

ACCOUNTING FOR MANAGERS

BBA Semester -II

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BBA: Accounting for Managers

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FOREWORD

Since its establishment in 1976, Acharya Nagarjuna University has been forging ahead in the path of progress and dynamism, offering a variety of courses and research contributions. I am extremely happy that by gaining 'A' grade from the NAAC in the year 2016, Acharya Nagarjuna University is offering educational opportunities at the UG, PG levels apart from research degrees to students from over 443 affiliated colleges spread over the two districts of Guntur and Prakasam.

The University has also started the Centre for Distance Education in 2003-04 with the aim of taking higher education to the door step of all the sectors of the society. The centre will be a great help to those who cannot join in colleges, those who cannot afford the exorbitant fees as regular students, and even to housewives desirous of pursuing higher studies. Acharya Nagarjuna University has started offering B.A., and B.Com courses at the Degree level and M.A., M.Com., M.Sc., M.B.A., and L.L.M., courses at the PG level from the academic year 2003-2004 onwards.

To facilitate easier understanding by students studying through the distance mode, these self-instruction materials have been prepared by eminent and experienced teachers. The lessons have been drafted with great care and expertise in the stipulated time by these teachers. Constructive ideas and scholarly suggestions are welcome from students and teachers involved respectively. Such ideas will be incorporated for the greater efficacy of this distance mode of education. For clarification of doubts and feedback, weekly classes and contact classes will be arranged at the UG and PG levels respectively.

It is my aim that students getting higher education through the Centre for Distance Education should improve their qualification, have better employment opportunities and in turn be part of country's progress. It is my fond desire that in the years to come, the Centre for Distance Education will go from strength to strength in the form of new courses and by catering to larger number of people. My congratulations to all the Directors, Academic Coordinators, Editors and Lesson-writers of the Centre who have helped in these endeavours.

*Prof. P. Raja Sekhar
Vice-Chancellor (FAC)
Acharya Nagarjuna University*

I YEAR BBA SEMESTER-II

Paper title: Accounting for Managers

Type of Course

Financial Accounting objectives: The subject of Financial Accounting includes basic concepts underlying the accounting practices and its techniques with special reference to Sole-proprietorship, Trading and Non-Trading Concerns. The syllabus also includes computerized accounting using the software TALLY.

Unit-I - introduction for Accounting

Need for Accounting -Definition-Objectives. Advantages - Book keeping and Accounting- Accounting concepts and conventions - Accounting Cycle - Classification of Accounts and its rules - Double Entry Book-keeping - Journalization - Posting to ledgers Balancing of ledger Accounts (problems). Difference between manual accounts and computerized accounts

Unit-II: Subsidiary Books

Types of subsidiary books - Cash Book, Three-column cash Book- petty cash Book (problems).

Unit-III Bank Reconciliation Statement:

Need for bank reconciliation - Reasons for difference between Cash Book and Pass Book Balances Preparation of Bank Reconciliation Statement- Problems on both favorable and unfavorable balance.

Unit -IV: Trial Balance and Final Accounts: Preparation of Trail balance -Preparation of final Accounts : Trading account - Profit and Loss account - Balance Sheet - Final Accounts with adjustments (Problems).

Unit-V: Issue of shares and Debentures: Shares - meaning -types -types of share capital- Issue of shares-forfeiture of shares –reissue of forfeiture shares. Debentures-meaning-types-various methods of issue of debentures.

Text Books Reference Books: 1. Accounting for Managers - J. Made Gowda - Himalaya Publishing House 2. Introduction to Accountancy T. S. Grewal & S. C. Gupta S. Chand 8th Edition 3. Modern Accountancy - Hanif Mukerji -TMH 4. Financial Accounting by Dr. Kaustubh Sontake – 1st Edition - Himalaya Publishing House

B.B.A DEGREE EXAMINATION, NOVEMBER 2021

First Year - Second Semester

Part II : B.BA.

Paper-II – ACCOUNTING FOR MANAGERS

Time : Three hours

Maximum : 70 marks

(SECTION A – (5 X 4 = 20 marks).

Write short answer for any FIVE of the following .

Each question carries 5 marks.

1. What is the need of accounting?
2. Write the purpose of Double Entry system.
3. Write a note on purchase returns book.
4. Write about the need of subsidiary books
5. Write the need for Bank Reconciliation.
6. Write about favorable and unfavorable balances.
7. What do you mean by Trial Balances.
8. Write about the debentures.

(SECTION B – (5 X 10 = 50 marks).

Answer the following question.

Each question carries ten marks.

9. (a) Explain the classification of accounts and its rules

Or

- (b) Journalize the following transactions.

- (i) Started business with cash Rs.45,000
- (ii) Paid into bank Rs. 25,000
- (iii) Goods purchased for cash Rs. 15,000
- (iv) Sold goods for cash 8,500
- (v) Paid for stationary Rs. 200

10. (a) Distinguish between cash discount and Trade discount.

Or

- (b) Mr. Hussain starts business with Rs 15,000 on the 20th January 2002. If this he pays Rs. 10,000 into his bank account. His transactions during the month were as follows:

| 2002 Jan | | Rs. |
|----------|--|-----|
| 21 | Purchased office table and chairs for cash | 500 |
| 24 | Sold goods for cash | 950 |
| 25 | Paid for sign board | 225 |
| 28 | Paid auto charges | 10 |
| 30 | Paid wages | 150 |

Compute the cash book of Mr.Hussain

11. (a) Explain the reasons for differences between cash book and pass book balances.

Or

(b) On 31.3.2002 the cash book of a firm showed a bank balance of Rs. 3000. From the following information prepare a Bank reconciliation statements, showing the balance as per pass book.

(i) Cheque have been issued for Rs.2,500 out of which cheques worth Rs 2,000 only were presented for payment.

(ii) Cheques worth Rs. 700 were deposited on 28th March but had not been credited by the bank. One cheque for Rs. 250 was entered in the cash book on 30th March. But was banked as 3rd April, 2002.

(iii)A cheque form Mohan for Rs. 200 was paid in on 26th March, but was dishonored and the advise was received on 2nd April, 2002.

(iv)Pass book showed bank charges Rs. 10 detailed by the bank. It also showed Rs. 400 collected by the bank as interest.

(v) One of the debtors deposited a sum of Rs. 250 I the account of the firm on 20th March. Intimation in this respect was received from the bank on 2nd April 2002.

12. (a) What is the differences between Gross profit and Net profit?

Or

(b) the following balances extracted of the close of the year ended, 31st March 2002, Prepare profits and loss account as at that date:

| | |
|------------------------------|--------|
| Gross profit | 51,000 |
| Carriage outward | 2,500 |
| Salaries | 5,500 |
| Rent | 4,100 |
| Fire insurance premium | 900 |
| Bad debts | 2,100 |
| Discount (Dr.) | 500 |
| Apprentice Premium (Cr.) | 1,500 |
| Printing and Stationary | 250 |
| Rates and taxes | 350 |
| Travelling expenses | 200 |
| Sundry trade expenses | 300 |
| Rent received on sub setting | 1,000 |

13. (a) Explain various type of share capital.

Or

(b) Explain various methods of issue of debentures.

ACCOUNTING FOR MANAGERS

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LESSON - 1A**ACCOUNTING, INTRODUCTION**

1A.0 Objectives : After going through this lesson the student will know, what is Accountancy? what is the need for recording the business transactions in the books ? What is the difference between book keeping and Accountancy ? What are the things which should be bear in mind while recording business transaction in the books.

Structure :

- 1.1 Introduction to Accountancy, Scope.
- 1.2 Definition.
- 1.3 Need for Accountancy
- 1.4 Accountancy Functions
- 1.5 Book keeping - Accounting
- 1.6 Objects of Accountancy
- 1.7 Advantages, limitations of Accountancy.
- 1.8 Accounting process.
- 1.9 Branches of Accounting.
- 1.10 Concepts of Accounting.
- 1.11 Conventions of Accounting.
- 1.12 Summary.
- 1.13 Self Assessment Questions.
- 1.14 Suggested Readings

1.1 Introduction to Accountancy - Scope

Accounting is as old as money itself. In the early days, the number of transactions to be recorded were so small then each business man was able to record and check for himself all his transactions. The modern system of accounting based on the principles of Double Entry system owes its origin to luco pacio who first published the principles of Double Entry system in 1494 at VENICE in Italy.

In the recent years large scale production, cut throat competition, widening of the market and changes in the technology have brought remarkable changes in the field of accounting.

A business consists of a series of transactions. These business transactions are to be identified, classified, recorded, summarised, analysed, interpreted and communicated to interested parties so as to serve as a basis for decision marking. In fact, modern accounting serves as the “eyes and ears” of the management.

The main purpose of accounting is to ascertain profit or loss during a specified period to show financial condition of the business on a particular date and to have control over the firms property. Such accounting records are required to be maintained to measure the income of the business and communicate the information so it may be used by managers, owners and other parties.

1.2 Definition :

Different people have defined Accountancy in different ways by going through these we can understand the nature of Accountancy.

The American institute of certified public Accounting has defined financial accounting as “the art of recording, classifying and summarising in a significant manner and in terms of money transactions and events which in part, at least of a financial character and interpreting the results thereof”

American Accounting Association defines accounting as “ the process of identifying, measuring and communicating economic information to permit informed judgements and decisions by users of the information”

Accountancy is the science of recording and classifying business transactions and events primarily of a financial character and the art of making significant summaries, analysis and interpretations of those transactions and events and communication of the results to persons who must make decisions or form judgements (Smith & Ashbuns).

1.3 Need for Accounting :

It is not possible to any human being to remember all business transactions which have taken place in business - that too, over a period of time say in an year. Even if some one does really remember all the transactions, he would find it impossible to calculate the net effect of all such transactions. Hence the need for accounting is raised.

What ever may be the size of organisation whether it is a sole trading concern, partnership or joint stock company it would like to have information about

1. The nature and amount of expenditure,
2. The nature, source, cause and amount of earnings,
3. The amount and cause of losses, if any
4. The size of capital and causes for its increase or decrease,
5. The nature and value of assets possessed, and
6. The nature and value of liabilities.

Further, the business requires various types of information for both external and internal use. For example information is required for filing sales tax, income tax and other tax returns and for preparing statements for decisions to be taken by managers. The question is how to get this information. A systematic accounting record is the only answer. Thus, the need for accounting arises on account of practical needs and sometimes legal requirements.

1.4 Functions of Accounts :

1. **Recording** : Business transactions are analysed in such a way that it may be possible to determine profit or loss made by the business and its financial condition of a specified date. Business transactions may relate to the receipt and payment of cash, purchase or sale of goods on credit, incurring an expense or receiving an income.

2. **Classification** : Classification is the second function of accountancy.
The transactions recorded in journal should be classified and the transactions of one nature should be Placed at one place which we call as ledger.
For example : All purchases of goods placed into purchases A/C, payment of salaries to salaries A/C etc.
3. **Summarising** : The classified data should be summarised at least periodically, into a significant form.
4. **Analysing** : The summarised financial statements profit and loss account, balance sheet, statement of changes are analysed with the help of statistical tools such as averages, percentages, ratio, rates etc.
5. **Interpreting** : The information in financial statements, are interpreted in terms of set standards and conventions. Interpreting the results of accounting information involves communicating and explaining the information to interested parties and decision makers like owners, creditors, investors, government and management.

1.5 Book Keeping and Accounting :

It is necessary to distinguish between book - keeping and accounting. Actually the two are very closely related and there is no universally accepted line of discrimination. Generally book - keeping involves the chronological recording of financial transactions in a systematic manner. According to Northcott "book Keeping is an art of recording in books of accounts the monetary aspect of commercial or financial transaction"

According to G.A. Lee the Accounting system has two branches : 1. The making of routine records from day - to - day in the prescribed form and according to set rules of all events which affect the financial state of the organisation and 2. The summarising of the information contained in the records, its presentation in significant form to interested parties and its interpretation as an aid to decision-making by these parties. Branch 1. Is called book - keeping and branch 2. Is accounting.

Book - keeping is the record making phase of accounting. The recording of transactions tends to be routine, repetitive and mechanical. It is a part of accounting. Accounting includes, book - keeping, preparation of financial statements, audits, cost studies, preparation of budgets, income - tax and other taxation work, analysis and interpretation of accounting information; as an aid to decision making.

1.6 Objects of Accounting :

According to American Accounting association the objectives of accounting are to provide information for the following purposes.

1. Making decisions concerning the use or limited resources including identification of crucial decision areas and determination of objectives and goals.
2. Effectively directing the controlling of an organisation's human and materials resources.
3. Maintaining and reporting on the custodian-ship of resources.
4. Facilitating social Functions and control.

1.7 Advantages and limitations of Accounting :

The following are the advantages of a properly maintained accounting system

1. The operating results i.e.. profit or loss and the financial state of affairs of an organisation can be known.
2. Any information required at any time can readily be had from the books of account.
3. With the help of financial statements an organization can evaluate its present performance with that in the past, and compare it with that of other organisations
4. Accounts form the basis for the settlement of tax liability such as income tax, sales tax etc.
5. In the events of the business being sold, the accounts are helpful in ascertaining the value of the business.
6. Accounting is an aid to the management. It is possible to find out exact reasons for the loss incurred or profit earned. The identification of reasons help the management in taking necessary steps to avoid losses or to further increase profits.
7. The financial information provided by the accounting system is needed to help the management in planning and controlling the activities with the help of budgets.

Limitations :

The following are the main limitations of accounting.

1. Accounting records only those transactions which can be measured in monetary terms.
2. Accounting transactions are recorded at cost in the books. The effect of price level changes is not brought into the books, with the result that comparison of the various years becomes difficult. For example the sale price of total assets in 2007 would be much higher than in 1980 due to rising prices, fixed assets being shown to cost and not at market price.
3. Accounting information may not be realist i.e. as accounting statements are prepared by following basic concepts and conventions.
4. Accounting statements are influenced by the personal judgement of the accountant. The method of depreciation, valuation of stock, treatment of deferred revenue expenditure is decided by the accountant. Such judgement if based on integrity will definitely affect the preparation of accounting statements.

1.8 Accounting process :

The accounting process begins when a financial transaction takes place. Transaction is recorded first in a book called 'Journal' and later posted in separate accounts maintained for the purpose in a ledger. At the end of the accounting year whether actual figures are entered accurately or not in the accounts is tested by preparing a 'trail balance' with the help of this trial balance and other information 'final accounts' are prepared to find out the financial result of the operations whether profit or loss and the financial position, assets and liabilities. In the subsequent year the accounting books are opened with the previous year's closing balances. The process thus repeats itself like a cycle.

1.9 Branches of Accounting :

The accounting can be classified into the following categories.

1. Financial Accounting
2. Cost Accounting
3. Management Accounting
4. Inflation Accounting
5. Human resources Development Accounting

1.10. Concepts of Accounting :

Accounting is the language of business. To make the language convey the same meaning to all people, accountants all over the world have developed certain rules, procedure and conventions.

Accounting concepts may be considered as basic assumptions or conditions upon which the science of accounting is based. They are as follows.

1. Business Entity Concept : This concept implies that a business unit is separate and distinct from the persons who supply capital to it. Accounting system gives the information about business only. The entity concept regards the proprietor of the business as just a creditor having a claim over the assets of the business. The accounting equation i.e, $\text{Assets} = \text{liabilities} + \text{capital}$ is an expression of the entity concept. In case this concept is not followed affairs of the business will be mixed up with the private affairs of the proprietor and the true picture of the business will not be available.

2. Going concern concept : According to this concept it is assumed that business entity will go on for ever. Transactions are recorded in the books keeping in view the going concern aspect of the business unit. This assumption provides much of the justification for recording fixed assets at original cost without reference to their current realisable value. Similarly the going concern concept supports the treatment of prepaid expenses as assets even though they may be unsaleable. Prepaid expenses are made assets on the assumption that the business entity will continue in future and the benefit of prepaid expenses will be utilised in future.

3. Money measurement concept : Money is the only practical unit of measurement that can be employed to achieve homogeneity of financial data. The advantage of expressing business transactions in terms of money is that money serves a common denominator by means of which heterogeneous facts about a business can be expressed in terms of numbers, i.e. money, which are capable of additions and subtractions.

The money measurement concept restricts the scope of accounting because it is not capable of recording transactions which cannot be expressed in terms of money. For example : if there is a strike in the factory or the production manager is not in good terms with the sales manager, as these can not be measured in money terms. Accounting therefore can not record them. Similarly it does not take care of the effects of inflation because it assumes a stability of the money measurement unit.

Cost Concept : All assets are recorded in the books at the price paid to acquire it. Its value

is systematically reduced by charging depreciation. The market value of an asset may change with the passage of time but for accounting purpose it continues to be shown in the books at its book value i.e. the cost at which it was purchased minus depreciation provided up to date. The cost concept has the advantage of bringing objectivity in the accounts. Information given in the financial statements is not influenced by the personal bias or judgement of those who furnish such statements.

Dual Aspect Concept :

This is the basic concept of accounting. According to this concept every financial transaction involves a two - fold aspect. 1) Yielding of a benefit and 2) Giving of that benefit. For example, if a business has acquired an asset, it must have given up some other asset such as cash. There must be a double entry to have a complete record of each business transaction, an entry being made in the receiving account and an entry of the same amount in the giving account. The receiving account is termed as debtor and the giving account is called creditor. Thus every debit must have a corresponding credit and vice versa and upon this dual aspect has been raised the whole superstructure of Double Entry System of Accounting. The Accounting Equation is based on dual aspect concept.

$$\text{Assets} = \text{Liabilities} + \text{Capital}$$

Accounting equation demonstrates the fact that for every debit there is an equivalent credit.

Accounting period Concept : Even though it is assumed that the business will continue for a long period, almost indefinitely; the businessman cannot postpone the ascertainment of its profit and financial position indefinitely. So it is reasonable to divide the life of the business into accounting periods so as to be able to know the profit or loss of each such period and the financial position at the end of such a period. Normally accounting period adopted is one year. However for internal purposes accounts can be prepared even for shorter periods.

The principle of segregating capital expenditure from revenue expenditure is based on the accounting period concept. The revenue expenditure for a particular period is transferred to the P & L A/c of that period whereas capital expenditure is carried forward to the extent to which its benefit extends in future accounting periods.

Realisation Concept : According to this concept, revenue is considered as being earned on the date at which it is realised, Take into account realised profit but do not take into account unrealised profit is the summary of this concept

1.11. Conventions of Accounting :

The term conventions denotes customs or traditions which guide the accountant while preparing the accounting statements the following are the important accounting conventions.

1. Convention of Consistency
2. Convention of full disclosure
3. Convention of conservation
4. Convention of Materiality.

Convention of Consistency : Accounting rules, practices and conventions should be

continuously observed. The results of different years will be comparable only when accounting rules are continuously adhered from year to year. For example the principle of "valuing stock at cost or market price whichever is lower should be followed year after year to get comparable results.

Convention of full Disclosure : According to this convention all accounting statements should be honestly prepared and all significant information should be made. All information which is of material interest to proprietors, creditors and investors should be disclosed in accounting statements. The convention is becoming popular these days because most of big business units are in the form of joint stock companies here ownership is diverse from management. The Companies Act 1956 makes simple provisions for the disclosure of essential information that there is no change of any material information being left out.

Convention of conservatism : Conservatism means taking the gloomy view of a situation. It compels the business man to take all precautions for risks of future. It says anticipate no profits but provide for all possible losses. For ex. closing stock is valued at cost or market price whichever is lower. If market price is higher than the cost the higher amount is ignored in accounts and closing stock will be valued at cost which is lower than the market price and vice versa.

Thus the principle of conservation is inherent in the valuation of stock.

Convention of Materiality : Whether something should be disclosed or not in the financial statements will depend on whether it is material or not. Materiality depends on the amount involved in the transaction. For ex. Minor expenditure of Rs 10 for the purchase of a waste basket may be treated as an expense of the period rather than an asset.

The term materiality is a subjective term. The accountant should record an item as material even though it is of small amount if its knowledge seems to influence the decision of the proprietors or auditors or investors.

Parties interested in Accounting information :

Accounting information is useful to various parties. They are :

1. Owners : Owners assume the primary risk of business by investing their funds in it. Naturally they are interested in obtaining information about the operations of their business how much profit it earned and what is the position of their capital. They also use the accounting to evaluate the management's performance and to compare their enterprise with others.

Managers : Accounting reports are important to managers for basing their decisions or for evaluation, the result of their decisions or for controlling the activities of the business. In addition to external financial statements managers need detailed internal reports, production wise, sales wise etc. Accounting reports for managers are prepared much more frequently than external reports and are usually available only for internal purposes.

Creditors and Bankers : Creditors and Bankers want to know the solvency of the concern so as to satisfy themselves that their money will be safe and that they can expect repayment in time.

Prospective Investors : Prospective investors who want to invest their money in the firm want to make a careful analysis of the financial statements of that business so as to know how safe and rewarding the proposed investments will be.

Employees : The employees of large organisation are interested in the results of their organisation operations. They use the accounting data to know whether they are getting a fair share of the resources distributed by the organisation.

Governments : Numerous governmental agencies, both state and central are interesting in the accounts of concerns for the purpose of collecting taxes, for exercising control, for granting licenses or loans, for determining whether welfare measures and social security benefits to their employees are observed or not etc.

Financial analysts : Many investment decisions are made on the advice of financial analysts who are experts in analysing accounting reports.

Researchers : Financial statements are of immense use to research scholars who want to make a study of financial operations.

Consumers : Consumers do too, are interested in knowing about the concern's pricing policy, quality of goods etc.

1.12. Summary :

Business is a bundle or a series of transactions. The effects of these transactions must be brought into books of accounts and summarised so as to find out the result of the operations and the financial state of affairs of the business. Accounting involves different types of work like identifying the transactions, measures in terms of money, classifying according to their nature and recording in the books of accounts. These recorded transactions are summarised periodically in the form of financial statements, and analysing them with the help of statistical tools, Interpreting according to conventions and communicating to the interested parties in the form of reports.

1.13. Self Assessment Questions

1. What are the functions of the Accountancy ?
2. Write about the Accounting concepts.
3. Comment on the following.
 - a) Realisation concept
 - b) Consistency and conservatism of Accounting.
4. What is the difference between Accounting and Book keeping ?
5. Discuss Money measurement concept and material concept as applied in Financial Accounting.
6. What are different branches of accounting ?
7. Define Accounting state its functions and branches. How is it different from book - keeping.
8. Explain accounting, principles briefly.
9. Limitations of Accounting.

10. Define Accountancy.
11. Scope of Accounting.
12. What is accounting process ?
13. Write about the accounting conventions.

1.14 SUGGESTED READINGS :

| | | |
|------------------------------|----------|------------------------------------|
| Financial Accountancy | : | Shukla Grewal |
| Financial Accountancy | : | Jain and Narang |
| Financial Accountancy | : | R.L. Gupta & V.K. Gupta |

- Dr. Ch. Suravinda

LESSON - 1 B**DOUBLE ENTRY SYSTEM****1. b.0. Objects :**

By going through this lesson the student can know about Single entry system, Double entry system, Accounts and its classification structure.

structure

1.b.1 Single entry system

1.b.2 Limitation of single entry

1.b.3 Double entry system.

1.b.4 Accounts & its classification

1.b.5 Advantages of Double entry system

1.b.6 Difference between single entry system and Double entry system.

1.b.7 Summary.

1.b.8 Questions.

1.b.9 Suggested Readings

Business transactions can be recorded in the books in two methods. 1. Single entry system.
2. Double entry system

1.b.1 Single entry system

Single entry means that it is a method of maintaining accounts which does not exactly follow the principles of double entry system. It does not mean that there is one entry for each transaction. But it simply means that principles of the double entry system are not being followed for all transactions. Under this method usually the personal accounts of the debtors and creditors are kept and impersonal accounts - real and nominal accounts may not be maintained in the books. Single entry is not any particular system of accounting but rather, the double entry system in an incomplete and disjointed form.

1.b.2. limitation of single entry system :

Following are the limitations of single entry.

1. It is not a scientific method of accounting because it does not record the two - fold aspect of each transaction.
2. No trial balance can be prepared as it does not record the dual aspect of each transaction so the arithmetical accuracy of the books cannot be checked.
3. In the absence of nominal accounts, trading and profit and loss account cannot be prepared.
4. In the absence of real accounts, it is not possible to know the exact financial position of the business on any particular day by preparing a balance sheet.

5. Internal check is not possible so the possibility of Fraud or misappropriation is greater in case of single entry than in the case of double entry system.
6. Accounts prepared on the basis of the single entry do not inspire confidence in outsiders owing to the lack of any test for their arithmetical accuracy. So, information obtained from accounts maintained on the basis of the single entry will be taken with doubt.
7. It is difficult to ascertain the value of the business specially of goodwill if the proprietor wishes to sell his business.

Double Entry System :

We have seen earlier that every business transaction has two aspects i.e when we receive something we give something else in return For example when we purchase goods for cash we receive goods and give cash in return ; similarly in credit sale of goods, goods are given to the customer and the customer becomes debtor for the amount of goods sold to him. This method of writing every transaction in two accounts is known as double entry system of Accounting one account is given debit while the other account is given credit with equal amount. Thus, on any date, the total of all debits must be equal to the total of all credits because every debit has a corresponding credit.

An account is a summarised record of transactions relating to particular person or thing. Accounts are classified as personal Accounts and impersonal Accounts. Impersonal Accounts are further classified as real Accounts and Nominal Accounts.

1. **Personal Accounts :** Accounts which relate to persons, both natural and artificial are called personal Accounts. They show dealings with persons. A separate account is maintained for each person. For example, Ganesh Account, Andhra Bank Account etc.
2. **Real Accounts :** Accounts which show dealing in assets or properties are called 'Real Account'. A separate account is kept for each property some examples are Machinery Account, Furniture account, cash Account etc. They are called 'real' accounts and they represent things of value owned by the business.
3. **Nominal Accounts :** Nominal Accounts record expenses, losses and incomes. Separate accounts are maintained for each item of expenses or incomes. example, salaries, wages, Rent etc. They are called 'Nominal' accounts because they are accounts only for names sake.

Rules of the Double Entry system :

There are separate rules of the double entry system in respect of personal, real and nominal accounts which are discussed below.

1. Personal Accounts :

As we have already seen these accounts record a business dealings with persons or firms. The person receiving something is given credit. For example if Anil sells goods to Ajay on credit Ajay Account will be given debit (in Anil books) as he is the receiver of goods and Anil's Account will be credited (in Ajay books) as he is the giver of goods. When Ajay makes the payment for these goods Anil's Account will be debited in Ajay's books as he is the receiver of cash and Ajay's Account will be given credit in Anil's books as he is the giver of cash. So the rule is Debit the receiver and credit the giver.

| Transaction | Two Accounts Involved | Classification of Accounts | Rule of Account Debit & Credit | Account Debited Rs. | Account Credited Rs. |
|--------------------------------------|-----------------------|----------------------------|--|---------------------|----------------------|
| 1. Started business with Rs.1,00,000 | Cash capital | Real personal | Debit What comes in Credit the giver | Cash | Capital |
| 2. Purchased Furniture for Rs 20,000 | Furniture Cash | Real Real | Debit what come in Credit what goes out | Cash | Furniture |
| 3. Paid Salaries Rs.3,000 | Salaries Cash | Nominal Real | Debit the expenses Credit what goes out | Cash | salary |
| 4. Commission Received Rs.2,000 | Commission Cash | Normal Real | Credit the incomes Debit what comes in | Cash | Commission |
| 5. Goods purchased Rs.20,000 | goods cash | Real Real | Debit what come in Credit what goes out | goods | cash |
| 6. Sold goods to Rao Rs.10,000 | Rao goods | Personal Real | Debit the receiver credit what goes out | Rao | goods |

Advantage of Double Entry system :

The following are the advantages of Double entry system.

1. It provides a complete record of every transaction.
2. It provides an arithmetical check on the records as the total of debit entries must be equal to the total of credit entries.
3. The amount due to the concern and amount due by the concern to outsiders can be as certain by the personal accounts.
4. With the help of nominal accounts profit and loss account can be prepared for ascertaining the profit, or loss of the concern in a particular year.
5. With the help of real accounts, Balance sheet can be prepared for knowing the financial state of affairs of the concern on the closing day of the year.
6. The scope for committing errors and frauds can be reduced to minimum level.

Difference between single entry system and Double Entry system :

The following are the main differences.

| Single entry | Double entry |
|--|---|
| 1. It is an incomplete and unscientific method of recording business transactions. | 1. It is a complete and scientific method of recording business transactions. |
| 2. Only personal accounts are prepared. | 2. All accounts, personal real and nominal accounts are prepared. |
| 3. It is not a reliable system of accounting | 3. It is a reliable system of accounting |
| 4. Trial balance cannot be prepared for checking the arithmetical accuracy | 4. Trial balance can be prepared |
| 5. Profit & loss account and balance sheet can not be prepared under this system. | 5. Profit & loss account and Balance sheet can be prepared under this system. |

1.b.7. Summary :

Business transactions can be recorded in the books in two methods. 1) Single entry, which is an incomplete and unscientific method of accounting. 2) Double entry system is a systematic way of recording business transactions. Total accounting system has classified into two groups, one is personal accounts, other is impersonal accounts which is again divided into real and nominal accounts. There are three different principles to record transactions in these accounts.

1.b.8. Self Assessment Questions :

1. Write down Double entry system of book-keeping and its advantages.
2. How can you classify the accounts ? Write down the rules of debit and credit.
3. What is single entry system ? What are its limitations ?

1.B.9 SUGGESTED READINGS :

| | | |
|------------------------------|----------|------------------------------------|
| Financial Accountancy | : | Shukla Grewal |
| Financial Accountancy | : | Jain and Narang |
| Financial Accountancy | : | R.L. Gupta & V.K. Gupta |

- Dr. Ch. Suravinda

LESSON - 2

JOURNAL

2.0 Objects : After going through this lesson the student can know how the business transactions are recorded in the journal and how the journal prepared.

Structure :

- 2.1. Journal
- 2.2. Business transactions.
- 2.3. Journal Entry.
- 2.4. Method of writing a Journal entry
- 2.5. Advantages of Journal.
- 2.6. Illustrations
- 2.7. Summary
- 2.8. Questions
- 2.9. Exercises
- 2.10 Suggested Readings

2.1. Journal :

Business transactions are recorded at first in the Journal. A transaction may be defined as a transfer of money, goods or services from one individual to an other. The term Journal is derived from the French word 'Jour' which means a day. Journal therefore, means a daily record of business transactions. Journal is a book of original entry because transaction is first written in the journal in Chronological order as they occur, from which it is posted to the ledger at the end of a week, fortnight or month. The process of recording in the 'Journal' is called 'Journalising' and the various entries made in the journal is called 'Journal Entries'.

If two or more transactions of the same nature occur on the same day then such transactions can be entered in the journal in the form of a combined journal entry instead of making a separate entry for each transaction. Such type of entry is known as a compound journal entry.

2.2. Business transactions :

Business transactions may be classified into two types 1. Cash transactions 2. Credit transactions

Cash transactions : If purchase of goods, sale of goods, expenses paid, Income received etc., are for cash then those transactions are known as cash transactions. In case of cash transactions one of the account effected will be cash Account and the other account which should be debited or credit will depends on the nature of the transaction for ex : Purchase of good from X for cash in this transaction personal account i.e. 'x' should not be taken, one account is cash and the other account is goods.

Credit transaction : If the payment is deferred for purchase of goods or sale of goods then it is known as credit transaction. In a transaction, name of the supplier or customer is given and it does not contain the word 'for cash' then it is a credit transaction. In case of credit transaction one of the accounts effected is personal account and the other will be decided depending upon the transaction. See the following examples. Goods purchased from Moorthy. Furniture sold to Madhu are credit transactions. If the transaction is goods purchased from Moorthy for cash then it is a cash transaction.

2.3. Journal Entry :

As we have already seen that every transaction of business at first, entered in the journal in the form of a journal entry. The ruling of the journal is as follows.

JOURNAL

| Date | Particulars | L.F. | Dr. Amount Rs | Cr Amount Rs. |
|------------|---|------|---------------------|---------------------|
| Year | Name of the Account to be debited Dr. | | | |
| Month/Date | To Name of the Account credited (Narration) | | | |

Column 1 (Date) The date of the transaction on which it takes place is written in this column. The year is written only in the first entry appearing on each page.

Column 2. (Particulars) In this column, the name of the account to be debited is written first with the word 'Dr'. In the next line, the account to be credited is written preceded by the word "To" leaving a few spaces away from the first line. Here we need not write the word 'Cr' because the word 'To' itself will indicate that the account is credited. An explanation of the entry known as "Narration" is also recorded below the line giving credit to the account.

Column 3 (L.F.) L.F. stands for ledger folio which means page of the ledger. In this column the page numbers on which the related account appears in the ledger is entered.

Column 4 (Dr. Amount) In the column, the amount to be debited against the 'Dr' account is written

Column 5 (Cr. Amount) In this column the amount to be credited against the 'Cr' account is written

2.4. Method of writing a Journal Entry :

1. Read the transaction carefully from the business entity point of view and determine the two accounts that are affected by the transaction.
2. Find out the class to which each account relates i.e. whether it is a personal account or a real account or a nominal account.
3. Now recollect the rules of debit and credit and apply the concerned rule to decide which account is to be debited and which to be credited.

This can be clearly understood with the following table

| Transactions | Two Accounts involved | Classification of Accounts | Rule of Debit Credit | Explanation | Account to be Debited | Account to be credited |
|--|-----------------------|----------------------------|-----------------------------|-------------------------------|-----------------------|----------------------------------|
| Started business with Rs.1,00,000 | Cash | Real | Debit what comes in | cash entered the business | Cash A/c | --- |
| | Capital | Personal | Credit the giver | | | Proprietor is giver of cash |
| Purchased Machine for Rs.10,000 | Machine | Real | Debit what comes in | Machine entered the business | Machine A/c | --- |
| | Cash | Real | Credit what goes out | | | Cash go out of business |
| goods purchased from Vasu on Credit Rs.5,000 | goods | Real | Debit what comes in | goods entered the business | Goods A/c | --- |
| | Vasu | Personal | Credit the giver | | | Vasu is giver of goods |
| Sold goods Rs.3,000 | Cash | Real | Debit what comes in | Cash entered the business | Cash A/c | --- |
| | goods | Real | Credit what goes out | | | goods go out of business |
| Paid salaries to staff Rs.5,000 | Salaries | Nominal | Debit the expenses & losses | Salaries are expenses | Salary A/c | --- |
| | Cash | Real | Credit what goes out | | | Cash goes out of business |
| Commission Received Rs.1,000 | Cash | Real | Debit what comes in | Cash comes into the business | Cash A/c | --- |
| | Commission | Nominal | Credit the incomes & gains | | | Commission received is an income |
| Sold goods to | Anil | Personal | Debit the receiver | Anil is the receiver of goods | Anil A/c | --- |
| | | | Credit what goes out | | | Goods go out of |

2.5 Advantages of Journal :

1. Journal is a self explanatory book. It explains all the business transactions.
2. As all the business transactions are entered in the chronological order of their occurrence, any transaction can be referred later easily if necessary.
3. In case of any conflict about a transaction, it act as a proof.
4. It acts as a base for the preparation of a ledger.
5. Through journal, the principle of double entry can be understood clearly with ease.

2.6 Illustrations :

Illustration I (Cash transactions)

Journalise the following transactions :

| | | Rs. |
|-------|----------------------------|----------|
| Jan.1 | Ajay started business with | 2,00,000 |
| Jan 2 | Furniture purchased for | 20,000 |
| Jan 3 | Purchased goods for | 50,000 |
| Jan 4 | Sold goods for | 30,000 |
| Jan 5 | Goods returned to supplier | 500 |
| Jan 6 | Goods returned by customer | 200 |
| Jan 7 | Salary paid | 2,000 |
| Jan 8 | Commission received | 1,000 |

| Date | Particulars Cr. | | L.F. Amount Rs. | Dr. Amount Rs. |
|------------|---|--|-----------------------|----------------------|
| Jan 1st | Cash Account Dr. To Ajay's capital Account (Being Ajay contributed Rs.2,00,000 as his capital) | | 2,00,000 | 2,00,000 |
| 2nd | Furniture Account Dr. To Cash Account (Being Furniture purchased for business) | | 20,000 | 20,000 |
| 3rd | Goods Account Dr To Cash Account (Being goods purchased for cash) | | 50,000 | 50,000 |
| 4th | Cash Account Dr To goods Account (Being goods sold for cash) | | 30,000 | 30,000 |

| | | | | |
|-----|--|----|-------|-------|
| 5th | Supplier's Account To Goods Account (Being goods returned to supplier) | Dr | 500 | 500 |
| 6th | Goods Account To customer's account (Being goods received from customers). | Dr | | |
| 7th | Salaries Account To cash account (Being salaries paid) | Dr | 2,000 | 2,000 |
| 8th | Cash account To Commission account (Being commission received) | Dr | 1,000 | 1,000 |

1. Illustration 2. (Credit transactions).

| | | Rs. |
|--------|---------------------------------------|--------|
| Feb 1. | Purchased Furniture from Pranav & Co. | 10,000 |
| Feb 2. | Sold goods to Pavan | 7,500 |
| Feb 3. | Bought typewriter from Godrej & Co. | 10,000 |
| Feb 4. | Bought goods from Akhil | 5,000 |
| Feb 5. | Sold goods to Nikhil on credit | 12,000 |
| Feb 6. | Bought goods from Sai on Credit | 15,000 |
| Feb 7. | Bought goods on account from Sobhan | 8,000 |
| Feb 8. | Sold goods on account to Nagesh | 6,500 |

Solution :

| Date | Particulars | L.F. | Dr. Amount Rs. | Cr. Amount Rs. |
|--------|---|------|----------------------|----------------------|
| Feb 1 | Furniture Accounts To Pranav & Co (Being Furniture purchased on credit) | | 10,000 | 10,000 |
| Feb 2. | Pavan Account To goods account (Being goods sold on credit) | | 7,500 | 7,500 |
| Feb 3. | Type writer Account To Godrej & Co (Being typewriter purchased on credit) | | 10,000 | 10,000 |
| Feb 4. | Goods Account To Akhil account (Being goods purchased from | | 5,000 | 5,000 |

| | | | | |
|--------|--|----|--------|--------|
| Feb 5. | Akhil on credit) Nikhil account | Dr | 12,000 | |
| | To goods account | | | 12,000 |
| Feb 6 | (Being goods sold on credit) Goods Account | Dr | 15,000 | |
| | To Sai account | | | 15,000 |
| Feb 7 | (Being goods purchased from Sai on credit) Goods Account | Dr | 8,000 | |
| | To Sobhan account | | | 8,000 |
| Feb 8 | (Being goods purchased from Sobhan on credit) Nagesh account | Dr | 6,500 | |
| | To goods account | | | 6,500 |
| | (Being goods sold on credit to Nagesh) | | | |

The student is advised to note the following points here,

1) When the name of the person is given in a transaction and when the word 'cash' does not appear, it is implied that it is a credit transaction. e.g. purchased furniture from P.N. Rao & Company Rs.5,000. At the same time when the name of the party does not appear it is always a cash transaction even if the word 'cash' is not mentioned in the transaction e.g. goods purchased Rs.10,000

In the illustrations given above 'goods account' is used while recording the dealings in 'goods' viz, purchases, sales, purchase returns and sale returns. In practice the 'goods account' is not maintained. Goods is valued at Market Price or cost Price which ever is less. We will discuss this principle later. Goods is divided into four accounts as, when we purchased goods, purchases account, when we sold goods sale account, when we return goods purchase returns account, when the customer return goods, sales returns account should be give affected instead of goods account.

Illustration 3. (Expenses and Incomes)

Journalise the following transactions :

| | | Rs. |
|-------|-------------------------------|--------|
| Dec 1 | Paid Salaries | 10,000 |
| Dec 2 | Paid Rent to landlord Raghava | 5,000 |
| Dec 3 | Paid commission | 1,000 |
| Dec 4 | Received Rent | 2,000 |
| Dec 5 | Received Commission | 1,500 |

Dec 6 Stationery purchased 1,000

Dec 7 Postage paid 100

| Date | Particulars | L.F. | Dr. Amount Rs. | Cr. Amount Rs. |
|-------|---|------|----------------------|----------------------|
| Dec 1 | Salaries Account Dr To Cash Account | | 10,000 | 10,000 |
| | (Being salaries paid) | | | |
| Dec 2 | Rent Account Dr To cash account | | 5,000 | 5,000 |
| | (Being Rent paid) | | | |
| Dec 3 | Commission paid Account Dr To cash account | | 1,000 | 1,000 |
| | (Being Commission paid) | | | |
| Dec 4 | Cash Account Dr To Rent Account | | 2,000 | 2,000 |
| | (Being Rent Received) | | | |
| Dec 5 | Cash Account Dr To Commission Received Account | | 1,500 | 1,500 |
| | (Being Commission received) | | | |
| Dec 6 | Stationery Account Dr To cash Account | | 1,000 | 1,000 |
| | (Being Stationery paid) | | | |
| Dec 7 | Postage Account Dr To cash Account (Being postage paid) | | 100 | 100 |

Here the student is advised to note that transactions relating to payments of expenses and receipts of incomes are recorded through the 'expense account' or the 'Income account' concerned and not through the account of the person involves, since no debtor/Creditor relationship is created. In the above example rent paid to Raghava.

In respect of certain items like rent, commission etc, where both payments and receipts take place, two separate accounts may be maintained one for recording payments and the other for receipts e.g. commission paid account and commission Received Account.

Illustration 4. (Transactions with the proprietor)
Enter the following transactions in the journal.

| | Rs. |
|---|----------|
| 1. Madhuri commenced business with a capital of | 1,00,000 |
| 2. She withdraw for his personal use | 5,000 |
| 3. She introduced additional capital | 50,000 |
| 4. She took goods for personal use | 1,000 |

| Date | Particulars | L.F. | Dr. Amount Rs. | Cr. Amount Rs. |
|------|--|------|----------------------|----------------------|
| 1. | Cash Account Dr <div style="text-align: right; padding-right: 20px;">To Capital Account</div> (Being the business started with the capital of Rs.1,00,000) | | 1,00,000 | 1,00,000 |
| 2. | Drawing Account Dr. <div style="text-align: right; padding-right: 20px;">To cash Account</div> (Being cash withdrawn for personal use). | | 5,000 | 5,000 |
| 3. | Cash account Dr <div style="text-align: right; padding-right: 20px;">To Capital Account</div> (Being additional capital introduced) | | 50,000 | 50,000 |
| 4. | Drawings Account Dr <div style="text-align: right; padding-right: 20px;">To Goods accounts</div> (Being goods withdrawn for Personal use) | | 1,000 | 1,000 |

We have seen how different types of business transactions are recorded through the Journal and shall now take up some comprehensive problems.

Illustration 5 :

Journalise the following transactions

| | Rs. |
|--------------------------------------|-----------|
| Jan1 Mr. rao commenced business with | 10,00,000 |
| Jan 1 Purchased Furniture | 50,000 |
| Jan 1 Deposited into Bank | 5,00,000 |
| Jan 2 Purchased goods | 50,000 |
| Jan 2 Postage paid | 1,000 |
| Jan 2 Stationery purchased | 2,000 |

| Date | | Particulars | L.F. | Dr. |
|-------|-----|--|---------------|---------------|
| | Cr. | | Amount Rs. | Amount Rs. |
| Jan 1 | | Cash Account Dr To Capital Account (Being capital introduced into business) | 10,00,000 | 10,00,000 |
| Jan 1 | | Furniture Account Dr To Cash Account (Being furniture purchased) | 50,000 | 50,000 |
| Jan 1 | | Bank Account Dr To Cash Account (Being cash deposited into Bank) | 5,00,000 | 5,00,000 |
| Jan 2 | | Purchases account Dr To Cash Account (Being postage paid) | 50,000 | 50,000 |
| Jan 2 | | Stationery Account Dr To Cash Account (Being stationery purchased) | 2,000 | 2,000 |
| Jan 2 | | Postage Account Dr To Cash account (Being postage paid) | 1,000 | 1,000 |
| Jan 3 | | Purchases Account Dr To Arun Account (Being goods purchased or credit) | 60,000 | 60,000 |
| Jan 3 | | Cash Account Dr To Sales Account (Being goods sold) | 20,000 | 20,000 |

| | | | | | |
|--------|--|----|--|--------|--------|
| Jan 4 | Commission Account To cash Account (Being commission paid) | Dr | | 500 | 500 |
| Jan 5 | Drawings account To Cash Account (Being cash withdrawn for personal use) | Dr | | 10,000 | 10,000 |
| Jan 6 | Type writer account To Cash Account (Being Type writer purchased) | Dr | | 5,000 | 5,000 |
| Jan 7 | Varun Account To Sales Account (Being goods sold to Varun) | Dr | | 70,000 | 70,000 |
| Jan 8 | Wages Account To Cash Account (Being wages paid) | Dr | | 10,000 | 10,000 |
| Jan 9 | Drawings Account To Purchases Account (Being goods taken for personal use) | Dr | | 2,000 | 2,000 |
| Jan 10 | Arun Account To Purchase returns A./c (Being goods returned to Arun) | Dr | | 1,000 | 1,000 |
| Jan 11 | Sales Returns Account To Varun Account (Being goods returned by Varun) | Dr | | 1,500 | 1,500 |
| Jan 12 | Motar Vehicle Account To T.V.S. & Co. (Being Motar Vehicle purchased on credit) | Dr | | 50,000 | 50,000 |

In a going concern the balances of the previous year, appearing in various accounts are brought forward at the beginning of the new accounting year by means of a journal entry known as opening entry to incorporate the previous balances in a new set of accounts. All the Assets Accounts are debited and liabilities Accounts are credited. The difference between the assets and liabilities is credited to capital account.

Illustration 5 (Opening entry)**Pass the opening entry in the books a trader.**

Jan 1, 2007

Debit balances : Cash Rs.80,000, Bank Balance 2,50,000

Stock Rs.2,00,000, Furniture Rs.14,000, Buildings Rs.5,00,000, Debtors Rs.40,000

Creditors Rs.50,000, Bill payable 40,000

Solution :

| Date | Particulars | L.F. | Dr. Amount Rs. | Cr. Amount Rs. |
|-------|--|------|----------------------|----------------------|
| Jan 1 | Cash Account Dr | | 80,000 | |
| | Bank Account Dr | | 2,50,000 | |
| | Stock Account Dr | | 2,00,000 | |
| | Furniture Account Dr | | 14,000 | |
| | Buildings Account Dr | | 5,00,000 | |
| | Debtors Account Dr | | 40,000 | |
| | To Creditors Account | | | 50,000 |
| | To Bills Payable Account | | | 40,000 |
| | To Capital Account | | | 9,94,000 |
| | (Balancing fig.) | | | |
| | (Being balances brought in from last year) | | | |

Illustration - 6**Journalise the following transactions in books of M/s Rohit & Co.**

Jan, 1-2007

Assets : Furniture Rs.50,000, Machinery Rs. 1,00,000,
 Stock Rs.40,000, Cash Rs.5,500 Bank Rs.75,000

| Liabilities : | Rs. |
|--|--------|
| Jan 1 Purchased goods from Amit | 45,000 |
| Jan 3 Sold goods | 15,000 |
| Jan 5 Paid Creditors by Cheque | 5,000 |
| Jan 10 Deposited into Bank | 28,000 |
| Jan 13 Sold goods to Ramvilas | 30,000 |
| Jan 15 Paid for postage | 1,000 |
| Jan 16 Received cash from Debtors | 5,000 |
| Jan 17 Paid telephone charges | 1,000 |
| Jan18 Cash sales | 15,000 |
| Jan19 Purchased goods | 20,000 |
| Jan 20 Bought goods from Arun for cash | 30,000 |
| Jan 21 Goods returned to Amit | 1,000 |

| | | | |
|--------|---|--------|-------|
| Jan 22 | goods returned by Arun | 500 | |
| Jan 23 | Travelling expenses paid | 1,000 | |
| Jan 24 | Old Furniture sold (book value is Rs.6,000) | 5,000 | |
| Jan 31 | Paid Salaries | 10,000 | |
| | Wages | | 5,000 |
| | Rent | 4,000 | |

In the books of M/s. Rohit & Co
Journal

| Date | Particulars | L.F. | Dr. Amount Rs. | Cr. Amount Rs. |
|--------|--|------|----------------------|----------------------|
| 2007 | | | | |
| Jan 1 | Furniture Account Dr | | 50,000 | |
| | Machinery Account Dr | | 1,00,000 | |
| | Stock Account Dr | | 40,000 | |
| | Cash Account Dr | | 5,500 | |
| | Bank Account Dr | | 75,000 | |
| | Debtors Account Dr | | 30,000 | |
| | To Creditors Account | | | 80,000 |
| | To Capital Account | | | 2,20,500 |
| | (Balancing figure) | | | |
| | (Being Assets and liabilities brought forward from last year) | | | |
| Jun 1 | Purchases account Dr | | 45,000 | |
| | To Amit Account | | | 45,000 |
| | (Being goods purchased from Amit) | | | |
| Jun 3 | Cash Account Dr | | 15,000 | |
| | To Sales Account | | | 15,000 |
| | (Being goods sold for cash) | | | |
| Jun 5 | Creditors Account Dr | | 5,000 | |
| | To Bank Account | | | 5,000 |
| Jun 10 | Bank Account Dr | | 28,000 | |
| | To Cash Account | | | 28,000 |
| | (Being Cash deposited into Bank) | | | |
| Jun 13 | Ram vilas Account Dr | | 30,000 | |
| | To Sales Account | | | 30,000 |
| | (Being goods sold on Credit) | | | |

| | | | | | |
|---------|--|----|--|--------|--------|
| Jun 15 | Postage Account | Dr | | 1,000 | |
| | To Cash Account | | | | 1,000 |
| | (Being Postage paid) | | | | |
| Jun 16 | Cash Account | Dr | | 5,000 | |
| | To Debtors Account | | | | 5,000 |
| | (Being cash received from Debtors) | | | | |
| Jun 17 | Telephone charges Account | Dr | | 1,000 | |
| | To Cash Account | | | | 1,000 |
| | (Being Telephone Charges paid) | | | | |
| Jun 18 | Cash Account | Dr | | 15,000 | |
| | To Sales Account | | | | 15,000 |
| | (Being Cash Sales) | | | | |
| Jun 19 | Purchases Account | Dr | | 20,000 | |
| | To Cash Account | | | | 20,000 |
| | (Being goods purchased) | | | | |
| Jun 20 | Purchases Account | Dr | | 30,000 | |
| | To Cash Account | | | | 30,000 |
| | (Being goods purchased for cash) | | | | |
| Jun 21 | Amit Account | Dr | | 1,000 | |
| | To purchase returns account | | | | 1,000 |
| | (Being goods returned to Amit) | | | | |
| June 22 | Sales returns Account | Dr | | 500 | |
| | To Arun Account | | | | 500 |
| | (Being goods returned by Arun) | | | | |
| June 23 | Travelling expenses Account | Dr | | 1,000 | |
| | To Cash Account | | | | 1,000 |
| | (Being Travelling exp. paid) | | | | |
| June 24 | Cash Account | Dr | | 5,000 | |
| | Loss on sale of furniture A/c | Dr | | 1,000 | |
| | To Furniture Account | | | | 6,000 |
| | (Being old furniture sold and loss incurred) | | | | |
| June 31 | Salaries Account | Dr | | 10,000 | |
| | Wages Account | Dr | | 5,000 | |
| | Rent Account | Dr | | 4,000 | |
| | To Cash Account | | | | 19,000 |
| | (Being various expenses paid) | | | | |

2.7 Summary :

Business transactions are at first written in a book called journal. Business transactions are of two types 1) Cash transactions 2) Credit transactions. If the name of the person is given and it does not contain the word 'for cash' then it is a credit transaction. At the same time if the name of the person does not appear it is always a cash transaction. In a going concern the balances of the previous year relating to assets and liabilities brought forward into the current years books with a journal entry called opening entry.

2.8. Self Assessment Questions :

1. Write down the advantages of using a journal.
2. List out 10 Nominal accounts.
3. What are personal accounts.
4. Give the form of Journal.
5. What is narration ?
6. What are the steps to be taken for journalising.
7. What are the important points you have to bear in mind, while writing journal entries ?

2.9. Exercises :

1. Prepare a journal for the following transactions.

| | | | |
|--------|--------------------------------|--------|-----|
| 2007 | | | Rs. |
| Jan 1 | Introduced Capital | 50,000 | |
| Jan 10 | Bought goods for cash | 18,000 | |
| Jan 12 | Withdrew cash for personal use | 5,000 | |
| Jan 15 | Sold goods to Ram for cash | 7,000 | |
| Jan 18 | Goods taken for personal use | 1,000 | |
| Jan 20 | Paid Mohan his salary | 2,000 | |

2. Journalise the following transactions.

| | | | |
|-------|---------------------------------|-------|-----|
| 2007 | | | Rs. |
| Jan 1 | Rent Received | 1,000 | |
| Jan 2 | Purchased office furniture | 2,000 | |
| Jan 3 | Machinery installation expenses | 600 | |
| Jan 4 | Paid into Bank | 1,500 | |

3. Journalise the following transactions in the books of A.

| | | | |
|-------|-----------------------|----------|-----|
| 2007 | | | Rs. |
| Jan 1 | Paid wages to Srinadh | 3,000 | |
| Jan 2 | A brought capital | 1,00,000 | |

| | | |
|-------|---|--------|
| Jan 3 | Paid into bank | 70,000 |
| Jan 4 | Paid into bank | 70,000 |
| Jan 5 | Purchased furniture on credit from Z & Co | 40,000 |
| Jan 6 | Paid cheque to Z | 25,000 |

4. **Journalise the following transactions in the books of Sateesh.**

2007

Rs.

| | | |
|---------|--|--------|
| Sept. 1 | Sateesh commenced business with | 75,000 |
| Sept 2 | Deposited into Bank | 30,000 |
| Sept 5 | Purchased furniture and paid by cheque | 1,500 |
| Sept 7 | Goods purchased from Sri Vidya | 20,000 |
| Sept 9 | Goods returned to Sri vidhya | 400 |
| Sept 13 | Paid to Sri vidhya in full settlement | 19,500 |
| Sept 17 | Goods sold to Prakash | 500 |
| Sept 20 | Goods distributed by way of free samples | 1,000 |
| Sept 24 | Commission received | 250 |
| Sept 30 | Paid salaries | 5,000 |

5. **Journalise the following transactions in the books of Rajesh.**

2007

Rs.

| | | |
|-------|--|--------|
| Mar 1 | Started business with | 10,000 |
| Mar 2 | Furniture purchased paid by cheque | 2,000 |
| Mar 3 | Cash drawn from bank for personal use | 500 |
| Mar 4 | Paid to Ram lal in full settlement of his debt Rs.6,000/- | 5,940 |
| Mar 5 | Paid for stationery | 200 |
| Mar 7 | Paid salaries | 2,000 |

6. **Journalise the following transactions in the books of A.**

2007

Rs.

| | | |
|--------|---|-------|
| Mar 2 | Paid to Satish in full settlement of his account Rs.3000 | 2,800 |
| Mar 4 | Cash Purchases | 2,000 |
| Mar 5 | Cash Sales | 5,000 |
| Mar 7 | Amount received from Aravind | 7,000 |
| Mar 8 | Cash with drawn from bank for personal use | 1,000 |
| Mar 9 | Stationery purchased | 500 |
| Mar 10 | Furniture purchased | 5,000 |
| Mar 11 | Wages paid | 700 |
| Mar 12 | Goods sold to Rajesh | 2,500 |
| Mar 13 | Goods purchased from Akash | 7,800 |
| Mar 15 | Goods returned to Akash | 150 |

7. **From the following information find out the opening capital and pass opening entry.**

| | Rs. |
|---------------------|-------|
| Cash in hand | 1800 |
| Stock | 2,400 |
| Bills payable | 1,000 |
| Plant and Machinery | 1,000 |
| Debtors | 500 |
| Creditors | 800 |
| Investments | 2,000 |
| Loan from X | 1,500 |

8. **Journalise the following transactions.**

| 2007 | | Rs. |
|------|---|-----------|
| 1 | Interest paid on loan | 750 |
| 2. | Amount received from X whose account was previously written off | 5,000 |
| 3. | Interest received | 2,000 |
| 4. | Purchases | 1,200 |
| 5. | goods sold to Sri Ram | 1,200 |
| 6. | goods purchased from Hari Ram | 800 |
| 7. | Sales to Y | 550 |
| 8. | goods purchased from Durga & Co for cash | 750 |
| 9. | Sales to Ram Saran | 600 |
| 10. | Purchases from Sai Ram | 1,000 |
| 11. | Cheque Received from Y and allowed discount | 500 50 |

9. **Journalise the following transactions.**

| 2007 | | Rs. |
|--------|--|----------|
| Jan 1 | Commenced business with a capital | 4,50,000 |
| Jan 4 | Opened current account in Bank by cheque | 1,50,000 |
| Jan 10 | Cash purchases | 15,000 |
| Jan 12 | goods distributed by way of samples | 5,000 |
| Jan 15 | goods purchased from X | 20,000 |
| Jan 20 | Paid to X in full settlement | 19,000 |
| Jan 24 | Commission received | 2,500 |
| Jan 25 | Withdraw from bank for office use | 5,000 |
| Jan 26 | Paid commission | 500 |
| Jan 27 | Paid Rent | 3,000 |

| | | |
|---------|------------------------------|-------|
| Sept 13 | Cash deposited into bank | 5,000 |
| Sept 15 | goods taken for personal use | 500 |

13. Give journal entries to record the following transactions.

| 2007 | | Rs. |
|---------|--|----------|
| June 1 | Misra commenced business with a capital of | 2,50,000 |
| June 1 | Purchased a Motor car | 1,00,000 |
| June 2 | Purchased from Amar | 20,000 |
| June 3 | Sold goods | 75,000 |
| June 4 | Returned goods to Amar | 100 |
| June 7 | Sold goods to Badri | 50,000 |
| June 8 | Badri returned | 150 |
| June 14 | Purchased postage stamps | 125 |
| June 16 | Paid for advertising | 750 |
| June 20 | Paid office expenses | 1,000 |
| June 25 | Draw cash for personal use | 1,500 |
| June 26 | Cash sales | 8,500 |
| June 27 | Paid insurance premium | 2,900 |
| June 30 | Paid rent | 6,000 |
| June 30 | Paid salaries | 5,000 |
| June 30 | Electric charges | 1,500 |
| June 30 | Telephone bill | 2,300 |

2.10 SUGGESTED READINGS :

| | | |
|-----------------------|---|-------------------------|
| Financial Accountancy | : | Shukla Grewal |
| Financial Accountancy | : | Jain and Narang |
| Financial Accountancy | : | R.L. Gupta & V.K. Gupta |

- Dr. Ch. Suravinda

Lesson-3

LEDGER

3.0 Objectives :

After going through this lesson the student can know what is a ledger ?
How different Accounts are prepared in the ledger, and How the transactions are posted into ledger Accounts from the journal and how they are balanced ? etc.

Structure :

3.1. Ledger - Introduction

3.2. Formet of Account

3.3. Posting the transactions from journal to ledger.

3.4. Balancing the ledger accounts.

3.5. Interpretation of Accounts.

3.6. Illustrations

3.7. Summary

3.8. Self Assessment Questions

3.9. Exercises

3.10 Suggested Readings

3.1. Introduction :

In the previous chapter we have seen how different transactions are recorded in the Journal. Business transactions entered in the journal in chronological order of their occurrence. The transactions pertaining to a particular person, asset, expenses or income are recorded at different places in the journal as they occur on different dates. Hence journal fails to bring the similar transactions together at one place. To have a consolidated view of the similar transactions different accounts are prepared in the ledger.

Defintion : A Ledger account may be defined as a summary statement of all the transactions relating to a person, asset, expenses or income which have taken place during a given period of time and shows their net effect.

Journal is maintained only to facilitate the passing of entries in the ledger, It cannot give answers to the following questions.

- 1) What are the total sales to an individual ?
- 2) What are the total purchases from an individual ?

3) What is the amount of profit or loss made during a particular period ?

4) What is the financial position of the firm on a particular date ?

Ledger can give answers to these questions. So every entry recorded in the journal must be posted into the ledger. For ex: all cash transactions are grouped together and are recorded at one place under Cash Account in the ledger. The process of entering the transactions, which have already been recorded in to the journal, in the ledger is technically called posting.

3.2. Form of the Ledger Account :

An account is a summarised record of transactions relating to a particular person or thing. The ruling of an account is given below.

Name of Account

| Dr | | | | Cr | | | |
|------|------------------------------------|---|--------|------|-----------------------------|----|--------|
| Date | Particulars | F | Amount | Date | Particulars | F. | Amount |
| | To Name of Credit Account | | | | By Name of Debit Account | | |

Each account in the ledger is divided into two equal parts by a vertical line or the account is in the form of letter 'T'. The left hand side of the account is known as debit side and the right hand side is called credit side. Each of the two sides is further divided into four columns for date, particulars, folio and amount.

The columns of the ledger Account are explained below :

1. The date of each transaction is entered in the date column.
2. The particular column is meant for indicating the name of the account that has got the other aspect of the transaction. Thus, we write on the debit side the name of the account indicated in the credit part of the journal entry with the word 'To' before it. On the credit side the name of the account indicated in the debit part of the journal entry is written with the word 'By' before it.
3. 'F' stands for 'Folio'. The 'Folio' column is used for writing the page number of the journal in which the transaction has been originally recorded.
4. The amount of the transaction is shown in the amount column. This can be understood by the following illustration.

Illustration I :

2007 April 1 goods sold for cash Rs.25,000.

Journal Entry

| Date | Particulars | L.F. | Dr. Amount Rs. | Cr. Amount Rs. |
|---------------|---|------|----------------------|----------------------|
| 2007 Apr 1 | Cash Account To Sales Account (Being goods sold for cash) | Dr | 25,000 | 25,000 |

Posting is as follows :

**Ledger
Cash Account**

| Dr | | | | Cr | | | |
|--------------|---------------------|---|---------------|------|-------------|---|---------------|
| Date | Particulars | F | Amount Rs. | Date | Particulars | F | Amount Rs. |
| 2007 Apr. | To Sales Account | | 25,000 | | | | |

Sales Account

| Dr | | | | Cr | | | |
|------|-------------|---|---------------|--------------|-----------------|---|---------------|
| Date | Particulars | F | Amount Rs. | Date | Particulars | F | Amount Rs. |
| | | | | 2007 Apr. | By Cash Account | | 25,000 |

From the above we see that while posting from the Journal, the Debit account is debited and credit account is credited and the entry in each account indicates the account in which the corresponding Credit and Debit appears.

3.4. Balancing of Ledger Account :

For the purpose of preparation of the final accounts various ledger accounts should be balanced. Balance is the difference between the total debits and the total credits of an account. After finding out the balance it is written on the side showing the smaller total so as to make the totals of the two sides equal. This is called the 'Balancing' of an account. Balancing is done periodically. It may be daily, weekly, fortnightly, monthly, Quarterly or yearly when it is required.

The procedure of balancing accounts is as follows :

1. Take the totals of the two side of the account concerned.
2. Ascertain the difference between the totals of two sides.
3. Enter the difference in the amount column of the side showing less total, writing against

the difference in the particulars column "To Balance", c/d means carried down, on the debit side of the account and "By Balance c/d on the credit side of the account. Now both sides will have the same total.

4. Write the date of balancing in the date column.
5. After entering the balance in the relevant amount column, write the total of each side. The total must be written on the same horizontal line. Draw one line above each total and two lines below the total.
6. The balance thus, entered is known as the closing balance.
7. This closing balance is now brought down and written below the total on the side having the bigger total by writing to Balance b/d or By Balance b/d.
8. Sometimes, the balance of an account may be nil that means the totals of both sides are the same. In such cases we will only enter the totals on both sides of the account.

3.5. Interpretation of ledger Accounts :

1. **Personal accounts** : These are more frequently balanced than others so as to know the amounts owed and owing. when the account of a person shows a debit balance, it indicates that he is a debtor. If the account of a person shows a credit balance, it means that he is a creditor.
2. **Real Accounts** : Real accounts are normally balanced at the end of each accounting period i.e; before preparing the final accounts. They generally show a debit balance and are Asset accounts.
3. **Nominal Accounts** : When nominal accounts are balanced debit balances indicate expenses or losses and credit balances indicates incomes and gains. At the end of the year each and every nominal account is closed by transferring to profit and loss Account.

3.6. Illustration 2 :

Journalise the following transactions post them into the ledger and balance the accounts.

2007

| | | |
|--------|--|----------|
| Jan 1 | Balu commenced business with cash | 2,00,000 |
| Jan 2 | Purchased furniture for cash from R.C Broses | 20,000 |
| Jan 2 | Purchased goods from Perumal | 25,000 |
| Jan 3 | Sold goods for cash | 15,000 |
| Jan 4 | Paid rent | 5,000 |
| Jan 6 | Sold goods to Srinivas | 10,000 |
| Jan 7 | Srinivas returned goods | 1,000 |
| Jan 10 | Bought goods from Dayakar | 40,000 |
| Jan 11 | Returned goods to Dayakar | 1,500 |
| Jan 14 | Paid for Stationery | 2,500 |
| | Advertisement | 3,000 |
| | Postage | 500 |

| | | | |
|--------|------------------------------|--------|-------|
| Jan 17 | Drew for personal use | 2,000 | |
| Jan 20 | Cash sales | 10,000 | |
| Jan 21 | Received from Srinivas | 8,000 | |
| Jan 22 | Paid to Dayakar | 20,000 | |
| Jan 24 | Sold goods to Sirisha | 15,000 | |
| Jan 28 | Cash sales | 45,000 | |
| Jan 31 | Paid salaries | 12,000 | |
| Jan 31 | Paid Municipal taxes | 1,000 | |
| Jan 31 | Goods taken for personal use | 1,000 | |
| Jan 31 | Paid for printing | 1,500 | |
| Jan 31 | Wages paid | | 3,000 |
| Jan 31 | Paid Electric Charges | 2,200 | |

| Date | Particulars | L.F. | Dr. Amount Rs. | Cr. Amount Rs. |
|---------------|---|------|----------------------|----------------------|
| 2007 Jan 1 | Cash Account Dr To capital Account (Being Capital brought into business) | | 2,00,000 | 200,000 |
| Jan 2 | Furniture Account Dr To Cash Account (Being furniture purchased for cash) | | 20,000 | 20,000 |
| Jan 2 | Purchases Account Dr To Perumal Account (Being goods Purchased on credit from perumal) | | 25,000 | 25,000 |
| Jan 3 | Cash Account Dr To sales Account (Being goods sold for cash) | | 15,000 | 15,000 |
| Jan 4 | Rent Account Dr To cash Account (Being rent paid) | | 5,000 | 5,000 |
| 2007 Jan 6 | Srinivas Account Dr To sales Account (Being goods solds on Credit) | | 10,000 | 10,000 |

| | | | |
|--------|--|----|--------|
| Jan 7 | Sales Returns Account | Dr | 1000 |
| | To Srinivas Account | | 1000 |
| | (Being goods returned by Srinivas) | | |
| Jan 10 | Purchases Account | Dr | 40,000 |
| | To Dayakar Account | | 40,000 |
| | (Being goods Purchased from Dakayar on credit) | | |
| Jan 11 | Dayakar Account | Dr | 1500 |
| | To Purchase returns Account | | 1500 |
| | (Being goods returned to Dayakar) | | |
| Jan 14 | Stationery Account | Dr | 25,000 |
| | Advertisement Account | Dr | 3,000 |
| | Postage Account | Dr | 500 |
| | To cash Account | | 6,000 |
| | (Being expences paid) | | |

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| Date | Particulars | L.F. | Dr. Amount Rs. | Cr. Amount Rs. |
|--------|-------------------------------------|------|----------------------|----------------------|
| Jan 17 | Drawings Account | Dr | 2000 | |
| | To cash Account | | | 2000 |
| | (Being Cash drawn for personal use) | | | |
| Jan 20 | Cash Account | Dr | 10,000 | |
| | To sales Account | | | 10,000 |
| | (Being Cash Sales) | | | |
| Jan 21 | Cash Account | Dr | 8000 | |
| | To Srinivas Account | | | 8000 |
| | (Being cash received from Srinivas) | | | |
| Jan 22 | Dayakar Account | Dr | 20,000 | |
| | To Cash Account | | | 20,000 |
| | (Being Cash paid to Dayakar) | | | |
| Jan 24 | Sirisha Account | Dr | 45000 | |
| | To Sales Account | | | 15000 |
| | (Being goods Sold for Cash) | | | |
| Jan 28 | Cash Account | Dr | 45,000 | |
| | To sales Account | | | 45,000 |
| | (Being goods sold on credit) | | | |

| | | | | |
|--------|--------------------------------------|----|--------|--|
| Jan 31 | Salaries Account | Dr | 12,000 | |
| | To cash Account | | 12,000 | |
| | (Being salaries paid) | | | |
| Jan 31 | Municipal taxes Account | Dr | 1000 | |
| | To cash Account | | 1000 | |
| | (Being Municipal taxes paid) | | | |
| Jan 31 | Drawings Account | Dr | 1000 | |
| | To purchases Account | | 1000 | |
| | (Being goods taken for personal use) | | | |
| 2007 | Printing Account | Dr | 1,500 | |
| Jan 31 | Wages Account | Dr | 3,000 | |
| | Electric Charges Account | Dr | 2,200 | |
| | To cash Account | | 6,700 | |
| | (Being various expenses Paid) | | | |

LEDGER

| Dr. | | | | Cr | | | |
|--------------|-----------------|---|---------------|--------|-------------------------|----|---------------|
| Cash Account | | | | | | | |
| Date | Particulars | F | Amount Rs. | Date | Particulars | F. | Amount Rs. |
| 2007 | | | | | | | |
| Jan 1 | To Capital A/c | | 2,00,000 | Jan 2 | By Furniture A/c | | 20,000 |
| Jan 3 | To Sales A/c | | 15,000 | Jan 4 | By Rent A/c | | 5,000 |
| Jan 20 | To Sales A/c | | 10,000 | Jan 14 | By Stationery A/c | | 2,500 |
| Jan 21 | To Srinivas A/c | | 8,000 | " | By Advertisement A/c | | 3,000 |
| Jan 28 | To Sales A/c | | 15,000 | " | By Postage A/c | | 500 |
| | | | | Jan 17 | By Drawings A/c | | 2,000 |
| | | | | Jan 22 | By Dayakar A/c | | 20,000 |
| | | | | Jan 31 | By Salaries A/c | | 12,000 |
| | | | | " | By Municipal taxes A/c | | 1,000 |
| | | | | " | By Printing A/c | | 1,500 |
| | | | | | By Wages A/c | | 3,000 |
| | | | | | By Electric charges A/c | | |
| 2,200 | | | | | | | |
| | | | | | By Balance c/ld | | 1,75,300 |
| | | | 2,48,000 | | | | 2,48,000 |
| Feb 1 | To Balance b/d | | 1,75,300 | | | | |

| Dr. | | | | Capital A/C | | | Cr |
|------|-------------|---|---------------|---------------|-------------|----|---------------|
| Date | Particulars | F | Amount Rs. | Date | Particulars | F. | Amount Rs. |
| | | | | 2007 Jan 1 | By Cash A/c | | 2,00,000 |

| Dr. | | | | Furniture A/C | | | Cr |
|---------------|-------------|---|---------------|---------------|-------------|----|---------------|
| Date | Particulars | F | Amount Rs. | Date | Particulars | F. | Amount Rs. |
| 2007 Jan 2 | To Cash A/c | | 20,000 | | | | |

| Dr. | | | | Purchases A/C | | | Cr |
|---------------|----------------|---|---------------|----------------|----------------|----|---------------|
| Date | Particulars | F | Amount Rs. | Date | Particulars | F. | Amount Rs. |
| 2007 Jan 2 | To Perumal A/c | | 25,000 | 2007 Jan 31 | By Drawings | | 1,000 |
| Jan 10 | To Dayakar A/C | | 40,000 | Jan 31 | By Balance c/d | | 64,000 |
| | | | 65,000 | | | | 65,000 |
| Fe 1 | To Bal b/d | | 64,000 | | | | |

| Dr. | | | | Perumal A/C | | | Cr |
|----------------|----------------|---|---------------|---------------|------------------|----|---------------|
| Date | Particulars | F | Amount Rs. | Date | Particulars | F. | Amount Rs. |
| 2007 Jan 31 | To Balance c/d | | 25,000 | 2007 Jan 2 | By Purchases A/c | | 25,000 |
| | | | 25,000 | | | | 25,000 |
| | | | | Feb 1 | By Balance b/d | | 25,000 |

| Dr. | | | | Sales A/C | | | Cr |
|----------------|----------------|---|---------------|---------------|-----------------|----|---------------|
| Date | Particulars | F | Amount Rs. | Date | Particulars | F. | Amount Rs. |
| 2007 Jan 31 | To Balance c/d | | 95,000 | 2007 Jan 3 | By Cash A/c | | 15,000 |
| | | | | Jan 6 | By Srinivas A/c | | 10,000 |
| | | | | Jan 20 | By Cash A/c | | 10,000 |
| | | | | Jan 24 | By Sirisha A/c | | 15,000 |
| | | | | Jan 28 | By Cash A/c | | 45,000 |
| | | | 95,000 | | | | 95,000 |
| | | | | Feb 1 | By Balance b/d | | 95,000 |

| Dr. | | | | Rent A/C | | | Cr |
|---------------|----------------|---|---------------|----------------|----------------|----|---------------|
| Date | Particulars | F | Amount Rs. | Date | Particulars | F. | Amount Rs. |
| 2007 Jan 4 | To Cash A/c | | 5,000 | 2007 Jan 31 | By Balance c/d | | 5,000 |
| | | | 5,000 | | | | 5,000 |
| Feb 1 | To Balance b/d | | 5,000 | | | | |

| Dr. | | | | Srinivas A/C | | | Cr |
|---------------|----------------|---|---------------|---------------|------------------|----|---------------|
| Date | Particulars | F | Amount Rs. | Date | Particulars | F. | Amount Rs. |
| 2007 Jan 6 | To Sales A/c | | 10,000 | 2007 Jan 7 | By Sales Returns | | 1,000 |
| | | | | Jan 21 | By Cash A/c | | 8,000 |
| | | | | Jan 31 | By Balance c/d | | 1,000 |
| | | | 10,000 | | | | 10,000 |
| Feb 1 | To Balance b/d | | 1,000 | | | | |

| Dr. Sales Returns A/C | | | | Cr | | | |
|-----------------------|----------------|---|---------------|----------------|----------------|----|---------------|
| Date | Particulars | F | Amount Rs. | Date | Particulars | F. | Amount Rs. |
| 2007 Jan 7 | To Srinivas | | 1,000 | 2007 Jan 31 | By Balance c/d | | 1,000 |
| | | | 1,000 | | | | 1,000 |
| Jan 31 | To Balance b/d | | 1,000 | | | | |

| Dr. Dayakar A/C | | | | Cr | | | |
|-----------------|---------------------|---|---------------|----------------|----------------|----|---------------|
| Date | Particulars | F | Amount Rs. | Date | Particulars | F. | Amount Rs. |
| 2007 Jan 11 | To Purchase returns | | 1,500 | 2007 Jan 10 | By Purchases | | 40,000 |
| Jan 22 | To Cash A/c | | 20,000 | | | | |
| Jan 31 | To Balance c/d | | 18,500 | | | | |
| | | | 40,000 | | | | 40,000 |
| | | | | Feb 1 | By Balance b/d | | 18,500 |

| Dr. Purchase Returns A/C | | | | Cr | | | |
|--------------------------|----------------|---|---------------|----------------|----------------|----|---------------|
| Date | Particulars | F | Amount Rs. | Date | Particulars | F. | Amount Rs. |
| 2007 Jan 31 | To Balance c/d | | 1,500 | 2007 Jan 11 | By Dayakar | | 1,500 |
| | | | 1,500 | | | | 1,500 |
| | | | | Feb 1 | By Balance b/d | | 1,500 |

| Dr. Stationery A/C | | | | Cr | | | |
|--------------------|----------------|---|---------------|----------------|----------------|----|---------------|
| Date | Particulars | F | Amount Rs. | Date | Particulars | F. | Amount Rs. |
| 2007 Jan 14 | To Cash A/c | | 2,500 | 2007 Jan 31 | By Balance c/d | | 2,500 |
| | | | 2,500 | | | | 2,500 |
| Feb 1 | To Balance b/d | | 2,500 | | | | |

| Dr. | | | | Salaries A/C | | | | Cr |
|----------------|----------------|---|---------------|----------------|----------------|----|---------------|----|
| Date | Particulars | F | Amount Rs. | Date | Particulars | F. | Amount Rs. | |
| 2007 Jan 31 | To Cash | | 12,000 | 2007 Jan 31 | By Balance c/d | | 12,000 | |
| | | | 12,000 | | | | 12,000 | |
| Feb 1 | To Balance b/d | | | | | | | |

| Dr. | | | | Municipal Taxes A/C | | | | Cr |
|----------------|----------------|---|---------------|---------------------|----------------|----|---------------|----|
| Date | Particulars | F | Amount Rs. | Date | Particulars | F. | Amount Rs. | |
| 2007 Jan 31 | To Cash | | 1,000 | 2007 Jan 31 | By Balance c/d | | 1,000 | |
| | | | 1,000 | | | | 1,000 | |
| Feb 1 | To Balance b/d | | 1,000 | | | | | |

| Dr. | | | | Printing A/C | | | | Cr |
|----------------|----------------|---|---------------|----------------|----------------|----|---------------|----|
| Date | Particulars | F | Amount Rs. | Date | Particulars | F. | Amount Rs. | |
| 2007 Jan 31 | To Cash A/c | | 1,500 | 2007 Jan 31 | By Balance c/d | | 1,500 | |
| | | | 1,500 | | | | 1,500 | |
| Feb 1 | To Balance b/d | | 1,500 | | | | | |

| Dr. | | | | Wages A/C | | | | Cr |
|----------------|----------------|---|---------------|----------------|----------------|----|---------------|----|
| Date | Particulars | F | Amount Rs. | Date | Particulars | F. | Amount Rs. | |
| 2007 Jan 31 | To Cash A/c | | 3,000 | 2007 Jan 31 | By Balance c/d | | 3,000 | |
| | | | 3,000 | | | | 3,000 | |
| Feb 1 | To Balance b/d | | 3,000 | | | | | |

| Dr. | | | | Electric Charges A/C | | | | Cr |
|----------------|----------------|---|---------------|----------------------|----------------|----|---------------|----|
| Date | Particulars | F | Amount Rs. | Date | Particulars | F. | Amount Rs. | |
| 2007 Jan 31 | To Cash A/c | | 2,200 | 2007 Jan 31 | By Balance c/d | | 2,200 | |
| | | | 2,200 | | | | 2,200 | |
| Feb 1 | To Balance b/d | | 2,200 | | | | | |

3.7 Summary :

After journalising the transactions relating to a particular account are brought together and recorded at one place in another book called the 'ledger' the process of entering the transactions in the ledger is technically called posting. The two aspects of every transaction have to be posted to the respective accounts in the ledger.

3.8. Questions :

1. What is a ledger ?
2. What is balance ?
3. Write a note on ledger posting with an example ?
4. Write the procedure followed for balancing an account with an example ?
5. Give form of the ledger Account.

3.9 Exercises :

1. **Journalise the following transactions, post them into ledger ascertain the balances.**

| 2007 | | Rs |
|--------|--|--------|
| Mar 1 | Vishal started business with | 80,000 |
| Mar 4 | Paid into Bank | 25,000 |
| Mar 7 | Purchased goods for cash | 10,000 |
| Mar 9 | Purchased goods from Ramana | 8,000 |
| Mar 11 | goods sold for cash | 16,000 |
| Mar 14 | goods returned to Ramana | 500 |
| Mar 19 | Purchased furniture and paid by cheque | 750 |
| Mar 21 | goods sold to Raja | 1,000 |
| Mar 23 | goods returned by Raja | 400 |
| Mar 25 | Paid wages | 100 |
| Mar 27 | with drew from bank | 2,000 |
| Mar 28 | Paid discount | 1,000 |
| Mar 31 | Paid salaries | 5,000 |
| Mar 31 | commission received | 6,000 |

2. **Journalise the following transactions, post them into the ledger and balance the accounts.**

| 2007 | | Rs |
|-------|-------------------------------|--------|
| Jan 1 | Saroja commence business with | 20,000 |
| Jan 2 | Purchased furniture for cash | 4,000 |
| Jan 2 | Purchased goods for cash | 1,800 |
| Jan 4 | Paid rent | 1,500 |
| Jan 6 | Sold goods to | 1,500 |
| Jan 7 | C returned goods | 175 |

| | | |
|--------|-----------------------|--------|
| Jan 10 | Brought goods from D | 5,000 |
| Jan 11 | Returned goods to D | 200 |
| Jan 14 | Paid for advertising | 350 |
| Jan 15 | Paid for stationery | 150 |
| Jan 17 | Drew for personal use | 500 |
| Jan 20 | cash sales | 16,000 |
| Jan 21 | Received from C | 525 |
| Jan 23 | Paid to B | 3,000 |
| Jan 24 | Sold goods to E | 3,500 |
| Jan 28 | Cash sales | 2,000 |
| Jan 31 | Paid salaries | 2,000 |
| Jan 31 | Paid Municipal taxes | 300 |

3. **Journalise the following transactions, post them into the ledger and balance the accounts.**

| 2007 | | Rs |
|--------|--|--------|
| Jan 1 | Nageswara Rao commenced business with cash | 40,000 |
| Jan 2 | Purchased furniture for Cash from A & Co | 11,000 |
| Jan 3 | Sold goods for cash | 6,000 |
| Jan 4 | Paid rent | 3,000 |
| Jan 4 | Sold goods to C | 12,500 |
| Jan 7 | C returned goods | 100 |
| Jan 10 | Bought goods from D | 17,500 |
| Jan 11 | Returned goods to D | 150 |
| Jan 14 | Paid for Advertising | 750 |
| Jan 15 | Paid for stationary | 2,000 |
| Jan 17 | Drew for personal use | 1,500 |
| Jan 20 | Cash sales | 2,500 |
| Jan 21 | Received from C in full settlement of his account | 12,000 |
| Jan 23 | Paid to B | 2,500 |
| Jan 24 | Sold goods to E | 5,000 |
| Jan 28 | Cash sales | 2,000 |
| Jan 31 | Paid salaries | 2,000 |
| Jan 31 | Paid Municipal taxes | 250 |
| Jan 31 | Paid printing charges | 500 |

4. **Give journal entries to record the following transactions.**

| 2007 | | Rs |
|--------|--------------------------------------|----------|
| June 1 | Madhuri commenced business with cash | 2,50,000 |

| | | |
|---------|----------------------------|---------|
| June1 | Purchased a Motar truck | 100,000 |
| June2 | Purchased goods from Gopal | 30,000 |
| June3 | Sold goods | 2,000 |
| June4 | Returned goods to Amar | 1,000 |
| June7 | sold goods to chandra | 3,500 |
| June8 | Chandra returned goods | 150 |
| June11 | Cash purchases | 6,000 |
| June14 | Purchased postage stamps | 100 |
| June16 | Paid for advertising | 1,000 |
| June 20 | Paid office expenses | 400 |
| June 25 | Drew cash for personal use | 2,000 |
| June 26 | Cash sales | 1,800 |
| June 27 | Paid insurance premium | 250 |
| June 30 | Paid rent | 2,000 |
| June 30 | Paid salaries | 7,000 |

3. **Journalise the following transactions post them into the ledger and balance the accounts.**

| 2007 | | Rs. |
|--------|-------------------------------|----------|
| Sep 1 | Manohar started business with | 2,50,000 |
| Sep 1 | Brought Machinery | 1,00,000 |
| Sep 2 | Brought furniture from | 15,000 |
| Sep 3 | Purchased goods | 15,500 |
| Sep 7 | Paid wages | 3,000 |
| Sep 9 | Brought packing materials | 15,500 |
| Sep 10 | Cash sales | 4,000 |
| Sep 11 | Credit sales to krishna | 7,000 |
| Sep 14 | Paid wages | 1,500 |
| Sep 15 | Purchased goods from Ram | 15,000 |
| Sep 16 | Returned goods to Ram | 250 |
| Sep 20 | Purchased stationery | 1,000 |
| Sep 21 | Brought postage stamps | 350 |
| Sep 23 | Paid for repairs | 400 |
| Sep 24 | Paid miscellaneous expenses | 250 |
| Sep 27 | Paid printing charges | 300 |
| Sep 30 | Paid Salaries | 7,500 |
| Sep 30 | Paid to X | 8,000 |

3.10 SUGGESTED READINGS :

| | | |
|-----------------------|---|-------------------------|
| Financial Accountancy | : | Shukla Grewal |
| Financial Accountancy | : | Jain and Narang |
| Financial Accountancy | : | R.L. Gupta & V.K. Gupta |

- Dr. Ch. Suravinda

LESSON - 4**SUBSIDIARY BOOKS****4.0. Objectives :**

After going through the lesson the student can identify various types of subsidiary books, Advantages of subsidiary books, recording of transactions in these books and their posting into the ledger.

Structure :

- 4.1 Introduction
- 4.2 Advantages
- 4.3 Classification
- 4.4 Purchases book
- 4.5 Sales book
- 4.6 Purchase Returns book
- 4.7 Sales Returns book
- 4.8 Journal proper
- 4.9 Summary
- 4.10 Questions
- 4.11 Exercises

4.1. Subsidiary Books Introduction

It has already been explained in an earlier chapter that journal is the book of prime entry. It means all business transactions are to be first recorded in the journal. In case of big business concerns, where the number of transactions are large in number, it is very inconvenient and cause delay in collecting any information required. To avoid the laborious task of recording transactions first in the journal and later posting them into ledger, an other method of recording the transactions in subsidiary books have been introduced which is also known as British system or practical system.

4.2. Advantages of subsidiary books :

The following are the advantages of subsidiary books :

1. **Convenience** : As stated above maintenance of one journal will make it quite bulky and difficult to handle. Sub-division of journal will result in reducing the size of journal and make it convenient to handle.
2. **Division of labour** : Sub division of journal helps in division of labour since different persons can write different journals.
3. **Classified information** : Each journal provides information relating to a particular aspect of the business. For example, purchases book gives information about the total credit purchases, sales book gives information about the total credit sales etc.
4. It would make easier the job of posting in the ledger, as the posting can be made in the form of totals once a month.
5. Additional information can be collected while maintaining a subsidiary book. For example, sales book can collect the information relating to the sales of different areas or of different sales man.

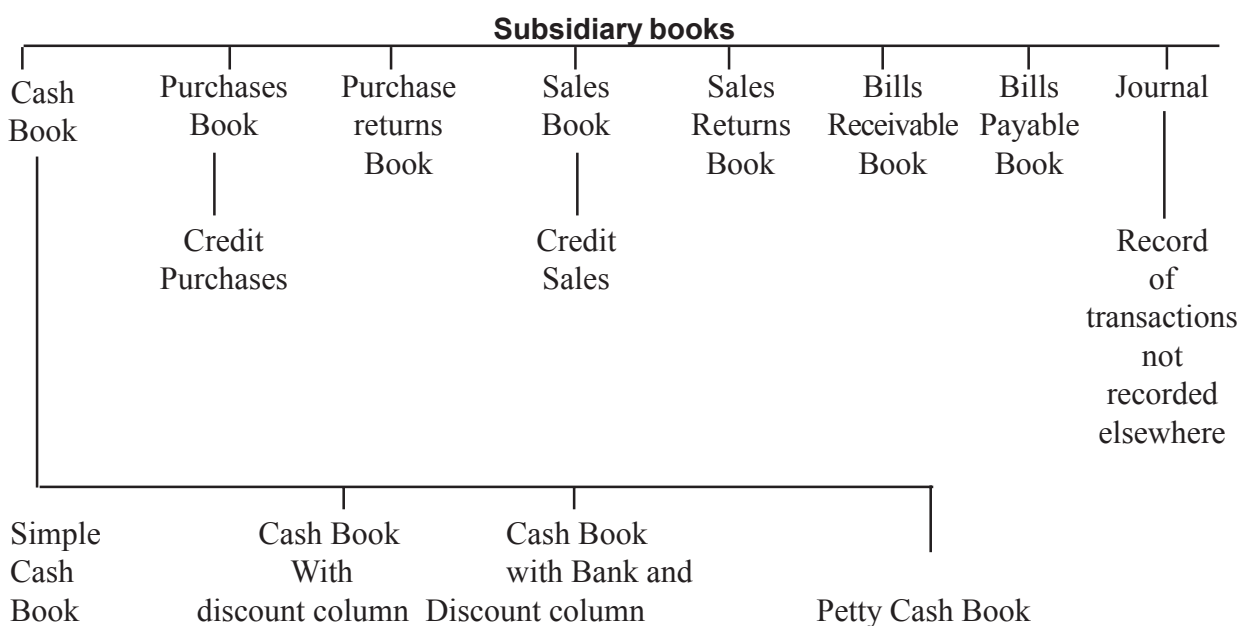
6. When the work is divided among the accounting staff and one person is required to do that work again and again, he becomes specialist of that work and his efficiency also increases.
7. The existence of separate books helps location of errors, detection of frauds in case the trial balance does not agree.

4.3. Classification of subsidiary books :

The classification of various subsidiary books and the types of transactions to be recorded in these books are as follows

1. **Cash book** : This book deals with the transactions relating to the receipts and payments of cash. It shows cash in hand and at Bank.
2. **Purchases book** : The book is meant for recording all transactions of credit purchases of goods, It shows the total credit purchases of goods and materials made during a particular period.
3. **Sales Book** : The book is maintained to record all credit sales made is and will show total credit sales during a particular period.
4. **Purchase returns book** : This book is also known as returns outwards book. This book records all returns of goods previously purchased and will show total purchase returns during a particular period and also to a particular supplier.
5. **Sales Returns book** : It is also known as returns inwards book. This book is maintained to record all sales returns made by the customers and will shows the total returns inwards during a particular period.
6. **Bill Receivable Book** : This book is maintained to record all bills received from the customers during a particular period. It will also tell the various dates on which payments are to be received by the business.
7. **Bills payable Books** : This book records all acceptances made by the firm and will indicate the various dates on which payments of various bills are to be made.
8. **Journal proper** : All these transactions which could not be recorded in any of the above subsidiary books it will be recorded in this book.

A line chart of subsidiary books is as follow :



In this lesson we will deal with all types of subsidiary books except cash book, which will be dealt in the next lesson.

4.4.Purchases book :

This book is kept to record all credit purchases of goods for resale. Cash purchases of goods are entered in the cash book so these are not entered in the purchases book. This book is also known as invoice book. The ruling of purchases book is as follows

Purchases Book

| Date Amount | Particulars | Invoice | L.F. | Details | Rs. |
|----------------|-------------|---------|------|---------|-----|
| | | No. | | Rs. | |
| | | | | | |

In Date column, the date of the transaction is entered.

In particulars column the name of the party and particulars of the goods purchased are written.

In details column particulars regarding trade discount is written. At this stage the student must learn what is trade discount.

Trade Discount : Trade discount is the deduction allowed by the manufacturer to the whole saler or by the wholesaler to the retailer on the value of list price of the goods to enable the seller to make a profit by selling the goods at list price. There will be no entry for trade discount any where in books as it is merely a means of calculating the net selling price of the goods.

Illustration 1;

Write up purchases Book from the following transactions and post them into the ledger.

| | | |
|---------|---|--------|
| 2007 | | Rs. |
| June 1 | Bought goods for cash | 4,000 |
| June 4 | Purchased goods from Vinayak Rs.10,000 less 10% trade discount | |
| June 11 | Purchased goods from Siva & Co. | 12,000 |
| June 15 | Purchased goods from Kesave for Rs.25,000 less 5% trade discount | |
| June 18 | Purchased goods from Indira for cash | 15,000 |
| June 23 | Purchased goods from Chandra | 12,000 |

| | | |
|---------|--|--------|
| June 28 | Bought goods from Amar subject to a trade discount of 10% | 35,000 |
| June 30 | Purchased goods | 10,000 |

Purchases Book

| Date | Particulars | L.F. | Dr. Details Rs. | Cr. Amount Rs. |
|---------|------------------------------|------|-----------------------|----------------------|
| June 4 | Vinayak, goods purchased | | 10,000 | |
| | Less : Trade discount @ 10% | | 1,000 | 9,000 |
| June 11 | Siva & Co, goods purchased | | | 12,000 |
| June 15 | Kesav goods purchased | | 25,000 | |
| | Less : Trade discount @ 5% | | 1,250 | 23,750 |
| June 23 | Chandra, goods purchased | | | 12,000 |
| June 28 | Amar, goods purchased | | 35,000 | |
| | Less : Traded discount @ 10% | | 3,500 | 31,500 |
| | Purchases account | Dr | | 88,250 |

Ledger

| Dr | | | | Cr | | | |
|------------------------|----------------|---|---------------|--------|-------------------|----|---------------|
| Vinayak Account | | | | | | | |
| Date | Particulars | F | Amount Rs. | Date | Particulars | F. | Amount Rs. |
| 2007 | | | | 2007 | | | |
| June 30 | To Balance c/d | | 9,000 | June 4 | By purchases a/c. | | 9,000 |
| | | | 9,000 | | | | 9,000 |
| | | | | July 1 | By Balance b/d | | 9,000 |

| Dr | | | | Cr | | | |
|---------------------|-----------------|---|---------------|---------|------------------|----|---------------|
| Siva Account | | | | | | | |
| Date | Particulars | F | Amount Rs. | Date | Particulars | F. | Amount Rs. |
| 2007 | | | | 2007 | | | |
| June 30 | To Balanced c/d | | 12,000 | June 11 | By purchases a/c | | 12,000 |
| | | | 12,000 | | | | 12,000 |
| July 1 | By Balance b/d | | 12,000 | | | | |

| Dr | | | | Kesav Account | | | | Cr |
|-----------------|-----------------|---|---------------|-----------------|-------------------|----|---------------|----|
| Date | Particulars | F | Amount Rs. | Date | Particulars | F. | Amount Rs. | |
| 2007 June 30 | To Balanced c/d | | 23,750 | 2007 June 15 | By purchases a/c. | | 23,750 | |
| | | | 23,750 | | | | 23,750 | |
| July 1 | By Balance b/d | | 23,750 | | | | | |

| Dr | | | | Chandra Account | | | | Cr |
|-----------------|-----------------|---|---------------|-----------------|-------------------|----|---------------|----|
| Date | Particulars | F | Amount Rs. | Date | Particulars | F. | Amount Rs. | |
| 2007 June 30 | To Balanced c/d | | 12,000 | 2007 June 23 | By purchases a/c. | | 12,000 | |
| | | | 12,000 | | | | 12,000 | |
| July 1 | By Balance b/d | | 12,000 | | | | | |

| Dr | | | | Amar Account | | | | Cr |
|-----------------|-----------------|---|---------------|-----------------|------------------|----|---------------|----|
| Date | Particulars | F | Amount Rs. | Date | Particulars | F. | Amount Rs. | |
| 2007 June 30 | To Balanced c/d | | 31,500 | 2007 June 28 | By purchases a/c | | 31,500 | |
| | | | 31,500 | | | | 31,500 | |
| July 1 | By Balance b/d | | 31,500 | | | | | |

| Dr | | | | Purchases Account | | | | Cr |
|-----------------|-----------------------------------|---|-----------------|-------------------|----------------|----|-----------------|----|
| Date | Particulars | F | Amount Rs. | Date | Particulars | F. | Amount Rs. | |
| 2007 June 30 | To Cash A/c | | 4,000 | 2007 June 30 | By Balance c/d | | 1,29,250 | |
| | To Cash A/c | | 15,000 | | | | | |
| | To Chandra A/c | | 12,000 | | | | | |
| | To Amar A/c | | 10,000 | | | | | |
| | To Amount as per purchase book | | 88,250 | | | | | |
| | | | 1,29,250 | | | | 1,29,250 | |

| Dr | | Cash Account | | | | Cr | |
|------|-------------|--------------|---------------|---------|------------------|----|---------------|
| Date | Particulars | F | Amount Rs. | Date | Particulars | F. | Amount Rs. |
| 2007 | | | | 2007 | | | |
| | | | | June 1 | By purchases A/c | | 4,000 |
| | | | | June 18 | By purchases A/c | | 15,000 |
| | | | | June 30 | By purchases A/c | | 10,000 |

Note : Cash Account can not be balanced because the information regarding other items is not available.

4.5. Sales books :

This book is used for recording only the credit sales of goods in which its business man deals. This is also called as sales day book. The ruling of the sales book is as follows :

Sales book

| Date | Particulars | Outward invoice Number | L.F. | Details Rs. | Amount Rs. |
|------|-------------|------------------------------|------|----------------|---------------|
| | | | | | |

Recording in the sales books :

The entries in the sales Journal are made in the following manner.

1. **Date column** : The date of credit sale is recorded.
2. **Particulars column** : The name and address of the customer to whom goods are sold on credit are recorded.
3. **Outward invoice number column** : The number of outward invoice is to be entered in this column.
4. **L.F.:** In L.F. column the page number of the customers account in the ledger is entered
5. **Account column** : In the amount column the amount actually receivable by the business man i.e. catalogue price minus trade discount should be entered.

Illustration 2

Enter the following transactions in the sales book of a trader and post into ledger.

2007

- April 1 Sold good to Harsha & Co
for Rs.30,000. Trade discount @10%
- April 3 Sold goods to Preethi & Co for cash Rs.50,000
- April 5 Sold goods for Rs.15,000
- April 8 Sold goods to Pranya for Rs.50,000
@ 10% trade discount
- April 7 sold goods to Jagan for Rs.40,000 @ 7.5% trade discount

Sales Book

| Date | Particulars | atward Invoice No. | L.F. | Details Rs. | Amount Rs. |
|---------|--------------------------------------|--------------------|------|-------------|------------|
| 2007 | | | | | |
| April 1 | Harsha & Co, sale of goods on credit | | | 30,000 | |
| | Less : Trade discount @ 10% | | | 3,000 | 27,000 |
| April 7 | Pranya, sale of goods on credit | | | 50,000 | |
| | Less : Trade discount @ 10% | | | 5,000 | 45,000 |
| April 7 | Jagan, Sale of goods on credit | | | 40,000 | |
| | Less : Trade discount @ 7.5% | | | 3,000 | 37,000 |
| | Sales Account Cr | | | | 1,09,000 |

Ledger

| Dr | | | | Cr | | | |
|---------------------|--------------|---|------------|------|-------------|----|------------|
| Harsha & Co Account | | | | | | | |
| Date | Particulars | F | Amount Rs. | Date | Particulars | F. | Amount Rs. |
| 2007 | | | | 2007 | | | |
| April 1 | To Sales A/c | | 27,000 | | | | |

Dr

Pranya Account

Cr

| Date | Particulars | F | Amount Rs. | Date | Particulars | F. | Amount Rs. |
|---------|--------------|--------|------------|------|-------------|----|------------|
| 2007 | | | | 2007 | | | |
| April 7 | To Sales A/c | 45,000 | | | | | |

| Dr | | Jagan Account | | | | Cr | |
|---------|--------------|---------------|---------------|------|-------------|----|---------------|
| Date | Particulars | F | Amount Rs. | Date | Particulars | F. | Amount Rs. |
| 2007 | | | | | | | |
| April 7 | To Sales A/c | | 37,000 | | | | |

| Dr | | Sales Account | | | | Cr | |
|---------|----------------|---------------|---------------|---------|----------------------------------|----|---------------|
| Date | Particulars | F | Amount Rs. | Date | Particulars | F. | Amount Rs. |
| 2007 | | | | 2007 | | | |
| April 7 | To Balance c/d | | 1,74,000 | April 3 | By cash A/c | | 50,000 |
| | | | | April 5 | By cash A/c | | 15,000 |
| | | | | April 7 | By sundries as per sales book | | 109,000 |
| | | | 1,74,000 | | | | 1,74,000 |
| | | | | Apr. 8 | By Balance b/d | | 1,74,000 |

| Dr | | Cash Account | | | | Cr | |
|---------|-------------|--------------|---------------|------|-------------|----|---------------|
| Date | Particulars | F | Amount Rs. | Date | Particulars | F. | Amount Rs. |
| 2007 | | | | 2007 | | | |
| April 3 | To Sales | | 50,000 | | | | |
| April 6 | To Sales | | 15,000 | | | | |

4.6. Purchase returns Book :

The purchase returns book is used for recording the returns of goods to suppliers. It is also used to record allowances for damages claimed in respect of goods purchased. In any business it may become necessary to return the goods purchased, partly or fully. The reason may be that the goods are defective, or damaged in transit. The business man may, therefore, return them to the supplier.

When goods are returned to a supplier a statement called 'Debit Note' is sent to him. It informs him that his account is debited to the extent of the value of goods returned.

The ruling of the purchase returns book is as follows.

Format of purchase Returns Book

| Date | Particulars | Debit Note Numbers | L.F. | Details | Amount Rs. |
|-------------|--------------------|-----------------------------------|-------------|----------------|-----------------------|
| | | | | | |

Recording in the purchase return book :

1. **Date column** : The day on which the goods are returned is entered in the Date column.
2. **Particulars** : The name and address of the supplier to whom goods are returned is entered in the particulars column.
3. **Debit Note number** : The serial number of Debit Note is to be entered in this column.
4. **L.F. column** : The ledger page number of the supplier's account is entered in L.F. column.
5. **Details column** : Any information may be recorded.
6. **Amount column** : The net value of the goods returned is entered in this column.

4.7. Sales Returns Book :

The sales returns book is used for recording goods returned by the customers. This is also called returns inward book as goods are coming in.

When a customer returns goods a credit note is prepared and sent to the customer. It has the name and address of the customer, description of the goods received which are returned by the customer etc. It informs the customer that his account is credited to the extent of the value of goods returned to him. The credit note is the basis for recording in the sales returns book. Credit notes are consecutively numbered and their copies filed.

The ruling of the sales returns book is as follows.

Sales Returns Book

| Date | Particulars | Debit Note Numbers | L.F. | Details | Amount Rs. |
|-------------|--------------------|-----------------------------------|-------------|----------------|-----------------------|
| | | | | | |

Recording in the sales returns books :

Date column : Enter the date of the credit note in the Date column.

Particulars : Name and address of the customer who has returned goods is entered in this column.

Credit Notes Numbers : Credit note number in this column.

LF column : The ledger page number of the customer's in the L.F. column.

Amount column : Net value of goods returned is entered in this column.

Illustration 3 :

Enter the following transactions of Gopi Krishna & Co in proper books.

2007

- Jan 1 Purchased on credit from Guntur digitals
 Jan 12 Water heaters @ Rs.4,000 each
 Jan 10 Ceiling Fans @ Rs1,000 each
 Jan 15 Room coolers @ Rs.3,500 each
 Trade discount @10%
 Jan 5 Sold on credit to Ajay Enterprises
 Jan 6 Water heater @ Rs. 5,000 each
 Jan 5 Ceiling Fans @ Rs. 1,200 each
 Jan 5 Room coolers @ Rs.4,000 each
 Jan 7 Returned to Guntur digitals 2 water heaters and 1 Room cooler as defective.
 Jan 10 Ajay Enterprises returned 1 ceiling Fan
 Jan 11 Returned the same to Guntur digitals.
 Jan 14 Purchased from Vijay Electronics on credit 20 T.V. stabilizers
 @ 1,500 each less 20% trade discount.
 Jan 19 Sold to Mahaveer Electronics 10 stabilisers @ 600 less 10% discount
 Jan 20 Sold one stabiliser @ Rs.600/-
 Jan 22 Purchased on credit 20 Fans from Usha Enterprises
 @ Rs.1,200 each less 20% discount.
 Jan 26 Sold to Murthy & Sons on credit 15 Fans @ Rs.1,400 each less 10% discount.
 Jan 30 Murthy & Sons returned one fan as defective which in turn
 returned to Usha Enterprises.

Solution :

GOPI KRISHNA & CO BOOKS.

| Dr. | Purchases Book | | | Cr. |
|------|----------------------------------|------|--------------------------|---------------|
| Date | Particulars | L.F. | Details Amount Rs. | Amount Rs. |
| 2007 | | | | |
| Jan1 | Guntur Digitals, goods purchased | | | |
| | 12 water heaters @ Rs.4,000 each | | | 48,000 |
| | 10 ceiling Fans @ Rs.1,000 each | | 10,000 | |
| | 15 room coolers @ Rs.3,500 each | | | 52,500 |
| | | | 1,10,500 | |
| | Less : Trade discount @ 10% | | 11,050 | 99,450 |

| Date | Particulars | L.F. | Details Amount Rs. | Amount Rs. |
|--------|--|------|---------------------------|---------------|
| Jan 14 | Vijay Electronics good purchases 20 T.V. stabilizers @ 1,500 Less : Trade discount @ 20% | | 30,000 6,000 | 24,000 |
| Jan 22 | Usha Enterprises goods 20 Fans @ Rs.1,200 each Less : Trade discount @ 20% | | 24,000 24,000 4,800 | |
| Jan 31 | Total purchases account Dr | | | 1,42,650 |

| Dr. | | Sales Book | | Cr. | |
|--------|--|------------|--------------------------|---------------|--------|
| Date | Particulars | L.F. | Details Amount Rs. | Amount Rs. | |
| 2007 | | | | | |
| Jan 1 | Ajay Enterprises, goods sold 6 water heaters @ Rs. 5,000 each 5 ceiling fans @ Rs.1,200 each Room coolers @ Rs.4,000 each | | 6,000 20,000 | 30,000 | 56,000 |
| Jan 19 | Mahaveer Electronics, goods sold 10 stabilisers @ Rs.600 Less : Trade discount @ 10% | | 6000 600 | 5,400 | |
| Jan 26 | Murthy & sons, good sold 15 Fans @ Rs.1,400 each Less : Trade discount @ 10% | | 21,000 2100 | 18,900 | 80,300 |
| Jan 31 | Total sales Account Cr | | | | |

| Dr. | | Purchase Returns Book | | Cr. | |
|--------|---|-----------------------|--------------------------|---------------|-----|
| Date | Particulars | L.F. | Details Amount Rs. | Amount Rs. | |
| 2007 | | | | | |
| Jan 7 | Guntur Digitals 1 Room cooler @ Rs.3,500 each Less : Trade discount @ 10% | | 3,500 350 | 3,150 | 900 |
| Jan 11 | Guntur Digitals 1 ceiling Fan @ Rs.1,000 each Less : Trade discoung @ 10% | | 1,000 100 | | |

| | | | | |
|--------|--|--|-------|-------|
| Jan 30 | Usha Enterprises 1 Fan @ Rs.1200 each | | 1,200 | |
| Jan 31 | Less : Trade discount @ 10% | | 120 | 1,080 |
| | Total purchase returns book cr. | | | 5,230 |

| Dr. | | Sales Return book | | | Cr. |
|--------|--|-------------------|--------------------|------------|-------|
| Date | Particulars | L.F. | Details Amount Rs. | Amount Rs. | |
| 2007 | | | | | |
| Jan 19 | Ajay Enterprises 1 ceiling Fan @ Rs.1,200 | | | 1,200 | |
| Jan 30 | Murthy & Sons 1 Fan @ Rs.1,400 | | 1,400 | | |
| | Less : Trade discount @ 10% | | 140 | | 1,260 |
| Jan 31 | Total sale return account Dr | | | | 2,460 |

| Dr. | | Guntur Digital Account | | | | Cr. | |
|--------|-----------------------------|------------------------|---------------|-------|-----------------|-----|---------------|
| Date | Particulars | F | Amount Rs. | Date | Particulars | F. | Amount Rs. |
| 2007 | | | | 2007 | | | |
| Jan 7 | To purchase Return A/c | | 3,150 | Jan 1 | By Purchase A/c | | 99,450 |
| Jan 11 | To Purchase's Return A/c | | 900 | | | | |
| Jan 31 | To Balance c/d | | 95,400 | | | | |
| | | | 99,450 | | | | 99,450 |
| | | | | Feb 1 | By Balance b/d | | 95,400 |

| Dr. | | Vijay Electronics Account | | | | Cr. | |
|------|----------------|---------------------------|---------------|--------|-----------------|-----|---------------|
| Date | Particulars | F | Amount Rs. | Date | Particulars | F. | Amount Rs. |
| 2007 | | | | 2007 | | | |
| | To Balance c/d | | 24,000 | Jan 14 | By purchase a/c | | 24,000 |
| | | | 24,000 | | | | 24,000 |
| | | | | Feb 1 | By Balance b/d | | 24,000 |

| Dr. Usha Enterprises Account | | | | Cr. | | | |
|------------------------------|----------------|---|---------------|--------|------------------|----|---------------|
| Date | Particulars | F | Amount Rs. | Date | Particulars | F. | Amount Rs. |
| 2007 | | | | 2007 | | | |
| Jan 30 | To purchase | | 1,080 | Jan 22 | By Purchases A/c | | 19,200 |
| | Returns A/c | | | | | | |
| Jan 31 | To Balance c/d | | 18,120 | | | | |
| | | | 19,200 | | | | 19,200 |
| | | | | Feb 1 | By Balance b/d | | 18,120 |

| Dr. Purchases Account | | | | Cr. | | | |
|-----------------------|--|---|---------------|--------|----------------|----|---------------|
| Date | Particulars | F | Amount Rs. | Date | Particulars | F. | Amount Rs. |
| 2007 | | | | 2007 | | | |
| Jan 31 | To Amount as per purchase's book | | 1,42,650 | Jun 31 | By balance c/d | | 1,42,650 |
| | | | 1,42,650 | | | | 1,42,650 |
| Feb 1 | To Balance b/d | | 1,42,650 | | | | |

| Dr. Ajay Enterprises Account | | | | Cr. | | | |
|------------------------------|----------------|---|---------------|--------|----------------------|----|---------------|
| Date | Particulars | F | Amount Rs. | Date | Particulars | F. | Amount Rs. |
| 2007 | | | | 2007 | | | |
| Jan 1 | To Sales A/c | | 56,000 | Jan 10 | By Sales returns a/c | | |
| 1,200 | | | | Jan 31 | By Balance c/d | | 54,800 |
| | | | 56,000 | | | | 56,000 |
| Feb 1 | To Balance b/d | | 54,899 | | | | |

| Dr. Mahaveer Electronics Account | | | | Cr. | | | |
|----------------------------------|----------------|---|---------------|--------|----------------|----|---------------|
| Date | Particulars | F | Amount Rs. | Date | Particulars | F. | Amount Rs. |
| 2007 | | | | 2007 | | | |
| Jan 19 | To Sales A/c | | 5,400 | Jan 31 | By Balance c/d | | 5,400 |
| Feb 1 | To Balance b/d | | 5,400 | | | | |

| Dr. Murthy & Sons Account | | | | Cr. | | | |
|---------------------------|----------------|---|---------------|----------------|-------------------------|----|---------------|
| Date | Particulars | F | Amount Rs. | Date | Particulars | F. | Amount Rs. |
| 2007 Jan 26 | To Sales A/c | | 18,900 | 2007 Jan 30 | By Sales Returns A/c | | 1,260 |
| | | | | Jan 31 | By Balance c/d | | 17,640 |
| | | | 18,900 | | | | 18,900 |
| Feb 1 | To Balance b/d | | 17,640 | | | | |

| Dr. Sales Account | | | | Cr. | | | |
|-------------------|----------------|---|---------------|----------------|--------------------------------|----|---------------|
| Date | Particulars | F | Amount Rs. | Date | Particulars | F. | Amount Rs. |
| 2007 Jan 31 | To Balance c/d | | 80,300 | 2007 Jan 31 | By amount as per sales Book | | 80,300 |
| | | | 80,300 | Feb 1 | By Balance c/d | | 80,300 |

| Dr. Purchases Returns Account | | | | Cr. | | | |
|-------------------------------|----------------|---|---------------|----------------|--|-------|---------------|
| Date | Particulars | F | Amount Rs. | Date | Particulars | F. | Amount Rs. |
| 2007 Jan 31 | To Balance c/d | | 5,230 | 2007 Jan 31 | By Amount as per purchase returns book | | 5,230 |
| | | | 5,230 | Feb 1 | By Balance b/d | 5,230 | 5,230 |

| Dr. Sales Returns Account | | | | Cr. | | | |
|---------------------------|---|---|---------------|----------------|----------------|----|---------------|
| Date | Particulars | F | Amount Rs. | Date | Particulars | F. | Amount Rs. |
| 2007 Jan 31 | To Amount as per sales returns book | | 2,460 | 2007 Jan 31 | By Balance c/d | | 2,460 |
| | | | 2,460 | | | | 2,460 |
| Feb 1 | To Balance b/d | | 2,460 | | | | |

In addition to these four books if in any concern, the number of transactions relating to bills receivable and Bills payable are numerous in number then separate books for recording these transactions can be opened in the books. The ruling for these books also the same.

4.8 Journal proper :

In addition to these subsidiary books, as in the case of the previous four books. The original journal now called "Journal proper" is also used to record all other transactions which can not be recorded in any of the afore said books. The Journal proper is similar to the journal in ruling and form.

4.8.1 Types of transactions recorded in Journal Proper :

The following types of transactions are usually recorded through journal proper.

1. Opening entries.
2. Closing entries.
3. Adjustment entries.
4. Rectification entries.
5. Transfer entries.
6. Other entries.

4.9 Summary :

Journal is the book of prime entry in which all transactions are recorded. But when the transactions are numerous it is impossible to record all the transactions in one journal. Hence the need for special journal for recording the transactions which are numerous in number arises. These books are known as subsidiary books. Purchases book and sales books are meant for recording only credit transactions of purchases and sales respectively.

All transactions which cannot be recorded in any of the special books are recorded in a journal known as journal proper.

4.10. Questions :

1. What is the need for special journals ?
2. What do you understand by subsidiary books ?
3. What are the advantages of subsidiary books ?
4. What is a journal proper ?
5. Name various types of subsidiary books and explain the method of recording of transactions there in along with the method of posting.
6. State the types of transactions that are recorded through the journal proper.
7. What is journal proper? Explain its uses in accountancy.

4.11. Exercises :

1. Record the following transactions in the purchases journal of M/s Soni & co and show the ledger posting.

| | | |
|-------|-----------------------------|-------|
| 2007 | | Rs. |
| Jan 2 | Purchased goods from Chinku | 4,000 |
| Jan 3 | Brought goods from Reni | 5,400 |
| Jan 4 | Purchased from Santi | 3,500 |

| | | |
|-------|--|-------|
| Jan 5 | Brought goods from chinku with trade discount of 10% | 2,000 |
| Jan 6 | Purchased from Sai goods subject to a discount of 20% | 5,000 |
| Jan 7 | Venugopal sold us goods | 1,800 |

2. **Enter the following transactions in the sales Book of Yashodara. Traders.**

2007

| | |
|-------|--|
| Apr 1 | Sold 200 quintals of super fine rice @ Rs 1700 per quintal to A.P.Rice dealers with 10% discount. |
| Apr 3 | Sold 500 quintals of Coarse rice @ Rs 1500 per quintal to super price shop at a discount of 5% |
| Apr 5 | Sold 750 quintals of fine rice at the rate of 1600 per quintal to Gayatri Rice store at 7.5% discount |

3. **Enter the following transactions of Narayana & Co in proper books.**

2007

| | |
|--------|---|
| Mar 1 | Purchased on Credit from Guntur digitals Ltd. 55 water heaters @ 3,500 each 35 Electric stoves @ 500 each. 50 Electric Irons @ 600 each. Trade discount 20% |
| Mar 5 | Sold on Credit to Joginder Singh & Sons. 45 water heaters @ 4000 each 30 Electric stoves @ 600 each. 42 Electric Irons @ 700 each. Trade discount 10% |
| Mar 7 | Returned to Guntur Digitals, water heater and 1 Electric iron as defective |
| Mar 10 | Joginder Singh & Sons returned two Electric Irons as defective |
| Mar 11 | Returned the same Irons to Guntur digitals |
| Mar 12 | Purchased from V. Guard, 50 stabilisers @ Rs 750 each less 15% discount. |
| Mar 18 | Sold to Raj Electricals 10 stabilisers @ Rs 1000 each less 10% discount. |
| Mar 19 | Sold two stabilisers for cash Rs 800 each |
| Mar 22 | Purchased on credit 25 pedestal fans from Usha Co @ 1500 each less 20% discount. |
| Mar 26 | Sold Siri & Co 5 pedestal fans @ Rs 1750/- at 10% discount |

4. Enter the following transactions in the proper books.

2007

- Apr 1 Purchased on credit from Bombay dying 1000 meters of shifting cloth @ 125 per metre. 1000 meters of pant cloth @ 250 per metre.
- Apr 5 Purchased on credit from DCM Ltd. . 5000 meters of curtain cloth @ Rs 100 per metre.
- Apr 10 Purchased on credit from Vimal textiles 1000 sarees @ Rs 500 per sarees 2,500 Meters of dressing material @ Rs 125/- Per metre.
- Apr 15 Purchase on credit from Garden vareli 500 sarees @ Rs 350/- each 3000 Meters of dressing material @ Rs 100 per metre
- Apr 20 Purchased for cash from NTC 1500 metres of linen @ Rs 10 per metre.
- Apr 25 Purchased furniture for office use Rs 1000.
- Apr 30 Sold old type writer for Rs 750/-

5. From the following particulars prepare sales book.

2007

- Apr 1 Sold on credit to sundar & Co 15 Tables @ Rs 2,500 each
- Apr 3 Sold to Chandra & Co dining table with six chairs @ Rs 22,000
- Apr 5 Sold to Vijaya Krishna Hotel 35 cots @ Rs 15,000 each
35 Tables @ Rs 700 each, 35 dressing tables @ Rs 3,000 each.
35 stools @ Rs 200 each
- Apr 15 Sold for cash one book shelf @ Rs 5,500
- Apr 25 Sold to Red cross society
40 iron cots @ Rs 1500 each
40 Mattresses @ Rs 500 each.
40 pillows @ Rs 100 each.
- Apr 30 Sold to Guntur club.
1 sofa set @ Rs 1,30,000/-
1 coffee Table @ Rs 2,000/-

6. Vasudeva Rao gives the following information about his business. Record them in the concerned subsidiary books and post them to ledger accounts.

2007

- Mar 1 Purchased goods from Pragati & co at the list price of Rs 50,000 less 10% trade discount.
- Mar 5 Sold goods to Raja Rao for Rs 75,000 Less 5% trade discount.
- Mar 8 Returned goods to pragati & co at list price Rs 500/-
- Mar 10 Raja Rao returns us goods at the list price Rs 5,000/-

- Mar 13 Purchased goods from Akhil at the catalogue price of Rs. 2,00,000 less 20% trade discount.
- Mar 15 Sold goods to Pranav at the catalogue price of Rs.50,000 less 10% trade discount
- Mar 18 Returned goods to Akhil at the list price Rs 2,000
- Mar 20 Pranav returns us goods at the list price Rs 5,000
- Mar 22 Purchased goods from Jahnvi at Rs 80,000 less 10% trade discount.
- Mar 25 Sold goods to Pavan for Rs 25,000
- Mar 27 Sold goods Madan for Rs 15,000
- Mar 28 Purchased goods from Sarma at the catalogue price Rs 7,500 less 10% discount.
- Mar 29 Pavan returns us goods Rs 500.
- Mar 30 Returned goods to sarma at the catalogue Price 750/-

7. **From the following information find out the sales for the year.**

| | | |
|------------|----------------------------|----------|
| 1-7-2007 | Balance of Debtors | 1,00,000 |
| | Cash received from Debtors | 9,50,000 |
| | Sales Returns | 20,000 |
| | Bad debts | 30,000 |
| 31-12-2007 | Balance of Debtors | 2,00,000 |
| | Cash sales | 3,50,000 |

8. **Following information is extracted from the books of M/s Radha Krishna & Co.**

Who is hole sale cloth Merchant

2007

- Jan 4 Sales to Veena & co
200 sarees @ Rs 450 each.
- Jan 9 Sales to Kohinoor Bross for cash
150 sarees @ Rs 500 each
200 Blowse pieces @ Rs 35 each.
Dress Material.
450 Dresses @ Rs 850/- each.
- Jan 16 Sales to Bhavani textiles.
450 sarees @ Rs 350 each.
- Jan 30 Sold old Furniture to Lakshman Rs 1,000
Prepare sales book.

4.12 SUGGESTED READINGS :

Financial Accountancy : Shukla Grewal
Financial Accountancy : Jain and Narang
Financial Accountancy : R.L. Gupta & V.K. Gupta

- Dr. Ch. Suravinda

LESSON - 5**CASH BOOK**

5.0. OBJECTIVES : In the previous chapter you learned how purchases book, purchase Returns book, sales book and sales Returns book are prepared. In this lesson we will see How a cash book is prepared and various types of cash book.

Structure :

- 5.1 Introduction
- 5.2 Simple cash book
- 5.3 Two column cash book.
- 5.4 Cash discount.
- 5.5. Distinction between trade discount and cash discount.
- 5.5 Three columnar cash book.
- 5.6 Important points - while preparing three columnar cash book.
- 5.7 Petty cash
- 5.8 Imprest system
- 5.9 Summary
- 5.10 questions
- 5.11 Exercises.

5.1..Introduction :

The number of transactions relating to cash are usually large because most of the business dealings ultimately resolve themselves into cash transactions, so it is necessary to keep a separate book for cash transactions. In the cash book daily record of the transactions relating to receipts and payment of cash are entered. It is a very important book of business due to following reasons.

1. Usually in any business concern the number of transactions relating to cash are more in number.
2. with the proper maintenance of cash book the scope for committing fraud or misappropriation of cash can be reduced, and strict control is possible.
3. Timely collection of amounts from Debtors increase the financial position and the chances of its prompt payment to creditor, which in turn increase the reputation of business.

Cash book has a special character, that it acts dual role i. e. as a book of original entry as well as a ledger. It is a subsidiary book because all cash transactions are first recorded in the cash book and then posted to various accounts in the ledger. The recording of transactions in the cash book takes the shape of a ledger Account. Receipts of cash are entered on the debit side and payment of cash on the credit side, so there is no need of cash Account in the ledger.

The following are the types of cash Book.

1. Simple cash Book
2. Cash book with discount column.
3. Cash book with Bank and discount column.
4. Petty cash Book.

5.2 Simple Cash Book :

This types of cash book makes a record of all the receipts and payments of cash. All cash received will be recorded on the debit side and payments on the credit side. The ruling of this type of cash book is as follows.

SIMPLE CASH BOOK

| Receipts | | | | | Payments | | | | |
|----------|-------------|------|-----|---------------|----------|-------------|------|-----|---------------|
| Date | Particulars | R.N. | L.F | Amount Rs. | Date | Particulars | V.N. | L.F | Amount Rs. |
| | | | | | | | | | |

When cash is received it is entered on the debit side of the cash Book in the amount column along with the name of the party paying the cash in the particulars column. Receipt number with which cash has been received by the cashier is written in the R.N. (Receipt No) column.. Similarly cash paid is entered on the credit side of the cash book. Each payment must be supported by a voucher and voucher number is entered in the V.N (voucher No.) column.

At regular periodic intervals, preferably daily, Cash Book should be balanced like other ledger accounts and the balance shown by it should be equal to cash in hand. The cash Book always shows a debit balance because, one cannot spend more than what he had.

Illustration 1 : Mr. Madan Mohan started business with Rs. 2,00,000 on 1st sep 2007. He deposited Rs 50,000 in his bank account. His transactions during the month were as follows.

| | | |
|--------|--|--------|
| 2007 | | Rs. |
| Sep. 2 | Purchased table and chair for office use | 25,000 |
| Sep. 4 | Sold goods for cash | 10,000 |
| Sep.5 | Paid for Electric fittings. | 2,000 |
| Sep.6 | Paid expenses | 500 |
| Sep.7 | Paid wages | 2,500 |

Solution :

Prepare the cash Book of Mr. Madan Mohan

| Mr. Madan Mohan Books. | | | | | | | | | |
|-------------------------------|----------------|------|-----|---------------------------|-------|--------------------------|------|-----|-----------------|
| Receipts | | | | Cash Book (SIMPLE) | | Payments | | | |
| Date | Particulars | R.N. | L.F | Amount Rs. | Date | Particulars | U.N. | L.F | Amount Rs. |
| 2007 | | | | | | | | | |
| Sep 1 | To Capital a/c | | | 2,00,000 | Sep 1 | By Bank A/c | | | 50,000 |
| Sep 4 | To Sales A/c | | | 10,000 | Sep 2 | By Furniture A/c | | | 25,000 |
| | | | | | Sep 5 | By Electric fittings A/c | | | 2,000 |
| | | | | | Sep 6 | By Expenses A/c | | | 500 |
| | | | | | Sep 7 | By Wages A/c | | | 2,500 |
| | | | | | Sep 7 | By Balance c/d | | | 1,30,000 |
| | | | | 2,10,000 | | | | | 2,10,000 |
| Sep 8 | To bal b/d | | | 1,30,000 | | | | | |

5.3. Two Column Cash Book :

This cash book has an additional column for discount along with cash column on each side of the cash Book. Discount column on the debit side represents cash discount allowed to customers and the credit side indicates cash discount received from creditors, cash columns are balanced but discount columns are not balanced but totalled.

At this juncture before we see how a two columnor cash book is prepared we have to know what cash discount donates ?

Discounts are of two types 1. Trade discount 2. cash discount.

As we have already discussed that trade discount is the discount allowed by the supplier on the catalogue price or listed price of a commodity. We have already learned the accounting treatment regarding trade discount in the previous lesson. Now in the current lesson we will learn about cash discount.

5.4. Cash Discount :

When a business concern sold goods on credit debtors arises similarly, when it purchased goods on credit creditors arises to the concern. To encourage payments by debtors, the concern makes an announcement that if they repay their dues within a particular date certain amount is allowed as discount. This is known as discount allowed, which is a loss to the concern and debited. Similarly our creditors also make the same announcement, to enjoy the amount of discount we pay the amounts due within that date. This is known as discount received, which is a gain and credited. Cash discount is the only discount appears in the books of accounts.

Now we will see how a two columnor cash book is prepared with an illustration.

5.5 Distinction between cash discount and trade discount :

The following are the differences between cash Discount and Trade discount.

| Cash Discount | Trade Discount |
|---|--|
| 1. Cash discount is allowance made by the receiver of cash to the payer for prompt payment. | 1. Trade discount is an allowance made by the manufacturer or whole salers to the retailers. |
| 2. Cash discount is recorded in the books of debtor and creditor. | 2. Trade discount is not recorded in the books of either seller or buyer. |
| 3. Cash discount is deducted from the amount of debt or net invoice price. | 3. Trade discount is deducted from the catalogue price. |
| 4. Cash discount arise at the time of receipt or payment i.e.. When cash is received or paid. | 4. Trade discount appears at the time of purchase. |
| 5. The main object of cash discount is to induce the debtors to pay promptly with in the stipulated period of credit. | 5. The main object of trade discount is to enable the retailer to sell the goods at catalogue or list price and to keep some margin of profit. |
| 6. Generally the cash discount percentage will be less. | 6. Generally the Trade discount percentage will he higher. |

Illustration : 2

Enter the following transactions in a Two column cash Book and post them into the ledger.

| | | Rs | |
|--------|---------------------------------------|--------|------|
| 2007 | | | |
| Jan 1 | Cash is hand | 20900 | |
| Jan 3 | Purchased goods for cash | 5300 | |
| Jan 5 | Paid wages | | 2100 |
| Jan 7 | Withdrew from bank for expenses | 9000 | |
| Jan 7 | Paid to Jishnu | 2900 | |
| | Discount Allowed by him | 100 | |
| Jan 10 | Cash sales | 5900 | |
| Jan 13 | Received cash from Madhava on account | 9400 | |
| | Discount allowed to him | 100 | |
| Jan 15 | Purchased furniture from Achut | 10,000 | |
| Jan 16 | Paid for postage stamps | 100 | |
| Jan 18 | Additional capital introduced | 5,000 | |
| Jan 21 | Received cash from Venugopal | 8,850 | |
| | Discount allowed | 150 | |
| Jan 24 | Paid cash for travelling expenses | 400 | |
| Jan 26 | Amount deposited in bank | 10,000 | |
| Jan 27 | Cash paid to Bala Ram | 4,550 | |
| | Discount received | 50 | |
| Jan 28 | Goods sold to Vamsi | 2,700 | |
| Jan 30 | Paid salaries | 4,500 | |

| | | |
|--------|---|-------|
| Jan 30 | Cash purchases | 4,800 |
| Jan 30 | Deposited into bank all cash in exceed of | 4,000 |

Receipts**Two column Cash Book****Payments**

| Date | Particulars | R.N. | L.F. | Dis- count Rs. | Amount Rs. | Date | Particulars | R.N. | L.F. | Dis- count Rs. | Amount Rs. |
|--------|----------------|------|------|----------------------|---------------|--------|--------------------|------|------|----------------------|---------------|
| 2007 | | | | | | 2007 | | | | | |
| Jan 1 | To Bal b/d | | | | 20,900 | Jan 3 | By purhcases a/c | | | | 5,300 |
| Jan 7 | To Bank A/c | | | | 9,000 | Jan 7 | By Jishnu A/c | | | 100 | 2,900 |
| Jan 10 | To Sales a/c | | | | 5,900 | Jan 16 | By Postage stamps | | | | 100 |
| Jan 13 | To Madhavaa/c | | | 100 | 9,400 | Jan 24 | By Travelling exp. | | | | 400 |
| Jan 18 | To Capital a/c | | | | 5,000 | Jan 26 | By Bank | | | | 10,000 |
| Jan 21 | To Venugopal | | | 150 | 8,850 | Jan 27 | By Bala Ram | | | 50 | 4,550 |
| | | | | | | Jan 30 | By Salaries | | | | 4,500 |
| | | | | | | Jan 30 | By Purchases | | | | 4,800 |
| | | | | | | Jan 30 | By Bank | | | | 22,500 |
| | | | | | | Jan 30 | By Balance c/d | | | | 4,000 |
| | | | | | 59,050 | | | | | | 59,050 |
| Feb 1 | To bal b/d | | | | 4,000 | | | | | | |

Ledger Account

| Dr. | | | | Cr. | | | |
|--------|-------------|---|---------------|-------|-------------|----|---------------|
| Date | Particulars | F | Amount Rs. | Date | Particulars | F. | Amount Rs. |
| 2007 | | | | 2007 | | | |
| Jan 26 | To Cash A/c | | 10,000 | Jan 7 | By cash A/c | | 9,000 |
| | To Cash A/c | | 22,500 | | | | |

| Dr. | | | | Cr. | | | |
|------|-------------|---|---------------|--------|-------------|----|---------------|
| Date | Particulars | F | Amount Rs. | Date | Particulars | F. | Amount Rs. |
| | | | | 2007 | | | |
| | | | | Jan 10 | By cash A/c | | 5,900 |

| Dr. | | | | Madhava Account | | | | Cr. |
|------|-------------|---|---------------|-----------------|--------------------------------|----|---------------|-----|
| Date | Particulars | F | Amount Rs. | Date | Particulars | F. | Amount Rs. | |
| | | | | 2007 Jan 13 | By cash A/c By Discount A/c | | 9,400 100 | |

| Dr. | | | | Capital Account | | | | Cr. |
|------|-------------|---|---------------|-----------------|-------------|----|---------------|-----|
| Date | Particulars | F | Amount Rs. | Date | Particulars | F. | Amount Rs. | |
| | | | | 2007 Jan 18 | By cash A/c | | 5000 | |

| Dr. | | | | Venu gopal Account | | | | Cr. |
|------|-------------|---|---------------|--------------------|--------------------------------|----|---------------|-----|
| Date | Particulars | F | Amount Rs. | Date | Particulars | F. | Amount Rs. | |
| | | | | 2007 Jan 21 | By cash A/c By Discount A/c | | 8850 150 | |

| Dr. | | | | Purchases Account | | | | Cr. |
|-------------------------|----------------------------|---|----------------|-------------------|-------------|----|---------------|-----|
| Date | Particulars | F | Amount Rs. | Date | Particulars | F. | Amount Rs. | |
| 2007 Jan 3 Jan 30 | To Cash A/c To Cash A/c | | 5,300 4,800 | | | | | |

| Dr. | | | | Jishnu Account | | | | Cr. |
|---------------|----------------------------|---|---------------|----------------|-------------|----|---------------|-----|
| Date | Particulars | F | Amount Rs. | Date | Particulars | F. | Amount Rs. | |
| 2007 Jan 7 | To Cash A/c To Discount | | 2,900 100 | 2007 | | | | |

| Dr. | | | | Postage stamps Accounts | | | | Cr. |
|----------------|-------------|---|---------------|-------------------------|-------------|----|---------------|-----|
| Date | Particulars | F | Amount Rs. | Date | Particulars | F. | Amount Rs. | |
| 2007 Jan 16 | To Cash A/c | | 100 | | | | | |

| Dr. Travelling expenses Account | | | | Cr. | | | |
|---------------------------------|-------------|---|---------------|------|-------------|----|---------------|
| Date | Particulars | F | Amount Rs. | Date | Particulars | F. | Amount Rs. |
| 2007 Jan 27 | To Cash A/c | | 400 | | | | |

| Dr. Bala Ram Account | | | | Cr. | | | |
|----------------------|-----------------|---|---------------|------|-------------|----|---------------|
| Date | Particulars | F | Amount Rs. | Date | Particulars | F. | Amount Rs. |
| 2007 Jan 27 | To Cash A/c | | 4,550 | | | | |
| | To Discount A/c | | 50 | | | | |

| Dr. Salaries Account | | | | Cr. | | | |
|----------------------|-------------|---|---------------|------|-------------|----|---------------|
| Date | Particulars | F | Amount Rs. | Date | Particulars | F. | Amount Rs. |
| 2007 Jan 27 | To Cash A/c | | 4,500 | | | | |

5.6 Three Columnar Cash Book

Now - a- days most of the trade is carried through banks i.e, payments by cheque and receipt with cheque. In such a case the cash book should have a bank column in addition to the cash and discount columns to have a record of Bank Account in the cash book. This type of cash Book is known as Three column cash Book

In case a business man has bank accounts with two or more banks. There will be two or more bank coloums on each side of the cash book, depending upon the number of banks with which he has bank accounts.

When a three coloumnor cash book is maintaied no separate account of cash or Bank Account is required in the ledger. However. Separate Discount Accounts have to be opened in the ledger, one for the discount allowed and the other for discount received.

Contra Entry :

As explained above a three columnar cash book contains columns both for cash and bank transactions. An accounting transaction involves two accounts, and there may be a transaction where cash account and bank Account are involved. Since there are no separate cash account and Bank account in the ledger no posting will done from the cash Book. For example when cash is paid into the bank, it should be debited to bank Account by entering the amount in the bank column on the debit side of the cash Book as "To Cash" and credited to cash Account by entering the amount in the cash column on the credit side of the Cash Book as "By Bank" to record the fact of cash having gone out of the business As both the accounts are in the same book and both the effects are given in the same book, letter 'C' is written in the L.F column against this entry on each side of the cash book to indicate that the contra effect of this transaction is recorded on the opposite side. Such type of entry appearing on both sides of the cash Book is known as contra Entry.

Similarly when cash is withdrawn from the bank for office use the entry would be to debit cash Account by entering the amount in the cash column on the receipts side of the cash Book as “To Bank” and to credit the bank column as “by cash” As both accounts involved appear in the cash Book. To indicate this as a contra transaction in L.F column, letter ‘C’ is written on both sides in the L.F column.

5.5.1. Points which should be kept in view while preparing a three columnar cash Book:

The following are the points which should be kept in view while making accounting entries in the cash Book.

1. **Receipt of Cheques** : If a cheque is received and immediately sent to the bank for collection, it should be debited in the bank column, but it is sent to the bank for collection on a later date, on the date of receipt it is treated as cash and debited in the cash column. When the cheque is sent to bank for collection, contra entry will be recorded in the cash Book by giving debit to bank column and by giving credit to the cash column.

In the absence of any specific instructions in the question the student should presume that the cheque received from a party was sent to the Bank on the same day for collection.

2. **Endorsement of cheques received:** A cheque received by the business may not be sent to the Bank for collection, but may be endorsed in favour of a creditor as it is a negotiable instrument. In such a case the cheque received will be taken as a receipt of cash, similarly the cheque endorsed, will be taken as payment of cash.

3. **Dishonoured cheque** : If a cheque sent to the bank for collection is dishonoured, it should be credited in the bank column of the cash book to cancel the previous debit given to the bank column when the cheque was deposited in the bank.

When a cheque endorsed to creditor dishonoured no entry is passed in the cash Book because for recording the dishonour. The entry is

| | |
|----------------------|----|
| Customer's Account | Dr |
| To creditors Account | |

It is passed through the Journal proper.

The recording of transactions in three-columnar cash book and from there posting into the ledger will be clear with the help of the following illustration.

Illustration - 3

Enter the following transactions in a three column cash Book.

| 2007 | | Rs |
|-------|----------------------------|--------|
| Jan1 | Cash in hand | 8,550 |
| Jan1 | Balance at Bank | 24,590 |
| Jan3 | Cash sales | 17,500 |
| Jan6 | Received a cheque from Ram | 1,500 |
| Jan8 | Paid into bank Ram cheque | |
| Jan10 | Paid to Dasaradh by cheque | 19,800 |
| | Discount allowed by him | 200 |
| Jan12 | Cash purchases | 12,100 |

Solution :

| Cash Book (Three columns) | | | | | | | | | | |
|---------------------------|----------------|-----|------------|---------------|---------------|--------|-----------------------------|-----|--------------|---------------|
| Receipts | | | | | Payments | | | | | |
| Date | Particulars | LF. | Discount | Cash Rs. | Bank Rs. | Date | Particulars | LF. | Discount Rs. | Bank |
| 2007 | | | | | | 2007 | | | | |
| Jan 1 | To Bal b/d | | | 8,550 | 24,590 | Jan 8 | By Bank a/c | C | | 1,500 |
| Jan 3 | To Sales A/c | | | 17,500 | | Jan 8 | By Dasaradh a/c | | 200 | 19,800 |
| Jan 6 | To Ram a/c | | | 1,500 | | Jan 12 | By Purchses a/c | | | 12,100 |
| Jan 8 | To Cash /c | C | | 1,500 | | Jan 14 | By cash a/c | C | | 5000 |
| Jan 14 | To Bank a/c | C | | 5,000 | | Jan 19 | By Bank A/c | C | | 14,900 |
| Jan 15 | To Anirudh a/c | | 100 | 14,900 | | Jan 21 | By Stationery a/c | | | 500 |
| Jan 18 | To Sales a/c | | | 8,500 | | Jan 23 | By commission a/c | | | 750 |
| Jan 19 | To Cash a/c | C | | | 14,900 | Jan 27 | By Anirudh a/c | | 100 | 14,900 |
| Jan 25 | To Pradeep a/c | | | | 2,000 | Jan 29 | By Drawings a/c | | | 4000 |
| Jan 31 | To bal c/d | | | | 10,010 | Jan 31 | By Salaries a/c | | | 7,000 |
| | | | | | | Jan 31 | By Bank Charges & Insurance | | | 1550 |
| | | | | 1,550 | | Jan 31 | By Balance c/d | | | 26,950 |
| | | | 100 | 55,950 | 53,000 | | | | 300 | 55,950 |
| Feb 1 | To Balance c/d | | | 26,950 | | | To Balance c/d | | | 10,010 |

| | | |
|-------|---|---------------|
| Jan14 | With draw from bank for Office use | 5,000 |
| Jan15 | Received cheque from Anirudh Allowed discount | 14,900 100 |
| Jan18 | Cash sales | 8,500 |
| Jan19 | Paid into Bank the cheque received from Anirudh. | |
| Jan21 | Cash paid for stationery | 500 |
| Jan23 | Paid commission by cheque | 750 |
| Jan25 | Received cheque from pradeep and paid the same into Bank | 2,000 |
| Jan27 | Anirudh's cheque dishonoured | |
| Jan29 | Drew a cheque for personal use | 4,000 |
| Jan31 | Paid salaries by cheque | 7,000 |
| Jan31 | Bank charges & Insurance premium debited in the pass Book. | 1,500 |

Illustration - 4

Enter the following transactions in a cash Book with Discount and Bank columns assuming that all payments are made by cheque and all receipts are immediately banked.

| 2007. | | Rs |
|--------|--|--------|
| Mar 1 | Paid into Bank | 50,000 |
| Mar 3 | Purchased goods | 22,000 |
| Mar 7 | Sold goods for cash | 11,000 |
| Mar 9 | purchased goods | 24,000 |
| Mar 10 | sold goods to Raju on credit | 5,000 |
| Mar 13 | purchased goods from Gopi on credit | 5,800 |
| Mar 14 | paid electricity charges | 750 |
| Mar 15 | Received from Raju in full settlement | 4,800 |
| Mar 16 | paid office rent | 2,500 |
| Mar 17 | with drawn from book for petty payments | 500 |
| Mar 18 | paid to Gopi in full settlement of his A/c | 5,700 |
| Mar 19 | sold goods | 21,000 |
| Mar 20 | sold goods to Ramanujam | 8,000 |
| Mar 21 | purchased goods from Abhinav on credit | 28,000 |
| Mar 24 | Received cash from Ramanujam in full settlement | 7,850 |
| Mar 25 | paid to Abhinav on account in full settlement | 27,800 |
| Mar 26 | paid salaries | 15,000 |

Solutions :**Cash Book with Discount And Bank Columns**

| Receipts | | | | | Payments | | | | |
|----------|------------------|-----|-----------------|-----------------|----------|-----------------------|-----|-----------------|-----------------|
| Date | Particulars | L.F | Discount Rs. | Bank Rs. | Date | Particulars | L.F | Discount Rs. | Bank Rs. |
| 2007 | | | | | 2007 | | | | |
| Mar 1 | To Cash A/c | | | 50,000 | Mar 3 | By Purchases a/c | | | 22,000 |
| Mar 7 | To Sales A/c | | | 11,000 | Mar 9 | By Purchases A/c | | | 24,000 |
| Mar19 | To Raju a/c | | 200 | 4,800 | Mar14 | By Electric charges/c | | | 750 |
| Mar24 | To Sales A/c | | | 21,000 | Mar16 | By Office Rent A/c | | | 2,500 |
| Mar28 | To Ramanujam a/c | | 150 | 7,850 | Mar17 | By Petty Cash A/c | | | 500 |
| Jan 21 | To Sales A/c | | | 15,800 | Mar18 | By Gopi A/c | | 100 | 5,700 |
| | | | | | Mar 25 | By Abhinav A/c | | | 27,800 |
| | | | | | Mar 26 | By Salaries A/c | | | 15,000 |
| | | | | | Mar 27 | By Drawings | | | 1,500 |
| | | | | | Mar 29 | By Purchases | | | 3,000 |
| | | | | | Mar 31 | By Telephone charges | | | 2,300 |
| | | | | | Mar 31 | By Balance c/d | | | 10,400 |
| | | | 350 | 1,15,450 | | | | 350 | 1,15,450 |
| Feb 1 | To bal b/d | | | 10,400 | | | | | |

| | | |
|--------|-----------------------------|--------|
| Mar 27 | with drawn for personal use | 1,500 |
| Mar 28 | sold goods for cash | 15,800 |
| Mar 29 | purchased goods by cheque | 3,000 |
| Mar 31 | paid telephone charges | 2,300 |

5.6 Petty Cash Book :

In every business there are many payments which are of small amounts such as postage, cartage, stationery, cleaning charges etc. It is undesirable to burden the main cash Book with numerous small payments like the above so a separate book, called "petty cash Book is usually maintained. The person maintaining the petty cash book is known as petty cashier. All small payments to be made by cash are recorded in the petty cash book. The petty cashier works under the supervision of the chief cashier, who advances money in the beginning of every month/ the month/ quarter to meet petty expenses. At the end of the month / Quarter, the petty cashier submits a statement of account of the expenses incurred by him during the month / quarter and gets a fresh advance.

The best method of recording petty cash payments is to enter them in a petty cash Book maintained in a columnar form. In such a petty cash Book, a separate column for each head of expenditure is provided. The advantage of a columnar petty cash Book is that it saves unnecessary labour used in posting each item of petty cash payment separately in the ledger, only totals of various columns are to be posted in the ledger this book is also known as Analytical petty cash Book because the various small cash payments get automatically analysed when they are entered in their respective columns.

The petty cash book is Just like the cash Book. The amount received by the petty cashier from the main cashier are entered on the debit side of the petty cash book and payments on the credit side of the petty cash book every small payment is entered twice on the credit side - one in the total payments column and second in one of the analytical amount column. The periodical total of each column is posted to the expenses accounts concerned, while the total of payments columns serves to find out the balance of cash with the petty cashier.

5.5.1 Imprest system of petty cash Book :

The petty cash Book is usually maintained on the basis of Imprest system. According to this system, a fixed amount is advanced to the petty cashier. He submits his accounts at the end of the period and the chief cashier after examining his accounts gives him a fresh advance equivalent to the amount spent by him during the period. Thus, in the beginning of each period the petty cashier has a fixed balance. The amount so advanced to him is termed as "Imprest"

The recording of transaction in a petty cash Book will be clear with the help of the following Illustration.

Illustration - 5

Prepare columnar petty cash Book on imprest system from the following particulars and post into the ledger.

| 2007 | | Rs |
|---------|--------------------------------------|------|
| June 1 | Received for petty Cash payments | 2000 |
| June 2 | Paid for postage | 160 |
| June 5 | Paid for stationery | 100 |
| June 8 | paid for Advertisement | 200 |
| June 12 | paid for wages | 80 |
| June 16 | paid for carriage | 60 |
| June 20 | paid for conveyance | 88 |
| June 25 | paid for travelling expenses | 320 |
| June 27 | paid for postage | 100 |
| June 28 | wages to office cleaner | 40 |
| June 30 | paid for telegrams | 80 |
| June 30 | sent register notice to land lord | 15 |

5.6 Summary :

In Any business concern the number of transactions in cash are more so it is necessary to keep a separate book for cash transactions. Cash book plays dual role one as a subsidiary book other as a ledger account. There are four types of cash book. Simple cash book is prepared with cash column. In two columnor cash book a discount column is maintained along with cash column. As most of the trade now - a - days is carried through banks a bank column is also maintained in tree columnor cash book along with cash and discount columns. To record petty expenses a separate petty cash book under Imprest system is prepared.

5.7 Questions :

1. Write down the types of cash book.
2. What is a contra entry ?
3. Write about the Imprest system of petty cash.
4. Explain cash discount.
5. Write down the distinction between cash discount and trade discount.

5.8 Exercises :

1. **Prepare a cash book from the following information.**

| | | Rs. |
|--------|-------------------------------|-------|
| Jan 1 | Balance of cash | 7,000 |
| Jan 10 | Bought goods on credit from Z | 3,000 |
| Jan 11 | Bought goods for cash | 2,500 |
| Jan 15 | sold goods for cash | 4,700 |
| Jan 17 | paid salary | 1,000 |
| Jan 18 | with draw for personal use | 500 |

2. **Prepare a single column cash book with the information given below.**

| 2007 | | Rs |
|-------|--------------------------|--------|
| Jan 1 | Balance of cash in hand | 700 |
| Jan 2 | Received from cash sales | 10,500 |
| Jan 4 | cash purchases | 5,400 |
| Jan 5 | paid staff salaries | 1,200 |
| Jan 6 | paid x, creditor | 3,100 |
| Jan 7 | Received from debtor | 1,500 |

3. **Prepare cash book from the following transactions.**

| 2007 | | |
|--------|---------------------------------|--------|
| Apr. 1 | Started business with a capital | 20,000 |
| 1 | Purchased furniture | 8,000 |
| 5 | Cash purchases | 4,000 |
| 6 | Sold table | 6,000 |

| | | |
|----|----------------------|-------|
| 8 | Sold goods to Prasad | 4,100 |
| 10 | Paid wages | 1,000 |

4. Prepare a three columnor cash book from the information given below.

| 2007 | | Rs |
|---------|--|-------|
| June 1. | Introduced capital | 9,000 |
| June 1 | Deposited into Bank Account | 7,000 |
| June 4 | Bought furniture payment made by cheque | 5,000 |
| June 10 | Bought stationery through cheque | 1,000 |
| June 15 | Purchased goods through cheque | 1,000 |
| June 18 | With drew Rs. 100 from bank for office use. | |
| June 20 | sold goods on credit to suresh | 1,500 |
| June 22 | Deposited into bank | 500 |
| June 25 | Brought goods from Mahesh | 1,000 |
| June 26 | sold goods, payment received in cheque and deposited into Bank | 1,500 |
| June 27 | paid to Mahesh in full suttlement | 980 |
| June 30 | Received from subhash in full settlement of his account | 1,480 |
| June 31 | withdrew cash from Bank for Personal use | 100 |

Ans : cash - Rs 3,080, Bank Rs 1,020

5. Prepare a cash book from the following information.

| 2006 | | Rs |
|-------------|--|--------|
| December 1 | Cash in hand | 3,000 |
| | Bank Balance | 12,000 |
| December 2. | cash received from Ajay and a cheque received | 1,500 |
| December 3. | A cheque issued to Neeraj in full settlement of | 450 |
| December 4 | cheque received from Ajay deposited into the bank | 470 |
| December 6 | cash sales | 6,000 |
| December 8 | purchased goods from Anil for cash | 2,000 |
| December 10 | Cheque received from Ajay dishonoured | |
| December 10 | cash deposited into Bank | 1,500 |
| December 12 | A cheque received from Sunil in full settlement of Rs | 2,100 |
| December 13 | cheque received from sunil is endorsed to Vinod in full settlement of his account of | 2,200 |
| December 15 | Bank charges debited in pass book | 20 |
| December 18 | An advise received from the bank states that : | |

| | |
|---|--------|
| a. Mrs. sobha has directly deposited into bank | 3,500 |
| b. The bank has collected interest on investments | 250 |
| c. As per standing instructions the bank has paid insurance premium | 300 |
| December 20 paid for stationery | 100 |
| December 23 Received a cheque from Imran on account | 10,000 |
| December 26 Paid salaries | 2,000 |
| December 29 cash withdrawn for office use | 1,000 |

Ans :- cash Rs 4,900 Bank Rs. 25,480

6. Prepare three column cash book of suresh from the following information on 1st Jan 2007 suresh had Rs 900 in hand and Rs 13,000 at bank.

| 2007 | | Rs |
|--------|---|--------|
| Jan 2. | Received cheque from Arun in fulfilment of debt Rs 1300 | 1,240 |
| Jan 3 | cash sales | 500 |
| Jan 3 | paid for advertisement by cheque | 700 |
| Jan 4 | Paid salaries and wages | 870 |
| Jan 4 | Amount with drawn from bank for office use | 1,200 |
| Jan 5 | Drawn cash for domestic use by suresh from bank | 400 |
| Jan 6 | issued cheque in favour of Rao & sons | 2,000 |
| | Discount allowed | 40 |
| Jan 7 | Received cheque from Mahata Bros | 1,600 |
| | discount allowed | 40 |
| Jan 18 | sale of Machinery Payment Received by cheque | 5,000 |
| Jan 20 | Bank returns cheque of Mehata Bros dishonoured | |
| Jan 25 | New Machinery Purchased and cheque issued | 20,000 |
| Jan 26 | Paid installation expenses in cash | 1,000 |
| Jan 28 | Bank charges as per pass book | 20 |

Ans :- cash Rs 730. Bank O.D Rs. 5080

7. Enter the following transaction in a cash book

| 2007 | | Rs |
|-------|-----------------|--------|
| Jan 1 | Cash in hand | 5,374 |
| | Balance at bank | 15,490 |
| Jan 3 | cash sales | 6,400 |
| Jan 5 | paid into bank | 7,000 |

| | | | |
|--------|---|-------|-----|
| Jan 6 | Received a cheque from Satyam | 700 | |
| Jan 8 | Paid into bank satyam's cheque. | | |
| Jan 10 | Paid to Anurag by cheque on account | 980 | |
| | discount allowed by him | 20 | |
| Jan 12 | cash purchases | 2,500 | |
| Jan 14 | with drew from bank for office use | 5,000 | |
| Jan 15 | Received cheque from lakshman | 950 | |
| | allowed discount | 50 | |
| Jan 16 | cash sales | 7,500 | |
| Jan 19 | paid into bank lakshman's cheque and cash | 4,000 | |
| Jan 21 | cash paid for stationery | 120 | |
| Jan 23 | paid commission to Rakesh | 500 | |
| Jan 25 | Received cheque from Mohan | 1,000 | |
| | and paid the same into bank | | |
| Jan 27 | Lakshman's cheque dishoured | | |
| Jan 29 | Drew a cheque for personal use | 800 | |
| Jan 31 | paid salaries by cheque | 1,500 | |
| | and by cash | | 500 |
| Jan 31 | Bank charges Rs 20 and Insurance premium Rs 520 as shown in pass Book. | | |

Ans : Cash Rs 8654 Bank Rs. 19,370

8. Enter the following transactions in three columnor cash book.

| 2007 | | Rs |
|-----------|---|-------|
| March 1. | cash in hand | 600 |
| March 1 | Bank balance | 3,000 |
| March 3 | cash deposited into bank | 2,000 |
| March 5 | cheque received from Narayan in full settlement of his bebt Rs 530/- | 500 |
| March 8 | Purchased goods from Narendra at 5% Trade discount paid half in cash and the other in cheque. | 1,000 |
| March 15. | Narayan's cheque dishonoured and returned. | |
| March 20 | Cash with drawn from Bank For office use | 300 |
| | For personal use | 200 |
| March 25 | office rent paid | 500 |
| March 27 | Bank charges in pass book | 10 |
| March 29 | salaries paid through cheque | 500 |

| | | |
|----------|-----------------------------------|-------|
| March 30 | Amount received from satyam | |
| | in cash | 500 |
| | through cheque | 1,000 |
| | Discount allowed | 50. |
| March 31 | Amount paid to Ramachandra Rs 475 | |
| | in full settlement of Rs 500. | |

Ans: cash Rs 250 Bank o.D. Rs 1485

9. Enter the following transactions in three columnor cash book.

| 2007 | | Rs |
|--------|--|-------|
| June 1 | cash in Hand | 5,000 |
| | Balance at Bank | 2,000 |
| June 2 | cash sales | 2,000 |
| June 4 | Amount paid to Anil by cheque | 800 |
| June 5 | cash purchases | 1,100 |
| June 6 | cash received from customer | 2,000 |
| June 7 | Amount with drawn from Bank for personal use 500. | |

Ans : Bal cash Rs 6,900/- Bank Rs 1700/-

10. From the following information prepare a three columnor cash book.

| 2007 | | Rs |
|--------|---|--------|
| Mar 1 | cash balance | 55,000 |
| | Bank balance | 35,000 |
| Mar 2 | purchased goods paid by cheque | 10,000 |
| Mar 3 | Business expenses paid | 1,000 |
| Mar 4 | Cheque received from Naresh deposited the same into bank | 30,000 |
| Mar 5 | Amount paid to kumar in full settlement of Rs 2,100 | 2,000 |
| Mar 6 | sold goods to vijay | 5,000 |
| Mar 10 | cheque received from Naresh dishonoured. | |
| Mar 12 | cheque received from vijay | 5,000 |
| Mar 14 | cash withdrawn from Bank for personal expences | 5,000 |
| Mar 20 | cash with drawn from bank for office use | 6,000 |
| Mar 24 | cash sales | 10,000 |
| Mar 25 | Deposited into bank | 15,000 |
| Mar 26 | Amount received from Rekesh in full settlement of his account of Rs 6,000 | 5,900 |

Mar 31 Due to insolvency of a customer
Who due Rs 8000 only 50% received

Ans : cash Rs. 62,900 Bank Rs. 34,000

11. Enter the following transactions in three columnor cash book.

| 2007 | | Rs |
|--------|---|--------|
| Jan 1 | cash balance | 15,000 |
| | Bank balance | 50,000 |
| Jan 2 | cash sales | 40,000 |
| Jan 5 | Furniture purchased and paid by cheque | 8,000 |
| Jan 6 | Rent paid by cheque | 5,000 |
| Jan 7 | cash deposited into bank | 40,000 |
| Jan 8 | Interest on capital received | 4,000 |
| Jan 9 | Salaries paid | 5,000 |
| Jan 10 | cash received from vishnu | 15,000 |
| | Discount allowed | 500 |
| Jan 12 | cheque received from Anjan deposited into bank | 8,000 |
| Jan 13 | Anjan's cheque dishonoured. | |
| Jan 14 | credit purchases from Gopi | 6,000 |
| Jan 18 | cash with drawn for office use | 12,000 |
| Jan 20 | cheque issued to Gopi | 5,800 |
| | Discount received | 200 |
| Jan 24 | cash drawn from bank for personal use | 4,000 |

Ans : cash 37000 Bank : 59,200

petty cash :

12. Enter the following transactions in petty cash book.

| 2007 | | Rs |
|----------|------------------------------|--------|
| March 1 | Amount received from cashier | 200-00 |
| March 2. | Printing charges | 15-00 |
| March 4 | Postage | 8-00 |
| March 6 | stationery | 10-00 |
| March 10 | carriage | 15-00 |
| March 15 | Postage | 18-00 |
| March 20 | Travelling expenses | 20-00 |
| March 25 | Telegram | 12-00 |
| March 31 | cool drinks | 40-00 |

Ans :- Bal 62-00

13. Prepare the petty cash book for the following transactions and balance.

2007

| | | |
|-------|--------------------------------------|--------|
| Nov 1 | Advanced to petty cashier by cheque | 100-00 |
| Nov 2 | Paid carriage | 4-00 |
| Nov 3 | paid for stationery | 15-00 |
| Nov 4 | paid for postage stamps | 10-00 |
| Nov 5 | Purchased letter pads for office use | 5-00 |
| Nov 6 | Paid for carriage | 6-00 |
| Nov 7 | gave telegram to Mumbai | 11-00 |

Ans : Bal Rs 49.

14. Prepare the petty cash book under the imprest system.

2007

| | | Rs |
|-------|----------------------------|--------|
| Feb 1 | cash received from cashier | 100-00 |
| Feb 2 | cortage | 6-00 |
| Feb 3 | Postage | 2-25 |
| Feb 4 | stationery | 3-00 |
| Feb 4 | Printing | 11-25 |
| Feb 4 | stamps | 2-00 |
| Feb 4 | Refreshments to customers | 5-75 |
| Feb 5 | cleaning wages | 4-00 |
| Feb 5 | Repairs to type writer | 15-00 |
| Feb 6 | cortage | 1-75 |
| Feb 6 | postage | 4-75 |
| Feb 6 | travelling expenses | 1-25 |
| Feb 6 | Entertainment | 2-50 |

Ans:- Bal Rs. 39.25

15. M/s vimal Bros maintaining their petty cash under imprest system. Every monday cashier provides Rs 150 to petty cashier for meeting petty expenses. The expenses for one week were as follows.

2007

| | | Rs |
|-------|------------------------------|--------|
| Jan 1 | Amount received from cashier | 150-00 |
| Jan 2 | Travelling expenses | 8-00 |
| Jan 2 | postage stamps purchased | 22-00 |
| Jan 3 | stationery | 19-00 |
| Jan 3 | office expenses | 6-00 |
| Jan 4 | Tea, coffee | 21-00 |
| Jan 4 | carriage | 10-00 |
| Jan 5 | Advance to Raj, clerk | 10-00 |
| Jan 5 | Tiffins | 12-00 |

Jan 6 Riksha
prepare petty cash under imprest system.

Ans : Bal : Rs 24.

16. Prepare a petty cash under the imprest system from the following particulars,

| | | Rs. |
|--------|-----------------------------|-----|
| 2007 | | |
| Dec 1 | Balance with petty cashier. | 800 |
| Dec 2 | Railway charges | 90 |
| Dec 2 | Telegram | 95 |
| Dec 2 | stationery | 100 |
| Dec 5 | carriage | 120 |
| Dec 5 | stationery | 55 |
| Dec 5 | Postage stamps | 100 |
| Dec 7 | Repairs | 200 |
| Dec 7 | Travelling expences | 150 |
| Dec 8 | casual wages | 50 |
| Dec 9 | Electric Repairs paid | 45 |
| Dec 10 | Tiffins | 50 |
| Dec 12 | S.T.D charges | 80 |
| Dec 15 | speed post | 75 |

SUGGESTED READINGS :

| | | |
|-----------------------|---|-------------------------|
| Financial Accountancy | : | Shukla Grewal |
| Financial Accountancy | : | Jain and Narang |
| Financial Accountancy | : | R.L. Gupta & V.K. Gupta |

- Dr. Ch. Suravinda

LESSON - 6**BANK RECONCILIATION STATEMENT**

6.0. OBJECTIVES : After going through this lesson the student can know the causes of difference between the balance of cash book and pass book, the need for reconciliation and the preparation of bank reconciliation statement.

Structure :

- 6.1. Introduction
- 6.2. Need for Bank Reconciliation
- 6.3. Reasons for the difference
- 6.4. Procedure for preparation of Bank Reconciliation statement
- 6.5. Bank overdraft.
- 6.6. Summary
- 6.7. Questions
- 6.8. Exercises

6.1. Introduction :

A Business unit has to make many receipts and payments every day. The business man can relieve himself from this bothering of cash receipts and payments by opening a current account in the bank. After opening of current account with the bank, a pass book is given to the business man, which makes a record of the transactions with the bank. This pass book is written by the bank. On the other hand the business man who opens a current account with the bank also writes his transactions with the bank either in a bank account opened in the ledger or in bank column of his cash book.

The balance of the bank account should be equal to the balance shown by the pass book, but some times these two balances do not agree. This disagreement may arise because of a mistake or time-lag between the entries made by the bank in its own account books or the entries made by a trader in his books. To reconcile these different balances shown by the cash book and pass book, a statement known as Bank reconciliation statement is prepared.

6.2. Need for Bank Reconciliation Statement

The bank column of the cash book usually shows a debit balance representing the amount held in deposit with the bank, the banker also records these transactions with his customers in his ledger considered from his point of view. The pass book is a copy of the customer's account as it appears in the banker's ledger. It usually shows a credit balance representing the amount belonging to the customer with the banker. The cash book usually shows a debit balance and the pass book shows a credit balance. Both these books should show the same amount as their balance. However, they usually show different amounts as their balances. This difference in the balances arises on account of the fact that the transactions are either first recorded by the business man in the cash book or by the banker later, the other party records them. The fact that transactions do not get recorded simultaneously in both the books is the main reason for the difference in these balances. The interval in the recording of the transactions, in these two books is called 'time - lag'. The business man compares his cash book with the pass book periodically say, once in a month. The balance shown by these two books should be one and the same. But it is usually not so because some of the entries might not have been recorded or incorrectly recorded in any of the two books.

Therefore it is necessary to prepare a statement known as bank Reconciliation statement to reconciling the two balances shown by the cash Book and the pass book on a particular date. The other important purpose of the preparation of this statement is to know the exact balance with the bank.

6.3. Reasons for the difference in Two Balances :

The reasons for the difference in the balances shown by the two books may be as follows.

1. Cheques issued but not yet presented for payment : As soon as a cheque is issued it is entered but the bank makes no entry for the cheque until it is actually presented for payment. This means that if the cheque is not presented for payment upto the date of the preparation of the Bank Reconciliations statement the balance as per Pass Book will be higher than the balance shown by the Cash Book by the amount of cheque not presented for payment.

2. Cheques paid into bank but not yet collected by the Bank : As soon as cheques are received they are entered on the debit side of the cash book, increases the balance at the bank but the bank does not give credit for the cheque deposited until it is cleared and collected.

3. Bank Charges and Interest debited in the pass Book : If there is an overdraft the bank will charge interest for the overdrawn amount. As a result the balance as per pass Book is reduced by the amount of bank charges and interest, where as balance as per Cash Book remains same due to lack of information of these charges upto the date of the preparation of the Bank Reconciliation statement. Similarly in case of Bank charges also the banker debits the pass book of the customer at first and the business man comes to know this fact only when he receives the Pass Book from the bank duly filled up.

4. Interest, Rent and dividend collected by the Bank on behalf of customer : On the instructions of the customer the bank may collect Interest, rent on property or dividend on investments. After collection of this income the bank will give the credit to the businessman so as a result the balance as per pass book increases where as there may be no entry in the cash book due to lack of this information. The cash book balance remains unchanged as there is no entry in the cash book.

5. Insurance premium, subscriptions to periodicals and other payments made by the bank on behalf of the client on the standing instructions of the customer, the bankers make certain payments like Insurance premium and other payments when they fall due and reduce his balance. But balance as per cash Book will remain same because of the omission of the entry in the cash book for payments made by the bank.

6. Cheques omitted to be banked : some times a cheque received by the businessman may be entered immediately in the cash book but may be omitted to send the same to the bank for collection. As a result of this the cash book balance increases and the balance as per pass book remains same without change because no cheque is received for collection.

7. Cheques, bills of exchange dishonoured : When a cheque or bills of exchange dishonoured, this fact is first recorded in the pass book, reduces the balance as per pass book. Business will make the entry only after receiving the instruction from the bank. In this time-lag the cash book shows higher balance than the pass book.

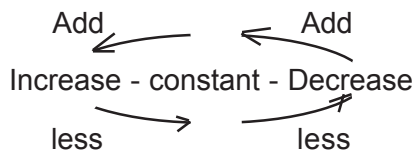
8. Direct payment into Bank : some times the customers of businessman may make payments direct into his account with the banker. The banker credit his pass book which result in an increase in the balance. As this information is not received the cash book balance remains unchanged.

9. Wrong debit or credit given in the pass Book or the cash book may also result the disagreement of the two balances.

6.4. Procedure for preparation of Bank Reconciliation statement :

Before preparation of the Bank reconciliation statement the student should first note the fact that if the balance of one book increased or Decreased the balance as per other book remains uncharged or constant.

1. Tick off all the items in the pass book with entries in the bank column of the cash book and make a list of unticked items both in cash book and pass book. These unticked items are responsible for the difference in the balances shown by the cash book and the pass book.
2. Take balance as per cash book or pass book as the starting point.
3. Decide which item unticked is added or deducted from the base.
4. Do all the adjustments accordingly if you started with cash book you will get the balance as per pass book or vice versa.
5. For deciding which items of unticked, is added to or deducted from the starting point, the following formula will help the student.



Note : if one book increased or decreased the other book remain constant.

This can be understood by the following Illustration.

Illustration 1:

Cash Book (Bank columns only)

| Date | Particulars | Amount Rs. | Date | Particulars | Amount Rs. |
|--------|----------------|---------------|--------|--------------------|---------------|
| 2007 | | | 2007 | | |
| Jan 1 | To cash A/c | 10,000 3 | | By Rent A/c (Ravi) | 350 3 |
| Jan 3 | To Suresh A/c | 600 3 | Jan 2 | By Krishna A/c | 900 3 |
| Jan 5 | To Bhuvana A/c | 700 3 | Jan 13 | By cash A/c | 600 3 |
| Jan 5 | To cash A/c | 1000 3 | Jan 13 | By drawing A/c | 900 3 |
| Jan 25 | To Kiran A/c | 750 3 | Jan 25 | By Mohan A/c | 850 3 |
| Jan 29 | To Prasad A.c | 500 | Jan 29 | By Rama Rao A/c | 780 |
| Jan 30 | To Cash A/c | 2000 3 | Jan 29 | By Bal cld | 12670 3 |
| | To Suresh A.c | 1500 | | | |
| | | 17,050 | | | 17,050 |

Pass Book

| Date | Particulars | Dr. Rs. | Cr. Rs. | Dr. Rs | Balance Rs |
|--------|----------------------|------------|------------|-----------|---------------|
| 2007 | | | | | |
| Jan 1 | By cash | - | 1000 3 | Cr | 10,000 |
| Jan 3 | To Ravi | 350 3 | - | Cr | 9650 |
| Jan 5 | By suresh | - | 600 3 | Cr | 10250 |
| Jan 8 | To Krishna | 900 3 | - | Cr | 9350 |
| Jan 11 | By Bhuvana | - | 700 3 | Cr | 10050 |
| Jan 13 | To cash | 600 3 | 1000 3 | Cr | 11050 |
| Jan 17 | To self | 900 3 | - | Cr | 10450 |
| Jan 27 | To Mohan | 850 3 | - | Cr | 9,550 |
| Jan 30 | By Kiran | - | 750 3 | Cr | 8,700 |
| Jan 30 | By cash | - | 2000 3 | Cr | 11,450 |
| Jan 30 | To Insurance premium | 250 | - | Cr | 11,200 |
| Jan 31 | To Bank Charges | 15 | - | Cr | 11185 |
| Jan 31 | To Interest | - | 550 | Cr | 11735 |

In the above illustration the unticked, items are the reasons for variation between the balances of cash book and pass book. Now we will pick those, items.

1. The cheques deposited on 29th received from prasad for Rs 500 and on 30th received from Suresh for Rs 1500 are not collected by bank.
2. Cheque issued to Rama Rao for Rs 780 on 29th has not presented for payment in the bank
3. Insurance premium paid Rs 250 appearing in pass Book only.
4. Bank charges Debited in pass book Rs 15.
5. Interest credited in pass book Rs 550.

Now you decide which items should be added and which should be deducted by using the formula given. Start with either of the balance, cash book or pass book for example we started with cash book. The student, here is always advised to remember that, with one transaction, if one book increases or decreases the other book remain constant.

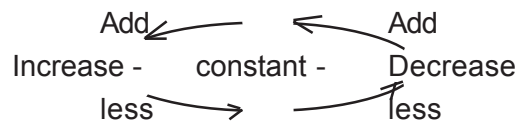
| Item | | Cashbook | Passbook | Amount Rs. | Effect Add/Less |
|------|---|----------|----------|---------------|--------------------|
| 1. | Cheque issued but not collected | Increase | Constant | 2000 | Less |
| 2. | Cheque issued but not presented for payment | Decrease | Constant | 780 | Add |
| 3. | Insurance premium Debited in pass book | Constant | Decrease | 250 | Less |
| 4. | Bank charges Debited in passbook | Constant | Decrease | 15 | less |
| | Interest credited in pass book | Constant | Increase | 550 | Add |

Once we decided which item is added and which one is deducted from the starting balance to find the other book balance we can proceed to prepare a bank Reconciliation statement as follows:

Bank Reconciliation statement as on 31.1.2007.

| Particulars | | Amount Rs | Amount Rs |
|-------------|---|--------------|--------------|
| 1. | Balance As per cash book | | 12,670 |
| | Add | | |
| 1. | Cheque issued but not presented for payment | 780 | |
| 2. | Interest collected and credited in the pass book. | 550 | 1,330 |
| | | | 14,000 |
| | less | | |
| 1. | Cheques deposited but not collected | 2,000 | |
| 2. | Insurance premium Debited in pass book | 250 | |
| 3. | Bank charges Debited in pass book | 15 | 2,265 |
| | Balance as per pass Book | | 11,735 |

The same illustration can be worked out by taking the pass book balance, as follows.



If we take the balance as per pass book

| Item | | Cashbook | Passbook | Amount Rs. | Effect Add/Less |
|------|---|----------|----------|---------------|--------------------|
| 1. | Cheques deposited but not collected | Constant | Increase | 2000 | Add |
| 2. | Cheque issued but not presented for payment | Constant | Decrease | 780 | Less |
| 3. | Insurance Premium debited in pass book | Decrease | Constant | 250 | Add |
| 4. | Bank charges Debited in Pass book | Decrease | Constant | 15 | Add |
| 5. | Interest Credited in pass book | Increase | Constant | 550 | less |

Bank Reconciliation statement on 31- 1 - 2007

| | Particulars | Amount Rs | Amount Rs |
|----|--|----------------------|----------------------|
| | Balance as per pass book. | | 11,735 |
| | Add | | |
| 1. | Cheques deposited but not collected | 2,000 | |
| 2. | Insurance premium paid by Bank | 250 | |
| 3. | Bank charges Debited in pass book | 15 | 2,265 |
| | Less | | 14,000 |
| 4. | Cheques issued but not presented for payment | 780 | |
| 5. | Interest credited in pass book | 550 | 1,330 |
| | Balance as per cash Book | | 12670 |

Illustration - 2

From the following particulars prepare a Bank Reconciliation statement showing the balance as per cash book on 31 Dec 2006. The following cheque were paid into Bank in December, 2006 but were credited by the bank in January, 2007;

Chinna Rs 7,000. Madhu Rs 8,000 Vasu Rs 6,000.

The following cheques were issued by the firm in December 2006 but were presented for payment in January 2007.

Pranav Rs.1,500 Pavan Rs 1,450

The following charges were made by the bank which were not recorded in the cash book;

Bank charges Rs. 120

Collection charges Rs. 115

The following payments made by the bank direct as per standing instructions were not entered in the cash book Insurance premium Rs 2,350 subscription for magazine Rs 275

A cheque for Rs 3,500 which was received from a customer was entered in the bank column of cash book in December 2006, but was to be banked in December 2006. A bill for Rs.31,000 was retired by the bank under rebate of Rs 320 but the full amount of the bill was credited in the bank column of the cash book.

The bank balance as per pass Book was Rs. 35,800 on 31-12-2006

Solution :

Bank Reconciliation statement as on 31-12-06

| | Particulars | Amount Rs | Amount Rs |
|----|---|----------------------|----------------------|
| | Balance as per pass Book | | 35,800 |
| 1. | Add Cheques paid into Bank not yet collected Chinna Madhu 8,000 Vasu | 7,000 6,000 | 21,000 |
| 2. | Bank charges recorded in the pass book Bank charges Collection charges | 120 115 | 235 |
| 3. | Payment made by the bank as per standing instructions. Insurance premium subscriptions | 2,350 275 | 2,625 |
| 4. | Cheque entered in cash Book but omitted to be banked | | 3,500 |
| | | | 63,160 |
| 5. | Less Cheques issued but not presented for payment Pranav Pavan | 1,500 1,450 | |
| | | 2,950 | |
| 6. | Rebate allowed for a bill but not entered in cash book | 320 | 3,270 |
| | Balance as per cash book | | 59,890 |

The student is advised to do the problem by starting with the balance of cash book.

6.5. Bank Overdraft :

Sometimes cash book may show a credit balance or pass Book a debit balance. It indicates the amount overdrawn. This means that the trader owes this amount to the bank i.e; he has drawn more amount than his balance in the bank such a balance is technically known as bank overdraft. The overdraft balance is also referred to as the unfavourable balance.

The method of analysis or the preparation of Reconciliation statement is the same as in the case of favourable balance. However the student is expected to note the difference in the effect of a given item of discrepancy, if the balance is an unfavourable or overdraft balance. For ex: In case of favourable balance, cheques issued reduce the cash balance, But when the balance is an unfavourable balance the effect of the cheque issued will further increase the overdraft balance. here you have to note that the effect of the cause of disagreement will be exactly opposite because of the unfavourable nature of the starting balance.

Illustration 3 :

On 30th June 2007, the pass Book of Mr. Anil kumar showed an overdraft balance of Rs 80,000 prepare a Bank Reconciliation statement using the following information.

1. Out of the two cheques issued to Ajay Kumar on 25th June 2007, one for Rs 10,000 and another for Rs. 25,000. The cheque for Rs 25,000. was cashed on 5 - 7 - 2007.
2. A wrong credit for Rs 500 relating to some other account was found in the pass book.
3. Out of the three cheques deposited in the bank for collection on 22 - 6 - 2007, for Rs. 30,000 Rs 40,000 and Rs 50,000 respectively, the cheque for Rs 40,000 alone was collected by 30 - 6 - 07.
4. There is a debit of Rs 1,600 for interest and Rs 300 for bank charges in the pass book which have not been entered in the cash book.
5. The pass Book showed that bank had collected Rs 3,000 as interest on securities but there was no entry in the cash book for interest.
6. A Bill receivable for Rs 10,000, discounted with the bank in May, was dishonoured on 28th June, 2007 and was debited in the pass Book.

Solution : Bank reconciliation statement as on 30 - 6 - 2007.

| | Particulars | Amount Rs | Amount Rs |
|----|---|--------------|--------------|
| | Bank overdraft balance as per the pass book | | 80,000 |
| 1. | Add Cheques issued but not presented for payment | 25,000 | |
| 2. | Wrong credit in the pass book | 500 | |
| 3. | Interest on securities collected by the bank | 3,000 | 28,500 |
| | | | 1,08,500 |
| 4. | Less Cheques paid in but not yet cleared | 80,000 | |
| 5. | Interest on O.D, and bank charges debited in the pass book. | 1,900 | |
| 6. | Dishonoured bill debited in the pass book only | 10,000 | 9,19,000 |
| | Overdraft Balance as per cash book | | 16,600 |

Illustration 4 :

On 31st December 2006 the cash book of Mr. Akhil showed a credit balance of Rs.50,000 with the state Bank of India. Before this date cheques worth Rs.39,600 were issued but of them cheques worth Rs.7,500 were only presented at the bank for payment. a cheque for Rs.4,500 received from a customer was entered in the Bank column of the cash book in December 2006, but it was not paid into Bank. In December cheques worth Rs.10,500, were deposited in the bank but cheques amounting to Rs.9,000 only were credited in the Pass Book. The total of a page on the receipts side of the cash book Rs.26,260s was carried to the next page as 22,620. A cheque for Rs.24,000 which was received from a customer was paid into the bank on 26th of December, but it was not entered in the Cash Book. The pass book is debited with Rs.200 for bank charges, Rs.600 for interest on overdraft and Rs.570 for insurance premium paid. Interest on investments credited in Pass Book Rs.3,000. These items not yet posted in cash book.

Prepare the Bank Reconciliation statement.

Solution :

| | Particulars | Amount Rs | Amount Rs |
|----|--|--------------|--------------|
| | Bank overdraft balance as per the Cash book | | 50,000 |
| | Add | | |
| 1. | Cheques debited in the Cash Book but omitted to be paid into Bank | 4,500 | |
| 2. | Cheque deposited but not cleared | 1,500 | |
| 3. | Bank charges debited in the Pass Book only | 200 | |
| 4. | Interest on O.D. debited in the Pass book only | 600 | |
| 5. | Insurance premium directly paid by the bank but not yet entered in the Cash Book | 570 | 7,370 |
| | | | <hr/> 57,370 |
| | Less | | |
| 6. | Cheques issued but not yet presented | 32,100 | |
| 7. | Short carry forward of the total on the receipts side of the Cash Book | 3,640 | |
| 8. | Cheques paid into the bank but not recorded in the Cash Book | 24,000 | |
| 9. | Interest on investments credited in the Pass book only | 3,000 | 62,740 |
| | Bank balance as per Pass Book | | <hr/> 5,370 |
| | (Favourable) | | |

Illustration 3:

The Bank Pass Book of Siva Rao showed a credit balance of Rs.24,000 on 31-12-2006. While the bank column of his Cash Book showed a different balance. You are required to prepare the Bank Reconciliation statement.

1. If the cheques amounting to Rs.12,900 deposited in the bank upto 31-12-06 a cheque of Rs.3,200 received from Papa Rao was collected by the bank on 3-1-2007.

2. Cheque of Rs.5,000 issued to Raj & Co was wrongly entered twice in the cash book.
3. Cheques issued during the month amounted to Rs.16,000 of which cheques for Rs.6000 were not presented to the bank upto 31-12-06.
4. The Pass Book showed a credit of Rs.200 as interest for which there was no entry in the Cash Book.
5. The Pass Book also showed a payment of Rs.1,675 as life insurance Premium for which no entry was made in the Cash Book.

Solution :

Bank Reconciliation statement as on 31-12-06

| | Particulars | Amount Rs | Amount Rs |
|-----|--|--------------|--------------|
| | Balance as per the Pass book | | 24,000 |
| | Add | | |
| 1. | Cheque deposited but not credited in the Pass Book | 3,200 | |
| 2. | Amount of Insurance Premium debited by the bank but not entered in the cash Book | 1,675 | |
| 3. | Error in respect of carry forward in the Cash Book | 540 | |
| 4. | Dishonoured cheque debited in the Pass Book but no entry made in the Cash Book | 840 | |
| | | | 6255 |
| | | | 30,255 |
| | Less | | |
| 5. | Cheque issued but recorded twice in the cash book | 5,000 | |
| 6. | Cheques issued but not presented for payment | 6,000 | |
| 7. | Interest credited in the pass book and not entered in the Cash Book | 200 | |
| 8. | Direct deposit in bank by a customer but not recorded in the Cash Book | 20,800 | |
| 9. | Excess amount recorded in the Cash book | 29,700 | |
| 10. | Error in respect of casting in the Cash Book | 2,000 | |
| | Over draft as per Pass Book | | 63,700 |
| | | | 33,555 |

6.6 Summary :

The cash book maintained by the business man and the pass book maintained by the banker may not show identical balances on any given date. This is mainly due to time - lag i.e., gap in the recording of the transactions in the books. It can also be due to errors in any one or both the books. As these two books show two different balance, it is necessary to compare them periodically and identify the causes of disagreement. After identifying the causes of dis - agreement the effect of each cause of disagreement on the known balance must be determined and these should be added or deducted in a bank Reconciliation statement.

6.7. Questions

1. What is bank reconciliation statement.
2. What are the causes of disagreement between the cash book and the pass book balances?
3. How is a bank reconciliation statement prepared.
4. What is the procedure for finding out the points of disagreement by comparing the cash book with the pass book
5. Explain the procedure for preparing the bank reconciliation statement.

6.8 Exercises :

1. **From the following particulars prepare a Bank Reconciliation statement.**
 - a. Bank Reconciliation statement.
 1. Balance as per cash book Rs 10,000 (Cr)
 2. Cheque received from a customer for Rs 500 entered the cash book but not banked.
 3. There is a wrong debit in the pass book to the extend of Rs 2,000.

Ans : O.D Balance Rs 10,700
2. **From the following particulars prepare a Bank reconciliation statement as on 31-3-2007.**
 1. Balance as per cash book Rs 25,000
 2. Cheques issued but not presented for payment Rs 6,000
 3. Dividend Credited in the pass book only Rs 500
 4. Cheques deposited into bank but not collected Rs 8,000
 5. Bank charges debited in pass book Rs 200
 6. Cheque deposited in the bank dishonoured but this was not recorded in cash book Rs 2000
 7. Interest collected and credited in the pass book by the banker.
3. **From the following particulars prepare a Bank reconciliation statement as on 31-3-2007.**
 1. O.D Balance as per pass book Rs 12,000
 2. Out of the total cheques of Rs 7,000 issued on 28th April, only Rs 3000 cheques paid upto Apr. 30.
 3. Out of the cheques deposited Rs 3,500 only cheques of Rs 500 credited in the pass book.
 4. Information regarding the debit of interest on over draft of Rs 500 not received.
 5. One debtor directly paid into bank an amount of Rs 400 and there is an other credit of Rs 600 in the pass book for interest on investments collected by the bank.
 6. On the standing instructions bank paid insurance premium of Rs 1200, not entered in the cash book.

7. The bank column of the cash book on the credit - side under cast by Rs 1000
4. **Mr. Gopi Nadh cash book is showing a bank balance of Rs 8,500 from the following information prepare a bank reconciliation statement.**
1. Cheques deposited into bank Rs 1000 but not collected.
 2. Interest collected and credited in the pass book only Rs. 400.
 3. Out of the cheques issued totalling Rs 5,100 in March, cheques with of Rs 1200 paid in April.
 4. On the standing instructions bank paid Rs 600 for insurance premium, not entered in the cash book.
 5. One customer deposited in the bank directly Rs 150.
 6. Bank charges debited in the pass book Rs 50.
 7. A cheque deposited in the bank dishonoured Rs 400/- information not received.
5. **On 31-1-2007 the pass book of Rama Rao showed a debit balance of Rs 4,100 prepare a bank reconciliation statement with the following information.**
1. Out of the cheques issued for Rs 15,600 only Rs 4,600 was paid.
 2. A wrong debit of Rs 800 has been given by the Bank in pass book.
 3. There is a credit of Rs 200 in pass book only.
 4. A cheque for Rs 1000 returned dishonored and were debited in pass book only.
 5. Interest and bank charges Rs 100 were not recorded in cash book.
 6. Interest and bank charges Rs 100 were not recorded in cash book.
 7. A cheque of Rs 500 debited in the cash book omitted to be banked.
 8. A wrong credit has been given by the banker for Rs 500 in the pass book.
6. **From the following particulars prepare a bank reconciliation statement.**
- | | |
|---|--------|
| 1. Over draft as per pass book | 13,800 |
| 2. Interest on overdraft not entered in cash book | 240 |
| 3. Bank charges debited in the pass book | 60 |
| 4. Cheques drawn but not cashed by the customers | 2,300 |
| 5. Cheques paid into bank but not cleared | 4,340 |
| 6. A bill receivable discounted with bank, dishonoured, debited in the pass book | 1,000 |
7. **On 30th June 2007 the pass book of Mr. Kotesb showed an overdraft balance of Rs 30,000 prepare a bank reconciliation statement using the following information.**
1. Out of the cheques issued to Siva on 26 June 2007, one for Rs 1000 and another for Rs 2500 the cheque for Rs 2,500 was cashed on 5th July 2007
 2. A wrong credit for Rs 250 relating to some other account was found in the pass book
 3. Out of three cheques deposited into bank for collection on 22nd June 2007 for Rs 3,500 Rs 4000 and Rs 5000 respectively, the cheque for Rs 4000 alone was collected by
J u n e
30th 2007.
 4. There is a debite of Rs 800 for interest and Rs 150 for bank charges in the pass book which have not been entered in the cash book.

5. The pass book showed that bank had collected Rs 6000 as interest on govt securities. But there was no entry in the cash book for interest.
 6. A bills receivable for Rs 5000 discounted with the bank in the month of May was dishonored on 26 June 1997 and was debited in pass book.
8. **From the following information given below, find out the bank balance as per pass book of Suresh as on 31st Dec 2007.**
1. Bank balance as per cash book on 31-12-2002 was Rs 5000
 2. Out of cheques issued for Rs 22,000 before 31st Dec for Rs.750 seems to have been not presented for payment.
 3. Cheque for Rs 2,500 received from a customer though recorded in cash book but not sent to bank
 4. Cheque for Rs 500 though issued to suppliers was not recorded in cash book.
 5. Total of a folio of cash book Rs 8,760 was carried as Rs 7,860
 6. Insurance premium Rs 2,500 paid by the bank was not recorded in cash book.
9. **From the following information prepare a Bank Reconciliation statement as on 31-3-2007 of Sirish & co.**
1. Bank overdraft as per cash book Rs 2,40,900
 2. A customer of the firm who received a cash discount of 2% on this account of Rs 200 paid the company a cheque on 19th March. The bank coloun of the cash book.
 3. Interest debited by the bank on 29th March 2007 but no advice received Rs 27,870.
 4. Cheque issued before 31st March 2007 but not yet presented to bank for Rs 66,000.
 5. Transport subsidy received from government directly by the bank but no advice to the company Rs 42,500
 6. Draft deposited in the bank but not collected till 31st March 2007, Rs 13,500.
 7. Bills for collection credited by the bank Rs 83,600 were not communicated to the company till April 1, 2007
 8. Amount wrongly debited to the company's account by the bank for which no details are available Rs 7,400.
 9. Bankers have made a mistake in balancing by showing over drawn balance in excess by Rs 1000 on 31-3-2007 This was rectified on 4-4-2007.
10. **From the following particulars, ascertain the bank balance as per cash book of Saraswathi as on 31st March 2007.**
1. Credit balance as per pass book as on 31 - 3 - 2007 Rs 2,500
 2. Bank charges of Rs 60 had not been entered in the cash book.
 3. Out of the cheque of Rs 3,500 paid into the bank a cheque of Rs 3,500 was not yet credited by the banker.
 4. Out of the cheques issued for Rs 4,500 cheques of Rs 3,800 only were presented for payment.
 5. A dividend of Rs 400 was collected by the banker directly but not entered in the cash book
 6. A cheque of Rs 600 had been dishonoured but no entry was made in the cash book.

11. **From the following particulars ascertain the bank balance as per bank pass book of Rama Seshiah as on 31 - 12- 2007.**
1. Bank over draft as per cash book on 31-12-07 Rs 6,000
 2. Interest on overdraft for six months endings 31-12-2007 Rs 200 is debited in the pass book
 3. Cheques issued but not cashed before 31-12-07 amounted to Rs 1,500.
 4. Cheques deposited into bank but not cleared and credited before 31-12-07 amounted to Rs 2,500
 5. Interest on investments collected by bank pass book amounted to Rs 1,800,
 6. Bills receivable discounted with bank was dishonoured, and bank had debited Rs 1050 including Rs 50 for bank charges.
 7. The bank coloun cash book receipts side was over cast by Rs 1,000
 8. Bank had wrongly debited his account with Rs 500
12. **From the following particulars of M/s Mamata & co show the bank balance as per cash book as on 31-9-2007.**
1. On 30-9-07 bank balance as per pass book was Rs 7,850.
 2. Out of cheques paid into bank for Rs 7,500 cheques for Rs 5,000 yet to be collected
 3. Cheques issued in favour of Mr. Sadasiva a supplier for Rs 2,000 are yet to be presented.
 4. A cheque from Kishore for Rs 3,750 deposited in bank on 15th sep, was omitted to be recorded in cash book.
 5. A cheque issued to Mr. Kedar for Rs 4,500 was wrongly recorded as Rs 4,050 in cash book.
 6. An amount of Rs 1,500 pertaining to M/s Madan & co was wrongly credited our account by the banker.
13. **Prepare the Bank reconciliation statement as on 30-6-2007 from the following particulars.**
1. Debit balance as per pass book on 31 - 6- 07 Rs 15,000
 2. A cheque of Rs 200 was deposited on 25-6-2007 but was not recorded in cash book.
 3. Cheque of Rs 17,000 were issued but of these Rs 10,000 worth were presented before 30-6-07.
 4. Cheques received on 20-6-07 Rs 2,000 were not sent to bank but noted in cash book.
 5. Cheques worth Rs 10000 were sent to bank for collection. Of these Rs 2,000 were credited on 8-7-07 Remaining cheques were credited before 30-6-07.
 6. Bank paid Rs 300 on behalf of Customer to Trade Association. This was to recorded in cash book.
 7. Interest on overdraft Rs 800 was not entered in cash book.
 8. Bank expenses Rs.100 were recorded twice in cash book and another bank charges of Rs. 35 was not recorded in the cash book.
 9. Cash book credit side Bank column was under cast by Rs 1,000

14. **The pass book of a trader is showing a debit balance of Rs 12300 on 31-1-2007 From the following information prepare a bank reconciliation statement.**

1. Cheques amounting to Rs 4,680 was drawn on 25th January out of which cheques for Rs 3,300 were cashed up to 31st January.
2. A wrong debit of Rs 240 has been given by Bank in pass book
3. A cheque for Rs 60 was credited in pass book but was not recorded in cash book.
4. Cheques amounting to Rs. 6,300 were deposited for collection, But cheques for Rs. 2,200 have been credited in pass book at 5th Feb 2007.
5. A cheque for Rs 300 returned dishonoured and were debited in pass book.
6. Interest and bank charges amounted to Rs 30 were not accounted in cash book.
7. A cheque received entered in cash book but not sent to Bank for collection Rs 150.

15. **On 31-8-2007 pass book of Anupama Showed a credit balance of Rs 37,400 in Account No. 1 which did not agree with his cash book, On scrutiny the following discrepancies were located.**

1. Three cheques totalling Rs 15200 were deposited into her account of which only those for Rs 9,800 were credited before 31st August.
 2. Anupama has issued two cheques of Rs 1,200 and RS 1,400 only the first cheque was presented for payment before 31st August.
 3. The banker paid electricity bill of Rs 750, Telephone bill of Rs 900 as per the standing instructions of Anupama.
 4. Pass book shows entries of Rs 50 towards charges and Rs 75 towards interest.
 5. A cheque issued for Rs 300 against A/c No. 1 has wrongly entered in A/c No. II by the banker.
 6. The pass book has no entry for the cheque of Ram Prasad for Rs. 270 as it has been dishonoured.
 7. Payments side bank column has been under cast by Rs 20.
- Prepare bank Reconciliation statement as on 31-8-2007.

SUGGESTED READINGS :

| | | |
|------------------------------|----------|------------------------------------|
| Financial Accountancy | : | Shukla Grewal |
| Financial Accountancy | : | Jain and Narang |
| Financial Accountancy | : | R.L. Gupta & V.K. Gupta |

Dr. Ch. Suravinda

Lesson 7

Trial Balance

7.0 Objective:

After going through this lesson you will be able to understand the following:

1. Method of preparing Trial Balance
2. Advantages of Trial Balance
3. Errors of Trial Balance

Structure:

- 7.1: Trial Balance – Meaning
- 7.2: Method of preparing Trial Balance
 - 7.2.1: Totals Method
 - 7.2.2: Balances Method
- 7.3: Factors to be considered while preparing Trial Balance
- 7.4: Advantages of Trial Balance
- 7.5: Errors in Trial Balance
 - 7.5.1: Disclosed errors
 - 7.5.2: Undisclosed errors
- 7.6: Ascertaining errors
- 7.7: Illustrations
- 7.8: Try yourself
- 7.9: Summary
- 7.10: Glossary
- 7.11: Self Assessment Questions

7.1: Trial Balance – Meaning:

You have learnt preparation of subsidiary books and preparation of ledger accounts in the previous lessons. While writing the transactions in double entry system, you have observed that there is one debit item and its equal credit item. Without debit there is no credit and with out credit there is no debit. For example, when the totals of sales book are credited to sales account, we debit debtors account. These entire debits amount will be equal to the credit of sales account. Similarly, when a transaction is written for total receipts, it will be debited to cashbook with the equal amount. When entries are recorded in ledger, the debit balances of ledger will be equal to credit balances. However, due to some errors knowingly or unknowingly lead to difference in the balances.

Businessman, by the end of the year prepares final accounts and ascertains gross profit, net profit and firm financial position based on the balances of the ledger. If the balances in the

ledger are not accurate, the final accounts become erroneous. The decisions taken based on these accounts are not dependable. That is why businessman tries for accuracy of accounts. Trial Balance is a device useful for such preparation. This is not an account. It is a statement consisting of balances of ledger. The accuracy of the ledger can also be proved from this.

7.2: Methods of preparing Trial Balance:

Trial Balance can be prepared in two ways. They are totals method and balances method. Let us discuss about them.

7.2.1: Totals Method:

Under this method all accounts of the ledger are shown under different heads. Under the head "Trial Balance", there are three columns Viz., particulars, debit totals and credit totals. If the debit and credit totals are equal, the trial balance is said to be correct.

7.2.2: Balances Method:

Under this method only balances of ledger are taken. In any account when debit balances are more than credit balances only the difference is taken as debit balance. In this way the balances of various accounts are shown as debit and credit under the head Trial Balance. If the credit and debit balances are same, the trial balance is said to be correct.

The following example can be observed to understand the above two methods.

Illustration:

Trial Balance

Name of the Account

| | Totals | | Balances | |
|------------------|---------------|--------|-----------------|--------|
| | Debit | Credit | Debit | Credit |
| | Rs. | Rs. | Rs. | Rs. |
| Cash in hand | 3,305 | 2,680 | 625 | |
| Cash at bank | 8,100 | 5,650 | 2,450 | |
| Capital account | 44,770 | | 44,770 | |
| Drawings account | 350 | | 350 | |
| Stock | 35,100 | | 35,100 | |
| Furniture | 4,530 | 400 | 4,130 | |
| Purchases | 1,350 | | 1,350 | |
| Sales | 2,000 | | 2,000 | |

| Financial Accounting | | 7.3 | Trial Balance | |
|------------------------|---------------|---------------|---------------|---------------|
| Sundaram | 4,000 | 1,000 | 3,000 | |
| Prakash | 2,000 | 3,500 | 1,500 | |
| Ganesh | 1,100 | 450 | 650 | |
| Wages and salaries 600 | | 600 | | |
| Interest account | 75 | | 75 | |
| Discount account | 100 | 160 | 60 | |
| | 60,610 | 60,610 | 48,330 | 48,330 |

7.3: Factors to be considered while preparing Trial Balance:

The following are the factors to be considered while preparing Trial Balance.

1. If all personal accounts are to be shown in the trial balance, the list of accounts becomes big. Therefore, it is better to show only two accounts, one debtors account and the other creditors account.
2. Though the debit and credit amounts are entered properly, sometimes there arises some difference. This may be due to non-entry of capital or stock.
3. Even after the entry of capital and stock, there may be difference in totals. In such case that difference shall be transferred to 'Suspense Account'. If the debit side of the trial balance is higher, then the suspense account shows credit balance. Contrary, if the credit side of the trial balance is higher, then the suspense account shows debit balance. The debit balance of the suspense account shall be shown on the assets side and the credit balance of the suspense account shall be shown on the liabilities side. Then only the balances in the balance sheet tally. After the errors in ledger are rectified, the suspense account will be closed.
4. Normally, closing stock appears in adjustments than in trial balance. If it is given in the trial balance means, it is to be assumed that the trading account was already prepared. In such case gross profit or loss appears in the trial balance.
5. It is to be remembered that different accounts show the balances in the following way while preparing trial balance.
 - a) All expenses (salaries, wages, interest paid, rent, commission, discount paid, transport, insurance premium etc) — Debit balances.
 - b) All assets (plant, machinery, cash, debtors, furniture, goodwill, patents, fixtures, campuses etc.) — Debit balances.
 - c) Bad debts, drawings, opening stock — Debit balances.
 - d) All incomes (discount received, commission, rent etc) — Credit balances.

- e) All liabilities (creditors, bills payable, overdraft, loan taken etc) — - Credit balances.
- f) Capital, reserve for bad and doubtful debts ——— Credit balances.

7.4: Advantages of Trial Balance:

The following are the advantages of preparing Trial Balance.

1. By preparing trial balance after preparation of ledger accounts helps in testing the accuracy of the accounting.
2. As there are many transactions in business firms, there are chances for mistakes. Trial balance acts as an index in identifying such mistakes. When the totals of debits and credits are not equal we can say that there is a mistake in the trial balance.
3. For preparation of final accounts at the end of the year and to ascertain gross profit, net profit and financial position, trial balance helps as a first step.

However, it is to be remembered that even though there are equal in balances in the trial balance, we cannot come to the conclusion that there are no mistakes. Trial balance cannot identify all errors. They will be discussed later.

7.5: Errors in Trial Balance:

After writing entries from transactions, recording in ledger, and showing debit and credit balances in the trial balances, there occur some errors due to mistake or recklessness. We can say that the trial balance is erroneous if the balances are not tallied. But sometimes, trial balance may be wrong in spite of equal debit and credit balances. These errors can be divided into two categories viz., disclosed errors and undisclosed errors.

7.5.1: Disclosed Errors:

When the following errors take place, the trial balance balances disagree. They are explained as follows:

- a) **Wrong totaling or casting of the subsidiary books:** If there are wrong totals in subsidiary books, trial balance will disclose. For example, if the total of the sales book is under cast by Rs.500, the sales account is credited with Rs.500 less. The personal accounts of customers are debited properly relating to their purchases. In such situation, credits will be more than debits by Rs.500. Similarly, any error of wrong totaling in any subsidiary book will be disclosed by the trial balance.
- b) **Posting a wrong amount to ledger account:** When ledger is recorded with a wrong amount, the trial balance will disclose the error. For example, if a supplier sends Rs. 750 worth of goods, this amount needs to be recorded in purchases book. However, it may be recorded as Rs. 570. In such situations, credits are less than debits by Rs. 180 (750-570). This leads to difference in the trial balance.
- c) **Posting an amount on the wrong side of a ledger account:** If the totals of accounts are recorded one side instead of the other, it also leads to imbalance in the trial balance. For example, if goods of Rs.300 are returned to the supplier, it is to be recorded in sales

returns book. Similarly, the same amount should be debited to the seller account. But, if his account is credited with Rs.300, the credit side of the account will increase by Rs.600 (300+300).

- d) **Omission of an amount from ledger accounts:** When the amounts to be posted in ledger accounts are not posted, there occurs difference in balance. For example, if we pay cash to the supplier, the supplier's account should be debited and the cash account should be credited. But my mistake, only one of the two is recorded there comes difference.
- e) **Omission of an amount from the trial balance:** When the balances of accounts are posted in trial balance and any one-account balance is misses, the trial balance will not agree.

7.5.2: Undisclosed Errors:

If the above-mentioned errors are not there, the totals of the trial balance equal. However, when the totals of the trial balance are equal, it cannot be said that it is error free. Trial balance cannot disclose some errors. These are serious errors than the above. The following are the errors not disclosed by trial balance.

- a) **Omission of an entry altogether from subsidiary books:** these errors occur when the transactions are ignored completely in the subsidiary books. For example, if we receive back Rs. 200 worth of goods from the customer, and not recorded in the sales returns book, then the customer account is also not credited. The sales returns account is also not debited. In result, this amount will be excluded from totals. Thus, trial balance will not show any difference though there is an error.
- b) **Writing the wrong amount in the subsidiary books:** when the wrong totals are recorded in the subsidiary book, and based on this error entries are posted, trial balance cannot identify the error. For example, an invoice of Rs.860 is recorded as Rs.680 in sales book; the totals of trial balance will not differ, though there is an error of Rs.180 of both credit and debit sides.
- c) **Posting to a wrong head:** When transactions are not recorded in correct accounts, these errors occur. For example, a sale of Rs.650 sold to Indra & co., and written in the name of Chandra& co., the totals of trial balance do not differ.
- d) **Errors of principles:** If transactions are written against the principles of accounting, these errors occur. The following are such errors:
 - 1. **Treating expenditure as asset:** In certain situations, expenditure is treated as asset. For example, repairs of machinery if debited to machinery account instead of repairs account, the trial balance do not show any difference as amount is debited in one or the other account.
 - 2. **Treating asset as expenditure:** Some times, the purchase of assets also will be shown as expenditure. For example, furniture worth Rs. 3,500 purchased for office work, may be debited to office expenditure account instead of furniture (asset) account.

3. **Treating of income as liability and liability as income:** These errors may also happen often. For example, a commission of Rs. 2000 earned may wrongly be credited to the person or the organization that has given the commission instead of crediting to commission account. Similarly, a loan taken may wrongly be credited to sales account instead of personal account.
4. **Compensating errors:** Sometimes the errors on debit side may compensate errors on credit side. Because of this, trial balance looks correct. For example, an excess debit of Rs.150 to purchases account, excess debit of Rs.100 to sales account and an excess debit of Rs. 50 to sales returns account do not affect the trial balance.

7.6: Ascertaining of Errors:

It is the duty of an accountant to rectify the errors when the totals of the trial balance are not tallied. To ascertain the errors quickly, the following measures are required.

- a) The debit and credit side totals of trial balance are to be ascertained first. When one account is shown instead of different accounts like sundry debtors and sundry creditors, they are to be totaled again.
- b) Care is to be taken to see that the balances of all accounts including cash and bank balances should be included in the trial balance.
- c) The correct difference in trial balance is to be ascertained. Any account carries such amount balance may be verified. Similarly, half the amount accounts, double the amount accounts need to be verified.
- d) Sufficient care should be taken while ascertaining the balances of various accounts.
- e) It is necessary to verify the subsidiary accounts once again. Particularly, when 1,10,100,1000 like mistakes are happened.
- f) When there is abnormal difference in trial balance, it is to be compared with previous year trial balance. For example, if sales account is far higher than that of the previous year, that account needs to be verified.
- g) It is to be checked that all amounts are posted in trial balance.
- h) Even at this stage, the difference is not identified; all accounts are to be verified. For this purpose, it is better to look into the totals of subsidiary books first. Then, they are to be observed whether all the aspects are recorded. Further, they are to be looked into whether they are opened with correct balances.

7.7: Illustrations:

1. Prepare trial balance from the following account balances.

Narayanamurthy Capital Account

21,500

| | |
|---------------------------------|--------|
| Narayanamurthy Drawings Account | 2,500 |
| Opening stock | 25,500 |
| Debtors | 23,500 |
| Loan to Sundar | 5,000 |
| Bills receivable | 3,000 |
| Bills payable | 4,450 |
| Creditors | 12,000 |
| Cash at office | 400 |
| Tools and fixtures | 6,250 |
| Bank overdraft | 3,000 |
| Cash at bank | 2,250 |
| Import duty | 1,750 |
| Purchases | 20,000 |
| Salaries | 1,250 |
| Sales | 56,500 |
| Wages | 5,500 |
| Purchases returns | 300 |
| Sales returns | 250 |
| Commission | 350 |
| Stationery | 500 |
| Business expenses | 850 |
| Rent account | 500 |
| Discount received | 2,000 |
| Bad debts | 400 |

Solution:

| Trial Balance | | | |
|-----------------------------|--------|----------------------------|--------|
| Debit Balances | | Credit Balances | |
| | Rs. | | Rs. |
| Narayanamurthy Drawings a/c | 2,500 | Narayanamurthy Capital a/c | 21,500 |
| Opening stock | 25,500 | Bills payable | 4,450 |
| Debtors | 23,500 | Creditors | 12,000 |
| Loan to Sundar | 5,000 | Bank overdraft | 3,000 |
| Bills receivable | 3,000 | Sales | 12,000 |

| | | | |
|--------------------|---------------|-------------------|---------------|
| Cash at office | 400 | Purchases returns | 300 |
| Tools and fixtures | 6,250 | Discount received | 2,000 |
| Cash at bank | 2,250 | | |
| Import duty | 1,750 | | |
| Purchases | 20,000 | | |
| Salaries | 1,250 | | |
| Wages | 5,500 | | |
| Sales returns | 250 | | |
| Commission | 350 | | |
| Stationery | 500 | | |
| Business expenses | 850 | | |
| Rent account | 500 | | |
| Bad debts | 400 | | |
| | 99,750 | | 99,750 |

2. Some inexperienced people prepare the following trial balance. Prepare it proper way.

| Debit balances | | Credit balances | |
|-----------------------|---------------|-------------------|---------------|
| | Rs. | | Rs. |
| Cash in hand | 375 | Opening stock | 8,500 |
| Cash at bank | 9,100 | Bills payable | 8,00 |
| Discount given | 600 | Debtors | 19,000 |
| Sales | 27,500 | Bills receivable | 850 |
| Furniture | 750 | Creditors | 22,500 |
| Machinery | 10,000 | Purchases returns | 475 |
| Carriage inwards | 650 | Purchases | 15,000 |
| Insurance | 400 | Office salaries | 4,150 |
| Stationery & Printing | 350 | Sales returns | 500 |
| Taxes | 550 | | |
| Mukundam Capital | 20,500 | | |
| Mukundam Drawings | 1,000 | | |
| | 71,775 | | 71,775 |

Solution:

Trial Balance

| | Debit balances | | Credit balances |
|-----------------------|----------------|-------------------|-----------------|
| | Rs. | | Rs. |
| Cash in hand | 375 | Sales | 27,500 |
| Cash at bank | 9,100 | Mukundam Capital | 20,500 |
| Discount given | 600 | Bills payable | 800 |
| Furniture | 750 | Creditors | 22,500 |
| Machinery | 10,000 | Purchases returns | 475 |
| Carriage inwards | 650 | | |
| Insurance | 400 | | |
| Stationery & Printing | 350 | | |
| Taxes | 550 | | |
| Mukundam Drawing | 1,000 | | |
| Opening stock | 8,500 | | |
| Debtors | 19,000 | | |
| Bills receivable | 850 | | |
| Purchases | 15,000 | | |
| Office salaries | 4,150 | | |
| Sales returns | 500 | | |
| | 71,775 | | 71,775 |

3. Prepare trial balance for the year ending 31st December 2007 from the following ledgers of Chatterji.

| | Rs. | | Rs. |
|---------------------|--------|---------------------|--------|
| Plant and machinery | 80,000 | Salaries | 6,800 |
| Purchases | 68,000 | Wages | 10,000 |
| Purchases returns | 1,275 | Discount received | 800 |
| Sales returns | 1,000 | Sundry Creditors | 25,000 |
| Opening stock | 30,000 | Freight – Purchases | 750 |

| | | | |
|-----------------|----------|-----------------------|-------|
| Capital account | 1,00,000 | Freight – Sales | 1,200 |
| Discount given | 350 | Rent, rates and taxes | 2,000 |
| Bank charges | 75 | Advertisements | 2,000 |
| Sundry debtors | 45,000 | Cash at bank | 6,900 |
| Sales | 1,27,000 | | |

Solution:

Trial balance of Chatterji as on 31st December 2007

| Debit balances | | Credit balances | |
|------------------------|-----------------|-------------------|-----------------|
| | Rs. | | Rs. |
| Plant and machinery | 80,000 | Capital account | 1,00,000 |
| Purchases | 68,000 | Sales | 1,27,000 |
| Sales returns | 1,000 | Purchases returns | 1,275 |
| Opening stock | 30,000 | Discount received | 800 |
| Discount given | 350 | Sundry creditors | 25,000 |
| Bank charges | 75 | | |
| Sundry debtors | 45,000 | | |
| Salaries | 6,800 | | |
| Wages | 10,000 | | |
| Freight – Purchases | 750 | | |
| Freight – Sales | 1,200 | | |
| Rents, rates and taxes | 2,000 | | |
| Advertisements | 2,000 | | |
| Cash at bank | 6,900 | | |
| | 2,54,075 | | 2,54,075 |

4. Prepare trial balance from the books of Gupta as on 31st December 2007.

| | | | |
|------------------------------|-------|--------------|-----|
| | Rs. | | Rs. |
| Capital | 8,794 | Furniture | 250 |
| Opening stock as on 1-1-2007 | 8,560 | Cash in hand | 5 |

| | | | |
|---------------------|--------|-------------------------|-------|
| Discount (Cr) | 35 | Sundry creditors | 845 |
| Wages | 3,000 | Rates and taxes | 30 |
| Advertising | 470 | Printing and stationery | 50 |
| Plant and machinery | 2,000 | Sundry debtors | 1,800 |
| Sales | 36,000 | Drawings | 1,250 |
| Water and energy | 70 | General expenses | 123 |
| Purchases returns | 190 | Insurance | 42 |
| Office rent | 150 | | |
| Purchases | 26,270 | | |
| Bills receivable | 200 | | |
| Cash at bank | 666 | | |

Solution:

Trial balance of Gupta as on 31st December 2007

| Debit balances | | Credit balances | |
|---------------------|--------|-------------------------|--------|
| | Rs. | | Rs. |
| Opening stock | 8,560 | Capital | 8,794 |
| Wages | 3,000 | Discount (Cr) | 35 |
| Advertising | 470 | Sales | 36,000 |
| Plant and machinery | 2,000 | Purchases returns | 190 |
| Water and energy | 70 | Sundry creditors | 845 |
| Office rent | 150 | Suspense account | 1,072 |
| Purchases | 26,270 | (Dif. In trial balance) | |
| Bills receivable | 200 | | |
| Cash at bank | 666 | | |
| Furniture | 250 | | |
| Cash in hand | 5 | | |
| Sundry debtors | 1,800 | | |
| Rates and taxes | 30 | | |

| | | |
|-------------------------|---------------|---------------|
| Printing and stationery | 50 | |
| Drawings | 1,250 | |
| General expenses | 123 | |
| Insurance | 42 | |
| | 46,936 | 46,936 |

5. From the following particulars prepare Trial balance of Pradeep as on 31st December 2007.

| | Rs. | | Rs. |
|------------------------------|----------|-----------------------|----------|
| Pradeep capital | 1,19,400 | Sales | 3,56,530 |
| Pradeep drawings | 10,550 | Sales returns | 2,780 |
| Sundry creditors | 59,630 | Salaries | 11,000 |
| 6% loan (credit) | 20,000 | Rent and taxes | 5,620 |
| Cash in hand | 3,030 | Interest and discount | 5,870 |
| Cash at bank | 18,970 | Traveling expenses | 1,880 |
| Sundry debtors | 62,000 | Repairs | 3,370 |
| Bills receivable | 9,500 | Insurance | 400 |
| Provision for doubtful debts | 2,500 | Bad debts | 3,620 |
| Furniture | 8,970 | Commission received | 5,640 |
| Plant and machinery | 28,800 | | |
| Stock as on 1-1-2007 | 89,780 | | |
| Purchases | 2,56,590 | | |
| Productive wages | 40,970 | | |

Solution:

Pradeep Trial balance as on 31st December 2007

| | Debit balances | | Credit balances |
|------------------|----------------|-----------------|-----------------|
| | Rs. | | Rs. |
| Pradeep drawings | 10,550 | Pradeep capital | 1,19,400 |

| | | | |
|-----------------------|-----------------|------------------------------|-----------------|
| Cash in hand | 3,030 | Sundry creditors | 59,630 |
| Cash at bank | 18,970 | 6% loan (credit) | 20,000 |
| Sundry creditors | 62,000 | Provision for doubtful debts | 2,500 |
| Bills receivable | 9,500 | Sales | 3,56,530 |
| Furniture | 8,970 | Commission received | 5,640 |
| Stock on 1-1-2007 | 89,780 | | |
| Purchases | 2,56,590 | | |
| Productive wages | 40,970 | | |
| Sales returns | 2,780 | | |
| Salaries | 11,000 | | |
| Rent and taxes | 5,620 | | |
| Interest and discount | 5,870 | | |
| Traveling expenses | 1,880 | | |
| Repairs | 3,370 | | |
| Insurance | 400 | | |
| Bad debts | 3,620 | | |
| | 5,63,700 | | 5,63,700 |

7.8: Try yourself:

1. The following balances are taken from Nagabhushanam books. Prepare trial balance as on 31st December 2007.

| | Rs. | | Rs. |
|------------------------|--------|---------------------|-------|
| Nagabhushanam Capital | 15,000 | Sales returns | 1,000 |
| Nagabhushanam Drawings | 2,500 | Discounts given | 800 |
| Furniture | 1,300 | Discounts received | 1,000 |
| Bank overdraft | 2,100 | Taxes and insurance | 1,000 |
| Creditors | 6,650 | General expenses | 2,000 |
| Business premises | 10,000 | Salaries | 4,500 |
| Opening stock | 11,000 | Commission paid | 1,100 |

| | | | |
|--|--------|--------------------------------|-----|
| Debtors | 9,000 | Carriage inwards | 900 |
| Rent received | 500 | Reserve for bad&doubtful debts | 250 |
| Purchases | 55,000 | Bad debts | 400 |
| (Total of trial balance: Rs. 1,00,500) | | | |

2. The following are the balances taken from Raghupathi as on 30th September 2007. Prepare trial balance from these particulars.

| | Rs. | | Rs. |
|--|--------|-----------------------|----------|
| Raghupathi capital | 59,700 | Cash at bank | 11,665 |
| Drawings | 5,275 | Cash in hand | 295 |
| Bills receivable | 4,750 | Insurance | 200 |
| Machinery | 14,400 | Traveling expenses | 910 |
| Debtors | 31,000 | Salaries and wages | 5,500 |
| 8% Loan (Cr) | 10,000 | Stock as on 1-10-2006 | 44,840 |
| Fixtures and Fittings | 4,485 | Rent and taxes | 2,810 |
| Creditors | 28,815 | Commission received | 2,820 |
| Bad debts | 1,810 | Sales | 1,78,215 |
| Discount | 2,935 | Purchases | 1,28,295 |
| Repairs | 1,285 | Productive wages | 20,485 |
| Purchases returns | 1,390 | | |
| (Total of trial balance: Rs. 2,80,940) | | | |

3. Prepare trial balance from the following balances.

| | Rs. | | Rs. |
|-------------------|----------|-----------------------|--------|
| Opening stock | 18,600 | Discount given | 1,500 |
| Coal and coke | 2,000 | Loans | 5,000 |
| Productive wages | 11,000 | Debtors | 16,000 |
| Purchases | 80,000 | Creditors | 4,000 |
| Sales | 1,20,000 | Profit & loss A/A(Cr) | 4,000 |
| Carriage outwards | 1,500 | Lease asset | 6,500 |
| Repairs | 1,000 | Machinery | 8,000 |
| Loose tools | 1,300 | Patents | 1,000 |

| | | | |
|------------------|--------|-------------------|--------|
| Capital | 40,000 | Discount received | 600 |
| Lighting charges | 1,800 | Goodwill | 15,000 |
| Office salaries | 2,600 | Cash at bank | 5,100 |
| Office furniture | 500 | Cash in hand | 200 |

(Total of trial balance: Rs. 1,73,600)

4. The following are the balances of Niranjana as on 31st December 2007. Based on these prepare trial balance.

| | Rs. | | Rs. |
|--------------------------|----------|----------------------------|----------|
| Sundry debtors | 60,000 | Capital | 2,00,000 |
| Sales | 2,50,000 | Drawings | 35,000 |
| Sundry creditors | 10,000 | Opening stock | 50,000 |
| General trading expenses | 12,000 | Sales returns | 3,000 |
| Factory rent | 2,000 | Plant and machinery | 60,000 |
| Interest received | 1,200 | Motor vehicles | 20,000 |
| Purchases returns | 2,000 | Bank balance | 23,000 |
| Productive wages | 20,000 | Loan on Pledge (Dr) | 20,000 |
| Purchases | 1,00,000 | Cash balance | 100 |
| Discount received | 1,800 | Traveling expenses | 6,000 |
| Provision for bad debts | 2,000 | Discount given | 2,000 |
| Furniture | 5,000 | Office salaries | 22,000 |
| Carriage inwards | 5,500 | Rates, taxes and insurance | 1,200 |

(Total of trial balance:Rs. 4,67,000)

5. The following are the balances of Sudhakar as on 31st December 2007. Prepare trial balance as on that date.

| | Rs. | | Rs. |
|---------------------|--------|----------------------------|-------|
| Land and buildings | 26,000 | Carriage inwards | 1,700 |
| Sundry debtors | 40,500 | Discount given | 1,400 |
| Sundry creditors | 45,000 | Discount received | 1,100 |
| Plant and machinery | 20,000 | Reserve for doubtful debts | 1,000 |
| Purchases | 35,000 | Factory expenses | 3,400 |

| | | | |
|---------------------------|----------|---------------|--------|
| Sales | 1,23,400 | Patent rights | 2,000 |
| Opening stock | 23,500 | Capital | 45,000 |
| Wages | 27,000 | Drawings | 6,100 |
| Factory rent and taxes | 2,500 | Cash at bank | 4,000 |
| Salaries | 6,800 | Cash in hand | 250 |
| Advertising | 3,000 | | |
| Office rent and insurance | 4,000 | | |
| General expenses | 6,800 | | |

(Total of trial balance: Rs. 2,15,500)

7.9: Summary:

According to double entry system for every debit there will be equal credit. When accounts are written according to this principle, debit balances equal to credit balances.

For preparation of final accounts and to know the accuracy of account balances trial balance is prepared. It is not an account. It is a statement consisting of balances of ledger.

The credit and debit of trial balance should be equal. Nominal expenses, assets, debtors are shown on debit side and incomes, creditors; liabilities are shown on credit side.

7.10: Glossary:

Trial balance: It is a statement consisting of accounting balances prepared by the business man by the end of the year to know the accuracy of accounts.

Suspense account: It is a temporary account opened to transfer the difference in the trial balance if any.

Totals method of trial balance: A statement prepared based on the debit and credit balances of each account. Debit balances are shown on debit side and credit balances on credit side.

Balances method of trial balance: A statement prepared based on the balance of each account. Only the net balance will be shown in the trial balance.

7.11: Self Assessment Questions:

1. Why a trial balance? And how is it prepared?
2. What are the errors disclosed by trial balance?
3. What are the errors not disclosed by trial balance?

- Dr.R.Jayaprakash Reddy.

Lesson - 8

FINAL ACCOUNTS

TRADING ACCOUNT & PROFIT & LOSS ACCOUNT

OBJECTIVES:

Through the study of this Lesson, you are able to understand

- What are the objectives of preparing Final Accounts?
- What are the various stages in the preparation of Final Accounts?
- What is the treatment of Capital and Revenue items?
- How the Trading Account is prepared?
- How the Manufacturing Account is prepared?
- How the Profit & Loss Account is prepared?

STRUCTURE :

- 8.1. Introduction
- 8.2. Objectives
- 8.3. Various stages in the preparation of Final Accounts
- 8.4. Capital & Revenue items
- 8.5. Trading Account
- 8.6. Manufacturing Account
- 8.7. Profit & Loss Account
- 8.8. Summary
- 8.9. Questions
- 8.10. Exercises

8.1. INTRODUCTION :

The main objectives of any business is earning Profit. If the businessman is able to know the Profit / Loss of the business in one financial year; then he will be able to take the appropriate decisions about the operation of business in future, expansion of business etc. Generally the businessman will prepare various statements at the end of the every half year or every year to

findout Profit or Loss, Assets and Liabilites of the business firm. These statements are called Final Accounts. Preparation of Final Accounts is the last stage in the process of Accounting. Final Accounts are prepared with the help of Journal Entries and Ledger Balances.

8.2. OBJECTIVES OF FINAL ACCOUNTS:

There are two objectives in the preparation of Final Accounts

- a) to findout the Profit or Loss of the business for a particular period
- b) to findout the true financial position of the business firm on a particular date i.e., to find out the total value of assets, total value of liabilities and the amount of Capital invested in the firm etc.

8.3. STAGES IN THE PREPARATION OF FINAL ACCOUNTS :

There are 3 stages in the preparation of Final Accounts. They are

- a) Preparation of Trading Account for the year ended ----
- b) Preparation of Profit & Loss Account for the year ended ----
- c) Preparation of Balance Sheet as on ----

The Trading Account and Profit & Loss Accounts are prepared to achieve the first objective i.e., to find out the Profit & Loss of the business for a particular period. Balance Sheet is prepared to achieve the second Objective i.e., to find out the true financial position of the business on a particular date.

8.4. CAPITAL AND REVENUE ITEMS:

Business transactions can be devided into two broad categories.

- 1) Capital items
- 2) Revenue items.

The Capital items can be subdivided into two categories viz. Revenue Expenditure and Revenue Income. All the Revenue items must be entered in the Trading Account and Profit & Loss Account and all the Capital itmes must be entered in the Balance Sheet.

8.4.1. Capital Expenditure :

The amount paid for the purchase of Fixed Assets is called Capital Expenditure. The expenditure incurred for the development and constructive changes for the increase of earning capacity is called as Capital Expenditure. For Example:- Purchase of Plant & machinery, their carriage, installation expenses etc.

8.4.2. Revenue Expenditure:

The day today expenses incurred in the regular course of business are called Revenue Expenses. The expenditure paid for smooth conduct of the business and to maintain the Assets with the same capacity is called Revenue Expenditure. For Ex:- Office Expenses, Selling & Distribution Expenses etc.

8.4.3. Capital Incomes:

The Profits or the incomes earned on the non-trading transactions are called capital incomes or capital profits. For Ex:- Amount received on the sale of fixed asset, premium received when the shares are issued at premium, Profit received when the assets are insured at excess value.

8.4.4. Revenue Incomes:

The amounts received in the day today business transactions are called Revenue Incomes. These incomes will be received every year which means these are recurring incomes.

For Ex:- Sale of goods, Commission received, Interest received, Discount received etc.,

8.4.5. Differences between Capital Expenditure and Revenue Expenditure:

| S.No | Revenue Expenditure | S.No | Capital Expenditure |
|------|--|------|--|
| 1. | Recurring expenses are called Revenue expenses | 1. | Non recurring expenses are called Capital expenses |
| 2. | When the purchase is meant for sales it is treated as revenue expenditure | 2. | When the purchase is meant for using it in the Business, it is treated as capital expenditure. |
| 3. | Expenses incurred to maintain the existing capacity of the asset is called Revenue expenditure | 3. | Expenses incurred to increase the earning capacity of the asset is called capital expenditure. |
| 4. | The Benefit of the Revenue expenditure will be limited to one year | 4. | The benefit of the capital expenditure will extend for long time i.e. for more than one year. |

8.4.6. Difference between Capital Receipts and Revenue Receipts:-

8.4.7. Treatment of Capital and Revenue items in Final Accounts:

Revenue Expenses must be debited to the Trading Account and Profit & Loss Account and Revenue Incomes must be credited to the Trading Account and Profit & Loss Account. Capital Receipts must be shown on the Liabilities side of the Balance Sheet and Capital Payments or Capital Expenditure must be shown on the Assets side of the Balance Sheet.

8.4.8. Classification of Firms:

The business firm can be divided into two categories for the purpose of preparation of Final Accounts.

i) Trading firms,

ii) Manufacturing firms

i **Trading firms:-** The business firm purchasing the finished goods and selling them with profit are called trading firms. These firms do not involve in manufacturing the goods. The Final Accounts of these firms will be consisting of

a) Trading Account,

b) Profit & Loss Account,

c) Balance Sheet.

ii Manufacturing firms:- The firm purchasing the raw-material converting them into finished goods with manufacturing process and selling them with Profit are called Manufacturing firms. The Final Accounts of these firm consisting of -

- a) Manufacturing Account,
- b) Trading Account,
- c) Profit & Loss Account &
- d) Balance Sheet.

8.5. TRADING ACCOUNT:

The Account prepared to findout the Profit or loss on the purchase and sale of the goods is called Trading Account. The Profit ascertained in the Trading Account is called Gross Profit. If there is loss in this Account, it is called Gross Loss. The Proforma of the Trading Account will be as under:

| Dr | Trading Account of Mr. X for the year ended 31-03-2007. | | | | Cr |
|-----------------------------|--|---------------|--------------------|-----|---------------|
| Particulars | | Amount Rs. | Particulars | | Amount Rs. |
| To Opening stock | | xxx | By sales | xxx | |
| To Purchases | xxx | | Less sales returun | xxx | xxx |
| Less purchase Returns | xxx | xxx | By Closing stock | | xxx |
| To Carriage inwards | | xxx | | | |
| To Wages | | xxx | | | |
| To Fuel | | xxx | | | |
| To Freight & duty | | xxx | | | |
| To Import duties | | xxx | | | |
| To dock expenses | | xxx | | | |
| To Marine insurance | | xxx | | | |
| To Duty & Clearing charges | | xxx | | | |
| To consumable stores | | xxx | | | |
| To octroi | | xxx | | | |
| To Royalty | | xxx | | | |
| To gross profit balance c/d | | xxx | | | |
| (Transfer to P&L Account) | | | | | |
| | | xxx | | | xxx |

8.5.1 Items to be debited to Trading Account:-

The details of the items to be debited to Trading Account were:-

- 1) **Opening Stock:-** It is the balance of Stock in the beginning of the year. In the case of manufacturing firms, the opening stock includes three items viz., Raw-material, work-in-progress and Finished goods.
- 2) **Purchases:-** The net amount of goods purchased during the year must be debited to Trading Account. Purchase Returns must be deducted from Purchases to find out Net Purchases.
- 3) **Direct Expenses:-** The expenses incurred for the purchase of goods and making them ready for sale are called Direct Expenses. They can be divided as follows.
 - a) **Expenses for the purchase of goods:-** For Ex:- Carriage inwards, Cartage, Freight, Duty, Octroi, Local Taxes, Import Duties, Clearing Charges, Unloading Charges, Dock Charges, Railway Charges etc.
 - b) **Expenses for manufacture of goods:-** For Ex:- Gas, Water, Fuel, Power, Factory Lighting, Stores, Royalty, Factory Insurance, Factory Expenses, Factory Rent, Manufacturing Expenses etc.
 - c) **Wages:-** The remuneration paid to the workers for participating in the Production is called wages. The term 'Wages & Salaries' shall be debited to Trading Account and the term 'Salaries & Wages' shall be debited to Profit & Loss Account.

8.5.2. Items to be Credited to Trading Account:-

- 1) **Sales:-** The net amount of goods sold during the year must be credited to Trading Account. Sales Returns must be deducted from Sales to find out the net amount of Sales.
- 2) **Closing Stock:-** This item is generally given in Adjustments but not in Trial Balance. It is the balance of stock at the end of the year. Closing Stock must be valued at Cost or Market Value whichever is less.
- 3) **Loss of Stock:-** The loss or goods by fire or any other reason must be credited to Trading Account.

8.5.3. Closing Entries to be passed in the preparation of Trading Account:-

The following entries shall be passed for the preparation of Trading Account. The various accounts transferred to Trading Account will be closed with these entries.

- | | | | | |
|----|--|-----|-----|-----|
| 1) | Trading Account | Dr. | xxx | |
| | To Opening Stock | | | xxx |
| | To Purchases | | | xxx |
| | To Direct Expenses | | | xxx |
| | (Being the Opening Stock, Purchases & all Direct Expenses transferred to Trading Account) | | | |
| 2) | Sales A/c | Dr. | xxx | |
| | Closing Stock Account | Dr. | xxx | |
| | To Trading Account | | | xxx |
| | (Being the Sales and Closing Stock transferred) | | | |
| 3) | Purchase Returns Account | Dr. | xxx | |
| | To Purchases Account | | | xxx |
| | (Being the returns transferred to Purchases Account) | | | |
| 4) | Sales Account | Dr. | xxx | |
| | To Sales Returns Account | | | xxx |
| | (Being the returns transferred to Sales Account) | | | |
| 5) | Trading Account | Dr. | xxx | |
| | To Profit & Loss Account | | | xxx |
| | (Being the Gross profit transferred to Profit & Loss Acc.) | | | |
| 6) | Profit & Loss Account | Dr. | xxx | |
| | To Trading Account | | | xxx |
| | (Being the loss transferred to Profit & Loss Account) | | | |

8.5.4. Advantages of Trading Account:-

- 1) Gross Profit or Gross Loss can be ascertained.
- 2) Changes in the Direct Expenses can be observed
- 3) Cost of goods sold can be calculated through the Trading Account.
- 4) By comparing the Opening and Closing Balances, it can be observed that whether the purchases are made properly or not.
- 5) The improvement or development of the firm can be observed by comparing the Sales of current year with the Standard Sales or with the Sales of last year.

Example-1:-

From the following data prepare Trading Account of Mr X for the year ended 31-03-2007.

Stock on 01-04-06 Rs.18000/-, Purchases Rs.90000/-, Purchase Returns Rs.6000/- Sales Rs.153000/-, Sales Returns Rs.9000/-, Carriage inwards Rs.3000/-, Freight Rs.1500, Cartage Rs.1500/-, Duty and Clearing Charges Rs.1200/-, Stock on 31-03-2007 Rs.21000/-

Solution:-

| Dr | Trading Account of Mr. X for the year ended 31-03-2007 | | | | Cr |
|-----------------------------|---|-------------------|----------|----------|----------|
| Particulars | Amount | Particulars | Amount | | |
| | Rs. | | | Rs. | |
| To opening stock | 18,000 | By sales | 1,53,000 | | |
| To purchases | 90,000 | Less sales return | 9,000 | 1,44,000 | |
| Less purchase Returns | 6,000 | By Closing stock | | 21,000 | |
| | 84,000 | | | | |
| To carriage inwards | 3,000 | | | | |
| To Freight | 1,500 | | | | |
| To Cartage | 1,500 | | | | |
| To Duty & clearing charges | 1,200 | | | | |
| To gross profit balance c/d | 55,800 | | | | |
| | 1,65,000 | | | | 1,65,000 |

Example-2:-

From the following particulars of Mr. Y prepare Trading Account for the year ended 31-03-2007

| | | | |
|-----------------------------|--------|---------------------------|----------|
| Opening stock on (01-04-06) | | Fuel | 750 |
| Raw material | 12,000 | Factory Rent | 3,000 |
| Work in progress | 30,000 | Factory lighting | 1,500 |
| finished goods | 21,000 | Sales | 1,20,000 |
| Purchases | 6,000 | Sales Returns | 3,000 |
| carriage inwards | 3,000 | Closing stock on 31.03.07 | |
| wages | 3,000 | Raw material | 12,300 |
| clearing charges | | Work in - progress | 14,700 |
| marine insurance | 3,000 | Finished goods | 27,000 |
| coal & coke | 1,500 | | |
| Power | 750 | | |

Solution:

| Dr. Trading Account of Mr. Y for he year ended 31-03-2007 Cr. | | | |
|--|-----------------------|----------------------|-----------------------|
| Particulars | Amount Rs. | Particulars | Amount Rs. |
| To Opening stock on (01-04-06) | | By sales | 1,20,000 |
| Raw material | 12,000 | Less returns | 3,000 |
| Work in progress | 30,000 | By closing stock | |
| Finished goods | 21,000 | Raw material | 12,300 |
| To Purchases | 54,000 | Work - in - progress | 14,700 |
| To carriage inwards | 6,000 | Finished goods | 27,000 |
| To wages | 3,000 | | |
| To clearing charges | 3,000 | | |
| To marine insurance | 3,000 | | |
| To coal & coke | 1,500 | | |
| To Power | 750 | | |
| To Fuel | 750 | | |
| To Factory Rent | 3,000 | | |
| To Factory lighting | 1,500 | | |
| To Gross profit. Balance C/d | 31,500 | | |
| | 1,71,000 | | 1,71,000 |

8.6. MANUFACTURING ACCOUNT :

The manufacturing firms will compute the Cost of Production by preparing Manufacturing Account. These firms will prepare the Manufacturing Account along with the Trading Account and Profit & Loss Account. The Cost of Production will be calculated through Manufacturing Account and it will be transferred to Trading Account to find out the Gross Profit or Gross Loss. The Proforma of the Manufacturing Account is given here under.

| Dr | Manufacturing Account of X for the year ended 31-03-2007 | | Cr | | |
|--|---|-----|-------------------------------------|-----|-----|
| | Rs. | | Rs. | | |
| To Opening stock on (01-04-06) | | | By closing stock | | |
| Raw material | xxx | | Raw material | xxx | |
| Work in progress | xxx | | Work - in - progress | xxx | |
| To Purchases of Material | xxx | | By cost of production - | xxx | |
| Less Returns | xxx | xxx | (Transfer to trading account) | | |
| To productive wages | xxx | | | | |
| To Power | xxx | | | | |
| To Heating & lighting | xxx | | | | |
| To Factory Rent & Insurance | xxx | | | | |
| To coal & coke | xxx | | | | |
| To repairs to plant | xxx | | | | |
| To Depreciation on Machinery | xxx | | | | |
| | xxx | xxx | | xxx | |
| Dr | Trading Account of Mr X for the year ended 31-03-2007 | | Cr | | |
| | Rs. | | Rs. | | |
| To Opening Balance of finished goods | xxx | | By sales (finished goods) | xxx | |
| To purchase of finished goods | xxx | | Less Returns | xxx | xxx |
| To Cost of production (Transfer from manufacturing account) | xxx | | By finished goods (closing balance) | xxx | |
| To Gross profit | xxx | | | | |
| | xxx | xxx | | | xxx |

Example- 3:-

From the following particulars prepare Manufacturing Account and Trading account of Mr Balu for the Year ended 31. 03,07.

| | Rs. | | Rs. |
|------------------------------|------------|-----------------------------------|------------|
| Raw material on 01.04.06 | 6,000 | Material returned | 100 |
| on 31.03.07 | 5,800 | Repairs to plant | 800 |
| Consumable stores | 1,700 | Repairs to factory buildings | 500 |
| Motive power | 3,000 | finished goods on 01.04.06 | 6,000 |
| Work in progress on 01.04.06 | 8,000 | on 31.03.07 | 7,000 |
| on 31.03.07 | 10,000 | Depreciatoin on Factory buildings | 2,000 |
| | | on plant & machinery | 3,000 |
| Factory Rent & Rates | 1,600 | Factory lighting | 400 |
| Factory Insurance | 500 | Productive wages | 21,000 |
| Other Direct expenses | 1,300 | Carriage in words | 600 |
| Sales | 82,000 | Purchases | 23,000 |
| Sales Returnes | 2,200 | | |

Solution:

| Dr | | Cr | |
|--|-----------------------|-----------------------------|-----------------------|
| Manufacturing Account of Balu for the year ended 31-03-2007 | | | |
| Particulars | Amount Rs. | Particulars | Amount Rs. |
| To Opening stock | | By closing stock | |
| Raw material | 6,000 | Raw material | 5,800 |
| Work in progress | 8,000 | Work in progress | 10,000 |
| To Purchase of Material | 23,000 | By cost of production - C/D | |
| Less Returnes | 100 | (Transfer to trading A/c) | 57,500 |
| To carriage in words | 600 | | |
| To wages | 21,000 | | |
| To Consumable stores | 1,700 | | |
| To Motive power | 3,000 | | |
| To Factory Rent & Rates | 1,600 | | |

| | | |
|--|---------------|---------------|
| To Factory Insurance | 500 | |
| To Direct expenses | 1,300 | |
| To Repairs to plant | 800 | |
| To Repairs to factory buildings | 500 | |
| To Depreciatoin on Factory buildidings | 2,000 | |
| on plant | 3,000 | |
| To Factory lighting | 400 | |
| | <u>73,300</u> | <u>73,300</u> |

| Dr | | Trading Account of Balu for the year ended 31-03-2007 | | Cr | |
|-----------------------------------|---------------|---|--------|--------|---------------|
| | | Rs. | | Rs. | |
| To Opening stock (finished goods) | 6,000 | By sales | 82,000 | | |
| To Cost of production | B/D 57,500 | Less Returns | 2,200 | 79,800 | |
| (Transfer to Trading A/c) | | By closing stock of finished goods | 7,000 | | |
| To Gross profit Balance C/d | 23,300 | | | | |
| | <u>86,800</u> | | | | <u>86,800</u> |

8.7. PROFIT & LOSS ACCOUNT :

Profit & Loss Account is prepared to find out the Net Profit or Net Loss during a particular business period. This account will be started with the Gross Profit and all the expenses and losses given in the Trial Balance will be debited (except those debited to Trading Account) and all the Incomes and Profits given in the Trial Balance will be credited. The proforma of Profit & Loss Account will be as under.

| Dr | | Profit & Loss Account of Mr. X for the year ended 31-03-2007 | | Cr | |
|--------------------------|-----|--|-----|-----|--|
| | | Rs. | | Rs. | |
| To salaries & wages | xxx | By Gross Profit | xxx | | |
| To Rent & Taxes | xxx | By Rent received | xxx | | |
| To Lighting | xxx | By commission received | xxx | | |
| To Insurance | xxx | By Discount received | xxx | | |
| To printing & stationary | xxx | By interest received | xxx | | |
| To Postage & Telegrams | xxx | By interest on investments | xxx | | |
| To Telephone | xxx | By interest on Drawings | xxx | | |

| | | | |
|------------------------------------|-----|--------------------------------------|-----|
| To legal expenses | xxx | By interest on Bank deposits | xxx |
| To Audit fees | xxx | By dividends received | xxx |
| To Selling & Distribution expenses | xxx | By profits on sale of assets | xxx |
| To Gowdown expenses | xxx | By Bad debts recovred | xxx |
| To Packing expenses | xxx | By Apprentice premium | xxx |
| To Advertising | xxx | By reserve for discount on creditors | xxx |
| To Commission on sales | xxx | | |
| To Baddebts | xxx | | |
| To Discounts allowed | xxx | | |
| To Delivery van expenses | xxx | | |
| To Travelling expenses | xxx | | |
| To Carriage outwards | xxx | | |
| To Samples | xxx | | |
| To Interest on capital | xxx | | |
| To Interest on loans | xxx | | |
| To Depreciation on Assets | xxx | | |
| To Repairs on Assets | xxx | | |
| To Net profits | | | |
| (transfer to capital account) | xxx | | |
| | xxx | | xxx |

8.7.1. Closing entries to be passed for the transfer of expenses and incomes to Profit & Loss Account:-

- a) For the transfer of all indirect expenses and losses to Profit & Loss Account:-

| Profit & Loss Account | Dr. | xxx |
|--------------------------------------|-----|-----|
| To Administrative expenses | | xxx |
| To Selling and Distribution Expenses | | xxx |
| To Financial Expenses | | xxx |
| To Operating Expenses | | xxx |
| To Provisions & Reserves | | xxx |

b) For the transfer of various incomes and profits to P&L Account

| | | | |
|-----------------------------|-----|-----|-----|
| Discount received Account | Dr. | xxx | |
| Interest received Account | Dr. | xxx | |
| Commission received Account | Dr. | xxx | |
| Dividends received Account | Dr. | xxx | |
| Apprentice Premium Account | Dr. | xxx | |
| | | | |
| To P&L Account | | | xxx |

c) For the transfer of Net Profit to Capital Account

| | | | |
|-----------------------|-----|-----|-----|
| Profit & Loss Account | Dr. | xxx | |
| | | | |
| To Capital Account | | | xxx |

d) For the transfer of Net Loss to Capital Account

| | | | |
|--------------------------|-----|-----|-----|
| Capital Account | Dr. | xxx | |
| | | | |
| To Profit & Loss Account | | | xxx |

Example-4:

From the following particulars, prepare Profit & Loss Account for the year ended 31-03-2007.

| | Rs. | | Rs. |
|-----------------------|-------|------------------------|-------|
| Salaries | 3,000 | Audit fees | 600 |
| Carriage outwards | 1,000 | Baddebts | 400 |
| Printing & Stationery | 1,500 | Commssion received | 500 |
| Discount allowed | 750 | Rent, rates, insurance | 500 |
| Postage | 250 | General expenses | 400 |
| Repairs | 400 | Gross Profit | 8,000 |

Solution:

| Dr. | Profit & Loss Account of --- for the year ended 31-03-2007 | | Cr |
|----------------------------|---|-----------------------|------------|
| | Rs. | | Rs. |
| To Salaries | 3,000 | By Gross profit | 8,000 |
| To Carriage outwards | 1,000 | By Commssion received | 500 |
| To Printing & Stationery | 1,500 | By Rent received | 500 |
| To Discount allowed | 750 | | |
| To Postage | 250 | | |
| To Repairs | 400 | | |
| To Audit fees | 600 | | |
| To Baddebts | 400 | | |
| To Rent, rates, insurance | 500 | | |
| To General expenses | 400 | | |
| To Net Profit | | | |
| (Transfer to captial A/c) | 3,200 | | |
| | 12,000 | | 12,000 |

Example 5 :

From the following particulars, prepare Trading and Profit & Loss Account for the year ended 31-03-2007

| | Rs. | | Rs. |
|--------------------|------------|-----------------------|------------|
| Stock on 1-4-06 | 50000 | Purchases | 500000 |
| Purchase Returns | 50000 | Sales | 1000000 |
| Sales Returnrs | 50000 | Direct Wages | 20000 |
| Indirect Wages | 10000 | Carriage in wards | 5000 |
| Carriage out wards | 10000 | Distribution expenses | 5000 |
| Office Rent | 20000 | Repairs | 10000 |
| Duty | 5000 | Coal & Gas | 15000 |
| Office Lighting | 10000 | Closing Stock | 150000 |

Solution:

| Dr | | Trading & Profit & Loss Account of --- for the year ending 31-03-07 | | Cr | |
|----------------------------|----------|--|------------------|------------|----------|
| | | Rs. | | Rs. | |
| To Opening stock | | 50,000 | By sales | 10,00,000 | |
| To Purchases | 5,00,000 | | less Returns | 50,000 | 9,50,000 |
| Less Returns | 50,000 | 4,50,000 | By closing stock | | 1,50,000 |
| To Direct wages | | 20,000 | | | |
| To Carriage in wards | | 5,000 | | | |
| To Duty | | 5,000 | | | |
| To Coal and Gas | | 15,000 | | | |
| To Gross profit | | | | | |
| (Transfer to P&L Ac) | | 5,55,000 | | | |
| | | 8,00,000 | | | 8,00,000 |
| To Indirect Wages | | 10,000 | By Gross profit | | 5,55,000 |
| To Carriage out wards | | 10,000 | | | |
| To Distribution expenses | | 5,000 | | | |
| To Office Rent | | 20,000 | | | |
| To Repairs | | 10,000 | | | |
| To Office Lighting | | 10,000 | | | |
| To Net Profit | | | | | |
| (Transfer to captial A/c) | | 4,90,000 | | | |
| | | 5,55,000 | | | 5,55,000 |

8.8. ADVANTAGES OF PROFIT & LOSS ACCOUNT :

- 1) Net result of the business firm can be ascertained by the preparation of Profit & Loss Account.
- 2) The percentages of various expenses on Sales can be ascertained by the preparation of this account. These percentages can be compared with the last year's percentages and the firm's control on expenses can be analysed.

- 3) The efficiency of the firm can be ascertained by comparing the actual expenses with the Standard expenses.
- 4) The development of the firm in future can be estimated by finding out the net profit.
- 5) Preparation of Profit & Loss account facilitates the creation of Reserves and provisions to meet the Contingent Liabilities.

8.9. SUMMARY:

Every businessman prepares Final Accounts at the end of the year to find out the Profit or Loss of the business. Trading and P&L Accounts are prepared to find out the profitability of the firm. When the profitability is good, it can be said that there is chance for improvement of the business.

8.10. QUESTIONS:

a) Short Answer questions:-

- 1) What are the main objectives of Final Accounts?
- 2) What are the various stages in the preparation of Final Accounts?
- 3) What is the necessity of recognising the difference between the Capital and Revenue items?
- 4) Explain the Capital & revenue items?
- 5) State the differences between Capital Expenditure & Revenue Expenditure?
- 6) State the differences between Capital Receipts & Revenue Receipts?
- 7) What is meant by Trading Account? Why is it prepared?
- 8) State the Advantages of Trading Account.
- 9) State the various items in Trading Account.
- 10) Prepare the 'Format' of the Trading Account.
- 8) Write the closing entries for the various items in Trading Account.
- 12) What is meant by Production Account/ Manufacturing Account? Show the Formats of the Manufacturing Account and Trading Account which are prepared by manufacturing firms.
- 13) What is meant by Profit & Loss Account? Why is it prepared?
- 14) What is the necessity of Profit & Loss Account?
- 15) Explain the various items in the Profit & Loss Account?
- 16) Prepare the Format of Profit & Loss Account.
- 17) Write the closing entries for the various items in Profit & Loss Account.

b) Essay Questions:-

- 1) What is meant by Capital Expenditure? Explain the differences between the Capital Expenditure & Revenue Expenditure.
- 2) What is meant by Trading Account? Prepare the Trading Account of a business firm with assumed figures.
- 3) Why the Profit & Loss account is prepared? What is its importance?
- 4) Why the Manufacturing Account is prepared in Manufacturing firms? Prepare the Format of Manufacturing Account.

8.8. EXERCISES :

- 1) From the following particulars prepare Trading Account for the year ended 31-03-2007

| | Rs. | | Rs. |
|--------------------------|-------|-----------------------|-------|
| Opening Stock 1-4-06 | 10000 | Net Purchases | 52400 |
| Manufacturing Wages | 8000 | Clearing Charges | 648 |
| Import Duties | 3000 | Freight | 210 |
| Net Sales | 74900 | Factory Rent & Taxes | 1640 |
| Factory Insurance | 640 | Carriage inwards | 167 |
| Octroi and Dock Expenses | 164 | Closing Stock 31-3-07 | 13000 |

(GP Rs.8031)

- 2) From the following information prepare Trading Account and find out Gross Profit

| | Rs. | | Rs. |
|------------------|-------|------------------|------|
| Opening Stock | 5570 | Sales Returns | 524 |
| Purchases | 13816 | Carriage inwards | 1400 |
| Sales | 15284 | Import duties | 252 |
| Purchase Returns | 390 | Closing Stock | 8880 |

(GP Rs.2992)

- 3) From the following particulars, prepare Trading Account for the year ending 31-03-2007

| | Rs. | | Rs. |
|------------------------|-------|---------------|-------|
| Purchases | 85000 | Wages | 10000 |
| Manufacturing Expenses | 3900 | Opening Stock | 20000 |
| Carriage inwards | 200 | Sales Returns | 100 |

| | | | |
|----------------|--------|-------------------|-------|
| Sales | 135000 | Purchase Returns | 400 |
| Freight & Duty | 10000 | Consumable Stores | 400 |
| Power | 600 | Closing Stock | 24000 |
| (GP Rs.29200) | | | |

4) From the following data prepare Trading Account and give necessary journal entry.

| | Rs. | | Rs. |
|------------------|------|--------------------|------|
| Purchases | 6500 | Lighting | 50 |
| Sale | 8850 | Stores Expenditure | 150 |
| Purchase Returns | 100 | Stock on 1-4-06 | 500 |
| Clearing charges | 50 | Stock 31-3-07 | 1250 |
| Cartage | 50 | Wages | 800 |
| Fuel & Power | 250 | Sales Returns | 100 |
| Discount allowed | 100 | | |

(GP Rs.4750)

5) From the following particulars prepare production Account for the year ended 31-03-2007

| | Rs. | | Rs. |
|-------------------------|-------|---------------------------|-------|
| Opening Stock; Material | 6000 | Wages of Workers | 40000 |
| Work-in-progress | 8000 | Lighting & Gas(Factory) | 4000 |
| Finished Goods | 16000 | Carriage in wards | 2000 |
| Closing Stock: Material | 2000 | Special plant rent | 4000 |
| Work-in-progress | 10000 | Rent of the factory | 8000 |
| Finished goods | 8000 | Repairs to Plant | 4000 |
| Supervisor Salary | 16000 | Repairs to Factory | 2000 |
| Wages | 2000 | Salaries of staff working | 6000 |
| Worke managers salary | 12000 | Royalty on Production | 4000 |
| Purchase of Material | 80000 | | |

(Ans: Cost of Production = 180000)

6) From the following particulars, prepare Profit & Loss Account for the year ended 31-03-2007

| | Rs. | | Rs. |
|-------------------|------|----------------------------|-------|
| Salaries | 3000 | Printing & Stationery | 1500 |
| Carriage outwards | 1000 | Commission received | 1000 |
| Discount allowed | 500 | Rent received | 500 |
| Commission Paid | 1500 | Insurance Premium | 1000 |
| Bad debts | 1000 | Office Electricity charges | 500 |
| Repairs | 1000 | Gross Profit | 24000 |
| Advertisements | 1000 | Audit Fees | 500 |
| General Expenses | 1000 | Postage | 1000 |

(Ans: N.P. Rs.8500)

7) From the following ledger balances of Gopal, prepare Profit & Loss Account for the year ended 31-03-2007

| | Rs. | | Rs. |
|-------------------|------|---------------------------|--------|
| Rent Paid | 6000 | Bad debts | 1000 |
| Salaries | 8000 | Printing & Stationery | 1500 |
| Commission Paid | 2000 | Office Insurance | 1000 |
| Discount allowed | 2000 | Postage | 500 |
| Advertisements | 2000 | Repairs | 500 |
| Telephone charges | 1000 | Interest received | 3500 |
| Interest on loans | 3000 | Gross Profit 40% on Sales | 200000 |

(Ans: NP: 55000)

8) From the following ledger balances, of Mr. Suresh, prepare Trading and Profit & Loss Account for the year ended 31-03-2007.

| | Rs. | | Rs. |
|---------------|--------|--------------------|-------|
| Opening Stock | 41730 | Wages | 12270 |
| Sales | 207830 | Discounts | 8240 |
| Purchases | 127330 | Discounts received | 7630 |

| | | | |
|---------------|-------|------------------|-------|
| Carriage | 4780 | General Expenses | 13380 |
| Baddebts | 2250 | Taxes | 1880 |
| Closing Stock | 44200 | | |

(Ans: GP Rs.65920; NP Rs.47800)

9) From the following ledger balances of Devanand, prepare Trading and Profit & Loss Account for the year ending 31-03-2007

| | Rs. | | Rs. |
|-----------------------|--------|------------------------|--------|
| Wages | 33000 | Sales Returns | 1500 |
| Carriage | 2250 | Carriage outwards | 750 |
| Purchases | 120000 | Opening Stock | 27000 |
| Commission | 3750 | Duty etc. | 1800 |
| Salaries | 27000 | Discount allowed | 6000 |
| Printing & Stationery | 750 | Rent, Taxes, Insurance | 9000 |
| Trade Expenses | 2700 | Coal, Oil etc. | 1200 |
| Factory expenses | 6750 | Sales | 225000 |
| Interest received | 4500 | Discount received | 9000 |
| Purchase returns | 3000 | Closing Stock | 500 |

(Ans: GP: Rs.35000, Net Loss: Rs.1450)

10) From the following ledger balances, prepare Trading and Profit & Loss Account

| | Rs. | | Rs. |
|---------------------|-------|------------------|------|
| Sales | 16000 | Sales returns | 800 |
| Purchases | 12500 | Purchase returns | 700 |
| Carriage inwards | 425 | Opening Stock | 6400 |
| Wages | 375 | Closing Stock | 3225 |
| Salaries | 2800 | Rent | 1800 |
| Advertisements | 300 | Insurance | 240 |
| Commission received | 800 | Discount allowed | 85 |

(Ans: GP:545; Net Loss:5000)

8) Prepare Trading and Profit & Loss Account

| | Rs. | | Rs. |
|---------------------|--------|--------------------|--------|
| Stock on 1st Jan. | 5000 | Purchases | 195000 |
| Wages | 14000 | Insurance | 5500 |
| Carriage in | 4000 | Commission (Dr) | 4000 |
| Interest on Capital | 3500 | Stationery | 2250 |
| Returns inwards | 6500 | Commission (Cr) | 2000 |
| Returns outwards | 2500 | Trade Expenses | 1000 |
| Rent & Taxes | 5500 | Carriage out | 7250 |
| Sales | 250000 | Stock in 31st Dec. | 125000 |

(Ans: GP:153000, NP:126000)

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Lesson - 9

FINAL ACCOUNTS

BALANCE SHEET, ADJUSTMENTS

OBJECTIVES:

By the Study of this chapter, you will be able to understand the:

- Importance of Balance Sheet
- Objectives of Balance Sheet
- Method of Preparation of Balance Sheet

STRUCTURE:

- 9.1. Introduction**
- 9.2. Definition**
- 9.3. Objectives of Balance Sheet**
- 9.4. Proforma of Balance Sheet**
- 9.5. Differences between Trial Balance & Balance Sheet**
- 9.6. Differences between P&L Account & Balance Sheet**
- 9.7. Adjustments**
- 9.8. Summary**
- 9.9. Examples**
- 9.10. Questions**
- 9.11. Exercises**

9.1. INTRODUCTION:

Balance Sheet is the third and last step in the Final Accounts. Balance Sheet is prepared to find out the true financial position of a business on a particular date. It is not an account but only a statement.

9.2. DEFINITION OF BALANCE SHEET :

“Balance Sheet is a Statement prepared with the help of Assets and Liabilities to find out the true financial position of the business on a particular date”.

9.3. OBJECTIVES OF BALANCE SHEET:

- a) to know about all the Assets and the nature of these assets of the business firm.
- b) to know about all the Liabilities payable and their nature.
- c) to know about the Capital of the firm.

9.4. PROFORMA OF BALANCE SHEET :

Balance Sheet must be prepared in a systematic and Standard method. All the Liabilities will be shown on one side and the Assets on the other side of the Balance Sheet in a systematic method. Balance Sheet can be prepared in two methods.

- 1) Order of Liquidity
- 2) Order of Permanance.

1. Order of Liquidity : The format of the Balance Sheet in this method will be as under.

Balance sheet of Sri Ram as on 31 - 03-07

| Liabilities | Amount Rs. | Assets | Amount Rs. |
|-----------------------------|---------------|------------------------|---------------|
| Current Liabilities : | | Current Assets : | |
| Out standing expenses | xxx | Cash in hand | xxx |
| Incomes received in Advance | xxx | Cash at bank | xxx |
| Bills payable | xxx | Short term investments | xxx |
| Bank over draft | xxx | Debtors | xxx |
| Creditors | xxx | Incomes receivable | xxx |
| Loans : | | Prepaid expenses | xxx |
| Long term loan | xxx | Closing stock | xxx |
| Short term loan | xxx | Fixed Assets | |
| Reserves & Surplus : | | Furniture & Fixtures | xxx |
| General Reserves | xxx | Vehicles | xxx |
| Special Reserves | xxx | Plant & Machinery | xxx |
| Capital | | Land & Building | xxx |
| Capital | xxx | Free hold property | xxx |
| Add Net profit | xxx | Lease hold property | xxx |
| Add Further capital | xxx | Intangible Assets | |
| Add Interest on capital | xxx | Patents | xxx |
| | xxx | | |
| Less Drawings | xxx | Trade Marks | xxx |
| Interest | xxx xxx | Copy Rights | xxx |
| | | Good will | xxx |
| | xxx | | xxx |

2. Order of Permanence : It is an opposite method to the above model. The format of the Balance sheet in this method will be as under.

Balance sheet of Sri Ram as on 31 - 03-07

| Liabilities | Amount Rs. | Assets | Amount Rs. |
|-----------------------------|-----------------------|----------------------|-----------------------|
| Capital | xxx | Intangible Assets : | |
| Add Net profit | xxx | Good will | xxx |
| Add Further capital | xxx | Copy Rights | xxx |
| Add Interest on capital | xxx xxx | Trade Marks | xxx |
| Less Drawings | xxx | Patents | xxx |
| Interest | xxx xxx | Fixed Assets | |
| Reserves & Surplus | | Lease hold property | xxx |
| General Reserves | xxx | Free hold | xxx |
| Special Reserves | xxx | Land & Buildings | xxx |
| Loans | | Plant & Machinery | xxx |
| Long term loan | xxx | Furniture & Fittings | xxx |
| Short term loan | xxx | Vehicles | xxx |
| Current Liabilities : | | Current Assets : | |
| Creditors | xxx | Closing stock | xxx |
| Bank O D | xxx | Incomes receivable | xxx |
| Bills payable | xxx | Prepaid expenses | xxx |
| Incomes received in Advance | xxx | Debtors | xxx |
| Out standing expenses | xxx | Bills Receivable | xxx |
| | | Cash in hand | xxx |
| | | Cash at Bank | xxx |
| | xxx | | xxx |

9.5 DIFFERENCES BETWEEN TRIAL BALANCE & BALANCE SHEET:

| S.No | Trial Balance | S.No | Balance Sheet |
|-------------|--|-------------|--|
| 1. | Trial Balance is prepared to find out the arithmetic accuracy of the ledger accounts | 1. | Balance sheet is prepared to find out the financial position of a business. |
| 2. | The ledger balances of all types of accounts personal real and nominal accounts will be entered in the trial balance | 2. | Personal accounts and real accounts only will be entered in the balance sheet. |
| 3. | Trial Balance does not reveal the profit or loss. | 3. | Profit or loss will be adjusted to the capital in the Balance sheet. |
| 4. | Opening stock will be posted in Trial Balance | 4. | Closing stock will be posted in the Balance sheet |
| 5. | It is prepared before the preparation of Trading & Profit & loss account | 5. | Balance sheet is prepared after the preparation of Trading & Profit & loss account |
| 6. | Adjustments Viz : Out standing expenses prepaid expenses etc. are not entered in the trial balance | 6. | All the adjustments are made in the Balance sheet |

9.6 DIFFERENCES BETWEEN PROFIT & LOSS ACCOUNT AND BALANCE SHEET:

| S.No | Balance Sheet | S.No | P & L Account |
|------|---|------|---|
| 1. | It is only a statement | 1. | It is an account |
| 2. | It is prepared to find out the financial position of the business. | 2. | It is prepared to find out the profit or loss of the business. |
| 3. | The balances of personal and Real accounts will be shown in this account. | 3. | The balances of Nominal accounts only will be entered in this account. |
| 4. | Balance sheet will reveal the ability of the firm to discharge the liabilities and will reveal the liquidity of the firm. | 4. | P&L Account will reveal the profitability and return on capital of the firm. |
| 5. | Liabilities will be posted on the left hand side and Assets will be posted on the Right hand side of the Balance sheet | 5. | It is also divided into two parts. The left hand side is called. " Debit side" and the right side is called "credit side ". |
| 6. | It is prepared on a particular date | 6. | It is prepared for the year ending. |

9.7 ADJUSTMENTS :

The transactions given outside the Trial Balance are called adjustments. The items given in the Trial Balance must be entered only once in Final Accounts. But the items given outside the Trial

Balance (Adjustments) must be entered twice in Final Accounts after the writing the adjustment entry. Adjustments are generally made for the following items.

Closing Stock:-

Closing Stock Account
 Dr. xxx
 To Trading Account xxx

Accounting Treatment:-

- 1) It must be credited to Trading Account
- 2) It must be shown as an Asset in the Balance sheet

When the Closing Stock is given in Trial Balance- it must be shown as an Asset in the Balance Sheet only.

2) Outstanding Expenses:-

For Ex:- Outstanding Salaries, Rent, Wages etc.,

Adjustment Entry:-

| | | | |
|------------------|-----|-----|---------------------------------|
| Expenses Account | Dr. | xxx | |
| | | | xxx |
| | | | To Outstanding Expenses Account |

Accounting treatment:-

- 1) It must be added to the respective item on the debit side of the Profit & Loss Account.
- 2) It must be shown as Liability in the Balance Sheet

When it is given in Trial Balance - it must be shown as a liability in the Balance Sheet only

3) Prepaid Expenses:- For example : Prepaid Insurance, Taxes, Rents etc.,

Adjustment Entry:-

| | | | |
|-------------------|-----|-----|--------------|
| Prepaid Rent A/c. | Dr. | xxx | |
| | | | xxx |
| | | | To Rent A/c. |

Accounting Treatment:-

- 1) It must be deducted from the respective item on the debit side of the Profit & Loss Account.
- 2) It must be shown as an Asset in the Balance Sheet.

When it is given in Trial Balance - It must be shown as an Asset in the Balance Sheet only.

4) Incomes Receivable:- For Ex :- Rent receivable, Interest receivable etc.

Adjustment entry:-

| | | | |
|-------------------------|--------------------|-----|-----|
| Incomes receivable Acc. | Dr. | xxx | |
| | | | |
| | To Incomes Account | | xxx |

Accounting Treatment:-

- 1) It must be added to the respective item on the credit side of the Profit & Loss Account
- 2) It must be shown as Asset in the Balance Sheet

When it is given in Trial Balance - It must be shown as an Asset in the Balance Sheet.

5) Incomes Received in Advance:- For Ex : Rent received in Advance, Interest received in Advance etc.

Adjustment entry:-

| | | | |
|-----------------|--------------------------------|-----|-----|
| Incomes Account | Dr. | xxx | |
| | | | |
| | To Incomes received in advance | | xxx |

Accounting Treatment:-

- 1) It must be deducted from the respective item on the Credit side of the Profit & Loss Account.
- 2) It must be shown as Liability in the Balance Sheet.

When it is given in Trial Balance - it must be shown as Liability in the Balance Sheet.

6) Depreciation on Fixed Assets:- For Ex:- on Machinery, Furniture etc.

Adjustment entry:-

| | | | |
|---------------------|------------------------|-----|-----|
| Depreciaton Account | Dr. | xxx | |
| | | | |
| | To Fixed Asset Account | | xxx |

Accounting treatment:-

- 1) It must de debited to P&L account
- 2) It must be deducted from the value of respective asset on the assets side of the Balance sheet

When it is given in Trial Balance - it must be debited to P & L Account.

7) Interest on Capital:-

Adjustment Entry:-

| | | | |
|--------------------------|-----|-----|-----|
| Interest on Capital Acc. | Dr. | xxx | |
| To Capital Acc. | | | xxx |

Accounting Treatment:-

- 1) It must be debited to the Profit & Loss Account
- 2) It must be added to the Capital on the Liabilities side by the Balance Sheet.

When it is given in Trial Balance - It must be debited to the P & L Account.

8) Interest on Drawings :

Adjustment Entry:-

| | | | |
|-----------------------------|-----|-----|-----|
| Drawings Acc | Dr. | xxx | |
| To Interest on Drawings Ac. | | | xxx |

Accounting Treatment:-

- 1) It must be credited to Profit & Loss Account
- 2) It must be deducted from the Capital on the Liabilities side of the Balance Sheet.

When it is given in Trial Balance - it must be credited to the P & L Account.

9) Interest on Loans :

Adjustment Entry:-

| | | | |
|------------------------|-----|-----|-----|
| Interest on Loans Acc. | Dr. | xxx | |
| To Loans Acc. | | | xxx |

Accounting Treatment:-

- 1) It must be debited to P & L Account
- 2) It must be shown as Liability in the Balance Sheet.

When it is given in Trial Balance - it must be debited to P & L Account.

10) Baddebts :

Adjustment Entry:-

| | | | |
|-----------------|-----|-----|-----|
| Bad debts Acc. | Dr. | xxx | |
| To Debtors Acc. | | | xxx |

Accounting Treatment:-

- 1) It must be debited to P & L Account
- 2) It must be deducted from Debtors in the Balance sheet.

When it is given in Trial Balance - it must be debited to P & L Account.

When it is given both in Trial Balance & in Adjustments:-

- 1) Both amounts must be debited to P & L Account
- 2) Amount given in Adjustments only must be deducted from Debtors in the Balance Sheet.

11) Reserve for Baddebts or Reserve for Bad & doubtful debts:-

Adjustment Entry:-

| | | | |
|------------------------------|-----|-----|-----|
| Profit & Loss Acc. | Dr. | xxx | |
| To Reserve for Baddebts Acc. | | | xxx |

Accounting Treatment:-

When it is given as an Adjustment:-

- 1) It must be debited to P & L Account
- 2) It must be deducted from Debtors in the Balance Sheet

When it is given only in Trial Balance - it must be deducted from Debtors in the Balance Sheet.

When it is given both in Trial Balance and as an Adjustment

- 1) Both the amounts must be compared - when Adjustment amount is more than Trial Balance amount - the difference amount must be debited to P & L Account.

When the Adjustment amount is less than the Trial Balance amount - the difference amount must be credited to P & L Account.

- 2) The amount given in Adjustments only must be deducted from Debtors in the Balance Sheet.

9) Reserve for Discount on Debtors:-

Adjustment Entry:-

| | | | |
|---|-----|-----|-----|
| P&L Acc. | Dr. | xxx | |
| To Reserve for Discount on Debtors Acc. | | | xxx |

Accounting Treatment:- The same procedure must be followed which was followed in the case Reserve for Baddebts as above.

13) Reserve for Discount on Creditors:-

Adjustment Entry:-

| | | | |
|--|-----|-----|-----|
| Reserve for Discount on Credition Acc. | Dr. | xxx | |
| To P & L Account | | | xxx |

Accounting Treatment:-

- 1) It must be credited to P&L Account
- 2) It must be deducted from Credition in the Balance Sheet.

When it is given in Trial Balance - it must be deducted from Creditors in Balance Sheet.

When it is given both in Trial Balance and as an Adjustment:-

- 1) Both the amounts must be compared - when the Adjustment amount is more than the Trial Balance amount - the difference amount must be credited to P & L Account.

When the Adjustment amount is less than the Trial Balance amount - the difference amount must be debited to P & L Account.

- 2) The amount given in Adjustments only must be deducted from Creditors in the Balance Sheet.

14) Loss of Goods in Fire:-

a) When such goods were not insured:-

| | | | |
|----------------------------------|-----|-----|-----|
| Adjustment Entry:- P & L Account | Dr. | xxx | |
| To Trading Acc. | | | xxx |

Accountng Treatment:-

- 1) It must be credited to Trading Account
- 2) It must be debited to P & L Account.

b) When such goods were Insured and when the Insurance Company agreed to pay the total amount of loss as compensation:-

Adjustment Entry:-

| | | | |
|---------------------------|-----|-----|-----|
| Insurance Company Account | Dr. | xxx | |
| To Trading Account | | | xxx |

Accounting Treatment:-

- 1) It must be credited to Trading Account.
- 2) It must be shown as an Asset in the Balance sheet.

c) When the Insurance Company agreed to pay a part of the loss as compensation:-

Adjustment Entry:-

| | | | |
|---------------------------|-----|-----|-----|
| Insurance Company Account | Dr. | xxx | |
| P&L Account | Dr. | xxx | |
| To Trading Account | | | xxx |

Accounting Treatment:-

- 1) Total amount of goods destroyed must be credited to Trading Account.
- 2) Net loss (Total loss-Insurance claim) must be debited to P&L Acc.
- 3) Insurance claim agreed by the Insurance Company must be shown as asset in the Balance Sheet.

15) Goods used for Office Purpose:-

Adjustment Entry:-

| | | | |
|----------------------|-----|-----|-----|
| P&L Account | Dr. | xxx | |
| To Purchases Account | | | xxx |

Accounting treatment:-

- 1) It must be deducted from Purchases in the Trading Account.
- 2) It must be debited to P&L Account.

16) Goods used for Personal Purpose:-

Adjustment Entry:-

| | | | |
|----------------------|-----|-----|-----|
| Drawing Account | Dr. | xxx | |
| To Purchases Account | | | xxx |

Accounting Treatment:-

- 1) it must be deducted from Purchases in the Trading Account.
- 2) It must be deducted from Capital in the Balance Sheet.

17) Providing Reserve Fund:-

Adjustment Entry

| | | | |
|---------------|-----|-----|-------------------------|
| P & L Account | Dr. | xxx | |
| | | | To Reserve Fund Account |
| | | | xxx |

Accounting Treatment:-

- 1) It must be debited to P&L Account.
- 2) It must be shown on the Liabilities side of the Balance Sheet.

18) Manager's Commission on the basis of Profits:-

Adjustment Entry:-

| | | | |
|---------------|-----|-----|---|
| P & L Account | Dr. | xxx | |
| | | | To Outstanding Commission to Manager Acc. |
| | | | xxx |

Accounting Treatment:-

- 1) It must be debited to P&L Account
- 2) It must be shown as Liability

The Calculation of Manager's Commission is 2 types.

- 1) Commission as a percentage on NP 'BEFORE' charging such

$$\text{Commission} = \text{NP} \times \% \text{ of Commission} / 100$$

- 2) Commission as a percentage on NP 'AFTER' charging such

$$\text{Commission} = \text{NP} \times \% \text{ Commission} / 100 + \% \text{ of Commission}$$

19) Goods Purchased, included in the Closing Stock, but not entered in the Books of Account:-

Adjustment Entry:-

| | | | |
|-------------------|-----|-----|----------------------|
| Purchases Account | Dr. | xxx | |
| | | | To Creditors Account |
| | | | xxx |

Accounting Treatment:-

- 1) It must be added to Purchases in the Trading Acc.
- 2) It must be added to Creditors in the Balance Sheet.

20) Sale of Assets but recorded as goods sold:-

Adjustment Entry:-

| | | | |
|---------------|-----|-----|------------------|
| Sales Account | Dr. | xxx | |
| | | | To Asset Account |
| | | | xxx |

Accounting Treatment:-

- 1) It must be deducted from Sales in the Trading Account
- 2) It must be deducted from Asset in the Balance Sheet

21) Wages paid for erection of Machinery but recorded as Wages:-

Adjustment Entry:-

| | | | |
|-------------------|-----|-----|-------------------|
| Machinery Account | Dr. | xxx | |
| | | | To Wages Accounts |
| | | | xxx |

Accounting Treatment:-

- 1) It must be deducted from Wages in the Trading Account
- 2) It must be added to Machinery in the Balance Sheet.

22) Goods sold but not recorded as Sales:-

Adjustment Entry:-

| | | | |
|-----------------|-----|-----|------------------|
| Debtors Account | Dr. | xxx | |
| | | | To Sales Account |
| | | | xxx |

Accounting Treatment:-

- 1) It must be added to Sales in the Trading Account
- 2) It must be added to Debtors in the Balance Sheet.

9.8. SUMMARY:

Balance Sheet will reveal the true financial position of the business on a particular date and Final Accounts must be prepared after making the adjustments.

9.9. EXAMPLES:**Example 1 :**

The Net profit of Suma Industries for the year ended 31-03-07 was Rs. 26938 From the following Ledger Balances, prepare Balance sheet as on that date.

| | Rs. | | Rs. |
|-------------------|--------|-------------------|--------|
| Cash in Hand | 7200 | Creditors | 9472 |
| Cash at Bank | 18,654 | Drawings | 4,800 |
| Plant & machinery | 17,000 | Capital | 30,000 |
| Debtors | 11,356 | Bills Payable | 5,600 |
| | | Stock on 31-03-07 | 13,000 |

Solution :**Balance Sheet of Suma Industries as on 31.03.07**

| Liabilities | | Amount Rs. | Assets | | Amount Rs. |
|---------------|--------|---------------|-------------------|--|---------------|
| Capital | 30,000 | | Plant & machinery | | 17,000 |
| Add N.P | 26,938 | | Closing Stock | | 13,000 |
| | 56,938 | | Debtors | | 11,356 |
| Less Drawings | 4,800 | 52,138 | Bank | | 18,654 |
| Creditors | | 9,472 | Cash | | 7200 |
| Bills Payable | | 5,600 | | | |
| | | 67,210 | | | 67,210 |

Example 2 :

From the following particulars, prepare Balance sheet under order of Liquidity method and order of permanence method as on 31-03-07.

| | Rs. | | Rs. |
|----------------------------|--------|---------------|-------|
| Capital | 10,000 | Drawings | 3,000 |
| Net Profit of current year | 15,000 | Closing stock | 6,000 |
| Mortgage loan | 7,500 | Bills payable | 2,500 |
| Bills Receivable | 4,000 | Good will | 6,000 |
| Debtors | 9,000 | Creditors | 3,000 |
| Plant & machinery | 20,000 | Investments | 9,000 |
| Cash in hand | 1,000 | Cash at bank | 3,000 |
| Land & Buildings | 17,000 | | |

Solution :

Order of Liquidity

Balance Sheet of as on 31.03.07

| Liabilities | Amount Rs. | Assets | Amount Rs. |
|--------------------|-----------------------|-------------------|-----------------------|
| Bills payable | 2,500 | Cash in hand | 1,000 |
| Creditors | 3,000 | Cash at Bank | 3,000 |
| Mortgage loan | 7,500 | Bills Receivable | 4,000 |
| Capital | 50,000 | Debtors | 9,000 |
| Add N.P | 15,000 | Closing stock | 6,000 |
| | 65,000 | Investments | 9,000 |
| Less Drawings | 3,000 | Plant & Machinery | 20,000 |
| | 62,000 | Land & Buildings | 17,000 |
| | | Good will | 6,000 |
| | <u>75,000</u> | | <u>75,000</u> |

Order of Permanence

| | Rs. | | Rs. |
|---------------|---------------|-------------------|---------------|
| Capital | 50,000 | Good will | 6,000 |
| Add N.P | 15,000 | Land & Buildings | 17,000 |
| | 65,000 | Plant & Machinery | 20,000 |
| Less Drawings | 3,000 | Closing stock | 6,000 |
| Mortgage loan | 7,500 | Investments | 9,000 |
| Creditors | 3,000 | Debtors | 9,000 |
| Bills payable | 2,500 | Bills Receivable | 4,000 |
| | | Cash at Bank | 3,000 |
| | | Cash in hand | 1,000 |
| | <u>75,000</u> | | <u>75,000</u> |

Example 3:

The Trial Balance of Chandra Sekhar on 31-03-07 was as under.

| | Rs. | Rs. |
|--------------------|-----------------|-----------------|
| Land & buildings | 27,500 | |
| Plant & Machinery | 13,320 | |
| Opening stock | 41,730 | |
| Purchases & sales | 1,27,330 | 2,07,830 |
| Carriage | 4,780 | |
| Bad Debts | 2,250 | |
| Wages | 9,270 | |
| Debtors, Creditors | 54,450 | 24,290 |
| Discounts | 8,240 | 7,630 |
| Furniture | 1,920 | |
| Capital & Drawings | 18,550 | 1,06,590 |
| General Expenses | 13,380 | |
| Bank | 18,740 | |
| Taxes | 1,880 | |
| | <u>3,46,340</u> | <u>3,46,340</u> |

Stock on 31-03-07 Rs. 44200. Prepare final Accounts.

Solution :

Trading & Profit and Loss Account of Chandra Sekhar for the Year ended 31-03-07

| Dr | Rs. | | Cr |
|--|--------------------|----------------------|-------------------------------|
| To Opening stock | 41,730 | By Sales | 2,07,830 |
| To Purchases | 1,27,330 | By closing stock | 44,200 |
| To Carriage | 4,780 | | |
| To Wages | 9,270 | | |
| To Gross (profit transfer to P&L Account) | 65,920 2,52,030 | | <u> </u> 2,52,030 |
| To General Expenses | 13,380 | By G.P | 65,920 |
| To Taxes | 1,880 | By Discount received | 7,630 |
| To Discounts (allowed) | 8,240 | | |
| To Bad debts | 2,250 | | |
| To Net profit(Transfer to capital A/c.) | 47,800 | | |
| | <u>73,550</u> | | <u>73,550</u> |

Balance Sheet of Chandra Sekhar as on 31.03.07

| | Rs. | | Rs. |
|---------------|-----------------|-------------------|-----------------|
| Capital | 1,06,590 | Land & Buildings | 27,500 |
| Add N.P | 47,800 | Plant & Machinery | 13,320 |
| | 1,54,390 | Furniturs | 1,920 |
| Less Drawings | 18,550 | Closing stock | 44,200 |
| | 1,35,840 | Debtors | 54,450 |
| Creditors | 24,290 | Cash at Bank | 18,740 |
| | <u>1,60,130</u> | | <u>1,60,130</u> |

Example 4 :

From the following Trial Balance, Prepare final accounts.

| | Rs. | Rs. |
|----------------------------------|------------------|------------------|
| Capital & Drawings of Srinivas | 50,000 | 4,00,000 |
| Land & Buildings | 27,500 | |
| Lease hold land | 2,50,000 | |
| Free hold premises | 2,00,000 | |
| Good will | 70,000 | |
| Trade marks | 1,30,000 | |
| Plant & Machinery | 1,50,000 | |
| Fixtures & Fittings | 20,000 | |
| Opening stock | 1,80,000 | |
| Bills Receivable & Bills Payable | 40,000 | 60,000 |
| Debtors & Creditors | 1,60,000 | 2,40,000 |
| Purchases & Sales | 8,00,000 | 15,00,000 |
| Returns | 10,000 | 20,000 |
| Carriage in | 15,000 | |
| Carriage out | 5,000 | |
| Freight & Duty | 9,000 | |
| Productive wages | 2,20,000 | |
| Coal, gas & Water | 8,000 | |
| Factory Expenses | 45,000 | |
| Salaries | 1,80,000 | |
| Rent, Taxes and Insurance | 60,000 | |
| Commission | 25,000 | |
| Discounts | 40,000 | 60,000 |
| Interest | | 30,000 |
| Stationery | 5,000 | |
| Trade expenses | 18,000 | |
| Cash in hand | 7,000 | |
| Bank O.D. | | 3,90,000 |
| | <u>27,00,000</u> | <u>27,00,000</u> |

Solution :**Trading & Profit and Loss Account of Srinivas for the Year ended 3103-07**

| Dr. | | Cr | |
|------------------------------|------------|-------------------------------------|-----------|
| | Rs. | Rs. | |
| To Opening stock | 1,80,000 | By Sales | 15,00,000 |
| To Purchases | 8,00,000 | Less Returns | 10,000 |
| Less Returns | 20,000 | | 14,90,000 |
| To Carriage in | 15,000 | | |
| Freight & Duty | 9,000 | | |
| To Productive wages | 2,20,000 | | |
| To Coal, gas & Water | 8,000 | | |
| To Factory Expenses | 45,000 | | |
| To Gross (profit transfer | 2,30,000 | | |
| to P& L Account) | 14,90,000 | | 14,90,000 |
| To Carriage out | 5,000 | By G.P | 2,30,000 |
| To Salaries | 1,80,000 | By interest | 30,000 |
| To Rent, Taxes and Insurance | 60,000 | By Discount | 60,000 |
| To Commission | 25,000 | By Net loss(Transfer to Capital Ac) | 13,000 |
| To Discounts | 40,000 | | |
| To Stationery | 5,000 | | |
| To Trade expenses | 18,000 | | |
| | 3,33,000 | | 3,33,000 |

Balance Sheet of Srinivas as on 31.03.07

| | Rs. | | Rs. |
|---------------------|------------------|---------------------|------------------|
| Capital | 4,00,000 | Good will | 70,000 |
| Less Net loss 13000 | | Free hold premises | 2,00,000 |
| Less Drawings 50000 | 63,000 | Lease hold premises | 2,50,000 |
| | 3,37,000 | Trade Marks | 1,30,000 |
| Bank O.D | 3,90,000 | Plant & Machinery | 1,50,000 |
| Creditors | 2,40,000 | Fixtures & Fittings | 20,000 |
| Bills payable | 60,000 | Bills Receivable | 40,000 |
| | | Debtors | 1,60,000 |
| | | Cash | 7,000 |
| | <u>10,27,000</u> | | <u>10,27,000</u> |

Example 5 :

The following Balance sheet is prepared by an inexperienced accountant. Prepare the correct Balance sheet.

| Liabilities | Rs. | | Rs. |
|------------------------|-----------------|-----------------------|-----------------|
| Plant Machinery 1-4-06 | 24,000 | Capital | 30,000 |
| Debtors | 49,200 | Add interest | 1,500 |
| Less Reserve | 2,460 | Creditors | 58,800 |
| | 46,740 | Depreciation on plant | 1,200 |
| Drawings | 3,600 | Reserve for bad debts | 2,100 |
| Repair to Machinery | 280 | Profit | 21,600 |
| Stock on 1.4.06 | 6,800 | Bills payable | 600 |
| Stock on 31.03.07 | 24,000 | Balance | 4,980 |
| Cash | 2,520 | | |
| Buildings | 9,840 | | |
| | <u>1,20,780</u> | | <u>1,20,780</u> |

Solution :

Balance sheet of as on 31.03.07

| Liabilities | | Rs. | Assets | | Rs. |
|--------------------|--------|------------|-----------------------------|--------|------------|
| Capital | 30,000 | | Buildings | | 9,840 |
| Add interest | 1,500 | | Plant Machinery (24000-900) | | 22,800 |
| Add N.P | 21,600 | | Closing Stock | | 24,000 |
| | 53,100 | | Debtors | 49,200 | |
| Less Drawings | 3,600 | 49,500 | Less RBD | 2,460 | 46,740 |
| Creditors | | 58,800 | Cash | | 2,520 |
| Bills payable | | 600 | | | |
| | | 1,08,900 | | | 1,08,900 |

9.10. QUESTIONS:

a) Short Answer & Essay questions:-

1. What is meant by Balance Sheet ? What are the Objectives in the preparation of Balance sheet ?
2. Prepare a Model Balance sheet under order of Liquidity and order of permanence with assumed figures.
3. What are the differences between Trial Balance and Balance sheet ?
4. What are the differences between P& L Account and Balance sheet ?

9.11. EXERCISES:

1. From the following ledger balances taken from the Trial Balance of Venkatesh, prepare Final accounts for the year 2007.

Credit Balances : Capital Rs. 360000, Creditors Rs. 87,200 ; Bills Payable Rs. 25270 ; Sales Rs.789,820 ; Loans Rs. 1,20,000.

Debit Balances : Debtors Rs. 38850 ; Salaries Rs. 40,000 ; Discount Rs. 10,000; Postage Rs.2,730 ; Bad Debts Rs. 2,870 ; Interest Rs. 9,950 ; Insurance Rs. 4,170 ; Machinery Rs.1,00,000 ; Opening stock Rs. 99,450 ; Purchases Rs. 6,20,920 ; Wages Rs. 43,000 ; Buildings Rs. 2,37,800 ; Fixtures Fittings Rs. 1,69,550.

(Ans ; G.P. 26,450 ; Net Loss Rs. 46,270 ; B. S : Rs. 5,46,200)

2. From the following Trial Balance on 31.9.07 Prepare Balance sheet

| | Rs. | Rs. |
|---------------------------------|-----------------|-----------------|
| Cash in hand | 36,000 | |
| Bank O.D | | 30,000 |
| Capital | | 3,25,000 |
| Land & buildings | 1,00,000 | |
| Closing stock | 60,000 | |
| Furniture | 9,500 | |
| Good will | 47,500 | |
| Bills Receivable, Bills Payable | 35,000 | 40,000 |
| Car | 40,000 | |
| Prepaid Advertisements | 5,000 | |
| Debtors, Creditors | 1,50,000 | 70,000 |
| P&L Ac. | | 5,000 |
| Loan from Ram | | 30,000 |
| Drawings | 25,000 | |
| | <u>5,00,000</u> | <u>5,00,000</u> |

(Ans ; Total of B. S : Rs. 4,75,000)

3. The trial balance of Mr. Ram Babu on 31.03.07 was as under. Prepare final accounts.

| | Rs. | Rs. |
|----------------------------|------------|------------|
| Capital | | 2,25,000 |
| Cash in hand | 25,000 | |
| Stock on 1.04.06 | | |
| Finished Goods | 35,000 | |
| Work in progress | 70,000 | |
| Raw Material | 30,000 | |
| Purchase of Raw material | 7,05,000 | |
| Machinery | 2,25,000 | |
| Sales | | 9,62,250 |
| Carriage in | 7,500 | |
| Carriage out | 4,500 | |
| Rent | 13,500 | |
| Discount | 1,050 | |
| Office fire insurance | 2,100 | |
| Sundry Debtors & Creditors | 1,59,000 | 51,000 |
| Reserve for Bad debts | | 600 |
| Printing & stationery | 7,800 | |
| Other Expenses | 8,400 | |
| Advertisements | 45,000 | |
| Drawings | 18,000 | |
| Office salaries | 54,000 | |
| Furniture & Fittings | 60,000 | |
| Factory power & Fuel | 22,500 | |
| Productive wages | 2,000 | |
| Cash in hand | 6,000 | |
| Cash at bank | 37,500 | |
| | 15,38,850 | 15,38,850 |

| Stock on 31. 03.07 | Rs. |
|--------------------|--------|
| Finished Goods | 50,000 |
| Raw Material | 10,000 |
| Work in progress | 55,000 |

(Ans ; G.P. 5,05,250 ; Net Profit Rs. 3,74,500 ; B. S: Rs. 6,32,500)

4. From the following Trial Balance of Raghava prepare Trading and P&L Account and Balance Sheet on 31.03.07.

| | Rs. | | Rs. |
|-------------------------|----------|------------------|-----------|
| Cash in hand | 25,000 | Capital | 8,00,000 |
| Plant & Machinery | 1,97,200 | Creditors | 5,41,600 |
| Direct wages | 3,49,650 | Loan | 1,00,000 |
| Salaries | 1,59,650 | Purchase Returns | 31,400 |
| Furniture | 94,800 | Sales | 24,68,500 |
| Carriage | 19,800 | | |
| Carriage out | 21,500 | | |
| Free hold property | 2,50,000 | | |
| Manufacturing expenses | 94,550 | | |
| Insurance & Taxes | 41,750 | | |
| Good will | 3,00,000 | | |
| General expenses | 81,420 | | |
| Fuel & Power | 9,760 | | |
| Factory lighting | 9,860 | | |
| Distribution Expenses | 24,730 | | |
| Stock on 01.04.06 | 3,41,700 | | |
| Horses & carts | 51,650 | | |
| Purchases | 9,71,650 | | |
| Sales Returns | 37,700 | | |
| Discount | 9,280 | | |
| Bad debts | 14,850 | | |
| Interest & Bank charges | 4,950 | | |

| | | |
|--------------|------------------|------------------|
| Cash in hand | 69,300 | |
| Cash at Bank | 1,450 | |
| | <u>39,41,500</u> | <u>39,41,500</u> |

(Ans ; G.P. 6,62,230 ; Net Profit Rs. 3,04,100 ; B. S : Rs. 17,45,700)

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Lesson - 10

FINAL ACCOUNTS - PROBLEMS

OBJECTIVES:

By the study of this chapter, you will be able to solve the Final Accounts with adjustments.

STRUCTURE :

10.1. Examples.

10.2. Exercises

10.1. EXAMPLES :

1. From the following Trial Balance of Mr Balu prepare Trading & P&L A/C for the year ending 31.3.07 and Balance sheet as on that data.

| | Rs. | | Rs. |
|------------------------|-----------------|-------------------|-----------------|
| Plant & Machinery | 40,000 | Capital | 1,00,000 |
| Debtors | 24,000 | Creditors | 12,000 |
| Drawings | 10,000 | Returns out wards | 5,000 |
| Purchases | 1,05,000 | Sales | 2,00,000 |
| Wages | 50,000 | Bills payable | 5,000 |
| Bank | 10,000 | | |
| Repairs | 500 | | |
| Stock on 01.04.06 | 20,000 | | |
| Rent | 4,000 | | |
| Manufacturing Expenses | 8,000 | | |
| Trade expenses | 7,000 | | |
| Baddebts | 2,000 | | |
| Carriage out | 1,500 | | |
| Returns inwards | 4,000 | | |
| Cash in hand | 36,000 | | |
| | <u>3,20,000</u> | | <u>3,20,000</u> |

Adjustments :

- 1) Closing stock Rs. 14,500
- 2) Depreciate plant & Machinery by Rs. 4,000
- 3) Interest on capital 5%
- 4) Outstanding Repairs Rs. 400/-

Solution:-

| Dr Trading & P&L A/C of Mr. Balu for the year ended 31-03-2007 | | | | Cr |
|--|---------------|----------|--------------------|---------------|
| Particulars | Amount | | Particulars | Amount |
| | Rs. | | | Rs. |
| To opening stock | 20,000 | | By sales | 2,00,000 |
| To purchases | 1,05,000 | | Less sales returns | 4,000 |
| Less Returns | 5,000 | 1,00,000 | By Closing stock | 14,500 |
| To wages | 50,000 | | | |
| To Manufacturing Exp. | 8,000 | | | |
| To Gross Profit | 32,500 | | | |
| | 2,10,500 | | | 2,10,500 |
| To Repairs | 500 | | By G.P | 32,500 |
| Add outstanding | 400 | 900 | | |
| To Rent | 4,000 | | | |
| To Trade expenses | 7,000 | | | |
| To Baddebts | 2,000 | | | |
| To Carriage out | 1,500 | | | |
| To Depreciation on plant | 4,000 | | | |
| To Interest on capital $100000 \times 5/100$ | 5,000 | | | |
| To Net Profit - Transfer to cap. A/C | 8,100 | | | |
| | 32,500 | | | 32,500 |

Balance Sheet of Mr. Balu as on 31-03-2007

| | Rs. | | Rs. |
|----------------------|-----------------|----------------------------------|-----------------|
| Capital | 1,00,000 | Plant & Machinery (40,000-4,000) | 36,000 |
| Add interest on Cap. | 5,000 | Closing stock | 14,500 |
| Add N.P | 8,100 | Debtors | 24,000 |
| | 1,10,100 | Bank | 10,000 |
| Less Drawings | 10,000 | Cash | 36,000 |
| | 1,03,100 | | |
| Creditors | 12,000 | | |
| Bills payable | 5,000 | | |
| Outstanding Repairs | 400 | | |
| | <u>1,20,500</u> | | <u>1,20,500</u> |

Example 2. The Trial Balance of Siva on 31.12.07 was as under. Prepare Final Accounts

| | Rs. | | Rs. |
|-------------------|-----------------|--------------------|-----------------|
| Drawings | 7,000 | Capital | 85,000 |
| Buildings | 23,000 | Purchase Returns | 3,800 |
| Stock on 1.1.2007 | 29,000 | Sales | 2,38,000 |
| Purchases | 2,07,000 | Apprentice premium | 1,000 |
| Sales Returns | 5,000 | Commission | 600 |
| General Expenses | 8,000 | Bank O.D | 2,800 |
| Rent & Taxes | 6,400 | Creditors | 20,000 |
| Baddebts | 3,400 | Bills payable | 2,000 |
| Debtors | 64,000 | | |
| Interest on O.D | 400 | | |
| | <u>3,53,200</u> | | <u>3,53,200</u> |

Adjustments :

- 1) Stock on 31.12.07 Rs. 29,000/-
- 2) Out standing Rent Rs. 500/- ; Prepaid Taxes Rs. 350/-
- 3) Apprentice premium to be adjusted over 5 years
- 4) Depreciate Buildings by 10%
- 5) Interest on capital 5% and interest on Drawings 3%
- 6) Commission received in advance Rs. 500/-

Solution:-

| Dr | | Trading & P&L AC of Siva for the year ended 31-12-2007 | | Cr | |
|-------------------------------------|----------|---|---|-----------|-----------------|
| | | Rs. | | | Rs. |
| To opening stock | | 29,000 | By sales | 2,32,000 | |
| To purchases | 2,07,000 | | Less Sales returns | 5,000 | 2,33,000 |
| Less Returns | 3,800 | 2,03,200 | By Closing stock | | 29,000 |
| To Gross Profit Transfer to AC | | 29,800 | | | |
| | | <u>2,62,000</u> | | | <u>2,62,000</u> |
| To General Exp. | | 8,000 | By G.P | | 29,800 |
| To Rent & Taxes | 6,400 | | By Apprentice premium | 1,000 | |
| Less Prepaid taxes | 350 | | Less Received in advance | 800 | 200 |
| | 6,050 | | By Commission | 600 | |
| Add outstanding Rent | 500 | 6,550 | Less Recieved in Advance | 500 | 100 |
| To Baddebts | | 3,400 | By interest on Drawings $7000 \times 3/100$ | | 210 |
| To interest on O.D | | 400 | | | |
| To Deperciation Buildings | | 2,300 | | | |
| To interestion Cap | | 4,250 | | | |
| To Net profit (Transfer to Cap. Ac) | | 5,410 | | | |
| | | <u>30,310</u> | | | <u>30,310</u> |

Balance Sheet of Siva as on 31-03-2007

| | | Rs. | | | Rs. |
|----------------------|--------|------------|--------------------------|--|------------|
| Capital | 85,000 | | Buildings (23,000-2,300) | | 20,200 |
| Add interest on Cap. | 4,250 | | Closing stock | | 29,000 |
| Add N.P | 5,410 | | Debtors | | 64,000 |
| Less Drawings 7,000 | 94,660 | | Prepaid Taxes | | 350 |
| Interest | 210 | 7,210 | | | |
| Creditors | | 20,000 | | | |
| Bank O.D | | 2,800 | | | |

| | | |
|--|----------|----------|
| Bills payable | 2,000 | |
| Apprentice premium recived in Advance | 800 | |
| Commission | 500 | |
| Outstanding Rent | 500 | |
| | 1,14,050 | 1,14,050 |

3. From the following Trial Balance of ' Kranthi ' on 31.03.07 prepare final accounts

| | Rs. | | Rs. |
|---------------------------------|----------|-------------------------|----------|
| Purchases | 1,65,625 | Sales | 2,56,650 |
| Sales returns | 4,250 | Purchase Returns | 3,120 |
| Sundry Debtors | 40,200 | Reserve for Baddebts | 5,200 |
| Stock on 01.04.06 | 26,725 | Sundry crdeitors | 25,526 |
| wages | 20,107 | Bills payable | 8,950 |
| Salaries | 8,575 | Interest on investments | 825 |
| Furniture | 6,575 | Capital | 28,000 |
| Patents | 4,500 | Out standing wages | 2,019 |
| Postage, stationary , Insurance | 3,226 | Out standing Rent | 750 |
| Lighting | 350 | | |
| Trade expenses | 2,314 | | |
| Rent & Taxes | 3,517 | | |
| Baddebts | 525 | | |
| 5% prakash loan (on 1.12.06) | 3,000 | | |
| Investments | 11,500 | | |
| Prepaid insurance | 524 | | |
| Cash in hand | 5,752 | | |
| Bills Receivable | 17,070 | | |
| Drawings | 6,000 | | |
| Depreciation on Furniture | 675 | | |
| | 3,31,040 | | 3,31,040 |

Adjustments :

1) Stock on 31.12.07 Rs. 10,520/-

- 2) A fire occurred in March 2007 and goods of Rs. 1000 were destroyed and the insurance company agreed to pay Rs. 700/- as compensation.
- 3) Bills Receivable dishonoured Rs. 650/- but no entry is passed for dishonour.
- 4) Depreciate patents by 25%
- 5) Write off Rs. 850 from debtors as baddebts and provide Reserve for Baddebts @ 5%
- 6) Goods purchased on credit Rs. 5000/- is included in closing stock but no entry is passed.

Solution:-

| Dr. | Trading & P&L A/C of Kranthi for the year ended 31-03-07 | | Cr. |
|---|---|--------------------------------|----------|
| | Rs. | | Rs. |
| To opening stock | 26,725 | By sales | 2,56,650 |
| To purchases | 1,65,625 | Less return | 4,250 |
| Add additional purchases | 5,000 | By Closing stock | 10,520 |
| | 1,70,625 | By Loss due to fire | 1,000 |
| Less Returns | 3,120 | | |
| To wages | 20,107 | | |
| To Gross profit | 49,553 | | |
| | 2,63,920 | | 2,63,920 |
| To Salaries | 8,575 | By G.P | 49,553 |
| To Postage, stationary, insurance | 3,226 | By interest on loan of prakash | |
| To Lighting | 350 | 3000 x 5/100 x 4/12 | 50 |
| To Trade exp. | 2,314 | By R.B.D. (5200 -2000) | 3,200 |
| To Rent & Taxes | 3,517 | By interest on investments | 825 |
| To Baddebts (525+850) | 1,375 | | |
| To Depreciation on Furniture | 675 | | |
| To Loss due to fire (1000-700) | 300 | | |
| To Depreciation on Patents | | | |
| 4500 x 25/100 | 1,125 | | |
| To net profit (Transfer to capital ac) | 32,171 | | |
| | 53,628 | | 53,628 |

Balance Sheet of Kranthi as on 31-03-2007

| | Rs. | | Rs. |
|--------------------------|---------------|-----------------------------|---------------|
| Capital | 28,000 | Furniture | 6,575 |
| Add N.P | 32,171 | Patents (4500 - 1125) | 3,375 |
| | 60,171 | Investments | 11,500 |
| Less Drawings | 6,000 | 5% prakash loan Ac | 3,000 |
| | 54,171 | Interest receivable on loan | 50 |
| Creditors (25,526 +5000) | 30,526 | Insurance claim due | 700 |
| Bills payable | 8,950 | Closing stock | 10,520 |
| Outstanding wages | 2,019 | Debtors | 40,200 |
| Rent | 750 | Add Bills Dishonoured | 650 |
| | | | 40,850 |
| | | Less Baddebts | 850 |
| | | | 40,000 |
| | | Less R.B.D. 5% | 2,000 |
| | | Bills Receivable | 17,070 |
| | | Less Bills dishonoured | 650 |
| | | Cash | 5,752 |
| | | Prepaid Insurance | 524 |
| | <u>96,416</u> | | <u>96,416</u> |

4. From the following Ledger Balance of 'Prakash' prepare final accounts

| | Rs. | | Rs. |
|-----------------------|----------|------------------------|----------|
| Stock on 01.04.06 | 96,000 | Wages | 28,000 |
| Salaries | 4,000 | Drawings | 6,500 |
| Capital | 50,000 | Bills payable | 5,000 |
| Carriage | 5,000 | Interest on over draft | 200 |
| Purchases | 1,20,000 | Bills Receivable | 6,000 |
| Rent | 2,000 | Plant & Machinery | 20,000 |
| Travelling Expenses | 5,000 | Repairs to Machinery | 1,600 |
| Cash in hand | 5,600 | Office expenses | 5,000 |
| IncomeTax | 500 | Bank loan | 14,000 |
| Baddebts | 5,000 | Sales | 2,50,000 |
| Discount on purchases | 4,000 | Creditors | 23,300 |
| Purchase Returns | 1,500 | Cash at Bank | 1,800 |
| Buildings | 5,000 | Sales Returns | 1,000 |
| Debtors | 35,000 | | |

Adjustments :

- 1) Stock on 31.03.07 Rs. 35,000/-
- 2) Bad debts Rs. 3,000/-
- 3) Provision for Bad debts 5%
- 4) Goods drawn for house hold purpose Rs. 3,000/-
- 5) Goods of Rs. 1000/- were given away as free samples
- 6) Erection charges of Machinery Rs. 1,000 were included in wages account
- 7) Depreciation on plant & Machinery 10%
- 8) Interest on capital 5%
- 9) Outstanding wages Rs. 1500/-, salaries Rs. 450, Rent Rs. 400/-

Solution:-

| Dr. Trading & P&L AC of Prakash for the year ended 31-03-07 | | Cr. | |
|--|----------|--------------------------|----------|
| Rs. | | Rs. | |
| To opening stock | 96,000 | By sales | 2,50,000 |
| To purchases | 1,20,000 | Less returns | 1,000 |
| Less Returns | 1500 | By Closing stock | 35,000 |
| Less Drawings | 3000 | | |
| Less Free samples | 1000 | | |
| To wages | 28,000 | | |
| Add out standing | 1,500 | | |
| | 29,500 | | |
| Less Erection charges | | | |
| of Machine | 1,000 | | |
| To carriage | 5,000 | | |
| To Gross profit | | | |
| (Transfer to P&L AC) | 40,000 | | |
| | 2,84,000 | | 2,84,000 |
| To Salaries | 2,000 | By G.P | 40,000 |
| Add outstanding | 450 | By Discount on purchases | 4,000 |
| To interest on O.D | 200 | | |
| To Rent | 2,000 | | |
| Add out standing | 400 | | |
| To Depreciation on P&M | | | |
| 21,000x10/100 | 2,100 | | |
| To Travelling expenses | 5,000 | | |
| To Repairs | 1,600 | | |
| To office expenses | 5,000 | | |
| To Baddebts (5000+3000) | 8,000 | | |
| To Advertisements- free samples | 1,000 | | |
| To interest on capital 50,000x5/100 | 2,500 | | |
| To R.B.D. (32,000 x5/100) | 1,600 | | |
| To net profit (Transfer to capital A/C) | 10,150 | | |
| | 44,000 | | 44,000 |

Balance Sheet of Prakash as on 31-03-2007

| | | Rs. | | | Rs. |
|---------------------------------|--------|--------|----------------------|--------|--------|
| Capital | 50,000 | | Buildings | | 5,000 |
| Add N.P | 10,150 | | Plant & Machinery | 20,000 | |
| Add interest on capital | 2,500 | | Add erection charges | 1,000 | |
| | 62,650 | | | 21,000 | |
| Less Drawings 6,500 | | | Less Depreciation | 2,100 | 18,900 |
| Less Drawings of goods 3,000 | | | Closing stock | | 35,000 |
| Less Income tax 500 | 10,000 | 52,650 | Bills Receivable | | 600 |
| Bank loan | | 14,000 | Debtors | 35,000 | |
| Creditors | | 23,300 | Less Baddebts | 3,000 | |
| Bills payable | | 5,000 | | 32,000 | |
| Out standing Expenses | | | Less R.B.D. 5% | 1,600 | 30,400 |
| Wages | | 1,500 | Bank | | 1,800 |
| Salaries | | 450 | Cash | | 5,600 |
| Rent | | 400 | | | |
| | | 97,300 | | | 97,300 |

5. The trial Balance of Sri. Govind on 31-03-08 was as under. Prepare Trading and P&L account and Balance sheet.

| | Dr Rs. | Cr Rs. |
|---|-----------|-----------|
| Capital & Drawings | 6,000 | 40,000 |
| Plant & Machinery | 15,000 | |
| Furniture & Fixtures | 2,000 | |
| Patent Rights (for 10 years from 1.4.07) | 10,000 | |
| Stock on 1.4.07 | 10,000 | |
| Purchases & sales | 42,500 | 66,000 |
| Salaries | 3,700 | |
| Wages | 7,500 | |
| Debtors & Creditors | 10,200 | 6,000 |
| Loan from syam (@ 6% on 1.10.07) | | 5,000 |
| Postage & Telegrams | 250 | |
| Loose tools | 500 | |
| Rent, Rates & Taxes | 1,800 | |
| Baddebts written off | 200 | |
| Discount | | 300 |
| Trade expenses | 100 | |
| Interest on the loan of syam | 75 | |
| Insurance | 400 | |
| Travelling Expenses | 250 | |
| Legal expenses | 150 | |
| Cash in hand | 1,525 | |
| Cash at bank | 5,150 | |
| | 1,17,300 | 1,17,300 |

Adjustments :

- 1) Stock on 31.03.08 Rs. 10,600/- and loose tools Rs. 350/-
- 2) New machine purchased on 1.1.2008 for Rs. 1,500 but no entry is passed in the books of account. Expenses for erection of the machine Rs. 500/- were included in wages.
- 3) Depreciate plant by 20% and Furniture by 10% P.A.
- 4) Write off Rs. 200/- as Baddebts and provide 5% for Baddebts and 2% for Discount on Debtors.
- 5) Manager shall be given a commission of 5% on N.P. before charging such commission.

6) Fire occurred in the godown on 25.03.08 and goods of Rs. 2500 were destroyed. The insurance company agreed the claim in full.

7) Unexpired insurance Rs. 200/-

Solution:-

| Dr | | Trading & P&L A/C of Sri Govind for the year ended 31-03-08 | | Cr. |
|-------------------------------------|-------|--|---------------------|---------------|
| | | Rs. | | |
| To opening stock | | 10,000 | By sales | 66,000 |
| To purchases | | 42,500 | By closing stock | 10,600 |
| To wages | 7,500 | | By loss due to fire | 2,500 |
| less erection charges of Machine | 500 | 7,000 | | |
| To G.P | | 22,600 | | |
| | | <u>82,100</u> | | <u>82,100</u> |
| To Salaries | | 3,700 | By G.P | 22,600 |
| To Postage & Telegrams | | 250 | By Discount | 300 |
| To Rent, Rates & Taxes | | 1,800 | | |
| To Bad debts (200+200) | | 400 | | |
| To Trade Expenses | | 100 | | |
| To interest on loan | 75 | | | |
| Add out standing | 75 | 150 | | |
| To insurance | 400 | | | |
| Less un expired | 200 | 200 | | |
| To Travelling | | 250 | | |
| To legal expenses | | 150 | | |
| To depreciation : | | | | |
| Loose tools (500-350) | | 150 | | |
| Furniture | | 200 | | |
| Plant | | 3,100 | | |
| Patents | | 1,000 | | |
| To R.B.D | | 500 | | |
| To Reserve for discount on debtors | | 190 | | |
| To N.P(before charging commission) | | | | |
| Balance C/D | | 10,760 | | |
| | | <u>22,900</u> | | <u>22,900</u> |

| | | | |
|---|---------------|------------|---------------|
| To Manager's commission 10,760x5/100 | 538 | By Bal B/D | 10,760 |
| To Net profit (Transfer to capital A/C) | 10,222 | | |
| | <u>10,760</u> | | <u>10,760</u> |

Balance Sheet of Sri Govind as on 31-03-2007

| | Rs. | | Rs. |
|-----------------------|---------------|-----------------------------|---------------|
| Capital | 40,000 | Plant (15000+1500+500-3100) | 10,900 |
| Add N.P | 10,222 | on 15,000 = Rs. | 3,000 |
| | 50,222 | on 2,000 for 3 months | 100 |
| Less Drawings | 6,000 | | 3,100 |
| | 44,222 | | |
| Syam's Loan | 5,000 | Furniture (2,000-200) | 1,800 |
| Sundry creditors | 6,000 | Patents (10,000-1,000) | 9,000 |
| Out standing Expenses | | Insurance claim due | 2,500 |
| Manager's commission | 538 | Closing stock | 10,600 |
| For machinery | 1,500 | Loose tools | 350 |
| Interest on loan | 75 | Unexpired insurance | 200 |
| | | Debtors | 10,200 |
| | | Less Baddebts | 200 |
| | | | 10,000 |
| | | Less R.B.D. | 500 |
| | | | 9,500 |
| | | Less Reserve for discount | 190 |
| | | Bank | 5,150 |
| | | Cash | 1,525 |
| | <u>57,335</u> | | <u>57,335</u> |

6. The following Trial Balance relate to Suresh. Prepare final accounts

| Debit Balances | Rs. | Credit Balances | Rs. |
|------------------------|--------|--------------------------|----------|
| Drawings | 3,000 | Capital | 28,000 |
| Debtors | 20,100 | Creditos | 10,401 |
| Interestan loans | 300 | Mortgage loan | 9,500 |
| Cash in hand | 2,050 | Reser for Doubtful debts | 710 |
| Stock on 1.1.07 | 6,839 | Sales | 1,10,243 |
| Motor vehicles | 10,000 | Purchase returns | 1,346 |
| Bank | 3,555 | Discount | 540 |
| Land & Buildings | 12,000 | Bills payable | 2,614 |
| Baddebts | 525 | Rent received | 250 |
| Purchases | 66,458 | | |
| Sales Returnes | 7,821 | | |
| carriage out | 2,404 | | |
| carriage in | 2,929 | | |
| Salaries | 9,097 | | |
| Rent, Rates, insurance | 2,891 | | |
| Advertisments | 3,264 | | |
| General Expenses | 3,489 | | |
| Bills Receivable | 6,882 | | |

Adjustments :

- 1) Depreciation on Land & Buildings 2 $\frac{1}{2}$ % on Motor vehicles 20%
- 2) Interest on loan is not paid for 6 monts @ 6%
- 3) Goods costing Rs. 500 were sent on Sale or Return basis at Rs. 600 on 31.12.07 but recorded as sales in the books of account.
- 4) Outstanding salaries Rs. 750/- and Rates Rs. 350/-
- 5) Prepaid Insurance Rs. 150/-
- 6) Provide 5% on Debtors for Bad & Doutful debts
- 7) Manager shall be given a commission of 5% on N.P, after charging such commission.
- 8) Stock on 31.12.07 Rs. 6,250/-

Solution:-

| Dr. Trading & P&L AC of Suresh for the year ended 31-12-07 | | Cr. | |
|---|-----------------|-----------------------------|-----------------|
| | Rs. | Rs. | |
| To opening stock | 6,839 | By sales | 1,10,243 |
| To purchases | 66,458 | Less return | 7821 |
| Less Returns | 1,346 | Less goods | |
| To Carriage in | 2,929 | on sale or return 600 | 8,421 |
| To Gross profit (Transfer to P & L AC) | 33692 | By closing stock (6250+500) | 6,750 |
| | <u>1,08,572</u> | | <u>1,08,572</u> |
| To Salaries | 9,097 | By G.P | 33,692 |
| Add out standing | 750 | By Discount | 540 |
| To interest on loan | 585 | By Rent | 250 |
| To Carriage out | 2,404 | | |
| To Rent,Rates,Insurances | 2,891 | | |
| Add outstanding Rates | 350 | | |
| | 3,241 | | |
| Less Prepaid insurance | 150 | | |
| To Advertisements | 3,264 | | |
| To Gen. Expenses | 3,489 | | |
| To Baddebts | 525 | | |
| To R.B.D. (975 - 710) | 265 | | |
| To Dep. Land & Buildings | 300 | | |
| Motor vehicles | 2,000 | | |
| To Balance C/D | 8,712 | | |
| | <u>34,482</u> | | <u>34,482</u> |
| To Manager's commission | | By Bal. B/D | 8,712 |
| 8712 x 10/110 | 792 | | |
| To net profit (Transfer to capital A/C) | 7,920 | | |
| | <u>8,712</u> | | <u>8,712</u> |

Balance Sheet of Suresh as on 31-03-2007

| | Rs. | | Rs. |
|-----------------------|--------|---------------------------------|--------|
| Capital | 28,000 | Land & Buildings (12000-300) | 11,700 |
| Add N.P | 7,920 | Motor Vehicles (10000 - 2000) | 8,000 |
| | 35,920 | Closing stock | 6,750 |
| Less Drawings | 3,000 | Debtors | 20,100 |
| Mortgage loan | 9,500 | Less goods on sale or Return | 600 |
| | | | 19,500 |
| Bills payable | 2,614 | Less R.B.D | 975 |
| Creditors | 10,401 | Bill Recivable | 6,882 |
| Out standing Expenses | | Cash at bank | 3,555 |
| Salaries | 750 | Cash in hand | 2,050 |
| Rates | 350 | Prepaid insurance | 150 |
| Interest on loan | 285 | | |
| Manager commission | 792 | | |
| | 57,612 | | 57,612 |

10.2. EXERCISES :

1. From the following ledger balances of " Kapil Dev " prepare final accounts.

| | Rs. | | Rs. |
|------------------|----------|----------------------|----------|
| Capital | 1,00,000 | Cash in hand | 1,200 |
| Purchases | 1,20,000 | Bills payable | 22,000 |
| Stock on 1-4-07 | 35,000 | Debtors | 50,000 |
| Creditors | 24,000 | Plant & Machinery | 60,000 |
| Furniture | 15,000 | Sales | 2,00,200 |
| Bills Receivable | 20,000 | Rent & Taxes | 10,000 |
| Wages | 16,000 | Reserve for Baddebts | 1,000 |
| Salaries | 20,000 | | |

Adjustments :

- 1) Stock on 31.03.08 Rs. 40,000.

- 2) Outstanding Rent Rs. 2,000, wages Rs. 3,000 ; Salaries Rs. 4000/-
 3) Depreciation 10% on Furniture ; 5% on Plant & Machinery
 4) Increase the Reserve for Baddebts to 2 1/2 %

(**Ans** : G.P. Rs. 66,200 ; N.P. Rs. 24,450/- ; B.S. Rs. 1,80,450/-)

2. The Trial Balance of 'Gavaskar ' was as under on 31-03-08

| | Dr Rs. | Cr Rs. |
|-----------------------|-------------------|-------------------|
| Purchases | 3,10,000 | |
| Opening stock | 50,000 | |
| Cash | 2,100 | |
| Bank | 12,000 | |
| Drawings | 4,000 | |
| Rent & Taxes | 5,000 | |
| Salaries | 32,000 | |
| Postage & Telegrams | 11,500 | |
| Salesmans commission | 35,000 | |
| Insurance | 9,000 | |
| Advertisements | 17,000 | |
| Furniture | 22,000 | |
| Printing & Stationary | 3,000 | |
| Motor car | 48,000 | |
| Baddebts | 2,000 | |
| Cash discount | 4,000 | |
| General expenses | 15,000 | |
| Carriage in | 10,000 | |
| Carriage out | 22,000 | |
| Debtors | 1,00,000 | |
| Sales | | 4,15,000 |
| Capital | | 2,88,600 |
| Creditors | | 10,000 |
| | 7,10,600 | 7,10,600 |

Adjustments :

- 1) Stock on 31.03.08 Rs. 1,45,000/-
- 2) Goods of Rs. 5000 were with drawn by him for personal use.
- 3) Baddebts Rs. 5,000/-
- 4) Reserve for baddebts 5 %
- 5) Depreciation 10% on Furniture and 20 % on Car

Prepare final accounts.

(**Ans** : G.P. Rs. 34,000 ; N.P. Rs. 3,200/- ; Balance Sheet Rs. 87,200/-)

3. From the following Trial Balance of ' Kalyan ' prepare Final accounts for 2007

| | Dr Rs. | Cr Rs. |
|----------------------------|-------------------|-------------------|
| Plant & Machinery | 80,000 | |
| Purchases & sales | 1,25,000 | 2,30,000 |
| Debtors & creditors | 50,000 | 40,000 |
| Opening stock | 25,000 | |
| Salaries | 16,000 | |
| Resere for Baddebts | | 750 |
| Capital | | 50,000 |
| Bills Receivable & Payable | 20,000 | 9,250 |
| Rent & Taxes | 5,500 | |
| Furniture | 2,500 | |
| Bank loan | | 20,000 |
| Interest on loan | 600 | |
| Discount | 650 | 1,200 |
| Wages | 14,850 | |
| Cash | 11,100 | |
| | 3,51,200 | 3,51,200 |

Adjustments :

- 1) Closing Stock Rs. 45,000/-

- 2) Out standing liabilities : Rent Rs. 500/- ; Interest Rs. 1,400 ; Wages Rs. 150.
- 3) Depreciation : 5% on Plant & Machinery ; 10% on Furniture.
- 4) Increase the R.B.D. on Debtors to 2 1/2 %
- 5) provide a reserve for discount on creditors at 1 %.

(Ans : G.P. Rs. 1,10,000 ; N.P. Rs. 82,200/- ; Balance sheet Rs. 2,03,100/-)

4. From the following Trial Balance of ' Sachin ' on 31.03.08 prepare final accounts.

| | Dr Rs. | Cr Rs. |
|------------------------------------|-------------------|-------------------|
| Bills receivable and Bills payable | 4,000 | 3,250 |
| Debtors & Creditors | 60,000 | 10,000 |
| Plant & Machinery | 70,000 | |
| Purchases, Sales | 80,000 | 2,00,000 |
| Free hold premises | 48,000 | |
| Capital | | 1,00,000 |
| Salaries | 10,000 | |
| Wages | 12,500 | |
| Postage & stationary | 800 | |
| Carriage in | 650 | |
| Carriage out | 750 | |
| Bad debts | 1,000 | |
| Reserve for Baddebts | | 450 |
| Office, general expenses | 1,500 | |
| Cash in hand and at Bank | 6,500 | |
| Insurance | 1,000 | |
| Opening stock | 20,000 | |
| | 3,16,700 | 3,16,700 |

Adjustments :

- 1) Interest on capital 5%
- 2) Reserve for Baddebts 2%
- 3) Closing stock Rs. 30,000

- 4) Depreciate machinery by 5%
- 5) Prepaid insurance Rs. 400
- 6) Outstanding wages Rs. 1,000/-

(Ans : G.P. Rs. 1,16,850; N.P. Rs. 91,950/- ; Balance sheet Rs. 2,14,200/-)

5. Prepare Final Accounts of Mr. Babu for the year 2007

| | Rs. | | Rs. |
|---------------------------------|--------|---------------------------|----------|
| Capital | 20,000 | Machinery | 2,500 |
| Drawings | 3,500 | Furniture | 600 |
| Buildings | 10,000 | Opening stock | 12,500 |
| Purchases | 75,000 | Sales | 1,25,000 |
| Reserve for Discount on Debtors | 200 | 9% loan | 5,000 |
| Salaries | 4,400 | wages | 8,100 |
| Outstanding wages | 600 | Outstanding Rent | 2,750 |
| Trade expenses | 1,250 | Carriage in | 2,500 |
| Carriage outwards | 750 | Sales Returnes | 5,000 |
| Freight & duty | 15,000 | Debtors | 10,000 |
| Creditors | 7,500 | Reserve for Baddebts | 700 |
| Interest paid | 375 | Sundry expenses | 1,115 |
| Incomes receivable | 400 | Bad debts | 300 |
| Cash & Bank | 3,000 | Depreciation on Machinery | 350 |
| | | Bills payable | 390 |

Adjustments :

- 1) Closing Stock Rs. 14,000.
- 2) Provide 5% reserve on Debtors for baddebts.
- 3) Reserve for Discount on debtors 2 1/2%
- 4) Depreciation on Buildings 2 1/2 %

(Ans : G.P. Rs. 20,900 ; N.P. Rs. 9,447/- ; B.S. Rs. 39,512/-)

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Lesson - 11

FINAL ACCOUNTS - PROBLEMS

OBJECTIVES:

By the study of this chapter, you will be able to solve the Final Accounts with adjustments.

STRUCTURE :

11.1. Examples.

11.2. Exercises

11.1. EXAMPLES :

1. The Trial Balance of Chiranjivi on 31.3.08 was as under. Prepare Final Accounts.

| | Dr Rs. | Cr Rs. |
|---------------------|-------------------|-------------------|
| Capital & Drawings | 11,200 | 85,000 |
| Machinery | 23,000 | |
| Stock on 01-04-07 | 29,200 | |
| Purchases & Returns | 2,00,000 | 3,800 |
| Sales & Returns | 4,200 | 2,38,000 |
| General Expenses | 8,800 | |
| Rent & Taxes | 6,400 | |
| Apprentice Premium | | 1,600 |
| Bank O.D. | | 2,800 |
| Baddebts | 3,400 | |
| Debtors & Creditors | 64,000 | 20,000 |
| Reserve of Baddebts | | 2,000 |
| | <u>3,53,200</u> | <u>3,53,200</u> |

Adjustments :

1) Depreciate Machinery by 10 %

- 2) Increase the reserve for Baddebts upto 55
- 3) Reserve for Discount on Debtors 2%
- 4) Goods of Rs. 800/- were with drawn by the proprietor for personal purpose.
- 5) Purchase of Machinery Rs. 2,000 is wrongly recorded as goods purchased.
- 6) Balance of stationary on 31.03.08 Rs. 600 is Included in closing stock.
- 7) Apprentice premium is to be adjusted over 4 years.
- 8) Purchase of stationary Rs. 800 was included in General Expenses.
- 9) Transport of machine Rs. 200 is included in General Expenses.
- 10) Stock on 31-03-08 Rs. 34,000/-

Solution:-

| Dr. Trading & P&L AC of Chiranjivi for the year ended 31-03-08 | | | | Cr. | |
|---|----------|---------------|----------|--------------------------|----------|
| Particulars | | Amount | | Particulars | |
| | | Rs. | | Amount | |
| | | | | Rs. | |
| To opening stock | | 29,200 | | By sales | 23,000 |
| To purchases | 2,00,000 | | | Less returns | 4,200 |
| Less Returns | 3800 | | | By Closing stock | 34,000 |
| Less Machinery | 2000 | | | Less stationary | 600 |
| Less Drawings | 800 | 6,600 | 1,93,400 | | 33,400 |
| To G. P. Transfer to cap. A/C | | 44,600 | | | |
| | | | 2,67,200 | | 2,67,200 |
| To General expenses | 8,800 | | | By G.P | 44,600 |
| Less stationary | 800 | | | By Apprentice premium | 1,600 |
| Less Transport of Machinery | 200 | 1,000 | 7,800 | Less Received in advance | 1,200 |
| To stationary | 800 | | | | 400 |
| Less closing balance | 600 | 200 | | | |
| To Rent & Taxes | | 6,400 | | | |
| To Baddebts | | 3,400 | | | |

| | | |
|------------------------------|---------------|---------------|
| To R.B.D (3200-2000) | 1,200 | |
| To Reserve for Discount | | |
| on debtors (60,800 x2/100) | 1,216 | |
| To Depreciation on machinery | 2,520 | |
| To Net Profit | 22,264 | |
| | <u>45,000</u> | <u>45,000</u> |

Balance Sheet of Chiranjivi as on 31-03-2008

| | Rs. | | Rs. |
|---------------------------------|-----------------|------------------------------|-----------------|
| Capital | 85,000 | Machinery | 23,000 |
| Add N.P | 22,264 | Add Purchased | 2,000 |
| | 1,07,264 | Add Transportation | 200 |
| Less Drawings | 15,000 | | 25,200 |
| Creditors | 20,000 | Less Dep. | 2,520 |
| Bank O.D. | 2,800 | Closing stock (34000-600) | 33,400 |
| App.Premium received in advance | 1,200 | Balance of stationery | 600 |
| | | Debtors | 64,000 |
| | | Less R.B.D | 3,200 |
| | | | 60,800 |
| | | Less Reserve for Discount | 1,216 |
| | <u>1,16,264</u> | | 59,584 |
| | | | <u>1,16,264</u> |

2. From the following Trial Balance prepared from the books of Bala Krishna, Prepare final accounts for the year 2007.

| | Dr Rs. | Cr Rs. |
|------------------------------|-------------------|-------------------|
| Capital & Drawings | 5,000 | 66,500 |
| Debtors & Creditors | 40,000 | 20,000 |
| Loan on mortgage | | 8,000 |
| Interest on loan on Mortgage | 600 | |
| Cash in hand | 200 | |
| Reserve for baddebts | | 1,400 |
| Stock on 01-01-07 | 8,000 | |
| Machinery | 16,000 | |
| Cash at bank | 5,000 | |
| Buildings | 24,000 | |
| Depreciation | 500 | |
| Baddebts | 1,000 | |
| Purchases & Returns | 1,40,600 | 10,600 |
| Sales & Returns | 11,800 | 2,20,800 |
| Wages | 20,000 | |
| Salaries | 12,000 | |
| Carriage | 2,000 | |
| Factory expenses | 12,000 | |
| Insurance | 1,200 | |
| Publicity expenses | 1,300 | |
| Discount | 800 | 1,200 |
| Rent | 3,000 | |
| Water & Electricity | 5,000 | |
| Investments | 10,000 | |
| General Expenses | 6,000 | |
| Dividends | | 500 |
| | 3,29,000 | 3,29,000 |

Adjustments :

- 1) 4/5th of the water & Electricity expenses shall be charged to Trading A/c.
- 2) 3/4th of the Rent related to Factory.
- 3) Depreciate Machinery by 10%
- 4) Closing stock Rs. 10,800/-
- 5) Market value of investments on 31.12.07 Rs. 10,500/-
- 6) Reserve for Baddebts 5%
- 7) 1% commission shall be payable to factory manager on gross profit.
- 8) 5% commission on N.P. Shall be payable to General manager after charging such commission.
- 9) One fourth of the N.P shall be transferred to General Reserve account.
- 10) Dividend accrued Rs. 200/-

Solution:-

| Dr | Trading & P&L AC of Bala Krishna for the year ended 31-12-2007 | | Cr |
|-----------------------------------|---|------------------|------------|
| | Rs. | | Rs. |
| To opening stock | 8,000 | By sales | 2,20,800 |
| To purchases | 1,40,600 | Less returns | 11,800 |
| Less Returns | 10,600 | By Closing stock | 10,800 |
| To wages | 20,000 | | |
| To carriage | 2,000 | | |
| To Factory expenses | 12,000 | | |
| To Rent (3,000x 3/4) | 2,250 | | |
| To water & Electricity (5000x4/5) | 4,000 | | |
| To G.P. (Transfer to Cap. Ac) | 38,550 | | |
| | 2,16,800 | | 2,16,800 |

| | | | | |
|--|---------------|----------------|---------------|-----|
| To Salaries | 12,000 | By G.P | 38,550 | |
| To Interest on loan | 600 | By Dividends | 500 | |
| To Depreciation | 500 | Add accrued | 200 | 700 |
| To Baddebts | 1,000 | By Discount | 1,200 | |
| To R.B.D (2,000 - 1,400) | 600 | | | |
| To Insurance | 1,200 | | | |
| To Advertisements | 1,300 | | | |
| To Discount | 800 | | | |
| To Rent (3,000 x 1/4) | 750 | | | |
| To water & electricity 5,000 x 1/5 | 1,000 | | | |
| To General expenses | 6,000 | | | |
| To Depreciation on Machinery | 1,600 | | | |
| To commission to factory manager 38,550 x 1/100 | 386 | | | |
| To Balance C/D | 12,711 | | | |
| | <u>40,450</u> | | <u>40,450</u> | |
| To General manager commission 12,711 x 5/105 | 605 | By Balance B/D | 12,711 | |
| To Balance C/D | 12,109 | | | |
| | <u>12,711</u> | | <u>12,711</u> | |
| To General Reserve 12,109 x 1/4 | 3,027 | By Balance B/D | 12,109 | |
| To Net profit (Transfer to Cap. Ac) | 9,082 | | | |
| | <u>12,109</u> | | <u>12,109</u> | |

Balance Sheet of Bala Krishna as on 31-12-07

| | Rs. | | Rs. |
|------------------------|-----------------|------------------------------|-----------------|
| Capital | 66,500 | Machinery (16,000-1,600) | 11,400 |
| Add N.P | 9,082 | Buildings | 24,000 |
| | 75,582 | | |
| Less Drawings | 5,000 | Investments (M.V. Rs 10,500) | 10,000 |
| | 70,582 | Closing stock | 10,800 |
| Creditors | 20,000 | Debtors | 40,000 |
| Mortgage loan | 8,000 | Less R.B.D | 2,000 |
| General Reserve | 3,027 | Bank | 5,000 |
| Outstanding Commission | | Cash | 200 |
| Factory Manager | 386 | Dividend accrued | 200 |
| General Manager | 605 | | |
| | <u>1,02,600</u> | | <u>1,02,600</u> |

3. The Trial Balance of Murali Krishna on 31.03.07 was as under.

| Debit balances | Rs. | Credit balances | Rs. |
|--|----------|------------------------------------|----------|
| Cash in hand | 2,800 | Capital | 90,000 |
| Cash at Bank | 3,000 | Creditors | 20,000 |
| Opening stock | 30,000 | Bills payable | 15,000 |
| Sales returns | 5,000 | Reserve for Baddebts | 4,000 |
| Purchases | 1,50,000 | Sales | 2,50,000 |
| Carriage out wards | 4,200 | Purchase returns | 3,000 |
| Carriage inwards | 6,800 | 12% Bank loan (on 1-1-2007) | 10,000 |
| Wages & salaries | 20,000 | 8% loan form Ram Babu (On 1.10.07) | 8,000 |
| Establishment | 12,000 | Suspense account | 800 |
| Land & Buildings | 40,000 | | |
| Plant & Machinery | 80,000 | | |
| Debtors | 11,000 | | |
| Baddebts | 1,000 | | |
| Bills recivable | 6,000 | | |
| Bills for collection | 4,000 | | |
| Drawings | 12,000 | | |
| Printing & stationary | 1,200 | | |
| LIC premium on the policy of Proprietor | 2,400 | | |
| Interest on Bank loan | 600 | | |
| Rates & Taxes | 800 | | |
| Furniture | 5,000 | | |
| | 4,00,800 | | 4,00,800 |

Adjustments :

- 1) Closing Stock Rs. 40,000/-
- 2) Outstanding wages Rs. 3,000/- salaries 1,000/-
- 3) Prepaid Rates & Taxes Rs. 200/-

- 4) Goods purchased and cheque issued for Rs. 5,000 on 31.03.08 but not entered in the books of account but these goods were included in the closing stocks.
- 5) On 31.03.08 goods sold for Rs. 4,000 and were entered in the books of account but these goods were still in stock as the goods were not taken over by the customer.
- 6) Write off further Rs. 500 as bad debts and provide 5% for bad debts.
- 7) Depreciation : 5% on Buildings , 10% on Machinery and 20 % on Furniture.
- 8) Reserve for Discount on Creditors 2 %

Prepare Final accounts.

Solution:-

| Dr. | Trading & P&L A/C of Murali Krishna for the year ended 31-03-08 | | Cr. |
|-----------------------------------|---|--------------------------------------|----------|
| | Rs. | | Rs. |
| To opening stock | 30,000 | By sales | 2,50,000 |
| To purchases | 1,50,000 | Less returns | 5,000 |
| Add additional purchases | 5,000 | By Closing stock | 40,000 |
| | 1,55,000 | Less undelivered goods | 4,000 |
| Less Returns | 3,000 | | 36,000 |
| To wages & salaries | 20,000 | | |
| Add outstanding | 4,000 | | |
| To carriage in wards | 6,800 | | |
| To G.P. (Transfer to capital ac) | 68,200 | | |
| | 2,81,000 | | 2,81,000 |
| To Rates & Taxes | 800 | By Gross profit | 68,200 |
| Less prepaid | 200 | By R.B.D. (4000 -675) | 3,325 |
| To Bad debts (1000+500) | 1,500 | By reserve for discount on creditors | |
| To Establishment | 12,000 | (20,000 x 2/100) | 400 |
| To depreciation | | | |
| Buildings | 2,000 | | |
| Machinery | 8,000 | | |
| Furniture | 1,000 | | |

| | | |
|------------------------------------|---------------|---------------|
| To Interest on loan (600+600) | 1,200 | |
| To Interest on loan from Ram Babu | | |
| 8,000 x 8/100 x 6/12 | 320 | |
| To Carriage outwards | 4,200 | |
| To Printing & stationary | 1,200 | |
| To N.P. (Transfer to capital A/C) | 39,205 | |
| | <u>71,925</u> | <u>71,925</u> |

Balance Sheet of Murali Krishna as on 31-03-2007

| | Rs. | | Rs. |
|----------------------------------|-----------------|---------------------------------|-----------------|
| Capital | 90,000 | Land & Buildings (40,000-2,000) | 38,000 |
| Add N.P | 39,905 | Machinery (80,000-8,000) | 72,000 |
| | 1,29,905 | Furniture (5,000-1,000) | 4,000 |
| Less Drawings 12000 | | Closing stock (40,000-4,000) | 36,000 |
| LIC premium _2400 | 11,400 | Debtors | 11,000 |
| | 1,15,505 | Less Baddebts | 500 |
| Creditors | 20,000 | | 13,500 |
| Less Reserve for discount 400 | 19,600 | Less R.B.D | 675 |
| Bills payable | 15,000 | | 12,825 |
| 12% Bank loan | 10,000 | Bills Receivable | 4,000 |
| Interest outstanding | 600 | Bills for collection | 6,000 |
| 8% loan from Ram Babu | 8,000 | Cash in hand | 2,800 |
| Interest outstanding | 320 | Prepaid Rates & Taxes | 200 |
| Bank O.D. (5000 -3000 Cheque for | | | |
| Purchases) | 2,000 | | |
| Outstanding wages & salaries | 4,000 | | |
| Suspense account | 800 | | |
| | <u>1,75,825</u> | | <u>1,75,825</u> |

4. The Trial Balance of Swamy on 31.03.08 was as under. Prepare Trading & profit & loss Account and Balance sheet.

| | Rs. | | Rs. |
|-----------------------|----------|-------------------|----------|
| Drawings | 12,000 | Capital | 60,000 |
| Furniture & Fixtures | 4,000 | Returns | 2,000 |
| Plant & Machinery | 30,000 | Sales | 1,30,000 |
| Opening stock | 20,000 | Creditors | 12,000 |
| Purchases | 80,000 | 6% loan on 1.4.07 | 10,000 |
| Salaries & wages | 22,400 | Discount | 600 |
| Debtors | 20,400 | | |
| Returns | 5,000 | | |
| Postage & Telegrams | 1,500 | | |
| Rent , Rates & Taxes | 3,600 | | |
| Baddebts written off. | 400 | | |
| Trade expenses | 200 | | |
| Interest on loan | 150 | | |
| Insurance | 800 | | |
| Travelling expenses | 500 | | |
| Sundry expenses | 300 | | |
| Cash in hand | 3,050 | | |
| Cash at Bank | 10,300 | | |
| | 2,11,600 | | 2,11,600 |

Adjustments :

- 1) Closing stock Rs. 21,000
- 2) Write off Rs. 400 as Baddebts, provide 5% Reserve on Debtors for Baddebts and 2 1/2 for discount.
- 3) Outstanding salaries Rs. 800/-
- 4) Interest on capital 6% and Interest on Drawings Rs. 330/-
- 5) Prepaid insurance Rs. 100/-
- 6) Depreciation : 5% on Furniture and 10% on Plant & Machinery.

Solution:-

| Dr. Trading & P&L AC of Swamy for the year ended 31-03-07 | | Cr. | |
|--|----------|-------------------------|----------|
| Rs. | | Rs. | |
| To Opening stock | 20,000 | By sales | 1,30,000 |
| To Purchases | 80,000 | Less returns | 5,000 |
| Less Returns | 2,000 | By Closing stock | 21,000 |
| To Gross profit (Transfer to P&L AC) | 48,000 | | |
| | 1,46,600 | | 1,46,600 |
| To Salaries (22400+800) | 23,200 | By G.P | 48,000 |
| To Postage, Telegrams | 1,500 | By Discount | 600 |
| To Rent etc. | 3,600 | By interest as Drawings | 330 |
| To Baddebts (400+400) | 800 | | |
| To Trade expenses | 200 | | |
| To Interest on loan (150+450) | 600 | | |
| To Insurance | 800 | | |
| Less prepaid | 100 | | |
| To Travelling expenses | 500 | | |
| To Sundry expenses | 300 | | |
| To R.B.D $20000 \times 5 / 100$ | 1,000 | | |
| To Reserve for Discount $19,000 \times 2.5 / 100$ | 475 | | |
| To Interest on capital $60,000 \times 6 / 100$ | 3,600 | | |
| To Depreciation - Furniture $4,000 \times 5 / 100$ | 200 | | |
| P & M $30,000 \times 10 / 100$ | 3,000 | | |
| To N.P. (Transfer to Capital A/C) | 9,255 | | |
| | 48,930 | | 48,930 |

Balance Sheet of Swamy as on 31-03-2007

| | Rs. | | Rs. |
|-------------------------|---------------|------------------------------|---------------|
| Capital | 60,000 | Furniture (4000-200) | 3,800 |
| Add Interest on capital | 3,600 | Plant & Machinery 30000-3000 | 27,000 |
| Add N.P. | 9,255 | Debtors | 20,400 |
| | 72,855 | Less Baddebts | 400 |
| Less Drawings | | | 20,000 |
| 12000 +330 | 12,330 | Less R.B.D | 1,000 |
| Creditors | 12,000 | | 19,000 |
| 6% loan | 10,000 | Less Reserve | |
| Interest outstanding | 450 | for discount | 475 |
| Salaries outstanding | 800 | Cash | 3,050 |
| | | Bank | 10,300 |
| | | Closing stock | 21,000 |
| | | Prepaid Insurance | 100 |
| | <u>83,775</u> | | <u>83,775</u> |

11.2. EXERCISES :

1. From the following Trial Balance of Kiran as on 31.03.08 Prepare Trading & P&L A/c and Balance Sheet.

| | Dr Rs. | Cr Rs. |
|---------------------------------|-------------------|-------------------|
| Capital & Drawings | 6,000 | 80,000 |
| Plant & Machinery on 1.4.07 | 20,000 | |
| Additions on 1.10.07 | 5,000 | |
| Stock on 1.4.07 | 15,000 | |
| Purchases, sales | 82,000 | 1,20,000 |
| Returns | 2,000 | 1,000 |
| Sundry Debtors & Creditors | 20,600 | 10,000 |
| Furniture & Fittings | 5,000 | |
| Freight & Duty | 2,000 | |
| Carriage outwards | 500 | |
| Rent & Taxes | 4,600 | |
| Printing & Stationary | 800 | |
| Trade expenses | 400 | |
| Postage & Telegrams | 800 | |
| R.B.D | | 400 |
| Discounts | | 800 |
| Rent on Buildings upto 30.09.08 | | 1,200 |
| Insurance | 700 | |
| Salaries & wages | 21,300 | |
| Cash in hand | 6,200 | |
| Cash at bank | 20,500 | |
| | <u>2,13,400</u> | <u>2,13,400</u> |

Adjustments :

- 1) Stock on 31.03,08 Rs. 11,600
- 2) Bad debts Rs. 600 and R.B.D. 5%
- 3) Reserve for Discount on Debtors and Creditors 2%
- 4) Depreciation = 5% on Furniture and 20% on Plant & Machinery.

5) Prepaid Insurance Rs. 100/-

6) A fire occurred on 25th March 2008 and goods of Rs. 5,000 were destroyed. The insurance company agreed to pay the claim in full.

(Ans : G.P. Rs. 39,100 ; N.P. Rs. 5,270/- ; B.S. Rs. 89,670/-)

2. The following balances were taken from the books of Lakshman on 31-03-08. Prepare final accounts.

| | Rs. | | Rs. |
|----------------------------------|----------|-----------------------------|----------|
| Capital of Lakshman | 2,58,000 | Bills payable | 5,000 |
| Drawings of Lakshman | 42,000 | Stock on 1.4.07 | 49,175 |
| Purchases | 1,96,000 | Wages | 62,000 |
| Free hold property | 60,000 | Sundry creditors | 40,000 |
| Plant & Machinery | 1,00,000 | Postage & Telegram | 1,406 |
| Purchase Returns | 7,000 | Insurance | 3,200 |
| Salaries | 42,000 | Gas | 2,700 |
| Office expenses | 12,500 | Baddebts | 600 |
| Office Furniture | 25,000 | Office rent | 12,600 |
| Discount (Dr) | 1,200 | Freight & Duty | 9,000 |
| Sundry Debtors | 26,600 | Loose tools | 7,000 |
| Loan to Aravind (1.5% on 1.4.07) | 40,000 | Factory lighting | 1,600 |
| Cash at bank | 26,000 | Reserve for Doubtful debts | 800 |
| Cash in hand | 3,625 | Interest on loan to Aravind | 3,000 |
| | | Sales | 4,10,400 |

Adjustments :

1) Stock on 31.03.08 Rs. 66,000/-

2) Outstanding Salaries Rs. 3,600 ; Wages Rs. 4,600.

3) Prepaid Insurance Rs. 800

4) New machine purchased on 31.12.07 for Rs. 11,000 is neither paid nor entered in the books of account. Erection charges of Machinery Rs. 1,000/- were included in wages account.

5) Value of loose tools on 31.03.08 were Rs. 5,000/-

- 6) Depreciation : 7 1/2 on Furniture ; 10% on plant & Machinery and 2% on Free hold.
 7) Baddebts to be written off Rs. 600/-
 8) R.B.D. 5% , Reserve for Discount on Debtors and Creditors 2%
 9) Manager shall be given a commission of 5% on N.P. before charging such commission.

(**Ans** : G.P. Rs. 1,59,325 ; N.P. Rs. 70,268/- ; Balance sheet Rs. 3,56,181/-)

3. The following is the Trial Balance of ' Babu ' as on 31.03.08. Prepare Final accounts.

| | Dr Rs. | Cr Rs. |
|------------------------|-------------------|-------------------|
| Capital | | 70,000 |
| Debtors & Creditors | 52,000 | 41,800 |
| Stock on 01.4.07 | 25,000 | |
| Purchases & sales | 80,000 | 1,33,500 |
| General Reserve | | 20,000 |
| R.B.D | | 1,000 |
| Carriage | 1,500 | |
| Discount | 1,200 | |
| Returns | 3,000 | 4,000 |
| Furniture | 10,000 | |
| Buildings | 60,000 | |
| Travelling expenses | 900 | |
| Salaries | 24,000 | |
| Outstanding salaries | | 2,000 |
| Miscellaneous expenses | 5,500 | |
| Repairs | 1,300 | |
| Baddebts recovered | | 200 |
| Cash at bank | 8,000 | |
| Petty cash | 100 | |
| | <u>2,72,500</u> | <u>2,72,500</u> |

Adjustments :

- 1) Stock on 31.03.08 Rs. 30,000/-
- 2) Depreciation : 10% on Furniture 5% on Buildings
- 3) R.B.D Rs. 800/-
- 4) Interest on capital 5%
- 5) Fire occurred on 27.03.08 and goods of Rs. 5,000/- were destroyed (not insured).
- 6) Transfer 5% of N.P. to General Reserve.

(**Ans** : G.P. Rs. 63,000 ; N.P. Rs. 17,100/- ; Balance sheet Rs. 1,55,300/-)

4. From the following Trial Balance of 'Venkata Ramana ' on 31.03.08, prepare final accounts.

| | Rs. | | Rs. |
|--|------------|---------------------|------------|
| Capital | 1,19,400 | Drawings | 10,550 |
| Creditors | 59,630 | 6 % loan | 20,000 |
| Cash at Bank | 18,970 | Cash in hand | 3,030 |
| Debtors (including dishonoured bill of Mr x Rs. 1000/-) | 62,000 | Bill receivable | 9,500 |
| Furniture & Fixtures | 8,970 | R.B.D | 2,500 |
| Opening stock | 89,680 | Plant & Machinery | 28,800 |
| Manufacturing wages | 40,970 | Purchases | 2,56,590 |
| Returns inwards | 2,780 | Sales | 3,56,430 |
| Rent & Taxes | 5,670 | Salaries | 11,000 |
| Travelling expenses | 1,880 | Discount allowed | 5,870 |
| Insurance (Including Rs. 300 paid for the year ended 30.09.08) | 400 | Repairs | 3,370 |
| | | Baddebts | 3,620 |
| | | Commission received | 5,600 |

Adjustments :

- 1) Closing stock Rs. 1,28,960
- 2) Half of the dishonoured bill of x shall be written off as bad.
- 3) R.B.D : 5%
- 4) Interest on capital 5%
- 5) Erection charges of Machinery purchased last year Rs. 1,200 were included in wages.
- 6) Depreciation : 5% Machinery and 10% Furniture & Fixtures.

(**Ans** : G.P. Rs. 96,570; N.P. Rs. 60,108/- ; Balance sheet Rs. 2,55,758/-)

5. From the following Trial Balance and Adjustments, Prepare final accounts.

| | Rs. | | Rs. |
|------------------------|--------|----------------------|--------|
| Drawings | 3,250 | Capital | 15,000 |
| Stock (1.4.07) | 17,445 | Purchase Returns | 840 |
| Returns Inwards | 554 | Interest on loans | 25 |
| Carriage in | 1,240 | Outstanding Rent | 130 |
| Deposit with Mr A | 1,375 | Creditors | 3,000 |
| Carriage out | 725 | Reserve for Baddebts | 1,200 |
| 5% Loan to D on 1.4.07 | 1,000 | Sales | 27,911 |
| Rent | 820 | | |
| Purchases | 12,970 | | |
| Debtors | 4,000 | | |
| Goodwill | 1,730 | | |
| Advertisements | 954 | | |
| Baddebts | 400 | | |
| Patent rights | 500 | | |
| Cash | 62 | | |
| Discount allowed | 330 | | |
| Wages | 754 | | |
| | 48,109 | | 48,109 |

Adjustments :

- 1) Manager shall be given a commission of 10% on N.P. after charging such commission.
- 2) Baddebts to be written off Rs. 600, R.B.D. 10 % and Reserve for discount on Debtor is 5%
- 3) Goods destroyed by fire on 29-03-08 Rs. 1500. but the insurance company agreed to pay Rs. 950/- only.
- 4) Rs. 200 of the advertisements to be carried forward to the next year.
- 5) Stock on 31.03.08 Rs. 4,000/-

(Ans : G.P. Rs. 1,291 ; N.P. Rs. 2,091/- ; B.S. Rs. 12,789/-)

6. From the following is the Trial Balance of ' Sandhya ' prepare Final accounts. Trial Balance as on 31.03.08.

| | Dr Rs. | Cr Rs. |
|--|-----------|-----------|
| Machinery | 46,000 | |
| Opening stock | 58,400 | |
| Purchases & sales | 4,00,000 | 4,76,000 |
| Returns | 8,400 | 7,600 |
| General Expenses | 20,000 | |
| Stationary | 2,000 | |
| Cash | 12,650 | |
| Interest on loan (up to 31.12.07) | 150 | |
| Apprentice premium | | 3,200 |
| 6% loan | | 10,000 |
| Baddebts | 6,800 | |
| Debtors & Creditors | 1,28,000 | 40,000 |
| R.B.D | | 4,000 |
| Capital of sundhya (after deducting her drawings as 28,400) | | 1,41,600 |
| | 6,82,400 | 6,82,400 |

Adjustments :

- 1) Purchases include the purchase of Machinery in January Rs. 4,000/-
- 2) Exection charges of Machinery Rs. 2,000/- were included in wages.
- 3) Interest on captial 5%
- 4) Depreciation on Machinery 10%
- 5) R.B.D. 5% on Debtors.
- 6) Apprentice premium to be adjusted over 4 Years.
- 7) Closing stock Rs. 34,000/-

(**Ans** : G.P. Rs. 54,800 ; N.P. Rs. 12,500/- ; Balance sheet Rs. 2,15,050/-)

7. The Trial Balance of 'Gopal' on 31.03.08 was as under.

| | Dr Rs. | Cr Rs. |
|-------------------------|-------------------|-------------------|
| Capital & Drawings | 10,000 | 80,000 |
| Stock on 1.4.07 | 25,000 | |
| Purchases & sales | 35,000 | 70,000 |
| Salaries | 3,000 | |
| Wages | 5,000 | |
| Power | 2,000 | |
| Commission to sales men | 1,500 | |
| Debtors & creditors | 5,000 | 8,000 |
| Cash at bank | 10,000 | |
| Cash in hand | 12,000 | |
| Baddebts | 2,000 | |
| Furniture & Fixture | 10,000 | |
| Commission | 2,000 | 1,500 |
| Plant & Machinery | 20,000 | |
| Buildings | 17,000 | |
| | <u>1,59,500</u> | <u>1,59,500</u> |

Adjustments :

- 1) Stock on 31.03.08 Rs. 15,000/-
- 2) Bouns payable to worker for 2007 - 08 Rs. 1,000/-
- 3) Write 5% as Baddebts and provide 1% for doubtful debts.
- 4) Depreciation : 15% on plant & Machinery ; 10% on Furniture and 5 % on Buildings.

(**Ans** : G.P. Rs. 18,000 ; N.P. Rs. 4,852/- ; Balance sheet Rs. 83,852/-)

8. The Trial Balance of 'Atma Ram' on 31.03.08 was as under.

| | Rs. | | Rs. |
|------------------------|----------|---------------|----------|
| Drawings | 6,000 | Capital | 80,000 |
| Debtors | 19,000 | Creditors | 10,000 |
| Baddebts | 1,000 | R.B.D | 3,100 |
| Bills Receivable | 12,000 | Bills payable | 11,000 |
| Furniture | 5,000 | 6% Bank loan | 8,000 |
| Plant & Machinery | 46,000 | Sales | 1,75,000 |
| Land & Buildings | 40,000 | | |
| Cash in hand | 1,960 | | |
| Closing stock 31.03.08 | 12,000 | | |
| Cost of goods sold | 1,20,000 | | |
| Carriage out | 1,200 | | |
| Salaries | 13,800 | | |
| Rates & Taxes | 1,300 | | |
| Printing & stationary | 1,800 | | |
| Insurance | 1,600 | | |
| Bank interest | 240 | | |
| Travelling Expenses | 3,000 | | |
| Commission | 1,200 | | |
| | 2,87,100 | | 2,87,100 |

Adjustments :

- 1) Out standing salaries Rs. 1200/-
- 2) Baddebts to be written of Rs. 1,000/-
- 3) Bills Receivable dishonoured Rs. 2,000/-
- 4) R.B.D 5%, Reserve for Discount on Debtors & Creditors 2%
- 5) Manager shall be given a commission of 2% on G.P.
- 6) Depreciation : 10% on plant & Machinery and 5% on Land & Buildings.

(**Ans** : G.P. Rs. 55,000 ; N.P. Rs. 21,640/- ; Balance sheet Rs. 1,26,980/-)

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Lesson - 12

COMPANY ACCOUNTS - FUNDAMENTALS

OBJECTIVES:

After going through this lesson the student can know what is a company ? What are its features ? Different kinds of companies. Formation of company and Allotment of shares.

STRUCTURE:

- 12.1 Introduction
- 12.2 Meaning
- 12.3 Characteristics
- 12.4 Kinds of companies
- 12.5 Distinction between private & Public companies
- 12.6 Formation of company
- 12.7 Allotment of shares
- 12.8 Summary
- 12.9 Model Questions
- 12.10 Reference Books

12.1 INTRODUCTION:

To overcome to limitations of 1) inadequacy of funds and 2) Unlimited liability which exists in sole proprietorship concerns and partnership firms, a company type of organisation has been grown. In India, Joint Stock companies are governed by provisions of the companies Act 1956.

12.2 MEANING :

A Company is a voluntary association of persons, with capital divided into shares, formed to carry out a particular purpose in common. It is an artificial person created by law to achieve the object for which it is formed.

The companies Act defines a company as "A company formed and registered under this Act or an existing company" An "existing company" means a company formed and registered under any of the former companies Act.

12.3. CHARACTERISTICS OF A COMPANY :

Following are the essential characteristics of a company -

1. Voluntary association :

It is a voluntary association of persons for attaining a common goal, usually of economic.

2. Separate legal entity :

A company is a artificial person created by law which enjoys a separate legal entity i.e. it is distinct from its members. It can hold and deal with any type of property. It can enter into contracts. It can sue and can be sued by others on its own name.

3. Perpetual existence:

A company has a perpetual existence. The existence of a company can be terminated only by law. The shareholder can transfer their shares freely. Thus, members may come and go. but the company can go on forever. Even, If all the shareholders die on a single day also, it cannot affect the existence of the company.

4. Common seal :

A company being an artificial person cannot enter into contracts with third parties on its own. The Board of directors act as agents to the company. All these acts of the company are authorised by its "common seal ". The common seal is the official signature of the company. A document not bearing the common seal of the company will not be binding on the company.

5. Limited liability :

The liability of the members of a company is generally limited to the extent of the unpaid value of the share held by them.

6. Transferability of Shares :

The shares of a joint stock company are freely transferable, except private companies.

12.4. KINDS OF COMPANIES:

From the point of view of the formation, ownership and liabilities the companies can be classified as follows :

From the point of view of formation, the companies are of three kinds :

1. Chartered companies :

Those companies which are incorporated by the chartered of a king or queen are known as char-tered companies Ex: East India company.

2. Statutory Companies:

A company formed by a special Act passed either by the central or state legislature is called a statutory company. Such companies are governed by their respective acts. Ex: Reserve Bank of India. State Bank of India. L.I.C. of India etc.

3. Registered Companies:

Companies formed by registration under the companies Act of 1956 are known as Registered Companies. The working of such companies is regulated by the provisions of the companies Act. From the view point ownership the companies are of four kinds.

From the viewpoint ownership the companies are of Four kinds.

1. Government Companies :

A company of which not less than 51 percent of the paid up share capital is held by the central Government or by the State Government or by any two or more of them together shall be a government company.

Foreign Companies: A company which is incorporated outside India but which has a place of business in India, is termed as a foreign company.

2. Private company:

A Private Company is one which by its Articles of Association :

- a) restrict the right of the members to transfer shares.
- b) Limits the number of members to fifty excluding past and present employees of the company who are the members of the company.
- c) Prohibits any invitation to the public to subscribe for its shares or debentures.

A private limited company may, however, be registered with only two members. It is required to add the words 'Private Limited' at the end of its name.

3. Public Company:

Public Company means a company which is not a private company. In other words a company, the articles of association of which does not contain the requisite restrictions to make it a private limited company, is called a public company. However, a public company is under no legal binding to invite public to subscribe to its share or debentures. A public company need minimum seven persons for its registration.

From the point of view of liability there are three kinds of companies:

1. Limited Companies:

In case of such companies, the liability of each member is limited to the extent of face value of shares held by him. Suppose A takes a share of Rs. 100, he remains liable to the extent of that amount. As soon as that amount is paid, he is no more liable.

2. Limited by guarantee :

The liability of the member of such a company is limited to the amount he has undertaken to contribute to the assets of the company in the event of its wound up. This guaranteed amount is limited by fixed sum which is specified in the memorandum. Chambers of commerce, trade associations and sports clubs are usually guarantee concerns. The object of such companies is not to make profit and distribute dividend.

3. Unlimited Companies:

A company not having any limit on the liability of its members is an unlimited company. It may or may not have share capital. Members are held liable for the deficiency of assets to the liabilities of the company in proportion to their interests in the company. Liability in such a case may extend to the personal property of the shareholders. Unlimited companies, though permitted by the companies Act, are not popular in our country.

12.5. DISTINCTION BETWEEN PRIVATE AND PUBLIC COMPANIES :

Following are the main points of distinction between a private and a public company.

| Private Company | Public Company |
|--|--|
| 1. The minimum number of members to form is two. | 1. The minimum number of members to form is seven. |
| 2. The maximum number is restricted to 50. | 2. No maximum limit. |
| 3. It cannot invite public to subscribe its shares or debentures. | 3. It can invite public to subscribe its shares or debentures by issue of prospectus. |
| 4. It can commence business after receiving incorporation certificate. | 4. Until it receives the certificate of commencement of business it cannot start business. |
| 5. It has to observe less legal formalities when compared to public limited company. | 5. A public limited company has to observe a large number of legal formalities. |
| 6. The share cannot be transferred freely in the market. | 6. The shares of a public company are freely transferable. |
| 7. A private Company which is not a subsidiary of a public company should have at least two directors. A private company being subsidiary of a public company should have maximum three directors. | 7. It should have at least three directors. |

| | |
|---|---|
| 8. There are no legal restrictions on remuneration of directors. | 8. Total managerial remuneration in a public company cannot exceed 11 % of the net Profits, and in the case of inadequacy of profits an amount up to Rs.50,000 can be paid. |
| 9. Directors can borrow from the company without the approval of central Government. | 9. They must get the approval of the central government. |
| 10. It need not hold a statutory meeting nor file a statutory report. | 10. It must hold the statutory meeting and must file statutory report with the Registrar. |
| 11. It cannot issue share warrants.. | 11. It can issue share warrants. |
| 12. It must have the words Private Limited in its name. | 12. It must have only the word limited as the last word in its name. |
| 13. It can issue deferred shares even with disproportionate voting rights. | 13. Since 1956. No public company can issue deferred shares. |
| 14. Written consent of directors to act as such need not be filed with the registrar. | 14. Written consent of directors to act as such must be filed with the registrar. |
| 15. No qualification shares are prescribed for directors. | 15. Directors must take up qualification shares. |
| 16. A single resolution is enough to appoint at the new directors. | 16. Separate resolutions must be passed to elect each directors. |
| 12. There is no minimum subscription clause to be satisfied before the allotment of shares. | 12. Only after securing minimum subscription allotment of shares can be made, |
| 18. It need not keep the index of its members. | 18. It must maintain the Index of its members. |
| 19. Directors need not retire by rotation. | 19. Directors are subject to retirement by rotation. |
| 20. There is no need to file a prospectus or a statement in lieu of prospectus. | 20. Prospectus or the statement in lieu of prospectus should be filed with the Registrar before allotment of shares. |
| 21. Special privileges can be enjoyed by a private company. | 21. A public company enjoys no such privileges. |
| 22. Quorum required for a meeting is two. | 22. Quorum required in this case is five. |
| 23. A director can vote on a contract in which he is interested. | 23. They are not allowed. |

12.6. FORMATION OF COMPANY:

A company may be formed either to take over an existing business or to carry on a new business. Whatever may be the objective the procedure for the formation of a company, from the time the idea of forming a company is first conceived till the company is actually formed and commences business, may be divided into three principal stages:

1. Promotion
2. Incorporation
3. Commencement of Business

Each of these stages are explained below:

6.1. Promotion:

The stage of conceiving an idea and its working up is termed as promotion. The person involved in this task is termed as promoter. The promoter may work up the idea with the help of his own resources, influence, if necessary, take the help of technical experts to find out the economic and technical feasibility of the project that he has in his mind.

6.2. Incorporation:

It is the incorporation which brings a company into existence as a separate corporate entity. The promoter has to take the following preliminary steps in this connection. He has to prepare certain documents and filed with the registrar of the Joint Stock companies of the state in which the registered office of the company is to be situated.

6.2.1 Memorandum of Association : Memorandum of Association is the main document of the company, which defines its constitution and objects with which the company is formed. It may rightly be termed as the charter or the constitution of the company since it governs the relationship of the company with outside world.

The Memorandum of Association must have the following clauses.

- a) **Name clause** : The clause contains the name of the company. A company can have any name of its choice subject to the following two restrictions.
 - i) The name should not be similar with the name of the existing company,
 - ii) The name should not be undesirable.The last word of the name must be 'limited' in the case of public companies and 'Private limited' in the case of Private limited companies.
- b) **Situation clause** : This clause contains the name of the state in which registered office of the company is to be situated.
- c) **Objects clause**: The clause explains the objectives for which the company has been formed. The clause should state separately;
 - i) Main objects and
 - ii) The objects incidental to the main objects
 - iii) Other objects

- d) **Liability clause:** The clause defines the liability of the members of the company. In case of a company limited by shares the memorandum must state that the liability of the members is limited to the extent of unpaid portion of the shares held by him. In case of a company limited by guarantee, it should state the amount which each member undertakes to contribute to the assets of the company in the event of its winding up.
- e) **Capital clause:** The clause states the amount of share capital with which the company is to be registered and its division into shares of a fixed amount.
- f) **Association clause :** It is stated here that the persons putting their signatures to the memorandum are desirous of forming themselves into an association in pursuance of the memorandum of Association. The memorandum should be signed by seven or more persons in case of a public company and two or more in the case of a private company.

6.2.2. Articles of Association : Articles of Association contains the regulations and by-laws for governing the internal affairs of the company. They may be described as the internal regulations of the company governing its management. The Articles of Association of a company usually deal with the following matters:

- 1) The exclusion, total or partial, of Table A.
- 2) Adoption or execution of preliminary contracts.
- 3) Definition of important terms and phrases.
- 4) Share capital and rights attached to different classes of shares.
- 5) Procedure as to making of calls and forfeiture of shares.
- 6) Appointment of managerial personnel eg: directors, managing directors etc. their rotation, powers, including borrowings and duties.
- 7) **Rules as to:** transfer and transmission of shares, issue of share warrants, general meeting, common seal of the company dividend, reserves and capitalisation of profits, accounts and audit, alteration of share capital, lien on shares, remuneration of managerial personal, issue of redeemable preference shares, paying commissions, paying interest out of capital, winding up of the company.

6.3. Prospectus :

Prospectus is a document inviting deposits from public or offers public to subscribe for the shares or debentures of a body corporate. Public company can only issue the prospectus. A prospectus must contain the matter specified in the schedule II to the companies Act. These matters relate to the objectives of the company, past history and future prospectus, managerial personnel, material contracts, amount of minimum subscription etc. Neither any material information should be omitted nor it should be false and misleading otherwise the persons responsible for the issue of the prospectus i.e. the directors, promoters etc, can be made liable for the loss suffered by the shareholders.

6.4. Fixation of the underwriters, brokers, solicitors, auditors etc.

The promoter should file these documents with required fees to the Registrar of companies.

6.4.1 Certificate of incorporation : On receipt of the above documents and the requisite fees, the Registrar will examine them and if satisfied with them issue a certificate of incorporation. The certificate contains the name of the company, the date of its issue and the signatures of the Registrar with his seal. The date mentioned in the certificate will be taken, as the date of birth of the company.

6.5. Commencement of Business :

A private company can commence business soon after its incorporation but a public company has to obtain another certificate for this purpose, which is known as certificate for "Commencement of business". This certificate is issued by the Registrar on company filing the following documents.

1. A copy of the prospectus.
2. A statutory declaration duly verified by any one of the directors or the secretary of the company that the directors have taken the qualifying shares and the minimum subscription required by law have been received from the public.

12.7. ALLOTMENT OF SHARES :

Prospectus issued by a company is only an invitation to the general public to apply for the company's shares. Application for shares is the offer from the people to purchase shares. The communication of acceptance of this offer by an allotment order or notice gives rise to a valid contract between both the parties - the company and the shareholder.

Allotment of shares is usually done by a resolution of the board of directors. In case of over subscription, the directors follow the basis given by the stock exchange a public company offering shares or debentures to the public for subscription can proceed with allotment of shares only after complying with following requirements.

1. The amount fixed as minimums subscription must have been subscribed for.
2. A sum equal to at least 5 per cent of the nominal value of shares must have been received in cash by the company as application money.
3. All money received from applicants for shares should be kept deposited in a scheduled bank till the company obtains the certificate for commencement of business.
4. In case a company has not issued a prospectus, a statement in Liew of prospectus must be filed with the Registrar at least three days before allotment of shares
5. No allotment can be made before the beginning of the 5 th day after the date on which the prospectus has been issued.

12.8. SUMMARY :

A company is a voluntary association of persons, with capital divided into shares, formed to carry out a particular purpose in common. It is an artificial person created by law. It has a common seal on its name. From the view point of formation, ownership and liabilities companies can be classified into different categories. For incorporation of a Joint stock company certain documents have to be submitted with the Registrar of company's such as Memorandum of Association, Articles of Association, prospectus etc. After verifying and satisfied himself the Registrar issue a certificate of incorporation. After satisfying the legal obligations a company can allot shares to the shareholders.

12.9. MODEL QUESTIONS :

1. Define a company and state its essential characteristics.
2. Explain the documents that have to be filed with the Registrar of companies for getting a company incorporated.
3. What is allotment of shares? Explain the statutory restrictions imposed on allotment of shares.

12.10 REFERENCE BOOKS :

1. Advanced Accountancy - M. C. Shukla & T.S. Grawal
2. Advanced Accountancy - R.L. Gupta & M. Radha - Swami
3. Advanced Accountancy - S.P. Jain & K.L. Narang
4. Advanced Accountancy - Dr. S.N. Maheswari
5. Advanced Accountancy - S.P. Jain & K.L. Narang
6. Advanced Accountancy - K.R. Pall.

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Lesson - 13

COMPANY ACCOUNTS

SHARE CAPITAL - ISSUE

OBJECTIVES:

After going through this lesson the student can know what is share capital ? How is its division ? and how the joint stock companies issue shares to public and their accounting treatment.

STRUCTURE:

- 13.1 Introduction
- 13.2 Types of Shares
- 13.3 Division of Share Capital
- 13.4 Shares issued for consideration other than cash - Accounting Entries
- 13.5 Shares issued for Cash - Accounting Entries
- 13.6 When both preference and equity shares are issued
- 13.7 Under Subscription
- 13.8 Over Subscription
- 13.9 Issue of Shares at Premium
- 13.10 Issue of Shares at a Discount
- 13.11 Calls in Arrears and calls in Advance
- 13.12 Summary
- 13.13 Model Questions
- 13.14 Exercises
- 13.15 Reference Books

13.1 INTRODUCTION:

The sum total of the nominal value of shares of a company is called as its share capital. The capital of the company can be divided into different units with definite value called shares. Holders of these shares are called shareholders or members of the company.

13.2 TYPES OF SHARES :

There are two types of shares which a company may issue i.e.

1. Preference shares, 2. Equity shares.

2.1 Preference shares :

Shares which enjoy the preferential rights as to dividend and repayment of capital in the event of winding up of the company over the equity shares are called preference shares. The holder of preference shares will get a fixed rate of dividend, preference shares may be :

- a) Cumulative Preference shares :** If the company does not earn adequate profit in any year, dividends on preference shares may not be paid for that year. But if the preference shares are cumulative such unpaid dividends are treated as arrears and can be carried forward to subsequent years. Such unpaid dividends on these shares go on accumulating and become payable out of the profits of the company, in subsequent years. Only after such arrears have been paid off, any dividend can be paid to the holder of equity shares.
- b) Non - Cumulative Preference shares :** The holders of non - Cumulative preference shares no doubt will get a preferential right in getting a fixed dividend before it is distributed to equity shareholders and as regards payment of capital is concerned. The fixed dividend is to be paid only out of the divisible profits. But if in any particular year there is no profit as to distribute it cannot be carry forward.
- c) Redeemable Preference shares :** Capital raised by issuing shares is not to be repaid to the shareholders but capital raised through the issue of redeemable preference shares is to be paid back by the company to such shareholders after the expiry of a stipulated period.
- d) Participating or Non Participating Preference Shares :** The preference shares which are entitled to a share in the surplus profit of the company in addition to the fixed rate of preference dividend are known as participating preference shares. Thus participating preference shareholders obtain return on their capital in two forms. 1)fixed dividend 2) share in excess of profits: Those preference shares which donot carry the right of shares in excess profits are known as non-participating preference shares.

2.2 Equity shares :

Equity shares will get dividend and repayment of capital after meeting the claims of preference shareholders. There will be no fixed rate of dividend to be paid to the equity share holders and this rate may vary from year to year. This rate of dividend is determined by directors. In case of large profits, it may even be more than the rate attached to preference shares and such shareholders may go without any dividend if no profit is made.

13.3 DIVISION OF SHARE CAPITAL :

The main divisions of share capital are as follows :-

1. Nominal or Registered or Authorised Capital :

The amount of capital with which the company intends to be registered is called registered capital. It is the maximum amount which the company is authorised to raise by way of public subscription. There is no legal limit on the extent of the amount of authorised capital.

2. Issued Capital :

That part of the authorised capital which is offered to the public for subscription is called issued capital.

3. Subscribed capital :

That part of the issued capital for which applications are received from the public is called the subscribed capital.

4. Called up capital :

The amount on the shares which is actually demanded by the company to be paid is known as called up capital.

5. Paid up capital :

The part of the called up capital which is offered and is actually paid by the members is known as paid up capital. The sum which is still to be paid is known as calls in arrears.

6. Reserve capital :

A company may determine by a special resolution that any portion of its share capital which has not been already called up shall not be capable of being called up except in the event of winding up of the company. Such type of share capital is known as reserve capital. A note regarding reserve capital is shown in the Balance sheet.

Terms of issue of shares :

The terms on which shares are to be issued by the company are given in the prospectus. The issue price of the shares can be received in one instalment or it can be spread over different instalments. The amount when received in different instalments may be paid on application, allotment or in different calls. The amount which is received on application is called the application money, the amount which becomes due on allotment is called allotment money. Rest of the amount may be called in different calls according to the requirements and needs of the company.

13.4 SHARES ISSUED FOR CONSIDERATION OTHER THAN CASH ACCOUNTING ENTRIES :

Shares may be issued by a joint stock company for two different considerations -

1. For consideration other than cash.
2. For cash.

A company may purchase a running business and pay to the vendors the purchase consideration in the form of shares. The accounting entries will be as follows -

1. Sundry Assets Account Dr

(Dr. each Asset individually)

To Sundry Liabilities

(Cr. each liability individually)

To Vendor's Account

(Being Purchase of assets and liabilities as per agreement dated.....)

2. Vendors Account Dr

To share capital Account

(Being payment to the vendors)

If the shares have been allotted to any person or firm from whom the company has purchased any asset, the following entries will be passed :

Assets Account Dr

To share capital Account

(Being Shares allotted in consideration of purchase of an asset for the company)

Illustration 1 :

A company purchased a running business from m/s P.K.R Brothers for a sum of Rs. 3,00,000 payable as to Rs. 2,40,000 in fully paid shares of Rs. 10 each and balance in cash. The assets and liabilities consisted of the following :

| | Rs. |
|---------------------|--------|
| Plant and Machinery | 80,000 |
| Buildings | 80,000 |
| Sundry Debtors | 60,000 |
| Stock | 80,000 |
| Cash | 60,000 |
| Sundry Creditors | 40,000 |

You are required to pass the necessary journal entries in the company's books.

Solution :

| | | | Dr. | Cr |
|--|-----|---------------------|----------|----------|
| Plant and Machinery | A/c | Dr | 80,000 | |
| Buildings | A/c | Dr | 80,000 | |
| Sundry Debtors | A/c | Dr | 60,000 | |
| Stock | A/c | Dr | 80,000 | |
| Cash | A/c | Dr | 60,000 | |
| | | To Sundry Creditors | | 40,000 |
| | | To P.K. R. Brothers | | 3,00,000 |
| | | To Capital Reserve | | 20,000 |
| (Being assets and liabilities taken over) | | | | |
| M/s P.K. R. Brothers | A/C | Dr | 3,00,000 | |
| | | To Share Capital | | 2,40,000 |
| | | To Bank | | 60,000 |
| (Being payment to M/s P.K.R. Brothers) | | | | |

13.5 SHARES ISSUED FOR CASH - ACCOUNTING ENTRIES :

Companies generally issue shares for cash. The procedure involved is as follows :

1. On receipt of application money

Bank Account Dr

To Share Application A/C

(Being application money received)

2. On allotment of shares all application money on allotted shares is transferred to share capital account by passing the following entry :

Share Application Account Dr

To Share capital Account

(Being the application money transferred to share capital Account)

3. To those applicants who could not be allotted any share their application money will be returned. For this the following entry will be passed :

Share Application Account Dr

To Bank Account

(Being the application money of shares not allotted returned)

4. On the allotment of share's, the allotment money becomes due to the company, for this the company will pass the following entry :

Share Allotment Account Dr

To Share capital account

(Being the allotment money due onshares)

5. On receipt of allotment money, the entry is :

Bank A/c Dr

To Share allotment A/C

(Being the receipt of allotment money)

6. On making the first call due from shareholders the entry is :

Share first call Account Dr

To Share capital account

(Being the first call money, due on Shares)

7. On receipt of the first call money the entry is :

Bank Account Dr

To Share first call Account

(Being share first call money shares received)

Similar entries will be passed for second and third calls.

Illustration 2 :

On 1st January 2008, a company offers 16,000 shares of Rs. 10 each. Applications are received for full. Money payable is all follows :

| | |
|----------------|-----------------|
| On Application | Rs. 3 Per share |
| On Allotment | Rs. 2 Per share |
| On 1st call | Rs. 3 Per share |
| On First call | Rs. 2 Per share |

The shares were duly allotted, calls made and money realised, you are required to pass the necessary journal entries.

Solution :

JOURNAL

| Date | Particulars | Dr Amount Rs. | Cr Amount Rs. |
|----------|--|---------------------|---------------------|
| 1-1-2008 | Bank A/C Dr To share Application A/C (Being Application money received on 16,000 shares @ Rs. 3. Per share) | 48,000 | 48,000 |
| | Share Application A/C Dr To share Capital A/C (Being Application money transferred to share capital account) | 48,000 | 48,000 |
| | Share Allotment A/C Dr To share Capital A/C (Being money due for allotment on 16000 shares @ Rs. 2 per share) | 32,000 | 32,000 |
| | Bank A/C Dr To share Allotment A/C (Being money received on allotment) | 32,000 | 32,000 |
| | Share 1st call A/C Dr To share Capital A/C (Being money due for 1st call on 16000 shares @ Rs. 3 per share) | 48,000 | 48,000 |
| | Bank A/C Dr To share 1st call (Being money received on 1st call) | 48,000 | 48,000 |
| | Share Final Call A/C Dr | 32,000 | |

| | | | |
|--|--|--------|--------|
| | To share Capital A/C (Being money due on final call) | | 32,000 |
| | Bank A/C Dr | 32,000 | |
| | To share Final call A/C (Being money received on final call) | | 32,000 |

13.6 WHEN BOTH PREFERENCE AND EQUITY SHARES ARE ISSUED :

When a company issues both preference and equity shares then it is desirable that the entries for application money, allotment money and calls money should be separately passed for each type of share capital. The word Equity or preference must be used in all the circumstances.

Illustration 3 :

A company was registered with an authorised capital consisting of 40,000 9% preference shares of Rs. 100 each, payable Rs.25 per share on application, Rs. 25 per share on allotment and Rs. 50 per share on first and final call. and 6,00,000 Equity shares of Rs. 10 each; payable Rs.2.50 per share on application, Rs. 2.50 per share on allotment and Rs. 5 per share on first and final call. Applications were received for the whole of the preference and Equity shares. All the money due on the shares was paid. Make the necessary entries and the Balance sheet of the company :

Solution :

JOURNAL ENTIRIES

| Date | Particulars | L.f | Dr Amount Rs. | Cr Amount Rs. |
|----------|--|-----|---------------------|---------------------|
| 1-1-2008 | Bank A/C Dr To pref. share Application A/C (Being pref. share application money received on 40,000 shares @ Rs. 25. Per share) | | 10,00,000 | 10,00,000 |
| | Bank A/C Dr To Equity share application A/C (Being Equity share application money received on 6,00,000 shares @ Rs. 2.50 per share) | | 15,00,000 | 15,00,000 |

| | | |
|---|-----------|-----------|
| <p>Pref. Share application A/C Dr To pref. share Capital A/C (Being pref. share application money transferred to pre. share capital A/C)</p> | 10,00,000 | 10,00,000 |
| <p>Equity share application A/C Dr To Equity share capital A/C (Being equity share applictaion money transferred to equity share capital account)</p> | 15,00,000 | 15,00,000 |
| <p>Pref. Share Allotment A/C Dr To pref share Capital A/C (Being pref. share allotment money due on 20,000 shares @ Rs. 25 per share as per the resolution of the Board of Directors)</p> | 10,00,000 | 10,00,000 |
| <p>Equity share Allotment A/C Dr To Equity share capital A/C. (Being Equity share allotment money due on 6,00,000 shares @ Rs. 2.50 per share as per the resolution of the Board of Director)</p> | 15,00,000 | 15,00,000 |
| <p>Bank A/C Dr To pref. share Allotment A/C (Being pref. share Allotment money received on 40,000 shares @ Rs. 25 per share)</p> | 10,00,000 | 10,00,000 |
| <p>Bank A/C Dr To Equity share allotment A/C (Being Equity share Allotment money received on 6,00,000 shares @ Rs. 2.50 per share)</p> | 15,00,000 | 15,00,000 |

| | | | | |
|--|--|--|-----------|-----------|
| | Pref. Share 1st & Final call A/C Dr To pref. share capital A/C (Being pref. share 1st & Final call money due on 40,000 shares @ Rs. 50 per share) | | 20,00,000 | |
| | | | | 20,00,000 |
| | Equity share 1st & Final call A/C Dr To Equityshare capital A/C (Being Equity share 1st & Final call money due on 6,00,000 shares @ Rs.5.per share) | | 30,00,000 | |
| | | | | 30,00,000 |
| | Bank A/C Dr To pref. share 1st & Final call (Being pref. share 1st & Final call money received on 40,000 shares @ Rs. 50 per share) | | 20,00,000 | |
| | | | | 20,00,000 |
| | Bank A/C Dr To Equity share 1st & Final call money received | | 30,00,000 | |
| | | | | 30,00,000 |

Balance Sheet co.

as on

| Liabilities | Rs. | Assets | Rs. |
|--|--------------------|--------------|--------------------|
| Authorised capital : | | Cash at Bank | 1,00,00,000 |
| 40,000, 9% pref. shares of Rs. 100 each | 40,00,000 | | |
| 6,00,000 Equityshares of Rs. 10 each | <u>60,00,000</u> | | |
| Issued and subscribed & Paid up capital : | | | |
| 40,000, 9% pref. shares of Rs. 100 each | 40,00,000 | | |
| 6,00,000 Equity shares of Rs. 10 each | <u>60,00,000</u> | | |
| | <u>1,00,00,000</u> | | <u>1,00,00,000</u> |

13.7. UNDER SUBSCRIPTION :

Sometimes a company may not receive applications for the total shares issued to the public. Then it is called under subscription.

Illustration 4 :

X Ltd invited applications for 1,00,000 shares of Rs. 10 each payable as follows :

In application Rs. 3; on Allotment Rs. 4 and first and final call Rs. 3. 80,000 Applications were received from the public and all of these were accepted. All money due was received.

Pass necessary entries in the Journal of company. Also show how these transactions would appear in Balance sheet of the company.

Solution :

JOURNAL ENTRIES

| Date | Particulars | L.f | Dr Amount Rs. | Cr Amount Rs. |
|------|--|-----|---------------------|---------------------|
| | Bank A/C Dr To pref. share Application A/C (Being application money on 80,000 shares @ Rs. 3 per share received) | | 2,40,000 | 2,40,000 |
| | share Application A/C Dr To share A/C (Being share application money transferred to share capital) | | 2,40,000 | 2,40,000 |
| | Share Allotment A/C Dr To share Capital A/C (Being allotment money on 80,000 shares @ Rs. 4 per share due) | | 3,20,000 | 3,20,000 |
| | Bank A/C Dr To share allotment A/C (Being allotment money received) | | 3,20,000 | 3,20,000 |

| | | | |
|--|--|----------|----------|
| | Share First & Final call A/C Dr | 2,40,000 | |
| | To pref. share Capital A/C | | 2,40,000 |
| | (Being first & Final call amount on 80,000 shares @ Rs. 3. per share due) | | |
| | Bank A/C Dr | 2,40,000 | |
| | To share First & Final call A/C. | | 2,40,000 |
| | (Being First & Final call amount on 80,000 shares @ Rs. 3. per share received) | | |

Balance Sheet co.

As on

| Liabilities | Rs. | Assets | Rs. |
|---|------------------|--------------|-----------------|
| Authorised capital : | | Cash at Bank | 8,00,000 |
| 1,00,000 Equity shares of Rs. 10 each | <u>10,00,000</u> | | |
| Issued capital : | | | |
| 1,00,000 Equity shares of Rs. 10 each | <u>10,00,000</u> | | |
| subscribed & Paid up capital : | | | |
| 80,000 Equity shares of Rs. 10 each | <u>8,00,000</u> | | <u>8,00,000</u> |

13.8. OVER SUBSCRIPTION :

Sometimes a company may receive more applications than the issued capital to the public which is known as over subscription. Because of over subscription, the company may not allot all the shares for which applications have been received. Then the allotment is made on pro - rata basis. For example, if the company offered 20,000 shares but applications for 40,000 shares were received by the company. The directors sent letters of regret to applicants of 10,000 shares and applicants of 30,000 shares were allotted the 20,000 shares on pro-rata basis. In such a case, application money of 10,000 shares (excess received) will be adjusted either on allotment and on calls.

Illustration 5 :

A company issued Rs. 10,00,000 capital divided into Rs. 10 per share, payable as under:

On Application Re. 1 per share; on allotment Rs. 4 per share and on Final call Rs. 5 per share.

Over payments on application were to be applied towards sums due on allotment. Where no allotment was made, application money was to be returned in full. The issue was over subscribed. Applicants for 1,20,000 shares were allotted 1,00,000 shares and applicants for 30,000 shares were sent letters of regret. All money due on allotment and final call was duly received. Make the necessary entries in company's books.

Solution :**JOURNAL ENTRIES**

| Date | Particulars | L.f | Dr Amount Rs. | Cr Amount Rs. |
|------|---|-----|---------------------|---------------------|
| | Bank A/C Dr To share Application A/C (Being Application money on 1,50,000 shares received) | | 1,50,000 | 1,50,000 |
| | Share Application A/C Dr To share captial A/C (Being share application money on 1,00,000 shares transferred to share capital account.) | | 1,00,000 | 1,00,000 |
| | Share Application A/C Dr To Bank Account (Being regreted Application money on 30,000 shares returned) | | 30,000 | 30,000 |
| | Share Allotment A/C Dr To share capital A/C (Being Allotment money due) | | 4,00,000 | 4,00,000 |

| | | | |
|--|--|----------|----------|
| | Bank Account Dr | 3,80,000 | |
| | Share Application A/C Dr | 20,000 | |
| | To share Allotment A/C | | 4,00,000 |
| | (Being Allotment money received and excess amount in Application Account adjusted) | | |
| | Share First & Final call A/C Dr | 5,00,000 | |
| | To share capital A/C. | | 5,00,000 |
| | (Being share First & Final call due) | | |
| | Bank A/C Dr | 5,00,000 | |
| | To share First & Final call A/C. | | 5,00,000 |
| | (Being share First & Final call received) | | |

13.9. ISSUE OF SHARES AT PREMIUM :

A company may issue shares at a premium, i.e. at a value greater than its face value. Premium so received shall be credited to a separate account called securities premium account.

Section 78 of the companies Act, 1956 gives the purposes for which securities premium account may be applied by the company.

These are :

1. For the issue of fully paid bonus shares to the members of the company;
2. For writing off preliminary expenses of the company.
3. For writing off the expenses of , or the commission paid or discount allowed, on any issue of shares or debentures of the company; and
4. For providing premium payable on the redemption of any redeemable preference shares or debentures of the company.

Journal Entries :

- a. If the premium is paid with application money, the following entries will be passed :

1. Bank Account Dr

To share Application A/C.

(Being share application money along with premium received)

2. Share Application Account Dr

 To share capital A/C

 To securities premium A/C.

(Share application money transferred to share capital A/C and securities premium A/C)

b. If the securities premium is received along with the allotment money, then the following entries will be passed :

1. Share Allotment Account Dr

 To share capital A/C

 To Securities premium A/C

(Being the allotment money and securities premium money due on shares)

2. Bank Account Dr

 To Share Allotment Account.

(Being the receipt of allotment along with share premium account)

Illustration 6 :

A company offers 20,000 of shares of Rs 10 each to the public for subscription at Rs. 12 per share. Money is payable as follows :

Rs. 3. on application

Rs. 4. on allotment (including Re. 1 as premium)

Rs. 5. on call (including Re.1 as premium)

Applications are received for 30,000 shares. No allotment is made to applicants for 6,000 shares and their application money is refunded. Rest are allotted shares on a pro rata basis. All allottees pay the money due on shares as and when called up.

Pass the necessary journal entries and show how the items will appear in the company's balance sheet.

Solution :

JOURNAL ENTRIES

| Date | Particulars | L.f | Dr Amount Rs. | Cr Amount Rs. |
|------|---|-----|---------------------|----------------------------|
| | Bank A/C Dr To share Application A/C (Being the application money received on 30,000 shares @ Rs. 3 per share) | | 90,000 | 90,000 |
| | Share Application A/C Dr To share capital A/C To Bank A/C To Share Allotment A/C (Being application money transferred to share capital on 20,000 shares application money on 6,000 shares refunded and rest transferred to allotment) | | 90,000 | 60,000 13,000 12,000 |
| | Share Allotment A/C Dr To share Capital A/C To Share premium A/C (Being money due on allotment on 20,000 shares @ Rs 4 per share including Re. 1. as share premium) | | 80,000 | 60,000 20,000 |
| | Bank Account Dr To share allotment A/C (Being money received on allotment) | | 68,000 | 68,000 |

| | | | |
|--|--|----------|----------|
| | Share First & Final call A/C Dr | 1,00,000 | |
| | To share Capital A/C | | 80,000 |
| | To share premium A/C | | 20,000 |
| | (Being money due on call @ Rs. 5. per share) | | |
| | Bank A/C Dr | 1,00,000 | |
| | To share first & Final call | | 1,00,000 |
| | (Being money received on call) | | |

..... co Ltd.

Balance Sheet as on

| Liabilities | Rs | Assets | Rs. |
|---|-----------------|------------------|-------------------|
| Share capital : | | Current Assets : | |
| Authorised shares of Rs. each | ----- | Bank balance | 2,40,000 |
| Issued and subscribed capital : | | | |
| 20,000 shares of Rs. 10 each fully paid | 2,00,000 | | |
| Reserves and surplus : | | | |
| share premium | <u>40,000</u> | | <u> </u> |
| | <u>2,40,000</u> | | <u>2,40,000</u> |

13.10. ISSUE OF SHARES AT DISCOUNT :

According to section 79 of the companies Act a company can issue shares at a discount i.e; Value less than the face value subject to the following conditions :

1. The issue of shares at a discount is authorised by a resolution passed by the company in general meeting and sanctioned by the central government.
2. The resolution must specify the maximum rate of discount which should not exceed 10 per cent of the nominal value of shares or such higher percentage as the central government may permit.
3. One year must have been elapsed since the date at which the company was allowed to commence business.

4. Issue must take place within two months after the date of the sanction by the court or within such extended time as the court may allow.
5. Every prospectus relating to the issue of shares and every balance sheet after the issue of shares contain particulars of the discount allowed and so much of the discount as has not been written off.

The following journal entry is passed on the issue of the shares at a discount at the time of allotment:

| | |
|--------------------------|----|
| Share Allotment Account | Dr |
| Discount on the issue of | |
| shares Account | Dr |
| To share capital Account | |

Discount on the issue of shares will be shown under miscellaneous head on the assets side of the balance sheet till it is completely written off from the profit and loss Account. Generally such discount is spread over some period say five years and the amount written off each year is debited to profit and loss account and the amount not yet written off is shown on the assets side of the Balance sheet.

Illustration 7 :

Z Ltd. invited applications for 2,00,000 shares of Rs. 10 each at a discount of 6% payable as follows :

On Application Rs. 2.50, on Allotment Rs. 3.40 and on First and Final call Rs. 3.50.

The applications received were for 1,80,000 shares and all of these were accepted. All money due was received.

Pass necessary entries in the Journal of company. Also show how these transactions would appear in Balance sheet of the company.

Solution :

JOURNAL ENTRIES

| Date | Particulars | L.f | Dr Amount Rs. | Cr Amount Rs. |
|------|---|-----|---------------------|---------------------|
| | Bank A/C Dr To share Application A/C (Being share Application money on 1,80,000 shares @ Rs. 2.50 per share received) | | 4,50,000 | 4,50,000 |

| | | |
|---|----------|----------|
| Share Application A/C Dr | 4,50,000 | |
| To share capital A/C | | 4,50,000 |
| (Being share Application money on 1,80,000 shares @ Rs. 2.50 per share transferred to share capital) | | |
| Share allotment A/C Dr | 6,12,000 | |
| Discount on issue of shares A/C Dr | 108,000 | |
| To share capital A/C | | 7,20,000 |
| (Being share Allotment money due on 1,80,000 share @ Rs. 3.40 per share and discount @ Re. 0.60 per share) | | |
| Bank A/C Dr | 6,12,000 | |
| To share Allotment A/C | | 6,12,000 |
| (Being share Allotment money received on 1,80,000 shares @ Rs. 3.40 Per share) | | |
| Share First & Final call A/C Dr | 6,30,000 | |
| To share Capital A/C | | 6,30,000 |
| (Being share First & Final call money due on 1,80,000 shares @ Rs. 3.50 per share as per the resolution of the Board of Directors) | | |
| Bank A/C Dr | 6,30,000 | |
| To share First & Final call A/C. | | 6,30,000 |
| (Being share First & Final call money received on 1,80,000 shares @ Rs. 3.50 per share) | | |

Balance sheet of Z Ltd. Co., as on

| Liabilities | Rs. | Assets | Rs. |
|---|------------------|-------------------|-------------------|
| Issued capital : | | Cash at Bank | 16,92,000 |
| 2,00,000 shares @ Rs. 10 per share | <u>20,00,000</u> | Discount on issue | |
| subscribed & Paid up capital : | | of shares | 1,08,000 |
| 1,80,000 shares @ Rs. 10 per share | <u>13,00,000</u> | | <u> </u> |
| | <u>13,00,000</u> | | <u>13,00,000</u> |

13.11. CALLS IN ARREARS AND CALLS IN ADVANCE :

If any amount has been called by the company either as allotment or call money and a shareholder has not paid that money, this is known as calls in arrears. On such arrears, the company can charge interest @ 5 % if there is a provision in the Articles of Association for the period for which such amount remained in arrear from the shareholders.

Similarly, if any call has been made, while paying that call, some shareholder, has paid the amount of the rest of calls also, then such amount will be called as calls in advance and will be credited to a separate account known as calls in advance account by passing the following entry.

Bank Account Dr
 To calls in Advance A/C.

Calls in Advance Account is shown on the liabilities side of the Balance sheet separately from the paid up capital, generally interest is paid on such calls according to the provisions of the Articles of Association but such rate should not exceed 6% per annum.

Illustration 8 :

On 1 st March, 2008 sony Ltd. , makes an issue of 40,000 equity shares of Rs. 10 each payable as follows :

On application Rs. 2. on allotment Rs. 3. and on first and final call Rs. 6. (Three months after allotment)

Applications were received for 52,000 shares and Directors made allotment in full to the applicants demanding ten or more shares and returned money to the applicants for 12,000 shares. One shareholder who was allotted 80 shares paid first and final call with allotment money and another share holder allotted 120 shares did not pay allotment money on his shares, but which he paid with the first and final call. Directors have decided to charge and allow interest, as the case may be, on calls in arrears and calls in advance respectively according to the provisions of Table A. Give the necessary journal entries in the books of the company.

Solution :

JOURNAL ENTRIES

| Date | Particulars | L.f | Dr Amount Rs. | Cr Amount Rs. |
|--------------|--|-----|---------------------|---------------------|
| 2008 March 1 | Bank Account Dr To share Application Account (For Application money received on 52,000 shares @ Rs. 2 Per share) | | 1,04,000 | 1,04,000 |
| 2008 March 1 | Share Application A/C Dr To share capital A/C To Bank A/C (For application money of 40,000 shares transferred to share capital account and application money of 12,000 shares refunded) | | 1,04,000 | 80,000 24,000 |
| 2008 March 1 | Share allotment A/C Dr To shares capital A/C To securities premium A/C (For allotment money and securities premium due on 40,000 shares @ Rs.2. and Re.1. per share respectively as per resolution of the Board of Directors dated.....) | | 1,20,000 | 80,000 40,000 |
| 2008 March 1 | Bank Account Dr To share Allotment A/C To calls in Advance Account (For the receipt of allotment money @ Rs. 3 on 39,880 shares and advance call money on 80 shares @ Rs. 6. each) | | 1,20,120 | 1,19,640 480 |

| | | | | |
|--|---|------|----------|----------|
| 2008 June 1 | Share First & Final call A/C | Dr | 2,40,000 | |
| | To share Capital A/C | | | 2,40,000 |
| | (For the amount due in respect of first and final call on 40,000 shares @ Rs.6 per share) | | | |
| | Bank Account | Dr | 2,39,880 | |
| | To share First & Final call A/C. | | | 2,39,520 |
| | To share Allotment Account | | | 360 |
| | (For the amount received on account of first and final call on 39,880 shares @ Rs. 6 and calls in arrears of allotment) | | | |
| | Calls in Advance A/C | Dr | 480 | |
| | To share First & Final call A/C. | | | 480 |
| | (Adjustment of calls in advance against the first and final call) | | | |
| Interest on calls in advance A/C | Dr | 7.20 | | |
| To Bank | | | 7.20 | |
| (Interest Paid on calls in advance on Rs. 480 for 3 months @ 6% p.a.) | | | | |
| Bank Account | Dr | 4.50 | | |
| To Interest on calls in Arrears A/C | | | 4.50 | |
| (Receipt of interest on calls in arrears on Rs. 360 for 3 months @ 5 % p.a.) | | | | |

13.12. SUMMARY :

The capital of the company is divided into different units with definite value called shares. Holders of these shares are called shareholders. There are two types of shares. 1. Preferential shares ; 2. Equity shares. The terms on which shares are to be issued by the company are given in the prospectus. Joint stock companies may issue shares for two different considerations. 1. For consideration other than cash.; 2. For cash shares may be over subscribed or undersubscribed. A company may issue shares at a premium ; i.e. at a value greater than its face value. Similarly a company can issue shares at a discount i.e, value less than the face value.

13.13. MODEL QUESTIONS :

1. Give the main divisions of share capital of a company.
2. What is a share ? Discuss the types of shares which a company can issue.
3. What do you understand by issue of shares at par, at a premium and at discount?
4. Distinguish between calls in advance and calls in arrears.
5. Give the journal entries for issue of shares from application money to final call.

13.14 EXERCISES :

1. Vimal co. Ltd. issued 80,000 shares of Rs. 10 each at a premium of Rs. 2. Payable as follows :

On application Rs. 2

On allotment Rs. 5 (Including premium)

On 1st Call Rs. 2 and

On final Call Rs. 3

Applications were received for 60,000 shares and allotment was made in full.

The first call was made and the amount due there on was received

2. A & Co. Ltd. invited applications for 10,000 shares of Rs. 100 each at a discount of 5% payable as follows :

On application Rs. 25

On allotment Rs. 34 and

On first and final Call Rs. 36 (on call).

The applications received were for 9,000 shares and all these applications were accepted
All the money due were received.

3. A company issued 30,000 fully paid up shares of Rs. 100 each for purchase of following assets and liabilities from mohan brothers.

| | Rs. |
|--------------------|-----------|
| Land and Buildings | 12,00,000 |
| Plant | 7,00,000 |
| Stock in trade | 9,00,000 |
| Sundry Creditors | 2,00,000 |

You are required to pass the necessary journal entries

4. A company was registered with a share capital of Rs 1,00,000 divided into 5000 6 percent preference shares of Rs. 10 each. Out of these shares 1,000 preference shares and 1,000 equity shares were issued as fully paid to the vendors for purchase of property. The balance of the shares were offered to the public for subscription. The money was payable as follows on both the classes of shares :

Rs. 3 on Application

Rs. 2 on Allotment

Rs. 3 on First call

Rs. 2 on second and final call

Applications were received for 6,000 equity shares and 5,000 preference shares. Allotment was made on prorata basis. All the calls were made and the amount due received. Pass necessary journal entries to record the above transactions.

5. Z Ltd. offered for public subscription Rs. 10, 000/- equity shares of Rs. 10/- each at a premium of Rs. 2. per share payable as follows -

On application Rs. 2. per share

On allotment Rs. 5 (Including premium)

On first Call Rs. 3 and

On final call Rs. 2

Applications were received for 12,000 shares. All the applications were considered the excess application money is adjusted for allotment. Mr. Y to whom 500 shares were allotted fail to pay final call money.

Prepare cash book, share capital account and balance sheet of the company.

6. A limited company issued a prospectus inviting applications for 2,000 shares of Rs.10 each at a premium of Rs. 2 per share payable as follows :

On Application Rs. 2

On Allotment Rs. 5 (including premium)

On First call Rs. 3

On second and final call Rs. 2

Applications were received for 3,000 shares and allotments made pro-rata to the applicants for 2,400 shares, the remaining applications being refused. Money overpaid on applications was employed on account of sums due on allotment. All the calls were made and the amount due was received. Pass necessary journal entries to record the above transactions.

7. A company was registered with a share capital of Rs. 1,00,000 divided into 10,000 shares of Rs. 10 each. Out of these shares 2,000 shares of Rs. 10 each were issued, at a premium of Rs. 2 per share, fully paid to the vendors as consideration for purchase of Buildings, plant and machinery.

5,000 shares were offered to the public for subscription at Rs. 12 per share. The money was payable as follows :

On Application Rs. 3 per share

On Allotment Rs. 4 per share (including premium)

On First call Rs. 2 per share (3 months after allotment)

On Final call Rs. 3 per share (3 months after first call)

Applications were received for 8,000 shares. No allotment was made to applicants for 2,000 shares. Rest were allotted shares on a pro - rata basis. All calls were duly made and received.

The company adopts Table A as its articles. You are required to pass the journal entries and prepare the company balance sheet.

(Hint : Allow 6 percent p.a. as interest on call in advance and charge 5 percent interest on call on arrears)

8. A limited company issued a prospectus inviting applications for 2,000 shares of Rs. 10 each at a premium of Rs. 2 per share payable as follows :

On Application Rs. 2

On Allotment Rs. 5 (including premium)

On First call Rs. 3

On Final call Rs. 2

Applications were received for 3,000 shares and allotment made pro-rata to the applicants of 2,400 shares. Money overpaid on applications was employed on account of sums due on allotment.

Rajesh to whom 40 shares were allotted failed to pay allotment money. Manoj the holder of 60 shares failed to pay the two calls.

Show Journal and cash book entries.

9. A limited company issued a prospectus inviting applications for 2,000 shares of Rs. 10 each at a premium of Rs. 2 per share payable as follows :

On Application Rs. 2

On Allotment Rs. 5 (including premium)

On First call Rs. 3 and On second call Rs. 2

Applications were received for 3,000 shares allotments made pro-rata to the applicants for 2,400 shares, the remaining applications being refused. Money overpaid on applications was employed on account of sums due on allotments. All calls were made and the amount due was received. Pass necessary journal entries to record the above transaction.

10. Super max Ltd., invited applications for 10,000 of its equity shares of Rs. 10/- each payable on application Rs. 5 /-, on allotment Rs. 3/- and on call Rs. 2/-

Applications were received for 15000 shares. The company allotted as follows - :

| | |
|-------------------------------|------|
| For 2000 shares applications | Full |
| For 12000 shares applications | 8000 |
| For 1000 shares applications | Nil |

Surplus money received on application will be adjusted towards allotment. A holder of 200 shares who was allotted on prorata basis, failed to pay allotment and call money.

Give journal entries in the Books of the company and show the Balance sheet.

11. Blue moon company limited issued 50,000 share of Rs. 10/- each payable as under Rs.2/- on application Rs. 2.50 on allotment Rs. 3 on 1st call and Rs. 2.50 on Final call.

The public applied for 90,000 shares. The allotment was made as follows on 1st August 1985.

| | |
|------------------------------------|------|
| To the applicants of 45,000 shares | Full |
| To the applicants of 20,000 shares | 25% |
| To the remaining applicants | Nil |

The First call was made on 1st November 2008 and final call on 1st February 2009. According to the terms of issue, the surplus application money would be kept by the company against the money due on allotment and against subsequent calls. One share holder to whom 5,000 shares were allotted, paid on allotment the full amount due on shares. The interest @ 5 % P.A. on calls in advance was paid on 1st Feb 2009.

Given cash book and Journal entries in the books of the company, assuming that all money were duly received. Also prepare calls in advance account.

12. A limited company was formed with anominal capital of Rs. 6,00,000 in shares of Rs.100 each 3,000 of which were issued payable as to

Rs.10 on application,

Rs. 15 on allotment,

Rs. 25 three months after allotment and the balance to be called up when necessary. All the money were received except on call by one shareholder holding 200 shares. Another shareholder holding 150 shares paid the full amount on his holding. Make the cashbook and journal entries to record these transactions. Also show how the share capital appears in the Balance sheet of the company.

13. Harini company Ltd. issued 40,000 equity shares of Rs. 10 each, payable at
Rs.2 on application,
Rs. 4. on allotment and
Rs. 4. on first and final call

All the amount payable on allotment was duly received except in one case where the share holders failed to pay the amount due on allotment on his 100 share and another shareholder paid the shares in full at allotment on his 50 shares. The company was registered with 50,000 equity shares of Rs. 10 each. Pass necessary journal entries and prepare the Balance sheet of the company

14. Yellow limited offered for subscription 3,000 12% preference shares of Rs. 100 each at a premium of 20% on 1st January 2008. The amount was payable as follows -

On Application Rs. 20

On allotment Rs. 40 (including premium - due on 1st Feb)

On First call Rs. 30 due on 1st march

On Second call Rs. 30 due on 1st may

All the shares were subscribed by the public and subscription list was closed on 25th January, 2008. Money due on allotment and calls payable 15 days after the due dates.. All the amounts were duly received in times except the second call on 200 shares.

Prepare journal and cash book in the books of the company and show them in the Balance sheet.

13.15 REFERENCE BOOKS :

1. Advanced Accountancy - M. C. Shukla & T.S. Grawal
2. Advanced Accountancy - R.L. Gupta & M. Radha - Swami
3. Advanced Accountancy - S.P. Jain & K.L. Narang
4. Advanced Accountancy - Dr. S.N. Maheswari
5. Financial Accounting - S.P. Jain & K.L. Narang
6. Advanced Accounting - K.R. Pall.

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Lesson - 14

FORFEITURE OF SHARES

OBJECTIVES:

After going through this lesson the student can know what is forfeiture of share ? and How these shares are re- issued and what is the accounting treatment ?

STRUCTURE:

14.1 Introduction

14.2 Journal Entries

14.3 Surrender of Shares

14.4 Re-issue of Forfeited shares

14.5 Partial Re-issue of forfeited shares

14.6 Forfeiture of shares when there is an over-subscription and pro-rata Allotment

14.7 Summary

14.8 Model Questions

14.9 Exercises

14.10 Reference Books

14.1 INTRODUCTION:

When a shareholder fails to pay calls, the company, if empowered by its articles, may forfeit the shares. If a shareholder has not paid any call on the day fixed for payment there of and fails to pay it even after his attention is drawn to it by the secretary by registered notice, the Board of Directors pass a resolution to the effect that such shares be forfeited. Shares once forfeited become the property of the company and may be sold on such terms as directors think fit, upon forfeiture, the original shareholder ceases to be a member and his name must be removed from the register of members.

14.2 JOURNAL ENTRIES :

The following entry is passed at the time of forfeiture of shares.

Share capital Account Dr (with called amount)

To unpaid calls A/C (The amount not paid)

To Discount on issue of shares

To share forfeited A/C (with the amount already received)

On forfeiture, share capital account has been debited as it reduces the share capital and calls due but not received will be credited in order to cancel their debit balance standing in the books. Discount on the issue of shares will be cancelled like share capital on forfeiture of shares.

Premium received on the original issue of shares cannot be cancelled on the forfeiture of shares as once the premium is received it cannot be cancelled. But if securities premium is not received on the issue of shares, then it will be cancelled by debiting the securities premium account with the forfeiture entry.

Shares forfeited account balance will be shown on the liabilities side of the Balance sheet till all shares are reissued.

Illustration 1 :

A limited company has an authorised capital of Rs. 5,00,000 in Rs. 10 shares of these 8,000 shares were issued as fully paid in payment of building purchased and 16,000 shares were subscribed for by the public, and during the first year Rs. 5 per share was called payable Rs.2 on application, Rs. 1 on allotment Re.1 on first call and Re. 1 on second call. The amounts received in respect of these shares were as follows :

On 12,000 shares the full amount called

On 2,500 shares Rs. 4 per share

On 1,000 shares Rs. 3 per share

On 500 shares Rs. 2 per share

The Directors forfeited the shares on which less than Rs. 4 had been paid.

You are required to show journal entries in the books of the company, and to set out the capital as it should appear in the company's Balance sheet at the end of the first year.

Solution :

JOURNAL ENTRIES

| Date | Particulars | L.f | Dr Amount Rs. | Cr Amount Rs. |
|------|--|-----|---------------------|---------------------|
| | Building Account Dr To share capital A/C (Being issue of 8,000 fully paid shares of Rs. 10 each for the purchase of building) | | 80,000 | 80,000 |

| | | | |
|--|---|--------|--------|
| | Bank Account Dr To share Application A/C (Being application money transferred to share captial account on allotment of shares) | 32,000 | |
| | | | 32,000 |
| | Share Application Account Dr To share Capital A/C (Being application money transferred to share capital account on allotment of shares) | 32,000 | |
| | | | 32,000 |
| | Share Allotment Account Dr To share captial Account (Being allotment money due on 16,000 shares @ Re. 1) | 16,000 | |
| | | | 16,000 |
| | Bank Account Dr To share Allotment A/C. (Being allotment money received on 15,500 shares @ Re. 1 per share) | 15,500 | |
| | | | 15,500 |

14.3 SURRENDER OF SHARES :

After the allotment of shares sometimes a shareholder is not able to pay the further calls and return his shares to the company for cancellation. Such voluntary return of shares to the company by the shareholder himself is called surrender of shares. Surrender of shares has no separate accounting treatment but it will be like that of forfeiture of shares. The same entires will be passed in case of surrender of Shares.

14.4 REISSUE OF FORFEITED SHARES :

Forfeited shares may be reissued by the company directors for any amount but if such shares are issued at a discount then the amount of discount should not exceed the actual amount received on forfeited shares.

Illustration 2 :

A company forfeits 200 shares of Rs. 10 each, originally issued at a premium of Rs. 2 per share. The shareholder paid Rs. 4 per share on application but did not pay the allotment money of Rs. 4 per share (including premium) and call of Rs. 4 per share. The shares are subsequently reissued at Rs. 11 per share fully paid up.

Pass journal entries for forfeiture and re-issue of forfeited shares.

Solution :**JOURNAL ENTRIES**

| Date | Particulars | L.f | Dr Amount Rs. | Cr Amount Rs. |
|------|--|-----|---------------------|---------------------|
| | Share capital A/C Dr | | 2000 | |
| | Share premium A/C Dr | | 400 | |
| | To share Allotment A/C | | | 800 |
| | To share call A/C | | | 800 |
| | To share forfeited A/C | | | 800 |
| | (Being forfeiture of 200 shares on account of non-payment of allotment and call money) | | | |
| | Bank A/C Dr | | 2,200 | |
| | To share capital A/C | | | 2000 |
| | To share premium A/C | | | 200 |
| | (Being reissue of forfeited shares) | | | |
| | Shares forfeited A/C Dr | | 800 | |
| | To Capital Reserve A/C | | | 800 |
| | (Being transfer of profit on shares forfeited to capital reserve) | | | |

14.5 PARTIAL RE-ISSUE OF FORFEITED SHARES :

When all forfeited shares are not issued i.e, only a part of such shares is issued, it is desirable to spread the amount of shares forfeited account on all such forfeited shares and of the amount relating to that part of forfeited shares which has been reissued, discount on reissue of shares should be deducted from such amount and the balance is transferred to capital reserve being capital profit. The amount relating to that part of shares forfeited account which has not been reissued should be shown on the liabilities side of Balance sheet as shares Forfeited Account.

Illustration 3 :

A company invited the public to subscribe for 20,000 Equity shares of Rs.100 each at a premium of Rs. 10 per share payable on allotment. Payments were to be made as follows :

| | |
|----------------|--------|
| On Application | Rs. 20 |
| On Allotment | Rs. 40 |
| On First call | Rs. 30 |
| On Final call | Rs. 20 |

Applications were received for 26,000 shares. Applications for 4,000 shares were rejected and allotment was made proportionately to the remaining applicants. Both the calls were made and all the money were received except the final call on 600 shares.

Solution :

JOURNAL

| Date | Particulars | L.f | Dr Amount Rs. | Cr Amount Rs. |
|------|--|-----|---------------------|---------------------|
| | Share First call Account Dr To share capital A/C (Being the amount due on first call on 16,000 shares @ Rs. 1. Per share) | | 16,000 | 16,000 |
| | Bank Account Dr To share first call A/C (Being amount received on account of first call on 14,500 shares @ Re. 1. per share) | | 14,500 | 14,500 |

| | | | |
|--|--|--------|--------|
| | Share second call Account Dr | 16,000 | |
| | To share Capital A/C | | 16,000 |
| | (Being the amount due on second call on 16,000 shares @ Rs. 1 per share) | | |
| | Bank Account Dr | 12,000 | |
| | To share second call A/C | | 12,000 |
| | (Being amount received on account of second call on 12000 shares @ Re.1 per share) | | |
| | Share capital account Dr | 7,500 | |
| | To share allotment A/C | | 500 |
| | To share first call A/C | | 1,500 |
| | To share second call A/C | | 1,500 |
| | To share forfeited A/C | | 4,000 |
| | (Being forfeiture of 1500 shares on which less than Rs. 4. had been paid) | | |

Capital as it will appear in the balance sheet

| | | |
|--|--------------|-----------------|
| Capital and Liabilities | | |
| Authorised Capital : | | |
| 50,000 shares of Rs. 10 each | | <u>5,00,000</u> |
| Issued and subscribed capital : | | |
| 8,000 shares of Rs. 10 each issued as fully paid up for the purchase of building | | 80,000 |
| 14,500 shares of Rs. 10 each Rs.5 per share called up | 72,500 | |
| <u>less</u> calls in Arreas (second call on 2,500 shares @ Re. 1) | <u>2,500</u> | |
| | 70,000 | |
| <u>Add</u> share forfeited Account | <u>4,000</u> | <u>74,000</u> |
| | | <u>1,54,000</u> |

Which are forfeited after due notice. Later 400 of the forfeited shares were issued as fully paid at Rs. 85 per share. Pass journal entries.

Solution :

JOURNAL ENTRIES

| Date | Particulars | L.f | Dr Amount Rs. | Cr Amount Rs. |
|------|---|-----|---------------------|------------------------------|
| | Bank A/C Dr To Equity share Application A/C (Application money received for 26,000 shares @ Rs. 20 per share) | | 5,20,000 | 5,20,000 |
| | Equity share application A/C Dr To Equity share capital A/C To bank A/C To share allotment A/C (Application money of 20,000 shares transferred to share capital A/C and balance returned to applicants and used for share allotment account) | | 5,20,000 | 4,00,000 80,000 40,000 |
| | Equity share allotment A/C Dr To Equity share Capital A/C To securities premium A/C (Allotment money due on 20,000 shares) | | 8,00,000 | 6,00,000 2,00,000 |
| | Bank A/C Dr To Equity share allotment A/C (Receipt of amount due on allotment) | | 7,60,000 | 7,60,000 |

| | | | |
|--|----|----------|----------|
| Equity share first call A/C | Dr | 6,00,000 | |
| To Equity share capital A/C | | | 6,00,000 |
| (Amount of first call due) | | | |
| Bank A/C | Dr | 6,00,000 | |
| To Equity share first call A/C | | | 6,00,000 |
| (Receipt of amount due on first call) | | | |
| Equity share second call and final call A/C | Dr | 4,00,000 | |
| To Equity share capital A/C | | | 4,00,000 |
| (Amount due on second & final call) | | | |
| Bank A/C | Dr | 3,88,000 | |
| To Equity share second & final call A/C | | | 3,88,000 |
| (Receipt of amount due on second & final call except on 600 shares) | | | |
| Equity share capital A/C | Dr | 60,000 | |
| To Equity share second & final call A/C | | | 12,000 |
| To share forfeited A/C | | | 48,000 |
| (600 shares forfeited) | | | |
| Bank A/C | Dr | 34,000 | |
| Shares forfeited A/C | Dr | 6,000 | |
| To Equity share capital A/C | | | 40,000 |
| (Reissue of 400 shares @ Rs. 85 per share) | | | |
| Shares forfeited A/C | Dr | 26,000 | |
| To capital reserve A/C | | | 26,000 |
| (Proportional balance relating to 400 shares out of shares forfeited A/C transferred to capital reserve) | | | |

Working Notes :

1. On 600 Forfeited shares, the total amount forfeited is Rs. 48,000

For 400 shares the amount will be

$$\frac{400}{600} \times \text{Rs. } 48,000 = \text{Rs. } 32,000.$$

Out of this Rs. 6,000 is allowed as discount on the reissue of shares and the balance of Rs. 26,000 is transferred to Capital Reserve.

2. Rs. 16,000 i.e, that is the amount relating to 200 shares which are not reissued will be shown on the liabilities side of the Balance sheet as shares Forfeited A/C and added to the paid up capital.

14.6. PRO - RATA ALLOTMENT AND FORFEITURE OF SHARES :

It has already been discussed that in case of companies of repute, there is possibility of over - subscription. Some applications are rejected altogether and others are allotted on pro - rata basis. When shares allotted on pro - rata basis are forfeited, the problem arises about the amount to be forfeited. In such cases, the following procedure is adopted.

1. Calculate the total number of shares applied for on the basis of allotted shares.
2. Calculate the total amount received on application by multiplying the number of shares applied with application money.
3. Deduct the amount due on application on allotted shares and calculate balance, i.e; money received in advance and to be adjusted on allotment.
4. Calculate the amount due on allotment on such shares and deduct the amount already received as advance on application. This gives the amount in arrear on allotment and credited to share allotment account at the time of forfeiture of shares.

Illustration 4 :

A company offered for public subscription 20,000 shares of Rs. 10 each at Rs. 11 per share. Money was payable as follows :

Rs. 3 on application

Rs. 4 on allotment

Rs. 4 on first and final call.

Applications were received for 24,000 shares and the directors made pro-rata allotment.

- a) an applicant for 240 shares, could not pay the allotment and call moneys.
- b) a holder of 400 shares, failed to pay the call. All these shares were later on forfeited.

Out of the forfeited shares, 300 shares (the whole of A's shares being included) were issued at Rs. 9 per share.

Pass the journal entries for recording the above transactions.

Solution :

JOURNAL ENTRIES

| Date | Particulars | L.f | Dr Amount Rs. | Cr Amount Rs. |
|------|--|-----|---------------------|---------------------|
| | Bank A/C Dr To share Application A/C (Being application money received on 24,000 shares @ Rs. 3 per share) | | 72,000 | 72,000 |
| | Share Application A/C Dr To share capital A/C To share Allotment A/C (Being transfer of application money to share capital account on 20,000 shares and the balance to allotment account) | | 72,000 | 60,000 12,000 |
| | Share Allotment A/C Dr To share capital A/C To share premium A/C (Being money due on allotment @ Rs.4 per share on 20,000 shares including Re. 1 on account of share premium) | | 80,000 | 60,000 20,000 |
| | Bank A/C Dr To share allotment A/C (Being money received on share allotment) | | 67,320 | 67,320 |

| | | | |
|---|----------------------------------|--------|--------|
| Share call A/C | Dr | 80,000 | |
| | To share Capital A/C | | 80,000 |
| (Being money due on call on 20,000 shares @ Rs. 4 per share) | | | |
| Bank A/C | Dr | 77,600 | |
| | To share call A/C. | | 77,600 |
| (Being call money received on 14,400 shares) | | | |
| Share capital A/C | Dr | 6,000 | |
| Share premium A/C | Dr | 200 | |
| | To share allotment A/C. | | 680 |
| | To share first & final call A/C. | | 2,400 |
| | To share forfeited A/C. | | 3,120 |
| (Being forfeiture of 600 shares) | | | |
| Bank A/C | Dr | 2,700 | |
| Shares forfeited A/C | Dr | 300 | |
| | To share capital A/C. | | 3,000 |
| (Being reissue of 300 forfeited shares) | | | |
| Share Forfeited A/C | Dr | 1,020 | |
| | To Capital Reserve A/C. | | 1,020 |
| (Being profit on forfeiture and reissue of 150 forfeited shares transferred) | | | |

Working Notes :

1. Calculation of amount received on allotment :

| | Rs |
|---|-------------------|
| Total money due | 80,000 |
| Less Amount not paid by an applicant for 240 shares who was allotted only 200 shares | Rs. 800 |
| Less Extra money paid with application 40x3 | <u>120</u> |
| | <u>680</u> |
| | 79,320 |
| Less Amount received with application | <u>12,000</u> |
| | <u>67,320</u> |

2. Share premium has been debited only with Rs. 200 relating to A's shares. The premium money has not been received on these shares.

In case of B, the premium has been received, the share premium account has not been debited with the amount of premium on these 400 shares though they have been forfeited.

3. Share forfeited account represents the money received on forfeited shares excluding share premium. This can be verified as follows :

| | Rs. |
|---|--------------|
| A has paid @ Rs. 3 per share on an application for 240 shares | 720 |
| B has paid @ Rs. 6 per share on 400 shares | <u>2,400</u> |
| Total amount received. | <u>3,120</u> |

4. Amount received from A on shares forfeited (200 in all which has been reissued)

720

Amount received from B on shares forfeited (100 shares which have been reissued)

600

Total amount received on 300 shares which have been forfeited and reissued.

1320

less : loss on reissue

300

1020

14.7. SUMMARY :

When a shareholder fails to pay calls, the company can forfeit these shares, if empowered by its articles. Shares once forfeited become the property of the company and may be sold upon forfeiture, the original shareholder ceases to be a member and his name must be removed from the register of members. Sometimes if a shareholder is not able to pay the further calls and return his shares to the company for cancellation, it is called surrender of shares. Forfeited shares may be reissued by the company but if such shares are issued at a discount then the amount of discount should not exceed the actual amount received on forfeited shares. After reissued the balance in share forfeited is a capital profit and transferred to capital reserve account.

14.8. MODEL QUESTIONS :

1. What is meant by forfeiture of shares ?
2. Discuss the provisions of Indian companies act relating to share premium.
3. What are the conditions for reissue of shares at discount ?

14.9 EXERCISES :

1. Super max Ltd. invited applications for 20,000 of its Equity shares of Rs. 10/- each payable on application Rs. 5/- on allotment Rs.3/- and on call Rs. 2/-

Application were received for 15000 shares. The company allotted as follows :

| | |
|--------------------------------|-------|
| For 4,000 shares applications | Full |
| For 24,000 shares applications | 8,000 |
| For 2,000 shares applications | Nil |

Surplus money received on application will be adjusted towards allotment. A holder of 400 shares who was allotted on proratabasis, failed to pay allotment and call money.

Give Journal entries in the Books of the company and show the Balance sheet.

2. A limited company issued a prospectus inviting applications for 4,000 shares of Rs. 10 each at a premium of Rs. 2 per share payable as follows -

- On Application Rs. 2
- On Allotment Rs. 5 (including premium)
- On First call Rs. 3 and
- On Final call Rs. 2

Applications were received for 6,000 shares and allotment made pro-rata to the applicants of 4,800 shares. Money overpaid on applications was employed on account of sums due on allotment.

Sunil to whom 80 shares were allotted failed to pay allotment money and on his subsequent failure to pay the first call his shares were forfeited. Sridhar the holder of 120 shares failed to pay the two calls and his shares were forfeited after the second call. Of the forfeited shares 160 shares were sold to Kishore as fully paid for Rs. 9 per share, the whole of Sunil's shares being included.

Show journal and cash book entries.

3. Riddhima Co. Ltd. issued 1,60,000 shares of Rs. 10 each at a premium of Rs. 2 payable as follows :

On Application Rs. 2

On Allotment Rs. 5 (including premium)

On First call Rs. 2 and

On Final call Rs. 3

Applications were received for 1,20,000 shares and allotment was made in full.

The first call was made and the amount due there on was received except the amount on 4,000 shares. These 4,000 shares were forfeited and reissued at Rs. 7 each. Pass journal entries and prepare Balance sheet.

4. A limited company issued a prospectus inviting applications for 6,000 shares of Rs. 10 each at premium of Rs. 2 per share payable as follows :

On Application Rs. 2

On Allotment Rs. 5 (including premium)

On First call Rs. 3 and

On second call Rs. 2

Applications were received for 9,000 shares and allotments made pro-rata to the applicants for 7,200 shares, the remaining applications being refused. Money overpaid on application was employed on account of sums due on allotment.

X to whom 120 shares were allotted, failed to pay the allotment money and on his subsequent failure to pay the first call, his shares were forfeited. Y. the holder of 180 shares failed to pay the two calls, and his shares were forfeited after the second call had been made of the shares forfeited, 240 shares were sold to Z, credited as fully paid, for Rs. 9 per share, the whole of the X's shares being included.

Show journal and cash book entries and the Balance sheet.

5. Z & Co. Ltd. invited applications for 20,000 shares of Rs. 100 each at a discount of 5% payable as follows :

On application Rs. 25

On allotment Rs. 34 and

On first & final Call Rs. 36 (on call)

The applications received were for 18,000 shares and all these applications were accepted. All the money due were received except the first and final call on 400 shares which were forfeited. Of these 200 shares were reissued @ Rs. 90/- as fully paid. You are required to pass journal entries in the books of Z Ltd. and prepare cash book, and the Balance sheet.

6. Reddy Ltd. issued 1,00,000 equity shares of Rs. 100 each at a premium of Rs. 10 per share payable as follows :

On Application Rs. 20

On Allotment Rs. 40 (including premium)

On First call Rs. 30

On second call Rs. 20

A member holding 2,000 shares failed to pay II call money and in consequence the shares were forfeited. At a later date 1000 of these shares were reissued as fully paid for a consideration of Rs. 80 per share write up ledger accounts.

7. Give the journal entries for the following -

X Ltd, forfeited 30 shares of Rs 10/- each, on which they called up Rs. 7 each, on which Mr. X had paid application and allotment money of Rs. 5 per share, in total. Out of those forfeited shares 20 shares were reissued to Sagar as fully paid up for Rs. 6 share

8. Give Journal entries for the forfeiture and reissue of shares in the following cases :

- a) S Ltd. forfeited 10 shares of Rs. 10 each issued at 10 percent premium to Gopalam (Rs 9 (called up) on which he did not pay allotment (including premium) of Rs.3 and first call of Rs 2. out of these, 6 shares were reissued to Madhu as fully paid up for Rs. 8 per share. and one share to Karthik as fully paid up for Rs. 12 and two share to Romeo as fully paid up for Rs. 6. at different intervals of time.
- b) On 1 May 2008 the directors of limited company forfeited 400 shares of Rs. 20 each, Rs. 15 per share called up, on which Rs. 10 per share has been paid by A, the amount of the first call of Rs. 5 per share being unpaid. Ten days later, the directors re- issued the forfeited shares of B credited as Rs 15 per share paid up. For payment of Rs 10 per share.

9. On 1 April 2008, excel Ltd. offered 2,00,000 equity shares of Rs. 10 each for public subscription Rs. 4,80,000 was received along with the applications at the rate of Rs. 2 per share on 1st July 2008, the company allotted the shares proportionately among all the applicants simultaneously making an allotment call of Rs. 2 per share.

By 10 July 2008 all share holders, except an allottee of 1000 shares had paid the balance due on allotment. These shares were forfeited on 10 September 2008 the company made another call of Rs 2 per share on 30 September 2008 and by 10 October 2008 the amounts were received.

pass journal entries (including cash/ bank transactions) to record the above in the books of excel Ltd.

10. A Ltd. Company issued 4,000 shares of Rs. 10 each at a premium of Rs. 2 per share payable as follows :

On Application Rs. 2

On Allotment Rs. 5 (including premium)

On First call Rs. 3

On second and final call Rs. 2

Applications were received for 6,000 shares. Applications for 1200 shares were altogether rejected and to the applicants of 4,800 shares, allotment was made prorata. Money overpaid on application was adjusted on allotment.

Ram, to whom 160 shares were allotted, failed to pay the allotment money and on his subsequent failure to pay first call, his shares were forfeited show journal entries.

11. A Co. Ltd. offered to the public 40,000 equity shares of Rs. 100 each at a premium of Rs.10 per share. The payment was to be as follows :

On Application Rs. 20

On Allotment Rs. 40 (including premium)

On First call Rs. 25

On second and final call Rs. 25

Applications were received for 10,000 shares. Applications for 20,000 shares were rejected. Applicants for 30,000 shares were allotted 20,000 shares and remaining applications were accepted in full. The directors made both the calls. One shareholder holding 500 shares failed to pay the two calls and as a consequence his shares were forfeited. 400 of these shares were reissued as fully paid at Rs. 80 per share expenses of issue came to Rs. 10,000.

Prepare cash book, the journal and the Balance sheet on the basis of information given above.

12. Wye Ltd. was formed with an authorised capital of 4,00,000 equity shares of Rs. 10 each. On 1st July 2008 2,00,000 shares were issued as fully paid to the vendors for properties purchased.

On the same day the company offered 1,60,000 shares to the public. The issue was fully subscribed. The amount on these shares was payable as follows :

On Application Rs. 2.50 per share

On Allotment Rs. 2.50 per share

On First call Rs. 2.50 per share (due on 1st September)

On second call Rs. 2.50 per share (due on 1st December)

On the shares subscribed for by the public there had been paid on 30 June 2008 the following -

On 1,20,000 shares the full amount called

On 36,000 shares Rs 7.50 per share

On 1000 shares Rs 5.00 per share

On 3000 shares Rs 2.50 per share

On 30 June 2008 the directors forfeited the shares on which less than Rs. 7.50 had been paid. The calls in arrears on 36,000 shares were collected on 31st July 2008 together with the necessary interest. The forfeited shares were reissued on the same date at price of Rs. 8 per share You are required to pass the necessary journal and cashbook entries and show how the various items will appear in the company's Balance sheet as on 31 December 2008.

14.10 REFERENCE BOOKS :

1. Advanced Accountancy - M. C. Shukla & T.S. Grawal
2. Advanced Accountancy - R.L. Gupta & M. Radha - Swami
3. Advanced Accountancy - S.P. Jain & K.L. Narang
4. Advanced Accountancy - Dr. S.N. Maheswari
5. Financial Accounting - S.P. Jain & K.L. Narang
6. Advanced Accounting - K.R. Pall.

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Lesson - 15

DEBENTURES

OBJECTIVES:

After going through this lesson the student can know what are debentures? What are the differences between debentures and shares ? classification of debentures and their issue.

STRUCTURE:

- 15.1 Introduction
- 15.2 Definition
- 15.3 Distinction between share & Debenture
- 15.4 Classification of Debentures
- 15.5 Issue of debentures
- 15.6 Different terms of issue of Debentures
- 15.7 Summary
- 15.8 Model Questions
- 15.9 Exercises
- 15.10 Reference Books

15.1 INTRODUCTION:

Companies require money from time to time for its extension and development. To raise funds without increasing its share capital, the company may invite the public, to lend money for a fixed period at a declared rate of interest. These are known as debentures. Debenture is an instrument in writing given by a company acknowledging the liability for the total amount received as a result of issue of debentures and agreeing thereby to pay the money raised after the expiry of the stipulated period at a certain rate of interest per annum.

15.2 DEFINITION :

A debenture may be defined as a certificate issued by a company under its seal acknowledging a debt due by it to its holder.

The most essential characteristic of a debenture is the admission or record of indebtedness.

15.3 DISTINCTION BETWEEN SHARE AND DEBENTURE :

| | SHARE | | DEBENTURE |
|-----|---|-----|--|
| 1. | Shares are a part of the capital of the company | 1. | Debentures constitute loan to the company |
| 2. | Shareholders are owners of the company | 2. | Debenture holders are creditors of the company |
| 3. | Shareholder enjoys the voting right, and right to attend general meetings | 3. | These rights are not available to the debenture holders. |
| 4. | No fixed payment on shares | 4. | Fixed interest is paid on debentures |
| 5. | Shareholders are the last persons to receive money at the time of insolvency or winding up. | 5. | Debenture holders have priority over shareholder for payment of principal amount. |
| 6. | Shares have no charge on the assets of the company | 6. | Debentures usually have a charge on the assets of the company. |
| 7. | Dividends on shares are paid only when the company has earned profits. | 7. | Interest on debentures is payable whether there are profits or not. |
| 8. | Dividend on shares can never be paid out of capital | 8. | Interest on debentures is a debt and may be paid even out of capital. |
| 9. | No fixed dividend, it fluctuates from year to year | 9. | Debentures carry a fixed rate of interest. |
| 10. | Shareholder can exercise control over the management of the company | 10. | Debenture holders are not in a position to exercise any control on the affairs of the company. |
| 11. | Shares cannot be purchased or redeemed by the company. | 11. | Debentures can be purchased and redeemed by the company. |

15.4 CLASSIFICATION OF DEBENTURES :

A company may issue various kinds of debentures with different rights as given below -

4.1 From the point of view of security :

From security point of view debentures may be naked or mortgage debentures.

- a. **Naked debentures** : Naked debentures are those which do not carry any charge on the assets of the company. The holders of such debentures are not given any security as to the payment of interest and repayment of capital.
- b. **Mortgage debentures** : Debentures which are secured by a mortgage or charge on the whole or a part of the assets of the company are known as mortgage debentures.

4.2. From the point of view of Redemption :

Form this point of view the debentures may be Redeemable or irredeemable debentures.

4.2.1 Redeemable debentures :

Redeemable debentures provide for the payment of the principal amount on the expiry of a certain period. Redeemable debentures can be reissued even after they have been redeemed until they have been cancelled.

4.2.2. Irredeemable debentures :

In the case of irredeemable or perpetual debentures the company does not give any undertaking of repaying the money borrowed by issuing debentures. Company may repay debentures at any time it may choose to do so, but the creditors cannot compel the company to repay them at any certain time. They shall, however, be repaid when the company goes into liquidation or makes a default in the payment of interest.

4.3. From the point of view of Transferability :

From this view point debentures may be Bearer or Registered debentures.

4.3.1 Registered debentures :

Registered debentures are made out in the name of a particular person, who is registered as a debenture - holder in the books of the company. The names of the debenture-holders are recorded in the companie's register of debenture holders. They are transferable in the same way as shares or in accordance with the conditions endorsed on their back.

4.3.2 Bearer debentures :

Bearer debentures are treated as negotiable instruments and are transferable by delivery alone. The name of the holders of such debentures are not required to be registered in the register of debenture holders.

4.4. From priority point of view :

From this point of view the debentures may be first or second debentures.

4.4.1 First Debentures :

First debentures are those debentures which are paid first before any payment is made to another type of debentures.

4.4.2 Second Debentures :

Second debentures are those debentures which are paid after making the payment of first debentures.

4.5. From conversion point of view :

From this point of view debentures may be convertible or non - convertible.

4.5.1. Convertible Debentures :

Convertible debentures given an option to debenture holders to convert them into equity or preference shares at a stated rate of exchange after a certain period.

4.5.2. Non - convertible Debentures :

Non - convertible debentures are not convertible into equity or preference shares afterwards.

15.5 ISSUE OF DEBENTURES :

The entries for issue of debentures are made on the same pattern as for issue of shares. The topic issue of debentures can be studied from different angles which are given below :

5.1. From consideration point of view :

From this point of view, debenture can be issued either for consideration in cash or for consideration other than cash or as collateral security. The accounting treatment is discussed as under :

5.1.1. For consideration in cash :

Debentures can be issued for consideration in cash either at par or at discount or at premium. The journal entry will be :

| | |
|---------------------------------|---|
| Bank Account | Dr |
| Discount on issue of shares A/C | Dr (If issued at discount) |
| | To Debentures A/C |
| | To Debenture premium A/C (If issued at premium) |

5.1.2. For consideration other than cash :

When debentures are issued to the vendors in lieu of purchase consideration, that is known as issue of debentures for consideration other than cash. The journal entry will be :

i. For purchase of assets

Asset A/C Dr
 To vendor A/C.

ii. For issuing debentures for payment of purchase consideration .

Vendor A/C Dr
 To Debentures A/C

5.1.3. As collateral security :

When debentures are issued as subsidiary or secondary security in addition to the principal security against a loan or a bank overdraft. Such an issue of debentures is known as issue of debentures as collateral security. The basic objective of such an issue is that if the company does not repay the loan and the interest and the main security is not sufficient, the bank will be entitled to sell the debentures in the market or the bank may keep the debentures with it. If the company repays the loan, the bank will return the debentures issued as collateral security to the company. Debentures issued as collateral security can be dealt in two ways -

First Method : No entry need to be passed in the books of the company when debentures are issued as a collateral security. The fact of such an issue of debentures must be clearly mentioned in the Balance sheet by way of a note under the loan and debenture.

Second Method : The following journal entry can be passed for issue of debentures as collateral security.

Debenture suspense A/C Dr
 To Debentures A/C

As and when the loan is paid, the entry passed above is reversed. In this method entries in the balance sheet will be shown as under :

Debentures and loan from bank will be shown on the liabilities side where as Debenture suspense account will be shown on the assets side of the Balance sheet.

5.2. From price point of view :

From this point of view the debentures can be issued either at par or at discount or at premium. When the amount collected on debentures issued is equal to the face value as issue of a debenture of Rs. 100 for Rs. 100, it is said to be issued at par. When the amount collected is more than the face value of debenture as issue of debenture of Rs. 100 at Rs. 105, it is said to be issued at premium. Debentures is said to be issued at a discount when the amount collected is less than the face value as issue of Rs. 100 debenture for Rs. 95.

The entries will be as under :

1. When debentures are issued at par :

Bank A/C Dr
 To Debentures A/C

2. When debentures are issued at premium

Bank A/C Dr
 To Debentures A/C
 To Debenture premium A/C

3. When debentures are issued at discount .

Bank Account Dr
 Debenture Discount A/C Dr
 To Debentures A/C.

Illustration 1 :

Give journal entries in the books of a company

Company purchased assets of Rs. 35,00,000 and took over the liabilities of Rs. 3,00,000. It agreed to pay the purchase price, Rs. 33,00,000 by issuing debentures of Rs. 100 each at a premium of 10%

Solution :

JOURNAL

| Date | Particulars | L.f | Dr Amount Rs. | Cr Amount Rs. |
|------|---|-----|---------------------|---------------------|
| | Sundry Assets A/C Dr | | 35,00,000 | |
| | Good will A/C (Bal. fig) Dr | | 1,00,000 | |
| | To liabilities A/C | | | 3,00,000 |
| | To vendor A/C | | | 33,00,000 |
| | (Being the purchase of assets and liabilities) | | | |

| | | | | |
|--|---|--|-----------|-----------|
| | Vendor A/C Dr | | 33,00,000 | |
| | To Debentures A/C | | | 30,00,000 |
| | To premium on issue of Debentures A/C | | | 3,00,000 |
| | (Being issue of debentures at a premium of 10%) | | | |

Illustration 2 :

A ltd. took over assets of Rs. 28,00,000 and liabilities of Rs. 2,00,000 of B ltd. for a sum of Rs. 27,00,000. Pass the necessary journal entries if the purchase consideration is satisfied by A ltd. in the form of 6% percent debentures of Rs. 100 each.

- issue at par
- issued at a discount of 10%
- issued at a premium of 35 percent.

Solution :**JOURNAL**

| Date | Particulars | L.f | Dr Amount Rs. | Cr Amount Rs. |
|------|--|-----|---------------|---------------|
| | Sundry Assets A/C Dr | | 28,00,000 | |
| | Good will A/C Dr (Rs.27,00,000 - Rs. 26,00,000) | | 1,00,000 | |
| | To sundry liabilities A/C | | | 2,00,000 |
| | To B Ltd | | | 27,00,000 |
| | (Being assets and liabilities of A ltd taken over) | | | |
| a. | B Ltd. A/C Dr | | 27,00,000 | |
| | To 6 % Debentures A/C | | | 27,00,000 |
| | (Being issue of debentures at par) | | | |

| | | | |
|----|---|-----------|-----------|
| b. | B Ltd. A/C Dr | 27,00,000 | |
| | Discount on issue of Debentures A/C Dr | 3,00,000 | |
| | To 6 % Debentures A/C | | 30,00,000 |
| | (Being issue of debentures at 10% discount) | | |
| c. | B Ltd. A/C Dr | 27,00,000 | |
| | To 6 % Debentures A/C Dr | | 15,00,000 |
| | To premium on issue of debentures A/C | | 7,00,000 |
| | (Being issue of 15,000 debentures at a premium of 35%) | | |

Illustration 3 :

In April 1508 sardar Ltd. offered for subscription of 10,000 7% percent debentures of Rs.1,000 each at the issue price of Rs. 94% payable Rs. 50 per debenture on application, Rs. 500 on allotment and the balance on 1st Aug, 1508. Interest was payable half yearly on 30th september and 31st march. The first coupon, payable on 30th sep. 1508, being for 2 percent. The issue was fully taken up.

Journalise the transactions.

Solution :**JOURNAL OF A LTD.**

| Date | Particulars | L.f | Dr Amount Rs. | Cr Amount Rs. |
|----------|--|-----|---------------------|---------------------|
| 1508 Apr | Bank A/C Dr | | 5,00,000 | |
| | To 7% Debenture Application A/C | | | 5,00,000 |
| | (Being application money received on 10,000 debentures @ Rs. 50 each) | | | |
| | 7% Debenture Application A/C Dr | | 5,00,000 | |
| | To 7 % Debentures A/C | | | 5,00,000 |
| | (Being transfer of application money to 7% Debentures Account) | | | |

| | | | |
|--------|--|-----------|-----------|
| | 7% Debenture Allotment A/C Dr | 50,00,000 | |
| | Discount on issue of Deb. A/C Dr | 6,00,000 | |
| | To 7 % debentures A/C | | 56,00,000 |
| | (Being money due on allotment) | | |
| | Bank A/C Dr | 50,00,000 | |
| | To 7 % Debenture allotment A/C | | 50,00,000 |
| | (Receipt of allotment money) | | |
| Aug1 | 7% Debenture First & Final call A/C Dr | 39,00,000 | |
| | To 7 % debentures A/C | | 39,00,000 |
| | (Being first and final call due on 10,000 debentures @ Rs. 390 per debenture) | | |
| | Bank A/C Dr | 39,00,000 | |
| | To 7 % Debenture First & Final call A/C | | 39,00,000 |
| | (Being receipt of first & final call money) | | |
| Sep1 | Debenture Interest A/C Dr | 2,00,000 | |
| | To bank A/C | | 2,00,000 |
| | (Interest paid on debentures @ 2% on Rs. 1,00,00,000) | | |
| Mar 31 | Debenture Interest A/C Dr | 3,50,000 | |
| | To Bank A/C | | 3,50,000 |
| | (Payment of debenture interest for half year ended 31st Dec. 1508) | | |
| Mar 31 | Profit and loss A/C Dr | 5,50,000 | |
| | To Debenture Interest A/C | | 5,50,000 |
| | (Being transfer of debenture interest to profit & loss account) | | |

The money was received on debentures on different dates. Instead of calculating interest on different amounts received on different dates, the question provides for a flat rate of 2 percent on the entire amount for the first six months.

5.3. From the redemption point of view :

When debentures are issued with certain conditions at which redemption can be made, there are five cases which are given as follows :

- a. Issued at par, repayable at par.
- b. Issued at premium, repayable at par.
- c. Issued at discount , repayable at par
- d. Issued at par, repayable at premium
- e. Issued at discount , repayable at premium

The journal entries to be passed at the time of issue and redemption of debentures in the five cases are as follows :

- a. When debentures are issued at par and repayable at par :

- i. On issue of Debentures :

Bank A/C Dr
To Debentures A/C

- ii. On Redemption of debentures :

Debentures A/C Dr
To Bank A/C

- b. When debentures are issued at premium and repayable at par :

- i. On issue of debentures, the entry will be :

Bank A/C Dr
To Debentures A/C
To premium on the issue of Debentures A/C

- ii. On Redemption of debentures :

Debentures A/C Dr
To Bank A/C

c. When debentures are issued at discount and repayable at par :

i. On issue of debentures :

Bank A/C Dr

Discount on issue of Debentures A/C Dr

To debentures A/C

ii. On redemption of debentures :

Debentures A/C Dr

To Bank A/C

d. When debentures are issued at par and repayable at premium :

i. On issue of debentures :

Bank A/C Dr

Loss on issue of Debentures A/C Dr

To debentures A/C

To premium on redemption of debentures A/C

ii. On redemption of debentures :

Debentures A/C Dr

Premium on the redemption of debentures A/C Dr

To Bank A/C

e. When debentures are issued at a discount but repayable at a premium :

i. On issue of debentures :

Bank A/C Dr

Loss on issue of Debentures A/C Dr

(For discount & premium on redemption)

To debentures A/C

To premium on redemption of debentures A/C

ii. On redemption of debentures :

Debentures A/C Dr

Premium on the redemption of debentures A/C Dr

To Bank A/C

Loss on issue of Debentures and Discount of issue of Debentures are capital losses and will be shown on the assets side of the Balance sheet under the head Miscellaneous expenditure until these are written off. These accounts are to be written off either against profit and loss account or securities premium account.

Premium on debentures account is a capital profit and is shown on the liabilities side under the head reserve and surplus.

Illustration 4 :

Journalise the following transactions at the time of issue of debentures :

- Debentures issued at Rs. 95, repayable at Rs. 100
- Debentures issued at Rs. 95, repayable at Rs. 105
- Debentures issued at Rs. 100, repayable at Rs. 100
- Debentures issued at Rs. 105, repayable at Rs. 100

The face value of debenture is Rs. 100.

Pass the journal entries for recording the above transactions.

Solution :

JOURNAL ENTRIES

| Date | Particulars | L.f | Dr Amount Rs. | Cr Amount Rs. |
|------|--|-----|---------------------|---------------------|
| a. | At the time of issue Bank A/C Dr Discount on issue of debentures A/C Dr To debentures A/C (For issue of Debentures of Rs. 100 at 95 at a discount of 5%) | | 95 5 | 100 |
| b. | Bank A/C Dr Loss on issue of debentures A/C Dr To debentures A/C To premium on redemption of debentures A/C (For issue of debentures of Rs. 100 at a discount of 5% and repayable at premium of 5%) | | 95 5 | 100 5 |

| | | | | |
|----|--|----|-----|-----|
| c. | Bank A/C | Dr | 100 | |
| | Loss on issue of debentures A/C | Dr | 5 | |
| | To debentures A/C | | | 100 |
| | To premium on redemption of debentures A/C | | | 5 |
| | (For issue of debentures of Rs. 100 repayable at premium of 5%) | | | |
| d. | Bank A/C | Dr | 105 | |
| | To Debenture A/C | | | 100 |
| | To premium on issue of debentures A/C | | | 5 |
| | (For issue of debentures of Rs. 100 at premium of 5% and repayable at par) | | | |

15.7. SUMMARY :

To raise funds without increasing share capital, sometimes the companies issue debentures to the public. Debentures are long term loans also known as loan capital. From the point of view of security debentures may be naked or Mortgage. From the point of view of redemption, debentures may be Redeemable or irredeemable debentures. From the point of view of transferability debentures may be bearer or Registered debentures. From the priority point of view debentures may be first or second debentures. From conversion point of view debentures may be convertible or non - convertible.

Issue of debentures can be studied from different angles i.e

1. From consideration point of view
2. From price point of view
3. From the redemption point of view

15.8 . MODEL QUESTIONS :

1. What do you understand by a debenture ? Describe briefly the different types of debentures.
2. Distinguish between a debenture and a share
3. Give different considerations for which debentures may be issued.

15.9 EXERCISES :

1. A limited company issued 1500 debenture bonds of Rs. 100 each at a premium of 10 percent repayable at par at the end of the 10th year. The debenture Bonds were payable 25 percent on application 35 percent on allotment (including the premium) and the balance on first and final call. All the moneys were received by the company in due course.

You are asked to journalise the above transactions in the books of the company.

2. A limited company issued Rs. 2,00,000 debentures, which were issued as follows :

| | Rs |
|--|------------------|
| 1. To sundry persons for cash at 90 percent | 1,00,000 nominal |
| 2. To a creditor for Rs. 15,000 capital expenditure in satisfaction as collateral security | 50,000 nominal |
| 3. To bankers as collateral security | 50,000 nominal |

The issue (1) and (2) are redeemable at the end of 10 years at par. How should the debentures be dealt with in preparation of the balance sheet of the company ?

3. Anil Ltd. issued Rs. 2,00,000 10 percent debentures on 1st January, 1508 at discount of 5 percent repayable in annual drawings of Rs. 50,000 commencing from 31st December following. The company's year ends on 31st December.

Journalise the above transactions for four years ending 31st December, 1511 assuming the company decided to write off debenture discount account during the life of the debentures.

4. A company issues Rs. 3,00,000 10 percent debentures on 1st April, 1508 at a discount of 5 percent repayable in annual drawing of Rs. 75,000 each on 31st March every year. Calculate the amount of discount to be written off each year. The financial year of the company ends on 31st December each year.
5. a) A limited co. issued 4,000 10 % debentures of Rs. 100 each at Rs. 95 on 1-1-08. As per the terms of issue, debentures are to be redeemed at the end of 5 years.
 b) A company purchases assets of Rs. 5,15,000 and liabilities of Rs. 1,00,000 for a sum of Rs. 4,00,000. The purchase consideration is satisfied by the issue of 9% debentures of Rs. 100 each at par. journalise.
 c) A company issued 40,000 10 % debentures of Rs. 100 each at a discount of 5% repayable after 10 years at a premium of 5 % pass necessary journal entries.
6. XYZ Ltd. issued at par Rs. 60 lakhs, 15% non - convertible debentures of Rs. 1,000 each, payable 15% on application, 15% on allotment, 30 % on first call and the balance after three months from the date of first call. Except the allotment money on 400

debentures and call money on 600 debentures which were in arrears the debenture money was duly received. The company also received Rs. 14,000 towards interest on late payment of final call money on certain debentures.

Pass Journal entries to reflect the above transactions.

7. A company purchased assets of the book value of Rs. 99,000 from another firm. It was agreed that the purchase consideration be paid by issuing 11% Debentures of Rs. 100 each. Assume debentures have been issued

- i) at par
- ii) at discount of 10% and
- iii) at a premium of 10% .

Pass necessary journal entries.

8. Make journal entries for the following transactions :

X Ltd purchased plant and machinery for Rs. 2,00,000 payable as to Rs. 65,000 in cash and the balance by an issue of 16% debentures of Rs. 1,000 each at a discount of 10percent.

9. Kamala. Ltd. Purchased building for Rs. 2,15,000. Half the payment was made in cash and the remaining half by issue of 12% debentures at a premium of 10% pass the necessary journal entries.

10. A company took a loan of Rs. 10,00,000 from Canara Bank and issued 15% debentures of Rs. 15,00,000 of Rs. 100 each as a collateral security. Explain how will you deal with the issue of debentures in the books of the company.

11. Raju Ltd. acquired assets of Rs. 2,50,000 and took over liabilities amounting to Rs.25,000 at an agreed value of Rs 2,00,000 of Rani Ltd. issued 9% Debentures at a discount of 15% in full satisfaction of the purchase price. Show the entries in the books of Raju Ltd.

12. On 1st march 1508, a limited company allotted 100, 13% debentures of Rs, 1000 each, at a discount of 5 percent, payable Rs. 500 on application, Rs. 150 on allotment, Rs.150 on 1st June and balance a month later. All money were duly received

Give journal and cash book (Bank column) entries to record these transactions.

13. The quest company Ltd. took over assets of Rs. 3,50,000 and liabilities of Rs. 30,000 of Rajesh company for the purchase consideration of Rs. 3,30,000. The quest company Ltd. paid the purchase consideration by issuing debentures of Rs. 100 each at 10% premium. Give journal entries in the books of the quest company Ltd.

14. Give journal entries

A limited company bought a building for Rs.9,00,000 and the consideration was paid by issuing debentures at a discount of 10%.

15. Rani industries Ltd. issued 1,000 12% debentures of Rs. 100 each, at a premium of Rs.10 per debenture payable as follows :

On application Rs. 25

On allotment Rs. 45 (including premium)

On call Rs. 40

The debentures were fully subscribed and the money was duly received.

Pass the necessary cash book and journal entries in the books of the company.

15.10 REFERENCE BOOKS :

1. Advanced Accountancy - M. C. Shukla & T.S. Grawal
2. Advanced Accountancy - R.L. Gupta & M. Radha - Swami
3. Advanced Accountancy - S.P. Jain & K.L. Narang
4. Advanced Accountancy - Dr. S.N. Maheswari
5. Financial Accounting - S.P. Jain & K.L. Narang
6. Advanced Accounting - K.R. Pall.

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