CHAPTER 1

Introduction to Accounting

(Meaning and Objectives of Accounting and Accounting Information)

MEANING OF KEY TERMS USED IN THE CHAPTER

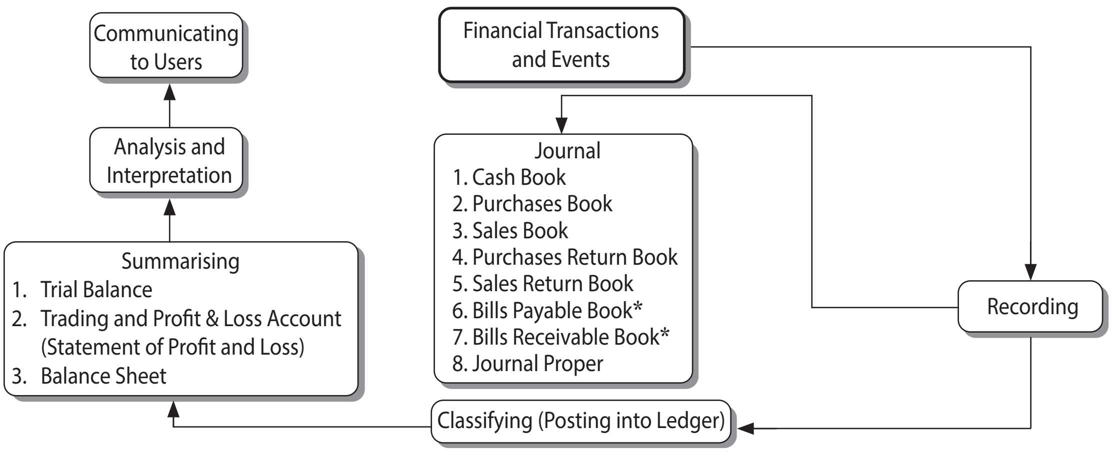
1. **Accounting**	Accounting is a systematic process of identifying, measuring, collecting, recording, classifying, summarising, analysing, interpreting and communicating financial information to the users.
2. **Book Keeping**	Book Keeping is the process of recording financial transactions in a systematic manner and classifying them into ledgers. Book Keeping, thus, involves: (*i*) Identifying financial transactions and events, (*ii*) Measuring them in terms of money, (*iii*) Recording the identified financial transactions and events in the books of account, and (*iv*) Classifying, *i.e.*, posting them into ledger accounts.
3. **Accountancy**	Accountancy is a systematic knowledge of accounting, *i.e.*, it educates how to maintain the books of account.
4. **Trading and Profit & Loss Account (Income Statement)**	Trading and Profit & Loss Account (Statement of Profit & Loss, in case of companies) (Income Statement) shows the profit earned or loss incurred by the enterprise during the accounting year.
5. **Balance Sheet (Position Statement)**	Balance Sheet or Position Statement is the statement which shows the financial position of the enterprise on a particular date.
6. **Accounting Information**	Accounting Information is used for forecasting, comparing and evaluating financial performance and position. It also helps in taking economic decisions.
7. **Double Entry System of Accounting**	Double Entry System of Accounting means a system of accounting whereby both, debit and credit, aspects of a transaction are recorded.
8. **Accounts from Incomplete Records (Single Entry System of Accounting)**	Accounts from Incomplete Records or Single Entry System of Accounting is a system under which both aspects of the transactions are not recorded in all the cases. In some cases both aspects are recorded, while in others either one aspect is recorded or a transaction is not recorded at all.

CHAPTER SUMMARY

- **Meaning of Accounting:** Accounting is a systematic process of identifying, measuring, recording, classifying and summarising in terms of money, transactions and events of a financial nature, analysing, interpreting and communicating the results thereof to the users.
- **Attributes of Accounting:** 1. Identification of Financial Transactions and Events, 2. Measuring the Identified Transactions and Events, 3. Recording, 4. Classifying, 5. Summarising, 6. Analysis and Interpretation, 7. Communicating.
- **Process of Accounting:** Process of Accounting refers to the sequence of accounting procedure for recording, classifying and summarising transactions.

  Recording is the process of entering the financial transactions in the books of original entry (*i.e.*, Journal) in the chronological manner, *i.e.*, date-wise, *classifying* is the process of posting of entries in the ledger so that the transactions of similar nature are accumulated at one place and *summarising* is concerned with the preparation of Financial Statements such as Income Statement and Balance Sheet. *Analysing* and *Interpreting* is the next stage of the accounting process.

Accounting Process



*Not in Syllabus.

- **Difference between Book Keeping and Accounting:** Accounting is a wider concept which includes Book Keeping. Book Keeping is mainly concerned with the recording of financial data which is one aspect of accounting. Accounting is an art of recording, classifying and summarising financial data and interpreting the results thereof to the users. Accounting begins where Book Keeping ends.
- **Objectives of Accounting:** 1. Maintaining Systematic Records of Transactions, 2. Determining Profit or Loss, 3. Ascertaining Financial Position, 4. Facilitating Management, 5. Providing Accounting Information to Users, 6. Protecting Business Assets.
- **Accounting Information:** Accounting information is the information of financial nature relating to entities. It is useful in taking decisions. Accounting information is provided to the users through financial statements.

- **Users of Accounting Information:** Internal users and External users.

Parties	*Areas of Interest*
Internal Users	
1. **Owners or Investors**	(*i*) Profitability, (*ii*) Financial Position, (*iii*) Future Prospects.
2. **Management**	(*i*) Profitability in Relation to Investment, (*ii*) Managerial Decisions, (*iii*) Liquidity of the Concern.
External Users	
3. **Employees and Workers**	(*i*) Profitability.
4. **Banks and Financial Institutions**	(*i*) Performance, (*ii*) Profitability, (*iii*) Financial Position.
5. **Investors and Potential Investors**	(*i*) Earning Capacity, (*ii*) Safety.
6. **Creditors**	(*i*) Profitability, (*ii*) Financial Position.
7. **Government and its Authorities**	(*i*) Profitability, (*ii*) Financial Position, (*iii*) Tax Liability.
8. **Researchers**	(*i*) Accounting Theory, (*ii*) Business Practices, (*iii*) Future Profitability.
9. **Consumers**	(*i*) Pricing.
10. **Public**	(*i*) Protecting Environment, (*ii*) Indirect Contribution for Betterment.

- **Advantages of Accounting:** 1. Financial Information about Business, 2. Assistance to Management, 3. Replaces Memory, 4. Facilitates Comparative Study, 5. Facilitates Settlement of Tax Liability, 6. Facilitates Loan, 7. Evidence in Court, 8. Facilitates Sale of Business, 9. Assistance in the event of insolvency, 10. Helpful in Partnership Accounts and 11. Helpful in Decision-making.
- **Limitations of Accounting:** 1. Accounting is not Fully Exact because estimations also have to be made. 2. Accounting does not Indicate the Realisable Value. 3. Accounting Ignores the Qualitative Elements. 4. Accounting Ignores the Effect of Price Level Changes. 5. Accounting may Lead to Window-Dressing.
- **Systems of Accounting:** 1. Double Entry System, and 2. Single Entry System.

CHAPTER 3

Theory Base of Accounting, Accounting Standards and Indian Accounting Standards (Ind-AS)

MEANING OF KEY TERMS USED IN THE CHAPTER

1. **Generally Accepted Accounting Principles (GAAP)** — Generally Accepted Accounting Principles are basic or fundamental propositions accepted by the accountants based on which transactions are recorded in the books of account and financial statements are prepared.

2. **Fundamental Accounting Assumptions**

 i. **Going Concern Assumption** — Under the assumption, it is presumed that the business will continue for a foreseeable future and there is no intention to close down the business or scale down its operations significantly.

 ii. **Accrual Assumption** — Under the assumption, a transaction is accounted at the time when it is entered into and not when settlement takes place.

 iii. **Consistency Assumption** — Under the assumption, accounting practices once adopted should be applied consistently year after year. They may be changed under following three conditions:
 (*a*) Law requires the change,
 (*b*) Accounting standard requires the change, or
 (*c*) It will result in more fair presentation of financial affairs of the business.

3. **Accounting Standards** — Accounting Standards are the written policy documents covering the aspects of recognition, measurement, treatment, presentation and disclosure of accounting transactions in the financial statements.

4. **International Financial Reporting Standards (IFRS)** — International Financial Reporting Standards (IFRS) are a set of accounting standards issued by IASB based on sound and clearly stated principles.

CHAPTER SUMMARY

- **Accounting Principles:** Accounting is the language of business. To understand the accounting information and for maintaining uniformity and consistency, accounting principles are necessary in accounting.

  Accounting Principles are the norms or rules which are to be followed in treating various items of assets, liabilities, expenses, incomes, etc.

Generally Accepted Accounting Principles (GAAPs) means the rules or guidelines for recording and reporting business transactions, in order to bring uniformity and consistency in the preparation and presentation of financial statements.

- **Features of Accounting Principles**

1. Accounting Principles are man-made.
2. Accounting Principles are flexible.
3. Accounting Principles are generally accepted. The general acceptance of an Accounting Principle usually depends on how well it meets the three *criteria*: *relevance, objectivity* and *feasibility*.

- **Accounting Principles can be classified** *into two categories:*

1. Accounting Concepts, and 2. Accounting Conventions.

- **Fundamental Accounting Assumptions or Concepts**

1. **Going Concern Assumption:** The business will continue for an indefinite period and there is no intention to close the business or downsize its operations significantly.
2. **Consistency Assumption:** Accounting practices once selected and adopted should be applied consistently year after year.
3. **Accrual Assumption:** Transactions are recorded when they have been entered into and not when the settlement takes place.

- **Accounting Principles**

1. **Accounting Entity or Business Entity Principle:** Business is treated as a separate entity distinct from its owners.
2. **Money Measurement Principle:** Transactions and events that can be expressed in money or in money terms are recorded in the books of account.
3. **Accounting Period Principle:** Life of an enterprise is divided into time intervals which are known as accounting periods, at the end of which an income statement and position statement are prepared to show the performance and financial position.
4. **Full Disclosure Principle:** According to this convention, financial statements should be prepared and to that end, full disclosure of all significant information should be made.
5. **Materiality Principle:** Items or events having a significant effect should be disclosed.
6. **Prudence or Conservatism Principle:** Do not anticipate profits but provide for all possible losses.
7. **Cost Concept or Historical Cost Principle:** The underlying principle of cost concept is that the asset be recorded at its cost price, which is the cost of acquisition *less* depreciation.
8. **Matching Concept or Matching Principle:** Cost incurred during a particular period should be set out against the revenue of that period to ascertain profits.
9. **Dual Aspect Concept or Duality Principle:** Every transaction has two aspects: one aspect of a transaction is debited while the other is credited.
10. **Revenue Recognition Concept:** Revenue is recognised in the period in which it is earned irrespective of the fact whether it is received or not during that period.
11. **Verifiable Objective Concept:** There must be objective evidence of transactions which are capable of verification.

- **Accounting Standards** are a set of guidelines, *i.e.*, Generally Accepted Accounting Principles, issued by the accounting body of the country, *i.e.*, The Institute of Chartered Accountants of India (ICAI), that are followed for preparation and presentation of financial statements.
- The objective of setting Accounting Standards is to bring uniformity in accounting practices and to ensure transparency, consistency and comparability.
- **International Financial Reporting Standards (IFRS)** are a set of accounting standards issued by IASB, which came into existence in the year 2001.
- IASB adopted existing International Accounting Standards (IAS) and SIC as their standards. Out of 41 IAS, 12 IAS stand withdrawn and in effect 29 IAS are still applicable.
- IASB issued 9 IFRS and a standard for Small and Medium Enterprises.
- IFRS compliant financial statements are:
  1. Statement of Financial Position,
  2. Comprehensive Income Statement,
  3. Statement of Changes in Equity,
  4. Statement of Cash Flow, and
  5. Notes and Summary of Accounting Policies.
- **Objectives of IASB are**:
  1. To develop, in the public interest, a single set of high-quality, understandable, and enforceable global accounting standards that require high-quality, transparent, and comparable information in financial statements and other financial reporting to help participants in the various capital markets of the world and other users of the information to make economic decisions;
  2. To promote the use and rigorous application of those standards;
  3. In fulfilling the objectives associated with (1) and (2), to take account of, as appropriate, the special needs of small and medium-sized entities and emerging economies; and
  4. To bring about convergence of national accounting standards and International Financial Reporting Standards to high-quality solutions.
- **Difference between IFRS and Indian Accounting Standards (Ind-As)**. The principal difference between the two is that while IFRS are based on principle and fair value, Indian Accounting Standards are based on rules and historical value.
- India decided to converge Indian Accounting Standards with IFRS and has issued converged International Accounting Standards titled '*Ind-AS*'.

India has issued Indian Accounting Standards (Ind-AS) that converge into IFRS. They are the Indian Equivalent of IFRS applicable to select types of companies, *i.e.*,

(*i*) Companies listed on the Stock Exchange in India;

(*ii*) Companies having net worth of ₹ 250 crores or more;

(*iii*) Their Holding, Subsidiary, Associate and Joint Venture Companies.

Ind-AS are notified Indian Accounting Standards under the Companies Act, 2013 and are mandatory for companies to which they apply. Other companies are encouraged to adopt them. So far 40 Ind-AS have been issued.

CHAPTER 4

Bases of Accounting

MEANING OF KEY TERMS USED IN THE CHAPTER

1. Cash Basis of Accounting	It is a system of accounting according to which transactions are recorded in the books of account when cash is transacted whether received or paid.
2. Accrual Basis of Accounting	It is a system of accounting according to which transactions are recorded in the books of account when transaction is entered into irrespective of cash having been received or not.
3. Outstanding Expenses	They are those expenses which have been incurred during the accounting period but have not yet been paid during the year. In the Balance Sheet, they are shown as liability.
4. Prepaid Expenses	They are those expenses which have been paid in advance. In the Balance Sheet, they are shown as an asset.
5. Accrued Income	It is an income which has been earned during the accounting period but has not yet become due for payment and, therefore, has not been received. In the Balance Sheet, it is shown as an asset.
6. Income Received in Advance	It is an income which has been received before it has been earned, *i.e.*, goods have been sold or services have been rendered. In the Balance Sheet, it is shown as a liability.

Terms at serial numbers 3, 4, 5 and 6 will appear when accrual basis of accounting is followed.

CHAPTER SUMMARY

- **Bases of Accounting:** For recording financial transactions, there can be two broad approaches to accounting. These are:

  1. Cash Basis and 2. Accrual or Mercantile Basis.
- **Cash Basis of Accounting:** A system in which accounting entries are made only when cash is transacted whether received or paid.
- **Accrual or Mercantile Basis of Accounting:** A system in which income is recorded when it is earned, whether received or not. Similarly, expense is recorded when incurred, whether paid or not.

  This basis is also known as **Mercantile Basis of Accounting**. Under the Companies Act, 2013, all companies are required to maintain the books of account according to accrual basis of accounting.

CHAPTER 5

Accounting Equation

MEANING OF KEY TERMS USED IN THE CHAPTER

1. **Accounting Equation** — Accounting Equation shows the relationship between capital, liabilities and assets. Total assets are equal to the sum of capital and liabilities.

   Mathematical Expression of Accounting Equation:
   (i) Assets = Liabilities + Capital; or
   (ii) Capital = Assets – Liabilities; or
   (iii) Liabilities = Assets – Capital.

2. **Assets** — Assets are the resources that the business owns. They refer to property or legal rights owned by the business, which can be measured in terms of money.

3. **Liabilities** — Liabilities are the financial obligations of an enterprise other than owner's fund or capital.

4. **Capital** — Capital is the amount invested by the owner in the business.

   Or

   Capital is the excess of assets over external liabilities.

CHAPTER SUMMARY

- **Accounting Equation** is the basis for Double Entry System of Book Keeping. Total assets of the business firm are provided by the creditors/lenders and the owners. Therefore, at any point of time, the total assets of a business are equal to its total liabilities (those of outsiders and of the proprietors). Liabilities to the outsiders are known as **'liabilities'** but liability to the owners, in accounting is referred to as **'capital'**.

  We can express the relationship that exists among assets, liabilities and capital in the form of an accounting equation as follows:

  Total Assets = Total Liabilities

  Or

  Total Assets = Liabilities + Capital

  Or

  Capital = Total Assets – Liabilities

- A transaction may affect either both sides of the equation by the same amount or on one side of the equation only, by both increasing or decreasing it by the equal amounts.
- *An increase in an asset, without a corresponding increase in liability or corresponding decrease in another asset, must represent an increase in capital.*

  Conversely, an increase in liability without a corresponding increase in asset or a corresponding decrease in another liability, will indicate a decrease in capital.

Solved Questions

1. Show an Accounting Equation for the following transactions:

(*i*) D. Mahapatra commenced business with cash ₹ 50,000 and ₹ 1,00,000 by cheque; goods ₹ 60,000; machinery ₹ 1,00,000 and furniture ₹ 50,000.

(*ii*) 1/3rd of the above goods sold at a profit of 10% on cost and half of the payment is received in cash.

(*iii*) Depreciation on machinery provided @ 10%.

(*iv*) Cash withdrawn for personal use ₹ 10,000.

(*v*) Interest on drawings charged @ 5%.

(*vi*) Goods sold to Gupta for ₹ 10,000 and received a cheque for the same amount.

Solution: Refer to Page No. 5.3.

2. Show an Accounting Equation on the basis of the following transactions:

		₹
(*i*)	Sunil started business with cash	1,50,000
(*ii*)	Opened a Bank Account by depositing ₹ 25,000 out of cash	
(*iii*)	He sold his personal car for ₹ 50,000 and deposited the amount in the firm's Bank Account	
(*iv*)	He purchased a building and furniture for	1,00,000
(*v*)	He purchased goods from Ram on credit	50,000
(*vi*)	He paid cartage	500
(*vii*)	He sold to Shyam on credit goods costing ₹ 6,000 for	9,000
(*viii*)	Received rent from tenants	1,000
(*ix*)	Received security deposit from tenants	1,500
(*x*)	Purchased stationery for cash	100
(*xi*)	Invested in shares (personal)	5,000
(*xii*)	Received interest in cash	200
(*xiii*)	Introduced fresh capital	25,000
(*xiv*)	Goods destroyed by fire	500

Solution: Refer to Page No. 5.4.

Solution: Refer to Illustration 1 Page No. 5.2.

Transaction	Assets											=	**Liabilities**	+	**Capital**
No.	Cash	+	Bank	+	Stock	+	Machinery	+	Furniture	+	Debtors	=	Creditors	+	Capital
	₹		₹		₹		₹		₹		₹		₹		₹
(i)	50,000	+	1,00,000	+	60,000	+	1,00,000	+	50,000	+	0	=	0	+	3,60,000
(ii)	11,000	+	0	+	(20,000)	+	0	+	0	+	11,000	=	0	+	2,000
New Equation	61,000	+	1,00,000	+	40,000	+	1,00,000	+	50,000	+	11,000	=	0	+	3,62,000
(iii)	0	+	0	+	0	+	(10,000)	+	0	+	0	=	0	+	(10,000)
New Equation	61,000	+	1,00,000	+	40,000	+	90,000	+	50,000	+	11,000	=	0	+	3,52,000
(iv)	(10,000)	+	0	+	0	+	0	+	0	+	0	=	0	+	(10,000)
New Equation	51,000	+	1,00,000	+	40,000	+	90,000	+	50,000	+	11,000	=	0	+	3,42,000
(v)	0	+	0	+	0	+	0	+	0	+	0	=	0	+	500
														–	500
New Equation	51,000	+	1,00,000	+	40,000	+	90,000	+	50,000	+	11,000	=	0	+	3,42,000
(vi)	0	+	10,000	+	(10,000)	+	0	+	0	+	0	=	0	+	0
New Equation	51,000	+	1,10,000	+	30,000	+	90,000	+	50,000	+	11,000	=	0	+	3,42,000
											3,42,000	=	3,42,000		

Solution: Refer to Illustration 2 Page No. 5.2.

Transaction	Assets									=	Liabilities	+			Capital
No.	Cash ₹	+	Bank ₹	+	Building and Furniture (₹)	+	Stock ₹	+	Debtors ₹	=	Creditor ₹	+	Security Deposit (₹)	+	Capital ₹
(i)	1,50,000	+	0	+	0	+	0	+	0	=	0	+	0	+	1,50,000
(ii)	(25,000)	+	25,000	+	0	+	0	+	0	=	0	+	0	+	0
New Equation	1,25,000	+	25,000	+	0	+	0	+	0	=	0	+	0	+	1,50,000
(iii)	0	+	50,000	+	0	+	0	+	0	=	0	+	0	+	50,000
New Equation	1,25,000	+	75,000	+	0	+	0	+	0	=	0	+	0	+	2,00,000
(iv)	(1,00,000)	+	0	+	1,00,000	+	0	+	0	=	0	+	0	+	0
New Equation	25,000	+	75,000	+	1,00,000	+	0	+	0	=	0	+	0	+	2,00,000
(v)	0	+	0	+	0	+	50,000	+	0	=	50,000	+	0	+	0
New Equation	25,000	+	75,000	+	1,00,000	+	50,000	+	0	=	50,000	+	0	+	2,00,000
(vi)	(500)	+	0	+	0	+	0	+	0	=	0	+	0	+	(500)
New Equation	24,500	+	75,000	+	1,00,000	+	50,000	+	0	=	50,000	+	0	+	1,99,500
(vii)	0	+	0	+	0	+	(6,000)	+	9,000	=	0	+	0	+	3,000
New Equation	24,500	+	75,000	+	1,00,000	+	44,000	+	9,000	=	50,000	+	0	+	2,02,500
(viii)	1,000	+	0	+	0	+	0	+	0	=	0	+	0	+	1,000
New Equation	25,500	+	75,000	+	1,00,000	+	44,000	+	9,000	=	50,000	+	0	+	2,03,500
(ix)	1,500	+	0	+	0	+	0	+	0	=	0	+	1,500	+	0
New Equation	27,000	+	75,000	+	1,00,000	+	44,000	+	9,000	=	50,000	+	1,500	+	2,03,500
(x)	(100)	+	0	+	0	+	0	+	0	=	0	+	0	+	(100)
New Equation	26,900	+	75,000	+	1,00,000	+	44,000	+	9,000	=	50,000	+	1,500	+	2,03,400
(xi)	(5,000)	+	0	+	0	+	0	+	0	=	0	+	0	+	(5,000)
New Equation	21,900	+	75,000	+	1,00,000	+	44,000	+	9,000	=	50,000	+	1,500	+	1,98,400
(xii)	200	+	0	+	0	+	0	+	0	=	0	+	0	+	200
New Equation	22,100	+	75,000	+	1,00,000	+	44,000	+	9,000	=	50,000	+	1,500	+	1,98,600
(xiii)	25,000	+	0	+	0	+	0	+	0	=	0	+	0	+	25,000
New Equation	47,100	+	75,000	+	1,00,000	+	44,000	+	9,000	=	50,000	+	1,500	+	2,23,600
(xiv)	0	+	0	+	0	+	(500)	+	0	=	0	+	0	+	(500)
New Equation	47,100	+	75,000	+	1,00,000	+	43,500	+	9,000	=	50,000	+	1,500	+	2,23,100

3. Draw an Accounting Equation from the following transactions:

(*i*) Commenced business with cash ₹ 50,000, cheque ₹ 1,00,000, goods ₹ 30,000 and furniture ₹ 20,000.

(*ii*) Personal Car of the proprietor was sold for ₹ 1,00,000 against cheque which he deposited in his Savings Account.

(*iii*) An amount of ₹ 50,000 was transferred from his Savings Account to the firm's Bank Account.

(*iv*) A car of ₹ 6,00,000 was purchased for office use. It was paid by taking loan from Bank of ₹ 5,00,000 and issue of cheque of ₹ 1,00,000.

(*v*) Sold goods to Ajay on credit costing ₹ 4,000 for ₹ 5,000.

(*vi*) Sold goods for cash costing ₹ 12,000 for ₹ 16,000.

(*vii*) Purchased goods for cash ₹ 40,000.

(*viii*) Purchased goods on credit for ₹ 20,000.

(*ix*) Paid rent ₹ 3,000 including ₹ 2,000 in advance.

(*x*) Paid salaries ₹ 2,000.

(*xi*) Sold goods costing ₹ 8,000 for ₹ 10,000.

(*xii*) Salaries outstanding ₹ 1,000.

(*xiii*) Charge depreciation on furniture ₹ 500.

Solution: Refer to Page No. 5.6.

Solution: Refer to Illustration 3 Page No. 5.5.

Transaction No.	Assets													=	Liabilities						+ Capital
	Cash	+	Bank	+	Stock	+	Furniture	+	Car	+	Debtors	+	Prepaid Rent	=	Bank Loan	+	Creditors	+	O/s Salary	+	Capital
	₹		₹		₹		₹		₹		₹		₹		₹		₹		₹		₹
(i)	50,000	+	1,00,000	+	30,000	+	20,000	+	0	+	0	+	0	=	0	+	0	+	0	+	2,00,000
(ii)	0	+	0	+	0	+	0	+	0	+	0	+	0	=	0	+	0	+	0	+	0
New Equation	50,000	+	1,00,000	+	30,000	+	20,000	+	0	+	0	+	0	=	0	+	0	+	0	+	2,00,000
(iii)	0	+	50,000	+	0	+	0	+	0	+	0	+	0	=	0	+	0	+	0	+	50,000
New Equation	50,000	+	1,50,000	+	30,000	+	20,000	+	0	+	0	+	0	=	0	+	0	+	0	+	2,50,000
(iv)	0	+	(1,00,000)	+	0	+	0	+	6,00,000	+	0	+	0	=	5,00,000	+	0	+	0	+	0
New Equation	50,000	+	50,000	+	30,000	+	20,000	+	6,00,000	+	0	+	0	=	5,00,000	+	0	+	0	+	2,50,000
(v)	0	+	0	+	(4,000)	+	0	+	0	+	5,000	+	0	=	0	+	0	+	0	+	1,000
New Equation	50,000	+	50,000	+	26,000	+	20,000	+	6,00,000	+	5,000	+	0	=	5,00,000	+	0	+	0	+	2,51,000
(vi)	16,000	+	0	+	(12,000)	+	0	+	0	+	0	+	0	=	0	+	0	+	0	+	4,000
New Equation	66,000	+	50,000	+	14,000	+	20,000	+	6,00,000	+	5,000	+	0	=	5,00,000	+	0	+	0	+	2,55,000
(vii)	(40,000)	+	0	+	40,000	+	0	+	0	+	0	+	0	=	0	+	0	+	0	+	0
New Equation	26,000	+	50,000	+	54,000	+	20,000	+	6,00,000	+	5,000	+	0	=	5,00,000	+	0	+	0	+	2,55,000
(viii)	0	+	0	+	20,000	+	0	+	0	+	0	+	0	=	0	+	20,000	+	0	+	0
New Equation	26,000	+	50,000	+	74,000	+	20,000	+	6,00,000	+	5,000	+	0	=	5,00,000	+	20,000	+	0	+	2,55,000
(ix)	(3,000)	+	0	+	0	+	0	+	0	+	0	+	2,000	=	0	+	0	+	0	+	(1,000)
New Equation	23,000	+	50,000	+	74,000	+	20,000	+	6,00,000	+	5,000	+	2,000	=	5,00,000	+	20,000	+	0	+	2,54,000
(x)	(2,000)	+	0	+	0	+	0	+	0	+	0	+	0	=	0	+	0	+	0	+	(2,000)
New Equation	21,000	+	50,000	+	74,000	+	20,000	+	6,00,000	+	5,000	+	2,000	=	5,00,000	+	20,000	+	0	+	2,52,000
(xi)	10,000	+	0	+	(8,000)	+	0	+	0	+	0	+	0	=	0	+	0	+	0	+	2,000
New Equation	31,000	+	50,000	+	66,000	+	20,000	+	6,00,000	+	5,000	+	2,000	=	5,00,000	+	20,000	+	0	+	2,54,000
(xii)	0	+	0	+	0	+	0	+	0	+	0	+	0	=	0	+	0	+	1,000	+	(1,000)
New Equation	31,000	+	50,000	+	66,000	+	20,000	+	6,00,000	+	5,000	+	2,000	=	5,00,000	+	20,000	+	1,000	+	2,53,000
(xiii)	0	+	0	+	0	+	(500)	+	0	+	0	+	0	=	0	+	0	+	0	+	(500)
New Equation	31,000	+	50,000	+	66,000	+	19,500	+	6,00,000	+	5,000	+	2,000	=	5,00,000	+	20,000	+	1,000	+	2,52,500
													7,73,500	=	7,73,500						

Unsolved Questions

1. Complete the following Accounting Equation by filling the missing amounts:

Accounting Equation

No.	Transactions	Assets (₹)	=	Liabilities (₹)	+	Capital (₹)
(*i*)	Misha Commenced business with cash ₹ 50,000 and goods ₹ 30,000	...(1)...	=	0	+	...(2)...
(*ii*)	Sold 40% goods at a profit of 25% to Mohan	...(3)...	=	0	+	...(4)...
	New Equation	...(5)...	=	0	+	...(6)...
(*iii*)	Paid salary ₹ 4,000 and ₹ 1,000 is outstanding	...(7)...	=	...(8)...	+	(5,000)
	New Equation	...(9)...	=	1,000	+	...(10)...
(*iv*)	Paid ₹ 2,000 as insurance premium including ₹ 500 prepaid	...(11)...	=	0	+	...(12)...
	New Equation	...(13)...	=	1,000	+	...(14)...
(*v*)	Prepaid Rent ₹ 1,000	...(15)...	=	0	+	...(16)...
	New Equation	...(17)...	=	...(18)...	+	76,500
(*vi*)	Goods costing ₹ 2,000 distributed as samples and ₹ 3,000 taken by Misha for personal use	...(19)...	=	0	+	...(20)...
	New Equation	...(21)...	=	1,000	+	...(22)...

[*1: ₹ 80,000; 2: ₹ 80,000; 3: ₹ 3,000; 4: ₹ 3,000; 5: ₹ 83,000; 6: ₹ 83,000; 7: (₹ 4,000); 8: ₹ 1,000; 9: ₹ 79,000; 10: ₹ 78,000; 11: (₹ 1,500); 12: (₹ 1,500); 13: ₹ 77,500; 14: ₹ 76,500; 15: 0; 16: 0; 17: ₹ 77,500; 18: ₹ 1,000; 19: (₹ 5,000); 20: (₹ 5,000); 21: ₹ 72,500; 22: ₹ 71,500.*]

2. Complete the following Accounting Equation by filling the missing amounts:

Accounting Equation

No.	Transactions	Assets (₹)	=	Liabilities (₹)	+	Capital (₹)
(*i*)	Nisha Commenced business with cash ₹ 40,000 and goods ₹ 20,000	...(1)...	=	0	+	...(2)...
(*ii*)	Sold half goods at 25% profit to Ram	...(3)...	=	0	+	...(4)...
	New Equation	...(5)...	=	0	+	...(6)...
(*iii*)	Sold half goods at 10% loss for cash	...(7)...	=	0	+	...(8)...
	New Equation	...(9)...	=	0	+	...(10)...
(*iv*)	Bought goods from Rakesh ₹ 25,000 and paid ₹ 9,000 in cash	...(11)...	=	...(12)...	+	0
	New Equation	...(13)...	=	16,000	+	...(14)...
(*v*)	Bought furniture ₹ 7,000 for office use and ₹ 3,000 for domestic use	...(15)...	=	0	+	...(16)...
	New Equation	...(17)...	=	16,000	+	...(18)...

[*1: ₹ 60,000; 2: ₹ 60,000; 3: ₹ 2,500; 4: ₹ 2,500; 5: ₹ 62,500; 6: ₹ 62,500; 7: (₹ 1,000); 8: (₹ 1,000); 9: ₹ 61,500; 10: ₹ 61,500; 11: ₹ 16,000; 12: ₹ 16,000; 13: ₹ 77,500; 14: ₹ 61,500; 15: (₹ 3,000); 16: (₹ 3,000); 17: ₹ 74,500; 18: ₹ 58,500.*]

CHAPTER 6

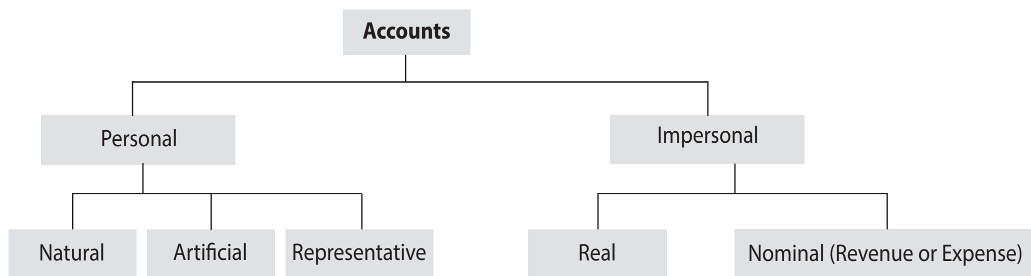
Accounting Procedures— Rules of Debit and Credit

MEANING OF KEY TERMS USED IN THE CHAPTER

1. **Account**	It is a summarised record of transactions at one place relating to a particular head. It records not only the amount of transactions but also their effect and direction.
2. **Balancing**	It means totalling the two sides of an account and striking a balance.
(*a*) **Debit Balance**	It is the difference between total of debit and credit sides of an account, total of debit side being bigger.
(*b*) **Credit Balance**	It is the difference between total of debit and credit sides of an account, total of credit side being bigger.
3. **Rules of Debit and Credit**	
(A) Traditional Classification	
(*i*) **Personal Account**	Debit the receiver and credit the giver.
(*ii*) **Real Account**	Debit what comes in and credit what gives out.
(*iii*) **Nominal Account**	Debit all expenses and losses and credit all incomes and gains.
(B) Modern Classification	
(*i*) **Assets**	Assets are the financial resources of an organisation. Assets have a debit balance. An increase in assets is debited and decrease credited.
(*ii*) **Liabilities**	Liabilities are the claim against the financial resources (*i.e.*, assets). Liabilities have credit balance. An increase in liabilities is credited and decrease debited.
(*iii*) **Capital**	An amount or fund introduced in the business by the owner is known as **capital**. Capital has a credit balance. An increase in capital is credited and decrease debited.
(*iv*) **Expenses**	Expense is a value which has expired during the accounting period. Expenses have a debit balance. An increase in expenses is debited and decrease credited.
(*v*) **Revenue**	Revenue is amount earned on sales of goods, services rendered or for use by others of enterprise's resources. Revenue has a credit balance. An increase in revenue is credited and decrease debited.

CHAPTER SUMMARY

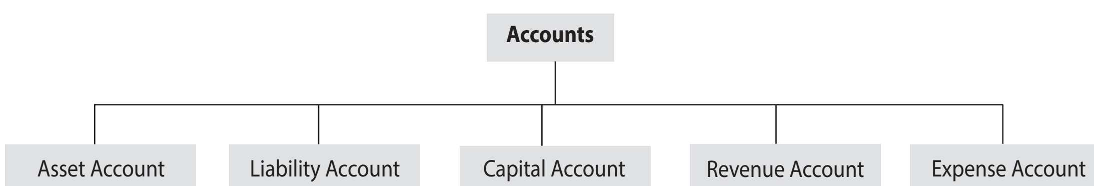
- **An Account** is a summarised record of relevant transactions at one place relating to a particular head. It records not only the amount of transactions but also their effect and direction.
- **Debit and Credit:** Debit and Credit are simply additions to or subtraction from an account. In accounting, debit refers to the left hand side of any account and credit refers to the right hand side. In accounting the abbreviated form **Dr.** stands for debit and **Cr.** stands for credit.
  Both debit and credit may represent either increase or decrease depending upon the nature of an account.
- **Traditional Classification of Accounts**



The Rule of debit and credit depends on the nature of an account.

Types of Account	*Account to be Debited*	*Account to be Credited*
1. Personal Account	Receiver	Giver
2. Real Account	What comes in	What goes out
3. Nominal Account	Expenses and Losses	Income and Gains

- **Modern Classification of Accounts**



The Rule of debit and credit depends on the nature of an account.

RULES FOR DEBIT AND CREDIT

Types of Account	*Account to be Debited*	*Account to be Credited*
1. Asset Account	Increase ↑	Decrease ↓
2. Liability Account	Decrease ↓	Increase ↑
3. Capital Account	Decrease ↓	Increase ↑
4. Revenue Account	Decrease ↓	Increase ↑
5. Expense Account	Increase ↑	Decrease ↓

- Assets, expenses and losses accounts normally have **debit balances**; liability, income and capital accounts normally have **credit balances**.

Solved Questions

1. On which side will the increase in the following accounts be recorded? Also, mention the nature of the account.

(*i*) Machinery A/c	(*ii*) Creditor's A/c	(*iii*) Mohan (Proprietor)
(*iv*) Sales A/c	(*v*) Carriage Outwards A/c	(*vi*) Cash A/c
(*vii*) Debtor's A/c	(*viii*) Rent A/c	(*ix*) Interest Payable A/c

Solution:

(*i*) Debit—Asset	(*ii*) Credit—Liability	(*iii*) Credit—Capital
(*iv*) Credit—Revenue	(*v*) Debit—Expense	(*vi*) Debit—Asset
(*vii*) Debit—Asset	(*viii*) Debit—Expense	(*ix*) Credit—Liability

2. On which side will the decrease in the following accounts be recorded? Also, mention the nature of account.

(*i*) Mohan (Proprietor)	(*ii*) Freight A/c	(*iii*) Cartage A/c
(*iv*) Bank A/c	(*v*) Furniture A/c	(*vi*) Machinery A/c
(*vii*) Sohan (Customer)	(*viii*) Salary Outstanding A/c	(*ix*) Ram (Supplier)

Solution:

(*i*) Debit—Capital	(*ii*) Credit—Expense	(*iii*) Credit—Expense
(*iv*) Credit—Asset	(*v*) Credit—Asset	(*vi*) Credit—Asset
(*vii*) Credit—Asset	(*viii*) Debit—Liability	(*ix*) Debit—Liability

3. *State with reasons, when each of the following accounts are debited or credited:*

(*i*) *Accounts to be debited*	(*ii*) *Accounts to be credited*
(*a*) Pushkar's Drawings A/c	(*a*) Pushkar's Capital A/c
(*b*) Furniture A/c	(*b*) Machinery A/c
(*c*) Salary A/c	(*c*) Commission A/c
(*d*) Bank A/c	(*d*) Bank A/c

Solution:

(*i*) Reasons when the following are debited:

(*a*) *Pushkar's Drawings A/c:* At the time when the proprietor withdraws cash, goods or services from his business for personal use, Drawings Account is debited.

(*b*) *Furniture A/c:* At the time when the furniture is purchased not with the purpose to resell but for use in business, it is a fixed asset.

(*c*) *Salary A/c:* Salary to the office staff, paid or payable is debited to Salary Account being an expense and at the year-end it is transferred to Profit & Loss Account.

(*d*) *Bank A/c:* At the time when cash or a cheque or a bank draft is deposited.

(*ii*) Reasons when the following are credited:

(*a*) *Pushkar's Capital A/c:* At the time when Pushkar introduces cash or assets into his business as capital.

(*b*) *Machinery A/c:* At the time when machinery is sold or discarded.

(*c*) *Commission A/c:* At the time when commission is earned.

(*d*) *Bank A/c:* At the time when cash is withdrawn or a cheque issued or a Bill Payable is presented for payment.

Unsolved Questions

1. Following is the list of various accounts. Find out which are Asset, Liability, Capital, Revenue or Expense Account:

(*i*) Machinery (*ii*) Bank (*iii*) Sales
(*iv*) Purchases (*v*) Unsold Stock (*vi*) Bank Overdraft
(*vii*) Ram (Customer) (*viii*) Cash (*ix*) Interest Received
(*x*) Mohan (Proprietor)

[*Asset*—(*i*), (*ii*), (*v*), (*vii*), (*viii*); *Liability*—(*vi*); *Capital*—(*x*); *Revenue*—(*iii*), (*ix*); *Expense*—(*iv*).]

2. You are given a number of accounts below. State which of them will show a debit balance and which a credit balance:

(*i*) Carriage (*ii*) Machinery (*iii*) Sales
(*iv*) Cash (*v*) Ram (Customer) (*vi*) Sales Return
(*vii*) Purchases (*viii*) Bad Debts (*ix*) Discount Allowed
(*x*) Rent (*xi*) Commission Received (*xii*) Capital
(*xiii*) Repairs (*xiv*) Purchases Return

[(*iii*), (*xi*), (*xii*), *and* (*xiv*) *will show Credit Balance. Rest of them will have Debit Balance.*]

3. Put the following transactions on the proper side of an Interest Account:

(*i*) Interest earned ₹ 2,000 (*ii*) Interest paid ₹ 1,000 (*iii*) Interest due ₹ 500.

[(*i*)—*Credit;* (*ii*)—*Debit;* (*iii*)—*Debit.*]

CHAPTER 7

Origin of Transactions—Source Documents and Preparation of Vouchers

MEANING OF KEY TERMS USED IN THE CHAPTER

1. **Source Documents or Source Voucher**	It is a written document evidencing the transaction and contains details of the transaction. Examples are: Cash Memo, Invoice, Bill, etc.
2. **Cash Memo**	Cash Memo is a document of sale of goods against cash. It is issued by seller to the buyer. It has details of goods sold such as quantity, rate of each item and total amount received.
3. **Invoice or Bill**	Invoice is a document of sale of goods on credit. It has the details of goods sold and also the name of the buyer.
4. **Receipt**	Receipt is an acknowledgment of amount received. It has the details for date, amount and the name of the payee of the amount.
5. **Pay-in-Slip**	This is a form provided by the bank to deposit amount into the bank.
6. **Cheque**	Cheque is an order to the bank, in writing, to pay specified amount to the bearer or to the person named in it.
7. **Debit Note**	Debit Note is issued by a firm to its supplier/creditor for debiting his account say, for goods returned to supplier or any other reason.
8. **Credit Note**	Credit Note is issued by a firm to its customer for crediting his account say, for goods returned by the customer or any other reason.
9. **Accounting Voucher**	It is a written document prepared on the basis of Source Document or Source Voucher showing the account debited or credited.
10. **Cash Voucher**	Cash Voucher is used for cash transactions.
11. **Debit Voucher**	Debit Voucher is prepared when payment is made.
12. **Credit Voucher**	Credit Voucher is prepared when cash is received.
13. **Transfer Voucher**	Transfer Vouchers are used for recording non-cash transactions like, goods returned (both returns inward and returns outward) adjustment entries, etc.

CHAPTER SUMMARY

- Financial accounting records contain factual financial information and, therefore, all business transactions should be evidenced by documentary evidence. For example, a cash memo showing cash sales, an invoice showing sale of goods on credit, the receipt made out by the payee against cash payment, are all examples of source documents.
- A voucher is a document providing evidence of a business transaction.
- **Types of Vouchers:** 1. Supporting Vouchers and 2. Accounting Vouchers.
  1. **Supporting Vouchers:** These vouchers are generated following a business transaction. These vouchers are the documentary evidence of business transactions having taken place.
  2. **Accounting Vouchers:** These are secondary vouchers prepared on the basis of supporting vouchers by an Accountant and countersigned by an authorised person of the organisation for the purpose of recording in the books of account.

     These vouchers may be classified into the following categories:

     (*i*) Cash Vouchers and (*ii*) Non-Cash Vouchers or Transfer Vouchers.

CHAPTER 8

Journal

MEANING OF KEY TERMS USED IN THE CHAPTER

1. **Journal**	It is the primary book of account in which transactions are first recorded in a chronological order, *i.e.*, in the order they are entered into.
2. **Book of Original Entry**	It is the book in which a transaction is first recorded, *i.e.*, Journal book.
3. **Bad Debts**	It is the amount which is not recoverable and hence, written off.
4. **Bad Debts Recovered**	It is the amount which was earlier written off as Bad Debt and is later recovered, in full or in part.
5. **Discount**	
• **Trade Discount**	It is a discount allowed to the purchaser of goods when goods are purchased in large quantity.
• **Cash Discount**	It is a discount allowed on receipt of amount promptly, *i.e.*, within the agreed time.
• **Rebate**	Rebate is the discount allowed for reasons other than those for which trade discount and cash discount are allowed. For example, rebate allowed for poor quality of goods, goods being not as per specification, etc.
6. **Simple Journal Entry**	It is a Journal entry in which one account is debited and another account is credited.
7. **Compound Journal Entry**	It is a Journal entry in which one or more accounts are debited and/or credited.
8. **Opening Entry**	It is the first entry passed in the Journal book incorporating the closing balances of previous year.
9. **Goods and Services Tax (GST)**	Goods and Services Tax (GST) is a comprehensive indirect tax charged each time the supply is made, *i.e.*, each time the goods are sold and/or services are rendered, except on the exempt goods and services.

CHAPTER SUMMARY

- **Journal** is the primary book of account in which transactions are first recorded in a chronological (day-to-day) order.
- **Journal** is a book of original entry because a transaction is first entered in the Journal from where it is posted to the Ledger.
- **Journal entry** may be (*i*) Simple Journal Entry; or (*ii*) Compound Journal Entry.
  (*i*) *Simple Journal Entry* is a Journal entry in which one account is debited and another account is credited.
  (*ii*) *Compound Journal Entry* is a Journal entry, which involves more than two accounts. It means it is an entry in which one or more than one accounts are debited and/or credited.

- **Opening Entry:** In case of an existing business, assets and liabilities existing in the previous year's Balance Sheet will have to be brought forward to the current year. These assets and liabilities are brought in the books of account of new financial year by means of a Journal entry termed as **Opening Entry**.

- **Steps in Journalising**

  Step 1: Identify the accounts involved in the transaction.

  Step 2: Determine the nature of accounts, *i.e.*, Asset, Liability, Capital, Expense or Revenue.

  Step 3: Apply the rules for 'Debit' and 'Credit'.

  Step 4: Draw ruling of a Journal and record the transaction.

- **Advantages of Journal**
  1. It reduces the possibility of errors.
  2. It provides an explanation to an entry by way of narration.
  3. It provides a chronological record of transactions.
  4. It provides the base for posting of transactions in ledger accounts.
  5. It helps in locating the errors.

- **Disadvantages of Journal**
  1. Unsuitable for Large Volume of Transactions.
  2. Not a simple system of recording.
  3. Cash Balance is not revealed.
  4. Not a substitute of ledger.

IMPORTANT JOURNAL ENTRIES

Transaction	*Journal Entry*	
1. Amount brought into the business as capital	Cash or Bank A/c	...Dr.
	To Capital A/c	
2. Cash and other assets brought into business	Building A/c	...Dr.
	Plant and Machinery A/c	...Dr.
	Furniture A/c	...Dr.
	Cash or Bank A/c	...Dr.
	To Capital A/c	
3. Goods purchased on credit	Purchases A/c	...Dr.
	To Supplier's A/c	
4. Sale of goods on credit	Customer's A/c	...Dr.
	To Sales A/c	
5. Goods purchased for cash	Purchases A/c	...Dr.
	To Cash or Bank A/c	

6. Cash sales	Cash or Bank A/c ...Dr. To Sales A/c
7. Opening a Bank Account	Bank A/c ...Dr. To Cash A/c To Capital A/c (If opened with personal cash/cheque)
8. Withdrawal of cash from bank	Cash A/c (Office Cash) ...Dr. Drawings A/c (Personal use) ...Dr. To Bank A/c
9. Collection of cash/cheque from customers (and discount allowed, if any)	Cash or Bank A/c (Net amount) ...Dr. Discount Allowed A/c (Discount) ...Dr. To Customers' A/c
10. For payment of cash/cheque to suppliers (and discount received, if any)	Suppliers' A/c ...Dr. To Cash or Bank A/c (Net Amount) To Discount Received A/c (Discount)
11. Bad Debts	Bad Debts A/c ...Dr. To Debtor's A/c
12. Recovery of Bad Debts	Cash or Bank A/c ...Dr. To Bad Debts Recovered A/c
13. Purchase of machinery for cash	Machinery A/c ...Dr. To Cash or Bank A/c
14. Purchase of Machinery on Credit	Machinery A/c ...Dr. To Supplier's A/c
15. Depreciation charged on assets	Depreciation A/c ...Dr. To Asset A/c
16. Sale or disposal of any old asset at a loss	Cash or Bank A/c ...Dr. Loss on Sale of Asset A/c (Profit & Loss A/c) ...Dr. To Asset A/c
17. Sale or disposal of any old asset at a profit	Cash or Bank A/c ...Dr. To Asset A/c To Gain (Profit) on Sale of Asset A/c (Profit & Loss A/c)
18. Goods returned by the customer	Returns Inward A/c ...Dr. To Debtor's A/c
19. Goods returned to the supplier	Creditor's A/c ...Dr. To Returns Outward A/c
20. Distribution of goods as samples	Advertisement/Samples/Sales Promotion Expenses A/c ...Dr. To Purchases A/c (Trader)

21. For abnormal loss of goods (Fire/Stolen)	Bank A/c (Insurance claim received) ...Dr. *Or* Insurance Claim A/c (Insurance claim admitted) ...Dr. Abnormal Loss A/c (Insurance claim not admitted) ...Dr. To Purchases A/c

Solved Questions

1 Journalise the following transactions in the books of Gupta Bros.:

Date	Particulars	₹
2023		
March 1	Started business with cash ₹ 30,000; goods ₹ 15,000 and furniture ₹ 20,000	
March 2	Paid into bank	20,000
March 3	Bought goods from Mohan Bros. on credit	7,000
March 4	Sold goods to Goyal Bros. on credit	6,000
March 5	Bought a vehicle for delivering goods to customers	10,000
March 7	Received from salesman for goods sold by him after deducting commission ₹ 150	3,000
March 9	Drawn a cheque for ₹ 800 for personal use	
March 10	Goyal Bros. gave cheque; deposited in the bank	6,000
March 11	Paid to Mohan Bros. by cheque	6,700
	Discount allowed by him	300
March 13	Paid for repairs of furniture	200
March 13	Received an order for goods from Mahesh	5,000
March 14	Sold old newspapers	80
March 15	Interest received from bank	400
March 16	Paid ₹ 300 for expenses on goods sold to Goyal Bros. This amount to be realised from Goyal Bros.	
March 19	Bought goods from Sohan Lal & Sons	400
	Paid cartage on these goods	50
March 20	Bank intimates that the cheque of Goyal Bros. has been returned dishonoured	
March 21	The vehicle bought on March 5 met with an accident resulting in complete loss. Its salvage was sold for ₹ 500	
March 22	Paid rent by cheque	600
March 23	Salaries for the month of February remain unpaid	300
March 25	Paid Municipal taxes in cash	800
March 31	Depreciation charged on furniture @ 10%	
	Received an order for goods ₹ 5,000 from Shyam and received ₹ 1,000 as advance	

Solution:

In the Books of Gupta Bros.

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2023					
March 1	Cash A/c	...Dr.		30,000	
	Stock A/c	...Dr.		15,000	
	Furniture A/c	...Dr.		20,000	
	To Capital A/c				65,000
	(Being the business started with cash, goods and furniture)				
March 2	Bank A/c	...Dr.		20,000	
	To Cash A/c				20,000
	(Being the cash paid into bank)				
March 3	Purchases A/c	...Dr.		7,000	
	To Mohan Bros.				7,000
	(Being the goods purchased from Mohan Bros.)				
March 4	Goyal Bros.	...Dr.		6,000	
	To Sales A/c				6,000
	(Being the goods sold to Goyal Bros.)				
March 5	Vehicle A/c	...Dr.		10,000	
	To Cash A/c				10,000
	(Being a vehicle purchased for delivering goods to customers)				
March 7	Cash A/c	...Dr.		3,000	
	Commission Paid A/c	...Dr.		150	
	To Sales A/c				3,150
	(Being the cash received from salesman after deducting commission)				
March 9	Drawings A/c	...Dr.		800	
	To Bank A/c				800
	(Being the cheque drawn out of bank for personal use)				
March 10	Bank A/c	...Dr.		6,000	
	To Goyal Bros.				6,000
	(Being the cheque received from Goyal Bros., deposited in bank)				
March 11	Mohan Bros.	...Dr.		7,000	
	To Bank A/c				6,700
	To Discount Received A/c				300
	(Being the payment made by cheque and discount received)				
March 13	Repairs A/c	...Dr.		200	
	To Cash A/c				200
	(Being the amount paid for repairs of furniture)				
	Total *c/f*			1,25,150	1,25,150

	Total *b/f*			1,25,150	1,25,150
March 13	In receipt of an order or on placing an order or tender, no entry will be passed, because it is not a transaction.				
March 14	Cash A/c	...Dr.		80	
	To Sundry Receipts A/c				80
	(Being the cash received by sale of old newspapers)				
March 15	Bank A/c	...Dr.		400	
	To Interest Received A/c				400
	(Being the interest received from bank)				
March 16	Goyal Bros.	...Dr.		300	
	To Cash A/c				300
	(Being the expenses on goods sold to Goyal Bros.)				
March 19	Purchases A/c	...Dr.		400	
	Cartage A/c	...Dr.		50	
	To Sohan Lal & Sons				400
	To Cash A/c				50
	(Being the goods purchased from Sohan Lal & Sons and paid cartage)				
March 20	Goyal Bros.	...Dr.		6,000	
	To Bank A/c				6,000
	(Being the cheque received from Goyal Bros. dishonoured)				
March 21	Cash A/c	...Dr.		500	
	Loss by Accident A/c (Profit & Loss A/c)	...Dr.		9,500	
	To Vehicle A/c				10,000
	(Being the cash received by sale of salvage of vehicle)				
March 22	Rent A/c	...Dr.		600	
	To Bank A/c				600
	(Being the rent paid by cheque)				
March 23	Salaries A/c	...Dr.		300	
	To Outstanding Salaries A/c				300
	(Being the salaries for the month of February unpaid)				
March 25	Municipal Taxes A/c	...Dr.		800	
	To Cash A/c				800
	(Being the amount paid for municipal taxes)				
March 31	Depreciation A/c	...Dr.		2,000	
	To Furniture A/c				2,000
	(Being the depreciation charged on furniture @ 10%)				
	Cash A/c	...Dr.		1,000	
	To Advance from Shyam A/c				1,000
	(Being the cash received from Shyam as advance)				
	Total			1,47,080	1,47,080

2. Journalise the following transactions in the Journal of a firm:

(*i*) Car purchased for business use ₹ 10,000.

(*ii*) Cash received from a debtor ₹ 5,000 whose account was written off as bad debts during the last month.

(*iii*) Goods costing ₹ 16,000 were sold at a profit of 20% on sale price to Amrit and allowed 10% discount on immediate payment.

(*iv*) Cash embezzled by an employee ₹ 2,000.

(*v*) A machine which stood in the books for ₹ 85,000 on 1st April, 2022 was sold for ₹ 51,000 in exchange for a new machine costing ₹ 1,76,000 supplied by D.K. Suppliers on 1st June, 2022.

(*vi*) Cash of ₹ 24,000 invested in shares of SAIL and payment made through bank.

(*vii*) Sold goods to Bhanu for ₹ 26,400 and freight ₹ 700 (to be charged from customer).

(*viii*) Received an order for 100 Kgs of goods @ ₹ 450 per kg from Shiv Bros.

(*ix*) Bought from M/s. Kamath Bros. 200 cases of goods @ ₹ 350 per case *less* Trade Discount of 10%. Purchase terms provide that 15% cash discount will be allowed provided that payment is made within 15 days of purchase. 60% of the invoice was paid immediately.

(*x*) Received interest from bank ₹ 2,500 on fixed deposits.

(*xi*) Income tax paid ₹ 5,000.

(*xii*) Goods (cost ₹ 3,000, sales price ₹ 4,000) taken away by the proprietor for his personal use.

(*xiii*) Placed an order with Manoj for the supply of goods of the list price of ₹ 1,00,000. In this connection, issued a cheque of 10% of the list price as an advance.

(*xiv*) Paid life insurance premium ₹ 3,500.

(*xv*) Paid rent of building ₹ 80,000 by cheque, half of the building is used by the proprietor for residential use.

(*xvi*) Paid ₹ 9,000 to Mohan on his account for ₹ 10,000.

(*xvii*) Cheque of ₹ 20,000 received from Arun (Debtor) and endorsed to Ramesh (Creditor) was dishonoured.

(*xviii*) Goods costing ₹ 10,000 destroyed in fire.

Solution:

JOURNAL

Date		Particulars		L.F.	Dr. (₹)	Cr. (₹)
(*i*)		Car A/c	...Dr.		10,000	
		To Cash A/c				10,000
		(Being a car purchased for business use)				
(*ii*)		Cash A/c	...Dr.		5,000	
		To Bad Debts Recovered A/c				5,000
		(Being cash received against bad debts)				
(*iii*)	(*a*)	Amrit	...Dr.		20,000	
		To Sales A/c				20,000
		(Being the goods sold at profit of 20% on sale price) (WN 1)				
	(*b*)	Cash A/c	...Dr.		18,000	
		Discount Allowed A/c	...Dr.		2,000	
		To Amrit				20,000
		(Being cash received and allowed 10% discount)				
(*iv*)		Loss by Embezzlement A/c	...Dr.		2,000	
		To Cash A/c				2,000
		(Being cash embezzled by an employee)				
(*v*)	(*a*)	D.K. Suppliers	...Dr.		51,000	
		Loss on Sale of Machine A/c	...Dr.		34,000	
		To Machinery A/c				85,000
		(Being the loss on sale of machine recorded)				
	(*b*)	Machinery A/c	...Dr.		1,76,000	
		To D.K. Suppliers				1,76,000
		(Being an old machine of ₹ 85,000 sold at ₹ 51,000 in exchange for a new machine costing ₹ 1,76,000)				
		Alternatively, combined entry of (*a*) and (*b*)				
		Machinery A/c (New Machine)	...Dr.		1,76,000	
		Loss on Sale of Machine A/c	...Dr.		34,000	
		To Machinery A/c (Old Machine)				85,000
		To D.K. Suppliers (Net Invoice)				1,25,000
		(Being an old machine of ₹ 85,000 sold at ₹ 51,000 in exchange for a new machine costing ₹ 1,76,000)				
(*vi*)		Investment A/c	...Dr.		24,000	
		To Bank A/c				24,000
		(Being the investment made in shares of SAIL)				
(*vii*)		Bhanu	...Dr.		27,100	
		To Sales A/c				26,400
		To Cash A/c				700
		(Being the goods sold on credit and freight to be charged from customer)				
(*viii*)		**No entry can be passed**. This is not a transaction.				
(*ix*)	(*a*)	Purchases A/c	...Dr.		63,000	
		To M/s. Kamath Bros.				63,000
		(Being 200 cases of goods @ ₹ 350 per case purchased *less* trade discount 10%) (WN 2)				
	(*b*)	M/s. Kamath Bros.	...Dr.		37,800	
		To Cash A/c				32,130
		To Discount Received A/c				5,670
		(Being 60% of invoice price of ₹ 63,000 paid and received 15% cash discount)				

(*x*)	Bank A/c ...Dr. To Interest on Fixed Deposits A/c (Being interest received from bank on Fixed Deposits A/c)		2,500	2,500
(*xi*)	Drawings A/c ...Dr. To Bank A/c (Being income tax paid) (WN 3)		5,000	5,000
(*xii*)	Drawings A/c ...Dr. To Purchases A/c (Being goods withdrawn for personal use)		3,000	3,000
(*xiii*)	Advance to Manoj A/c ...Dr. To Bank A/c (Being advance paid to Manoj)		10,000	10,000
(*xiv*)	Drawings A/c ...Dr. To Bank A/c (Being life insurance premium paid)		3,500	3,500
(*xv*) (*a*)	Rent A/c ...Dr. To Bank A/c (Being the rent paid for building)		80,000	80,000
(*b*)	Drawings A/c ...Dr. To Rent A/c (Being the rent for half building charged to proprietor)		40,000	40,000
(*xvi*)	Mohan ...Dr. To Cash A/c (Being the cash paid to Mohan on account)		9,000	9,000
(*xvii*)	Arun ...Dr. To Ramesh (Being the cheque of Arun endorsed to Ramesh dishonoured)		20,000	20,000
(*xviii*)	Loss of Goods by Fire A/c ...Dr. To Purchases A/c (Being the loss of goods)		10,000	10,000

Working Notes:

1. *Calculation of selling price for transaction No. iii:*
   Goods were sold @ 20% profit on sale price. So, when selling price is ₹ 100, cost would be ₹ 80 (*i.e.*, 100 – 20). Hence, profit % on cost = ₹ 20/₹ 80 × 100 = 25% (or 1/4th on cost)

	₹
Cost of the Goods	16,000
Add: 25% Profit on Cost	4,000
Selling Price	20,000

2. *Calculation of invoice price and cash discount received:*

	₹
200 cases of goods @ ₹ 350 per case	70,000
Less: Trade discount 10%	7,000
Invoice Price	63,000
60% of Invoice Price (60/100 × 63,000)	37,800
Less: Cash discount (15% of ₹ 37,800)	5,670
Amount paid	32,130

3. It is assumed that income tax was paid for the proprietor as it is not a company. Thus, it is treated as drawings of the proprietor.

3. Journalise the following transactions in the books of M/s. Consolidated Sales:

(*i*) Purchased goods of list price of ₹ 50,000 from Rahul at 20% trade discount.

(*ii*) Purchased goods of list price of ₹ 25,000 from Vikas at 20% trade discount against cheque payment.

(*iii*) Purchased goods of list price of ₹ 25,000 from Nitin at 15% trade discount against cash.

(*iv*) Purchased goods of list price of ₹ 40,000 for ₹ 35,000 for cash.

(*v*) Goods returned of list price ₹ 10,000 purchased from Rahul.

(*vi*) Sold goods to Amit at list price of ₹ 10,000 at 10% trade discount.

(*vii*) Sold goods to Raman at list price of ₹ 20,000 at 10% trade discount against cheque payment.

(*viii*) Sold goods to Akash at list price of ₹ 15,000 at 10% trade discount against cash.

(*ix*) Sold goods to Yogesh at list price of ₹ 15,000 for ₹ 14,000.

(*x*) Sold goods costing ₹ 10,000 at cost *plus* 20% profit *less* 10% trade discount to Sujit.

(*xi*) Sold goods purchased at list price of ₹ 25,000 *less* 15% trade discount sold at a profit of 20% *less* 10% trade discount against cheque.

(*xii*) Akash returned goods of list price ₹ 5,000 sold to him at 10% trade discount.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(*i*)	Purchases A/c ...Dr. To Rahul (Being the goods purchased of list price ₹ 50,000 *less* 20% trade discount)		40,000	 40,000
(*ii*)	Purchases A/c ...Dr. To Bank A/c (Being the goods purchased of list price ₹ 25,000 at 20% trade discount against cheque payment)		20,000	 20,000
(*iii*)	Purchases A/c ...Dr. To Cash A/c (Being the goods purchased of list price ₹ 25,000 *less* 15% trade discount against cash payment)		21,250	 21,250
(*iv*)	Purchases A/c ...Dr. To Cash A/c (Being the goods purchased of list price of ₹ 40,000 for ₹ 35,000 against cash payment) **Note:** Purchase of goods for ₹ 35,000 against list price of ₹ 40,000 means ₹ 5,000 is trade discount.		35,000	 35,000
(*v*)	Rahul ...Dr. To Purchases Return A/c (Being the goods of list price ₹ 10,000 *less* 20% trade discount returned)		8,000	 8,000

(*vi*)	Amit ...Dr. To Sales A/c (Being the goods of list price ₹ 10,000 sold at 10% trade discount)			9,000	9,000
(*vii*)	Bank A/c ...Dr. To Sales A/c (Being the goods of list price ₹ 20,000 sold at 10% trade discount against cheque)			18,000	18,000
(*viii*)	Cash A/c ...Dr. To Sales A/c (Being the goods of list price ₹ 15,000 sold at 10% trade discount to Akash against cash payment)			13,500	13,500
(*ix*)	Yogesh ...Dr. To Sales A/c (Being the goods of list price ₹ 15,000 sold for ₹ 14,000) **Note:** Sale of goods for ₹ 15,000 for ₹ 14,000 means trade discount of ₹ 1,000 has been allowed.			14,000	14,000
(*x*)	Sujit ...Dr. To Sales A/c (Being the goods sold at cost + 20% profit – 10% trade discount, *i.e.*, ₹ Cost 10,000 *Add:* Profit of 20% 2,000 12,000 *Less:* Trade Discount 10% 1,200 10,800)			10,800	10,800
(*xi*)	Bank A/c ...Dr. To Sales A/c (Being the goods sold against cheque ₹ List price 25,000 *Less:* Trade Discount (15%) Received 3,750 21,250 *Add:* Profit (20%) 4,250 25,500 *Less:* Trade Discount (10%) Allowed 2,550 22,950)			22,950	22,950
(*xii*)	Sales Return A/c ...Dr. To Akash (Being the goods returned by Akash of list price ₹ 5,000 *less* 10% trade discount)			4,500	4,500

4. Journalise the following transactions in the books of Bhushan Agencies:

(*i*) Received from Sahil ₹ 10,000 in cash allowed him discount of ₹ 200.

(*ii*) Received from Mukesh ₹ 25,000 by cheque allowed him discount of ₹ 500.

(*iii*) Received from Abhay ₹ 26,500 in settlement of his dues of ₹ 27,500 in cash.

(*iv*) Received from Satish ₹ 40,000 by cheque on account against dues of ₹ 60,000.

(*v*) Paid cash ₹ 20,000 to Kamal availed discount of 2%.

(*vi*) Paid by cheque of ₹ 15,000 to Manoj and settled his dues of ₹ 16,000.

(*vii*) Paid to ₹ 25,000 Sushil by cheque on account.

(*viii*) Purchased goods costing ₹ 25,000 against cheque and availed discount of 2%.

(*ix*) Purchased goods costing ₹ 50,000 from Rakesh & Co. paid 50% immediately for availing 2% discount.

(*x*) Sold goods of ₹ 20,000 against cheque allowing 2% discount.

(*xi*) Sold goods of ₹ 60,000 to Vishal, received 50% of due amount allowing 2% discount.

Solution:

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
(*i*)	Cash A/c	...Dr.		10,000	
	Discount Allowed A/c	...Dr.		200	
	To Sahil				10,200
	(Being the cash received from Sahil and allowed discount)				
(*ii*)	Bank A/c	...Dr.		25,000	
	Discount Allowed A/c	...Dr.		500	
	To Mukesh				25,500
	(Being the cheque received from Mukesh and allowed discount)				
(*iii*)	Cash A/c	...Dr.		26,500	
	Discount Allowed A/c	...Dr.		1,000	
	To Abhay				27,500
	(Being the amount received from Abhay and allowed discount)				
(*iv*)	Bank A/c	...Dr.		40,000	
	To Satish				40,000
	(Being the amount received on account)				
(*v*)	Kamal	...Dr.		20,400	
	To Cash A/c				20,000
	To Discount Received A/c				400
	(Being the amount paid and cash discount received)				
(*vi*)	Manoj	...Dr.		16,000	
	To Bank A/c				15,000
	To Discount Received A/c				1,000
	(Being the amount paid and discount received)				
(*vii*)	Sushil	...Dr.		25,000	
	To Bank A/c				25,000
	(Being the amount paid on account)				
(*viii*)	Purchases A/c	...Dr.		25,000	
	To Bank A/c				24,500
	To Discount Received A/c				500
	(Being the goods purchased against cheque and discount availed)				
	Note: Cash discount received is accounted as income				

(*ix*)	Purchases A/c ...Dr.		50,000	
	To Cash A/c			24,500
	To Rakesh & Co.			25,000
	To Discount Received A/c			500
	(Being the goods purchased paying 50% availing 2% discount)			
	Note: Cash discount will be received on amount paid, *i.e.*, 2% of ₹ 25,000.			
(*x*)	Bank A/c ...Dr.		19,600	
	Discount Allowed A/c ...Dr.		400	
	To Sales A/c			20,000
	(Being the goods sold against cheque allowing 2% discount)			
(*xi*)	Cash A/c ...Dr.		29,400	
	Vishal ...Dr.		30,000	
	Discount Allowed A/c ...Dr.		600	
	To Sales A/c			60,000
	(Being the goods sold receiving 50% of sales, allowing 2% discount)			
	Note: Cash discount will be allowed on amount received, *i.e.*, 2% of ₹ 30,000.			

5. Pass the correct Journal entries on the basis of the narrations:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(*i*)	Purchase A/c ...Dr.		2,000	
	To Cash A/c			2,000
	(Being the goods returned by *Y* costing ₹ 2,000)			
(*ii*)	Income Tax A/c ...Dr.		1,000	
	To Cash A/c			1,000
	(Being the income tax paid)			
(*iii*)	Bank A/c ...Dr.		5,000	
	To *Y*			5,000
	(Being the cheque received from *Y* dishonoured)			
(*iv*)	Cash A/c ...Dr.		1,000	
	To Commission A/c			1,000
	(Being the commission 1/5th received in advance out of ₹ 1,000)			
(*v*)	Charity A/c ...Dr.		2,000	
	To Purchases A/c			2,000
	(Being the goods distributed as samples)			
(*vi*)	Interest A/c ...Dr.		4,000	
	To Accrued Interest A/c			4,000
	(Being the interest accrued)			
(*vii*)	Outstanding Salary A/c ...Dr.		12,000	
	To Salary A/c			12,000
	(Being the salary outstanding was paid by giving a cheque of ₹ 12,000)			
(*viii*)	Cash A/c ...Dr.		25,000	
	To Lata's Loan A/c			25,000
	(Being Lata's loan of ₹ 25,000 was repaid by giving a machine of ₹ 20,000 in full settlement)			
(*ix*)	Electricity A/c ...Dr.		3,000	
	To Cash A/c			3,000
	(Being the electricity bill remain unpaid)			
(*x*)	Purchases Return A/c ...Dr.		2,000	
	To Kailash			2,000
	(Being the goods of ₹ 2,000 returned to Kailash)			

Solution:

CORRECT JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(*i*)	Sales Return A/c ...Dr.		2,000	
	To *Y*			2,000
	(Being the goods returned by *Y* costing ₹ 2,000)			
(*ii*)	Drawings A/c ...Dr.		1,000	
	To Cash A/c			1,000
	(Being the income tax paid)			
(*iii*)	*Y* ...Dr.		5,000	
	To Bank A/c			5,000
	(Being the cheque received from *Y* dishonoured)			
(*iv*)	Cash A/c ...Dr.		1,000	
	To Commission A/c			800
	To Commission Received in Advance A/c			200
	(Being the commission received out of which 1/5th is received in advance)			
(*v*)	Samples A/c or Advertisement A/c ...Dr.		2,000	
	To Purchases A/c			2,000
	(Being the goods distributed as samples)			
(*vi*)	Accrued Interest A/c ...Dr.		4,000	
	To Interest A/c			4,000
	(Being the interest accrued)			
(*vii*)	Outstanding Salary A/c ...Dr.		12,000	
	To Bank A/c			12,000
	(Being the salary outstanding was paid by giving a cheque of ₹ 12,000)			
(*viii*)	Lata's Loan A/c ...Dr.		25,000	
	To Machinery A/c			20,000
	To Profit & Loss A/c			5,000
	(Being Lata's loan of ₹ 25,000 was repaid by giving a machine of ₹ 20,000 in full settlement, gain on disposal transferred to Profit & Loss A/c)			
(*ix*)	Electricity Expenses A/c ...Dr.		3,000	
	To Outstanding Electricity Expenses A/c			3,000
	(Being the electricity bill remain unpaid)			
(*x*)	Kailash ...Dr.		2,000	
	To Purchases Return A/c			2,000
	(Being the goods of ₹ 2,000 returned to Kailash)			

6. Journalise the following transactions in the books of Gupta Bros., Lucknow (UP):

2023		₹
March 1	Started business with cash ₹ 30,000; goods worth ₹ 15,000 and furniture worth ₹ 20,000	
March 2	Paid into bank	20,000
March 3	Bought goods from Mohan Bros., Lucknow	7,000
March 4	Sold goods to Goyal Bros., Kanpur	6,000
March 5	Bought a computer against cheque	20,000
March 7	Received from salesman for goods sold by him after deducting conveyance expenses ₹ 150	2,850
March 10	Goyal Bros. gave cheque; deposited in the bank	6,000
March 11	Paid to Mohan Bros. by cheque	6,700
	Discount allowed by him	300
March 13	Received an order for goods along with advance of ₹ 1,000 in cash from Mahesh	5,000
March 15	Interest received from bank	400
March 20	Bank intimates that the cheque of Goyal Bros. is returned dishonoured	
March 22	Paid rent by cheque	6,000
March 23	Salaries for the month of February remains unpaid	30,000

Solution: JOURNAL OF GUPTA BROS.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2023					
March 1	Cash A/c	...Dr.		30,000	
	Stock A/c	...Dr.		15,000	
	Furniture A/c	...Dr.		20,000	
	To Capital A/c				65,000
	(Being the business started with cash, goods and furniture)				
March 2	Bank A/c	...Dr.		20,000	
	To Cash A/c				20,000
	(Being the cash paid into bank)				
March 3	Purchases A/c	...Dr.		7,000	
	To Mohan Bros.				7,000
	(Being the goods purchased from Mohan Bros., Lucknow)				
March 4	Goyal Bros.	...Dr.		6,000	
	To Sales A/c				6,000
	(Being the goods sold to Goyal Bros., Kanpur)				
March 5	Computer A/c	...Dr.		20,000	
	To Bank A/c				20,000
	(Being the computer purchased against cheque)				
March 7	Cash A/c	...Dr.		2,850	
	Conveyance Expenses A/c	...Dr.		150	
	To Sales A/c				3,000
	(Being the cash received from salesman after deducting conveyance expenses)				
March 10	Bank A/c	...Dr.		6,000	
	To Goyal Bros.				6,000
	(Being the cheque received from Goyal Bros. deposited in bank)				

March 11	Mohan Bros. ...Dr. To Bank A/c To Discount Received A/c (Being the payment made by cheque and discount received)		7,000	 6,700 300
March 13	Cash A/c ...Dr. To Advance from Mahesh A/c (Being the cash received from Mahesh as advance)		1,000	 1,000
March 15	Bank A/c ...Dr. To Interest A/c (Being the interest received from bank)		400	 400
March 20	Goyal Bros. ...Dr. To Bank A/c (Being the cheque received from Goyal Bros. dishonoured)		6,000	 6,000
March 22	Rent A/c ...Dr. To Bank A/c (Being the rent paid by cheque)		6,000	 6,000
March 23	Salaries A/c ...Dr. To Outstanding Salaries A/c (Being the salaries for the month of February unpaid)		30,000	 30,000

Note: No entry will be passed for receipt of an order of goods from Mahesh on 13th March, 2023, because it is not a transaction. Only advance received will be recorded.

7. Journalise the following transactions in the books of Gaurav, Delhi:

Balances as on 1st April, 2023

Debit Balances: Cash in Hand—₹ 18,000; Cash at Bank—₹ 25,600; Stock of Goods—₹ 50,000; Furniture—₹ 10,000; Building—₹ 4,51,400.

Debtors: Vijay—₹ 2,700; Anil—₹ 1,500; Ashwani—₹ 2,000; Anupam—₹ 1,800; and Madhu—₹ 5,000.

Credit Balances: Creditors: Anand—₹ 5,400; Arya & Co.—₹ 77,000; Balwant—₹ 52,000; and Anita's Loan—₹ 1,00,000.

2023

April 1 Purchased from Rahul Traders, Faridabad goods of ₹ 50,000 *less* 20% trade discount and 5% cash discount.

April 3 ₹ 2,646 received from Vijay and allowed him discount ₹ 54.

April 8 Goods costing ₹ 5,000 purchased from Kolkata were damaged in transit; a claim was made on the transporter.

April 10 Cash ₹ 5,292 paid to Anand and discount allowed by him ₹ 108.

April 13 Received by cheque in full settlement of claim for damages in transit.

April 15 Anupam is declared insolvent and a dividend of 50 paise in the rupee is received from him in full settlement.

April 22 Paid for: Donation ₹ 501
Postage ₹ 200

April 30 One month's interest on Anita's Loan @ 12% p.a. became due but was not paid.

April 30 Received amount from salesman for goods sold by him for ₹ 5,000 after deducting his travelling expenses ₹ 150.

April 30 Sold goods for ₹ 12,000 *less* 10% trade discount.

April 30 New furniture was purchased for ₹ 50,000 from M/s. Rohan Furnitures. The existing furniture was given in exchange valued at ₹ 5,000 (Book Value Nil).

Solution:

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2023					
April 1	Cash A/c	...Dr.		18,000	
	Bank A/c	...Dr.		25,600	
	Stock A/c	...Dr.		50,000	
	Furniture A/c	...Dr.		10,000	
	Building A/c	...Dr.		4,51,400	
	Vijay	...Dr.		2,700	
	Anil	...Dr.		1,500	
	Ashwani	...Dr.		2,000	
	Anupam	...Dr.		1,800	
	Madhu	...Dr.		5,000	
	To Anand				5,400
	To Arya & Co.				77,000
	To Balwant Rai				52,000
	To Mrs. Anita's Loan A/c				1,00,000
	To Capital A/c (Balancing Figure)				3,33,600
	(Being the balances brought in from previous year)				
April 1	Purchases A/c	...Dr.		40,000	
	To Bank A/c				38,000
	To Discount Received A/c				2,000
	(Being the goods of ₹ 50,000 bought for cash *less* 20% trade discount and 5% cash discount)				
April 3	Cash A/c	...Dr.		2,646	
	Discount Allowed A/c	...Dr.		54	
	To Vijay				2,700
	(Being the cash received from Vijay and allowed him discount)				
April 8	Claim for Damages A/c	...Dr.		5,000	
	To Purchases A/c				5,000
	(Being the claim sent to transporter for goods damaged in transit)				
April 10	Anand	...Dr.		5,400	
	To Cash A/c				5,292
	To Discount Received A/c				108
	(Being the cash paid to Anand and discount allowed by him)				
April 13	Bank A/c	...Dr.		5,000	
	To Claim for Damages A/c				5,000
	(Being the cheque received of claim for damages)				
April 15	Cash A/c	...Dr.		900	
	Bad Debts A/c	...Dr.		900	
	To Anupam				1,800
	(Being the half of the amount due received from Anupam and balance written off as bad debts)				
April 22	Donation A/c	...Dr.		501	
	Postage A/c	...Dr.		200	
	To Cash A/c				701
	(Being the cash paid for charity, postage and stationery)				

April 30	Interest A/c ...Dr. To Anita's Loan A/c (Being the interest payable on Anita's Loan ₹ 1,00,000 @ 12% p.a. for one month)		1,000	1,000
April 30	Cash A/c ...Dr. Travelling Expenses A/c ...Dr. To Sales A/c (Being ₹ 5,450 cash received for sales from salesman after deducting his travelling expenses ₹ 150)		4,850 150	5,000
April 30	Cash A/c ...Dr. To Sales A/c (Being the sales of goods worth ₹ 12,000 *less* 10% trade discount)		10,800	10,800
April 30	Furniture A/c (New) ...Dr. To M/s. Rohan Furnitures (Being the new furniture purchased for ₹ 50,000)		50,000	50,000
April 30	M/s. Rohan Furnitures ...Dr. To Miscellaneous Sales A/c* (Being the old furniture having nil book value given in exchange)		5,000	5,000

*Sale of old Furniture having Book Value Nil.

CHAPTER 9

Ledger

MEANING OF KEY TERMS USED IN THE CHAPTER

1. **Ledger**	Ledger is the *principal* book which contains all accounts (Real, Personal and Nominal Accounts, under Traditional Classification and Asset Accounts, Liability Accounts, Capital Accounts, Revenue Accounts and Expense Accounts, under Modern Classification to which the transactions recorded in the books of original entry (Journal) are transferred, *i.e.*, posted.
2. **Principal Book**	It is the book which has record of the transactions in a summarised manner, *i.e.*, Ledger.
3. **Posting**	The process of transferring the transactions recorded in the books of original entry to the account in the ledger is called **posting**.
4. **Balancing of Accounts**	It means totalling the two sides of the account and determining the difference. Difference between the totals of the two sides is written on the side with smaller total. If the total of debit side is smaller, it means that the account has credit balance. If the total of credit side is smaller, it means that the account has debit balance.
5. **Trial Balance**	It is a statement in which the balances of the Ledger Accounts are written. The total of amounts in the two columns should be same and this is a proof of arithmetical accuracy of transactions recorded in the books of account.

CHAPTER SUMMARY

- **Ledger** is a book or register in which all the accounts are put together.
- **Posting to the Ledger** is the process of transferring information contained in the Journal to the Ledger.
- **Utility of Ledger.** Being the principal book of account, a Ledger contains all the information regarding various accounts. It helps in preparing the final accounts.
- Both **Journal** and **Ledger** are essential for a complete and efficient accounting system.
- **Balancing of Accounts** means totalling the two sides of the account and writing the difference between the two on the side with the smaller total. In the case of Real Accounts and Personal Accounts, the difference is carried forward to the credit side—if the credit side is greater, by writing 'By Balance *b/d*' and to the debit side, if the debit side is greater, by writing, 'To Balance *b/d*'.

  Personal and Real Accounts are balanced but Nominal Accounts are closed at the end of the period by transferring them to Trading Account or Profit & Loss Account.
- **Trial Balance.** A Trial Balance is a statement in which the debit and credit balances of all accounts are written with a view to ascertaining the arithmetical accuracy of the books of account.

Solved Questions

1. From the following transactions of M/s. Wise & Active, write up the Journal in proper form, post the Ledger and prepare a Trial Balance:

2023			₹
Jan.	1	*Assets*: Cash in Hand ₹ 200; Cash at Bank ₹ 6,800; Stocks of Goods ₹ 4,000; Machinery ₹ 10,000; Furniture ₹ 1,000; M/s. Narain Bros. owe ₹ 1,500; M/s. B.K. Bros. owe ₹ 2,500. *Liabilities*: Bank Loan ₹ 5,000; sum owing to Jacob Bros. Ltd., ₹ 2,000	
Jan.	2	Bought goods on credit from Samuel & Co.	1,000
Jan.	3	Sold goods for cash to Dhiraj & Co.	400
Jan.	4	Sold goods to Narain Bros. on credit	1,000
Jan.	5	Received from Narain Bros. in full settlement of amount due on January 1	1,450
Jan.	6	Payment made to Jacob Bros. Ltd. by cheque;	975
		they allowed discount	25
Jan.	9	Old furniture sold for cash	100
Jan.	10	Bought goods for cash	750
Jan.	11	B.K. Bros. paid by cheque; cheque deposited in the bank	2,500
		Paid for repairs of machinery	100
Jan.	13	Bought goods from Jacob Bros. Ltd.	1,000
		Paid cartage on these goods	50
Jan.	16	Received cheque from Narain Bros. and the cheque deposited in bank	950
		Discount allowed to them	50
Jan.	17	Paid cheque to Jacob Bros. Ltd.	1,000
Jan.	18	Bank intimates that cheque of Narain Bros. has been returned unpaid	
Jan.	19	Sold goods for cash to Kay Bros.	600
Jan.	21	Cash deposited in bank	500
Jan.	24	Paid Municipal Taxes in cash	100
Jan.	25	Borrowed from Urania Ltd. for erecting own premises. Money deposited with bank for the time being	10,000
Jan.	27	Old newspapers sold	20
Jan.	28	Paid for advertisements	100
Jan.	31	Paid rent by cheque	150
Jan.	31	Paid salaries for the month	300
Jan.	31	Drew out of bank for personal use	250
Jan.	31	Narain Bros. becomes insolvent, a dividend of 50 paise in the rupee is received	
Jan.	31	An old amount written off as bad debt during last year is recovered	150

Solution:

In the Books of M/s. Wise & Active

JOURNAL

Date		Particulars		L.F.	Dr. (₹)	Cr. (₹)
2023						
Jan.	1	Cash A/c	...Dr.	2	200	
		Bank A/c	...Dr.	3	6,800	
		Stock A/c	...Dr.	4	4,000	
		Machinery A/c	...Dr.	5	10,000	
		Furniture A/c	...Dr.	6	1,000	
		Narain Bros.	...Dr.	7	1,500	
		B.K. Bros.	...Dr.	8	2,500	
		To Bank Loan A/c		9		5,000
		To Jacob Bros. Ltd.		10		2,000
		To Capital A/c		1		19,000
		(Being the assets and liabilities brought forward from last year, capital found by deducting liabilities from assets, *i.e.*, ₹ 19,000 = ₹ 26,000 – ₹ 7,000)				
Jan.	2	Purchases A/c	...Dr.	4	1,000	
		To Samuel & Co.		11		1,000
		(Being the goods purchased from Samuel & Co. as per their bill No. .... dated....)				
		Total *c/f*			27,000	27,000

		Total *b/f*		27,000	27,000
Jan.	3	Cash A/c ...Dr. To Sales A/c (Being the goods sold for cash to Dhiraj & Co. as per cash memo No. ....)	2 4	400	 400
Jan.	4	Narain Bros. ...Dr. To Sales A/c (Being the goods sold to Narain & Bros. as per invoice No. .... dated...)	7 4	1,000	 1,000
Jan.	5	Cash A/c ...Dr. Discount Allowed A/c ...Dr. To Narain Bros. (Being the amount of ₹ 1,450 received in cash for a debt of ₹ 1,500; hence discount allowed is ₹ 50)	2 13 7	1,450 50	 1,500
Jan.	6	Jacob Bros. Ltd. ...Dr. To Bank A/c To Discount Received A/c (Being the amount paid by cheque [out of Bank] to Jacob Bros. Ltd. received discount of ₹ 25)	10 3 13	1,000	 975 25
Jan.	9	Cash A/c ...Dr. To Furniture A/c (Being the sale of old furniture, payment received in cash)	2 6	100	 100
Jan	10	Purchases A/c ...Dr. To Cash A/c (Being the purchases of goods for cash as per voucher No. ....)	4 2	750	 750
Jan.	11	Bank A/c ...Dr. To B.K. Bros. (Being the cheque received from B.K. Bros. and deposited in Bank)	3 8	2,500	 2,500
Jan.	11	Repairs A/c ...Dr. To Cash A/c (Being the amount paid for repairs to machinery as per repairs bill No. .... dated....)	15 2	100	 100
Jan.	13	Purchases A/c ...Dr. To Jacob Bros. Ltd. (Being the goods purchased from Jacob Bros. Ltd. as per their bill No. .... dated....)	4 10	1,000	 1,000
Jan.	13	Cartage A/c ...Dr. To Cash A/c (Being the amount paid for cartage on goods bought from Jacob Bros. Ltd.)	16 2	50	 50
Jan.	16	Bank A/c ...Dr. Discount Allowed A/c ...Dr. To Narain & Bros. (Being the cheque received and deposited in Bank; discount allowed ₹ 50)	3 13 7	950 50	 1,000
Jan.	17	Jacob Bros. Ltd. ...Dr. To Bank A/c (Being the amount paid by cheque to Jacob Bros. Ltd.)	10 3	1,000	 1,000
Jan.	18	Narain Bros. ...Dr. To Bank A/c To Discount Allowed A/c (Being the cheque received from Narain Bros. returned dishonoured) (Note 2)	7 3 13	1,000	 950 50
Jan.	19	Cash A/c ...Dr. To Sales A/c (Being the goods sold for cash as per cash memo No. ....)	2 4	600	 600
		Total *c/f*		39,000	39,000

		Total *b/f*		39,000	39,000
Jan.	21	Bank A/c ...Dr.	3	500	
		To Cash A/c	2		500
		(Being the cash sent to bank)			
Jan.	24	Municipal Taxes A/c ...Dr.	17	100	
		To Cash A/c	2		100
		(Being the amount paid as tax)			
Jan.	25	Bank A/c ...Dr.	3	10,000	
		To Loan from Urania Ltd. A/c	9		10,000
		(Being the amount borrowed from Urania Ltd.)			
Jan.	27	Cash A/c ...Dr.	2	20	
		To Sundry Receipts A/c	18		20
		(Being the income derived by sale of old newspapers)			
Jan.	28	Advertisement A/c ...Dr.	19	100	
		To Cash A/c	2		100
		(Being the advertisements paid for as per bill No. .... dated....)			
Jan.	31	Rent A/c ...Dr.	20	150	
		To Bank A/c	3		150
		(Being the amount paid as rent by cheque No. ....)			
Jan.	31	Salaries A/c ...Dr.	22	300	
		To Cash A/c	2		300
		(Being the salaries paid for the month)			
Jan.	31	Drawings A/c ...Dr.	1	250	
		To Bank A/c	3		250
		(Being the amount drawn out of bank by the proprietor for personal use)			
Jan.	31	Cash A/c ...Dr.	2	500	
		Bad Debts A/c ...Dr.	21	500	
		To Narain Bros.	7		1,000
		(Being half the sum due from Narain Bros. received in cash and the other half written off as being irrecoverable)			
Jan.	31	Cash A/c ...Dr.	2	150	
		To Bad Debts Recovered A/c	21		150
		(Being the sum previously written off as bad debt, now recovered — it is a gain.)			
		Grand Total		51,570	51,570

Notes:

1. Entries in the 'Folio' column are imaginary.
2. Narain Bros. is debited with the full amount due; Bank credited with ₹ 950 because the previous debit had to be cancelled; Discount Allowed Account credited (because the discount allowed previously will be written back).

Ledger

Dr. CAPITAL ACCOUNT *Cr.*

Date		Particulars	J.F.	₹	Date		Particulars	J.F.	₹
2023					2023				
Jan.	31	To Balance *c/d*		19,000	Jan.	1	By Balance *b/d*	11	19,000
				19,000					19,000
					Feb.	1	By Balance *b/d*		19,000

Dr. CASH ACCOUNT *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2023				2023			
Jan. 1	To Balance *b/d*	11	200	Jan. 10	By Purchases A/c	12	750
Jan. 3	To Sales A/c	11	400	Jan. 11	By Repairs A/c	12	100
Jan. 5	To Narain Bros.	12	1,450	Jan. 13	By Cartage A/c	12	50
Jan. 9	To Furniture A/c	12	100	Jan. 21	By Bank A/c	13	500
Jan. 19	To Sales A/c	13	600	Jan. 24	By Municipal Taxes A/c	13	100
Jan. 27	To Sundry Receipts A/c	13	20	Jan. 28	By Advertisement A/c	13	100
Jan. 31	To Narain Bros.	13	500	Jan. 31	By Salaries A/c	13	300
Jan. 31	To Bad Debts Recovered A/c	13	150	Jan. 31	By Balance *c/d*		1,520
			3,420				3,420
Feb. 1	To Balance *b/d*		1,520				

Dr. BANK ACCOUNT *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2023				2023			
Jan. 1	To Balance *b/d*	11	6,800	Jan. 6	By Jacob Bros. Ltd.	12	975
Jan. 11	To B.K. Bros.	12	2,500	Jan. 17	By Jacob Bros. Ltd.	12	1,000
Jan. 16	To Narain Bros.	12	950	Jan. 18	By Narain Bros.	13	950
Jan. 21	To Cash A/c	13	500	Jan. 31	By Rent A/c	13	150
Jan. 25	To Loan from Urania Ltd. A/c	13	10,000	Jan. 31	By Drawings A/c	13	250
				Jan. 31	By Balance *c/d*		17,425
			20,750				20,750
Feb. 1	To Balance *b/d*		17,425				

Dr. MACHINERY ACCOUNT *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2023				2023			
Jan. 1	To Balance *b/d*	11	10,000	Jan. 31	By Balance *c/d*		10,000
Feb. 1	To Balance *b/d*		10,000				

Dr. FURNITURE ACCOUNT *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2023				2023			
Jan. 1	To Balance *b/d*	11	1,000	Jan. 9	By Cash A/c	12	100
				Jan. 31	By Balance *c/d*		900
			1,000				1,000
Feb. 1	To Balance *b/d*		900				

Dr. STOCK ACCOUNT *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2023				2023			
Jan. 1	To Balance *b/d*	11	4,000	Jan. 31	By Balance *c/d*		4,000
Feb. 1	To Balance *b/d*		4,000				

Dr. PURCHASES ACCOUNT *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2023				2023			
Jan. 2	To Samuel & Co.	11	1,000	Jan. 31	By Balance *c/d*		2,750
Jan. 10	To Cash A/c	12	750				
Jan. 13	To Jacob Bros. Ltd.	12	1,000				
			2,750				2,750
Feb. 1	To Balance *b/d*		2,750				

Dr. SALES ACCOUNT *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2023				2023			
Jan. 31	To Balance *c/d*		2,000	Jan. 3	By Cash A/c	11	400
				Jan. 4	By Narain Bros.	11	1,000
				Jan. 19	By Cash A/c	13	600
			2,000				2,000
				Feb. 1	By Balance *b/d*		2,000

Dr. NARAIN BROS. *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2023				2023			
Jan. 1	To Balance *b/d*	11	1,500	Jan. 5	By Cash A/c	12	1,450
Jan. 4	To Sales A/c	11	1,000	Jan. 5	By Discount Allowed A/c	12	50
Jan. 18	To Bank A/c	13	950	Jan. 16	By Bank A/c	12	950
Jan. 18	To Discount Allowed A/c	13	50	Jan. 16	By Discount Allowed A/c	12	50
				Jan. 31	By Cash A/c	13	500
				Jan. 31	By Bad Debts A/c	13	500
			3,500				3,500

Dr. B.K. BROS. *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2023				2023			
Jan. 1	To Balance *b/d*		2,500	Jan. 11	By Bank A/c	11	2,500

Dr. BANK LOAN ACCOUNT *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2023				2023			
Jan. 31	To Balance *c/d*		5,000	Jan. 1	By Balance *b/d*	1	5,000
				Feb. 1	By Balance *b/d*		15,000

Dr. LOAN FROM URANIA LTD. ACCOUNT *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2023				2023			
Jan. 31	To Balance *c/d*		10,000	Jan. 25	By Bank A/c	13	10,000

Dr. JACOB BROS. LTD. *Cr.*

Date		Particulars	J.F.	₹	Date		Particulars	J.F.	₹
2023					2023				
Jan.	6	To Bank A/c	12	975	Jan.	1	By Balance *b/d*	11	2,000
Jan.	6	To Discount Received A/c	12	25	Jan.	13	By Purchases A/c	12	1,000
Jan.	17	To Bank A/c	12	1,000					
Jan.	31	To Balance *c/d*		1,000					
				3,000					3,000
					Feb.	1	By Balance *b/d*		1,000

Dr. SAMUEL & CO. *Cr.*

Date		Particulars	J.F.	₹	Date		Particulars	J.F.	₹
2023					2023				
Jan.	31	To Balance *c/d*		1,000	Jan.	2	By Purchases A/c	11	1,000
					Feb.	1	By Balance *b/d*		1,000

Dr. DISCOUNT ALLOWED ACCOUNT *Cr.*

Date		Particulars	J.F.	₹	Date		Particulars	J.F.	₹
2023					2023				
Jan.	5	To Narain Bros.	12	50	Jan.	18	By Narain Bros.	13	50
Jan.	16	To Narain Bros.	12	50	Jan.	31	By Balance *c/d*		50
				100					100
Feb.	1	To Balance *b/d*		50					

Dr. DISCOUNT RECEIVED ACCOUNT *Cr.*

Date		Particulars	J.F.	₹	Date		Particulars	J.F.	₹
2023					2023				
Jan.	31	To Balance *c/d*		25	Jan.	6	By Jacob Bros. Ltd.	12	25
					Feb.	1	By Balance *b/d*		25

Dr. REPAIRS ACCOUNT *Cr.*

Date		Particulars	J.F.	₹	Date		Particulars	J.F.	₹
2023					2023				
Jan.	11	To Cash A/c	12	100	Jan.	31	By Balance *c/d*		100
Feb.	1	To Balance *b/d*		100					

Dr. CARTAGE ACCOUNT *Cr.*

Date		Particulars	J.F.	₹	Date		Particulars	J.F.	₹
2023					2023				
Jan.	13	To Cash A/c	12	50	Jan.	31	By Balance *c/d*		50
Feb.	1	To Balance *b/d*		50					

Dr. MUNICIPAL TAXES ACCOUNT *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2023				2023			
Jan. 24	To Cash A/c	13	100	Jan. 31	By Balance *c/d*		100
Feb. 1	To Balance *b/d*		100				

Dr. SUNDRY RECEIPTS ACCOUNT *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2023				2023			
Jan. 31	To Balance *c/d*		20	Jan. 27	By Cash A/c	13	20
				Feb. 1	By Balance *b/d*		20

Dr. ADVERTISEMENT ACCOUNT *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2023				2023			
Jan. 28	To Cash A/c	13	100	Jan. 31	By Balance *c/d*		100
Feb. 1	To Balance *b/d*		100				

Dr. RENT ACCOUNT *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2023				2023			
Jan. 31	To Bank A/c	13	150	Jan. 31	By Balance *c/d*		150
Feb. 1	To Balance *b/d*		150				

Dr. SALARIES ACCOUNT *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2023				2023			
Jan. 31	To Cash A/c	13	300	Jan. 31	By Balance *c/d*		300
Feb. 1	To Balance *b/d*		300				

Dr. DRAWINGS ACCOUNT *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2023				2023			
Jan. 31	To Bank A/c	13	250	Jan. 31	By Balance *c/d*		250
Feb. 1	To Balance b/d		250				

Dr. BAD DEBTS ACCOUNT *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2023				2023			
Jan. 31	To Narain Bros.	13	500	Jan. 31	By Balance *c/d*		500
Feb. 1	To Balance *b/d*		500				

Dr. BAD DEBTS RECOVERED ACCOUNT *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2023				2023			
Jan. 31	To Balance *c/d*		150	Jan. 31	By Cash A/c	13	150
				Feb. 1	By Balance *b/d*		150

TRIAL BALANCE

as at 31st January, 2023

S. No.	Heads of Accounts	L.F.	Dr. (₹)	Cr. (₹)
1.	Capital A/c		...	19,000
2.	Cash A/c		1,520	...
3.	Bank A/c		17,425	...
4.	Machinery A/c		10,000	...
5.	Furniture A/c		900	...
6.	Stock A/c		4,000	...
7.	Purchases A/c		2,750	...
8.	Sales A/c		...	2,000
9.	Bank Loan A/c		...	5,000
10.	Jacob Bros. Ltd.		...	1,000
11.	Samuel & Co.		...	1,000
12.	Discount Allowed A/c		50	
13.	Discount Received A/c		...	25
14.	Repairs A/c		100	...
15.	Cartage A/c		50	...
16.	Municipal Taxes A/c		100	...
17.	Sundry Receipts A/c		...	20
18.	Advertisement A/c		100	...
19.	Rent A/c		150	...
20.	Salaries A/c		300	...
21.	Drawings A/c		250	...
22.	Bad Debts A/c		500	...
23.	Bad Debts Recovered A/c		...	150
24.	Loan from Urania Ltd. A/c		...	10,000
	Total		38,195	38,195

2. From the following particulars, prepare the account of Budhiraja, the proprietor of the business:

		₹
(*i*)	Capital introduced	30,000
(*ii*)	Drawings made by him	6,500
(*iii*)	Further Capital introduced	22,000
(*iv*)	Profits for the period	7,500

Balance the same and explain what does the closing balance indicate.

Solution:

Dr. BUDHIRAJA'S CAPITAL ACCOUNT Cr.

Particulars	₹	Particulars	₹
To Drawings A/c	6,500	By Cash A/c—Capital	30,000
To Balance *c/d*	53,000	By Cash A/c—Capital	22,000
		By Profit & Loss A/c (Profit)	7,500
	59,500		59,500
		By Balance *b/d*	53,000

Explanation: Proprietor's Capital Account has a credit balance of ₹ 53,000 which means that the business owes him this amount.

3. Manish Gupta has the following transactions with Subrat Mukherjee for the month of April, 2023:

April	1	Balance due from Subrat Mukherjee ₹ 5,000.
April	5	Rebate was given of ₹ 800 for poor quality of goods. Cheque received in settlement of account; *less* ₹ 200 cash discount.
April	6	Sold goods for ₹ 10,000.
April	10	Received a letter from Subrat Mukherjee in which he informed that he would forward a cheque of ₹ 10,000 on 20th April.
April	20	Received a cheque for ₹ 9,500 and allowed cash discount of ₹ 500.
April	30	Subrat Mukherjee's cheque returned by bank marked "Refer to Drawer".

Show how the account of Subrat Mukherjee would appear in the ledger of Manish Gupta and balance the account on 30th April, 2023.

Solution:

Ledger of Manish Gupta

Dr. SUBRAT MUKHERJEE Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2023				2023			
April 1	To Balance *b/d*		5,000	April 5	By Rebate Allowed A/c		800
April 6	To Sales A/c		10,000	April 5	By Bank A/c		4,000
April 30	To Bank A/c (Cheque Returned)		9,500	April 5	By Discount Allowed A/c		200
				April 20	By Bank A/c		9,500
April 30	To Discount Allowed A/c (Note 1)		500	April 20	By Discount Allowed A/c		500
				April 30	By Balance *c/d*		10,000
			25,000				25,000

Notes: 1. Discount already allowed is cancelled due to return of cheque.

2. Rebate is reduction in sale value due to reasons other than for which trade discount and cash discount are allowed.

Unsolved Question

1. Enter the following transactions in the Journal of M/s. Karim Bros., post to the Ledger and prepare a Trial Balance:

				₹
2023				
April	1	*Assets:*	Cash in Hand	20,000
			Cash at Bank	35,000
			Stock	15,000
			Furniture	4,500
		Debtors:	Poonam	20,000
			Sonu	10,000
		Liabilities:	Ashok	13,500
			Pankaj	21,500
April	4	Purchased goods from Pankaj		5,000
April	7	Paid Ashok by cheque in full settlement of his account		13,000
April	10	Sold goods to Poonam		11,000
April	12	Purchased goods from Ashok		15,000
April	15	Sold goods to Sonu		6,000
April	18	Received cheque from Poonam		24,500
		Allowed her discount		1,500
April	25	Paid for stationery		1,200
April	27	Paid rent by cheque		3,500
April	30	Paid salaries		6,000

[*Trial Balance—₹ 1,28,500.*]

CHAPTER 10

Special Purpose Books I—Cash Book

MEANING OF KEY TERMS USED IN THE CHAPTER

1. **Special Purpose Books or Subsidiary Books**	Sub-division of the Journal into various books recording transactions of similar nature are called **Subsidiary Books**.
2. **Cash Book**	Cash Book is a Special Purpose Subsidiary Book or Journal in which cash receipts and cash payments are recorded.
Kinds of Cash Book	
(*i*) **Simple Cash Book**	It is a cash book in which only cash transactions are recorded. It has only one column on each side of the cash book.
(*ii*) **Double Column or Two-column Cash Book: Cash Book with Bank Column**	It is a cash book which has two columns on each side to record cash receipts and payments and Bank transactions. It has two columns, *i.e.*, Cash and Bank on each side.
(*iii*) **Petty Cash Book**	It is a cash book in which payments of small amounts are recorded.
3. **Imprest System of Petty Cash**	It is a system whereby an estimate of expenditure is made and the estimated amount is given to the Petty Cashier. Thereafter, he submits the statement of expenses at the end of the period decided (a week, Fortnight or Month), which is reimbursed to him to make the petty cash equal to the original petty cash amount.
4. **Cash Discount**	Cash discount is the amount of discount received or allowed on cash payments and cash receipts respectively. Discount received is an income for the business while discount allowed is an expense. **Note:** Discount Received, Discount Allowed and Cancellation of Discount Received or Discount Allowed (in case of dishonour of cheque) is recorded through Journal Proper.
5. **Cheques in Hand**	It means cheques which have been received but not deposited in bank.
6. **Contra Entry**	It means a transaction involving both cash and bank. Such transactions though recorded in the cash book are not posted in the ledger. In the folio for ledger letter '*C*' is written to indicate that it is a contra entry.

CHAPTER SUMMARY

- **Cash Book:** Cash Book records cash transactions. Even banking transactions can be recorded in the Cash Book. When a Cash Book is maintained, a separate Cash Account is not opened in the Ledger as the purpose of opening a Cash Account is served by maintenance of a Cash Book. Thus, the Cash Book plays a dual role as a *Journal* as well as a *Ledger*.
- **Contra Entries:** *Contra entries* mean entries that are made on both sides of the Cash Book.

- **Petty Cash Book:** This book is maintained for recording petty payments or expenses in cash.
- **Imprest System of Petty Cash:** Under this system, the Petty Cashier is given a certain amount of cash for a particular period (say for a week, a fortnight or a month) to meet various petty expenses for the period. At the end of the period, the amount actually spent by the Petty Cashier is reimbursed to him by the Chief Cashier.

Solved Questions

1. Enter the following transactions in Single Column Cash Book of Vijay of Delhi:

Date		Particulars	₹	Date		Particulars	₹
2023				2023			
April	1	Vijay commenced business with cash	20,000	April	17	Paid for stationery	150
						Paid for office furniture	1,850
April	3	He bought goods for cash	5,000	April	21	Received from Ram Chand	6,800
April	4	Bought goods from Hari Kishan on credit	2,200	April	22	Paid for advertising	900
				April	25	Purchased postage stamps	80
April	5	Sold goods for cash	1,000	April	28	Paid rent	1,000
April	6	Received cash from Manohar Lal	3,600	April	30	Paid electricity charges	150
April	9	Paid into bank	3,000	April	30	Paid salary by cheque	2,000
April	13	Paid cash to Hari Kishan in full settlement of his account	2,150				
April	16	Sold goods for cash	1,500				

Solution:

In the Books of Vijay

Dr. SINGLE COLUMN CASH BOOK *Cr.*

Date		Particulars	L.F.	₹	Date		Particulars	J.F.	₹
2023					2023				
April	1	To Capital A/c		20,000	April	3	By Purchases A/c		5,000
April	5	To Sales A/c		1,000	April	9	By Bank A/c		3,000
April	6	To Manohar Lal		3,600	April	13	By Hari Kishan		2,150
April	16	To Sales A/c		1,500	April	17	By Stationery A/c		150
April	21	To Ram Chand		6,800	April	18	By Furniture A/c		1,850
					April	22	By Advertising A/c		900
					April	25	By Postage A/c		80
					April	28	By Rent A/c		1,000
					April	30	By Electric Charges A/c		150
					April	30	By Balance *c/d*		18,620
				32,900					32,900
May	1	To Balance *b/d*		18,620					

Notes:

1. Entry on 4th April, 2023 for credit purchase of goods will not be recorded.
2. Transaction of 13th April, 2023 is related to payment of cash and discount received. Entry for discount received will be passed through Journal Proper:

			₹	₹
2023				
April 13	Hari Kishan	...Dr.	50	
	To Discount Received A/c			50

3. 30th April, 2023, salary paid by cheque will not appear in the Single Column Cash Book.

2. Enter the following transactions in Two-column Cash Book with Cash and Bank Columns. Also pass the Journal entries.

2023		₹
Jan. 1	Chander commences business with Cash	20,00,000
Jan. 3	He paid into Bank Current A/c	19,00,000
Jan. 4	He receives cheque from Kirti & Co. on account	60,000
Jan. 7	He deposits into Bank Kirti & Co.'s cheque	60,000
Jan. 10	He pays Ratan & Co. by cheque and is allowed discount ₹ 2,000	33,000
Jan. 12	Tripathi & Co. pays into the Bank A/c	47,500
Jan. 15	He receives cheque from Warsi and allows him discount ₹ 3,500	45,000
Jan. 20	He receives cash ₹ 7,500 and cheque ₹ 10,000 for sales	
Jan. 25	He pays into Bank, including cheques received on 15th and 20th January	1,00,000
Jan. 27	He pays by cheque for cash purchases	27,500
Jan. 30	He pays sundry expenses in cash	5,000
Jan. 30	He pays John & Co. in cash and is allowed discount ₹ 3,500	37,500
Jan. 31	He pays office rent by cheque	20,000
Jan. 31	He draws a cheque for personal use	25,000
Jan. 31	He pays staff salaries by cheque	30,000
Jan. 31	He draws a cheque for office use	40,000
Jan. 31	He purchases stationery in cash	2,500
Jan. 31	He purchases goods for cash	12,500
Jan. 31	He pays Jagpal by cheque for commission	30,000
Jan. 31	He issues cheque to Ram Saran for purchase of furniture for office	1,57,500
Jan. 31	He receives cheque for commission from Raghubir & Co. and pays the same into bank	50,000
Jan. 31	Cash Sales	45,000

Solution:

In the Books of Chander

Dr. TWO-COLUMN CASH BOOK *Cr.*

Date	Particulars	L.F.	Cash (₹)	Bank (₹)	Date	Particulars	L.F.	Cash (₹)	Bank (₹)
2023					2023				
Jan. 1	To Capital A/c		20,00,000	...	Jan. 3	By Bank A/c	C	19,00,000	...
Jan. 3	To Cash A/c	C	...	19,00,000	Jan. 10	By Ratan & Co.		...	33,000
Jan. 7	To Cheques in Hand A/c (Kirti & Co.)		...	60,000	Jan. 25	By Bank A/c	C	45,000	...
					Jan. 27	By Purchases A/c		...	27,500
					Jan. 30	By Sundry Exp. A/c		5,000	...
Jan. 12	To Tripathi & Co.		...	47,500	Jan. 30	By John & Co.		37,500	...
Jan. 20	To Sales A/c		7,500	...	Jan. 31	By Rent A/c		...	20,000
Jan. 25	To Cash A/c	C	...	45,000	Jan. 31	By Drawings A/c		...	25,000
Jan. 25	To Cheques in Hand A/c		...	55,000	Jan. 31	By Salaries A/c		...	30,000
					Jan. 31	By Cash A/c	C	...	40,000
Jan. 31	To Bank A/c	C	40,000	...	Jan. 31	By Stationery A/c		2,500	...
					Jan. 31	By Purchases A/c		12,500	...
Jan. 31	To Commission Received A/c		...	50,000	Jan. 31	By Commission A/c		...	30,000
Jan. 31	To Sales A/c		45,000	...	Jan. 31	By Furniture A/c		...	1,57,500
					Jan. 31	By Balance *c/d*		90,000	17,94,500
			20,92,500	21,57,500				20,92,500	21,57,500
Feb. 1	To Balance *b/d*		90,000	17,94,500					

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Date		Particulars		L.F.	Dr. (₹)	Cr. (₹)
2023						
Jan.	4	Cheques in Hand A/c	...Dr.		60,000	
		To Kirti & Co.				60,000
		(Being the cheque received not yet deposited)				
Jan.	10	Ratan & Co.	...Dr.		2,000	
		To Discount Received A/c				2,000
		(Being the discount received from Ratan & Co. against payment of ₹ 33,000)				
Jan.	15	Cheques in Hand A/c	...Dr.		45,000	
		Discount Allowed A/c	...Dr.		3,500	
		To Warsi				48,500
		(Being the cheque received from ₹ 45,000 from Warsi and allowed him discount)				
Jan.	20	Cheques in Hand A/c	...Dr.		10,000	
		To Sales A/c				10,000
		(Being the cheque received against sales)				
Jan.	30	John & Co.	...Dr.		3,500	
		To Discount Received A/c				3,500
		(Being the discount received from John & Co. against payment of ₹ 37,500)				

3. On 1st April 2023, the two-columnar Cash Book of Satish showed that he had ₹ 5,000 Cash in hand and there was a bank overdraft of ₹ 20,000. During the day, the following transactions took place:

(*i*) Cash withdrawn from bank for office use ₹ 5,000.

(*ii*) Paid salaries in cash ₹ 4,000.

(*iii*) Cash paid to Hari ₹ 2,500.

(*iv*) Drawings in cash made by Satish for household expenses ₹ 2,500.

(*v*) Cash sales ₹ 6,000.

(*vi*) Received from Om Prakash in settlement of an account of ₹ 10,000, ₹ 1,800 in cash and a cheque of ₹ 8,000. The cheque was immediately deposited in bank.

(*vii*) Bank returns a cheque of ₹ 14,900, received from Shiv & Co. in settlement of an account of ₹ 15,000.

(*viii*) Paid rent by cheque ₹ 2,000.

(*ix*) Cash deposited with bank ₹ 5,000.

(*x*) Cash received from Vikas on account ₹ 1,200.

Write the Cash Book for the day and balance it.

Solution:

Dr. TWO-COLUMN CASH BOOK *Cr.*

Date	Particulars	L.F.	Cash ₹	Bank ₹	Date	Particulars	L.F.	Cash ₹	Bank ₹
2023					2023				
April 1	To Balance *b/d*		5,000		April 1	By Balance *b/d* (overdraft)			20,000
April 1	To Bank A/c	C	5,000						
April 1	To Sales A/c		6,000		April 1	By Cash A/c	C		5,000
April 1	To Om Prakash		1,800	8,000	April 1	By Salaries A/c		4,000	
April 1	To Cash A/c	C		5,000	April 1	By Hari		2,500	
April 1	To Vikas		1,200		April 1	By Drawings A/c		2,500	
April 1	To Balance *c/d*			28,900	April 1	By Shiv & Co.			14,900
					April 1	By Rent A/c			2,000
					April 1	By Bank A/c	C	5,000	
					April 1	By Balance *c/d*		5,000	
			19,000	41,900				19,000	41,900
April 2	To Balance *b/d*		5,000		April 2	By Balance *b/d* (overdraft)			28,900

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Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2023				
April 1	Discount Allowed A/c ...Dr.		200	
	To Om Prakash			200
	(Being the discount allowed to Om Prakash against payment received)			
April 1	Shiv & Co. ...Dr.		100	
	To Discount Allowed A/c			100
	(Being the discount allowed written back on dishonour of cheque)			

4. Prepare a Cash Book from the following having cash and bank columns:

2023

April 1 Cash in hand ₹ 10,500; Cash at bank ₹ 15,500.

April 5 Bought goods by cheque ₹ 8,000; Bought goods for cash ₹ 2,000.

April 8 Sold goods for cash ₹ 5,000; Sold goods for ₹ 12,000 and received cheque from the customer. Cheque was deposited into bank the same day.

April 16 Paid office expenses ₹ 500; Paid for stationery ₹ 600; Paid cartage ₹ 100.

April 19 Ramesh who owed us ₹ 2,000 became bankrupt and paid us @ 25 paise in the rupee in cash.

April 22 Received cheque of ₹ 10,000 from Rakesh on account and discount allowed to him ₹ 200. The cheque was immediately deposited in bank.

April 24 Paid ₹ 2,500 in cash to Rajesh; discount allowed by him ₹ 20.

April 28 Received ₹ 5,600 in cash and deposited the same into bank.

April 30 Bank charges ₹ 30 for the month.

Solution:

Dr. TWO-COLUMN CASH BOOK *Cr.*

Date	Particulars	L.F.	Cash ₹	Bank ₹	Date	Particulars	L.F.	Cash ₹	Bank ₹
2023					2023				
Apr. 1	To Balance *b/d*		10,500	15,500	Apr. 5	By Purchases A/c		2,000	8,000
Apr. 8	To Sales A/c		5,000	12,000	Apr. 16	By Office Expenses A/c		500	
Apr. 19	To Ramesh		500		Apr. 16	By Stationery A/c		600	
Apr. 22	To Rakesh			10,000	Apr. 16	By Cartage A/c		100	
Apr. 28	To Cash A/c	C		5,600	Apr. 24	By Rajesh		2,500	
					Apr. 28	By Bank A/c	C	5,600	
					Apr. 30	By Bank Charges A/c			30
					Apr. 30	By Balance *c/d*		4,700	35,070
			16,000	43,100				16,000	43,100
May 1	To Balance *b/d*		4,700	35,070					

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Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2023				
April 22	Discount Allowed A/c ...Dr.		200	
	To Rakesh			200
	(Being the discount allowed)			
April 24	Rajesh ...Dr.		20	
	To Discount Received A/c			20
	(Being the discount received)			

5. Write Double Column Cash Book with cash and bank columns from the following transactions:

2023		₹
March 1	Cash in Hand	75,000
	Cash at Bank	2,00,000
March 3	Purchased goods	60,000
March 5	Deposited in bank	50,000
March 8	Cash sales	1,00,000
March 10	Cash withdrawn from bank for office use	20,000
March 12	Received cash from Damini	30,000
March 15	Received cheque from Dolly and deposited in the bank on the same day	20,000
March 18	Received cheque from Deepak (not banked)	50,000
March 19	Cheque received from Deepak deposited in bank	
March 24	Paid to Chander by cheque	25,000
March 27	Withdrew from bank for personal use	15,000
March 28	Sold goods to Ashok Mitra	40,000
March 30	Purchased goods from Chander	50,000
March 31	Received cheque from Ashok Mitra and deposited in bank	20,000
March 31	Bank Charges for the month	1,000

Solution:

Dr. CASH BOOK (DOUBLE COLUMN) *Cr.*

Date	Particulars	L.F.	Cash (₹)	Bank (₹)	Date	Particulars	L.F.	Cash (₹)	Bank (₹)
2023					2023				
Mar. 1	To Balance *b/d*		75,000	2,00,000	Mar. 3	By Purchases A/c		60,000	...
Mar. 5	To Cash A/c	C	...	50,000	Mar. 5	By Bank A/c	C	50,000	...
Mar. 8	To Sales A/c		1,00,000	...	Mar. 10	By Cash A/c	C	...	20,000
Mar. 10	To Bank A/c	C	20,000	...	Mar. 24	By Chander		...	25,000
Mar. 12	To Damini		30,000	...	Mar. 27	By Drawings A/c		...	15,000
Mar. 15	To Dolly		...	20,000	Mar. 31	By Bank Charges A/c		...	1,000
Mar. 19	To Cheques in Hand A/c (Deepak)		...	50,000	Mar. 31	By Balance *c/d*		1,15,000	2,79,000
Mar. 31	To Ashok Mitra		...	20,000					
			2,25,000	3,40,000				2,25,000	3,40,000
Apr. 1	To Balance *b/d*		1,15,000	2,79,000					

Notes: 1. Cheque received from Deepak for ₹ 50,000 on 18th March, 2023 will be recorded in the Journal Proper as under:

Cheques in Hand A/c	...Dr.	₹ 50,000	
To Deepak			₹ 50,000

(Being the cheque received from Deepak not yet banked)

When the above cheque is deposited into bank on 19th March, it will be recorded in the debit column of Bank.

2. Transactions of the 28th March and 30th March, 2023 are not recorded being credit transactions.

6. Record the following transactions in Two-column Cash Book with Cash and Bank Columns:

2023		₹
Jan. 1	Abhishek commences business with Cash	2,00,000
Jan. 1	He opened a Bank Current Account with his Savings Account cheque	18,00,000
Jan. 4	He receives cheque from Kirti & Co. on account	60,000
Jan. 7	He pays into Bank Kirti & Co.'s cheque	60,000
Jan. 10	He pays Ratan & Co. by cheque and is allowed discount ₹ 2,000	33,000
Jan. 12	Tripathi & Co. pays into his Bank A/c	47,500
Jan. 15	He receives cheque from Warsi and allows him discount ₹ 3,500	45,000
Jan. 20	He receives cash ₹ 9,600 and cheque ₹ 10,000 against sale to Manoj	
Jan. 25	He pays into Bank, including cheques received on 15th and 20th January	1,00,000
Jan. 27	He pays by cheque for purchases of ₹ 27,500	
Jan. 30	He pays sundry expenses in cash	5,000
Jan. 30	He pays John & Co. in cash and is allowed discount ₹ 3,500	37,500
Jan. 31	He pays office rent by cheque	20,000
Jan. 31	He draws a cheque for personal use	25,000
Jan. 31	He pays staff salaries by cheque	30,000
Jan. 31	He draws a cheque for office use	40,000
Jan. 31	He pays cash for stationery	2,500
Jan. 31	He purchases goods	12,500
Jan. 31	He pays Jagpal by cheque for commission	30,000
Jan. 31	He gives cheque to Ram Saran for purchase of furniture for office	1,40,000
Jan. 31	He receives cheque for commission from Raghubir & Co. and pays the same into bank	50,000
Jan. 31	Cash Sales	45,000

Solution:

In the Books of Abhishek

Dr. TWO COLUMN CASH BOOK *Cr.*

Date	Particulars	L.F.	Cash (₹)	Bank (₹)	Date	Particulars	L.F.	Cash (₹)	Bank (₹)
2023					2023				
Jan. 1	To Capital A/c		2,00,000	18,00,000	Jan. 10	By Ratan & Co.		...	33,000
Jan. 7	To Cheques in Hand A/c (Kirti & Co.)		...	60,000	Jan. 25	By Bank A/c	C	45,000	...
					Jan. 27	By Purchases A/c		...	27,500
					Jan. 30	By Sundry Exp. A/c		5,000	...
Jan. 12	To Tripathi & Co.		...	47,500	Jan. 31	By John & Co.		37,500	...
Jan. 20	To Manoj		9,600	...	Jan. 31	By Rent A/c		...	20,000
Jan. 25	To Cash A/c	C	...	45,000	Jan. 31	By Drawings A/c		...	25,000
Jan. 25	To Cheques in Hand A/c		...	55,000	Jan. 31	By Salaries A/c		...	30,000
					Jan. 31	By Cash A/c	C	...	40,000
Jan. 31	To Bank A/c	C	40,000	...	Jan. 31	By Stationery A/c		2,500	...
Jan. 31	To Commission Received A/c		...	50,000	Jan. 31	By Purchases A/c		12,500	...
					Jan. 31	By Commission A/c		...	30,000
Jan. 31	To Sales A/c		45,000	...	Jan. 31	By Furniture A/c		...	1,40,000
					Jan. 31	By Balance *c/d*		1,64,600	17,39,500
			2,94,600	20,57,500				2,94,600	20,57,500
Feb. 1	To Balance *b/d*		1,64,600	17,39,500					

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Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2023				
Jan. 4	Cheques in Hand A/c ...Dr.		60,000	
	To Kirti & Co.			60,000
	(Being the cheque received not yet deposited)			
Jan. 10	Ratan & Co. ...Dr.		2,000	
	To Discount Received A/c			2,000
	(Being the discount received from Ratan against payment of ₹ 33,000)			
Jan. 15	Cheques in Hand A/c ...Dr.		45,000	
	Discount Allowed A/c ...Dr.		3,500	
	To Warsi			48,500
	(Being the cheque received of ₹ 45,000 from Warsi and allowed him discount)			
Jan. 20	Manoj ...Dr.		19,600	
	To Sales A/c			19,600
	(Being the sales made)			
Jan. 20	Cheques in Hand A/c ...Dr.		10,000	
	To Manoj			10,000
	(Being the cheque received)			
Jan. 30	John & Co. ...Dr.		3,500	
	To Discount Received A/c			3,500
	(Being the discount received from John & Co. against payment of ₹ 37,500)			

7. Prepare a Petty Cash Book on the imprest system from the following:

2023		₹
July 1	Received for petty cash	3,000
July 2	Paid bus fare	20
July 3	Paid cartage	100
July 3	Paid wages for casual labour	250
July 3	Paid for stationery	200
July 4	Paid postage	150
July 5	Paid for repairs to chairs	400
July 5	Paid for bus fare	20
July 6	Paid for Postage and Courier	100
July 6	Paid cartage	150
July 6	Paid for stationery	150
July 6	Refreshments to customers	500

Solution: Refer to Solution given on the Page no. 10.10.

Solution:

ANALYTICAL PETTY CASH BOOK

Receipts ₹	Date	V.No.	Particulars	Total Payments ₹	Conveyance ₹	Cartage ₹	Stationery ₹	Postage and Courier ₹	Wages ₹	Repairs ₹	Miscellaneous Expenses ₹
	2023										
3,000	July 1		To Cash A/c								
	July 2	1	By Conveyance A/c	20	20						
	July 3	2	By Cartage A/c	100		100					
	July 3	3	By Wages A/c	250					250		
	July 3	4	By Stationery A/c	200			200				
	July 4	5	By Postage A/c	150				150			
	July 5	6	By Repairs A/c	400						400	
	July 5	7	By Conveyance A/c	20	20						
	July 6	8	By Postage and Courier A/c	100				100			
	July 6	9	By Cartage A/c	150		150					
	July 6	10	By Stationery A/c	150			150				
	July 6	11	By Miscellaneous Expenses A/c	500							500
				2,040	40	250	350	250	250	400	500
	July 6		By Balance *c/d*	960							
3,000				3,000							
960	July 7		To Balance *b/d*								
2,040	July 7		To Cash A/c								

Unsolved Questions

1. Prepare a Simple Cash Book from the following transactions of R.K.:

2023		
April	1	He commenced business with cash ₹ 50,000.
April	4	Bought goods for cash ₹ 30,000.
April	5	Spent ₹ 10,000 on furniture and fixture.
April	10	Sold goods for cash ₹ 5,000.
April	15	Sold goods on credit to Bhushan ₹ 4,000.
April	18	Bought goods on credit from Bharat ₹ 10,000.
April	22	Cash received from Bhushan ₹ 2,000.
April	24	Cash paid to Bharat ₹ 5,000.
April	28	Paid for stationery ₹ 100.
April	29	Paid rent ₹ 800.
April	30	Paid for electricity charges ₹ 200.

[*Cash Balance—₹ 10,900.*]

2. Prepare a Double Column Cash Book (Cash and Bank Column) from the following transactions:

2023		
April	1	M/s. Goyal Brothers commenced business with cash ₹ 2,00,000.
		Deposited ₹ 1,20,000 in the newly opened bank account out of ₹ 2,00,000.
April	2	Paid cash for office furniture ₹ 30,000.
April	3	Purchased goods for cash ₹ 40,000.
		Purchased goods on credit from M/s. Gupta & Co. ₹ 60,000.
April	4	Sold goods for cash ₹ 10,000. Sold goods on credit to M/s. Chawla & Co. ₹ 5,000.
April	15	Received cash from M/s. Chawla & Co. ₹ 2,000.
April	18	Paid cash to M/s. Gupta & Co. ₹ 15,000.
April	25	Paid through cheque to M/s. Gupta & Co. ₹ 25,000.
April	28	Withdrew cash from bank for personal use ₹ 2,000 and for office use—₹ 5,000.
April	30	Bought goods from Ram on credit ₹ 5,000.

[*Cash Balance—₹ 12,000, Bank Balance—₹ 88,000.*]

3. Enter the following transactions in a Two-column Cash Book:

2023			₹
Jan.	1	Bank Overdraft	12,000
Jan.	1	Cash-in-hand	2,300
Jan.	7	Cheque received from S. N.	4,000
Jan	9	Cheque received from S. N. deposited in bank	
Jan.	12	Cheque paid to Radha	2,500
Jan.	15	S. N.'s cheque dishonoured	
Jan.	20	Money withdrawn from bank for office use	3,400
Jan.	23	Fees of children paid by cheque	75
Jan.	27	Bank charges	20

[*Cash Balance—₹ 5,700; Bank Overdraft—₹ 17,995.*]

4. Enter the following transactions in Cash Book with Cash and Bank Columns.

2023		
May	1	Ganesh Lal started business with ₹ 10,000.
May	2	Remitted into current account ₹ 9,000.
May	6	Paid to Charu by cheque ₹ 4,000 and discount received ₹ 100.

May	10	Cash sales ₹ 4,000.
May	11	Paid into bank ₹ 3,000.
May	15	Deepak paid into our bank account ₹ 1,000.
May	19	Issued a cheque to Modern Furniture House for furniture ₹ 2,000.
May	20	Received from Gopal ₹ 500 and discount allowed ₹ 50.
May	22	Withdrew from bank ₹ 200.
May	25	Cash purchases paid by cheque ₹ 800.
May	31	Paid salaries by cheque ₹ 1,200.

[*Cash in hand—₹ 2,700, Cash at bank—₹ 4,800.*]

5. Enter the following transactions in Cash Book with Cash and Bank Columns and balance the Cash Book on 31st January 2023:

2023		
Jan.	1	Balance of Cash in hand ₹ 400 and Bank overdraft ₹ 5,000.
Jan.	4	Introduced Cash ₹ 10,000 as further capital, of which ₹ 5,000 was deposited into the Bank.
Jan.	5	Sold goods to Mohan for cash ₹ 3,000.
Jan.	6	Collected from Sanjay ₹ 8,000 by cheque and allowed him a discount of ₹ 200.
Jan.	8	Sanjay's cheque deposited into Bank.
Jan.	10	Purchased goods for cash ₹ 2,000 and by cheque ₹ 3,000.
Jan.	11	Paid Ram ₹ 2,500 by cheque and discount received ₹ 100.
Jan.	12	Paid commission to an agent ₹ 500.
Jan.	15	Purchased stationery ₹ 2,000.
Jan.	16	Paid cartage ₹ 100.
Jan.	17	Drew a cheque for personal use ₹ 1,000.
Jan.	18	Cash sales ₹ 5,000.
Jan.	20	Collected from Deepak ₹ 4,000 in cash and deposited in the bank on the same day.
Jan.	23	Dividend received by cheque ₹ 100 and deposited into bank.
Jan.	28	Paid office salaries by cheque ₹ 2,000.
Jan.	31	Deposited cash into bank ₹ 7,000.

[*Cash Balance—₹ 1,800; Bank Balance—₹ 10,600.*]

6. Prepare Two-column Cash Book from the following transactions and balance the Cash Book on 31st January, 2023:

2023			₹	2023			₹
Jan.	1	Cash in Hand	5,670	Jan.	17	Purchased a car and paid by cheque	47,990
Jan.	1	Cash at Bank	1,26,750	Jan.	17	Purchased goods for ₹ 5,000 and availed	
Jan.	2	Deposited into Bank	5,000			Trade Discount of 10%. Cash Discount	
Jan.	5	Received from *A*	7,900			of 2% was offered on immediate	
		and allowed discount	100			payment. The offer made was availed.	
Jan.	7	Purchased Furniture				Payment was made through cheque.	
		for cash	2,500	Jan.	17	Paid by cheque to *D* and	3,670
Jan.	8	Paid to *B* by cheque and	7,450			received discount	30
		received discount	50	Jan.	19	Withdrew from Bank for office use	2,500
Jan.	13	Received from *C* by cheque		Jan.	22	Purchased goods for cash	3,500
		and deposited into Bank	5,000	Jan.	25	Paid Establishment	
Jan.	15	Cash sales	7,850			expenses through Bank	4,500
Jan.	15	Deposited into Bank	10,000	Jan.	31	Paid rent in cash	500

[*Cash Balance—₹ 2,420; Bank Balance—₹ 76,230.*]

CHAPTER 11

Special Purpose Books II—Other Books

MEANING OF KEY TERMS USED IN THE CHAPTER

1. **Purchases Book** It is a subsidiary book in which goods purchased on credit are recorded.
2. **Purchases Return Book** It is a subsidiary book in which returns outward, *i.e.*, returns of goods purchased on credit is recorded.
3. **Sales Book** It is a subsidiary book in which goods sold on credit are recorded.
4. **Sales Return Book** It is a subsidiary book in which returns inward, *i.e.*, returns of goods sold on credit are recorded.
5. **Journal Proper** It is a book in which transactions that are not recorded in any of the other Subsidiary Books, are recorded.
6. **Debit Note** It is the document prepared to debit the account of the person. For example, purchaser of goods prepares a Debit Note when goods are returned to the seller.
7. **Credit Note** It is the document prepared to credit the account of the person. For example, seller of goods prepares a Credit Note when goods are returned by the purchaser.
8. **Trade Discount** Trade discount is the discount allowed by the seller to the buyer on purchase of goods in large quantity. It is recorded in the Purchases Book and Sales Book. But, in the ledger, purchases and sales are accounted at net amount.

CHAPTER SUMMARY

Table showing the Nature of Transactions Recorded in Subsidiary Books and their Effect on Ledger Accounts

Name of the Book	*Nature of Transaction Entered*	*Effect on Ledger Accounts*	
		Debit (Dr.)	*Credit (Cr.)*
1. **Cash Book**	All cash and bank transactions.	Cash and Bank A/c for receipts of Cash and Cheques.	Cash and Bank A/c for Payments of Cash and Cheque.
2. **Purchases Book**	All credit purchases of goods.	Purchases A/c	Suppliers' A/cs
3. **Sales Book**	All credit sale of goods.	Customers' A/cs	Sales A/c
4. **Purchases Return Book**	All returns of goods purchased by us from suppliers.	Suppliers' A/cs	Purchases Return/Returns Outward A/c
5. **Sales Return Book**	All returns of goods sold by us to customers.	Sales Return/Returns Inward A/c	Customers' A/cs
6. **Journal Proper**	All such transactions that cannot be entered in the above five books.	Account affected by transactions.	Account affected by transactions.

- **Purchases Book** is a book of primary entry, used for recording credit purchases of goods, *i.e.*, goods in which the firm deals or uses for manufacturing goods. Cash purchases are not recorded in the Purchases Book. They are recorded in the Cash Book.
- **Sales Book** is used for the purposes of recording the sale of merchandise on credit.
- **Purchases Return Book** (also known as **Returns Outward Book**) is used for recording all return of goods purchased.
- **Sales Return Book** (also known as **Returns Inward Book**) is used for the purposes of recording the return of goods sold.
- **Journal Proper** is used for making the original record of those transactions which do not find a place in any other subsidiary book. Entries recorded in the Journal Proper are: (*i*) Opening Entry; (*ii*) Closing Entry; (*iii*) Transfer Entries; (*iv*) Credit Purchase of Assets; (*v*) Rectifying Entries; (*vi*) Adjustment Entries; (*vii*) Credit Sale of Worn-out or Obsolete Assets.

Solved Question

1. Enter the following transactions in various Subsidiary Books and post them into Ledger and prepare a Trial Balance:

2023
April 1 Cash in hand ₹ 1,00,000; Cash at Bank ₹ 75,000 and Capital Account ₹ 1,75,000.
April 3 Bought goods for cash ₹ 45,000.
April 4 Purchased goods from Pradeep & Co. ₹ 20,000 *less* 10% trade discount.
April 7 Sold goods to Dheeraj & Co. for ₹ 20,000 *less* 20% trade discount.
April 9 Withdrew ₹ 5,000 from bank for personal use.
April 12 Sold goods to Dhruv for ₹ 15,000.
April 15 Paid ₹ 17,800 to Pradeep & Co. in full settlement of their account.
April 18 Goods of ₹ 2,000 returned by Dhruv.
April 20 Received ₹ 5,000 from Dhruv.
April 21 Purchased goods from KG & Co. ₹ 25,000.
April 23 ₹ 20,600 paid to KG & Co. by cheque, discount received ₹ 400.
April 24 Purchased furniture of ₹ 20,000 from Modern Furniture House.
April 26 Paid into bank ₹ 5,000.
April 28 Dhruv is declared insolvent; a first and final dividend of 50 paise in a rupee is received from him.
April 29 Goods costing ₹ 3,000 returned to KG & Co.
April 30 Goods costing ₹ 5,000 taken by the proprietor.
April 30 Interest on Capital provided ₹ 1,000.
April 30 Paid ₹ 10,000 for advertisement by cheque.
April 30 Paid Salaries to staff ₹ 10,000.
April 30 Cash Sales ₹ 15,000.
April 30 Paid into bank ₹ 15,000.
April 30 Bought 100 shares of a company at ₹ 10 per share; brokerage paid ₹ 50.
April 30 Received ₹ 14,800 from Dheeraj & Co., discount allowed ₹ 200.

Solution:

PURCHASES BOOK

Date	Particulars	Invoice No.	L.F.	Details (₹)	Amount (₹)
2023					
April 4	**Pradeep & Co.**				
	List Price of Goods			20,000	
	Less: 10% Trade Discount			2,000	18,000
April 21	**KG & Co.**				25,000
April 30	**Purchases A/c** ...**Dr.**				43,000

SALES BOOK

Date	Particulars	Invoice No.	L.F.	Details (₹)	Amount (₹)
2023					
April 7	**Dheeraj & Co.**				
	List Price of Goods			20,000	
	Less: 20% Discount			4,000	16,000
April 12	**Dhruv**				15,000
April 30	**Sales A/c** **...Cr.**				31,000

SALES RETURN BOOK

Date	Particulars	Credit Note	L.F.	Details (₹)	Amount (₹)
2023					
April 18	**Dhruv**				2,000
April 30	**Sales Return A/c** **...Dr.**				2,000

PURCHASES RETURN BOOK

Date	Particulars	Debit Note	L.F.	Details (₹)	Amount (₹)
2023					
April 29	**KG & Co.**				3,000
April 30	**Purchases Return A/c** **...Cr.**				3,000

Dr. CASH BOOK *Cr.*

Date	Particulars	L.F.	Cash ₹	Bank ₹	Date	Particulars	L.F.	Cash ₹	Bank ₹
2023					2023				
April 1	To Balance *b/d*		1,00,000	75,000	April 3	By Purchases A/c		45,000	
April 20	To Dhruv		5,000		April 9	By Drawings A/c			5,000
April 26	To Cash A/c	C		5,000	April 15	By Pradeep & Co.		17,800	
April 28	To Dhruv		4,000		April 23	By KG & Co.			20,600
April 30	To Sales A/c		15,000		April 26	By Bank A/c	C	5,000	
April 30	To Cash A/c	C		15,000	April 30	By Advertisement A/c			10,000
April 30	To Dheeraj & Co.		14,800		April 30	By Salaries A/c		10,000	
					April 30	By Bank A/c	C	15,000	
					April 30	By Investments A/c (In shares)		1,050	
					April 30	By Balance *c/d*		44,950	59,400
			1,38,800	95,000				1,38,800	95,000
May 1	To Balance *b/d*		44,950	59,400					

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Date		Particulars	L.F.	Dr. (₹)	Cr. (₹)
2023					
April	15	Pradeep & Co. ...Dr.		200	
		To Discount Received A/c			200
		(Being the discount received from Pradeep & Co. on payment)			
April	23	KG & Co. ...Dr.		400	
		To Discount Received A/c			400
		(Being the discount received from KG & Co. on payment)			
April	24	Furniture A/c ...Dr.		20,000	
		To Modern Furniture House			20,000
		(Being the purchase of furniture on credit)			
April	28	Bad Debts A/c ...Dr.		4,000	
		To Dhruv			4,000
		(Being the bad debts written off)			
April	30	Drawings A/c ...Dr.		5,000	
		To Purchases A/c			5,000
		(Being the goods withdrawn by the proprietor)			
April	30	Interest on Capital A/c ...Dr.		1,000	
		To Capital A/c			1,000
		(Being the interest on Capital provided)			
April	30	Discount Allowed A/c ...Dr.		200	
		To Dheeraj & Co.			200
		(Being the discount allowed to Dheeraj & Co. on payment received)			

Ledger

Dr. CAPITAL ACCOUNT *Cr.*

Date		Particulars	J.F.	₹	Date		Particulars	J.F.	₹
2023					2023				
April	30	To Balance *c/d*		1,76,000	April	1	By Balance *b/d*		1,75,000
					April	30	By Interest on Capital A/c		1,000
				1,76,000					1,76,000
					May	1	By Balance *b/d*		1,76,000

Dr. FURNITURE ACCOUNT *Cr.*

Date		Particulars	J.F.	₹	Date		Particulars	J.F.	₹
2023					2023				
April	24	To Modern Furniture House		20,000	April	30	By Balance *c/d*		20,000
May	1	To Balance *b/d*		20,000					

Dr. DHRUV *Cr.*

Date		Particulars	J.F.	₹	Date		Particulars	J.F.	₹
2023					2023				
April	12	To Sales A/c		15,000	April	18	By Sales Return A/c		2,000
					April	20	By Cash A/c		5,000
					April	28	By Cash A/c		4,000
					April	28	By Bad Debts A/c		4,000
				15,000					15,000

Dr. BAD DEBTS ACCOUNT *Cr.*

Date		Particulars	J.F.	₹	Date		Particulars	J.F.	₹
2023					2023				
April	28	To Dhruv's A/c		4,000	April	30	By Balance *c/d*		4,000
May	1	To Balance *b/d*		4,000					

Dr. MODERN FURNITURE HOUSE *Cr.*

Date		Particulars	J.F.	₹	Date		Particulars	J.F.	₹
2023					2023				
April	30	To Balance *c/d*		20,000	April	24	By Furniture A/c		20,000
					May	1	By Balance *b/d*		20,000

Dr. INTEREST ON CAPITAL ACCOUNT *Cr.*

Date		Particulars	J.F.	₹	Date		Particulars	J.F.	₹
2023					2023				
April	30	To Capital A/c		1,000	April	30	By Balance *c/d*		1,000
May	1	To Balance *b/d*		1,000					

Dr. DRAWINGS ACCOUNT *Cr.*

Date		Particulars	J.F.	₹	Date		Particulars	J.F.	₹
2023					2023				
April	9	To Bank A/c		5,000	April	30	By Balance *c/d*		10,000
April	30	To Purchases A/c		5,000					
				10,000					10,000
May	1	To Balance *b/d*		10,000					

Dr. PURCHASES ACCOUNT *Cr.*

Date		Particulars	J.F.	₹	Date		Particulars	J.F.	₹
2023					2023				
April	3	To Cash A/c		45,000	April	30	By Drawings A/c		5,000
April	30	To Sundries as per Purchases Book		43,000	April	30	By Balance *c/d*		83,000
				88,000					88,000
May	1	To Balance *b/d*		83,000					

Dr. DHEERAJ & CO. *Cr.*

Date		Particulars	J.F.	₹	Date		Particulars	J.F.	₹
2023					2023				
April	7	To Sales A/c		16,000	April	30	By Cash A/c		14,800
					April	30	By Discount Allowed A/c		200
					April	30	By Balance *c/d*		1,000
				16,000					16,000
May	1	To Balance *b/d*		1,000					

Dr. SALES ACCOUNT *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2023				2023			
April 30	To Balance *c/d*		46,000	April 30	By Sundries as per Sales Book		31,000
				April 30	By Cash A/c		15,000
			46,000				46,000
				May 1	By Balance *b/d*		46,000

Dr. PRADEEP & CO. *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2023				2023			
April 15	To Cash A/c		17,800	April 4	By Purchases A/c		18,000
April 15	To Discount Received A/c		200				
			18,000				18,000

Dr. KG & CO. *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2023				2023			
April 23	To Bank A/c		20,600	April 21	By Purchases A/c		25,000
April 23	To Discount Received A/c		400				
April 29	To Purchases Return A/c		3,000				
April 30	To Balance *c/d*		1,000				
			25,000				25,000
				May 1	By Balance *b/d*		1,000

Dr. SALES RETURN ACCOUNT *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2023				2023			
April 30	To Sundries as per per Sales Return Book		2,000	April 30	By Balance *c/d*		2,000
May 1	To Balance *b/d*		2,000				

Dr. PURCHASES RETURN ACCOUNT *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2023				2023			
April 30	To Balance *b/d*		3,000	April 30	By Sundries as per Purchases Return Book		3,000
				May 1	By Balance *b/d*		3,000

Dr. ADVERTISEMENT ACCOUNT *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2023				2023			
April 30	To Bank A/c		10,000	April 30	By Balance *c/d*		10,000
May 1	To Balance *b/d*		10,000				

Dr. SALARIES ACCOUNT *Cr.*

Date		Particulars	J.F.	₹	Date		Particulars	J.F.	₹
2023					2023				
April	30	To Cash A/c		10,000	April	30	By Balance *c/d*		10,000
May	1	To Balance *b/d*		10,000					

Dr. INVESTMENTS ACCOUNT (IN SHARES) *Cr.*

Date		Particulars	J.F.	₹	Date		Particulars	J.F.	₹
2023					2023				
April	30	To Cash A/c		1,050	April	30	By Balance *c/d*		1,050
May	1	To Balance *b/d*		1,050					

Dr. DISCOUNT ALLOWED ACCOUNT *Cr.*

Date		Particulars	J.F.	₹	Date		Particulars	J.F.	₹
2023					2023				
April	30	To Dheeraj & Co.		200	April	30	By Balance *c/d*		200
May	1	To Balance *b/d*		200					

Dr. DISCOUNT RECEIVED ACCOUNT *Cr.*

Date		Particulars	J.F.	₹	Date		Particulars	J.F.	₹
2023					2023				
April	30	To Balance *c/d*		600	April	15	By Pradeep & Co.		200
					April	23	By KG & Co.		400
				600					600
					May	1	By Balance *b/d*		600

TRIAL BALANCE OF SHARMA & SONS *as on 30th April, 2023*

S. No.	Heads of Accounts	L.F.	Dr. Balances ₹	Cr. Balances ₹
1.	Capital A/c			1,76,000
2.	Furniture A/c		20,000	
3.	Bad Debts A/c		4,000	
4.	Modern Furniture House			20,000
5.	Interest on Capital A/c		1,000	
6.	Drawings A/c		10,000	
7.	Purchases A/c		83,000	
8.	Dheeraj & Co.		1,000	
9.	Sales A/c			46,000
10.	KG & Co.			1,000
11.	Sales Return A/c		2,000	
12.	Purchases Return A/c			3,000
13.	Advertisement A/c		10,000	
14.	Salaries A/c		10,000	
15.	Investments A/c (in Shares)		1,050	
16.	Discount Allowed A/c		200	
17.	Discount Received A/c			600
18.	Cash in Hand		44,950	
19.	Cash at Bank		59,400	
	Total		2,46,600	2,46,600

CHAPTER 13

Bank Reconciliation Statement

MEANING OF KEY TERMS USED IN THE CHAPTER

1. Bank Reconciliation Statement	Bank Reconciliation Statement is a statement prepared on a particular day to reconcile the bank balance as per Cash Book with the balance as per Bank Pass Book or Bank Statement showing entries causing difference between the two balances.
2. Bank Pass Book or Bank Statement	Bank Pass Book or Bank Statement is a copy of account of the account holder in the books of the bank.
3. Favourable or Debit Balance as per Cash Book	It means that the amount lying deposited with the bank. It is the difference between debit side and credit side of the bank column of the Cash Book, debit side being bigger.
4. Favourable or Credit Balance as per Pass Book or Bank Statement	It means that the amount lying deposited with the bank. It is the difference between credit side and debit side of the Bank Pass Book or Bank Statement, credit side being bigger.
5. Unfavourable or Credit Balance as per Cash Book	It means amount overdrawn, *i.e.*, amount drawn in excess of deposits. It is the difference between credit side and debit side of the bank column of the Cash Book, credit side being bigger.
6. Unfavourable or Debit Balance as per Bank Pass Book or Bank Statement	It means amount overdrawn, *i.e.*, amount drawn in excess of deposits. It is the difference between debit side and credit side of the Bank Pass Book or Bank Statement, debit side being bigger.
7. Overdraft	A situation when the account holder withdraws more money from the bank than the deposits in his/her account.

CHAPTER SUMMARY

- **Bank Reconciliation Statement** is a statement prepared on a particular date reconciling the bank balance in the Cash Book with the balance as per Bank Statement or Pass Book showing the reasons or causes of difference between the two balances.
- **Reasons or Causes of Difference** can be as follows:
  (*i*) Cheques issued but not presented for payment;
  (*ii*) Cheques deposited but not credited;
  (*iii*) Interest allowed by the bank not recorded in Cash Book;
  (*iv*) Interest and expenses charged by the bank not recorded in Cash Book;
  (*v*) Interest and dividend collected by the bank not recorded in Cash Book;
  (*vi*) Direct payments by the bank not recorded in Cash Book;
  (*vii*) Direct payments into the bank by a customer not recorded in Cash Book;
  (*viii*) Dishonour of bills discounted with the bank not recorded in Cash Book;
  (*ix*) Cheques collected by the bank on behalf of a customer not recorded in Cash Book; and
  (*x*) Errors committed.

- **Debit Balance** as per Cash Book or **Credit Balance** as per Pass Book means favourable balance.
- **Credit Balance** as per Cash Book or **Debit Balance** as per Pass Book means unfavourable balance.

BANK RECONCILIATION STATEMENT—AT A GLANCE

Particulars	Cash Book—Starting Balance		Pass Book—Starting Balance	
	Favourable Balance (Dr. Balance)	Overdraft (Cr. Balance)	Favourable Balance (Cr. Balance)	Overdraft (Dr. Balance)
1. Cheques issued but not yet presented for payment.	+	–	–	+
2. Cheques deposited into the Bank but not yet collected.	–	+	+	–
3. Interest allowed by the Bank but not entered in the Cash Book.	+	–	–	+
4. Bank charges not entered in the Cash Book.	–	+	+	–
5. Direct deposit into the bank by a customer.	+	–	–	+
6. Direct payments from the bank not entered in the Cash Book.	–	+	+	–
7. Direct collections made by the bank not entered in the Cash Book.	+	–	–	+
8. Cheque issued and payment received by the creditor but not entered in the Cash Book.	–	+	+	–
9. Cheque paid into the bank but omitted to be entered in the Cash Book.	+	–	–	+
10. Dishonour of a cheque and bill discounted with the bank.	–	+	+	–
11. Cheque entered in the Cash Book but not sent to the Bank.	–	+	+	–

Difference between Bank Reconciliation Statement and Bank Statement

Basis	*Bank Reconciliation Statement*	*Bank Statement*
1. Who prepares	It is prepared by the account holder.	It is prepared by the bank.
2. Objective	It is prepared to reconcile the difference between Cash Book Balance and Pass Book Balance.	It is prepared to inform the customer, *i.e.*, account holder about all transactions which have taken place in his account during the period covered by the statement.
3. When it is prepared	It is prepared on a particular date.	It is prepared for a particular period.
4. Necessity	It is not compulsory.	It is compulsory for the bank to prepare it.
5. Final Result	It may show the bank balance as per Cash Book or Pass Book at the end of the period.	It shows the balance of Customer's Account as per bank ledger at the end of the period.

Solved Questions

1. Prepare Bank Reconciliation Statement from the following particulars:

(*i*) On 31st March, 2023, Cash Book showed a credit bank balance (*i.e.*, bank overdraft) of ₹ 20,000.

(*ii*) Out of the total cheques amounting to ₹ 1,00,000 drawn, cheques aggregating ₹30,000 were encashed in March, cheques aggregating ₹ 40,000 were encashed in April and the rest have not yet been presented.

(*iii*) Out of the total cheques amounting to ₹ 50,000 deposited, cheques aggregating ₹ 15,000 were credited in March, cheques aggregating ₹ 20,000 were credited in April, and the rest have not yet been collected.

(*iv*) Bank has debited ₹ 5,000 on account of interest on overdraft and ₹ 1,000 as bank charges.

(*v*) Bank has credited ₹ 7,000 to the account being dividend on shares.

(*vi*) Cheque of ₹ 10,000 (discounted with the bank in January) dishonoured on 31st March (but not yet recorded in the Cash Book).

Solution: BANK RECONCILIATION STATEMENT *as on 31st March, 2023*

Particulars	Amount Details (₹)	Amount ₹
Overdraft Balance as per Cash Book (Cr.)		20,000
Less: Cheques issued but not yet presented for payment	70,000	
Dividend collected and credited by Bank	7,000	77,000
		57,000
Add: Cheques deposited but not yet collected	35,000	
Interest debited by Bank not recorded in Cash Book	5,000	
Bank charges debited by Bank not recorded in Cash Book	1,000	
Cheque discounted dishonoured by Bank not recorded in Cash Book	10,000	51,000
Balance as per Pass Book (Cr.)		**6,000**

The above solution can also be presented with two columns using 'Plus' and 'Minus' method.

BANK RECONCILIATION STATEMENT *as on 31st March, 2023*

Particulars	Plus Items ₹	Minus Items ₹
Overdraft as per Cash Book (Cr.)		20,000
Cheques drawn but not presented for payment till 31st March	70,000	
Dividend collected and credited by bank	7,000	
Cheques deposited but not collected till 31st March		35,000
Interest on overdraft and bank charges		6,000
Discounted cheque dishonoured		10,000
Balance as per Pass Book (Cr.) (₹ 77,000 – ₹ 71,000)		**6,000**
	77,000	77,000

2. From the following particulars, prepare Bank Reconciliation Statement and ascertain the balance as per Cash Book on 31st March, 2023 in the books of D.K.:

(*i*) Pass Book showed an overdraft of ₹ 15,000 on 31st March, 2023.

(*ii*) A cheque of ₹ 200 was deposited in the bank but not recorded in the Cash Book.

(*iii*) Cheques of ₹ 17,000 were issued but cheques amounting to ₹ 10,000 were presented for payment up to 31st March, 2023.

(*iv*) Cheques of ₹ 10,000 were sent to the bank for collection. Out of these, cheques of ₹ 2,000 and of ₹ 1,000 were credited respectively on 7th April and 9th April, 2023 and remaining cheques were credited before 31st March, 2023.

(*v*) Bank paid ₹ 300 as Chamber of Commerce fee on behalf of D.K. which was not recorded in the Cash Book.
(*vi*) Bank charged interest on overdraft ₹ 800.
(*vii*) ₹ 40 for bank charges were recorded two times in the Cash Book and bank expenses of ₹ 35 were not at all recorded in the Cash Book.
(*viii*) Payments side of the Cash Book was ₹ 1,000 short.
(*ix*) Bank received ₹ 200 as interest on debentures on behalf of D.K.

(MSE Chandigarh 2001, Modified)

Solution: BANK RECONCILIATION STATEMENT *as on 31st March, 2023*

Particulars	Amount Details (₹)	Amount ₹
Overdraft Balance as per Pass Book (Dr.)		15,000
Add: Cheque deposited into Bank not recorded in Cash Book	200	
Cheques issued but not presented for payment (₹ 17,000 – ₹ 10,000)	7,000	
Bank charges recorded twice in Cash Book	40	
Interest received on Debentures credited to account	200	7,440
		22,440
Less: Cheques deposited but not yet credited (₹ 2,000 + ₹ 1,000)	3,000	
Chamber of Commerce Fee paid by bank not recorded in Cash Book	300	
Interest on Overdraft debited by bank	800	
Bank Expenses debited by bank	35	
Cash Book payments side casted short	1,000	5,135
Overdraft Balance as per Cash Book (Cr.)		**17,305**

3. Following are the entries recorded in the bank column of the Cash Book of Mr. V. K. Gupta for the month ended 31st March, 2023:

Dr. CASH BOOK (BANK COLUMN ONLY) *Cr.*

Date	Particulars	₹	Date	Particulars	₹
2023			2023		
March 15	To Cash A/c	36,000	March 1	By Balance *b/d*	40,000
March 21	To Roy	24,000	March 4	By John	2,000
March 22	To Kapoor	10,000	March 6	By Raj	400
March 31	To Balance *c/d*	7,640	March 15	By Kailash	240
			March 20	By Joshi	35,000
		77,640			77,640

On 31st March, 2023, Mr. V.K. Gupta received his Bank Statement. On perusal of the statement, Mr. V.K. Gupta ascertained the following information:
(*i*) Cheques deposited but not credited by the bank ₹ 10,000.
(*ii*) Interest on securities collected by the bank but not recorded in the Cash Book ₹ 1,080.
(*iii*) Credit transfer not recorded in the Cash Book ₹ 200.
(*iv*) Dividend collected by the bank directly but not recorded in the Cash Book ₹ 1,000.
(*v*) Cheques issued but not presented for payment ₹ 37,400.
(*vi*) Interest debited by the bank but not recorded in the Cash Book ₹ 1,000.
(*vii*) Bank charges not recorded in the Cash Book ₹ 340.

From the above information, prepare Bank Reconciliation Statement to ascertain the balance as per the Bank Statement.

Solution: BANK RECONCILIATION STATEMENT *as on 31st March, 2023*

Particulars	Plus Items ₹	Minus Items ₹
Bank Overdraft as per Cash Book (Cr.)		7,640
Cheques deposited but not credited		10,000
Interest on securities collected by the bank but not recorded in the Cash Book	1,080	
Credit transfer not recorded in the Cash Book	200	
Dividend collected by the bank directly but not recorded in the Cash Book	1,000	
Cheques issued but not presented for payment	37,400	
Interest debited by the bank but not recorded in the Cash Book		1,000
Bank charges not recorded in Cash Book		340
Bank Balance as per Pass Book (Cr.) (₹ 39,680 – ₹ 18,980)		**20,700**
	39,680	39,680

4. On 31st March, 2023, the Cash Book of a merchant showed a debit balance of ₹ 8,500. On comparing the Cash Book with the Bank Pass Book, the following discrepancies were noted:

(*i*) Cheques issued for ₹ 6,000 were not presented at bank by 31st March, 2023.

(*ii*) Cheques for ₹ 8,000 were deposited in bank but were not cleared.

(*iii*) ₹ 20,000 being the proceeds of a cheque collected appear in the Pass Book but not in the Cash Book.

(*iv*) A cheque for ₹ 1,000 received from *X* & Co. and deposited in Bank was dishonoured. No advice of non-payment was received from bank till the 1st of next April, 2023.

(*v*) The bank has paid a bill amounting to ₹ 4,500 but it has not been entered in the Cash Book.

(*vi*) A cheque for ₹ 8,000 which was discounted with the bank was due this month. It was dishonoured by the drawee on due date.

(*vii*) A cheque for ₹ 5,100 was paid into bank but the bank credited the amount with ₹ 5,010 by mistake.

(*viii*) A cheque for ₹ 500 was deposited into bank but the same was credited to a wrong account.

(*ix*) ₹ 2,000 was deposited by a customer directly into bank.

(*x*) The bank received interest on debentures on behalf of the trader the amount being ₹ 2,500.

(*xi*) A cheque for ₹ 1,500 received from a customer deposited into bank but the same was not entered into the Cash Book.

(*xii*) The bank paid ₹ 1,250 by way of Insurance Premium.

(*xiii*) The bank charged ₹ 90 as their commission for collecting outstation cheques and allowed interest of ₹ 100 on the trader's balance.

(*xiv*) A cheque for ₹ 250 entered into the Cash Book was omitted to be banked.

Prepare a Bank Reconciliation Statement and show the balance as per Pass Book.

Solution: BANK RECONCILIATION STATEMENT *as on 31st March, 2023*

Particulars		Amount Details (₹)	Amount ₹
Balance as per Cash Book (Dr.)			8,500
Add: (*i*)	Cheques issued but not yet presented for payment	6,000	
(*iii*)	Cheque collected by Bank but not recorded in Cash Book	20,000	
(*ix*)	Amount directly deposited by a Customer	2,000	
(*x*)	Interest on debentures directly received by bank	2,500	
(*xi*)	Cheque deposited into bank not recorded in Cash Book	1,500	
(*xiii*)	Interest on bank balance	100	32,100
			40,600
Less: (*ii*)	Cheques deposited in bank but not collected	8,000	
(*iv*)	Cheque deposited in bank dishonoured but not recorded in Cash Book	1,000	
(*v*)	Payment of bill by bank but not recorded in Cash Book	4,500	
(*vi*)	Discounted cheque dishonoured and not entered in Cash Book	8,000	
(*vii*)	Cheque deposited credited with lower amount (₹ 5,100 – ₹ 5,010)	90	
(*viii*)	Cheque deposited but credited to wrong account	500	
(*xii*)	Insurance premium paid by bank	1,250	
(*xiii*)	Bank charges	90	
(*xiv*)	Cheque recorded in Cash Book but not deposited in Bank	250	23,680
Balance as per Pass Book (Cr.)			**16,920**

Unsolved Questions

1. Prepare a Bank Reconciliation Statement from the following on 31st March, 2014:
   (*i*) Balance as per Cash Book ₹ 12,500.
   (*ii*) Cheques deposited ₹ 4,500 but not yet credited.
   (*iii*) Bank charges ₹ 50 entered twice in Cash Book.
   (*iv*) Direct deposit by a customer into bank ₹ 1,500 not entered in Cash Book.
   (*v*) Discount allowed to customers ₹ 120 entered in bank column of Cash Book.

   (*MSE Chandigarh 2015*)
   [*Balance as per Pass Book—₹ 9,430.*]

2. From the following particulars, prepare Bank Reconciliation Statement as on 31st December 2014:
   (*i*) Debit balance as per Cash Book ₹ 10,000.
   (*ii*) A cheque for ₹ 500 issued in favour of Karan has not been presented for payment.
   (*iii*) A bill for ₹ 700 paid by bank on our behalf under a rebate of ₹ 20, the full amount of the bill was credited in the bank column of Cash Book.
   (*iv*) A cheque for ₹ 295 deposited in bank has been dishonoured.
   (*v*) A sum of ₹ 800 deposited in the bank has been credited as ₹ 80 in the Pass Book.
   (*vi*) Payments side of Cash Book has been undercast by ₹ 200. (*KVS 2015*)

   [*Balance as per Pass Book—₹ 9,305.*]

3. From the following particulars, prepare Bank Reconciliation Statement as on 31st March, 2023:
   (*i*) Bank balance as per Cash Book ₹ 25,450.
   (*ii*) A number of cheques were deposited in the Bank but on 31st March, 2023, a cheque for ₹ 500 was not credited in the Pass Book.
   (*iii*) Several cheques aggregating ₹ 5,000 were issued but only cheques for ₹ 4,500 were presented to Bank for payment.

(*iv*) The Bank had directly collected dividend ₹ 400 and interest ₹ 300 but this was not entered in the Cash Book.

(*v*) In accordance with instructions, the Bank had honoured a Bill for ₹ 2,000 but the debit note was sent to the trader only on 2nd April, 2023.

(*vi*) Bank charges ₹ 20 were not entered in the Cash Book.

(*vii*) The debit balance for November was shown short in the Cash Book by ₹ 300.

(*viii*) The Bank Pass Book revealed that a cheque for ₹ 250 received from a person had been dishonoured, but no entry was passed in the Cash Book.

[*Balance as per Pass Book*—₹ *24,180.*]

4. Prepare Bank Reconciliation Statement as on 30th September, 2022 from the following particulars:

		₹
(*i*)	Bank balance as per Pass Book.	10,000
(*ii*)	Cheque deposited into the Bank, but no entry was passed in the Cash Book.	500
(*iii*)	Cheque received and entered in the Cash Book but not sent to bank.	1,200
(*iv*)	Credit side of the Cash Book bank column casted short.	200
(*v*)	Insurance premium paid directly by the bank under the standing instruction.	600
(*vi*)	Bank charges entered twice in the Cash Book.	20
(*vii*)	Cheque issued but not presented to the bank for payment.	500
(*viii*)	Cheque received entered twice in the Cash Book.	1,000
(*ix*)	Cheque discounted dishonoured not recorded in the Cash Book.	5,000

[*Balance as per Cash Book (Dr.)*—₹ *16,980.*]

5. From the following particulars of a trader, prepare Bank Reconciliation Statement as on 31st March, 2023:

(*i*) Bank overdraft as per Cash Book ₹ 52,100.

(*ii*) During the month, cheques for a total amount of ₹ 94,400 were deposited into the bank, but of these, one cheque for ₹ 11,160 has been entered into the Pass Book on 5th April.

(*iii*) During the month, cheques for ₹ 89,580 were drawn in favour of creditors. Of them, one creditor encashed his cheque for ₹ 38,580 on 7th April, whereas another for ₹ 4,320 has not yet been encashed.

(*iv*) As per instructions, the bank on 28th March paid out ₹ 10,500 to a creditor, but by mistake the same has not been entered in the Cash Book.

(*v*) According to agreement, on 25th March, a debtor deposited directly into the bank ₹ 9,000, but the same has not been recorded in the Cash Book.

(*vi*) In the month of March the bank, without any intimation, debited his account for ₹ 120 as bank charges and credited the same for ₹ 180 as interest.

[*Balance as per Pass Book (Overdraft)*—₹ *21,800.*]

6. From the following particulars, prepare Bank Reconciliation Statement:

		₹
(*i*)	Bank Overdraft as per Cash Book.	16,200
(*ii*)	A cheque deposited as per Bank Statement, but not recorded in the Cash Book.	700
(*iii*)	Debit side of the Bank Column casted short.	100
(*iv*)	A cheque for ₹ 5,000 deposited but collection as per Bank Statement.	4,996
(*v*)	A party's cheque returned dishonoured as per Bank Statement only.	530
(*vi*)	Cheques collected directly by Bank.	3,500
(*vii*)	Bank charges recorded twice in Cash Book.	25
(*viii*)	A cheque for ₹ 8,000 discounted for ₹ 7,960 returned dishonoured by the Bank Bank charges being charged.	15
(*ix*)	Cheques deposited but not yet collected by the Bank.	2,320
(*x*)	Cheques issued but not yet presented for encashment.	1,250

[*Balance as per Pass Book (Dr.)*—₹ *21,494.*]

7. From the following information supplied by Deep, prepare his Bank Reconciliation Statement as on 31st March, 2023:

		₹
(*i*)	Bank overdraft as per Pass Book.	3,30,000
(*ii*)	Cheques issued but not presented for payment.	1,75,000
(*iii*)	Cheques deposited but not collected.	2,10,000
(*iv*)	Cheques recorded in the Cash Book but not sent to the bank for collection.	40,000
(*v*)	Payments received from customers directly by the bank.	70,000
(*vi*)	Bank charges debited in Pass Book.	400
(*vii*)	Premium of Life Insurance policy of Deep paid by bank on standing instructions.	3,600
(*viii*)	A cheque for ₹ 60,000 dishonoured on 30th March, 2023 and bank charged bank Charges	200
	This bill was discounted on 30th January, 2023.	

[*Overdraft as per Cash Book—₹ 2,60,800.*]

8. What is Bank Reconciliation Statement? Prepare such a statement on 31st March, 2023 from the following particulars:

   (*i*) Abhay's overdraft as per Pass Book ₹ 12,000 as on 31st March.

   (*ii*) On 30th March, cheques had been issued for ₹ 70,000 of which cheques worth ₹ 3,000 only had been encashed up to 31st March.

   (*iii*) Cheques amounting to ₹ 3,500 had been paid into the bank for collection but of these only ₹ 500 had been credited in the Pass Book.

   (*iv*) The bank has charged ₹ 500 as interest on overdraft and the intimation of which has been received on 2nd April, 2023.

   (*v*) The Bank Pass Book shows credit for ₹ 1,000 representing ₹ 400 paid by debtor of Abhay directly into the bank and ₹ 600 collected direct by bank in respect of interest on Abhay's investment. Abhay had no knowledge of these items.

   (*vi*) A cheque for ₹ 200 has been debited in bank column of Cash Book by Abhay, but it was not sent to bank at all.

[*Overdraft as per Cash Book—₹ 76,300.*]

CHAPTER 14

Trial Balance

MEANING OF KEY TERMS USED IN THE CHAPTER

Trial Balance It is a statement prepared with the debit and credit balances of the ledger accounts. It also includes the balances of cash and Bank taken from the Cash Book. The total of debit and credit columns should be equal. Specimen of a Trial Balance with imaginary amounts is as follows:

TRIAL BALANCE *as at* ...

Heads of Accounts	L.F.	Debit Balance ₹	Credit Balance ₹
Capital A/c		...	80,000
Cash A/c		47,700	...
Purchases A/c		79,000	...
Sales A/c		...	50,000
Drawings A/c		1,500	...
Discount Received A/c		...	200
Salaries A/c		2,000	...
Total		1,30,200	1,30,200

CHAPTER SUMMARY

- A **Trial Balance** is a statement of accounts appearing in the Ledger. It may be prepared either by taking the balance of each account or the total amounts of debit and credit items.
- The agreement of **Trial Balance** ensures arithmetical accuracy and not accounting accuracy.
- **Objectives or Functions of a Trial Balance** are to:
  (*i*) ascertain arithmetical accuracy.
  (*ii*) facilitate preparation of Financial Statements.
  (*iii*) provide summary of Ledger Accounts.
  (*iv*) help in locating errors.
- **Guidelines**, which help in the preparation of Trial Balance, are as follows:
  (*i*) Accounts of expenses and losses have a *debit* balance.
  (*ii*) Accounts of incomes and gains have a *credit* balance.
  (*iii*) Accounts of assets have a *debit* balance.
  (*iv*) Accounts of liabilities have a *credit* balance.
  (*v*) Capital Account usually has a *credit* balance.

Solved Questions

1. Make out a Trial Balance from the following balances as on 31st March, 2023:

	₹		₹
Repair	5,000	Closing Stock	9,00,000
Debtors	60,000	Sales	2,50,000
Trade Expenses	12,000	Creditors	10,000
Rent	2,500	Interest Received	1,200
Wages	32,000	Purchases Return	2,000
Purchases	2,00,000	Discount Received	1,800
Furniture	25,000	Provision for Doubtful Debts	2,000
Carriage and Freight	5,000	Capital	3,00,000
Sales Return	3,000	Plant and Machinery	90,000
Loans and Advances	20,000	Cash in Hand	3,000
Travelling Expenses	6,000	Bank	20,000
Drawings	25,000	Stock (1st April, 2022)	50,000
Insurance	6,300	Discount Allowed	2,200

Solution: TRIAL BALANCE *as at 31st March, 2023*

Heads of Accounts	L.F.	Dr. (₹)	Cr. (₹)
Repair		5,000	...
Debtors		60,000	...
Trade Expenses		12,000	...
Rent		2,500	...
Wages		32,000	...
Purchases		2,00,000	...
Furniture		25,000	...
Carriage and Freight		5,000	...
Sales Return		3,000	...
Loans and Advances		20,000	...
Travelling Expenses		6,000	...
Drawings		25,000	...
Insurance		6,300	...
Sales		...	2,50,000
Creditors		...	10,000
Interest Received		...	1,200
Purchases Return		...	2,000
Discount Received		...	1,800
Provision for Doubtful Debts		...	2,000
Capital		...	3,00,000
Plant and Machinery		90,000	...
Cash in Hand		3,000	...
Bank		20,000	...
Stock (1st April, 2022)		50,000	...
Discount Allowed		2,200	...
Total		5,67,000	5,67,000

2. From the following information, prepare Trial Balance of Punjab General Store as on 31st March, 2023:

Dr. CASH BOOK *Cr.*

Particulars	₹	Particulars	₹
To Capital A/c	1,00,000	By Furniture A/c	30,000
To Mohan	2,50,000	By Salaries A/c	25,000
To Sales A/c	50,000	By Ram	2,10,000
		By Purchases A/c	10,000
		By Drawings A/c	5,000
		By Balance *c/d*	1,20,000
	4,00,000		4,00,000

Dr. CAPITAL ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *c/d*	1,00,000	By Cash A/c	1,00,000

Dr. DRAWINGS ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Cash A/c	5,000	By Balance *c/d*	5,000

Dr. FURNITURE ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Cash A/c	30,000	By Balance *c/d*	30,000

Dr. SALARIES ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Cash A/c	25,000	By Balance *c/d*	25,000

Dr. PURCHASES ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Cash A/c	10,000	By Balance *c/d*	2,60,000
To Sundries as per Purchases Book	2,50,000		
	2,60,000		2,60,000

Dr. PURCHASES RETURN ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *c/d*	5,000	By Sundries as per Purchases Return Book	5,000

Dr. MOHAN *Cr.*

Particulars	₹	Particulars	₹
To Sales A/c (Credit Sales)	3,00,000	By Sales Return A/c	1,000
		By Cash A/c	2,50,000
		By Balance *c/d*	49,000
	3,00,000		3,00,000

Dr. SALES ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *c/d*	3,50,000	By Cash A/c (Cash Sales)	50,000
		By Sundries as per Sales Book (Credit Sales)	3,00,000
	3,50,000		3,50,000

Dr. SALES RETURN ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Sundries as per Sales Return Book	1,000	By Balance *c/d*	1,000
	1,000		1,000

Dr. RAM *Cr.*

Particulars	₹	Particulars	₹
To Cash A/c	2,10,000	By Purchase A/c	2,50,000
To Purchases Return A/c	5,000		
To Balance *c/d*	35,000		
	2,50,000		2,50,000

Solution:

TRIAL BALANCE

as at 31st March, 2023

Heads of Accounts	L.F.	Dr. Balance ₹	Cr. Balance ₹
Cash A/c		1,20,000	...
Capital A/c		...	1,00,000
Drawings A/c		5,000	...
Furniture A/c		30,000	...
Salaries A/c		25,000	...
Purchases A/c		2,60,000	...
Purchases Return A/c		...	5,000
Mohan		49,000	...
Sales A/c		...	3,50,000
Sales Return A/c		1,000	...
Ram		...	35,000
Total		4,90,000	4,90,000

3. Following is the Trial Balance of S.K. Gupta on 30th September, 2022:

Heads of Accounts	L.F.	Dr. Balance ₹	Cr. Balance ₹
Capital		...	4,50,000
A. Lal & Co. (Creditor)		...	20,000
B. Babu & Co. (Creditor)		...	25,000
C. Chand & Co. (Creditor)		...	25,000
Machinery		1,00,000	...
Building		3,00,000	...
Purchases		90,000	...
Vijay Sales		15,000	...
Akash Sales		10,000	...
Bank		5,000	...
Total		5,20,000	5,20,000

You are required to redraft the above Trial Balance as it would appear after following transactions had taken place:

(*i*) S.K. Gupta had taken a cash loan of ₹ 50,000 from K.G. Gupta, out of which he paid ₹ 20,000 towards his debts to A. Lal & Co. receiving no discount, and he banked the balance amount.

(*ii*) He received ₹ 5,000 from Vijay Sales. No discount is allowed for this payment.

(*iii*) He purchased goods of ₹ 20,000 on credit from Vikas Trading Co.

(*iv*) He sold one-fifth of his stock on credit for ₹ 15,000 to Amit & Co.

Solution: Before preparing the Trial Balance, please see the Working Notes.

TRIAL BALANCE OF S.K. GUPTA
as on 30th September, 2022

Heads of Accounts	L.F.	Dr. Balance ₹	Cr. Balance ₹
Capital A/c		...	4,50,000
Cash A/c		5,000	...
Loan A/c		...	50,000
B. Babu & Co.		...	25,000
C. Chand & Co.		...	25,000
Vikas Trading Co.		...	20,000
Vijay Sales		10,000	...
Akash Sales		10,000	...
Amit & Co.		15,000	...
Purchases A/c		1,10,000	...
Sales A/c		...	15,000
Bank A/c		35,000	...
Machinery A/c		1,00,000	...
Building A/c		3,00,000	...
Total		5,85,000	5,85,000

Working Notes:

1. JOURNAL

Date	Particulars		J.F.	Dr. (₹)	Cr. (₹)
	Cash A/c	...Dr.		50,000	
	To Loan A/c				50,000
	(Being received a loan from K.G. Gupta)				
	A. Lal & Co.	...Dr.		20,000	
	Bank A/c	...Dr.		30,000	
	To Cash A/c				50,000
	(Being the payment to creditors ₹ 20,000 and balance of the loan, *i.e.*, ₹ 30,000 deposited into bank)				
	Cash A/c	...Dr.		5,000	
	To Vijay Sales				5,000
	(Being the amount received from debtors)				
	Purchases A/c	...Dr.		20,000	
	To Vikas Trading Co.				20,000
	(Being the goods purchased on credit)				
	Amit & Co.	...Dr.		15,000	
	To Sales A/c				15,000
	(Being the goods sold on credit)				

2. **Ledger**

Dr. CASH ACCOUNT *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
	To Loan A/c		50,000		By A. Lal & Co.		20,000
	To Vijay Sales		5,000		By Bank A/c		30,000
					By Balance *c/d*		5,000
			55,000				55,000

Dr. LOAN ACCOUNT *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
	To Balance *c/d*		50,000		By Cash A/c		50,000
			50,000				50,000

Dr. A. LAL & CO. *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
	To Cash A/c		20,000		By Balance *b/d*		20,000

Dr. B. BABU & CO. *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
	To Balance *c/d*		25,000		By Balance *b/d*		25,000

Dr. **C. CHAND & CO.** *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
	To Balance *c/d*		25,000		By Balance *b/d*		25,000

Dr. **VIKAS TRADING CO.** *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
	To Balance *c/d*		20,000		By Purchases A/c		20,000

Dr. **VIJAY SALES** *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
	To Balance *b/d*		15,000		By Cash A/c		5,000
					By Balance *c/d*		10,000
			15,000				15,000

Dr. **AKASH SALES** *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
	To Balance *b/d*		10,000		By Balance *c/d*		10,000

Dr. **AMIT & CO.** *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
	To Sales A/c		15,000		By Balance *c/d*		15,000

Dr. **PURCHASES ACCOUNT** *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
	To Balance *b/d*		90,000		By Balance *c/d*		1,10,000
	To Vikas Trading Co.		20,000				
			1,10,000				1,10,000

Dr. **SALES ACCOUNT** *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
	To Balance *c/d*		15,000		By Amit & Co.		15,000
			15,000				15,000

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

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
	To Balance *b/d*		5,000		By Balance *c/d*		35,000
	To Cash A/c		30,000				
			35,000				35,000

4. Following is the Trial Balance of P.K. Shah, Delhi prepared on 28th February, 2023:

TRIAL BALANCE OF P.K. SHAH *as on 28th February, 2023*

Heads of Accounts	L.F.	Dr. Balance ₹	Cr. Balance ₹
Capital A/c		...	22,000
Drawings A/c		1,300	...
Sundry Expenses A/c		2,410	...
Purchases A/c		27,100	...
Sales A/c		...	43,400
Returns Inward A/c		600	...
Ramesh		7,390	...
Rahul		...	4,800
Input IGST A/c		2,500	...
Output CGST A/c		...	1,500
Output SGST A/c		...	1,500
Cash and Bank Balances		31,900	...
Total		73,200	73,200

During the month of March, 2023, following transactions took place:

(i) Opening Input IGST to the extent of ₹ 1,500 was adjusted against Opening Output CGST and balance against Opening SGST. Balance was paid.

(ii) Credit purchases of goods from Rahul ₹ 8,000, *plus* CGST and SGST @ 6% each.

(iii) Credit sales of goods to Ramesh, Indore ₹ 14,000, charged IGST @ 12%.

(iv) Goods of ₹ 400 were returned to Rahul.

(v) Cash sales of goods of ₹ 2,000 *plus* CGST and SGST @ 6% each.

You are required to prepare all Ledger accounts after recording the above transactions and Trial Balance as on 31st March, 2023 from the Ledger accounts.

Solution:

In the Books of P.K. Shah, Delhi
Ledger

Dr. CAPITAL ACCOUNT *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2023				2023			
March 31	To Balance *c/d*		22,000	March 1	By Balance *b/d*		22,000

Dr. DRAWINGS ACCOUNT *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2023				2023			
March 1	To Balance *b/d*		1,300	March 31	By Balance *c/d*		1,300

Dr. PURCHASES ACCOUNT *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2023				2023			
March 1	To Balance *b/d*		27,100	March 31	By Balance *c/d*		35,100
March 31	To Rahul		8,000				
			35,100				35,100

Dr. SUNDRY EXPENSES ACCOUNT *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2023				2023			
March 1	To Balance *b/d*		2,410	March 31	By Balance *c/d*		2,410

Dr. SALES ACCOUNT *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2023				2023			
March 31	To Balance *c/d*		59,400	March 1	By Balance *b/d*		43,400
				March 31	By Ramesh		14,000
				March 31	By Cash and Bank A/c		2,000
			59,400				59,400

Dr. RETURNS INWARD ACCOUNT *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2023				2023			
March 1	To Balance *b/d*		600	March 31	By Balance *c/d*		600

Dr. RAMESH *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2023				2023			
March 1	To Balance *b/d*		7,390	March 31	By Balance *c/d*		23,070
March 31	To Sales A/c		14,000				
March 31	To Output IGST A/c		1,680				
			23,070				23,070

Dr. RAHUL *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2023				2023			
March 31	To Returns Outward A/c		400	March 1	By Balance *b/d*		4,800
March 31	To Input CGST A/c		24	March 31	By Purchases A/c		8,000
March 31	To Input SGST A/c		24	March 31	By Input CGST A/c		480
March 31	To Balance *c/d*		13,312	March 31	By Input SGST A/c		480
			13,760				13,760

Dr. CASH AND BANK ACCOUNT *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2023				2023			
March 1	To Balance *b/d*		31,900	March 1	By Output SGST A/c		500
March 31	To Sales A/c		2,000	March 31	By Balance *c/d*		33,640
March 31	To Output CGST A/c		120				
March 31	To Output SGST A/c		120				
			34,140				34,140

Dr. RETURNS OUTWARD ACCOUNT *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2023				2023			
March 31	To Balance *c/d*		400	March 31	By Rahul		400

Dr. INPUT IGST ACCOUNT *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2023				2023			
March 1	To Balance *b/d*		2,500	March 1	By Output CGST A/c		1,500
				March 1	By Output SGST A/c		1,000
			2,500				2,500

Dr. OUTPUT CGST ACCOUNT *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2023				2023			
March 1	To Input IGST A/c		1,500	March 1	By Balance *b/d*		1,500
March 31	To Balance *c/d*		120	March 31	By Cash and Bank A/c		120
			1,620				1,620

Dr. OUTPUT SGST ACCOUNT *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2023				2023			
March 1	To Input IGST A/c		1,000	March 1	By Balance *b/d*		1,500
March 1	To Cash and Bank A/c		500	March 31	By Cash and Bank A/c		120
March 31	To Balance *c/d*		120				
			1,620				1,620

Dr. INPUT CGST ACCOUNT *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2023				2023			
March 31	To Rahul		480	March 31	By Rahul		24
				March 31	By Balance *c/d*		456
			480				480

Dr. INPUT SGST ACCOUNT *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2023				2023			
March 31	To Rahul		480	March 31	By Rahul		24
				March 31	By Balance *c/d*		456
			480				480

Dr. OUTPUT IGST ACCOUNT *Cr.*

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2023				2023			
March 31	To Balance *c/d*		1,680	March 31	By Ramesh		1,680

TRIAL BALANCE *as on 31st March, 2023*

Heads of Accounts	L.F.	Dr. Balance ₹	Cr. Balance ₹
Capital A/c		...	22,000
Drawings A/c		1,300	...
Purchases A/c		35,100	...
Sundry Expenses A/c		2,410	...
Sales A/c		59,400	
Returns Inward A/c		600	...
Ramesh		23,070	...
Rahul		...	13,312
Cash and Bank A/c		33,640	...
Returns Outward A/c		...	400
Output CGST A/c		...	120
Output SGST A/c		...	120
Output IGST		...	1,680
Input CGST A/c		456	...
Input SGST A/c		456	...
Total		97,032	97,032

5. From the following Trial Balance (containing errors), prepare a correct Trial Balance:

Heads of Accounts	Dr. (₹)	Cr. (₹)
Purchases (Not Adjusted)	60,000	...
Reserve	20,000	...
Sales	...	1,00,000
Purchases Return	1,000	...
Sales Return	...	2,000
Opening Stock	30,000	...
Closing Stock	...	40,000
Expenses	...	20,000
Outstanding Expenses	2,000	...
Bank Balance	5,000	...
Fixed Assets	50,000	...
Creditors	...	30,000
Debtors	...	80,000
Capital	94,000	...
Suspense A/c	10,000	...
Total	2,72,000	2,72,000

Solution:

TRIAL BALANCE *as at ...*

Heads of Accounts	L.F.	Dr. (₹)	Cr. (₹)
Purchases (Adjusted)		50,000	...
Reserve		...	20,000
Sales		...	1,00,000
Purchases Return		...	1,000
Sales Return		2,000	...
Closing Stock		40,000	...
Expenses		20,000	...
Outstanding Expenses		...	2,000
Bank Balance		5,000	...
Fixed Assets		50,000	...
Creditors		...	30,000
Debtors		80,000	...
Capital		...	94,000
Total		2,47,000	2,47,000

Note: Adjusted Purchases = Opening Stock + Purchases – Closing Stock
= ₹ 30,000 + ₹ 60,000 – ₹ 40,000 = ₹ 50,000.

Unsolved Question

1. The following Trial Balance of Mr. Pradeep Chamoli was drafted by his Accountant. But due to imperfect knowledge of the subject, it has been prepared incorrectly. You are asked to redraft it.

TRIAL BALANCE
for the year ended 31st March, 2023

Ledger Account	Dr. (₹)	Cr. (₹)
Opening Stock	49,770	...
Closing Stock	...	61,740
Capital	...	3,00,000
Fixed Assets	2,37,000	...
Sundry Creditors	...	61,500
Sundry Debtors	1,07,010	...
Returns Inward	7,200	...
Sales	...	3,07,800
Purchases	1,82,760	...
Discount Allowed	...	2,280
Taxes	21,390	...
Commission Received	...	2,610
Cash in Hand	1,140	...
Bank Overdraft	33,000	...
Interest Paid	...	3,300
Rent Received	11,400	...
Wages and Salaries	94,200	...
Export Duty	...	2,400
Returns Outward	...	3,690
Carriage Inwards	2,400	...
Import Duty	3,600	...
Carriage Outwards	...	5,550
Total	7,50,870	7,50,870

[*Total of Correct Trial Balance—₹ 7,20,000.*]

CHAPTER 15

Depreciation

MEANING OF KEY TERMS USED IN THE CHAPTER

1. Depreciation	Depreciation means fall in the value of tangible asset because of: (i) usage, *i.e.*, wear and tear; (*ii*) efflux of time; (*iii*) obsolescence; or (*iv*) accident.
2. Depletion	The term 'Depletion' is associated with extraction of natural resources like quarries, mines, etc.
3. Amortisation	Amortisation means writing off intangible assets over their estimated useful life.
4. Obsolescence	It refers to decline in the economic value of the asset due to innovation or improved technique, change in taste or fashion or inadequacy of existing asset due to improved demand.
5. Original or Historical Cost	It means cost incurred to acquire the asset up to the point it is ready for use. It is the basis for depreciation.
6. Residual Value	It is the estimated sale value of the asset at the end of its useful economic life.
7. Accumulated Depreciation	It is a method of recording depreciation under which depreciation is credited to 'Provision for Depreciation Account or Accumulated Depreciation Account'. It is the total depreciation expenses already charged as expense in different accounting periods.
8. Straight Line Method	It is a method of providing depreciation under which net cost of the asset (Historical Cost – Realisable Value) is written off equally over the useful life of the asset.
9. Written Down Value Method	It is a method of providing depreciation under which a percentage of depreciation is applied every year on the book value (*i.e.*, cost *less* depreciation).

CHAPTER SUMMARY

- **Depreciation** is the cost of fixed asset that has expired because of its usage and/or with efflux of time.
- **Causes of Depreciation** are:
  (*i*) wear and tear, (*ii*) efflux of time, (*iii*) obsolescence and (*iv*) accident.
- **Objectives of providing Depreciation** are to:
  (*i*) ascertain correct profit or loss.
  (*ii*) show a true and fair view of the financial position.
  (*iii*) show the assets at their correct values.
  (*iv*) determine the correct cost of production.
  (*v*) retain funds out of profit, for replacement.
  (*vi*) comply with legal provisions.

- **Depreciation** can be recorded either by:
  (*i*) crediting the depreciation to respective Asset Account; or
  (*ii*) crediting the depreciation to Provision for Depreciation Account.
- **Accumulated Depreciation:** It is the total depreciation charged as expense in different accounting periods.
- **Methods of Recording (Accounting) Depreciation:** Depreciation can be recorded in the books of account in the following two methods: (*i*) *When Depreciation is charged or credited to Assets Account:* Under this method, depreciation is charged directly to the Asset Account. (*ii*) *When Depreciation is credited to Provision for Depreciation Account or Accumulated Depreciation Account:* Under this method, depreciation is credited to Provision for Depreciation Account.
- These are two **Methods of charging depreciation:**
  (*i*) Straight Line Method and (*ii*) Written Down Value Method.
- **Gain (Profit) on Sale of Fixed Asset:** Sale Proceeds – Book value as on date of sale.
- **Loss on Sale of Fixed Asset:** Book value as on date of sale – Sale Proceeds.
- **Asset Disposal Account:** An account to which the balance in Asset Account is transferred. Also, the amount received on sale is credited to the account and the resultant gain (profit) or loss is transferred to the Profit & Loss Account.

Important Points for Asset Disposal Account

- Asset Disposal Account is debited with the Historical Cost of the asset (*i.e.*, cost at which it was purchases less depreciation provided till date) disposed off, *i.e.*, sold.
- Asset Disposal Account is credited with (a) the Accumulated Depreciation on the asset sold, and (b) the Sale Proceeds of the asset sold.
- Excess of debit side total over credit side total means loss on sale of asset and is transferred to debit of Profit & Loss Account.
- Excess of credit side total over debit side total means gain (profit) on sale of asset and is transferred to the credit of Profit & Loss Account.

Solved Questions

1. Following balances appear in the books of Goyal Brothers:

Date	Particulars	₹
1st April, 2022	Machinery A/c	8,00,000
	Provision for Depreciation A/c	3,20,000

On 1st April, 2022, they decide to sell a machine for ₹ 2,00,000 which was purchased on 1st April, 2019 for ₹ 3,00,000. Prepare a Machinery Account and Provision for Depreciation Account on 31st March, 2023 assuming that the firm has been charging depreciation at 10% p.a. on the Straight Line Method.

Solution:

Dr. MACHINERY ACCOUNT *Cr.*

Date	Particulars	₹	Date	Particulars	₹
2022			2022		
April 1	To Balance *b/d*	8,00,000	April 1	By Bank A/c	2,00,000
				By Provision for Depreciation A/c	90,000
				By Loss on Sale of Machinery A/c (Profit & Loss A/c) (Note)	10,000
			2023		
			March 31	By Balance *c/d*	5,00,000
		8,00,000			8,00,000

Dr. PROVISION FOR DEPRECIATION ACCOUNT *Cr.*

Date	Particulars	₹	Date	Particulars	₹
2022			2022		
April 1	To Machinery A/c	90,000	April 1	By Balance *b/d*	3,20,000
2023			2023		
March 31	To Balance *c/d*	2,80,000	March 31	By Depreciation A/c (₹ 5,00,000 × 10/100)	50,000
		3,70,000			3,70,000

Note:	₹
Actual value of machinery sold (1st April, 2019)	3,00,000
Less: Accumulated Depreciation since April, 2019 (₹ 30,000 × 3)	90,000
Book value on 1st April, 2022	2,10,000
Less: Sale proceeds	2,00,000
Loss on Sale of Machinery	10,000

2. A company, whose accounting year is the calendar year, purchased on 1st April, 2020 machinery costing ₹ 30,000.

It purchased further machinery on 1st October, 2020 costing ₹ 20,000 and on 1st July, 2021 costing ₹ 10,000.

On 1st January, 2022, one-third of the machinery installed on 1st April, 2020 became obsolete and was sold for ₹ 3,000.

Show the Machinery Account as it would appear in the books of the company, it being given that machinery was depreciated by Fixed Instalment Method at 10% p.a. What would be the value of Machinery Account on 1st January, 2023?

Solution:

Dr. MACHINERY ACCOUNT *Cr.*

Date	Particulars	₹	Date	Particulars		₹
2020			2020			
April 1	To Bank A/c (Mach. I)	30,000	Dec. 31	By Depreciation A/c:		
Oct. 1	To Bank A/c (Mach. II)	20,000		Mach. I	2,250	
				(30,000 × 9/12 × 10/100)		
				Mach. II	500	2,750
				(20,000 × 3/12 × 10/100)		
			Dec. 31	By Balance *c/d:*		
				Mach. I (30,000 – 2,250)		27,750
				Mach. II (20,000 – 500)		19,500
		50,000				50,000
2021			2021			
Jan. 1	To Balance *b/d:*		Dec. 31	By Depreciation A/c:		
	Mach. I	27,750		Mach. I	3,000	
	Mach. II	19,500		(30,000 × 10/100)		
July 1	To Bank A/c (Mach. III)	10,000		Mach. II	2,000	
				(20,000 × 10/100)		
				Mach. III	500	5,500
				(10,000 × 10/100 × 6/12)		
			Dec. 31	By Balance *c/d:*		
				Mach. I	24,750	
				(27,750 – 3,000)		
				Mach. II	17,500	
				(19,500 – 2,000)		
				Mach. III	9,500	51,750
				(10,000 – 500)		
		57,250				57,250
2022			2022			
Jan. 1	To Balance *b/d:*		Jan. 1	By Bank A/c (Sale)		3,000
	Mach. I	24,750	Jan. 1	By Loss on Sale of Machinery A/c		5,250
	Mach. II	17,500		(Profit & Loss A/c) (Note 2)		
	Mach. III	9,500	Dec. 31	By Depreciation A/c:		
				Mach. I	2,000	
				(30,000 – 10,000) × 10/100		
				Mach. II	2,000	
				(20,000 × 10/100)		
				Mach. III	1,000	5,000
				(10,000 × 10/100)		
				By Balance *c/d:*		
				Mach. I	14,500	
				(16,500* – 2,000)		
				Mach. II	15,500	
				(17,500 – 2,000)		
				Mach. III	8,500	38,500
				(9,500 – 1,000)		
		51,750				51,750
2023						
Jan. 1	To Balance *b/d*	38,500				

*Book value as on 1st January, 2022 of remaining 2/3 Mach. I = ₹ 24,750 × 2/3 = ₹ 16,500.

Notes:

1. Mach. I, stands for Machine I and Mach. II stands for Machine II and so on.
2. *Calculation of Profit/Loss on Sale of Machine:*

	₹
Cost of Machine (1st April, 2020) (Mach. I, ₹ 30,000 × 1/3)	10,000
Less: Depreciation for 2020 (₹ 2,250 × 1/3)	750
Book value as on 1st January, 2021	9,250
Less: Depreciation for 2021	1,000
Book Value as on 1st January, 2022	8,250
Less: Sale Proceeds	3,000
Loss on Sale	5,250

3. A company purchased a machinery for ₹ 80,000 on 1st April, 2020 and decided to write off at 10% annually on the Diminishing Balance Method. On 1st July, 2022 a part of the machinery valued in the books of the firm at ₹ 16,000 on 1st April, 2020 was sold for ₹ 10,000.

Show the Machinery Account in the books of the company for the years 2020, 2021 and 2022. Accounts are closed each year on 31st December.

Solution:

Dr. MACHINERY ACCOUNT *Cr.*

Date	Particulars	₹	Date	Particulars	₹
2020			2020		
April 1	To Bank A/c	80,000	Dec. 31	By Depreciation A/c	6,000
			Dec. 31	By Balance *c/d*	74,000
		80,000			80,000
2021			2021		
Jan. 1	To Balance *b/d*	74,000	Dec. 31	By Depreciation A/c	7,400
			Dec. 31	By Balance *c/d*	66,600
		74,000			74,000
2022			2022		
Jan. 1	To Balance *b/d*	66,600	July 1	By Bank A/c—Sale	10,000
			July 1	By Depreciation A/c (Note 1)	666
			July 1	By Loss on Sale of Machinery A/c (Profit & Loss A/c) (Note 1)	2,654
			Dec. 31	By Depreciation A/c (Unsold Machinery) (Note 2)	5,328
			Dec. 31	By Balance *c/d*	47,952
		66,600			66,600

Notes:

1. *Calculation of Loss on Sale of Machinery:*

	₹
Book value of Machinery (1st April, 2020)	16,000
Less: Depreciation (2020) (₹ 16,000 × 10/100 × 9/12)	1,200
Book Value of Machinery (1st January, 2021)	14,800
Less: Depreciation (2021) (₹ 14,800 × 10/100)	1,480
Book Value of Machinery (1st January, 2022)	13,320
Less: Depreciation (2022) (₹ 13,320 × 10/100 × 6/12)	666
Book Value of Machinery (1st July, 2022)	12,654
Less: Sale Proceeds	10,000
Loss on Sale	2,654

2. *Calculation of Depreciation after Sale of Machinery:*

Book Value of Machinery (1st January, 2022)	66,600
Less: Book Value of Machinery sold (1st January, 2022) (Note 1)	13,320
Book value of unsold machinery on 1st January, 2022	53,280

Depreciation for 2022 = ₹ 53,280 × 10/100 = ₹ 5,328.

4. On 1st January, 2000 *X* Ltd. purchased from *Y* Ltd. a plant costing ₹ 4,00,000 on instalment basis payable as follows:

on 1st January, 2000	₹ 1,00,000
on 1st July, 2000	₹ 1,00,000
on 1st January, 2001	₹ 1,00,000
on 1st January, 2002	₹ 1,00,000

The company spent ₹ 10,000 on transportation and installation of the plant. It was decided to provide Depreciation on the Straight Line Method. Useful life of the plant was estimated at 5 years. It was also estimated that at the end of the useful life, realisable value of the plant would be ₹ 12,000 (gross) and dismantling cost of plant, to be paid by company was estimated at ₹ 2,000. The plant was destroyed by fire on 31st December, 2003 and an insurance claim of ₹ 50,000 was admitted by the insurance company. Prepare the Plant Account, Accumulated Depreciation Account and Plant Disposal Account assuming that the company closes its books on 31st December every year. (*KVS 2005*)

Solution:

$$\text{Annual Depreciation} = \frac{\text{Total Cost} - \text{Net Scrap Value}}{\text{Estimated Useful Life of Plant (in years)}}$$

$$= \frac{₹\ 4{,}00{,}000 + ₹\ 10{,}000 - (₹\ 12{,}000 - ₹\ 2{,}000)}{5}$$

$$= \frac{₹\ 4{,}00{,}000}{5} = ₹\ 80{,}000 \text{ per year.}$$

Dr. PLANT ACCOUNT *Cr.*

Date	Particulars		₹	Date	Particulars	₹
2000 Jan. 1	To Bank A/c	1,00,000		2000 Dec. 31	By Balance *c/d*	4,10,000
	To Bank A/c	10,000				
	To Supplier	3,00,000	4,10,000			
			4,10,000			4,10,000
2001 Jan. 1	To Balance *b/d*		4,10,000	2001 Dec. 31	By Balance *c/d*	4,10,000
			4,10,000			4,10,000
2002 Jan. 1	To Balance *b/d*		4,10,000	2002 Dec. 31	By Balance *c/d*	4,10,000
			4,10,000			4,10,000
2003 Jan. 1	To Balance *b/d*		4,10,000	2003 Dec. 31	By Plant Disposal A/c (Transfer)	4,10,000
			4,10,000			4,10,000

Dr. PROVISION FOR DEPRECIATION ACCOUNT *Cr.*

Date	Particulars	₹	Date	Particulars	₹
2000 Dec. 31	To Balance *c/d*	80,000	2000 Dec. 31	By Depreciation A/c	80,000
		80,000			80,000
2001 Dec. 31	To Balance *c/d*	1,60,000	2001 Jan. 1	By Balance *b/d*	80,000
			Dec. 31	By Depreciation A/c	80,000
		1,60,000			1,60,000
2002 Dec. 31	To Balance *c/d*	2,40,000	2002 Jan. 1	By Balance *b/d*	1,60,000
			Dec. 31	By Depreciation A/c	80,000
		2,40,000			2,40,000
2003 Dec. 31	To Plant Disposal A/c	3,20,000	2003 Jan. 1	By Balance *b/d*	2,40,000
			Dec. 31	By Depreciation A/c	80,000
		3,20,000			3,20,000

Dr. PLANT DISPOSAL ACCOUNT *Cr.*

Date	Particulars	₹	Date	Particulars	₹
2003 Dec. 31	To Plant A/c	4,10,000	2003 Dec. 31	By Provision for Depreciation A/c	3,20,000
			Dec. 31	By Bank A/c (Insurance Claim)	50,000
			Dec. 31	By Loss on Sale of Plant A/c (Profit & Loss A/c) (Bal. Fig.)	40,000
		4,10,000			4,10,000

5. On 1st April, 2021, R.K. Traders purchased an old machine for ₹ 28,000 and paid ₹ 4,600 for its repairs and installation. The machinery started functioning on 1st June, 2021. Another new plant was purchased for ₹ 45,000 and incurred installation charges ₹ 3,000 on 1st October, 2021. On 31st October, 2022, the plant installed on 1st April, 2021 was sold for ₹ 27,400 due to some mechanical problem. Depreciation is charged @ 10% p.a. on Fixed Instalment Basis. Show Machinery Account and Depreciation Account for 2 years ended 31st December, 2022.

Solution:

Dr. MACHINERY ACCOUNT *Cr.*

Date	Particulars	₹	Date	Particulars	₹
2021 April 1	To Bank A/c (Purchase)	28,000	2021 Dec. 31	By Depreciation A/c (Note 1)	3,102
	To Bank A/c (Installation)	4,600		By Balance *c/d*	77,498
Oct. 1	To Bank A/c (Purchase)	45,000			
	To Bank A/c (Installation)	3,000			
		80,600			80,600
2022 Jan. 1	To Balance *b/d*	77,498	2022 Oct. 31	By Bank A/c (Sale)	27,400
				By Loss on Sale of Machinery A/c (Profit & Loss A/c) (Note 3)	581
			Dec. 31	By Depreciation A/c (Note 2)	7,517
				By Balance *c/d*	42,000
		77,498			77,498

Dr. DEPRECIATION ACCOUNT *Cr.*

Date	Particulars	₹	Date	Particulars	₹
2021			2021		
Dec. 31	To Machinery A/c	3,102	Dec. 31	By Profit & Loss A/c	3,102
2022			2022		
Dec. 31	To Machinery A/c	7,517	Dec. 31	By Profit & Loss A/c	7,517

Notes:

1. *Calculation of Depreciation for the year 2021:*

	₹
Depreciation on ₹ 32,600 for 7 months @ 10%	1,902
Depreciation on ₹ 48,000 for 3 months @ 10%	1,200
	3,102

2. *Calculation of Depreciation for the year 2022:*

Depreciation on ₹ 48,000 for full year @ 10%	4,800
Depreciation on ₹ 32,600 for 10 months @ 10%	2,717
	7,517

3. *Calculation of profit /loss on Sale of Machine:*

Value of the machine on 1st April, 2021	32,600
Less: Depreciation for 7 months @ 10%	1,902
Book Value on 1st January, 2022	30,698
Less: Depreciation for 10 months @ 10%	2,717
Book Value of the machine on the date of sale	27,981
Less: Sale Proceeds	27,400
Loss on Sale of Machine	581

6. You are given the following balances as on 1st April, 2022:

Machinery A/c	₹ 5,00,000
Provision for Depreciation A/c	₹ 1,16,000

Depreciation is charged on machinery @ 20% p.a. by the Diminishing Balance Method. A piece of machinery purchased on 1st April, 2020 for ₹ 1,00,000 was sold on 1st October, 2022 for ₹ 60,000. Prepare Machinery Account and Provision for Depreciation Account for the year ended 31st March, 2023. Also, prepare Machinery Disposal Account.

Solution:

Dr. MACHINERY ACCOUNT *Cr.*

Date	Particulars	₹	Date	Particulars	₹
2022			2022		
April 1	To Balance *b/d*	5,00,000	Oct. 1	By Machinery Disposal A/c	1,00,000
			2023		
			March 31	By Balance *c/d*	4,00,000
		5,00,000			5,00,000
2023					
April 1	To Balance *b/d*	4,00,000			

Dr. PROVISION FOR DEPRECIATION ACCOUNT *Cr.*

Date	Particulars	₹	Date	Particulars	₹
2022			2022		
Oct. 1	To Machinery Disposal A/c (WN 1)	42,400	April 1	By Balance *b/d*	1,16,000
			Oct. 1	By Depreciation A/c (WN 1)	6,400
2023			2023		
March 31	To Balance *c/d*	1,44,000	March 31	By Depreciation A/c (WN 2)	64,000
		1,86,400			1,86,400
			2023		
			April 1	By Balance *b/d*	1,44,000

Dr. MACHINERY DISPOSAL ACCOUNT *Cr.*

Date	Particulars	₹	Date	Particulars	₹
2022			2022		
Oct. 1	To Machinery A/c	1,00,000	Oct. 1	By Bank A/c	60,000
Oct. 1	To Gain (Profit) on Sale of Machinery A/c (Bal. Fig.) (Profit & Loss A/c)	2,400	Oct. 1	By Provision for Depreciation A/c	42,400
		1,02,400			1,02,400

Working Notes:

1. *Depreciation provided on Machinery sold till 1st October, 2022:*

	₹
For 2020–2021	20,000
For 2021–2022 $\left[(₹\,1{,}00{,}000 - ₹\,20{,}000) \times \frac{20}{100}\right]$	16,000
For 2022–2023 $\left[(₹\,1{,}00{,}000 - ₹\,20{,}000 - ₹\,16{,}000) \times \frac{20}{100} \times \frac{6}{12}\right]$	6,400
	42,400

2. *Calculation of Depreciation provided for 2022–23:*

Balance of Provision for Depreciation on 1st April, 2022	1,16,000
Add: Depreciation provided on Machinery sold	6,400
	1,22,400
Less: Accumulated Depreciation on Machinery sold (WN 1)	42,400
Depreciation on the remaining Machinery	80,000
Cost of remaining Machinery (₹ 5,00,000 – ₹ 1,00,000)	4,00,000
Less: Depreciation on remaining Machinery (As above)	80,000
	3,20,000

Depreciation provided during 2022–23 = ₹ 3,20,000 × 20/100 = ₹ 64,000.

7. *M* Ltd., which depreciates its machinery at 10% p.a. according to Diminishing Balance Method, had balance on 1st January, 2022 of ₹ 9,82,000 (cost) in its Machinery Account and balance of ₹ 2,76,000 in Provision for Depreciation Account.

On 1st June, 2022, a new machine was purchased at ₹ 3,20,000 and paid ₹ 30,000 for its carriage and installation. The machine started functioning from 1st June, 2022.

On 1st July, 2022, an old machinery was sold at ₹ 2,15,000 which was installed on 1st April, 2020 costing ₹ 3,88,000.

Show Machinery Account, Provision for Depreciation Account and Machinery Disposal Account for the year ended 31st December, 2022.

Solution:

Dr. MACHINERY ACCOUNT *Cr.*

Date	Particulars	₹	Date	Particulars	₹
2022			2022		
Jan. 1	To Balance *b/d* (cost)	9,82,000	July 1	By Machinery Disposal A/c	3,88,000
June 1	To Bank A/c—Purchase	3,20,000	Dec. 31	By Balance *c/d*	9,44,000
	To Cash A/c—Carriage and Installation	30,000			
		13,32,000			13,32,000
2023					
Jan. 1	To Balance *b/d*	9,44,000			

Dr. PROVISION FOR DEPRECIATION ACCOUNT *Cr.*

Date	Particulars	₹	Date	Particulars	₹
2022			2022		
July 1	To Machinery Disposal A/c (WN 2)	81,140	Jan. 1	By Balance *b/d*	2,76,000
Dec. 31	To Balance *c/d*	2,69,726	July 1	By Depreciation A/c	16,150
			Dec. 31	By Depreciation A/c (Note 2)	58,716
		3,50,866			3,50,866
			2023		
			Jan. 1	By Balance *b/d*	2,69,726

Dr. MACHINERY DISPOSAL ACCOUNT *Cr.*

Date	Particulars	₹	Date	Particulars	₹
2022			2022		
July 1	To Machinery A/c	3,88,000	July 1	By Provision for Depreciation A/c	81,140
				By Bank A/c—Sale	2,15,000
				By Loss on Sale of Machinery A/c (Profit & Loss A/c) (WN 1)	91,860
		3,88,000			3,88,000

Working Notes:

1. *Calculation of Profit/Loss on Sale of Machinery on 1st July, 2022:*

	₹
Book Value on 1st April, 2020	3,88,000
Less: Depreciation for 9 months @ 10% p.a.	29,100
Book Value on 1st January, 2021	3,58,900
Less: Depreciation for full year @ 10% p.a.	35,890
Book Value on 1st January, 2022	3,23,010
Less: Depreciation for 6 months @ 10% p.a.	16,150
Book Value on 1st July, 2022	3,06,860
Less: Sale proceeds	2,15,000
Loss on sale of Machinery	91,860

2. Total depreciation charged on the machine sold = ₹ (29,100 + 35,890 + 16,150)

   = ₹ 81,140.

3. *Calculation of depreciation on remaining machinery:*

Book Value of machinery on 1st January, 2022 (cost)	9,82,000
Less: Cost of machine sold	3,88,000
Book Value of machinery (remaining) on 1st January, 2022 (at cost)	5,94,000
Provision for Depreciation Account balance on 1st January, 2022	2,76,000
Less: Total depreciation of the machine sold up to 1st January, 2022 (₹ 29,100 + ₹ 35,890)	64,990
Total depreciation of the remaining machinery up to 1st January, 2022	2,11,010
Book Value of remaining machinery (at cost) on 1st January, 2022	5,94,000
Less: Total Depreciation up to 1st January, 2022 charged	2,11,010
Written down value on 1st January, 2022	3,82,990
Depreciation on ₹ 3,82,990 for full year @ 10% p.a.	38,299
Depreciation on ₹ 3,50,000 for 7 months @ 10% p.a.	20,417
Total depreciation	58,716

8. On 1st April, 2022, the Machinery Account and Provision for Depreciation Account of Mr. Akash Agarwal shows a balance of ₹ 94,000 and ₹ 37,400 respectively. On 31st July, 2022, a machine costing ₹ 56,000 was purchased and paid for its freight and installation ₹ 12,000. On 31st December, 2022, an old machine was sold at ₹ 23,600, which was installed on 1st September, 2020, at a cost of ₹ 45,000.

Depreciation is charged @ 10% p.a. on the Diminishing Balance Method. Show the Machinery Account, Provision for Depreciation Account, Machinery Disposal Account and Depreciation Account for the year ended 31st March, 2023. Also, show position of the Machinery Account in the Balance Sheet.

Solution:

Dr. MACHINERY ACCOUNT *Cr.*

Date	Particulars	₹	Date	Particulars	₹
2022			2022		
April 1	To Balance *b/d*	94,000	Dec. 31	By Machinery Disposal A/c	45,000
July 31	To Bank A/c	56,000	2023		
	To Cash A/c (Freight and Installation)	12,000	March 31	By Balance *c/d*	1,17,000
		1,62,000			1,62,000

Dr. DEPRECIATION ACCOUNT *Cr.*

Date	Particulars	₹	Date	Particulars	₹
2022			2023		
Dec. 31	To Provision for Depreciation A/c	2,860	March 31	By Profit & Loss A/c —transferred	9,239
2023					
March 31	To Provision for Depreciation A/c	6,379			
		9,239			9,239

Dr. PROVISION FOR DEPRECIATION ACCOUNT *Cr.*

Date	Particulars	₹	Date	Particulars	₹
2022			2022		
Dec. 31	To Machinery Disposal A/c (WN 3)	9,722	April 1	By Balance *b/d*	37,400
			Dec. 31	By Depreciation A/c	2,860
2023			2023		
March 31	To Balance *c/d*	36,917	March 31	By Depreciation A/c (WN 2)	6,379
		46,639			46,639

Dr. MACHINERY DISPOSAL ACCOUNT *Cr.*

Date	Particulars	₹	Date	Particulars	₹
2022			2022		
Dec. 31	To Machinery A/c	45,000	Dec. 31	By Bank A/c (Sale Proceeds)	23,600
				By Provision for Depreciation A/c	9,722
				By Loss on Sale of Machinery A/c (Profit & Loss A/c) (WN 1)	11,678
		45,000			45,000

BALANCE SHEET *as at 31st March, 2023*

Liabilities	₹	Assets		₹
		Machinery	1,17,000	
		Less: Provision for Depreciation	36,917	80,083

Working Notes:

1. *Calculation of profit or loss on Sale of Machinery on 31st December, 2022:*

		₹
1st September, 2020	Purchased	45,000
31st March, 2021	*Less:* Depreciation @ 10% p.a. for 7 months	2,625
1st April, 2021	Book Value	42,375
31st March, 2022	*Less:* Depreciation @ 10% p.a.	4,237
1st April, 2022	Book Value	38,138
31st December, 2022	*Less:* Depreciation @ 10% p.a. for 9 months	2,860
	Book Value on the date of sale	35,278
	Less: Sale Proceeds	23,600
	Loss on sale of machinery	11,678

2. *Calculation of depreciation on the remaining machinery:*

Written down value of Machinery Account balance on 1st April, 2022 (₹ 94,000 – ₹ 37,400)	56,600
Less: Book value (on 1st April, 2022) of the machine sold (as per WN 1)	38,138
Book value of the remaining old machinery	18,462
Depreciation on the remaining old machinery of ₹ 18,462 @ 10% p.a.	1,846
Depreciation on the machine purchased for ₹ 68,000 on 31st July, 2022 @ 10% p.a. for 8 months	4,533
	6,379

3. Accumulated depreciation balance of the machine sold transferred from Provision for Depreciation Account to Machinery Disposal Account = ₹ 2,625 + ₹ 4,237 + ₹ 2,860 = ₹ 9,722.

9. A firm charged depreciation @ 20% p.a. on written down value. Machinery costing ₹ 1,00,000, ₹ 40,000 and ₹ 30,000 were purchased on 1st January, 2019, 1st July, 2020 and 1st October, 2021 respectively. On 1st October, 2022, machinery purchased on 1st July, 2020 was damaged and replaced by a new machine costing ₹ 50,000. The damaged machinery was insured and an insurance claim of ₹ 24,800 (after adjustment of value of scrap) was admitted by the Insurance Co. The scrap was sold for ₹ 2,200.

Show Machinery Account, Accumulated Depreciation Account and Machinery Disposal Account for the year 2022.

Solution:

Dr. MACHINERY ACCOUNT *Cr.*

Date	Particulars	₹	Date	Particulars	₹
2022			2022		
Jan. 1	To Balance *b/d* (₹ 1,00,000 + ₹ 40,000 + ₹ 30,000)	1,70,000	Oct. 1	By Machinery Disposal A/c	40,000
Oct. 1	To Bank A/c	50,000	Dec. 31	By Balance *c/d*	1,80,000
		2,20,000			2,20,000

Dr. ACCUMULATED DEPRECIATION ACCOUNT *Cr.*

Date	Particulars	₹	Date	Particulars	₹
2022			2022		
Oct. 1	To Machinery Disposal A/c (WN 1 and 3)	15,520	Jan. 1	By Balance *b/d* (WN 1 and 2)	61,500
			Oct. 1	By Depreciation A/c	4,320
Dec. 31	To Balance *c/d*	68,740	Dec. 31	By Depreciation A/c (₹ 10,240 + ₹ 5,700 + ₹ 2,500)	18,440
		84,260			84,260

Dr. MACHINERY DISPOSAL ACCOUNT *Cr.*

Date	Particulars	₹	Date	Particulars	₹
2022			2022		
Oct. 1	To Machinery A/c	40,000	Oct. 1	By Accumulated Depreciation A/c	15,520
	To Gain (Profit) on Sale of Machinery A/c (Profit & Loss A/c) (Bal. Fig.)	2,520		By Cash A/c	2,200
				By Insurance Company A/c	24,800
		42,520			42,520

Working Notes:

1. CALCULUATION OF DEPRECIATION ON MACHINERY

Date of Purchase	1st January, 2019 (₹)	1st July, 2020 (₹)	1st October, 2021 (₹)	1st October, 2022 (₹)
Cost of Machinery	1,00,000	40,000	30,000	50,000
Depreciation for 2020	20,000	...	...	...
WDV on 1st January, 2020	80,000	...	...	...
Depreciation for 2020	16,000	4,000	...	...
WDV on 1st January, 2021	64,000	36,000	...	...
Depreciation for 2021	12,800	7,200	1,500 (3 months)	...
WDV on 1st January, 2022	51,200	28,800	28,500	...
Depreciation for 2022	10,240	4,320 (9 months)	5,700	2,500 (3 months)

2. Balance of Accumulated Depreciation Account on 1st January, 2022

= (₹ 20,000 + ₹ 16,000 + ₹ 12,800) + (₹ 4,000 + ₹ 7,200) + ₹ 1,500 = ₹ 61,500.

3. Accumulated Depreciation on Machinery Sold = ₹ 4,000 + ₹ 7,200 + ₹ 4,320 = ₹ 15,520.

10. On 1st April, 2020, a company purchased Plant and Machinery for ₹ 2,00,000. New machinery for ₹ 10,000 was purchased on 1st January, 2021 and for ₹ 20,000 on 1st October, 2021. On 1st July, 2022, a machinery whose book value had been ₹ 30,000 on 1st April, 2020 was sold for ₹ 16,000 and the entire amount was credited to Plant and Machinery A/c. Depreciation had been charged at 10% p.a. on straight line method. Accounts are closed on 31st March every year. Show the Plant and Machinery Account from 1st April, 2020 to 31st March, 2023. (*KVS 2015, Modified*)

Solution:

Dr. MACHINERY ACCOUNT *Cr.*

Date	Particulars		₹	Date	Particulars		₹
2020				2021			
April 1	To Bank A/c—Mach I		2,00,000	March 31	By Depreciation A/c:		
2021					—Mach I	20,000	
Jan. 1	To Bank A/c—Mach II		10,000		—Mach II	250	20,250
				March 31	By Balance *c/d:*		
					—Mach I	1,80,000	
					—Mach II	9,750	1,89,750
			2,10,000				2,10,000
2021				2022			
April 1	To Balance *b/d:*			March 31	By Depreciation A/c:		
	—Mach I	1,80,000			—Mach I	20,000	
	—Mach II	9,750	1,89,750		—Mach II	1,000	
Oct. 1	To Bank A/c—Mach III		20,000		—Mach III	1,000	22,000
				March 31	By Balance *c/d:*		
					—Mach I	1,60,000	
					—Mach II	8,750	
					—Mach III	19,000	1,87,750
			2,09,750				2,09,750
2022				2022			
April 1	To Balance *b/d:*			July 1	By Depreciation A/c		750
	—Mach I	1,60,000			—Mach I (Sold part)		
	—Mach II	8,750		July 1	By Bank A/c		16,000
	—Mach III	19,000	1,87,750	July 1	By Loss on Sale of Machinery A/c (Profit & Loss A/c) (Note 1)		7,250
				2023			
				March 31	By Depreciation A/c:		
					—Mach I	17,000	
					—Mach II	1,000	
					—Mach III	2,000	20,000
				March 31	By Balance *c/d:*		
					—Mach I	1,19,000	
					—Mach II	7,750	
					—Mach III	17,000	1,43,750
			1,87,750				1,87,750

Note: *Calculation of Profit and Loss on Sale of Machine (I, Part)*

	₹
Book value of Machine (1st April, 2020)	30,000
Less: Depreciation charged (₹ 3,000 + ₹ 3,000 + ₹ 750*)	6,750
Book value on 1st July, 2022 (Date of Sale)	23,250
Less: Sale Proceeds	16,000
Loss on Sale of Machinery	7,250

*₹ 30,000 × 10/100 × 3/12 = ₹ 750.

11. On 1st April, 2020, *Z* Ltd. purchased machinery for ₹ 1,20,000 and on 30th September, 2021, it acquired additional machinery for ₹ 20,000. On 30th June, 2022 one of the original machine (purchased on 1st April, 2020) which had cost ₹ 5,000 was found to have become obsolete and was sold as scrap for ₹ 500. On the same date a new machine was purchased for ₹ 8,000. Depreciation is to be charged @ 15% p.a. on written down value. Accounts are closed on 31st March each year. Show Machinery Account for the first three years.

(*KVS 2015, Modified*)

Solution:

Dr. MACHINERY ACCOUNT *Cr.*

Date	Particulars		₹	Date	Particulars		₹
2020				2021			
April 1	To Bank A/c—Mach I		1,20,000	March 31	By Depreciation A/c—Mach I		18,000
				March 31	By Balance *c/d*— Mach I		1,02,000
			1,20,000				1,20,000
2021				2022			
April 1	To Balance *b/d*— Mach I		1,02,000	March 31	By Depreciation A/c:		
Sep. 30	To Bank A/c—Mach II		20,000		—Mach I	15,300	
					—Mach II	1,500	16,800
				March 31	By Balance *c/d:*		
					—Mach I	86,700	
					—Mach II	18,500	1,05,200
			1,22,000				1,22,000
2022				2022			
April 1	To Balance *b/d:*			June 30	By Depreciation A/c		135
	—Mach I	86,700			—Mach I (Sold part)		
	—Mach II	18,500	1,05,200	June 30	By Bank A/c		500
June 30	To Bank A/c—Mach III		8,000	June 30	By Loss on Sale of Machinery A/c (Profit & Loss A/c) (Note)		2,978
				2023	By Depreciation A/c:		
				March 31	—Mach I	12,463	
					—Mach II	2,775	
					—Mach III	900	16,138
				March 31	By Balance *c/d:*		
					—Mach I	70,624*	
					—Mach II	15,725	
					—Mach III	7,100	93,449
			1,13,200				1,13,200

*₹ 86,700 – ₹ 3,613 (sold) – ₹ 12,463 (Depreciation) = ₹ 70,624.

Note: *Calculation of Profit and Loss on Sale of Machine*

	₹
Book value 1st April, 2020	5,000
Depreciation 31st March, 2021	750
Book Value 1st April, 2021	4,250
Depreciation 31st March, 2022	637
Book value 1st April, 2022	3,613
Depreciation up to 30th June, 2022	135
Book value 30th June, 2022 (Date of Sale)	3,478
Less: Sale Proceeds	500
Loss on Sale of Machine	2,978

12. The following balances appear in the books of M/s. Sohan Lal Sons:

		₹
1st April, 2008	Furniture Account	1,00,000
1st April, 2008	Provision for Depreciation A/c	35,000

On 1st April, 2008 they decided to dispose off some furniture for ₹ 10,000. This furniture was purchased on 1st October, 2004 for ₹ 15,000. You are required to prepared Furniture A/c, Provision for Depreciation A/c and Furniture Disposal A/c for the year 2008–2009, assuming that the firm has been charging depreciation at 10% p.a. on Straight Line Method. (*MSE Chandigarh 2015*)

Solution:

Dr. FURNITURE ACCOUNT *Cr.*

Date	Particulars	₹	Date	Particulars	₹
2008			2008		
April 1	To Balance *b/d*	1,00,000	April 1	By Furniture Disposal A/c	15,000
			2009		
			March 31	By Balance *c/d*	85,000
		1,00,000			1,00,000

Dr. PROVISION FOR DEPRECIATION ACCOUNT *Cr.*

Date	Particulars	₹	Date	Particulars	₹
2008			2008		
April 1	To Furniture Disposal A/c ₹ (750 + 1,500 + 1,500 + 1,500)	5,250	April 1	By Balance *b/d*	35,000
2009			2009		
March 31	To Balance *c/d*	38,250	March 31	By Depreciation A/c	8,500
		43,500			43,500

Dr. FURNITURE DISPOSAL ACCOUNT *Cr.*

Date	Particulars	₹	Date	Particulars	₹
2008			2008		
April 1	To Furniture A/c	15,000	April 1	By Provision for Depreciation A/c	5,250
April 1	To Gain (Profit) on Sale of Furniture A/c (Profit & Loss A/c)	250	April 1	By Bank A/c	10,000
		15,250			15,250

Unsolved Questions

1. On 1st January, 2004, machinery was purchased by *X* for ₹ 50,000. On 1st July, 2005, additions were made to the extent of ₹ 10,000. On 1st April, 2006, further additions were made to the extent of ₹ 6,400.

   On 30th June, 2007 machinery, the original value of which was ₹ 8,000 on 1st January, 2004, was sold for ₹ 6,000. Depreciation is charged at 10% p.a. on the original cost.

   Show the Machinery Account for the years from 2004 to 2007 in the books of *X*. *X* closes the books on 31st December.

   [*Profit on Sale of Machinery—₹ 800; Balance of Machinery A/c* (*31.12.07*)*—₹ 37,980.*]

2. Following balances appear in the books of Gulshan Sugars and Chemical Ltd. as on 1st April, 2007:

	₹
Machinery A/c	8,00,000
Provision for Depreciation A/c	3,10,000

   On 1st July, 2007 a machine which was purchased on 1st April, 2004 for ₹ 1,20,000 was sold for ₹ 50,000 and on the same date another machine was purchased for ₹ 3,20,000. The company charges Depreciation @ 15% p.a. on original cost and closes its books on 31st March, every year.

   Prepare the Machinery Account and Provision for Depreciation Account for the year 2007–08. Show your working clearly. Also, give the Journal entry for sale of machinery.

   [*Balance of Machinery Account on 31st March, 2008—₹ 10,00,000; Loss on Sale of Machinery—₹ 11,500; Balance of Provision for Depreciation Account on 31st March, 2008—₹ 3,94,000.*]

3. On April 1, 2010, following balances appeared in the books of Lavi Traders:

	₹
Furniture Account	1,00,000
Provision for Depreciation on Furniture Account	44,000

   On October 1, 2010, a part of Furniture purchased for ₹ 40,000 on April 1, 2006, was sold for ₹ 10,000. On the same date a new furniture costing ₹ 50,000 was purchased. The depreciation was provided @ 10% p.a. on straight line method and no depreciation was charged in the year of sale. Prepare 'Furniture Account' and 'Provision for Depreciation Account' for the year ending March 31, 2011.

   [*Balance of Furniture A/c* (*31st March, 2011*)*—₹ 1,10,000; Provision for Depreciation A/c* (*31st March, 2011*)*—₹ 36,500; Loss on Sale of Furniture—₹ 12,000.*]

4. A joint stock company had bought machinery for ₹ 1,00,000 including a boiler worth ₹ 10,000. This Machinery Account was for the first four years credited for Depreciation on the Reducing Instalment System at the rate of 10% p.a. During the fifth year, *i.e.*, the current year, the boiler becomes useless on account of damage to its parts. The damaged boiler is sold for ₹ 2,000 which amount is credited to the Machinery Account.

   Prepare the Machinery Account for the current year, adjusting therein the cash received and the loss suffered on the damaged boiler and the Depreciation of the Machinery for the current year. [*Loss on Sale of Boiler—₹ 4,561; Balance of Machinery A/c—₹ 53,144.*]

5. On 1st October, 1999, the Sahara Transport Company purchased a truck for ₹ 4,00,000. On 1st April, 2001, this truck was involved in an accident and was completely destroyed and ₹ 3,00,000 were received from the Insurance Company in full settlement. On the same date another truck was purchased by the company for ₹ 5,00,000. The company writes off 20% Depreciation per annum on Written Down Value Method and closes its books on 31st December every year. Give the Truck Account from 1999 to 2001.

   [*Balance of Truck A/c* (*31.12.01*)*—₹ 4,25,000; Gain* (*Profit*) *on Sale of Truck—₹ 11,200.*]

6. On 1st April, 2010, following balance appeared in the books of M/s Krishna Traders:

Furniture Account	₹ 50,000
Provision for Depreciation of Furniture Account	₹ 22,000

On 1st October, 2010 a part of Furniture purchased for ₹ 20,000 on 1st April, 2006 was sold for ₹ 5,000. On the same date a new furniture costing ₹ 25,000 was purchased. The depreciation was provided @ 10% p.a. on original cost of the asset and no depreciation was charged on the asset in the year of sale. Prepare 'Furniture Account' and 'Provision for Depreciation Account' for the year ending 31st March, 2011.

[*Loss on Sale of Furniture—₹ 7,000; Balance of Furniture Account* (*31.3.2011*) *₹ 55,000; and Provision for Depreciation Account* (*31.3.2011*) *₹ 18,250.*]

7. A limited company purchased on 1st January, 1999 a plant for ₹ 38,000 and spent ₹ 2,000 for carriage and brokerage. On 1st April, 2000 it purchased additional plant costing ₹ 20,000. On 1st August, 2001 the plant purchased on 1st January, 1999 was sold for ₹ 25,000. On the same date, the plant purchased on 1st April, 2000 was sold at a profit of ₹ 2,800. Depreciation is provided @ 10% per annum on diminishing balance method every year. Accounts are closed on 31st December every year. Show the Plant Account for 3 years.

[*Loss on Sale of Plant I—₹ 5,510; Sale proceeds of Plant II—₹ 20,221.*]

8. *X* Ltd. imported a machine on 1st July, 2005 for ₹ 2,00,000, paid custom duty and freight ₹ 40,000 and incurred erection charges ₹ 60,000. Another local machinery costing ₹ 1,00,000 was purchased on 1st January, 2006. On 1st July, 2007, one-third of the imported machine got out of order and was sold for ₹ 40,000. Another machinery was purchased to replace the same for ₹ 50,000 on the same date. Depreciation is to be calculated at 20% p.a. on the Straight Line Method. Accounts are closed each year on 31st December.

Show the Machinery Account and Provision for Depreciation Account for 2005, 2006 and 2007 and Machinery Disposal Account.

[*Balance of Machinery A/c* (*31st December, 2007*)*—₹ 3,50,000; Provision for Depreciation A/c* (*31st December, 2007*)*—₹ 1,45,000* (*M I—₹ 1,00,000, M II—₹ 40,000; M III—₹ 5,000*) *Loss on Sale of Machinery—₹ 20,000.*]

Dr. MACHINERY DISPOSAL ACCOUNT *Cr.*

Date	Particulars	₹	Date	Particulars	₹
2011			2011		
July 1	To Machinery A/c	1,00,000	July 1	By Provision for Depreciation A/c (₹ 30,000 + ₹ 10,000)	40,000
				By Bank A/c (Sale)	40,000
				By Loss on Sale of Machinery A/c (Profit & Loss A/c)	20,000
		1,00,000			1,00,000

9. R.K. Bros. purchased 3 plants @ ₹ 3,20,000 each on 1st April, 2011. They charged depreciation @ 10% p.a. on reducing instalment. On 1st December, 2013, one of the plants was sold for ₹ 2,18,000. You are required to prepare Plant Account, Plant Disposal Account, Provision for Depreciation Account for three years assuming that the accounts are closed on 31st March every year.

[*Balance of Plant A/c (31st March, 2014)—₹ 6,40,000; Provision for Depreciation A/c (31st March, 2014)—₹ 1,73,440; Book Value of Plant Sold on 1st December, 2013 ₹ 2,41,920; Loss on Sale of Plant—₹ 23,920; Total depreciation transferred to Plant A/c on 1st December, 2013—₹ 78,080, (i.e., ₹ 32,000 + ₹ 28,800 + ₹ 17,280).*]

10. Chand & Sons have the following balances on 1st April, 2022:

Fixed Asset (At cost)	₹ 10,00,000
Provision for Depreciation	₹ 5,50,000

Depreciation is provided on Written Down Value Method @ 10%.

Determine the amount of depreciation for the year ended 31st March, 2023 and also show the two accounts. [*Depreciation—₹ 45,000; Provision for Depreciation A/c—₹ 5,95,000.*]

[**Hint:** Depreciation for the year ended 31st March, 2023
= (₹ 10,00,000 – ₹ 5,50,000) × 10/100 = ₹ 45,000.]

11. GSC Softech provides depreciation on its fixed assets on Straight Line Method @ 5%. The balances as on 1st April, 2022 were as follows:

Fixed Asset (At cost)	₹ 10,00,000
Provision for Depreciation	₹ 5,50,000

What will be the amount of Depreciation to be provided for the year ended 31st March, 2023 and also show the two accounts?

[*Depreciation—₹ 50,000; Provision for Depreciation A/c—₹ 6,00,000.*]

CHAPTER 16

Provisions and Reserves

MEANING OF KEY TERMS USED IN THE CHAPTER

1. **Provision**	Provision is an amount set aside by charging it to profits to meet a known liability, amount of which is not determined and is accounted by making best estimate.
2. **Reserve**	It is an amount set aside out of profits to meet an unknown contingency or to strengthen the financial position.
3. **Revenue Reserve**	It is the amount of reserve set aside out of revenue profits.
4. **Capital Reserve**	It is the amount of capital profit transferred to Capital Reserve.
5. **General Reserve**	It is the amount set aside out of profits not for any specific purpose.
6. **Specific Reserve**	It is the amount set aside out of profits for a specific purpose, say, Reserve for Expansion.
7. **Secret Reserve or Hidden Reserve**	It is a reserve the existence and/or the amount of which is not disclosed in the Balance Sheet.
8. **Reserve Fund**	Amount of reserve invested outside the business, *i.e.*, reserves against which investment exist is termed as **Reserve Fund**.

CHAPTER SUMMARY

- **Provision** is providing for a liability the amount of which is not certain. In other words, the amount provided is an estimate. Examples are: Provision for Doubtful Debts, Provision for Discount on Debtors, etc.
- **Concept of Provision** is to provide for liabilities, losses and expenses, whether the amount thereof is ascertained or not.
- **Objective of Provision** is to show correct profit or loss and liabilties and assets are shown at correct values.
- **Reserve** is an amount set aside out of profits to meet future contingencies or to strengthen the financial position of the enterprise. Examples of reserves are General Reserve, Reserve for Expansion, Dividend Equalisation Reserve, etc.

  All Reserves appear on the liabilities side of the Balance Sheet.
- **Reserves** are generally classified into:

  (*a*) Revenue Reserves and (*b*) Capital Reserves.

  (*a*) *Revenue Reserves:* They are created out of revenue profits which are available for distribution as dividend. Examples are: General Reserve, Debentures Redemption Reserve, Dividend Equalisation Reserve, etc.

  Revenue Reserves can further be classified into:

  (*i*) General Reserve and (*ii*) Specific Reserve.

  (*i*) *General Reserve*: This reserve is not created for any particular purpose. It is available for any future contingencies or expansion of the business.

  (*ii*) *Specific Reserves*: Specific Reserves are those reserves which are created for specific purpose and are utilised for that purpose.

  (*b*) *Capital Reserve:* It is created out of capital profits. Examples are: Profit prior to incorporation, Premium on issue of securities, Profit on forfeiture of shares, etc.

CHAPTER 17

Rectification of Errors

MEANING OF KEY TERMS USED IN THE CHAPTER

1.	**Trial Balance**	It is a statement showing balances of various accounts in the ledger and the Cash Book at a particular date.
2.	**One-sided Errors**	Errors that affect the debit or credit side of a single account.
3.	**Two-sided Errors**	Errors that affect two or more accounts.
4.	**Error of Recording**	It means recording the entry in Subsidiary Books wrongly.
5.	**Error of Posting**	It means an entry being not posted at all or partially or being posted by wrong amount or to the wrong account.
6.	**Error of Balancing**	It means calculating the balance in account wrongly.
7.	**Error of Casting**	It means an error in totalling.
8.	**Error in Carrying Forward**	It means an error in carrying forward the total of one page to next page.
9.	**Error of Principle**	It means recording a transaction in the books of account which is not in accordance with the accounting principles.
10.	**Error of Omission**	It means an error committed whereby a transaction is omitted to be recorded completely or partially.
11.	**Errors of Commission**	Errors caused by wrong recording of transactions.
12.	**Compensating Errors**	Errors that compensate each other.
13.	**Suspense Account**	It is an account opened to temporarily tally the Trial Balance.
14.	**Rectifying Entries**	Entries made in books of account for correction of errors.

CHAPTER SUMMARY

- Trial Balance is prepared to check the arithmetical accuracy of the books of account. The two sides of the Trial Balance must be equal, *i.e.*, the total of the debit side must be equal to total of credit side.

  Disagreement of a Trial Balance means that there are errors in books of account. Some of the errors affect the agreement of the Trial Balance and are disclosed by the Trial Balance.
- **Errors Reflected by Trial Balance**
  (*i*) Posting of one aspect of the Journal entry in the Ledger.
  (*ii*) Posting a Journal entry on the wrong side of an account.
  (*iii*) Wrong total of Subsidiary Books.
  (*iv*) Posting correct amount in one account and wrong amount in other account.
  (*v*) Wrong totalling or balancing of a Ledger account.
  (*vi*) Omission to enter an account balance in the Trial Balance.
  (*vii*) Balance of an account written in the wrong column in the Trial Balance.
- **Errors Not Reflected by Trial Balance (or Limitations of Trial Balance)**
  (*i*) Errors of Principle.
  (*ii*) Compensating Errors.
  (*iii*) Error of Complete Omission.

(*iv*) Posting correct amount and on the correct side but in the wrong account.
(*v*) Recording wrong amount in the books of the original entry.
(*vi*) Recording both aspects of a transaction twice in the books of account.

- **Types of Errors**
  (*i*) **Errors of Principle:** when transactions are recorded in contravention of accounting principles.
  (*ii*) **Error of Omission:** If a transaction is omitted from being recorded completely or partially, it is known as an **error of omission**.
  (*iii*) **Error of Commission:** Transaction wrongly written in the Subsidiary Book or in the Ledger or wrong posting or wrong balancing is known as **error of commission**.
  (*iv*) **Compensating Error:** When an error is committed and it is nullified by another error, it is known as a **compensating error**.
- Errors may be such as affect only one account—**one-sided errors** or they affect both the accounts—**two-sided errors**.
- **Suspense Account:** In order to avoid the delay in the preparation of Final Accounts, the difference in the Trial Balance is put to Suspense Account (which is an account of a temporary nature). When errors are located entries are passed with the help of Suspense Account and when all errors affecting the Trial Balance are located and rectified the Suspense Account stands closed.

Solved Questions

1. Rectify the following errors:
(*i*) Acquisition charges on the purchase of a new building amounting to ₹ 5,000 were debited to the Sundry Expenses Account.
(*ii*) Outstanding telephone charges of ₹ 2,000 had been completely omitted.
(*iii*) Material from store of ₹ 2,000 and wages ₹ 500 (out of the total wages bill of factory) had been used in making tools and implements for use in own factory but no adjustments were made in the books.

Solution:

RECTIFYING JOURNAL ENTRIES

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(*i*)	Building A/c ...Dr.		5,000	
	To Sundry Expenses A/c			5,000
	(Being the rectification of wrong debit to Sundry Expenses A/c for acquisition charges on purchase of new building)			
(*ii*)	Telephone Charges A/c ...Dr.		2,000	
	To Outstanding Telephone Charges A/c			2,000
	(Being the outstanding telephone charges omitted to be recorded, now recorded)			
(*iii*)	Tools and Implements A/c ...Dr.		2,500	
	To Purchases A/c			2,000
	To Wages A/c			500
	(Being the materials and wages used in making tools, omitted to be recorded, now recorded)			

2. Rectify the following errors:
(*i*) A credit purchase of ₹ 1,040 from Ramesh was passed in the books as ₹ 1,400.
(*ii*) Goods (Cost ₹ 5,000; Sales Price ₹ 6,000) distributed as samples among prospective customers were not recorded.
(*iii*) Wages paid to the firm's workmen for making additions to machinery amounting to ₹ 350 were debited to the Wages Account.

Solution:

RECTIFYING JOURNAL ENTRIES

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(*i*)	Ramesh ...Dr.		360	
	To Purchases A/c			360
	(Being the rectification of a purchase of ₹ 1,040 from Ramesh passed as ₹ 1,400)			
(*ii*)	Samples or Advertisement A/c ...Dr.		5,000	
	To Purchases A/c			5,000
	(Being the goods distributed as samples omitted to be recorded, now recorded)			
(*iii*)	Plant and Machinery A/c ...Dr.		350	
	To Wages A/c			350
	(Being the wages for additions to machinery wrongly treated as revenue expenditure, now rectified by capitalising the same)			

Effect on Net Profit or Effect of Errors on Final Accounts

For calculating the effect of errors on net profit, it is essential to know that only those accounts which are taken to Trading Account or Profit & Loss Account, *i.e.*, Nominal Accounts, affect the profits. For example, Stock Account, Purchases Account, Wages Account, Salaries Account, Commission Account, Bad Debts Account, etc., affect the Net profit because they are shown either in Trading Account or Profit & Loss Account. *If any of these accounts is debited in the rectification entry, it reduces the Profit and if any of these accounts is credited then it increases the Profit.*

Balances of Personal and Real Accounts form part of a Balance Sheet, so errors in such types of accounts will affect Balance Sheet only, not Profit & Loss Account.

3. Rectify the following errors and show their effect on profit:

(*i*) A return of goods worth ₹ 5,000 by a customer was taken into stock but no entry was passed in the books.

(*ii*) A credit purchase of goods worth ₹ 15,000 from Mohan & Co. was not passed in the books although the goods were taken into stock.

(*iii*) A return of goods worth ₹ 5,000 by Mohan was entered in the Purchases Return Book.

(*iv*) A return of goods worth ₹ 8,000 to Sohan was passed through the Sales Return Book.

Solution:

RECTIFYING JOURNAL ENTRIES

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(*i*)	Sales Return A/c ...Dr.		5,000	
	To Customer's A/c			5,000
	(Being the rectification of goods returned by a customer omitted from books)			
(*ii*)	Purchases A/c ...Dr.		15,000	
	To Mohan & Co.			15,000
	(Being the rectification of purchase of goods from Mohan & Co. omitted from books)			
(*iii*)	Purchases Return A/c ...Dr.		5,000	
	Sales Return A/c ...Dr.		5,000	
	To Mohan			10,000
	(Being the rectification of returns from Mohan passed through Purchases Return Book)			
(*iv*)	Sohan ...Dr.		16,000	
	To Sales Return A/c			8,000
	To Purchases Return A/c			8,000
	(Being the rectification of Purchases Return to Sohan passed through Sales Return Book)			

STATEMENT SHOWING EFFECT OF RECTIFICATION OF ERRORS ON NET PROFIT

Effect on Net Profit	Dr. (₹)	Cr. (₹)
(*i*) Reduce Profit by	5,000	...
(*ii*) Reduce Profit by	15,000	...
(*iii*) Reduce Profit by	10,000	...
(*iv*) Increase Profit by	...	16,000
	30,000	16,000
Net Decrease in Profit (₹ 30,000 – ₹ 16,000)	...	**14,000**
	30,000	30,000

4. Pass rectification entries for the following transactions:

(*i*) A builder's bill for ₹ 20,000 for erection of a small shed was debited to Repairs Account.

(*ii*) Repairs to plant amounting to ₹ 5,000 had been charged to Plant and Machinery Account.

(*iii*) Wages paid to the firm's workmen for making certain additions to machinery amounting to ₹ 7,000 were debited to Wages Account.

(*iv*) A cheque for ₹ 7,500 received from S. Desai was credited to the account of R Ram.

(*v*) Goods to the value of ₹ 700 returned by *X* were included in the Closing Stock but no entry was made in the books.

(*vi*) Goods costing ₹ 2,000 were purchased for various members of the staff and the cost was included in "Purchases". A similar amount was deducted from the salaries of the staff members concerned and the net payments to them debited to Salaries Account.

(*vii*) Goods sold to Mohan for ₹ 475 have been wrongly entered in the Sales Book as ₹ 745.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(*i*)	Building A/c ...Dr.		20,000	
	To Repairs A/c			20,000
	(Being the erection charges wrongly shown as revenue expenditure, now rectified by capitalising the same)			
(*ii*)	Repairs A/c ...Dr.		5,000	
	To Plant and Machinery A/c			5,000
	(Being the repairs wrongly capitalised instead of being treated as revenue expenditure, now rectified)			
(*iii*)	Plant and Machinery A/c ...Dr.		7,000	
	To Wages A/c			7,000
	(Being the wages for additions to Machinery wrongly treated as Revenue expenditure, now rectified by capitalising the same)			
(*iv*)	R. Ram ...Dr.		7,500	
	To S. Desai			7,500
	(Being the wrong posting of cheque received rectified)			
(*v*)	Returns Inward A/c ...Dr.		700	
	To *X*			700
	(Being the returns inward not recorded by mistake, now rectified)			
(*vi*)	Salaries A/c ...Dr.		2,000	
	To Purchases A/c			2,000
	(Being the goods purchased for staff members wrongly recorded as purchases, now rectified)			
(*vii*)	Sales A/c ...Dr.		270	
	To Mohan			270
	(Being the excess recording of sales in Sales Day Book rectified)			

5. In taking out a Trial Balance, a bookkeeper finds that the debit exceeds by ₹ 410. Being desirous of closing his books he places the difference to a newly opened Suspense Account. After recording the difference in the Suspense Account he discovers that:

(*i*) A sum of ₹ 830 received from *X* was posted to his debit as ₹ 380.

(*ii*) ₹ 620 written off as depreciation of machinery has not been posted to the Depreciation Account.

(*iii*) Bought goods for ₹ 10,000 for certain employees of the firm but the same was debited to Purchases Account. The employees were paid their salaries after deduction of the aforesaid sum and the net amount paid was posted to Salaries Account.

(*iv*) A discount of ₹ 210 allowed to a customer has been credited to his account as ₹ 200.

(*v*) The total of the Sales Return Book has been added ₹ 10 short.

(*vi*) An item of ₹ 680 for sale was posted as ₹ 860 in the Sales Account.

Required: Pass the Journal entries for rectification of the above and show the Suspense Account.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(*i*)	Suspense A/c ...Dr.		1,210	
	To *X*			1,210
	(Being the amount of ₹ 830 received from *X* posted to his debit as ₹ 380, now rectified)			
(*ii*)	Depreciation A/c ...Dr.		620	
	To Suspense A/c			620
	(Being the omission of depreciation rectified)			
(*iii*)	Salaries A/c ...Dr.		10,000	
	To Purchases A/c			10,000
	(Being the goods purchased for employees wrongly debited to Purchases Account, now rectified)			
(*iv*)	Suspense A/c ...Dr.		10	
	To Customer's A/c			10
	(Being the short posting in Customer's Account rectified)			
(*v*)	Returns Inward A/c ...Dr.		10	
	To Suspense A/c			10
	(Being the undercasting of Sales Return Book rectified)			
(*vi*)	Sales A/c ...Dr.		180	
	To Suspense A/c			180
	(Being the excess posting in Sales Account rectified)			

Dr. SUSPENSE ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To *X*	1,210	By Difference in Trial Balance	410
To Customer's A/c	10	By Depreciation A/c	620
		By Returns Inward A/c	10
		By Sales A/c	180
	1,220		1,220

Unsolved Questions

1. Pass the rectifying Journal entries for the following errors:
   (*i*) Sales Return Book is undercast by ₹ 2,000.
   (*ii*) Goods worth ₹ 2,400 purchased on credit from Vikram were entered in the Sales Book. However, Vikram's Account had been correctly credited.
   (*iii*) An old machine sold for ₹ 4,200 was entered in the Sales Book.
   (*iv*) Repair of building for ₹ 2,900 was debited to the Building Account.
   (*v*) ₹ 2,050 paid to Rohit, a creditor is posted to the debit of Mohit, another creditor as ₹ 5,020. (*Delhi 2004*)
2. Pass rectifying entries for the following:
   (*i*) Sales of goods ₹ 6,000 to Mohan was recorded as ₹ 600 in the Sales Book.
   (*ii*) Credit purchase of goods from David amounting to ₹ 1,500 has been wrongly passed through the Sales Book.
   (*iii*) ₹ 200 salary paid to cashier B. Naidu, stands wrongly debited to his Personal Account.
   (*iv*) Cheque of ₹ 800 received from Rajesh was dishonoured and debited to Discount Account.
   (*v*) Bill for ₹ 800 received from Mukesh for repairs of Machinery was entered in the Purchases Book as ₹ 700. (*KVS 2004*)
3. There was a difference of ₹ 8,595 in a Trial Balance. It has been transferred to debit side of Suspense Account. Later on following errors were discovered. Pass the rectifying entries and prepare the Suspense Account.
   (*i*) ₹ 283 discount received from a creditor had been duly entered in his account but not posted to Discount Account.
   (*ii*) Goods bought from a merchant for ₹ 770 had been posted to the credit of his account as ₹ 7,700.
   (*iii*) ₹ 6,000 owing by a customer had been omitted from the schedule of sundry debtors.
   (*iv*) An item of ₹ 2,026 entered in the Sales Return Book had been posted to the debit of the customer who returned the goods. (*MSE Chandigarh 2011, Modified*)
   [*Total of Suspense Account—₹ 12,930.*]
4. You are presented with a Trial Balance showing a difference which has been carried to the Suspense Account and the following errors are subsequently discovered:
   (*i*) Goods amounting to ₹ 660 sold to White were correctly entered in the Sales Book but posted to White's Account as ₹ 760. The total sales for the month was also overcast by ₹ 100.
   (*ii*) A cash sale of ₹ 150 to Brown correctly entered in the Cash Book was posted to the credit of Brown's Personal Account.
   (*iii*) Goods worth ₹ 130 returned by Green entered in the Sales Book were posted therefrom to the credit of Green's Personal Account.
   (*iv*) Goods invoiced at ₹ 1,240 and debited on 20th December to Jacob were returned on the 23rd and taken into stock on 31st December, no entries being made in the books.
   (*v*) Sales Return Book was overcast by ₹ 1,000 and the total of a folio in the same book ₹ 17,300 was carried forward as ₹ 17,030.

   Make the necessary correction entries and show the Suspense Account.

5. A bookkeeper failed to balance his Trial Balance, the credit side exceeding the debit side by ₹ 175. This amount was entered in a Suspense Account. Later, the following errors were discovered:

   (*i*) The total of the credit side of Ramesh's Account was overcast by ₹ 100.

   (*ii*) The Discount Received Account had been cast short by ₹ 100.

   (*iii*) Goods worth ₹ 100 purchased from Chandra were wrongly entered in the Sales Book. The account of Chandra was correctly credited.

   (*iv*) The total of the Returns Outward Book amounting to ₹ 200 was not posted to the Ledger.

   (*v*) A credit balance of ₹ 755 of the Rent Receivable Account was shown as ₹ 570.

   (*vi*) Goods worth ₹ 620 sold to Raj were correctly entered in the Sales Book but posted to Raj's Account as ₹ 260. [*Total of Suspense Account—₹ 660.*]

CHAPTER 18

Financial Statements of Sole Proprietorship (Final Accounts: Trading Account, Profit & Loss Account and Balance Sheet)

MEANING OF KEY TERMS USED IN THE CHAPTER

1. **Financial Statements**	Financial Statements are the statements which show the financial performance and financial position of the business. It includes Trading Account, Profit & Loss Account and Balance Sheet.
2. **Trading Account**	Trading Account shows gross profit earned or gross loss incurred. It is credited with net sales, other direct incomes and closing stock. It is debited by opening stock, net purchases and direct expenses, *i.e.*, wages, freight, carriage inwards, etc.
3. **Profit & Loss Account**	Profit & Loss Account shows net profit earned or net loss incurred. It is credited with gross profit and other incomes and debited with indirect expenses. The difference between the totals of two sides is either net profit or net loss.
4. **Balance Sheet**	Balance Sheet shows the financial position of the business. It is a statement to which balances of assets, liabilities and capital accounts are showed at a particular date.
5. **Capital Expenditure**	Capital Expenditure is that expenditure which gives benefit of enduring nature, *i.e.*, the benefit of which extends to a period or periods beyond the accounting period.
6. **Revenue Expenditure**	Revenue Expenditure is that expenditure the benefit of which is exhausted within the accounting period.
7. **Deferred Revenue Expenditure**	Deferred Revenue Expenditure is expense or loss incurred by the firm which are written off in more than one accounting period. They are categorised as Fictitious Assets.
8. **Capital Receipts**	Capital Receipts are those receipts which are not received in the normal course of business, such as capital introduced, loan received, etc.
9. **Revenue Receipts**	Revenue Receipts are those receipts which are received in the normal course of business, such as revenue from sale of goods and services.
10. **Contingent Liability**	Contingent Liability is a liability that becomes payable on the happening of an event and not otherwise.
11. **Grouping**	Grouping means placing items of one nature under a common head.
12. **Marshalling**	Marshalling is arranging the assets and liabilities in a particular order, *i.e.*, in order of liquidity or in order of permanence.
13. **Opening Entry**	Opening Entry is the Journal entry through which the closing balances of the previous year are brought forward in the current year's books of account.

CHAPTER SUMMARY

- **Financial Statements** are organised summaries of detailed information about the financial position and performance of an enterprise. The term Financial Statements is used to denote only two basic statements:
  (*i*) **Trading and Profit & Loss Account (or Income Statement)** which shows the financial performance (*i.e.*, profit earned) of business operations during an accounting period.
  (*ii*) **Balance Sheet (or Position Statement)** which shows the financial position of an enterprise at a particular date.
- **Objectives and Importance of Financial Statements:**
  (*a*) **Trading and Profit & Loss Account:** (*i*) Ascertaining Gross Profit or Gross Loss; (*ii*) Ascertaining Net Profit or Net Loss; (*iii*) Comparison with Previous Year's Profit; (*iv*) Detail of Direct and Indirect Expenses; (*v*) Preparing Balance Sheet; (*vi*) Maintaining Provisions and Reserves; and (*vii*) Calculating accounting ratios.
  (*b*) **Balance Sheet:** (*i*) Ascertaining financial position; (*ii*) Comparison with Previous Year; (*iii*) Analysis of Individual items; and (*iv*) Calculating accounting ratios.
- **Users of Financial Statements:** The information conveyed through Financial Statements is used by the management, investors, potential investors, lenders, short-term creditors, employees, customers, government and their agencies, tax authorities and stock exchanges to satisfy their different information needs.
- **Capital Expenditure** is the amount of expenditure incurred by an enterprise on purchase of fixed assets that are used in the business to earn income and are not intended for resale. The benefit of Capital Expenditure extends beyond the financial year.
- **Revenue Expenditure** is the amount of expenditure incurred on running of the business. The benefit of Revenue Expenditure expires within a financial year.
- **Deferred Revenue Expenditure** is a Revenue Expenditure, the benefit of which extends beyond an accounting period. *Example:* Unduly large expenditure on advertisement, say, to introduce a new product.
- **Final Accounts** include (*i*) Trading, Profit & Loss Account and (*ii*) Balance Sheet. Final Accounts are prepared on the basis of a Trial Balance.
- **Trading Account** is the account, which shows the gross profit or gross loss. Its contents are Revenue Receipts (such as sales, services rendered, etc.) on the credit side and Revenue Expenditure (such as cost of goods sold or services rendered) on the debit side.
- **Profit & Loss Account** is the account, which shows the net profit or net loss of the business for an accounting period. It is credited with the gross profit (or debited with gross loss) and non-business revenue income and debited with indirect revenue expenses.
- **Balance Sheet** is a statement, which sets out the assets and liabilities of a firm or an institution as at a certain date. It is true on that particular date as every transaction has an impact on the Balance Sheet.
- **Grouping:** It refers to putting items of similar nature under a common accounting head.
- **Marshalling:** It refers to arrangement of assets and liabilities in a particular order in the Balance Sheet. Assets and Liabilities are shown in the Balance Sheet either in order of **liquidity** or in order of **permanence**.
- **Contingent Liabilities** are the liabilities that may or may not take place. The liability becomes payable on happening of a certain event.
- **Presentation of Financial Statements:** The Trading and Profit & Loss Account and the Balance Sheet can be presented either in **Horizontal Form** or in **Vertical Form**.
- **Opening Entry:** Opening Entry is the Journal entry through which the closing balances of the previous year are brought forward in the current year's books of account.

Solved Questions

1. Opening Stock ₹ 20,000, Purchases ₹ 18,200, Expenses on Purchases ₹ 2,000, Sales ₹ 35,000, Expenses on Sales ₹ 1,000, Closing Stock ₹ 22,200. Calculate Cost of Goods Sold and Gross Profit.

Solution:

Cost of Goods Sold = Opening Stock + Purchases + Direct Expenses (Expenses on Purchases) – Closing Stock

= ₹ 20,000 + ₹ 18,200 + ₹ 2,000 – ₹ 22,200 = ₹ 18,000.

Gross Profit = Net Sales – Cost of Goods Sold

= ₹ 35,000 – ₹ 18,000 = ₹ 17,000.

2. Opening Stock ₹ 5,000, Sales ₹ 18,000, Carriage Inwards ₹ 1,000, Sales Returns ₹ 3,000, Gross Profit ₹ 6,000, Purchases ₹ 10,000, Purchases Return ₹ 900. Calculate the Closing Stock and the Cost of Goods Sold.

Solution:

Net Sales = Sales – Sales Returns

= ₹ 18,000 – ₹ 3,000 = ₹ 15,000.

Cost of Goods Sold = Net Sales – Gross Profit

= ₹ 15,000 – ₹ 6,000 = ₹ 9,000.

Cost of Goods Sold = Opening Stock + Purchases – Purchases Returns + Carriage Inwards – Closing Stock

₹ 9,000 = ₹ 5,000 + ₹ 10,000 – ₹ 900 + ₹ 1,000 – Closing Stock.

Closing Stock = ₹ 15,100 – ₹ 9,000 = ₹ 6,100.

3. Cash Sales ₹ 39,000, Credit Sales ₹ 41,000, Cost of Goods Sold ₹ 72,000, Expenses on Purchases ₹ 3,000, Expenses on Sales ₹ 6,700. Find out Gross Profit and Net Profit.

Solution:

Gross Profit = Net Sales – Cost of Goods Sold

= (₹ 39,000 + ₹ 41,000) – ₹ 72,000 = ₹ 8,000.

Net Profit = Gross Profit – Indirect Expenses

= ₹ 8,000 – ₹ 6,700 = ₹ 1,300.

4. Opening Capital ₹ 70,000, Drawings ₹ 5,000, Capital added during the year ₹ 10,000, Closing Capital ₹ 1,00,000. Calculate Profit or Loss.

Solution:

Profit = Closing Capital + Drawings – Additional Capital – Opening Capital

= ₹ 1,00,000 + ₹ 5,000 – ₹ 10,000 – ₹ 70,000 = ₹ 25,000.

5. Drawings ₹ 15,000, Profit for the year ₹ 25,000, Closing Capital ₹ 70,000. Calculate the Opening Capital.

Solution:

Profit = Closing Capital + Drawings – Additional Capital – Opening Capital

₹ 25,000 = ₹ 70,000 + ₹ 15,000 – 0 – Opening Capital

Opening Capital = ₹ 85,000 – ₹ 25,000 = ₹ 60,000.

6. Calculate Closing Stock from the following details:

Opening Stock	₹ 20,000
Cash Sales	₹ 60,000
Credit Sales	₹ 40,000
Purchases	₹ 70,000

Rate of Gross Profit on Cost $33\frac{1}{3}\%$. (*KVS 2015*)

Solution: Let the Cost be ₹ 100; Gross Profit on Cost = ₹ $33\frac{1}{3}$; Sales = ₹ $133\frac{1}{3}$.

$$\text{Gross Profit on Sales} = ₹\ 33\frac{1}{3} / ₹\ 133\frac{1}{3} = \frac{100}{3} \times \frac{3}{400} = \frac{1}{4}$$

Total Sales = Cash Sales + Credit Sales

= ₹ 60,000 + ₹ 40,000 = ₹ 1,00,000

Gross Profit = ₹ 1,00,000 × $\frac{1}{4}$ = ₹ 25,000

Sales – Gross Profit = Cost of Goods Sold

₹ 1,00,000 – ₹ 25,000 = ₹ 75,000

Cost of Goods Sold = Opening Stock + Purchases – Closing Stock

₹ 75,000 = ₹ 20,000 + ₹ 70,000 – Closing Stock

Closing Stock = ₹ 15,000.

7. The following is the Trial Balance of Mr. Ashok for the year ended 31st March, 2023:

Debit Balance	₹	Credit Balance	₹
Purchases	60,000	Capital Account	1,13,075
Sales Return	2,000	Sales	1,27,500
Plant and Machinery	90,000	Purchases Return	1,275
Opening Stock	40,000	Discount Received	800
Discount Allowed	350	Sundry Creditors	25,000
Bank Charges	100		
Sundry Debtors	45,000		
Salaries	7,000		
Wages	10,000		
Freight In	1,000		
Freight Out	1,200		
Rent	2,000		
Advertisements	2,000		
Cash at Bank	7,000		
	2,67,650		2,67,650

Closing Stock was valued at ₹ 35,000.

Prepare Trading and Profit & Loss Account for the year ended 31st March, 2023 and Balance Sheet as on that date.

Solution:

TRADING AND PROFIT & LOSS ACCOUNT *for the year ended 31st March, 2023*

Particulars		₹	Particulars		₹
To Opening Stock		40,000	By Sales	1,27,500	
To Purchases	60,000		*Less:* Sales Return	2,000	1,25,500
Less: Purchases Return	1,275	58,725	By Closing Stock		35,000
To Wages		10,000			
To Freight In		1,000			
To Gross Profit *c/d*		50,775			
		1,60,500			1,60,500
To Discount Allowed		350	By Gross Profit *b/d*		50,775
To Bank charges		100	By Discount Received		800
To Salaries		7,000			
To Freight out		1,200			
To Rent		2,000			
To Advertisement		2,000			
To Net Profit transferred to Capital A/c		38,925			
		51,575			51,575

BALANCE SHEET *as at 31st March, 2023*

Liabilities		₹	Assets	₹
Sundry Creditors		25,000	Cash at Bank	7,000
Capital:			Sundry Debtors	45,000
Opening Balance	1,13,075		Closing Stock	35,000
Add: Net Profit	38,925	1,52,000	Plant and Machinery	90,000
		1,77,000		1,77,000

8. From the following information of a trader, prepare his Profit & Loss Account for the year ended 31st March, 2023:

Particulars	₹
Gross Profit	5,00,000
Salaries and Wages	12,000
Discount Allowed	3,000
Interest Received	2,000
Commission Paid	14,000
Freight Outwards	15,000
Rent Received	12,500
Entertainment Expenses	8,000
Sales Promotion Expenses	4,250
Audit Fees	8,500
Miscellaneous Income	12,900
Repairs and Maintenance	3,400
Water and Electricity Charges (Office)	3,000
Telephone Expenses	6,000
Gain on Sale of Machine	600
Loss by Theft	1,000
Legal Expenses	11,250

Solution:

PROFIT & LOSS ACCOUNT

Dr. *for the year ended 31st March, 2023* *Cr.*

Particulars	₹	Particulars	₹
To Salaries and Wages	12,000	By Gross Profit *b/d*	5,00,000
To Discount Allowed	3,000	By Interest Received	2,000
To Commission	14,000	By Rent Received	12,500
To Freight Outwards	15,000	By Miscellaneous Income	12,900
To Entertainment Expenses	8,000	By Gain on Sale of Machine	600
To Sales Promotion Expenses	4,250		
To Audit Fees	8,500		
To Repairs and Maintenance	3,400		
To Water and Electricity Charges	3,000		
To Telephone Expenses	6,000		
To Loss by Theft	1,000		
To Legal Expenses	11,250		
To Net Profit transferred to Capital A/c	4,38,600		
	5,28,000		5,28,000

9. (*With GST*). From the following balances extracted from the books of Hari on 31st March, 2023, prepare his Trading and Profit & Loss Account and Balance Sheet:

Particulars	₹	Particulars	₹
Opening Stock	96,000	Repairs to Plant	1,600
Wages and Salaries	32,000	Cash in Hand and at Bank	2,000
Commission on Purchases	2,000	Debtors	46,000
Freight	3,000	Income Tax	5,500
Purchases *less* Returns	1,18,500	Drawings	6,500
Sales *less* Returns	2,49,000	Capital	50,000
Trade Expenses	200	Loan	9,000
Rent	2,000	Discount on Purchases	4,000
Plant	20,000	Creditors	28,300
Bad Debts	5,000	Output CGST A/c	10,000
Input CGST A/c	15,000	Output SGST A/c	10,000
Input SGST A/c	15,000	Output IGST A/c	15,000
Input IGST A/c	5,000		

Information: Stock at the end was valued at ₹ 35,000.

Solution:

Dr. TRADING AND PROFIT & LOSS ACCOUNT OF HARI *for the year ended 31st March, 2023* *Cr.*

Particulars	₹	Particulars	₹
To Opening Stock	96,000	By Sales *less* Returns	2,49,000
To Purchases *less* Returns	1,18,500	By Closing Stock	35,000
To Wages and Salaries	32,000		
To Commission on Purchases	2,000		
To Freight	3,000		
To Gross Profit *c/d*	32,500		
	2,84,000		2,84,000

To Trade Expenses	200	By Gross Profit *b/d*	32,500
To Rent	2,000	By Discount on Purchases	4,000
To Bad Debts	5,000		
To Repairs to Plant	1,600		
To Net Profit transferred to Capital A/c	27,700		
	36,500		36,500

BALANCE SHEET OF HARI
as at 31st March, 2023

Liabilities			₹	Assets	₹
Capital:				Plant	20,000
Opening Balance		50,000		Stock at the end	35,000
Add: Net Profit		27,700		Debtors	46,000
		77,700		Cash in Hand and at Bank	2,000
Less: Income Tax	5,500				
Drawings	6,500	12,000	65,700		
Loan			9,000		
Creditors			28,300		
			1,03,000		1,03,000

Note: *Setting-off GST:*

	IGST (₹)	CGST (₹)	SGST (₹)
Input GST	5,000	15,000	15,000
Less: Output GST	(15,000)	(10,000)	(10,000)
Balance	(10,000)	5,000	5,000
Less: Set-off against Output IGST	10,000	(5,000)	(5,000)
Balance	...	...	...

CHAPTER 19

Adjustments in Preparation of Financial Statements

MEANING OF KEY TERMS USED IN THE CHAPTER

1.	**Adjustment Entry**	It is an entry passed in the books of account to give effect to transactions that should have been recorded in the books of account but are not recorded.
2.	**Closing Stock**	It is the value of stock in hand at the end of the accounting year. It is valued at cost or net realisable value (market value), whichever is less.
3.	**Outstanding Expenses**	They are expenses incurred during the year and also benefit of which is consumed or exhausted in the same year but have not been paid. For example, salary payable for the month of March is provided not being paid.
4.	**Prepaid (Unexpired) Expenses**	They are the expenses that have been paid but the benefit of which is not consumed or exhausted during the year.
5.	**Accrued Income**	It is the income which has been earned but not received.
6.	**Income Received in Advance (Unearned Income)**	It is the income which has not been earned but has been received during the accounting year.
7.	**Depreciation**	It is the fall in value of fixed asset due to usage, efflux of time, obsolescence or accident.
8.	**Bad Debts**	It is the debt that has become irrecoverable.
9.	**Bad Debts Recovered**	It is the debt which had been earlier written off as bad debt and has been recovered.
10.	**Doubtful Debts**	Debts which are doubtful of recovery, *i.e.*, recovery is not certain.
11.	**Provision for Doubtful Debts**	It is the amount set aside out of profits to meet expected bad debts in future.
12.	**Provision for Discount on Debtors**	It is the amount set aside out of profits to allow discount to debtors in future for present good debts.

CHAPTER SUMMARY

- **Accrual basis of accounting** requires that revenue be recognised as it is earned and expenses be recognised as they are incurred. Therefore, expenses whether paid or not, incomes whether received or not, prepaid expenses and unearned incomes are adjusted.
- **Adjustments** are made for (*i*) matching of cost with revenue for ascertaining true and fair view of the profit earned or loss incurred by the business entity for the accounting period and (*ii*) for showing the true and fair value of assets and liabilities of the business as on the last date of the accounting period.
- **Adjustment** is recorded on the basis of the Dual Aspect Concept. It means every adjustment is shown at two places once in the *debit* and once in the *credit*.

Treatment of Items of Adjustment Appearing in the Trial Balance

Item given in Trial Balance	*Treatment in Trading/Profit and Loss A/c*	*Treatment in Balance Sheet*
1. **Closing Stock**	...	Shown on the Assets side as a Current Asset.
2. **Outstanding Expenses**	...	Shown on the Liabilities side as a Current Liability.
3. **Prepaid Expenses**	...	Shown on the Assets side as a Current Asset.
4. **Accrued Income**	...	Shown on the Assets side as a Current Asset.
5. **Unearned Income/ Income Received in Advance**	...	Shown on the Liabilities side as a Current Liability.
6. **Depreciation**	Shown on the Debit side of the Profit & Loss A/c.	...
7. **Bad Debts,** if no Provision for Doubtful Debts A/c appears	Shown on the Debit side of the Profit & Loss A/c.	...
8. **Bad Debts,** if Provision for Doubtful Debts A/c appears	Shown on the Debit side of the Provision for Doubtful Debts A/c.	...

Continued on Page No. 3 and 4

Table of Adjustments (Appearing Outside the Trial Balance)

Adjustments (1)	***Adjusting Entry*** (2)	***Adjustment in Trading A/c*** (3)	***Adjustment in P & L A/c*** (4)	***Adjustment in Balance Sheet*** (5)
1. **Closing Stock**	Closing Stock A/c ...Dr. To Trading A/c	Show on the credit side.	×	Show on the assets side as a Current Asset.
2. **Outstanding Expenses**	Respective Expense A/c ...Dr. To Outstanding Expense A/c	Add to the respective expense on the debit side.	Add to respective expense on the debit side.	Show on the liabilities side as a Current Liability.
3. **Prepaid or Unexpired Expenses**	Prepaid or Unexpired Expense A/c ...Dr. To Respective Expense A/c	Deduct from the concerned expense on the debit side.	Deduct from respective expense on the debit side.	Show on the assets side as a Current Asset.
4. **Accrued or Outstanding Income**	Accrued Income A/c ...Dr. To Respective Income A/c	×	Add to respective income on the credit side.	Show on the assets side as a Current Asset.
5. **Income Received in Advance Or Unearned Income**	Respective Income A/c ...Dr. To Unearned Income A/c	×	Deduct from respective income on the credit side.	Show on the liabilities side as a Current Liability.
6. **Depreciation**	Depreciation A/c ...Dr. To Assets A/c	×	Show on the debit side.	Deduct from the concerned asset on the assets side.
7. **Bad Debts**	Bad Debts A/c ...Dr. To Debtors A/c	×	Write on the debit side of the Profit & Loss Account or Provision for Doubtful Debts Account.	Deduct from debtors on the assets side.
8. **Provision for Doubtful Debts**	Profit & Loss A/c ...Dr. To Provision for Doubtful Debts A/c	×	Show on the debit side.	Deduct from debtors on the assets side.

9. **Provision for Discount on Debtors**	Profit & Loss A/c ...Dr. To Provision for Discount on Debtors A/c	×	Show on the debit side.	Deduct from debtors on the assets side.
Excess Provision for Doubtful Debts written back	Provision for Doubtful Debts A/c ...Dr. To Profit & Loss A/c	×	Show on the credit side.	×
10. **Manager's Commission**	Profit and Loss A/c ...Dr. To Commission Outstanding A/c	×	Show on the debit side.	Show on the liabilities side as a Current Liability.
11. **Interest on Capital**	Interest on Capital A/c ...Dr. To Capital A/c	×	Show on the debit side	Add to Capital on the liabilities side.
12. **Goods Distributed among staff members for Staff Welfare**	Staff Welfare Expenses A/c ...Dr. To Purchases A/c	Value of such goods is deducted from the purchases.	Show on the debit side as Other Expenses.	×
13. **Drawings of Goods by the Proprietor for Personal Use**	Drawings A/c ...Dr. To Purchases A/c	Value of such goods is deducted from purchases.	×	Value of such goods will be deducted from capital on the liabilities side.
14. **Abnormal or Accidental Losses** (*i*) **Loss of Asset**	Loss by Accident A/c ...Dr. To Particular Asset A/c	×	Show on the debit side.	Deduct from the concerned asset.
(*ii*) **Loss of Stock**	Loss by Accident A/c ...Dr. To Purchases A/c	Show value of such goods is deducted from purchases.	Show on the debit side. (Value of unrecovered loss)	The amount due from the insurance company is shown on the assets side as a Current Asset.

Solved Questions

1. From the following Trial Balance of Mr. Tip Top, prepare Trading Account and Profit & Loss Account for the year ending 31st March, 2014 and Balance Sheet as at that date.

Particulars	Dr. (₹)	Cr. (₹)
Drawings/Capital	6,000	72,000
Printing Charges	1,000	...
Machinery	20,000	...
Purchases/Sales	55,000	96,000
Salaries	9,300	...
Advertising	2,500	...
Cash in Hand	1,900	...
Income Tax	2,400	...
Opening Stock	24,000	...
Bank Loan	...	10,000
Rent	3,000	...
Building	25,000	...
Wages	6,500	...
Sundry Debtors/Creditors	30,000	12,000
Insurance Premium	1,400	...
Furniture	2,000	...
Total	1,90,000	1,90,000

Adjustments:

(*i*) Closing Stock valued at ₹ 27,500.

(*ii*) Salaries outstanding ₹ 1,500. Insurance premium prepaid ₹ 300.

(*iii*) Depreciate Machinery by 10% and Building by 2%.

(*iv*) Provision for Doubtful Debts to be created @ 5% on Sundry Debtors.

(MSE Chandhigarh 2015)

Solution:

Dr. TRADING AND PROFIT & LOSS ACCOUNT *for the year ended 31st March, 2014* *Cr.*

Particulars		₹	Particulars	₹
To Opening Stock		24,000	By Sales	96,000
To Purchases		55,000	By Closing Stock	27,500
To Wages		6,500		
To Gross Profit *c/d*		38,000		
		1,23,500		1,23,500
To Printing Charges		1,000	By Gross Prof *b/d*	38,000
To Salaries	9,300			
Add: Outstanding Salaries	1,500	10,800		
To Advertising		2,500		
To Rent		3,000		
To Insurance Premium	1,400			
Less: Prepaid	300	1,100		
To Depreciation On:				
—Machinery	2,000			
—Building	500	2,500		
To Provision for Doubtful Debts		1,500		
To Net Profit Transferred to Capital A/c		15,600		
		38,000		38,000

BALANCE SHEET *as at 31st March, 2014*

Liabilities		₹	Assets		₹
Bank Loan		10,000	Furniture		2,000
Outstanding Salaries		1,500	Machinery	20,000	
Sundry Creditors		12,000	*Less:* Depreciation	2,000	18,000
Capital	72,000		Building	25,000	
Add: Net Profit	15,600		*Less:* Depreciation	500	24,500
	87,600		Prepaid Insurance		300
Less: Drawings	6,000		Sundry Debtors	30,000	
	81,600		*Less:* Provision for Doubtful Debts	1,500	28,500
Less: Income Tax	2,400	79,200	Cash in Hand		1,900
			Closing Stock		27,500
		1,02,700			1,02,700

2. Prepare a Trading and Profit & Loss Account for the year ending 31st March 2023, from the balances extracted of M/s. Rahul Sons. Also prepare a Balance Sheet as at that date.

Debit Balances	₹		₹
Stock	50,000	Telegram Expenses	200
Wages	3,000	Legal Fees	500
Salary	8,000	Building	1,10,000
Purchases	1,75,000		**5,51,800**
Sales Return	3,000	**Credit Balances**	
S. Debtors	82,000	Sales	1,80,000
Discount Allowed	1,000	Purchases Return	2,000
Insurance	3,200	Discount Received	500
Rent, Rates and Taxes	4,300	Provision for bad debts	2,500
Fixtures and Fittings	70,000	Capital	3,00,000
Trade Expenses	1,500	Creditors	22,000
Bad Debts	2,000	Commission Received	4,000
Drawings	32,000	Rent	6,000
Repairs and Renewals	1,600	Loan	34,800
Travelling Expenses	4,200		**5,51,800**
Postage	300		

Adjustments:

(*i*) Commission received in advance ₹ 1,000.

(*ii*) Rent Receivable ₹ 2,000.

(*iii*) Outstanding Salary ₹ 1,000 and Prepaid Insurance ₹ 800.

(*iv*) Further Bad debts ₹ 1,000 and Provision for Bad debts @ 5% on debtors and Provision for discount on debtors @ 2%.

(*v*) Closing stock ₹ 32,000.

(*vi*) Depreciation on building @ 6% p.a. *(KVS 2015, Modified)*

Solution:

Dr. TRADING AND PROFIT & LOSS ACCOUNT *for the year ended 31st March, 2023* *Cr.*

Particulars		₹	Particulars		₹
To Opening Stock		50,000	By Sales	1,80,000	
To Purchases	1,75,000		*Less:* Sales Return	3,000	1,77,000
Less: Purchases Return	2,000	1,73,000	By Closing Stock		32,000
To Wages		3,000	By Gross Loss *c/d*		17,000
		2,26,000			2,26,000
To Gross Loss *b/d*		17,000	By Discount Received		500
To Salary	8,000		By Commission Received	4,000	
Add: Outstanding Salary	1,000	9,000	*Less:* Advance	1,000	3,000
To Discount Allowed		1,000	By Rent	6,000	
To Insurance	3,200		*Add:* Rent Receivable	2,000	8,000
Less: Prepaid	800	2,400	By Net Loss Transferred to		
To Rent, Rates and Taxes		4,300	Capital A/c		43,189
To Trade Expenses		1,500			
To Bad Debts	2,000				
Add: Further Bad Debts	1,000				
Provision for Bad Debts (New)	4,050				
	7,050				
Less: Provision for Bad Debts	2,500	4,550			
To Provision for Discount on Debtors		1,539			
To Repairs and Renewals		1,600			
To Travelling Expenses		4,200			
To Postage		300			
To Telegram Expenses		200			
To Legal Fees		500			
To Depreciation on Building		6,600			
		54,689			54,689

BALANCE SHEET *as at 31st March, 2023*

Liabilities			₹	Assets		₹
Loan			34,800	Sundry Debtors	82,000	
Creditors			22,000	*Less:* Further Bad Debts	1,000	
Outstanding Salary			1,000		81,000	
Commission Received in Advance			1,000	*Less:* Provision for Bad Debts	4,050	
Capital		3,00,000			76,950	
Less: Net Loss	43,189			*Less:* Provision for Discount on Debtors	1,539	75,411
Drawings	32,000	75,189	2,24,811	Rent Receivable		2,000
				Prepaid Insurance		800
				Closing Stock		32,000
				Fixtures and Fittings		70,000
				Building	1,10,000	
				Less: Depreciation	6,600	1,03,400
			2,83,611			2,83,611

3. From the books of M/s. Shyam Traders, following Trial Balance has been prepared on 31st March, 2023:

Debit Balances	₹	Credit Balances	₹
Purchases (Adjusted)	1,93,500	Sales	3,00,000
Wages	23,250	Bank Overdraft	24,400
Carriage on Purchases	18,000	Interest on Investment	800
Prepaid Insurance on 1st April, 2022	625	Provision for Doubtful Debts	2,500
Bad Debts	600	Cash Discount	4,500
Rent and Insurance	7,750	Capital	71,175
Salary	13,500	Creditors	18,750
Debtors	37,500	Outstanding Wages on 31st March, 2023	900
Stock on 31st March, 2023	20,500		
Investment	10,000		
Cash	14,500		
Accrued Interest on 31st March, 2023	800		
Furniture	10,500		
Plant and Machinery	50,000		
Income Tax	22,000		
	4,23,025		4,23,025

Prepare (1) Trading and Profit & Loss Account for the year ended 31st March, 2023 and (2) Balance Sheet as on that date, taking into consideration the adjustment given below:

(*i*) On 1st October, 2022 plant of ₹ 10,000 was purchased on credit but no entry was passed.

(*ii*) *Outstanding Expenses:* Rent ₹ 500, Salary ₹ 600.

(*iii*) *Prepaid Expenses:* Insurance ₹ 650.

(*iv*) Goods of ₹ 2,750 were taken for personal use by the owner but no entry has been made.

(*v*) Depreciate Plant and Furniture @ 10% p.a.

(*vi*) Write off ₹ 500 from debtors as bad debts and create provision for doubtful debts @ 5% and 2% provision for discount on debtors.

Solution:

TRADING AND PROFIT & LOSS ACCOUNT
Dr. *for the year ended 31st March, 2023* Cr.

Particulars		₹	Particulars	₹
To Purchases (Adjusted)	1,93,500		By Sales	3,00,000
Less: Drawings	2,750	1,90,750		
To Wages		23,250		
To Carriage on Purchases		18,000		
To Gross Profit *c/d*		68,000		
		3,00,000		3,00,000

To Salaries	13,500		By Gross Profit *b/d*		68,000
Add: Outstanding	600	14,100	By Interest on Investment		800
To Rent and Insurance	7,750		By Cash Discount		4,500
Add: Outstanding Rent	500				
	8,250				
Less: Prepaid Ins. on 31.3.2023	650				
	7,600				
Add: Prepaid Ins. on 1.4.2022	625	8,225			
To Bad Debts	600				
Add: Further Bad Debts	500				
Provision (New)	1,850				
	2,950				
Less: Provision (Old)	2,500	450			
To Provision for Discount on Debtors		703			
To Depreciation:					
on Plant and Machinery	5,500				
on Furniture	1,050	6,550			
To Net Profit transferred to Capital A/c		43,272			
		73,300			73,300

*Depreciation on Plant = ₹ 5,000 (*i.e.*, ₹ 50,000 × 10/100) + ₹ 500 (*i.e.*, ₹ 10,000 × 10/100 × 6/12) = ₹ 5,500.

BALANCE SHEET

as at 31st March, 2023

Liabilities			₹	Assets		₹
Current Liabilities				**Current Assets**		
Creditors			18,750	Cash		14,500
Supplier (Plant)			10,000	Accrued Interest		800
Bank Overdraft			24,400	Stock		20,500
Outstanding Expenses:	Wages	900		Prepaid Insurance		650
	Rent	500		Debtors	37,500	
	Salaries	600	2,000	*Less:* Bad Debts	500	
Capital					37,000	
Opening Balance		71,175		*Less:* Provision for Doubtful Debts	1,850	
Add: Net Profit		43,272			35,150	
		1,14,447		*Less:* Provision for Discount on Debtors	703	34,447
Less: Drawings		2,750		Investment		10,000
		1,11,697		**Fixed Assets**		
Less: Income Tax (Note)		22,000	89,697	Furniture	10,500	
				Less: Depreciation	1,050	9,450
				Plant and Machinery	60,000	
				(₹ 50,000 + ₹ 10,000)		
				Less: Depreciation	5,500	54,500
			1,44,847			1,44,847

Note: Income Tax to be taken as drawings.

4. (*With GST*). From the following balances extracted from the books of Amit, prepare Trading and Profit & Loss Account for the year ended 31st March, 2023 and Balance Sheet as at that date after taking into consideration the adjustments given below:

TRIAL BALANCE *as at 31st March, 2023*

Particulars	Dr. (₹)	Cr. (₹)
Capital	...	60,000
Drawings	7,500	...
Purchases	72,100	...
Sales	...	95,000
Returns	1,300	2,700
Sundry Debtors	18,200	...
Creditors	...	58,750
Opening Stock	19,800	...
Bad Debts	3,000	...
Cash in Hand	12,300	...
Office Expenses	6,210	...
Delivery Van	15,000	...
Delivery Van Expenses	1,400	...
Discount	...	2,910
Rent	10,700	...
Telephone Charges	1,050	...
Postage Expenses	950	...
Furniture	5,000	...
Printing and Stationery	2,750	...
Commission	8,400	...
Carriage Inwards	3,200	...
Salaries and Wages	20,500	...
Input IGST	10,000	...
Total	2,19,360	2,19,360

Adjustments:

(*i*) Closing Stock was valued at ₹ 61,700.

(*ii*) Depreciate Furniture and Machinery @ 10% p.a. and Delivery Van @ 20% p.a.

(*iii*) Outstanding Rent amounted to ₹ 900 subject to CGST and SGST @ 6% each.

(*iv*) Bad Debts ₹ 200.

(*v*) Charge 1/4th of Salaries and Wages to the Trading Account.

(*vi*) A new machinery was purchased on credit and installed on 31st December, 2022 costing ₹ 15,000 *plus* IGST @ 12%. Entry for the purchase is not yet passed in the books.

Solution:

TRADING AND PROFIT & LOSS ACCOUNT OF AMIT
for the year ended 31st March, 2023

Dr. Particulars		₹	Particulars		₹ *Cr.*
To Opening Stock		19,800	By Sales	95,000	
To Purchases	72,100		*Less:* Returns Inward	1,300	93,700
Less: Returns Outward	2,700	69,400	By Closing Stock		61,700
To Carriage Inwards		3,200			
To Salaries and Wages (1/4 of ₹ 20,500)		5,125			
To Gross Profit *c/d* (Transferred to Profit & Loss A/c)		57,875			
		1,55,400			1,55,400
To Office Expenses		6,210	By Gross Profit *b/d*		57,875
To Delivery Van Expenses		1,400	By Discount		2,910
To Rent	10,700				
Add: Outstanding	900	11,600			
To Telephone Charges		1,050			
To Postage Expenses		950			
To Printing and Stationery		2,750			
To Commission		8,400			
To Salaries and Wages (₹ 20,500 × 3/4)		15,375			
To Bad Debts	3,000				
Add: Further Bad Debts	200	3,200			
To Depreciation on: Delivery Van	3,000				
Furniture	500				
Machinery (Note 1)	375	3,875			
To Net Profit transferred to Capital A/c		5,975			
		60,785			60,785

BALANCE SHEET OF AMIT *as at 31st March, 2023*

Liabilities		₹	Assets		₹
Current Liabilities			**Current Assets**		
Sundry Creditors		58,750	Cash in Hand		12,300
Outstanding Rent		1,008	Sundry Debtors	18,200	
Vendor for Machinery		16,800	*Less:* Bad Debts	200	18,000
Capital			Closing Stock		61,700
Opening Balance	60,000		Input IGST (₹ 10,000 + ₹ 1,800 on Machinery)		11,800
Less: Drawings	7,500		Input CGST		54
	52,500		Input SGST		54
Add: Net Profit	5,975	58,475	**Fixed Assets**		
			Machinery	15,000	
			Less: Depreciation (₹ 15,000 × 3/12 × 10/100)	375	14,625
			Delivery Van	15,000	
			Less: Depreciation	3,000	12,000
			Furniture	5,000	
			Less: Depreciation	500	4,500
		1,35,033			1,35,033

Notes: 1. Depreciation on Machinery is calculated on ₹ 15,000 for 3 months.

2. IGST Paid on machinery is not a cost and therefore is carried forward to be set off in the next year.

5. Net Profit of a firm for the year ended 31st March, 2023 is ₹ 21,000 before charging commission. Manager of the firm is entitled to commission of 5% of the net profit. Calculate the commission payable to Manager.

Case 1. If Manager is allowed commission on net profit before charging such commission, and

Case 2. If Manager is allowed commission on net profit after charging such commission.

Also, show the treatment in Final Accounts for the year ended 31st March, 2023.

Solution:

Case 1. *Commission allowed on net profit before charging such commission:*

Manager's Commission

$$= \text{Net Profit before charging such commission} \times \frac{\text{\% of Commission}}{100}$$

$$= ₹\ 21{,}000 \times \frac{5}{100} = ₹\ 1{,}050.$$

Case 2. *Commission allowed on net profit after charging such commission:*

Manager's Commission

$$= \text{Net Profit before charging such commission} \times \frac{\text{\% of Commission}}{100 + \text{\% of Commission}}$$

$$= ₹\ 21{,}000 \times \frac{5}{105} = ₹\ 1{,}000.$$

PROFIT & LOSS ACCOUNT

Dr. *for the year ended 31st March, 2023* *Cr.*

Particulars	₹	Particulars	₹
To Manager's Commission Outstanding	1,000		

BALANCE SHEET

as at 31st March, 2023

Liabilities	₹	Assets	₹
Current Liabilities			
Manager's Commission Outstanding	1,000		

6. Trial Balance of M/s. Taj & Co. as on 31st March, 2023 was as follows:

Particulars	Dr. Balance ₹	Particulars	Cr. Balance ₹
Purchases	1,62,505	Sales	2,52,400
Sundry Debtors	50,200	Provision for Doubtful Debts	5,200
Opening Stock	26,725	Sundry Creditors	30,526
Wages	23,137	Outstanding Wages	4,000
Salaries	5,575	Outstanding General Expenses	4,650
Furniture	7,250	Capital	10,000
Postage	4,226	Output CGST	2,000
Power and Fuel	1,350	Output SGST	2,000
General Expenses	5,831		
Bad Debts	525		
Loan to Suraj @ 10% p.a. (1st Dec., 2022)	3,000		
Cash at Bank	10,000		
Drawings	4,452		
Input CGST	3,000		
Input SGST	3,000		
	3,10,776		3,10,776

Prepare Trading and Profit & Loss Account for the year ended 31st March, 2023 and Balance Sheet after considering the following information:

(*i*) Depreciation on Furniture @ 10% to be charged.

(*ii*) Debtors include an amount of ₹ 500 due from a customer who has become insolvent.

(*iii*) Provision for Doubtful Debts @ 5% on Sundry Debtors is to be maintained.

(*iv*) Goods costing ₹ 1,500 were destroyed by fire and insurance company admitted a claim for ₹ 1,000.

(*v*) Stock on 31st March, 2023 was ₹ 12,550.

Solution:

TRADING AND PROFIT & LOSS ACCOUNT
for the year ended 31st March, 2023

Dr. *Cr.*

Particulars		₹	Particulars		₹
To Opening Stock		26,725	By Sales		2,52,400
To Purchases	1,62,505		By Closing Stock		12,550
Less: Goods Loss by Fire	1,500	1,61,005			
To Wages		23,137			
To Power and Fuel		1,350			
To Gross Profit *c/d* (Transferred to Profit and Loss A/c)		52,733			
		2,64,950			2,64,950
To Depreciation on Furniture		725	By Gross Profit *b/d*		52,733
To Goods Lost by Fire (₹ 1,500 – ₹ 1,000)		500	By Provision for Doubtful Debts:		
To Salaries		5,575	Existing	5,200	
To Postage		4,226	*Less:* Bad Debts ₹ (525 + 500)	1,025	
To General Expenses		5,831		4,175	
To Net Profit transferred to Capital A/c		37,666	*Less:* Provision for Doubtful Debts		
			(5% on ₹ 49,700)	2,485	1,690
			By Interest on Loan (₹ 3,000 × 10/100 × 4/12)		100
		54,523			54,523

BALANCE SHEET *as at 31st March, 2023*

Liabilities		₹	Assets		₹
Capital			**Fixed Assets**		
Opening Balance	10,000		Furniture	7,250	
Less: Drawings	4,452		*Less:* Depreciation	725	6,525
	5,548		**Current Assets**		
Add: Net Profit	37,666	43,214	Cash		10,000
Current Liabilities			Insurance Claim		1,000
Outstanding Wages		4,000	Closing Stock		12,550
Outstanding General Expenses		4,650	Sundry Debtors	50,200	
Sundry Creditors		30,526	*Less:* Bad Debts	500	
				49,700	
			Less: Provision for Doubtful Debts		
			(₹ 49,700 × 5/100)	2,485	47,215
			Loan to Suraj	3,000	
			Add: Interest on Loan	100	3,100
			Input CGST		1,000
			Input SGST		1,000
		82,390			82,390

Notes:

1. 'Outstanding Wages' and 'Outstanding General Expenses' appear on the credit side of the Trial Balance. It means that these outstanding amounts have already been adjusted to Wages Account and General Expenses Account. As double entries in respect of these adjustments are complete, these outstanding accounts will be shown as liabilities in the Balance Sheet.
2. Claim for Goods Lost by Fire will be ₹ 1,500. Insurance company admitted claim of ₹ 1,000, leading to loss of ₹ 500.
3. *GST Set-off:*

	CGST (₹)	SGST (₹)
Input GST	3,000	3,000
Less: Output GST	2,000	2,000
Balance in Input GST	1,000	1,000

7. From the following Trial Balance and additional information, prepare Trading and Profit & Loss Account for the year ended 31st March, 2023 and a Balance Sheet as on that date:

Particulars	Dr. (₹)	Cr. (₹)
Closing Stock	40,000	...
Adjusted Purchases	6,60,000	...
Sales	...	7,20,000
Miscellaneous Expenses	19,200	...
Selling and Distribution Expenses	36,075	...
Rent	11,000	...
Rent Received	...	6,500
Income Tax Paid	1,000	...
Interest (Paid)	3,750	...
Interest (Received)	...	4,500
Discount Allowed	2,000	...
Discount Received	...	1,000

Bad Debts	3,000	...
Investments	50,000	...
Loan from Bank	...	50,000
Cash in Hand	60,000	...
Debtors	2,10,000	...
Creditors	...	1,46,400
Provision for Doubtful Debts	...	10,000
Provision for Discount on Debtors	...	2,400
Drawings	12,775	...
Capital	...	3,08,000
Machinery	50,000	...
Building	60,000	...
Furniture and Fittings	30,000	...
Outstanding Office Expenses	...	3,200
Prepaid Expenses	1,200	...
Input CGST	1,000	...
Input SGST	1,000	...
Total	12,52,000	12,52,000

Additional Information:

(*i*) Write-off ₹ 6,000 as bad debts.

(*ii*) Additional discount of ₹ 4,000 given to debtors and additional discount of ₹ 2,000 received from creditors.

(*iii*) Maintain a provision for discount on debtors @ 2% and also maintain provision for doubtful debts @ 10% on debtors.

(*iv*) Rent has been paid for 11 months and has been received for 13 months.

(*v*) A machine costing ₹ 20,000 was purchased on 1st July, 2022 and accounted in the books of account. However, wages of ₹ 1,000 for its installation have been debited to Miscellaneous Expenses Account.

(*vi*) Furniture costing ₹ 20,000 was purchased on 1st July, 2022 but it was not recorded in the books as no payment was made for it. Wages ₹ 1,000 paid for its assembly have been debited to Miscellaneous Expenses Account.

(*vii*) Depreciate furniture @ 10% p.a., machinery @ 10% p.a., and building @ 5% p.a.

(*viii*) Goods costing ₹ 5,000 were taken by proprietor for personal use.

(*ix*) A fire broke out on 1st April, 2023 destroying goods costing ₹ 25,000.

Solution:

TRADING AND PROFIT & LOSS ACCOUNT

Dr. *for the year ended 31st March, 2023* *Cr.*

Particulars			₹	Particulars		₹
To Adjusted Purchases		6,60,000		By Sales		7,20,000
Less: Drawings		5,000	6,55,000			
To Gross Profit *c/d*			65,000			
			7,20,000			7,20,000
To Rent		11,000		By Gross Profit *b/d*		65,000
Add: Outstanding		1,000	12,000	By Rent Received	6,500	
To Selling and Distribution Expenses			36,075	*Less:* Advance Rent	500	6,000
To Interest (Paid)			3,750	By Interest (Received)		4,500
To Miscellaneous Expenses		19,200		By Discount Received	1,000	
Less: Assembly of Furniture	1,000			*Add:* Further Discount	2,000	3,000
Installation of Machinery	1,000	2,000	17,200	By Net Loss transferred to Capital A/c		28,875
To Bad Debts		3,000				
Add: Further Bad Debts		6,000				
Prov. for Doubtful Debts (New)		20,000				
		29,000				
Less: Prov. for Doubtful Debts (Old)		10,000	19,000			
To Discount Allowed		2,000				
Add: Further Discount		4,000				
Provision for Discount (New)		3,600				
		9,600				
Less: Provision for Discount (Old)		2,400	7,200			
To Depreciation on: Machinery (WN 2)		4,575				
Furniture		4,575				
Building		3,000	12,150			
			1,07,375			1,07,375

BALANCE SHEET

as at 31st March, 2023

Liabilities			₹	Assets		₹
Current Liabilities				**Current Assets**		
Creditors		1,46,400		Debtors	2,10,000	
Less: Further Discount		2,000	1,44,400	*Less:* Further Bad Debts	6,000	
Outstanding Rent			1,000		2,04,000	
Advance Rent			500	*Less:* Further Discount	4,000	
Vendor for Furniture			20,000		2,00,000	
Outstanding Office Expenses			3,200	*Less:* Provision for Doubtful Debts	20,000	
Loan from Bank			50,000		1,80,000	
Capital				*Less:* Provision for Discount on Debtors	3,600	1,76,400
Opening Balance		3,08,000		Cash in Hand		60,000
Less: Net Loss	28,875			Closing Stock		40,000
Drawings	17,775			Prepaid Expenses		1,200
Income Tax	1,000	47,650	2,60,350	Investments		50,000
				Input CGST		1,000
				Input SGST		1,000

		Fixed Assets		
		Machinery	50,000	
		Add: Installation of Machinery	1,000	
			51,000	
		Less: Depreciation (WN 2)	4,575	46,425
		Furniture and Fittings	30,000	
		Add: New Furniture	20,000	
		Assembly of Furniture	1,000	
			51,000	
		Less: Depreciation	4,575	46,425
		Building	60,000	
		Less: Depreciation	3,000	57,000
	4,79,450			4,79,450

Working Notes:

1. An event occurring after the date of Balance Sheet (*i.e.*, fire broke out on 1st April, 2023) does not affect the Balance Sheet prepared as at 31st March, 2023.

2. *Depreciation on:* Machinery = $\left(₹\,30{,}000 \times \frac{10}{100}\right) + \left(₹\,21{,}000 \times \frac{9}{12} \times \frac{10}{100}\right) = ₹\,3{,}000 + ₹\,1{,}575 = ₹\,4{,}575;$

Furniture = $\left(₹30{,}000 \times \frac{10}{100}\right) + \left(₹21{,}000 \times \frac{9}{12} \times \frac{10}{100}\right) = ₹\,3{,}000 + ₹\,1{,}575 = ₹\,4{,}575.$

Unsolved Questions

1. The following is the Trial Balance of Amrit Raj as at 31st March, 2012:

Particulars	Dr. (₹)	Cr. (₹)
Capital	...	25,000
Building	30,000	...
Furniture	2,640	...
Scooter	4,000	...
Sales Return and Purchases Return	2,300	1,600
Opening Stock	8,000	...
Purchases and Sales	33,800	56,040
Bad Debts	300	...
Carriage Inwards	700	...
General Expenses	1,200	...
Bad Debts Provision	...	700
Bank Loan	...	5,000
Interest on Bank Loan	300	...
Commission	...	900
Insurance and Taxes	2,000	...
Scooter Expenses	2,600	...
Salaries	4,400	...
Cash in Hand	2,000	...
Debtors and Creditors	3,000	8,000
Total	97,240	97,240

You are required to prepare the Final Accounts for the year ending 31st March, 2012 taking into account the following adjustments:

(*i*) Closing Stock on 31st March, 2012 was valued at ₹ 4,340.

(*ii*) Commission include ₹ 300 being commission received in advance.

(*iii*) Salaries have been paid for 11 months.

(*iv*) Bank Loan has been taken at 10% p.a. interest.

(*v*) Depreciate building by 50% and Scooter by 15%.

(*vi*) Write of ₹ 200 as further bad debts and maintain bad debts provision at 5% on debtors.

(KVS 2015)

[*Gross Profit—₹ 17,180; Net Profit—₹ 4,640; Balance Sheet Total—₹ 43,540.*]

2. Following is the Trial Balance of Prem Prakash as on 31st March, 2023:

Heads of Accounts	Debit Balances ₹	Credit Balances ₹
Plant and Machinery	5,50,000	...
Fixtures and Fittings	17,200	...
Prem Prakash's Capital	...	9,32,300
Factory Fuel and Power	5,420	...
Office Salaries	37,450	...
Sales	...	12,61,770
Creditors	...	2,91,020
Purchases Return	...	31,720
Factory Lighting	3,920	...
Travelling Expenses	9,250	...
Carriage on Sales	9,600	...
Cash at Bank	22,450	...
Cash in Hand	680	...
Sundry Debtors	4,78,000	...
Purchases	8,32,900	...
Wages	99,150	...
Rent and Taxes	17,650	...
Office Expenses	27,780	...
Carriage Inwards	8,970	...
Discount	4,220	...
Drawings	68,200	...
Stock on 1st April, 2022	2,17,250	...
Manufacturing Expenses	26,800	...
Sales Return	74,220	...
Insurance	5,700	...
Total	25,16,810	25,16,810

Taking into account the following adjustments, prepare Trading and Profit & Loss Account and Balance Sheet as at 31st March, 2023:

(*a*) An old machine valued at ₹ 20,000 was given in exchange of new machine purchased on 1st October, 2022. As the Cheque was issued for ₹ 2,00,000 it was recorded in the books at this value. The machine given in exchange was personal asset of Prem Prakash and entry for it was not passed.

(*b*) Depreciation 5% p.a. on Plant and Machinery and 10% p.a. on Fixtures and Fittings.

(*c*) Provision for Doubtful Debts @ 2½% on Sundry Debtors.

(*d*) Rent Outstanding for March, 2023 ₹ 1,500.

(*e*) Insurance unexpired on 31st March, 2023 ₹ 700.

(*f*) Outstanding Wages and Salaries were ₹ 8,000 and ₹ 3,500 respectively.

(*g*) Stock on 31st March, 2023 ₹ 1,65,800.

[*Gross Profit—₹ 1,82,660; Net Profit—₹ 30,040; Balance Sheet Total—₹ 12,18,160.*]

[**Hints:** 1. Plant and Machinery and also capital will be increased by ₹ 20,000.

2. Depreciation on Plant and Machinery of ₹ 2,20,000 will be provided for 6 months.

3. Depreciation for the year ₹ 23,000.]

3. From the following Trial Balance of Ashok, prepare Trading and Profit & Loss Account for the year ended 31st March, 2023 and Balance Sheet as on that date after making necessary adjustments:

Particulars	Dr. Balances ₹	Cr. Balances ₹
Opening Stock	30,000	...
Ashok's Capital	...	2,00,000
Ashok's Drawings	10,000	...
Plant and Machinery	1,20,000	...
Freehold Property	75,000	...
Purchases	2,25,000	...
Sales	...	5,00,000
Salaries	35,000	...
Office Expenses	5,000	...
Office Furniture	25,000	...
Discount	5,000	...
Loan to Anwar @10% p.a. on 1st April, 2022	30,000	...
Wages	8,000	...
Postage and Courier	2,000	...
Insurance	5,000	...
Gas and Fuel	50,000	...
Bad Debts	15,000	...
Freight	3,000	...
Rent	7,000	...
Loose Tools	15,000	...
Provision for Doubtful Debts	...	20,000
Interest on Loan from Anwar	...	1,000

Sundry Debtors	46,500	...
Sundry Creditors	...	44,000
Cash in Hand	52,000	...
Cash at Bank	3,000	...
Input CGST	8,000	...
Input SGST	8,000	...
Output CGST	...	7,000
Output SGST	...	7,000
Output IGST	...	3,500
Total	7,82,500	7,82,500

Adjustments:

(*i*) Stock on 31st March, 2023 was valued at ₹ 55,000.

(*ii*) A new machinery was installed during the year purchased for ₹ 22,000 but it was not recorded in the books as no payment was made for it. Wages ₹ 1,500 paid for its installation have been debited to Wages Account.

(*iii*) Depreciate Plant and Machinery by 20% and Freehold property by 15%. Depreciation is not to be charged on the machinery purchased during the year.

(*iv*) Loose tools were valued at ₹ 12,000 on 31st March, 2023.

(*v*) Write off ₹ 500 as Further Bad Debts.

(*vi*) Maintain Provision of 10% on Sundry Debtors for Doubtful Debts.

(*vii*) The Manager is entitled to a commission of 10% on the net profits after charging such commission.

[*Gross Profit—₹ 2,40,500; Net Profit—₹ 1,32,864; Balance Sheet Total—₹ 4,05,650.*]

[**Hint:** Manager's Commission = 10/110 × ₹ 1,46,150 = ₹ 13,286.]

4. Following is the Trial Balance of *K* on 31st March, 2023:

Particulars	Dr. Balances ₹	Cr. Balances ₹
Capital	...	8,00,000
Drawings	60,000	...
Opening Stock	75,000	...
Purchases	15,95,000	...
Freight on Purchases	25,000	...
Wages (11 months up to 28th Feb., 2023)	66,000	...
Sales	...	23,10,000
Salaries	1,40,000	...
Postages and Telephones	12,000	...
Printing and Stationery	18,000	...

Miscellaneous Expenses	....	30,000	...
Creditors	....	...	3,00,000
Investments	....	1,00,000	...
Discount Received	....	...	15,000
Debtors	....	2,58,000	...
Bad Debts	....	15,000	...
Provision for Doubtful Debts	....	...	8,000
Building	....	3,00,000	...
Machinery	....	5,00,000	...
Furniture	....	40,000	...
Commission on Sales	....	45,000	...
Interest on Investments	....	...	12,000
Insurance (up to 31st July, 2023)	....	24,000	...
Bank Balance	....	1,50,000	...
Input CGST	....	6,000	...
Input SGST	....	6,000	...
Output CGST	....	...	10,000
Output SGST	....	...	10,000
Total		34,65,000	34,65,000

Adjustments:

(*i*) Closing Stock ₹ 2,25,000.

(*ii*) Machinery of ₹ 45,000 *plus* CGST and SGST @ 6% each purchased on 1st October, 2022 was shown as Purchases. Freight paid on the Machinery was ₹ 5,000, which is included in Freight on Purchases.

(*iii*) Commission is payable at 2½% on sales *plus* CGST and SGST @ 6% each.

(*iv*) Investments were sold at 10% profit, but the entire sales proceeds have been taken as Sales.

(*v*) Write off Bad Debts ₹ 10,000 and create Provision for Doubtful Debts at 5% of Debtors.

(*vi*) Depreciate Building by 2½% p.a. and Machinery and Furniture at 10% p.a.

Prepare Trading and Profit & Loss Account for the year ended 31st March, 2023 and Balance Sheet as at that date.

[*Gross Profit—₹ 7,08,000; Net Profit—₹ 3,80,600; Balance Sheet Total—₹ 14,44,600.*]

[**Hints:**

1. Sale of Investments of ₹ 1,10,000 will be deducted from sales.
2. Out of Purchases, purchase of machinery worth ₹ 45,000 will be deducted and freight paid on this machinery ₹ 5,000 will also be deducted from Freight on Purchases.
3. Machinery will appear in the Balance Sheet as follows: ₹ 5,00,000 + ₹ 45,000 (1st Oct., 2019) + ₹ 5,000 (Freight) – ₹ 52,500 (Depreciation) = ₹ 4,97,500.]

5. Following is the Trial Balance of Mr. Prem Prakash on 31st March, 2023:

Particulars	Dr. (₹)	Cr. (₹)
Plant and Machinery	5,50,000	...
Fixtures and Fittings	17,200	...
Prem Prakash's Capital	...	9,32,300
Factory Fuel and Power	5,420	...
Office Salaries	37,450	...
Sales	...	12,61,770
Creditors	...	2,91,020
Purchases Return	...	34,720
Factory Lighting	3,920	...
Travelling Expenses	9,250	...
Carriage on Sales	9,600	...
Cash at Bank	22,450	...
Cash in Hand	680	...
Sundry Debtors	4,78,000	...
Purchases	8,32,900	...
Wages	99,150	...
Rent and Taxes	17,650	...
Office Expenses	27,780	...
Carriage Inwards	8,970	...
Discount	4,220	...
Drawings	68,200	...
Stock on 1st April, 2022	2,17,250	...
Manufacturing Expenses	26,800	...
Sales Return	74,220	...
Insurance	5,700	...
Input IGST	15,000	...
Output CGST	...	6,000
Output SGST	...	6,000
Total	25,31,810	25,31,810

Taking into account the following adjustments, prepare Trading and Profit & Loss Account and Balance Sheet as at 31st March, 2023:

(*a*) Depreciation: 5% on Plant and Machinery and 10% on Fixtures and Fittings.

(*b*) Create Provision for Doubtful Debts @ 2½% on Sundry Debtors.

(*c*) Rent Outstanding for March, 2023 ₹ 1,500 *plus* CGST and SGST @ 6% each.

(*d*) Insurance unexpired on 31st March, 2023 ₹ 700.

(*e*) Outstanding Wages and Salaries were ₹ 8,000 and ₹ 3,500 respectively.

(*f*) Stock on 31st March, 2023 was ₹ 1,65,800.

[*Gross Profit—₹ 1,85,660; Net Profit—₹ 28,540; Balance Sheet Total—₹ 11,96,840.*]

[**Hint:** Input IGST will have a balance of ₹ 3,180.]

6. Following Trial Balance is extracted from the books of Merchant Mr. Negi on 31st March, 2023:

Particulars	Dr. (₹)	Cr. (₹)
Furniture and Fittings	640	...
Motor Vehicle	6,250	...
Building	7,500	...
Capital	...	12,500
Bad Debts	125	...
Provision for Doubtful Debts	...	200
Sundry Debtors and Creditors	3,800	2,500
Stock as on 1st April, 2022	3,460	...
Purchases and Sales	5,475	15,450
Bank Loan	...	2,850
Sales Return and Purchases Return	200	125
Advertising	450	...
Interest on Bank Loan	118	...
Commission	...	375
Cash	650	...
Taxes and Insurance Premium	782	...
General Expenses	1,250	...
Salaries	3,300	...
	34,000	34,000

Adjustments:

(*a*) Stock in hand on 31st March, 2023 ₹ 3,250.

(*b*) Depreciate Building @ 5% p.a., Furniture @ 10% p.a. and Motor Vehicle @ 20% p.a.

(*c*) ₹ 85 is due for interest on Bank Loan.

(*d*) Salaries ₹ 300 and Taxes ₹ 200 are outstanding.

(*e*) Insurance Premium amounting ₹ 100 prepaid.

(*f*) One-third of the commission received is in respect of work to be done next year.

(*g*) Write off a further sum of ₹ 100 as bad debts from Debtors and create Provision for Doubtful Debts @ 5% on debtors.

Complete the following Trading Account, Profit & Loss Account and Balance Sheet.

Dr. TRADING AND PROFIT & LOSS ACCOUNT *for the year ended 31st March, 2023* *Cr.*

Particulars		₹	Particulars		₹
To ...(1)...		..(2)..	By Sales	15,450	
To Purchases	5,475		*Less:* Returns	...(3)...	...(4)...
Less: Returns	...(5)...	...(6)...	By ...(7)...		...(8)...
To Gross Profit *c/d*		...(9)...			
		...(10)...			...(11)...

To Bad Debts	125		By Gross Profit *b/d*		...(12)...
...(13)...	...(14)...		By Commission	375	
...(15)...	...(16)...		...(17)...	...(18)...	...(19)...
...(20)...	...(21)...	210			
To Advertising		450			
To Interest on Bank Loan	118				
...(22)...	...(23)...	...(24)...			
To General Expenses		1,250			
To Salaries	3,300				
...(25)...	...(26)...	...(27)...			
To Taxes and Insurance	782				
...(28)...	...(29)...				
...(30)...	...(31)...	...(32)...			
To Depreciation on:					
...(33)...	...(34)...				
...(35)...	...(36)...				
...(37)...	...(38)...	...(39)...			
To Net Profit		...(40)...			
		...(41)...			...(42)...

BALANCE SHEET OF MR. NEGI *as at 31st March, 2023*

Liabilities		₹	Assets		₹
Capital:			Furniture and Fittings	640	
Opening Balance	12,500		...(43)...	...(44)...	...(45)...
...(46)...	...(47)...	...(48)...	Motor Vehicle	6,250	
Sundry Creditors		2,500	...(49)...	...(50)...	...(51)...
Bank Loan		2,850	Building	7,500	
Outstanding Expenses:			...(52)...	...(53)...	...(54)...
Salaries	300		Sundry Debtors	3,800	
Taxes	200		...(55)...	...(56)...	
Interest on Bank Loan	85	...(57)...	...(58)...	...(59)...	...(60)...
Commission Received in Advance		...(61)...	Cash		650
			Closing Stock		3,250
			Prepaid Insurance Premium		...(62)...
		...(63)...			...(64)...

[*1: Opening Stock; 2: ₹ 3,460; 3: ₹ 200; 4: ₹ 15,250; 5: ₹ 125; 6: ₹ 5,350; 7: Closing Stock; 8: ₹ 3,250; 9: ₹ 9,690; 10: ₹ 18,500. 11: ₹ 18,500; 12: ₹ 9,690; 13: Add: Further Bad Debts; 14: ₹ 100; 15: Add: New Provision for Doubtful Debts; 16: ₹ 185; 17: Less: Commission Received in Advance; 18: ₹ 125; 19: ₹ 250; 20: Less: Old Provision for Doubtful Debts; 21: ₹ 200; 22: Add: O/s Interest; 23: ₹ 85; 24: ₹ 203; 25: Add: O/s Salary; 26: ₹ 300; 27: ₹ 3,600; 28: Add: O/s Tax; 29: ₹ 200; 30: Less: Prepaid Insurance; 31: ₹ 100; 32: ₹ 882; 33: Building; 34: ₹ 375; 35: Furntiure; 36: ₹ 64; 37: Motor Vehicle; 38: ₹ 1,250; 39: ₹ 1,689; 40: ₹ 1,656; 41: ₹ 9,940; 42: ₹ 9,940; 43: Less: Depreciation; 44: ₹ 64; 45: ₹ 576. 46: Add: Net Profit; 47: ₹ 1,656; 48: ₹ 14,156; 49: Less: Depreciation; 50: ₹ 1,250; 51: ₹ 5,000; 52: Less: Depreciation; 53: ₹ 375; 54: ₹ 7,125; 55: Less: Further Bad Debts; 56: ₹ 100; 57: ₹ 585; 58: Less: Provision for Doubtful Debts; 59: ₹ 185; 60: ₹ 3,515; 61: ₹ 125; 62: ₹ 100; 63: ₹ 20,216; 64: ₹ 20,216.*]

CHAPTER 20

Accounts from Incomplete Records—Single Entry System

MEANING OF KEY TERMS USED IN THE CHAPTER

1. **Incomplete Records**	It is a system of recording business transactions. In some of the transactions, both aspects are recorded; while in others one aspect is recorded or it is not recorded at all.
2. **Single Entry System**	It is an incomplete double entry system varying with circumstances.
3. **Statement of Affairs**	It is a statement of assets and liabilities. The difference between the amounts of the two sides represents proprietor's capital.
4. **Capital**	Amount invested by the owner.
5. **Drawings**	Money or goods taken by the proprietor from the business for his/her personal use.

CHAPTER SUMMARY

- Accounting records that are not prepared according to the double-entry principles are known as **Accounts from Incomplete Records** or **Single Entry System** of Accounting.

  Single Entry System is a system under which accounting record is not maintained following the Double Entry System. It is a system of book keeping in which only records of cash and individual accounts of parties are maintained.

  Single Entry System is simple, economical and time saving system of recording transactions.
- **Disadvantages of Single Entry System** are: (*i*) Arithmetical accuracy of accounts cannot be checked; (*ii*) Difficult to detect fraud; (*iii*) True profit cannot be known; and (*iv*) True financial position of business cannot be ascertained.
- **Ascertainment of Profit/Loss by Statement of Affairs Method:** Under this method, to find out the capitals on the opening and closing dates, the Accounting equation 'Capital = Assets – Liabilities of Outsiders' is used and statement of affairs prepared accordingly. Proper adjustments regarding drawings, further capital introduced, depreciation, etc., are made to closing capital and then true profit earned or loss incurred is ascertained.

  In this method, we take following steps for calculating profit/loss:

  Step 1: *Ascertain closing capital* by preparing a Statement of Affairs at the end of the accounting period.

STATEMENT OF AFFAIRS
as at ...

Liabilities	₹	Assets	₹
Sundry Creditors	...	Cash in hand	...
Outstanding Expenses	...	Cash at Bank	...
Bank Overdraft	...	Sundry Debtors	...
Capital (Balancing Figure)	...	Stock	...
		Prepaid Expenses	...
		Fixed Assets	...
	...		...

Step 2: *Add:* Drawings for the period to the closing capital (calculated as per Step 1)

Step 3: *Deduct:* the amount of Capital introduced from the closing capital (Step 1)

Step 4: *Calculate opening Capital* by preparing a statement of affairs at the beginning of the accounting period.

Step 5: *Calculate Profit or Loss* by deducting opening capital from the adjusted closing capital.

Adjusted Closing Capital = Closing Capital + Drawings – Capital introduced during the year.

Step 6: *Ascertain Profit or Loss* by deducting opening capital from adjusted closing capital.

Step 7: *Make Adjustment* for the items not yet adjusted while calculating closing capital *e.g.*, Depreciation, outstanding/prepaid expenses etc.

STATEMENT OF PROFIT OR LOSS *for the year ended...*

Particulars	₹
Capital at the end	...
Add: Drawings (whether in cash or kind) during the accounting period	...
	...
Less: Additional Capital introduced (whether in cash or in kind) during the year	...
Adjusted Capital at the end	...
Less: Capital in the beginning	...
Profit (if Adjusted Capital is more than the Opening Capital) *or* Loss (if Adjusted Capital is less than the Opening Capital)	...

Solved Questions

1. Calculate the missing value (figure):

	₹
Capital in the beginning	30,000
Profit made during the year	5,000
Drawings	10,000
Capital introduced during the year	15,000
Capital at the end	?

Solution: CALCULATION OF CLOSING CAPITAL

Particulars	₹
Capital in the beginning	30,000
Add: Capital introduced during the year	15,000
	45,000
Less: Drawings	10,000
Add: Profit made during the year	35,000
	5,000
Capital at the end	40,000

2. Calculate the missing value (figure):

	₹
Capital in the beginning	40,000
Profit during the year	15,000
Capital introduced during the year	20,000
Capital at the end	65,000
Drawings	?

Solution: Profit = Capital at the end + Drawings – Capital introduced during the year – Capital in the beginning

₹ 15,000 = ₹ 65,000 + Drawings – ₹ 20,000 – ₹ 40,000

Drawings = ₹ 10,000.

3. Calculate the missing value (figure):

	₹
Capital at the end	40,000
Profit made during the year	12,000
Capital introduced during the year	10,000
Drawings	6,000
Capital in the beginning	?

Solution: Profit = Capital at the end + Drawings – Capital in the beginning – Capital introduced during the year

₹ 12,000 = ₹ 40,000 + ₹ 6,000 – Capital in the beginning – ₹ 10,000

Capital in the beginning = ₹ 24,000.

4. Calculate the missing value (figure):

	₹
Capital at the end	90,000
Capital introduced during the year	?
Drawings	20,000
Loss	5,000
Opening Capital	1,00,000

Solution: CALCULATION OF ADDITIONAL CAPITAL INTRODUCED

Particulars	₹
Capital at the end	90,000
Add: Drawings	20,000
	1,10,000
Less: Opening Capital	1,00,000
Add: Loss incurred during the year	10,000
	5,000
Additional Capital introduced	15,000

5. Ram Prasad keeps his books on single entry system, and from them and the particulars supplied, the following figures were gathered together on 31st March 2023:

Book Debts ₹ 10,000; Cash in hand, ₹ 510; Stock-in-trade (estimated) ₹ 6,000; Furnitures, ₹ 1,200; Trade Creditors, ₹ 4,000; Bank overdraft ₹ 1,000. Ram Prasad stated that he started business on 1st April, 2022 with Cash ₹ 6,000 and Stock valued at ₹ 4,000. During the year, he estimated his drawings to be ₹ 7,400 and Additional Capital introduced ₹ 5,000. You are required to prepare a statement, showing profit for the year, after writing-off 10% for depreciation on Furniture.

(*MSE Chandigarh 2015, Modified*)

Solution: STATEMENT OF PROFIT OR LOSS *for the year ended 31st March, 2023*

Particulars	₹
Capital at the end (Note 1)	12,710
Add: Drawings during the year	7,400
	20,110
Less: Additional Capital introduced during the year	5,000
Adjusted Capital at the end	15,110
Less: Capital in the beginning (Note 2)	10,000
Profit subject to Adjustments	5,110
Less: Depreciation	120
Net Profit for the year	4,990

Notes: 1. Calculation of Closing Capital:

STATEMENT OF AFFAIRS *as at 31st March, 2023*

Liabilities	₹	Assets	₹
Trade Creditors	4,000	Book Debts	10,000
Bank Overdraft	1,000	Cash in-hand	510
Capital (Balancing Figure)	12,710	Stock-in-trade	6,000
		Furniture	1,200
	17,710		17,710

2. Capital in the beginning = ₹ 6,000 (Cash) + ₹ 4,000 (Stock) = ₹ 10,000

6. Shruti maintains her books of accounts from Incomplete Records. Her books provide the following information:

Particulars	1st April, 2022 ₹	31st March, 2023 ₹
Cash	1,200	1,600
Debtors	16,800	29,600
Stock	22,400	24,400
Investments	...	8,000
Furniture	7,500	8,000
Creditors	14,000	15,200

She withdrew ₹ 300 per month for personal expenses. She sold her Investments of ₹ 16,000 at 20% premium and introduced that amount into business.

You are required to prepare a Statement of Profit or Loss for the year ending March 31, 2023. (*KVS 2015, Modified*)

Solution:

STATEMENT OF AFFAIRS
as at 1st April, 2022

Liabilities	₹	Assets	₹
Creditors	14,000	Cash	1,200
Capital (Balancing Figure)	33,900	Debtors	16,800
		Stock	22,400
		Furniture	7,500
	47,900		47,900

STATEMENT OF AFFAIRS
as at 31st March, 2023

Liabilities	₹	Assets	₹
Creditors	15,200	Cash	1,600
Capital (Balancing Figure)	56,400	Debtors	29,600
		Stock	24,400
		Investments	8,000
		Furniture	8,000
	71,600		71,600

STATEMENT OF PROFIT OR LOSS
for the year ending 31st March, 2023

Particulars		₹
Closing Capital		56,400
Add: Drawings (₹ 300 × 12)		3,600
		60,000
Less: Opening Capital	33,900	
Capital introduced during the year [₹ 16,000 + 20% of ₹ 16,000]	19,200	53,100
Net Profit for the year		6,900

7. Mr. Wise keeps his books on Single Entry System and the following information is disclosed from his records:

	As at 1st April, 2022 (₹)	*As at 31st March, 2023* (₹)
Balance at Bank	3,150 (Cr.)	8,400
Stock-in-Trade	22,500	30,000
Sundry Debtors	45,000	42,800
Furniture	7,500	7,500
Investments	7,500	7,500
Cash in Hand	150	600
Sundry Creditors	39,000	41,250
Loan from Mr. Faithful	...	4,500

Mr. Wise transferred ₹ 375 every month during the first half of the year and ₹ 300 every month for the remaining period from the business to his personal bank account by way of drawings. In addition, he withdrew ₹ 7,500 for his daughter's marriage and

₹ 3,000 for domestic purposes. In September, 2022, he had received a lottery prize of ₹ 6,000, which he invested in the business. He sold his personal car for ₹ 7,000 and the proceeds were utilised for business. He wants his furniture to be depreciated at 10% and a provision for doubtful debts to be created at 5%. He had not paid two months' salary to his peon @ ₹ 225 per month and two months' rent outstanding amounting to ₹ 300. Commission earned but not received by him was ₹ 3,600.

Prepare Statement of Profit or Loss for the year ended 31st March, 2023.

Solution: *Calculation of Opening Capital:*

STATEMENT OF AFFAIRS (OPENING) *as at 1st April, 2022*

Liabilities	₹	Assets	₹
Balance at Bank (Bank Overdraft)	3,150	Cash in Hand	150
Sundry Creditors	39,000	Stock-in-Trade	22,500
Capital (Opening) (Balancing Figure)	40,500	Sundry Debtors	45,000
		Furniture	7,500
		Investments	7,500
	82,650		82,650

Calculation of Closing Capital:

STATEMENT OF AFFAIRS (CLOSING) *as at 31st March, 2023*

Liabilities	₹	Assets	₹
Sundry Creditors	41,250	Cash in Hand	600
Loan from Mr. Faithful	4,500	Balance at Bank	8,400
Outstanding Salaries (₹ 225 × 2)	450	Accrued Commission	3,600
Outstanding Rent	300	Stock-in-Trade	30,000
Capital (Closing) (Balancing Figure)	53,900	Sundry Debtors	42,800
		Furniture	7,500
		Investments	7,500
	1,00,400		1,00,400

STATEMENT OF PROFIT OR LOSS *for the year ended 31st March, 2023*

Particulars		₹
Capital at the end (Closing Capital)		53,900
Add: Drawings during the year (WN 1)		14,550
		68,450
Less: Opening Capital	40,500	
Capital introduced during the year (WN 2)	13,000	53,500
Profit before Adjustment		14,950
Less: Adjustments:		
(*i*) Depreciation on Furniture (10% of ₹ 7,500)	750	
(*ii*) Provision for Doubtful Debts (5% of ₹ 42,800)	2,140	2,890
Net Profit for the year		12,060

Working Notes:

1. *Drawings during the year:*

	₹
Transfer to Personal Bank Account:	
₹ 375 for 6 months	2,250
₹ 300 for 6 months	1,800
Withdrawn for daughter's marriage	7,500
Withdrawn for domestic purposes	3,000
Total Drawings	14,550

2. *Introduction of Capital:*

	₹
Lottery prize invested in the business	6,000
Sale proceeds of personal car utilised for business	7,000
Total Capital Introduced	13,000

Unsolved Questions

1. Calculate the missing value (figure):

	₹
Capital in the beginning	72,000
Profit made during the year	12,000
Drawings	24,000
Capital introduced during the year	36,000
Capital at the end	?

[*Capital at the end—₹ 96,000.*]

2. Calculate the missing value (figure):

	₹
Capital in the beginning	80,000
Profits made during the year	30,000
Capital introduced during the year	40,000
Capital at the end	1,30,000
Drawings	?

[*Drawings—₹ 20,000.*]

3. Calculate the missing value (figure):

	₹
Profits made during the year	9,600
Capital at the end	32,000
Capital introduced during the year	8,000
Drawings	4,800
Capital in the beginning	?

[*Capital in the beginning—₹ 19,200.*]

4. Calculate the missing value (figure):

	₹
Capital at the end	36,000
Capital introduced during the year	6,000
Drawings	8,000
Loss	2,000
Capital in the beginning	?

[*Capital in the beginning—₹ 40,000.*]

5. Ram maintains his accounts under single entry system. He provides you the following information:

	₹
Capital as at 1st April, 2022	15,200
Capital as at 31st March, 2023	16,900
Drawings during the period: 1st April, 2022 to 31st March, 2023	4,800
Additional Capital introduced on Oct. 1, 2022	2,000

You are required to calculate profit for the year ending 31st March, 2023

[*Profit—₹ 4,500.*]

6. Opening Capital ₹ 3,60,000, Drawings ₹ 30,000, Capital added during the year ₹ 60,000 and Closing Capital ₹ 5,40,000. Calculate profit or loss for the year. [*Profit—₹ 1,50,000.*]

7. Shewta keeps her books under a single entry system. Her position on 1st April, 2022 was as under:

Cash in hand ₹ 200; Cash at Bank ₹ 3,000; Stock ₹ 20,000; Sundry Debtors ₹ 8,500; Fixtures ₹ 1,800; Machinery ₹ 15,000; Sundry Creditors ₹ 22,000; Shweta brought ₹ 5,000 more for capital during the year and withdrew ₹ 750 per month.

Her position on 31st March, 2023 was as under:

Cash in hand ₹ 300; Cash at bank ₹ 2,000; Sundry Debtors ₹ 14,000; Stock ₹ 19,000; Machinery ₹ 27,000; Fixtures ₹ 1,500; Sundry Creditors ₹ 29,000.

Prepare a statement on 31st March, 2023 for finding out profit. [*Profit—₹ 12,300.*]

8. Sri S.K. Rao does not keep proper books of account. The following information is available for the year ended 31st March, 2023:

	1st April, 2022 ₹	31st March, 2023 ₹
Sundry Creditors	63,000	45,000
Cash in hand	3,000	5,000
Bank	10,000	15,000
Sundry Debtors	80,000	75,000
Stock	40,000	45,000
Plant & Machinery	30,000	50,000

He withdrew ₹ 2,000 at the end of every month and introduced ₹ 5,000 as additional capital. Additional plant was purchased on 1st October, 2022. Depreciation of the plant was at 10% p.a. Ascertain the profit or loss for the year ending 31st March, 2023.

[*Opening Capital—₹ 1,00,000; Closing Capital—₹ 1,45,000;*

Net Profit—₹ 60,000; Depreciation on Plant—₹ 4,000.]

9. X keeps his books by a single-entry system. He gives the following information from which you are required to ascertain his profit or loss during the year 31st March, 2023:

	31st March, 2022 ₹	31st March, 2023 ₹
Bank balance	12,000	15,000
Cash in hand	1,000	1,200
Sundry Debtors	51,000	62,000
Sundry Creditors	11,000	15,000
Stock	17,000	19,000
Plant	50,000	1,00,000
Furniture	25,000	45,000

X had withdrawn ₹ 2,500 per month during the year but has introduced additional Capital of ₹ 20,000. A provision of 5% on Sundry debtors was necessary. Depreciation on plant was written off 10%. Interest on Capital to be allowed @ 5% per annum.

[*Opening Capital—₹ 1,45,000; Closing Capital—₹ 2,27,200; Net Profit—₹ 71,850.*]

[**Hint:** Net Profit = ₹ 2,27,200 (Closing Capital) + ₹ 30,000 (Drawings) – ₹ 1,45,000 (Opening Capital) – ₹ 20,000 (Additional Capital) – ₹ 3,100 (Provision on Debtors) – ₹ 10,000 (Depreciation) – ₹ 7,250 (Interest on Capital)
= ₹ 71,850.]

10. *X*, who keeps his books on Single Entry System, tells you that his capital on 31st March, 2023 is ₹ 18,700 and his capital on 1st April, 2022 was ₹ 19,200. He further informs you that during the year he withdrew for his household purposes ₹ 8,420. He once sold his investment of ₹ 2,000 at 2% premium and brought that money into the business.

    You are required to prepare a Statement of Profit or Loss. [*Profit for the year—₹ 5,880.*]

11. Mr. Abdul started a business on 1st April, 2022 with a capital of ₹ 20,000. Finding it inadequate, he brought in fresh capital of ₹ 4,000 on 1st May, 2022. On 31st March, 2023, his assets were:

	₹
Furniture	5,000
Stock	17,000
Sundry Debtors	7,400
Cash at Bank	2,400
Cash in Hand	600

Sundry Creditors at this date totalled ₹ 9,600. He found that he had withdrawn ₹ 7,600 to meet his household expenses.

Ascertain the profits earned by him during the year. [*Profit—₹ 6,400.*]