

ACCOUNTENCY WORK BOOK

CLASS-XI

Part : I & II

**State Council of Educational Research and Training
Govt. of Tripura**

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ACCOUNTENCY WORK BOOK
Class - XI

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মন্ত্রী
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শিক্ষার প্রকৃত বিকাশের জন্য, শিক্ষাকে যুগোপযোগী করে তোলার জন্য প্রয়োজন শিক্ষাসংক্রান্ত নিরন্তর গবেষণা। প্রয়োজন শিক্ষা সংশ্লিষ্ট সকলকে সময়ের সঙ্গে সঙ্গে প্রশিক্ষিত করা এবং প্রয়োজনীয় শিখন সামগ্রী, পাঠ্যক্রম ও পাঠ্যপুস্তকের বিকাশ সাধন করা। এস সি ই আর টি ত্রিপুরা রাজ্যের শিক্ষার বিকাশে এসব কাজ সূনামের সঙ্গে করে আসছে। শিক্ষার্থীর মানসিক, বৌদ্ধিক ও সামাজিক বিকাশের জন্য এস সি ই আর টি পাঠ্যক্রমকে আরো বিজ্ঞানসম্মত, নান্দনিক এবং কার্যকর করবার কাজ করে চলেছে। করা হচ্ছে সুনির্দিষ্ট পরিকল্পনার অধীনে।

এই পরিকল্পনার আওতায় পাঠ্যক্রম ও পাঠ্যপুস্তকের পাশাপাশি শিশুদের শিখন সক্ষমতা বৃদ্ধির জন্য তৈরি করা হয়েছে ওয়ার্ক বুক বা অনুশীলন পুস্তক। প্রসঙ্গত উল্লেখ্য, ছাত্র-ছাত্রীদের সমস্যার সমাধানকে সহজতর করার লক্ষ্যে এবং তাদের শিখনকে আরো সহজ ও সাবলীল করার জন্য রাজ্য সরকার একটি উদ্যোগ গ্রহণ করেছে, যার নাম 'প্রয়াস'। এই প্রকল্পের অধীনে এস সি ই আর টি এবং জেলা শিক্ষা আধিকারিকরা বিশিষ্ট শিক্ষকদের সহায়তা গ্রহণের মাধ্যমে প্রথম থেকে দ্বাদশ শ্রেণির ছাত্র-ছাত্রীদের জন্য ওয়ার্ক বুকগুলো সুচারুভাবে তৈরি করেছেন। ষষ্ঠ থেকে অষ্টম শ্রেণি পর্যন্ত বিজ্ঞান, গণিত, ইংরেজি, বাংলা ও সমাজবিদ্যার ওয়ার্ক বুক তৈরি হয়েছে। নবম দশম শ্রেণির জন্য হয়েছে গণিত, বিজ্ঞান, সমাজবিদ্যা, ইংরেজি ও বাংলা। একাদশ দ্বাদশ শ্রেণির ছাত্র-ছাত্রীদের জন্য ইংরেজি, বাংলা, হিসাবশাস্ত্র, পদার্থবিদ্যা, রসায়নবিদ্যা, অর্থনীতি এবং গণিত ইত্যাদি বিষয়ের জন্য তৈরি হয়েছে ওয়ার্ক বুক। এইসব ওয়ার্ক বকের সাহায্যে ছাত্র-ছাত্রীরা জ্ঞানমূলক বিভিন্ন কার্য সম্পাদন করতে পারবে এবং তাদের চিন্তা প্রক্রিয়ার যে স্বাভাবিক ছন্দ রয়েছে, তাকে ব্যবহার করে বিভিন্ন সমস্যার সমাধান করতে পারবে। বাংলা ও ইংরেজি উভয় ভাষায় লিখিত এইসব অনুশীলন পুস্তক ছাত্র-ছাত্রীদের মধ্যে বিনামূল্যে বিতরণ করা হবে।

এই উদ্যোগে সকল শিক্ষার্থী অতিশয় উপকৃত হবে। আমার বিশ্বাস, আমাদের সকলের সক্রিয় এবং নিরলস অংশগ্রহণের মাধ্যমে ত্রিপুরার শিক্ষাজগতে একটি নতুন দিগন্তের উন্মেষ ঘটবে। ব্যক্তিগত ভাবে আমি চাই যথাযথ জ্ঞানের সঙ্গে সঙ্গে শিক্ষার্থীর সামগ্রিক বিকাশ ঘটুক এবং তার আলো রাজ্যের প্রতিটি কোণে ছড়িয়ে পড়ুক।

(রতন লাল নাথ)

ACCOUNTANCY

Class-XI

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Introduction to Accounting

History and Development of Accounting

The history of accounting is too old. The seeds of accounting were most likely first sown in Babylonia and Egypt around 4000 B.C. who recorded transactions of payment of wages and taxes on clay tablets. There was more than one banking firm in Mesopotamia, employing standard measures of gold and silver, and extending credit in some transactions.

In the 5th century B.C., Greece used “public accountants” to allow its residents to maintain real authority and control over their government’s finances. Romans used daybook for recording of receipts and payments and thereafter they were posted to ledgers on monthly basis. China used sophisticated form of government accounting as early as 2000 B.C.

In India Accounting practices could be traced back to a period when twenty-three centuries ago, Kautilya, a minister in Chandragupta’s kingdom wrote a book named *Arthashastra*, which also described how accounting records had to be maintained. Luca Pacioli’s, book *Summa de Arithmetica, Geometria, Proportion at Proportionality* (Review of Arithmetic and Geometric proportions) in Venice (1494) is considered as the first book on double entry book-keeping.

Meaning of Accounting

Accounting can be defined as the process of identifying, measuring, recording and communicating the required information relating to the economic events of an organisation to the interested users of such information.

In 1966, the American Accounting Association(AAA) defined accounting as ‘the process of identifying, measuring and communicating economic information to permit informed judgments and decisions by users of information’.

Objectives of Accounting

1. To keep systematic and complete records of financial transactions in the books of accounts as per definite principles and rules to avoid the possibility of omission and fraud.
2. To ascertain the profit earned or loss incurred during a particular accounting period of a business firm.
3. To ascertain the financial position of the business by the means of financial statement i.e. balance sheet which shows assets and Liabilities.
4. To provide useful accounting information to various users like owners, investors, creditors, banks, employees and government authorities etc.

5. To provide financial information to the management for taking various decision.

Limitations of Accounting

1. It is historical in nature; the figures given in financial statements ignore the effects of changes in price level.
2. It contains only that data's which can be expressed in terms of money.
3. It may be affected by window dressing i.e. manipulation in accounts etc.
4. It is not free from personal bias and judgment of the people dealing with it.
5. It is based on various concepts and conventions which may not disclose the accurate financial position of a business firm.

Branches of Accounting

Financial accounting : The purpose of financial accounting is to keep a record of all financial transactions to know the profit or loss, financial position etc. of the business during an accounting period.

Cost Accounting : The purpose of cost accounting is to analyse the expenditure to ascertain the cost of various products manufactured by the firm.

Management Accounting : The purpose of management accounting is to assist the management for taking various policy decisions and to evaluate the impact of its decisions.

Qualitative Characteristics of Accounting Information

1. **Reliability:** It means the informations must be based on facts and should be verified with source documents and must be free from bias and errors.
2. **Relevance:** To be relevant, information must be available in time and must influence the decisions of users.
3. **Understandability:** The information should be presented in such a manner that users can understand it properly.
4. **Comparability:** The information should be disclosed in such a way that it can be used for inter firm and intra firm comparison.

Role of accounting :

- a) It is used as the language of business to communicate information on enterprises;
- b) It is viewed as chronological record of financial transactions of an organization;

- c) It is viewed as the means of determining the true income of an entity;
- d) It is viewed as a process that links an information source and a set of external users.

Basic Terms in Accounting :

Entity means a thing that has a definite individual existence. Business entity means a specifically identifiable business enterprise like Big *Bazaar*, MP Jewellers, ITC Limited, etc.

Business Transaction

An Economic activity that affects the financial position of a business and can be measured in terms of money e.g., purchase of goods ,Payment to creditor etc.

Assets

Assets are economic resources of an enterprise that can be usefully expressed in monetary terms. Assets can be broadly classified into two types: Fixed Assets and Current Assets.

Fixed Assets are those assets which are hold for long period and used for normal business operation., such as land, buildings,machinery, plant, furniture etc. Current Assets are those assets which are held for short period and can be converted into cash within one year.such as debtors, bills receivable, stock(inventory), cash and bank balances etc.

Liabilities

Liabilities are obligations or debts that an enterprise has to pay at some time in the future. Liabilities are classified as

1. **Current Liabilities:** Current Liabilities are obligations or debts that are payable within a period of one year. For Example: Creditors, Bill Payable etc.
2. **Non-Current Liabilities:** Non-Current Liabilities are those obligations or debts that are payable after a period of one year. Example: Bank Loan, Debentures etc.

Capital

Amount invested by the owner in the business is known as capital. It may be brought in the form of cash or assets by the owner for the business.

Sales

Sales are total revenues from goods sold or services or provided to customers. Sales may be cash sales or credit sales.

Revenues

These are the amounts of the business earned by selling its products or providing services to its customers, called sales revenue.

Expenses

Costs incurred by a business in the process of earning revenue are known as expenses. For example : Depreciation, rent, wages, salaries etc.

Expenditure

Spending money or incurring a liability for acquiring some benefit, service or property received is called expenditure. The expenditure is classified as :

1. **Revenue Expenditure:** If the business received the benefit of expenditure within a year, it is called revenue expenditure. For Example: rent, Interest etc.
2. **Capital Expenditure:** If the business received the benefit of expenditure for more than one year, it is called capital expenditure. Example: Purchase of Machinery.
3. **Deferred Revenue Expenditure:** There are certain expenditures which are revenue in nature but benefit of which is derived over number of years. Such as, Huge Advertisement Expenditure.

Profit

The excess of revenues of a period over its related expenses during an accounting year is known as profit. Profit = Revenue - Expenses.

Gain

A non-recurring profit which arises from events or transactions incidental to business such as sale of fixed assets, appreciation in the value of an asset etc.

Loss

The excess of expenses of a period over its related revenues its termed as loss.

Loss = Expenses - Revenue

Discount

Discount is the rebate given by the seller to the buyer. It can be classified as :

1. **Trade Discount:** Offering deduction of agreed percentage of list price at the time selling goods is one way of giving discount. Such discount is called 'trade discount'.
2. **Cash Discount:** After selling the goods on credit basis the debtors may be encourage to pay the dues promptly. This deduction is called as cash discount.

Voucher

The documentary evidence in support of a transaction is known as voucher. For example, cash memo, invoice; receipt etc.

Goods

It refers to the products in which the business units is dealing. The items that are purchased for the purpose of resale and not for use in the business are called goods.

Drawings

Withdrawal of money and/or goods by the owner from the business for personal use is known as drawings. Drawings reduces the investment of the owners.

Purchases

Purchases are total amount of goods procured by a business on credit and on cash, for use or sale. In case of trading concerns it is purchase of final goods and in manufacturing concern it is purchase of raw materials. Purchases may be cash purchases or credit purchases.

Stock

Stock is the amount of goods which are lying unsold in the business at the end of an accounting period. Such as, Raw materials, semi-finished goods and finished goods etc.

Debtors

Debtors are the persons and/or other entities who owe to an enterprise an amount for buying goods and services on credit.

Creditors

Creditors are the persons and/or other entities who have to be paid by an enterprise an amount for providing the enterprise goods and services on credit.

Purchase Return : When purchased goods are returned to the suppliers due to any reason, these are known as purchase return.

Sales Return : When sold goods are returned from customer due to any reason is known as sales return.

Receipts : Receipts are classified as-

1. **Revenue Receipts:** Revenue Receipts are those receipts which are occurred during normal operation of a business like amount received from sale of goods.
2. **Capital Receipts:** Capital Receipts are those receipts which are not occurred during normal operation of a business like amount received from sale of fixed assets.

Account : Account refers to a summarised record of related transaction of particular head at one place.

Multiple choice Questions:-

1 mark each

1. The main objective of Book-keeping is :
 - (a) Complete recording of transactions
 - (b) Ascertainment of Financial effect on the business

- (c) Only A
 - (d) Both A and B
2. In accounts recording is made of :
- (a) Only monetary transactions
 - (b) Only non- monetary transactions
 - (c) Monetary and non- monetary transactions
 - (d) Personal transactions of the Owner
3. Rs.4,000 paid as rent of office premises is an/a
- (a) Event
 - (b) Transaction
 - (c) Both 'A' and 'B'
 - (d) None of these
4. Which of the following transaction is not of financial character:
- (a) Purchase of goods on credit
 - (b) Purchase of a furniture
 - (c) Payment of wages
 - (d) Strike by employees
5. Internal users of accounting information are:
- (a) Creditors
 - (b) Potential investors
 - (c) Managers
 - (d) Debtors
6. External users of accounting information are:
- (a) Creditors
 - (b) Government
 - (c) Tax authorities
 - (d) All of the above
7. The process of recording, classifying and summarizing all the transactions of a business in order to know the financial result is called–
- (a) Book - keeping
 - (b) Accounting

- (c) Journalizing
 - (d) None of these.
8. Management Accounting:
- (a) Is a technical work
 - (b) Is accounting for future
 - (c) Is a recording technique of the management related transactions
 - (d) None of the above
9. Which of the following is not a limitations of Accounting?
- (a) Based on Historical cost
 - (b) Evidence in Legal Matters
 - (c) Incomplete Information
 - (d) Based on various concepts
10. Cash, Bank balance ,goods or assets invested by the proprietor in the business for earning profit is called-
- (a) Profit
 - (b) Capital
 - (c) Fixed assets
 - (d) None of these.

Short answer questions:- (Answer in one word/sentence)

1 mark each

1. Name the document which certifying the purchase or sale of goods or any monetary transaction?
2. Name the thing which is purchased and sold in the business?
3. Name the things or properties which helps in smooth functioning of the business and which are owned by the business?
4. Name the unsold goods which left in the business at the end of the year?
5. Name the item which represents the excess of assets over liabilities.
6. Name the legal activity performed for earning profit.
7. Name the head under which transactions pertaining to a person, institution, firm, expenses, assets etc. are recorded.
8. Name the concession given on cash transactions.
9. Who wrote the book Arthashastra?
10. Name the first book on double entry book-keeping.

Long Answer Questions: -

(3 / 4 / 5 / 6 marks)

1. Explain the History and Development of Accounting.
2. Discuss the Objectives of Accounting.
3. Narrate the Limitations of Accounting.
4. How can you explain the Branches of Accounting?
5. Explain the Qualitative Characteristics of Accounting Information.
6. Write the various Role of accounting?
7. Explain the following Basic Terms in Accounting: -Capital, Expenses, Profit, Drawings, Stock, Creditors
8. How can you explain the terms Assets and liabilities as basic terms in accounting?
9. Discuss the term Expenditure and Discount.
10. Briefly explain the term Receipt, Purchase, Debtors, Sales, loss as basic terms in accounting.

Answer Key

Multiple choice Questions:-

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

Short answer questions:- (Answer in one word/sentence)

1. Answer : Voucher 2. Answer : Goods 3. Answer : Assets 4. Answer: Closing stock 5. Answer : Capital 6. Answer : Business 7. Answer : Account 8. Answer : Cash discount 9. Answer : Kautilya 10. Answer : Summa de Arithmetica, Geometria, Proportion at Proportionality

Theory Base of Accounting

Theory Base of Accounting : -

Theory Base of Accounting concepts are fundamentally the basic ideas holding the theory base of accounting and therefore, can be regarded as general working practices for all accounting activities. There are some concepts and conventions which are followed in accounting for a longtime. These concepts constitute the very basis of accounting. All the concepts have been developed over the years from experience and thus, are universally accepted rules and are termed as ‘Generally Accepted Accounting Principle’ or GAAP. In accounting, there are many conventions or practices which are used while recording the transactions in the books of accounts.

Generally Accepted Accounting Principles : -

Generally Accepted Accounting Principles (GAAP) are the minimum standard and uniform guidelines for the accounting and reporting which establishes proper classification and measurement criteria of financial reporting and provides a better picture when the financial reports of different companies are compared by the investors. GAAP helps govern the world of accounting according to general rules and guidelines. These rules are called by different names such as principles, concepts, conventions, postulates, assumptions and modifying principles.

Basic Accounting Concepts: -

Accounting Concepts refer to the basic assumptions, rules and principles which work as the basis of recording of business transactions and preparing accounts. Main Accounting Concepts are:

- | | |
|--|---|
| i. Business Entity Concept; | ii. Money Measurement Concept; |
| iii. Going Concern Concept; | iv. Accounting Period Concept; |
| v. Cost Concept; | vi. Dual Aspect Concept or Duality Concept; |
| vii. Revenue Recognition or Realisation Concept; | viii. Matching Concept; |
| ix. Full Disclosure Concept; | x. Consistency Concept; |
| xi. Conservatism Concept (Prudence); | xii. Materiality Concept; |
| xiii. Objectivity Concept. | |

i. Business Entity Concept: -

This concept assumes that, for accounting purposes, the business enterprise and its owners are two separate entities. Thus, the business and personal transactions of its owner are separate, for example, when the owner invests money in the business, it is recorded as liability of the business to the owner. Similarly, when the owner takes away cash/goods from the business for his/her personal use, it is not treated as business expense. Thus, the accounting records are made in the books of accounts from the point of view of the business unit and not from the point of view of the owner. **Let us take an example,** Mrs. Sakshi started business by investing Rs 1,00,000. She purchased goods for Rs 20,000; Furniture for Rs 10,000, Plant and Machinery of Rs 50,000 and Rs. 20,000 remained in hand. These are the assets of the business and not of the owner. According to the business entity concept Rs 1,00,000 will be treated by business as capital i.e. a liability of business towards the owner of the business.

ii. Money Measurement Concept : -

This accounting concept states that only financial transactions will find a place in accounting. So only those business activities that can be expressed in monetary terms will be recorded in accounting. Any other transaction, no matter how significant, will not find a place in the financial accounts. For example, sincerity, loyalty and honesty of employees are not recorded in books of accounts because these cannot be measured in terms of money although they do affect the profits and losses of the business concern. This concept is actually one of the major drawbacks of accounting.

iii. Going Concern Concept : -

This concept states that a business firm will continue to carry on its activities for an indefinite period of time. Simply stated, it means that every business entity has continuity of life. Thus, it will not be dissolved in the near future. This is an important assumption of accounting, as it provides a basis for showing the value of assets in the balance sheet; For example, a company purchased plant and machinery of “Rs. 1,00,000 and its life span is 10 years. According to this concept every year some amount will be shown as expense and the balance amount as an asset. Thus, if an amount is spent on an item which will be used in business for many years, it is not correct to charge the amount from the revenues of the year in which the item is acquired. Only a part of the value is shown as expense in the year of purchase and the remaining balance is shown as an asset.

iv. Accounting Period Concept : -

Every organization, according to its needs, chooses a specific period of time to complete an accounting cycle. Usually, the time chosen is a year we call the accounting year. The time period is mentioned in the financial statements. So, the indefinite life of an organization is divided into shorter, generally equal time period. This facilitates a comparison of performances and allows stakeholders to get timely information. Also, in most cases, it is also a statutory requirement.

v. Cost Concept :-

This accounting concept states that all assets of the firm are entered into the books of account at their purchase price (cost of acquisition + transport + installation etc.). In the subsequent years to, the price remains the same (minus depreciation charged). The market price of the asset is not taken into consideration.

vi. Dual Aspect Concept or Duality Concept: -

Dual aspect is the foundation or basic principle of accounting. It provides the very basis of recording business transactions in the books of accounts. This concept assumes that every transaction has a dual effect, i.e. it affects two accounts in their respective opposite sides. Therefore, the transaction should be recorded at two places. It means, both the aspects of the transaction must be recorded in the booksof accounts. For example, goods purchased for cash has two aspects which are:

(i) Giving of cash (ii) Receiving of goods.

These two aspects are to be recorded. Thus, the duality concept is commonlyexpressed in terms of fundamental accounting equation:

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

The above accounting equation states that the assets of a business are always equal to the claims of owner/owners and the outsiders. Owner's claim is also termed as capital or owner's equity and that of outsiders, as liabilities or creditors' equity.

vii. Revenue Recognition or Realisation Concept :-

According to the realization accounting concept, revenue is only recognized when it is realized. Now revenue is the cash inflow for a business arising from the sale of goods or services. And we assume this revenue as realized only when it legally arises to be received. So, in simple terms, the profit earned will be recorded when it is actually earned.

viii. Matching Concept :-

This concept states that the revenue and the expenses of a transaction should be included in the same accounting period. So, to determine the income of a period all the revenues and expenses (whether paid or not) must be included. The matching accounting concept follows the realization concept. First, the revenue is recognized and then we match the costs associated with the revenue. So, costs are matched with revenue, the reverse would be an incorrect system.

ix. Full Disclosure Concept :-

This concept states that all relevant information will be disclosed in the accounting statements. A lot of external users depend on these financial statements for their information to make investing decisions. So, no information/transactions etc. of relevance to anyone of them will be omitted from these statements for the benefit of the company.

x. Consistency Concept : -

Once the company decides on a certain accounting policy it should not be frequently changed. Unless there is a statutory requirement or it allows better representation of the accounts. Accounting policies should be consistent for long periods of time. This allows users to make inter-firm and inter-period comparisons. Also, frequent changes in policies may be to manipulate the accounts and this must be prevented.

xi. Conservatism Concept (Prudence) : -

This accounting concept promotes prudence in accounting. It states that profit should not be included until it is realized. However, losses even those not realized but with the remote possibility of occurring should be included in the financial statements. So, all losses are recognized - those that have occurred or are even likely to occur. But only realized profits are recognized.

xii. Materiality Concept : -

Materiality states that all material facts must be a part of the accounting process. But immaterial facts, i.e. insignificant information should be left out. The materiality of a transaction will depend on its nature, value and its significance to the external user. If the information can affect a person's investing decision then it is definitely a material fact.

xiii. Objectivity Concept: -

This concept states the obvious assumption that the accounting transaction recorded should be objective, i.e. free from any bias of the person recording it. So, each transaction should be verifiable by supporting documents like vouchers, bills, letters, challans, certificates, invoices etc.

Basis of Accounting : -

From the point of view the timing of recognition of revenue and costs, there can be two broad approaches to accounting. These are:

- (i) Cash basis; and
- (ii) Accrual basis.

(i) Cash Basis : -

It is that basis of accounting where any income or expense is recognised only when there is an inflow or outflow of cash. Cash basis of accounting follows the single-entry system that records either inflow or outflow of cash. Cash basis of accounting has low accuracy and it is suitable for micro to small businesses.

Illustration: Mrs.Meera has made cash sales Rs.65, 000 and credit sales Rs.30, 000. Expenses incurred Rs.25,000 out of which Rs.4,000 is yet to be paid. Calculate net income following the cash basis of accounting. In this case Mrs. Meera will make net income of Rs.44,000 (65,000-21,000).Credit sales of Rs.30, 000 and Expenses of Rs.4,000 out of Rs.25,000 will not be considered under cash basis of accounting as they are not the actual cash flows.

(ii) Accrual Basis :-

It is that basis of accounting where any income or expense is recognised when it is earned/ incurred, irrespective of the time when it is paid/ collected. It follows a double entry system of accounting where each transaction has two outcomes in the form of debit and credit. Accrual basis of accounting is suitable for large corporations. The difference between the total income earned and total expenses incurred shows the profit or loss for the period.

Illustration: Mrs.Meera has made cash sales Rs.65,000 and credit sales Rs. 30,000. Expenses incurred Rs.25,000 out of which Rs.4000 is yet to be paid. Calculate net income following the accrual basis of accounting. In this case Mrs. Meera will make net income of Rs. 70,000 (65,000+30,000-25,000). Total sales of Rs.65,000 and Rs.30,000 and total expenses incurred of Rs.25,000 will be considered on accrual basis as it is the total income and expense accrued for the period under consideration irrespective of the cash being paid or received for the same.

Accounting Standards :-**Concept :**

We know that Generally Accepted Accounting Principles (GAAP) aims at bringing uniformity and comparability in the financial statements. It can be seen that at many places, GAAP permits a variety of alternative accounting treatments for the same item. For example, different methods for valuation of stock give different results in financial statements. Such practices sometimes can misguide intended users in taking decision relating to their field. Keeping in view the problems faced by many users of accounting, a need for the development of common accounting standards was aroused. For this purpose, the Institute of Chartered Accountants of India (ICAI), which is also a member of International Accounting Standards Committee (IASC), had constituted Accounting Standard Board (ASB) in the year 1977. ASB identified the areas in which uniformity in accounting was required. After detailed research and discussions, it prepared and submitted a draft to the ICAI. After proper examination, ICAI finalized them and notified for its use in financial statements.

Meaning :

Accounting standards are the written statements consisting of rules and guidelines, issued by the accounting institutions, for the preparation of uniform and consistent financial statements and also for other disclosures affecting the different users of accounting information. Accounting standards lay down the terms and conditions of accounting policies and practices by way of codes, guidelines and adjustments for making the interpretation of the items appearing in the financial statements easy and even their treatment in the books of account.

Goods and Services Tax (One Country One Tax) :-

Goods and Services Tax (GST) was introduced by the Government of India to boost the economic growth of India. GST is considered to be the biggest taxation reform in the history of Indian economy. It was introduced to save time, cost and effort. Goods and Services Tax (GST) Act came into effect in

2017. In order to address the complex tax system in India, the Government introduced 3 types of GST which are given below.

1. CGST (Central Goods and Service Tax)
2. SGST (State Goods and Service Tax)
3. IGST (Integrated Goods and Services Tax)

As per 2016 GST regime, Union Territory Goods and Service Tax (UTGST) was also introduced to account for all the taxations in the Union Territories of India. The power to make any changes in the GST law is in the hands of GST Council. GST Council is headed by the Finance Minister.

Meaning of Central Goods and Services Tax (CGST) :

Revenue under CGST is collected by the Central Government. CGST includes the below given central taxations and levies.

1. Central Excise Duty
2. Services Tax
3. Central Sales Tax
4. Excise Duty
5. Additional Excise Duties or Countervailing Duty (CVD)

Meaning of State Goods and Services Tax (SGST) :

Revenue under SGST is collected by the State Government. SGST subsumed the following state taxations.

1. Luxury Tax
2. State Sales Tax
3. Entry tax
4. Entertainment Tax
5. Levies on Lottery

Meaning of IGST (Integrated Goods and Services Tax):

IGST is charged when there is movement of goods from one state to another state. The revenue will be collected by the central government and accordingly will be shared between the Union and states in the manner prescribed by Parliament or GST Council.

Characteristics of GST :

- **Applicable On the supply side:** GST is applicable on ‘supply’ of goods or services as against the old concept on the manufacture of goods or on sale of goods or on provision of services.

- **GST rates to be mutually decided:** CGST, SGST & IGST are levied at rates to be mutually agreed upon by the Centre and the States. The rates are notified on the recommendation of the GST Council.
- **Multiple Rates:** Initially GST was levied at four rates viz. 5%, 12%, 16% and 28%. The schedule or list of items that would fall under these multiple slabs are worked out by the GST council.
- **Destination-based Taxation:** GST is based on the principle of destination-based consumption taxation as against the present principle of origin-based taxation.
- **Dual GST:** It is a dual GST with the Centre and the States simultaneously levying tax on a common base. GST to be levied by the Centre is called Central GST (CGST) and that to be levied by the States is called State GST (SGST).

Advantages of GST :

GST came up with several advantages. Let look at those benefits in the view point of each beneficiary:

A. For Central & State Government

1. Simple and easy administration of Taxes. The earlier indirect taxes regime which had multiple Central and State levels are being replaced by GST.
2. Uniform SGST and IGST rates to reduce the incentive for tax evasion.
3. GST tends to decrease the cost of collection of tax revenues of the Government and will therefore, lead to higher revenue efficiency.

B. For Business & Industry

1. GST envisages simpler tax regime-fewer rates and exemptions. It ensures that indirect tax rates and structures are common and uniform across the country.
2. Enable a system of seamless tax-credits throughout the value-chain, and across boundaries of States. This address the issue of mitigation of cascading effect/double taxation.
3. As GST subsumes major Central and State taxes, the comprehensive set-off of input goods and services reduce the cost of locally manufactured goods and services. This increases the competitiveness of Indian goods and services in the international market and boosts Indian exports.

C. For Citizen

1. Transparency in taxation system as there would be only one tax from the manufacturer to the consumer, leading to transparency of taxes paid to the final consumer.
2. Reduction in prices of goods and services due to elimination of cascading effect (i.e. no tax on tax) benefit the consumer with competitive price and quality advantage.
3. Simpler tax system with uniform tax proportionate to the value of goods and services.

Exercise

A. Choose the correct answer :

(mark :1)

1. The recognition that every transaction has two sides to it, is the leading principle of
 - (a) Accrual Concept
 - (b) Realisation Concept
 - (c) Dual Aspect Concept
 - (d) Matching Concept
2. The convention that states that the accounting practice should be followed consistently over the years
 - (a) Consistency
 - (b) Conservation
 - (c) Materiality
 - (d) Disclosure
3. According to _____ concept all the personal income and expenditure of the owner of a business should be separated from business income and expenditures.
 - (a) Accrual Concept
 - (b) Business Entity Concept
 - (c) Dual Aspect Concept
 - (d) Matching Concept
4. Closing stock is valued at cost or net realizable value, whichever is less, is based on _____ concept.
 - a) Consistency
 - (b) Conservatism
 - (c) Materiality
 - (d) Disclosure
5. Which of the following concepts, if violated, would make comparison of financial statements over a period of time difficult?
 - (a) Cost concept
 - (b) Consistency concept
 - (c) Accounting period concept
 - (d) Accrual concept

6. Conservatism concepts does not require
 - (a) Making provision for doubtful debts
 - (b) Valuing stock at lower of cost or net realisable value
 - (c) Creating provision for discount on creditors
 - (d) Making provision for an unfavorable legal suit
7. Human resources will not appear in the balance sheet according to _____ concept.
 - (a) Accrual
 - (b) Going concern
 - (c) Money measurement concept
 - (d) None
8. It is essential to standardize the accounting principles and policies in order to ensure:
 - (a) Transparency
 - (b) Consistency
 - (c) Comparability
 - (d) All of the above.
9. The determination of expenses for an accounting period is based on the principle of:
 - (a) Objectivity
 - (b) Materiality
 - (c) Matching
 - (d) Periodicity
10. According to accrual concept of accounting, financial or business transaction is recorded:
 - (a) When cash is received or paid
 - (b) When transaction occurs
 - (c) When profit is computed
 - (d) When balance sheet is prepared
11. A process of accounting where revenue and expense recognition would occur when cash is received and disbursed is called __
 - a) Cash
 - b) Accrual
 - c) None
 - d) a & b

12. The conventions, concepts, rules and procedures that together make up accepted accounting practice at any given time are called ____ .
- a) AICPA
 - b) GAAP
 - c) GAPA
 - d) None of the above
13. Which concepts tell that to recognize revenue it has to be realized.
- a) Accrual concept
 - b) Matching concept
 - c) Realization concept
 - d) None
14. The sum of Liabilities and Capital is-
- (a) Expense
 - (b) Income
 - (c) Drawings
 - (d) Assets.

B. Give the answers of the following questions in one word/ sentence : - (mark : 1)

15. What is Accounting Concept?
16. What is the basic accounting equation?
17. What is Accounting Standard?
18. Write down the full form of GAAP?
19. When in India GST came into effect?
20. Write down the full form of ICAI?
20. When was Indian Accounting Standard Board formed?

C. Give the answers of the following questions: - (Marks : 3 / 4 / 5 / 6)

21. What do you mean by accounting concept? Explain any three accounting concepts.
22. Why is important to adopt a consistent basis for the preparation of financial statements? Explain.
23. Discuss briefly about 'Accrual and Cash Basis of Accounting'.

24. What do you mean by GST? Discuss about different types of GST?
25. Explain the characteristics of GST.
26. Discuss the advantages of GST.
27. 'The accounting concepts and accounting standards are generally referred to as the essence of financial accounting'. Comment.
28. What is the money measurement concept? Which one factor can make it difficult to compare the monetary values of one year with the monetary values of another year?

Answer Key

1-b	2-a	3-b	4-b	5-b	6-c	7-c
8-d	9-c	10-b	11-a	12-b	13-c	14-d

Recording of Transactions - I

While explaining the development and importance of accounting as a source of disseminating the financial information along with the discussion on basic accounting concepts that guide the recording of business transactions. Actually the fundamental steps of the accounting process are— Identifying and analysing the business transactions, recording of the business transactions and classifying and summarising their effects and communicating the same to the interested users of business information.

Moreover, in this chapter, each of the step involved in the accounting process. Whereas the first step involves identifying the transactions to be recorded and preparing the source documents which is known as the basic book of original entry called journal and are then posted to individual accounts in the principal book called ledger.

Business Transactions and Source Document

It's very important to identify the transactions. Suppose, your father intend to buy a bicycle for you. For that purpose you along with your father go to market and purchased a bicycle amounting Rs. 25,000 in cash. Its a example of cash transaction, which involves reciprocal exchange of two things: (i) payment of cash, (ii) delivery of the product purchased. Hence, the transaction involves this aspect, i.e. Give and Take. Payment of cash involves give aspect and delivery of bicycle is a take aspect. Thus, business transactions are exchanges of economic consideration between parties and have two-fold effects that are recorded in at least two accounts.

Business transactions are usually evidenced by an appropriate documents such as Cash memo, Invoice, Sales bill, Pay-in-slip, Cheque, Salary slip, etc. A document which provides evidence of such transaction is called the Source Document or a Voucher. All recording in books of account is done on the basis of vouchers.

Preparation of Accounting Vouchers

Accounting vouchers may be classified as cash vouchers, debit vouchers, credit vouchers, journal vouchers, etc. As such there is no format of accounting vouchers. A specimen copy of these vouchers are shown—

Transaction Voucher

Name of Firm :

Voucher No :

Date :

Debit account :

Credit account :

Amount (Rs.) :

Narration :

Authorised By :

Prepared By :

Debit Voucher

Name of Firm :

Voucher No :

Date :

Credit Account :

Amount (Rs.) :

Debit Accounts

<i>Sl. No.</i>	<i>Code</i>	<i>Account Name</i>	<i>Amount Rs.</i>	<i>Narration (i.e. Explanation)</i>

Journal Voucher

Name of Firm :

Voucher No :

Date :

Debit Accounts

<i>Sl. No.</i>	<i>Code</i>	<i>Account Name</i>	<i>Amount Rs.</i>	<i>Narration (i.e. Explanation)</i>

Credit Accounts

<i>Sl. No.</i>	<i>Code</i>	<i>Account Name</i>	<i>Amount Rs.</i>	<i>Narration (i.e. Explanation)</i>

An accounting voucher must contain the following essential elements :

- It is written on a good quality paper.
- Name of the firm must be printed on the top.
- Date of transaction is filled up against the date and not the date of recording of transaction is to be mentioned.
- The number of the voucher is to be in a serial order.
- Name of the account to be debited or credited is mentioned.
- Debit and credit amount is to be written in figures against the amount.
- Description of the transaction is to be given account wise.
- The person who prepares the voucher must mention his name along with signature and
- The name and signature of the authorised person are mentioned on the voucher.

Accounting Equation

Accounting equation convey the assets of a business are always equal to the total of its liabilities and capital (*owner's equity*). The equation is as follows:

$$A = L + C$$

Where, A = Assets

L = Liabilities

and C = Capital

The equation can also be presented in the following way to find out the missing figures if any. i.e, Liabilities (L) or Capital (C).

(i) $A - L = C$

(ii) $A - C = L$

Accounting equation sets the foundation of double entry accounting and emphasize the structure of Balance Sheet. Double entry accounting is a system where every transaction affects both sides of the accounting equation. For every change to an asset account, there must be an equal change to a

related liability or shareholders equity account. It is important to keep the accounting equation in mind when performing journal entries.

Below are some examples of items fall under each section :

Assets : Cash, Accounts Receivable, Inventory, Plant and Machinery, Furniture, equipment. etc.

Liabilities : Accounts payable, Short term borrowings, long term Debt.

Shareholder's equity : Share capital, Retained earnings.

Example :

What will be the effect of the following accounting equation ?

- i) Started business with cash Rs. 5,00,000
- ii) Opened a bank account with a deposit of Rs. 4,500.
- iii) Purchased Goods from S Ltd. amounting Rs. 8,400.

Solution :

Sl. No.	Explanation	Assets = Liabilities + Capital				
		Cash (₹)	+ Bank (₹)	+ Stock (₹)	= Creditors (₹)	
i)	Increase in Cash	5,00,000	+ 0	+ 0	= 0	+ 5,00,000
	Increase in Capital				=	5,00,000
ii)	Increase in Bank and Decrease in cash	(4,500)	+ 4,500	+ 0	= 0	+ 0
	No impact on liability side				=	5,00,000
iii)	Increase in Stock	0	+ 0	+ 8,400	= 8,400	+ 0
	Increase in creditors				= 8,400	+ 5,00,000
A = L + C		5,08,400			=	5,08,400

Problem : What will be the effect of the following Accounting equation ?

- i) Ram started business with cash of ₹ 80,000.
- ii) Electricity bill Paid ₹ 800.

- iii) Sold goods for cash ₹ 6,500 (cost Price ₹ 4,800)
- iv) Bought Goods for cash ₹ 8,700 and on Credit ₹ 3,300.

Answer : _____

(Hints : Headings under Assets side is Cash and Stock and under liabilities and capital side is creditors)

Problem : Prepare Accounting equation from the following :

- i) Ram started business with cash ₹ 3,00,000.
- ii) Purchased a plant for cash ₹ 68,000
- iii) Bought Goods on Credit ₹ 18,000.
- iv) Purchased Goods for cash ₹ 52,000.
- v) Salary paid to staff ₹ 10,800.
- vi) Goods costing ₹ 30,000 was sold at a profit of 20% on cost for cash.

Answer : _____

(Hints : Headings under Assets side is Cash, furniture a stock and liability and capital side is creditors)

Using Debit and Credit

It was already stated every transaction involves give and take aspect. In double entry accounting, every transaction affects and is recorded in at least two accounts. While recording transaction, it is to be noted that the total debit amount is must equal to the total credit amount. In accounting, the terms Debit and Credit indicate whether the transactions are to be recorded on the left hand side or right hand side of the account. In its simplest form, an account looks like the letter ‘T’. that why it is called ‘T’-account.

It’s no secret that the world of accounting is run by debits and credits. Before we dive into the golden principles of accounting, its quite important to brush up about all things involved in debit and credit.

Debit and Credits are equal but have opposite or contra entries in accounting books. Credits and Debits affect the five core types of Accounts. These are– Assets, Liabilities, Capital, Expenses/ Losses, Revenue/Gains.

Rules of Debit and Credit

Two fundamental rules are followed to record the changes in these accounts :

- (a) For recording changes in Assets/Expenses (Losses) :
 - (i) “Increase in asset is debited, and decrease in asset is credited.”

- (ii) "Increase in expenses/losses is debited and decrease in expenses/losses is credited."
- (b) For recording of changes in Liabilities and Capital/Revenues (Gains):
 - (i) "Increase in liabilities is credited and decrease in liabilities is debited."
 - (ii) "Increase in capital is credited and decrease in capital is debited."
 - (iii) "Increase in revenue/gain is credited and decrease in revenue/gain is debited."

Golden Rules of Accounting

Considering the nature of all accounts, the accounting rules have been devised. For each account there is a set of Golden rules and hence there are three common rules of accounting. The golden rules define the Treatment of all transactions conducted by the business.

Type of Account	Golden Rules
Real Account	"Debit" What comes into the business. "Credit" What goes out from the business.
Personal Account	"Debit" the receiver "Credit" the giver
Nominal Account	"Debit" Expense or loss of the business "Credit" the Income or Gain of the business.

Books of Original Entry

Books of Original Entry is accounting book or journal where all transactions are initially recorded. All business transaction, their details and description are first recorded in the books of original entry.

So, it is evident to record the business transaction on a regular basis in the books of original entry that carries all details and evidence of these transactions are associated with which will be posted or transferred to Ledger Accounts later on.

The journal is subdivided into a number of books of original entry as follows:

- (a) Journal Proper
- (b) Cash book
- (c) Special Journal :
 - (i) Purchases Journal book
 - (ii) Sales Journal book
 - (iii) Purchase Returns Journal book
 - (iv) Sale Returns Journal book
 - (v) Bills Receivable Journal book
 - (vi) Bills Payable Journal book

Journal

This is the basic book of original entry. A journal is a detailed account that records the all financial transaction of a business.

Key takeaways :

- Detailed record of business transactions.
- Reconciling accounts and transferring information.
- Follow double entry method (in case of company).
- Single entry method is rarely used.

The format of journal is shown under–

Journal

Date	Particulars	L.F.	Debit Amount Rs.	Credit Amount Rs.

The journal entry has these components :

- The date of transaction.
- The names of the accounts impacted.
- The amounts to be credited and debited.
- A reference number that serves as a unique identifier for the transaction.
- A description of the transaction.

An example is given below to learn how the transactions are recorded in journal.

Example :

Mr. Das has the following transactions in the month of January 2021.

Date

- Jan. 4 : Commenced business with cash Rs. 2,00,000.
- Jan. 6 : Purchased goods for cash Rs. 30,000
- Jan. 8 : Purchased goods from Ashish for Rs. 12,000
- Jan. 10 : Purchased goods from Ram in cash Rs. 6,000
- Jan. 11 : Purchased goods from Raja in credit Rs. 3,000
- Jan. 14 : Sold goods for cash Rs. 16,000

- Jan. 16 : Sold goods to Ashim Rs. 21,000
 Jan. 19 : Sold goods to Amitabha Rs. 8,600 in credit
 Jan. 21 : Goods returned from Ashim Rs 3200
 Jan. 22 : Goods returned to Ram Rs. 1,800
 Jan. 23 : Goods taken by proprietor for his personal use Rs. 1,8000
 Jan. 24 : Purchase Land for Rs. 10,000 in cash.
 Jan. 25 : Bought Machinery for Rs. 20,000 in credit from X Ltd.
 Jan. 28 : Cash sales Rs. 18,000
 Jan. 29 : Cash purchases Rs. 21,000
 Jan. 30 : Paid wages Rs. 8,300
 Jan. 31 : Received commission by cheque of Rs. 6,000.

Pass journal entries.

Solution :

In the books of Mr. Das
Journal
for the period from 1st to 31 st January, 2021

<i>Date</i>	<i>Particulars</i>	<i>L.F.</i>	<i>Debit Amount Rs.</i>	<i>Credit Amount Rs.</i>
2021 Jan.04	Cash A/c Dr. To Capital A/c (Being business started with cash)		2,00,000	2,00,000
Jan.06	Purchases A/c Dr. To Cash A/c (Being Goods purchased for cash)		30,000	30,000
Jan.08	Purchases A/c Dr. To Ashish A/c (Being goods purchased in credit from Ashish)		12,000	12,000
Jan.10	Purchases A/c Dr. To Cash A/c (Being goods purchased from Ram in cash)		6,000	6,000
Jan.11	Purchases A/c Dr. To Raja A/c (Being goods purchased from Raja in credit)		3,000	3,000

Jan.14	Cash A/c To Sales A/c (Being goods sold for cash)	Dr.	16,000	16,000
Jan.16	Ashim A/c To Sales A/c (Being goods sold to Ashim in credit)	Dr.	21,000	21,000
Jan.19	Amitabha A/c To Sales A/c (Being goods sold to Amitabha in credit)	Dr.	8,600	8,600
Jan.21	Return Inward/ Sales Return A/c To Ashim A/c (Being goods returned from Ashim)	Dr.	3,200	3,200
Jan.22	Ram A/c To Purchase Return / Return outward A/C (Being the goods returned to Ram)	Dr.	1,800	1,800
Jan.23	Drawings A/c To Purchases A/c (Being goods taken by proprietor for his personal use)	Dr.	1,800	1,800
Jan.24	Land A/c To Cash A/c (Being a land purchased in cash)	Dr.	10,000	10,000
Jan.25	Machinery A/c To X Ltd. A/c (Being Mechinery purchased from X Ltd. in credit)	Dr.	20,000	20,000
Jan.28	Cash A/c To Sales A/c (Being Cash sales)	Dr.	18,000	18,000
Jan.29	Purchases A/c To Cash A/c (Being cash purchase)	Dr.	21,000	21,000
Jan.30	Wages A/c To Cash A/c (Being wages paid in cash)	Dr.	8,300	8,300
Jan.31	Bank A/c To Commission A/c (Being Commission received by cheque)	Dr.	6,000	6,000

Problem : 1

From the following transactions, pass journal entries in the books of Suncare Ltd. for the month of December, 2020.

December, 2020

3. Commenced business with Cash Rs. 65,000.
6. Purchased goods from Anirban & Co. on credit amounting Rs. 30,000.
7. Goods sold to C Ltd. on credit Rs. 36,000.
9. Accepted a bill drawn by Anirban & Co. of Rs. 18,000.
14. Received a cheque from C Ltd. in full settlement of his account amounting Rs. 34,000.
16. Discount received in cash Rs. 4,000.
18. Cash deposited into bank Rs. 6,000.
20. Salaries paid in cash Rs. 3,800.
26. Building purchased from Bimal and Co. for Rs. 80,000 and Rs. 20,000 paid in cash.
27. Goods returned to Anirban & Co. for Rs. 1,300.

Ans : _____.

Problem : 2

Following transactions in the books of Mr. Rakesh Srivastava for the month of June, 2020 are given below. Journalise them.

June, 2020

2. Business started with cash Rs. 6,90,000.
4. Amount deposited in Bank A/c Rs. 38,000
8. Goods purchased for cash Rs. 64,000.
10. Cash withdrawn from bank for office use amounting Rs. 8,000
12. Sold goods to Raktim in credit Rs. 48,000
16. Bought goods from Akash on credit Rs. 49,000
18. Received from Raktim Rs. 23,000
Allowed him discount Rs. 800
20. Paid cash to Akash Rs. 36,000
Discount received Rs. 1,200

- 21. Raktim returned goods amounting Rs. 6,000
- 23. Cash sales Rs. 32,000
- 26. Rent paid Rs. 6,000
- 28. Electricity Bill paid Rs. 3,000.
Wages paid Rs. 8,000
- 29. Amount withdrawn from bank Rs. 40,000
- 30. Salary paid Rs. 8,000
Paid Tution fees for proprietors children of Rs. 3,660

Answer : _____

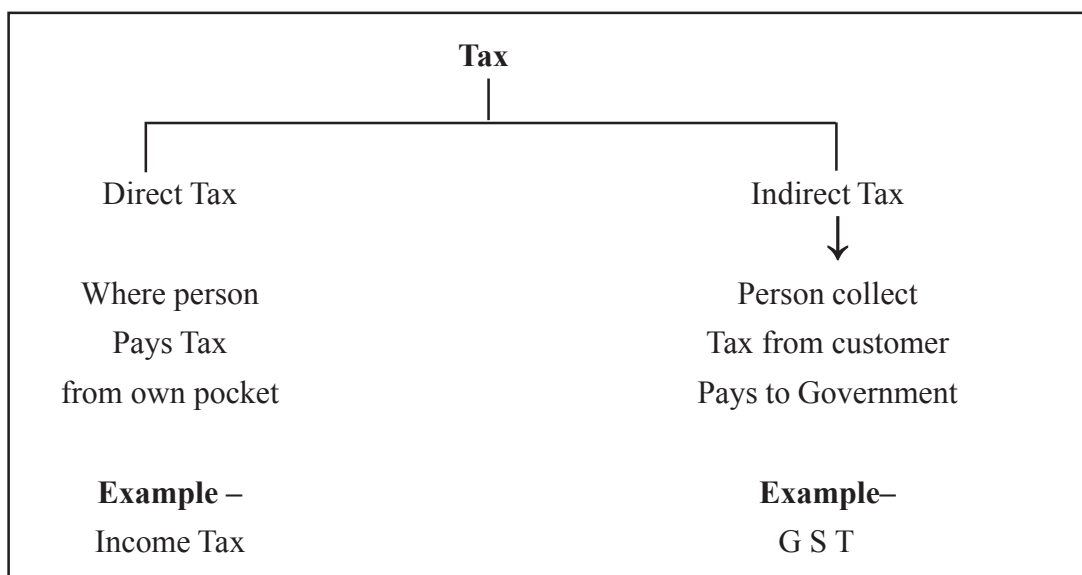
Goods and Service Tax (GST)

It is a newly introduced Tax system (indirect) on 1st July, 2017 by Government of India.



Common Tax for Goods and Services

Goods and Services Tax is an Indirect Tax as it was collected from Customer.



Why is GST being introduced

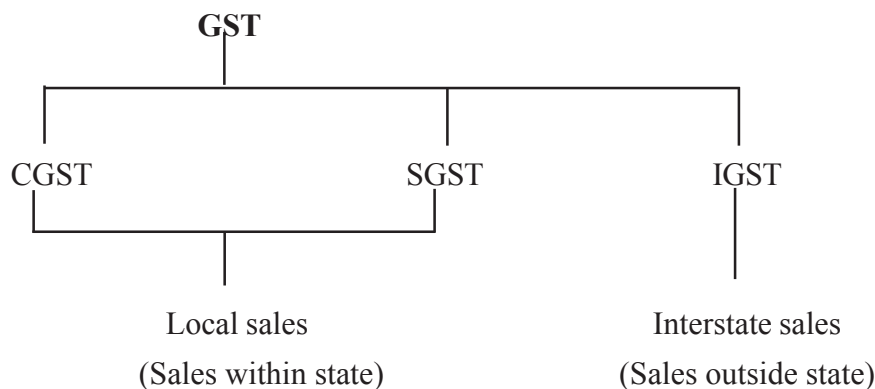
In Earlier, each state of India has different Tax rules.

GST has same rate of Taxes across the country.

Different types of GST

After GST was introduced, now common tax rate for all types of sales. There are three types of GST–

1. CGST (Central GST)
2. SGST (State GST)
3. IGST (Central GST)



Accounting entries under GST :

A Trader has to maintain following accounts (Apart from accounts like Purchase, Sales, Stock etc.....)

- Input SGST A/c.
- Output SGST A/c.
- Input CGST A/c.
- Output CGST A/c.
- Input IGST A/c.
- Output IGST A/c.
- Electronic Cash Ledger A/c

An example is solved below regarding journal entries of GST.

Problem :

Pass the necessary Journal entries in the books of Aditya Traders of Delhi. Assuming that all transactions have taken place within Delhi. Assume CGST @ 5% and SGST @ 5%.

Date		Amount
2020		Rs.
May - 06	Purchased goods from Dalmia Brothers amounting	6,00,000
May - 10	Sold goods to Mehta Traders amounting	8,00,000
May - 12	Advertisement Expenses paid	50,000
May - 18	Purchased equipments for and payment made by cheque.	1,00,000
May - 26	Paid for Transport Expenses of	10,000
May - 30	Payment made of Balance amount of GST.	

Solution :**Journal**

Date	Particulars	L.F.	Debit Amount Rs.	Credit Amount Rs.
2020				
May-06	Purchases A/c Dr. Input CGST A/c Dr. Input SGST A/c Dr. To Dalmia Brothers A/c (Being goods purchased from Dalmia Broters)		6,00,000 30,000 30,000	6,60,000
May-10	Mehta Traders A/c Dr. To Sales A/c To Output CGST A/c To Output SGST A/c (Being sold goods to Metha Traders)		8,80,000	8,00,000 40,000 40,000
May-10	Advertisement A/c Dr. Input CGST A/c Dr. Input SGST A/c Dr. To Bank A/c (Being paid for Advertisement expenses)		50,000 2,500 2,500	55,000
May-18	Equipments A/c Dr. Input CGST A/c Dr. Input SGST A/c Dr. To Bank A/c (Being purchased office furniture)		1,00,000 5,000 5,000	1,10,000

May-26	Transport Expenses A/c	Dr.	10,000	
	Input CGST A/c	Dr.	500	
	Input SGST A/c	Dr.	500	
	To Cash A/c (Being paid for Transport expenses)			11,000
May-30	Output CGST A/c	Dr.	38,000	
	Output SGST A/c	Dr.	38,000	
	Input CGST A/c			38,000
	Input SGST A/c (Being input Tax credit availed)			38,000
May-31	Output CGST A/c	Dr.	2,000	
	Output SGST A/c	Dr.	2,000	
	To Bank A/c (Being Balance Tax paid to Government)			4,000

Problem : 1

Pass journal entries in the books of Sigma Brothers, Ahmedabad Assuming that all transactions was held within the state. Charging CGST and SGST @ 9% each.

Date		Amount
2020		Rs.
Aug.-01	Purchased goods from Anand Ltd. for	3,00,000
Aug.-05	Goods returned to Anand Ltd. for	30,000
Aug.-10	Sold Goods to Jain Brothers for	5,00,000
Aug.-14	Goods returned by Jain Brothers for	50,000
Aug.-20	Goods distributed as free sample for	10,000
Aug.-25	Paid for Advertisement Expenses by cheque	15,000
Aug.-31	Payment made of balance amount of GST.	

The Ledger

The ledger is the principal book of accounting system. It contains different accounts where transactions relating to that account are recorded. A ledger is the collection of all the accounts, debited or credited, in the journal proper and various special journal.

Some of the features of Ledger Account are–

- Classification of Accounts.
- All accounts : such as purchase account, Sales Account etc.
- Significant information
- Mix-up Tracking.

- Preparation of Trial Balance.
- General Ledger and Subsidiary Ledger.

Importance of Ledgers are :

- Figuring of Profit or Loss.
- The Definite situation of an account.
- Time Saver.
- Imperative.

Problem :

Journalise the following transaction in the books of M/s Rakesh Associates and Post the entries to Ledger.

		Rs.
2020		
Jan.-01	Commenced business with cash	50,000
Jan.-05	Purchased goods on credit from Saha & Sons amounting	30,000
Jan.-08	Paid Electricity Bill	3,070
Jan.-10	Cheque Issued o Saha & Sons for	20,000

Solution :

Journal

Date	Particulars	L.F.	Debit Amount Rs.	Credit Amount Rs.
2020 Jan.-01	Cash A/c To Capital A/c (Being Business started with cash)	Dr.	50,000	50,000
Jan.-05	Purchase A/c To Saha & Sons A/c (Being Goods purchased on credit from Saha & Sons)	Dr.	30,000	30,000
Jan.-08	Electricity Bill A/c To Cash A/c (Being electricity bill paid)	Dr.	3,070	3,070
Jan.-10	Saha & Sons A/c To Bank A/c (Being cheque issued to Saha & Sons)	Dr.	20,000	20,000

Cash Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2020 Jan. 01	To Capital A/C		50,000	2020 Jan. 08	By Electricity Bill A/C		3,070

Capital Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				2020 Jan. 01	By Cash A/C		50,000

Purchase Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2020 Jan. 05	To Saha & Sons A/C		30,000				

Saha & Sons Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2020 Jan. 10	To Bank A/C		20,000	Jan. 05	By Purchases A/C		30,000

Electricity Bill Account

Dr.

Cr.

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2020 Jan. 08	To Cash A/C		3,070				

Bank Account

Dr.

Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
Rs. 20,000			Rs.	2020 Jan. 10	By Saha & Sons A/C		

I. Answer the following MCQ's

(1 mark each)

- Liabilities and Assets amounts to Rs. 60,000 and Rs. 30,000 respectively. The difference amount shall represent—
 - Creditors
 - Debentures
 - Profit
 - Capital

Answer : _____

- The basis of recording transaction is—
 - Vouchers
 - Profit
 - Order form
 - Quotation list

Answer : _____

- The Basic accounting equation is—
 - Assets=Cash+Capital
 - Assets=Expenses+Capital
 - Assets=Capital+Liabilities
 - Assets=Expenses+Income

Answer : _____

4. Transfer Voucher is prepared for–
- a. Cash Purchase
 - b. Payment of Salary for Cash
 - c. Purchase return and sales Return
 - d. Cash Sales

Answer : _____

5. The Sales book is a part of–
- a. Trading A/c
 - b. Profit and loss A/c
 - c. Balance Sheet
 - d. Journal

Answer : _____

6. While passing an opening entry, all the assets are _____ while all the liabilities are _____.
- a. Debited, Credited
 - b. Credited, Debited
 - c. Debited, Debited
 - d. None of the above.

Answer : _____

7. The amount brought in by owner of the business should be credited to–
- a. Drawings
 - b. Owner
 - c. Cash
 - d. All of the above.

Answer : _____

8. Transactions are initially recorded in the–
- a. Books of Final entry
 - b. Books of original entry
 - c. Accounting equation
 - d. T Accounts

Answer : _____

9. In which order does the journal list Transactions?
- a. Decreasing
 - b. Increasing
 - c. Alphabetical
 - d. Chronological

Answer : _____

10. The abbreviations for Debit and Credit (Dr. and Cr.) comes from what language words?
- a. Latin, Debere and Credere
 - b. Latin, Debtor and Creditor
 - c. Greek, Debere and Credere
 - d. Greek, Debtor and Creditor

Answer : _____

Answer the following VSA Questions :

(mark : 1)

1. What do you mean by source documents?
2. Define vouchers?
3. Give one elements of accounting voucher?
4. What does accounting equation signify?
5. Define journal?
6. Define Ledger?
7. Give one difference between journal and ledger?
8. Why voucher is prepared?
9. Are debits or credits listed first in journal entries? Are Debits and Credits identified?
10. State any one fundamental steps in the accounting process.

Long Answer Questions :

(Marks : 3 / 4 / 5 / 6)

1. Describe how accounts are used to record information about the effect of transactions?
2. Why is the evidence provided by source documents important to accounting?
3. What is journal ? Give a specimen of journal showing at least five entries.
4. Describe the Golden rules of accounting?
5. Write the distinction between journal and ledger?
6. Explain the double entry mechanism with an illustrative example.
7. Accounting equation remains intact under all circumstances. Justify the statement with the help of an example.

Answer Key

I. MCQ's :

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

Recording of Transactions-II

Cash Book

Cash book is a book in which all transactions relating to cash receipts and cash payments are recorded.

Types of Cash Book-

a) **Simple or Single column cash book**

The single column cash book records all cash transactions of the business in a chronological order, contains only one amount column on both debit and credit side.

b) **Double column cash book**

The double column cash book records all cash transactions of the business in a chronological order, contains two amount columns on both debit and credit side. For example- Cash and Bank; Cash and Discount and Bank and Discount column.

Contra Entries : At the same time these entries affect both cash and bank columns . To indicate contra entry “C” is mentioned in the L.F. column of the cash Book. Following are the two cases of Contra entries.

- (a) Depositing cash into Bank
- (b) Withdrawn from Bank for office use

c) **Triple or Three column cash book**

The Triple column cash book records all cash transactions of the business in a chronological order, contains three amount columns on both debit and credit side. For example- Cash, Bank and Discount column.

d) **Petty cash book**

Big organisations normally appoint one more cashier (petty cashier) and maintain a separate cash book to record these (such as conveyance, cartage, postage, telegrams and other expenses) transactions. Such a cash book maintained by petty cashier is called petty cash book.

Imprest System of Petty Cash Book

According to this system, Head cashier gives a fixed amount to petty cashier for a definite period (weekly, fortnightly or monthly basis).

At the end of given period, Head cashier reimburses the amount actually paid by the petty

cashier resulting the same amount with petty cashier which he had in the beginning of the period.

Advantages of Maintaining Petty Cash Book

1. The Head cashier can concentrate on cash transactions involving large amount of cash. It saves time and labour and helps him to discharge his duties more effectively.
2. The head cashier can control big payments directly. This way the chances of making frauds and embezzlements become very difficult.
3. Recording of petty expenses in the main cash book makes it bulky. But recording of petty amounts becomes easy as the totals of different types of expenses are posted to ledger. So, it can be stated that preparation of petty cashbook is a cost reduction control measure for any enterprise.

Format of Simple or Single column cash book

Dr.				Cr.			
Date	Particulars	L.F.	Amount (Rs.)	Date	Particulars	L.F.	Amount (Rs.)

Format of Double column cash book

Dr.					Cr.				
Date	Particulars	L.F.	Amount (Rs.)	Amount (Rs.)	Date	Particulars	L.F.	Amount (Rs.)	Amount (Rs.)

Format of Triple or Three column cash book

Dr.

Cr.

Date	Particulars	L.F.	Amount (Rs.)	Amount (Rs.)	Amount (Rs.)	Date	Particulars	L.F.	Amount (Rs.)	Amount (Rs.)	Amount (Rs.)

Format of columnar petty cash book

Amount Received	Date	Particulars	V.N	Amount paid	Analysis of payment					
					Rs.	Postage	stationary	conveyances	Telegram	Misc.

Purchases Book/Purchase Journal

Only those business transactions are recorded in this book which are related to credit purchases of goods. Recording is made on the basis of Bills/ Invoices issued by the Suppliers.

Sales Books/Sales Journal

Only those business transactions are recorded in this book which are related to goods sold on credit. The source documents for this book is duplicate copy of invoice/bills issued to the customers.

Purchases Returns/Returns Outward Book

This book includes only those transactions which are related to returns of goods bought on credit. The goods may be returned due to various reasons. Entries in this book are made on the basis of Debit Note which contains the details of suppliers and goods returned.

Sales Returns Book/Returns Inward Book

This book includes all the returns by customers of credit sales of goods. The goods may be returned by them due to various reasons. Entries in this book are made on the basis of credit note which contains the details of customers and goods returned.

Multiple choice Questions: -

(Carrying 1 mark each)

1. A cash book with cash, bank and discount column is commonly referred as
 - a) Single column Cash book
 - b) Two columns cash book
 - c) Triple columns cash book
 - d) Petty cash book
2. The most common imprest system is the _____ system?
 - a) Petty cash system
 - b) Two columns cash book
 - c) Cash receipt
 - d) Cash Discount
3. Capital investment by the owner of business is recorded on which side of a cash book?
 - a) Receipts side
 - b) Payments side
 - c) Incomes side
 - d) Expenditure side
4. Which of the following may have both Debit or Credit balance?
 - a) Only cash column of the cash book
 - b) Only bank column of the cash book

- c) Both cash and bank column of the cash book
 - d) Neither cash or bank column of the cash book
5. Payment of rent is recorded on which side of cash book?
 - a) Receipts side
 - b) Payments side
 - c) Income side
 - d) Expense side
 6. Drawings by owner of the business are generally recorded on which side of a cash book?
 - a) Receipts side
 - b) Payments side
 - c) Incomes side
 - d) Expenditures side
 7. A cash book that is used to record the small payments of cash is generally referred as
 - a) Single column cash book
 - b) Two column cash book
 - c) Triple column cash book
 - d) Petty cash book .
 8. Recording is made in journal proper of
 - a) Opening entries
 - b) Closing entries
 - c) Adjustment entries
 - d) All of the above
 9. Purchase of office equipment for cash will be recorded on which of the following sides of a cash book?
 - a) Receipts
 - b) Payments
 - c) Incomes
 - d) Expenditures
 10. Cash purchase of goods is recorded in-
 - a) Purchase book
 - b) Sales book
 - c) Cash-book
 - d) None of these.

Short answer questions :**(Carrying 1 mark each)**

1. Define Cash Book.
2. In which book credit purchase of furniture shall be recorded?
3. What do you mean by Petty cash book?
4. Name the note sent to a supplier when we return goods.
5. What are the different types of cash book?
6. Credit purchase of furniture will be recorded through which voucher?
7. Who prepares a debit note?
8. In which book return of goods by a customer is recorded?
9. Name the different types of subsidiary books.
10. Define Sales Return Book.

Long answer Questions :**(Marks : 3 / 4 / 5 / 6)**

1. What is cash book? Explain the types of cash book.
2. What is contra entry? How can you deal with it while preparing double column cash book?
3. What is petty cash book? Write the advantages of petty cash book?
4. Describe the advantages of sub-dividing the Journal.
5. Briefly explain how the cash book is both journal and a ledger.

Numerical Questions

1. Enter the following transactions in a simple cash book of XYZ Ltd. for December 2015:

	Rs.
01 Cash in hand	10,000
05 Cash received from B	4,000
07 Rent Paid	1,000
10 Purchased goods M for cash	5,000
15 Sold goods for cash	9,000
18 Purchase stationery	800
22 Cash paid to R on account	2,000
28 Paid salary	1,500
30 Paid rent	700

2. Record the following transaction in single column cash book of ABC Ltd. for November 2019 :

	Rs.
01 Cash in hand	10,500
04 Cash paid to Hari	670
07 Purchased goods	900
12 Cash received from Amit	1,900
16 Sold goods for cash	860
20 Paid to Manish	500
25 Paid cartage	190
31 Paid salary	1,000

3. Prepare a double column cash book of Virat Ltd. with the help of following information for December 2015:

	Rs.
01 Started business with cash	1,10,000
03 Cash paid into bank	60,000
05 Purchased goods from Sumita	22,000
07 Sold goods to Dibakar and received a cheque	25,000
10 Paid to Sumita cash	22,000
14 Cheque received on December 07, 2015 deposited into bank	
18 Sold goods to Ram	10,000
20 Cartage paid in cash	500
22 Received cash from Ram	10,000
27 Commission received	4,000
30 Drew cash for personal use	1,000

4. Enter the following transactions in double column cash book of M/s Sikha Traders for November 2019:

	Rs.
01 Started business with cash	60,000
03 Opened a bank account with SBI	30,000
05 Purchased goods for cash	12,000
10 Purchased office furniture for cash	13,000
15 Sold goods on credit to Dipa and received a cheque	8,000

18	Goods sold by cash	9,000
20	Dipa's cheque deposited into bank	
22	Paid cartage by cheque	600
25	Cash withdrawn for personal use	2,000
30	Paid rent by cheque	1,000

5. Prepare double column cash book of Nanda Stores from the following information for September 2020 :

		Rs.
01	Cash In hand	7,700
	Bank overdraft	3,500
03	Paid wages	400
05	Cash sales	7,500
10	Cash deposited into bank	4,000
15	Goods purchased and paid by cheque	2,000
20	Paid rent	1,000
25	Drew from bank for personal use	400
30	Salary paid by cheque	1,100

6. Enter the following transaction in a double column cash book of M/s.Mahi Traders for January 2017 :

		Rs.
01	Cash in hand	3,700
	Bank overdraft	2,100
03	Goods purchased for cash 1,400	1,400
05	Paid wages	200
10	Cash sales	8,500
15	Deposited into bank	6,000
22	Sold goods for cheque which was deposited into bank same day	2,000
25	Paid rent by cheque	1,400
28	Drew from bank for personal use	1,000
31	Bought goods by cheque	1,200

7. Prepare a double column cash book of Saha Ltd. from the following transactions for the year December 2018:

	Rs.
01 Cash in hand	16,500
Cash at bank	5,100
03 Purchased goods for cash	2,000
05 Received cheque from Sudipa	10,000
08 Sold goods for cash	7,500
10 Sudipa's cheque deposited into bank	
12 Purchased goods and paid by cheque	20,200
15 Paid advertisement expenses through bank	1,500
18 Cash sales	7,200
20 Deposited into bank	10,000
24 Paid trade expenses	700
27 Received commission by cheque	5,000
29 Paid Rent	2,100
30 Withdrew cash for personal use	1,200
31 Salary paid	6,150

8. Prepare petty cash book from the following transactions. The imprest amount is Rs.2,200.

January	Rs.
01 Paid cartage	52
02 STD charges	42
02 Bus fare	21
03 Postage	30
04 Refreshment for employees	84
06 Courier charges	30
08 Refreshment of customer	51
10 Cartage	35
15 Taxi fare	75
18 Stationery	60
20 Bus fare	10

22	Fax charges	30
25	Telegrams charges	35
27	Postage stamps	209
29	Repair on furniture	106
30	Laundry expenses	125
31	Miscellaneous expenses	110

9. Record the following transactions during the week ending Dec.31, 2015 with a weekly imprest Rs. 600

	Rs.
25 Stationery	112
25 Bus fare	20
26 Cartage	60
27 Taxi fare	85
28 Wages to casual labour	92
29 Courier charges	30
30. Telegrams charges	35
31 Postage	83

10. Enter the following transactions in the Purchase Journal (Book) of M/s Saha Traders of Jun 2016 :

1st Jun

Bought from Ram Traders as per invoice no.2041

40 Registers @ Rs.50 each

80 Gel Pens @ Rs.10 each

50 note books @ Rs.20 each

Trade discount 5%.

Carriage Rs.500

17th Jun

Bought from Paul Stationers as per invoice no. 1137

40 Ink Pads @ Rs. 10 each

50 Files @ Rs.8 each

20 Color Books @ Rs. 15 each

Trade Discount 5%

Carriage Rs.580

23rd Jun

Purchased from Lama Furniture as per invoice no.3212

2 Chairs @ 650 per chair

1 Table @ 1100 per table

Carriage Rs.750

28th Jun

Bought from Amal Traders as per invoice no. 1024

10 Paper Rim @ Rs. 120 per rim

400 drawing Sheets @ Rs.5 each

20 Packet water colour @ Rs.50 per packet

11. Enter the following transactions in sales (journal) book of M/s.Sanjoy electronics of October 2017

01st Oct

Sold to Amit Traders as per bill no.4328

30 Bluetooth speaker @ 700each

2, T.V. set, @ 8000 Per T.V., Trade Discount 10%

Carriage Rs.580

11th Oct

Sold to Prasanta Electronics as per bill no.4356

5 T.V. sets (21") @ Rs.8,000 per T.V.

2 T.V. sets (32") @ Rs. 12,500 per T.V.

Trade Discount 12%

Carriage Rs.850

22nd Oct

Sold to Dulal Electronics as per bill no.4,375

10 pendrive @ Rs. 600 each

5 Chargers @ Rs. 300 each

Trade Discount 5%

Carriage Rs.250

29th Oct

Sold to Purnendu Traders as per bill no.4432

10 Mixer Juicer Grinder @ Rs. 1,800 each.

12. Prepare a purchases return (journal) book from the following transactions for January 2016.
 05th Returned goods to M/s Ram Traders for list price Rs. 1,200 *less* 5% trade discount
 10th Goods returned to Paul Stationers, for list price Rs.2,500 *less* 10% trade discount
 17th Goods returned to M/s Amal Traders Rs.1000.
 29th Return outwards to M/s Lama Furniture 550
13. Prepare a Sales return (journal) book from the following transactions for January 2016.
 05th Returned goods from M/s Amit Traders for list price Rs. 1,500 less 10% trade discount
 10th Goods returned from Prasanta Electronics for list price Rs.3,000 less 12% trade discount
 17th Goods returned from Dulal Electronics Rs.1400 less Trade Discount 5%.
 29th Return inwards from Purnendu Traders Rs.750

Answer Key

Multiple choice Questions

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

Numerical Questions

1. (Ans. Cash in hand Rs. 12,000)
2. (Ans. Cash in hand Rs. 10,000)
3. (Ans. Cash in hand Rs. 62,500 : Cash at bank Rs. 75,000)
4. (Ans. Cash in hand Rs. 12,000, Cash at bank Rs. 36,400)
5. (Ans. Cash in hand Rs. 7,700, Bank overdraft Rs. 3,000)
6. (Ans. Cash in hand Rs. 4,600 Cash at bank Rs. 2,300)
7. (Ans. Cash in hand Rs. 9,050 cash at bank Rs. 10,400)
8. (Ans. Cash balance Rs. 1,085)
9. (Ans. Cash balance Rs. 83)
10. (Ans: Total of purchases book Rs. 9,935)
11. (Ans. Total of sales book Rs. 1,10,105)
12. (Ans. Total of purchases return book Rs. 4,940)
13. (Ans. Total of Sales return book Rs. 6,070)

Bank Reconciliation Statement

A business concern or an individual can open an account with the bank by paying an initial sum of money. For this a bank gives to every account holder, firm, time to time, a copy of his account as it appears in the books of the bank. If it takes the form of loose sheet it is known as bank statement, On the other hand, if it is a bound book it is known as bank Pass book. In fact bank statement is the pass book is a copy of the customer's account in the bank ledger.

To ascertain the bank balance, a concern has two source of information.

1. Bank column of the cash book.
(which is maintain by costomer's)
2. Bank statement or pass book.
(which is supplied by bank)

The bank statement or pass book should agree with the bank column in the cash book on any date. In actual business. however, they rarely agree.

In order to reconcile and explain the causes of difference between the bank balance as per Cash book and the same as per Pass book as on a particular a date, a statement is prepared which is called a bank reconciliation statement.

Importance of Bank Reconcilitation

Bank Reconciliation is an usual and valued practice of almost all business concern. It is an important mechanism of internal control of cash inflow and out flow.

Need for Bank Reconciliation Statement

- i) It reflects the actual bank balance position.
- ii) It helps to detect any mistake in the cash book and in the pass book.
- iii) It prevents frauds in recording the banking transactions.
- iv) It explains any delay in the collection of cheques.
- v) It identifies valid transactions recorded by one party but not by the others.

Cause of difference

The bank balance as per cash book may differ from the bank balance as per bank statement as on a particular date due to a variety of reasons as under :

- 1) Cheques paid into bank but not credited or collected by the bank
- 2) Cheques or cash paid into bank and credited in the pass book but omitted to be recorded in the cash book.
- 3) Multicity cheques paid into bank and credited in the pass book subject to collection charge.
- 4) Cheques issued but not presented for payment.
- 5) Discounted bills dishonoured and debited in the pass book but not recorded in the cash book.
- 6) Direct deposits by customers into bank but not recorded in the cash book.
- 7) Income collected and credited by bank under standing order not recorded in the cash book, eg. insurance claim, dividends, rents, interest on securities etc.
- 8) Payment and remittances by bank under standing order debited in the pass book but not recorded in the cash book.
- 9) Charges and expenses, also interest on overdraft debited in the pass book but not recorded in the cash book.
- 10) Interest on deposits allowed by the bank and credited in the pass book but not recorded in the cash book.
- 11) Errors in casting, balancing or carry forward either in the cash book or in the pass book or in both.

Bank reconciliation statement is a statement which contains a complete and satisfactory explanation of the differences in balances as per the cash book and bank statement.

It should be noted that, The preparation of Bank reconciliation statement is not a part of the double entry book keeping system. It is just a procedure to prove the cash book balance

and

Bank reconciliation statement is to be prepared whenever a bank statement is received.

and

It is prepared on a stated day.

When we start from any balances we are to see, for each individual reason, whether this balance is in excess or short, if it is in excess, the amount mentioned in the reason is to be deducted and if, however, it is short, the amount has to be added.

The above rule, however, is applicable where the starting balance is favourable, i.e. debit balance in case of cash book and credit balance in case of pass book.

If the starting balance is overdrawn, we are to take opposite action for each individual reason.

When we start with a positive balance i.e favourable balances and after all adjustments the ultimate figure is negative, it means that the other balance represented by this ultimate figure is negative i.e overdrawn.

Similarly,

If the starting figure is negative and after all adjustments the ultimate figure becomes positive, the other balance represented by the ultimate figure is positive, i.e favourable balance.

Some of the items that frequently causes differences is given below :

1. Cheque issued but not yet presented for payment :

When a cheque is issued to a supplier or a third party it is immediately entered in the cash book by crediting the bank and this has the effect to reducing the bank balance in the depositors book. But the receiving party may not present the cheque to the bank for payment immediately. The bank debits the customer & account only when cheque has been presented and paid for. So long as it is not presented, the balance shown in the pass book or bank statement is more than the balance shown by the depositors cash book.

Susppose, opening favourable balance as per cash book and pass book was Rs. 2000. A cheque was issued in favour of R. Saxena for Rs. 1000.

Cash Book (Bank column only)

Dr.			Cr.		
Date	Particular	Amount Rs.	Date	Particular	Amount Rs.
	To Balance b/f	2,000		By R. Sexena	1,000
				„ Balance c/f	1,000
		2,000			2,000

Date	Particular	Dr. (withdrawl)	Cr. (Deposit)	Balance (Rs)
				2,000 (Cr.)

If R. Sexana fails to present the cheque for payment during this period, the balance as per the bank statement would show more than the balance as per the cash book of Rs. 1000.

2. Cheque deposited but not yet collected :

Whenever a person receives a cheque from a third person and deposits it, he debits bank A/c in his own books and credits the account of the person from whom the cheque has been received. His bank balance, therefore, is increased. The bank however takes some time in collecting the cheque,

and it would credit the customers account only when the amount has been realised. Until the cheque has been collected, the balance appearing in the pass book would be less than the balance appearing in the bank account or cash book.

Opening favourable balance as per cash book and pass book was Rs. 2000. A cheque was received from P. Sharma for Rs. 500 and deposited into the bank.

Cash Book (Bank column only)

Dr.			Cr.		
Date	Particular	Amount Rs.	Date	Particular	Amount Rs.
	To Balance b/f	2,000		By Balance c/f	2,500
	To P. Sharma	500			
		2,500			2,500

Bank Statement

Date	Particular	Dr. (withdrawl)	Cr. (Deposit)	Balance (Rs)
	Balance b/f			2,000 (Cr.)
				2,000

3. Bank charges and interest credited by bank not entered in the cash book

As example, opening favourable balance as per the cash book and pass book was Rs. 2000. The bank has charged Rs. 50 as bank charge and credited Rs. 125 as bank interest.

Cash Book (Bank column only)

Dr.			Cr.		
Date	Particular	Amount Rs.	Date	Particular	Amount Rs.
	To Balance b/f	2,000		By Balance c/f	2,000
		2,000			2,000

Bank Statement

Date	Particular	Dr. (withdrawl)	Cr. (Deposit)	Balance (Rs)
	Balance b/f			2,000 (Cr.)
	To Bank charges	50		1,950 (Cr.)
	To interest		125	2,075 (Cr.)

For Bank Reconciliation statement there are four balance is available, named :

- a) Bank favourable balance as per cash book

OR

Bank balance as per cash book (Dr.)

- b) Bank overdraft balance as per cash book

OR

Bank balance as per cash book (Cr.)

- c) Bank favourable balance as per Pass book

OR

Bank balance as per pass book (Cr.)

- d) Bank overdraft balance as per pass book

OR

Bank balance as per pass book (Dr.)

Few important clue for the student for 'Add' & 'Less'

a) Bank favourable balance as per cash book :

Add : Those items which increase the pass book favourable balance more than the cash book favourable balance.

- i) Cheque issued but not presented
- ii) Interest credited by bank not entered in the cash book.
- iii) Cash directly deposited into the bank but not recorded in the cash book.

Less / Deduct :-

Those items which decrease the pass book favourable balance more than the cash book favourable balances :

- i) Cheques deposited but not credited by bank.
- ii) Bank charge not recorded in the cash book.
- iii) Direct payment by bank as per standing order not recorded in the cash book

b) When bank overdraft as per the cash book is given :

Add : Those items which increase the pass book overdraft more than the cash book overdraft, Examples are:

- i) Cheque deposited but not credited by bank.
- ii) Bank charges not yet recorded in the cash book.
- iii) Direct payment by the bank as per standing order not recorded in the cash book.

Less / Deduct :-

Those items which decrease the pass book overdraft more than the cash book overdraft. Example are:

- i) Cheques issued but not presented for payment to the bank.
- ii) Interest credited by the bank not entered in the cash book.
- iii) Cash directly deposited into the bank but not yet recorded in the cash book.

c) When bank favourable as per the pass book is given :

Add : Those items which increase the cash book favourable balance more than the pass book favourable balance. Examples are :

- i) Cheque deposited but not credited by bank
- ii) Bank charge not yet recorded in the cash book
- iii) Direct payment by the bank as per the standing order not yet recorded in the cash book.

Less / Deduct :-

Those items which decrease the cash book favourable balances more than the pass book favourable balance. Example are :

- i) Cheques issued but not presented for payment to the bank.
- ii) Interest credited by the bank but not entered in the cash book.
- iii) Cash directly deposited into the bank but not yet recorded in the cash book.

d) When bank overdraft as per the pass book is given :

Add : Those items which increase the overdraft of the cash book more than the pass book overdraft balance. For examples :

- i) Cheques issued but not presented for payment to the bank.
- ii) Interest credited by the bank not entered in the cash book.
- iii) Cash directly deposited into the bank but not yet recorded in the cash book.

Less / Deduct :-

Those items which decrease the cash book favourable balances more than the pass book favourable balance.

- i) Cheques deposit but not collected by bank.
- ii) Bank charges debited by bank.
- iii) Direct payment made by bank as per standing order.

Multiple Choice Questions (MCQ)

(Mark-1)

1. A bank reconciliation is prepared by–
 - a) Bank
 - b) The firm/customer
 - c) Creditor
 - d) none of these
2. A bank reconciliation statement is a–
 - a) Part of cash book
 - b) Part of bank account
 - c) Part of customer account
 - d) None of these.
3. A bank reconciliation statement is prepared with the help of–
 - a) Bank statement and bank column of the cash book.
 - b) Bank statement and cash column of the cash book.
 - c) Pass book & cash book
 - d) None of these.
4. A bank statement is a copy of–
 - a) A customer account in the banks book.
 - b) Cash book relating to bank column.
 - c) Cash book relating to cash column.
 - d) None of these.
5. A bank reconciliation is prepared to know the causes for difference between–
 - a) The balance as per cash column of cash book and the pass book.
 - b) The balance as per bank column of cash book and pass book.
 - c) The balance of bank statement and customer account.
 - d) None of these.
6. Favourable balance means :
 - a) Debit balance of pass book and credit balance of cash book.
 - b) Debit balance of both pass book and cash book.
 - c) Debit balance of cash book and credit balance of pass book.
 - d) All of the above.
7. Overdraft balance means :
 - a) Debit balance of pass book and credit balance of cash book.
 - b) Debit balance of cash book and credit balance of pass book.
 - c) Credit balance of both cash book and pass book.
 - d) None of these.

8. Who gives to every account holder a copy of his account?
a) The Bank b) Debtor c) The creditor d) All of the above.
9. The bank statement or pass book supplied by–
a) The account holder b) The bank
c) The Debtor c) None of these
10. The bank statement or pass book should agree with the–
a) Bank column in the cash book
b) Cash column of the cash book
c) Both cash column or bank column of the cash book
d) None of these.
11. On preparation of Bank reconciliation statement if we start with a positive balance and after all adjustment the ultimate figure is negative, it means–
a) Favourable balance
b) Overdrawn
c) Both favourable and overdrawn.
d) None of these.
12. On preparation of bank reconciliation statement if we start with a negative balance and after all adjustment the ultimate figure is positive it means :
a) Overdrawn b) Favourable balance
c) equal balance d) All of the above.
13. Bank reconciliation statement is prepared–
a) At the end of the accounting year only.
b) Every month
c) Any time if the firm required.
d) All of the above.

Answer key

1. (b); 2. (c); 3. (a); 4. (a); 5. (b); 6. (c) 7. (a)
8. (a); 9. (b); 10. (a); 11. (b); 12. (b); 13. (c)

Short answer type questions :

(Mark-1)

1. What is a bank reconciliation statement?
2. Is bank reconciliation statement is an account?
3. Who supplied the bank statement and to whom?
4. Who supplied the pass book?
5. What is the main difference between pass book and cash book?
6. Mention any two reasons of disagreement between bank balance as per cash book and that as per bank pass book?
7. Is bank reconciliation statement a part of double entry system?
8. Write the main point when bank reconciliation statement is necessary?
9. What is favourable balance?
10. What is overdrawn?
11. Write any two needs for bank reconciliation statement?
12. What are the sources of information is required to prepare a bank reconciliations statement of a concern?

Numerical Questions:

(Marks: 3 / 4 / 5 / 6)

1. From the following particulars, prepare a bank reconciliation statement as on 31st Dec., 2020.
 - i) Bank balance as per cash book Rs. 20,000
 - ii) On 25.12.2020 a number of cheques were deposited in the bank but on 31.12.2020 a cheque for Rs. 1,000 was not credited in the pass book.
 - iii) Several cheques aggregating Rs. 7,000 were issued but only cheque Rs. 5,000 were presented into the bank for payment.
 - iv) A customer directly deposited Rs. 2,000 into the bank but no intimation given by him.
 - v) The bank had directly collected dividend Rs. 800 and interest Rs. 200 but this was not entered in the cash book.
 - vi) In accordance with the instuction, the bank honoured a bill for Rs. 2,500, but the debit note was sent to the trader on 5.01.2021.
 - vii) Bank charges charged by bank Rs. 100 but not entered in the cash book.
 - viii) The debit balance for Nov. 2020 was shown in the cash book by Rs. 150.
 - ix) The bank pass book revealed that a cheque for Rs. 300 received from a person had been dishonoured but no entry was passed in the cash book.

- x) As per standing order bank paid Rs. 1500 as insurance premium but no entry was passed in the cash book.
2. From the following particulars, prepare a bank reconciliation statement as on 31st Dec., 2020.
- Bank overdraft as per cash book Rs. 15,000
 - Interest debited by bank on 27.12.2020 but no advice received Rs 150.
 - Cheques issued before 31.12.2020 but not yet presented into bank Rs. 7,000.
 - Transport subsidy received from the State Govt. directly by the bank but not advised to the company Rs. 2500.
 - Draft deposited in the bank, but not credited till 31.03.2020 Rs. 4,600.
 - Bill for collection credited by bank till 31.03.2020 but no advice received by the company Rs. 6,000.
 - Amount wrongly debited to company account by the bank, for which no details are available Rs. 7,000.
 - Pass book showed bank charges of Rs. 200 debited by bank.
3. Prepare a bank reconciliation statement from the following particulars :
- Bank balance as per pass book Rs. 12,000
 - Cheque deposited into the bank but no entry was passed in the cash book Rs. 5,000.
 - Cheque received but not sent into bank Rs. 2000.
 - Credit side of the bank column cast short Rs. 600.
 - Insurance premium paid directly by the bank under standing advice Rs. 2,700.
 - Bank charge entered twice in the cash book Rs. 50
 - Cheque issued but not presented to the bank for payment Rs. 1,000.
 - Cheque received entered twice in the cash book Rs. 1,500
 - Bill discounted dishonoured not recorded in the cash book Rs. 2,300
4. From the following information prepare a bank reconciliation statement as at 31.12.2020 :
- Balance as per pass book (Dr.) Rs. 7,550
 - Cheque drawn, but not cashed at bank Rs. 3,500.
 - Cheque deposited into bank, but not shown in pass book Rs. 4,570.
 - Dividend of Rs. 2,000 collected by bank directly on 30.12.2020 was not recorded in cash book.

- e) A cheque amounting to Rs. 730 was deposited into the bank, but it was recorded in the debit side of the pass book.
 - f) Debit side of cash book was wrongly overcast by Rs. 500.
 - g) Bank charges recorded twice in the cash book. Rs. 25
5. From the following particulars prepare a bank reconciliation statement as on 31st Dec., 2020.
- i) Bank balance as per cash book (Dr.) Rs. 25,450. Where as per pass book (Cr.) Rs. 24,180.
 - ii) A member of cheques were deposited in the bank, but on 31st Dec., 2020 a cheque for Rs.500 was not credited in the pass book.
 - iii) Several cheques aggregating Rs. 5,000 were issued, but only cheques for Rs. 4,500 were presented to the bank for payment.
 - iv) The bank had directly collected dividend Rs. 400 and interest Rs. 300, but this was not entered in the cash book.
 - v) In accordance with instructions the bank had honoured a bill for Rs. 2,000, but the debit note was sent to the trader only on 2nd january on 2021.
 - vi) Bank charges Rs. 20 were not entered in the cash book.
 - vii) The debit balance for November was shown short in the cash book by Rs. 300.
 - viii) The bank pass book revealed that a cheque for Rs. 250 received from a person had been dishnoured, but no entry was passed in the cash book.

Answer

- 1. Bank balance as per pass book Rs. 17,750 (Cr.)
- 2. Bank overdraft balance as per pass book Rs. 7,310
- 3. Bank balance as per cash book Rs. 14,600.
- 4. Balance as per cash book Rs. 6,545 (Cr.)

Trial Balance and Rectification of Errors

The accounting process which you have learnt so far is regarding of Transaction of any business enterprise/organisation on the basis of accounting principles in journal and other subsidiary books, then transfer/posting them to Ledger accounts. You have also learnt that every Transaction have debit and equal credit amount. So when the transactions are posted in the Ledger accounts the total of debit and credits should also be equal. A balance is to check the arithmotical accuracy of the fact that the transaction which was recorded in the journal posted in the ledger and the ledger balance have also been correctly calculated in this chapter. You will also know the meaning and preparation of Trial Balance. Apart from that, you will also learn about different types of accounting errors and the method of their rectification.

Meaning of Trial Balance

A trial balance is a statement which shows the balances or total of debits and credits of all ledger accounts prepared for purpose of arithmetical accuracy of the posting of ledger accounts. When all the accounts of an organisation are balanced off and such balances are put in a columnar statement having debit balance in one side and the credit balance on the other side, such statement is called a Trial balance.

Trial balance is generally prepared at the end of the accounting period. But sometimes as per need it may be prepared on monthly, quarterly or half yearly. It must be keep in mind that the agreement or equality of the two sides of this statement is not conclusive proff of the correctness of the accounts.

Trial balance is a important step of accounting process and a ingredient part for preparation of Financial statements of the business enterprise/organisation. The balances available in Trial Balance are used to prepare Trading Account, Profit and loss account and Balance sheet.

The format of Trial Balance is under

Account Title	L.F.	Debit Balance Rs.	Credit Balance Rs.

Objectives of Preparing the Trial Balance

The trial balance is prepared to fulfill the following objectives :

1. To ascertain the arithmetical accuracy of the ledger accounts.
2. To help in locating errors.
3. To help in the preparation of the financial statements. (Trading, Profit & Loss account A/C and Balance Sheet).
4. Trial Balance will also serve as a useful summary of all accounting records.

Rules to prepare the Trial Balance :

Total amount of debit Entries = Total amount of Credit entries.

Debit	Credit
<ul style="list-style-type: none"> • All Assets (Cash in hand, Cash at bank, Inventory, Sundry Debtors, Plant and Machinery etc.) • Losses (Depreciation, Return inward, profit and loss A/c (Debit balance), Bad debts etc.) • Purchases • Expenses (carriage inward, freight, Rent and taxes, salary, wages etc.) 	<ul style="list-style-type: none"> • All Liabilities (Sundry Creditors, Bank overdraft, Secured and unsecured loans, bills payable, outstanding expenses payable, loan etc.) • Gains (Discount received, Commission received, Return outward, Bad Debts recovered, profit and loss A/c (credit Balance) • Sales. • Reserve fund, General Reserve, Provision, Accumulated depreciation etc.

Debit and Credit items of Trial Balance

Debit	Credit
01. Land and Building	01. Sundry Creditors.
02. Plant and Machinery	02. Bills Payable
03. Furniture and fixtures	03. Bnk overdraft
04. Office tools and equipment	04. Loan
05. Cash at Bank	05. Sales
06. Cash in hand	06. Purchase returns/Return outward
07. Motor Van	07. Common stock.
08. Salary	08. Un-earned Revenues.
09. Wages	09. Retained earnings

10. Travelling expenses.	10. Interest received.
11. Loss on Sale of fixed Assets.	11. Rent received
12. Printing and Stationery expenses	12. Discount from Creditors
13. Postage expenses	13. Discount on purchase.
14. Legal expenses.	14. Dividend Received
15. Selling and distribution	15. Interest on drawings.
16. Sundry Debtors	16. Recovery of Bad Debts.
17. Bills Receivables	17. Provision for Bad Debts/Doubtful Debts
18. Commission paid	18. Apprentice premium.
19. Rent paid	19. Miscellaneous/Sunday Income
20. Interest on loan paid	20. Commission Received.
21. Discount allowed	21. Bank interest Received
22. Opening stock	22. Compensation Received
23. purchases	23. Outstanding Income
24. Prepaid expenses	24. Income from investments
25. Advertisement expenses	25. Bonds payable.
26. Bad Debts	26. Other Incomes
27. Bank charge	27. Capital
28. Sales return / Return inward	28. Advances from customers
29. Carriage inward	29. Accumulated Depreciation.
30. Carriage outward	30. Reserve fund.
31. Drawing	31. General Reserve.
32. Stock of Raw materials	32. Outstanding Salary
33. Stock of Finished Goods	33. Outstanding wages
34. Depreciation expense	34. Notes payable
35. Insurance expenses	35. Landscaping Revenue
36. Utilities expenses	36. Service Revenue earned
37. Income Tax expenses	37. Unearned service revenue.
38. Unexpired insurance	38. Income Tax payable.
39. Accounts Receivable	38. Rent from sub-Letting.
40. Freight	40. Dues to suppliers.
41. Sundry expenses	
42. Dues from customers	

Method of preparing a Trial Balance

A trial balance can be prepared in the following three ways :

(i) **Totals method**

In this method we ascertain the total balance of each side of the Ledger, i.e. Debit and Credit,

separately and shown them in the respective columns of the trial balance. The total of the debit side should tally with the totals of credit side. The dual aspect concept holds true in this case also.

(ii) Balances Method

In this method , we total the debit side and credit side of the respective accounts and balance them. Then the balance of the Ledger accounts will shown in the debit and credit side of the Trial Balance. A Trial Balance tallies when the total of the debit column is equal to the total of the credit column.

This method is most common and popular as it shows the net effect and also helps in the preparation of Financial Statements.

iii) Totals-cum-balances Method

In this method, we prepare four columns. In two columns we write the debit and credit totals of accounts and in the other two columns, we write the debit and credit balance of accounts. This methods is lengthy and consumes a lot of time and is a duplicate of work. Hence it is rarely in use.

Significance of Agreement of Trial Balance

The significance of the agreement of trial balance is the arithmetically accuracy of posting the journal entries in the Ledger accounts. It is very hard to say that the orginal entry is correct. Even when the trial balance tallies, there can be certain errors which affect both debits and credit side equally, which eventually nullifies any difference. Some common errors include the following :

- Error in totalling of the debit and credit balances in the trial balance.
- Error in totalling of subsidiary books.
- Error in posting of the total of subsidiary books.
- Error in showing account balances in wrong column of the tiral balance, or in the wrong amount.
- Omission in showing an account balance in the trial balance.
- Error in the calculation of a ledger account balance.
- Error while posting a journal entry: a journal entry may not have been posted properly to the ledger, i.e., posting made either with wrong amount or on the wrong side of the account or in the wrong account.
- Error in recording a transaction in the journal: making a reverse entry, i.e., account to be debited is credited and amount to be credited is debited, or an entry with wrong amount.
- Error in recording a transaction in subsidiary book with wrong name or wrong amount.

Classification of Errors

We can classify the above errors in four categories:

- Errors of Commission
- Errors of Omission
- Compensating Errors
- Errors of Principle

i) Errors of Commission

Errors due to the wrong posting of transactions to the ledger, wrong balancing of the accounts, wrong totalling of accounts, wrong casting of the subsidiary books, or wrong recording of the amount in the journal are errors of commission. These are clerical in nature and mostly affect the trial balance.

ii) Errors of Omission

The errors of omission usually occurs at the time of recording a transaction in the journal of subsidiary books or at the time of posting to the ledger. These are two types, error of complete omission and error of partial omission. Completely omission means when the accountant omits to record the transaction. On the other hand, partial omission refers to those transactions which is partially omitted to record in books of account.

iii) Errors of Principle

We recorded the journal entry of the Transactions as per accounting conventions and principles. The errors held due to the violation of these are errors of Principle. A wrong classification of expenditure and income between capital and revenue is an errors of principle.

iv) Compensating Errors

When the effect of two or more errors is nil, these are compensating errors. These do not affect the trial balance at all.

Searching of Errors

When the both sides of Trial balance does not tally, we need to search and find out the errors and correct before preparing the financial statements. Following are the steps to locate the errors :

- i)** Recheck the totals of debit and credit columns of the trial balance.
- ii)** Equate the account head in the trial balance with the ledger to check the difference in the amount or complete omission of the account.
- iii)** Compare the trial balance with that of the previous year to recognise is there any additions or deletions of any account. If there is a major difference in any accounts balance, need to verify it for correctness.
- iv)** Balance the ledger accounts once more.

- v) Check the postings to the ledger from the journal entries or the subsidiary books.
- vi) A difference may indicate the complete or partial omission of a posting. For example, a difference in the debit side may indicate that an amount has been recorded in the books of original entry but has been omitted to be posted in the debit side of an account.
- vii) If the difference between debit and credit columns is divisible by 2, there is a possibility that an amount equal to half of the difference may have been posted to the wrong side of another ledger account.

Rectification of Errors

From the rectification point of view, the errors are classified in the following two categories :

- (i) Errors which do not affect the trial balance.
- (ii) Errors which affect the trial balance.

Rectification of Errors which do not Affect the Trial Balance

We can rectify these by passing a journal entry giving the correct amount of debit and credit to the accounts.

When there is a short debit or excess credit in an account we need to debit the concerned account, where as when there is short credit or excess debit in an account we need to credit the concerned account.

Worked Examples :

1. Goods sold on credit to Rakesh of Rs. 6,000 was not recorded in the books.

Solution :

Type of Error ⇒ Errors of omission. The effect of wrong posting has been :

		NIL	
Correct effect should have been :			
Rakesh A/c	Dr.	6,000	
To Sales A/c			6,000

2. Goods sold on credit to Rabi of Rs. 10,000 but was recorded Rs. 5,000 in the sales day books.

Solution :

Type of Error ⇒ Errors of commission. The effect of wrong posting has been :

Rabi A/c	Dr.	5,000	
To Sales A/c			5,000

Correct effect should have been :

Rabi A/c	Dr.	10,000	
	To Sales A/c		10,000

Rectification entry :

Rabi A/c	Dr.	5,000	
	To Sales A/c		5,000

3. Credit sales to Anurag Rs. 20,000 were recorded as Rs. 25,000.

Solution :

Type of Error ⇒ Errors of Commission. The effect of wrong posting has been :

Anurag A/c	Dr.	25,000	
	To Sales A/c		25,000

Correct effect should have been :

Anurag A/c	Dr.	20,000	
	To Sales A/c		20,000

Rectification entry :

Sales A/c	Dr.	5,000	
	To Anurag A/c		5,000

4. Credit sales to Nabin Rs. 8,000 were recorded in sales book but was posted to Aritra's A/c:

Solution :

Type of Error ⇒ Errors of Commission. The effect of wrong posting has been :

Aritra's A/c	Dr.	8,000	
	To Sales A/c		8,000

Correct effect should have been :

Nabin's A/c	Dr.	8,000	
	To Sales A/c		8,000

Rectification entry :

Nabin's A/c	Dr.	8,000	
	To Aritra's A/c		8,000

5. Rent paid Rs. 5,000 was wrongly shown to Landlord A/c in the cash book.

Solution :

Type of Error ⇒ Errors of posting to the wrong A/c. (Misposting)

Landlord A/c	Dr.	5,000	
	To Sales A/c		5,000

Correct effect should have been :

Rent A/c	Dr.	5,000	
	To Sales A/c		5,000

Rectification entry :

Rent A/c	Dr.	5,000	
	To Landlord A/c		8,000

This is when posting is made to a wrong account but on the correct side. This errors will not affect the agreement of the Trial balance.

Rectification of Errors Affecting Trial Balance

The following errors affect the Trial balance –

- Error of casting
- Error of carrying forward
- Error of balancing

- Error of posting to the correct account but with the wrong amount.
- Error of posting to the correct account but wrong side.
- Error of posting to the wrong side with the wrong amount
- Error of of omitting to show an account in the trial balance.
- Error of Partial omission

The aforesaid errors which affect only one account can be rectified by giving an explanatory note in the account affected or by recording a journal entry with the help of the suspense A/c.

Suspense Account

Even if the trial balance does not tally due to the existence of one sided errors, accountant has to carry forward his accounting process prepare financial statements. The accountant tallies his trial balance by putting the difference on shorter side as ‘suspense account’.

So, the Suspense account is a temporary resting place of an entry that will end up somewhere else once its final destination is determined. There are two reasons why a suspense account could be opened.

- i) Bookkeeper (Accountant) is unsure where to post an item and enters it to a suspense account.
- ii) There is a difference in a trial balance and a suspense account is opened with the amount of the difference so that the trial balance agrees.

When the causes of mismatch is discovered, journal entry is required to correct them.

Exercise

I. Answer the following MCQ’s

(1 mark each)

1. Trial Balance is a–
 - a. An account
 - b. A Statement
 - c. A ledger
 - d. Information

Answer : _____

2. How many methods are there for preparing of Trial Balance–
 - a. One
 - b. Two
 - c. Four
 - d. Three

Answer : _____

3. Which of the following is prepared on the basis of Trial Balance–
 - a. Ledger
 - b. Journal
 - c. Cash book
 - d. Final Account

Answer : _____

4. In which statement the balances of all the accounts in the ledger are incorporated–

- a. Balance Sheet
- b. Profit and Loss account
- c. Trial Balance
- d. Cash flow statement

Answer : _____

5. When two sides of trial balance does not tally, which account is opened?–

- a. Personal Account
- b. Suspense Account
- c. Trial Balance
- d. Nominal Account

Answer : _____

6. A Trial Balance is a list of balances in the–

- a. Journal
- b. Ledger
- c. Cash Book
- d. Day book

Answer : _____

7. Rectification entries are passed through–

- a. Journal proper
- b. Cash Book
- c. Balance sheet
- d. Trial Balance

Answer : _____

8. Errors that combinedly keep debits and credits equal to each other are–

- a. Comensating errors
- b. Error of Principle.
- c. Double sided error
- d. One sided error.

Answer : _____

9. Machinery worth Rs. 5,00,000 was purchased in credit but recorded in the purchased day book. This error is–

- a. Error of Omission
- b. Error of Comission.
- c. Error of Principle
- d. Compensating error.

Answer : _____

10. Bought goods from Suman Traders for Rs. 8,500 is recorded as Rs. 17,900. It is an–

- a. Error of Principle
- b. Error of Comission.
- c. Error of Omission
- d. Compensating error.

Answer : _____

Answer the following Very Short Answer type Questions :

(Mark : 1)

1. What Trial Balance?
2. State two feature of Trial Balance?
3. State two objectives of preparing Trial balance ?
4. Mention the methods of preparing Trial balance ?

5. Why suspense Account is opened ?
6. Does the trial balance disclose all errors?
7. Why trial balance is not a conclusive proof of accuracy in books of accounts?
8. What is meant by rectification of errors?
9. What is suspense Account?
10. Name various types of errors?
11. What is meant by rectification entries?
12. Is suspense account permanent or temporary?

Long Answer Questions :

(Marks : 3 / 4 / 5 / 6)

1. Define Trial Balance? State the features of Trial Balance?
2. Does a Trial Balance prove the arithmetical accuracy of the books? –explain
3. Does Trial balance disclose all errors? State the names of errors which are not detected by the trial balance.
4. State the characteristics of suspense account?
5. State how suspense account can be used as a technique for rectification of errors?

Numerical Questions :

Problem - 1

Prepare a Trial Balance for Apex India Ltd. as on 31st December, 2020 from the following–

Descriptions	Amount Rs.	Descriptions	Amount Rs.
Capital	1,551	Notes payable	680
Drawings	560	Inventory	264
Sales	2,850	Repair	461
Equipments	2,850	Return inward	98
Sundry Debtors	530		
Purchases	1,260		
Purchase Return	364		
Bank Loan	996		
Creditors	528		
Taxes	720		
Cash in hand	126		
Cash at Bank	100		

Problem - 2

The following Trial Balance of M/s Akshoy Traders of Delhi was wrongly prepared by an accountant. You are required to draw a correct Trial Balance—

Ledger Account	Debit Rs.	Credit Rs.
Capital	—	2,50,000
Purchases	4,00,000	—
Bill Payable	—	1,50,000
Wages	7,500	—
Opening Stock	3,25,000	—
Sales	—	8,00,000
Advertisements	6,250	—
Closing Stock	—	5,92,500
Bills Receivable	3,00,000	—
Debtors	—	3,25,000
Creditors	6,75,000	—
Bank Balance	1,55,000	—
General Expenses	1,500	—
Bad Debt	1,000	—
Building	1,25,000	—
Income Tax	—	50,000
18% Loan	—	25,000
Interst on loan taken	—	3,750
Sales Return	—	1,500
Rent from Sub-letting	1,500	—
Total—	21,97,750	21,97,750

Problem - 3

From the following balances of Ledger accounts of Mr. N.K. Datta after all the necessary adjustments were made for Preparation of Final Accounts, Prepare a Trial Balance as on 31st December, 2020.

Capital (01.01.2020) Rs. 50,000 ; Drawing Rs 4,000; Stock 01.01.2020) Rs. 10,000, Purchase (Adjusted) Rs. 36,900; Sales Rs. 78,500; Return Inward Rs. 1,000; Return outward

Rs.2,000; Carriage inward Rs. 2800; Carriage outward Rs. 1,200; Wages Rs. 16,500; Outstanding wages Rs.2,000; Salary Rs. 11,000; Prepaid Salary Rs. 3,000; Interest on Investment Rs. 4,000; Accrued Interest on Investment Rs. 600; Investment Rs. 20,000; Leasehold property Rs. 30,000; Plant and Machinery Rs. 18,000; Stock (31.12.2020) Rs. 15,000; Sundry Debtors Rs. 12,000; Sundry Creditors Rs. 10,000; Bills Receivable Rs. 6,000; Bill payable Rs. 6,000; Provision for Doubtful debts Rs.1,000; Reserve Rs. 15,000; Commission (Cr) Rs. 6,000; Commission Received in Advance Rs.900; Cash in hand Rs. 6200; Rent and Taxes Rs.1800; Electricity Rs. 800; Insurance Rs. 200; Bank Overdraft Rs.21,600.

Problem - 4

The under Trial balance of a partnership firm has been wrongly prepared. You are redraft the same correctly.

Trial Balance.

For the Year ended 31.03.2019

	<i>Debit Amount Rs.</i>		<i>Credit Amount Rs.</i>
Capital A/c : X	30,000	Capital A/c : Y (overdrawn)	20,000
Stock (31.03.2019)	1,80,000	Bill payable	70,000
Cash in hand	20,000	Trade expenses	20,000
Bank overdraft	1,10,000	Return inward	20,000
Purchase	2,50,000	Bad Debt	20,000
Return outward	20,000	Sales	4,00,000
Carriage inward	10,000	Carriage outward	10,000
Wages	20,000	Motor Van	1,50,000
Salaries	50,000	Loan (Cr)	10,000
Treavelling expenses	10,000	Stock (01.08.18)	30,000
Advertising	20,000	Due from customers	50,000
Bad debt provision	20,000	Interest Received	20,000
Building	2,00,000		
Creditors on open account	50,000		
Bill Receivable	20,000		
Total	10,10,000		10,10,000

Problem - 5

Rectify the following errors :

- i) Goods purchased from Anirban were not recorded Rs. 50,000
- ii) Credit sales to Rakesh were not recorded Rs. 8,000
- iii) Goods returned by Rakesh Rs. 1,800 were recorded Rs. 800.
- iv) Goods returned to Anirban Rs. 3780 were recorded as Rs. 7830.

Answer : _____

Problem - 6

Rectify the following errors and ascertain the amount of difference in trial balance by preparing suspense account

- i) Credit sales to Rabi Rs. 8,000 were not posted.
- ii) Credit purchased from Rashmit Rs. 21,000 were not posted.
- iii) Goods returned to Rashmit Rs. 1940 were not posted.
- iv) Goods returned from Rabi Rs. 840 were not posted.
- v) Cash paid to Ram Rs. 5700 was not posted.
- vi) Cash sales Rs. 10,800 were not posted.

Answer : _____

Problem - 7

Rectify the following errors :

- i) Plant and Machinery purchased for Rs. 1,80,000 was wrongly debited to purchase A/c.
- ii) Sale of old Machinery at Rs. 5000 was credited to sales A/c.
- iii) Credit sales to Rajat Rs. 32,000 were recorded as Rs. 23,000.
- iv) Repairs on Machinery Rs. 8,200 was debited to purchase A/c.
- v) Cash sales to Nabin of Rs. 55,800 were not posted.

Problem - 8

i) Give journal entries to rectify the following errors assuming that suspense account had been opened.

- ii) Cash received from Bijoy, a Debtors of Rs. 6800 was posted to his account.
- iii) Purchase book undercast by Rs. 8,000.
- iv) Credit sales to Partha Rs. 6000 was recorded through the purchase book as Rs. 600.
- v) Repairs on machinery Rs. 1900 wrongly debited to machinery account Rs. 900.

Answer Key

I. MCQ's :

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

IV. Nemerical Questions :

- 1) Trial Balance total – Rs. 6969
- 2) Trial Balance total – Rs. 19,01,500
- 3) Trial Balance total – Rs. 1,97,000
- 4) Trial Balance total – Rs. 9,20,000

Depreciation, Provisions and Reserves

A business or concerns holds fixed assets for regular use and not for re-sale. The capability of a fixed assets to render service can not be unlimited.

Except land, all other fixed assets have a limited useful life. The benefit of a fixed assets is received throughout its useful life.

Depreciation is the allocation of the cost of a fixed asset over the years of its working life.

Indian Accounting standard states that, “Depreciation is allocated so as to charge a fair proportion of the depreciable amount in each accounting period during the expected useful life of the asset.”

Depreciable assets :

Depreciable assets are assets which

- i. Are expected to be used during more than one accounting period.
- ii) Have a useful limited life.
- iii) Are held by an enterprise for use in the production or supply of goods or services, for rental to others, or for administrative purposes and not for the purpose of sale in the ordinary course of business.

Useful life is either

- i) The period over which a depreciable asset is expected to be used by the enterprise.

OR

- ii) The number of production or similar units expected to be obtained from the use of the asset by the enterprise.

Cause of Depreciation :

Its causes are :

A. Internal :

- i) **Wear and tear :** Plant and machinery, Furniture, Motor vehicles etc. suffer from loss of utility due to vibration, chemical reaction, negligent handling, rusting etc.
- ii) **Depletion or exhaustion :** The utility of resources of wasting assets (like mines etc.) decreases with regular extractions.

B. External or Economic causes :

- i) **Obsolescence** : Innovation of better substitutes, change in market demand, imposition of legal restrictions may result into discarding an asset.
- ii) **Inadequacy** : Change in the scale of production or volume of activities may lead to discarding an asset.

C. Time element :

With the passage of time some intangible fixed like lease, patents, copyright etc. lose their value of effectiveness.

D. Abnormal occurrences :

An accident, fire or natural calamity can damage the service potential of an assets partly or fully. As a result the effectiveness of the asset is affected and reduced.

Factors in the measurement of depreciation

- 1. **Historical (original) cost** : Which includes money spent for acquisition, installation, addition and improvement of a fixed asset, cost of the asset, wages paid for the installation, transportation costs, legal expenses for registration of lease agreements etc. are included.
- 2. **Useful life of the asset** : It is the estimated period over which the utility of an asset will be enjoyed, it depends upon.
 - a) Legal or contractual provisions regarding lease, etc.
 - b) Level of use of the asset.
 - c) Degree of maintainence
 - and
 - d) Technological developments. Useful life is shorter than the physical life of an asset.
- 3. **Estimated residual value** : It is the value expected to be realised after complete commercial utilization of a fixed asset.
- 4. **Other relevant factor** : Some other relevant factors may be considered for deciding the amount to be charged as depreciation. These are–
 - a) Replacement cost that is the cost that would be incurred if the old asset has to be replaced by a new asset.
 - b) Cost of probable additions, alteration or improvement of the existing asset.

Objects of Providing for Depreciation :

The objects or necessities of charging depreciation are :

1) Correct calculation of cost of production :

Depreciation is an allocated cost of a fixed asset. It is to be calculated and charged correctly against the revenue of an accounting period. It must be correctly included within the cost of production.

2) Correct calculation of profits :

Costs incurred for earning revenues must be charged properly for correct calculation of profits. The consumed cost of assets (depreciation) has to be provided for correct matching of revenues with expenses.

3) Correct disclosure of fixed assets at reasonable value :

Unless depreciation is charged the depreciable asset can be correctly valued and presented in the balance sheet. Depreciation is charged so that the balance sheet exhibits a true and fair view of the affairs of the business.

4) Provision of replacement cost :

Depreciation is a non-cash expenses. But net profit is calculated after changing it. Through annual depreciation cash resources are saved and accumulated to provide replacement cost at the end of the useful life of an asset.

5) Maintenance of Capital :

A significant portion of capital has to be invested for purchasing fixed assets. The value of such assets are gradually reduced due to their regular use and passage of time. Depreciation on the assets is treated as an expired cost and it is matched against revenue. It is charged against profits it is not charged the profits will remain inflated. This will cause capital erosion.

Characteristics of Depreciation :

The Characteristics of Depreciation are :

- 1) It is a charge against profit.
- 2) It indicates diminution in service potential.
- 3) It is an estimated loss of the value of an asset. It is not an actual loss.
- 4) It depends upon different assumptions like effective life and residual value of an asset.
- 5) It is a process of allocation and not of valuation.
- 6) Depreciation on any particular asset is restricted to the working life of the asset.

Method of Calculating Depreciation :

There are several methods of allocating depreciation over the useful life of the assets. Those most commonly employed in industrial and commercial enterprise are the—

- a) Straight line Method
and
- b) The Reducing balance method.

a) Straight line Method or equal installment method :

This is the most popular method because of its simplicity and consistency. It requires allocation of an equal amount of each period. A fixed amount of the original cost is charged as depreciation

every year. Then, the asset is written down in value each year by the same amount. This amount is such that the book value of the asset may be reduced to zero or its residual value, as the case may be at the end of the life. The rate of depreciation is the reciprocal of the estimated useful life. If the useful life of an asset is 10 years, the depreciation rate will be $\frac{1}{10}$ or 10%. This may be put in the shape of a formula as under.

$$\text{Annual Depreciation} = \frac{\text{Cost of the Asset} - \text{Residual value}}{\text{Estimated Economic Life}}$$

Example :

If a machine cost Rs. 1,20,000, has a salvage value of Rs. 20,000 and a life of 10 years. Assuming the accounting year ends on 31st December every year.

The Depreciation per annum will be :

$$\begin{aligned} \text{Depreciation} &= \frac{\text{Rs. } 1,20,000 - \text{Rs. } 20,000}{10} \\ &= \text{Rs. } 10,000 \end{aligned}$$

Methods of recording Depreciation

The ledger account entries for depreciation are quite straight forward. There are two methods of recording depreciation for the books :

The First method– when no provision for depreciation account is maintained :

Under this method depreciation is charged to an asset account by debiting depreciation account and crediting the asset account. At the end of the accounting period, depreciation account is closed by transferring it to the profit and loss account. In the balance sheet, the asset appears at its written down value (cost less depreciation provided to date). Here actual cost of an asset and the total amount of depreciation that has been provided (to-date) can not be ascertained from the balance sheet.

Journal entries

1. Depreciation Account Dr.
 To Asset Account.
2. Profit and loss Account Dr
 To Depreciation Account

The Second method– When provision for depreciation account is maintained :

Under this method (in contrast to the above), depreciation is not directly charged to the assets account.

The depreciation for the period is debiting to the depreciation account and crediting to Accumulated depreciation account, or provision for depreciation account.

As in the provision method, depreciation account is closed by transferring it to the profit and loss account. In the balance sheet, assets appears at its original cost and the accumulated depreciation is shown as a deduction from the asset account. Here, from the Balance sheet, the original cost of the asset and the total depreciation to date that has been charged on that asset can be easily ascertained.

Journal entries

- 1. Depreciation Account Dr.
 To Accumulated Depreciation Account.
- 2. Profit and loss Account Dr
 To Depreciation Account

Example :

- 1. Mr. X purchased machine on 1st January 2016 for Rs. 90,000 by cheque. Its probable working life is 10 years and its scrap value at the end of that time at Rs. 10,000. It was decided to write off depreciation by equal annual instalments.

You are required to pass necessary journal entries for first two years and show necessary accounts and the balance sheet.

- i) When no provision for depreciation account is maintained.
- ii) When provision for depreciation account is maintained.

(It was decided to close books each year on December 31)

Solution :

$$\text{Annual Depreciation} = \frac{\text{Rs. 90,000} - \text{Rs. 10,000}}{10}$$

$$= \text{Rs. 8,000}$$

- i) When no provision for depreciation account is maintained.

In the books Mr. X

Journal Entry

Date	Particulars		<i>Dr.</i>	<i>Cr.</i>
			Amount Rs.	Amount Rs.
2016 Jan.01	Machinery A/c To Bank A/c (Being the machinery purchase by cheque)	Dr.	90,000	90,000
Dec.31	Depreciation A/c To Machinery A/c (Being the depreciation charged to Machinery	Dr.	8,000	8,000

Dec.31	Profit and Loss A/c To Machinery A/c (Being the depreciation transfered to profit and loss account)	Dr.	8,000	8,000
2017 Dec.31	Depreciation A/c To Machinery A/c (Being the depreciation charged to machinery)	Dr.	8,000	8,000
Dec.31	Profit and Loss A/c To Depreciation A/c (Being the depreciation transfered to profit and loss account)	Dr.	8,000	8,000

Machinery Account

Dr.			Cr.		
Date	Particular	Amount Rs.	Date	Particular	Amount Rs.
2016 Jan.01	To Bank A/c	90,000	2016 Dec.31	By Depreciation A/C	8,000
		90,000		„ Balance c/d	82,000
					90,000
2017 Jan.01	To Balance b/d	82,000	2017 Dec.31	By Depreciation A/C	8,000
		82,000		„ Balance c/d	74,000
					82,000
2018 Jan.01	To Balance c/d	74,000			

Depreciation Account

Dr.			Cr.		
Date	Particular	Amount Rs.	Date	Particular	Amount Rs.
2016 Dec.31	To Machinery A/c	8,000	2016 Dec.31	By Profit and Loss A/C	8,000
		8,000			8,000
2017 Dec.31	To Machinery A/c	8,000	2017 Dec.31	By Profit and Loss A/C	8,000
		8,000			8,000

Blance Sheet as on 31st December 2017

Liabilities	Amount Rs.	Assets	Amount Rs.
		Mechinery 90,000	
		Less : Debreciation (8,000 + 8,000) 16,000	
			74,000

ii) When provision for depreciation account is maintained.

In the Books Mr. X

Journal Entry

Date	Particulars	<i>Dr.</i> Amount Rs.	<i>Cr.</i> Amount Rs.
2016 Jan.01	Machinery A/c Dr. To Bank A/c (Being the machinery purchase by cheque)	90,000	90,000
Dec.31	Depreciation A/c Dr. To Accumulated Depreciation A/c (Being the depreciation Provided for the accounting period)	8,000	8,000
Dec.31	Profit and Loss A/c Dr. To Depreciation A/c (Being the depreciation transfered to profit and loss account)	8,000	8,000
2017 Jan.01	Depreciation A/c Dr. To Accumulated Depreciation A/c (Being the depreciation provided for the account period)	8,000	8,000
	Profit and Loss A/c Dr. To Depreciation A/c (Being the depreciation transfered to profit and loss account)		

Machinery Account

Dr.			Cr.		
Date	Particular	Amount Rs.	Date	Particular	Amount Rs.
2016 Jan.01	To Bank A/c	90,000	2016 Dec.31	By Balance c/d	90,000
2017 Jan.01	To Balance b/d	90,000	2017 Dec.31	By Balance c/d	90,000
2018 Jan.01	To Balance b/d	90,000			

Depreciation Account

Dr.			Cr.		
Date	Particular	Amount Rs.	Date	Particular	Amount Rs.
2016 Dec.31	To Accumulated Depreciation	8,000	2016 Dec.31	By Profit and Loss A/C	8,000
2017 Dec.31	To Accumulated Depreciation	8,000	2017 Dec.31	By Profit and Loss A/C	8,000

Accumulated Depreciation Account

Dr.			Cr.		
Date	Particular	Amount Rs.	Date	Particular	Amount Rs.
2016 Jan.01	To Balance b/d	8,000	2016 Dec.31	By Depreciation A/C	8,000
2017 Jan.01	To Balance b/d	16,000	2017 Jan.01	By Balance b/d	8,000
		16,000	2017 Dec.31	By Depreciation A/C	8,000
			2018 Jan.01	By Balance b/d	16,000

Blance Sheet as on 31st December 2017

Liabilities	Amount Rs.	Assets	Amount Rs.
		Mechinery (at cost) 90,000	
		Less : Accumulated Depreciation 16,000	
			74,000

2. Diminishing Balance method

Under this method instead of a fixed amount, a fixed rate on the reduced balance of the asset is charged as depreciation every year. Since a constant percentage rate is being applied to the written down value. The amount of depreciation charged every year decreases over the life of the asset. Though the percentage at which depreciation is charged remains fixed, the amount of depreciation goes on diminishing year after year. This method assumes that an asset should be depreciated more in the earlier years of use than later years because the maximum loss of an asset occurs in the early years of use.

From the following example the calculation of depreciation under this method can undasted easily.

Example : Sourav Ganguly purchased machinery by cheque for Rs. 1,00,000 on 1st January 2010. The estimated scrap value of the Machinery is Rs. 20,000. At the end of each year depreciation is provided at the rate of 10% by the diminishing balance method. Show the caluculation of Depreciation for 1st three years i.e. 2010, 2011 and 2012.

Calculation of Depreciation

On	01.01.2010	balance (Cost of Machine)	Rs. 1,00,000
1st year	31.12.2010	Less : Depreciation @ 10% $\left(\frac{10}{100} \times 1,00,000\right)$	Rs. 10,000
	01.01.2011	Balance	Rs. 90,000
2nd year	31.12.2011	Less : Depreciation @ 10% $\left(\frac{10}{100} \times 90,000\right)$	Rs. 9,000
	01.01.2012	Balance	Rs. 81,000
2nd year	31.12.2012	Less : Depreciation @ 10%	Rs. 8,100
	01.01.2013	Balance	Rs. 72,900

* only calculation of Depreciation under this method is separate from straight line method and all others, i.e. Journal, Ledger and Balance Sheet all are same.

Charge for Depreciation and Materiality Concept :

It is not fair to assume that a fixed asset is always purchased on the very first day of the accounting period. Assets are generally purchased in the course of the accounting period. When an asset purchased in any month of the accounting period. It is not necessary to compute the amount of depreciation to be charged to the nearest day or week. As we know, the charge of for depreciation is estimate and the application of the concept of materiality does not allow a misleading impression of great precision. Therefore depreciation is calculated to the nearest whole month.

If an asset is acquired on 17th March and the concern follows the calender year as its accounting year, depreciation should be calculated for 9 month only from 1st April to 31st December). If the asset is aquired on 4th March. Depreciation should be calculated for 10 months only.

Another popular approach is to charge depreciation for 6 months only in the year of acquisition, ignoring the actual date of acquisition. This is known as ‘half year convention.’

In examination, if no date of aquisition is given, the half year convention should be followed.

Profit and loss of disposal of Asset :

Owing to technological development, a depreciated assets becomes obsolete and it may be sold out before its useful life. The business enterprise may also sell on asset which it no longer requires. It is quite common that the sale value of such asset may not be equal to its written down value (net book balue). If the asset is sold at a price which is more than its written down value, it produces a profit. When the asset is sold at a price which is less that its written down value, it is case of loss on sale of an asset.

Jorunal Entries

The journal entries for disposal of assets will depend upon the upon the method of recording depreciation.

1. When no provision for depreciation Account is maintained.

Which the asset appears in the balance sheet at its written value on disposal, the written down value of such assets (at the beginning of the year of disposal) is transferred to asset disposal account and profit and loss on sale of assets are ascertained with the help at the account. The detailed entries are given below.

a) For transferring to Assets Disposal Account

Assets Disposal Account	Dr	(Written down value
To Assets Account		of the asset at the
		begining of the year of disposal)

b) For charging depreciation of carrent year on disposal asset.

Depreciation A/c	Dr
To Assets disposal Account	

- c) For Sale proceeds
 Bank A/c Dr
 To Assets disposal Account
- d) If the credit side of the assets disposal account is greater than the debit side, there is profit on disposal and it is transferred to profit and loss account
 Assets disposal Account..... Dr.
 To profit and loss account
- e) If the debit side of the assets disposal account is greater than the debit side, there is loss on disposal and it is transferred to profit and loss account
 Profit and loss account Dr.
 To Assets disposal Account

Example :

XYZ Ltd. has imported a machine on 1st July 2015 for Rs. 1,60,000, paid customs duty and freight Rs. 80,000 and incurred erection charges Rs. 60,000. Another local Machinery costing Rs. 1,00,000 was purchased on January 1, 2016, on 1st July, 2017 a portion of the imported machinery (value one third) got out of order and was sold for Rs. 34,800. Another machinery was purchased to replace the same for Rs. 50,000. Depreciation is to be calculated at 20% p.a on the straight line meethod.

Show the machinery account for 2015, 2016 and 2017. Assume calender year is the accounting year.

**In the Books Mr. X
 Machinery Account**

Dr.			Cr.		
Date	Particular	Amount Rs.	Date	Particular	Amount Rs.
2015 July.01	To Bank A/c (purchase price)	1,60,000	2015 Dec.31	By Depreciation A/C ($\frac{1}{2}$ year)	30,000
„	To Bank A/c (Customs duty and freight)	80,000	„	By Balance c/d	2,70,000
„	To Bank A/c (Erection charges)	60,000	Dec.31		
		3,00,000			3,00,000

2016 Jan.01	To Balance b/d	2,70,000	2016 Dec.31	By Depreciation A/c (Sec note no.1)	80,000
	To Bank A/c (new machine purchase)	1,00,000	„	By Balance c/d	2,90,000
		3,70,000			3,70,000
2017 Jan.01	To Balance b/d	2,90,000	2017 July.01	By Machinery disposal A/c (Sec note no.2)	70,000
July.01	To Bank A/c (new machine purchase)	50,000	Dec. 31	By Depreciation A/c	65,000
		3,40,000	„	By Balance c/d	2,05,000
					3,40,000
Jan.01	To Balance b/d	2,05,000			

Machinery Disposal Account

Dr.			Cr.		
Date	Particular	Amount Rs.	Date	Particular	Amount Rs.
2017 July.01	To Machinery A/c	70,000	2017 July.01	By Depreciation A/c	10,000
				„ Profit & Loss A/c (Loss)	25,200
				„ Bank A/c (sale proceeds)	34,800
		70,000			70,000

Working Notes :

1. Calculation of Depreciation

2015	1st Machinery (aquired on 1.7.2015)	
	Cost of Machinery	Rs. 3,00,000
	Depreciation @ 20% for $\frac{1}{2}$ yrs.	Rs. 30,000
		Rs. 2,70,000
	Depreciation for 2015 is Rs. 30,000	
2016	Depreciation of 1st machinery for 1 year (20% on Rs. 3,00,000)	Rs. 60,000
	Depreciation an 2nd machinery @ 20% for 1 yrs. (20% on Rs. 1,00,000)	Rs. 20,000
		Rs. 80,000

	Depreciation for 2016	Rs. 80,000
2017	Depreciation of 1st machinery	
	(20% on Rs. 2,00,000 for 1 year)	Rs. 40,000
	(20% on Rs. 1,00,000 and machinery)	Rs. 20,000
	(20% on Rs. 50,000 for 3rd machinery) for $\frac{1}{2}$ yr.	Rs. 5,000
		<u>Rs. 65,000</u>
	Depreciation for 2017	Rs. 65,000

Notes no. 2 :

Calculation of written down value on 1.07.2017 (without depreciation for 2017)	Rs. 1,00,000
Original cost on 1.07.2015 ($\frac{1}{3}$ of Rs. 3,00,000)	
Less : Depreciation for 2015, $\frac{1}{2}$ year	Rs. 10,000
	<u>Rs. 90,000</u>
Less : Depreciation for 2016	Rs. 20,000
	<u>Rs. 70,000</u>

Provision :

A provision is an amount written off against or set aside out of profits. It is created to provide for a known liability whose amount is not correctly ascertained, It is also created to provide for depreciation, renewals or diminution in the value of the assets.

Regarding provision we should remember that,

- 1) It is a charge against profit but not a appropriation of profit. It should be provided whether there is profit or loss.
- 2) Its amount is to be estimated but can not be accurately calculated.
- 3) It is provided for meeting a known loss.
- 4) It is not available for distribution as share of profits.
- 5) It is considered as an operating expenses or loss.
- 6) If it is created, the net assets of a business are reduced.

Example of some common provisions

provision for bad or doubtful debts, provision for depreciation, provision for repair and renewals provision against any claim under dispute provision for discount on debtors, provision for Taxation.

Provision for bad debt :

In order to measure net profit or net loss for an accounting period, it is proper that the expenses and losses of the period must be matched against the revenues of the period, which (revenues) the expenses have help to create. Where a trader sales on credit, ravanue is usually considere to arise at the time of sale. This means that if goods are sold at a price in excess of this cost, the profit is brought, into account when the sale is mae and not when the debt is collect. If a bad debt is incurred, it should therefore, be charged against the revenue of the period in which the sale was made. It is however, not always possible to do so, because the fact of unrealisability of a debt is often realised only gradually and a debt may not prove bad until a considerable time after the sale has taken place— in many cases after several accounting periods, in order to avercome this difficalty a provision is raised for bad debts. Thus, the purpose of providing for bad debts is to try to bring, into the period in which the sale was made, a change for the bad debts that may result from such sale.

The amount to be provided for bad debts can be assessed in any of the following ways :

- a) By a detailed scrutiny of at debtors’ accounts on estimate of the debts likely to prove is made out.
- b) By calculating a percentage (based on the past experience of the enterprise) on total debtors’ accounting outstanding at the particular date, or an overdue debtors accounts, or on credit sales for the period, an estimate of the probable bad debt is made.

Accounting Procedure :

At the end of the year in which provision is made for the first time :

1. The amount of bad debt actually arisen and written off during the year is transferred to profit and loss account by the following entry.

Profit and loss A/c Dr.
 To Bad debts A/c

2. The amount to be provided bad debts is estimated and with the amount the following is made.

Profit and loss A/c Dr.
 To Provision for bad debt A/c

At the end of subsequent years

1. The amount of bad debt debts written off during the year is transferred to provision for bad debt A/Cs by the following entry.

Provision for bad debt A/c Dr.
 To Bad debts A/c

2. After that, the amount that should be carried forward as the provision to the next year is estimated, from this amount, the balance already standing to the credit of the provision account, if any, is deducted and with the balance the following entry is passed :

Profit and loss A/c Dr.
 To Provision for bad debt A/c

3. The profit and loss account, the above mentioned net amount is debited but details are usually shown as under :

Provision for bad debt :	
Provision required	Rs. ***
Add : Bad debts	Rs. ***
	Rs. ***
Less : Existing Provision	Rs. ***
	Rs. ***

4. If, in any year the Provision shows a balance in excess of the bad debts accruing in that year plus the provision required to be carried forward, the following entry is passed with such excess :

Provision for bad debt A/c	Dr.
To Profit and loss A/c	

Example :

On 1st January 2014 Anup Kumar had a bad debts provision of Rs. 13,500. The bad debt during the year 2014 amounted to Rs. 11,200. The debtor as at 31st December 2014 were Rs. 2,80,000. The firm maintains provision for bad debts at 5%. Bad debt during 2015 and 2016 amounted to Rs. 14,600 and Rs. 5,200 respectively. The total debtor as on 31st December 2015 and 31st December 2016 were Rs. 3,60,000 and Rs. 1,70,000 respectively.

Show the

- a) Bad Debt A/c
- b) Provision for Bad Debt A/c
- c) Profit and loss account
- d) Balance Sheet.

Bad Debt Account

Dr.			Cr.		
Date	Particular	Amount Rs.	Date	Particular	Amount Rs.
2014 ?	To Sundries	11,200	2014 Dec.31	By Provision for Bad Debt A/c	11,200
2015 Jan.01 ?	To Sundries	14,600	2015 Dec.31	By Provision for bad	14,600
2016 ?	To Sundries	5,200	2016 Dec.31	By Provision for bad Debt A/c	5,200

Provision for Bad Debt Account

Dr.			Cr.		
Date	Particular	Amount Rs.	Date	Particular	Amount Rs.
2014 Dec.31	To Bad Debt A/c	11,200	2014 Jan.01	By Balance b/d	13,500
	„ Balance c/d	14,000		„ Profit and Loss A/c	11,700
	5% on Rs. 2,80,000	14,000			
		25,200			25,200
2015 Dec.31	To Bad Debt A/c (Transfer)	14,600	2015 Jan.01	By Balance b/d	14,600
	„ Balance c/d	18,000		„ Profit and Loss A/c	18,000
	5% on Rs. 3,60,000	18,000			
		32,600			32,600
2016 Dec.31	To Bad Debt A/c (Transfer)	5,200	2016 Jan.01	By Balance b/d	18,000
	„ Profit and Loss A/c	4,300			
	„ Balance c/d	8,500			
	5% on Rs. 1,70,000	8,500			
		18,000			18,000
			2017 Jan. 01	By balance b/d	8,500

Profit and loss A/c for the year ended 31st December

Dr.			Cr.			
Date	Particular	Amount Rs.	Date	Particular	Amount Rs.	
2014	To Provision for Bad Debt Provision required (5% on Rs. 2,80,000)	14,000				
	Add : Bad debt	11,200				
		25,200				

	Less : Existing Provision 13,500				
	11,700				
	To Provision for Bad Debt Provision required (5% on Rs. 3,60,000 18,000		2016	By Provision for Bad Debt	
	Add : Bad debt 14,600			Existing provision 18,000	
	32,600			Less : Bad Debt 5,200	
	Debt Provision			Less : Provision required (5% on Rs. 1,70,000) 12,800	
	Less : Existing Provision 14,000			8,500	4,300
	18,600				

Balance Sheet as at 31st December

Dr.			Cr.			
Date	Particular	Amount Rs.	Date	Particular	Amount Rs.	Amount Rs.
			2014	Sundry Debtors	2,80,000	2,66,000
				Less : Provision Bad Debt 5%	14,000	
			2015	Sundry Debtors	3,60,000	3,42,000
				Less : Provision Bad Debt 5%	18,000	
			2015	Sundry Debtors	1,70,000	1,61,500
				Less : Provision Bad Debt 5%	8,500	

Provision for Discount on Debtors :

The accounting procedure is similar to that discribed for provision for bad debts. The entries are as follows.

At the end of the year in which provisions is made for the first time.

1. The amount of discounts allowed during the year are transferred to profit and loss account by the following entry.

Profit and Loss A/c Dr.

To Discount allowed A/c

2. With the estimated amount of required provision the following entry is made :

Profit and Loss A/c Dr.

To Provision for Discount on Debtors A/c

At the end of the subsequent years :

1. The account of discount allowed during the year is transferred to provision account by the following entry :

Provision for Discount on Debtors A/c Dr.

To Discount allowed A/c

2. The estimated amount of provision that should be carried forward to the next year is shown on the debt side of the provision account as closing balance and with the balancing figure as closing balance and with the balancing figure on the credit side of the account the following entry is passed.

Profit and loss A/c Dr.

To Provision for Discount on Debtors A/c

If however, a difference comes on the debit side, the entry will be reversed.

The provision for discount on debtors is shown in the balance sheet as a deduction from Sundry Debtors balance remaining after the deduction of provision for bad debts.

Reserve

It is part of the profits of the business, which is not distributed among the owners of the business. It is created to meet unknown liabilities, contingencies or losses. It is created also to strengthen the financial powers of a business.

It may be created for specific purpose, e.g. Dividend equalisation reserve meant for helping a company to maintain a regular rate of dividend. It may also be general reserve to meet any unknown loss or liability.

Regarding reserve we should remember that,

1. It is an appropriation of profit.
2. It is retained in the business for meeting future needs of unknown nature.
3. It is created out of current net profits or out of past profits.
4. It may be used for payment of dividends (except any capital reserve)
5. It makes a business financially strong.

Answer in one or two lines :

(Mark-1)

1. What is depreciation

2. Name two methods of depreciation.
3. Write the factors of measurement of depreciation.
4. What is Residual value.
5. What is 'half year convention'?
6. Write the formula to calculate depreciation under straight line method.
7. Write one objective to calculate depreciation.
8. Profit or loss of disposal of assets is transferred in which account?
9. What is provision?
10. What is Reserve?
11. What is Bad Debt?
12. What is provision for Bad Debt?

Multiple Choice

(Mark-1)

1. Under the straight line method, depreciation is calculated on—
 - a) On original cost.
 - b) The original cost less scrap value
 - c) The scrap value.
 - d) None of these
2. The objective of providing depreciation is—
 - a) To reduce tax burden
 - b) To calculate true profit.
 - c) To show true financial position in the balance sheet.
 - d) To provide funds for replacement of fixed assets.
3. Depreciation is a process of—
 - a) Valuation of asset.
 - b) Allocation of cost
 - c) Both of valuation of asset and allocation of cost.
 - d) None of these
4. Under the straight line method depreciation is charged—
 - a) On the original cost of the machine
 - b) On the written down value of the machine.
 - c) Some times original cost, sometimes written down value.

- d) All of the above.
5. Under the diminishing balance method of charging depreciation, it.
- Increase every year.
 - Decreases every year
 - Fall in the value of money
 - None of these
6. The amount of depreciation charged on a machinery will be debited to –
- Cash account
 - Depreciation account
 - Machinery account
 - Provision for depreciation account.
7. Under straight line method, the depreciation charges is–
- Constant every year.
 - Fluctuate every year
 - All of the above.
8. In diminishing balance method the depreciation is charged–
- On written down value of the Machinery.
 - On the original cost of the Machinery.
 - None of these
9. A business enterprise a fixed asset is always purchased
- On the very first day of the accounting period.
 - Any month of the accounting period.
 - Closing of the accounting period.
 - None of these

Answer

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

Numerical Questions:

(Marks-3/4/5/6)

1. X Ltd. purchased on 1st January 2015 a machinery for Rs. 53,000 and spent Rs. 5,000 on its installation. The estimated life of the plant is 8 years, after which its scrap value will be Rs. 6,000 only.

Prepare the machinery account for the first three years, assuming that the accounting year ends on 31st December.

2. On 1.1.2015 a Company purchased a machine for Rs. 1,00,000. It was decided to write off depreciation @10% under straight line method, estimating the life of the machine at 10 years and scrap value at Rs. 10,000. You are required to prepare machinery account up to 31.12.2017 and also show the provision for depreciation account for the same period.
3. A Trader purchased second hand machinery on 1st January, 2010 for Rs. 23,000 and spent Rs. 2,000 on its repair. It was decided to depreciate the machinery at 20% every year on 31st December by the diminishing balance method.

Prepare the machinery account from 2010 to 2012 and show profit or loss, if it is sold on 31st December 2012 for Rs. 10,800

4. A plant is purchased for Rs. 6,00,000 on 1st April, 2010. Some additions to the plant are made on 1st July 2010 for Rs. 1,00,000. Depreciation on the diminishing balance method is to be written off at 10% p.a in 2010, at 15% p.a in 2011 and 20% in 2012 and 2013. The books are closed on 31st December each year. You are required to show machinery A/c for 2010, 2011, 2012 & 2013 and also show the balance sheet on 31.12.2013.
5. On 01.01.2010 balance of machinery account was Rs. 48,600. On 01.07.2010 a new machine was purchased for Rs. 24,000, installation cost Rs. 1,000. On 01.09.2010 machinery was sold for Rs. 6,000. The original cost of the machine sold was for Rs. 10,000 on 01.01.2008. Machinery is depreciated at 10% p.a under the diminishing balance method. Show machinery account for the year 2010. The books are closed on 31st December every year.
6. The following the extract from the trial balance of Uttam Sen as on 31st December, 2016.

	<i>Dr:</i>	<i>Cr</i>
Bad Debts	14,000	
Sundry debtors	1,50,000	
Provision for bad and doubtful Debts		6,000

It is desired to maintain provision of 5% for bad and doubtful debts.

Give the necessary journal entries. Prepare bad debt A/c and provision for bad debt A/c. also show how the relevant items would appear in the profit and loss account and balance sheet.

7. X Ltd. provides for doubtful debts @ 5% and for discount on debtors @ 2%. From the following details you are required to show the journal entries in the books of X Ltd.

Debtors as on 31.12.2016 were Rs. 25,600 including bad debt of Rs. 600. Debts written off during the year amount to Rs. 1,330. Discount allowed during the year was Rs. 400. Provision for doubtful debts and that for discount on 01.01.16 were Rs. 2740 and Rs. 380 respectively.

Answer

1. Annual Depreciation Rs. 6,500
Balance of plant A/c on 31.12.2017 Rs. 39,500
2. Depreciation p.a Rs. 9,000
Net book value as on 31.12.2017 Rs. 73,000
3. Depreciation 2010 Rs. 5,000, 2011 Rs. 4,000, 2012 Rs. 32,200
Loss on sale Rs. 2,000
4. Depreciation (Total) – 2010 Rs. 50,000
2011 Rs. 97,500
2012 Rs. 1,10,500
2013 Rs. 88,400
Balance of Machinery Account on 31.12.2013 Rs. 3,53,600
5. Depreciation for 2010 Rs. 5,300
W.D.V – Rs. 60,200
Depreciation on Disposed asset – Rs. 540 (for 8 month)
Loss on disposal Rs. 1560.

Bill of Exchange

Bill of exchange is an instrument used for settlement of debts. It is drawn by a creditor on a debtor. It carries an order to pay a definite sum of money to a certain person. It is a legal document confirming a debt.

According to section 5 of the negotiable instruments Acts 1881 “A bill of exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of a certain person, or to the bearer of the instrument.”

Features of a Bill of Exchange.

- a) It is an instrument in writing.
- b) It contains an unconditional order to pay.
- c) It involves three parties– drawer, drawee and payee.
- d) The parties must be certain.
- e) The drawer or the maker must sign on it.
- f) The amount of money to be paid must be certain or capable of being made certain.
- g) It should be stamped as per Indian stamp Act. other than demand bills all other bills contain adhesive stamps of requisite amount.

Parties of Bill of Exchange

- i) Drawer : The person who draws the bill (The creditor)
- ii) Drawee : The person on whom the bill is drawn (The Debtor). He is the person who accepts the bill of exchange. To him the bill is considered as bill payable.
- iii) Payee : The person to whom the bill money is payable. In most cases the drawer of the bill himself is the payee. To him the bill is considered as bills receivable.
- iv) Drawee in case of need : Any other person whose name is mentioned or accepting the bill of the original drawee does not accept it.

Types of Bill of Exchange

- i) Payable at sight on demand or presentation
- ii) Payable after a certain time in future, it is known as term Bill.

Acceptance of a Bill Exchange :

The drawee signs across the face of the bill with or without the words “accepted” this denotes his acceptance may be–

- i) General or unqualified : Where the drawee accepts to pay the whole of the amount mentioned in the bill without any condition, and
- ii) Qualified : Where the drawee accepts to pay the bill subject to some conditions regarding amounts, tenor of the bill etc.

Holder

The person who is legally entitled to receive or recover the money due on a promisory note, Bill of exchange or cheque.

Holder in due course :

As per section 9 of the negotiable instrument Act, a holder in due course is that holder of a negotiable instrument–

- i) Who obtained the instrument for valuable consideration.
- ii) Who become holder of the instrument before its maturity.
- iii) Who had no cause to believe that any defect existed in the title of the person from whom he derived his title.

Date of Maturity/Due date of a Bill of Exchange

The date on which the amount of a bill becomes payable by the drawee is called its due/maturity date. It must be remembered that–

- i) A bill of exchange ‘payable at sight’ becomes due immediately after its presentation for payment.
- ii) A term bill becomes due when the period of a bill (called as tenor of the bill) is over. It is a custom to add three days of grace with it.

Thus if a bill is drawn 1.1.2016 for 2 months, the due date will be 4.3.2016 (adding 2 months and 3 days)

- iii) If the bill is payable some time after date, the tenor should be counted from the date of drawing the bill.
- iv) Where the bill is payable sometime after sight, the tenor should be counted from the date of acceptance of the bill
- v) Where the period of the bill is stated in days, the calculation of the due date should be made on the basis of days. For this the date of payment should be made on the basis of days. For this the date of payment should be included but the date of transaction should be excluded.
- vi) Where the period is stated in months, the calculation of the due date should be made monthwise ignoring the actual no. of days in a month.

- vii) Where the due date turns out as a public holiday, the due date shall be the preceding working day, if the preceding day is also a public holiday, it will fall due on the working day preceding the previous day.

Some Important terms related to Bill of Exchange

- 1) **Discounting of Bill :** If the holder of the bill wants to get money against the amount mentioned in the bill at an earlier date before the due date, he sells the bill to the banker or a discounting house. The later pays each against the bill after deducting some amount as discount charge.
- 2) **Endorsement of Bill :** The literal meaning of endorsement is 'signing of the book'. For transferring his own right on the bill to some other person, the maker or holder of the bill signs on the bill or on its back or a separate sheet of paper annexed with the bill.

The transferor of the right is called 'Endorser'. The person to whom the transfer is made called 'Endorsee' and the transfer is known as 'endorsement'.

- 3) **Dishonour of Bill of Exchange :** If the drawee of a bill does not accept it, it becomes a 'dishonour of bill by non-acceptance'. If the drawee accepts the bill but fails to pay its amount on the due date, it becomes 'dishonour of bill by non-payment'
- 4) **Noting and Protest :** The steps taken for authenticating the fact of dishonour of a bill is known as 'Noting'. When a bill is dishonoured, the holder of bill may get such dishonour noted by a Notary Public. He is the competent authority appointed by the Central Government or the state Government. The noting is made either on the bill or on a separate sheet of paper.

It has to be made within a reasonable time after the dishonour. The paid to the Notary Public for such noting is called noting charges.

'Noting' is a proper evidence of dishonour accepted by the court of law.

After Noting, the notary public issues a formally drawn up certificate regarding the dishonour under his seal and signature. It is called 'Protest'.

- 5) **Renewal of a Bill :** On his failure to pay the bill on its due date, the acceptor may accept a new bill in place of the old bill for a further period of time. This is known as renewal of bill. The amount at the new bill will include interest on the unpaid amount for such further period. The renewal is possible only if the holder of the bill gives his consent in its favour.
- 6) **Retiring of Bill :** Where the acceptor of a bill pays it before its due date, it is called retiring of the bill. The holder of the bill usually allows a deduction from the amount of a bill for such prior payment. Such deduction is called 'rebate'.
- 7) **Accommodation Bill of exchange :** It is a bill drawn, accepted or endorsed without any commercial consideration. It helps to arrange temporary financial accommodation for one or more of the parties. If the bill is dishonoured, one can not sue the other. However, where the bill is discounted, the third party can enforce payment of the amount.

Speciman Journal entries related to Bill of Exchange

Transaction	Date of entry	Drawer Books	Drawer's book
1. Bill Drawn and accepted	Date of Acceptance	Bill Receivable A/c..... Dr. To Drawee A/c	Drawer A/c....Dr To Bill payable A/c
2. Transaction in between :			
a) Bill retained by drawer till maturity	—	—	Do
b) Bill discounted	Date of discounting	Bank A/c (Actual receipt)....Dr. Discount on bill A/cDr. (Discount charges) To Bill Receivable A/c	Do
c) Bill endorsed	Date of Endorsement	Endorsee A/c Dr. To Bill Receivable A/c	Do
d) Sent to Bank for collection	Date of sending	Bill sent for collection A/c....Dr. To Bill Receivable A/c	Do
3. On the due date if the Bill is honoured			
a) If the bill was retained	Due date	Bank A/cDr. To Bill Receivable A/c	In all cases Bill payable
b) If discounted	,,	No entry	To Bank
c) If Endorsed	,,	No entry	
d) If sent to bank for collection		Bank A/cDr. To Bill sent for collection	
4. If dishnoured on maturity			
a) If the bill was retained	Due date	Drawee A/cDr. (Amount of Bill+noting charge) To Bill Receivable A/c To Bank (Noting charge if Any) Drawee A/c..... Dr.	In all cases Bill payable A/c..... Dr. Noting charge A/c..... Dr To Drawer A/c
b) If the bill was dishonoured or discounted	,,	Drawee A/cDr. To Bank A/c (Amount of Bill+noting charge)	
c) If the bill was endorsed	,,	Drawee A/cDr. To endorsee A/c (Amount of Bill+noting charge)	

d) If sent to bank for collection	Due date	Drawee A/cDr. To Bill sent for collection (Amount of Bill)	
5. Renewal of Bill	Due date	Entry for dishonour as above	Entry for dishonour as above
a) Cancellation of old bill	„	Bank / CashDr. To Drawee	Drawer A/c..... Dr To cash
b) If any portion paid in cash by drawee	„	Bank / CashDr. To Drawee	Drawer A/c..... Dr To cash
c) Interest for the unpaid amount for extended period	Date date / date as renewal as given	Drawee A/c Dr. To interest To Drawer	Interst A/c..... Dr.
d) For new bill Drawn	„	Bill Receivable A/c Dr. To Drawee A/c (unpaid amount + interest	Drawer A/c..... Dr To Bill payable A/c (unpaid amount interest)
e) If the interest amount is paid in cash by the drawee in a renewal bill	„	Bill Receivable A/c Dr. (unpaid amount) Bank A/c Dr. (interest received) To Drawee A/c	Drawer A/c..... Dr To cash / Bank A/c To Bill payable A/c
6. Retiring of a Bill (payment of bill by drawee prior to due date)	Date of retiring	Bank A/c Dr. (net amount received) Rebate / Discount on Bill A/c Dr To Bill Receivable A/c	Bill payable A/c Dr. To Bank A/c (amount paid) To Discount Or rebate on Bill A/c

Noting charges :

The fact that a bill has not been honoured or paid and the reasons for which such dishonour has been caused should be properly noted. If the drawee can show that a bill was not presented for payment or that it was not properly presented, he can get rid of the onus of not honouring his acceptance. Where a dishonour has occurred or where there is an apprehension of dishonour, it is handed over to the notary public, a public official. The latter records the dishonour and the reasons behind that before returning it back to the client by charging a fee. Such fee, recoverable from the party accountable for the dishonour, is known as noting charge.

For example, if a bill of Rs. 5,000 is dishonoured on maturity date and Rs.15 is paid for noting charges the entry to be made are–

By the Drawer		By the Drawee	
a)	Drawee A/c..... Dr	5,015	In any case
	To Bill Receivable A/c	5,000	Bill payable A/c Dr
	To Bank A/c	15	Noting charge A/c..... Dr.
	(if retained but dishonoured on presentation for payment)		To Drawer A/c
	Or		
b)	Drawee A/c..... Dr	5,015	
	To Endorsee A/c	5,015	
	(if endorsed and dishonoured later)		
	Or		
c)	Drawee A/c..... Dr	5,015	
	To Bank A/c	5,015	
	(if discounted but dishonoured later)		

Insolvency :

A person becomes insolvent when he becomes unable to meet his liabilities, This happens when he is legally declared bankrupt.

If the drawee becomes insolvent, the bill accepted by him becomes dishonoured due to non-payment. So, the entries related to dishonoured are passed.

Any balance, finally unrealised, has to be written off by him as irrecoverable debts. He makes an entry as–

Bank A/c Dr.
(Amount realised)

Bad Debt A/c..... Dr.
(Amount written off)

To Drawee A/c
(Total Amount due)

The Drawee records these as–

Drawer A/c (total due) Dr.
To Bank A/c (Amount paid)

To Deficiency A/c (Amount unpaid)

Entries in the Books of the bank

If the Drawer discount a bill by bank, the banker pays cash against the bill after discounting some amount as discount charge. It is an income of the bank.

It is recorded by the bank at the time of discounting as _

a) Bill discounted A/c Dr.

(Face value of the bill)

To customer A/c

(Amount payable)

To Discount A/c

(Amount not paid but retained)

b) At the time of collecting the bill amount, the bank record as–

Cash A/c..... Dr.

To Bill discounted A/c

(Face value of the bill)

Examples :

1. Bill retained and honoured on maturity

On 1.1.2015 Mr. A sold goods to Mr. B on credit of Rs. 10,000. He drew a bill on Mr. B for Rs. 10,000 for 3 months. Mr. B accepted it. On maturity the bill was duly met by Mr. B.

Show the journal entries in the books of Mr. A and Mr. B.

**In the books of A
Journal**

<i>Date</i>	<i>Particulars</i>	<i>L.F.</i>	<i>Debit Amount Rs.</i>	<i>Credit Amount Rs.</i>
2015 Jan.01	B's A/c Dr. To Sales A/c (Goods sold on credit)		10,000	10,000
Jan.01	Bill Receivable A/c Dr. To B's A/c (Acceptance received for 3 month after date)		10,000	10,000
Apr.04	Bank A/c Dr. To Bill receivable A/c (Cash received on maturity of bill) [the date of maturity has been calculated by adding 3 days of grace)		10,000	10,000

In the books of B

<i>Date</i>	<i>Particulars</i>	<i>L.F.</i>	<i>Debit</i>	<i>Credit</i>
			<i>Amount Rs.</i>	<i>Amount Rs.</i>
2015 Jan.01	Purchases A/c To A's A/c (Goods sold on credit)	Dr.	10,000	10,000
Jan.01	A's A/c To Bill payable (Acceptance given)	Dr.	10,000	10,000
Apr.04	Bill payable A/c To Bank A/c (Bill of A met on maturity)	Dr.	10,000	10,000

2. Bill Discounted and honoured on maturity

On 1.1.2010 X Draws a 3 months bill for Rs. 30,000 on Y who accepts and returns it to X immediately. The later discount the bill forthwith at a discount of 12% p.a. The bill is duly met at maturity.

Show the journal entries in the books of all the parties. (i.e. X, Y and Bank)

In the Books of X : Journal Entries

<i>Date</i>	<i>Particulars</i>	<i>L.F.</i>	<i>Dr.</i>	<i>Cr.</i>
			<i>Amount Rs.</i>	<i>Amount Rs.</i>
2010 Jan.01	Bills Receivable A/c To Y's A/c (Acceptance received)	Dr.	30,000	30,000
?	Bank A/c Discount on bill A/c To Bill Receivable A/c (Acceptance received for 3 month after date)	Dr. Dr	29,100 900	30,000

In the Books of Y : Journal Entries

<i>Date</i>	<i>Particulars</i>	<i>L.F.</i>	<i>Dr.</i>	<i>Cr.</i>
			<i>Amount Rs.</i>	<i>Amount Rs.</i>
2010 Jan.01	X's A/c To Bill payable A/c (Acceptance given)	Dr.	30,000	30,000
Jan.04	Bill payable A/c To Bank A/c (Bill of X met on maturity)	Dr.	30,000	30,000

**In the Books of Bank
Journal Entries**

<i>Date</i>	<i>Particulars</i>	<i>L.F.</i>	<i>Dr.</i>	<i>Cr.</i>
			<i>Amount Rs.</i>	<i>Amount Rs.</i>
2010 ?	Bills Discounted A/c Dr.		30,000	
	To X A/c			29,100
	To discount on Bill A/c (X's Bill due)			900
Apr.04	Cash A/c Dr.		30,000	
	To Bill Discounted A/c (Cash realized on maturity)			30,000

$$\text{Discount on Bill} = \frac{12}{100} \times \frac{3}{12} \times 30,000 = 900$$

(days ignored).

3. If bill are dishonoured on maturity

On 1st January 2014 X received from Y three bills of exchange for Rs. 6,000, Rs. 8,000 and Rs. 10,000 for 6 months, 4 months and 3 months respectively. On 3rd January the first bill was discounted by X with his bankers at a discount of 5%. On 1st February the third bill was endorsed in favour of a creditor Z. The 2nd bill was retained till due date. On due date all the three bills were dishonoured. Show necessary journal entries in the books of X, Y and Z.

**In the Books of X
Journal Entries**

<i>Date</i>	<i>Particulars</i>	<i>L.F.</i>	<i>Dr.</i>	<i>Cr.</i>
			<i>Amount Rs.</i>	<i>Amount Rs.</i>
2014 Jan. 01	Bills Receivable A/c Dr.		24,000	
	To Y's A/c			24,000
	(Three Bills of exchange drawn on Y and accepted by him)			
Jan. 03	Bills Receivable A/c Dr.		5,850	
	Discount on bill A/c Dr.		140	
	$\left(\frac{5}{100} \times 6000 \times \frac{6}{12} = 150 \right)$			
	To Bill Receivable A/c (The first bill discounted @ 5%)			6,000

Feb. 01	Z's A/c	Dr.		10,000	
	To Bill receivable A/c (The third bill endorsed)				10,000
Apr. 04	Y's A/c	Dr.		10,000	
	To Z's A/c (Bill received from Y and endorsed to Z dishnoured on maturity)				10,000
May. 04	Y's A/c	Dr.		8,000	
	To Bill receivable A/c (Bill received and retained dishnoured on maturity)				8,000
Jul. 07	Y's A/c	Dr.		6,000	
	To Bank A/c (Bill received and discounted dishnoured on maturity)				6,000

**In the Books of Y's
Journal Entries**

<i>Date</i>	<i>Particulars</i>	<i>L.F.</i>	<i>Dr. Amount Rs.</i>	<i>Cr. Amount Rs.</i>
2014				
Jan. 01	X's A/c	Dr.	24,000	
	To Bills payable A/c (Bills accepted)			24,000
Apr. 04	Bills payable A/c	Dr.	10,000	
	To X's A/c (Acceptance given not met at maturity)			10,000
May. 04	Bills payable A/c	Dr.	8,000	
	To X's A/c (Acceptance given not met at maturity)			8,000
Jul. 04	Bills payable A/c	Dr.	6,000	
	To X's A/c (Bill acceptance but dishnoured on maturity)			6,000

**In the Books of Z's
Journal Entries**

<i>Date</i>	<i>Particulars</i>	<i>L.F.</i>	<i>Dr.</i>	<i>Cr.</i>
			<i>Amount Rs.</i>	<i>Amount Rs.</i>
2014				
Feb. 01	Bills receivable A/c To X's A/c (Bills received from X's)	Dr.	10,000	10,000
Apr. 04	X's A/c To Bills receivable A/c (Bill received but dishnoured on maturity)	Dr.	10,000	10,000

Exercise

Objective Question

(mark : 1)

- 1) Define bill of Exchange?
- 2) How many parties are there in a bill.
- 3) Name the parties of Bill
- 4) Who is the holder of a bill?
- 5) Name one type of Bill of exchange.
- 6) What is days of grace period?
- 7) What is discounting of bill?
- 8) What is dishnour of bill?
- 9) What is noting & protest?
- 10) What is renewal of bill?

Multiple choice

(mark : 1)

- 1) A bill of exchange is acknowledgment of–
 - a) Debt.
 - b) Goods received
 - c) Credit extended
 - d) None of these
- 2) A bill of exchange have–
 - a) One party
 - b) Two party
 - c) Three party
 - d) All of the above.

- 3) A bill of exchange can–
 - a) Retained
 - b) Discounted
 - c) Sent to bank for collection
 - d) All of the above.
- 4) A bill of exchange can not be–
 - a) Endorsed
 - b) Crossed
 - c) Accepted
 - d) None of these
- 5) A bill who accepted in called–
 - a) Drawer
 - b) Drawee
 - c) Payee
 - d) None of these
- 6) A bill is written by–
 - a) Drawee
 - b) Drawer
 - c) Payee
 - d) All of the above
- 7) The person on whom the bill is drawn is called the–
 - a) Drawee
 - b) Drawer
 - c) Payee
 - d) None of these
- 8) A promisory note is made by the–
 - a) Seller
 - b) Purchaser
 - c) Endorsee
 - d) All of the above
- 9) When a bill of exchange is dishonoured, noting charges is ultimately payable by–
 - a) Drawer
 - b) Drawee
 - c) Payee
 - d) Bank

- 10) A promisory note contains–
- a) An unconditional order
 - b) A promise
 - c) A request to deliver goods
 - d) None of these
- 11) A bill of exchange is drawn by a–
- a) Debtor
 - b) Creditor
 - c) Holder
 - d) None of these
- 12) Bill Receivable account is a–
- a) Personal account
 - b) Real account
 - c) Both personal and real account
 - d) All of the above
- 13) A bill of exchange is renewed generally at the request of the–
- a) Drawer
 - b) Drawee
 - c) Bank
 - d) All of the above
- 14) At the end of the accounting period. The discounted bill receivable is a–
- a) Contingent liability
 - b) Actual liability
 - c) Both an asset and a contingent liability
 - d) None of these
- 15) A bill of exchange is generally endorsed in favour of a–
- a) Creditor
 - b) Debtor
 - c) Bank
 - d) None of these
- 16) A bill of exchange is dishonoured by–
- a) Drawer
 - b) Drawee
 - c) Endorsee
 - d) Payee

- 17) Noting charge is paid by—
- Drawer
 - Drawee
 - Payee
 - All of the above

Numerical Questions:

(Marks-3/4/5/6)

- 1) A draws a bill on B for Rs. 5,000. B accepts and returns it to A. A endorses the bill in favour of C. C thereafter, endorse the bill in favour of D. D discounts the bill for Rs. 4,750. Pass journal entries in the book of all parties. Assuming that the bill is honoured at maturity.
2. On 01.01.2013 A purchased goods from B for Rs. 15,000 on 3 months credit. on 01.04.2013 A accept a bill for Rs. 10,000 in favour of B and paid the balance in cash. Immediately after receipt, B discounted the bill with the banker @ 12% p.a. The bill was honoured on due date.
3. X receives from Y four bill on 1st April 2015 for Rs. 1,000, Rs. 2,000, Rs. 3,000 and Rs. 4,000 respectively for 3 month. The 2nd bill of Rs. 2,000 is endorsed in favour of Z and the 3rd bill of Rs. 3,000 was discounted for Rs. 2,980. The 4th bill of Rs. 4,000 is sent to the banker for collection. Pass the journal entries in the books of X and Y assuming that, the bill have been dishonoured on maturity.
4. On 1st November 2015 Mr. A accepted a bill for Rs. 500 for 4 months drawn by B. On 4th November 2015 B discounted the bill @ 6% p.a with his banker. At maturity the bill was dishonoured and the bank charged Rs. 15 as noting charges.

Show journal entries in the books of A and B recording the above transaction.

5. Mr. A sells goods for Rs. 10,000 to Mr. B on 1st January 2010 and on the same day draws a bill on Mr. B at 3 months for the noted amount. The bill is dishonoured on the due date, the noting charges paid being Rs. 25. B then accepts a fresh bill for Rs. 6,000 at three months by A, and he also pays A in cash Rs. 4,205 together with the amount of interest at 12% p.a. for the further credit granted. The bill is duly met on the due date.

Pass journal entries to record these transaction in the books of A.

Answer Key

1. (a); 2. (c); 3. (d); 4. (d); 5. (b); 6. (b) 7. (b) 8. (a); 9. (b);
10. (b). 11. (a) 12. (b) 13. (b) 14. (b) 15. (a) 16. (b) 17. (b)

ACCOUNTANCY

PART-II

Financial Statement–I

Meaning of Financial Statement :-

Statements that contain financial information about business which can satisfy the information requirements of internal and external users are known as financial statements. It serves as a source of financial information that caters to diverse information requirement of users. It is prepared with the purpose of representing a true and fair view of business.

Stakeholders and their Information Requirements :-

Generally, two (2) types of interested stakeholders of financial information are found of any firm, namely 1) Internal Stakeholders and 2) External Stakeholders. Following are some of the interested stakeholders of financial information of any firm:

1 Internal Stakeholders :-

- i) Owners :** Having invested their earnings in the firm, the main interest of owners in financial statements is to assess the returns on their investment and how prosperous do they appear for the future. Owners generally have access to all financial records and files.
- ii) Management :** The management team of a business needs to understand the profitability, liquidity, and cash flows of the organization each month, so that it can make operational and financing decisions about the business. Management will also have access to all records.

2) External Stakeholders :-

- i) Government :** A government in whose authority a company is located would request the financial statements in order to determine whether the business is paying the right amount of taxes and relevant laws are being adhered to.
- ii) Prospective Owner :** These external users would like to know the past profits and financial position and also the future performance of the business to make an informed decision whether to invest in the business or not.
- iii) Bank :** Bank is interested in adequacy of profits only as an assurance of the return of principal and interest back in time.

Distinction between Capital and Revenue :-

A very important distinction in accounting is between capital and revenue items. The difference has important implications for making of the 'Trading Account' and 'Profit and Loss Account' and Balance

Sheet. The revenue items form part of the trading and profit & loss account, the capital items help in the preparation of a balance sheet.

Expenditure :-

Whenever payment and/or incurrence of an outlay are made for a purpose aside from the settlement of existing liability, it's called expenditure. The expenditures are incurred with a viewpoint they might give benefits to the business. The advantage of expenditure may extend up to at least one accounting year or quite one year. If the advantage of expenditure extends up to at least one accounting period, it's termed as revenue expenditure. An example of revenue expenditure is often the payment of salaries, rent, etc. If the benefit of expenditure extends more than one accounting period, it is termed as capital expenditure. An example of capital expenditure can be the payment to acquire furniture for use in the business.

The following points of distinction between capital expenditure and revenue expenditure are worth noting :

- a. Capital expenditure increases the earning capacity of a business whereas revenue expenditure is incurred to maintain the earning capacity.
- b. Capital expenditure is incurred to acquire fixed assets for the operation of business whereas revenue expenditure is incurred on the day-to-day conduct of business.
- c. Revenue expenditure is generally recurring expenditure and capital expenditure is non-recurring by nature.
- d. Capital expenditure benefits more than one accounting year whereas revenue expenditure normally benefits one accounting year.
- e. Capital expenditure (subject to depreciation) is recorded in the balance sheet whereas revenue expenditure (subject to adjustment for outstanding and prepaid amount) is transferred to trading and profit & loss account.

Receipts :-

If the receipts imply an obligation to return the cash, these are capital receipts. The example is often a further capital brought in by the owner or a loan taken from the bank. Both receipts are resulting in obligations, the primary to the owner (called equity) and therefore the other to the outsiders (called liabilities).

Another example of a capital receipt is often the sale of a hard and fast asset like old machinery or furniture. However, if a receipt doesn't incur an obligation to return the cash or isn't within the sort of a purchase of a hard and fast asset, it's termed as revenue receipt. The examples of revenue receipts sales made by the firm and interest on investment received by the firm.

Importance of Distinction between Capital and Revenue :-

The distinction between capital and revenue items has important implications for the preparation of trading and profit & loss account and thus the record as all items of revenue value are to means within the trading and profit & loss account and thus the things of capital nature within the balance sheet. If any item is wrongly classified, i.e. if any item of revenue nature is treated as a capital item or vice-versa, the ascertainment of profit or loss is going to be incorrect. Thus, the financial statements

won't reflect the true and a fair view of the affairs of the business. Hence, it is necessary to identify the proper nature of each item and treat it accordingly within the book of accounts, it's also important from the taxation point of view.

Objectives of Financial Statements:-

Following are the objectives of preparing financial statements:

- i) **Ascertain the result of business activities :** One of the important objectives of preparing financial statements is to ascertain the Income. Financial statements provide information about the profit earned or loss incurred during a particular accounting period or year.
- ii) **Ascertain the financial position of business :** Balance Sheet provides information about the financial position of business on a particular date.
- iii) **Correct decision making :** Financial statements are helpful in decision making for the business on the basis of the information provided by financial statements, future decisions can be taken correctly.
- iv) **Judging the performance of management:** Financial statements are helpful in judging the performance of management and utilization of resources of a business house.
- v) **Ascertaining the cash position of business:** The cash position indicated by the financial statements helps the business in planning the payment of cash to creditors, suppliers etc.

Classification of Financial Statements :-

Financial Statements of a sole trader comprise of the following statements:

- I. Income Statement:
 - (A) Trading Account and (B) Profit and Loss Account
- II. Position Statement or Balance Sheet

Trading Account :

Trading Account is prepared to find out the Gross profit earned or Gross loss suffered by the business from business activities during an accounting year. The trading account considers only the direct expenses and direct revenues while calculating gross profit. The amount thus determined is an indicator of the efficiency of the business in buying and selling. This account is prepared in T-form. Following is the proforma of a Trading Account :

**Trading Account of M/s XYZ
for the year ending.....**

<i>Dr:</i>			<i>Cr</i>
Particulars	Amount	Particular	Amount
To Opening Stock Or opening date of accounting period Or To Stock:		By Sales Less: Sales return Or Returns inward By Closing stock Or	

Dr.

Cr

Particulars	Amount	Particular	Amount
Raw material..... Work in progress or Semi-finished goods or Partly manufactured goods Finished Goods To Purchases Less: Purchases return Or Returns outward Less: Goods taken by proprietor (if in adjustment) Less: Goods given as charity (if in adjustment) Less: Goods given as free sample (if in adjustment) To Carriage or cartage or Carriage inward or Carriage on purchases or Carriage and freight To Octroi or local taxes To Import duty, customs, Landing charges, clearing charges To Wages or productive Wages or manufacturing Wages or direct wages or wages and salaries To Coal gas and water To Fuel To Heating and Lighting To Power or motive power To Manufacturing expenses To Consumable stores To Packing charges To Assembling expenses To Direct expenses To Factory Expenses To Productive expenses To "Royalty To Gross Profit transferred to Profit &Loss A/c. (If credit side exceeds the debit side)		Stock on closing date of accounting period Or Stock at the end of the year Or By Stock : Raw material Work in progress Finished goods By Abnormal Loss. By Gross loss-transferred to Profit &Loss A/c [If debit side exceeds the credit side)	

Profit and Loss Account :-

After finding out the gross profit/ gross loss by preparing the Trading Account, Profit and Loss Account is prepared to find out the net profit / net loss of the business during an accounting year. A business incurs many other expenses in addition to the direct expenses. These expenses are deducted from the profit or are added to gross loss and the resulting value thus obtained will be net profit or net loss. This account is also prepared in T-form. Following is the proforma of a Profit and Loss Account.

**Profit and loss Account of M/s ABC
for the year ending.....**

<i>Dr.</i>			<i>Cr</i>
Particulars	Amount	Particular	Amount
To Gross loss b/d	****	By Gross profit b/d	****
To salaries	****	By Discount received	****
To office rent, rates, and taxes	****	By Commission received	****
To printing and stationery	****	By Bank interest	****
To Telephone charges	****	By Rent received	****
To Insurance	****	By Dividend received	****
To Audit fees	****	By Bad debts recovered	****
To Legal charges	****	Abnormal gains:	****
To Electricity charges	****	By Profit on sale of machinery	****
To Maintenance expenses	****	By Profit on sale of investments	****
To Repairs and renewals	****	By Net Loss	****
To Depreciation	****	(transferred to Capital A/c)	****
To Salaries	****		
To Advertisement	****		
To Godown rent	****		
To Carriage outward	****		
To Bad debts	****		
To Provision for bad debts	****		
To Selling commission.	****		
To Bank charges	****		
To Interest on loan	****		
To Discount allowed	****		
To Loss on sale of machinery	****		

To Loss on sale of investments	****		
To Loss by fire	****		
To Net Profit	****		
(transferred to capital a/c)	****		
TOTAL	****	TOTAL	****

Concept of Gross Profit and Net Profit : -

The trading and profit and loss can be seen as combination of two accounts, viz. Trading account and Profit and Loss account. The trading account ascertains the gross profit and profit and loss account ascertains net profit.

The excess of sales over purchases and direct expenses is called *gross profit*. If the amount of purchases including direct expenses is more than the sales revenue, the resultant figure is *gross loss*. The computation of gross profit can be shown in the form of equation as:

$$\text{Gross Profit} = \text{Sales} - (\text{Purchases} + \text{Direct Expenses})$$

The gross profit or the gross loss is transferred to profit and loss account.

The indirect expenses are transferred to the debit side of the second part, viz. profit and loss account. All revenue/gains other than sales are transferred to the credit side of the profit and loss account. If the total of the credit side of the profit and loss account is more than the total of the debit side, the difference is the net profit for the period of which it is being prepared. On the other hand, if the total of the debit side is more than the total of the credit side, the difference is the net loss incurred by the business firm. In an equation form, it is shown as follows:

$$\text{Net Profit} = \text{Gross Profit} + \text{Other Incomes} - \text{Indirect Expenses}$$

Position Statement or Balance Sheet : -

Balance Sheet or Position Statement is prepared to find out the financial position of a business on a particular date. Generally, it is prepared on the last date of an accounting year. It is prepared after preparing Trading Account and Profit & Loss Account. Balance Sheet has two sides. Left hand side is known as Liabilities side and right-hand side is known as Assets side.

Balance Sheet of As at.....

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capital :		Fixed Asset :	
Opening Balance xxxx		Goodwill	
Add: Net Profit xxxx		Land	
(Less: Net Loss)		Building	
Less; Drawings xxxx		Plant &. Machinery	
		Furniture & Firtures	

Long-term Liabilities : Loan Current liabilities: Income received-in-advance Sundry Creditors Outstanding Expenses Bills Payable Bank Overdraft		Investment : Current Assets : Closing stock Accrued income Prepaid expense Sundry Debtors Bill Receivable Cash at Bank Cash in Hand	
--	--	---	--

Operating Profit Or EBIT) :-

It is the profit earned through the normal operations and activities of the business. Operating profit is the excess of operating revenue over operating expenses. Operating profit measures the efficiency and profitability of a business based on its core business functions. Calculations of operating profit do not include the deduction of interest and taxes, and for this reason, it is commonly referred to as EBIT or earnings before interest and taxes. Similarly, abnormal items such as loss by fire, etc. are also not considered. It is calculated as follows:

$$\text{Operating profit} = \text{Net Profit} + \text{Non-Operating Expenses} - \text{Non-Operating Incomes}$$

Exercise

(mark : 1)

A. Choose the correct answer:

- Which of the following financial statement is prepared to ascertain gross profit of a business?
 - Profit and Loss Account
 - Trading Account
 - Balance Sheet
 - None of the above
- Which of the following financial statements is prepared to ascertain the positions of assets and liabilities of the business?
 - Balance Sheet
 - Profit and Loss Account
 - Trading Account
 - None of the above
- Gross profit is the difference between
 - Total assets and total liabilities
 - Sales and all expenses
 - Sales and indirect expenses
 - Sales and cost of goods sold
- Which of the following is not an indirect expense?
 - Freight inward
 - Discount allowed
 - Rent paid
 - Commission paid

5. Which of the following is a current asset?
 - a) Land
 - b) Building
 - c) Cash at bank
 - d) Machinery
6. Subtracting all expenses from revenues yields?
 - (a) Net Profit/Loss
 - (b) Carrying value
 - (c) Long-term assets
 - (d) Net liabilities
7. A financial document that indicates the success or failure of a business trading over a period of time is called?
 - (a) A cash flow statement
 - (b) A retained earnings statement
 - (c) An income statement
 - (d) A bank statement
8. A Profit is earned if ?
 - (a) Assets exceed Expenditure
 - (b) Income exceeds Expenditure
 - (c) Cash Inflow exceeds Cash Outflow
 - (d) Income exceeds Liabilities
9. Which of the following is the element of financial statements?
 - (a) Balance Sheet .
 - (b) Profit & Loss A/c
 - (c) Both (a) and (b)
 - (d) None of these
10. Balance Sheet is a:
 - (a) Account
 - (b) Statement
 - (c) Both (a) and (b)
 - (d) All the above
11. Financial statements are the product of accounting process.
 - (a) First
 - (b) Second
 - (c) End
 - (d) None of these
12. The term current assets include:
 - (a) Stock
 - (b) Debtors
 - (c) Cash
 - (d) All of these
13. Direct Expenses are entered in:
 - (a) Trading Account
 - (b) Profit & Loss Account
 - (c) Balance sheet
 - (d) None of these
14. Profit earn through normal activities of business
 - a) Operating profit
 - b) Net profit
 - c) Gross profit
 - d) Manufacturing profit
15. Expenditure of recurring nature are
 - a) Capital
 - b) Revenue
 - c) Deferred revenue
 - d) Preliminary

16. Indirect Expenses are entered in:

- (a) Trading Account (b) Profit & Loss Account
(c) Balance sheet (d) None of these

B. Give the answers of the following questions in one word/ sentence: - (mark : 1)

17. What do you mean by term financial statements?

18. Give two examples of fixed assets.

19. Give two examples of current asset.

20. Give two examples of Direct expenses.

21. Give two examples of Indirect expenses.

22. Give two examples of revenue expenditure

23. Give two examples of capital expenditure

C. Give the answers of the following questions: - (Marks : 3 / 4 / 5 / 6)

24. What do you mean by term financial statements? State the objectives of preparing financial statements.

25. What are the differences between capital and revenue expenditure?

26. What are the differences between capital and revenue receipts?

27. Discuss the importance of Distinction between Capital and Revenue with example.

28. Discuss about different components of financial statement.

D. Numerical Questions :

(Marks- 3 / 4 / 5 / 6)

1 From the following balances extracted from the books of M/s Laxmi & Sons, prepare a Trading Account for the year ended 31st March, 2020.

Particulars	Amount (Rs)
Opening stock	6,500
Purchases	45,000
Sales	72,000
Purchases Returns	500
Sales Returns	1,500
Carriage	1,200
Wages	4,800
Fuel & Power	3,200
Closing stock	8,000

2. From the following balances extracted from the books of M/s Bhanu Bros, prepare a Trading Account for the year ended 31st March, 2019.

Particulars	Amount (Rs)
Opening Stock as on 1.4.2018	32,000
Purchases	1,65,000
Freight	4,000
Power	6,500
Custom Duty	5,500
Sales	80,000
Closing Stock as on 31st March, 2019	30,000

- 3 From the following information, prepare Profit and loss Account of M/s Sahil Bros for the Year ending on 31.03.2020.

Particulars	Amount (Rs)
Gross Profit	97,000
Discount allowed to customers	2,000
Printing and stationery	2,000

Particulars	Amount (Rs)
Office rent	5,000
Repair	2,400
Insurance Premium	5,100
Telephone Charges	1,000
Discount received from Creditors	3,000
Interest earned during the year	5,000

- 4 From the following information, prepare Profit & Loss Account of M/s Sarthak Traders for the year ending on 31.03.2020.

Particulars	Amount (Rs)
Gross Profit	43,000
Discount allowed to customers	7,000
Salaries	45,000
Interest paid on loan	13,000
Postage	2,400
Discount received from creditors	6,000
Commission received	1,000
Sales expenses	10,000

- 5 From the following information supplied by Mr. Roshan Lal, prepare a Balance Sheet of Mr. Roshan Lal as on 31 st March, 2020.

Particulars	Amount (Rs)
Capital	50,000
Furniture	15,000
Debtors	25,000
Creditors	30,000
Plant and Machinery	58,000
Investments	5,000
Cash in hand	1,000
Cash at Bank	1,000
Stock at the end	10,000
Bank Overdraft	8,000
Bank Loan	20,000
Net Profit	10,000
Drawings	3,000

6. From the following trial balance of Gopal Nath and Sons, prepare Trading and Profit and Loss Account for the year ending 31st December 2020 and a Balance Sheet as at that date

Particulars	Amount (Rs)	Particulars	Amount (Rs)
Opening Stock	4,000	Sundry creditors	2,700
Wages	1,000	Sales	20,000
Purchases	12,000	Capital	30,000
Sales return	200	Purchase return	300
Carriage	1,170	Commission received	120
Salaries	1,600	Bills Payable	1,200
Office expenses	250		
Salaries	1,600		
Discount	300		
Repairs	1,200		
Advertisements	500		
Sundry debtors	6,000		
Plant & Machinery	12,000		

Building	10,000		
Cash in hand	600		
Cash at bank	2,000		
Drawings	1,500		
TOTAL		54,320	TOTAL 54,320

The value of stock in hand on 31st December 2020 was Rs 6,000.

7. From the following Balances of M/s Pawan Lal on 31/3/2020, prepare a Trading and Profit & Loss Account and a Balance Sheet as on that date.

Particulars	Amount (Rs)	Particulars	Amount (Rs)
Drawings		8,000 Return Outwards	2,200
Sales	2,58,000	Sundry Debtors	1,26,000
Capital	48,000	Office Salaries	18,000
Return Inwards	2,000	Bills Receivable	10,000
Sundry Creditors	80,000	Manufacturing Wages	8,000
Opening stock	90,000	Machinery	24,800
Commission	9,000	Discount received	8,000
Fixtures and Fittings	13,000	Bank Overdraft	10,000
Trade Expenses	5,000	Bills Payable	14,000
Cash in hand	2,000	Purchases	1,00,000
Rent	4,400		

Additional Information : - The closing stock on 31.3.2020 was Rs 1,04,000

8. From the following Balances of M/s Mohan Lal on 31/3/2020, prepare a Trading and Profit & Loss Account and a Balance Sheet as on that date.

Particulars	Amount (Rs)	Particulars	Amount (Rs)
Capital	40,000	Cash in hand	660
Bank Overdraft	2,640	Rent	5,600
Carriage Outwards	7,140	Creditors	20,740
Office Expenses	6,000	Bad Debts	2,400

Plant & Machinery	16,000	Opening Stock	46,200
Purchases	1,66,000	Sales	2,16,480
Discount Allowed	6,920	Commission received	2,940
Land	17,320	Reserve fund	12,000
Purchase Return	4,200	Sales Return	760
Debtors	24,000		

Additional Information: - The closing stock on 31.3.2020 was Rs 38,000

Answer Key

1. b 2. a 3. d 4. a 5.c 6. a 7. c 8. b
 9. c 10. b 11. c 12. d 13. a 14. a 15. b 16. b

D. Numerical Questions Answers :

- 1) Gross Profit- Rs 18,300, 2) Gross Loss- Rs 1,03,000, 3) Net Profit- Rs 87,500,
- 4) Net Loss- Rs 27,400 5) Total of Balance Sheet- Rs 1,15,000
- 6) Gross Profit Rs. 7,930; Net Profit Rs. 4,200; Total of Balance Sheet Rs.36,600
- 7) Gross Profit Rs. 1,64,200; Net Profit Rs. 1,35,800; Total of Balance Sheet Rs.2,79,800
- 8) Gross Profit Rs. 45,700; Net Profit Rs. 20,600; Total of Balance Sheet Rs.95,980

Financial Statement–II

Need for Adjustments

According to accrual concept of accounting, the net profit or loss of a business for an accounting year is not only based on the revenues realised in cash and the expenses paid in cash during that period, as there may be some more revenues and expenses during the current year which may partially related to the previous or next year and some incomes and expenses relating to the current year that are still to be brought into books of account. So, unless those items are properly adjusted, the final accounts will not reflect the true and fair view of the business.

The items which usually need adjustments are :

1. Closing stock

The unsold items of goods remained in the business at the end of the accounting year is called closing stock.

2. Outstanding expenses

Expenses incurred but not yet paid are called outstanding expenses. They are the liabilities of the business.

3. Prepaid/Unexpired expenses

Prepaid expenses are those expenses which are paid in advance. They are the assets of the business.

4. Accrued income

Accrued incomes are those incomes which are earned but not yet received. They are the assets of the business.

5. Income received in advance/Unearned Income

The incomes, which are not earned but received in advance, are called advance incomes. They are the liabilities of the business.

6. Depreciation

The gradual and permanent decrease in the value of fixed assets is called depreciation. It is the loss of the business.

7. Bad debts

The amount which cannot be recoverable from debtors is known as bad debts. These are losses of the business.

8. Provision for doubtful debts

The amount of provision, which is created for uncollectible debtors is called provision for bad and doubtful debts. These are losses of the business.

9. Provision for discount on debtors

The amount of provision, which is created for adjusting loss due to discount allowed to debtors. These are losses of the business.

10. Interest on Drawings

The amount which is payable by the partners to the firm for taking money or goods from the business for personal use. It is an income for the firm.

11. Interest on capital

The amount of interest, which is allowed on capital, is known as interest on capital. It is an expense.

12. Manager’s commission

This is the amount which is given to the managers of the business. It is an expense.

13. Interest on Loan

This is the amount of interest, which is allowed on the loan. It is an expense.

14 Provision for discount on Creditors

This is the amount of discount received from creditors for prompt payment. It is an income for the firm.

15. Goods distributed as free samples

These are the goods which are distributed as free sample to the consumers for advertisement. It is an expense.

Adjustments Table

Sl.no.	Adjustments	Trading A/c	Profit and Loss A/c	Balance Sheet
1.	Closing Stock	Show on Credit side of Trading Account.	-----	Show as current asset
2.	Depreciation on Fixed Assets	-----	Show on Debit Side of Profit and Loss Account.	Deduct from that Fixed Assets.
3.	Outstanding Expenses	In Trading account add to the particular expense on the debit side .	In Profit and Loss account add to the particular expense on the debit side	Show as a current Liability
4.	Accrued Income	-----	Add to specific income on the credit side of Profit and Loss A/c	Show as a current Assets asset side

5.	Prepaid Expenses	Deduct from the particular expense on debit side of Trading Account	Deduct from the particular expense on debit side of Profit and Loss Account	Show as a current Assets asset side
6.	Unearned Income or (Income received in advance)	-----	In Profit and Loss Account deduct from relevant income in in the credit side .	Show as . current liability
7.	Bad Debts (Additional or further)	-----	Show in Profit and Loss A/c on the debit side	Deduct from the Debtors on Asset side.
8.	Provision for Doubtful Debts	-----	Show in Profit and Loss A/c on the debit side	Deduct from the Debtors on Asset Asset side after deducting further bad debt
9.	Provision for discount on debtors	-----	Show in Profit and Loss A/c on the debit side	Deduct from the Debtors on Asset side after deducting further
				bad debt and provision for doubtful debt.
10.	Interest on Capital	-----	Show on the debit side of Profit & Loss Account	Add with Capital A/c on the Liabilities side.
11.	Interest on Drawings	-----	Show on the credit side of Profit & Loss Account	Subtract from Capital A/c on the Liabilities side.
12.	Manager's commission	-----	Shown on the debit side of Profit & Loss Account	Shown on the liabilities side
13.	Interest on Loan (borrowed)	-----	Shown on the debit side of Profit & Loss Account	Shown on the liabilities side

14. Provision for discount on Creditors	-----	Show on the credit side of Profit & Loss Account	Deducted from Creditors on the Liabilities side
15. Goods distributed as free samples	Deducted from purchase in Debit side	Shown on the debit side of Profit and Loss Account	-----

Multiple Choice Questions

(Mark-1)

- Arrange in the order of liquidity in the B/S— Cash at Bank, Building Goodwill, Debtors, Furniture.
 - Debtors, Cash at Bank, Building Goodwill, Furniture.
 - Cash at Bank, Goodwill, Debtors, Furniture. Building
 - Cash at Bank, Building Goodwill, Debtors, Furniture.
 - Cash at Bank, Debtors, Furniture. Building Goodwill.
- Profit earned from Profit and loss a/c of business is known as
 - Operating profit
 - Net profit
 - Gross profit
 - Manufacturing profit.
- Expenditure of recurring nature are called
 - Capital
 - Revenue
 - Deferred revenue
 - Preliminary.
- Find out the example of Fictitious Assets
 - Building
 - Bill receivable
 - Advertising suspense
 - Cash
- Import duty will go to
 - Trading Cr
 - Trading Dr
 - Profit & Loss Dr

- d) Profit & Loss Cr.
- 6. Copyright is a
 - a) Intangible assets
 - b) Fixed assets
 - c) Current assets
 - d) Liability.
- 7. Which of the following is a position statement?
 - a) Trial balance
 - b) Profit & Loss
 - c) Bank Reconciliation Statement
 - d) Balance sheet
- 8. From which account gross loss is find out
 - a) Trading account
 - b) Profit & Loss account
 - c) Balance sheet
 - d) None of these.
- 9. Unexpired insurance is entered in
 - a) Trading account
 - b) Profit & Loss account
 - c) Balance sheet
 - d) Both b and c
- 10. Closing stock is entered in
 - a) Trading account
 - b) Balance sheet
 - c) Both a and b
 - d) None of these.

Very Short Answer Questions: -

(Mark-1)

1. In which Account Goods given in charity is credited?
2. In which account Salaries are shown?
3. Name few items which are shown in Trading A/c?
4. Prepaid expenses are shown in which side of Balance Sheet?

5. Interest on capital is always shown in which side of profit & loss A/c.
6. Unearned income is shown on which side of balance sheet.
7. Name few items which are shown in Profit and Loss A/c?
8. Preliminary expenses are shown in which side of Balance Sheet?
9. Outstanding expenses are shown in which side of Balance Sheet?
10. Interest on drawings is always shown in which side of profit & loss A/c.

Numerical Problems:

(Marks-3/4/5/6)

1. From the following balances of Sekhar Ltd, prepare the trading and profit and loss account and balancesheet as on March 31, 2015.

Particulars	Amount Rs.	Particulars	Amount Rs.
Drawings	6,300	Capital 1,50,250	
Cash at bank	13,870	Discount received	2,980
Bills receivable	1,810	Loans	15,000
Land and Building	42,780	Purchases return	1,450
Furniture	5,140	Sales	2,81,500
Discount allowed	3,960	Reserve for bad debts	4,650
Bank charges	100	Creditors	18,670
Salaries	6,420		
Purchases	1,99,080		
Stock (opening)	60,220		
Sales return	1,870		
Carriage	5,170		
Rent and Taxes	7,680		
General expenses	3,630		
Plant and Machinery	31,670		
Debtors	82,740		
Bad debts	1,250		
Insurance	750		
	4,74,500		4,74,500

Adjustments

1. Closing stock Rs. 75,000
 2. Create a reserve for bad and doubtful debts @ 10% on book debts
 3. Insurance prepaid Rs. 50
 4. Rent outstanding Rs. 150
 5. Interest on loan is due @ 6% p.a.
2. From the following balances, prepare the trading and profit and loss account and balance sheet of Shyamal Ltd. as on March 31, 2020.

Particulars	Amount Rs.	Particulars	Amount Rs.
Land and Building	42,000	Capital	1,49,810
Drawings	6,000	Discount received	2,980
Cash at bank	13,800	Loans	15,000
Bills receivable	1,810	Purchases return	1,450
Furniture	5,000	Sales	2,81,420
Discount allowed	3,960	Provision for bad debts	4,650
Bank charges	100	Creditors	17,150
Salaries	6,420		
Purchases	1,99,000		
Opening Stock	60,220		
Sales return	1,870		
Carriage	5,170		
Rent and Taxes	7,680		
General expenses	3,630		
Plant and Machinery	31,000		
Debtors	82,740		
Bad debts	1,250		
Insurance	750		
	4,72,460		4,72,460

Adjustments :

1. Interest on loan is due @ 5% p.a.
 2. Create a provision for bad and doubtful debts @ 10% on Debtors
 3. Prepaid Insurance Rs. 150
 4. Outstanding Rent Rs. 50
 5. Closing stock Rs. 65,000
3. Prepare a trading and profit and loss account for the year ending December 31, 2018. from the balances extracted of M/s Nripendra & Sons. Also prepare a balance sheet at the end of the year.

Particulars	Amount Rs.	Particulars	Amount Rs.
Opening Stock	50,000	Sales	1,80,000
Wages	3,000	Purchases return	2,000
Salary	8,000	Discount received	500
Purchases	1,75,000	Rent received	6,000
Sales return	3,000	Provision for bad debts	2,500
Debtors	82,000	Capital	3,01,000
Discount allowed	1,000	Bills payable	22,000
Insurance	3,200	Commission received	4,000
Rent Rates and Taxes	4,300	Loan	34,000
Fixtures and fittings	20,000		
Trade expenses	1,500		
Bad debts	2,000		
Drawings	33,000		
Repair and renewals	1,600		
Travelling expenses	4,200		
Postage	300		
Telegram expenses	200		
Legal fees	500		
Bills receivable	49,200		
Machinery	1,10,000		
	5,52,000		5,52,000

Adjustments

1. Commission received in advance Rs. 1,000.
 2. Rent receivable Rs. 2,000.
 3. Salary outstanding Rs. 1,000 and insurance prepaid Rs. 800.
 4. Further bad debts Rs. 1,000
 5. Provision for bad debts @ 5% on debtors
 6. Provision for discount on debtors @ 2%.
 7. Closing stock Rs. 30,000.
 8. Depreciation on Machinery® 6% p.a.
4. Prepare a trading and profit and loss account of M/s Sanjoy Ltd. for the year ending December 31, 2017. from the following figures taken from his trial balance :

Particulars	Amount Rs.	Particulars	Amount Rs.
Opening stock	35,000	Sales	2,49,000
Purchases	1,24,000	Purchases return	6,000
Return inwards	25,000	Creditors 9,500	
Postage and Telegram	600	Bills payable	20,000
Salary	12,300	Discount 1,000	
Wages	3,000	Provision for bad debts	4,500
Rent and Rates	1,000	Interest received	5,400
Packing and Transport	500	Capital	74,600
General expense	400		
Insurance	4,000		
Debtors	50,000		
Cash in hand	19,600		
Cash at bank	39,600		
Machinery	20,000		
Lighting and Heating	5,000		
Discount	3,500		
Bad debts	3,500		
Investment	23,000		
	<u>3,70,000</u>		<u>3,70,000</u>

Adjustments

1. Depreciation charged on machinery @ 5% p.a.
 2. Further bad debts Rs. 1,500,
 3. Provision for discount on debtors @ 5%
 4. Make a provision on debtors @ 6%.
 5. Wages prepaid Rs. 1,000.
 6. Interest on investment @ 5% p.a.
 7. Closing stock 12,000.
5. From the following information prepare trading and profit and loss account of M/s Krishna sports house for the year ending December 31, 2019.

Particulars	Amount Rs.	Particulars	Amount Rs.
Drawings	21,000	Capital 2,01,000	
Sundry debtors	80,000	Return outwards	2,000
Bad debts	1,000	Bank overdraft	12,000
Trade Expenses	2,400	Provision for bad debts	4,000
Printing and Stationery	2,000	Sundry creditors	60,000
Rent Rates and Taxes	5,000	Bills payable	15,000
Freight	4,000	Sales	2,76,000
Return inwards	7,000		
Opening stock	25,000		
Purchases	1,80,000		
Furniture and Fixture	20,000		
Plant and Machinery	1,00,000		
Bills receivable	13,600		
Wages	10,000		
Cash in hand	6,000		
Discount allowed	2,000		
Investments	40,000		
Motor car	51,000		
	5,70,000		5,70,000

Adjustments

1. Closing stock was Rs.42,000.
2. Provision for bad debts is to be maintained @ 2% on debtors.
3. Depreciation charged on furniture and fixture @ 5%,
4. Depreciation charged on Plant and Machinery @ 6%
5. Depreciation charged on motor car @ 10%.
6. A Machine of Rs.30,000 was purchased on July 01, 2019.
7. The manager is entitle to a commission of @ 10% of the net profit after charging such commission.

Answer Key

Multiple Choice Questions

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

Very Short Answer Questions: -

1. Purchase A/c
2. Profit and Loss A/c
3. Purchase, wages, sales etc.
4. Asset side
5. Debit side
6. Liability side
7. Salary, rent, discount etc.
8. Asset side
9. Liability side
10. Credit side.

Numerical Problems:

2. Ans:- Gross Profit-91,610; Net Profit-66,176; Total Balance Sheet-2,44,846
3. Ans:- Gross Profit-81,610; Net Profit-56,126; Total Balance Sheet-2,32,886
4. Ans: Gross loss Rs. 19,000 ; Net loss Rs.45,189 ; Total balance sheet Rs.2,80,811
5. Ans. : Gross Profit Rs.81,000 ; Net Profit Rs.54,565 ; Total Balance Sheet Rs. 1,58,665
6. Ans. : Gross profit Rs.98,000 ; Net profit Rs.65,909 ; Total balance sheet Rs. 3,39,800

Accounts from Incomplete Records

Incomplete Records and Single Entry

Many small business have neither the time nor the experience necessary to maintain a full set of accounting records using the double entry system and can not afford the expense of outside staff to keep such records. However every business is interested to know its profit from time to time.

Single entry system does not mean “one entry” for each transaction. Some business for convenience in accounting, does not record two fold aspects of each business transaction. Rather they keep incomplete records. For some transactions they keep records of the dual aspects, for some other transactions only one aspect is considered— where as other transactions are completely omitted to be recorded. Thus the system of accounting becomes “an admixture of no entry, one entry and double entry.” correctly speaking, single entry system is no particular method of accounting. It is actually the absence of any particular method. The trader usually keeps a cash book and the personal accounts. The real account and nominal account are ignored, small business are generally found to follow this system of abstaining from complete double entry system.

Feature of Single entry system :

- 1) Like double entry system. there is no consistent rule of operation.
- 2) It is found only in small sole tradership or partnership business.
- 3) There is no particular method of accounting. As already said, it is a mixture of no entry one entry and double entry.
- 4) The accounting records are incomplete. The degree of such incompleteness varies among concerns.
- 5) Usually the cash book and personal accounts are recorded ignoring the real account and nominal accounts.

Defects of Single entry system :

- 1) As complete record of two fold aspects of each transaction is not recorded, a trial balance can not be prepared.

- 2) As a result, the arithmetical correctness of the accounting records can not be verified.
- 3) The accounts can not be relied upon.
- 4) Errors and frauds easily creep into this system.
- 5) Usually the cash book and personal accounts are recorded ignoring the real account and nominal account is very unscientific/unjustified.
- 6) It will be very difficult to fix proper value of various assets, specially of goodwill, if it is intended to sell the business.

Limitation of single entry system :

Single entry system ignores the concept of duality and therefore, transactions are not recorded in their two-fold aspects. As a result, the final account of the business concern can not be prepared in the usual way. The other limitations are us under.

- 1) Since no trial balance can be prepared, the arithmetical accuracy of the books of accounts cannot be checked.
- 2) This system engenders a spirit of laxity and invites frauds and misappropriations.
- 3) Since no nominal accounts are maintained, the Trading and Profit and Loss account cannot be prepared and consequently, the different ratios such as gross profit ratio, net profit ratio and operating ratio etc. can not be computed.
- 4) Owing to incompleteness of record, proper appraisal of the financial position of the business is not possible.
- 5) No limited company can keep account under this system, because of legal restrictions.

Distinction between Single entry system and double entry system.

Single entry system	Double entry system
1. It has no particular method. No specific rule of operation is followed here.	1. It has particular method of book-keeping that follows some definite rules and norms
2. It does not consider dual aspects of all transactions	2. It considers the two equal but opposite aspects of each transaction.
3. It consider only personal accounts and cash account (in some cases)	3. It considers all types of accounts.
4. The trading and profit and loss account can not be prepared	4. Such accounts and the Balance sheet can be prepared
5. The Trial Balance can not be prepared and arithmetical correctness cannot be verified.	5. The Trial Balance is prepared confirming the arithmetical accuracy.

6. All concerns can not adopt it. For example limited companies can not follow this system.	6. Any concern can adopt this scientific method
7. It depends on estimates of profit/loss and of financial position	7. It is result-oriented, the source documents being Trading and profit and loss account and Balance sheet.
8. Incomplete records are not recognised by the Governemnt and Tax authorities	8. These render complete records which are recognised everywhere.

Calculation of profit and loss under single entry system or preparation of account from incomplete records:

A. Balance Sheet approach :- Statement of affairs method : under this method one has remember that,

1. Capital = Total Assets – Total liabilities (other than Capital)
2. Capital at the beginning of an accounting period.

Or

Opening Capital = Total assets (opening) – Total liabilities (opening).

3. Capital at the end of the accounting period.

Or

Closing Capital = Total assets (closing) – Total liabilities (closing).

4. Closing Capital – Opening Capital = Profit (if the result is possitive)

Or

Loss (if the result is negative)

5. **How to find out opening or Closing Capital**

Where the opening capital is unknown, we prepare an opening statement of affairs. Similarly we prepare a closing statement of affairs to find out the closing capital. A statement of affairs is a statement of assets and liabilities of a business on a particular date (for example opening/closing date of the accounting period). It is prepared in the shape of Balance sheet. Although it shows a collection of assets and liabilities it is not to be called a balance sheet. Because the values of such assets and liabilities are not taken from ledger accounts but are estimates made by the owner of the business.

The balancing figure of the statement of affairs as an a particular date = Total Assets – Total liabilities = Capital on that date.

Speciman of statement of affairs os on

Liabilities	Amount (Rs.)	Assets	Amount Rs.
Sundry creditor	***	Cash in hand	***
Outstanding expenses	***	Cash at Bank	***
Income received in advance	***	Sundry debtors	***
Bills payable	***	Bill Recievable	***
Bank overdraft	***	Prepaid expenses	***
		Outstanding income	***
		Stock	***
		Furniture	***
		Plant and Machinery	***
		Buildings	***
		Any other fixed assets	***
Capital (Balance amount)	***		
	***		***

6. How to find out profit/loss during an accounting period

Trading Profit = Closing Capital + Drawing – Opening Capital – Further Capital introduced.

Trading Loss = It the above result becomes negative.

For calculating Net Profit or loss other adjustment for depreciation, provision for bad debts etc. are to be made.

Statement of Profit or Loss for the period.....

Particular	Amount (Rs.)	Particular	Amount Rs.
Opening Capital	***	Closing Capital	***
Additional / Further capital (Further capital may be invested by introducing cash or by bringing in some other assets.)	***	Drawings (Drawings may be made in cash or in kinds, like stock withdrawn)	***
Trading profit (if right side is more)		Trading Loss (if right side is more)	

* It will be printed from Bengali version Page No 138 (is given in bengali version also)

Distinction between a statement of affairs and a Balance sheet

Statement of affairs	Balance Sheet
1. The appearing in a statement of affairs represent partly ledger account balance and partly the value as per valuation and estimates (e.g, values of buildings, machinery, plant etc, will appear as per valuations, since no real accounts are maintained except cash and bank, and also the debtors and creditors will appear as per ledger account balances.	1. All the appearing in a balance sheet come from ledger account balances which remain after the preparation of Final account.
2. The assets do not equal the liabilities because there is no capital account (The amount of capital is shown as a balancing figure)	2. Assets always equal the liabilities because there is a capital account in the ledger.
3. Since both the sides of the statement do not automatically agree, the accuracy of the books of accounts on not be assumed	3. Since both the side of a balance sheet automatically agree, the arithmatical accuracy of the books of account can be assumed.
4. Ommission of an assets or a liability in the statement can not be easily traced.	4. Ommission can be traced because in that case it wil not agree.
5. Most of the assets appear as per valuation.	5. The balance of any assets or liability as shown in the balance sheet can be taken as historically true.

Exercise

Multiple choice question

Mark-1

- 1) In single entry system–
 - a) There is no consistent rule of operation.
 - b) There is consistent rule of operation.
 - c) Maintain two-fold aspects.
 - d) None of above.
- 2) Single entry system is found only –
 - a) Big business.
 - b) Large scale business.
 - c) In small sole tradership
 - d) None of these

- 3) Single entry system is a mixture of–
 - a) no entry and one entry.
 - b) no entry, one entry and double entry.
 - c) one entry and double entry.
 - d) Both of above.
- 4) In single entry system are recorded–
 - a) The cash book and personal account.
 - b) Real account and the cash book.
 - c) Real account and Nominal account
 - d) None of these
- 5) In single entry system can not be prepared–
 - a) Trial Balance
 - b) Trading and profit and loss account.
 - c) Balance sheet.
 - d) All of the above.
- 6) In single entry system–
 - a) Accounts can not be relied upon.
 - b) Accounts be relied upon.
 - c) None of these.
- 7) In single entry system–
 - a) Consider dual aspects of all transactions.
 - b) Not consider dual aspects of all transactions.
 - c) Consider the both dual aspects one entry
 - d) None of these.
- 8) Under single entry system, certain transactions are recorded–
 - a) at reugular intervals.
 - b) at the end of the accounting period.
 - c) Totally
 - d) All of the above
- 9) Under single entry system details of–
 - a) Expenses will not he available
 - b) Revenues will not he available
 - c) Expenses and revenues will not he available.
 - d) None of these.

- 10) Under single entry system, only personal accounts are kept and in some cases–
- a) Cash account is maintained
 - b) Fixed assets accounts are maintained
 - c) Liabilities account are maintained
 - d) No accounts are maintained.
- 11) Statement of affairs is prepared for ascertaining–
- a) Financial position of the business.
 - b) Trading profit or loss.
 - c) Capital of the owner.
 - d) all of the above.
- 12) From incomplete records, it is possible to prepare–
- a) Ledger accounts.
 - b) Trial balance
 - c) Statement of affairs
 - d) None of these.
- 13) Single entry system is–
- a) Unscientific
 - b) Scientific
 - c) Both scientific & unscientific.
 - d) None of these.
- 14) Under single entry system–
- a) Generally personal accounts are kept.
 - b) Real accounts are kept
 - c) Nominal accounts are kept
 - d) All of the above.

Answer Key

1. (a); 2. (c); 3. (b); 4. (a); 5. (d); 6. (a) 7. (b) 8. (c);
9. (c); 10. (a). 11. (b) 12. (c) 13. (a) 14. (a)

Objective type Questions**(Mark-1)**

- 1) Under single entry system which transactions are maintained?
- 2) Single entry system is the mixture of which entry?
- 3) Under single entry system is it possible to prepare a Trial balance?
- 4) Name two account which are maintained under single entry system .
- 5) Name two transactions which are not recorded under single entry system.
- 6) In which business single entry system is suitable?
- 7) How are profit calculated under the single entry system ?
- 8) Name two advantages of single entry system .
- 9) What is the statement of affairs?
- 10) Write any two difference between double entry system and single entry system .

Numerical Questions:**(Marks-3/4/5/6)****1. The statement of affairs of Mr. X as on 1st April 2019 is given below**

Liabilities	Amount (Rs.)	Assets	Amount Rs.
Sundry creditor	16,500	Cash	7,450
Accured expenses	3,500	Sundry Debtor	25,350
Capital	50,000	Stock	30,300
		Furniture	6,900
	70,000		70,000

During the year ended 31st March, 2020 his drawing amounted to Rs. 15,000. He also withdraw goods worth Rs. 600 for his personal use. On 1st July 2019 Mr. X transferred some of his household furniture to the business at a value of Rs. 2,100. His Assets and Liabilities as on 31st March, 2020 were :

Liabilities	Amount (Rs.)	Assets	Amount Rs.
Sundry creditor	18,600	Cash	6,850
Accured expenses	4,300	Sundry Debtor	39,900
		Stock	40,320
		Furniture	9,000
		Prepaired rent	400

Furniture is to be depreciated @ 10% p.a and a provision is to be created on debtors @ 5%. Interest 5% to be allowed on capital as at the begining of the year. Ascertain the profit or loss for the your ended 31st March, 2020 and prepare the statement of affairs as on that date.

- 2) A trader has not kept proper books of account but from the following details you are required to ascertain profit or loss made by him during the year ending 31st Dec., 2019 and also to prepare a statement of affairs as on that date :

	31st Dec, 2018 Amount (Rs.)	31st Dec, 2019 Amount (Rs.)
Cash in hand	700	850
Cast at bank	2,500	3,000
Stock in Trade	25,000	30,000
Sundry Debtor	30,000	40,000
Sundry Creditor	15,000	12,000
Plant and Machinery	80,000	1,00,000
Furniture and Fixture	30,000	25,000

- 3) Mr. Ashok Sen does not keep a double entry set of books. He commenced business on 1st January, 2020 with 33,000 as capital. He kept his books on single entry system. On 31st Dec. 2020 his books disclosed the following position.

Plant and Machinery Rs. 15,000, Stock in Trade Rs. 12,000, Sundry Creditors Rs. 7,500, Debtors Rs. 13,500, Cash at bank Rs. 3,000. He drew from his business at the rate of Rs. 225 at the end of each month. On 1st July 2020 he introduced a further capital amounting to Rs. 6,000

You are required to prepare a statement of profit and loss for the year ended 31st Dec., 2020 and a statement of affairs as on that date after taking into consideration the following.

- i) $7\frac{1}{2}$ % of sundry debtors proved to be bad.
- ii) Plant and Machinery is depreciated @10% and
- iii) A provision for doubtful debts was required to be made @ $2\frac{1}{2}$ % of debtors.

- 4) The financial position of Arun Kumar, a Trader on 31st December 2019 is as follows :

	Amount (Rs.)		Amount (Rs.)
Capital	10,700	Debtors	5,000
Trade Creditors	10,000	Stock in trade	15,000
Bank overdraft	1,000	Shop furniture and fittings	2,000
Expenses accrued due	500	Expenses paid in advance	200
	22,200		22,220

On 31st December, 2020, he finds that his debtors amount to Rs. 6,300 and his stock in trade is worth Rs.12,400 and that he has Rs. 3,000 cash at bank, No expenses have been paid in advance, he owes Rs. 9,500 to trade creditors and Rs. 800 for expenses accrued, he estimates that 10% of his debtors will prove bad.

During the year 2020, he has withdrawn Rs 5,600 in cash for private expenses and he has also taken goods valued at Rs. 400 for personal use. In June 2020, he withdrew Rs. 1500 from his private post office savings bank account and paid it into his business bank account. In August 2020 his shop was burgled and goods valued at Rs. 750 were stolen, his loss was not covered by insurance.

You are required to prepare a statement showing Arun kumars Net Profit for the year 2020 and to draw up his statement of affairs at 31st December 2020.

: Answers :

1)	Net Profit	Rs. 28,607
	Statement of affairs	Rs. 90,507
2)	Opening Capital	Rs. 1,53,200
	Closing capital	Rs. 1,86,850
	Net Profit	Rs. 45,620
	Statement of Affairs	Rs. 1,86,820
3)	Net Loss	Rs. 3,125
	Statement of affairs	Rs. 40,675
4)	Net profit	Rs. 6,570
	Statement of affairs	Rs. 2,3070

Applications of Computers in Accounting

Meaning of Computer :

A computer is an electronic device, which is capable of performing a variety of operations as directed by a set of instructions. This set of instructions is called a computer programme.

Now a days, Computer is an important part of accounting system. Computerized accounting systems are now very important for every business for various ways. Computer help business by making their staff efficient, productive and also save their valuable time. It also helps to record the different kinds of financial and non-financial information for the business.

Elements of Computer System :

A computer system is a combination of six elements:

- i) Hardware :** Hardware of computer consists of physical components such as keyboard, mouse, monitor, processor etc. These are electronic and electromechanical components.
- ii) Software :** A set(s) of programmes, which is used to work with such hardware is called its software. A coded set of instructions stored in the form of circuits is called software. There are six types of software as follows:
 - (a) Operating System, (b) Utility Programmes, (c) Application Software, (d) Language Processors,
 - (e) System Software, (f) Connectivity Software,

For example, a computer by feeding a particular software can be used to prepare for pay-roll of employees whereas by feeding a second software it can be used to prepare accounts, by feeding a third software it can be used for stock ledger and so on.

- iii) People :** People interacting with the computers are also called live-ware of the computer system. They constitute the most important part of the computer system The main categories of people involved with the computer system are :
 - (a) System Analysts
 - (b) Operators
 - (c) Programmers

- iv) **Procedures** : A procedure means a series of operations in a certain order or manner to achieve desired results. There are three types–
 - (a) system oriented (b) Hardware-oriented (c) Internal procedure
- v) **Data** : These are facts and (may consist of numbers, text, etc.) gathered and entered into a computer system. The computer system in turn stores, retrieves, classifies, organises and synthesises the data to produce information when disires.

Examples :

- a) Bio data of the various applicants may be analysed in computer for recuritment of staff.
- b) Computer may be used for preparation of results of various students obtained marks the examination.
- vi) **Connectivity** : It is being acknowledged as a sixth element of the computer system. The manner in which a particular computer system is connected to others say through telephone lines, microwave transmission, satellite link, etc. is the element of connectivity.

Capabilities or Advantage of Computer System :

A computer system posses the following advantages –

- i) **High Speed** : It refers to the amount of time computers takes in accomplishing a task or completes an operation. Computers require far less time than human beings in performing a task.
- ii) **Accuracy** : It refers to the degree of correctness or accuracy computations are made and operations are performed. Computers are extremely accurate. This operation are error free and provide highly reliable information. But sometimes error accur due to bad programming or inaccurate data feeding.
- iii) **Reliability** : It refers to the ability with which the computers remain functional to serve the user. Computers systems are well adapted to performing repetitive operations. They are immune to tiredness, boredom or fatigue. Therefore, they are more reliable than human beings.
- iv) **Versatility** : It refers to the ability of computers to perform a variety of tasks : simple as well as complex. Computers are usually versatile unless designed for a specific application. A general purpose computer is capable of being used in any area of application : business, industry, scientific, statistical, technological, communications and so on.
- v) **Storage** : It refers to the amount of data a computer system can store and access. The computer systems, besides having instant access to data, have huge capacity to store such data in a very small physical space. A CD-ROM with 4.7" of diameter is capable of storing a large number of books, each containing thousands of pages and yet leave enough space for storing more such material.

Limitations of a Computer System

In spite of possessing all the above capabilities, computers suffer from the following limitations:

- i) **Lack of Commonsense** : Computer systems as on date do not possess any common sense because computer work according to the stored programme.

- ii) **Zero IQ** : Computers are dumb devices with zero Intelligence Quotient (IQ). They cannot visualise and think what exactly to do under a particular situation, unless they are programmed to tackle that situation.
- iii) **Lack of Feeling** : Computers do not have feelings like human beings because they are machines. No computer passes the equivalent of a human heart and soul.
- iv) **Lack of Decision-making** : Decision-making is a complex process involving information, knowledge, intelligence, wisdom and ability to judge. Computers cannot make decisions on their own.

Some more limitation related to computerised system in accounting is–

High cost of Training, Dangerol system failure, Staff opposition, Disruption etc.

Components of Computer

The functional components of computer system consist of Input Unit, Central Processing System Output Unit and Hardware, software. The way these components are embedded in a computer may differ from one architectural design to another, yet all of them constitute the essential building blocks of a computer system.

- i) **Input Unit** : It is for entering data into the computer system. This device are Keyboard and Mouse, Magnetic tape, Magnetic disk, Light pen, Optical scanner, Magnetic Ink Character Recognition (MICR), Optical Character Recognition (OCR), bar code reader, smart card reader etc. Besides, there are other devices which respond to voice and physical touch.
- ii) **Central Processing Unit (CPU)** : It is the ingredient part of computer hardware that actually processes data, according to the instructions it receives. It controls the flow of data by directing the data to enter the system, places the data into its memory, retrieves the same as and when needed and directs the output of data according to a set of stored instructions. It has three main units –
 - (a) Arithmetic and Logic Unit (ALU) :
 - (b) Memory Unit
 - (c) Control Unit
- iii) **Output Unit** : After processing the data, the information produced is required in human readable and understandable form. A computer system, therefore, needs an output device to communicate such information to the user. The commonly used output devices are– Monitor also know as Visual Display Unit (VDU), printer, graphic plotter for producing graphs, drawings,charts etc.

Management Information System (MIS) :

Management Information System is an information system that provides the desired information to the managers to manage the organisation effectively. MIS is supportive of the institution's long-

term strategic goals and objectives. MIS is viewed and used at many levels by management : Operational, Tactical and Strategic.

Accounting Information System (AIS) : Accounting information system is an information system based on the accounting database of an organisation, helping in storage, processing, summarizing and reporting information about an organization. It has three elements– Such as computerized Accounting, Information and System.

Application of Computers in Accounting :

- i) Recording of Transactions :** To record all the business transaction in books of accounts properly and timely.
- ii) Draw all Ledger Accounts :** Computers prepares all ledger accounts by given instructions such as purchases, sales, book debts, cash and Bank A/c etc.
- iii) Preparation of Trial Balance :** It prepares the trial balance according to the balances of ledger accounts.
- iv) Preparation of Final Account :** It has the utility to prepare Trading Account, Profit and Loss Account and Balance sheet from the balances of Trial Balance.

Features of Computerised Accounting System :

Computer accounting system is based on the concept of database. This system has the following features–

- i) Online Input and storage of accounting data.
- ii) Printout of purchase and sales invoice.
- iii) To assign a unique code for each account and Transactions.
- iv) From the very beginning grouping of accounts is to be done.
- v) Instant report for management, for example. Stock Statement, Trial Balance, Payroll report, Income Statement, Tax Reports, Balance Sheet etc.

Role of Computers in Accounting :

Due to Globalisation impact, business operations are becoming at large scale and complex in nature. The need therefore arise to record, compile, summarize and present the accounting information to the large number of interested users with greater speed, accurate and utility based. By accepting the computerized accounting process this problems may be solved. Computerized accounting serves the purpose of both AIS and MIS very very effectively to run the organisation smoothly by combining the following–

- i) Customer Relationship Management (CRM)
- ii) Sales and Marketing Management.

- iii) Enterprise Performance Management.
- iv) Debtors Management
- v) Creditors Management.
- vi) Pay-roll accounting
- vii) Enterprise Resource Planning (ERP)
- viii) Computerized Preparation of Financial System.
- ix) Tax Planning and Management

Exercise

I. Answer the following MCQ's :

(mark : 1)

1. Mouse is a –
- | | |
|--------------------------|------------------|
| a. Input Device | b. Output Device |
| c. Input and Output both | d. None of these |

Answer : _____

2. Software are –
- | | |
|------------|------------|
| a. 6 types | b. 4 types |
| c. 8 types | d. 5 types |

Answer : _____

3. What is MIS –
- | | |
|----------------------------------|-----------------------------|
| a. Middle Internet System | b. Micro Information System |
| c. Management Information System | d. Mass Information System |

Answer : _____

4. What is CPU–
- | | |
|-------------------------|----------------------------|
| a. Central Process unit | b. Central Processing unit |
| c. Central Power unit | d. Central Production unit |

Answer : _____

5. Monitor is a –
- | | |
|----------------|------------------|
| a. Input | b. Output |
| c. (a) and (b) | d. None of these |

Answer : _____

6. Computer is a _____ device –
- a. Electrical
 - b. Electronic
 - c. Electromagnetic
 - d. All of the above

Answer : _____

7. The meaning of hardware is _____ from we can touch it–
- a. Electrical
 - b. Physical
 - c. Mental
 - d. All of these

Answer : _____

8. Which procedure provides details about the components and their methods of operation –
- a. Internal Procedure
 - b. Hardware Oriented
 - c. Software Oriented.
 - d. None of these

9. What are the features of a computerised accounting system –
- a. It facilitates offline input and storage of accounting data.
 - b. This system Never fails.
 - c. It generates a Print-out of purchase and sales invoice
 - d. None of the above

Answer : _____

10. A software must be easy to –
- a. Install
 - b. Understand
 - c. Adapt
 - d. All of the above

Answer : _____

11. What are the feature of computerized accounting software–
- a. Storage of accounting data and online input
 - b. Group different account
 - c. Instantly produces different report
 - d. All of the above

Answer : _____

12. What are the factors to be considered as source of accounting software?
- a. Flexibility
 - b. Adaptability
 - c. Interest of Management
 - d. both (a) and (b)

Answer : _____

13. What is not an advantage of computerized accounting system—
- a. High speed
 - b. High reliability
 - c. Reduces Training cost
 - d. None of the above.

Answer : _____

II. Answer the following VSA Type Questions :

(mark : 1)

1. Define Computer?
2. What is CPU?
3. Which computer is used for calculation?
4. What is known as brain of computer?
5. Write the name any two application software?
6. Write the name of any two languages used by a computer?
7. What do you mean by computerised accounting?
8. What do you mean by MIS reporting?
9. What do you mean by software?
10. What is Hardware?
11. What do you mean by AIS?
12. CRM stands for—

III. Long Answer Type Questions :

(Marks : 3 / 4 / 5 / 6)

1. Describe the various elements of a computer system and explain the distinctive features of a Computer system and Manual system.
2. Explain Central Processing Unit (CPU) as an essential and ingredient component of a computer system.
3. Briefly discuss the functional components of a computer system.
4. What are the advantages of computer system?
5. What are the limitations of computer system?

Answer Key

1. MCQ's

1. (a); 2. (d); 3. (c); 4. (b); 5. (b); 6. (b) 7. (b) 8. (b); 9. (c);
10. (d). 11. (c) 12. (d) 13. (c)

Computerised Accounting System

Computerized Accounting System

Computerised accounting system refers to the system of maintaining accounts using computers. It is an accounting information system that processes the financial transactions and events to produce reports as per user requirements.

Features of computerized accounting

i) Simple and integrated

It is mainly designed to automate and integrate various business operations such as purchase, sales, finance, inventory and manufacturing etc.

ii) Speed

It can perform functions at much higher speed than doing the same manually for recording of transactions.

iii) Accuracy

Computers perform functions with high degree of accuracy. If hardware, software and inputs are proper, the computerised accounting system can assure of accurate result.

iv) Reliability

Computers are used to process large volumes of data and hence, data provided by this system are reliable.

v) On-line facility

Computerized accounting system provides online facility to store and process transaction and data from any part of the world.

Advantages of Computerised Accounting

- 1. Better Quality Work:** The accounts prepared with the use of computerized accounting system are usually uniform, neat, exact, and more understandable than a manual job.
- 2. Greater Accuracy :** The possibility of error is eliminated in a computerized accounting system

because the primary accounting data is entered once for all the subsequent usage and processes in preparing the accounting reports.

3. **Improves Efficiency:** The computer maintain proper speed and accuracy in preparing the records and accounts and thus, increases the efficiency of employees.
4. **Highly reliable :** The computer system is well-adapted to performing repetitive operations. They are immune to tiredness, boredom or fatigue. As a result, computers are highly reliable compared to human beings.
5. **Quality Reports:-** The accounting records, in a computerized accounting system are updated automatically and systematically, so latest information pertaining to accounts get reflected when accounting reports are produced.

Difference Between Manual Accounting and Computerized Accounting

Sl.no.	Basis	Manual Accounting	Computerized Accounting
1.	Meaning	Manual Accounting is a system of accounting that uses physical registers and account books etc. for keeping various financial records.	Computerized Accounting is an accounting system that uses accounting software, for recording financial transactions electronically.
2.	Recording	Transactions are recorded by original entries in the books of accounts.	Financial transactions are recorded through the database.
3.	Calculation	All the calculation is performed manually.	Only data input is required, the calculations are performed by computer system.
4.	Speed	Manual Accounting system of is slower than Computerized accounting system.	Computerized accounting system is faster than manual accounting system.
5.	Adjustments	In case there is any error in entries, adjustments are made to remove it.	In computerized accounting it can be done automatically through primary entry.
6.	Financial Statements	In a manual system of accounting, the preparation of financial statements pre-supposes the availability of trial balance.	However, in computerised accounting, there is no such requirement.

Limitations of Computerized Accounting System

The limitations of the computerized accounting system are given below:

- 1. Cost of training:** Computerized accounting packages usually require trained staff for operating the computer. The cost of training on regular basis may not be suitable for small business organisations.
- 2. Data Corruption :** The data can get corrupted through viruses that may come in through the internet or the use of external input devices without scanning them for viruses.
- 3. Ill-effects on Health:** Excessive use of computers systems may lead to development of various health problems: bad backs, eyestrain, muscular pains, etc.
- 4. Inability to make decisions:** The computer cannot take any decision on its own, because it acts according to the instructions given by the user.
- 5. Breach in security :** Detection of computer-related crimes is a difficult task. The computerized data can be stolen without notice or any clue that the data is stolen, training of staff has to be done.

Sourcing of Accounting Software

Accounting software is an integral part of the computerised accounting system.

Every Computerised Accounting System is implemented to perform the accounting activity (recording and storing of accounting data) and generate reports as per the requirements of the user. From this perspective. The accounting packages are classified into the following categories :

Ready-to-Use

Ready-to-Use accounting software is suited to organisations running small/conventional business where the frequency or volume of accounting transactions is very low. Ready-to-use software is relatively easier to learn and people (accountant) adaptability is very high.

Customised

Accounting software may be customised to meet the special requirement of the user. For ex. when the user requires that inventory status to be updated immediately upon entry of sales voucher and report be printed, the software needs to be customised.

Tailored

The accounting software is generally tailored in large business organisations with multi users and geographically scattered locations. The tailored software is designed to meet the specific requirements of the users and form an important part of the organisational MIS.

Exercise

Multiple choice Questions :

(mark : 1)

1. A group of computer programs that effectively organize data is called :
(a) Program (b) Information System
(c) Database (d) All of above
2. Which one is not an advantages of a computerized accounting system.
a) High Speed b) Highly Reliable
c) Reduced training cost d) None of the above
3. What are the types of a computerized accounting system?
a) Ready to use Software b) Customized Software
c) Tailor-made Software d) All of the above
4. The benefits of computerized accounting system is :
(a) Speed (b) Reliability
(c) Readability (d) All of the above
5. What are the factors to be considered while choosing source accounting software?
a) Flexibility b) Adaptability
c) Interest of management d) Both a & b
e) All of the above
6. Software is:
(a) Language (b) Program
(c) Physical part of computer (d) None of the above
7. If a complex type of business wants to develop a computerised accounting system according to its need. Which software it should opt. for
a) Ready to use Software
b) Customized Software
c) Tailor-made Software
d) Any of above
8. What are the features of computerized accounting software?
a) storage of accounting data and on-line input
b) instantly produces different reports
c) group different account
d) All of the above

9. Which factor of a vendor is also an important factor to consider while opting for a computerized accounting software
 - a) Level of profit
 - b) Honesty
 - c) Capability
 - d) None of the above
10. A report of Trading account, Profit and Loss Account etc. of an organization is
 - (a) Exception Report
 - (b) Reporting Framework
 - (c) Liability Report
 - d) Summary Report

Very Short answer type questions :

(mark : 1)

1. What is the Computerized Accounting System?
2. Describe any two characteristics of computer accounting system.
3. What is sources of Accounting software?
4. What is the Customized Accounting Software?
5. What is the Ready to use Accounting Software?

Long answer type questions :

(Marks : 3 / 4 / 5 / 6)

1. What is the computer accounting system? What are its utilities?
2. Explain the characteristics of the computer accounting system.
3. Describe the limitations of the computer accounting system.
4. Explain differences between manual accounting system and computerized accounting system.
5. Describe the sources of Accounting software.

Answer Key

Multiple Choice Questions :

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

Structuring Database for Accounting

Structuring Database for Accounting

The process of computerised accounting includes identifying, storing and retrieving the data content of an accounting transaction. This requires a mechanism to store such data content of vouchers in a manner that allows its easy and convenient retrieval as and when required. This is achieved by designing suitable database for accounting. In this chapter we shall discuss the basic concepts of database system of accounting.

Data Processing Cycle : -

In order to understand the dynamics of database design, let us understand the data processing cycle in the context of accounting. Data processing involves the technique of collecting, sorting, relating, interpreting and computing data items in such a manner as to provide meaningful and useful information for decision making. Few crucial steps associated with the data processing cycle are data occupying, inputting, computing and generating information accessible to the user. As a result, when Data processing cycle, thought of in the context of accounting, requires a series of steps that have been described below briefly:

(i) Source Documents:

Usually, the initial step is to occupy accounting data from the transaction(s) to make a report, known as a voucher (as expressed before), that proves and reports an accounting exchange.

(ii) Input of Data:

The accounting data comprised in vouchers is to be fed in PC's memory device. This is accomplished by utilizing a pre-planned Data Entry Form. This form is planned in a way that it is like a physical voucher document. Data entry form is made utilizing software and it is designed to show up on the PC screen so that the data is entered.

(iii) Data storage:

An appropriate data storage structure is needed to accommodate a clear data record is demonstrated as follows;

Code	Name	Type
------	------	------

The above clear record that is utilized for accumulating the input of data regarding code of account, the name of the account and the category type to which it belongs is demonstrated below;

Code	Name	Type
B1212	Capital Account	4
56654	Purchases Account	1

Speculatively, the category type 4 above points towards Liabilities and the category type 1 point towards Expenses. The Data storage structures (additionally called data tables) are made as a segment of structuring database for accounting.

(iv) Manipulation of Data:

The collected information is controlled for a fundamental change to create final reports. Such changed information might be collected independently and, in this way, utilized for creating final reports. On the contrary, the changed information can be specifically exhibited in the name of a report.

(v) Output of Data:

The accounting documents, for example, a ledger, a trial balance, and so on are acquired in a pre-outlined format by getting to the changed information. Since you learned about the manner in which data content is collected in an organized way, we will examine how the data structures are composed in consonance with the data content that rises up out of accounting exchanges.

Designing Database for Accounting: -

An organization is built up to take over one or numerous ventures. Normally in a situation with a single administration. Such cases of organizations are banks, medical centers, producers, and so forth. Every one of these organizations has diverse functions yet at the same time, there are a few

essentials or regular functions performed by every one of the organizations. One regular function of the organization is 'accounting'.

Computerized and PC based AIS need a firm data structure for reserving the information of the transaction. Above all, the databases are utilized for reserving accounting data. The guidelines of the planning database (for accounting) starts with a reality (also accounting reality) that is communicated using components of a conceptual data model.

- **Reality:** It takes into consideration some part of real-world circumstances, for which database is to be designed. In particular, with regards to accounting, it is the accounting reality that will be defined with the utmost precision.
- **ER Design:** This is a formal blueprint, with a pictures format, in which Entity-Relationship (ER) Model ideas are utilized for the portrayal of reality.
- **Relational Data Model:** It is authentic data model through which ER configuration is changed between related data tables alongside the limitation in the form of rules that are indicated to guarantee the consistency and respectability of accumulated data.
- **Standardization:** Specifically, this is the procedure of refining a database outline (that comprises interrelated data tables) through which the likelihood of copy or repeated information things are eliminated or disposed of.
- **Refinement :** Consequently, this is the result of the procedure of standardization as said above. The final database configuration is reached after the procedure of standardization is finished.

Entity Relationship (ER) Model: -

It is a popular conceptual data model, which is mostly used in database-oriented applications. The major elements of ER Model are entities, attributes, identifiers and relationships that are used to express a reality for which a database is to be designed.

Entities:

Anything in the real world with independent existence is called entity such as an object with physical existence (e.g. car, person, house) or conceptual existence (e.g. a company, job, university course, account, voucher). In the context of above accounting reality, there exist five entities: Accounts, Vouchers, Employees, Accounts Type and Support Documents. The accounting data is captured through these entities.

Attributes:

Attributes are some properties of interest (or characteristics) that further describe the entity such as height, weight and date of birth in case of a person and code and name in case of accounts. An entity has a value for each of its attributes, which is the data stored in the database.

Identifier (or Key Attributes of an Entity Type):

Almost every entity type has one of its attributes, which contains unique values for identifying the

entity instance. For example, Roll No as attribute of Entity type students has unique values through which a student instance can be identified. Similarly, Code is a key attribute of entity type Accounts because its data values are required to be unique.

Relationships:

Relationship among two or more entity types represents an interaction among their respective entities. Whenever an attribute (say Debit) of one entity type (say vouchers) refers to another entity type (say Accounts), there exists a relationship between these entities (Vouchers and Account).

Database Technology :-

It refers to a set of techniques that are used to design a database. These techniques use certain concepts, which are crucial to the creation of structure and development of the design. These concepts are: Reality, data, database, information, DBMS and database system. A brief description of these concepts is given below:

(a) Reality : It implies some aspect of the real world. It consists of an organization, its different components and the environment in which the organization exists and operates. Any organization includes people, facilities and other resources that are organised to achieve certain goals. Each organization operates within an environment. While operating, the organization interacts, influences and gets influenced by the environment. This continuous interaction results in real world transactions. These transactions are analysed with a view to identify the components called data items.

(b) Data : Data are known facts that can be recorded and which have implicit meaning. Data represent facts concerning people, places, objects, entities, events or even concepts. Data can be quantitative and qualitative or they can be financial and non-financial in character. Data are not useful for decision-making unless they are processed to suit to the requirements of decision-making situation.

(c) Database : The data, after being collected, has to be stored so that different people can use them. This requires the creation of a database. A database is a shared collection of interrelated data tables, files or structures, which are designed to meet the varied informational needs of an organization (See Example database in figure. It has two important properties (or characteristics): one it is integrated and second it is shared. Integrated property implies that distinct data tables have been logically organised.

(d) Information : It refers to data that have been processed and organised in a form, which is suitable for decision-making. The raw data when processed in accordance with decision usefulness of a decision-maker becomes information. In other words, information is a data that have been processed and refined and then presented in a format that is convenient for decision-making or other organisational activities.

(e) Database management System (DBMS) : It is a collection of programs that enables users to create and maintain a database. Formally, it may be defined as a general-purpose software system that facilitates the processes of defining, constructing and manipulating (or processing) databases for various applications. General-purpose software is defined as a set of programs, which are designed

and developed for a community of users and not for any particular application with respect to a particular user.

Relational Databases and Schemas :-

A relational database schema is a set of relation schemas and a set of integrity constraints. A relational database state is a set of relation states such that every relational database state satisfies the integrity constraints specified on relational database schema. In this context the following points of merits can be discussed:

- (a) A particular attribute, which stands for the same real word concept, might appear in more than one relation with same or different name. For example, in vouchers relation, the account Number is represented as debit and credit whereas in accounts relation, it is represented as Code Empld appearing in Employees relation is represented in Vouchers as Auth.By and Prep.By.
- (b) The particular real world concept appearing more than once in a relation must be represented by different names. For example, in employee's relation, employee is represented as subordinate, by using Empld and as superior by using Superld.
- (c) The Integrity constraints, specified on database schema, must hold in every database state of that schema.

Constraints and Database Schemas: -

There are four different constraints, which can be specified on relational databases. These are: domain constraint; key constraint; entity integrity constraint; referential integrity constraints.

(a) Domain: The value of each attribute of a relation must be an indivisible value and drawn out of possible values associated with its domain. The value of an attribute, therefore, must conform to the data type associated with the domain.

(b) Key Constraints and NULL Values : Each data record, which corresponds to a tuple of a relation, in a table must be distinct. That means no two tuples (or rows) in a relation (or table) can have the same combination of values for all their data items. This is because that a relation, as set of tuples, has to have all its tuples distinct by definition. Every relation has at least one key by default, which is the combination of all its attributes. This is called super-key by default. Any such super-key, therefore, specifies uniqueness constraint. Such a combination, representing super-key, may have redundant attributes, implying thereby that a more useful concept is that of a key which has not redundancy.

(c) Entity integrity constraint : States that no primary key value can be null because it is used to identify individual tuple in a relation. Null value implies that we cannot identify such tuples or identify these as alike. A failure to distinguish them means they are duplicates.

(d) Referential integrity constraint : While key and entity constraints are specified on individual

relation, the referential integrity constraint is specified between two or more relations. This constraint is specified to maintain consistency among the tuples of such relations. Accordingly, a tuple in one relation that refers to another relation must refer to an existing tuple in that other relation. In referencing Accounts Type, Accounts relation use sits attribute Type, which acts as foreign key to reference the tuples of relation Accounts Type through its primary key Catld.

Operations and Constraint Violations: -

There are two categories of operations on relational model: updates and retrieval. The three basic types of updates are as given below:

- (a) **Insert** : This operation is performed to add a new tuple in a relation. For example, an attempt to add another record of an account with data values corresponding to Code, Name and its Type to Accounts relation shall be made by performing Insert operation. The insert operation is capable of violating any of the four constraints discussed above.
- (b) **Delete** : This operation is carried out to remove a tuple from a relation. A particular data record from a table can be removed by performing such an operation. The delete operation can violate only referential integrity, if tuple being removed is referenced by foreign key from other tuples in the database.
- (c) **Modify** : The operation aims at causing a change in the values of some attributes in existing tuples. This is useful in modifying existing values of an accounting record in a data table. Usually, this operation does not cause problems provided the modification is directed on neither primary key nor foreign key.

Whenever applied, these operations must enforce integrity constraints specified on relational database schema.

Retrieval operation on Relational Data Model does not cause violation any integrity constraints.

Designing Relational Database Schema; -

The rules or guidelines required to design the relational database schema attempt to provide a step-by-step procedure that transforms ER design into Relational Data model design to constitute the desired database. In the context of ER model as shown in design the following specific steps are required to cause its transformation into relational data model :

- (i) Create a relation for every strong entity :
- (ii) Create a separate relation for each weak entity type
- (iii) Identify entity types participating in binary 1: N relationship type
- (iv) Identify entity types participating in binary M:N relationship type

Interacting with Databases :-

- ★ One of the major reasons for the success of commercial databases is the SQL language support they enjoy. This is because SQL became standard for relational databases.
- ★ As a result, users have become less concerned about migrating their database applications from one database to another database. Another advantage in using standard SQL is that users may write statements in a database application program that can access data stored in two or more relational DBMS without having to change the database sub-language (SQL) provided both the DBMS enjoy the support of a particular SQL standard.
- ★ The name SQL stands for Structured Query Language, which was originally called SEQUEL (Structured English QUery Language), designed and implemented at IBM Research as an interface for experimental relational database system called SYSTEM-R.
- ★ Being a comprehensive database language, it has statements for data definition, query and update. Besides this, it has the capability to define user-oriented views of database, specify security and authorisation, define integrity constraints and various other operations.
- ★ Many computer-programming languages can act as good host languages to incorporate the statements of SQL. In this sense, it can be used as a sub-language in a database-programming context.

Basic Queries in SQL :-

Data Query Language (DQL), which is a sub-set of SQL is widely used to answer most of the basic queries. The basic set of queries consists of those, for which the SELECT-FROM-WHERE Structure is put to use as described below:

SELECT : This clause is used to specify the data or information that is desired to answer the query.

FROM : This clause is used to specify the source of data for answering the query. It can be a data table, an existing query or both.

WHERE : This clause is meant to specify the conditions that are used to narrow down the choice of data to extract the information desired in select clause.

Questions for Practice

A) Short Questions:-

(mark : 1)

1. What do you understand by accounting data?
2. What do you understand by database?
3. Define foreign key.
4. What is meant by NULL value?

5. What do you understand by Entity Relationship (ER) Model?
6. Define the term 'Entity'.
7. What is meant by Database Technology?
8. Define the term 'Information'.

B) Long Answers type Questions: -

(Marks- 3/4/5/6)

1. Discuss about the different steps involved in Data Processing Cycle.
2. Describe the process of designing a database for accounting through a flow chart.
3. Discuss the basic concepts of Entity Relationship (ER) Model. Illustrate also how an ER model is diagrammed.
4. Briefly explain the different concepts related to Database Technology.
5. What integrity constraints are specified on database schema? Why is each considered important?
6. Discuss the different types of update operations in relation to the integrity constraints which must be satisfied in a relational database model.

Accounting System using Database Management System (DBMS)

Accounting system using Database Management Systems (DBMS):

DBMS is a collection of programs that enable the user to create and maintain the database. Also it is a computer based record keeping system. Suitable database management systems helps in increase organizational accessibility to collect data, which in turn helps the **end** users to share the data quickly and effectively across the different sections/department of organization. Implementing a database management system in an organization promotes an integrated picture of an different operations. It becomes easy to watch how processes in one segment affect the other segments of the organization. Database management systems provide a better structure for the enforcement of data privacy and security policies. More effective management means better transparency and reduced risk of breaching regulations.

Deploying a database management system, assuming positive end-user adoption, will always result in increased productivity for all level of users who are associated with. Database management systems empower the end users to make quick and informed decisions that can contribute to the success or failure of an organization in the long run. With better database management systems and procedures generate higher quality information.

A database management system helps in providing a framework to facilitate data quality initiatives. In turn, higher quality information helps in making better, faster decisions in an organization.

MS Access and its Components :

Microsoft Access is an information management tool, or relational database, that helps to store information for reference, reporting and analysis. Access can also overcome the limitations found when trying to manage large amounts of information in Excel or other spreadsheet applications.

It is one of the popularly used Database Management System (DBMS) to create, store and manage database. It is also popularly called ACCESS. Every component that is created using Access is an object and several such similar objects constitute a class. Access is functionally available with the following seven-object classes -

- Tables.

- Queries.
- Forms.
- Reports.
- Pages.
- Macros
- Module.

Access basics for creating a database :

When a new database is created from the scratch, there is complete control over the database objects, their properties and relationships. In order to create a new database without the help of database wizard (that is an automated process in Access) the following steps are indispensable –

1. Open Access window to choose blank Access database and click OK button.
2. Access responds in displaying file new database dialogue box, which prompts the designer to enter a file name and a location for the database.
3. If the task pane is not open, choose file from menu bar and click at new to open the task pane to create a new database.

Creating of Tables in Access :

The creation of tables in Access requires the following steps and understanding of the components of table object.

Click at Tables object of Access, followed by double click at create table by design view. This results in providing a table window, the upper part of which has three columns: Field Name, Data Type and Description. It is meant to define the schema of a table being created. Each of its rows corresponds to a column of the table being created. Two primary properties of the column of a table are its field name and data type.

- (a) **Field name** : refers to column name of the table being created. The name of the column should be a string of contiguous characters. The Field name is meant to define the name of column to be created, followed by data type of such column. The designer can optionally provide description of the column also. Once the data type is defined, the designer can further specify the properties of each column in the lower part of the Table window.
- (b) **Data Types** : Access supports different kinds of data types, which are given below :
 - Text.
 - Memo.
 - Number.
 - Date/Time.
 - Currency.
 - Auto Number.
 - Yes/No.

- OLE Object.
- Hyperlink.

Accounting reports:

Accounting reports are collections of finance based information of the organization derived from the business accounting records. The reports can be intact, customized and detailed based on the necessity and purpose behind creating the reports. For example, detailed sales analysis based on regions/Circle/Territory, helps to find out profits of a particular product line. Accounting reports can be termed as financial statements. The financial statements generally consist of statement of profit and loss, Balance sheet and cash flow statement which are generally prepared at the end of the accounting year.

Programmed or Casual Reports;

Programmed reports are those kinds of reports which contain information that can be used by the users in an expected situation that is going to take place in near future. Casual reports are the type of reports that contain information which can be used but they are just casually required. Users do not determine their requirements. Programmed reports are commonly known as ad hoc reports.

SQL (Structured Query Language) ;

SQL (Structured Query Language) is a standardized programming language that's used to manage relational databases and perform various operations on the data in them. Initially created in the 1970s, SQL is regularly used not only by database administrators, but also by developers writing data integration scripts and data analysts looking to set up and run analytical queries.

Functions of SQL Environment:

A database object present in the SQL server is termed as a Function. Basically accepting only input parameters, performing actions and returning the outcome, it is a set of SQL statements. Functions are capable for returning only single value or any specific table. The purpose of Function in the SQL environment is ease the process of complex calculations, accepting parameters, performing consolidated actions and returning the outcome of that particular action as a specific value. Using function as a type of filter assists in predicating security policies.

Procedure of creating the receipts side of a Cash Book ;

In order to produce the receipts side of Cash-Book, it is a must to retrieve a combination of processed info records which individually provides data on the codes and the Debit balance with respect to the accounts. To find out the net balance of the account corresponding to all accounts with the identity, follow these basic steps:

- To find the overall amount by which all the accounts has been debited
- To find the aggregated record of sets along with their totals of debit.
- To find the exact net amount with respect to every accounts are debited
- To find the set of records which contains the account name, account codes and the debit amount.

Concepts of Accounting Reports & steps to prepare such reports:

There are numerous concepts of accounting that an individual should be aware of so as to develop a foundation of the firm. Below stated are such three concepts:

Accruals Concept: Revenues and expenses are recognized when they are earned and consumed. This type of concept means that a business may acknowledge sales, gains and losses in proportions that vary from what that could be recognized depending on the cash received from clients or when the amount is paid to the traders or employees.

Conservatism Concept: Revenues are duly acknowledged when there is a feasible certainty that these revenues will be realized, on the other hand, the expenses are acknowledged on priority, when there is a possibility that these expenses can be incurred.

Economic entity concept: The business transactions are generally kept separate from the transactions made by the owners. By performing this, the business and personal transactions are not intermingled in the financial statement of a company.

SQL statements to produce the receipts side of a cashbook for Model-I:

Below are the set of SQL statements to produce the receipts side of a cash book for Model I

- Following set of statements are used to find the total amount debited from the account: Choose Debit AS Code. SUM (amount) AS Total FROM vouchers GROUP BY debit. Explanation: the GROUP BY clause used above produces the rows of the vouchers in terms of table accounts as the debit executed refers to the code of the account. Using Sum (.) calculates the sum of the amount of specific accounts debited and the reports against account debited.
- Following set of statements are used to create collective record set of debit total's accounts
SELECT*
FROM Query 01.
- Generating the account's net debited amount
SELECT Code. Sum (TOTAL) AS Net FROM Query 03 GROUP BY Code;
- The following set of statements are used to find the account code, account name and the debit amount:
SELECT a Code. b. name. AS Name of Account |. IFF (u. Net>0. a Net. null) AS Debit. FROM Query 04 As a. Accounts AS b WHERE a-code = b. code:

Design of a report:

Ways to refine the design of the report:

- **Conditional Formatting** - This is the most common way used to format the report. This helps to fetch the adequate amount of data by removing the duplicates, highlighting the correct information and so on.
- **Grouping of Data** - This helps you to group certain amount of data which has the same

information or the relative information requested. Grouping ensures the data being collected and combined from separate unidentified cells into one which in the other end helps the user to collate all the information required without any hassle.

- **Sorting of data** - Sorting of data organizes the data in ascending or descending way, alphabetically and other sorting characteristics. Using this additionally helps the user to find what the requirement is with ease.

Exercise

I. Answer the following VSA / MCQ's type Questions : **(mark-1)**

1. Which item purpose is to organize the record data into categories?

Answer: _____

2. State any one capabilities of MS Access.

Answer: _____

3. The need for which report is not anticipated?

Answer: _____

4. Which query indicates an individual to access criteria for picking a collection of records.

Answer: _____

5. Which clause is applied to designate the fields to represent data or information?

Answer: _____

6. Which item is determined to add a page number, date and time of the report?

Answer: _____

7. Defining a _____ key is a must for each table.

- a) Primary.
- b) Unique.
- c) Main.
- d) All of these.

Answer: _____

8. Creating table using _____ view is more beneficial.

- a) Personal.
- b) Wizard.
- c) Design.

d) Name.

Answer: _____

9. Full form of DBMS is–

- a) Database Marketing Scheme.
- b) Database Management System.
- c) Design Management Software.
- d) None of the above.

Answer : _____

10. While creating a table, entering the ____ of each field is a good practice.

- a) Properties.
- b) Details.
- c) Description.
- d) Wizard.

Answer : _____

QUESTIONS FOR PRACTICE:

Short Answer Type questions :

(marks : 3/4)

1. What is Accounting Reports ?
2. What do you mean by programme or casual reports ?
3. With the help of an example, briefly state the meaning of parameter “Queries” ?
4. Briefly state the purpose of functions in SQL environment ?
5. Briefly explain in steps the method of creating a query, using wizard.
6. List the structure of a good report created in Access.
7. List the ways to refine the design of a report ?
8. What do you understand by saving a report as snapshot?
9. Briefly explain the purpose of grouping and sorting the data as a means to refine a report.
10. State the procedure for creating a ledger in MS Access.

Long Answer Type Questions :

(marks : 5/6)

1. Describe and discuss the procedure of creating the receipts side of a cash book.

2. Discuss the concept of accounting reports? Explain the three steps involved in creating such reports.
3. Discuss with a set of inter-related data tables, the basics of creating queries in MS Access?
4. Briefly explain the set of SQL statements to produce the receipts side of a cash book for Model-I.
5. Describe in steps the design view method to create a query in MS Access?
6. Discuss the SQL view method of creating a query?
7. Describe the ways to refine the design of a report.
8. Explain the data base design for Model-I for producing the receipts the series of SQL statements for producing the payment side of cash book for Model-II.
9. Describe the series of SQL statements to produce trial balance data base design for Model-II is used.
10. Using Model-III discuss the series of SQL statements to produce a trial balance up to a particular date.

Answer Key

I MCO's/VSA type :

- | | |
|------------------------------------|--|
| 1. Sorting Data. | 2. It helps in storing data in an organized way. |
| 3. Casual. | 4. Parameter. |
| 5. Select. | 6. Design View. |
| 7. (A) Primary. | 8. (C) Design. |
| 9. (B) Database Management System. | 10. (C) Description. |