

Netaji Subhas Open University

Paper: V

Accounting and Finance

**(Diploma in Entrepreneurship Development and Small Business
Management)**

Course Writer

Sudarshan Roy

Assistant Professor, NSOU

Course Editor

Anirban Ghosh, NSOU

Table of Contents

Sl. No.	Content	Page No.
1	Unit-1: Basics of Accounting: Evolution of Accounting, Objectives of Accounting, Book-keeping, Objectives of Book-keeping, Distinction between Book-keeping and Accounting, Users of Accounting information, Relation of accounting with Other Disciplines, Limitation of Accounting, Golden Rule with various accounts, Journal, Ledger, Trial Balance.	3-53
2	Unit-2: Books of accounts: Books of Accounts, Cash Book, Bank Reconciliation Statements (BRS), Day Books, Journal Proper.	54-91
3	Unit-3: Preparation for Financial Statements: Trading Account, Profit and Loss Account, Profit & Loss Appropriation Account, Balance Sheet, Limitations of Balance Sheet.	92-115
4	Unit-4: Analysis of Financial Statements: Meaning of Ratio Analysis, Objectives of Ratio Analysis, Advantages of Ratio Analysis, Limitations of Ratio Analysis, Classifications of ratio Analysis.	116-128

Unit 1: Basics of Accounting

Structure

1.0 Objectives

1.1 Introduction

1.2 Meaning of Accounting

1.2.1 Evolution of Accounting

1.2.2 Objectives of Accounting

1.2.3 Book-keeping

1.2.4 Objectives of Book-keeping

1.2.5 Distinction between Book-keeping and Accounting

1.2.6 Users of Accounting Information

1.2.7 Relation of Accounting with Other Disciplines

1.2.8 Limitations of Accounting

1.2.9 Self-examination Questions

1.3 Golden Rules with Various Accounts

1.3.1 Various Approaches of Accounting

1.3.2 Rules for Debit and Credit under Traditional Approaches

1.3.3 Self-examination Questions

1.4 Journal

1.4.1 Advantages of Double Entry System

1.4.2 Accounts

1.4.3 Transactions

1.4.4 Accounting Equation Approach

1.4.5 Traditional Approach

1.4.6 Journal

1.4.7 Advantages of Journal

1.4.8 Self-examination Questions

1.5 Ledger

1.5.1 Posting

1.5.2 Balancing of an Account

1.5.3 Self-examination Questions

1.6 Trial Balance

1.6.1 Objectives of Preparing Trial Balance

1.6.2 Methods of Preparation of Trial Balance

1.6.3 Self-examination Questions

1.0 Objectives

After studying this unit, you will be able to:

- Understand the meaning and importance of accounting.
- Understand the meaning of Book-keeping and objectives and the difference between book-keeping and accounting

- Understand the relation of accounting with Economics, Mathematics, Law and Management.
- Explain the limitation of accounting.
- Explain users of accounting information.
- Appreciate the evolutionary process of accounting as a social science etc.
- Understand the meaning and the advantages of Double Entry System.
- Understand the classification of accounts into personal, real and nominal.
- Understand the Transaction and the advantages of journal.
- Explain Accounting Equation Approach.
- Explain Traditional Approach.
- Understand the meaning and concept of Ledger account.
- Understand the specimen of Ledger account.
- Learn the technique of Ledger posting and how to balance an account.
- Understand what are Trial Balance and its objectives.
- Learn the Limitation of Trial Balance.
- Explain the various method of preparing the Trial Balance.

1.1 Introduction

We as an individual do some kind of activities in our daily life. Like giving salary to our maids, payments of electricity bill, grocery bill, playing football, going morning walk etc. These all are events. Among these events some monetary or economic events and some are nonmonetary events. The monetary events are known as transactions as it changes our economic positions. Ex. Mr. Roy buys an umbrella for Rs. 600/- from the market. Here, Mr. Roy gets umbrella from the shop and pays Rs.600/- to the shop. So, his monetary position gets changed. But, Miss Puja goes morning walk every day. Though, it's an event but not a transaction; as monetary position does not get changed.

1.2 Meaning of Accounting

Accounting can be defined as the systematic recording, measuring and communicating information regarding financial transaction. As per definition, accounting is basically an art of record maintenance. The process of accounting starts by identifying the events and transaction which are of financial character and subsequently be recorded in the books of account. This recording is done in journal or primary books. After the transaction and events are recorded, they are transferred to ledger, also known as secondary books. In ledger transactions and events are classified in provisions of income, expenses, assets and liabilities according to their type and summarised in profit and loss account and balance sheet.

In 1970, the Accounting Principles Board (APB) of American institute of certified public accounts (AICPA) predicted the function of accounting as follows:

“The function of accounting is to provide quantitative information, primarily of financial nature, about economic entities, that is needed to be useful in making economic decision”.

In March 1971, the Accounting Principles Board (APB) of American institute of certified public accounts (AICPA) predicted the function of accounting as follows:

“Provides guidance for determining when the equity method should be applied to common stock.”

In April 1972, predicted the function of accounting as follows: “The function of accounting is to be provides guidance related to the disclosure of accounting principles in the financial statements”.

In October 1972, predicted the function of accounting as follows: “Establishes accounting and reporting guidelines for stock provided as compensation to employees”.

1.2.1 Evolution of Accounting

It is oldest form accounting assist the stewards to discharge their stewardship function. The wealthy men employed stewards to manage their property; the stewards in turn performed an account periodically of their stewardship. The “stewardship accounting” was the root of financial accounting system. The presently followed system of double entry bookkeeping has been developed only in the 15th century. As well as historians found records of debit and credit dating back to the 12th century. Although double entry system was followed, ‘stewardship accounting’ served the purpose of businessmen and wealthy person at that time. In India too, stewardship accounting was established till the surfacing of large scale enterprises in the form of public limited companies. In the second phase, the idea of financial accounting emerged with the concept of Joint Stock Company and separation of ownership from the management. To protect the interest of the shareholders and investors, exposé of financial statements and other accounting information was moulded by law. Financial statement gives periodic performance report by the way of profit and loss account and financial position at the end of the periodic by way of Balance sheet. It got the legal status due to changing relationships between the owners, economic entity and the managers. Thus financial accounting emerged as an information system to identify measures and communicate useful information for informed judgement and decision by a broad group of users.

Lastly, Social Responsibility Accounting is in the determining process, which aims at accounting for the social cost incurred by the business as

well as the social benefit, created by it. It emerges from the growing social alertness about the unwanted by 'products of economic activities'.

Social science study man as a member of society; they concern about social process and the result and outcome of social relationship. The usefulness of accounting to society as a whole is the primary principle to treat it as a social science. It serves social purposes, it contributes for social progress, and also it is being modified to keep velocity 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 done to maintaining systematic records of financial transaction. Right decisions making and profit analysis are not possible if records are not maintained systematically in a company. Even tracking previous transaction would be impossible without maintaining these records.
- **Estimating profit & loss:** It is impossible to calculate approximate the profit or loss of a company if the systematic accountancy records are not made. As the profit & loss account helps the management and different companies in taking logical decisions.
- **Balance Sheet:** It is easy to understand the financial position of the concern when a proper balance sheet maintained by the company. Whereas Balance is a statement of assets and liabilities. The income owned by an industry (assets) and claim against such income (liabilities) are shown in the balance sheet.
- **Simplify logical Decision Making:** As a result of accounting in any particular company it is easy for a company to make sensible decision in matters relating to the investment of assets, raising the salaries and provided that inspiration to the working staff.
- **True Financial Statement:** In a proper understanding financial rank and position of a company auditing is vital. As a result, the concern can understand whether or not it is headed to the correct way.
- **Prevention and Detection of Errors:** when rational financial records are maintained, a proper trial and error is conducted as a result of which no errors are committed and the future errors are corrected.
- **Management, Tax and Social Audit:** Separately from cost and wealth audit, organization tax and social auditing is too directed by the finance of accounting. In a problem it is impossible to maintain a business without the help of an accountant in general.

1.2.3 Book-keeping

Bookkeeping is the activities concerned through the systematic recording of financial data of an organization in a systematic way. It is basically a record keeping function complete to help in the process of accounting. It is an input section in forming the financial statements of the business at the end of the financial year. Bookkeeping also requires suitable classification of transaction and events. Such classification and transaction is important to conserve proper financial accounts. The essential idea after maintaining book keeping records is to show correct situation about each head of income and expenditure. Whether proper record is not maintained, it is not possible to get details of the transactions in regard to the income and expenditure.

There are many methods of book keeping. The most common methods 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 main objective of book-keeping is to complete record of business transactions as per source of accounting rules and regulation. It's helpful to reduce the errors, for permanent record of business. Hence first record of all transaction in our journal and after that we transferred it to ledger through posting.
- **Determination of Financial Effect on the Business:** After preparing the profit and loss account, a statement called balance sheet is prepared which shows the assets and their value on the one hand and the liabilities and the capital on the other hand. A balance sheet actually shows the financial position of the business.
- **Know Profit or Loss of Business:** The second main objective of bookkeeping is to know the profit or loss of business organization. For this purpose, we make trading and profit and loss account of the business and show all the incomes and expenses in it. In case the total revenue will more than total expenses, we will get net profit of the business and whether our total expenses more than our total revenue we will get net loss of the business.
- **Others:** Except above main objectives of bookkeeping, following are also general objectives in it... (a) Ascertain the amount of tax liabilities. (Both income and sales tax). (b) Give the information of total sales and purchases of the business. (c) Providing the information of creditors and debtors of business. (d) Achieve the knowledge of quantity and value of stock etc.

1.2.5 Distinction between Book-keeping and Accounting

Bookkeeping provides essential data for accounting and accounting starts where bookkeeping ends. Some difference between bookkeeping and accounting are as follows.

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

Generally, the users of accounts are classified 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 information include the following...

- **Management:** Management uses the accounting information for analysis the organization status and positions and taking the appropriate decisions to improve the companies result. One of

the main roles of management is to set rules and procedures to get the organization goals.

- **Employees:** Growth of the employees is directly related to the growth of the organizations for measurement companies' profitability and its importance on their future salary and job security.
- **Owners:** Owners invest money to start and run business with the primary aim to earn profit. They want accurate financial information to know what they have earned or loss during a particular time.

b) External Users (secondary users) of accounting information include the following.

- **Creditors:** For ascertaining the credit ability of the organization. Organization that normally sells merchandise or raw materials to other business on credit. They use accounting information to have an idea in relation to the future creditworthiness of the organization and to make a decision whether or not to continue provided that goods on credit.
- **Investors:** They supply risk capital to the business. They want information to estimate whether to acquire, hold or sell their investment. The accounting information is used by both actual and likely investors. Actual investors apply this information to know how their funds are used by the supervision. And what is the projected performance of organization in future in conditions of profitability and growth. Potential investors use in accounting information to make a decision whether or not a particular corporation is appropriate for their investment desires.
- **Government Agencies:** Government agencies use financial information of business for the reason of Imposing taxes and rule.
- **Public:** public also uses accounting information of business organization. Example: (a) Source of education for student of accounting and finance. (b) A source of information for the people looking for job opportunities. (c) Source of information regarding the future of a particular industry.
- **Customers:** Customers are also concerned with the strength and profitability of the enterprise. Accounting information provides important business information to customer about current positions of business and to make a judgment about its future. Customers can be divided into three groups – manufacture or producers, wholesalers and retailers, and end users or final

consumers. As well as manufactures or producers at every stage of processing require assurance that the organizations in question will continue provided that input such as raw materials, parts, machinery and carry etc. And the other side the whole sellers and the retailers must be guaranteed the supply of product. And the last the financial consumers are interested in continuous presence of products and related goods.

1.2.7 Relation of accounting with Other Disciplines

Accounting is closely related with some other disciplines. Accounting is a discipline of identifying, measuring and communicating of an organization economic health. The other discipline of accounting which is increasingly seen to interact with is: Mathematics, Economics, Law, Statistics and management. Let's, discuss briefly the relationship of accounting with its related disciplines.

Accounting and economics: Economic is viewed as a science of rational decision making about the rare resources and it is a science related to human activities to fulfil demand with limited wealth. Economic analysis how people earn and spend how purchasers and sellers act under different situation etc. On the other hand, accounting records transaction of income and expenditure measurable in terms of money and provides necessary and relevant information to purchasers and sellers for taking decisions. However, accountants got the ideas of value, income and capital maintenance from economists but brushed suitably to make them usable in practical circumstances. Accounts developed the valuation, measurement and decisions making may be obliged to the economic theorems for source but this are moulded in the work environment and properly tempered with reference to relevance, verifiability, freedom from partiality, timeliness, comparability, reliability, and understand ability. So these two subjects are interrelated. In this viewpoint bringing regarding a combination between the concept of economics and accounting, the idea of social sciences is being applied.

Accounting and statistics: Accounting and statistics are deeply related. The main objective of these two sciences is to make arithmetical figures understandable and logical and to present these in the form of statement making them usable to owners, director or all others concerned. The main function of statistics is to collect classify, analyses the quantitative data of various events and present them to the individuals or organization concerned. On the other hand, in accounting after completion of some accounting process of transaction, final accounts and thereafter on the basis of various information statements are prepared of such financial statements.

Accounting and Mathematics: Accounting and mathematics are closely related. Accounting is the language of the business. On the other hand, mathematics is the language of accounting, at different stages of accounting it addition, subtraction, multiplication and division of arithmetic are applied. Accounting expresses all its transaction and events of financial changes in the language of mathematics. At all stages of

accounting i.e. in preparing journal, ledger, trial balance and financial statement mathematical principles are applied.

For this reason, the process of keeping accounts become easy and short. So mathematics is an indispensable part of accounting.

Accounting and Management: Management is administration of business. It involves organization and controlling of the interaction of a business or a part of a business. Management involves many function and application of many disciplines such as economics, mathematics, statistics and computer etc. Accounting professional are better off with what they study through their course to understand and use the data for providing the required accounting information to management for facilitating in decision making process.

1.2.8 Limitations of Accounting

The limitations of accounting are as follows:

- **Monetary transaction only:** Transaction of non-monetary nature do not find place in accounting. Accounting is limited to monetary transaction only. It excludes qualitative fundamentals like organization reputation, status, labour strike etc.
- **Reflection:** The balance sheet cannot reflect the value of certain factors like loyalty and skill of the employees which may be the most valuable property of an enterprise these days.
- **Balance Sheet:** Balance sheet shows the situation of the industry on the day of its preparation and not going on the future date though the users of the accounts are attracted perceptively the positions of the business in the near future and also in long run and not for the ancient times.
- **Cost Concept:** Cost concept is put in accounting. Price changes are not measured. Money value is necessary to change regularly from time to time. This is a strong limitation of accounting.
- **Accounting policies:** Different accounting policies are constructing by the accountant. The figures of balance sheet are largely resulted by the personal verdict of accountant hence it is the subjective factor is accepted in accounting and objective factor is ignored.
- **Proper Scheme:** Financial accounting does not set up a proper scheme of regulating equipment and goods. Clearly, if materials and goods are not controlled in a manufacturing concern, they will conduct to losses of account of misappropriation, scrap, defective etc.
- **Allocation Process:** Allocation process is a vital problem in accounting system. The value of fixed assets is exhausted charging depreciation for

allocated period. The effective life of fixed assets is fixed up theoretically which does not stand exact in most cases.

1.2.9 Self-Examination Question

A) Objectives Questions-

- 1) All the following items are classified as fundamental accounting assumption except-
 - a) Consistency
 - b) Business entity
 - c) Going Concern
 - d) Accrual
- 2) Assets are held in the business for the purpose of-
 - a) Resale
 - b) Conversion into Cash
 - c) Earning Revenue
 - d) None of these
- 3) Decrease in the amount of creditors results in-
 - a) Increase in cash
 - b) Decrease in cash
 - c) Decrease in assets
 - d) No change in assets
- 4) Which of the following is not a subfield of accounting?
 - a) Management accounting
 - b) Cost accounting
 - c) Book-Keeping
 - d) None of these
- 5) All of the following items are functions of Accounting except-
 - a) Ledger Posting
 - b) Forecasting
 - c) Decision making
 - d) None of these
- 6) Financial statement is part of-
 - a) Accounting
 - b) Book-keeping
 - c) All of the above
 - d) none of these
- 7) Users of accounting information include-
 - a) Creditors
 - b) Lenders
 - c) Customers
 - d) All of these
- 8) On February 1, Ram paid rent of Rs.10, 000. It is classified as-
 - a) An event
 - b) a transaction
 - c) A transaction as well as an event
 - d) None of these
- 9) Financial position of the business is ascertained on the basis of-
 - a) Records prepared under book-keeping process
 - b) Trial Balance
 - c) Accounting reports
 - d) None of these
- 10) On March 31st, 2018 after sale of goods worth Rs.50, 000/-, he is left with the closing stock of Rs.10, 000/-. This is-
 - a) An event
 - b) A transaction
 - c) A transaction as well as event
 - d) None of these

Ans.

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

B) Short Answer Type Questions-

- 1) What is accounting?
- 2) Discuss the objectives of Accounting?
- 3) What is Book-keeping System?
- 4) Discuss the Limitations of Accounting System?
- 5) Discuss the objectives of Book-keeping system?

C) Broad Answer Type Questions-

- 1) Distinguish between book-keeping and Accounting System?
- 2) Briefly discuss the Evaluation of Accounting?
- 3) Define the Internal Users of Accounting System?
- 4) Who are the Secondary users of Accounting?
- 5) Discuss the Relation of Accounting with Other Disciplines?

1.3 Golden Rules with Various Accounts

The word Debit is derived from the Latin word '**debitum**'. But technically, 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.

In the same way the word '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.

Whether a 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 rules of Debit and Credit depend on the nature 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

Capital Account-

Increase in Capital = Credit
Decrease in Capital = Debit

Expenses or Loss Account-

Increase in Expenses = Debit
Decrease in Expenses = Credit

Liabilities Account-

Increase in Liabilities = Credit
Decrease in Liabilities = Debit

Revenue or Income account-

Increase in Revenue = Credit
Decrease in Revenue = Debit

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 appear-

- 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 system was invented by an Italian merchant Luca Pacioli in 1494 in Venice. According to this system, every transaction has two aspects i.e. one party given benefits and the other receiving the benefits. Under Traditional Approach all the accounts are classified as two parts i.e. 'Personal' and 'Impersonal Accounts'. The rules of debit, credit under Traditional Approach is known 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 Rules for Debit and Credit under the Traditional Approach

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 Equipments 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 classify 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			

1.3.3 Self Examination Question

A) Objectives Questions-

- 1) When an asset is purchased. Asset Account is-
- a) Debited b) Credited
c) None of these

- 2) When Furniture are purchased for resale. Furniture Account is-
 - a) Debited
 - b) Credited
 - c) None of these
- 3) When repairs are made. Repairs Account is-
 - a) Credited
 - b) Debited
 - c) None of these
- 4) When Plants are sold. Plant Account is-
 - a) Debited
 - b) Credited
 - c) None of these
- 5) The Process of recording transaction is called-
 - a) Journalising
 - b) Posting
 - c) Casting
- 6) Increase in assets means-
 - a) Profit
 - b) Loss
 - c) None of these
- 7) Increase in capital-
 - a) Debit in Capital A/c
 - b) Credit in Capital A/c
 - c) None of these
- 8) Single Entry means where there is-
 - a) One entry
 - b) Compound entry
 - c) Two entry
- 9) Journal is called-
 - a) Subsidiary Book
 - b) Original Book
 - c) Supplementary Book
- 10) Nominal Account is related to-
 - a) Expenses /Loss or Income/gains
 - b) Assets and liabilities
 - c) Customers, Creditors etc.

Ans.

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

B) Short Answer Type Questions-

- 1) How do you ascertain 'Debit' or 'Credit' in case of Real Account under Modern Approach?
- 2) How do you ascertain 'Debit' or 'Credit' in case of Personal Account under Modern Approach?
- 3) Define 'Debit' and 'Credit'?
- 4) How do you ascertain 'Debit' or 'Credit' under Nominal account?
- 5) How do you ascertain 'Debit' or 'Credit' under Real Account?

C) Broad Answer Type Questions-

- 1) What is Golden-Rule of Book-keeping? How do you ascertain Debit and Credit with the help of the Golden Rule?
- 2) How do you ascertain 'Debit' or 'Credit' in case of Nominal Account under Modern Approach?]
- 3) What is the Traditional Approach to ascertain Debit and Credit?
- 4) What is Hybrid System of Accounting?
- 5) Describe the Fundamental of Accounting Equation?

1.4 Journal

Double entry system of book-keeping has emerged in the process of development of different accounting technique. It is the only systematic scheme of accounting. The double entry has two equal and corresponding sides known as debit and credit. The left-hand side is debit and the right-hand side is credit. For example, if a business acquires something then either it necessity has been given by someone or it must have been acquired by giving up something. On purchase of furniture either the cash balance will be reduced or a liability to the supplier will occur. We may define the double entry system as the system which known and records both the aspects of transaction. This system has proved to be systematic and has been establish of great use for recording the financial relationships for all institutions requiring use of money.

1.4.1 Advantages of Double Entry System

Following are the main advantages of double entry system:

- **Ascertain Profit:** The profit earned or loss during a period can be ascertained simultaneously with details.
- **Keep Complete account:** Under this method both the aspects of each and every transaction are recorded. So it is possible to keep complete account.
- **Financial Position:** The financial position of the business or organization can be identifying at the end of each period through preparation of the balance sheet.
- **Mistake Detection:** Under this system mistakes can be detected.
- **Obtaining essential transaction easily:** All the essential details about a transaction can be obtained quickly and easily.
- **Appropriate Decision making:** Under this system the necessary information is easily available so that the management can take appropriate decisions and run the business smoothly.
- **Outstanding amount identify easily:** The total amount outstanding by the debtors and the total amount outstanding to creditors can be identified easily.

1.4.2 Account

Account is nothing but a record in the general ledger that is used to collect and store debit and credit amounts. For example, a company will have a Cash account in which every transaction involving cash is recorded. A format 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 an agreement between a buyer and a seller to exchange goods, services or financial instruments. Examples of transaction are as follows-

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

1.4.4 Accounting Equation Approach

According to accounting principles, every debit in a transaction has the equivalent credit. It means the value of benefits received should be equal to the value of benefits given. As per accounting equation-

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

A business transaction determination result in the change in the either of the assets, liabilities or capital of the firm and even after the change the assets will be again equal to the total capital and liabilities. If a business transaction results in the increase of assets, there will also be corresponding increase in the amount of either capital or liabilities by the same amount.

1.4.5 Traditional Approach

Under traditional approach of recording transaction one should first understand the term debit and credit and their rules.

Transaction in the journal is recorded on the basis of the rules of the debit and credit only. For the purpose of recording, these transactions are classified in three groups.

- Personal transaction.
- Transaction related to the assets and properties.
- Transaction related 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 1st 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 31st March, 2018 he seeks your advice.

Solution:

Journal

In the Book's 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 are 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.	2000	
Rent A/c.....Dr. To Cash A/c (Being Expenses paid)	500	2500
Advertisement expenses A/c.....Dr.	3000	
To Purchase A/c (Being distribution of goods by way of free sample)		3000

1.4.7 Advantages of Journal

The main advantages of Journal are-

- **Providing records:** Journal provides records of all business transaction in one place on the time and data basis.
- **Authentication:** All transaction is recorded on the basis of receipts or invoice. So we can cheque authenticity of each journal entries with their bills.
- **Date basis system:** There is minimum chance to avoid any particular transaction because in journal transactions are recorded at a chronological order.
- **Basis of posting in ledger:** Journal is the basis of posting in ledger accounts. Without making of journal, accountant cannot make ledger accounts.
- **Rectify:** If there is mistake in ledger, we can rectify it with the help of journal.
- **Others:** All opening journal entries, closing journal entries and all others transaction which is not recorded in any other secondary books, will be recorded in journal.

1.4.8 Self-Examination Question

A) Objectives Questions-

1. Journal is the book of-

a) Primary entry	b) Secondary entry
c) Final entry	d) No entry
2. Journal entries are made-

a) Before ledger posting	b) After ledger posting
c) Before trial balance	d) After trial balance
3. For goods purchased for business, debit is made to-

a) Good in Transit A/c	b) Goods A/c
c) Purchases A/c	d) Sales A/c

4. For machinery purchased for business, debit is done to-
 - a) Goods A/c
 - b) Purchases A/c
 - c) Asset A/c
 - d) Machinery A/c
5. Furniture purchased for household use of proprietor the debit is made to-
 - a) Furniture A/c
 - b) Purchases A/c
 - c) Assets A/c
 - d) Drawing A/c
6. Rent account is a-
 - a) Personal account
 - b) Nominal account
 - c) Real account
 - d) None of these
7. Bills payable account is a-
 - a) Real account
 - b) Personal account
 - c) Nominal account
 - d) None of these
8. Prepaid salary account is a-
 - a) Personal account
 - b) Real account
 - c) Nominal account
 - d) None of these
9. Accounts payable is a-
 - a) Revenue
 - b) Expenses
 - c) Assets
 - d) Liabilities
10. Building is a-
 - a) Revenue
 - b) Expenses
 - c) Assets
 - d) Liabilities

Ans.

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

B) Short Answer Type Questions-

- 1) What do you mean by Journal?
- 2) What is Traditional Approach?
- 3) Discuss the Advantages of Journal?
- 4) What is transaction?
- 5) What is Account?
- 6) On 01.05.2018 Mr. Roy started a business with cash Rs.1, 00,000. Journalise the transaction.
- 7) Journalise the following transaction: Ram Purchased goods worth Rs.10,000 from Mr. Arijit Das on credit.
- 8) Mr. Shyam purchased goods in cash Rs.20,000. Show the journal entry.
- 9) Sourav took cash of Rs.4, 000 from his business for personal purpose. Pass the journal entry.
- 10) Cash received from Kamal Rs.5, 000 after allowing a discount of 5%. Show the journal entry.

- 11) Ram opened a bank account with SBI by depositing Rs.20, 000. Show the journal entry.
- 12) On 15.4.2018 Sourav withdrew cash of Rs.10, 000 from the bank for office use. Pass the journal entry.

C) Broad Answer Type Questions-

- 1) Explain the Accounting Equation Approach?
- 2) What do you mean by Double Entry System? Discuss the advantages of Double Entry System?
- 3) How do you ascertain Debit and Credit with the help of Golden Rule?
- 4) "Accounting Equation is the modern concept of Double Entry System."- Comment?
- 5) "Accounting Equation is applicable in all the Current Assets."-Justify.
- 6) 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/-

- 7) Journalise the following transactions:

2018

- Jan.
- 1 Suman 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/-

- 8) Journalise the following transactions:

2018

- Feb.
- 1 Goods purchased in cash Rs.10,000/-
 - 2 Cash paid to Sourav & Co. Rs.5,000/-
 - 5 Purchased Machinery from Das & Co. Rs.50,000/-
 - 10 Sold goods to Amit on credit Rs.20,000/-
 - 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/-

9) Journalise the following transactions:

2018

- April. 1 Started business with cash Rs.20,000/-, Stock Rs.10,000/- and Furniture Rs.10,000/-
- 2 Goods sold in cash to A &Co. Rs.8,000/-
- 4 Purchased goods on credit from Mitra& Co. Rs.50,000/-
- 6 Cash withdrawn from Bank Rs.10,000/- for office use
- 10 Sold goods to Mukherjee Enterprise for Rs.10, 000/-
- 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/-

10) 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/-
- 3 Loan Taken from Amit Rs.20, 000/- and deposit immediately into Bank.
- 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.5, 00/- and 2, 000/- for medicine purchased for treatment.
- 31 Sold goods to Bapi Rs.10, 000/- at a trade discount 10%

1.5 Ledger

Ledger is the second step of accounting. After recording the transaction in the journal, recorded entries are classified and Ordered into by preparation of accounts and the book, which contains all set of accounts (Personal, real, nominal accounts) is known as ledger. It is the final destination of all the accounts created in the primary books. It is the final source of all accounting information. The following are the main definition of ledger:

V.J. Vickery- “Ledger is a book of account which contain in a suitably classified form the final and the permanent record of trader’s transaction”.

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

Specimen of Ledger Account

A ledger account has two sides. Left side is called Debit and the right side is called Credit. Each of the debit and credit side has four columns.1) Date 2) Particulars 3) Journal folio and 4) Amount.

Account

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

1.5.1 Posting

The process of transferring the debit and the credit items from journal to classified accounts in the ledger is known as posting.

Rules of posting:

- Separate account is opened in ledger book for each account.
- Entries must be posted from the day books or journal.
- Posting of the entries must be date wise.
- Date of entry in day books must be the date of entry in ledger.
- It is a practice to use words ‘To’ and ‘By’ as posting transaction in the ledger. The word ‘To’ be used in the particular column with the accounts written on the debit side while ‘By’ is used with the accounts written in the particular column of the credit side.
- After the entry, page number of journal from where the entry is posted, must be written in L/F column of an account and the page number of ledger account must be written in L/F column of journal or day book.
- All amounts shown in debit side in journal must be posted in debit side of a particular account. In particulars column of ledger.

- All amounts shown in credit side in journal must be posted in credit side of a particular account. In particulars column of ledger.
- Then the balancing of the ledger should be done. If the total of debit side is more than credit side, then the balance should be shown as debit balance in balance column and if the total balance of credit side is more than credit side then the balance should be shown as credit balance in balance column. If the total of debit and credit side is equal, then the balance should be shown as 'nil' in balance column.

1.5.2 Balancing of an account

At the end of each month or year or any particular day it may be essential to determine the balance in an account. This is not a too difficult thing to do. Suppose a person has bought goods worth Rs. 5,000/- and he has paid only Rs. 3,000/- and he owes Rs. 2,000/- and that his balance in his account. To ascertain the balance of any account, what is done is to total the sides, and ascertain the difference, the difference is the balance. If the credit side is bigger 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, two 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 period. Similarly, the debit balance is written on the credit side is 'By balance c/d', the totals then are written on the two sides as shown 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 1st 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 31st March, 2018 he seeks your advice. Journalise the above transactions and post them into ledger.

Solution:

Journal-

In the Book's of Mr. Das
Journal Entries

Date	Particulars	Dr.	Cr.
		Amount Rs.	Amount Rs.
2018 Apr. 1	Cash / Bank A/CDr. To, Capital A/C (Being business started with Rs.40,000/-.)	40,000	40,000
?	Purchase A/CDr. To, Cash A/C (Being goods purchased for Rs.20,000/-.)	20,000	20,000
	Plant & Machinery A/CDr. To, Cash A/C (Being Plant purchased for Rs.8,000/-.)	8,000	8,000
	Wages A/CDr. To, Cash A/C (Being wages paid for Rs.8,000/-.)	8,000	8,000
	Salaries A/CDr. To, Cash A/C (Being salary paid for Rs.8,000/-.)	8,000	8,000
	Cash A/CDr. 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/CDr. 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 ,, Sales A/C		40,000 40,000	?	By, Purchases A/C ,, Plant & Machinery A/C ,, Wages A/C ,, Salaries A/C		20,000 8,000 8,000 8,000 4,000

	To, Balance b/d				„ Misc. Exp. A/C „ Balance c/d		32,000
			80,000				80,000
			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
			40,000				40,000
				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
			20,000				20,000
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
			40,000				40,000
				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.3 1	By, Balance c/d		8, 000		
			8, 000						8, 000
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.3 1	By, Balance c/d		8, 000		
			8, 000						8, 000
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.3 1	By, Balance c/d		4, 000		
			4, 000						4, 000
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		
			8, 000						8, 000
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 Sock 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		By, balance c/d		2,000
20.6.2018	To, Sun ltd A/c		6,000	31.8.2018			
			<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 1st Jan 2018.

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-

Jan1. 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 Jan.1	To, Balance b/d		20,000	2018 Jan.1	By, Purchases A/c		6,000
Jan.5	To, Ram A/c		10,000	Jan.9			
Jan.12	To, Sales A/c		20,000	Jan.31	By, Sundry creditors A/c		14,000
					By, Balance c/d		30,000
			50,000				50,000
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
			30,000				30,000
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
			30,000				30,000
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
			20,000				20,000
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
			60,000				60,000
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
			100,000				100,000
				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				
			60,000				60,000
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
			20,000				20,000
				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
			20,000				20,000
2018 Feb.1	To, Balance b/d		20,000				

1.5.3 Self-Examination Question

A) Objectives Questions-

1. The process of transferring the debit and the credit items from journal to classified accounts in the ledger is known as-
 - a) Posting
 - b) Purchases
 - c) Balancing of an accounts
 - d) None of these
 2. Journal and Ledger records transaction in-
 - a) A chronological order and analytical order respectively
 - b) An analytical order and chronological order respectively
 - c) A chronological order only.
 - d) None of these.
 3. Ledger book is popularly known as-
 - a) Secondary book of accounts
 - b) Principal book of accounts
 - c) Subsidiary book of accounts
 - d) None of these
 4. At the end of the accounting year all the nominal accounts of the ledger book are-
 - a) Balanced but not transferred to profit and loss account
 - b) Balanced and the balance is transferred to the balance sheet
 - c) Balanced and their balance is transferred to the profit and loss account.
 - d) None of these
 5. The technique of finding the net balance of an account after considering the totals of both debit and credits appearing in the account is known as-
 - a) Posting
 - b) Purchase
 - c) Balancing of an account
 - d) None of these
 6. The methods of preparing ledger account are called-
 - a) Posting
 - b) Periodic Balance method
 - c) Self-balancing method
 - d) Periodic and self-balancing method
 7. Journal and ledger are used under-
 - a) Double entry system
 - b) Single entry system
 - b) Triple entry system
 - d) None of these
 8. J.F. is a column of-
 - a) Trial Balance
 - b) Journal
 - b) Ledger
 - d) Bank Reconciliation Statement
-

9. The process of recording transaction directly in the ledger without recording in Journal is known as-
- | | |
|----------------|-------------------|
| a) Blind Entry | b) Original Entry |
| b) Casting | d) Balancing |
10. The following Account has debit balance
- | | |
|--------------------|---------------------------|
| a) Capital Account | b) Sales Account |
| b) Drawing Account | d) Return Outward Account |

Ans.

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

B) Short Answer Type Questions-

- What is Ledger?
- Show the specimen of Ledger Account?
- What do you mean by Posting?
- Discuss the rules of Ledger Posting?
- Discuss the two function of ledger?
- Records the following transaction into Ledger Accounts:
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/-
- Prepare Journal Entries and show Ledger Account:
2018
April.1 Cash withdrawn from Bank Rs.10, 000/-
3 Wages Paid Rs.20, 000/-
5 Salary paid Rs.10, 000/-
- 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/-
- Record the following transaction into Ledger Accounts:
2018
March.10 Sales of goods in cash for Rs.80, 000/-
15 Collection of cash from Agarwal & Co.10, 000/-
- Record the transaction into Journal and posting Ledger Accounts:
2018
June.5 Goods purchased from Delhi Rs.90, 000/-on credit

C) Broad Answer Type Questions-

1. What is Ledger? Discuss its application of Double Entry System?
2. How many kinds of accounts are found in the ledger?
3. Explain the Balance of an account?
4. From the following transaction posting into Ledger Accounts:

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/-
- 12 Received from Bijoy by cheque Rs.20, 000/-
- 16 Purchased goods from Amit Roy Rs.40, 000/-
- 20 Goods returned to Amit Roy Rs.15, 000/-
- 28 Cash paid to Dalal & Co.10, 000/-

5. You are required 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/-
- 10 Wages Paid for installation of machinery Rs.5, 000/-
- 14 Bought goods on credit from Swapam Rs.20, 000/-
- 16 Paid Salary to the accountant Rs.20, 000/-
- 18 Cash collected from Arun Rs.5, 000/-
- 22 Returned goods to Swapam Rs.12, 000/-
- 28 Cash paid for purchase of a new machine Rs.5, 000
- 31 Cheque issued to Swapam Rs.5, 000/-

6. Record the following transaction into Journal and Posting 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 Amit on credit Rs.20, 000/-
- 13 Paid Wages Rs.10, 000/-
- 15 Paid Salary Rs.30, 000/-
- 22 Amit Returned goods Rs.5, 000/-
- 25 Paid for purchase of stationery Rs.6, 000/-
- 28 Purchased Furniture for Rs.40, 000/-

7. 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 Purchased 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 Mukherjee 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 deposit into Bank Rs.10, 000/-
- 25 Paid Salary for Rs.30, 000/-

8. Prepare Ledger accounts:

2018

- March.1 Debit balance brought forward Rs.10, 000/-
- 5 Sold goods to Mr. Mukherjee Rs.50, 000/-
- 9 Received cheque from Mukherjee and deposited Rs.20, 000/-
- 12 Mr. Mukherjees cheque returned dishonoured 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.2, 00/-

9. Prepare necessary Ledger Accounts:

2018

- Jan. 1 Suman 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/-

10. 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/-

1.6 Trial Balance

All business transaction is first recorded in journal or subsidiary books. Then they are transferred to ledger and balanced it. Preparation of the trial balance is the third phase of accounting process. After posting the accounts in the ledger, a statement is prepared to show separately the debit and credit balances. Such a statement is known as trial balance. The main objective of keeping the books of accounts are to ascertain the profit or loss of the business and to assess the financial position of the business at the end of the year. If a statement is prepared with debit balances of one side and credit balances on the other side, the total of the two sides will be equal such a statement is called trial balance.

1.6.1 Objectives of Preparing the Trial Balance

The preparation of trial balance has the following objectives-

- **Ascertain arithmetical accuracy:** Trial balance helps to check accuracy in the ledger posting. It ensures that both aspects of every 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 errors:** Trial balance helps in locating errors performed during ledger posting.
- **To simplify preparation of financial statement:** Financial statement are prepared from trial balance Trial balance contains all ledger accounts and provides a basis for further processing of accounting data i.e. preparation of financial statement.
- **To facilitate auditors:** Total of all debit balances must be equal to total of all credit balances, trial balances assures Auditors that all transactions have been recorded in books of accounts.

1.6.2 Limitation of trial balance

Some errors may not be detected through trial balance. These may be of the following types-

- **Errors of Principle:** Errors which violates the fundamentals of book-keeping. Ex. Purchase of furniture debited to purchase A/c.
- **Errors of Omission:** Transaction is completely omitted i.e. transaction happened 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 wrong account and won't be detected through Trial Balance.
- **Errors of Amounts in Original Book:** This is an error in original book. Purchase from Mr. Das Rs. 6300/- but written as 6030/- or written as Rs.630/- in the original book.

- **Compensating Errors:** Here, one error is compensated by another 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 prepared in three ways. Such as-

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

Total Method:

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

Example-9: Given below is a ledger extracted 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
			40,000				40,000
	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
			20,000				20,000
					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
			10,000				10,000
	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
			20,000				20,000
					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
			4, 000				4, 000
	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
			4, 000				4, 000
	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
			2, 000				2, 000
	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
			4, 000				4, 000
	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
		64,000	64,000

Balance Method:

Under this method, every ledger account is balanced and those balances only are carried forward to the trial balance. It helps the Preparation of the financial statement.

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
			80,000				80,000
	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
			<u>40,000</u>				<u>40,000</u>
					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
			<u>20,000</u>				<u>20,000</u>
	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
		<u>1,28,000</u>	<u>1,28,000</u>

Total and Balance Method:

It is a merged form of Total method and Balance method.

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

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

1.6.4 Self Examination Question

A) Objective Questions-

1. A trial balance will not balance, if
 - a) Correct journal entry is posted twice
 - b) The purchase on credit basis but is debited to purchases and credited to cash.
 - c) Rs.6, 000/- cash payment to creditors is debited to creditors for Rs.600/- and credited to cash Rs.600/-.
 - d) None of these.
2. After the preparation of ledger, the next step is the-
 - a) Profit and loss account
 - b) Trading account
 - c) Trial balance
 - d) None of these
3. 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
4. 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
5. Popular Methods of preparing trial balance is-

- a) Two ways
 - b) Four ways
 - c) Three ways
 - d) None of these
6. After preparing the trial balance the accountant found that the total of debit side is short by Rs.5, 000/-. This difference will be-
- a) Credited to suspense account
 - b) Adjusted to any of the debit balance account
 - c) Debited to suspense account
 - d) None of these
7. Of an accounting process Trial balance is-
- a) Second phase of accounting
 - b) Fourth Phase of accounting
 - c) Third Phase of accounting
 - d) None of these
8. Trial balance may help-
- a) To Facilitate Auditors
 - b) Arithmetical accuracy
 - c) To simplify detection of errors
 - d) All of the above
9. Under Double Entry System, every transaction affects-
- a) Debit and credit side of the same account
 - b) Debit of side one account and the credit side of another account
 - c) Same accounts in the opposite side
 - d) None of these
10. Trial Balance is called-
- a) Original Book
 - b) Subsidiary Books
 - c) A Statements showing the balances of accounts
 - d) None of these.

Ans.

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

B) Short Answer Type Questions-

- 1) What do you mean by Trial Balance?
- 2) Discuss the Advantages of Trial Balance?
- 3) Discuss four objectives of Trial Balance?
- 4) Discuss the Limitations of Trial Balance?
- 5) Discuss the Function of Trial Balance?
- 6) 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.

7) From the following information 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/-.

8) Determine debit or credit in the Trial Balance for the following accounts:

- | | | |
|--------------------|---------------------|------------------|
| a) Carriage Inward | b) Carriage Outward | c) Import Duty |
| d) Export Duty | e) Return Outward | f) Return Inward |

C) Broad Answer Type Questions-

- 1) Explain the two Methods of preparing the Trial Balance.
- 2) Mention the errors which are disclosed by a Trial Balance.
- 3) Explain the objectives and functions of Trial Balance.
- 4) Mention the errors which affect the agreement of a Trial Balance.
- 5) Mention the errors which do not affect the agreement of Trial Balance.
- 6) From the following particulars prepare a Trial Balance as on 31st 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/-.

7) From the following Ledger balances of Miss Puja Roy, prepare a Trial Balance as on 31st 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/-

8) From the following particulars prepare Trial Balance of Sporting Club as on 31st 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/-.

9) Prepare a Trial Balance as on 30th 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/-

10) 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 Petty Cash Book
- 2.2.2 Entries for Sale through Credit / Debit Cards
- 2.2.3 Entries for Sale through Credit / Debit Cards
- 2.2.4 Entries for Sale through Credit / Debit Cards
- 2.2.5 Accounting for Credit / Debit Card Sale
- 2.2.6 Self-examination Questions

2.3 Bank Reconciliation Statements (BRS)

- 2.3.1 Bank Pass Book
- 2.3.2 Importance of BRS
- 2.3.3 Self-examination Questions

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
- 2.4.7 Self-examination Questions

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
- 2.5.5 Self-examination Questions

2.0 Objectives

After studying this unit, you will be able to:

- Books of accounts
- Understand Cash book.
- Learn various types of cash book.
- Explain what are petty cash book and its advantage.
- Explain Imprest System.
- Understand the technique of preparing triple column cash book.
- Learn how to maintain a petty cash book and how to post the entries of the petty cash book in the ledger.

- Understand the accounting of credit/debit sales transaction.
- Learn the design of a Bank Pass Book.
- Understand what Bank Reconciliation Statement is.
- Learn importance of Bank Reconciliation Statement.
- Understand the reasons for difference between Cash Book balance and Pass Book balance and try to ascertain the amount of such differences.
- Learn Day Book.
- Understand difference types of Day Book.
- Learn the Technique of recording transaction in Purchase Book, Sales Book, Return Inward Book, Return Outward Book, Bills Receivable Book, Bills Payable Book etc.
- Understand what the Journal Proper is.

2.1 Introduction

All business establishment and taxpayers are essential to keep a record of their day to day business transactions in order to know the result of their operations. The said record is referred to as “books of accounts”.

Thus, books of accounts refer to the records or books in which all financial information of a business or an entity is recorded and maintained. For example, a journal is a book of account because it is used to record financial information of a business. Similarly, purchase ledger account, cash book, general journal, sales ledger account etc. are example of books of accounts.

The process of recording financial information or transactions in the books of accounts is known as book-keeping. Whereas, the person the records the financial information of a business in the books of accounts is called book-keeper.

Books of accounts are mainly consisting of Books of Original entries and Books of Secondary entries.

Books of Original Entries:

- General Journal or Day Book- for recording general 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 kind of cash receipt.
- Cash Payment Journal-for recording all kind of cash payments.
- Cash Book-for recording cash receipts and payments.

Books of Secondary's Entries:

Main ledger account such as debtor control account, creditor control 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 collectively referred to as books of accounts.

2.2 Cash Book

A cash book is financial journal that contains all cash receipts and payments, including bank deposit and withdrawals also. Cash transaction is recorded in the cash book and on the basis of such a record, ledger accounts are prepared. Entries in the cash book are posted into the general ledger account. Hence, cash book is a subsidiary book. As well as Cash book itself supply the cash account and the bank account; therefore, the balance entered in the trial balance directly. Thus it has also treated as a principal book. Therefore, the cash book both 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 maintain a petty cash book but that is simply a subsidiary book.

a) Single column cash Book:

It is a cash book in which only and only a cash transaction are recorded. The left hand side records receipts of cash and the right hand side the payments of cash and "one amount column" on each side of the cash book. It is generally maintained by such business concerns which do not have bank accounts.

Balancing of single column cash book:

The cash book is balanced in the same way of ledger account. The receipts column is always bigger than the payments column. The difference is written on the credit side as 'By balance c/d; The totals are then entered in the two column opposite one another and then on the debit side the balance is written as 'To balance b/d', to show cash balance in hand in the starting of next period.

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 Jan.1	To, Capital A/c		200,000	2018 Jan.3	By, Purchase A/c		100,000
Jan.7	To, Sales A/c		80,000	Jan.5	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		
				Jan.18	By, Drawings A/c		10,000
				Jan.31	By, Salary A/c		
					By, Rent A/c		
					By, Balance c/d		5,000
				”			10,000
				”			5,000
							140,000
Feb.1	To, Balance b/d		<u>300,000</u>				<u>300,000</u>
			140,000				

b) Double column cash book

For this purpose, an additional column known as discount column is provide both sides of the cash book such cash book is called double column or two column cash book, one for recording cash and another for recording discount. The discount column on the debit side is used for recording discount allowed on receipt of cash and the other side discount column is used for recording discount received at the time of payment.

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

Balancing of double column Cash Book:

In Double column cash book discount columns are not balanced. They are just totalled. The total of the discount column on the debit side of cash book is posted as debit to the discount allowed account, similarly the total of discount column on the credit side of cash book is posted as credit to the discount received account.

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 Jan.1	To, Balance b/d			20,000	2018 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
			5,00	27,000				2,00	27,000
Feb.1	To, Balance b/d			12,000					

c) Triple column Cash Book:

Triple column cash book (also referred as three column cash book) is the most complete form of cash book which has three money columns on both receipts and payment sides to record transaction involving cash, bank and discounts. A triple column cash book is generally maintained a large firm. The process of recording transaction in a three column cash book is similar to that of a double column cash book. The difference between two types of cash book is that a double column cash book has two money columns i.e. cash and discount column whereas triple column cash book has three money columns i.e. cash and bank and discount column.

Balancing of Triple Column Cash Book:

Whenever it is required to determine the bank balance, the bank column is totalled on the both sides. If debit column is more than the credit column the difference represent cash at bank and the other side the credit balance is more than the debit balance it is represent the 'overdrawn balance'.

The cash column is balanced as usually. Whereas 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.16 Cash withdraw from bank for personal expenses Rs.1, 000/-

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

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

Solution: See cash book 2 No.1

2.2.2 Petty cash book

A company maintain a main or general cash book but many companies are also maintaining a small cash book known as petty cash book to record small day to day expenditure of the business. It is used to minor regular expenditure such as bus fares, fuel newspapers, cleaning, pen, pencil, office teas etc. This small expenditure is generally paid using coins and currency notes rather than the checks. A pretty cash book has a debit and a credit side. 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 advantages of Petty Cash Book are as-

- Saving of the time of chief cashier.
- Control over small payments.
- Petty cash book maintaining records of all petty payments systematically.
- Petty cash book supplies information regarding petty payments made on different heads more easily and quickly.

Example-4: Prepare petty cash book on the Imprest system 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: See cash book 2 No.2

Imprest system of Petty Cash Book:

Under Imprest System, a fixed amount of money known as 'float' is given to the petty cashier to meet petty expenditure for an agreed period which usually consists of a week or month. At the end of the agreed period the petty cashier submits the details of all expenditures incurred by him to the chief cashier. The total cash spent by the petty cashier during the period is reimbursed to him and the total cash available to spend at the start of the next period becomes equal to the original sum.

Advantages of Imprest System of Petty Cash Book:

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

- **Misuses of Cash:** The Imprest system reduces the chances of misuses of cash.
- **Checking Records:** Under this system, the chief cashier periodically checks the record of petty cash.
- **Saving Time:** It saves the time of the firm chief cashier.
- **Responsibility:** This system trains young staff members in handling cash with responsibility.
- **Misappropriation of Cash:** Usually There are no chance of misappropriation of cash because the Imprest system usually very small.

2.2.2 Entries for sale through credit/debit cards

Now a day's sale through credit and debit cards is issued almost every bank in India directly or with partnership of some other agencies. SBI Card, BOB Card, ICICI Bank Card, HDFC Card and Andhra Bank Card are some of the popular cards.

The procedure for debit and credit cards are as follows:

- A small plastic card, called credit card is issued by bank to a potential customer, after verifying his creditability, which is usually calculated by his income sources.
A debit card is issued by bank to a customer who has an account with the bank, maintaining a minimum 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.
- Usually bank charges annual fees from the credit card holder.
On the other side no fee is charged in case of debit card, although some bank charges a nominal fee on the debit card.

- The bank issuing the card, charges commission for each such transaction, which varies between 1% to 4% and is immediately debited to seller's bank account.
- The bank sends the monthly report to the card holder. In case of debit card the account is instantly debited to the card holder's account, whereas in case of credit card, card holder has to pay the amount in full or part. Whereas if not paid in full, the interest is charged.

2.2.4 Accounting for credit /debit card sale

From the seller's point of view, this type of sale is equivalent to a cash sale. Commission charged 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:

Enter the following transaction in cash bank with discount and bank columns. Cheques are first treated as cash receipts-
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: See cash book 2 No.3

2.2.5 Self-Examination Question

A) Objective Questions-

1. Cash Book generally shows the-
 - a) Debit balance
 - b) Credit balance
 - c) Both
 - d) None of these

2. Cash Sales is recorded in a-
 - a) Sales 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
4. Petty cash book is meant-
 - 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. The Petty Cash Book is used for-
 - a) All cash payments
 - b) Petty cash payments
 - c) Petty cash receipts and payments.
7. Cash Discount is allowed on-
 - 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
 - d) None of these
9. The balance of petty cash book is-
 - a) A liability
 - b) An asset
 - c) An expenses
 - d) None of these
10. A columnar cash book records-
 - a) All cash transactions only
 - b) Both cash and bank transactions
 - c) All cash transactions excluding cash sales and cash purchases

Ans.

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

B) Short Answer Type Questions-

- 1) What is Cash Book? What do you mean by Imprest System?
- 2) 'Cash Book is a journal as well as a Ledger'-Discuss.
- 3) Discuss the various types of Cash Book maintained by a firm.
- 4) Define Analytical System of Petty Cash.
- 5) Why does a cash book always show a debit balance?
- 6) Goods sold to Mr. Das in Cash Rs.10, 000/-. State the journal Entry and also the entry in the Cash Book.
- 7) 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.
- 8) The cheque of Rs.4, 000/- previously received from Ram, returned by the Bank being dishonoured. Show the entry in journal and cash book.

- 9) Cash received from Mr. Joy Das Rs.10, 000/- as commission. Show the entry in journal and in cash book.
- 10) Cash withdraw from bank for office purpose Rs.4, 000/-. Pass the journal entry and the entry in the cash book.

C) Broad Answer Type Questions-

- 1) What is Double Column Cash Book? What are Contra Transactions?
- 2) Discuss the methods of posting the cash book in the Ledger.
- 3) What are the Advantage of Imprest systems?
- 4) What is Imprest System of Petty Cash? How do you prepare such a Cash Book?
- 5) What is meant by the Imprest System of maintaining Petty Cash?
- 6) Prepare a Single Column Cash Book of Mr. Das. The month of April 2018:

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/-
 17 Purchased goods from Mr.Shyam on credit Rs.20, 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

- 7) Prepare a Single Column Cash Book as on 31st March 2018.

2018

- March.1 Started business with Rs.20, 000/-
 3 Purchased furniture Rs.8, 000/-
 5 Opened a Bank account with cash Rs.4, 000/-
 8 Sold goods to Pratap in cash Rs.5, 000/-
 10 Sold goods to Soumen on credit Rs.4, 000/-
 13 Purchased goods from Ratan on credit Rs.8, 000/-
 17 Received a cheque from Soumen Rs.2, 000/-
 20 Paid insurance premium own life Rs.1, 000/-
 22 Received from Debtor (Soumen) the balance amount Rs.3,000/-
 24 Deposit cash into Bank Rs.2, 000/-
 26 Withdrew for Bank for office use Rs.3, 000/-
 29 Received for commission Rs.1, 000/-
 31 Paid Salaries and Wages Rs.2, 000/-

- 8) Prepare Double Column Cash Book of Sri S. Nandi and show the closing balances of cash and bank columns:

2018

- Jan.1 Cash in hand Rs.40, 000/-
4 Opened a Bank account Rs.20, 000/-
6 Received from Mr. Amit Roy Rs.18, 000/-
8 Paid to Mr. K. Roy by cheque Rs.12, 000/-
13 Purchased in cash Rs.8, 000/-
15 Paid Rent Rs.4, 000/-
18 Withdrew from Bank Rs.10, 000/-
22 Received a cheque from Mr. Joy Rs15, 000/-
26 Cash sales Rs.10, 000/-
28 Purchased a Printer and paid by cheque Rs.5, 000/-
31 Deposit into Bank Rs.5, 000/-

- 9) Prepare Double Column Cash Book with Cash and Bank Column:

2018

- Sept.1 Cash balance Rs.10, 000/-
Cash at Bank Rs.5, 000/-
3 Received cash Rs.5, 00/- and cheque Rs.5, 000/-from S.k Roy, both deposited into Bank
7 Paid telephone bill Rs.7, 000/-
9 Sold goods for cash Rs.10, 000/-
13 Deposited cash into Bank Rs.5, 000/-
15 Goods purchased by cheque Rs.5, 000/-
18 Paid Ram by cheque Rs.3, 000/-
21 Withdrawn cash from Bank for office use Rs.2, 000/-
23 Received a cheque from Gora Rs.2, 000/-
27 Deposit Gora's cheque into Bank-
29 Cash withdrawn from the Bank for personal use Rs.5, 000/-
31 Gora's cheque returned dishonoured.

- 10) Prepare Double Column Cash Book. Showing Therein columns for Bank and Discount:

2018

- June.1 Bank Balance Rs.9, 000/-
2 Goods purchased for cheque Rs.4, 800/- and discount received Rs.2, 00/-
5 Cheque received from Amit Ghosh Rs.4, 000/-
7 Paid salary to staff by cheque Rs.2, 000/-
10 Sold goods and cheque received Rs.5, 000/- after allowing trade discount RS.2, 00/-
12 Cheque received as commission Rs.3, 000
15 Cheque issued to A.k. Mitra Rs.1, 900/-, discount received from him Rs.1, 00/-
17 Withdrawn cash from bank for household purpose Rs.1, 000/-

- 20 Cash withdrawn from bank and paid for advertisement
Rs.2, 000/-
- 23 Cash received from Raju Rs.3, 800/- and discount allowed
Rs.2, 00/-
- 26 Cheque issued to Suresh Rs.9, 00/- and Discount received
Rs.1, 00/-
- 28 Rent received and banked Rs.6, 00/-
- 30 Cheque issued for electricity Rs.5, 00/-

2.3 Bank Reconciliation Statements (BRS)

Banks are essential institutions in a modern society, with the increase 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 prepared on a particular day to reconcile the bank balance as per cash book with the balance as per bank pass book, showing entries causing difference between the two balances.

In other words, it is the process that explains the distinction between the bank balances shown in an organizations bank statement, as supplied by the bank, and the equivalent amount shown in the organization own cash book on a particular point of time. It is a statement prepared by the banks customer i.e. the account holder.

2.3.1 Bank Pass Book

Pass book it is a copy of the account of the customer as it's arise in the bank's books. If a customer deposit money and cheques into his bank account or withdraws money, he records these transactions in the bank column of his cash book. Correspondingly the bank data those in the customer accounts maintained 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 periodically.

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 Importance of bank reconciliation statement

Bank reconciliation statement is a very important tool for internal control of cash flows. It helps in detecting errors and frauds. Some importance of bank reconciliation statement is as follows-

- **Position:** It helps in finding out the actual position of the bank balance.

- **Error Detection:** It helps to detect and rectify any error committed in both the books.
- **Discovering Records:** Bank reconciliation statement (BRS) helps to update the cash book by discovering some entries not yet recorded.
- **Entry accuracy cheque:** It provides a cheque on the accuracy of entries made in both the books.
- **Misappropriation:** A regular reconciliation detects the staff of the customer or even that of the bank from misappropriation.
- **Ensures Accuracy of the Balance:** Bank reconciliation ensures the accuracy of the balances shown by the pass book and cash book.

Example-6: From the following particulars ascertain the balance that would appear in the bank pass book of A on 31st December 2017.

- a) The bank overdraft as per cash book on 31st December 2017 Rs.6,000/-
- b) Bank charges of Rs.1, 000/- are debited in the pass book only.
- c) Cheques issued but not cash Rs.2,000/-
- d) Cheque paid into bank but not cleared Rs.1,500/-
- e) Interest on the investments collected by the bank and credited in the pass book Rs.1,500/-

Solution:

**Bank reconciliation statement
As on 31st December 2017**

Particulars	Amount Rs.
Overdraft as per cash book-	6,000
Add: Bank charges debited in the pass book but not entered in the cash book	1,000
Add: Cheques deposit but not yet credited in the pass book	1,500
	8,500
Less: Cheques issued but not yet presented	2,000
Less: Interest collected and credited by bank but not yet entered in cash book	1,500
	<u>4,000</u>
Over draft as per pass book	

Example-7: 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) Cheques 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.		Cr.	
Particulars	Amount Rs.	particulars	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
	<u>9,00,000</u>		<u>9,00,000</u>

Bank Reconciliation Statement

As on 31.03.2018

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

2.3.3 Self-Examination Question

A) Objective Questions-

1. When the debit balance as per cash book is the starting point, direct deposits by customers are-
 - a) Added
 - b) Subtracted
 - c) Not required to be adjusted
 - d) None of these
2. A bank reconciliation statement is a-
 - a) Part of cash book.
 - b) Part of bank account
 - c) Both (a) and (b)
 - d) None of these
3. A bank reconciliation statement is prepared with the help of-
 - a) Bank statement and bank column of the cash book
 - b) Bank statement and cash column of the cash book
 - c) Bank column of the cash book and cash column of the cash book
 - d) None of these.
4. A bank reconciliation statement, if you start with a debit balance as per the cash book, cheques issued but not presented within the period should be-
 - a) Added
 - b) Deducted
 - c) Not required to be adjusted
 - d) None of these.
5. When the balance as per pass book is the starting point, direct payment by bank are-
 - a) Added in the BRS
 - b) Subtracted in the BRS
 - c) Not required to be adjusted
 - d) None of these
6. When balance as per cash book is the starting point, uncollected cheques are-
 - a) Added
 - b) Subtracted
 - c) Not required to be adjusted
 - d) None of these
7. A bank statement is a copy of-
 - a) Cash column of the cash book
 - b) Bank column of the cash book
 - c) A customers account in the banks book
 - d) None of these.
8. The difference in the balances of both the cash book and the pass book can be because of-

- a) Errors in recording the entries either in the cash book or pass book
 - b) Omission of same entry in both cash book and pass book
 - c) Debit balance of cash book is the credit balance of pass book
 - d) Both (a) and (b)
9. Payments done by the accounts holder through issuing a cheque will be recorded to-
- a) The pass book at the time of issuing the cheque
 - b) The cash book at the time of issuing the cheque
 - c) The pass book at the time of presenting the cheque to the bank for payment
 - d) None of these
10. A Bank reconciliation statement is prepared by
- a) The Bank
 - b) The Govt.
 - c) The bank account holder
 - d) None of these

Ans.

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

B) Short Answer Type Questions-

- 1) What is Bank Reconciliation Statement?
- 2) Discuss the Importance of Bank Reconciliation Statement?
- 3) Give the causes of disagreement between the Cash Book and Pass Book?
- 4) State the utility of a Bank Reconciliation Statement.
- 5) Discuss the usefulness of a Bank Reconciliation Statement.
- 6) 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.
- 7) Bank balance as per Cash Book is Rs.20,000/-. 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. -----
- 8) The Bank overdraft balance as per Pass Book was Rs.8,000/-. The interest on overdraft charged by the bank but not yet informed Rs.2,000/-. The bank paid an insurance premium of Rs.3,000/- directly- as per standing order but not entered in the Cash Book. Show the Bank balance as per Cash Book.
- 9) The Bank Balance as per Pass book is Rs.7,000/-. A cheque of Rs.1,000/- issued to a creditor but not yet collected from the bank. Again a

cheque of Rs.1, 500/- deposited into Bank but not credited in the Pass book. Compute the Bank balance as per cash book.

- 10) The bank overdraft balance as per Cash Book Rs.5, 000/-. A cheque of Rs.2, 500/- deposited into the bank but not yet credited in the Pass book. Bank charge debited in the pass book Rs.5, 00/- but not entered in the cash Book. Find out the Pass Book balance.

C) Broad Answer Type Questions-

- 1) What do you mean by a Bank Reconciliation Statement? Discuss its Importance?
- 2) What is an 'Amended Cash Book' in Bank Reconciliation Statement? Discuss the methods of its correction?
- 3) What are the main causes of difference between Bank Pass Book and Cash Book balances?
- 4) State the method that is used in business to reconcile bank account and cash account, if they differ from each other.
- 5) What is Bank Reconciliation Statement? Discuss its utility?
- 6) 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:

- a) Cheques amounting to Rs.20, 000/- has been deposited but the bank has credited it on 2nd January.
 - b) Cheques totalling Rs.15, 000/- have been issued, but till 31st March, 2018 cheques totalling Rs.8, 000/- have been encased.
 - c) Bank interest amounting to Rs.2, 000/- has been accounted for in the debit side of the Pass Book only.
 - d) 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/-
- 7) From the following particulars of a trading concern, prepare a Bank Reconciliation Statement as on 31st March 2018.
- a) Bank Balance as per Cash Book Rs.8, 000/-
 - b) During the month the total amount of cheques for Rs.10, 400/- was deposited into the Bank, out of which one cheque of Rs.1, 500/- has been entered in the Pass Book on 2nd April.
 - c) During the month cheques for Rs.15, 660/- were drawn in favour of creditors. Of them, one creditor for Rs.5, 500/- encased his cheque on 4th April, whereas another creditor for Rs.3, 50/- has not yet encased his cheque.
 - d) According to agreement, on 25th March, a debtor had deposited directly into Bank Rs.8, 000/-, but the same has not been recorded in the Cash Book.

- e) In the month of March, the bank without any limitation had debited the account of the business concern for Rs.2, 50/- as Bank charges and credited the same for Rs.3, 00/- as interest.
- f) As per instruction, the bank on 26th March has paid Rs.4, 000/- to a creditor, but by mistake, the same has not been recorded in the Cash Book.
- 8) Prepare a Bank Reconciliation Statement of Mr. Roy as on 31st December, 2018 from the following particular:
- Bank balance as per Cash Book Rs.13, 000/-
 - During the month of December, cheques for Rs.5, 000/- were issued to Mr. Das but encased after 31.12.2018
 - During the month a cheque for Rs.2, 000/- was received from his employer and sent to the Bank without recording in the Cash book.
 - Bank charges for Rs.2, 00/- were debited in the pass book but not entered in the Cash Book.
 - On 31.12.2018 Bank credited the Pass Book with Rs.3, 00/- as interest but no entry for this was made in the Cash Book.
 - Insurance premium of Rs.6, 00/- was paid by the Bank on 25.12.2018, but no entry for this was made in the Cash book.
 - A cheque for Rs.1, 000/- received from Mr. Kapoor was dishonoured, but it was not entered in the Cash book.
 - As per instruction given by Mr. Vijay, Bank met a liability for Rs.2, 00/- and debited in the pass book but not entered in the Cash Book.
- 9) From the following information prepare Bank Reconciliation Statement as at 31.03.2018
- Balance as per Pass book(Cr.) Rs.7, 000/-
 - Cheques drawn but not encased at bank Rs.2, 500/-
 - Cheques deposited but not shown in Pass Book Rs.4, 000/-
 - Dividend collected by bank only on 31.03.2018 but not recorded in Cash Book Rs.1, 000/-
 - Cheque deposited into Bank but recorded in the debit column of the Pass book Rs.7, 50/-
 - Debit side of Cash book wrongly overcast by Rs.8, 00/-
- 10) The Books of M/s Khaitan Bros. You are required to prepare a Bank Reconciliation Statement as at 30th September, 2018.
- Cheques of Rs.2, 560/- were entered in the Cash Book as paid into the Bank on 30th September, but were credited by Bank on 4th October.
 - Cheques totalling Rs.5, 350/- were issued and duly recorded in the Cash Book before 30th September but had been presented at the Bank and debited to the account on 3rd October.
 - Bank charges of Rs.1, 00/- were recorded twice in the Cash Book.
 - A bill for Rs.4, 500 discounted with the Bank was entered in the Cash Book without recording the discount charge of Rs.2, 00/-

- e) On 25th September, 2018, a debtor, Mr. Ram, sent a cheque of Rs.4, 200/- direct to the bank in settlement of his account, but no entry was made in the Cash book.
- f) Bank balance(Cr.) as per Pass book Rs.3, 500/-

2.4 Day Book

Cash book is the most important Day Book. It contains all cash transactions. The deferent 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 relating to credit purchase of goods. It keeps records the details of all credit purchase of goods.

Example-8: 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: See purchase day book 2 Q.1

2.4.2 Sales Day Book

This book contains the transactions relating to credit sale of goods. It keeps records about the details of only credit sales of goods.

Example-9: 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: See purchase day book 2 Q.2

2.4.3 Return Inward Book

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

Example-10: 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			5,000	7,500	

	20 woollen trousers @ Rs.250 each					being down
--	--------------------------------------	--	--	--	--	------------

2.4.4 Returned Outward Book

This book records the transaction relating to goods that are returned by us to our creditors.

Example-11: 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. ho 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.	Remark
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	04/6		2,000		damaged
,, 18	Dey& Co. Adjustment of overcharge			1,000		overcharged
					9,000	

2.4.5 Bills Receivable Book

Bills receivable book is a book where all bills received are recorded and there from posted directly to the credit of the respective customers account.

The Form 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 particulars relating to bills accepted are recorded and there from posted directly 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	Where payable	Date of Bill	Term	Due Date	L.F.	Amount Of the Bill	How disp-osed off

2.4.7 Self-Examination Question

A) Objective Questions-

- 1) For recording Credit Purchase we use:
a) Sales Day Book b) Purchase Day Book
b) Return Outward Book d) None of these
- 2) Sales Tax is calculated on:
a) Gross Price b) Net price
b) List Price d) None of these
- 3) For recording cash sale, we use:
a) Cash Book b) Sales Book
b) Purchase Book d) None of these
- 4) Trade Discount is calculated on:
a) Net Price b) List Price
b) None of these
- 5) Cash Discount is calculated on:
a) Catalogue Price b) Net Price
b) List Price d) None of these
- 6) Debit Note Is used for:
a) Returns Outward Book b) Returns Inward Book
b) Sales Day Book d) None of these
- 7) Credit Note is used for:
a) Purchase Day Book b) Returns Inward Book
b) Returns Outward Book d) None of these
- 8) For recording goods returned by customer we use:
a) Return Inward Book b) Returns outward Book
b) Purchase Day Book d) None of these
- 9) For recording credit sales, we use:
a) Purchase Day Book b) Sales day Book
b) None of these
- 10) Carriage paid for good will be added to:
a) Net Selling Price b) Gross Price
b) None of these

Ans.

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

B) Short Answer Type Questions

- 1) Write short note on:
 - a) Purchase Day Book.
- 2) Distinguish between Cash Discount and Trade Discount?
- 3) What is meant by 'Subdivision of Journal'?
- 4) What are Bills Receivable Book and Bills Payable Book?
- 5) What is Debit Notes?
- 6) 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.
- 7) Name the Day Book where the following purchases are recorded:
 - a) Credit Purchase of trading goods.
 - b) Cash purchases of trading goods.
 - c) Credit purchases of non-trading goods or fixed assets.
 - d) Cash purchases of non-trading goods or fixed assets.
- 8) 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.
- 9) 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.
- 10) Purchased 20 pumps sets @ Rs.5, 000/- each on credit from M/s Machine & Tools Ltd. ata trade discount of 20%. Where excise duty @ 5%, VAT @ 8% and local tax @ 4% are charge. Show the entry in Purchased Day Book.

C) Broad Answer Type Questions

- 1) Distinguish between Trade Discount and Cash Discount? What is Subsidiary Book?
- 2) What is Trade Discount and Cash Discount?
- 3) Discuss Debit Notes, Purchase Day Book, sales Day Book?
- 4) What is Cash Discount? Explain with the help of an example?
- 5) What is Trade Discount? Explain with the help of an example?
- 6) From the following transaction, prepare suitably ruled Sales Day Book:
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%.

7) Prepare a Purchase Day Book:

2018

March.12 Purchased 2, 00/- Fans from Khotian& Co. @ Rs.5, 00/- each, less trade discount @ 10% on credit.

24 Purchased 4, 00 Phones from Mitra& Co. @ Rs.50 each, less trade discount @ 5% on credit.

26 Purchased 2, 00/- boxes of pins from Agartala Mart @ Rs.6 each, less trade discount @ 5% on credit.

8) From the following transaction record them in a Purchased Return Day Book:

2018

Jan.15 Returned to Calcutta Stationeries, 20 boxes of Pin @ Rs.2, 00/-per box due to inferior quality.

18 Debit Note issued to City Mal for return of 25 dozens of Refills @ Rs.6 per dozen, due to not as per order.

20 Returned to Bagbazar Pen House, 8 boxes of Ball Pens @ RS.50 per box, being damaged in transit.

9) 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 Asam tea House 90 kg Tea @ Rs.2, 00/- per kg. Sold at a trade of 5% (not being according to sample)

14 Returned from Delhi Tea Stores 50 kg Tea @ Rs.1, 00/- per kg. Sold at a trade discount of 20% (not being according to description).

10) 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 2nd 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 20th 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 23rd June, 2018 payable at Kolkata-4

2.5 Journal Proper

The transactions which occasionally happen which are not recorded in the primary books of accounts; they are recorded, in a special book, known as Journal Proper.

The Following types of transaction are recorded 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 purchased or sold during the year on credit the same should not be passed through the purchased day book or sales ay book since they are not common business transactions. So they will be recorded in Journal proper.

Example-12: Show the entries from the following particulars

On 31st January 2018 Purchased a Plant Rs.80, 000 from Roy & Co on credit.
On 25th March 2018 sold old machinery to Das & Co. for Rs.50, 000 on credit.

Solution:

In the books of.....
Journal Entries

			Dr.	Cr.
Date	Particulars	L.F	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 another, it must pass through Journal Proper.

Example-13: Show the journal entries from the following particulars on 31st 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 Drawings 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 toRahim)		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 previous year to current year, the same is to be passed through Journal Proper.

Note: All assets will be debited and all liabilities will be credited and the difference between the assets and the liabilities will represent capital at the beginning of the year.

Example-14: 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		20,000	
	A/c.....Dr.		10,000	
	Cash in Hand		5,000	
	A/c.....Dr.		5,000	
	Plant & Machinery		2,000	
	A/c.....Dr.		3,000	
	Stock-in -trade			3,000
	A/c.....Dr.			5,000
	Sundry Debtors			5,000
	A/c.....Dr.			2,000
	Bills Receivable			30,000
	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.....)			

2.5.4 Closing Entries

In order to determine the profit or loss for the year all the revenue accounts relating to incomes or expenditures are transferred to either Trading or Profit and Loss Account from which the gross profit and the net profit are arrived at. The same is done with the help 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 difference between two sides will represent gross profit or gross loss.

Example-15: The following is the balance in the books of Rama & Co. as on 31st 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		80,000 5,000 5,000	90,000
”	A/c.....Dr. To, Trading A/c (Being Transfer of balance for closing the former accounts)		20,000	20,000
	Trading A/c.....Dr. To, Profit and Loss A/c (Being Gross profit Transferred)			

2.5.5 Adjustment Entries

Adjusting entries are journal entries recorded at the end of an accounting period to alert the ending balances in various general ledger accounts. The use of adjusting journal entries is a key part of the period closing process, as noted in the accounting cycle, where a preliminary trial balance is converted into final trial balance. It is usually not possible to create

financial statements that are fully in compliance with accounting standards without the use 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-16: Pass the necessary Adjusting Entries on 31st 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-17: From the following particulars presented by Roy & Co. pass the necessary adjusting entries on 30th September 2018.

- a) Closing Stock Cost price 5,000 and the Market Price Rs.2,000
- b) Goods valued Rs.10, 000 were destroyed by fire, not covered by Insurance at all.
- c) Goods valued Rs.30, 000 were destroyed by fire, but the Insurance Company admitted the claim in full.
- d) 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
,,	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)		30,000	30,000
,,	c) Stock Destroyed by Fire A/c.....Dr. To, Trading A/c (Being destroyed by fire adjusted)		30,000	

,,	d) Admitted Insurance Claim A/c.....Dr. To, Stock Destroyed by Fire A/c (Being Amount recoverable from insurance co. for stock destroyed by fire)	20,000	30,000
”	e) Profit & Loss A/c.....Dr To, Goodwill A/c (Being 50% goodwill to be written off against profit and loss Account)		20,000

2.5.6 Self-Examination Question

A) Objective Questions-

- 1) Depreciation on plant, Depreciation Account is-
 - a) Debit
 - b) Credit
 - b) None of these
- 2) Bad debts, Bad debts Account is-
 - a) Debit
 - b) Credit
 - b) None of these
- 3) Outstanding Salary; Outstanding Salary Account is-
 - a) Debit
 - b) Credit
 - b) None of these
- 4) For Written off Goodwill; Goodwill Account is-
 - a) Debit
 - b) Credit
 - b) None of these
- 5) For Stock destroyed by Fire; Stock destroyed by fire Account is-
 - a) Debit
 - b) Credit
 - b) None of these
- 6) For goods used by Proprietor; Drawings Account is-
 - a) Credit
 - b) Debit
 - b) None of these
- 7) For Prepaid Insurance; Prepaid insurance Account is-
 - a) Debit
 - b) Credit
 - b) None of these
- 8) For Closing Stock; Closing Stock Account is-
 - a) Debit
 - b) Credit
 - b) None of these
- 9) For Opening Stock; Opening Stock Account is-
 - a) Debit
 - b) Credit
 - b) None of these
- 10) For Outstanding Wages; Outstanding Wages Account is-
 - a) Debit
 - b) Credit

b) None of these

Ans.

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

B) Short Answer Type Questions

- 1) What is Journal Proper? What kinds of transaction are passed through Journal Proper?
- 2) Write short notes on:
 - a) Closing entry
 - b) Adjusting entry
- 3) What do you mean by Adjusting Entries? Why are such entries made?
- 4) Distinguish between Opening Entry and Closing entry
- 5) Distinguish between Outstanding Expenses and Prepaid expenses
- 6) 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?
- 7) 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.
- 8) Journalise the following Adjustments:
 - a) Unsold Stock Rs.2, 000/-
 - b) Accrued interest on Investment Rs.5, 000/-
- 9) Journalise the following Adjustment:
 - a) Goods drawn by the proprietors for personal use at selling price Rs.2, 000/-
 - b) Goods destroyed by fire Rs.10, 000/-
- 10) 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/-
- 11) Sourav started a business on 1st August, 2018. For this purpose, he introduced Cash of Rs.40, 000/-. Pass the Opening Entry.

C) Broad Answer Type Questions

- 1) Distinguish between Adjusting Entry and Closing entry
- 2) Has Journal Proper an effect on Profit? Explain.
- 3) How do you treat the following items?:
 - a) Bad Debts
 - b) Interest on Capital
 - c) Depreciation on assets.
- 4) What is impact on Journal Proper while ascertaining net profit of a firm?
- 5) Discuss the role of different adjusting entries in accounts.
- 6) Journalise the above transaction to open the accounts on 1st January, 2018.

Building Rs.1, 00,000/-
Furniture Rs.50, 000/-
Debtors Rs.30, 000/-
Creditors Rs.20, 000/-

Bank Overdraft Rs.8, 000/-
Capital Rs.80, 000/-
Cash Rs.20, 000/-

- 7) Enter the following transfers in the Journal Proper of Kalpana Stores:
- Amount Rs.2, 000/- transferred from debit side of Amit Roy to P.k. Mitra A/c.
 - Transferred a credit balance of M/s A & Sons of Rs.10, 000/- to M/s Q & Co. A/c.
 - Transferred a Bad Debt of Rs.5, 00/- to Provision for Doubtful Debts A/c.
 - Transferred Discount Allowed of Rs.3, 000/- to Provision for Discount on Debtors A/c.
 - Transferred Drawings of Rs.9, 000/- to Capital of owner.
 - Transferred a Net Profit of Rs.10, 000/- to Reserve Fund.
- 8) 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/- |
- 9) Pass necessary Adjusting Entries:
- Outstanding Wages Rs.2, 00/-
 - Interest Received Rs.3, 000/-
 - Commission paid in advance Rs.1, 000/-
 - Rent due but not paid Rs.9, 00/-
 - Interest Accrued on Investment Rs.5, 00/-
 - Insurance prepaid Rs.6, 00/-
 - Depreciate Furniture RS.1, 000/-
- 10) Pass necessary Adjusting Entries before preparing of Final Accounts for the year ended 31.12.2018.
- Unpaid Salary or the month of December, 2018 Rs.15, 000/-
 - Commission earned but not yet received Rs.4, 000/
 - Annual insurance premium of Rs.2, 500/- paid up to 31.03.2018
 - Interest on loan is to be provided @ 10% per annum on a Loan of Rs.20, 000/- taken on 1.1.2018
 - Goods distributed as free samples valuing Rs.6, 000/-

Unit 3: Preparation of Financial Statement

Structure

3.0 Objectives

3.1 Introduction

3.2 Final Account

- 2.5.1 Trading Account
- 2.5.2 Profit and Loss Account
- 2.5.3 Balance Sheet
- 2.5.4 Limitations of Balance Sheet
- 2.5.5 Self-examination Questions

2.6 Profit and loss appropriation Account

- 2.6.1 Meaning of Partnership
- 2.6.2 Limited Liability Partnership
- 2.6.3 Powers of Partners
- 2.6.4 Self-examination Questions

3.0 Objectives

After studying this unit, you will be able to:

- Learn Financial Statement.
- Understand Gross Profit and Net Profit.
- Understand Trading Account and also learn which of the transaction and events should be shown in the Trading Account.
- Understanding Profit and Loss Account and also learn the technique of preparing Profit and Loss Account and deriving the Profit and Loss balance.
- Understand what are Balance Sheet and its limitations.
- Understand the items to be shown in the Balance Sheet. Also learn the classification of assets and liabilities and the order by which they are put in the Balance Sheet.
- Understand what Profit and Loss Appropriation Account is.
- Understand meaning of Partnership and its features.
- Learn Limited Liability Partnership and also known benefits of LLP.
- Understand the power of Partners.
- Understanding Profit and Loss Appropriation and distribution of Profit

3.1 Introduction

Preparation of financial statement is last steps in the accounting cycle, using information from the previous statement to develop the current financial statement.

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

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

The income statement reports revenues, expenses and the resulting net income. It is prepared by transferring the following ledger account balances-

- Revenue
- Expenses
- Capital gain or losses

Statement of retained earnings shows the retained earnings at the beginning and end of the accounting period. It is prepared using the following information-

- Beginning retained earnings, obtained from the previous statement of retained earnings.
- Net income, obtained from the income statement.
- Dividends paid during the accounting period.

The balance sheet reports the assets, liabilities and shareholder equity of the company. It is constructed using the following information:

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

The cash flow statement explains the reasons for the changes in the cash balance, showing sources and uses of cash in the operating, financing and investing activities of the firm. Because the cash flow statement is a cash basis report, it cannot be directly derived from the ledger account balances of an accrual accounting system. Rather it is derived by converting the accrual information to a cash basis using one of the following two methods:

- **Direct Method:** Cash flow information is derived by directly subtracting cash disbursements from cash receipts.
- **Indirect Method:** Cash flow information is derived 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 entities are the trading entities, which are the occupied in the purchase and sale of goods at profit without changing the form of the goods. It gratifies in some liabilities, makes some assets and incurs some expenses like salaries, Stationery, advertisement expenses, rent etc. to run the business. At the end of the year to ascertain the final outcomes of the business i.e. the income and the financial position, they prepare financial statement at the end of the year.

In financial accounting, profit is measured at two levels:

- Gross profit
- Net profit
- **Gross profit:**
Gross profit is the profit of a company makes after deducting the cost associated with making and selling its goods. Gross profit will appear on a company's income statement, and can be calculated with this formula.

Gross profit= Revenue- Cost of goods sold

- **Net profit:**
The profit of accompany after operating expenses and all other charges including taxes, interest and depreciation have been deducted from total revenue it's called net earnings or net profit. If expenses and charges are exceeding revenue, the company incurs a net loss.

Net profit=Total revenue- Total expenses

3.2.1 Trading Account

A trading account shows the results of the buying and selling of goods. This sheet is prepared to the difference between selling price and the cost price. The trading account is prepared to show the trading result of the business i.e. gross profit or gross loss earned by the business firm. It records direct expenses of the business firm.

According to J.R. Batlibboi- The trading account shows the result of the buying and selling goods. In preparing this account, the general establishment charges are ignored and only the transaction in goods is include.

The formats 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		
,, Custom duty		****	P & L A/c)		
,, 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 31st 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 31stmarch 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 prepared to ascertain the net profit or loss of a business during the accounting period. The profit and loss account is a statement that summarized the revenues and expenses of an accounting period. It records the indirect expenses of a business 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		*****
Office and administrative expenses:			-Interest received		****
-Salaries	****		-Rent received		****
-Rent, rates, taxes	****		-Discount received		****
-Postage & telegrams	****		-Dividend received		****
-Office electric charge	****		-Bad debt recover		****
-Telephone charges	****		-Provision for discount on creditors		****
-Printing	****		-Misc revenue		****
Selling and distribution expenses:			Net loss		****
-Carriage outward	****		-Transferred to capital account		
-Advertisement	****				
-Salesman salaries	****				
-Commission	****				
-Insurance	****				
-Travelling expenses	****				
-Bad debts	****				
-Packing expenses	****				
Financial and other expenses:					
-Depreciation	****				
-Repair	****				
Audit fees	****				
-Interest paid	****				
-Commission paid	****				
-Bank charges	****				
-Legal charges	****				
Net profit	****				
-Transferred to capital account					

Example-2: The following of the Trial of Roy and Co. balance on 31st may 2018

- 1) Opening stock (Dr.) Rs.40,000/-
- 2) Purchases (Cr.) Rs.2,00,000/-
- 3) Return inwards (Dr.) Rs.20,000/-
- 4) Carriage inwards (Dr.) Rs.10,000/-
- 5) Salaries (Dr.) Rs.40,000/-
- 6) Carriage outwards (Dr.) Rs.20,000/-
- 7) Rent (Dr.) Rs.20,000/-
- 8) Discount allowed (Dr.) Rs.20,000/-
- 9) Sundry debtors (Dr.) Rs.40,000/-
- 10) Plant and machinery (Dr.) Rs.1,00,000/-
- 11) Furniture (Dr.) Rs.50,000/-
- 12) Sundry creditors (Cr.) Rs.3,00,000/-
- 13) Sales (Cr.) Rs.5,00,000/-
- 14) Capital (Cr.) Rs.2,00,000/-
- 15) Returns outward (Cr.) Rs.50,000/-
- 16) Closing stock (Cr.) Rs.20,000/-

Solution:

In the books of Roy and Co.
Trading Account
For the year ended 31st 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 31st 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					
,, Net profit		20,000			
-transferred to capital A/c		2,00,000			
		3,00,000			3,00,000

3.2.3 Balance Sheet

The balance sheet statement identifies the financial position of a business on a specific date. Since even a single transaction will make a difference to some of the assets or liabilities, the balance sheet is true only at a particular point of time. As well as the excess of assets over liabilities represents the capital sunk into the business and reflects the financial soundness of a company. Now it's known as the statement of financial position of the company.

3.2.4 Limitations of balance sheet

Every organization prepare the balance sheet or disclosing its financial position, yet it suffers from the following limitation-

- Sometimes, Balance sheet contains some assets which command no market value such as preliminary expenses, debenture discount, etc. The inclusions of these assets overly increase the total value of assets.
- The balance sheet cannot reflect the value of certain factors such as skill and loyalty of staff.
- The value of major number of current assets depends upon some estimates, so it cannot reflect the true financial position of the business.

The format of Balance Sheet is as follows-

In the books of.....
Balance Sheet

As on.....

SL No.	Particulars	Note No.	Amount Rs.	Amount Rs.
I.	Equity & Liabilities: 1. Shareholders fund: -Share capital -Reserve and surplus -Money received against share warrants 2. Share application money pending allotment 3. Non-current liabilities: -Long term liabilities -Deferred tax liabilities (net) -Other long term liabilities -Long term provisions 4. Current liabilities: -Short term borrowings -Trade payables -Other current liabilities -Short term provisions <p style="text-align: right;">Total</p>			*****
II.	Assets: Noncurrent assets: 1. a) Fixed assets: -Tangible assets -Intangible assets -Capital work- in -progress -Intangible assets under development b) Noncurrent investment c) Deferred tax assets (net) d) Long term loans and advance e) Other non-current assets 2. Current assets: -Current investment -Inventories -Trade receivable -Cash and cash equivalent -Short term loans and advance -Other current assets <p>Total</p>			*****

3.2.5 Self Examination Questions

A) Objectives Questions-

- 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) Kept in the business for use over a long time for earning income
 - b) Meant for sale
 - c) Meant for conversion into cash as quickly as possible
 - d) All of the above
- 3) Goodwill is-
- a) A current asset
 - b) an intangible fixed asset
 - c) A tangible 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 decrease in the provisions for doubtful debts would result 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) Income and Expenses
 - b) Sales and cost of goods sold
 - c) Assets and Liabilities
 - d) None of these
- 8) The Capital of a sole trader would change as a result 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 ascertain the profit or loss on the goods produce
 - b) To ascertain the cost of the manufactured goods
 - c) To show the sale proceeds from the goods produce during the year
 - d) Both (b) and (c)

Ans.

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

B) Short Answer Type Questions

- 1) Define Receipts and Income.
- 2) Define Expenditure.
- 3) What is Income and Expenditure Account?
- 4) What is Payments Account?
- 5) What is Subscription?
- 6) Prepare Trading Account:

Dr.	Cr.
Building Rs.4, 00,000/-	Sundry Creditors Rs.10, 000/-
Opening Stock Rs.60, 000/-	Bills Payable Rs.15, 000/-
Sundry Debtors Rs.30, 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/-	

C) Broad Answer Type Questions-

- 1) Distinguish between Receipts and Income.
- 2) Distinguish between Expenditure and Payments
- 3) Explain the various methods of accounting of a non-trading concern.
- 4) What are the sources of income of a non-trading organization?
- 5) Distinguish between Receipts and Payments and Cash Book.
- 6) 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/-	

- 7) From the following Trial Balance of Amit Kundu as on 31stMarch, 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 31st March, 2018 Rs.35, 000/-
 - b) Outstanding expenses on 31st March, 2018: Wages Rs.2, 000/- and Salaries Rs.5, 000/-
 - c) Prepaid insurance Rs.2, 00/-
 - d) Depreciation on Furniture @ 10%.
- 8) 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 31st March, 2018 Rs.64, 000/-
 - b) Outstanding expenses on 31st March, 2018: Wages Rs.3, 000/-,
Salaries Rs.4, 000/-
 - c) Prepaid insurance Rs.2, 00/-
 - d) Depreciate furniture @ 20%
- 9) 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.

10) Suman Sarkar is a business man. The Trial Balance of his business as at 31st 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 made @ 15% on Debtors.

3.3 Profit and Loss Appropriation Account

Profit and Loss Appropriation Account is an extended part of Profit and loss Account through which profit or loss are shared between/among the partners. Usually, an individual that is an only proprietor may not be in a position to manage with the financial and managerial demands of the present day business world. As a result, two or more individuals may decide to assemblage their financial and non-financial resources to carry on a business.

3.3.1 Meaning of Partnership

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

The Indian partnership act defines partnership as “The relation between persons who have agreed 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 main essential features of partnership are as follows-

- An organization two or more partner.
- An agreement entered into by all persons concerned.
- Existence of a business.
- Sharing profits and losses of the business.
- Unlimited liability of all partners.

3.3.2 Limited Liability Partnership

One common structure is the “limited liability partnership” or LLP. A limited liability partnership is a newer form of business partnership where all of the owners have limited personal liability for the financial responsibility of the business. There are no general partners in a limited liability partnership, but a limited liability partnership is similar to a general partnership. Each LLP partner contributes to the everyday business operation. As well as each partner enjoys limited personal liability for the other partners' acts.

Benefits of forming a LLP-

- It has a low cost of formation and is easy to form.
- The partners are not liable for the acts of each other.
- Less restrictions and compliance are enforced on a LLP by the govt as compared to the restriction enforced on a company.
- The partners are not liable to be sued for dues against the LLP.

3.3.3 Powers of Partners

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

- Buying and selling of goods.
- Receiving payments on behalf of the firm and giving valid receipt.
- Borrowing money on behalf of the firm with or without pledging the stock in trade.
- Attractive 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 is an extension of the profit and loss account. The main intension of preparing the profit and loss appropriation account is to show the distribution 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.

Format 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 and B started a business on 1st 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			
		<u>50,000</u>			<u>50,000</u>

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	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	2,000	
-C	36,000		-B	4,000	
		72,000	-C	4,000	
		60,000			1,0000
„ Salary A/c		7,800			
„ General Reserve A/c					
„ Commission A/c		3,510			
-B					
„ partners' capital A/c					
-A					
-B	26,676				
-C	26,676				
(Profit transferred in the ratio of	13,338				
		66,690			
		2,10,000			2,10,000

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 31st 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	
		5,000	-Shyam	6,00	
,, Salary A/c		12,000			1,000
-Shyam					
,, Partners capital A/c					
-Ram	32,000				
-Shyam	32,000				
(Profit transferred in the ratio of 1:1)					
		64,000			
		<u>81,000</u>			<u>81,000</u>

3.3.5 Self-examination question**A) Objective Questions-**

1. Following are essential elements of a partnership firm except-
 - a) At least two persons
 - b) There is an agreement between all partners
 - c) Equal share of profits and losses
 - d) Partnership agreement is for some business
2. Features of partnership firm are-
 - a) Two or more persons carrying common business under an agreement
 - b) Sharing profits and losses in the fixed ratio
 - c) Business carried by all or any of them acting for all
 - d) All of the above
3. 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
4. Partners are supposed 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)
 5. 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
 6. Profit and loss account is prepared-
 - a) For proprietorship firm
 - b) For partnership firm
 - c) Both
 - d) None
 7. What time would be taken into consideration if equal monthly amount is drawn as drawings at the beginning of each month for interest calculation?
 - a) 7 month
 - b) 6 month
 - c) 5 month
 - d) 6.5 month
 8. Where will you record interest on drawings?
 - a) Debit side of P/L appropriation account
 - b) Credit side of P/L appropriation account
 - c) Credit side of profit and loss account
 - d) Credit side of capital/current account
 9. What balance does partners current account has?
 - a) Debit balance
 - b) Credit balance
 - c) Either (a) or (b)
 - d) None of these
 10. How would you close the partner's drawings account?
 - a) By transfer to capital or current account debit side
 - b) By transfer to capital account credit side
 - c) By transfer to current account credit side
 - d) Either 'b' or 'c'

Ans.

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

B) Short Answer Type Questions-

- 1) What is Profit and Loss Appropriation Account?
- 2) Distinguish between Capital Account and Current Account.
- 3) Discuss the Rights of the partners.
- 4) How do you treat Interest on Capital of the firm?
- 5) What is deed of partnership?
- 6) X, Y started a business on 1st 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 31st December, 2018.
- 7) 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.
- 8) In a firm partner X draws on 16/15th day of each month @ Rs.3, 000/- p.m. find the interest on drawings if the rate is fixed at 4% p.a.
- 9) 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.
- 10) In a firm partner D is entitled to a commission of 6% on net profit of Rs.80, 000/- before charging such commission. Find the amount of commission for D.

C) Broad Answer Type Questions-

- 1) Explain the rules that are applicable where there is no partnership agreement.
- 2) Explain the implied authority of partner.
- 3) Explain the Rights and Duties of the partners.
- 4) Discuss the difference types of partners.
- 5) How do you calculate the Interest on Drawings? Explain with the help of an example.
- 6) 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.

- 7) Ram, Shyam and Jodu are partners in a firm. Their Profit/Loss sharing ratio is 2:2:1. The Net Profit of the firm on 31st December, 2018 was Rs.25, 000/-.

According to partnership deed, Shyam is entitled to receive salary of Rs.5, 00/- per month. Ram is entitled to receive commission @ 2% on gross sales (gross sales during the year amounted to Rs.1, 50,000/-) and Jodu is to receive bonus of Rs.2, 000/- per annum.

On 1.1.218, the balances of Capital Accounts were:

Ram-Rs.30, 000/-, Shyam-Rs.60, 000/-, Jodu-Rs.50, 000/-.

On 1st July, 2018, Ram withdrew Rs.4, 000/- and on 1st March, 018, Jodu withdrew Rs.7, 000/-.

The rates of Interest on Capital and Drawings are fixed at 5% and 6% respectively.

Prepare Profit and Loss Appropriation Account for the above information of the firm.

- 8) Anil, Kamal, Bimal are equal partners. From the following information prepare a Profit and Loss Appropriation Account of the firm for the year ended 31st December 2018.

- i) Net Profit for the year as per Profit and Loss A/c Rs.20, 000/-
- ii) Interest on capital is to be charged @ 6%.
[Capital being Anil: Rs.60, 000/-, Kamal: Rs.50, 000/-, Bimal: Rs.20, 000/-]
- iii) Interest on Drawings charged to Kamal Rs.2, 00/-; Anil Rs.3, 00/-; Bimal Rs.5, 00/-.
- iv) Kamal is entitled to salary Rs.7, 000/-
- v) Anil is entitled to commission @ 5% on sale which amounted to Rs.70, 000/-
- vi) On 1.11.2018 Bimal advanced a Loan of Rs.15, 000/- only (not as capital) to the business.

- 9) 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/-

- 10) Jeet and Raj are partners in a firm sharing profits and losses as 3:2. On 1st 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 31st 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 Jeets 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
- 4.2.6 Self-examination Questions

4.0 Objectives

After studying this unit, you will be able to:

- Understanding meaning of Ratio Analysis.
- Learn the objectives and Advantages of Ratio Analysis.
- Understand the Limitations of Ratio Analysis.
- Learn Difference type of Ratio Analysis.
- Learn how to calculate different types of Ratios.

4.1 Introduction

Financial statements analysis is the process of analyzing a company's financial statements for decision making purpose and to understand the overall health of an organization. Financial statements record financial data, which must be evaluated through financial statement analysis to become more useful to investors, shareholders, managers and the other interested parties

Users of Financial Statements Analysis

- **Creditors:** Anyone who has lent funds to a company is interested in its ability to pay back in the debt, and so will focus on various cash flow measures.
- **Investors:** Both current and prospective investors examine financial statements to learn about a company's ability to continue issuing dividends or to generate cash flow.
- **Management:** The company controller prepares an ongoing analysis of the company's financial results, particularly in relation to a number of operational 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 methods of analysing financial statements. The first method is used of horizontal and vertical analysis. The second method for analyzing financial statements is the use of many kinds 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 relationship between one value and another. It is an expression of a mathematical relationship between one value and another. The ratio of 300:100 is 3:1 or 3. The calculation of ratios is an important technique for analysing and understanding profit and loss accounts and balance sheet. The elements that represent the ratio express a meaningful relationship. For an example, there is a relationship between sales and sundry debtors, between net profit and capital investment, and between current assets and current liabilities.

4.2.1 Meaning of Ratio Analysis

A ratio analysis is a quantitative analysis of information contained in a company's financial statement. Ratio analysis is used to evaluate various aspects of a company's operating and financial performance such as its efficiency, liquidity, profitability, and solvency.

4.2.2 Objectives of Ratio Analysis

Main objectives of Ratio Analysis are-

- **Investigate:** To investigate the reasons for the changes.
- **Predicting the Future:** To allow comparisons to be made which assist in predicting the future.
- **Positions:** To permit the charting of a firms history and the evaluation of its present positions.
- **Accounting System Output:** To see what information users can get from the accounting system output.
- **Others:** To construct a simple explanation of a complicated financial statement by its expression in one figure.

4.2.3 Advantages of Ratio Analysis

The main advantages of Ratio Analysis are-

- **Forecasting and Planning:**
The trend in cost, sales, profits and the other facts can be known by computing ratios of relevant accounting figures of last few years. This trend analysis with the help of ratios may be useful for forecasting and planning future business activities.
- **Budgeting:**
Accounting ratios help to estimate the budgeted figures. For example, sales budget may be prepared with the help of analysis of past sales.
- **Measurement of efficiency:**
Different activity ratios indicate the operational efficiency. Ratio analysis indicates the degree of efficiency in the management and utilisation of assets.
- **Liquidity position:**
Ratio analysis helps to assess the short term debt paying ability of a firm. Liquidity ratios indicate the ability of the firm to pay and help in credit analysis by banks, creditors and other suppliers of short term loans.
- **Aid to decision making:**
Ratio analysis helps 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:** Different accounting policies regarding valuation of inventories, charging depreciation etc. make the accounting data and accounting ratios of two firms non-comparable.
- **Quantitative Analysis:** Ratios are tools of quantitative analysis only and qualitative factors are ignored while computing ratios.
- **Changes in Price Level:** Fixed assets show the position statement cost only. Hence it doesn't reflect the changes in price level. Thus it makes comparison difficult.
- **Causal Relationship Must:** Proper care should be taken to study only such figures as have a cause and effect relationship; otherwise ratios only will be confusing.

4.2.5 Classification of Ratio

Ratios are classified into four broad groups-

- **Liquidity Ratio:** A Liquidity ratio measures the ability of a firm to meet its short-term obligations. Following are the important Liquidity Ratios-
 - Current Ratio.
 - Liquid Ratio/Quick Ratio/Acid Test Ratio
- **Solvency Ratios:** Solvency Ratios usually refers to the firm's ability to meet long-term liabilities. Following are the important Solvency Ratios-
 - Debt Equity Ratio.
 - Total Assets to Debt Ratio.
 - Proprietary Ratio.
- **Activity Ratios:** Activity Ratios show the degree of assets utilization of a business. Following are the important Activity Ratios-
 - Stock Turnover Ratio.
 - Debtors Turnover Ratio.
 - Creditors Turnover Ratio.
 - Working Capital Turnover Ratio.
 - Total Assets Turnover Ratio.
- **Profitability Ratios:** Profitability is the capacity of a business operation to make profits as measured by accounting ratios relating profit to sales or investment. Following are the important 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

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

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

Solvency Ratio

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

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

$$\text{Proprietary Ratio} = \frac{\text{Share holders Fund}}{\text{Total Assets}}$$

Activity Ratio

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

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

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

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

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

Profitability Ratio

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

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

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

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

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

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
Rs.20,000 | f) Provision for taxation |
| g) Land & Building Rs.4,00,000
Rs.2,00,000 | h) Plant & Machinery |
| i) Inventories Rs.1,50,000 | |
| j) Cash Rs50,000 | |
| k) Debtors.20,000 | |

Solution:

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

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

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
	2,20,000		1,10,000

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

$$\begin{aligned} \text{Share holders' Funds} &= \text{Equity Share Capital} + \text{General Reserve} \\ &= 1,00,000 + 50,000 \\ &= 1,50,000 \end{aligned}$$

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

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

Solution:

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

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

Working Note:

Assets	Amount	Liabilities	Amount
--------	--------	-------------	--------

	Rs.		Rs
i. Non Current Assets:		i. Share holders Fund:	
a) Fixed assets		a) Share Capital	4,00,000
-Tangible Assets	5,00,000	ii. Non Current Liabilities:	
ii. Current Assets:		-Long-term Borrowings (10% Deb.)	2,00,000
-Inventories	40,000	iii. Current Liabilities:	
-Bills Receivable	20,000	-Sundry Creditors	80,000
-Cash and Cash Equivalent	40,000	-Bills Payable	20,000
	6,00,000		7,00,000

Activity Ratio

Example-4: Calculate Stock Turnover Ratio-

- a) Sales Rs.4,00,000 b) Gross Profit @20% on sales
c) Opening Stock Rs.1,20,000 d) Closing Stock Rs.40,000

Solution:

$$\text{Stock Turnover Ratio} = \frac{\text{Cost of Goods Sold} = 3,20,000}{\text{Average Inventory} = 80,000} = 4:1$$

Working Note:

- A. Gross Profit is 20% on sales = $4,00,000 \times 20 / 100 = 80,000$
B. Cost of goods sold = $4,00,000 - 80,000 = 3,20,000$
C. Average stock = $\text{Opening Stock} + \text{Closing Stock} \div 2 = 1,20,000 + 40,000 / 2 = 80,000$

Example-5: Calculate Debtors Turnover Ratio-

- a) Credit sales rs.1,00,000 b) Debtors Rs.10,000
c) Bills Receivable Rs. 10,000

Solution:

$$\text{Debtors Turnover Ratio} = \frac{\text{Credit Sales}}{\text{Average Debtors} + \text{Average Bills Receivable}} = \frac{1,00,000}{10,000 + 10,000} = 5 \text{ times}$$

Example-6: Calculate Creditors Turnover Ratio-

- a) Credit Purchase Rs.2,00,000 b) Creditors Rs.40,000

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) Cost of goods sold Rs.4,00,000
b) Net Profit Rs.2,00,000

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:

$$\begin{aligned} \text{A. Gross Profit} &= \text{Net sales} - \text{Cost of goods sold} \\ &= 8,00,000 - 4,00,000 \\ &= 4,00,000 \end{aligned}$$

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

4.2.6 Self-Examination Question

4.26: Self-examination question

A) Objective Questions-

- 1) Quick Assets=?
 - a) Current assets – Prepaid expenses
 - b) Current assets – inventories – Prepaid expenses
 - c) Current assets + inventories – Prepaid expenses
 - d) None
- 2) Ideal Current Ratio is=?
 - a) 0.75:1
 - b) 1:1
 - c) 2:1
 - d) 4:1
- 3) 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
- 4) 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) Current Ratio=?
 a) $\frac{\text{Current assets}}{\text{Current Liabilities}}$
 b) $\frac{\text{Current assets}}{\text{Prepaid Expenses}}$
 c) $\frac{\text{Current Assets}}{\text{Outstanding Expenses}}$
- 6) Ratios are classified into–
 a) Three broad groups
 b) Five broad groups
 c) Six broad groups
 d) Four broad groups
- 7) Which type's ratio are solvency ratios?
 a) Debt Equity Ratio b) Current Ratio
 c) Stock Turnover Ratio
- 8) Which type's ratio is Profitability Ratio?
 a) Acid test Ratio b) Debtors Turnover Ratio
 c) Operating Ratio
- 9) Which types Ratio is the Activity Ratio?
 a) Debtors Turnover Ratio b) Gross Profit Ratio
 c) Quick Ratio
- 10) Proprietary Ratio =?
 a) $\frac{\text{Equity Share Capital}}{\text{Total Assets}}$
 b) $\frac{\text{Shareholders Fund}}{\text{Total Assets}}$
 c) None of these.

Ans.

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

B) Short Answer Type Questions-

- 1) What do you mean by Ratio Analysis?
- 2) Discuss Four Advantages?
- 3) What is Limitation of Ratio Analysis?

- 4) State the significance of Quick Ratio?
- 5) Discuss the two Uses of Accounting Ratios?
- 6) Calculate the Current Ratio:
Stock Rs.30, 000/-, Debtors Rs.40, 000/-, Cash Rs.80, 000/- and Sundry Creditors Rs.30, 000/-.
- 7) In a business, amount of Quick Assets was Rs.4, 00,000/- and Quick Liabilities Rs.2, 00,000/-. What is the Quick Ratio?
- 8) 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.
- 9) Find out Long Term Debt Equity Ratio where amount of Owners Equity is Rs.5, 00,000/-, Total Debts Rs.3, 50,000/- and Short Term Debt Rs.50, 000/-.
- 10) Compute Capital Gearing Ratio if Equity Share Capital is Rs.3, 00,000/-, Preference Share Capital is Rs.1, 00,000/-, Reserve and Surplus Rs.4, 00,000/-, 8% Debentures Rs.1, 50,000/-, Loan from Directors Rs.75, 000/- and Current Liabilities Rs.1, 00,000/-.
- 11) In a business Cost of goods sold is Rs.15, 00,000/- and Average Stock held Rs.4, 00,000/- Compute the Stock Turnover Ratio and Stock Turnover Period.
- 12) The amount of Gross Profit of a business in 2018 was Rs.60, 000/-but amount of Net Sales was Rs.1, 50,000/-. What is the Gross Profit Ratio?

C) Broad Answer Type Questions-

- 1) Explain briefly the meaning and significance of Operating Ratio and Gross Profit Ratio.
- 2) Explain briefly the meaning and significance of Current Ratio and Operating Ratio.
- 3) Discuss Debt Equity Ratio and Total assets to Debt Ratio.
- 4) What do you mean by Ratio Analysis? State its Limitations?
- 5) What are the Objectives of Ratio Analysis?
- 6) From the following information calculate Current Ratio and Quick Ratio:
Total Debts Rs.60, 000/-; Long-term Debt Rs.40, 000/-; Working Capital Rs.40, 000/-; Stock Rs.50, 000/-; Prepaid Expenses Rs.5, 000/-.
- 7) Compute Current Ratio and Liquid Ratio:

Balance Sheet as at 31.12.2018

Liabilities		Assets	
Equity	Share Capital	Rs.1, 00,000/-	Fixed Assets Rs.50, 000/-
	Reserve & Surplus	Rs.20, 000/-	Investment Rs.20, 000/-
	Bank Overdraft	Rs.10, 000/-	Stock Rs.20, 000/-
	Creditors	Rs.30, 000/-	Debtors Rs.30, 000/-
	Outstanding Expenses	Rs.5, 000/-	Bills Receivable Rs.10, 000/-

Bills Payable Rs.20, 000/- Cash in hand Rs.40, 000/-
 10% Debenture Rs.40, 000/- Cash at Bank Rs.15, 000/-

8) Calculate Capital Gearing Ratio:

Equity Share Capital Rs.2, 50,000/- General Reserve Rs.50, 000/-
 10% Pref. Share Capital Rs.2, 00,000/- 6% Debenture Rs.80, 000/-
 Profit and Loss A/c Rs.1, 00,000/- Loan from S.B.I Rs.2, 00, 000/-

9) Calculate Debt-Equity Ratio:

Equity Share Capital Rs.2, 00,000/- 9% Debenture Rs.1, 00,000/-
 General Reserve RS.80, 000/- Sundry Creditors RS.40, 000/-
 Accumulated Profit Rs.30, 000/- Outstanding Expenses Rs.10, 000/-

10) Compute Proprietary Ratio:

Equity Share Capital Rs.50, 000/- Fixed Assets Rs.2, 00,000/-
 Reserve and Surplus Rs.30, 000/- Current Assets Rs.60, 000/-
 Debentures Rs.20, 000/- Investment Rs.40, 000/-
 Creditors Rs.15, 000/-

11) Compute Debtors Turnover Ratio:

Opening Debtors Rs.50, 000/- Sales Rs.5, 00,000/-
 Closing Debtors Rs.30, 000/- Cash Sales Rs.1, 00,000/-

12) Calculate Creditors Velocity Ratio:

Cost of Goods Sold Rs.3, 00,000/- Opening Creditors Rs.1, 00,000/-
 Opening Stock Rs.40, 000/- Closing Creditor Rs.1, 50,000/-
 Closing Stock Rs.20, 000/-

13) Compute Gross Profit Ratio:

Gross Profit Rs.25, 000/-, Sales Rs.5, 00,000/- and Sales Return 10, 000/-.

14) Calculate Net Profit Ratio:

Net Profit Rs.30, 000/-, Sales Rs.1, 60,000/-, Sales Return Rs.10, 000/-.

15) Compute Operating Ratio:

Cost of Goods Sold Rs.2, 00,000/- Sales Return Rs.20, 000/-
 Operating expenses Rs.50, 000/- Non-operating income Rs.10, 000/-
 Sales Rs.2, 00,000/-

16) Calculate Return on Gross Capital Employed and Net Capital Employed:

Balance Sheet as on 31.03.2018

Liabilities		Assets
Equity Share Capital Rs.2, 00,000/-		Land and building Rs.50, 000/-

10% Pref. Share Capital Rs.50, 000/-	Plant & Machinery Rs.40, 000/-
Reserve Rs.80, 000/-	Furniture & Fixtures Rs.20, 000/-
Profit and Loss A/c Rs.60, 000/-	Investment in 5% Govt. Securities Rs.25, 000/-
12% Deb. Rs.40, 000/-	Stock Rs.60, 000/-
15% Bank Loan Rs.30, 000/-	Sundry Debtors RS.40, 000/-
Sundry Creditors Rs.20, 000/-	Cash & Bank Rs.10, 000/-
Provision for taxation Rs.10, 000/-	Discount on issue of shares Rs.5, 000/-