



**VIJAYABHERI**  
**MALAPPURAM DISTRICT**  
**PANCHAYATH EDUCATIONAL**  
**PROJECT 2021-2022**

**STEP-UP**

**ACCOUNTANCY**

**Class XI**



# ആമുഖം

വിദ്യാഭ്യാസപരമായി ഏറ്റവും പുറകിൽ നിന്നിരുന്ന മലപ്പുറം ജില്ല കഴിഞ്ഞ കുറച്ചു വർഷങ്ങൾ കൊണ്ടുണ്ടാക്കിയ നേട്ടങ്ങൾ അഭൂതപൂർവമാണ് . എസ്. എസ്. എൽ. സി , പ്ലസ് ടു , വി. എച്ച്. എസ് . ഇ ഫലത്തിന്റെ കാര്യത്തിൽ മാത്രമല്ല എ പ്ലസ് ലഭിച്ച വിദ്യാർത്ഥികളുടെ എണ്ണത്തിലും വിവിധ മത്സരപരീക്ഷകളിലും നമ്മൾ ഏറെ മുന്നേറി . പൊതുവിദ്യാഭ്യാസ സംരക്ഷണത്തിന്റെ കാര്യത്തിൽ മറ്റു ജില്ലകൾക്ക് നമ്മൾ മാതൃകയാണ് . മലപ്പുറം ജില്ലാ പഞ്ചായത്ത് ആവിഷ്കരിച്ചു നടപ്പിലാക്കി കൊണ്ടിരിക്കുന്ന വിജയഭേരി വിദ്യാഭ്യാസ പദ്ധതി , തദ്ദേശ സ്വയംഭരണ സ്ഥാപനങ്ങളുടെ ഇടപെടലുകൾ , ജനപ്രതിനിധികൾ , എസ് . എസ് . കെ , ഡയറ്റ് , വിദ്യാഭ്യാസ ഓഫീസർമാർ ഒപ്പം എല്ലാ നല്ല പ്രവർത്തനങ്ങൾക്കും കൂടെ നിൽക്കുന്ന അധ്യാപകർ എന്നിവരാണ് ഈ നേട്ടങ്ങൾ ക്കു പിന്നിൽ .

നേട്ടങ്ങൾ ആഘോഷിക്കുന്നതിനോടൊപ്പം അടിയന്തിര ശ്രദ്ധ പതിയേണ്ടുന്ന മേഖലകൾ ഇനിയും ഏറെയുണ്ട് . 10 -ാം ക്ലാസ്സിൽ നിന്നും വിജയം നേടി പ്ലസ് 1 , വി. എച്ച്. എസ് . ഇ ക്ലാസ്സുകളിൽ എത്തുന്ന വിദ്യാർത്ഥികളിൽ നല്ലൊരു ശതമാനം വിദ്യാർത്ഥികൾ ഹയർ സെക്കണ്ടറി സിലബസ് പിന്തുടരുന്നതിന് ഏറെ പ്രയാസം അനുഭവിക്കുന്നവരാണ് . കോവിഡ് കാരണം സ്കൂൾ പ്രവർത്തി ദിനങ്ങൾ നഷ്ടപ്പെട്ടതോടെ ഭൂരിപക്ഷം വിദ്യാർത്ഥികളും പഠന പ്രയാസങ്ങൾ അനുഭവിക്കുന്നു ഇതൊരു പശ്ചാത്തലത്തിൽ പ്ലസ് ടു , വി. എച്ച്. എസ് . ഇ തലത്തിൽ വിവിധ വിഷയങ്ങൾ അനായാസകരമായി പഠിക്കുന്നതിനും എല്ലാ വിദ്യാർത്ഥികളും പ്ലസ് ടു , വി. എച്ച്. എസ്.ഇ പരീക്ഷകളിൽ മികച്ച വിജയം ഉറപ്പു വരുത്തുന്നതിനായി **സ്റ്റേജ് - അച് 22** എന്ന പേരിൽ പ്രത്യേക മെറ്റീരിയൽ വിജയഭേരി പദ്ധതിയുടെ ഭാഗമായി തയ്യാറാക്കി സ്കൂളുകളിലെത്തിക്കുകയാണ് . തീർച്ചയായും ഈ മെറ്റീരിയൽ അധ്യാപകർക്കും വിദ്യാർത്ഥികൾക്കും ഏറെ സഹായകരമാകുമെന്ന് പ്രതീക്ഷിക്കുന്നു .

ഈ പഠനസഹായി സമയബന്ധിതമായി പൂർത്തീകരിക്കുന്നതിന് നേതൃത്വം നൽകിയ മലപ്പുറം ഡയറ്റ് , ഹയർ സെക്കണ്ടറി ജില്ലാ കോർഡിനേറ്റർ / അസിസ്റ്റന്റ് കോർഡിനേറ്റർ , ശില്പശാലയിൽ പങ്കെടുത്ത അധ്യാപകർ എന്നിവർക്കുള്ള നന്ദിയും കടപ്പാടും പ്രത്യേകം അറിയിക്കുന്നു .

സ്കൂൾതലത്തിൽ അനുയോജ്യമായ സമയം കണ്ടെത്തി രക്ഷിതാക്കളുടെ സഹകരണത്തോടെ ഈ പഠനപ്രവർത്തനങ്ങൾ വിദ്യാർത്ഥികൾക്ക് നൽകണം . അതിനായി എല്ലാ അധ്യാപകരുടെയും സഹകരണം പ്രതീക്ഷിക്കുന്നു .

പ്രസിഡണ്ട്	ചെയർപേഴ്സൺ	അസി: ഡയറക്ടർ	ആർ.ഡി.ഡി	പ്രിൻസിപ്പാൾ
ജില്ലാ പഞ്ചായത്ത് മലപ്പുറം	ആരോഗ്യ വിദ്യാഭ്യാസ സമിതി സമിതി	വി.എച്ച്. എസ് .ഇ മലപ്പുറം	മലപ്പുറം	ഡയറ്റ് മലപ്പുറം

# ACCOUNTANCY

HIGHER SECONDARY/VHSE SUPPORTING MATERIAL

**XI**

**STEP-UP**  
**2021-22**

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# CHAPTER I

## INTRODUCTION TO ACCOUNTING

The Modern System of Accounting owes its origin to Luca Pacioli, an Italian who published his book on Double Entry System of Accounting in 1494. Modern accounting is often called as the language of a business

### അക്കൗണ്ടിംഗിന്റെ ആമുഖം

1494ൽ ഡബിൾ എൻട്രി സിസ്റ്റം ഓഫ് അക്കൗണ്ടിംഗിനെക്കുറിച്ചുള്ള തന്റെ പുസ്തകം പ്രസിദ്ധീകരിച്ച ഇറ്റാലിയൻ വംശജനായ ലൂക്കാ പാസിയോളിയിൽ നിന്നാണ് ആധുനിക അക്കൗണ്ടിംഗ് സമ്പ്രദായം അതിന്റെ ഉത്ഭവത്തിന് കടപ്പെട്ടിരിക്കുന്നത്. ആധുനിക അക്കൗണ്ടിംഗിനെ പലപ്പോഴും ഒരു ബിസിനസ്സിന്റെ ഭാഷ എന്ന് വിളിക്കുന്നു.

### Meaning:

Accounting is an information system which receives data, processes the same and gives its output in the form of information which is useful for decision making.

### അർത്ഥം:

അക്കൗണ്ടിംഗ് എന്നത് വസ്തുതകൾ സ്വീകരിക്കുകയും അതേ രീതിയിൽ പ്രോസസ്സ് ചെയ്യുകയും തീരുമാനമെടുക്കുന്നതിന് ഉപയോഗപ്രദമായ വിവരങ്ങളിൽ നിന്ന് അതിന്റെ ഔട്ട്പുട്ട് നൽകുകയും ചെയ്യുന്ന ഒരു വിവര സംവിധാനമാണ്.

### Definition:

The American Institute of Certified Public Accountants (AICPA) defines accounting as follows, "Accounting is the art of recording, classifying and summarising in a significant manner and in terms of money, transactions and events which are in part at least of financial character and interpreting the result thereof"

### നിർവ്വചനം:

അമേരിക്കൻ ഇൻസ്റ്റിറ്റ്യൂട്ട് ഓഫ് സർട്ടിഫൈഡ് പബ്ലിക് അക്കൗണ്ടന്റ്സ് (AICPA) അക്കൗണ്ടിംഗിനെ ഇനിപ്പറയുന്ന രീതിയിൽ നിർവ്വചിക്കുന്നു, 'അക്കൗണ്ടിംഗ് എന്നത് ഗണ്യമായ രീതിയിലും പണം, ഇടപാടുകൾ, ഇവന്റുകൾ എന്നിവയുടെ കാര്യത്തിലും രേഖപ്പെടുത്തൽ, വർഗ്ഗീകരണം, സംഗ്രഹം എന്നിവയുടെ കലയാണ്'

### Features of Accounting:

- Recording:-** It is concerned with recording of financial transaction in a systematic manner.
- Classifying:-** It is concerned with the systematic analysis of recorded data of similar nature to one place.
- Summarising:-** It is concerned with the presentation of the classified data in an understandable manner.
- Analysis and Interpretation:-** The financial data recorded is analysed and interpreted to make a meaningful judgment to the users.
- Communication:-** The accounting information has to be communicated in a proper form to the proper person.

### അക്കൗണ്ടിംഗിന്റെ സവിശേഷതകൾ:

- രേഖപ്പെടുത്തൽ:** സാമ്പത്തിക ഇടപാടുകൾ ചിട്ടയായ രീതിയിൽ രേഖപ്പെടുത്തുന്നതുമായി ബന്ധപ്പെട്ടതാണ്
- തരംതിരിക്കൽ:** ഇത് സമാനസ്വഭാവമുള്ള രേഖപ്പെടുത്തിയ വസ്തുതകളെ ചിട്ടയായ വിശകലനവുമായി ബന്ധപ്പെട്ടതാണ്.

- c) **ക്രോഡീകരിക്കൽ:** തരംതിരിക്കുന്ന വസ്തുതകളെ ഏറ്റവും മനസ്സിലാക്കാവുന്ന വിധത്തിൽ അവതരിപ്പിക്കുക എന്നതാണ് ഇതു കൊണ്ട് ഉദ്ദേശിക്കുന്നത്.
- d) **വിശകലനവും വ്യാഖ്യാനവും:** രേഖപ്പെടുത്തിയ സാമ്പത്തിക വസ്തുതകൾ വിശകലനം ചെയ്യുകയും ഉപയോക്താക്കൾക്ക് അർത്ഥവത്തായ ഒരു വിലയിരുത്തൽ നടത്തുകയും ചെയ്യുന്നു.
- e) **ആശയവിനിമയം:** അക്കൗണ്ടിംഗ് വിവരങ്ങൾ ശരിയായ രൂപത്തിൽ ആവശ്യമുള്ള വ്യക്തിയെ അറിയിക്കേണ്ടതാണ്

**Objectives of Accounting:**

The primary objectives of accounting are the following:

1. **Maintenance of records of business:** The accounting records should be made properly and systematically.
2. **Calculation of profit or Loss:** Accounting helps to calculate profit or loss earned by the firm during a particular period.
3. **Depiction of financial Position:** Accounting information helps to depict financial position
4. **Making information available to various users:** Accounting makes information available to all those interested parties.

**അക്കൗണ്ടിംഗിന്റെ ലക്ഷ്യങ്ങൾ:**

അക്കൗണ്ടിംഗിന്റെ പ്രാഥമിക ലക്ഷ്യങ്ങൾ ഇനിപ്പറയുന്നവയാണ്:

1. **ബിസിനസ്സിന്റെ രേഖകളുടെ പരിപാലനം:** അക്കൗണ്ടിംഗ് രേഖകൾ കൃത്യമായും ചിട്ടയായും ഉണ്ടാക്കിയിരിക്കണം.
2. **ലാഭനഷ്ടം:** ഒരു പ്രത്യേക കാലയളവിൽ സ്ഥാപനം നേടിയ ലാഭമോ നഷ്ടമോ കണക്കാക്കാൻ അക്കൗണ്ടിംഗ് സഹായിക്കുന്നു.
3. **സാമ്പത്തിക സ്ഥിതിയുടെ ചിത്രീകരണം:** സാമ്പത്തിക സ്ഥിതി വെളിപ്പെടുത്താൻ അക്കൗണ്ടിംഗ് വിവരങ്ങൾ സഹായിക്കുന്നു
4. **വിവിധ ഉപയോക്താക്കൾക്ക് വിവരങ്ങൾ ലഭ്യമാക്കുന്നു:** അക്കൗണ്ടിംഗ് വിവരങ്ങൾ താൽപ്പര്യമുള്ള എല്ലാ കക്ഷികൾക്കും ലഭ്യമാക്കുന്നു

**Qualitative Characteristics of accounting information:**

The accounting information should provide the following:

1. **Reliability:** Accounting information will be reliable if it is free from error and bias.
2. **Relevance:** Accounting information is said to be relevant if it influences the decision making.
3. **Understandability:** Accounting information should be easily understandable to all users.
4. **Comparability:** Accounting information should be comparable for a period of time between two or more entities.

**അക്കൗണ്ടിംഗ് വിവരങ്ങളുടെ ഗുണപരമായ സവിശേഷതകൾ:**

അക്കൗണ്ടിംഗ് വിവരങ്ങൾ ഇനിപ്പറയുന്നവ നൽകണം:

1. **വിശ്വാസ്യത:** അക്കൗണ്ടിംഗ് വിവരങ്ങൾ തെറ്റുകളിൽ നിന്ന് മുക്തവും വിശ്വസ്തതയോടെ പ്രതിനിധീകരിക്കുന്നതുമാണെങ്കിൽ അത് വിശ്വസനീയമായിരിക്കും.
2. **പ്രസക്തി:** അക്കൗണ്ടിംഗ് വിവരങ്ങൾ തീരുമാനമെടുക്കുന്നതിൽ സ്വാധീനം ചെലുത്തുന്നുവെങ്കിൽ അത് പ്രസക്തമാണെന്ന് പറയപ്പെടുന്നു.
3. **ഗ്രാഹ്യശേഷി:** അക്കൗണ്ടിംഗ് വിവരങ്ങൾ എല്ലാ ഉപയോക്താക്കൾക്കും എളുപ്പത്തിൽ മനസ്സിലാക്കാവുന്നതായിരിക്കണം.
4. **താരതമ്യപ്പെടുത്തൽ:** അക്കൗണ്ടിംഗ് വിവരങ്ങൾ രണ്ടോ അതിലധികമോ അസ്തിത്വങ്ങൾ തമ്മിലുള്ള ഒരു കാലയളവിലേക്ക് താരതമ്യപ്പെടുത്താവുന്നതായിരിക്കണം

**Advantages of accounting:**

- 1. Helps in ascertaining financial position of the business.
- 2. Systematic recording to data is possible.
- 3. Provides qualitative information.
- 4. Act as an information system.

**അക്കൗണ്ടിംഗിന്റെ പ്രയോജനങ്ങൾ:**

- 1. ബിസിനസിന്റെ സാമ്പത്തിക സ്ഥിതി കണ്ടെത്തുന്നതിന് സഹായിക്കുന്നു.
- 2. വ്യവസ്ഥാപിതമായ രീതിയിൽ വസ്തുതകളെ രേഖപ്പെടുത്താൻ സഹായിക്കുന്നു.
- 3. ഗുണപരമായ വിവരങ്ങൾ നൽകുന്നു
- 4. ഒരു വിവര സംവിധാനമായി പ്രവർത്തിക്കുന്നു.

**Disadvantages of accounting:**

- 1. Its records only transactions which can be recorded in monetary terms.
- 2. Accounting is historical in nature
- 3. Effect of price level changes are not considered.

**അക്കൗണ്ടിംഗിന്റെ പോരായ്മകൾ:**

- 1. പണത്തിന്റെ അടിസ്ഥാനത്തിൽ രേഖപ്പെടുത്താൻ കഴിയുന്ന ഇടപാടുകൾ മാത്രമാണ് ഇതിന്റെ രേഖകൾ.
- 2. അക്കൗണ്ടിംഗ് വിവരങ്ങൾ കഴിഞ്ഞ കാലത്തെ സൂചിപ്പിക്കുന്നു.
- 3. വില നിലവാരത്തിലുള്ള മാറ്റങ്ങളുടെ പ്രഭാവം പരിഗണിക്കില്ല.

**Basic Accounting Terms (അടിസ്ഥാന അക്കൗണ്ടിംഗ് നിബന്ധനകൾ):**

- 1. **Entity:** Entity means a reality that has a definite individual existence. Business entity means a specifically identifiable business enterprise like Super Bazaar, ITC Limited etc.  
**അസ്തിത്വങ്ങൾ:** സ്ഥായിയായ നിലനിൽപ്പുള്ള ഏതൊരു യാഥാർത്ഥ്യത്തെയും അസ്തിത്വം എന്ന് പറയാം. ബിസിനസ് അസ്തിത്വം എന്നാൽ സൂപ്പർ ബസാർ, ഐടിസി ലിമിറ്റഡ് മുതലായ പ്രത്യേകമായി തിരിച്ചറിയാവുന്ന ബിസിനസ്സ് സ്ഥാപനം എന്നാണ് അർത്ഥമാക്കുന്നത്.
- 2. **Business Transaction:** A business transaction is dealing or event which has an impact on the business. A transaction results in an exchange of value.  
**ബിസിനസ്സ് ഇടപാട്:** ഒരു ബിസിനസ്സ് ഇടപാട് എന്നത് ബിസിനസിനെ സ്വാധീനിക്കുന്ന ഇടപാട് അല്ലെങ്കിൽ സംഭവം ആണ്. ഒരു ഇടപാട് മുല്യത്തിന്റെ കൈമാറ്റത്തിൽ കലാശിക്കുന്നു.

**3. Assets:**

Cash or any valuables owned by the business that can be converted into usefully expressed in monetary terms. Assets can be grouped as under:

**ആസ്തികൾ:** പണമോ ബിസിനസ്സിന്റെ ഉടമസ്ഥതയിലുള്ള ഏതെങ്കിലും വിലപിടിപ്പുള്ള വസ്തുക്കളോ പണത്തിന്റെ അടിസ്ഥാനത്തിൽ ഉപയോഗപ്രദമായി പ്രകടിപ്പിക്കുന്ന വയായി പരിവർത്തനം ചെയ്യാൻ കഴിയും. ആ സ്തികളെ ഇനിപ്പറയുന്ന രീതിയിൽ തരംതിരിക്കാം:

- a. **Current Assets:** Assets which are held for a short period or maximum of one year are known as current assets.

**Eg: Cash in hand, Cash at Bank, Stock, Bills Receivable, Prepaid expenses etc.**

**ഹ്രസ്വകാല ആസ്തികൾ:** ചുരുങ്ങിയ കാലത്തേക്കോ പരമാവധി ഒരു വർഷത്തേക്കോ കൈവശം വച്ചിരിക്കുന്ന ആസ്തികൾ ഹ്രസ്വകാല ആസ്തികൾ എന്നറിയപ്പെടുന്നു.

**ഉദാ:** കയ്യിലുള്ള പണം, ബാങ്കിലെ പണം, നീക്കിയിരിപ്പ്, ബില്ലുകൾ, മുൻകൂട്ടിയടച്ച ചെലവുകൾ മുതലായവ

- b. **Fixed Assets:** Assets which are acquired and used by the business for longer period of time are called Fixed assets.

**Eg: Land and Building, Plant and Machinery, Furniture etc.**

**ദീർഘകാല ആസ്തികൾ:** ബിസിനസ്സ് സ്ഥാപനം ദീർഘകാലത്തേക്ക് വാങ്ങുകയും ഉപയോഗിക്കുകയും ചെയ്യുന്ന ആസ്തികളാണ് ദീർഘകാല ആസ്തികൾ.

**ഉദാ: ദുരിയം കെട്ടിടവും, പ്ലാന്റും മെഷിനറിയും, ഫർണിച്ചർ മുതലായവ**

The fixed assets can be classified into: (ദീർഘകാല ആസ്തികളെ തരം തിരിക്കാം)

a) **Tangible assets:** These are assets which can be touched, seen or felt .

**Eg: Machinery, Land and Building, Stock of goods ,Furniture etc.**

**ദ്യുത ആസ്തികൾ:** ഇവ സ്പർശിക്കാനോ കാണാനോ അനുഭവിക്കാനോ കഴിയുന്ന ആസ്തികളാണ്.

**ഉദാ: യന്ത്രങ്ങൾ, ദുരിയം കെട്ടിടവും, സാധനങ്ങളുടെ നീക്കിയിരിപ്പ്, ഫർണിച്ചറുകൾ മുതലായവ.**

b) **Intangible assets:** These are assets which cannot be touched ,seen or felt.

**Eg: Goodwill, Trade mark etc**

**അദ്യുതമായ ആസ്തികൾ:** ഇവ തൊടാനോ കാണാനോ അനുഭവിക്കാനോ കഴിയാത്ത ആസ്തികളാണ്.

**ഉദാ: സൽഷേർ, വ്യാപാര മുദ്ര മുതലായവ**

c) **Wasting assets:** Assets which get exhausted to the extent of extraction are called wasting assets.

**Eg: Mines,Quarries, Oil fields etc**

**പാഴാക്കുന്ന ആസ്തികൾ:** വേർതിരിച്ചെടുക്കുന്ന അളവിൽ തീർന്നുപോകുന്ന ആസ്തികളെ പാഴാക്കൽ ആസ്തികൾ എന്ന് വിളിക്കുന്നു.

**ഉദാ: ഖനികൾ, ക്വാറികൾ, എണ്ണപ്പാടങ്ങൾ തുടങ്ങിയവ**

d) **Fictitious assets:** Assets which have no real value but are shown in the books of account only for technical reason are called fictitious assets.

**Eg: preliminary expenses, discount on issue of shares etc**

**സാങ്കല്പിക ആസ്തികൾ:** യഥാർത്ഥ മൂല്യം ഇല്ലാത്തതും എന്നാൽ സാങ്കേതിക കാരണങ്ങളാൽ മാത്രം അക്കൗണ്ട് ബുക്കിൽ കാണിക്കുന്നതുമായ ആസ്തികളെ സാങ്കല്പിക ആസ്തികൾ എന്ന് വിളിക്കുന്നു.

**ഉദാ: പ്രാഥമിക ചെലവുകൾ, ഓഹരികൾ ഇഷ്യൂ ചെയ്യുന്നതിനുള്ള കിഴിവ് തുടങ്ങിയവ**

**4. Liabilities:**

Liabilities are the obligations or debts payable by the enterprise in future in the form of money or goods. It can be grouped as under:

**ബാധ്യതകൾ:** പണമായോ ചരക്കുകളുമായോ ഭാവിയ്ക്കൽ ബിസിനസ്സ് സ്ഥാപനം നൽകേണ്ട ബാധ്യതകളോ കടങ്ങളോ ആണ് ബാധ്യതകൾ. ഇതിനെ ഇനിപ്പറയുന്ന രീതിയിൽ തരംതിരിക്കാം:

a) **Short term Liabilities (Current liabilities):** These are liabilities which become due and payable within a period of one year.

**Eg: Creditors, Bills Payable, Outstanding expenses etc.**

**പ്രസ്വകാല ബാധ്യതകൾ (നിലവിലെ ബാധ്യതകൾ):** ഒരു വർഷത്തി നുള്ളിൽ അടയ്ക്കേണ്ട ബാധ്യതകളാണിവ.

**ഉദാ: കടക്കാർ, അടയ്ക്കേണ്ട ബില്ലുകൾ, കുടിശ്ശികയുള്ള ചെലവുകൾ തുടങ്ങിയവ**

b) **Long term Liabilities:** Long term liabilities are payable after a period of one year.

**Eg: Long term loans, Debentures etc.**

**ദീർഘകാല ബാധ്യതകൾ:** ദീർഘകാല ബാധ്യതകൾ ഒരു വർഷത്തെ കാലയളവിനു ശേഷം അടയ്ക്കേണ്ടതാണ്.

**ഉദാ: ദീർഘകാല വായ്പകൾ, കടപ്പത്രങ്ങൾ മുതലായവ**

5. **Capital:** This is the investment made by owners in the business. It is generally termed as owner's equity or net worth.

**മൂലധനം:** ഇത് ബിസിനസ്സിൽ ഉടമകൾ നടത്തുന്ന നിക്ഷേപമാണ്. ഇതിനെ സാധാരണയായി ഉടമകളുടെ ഇക്വിറ്റി അല്ലെങ്കിൽ മൊത്തം ആസ്തി എന്ന് വിളിക്കുന്നു.



6. **Drawings:** Withdrawal of goods or cash from the business by the owner for personal purpose is called drawings.  
**തൻപറ്റ്:** വ്യക്തിഗത ആവശ്യങ്ങൾക്കായി ഉടമ ബിസിനസിൽ നിന്ന് സാധനങ്ങളോ പണമോ പിൻവലിക്കുന്നതിനെ തൻപറ്റുകൾ എന്ന് വിളിക്കുന്നു.
7. **Revenue:** These are the amount earned by a business concern through sale of its products or providing services to customers.  
**Eg; Sales, Commission received, Rent received, Interest received etc.**  
**വരുമാനം:** സാധനങ്ങളുടെ വിൽപനയുലൂടെയും സേവനങ്ങൾ നൽകുന്നതിലൂടെയും ബിസിനസ്സ് നേടുന്ന തുകയാണ് വിൽപന വരുമാനം.  
**ഉദാ:** വിൽപന, കിട്ടിയ കമ്മീഷൻ, ലഭിച്ച വാടക, കിട്ടിയ പലിശ തുടങ്ങിയവ.
8. **Expenditure:** Expenditure is the amount of resources consumed for the acquisition of assets, the benefit from which is derived over a period which extends beyond the accounting year.  
**വ്യയം:** ചെലവ് എന്നത് ആസ്തികൾ സമ്പാദിക്കുന്നതിന് ഉപയോഗിക്കുന്ന വിഭവങ്ങളുടെ തുകയാണ്, അക്കൗണ്ടിംഗ് വർഷത്തിനപ്പുറം നീണ്ടുനിൽക്കുന്ന ഒരു കാലയളവിൽ ലഭിക്കുന്ന നേട്ടമാണിത്.
9. **Expenses:** The amount spent in the process of earning revenue is termed as expenses.  
**Eg: Wages, Salaries, Rent, Interest etc.**  
**ചെലവുകൾ:** വരുമാനം നേടുന്നതിനായി ഒരു ബിസിനസ്സ് സ്ഥാപനം ചെലവഴിക്കുന്ന തുകയെ ചെലവുകൾ എന്ന് വിളിക്കുന്നു.  
**ഉദാ:** കൂലി, ശമ്പളം, വാടക, പലിശ തുടങ്ങിയവ.
10. **Income:** Income is the increase in the net worth of the organization either from business activity or other activities  
**വരുമാനം:** ബിസിനസ്സിന്റെ പ്രവർത്തനങ്ങളിൽ നിന്നോ മറ്റ് പ്രവർത്തനങ്ങളിൽ നിന്നോ സ്ഥാപനത്തിന്റെ മൊത്തം മൂല്യത്തിൽ ഉണ്ടാകുന്ന വർദ്ധനവാണ് വരുമാനം.
11. **Loss:** Loss is the gross decrease in the assets or gross increase in liabilities .It is the excess of expenses over revenues.  
**നഷ്ടം:** ആസ്തികളിലെ മൊത്തത്തിലുള്ള കുറവ് അല്ലെങ്കിൽ ബാധ്യതകളിലെ മൊത്തത്തിലുള്ള വർദ്ധനവാണ് നഷ്ടം. ഇത് വരുമാനത്തേക്കാൾ ചെലവുകളുടെ ആധിക്യമാണ്.
12. **Gains or Profit:** It is the excess of revenue over expenses in an accounting year.  
**നേട്ടങ്ങൾ അല്ലെങ്കിൽ ലാഭം:** ഒരു അക്കൗണ്ടിംഗ് വർഷത്തിലെ ചെലവുകളേക്കാൾ വരുമാനം വർദ്ധിക്കുകയാണെങ്കിൽ നേട്ടങ്ങൾ അല്ലെങ്കിൽ ലാഭം എന്ന് പറയാം.
13. **Purchases:** The total amount of goods procured by a business concern for cash or on credit for the purpose of sale or use is known as purchases.  
**വാങ്ങൽ:** കച്ചവടത്തിനോ ഉപയോഗത്തിനോ വേണ്ടി പണം നൽകിയോ കടമായോ ഒരു ബിസിനസ്സ് സംഭരിക്കുന്ന സാധനങ്ങളുടെ ആകെ തുക വാങ്ങലുകൾ എന്നറിയപ്പെടുന്നു.
14. **Sales:** It is the income earned from the sale of goods or services rendered.Sales may be cash sales and credit sales.  
**വിൽപന:** ചരക്കുകളുടെയോ സേവനങ്ങളുടെയോ വിൽപനയിൽ നിന്ന് ലഭിക്കുന്ന വരുമാനമാണ്. വിൽപന വിൽപനയെ പണ വിൽപന എന്നും കട വിൽപന എന്നും പറയാം.
15. **Stock( Inventory):** The goods available with the business for sale on a particular date is termed as stock.  
**നീക്കിയിരിപ്പ് (ചരക്ക്):** ഒരു പ്രത്യേക തീയതിയിൽ വിൽപനയ്ക്കായി ബിസിനസ്സിൽ ലഭ്യമായ സാധനങ്ങളെ നീക്കിയിരിപ്പ് എന്ന് വിളിക്കുന്നു.
16. **Closing Stock:** The value of goods remaining unsold at the end of an accounting period is termed as closing stock.  
**നീക്കിയിരിപ്പ് ചരക്ക്:** ഒരു അക്കൗണ്ടിംഗ് കാലയളവിന്റെ അവസാനത്തിൽ വിൽക്കാതെ ശേഷിക്കുന്ന സാധനങ്ങളുടെ മൂല്യത്തെ നീക്കിയിരിപ്പ് ചരക്ക് എന്ന് വിളിക്കുന്നു.
17. **Debtors:** Debtors are persons and other entities who owe money to the business.

**കടംകൊണ്ടവർ:** കടക്കാർ എന്നത് ബിസിനസ്സിന് പണം കടപ്പെട്ടിരിക്കുന്ന വ്യക്തികളും മറ്റ് സ്ഥാപനങ്ങളുമാണ്.

18. **Creditors:** Creditors are persons or other entities who have claim for money against the business.

**കടംകൊടുത്തവർ:** ബിസിനസ് സ്ഥാപനത്തിൽ നിന്ന് പണത്തിനായി അവകാശമുള്ള വ്യക്തികളോ മറ്റ് സ്ഥാപനങ്ങളോ ആണ്.

19. **Voucher:** voucher is a documentary evidence in support of cash transaction

**വൗച്ചർ:** പണമിടപാടിനെ പിന്തുണയ്ക്കുന്ന ഒരു ആധികാര്യമായ തെളിവാണ് വൗച്ചർ

20. **Discount:** Discount is the deduction in the price list of the goods sold.

**കിഴിവ്:** വിൽപ്പന നടത്തുന്ന സാധനങ്ങളുടെ വിലയിൽ അനുവദിക്കുന്ന കുറവാണ് കിഴിവ്

21. **Accounts Receivable:** It is the total amount due by debtors and the amount bills receivable that the concern has with it as on any particular date.

**സ്വീകാര്യമായ അക്കൗണ്ടുകൾ:** ഇത് കടക്കാർ നൽകേണ്ട മൊത്തം തുകയും ഏതെങ്കിലും പ്രത്യേക തീയതിയിൽ ആശങ്കയ്ക്ക് അത് നൽകേണ്ട തുക ബില്ലുകളുമാണ്

22. **Accounts Payable:** Accounts payable is the total of creditors and bills payable of the business as on any date.

**അടയ്ക്കേണ്ട അക്കൗണ്ടുകൾ:** ഏത് തീയതിയിലും ബിസിനസിന്റെ അടയ്ക്കേണ്ട കടക്കാരുടെയും ബില്ലുകളുടെയും ആകെതുകയാണ് അക്കൗണ്ടുകൾ.

### Questions:

- Analysis of recorded data to bring entries of similar nature to one plane is called .....
  - Analysis
  - Summarizing
  - Classifying
- The person who owes Rs. 1000 to the proprietor is a.....
  - Asset
  - Debtor
  - Creditor
  - Owner
- A firm purchases computers for sales .These computers are ..... for the business
  - Purchases
  - Sales
  - Assets
  - None of these
- The feature of accounting that states that,"Accounting information must be free from all bias and errors is .....
  - Reliability
  - Relevance
  - Understandability
  - Comparability
- Excess of revenue over expense is known as.....
  - Income
  - Loss
  - Capital
  - Liabilities
- Writing off the cost of intangible assets is termed as .....
  - Depreciation
  - Depletion
  - Amortization
  - Obsolescence
- .....is an example of current assets
  - Furniture
  - Debtors
  - Loan
  - Building
- Mines is an example of .....
  - Tangible assets
  - Intangible assets
  - Wasting assets
  - Fictitious assets
- The withdrawn of money by the owner of business for personal use
  - Purchases
  - Capital
  - Drawings
  - Sales
- Income received in advance is .....
  - Income
  - Expenses
  - Asset
  - Liabilities

\*\*\*\*\*

**CHAPTER 2**  
**THEORY BASE OF ACCOUNTING**

The rules and guidelines used in preparing accounting reports are termed as Generally Accepted Accounting Principles (GAAP). They can be broadly classified into the following categories:

അക്കൗണ്ടിംഗ് റിപ്പോർട്ടുകൾ തയ്യാറാക്കുന്നതിൽ ഉപയോഗിക്കുന്ന നിയമങ്ങളും മാർഗ്ഗനിർദ്ദേശങ്ങളും പൊതുവായി അംഗീകരിക്കപ്പെട്ട അക്കൗണ്ടിംഗ് തത്വങ്ങൾ (GAAP) എന്നാണ് അറിയപ്പെടുന്നത്. അവയെ ഇനിപറയുന്ന വിഭാഗങ്ങളായി വിശാലമായി തരംതിരിക്കാം:

- A. Accounting Assumptions (അക്കൗണ്ടിംഗ് അനുമാനങ്ങൾ)
- B. Accounting Principles (അക്കൗണ്ടിംഗ് തത്വങ്ങൾ)
- C. Modifying Principles (പരിഷ്കരിക്കുന്ന തത്വങ്ങൾ)
- D. Accounting Standards. (അക്കൗണ്ടിംഗ് മാനദണ്ഡങ്ങൾ)

**A. Accounting Assumption or Concepts (അക്കൗണ്ടിംഗ് അനുമാനം അല്ലെങ്കിൽ ആശയങ്ങൾ):**

Accounting assumption or concept refers to certain necessary assumption or conditions on which the accounting system is based

അക്കൗണ്ടിംഗ് അനുമാനം അല്ലെങ്കിൽ ആശയം എന്നത് അക്കൗണ്ടിംഗ് സിസ്റ്റം അടിസ്ഥാനമാക്കിയുള്ള ചില ആവശ്യമായ അനുമാനങ്ങളെയോ വ്യവസ്ഥകളെയോ സൂചിപ്പിക്കുന്നു.

- **Business Entity Concept:** Under this concept ,it is assumed that business unit is distinct and completely separate from its owners .  
**അക്കൗണ്ടിംഗ് എന്റിറ്റി ആശയം:** ഈ ആശയത്തിന് കീഴിൽ, ബിസിനസ് യൂണിറ്റ് വ്യതിരിക്തവും അതിന്റെ ഉടമസ്ഥരിൽ നിന്ന് പൂർണ്ണമായും വേറിട്ടുനിൽക്കുന്നതുമാണെന്ന് അനുമാനിക്കപ്പെടുന്നു.
- **Money Measurement Concept:** As per this concept, transactions that can be measured in terms of money only are recorded in the books of accounts.  
**പണമായി അളക്കൽ ആശയം:** ഈ ആശയം അനുസരിച്ച്, പണത്തിന്റെ അടിസ്ഥാനത്തിൽ മാത്രമേ അക്കൗണ്ടിംഗ് ബുക്കുകളിൽ രേഖപ്പെടുത്താവൂ
- **Going Concern Concern:** As per this concept the business unit is assumed to have an indefinite life.  
**സ്ഥാപന തുടർച്ച ആശയം:** ഈ ആശയം അനുസരിച്ച് ബിസിനസ് സ്ഥാപനത്തിന് അനിശ്ചിതകാല സമയം അനുമാനിക്കപ്പെടുന്നു.
- **Accounting Period Concept:** The period of interval for which account is kept for ascertaining the result of business during the period is called Accounting Period.  
**അക്കൗണ്ടിംഗ് കാലയളവ് തത്വം:** ഒരു ബിസിനസ് സ്ഥാപനത്തിന്റെ കണക്കുകൾ വിലയിരുത്തി അതിന്റെ ഫലം നിർണ്ണയിക്കാൻ ഒരു നിശ്ചിത സമയം നിശ്ചയിക്കുന്നതിനെക്കുറിച്ചാണ്.

**B. Accounting Convention or Principles (അക്കൗണ്ടിംഗ് കൺവെൻഷൻ അല്ലെങ്കിൽ തത്വങ്ങൾ):**

These conventions or principles refers to an accounting procedure followed by accountants all over the world.

ഈ കൺവെൻഷനുകൾ അല്ലെങ്കിൽ തത്വങ്ങൾ ലോകമെമ്പാടുമുള്ള അക്കൗണ്ടന്റുമാർ പിന്തുടരുന്ന ഒരു അക്കൗണ്ടിംഗ് നടപടിക്രമത്തെ സൂചിപ്പിക്കുന്നു.

- **Dual Aspect Principle:** According to this concept each and every business transaction has two aspects – a giving aspect and a receiving aspect.  
**ഇരു ഘടക തത്വം:** ഈ ആശയം അനുസരിച്ച് ഓരോ ബിസിനസ്സ് ഇടപാടിനും രണ്ട് വശങ്ങളുണ്ട്. അതായത് നൽകുന്ന വശവും സ്വീകരിക്കുന്ന വശവും
- **Verifiability and Objectivity principles:** This principle states that the accounting data provided in the books of accounts should be verifiable and dependable.

**വസ്തു നിഷ്പാത തത്വം:** ഈ തത്വം പറയുന്നത്, അക്കൗണ്ട് ബുക്കുകളിൽ നൽകിയിരിക്കുന്ന അക്കൗണ്ടിംഗ് വിവരങ്ങൾ പരിശോധിക്കാവുന്നതും ആശ്രയിക്കാവുന്നതുമായിരിക്കണം എന്നാണ്.

- **Revenue Recognition principle:** Under this principle Revenue is recorded at the time when the title of goods passes from the seller to the buyer

**വരുമാന നിർണ്ണയ തത്വം:** ഈ തത്വത്തിന് കീഴിൽ ചരക്കുകളുടെ യഥാർത്ഥ വിൽപ്പനക്കാരനിൽ നിന്ന് വാങ്ങുന്നയാളിലേക്ക് കൈമാറുന്ന സമയത്താണ് വരുമാനം രേഖപ്പെടുത്തേണ്ടത്.

- **Matching Principle:** As per this concept only those expenses pertaining to the current accounting period must be matched against the revenue relating to the same period.

**പൊരുത്തപ്പെടുത്തൽ തത്വം:** ഈ ആശയം അനുസരിച്ച് നിലവിലെ അക്കൗണ്ടിംഗ് കാലയളവുമായി ബന്ധപ്പെട്ട ചെലവുകൾ അതേ കാലയളവിലെ വരുമാനവുമായി പൊരുത്തപ്പെടുത്തണം.

- **Convention of disclosure:** According to this concept all accounting statements must be prepared honestly and must contain all relevant material information.

**വെളിപ്പെടുത്തൽ കൺവെൻഷൻ:** ഈ ആശയം അനുസരിച്ച് എല്ലാ അക്കൗണ്ടിംഗ് കണക്കുകളും സത്യസന്ധമായി തയ്യാറാക്കുകയും പ്രസക്തമായ എല്ലാ വിവരങ്ങളും വെളിപ്പെടുത്തിയിരിക്കണം

**C. Modifying Principles:**

- **Principles of Materiality:** As per the principle all material facts should be disclosed in the financial statement .

**പ്രസക്തി തത്വങ്ങൾ:** ഈ തത്വമനുസരിച്ച് ഒരു സ്ഥാപനത്തിന്റെ എല്ലാ ഭൗതിക വസ്തുതകളും അതിന്റെ സാമ്പത്തിക വിവരങ്ങളിൽ ഉൾപ്പെടുത്തിയിരിക്കണം

- **Principles of consistency:** It means that once an accounting method is adopted,it should not be changed from one accounting period to another

**സ്ഥിരതാ തത്വങ്ങൾ:** ഒരു അക്കൗണ്ടിംഗ് രീതി സ്വീകരിച്ചുകഴിഞ്ഞാൽ, അത് ഒരു അക്കൗണ്ടിംഗ് കാലയളവിൽ നിന്ന് മറ്റൊന്നിലേക്ക് മാറ്റാൻ പാടില്ല എന്നാണ് ഇതു കൊണ്ട് ഉദ്ദേശിക്കുന്നത്.

- **Prudence/Conservatism:** According to this principles the accountant should exercise caution and discretion in applying accounting methods and policies.

**മുൻകരുതൽ:** ഈ തത്വങ്ങൾ അനുസരിച്ച്, അക്കൗണ്ടിംഗ് രീതികളും നയങ്ങളും പ്രയോഗിക്കുന്നതിൽ അക്കൗണ്ടിംഗ് ജാഗ്രതയും വിവേചനാധികാരവും പാലിക്കണം.

- **Timeliness:** It states that accounting information should be made available on time.

**സമയബന്ധിതത്വം:** അക്കൗണ്ടിംഗ് വിവരങ്ങൾ കൃത്യസമയത്ത് ലഭ്യമാക്കണമെന്ന് ഇതിൽ പറയുന്നത്.

**D. Accounting Standards:**

- AS1 – Disclosure of Accounting Policies
- AS 2 Valuation of Inventories
- AS3 – Cash Flow Statement
- AS6 – Depreciation Accounting
- AS 10 – Accounting for fixed assets.
- AS13 Accounting for Investment

**Objective Question:**

1. The norms and guidelines framed by professional bodies consisting of Chartered Accountants are called
  - a. Accounting Standard                      b. GAAP                                      c. Any of these
2. Accounting entity is an .....
  - a. Accounting Concept                      b. Accounting Convention                      c. Modifying Principle

3. A business unit is assumed to have an indefinite life come under.....
- a. Business Entity Concept    b. Going Concern Concept    c. Accounting Period Concepts
4. The fact that a business is separated and distinguished from its owner is best example by .....concept
- a. Money Measurement    b. Going Concern Concept    c. Business Entity Concept  
d. Cost Concept
5. Closing stock is valued at cost price or market price which ever is less ,which is based on .....principles
- a. Objectivity    b. Money Measurement    c. Conservatism    d. Dual aspect
6. Every debit has an equal credit, which is based on .....concept
- a. Conservatism    b. Dual aspect    c. Materiality    d. None of these
7. Assets are recorded at its cost price, this is supported .....principles
- a. Dual aspect    b. Cost Principles    c. Money Measurement    d. Business Entity
8. As per business entity concept Owner of the business is .....
- a. Supplier    b. Creditor    c. Debtor    d. Borrower
9. Which one of the following principles of accounting helps to equate the assets of a firm with its liabilities?
- a. Full Disclosure    b. Duality Principle    c. Matching    d. Cost principle
10. The accounting concept behind creating provision for doubtful debts is.....
- a. Consistency Concept    b. Conservatism Concept    c. Materiality Concept  
d. Objectivity Concept.

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### CHAPTER-3

#### RECORDING OF BUSINESS TRANSACTIONS ACCOUNTING EQUATION

The recording of business transaction in the books of account is based on a Fundamental equation Called accounting equation. This equation expresses the equality of assets on the one side and liabilities and capital on the other side. In mathematical form

$$\text{ASSETS} = \text{LIABILITIES} + \text{CAPITAL}$$

As an asset is introduced in the business, a corresponding liability also emerges.

Example:1 Prepare accounting equation from the following transactions

1. Amal started business with cash ₹ 150000
2. Purchased goods for cash ₹40000
3. Sold goods [Costing ₹20000] for ₹ 35000.
4. Purchased goods from Kareem ₹ 40000.
5. Salary Paid ₹8000.
6. Commission received ₹7000.
7. Sold goods to Rajan ₹20000.

S. No	Transactions	ASSET					=	LIABILITIES + CAPITAL		
		Cash	+	Stock	+	Debtors	=	Creditors	+	Capital
1	Started business with cash	150000		0		0		0		150000
2	Purchased goods for cash	-40000		40000		0		0		0
	<b>New Equation</b>	<b>110000</b>		<b>40000</b>		<b>0</b>		<b>0</b>		<b>150000</b>
3	Sold Goods	35000		-20000		0		0		15000
	<b>New Equation</b>	<b>145000</b>		<b>20000</b>		<b>0</b>		<b>0</b>		<b>165000</b>
4	Purchased goods on credit	0		40000		0		40000		0
	<b>New Equation</b>	<b>145000</b>		<b>60000</b>		<b>0</b>		<b>40000</b>		<b>165000</b>
5	Salary Paid	-8000		0		0		0		-8000
	<b>New Equation</b>	<b>137000</b>		<b>60000</b>		<b>0</b>		<b>40000</b>		<b>157000</b>
6	Commission Received	7000		0		0		0		7000
	<b>New Equation</b>	<b>144000</b>		<b>60000</b>		<b>0</b>		<b>40000</b>		<b>164000</b>
7	Sold goods to Rajan	0		-2000		20000		0		0
	<b>New Equation</b>	<b>144000</b>		<b>40000</b>		<b>20000</b>		<b>40000</b>		<b>164000</b>
	<b>TOTAL</b>			<b>204000</b>			<b>=</b>			<b>204000</b>

#### EXERCISE:1

Prepare accounting from the following transactions.

1. Nisam started business with cash ₹200000.
2. Purchased goods from Vimal ₹20000
3. Sold goods [Costing ₹15000] for ₹ 12000.
4. Purchased goods for cash ₹ 20000.
5. Salary Paid ₹5000.
6. Rent Received ₹6000.

## DOUBLE ENTRY SYSTEM OF ACCOUNTING

In Double Entry accounting both the aspects of the transaction are recorded. Every transaction has two Aspects and according to this system both the aspects are recorded. The double entry system also requires that the total amount debited must be equal to total amount credited.

### RULES OF ACCOUNTING

All accounts are divided into five categories for the purpose of recording of business transactions.

1. Assets
2. Liabilities
3. Capital
4. Expenses/Losses
5. Incomes/Gains

### THE RULES APPLICABLE TO FIVE TYPES OF ACCOUNTS

TYPE OF ACCOUNT	DEBIT	CREDIT
ASSET	INCREASE	DECREASE
LIABILITY	DECREASE	INCREASE
EXPENSE	INCREASE	DECREASE
INCOME	DECREASE	INCREASE
CAPITAL	DECREASE	INCREASE

From the following transactions, state the titles of accounts to be affected, types of accounts and the accounts to be debited and credited.

1. Akbar started business with cash ₹100000.
2. Purchased goods for cash ₹1000
3. Paid salaries ₹5000.
4. Sold goods to Ravi on credit ₹6000.
5. Machinery Purchased for cash ₹ 80000.
6. Received Commission ₹ 2000
7. Rent paid ₹ 2000.
8. Received cash from Ravi ₹600

No	Name of Account	Type of Account	Increase/Decrease	Debit/Credit
	Cash	Asset	Increase	Debit
	Capital	Capital	Increase	Credit
	Purchase	Expense	Increase	Debit
	Cash	Asset	Decrease	Credit
	Salary	Expense	Increase	Debit
	Cash	Asset	Decrease	Credit
	Ravi	Asset	Increase	Debit
	Sales	Income	Increase	Credit
	Machinery	Asset	Increase	Debit
	Cash	Asset	Increase	Credit
	Cash	Asset	Increase	Debit
	Commission	Income	Increase	Credit
	Rent	Expense	Increase	Debit
	Cash	Asset	Decrease	Credit
	Cash	Asset	Increase	Debit
	Ravi	Asset	Decrease	Credit

## SOURCE DOCUMENTS

A written document which provides details of the transaction and act as an evidence of the Transaction is called a source document.

Eg: Cash memo, Invoice/Bill, Receipt, Pay-in-slip, Cheque, Debit Note, Credit Note etc  
They provide information about nature of the transaction, Date of transaction and amount of transaction. It helps us in verifying correctness of the recorded transaction.

## BASIS OF ACCOUNTING

### 1. Cash Basis of accounting

This is a system in which accounting entries are recorded only when cash is received or paid. Revenue is recognised only on receipt of cash. Similarly expenses are recorded as incurred when they are paid.

### 2. Accrual Basis of accounting

Revenue and expenses are taken into consideration for the purpose of income determination on the basis of accounting period to which they relate. It means income accrued in the current year becomes the income of the current year whether the cash for that item is received in the current year or it was received in the previous year or it will be received in the next year.

## JOURNAL

Journal is a book of accounts in which all day to day business transactions are recorded in a chronological order i.e. in the order of their occurrence. Transactions when recorded in a Journal are known as entries. It is the book in which transactions are recorded for the first time. Journal is also known as 'Book of Original Entry' or 'Book of Primary Entry'.

### FORMAT OF JOURNAL

Date	Particulars	LF	Dr. Amount	Cr. Amount

## JOURNALISING

The process of recording transaction in the journal is known as Journalising.

## JOURNAL ENTRY

Transactions recorded in the journal is called journal entries.

## NARRATION

A brief description of the transaction entered in the journal is called narration

## LEDGER FOLIO

This is meant for recording the page number of ledger in which the transaction is posted.

## EXERCISE:1

Complete the following sentences with the appropriate word/words:

- Journalising is the process of entering transactions in.....
- Another name for Journal is .....
- Transactions, when recorded in Journal, are known as .....
- The explanation of a Journal entry is known as .....

**Example:** Analyse in tabular form and enter the following transactions in the journal of Vikram and sons.

2020 January 1 Vikram started business with cash ₹ 2,00,000

January 2 Goods purchased for cash ₹ 40,000

January 4 Machinery Purchased from Fasil ₹ 60,000

January 6 Rent paid in cash ₹ 20,000

January 8 Goods purchased on credit from Arif ₹ 50,000



January 10 Goods sold for cash ₹ 80,000  
 January 15 Goods sold on credit to Gokul ₹ 60,000  
 January 18 Salaries paid. ₹ 24,000  
 January 20 Cash withdrawn for personal use ₹ 10,000

### JOURNAL

Date	Particulars	LF	Dr. Amount	Cr. Amount
2020				
January 1	Cash a/c Dr Capital a/c [ Started Business]		200000	200000
January 2	Purchases a/c Dr Cash a/c [Cash Purchases]		40000	40000
January 4	Machinery a/c Dr Fasil a/c [Machinery purchased on credit]		60000	60000
January 6	Rent a/c Dr Cash [Rent Paid]		20000	20000
January 8	Purchases a/c Dr Arif a/c [Credit Purchases]		50000	50000
January 10	Cash a/c Dr Sales a/c [Cash Sales]		80000	80000
January 15	Gokul a/c Dr Sales a/c [Credit Sales]		60000	60000
January 18	Purchases a/c Dr Arif a/c [Credit Purchases]		24000	24000
January 20	Drawings a/c Dr Cash a/c [Cash withdrawn for personal use]		10000	10000

### BANKING TRANSACTIONS

1. Cash deposited into bank/Opened a bank account  
 Bank a/c Dr  
 Cash a/c
2. Cash withdrawn from bank for office use  
 Cash a/c Dr  
 Bank a/c
3. Cash withdrawn from bank for personal use  
 Drawings a/c Dr  
 Bank a/c
4. Cheque received from a Debtor and deposited into bank  
 Bank a/c Dr  
 Debtor a/c

5. Cheque deposited dishonoured

Debtor a/c                      Dr

Bank a/c

6. Issued cheque to a creditor

Creditor a/c                      Dr

Bank a/c

### EXERCISE

1. Write down the narration for the following Journal entries in the space provided :

i. Cash a/c                      Dr

Sales a/c

(                                      )

ii. Purchases a/c                      Dr

Joseph a/c

(                                      )

2. Complete the following journal entries :

i ..... a/c                      Dr

Cash a/c

(Commission Paid)

ii. Cash a/c                      Dr

.....a/c

(Interest Received)

3. Journalise the following transactions.

- 2020      Jan.01 Business started with cash ₹ 3,00,000  
            Jan.07 Purchased goods for cash ₹ 30,000  
            Jan.09 Sold goods to Amal ₹ 13,500  
            Jan.10 Deposited cash into bank ₹10000  
            Jan.12 Purchased furniture ₹ 9,000  
            Jan.18 Cash received from Amal ₹ 15,000  
            Jan.25 Paid Rent by cheque ₹ 3,000  
            Jan.26 Received Interest ₹ 6000.  
            Jan.30 Paid Salary ₹ 4,500

### LEDGER

Ledger is a book of account in which all types of accounts relating to Assets, Liabilities, Capital, Expenses and Incomes are maintained. It is a complete set of accounts of a business enterprise.

**LEDGER IS BOUND BOOK WITH PAGES CONSECUTIVELY NUMBERED. IT MAY ALSO BE A BUNDLE OF SHEETS.**

It is a book of final entry because the transactions that are first entered in the journal are finally posted in the ledger. It is also called the Principal Book of Accounts.

### FORMAT OF A LEDGER

Dr

**TITLE OF LEDGER**

Cr.

Date	Particulars	JF	Amount	Date	Particulars	JF	Amount

### POSTING

The process of transferring entries from the journal to the ledger is called posting

#### Example:

Journalise the following transactions and prepare appropriate ledger accounts.

- 2020 January 1 Commenced business with cash ₹ 1,00,000  
January 3 Paid into bank ₹ 50,000  
January 5 Purchased Machinery for cash ₹10000  
January 8 Purchased goods and paid by cheque ₹ 30000

January 9 Paid for carriage ₹ 1000  
 January 14 Purchased Goods from Viswan ₹ 70,000  
 January 18 Cash Sales ₹ 64,000  
 January 20 Sold Goods to Ratheesh on credit ₹ 56,000  
 January 25 Paid cash to Viswan ₹ 70000  
 January 28 Cash received from Ratheesh ₹ 40,000  
 January 30 Paid Rent for the month ₹4,000  
 January 31 Withdrew from bank for private use ₹ 5000

**JOURNAL**

Date	Particulars	LF	Dr. Amount	Cr. Amount
2020	Cash a/c	Dr	100000	
January 1	Capital a/c [ Started Business]			100000
January 3	Bank a/c	Dr	50000	
	Cash a/c [Cash deposited into bank]			50000
January 5	Machinery a/c	Dr	10000	
	Cash a/c [Machinery purchased for cash]			10000
January 8	Purchases a/c	Dr	30000	
	Bank a/c [Purchased Goods by cheque]			30000
January 9	Carriage a/c	Dr	1000	
	Cash a/c [Paid Carriage]			1000
January 14	Purchases a/c	Dr	70000	
	Viswan a/c [Goods purchased on credit]			70000
January 18	Cash a/c	Dr	64000	
	Sales a/c [Cash Sales]			64000
January 20	Ratheesh a/c	Dr	56000	
	Sales a/c [Sold goods on credit]			56000
January 25	Viswan a/c	Dr	70000	
	Cash a/c [Paid cash to Viswan]			70000
January 28	Cash a/c	Dr	40000	
	Ratheesh a/c [Received cash from Ratheesh]			40000
January 30	Rent a/c	Dr	4000	
	Cash a/c [Rent Paid]			4000
January 31	Drawings a/c	Dr	5000	
	Bank a/c [Drew from bank for personal use]			5000

**LEDGER****Dr****CASH ACCOUNT****Cr.**

Date	Particulars	JF	Amount	Date	Particulars	JF	Amount
2020				2020			
January 1	Capital		100000	January 3	Bank		50000
January 18	Sales		64000	January 5	Machinery		10000
January 28	Ratheesh		40000	January 9	Carriage		1000
				January 25	Viswan		70000
				January 30	Rent		4000
					Balance c/d		69000
			<u>204000</u>				<u>204000</u>

**Dr.****CAPITAL ACCOUNT****Cr.**

Date	Particulars	JF	Amount	Date	Particulars	JF	Amount
2020				2020			
January 31	Balance c/d		100000	January 1	Cash		100000
			<u>100000</u>				<u>100000</u>

**Dr.****BANK ACCOUNT****Cr.**

Date	Particulars	JF	Amount	Date	Particulars	JF	Amount
2020				2020			
January 3	Cash		50000	January 8	Purchases		30000
				January 31	Drawings		5000
				January 31	Balance c/d		15000
			<u>50000</u>				<u>50000</u>

**Dr.****MACHINERY ACCOUNT****Cr.**

Date	Particulars	JF	Amount	Date	Particulars	JF	Amount
2020				2020			
January 31	Cash		10000	January 31	Balance c/d		10000
			<u>10000</u>				<u>10000</u>

**Dr.****PURCHASE ACCOUNT****Cr.**

Date	Particulars	JF	Amount	Date	Particulars	JF	Amount
2020				2020			
January 8	Bank		30000	January 31	Balance c/d		100000
January 13	Viswan		70000				<u>100000</u>
			<u>100000</u>				

**Dr.****CARRIAGE ACCOUNT****Cr.**

Date	Particulars	JF	Amount	Date	Particulars	JF	Amount
2020							
January 8	Cash		1000				
			<u>1000</u>				

Dr. <b>VISWAN ACCOUNT</b>				Cr.			
Date	Particulars	JF	Amount	Date	Particulars	JF	Amount
2020 January 8	Cash		70000	2020 January 31	Purchases		70000
			<u>70000</u>				<u>70000</u>

Dr. <b>SALES ACCOUNT</b>				Cr.			
Date	Particulars	JF	Amount	Date	Particulars	JF	Amount
2020 January 13	Balance c/d		120000	2020 January 18	Cash		64000
			<u>120000</u>	2020 January 20	Ratheesh		56000
							<u>120000</u>

Dr. <b>RATHEESH ACCOUNT</b>				Cr.			
Date	Particulars	JF	Amount	Date	Particulars	JF	Amount
2020 January 18	Sales		56000	2020 January 28	Cash		40000
			<u>56000</u>		Balance a/c		16000
							<u>56000</u>

Dr. <b>RENT ACCOUNT</b>				Cr.			
Date	Particulars	JF	Amount	Date	Particulars	JF	Amount
2020 January 30	Cash		4000				
			<u>4000</u>				

Dr. <b>DRAWINGS ACCOUNT</b>				Cr.			
Date	Particulars	JF	Amount	Date	Particulars	JF	Amount
2020 January 31	Bank		5000	2020 January 31	Balance a/c		5000
			<u>5000</u>				<u>5000</u>

### EXERCISE:1

Following are the transactions of Babu and Sons for the month of July 2020 Make journal entries, post them into ledger and balance the account.

- July
1. Commenced business with cash ₹ 200000
  2. Opened a Bank account with SBI ₹ 15000
  5. Purchased Furniture for cash ₹ 5000
  8. Purchased goods from True Line Traders ₹ 10000
  10. Sold goods to Lalu & Sons ₹ 8000
  14. Paid cash to True Line traders ₹ 10000
  17. Received cash from Lalu & sons ₹ 8000
  20. Purchased goods for cash ₹ 5000
  23. Sold goods for cash ₹ 7000
  25. Withdrew cash from bank for personal use ₹ 3000
  28. Paid Commission ₹ 1000

\*\*\*\*\*

## CHAPTER-4 RECORDING OF TRANSACTION – II

For simple and easy recording of business transactions journal is subdivided into many subsidiary books is called special journals or subsidiary books.

The journal in which transactions of a similar nature are recorded is known as special journal Following were the special purpose books:

- |                          |                          |
|--------------------------|--------------------------|
| 1. Cash book             | 5. Sales return book     |
| 2. Purchases book        | 6. Bills receivable book |
| 3. Purchases return book | 7. Bills payable book    |
| 4. Sales book            | 8. Journal proper        |

### (1) Cash Book

A subsidiary book used to record all cash receipts and payments. All cash receipts are recorded in the debit side of the cash book and all cash payments are recorded in the credit side of the cash book. Cash book is treated as both journal and ledger.

Types of Cash Book

- |                             |                            |
|-----------------------------|----------------------------|
| a) Single column cash book  | c) Triple column cash book |
| b) Double column cash book, | d) Petty cash book         |

#### a) Single Column Cash book

This is cash book containing only one column for cash and prepared as cash account in ledger. The debit side is meant for receipts and credit side for payments.

Dr.					<b>CASH BOOK (Single Column)</b>					Cr.
Date	Receipts	R.N	L.F	Amount	Date	Payments	V.N	L.F	Amount	

#### Illustration 1

Record the following transactions in a Single column cash book 2019

- |              |    |                              |          |
|--------------|----|------------------------------|----------|
| 2019 January | 1  | Started business with Cash   | ₹ 25,000 |
|              | 2  | Purchased furniture for cash | ₹ 3000   |
|              | 3  | Purchased goods for Cash     | ₹ 12,000 |
|              | 6  | Sold goods for cash          | ₹ 6,400  |
|              | 11 | Opened bank account          | ₹ 6,000  |
|              | 14 | Commission received          | ₹ 1,000  |
|              | 18 | Paid Stationery              | ₹ 500    |

#### CASH BOOK (Single Column)

Date	Receipts	R.N	L.F	Amount	Date	Payments	V.N	L.F	Amount
2019					2019				
Jan-1	Capital			25,000	Jan-2	Furniture			3,000
16	Sales			6,400	3	Purchase			12,000
14	Commission			1000	11	Bank			6,000
					18	Stationery			500
					31	Balance C/d			10,900
				32,400					32,400

#### b) Double column cash book

A cash book with two amount columns is called double column cash book, ie, one column is for cash and another column for bank. (Just like cash transactions all remittance into Bank are recorded in the bank column on debit side of cash book and all payments or withdrawal from the bank are recorded in the bank column on the credit side of the cash book.)

**Contra Entries:-The entries which appear on both sides of the cash book is called Contra entries.**

Example 1) Cash for cheque deposited into Bank.

2) Withdrawal from Bank for business use 2020

Record the following transactions in double column cash book

March 1 Cash in hand ₹ 3,500  
Cash at bank ₹ 2,000  
2 Sold goods for cash ₹ 8,000  
3 Purchased goods for cash ₹ 3,000  
4 Deposit into bank ₹ 4,000  
5 Withdrew cash from bank ₹ 1,500  
10 Purchased stationery ₹ 500  
14 Rent by paid cheque ₹ 1,000  
20 Paid into bank ₹ 3,000

### Double Column Cash Book

Date	Receipts	R.N	L.F	Amount	Bank	Date	Payments	V.N	L.F	Amount	Bank
2020						2019					
Mar 1	Balance b/d			3,500	2,000	Mar 3	Purchases			3,000	
2	Sales			8,000		4	Bank		C	4,000	
4	Cash		C		4,000	5	Cash		C		1,500
5	Bank		C	1,500		10	Stationery			500	
20	Cash		C		3,000	14	Rent				1,000
						20	Bank		C	3,000	
						31	Balance c/d			2,500	6,500
				13,000	9,000					13,000	9,000
Apr 1	Balance b/d			2,500	6,500						

### Petty Cash Book

A book used to record small cash payments like telephone bills, taxi fares, postage, cartage etc.

**Imprest system of petty cash book:** The term imprest means advance. Under this system of petty cash, a fixed amount is advanced to the petty cashier at the beginning of a period. The amount advanced to him by the main cashier is called "**imprest amount**" and hence this system is called as imprest system of petty cash. It may be maintained in two ways:-

- a. Simple petty cash book
  - b. Analytical / columnar petty cash book
- From the following particulars prepare petty cash book 2015

January 1 Imprest amount received ₹ 300  
January 2 Stationery ₹ 20.00  
January 4 Taxi fare ₹ 50.00  
January 5 Postage ₹ 15.00  
January 8 Cartage ₹ 5.00  
January 9 Telegram to Customers ₹ 10.00  
January 10 Printing Charges ₹ 20.00  
January 11 Pins and clips ₹ 25.00  
January 18 Refreshment to a Customer ₹ 35.00  
January 20 Travelling expenses ₹ 40.00

### Petty Cash Book

Amount Received	Date	Particulars	V N	Total Payments	Postage Telegram	Printing Stationary	Travelling Expenses	Cartage	Miscellaneous
300	2015 Jan 1	Cash							
	2	Stationery		20		20			

	4	Taxi fare	50			50		
	5	Postage	15	15				
	8	Cartage	5				5	
	9	Telegram to customers	10	10				
	10	Printing Charges	20		20			
	11	Pins and Clips	25		25			
	18	Refreshment	35					35
	20	Travelling Expenses	40			40		
			220	25	65	90	5	35
		Balance c/d	80					
300			300					
80	Feb 1	Balance b/d						
220		Cash						

### Purchase Book / Purchase Journal:-

A special journal in which only credit purchases are recorded

#### Format of purchases (Journal) book

##### Purchases (Journal) Book

Date	Particulars	Invoice No	L.F	Amount

### Sales Book / Sales Journal:-

It is a special journal in which only credit sales are recorded.

#### Format of Sales (Journal) book

##### Sales (Journal) Book

Date	Particulars	Invoice No	L.F	Amount

### Illustration

Enter the following transactions in the relevant Day Book of Vinay Electricals. 2016

January 2 Purchased from Mahesh electrical Agencies

100 Water heaters @ ₹ 110

40 Electric Stoves @ ₹ 180

January 3 Purchased from Babu Electricals

30 Ceiling Fans @ ₹ 900.

20 Table Fans @ ₹ 1200

January 4 Sold to Varun Electrical Agencies

50 Water Heaters @ ₹ 220

20 Electric Stoves @ ₹ 320

January 6 Sold to Arya Agencies

10 Ceiling Fans @ ₹ 1000.

5 Table Fans @ ₹ 1250.

#### Purchase Day Book

Date	Invoice No	Name of Supplier (Account to the Credited)	L/F	Amount
2016		Mahesh Electrical Agencies:		
Jan 2		100 water heaters @ Rs.110		11000
		40 electric stoves @ 180		<u>7200</u>
				18,200



Jan 3		Babu Electricals: 30 Ceiling fans @Rs.900 20 table fans @ Rs.1200	27000 <u>24000</u>	51,000
		<b>Total Credit Purchases</b>		<b>69,200</b>

**Sales Day Book**

Date	Invoice No	Name of Customer (Account to be debited)	L/F	Amount
2016		Varun Electrical Agencies:		
Jan 4		50 Water heaters @ Rs. 220	11,000	
		20 Electric stoves @ Rs.320	<u>6,400</u>	17,400
Jan 6		Arya Agencies:		
		10 Ceiling fan @ Rs.100	10,000	
		5 Table fan @ Rs.1250	<u>6,250</u>	16,250
		<b>Total Credit Sales</b>		<b>33,650</b>

**Try Yourself**

- 1 ..... is used as a source document for recording purchase return.
- 2 Credit balance in the bank column of the cash book means.....
- 3 Purchase day book contains .....  
a) Cash purchase b) credit purchase c) both cash and credit purchases d) none of the above
- 4 A transaction recorded on both sides of the cash book is called ....
- 5 Machinery purchased on credit is recorded in the .....  
a) Purchase day book b) sales day book c) purchase return book d) journal proper
- 6 Which one of the following is not a book of original entry.  
a) Cash book b) purchase book c) sales book d) Ledger
- 7 Which one of the following is not a contra transaction in two column cash book.  
a) Cash deposited into Bank b) opened a new account with the bank c) cash withdrawn from bank for domestic use d) cash withdrawn from bank for office use.

**8 Prepare a Double Column cash book from the details given below**

2016		Opening balance -	
NOV 1		Cash(Dr)	30000
		Bank (Cr)	12000
2		Purchased goods for cash	8000
10		Cash deposited into Bank	17000
15		Salary paid by cheque	5000
18		Sold goods for cash	15000
30		Cash withdrawn from Bank	3000

**9 Record the following transactions in a Double column cash book.**

2016			
OCT	1	Cash in hand	40000
	1	Cash at Bank	25000
	2	Purchased goods	20000
	4	Rent paid by cheque	4000
	5	Cash deposited into Bank	10000
	10	Purchased machinery by cheque	15000
	12	Sold goods and the customer deposited the amount into Bank	12000

22	Cash withdrawn for office use	7000
31	Paid salary	6000

10. From the following particulars prepare analytical petty cash book for the month of November 2018 under the imprest system.

Date	Transaction	Amount
2018 NOV 1	Balance in hand	87
1	Cheque received from main	413
3	cashier	60
6	Stamp purchased	44
8	Stationery	62
10	Painting charges	50
14	Cartage	64
15	Travelling expenses	74
26	Repairs	38
30	Paper and pencil	28
	Telephone charges	

11. Sethu dealer in books had the following transactions for the month of June 2016.

**Purchased books on credit from Himalaya publishers:-**

100 copies of accountancy textbook for class 11 @ ₹ 150/text.

80 copies of business studies for class 11 @ ₹ 120/ text.

**Purchased books on credit from sarathi books:-**

90 copies of accountancy text for class 12 @ ₹ 180/text.

75 copies of business studies text for class 12 @ ₹ 140/text.

Trade discount 5%

Record the above transactions in the appropriate day book.

12. From the following transactions of Ajmal furniture prepare sales day book.

2020	Jan	1 Sold to Alex 10 chairs @ ₹ 250 each
		8 Sold to Rajan 2 tables @ ₹ 1000 each
		15 Sold to Anil 4 dining table for cash @ ₹ 2000 each
		21 Sold wooden table at ₹ 8000 at a discount of 10%

13. Prepare a cash book with cash and Bank column for the following transactions.

1-1-2015	Cash in hand	5300
	Bank overdraft	3600
4-1-15	Purchased goods for cash	2750
6-1-15	Cash sales	13500
7-1-15	Cash deposited into Bank	15000
8-1-15	Received a cheque from Mr Murali	7000
12-1-15	Cheque received from Murali paid into Bank	7000
15-1-15	Withdrew cash from Bank	5000
18-1-15	Paid to chitra by cheque	3000
20-1-15	Paid salary	2500
24-1-15	Rahul a customer directly paid into Bank	1800

**14 Consider the following transactions and record the into appropriated special journals for the month of January 2018.**

- 2018 Jan 1 Sold goods for cash ₹ 48000  
7 Purchase goods from M/S shivram electricals. 20 fans at the rate of ₹ 1200 per piece  
10 Purchased goods for ₹ 13800  
11 Sold goods to parvathi traders.  
4 colour TV at the rate of 14000 per piece:-  
5 computers @ ₹ 28000 per piece  
8 table fans @ rupees 1550 rupees per piece.  
15 Purchased goods from ragam agencies.  
15 colours TV @ ₹ 12800 per piece,  
8 computers at the rate of ₹ 26000 per piece.  
20 Cash sales rupees 3400  
28 Sold goods to alpha electronics, two computers @ 30000/piece less trade discount 5%.  
31 Purchase goods from owner limited. 12 washing machines @ rupees 20000 per piece less trade discount 10%.

Answers:-

- 1) Debit note
- 2) Bank overdraft
- 3) Credit purchases
- 4) Contra entry
- 5) Journal proper
- 6) Ledger
- 7) c) cash withdrawn from bank for domestic use
- 8) cash-23000, bank overdraft- 3000
- 9) cash – 11000, bank – 21000
- 10) petty cash balance -80
- 11) Purchase book – 49965
- 12) Sales day book – 19700
- 13) Cash – 3550, bank – 12200
- 14) Purchase book – 640000, sales book – 265400

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## CHAPTER 5

### BANK RECONCILIATION STATEMENT

A Bank Reconciliation Statement is a statement prepared by the depositor (Customer) to reconcile (making agree) the Bank balance as per Cash book with the balance as per pass book on a certain date.

#### Causes of differences between cash book balance and Passbook balance

There are certain valid reasons for disagreement between the balances of cash book and Pass Book, they are as follows: -

##### 1. Cheque issued but not presented for payment

When a trader issues cheque to a third person, he immediately enters in the cash book whereas, it will be entered by the bank only when the cheques are presented to the bank for payment

##### 2. Cheque paid in but not credited by the bank

The cheque received from a customer might have been paid into the bank and entered on the debit side of the cash book by the trader. But the bank will credit the same only after the realization of the cheque.

##### 3. Interest etc. credited by the bank

Interest allowed on bank balance, dividends etc. collected by the bank will be credited in the passbook. But the trader may not enter the same in his cash book on the same day.

##### 4. Bank charges etc. debited in passbook

Bank charges, interest on the overdraft, commission for collection of cheques, bills, etc. will be debited by the bank in the passbook as and when they occur. But it will be entered by the trader only on a later date in his cash book as he may not be aware of them on the same day.

##### 5. Cheques credited but dishonoured

When a cheque is discounted, the bank will credit it in the passbook, and the customer debits it in the cash book, hence both the balances will be increased. Later on, if this cheque is dishonoured, the bank will debit the customer's account (passbook) but it may not be entered by the trader in his cash book at that time.

##### 6. Direct payment into the bank by trader's customers

The customers of a trader might have deposited money into the trader's bank account directly. But it may not be intimated to the trader soon, hence it will not be recorded in the cash book.

##### 7. Payment made by the bank on behalf of the customer

The bank might have made some payments on behalf of the customer under 'standing instructions' and debited the customer's account. But the customer may not have entered the same in his cash book.

##### 8. Dishonour of a bill discounted with the bank

Sometimes the customer discounts the Bill of Exchange before maturity for urgent cash. If on the date of maturity, such a bill is dishonoured, the bank will debit the customer's account. The customer will make this entry in his book only after getting information from the bank.

##### 9. Errors and Omissions

Errors and omissions either in the Cash Book or in the Passbook is another reason for the difference between the balance as per Pass Book and Cash book.

#### Preparation of Bank Reconciliation Statement

A bank reconciliation statement can be prepared in two ways:

1. Take the balance as per cash book as the starting point, adjust the effect of each item causing the differences and arrive at the balance as per passbook.



2. Take the balance as per pass book as the starting point, adjust the effect of each item causing the differences and arrive at the balance as per cash book.



**1. Preparation of Bank Reconciliation Statement with Cash Book balance as starting point and arriving at the Balance as per Pass Book**

**Bank Reconciliation Statement as on -----(Date)**

<b>Balance as per Cash Book</b>		<b>XXXX</b>
<b>Add</b>		
1 Cheque issued but not presented to the bank for payment	<b>xxx</b>	
2 Interest credited by the bank but not recorded in the cash book	<b>xxx</b>	
3 Interest, dividend, commission, etc. collected by the bank but not recorded in the cash book	<b>xxx</b>	
4 Direct deposits made by the customer into the firm's bank account	<b>xxx</b>	<b>xxxx</b>
<b>Less</b>		<b>XXXX</b>
1. Cheques deposited into the bank but not yet collected	<b>xxx</b>	
2. Bank charges debited by the bank in the passbook	<b>xxx</b>	
3 Interest on overdraft charged by the bank	<b>xxx</b>	
4. Payment made by the bank on behalf of the customer Cheques dishonoured, but not recorded in the cash book	<b>xxx</b>	<b>xxxx</b>
<b>Balance as per Bank Pass Book</b>		<b>XXXX</b>

**2 Preparation of Bank Reconciliation Statement with Pass Book balance as starting point and arriving at the Balance as per Cash Book**

*Note: If we are starting with the Pass Book Balance, all the items added with cash book balance must be deducted and all the items deducted from the cash book balance must be added with the passbook balance.*

**Bank Reconciliation Statement as on ----- (Date)**

<b>Balance as per Passbook</b>		<b>XXXX</b>
<b>Add</b>		
1. Cheques deposited into the bank but not yet collected	<b>xxx</b>	
2. Bank charges debited by the bank in the passbook	<b>xxx</b>	
3 Interest on overdraft charged by the bank	<b>xxx</b>	
4. Payment made by the bank on behalf of the customer	<b>xxx</b>	
5 Cheques dishonoured, but not recorded in the cash book	<b>xxx</b>	<b>xxxx</b>

<b>Less</b>		<b>XXXX</b>
1 Cheque issued but not presented to the bank for payment	xxx	
2 Interest credited by the bank but not recorded in the cash book	xxx	
3 Interest, dividend, commission, etc. collected by the bank but not recorded in the cash book	xxx	
4 Direct deposits made by the customer into the firm's bank account	xxx	xxxx
<b>Balance as per Cash Book</b>		<b>XXXX</b>

*Note: In case the cash book and pass book shows an overdraft balance, the adjustment should be made in the opposite direction of starting with the deposit balance*

### Illustration 1

Mr. Prakash the Chief Accountant of a business identified some differences in their cash book and bank passbook balances as on June 30, 2017. You are required to prepare a bank reconciliation statement to reconcile the balances.

- Balance as per Cash Book. Rs. 64000
- Cheque issued but not presented for payment Rs.5000
- Bank Charges debited by bank Rs.500
- A cheque of Rs.10,000 was deposited but not collected by the bank.
- A customer directly deposited Rs.3,000 in the bank
- Bank directly collected the dividend and credited it to the bank account. Rs.4000

### Solution

#### Bank Reconciliation Statement as on June 30, 2017

	Rs	Rs
<b>Balance as per Cashbook</b>		64000
Add		
(1) Cheque issued but not presented for payment	5000	
(2) Customer directly deposited into bank	3000	
(3) Dividend collected by bank	4000	12000
		76000
Less		
(1) Bank Charges debited by the bank	500	
(2) Cheque deposited but not collected by bank	10,000	10500
<b>Balance as per Passbook</b>		<b>65,500</b>

### Illustration 2

The bank Pass Book of Mr. Rahul showed a balance of Rs.11,850 on 31<sup>st</sup> December 2014, But when this balance is compared with his cash book, the following differences were noted.

- Cheques issued but not presented for payment Rs.5,000
  - Bank charges debited in the passbook Rs.250
  - Cheques paid into bank but not collected Rs.4500
  - Mr. Pradeep, a customer paid Rs.4,000 directly into the bank
- (a) Prepare a bank reconciliation statement

**Bank Reconciliation statement as on 31<sup>st</sup> December 2014**

<b>Balance as per Passbook</b>		<b>11,850</b>
Add		
(1) Bank charges debited in the pass book	250	
(2) Cheques paid into bank but not collected	4500	4750
		16,600
Less		
(1) Cheques issued but not presented to the bank for payment	5000	
(2) Direct deposit by a customer into the bank	4000	9000
<b>Balance as per cash book</b>		<b>7600</b>

**Fill in the blanks with the appropriate answer**

- (a) A passbook is prepared by ----- ( Bank, Customer, Chartered Accountant)
- (b) A bank reconciliation statement is prepared by -----( Bank, Customer, )
- (c) Credit balance in the passbook means a/an -----to the depositor  
(Asset, Liability, Fictitious Asset)

**Answers**

- (a) Bank
- (b) Customer
- (c) Asset

<b>Points to be noted while considering Cash Book and Passbook Balances</b>	
Cash book shows debit balance Pass book shows credit balance	Favourable balance or deposit balance
Cash book shows credit balance Pass book shows a debit balance	Unfavourable balance or overdraft

\*\*\*\*\*

## CHAPTER 6

### TRIAL BALANCE AND RECTIFICATION OF ERRORS

#### TRIAL BALANCE

A Trial Balance is a statement of balances or total of debits and credits of all the accounts in the ledger on a particular date. (It is prepared to test the arithmetical accuracy of the books of accounts.)

#### Objectives of preparing Trial Balance

- To ascertain the arithmetical accuracy of the ledger accounts.
- To help in locating errors.
- To help in the preparation of the financial statements (Profit and loss A/c and Balance sheet)

#### Format of A Trial Balance is given below

#### TRIAL BALANCE AS ON -----(Date)

Name of Account	Debit ₹	Credit ₹
All assets accounts' balances (individually)	*****	
All expenses accounts' balances (individually )	*****	
All liabilities accounts' balances (individually)		****
All revenue accounts' balances (individually)		****
Capital Account's balance		****
Drawings account's balance	*****	
	<b>TOTAL</b>	<b>TOTAL</b>

#### Tips:

- All assets and expenses accounts have debit balance accounts.
- All liabilities and revenue have credit balance
- Capital account has credit balance and Drawings account has debit balance
- Sales return has debit balance and Purchase return has credit balance

There are three methods for preparing trail balance

1. **Total Method:** - Under this method, the totals of the debit sides of all the accounts are placed in the debit column of the statement and the totals of the credit side of all accounts are placed credit column. Finally, these columns are totalled.
2. **Balance Method:** - Under this method, the balance of ledger accounts is shown in the trial balance. The accounts having debit balances are entered in the debit column of the trial balance. Similarly, accounts having credit balances are entered in the credit column.
3. **Totals - cum - Balances Method:** - This is a combination of the above two methods.

#### Illustration 1

The following information relating to ledger accounts were extracted from the books of Rajesh, a sole leader as on 31.3.2021.

Purchase	- 1,00,000	Cash	- 1,64,000
Furniture	- 20,000	Salary	- 24,000
Creditors	- 60,000	Rent	- 4,000
Debtors	- 88,000	Interest Received	- 10,000
Capital	- 1,70,000	Sales	- 1,60,000



**TRIAL BALANCE as on 31/03/2021**

Name of Account	Debit ₹	Credit ₹
Purchase	100,000	
Furniture	20,000	
Creditors		60,000
Debtors	88,000	
Capital		1,70,000
Cash	1,64,000	
Salary	24,000	
Rent	4,000	
Interest received		10,000
Sales		1,60,000
	400,000	4,00,000

**Errors and classification of errors**

We can classify accounting errors into four categories

- |                         |                        |
|-------------------------|------------------------|
| 1. Errors of commission | 2. Errors of omission  |
| 3. Errors of principle  | 4. Compensating errors |

**1 Errors of commission**

These are errors committed in posting the transactions, totalling, balancing of accounts, casting of subsidiary books, wrong recording of amounts in the books of journal etc

**2 Errors of Omission**

When a transaction is omitted to record in the books of journal or omitted to post from journal to ledger, it is an error of omission. These errors are two types

- Errors of complete omission – a transaction is completely omitted to record in the Journal
- Errors of partial omission -- a transaction is recorded partially

**3 Errors of principles**

When a transaction is recorded in contravention of accounting principles, these errors are known as errors of principles

**4 Compensating errors**

If the effect of an error in one account is cancelled by the effect of one or more errors in some other accounts, it is called compensating errors

**Try yourself**

From the following information identify the types of error and complete the table

Errors	Types of errors
) Commission received Rs 5000 recorded in Rent Account	?
) Purchase of machinery for Rs.20,000 wrongly recorded in Purchase Account	?
) Wages paid for the installation of plant were recorded in the Wages Account	?
) Sales book was undercast by Rs. Rs.2000	?
) Credit sale to Salim was recorded into Salima's account	?
) Salary paid Rs.2000 wrongly posted to rent account	?

**Answers** (a) Error of commission, (b) Error of principle ,(c) Error of principles, (d) Error of commission ,(e) Error of commission, (f) compensating error

**Rectification of errors**

If an error is identified immediately after making that entry, it should be corrected by making a fresh entry after neatly crossing out the wrong entry. If an error is detected after some time or at the time of preparation of final accounts, it should be corrected by making a rectification entry

## Rectifying entries

Journal entries passed through for rectifying errors in the books of accounts are known as rectifying entries

## Suspense Account

Suspense account is a temporary account opened to make the trial balance agree. Suspense account will be closed automatically when the errors are rectified immediately after the preparation of financial statements.

### Illustration 3

Give journal entries to rectify the following errors

- (1) Credit sales to Rahim Rs.8000 were posted to Radha's account
- (2) Cash received from Gopan Rs.5000 Credited to Gopakumar's account
- (3) Sales book was undercast by Rs.3000
- (4) Wages paid for the installation of plant were debited to Wages account Rs.2500
- (5) Purchase of machinery for Rs.8000 was wrongly recorded in the Purchase book
- (6) Credit sale of Rs.5000 to Hashim was recorded as Rs.500
- (7) Credit sales to Mohan Rs.5000 were recorded through purchase book
- (8) Depreciation charged on machinery Rs.6000 was not posted to Machinery account
- (9) Purchase return of Rs. 4000 was recorded through sales return book
- (10) Office furniture purchased for Rs.5000 was posted to the purchase account

### Solution

Date	Particulars	Debit ₹	Credit ₹
1	Rahim's a/c Dr Radha a/c (Correction of wrong entry in Radha's account for credit sale to Rahim)	8000	8000
2	Gopakumar a/c Dr Gopan a/c (Correction of wrong credit to Gopakumar's account for cash received from Gopan)	5000	5000
3	Suspense a/c Dr Sales a/c (correction of under casting of sales book )	3000	3000
4	Plant a/c Dr Wages a/c (Correction of the wrong debit to wages account for installation wages of plant)	2500	2500
5	Machinery a/c Dr Purchase a/c (correction of the wrong debit to purchase account for the purchase of machinery)	8000	80000
6	Hashim a/c Dr Sales a/c (Correction of the wrong amount )	4500	4500
7	Mohan a/c Dr Purchase a/c Sales account a/c (correction of wrong entry in purchase book for credit sales)	10,000	5000 5000
8	Suspense a/c Dr Machinery a/c (to rectify the omission of posting of depreciation to the machinery account)	6000	6000

9	Suspense	a/c	Dr	8000	
	Sale return	a/c			4000
	Purchase return	a/c			4000
	(correction wrong recording of purchase return through sales return book )				
10	Furniture	a/c	Dr	5000	
	Purchase	a/c			50000
	(correction of wrong posting to the purchase account for the purchase of furniture )				

### Try yourself

Identify the type of errors committed in the following transactions and pass rectifying entries to correct them

- Purchase book was undercast by Rs.3000
- Wages paid in connection with the installation of machinery was debited to the wages account
- Purchase of furniture for Rs. 25000 entered through purchase book
- Purchase of goods for Rs. 5,000 not entered in the cashbook
- Repairs of machinery Rs.2000 entered in machinery account

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## CHAPTER 7

### DEPRECIATION, PROVISION AND RESERVES

#### DEPRECIATION

##### Meaning of Depreciation

Depreciation means decline in the value of a fixed assets due to use, passage of time or obsolescence. It may be described as a permanent, continuing and gradual shrinkage in the book value of fixed assets. As an accounting term, depreciation is that part of the cost of a fixed asset which has expired on account of its usage and/or lapse of time.

##### Features of Depreciation

1. It is decline in the book value of fixed assets.
2. It includes loss of value due to effluxion of time, usage or obsolescence.
3. It is a continuing process.
4. It is an expired cost and hence must be deducted before calculating taxable profits.
5. It is a non-cash expense.
6. It is the allocation of cost of assets over the period of their life.

#### Depreciation and other Similar Terms

##### Depletion

The term depletion is used in the context of extraction of natural resources like mines, quarries, etc. The constant extraction of natural resources leads to decrease the mineral wealth.

##### Amortisation

Amortisation refers to writing-off the cost of intangible assets like patents, copyright, trade marks, franchises, goodwill which have utility for a specified period of time.

##### Fluctuation

Any change in the value of current assets is termed as fluctuation. It may be increase or decrease the value current asset due to many reason.

#### Causes of Depreciation

##### Wear and Tear due to Use or Passage of Time

Wear and tear means deterioration, and the consequent diminution in an assets value, arising from its use in business operations for earning revenue.

##### Expiration of Legal Rights

Certain categories of assets lose their value after the agreement governing their use in business comes to an end after the expiry of pre-determined period.

##### Obsolescence

obsolescence means the fact of being out-of-date. It arises from such factors as technological changes, improvements in production methods, change in market demand for the product or service output of the asset, legal or other description, etc.

##### Abnormal Factors

Decline in the usefulness of the asset may be caused by abnormal factors such as accidents due to fire, earthquake, floods, etc.

#### Need for Charging Depreciation

1. Find out the real result of the business
2. Know the exact financial position of the business
3. Raise funds for replacement of fixed assets
4. Find out accurate cost of production
5. Distribute dividend out of profit only
6. Payment of exact tax on income
7. Fulfill some legal requirement

## Factors Affecting Depreciation

The determination of depreciation depends on three parameters, viz. Cost, estimated useful life and probable salvage value.

### Original Cost of Asset:

Original cost or historical cost of an asset includes invoice price and other costs, which are necessary to put the asset in use or working condition. It includes cost of freight and transportation, transit insurance, installation, registration, commission, etc.

### Estimated Net Residual Value

Net Residual value is also known as scrap value or salvage value or residual value or break-up value. It is the estimated sale value of the asset at the end of its useful life.

### Depreciable Cost

Depreciable cost of an asset is equal to its cost less net residual value.

### Estimated Useful Life

Useful life of an asset is the estimated economic or commercial life of the asset.

## Methods of Calculating Depreciation

Mainly there are methods. They are:

- 1) Straight line method
- 2) Written down value method.

### Straight Line Method

According to this method, a fixed and an equal amount is charged as depreciation in every accounting period during the lifetime of an asset. It is also called fixed instalment method or original cost method. The depreciation is computed by using the following formula:

$$\text{Depreciation} = \frac{\text{Cost of asset} - \text{Estimated net residential value}}{\text{Estimated useful life of the asset}}$$

Rate of depreciation is calculated as follows:

$$\text{Rate of Depreciation} = \frac{\text{Annual depreciation amount}}{\text{Acquisition cost}} \times 100$$

### Illustration 1.

Sargam books purchased a Machine at a cost of Rs 480000 on 01/04/2015 and spend Rs 20000 as installation charges. The estimated life of the machine is 8 years. Salvage value of the machine Rs 100000. Calculate the amount depreciation under Strait line method and Pass journal entries for first three years and prepare machine a/c and deprecation a/c if books of accounts close on 31 March every year.

### Answer:

Calculation of depreciation

$$\text{Depreciation} = \frac{\text{Cost of asset} - \text{Estimated net residential value}}{\text{Estimated useful life of the asset}}$$

here,

$$\begin{aligned} \text{Cost of asset} &= \text{Cost} + \text{Installation charge} \\ &= 480000 + 20000 = 500000 \end{aligned}$$

$$\text{Estimated net residential value} = 100000$$

Estimated useful life of the asset is 8

$$\text{Depreciation} = \frac{500000 - 100000}{8} = 50000$$

**Journal Entries**

Date	Particulars	LF	Debit	Credit
1/4/2015	Machinery A/c Dr. To Bank A/c (Being Machinery Purchased )		480000	480000
1/4/2015	Machinery A/c Dr. To Bank A/c (Being expenses incurred on installation )		20000	20000
31/4/2016	Depreciation A/c Dr. To Machinery A/c (Being Depreciation is due)		50000	50000
31/4/2016	Profit & Loss A/c Dr. To Depreciation A/c (Being Depreciation Charged)		50000	50000
31/4/2017	Depreciation A/c Dr. To Machinery A/c (Being Depreciation is due)		50000	50000
31/4/2017	Profit & Loss A/c Dr. To Depreciation A/c (Being Depreciation Charged)		50000	50000
31/4/2018	Depreciation A/c Dr. To Machinery A/c (Being Depreciation is due)		50000	50000
31/4/2018	Profit & Loss A/c Dr. To Depreciation A/c (Being Depreciation Charged)		50000	50000

**Sargam Books  
Machinery A/c**

Date	Particulars	LF	Amount	Date	Particulars	LF	Amount
1/4/15	Bank a/c		480000	31/3/16	Depreciation		50000
1/4/15	Bank a/c		20000	31/3/16	Balance c/d		450000
			<u>500000</u>				<u>500000</u>
1/4/16	Balance b/d		450000	31/3/17	Depreciation		50000
			<u>450000</u>		Balance c/d		400000
1/4/17	Balance b/d		400000	31/3/18	Depreciation		50000
			<u>400000</u>		Balance c/d		350000
1/4/18	Balance b/d		350000				<u>400000</u>

### Depreciation A/c

Date	Particulars	LF	Amount	Date	Particulars	LF	Amount
31/3/16	Machinery a/c		50000	31/3/16	P/L a/c		50000
			50000				50000
31/3/17	Machinery a/c		50000	31/3/17	P/L a/c		50000
			50000				50000
31/3/18	Machinery a/c		50000	31/3/18	P/L a/c		50000
			50000				50000

### Illustration 2

Delta enterprises purchased a plant of Rs. 280000 on 1 January 2012 and spent Rs 15000 for transportation charges and Rs 5000 for installation charges. Estimated scrap value is Rs 30000 and useful life is 5 years. Pass journal entries and Prepare Plant a/c and depreciation a/c for the first three years.

#### Answer:

Calculation of depreciation

$$\text{Depreciation} = \frac{\text{Cost of asset} - \text{Estimated net residential value}}{\text{Estimated useful life of the asset}}$$

here,

$$\begin{aligned} \text{Cost of asset} &= \text{Cost} + \text{Transportation charge} + \text{Installation charge} \\ &= 280000 + 15000 + 5000 = 300000 \end{aligned}$$

$$\text{Estimated net residential value} = 30000$$

Estimated useful life of the asset is 5

$$\text{Depreciation} = \frac{300000 - 30000}{5}$$

$$= \frac{270000}{5} = 54000$$

### Journal Entries

Date	Particulars	LF	Debit	Credit
1/1/2012	Plant A/c                      Dr. To Bank A/c (Being Plant Purchased )		280000	280000
1/1/2012	Plant A/c                      Dr. To Bank A/c (Being expense incurred on transportation )		15000	15000
31/12/2013	Plant A/c                      Dr. To Bank A/c (Being expense incurred on installation )		5000	5000

31/12/2013	Depreciation A/c To Plant A/c (Being Depreciation is due)	Dr.	54000	54000
31/12/2013	Profit & Loss A/c To Depreciation A/c (Being Depreciation Charged)	Dr.	54000	54000
31/12/2014	Depreciation A/c To Plant A/c (Being Depreciation is due)	Dr.	54000	54000
31/12/2014	Profit & Loss A/c To Depreciation A/c (Being Depreciation Charged)	Dr.	54000	54000
31/12/2015	Depreciation A/c To Plant A/c (Being Depreciation is due)	Dr.	54000	54000
31/12/2015	Profit & Loss A/c To Depreciation A/c (Being Depreciation Charged)	Dr.	54000	54000

**Delta Enterprises  
Plant A/c**

Date	Particulars	LF	Amount	Date	Particulars	LF	Amount
1/1/12	Bank a/c		280000	31/12/12	Depreciation		54000
	Bank a/c		15000		Balance c/d		246000
	Bank a/c		5000				
			<u>300000</u>				<u>300000</u>
1/1/13	Balance b/d		<u>246000</u>	31/12/13	Depreciation		54000
					Balance c/d		192000
			<u>246000</u>				<u>246000</u>
1/1/14	Balance b/d		<u>192000</u>	31/12/14	Depreciation		54000
					Balance c/d		138000
			<u>192000</u>				<u>192000</u>
1/1/15	Balance b/d		<u>138000</u>				

**Depreciation A/c**

Date	Particulars	LF	Amount	Date	Particulars	LF	Amount
31/12/12	Plant a/c		54000	31/12/12	P/L a/c		54000
			<u>54000</u>				<u>54000</u>
31/3/17	Plant a/c		54000	31/3/17	P/L a/c		54000
			<u>54000</u>				<u>54000</u>



31/3/18	Plant a/c		54000	31/3/18	P/L a/c		54000
			54000				54000

### Advantages of Straight Line Method

- 1) It is very simple, easy to understand and apply.
- 2) Asset can be depreciated up to the net scrap value or zero value.
- 3) Every year, same amount is charged in the profit and loss account.
- 4) Suitable for the assets whose useful life can be accurately estimated.

### Limitations of Straight Line Method

- 1) Complexity in computation.
- 2) Omission of interest factor.
- 3) Unrealistic assumptions.
- 4) Uneven charge to profit and loss account.

### Written Down Value Method

Under this method, depreciation is charged on the book value of the asset. It is also known as reducing balance method or diminishing balance method. Under this method, a fixed percentage is written off every year on the book value of the asset at the beginning year. The amount depreciation reduces year after year.

#### Illustration 1.

Megha Ltd. Purchased a furniture on October 1, 2014 for Rs 170000. They charge depreciation at the rate of 10% per annum on diminishing balance method. Show furniture a/c for the years 2014, 2015, and 2016. Assume that the book of accounts are closed 31 December every year.

#### Answer:

Calculation of depreciation

$$\text{Depreciation} = \text{Written down value} \times \text{Rate of depreciation}$$

For 2014 (October to December):

$$170000 \times \frac{15}{100} \times \frac{3}{12} = 6375$$

For 2015

$$(170000 - 6375) \times \frac{15}{100} = 163625 \times \frac{15}{100} \\ = 24544$$

For 2016

$$(163625 - 24544) \times \frac{15}{100} = 139081 \times \frac{15}{100} \\ = 20862$$

**Megha Ltd**  
**Furniture A/c**

Date	Particulars	LF	Amount	Date	Particulars	LF	Amount
1/10/14	Bank a/c		170000	31/12/14	Depreciation		6375
					Balance c/d		163625
			<u>170000</u>				<u>170000</u>
1/1/15	Balance b/d		163625	31/12/15	Depreciation		24544
					Balance c/d		139081
			<u>163625</u>				<u>163625</u>
1/1/16	Balance b/d		139081	31/12/16	Depreciation		20862
					Balance c/d		118219
			<u>139081</u>				<u>139081</u>
1/1/17	Balance b/d		118219				

**Depreciation A/c**

Date	Particulars	LF	Amount	Date	Particulars	LF	Amount
31/12/14	Furniture a/c		6375	31/12/14	P/L a/c		6375
							<u>6375</u>
			<u>6375</u>				<u>6375</u>
31/12/15	Furniture a/c		24544	31/12/15	P/L a/c		24544
							<u>24544</u>
			<u>24544</u>				<u>24544</u>
31/12/16	Furniture a/c		20862	31/12/16	P/L a/c		20862
							<u>20862</u>
			<u>20862</u>				<u>20862</u>

**Illustration 2:**

Gayathri Ltd purchased a machinery on January 01, 2008 for rs. 740000 and spent rs. 60000 for its erection. On July 1, 2008 it purchased another machine for rs 350000. Depreciation was provided @ 10% p.a. on written down value method. Prepare Machinery account and depreciation account for first four years. Books are closed on december 31, every year.

Answer:

Calculation of depreciation

$$\text{Depreciation} = \text{Written down value} \times \text{Rate of depreciation}$$

For 2008

$$\text{Machine 1, } 800000 \times 10/100 = 80000$$

$$\text{Machine 2, } 350000 \times 10/100 \times 6/12 = 17500$$

$$\text{Total depreciation} = 80000 + 17500 = 97500$$

For 2009

$$\begin{aligned} \text{Machine 1 \& 2, } & (800000 + 350000 - 97500) \times 10/100 \\ & = 1052500 \times 10/100 = 105250 \end{aligned}$$

For 2010

$$\begin{aligned} \text{Machine 1 \& 2, } & (1052500 - 105250) \times 10/100 \\ & = 947250 \times 10/100 = 94725 \end{aligned}$$

For 2011

$$\begin{aligned} \text{Machine 1 \& 2, } & (947250 - 94725) \times 10/100 \\ & = 852525 \times 10/100 = 85253 \end{aligned}$$

**Gryathri Ltd**  
**Machinery A/c**

Date	Particulars	LF	Amount	Date	Particulars	LF	Amount
1/1/08	Bank a/c		740000	31/12/08	Depreciation		97500
1/1/08	Bank a/c		60000		(80000+17500)		
1/7/08	Bank a/c		350000		Balance c/d		1052500
			<u>1150000</u>				<u>1150000</u>
1/1/09	Balance b/d		1052500	31/12/09	Depreciation		105250
				31/12/10	Balance c/d		947250
			<u>1052500</u>				<u>1052500</u>
1/1/10	Balance b/d		947250	31/12/11	Depreciation		94725
					Balance c/d		852525
			<u>947250</u>				<u>947250</u>
1/1/11	Balance b/d		852525		Depreciation		85253
					Balance c/d		767272
			<u>852525</u>				<u>852525</u>
1/1/12	Balance b/d		767272				

**Depreciation A/c**

Date	Particulars	LF	Amount	Date	Particulars	LF	Amount
31/12/08	Machinery A/c		97500	31/12/08	P/L a/c		97500
			<u>97500</u>				<u>97500</u>
31/12/09	Machinery A/c		105250	31/12/09	P/L a/c		105250
			<u>105250</u>				<u>105250</u>
31/12/10	Machinery A/c		94725	31/12/10	P/L a/c		94725
			<u>94725</u>				<u>94725</u>
31/12/11	Machinery A/c		85253	31/12/11	P/L a/c		85253
			<u>85253</u>				<u>85253</u>

**Advantages of Written Down Value Method**

- 1) Based on a more realistic assumption.
- 2) Equal burden of depreciation taken for every year on profit and loss account.

- 3) Income Tax Act accept this method.
- 4) Large portion of cost is written-off in earlier years.
- 5) Suitable for fixed assets which last for long period.

### **Difference between straight line method and written down value method.**

<b>Basis of Difference</b>	<b>Straight Line Method</b>	<b>Written down value method</b>
1. Basis of charging	Original cost	Book Value
2. Annual depreciation	Fixed every year	Declines year after year
3. Total charge against profit and loss account	Unequal year after year. It increases in later years.	Almost equal every year.
4. Recognition by income tax law	Not recognised	Recognised
5. Suitability	Assets in which repair charges are less.	Assets which are affected by technological changes and require more repair expenses.

### **Methods of Recording Depreciation**

There are two types of arrangements for recording depreciation on fixed assets:

- a. Charging depreciation to asset account
- b. Creating Provision for depreciation/Accumulated depreciation account.

## **PROVISIONS AND RESERVE**

### **Provisions**

There are certain expenses/losses which are related to the current accounting period but amount of which is not known with certainty because they are not yet incurred. For examples provision for depreciation, provision for bad and doubtful debts, provision for taxation, provision for discount on debtors, provision for repairs and renewals, etc.

### **Reserves**

A part of the profit may be set aside and retained in the business to provide for certain future needs like growth and expansion or to meet future contingencies. The object of creating reserves may be to meet unforeseen contingencies or strengthen the financial position of business.

### **Difference between Reserve and Provision**

The points of difference between reserve and provision are explained below:

#### **1. Basic nature:**

A provision is a charge against profit whereas reserve is an appropriation of profit.

#### **2. Purpose:**

Provision is made for a known liability or expense pertaining to current accounting period, the amount of which is not certain.

**3. Presentation in balance sheet:**

Provision is shown either by way of deduction from the item on the asset side for which it is created, or on the liabilities side along with current liabilities. On the other hand, reserve is shown on the liabilities side after capital.

**4. Effect on taxable profits:**

Provision is deducted before calculating taxable profits. A reserve is created from profit after tax.

**5. Element of compulsion:**

Creation of provision is necessary to ascertain true and fair profit or loss. Whereas creation of a reserve is generally at the discretion of the management.

**6. Use for the payment of dividend:**

Provision cannot be used for distribution as dividends while general reserve can be used for dividend distribution.

**Questions**

- 1) Depreciation is provided for.....assets  
a) Current asset      b) fictitious asset      c) fixed asset      d) None of above
- 2) The amount of depreciation remain fixed year after year under..... method  
a) Diminishing balance      b) Written down value      c) Straight line      d) Annuity method
- 3) Provision is a/an.....  
a) Appropriation of profit      b) Charge against profit  
c) Writing off losses      d) Charging depreciation
- 4) Write off intangible asset is termed as.....  
a) Fluctuation      b) Depreciation      c) Depletion      d) Amortisation
- 5) Reserve is a/an .....  
a) Appropriation of profit      b) Charge against profit  
c) Writing off losses      d) Charging depreciation
- 6) State briefly the need for providing depreciation
- 7) List out what are the factor affecting depreciation.
- 8) Distinguish between strait line method and written down value method
- 9) Explain the advantages of Straight line method of depreciation.
- 10) What are the major differences between provision and reserves.

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## CHAPTER 8 BILLS OF EXCHANGE

### Meaning and Definition

A Bill of Exchange is an evidence of debt with legal support. It is an order by the creditor upon his debtor to pay a certain sum of money on a future date

Indian Negotiable Instruments Act of 1881 defines the bills of exchange as, “an instrument in writing containing an unconditional order signed by the maker, directing a certain person to pay a certain sum of money only to, or the order of a certain person or the bearer of the instrument.”

### Features of Bill of Exchange

- a. A bill of exchange must be in writing.
- b. It is an order to make payment.
- c. The order to make payment is unconditional.
- d. The maker of the bill of exchange must sign it.
- e. The payment to be made must be certain.
- f. The date on which payment is made must also be certain.
- g. The bill of exchange must be payable to a certain person.
- h. The amount mentioned in the bill of exchange is payable either on demand or on the expiry of a fixed period of time.
- i. It must be stamped as per the requirement of law.

### Parties to a bill of exchange

There are three parties to a bill of exchange:

1. **Drawer** – He is the seller or creditor who is entitled to receive money from someone. He is the Person who draws (writes) a Bill of Exchange
2. **Drawee** – He is the purchaser or the debtor on whom the bill is drawn and who is liable to pay the amount mentioned in the Bill.
3. **Payee** – The person to whom the payment is to be made is called Payee. The Drawer himself or a third party may be the Payee of the bill.

### Bill of Exchange

<div style="border: 1px solid black; width: 80%; height: 40%; margin: 0 auto; display: flex; align-items: center; justify-content: center;">Stamp</div>	<p>328, Bazar Street Saidapet, Chennai-15 01.06.2017</p>
<p>Rs. 10,000/- Three months after date pay to me or to my order the sum of Rupees Ten Thousand only for value received</p>	
<p>To Thiru. Jothi Kumar, 430, Mint Street Chennai – 1</p>	
<p>Ramesh Babu</p>	

### Advantages of Bill of Exchange

1. Helpful in the purchase and sale of goods on credit
2. Legally approved proof of credit
3. Discounting facility
4. Transferability
5. Foreign payments made easy
6. Certainty of payments

### Promissory Note

It is also one of the negotiable instruments. It is a credit instrument which contains a promise made by the debtor to pay a certain sum of money for value received.

Negotiable Instruments Act 1881 defines a promissory note as, “an instrument in writing containing an unconditional undertaking signed by the maker, to pay a certain sum of money only to or to the order of a certain person, or to the bearer”.

### Features of a promissory note

1. It must be in writing.
2. It must contain an unconditional promise to pay.
3. It must be signed by the maker. If it is made jointly by two or more persons, it must be signed by all the parties.
4. The maker must be a certain person.
5. The person to whom payment is to be made must also be certain.
6. The amount payable must be certain.
7. It should be properly stamped.

### Parties to a Promissory Note

1. **Maker or Drawer** – The person who owes some amount to another person makes or draws the instrument. He is the debtor and is also called promissory.
2. **Drawee or payee** – The persons in whose favour the pro-note is drawn. He is the creditor and is also called the promise. Generally, the drawee is also the payee, unless otherwise mentioned.

### Format of a Promissory Note

New Delhi, March 15, 2007
<p>Rs. 20,000/- Stamp</p> <p style="text-align: center;">Three months after date we promise to pay M/s. Tara Chand &amp; Co. or order a sum of twenty thousand rupees with interest at twelve per cent per annum value received.</p> <p style="text-align: right;">Raj &amp; Paul</p>

### Differences between bill of exchange and promissory note

Basis	Bill of exchange	Promissory note
Parties	There can be three parties	Only two parties
Maker	Creditor makes the instrument	Debtor makes the instrument
Order of Promise	It contains an order to make payment	It contains a promise to make payment
Acceptance	It requires acceptance by the drawee	It requires no acceptance
Party	Drawer and drawee can be the same person	Drawer cannot be the drawee
Notice	In case of dishonor due notice of dishonor is to be given by the holder to the drawer	No notice needs to be given in case of its dishonor

### Drawing a bill

When goods are sold on credit the seller of goods draws (writes) a bill on the buyer asking him to pay the amount on demand or on a stipulated date to himself or to another person named on the bill. This is called “drawing a bill” and the instrument is called “Draft”

### Acceptance of a Bill

A bill of exchange will become a valid document only when it is accepted (signed) by the drawee (buyer). This is done by writing the word ‘accepted’ across the face of the bill together with his signature and date. This process is called acceptance of the bill and the drawee is known as acceptor.

### Negotiability

Bills of exchange and Promissory Notes are negotiable instruments. Negotiability means that the holder of the instrument can transfer the title to another person.

### Days of grace and Date of maturity

The date on which a bill of exchange becomes payable is the **due date** or **date of maturity**. The date of maturity is calculated by adding three more days to the nominal due date. If the due date falls on a public holiday, then the bill is payable on the preceding working day, i.e., if July 8th (date of maturity) is a public holiday then 7<sup>th</sup> July will be the maturity date. If it is a declared holiday

under Negotiable Instruments Act, 1881, by the Government of India, then the next working day immediately after the holiday will be the date of maturity. In this case it will be on 9th July.

### **Discounting a bill**

Discounting of the bill means encashing the bill before the date of maturity or borrowing from the bank on the security of the bill. Bank deducts a certain amount of discount from the face value of the bill and pays the balance to the person discounting the bill.

### **Endorsement of Bill**

The holder of the bill receivable can transfer the bill to another person, the process of transferring is called **endorsement**

The person endorsing the bill is called **Endorser** and the person to whom the bill is endorsed is called **Endorsee**

### **Accounting treatment**

For the purpose of accounting bills are divided into two categories

- a) Bills receivable (B/R)
- b) Bills payable (B/P)

The person who is entitled to receive money draws the bill and gets it accepted from the person who is liable to pay. As such the same bill is Bill receivable (B/R) from the point of view of the Drawer and a Bill payable (B/P) from the point of view of the Drawee (Acceptor)

The holder of a bill may exercise any one of the following options in terms of the instrument:

1. He can retain the bill till the date of maturity and obtain the payment from the acceptor.
2. He can get the bill discounted through the banker.
3. He can endorse the bill in favour of his creditor.
4. He may send it to the bank for collection on the due date.

### **Journal Entries**

#### **1) When the bill is retained by the holder till the date of maturity**

<b>In the books of Drawer</b>	<b>In the books of drawee</b>
1. When the goods are sold on credit: Debtors a/c Dr To Sales a/c	1. When the goods are purchased on credit: Purchase a/c Dr To Creditors a/c
2. On receiving the bill after acceptance: Bills receivable a/c Dr To Debtors a/c	2. On accepting the bill and giving it to drawer Creditors a/c Dr To Bills payable a/c
3. On maturity of the bill Cash / Bank a/c Dr To Bills Receivable a/c	3. On maturity of the bill Bills payable a/c Dr To Cash / Bank a/c

#### **2) When the bill is discounted through the banker**

<b>In the books of Drawer</b>	<b>In the books of drawee</b>
1. When the goods are sold on credit: Debtors a/c Dr To Sales a/c	1. When the goods are purchased on credit: Purchase a/c Dr To Creditors a/c
2. On receiving the bill after acceptance: Bills receivable a/c Dr To Debtors a/c	2. On accepting the bill and giving it to drawer Creditors a/c Dr To Bills payable a/c
3. On discounting the bill with Bank Cash / Bank a/c Dr Discount A/c Dr To Bills Receivable a/c	<b>No Entry as the discounting is not affected by the Drawee</b>
On maturity of the bill No Entry as the bank will receive the payment of the bill on the due date	3. On maturity of the bill Bills payable a/c Dr To Cash / Bank a/c



### 3) When the bill is endorsed in favor of a creditor

In the books of Drawer	In the books of drawee
1. When the goods are sold on credit: Debtors a/c Dr To Sales a/c	1. When the goods are purchased on credit: Purchase a/c Dr To Creditors a/c
2. On receiving the bill after acceptance: Bills receivable a/c Dr To Debtors a/c	2. On accepting the bill and giving it to drawer Creditors a/c Dr To Bills payable a/c
3. On endorsing the bill Creditor's / Endorsee's a/c Dr To Bills receivable a/c	<b>No Entry as the endorsing is not affected by the Drawee</b>
On maturity of the bill No Entry as the Endorsee will receive the payment of the bill on the due date	3. On maturity of the bill Bills payable a/c Dr To Cash / Bank a/c

#### Dishonour of a Bill

When the acceptor (Drawee) fails pay the bill on the date of maturity, it is called Dishonour of a bill.

#### Noting Charges

If a bill is dishonoured the holder of the bill handed over his bill to a special Lawyer called **Notary public** to establish the dishonor legally.

Noting charges is the fee charged by the Notary public

The amount of noting charges paid by the holder will be recovered from the acceptor, by the drawer.

#### Renewal of Bill

When the acceptor of the bill finds it difficult to meet the bill on maturity date, he may request the drawer to cancel the old bill and draw a new bill. If he agrees with the acceptor, the old bill is cancelled and a new bill is drawn. It is called **Renewal of the Bill**.

#### Retiring of Bill

Payment of the bill can be made before maturity by mutual understanding between the drawer and the acceptor, it is called renewal of a bill.

#### Model numerical questions and answers

1. Vishal sold goods for ₹ 7,000 to Manju on Jan 05, 2015 and drew upon her a bill of exchange payable after 2 months. Manju accepted Vishal's draft and handed over the same to Vishal after acceptance. Vishal immediately discounted the bill with his bank @12 p.a. On the due date Manju met her acceptance.

Journalise the above transactions in the books of Vishal and Manju.

#### Answer

#### In the books of Vishal Journal

Date	Particulars	L.F	Dr	Cr
2015 Jan 05	Manju a/c Dr To Sales a/c (Being goods sold to Manju)		7000	7000
Jan 05	Bills Receivable a/c Dr To Manju a/c (Being bill of exchange duly accepted and returned by Manju)		7000	7000
Jan 05	Bank a/c Dr Discount a/c Dr To Bills Receivable a/c (Being Bill of exchange matured and duly met on maturity date)		6860 140	7000

**In the books of Manju  
Journal**

Date	Particulars	L.F	Dr	Cr
2015 Jan 05	Purchases a/c To Vishal a/c (Being goods purchaed from Vishal)	Dr	7000	7000
Jan 05	Vishal a/c To Bills Payable a/c (Being bill of exchange duly accepted and returned to Vishal)	Dr	7000	7000
Jan 08	Bills Payable a/c To Bank a/c (Being Bill of exchange matured and duly met on maturity date)	Dr	7000	7000

2. On 1st may 2017, Krishna sold goods to Kripa for Rs. 20000 and drew a bill of exchange for 3 months. Kripa accepted the bill. On 1st June 2017 Krishna discounted the bill with her bank for Rs. 19500. But on the date on maturity of the bill, Kripa was unable to make the payment. Pass the journal entries in the books of Krishna.

Answer:

**Journal entries in the books of Krishna**

Date	Particulars	L.F	Dr	Cr
01.05.17	Kripa a/c To Sales a/c (Sold goods to Kripa)	Dr	20000	20000
01.05.17	Bills Receivable a/c To Kripa a/c (Bill drawn)	Dr	20000	20000
01.06.17	Bank a/c Discount a/c To Bank a/c (Bill Discounted)	Dr Dr	19500 500	20000
04.08.17	Kripa a/c To Bank a/c (Bill Dishonoured)	Dr	20000	20000

3. Aroop sold goods to Salini on January, 1st 2017 for Rs. 40,000 and drew upon her a bill of exchange for three months. Salini accepted the bill and returned to Aroop. Aroop discounted the bill at a discount of 8% P.a. on 02-01-2017. On the due date' the bill was dishonoured Record the necessary entries in the books of Aroop.

Answer:

**Journal entries in the books of Krishna**

Date	Particulars	L.F	Dr	Cr
01.01.17	Salini a/c To Sales a/c (Sold goods to Salini)	Dr	40000	40000
01.01.17	Bills Receivable a/c To Salini a/c (Bill drawn)	Dr	20000	25000
02.01.17	Bank a/c Discount a/c To Bills Receivables a/c (Bill Discounted)	Dr Dr	39200 800	40000

04.03.17	Salini a/c To Bank a/c (Bill Dishonoured)	Dr		40000	40000
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4. On Jan 01, 2017 Shieba sold goods to Vishal for 10,000 and drew upon him a bill of exchange for 2 months. Vishal accepted the bill and returned it to Shieba. On the date of maturity the bill was dishonoured by Vishal. Record the necessary entries in all the cases listed below in the books of Shieba and Vishal:

- When the bill kept by Shieba till its maturity
- When the bill is discounted by Shieba for 200
- When the bill is endorsed to Lal Chand by Shieba.

Answer

**In the books of Sheiba**

- When the bill kept by Shieba till its maturity

**Journal**

Date	Particulars	L.F	Dr	Cr
2015 Jan 05	Vishal a/c To Sales a/c (sold goods to Vishal)	Dr	10000	10000
Jan 05	Bills Receivables a/c To Vishal a/c (Received Vishal acceptance)	Dr	10000	10000
Jan 08	Vishal a/c To Bills Receivables a/c (Vishal dishonoured his acceptance)	Dr	10000	10000

- When the bill is discounted by Shieba for 200

**Journal**

Date	Particulars	L.F	Dr	Cr
2017 Jan 01	Vishal a/c To Sales a/c sold goods to Vishal	Dr	10000	10000
Jan 01	Bills Receivable a/c To Vishal a/c (Received Vishal acceptance)	Dr	10000	10000
Jan 01	Bank a/c Discount a/c To Bills Receivables a/c	Dr Dr	9800 200	10000
Mar 04	(Vishal dishonoured his acceptance)			
	Vishal a/c To Bank a/c (Discounted bill dishonoured by Vishal)	Dr	10000	10000

- When the bill is endorsed to Lal Chand by Shieba.

**Journal**

Date	Particulars	L.F	Dr	Cr
2017 Jan 01	Vishal a/c To Sales a/c (Sold goods to Vishal)	Dr	10000	10000
Jan 01	Bills Receivable a/c To Vishal a/c (Received Vishal acceptance)	Dr	10000	10000

Jan 01	Lal Chand a/c To Bills Receivables a/c (Vishal acceptance endorsed in favour of Lal Chand)	Dr	10000	10000
Mar 04	Vishal a/c To Lal Chand a/c (Endorsed bill dishonoured by Vishal)	Dr	10000	10000

### In the books of Vishal

#### Journal

Date	Particulars	L.F	Dr	Cr
2017				
Jan 01	Purchases a/c To Shieba a/c (Purchased goods from Vishal)	Dr	10000	10000
Jan 01	Shieba a/c To Bills Payable a/c (Accepted Shieba draft)	Dr	10000	10000
Mar 04	Bills Payable a/c To Shieba a/c (Acceptance in favour of shieba dishonoured)	Dr	10000	10000

### Objective Type Questions

- A bill is 'noted' when it is.....  
a) Discounted      b) Honoured      c) Dishonoured      d) Endorsed
- When the drawee of the bill of exchange makes the payment before the maturity date of bill, it is called  
a) Dishonour of bill      b) Discounting of bill      c) Retiring of bill      d) Renewal of bill
- The drawer of a bill of exchange is always the .....  
a) Debtor      b) Endorser      c) Creditor      d) Proprietor
- Retiring of a Bill means  
a) Payment on due date      b) Payment before due date  
c) Non-payment on due date      d) Payment after due date
- A bill is drawn on 12th May, 2013, payable after three months. The bill would be due on .....  
a) 15th August, 2013,      b) 14th August, 2013,  
c) 16th August, 2013      d) 14th July, 2013
- When the acceptor fails to meet the bill on the date of maturity is.....  
a) Dishonour      b) Noting      c) Retiring      d) Renewal
- The charges paid to a notary public for noting a dishonoured bill is .....  
a) Fee      b) Commission      c) Noting charges      d) Interest
- There are ..... parties to a bill of exchange  
a) 2      b) 3      c) 4      d) 5
- The maker of the bill of exchange is called.....  
a) Drawer      b) Drawee      c) Payee      d) Endorser

\*\*\*\*\*

**CHAPTER 9**  
**FINANCIAL STATEMENT- I**

**Financial Statements or Final Accounts**

Financial Statement is used to ascertain the financial results of a business during an accounting year by preparing Trading and Profit and Loss account and the financial position by preparing a Balance Sheet.

**Objectives of Preparing Financial Statement**

1. **Trading Account and Profit and Loss Account (Income Statements)** – Trading account to find out the trading results (Gross Profit or Gross Loss) and Profit and Loss account to know the financial performance (Net Profit or Net Loss) of a business
2. **Balance Sheet** - To find out the Financial Position of the business (Weak, Moderate or Strong position)

**1. Trading Account**

The Income Statement prepared to find out the trading results of the business during an accounting period is known as Trading Account. Trading account is debited with Opening Stock, Net Purchases and Direct Expenses. It is credited with Net Sales and Closing Stock. The trading result may be either

**Gross Profit or Gross Loss.**

Calculation of Gross Profit or Gross Loss  
Gross Profit = Net Sales – Cost of Goods Sold  
Net Sales = Total Sales – Sales Returns  
Total Sales = Cash Sales + Credit Sales  
Cost of Goods Sold = Opening Stock + Net Purchases + Direct Expenses – Closing Stock  
Net Purchases = Total Purchases – Purchases Returns  
Total Purchases = Cash Purchases + Credit Purchases  
Gross Loss = Cost of Goods Sold – Net Sales

**Question 1:**

Ascertain Gross Profit from the following information: Opening Stock 20000, Purchases 55000, Purchases Returns 5000, Direct Expenses 8000, Sales 80000, Sales Returns 5000 and Closing Stock 30000.

**Solution: 1**

Gross Profit = Net Sales – Cost of Goods Sold  
Net Sales = Total Sales – Sales Returns  
Net Sales = 80000-5000 = 75000  
Cost of Goods Sold (COGS) = Opening Stock+Net Purchases + Direct Expenses –Closing Stock  
Net Purchases = Total Purchases – Purchases Returns  
Net Purchases = 55,000 – 5000 = 50000  
COGS = 20000 +50000 + 8000 – 30000 = 48000  
Gross Profit = 75000 – 48000 = Rs: 27000

**Question 2**

Calculate Gross Profit from the following information:  
Opening Stock 50000, Cash Purchases 2,50,000, Credit Purchases 3,00,000, Direct Expenses 2,40,000, Cash Sales 5,80,000, Credit Sales 25,5000, Closing Stock 3,00,000, Sales returns 30,000, Purchases Returns 25,000.

**Solution: 2**

Gross Profit = Net Sales – Cost of Goods Sold  
Net Sales = Total Sales – Sales Returns  
Net Sales = (5,80,000 + 2,55,000) – 30,000 = 8,05,000  
Cost of Goods Sold (COGS) = Opening Stock + Net Purchases + Direct Expenses –Closing Stock

Net Purchases = Total Purchases – Purchases Returns  
 Net Purchases = (2,50,000 + 3,00,000) – 25,000 = 5,25,000  
 COGS = 50,000 + 5,25,000 + 2,40,000 – 3,00,000 = 5,15,000  
 Gross Profit = 8,05,000- 5,15,000 = 2,90,000

**Relevant Items in Trading Account Debit Side:**

1. **Opening Stock:** refers to the amount and value of materials available for sale or use at the beginning of an accounting period. The closing stock of the previous accounting period becomes the opening stock of the current accounting period.
2. **Purchases less Returns Outwards:** it is the goods purchased for resale in the business. It includes Cash Purchases and Credit Purchases less Purchases Returns.
3. **Direct Expenses:** Includes all expenses spend directly for purchasing or manufacturing of goods. It further includes:-
  - a. **Wages:** is the remuneration of workers who are directly engaged in the production of goods.
  - b. **Carriage Inwards/ Freight on Purchases/ Cartage:** is the transportation cost for bringing raw materials or goods to the place of production or business.
  - c. **Fuel/ Water/ Power/ Gas:** are direct expenses required for production process.
  - d. **Primary Packing Materials:** is used for the protection, handling, delivery and presentation of a product at the point of sale.
  - e. **Import Duty:** Payment levied on import of goods.
  - f. **Customs Duty:** is the tax imposed on the goods when they are transported across the international borders.
  - g. **Octroi Duty:** is levied by State governments when product enters the State.
  - h. **Excise Duty:** is a form of tax on goods for their production, licensing and sale.
  - i. **Dock Dues:** are paid to a port by a shipping company that uses it to load or unload goods.
  - j. **Royalty:** is a fee paid to the owner of an asset for using his right. Eg. Royalty paid for using quarries. (Royalty based on sales, publishing of books will appear on the debit side of Profit and Loss account.)
  - k. **Consumable Stores:** includes goods other than main raw materials which are consumed during production like oil, grease, waste etc.

**Credit Side:**

1. **Sales less Returns Inwards:** is the direct income from goods sold. It includes both Cash and Credit Sales less Sales Returns.
2. **Closing Stock:** is the value of goods lying unsold at the end of an Accounting year.

Dr.		Trading Account for the year ending .....		Cr.	
Particulars	Amount	Particulars	Amount		
Opening Stock	xxx	<b>Direct Incomes: -</b>			
Purchases	xxx	Sales	xxx		
<u>Less: Purchases Returns</u>	<u>xxx</u>	<u>Less: Sale Returns</u>	<u>xxx</u>		xxx
<b>Direct Expenses</b>		Closing Stock			xxx
Wages and Salary	xxx				
Carriage Inwards ,Freight, Cartage	xxx				
Fuel, Gas, Power, Water	xxx				
Primary Packing Materials	xxx				
Import Duty	xxx				
Customs Duty	xxx				
Octroi Duty	xxx				
Excise Duty	xxx				
Dock dues	xxx				
Royalty on Production	xxx				
Consumable Stores	xxx				
<b>* Gross Profit c/d</b>	<b>xxx</b>			<b>* Gross Loss c/d</b>	<b>xxx</b>
	<b>xxx</b>				<b>xxx</b>

## Profit and Loss Account

It is a nominal account prepared to find out Net profit earned or Net Loss incurred by a business during an accounting year. The account is debited with Indirect expenses and Credited with Indirect incomes of revenue nature. If Incomes are more than Expenses the result is Net Profit and if Expenses are more than Incomes the result is Net Loss.

### Calculation of Net Profit

**Net Profit** = Operating Profit – Non Operating Expenses + Non Operating Incomes OR  
**Net Profit** = Net Sales + Non Operating Incomes – (Cost of Goods Sold + Operating Expenses + Non Operating Expenses)  
**Non Operating Expenses** = Loss due to Fire + Loss on Sale of Fixed Assets + Interest + Tax etc  
**Non Operating Incomes** = Gain on Sale of Fixed Assets + Interest Received on Investments + Commission Received + Rent Received etc

### Question 3

A firm earned an Operating Profit of Rs. 1,00,000 during 2020. It's Non Operating Expenses were 40,000 and Non Operating Incomes were 10,000. Calculate the amount of Net Profit earned by the firm.

### Solution 3

Net Profit = Operating Profit – Non Operating Expenses + Non Operating Incomes

Net Profit = 1,00,000 – 40,000 + 10,000 = Rs. 70,000

### Question 4

From the following calculate Net Profit of the firm. Sales 2,50,000, Sales Returns 15,000, Opening Stock 48,000, Purchases Rs. 85,000, Wages 20,000, Closing Stock 15,000, Salaries 30,000, Loss on Sale of Machinery 3,000, Gain on Sale of Furniture 2,000, Interest paid on Loan 2,500, Income Tax Paid 25,000.

### Solution 4

Net Profit = Net Sales + Non Operating Incomes – (COGS + Operating Expenses + Non Operating Expenses)

Net Sales = Sales – Sales Returns

Net Sales = 2,50,000 – 15,000 = 2,35,000

Non Operating Incomes = Gain on Sale of Furniture = 2,000

Cost of Goods Sold = Opening Stock + Net Purchases + Direct Expenses (Wages) – Closing Stock  
COGS = 48,000 + 85,000 + 20,000 – 15,000 = 1,38,000

Operating Expense = 30,000 (Salary)

Non Operating Expenses = Loss on Sale of Machinery + Interest Paid on Loan + Income Tax Paid

Non Operating Expenses = 3,000 + 2,500 + 25,000 = 30,500

Net Profit = 2,35,000 + 2,000 – (1,38,000 + 30,000 + 30,500)

Net Profit = 2,37,000 – (1,98,500) = Rs. 38,500

### Relevant Items of Profit and Loss Account

- Salary:** means remuneration paid to employees in administrative, selling and distribution section. "Salaries and Wages" will appear on the debit side of Profit and Loss Account. "Wages and Salaries" will appear on the debit side of Trading Account.
- Rent Rates and Taxes:** Office rent, godown rent, municipal rates and taxes are included as indirect expenses. Factory rent, rates and taxes comes in trading account.
- Interest paid:** is an indirect expense and includes interest paid on loans, bank overdraft etc.
- Interest Received:** is an indirect income and includes interest received on bank deposits, interest on investments etc.
- Depreciation:** is the decline in the value of fixed assets due to wear and tear, use or abuse, passage of time.
- Freight on Sales / Carriage Outwards:** this transportation cost of goods will appear on the debit side of Profit and Loss account.

7. **Operating expenses:** includes administration, selling and distribution expenses they are indirect expenses debited to profit and loss account.
8. **Non Operating Expenses:** includes interest, tax, loss on sale of fixed assets, loss on sale of investments, loss due to fire etc.
9. **Non Operating Incomes:** includes Gain on Sale of Fixed Assets, Interest Received on Investments, Commission Received, Rent received etc

Dr.	Trading Account for the year ending .....		Cr.
Particulars	Amount	Particulars	Amount
<b>* Gross Loss b/d</b>	xxx	<b>* Gross Profit b/d</b>	xxx
<b><u>Indirect Expenses</u></b>	xxx	<b><u>Indirect Incomes</u></b>	
Salaries and Wages	xxx	Rent Received	xxx
Rent Rates and Taxes	xxx	Discount Received	xxx
Postage and Telegram	xxx	Commission Received	xxx
Printing and Stationery	xxx	Interest Received	xxx
Telephone Expense	xxx	Dividend on Shares	xxx
Entertainment Expense	xxx	Bad Debts Recovered	xxx
Advertisement Expense	xxx	Income from Investment	xxx
Freight /Carriage Outwards	xxx	Profit on Sale of Asset	xxx
Bad Debts	xxx	Miscellaneous Revenue	xxx
Discount Allowed	xxx	Interest on Drawings	xxx
Repairs and Renewals	xxx		
Bank Charges	xxx		
Legal Charges	xxx		
Distribution Expenses	xxx		
Interest on Capital	xxx		
Depreciation on Assets	xxx		
Insurance	xxx		
Commission paid	xxx		
Interest Paid	xxx		
Charity	xxx		
Office Expense	xxx		
Establishment Charges	xxx		
Sundry Trade Expense	xxx		
General Expense	xxx		
Conveyance/Travelling Expense	xxx		
Loss on Sale of Assets	xxx		
Loss by Fire/Loss by Theft	xxx		
Export Duty			
Audit Fees, License fee			
<b>* Net Profit Transferred to Capital</b>		<b>* Net Loss Transferred to Capital</b>	
	xxx		xxx

### Balance Sheet

A Balance Sheet is a statement of Assets, Liabilities and Capital of a business prepared to find out the financial position of business as on a particular date. The Asset side total of Balance Sheet should equate with the total of Liabilities and Capital.

### Grouping and Marshalling of Assets and Liabilities:

- **Grouping:** is the arrangement of Assets and Liabilities of similar nature into certain categories or groups.
- **Marshalling:** means arranging the Assets and Liabilities in a particular order ie., in the Order of Liquidity or Order of Permanence.



- 1. Order of Liquidity:** In this method of grouping and marshalling of assets and liabilities is done in the order of their realisability ie, the assets which can be easily converted into cash are stated first followed by other assets. Liabilities which are payable at short notice comes first followed by more long term liabilities.
- 2. Order of Permanence:** This is a reverse method of previous one. In this method Assets and liabilities that are more permanent or long term in nature comes first followed by least permanent assets and liabilities.

**Balance Sheet as on ..... (Order of Liquidity)**

<b>Liabilities &amp; Capital</b>	<b>Rs.</b>	<b>Assets</b>	<b>Rs.</b>
<b><u>Current Liabilities</u></b>		<b><u>Current Assets</u></b>	
Bank Overdraft	xxx	Cash in Hand	xxx
Bills Payable	xxx	Cash at Bank	xxx
Outstanding Expenses	xxx	Bills Receivable	xxx
Sundry Creditors	xxx	Sundry Debtors	xxx
Income Received in Advance	xxx	Prepaid Expenses	xxx
		Accrued Incomes	xxx
<b><u>Fixed Liabilities</u></b>		Closing Stock	xxx
Long Term Loans	xxx		
		<b><u>Fixed Assets</u></b>	
<b><u>Capital (Opening)</u></b> xxx		Land and Building	xxx
Add: Net Profit xxx		Plant and Machinery	xxx
(Less: Net Loss)		Furniture	xxx
Less: Drawings xxx	xxx	Goodwill	xxx
	<b>xxx</b>		<b>xxx</b>

**Balance Sheet as on ..... (Order of Liquidity)**

<b>Liabilities &amp; Capital</b>	<b>Rs.</b>	<b>Assets</b>	<b>Rs.</b>
<b><u>Current Liabilities</u></b>		<b><u>Current Assets</u></b>	
Bank Overdraft	xxx	Cash in Hand	xxx
Bills Payable	xxx	Cash at Bank	xxx
Outstanding Expenses	xxx	Bills Receivable	xxx
Sundry Creditors	xxx	Sundry Debtors	xxx
Income Received in Advance	xxx	Prepaid Expenses	xxx
		Accrued Incomes	xxx
<b><u>Fixed Liabilities</u></b>		Closing Stock	xxx
Long Term Loans	xxx		
		<b><u>Fixed Assets</u></b>	
<b><u>Capital (Opening)</u></b> xxx		Land and Building	xxx
Add: Net Profit xxx		Plant and Machinery	xxx
(Less: Net Loss)		Furniture	xxx
Less: Drawings xxx	xxx	Goodwill	xxx
	<b>xxx</b>		<b>xxx</b>

**Balance Sheet as on ..... (Order of Liquidity)**

<b>Liabilities &amp; Capital</b>	<b>Rs.</b>	<b>Assets</b>	<b>Rs.</b>
<b><u>Capital (Opening)</u></b> xxx		<b><u>Fixed Assets</u></b>	
Add: Net Profit xxx		Goodwill	xxx
(Less Net Loss)		Furniture	xxx
Less: Drawings xxx	xxx	Plant and Machinery	xxx
<b><u>Fixed Liabilities</u></b>		Land and Building	xxx
Long Term Loans			
<b><u>Current Liabilities</u></b>	xxx	<b><u>Current Assets</u></b>	
Income Received in Advance		Closing Stock	xxx
Sundry Creditors	xxx		

Outstanding Expenses	xxx	Accrued Incomes	xxx
Bills Payable	xxx	Prepaid Expenses	xxx
Bank Overdraft	xxx	Sundry Debtors	xxx
	xxx	Bills Receivable	xxx
		Cash at Bank	xxx
		Cash in Hand	xxx
	<b>xxx</b>		<b>xxx</b>

### Preparation of Trading and Profit and Loss Account and Balance Sheet

#### Question: 5

Prepare Trading and Profit and Loss and a Balance Sheet for the year ended 31<sup>st</sup> December 2020 from the list of balances given below

#### Trial Balance

Particulars	Debit	Credit
Capital		250000
Stock 1-1-2020	15000	
Purchases	45000	
Plant and Machinery	100000	
Salary	9000	
Purchases Returns		1500
Furniture	64000	
Rent	2500	
Building	70000	
Sales		180000
Drawings	20000	
Interest on Overdraft	1800	
Commission		5000
Investments	55000	
Bank Overdraft		26000
Sales Returns	1200	
Debtors	16000	
General Expense	4000	
Creditors		20000
Direct Wages	5000	
Printing and Stationery	1100	
Carriage Inwards	2000	
Discount Received		1600
Bills Payable		12500
Factory Lighting	2200	
Carriage Outwards	1800	
Discount Allowed	1000	
Bills Receivable	10000	
Cash	70000	
<b>Total</b>	<b>496600</b>	<b>496600</b>

**Solution: 5**

**Dr. Trading and Profit & Loss a/c for the year ended 31st December 2020 Cr.**

Particulars	Rs.	Particulars	Rs.
Opening Stock	15000	Sales	180000
Purchases	45000-	Less: Sales Returns	<u>1200</u>
Less: Returns	<u>1500</u>		178800
Direct wages	5000		
Carriage Inwards	2000		
Factory Lighting	2200		
<b>Gross Profit c/d</b>	<b>111100</b>		
	<b>178800</b>		<b>178800</b>
Salary	9000	<b>Gross Profit c/d</b>	<b>111100</b>
Rent	2500	Commission	5000
Interest on Overdraft	1800	Discount Received	1600
General expense	4000		
Printing and Stationery	1100		
Carriage Outwards	1800		
Discount Allowed	1000		
<b>Net Profit Transferred to Capital</b>	<b>96500</b>		
	<b>117700</b>		<b>117700</b>

**Balance Sheet as on 31<sup>st</sup> December 2020**

Liabilities and Capital	Rs.	Assets	Rs.
Bank Overdraft	26000	Cash	70000
Creditors	20000	Debtors	16000
Bills Payable	12500	Bills Receivable	10000
Capital	250000	Plant and Machinery	100000
Add Net Profit	96500	Building	70000
Less Drawings	<u>20000</u>	Furniture	64000
	326500	Investments	55000
	<b>385000</b>		<b>385000</b>

**Exercise 1:** Calculate cost of goods sold for the year 2017 with the help of the following information.

Opening stock	80000
Closing stock	130000
Purchases	375000
Sales	600000
Carriage inwards	7000
Carriage outwards	4000
Wages	12000

**Exercise 2:** Compute the cost of goods sold and gross profit with the help of the following information.

Purchase	300000	Sales return	3000	Salaries	25000
Sales	400000	Wages	50000	Stock 1-1-17	60000
Purchase return	2000	Carriage inwards	10000	Stock 31-12-17	80000

**Exercise 3:** The following is the trial balance extracted from the books of Arya traders for the year ended 31st march 2017

Name	Debit	Credit
Purchases	80000	
Drawings	6000	
Sales		120000
Opening stock	20000	
Sundry creditors		35000
Sundry debtors	46000	
Purchase return		2000
Sales return	1500	
Commission		6900
Wages	7000	
Carriage inwards	2000	
Carriage outwards	1000	
Salaries	10000	
Rent		3400
Bills payable		16000
Bank overdraft		9500
Cash in hand	4300	
Building	80000	
Furniture	23000	
Bad debts	2000	
General expenses	4000	
Insurance	6000	
Capital		100000
	292800	292800

Prepare trading and profit and loss account for the year ended 31st march 2017 and balance sheet as on that date.

\*\*\*\*\*

**CHAPTER 10**  
**FINANCIAL STATEMENT – II**

To ensure true and fair financial statements various adjustments, are needed.

- 1. Closing stock** – Cost of unsold goods lying in the stores at the end of accounting period.

Adjustment entry is

Closing stock a/c. Dr.  
To Trading a/c

**Treatment:-**

- (1) Credited in Trading Account.  
(2) Shown asset side of balance sheet

- 2. Outstanding Expenses** – Expense which have become due but have not yet been paid.

Adjustment entry is

Expense a/c. Dr.  
To outstanding Expenses a/c

**Treatment:-**

- (1) Added with expense in Trading / P/L a/c  
(2) Shown as Liability in the Balance sheet.

- 3. Prepaid Expenses:-** They are expense Paid in advance and its benefits will available in subsequent years.

The adjustment entry is

Prepaid Expense a/c. Dr.  
To Expense a/c

**Treatment:-**

- (1) Prepaid portion should be deducted from total amount Paid in Trading / PIL A/C  
(2) Shown on assets side of Balance sheet.

- 4. Accrued or Outstanding Income**

Income earned but not received. The adjusting entry is

Accrued Income a/c. Dr.  
To income a/c

**Treatment:-**

- (1) Accrued income credited in Profit and Loss a/c.  
(2) Shown in the asset side of Balance sheet.

- 5. Income Received in advance.**

A portion of income received during the current year relate to the future period.

Adjustment entry is

Income a/c. Dr.  
To income received in advance a/c.

**Treatment:-**

- (1) Deduct from income in credit side of P/L a/c.  
(2) Shown in the Liability side of Balance sheet.

**Illustration 1:** Prepare Trading and Profit and Loss Account for the year ended 31/03/2021 and a Balance Sheet as on that date from the following Trial Balance.

Particulars	Dr ₹	Cr ₹
Capital		10,000
Purchase	20,000	
Wages	1,200	
Sales		30,000

Duty and clearing charges	800	
Factory expenses	700	
Commission		3,800
Salaries	900	
Carriage outwards	300	
Rent		1,200
Cash	1,000	
Bank	1,400	
Repairs	500	
Building	16,000	
Returns inwards and outwards	500	700
Debtors and creditors	4,500	4,000
Bills receivable	600	
Bills payable		800
Telephone	100	
Stock on 1/4/20	2,000	
	<b>50,500</b>	<b>50,500</b>

### Adjustments

(1) Commission received in advance ₹ 800 (2) Rent accrued ₹ 300 (3) Wages outstanding ₹ 400 (4) Salary prepaid ₹ 200 (5) Stock on 31/03/21 ₹ 4,200

### Solution:

#### Dr. TRADING AND PROFIT AND LOSS ACCOUNT for the year ended 31/03/2012 Cr.

Particulars	Amount	Particulars	Amount
Opening stock	2,000	Sales	30,000
Purchases	20,000	Less: Returns	500
Less: Returns	700		29,500
Wages	1,200	Closing stock	4,200
Add: Outstanding	400		
Factory expenses	700		
Duty and clearing charges	800		
Gross profit c/d	9,300		
	<b>33,700</b>		<b>33,700</b>
Salaries	900	Gross profit b/d	9,300
Less: Prepaid	200	Commission	3,800
Carriage outward	300	Less: Received in advance	800
Repairs	500	Rent	1,200
Telephone	100	Add Accrued	300
Net Profit transferred to Capital	12,200		1500
	<b>13,800</b>		<b>13,800</b>

**BALANCE SHEET as on 31/3/2021**

Liabilities	Amount	Assets	Amount
Outstanding wages	400	Cash in hand	1,000
Income received in advance		Cash at bank	1,400
		Prepaid salary	200
Commission	800	Sundry debtors	4,500
Sundry creditors	4,000	Bills receivable	600
Bills payable	800	Closing stock	4,200
Capital	10,000	Building	16,000
<i>Add:</i> Net profit	12,200	Accrued Rent	300
	<b>22,200</b>		<b>28,200</b>

6. **Depreciation** – Depreciation is the decrease in the value of assets due to wear and tear, Passages of time etc.

The adjustment entry is

Depreciation a/c. Dr.

To concerned Assets a/c

**Treatment:-**

- |  |
|--|
| (1) Debited to Profit and Loss a/c                           |
| (2) The amount to deducted from assets in the balance sheet. |

7. **Bad debts:-** Any irrecoverable portion of debtors.

Adjustment entry is

Bad debt a/c. Dr.

To Sundry Debtors

**Treatment:-**

- |   |
|---|
| (1) Debited to Profit and Loss a/c.         |
| (2) Deducted from debtors in Balance sheet. |

8. **Provision for doubtful debts.**

Adjustment entry is

Profit and Loss a/c. Dr.

To provision for doubtful debts.

**Treatment:-**

- |   |
|---|
| (1) Debited in Profit and Loss a/c          |
| (2) Deducted from debtors in Balance sheet. |

9. **Provision for discount on debtors.**

Adjustment entry is

Profit and Loss a/c. Dr.

To provision for discount on debtors.

**Treatment:-**

- |   |
|---|
| (1) Debited in Profit and Loss a/c          |
| (2) Deducted from debtors in Balance sheet. |

*eg:* The following are extracted from the trial balance as on 31/12/2020

Particulars	Dr ₹	Cr ₹
Debtors	30,000	

Discount Allowed	1,000	
Provision for doubt full debts		2000
Bad debts	500	

**Additional Information:**

- (1) Bad debts to be written off ₹ 1200
- (2) Provision required for bad debts 5% on debtors
- (3) Provision required for discount on debtors 3%

Show how the relevant items would appear in the P/L A/C and Balance sheet

**Solution:**

**Profit and Loss A/C as on 31-12-20**

Bad debts	500		
Add further bad debts	1200		
Add New Provision	1440		
	3140		
Less old Provision	2000	1140	
Discount	1000		
Add New Provision	820.8	1820.8	

**Balance sheet as on 31/12/20**

Liabilities	₹	Assets	₹
		Debtors	30000
		Less further bad debts	1200
			28800
		Less New Provision	1440
			27360
		Less Provision for Discount	820.8
			26539.2

**Note:** New Provision=

$$28800 \times \frac{5}{100} = 1440$$

$$28800 = 30000 - 1200$$

$$\text{Provision for discount} = 27360 \times \frac{3}{100} = 820.8$$

$$27360 = 28800 - 1440$$

***Illustration - 2***

The following is the Trial Balance of Gupta as on 31<sup>st</sup> March 2021

Particulars	Dr. ₹	Cr. ₹
Capital		96,800
Land and Building	35,000	
Goodwill	5,000	
Stock on opening	17,250	
Purchases	82,750	
Wages and salaries	6,500	
Coal and power	3,500	
Machinery	25,000	



Freight	1,500	
Royalties	2,500	
Sales		1,25,000
Management expenses	14,500	
Bad debts	4,800	
Provision for bad debts		2,000
Drawings	6,000	
Debtors and creditors	31,000	14,000
Cash	2,500	
	<b>2,37,800</b>	<b>2,37,800</b>

**Adjustments:**

1. Closing stock is valued at ₹ 8,500
2. Write off ₹ 1,000 as bad debts
3. Provide 5% of debtors for bad debts.
4. Royalty outstanding amounts to ₹ 500.

Prepare Trading and Profit and Loss Account for the year ending 31<sup>st</sup> March 2021 and a Balance Sheet as on that date.

**Solution:**

**Dr. TRADING AND PROFIT AND LOSS ACCOUNT For the year ended 31<sup>st</sup> March, 2021 Cr.**

Particulars	Amount	Particulars	Amount
Opening stock	17,250	Sales	1,25,000
Purchases	82,750	Closing stock	8,500
Coal and power	3,500		
Freight	1,500		
Wages and Salaries	6,500		
Royalties	2,500		
<i>Add: Outstanding</i>	500		
	3,000		
Gross profit c/d	19,000		
	1,33,500		133,500
Management expenses	14,500	Gross profit b/d	19,000
Bad debts	4,800		
<i>Add: Further bad debt</i>	1,000		
	5,800		
<i>Add: 5% provision for bad debts</i>	1,500		
	7,300		
Less: Old provision	2,000	Net loss transferred to capital a/c	800
	5,300		
	<b>19,800</b>		<b>19,800</b>

**BALANCE SHEET as on 31<sup>st</sup> March 2021**

Liabilities		Amount	Assets		Amount
Outstanding royalty		500	Cash in hand		2,500
Sundry creditors		14,000	Sundry debtors	31,000	
Capital	96,800		Less: Bad debts	1,000	
Less: Net Loss	800			30,000	
	96,000		Less: 5% Prov. For bad debts	1,500	28,500
Less: Drawings	6,000	90,000	Closing stock		8,500
			Machinery		25,000
			Land and building		35,000
			Goodwill		5,000
		<b>1,04,500</b>			<b>1,04,500</b>

**Exercise: -1.** The following is the trial balance of Ammu Associates for the year ending 31<sup>st</sup> December, 2020 and other information relating are given to you. Find the working result of business and also show the financial position of them for the year.

Trial Balance of Ammu Associates on 31-12-2020

Particulars	Debit ₹	Credit ₹
Cash in hand	10000	-
Purchase	75000	-
Sales	-	100000
Return outwards	-	1000
Bad debts	500	-
Carriage outwards	600	-
Wages	6500	-
Furniture	50000	-
Capital	-	73000
Provision for bad debts	-	100
Discount	500	-
Salaries	5000	-
Commission	-	5500
Advertising	1300	-
Debtors	50000	-
Creditors	-	19000
	<b>199400</b>	<b>199400</b>

**Additional information**

- a) Closing stock is valued at ₹ 25000

- b) Salary of an employee is not paid ₹ 500
- c) Further bad debts incurred ₹ 200
- d) Provision for bad debts is created at 5% on debtors

**Answer Key**

G/P - 44500, N/P – 39010, B/S - 132010

**Exercise 2 :** Following is the Trial Balance of Mr. Ajayan as on 31<sup>st</sup> March 2021

Trial Balance as on 31-03-2021

Particulars	Debit Amount	Credit Amount
Opening stock	24000	-
Purchase	138000	-
Sales	-	268000
Freight	24300	-
Salaries	65000	-
Sundry Debtors	26000	-
Sundry Creditors	-	24000
Land and Building	180000	-
Interest	-	600
Rent	8000	-
Furniture	15000	-
Insurance Charge	800	-
Capital	-	207400
Cash in hand	7200	-
Cash at bank	11700	-
	<b>500000</b>	<b>500000</b>

**Additional Information**

- a) Closing stock was valued at ₹ 40000
- b) Freight outstanding ₹ 2000
- c) Salaries prepaid ₹ 5000
- d) Depreciate furniture by 10%
- e) Interest accrued ₹ 200

Prepare Trading and Profit and Loss account for the year ending 31-03-2021 and Balance Sheet as on that date.

**Answer Key**

G/P - 119700, N/P – 50200, B/S - 283600

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## CHAPTER 11

### SINGLE ENTRY SYSTEM

#### Incomplete Records

Incomplete accounting records are those accounting which a present are not complete according to Double entry Principle

#### Features

- This system can be kept only by sole trader and partnership firm
- There is no uniformity in the nature of accounts
- Profit under this system is only an estimate
- It is an unsystematic method of recording business transactions
- Cash book may maintain under this system.

#### Limitations

- No true financial position and performance
- No Arithmetical accuracy
- Auditing is not possible
- It is difficult to detect fraud
- Not recognized by courts, sales tax and income tax authorities

#### Calculation of profit under incomplete records

Under single entry system profit or loss can be calculated by two methods

- Statement of affairs method
- Conversion method

#### Statement of affairs methods

It is also called capital comparison method. This is the way of finding profit by comparing closing and opening capital.

#### Statement of profit or loss

Closing Capital		XXXXX
add Drawing		XXXXX
		<u>XXXXX</u>
Less Opening capital	XXXX	
Additional capital	XXXX	XXXXX
Gross profit		XXXXX
Less expense		
(Depreciation, bad debts, Interest on capital)	XXXX	XXXXX
Add income		XXXXX
Net profit		XXXX

Qn. Find profit or loss from the following

- |   |        |
|---|--------|
| a) Capital at the beginning of the year           | 400000 |
| b) Withdrawal by the proprietor during the year - | 25000  |
| c) Additional Capital                             | 100000 |
| d) Capital at the end of the year-                | 600000 |

### Statement of profit or loss

Particulars	Details	Amount
Closing Capital	600000	
add Drawings	25000	625000
Less opening capital	400000	
Less additional capital	100000	500000
<b>Profit</b>		<b>125000</b>

**Qn.** Mrs.Sundas started a coolbar on April 1 2017 with a capital investment of Rs.100000/-.She did not maintain her books of accounts as per the double entry system. During the year she introduced further capital Rs.30000/-and withdraw Rs.20,000 for personal purposes. On March 31.2018 her financial position was as follows.

Total creditors	100000
Bank loan	80,000
Total debtors	50,000
Furniture	2,00,000
Stock	50,000
Cash in hand	12,000
Cash at Bank	18,000

Calculate the profit or loss made by Mrs.Sundas during the first year of running the business, by using the statement of affairs method

Ans:

#### Statement of affairs as on 31-03-2018

Liabilities	Amount	Assets	Amount
Creditors	100000	Cash	12000
Bank Loan	80000	Bank	18000
Capital	150000	Stock	50000
		Furniture	200000
		Debtors	50000
	<b>330000</b>		<b>333000</b>

#### Statement of profit/loss for the year ended 31-03-2018

Particulars	Amount
Closing Capital (31-03-2018)	150000
Add Drawings	20000
	170000
Less additional capital	30000
	140000
Less Capital (1-04-2018)	100000
Profit	<b>40000</b>

**Qn.** Find the capital at the beginning from the following information

- |  |          |
|--|----------|
| o Capital at the end                           | 1,56,000 |
| o Drawings during the year                     | 14,000   |
| o Additional Capital inroduced during the year | 40,000   |
| o Loss during the year                         | 20,000   |

**Ans:** Capital at the beginning = Capital at the end + drawings+ loss during the year-Additional Capital  
 =156000+14000+20000-40000  
 =19000-40000=150000

Qn.Vimal Started a business on 1st January 2014 with an investment of Rs.1,60,000. He doesn't maintain proper books of accounts for his business. During the year 2014 he withdrew Rs.20,000 for personal use introduced Rs.10,000 as fresh capital. His position of assets and liabilities as on 31st December 2014 stood as follows

Cash in Hand	15,000
Stock in trade	55,000
Bills Recievable	20,000
Debtors	40,000
Creditors	35,000
Bank Balance(Over Draft)	15,000
Furniture	30,000
Building	80,000

Prepare statement of profit or loss for the year ended 31st December 2014, provided that depreciation on furniture is to be charged at 10%

**Ans:** **Statement of affairs as on 31-12-2014**

Liabilities	Amount	Assets	Amount
Creditors	35000	Cash	15000
Bank OD	15000	Stock	55000
Capital	190000	Bills Recievable	20000
	20000	Debtors	40000
		Furniture	30000
		Building	80000
	240000		240000

**Statement of profit or loss**

Particulars	Amount
Closing Capital	190000
Add Drawing	20000
	<b>210000</b>
Less Opening Capital	160000
Less additional Capital	10000
	<b>40000</b>
Less Depreciation 30000 x 10/100	3000
<b>Profit</b>	<b>37000</b>

**Conversion method**

Statement of affairs method does not provide a clear picture of operational result of a business. To get accounts in details by following another method is known as conversion method

**Steps for conversion of single entry to Double entry.**

- Calculation of missing figures
- preparation of final accounts

**Bills Receivable A/c, Total Debtors A/c, Bill Payable A/c, Total Creditors A/c.**

**Qn:** From the following calculate total purchases and total sales for the year ended March 31<sup>st</sup> 2015

Total Debtors as on 1 <sup>st</sup> April 2014	100000
Total creditors as on 1 <sup>st</sup> April 2014	120000
Bills Receivable as on 1 <sup>st</sup> April 2014	50000
Bills payable as on 1 <sup>st</sup> April 2014	70000
Return outwards	6000

Discount Recieved	14000
Bad Debts	6000
Return Inwards	7000
Discount Allowed	5000
Cash Sales	20000
Cash Purchases	15000
Cash Recieved from Debtors	220000
Cash paid to creditors	170000
Cash recieved against bills recievable	60000
Cash paid Bills Payable	80000
Bills receivable dishonoured	10000
Total Debtors as on 31 <sup>st</sup> March 2015	150000
Total creditors as on 31 <sup>st</sup> March 2015	100000
Bills Receivable as on 31 <sup>st</sup> March 2015	120000
Bills payable as on 31 <sup>st</sup> March 2015	60000

ഇവിടെ Total Purchase ഉം Total Sales ഉം കാണുന്നതിന് താഴെ പറയുന്ന അക്കൗണ്ടുകൾ തയ്യാറാക്കേണ്ടതാണ്.

- 1) Bills Recievable A/c
- 2) Total Debtors A/c
- 3) Bills Payable A/c
- 4) Total Creditors A/c

Total Purchase = Cash Purchase + Credit Purchase

Total Sales = Cash Sales + Credit Sales

### Bill Recievable A/c

Single Entry System എന്നതിൽ Bill Recievable A/c പ്രത്യേകം ആവശ്യമില്ല. ആയതിനാൽ Bills of exchange ന്റെ അടിസ്ഥാനത്തിൽ വിൽപ്പന നടത്തുമ്പോൾ Debtors ൽ നിന്നും കിട്ടിയ തുക കണ്ടുപിടിക്കുന്നതിന് Bills Recievable A/c തയ്യാറാക്കേണ്ടതാണ്.

NB: Bills Recievable A/c തയ്യാറാക്കുന്നത് ഈ വർഷം Bills Recievable ലഭിച്ചത് എത്ര എന്ന് കണ്ടുപിടിക്കാൻ വേണ്ടിയാണ്.

Dr		Bills Recievable A/c		Cr	
Date	Particulars	Amount	Date	Particulars	Amount
2014 April 1	Balance b/d Debtors [bills recieved during the year] (Balancing figure)	50000  80000 <hr/> 130000	2015 March 31	Cash Debtor s (dishonoured)  Balanced cld	60000 10000  60000 <hr/> 130000

ഇവിടെ Credit Side Total 130000 ഉം Debt side Total 50000 വ്യത്യസ്തമായ 80000 bills recieved during the year ആണ്.

**NB:** Bills recievable A/c Balance Total Debtors A/c ൽ Credit side ൽ കാണിക്കുക  
Bills recievable dishonoured Total Debtors A/c ൽ Debit side ൽ കാണിക്കേണ്ട

### Total Debtors A/c തയ്യാറാക്കുക

**Total Debtors A/c** തയ്യാറാക്കുന്നത് Credit Purchase കണ്ടെത്തുന്നതിന് വേണ്ടിയാണ്. Opening Balancing Debtors, Total Debtors A/c ന്റെ Debit side ൽ Particular കോളത്തിൽ Balance bld എഴുതുകയും closing blance of debtors Total Debtors A/c ന്റെ credit side ൽ റൂമുശേരഹമ്യ കോളത്തിൽ balance C/d ആയി എഴുതുക. പിന്നീട് Credit Side ൽ Debtors ൽ നിന്ന് Cash കിട്ടിയത്, Discount നൽകിയത് വിൽപ്പന ചെയ്ത goods എന്നത് മടക്കി നൽകിയത്, കടമായി നൽകിയതിൽ കിട്ടാതെ വരുന്നവ Bills recievable during the year തുടങ്ങിയ (കിട്ടാനുള്ള സംഖ്യയിൽ കുറവ് വരുന്നവ) രേഖപ്പെടുത്തുക

**Total Debtors A/c**

Date	Particulars	Amount	Date	Particulars	Amount
2014	Balance b/d	100000		Cash	220000
1st				Bills recievable	80000
April	Bills recievable	10000		Bad debts	6000
				Discount Allowed	5000
	Dishounoured	358000		Sales return	7000
	Credit Sales			Balance c/d	15000
		<b>468000</b>			<b>468000</b>

ഇവിടെ Credit side Total 468000, Debit Side Total 110000 വ്യത്യാസമായ 358000 Credit Sales ആണ്.

$$\begin{aligned} \text{Total Sales} &= \text{Cash sales} + \text{Credit sales} \\ &= 20000 + 358000 \\ &= 378000 \end{aligned}$$

**Bills Payable A/c തയ്യാറാക്കുക**

single entry system എന്നതിൽ Bills Payable A/c പ്രത്യേകം തയ്യാറാക്കേണ്ട ആവശ്യമില്ല. ആയതിനാൽ Bills of exchange ന്റെ അടിസ്ഥാനത്തിൽ സ്ഥാപനം വാങ്ങുമ്പോൾ creditors ന് കൊടുക്കേണ്ട തുക കണ്ടുപിടിക്കുന്നതിന് Bills Payable A/c തയ്യാറാക്കേണ്ടതാണ്. issue ചെയ്തത് കണ്ടുപിടിക്കാൻ വേണ്ടിയാണ്.

Dr			Bills Payable A/c			Cr		
Date	Particulars	Amount	Date	Particulars	Amount			
	Cash	80000		Balance c/d	70000			
	Balance b/d	120000		Creditors A/c				
				(Balancing figure)	130000			
		<b>200000</b>			<b>200000</b>			

ഇവിടെ Debit Side Total 200000 ഉം Credit Side Total 70000 ഉം വ്യത്യാസമായ 130000 Bills Payable Issued During the year ആണ്. ഇത് Total Creditors A/c Debit Side ലേക്ക് ചേർക്കണം.

**Total Creditors A/c തയ്യാറാക്കുമ്പോൾ**

Total Creditors A/c തയ്യാറാക്കുന്നത് Credit Purchase കണ്ടെത്തുന്നതിന് വേണ്ടിയാണ്. Total Creditors A/c ന്റെ Credit side ൽ Particular കോളത്തിൽ Opening balance, balance old ആയി എഴുതുക. പിന്നീട് Debit side ൽ Cash Paid to creditors, Discount ലഭിച്ചത്, കടത്തിന് സാധനം വാങ്ങിയത് തിരികെ നൽകിയത്. Bills Payable Issued തുടങ്ങിയ (കൊടുക്കാനുള്ള സംഖ്യയിൽ നിന്ന് കുറവ് വരുന്നവ) രേഖപ്പെടുത്തുക.

Dr			Total Creditors A/c			Cr		
Date	Particulars	Amount	Date	Particulars	Amount			
	Cash	170000		Balance b/d	120000			
	Discount Recieved	14000						
	Purchase return	6000						
	Bills Payable	130000		Credit Purchase	300000			
	Balance c/d	100000						
		<b>420000</b>			<b>420000</b>			

ഇവിടെ Debit Side Total 420000 ഉം Credit Side Total 120000 ഉം വ്യത്യാസമായ 300000 Credit Purchase ആണ്.

$$\begin{aligned} \text{Total Purchase} &= \text{Cash Purchase} + \text{Credit Purchase} \\ &= 15000 + 300000 \\ &= 315000 \end{aligned}$$



## Questions

- ..... Account is prepared by a trader who does not maintain the double entry system of accounting, to find out the value of credit purchases.  
a) Total creditors    b) total debtors    c) bills receivable    d) bills payable.
- Accounts from incomplete records are often called as..... system  
a) double entry    b) single account    c) single entry
- Incomplete records are maintained usually by a .....  
a) company    b) government    c) sole trader
- When closing capital is more than opening capital, it means .....  
a) profit    b) loss    c) additional capital
- Excess of opening capital over closing capital denotes.....  
a) profit    b) loss    c) additional capital
- Match the following.

A	B
i. Incomplete records	a. Cash book
ii. Statement of affairs	b. Credit purchases
iii. Debtors Account	c. Capital
iv. Creditors Account	d. Credit Sales
v. Closing Cash Balance	e. Unscientific System

**Exercise 1:** From the following particulars find out total purchases.

Creditors 1-4-16	60000	Bills payable accepted	16000
Creditors 31-3-17	40000	Discount received	4000
Cash paid to creditors	50000	Bills payable dishonoured	2000
Return outwards	5000	Cash purchase	47000

**Exercise 2:** From the following information calculate the capital at the beginning. (I-2018)3

- Capital at the end of the year 600000
- Drawings made during the year 50000
- Fresh capital introduced 100000
- Profit of the current year 120000.

**Exercise 3:** From the following particulars ascertain credit sales. (M-2019)3

- Debtors as on 1st April 2017 25000
- Debtors as on 31st march 2018 40000
- Cash received from debtors 50 thousands
- Discount allowed 7000
- Bad debts 3000.

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## CHAPTER 12

### COMPUTERISED ACCOUNTING SYSTEM

#### Computerised Accounting System(CAS)

Computerised accounting is the process of entering business transactions and generating financial statement and reports with the help of computers.

In other words, accounting with the help of computers is called computerized accounting.

#### Features of Computerised Accounting System

- a. **Simplicity** : Computerised Accounting System is an easy way for the processing of accounting information.
- b. **Accuracy** : The reports generated from computerized accounting are accurate .
- c. **Speed**: Quick access and retrieval of data are possible.
- d. **Flexibility** : Automatic generation og accounting groups and sub groups are possible in computerized accounting.
- e. **Comprehensive nature**: Most of the accounting packages are complete and comprehensive.

#### Differences between Mannual Accounting and Computerised Accounting:

Manual Accounting	Computerised Accounting
1.Accounting works are done manually	1.Accounting works are done with the help of computers
2.Alteration and additions are not easy	2.Alteration and additions are easy
3.Time consuming	3.Speedy
4.Periodic availability of results are not easy	4.Periodic availability of results are easy
5.Coding is not necessary	5.Accounting software use codes
6.Increase in paper works	6.Reduction in paper works
7.Needs more time and resources	7.Limited time and resources

#### Advantages of Computerised Accounting System (CAS)

- a. **High Speed** : Computers can carry out instructions at a very high speed.
- b. **Storage and retrieval** : In Computerized Accounting System large volume of accounting data can be stored ,transferred and retrieved easily.
- c. **Accuracy** : The reports generated from computerized accounting are free from mistakes.
- d. **Reliability**: Computer is a dependable or reliable system due its high performance and accuracy.
- e. **Versatility**: Computers are capable of performing any task.Multi processing features of computers makes it quiet versatile in nature
- f. **Quality reports**: CAS helps in generating quality reports that are error free,attractive and highly objective.

#### Disadvantages of Computerized Accounting System

- a. **Costly**: Installation of CAS and training to users need large amount .so it is costly.
- b. **Human error**: Entering data into accounting software too quickly may results in serious error
- c. **Lack of knowledge**: Lack of experienced staff is the limitation of computerized accounting.
- d. **Breaches of securities**: Alteration in records by unauthorized persons will mislead the accounting information.

#### Accounting Software or Accounting Packages:

Accounting software is a set of programme which is used to perform accounting work with hardware.

#### Types of Accounting Packages:

- a. **Ready to Use** : Ready to use accounting software means standardized accounting software

available in the markets. It is used in small business units.

- b. Customized :** customized means altered for individual requirements. It is used for medium and large business units.
- c. Tailored:** These packages are specifically designed to meet the specific requirements of the users. It is mainly used by large scale business units.

### **Components of a Computer System:**

Every computer system has the following three basic components. They are,

**A. Input Unit :** These components help users enter data and commands

Eg:- Keyboard, drives and, MICR, OCR etc

**B. Central Processing Unit (CPU) :** It is the portion of a computer that retrieves and executes instruction. It includes:-

- Memory Unit
- Arithmetic and Logic Unit (ALU)
- Control Unit

**C. Output Unit:** It is any piece of a computer hardware equipment which converts information into readable form.

Eg:- Text, graphics etc

### **Elements of a Computer System:**

There are six elements that make up a computer system :

- a. Hardware:** These are the physical aspects of a computer system  
Eg:- Keyboard, Monitor, Printer etc
- b. Software:** These are a set of programmes which help the user to do a specific task
- c. People:** These are the people who interact with the computer system
- d. Procedure:** These are a set of instructions
- e. Data:** These are the raw facts and figures that we input in the computer
- f. Connectivity:** This is when the computers are linked to a network.

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