
2018 Feb.1	To, Balance b/d		60,000				

### Sales Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2018 Jan.31	To, Balance C/d		20,000	2018 Jan.12	By, Cash A/c		20,000
			<u>20,000</u>				<u>20,000</u>
				2018 Feb.1	By, balance b/d		20,000

### Manik Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2018 Jan.12	To, Sales A/c		20,000	2018 Jan.12	By, Balance c/d		20,000
			<u>20,000</u>				<u>20,000</u>
2018 Feb.1	To, Balance b/d		20,000				

## 1.6 Trial Balance

All trade transaction is first recorded in journal or subordinate books. Then they are delivered to ledger and balanced it. Preparation of the trial balance is the third phase of accounting procedure. Later than posting the accounts in the ledger, a declaration is arranged to illustrate individually the debit and credit balances. Such a declaration is recognized as trial balance. The chief purposes of keeping the books of accounts are to determine the profit or loss of the commerce and to measure the monetary place of the commerce at the end of the year. If a declaration is arranged with debit balances of one side and credit balances on the other side, the entire of the two sides will be the same such a statement is known trial balance.

### 1.6.1 Objectives of Preparing the Trial Balance

The construction of trial balance has the following points-

- **Ascertain Arithmetical Correctness:** Trial balance assists to verify correctness in the ledger posting. It confirms that both the aspects of each transaction have been posted into ledger accounts that are debit aspects of transaction on debit side and credit aspects of transaction on credit side.
- **Simplify Detection of Mistakes:** Trial balance assists in locating mistakes performed during ledger posting.
- **To Simplify Preparation of Monetary Statement:** Financial reports are arranged from Trial balance contains all ledger accounts and provides a foundation for further processing of accounting information i.e., preparation of financial report.
- **To Make Easy Auditors:** Total of all debit balances must be equal to total of all credit balances, trial balances ensure Auditors that all transactions have been recorded in books of accounts.

### 1.6.2 Limitations of Trial Balance

Some errors may not be identified through trial balance. These may be of the following kinds-

- **Errors of Principle:** Errors which interrupts the basics of book-keeping. Ex. Purchase of furniture debited to purchase A/c.
- **Errors of Omission:** Transaction is entirely missed. Transaction occurred but not recorded in the books of accounts.
- **Posting to Wrong Account:** Purchase Rs.2000/- from Mr. Roy, but credited to Mr. Das. This is an error of posting to incorrect account and will not be identified through Trial Balance.
- **Errors of Amounts in Original Book:** This is an error in Primary book. Purchase from Mr. Das Rs. 6300/- but written as 6030/- or written as Rs.630/- in the primary book.
- **Compensating Errors:** Here, one error is remunerated by a different error. Ex. Goods purchased from M/S Das Rs. 10, 000/- but posted in the Das A/c Rs. 1, 000/-; again, sold to Mr. Roy for Rs.10, 000/- but posted to Roy A/c Rs.1, 000/-

### 1.6.3 Methods of Preparation of Trial Balance

We know Trial Balance may be arranged in three ways. Such as-

- Total Method.
- Balance Method.
- Total and Balance Method.

#### Total Method:

Under this process, each ledger account is totalled and that entirely amount (both of debit and credit side) transferred to trial balance. In this technique, trial balance can be arranged as soon as a ledger account is totalled.

**Example-9:** Given below is a ledger expelled from the business of Mr. Roy. You are required to prepare Trial Balance under Total Amount Method.

Cash A/C							
Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J. F.	Amount Rs.
?	To, Capital A/C		20,000	?	By, Purchases A/C		10,000
	„ Sales A/C		20,000		„ Plant & Machinery A/C		4, 000
					„ Wages A/C		4, 000
					„ Salaries A/C		4, 000
					„ Misc. Exp. A/C		2, 000
					„ Balance c/d		16,000
			<b><u>40,000</u></b>				<b><u>40,000</u></b>
	To, Balance b/d		16,000				



Capital A/C

Dr.				Cr.			
Date	Particulars	J. F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
	By Balance c/d		20,000		By, Cash A/C		20,000
			<u>20,000</u>				<u>20,000</u>
					By, Balance b/d		20,000

Purchase A/C

Dr.				Cr.			
Date	Particulars	J. F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
?	To, Cash A/C		10,000	?	By, Balance c/d		10,000
			<u>10,000</u>				<u>10,000</u>
	To, Balance b/d		10,000				

Sales A/C

Dr.				Cr.			
Date	Particulars	J. F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
?	To, Balance c/d		20,000	?	By, Cash A/C		20,000
			<u>20,000</u>				<u>20,000</u>
					By, Balance b/d		20,000

Wages A/C

Dr.				Cr.			
Date	Particulars	J. F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
?	To, Cash A/C		4,000	?	By, Balance c/d		4,000
			<u>4,000</u>				<u>4,000</u>
	To, Balance b/d		4,000				

Sales A/C

Dr.				Cr.			
Date	Particulars	J. F.	Amount Rs.	Date	Particulars	J. F.	Amount Rs.
?	To, Cash A/C		4, 000	?	By, Balance c/d		4, 000
			<u>4, 000</u>				<u>4, 000</u>
	To Balance b/d		4,000				

Misc. Expenses A/C

Dr.				Cr.			
Date	Particulars	J. F.	Amount Rs.	Date	Particulars	J. F.	Amount Rs.
?	To, Cash A/C		2, 000	?	By, Balance c/d		2, 000
			<u>2, 000</u>				<u>2, 000</u>
	To, Balance b/d		2,000				

Plant & Machinery A/C

Dr.				Cr.			
Date	Particulars	J. F.	Amount Rs.	Date	Particulars	J. F.	Amount Rs.
?	To, Cash A/C		4, 000	?	By, Balance c/d		4, 000
			<u>4, 000</u>				<u>4, 000</u>
	To, Balance b/d		4, 000				

**Solution:**

Trial balance of.....

As on.....

Sl. No.	Name of Account	Dr.	Cr.
		Total amount Rs.	Total amount Rs.
1.	Cash A/c	40,000	24,000
2.	Capital A/c	Nil	20,000
3.	Purchase A/c	10,000	Nil
4.	Sales A/c	Nil	20,000
5.	Wages A/c	4,000	Nil
6.	Misc. Expenses A/c	2,000	Nil
7.	Plant & Machinery A/c	4,000	Nil
8.	Sales A/c	4,000	Nil
		<u>64,000</u>	<u>64,000</u>

**Balance Method:**

Under this system, each ledger account is balanced and those balances only are approved forwarded to the trial balance. It assists the grounding of the monetary declaration.

**Example-10:** From the following ledger prepare Trial Balance, by Balance Method.

## Cash A/C

Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
?	To, Capital A/C		40,000	?	By, Purchases A/C		20,000
	,, Sales A/C		40,000		,, Plant & Machinery A/C		8,000
					,, Wages A/C		8,000
					,, Salaries A/C		8,000
					,, Misc. Exp. A/C		4,000
					,, Balance c/d		32,000
			<b><u>80,000</u></b>				<b><u>80,000</u></b>
	To, Balance b/d		32,000				

## Capital A/C

Dr.				Cr.			
Date	Particulars	J. F.	Amount Rs.	Date	Particulars	J. F.	Amount Rs.
?	By Balance c/d		40,000	?	By, Cash A/C		40,000
			<b><u>40,000</u></b>				<b><u>40,000</u></b>
					By, Balance b/d		40,000

## Purchase A/C

Dr.				Cr.			
Date	Particulars	J. F.	Amount Rs.	Date	Particulars	J. F.	Amount Rs.
?	To, Cash A/C		20,000	?	By, Balance c/d		20,000
			<b><u>20,000</u></b>				<b><u>20,000</u></b>
	To, Balance b/d		20,000				

Sales A/C

Dr.				Cr.			
Date	Particulars	J. F.	Amount Rs.	Date	Particulars	J. F.	Amount Rs.
?	To, Balance c/d		40,000	?	By, Cash A/C		40,000
			<u>40,000</u>				<u>40,000</u>
					By, Balance b/d		40,000

Wages A/C

Dr.				Cr.			
Date	Particulars	J. F.	Amount Rs.	Date	Particulars	J. F.	Amount Rs.
?	To, Cash A/C		8,000	?	By, Balance c/d		8,000
			<u>8,000</u>				<u>8,000</u>
	To, Balance b/d		8,000				

Sales A/C

Dr.				Cr.			
Date	Particulars	J. F.	Amount Rs.	Date	Particulars	J. F.	Amount Rs.
?	To, Cash A/C		8,000	?	By, Balance c/d		8,000
			<u>8,000</u>				<u>8,000</u>
	To Balance b/d		8,000				

Misc. Expenses A/C

Dr.				Cr.			
Date	Particulars	J. F.	Amount Rs.	Date	Particulars	J. F.	Amount Rs.
?	To, Cash A/C		4,000	?	By, Balance c/d		4,000
			<u>4,000</u>				<u>4,000</u>
	To Balance b/d		4,000				

Plant & Machinery A/C

Dr.				Cr.			
Date	Particulars	J. F.	Amount Rs.	Date	Particulars	J. F.	Amount Rs.
?	To, Cash A/C		8,000	?	By, Balance c/d		8,000
			<u>8,000</u>				<u>8,000</u>
	To, Balance b/d		8,000				

**Solution:**

Trial balance of.....  
As on.....

Sl. No.	Name of Account	Dr.	Cr.
		Amount Rs.	Amount . Rs
1.	Cash A/c	80,000	48,000
2.	Capital A/c	Nil	40,000
3.	Purchase A/c	20,000	Nil
4.	Sales A/c	Nil	40,000
5.	Wages A/c	8,000	Nil
6.	Misc. Expenses A/c	4,000	Nil
7.	Plant & Machinery A/c	8,000	Nil
8.	Sales A/c	8,000	Nil
		<b><u>1,28,000</u></b>	<b><u>1,28,000</u></b>

**Total and Balance Method:**

It is a united type of Total method and Balance method.

**Example-11:** From the following ledger prepare Trial Balance by Total and Balance Method.

Dr.				Cr.			
Date	Particulars	J. F.	Amount Rs.	Date	Particulars	J. F.	Amount Rs.
?	To, Capital A/C ,, Sales A/C		60,000	?	By, Purchases A/C ,, Plant & Machinery A/C ,, Wages A/C ,, Salaries A/C ,, Misc. Exp. A/C ,, Balance c/d		30,000 12,000 12,000 12,000 6,000 48,000
			<b><u>1,20,000</u></b>				<b><u>1,20,000</u></b>
	To, Balance b/d		48,000				

Capital A/C

Dr.				Cr.			
Date	Particulars	J. F.	Amount Rs.	Date	Particulars	J. F.	Amount Rs.
?	By Balance c/d		60,000	?	By, Cash A/C		60,000
			<b><u>60,000</u></b>				<b><u>60,000</u></b>
					By, Balance b/d		60,000

Purchase A/C

Dr.				Cr.			
Date	Particulars	J. F.	Amount Rs.	Date	Particulars	J. F.	Amount Rs.
?	To, Cash A/C		30,000	?	By, Balance c/d		30,000
			<b><u>30,000</u></b>				<b><u>30,000</u></b>
	To, Balance b/d		30,000				

Sales A/C

Dr.				Cr.			
Date	Particulars	J. F.	Amount Rs.	Date	Particulars	J. F.	Amount Rs.
?	To, Balance c/d		60,000	?	By, Cash A/C		60,000
			<b><u>60,000</u></b>				<b><u>60,000</u></b>
					By, Balance b/d		60,000

Wages A/C

Dr.				Cr.			
Date	Particulars	J. F.	Amount Rs.	Date	Particulars	J. F.	Amount Rs.
?	To, Cash A/C		12,000	?	By, Balance c/d		12,000
			<b><u>12,000</u></b>				<b><u>12,000</u></b>
	To, Balance b/d		12,000				

Sales A/C

Dr.				Cr.			
Date	Particulars	J. F.	Amount Rs.	Date	Particulars	J. F.	Amount Rs.
?	To, Cash A/C		12,000		By, Balance c/d		12,000
			<u>12,000</u>				<u>12,000</u>
	To Balance b/d		12,000				

Misc. Expenses A/C

Dr.				Cr.			
Date	Particulars	J. F.	Amount Rs.	Date	Particulars	J. F.	Amount Rs.
?	To, Cash A/C		6,000	?	By, Balance c/d		6,000
			<u>6,000</u>				<u>6,000</u>
	To Balance b/d		6,000				

Plant & Machinery A/C

Dr.				Cr.			
Date	Particulars	J. F.	Amount Rs.	Date	Particulars	J. F.	Amount Rs.
?	To, Cash A/C		12,000	?	By, Balance c/d		12,000
			<u>12,000</u>				<u>12,000</u>
	To, Balance b/d		12,000				

**Solution:**

Trial Balance of...  
As on....

Sl. No.	Heads of Account	L.F.	Debit Balance Rs.	Credit Balance Rs.	Debit Total Rs.	Credit Total Rs.
1.	Cash A/c		48,000	-	1,20,000	72,000
2.	Capital A/c		-	60,000	-	60,000
3.	Purchase A/c		30,000	-	30,000	-
4.	Sales A/c		-	60,000	-	60,000
5.	Wages A/c		12,000	-	12,000	-
6.	Misc. Expenses A/c		6,000	-	6,000	-
7.	Plant & Machinery A/c		12,000	-	12,000	-
8.	Sales A/c		12,000	-	12,000	-
			<u>120,000</u>	<u>120,000</u>	<u>192,000</u>	<u>192,000</u>

## 1.7 Summary

From the above discussion, we could understand the concept of Accounting; Evolution of Accounting; Book-keeping; Accounting Information; Relation of Accounting with Other Disciplines; Golden Rules with Various Accounts; Various Approaches of Accounting; Debit and Credit under Traditional Approaches; Accounts; Transactions; Journal; Accounting Equation Approach; Traditional Approach; Ledger; and Trial Balance.

## 1.8 Questions

### A. Multiple Choice Question (MCQ)

- All of the following matters are categorized as fundamental accounting assumption apart from-
  - Consistency
  - Business entity**
  - Going Concern
  - Accrual
- Assets are being used in the business for the purpose of-
  - Resale
  - Conversion into Cash
  - Earning Revenue**
  - None of these
- Decrease in the amount of creditors outcomes in-
  - Increase in cash
  - Decrease in cash**
  - Decrease in assets
  - No change in assets
- ..... is not a subfield of accounting?
  - Management accounting
  - Cost accounting
  - Book-Keeping**
  - None of these
- All of the following matters are functions of accounting except-
  - Ledger Posting**
  - Forecasting
  - Decision making
  - None of these
- Financial declaration is part of-
  - Accounting**
  - Book-keeping
  - All of the above
  - None of these
- Users of accounting data include-
  - Creditors
  - Lenders
  - Customers
  - All of these**
- On February 1, Shyam paid rent of Rs.10, 000. It is characterized as a-
  - An event
  - A transaction
  - A transaction as well as an event**
  - None of these
- Financial place of the business is ascertained on the foundation of-
  - Records prepared under book-keeping process
  - Trial Balance
  - Accounting reports**
  - None of these
- On March 31<sup>st</sup>, 2020 after valuing sale of goods at Rs.50, 000/-, one is left with the closing stock of Rs.10, 000/-. This is-
  - An event**
  - A transaction
  - A transaction as well as event
  - None of these



11. When an asset is bought. Asset Account is-
- a) **Debited**
  - b) Credited
  - c) Both 'a' and 'b'
  - d) None of these
12. When Furniture is bought for resale. Furniture Account is-
- a) Debited
  - b) Credited
  - b) Both 'a' and 'b'
  - d) None of these**
13. When repairs are completed. Repairs Account is-
- a) Credited
  - b) Debited**
  - b) Both 'a' and 'b'
  - d) None of these
14. When Plants are sold. Plant Account is-
- a) Debited
  - b) Credited**
  - b) Both 'a' and 'b'
  - d) None of these
15. The Process of recording transaction is known as-
- a) **Journalising**
  - b) Posting
  - b) Casting
  - d) None of these
16. Augmentation in assets means-
- a) **Profit**
  - b) Loss
  - b) Both 'a' and 'b'
  - d) None of these
17. Raise in capital denotes-
- a) Debit in Capital A/c
  - b) Credit in Capital A/c**
  - b) Both 'a' and 'b'
  - d) None of these
18. Single Entry means where there is-
- a) **One entry**
  - b) Compound entry
  - b) Double entry
  - d) None of these
19. Journal is known as-
- a) Subsidiary Book
  - b) Original Book**
  - b) Supplementary Book
  - d) None of these
20. Nominal Account is connected to-
- a) Expenses /Loss or Income/gains**
  - b) Assets and liabilities
  - c) Customers, Creditors etc.
  - d) None of these
21. Journal is the book of-
- a) **Primary entry**
  - b) Secondary entry
  - c) Final entry
  - d) None of these
22. Journal entries are made-
- a) Before ledger posting**
  - b) After ledger posting
  - c) Before trial balance
  - d) None of these

23. Goods bought for business; debit is made to-
- |                        |                     |
|------------------------|---------------------|
| a) Good in Transit A/c | <b>b) Goods A/c</b> |
| c) Purchases A/c       | d) Sales A/c        |
24. For machinery purchased for business, debit is done to-
- |                         |                  |
|-------------------------|------------------|
| a) Goods A/c            | b) Purchases A/c |
| <b>c) Machinery A/c</b> | d) None of these |
25. Furniture purchased for household use of proprietor then the debit is made to-
- |                        |                  |
|------------------------|------------------|
| a) Furniture A/c       | b) Purchases A/c |
| <b>c) Drawings A/c</b> | d) None of these |
26. Rent account is a-
- |                     |                           |
|---------------------|---------------------------|
| a) Personal account | <b>b) Nominal account</b> |
| c) Real account     | d) None of these          |
27. Bills payable account is a-
- |                    |                            |
|--------------------|----------------------------|
| a) Real account    | <b>b) Personal account</b> |
| c) Nominal account | d) None of these           |
28. Prepaid salary account is a-
- |                            |                  |
|----------------------------|------------------|
| a) <b>Personal account</b> | b) Real account  |
| c) Nominal account         | d) None of these |
29. Accounts payable is a-
- |                       |                  |
|-----------------------|------------------|
| a) Revenue            | b) Expenses      |
| <b>c) Liabilities</b> | d) None of these |
30. Building is a-
- |                  |                  |
|------------------|------------------|
| a) Revenue       | b) Expenses      |
| <b>c) Assets</b> | d) None of these |
31. The process of transferring the debit and the credit items from journal to classified accounts in the ledger is known as-
- |                          |                  |
|--------------------------|------------------|
| a) <b>Posting</b>        | b) Purchases     |
| b) Balancing of accounts | d) None of these |
32. Journal and Ledger records transaction in-
- |   |
|---|
| <b>a) A sequential order and logical order respectively</b> |
| b) A logical order and sequential order respectively        |
| c) A chronological order only                               |
| d) None of these  |
33. Ledger book is popularly known as-
- |                                      |
|--------------------------------------|
| <b>a) Secondary book of accounts</b> |
| b) Principal book of accounts        |
| c) Subsidiary book of accounts       |
| d) None of these                     |
34. At the end of the accounting year all the nominal accounts of the ledger book are-



43. A statement showing the balances of all the accounts in the ledger with a view to test the arithmetical accuracy is known as-
- a) Journal
  - b) Trial balance**
  - c) Ledger
  - d) None of these
44. The difference in trial balance is due to-
- a) Wrong placing of sales account
  - b) Wrong placing of miscellaneous account
  - c) Wrong placing of salaries account
  - d) All of the above**
45. Widespread Approaches of preparing trial balance is-
- a) Two ways
  - b) Four ways
  - c) Three ways**
  - d) None of these
46. Making the trial balance the bookkeeper found that the total of debit side is shortened by Rs.5, 000/- . This difference will be-
- a) Credited to suspense account
  - b) Adapted to any of the debit balance account
  - c) Debited to suspense account**
  - d) None of these
47. In accounting procedure Trial balance is-
- a) Second phase of accounting
  - b) Fourth Phase of accounting
  - c) Third Phase of accounting**
  - d) None of these
48. Trial balance may help-
- a) To Facilitate Auditors
  - b) Arithmetical accuracy
  - c) To simplify detection of errors
  - d) All of the above**
49. Under Double Entry System, every transaction affect-
- a) Debit of side one account and the credit side of another account
  - b) Same accounts in the opposite side**
  - c) Both 'a' and 'b'
  - d) None of these
50. Trial Balance is called-
- a) Original Book
  - b) Subsidiary Books
  - c) A Statements showing the balances of accounts**
  - d) None of these

## Answer Key.

1 (b)	2 (c)	3 (b)	4 (c)	5 (a)	6 (a)	7 (d)	8 (c)	9 (c)	10(a)
11 (a)	12 (d)	13 (b)	14 (b)	15 (a)	16 (a)	17 (b)	18 (a)	19(b)	20(a)
21 (a)	22 (a)	23 (b)	24 (c)	25 (c)	26 (b)	27 (b)	28 (a)	29(c)	30(c)
31 (a)	32 (a)	33 (a)	34 (c)	35 (c)	36 (a)	37 (a)	38 (b)	39(a)	40(b)
41 (d)	42 (c)	43 (b)	44 (d)	45 (c)	46 (c)	47 (c)	48 (d)	49 (b)	50 (c)

### B) Short Answer Type Questions-

1. What is accounting?
2. What are the objectives of accounting?
3. What is Book-keeping System?
4. Discuss the objectives of Book-keeping system.
5. How do you determine 'Debit' or 'Credit' in case of Real Account under Modern Approach?
6. How do you establish 'Debit' or 'Credit' in case of Personal Account under Modern Approach?
7. Define 'Debit' and 'Credit'?
8. What do you mean by Journal?
9. What are the Advantages of Journal?
10. What is Transaction?
11. What is Account?
12. On 01.05.2018 Mr. Roy started a business with cash Rs.1, 00,000. Journalise the transaction.
13. Journalise the following transaction: Ram Purchased goods worth Rs.10, 000 from Mr. Arijit Das on credit.
14. Mr. Shyam purchased goods in cash Rs.20, 000. Show the journal entry.
15. Ram opened a bank account with SBI by depositing Rs.20, 000. Show the journal entry.
16. On 15.4.2018 Sourav withdrew cash of Rs.10, 000 from the bank for office use. Pass the journal entry.
17. What is Ledger?
18. Discuss the rules of Ledger Posting?
19. Discuss the two functions of ledger?
20. Make the Ledger Accounts from the following transactions:  
2018  
Jan.1 Started business with capital Rs.30, 000/-  
4 Purchased goods Rs.10, 000/-  
8 Paid wages Rs.20, 000/-  
12 Sold goods Rs.12, 000/-
21. Make Journal Entries and Ledger Account:  
2018  
April.1 Cash withdrawn from Bank Rs.10, 000/-  
3 Wages Paid Rs.20, 000/-  
5 Salary paid Rs.10, 000/-
22. Prepare necessary Ledger accounts:  
2018  
Sep.10 Started business with cash Rs.50, 000/-  
15 Sold goods to R. Pandey on credit Rs.8, 000/-  
23 Cash received from Sumon Rs.20, 000/-

23. Make Ledger Accounts from the given transactions:

2018

- March.10 Sales of goods in cash for Rs.80, 000/-  
15 Collection of cash from Bose& Co.10, 000/-

24. Make Journal and post them into Ledger Accounts:

2018

- June.5 Goods purchased from Delhi Rs.90, 000/-on credit  
12 Cheque received from America Rs.50, 000/-

25. What do you mean by Trial Balance?

26. Discuss the Advantages of Trial Balance.

27. Discuss four objectives of Trial Balance.

28. Discuss the Limitations of Trial Balance.

29. Mr. Ram purchased a running business from Mr. Shyam with the following assets and liabilities on 1.1.2018

Building Rs.60, 000/-, Cash Rs.40, 000/-, Stock Rs.80, 000/-, Furniture Rs.40, 000/-, Debtors Rs.20, 000/- and Creditors Rs.10, 000/-. Prepare of Trial Balance.

30. Prepare Trial Balance.

Cash Rs.10, 000/-, Debtors Rs.30, 000/-, Creditors Rs.20, 000/-, Bank Balance Rs.5, 000/-, Machinery Rs.50, 000/-, Building Rs.60, 000/-, Capital Rs.20, 000/-.

### C) Broad Answer Type Questions-

1. Distinguish between book-keeping and Accounting System.
2. Describe the Internal Users of Accounting System?
3. What are the secondary users of accounting?
4. Briefly examine the Evaluation of Accounting?
5. Discuss the Relation of Accounting with Other Disciplines?
6. How do you establish Debit and Credit with the help of the Golden Rule? What is Golden-Rule of Book-keeping?
7. What is Hybrid System of Accounting?
8. Explain the Fundamental of Accounting Equation?
9. Explain the Accounting Equation Approach?
10. What is Double Entry System? Discuss the advantages of Double Entry System?
11. How do you determine Debit and Credit with the assistance of Golden Rule?
12. "Accounting Equation is the current idea of Double Entry System."-Comment?

13. Journalise the following transactions:

2018

- April 1 Received from Suriya Rs.10, 000/-  
5 Paid to Lalu Rs.2, 000/-  
6 Paid interest on loan Rs.5, 000/-  
8 Rent Paid Rs.5, 000/-  
10 Sold goods to Ram Rs.10, 000/-  
15 Purchased furniture for Rs.10, 000/-  
18 Cash received from Rohit Rs.5, 000/-  
20 Received commission Rs.2, 000/-  
25 Paid Salary for Rs.20, 000/-  
27 Paid Wages Rs.10, 000/-

14. Journalise the following transactions:

2018

- Jan. 1 Nil started a business with cash Rs.10, 000/-
- 5 Purchased furniture for Rs.10, 000/-
- 10 Cash deposit into Bank Rs.40, 000/-
- 12 Paid Salaries by cheque Rs.20, 000/-
- 15 Received Cash from Sunil Rs.10, 000/-
- 18 Sold goods in Cash Rs.10, 000/-
- 20 Paid Wages Rs.10, 000/-
- 23 Received Commission Rs.5, 000/-
- 25 Received Loan from Sunil and deposit into Bank Rs.10, 000/-
- 31 Purchased Stationery for cash Rs.2, 000/-

15. Journalise the following transactions:

2018

- Feb.1 Goods purchased in cash Rs.10,000/-
- 2 Cash paid to Sourav & Co. Rs.5,000/-
- 5 Bought Machinery from Das & Co. Rs.50,000/-
- 13 Paid Wages Rs.20,000/-
- 15 Paid Salary Rs.20,000/-
- 22 Amit Returned goods Rs.10,000/-
- 25 Paid for purchase of stationery Rs.5,000/-
- 28 Purchased Furniture for Rs.20,000/-

16. Journalise the following transactions:

2018

- April. 1 Started business with cash Rs.20,000/-, Stock Rs.10,000/- and Furniture Rs.10,000/-
- 4 Purchased goods on credit from Mitra & Co. Rs.50,000/-
- 6 Cash withdrawn from Bank Rs.10,000/- for office use
- 13 Paid house rent of Rs.5,000/-
- 15 Paid Salary Rs.40,000/-
- 16 A Machine purchased on credit from Machine Tools Ltd for Rs.20, 000/-
- 18 Cash deposit into Bank Rs.10, 000/-
- 20 Personal jewellery sold for Rs.20, 000/- and deposit into Bank
- 25 Paid Salary for Rs.30, 000/-
- 30 Loan taken from Bank Rs.50, 000/-

17. Pass the journal entries in the books of Arun Enterprise.

2018

- March.1 Started business with cash Rs.40, 000/- and Bank balance Rs.20, 000/-
- 5 Paid for Advertisement Rs.10, 000/-
- 7 Cheque issued for Rs.5, 000/- as a loan to parrot
- 9 Machinery Purchased for Rs.40, 000/-
- 13 Wages paid to workers for installing of the Machine Rs.10, 000/-
- 16 Cash withdrawn from bank for certain expenses Rs.5, 000/-
- 18 Cash paid to Rs.10, 000/- as charity to local club
- 22 Old Furniture having book value Rs.20, 000/- sold for Rs.12, 000/- only
- 26 Paid doctors' fees Rs.500/- and 2, 000/- for medicine purchased for treatment.
- 31 Sold goods to Bapi Rs.10, 000/- at a trade discount 10%

18. What is Ledger? Discuss its application of Double Entry System?
19. How many kinds of accounts are found in the ledger?
20. Explain the Balance of an account?
21. Make Ledger Accounts from the given information's:

2018

- Jan.1 Sold goods to Arun Rs.20, 000/-
- 3 Purchased goods from Arun Rs.10, 000/-
- 5 Cash received from Arun Rs.10, 000/-
- 8 Goods returned by Arun Rs.10, 000/-
  
- 16 Bought goods from Amit Roy Rs.40, 000/-
- 20 Goods refunded to Amit Roy Rs.15, 000/-
- 28 Cash paid to Dalal & Co.10, 000/-

22. You are needed to post them into Ledger through difference Accounts:

2018

- March.1 Goods purchased for cash Rs.30, 000/-
- 3 Purchased furniture for Rs.20, 000/-
- 5 Purchased Machinery for Rs.40, 000/-
- 8 Sold goods to Avijit on credit Rs.10, 000/-
- 14 Bought goods on credit from Sumon Rs.20, 000/-
- 18 Cash collected from Arun Rs.5, 000/-
- 22 Returned goods to Swapan Rs.12, 000/-
- 28 Cash paid for purchase of a new machine Rs.5, 000
- 31 Cheque issued to Swapan Rs.5, 000/-

23. Record the following transaction into Journal and Post them into Ledger Accounts:

2018

- Feb.1 Goods purchased in cash Rs.90,000/-
- 2 Cash paid to Sourav& Co. Rs.20, 000/-
- 5 Purchased Machinery from Das & Co. Rs.50, 000/-
- 10 Sold goods to Anil on credit Rs.20, 000/-
- 13 Paid Wages Rs.10, 000/-
- 15 Paid Salary Rs.30, 000/-
- 22 Anil Returned goods Rs.5, 000/-
- 25 Pay for buying of stationery Rs.6, 000/-
- 28 Purchased Furniture for Rs.40, 000/-

24. Record the following transaction in the Journal of Gupta Traders and There from post them in the Ledger Accounts:

2018

- April. 1 Started business with cash Rs.80, 000/-, Stock Rs.10, 000/- and Furniture Rs.20, 000/-
- 2 Goods sold in cash to A &Co. Rs.9, 000/-
- 4 Bought goods on credit from Mitra & Co. Rs.1,00,000/-
- 6 Cash withdrawn from Bank Rs.20, 000/- for office use
- 10 Sold goods to M. Enterprise for Rs.10, 000/-
- 13 Paid house rent of Rs.5, 000/-
- 16 A Machine purchased on credit from Machine Tools Ltd for Rs.20, 000/-
- 18 Cash deposited into Bank Rs.10, 000/-
- 25 Paid Salary for Rs.30, 000/-



25. Prepare Ledger accounts:

2018

- March.1 Debit balance brought forward Rs.10, 000/-
- 5 Sold goods to Mr. Mukherjee Rs.50, 000/-
- 9 Obtained cheque from Mukherjee and placed the cheque at bank amounting to Rs.20, 000/-
- 12 Mr. Mukherjee's cheque returned dishonoured amounted to Rs.20, 000/-
- 14 Mr. Mukherjee paid cash Rs.20, 000/-
- 20 Sold goods to Mr. Mukherjee Rs.10, 000/-
- 22 Mr. Mukherjee returned some defective goods Rs.4, 000/-
- 26 Mr. Mukherjee paid on account Rs.2, 000/-
- 31 Discount allowed to Mr. Mukherjee Rs.200/-

26. Prepare necessary Ledger Accounts:

2018

- Jan. 1 Sumana started a business with cash Rs.2, 00,000/-
- 5 Purchased furniture for Rs.20, 000/-
- 10 Cash deposit into Bank Rs.50, 000/-
- 12 Paid Salaries by cheque Rs.40, 000/-
- 15 Received Cash from Sunil Rs.30, 000/-
- 18 Sold goods in Cash Rs.10, 000/-
- 20 Paid Wages Rs.10, 000/-
- 23 Received Commission Rs.10, 000/-
- 31 Purchased Stationery for cash Rs.2, 000/-

27. Journalise the following transaction and prepare Ledger Accounts:

2018

- April 1 Received from Supriya Rs.25, 000/-
- 5 Paid to Rama Rs.4, 000/-
- 6 Paid interest on loan Rs.2, 000/-
- 8 Rent Paid Rs.3, 000/-
- 10 Sold goods to Shyam Rs.20, 000/-
- 15 Purchased furniture for Rs.10, 000/-
- 18 Cash received from Sunil Rs.5, 000/-
- 20 Received commission Rs.1, 000/-
- 25 Paid Salary for Rs.20, 000/-
- 27 Paid Wages Rs.10, 000/-

28. Discuss the errors which are revealed by a Trial Balance.

29. Clarify the purposes and roles of Trial Balance.

30. Mention the errors which affect the agreement of a Trial Balance.

31. Discuss the errors which do not affect the arrangement of Trial Balance.

32. From the following particulars prepare a Trial Balances on 31<sup>st</sup> March 2018.

Capital Fund Rs.1, 00, 000/-, Salary paid in advance Rs.10, 000/-, Prize Fund Rs.20, 000/-, Outstanding Liability for rent Rs.5, 000/-, Printing fees outstanding Rs.5, 000/-, Cash in hand Rs.14, 000/-, Cash at Bank Rs.30, 000/-, Library books Rs.25, 000/-, Furniture Rs.50, 000/-, Investment in Govt. Papers Rs.20, 000/-, Accrued interest from investment Rs.1, 000/-, Credit balance of income and expenditure account Rs.20, 000/-.

33. From the following Ledger balances of Miss Puja Roy, prepare a Trial Balance as on 31<sup>st</sup> January 2018.

Land & Building Rs.3, 00,000/-, Household Furniture Rs.50, 000/-, Salary received Rs.1, 50,000/-, Fish, Meat & Egg Rs.5, 000/-, Vegetables Rs.5, 000/-, Spices Rs.4, 000/-, Fuel Rs.2, 000/-, Utensils Rs.15, 000/-, Ornaments Rs.50, 000/-, Wages to Servant Rs.5, 000/-, investment in Govt. Securities Rs.2, 000/-, Electric Charges Rs.8, 000/-, Travelling Expenses Rs.5, 000/-, Municipal Tax Rs.6, 000/-, Stationery Rs.8, 000/-, Food grains Rs.20, 000/-.

34. From the following particulars prepare Trial Balance of Sporting Club as on 31<sup>st</sup> April 2018.

Capital Fund Rs.50, 000/-, Subscription received Rs.2, 00,000/-, Donation for prize fund Rs.30, 000/-, Entrance fees Rs.20, 000/-, Interest on Bank deposit Rs.5, 000/-, Sports expenses Rs.10, 000/-, Play-Ground Rs.30, 000/-, Maintenance expenses Rs.10, 000/-, Club Equipment Rs.10, 000/-, Travelling & Conveyance Rs.5, 000/-, Prize expenses Rs.10, 000, Cash in hand Rs.80, 000/-, Cash at Bank Rs.20, 000/-, sale of Newspaper & Magazine Rs.5, 000/-, Interest on Investment Rs.5, 000/-, Subscription received from Members in Advance Rs.4, 000/-.

35. Prepare a Trial Balance as on 30<sup>th</sup> September 2018.

Fees received from Trainees Rs.60, 000/-	Furniture Rs.15, 000/-
Grant received from State Govt. Rs.20, 000/-	Building Rs.30, 000/-
Salaries Rs.40, 000/-	Electric Charges Rs.5, 000/-
Misc. Receipts Rs.10, 000/-	Books Rs.5, 000/-
Cash & Bank Rs.50, 0008/-	Misc. Expenses Rs.2, 000/-
Postage & Telegrams Rs.20, 000/-	Entrance fee received Rs.4, 000/-
Capital Fund Rs.40, 000/-	Subscription received Rs.10, 000/-

36. From the following information prepare a Trial Balance:

Capital A/c Rs.50, 000/-	Opening stock, A/c Rs.15, 000/-
Debtors A/c Rs.40, 000/-	Creditors A/c Rs.30, 000/-
Fixed Assets A/c Rs.30, 000/-	Purchase A/c Rs.80, 000/-
Sales A/c Rs.1, 00,000/-	Return Inward A/c Rs.3, 000/-
Return Outward A/c Rs.10, 000/-	Wages & Salaries A/c Rs.40, 000/-
Bills Payable A/c Rs.8, 000/-	Bills Receivables A/c Rs.15, 000/-
Bank Overdraft A/c Rs.10, 000/-	Rent A/c Rs.10, 000/-

## **Unit 2: Books of Accounts**

### **Structure**

#### **2.0 Objectives**

#### **2.1 Introduction**

#### **2.2 Cash Book**

- 2.2.1 Kinds of Cash Book
- 2.2.2 Petty Cash Book
- 2.2.3 Entries for Sale through Credit / Debit Cards
- 2.2.4 Entries for Sale through Credit / Debit Cards
- 2.2.5 Entries for Sale through Credit / Debit Cards
- 2.2.6 Accounting for Credit / Debit Card Sale

#### **2.3 Bank Reconciliation Statements (BRS)**

- 2.3.1 Bank Pass Book
- 2.3.2 Importance of BRS

#### **2.4 Day Book**

- 2.4.1 Purchase Day Book
- 2.4.2 Sales Day Book
- 2.4.3 Return Inward Book
- 2.4.4 Return Outward Book
- 2.4.5 Bills Receivable Book
- 2.4.6 Bills Payable Book

#### **2.5 Journal Proper**

- 2.5.1 Credit Purchase and Credit Sales of Assets
- 2.5.2 Opening Entries
- 2.5.3 Closing Entries
- 2.5.4 Adjustment Entries

#### **2.6 Summary**

#### **2.7 Questions**

## 2.0 Objectives

After studying this unit, you will be able to understand the concept of-

- Cash Book;
- Bank Reconciliation Statements (BRS);
- Bank Pass Book;
- Day Book;
- Purchase Day Book;
- Sales Day Book;
- Return Inward Book;
- Return Outward Book;
- Bills Receivable Book;
- Bills Payable Book;
- Journal Proper;
- Credit Purchase and Credit Sales of Assets;
- Opening Entries;
- Closing Entries; and
- Adjustment Entries.

## 2.1 Introduction

All commercial organization and taxpayers are to carry on a record of their day-to-day trade transactions in order to identify the result of their operations. The supposed record is mentioned to as “Books of accounts”.

Thus, books of accounts consist to the records or books in which all monetary data of a commerce or an entity is recorded and controlled. For example, a journal is a book of account for the reason that it is used to record economic information of commerce. Likewise, purchase ledger account, cash book, general journal, sales ledger account etc. are example of books of accounts.

The procedure of recording monetary data or transactions in the books of accounts is known as “Book-keeping”. While, the person who records the monetary information of a trade in the books of accounts is called book-keeper.

Books of accounts mostly comprise of Books of Original entries and Books of Secondary entries.

### **Books of Original Entries:**

- General Journal or Day Book- for recording common double entries.
- Sales Journal or Sales Day Book-for recording credit sales.
- Purchase Journal or Purchase Day Book-for recording purchase on credit.
- Sales Return Journal or Sales Return Day Book-for recording sales return.
- Purchase Return Journal or Purchase Return Day Book-for recording purchase return.
- Cash Receipt Journal-for recording all type of cash receipt.
- Cash Payment Journal-for recording all type of cash payments.
- Cash Book-for recording cash receipts and payments.

### **Books of Secondary’s Entries:**

Chief ledger account such as debtor manage account, creditor manage account, building account, depreciation account, rent account, purchase account, sales account etc.

Subsidiary ledger accounts are debtors account, creditors account, stock account and other ledger accounts.

These all journal and ledger accounts are together referred to as books of accounts.

## 2.2 Cash Book

A cash book is financial journal that comprises all cash takes and payments, as well as bank deposit and withdrawals also. Cash transaction is recorded in the cash book and on the foundation of such a record, ledger accounts are organized. Entries in the cash book are posted into the general ledger account. Therefore, cash book is a subsidiary book. As well as Cash book itself provide the cash account and the bank account; hence, the balance entered in the trial balance straight. Thus, it has also behaved as a main book. Consequently, the cash book together is a subsidiary and principal book.

### 2.2.1 Kinds of Cash Book

The cash book may be of the three types-

- a) Single column Cash book.
- b) Double Column cash book.
- c) Triple Column Cash book.

As well as, firms also preserve a petty cash book but that is simply a subsidiary book.

**a) Single Column Cash Book:** In which only and only a cash transaction is recorded. The left-hand side records receipts of cash and the right-hand side the payments of cash and “one amount column” on each part of the cash book. It is usually controlled by such commerce concerns which do not have bank accounts.

#### **Balancing of Single Column Cash Book:**

The cash book is balanced in the similar method of ledger account. The receipts column is at all times bigger than the payments column. The distinction is written on the credit side as ‘By balance c/d; The totals are then entered in the two columns reverse one another and then on the debit side the balance is written as ‘To balance b/d’, to display cash balance in hand in the starting of next phase.

**Example-1:** Enter the following transaction in the simple cash book of Mr. Raja  
2018

- Jan.1 Mr. Roy started business with cash Rs. 2, 00,000/-
- Jan.3 Bought goods for cash Rs. 1, 00,000/-
- Jan.5 Paid for stationery Rs. 10,000/-
- Jan.7 Sold goods for cash Rs. 80,000/-
- Jan.10 Paid for trade expenses Rs. 20,000/-
- Jan.12 Received cash from Mr. Jodu Rs. 20,000/-
- Jan.14 Paid to Shyam Rs. 10,000/-
- Jan.18 Withdrew cash for personal use Rs. 5,000/-
- Jan.31 Paid salary Rs. 10,000/-
- Jan.31 Paid rent Rs. 5,000/-

**Solution:**

In the books of Mr. Roy  
Single Column Cash Book

Dr.				Cr.			
Date	Receipts	L.F.	Amount Rs.	Date	Payments	L.F.	Amount Rs.
2018				2018			
Jan.1	To, Capital A/c		200,000	Jan.3	By, Purchase A/c		100,000
Jan.7	To, Sales A/c		80,000	Jan.5	By, Stationery A/c		10,000
Jan.12	To, Jodu A/c		20,000	Jan.10	By, Trade expenses A/c		20,000
				Jan.14	By, Shyam A/c		10,000
				Jan.18	By, Drawings A/c		5,000
				Jan.31	By, Salary A/c		10,000
				„	By, Rent A/c		5,000
				Jan.31	By, Balance c/d		140,000
			<b><u>300,000</u></b>				<b><u>300,000</u></b>
Feb.1	To, Balance b/d		140,000				

**b) Double Column Cash Book**

There is Extra column known as discount column is present both sides of the cash book such cash book is called double column or two column cash books, one for recording cash and one more for recording discount. The discount column on the debit side is used for recording discount allowed on receipt of cash and the side discount column is used for recording discount received at the time of payment.

So, we can declare that when a discount column is added to the single column cash book, it becomes a double column cash book.

**Example-2:** From the following transaction prepare double column cash book of Mr. Roy  
2018

Jan.1 Opening balance of cash Rs. 20,000/-

Jan.3 Purchased furniture for cash Rs. 6,000/-

Jan.8 Sold goods for cash Rs. 2,000/-

Jan.12 Paid cash to Ram Rs. 1,000/-

Jan.16 Cash received from Rajesh Rs. 2,000 and Discount allowed Rs. 5, 00/-

Jan.20 Paid to H& Co. Rs. 1,000/- and received a cash discount Rs. 2, 00/-

Jan.26 Paid for salaries Rs. 5,000/-

Jan.31 Paid for office furniture Rs. 2,000/-

**Solution:**

In the books of Mr. Roy  
Double column cash book

Dr.					Cr.				
Date	Receipts	L. F.	Discount Rs.	Amount Rs.	Date	Payments	L. F.	Discount Rs.	Amount Rs.
2018					2018				
Jan.1	To, Balance b/d		-	20,000	Jan.3	By, Furniture A/c		-	6,000
Jan.8	To, Sales A/c		-	5,000	Jan.12	By, Ram A/c		-	1,000
Jan.16	To, Rajesh A/c		5,00	2,000	Jan.20	By, H &Co. A/c		2,00	1,000
					Jan.26	By, Salaries A/c		-	5,000
					Jan.31	By, Furniture A/c		-	2,000
					Jan.31	By, Balance c/d		-	12,000
			<b><u>5,00</u></b>	<b><u>27,000</u></b>				<b><u>2,00</u></b>	<b><u>27,000</u></b>
Feb.1	To, Balance b/d			12,000					

**c) Triple Column Cash Book:**

Also known as three column cash books. It is used mainly for completing arrangement of cash book which has three money columns on both receipts and payment sides to record transaction concerning cash, bank and discounts. A triple column cash book is normally controlled a large firm. The variation between two classes of cash book is that a double column cash book that has two money columns i.e., cash and discount column while triple column cash book has three money columns i.e., cash and bank and discount column.

**Balancing of Triple Column Cash Book:**

It is necessary to find out the bank balance, the bank column is totalled on the both parts. If debit column is additional than the credit column the dissimilarity represent cash at bank and the other side the credit balance is more than the debit balance it is stand for the 'overdrawn balance'.

The cash column is balanced as frequently. While discount column is just totalled and not balanced.

**Example-3:** From the following transaction and prepare the three-column cash book of Roy & Co.

2018

Jan.1 Cash balance Rs.20, 000/- and Bank balance Rs.10, 000/-

Jan.3 Paid M & Co. By check Rs.7, 000/- and discount received from him Rs.2, 000/-

Jan.5 Received A & Co. A check Rs.5, 000/- and discount allowed to them Rs.1, 000/-

Jan.7 Purchased stationery for cash Rs.2, 000/-

Jan.10 Purchased furniture Rs.2, 000/-

Jan.21 Paid office rent by check Rs. 2,000/-

Jan.31 Paid salaries by check Rs.3, 000/-

**Solution:**

In the books of Roy & Co.  
Cash Book (Tippel Column)

Dr.						Cr.					
Date	Receipts	L. F.	Discount Rs.	Cash Rs.	Bank Rs.	Date	Payments	L. F.	Discount Rs.	Cash Rs.	Bank Rs.
2018 Jan.1	To, Balance b/d		-	20,000	10,000	2018 Jan.3	By, M & Co. A/c		2,000	-	7,000
Jan.5	To, A & Co. A/c		1,000	5,000	-	„7	„ Stationery A/c		-	2,000	-
						„10	„ Furniture A/c			2,000	-
						„16	„ Drawings A/c			1,000	-
						„21	„ Office rent Exp. A/c			2,000	-
						„31	„ Salaries A/c			3,000	-
						„31	„ balance c/d			15,000	3,000
			<b>1,000</b>	<b>25,000</b>	<b>10,000</b>				<b>2,000</b>	<b>25,000</b>	<b>10,000</b>
Feb.1	To, Balance b/d		-	15,000	3,000						

**2.2.2 Petty cash book**

A company uphold a chief or general cash book but numerous companies are also maintaining a small cash book recognized as petty cash book to record small day to day expenses of the commerce. It is used to minor usual expenses such as bus fares, fuel, newspapers, cleaning, pen, pencil, office teas etc. This little expense is normally paid using coins and currency notes rather than the checks. All receipts are record in debit side and all payments are record in credit side of petty cash book.

**Advantages of Petty Cash Book:**

The rewards of Petty Cash Book are as follows-

- Saving of the time of main cashier.
- Manage over small payments.
- Petty cash book controlling records of all petty payments methodically.
- Petty cash book provides information about petty payments made on different heads more simply and quickly.

**Example-4:** Prepare petty cash book on the basis of Imprest method from the following information-

2018

Jan.1 Balance in hand Rs.3, 00/-

„ 2 Received cash reimbursement Rs.3, 00/-

„ 3 Stationery Rs.50/-

„ 4 Misc. Expenses Rs.30/-

„ 5 Repairs Rs.80/-

„ 6 Travelling Rs.1, 00/-

„ 7 Stationery Rs.50/-

„ 8 Misc. Expenses Rs.1, 00/-

„ 9 Repairs Rs.50/-.



## Solution:

In the books of.....  
Petty cash book

Dr.			Cr.						
Date	Receipts	Amount Rs.	Date	Payments	Total Rs.	Stationery Rs.	Travelling Rs.	Misc. Exp. Rs.	Repairs RS.
2018 Jan.1	To, balance b/d	300	2018 Jan.3	By, Stationery A/c	50	50	-	-	-
.. 2	.. Reimbursement	300	.. 4	.. Misc. Expenses A/c	30	-	-	30	-
			.. 5	.. Repairs A/c	80	-	-	-	80
			.. 6	.. Travelling A/c	100	-	100	-	-
			.. 7	.. Stationery A/c	50	50	-	-	-
			.. 8	.. Misc. Expenses A/c	100	-	-	100	-
			.. 9	.. Repairs A/c	50	-	-	-	50
			.. 10	.. Balance c/d	140				
		<b>600</b>			<b>600</b>	<b>100</b>	<b>100</b>	<b>130</b>	<b>130</b>
.. 10	.. Balance b/d	140							

### Imprest System of Petty Cash Book:

Under Imprest method, a fixed amount of money known as 'float' is given to the petty cashier to congregate petty expenditure for an agreed time which typically consists of a week or month. At the conclusion of the settled time the petty cashier submits the details of all expenses suffered by him to the main cashier. The total cash spent by the petty cashier during the time is reimbursed to him and the total cash obtainable to pay out at the start of the next phase becomes equal to the original sum.

### Rewards of Imprest System of Petty Cash Book:

The chief advantages of Imprest System of Petty Cash Book are-

- **Misuses of Cash:** The Imprest system decreases the possibilities of misuses of cash.
- **Checking Records:** Under this method, the main cashier periodically checks the record of petty cash.
- **Saving Time:** It keeps the time of the firm principal cashier.
- **Responsibility:** This arrangement trains young staff members in handling cash with accountability.
- **Misappropriation of Cash:** Frequently There are no possibility of misuse of cash because the Imprest system typically very small.

### 2.2.3 Entries for Sale through Credit/Debit Cards

Now a day's sale through credit and debit cards is issued approximately all banks in India straight or with partnership of some other agencies. SBI Card, BOB Card, ICICI Bank Card, HDFC Card and Andhra Bank Card are some of the admired cards.

The process for debit and credit cards are as follows:

- A small artificial card, called credit card is issued by bank to a probable customer, after verifying his creditability, which is typically counted by his income sources.  
A debit card is issued by bank to a customer who has an account with the bank, controlling a lowest cash balance. Now a day's ATM card issued by the bank it is also used as debit card. This card contains 16-digit numbers.
- Habitually bank charges annual cost from the credit card holder.  
On the other surface no fee is charged in case of debit card, even though some bank charges a nominal fee on the debit card.

- The bank issuing the card, charges commission for each such transaction, which different between 1% to 4% and directly debited to seller's bank account.
- The bank sends the monthly statement to the card holder. In case of debit card, the account is right away debited to the card holder's account, whereas in case of credit card, card holder has to pay the amount in full or part. If not paid in full, the interest is charged.

### 2.2.4 Accounting for Credit /Debit Card Sale

From the seller's point of vision, these kinds of sale are correspondent to a cash sale. Commission imposed by the bank will be treated as selling expenses.

The following general entries will be made in the seller's book of accounts-

- 1) Bank A/c.....Dr.  
To, Sales A/c  
(Sales made through credit/debit card)
- 2) Commission A/c.....Dr.  
To, Bank A/c  
(Commission charged by bank)

#### Example-5:

Record the following transaction in cash bank with discount and bank columns. Cheques are first preserved as cash takings-

2018

March.1 Cash in hand Rs.30, 000/-

„ Overdraft in bank Rs.12, 000/-

„ 2 Cash Sales Rs.6, 000/-

„ 3 Paid to Ram by cheque Rs.3, 000/- and discount received Rs.5, 00

„ 4 Sales through credit card Rs.4, 000/-

„ 5 Paid to Srijan by Cheque Rs.2, 000/-

„ 6 Received cheque from Raja Rs.5, 000/- and deposit into Bank by allowing discount Rs.1, 000/-

„ 7 Sales through Debit card Rs.4, 000/-

„ 8 Bank charged 1% commission on sales through Debit/credit cards

#### Solution:

In the books of.....

Cash Book

Dr.						Cr.					
Date	Particulars	L. F.	Discount Rs.	Cash RS.	Bank Rs.	Date	Particulars	L. F.	Discount Rs.	Cash Rs.	Bank Rs.
2018						2018					
Mar.1	To, Balance b/d		-	30,000	-	Mar.1	By, Balance b/d		5,00		5,000
„ 2	„ Sales A/c		-	6,000	-	„ 3	„ Ram A/c				3,000
„ 4	„ Sales A/c		1,000	-	30,000	„ 5	„ Srijann A/c				2,000
„ 5	„ Sales A/c		-	-	5,000	„ 8	„ Commission A/c				5,00
„ 7	„ Raja A/c		-	-	20,000	„31	„ Balance c/d			36,000	44,500
			<u>1,000</u>	<u>36,000</u>	<u>55,000</u>				<u>5,00</u>	<u>36,000</u>	<u>55,000</u>
Apr. 1	To, Balance b/d		-	36,000	55,000						

### 2.3 Bank Reconciliation Statements (BRS)

Banks are necessary organizations in a present society, with the augment in volume of trade commerce and business. Now a day's most of the transactions of the business are done through bank.

Bank reconciliation statement is a statement arranged on by annexing day to reconcile the bank balance as per cash book with the balance as per bank pass book, viewing entries causing dissimilarity amid the two balances.

In other words, it is the procedure that explains the difference amid the bank balances exposed in organizations bank statement, as complete by the bank, and the corresponding amount revealed in the organization own cash book on a particular point of time. It is a declaration arranged by the bank’s customer i.e., the account holder.

### 2.3.1 Bank Pass Book

Pass book it is a copy of the account of the client as it’s happened in the bank’s books. If a client put down money and cheques into his bank account or withdraws money, he accounts these transactions in the bank column of his cash book. Respectively the bank data those in the customer accounts controlled in its books. Then they are copied in a pass book and specified to the customer. Bank statements (in lieu of pass book) are issued to the customers episodically.

The form of the pass book given below:

#### Pass book

Name of the bank.....  
 Address of the bank.....  
 Account no.....  
 Customer name.....  
 Address of the customer.....

Date	Particulars	Cheque no.	Withdrawals (Dr.)	Deposit (Cr.)	Balance	Initials

### 2.3.2 Significance of Bank Reconciliation Statement

Bank reconciliation statement is a very significant tool for inner control of cash flows. It assists in detecting mistakes and frauds. Some significance of bank reconciliation statement is as follows-

- **Position:** It assists in discovery the real position of the bank balance.
- **Error Detection:** It assists to identify and rectify any mistake committed in both the books.
- **Discovering Records:** Bank reconciliation statement (BRS) assists to update the cash book by finding some entries not yet recorded.
- **Entry Accuracy cheque:** It delivers a cheque on the correctness of entries made in both the books.
- **Misappropriation:** A usual reconciliation dejects the staff of the customer or even that of the bank from embezzlement.
- **Ensures Accuracy of the Balance:** Bank reconciliation confirms the correctness of the balances revealed by the pass book and cash book.

**Example-6:** From the following information, Prepare Bank reconciliation statement as on 31.03.2018 after making necessary adjustment in the cash book and also show the bank balance that will appear in the trial balance.

- a) Bank balance as per the cash book (Dr.) Rs.8,00,000/-
- b) Cheque’s deposit but not yet credited Rs.4,00,000/-
- c) Cheques issued but not yet presented for payment Rs.2,00,000/-
- d) Dividend Directly collected by the bank Rs.1,00,000/-

- e) Insurance premium paid by bank as per instruction not notify Rs.20,000/-
- f) Cash sales wrongly recorded in the bank column of the cash book Rs.60,000/-
- g) Bank charges debited by bank but not recorded in the cash book Rs.20,000/-

**Solution:**

**Cash book**  
**As on 31.03.2018 (after making necessary amendment)**

Dr.	Amount Rs.	particulars	Cr. Amount Rs.
To, Balance b/d	8,00,000	By, Bank charges	20,000
,, Dividend	1,00,000	,, Insurance premium	20,000
		,, Cash sales (Wrongly recorded)	60,000
		,, Balance c/d	8,00,000
	<b><u>9,00,000</u></b>		<b><u>9,00,000</u></b>

**Bank Reconciliation Statement**

**As on 31.03.2018**

Particulars	Details Rs.	Amount Rs.
<b>Bank balance as per the cash book</b>		8,00,000
Add:		
1) Cheques issued but not yet presented for payment.		2,00,000
		<b>6,00,000</b>
Less:		
1) Cheques deposited but not yet credited by bank		4,00,000
<b>Balance as per the Pass Book</b>		<b><u>2,00,000</u></b>

**2.4 Day Book**

Cash book is the most significant Day Book. It forms all cash transaction. The dissimilar types of Day Book are as follows-

- Purchase Day Book. (Recording all credit purchase of goods)
- Sales Day Book. (Recording all credit sales of goods)
- Returns Inward Book. (Recording goods returned by the customer)
- Returns Outward Book. (Recording goods returned to suppliers)
- Bills Receivable Book. (Recording all transactions relating to Bills Receivable)

- Bills Payable Book. (Recording all transaction relating to Bills Payable)

### 2.4.1 Purchase Day Book

Purchase Day Book contains the transactions connecting to credit purchase of goods. It reposes the records of the particulars of all credit purchase of goods.

**Example-7:** From the following particulars of M/s R. Bros, prepare a Purchase Day Book.

2018

March.5 Purchased 200 pieces of Silk Garments from A & Co. @ Rs.50 per piece. Less trade discount @ 10%.

„ 10 Purchased from Indian Silk House 100 yds. Silk @ Rs.50 per yd. Less Trade discount @ 6%

„ 25 Purchased from Shimla Woollen Stores, 60 pieces of Woollen Garments @ 50 per piece. Less Trade discount @ 10%. Carriage Rs.300.

„ 31 Purchased 100 pieces of Cotton Garments from Roy & Brothers @ Rs.30 per piece, less Trade discount @ 20%.

### Solution:

In the books of M/s R. Bros  
Purchase Day Book

Date	Particulars	Inward Invoice No.	L.F.	Details Rs.	Total Amount Rs.	Silk Garments Rs.	Cotton Garments Rs.	Woollen Garments Rs.	Remarks
2018 Mar.5	A &Co.: 200 pieces of Silk garments @ Rs.50 per piece Less: Trade Discount @10%			10,000	9,000	9,000	-	-	10% T.D.
				1,000					
„ 10	Indian Silk House: 100 yds. of silk @ Rs.50 per yd. Less: Trade Discount @ 6%			5,000	4,700	4,700	-	-	6% T.D.
				3,00					
„,25	Shimla Woollen: 60 Pieces of woollen garments @ Rs.50 per piece Less: Trade Discount @10%			3,000	3,000	-	-	3,000	10% T.D.
				3,00					
				2,700 3,00					
„,31	Roy & Brothers: 100 pieces of cotton garments @ Rs.30 per piece. Less: Trade Discount @20%			3,000	2,400	-	2,400	-	20% T.D.
				6,00					
					<b>19,100</b>	<b>13,700</b>	<b>2,400</b>	<b>3,000</b>	

## 2.4.2 Sales Day Book

This book forms the transactions connecting to credit sale of goods. It reposes records about the details of only credit sales of goods.

**Example-8:** From the following particulars of Banerjee & Sons, prepare a columnar Sales Day Book.

2018

April.2 Sold to ABC Ltd. 200 lbs of tea @ Rs.20 per lb, less Trade Discount @ 20%

April 12 Sold to Roy & Co. 400 lbs of tea @ Rs.10 per lb, less Trade Discount @ 10%

April 20 Sold to Sen & Co. 100 lbs of coffee @ Rs. 20 per lb, less Trade Discount @ 5%

April 25 Sold to Nag & Co. 300 lbs of cocoa @ Rs.10 per lb, Trade Discount @ 10%

April 28 Sold Suresh Bros. 200 lbs of coffee @ Rs.10 per lb, Trade Discount @ 20%

**Solution:**

In the books of Banerjee & Sons.

### Sales Day Book

Date	Particulars	Invoice No.	L.F.	Details Rs.	Total Rs.	Tea Rs.	Coffee Rs.	Cocoa Rs.	Remark
2018 Apr.2	ABC Ltd: 200 lbs of Tea @ Rs.20 per lb Less: Trade discount @ 20%			4,000 8,00	3,200	3,200	-	-	20% T.D.
„ 12	Roy &Co.: 400 lbs of Tea @ Rs. 10 per lb Less: Trade discount @ 10%			4,000 4,00	3,600	3,600	-	-	10% T.D.
„20	Sen &Co.: 100 lbs of coffee @ 20 per lb Less: Trade discount @ 5%			2,000 1,00	1,900	-	1,900	-	5% T.D.
„25	Nag &Co.: 300 lbs of cocoa @ 10 per lb Less: Trade discount @ 10%			3,000 3,00	2,700	-	-	2,700	10% T.D.
„ 28	Suresh Bros: 200 lbs of coffee @ Rs.10 per lb Less: Trade discount @ 20%			2,000 4,00	1,600	-	1,600	-	20% T.D.
					<b>13,000</b>	<b>6,800</b>	<b>3,500</b>	<b>2,700</b>	

### 2.4.3 Return Inward Book

This book is used to record goods returned to us our clients.

**Example-9:** Enter the following transaction in Returns Inward Book:

2018

April.8 Returned by Shyam Bose to us 4 shawls each costing Rs.100, due to inferior quality. Credit Note No. 14/2.

., 15 Agartala Tailors returned to us 8 suits, each costing Rs.200, on account of being not in accordance with their order. Credit Note No. 15/6.

.,18 Rama Stores returned to us 5 dozen silk handkerchiefs, each costing Rs.100, being out of size.

.,30 Sen.& Bros Textile returned to us 20 woollen trousers, each costing Rs. 250, being worn and sold.

**Solution:**

In the books of.....  
Returned Inward Book/Sales Day Book

Date	Particulars	Credit Note No.	L.F.	Details Rs.	Total Rs.	Remarks
2018 April.8	Shyam Bose 4 shawls @ Rs.100 each	14/2		4,00		due to inferior quality
., 15	Agartala Tailors 8 suits @ Rs.200 each	15/6		1,600		not in accordance with the order out of size
., 18	Rama Stores 5 dozen handkerchiefs @ Rs.100 each			5,00		
., 30	Sen. & Bros Textile 20 woollen trousers @ Rs.250 each			5,000		
					7,500	being down

### 2.4.4 Returned Outward Book

This book records the transaction connecting to commodities that are returned by us to our creditors.

**Example-10:** Enter the following transaction in a Returned Inward Book/Purchase Return Book:

2018

Jan.10 Returned to Bose & Co., Kolkata, 3, 00 cases of defective articles valued @ Rs.20 per case. Debit Note No. 03/4

., 15 Roy & Sons allowed us an allowance of Rs.2, 000 for retaining their goods of damaged condition sent to us as per our invoice No. Z/23, Debit Note No. 04/6

., 18 We sent a Debit Note for Rs.1, 000 to Dey & Co. for overcharge the invoice through mistake.

**Solution:**

In the books of.....  
Returns Outward Book/Purchase Return Book

Date	particulars	Debit Note No.	L.F.	Details Rs.	Total Rs.	Remarks
2018 Jan.10	Bose & Co. 300 cases of defective articles @ 20 per case	03/4		6,000		defective
,, 15	Roy & Sons Allowance granted for retaining damaged goods as per our Invoice No.Z/23 Dey& Co.	04/6		2,000		damaged
,, 18	Adjustment of overcharge			1,000		overcharged
					9,000	

**2.4.5 Bills Receivable Book**

Bills receivable book is a book where all bills obtained are filed and there from posted straight to the credit of the individual customers account.

The Structure of Bills Receivable Book given below-

Bills Receivable Book

No. of Bills	Date Of Receipts of Bill	From whom	Name of Receiver	Name of Drawer	Name of Acceptor	Date of Bill	Due Date	L.F.	Amount of Bill	How disposed off



### 2.4.6 Bills Payable Book

This is a book where all the details connecting to bills obtained are recorded and there from posted straight to the debit of the respective creditors account.

The Form of Bills Payable Book given below-

Bills Receivable Book

No of Bills	Date of Acceptance	To Whom given	Name of the drawer	Name of the payee	Were payable	Date of Bill	Term	Due Date	L.F.	Amount Of the Bill	How Disposed off

### 2.5 Journal Proper

The transactions which infrequently occur which are not filed in the main books of accounts; they are filed, in a special book, recognized as Journal Proper.

The Following kinds of transaction are filed in a journal proper-

- Credit purchase and credit sale of assets.
- Transfer Entries.
- Opening Entries.
- Closing Entries.
- Adjusting Entries.
- Rectification of Errors.

#### 2.5.1 Credit Purchase and Credit Sales of Assets

When any asset is bought or sold during the year on credit the same should not be approved through the purchased day book or sales ay book since they are not familiar trade transactions. So, they will be fielded in Journal proper.

**Example-11:** Show the entries from the following particulars

On 31<sup>st</sup> January 2018 Purchased a Plant Rs.80, 000 from Roy & Co on credit.

On25th March 2018 sold old machinery to Das & Co. for Rs.50, 000 on credit.

**Solution:**

In the books of.....  
Journal Entries

Date	Particulars	L.F	Dr.	Cr.
			Amount Rs.	Amount Rs.
2018 Jan.31	Plant A/c.....Dr. To, Roy & Co. A/c (Being plat purchased on credit from Roy & Co.)		80,000	80,000
March.25	Das & Co. A/c.....Dr. To, Machinery A/c (Being old machinery sold on credit to Das & Co.)		50,000	50,000

**2.5.2 Transfer Entries**

When any transfer is made from one account to an additional, it must pass through Journal Proper.

**Example-12:** Show the journal entries from the following particulars on 31<sup>st</sup> March, 2018-

- I. Transfer from Ram's account to Rahim's account for Rs.1, 000.
- II. Transfer 50% of profits to the Reserve Fund, profits amount Rs.6, 000.
- III. Transfer from Purchase account to Drawing's account Rs. 2,000
- IV. Drawings for Rs.1, 000 transfer to Capital account.
- V. Transfer Bad Debts of Rs.5, 00 to Reserve for Bad Debts account.

**Solution:**

In the book of.....  
Journal Entries

Date	Particulars	L.F	Dr.	Cr.
			Amount Rs.	Amount Rs.
2018 Mar. 31	I. Rahim A/c.....Dr. To, Ram A/c (Being amount transfer from Ram to Rahim)		1,000	1,000
	II. Profit & Loss A/c.....Dr. To, Reserve Fund A/c (Being profit transferred to Reserve Fund)		3,000	3,000
	III. Drawings A/c.....Dr. To, Purchase A/c (Being Drawings adjusted against purchases)		2,000	2,000
	IV. Capital A/c.....Dr. To, Drawings A/c (Being balance of drawings A/c Transferred to adjust capital A/c)		1,000	1,000

	V. Reserve for Bad Debts a/c.....Dr. To, Bad Debts A/c (Being balance of Bad Debts transferred to Reserve for Bad Debts A/c		5,00	5,00
--	--	--	------	------

### 2.5.3 Opening Entries

When the assets and liabilities are transferred from the preceding year to current year, the similar is to be passed through Journal Proper.

**Note:** All assets will be debited and all liabilities will be credited and the dissimilarity amid the assets and the liabilities will symbolize capital at the beginning of the year.

**Example-13:** Show the opening entry from the following particulars.

Cash at Bank Rs.20, 000/-Cash in hand Rs.10, 000/-Plant and Machinery Rs.5, 000/-Stock-in-trade Rs.5, 000/-Sundry Debtors Rs.2, 000/-Sundry Creditors Rs.3, 000/-Bills Receivable Rs.3, 000/-Bills Payable Rs.5, 000/-Loan (Cr.) Rs.5, 000/-Reserve (Cr.) Rs.2, 000/-

**Solution:**

In the books of.....  
Journal Entries

Date	Particulars	L.F.	Dr.	Cr.
			Amount Rs.	Amount Rs.
?	Cash at Bank A/c.....Dr. Cash in Hand A/c.....Dr. Plant & Machinery A/c.....Dr. Stock-in –trade A/c.....Dr. Sundry Debtors A/c.....Dr. Bills Receivable A/c.....Dr. To Sundry Creditors A/c ,, Bills Payable A/c ,, Loan A/c ,, Reserve A/c ,, Capital A/c (Balancing figure) (Being incorporation of the opening assets and liabilities as at.....)		20,000 10,000 5,000 5,000 2,000 3,000	3,000 5,000 5,000 2,000 30,000

### 2.5.4 Closing Entries

In direct to find out the profit or loss for the year all the income accounts connecting to incomes or expenses are transferred to either Trading or Profit and Loss Account from which the gross earnings and the net earnings are arrived at. The similar is done with the assist of the journal proper. The trading account is to be debited by- Opening stock, Purchases, wages etc. and credited by Sales and Closing Stock- The dissimilarity amid two sides will describe gross profit or gross loss.

**Example-14:** The following is the balance in the books of Rama & Co. as on 31<sup>st</sup> March 2018. Pass the Closing Entries.

Opening Stock Rs.10, 000, Purchases Rs.40, 000, Purchases Return Rs.5, 000, Wages Rs.10, 000, Carriage inward Rs.2, 000, Freight and Duty Rs.3, 000, Sales Rs.80, 000, Closing Stock Rs.5, 000, Sales Return Rs.5, 000.

**Solution:**

In the books of Rama & Co.  
Journal Entries

Date	Particulars	L.F.	Dr.	Cr.
			Amount Rs.	Amount Rs.
2018 March 31	Trading A/c.....Dr. To Opening Stock A/c ,, Purchases A/c ,, wages A/c ,, Carriage inward A/c ,, Freight and Duty A/c ,, Sales Return A/c (Being Transfer of balance for closing the latter accounts)		70,000	10,000 40,000 10,000 2,000 3,000 5,000
„	Sales A/c.....Dr. Purchases Return A/c.....Dr. Closing stock, A/c.....Dr. To, Trading A/c (Being Transfer of balance for closing the former accounts)		80,000 5,000 5,000	90,000
„	Trading A/c.....Dr. To, Profit and Loss A/c (Being Gross profit Transferred)		20,000	20,000

**2.5.5 Adjustment Entries**

Adjusting entries are journal entries fielded at the closing stages of an accounting period to aware the ending balances in different general ledger accounts. The utilize of adjusting journal entries is an input part of the time closing procedure, as noted in the accounting cycle, where an initial trial balance is transformed into final trial balance. It is habitually not probable to create financial statements that are completely in observance with accounting standards without the exercise of adjusting entries.

Some of the adjusting entries along with their treatment in final accounts are discussed here under-

- A. Closing Stock: The journal will be-  
Closing Stock, A/c.....Dr.  
    To, Trading A/c
- B. Outstanding Expenses:  
Particular Expenses A/c.....Dr.  
    To, Outstanding Expenses A/c
- C. Prepaid Expenses:  
Prepaid Expenses A/c.....Dr.  
    To, Particular Expenses A/c
- D. Income Received in Advance:  
Particular income A/c.....Dr.  
    To, Income Received in Advance A/c

E. Outstanding Income:  
 Outstanding Income A/c.....Dr.  
     To, Particular Income

F. Depreciation of Assets:  
 Depreciation A/c.....Dr.  
     To, Assets A/c

However, for making provision for depreciation, the entry will be-  
 Profit and Loss A/c.....Dr.  
     To, Provision for Depreciation A/c

**Example-15:** Pass the necessary Adjusting Entries on 31<sup>st</sup> December 2018-

- 1) Closing Stock Rs.20,000.
- 2) Prepaid Insurance Rs.2,000.
- 3) Outstanding Salary Rs.10,000.
- 4) Depreciate plant Rs.5,000.
- 5) Interest accrued on investment Rs.5, 000.
- 6) Commission received in advance Rs.4, 000.
- 7) Provision for bad debt is to be made @ 5% on Debtor Rs.20,000.
- 8) Provide Interest on loan @ 10% on Rs.50,000.

**Solution:**

In the books of.....  
 Journal Entries

Date	particulars	L.F.	Dr.	Cr.
			Amount Rs.	Amount Rs.
2018 Dec.31	1) Closing Stock, A/c.....Dr. To, Trading A/c (Being Closing Stock adjusted)		20,000	20,000
”	2) Prepaid Insurance A/c.....Dr. To, Insurance A/c (Being Prepaid Insurance adjusted)		2,000	2,000
”	3) Salary A/c.....Dr. To, Outstanding salary A/c (Being Outstanding Salary adjusted)		10,000	10,000
”	4) Depreciation A/c.....Dr. To, Plant A/c (Being Depreciation on Plant adjusted)		5,000	5,000
”	5) Accrued Interest A/c.....Dr. To, Interest A/c (Being Accrue Interest adjusted)		5,000	5,000
”	6) Commission A/c.....Dr. To, Commission Received in Advance A/c (Being Commission Received in Advance adjusted)		4,000	4,000

„	7) Profit & Loss A/c.....Dr. To, Provision for bad Debt A/c (Being provision for Bad Debt adjusted)		1,000	1,000
„	8) Interest on Loan A/c.....Dr. To, Loan a/c (Being Interest on Loan adjusted)		5,000	5,000

**Example-16:** From the following particulars presented by Roy & Co. pass the necessary adjusting entries on 30<sup>th</sup> September 2018.

- Closing Stock Cost price 5,000; the Market Price Rs.2,000.
- Goods valued Rs.10, 000 were destroyed by fire, not covered by Insurance at all.
- Goods values Rs.30, 000 were destroyed by fire, but the Insurance Company admitted the claim in full.
- 50% of the goodwill is to be written off. Value of goodwill was Rs.40, 000.

**Solution:**

In the books of Roy & Co.  
Journal Entries

Date	particulars	L.F.	Dr.	Cr.
			Amount Rs.	Amount Rs.
2018 Sep.31	a) Closing Stock, A/c.....Dr. To, Trading A/c (Being Closing Stock adjusted i.e., cost or market price whichever is lower)		2,000	2,000
„	b) Stock destroyed by Fire A/c.....Dr. To, Trading A/c (Being Stock destroyed by fire adjusted)		10,000	10,000
„	c) Profit & Loss A/c.....Dr. To, Stock Destroyed by Fire A/c (Being Loss of Stock destroyed by fire charged to Profit and loss A/c)		10,000	10,000
„	d) Stock Destroyed by Fire A/c.....Dr. To, Trading A/c (Being destroyed by fire adjusted)		30,000	30,000
„	e) Admitted Insurance Claim A/c..... Dr. To, Stock Destroyed by Fire A/c (Being Amount recoverable from insurance co. for stock destroyed by fire)		30,000	30,000

,,	f) Profit & Loss A/c.....Dr To, Goodwill A/c (Being 50% goodwill to be written off against profit and loss Account)		20,000	20,000
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## 2.6 Summary

From the above discussion we could able to understand the concept of Cash Book; Bank Reconciliation Statements (BRS); Bank Pass Book; Day Book; Purchase Day Book; Sales Day Book; Return Inward Book; Return Outward Book; Bills Receivable Book; Bills Payable Book; Journal Proper; Credit Purchase and Credit Sales of Assets; Opening Entries; Closing Entries; and Adjustment Entries.

## 2.7 Questions

### A. Multiple Choice Questions (MCQ)

1. Cash Book generally shows the-
  - a) **Debit balance**
  - b) Credit balance
  - c) Both 'a' and 'b'
  - d) None of these
  
2. Cash Sales is recorded in -
  - a) Day Book
  - b) Purchase Day Book
  - c) **Cash Book**
  - d) None of these
  
3. Cash Account shows the-
  - a) **Debit balance**
  - b) Credit balance
  - c) Both 'a' and 'b'
  - d) None of these
  
4. Petty cash book is meant of-
  - a) **For recording small expenditure to be paid in cash**
  - b) For small day-to-day expenditure
  - c) For recording small expenditure and incomes
  - d) None of these
  
5. Imprest System is used for?
  - a) **Petty Cash book**
  - b) Cash Book
  - c) Day Book
  - d) None of these
  
6. Petty Cash Book is used for-
  - a) All cash expenditures
  - b) **Petty cash payments**
  - c) Petty cash receipts and payments
  - d) None of these
  
7. Cash Discount is allowed for-
  - a) Cash sales
  - b) Cash Purchase
  - c) **Prompt payments**
  - d) None of these
  
8. Trade Discount is allowed on-
  - a) By a manufacturer to a trader
  - b) by a trader to a customer
  - c) **Both 'a' and 'b'**
  - d) None of these

9. The balance of petty cash book is-
- A liability
  - An asset**
  - An expenses
  - None of these
10. A columnar cash books generally record-
- Cash transactions only
  - Bank transaction only
  - Both cash and bank transactions**
  - None of these
11. When the debit balance according to cash book is the beginning point, direct deposits by customers are-
- Added**
  - Subtracted
  - Not necessary
  - None of these
12. A bank reconciliation statement is a-
- Part of cash book.
  - Part of bank account
  - Part of Petty Cash book
  - None of these**
13. A BRS is arranged with the assistance of-
- Statement of Bank and bank column of the cash book**
  - Bank column of the cash book and cash column of the cash book
  - Pety Cash Book
  - None of these
14. In BRS, if you begin with a debit balance as per the cash book, cheques issued but not used within the period should be-
- Added
  - Deducted**
  - Not required to be adjusted
  - None of these
15. When the balance as per pass book is the starting point, direct payment by bank is-
- Added in the BRS**
  - Subtracted in the BRS
  - Not required to be adjusted
  - None of these
16. When balance as per cash book is the starting point, uncollected cheques are-
- Added
  - Subtracted**
  - Not required to be adjusted
  - None of these
17. A bank declaration is a print of-
- Cash column of the cash book
  - Bank column of the cash book**
  - A clients account in the banks book
  - None of these



18. The variance in the balance of together the cash book and the pass book can be as of-
- Mistakes in recording the entries either in the cash book or pass book**
  - Omission of same entry in both cash book and pass book
  - Both 'a' and 'b'
  - None of these
19. Payments done by the accounts holder through issuing a cheque will be recorded to-
- The pass book
  - The cash book at the time of issuing the cheque**
  - Both 'a' and 'b'
  - None of these
20. A BRS is prepared by
- The Bank
  - The Govt.
  - The bank account holder**
  - None of these
21. For recording Credit Purchase, we use:
- Cash Book
  - Purchase Day Book**
  - Return Outward Book
  - None of these
22. Sales Tax is calculated on:
- Gross Price
  - Net price**
  - List Price
  - None of these
23. For recording cash sale, we use:
- Cash Book**
  - Sales Book
  - Purchase Book
  - None of these
24. Trade Discount is calculated on:
- Net Price
  - List Price**
  - Both 'a' and 'b'
  - None of these
25. Cash Discount is calculated on:
- Catalogue Price
  - Net Price**
  - List Price
  - None of these
26. Debit Note Is used for:
- Returns Outward Book
  - Returns Inward Book**
  - Sales Day Book
  - None of these
27. Credit Note is used for:
- Purchase Day Book
  - Returns Inward Book**
  - Returns Outward Book
  - None of these
28. Recording of goods refunded by customer we use:
- Return Inward Book**
  - Returns outward Book
  - Purchase Day Book
  - None of these

29. For recording credit sales, we use:
- |                      |                          |
|----------------------|--------------------------|
| a) Purchase Day Book | <b>b) Sales day Book</b> |
| c) Both 'a' and 'b'  | d) None of these         |
30. Carriage exp paid for goods will be added to:
- |                             |                  |
|-----------------------------|------------------|
| a) <b>Net Selling Price</b> | b) Gross Price   |
| c) Both 'a' and 'b'         | d) None of these |
31. In case of Depreciation on plant, Depreciation Account will be-
- |                     |                  |
|---------------------|------------------|
| a) <b>Debit</b>     | b) Credit        |
| c) Both 'a' and 'b' | d) None of these |
32. In Bad debts, Bad debts Account is-
- |                     |                  |
|---------------------|------------------|
| a) <b>Debit</b>     | b) Credit        |
| c) Both 'a' and 'b' | d) None of these |
33. Outstanding Salary; Outstanding Salary Account is-
- |                     |                  |
|---------------------|------------------|
| a) Debit            | <b>b) Credit</b> |
| c) Both 'a' and 'b' | d) None of these |
34. For Written off Goodwill; Goodwill Account is-
- |                     |                  |
|---------------------|------------------|
| a) Debit            | <b>b) Credit</b> |
| c) Both 'a' and 'b' | d) None of these |
35. For Stock destroyed by Fire; Stock destroyed by fire Account is-
- |                     |                  |
|---------------------|------------------|
| a) <b>Debit</b>     | b) Credit        |
| c) Both 'a' and 'b' | d) None of these |
36. For goods used by Proprietor; Drawings Account is-
- |                     |                  |
|---------------------|------------------|
| a) Credit           | <b>b) Debit</b>  |
| c) Both 'a' and 'b' | d) None of these |
37. For Prepaid Insurance; Prepaid insurance Account is-
- |                     |                  |
|---------------------|------------------|
| a) <b>Debit</b>     | b) Credit        |
| c) Both 'a' and 'b' | d) None of these |
38. For Closing Stock; Closing Stock Account is-
- |                     |                  |
|---------------------|------------------|
| a) <b>Debit</b>     | b) Credit        |
| c) Both 'a' and 'b' | d) None of these |
39. For Opening Stock; Opening Stock Account is-
- |                     |                  |
|---------------------|------------------|
| a) <b>Debit</b>     | b) Credit        |
| c) Both 'a' and 'b' | d) None of these |
40. For Outstanding Wages; Outstanding Wages Account is-
- |                     |                  |
|---------------------|------------------|
| a) Debit            | <b>b) Credit</b> |
| c) Both 'a' and 'b' | d) None of these |

## Answer Key.

1 (a)	2 (c)	3 (a)	4 (a)	5 (a)	6 (b)	7 (c)	8 (c)	9 (b)	10(c)
11 (a)	12 (d)	13 (a)	14 (b)	15 (a)	16 (b)	17 (b)	18 (a)	19 (b)	20(c)
21 (b)	22 (b)	23 (a)	24 (b)	25 (b)	26 (b)	27 (b)	28 (a)	29 (b)	30(a)
31 (a)	32 (a)	33 (b)	34 (b)	35 (a)	36 (b)	37 (a)	38 (a)	39 (a)	40 (b)

### B) Short Answer Type Questions-

1. What is Cash Book? What do you mean by Imprest System of Cash Book?
2. Discuss the several kinds of Cash Book upheld by a firm.
3. Define Analytical System of Petty Cash.
4. Goods sold to Mr. Das in Cash Rs.10, 000/-. State the journal Entry and also the entry in the Cash Book.
5. Goods purchased from Rahul for Rs.5, 000/-and cheque issued for the same. Show the journal entry and the entry in the cash book.
6. What is Bank Reconciliation Statement?
7. Discuss the Importance of Bank Reconciliation Statement?
8. Give the causes of disagreement between the Cash Book and Pass Book?
9. State the utility of a Bank Reconciliation Statement.
10. Discuss the effectiveness of BRS.
11. The Bank balance as per cash book of a trader has a debit of Rs.10, 000/-. A cheque of Rs.5, 000/- is deposited into the bank but not yet credited and collected by the Bank. Find out Bank balance as per Pass Book.
12. Bank balance as per Cash Book is Rs.20, 000/-. In the Debit side of the Cash Book Bank column is overwritten to the extent of Rs.25, 000/-. Overdraft balance as per Pass Book is Rs. -----
  - a) Write short note on: Purchase Day Book.
13. What are Bills Receivable Book and Bills Payable Book?
14. What are Debit Notes?
15. Enter the following transaction of Mr. Das & Co. in a properly ruled Day Book:  
2018  
April.25      Received a bill of exchange o Rs.20, 000/- for 3 months after sight from Miss Puja Roy.  
26              Received a bill of exchange o Rs.10, 000/- for 2 months after date from Mrs. Mousumi Sen.
16. Name the Day Book where the following purchases are recorded:
  - a) Credit Purchase of trading goods.
  - b) Cash purchases of trading goods.
  - c) Cash purchases of non-trading goods or fixed assets.
17. In which Book of Original Entry, the following transaction is recorded?
  - a) Purchase of 20 wooden tables @ Rs.5, 00/- each, the payment of which is due or 3 months.
  - b) Sold 6 wooden chairs @ Rs.4, 00/- each to Ram Mohan Roy on credit.
18. Sold to S. Brothers 3 printing Machines @ Rs.30, 000/- each at a trade discount of 10%, excise duty, VAT and local tax @ 20% in each case.  
Show the transaction in Sales Day Book.
19. Purchased 20 pumps sets @ Rs.5, 000/- each on credit from M/s Machine & Tools Ltd. a trade discount of 20%. Where excise duty @ 5%, VAT @ 8% and local tax @ 4% are charge. Show the entry in Purchased Day Book.

20. What is Journal Proper? What kinds of transaction are passed through Journal Proper?
21. Write short notes on:
  - a) Closing entry
  - b) Adjusting entry
22. What do you mean by Adjusting Entries? Why are such entries made?
23. Distinguish between Opening Entry and Closing entry
24. Distinguish between Outstanding Expenses and Prepaid expenses
25. Rama started a business with cash Rs.8, 000/-, Furniture Rs.20, 000/-, Machinery Rs.10, 000/- and Stock Rs.10, 000/-. Find the amount of Capital?
26. The debit items of Trial Balance include Salary Rs.30, 000/-, Rent Rs.10, 000/-, Insurance Rs.5, 000/-, Printing and Stationery Rs.3, 000/-, Office expenses Rs.10, 000/-, Lighting expenses Rs.6, 000/-, other expenses Rs.4, 000/-. Show the Closing Entry.
27. Journalise the following Adjustments:
  - a) Unsold Stock Rs.2, 000/-
  - b) Accrued interest on Investment Rs.5, 000/-
28. Journalise the following Adjustment:
  - a) Goods drawn by the proprietors for personal use at the selling price of Rs.2, 000/-
  - b) Goods destroyed by fire Rs.10, 000/-
29. Journalise the following Adjustment:
  - a) Salary is outstanding for 2 months @ Rs.5, 000/-p.m.
  - b) Create provision for bad and doubtful debts @ 5% on Debtors of Rs.1, 00,000/-
30. Saurav started a business on 1<sup>st</sup> August, 2018. For this purpose, he introduced Cash of Rs.40, 000/- . Pass the Opening Entry.

### C) Broad Answer Type Questions-

1. What is Double Column Cash Book? What are Contra Transactions?
2. Discuss the approaches of posting the cash book in the Ledger.
3. What is Imprest System of Petty Cash? How do you prepare such a Cash Book?
4. What is intended by the Imprest System of keeping Petty Cash?
5. Prepare a Single Column Cash Book of Mr. Das. The month of April 2018:
 

April.1	Started business with:
	Cash Rs.40, 000/-
	Furniture Rs.20, 000/-
	Building Rs.20, 000/-
4	Opened Bank Account Rs.10, 000/-
7	Sold goods for cash Rs.16, 000/-
9	Received a cheque from Mr. Rama Rs.8, 000/-
13	Cash withdrawn from Bank for office use Rs.5, 000/-
15	Spent for personal use Rs.4, 000/-
19	Paid salary in cash Rs.10, 000/-
23	Paid to Mr. Roy Rs.15, 000/-
25	Purchased stationery Rs.5, 000/-
30	Paid the balance of cash into Bank
6. What is BRS? Discuss its Importance?
7. What is an 'Amended Cash Book' in Bank Reconciliation Statement? Discuss the methods of its correction?
8. What are the main causes of difference between Bank Pass Book and Cash Book balances?
9. State the method that is used in business to reconcile bank account and cash account, if they differ from each other.

10. What is Bank Reconciliation Statement? Discuss its utility?
11. From the following information prepare Bank Reconciliation Statement for Shri Das as on 31.03.2018.  
As per Cash Book, there is a balance in the bank amounting to Rs.50, 000/- as on 31.03.2018 but this balance does not agree with the Pass Book balance for the following reasons:
- Cheques amounting to Rs.20, 000/- has been deposited but the bank has credited it on 2<sup>nd</sup> January.
  - Cheques totalling Rs.15, 000/- have been issued, but till 31<sup>st</sup> March, 2018 cheques totalling Rs.8, 000/- have been encased.
  - Bank interest amounting to Rs.2, 000/- has been accounted for in the debit side of the Pass Book only.
  - In the month of March, Cash withdrawn from the Bank amounting to Rs.1, 000/-, but it has been recorded in the Cash Book as Rs.3, 000/-
12. Distinguish between Trade Discount and Cash Discount? What is Subsidiary Book?
13. What is Trade Discount and Cash Discount?
14. Prepare Sales Day Book, From the following transaction:
- 2018
- |        |  |
|--------|--|
| Feb.10 | Sold to New Electric Co. 5, 000/- pieces o 1, 00/- watt bulbs @ Rs.20 per bulb at a trade discount of 20%. |
| 22     | Sold to Bombay Electric Co. 4, 000/- pieces of 60-watt bulbs @ Rs.10 per bulb at a trade discount of 15%.  |
| 28     | Sold to Patna Electric Co. 2, 000/- pieces of 2, 00-watt bulbs @ Rs.10 per bulb at a trade discount of 5%. |
15. Record the transaction in Return Inward Book:
- 2018
- |       |   |
|-------|---|
| Aug.8 | Returned by Royal Tea Centre 3, 00/- kg of Tea @ Rs.1, 00/- per kg. Sold at a trade discount of 10% (being excess supply)         |
| 12    | Returned from Assam tea House 90 kg Tea @ Rs.200/- per kg. Sold at a trade of 5% (not being according to sample)                  |
| 14    | Returned from Delhi Tea Stores 50 kg Tea @ Rs.100/- per kg. Sold at a trade discount of 20% (not being according to description). |
16. Eastern Trading Co. received the following Bills their customer's duty accepted during the month of March, 2018, Prepare a Bills Receivable Book:
- 2018
- |         |  |
|---------|--|
| March.8 | Received a Bill of Exchange of Rs.20, 000/- for 6 month after date from Roy & Co. drawn on them by us on 2 <sup>nd</sup> March, 2018, payable at Kolkata-1 |
| 15      | Received a Bill of Exchange of Rs.5, 000/- for 2 months after sight from Roy & Sons drawn on them on 20 <sup>th</sup> March, 2018 payable at Kolkata-6     |
| 23      | Received a Bill of Exchange of Rs.6, 000/- for 60 days after date from Raj & Co. drawn on them on 23 <sup>rd</sup> June, 2018 payable at Kolkata-4         |
17. Distinguish between Adjusting Entry and Closing entry
18. Has Journal Proper an effect on Profit? Explain.
19. How do you treat the following items?
- Bad Debts
  - Interest on Capital
  - Depreciation on assets.
20. What is impact on Journal Proper while ascertaining net profit of a firm?
21. Discuss the role of different adjusting entries in accounts.
22. Journalise the above transaction to open the accounts on 1<sup>st</sup> January, 2018.
- |                         |                            |
|-------------------------|----------------------------|
| Building Rs.1, 00,000/- | Bank Overdraft Rs.8, 000/- |
| Furniture Rs.50, 000/-  | Capital Rs.80, 000/-       |

Debtors Rs.30, 000/-  
Creditors Rs.20, 000/-

Cash Rs.20, 000/-

23. Following information, Pass the necessary Closing Entries:

Advertisement Rs.15, 000/-	Wages Rs.10, 000/-
Purchases Rs.2, 00,000/-	Commission Paid Rs.9, 000/-
Discount Allowed Rs.2, 000/-	Sales Return Rs.12, 000/-
Opening Stock Rs.40, 000/-	Interest Paid Rs.6, 000/-
Salaries Rs.20, 000/-	Carriage Inwards Rs.3, 000/-
Discount Received Rs.9, 000/-	Sales Rs.5, 00,000/-
Purchases Return Rs.6, 000/-	Depreciation Rs.12, 000/-
Rent Received Rs.3, 000/-	Closing Stock Rs.90, 000/-

24. Pass necessary Adjusting Entries before preparing of Final Accounts for the year ended 31.12.2018.

- i) Unpaid Salary or the month of December, 2018 Rs.15, 000/-
- ii) Commission earned but not yet received Rs.4, 000/
- iii) Annual insurance premium of Rs.2, 500/- paid up to 31.03.2018
- iv) Interest on loan is to be provided @ 10% per annum on a Loan of Rs.20, 000/- taken on 1.1.2018
- v) Goods distributed as free samples valuing Rs.6, 000/-

## **Unit 3: Preparation of Financial Statement**

### **Structure**

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### 3.0 Objectives

After studying this unit, you will be able to understand the concept of-

- Trading Account;
- Profit and Loss Account;
- Profit and Loss Appropriation Account;
- Balance Sheet; and
- Final Account.

### 3.1 Introduction

Formulation of financial statement is the final steps in the accounting series, using data from the earlier statement to build up the present financial statement.

Once the adjusting entries have been made or entered into a worksheet, the financial statements can be arranged using data from the ledger accounts. Because some of the financial statements exercise information from the other statements, the following is a reasonable order for their preparation:

- Income Statement.
- Statement of Retained Earning.
- Balance Sheet.
- Cash Flow Statement.

The income declaration reports revenues, expenditures and the resultant net income. It is organized by transferring the following ledger account balances-

- Revenue
- Expenses
- Capital gain or losses

Statement of maintained earnings displays the retained earnings at the start and end of the accounting time. It is arranged using the following information-

- Beginning retained earnings, acquired from the preceding declaration of retained earnings.
- Net income, acquired from the income statement.
- Dividends paid during the accounting time.

The balance sheet declaration the assets, liabilities and shareholder equity of the company. It is designed using the following data:

- Balance of all asset's accounts such as cash, accounts receivable, etc.
- Capital stock balance.
- Balance of all liability accounts such as accounts payable, notes, etc.
- Retained earnings, acquired from the statement of retained earnings.

The cash flow statement interprets the reasons for the changes in the cash balance, displaying natures and exercises of cash in the operating, financing and investing activities of the firm. Because the cash flow statement is a cash base statement, it cannot be straight copied from the ledger account balances of an accumulation accounting system. Rather it is formed by converting the enhancement data to a cash base using one of the following two methods:

- **Direct Method:** Cash flow information is formed by directly subtracting cash disbursements from cash receipts.
- **Indirect Method:** Cash flow information is constructed by adding or subtracting non-cash items from net income.



Here, in this unit Final accounts (Trading A/c, Profit and Loss A/c, Balance Sheet and Profit and Loss Appropriation A/c), have been discussed.

### 3.2 Final Account

Non-manufacturing existence are the trading existence, which are the engaged in the purchase and sale of goods at profit without altering the form of the commodities. It satisfies in some liabilities, makes some assets and incurs some expenses like salaries, Stationery, advertisement expenses, rented to run the trade. At the finish of the year to determine the final results of the business i.e., the income and the monetary position, they arrange financial statement at the conclusion of the year.

In financial accounting, profit is calculated at two levels:

- Gross profit
- Net profit
  
- **Gross Profit:**  
Gross profit is the profit of a business makes after subtracting the cost connected with making and selling its goods. Gross profit will show on a company's income report, and can be measured with this formula.

$$\text{Gross Profit} = \text{Revenue} - \text{Cost of Goods Sold}$$

- **Net Profit:**  
The profit of a concern after effective expenses and all other charges counting taxes, interest and depreciation have been subtracted from total revenue it's called net income or net profit. If expenditures and charges are greater than revenue, the company bears a net loss.

$$\text{Net Profit} = \text{Total Revenue} - \text{Total Expenses}$$

#### 3.2.1 Trading Account

A trading account displays the outcomes of the buying and selling of goods. This sheet is arranged to the distinction amid selling price and the cost price. The trading account is arranged to display the trading outcome of the business i.e., gross profit or gross loss obtained by the business firm. It files direct expenditures of the business firm.

According to "J.R. Batliboi"- The trading account displays the outcomes of the buying and selling goods. In organizing this account, the general institution charges are avoided and only the transaction in goods is include.

**The Presentations of Trading Account are as follows-**

In the books of....  
Trading Account  
For the year ended.....

Dr.			Cr.		
Particulars	Details Rs.	Amount Rs.	Particulars	Details Rs.	Amount Rs.
To, Opening stock		*****	By, Sales	*****	
,, Purchases	****		Less: Return	****	
Less: Return	***				****
		****	,, Closing stock		****
,, Carriage inward		****	,, Gross loss		*****
,, Wages		****	(Transferred to P&L A/c)		
,, Custom duty		****			
,, Clearing charges		****			
,, Freight inward		****			
,, Royalty		****			
,, dock charges		****			
,, Coal, coke, gas		****			
,, Motive power		****			
,, Oil, water		****			
,, Gross profit		****			
(Transferred to P&L A/c)					

**Example-1:** The following are some ledger balances taken out from the Trial balance of ABC Ltd On 31<sup>st</sup> march 2018.

- Stock on 1.1.2018 Rs.50, 000/-
- Purchase Rs.4, 00, 000/-
- Carriage inward Rs.60, 000/-
- Custom duty Rs.10, 000/-
- Returns outward Rs.20, 000/-
- Returns inward Rs.10, 000/-
- Sales Rs.6, 00,000/-
- Closing stock Rs.10, 000/-

**Solution:**

In the books of ABC Ltd  
Trading account  
For the year ended 31<sup>st</sup>march 2018

Dr.			Cr.		
Particulars	Details Rs.	Amount Rs.	Particulars	Details Rs.	Amount Rs.
To, Opening stock		50,000	By, Sales	6,00,000	
„ Purchases	4,00,000		„ less: return	10,000	
„ less: return	20,000				
		3,80,000			5,90,000
„ Carriage inward		60,000	„ Closing stock		10,000
„ Custom duty		10,000			
„ Gross profit -transferred		1,00,000			
		<u>6,00,000</u>			<u>6,00,000</u>

**3.2.2 Profit and Loss Account**

This account is organized to determine the net profit or loss of a business during the accounting episode. The profit and loss account are a report that abridged the revenues and expenses of an accounting time. It files the indirect expenditures of a commerce firm.

**The formats of Profit and Loss Account are as follows-**

In the books of.....  
Profit and Loss Account  
For the year ended.....

Dr.			Cr.		
Particulars	Details Rs.	Amount Rs.	Particulars	Details Rs.	Amount Rs.
Gross Profit b/d		*****	Gross Profit b/d		*****
<b>Office and administrative expenses:</b>			-Interest received		****
-Salaries	****		-Rent received		****
-Rent, rates, taxes	****		-Discount received		****
-Postage & telegrams	****		-Dividend received		****
-Office electric charge	****		-Bad debt recovers		****
-Telephone charges	****		-Provision for discount on creditors		****
-Printing	****		-Misc. revenue		
<b>Selling and distribution expenses:</b>	****		Net loss		****
-Carriage outward			-Transferred to capital account		****
-Advertisement					
-Salesman salaries	****				
-Commission	****				
-Insurance	****				
-Travelling expenses	****				
-Bad debts	****				
-Packing expenses	****				

<b>Financial and other expenses:</b>	****				
-Depreciation	****				
-Repair					
Audit fees	****				
-Interest paid	****				
-Commission paid	****				
-Bank charges	****				
-Legal charges	****				
<b>Net profit</b>	****				
-Transferred to capital account	****				
	****				

**Example-2:** The following of the Trial of Roy and Co. balance on 31<sup>st</sup> may 2018

- i. Opening stock (Dr.) Rs.40,000/-
- ii. Purchases (Cr.) Rs.2,00,000/-
- iii. Return inwards (Dr.) Rs.20,000/-
- iv. Carriage inwards (Dr.) Rs.10,000/-
- v. Salaries (Dr.) Rs.40,000/-
- vi. Carriage outwards (Dr.) Rs.20,000/-
- vii. Rent (Dr.) Rs.20,000/-
- viii. Discount allowed (Dr.) Rs.20,000/-
- ix. Sundry debtors (Dr.) Rs.40,000/-
- x. Plant and machinery (Dr.) Rs.1,00,000/-
- xi. Furniture (Dr.) Rs.50,000/-
- xii. Sundry creditors (Cr.) Rs.3,00,000/-
- xiii. Sales (Cr.) Rs.5,00,000/-
- xiv. Capital (Cr.) Rs.2,00,000/-
- xv. Returns Outward (Cr.) Rs.50,000/-
- xvi. Closing Stock (Cr.) Rs.20,000/-

**Solution:**

In the books of Roy and Co.  
Trading Account  
For the year ended 31<sup>st</sup> May 2018

Dr.			Cr.		
Particulars	Details Rs.	Amount Rs.	Particulars	Details Rs.	Amount Rs.
To, Stock		40,000	By, Sales	5,00,000	
„ Purchases	2,00,000		Less: Returns	20,000	
Less: returns	50,000				
		1,50,000			4,80,000
„ Carriage inward		10,000	„ Closing stock		20,000
„ Gross profit		3,00,000			
-transferred to P&L A/c					
		<u>5,00,000</u>			<u>5,00,000</u>

In the books of Roy and Co.  
Profit and loss account  
For the year ended 31<sup>st</sup> may 2018

Dr.			Cr.		
Particulars	Details Rs.	Amount Rs.	Particulars	Details Rs.	Amount Rs.
To, Salaries		40,000	By, Gross profit		3,00,000
„ Rent, rates		20,000	-transferred		
„ Carriage outwards		20,000			
„ Discount allowed		20,000			
„ Net profit		2,00,000			
-transferred to capital A/c					
		<u>3,00,000</u>			<u>3,00,000</u>

**3.2.3 Balance Sheet**

The balance sheet statement places the monetary position of commerce on a definite date. Since even a single transaction will make dissimilarity to some of the assets or liabilities, the balance sheet is accurate only at an exacting point of period. As well as the surplus of assets over liabilities illustrates the capital sunk into the commerce and reflects the monetary soundness of a company. Now it's identified as the report of financial position of the company.

**3.2.4 Limitations of Balance Sheet**

Every organization arrange the balance sheet or disclosing its economic position, yet it sustains from the following drawbacks-



Profit and Loss Appropriation Account is an extensive segment of Profit and loss Account through which profit or loss is shared between/among the partners. Generally, a human being that is an only proprietor may not be in a place to manage with the monetary and managerial demands of the current day business world. As a result, two or more persons may decide to collection their financial and non-financial funds to carry on a business.

### **3.3.1 Meaning of Partnership**

A partnership is a form of trade where two or more persons share ownership, as well as the liability of the organization and the income or losses the business generates.

The Indian partnership act defines partnership as “The relation amid individuals who have approved to share the profit of a business carried on by all or any of them acting for all.”

There are three types of partnership:

- General partnership.
- Limited partnership.
- Joint venture.

### **Features of Partnership-**

The chief necessary features of partnership are as follows-

- A business has two or more partner.
- A harmony entered into by all persons concerned.
- Existence of a business.
- Distribution profits and losses of the business.
- Unlimited liability of all partners.

### **3.3.2 Limited Liability Partnership**

One ordinary composition is the “limited liability partnership” or LLP. A limited liability partnership is a newer shape of business partnership where all of the proprietors have restricted personal liability for the monetary accountability of the business. There are no common partners in a limited liability partnership, but a limited liability partnership is comparable to a general partnership. Each LLP partners contributes to the daily business operation. As well as each partners enjoyed restricted personal liability for the others partners act.

### **Benefits of Forming an LLP-**

- It has a low cost of arrangement and is simple to form.
- The partners are not accountable for the acts of each other.
- Less limits and fulfilment are enforced on a LLP by the govt as compared to the limitation enforced on accompany.
- The partners are not accountable to be sued for obligation against the LLP.

### **3.3.3 Powers of Partners**

In case of a trading firm, the implicit powers of partners are as follows-

- Buying and selling of goods.
- Getting payments on behalf of the association and giving lawful receipt.
- Borrowing money on behalf of the firm with or without pledging the stock in trade.
- Beautiful servants for the business of the firm.
- Drawings, cheques accepting and endorsing bills of exchange and promissory notes in the name of the firm etc.

### 3.3.4 Profit and Loss Appropriation Account

The profit and loss account are an expansion of the profit and loss account. The chief purpose of preparing the profit and loss appropriation account is to display the allocation of profits among the partners. It is debited with interest on capital and remuneration to partners and credited with the net profit b/d from the profit and loss account and interest on drawings. The balance of the profit and loss appropriation account is transferred to the partner's capital account.

Arrangement of profit and loss appropriation account are as follows-

**In the Books of . . . . .**  
**Profit & Loss Appropriation A/C**  
**For the Year ended. ....**

Particular	Amount	Particular	Amount
Profit and Loss A/c (Net loss)	xxx	Profit and Loss A/c (Net profit)	xxx
Interest on capital a/c	xxx	Interest on drawings	xxx
Capital A/c	xxx	Partners' Capital a/c (Distribution of loss)	xxx
Partner's Salary a/c	xxx		
Partner's Commission A/c	xxx		
Interest on Partner's Loan	xxx		
General Reserve	xxx		
Partners' Capital (distribution of profit)	xxx		

**Example-3:** A & B started a business on 1<sup>st</sup> January, 2018, with the capitals of Rs.60, 000 and Rs.40, 000. According to the partnership deed, B is entitled to a salary of Rs.1, 000 per month and interest is to be allowed on capitals at 10% per annum. The remaining profits are to be distributed amongst the partners in the ratio 5:2 during 2018 the firm earned a profit before charging salary to B and interest on capital amounting to Rs.50, 000. During the year A withdrew Rs.8, 000 and B withdrew Rs.4, 000mestic purpose.

Prepare the profit and loss appropriation account-



**Solution:**

In the books of a firm  
Profit and loss appropriation account

Dr.			Cr.		
Particular	Details Rs.	Amount Rs.	Particulars	Details Rs.	Amount Rs.
To, B's Capital A/c -Salary		12,000	By, Net profit		50,000
„ A's Capital A/c -interest		6,000			
„ B's Capital A/c -interest		4,000			
„ Partners Capital A/c -A	20,000				
-B	8,000				
(Profit transferred in the ratio of 5:2)		28,000			
		<b><u>50,000</u></b>			<b><u>50,000</u></b>

**Example-4:** A, B, C are partners in a partnership firm with capital A-Rs.2,00,000, B-Rs.4,00,000, C-Rs.6,00,000. During the year 2018 the firm earned a net profit Rs.2, 00,000. Interest on capital @ 6% p.a. they also made some drawings on which interest to be charged is A-Rs. 2,000, B-Rs. 4,000, C-Rs. 4,000. A is entitled 5000 p.m. as salary. B is to get 5% of the net profits after all adjustment as commission. Also 10% of the profits remaining before providing commission to B are to be transferred to General Reserve. Profit is shared among A, B and C in the ratio 2:2:1 respectively. Prepare Profit and Loss Appropriation account.

**Solution:**

In the books of a firm  
Profit and loss appropriation account

Dr.			Cr.		
Particulars	Details Rs.	Amount Rs.	Particulars	Details Rs.	Amount Rs.
To, Interest on capital A/c			By, Net profit		2,00,000
-A	12,000		,, Interest on drawings A/c		
-B	24,000		-A		
-C	36,000		-B	2,000	
		72,000	-C	4,000	
				4,000	
,, Salary A/c		60,000			1,0000
,, General Reserve A/c		7,800			
,, Commission A/c					
-B		3,510			
,, partners' capital A/c					
-A	26,676				
-B	26,676				
-C	13,338				
(Profit transferred in the ratio of		66,690			
		<b><u>2,10,000</u></b>			<b><u>2,10,000</u></b>

**Example-5:** Ram and Shyam two partners with a capital Rs.40, 000 and 60,000 respectively

They agree on the following:

- a) Profit share equally
- b) Interest allowed on capital @ 5%
- c) Interest allowed on drawings @ 10%
- d) Salary is to be paid to Shyam Rs.1, 000 p.m.
- e) Ram withdrew Rs.4, 000 and Shyam withdrew Rs.6, 000 during the year.
- f) Profit for the year 2018 31<sup>st</sup> March Rs. 80,000

Prepare profit and loss appropriation account-

**Solution:**

In the books of A firm  
Profit and loss appropriation account

Dr.			Cr.		
Particulars	Details Rs.	Amount Rs.	Particulars	Details Rs.	Amount Rs.
To, Interest on capital A/c			By, Net profit		80,000
-Ram	2,000		,, Interest on drawings A/c		
-Shyam	3,000		-Ram	4,00	
			-Shyam	6,00	

„ Salary A/c		5,000			1,000
-Shyam		12,000			
„ Partners capital A/c					
-Ram	32,000				
-Shyam	32,000				
(Profit transferred in the ratio of 1:1)		64,000			
		<b><u>81,000</u></b>			<b><u>81,000</u></b>

### 3.4 Summary

From the above discussion we could understand the concept of Trading Account; Profit and Loss Account; Profit and Loss Appropriation Account; Balance Sheet; and Final Account.

### 3.5 Questions

#### A. Multiple Choice Questions (MCQ)

- 1) The Balance of the Petty Cash is-
  - a) An expenses
  - b) **an income**
  - c) An asset
  - d) a liability
  
- 2) Fixed assets are-
  - a) **Reserved in the commercial for use over a long time for earning income**
  - b) Meant for sale
  - c) Meant or conversion into cash as quickly as possible
  - d) All of the above
  
- 3) Goodwill is-
  - a) An existing asset
  - b) **an intangible fixed asset**
  - c) A touchable fixed asset
  - d) an investment
  
- 4) Stock is-
  - a) Include in the category of assets
  - b) **an investment**
  - c) A part of current assets
  - d) a tangible fixed asset
  
- 5) Sales is equal to-
  - a) Cost of goods sold - Gross Profit
  - b) **Cost of Goods sold + Gross profit**
  - c) Gross Profit - Cost of Goods sold
  - d) None of these
  
- 6) A reduction in the provisions for doubtful debts would outcome in-
  - a) An increase in liabilities
  - b) a decrease in working capital
  - c) A decrease in net profit
  - d) **None of these**

- 7) Capital is the difference between-
- a) Revenue and Expenses
  - b) Sales and CGS**
  - c) Liabilities
  - d) None of these
- 8) The principal of a sole trader would modify the outcome of-
- a) A creditor being paid from personal bank account of the proprietor by cheque**
  - b) Raw materials being purchased on credit
  - c) Fixed assets being purchased on credit
  - d) Wages being paid in cash
- 9) Copy rights is-
- a) Intangible Asset**
  - b) Tangible Asset
  - c) Current asset
  - d) None of these
- 10) The manufacturing account is prepared-
- a) To determine the profit or loss on the goods produce
  - b) To determine the price of the manufactured goods**
  - c) To display the sale proceeds from the goods harvest during the year
  - d) Both (b) and (c)
11. Following are important fundamentals of a partnership firm except-
- a) At least two persons
  - b) There is contracted all partners
  - c) Equal share of profits and losses**
  - d) Partnership agreement is for some business
12. Features of partnership firm are-
- a) Two or more individuals carrying mutual business under an agreement
  - b) Distribution profits and losses in the fixed ratio
  - c) Commercial bear by all or any of them acting for all
  - d) All of the above**
13. In the absence of an agreement, partners are entitled-
- a) Salary
  - b) Commission
  - c) Interest on loan and advance**
  - d) Profit share in capital ratio
14. Shareholders are to pay interest on drawings only when-
- a) Agreement is there**
  - b) Permitted by the debtors
  - c) None of the above
  - d) Both 'a' and 'b'
15. What would be the profit-sharing ratio if the partnership act is complied with?
- a) As per agreement
  - b) Equally**
  - c) In capital ratio

- d) None of these
16. Profit and loss account is prepared-
- For proprietorship firm
  - For partnership firm
  - Both 'a' and 'b'**
  - None of these
17. What time is to be taken into consideration if equal monthly sum is drawn as drawings at the starting of each month for interest calculation?
- 7 months
  - 6 months
  - 5 months
  - 6.5 month**
18. Where will you record interest on drawings?
- Debit side of P/L appropriation account
  - Credit side of P/L appropriation account**
  - Credit side of capital/current account
  - None of these
19. What balance does partners current account has?
- Debit balance
  - Credit balance
  - Either 'a' or 'b'**
  - None of these
20. How would you close the partner's drawings account?
- By transmission to capital or current account debit side**
  - By allocation to capital account credit side
  - By allocation to current account credit side
  - Either 'b' or 'c'

**Answer Key.**

1 (b)	2 (a)	3 (b)	4 (b)	5 (b)	6 (d)	7 (b)	8 (a)	9 (a)	10 (b)
11 (c)	12 (d)	13 (c)	14 (a)	15 (b)	16 (c)	17 (d)	18 (b)	19 (c)	20 (a)

**B) Short Answer Type Questions**

- Define Receipts and Income.
- Define Expenditure.
- What is Income and Expenditure Account?
- What is Payments Account?
- What is Subscription?
- Prepare Trading Account:

Dr.

Building Rs.4, 00,000/-  
 Opening Stock Rs.60, 000/-  
 Sundry Debtors Rs.30, 000/-

Cr.

Sundry Creditors Rs.10, 000/-  
 Bills Payable Rs.15, 000/-  
 Returns Outward Rs.5, 000/-

Purchases Rs.2, 00,000/-	Sales Rs.4, 50,000/-
Bills Receivable Rs.30, 000/-	
Carriage Inward Rs.5, 000/-	
Bad Debt Rs.2, 000/-	
Returns Inward Rs.8, 000/-	
Wages Rs,10, 000/-	
Carriage Outward Rs.3, 000/-	

7. Prepare Profit and Loss Account. Gross Profit Rs.80, 000/-

Dr.	Cr.
Salaries Rs.20, 000/-	Bills Payable Rs.15, 000/-
Bills Receivable Rs.30, 000/-	
Carriage Inward Rs.5, 000/-	
Bad Debt Rs.2, 000/-	
Discount Allowed Rs.8, 000/-	
Wages Rs,10, 000/-	
Expenses Rs.10, 000/-	

8. Prepare Trading and Profit & Loss Account. For the year ended 31.03.2018.

Debit	Credit
Purchases Rs.80, 000/-	Return Outward Rs.2, 000/-
Opening Stock Rs.30, 000/-	Creditors Rs.24, 000/-
Stationery Exp.5, 000/-	Discount received Rs.4, 000/-
Wages Rs.10, 000/-	Commission received Rs.6, 000/-
Salary Rs.15, 000/-	Sales Rs.2, 00,000/-
Return Inward Rs.7, 000/-	
Office expenses Rs.4, 000/-	
Insurance Rs.3, 000/-	
Carriage inward Rs.2, 000/-	
Carriage Outward Rs.4, 200/-	
Bad debts Rs.3, 000/-	

9. What is Profit and Loss Appropriation Account?
10. Distinguish between Capital Account and Current Account.
11. How do you treat Interest on Capital of the firm?
12. What is deed of partnership?
13. X, Y started a business on 1<sup>st</sup> March, 2018 with Capital of Rs.40, 000/- and Rs.30, 000/- respectively. There is no addition or withdrawn of capital during the year. Calculate Interest on Capital @ 5% p.a. for the year ended on 31<sup>st</sup> December, 2018.
14. The profit-sharing ratio of the partners of a firm of Suman, Ankit and Buddha is 4:3:2 and total capital of the firm is Rs.1, 20000/-. They want to maintain their capital in profit sharing ratio. Compute Capital of the partners.
15. In a firm partner X draws on 16/15<sup>th</sup> day of each month @ Rs.3, 000/- p.m. find the interest on drawings if the rate is fixed at 4% p.a.
16. The amounts of capital of the partners of a partnership firm are B Rs.1, 60,000/-; C Rs.1, 80,000/- and D Rs.1, 20,000/-. They wanted to share the profits and losses in the ratio of their capital. Ascertain the profit-sharing ratio of the partners.

### C) Broad Answer Type Questions

1. Distinguish between Receipts and Income.
2. Distinguish between Expenditure and Payments
3. Distinguish between Receipts and Payments and Cash Book.
4. Prepare Trading and Profit & Loss Account:

Dr.	Cr.
Building Rs.2, 00,000/-	Sundry Creditors Rs.10, 000/-
Opening Stock Rs.50, 000/-	Bills Payable Rs.15, 000/-
Sundry Debtors Rs.20, 000/-	Returns Outward Rs.5, 000/-
Purchases Rs.1, 00,000/-	Provision for doubtful Debts Rs.3, 000/-
Bills Receivable Rs.10, 000/-	Sales Rs.4, 50,000/-
Carriage Inward Rs.5, 000/-	
Bad Debt Rs.2, 000/-	
Returns Inward Rs.6, 000/-	
Salaries Rs.15, 000/-	
Wages Rs.12, 000/-	
Discount Allowed Rs.5, 000/-	
Carriage outward Rs.4, 000/-	

5. From the following Trial Balance of Amit Kundu as on 31<sup>st</sup> March, 2018. Prepare Balance sheet.

Debit	Credit
Furniture Rs.50, 000/-	Capital Rs.55, 000/-
Purchases Rs.2, 00,000/-	Sales Rs.4, 00,000/-
Opening Stock Rs.30, 000/-	Return outward Rs.6, 000/-
Sundry Debtors Rs.15, 000/-	Creditors Rs.10, 000/-
Wages Rs.20, 000/-	
Salaries Rs.40, 000/-	
Return Inward Rs.5, 000/-	
Office expenses Rs.3, 000/-	
Insurance Rs.2, 000/-	
Carriage Inward Rs.1, 000/-	
Carriage Outward Rs.3, 000/-	
Bad Debts Rs.1,500/-	
Drawings Rs.1, 000/-	
Cash in hand Rs.5, 000/-	
Cash at Bank Rs.8, 000/-	

Additional information:

- a) Unsold Stock on 31<sup>st</sup> March, 2018 Rs.35, 000/-
  - b) Outstanding expenses on 31<sup>st</sup> March, 2018: Wages Rs.2, 000/- and Salaries Rs.5, 000/-
  - c) Prepaid insurance Rs.2, 00/-
  - d) Depreciation on Furniture @ 10%.
6. Prepare Trading and Profit & Loss account and Balance Sheet as at 31st March, 2018.

Debit	Credit
Furniture Rs.20, 000/-	Capital Rs.1, 21,000/-
Purchases Rs.1, 30,000/-	Return Outward Rs.4, 000/-
Opening Stock Rs.30, 000/-	Creditors Rs.24, 000/-
Sundry Debtors Rs.61, 000/-	Discount received Rs.4, 000/-
Wages Rs.23, 000/-	Commission received Rs.6, 000/-
Salary Rs.32, 000/-	Sales Rs.2, 20,000/-
Return Inward Rs.10, 000/-	
Office expenses Rs.10, 000/-	
Insurance Rs.3, 000/-	
Carriage inward Rs.6, 000/-	

Carriage Outward Rs.5, 200/-  
 Bad debts Rs.4, 800/-  
 Drawings Rs.14, 000/-  
 Cash in hand Rs.10, 000/-  
 Cash at Bank Rs.20, 000/-

Additional information:

- a) Unsold Stock on 31<sup>st</sup> March, 2018 Rs.64, 000/-
- b) Outstanding expenses on 31<sup>st</sup> March, 2018: Wages Rs.3, 000/-, Salaries Rs.4, 000/-
- c) Prepaid insurance Rs.2, 00/-
- d) Depreciate furniture @ 20%

7. From the following trial Balance as at 31.12.2018, and other information, prepares the Trading and Profit & Loss Account for the year ended 31.12.2018 and a Balance sheet as at that date in the books of A firm.

Dr.	Cr.
Machineries (Rs.5, 000/- purchased on 1.7.2018) Rs.37, 500/-	Capital (1.1.2018) Rs.55, 050/-
Furniture Rs.7, 500/-	Sales Rs.45, 750/-
Opening Stock Rs.8, 250/-	Returns Rs.7, 50/-
Purchases Rs.20, 250/-	Bank Overdraft Rs.4, 500/-
Returns Rs.1, 250/-	Discounts Rs.7, 50/-
Carriage inwards Rs.7, 50/-	Creditors Rs.10, 000/-
Carriage Outward Rs.1, 350/-	
Bad Debts Rs.4, 00/-	
Wages Rs.6, 000/-	
Salaries Rs.6, 750/-	
Discounts Rs.2, 50/-	
Drawings Rs.5, 000/-	
Freight Rs.4, 250/-	
Advertising Rs.7, 00/-	
Debtors and Creditors Rs.12, 500/-	
Cash in hand Rs.1, 250/-	
Trade expenses Rs.2, 250/-	
Insurance Rs.6, 00/-	

Additional information:

- a) Closing stock (31.12.2018) Rs.17, 500/-
- b) Outstanding Salaries Rs.1, 50/-
- c) Bad Debts Rs.1, 00/- and create a provision for Bad debts @ 2.5%
- d) Unexpired insurance Rs.1, 00/-
- e) Depreciate Fixed Assets by 5% p.a.

8. Suman Sarkar is a business man. The Trial Balance of his business as at 31<sup>st</sup> March 2018.

Debit	Credit
Drawings Rs.48,000/-	Capital Rs.4, 80,000/-
Bills Receivable Rs.30, 000/-	Loan Rs.1, 20,000/-
Machinery Rs.2, 40,000/-	Creditors Rs.1, 80,000/-
Debtors Rs.1, 80,000/-	Sales Rs.12, 30,000/-
Wages Rs.1, 20,000/-	Purchases Return Rs.15, 000/-
Sales Return Rs.18, 000/-	Commission Rs.30, 000/-
Purchases Rs.9, 96,000/-	Discount Received Rs.9, 000/-
Rent Rs.24, 000/-	
Opening Stock Rs.2, 40,000/-	
Salaries Rs.60, 000/-	



Insurance Premium Rs.3, 000/-  
 Carriage Inwards Rs.7, 500/-  
 Interest on Loan Rs.3, 000/-  
 Cash in hand Rs.18, 000/-  
 Discount Rs.7, 500/-  
 Bad Debts Rs.12, 000/-  
 Carriage Outward Rs.3, 000/-  
 Furniture Rs.2, 40,000/-  
 Bank Balance Rs.30, 000/-

Other information:

- a) Closing Stock Rs.3, 60,000/-
- b) Goods worth Rs.7, 200/- were taken by the owner for personal use but no entry was made.
- c) Outstanding wages Rs.6, 000/- and insurance premium paid in advance Rs.6, 00/-
- d) Depreciation is to be charged at 30% on Machinery and 6% on furniture.
- e) Provision for doubtful debts is to be made @ 15% on Debtors.

21. How do you calculate the Interest on Drawings? Explain with the help of an example.
22. Arun and Barun are partners in a firm sharing profits and losses as 4:1 Net profit of the firm during the year ended on 31.03.2018 amounted to Rs.80, 000/-. From the following information, prepare the Profit and Loss Appropriation account of the Firm:
  - i) On 1.04.2018 the capital of Arun was Rs.30, 000/- and the capital of Barun was Rs.40, 000/-
  - ii) Interest on Capital @6% p.a.
  - iii) Drawings during the year: Arun Rs.5, 000/- and Barun Rs.7, 000/-
  - iv) Interest on Drawings @ 10% p.a.
  - v) Annual salaries of partners: Arun Rs.5, 000/- and Barun Rs.3, 000/-

Show Profit and Loss Appropriation Account for the year 2018.

23. Work out the equal distribution of profits for the year 2018 which is Rs.20, 000/-, between B and C in the Profit and Loss Appropriation Account, after accounting for the following data:
  - a) Interest on capital @ 5% per annum, the Investment of B and C being Rs.30, 000/- and Rs.50, 000/- respectively.
  - b) B enjoy a salary of Rs.3, 00/- per quarter and a one and a half per cent commission on the profit made or the year;
  - c) C is entitled to a commission @ 6% of the turnover which is Rs.40, 000/-
24. Jeet and Raj are partners in a firm sharing profits and losses as 3:2. On 1<sup>st</sup> April, 018, the Capital of the partners were:
 

Jeet-Rs.80, 000/-, and Raj-Rs.30, 000/-

The Profit and Loss Account of the firm for the year ended on 31<sup>st</sup> March, 2018 showed a net profit of Rs.1, 50,000/-. You are required to Profit and Loss Appropriation Account.

  - a) Interest on capital at 5% p.a.
  - b) Provide interest on Jeet's Loan Account of Rs.30, 000/- for the whole year.
  - c) Interest on Drawings of partners at 5% p.a. the drawings were Raj-Rs.10, 000/- and Jeet-Rs.15, 000/-.
  - d) Transfer 20% of the distributable profit to Reserve Fund of the firm.

## **Unit 4: Analysis of Financial Statements**

### **Structure**

#### **4.0 Objectives**

#### **4.1 Introduction**

#### **4.2 Ratio Analysis**

4.2.1 Meaning of Ratio Analysis

4.2.2 Objectives of Ratio Analysis

4.2.3 Advantages of Ratio Analysis

4.2.4 Limitations of Ratio Analysis

4.2.5 Classifications of ratio Analysis

#### **4.3 Summary**

#### **4.4 Questions**

## 4.0 Objectives

After studying this unit, you will be able to understand the-

- Concept of Ratio Analysis;
- Objectives of Ratio Analysis;
- Advantages of Ratio Analysis;
- Limitations of Ratio Analysis; and
- Classifications of ratio Analysis.

## 4.1 Introduction

Financial statements examination is the procedure of analysing a company's economic statements for decision making intention and to realize the overall health of a business. Financial statements record financial information, which must be calculated through financial statement examination to become more helpful to investors, shareholders, managers and the other interested parties

### Users of Financial Statements Analysis:

- **Creditors:** Anyone who has borrowed funds to a company is interested in its capability to pay back in the debt, and so will focus on different cash flow methods.
- **Investors:** Both present and potential investors observe financial statements to learn about a company's capability to go on issuing dividends or to make cash flow.
- **Management:** The company manager prepares an ongoing investigation of the company's monetary results, mainly in relation to a number of effective metrics that are not seen by outside entities (such as cost per delivery, cost per distribution channel etc.)

### Methods of Financial Statements Analysis:

There are two techniques of analysing financial statements. The first method is used of horizontal and vertical analysis. The second technique for analysing financial statements is the utilize of many types of ratios.

The general groups of ratios are:

- Liquidity Ratios.
- Profitability Ratios.
- Activity Ratios.
- Leverage Ratios etc.

## 4.2 Ratio Analysis

A ratio is the connection amid one value and another. It is an expression of an arithmetically connected amid one value and another. The ratio of 300:100 is 3:1 or 3. The computation of ratios is a significant system for analysing and understanding the profit and loss accounts and balance sheet. The fundamentals of that symbolize the ratio that convey a meaningful relationship. For an example, there is a connection amid sales and sundry debtors, amid net profit and capital investment, and amid current assets and current liabilities.

### 4.2.1 Meaning of Ratio Analysis

A ratio analysis is a quantitative examination of data contained in a company's monetary statement. Ratio analysis is used to estimate the different aspects of a company's operating and monetary presentation such as its efficiency, liquidity, profitability, and solvency.

### 4.2.2 Objectives of Ratio Analysis

Main objectives of Ratio Analysis are-

- **Investigate:** To examine the reasons for the changes.

- **Predicting the Future:** To permit comparisons to be made which help in predicting the future.
- **Positions:** To authorize the charting of an organization history and the estimate of its current positions.
- **Accounting System Output:** To see what data users can get from the accounting system output.
- **Others:** To build an easy description of a complex financial statement by its expression in one figure.

#### 4.2.3 Advantages of Ratio Analysis

The chief advantages of Ratio Analysis are-

- **Forecasting and Planning:**  
The movement in cost, sales, profits and the other facts can be identified by calculating ratios of related accounting facts of last few years. This movement analysis with the assist of ratios may be helpful or forecasting and arrangement future business activities.
- **Budgeting:**  
Accounting ratios assists to calculate the budgeted figures. For example, sales budget may be arranged with the assist of analysis of past sales.
- **Measurement of Efficiency:**  
Dissimilar activity ratios point out the operational efficiency. Ratio analysis point outs the degree of efficiency in the management and develop assets.
- **Liquidity Position:**  
Ratio analysis assists to measure the short-term debt paying capability of a firm. Liquidity ratio point out the capability of the firm to pay and assist in credit examination by banks, creditors and other suppliers of short-term loans.
- **Support to Decision Making:**  
Ratio analysis assists to take decisions like whether to supply goods on credit to a firm.

#### 4.2.4 Limitation of Ratio Analysis

The limitations of ratio analysis are-

- **Different Accounting Policies:** Diverse accounting prudence about estimation of inventories, charging depreciation etc. makes the accounting information and accounting ratios of two businesses non-comparable.
- **Quantitative Analysis:** Ratios are equipment of quantitative analysis only and qualitative factors are avoided while calculating ratios.
- **Changes in Price Level:** Fixed assets display the position of report price only. Hence it doesn't imitate the changes in price level. Thus, it makes evaluation complicated.
- **Causal Relationship Must:** Appropriate care should be occupied to study only such figures as have a reason and consequence relationship; or else ratio only will be puzzling.

#### 4.2.5 Classification of Ratio

Ratios are categorized into four broad groups-

- **Liquidity Ratio:** A Liquidity ratio assesses the capability of a firm to meet its short-term responsibility. Following are the significant Liquidity Ratios-
  - Current Ratio.

- Liquid Ratio/Quick Ratio/Acid Test Ratio
- **Solvency Ratios:** Solvency Ratios frequently refers to the firm's capability to meet long-term liabilities. Following are the significant Solvency Ratios-
  - Debt Equity Ratio.
  - Total Assets to Debt Ratio.
  - Proprietary Ratio.
- **Activity Ratios:** Activity Ratios display the degree of assets utilization of firms. Following are the vital Activity Ratios-
  - Stock Turnover Ratio.
  - Debtors Turnover Ratio.
  - Creditors Turnover Ratio.
  - Working Capital Turnover Ratio.
  - Total Assets Turnover Ratio.
- **Profitability Ratios:** Profitability is the ability of a commerce operation to make profits as calculated by accounting ratios relating profit to sales or investment. Following are the chief Profitability Ratios-
  - Gross Profit Ratio.
  - Net Profit Ratio.
  - Return on Capital Employed.
  - Return on Net Worth.
  - Operating Ratio.

**Above Ratios Formula Given Below-**

### Liquidity Ratios

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$\text{Acid Test Ratio} = \frac{\text{Quick Assets (Cash + Bank + CashEquivalent + Debtors + Bills Receiveable)}}{\text{Current Liabilities}}$$

### Solvency Ratio

$$\text{Debt Equity Ratio} = \frac{\text{Long - term Debts}}{\text{Share Holders Fund}}$$

$$\text{Total Assets to Debt Ratio} = \frac{\text{TotalAssets}}{\text{Long-termDebt}}$$

$$\text{Proprietary Ratio} = \frac{\text{ShareholdersFund}}{\text{TotalAssets}}$$

### Activity Ratio

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of goods Sold}}{\text{Average Inventory}}$$

$$\text{Debtors Turnover Ratio} = \frac{\text{Credit Sales}}{\text{Trade Receiveable (Average Debtors + Average Bills receiveable)}}$$

$$\text{Creditors Turnover Ratio} = \frac{\text{Credit Purchase}}{\text{Trade Payables (Average Creditors + Average Bills Payable)}}$$

$$\text{Working capital Turnover Ratio} = \frac{\text{Turnover}}{\text{Working Capital}}$$

$$\text{Total Assets Turnover Ratio} = \frac{\text{Net Sales}}{\text{Total Assets}}$$

### Profitability Ratio

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Net sales}} \times 100$$

$$\text{Net Profit Ratio} = \frac{\text{Net Profit}}{\text{Net Sales}} \times 100$$

$$\text{Operating Ratio} = \frac{\text{Cost of Goods Sold} + \text{Operating Cost}}{\text{Net Sales}} \times 100$$

$$\text{Return on Capital Employed} = \frac{\text{EBIT}}{\text{Capital Employed}} \times 100$$

$$\text{Return on Net Worth} = \frac{\text{Profit after tax}}{\text{Networth}} \times 100$$

### Liquidity Ratio

**Example-1:** You are required to calculate Current Ratio and Quick Ratio-

- |                                |                                     |
|--------------------------------|-------------------------------------|
| a) Capital Rs.4, 00,000.       | b) Reserves Rs.50,000               |
| c) Creditors Rs.1,00,000       | d) Bills Payable Rs.50,000          |
| e) Short term Loan Rs.40,000   | f) Provision for taxation Rs.20,000 |
| g) Land & Building Rs.4,00,000 | h) Plant & Machinery Rs.2,00,000    |
| i) Inventories Rs.1,50,000     |                                     |
| j) Cash Rs50,000               |                                     |
| k) Debtors.20,000              |                                     |

**Solution:**

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{2,20,000}{1,10,000} = 2 : 1$$

$$\text{Quick Ratio} = \frac{\text{Quick Assets (Cash + Bank + Debtors + Bills Receivable)}}{\text{Current Liabilities}} = \frac{(50,000 + 20,000)}{1,10,000} = 7 : 11$$

**Working Note:**

1. Current Assets	Amount Rs.	2. Current liabilities	Amount Rs.
Inventories	1,50,000	Short term loan	20,000
Cash	50,000	Bills Payable	30,000
Debtors	20,000	Creditors	40,000
		Provision or Taxation	20,000
	<b>2,20,000</b>		<b>1,10,000</b>

### Solvency Ratio

**Example-2:** From the following information ascertain the Debt Equity Ratio-

- Equity Share Capital Rs.1,00,000
- General Reserve Rs.50,000
- 10% Debentures Rs.75,000
- Current Liabilities Rs.50,000

**Solution:**

$$\text{Debt Equity Ratio} = \frac{\text{Long-term Debts}}{\text{Share holders Fund}} = \frac{75,000}{1,50,000} = 2:1$$

**Working Note:** Long-term Debts = 10% Debenture = 75,000  
 Share holders' Funds = Equity Share Capital + General Reserve  
 = 1, 00,000 + 50,000  
 = 1, 50,000

**Example-3:** From the following information ascertain the Total Assets to Debt ratio and Proprietary Ratio.

- a) Share Capital Rs.4,00,000
- b) Long-term Borrowings-15% Debentures Rs.2,00,000
- c) Sundry Creditors Rs.80,000
- d) Bills payable Rs.20,000
- e) Tangible Assets Rs.5,00,000
- f) Inventories (Closing Stock) Rs.40,000
- g) Bills Receivable Rs.20,000
- h) Cash and Cash Equivalent Rs.40,000

**Solution:**

$$\text{Total Assets to Debt Ratio} = \frac{\text{Total Assets}}{\text{Long-term Debts}} = \frac{6,00,000}{2,00,000} = 3 : 1$$

$$\text{Proprietary Ratio} = \frac{\text{Share holders Fund}}{\text{Total Assets}} = \frac{4,00,000}{6,00,000} = 2 : 3$$





- c) Bills payable Rs.60,000

**Solution:**

$$\text{Creditors Turnover Ratio} = \frac{\text{Credit Purchase}}{\text{Average Creditors} + \text{Average Bills Payable}} = \frac{2,00,000}{40,000 + 60,000} = 2\text{days}$$

**Example-7:** Calculate Working capital Turnover Ratio and Total Assets Turnover Ratio-

- a) Sales Rs.6,00,000  
 b) Current assets Rs.4,00,000  
 c) Current liabilities Rs.1,00,000  
 d) Fixed assets Rs.2,00,000

**Solution:**

$$\text{Working Capital Turnover Ratio} = \frac{\text{Net Sales}}{\text{Working Capital}} = \frac{6,00,000}{3,00,000} = 2 \text{ times}$$

**Workings Note:** Working Capital = Current Assets – Current Liabilities  
 = 4, 00,000 – 1, 00,000  
 = 3, 00,000

### Profitability Ratio

**Example-8:** Calculate Gross Profit and Net Profit Ratio-

- a) Net Sales Rs.8,00,000  
 b) Net Profit Rs.2,00,000  
 b) Cost of goods sold Rs.4,00,000

**Solution:**

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100 = \frac{4,00,000}{8,00,000} \times 100 = 50\%$$

$$\text{Net Profit Ratio} = \frac{\text{Net Profit}}{\text{Net Sales}} \times 100 = \frac{2,00,000}{8,00,000} \times 100 = 25\%$$

**Working Note:**

A. Gross Profit = Net sales - Cost of goods sold  
 = Rs. (8, 00,000 - 4, 00,000)  
 = Rs.4, 00,000/-.

**Example-9:** Calculate Operating Ratio-

- a) Administrative Expenses Rs.10,000  
 b) Sales Rs.2,00,000  
 c) Selling Expenses Rs.10,000  
 d) Cost of goods sold Rs.80,000

**Solution:**

$$\text{Operating Ratio} = \frac{\text{Cost of Goods Sold} + \text{Operating Expenses}}{\text{Net Sales}} \times 100 = \frac{80,000 + 20,000}{2,00,000} \times 100 = 50\%$$

**Working Note:** Operating Expenses = Administrative Expenses + Selling Exp  
 = 10,000 + 10,000  
 = 20,000

**Example-10:** From the following information calculate Return on Capital Employed Ratio-

- a) Share Capital Rs.1,00,000
- b) General Reserve Rs.50,000
- c) 10% Debentures Rs.50,000
- d) Profit before Tax Rs.2,00,000
- e) Provision for Tax Rs.50,000

**Solution:**

$$\text{Return on Capital Employed} = \frac{\text{EBIT}}{\text{Capital Employed}} \times 100 = \frac{2,50,000}{5,00,000} \times 100 = 50\%$$

**Working Note:**

Capital Employed	Amount Rs.	EBIT (Earnings Before Interest and Tax)	Amount Rs.
Share Capital	1,00,000	Profit Before Tax	2,00,000
General Reserve	50,000	Add: Debenture Interest @ 10%	50,000
	1,50,000	EBIT	2,50,000
Add: 15% Deb.	3,50,000		
	5,00,000	Profit After Tax	2,00,000
		Profit Before Tax	50,000
		Less: Tax	1,50,000

### 4.3 Summary

### 4.4 Questions

#### A. Multiple Choice Questions (MCQ)

- What is Quick Assets ratio?
  - a) Current assets – Prepaid expenses
  - b) Current assets – inventories – Prepaid expenses**
  - c) Current assets + inventories – Prepaid expenses
  - d) None of these
- Define Ideal Current Ratio?
  - a) 0.75 : 1
  - b) 1 : 1**
  - c) 2 : 1
  - d) 4 : 1
- Acid Test Ratio is-
  - a)  $\frac{\text{Quick assets}}{\text{Current Liabilities}}$**
  - b)  $\frac{\text{Quick Assets}}{\text{Total Liabilities}}$
  - c)  $\frac{\text{Current assets}}{\text{Current Liabilities}}$
  - d) None of these
- What is Debt equity Ratio?
  - a)  $\frac{\text{Total Debts}}{\text{Equity Share Capital}}$
  - b)  $\frac{\text{Long term Debts}}{\text{Share holders fund}}$**
  - c) None of these

5. What is Current Ratio?
- $\frac{\text{Current assets}}{\text{Current Liabilities}}$
  - $\frac{\text{Current assets}}{\text{Prepaid Expenses}}$
  - $\frac{\text{Current Assets}}{\text{Outstanding Expenses}}$
  - None of these
6. Ratios are classified into how many groups
- Three broad groups
  - Four broad groups**
  - Five broad groups
  - None of these
7. Which type of ratio are being called solvency ratios?
- Debt Equity Ratio**
  - Current Ratio
  - Stock Turnover Ratio
  - None of these
8. Which type's ratio is being called Profitability Ratio?
- Acid test Ratio
  - Debtors Turnover Ratio**
  - Operating Ratio
  - None of these
9. Which types Ratio is being called the Activity Ratio?
- Debtors Turnover Ratio**
  - Gross Profit Ratio
  - Quick Ratio
  - None of these
10. Define Proprietary Ratio?
- $\frac{\text{Equity Share Capital}}{\text{Total Assets}}$
  - $\frac{\text{Shareholders Fund}}{\text{Total Assets}}$
  - Both 'a' and 'b'
  - None of these

**Answer Key.**

1 (b)	2 (b)	3 (a)	4 (b)	5 (a)	6 (b)	7 (a)	8 (b)	9 (a)	10 (b)
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**B) Short Answer Type Questions**

- What do you mean by Ratio Analysis?
- Discuss Four Advantages of Ratio Analysis?
- What is the limitation of Ratio Analysis?
- State the significance of Quick Ratio?
- Discuss at least two Uses of Accounting Ratios?
- Calculate the Current Ratio:  
Stock Rs.30, 000/-, Debtors Rs.40, 000/-, Cash Rs.80, 000/- and Sundry Creditors Rs.30, 000/-.
- In a particular business, Quick Asset ratio was Rs.4, 00,000/- and Quick Liabilities ratio was Rs.2, 00,000/-. What is the Quick Ratio?
- The Current Ratio of a business is 3:2. If Current Liabilities are Rs.2, 00,000/- and Stock in trade Rs.1, 00,000/-. Compute Quick Ratio.





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