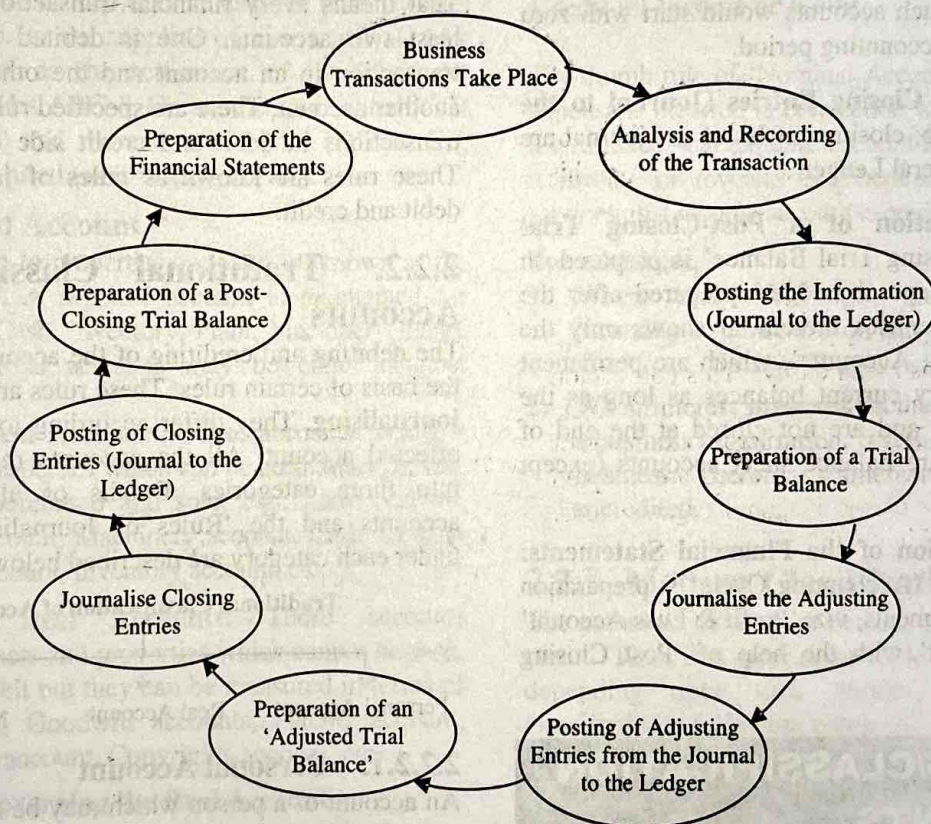


# Module 2

## Accounting Cycle

### 2.1. ACCOUNTING CYCLE

The accounting process or cycle starts with the identification and measurement of the financial transactions. It is followed by the recording of the transactions and subsequent steps involved in the 'Accounting Cycle' and ultimately culminates in the preparation of the final accounts in the form of 'Financial Statements', viz. 'Profit & Loss Account' and 'Balance Sheet'. Various steps involved in an 'Accounting Cycle' are depicted in graphic form as under, which is followed by their description in the subsequent points:



#### Steps Involved in Accounting Process

Steps involved in an accounting process are as follows:

**Step 1: Business Transactions Take Place:** Source documents, viz. receipts, bills, vouchers, invoices, bank deposit slip, etc. are created.

**Step 2: Analysis and Recording of the Transaction:** Information from the source documents is entered in the primary books of account (i.e., journal or subsidiary books).

**Step 3: Posting the Information (Journal to the Ledger):** Entries made in the journal/subsidiary books are posted/recorded into the 'General Ledger'.

(A general ledger is a complete record of financial transactions over the life of a company. It contains

account information, which is required to prepare financial statements, and includes accounts for assets, liabilities, owner's equity, revenues and expenses).

**Step 4: Preparation of a Trial Balance:** 'Trial Balance' is a bookkeeping statement in which the balances of all the accounts of 'General Ledger' (assets, liabilities, owner's equity, revenue and expense accounts) are compiled into debit and credit columns. Normally, a trial balance is prepared periodically, usually when the reporting period ends.

**Step 5: Journalise the Adjusting Entries:** For recording the 'Adjusting Entries' in the 'Journal' there are no source documents. Adjusting entries are usually made on the last day of an accounting period (year, quarter, or month) so



that the financial statements truly reflect the revenues that have been earned and the expenses that were incurred during the accounting period.

**Step 6: Posting of Adjusting Entries from the Journal to the Ledger:** The 'Adjusting Entries' recorded in the 'Journal' are posted into the 'General Ledger'.

**Step 7: Preparation of an 'Adjusted Trial Balance':** The 'Adjusted Trial Balance' is the trial balance prepared after the 'Adjusting Entries' have been posted in the 'General Ledger'. This is the second trial balance prepared in the accounting cycle. The value of some items in the 'Unadjusted Trial Balance' may obviously undergo changes in the 'Adjusted Trial Balance'.

**Step 8: Journalise Closing Entries:** This step involves closing of all the temporary (nominal) accounts by transferring the amount to the respective 'Permanent Accounts' and bringing the balance in such temporary accounts to 'Nil'. Such accounts would start with zero balance in the next accounting period.

**Step 9: Posting of Closing Entries (Journal to the Ledger):** In this step, closing entries of the journal are posted into the 'General Ledger'.

**Step 10: Preparation of a Post-Closing Trial Balance:** 'Post Closing Trial Balance' is prepared on the basis of the 'General Ledger' prepared after the posting of closing entries therein. It shows only the items of 'Permanent Accounts', which are permanent in nature (they carry current balances as long as the business continues) and are not closed at the end of the period. These are balance sheet accounts (except for withdrawals).

**Step 11: Preparation of the Financial Statements:** The last step of the 'Accounting Cycle' is preparation of the financial statements, viz. 'Profit & Loss Account' and 'Balance Sheet' with the help of 'Post Closing Trial Balance'.

## 2.2. TYPES/CLASSIFICATION OF ACCOUNTS

A record of all business related transactions in a concise and specific manner under specified headings is known as **account**. Only those business transactions which can be represented in monetary terms are recorded in accounts. Besides this, accounts are responsible to reflect the effects of these business transactions by posting them under relevant heads. Generally, accounts can be classified on the basis of following grounds:

- 1) **Traditional Classification:** It classifies the accounts into Personal, Real and Nominal Accounts.
- 2) **Modern Classification:** It classifies the accounts on the basis of Accounting Equation.

### 2.2.1. Rules of Debit & Credit

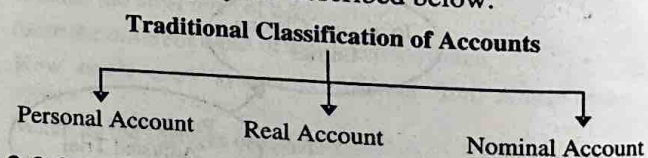
Accounting transactions has two aspects, the 'debit' and a 'credit'. It is used in the accounting for showing and recording the effect of every transaction in monetary terms. Every business should record their each transaction in debit and credit column with equal value. The rules of debit and credit are followed to record transaction entries in journal.

**Debit** refers to receiving money and **Credit** refers to the giving money.

Debit shows the rises in value of the assets and expenses and reduction in the value of income, liabilities and equity. Credit shows the rises value of the liabilities, equity and income and reduction in the value of assets and expenses. Hence, both debits and credits are the important elements of the accounting system. There are dual aspects of all the financial transactions. That means every financial transactions deals with at least two accounts. One is debited of the financial transaction in an account and the other is credited in another account. There are specified rules for posting of transactions in debit and credit side of the accounts. These rules are known as **rules of journalising** i.e., debit and credit.

### 2.2.2. Traditional Classification of Accounts

The debiting and crediting of the accounts are done on the basis of certain rules. These rules are called **rules of journalising**. They differ according to the type of the effected account. All the accounts may be classified into three categories. Details of all categories of accounts and the 'Rules of Journalising' applicable under each category are described below:



#### 2.2.2.1. Personal Account

An account of a person which may be a natural person, an artificial person or representative group of persons is referred as 'Personal Account'. Examples of categories of personal account:

- 1) **A Natural Person/Individual:** This account represents living being. For example, Ram, Shyam, Sohan, or Mohan,
- 2) **An Artificial or Legal Person/Entity:** This account represents non-living being. For example, a business firm, company, organisation such as bank, FI, Government Department,
- 3) **A Representative/Group of Persons:** This account represents a person or thing that represents another or others. For example, debtors, creditors, borrowers, lenders, etc.



**Thumb Rule Governing the Personal Accounts**  
**Debit the Receiver,**  
**Credit the Giver.**

Thumb rule governing a 'Personal Account' is very simple. Whenever a benefit is received by a person (natural, artificial/legal, or representative/group of persons), the account of that person is debited by the amount of the benefit received. Conversely, when a benefit is given by a person, his account is credited by the amount of benefit given.

**For examples,**

- 1) If an amount of ₹5,000 is given to Mr. John (who is a natural person), by M/s Peter & Co. (who is an artificial/legal person), John's account would be debited by the said amount (₹5,000), as John is the receiver. Account of M/s Peter & Co. would be credited by ₹5,000 as it is the giver.
- 2) If an amount of ₹10,000 in cash is paid by M/s ABC & Co. to its supplier of raw material, M/s XYZ & Co. as the settlement of its debts, the account of M/s ABC & Co. would be credited (as it is the giver) and the account of M/s XYZ & Co. would be debited (as it is the receiver).

**2.2.2.2. Real Account**

Accounts relating to properties or assets are known as the 'Real Accounts'. A separate account is maintained for each asset e.g., Cash, Inventory, Plant, Machinery, Land, Building, etc. Real accounts may be either tangible or intangible:

- 1) **Tangible Real Accounts:** These accounts represent assets and properties which can be seen, touched, felt, measured, purchased and sold, e.g., Land account, Building account, Machinery account, Cash account, Furniture account, Inventory account, etc.
- 2) **Intangible Real Accounts:** These accounts represent assets and properties which cannot be seen, touched or felt but they can be measured in terms of money. e.g., Goodwill accounts, Patents account, Trademarks account, Copyrights account, etc.

**Thumb Rule Governing the Real Accounts**  
**Debit What Comes In,**  
**Credit What Goes Out.**

The thumb rule governing 'Real Account' states that whenever some asset is added into the business by way of its purchase or otherwise, the account of that asset is debited. On the other hand, whenever some asset goes out of the business through its sales or otherwise, the account of that asset is credited.

**For examples,**

- 1) If a piece of land (fixed asset) is purchased for an amount of ₹8,00,000 for the business, the 'Land Account' would be debited by the amount paid for its acquisition, as land is coming into the business. 'Cash Account' would be credited, as it is going out of the business.

- 2) If a cash investment of ₹20,000 is made in the business, the 'Cash Account' would be debited by the amount of cash (as cash is coming in). The other impacted account would be the 'Capital Account', which would be credited.

**2.2.2.3. Nominal Account**

Accounts relating to the income, expenses, gains and losses are known as 'Nominal Accounts'. These accounts are also known as 'Fictitious Accounts' as they do not represent any tangible asset. A separate account is maintained for each head or expense or loss and gain or income. Wages account, rent account, commission account, interest received account, etc. are some examples of nominal account.

**Thumb Rule Governing Nominal Accounts**  
**Debit all Expenses or Losses,**  
**Credit all Income or Gains.**

The thumb rule of 'Nominal Account' states that if some expense is incurred in connection with services availed or losses made, that expense account is debited. Conversely, if income or revenue is generated by extending some services, that income account is credited.

**For examples,**

- 1) When salary or wages are paid, it involves incurring expenditure on the part of the business. Therefore, 'Salary / Wages Account' is debited.
- 2) When interest is earned on the investment made by a business organisation, revenue is generated by the business. Therefore, 'Interest Received Account' is credited.

**2.2.3. Modern Classification of Accounts**

The nature of an account decides the rule for debit and credit. Thus, it is quite essential to classify the accounts depending upon their nature. The accounts are classified into following types:

Such classification is based upon the accounting equation. An accounting equation states that debits and credits must always be equal or in other words the aggregate of assets of a business must always be equal to the aggregate of its liabilities and capital.

The representation of such relationship between the assets and liabilities in equation form is known as **Accounting Equation**. The accounting equation can be represented as under:

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

$$\text{Assets} = \text{Liabilities} + \text{Owner's Equity} + \text{Revenue}$$

$$\text{Or, Assets} + \text{Expenses} = \text{Liabilities} + \text{Owner's Equity} + \text{Revenues}$$

$$\text{Or, Assets} = \text{Liabilities} + \text{Owner's Equity} + \text{Revenues} - \text{Expenses}$$



The rules for debit and credit for the above types of accounts are as follows:

Types of Accounts	Rules for Debit	Rules for Credit
1) For Assets Accounts	Debit the increase	Credit the decrease
2) For Liabilities Accounts	Debit the decrease	Credit the increase
3) For Capital Accounts	Debit the decrease	Credit the increase
4) For Revenue Accounts	Debit the decrease	Credit the increase
5) For Expenses Accounts	Debit the increase	Credit the decrease

Therefore, there can be following types of transactions:

- 1) Transactions relating to assets (Assets Accounts).
- 2) Transactions relating to liabilities (Liabilities Accounts).
- 3) Transactions relating to capital (Owner Equity/Capital Accounts).
- 4) Transactions relating to revenue (Revenue Accounts).
- 5) Transactions relating to expenses (Expenses Accounts).

**Example 1:** Classify the following accounts into Personal, Real and Nominal Accounts.

- i) Drawing A/c
- ii) Capital A/c
- iii) Salary A/c
- iv) Salary Outstanding A/c
- v) Bad Debt A/c
- vi) Cash A/c
- vii) Goodwill A/c

**Solution:**

Personal Accounts	Real Accounts	Nominal Accounts
Drawing A/c	Cash A/c	Salary A/c
Capital A/c	Goodwill A/c	Bad Debt A/c
Salary Outstanding A/c		

## 2.3. JOURNAL

### 2.3.1. Meaning and Definition of Journal

The term 'Journal', from old French and Latin origins, suggests daily activity (jour is French word for day). Personal diaries and newspapers are also sometimes called **journals** for the same reason. In bookkeeping and accounting, 'Journal' is a book for recording transactions as and when they occur.

Recording of this transaction is called as **journal entry**. Entering transactions into a journal is considered the first step in the accounting cycle. That is why the 'Journal' is also called the book of **original or prime entry**. The process of recording the business transaction (journal entry) is termed as **journalizing**.

According to **Eric. L. Kohler**, "The journal is a book of original entry in which are recorded transactions not provided for in specialised journals."

### 2.3.2. Proforma of Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(1)	(2)	(3)	(4)	(5)

- 1) **Date:** In the first column of the proforma, date of the transaction is entered.
- 2) **Particulars:** Second column of the proforma is meant for entering the names of the two 'Heads of Account', influenced by a transaction.
- 3) **Ledger Folio:** In the third column of the proforma, the page number of the ledger, on which the particular account appears in that book, is entered.
- 4) **Amount (Debit):** In column number four the amount to be debited is indicated.
- 5) **Amount (Credit):** In column number five the amount to be credited is indicated.

The fundamental principle to be remembered all the time is that '**left hand side is debit**' and the '**right hand side is credit**'. Debit (abbreviated form Dr.) means entering an amount of transaction on the left side of the concerned account and credit (abbreviated form Cr.) means entering an amount of transaction on the right side of the concerned account. Both debit and credit may indicate either increase or decrease, depending upon the nature of an account.

### 2.3.3. Examples of Journal Entries

A few examples of 'Journal' entries, furnished in the following paragraphs, would facilitate a better understanding of the concept:

- 1) **Started Business with a Capital of ₹1,00,000:** The two 'Heads of Account' involved in this transaction are:

- i) Cash Account, and
- ii) Capital Account.

The entry would be shown in the 'Journal' as following:

Cash	A/c Dr.	1,00,000	
To Capital A/c (Being commencement of business)			1,00,000

- 2) **Purchased Goods from Mr. Shyam for Cash ₹50,000/Cash Purchases ₹50,000:** The two 'Heads of Account' involved in this transaction are:

- i) Goods (Purchase) Account, and
- ii) Cash Account.

The entry would be shown in the 'Journal' as following:

Purchases A/c	Dr.	50,000	
To Cash A/c (Being goods purchased for cash)			50,000



- 3) **Purchased Goods of ₹50,000 from Mr. Somit on Credit:** The two 'Heads of Account' involved in this transactions are:

- Purchases Account, and
- Mr. Somit Account.

The entry would be shown in the 'Journal' as following:

Purchases A/c	Dr.	50,000	
To Mr. Somit A/c			50,000
(Being goods purchased on credit)			

- 4) **Goods of ₹1,000 Returned to Mr. Tarun:** The two 'Heads of Account' involved in this transaction are:

- Mr. Tarun (Supplier) Account, and
- Purchase Return/Return Outward Account.

The entry would be shown in the 'Journal' as following:

Mr. Tarun A/c	Dr.	1,000	
To Purchase Return A/c			1,000
(Being goods returned to Mr. Tarun)			

- 5) **Goods Sold to Mr. Shyam for Cash ₹40,000/Cash Sales of ₹40,000:** Two 'Heads of Account' involved in this transaction are:

- 'Sales Account' and
- 'Cash Account'.

The entry would be shown in the 'Journal' as following:

Cash A/c	Dr.	40,000	
To Sales A/c			40,000
(Being goods sold for cash)			

- 6) **Sale of ₹40,000 Goods to Mr. Varun on Credit:** Two 'Heads of Account' involved in this transaction are:

- Mr. Varun Account and
- Sales Account.

The entry would be shown in the 'Journal' as following:

Mr. Varun A/c	Dr.	40,000	
To Sales A/c			40,000
(Being goods sold on credit)			

- 7) **Goods of ₹1,000 Returned by Mr. Tarun:** Two 'Heads of Account' involved in this transaction are:

- Mr. Tarun Account and
- Sales Return Account (Return Inwards).

The entry would be shown in the 'Journal' as following:

Sales Return A/c	Dr.	1,000	
To Mr. Tarun A/c			1,000
(Being goods returned by Mr. Tarun)			

- 8) **Machinery of ₹10,000 Sold:** In this transaction, two 'Heads of Account' involved are:

- Machinery Account and
- Cash Account.

The entry would be shown in the 'Journal' as following:

Cash A/c	Dr.	10,000	
To Machinery A/c			10,000
(Being machinery sold)			

- 9) **Paid ₹5,000 as Salary:** Two 'Heads of Account' involved in this transaction are:

- Salary Account and
- Cash Account.

The entry would be shown in the 'Journal' as following:

Salary A/c	Dr.	5,000	
To Cash A/c			5,000
(Being salary paid)			

- 10) **Cash Received from Mr. Mohan ₹990 and Discount Paid ₹10:** In this transaction, three 'Heads of Account' are involved, viz.:

- Mr. Mohan Account,
- Cash Account, and
- Discount Account.

The entry would be shown in the 'Journal' as following:

Cash A/c	Dr.	990	
Discount A/c	Dr.	10	
To Mr. Mohan A/c			1,000
(Being cash received from Mr. Mohan and discount allowed)			

- 11) **Cash Paid to Mr. Rohan ₹1,980 and Discount Received ₹20:** In this transaction, three 'Heads of Account' are involved, viz.:

- Mr. Rohan Account,
- Cash Account, and
- Discount Account.

The entry would be shown in the 'Journal' as following:

Mr. Rohan A/c	Dr.	2,000	
To Cash A/c			1,980
To Discount Received A/c			20
(Being cash paid to Mr. Rohan and discount received)			

- 12) **Depreciation on Furniture of ₹2,000:** Two 'Heads of Account' involved in this transaction are:

- Depreciation Account, and
- Furniture Account.

The entry would be shown in the 'Journal' as following:

Depreciation A/c	Dr.	2,000	
To Furniture A/c			2,000
(Being depreciation on furniture)			

- 13) **Interest on Capital ₹2,000:** Two 'Heads of Account' involved in this transaction are:

- Interest on Capital Account, and
- Capital Account.

The entry would be shown in the 'Journal' as following:

Interest on Capital A/c	Dr.	2,000	
To Capital A/c			2,000
(Being interest on capital paid of ₹2,000)			



- 14) **Withdrawn ₹1,000 by Proprietor for Personal Use:** In this transaction, two 'Heads of Accounts' involved are:

- Drawing Account, and
- Cash Account.

The entry would be shown in the 'Journal' as following:

Drawing A/c	Dr.	1,000	
To Cash A/c			1,000
(Being cash withdrawn by the proprietor)			

- 15) **Withdrawn from Bank ₹1,000 for Office Use:** Two 'Heads of Account' involved in this transaction are:

- Cash Account and
- Bank Account.

The entry would be shown in the 'Journal' as following:

Cash A/c	Dr.	1,000	
To Bank A/c			1,000
(Being cash withdrawn from bank for office use)			

- 16) **Goods of ₹500 Distributed as Free Sample:** Two 'Heads of Account' involved in this transaction are:

- Free Sample Account and
- Purchase Account.

The entry would be shown in the 'Journal' as following:

Free Samples A/c	Dr.	500	
To Purchase A/c			500
(Being goods distributed as free samples)			

### 2.3.4. Journal Proper

Miscellaneous credit transactions, which do not find a place under any other subsidiary book, are recorded in 'Journal Proper'. It is also referred to as 'Miscellaneous Journal'. The format and procedures followed in recoding transactions in 'Journal Proper' is the same as that of other journals.

There are certain types of transactions which are not recorded in other subsidiary books but are recorded in the 'Journal Proper', e.g. transactions relating to drawings, outstanding expenses, accrued incomes, reserves, provisions and interest on capital, loss of goods due to some reasons and credit purchase and sale of other assets such as land, buildings, machinery and furniture. The use of journal proper is confined to record the following transactions:

- Opening entries,
- Closing entries,
- Transfer entries,
- Adjustment entries,
- Rectification entries,
- Entries for which there is no special journal, and
- Entries for rare transactions.

### 2.3.5. Opening Entries

The journal entries to be passed at the beginning of a financial year for various assets and liabilities before opening new accounts in ledger are known as **Opening Entries**.

For example, a businessman opens a new set of books on January 1, 2021 with cash in hand ₹100, debtors ₹200, stock in trade ₹320, machinery ₹700, furniture and fittings ₹200, bank loan ₹300, sundry creditors ₹150 capital ₹1,070 the respective opening entry in the journal will be:

Cash A/c	Dr.	100	
Sundry Debtors A/c	Dr.	200	
Stock in Trade A/c	Dr.	320	
Machinery A/c	Dr.	700	
Furniture and Fitting A/c	Dr.	200	
To Sundry Creditors A/c			150
To Bank Loan A/c			300
To Capital A/c			1,070
(Being the incorporation of assets and liabilities at this date)			

**Example 2:** The following balances existed in the books of Utkarsh Traders on 31<sup>st</sup> March, 2021:

Particulars	₹
Debit Balance:	
Cash in hand	28,400
Cash at bank	2,200
Stock	31,200
Furniture	7,500
Debtors	24,000
Credit Balance:	
Bank loan	10,000
Trade creditors	7,000

Pass opening journal entries on April, 2021.

**Solution:**

Journal Entries (In the Books of Utkarsh Traders)				
Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2021 April 1	Cash in Hand A/c	Dr.	28,400	
	Cash at Bank A/c	Dr.	2,200	
	Stock A/c	Dr.	31,200	
	Furniture A/c	Dr.	7,500	
	Debtors A/c	Dr.	24,000	
	To Bank Loan A/c			10,000
	To Trade Creditors A/c			7,000
	To Capital A/c			76,300
	(Being the balances brought forward from the last year)			

**Example 3:** Journalise the following transactions:

Date	Particulars	₹
2021 Jan. 1	Started business with cash	
Jan. 2	Deposited into bank	30,000
Jan. 3	Goods purchased for cash	10,000
Jan. 4	Withdraw from bank for office use	5,000
Jan. 5	Credit sales to Sumit	1,500



**Solution:****Journal Entries**  
(In the Book of .....)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2021 Jan. 1	Cash A/c Dr. To Capital A/c (Being the business started with cash)		30,000	30,000
Jan. 2	Bank A/c Dr. To Cash A/c (Being cash deposited into bank)		10,000	10,000
Jan. 3	Purchase A/c Dr. To Cash A/c (Being goods purchased for cash)		5,000	5,000
Jan. 4	Cash A/c Dr. To Bank A/c (Being cash withdrawn from bank for office use)		1,000	1,000
Jan. 5	Sumit's A/c Dr. To Sales A/c (Being goods sold to Sumit on credit)		1,500	1,500
	<b>Total</b>		<b>47,500</b>	<b>47,500</b>

**Example 4:** Journalise the following transactions in the books of X Co.:

Date	Transactions
2013 Nov 1	Commenced business with ₹2,00,000; out of which ₹50,000 deposited into bank.
2	Purchased good from Trilok ₹40,000.
4	Sold goods for cash ₹20,000.
8	Paid to Trilok and availed cash discount of ₹400.
10	Paid telephone bill through cheque ₹500.
12	Purchased furniture for ₹25,000.
15	Purchased a computer for personal use for ₹20,000 and issued cheque.

**Solution:****Journal Entries**  
(In the Books of X Co.)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2013 Nov 1	Cash A/c Dr. Bank A/c Dr. To Capital A/c (Being business started with cash of ₹2,00,000 out of which ₹50,000 deposited into bank)		1,50,000 50,000	2,00,000
Nov 2	Purchase A/c Dr. To Trilok A/c (Being goods purchased from Trilok)		40,000	40,000
Nov 4	Cash A/c Dr. To Sales A/c (Being goods sold for cash)		20,000	20,000
Nov 8	Trilok A/c Dr. To Cash A/c To Discount A/c (Being cash paid to Trilok and discount allowed)		40,000	39,600 400

Nov 10	Telephone A/c Dr. To Bank A/c (Being telephone bill paid through cheque)		500	500
Nov 12	Furniture A/c Dr. To Cash A/c (Being furniture purchased)		25,000	25,000
Nov 15	Drawing A/c Dr. To Bank A/c (Being computer purchased for personal use and payment made through cheque)		20,000	20,000
	<b>Total</b>		<b>3,95,500</b>	<b>3,95,500</b>

**Example 5:** Journalise the following transactions, Mr. Anees started business on April 1, 2018 with ₹1,00,000 and other transaction are as follows:

April, 2018, 2 <sup>nd</sup>	Purchased furniture for cash ₹7,000
April, 2018, 8 <sup>th</sup>	Purchased goods for cash ₹2,000 and for credit from Khalid ₹1,000
April, 2018, 14 <sup>th</sup>	Sold goods to Khan brothers ₹12,000 and cash sales ₹5,000
April, 2018, 18 <sup>th</sup>	Owner withdraw of worth ₹2,000 for personal use
April, 2018, 22 <sup>nd</sup>	Paid Khalid ₹500
April, 2018, 26 <sup>th</sup>	Received ₹10,000 from Khan
April, 2018, 30 <sup>th</sup>	Paid salary expenses ₹2,000

**Solution:****Journal Entries**

(In the Book of Mr. Anees) (07)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2018 April 1	Cash A/c Dr. To Capital A/c (Being the business started with cash)		1,00,000	1,00,000
April 2	Furniture A/c Dr. To Cash A/c (Being furniture purchased for cash)		7,000	7,000
April 8	Purchases A/c Dr. To Cash A/c To Khalid A/c (Being goods purchased ₹2,000 for cash and ₹1,000 on credit from Khalid)		3,000	2,000 1,000
April 14	Cash A/c Dr. Khan Brothers A/c Dr. To Sales A/c (Being cash sales and credit sales to Khan Brothers)		5,000 12,000	17,000
April 18	Drawing A/c Dr. To Cash A/c (Being owner withdraw cash for personal use)		2,000	2,000
April 22	Khalid A/c Dr. To Cash A/c (Being cash paid to Khalid)		500	500
April 26	Cash A/c Dr. To Khan Brothers A/c (Being cash received from Khan Brothers)		10,000	10,000
April 30	Salary A/c Dr. To Cash A/c (Being Salary Paid)		2,000	2,000
	<b>Total</b>		<b>1,41,500</b>	<b>1,41,500</b>



**Example 6:** Journalise the following transactions in the books of Mr. Ramesh for the month of October 2016:

- 1-10-16 commenced business with cash ₹5,00,000.
- 2-10-16 purchased furniture for office use ₹1,00,000.
- 10-10-16 purchased goods for cash ₹1,00,000.
- 12-10-16 sold goods to Abhishek for cash ₹60,000.
- 20-10-16 purchased machinery worth ₹50,000 and issued a cheque for the same.
- 25-10-16 withdrawn from bank for office use ₹20,000.
- 27-10-16 paid rent by cheque ₹10,000.
- 30-10-16 paid salary by cash ₹1,00,000.

**Solution:**

**Journal Entries**

(In the books of Mr. Ramesh)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
1-10-16	Cash A/c Dr. To Capital A/c (Being business started with cash)		5,00,000	5,00,000
2-10-16	Furniture A/c Dr. To Cash A/c (Being furniture Purchased for office use)		1,00,000	1,00,000
10-10-16	Purchase A/c Dr. To Cash A/c (Being goods purchased for cash)		1,00,000	1,00,000
12-10-16	Cash A/c Dr. To Sales A/c (Being goods sold to Abhishek for cash)		60,000	60,000
20-10-16	Machinery A/c Dr. To Bank A/c (Being machinery purchased and issued a cheque)		50,000	50,000
25-10-16	Cash A/c Dr. To Bank A/c (Being cash withdraw from bank for office use)		20,000	20,000
27-10-16	Rent A/c Dr. To Bank A/c (Being rent paid by cheque)		10,000	10,000
30-10-16	Salary A/c Dr. To Cash A/c (Being salary paid by cash)		1,00,000	1,00,000
	<b>Total</b>		<b>9,40,000</b>	<b>9,40,000</b>

**Example 7:** Journalise the following transaction in the books of Ramesh:

- 1) Ramesh started business with cash ₹50,000 and stock of ₹60,000.
- 2) Purchase goods from Mr. Sun for cash of ₹20,000.
- 3) Sold goods to Mr. A on credit for ₹20,000.
- 4) Received ₹19,500 from Mr. A in full settlement of his account.
- 5) Paid salaries, wages, electricity bill of ₹500, ₹1,500 and ₹2,000 respectively.
- 6) Paid life insurance premium of ₹2,000.
- 7) Charge depreciation on furniture @ 10% (furniture cost ₹20,000).
- 8) Received interest of ₹500.

**Solution:**

**Journal Entries**

(In the Books of Ramesh)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Stocks A/c Dr. Cash A/c Dr. To Capital A/c (Being business started with cash and stock)		60,000 50,000	1,10,000
	Purchase A/c Dr. To Cash A/c (Being goods purchased for cash)		20,000	20,000
	Mr. A A/c Dr. To Sales A/c (Being goods sold to Mr. A on credit)		20,000	20,000
	Cash A/c Dr. Discount A/c Dr. To Mr. A A/c (Being cash received from Mr. A and discount allowed)		19,500 500	20,000
	Salary A/c Dr. Wages A/c Dr. Electricity Bill A/c Dr. To Cash A/c (Being salary, wages and electricity bill paid)		500 1,500 2,000	4,000
	Life Insurance Premium A/c Dr. To Cash A/c (Being insurance premium paid)		2,000	2,000
	Depreciation A/c Dr. To Furniture A/c (Being depreciation on furniture)		2,000	2,000
	Cash A/c Dr. To Interest Received A/c (Being interest received)		500	500
	<b>Total</b>		<b>1,78,500</b>	<b>178,500</b>

**Example 8:** Journalise the following transactions in the books of Mr. X for the month of December 2020.

- 2020 Dec. 1 Started business with cash of ₹1,00,000.  
 2020 Dec. 3 Borrowed ₹60,000 from Y.  
 2020 Dec. 4 Purchased goods worth ₹60,000 at a trade discount of 5%.  
 2020 Dec. 6 Deposited into bank ₹30,000.  
 2020 Dec. 8 Sold goods to Z at a list price of ₹80,000 and trade discount allowed 3%.  
 2020 Dec. 14 Payment made by Z and allowed him cash discount 5%.  
 2020 Dec. 20 Withdrawn for personal use ₹1,000.  
 2020 Dec. 22 Paid rent in advance ₹5,000.  
 2020 Dec. 24 Received commission from ABC Traders ₹6,500.  
 2020 Dec. 28 Paid salaries ₹15,000.

**Solution:**

**Journal Entries**

(In the Books of Mr. X)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2020 Dec. 1	Cash A/c Dr. To Capital A/c (Being the business started with cash)		1,00,000	1,00,000



Dec.3	Cash A/c To Y's A/c (Being borrowed money from Y)	Dr.	60,000	60,000
Dec.4	Purchases A/c To Cash A/c (Being goods are purchased at 5% trade discount)	Dr.	57,000	57,000
Dec.6	Bank A/c To Cash A/c (Being cash deposited into bank)	Dr.	30,000	30,000
Dec.8	Z's A/c To Sales A/c (Being sold goods to Z at trade discount at 3%)	Dr.	77,600	77,600
Dec.14	Cash A/c Discount allowed A/c To Z's A/c (Being payment received from Z after allowing the cash discount of 5%)	Dr. Dr.	73,720 3,880	77,600
Dec.20	Drawings A/c To Cash A/c (Being withdrawn for personal use)	Dr.	1,000	1,000
Dec.22	Prepaid Rent A/c To Cash A/c (Being rent paid in advance)	Dr.	5,000	5,000
Dec.24	Cash A/c To Commission A/c (Being commission received from ABC traders)	Dr.	6,500	6,500
Dec.28	Salaries A/c To Cash A/c (Being salaries paid)	Dr.	15,000	15,000
	<b>Total</b>		<b>4,29,700</b>	<b>4,29,700</b>

**Example 9:** Journalise the following transactions:

- 1) Started business with cash ₹50,000, goods ₹25,000 and building ₹1,75,000.
- 2) Goods withdrew for personal use cost price ₹4,000, selling price ₹5,000.
- 3) An old amount of ₹2,000 which was considered to be bad, recovered from Vivek.
- 4) Goods stolen-cost price ₹5,000, selling price ₹6,000.
- 5) Goods purchased ₹50,000 for cash and paid Central Sales-tax @ 8%.

**Solution:** **Journal Entries**  
(In the Book of .....)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Cash A/c Goods A/c Building A/c To Capital A/c (Being business started with cash, goods and building)	Dr. Dr. Dr.	50,000 25,000 1,75,000	2,50,000
	Drawing A/c To Goods A/c (Being goods withdrawn for personal use)	Dr.	4,000	4,000
	Cash A/c To Bad Debt Recovered A/c (Being old bad debts recovered from vivek)	Dr.	2,000	2,000

	Loss by Theft A/c To Goods A/c (Being goods stolen)	Dr.	5,000	5,000
	Purchase A/c To Cash A/c [Being goods purchased for cash with 8% CST, 50,000 + (50,000 × 8%)]	Dr.	54,000	54,000

**Example 10:** Journalise the following transactions in the books of Mr. A.

Date	Transactions
02/12/2019	Ram started business with a capital of ₹10,000.
04/12/2019	Purchased furniture for cash ₹5,000.
07/12/2019	Purchased goods form Mohan ₹2,000.
10/12/2019	Sold goods for cash ₹3,000.
15/12/2019	Paid to Mohan.
20/12/2019	Cash withdrawn from bank for personal use ₹500
22/12/2019	Paid salary and postage ₹5,000 and ₹150 respectively.
24/12/2019	Cash deposited into bank ₹1,500.
26/12/2019	Interest received ₹100.
28/12/2019	Paid rent by cheque ₹2,500.

**Solution:** **Journal Entries**  
(In the Books of Mr. A)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
02/12/2019	Cash A/c To Capital A/c (Being business started with cash)	Dr.	10,000	10,000
04/12/2019	Furniture A/c To Cash A/c (Being furniture purchased for cash)	Dr.	5,000	5,000
07/12/2019	Purchases A/c To Mohan A/c (Being goods purchased from Mohan)	Dr.	2,000	2,000
10/12/2019	Cash A/c To Sales A/c (Being goods sold for cash)	Dr.	3,000	3,000
15/12/2019	Mohan A/c To Cash A/c (Being cash paid to Mohan)	Dr.	2,000	2,000
20/12/2019	Drawing A/c To Bank A/c (Being cash withdrawn from bank for personal use)	Dr.	500	500
22/12/2019	Salary A/c Postage A/c To Cash A/c (Being cash paid for salary and postage)	Dr. Dr.	5,000 150	5,150
24/12/2019	Bank A/c To Cash A/c (Being cash deposited in bank)	Dr.	1,500	1,500
26/12/2019	Cash A/c To Interest A/c (Being interest received)	Dr.	100	100
28/12/2019	Rent A/c To Bank A/c (Being rent paid through cheque)	Dr.	2,500	2,500
	<b>Total</b>		<b>31,750</b>	<b>31,750</b>



## 2.4. LEDGER

### 2.4.1. Meaning and Definition of Ledger

'Ledger' is defined as an accounting book (principle book of accounts), wherein all the transactions are recorded in a summarised and classified manner. It is the most important book of accounts. It may be maintained either in the form of a physical book into which credits and debits are posted, or an accounting computer programme wherein various credits and debits are entered. Under the general ledger of the double-entry bookkeeping system, each transaction is required to be entered on the left/debit side of one account and simultaneously on the right/credit side of another account. As the transactions recorded in the 'Ledger' are permanent in nature, it is referred to as the '**Book of Final Entry**'.

According to L.C. Cropper, "The book which contains a classified and permanent record of all the transactions of a business is called the Ledger".

The process of transferring various 'Debit' and 'Credit' entries from the 'Journal' to the 'Ledger' is called '**Ledger posting**'. For this purpose, separate 'Heads of Account' are opened in the 'Ledger' and all the 'Credit' and 'Debit' entries are taken from the 'Journals' and posted in the 'Ledger'. In the final stage, all the accounts are balanced accurately.

### 2.4.2. Utility of Ledger

From the point of view of gathering information, the 'Ledger' of a company is of paramount importance, as may be seen from the following:

- 1) One glance at the 'Ledgers' of a company reveals complete knowledge regarding all the accounts.
- 2) It discloses the break-up of the 'Revenue Items'.
- 3) Various items of 'Expenses' may be ascertained through the 'Ledgers'.
- 4) The 'Assets' of a company and their value may be ascertained by going through the 'Ledgers'.
- 5) It enables to ascertain various items of the 'Liabilities' of a company alongwith their quantum.
- 6) 'Final Accounts' of a company are prepared with the help of 'Ledgers'.

### 2.4.3. Proforma of Ledger

The proforma of "T Account" for ledger is furnished below:

Date	Particulars	Journal Folio	Dr. (₹)	Date	Particulars	Journal Folio	Cr. (₹)
(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)

It may be seen from the above, that each side of the proforma, i.e. 'Debit Side' and 'Credit Side' has four columns to record the requisite details of each transaction, which are:

- 1) **Date:** The date on which a transaction is recorded.
- 2) **Particulars:** It relates to a subject matter of transaction.
- 3) **Journal Folio (J.F.):** In this column, a reference is made to the page number of the 'Journal'.
- 4) **Amount:** It is the column of money paid or received during the transaction.

An account is debited or credited in terms of the 'Thumb Rule' applicable in respect of each category of account (i.e., 'Personal', 'Real' or 'Nominal').

### 2.4.4. Difference between Journal and Ledger

Basis of Difference	Journal	Ledger
1) <b>Nature of Book</b>	It is termed as the 'Original Book of Account' or the 'Book of Prime Entry'.	It is termed as the 'Book of Final Entry' or the 'Book of Secondary Entry'.
2) <b>Basis for Preparation</b>	It is prepared on the basis of 'Source Records of Transactions'.	It is prepared on the basis of the entries recorded in the 'Journals'.
3) <b>Stage of Recording</b>	'Journal Entries' are first stage of recording a transaction.	'Posting in the ledger' is the second stage of recording a transaction.
4) <b>Object</b>	Journal is prepared with the objective of recording all business transactions in a chronological order.	Ledger is prepared with the objective of knowing the net impact of various transactions affecting a specific account.
5) <b>Balancing</b>	There is no concept of balancing a Journal.	All ledger accounts (except nominal accounts) are required to be balanced periodically.
6) <b>Name of the Process of Recording Entries</b>	The process of entering a transaction in journal is termed as 'Journalising'.	The process of transferring a 'Journal Entry' in the ledger is termed as 'Posting'.

### 2.4.5. Ledger Posting

The process of transferring various 'Debit' and 'Credit' items from the books of prime entry, viz. 'Journals' to the corresponding accounts in 'Ledgers' is known as '**Ledger Posting**'. Ledger is called the 'Principal Book of Account' because finally all ledger accounts are considered for the preparation of 'Final Accounts' and accounting analysis. The ledger sums up the total of every account which is finally transferred into the 'Balance Sheet' and 'Profit & Loss Account'.

#### Rules Regarding Posting in to Ledger

During the exercise of 'Ledger Posting' following steps and rules are required to be followed:

- 1) **Opening of Separate Accounts:** In a 'Ledger', separate accounts are required to be opened for



various 'Personal', 'Real' and 'Nominal' accounts. Minimum two accounts are impacted by a business transaction. No account is opened twice. Once an account is opened, all transactions relating to that account, whether debit or credit, should be posted therein, with a view to ensuring that net result of that account may be ascertained at any point of time.

- 2) **Posting of the Journal Entry to Appropriate/Concerned Side of the 'Ledger':** If an account is debited in the journal, at the time of posting in the 'Ledger', it must be ensured that the posting is made on the debit side of the concerned account in the ledger. In the same way, if an account is credited in the journal, at the time of posting in the 'Ledger', it must be ensured that the posting is made on the credit side of the concerned account in the ledger.
- 3) **Use of Word "To" and "By":** The word 'To' is placed before writing the name of an account on the debit side of ledger, which is credited in the journal, whereas the word 'By' is placed before writing the name of an account on the credit side of ledger, which is debited in the journal.
- 4) **Balance in Account:** The heavy side of the account (Debit or credit) is totalled, first. The same total is put on the total column of the other side in the account. Thus, the net result is achieved. If total of the debit side is more than the total of the credit side, the net result would be 'Debit'. Likewise, if the total of the credit side is more than the total of the debit side, the net result would be 'Credit'.

The following example will clear the accounting process from journalizing to posting transactions in the ledger.

**Example 11:** Journalize the following transactions and post them into the ledger:

Date	Particulars	₹
2021		
Nov. 1	Mr. Tarun started business with cash	6,000
Nov. 2	Goods purchased from Mr. Wisht on credit	1,200
Nov. 3	Goods sold to Mr. Uma.	500
Nov. 4	Goods purchased from Mr. Varun for cash	400
Nov. 5	Paid for wages	100
Nov. 14	Paid for rent	20

**Solution:** **Journal Entries**  
(In the book of Mr. Tarun)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2021				
1 Nov.	Cash A/c Dr. To Capital A/c (Being business commenced with cash by Mr. Tarun)		6,000	6,000
2 Nov.	Purchases A/c Dr. To Mr. Wisht A/c (Being goods bought on credit from Mr. Wisht)		1,200	1,200

3 Nov.	Mr. Uma. A/c Dr. To Sales A/c (Being goods sold on credit to Mr. Uma.)		500	500
4 Nov.	Purchases A/c Dr. To Cash A/c (Being goods purchased for cash)		400	400
5 Nov.	Wages A/c Dr. To Cash A/c (Being wages paid)		100	100
14 Nov	Rent A/c Dr. To Cash A/c (Being rent paid)		20	20
	<b>Total</b>		<b>8,220</b>	<b>8,220</b>

#### Ledger of Mr. Tarun

Dr. Cash Account				Cr.			
Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2021				2021			
1 Nov.	To Capital A/c		6,000	4 Nov.	By Purchases A/c		400
				5 Nov.	By Wages		100
				14 Nov.	By Rent A/c		20
				30 Nov.	By Balance c/d		5,480
			<b>6,000</b>				<b>6,000</b>
1 Dec.	To Balance b/d		5,480				

Dr. Capital Account				Cr.			
Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2021				2021			
30 Nov.	To Balance c/d		6,000	1 Nov.	By Cash A/c		6,000
			<b>6,000</b>				<b>6,000</b>
				1 Dec.	By Balance b/d		6,000

Dr. Purchases Account				Cr.			
Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2021				2021			
2 Nov.	To Mr. Wisht A/c		1,200	30 Nov.	By Balance c/d		1,600
4 Nov.	To Cash A/c		400				
			<b>1,600</b>				<b>1,600</b>
1 Dec.	To Balance b/d		1,600				

Dr. Sales Account				Cr.			
Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2021				2021			
30 Nov.	To Balance c/d		500	3 Nov.	By Mr. Uma A/c		500
			<b>500</b>				<b>500</b>
				1 Dec.	By Balance b/d		500

Dr. Mr. Wisht Account				Cr.			
Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2021				2021			
30 Nov.	To Balance c/d		1,200	2 Nov.	By Purchases A/c		1,200
			<b>1,200</b>				<b>1,200</b>
				1 Dec.	By Balance b/d		1,200



Dr. Wages Account				Cr.			
Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2021 5 Nov.	To Cash A/c		100	2021 30 Nov.	By Balance c/d		100
			100				100
1 Dec.	To Balance b/d		100				

Dr. Mr. Uma Account				Cr.			
Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2021 3 Nov.	To Sales A/c		500	2021 30 Nov.	By Balance c/d		500
			500				500
1 Dec.	By Balance b/d		500				

Dr. Rent Account				Cr.			
Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
2021 14 Nov.	To Cash A/c		20	2021 30 Nov.	By Balance c/d		20
			20				20
1 Dec.	To Balance b/d		20				

## 2.5. TRIAL BALANCE

### 2.5.1. Meaning of Trial Balance

'Trial Balance' is a statement, in which the balances of all the ledgers are compiled into debit and credit columns. Normally, a trial balance is prepared periodically, usually when the reporting period ends. It is prepared to determine the mathematical accuracy of the entries passed in the book-keeping system of the company. On the debit side of a 'Trial Balance' 'Asset' and 'Expense' accounts appear, whereas on its credit side 'Liabilities', 'Capital' and 'Income' accounts appear. All the debit balances and credit balances appearing in the 'Trial Balance' must be equal, provided:

- 1) All accounting entries are recorded accurately; and
- 2) All the ledger balances are correctly extracted.

Trial Balance is mainly used as a tool to check the arithmetical accuracy of account but it does not provide a complete proof of arithmetical accuracy of account. Mere matching of debit and credit balance in the trial balance cannot be regarded as a proof of ensuring the recording of all transaction in proper accounts.

### 2.5.2. Objectives and Functions of Trial Balance

The 'Trial Balance' of a company has following objectives and functions:

- 1) **To Check the Arithmetical Accuracy:** The 'Double Entry Theory' that the 'Debits' and

'Credits' in any account need to be equal, is the foundation of 'Trial Balance'. As such, the 'Debit' and 'Credit' columns of 'Trial Balance' must be equal all the time, and they do, if the financial transactions are recorded accurately. If the 'Debit' and 'Credit' columns are not equal, it is presumed that certain arithmetical inaccuracy has been found at some stage. One of the most important objectives behind the preparation of 'Trial Balance', therefore, is to ensure the arithmetical correctness of the recordings of various financial transactions.

- 2) **To Help Detecting Accounting Errors:** As the preparation of 'Trial balance' is based on the principle that the 'Debits' and 'Credits' in any account need to be equal, any mistake made inadvertently in 'Journal Entries' or 'Ledger Posting' is disclosed. 'Trial Balance', thus, facilitates detection of accounting errors.
- 3) **To Summarise the Financial Transactions:** A business entity undertakes a number of financial transactions during a given timeframe. Such transactions, *per se*, are not capable of depicting the financial affairs of the business entity. Keeping in view the above objective, a summary of all the financial transactions of the business entity is required to be prepared in a trial balance.
- 4) **To Provide the Basis for Preparing Final Accounts:** 'Final Accounts' of a company are prepared at the end of an accounting period to reveal its profit and loss and the financial position in the form of 'Profit and Loss Account' and 'Balance Sheet'. These accounts are prepared on the basis of balances lying in the 'Debits' and 'Credits' of all the ledger accounts.

### 2.5.3. Difference between Trial Balance and Balance Sheet

Basis of Difference	Trial Balance	Balance Sheet
1) Objectives	The objective of preparing the trial balance is to verify the arithmetical accuracy of the transactions recorded in the books of accounts.	Preparation of the balance sheet is with the objective of ascertaining an organisation's financial position as on a specific date.
2) When Prepared	Trial balance of an organisation may be prepared at any point of time (as and when required).	Balance sheet of an organisation is normally prepared at the end of an accounting period, which may be at quarter end or a year end.
3) Number of Column	The trial balance has two columns with the heading "Debit Balances" and "Credit Balances".	The balance sheet also has two columns with the headings "Liabilities" and "Assets".



4) <b>Types of Account</b>	Balances of all the ledgers accounts are taken and shown in the trial balance of a business organisation.	In addition to the accounts of assets, liabilities and capital accounts which remain open after the preparation of trading and profit and loss account also find a place in the balance sheet of a business organisation.
5) <b>Treatment of Stock</b>	While the opening stock is shown in the trial balance the closing stock does not find a place.	While the closing stock finds a place on the asset side of a balance sheet, the opening stock does not find a place.
6) <b>Information</b>	The trial balance does not reveal the information regarding the net profit or net loss.	The balance sheet does provide the information regarding the net profit or net loss.
7) <b>Treatment of Adjustments</b>	Preparation of a trial balance is possible even without making adjustments with regard to items like prepaid expenses, income received in advance, provisions for bad debts, income accrued but not received, etc.	Preparation of a balance sheet is not possible without making adjustments with regard to items like prepaid expenses, income received in advance, provisions for bad debts, income accrued but not received, etc.

### 2.5.4. Proforma of Trial Balance

Trial Balance (as on .....)			
Particulars	L.F.	Dr. (₹) (Total or Balance)	Cr. (₹) (Total or Balance)

### 2.5.5. Methods of Preparing Trial Balance

For the preparation of a 'Trial Balance' following methods are available:

- 1) **Traditional Method/Total Method:** The 'Traditional Method' or the 'Total Method' considers the sub-totals of each ledger account. It is prepared by presenting the sub-totals relating to each ledger account in the relevant columns of the 'Trial Balance'. In this method, the debit total of each account is recorded on the debit side and the credit total of each account is recorded on the credit side of the 'Trial Balance'. Thereafter the total of the 'Trial Balance' is taken. If both debits and credits sides matches, it is presumed that the books of accounts are arithmetically correct.
- 2) **Modern Method/Balance Method:** The 'Modern Method' or the 'Balance Method' considers only the balances of the ledger accounts. It is prepared by presenting the balance relating to each ledger

account in the relevant column of the trial balance. In this method, the difference between the 'Debit Side' and 'Credit Side' of an account is taken in the 'Trial Balance' instead of taking the totals of both the sides. If the 'Debit Side' happens to be more than the 'Credit Side', it is termed as 'Debit Balance'. Both sides of the 'Trial Balance' also need to be equal in this method. 'Modern Method' of preparing a 'Trial Balance' is considered to be a better one and therefore preferred over the other methods.

- 3) **Total and Balance Method:** This method is a combination of 'Traditional Method' and the 'Modern Method' of preparation of the 'Trial Balance'. Four columns are made under this method. The first two columns are for the totals (traditional method) and last two columns are for balances (modern method). However, this method has not gained popularity.

**Example 12:** Prepare a Trial balance from the following ledger balances:

Particulars	₹
Capital	50,000
Sales	25,000
Opening stock	5,200
Debtors	2,500
Creditor	1,000
Purchases	20,000
Salaries	2,000
Rent	1,500
Cash	2,000
Insurance	300
Drawing	10,000
Plant	28,000
Bank	4,500

**Solution:** Trial Balance  
(as on.....)

Particulars	L.F.	Dr. (₹)	Cr. (₹)
Capital		—	50,000
Sales		—	25,000
Opening stock		5,200	—
Debtors		2,500	—
Creditors		—	1,000
Purchases		20,000	—
Salaries		2,000	—
Rent		1,500	—
Cash		2,000	—
Insurance		300	—
Drawings		10,000	—
Plant		28,000	—
Bank		4,500	—
<b>Total</b>		<b>76,000</b>	<b>76,000</b>

**Example 13:** Following is the trial balance as on 31<sup>st</sup> March 2017 prepared by an incompetent accountant. You are required to rewrite in its correct form.

Particulars	Dr. (₹)	Cr. (₹)
Capital	24,000	—
Stock on 1 <sup>st</sup> April 2016	8,500	—
Furniture	2,600	—



its 'Assets' and 'Liabilities'. An event impacting any of the 'Balance Sheet' components ('Owner's Equity', 'Assets' or 'Liabilities') is termed as a 'Transaction'. Before recording a transaction in the books of accounts, it is necessary to identify two 'Heads of Accounts', which would be 'Credited' or 'Debited'.

### 2.6.2. Accounting Equation Based on Classification of Accounts

Types of Accounts	Meaning	Example
1) <b>Assets Accounts</b>	'Assets Accounts' of a company represents all the 'Tangible' as well as 'Intangible' asset items of the balance sheet.	Tangible Assets: Land, Building, Plant/Machinery, Cash/Bank balance, etc. Intangible Assets: Goodwill, Patents, Trademarks, etc.
2) <b>Liabilities Accounts</b>	'Liabilities Accounts' of a company are its financial obligations it owes towards outsiders.	Sundry Creditors, Outstanding Expenses (including tax liabilities), Bank Borrowings (Overdraft, Cash Credit or Term Loans), etc.
3) <b>Capital Accounts</b>	'Capital Accounts' of a company represents its 'Inside Liabilities', i.e. its liabilities towards owners.	Capital a/c, Drawings a/c, etc.
4) <b>Revenue Accounts</b>	'Revenue Accounts' represents the amount charged for goods sold or services rendered or allowing others to use enterprise resources yielding interest, royalty or dividend.	Sales a/c, Discount Received a/c, Dividend Received a/c, Royalty Received a/c, Interest Received a/c, etc.
5) <b>Expenses Accounts</b>	'Expenses Accounts' are the expenses incurred in the conduct of business in the normal course or losses suffered due to some unforeseen causes, like fire, flood, theft, etc.	Purchases a/c, Discount Allowed a/c, Royalty Paid a/c, Interest Payable a/c, Loss by Fire/Flood/Theft a/c, etc.

**Example 18:** A business concern has assets of ₹41,50,000 and owner's equity is ₹23,55,000. What is the amount of liabilities?

**Solution:** Assets = Liabilities + Shareholders Equity (Capital)  
Liabilities = Assets - Shareholders Equity (Capital)  
= 41,50,000 - 23,55,000 = 17,95,000

**Example 19:** From the following transactions show the effects on assets, liabilities and capital based on accounting equations:

- 1) Commenced business with a capital of ₹1,00,000.

- 2) Bought goods on credit from Rajesh ₹80,000.
- 3) Bought furniture for cash ₹10,000.

**Solution:**

S. No.	Transactions	Assets = Liabilities + Capital
1)	Started Business with a Capital ₹1,00,000	1,00,000 = 0 + 1,00,000
2)	Bought Goods on Credit ₹80,000 from Rajesh	80,000 = 80,000 + 0
	<b>New Equation</b>	1,80,000 = 80,000 + 1,00,000
3)	Bought Furniture for Cash ₹10,000	(-) 10,000 = 0 + 0
	<b>New Equation</b>	10,000 = 0 + 0
	<b>New Equation</b>	1,80,000 = 80,000 + 1,00,000

**Example 20:** Show the effect of the following transactions on assets, liabilities and capital through accounting equation:

- 1) Started business with cash ₹1,50,000.
- 2) Rent received ₹10,000.
- 3) Invested in Shares ₹50,000.
- 4) Purchased goods on credit ₹25,000 from X.
- 5) Paid to X ₹25,000.
- 6) Salary paid ₹13,000.

**Solution:**

S. No.	Transactions	Assets = Liabilities + Capital
1)	Started business with cash ₹1,50,000	1,50,000 = 0 + 1,50,000
2)	Rent received ₹10,000	10,000 = 0 + 10,000
	<b>New Equation</b>	1,60,000 = 0 + 1,60,000
3)	Invested in Shares ₹50,000	(-) 50,000 = 0 + 0
	<b>New Equation</b>	50,000 = 0 + 0
	<b>New Equation</b>	1,60,000 = 0 + 1,60,000
4)	Purchased goods on credit ₹25,000 from X	25,000 = 25,000 + 0
	<b>New Equation</b>	1,85,000 = 25,000 + 1,60,000
5)	Paid to X ₹25,000	(-) 25,000 = (-) 25,000 + 0
	<b>New Equation</b>	1,60,000 = 0 + 1,60,000
6)	Salary paid ₹13,000	(-) 13,000 = 0 + (-) 13,000
	<b>New Equation</b>	1,47,000 = 0 + 1,47,000

**Example 21:** Show the accounting equation on the basis of the following transactions:

- 1) Commenced business with cash of ₹80,000.
- 2) Purchased goods on credit for ₹20,000.
- 3) Purchased furniture on cash for ₹20,000.
- 4) Depreciation on furniture ₹500.
- 5) Paid salaries of ₹200.
- 6) Sold goods on credit for ₹5,000.



**Solution:**

S. No.	Transactions	Assets = Liabilities + Capital
1)	Started Business with Cash of ₹80,000	80,000 = 0 + 80,000
2)	Purchased Goods on Credit for ₹20,000	20,000 = 20,000 + 0
	<b>New Equation</b>	1,00,000 = 20,000 + 80,000
3)	Purchased furniture on cash for ₹20,000	20,000 = 0 + 0
		(-) 20,000 = 0 + 0
	<b>New Equation</b>	1,00,000 = 20,000 + 80,000
4)	Changed depreciation on furniture ₹500	(-) 500 = 0 + (-) 500
	<b>New Equation</b>	99,500 = 20,000 + 79,500
5)	Paid salaries of ₹200	(-) 200 = 0 + (-) 200
	<b>New Equation</b>	99,300 = 20,000 + 79,300
6)	Sold goods on credit for ₹5,000	(-) 5000 = 0 + (-) 5000
	<b>New Equation</b>	94,300 = 20,000 + 74,300

**Example 22:** Show the effect of the following business transactions on assets, liabilities and capital through accounting equation:

- 1) Commenced business with cash ₹20,000.
- 2) Goods purchased on credit ₹7,000.
- 3) Furniture purchased ₹3,000.
- 4) Paid to creditors ₹2,000.
- 5) Amount withdrawn by the proprietor ₹4,000.
- 6) Creditors accepted a bill for ₹1,500.
- 7) Interest on capital ₹1,000.
- 8) Transfer from capital to loan ₹5,000.
- 9) Allotted shares to creditors ₹1,000.

**Solution:**

S. No.	Transactions	Assets = Liabilities + Capital
1)	Commenced business with cash ₹20,000	20,000 = 0 + 20,000
2)	Goods Purchased on credit ₹7,000	7,000 = 7,000 + 0
	<b>New Equation</b>	27,000 = 7,000 + 20,000
3)	Furniture Purchased ₹3,000	3,000 = 0 + 0
		(-) 3,000 = 0 + 0
	<b>New Equation</b>	27,000 = 7,000 + 20,000
4)	Paid to creditors ₹2,000	(-) 2,000 = (-) 2,000 + 0
	<b>New Equation</b>	25,000 = 5,000 + 20,000
5)	Amount withdrawn by the proprietor ₹4,000	(-) 4,000 = 0 + (-) 4,000
	<b>New Equation</b>	21,000 = 5,000 + 16,000
6)	Creditors accepted a bill for ₹1,500	0 = 1,500 + 0
		0 = (-) 1,500 + 0
	<b>New Equation</b>	21,000 = 5,000 + 16,000
7)	Interest on capital ₹1,000	0 = 0 + 1,000
		0 = 0 + (-) 1,000
	<b>New Equation</b>	21,000 = 5,000 + 16,000

8)	Transfer from capital to loan ₹5,000	0 = 5,000 + (-) 5,000
	<b>New Equation</b>	21,000 = 10,000 + 11,000
9)	Allotted shares to creditors ₹1,000	0 = (-) 1,000 + 1,000
	<b>New Equation</b>	21,000 = 9,000 + 12,000

**Example 23:** From the following transaction prepare Accounting Equation;

- 1) Commenced business with cash ₹2,00,000 and land ₹50,000.
- 2) Bought goods for cash ₹80,000.
- 3) Cash sales of worth ₹25,000, goods worth ₹20,000.
- 4) Bought goods on credit of worth ₹50,000.
- 5) Sales on account to Mr. X ₹12,000, goods worth ₹8,000.
- 6) Purchase furniture for cash ₹5,000.
- 7) Return defective furniture of worth ₹1,500 and received cash.
- 8) Paid wages ₹1,000, rent ₹2,000 and electricity payable 1,500.

**Solution:**

S. No.	Transactions	Assets = Liabilities + Capital
1)	Commenced business with cash and Land	2,00,000 = 0 + 2,50,000
		50,000 = 0 + 0
2)	Purchased goods for cash ₹80,000	(-) 80,000 = 0 + 0
		80,000 = 0 + 0
	<b>New Equation</b>	2,50,000 = 0 + 2,50,000
3)	Sold goods for cash ₹25,000	25,000 = 0 + 5,000
	(Costing ₹20,000)	(-) 20,000 = 0 + 0
	<b>New Equation</b>	2,55,000 = 0 + 2,55,000
4)	Goods purchased on credit for ₹50,000	50,000 = 50,000 + 0
	<b>New Equation</b>	3,05,000 = 50,000 + 2,55,000
5)	Sold goods to Mr. X for ₹12,000	12,000 = 0 + 4,000
	(Costing ₹8,000)	(-) 8,000 = 0 + 0
	<b>New Equation</b>	3,09,000 = 50,000 + 2,59,000
6)	Purchased Furniture for cash ₹5,000	(-) 5,000 = 0 + 0
		5,000 = 0 + 0
	<b>New Equation</b>	3,09,000 = 50,000 + 2,59,000
7)	Returned defective furniture for ₹1,500 and received cash	(-) 1,500 = 0 + 0
		1,500 = 0 + 0
	<b>New Equation</b>	3,09,000 = 50,000 + 2,59,000
8)	Paid wages ₹1,000 and Rent ₹2,000 Electricity bill ₹1,500	(-) 1,000 = 0 + (-) 1,000
		(-) 2,000 = 0 + (-) 2,000
		(-) 1,500 = 0 + (-) 1,500
	<b>New Equation</b>	3,04,500 = 50,000 + 2,54,500

**Example 24:** Analyse the effects of following transactions on the accounting equations.

Date	Transactions
2019 March	Kumar began business with cash ₹50,000.
1	
2	Took loan ₹20,000 from Amar.
3	Purchased 2 computers each costing ₹29,000 on cash.



4	Purchased stationery for ₹6,000 on credit.
6	Paid to creditor ₹2,000.
8	Paid towards salary ₹4,000 and ₹1,200 towards office rent.
10	Withdrew cash ₹3,500 for personal use.
20	Sold goods for ₹20,000 on cash ₹10,000 on credit.
22	Purchased good for ₹15,000 on cash and ₹25,000 on credit.
25	Paid life insurance premium ₹1,000.

**Solution:**

Date	Transactions	Assets	=	Liabilities	+	Capital
<b>2019</b>						
March 1	Kumar started business with Cash ₹50,000	50,000 =		0 +		50,000
March 2	Loan taken from Amar	(+) 20,000 =		20,000 +		0
	<b>New Equation</b>	70,000 =		20,000 +		50,000
March 3	Purchased Computers for Cash @ 29,000 each	(+) 58,000				
		(-) 58,000 =		0 +		0
	<b>New Equation</b>	70,000 =		20,000 +		50,000
March 4	Purchased Stationery on Credit	(+) 6,000 =		(+) 6,000 +		0
	<b>New Equation</b>	76,000 =		26,000 +		50,000
March 6	Paid to Creditor	(-) 2,000 =		(-) 2,000 +		0
	<b>New Equation</b>	74,000 =		24,000 +		50,000
March 8	Paid towards Salary	(-) 4,000 =		0 +		(-) 4,000
	<b>New Equation</b>	(-) 1,200 =		0 +		(-) 1,200
March 10	Withdrawn for Personal Use	68,800 =		24,000 +		44,800
		(-) 3,500 =		0 +		(-) 3,500
	<b>New Equation</b>	65,300 =		24,000 +		41,300
March 20	Sold Goods for Cash	(+) 20,000 =		0 +		(+) 20,000
	<b>New Equation</b>	(+) 10,000 =		0 +		(+) 10,000
March 22	Sold Goods on Credit					
	<b>New Equation</b>	95,300 =		24,000 +		71,300
		(+) 15,000 =		0 +		0
		(-) 15,000 =		0 +		0
March 25	Purchased Goods for Cash	(+) 25,000 =		25,000 +		0
	<b>New Equation</b>	1,20,300 =		49,000 +		71,300
	Paid Life Insurance Premium	(-) 1,000 =		0 +		(-) 1,000
	<b>New Equation</b>	1,19,300 =		49,000 +		70,300

**Example 25:** Analyse the effects of these transactions on the accounting equation.

Date	Transactions
01/03/2018	Suresh began business with cash ₹1,50,000 and ₹20,000 in Bank.
02/03/2018	Took a loan of ₹50,000 from Mahesh.
03/03/2018	Purchased for cash two computers each costing ₹50,000 and goods costing ₹25,000 on credit.
04/03/2018	Paid to creditors ₹5,000.
10/03/2018	Paid salary ₹5,000 and office rent ₹2,000.
12/03/2018	Sold goods on credit ₹10,000.
15/03/2018	Withdrew ₹5,000 in cash for personal use.
18/03/2018	Withdrew from bank ₹2,000.
20/03/2018	Purchase goods worth ₹50,000.
25/03/2018	Sold goods on cash ₹20,000.

**Solution:**

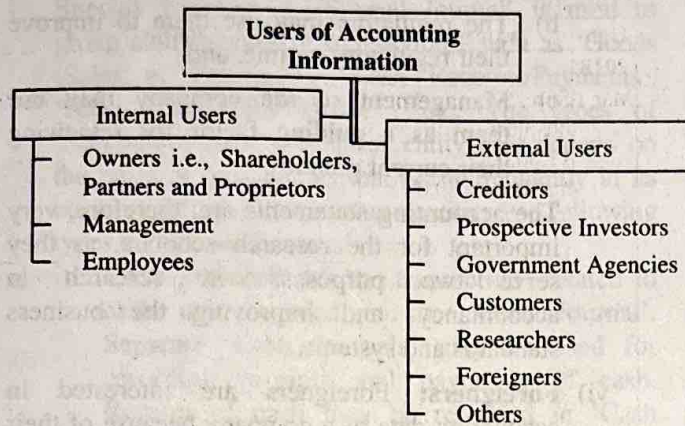
Date	Transactions	Assets	=	Liabilities	+	Capital
<b>2018</b>						
Mar 1	Suresh began business with cash ₹1,50,000 and Bank ₹20,000	1,50,000 =		0 +		1,70,000
Mar 2	Took a loan of ₹50,000 from Mahesh	20,000 =		0 +		0
		50,000 =		50,000 +		0
	<b>New Equation</b>	2,20,000 =		50,000 +		1,70,000
Mar 3	Purchased for cash two computers each costing ₹50,000 (₹50,000 × 2)	(-) =		0 +		0
		1,00,000				
	<b>New Equation</b>	1,00,000 =		0 +		0
	Purchased goods costing ₹25,000 on credit	25,000 =		25,000 +		0
	<b>New Equation</b>	2,45,000 =		75,000 +		1,70,000
Mar 4	Paid to Creditors ₹5,000	(-) 5,000 =		(-) 5,000 +		0
	<b>New Equation</b>	2,40,000 =		70,000 +		1,70,000
Mar 10	Paid Salary ₹5,000	(-) 5,000 =		0 +		(-) 5,000
	<b>New Equation</b>	(-) 2,000 =		0 +		(-) 2,000
Mar 12	And office rent ₹2,000					
	<b>New Equation</b>	2,33,000 =		70,000 +		1,63,000
	Sold goods on credit ₹10,000	10,000 =		0 +		0
	<b>New Equation</b>	(-) 10,000 =		0 +		0
Mar 15	Withdrew ₹5,000 in Cash for personal use	2,33,000 =		70,000 +		1,63,000
		(-) 5,000 =		0 +		(-) 5,000
	<b>New Equation</b>	2,28,000 =		70,000 +		1,58,000
Mar 18	Withdraw from bank ₹2,000	(-) 2,000 =		0 +		(-) 2,000
	<b>New Equation</b>	2,26,000 =		70,000 +		1,56,000
Mar 20	Purchase goods worth ₹50,000	(-) =		0 +		0
		50,000 =		0 +		0
	<b>New Equation</b>	2,26,000 =		70,000 +		1,56,000
Mar 25	Sold goods on cash ₹20,000	20,000 =		0 +		0
	<b>New Equation</b>	(-) 20,000 =		0 +		0
	<b>New Equation</b>	2,26,000 =		70,000 +		1,56,000

## 2.7. USERS OF ACCOUNTING INFORMATION

Accounting information, especially 'Financial Statements' of a company are of immense utility not only for the management and owners, but other stakeholders, which are external to the business, viz. Government agencies, regulators, potential investors, potential business associates, etc.

Such users of 'Accounting Information' may be grouped under two broad categories, i.e. 'External Users' and 'Internal Users'. The details of these users are discussed in the following points:





1) **Internal Users:** The internal users of 'Accounting Information' are as under:

i) **Owners i.e., Shareholders, Partners and Proprietors:**

They are the driving force behind the conduct of any business activity, as it is their ideas as well as the funds, which works for the efficient and convenient flow of business, its growth, development, diversification, etc. Some of the factors on their priority lists are enhanced turnover, improved profitability, better dividend distribution, healthy financial indicators, growth/expansion of business, better future prospects regarding earnings, etc. This sub-category of 'Internal Users' are contended with published annual results, like 'Profit and Loss Account', 'Balance Sheet' and other miscellaneous statements.

ii) **Management:** The accounting data is useful for all the three tiers of a company's management, viz. 'Top Management' (Board of Directors), 'Middle Management' (Senior Executives) and 'Lower Management' (Supervisory Staff). The data facilitates in finalisation of policy statement at 'Top Management' level, implementation of such policies at 'Middle Management' level and discharge of supervisory functions at 'Lower Management' level.

Setting up of a 'Vision Document' and 'Objectives' of a company and monitoring thereof, becomes possible on the basis of inputs provided by accounting. Various budgetary tools and techniques relating to production, sales budget, cash budget and also master budget can be effectively utilised on the basis of statements and reports provided by accounting.

iii) **Employees:** For a sustainable success and growth of a business entity, mutual understanding and cordial relationship between the employer and the employee is the basic requirement. Management of a company can

have a wholesome industrial relationship (between the management on one side and the trade union on the other) through highly contended, committed and motivated employees. This can be achieved with the help of accounting information, which is capable of ensuring industrial harmony by averting various forms of labour unrest like, strikes for demand of better working conditions, wages/salaries, bonus, other benefits, etc.

2) **External Users:** The details of external users of 'Accounting Information', viz. customers, investors, regulators, Government agencies, creditors/suppliers, researchers, foreigners, etc. are discussed in the following paragraphs:

i) **Creditors:** Suppliers of goods or raw materials (in the case of a manufacturing unit) extend short-term credit to their customers with the understanding that the entire payment would be made within a stipulated timeframe. Such kind of credit is termed as 'Trade Credit'. Such trade creditors or the suppliers have concerns with regard to the timely receipt of their dues.

Therefore, it is important for them to ascertain the 'Short-term Solvency' of their customers (to whom supplies have been made). The status of 'Liquidity' or 'Short-term Solvency' of a company can easily be found out with the help of 'Accounting Statements'. The creditors can frame their policy of extending short-term 'Trade Credit' on the basis of financial data.

ii) **Prospective Investors:** The prospective investor may include, besides individuals, banks, and insurance/finance/mortgage companies. The vital guiding factors behind any investment decision taken by a potential investor are:

- a) Safety of funds invested,
- b) Recurring returns in the form of dividends, and
- c) Possible capital gain.

These factors can be determined through the study and analysis of financial data, viz. profitability, dividend policy, and the company's historical background for the last few years. The accounting statements also enable a potential investor to ascertain the viability of current projects, future growth and expansion plans, etc.

iii) **Government Agencies:** The accounting information is required by Government agencies, like tax-authorities, Company Law Board (CLB), Registrar of Companies (RoC), Securities and Exchange Board of India (SEBI), Ministry of Trade and Commerce (MoTC), etc. with a view to ensuring that a



company has complied with all the guidelines, directions, rules and regulations issued by the respective Government agencies. **For example**, CLB may be interested in knowing whether all the provisions of Companies Act, 2013 have been complied with or not. Similarly, SEBI would be interested in ensuring that the interests of investors and public in general are protected.

- iv) **Customers:** The interest of a customer or normal citizen lies in knowing the factors like monitoring mechanism prevailing in the company regarding production, selling and other expenses, which affect the market price of the finished goods. Accounting Statements are helpful in ascertaining such factors. Of late 'Customer Protection Groups' have started exercising some supervision over the business and industry and also creating awareness about the concept of 'Corporate Social Responsibility' (CSR).
- v) **Researchers:** Analysis and interpretation of financial statements of a company by researchers may lead to some unexpected and surprising results and innovative ideas, which may be used by different entities in different ways. **For example:**
  - a) The Government agencies may use such results/ideas to amend their existing policies and come out with the new ones,

- b) The regulators may use them to improve their regulatory regime, and
- c) Management of the company may use them as a guiding factor for reviewing their current policies.

The accounting statements are, therefore, very important for the research scholars, as they serve two purposes, viz. research in accountancy, and improving the business standards and systems.

- vi) **Foreigners:** Foreigners are interested in accounting data of a company because of their exposure in 'Joint Ventures' (JVs), 'Foreign Direct Investments' (FDIs), etc. Further, there are increasing number of cases of merger and acquisition of Indian Companies with Multi-National Companies (MNCs).
- vii) **Others:** Entrepreneurs, trade associations, stock exchanges, media, political parties, etc. are some of the other stakeholders, who are keen on well-being of a business entity and its growth, etc. They also undertake the study of impact on financial and social business environment. Thus, it is clear that the uses and benefits of accounting information are multi-dimensional and various agencies use them in their own manner.

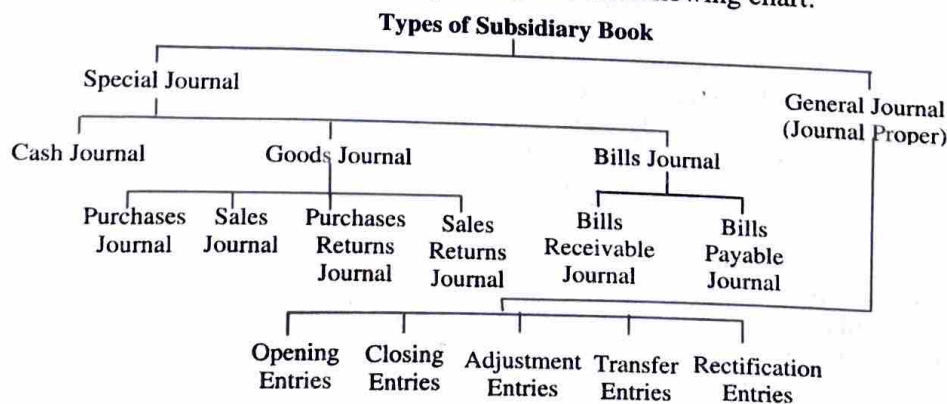
## 2.8. SUBSIDIARY BOOKS

### 2.8.1. Meaning of Subsidiary Book

'Subsidiary Books' are the books of accounts where the first or the original transactions of specific category are recorded. With a view to saving time and energy, as also for the convenience sake, business transactions of similar categories are recorded in separate books. They are also referred to as '**Sub-divisions of Journal**'. A good number of 'Subsidiary Books' is maintained to record all the business transactions. The journal entries made in the primary records acts as a source of information to be used in building specific final accounts in bookkeeping. The primary records have many names, viz. '**Prime Book of Entry**', '**Books of Original Entry**', etc.

### 2.8.2. Types of Subsidiary Book

The 'Subsidiary Books' are broadly grouped into two categories, viz. 'Special Journal' and 'General Journal', which are further sub-divided into various sub-categories as depicted under the following chart:





1) **Special Journal:** A 'Special Journal' is used to group similar types of transactions, such as 'Goods (Sales or Purchase)', 'Cash Receipts/Payments', 'Bills Receivables/Payables', etc. The types of 'Special Journals' a business entity uses depend on the types of transactions that occur frequently in its business. Most of the business entities use following types of 'Special Journals':

i) **Cash Journal:** All the transactions related to cash are recorded in the 'Cash Journal'. Separate 'Cash Journals' may be used for recording receipts and payments of cash. Receipt of cash may be recorded in 'Cash Receipts Journal', while the payment of cash may be recorded in 'Cash Payments Journal'.

ii) **Goods Journal:** All the transactions related to sales and purchases of goods/merchandise are recorded in this category of Journal. It has been further categorised into following journals:

a) **Purchases Journal:** This journal is used for entering the transactions pertaining to goods/merchandise purchased on credit. Purchases made on cash basis are recorded in the 'Cash Journal'.

b) **Sales Journal:** Goods/merchandise sold on credit to the customers are recorded in this journal. Goods sold on cash basis are logically recorded in 'Cash Journal'.

c) **Purchases Returns Journal:** All the transactions pertaining to the 'returns of goods purchased on credit' are recorded in 'Purchases Returns Journal'. This journal is also referred to as 'Returns Outward Journal'.

d) **Sales Returns Journal:** When the goods sold on credit are received back (returned) in the normal course of business, such transactions are recorded in 'Sales Returns Journal'. This journal is referred to as 'Returns Inward Journal' also.

iii) **Bills Journals:** All the transactions pertaining to issue/receipt of 'Bills of Exchange/Promissory Notes' by a business entity are recorded in 'Bills Journals'. This journal may be categorised into two:

a) **Bills Receivable Journal:** 'Bills of Exchange/Promissory Notes' received from the debtors of a business entity are recorded in 'Bills Receivable Journal'.

b) **Bills Payable Journal:** 'Bills of Exchange/Promissory Notes' issued by a business entity favouring its creditors are recorded in 'Bills Payable Journal'.

2) **General Journal:** All the miscellaneous transactions, for which no 'Special Journals' are maintained, are recorded in this journal. It is also referred to as 'Journal Proper'.

Generally following types of transactions are recorded in 'Journal Proper':

i) **Opening Entries:** In the beginning of a new financial year, new set of books are introduced for recording business transactions. The closing balances of the previous year's accounts are required to be brought forward in the beginning of the new financial year. 'The Opening Entries' are nothing but the recording of the closing balances, which are available in the previous year's balance sheet.

ii) **Closing Entries:** At the end of an accounting year, the balances lying in different nominal accounts are transferred to 'Trading and Profit and Loss Account' and the accounts are closed. The entries passed in the process of closing are known as 'Closing Entries'.

iii) **Adjusting Entries:** 'Adjusting Entries', generally relating to the 'Income Accrued/Outstanding' and 'Outstanding/ Prepaid Expenses' are passed on the last day of an accounting year with a view to ensuring that the financial statements reflect the true and accurate affairs of the business entity.

iv) **Transfer Entries:** 'Transfer Entries' are passed in 'General Journal' with a view to transferring one account to the other.

v) **Rectification Entries:** The possible errors that might have been crept in the books of accounts are set right by passing 'Rectification Entries'.

vi) **Purchase of Fixed Assets:** The entries relating to the purchase of fixed assets, e.g. Land, Building, Plant, Machinery, Furniture, Fixture, etc. on credit are made in the journal named as 'Purchase of Fixed Assets'. In all the above cases, there is an option to replace the term 'Book' by the term 'Journal'.

## 2.9. CASH BOOK

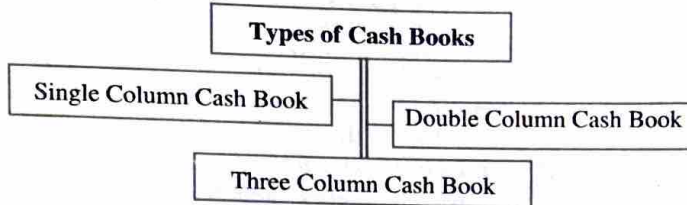
### 2.9.1. Meaning of Cash Book

'Cash Book' is a journal, wherein all cash receipts and payments, including bank deposits and withdrawals are recorded. It starts with the cash or bank balances at the beginning of the period. It is a book of original entry, as all the cash transactions are recorded for the first time in the 'Cash Book'. It is periodically reconciled with the bank statements as an internal method of auditing. 'Cash Book' is a very common book, which is maintained by almost all the organisations, irrespective of the fact whether they are small or large, profit-organisations or non-profit organisations. Larger companies divide the cash book into two parts. The first part is the 'Cash Disbursement Journal', which records all cash payments, such as accounts payable and operating expenses. The second part is the 'Cash Receipts Journal', which records all cash receipts, such as accounts receivable and cash sales.



### 2.9.2. Types of Cash Books

The 'Cash Book' maintained by an organisation may be of any of the following types:



### 2.9.3. Single Column Cash Book

'Single Column Cash Book' also referred to as 'Simple Cash Book' records only cash receipts and payments. All cash receipts are shown on the debit side of this book while all cash payments are shown on the credit side of this book. One money column is present on each of the debit and credit sides of the book. The usual format in which it is maintained is furnished below:

Proforma of Single Column Cash Book							
Dr. Receipts				Payments Cr.			
Date	Particulars	L.F.	Cash (₹)	Date	Particulars	L.F.	Cash (₹)

**Example 26:** Enter the following transactions in the Single Column cash book of Sapna:

Date	Particulars	₹
2021		
April 1	Balance of cash in hand	15,000
April 8	Purchased goods for cash	3,200
April 15	Sold goods for cash	4,800
April 22	Received commission	650
April 27	Paid to Ansh on account	7,150
April 30	Rent paid	600

### Proforma of Double Column Cash Book

Dr. Receipts					Payments Cr.				
Date	Particulars	L.F.	Discount Allowed (₹)	Cash (₹)	Date	Particulars	L.F.	Discount Received (₹)	Cash (₹)

**Note:** Whenever double column Cash Book is used, it is not necessary to have two columns meant for cash and discount only. The two columns may be used as discount and bank or cash and bank.

### Difference between Trade Discount and Cash Discount

Basis of Difference	Trade Discount	Cash Discount
1) <b>Meaning</b>	Trade discount is a deduction allowed by a supplier on the list price of goods and services. Normally, such discount is allowed for the quantity brought or for trade practices, etc.	Cash discount is a deduction allowed by a supplier on the invoice price of goods and services. Normally, such a discount is provided for immediate payment or payments made within a given time period.
2) <b>Purpose</b>	The purpose of providing trade discounts is to increase sales.	The purpose of providing a cash discount is to encourage prompt payment from the buyer.
3) <b>Time when allowed</b>	Trade discount is allowed when the goods and services are purchased.	A cash discount is allowed when the buyer is ready to make immediate payment or payment within the stipulated time period.
4) <b>Disclosure in the Invoice</b>	Normally, a trade discount is shown as a deduction in the invoice.	A cash discount is not shown in the invoice.
5) <b>Ledger Account</b>	No account is prepared for recording the trade discount transaction.	Cash discount account is prepared for recording the cash discount transaction.
6) <b>Variation</b>	Trade discounts may change with the change in the number of goods purchased.	Cash discount may change with the change in period within which the payment is to be made.

### Solution: Single Column Cash Book of Sapna

Dr. Receipts				Payments Cr.			
Date	Particulars	L.F.	Cash (₹)	Date	Particulars	L.F.	Cash (₹)
2021				2021			
April 1	To Balance b/d		15,000	April 8	By Purchase A/c		3,200
April 15	To Sales A/c		4,800	April 27	By Ansh's A/c		7,150
April 22	To Commission A/c		650	April 30	By Rent A/c		600
				April 30	By Balance c/d		9,500
			20,450				20,450
May 1	To Balance b/d		9,500				

### 2.9.4. Two or Double Column Cash Book

In the 'Double/Two Column Cash Book', both the cash as well as discount transactions are recorded (unlike the 'Single Column Cash Book' wherein only cash transactions are recorded). An additional column for discount transaction is added to facilitate reflection of increasing number of discount transactions. A format in which the 'Double/Two Column Cash Book' needs to be maintained is furnished below. 'Double/Two Column Cash Book' has two columns. One is for recording 'Cash Transactions' and the other one or for recording 'Discount Transactions'. On the left hand side, the receipts of cash in cash column and the discount allowed in the discount column is entered. On the right hand side, the payment of cash in the cash column and the discount received in the discount column is entered.



**Example 27:** Enter the following transactions into a Double column Cash Book:

Date	Particulars	₹
2021		
July 1	Balance of Cash in Hand	2,100
July 2	Cash Sales	550
July 5	Received ₹1,460 from Mr. Suresh and Allowed him a Discount of ₹40	
July 10	Paid to Sumit ₹970 in Full Settlement of his Account	1,000
July 11	Furniture Purchased for Cash	1,500
July 12	Cash Sales	2,500
July 15	Cash Purchases	900
July 21	Goods Purchased from Sanjay	2,000
July 24	Goods Sold to Ram	2,500
July 25	Paid to Sanjay in Full Settlement of his A/c	1,950
July 27	Received from Ram in Full Settlement of his A/c	2,480
July 29	Salaries Paid	2,000
July 30	Wages Paid	50
July 31	Rent Paid	500

**Solution:**

## Double Column Cash Book

Dr. Receipts					Cr. Payments				
Date	Particulars	L.F.	Discount Allowed (₹)	Cash (₹)	Date	Particulars	L.F.	Discount Received (₹)	Cash (₹)
2021					2021				
July 1	To Balance b/d			2,100	July 10	By Sumit A/c		30	970
July 2	To Sales A/c			550	July 11	By Furniture A/c			1,500
July 5	To Suresh A/c		40	1,460	July 15	By Purchases A/c			900
July 12	To Sales A/c			2,500	July 25	By Sanjay A/c		50	1,950
July 27	To Ram A/c		20	2,480	July 29	By Salaries A/c			2,000
					July 30	By Wages A/c			50
					July 31	By Rent A/c			500
					July 31	By Balance c/d			1,220
			<b>60</b>	<b>9,090</b>				<b>80</b>	<b>9,090</b>
Aug 1	To Balance b/d			1,220					

**Notes:** As it is clear from the above Cash Book that cash balance is taken whereas in discount column – no balance is taken, it is simply totalled which shows that if debit side is taken ₹60 is allowed as discount which is a loss and on the other hand, if credit side is taken then ₹80 which is received as discount hence it is a profit/gain.

### 2.9.5. Three or Triple Column Cash Book

There are three columns in 'Triple Column Cash Book', viz.:

- 1) Discount Column,
- 2) Cash Column, and
- 3) Bank Column.

'Cash Discount' is a form of incentive given by a seller/supplier to its customers for timely payment of debts, i.e. payment before the specified due date. The system of 'Cash Discount' motivates early payment of debts. It results in a loss when extended to a customer, whereas it is a gain when received from a supplier.

The concept of 'Discount' necessarily entails cash transaction (receipt or payment of cash) and is recorded in the cash book. While the 'Discount Allowed' is recorded on the debit side of the 'Cash Book', the 'Discount Received' is recorded on the credit side. The discount columns are totalled but not balanced.

### Proforma of the Three Column Cash Book

Dr.						Cr.					
Receipts						Payments					
Date	Particulars	L.F.	Discount Allowed (₹)	Cash (₹)	Bank (₹)	Date	Particulars	L.F.	Discount Received (₹)	Cash (₹)	Bank (₹)



**Contra Entries**

The 'Contra' is a Latin word, the literal meaning of which is 'the other side' or 'Against'. Hence, contra entries are the entries recorded on both sides, i.e., debit and credit side of the cash book. The most common examples of recording a contra entry are:

1) **Deposit of Cash into Bank Account:** This transaction is recorded:

- i) On the debit side of the 'Bank Column' – To Cash A/c (*debit the receiver and bank being the receiver*), and
- ii) On the credit side of the 'Cash Column' – By Bank A/c (*credit what goes out and cash is going out of the cash book*).

2) **Withdrawal of Cash from Bank Account for Office Use is Recorded**

- i) In the 'Cash Column' on the debit side – To Bank A/c (*debit what comes in and the cash is coming in*) and
- ii) In the 'Bank Column' on the credit side – By Cash A/c (*credit the giver and the bank is the giver*).

**Note:** However, if cash is withdrawn from bank account for the owner's personal use (drawings account), it does not require a 'Contra Entry'.

**Example 28:** Record the following transactions in a cash book.

Date	Transactions
2019 Feb 1	Commenced business with cash ₹10,000.
6	Received a cheque for ₹5,000
7	Issued a cheque for ₹500 for furniture purchased.
8	Purchased goods for ₹3,000 and paid by cheque.
8	Received a cheque for ₹490 in full settlement of 500 on account.
10	Paid into Bank ₹5,000 from Ranga.
15	Paid wages ₹200.
18	Drew a cheque for personal use ₹400.
25	Drew from bank for office use ₹250.
27	Paid electricity charges ₹15.
28	Paid salary by cheque ₹500.

**Solution:**

Three Column Cash-Book											
Dr.						Cr.					
Receipts						Payments					
Date	Particulars	L.F.	Discount (₹)	Cash (₹)	Bank (₹)	Date	Particulars	L.F.	Discount (₹)	Cash (₹)	Bank (₹)
2019						2019					
Feb 1	To Capital A/c			10,000		Feb 7	By Furniture A/c				500
Feb 6	To Bank A/c				5,000	Feb 8	By Purchase A/c				3,000
Feb 8	To Debtor A/c		10		490	Feb 15	By Wages A/c			200	
Feb 10	To Ranga A/c				5,000	Feb 18	By Drawings A/c				400
Feb 25	To Bank A/c	(C)		250		Feb 25	By Cash A/c	(C)			250
						Feb 27	By Electricity A/c			15	
						Feb 28	By Salary A/c				500
						Feb 28	By Balance c/d			10,035	5,840
			10	10,250	10,490					10,250	10,490
March 1 <sup>st</sup>	To Balance b/d			10,035	5,840						

**Example 29:** From the following transactions, prepare a three column cash book for the month of October 2016:

1 Oct. 16	Balance at Bank ₹4,500
2 Oct. 16	Drew from Bank for office use – 1,500
3 Oct. 16	Bought office furniture for cash – 960
5 Oct. 16	Paid wages in cash – 450
13 Oct. 16	Drew from bank for office use – 750
15 Oct. 16	Sold goods for cash – 660
18 Oct. 16	Received a cheque from Mr. X in settlement of their account of ₹2,250 less 5% discount and paid same direct into the Bank
22 Oct. 16	Bought goods for cash – 1,350
24 Oct. 16	Drew cheque for self – 1,200
31 Oct. 16	Paid Mr. Y A/c ₹1,200 by cheque less 2½%.

**Solution:**

Three Column Cash Book											
Dr.						Cr.					
Receipts						Payments					
Date	Particulars	L.F.	Discount Allowed	Cash	Bank	Date	Particulars	L.F.	Discount Received	Cash	Bank
			(₹)	(₹)	(₹)				(₹)	(₹)	(₹)
2016											
1 oct.	To Balance b/d				4,500	2 oct.	By Cash A/c	(C)			1,500
2 oct.	To Bank A/c	(C)		1,500		3 oct.	By Furniture A/c			960	
13 oct.	To Bank A/c	(C)		750		5 oct.	By Wages A/c			450	



15 oct.	To Sales A/c		660		13 oct.	By Cash A/c	(C)		750
18 oct.	To Mr. X's A/c	112		2,138	22 oct.	By Purchase A/c		1,350	
					24 oct.	By Drawing A/c			1,200
					31 oct.	By Mr. Y's A/c		30	1,170
					31 oct.	By Balance c/d		150	2,018
		112	2,910	6,638				30	2,910
1 Nov.	To Balance b/d		150	2,018					6,638

**Example 30:** From the following transactions prepare a three column cash book.

- 1) Commenced business with ₹30,000 in cash.
- 2) Paid into bank ₹5,000.
- 3) Bought goods for ₹2,000 and paid by cheque.
- 4) Purchased stationery for ₹500.
- 5) Received cash from Mr. Sahil ₹ 980 and allowed him a discount of ₹20.
- 6) Paid Chandra by cheque ₹200.
- 7) Drew cheque for personal use ₹100.
- 8) Paid Santosh his dues by a cheque of ₹340 and received a discount of ₹10.

**Solution:**

Three Column Cash Book										
Date	Particulars	L.F.	Discount Allowed (₹)	Cash (₹)	Bank (₹)	Date	Particulars	L.F.	Discount Received (₹)	Bank (₹)
	To Capital A/c			30,000			By Bank A/c	(C)		5,000
	To Cash A/c	(C)			5,000		By Purchases A/c			2,000
	To Mr. Sahil A/c		20	980			By Stationery A/c		500	
							By Chandra A/c			200
							By Drawings A/c			100
							By Santosh A/c		10	340
							By Balance c/d			25,480
			20	30,980	5,000				10	30,980
	To Balance b/d			25,480	2,360					5,000

**Example 31:** Enter the following transaction in triple column cash book:

2017, January 1 <sup>st</sup>	Chandrika commenced business with cash ₹20,000.
2017, January 3 <sup>rd</sup>	She paid into current account ₹19,000
2017, January 4 <sup>th</sup>	She received cheque from Keerthi & Co. ₹600
2017, January 7 <sup>th</sup>	She pays in bank Keerthi & Co. cheque.
2017, January 10 <sup>th</sup>	She pays Paltan & Co. by cheque and he is allowed a discount of ₹20 and cheque issued for ₹330.
2017, January 12 <sup>th</sup>	Tripathi & Co. pays into her bank A/c ₹475.
2017, January 15 <sup>th</sup>	She receives cheque from Varsha and allows her discount of ₹35 for 450.
2017, January 20 <sup>th</sup>	She receives cash ₹175 from cash sale.
2017, January 25 <sup>th</sup>	Deposited into bank ₹1,000.
2017, January 27 <sup>th</sup>	She pays by cheque for purchase ₹275.
2017, January 30 <sup>th</sup>	She pays sundry expenses in cash ₹50.

**Solution:**

Three Column Cash Book										
Dr.						Payments				
Date	Particulars	L.F.	Discount Allowed (₹)	Cash (₹)	Bank (₹)	Date	Particulars	L.F.	Discount Allowed (₹)	Bank (₹)
2017						2017				
1 Jan.	To Capital A/c			20,000		3 Jan.	By Bank A/c	(C)		19,000
3 Jan.	To Cash A/c	(C)			19,000	7 Jan.	By Bank A/c	(C)		600
4 Jan.	To Keerthi & Co. A/c			600		10 Jan.	By Paltan & Co. A/c		20	330
7 Jan.	To Cash A/c	(C)			6,000	25 Jan.	By Bank A/c	(C)		1,000
12 Jan.	To Tripathi & Co. A/c				475	27 Jan.	By Purchases A/c			275
15 Jan.	To Varsha A/c		35	450		30 Jan.	By Sundry Expenses			50
20 Jan.	To Sales A/c			175		31 Jan.	By Balance c/d			575
25 Jan.	To Cash A/c	(C)			1,000					20,470
			35	21,225	21,075				20	21,225
2017										21,075
1 Feb.	To Balance b/d			575	20,470					



**Example 32:** Enter the following transactions in a three column cash book:

Date	Particulars	₹
2021		
Jan. 1	Capital introduced (in Cash)	30,000
Jan. 4	Paid into bank	8,000
Jan. 5	Purchased goods by cheque	1,000
Jan. 6	Received a cheque from Raman	2,000
	Allowed discount	100
Jan. 10	Cash sales	7,000
Jan. 12	Paid into bank	3,000
Jan. 15	Paid Gopal by cheque	3,000
	Discount received	50
Jan. 20	Paid salaries by cheque	1,000
Jan. 25	Withdraw for office use	2,000
Jan. 31	Draw a cheque for personal use	500

**Solution:**

Three Column Cash Book											
Dr.						Cr.					
Date	Particulars	L.F.	Discount Allowed (₹)	Cash (₹)	Bank (₹)	Date	Particulars	L.F.	Discount Received (₹)	Cash (₹)	Bank (₹)
2021						2021					
Jan 1	To Capital A/c			30,000		Jan 4	By Bank A/c	(C)		8,000	
Jan 4	To Cash A/c	(C)			8,000	Jan 5	By Purchase A/c				1,000
Jan 6	To Raman's A/c		100		2,000	Jan 12	By Bank A/c	(C)		3,000	
Jan 10	To Sales A/c			7,000		Jan 15	By Gopal's A/c		50		3,000
Jan 12	To Cash A/c	(C)			3,000	Jan 20	By Salaries A/c				1,000
Jan 25	To Bank A/c	(C)		2,000		Jan 25	By Cash A/c	(C)			2,000
						Jan 31	By Drawings A/c				500
						Jan 31	By Balance c/d			28,000	5,500
			100	39,000	13,000				50	39,000	13,000
Feb 1	To Balance b/d			28,000	5,500						

**Example 33:** Prepare three column cash book of Mr. Mohan from the following particulars.

Date	Transactions
2018 Aug. 1	Cash in hand ₹25,000 and Bank ₹40,000.
Aug. 2	Purchased goods for cash ₹5,000.
Aug. 4	Sold goods to Vikas ₹8,000 on credit.
Aug. 5	Received ₹5,900 from Mr. X in full settlement of his account ₹6,000.
Aug. 6	Purchased office furniture and issued a cheque ₹5,000.
Aug. 7	Drawn from bank for office use ₹2,000 and for personal use ₹1,000.
Aug. 9	Purchased goods for cash ₹15,000.
Aug. 12	Purchased motor cycle on account from ABC motors for ₹30,000.
Aug. 14	Paid to Mr. A ₹295, discount received ₹5.
Aug. 15	Paid wages ₹500.
Aug. 18	Sold goods for cash ₹10,000.

**Solution:**

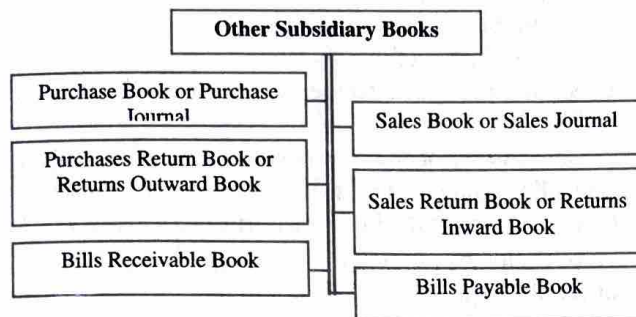
In the Books of Mr. Mohan  
Three Column Cash Book

Dr.						Cr.					
Date	Particulars	L.F.	Discount Allowed (₹)	Cash (₹)	Bank (₹)	Date	Particulars	L.F.	Discount Received (₹)	Cash (₹)	Bank (₹)
2018						2018					
Aug 1	To Balance b/d			25,000	40,000	Aug 2	By Purchases A/c				
Aug 5	To X A/c	(C)	100	5,900		Aug 6	By Office Furniture A/c			5,000	
Aug 7	To Bank A/c			2,000		Aug 7	By Drawings A/c				5,000
Aug 18	To Sales A/c			10,000		Aug 7	By Cash A/c	(C)			1,000
						Aug 9	By Purchases A/c				2,000
						Aug 14	By Mr. A A/c		5	15,000	
						Aug 15	By Wages A/c			295	
						Aug 31	By Balance c/d			500	
			100	42,900	40,000					22,105	32,000
Sep 1	To Balance b/d			22,105	32,000				5	42,900	40,000



## 2.10. OTHER SUBSIDIARY BOOKS

Following are the different types of other subsidiary books:



### 2.10.1. Purchase Book or Purchase Journal

Purchase Book is used for recording the credit purchases of goods which deals with business organisation. This 'Subsidiary Book' is also referred to as 'Purchase Journal', 'Invoice Book' or 'Bought Book'. The products/goods purchased on cash and the purchase of those assets, with which the business organisation does not deal, are not recorded in this book of accounts.

For recording the entries in the 'Purchase Book', the basis is 'Purchase Invoices'/'Inward Invoices', which are received from the suppliers. It is essential to ensure that the amount recorded in the book is the net discounts (whether 'Trade Discount' or 'Quantity Discount') availed of from the suppliers. Discount received from the list price of products to the supplier is termed as 'Trade Discounts'.

#### Proforma

The simplest proforma of a purchase book is shown below:

Purchase Book							
Date	Name of Suppliers (Account to be Credited)	Invoice No.	L.F.	Details		Amount	
				₹	P.	₹	P.

**Example 34:** Record the following items in the purchase book maintained by Mr. Satish:

Date	Particulars	₹
March 2	Purchases made from Hari	15,000
March 6	Goods purchased from Suresh. He allowed 10% trade discount	10,000
March 7	Bought goods from Tamim	30,000
March 11	Purchased goods from Kunal, allowing 5% trade discount	40,000
March 13	Goods purchased for cash from Ali	30,000
March 21	Bought furniture from Tarun	4,000
March 26	Goods bought from Rahul @ 10% trade discount	50,000

#### Solution:

#### Purchase Book

Date	Name of Suppliers (Account to be Credited)	Invoice No.	L.F.	₹
2 March	Hari			15,000
6 March	Suresh 10,000 Less: Trade Discount @ 10%			9,000
7 March	Tamim			30,000
11 March	Kunal 40,000 Less: Trade Discount @ 5%			38,000
26 March	Rahul 50,000 Less: Trade Discount @ 10%			45,000
31 March	Purchases A/c Dr.			1,37,000

### 2.10.2. Sales Book or Sales Journal

The transactions relating to the goods, with which the business organisation deals, sold on 'Credit Basis' are recorded in the 'Sales Book'/'Sales Journal'. It is important to note that the goods sold on 'Cash Basis' are not recorded in this subsidiary book. They are recorded in the 'Cash Book'.

The transactions related to credit sale of assets other than the goods, with which the business organisation deals, are also not recorded in the 'Sales Book'.

In brief, following points are required to be kept in mind while recording different transactions in the 'Sales Book':

- 1) Transactions pertaining to all the sales are not recorded in Sales Book;
- 2) Goods sold on 'Cash Basis' are not recorded in Sales Book;
- 3) Only the transactions related to credit sale of the goods, with which the business organisation deals, need to be recorded in the Sales Book;
- 4) Transactions related to the credit sales of assets other than the goods, with which the business organisation deals, are not recorded in 'Sales Book'.

#### Proforma

A simple form of 'Sales Book' proforma is shown below:

Sales Book							
Date	Name of Customers (Account to be Debited)	Invoice No.	L. F.	Details		Amount	
				₹	P.	₹	P.



**Example 35:** Record the transactions given below in sales book of Deepak & Co.

Date	Particulars
2021	
May 5	Sales made to Jain & sons, Mumbai 12 dozens pen @ ₹20 per dozen 15 dozens pencil @ ₹50 per dozen
May 15	Sales made to Ali, New Delhi 50 dozens of whitener bottles @ ₹10 per bottle 50 dozens of steel scale @ ₹20 per dozen <b>Less:</b> 5% Trade Discount
May 18	Sales of journal & magazines 500
May 22	Sold goods to Roy, Ghaziabad 20 rims of paper @ ₹100 per rim <b>Less:</b> Trade Discount @ 20%
May 26	Sold on cash to Babar, ludhiana 20 dozen of pens @ ₹120 per dozen
May 30	Sold to Gupta Bros., New Delhi 10 dozen of pencils @ ₹20 per dozen <b>Less:</b> Trade Discount @ 5%
May 31	Sales of furniture to Sweta for 2000

**Solution:** Sales Book/Sales Journal

Date	Name of Customers (Account to be Debited)	Invoice No.	L. F.	Details (₹)	Amount (₹)
2021 May 5	Sold to Jain & Sons, Mumbai 12 dozens pen @ ₹20 per doz. 15 dozens pencils @ ₹50 per doz.			240 750	990
May 15	Ali, New Delhi 50 dozens of whitener bottles @ ₹10 per bottle 50 dozens steel scale @ ₹20 per doz. <b>Less:</b> Trade Discount @5%			500 1,000 1,500 75	1,425
May 22	Roy, Ghaziabad 20 rims of paper @ ₹100 per rim <b>Less:</b> Trade Discount @ 20%			2,000 400	1,600
May 30	Gupta Bros., New Delhi 10 dozens pencils @ ₹20 per doz. <b>Less:</b> Trade Discount @ 5%			200 10	190
May 31	Sales A/c Cr.				4,205

**Working Notes:**

- Journal and magazines sold on 18 May will not be recorded in sales book as the firm is not trading in this product and secondly, the same is made on cash basis.
- Cash sales that are made on 26 May are recorded in the cash book and not in the sales book.

### 2.10.3. Purchases Return Book or Returns Outward Book

Transactions pertaining to the return of goods purchased on credit are recorded in the 'Purchases Return Book' or 'Return Outward Book'. This is called return outward

because goods brought inside the business at the time of purchases are being sent outside the business to supplier. There may be a number of reasons for returning the goods, some of which are as follows:

- The goods supplied may be defective or of lower quality;
- Delay in the supply of goods;
- The terms and conditions governing the supply of goods (as per the agreement) might not have been fulfilled;
- Goods may not be as per the specification or according to the 'Sample';
- Goods are spoilt during transportation;
- Goods supplied happen to be more than what was ordered.

'Purchases Return Book' is maintained in a manner similar to that of 'Purchases Book'. It contains the name of the suppliers to whom goods have been returned, details of the goods returned, discount allowed by the suppliers at the time of supplying goods, etc.

#### Source of Recording

The entries in the purchase returns book are usually on the basis of debit notes issued to the suppliers.

**Note:** At the time of returning the goods, the buyer is required to prepare a 'Debit Note', which is sent to the supplier along with the goods returned. The 'Debit Note' is serially numbered and contain details like 'Date of Return of Goods', 'Name of the Supplier of the Goods', to whom the 'goods are being returned', etc.

#### Proforma

The proforma of 'Purchase Returns Book' in a simple form is shown below:

Purchase Returns Book							
Date	Name of Suppliers (Account to be Debited)	Debit Note No.	L. F.	Details		Amount	
				₹	P.	₹	P.

**Example 36:** Record the following in the purchase return book:

Date	Particulars
2020	
Dec. 4	Returns made to Sahil Jain 200 defective boxes @ ₹50 per box. Debit note no. 112/2
Dec. 13	Alim gave an allowance of ₹2,000 for retaining the defective goods. Sent him a debit note no. 113/2
Dec. 15	Dispatched a debit note no. 114/2 for ₹500 to Tarun, who overcharged in the invoice.

**Solution:** Purchase Return Book  
(In the books of .....)

Date	Name of Suppliers (Account to be Debited)	Debit Note No.	L. F.	Details (₹)	Amount (₹)	Remarks
2020 Dec. 4	Sahil Jain 200 defective boxes @ ₹ 50 per case	112/2		10,000		Defective



Dec. 13	Alim Allowance granted for retaining damaged goods	113/2	2,000		Damaged
Dec. 15	Tarun Adjustment of overcharged amount	114/2	500	12,500	Overcharged
Dec. 31	Purchases Return A/c Cr.			12,500	

## 2.10.4. Sales Return Book or Returns Inward Book

Transactions pertaining to the return of goods sold on credit are recorded in the 'Sales Return Book' or 'Returns Inward Book/Journals'. The transactions related to return of goods sold on 'Cash Basis', and return of an asset other than the goods, with which the business organisation deals, are not recorded in the 'Sales Return Book'. There may be a number of reasons for returning the goods, some of which are as follows:

- 1) The goods supplied may be defective or of lower quality,
- 2) Delay in the supply of goods,
- 3) The terms and conditions governing the supply of goods (as per the agreement) might not have been fulfilled,
- 4) Goods may not be as per the specification or according to the 'sample',
- 5) Goods are spoilt during transportation, and
- 6) Goods supplied happen to be more than what was ordered.

### Source of Recording

The basis of recording various entries in the 'Sales Return Book' is the 'Credit Notes' issued to the customers.

**Note:** The seller prepares a 'Credit Note', which is serially numbered. Such note includes details like:

- 1) The date of return of merchandise,
- 2) The name of the customer returning the merchandise,
- 3) Details of merchandise received back,
- 4) The amount of such goods, and
- 5) Discount allowed, if any.

## 2.10.5. Bills Receivable Book

'Bills Receivable Book' contain the transactions pertaining to the bills provided by a trader, accepted by its customer and thereafter returned back to the trader (after duly accepted). This subsidiary book is also referred to as 'Bills Receivable Journal'.

### Proforma

The proforma of 'Bills Receivable Book' in a simple form is shown below:

Bills Receivable Book											
S. No.	Date of Receipt	From whom Received	Drawer	Acceptor	Where Payable	Date of Bill	Term	Due Date	L.F.	₹	Remarks

### Proforma

The proforma of 'Sales Returns Book' in a simple form is given below:

Sales Returns Book							
Date	Name of Customers (Account to be Credited)	Credit Note No.	L. F.	Details		Amount	
				₹	P.	₹	P.

**Example 37:** Record following transactions in the sales return book:

Date	Particulars
2021	
April 7	Returns made by Sham Sunder 10 shawls @ 500 per pc for inferior quality through credit note no. 115/1
April 9	Supreme Tailors returned 4 shirts @ 1000 per shirt as the same was not as per their order. Credit note no. 116/1
April 22	Tripura Bhandar returned 10 silk sarees @ 1000 each for being defective. Credit note no. 117/1
April 30	Returns made by Sumit Textiles, 10 trousers @ 500 each being out of size. Credit note no. 118/1

### Solution:

### Sales Return Book

(In the books of.....)

Date	Name of Customers (Account to be Debited)	Credit Note No.	L. F.	Details (₹)	Amount (₹)	Remarks
2021						
April 7	Sham Sunder 10 shawls @ ₹500 each	115/1		5,000		Due to inferior quality
April 9	Supreme Tailors 4 shirts @ ₹1,000 each	116/1		4,000		Not as per the order
April 22	Tripura Bhandar 10 silk sarees @ ₹1,000 each	117/1		10,000		Defective
April 30	Sumit Textiles 10 trousers @ ₹500	118/1		5,000	24,000	Being out of size
April 30	Sales Return A/c Dr.				24,000	



## 2.10.6. Bills Payable Book

'Bills Payable Book' contains the transactions pertaining to the bills raised by other parties (suppliers), accepted by the trader and thereafter returned back to them (by whom they were raised) after having duly accepted by the trader. This subsidiary book is also referred to as 'Bills Payable Journal'.

### Proforma

The proforma of 'Bills Payable Book' in a simple form is shown below:

Bills Payable Bank												
S. No.	Date of Bill	To whom given	Drawer	Payee	Where Payable	Term of Bill	Due Date	L.F.	₹	Payment Date	C.B. Folio	Remarks

**Example 38:** Use following information for preparing Bills Receivable and Payable book:

Date	Particulars
2021	
July 2	Received acceptance from Dheeraj for ₹10,000 payable over 2 months.
July 21	Gave acceptance to Sumit for ₹5,000 payable after 2 months.
July 30	Received acceptance from Hari for ₹2,000 payable after 60 days.
Aug. 6	Satish's bill for ₹2,000 which is payable after 3 months duly accepted.
Aug. 12	Received acceptance from Sohan against a bill for ₹1,000.

**Solution:**

### Bills Receivable Book

Date	From whom Received	Term of Bill	Due Date	L.F.	₹	Remark
2021			2021			
July 2	Dheeraj	2 months	Sep. 5		10,000	
July 30	Hari	60 days	Oct. 1		2,000	
Aug. 12	Sohan	1 month	Sep. 15		1,000	
					13,000	

### Bills Payable Book

Date	To Whom Given	Term of Bill	Due Date	L.F.	₹	Remark
2021			2021			
July 21	Sumit	2 months	Sep. 24		5,000	
Aug. 6	Satish	3 months	Nov. 9		2,000	
					7,000	

## 2.11. EXERCISE

### 2.11.1. Very Short Answer Type Questions

- 1) What do you mean by accounting cycle?
- 2) What is journalising?
- 3) What do you mean by ledger?
- 4) What is accounting equation concept?
- 5) List the users of accounting information.
- 6) What are subsidiary books?

### 2.11.2. Short Answer Type Questions

- 1) What are the rules of debit and credit relating to various types of accounts?
- 2) In what ways ledger will be beneficial to businessman?
- 3) What is the difference between journal and ledger?
- 4) Discuss the methods of trial balance.
- 5) Distinguish between trial balance and balance sheet.
- 6) Differentiate between trade discount and cash discount.
- 7) What is Contra Entry? Give examples.

### 2.11.3. Long Answer Type Questions

- 1) Explain the steps involved in the accounting cycle.
- 2) Discuss the traditional classification of accounts including with the rules of journalising.
- 3) What are the objectives and limitations of trial balance?
- 4) Explain any six user of accounting information.
- 5) What is cash book? Explain the different types of cash books.
- 6) Elaborate the different types of subsidiary books.

### 2.11.4. Practical Questions

#### Journal

- 1) Pass journal entries in the books of Mr. X for the following transactions:

Date	Particulars	₹
2021		
July 1	Commenced business with capital	4,00,000
July 10	Bought office stationery for ₹30,000 by paying ₹20,000 cash and ₹10,000 on credit.	
July 15	Bought furniture for office use.	1,00,000
July 20	Invoice sent to customer for the service	40,000
July 25	Service given to customer	10,000
July 28	Cash withdrawal for business purpose.	3,000

- 2) Journalise the following transactions in books of Mr. Ashok:

Date	Particulars	₹
2021		
June 1	Commenced business with cash	6,000
June 2	Goods purchased	4,000
June 10	Received an order of 50% goods of Total order from Govind	
June 14	Goods sent to Govind as per received order	2,600
June 18	Received order for balance 50% of the total goods	
June 24	Cash received by supplying the goods	2,400
June 26	Payment made by Govind	700
June 28	Salary paid to the staff	420
June 30	Interest received	100



3) Journalise the following transactions in the books of M/s Shubhash.

Date	Particulars	₹
2021		
May 1	Capital introduced in new business	2,00,000
May 4	Bought Furniture for cash.	20,000
May 8	Bought goods at a trade discount of 10% from Mr. Kapoor.	7,500
May 10	Purchase Return to Mr. Kapoor.	500
May 18	Payment cleared to Mr. Kapoor.	6,250
May 20	Sales of goods to Mr. Ram.	5,000
May 24	Sales return from Mr. Ram	1,000
May 26	On account of full settlement Mr. Ram made payment	3,900
May 26	Received an order of goods from Mr. Harsh and the payment was made in advance	5,000
May 27	Goods supplied to Mr. Harsh for advance order given by him.	

### Ledger

4) Journal the following transactions and prepare their respective ledgers.

Date	Transactions	Amount
Jan. 1	Started Business with Cash	50,000
3	Sold Goods to Rohan	40,000
7	Goods Purchased from Sohan	20,000
20	Paid Rent	5,000
25	Commission Received	2,000
30	Machinery Purchased	10,000

5) Journalise the following transactions in the books of Mr. Ravi. You are required to post all the following transactions and need to balance the accounts opened in the ledger.

Date	Particulars	₹
2021		
June 2	Commenced business with Cash	35,000
June 7	Deposited into bank	25,000
June 8	Cash purchase from Mr. Krishna	2,500
June 10	Goods purchased from Mr. Shiv on credit	3,000
June 12	Mr. Shiv admitted for returning goods	500
June 13	Cash Sales to Mr. Arun	3,000
June 15	Sale of goods to Mr. Brij	3,000
June 17	Purchase return from Mr. Brij	500
June 19	Drawing made for personal expense	2,500
June 20	Payment given to Mr. Shiv by cheque for settlement of his account	2,400
June 21	Received a cheque from Mr. Brij for settlement of his account	2,450
June 24	Withdraw cash from Bank for Office use	5,000
June 25	Drawing made	2,500
June 26	Salary paid to employee	5,000
June 30	Issued a Cheque for ₹1,500 in Favour of Mr. Deva towards Rent for June	
June 30	Drawing of goods for personal purpose	500

### Trial Balance

6) Prepare the Trial Balance from following information:

Particulars	₹	Particulars	₹
Land and Building	1,20,000	Drawings	8,000
Plant and Machinery	1,60,000	Insurance	1,600
Office Table	8,000	Premium	
Office Laptop	16,000	Sundry Creditors	62,000
Debtors	68,000	Sales	4,40,000
Purchases	2,00,000	Capital	1,60,000
Loan on Mortgage	80,000	Discount Allowed	800
Cash at Bank	68,000	Carriage Outward	1,800
Cash in Hand	1,200	Opening Stock	32,600
Bad Debts	3,400	Rent and Rates	4,800

Purchase Returns	3,200		
Trade Expenses	1,800		
Wages	30,000		
Interest on Loan	3,200		
Salaries	6,000		
Power	7,200		
Discount Received	1,200		

[Ans: Total of Trial Balance ₹7,46,400]

7) Prepare a Trial Balance from the following as on 31<sup>st</sup> March, 2021:

Particulars	₹	Particulars	₹
Purchases	2,80,000	Sales	4,00,000
Opening Stock	2,40,000	Sales Return	32,000
Expenses	32,000	Cash	40,000
Purchases Return	16,000	Outstanding Expenses	16,000
Bank Overdraft	2,00,000	Debtors	2,24,000
Carriage Inward	16,000	Building and Machinery	4,00,000
Creditors	48,000	Carriage Outward	24,000
Commission Received	40,000	Reserve fund	1,20,000
Capital	4,48,000	Salaries	1,00,000
Investment	40,000	Interest Received	40,000
Bank Loan	1,00,000	Other Receipts	2,000
Stationery	1,000	General Expenses	1,000

[Ans: Total of Trial Balance ₹1,43,000]

8) From the following balances extracted from the books of a trader, prepare Trial Balance as on 31<sup>st</sup> March, 2021.

Particulars	₹	Particulars	₹
Cash in Hand	8,400	Purchases	1,50,000
Cash at Bank	33,600	Carriage Inward	5,400
Bills Receivable	36,000	Advertisement	4,800
Bills Payable	32,000	Salaries	24,000
Sundry Creditors	64,800	Insurance	3,200
Sundry Debtors	49,200	Plant	15,000
Capital	1,00,000	Opening Stock	37,200
Drawings	36,000	Office Expense	4,000
Sales	2,10,000		

[Ans: Total of Trial Balance ₹4,06,800]

9) Re-draft the following incorrect Trial Balance of Sohil and Co.:

Particulars	Dr. (₹)	Particulars	Cr. (₹)
Drawings	10,000	Capital	40,000
Purchases	20,000	Sales	50,000
Purchase Return	2,000	Sales Return	4,000
Wages	6,000	Discount on Sales	2,000
Discount on Purchases	1,000	Investments	16,000
Closing Stock	14,000	Carriage Outwards	1,000
Bills Payable	2,000	Income Tax	2,000
Carriage Inwards	2,000	Trademark	2,000
Loan Taken	8,000	Bills Receivable	6,000
Cash	1,000		
Machinery	12,000		
General Reserve	2,000		
Salary	66,000		
Provision for Bad Debts	1,000		
Goodwill	22,000		
	1,23,000		1,23,000

[Ans: Total of Trial Balance ₹1,16,000]



**Cash Book**

- 10) Prepare a double columnar cash book from the following transactions of Shri P. Verma:

Date	Particulars	₹
2021		
April 1	Cash in Hand	4,000
April 4	Bought goods on cash	4,000
April 10	Wages Paid	80
April 14	Sold goods on cash	12,000
April 18	Received cash from Mr. Sohan and Discount Allowed	3,960
April 20	Cash Paid to Mr. Mohit and Discount Received	4,940
April 27	Payment given to Mr. Ram	800
April 28	Cash purchase	4,140

Find out the total discount allowed and received.

[Ans: Cash Balance (closing) ₹6,000, Discount Total (Dr.) ₹40, (Cr.) ₹60]

- 11) Record the following transactions in the three column cash book:

Date	Particulars	₹
2021		
Jan 1	Cash in Hand	1,000
	Cash at Bank	24,000
Jan 2	Additional Capital introduced	24,000
Jan 5	Deposited into Bank	16,000
Jan 8	Payment received from Mr. Ram	1,780
	Discount Allowed	10
Jan 12	Payment given to Mr. Gautam	2,400
	Discount Received	60
Jan 15	Cash Purchase	1,400
Jan 17	Cash Sales	2,000
Jan 18	Bought Furniture by Cheque	3,000
Jan 19	Received a Crossed Cheque of ₹430 from Mr. Sohail in Full Settlement of ₹480	300
Jan 22	Paid Commission by Cheque	600
Jan 25	Drawing made	1,400
Jan 26	Paid to Mr. Kapoor by Cheque	40
	Discount Received	600
Jan 27	Drawing made	60
Jan 29	Received Dividend by an Order Cheque. Deposited in the Bank on the Same Day	100
Jan 30	Paid Telephone Bill	700
Jan 31	Paid Manager's Salary	400
Jan 31	Paid Rent	300
Jan 31	Paid Wages	300

[Ans: Discount (Dr.) ₹30, (Cr.) ₹100; Cash Balance ₹10,280; Bank Balance ₹7,820]

- 12) From the following particulars of Shri B. Chakroborty prepare a Cash Book with Cash and Bank column for the month of October, 2021:

2021 October	Particulars	₹
1	Balance in Hand	40,000
	Balance at Bank	1,00,000
3	Deposited cash into bank	10,000
4	Withdrew cash from bank	30,000
14	Received a cheque from Mr. Debashish Mukherjee	10,000
16	The above cheque was deposited into bank	-
19	Withdrew cash from bank for office use	10,000
25	Deposited all cash in excess of ₹50,000 into the bank	-
30	Cashed for Mr. Ganeshan and deposited into bank	5,000
31	Withdrew all cash from bank in excess of ₹60,000	-

- 13) Prepare a three column Cash Book from the given ahead:

Date	Particulars
1	Cash in hand ₹1,80,000.
2	Cash in Bank ₹1,50,000
3	Cash sales deposited in Bank ₹6,000.
5	Amount deposited by a customer directly in Bank ₹9,000.
5	Sold goods to Rakheja for ₹18,000.
6	Deposited cash for opening a fixed deposit account ₹30,000.
8	Received a cheque from Jagannath for ₹3,000.
9	Discount allowed ₹200.
10	Paid to Vinod by cheque ₹9,000.
11	Goods returned by Rakheja ₹3,000.
12	Interest allowed by Bank ₹6,000.
13	Cheque received from Jagannath is dishonoured. Bank charges ₹10 for dishonour of the cheque.
14	A bill receivable for ₹30,000 discounted from Bank at 10%.
15	Received a cheque from Rakheja for ₹14,000 in full and final settlement of his account.
18	Withdrew from Bank for paying medical expenses of the owner of ₹6,000.
19	Rakheja cheque deposited in bank.
20	Purchased building and payment made by cheque ₹2,00,000.
21	Bad debts recovered ₹2,000.
25	An insolvent debtor pays 40% of ₹10,000 due from him.

**Subsidiary Book**

- 14) Record the following information in proper subsidiary books, post them to ledger and extract a balance:

**Balance Sheet as at 1<sup>st</sup> March, 2021**

Liabilities	₹
Creditors	
X & Co.	15,000
Y & Co.	45,000
Loan	40,000
Capital	2,20,000
	<b>3,20,000</b>

Assets	₹
Cash	25,000
Bank	75,000
Debtors:	
A & Co.	20,000
B & Co.	50,000
Stock	40,000
Furniture	10,000
Building	1,00,000
	<b>3,20,000</b>

- 15) Record the following information in proper subsidiary books, post them to ledger and extract a balance. Transactions during the month of March, 2021:

2	Goods of the list price of ₹10,000 purchased from Z & Co. at 10% trade discount.
5	Issued a cheque of ₹14,000 in favour of X & Co. in final settlement.
8	Received ₹10,000 cash and a cheque of ₹35,000 from B & Co. in final settlement.
10	A & Co. declared insolvent and a final dividend of 60% received from their estate.
12	Sold goods on credit to C & Co. ₹25,000.
15	Received a cheque of ₹25,000 from C & Co. and deposited in bank.
18	Cheque received from C & Co. returned dishonoured. Bank charges ₹10.
19	Deposited ₹30,000 in bank.
20	Purchased investments by cheque ₹1,00,000.
25	Received a request from C and Co. to deposit the dishonoured cheque and the cheque is deposited again.
27	Paid interest on loan ₹1,000 and salaries ₹5,000.
31	Charge depreciation on furniture ₹500 and on building ₹5,000. Closing stock revealed by physical stock taking ₹30,000.