



BILINGUAL
TEXTBOOK



Sem - I

First Year B.Com

Fundamentals of

ACCOUNTING



ANDHRA PRADESH STATE COUNCIL OF HIGHER EDUCATION

(A Statutory Body of the Government of A.P)



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TEXTBOOK

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Fundamentals of
ACCOUNTING

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**ANDHRA PRADESH
STATE COUNCIL OF HIGHER EDUCATION**

(A Statutory Body of the Government of A.P)

B.Com.(First Year - Semester - I) : Fundamentals of Accounting

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Foreword



The Andhra Pradesh State Council of Higher Education, in line with the directions of the Hon'ble Chief Minister of Andhra Pradesh, introduced English Medium in all Degree programmes from this academic year 2021-22. As part of empowering the students joining Degree programmes from vernacular medium, the AP State Council of Higher Education is bringing out *podcasts*, *video casts* and notably the *bilingual text books*. These bilingual books are written in English, with the gist of the content in Telugu to enable the students to comprehend the content in their mother tongue. The bilingual text book is envisioned on the core concept of Outcome Based Education, highlighting the learning outcomes for every chapter. These are better called as bilingual resources rather than textbooks, as the APSCH E has developed a template for the bilingual textbooks designing them with concepts and frameworks going beyond the usual reading material.

Furthering the detailed description of the topics, as per the common syllabus of the Redesigned Curricular Framework for Choice Based Credit System, the bilingual text book contains Glossary, where certain important terms which the student might be unfamiliar with are identified and explained in one or two sentences, which is not a mere dictionary meaning. Links to online videos or audios which will be useful for further reading and understanding of the topics are given under the Interactive links. To foster further reading, information on online resources, articles or another text book pertaining to the content are provided. To make the text book more of a resourceful book, Curricular Activities, wherein suggested activities that could be taken up in realization of the outcomes are provided for the benefit of students. To help the students to assess understanding of the content, Self Assessment instruments are provided. For Advanced Learners, caters to the needs of advanced learners providing them with additional material about the topics. Finally, for every chapter References are provided.

I sincerely appreciate the Authors and the Editors for taking pains in bringing out this bilingual text book in a record time, replete with knowledge which fosters the academic progression of students. I earnestly thank my Academic Officers, Dr. B. S. Selina, Sri. Srirangam Mathew, Dr. P. Anil Kumar for their coordinating activities and Prof. K. Rama Mohana Rao, the Vice-Chairman of APSCHE under whose guidance the publication is brought out.

K. Hemachandra Reddy
Chairman, APSCHE



PROGRAMME: THREE-YEAR B.Com

(General and Computer Applications)

Course Code:

Domain Subject: Commerce
Semester-wise Syllabus under CBCS
(w. e. f. 2020-21 Admitted Batch)

I Year B Com (Gen & CA)–Semester – I
Course1A: Fundamentals of Accounting

Learning Outcomes:

At the end of the course, the student will be able to

- Identify transactions and events that need to be recorded in the books of accounts.
- Equip with the knowledge of accounting process and preparation of final accounts of sole trader.
- Develop the skill of recording financial transactions and preparation of reports in accordance with GAAP.
- Analyze the difference between cash book and pass book in terms of balance and make reconciliation.
- Critically examine the balance sheets of a sole trader for different accounting periods.
- Design new accounting formulas & principles for business organizations.

Syllabus:

Unit-I – Introduction

Need for Accounting – Definition – Objectives, – Accounting Concepts and Conventions – GAAP - Accounting Cycle - Classification of Accounts and its Rules – Book Keeping and Accounting - Double Entry Book-Keeping - Journalizing - Posting to Ledgers, Balancing of Ledger Accounts (including Problems).

Unit-II: Subsidiary Books:

Types of Subsidiary Books - Cash Book, Three-column Cash Book- Petty Cash Book (including Problems).

Unit-III: Trial Balance and Rectification of Errors:

Preparation of Trial balance - Errors – Meaning – Types of Errors – Rectification of Errors – Suspense Account (including Problems)

Unit-IV: Bank Reconciliation Statement:

Need for Bank Reconciliation - Reasons for Difference between Cash Book and Pass Book Balances- Preparation of Bank Reconciliation Statement - Problems on both Favorable and Unfavorable Balance (including Problems).

Unit -V: Final Accounts:

Preparation of Final Accounts: Trading account – Profit and Loss account – Balance Sheet – Final Accounts with Adjustments (including Problems).

Suggested Co-Curricular Activities:

- ◆ Bridge Course for Non-commerce Students
- ◆ Practice of Terminology of Accounting
- ◆ Quiz, Word Scramble
- ◆ Co-operative learning
- ◆ Seminar
- ◆ Co-operative learning
- ◆ Problem Solving Exercises
- ◆ Matching, Mismatch
- ◆ Creation of Trial Balance
- ◆ Visit a firm (Individual and Group)
- ◆ Survey on sole proprietorship and prepare final accounts of concern
- ◆ Group Discussions on problems relating to topics covered in syllabus
- ◆ Examinations (Scheduled and surprise tests)
- ◆ Any similar activities with imaginative thinking beyond the prescribed syllabus

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CHAPTER -I

INTRODUCTION TO ACCOUNTING

Learning Outcomes

1. Understand the importance of Accounting
2. Understand the difference between Book - Keeping from Accounting
3. Understand the Accounting Principles
4. Understand the Accounting Process

Contents

- 1.1 Origin of Accounting
- 1.2 Meaning of Accounting and Book-Keeping
- 1.3 Book-Keeping Vs. Accounting
- 1.4 Need for Accounting
- 1.5 Objectives of Accounting
- 1.6 Process of Accounting
- 1.7 Limitations of Accounting
- 1.8 Stake holders of Accounting
- 1.9 Branches of Accounting
- 1.10 Principles of Accounting

CHAPTER -I

INTRODUCTION TO ACCOUNTING

1.1 Origin of Accounting

The records of accounting or accountancy are frequently traced to historical civilizations. The early improvement of accounting dates to historical Mesopotamia, and is intently related to trends in writing, counting, and early auditing structures through the ordinary Egyptians and Babylonians. By the time of the Roman Empire, the Government had to get entry to exact economic information. In India, Chanakya wrote a manuscript nearly like an economic control book, in the course of the quantity of the Mauryan Empire. His book "Arthashastra" incorporates few exact factors of preserving books of money owed for a Sovereign State. Luca Pacioli's, book "Summa de Arithmetica, Geometria, Proportion at Proportionalita" (Review of Arithmetic and Geometric proportions) in Venice (1494) is considered as the first book on double-entry bookkeeping in his book he used the present-day popular terms of accounting Debit (Dr.) and credit (Cr). Luca Pacioli, who first published the double-entry system in 1494 at Venice identified as the Father of Accounting.

The present-day career of the accountant originated in Scotland in the 19th century. Accountants frequently belonged to an equal institution as solicitors, who frequently provided accounting offerings to their clients. Early present-day accounting had similarities to contemporary forensic accounting. Accounting started to transition into a professional career in the 19th century, with neighborhood expert accounting bodies in England merging to make the Institute of Chartered Accountants in England and Wales in 1880.

The Institute of Chartered Accountants of India (ICAI) is a statutory frame hooked up with the aid of using an Act of Parliament, viz. The Chartered Accountants Act, 1949 for regulating the career of Chartered Accountancy in India. The Institute, functions under the administrative control of the Ministry of Corporate Affairs, Government of India. The affairs of the ICAI are controlled with the help of employing a Council according to the provisions of the Chartered Accountants Act, 1949 and therefore the Chartered Accountants Regulations, 1988.

Since 1949, the career has grown leaps and boundaries in phrases of the contributors and scholar base. The Institute of Chartered Accountants of India (ICAI) is a statutory frame is performing the following activities to strengthen the accounting profession Regulate the career of Accountancy in India.

- ❖ Education and Examination of Chartered Accountancy Course
- ❖ Continuing Professional Education of Members
- ❖ Conducting Post Qualification Courses
- ❖ Formulation of Accounting Standards
- ❖ Prescription of Standard Auditing Procedures

1.అకౌంటింగ్ పరిచయం

అకౌంటింగ్ మూలం:

గణక శాస్త్రం అతి పురాతనమైనది, ద్రవ్యముపుట్టుకతోనే గణక శాస్త్రం ఆవిర్భవించిందని విశ్వసిస్తారు. ఈజిప్ట్, గ్రీకు, రోమన్ నాగరికతల కాలంలో లెక్కలు వ్రాసేపద్ధతి వాడుకలో ఉన్నట్లు చారిత్రక ఆధారాలు లభ్యమయ్యాయి.భారతదేశంలో చంద్రగుప్త మౌర్యుల సామ్రాజ్యంలో చాణిక్యుడు వ్రాసిన"అర్థశాస్త్ర"పుస్తకంలో లెక్కలు వ్రాసేటటువంటి పద్ధతిని ప్రస్తావించడం జరిగింది, ఈ పద్ధతి నేటి ఆధునిక గణక శాస్త్రం విధానానికి భారతదేశంలో నాందిగా పేర్కొనడం జరిగింది. డబుల్-ఎంట్రీ బుక్ కీపింగ్ సిస్టమ్పై ప్రచురించబడిన మొదటి రచన "Summa de Arithmetica, Geometria, Proportion at Proportionalia" "గణితం, క్షేత్ర గణితం, అనుపాతాల సారాంశం" ఇటలీలో 1494 లో లుకా పాసియాలి ("ఫాదర్ ఆఫ్ అకౌంటింగ్") ద్వారా ప్రచురించబడింది. పుస్తక ఆధునిక అకౌంటింగ్ లో ప్రధానముగాఉపయోగించే డెబిట్ మరియు క్రెడిట్ అనే అంశాలను మొట్టమొదటిగా లుకా పాసియాలి పుస్తకంలో ప్రచురించబడింది.పంతొమ్మిదవ శతాబ్దంలో అకౌంటింగ్ ఒక వ్యవస్థీకృత వృత్తిగా మారడం ప్రారంభమైంది.ఇంగ్లాండ్లోని స్థానిక ప్రొఫెషనల్ సంస్థలు 1880 లో ఇంగ్లాండ్ మరియు వేల్స్లో ఇన్స్టిట్యూట్ ఆఫ్ ఛార్టర్డ్ అకౌంటెంట్స్ని ఏర్పాటు చేశాయి.

భారతదేశంలో ఇన్స్టిట్యూట్ ఆఫ్ ఛార్టర్డ్ అకౌంటెంట్స్ ఆఫ్ ఇండియా ను (ICAI)1949వ సంవత్సరంలో పార్లమెంట్లో ప్రత్యేక చట్టం ద్వారా ఏర్పాటు చేయడం జరిగింది. భారతదేశంలో ఛార్టర్డ్ అకౌంటెంట్స్ కెరీర్ను నియంత్రించడానికి మరియుఅభివృద్ధి పరచడానికి ఛార్టర్డ్ అకౌంటెంట్స్ చట్టం అమలులోనికి తీసుకొని వచ్చారు. ఈ సంస్థ, భారత ప్రభుత్వ కార్పొరేట్ వ్యవహారాల మంత్రిత్వ శాఖ పరిపాలన నియంత్రణలో పనిచేస్తుంది.ఛార్టర్డ్ అకౌంటెంట్స్ ఆఫ్ ఇండియా యొక్క వ్యవహారాలు ఛార్టర్డ్ అకౌంటెంట్స్ చట్టం, 1949 మరియు ఛార్టర్డ్ అకౌంటెంట్స్ రెగ్యులేషన్స్, 1988 నిబంధనల ప్రకారం కౌన్సిల్సహాయంతో నియంత్రించబడతాయి.1949 వ సంవత్సరము నుండి ఇన్స్టిట్యూట్ ఆఫ్ ఛార్టర్డ్ అకౌంటెంట్స్ ఆఫ్ ఇండియా (ICAI) అనేది అకౌంటింగ్ వృత్తిని బలోపేతం చేయడానికి భారతదేశంలో అకౌంటెంట్స్ వృత్తిని నియంత్రించడానికి కింది కార్యకలాపాలను నిర్వహిస్తోంది.

1. ఛార్టర్డ్ అకౌంటెంట్స్ కోర్సు యొక్క విద్య అందించడంమరియు పరీక్షనిర్వహించడం2.సభ్యుల వృత్తిపరమైన విద్యను కొనసాగించడం 3. అకౌంటింగ్ ప్రమాణాల సూత్రీకరణ 4.ప్రామాణిక ఆడిటింగ్ విధానాలను నిర్దేశించడం వైతిక ప్రమాణాలను నిర్దేశించడం 5.పీర్ రివ్యూ ద్వారా నాణ్యతను పర్యవేక్షించడం 6.సభ్యుల మొత్తం పనితీరు యొక్క ప్రమాణాలను నిర్ధారించడం 7.క్రమశిక్షణా అధికార పరిధిని నిర్దేశించడం 8. పైనాన్షియల్ రిపోర్టింగ్ కు సంబంధించిన రివ్యూ చేయడం 9.పాలసీ విషయాలలో ప్రభుత్వానికి తగిన సలహాలు సూచనలు ఇవ్వడం.

- ❖ Laying down Ethical Standards
- ❖ Monitoring Quality thru Peer Review
- ❖ Ensuring Standards of overall performance of Members
- ❖ Exercise Disciplinary Jurisdiction
- ❖ Financial Reporting Review
- ❖ Input on Policy subjects to Government

1.2 Meaning of Accounting and Book-Keeping

1.2.1 Accounting

Accounting is the exercise of recording, classifying, and reporting on business transactions for evaluating performance of a business concern.

The American Institute of Certified Public Accountants (AICPA) in 1941 had defined accounting as

"the art of recording, classifying, and summarizing in a significant manner and in terms of money transactions and events which are in part at least, of financial character, and interpreting the results thereof".

From the above AICPA definition, the key accounting obligations are stated below.

***Recording**

The recording of business transactions is the main function of accounting. All the business transactions which are of financial nature are recorded in the books of account. Journal is a book that is maintained to record business transactions which are further subdivided into several books called subsidiary books. Journal is called a book of original entry.

***Classifying**

The recorded transactions are required to classify with a view to group the entries of one nature in one place. The book containing classified entries is called Ledger. This book is containing various accounts, for every specialized nature transaction separate account is maintained. For example, for all-cash transactions one account i.e cash account and for all payments relating to salary one account i.e salary account is maintained.

***Summarizing**

Summarizing is a process of preparation and presentation of classified data in a prescribed format. Summarizing is helpful for all the stakeholders of the accounting for understanding the performance of the organization. The financial position and the financial condition of the business organization can be identified through systematized summarizing. The process of summarizing is helpful to prepare final accounts of the business organization.

అకౌంటింగ్ మరియు బుక్-కీపింగ్ యొక్క అర్థం

అకౌంటింగ్ : అకౌంటింగ్ అనేది వ్యాపార సంస్థ యొక్క పనితీరును అంచనా వేయడానికి వ్యాపార సంస్థ యొక్క లావాదేవీల రికార్డింగ్, వర్గీకరణ మరియు రిపోర్టింగ్ చేసే ఒక ప్రక్రియ. 1941 లో అమెరికన్ ఇన్స్టిట్యూట్ ఆఫ్ సర్టిఫైడ్ పబ్లిక్ అకౌంటెంట్స్ (AICPA) అకౌంటింగ్ ని ఈ విధముగా నిర్వచించింది

"ఆర్థిక స్వభావం గల వ్యవహారాలును, సంఘటనలను, ద్రవ్య రూపంలో వ్రాసి, వర్గీకరించి, ప్రముఖంగా సంగ్రహపరిచి, వాటి పలితాలు వివరించే కళ"

AICPA నిర్వచనం నుండి అకౌంటింగ్ బాధ్యతలను ఈ క్రింది విధంగా పేర్కొనవచ్చును

రికార్డింగ్: వ్యాపార లావాదేవీల రికార్డింగ్ అకౌంటింగ్ యొక్క ప్రధాన విధి. ఆర్థిక స్వభావం కలిగిన వ్యాపార లావాదేవీలన్నీ ఖాతా పుస్తకాలలో నమోదు చేయబడతాయి. జర్నల్ అనేది వ్యాపార లావాదేవీలను రికార్డ్ చేయడానికి నిర్వహించే పుస్తకం. జర్నల్ సహాయక పుస్తకాలు అని పిలువబడే అనేక పుస్తకాలుగా విభజించబడుతుంది. జర్నల్ ను ఒరిజినల్ ఎంట్రీ పుస్తకం అంటారు.

వర్గీకరించడం: రికార్డ్ చేసిన లావాదేవీలు ఒక స్వభావం గల ఎంట్రీలను ఒకే చోట సమూహపరచాలనే ఉద్దేశ్యంతో వర్గీకరించాల్సిన అవసరం ఉంది. వర్గీకృత ఎంట్రీలను కలిగి ఉన్న పుస్తకాన్ని లెజ్జర్ అంటారు. ఈ పుస్తకం వివిధ ఖాతాలను కలిగి ఉంటుంది. ప్రతీ ప్రత్యేక వ్యాపారలావాదేవీకి ప్రత్యేక ఖాతా నిర్వహించబడుతుంది. ఉదాహరణకు అన్ని నగదు లావాదేవీలకు ఒక ఖాతా అంటే నగదు ఖాతా మరియు జీతానికి సంబంధించిన అన్ని చెల్లింపులకు ఒక ఖాతా అంటే జీతం ఖాతాను నిర్వహిస్తారు.

సంగ్రహించడం: సంగ్రహించడం అనేది నిర్దేశిత ఫార్మాట్ లో వర్గీకృత డేటాను తయారు చేయడం మరియు డేటాను సమర్పించే ప్రక్రియ. సంస్థ పనితీరును అర్థం చేసుకోవడానికి అకౌంటింగ్ యొక్క వినియోగదారులందరికీ సంగ్రహించడం సహాయపడుతుంది. వ్యాపార సంస్థ యొక్క ఆర్థిక స్థితి మరియు ఆర్థిక పరిస్థితిని క్రమబద్ధీకరించిన సంగ్రహించడం ద్వారా గుర్తించవచ్చు. వ్యాపార సంస్థ యొక్క ముగింపు లెక్కలను సిద్ధం చేయడానికి సహాయకారిణిగా సంగ్రహించే ప్రక్రియతోడవుతుంది.

విశ్లేషించడం: విశ్లేషించడం అనేది అకౌంటింగ్ యొక్క ముఖ్యమైన ప్రక్రియ. విశ్లేషణ లాభనష్టాల ఖాతా మరియు ఆస్తి అప్పుల పట్టి అంశాల మధ్య గల సంబంధాన్ని నిర్ధారిస్తుంది.

***Analyzing**

Analyzing is the process of presenting accounting information contained in the financial statements. Analyzing establishes the relationship between the items of Profit and Loss account and Balance Sheet.

***Interpreting**

Interpreting is an activity that involves explaining the meaning and significance of the relationship established between the items of the Profit and Loss account and Balance Sheet.

***Reporting**

Reporting is the final stage of the accounting part. It is concerned with the communication of end results of financial statements, to all stakeholders of the accounting

1.2.2 Book keeping

Bookkeeping is a method of recording and organizing all the business transactions that have occurred within the course of the business. Bookkeeping is the record-making phase of accounting. Accounting is based on a book-keeping system.

1.3 Book-Keeping Vs Accounting

S.No	Book – Keeping	Accounting
1	Book - Keeping is the systematic recording of financial transactions of the business concern	Accounting is the process of analyzing and interpretation of the Book-keeping record
2	The person concerned with book keeping is known as a book-keeper	The person concerned with the accounting is known as an accountant
3	Financial performance cannot be ascertained through the book-keeping	Financial performance can be ascertained through the accounting reports
4	Decisions cannot be taken based on Book keeping	Managerial decisions are taken on the basis of the accounting
5	Book keeping does not require any special skill and knowledge	Accounting requires special skill and knowledge

1.4 Need for Accounting

Accounting is commonly seen as the lifeblood of business as a result of it provides corporations with the simplest data relating to the inner workings of their operations. Accounting is useful to all kinds of stakeholders to understand the overall performance of the business concern. Accounting guides the stakeholders in the following aspects perfectly.

To take appropriate Managerial Decisions

To understand the business concern's overall financial position and financial condition

వివరణ: ఇంటర్ ప్రెటింగ్ అనేది లాభనష్టాల ఖాతా మరియు బ్యాలెన్స్ షీట్ అంశాల మధ్య ఏర్పడిన సంబంధాల యొక్క అర్థం మరియు ప్రాముఖ్యతను వివరించే ఒక కార్యకలాపం.

నివేదించడం: రిపోర్టింగ్ అనేది అకౌంటింగ్ భాగం యొక్క చివరి దశ. ఇది అకౌంటింగ్ యొక్క వినియోగదారులందరికీ ఆర్థిక నివేదికల తుది ఫలితాలకు సంబంధించిన సమాచారం తెలియజేయడం అకౌంటింగ్ యొక్క ముఖ్యమైన బాధ్యత.

బుక్ కీపింగ్: బుక్ కీపింగ్ అనేది వ్యాపార సమయంలో జరిగిన అన్ని వ్యాపార లావాదేవీలను రికార్డ్ చేయడానికి మరియు నిర్వహించే ఒక పద్ధతి. బుక్ కీపింగ్ అనేది అకౌంటింగ్ యొక్క రికార్డు తయారీ దశ. అకౌంటింగ్ బుక్ కీపింగ్ సిస్టమ్ మీద ఆధారపడి ఉంటుంది.

అకౌంటింగ్ ఆవశ్యకత: అకౌంటింగ్ అనేది సాధారణంగా వ్యాపారానికి జీవనాడిగా కనిపిస్తుంది. దాని ఫలితంగా వ్యాపార సంస్థలు వారి కార్యకలాపాల అంతర్గత పనితీరుకు సంబంధించిన సరళమైన డేటాను అందిస్తుంది. వ్యాపార సంస్థలు యొక్క మొత్తం పనితీరును అర్థం చేసుకోవడానికి అన్ని రకాల వినియోగదారులందరికీ అకౌంటింగ్ ఉపయోగపడుతుంది. అకౌంటింగ్ మొత్తం వినియోగదారులకు కింది అంశాలలో సంపూర్ణంగా మార్గనిర్దేశం చేస్తుంది.

I. తగిన నిర్వాహక నిర్ణయాలు తీసుకోవడానికి

II. వ్యాపార సంస్థలు మొత్తం ఆర్థిక స్థితి మరియు ఆర్థిక పరిస్థితిని అర్థం చేసుకోవడానికి

అకౌంటింగ్ యొక్క ప్రధాన లక్ష్యాలు

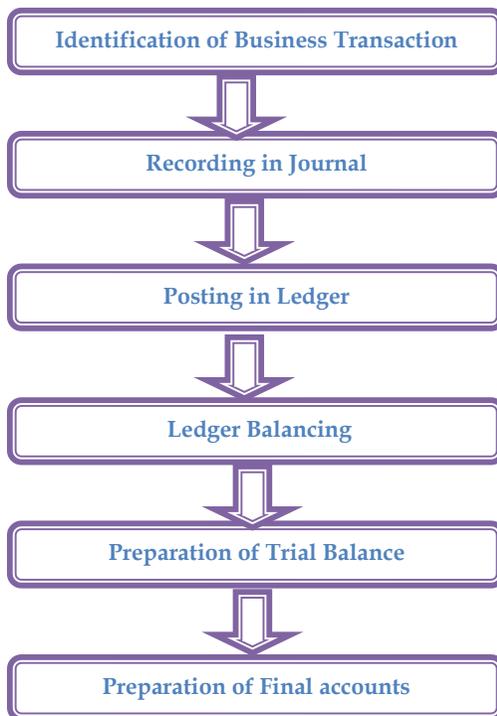
- ❖ వ్యాపార లావాదేవీల క్రమబద్ధమైన రికార్డులను నిర్వహించడం.
- ❖ వ్యాపార సంస్థలు యొక్క ఆర్థిక స్థితిని నిర్ధారించడం.
- ❖ ఆస్తులు మరియు అప్పుల విలువలలో అన్ని మార్పులను ట్రాక్ చేయడం
- ❖ వ్యాపార సంస్థ యొక్క వివిధ వినియోగదారులందరికీ సమాచారం అందించడం

1.5 Objectives of Accounting

The main objectives of accounting are:

- To maintain the systematic records of the business transactions
- To ascertain financial condition of the business concern
- To ascertain financial Position of the business concern
- To keep the track of all changes in the values of assets and liabilities
- To provide information to various stakeholders of the business concern

1.6 Process of Accounting



అకౌంటింగ్ ప్రక్రియ:వ్యాపార లావాదేవీల గుర్తింపు - చిట్టా పద్దులు రాయడం - ఆవర్తా ఖాతాలో నమోదు చేయడం - ఆవర్తా ఖాతాల నిల్వలు తేల్చటం - అంకణా తయారుచేయడం - ముగింపు లెక్కలను తయారుచేయడం.

అకౌంటింగ్ సమాచారం యొక్క వినియోగదారులు

- i. అంతర్గత వినియోగదారులు: యజమానులు - నిర్వాహకులు - ఉద్యోగస్థులు
- ii. బహిర్గత వినియోగదారులు: పెట్టుబడిదారులు - రుణదాతలు - సరఫరాదారులు - ఆదాయపు పన్ను శాఖ అధికారులు - నియంత్రణ ఏజెన్సీలు - ఆడిటర్లు

అకౌంటింగ్ శాఖలు:

పైనాన్షియల్ అకౌంటింగ్: పైనాన్షియల్ అకౌంటింగ్ అనేది అకౌంటింగ్ యొక్క నిర్దిష్ట శాఖ. పైనాన్షియల్ అకౌంటింగ్ అనేది నిర్దిష్ట వ్యవధిలో వ్యాపార కార్యకలాపాల నుండి వచ్చే వ్యాపార లావాదేవీలను రికార్డ్ చేయడం, సంగ్రహించడం మరియు నివేదించడం. పైనాన్షియల్ అకౌంటింగ్ లో వ్యాపార కార్యకలాపాల యొక్క నికర ఫలితాలు రెండు ముఖ్యమైన స్టేట్ మెంట్ లలో ప్రదర్శించబడతాయి. అవి లాభనష్టాల ఖాతా మరియు ఆస్తి అప్పుల పట్టి.

మేనేజ్ మెంట్ అకౌంటింగ్: మేనేజ్ మెంట్ అకౌంటింగ్ అనేది నిర్ణయాధికారులకు, ఆర్థిక సమాచారం మరియు వనరులను అందించే ప్రక్రియ. నిర్వహణ అకౌంటింగ్ యొక్క ప్రధాన లక్ష్యం వ్యాపార కార్యకలాపాల నియంత్రణ మరియు అభివృద్ధి కోసం సరైన నిర్ణయాలు తీసుకోవడం.

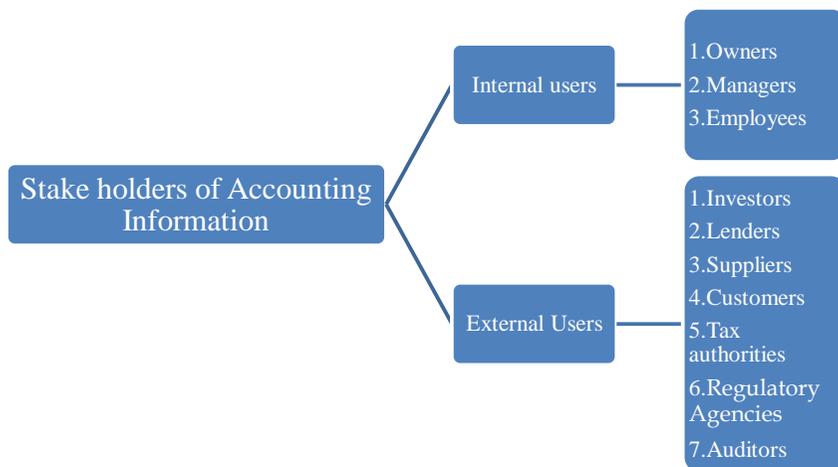
కాస్ట్ అకౌంటింగ్: కాస్ట్ అకౌంటింగ్ వస్తు ఉత్పత్తిలో ఉత్పత్తి చేసే వస్తువు యొక్క ఖర్చుల వర్గీకరణ మరియు వ్యయాల విశ్లేషణ కోసం ఉపయోగించే అకౌంటింగ్. నిర్దిష్ట ఉత్పత్తి యూనిట్ యొక్క మొత్తం వ్యయాన్ని సహేతుకమైన ఖచ్చితత్వంతో నిర్ధారించడానికి కాస్ట్ అకౌంటింగ్ ఉపయోగపడుతుంది మరియు అదే సమయంలో అటువంటి మొత్తం వ్యయాన్ని ఖచ్చితంగా వెల్లడిస్తుంది.

సామాజిక అకౌంటింగ్: సామాజిక అకౌంటింగ్ ను సామాజిక బాధ్యత అకౌంటింగ్ అని, సామాజిక రిపోర్టింగ్ మరియు సామాజిక ఆడిట్ అని కూడా పిలుస్తారు. సంస్థ చేపట్టిన సామాజిక సంక్షేమ కార్యకలాపాలు మరియు సమాజంపై వాటి ప్రభావాల గురించి సాధారణ ప్రజలకు మరియు ఇతర అకౌంటింగ్ వినియోగదారులకు తెలియజేయడానికి ఏర్పడినటువంటి ఒక అకౌంటింగ్ విధానం.

1.7 Limitations of Accounting

- ❖ Items which are in nonmonetary nature though they affect the financial results do not take into consideration for recording.
- ❖ Financial Accounting doesn't provide the results for short intervals less than one year
- ❖ Possibilities of conflicting the accounting principles each other
- ❖ Financial accounting does not consider the operating efficiency of the concern
- ❖ Financial accounting is not useful for price fixation
- ❖ Financial accounting allows alternative treatment of certain issues like closing stock valuation and depreciation etc. which results the position of incomparability
- ❖ Financial statements are historical cost base hence it does not give the current market value of the business concern

1.8 Stake holders of Accounting Information



1.8.1 Internal Users of Accounting

Internal users are the first users of accounting. Following are the three forms of internal users and their data needs

Owners: Owners have to be compelled to assess, however well their business is performing. Financial statements offer data to owners concerning the profitableness of the business concerns. Owners are curious about knowing, however risky their business is. Accounting data help owners in assessing the extent of stability in business over the years and to what extent have changes in

ద్రవ్యోల్పణ అకౌంటింగ్: ద్రవ్యోల్పణ అకౌంటింగ్ ప్రస్తుత ధరల ఆలోచనపై వ్యాపార సంస్థల ఆర్థిక పనితీరును చిత్రీకరించే ప్రయత్నంగా వర్ణించబడింది. ద్రవ్యోల్పణ అకౌంటింగ్ ప్రస్తుత ధర సూచికలకు అనుగుణంగా వ్యాపార సంస్థల యొక్క లాభనష్టాల ఖాతా ను మరియు ఆస్తి అప్పుల పట్టికను సర్దుబాటు చేసి ప్రస్తుత వ్యాపార సంస్థ యొక్క ఆర్థిక పరిస్థితిని తెలియ చేసేటటువంటి ఒక అకౌంటింగ్ విధానం

మానవ వనరుల అకౌంటింగ్: మానవ వనరుల అకౌంటింగ్ అనేది ఒక సంస్థ యొక్క మానవ వనరులలో చేసిన పెట్టుబడులను రికార్డ్ చేయడానికి మరియు మానవ వనరుల విలువలను ఆర్థిక రూపంలో సుమారుగా గుర్తించడం మరియు లెక్కించడానికి ఉపయోగించే ఒక ప్రత్యేక అకౌంటింగ్ విధానం.

అకౌంటింగ్ సూత్రాలు: అకౌంటింగ్ సూత్రాలను అకౌంటింగ్ విధానం లో ఉపయోగించే వివిధ నియమ నిబంధనలుగా పేర్కొనవచ్చును. అకౌంటింగ్ సూత్రాలు అనగా వ్యాపార సంస్థల యొక్క ఖాతా పుస్తకాలను తయారు చేయునప్పుడు పాటించాల్సిన నియమాలు మరియు మార్గదర్శకాలు. అకౌంటింగ్ సూత్రాలు సాధారణంగా ఆమోదించబడిన అకౌంటింగ్ సూత్రాలుగా (GAAP) మారడానికి మరియు సర్వత్రా ఆమోదించబడడానికి ముఖ్యంగా ఈ క్రింది ప్రమాణాలను కలిగి ఉండవలసిన ఆవశ్యకత ఉన్నది

1. అకౌంటింగ్ సూత్రాలు ఉపయోగకరంగా ఉండాలి
2. అకౌంటింగ్ సూత్రాలు నిష్పక్షపాతంగా ఉండాలి
3. అకౌంటింగ్ సూత్రాలు అమలుచేయడానికి సాధ్యతను కలిగి ఉండాలి

అకౌంటింగ్ సూత్రాలను ముఖ్యంగా రెండు రకాలుగా వర్గీకరించడం జరిగింది

1. అకౌంటింగ్ సాంప్రదాయాలు
2. అకౌంటింగ్ భావనలు

1. అకౌంటింగ్ సాంప్రదాయాలు:

సమాచారాన్ని వెల్లడిచేయడం: అకౌంటింగ్ సమాచారం యొక్క అన్ని రకాల వినియోగదారులకు వ్యాపార సంస్థకు చెందిన ఆర్థిక నివేదికల యొక్క అన్ని రకాలైనటువంటి ప్రధానమైన సమాచారాన్ని నిష్పక్షపాతంగా తెలియచేసే సాంప్రదాయాన్ని వెల్లడి చేయడం అని అంటారు.

స్థిరత్వము: ఈ సాంప్రదాయం ప్రకారము వ్యాపార సంస్థల యొక్క ఖాతా పుస్తకాలను తయారుచేసేటప్పుడు ఒకే రకమైనటువంటి అకౌంటింగ్ సూత్రాలను అనుసరించాలి మరియు వివిధ కాలాల కోసం ఆర్థిక నివేదికలను సిద్ధంచేసేటప్పుడు ఒకే రకమైనటువంటి అకౌంటింగ్ సూత్రాలను అనుసరించాలి. ఉదాహరణకు తగ్గుతున్న నిల్వల పద్ధతిలో స్థిర ఆస్తులపై తరుగుదల లెక్కింపు చేయబడితే అది కొంత కాలానికి అనుసరించాలి.

economic factors affected the rock bottom line of the business. Such data helps owners to determine if they must invest any more within the business or if they must use their money resources elsewhere in additional promising business ventures.

Managers: Managers would like to know the accounting data to set up, monitor, and create business choices. Managers have to be compelled to assign the money, human resources, and capital resources towards competitive wants of the business through the budgeting method. Preparing and watching budgets effectively needs reliable information. Management needs accounting data to watch the performance of the business by comparison against past performance; Managers consider information to create their business choices like investment, finance, and rating choices.

Employees: Employees have an interest in knowing, however well a corporation is performing because it may have implications for his or her job security and financial gain. Many workers review accounting data within the annual report simply to induce a stronger understanding of the company's business.

1.8.2 External Users of Accounting

External users are the secondary users of accounting.

Investors: Investors have to be compelled to ascertain well their investment is performing or not. Investors primarily consider the money statements revealed by firms to assess the profitability, valuation, and risk of their investment. Investors use accounting data to work out whether to continue or not with the investment.

Lenders: Lenders use accounting data of borrowers to assess their credit goodness, i.e. their ability to pay back any loan. Lenders provide loans and different credit facilities on terms that supported the assessment of monetary health of borrowers.

Suppliers: Just like lenders, suppliers would like accounting data to assess the credit-worthiness of their customers before providing merchandise and services on a credit

Customers: Most customers don't care about the money data of their suppliers. Industrial customers but would like accounting data concerning their suppliers so as to assess whether or not they have the desired resources that are necessary for a gradual offer of products or services within the future. Continuity in the offer of quality inputs is crucial for any business.

Tax Authorities: Tax authorities confirm whether or not a business declared the proper quantity of tax on its tax returns.

Regulatory Agencies: Company Law Board, Registrar of companies, and other government agencies also use accounting information as per their requirement.

Auditors: External auditors examine the financial statements and the underlying accounting record of businesses in order to form an audit opinion.

2. అకౌంటింగ్ భావనలు:

వ్యాపార అస్తిత్వ భావన: వ్యాపార అస్తిత్వ భావన ప్రకారము వ్యాపార సంస్థ దృష్టిలో వ్యాపార సంస్థ యజమానిని వేరుగా చూస్తారు. వ్యాపార సంస్థకు ప్రత్యేక అస్తిత్వం ఉందని భావించి యజమానివ్యక్తిగత లావాదేవీలకు మరియు వ్యాపార లావాదేవీలకు మధ్య వ్యత్యాసాన్ని గుర్తించి, వ్యాపార లావాదేవీలను మాత్రమే అకౌంటింగ్ పుస్తకాలలో నమోదు చేస్తారు.

ద్వంద్వ రూప భావన: ద్వంద్వ రూప భావన అనేది డబుల్ ఎంట్రీ అకౌంటింగ్ సిస్టమ్ యొక్క ప్రధాన అంశం. ద్వంద్వ రూప భావన ప్రకారం ప్రతీ వ్యాపార లావాదేవీని రెండు అంశాలుగా అనగా 1. ప్రయోజనం పొందిన అంశం 2. ప్రయోజనం ఇచ్చిన అంశాలుగా గుర్తించి అకౌంటింగ్ పుస్తకాలలో డెబిట్ మరియు క్రెడిట్ గా నమోదు చేస్తారు.

ద్రవ్య కొలమాన భావన: ఈ భావన ప్రకారం వ్యాపార వ్యవహారాలను పుస్తకాలలో నమోదు చేసేటప్పుడు ద్రవ్య రూపంలో కొలవగలిగిన అంశాలను మాత్రమే నమోదు చేస్తారు. ద్రవ్య రూపంలో కొలవ లేని అంశాలను వ్యాపార పుస్తకాలలో నమోదు చేసే సందర్భంలో విస్మరిస్తారు.

వ్యయ భావన: ఈ భావన ప్రకారం వ్యాపార వ్యవహారాలలో వాస్తవంగా చెల్లించిన వ్యయాలను మాత్రమే నమోదు చేయాలి. ఆస్తి విలువలు అకౌంటింగ్ పుస్తకాలలో చారిత్రక వ్యయం ఆధారంగా నమోదు చేయబడతాయి.

అకౌంటింగ్ కాల భావన : ఈ భావన ప్రకారం ఆర్థిక నివేదికలను ఒక నిర్ణీత కాలానికి తయారుచేసి ఫలితాలను లెక్కింపు చేయుట కొరకు ఒక నిర్ణీత కాల వ్యవధిని అనుసరిస్తారు. ఈ కాలవ్యవధి అకౌంటింగ్ కాల వ్యవధిగా పరిగణించబడుతుంది, ఇది సాధారణంగా ఒక సంవత్సర కాలము ఉంటుంది. అకౌంటింగ్ భావన వివిధ కాలాల ఆర్థిక నివేదికలను సరిపోల్చడాన్ని సులభతరం చేస్తుంది.

రాబడి గుర్తింపు భావన: ఈ భావన ప్రకారము ఆదాయాలు నగదు రూపంలో వసూలు అయినప్పుడు మాత్రమే ఆదాయంగా పరిగణించాలి. వస్తువులు లేదా సేవలు డెలివరీ చేయబడినప్పుడు లేదా అందించిన తర్వాత మాత్రమే ఆదాయాన్ని గుర్తించాలి అనే సూత్రమే రాబడి గుర్తింపు భావన.

జతపరిచే భావన: ఒక నిర్ణీత కాలంలో లో వ్యాపార సంస్థ ఆర్జించే యదార్థ లాభాన్ని లెక్కించడానికి ఆ కాలానికి సంబంధించిన వ్యయాలను మరియు అదే కాలానికి సంబంధించిన ఆదాయాలను మాత్రమే జతచేసి వ్యాపార ఫలితాలను లెక్కించాలి అనే నియమమే జతపరిచే భావన.

1.9 Branches of Accounting

Branches of Accounting	Financial Accounting
	Management Accounting
	Cost Accounting
	Social Accounting
	Inflation Accounting
	Human Resource Accounting

Financial Accounting: Financial accounting is a specific branch of accounting. Financial Accounting is a process of recording, summarizing, and reporting the business transactions ensuing from business operations over a period of time. In Financial Accounting, the net results of the business operations are presented in two important statements, they are Profit and loss account and the Balance Sheet.

Management Accounting: Management accounting is a process of providing financial information and resources to the managers for decision-making. The main objective of management accounting is to take proper decisions, for controlling and developing business activities.

Cost Accounting: Cost Accounting may be defined as “Accounting for cost classification and analysis of expenditure as will enable the total cost of any particular unit of production to be ascertained with a reasonable degree of accuracy and at the same time to disclose exactly how much total cost is constituted”.

Social Accounting: Social Accounting, also known as Social Responsibility Accounting, Socio-Economic Accounting, Social Reporting, and Social Audit, aims to measure and inform the general public about the social welfare activities undertaken by the enterprise and their effects on society.

Inflation Accounting: Inflation accounting is described as an effort to portray the financial performance of business enterprises on the idea of current prices. Inflation accounting requires statements to be adjusted consistently with price indexes.

Human Resource Accounting: Human Resource Accounting is the procedure of figuring out and measuring records approximately to record the Investments made in the Human Resources of an organization.

నిష్పక్షపాత సాక్ష్య భావన: వ్యాపార వ్యవహారాలను సంస్థ యొక్క అకౌంటింగ్ పుస్తకాలలో నమోదు చేసేటప్పుడు మరియు నివేదికలను తయారు చేయనప్పుడు గణకశాస్త్ర ప్రక్రియలను నిష్పక్షపాతముగా నిర్వర్తించవలసిన అవసరాన్ని తెలియజేసే భావన నిష్పక్షపాత సాక్ష్య భావన. వ్యాపార సంస్థ అకౌంటింగ్ పుస్తకాలలో నమోదు చేసిన ప్రతి వ్యవహారానికి రుజువులు ఉండాలి.

WHO IS THE FATHER OF ACCOUNTING?



Source: <https://twitter.com/hashtag/historyofaccounting?src=has>

1.10 Principles of Accounting: According to the American Institute of Certified Public Accountants (AICPA), the principles which have substantial authoritative support become a part of the Generally Accepted Accounting Principles (GAAP). The general acceptance of the accounting principles or practices depends upon how best they satisfy the following criteria

(a) **Relevance:** The relevance principle is an accounting principle that describes in order for financial information to be useful to internal and external users, it must be relevant.

(b) **Objectivity:** Accounting information is should not influence by personal bias or judgment. Objectivity connects reliability and trust in accounting information.

(c) **Feasibility:** The accounting principle should be practicable. The principles should be easy to use and must be feasible; it cannot be complex in nature.

Accounting Principles	
A. Accounting Conventions	B. Accounting Concepts
1. Convention of Disclosure	1. Going Concern Concept
2. Convention of Consistency	2. Accrual Concept
3. Convention of Conservatism	3. Business Entity Concept
4. Convention of Materiality	4. Dual aspect Concept
	5. Money Measurement Concept
	6. Cost Concept
	7. Accounting Period Concept
	8. Realisation Concept
	9. Matching Concept
	10. Objective Evidence Concept

1.10.1 Accounting Conventions: Accounting Conventions denote the traditions, usage, and customs that are in practice. Accounting Conventions need not be a universal common application. Conventions in accounting have been evolved and developed to bring about uniformity in the maintenance of accounts. The most important conventions are as follows

A1. Convention of Disclosure: The purpose of this convention is to communicate all material and relevant facts of financial statements to all stakeholders of the accounting information. The financial information must be presented in such a manner that they disclose fully and fairly.

A2. Convention of Consistency: Consistency idea is very important attributable to the requirement for equivalence, it permits investors and different users of financial statements to simply and properly compares the financial statements of an organization. Convention of Consistency means the same accounting principles should be followed and used for preparing financial statements for different periods, for example, if depreciation is charged on fixed assets under the diminishing balances method, it should be followed over a period of time.

A3. Convention of Conservatism: According to the Convention of Conservatism, the business concerns have to record all anticipated or future losses, however ignore all the anticipated revenues or future revenues till they're realized. The convention followed according to the great saying of "prevention is better than cure". For example, creating the provision for doubtful debts out of current year profits.

A4. Convention of Materiality: According to the Convention of Materiality, only those events should be recorded which have significant material details and ignore insignificant details. Materiality is a concept relates to the importance of the amount of transaction item, or event.

1.10.2 B. Accounting Concepts: Accounting Concepts are the basic rules, assumptions, or conditions upon which accounting are based. Accounting concepts are the generally accepted accounting principles, which form the fundamental basis of preparation of universal acceptable form of financial statements consistently.

B1. Going Concern Concept: According to this concept, the business concern is assumed to have a fairly long life to continue the business, and business transactions are recorded in the accounting books with this point of view. The underlying assumption of going concern is that the entity has neither the intention nor the need, to liquidate or curtail materially the size of its operations.

B2. Accrual Concept: Under the Accrual concept of accounting, profits have to be recorded when they are earned irrespective of received. Expenses, on the alternative hand, have to be recorded when they may be incurred.

B3. Business Entity Concept: This concept implies that a business concern is having a separate entity and it is distinct from the owner. According to this concept, the distinction is made between personal transactions and business transactions of the owner. The real picture of the firm will be available only when we make a distinction between personal transactions and business transactions. The accounting equation that supports the business entity concept is

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

B4. Dual aspect Concept: The Dual aspect Concept is the core of the double-entry system of accounting. It recognizes every business transaction having two-fold aspects, as yielding of the benefit and giving that benefit.

B5. Money Measurement Concept: According to the Money Measurement Concept, business transactions that are capable of being measured in terms of money be only to be recorded in the books of account.

B6. Cost Concept: The values of an asset to be recorded in the accounting books on the basis of historical cost, in other words acquisition cost. Assets are not valued based on market value because these values keep changing from time to time.

B7. Accounting Period Concept: According to this concept, financial statements should be prepared at regular intervals to ascertain the performance of the business concern. The regular interval can be considered an accounting period, it should be normally one year. The periodicity concept facilitates comparing financial statements of different periods.

B8. Realization Concept: The realization concept in accounting also called revenue recognition principle refers to the appliance of accruals concept towards the recognition of revenue (income). As per this principle, revenue is recognized by the vendor once it's attained no matter whether or not money from the transaction has been received or not.

B9. Matching Concept: According to this concept, the expenses for an accounting period should be matched against the related incomes. This concept is based on the accrual concept as it considers the occurrence of expenses and income but doesn't take into account actual inflow or outflow of cash.

B10. Objective Evidence Concept: According to the objectivity concept, business accounting transactions should be free from accountant bias. All accounting records should be presented in financial statements should have objective evidence in the background.

WHAT ARE THE BEST ACCOUNTING SOFTWARES IN INDIA?



1. Tally.ERP 9
2. QuickBooks
3. IndiaZoho
4. BooksMargERP 9+
5. Vyapar
6. MyBooks
7. Busy Accounting
8. Logic
9. Giddh
10. ProfitBooks
11. Saral

Test your Understanding



I. Fill in the Blanks

1. Accounting Process starts with -----
2. Father of Accounting -----
3. ICAI Stands for -----
4. AICPA Stands for -----
5. Investors are ----- users of accounting information

II. True or False

1. Kautilya, also identified as Vishnugupta and Chanakya
2. Book keeping is a preliminary process before accounting
3. Accounting is a part of Book keeping
4. Reporting is the final stage of accounting part
5. Social Accounting is a branch of accounting

III. Multiple Choice Questions (MCQ)

1. Which of the following is called Language of the business?
a) Accountancy b) Economics c) Statistics d) None of these
2. Which of the following is the base for accounting?
a) Transaction b) Book-keeping c) Journal d) Event
3. Identify the external user of accounting information
a) Owners b) Managers c) Employees d) Investors
4. Identify the internal user of accounting information

- a) Government b) Suppliers c) Customers d) Employees
5. Luca Pacioli's, book Summa de Arithmetica, Geometria, Proportion at Proportionality (Review of Arithmetic and Geometric proportions) was published in the year
a) 1494 b) 1449 c) 1469 d) 1479
6. The Institute of Chartered Accountants of India (ICAI) is came into existence in the year
a) 1929 b) 1939 c) 1949 d) 1959
7. Which of the following is not a branch of accounting?
a) Financial Accounting b) Management Accounting
c) Cost Accounting d) Stores Accounting
8. Ram started business with initial investment of Rs.1,00,000/-. it is shown in Balance Sheet as a capital on liabilities side according to
a) Business Entity Concept b) Going Concern Concept
c) Accounting Period concept d) Matching Concept
9. Ravi appointed as a Manager for X&Co for Rs.50,000/- salary per month he is Technically having high expertise, in the books of X&Co as a salary 50,000 only recorded due to which concept
a) Business Entity Concept b) Going Concern Concept
c) Accounting Period concept d) Money Measurement Concept
10. Closing stock is valued at original cost or market price is whichever is less according to
a) Convention of Materiality b) Convention of Conservatism
c) Convention of Disclosure d) None

IV. Short Answer Questions (SAQ)

1. Explain briefly the history of accounting
2. Differences between Book-keeping and Accounting
3. What is the need for Accounting substantiating with your own words?
4. What are the objectives and limitations of Accounting?
5. Explain the process of Accounting.

V. Long Answer Questions (LAQ)

1. Explain in detail various users of Accounting Information
2. Write a detailed note on various branches of accounting?
3. What are the Accounting Principles? write about application of accounting Principles?

VI. Additional Resources for Advanced Learning

Study Material (Handouts):

https://nios.ac.in/media/documents/SrSec320NEW/320_Accountancy_Eng/320_Accountancy_Eng_Lesson1.pdf

https://nios.ac.in/media/documents/SrSec320NEW/320_Accountancy_Eng/320_Accountancy_Eng_Lesson2.pdf

https://nios.ac.in/media/documents/SrSec320NEW/320_Accountancy_Eng/320_Accountancy_Eng_Lesson3.pdf

https://nios.ac.in/media/documents/SrSec320NEW/320_Accountancy_Eng/320_Accountancy_Eng_Lesson4.pdf



Reference Text Books:

1. R L Gupta & V K Gupta, Principles and Practice of Accounting, Sultan Chand & Sons
2. S.P. Jain & K.L Narang, Accountancy-I, Kalyani Publishers

E - Text Books:

<https://icmai.in/upload/Students/Syllabus2016/Foundation/Paper-2New-29012021.pdf>
<http://www.ddegjust.ac.in/studymaterial/mba/cp-104.pdf>

YouTube Links:

<https://www.youtube.com/embed/36r-JAmvB7Q>
<https://www.youtube.com/embed/Dvfl3AdXB9M>
<https://www.youtube.com/embed/aU175xvYgB8>
<https://www.youtube.com/embed/GnE65vO6crQ>
<https://www.youtube.com/embed/Xnif5hCaq2M>
https://www.youtube.com/embed/JjC0VH2_6SI

Power Point Presentations:

<https://www.slideshare.net/YousefHani/introduction-to-accounting>
<https://www.slideshare.net/sukirat91/accounting-concepts-and-conventions>

VII. Suggested Activity

1. Visit a firm (Individual or Group) and observe the maintenance of Book Keeping Process
2. Learn Computer based Accounting system through Tally



Answers



I. Fill in the Blanks

Q.No	1. Identification of the business transactions	2. Luca Pacioli	3. Institute of Chartered Accountants of India	4. American Institute of Certified Public Accountants	5. External Users
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II. True or False

Q.No	1.T	2.T	3.F	4.T	5.T
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III. Multiple Choice Questions (MCQ)

Q.No	1.A	2.B	3.D	4.D	5.A	6.C	7.D	8.A	9.A	10.B
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Glossary



Accounting: Accounting is the exercise of recording, classifying, and reporting on enterprise transactions for evaluating performance of an enterprise.

Book- Keeping: Maintaining records for every business transaction for processing the accounting.

Accounting principles: Also termed as Postulates of accounting which means certain rules and regulations which we follow in process of accounting

Accounting Cycle: Complete procedure of the accounting in a sequential manner

Accounting Equation: $\text{Assets} = \text{Capital} + \text{Liabilities}$

Accounting Conventions: Accounting Conventions denote the traditions, usage and customs which are in practice of maintaining accounting records.

Accounting Concepts: Accounting Concepts are the basic rules, assumptions or conditions of accounting.

Convention of Disclosure: Communication of all material and relevant facts of financial statements to the all stake holders of the accounting information.

Convention of Consistency: Convention of Consistency means the same accounting principles should be followed and used for preparing financial statements for different periods.

Convention of Materiality: Business Transactions should be recorded in accounting books which have significant material details and ignore insignificant details.

Convention of Conservatism: The business concerns have to record all anticipated or future losses, however ignore all the anticipated revenues or future revenues till they're realized.

Business Entity Concept: The business is treated as separate entity and it is distinct from the owner.

Going Concern Concept: The business concern is assumed to have fair long life to continue the business.

Accrual Concept: Incomes have to be recorded when they earned, but expenses have to be recorded when they are incurred.

Dual aspect Concept: Recognizing every business transactions having two fold aspects, as receiver of the benefit and giving that benefit.

Money Measurement Concept: Business transactions that are measured in terms of money be only to be recorded in the books of accounting.

Cost Concept: Recording the values of an asset in accounting books on the basis of historical cost or acquired cost.

Accounting Period Concept: Financial statements should be prepared at regular intervals to ascertain the performance of the business concern. The regular interval can be considered accounting period it should be normally one year.

Realization Concept: Revenue is recognized by the vendor once it's attained no matter whether or not money from the transaction has been received or not.

Matching Concept: According to this concept the expenses for an accounting period should be matched against the related incomes.

Objective Concept: The accounting records should be presented on financial statements should have objective evidence.

FATHER OF ACCOUNTANCY IN INDIA



Shri Kalyan Subramani Aiyar (1859-1940), known as K. S. Aiyar, was a pioneer of commercial and accounting education in India. He started and established educational courses and institutions dedicated to commerce and accounting.



Source: <https://jsaandco.wordpress.com/2016/09/20/father-of-accountancy-in-india/>

CHAPTER -II

JOURNAL

Learning Outcomes

1. Understand the Double Entry System
2. Understand the Classification of Accounts
3. Understand the need for Journal and its sub divisions
4. Understand the process of Journalizing

Contents

- 2.1 Double Entry System
- 2.2 Classification of Accounts
- 2.3 Meaning of Journal
- 2.4 Significance of Journal
- 2.5 Golden rules of Accounting
- 2.6 Process of Journalizing
- 2.7 Practical Illustrations

CHAPTER -II

JOURNAL

2.1 Double Entry System

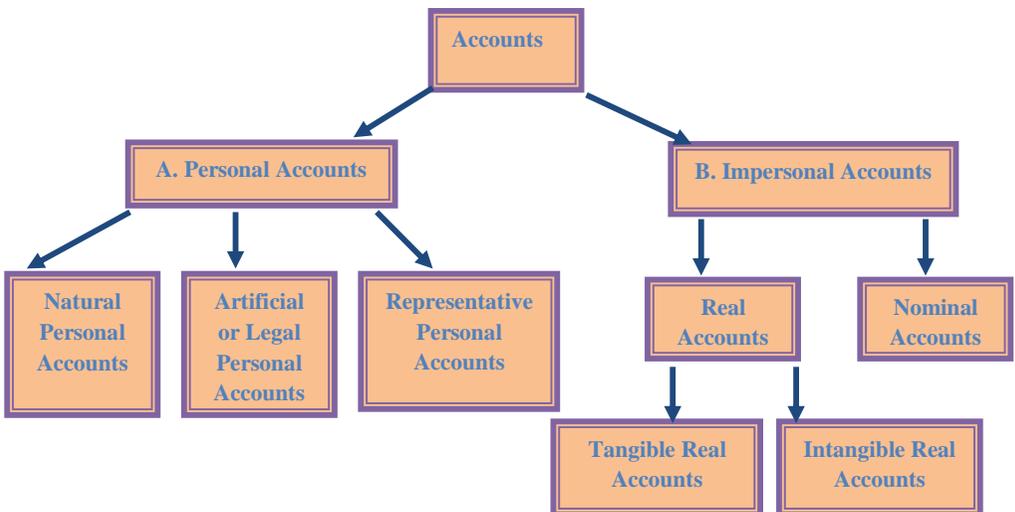
Double-entry book-keeping is a system of book-keeping where every entry to an account requires a corresponding and opposite entry to a special account. The double-entry system has two equal and corresponding sides referred to as debit and credit for every business transaction. The left-hand side is debit and therefore the right-hand side is a credit of an account.

Advantages of Double Entry System

- ❖ Double entry system maintains complete record of all business transactions
- ❖ Double entry system is helpful for measuring arithmetical accuracy of the account books
- ❖ Double entry system maintains personal and impersonal accounts and both the effects of the transactions are recorded.
- ❖ Double entry system is helpful for detection and prevention of errors and frauds
- ❖ Double entry system provides the complete picture of the business concern. Hence, decisions can be made perfectly based on the accounting information.

2.2 Classification of Accounts

It is highly significant to know the classification of accounts and their treatment in a double-entry system of accounts for recording the business transactions properly.



చిట్టా

జంట పద్దు విధానం

జంట పద్దు విధానం లో ప్రతి వ్యాపార వ్యవహారంలో ఈ రెండు అంశాలను గుర్తించి, ఒక అంశానికి డెబిట్ గాను, మరొక అంశాన్ని క్రెడిట్ గాను భావించి, ఖాతా పుస్తకాలను నిర్వహిస్తారు. ప్రతి వ్యాపార వ్యవహారంలో ఈ రెండు అంశాలను గుర్తించడానికి ప్రయోజనం పొందే అంశము మరియు ప్రయోజనాన్ని సమకూర్చే అంశముగా విభజించి డెబిట్ మరియు క్రెడిట్ లను నిర్ణయిస్తారు. జంట పద్దు విధానం లో డెబిట్ మరియు క్రెడిట్ లను నిర్ణయించడానికి ఖాతాలను మూడు రకాలుగా వర్గీకరించి ప్రతీ ఖాతా కు డెబిట్ మరియు క్రెడిట్ కు సంబంధించిన సూత్రాలను అందించడం జరిగింది.

జంట పద్దు విధానం లో వ్యాపార లావాదేవీలు డెబిట్లు మరియు క్రెడిట్ల పరంగా నమోదు చేయబడతాయి. ఒక ఖాతాలో డెబిట్ మరొక క్రెడిట్ను భర్తీ చేస్తుంది కాబట్టి, అన్ని డెబిట్ల మొత్తం అన్ని క్రెడిట్ల మొత్తానికి సమానంగా ఉండాలి. బుక్ కీపింగ్ యొక్క డబుల్-ఎంట్రీ సిస్టమ్ అకౌంటింగ్ ప్రక్రియను ప్రామాణీకరిస్తుంది మరియు తయారు చేసిన ఆర్థిక నివేదికల ఖచ్చితత్వాన్ని మెరుగుపరుస్తుంది, మరియు లోపాలను మెరుగుపరచడానికి అనుమతిస్తుంది.

ఖాతాలు రకాలు

1. **వ్యక్తిగత ఖాతా:** వ్యాపార వ్యవహారాలలో వివిధ రకాలైన వ్యక్తులకు సంబంధించిన వ్యవహారాలను నమోదు చేయడానికి వ్యక్తిగత ఖాతాలను నిర్వహిస్తారు. ఈ ఖాతాలను సహజ వ్యక్తిగత ఖాతాలు, కృత్రిమ వ్యక్తిగత ఖాతాలు మరియు ప్రాతీనిధ్యపు వ్యక్తిగత ఖాతాలుగా నిర్వహించడం జరుగుతుంది. సాధారణ వ్యక్తులకు సంబంధించిన వ్యవహారాలు సహజ వ్యక్తిగత ఖాతాలుగా, వివిధ రకాల సంస్థలకు సంబంధించిన వ్యాపార వ్యవహారాలను కృత్రిమ వ్యక్తిగత ఖాతాలుగా, ఇతర వ్యక్తులకు చెల్లించవలసిన లేదా ఇతర వ్యక్తుల నుండి రావలసిన అంశాలకు సంబంధించిన వ్యవహారాలను ప్రాతీనిధ్యపు వ్యక్తిగత ఖాతాలుగా నిర్వహించడం జరుగుతుంది. వ్యక్తిగత ఖాతాలలో వ్యవహారాలను డెబిట్ మరియు క్రెడిట్ అంశాలుగా నమోదు చేయడానికి ఈ క్రింది సూత్రమును ఉపయోగిస్తారు

డెబిట్: ప్రయోజనం పొందిన వ్యక్తిగత ఖాతా

క్రెడిట్: ప్రయోజనం ఇచ్చిన వ్యక్తిగత ఖాతా

A. Personal Accounts

Personal accounts in business operations are related to individuals, debtors and creditors, firms, companies, etc. These accounts are related to natural persons, artificial persons, and representative persons.

a) Natural Personal Accounts: These accounts are relating to transactions of human beings like Sai, Santhosh, etc

b) Artificial Personal Accounts or Legal Personal Accounts: Artificial Persons or Legal Persons having existence by the creation of law and thereby having a legal entity. In Business point of view, business entities are having separate legal entity and they are recognized as legal persons. For example, X&Co, Clubs, Societies, Institutions, etc.

c) Representative Personal Accounts: Representative Personal accounts are not in the name of any persons or institutions but are represented as personal accounts. These are the accounts that represent a certain person or group of persons. For example, accounts like Prepaid and Outstanding salaries which represent the amount paid in advance and payable to the employees respectively.

B. Impersonal Accounts

Impersonal accounts are relating to Assets, Expenses, Losses, Incomes, and Gains. Simply we can say that other than personal accounts. Impersonal accounts consist of Real accounts and Nominal Accounts.

a) Real Accounts: Accounts that are related to assets of the business concern these accounts are again classified as Tangible Real Accounts and Intangible Real Accounts.

i) Tangible Real Accounts: These accounts are relating to tangible assets which are those assets identified physically. For example, land and Buildings, Machinery, Furniture, etc.

ii) Intangible Real Accounts: These accounts are relating to intangible assets which are those assets not identified physically. For example, Goodwill, Patents, Copy rights, Trade marks.

2.3 Meaning of Journal

The word Journal is derived from the French word "Jour" which means diary. Journal is a daily record of business transactions. Journal records the transactions in chronological order. Journal is also known as the book of original entry or Primary Book. All the business transactions are recorded first in this book under the double-entry system. The Process of recording the business transactions into the journal is called journalizing.

2. వాస్తవిక ఖాతాలు: వ్యాపార వ్యవహారాలలో వివిధ రకాలైన ఆస్తులకు సంబంధించిన వ్యవహారాలను ఖాతా పుస్తకాలలో నమోదు చేయడానికి వాస్తవిక ఖాతాలు నిర్వహిస్తారు. వాస్తవిక ఖాతాలలో వ్యవహారాలను డెబిట్ మరియు క్రెడిట్ అంశాలుగా నమోదు చేయడానికి ఈ క్రింది సూత్రమును ఉపయోగిస్తారు

డెబిట్: సంస్థ లోనికి వచ్చిన ఆస్తి ఖాతా

క్రెడిట్: సంస్థ నుండి బయటకు వెళ్లిన ఆస్తి ఖాతా

3. నామమాత్రపు ఖాతాలు: వ్యాపార వ్యవహారాలలో వివిధ రకాలైన ఖర్చులు, నష్టాలు, ఆదాయాలు, లాభాలకు చెందిన అంశాలను నమోదు చేయడానికి నామమాత్రపు ఖాతాలు నిర్వహిస్తారు. నామమాత్రపు ఖాతాలలో వ్యవహారాలను డెబిట్ మరియు క్రెడిట్ అంశాలుగా నమోదు చేయడానికి ఈ క్రింది సూత్రమును ఉపయోగిస్తారు

డెబిట్: అన్ని రకాలైన ఖర్చులు మరియు నష్టాలు

క్రెడిట్: అన్ని రకాలైన ఆదాయాలు మరియు లాభాలు

చిట్టా (జర్నల్): జర్నల్ అనే పదం ఫ్రెంచ్ పదం "జోర్" నుండి వచ్చింది, అంటే రోజు వారి డైరీ అని అర్థం. జర్నల్ అనేది వ్యాపార లావాదేవీల యొక్క రోజువారీ రికార్డు. జర్నల్, వ్యాపార లావాదేవీలను, వ్యవహారాలు జరిగిన కాలక్రమంలో నమోదు చేస్తుంది. జర్నల్ ను బుక్ ఆఫ్ ఒరిజినల్ ఎంట్రీ లేదా ఫైమరీ బుక్ అని కూడా అంటారు. డబుల్ ఎంట్రీ సిస్టమ్ కింద ఈ పుస్తకంలో అన్ని వ్యాపార లావాదేవీలు ముందుగా నమోదు చేయబడతాయి. వ్యాపార లావాదేవీలను జర్నల్ లో రికార్డ్ చేసే ప్రక్రియను జర్నలిజింగ్ అంటారు.

Identify the Debit or Credit to the following?




CATEGORY	BALANCE	INCREASE	DECREASE
Assets			
Liabilities			
Capital			
Income			
Losses			
Expenses			

Proforma of Journal:

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

2.4 Significance of Journal:

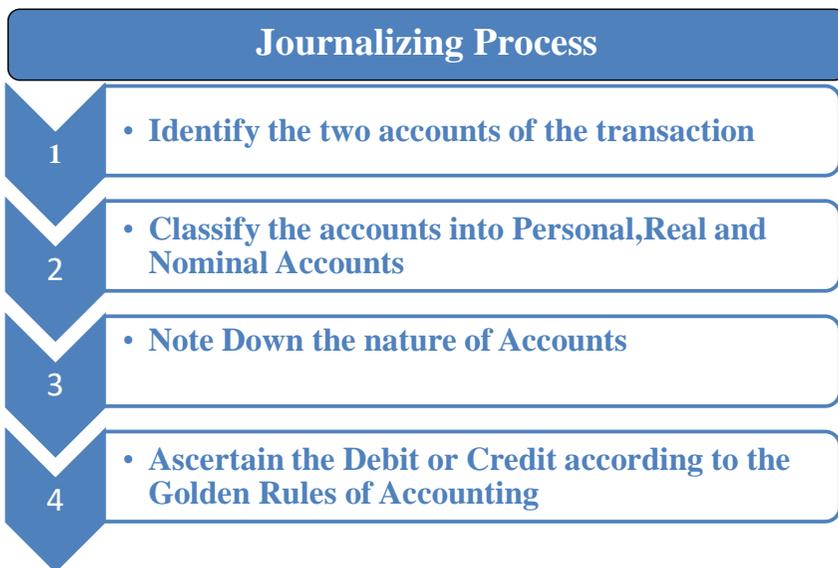
- ❖ Journal provides the business data in chronological order which will help us to process the verification simply and easily
- ❖ Journal Provides Complete Record of Business Operations
- ❖ Journal helps to detect and prevent errors and frauds
- ❖ The journal is treated as first record in the process of recording business transactions. It is helpful for posting business transactions to the ledger.

2.5 Golden rules of Accounting:

Golden Rules of Accounting



2.6 Journalizing Process:



2.7 Practical Illustrations

2.7.1. Journalize the following transactions in the books of Sony.

Date	Transactions	Amount
1-6-2021	Sony Started business with capital	1,00,000
2-6-2021	Purchased goods for cash.	20,000
5-6-2021	Sold goods for cash.	50,000
30-6-2021	Salaries Paid	10,000
30-6-2021	Office Expenses	5,000
30-6-2021	Goods Purchased from Rajesh on credit	25,000

Solution:

Approach

Transaction	Step I Find out two accounts	Step II Classification of Accounts	Step III Identify the Characteristics of the account	Step IV Ascertain Debit and Credit according to Golden Rule of Accounting
Sony Started business with capital	Cash A/c Capital A/c	Real A/c Personal A/c	Cash comes in Giver	Debit - Cash A/c Credit - Capital A/c
Purchased goods for cash.	Purchase A/c Cash A/c	Nominal A/c Real A/c	Expenses Cash goes out	Debit - Purchase A/c Credit - Cash A/c
Sold goods for cash.	Cash A/c Sales A/c	Real A/c Nominal A/c	Cash comes in Income	Debit - Cash A/c Credit - Sales A/c
Salaries Paid	Salaries A/c Cash A/c	Nominal A/c Cash A/c	Expenses Cash goes out	Debit - Salaries A/c Credit - Cash A/c
Office Expenses	Office expenses A/c Cash A/c	Nominal A/c Cash A/c	Expenses Cash goes out	Debit - Office Expenses A/c Credit - Cash A/c
Goods Purchased from Rajesh on credit	Purchase A/c Rajesh A/c	Nominal A/c Personal A/c	Expenses Giver	Debit - Purchase A/c Credit - Rajesh A/c

Journal Entries in the Books of Sony

Date	Particulars	L. F	Debit Amount(Rs)	Credit Amount(Rs)
1-6-2021	Cash A/c Dr To Capital A/c (Being business started with cash)		1,00,000	1,00,000
2-6-2021	Purchase A/c Dr To Cash A/c (Being goods purchased on cash)		20,000	20,000
5-6-2021	Cash A/c Dr To Sales A/c (Being goods sold for cash)		50,000	50,000
30-6-2021	Salaries A/c Dr To Cash A/c (Being salaries paid)		10,000	10,000
30-6-2021	Office Expenses A/c Dr To Cash A/c (Being office expenses paid)		5,000	5,000
30-6-2021	Purchases A/c Dr		25,000	

	To Rajesh A/c (Being goods purchased from Rajesh on credit)			25,000
--	--	--	--	--------

Journal Entries in the books of Shafi				
Date	Particulars	L · F	Debit Amount(Rs)	Credit Amount(Rs)
1-7-2021	Cash A/c Dr To Capital A/c (Being business commenced with cash)		2,00,000	2,00,000
2-7-2021	Purchases A/c Dr To Cash A/c (Being goods purchased on cash)		1,00,000	1,00,000
3-7-2021	Purchases A/c Dr To Ramesh A/c (Being goods purchased on credit)		50,000	50,000
5-7-2021	Cash A/c Dr To Sales A/c (Being goods sold for cash)		75,000	75,000
8-7-2021	Ravi A/c Dr To Sales A/c (Being goods sold on credit)		50,000	50,000
10-7-2021	Ramesh A/c Dr To Cash A/c (Being cash paid to Ramesh)		50,000	50,000
12-7-2021	Cash A/c Dr To Ravi A/c (Being cash received from Ravi)		50,000	50,000
14-7-2021	Furniture A/c Dr To Cash A/c (Being furniture purchased)		25,000	25,000
18-7-2021	Office expenses A/c Dr To Cash A/c (Being Office expenses paid)		5,000	5,000
21-7-2021	Machinery A/c Dr To Cash A/c (Being machinery purchased)		2,00,000	2,00,000
22-7-2021	Cash A/c Dr To Furniture A/c (Being furniture sold)		20,000	20,000
24-7-2021	Sales Returns A/c Dr To Ravi A/c (Being goods returned by customer Ravi)		5,000	5,000

25-7-2021	Ramesh A/c To Purchase Returns A/c (Being goods returned to supplier Ramesh)	Dr	2,000	2,000
28-7-2021	Commission A/c To Cash A/c (Being commission paid)	Dr	10,000	10,000
30-7-2021	Rent A/c To Cash A/c (Being Rent paid)	Dr	25,000	25,000
31-7-2021	Salaries A/c To Cash A/c (Being salaries paid)	Dr	50,000	50,000

2.7.2 Journalize the following transactions in the books of Shafi.

Date	Transactions	Amount
1-7-2021	Shafi started business with cash	2,00,000
2-7-2021	Goods purchased for cash	1,00,000
3-7-2021	Goods purchased on credit from Ramesh	50,000
5-7-2021	Goods sold for cash	75,000
8-7-2021	Goods sold to Ravi on credit	50,000
10-7-2021	Cash paid to Ramesh	50,000
12-7-2021	Cash received from Ravi	50,000
14-7-2021	Furniture purchased	25,000
18-7-2021	Office expenses	5,000
21-7-2021	Machinery purchased	2,00,000
22-7-2021	Furniture sold	20,000
24-7-2021	Goods returned from Ravi	5,000
25-7-2021	Goods returned to Ramesh	2,000
28-7-2021	Commission paid	10,000
30-7-2021	Rent Paid	25,000
31-7-2021	Salaries paid	50,000

Compound Journal Entry: A compound journal entry is passed when two or more transactions taken place on the same day relating to a particular account or one particular nature may be recorded by means of a single journal entry instead of a separate entry for each transaction. A compound journal entry is an accounting entry in which there is more than one debit, more than one credit, or more than one of both debits and credits in a passed journal entry.

Illustration 3

Journalize the following transactions in the books of Sharma.

Date	Transactions	Amount
1-7-2021	Sharma started business with the following.	
	Cash	1,00,000
	Bank Loan	50,000
	Furniture	50,000
	Machinery	1,00,000
	Land and Building	10,00,000
2-7-2021	Purchased goods from Sruthi	1,00,000
3-7-2021	Goods sold to Shankar	50,000
4-7-2021	Goods purchased	25,000
6-7-2021	Goods sold	75,000
8-7-2021	Cash paid to Sruthi in full settlement	95,000
14-7-2021	Cash received from Shankar	49,000
	Allowed discount	1,000
15-7-2021	Wages paid	10,000
16-7-2021	Office expenses	15,000
20-7-2021	Bank loan repayment	25,000
22-7-2021	Cash with drawn from bank for personal use	10,000
23-7-2021	Cash with drawn from bank for office use	15,000
25-7-2021	Furniture purchase	50,000
28-7-2021	Machinery purchased	25,000
30-7-2021	Rent paid	20,000
31-7-2021	Salaries paid	30,000

Solution:

Journal entries of in the books of Sharma

Date	Particulars	L · F	Debit Amount(Rs)	Credit Amount(Rs)
1-7-2021	Cash A/c	Dr	1,00,000	
	Furniture A/c	Dr	50,000	
	Machinery A/c	Dr	1,00,000	
	Land and Buildings A/c	Dr	10,00,000	
	To Bank Loan A/c			50,000
	To Capital A/c			12,00,000
	(Being business started with various assets and liabilities)			

2-7-2021	Purchase A/c To Sruthi A/c (Being goods purchased on credit)	Dr	1,00,000	1,00,000
3-7-2021	Shankar A/c To Sales A/c (Being goods sold on credit)	Dr	50,000	50,000
4-7-2021	Purchase A/c To Cash A/c (Being goods purchased for cash)	Dr	25,000	25,000
6-7-2021	Cash A/c To Sales A/c (Being goods sold for cash)	Dr	75,000	75,000
8-7-2021	Sruthi A/c To Cash A/c To Discount received A/c (Being sruthi account settled)	Dr	1,00,000	95,000 5,000
14-7-2021	Cash A/c Discount allowed A/c To ShankarA/c (Being Shankar account settled with 1,000 Rs discount)	Dr Dr	49,000 1,000	50,000
15-7-2021	Wages A/c To Cash A/c (Being wages paid)	Dr	10,000	10,000
16-7-2021	Office expenses A/c To Cash A/c (Being Office expenses paid)	Dr	15,000	15,000
20-7-2021	Bank A/c To Cash A/c (Being bank loan partial amount paid)	Dr	25,000	25,000
22-7-2021	Drawings A/c To Bank A/c (Being cash withdrawn for personal use)	Dr	10,000	10,000
23-7-2021	Cash A/c To Bank A/c (Being cash withdrawn for office use)	Dr	15,000	15,000
25-7-2021	Furniture A/c To Cash A/c (Being furniture purchased)	Dr	50,000	50,000
28-7-2021	Machinery A/c To Cash A/c (Being machinery purchased)	Dr	25,000	25,000
30-7-2021	Rent A/c To Cash A/c (Being Rent paid)	Dr	20,000	20,000
31-7-2021	Salaries A/c To Cash A/c (Being salaries paid)	Dr	30,000	30,000

Test your Understanding



I. Fill in the Blanks

1. The word Journal is derived from -----
2. Journal is also called -----
3. L.F Means - -----
4. Artificial personal accounts are also called as -----
5. Impersonal accounts are -----

II. True or False

1. Journal follows the chronological order
2. Journal is a secondary entry in accounting
3. Journal is Book of original entry
4. Journal is an account
5. Compound journal entries have more than one account one their debit side or credit side or on both sides

III. Multiple Choice Questions (MCQ)

1. Which of the following is called Book of original entry?
a) Journal b) Ledger c) Book-keeping d) Account
2. Salary account is classified under
a) Personal A/c b) Real A/c c) Nominal A/c d) Valuation A/c
3. Machinery account is classified under
a) Personal A/c b) Real A/c c) Nominal A/c d) Valuation A/c

4. Purchases account is classified under

a) Personal A/c b) Real A/c c) Nominal A/c d) Valuation A/c

5. Sales account is classified under

a) Personal A/c b) Real A/c c) Nominal A/c d) Valuation A/c

6. Rent received account is classified under

a) Personal A/c b) Real A/c c) Nominal A/c d) Valuation A/c

7. Life Insurance Corporation of India account is classified under

a) Personal A/c b) Real A/c c) Nominal A/c d) Valuation A/c

8. Provision for depreciation account is classified under

a) Personal A/c b) Real A/c c) Nominal A/c d) Valuation A/c

9. Provision for doubtful debts account is classified under

a) Personal A/c b) Real A/c c) Nominal A/c d) Valuation A/c

10. Investments account is classified under

a) Personal A/c b) Real A/c c) Nominal A/c d) Valuation A/c

IV. Short Answer Questions (SAQ)

1. What is journal and explain the advantages of journal

2. What is Double Entry System? and explain the advantages of Double Entry System.

3. Explain the Golden Rules of Accounting.

4. Show the classification of accounts

5. How do you justify Journal is helpful for detection and preventing the errors and frauds

V. Long Answer Questions (LAQ)

1. Journalize the following transaction in the books of Suresh.

Date	Transactions	Amount
1-5-2021	Started business with the following.	
	Cash	2,00,000
	Bank Overdraft	1,50,000
	Furniture and fittings	1,50,000
	Computers	2,00,000
	Land and Building	20,00,000
2-5-2021	Purchased goods from Ravi for cash (trade discount 10%)	1,00,000
3-5-2021	Goods sold to Raju with trade discount 20%	75,000
4-5-2021	Goods purchased on credit from Roshan	55,000
6-5-2021	Goods sold to Shanthi on credit	65,000
8-5-2021	Cash paid to Roshan in full settlement	50,000
14-5-2021	Cash received from shanthiin full settlement discount allowed	64,000 1,000
15-5-2021	Labour Charges	20,000
16-5-2021	Office expenses	25,000
20-5-2021	Advertisements expenses	15,000
22-7-2021	Cash with drawn from bank for personal use	20,000
23-5-2021	Cash with drawn from bank for office use	25,000
25-5-2021	Loan taken from Ratnam	50,000
28-5-2021	Cash paid to Ratnam	25,000
30-5-2021	Rent paid	10,000
31-5-2021	Salaries paid	40,000

2. Journalise the following transaction in the books of Dinesh .

Date	Transactions	Amount
1-3-2021	Dinesh started business with cash	15,00,000
1-3-2021	Purchased goods from Raju for cash and allowed trade discount 10%, cash discount 10%	50,000
2-3-2021	Goods sold to Ramu with trade discount 20% and Cash Discount 20%	50,000
4-3-2021	Goods purchased on credit from Ranjith	75,000
6-3-2021	Goods sold to Rakesh on credit	55,000
7-3-2021	Cash paid to Ranjith in full settlement	70,000
10-3-2021	Cash received from Rakesh in full settlement	50,000

12-3-2021	Wages paid	10,000
14-3-2021	Printing and stationary expenses	5,000
17-3-2021	Commission paid	5,000
18-3-2021	Goods returned from customers	10,000
20-3-2021	Goods returned to suppliers	15,000
22-3-2021	Machinery purchased	50,000
22-3-2021	Installation expenses of Machinery	5,000
26-3-2021	Telephone charges	2,000
30-3-2021	Salaries paid	50,000

VI. Additional Resources for Advanced Learning

Study Material (Handouts):

https://nios.ac.in/media/documents/SrSec320NEW/320_Accountancy_Eng/320_Accountancy_Eng_Lesson5.pdf



Reference Text Books:

1. R L Gupta & V K Gupta, Principles and Practice of Accounting, Sultan Chand & Sons
- 2.S.P. Jain & K.L Narang, Accountancy-I, KalyaniPublishers
- 3.Tulasian, Accountancy -I, Tata McGraw HillCo.

E - Text Books:

<https://icmai.in/upload/Students/Syllabus2016/Foundation/Paper-2New-29012021.pdf>
<https://www.icsi.edu/media/webmodules/publications/FULL%20FAA%20PDF.pdf>

YouTube Links:

<https://www.youtube.com/embed/1-M2CFREcPM>

Power Point Presentations:

<https://www.slideshare.net/GirdharRatne/introduction-to-journal-entry-167112007>

VII. Suggested Activity

1. Visit a firm (Individual or Group) and observe the process of recording in Primary Book
2. Problem Solving Exercises
3. Learn Computer based Accounting system through tally



Answers



I. Fill in the Blanks

Q.No	1. French word Jour	2. Primary Book or Day Book or Book of Original entry	3. Ledger Folio	4. Legal Person	5. Real Accounts and Nominal Accounts
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II. True or False

Q.No	1.T	2.F	3.T	4.F	5.T
------	-----	-----	-----	-----	-----

III. Multiple Choice Questions (MCQ)

Q.No	1.A	2.C	3.B	4.C	5.C	6.C	7.A	8.D	9.D	10.B
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Glossary



Double-Entry System: While recording the business transactions into journal the system which recognise two fold aspects for every transaction and recording one aspect as debit and another aspect as credit is called Double-Entry System

Personal Accounts: Personal accounts in business operations are related to individuals, debtors and creditors, firms, companies, etc.

Natural Personal Accounts: These accounts are relating to transactions of human beings like Sai, Santhosh, etc

Artificial Personal Accounts or Legal Personal Accounts: Artificial Persons or Legal Persons having existence by the creation of law and thereby having legal entity

Representative Personal Accounts: Representative Personal accounts are not in the name of any persons or institutions but are represented as personal accounts.

Impersonal Accounts: Impersonal accounts are relating to assets, Expenses, Losses, Incomes and gains. Simply we can say other than personal accounts.

Real Accounts: Accounts which are related to assets of the business concern these accounts are again classified as Tangible Real Accounts and Intangible Real Accounts.

Tangible Real Accounts: These accounts are relating to tangible assets which are those assets identified physically. For example, land and Buildings, Machinery, Furniture etc

Intangible Real Accounts: These accounts are relating to intangible assets which are those assets not identified physically. For example, Patents, Copy rights, Trade marks.

Valuation accounts: A valuation account is paired with an asset or liability account, and offsets the value of the assets or liabilities in the paired account. For example, provision for doubtful debts and provision for depreciation account etc.

Journal: Journal is a daily record of business transactions. Journal records the transactions in a chronological order.

Journalizing: The process of recording the business transactions in journal.

Identify the Debit or Credit to the following?



CATEGORY	BALANCE	INCREASE	DECREASE
Closing Stock			
Bank Overdraft			
Salaries			
Commission Received			
Lossess			

CHAPTER -III

LEDGER

Learnin Outcomes

- 1.Understand the Concept of Ledger and Ledger Posting
- 2.Understand the Importance of Ledger
- 3.Understand the advantages of Ledger
- 4.Understand the relationship between Journal and Ledger

Contents

- 3.1 Introduction to Ledger
- 3.2 Meaning and Definition of Ledger
- 3.3 Significance of Ledger
- 3.4 Advantages of Ledger
- 3.5 Format of Ledger
- 3.6 Ledger Posting and Balancing Process
- 3.7 Differences between Journal and Ledger
- 3.8 Practial Illustrations

CHAPTER -III

LEDGER

3.1 Introduction to Ledger

Ledger is a book, which is the principal book of accounts. The ledger contains all categories of Personal, Real, Nominal accounts. Ledgers maintain similar business transactions relating to the particular nature of accounts specifically at one separate place. The ledger can depict the true position of the accounts on a specific date. Numerous transactions are taken place in daily business operations. All those transactions are recorded in the Journal according to their chronological order. Transactions relating to one particular aspect are recorded in different places, and hence journal cannot provide the net results of a particular nature account at any given specific date. To overcome this situation there is the dire need arises to maintain similar business transactions relating to the particular nature of accounts specifically at one separate place. The transactions recorded in the journal are transferred to another book called Ledger. The process of transferring journal entries in the ledger is called ledger posting.

3.2 Meaning and Definition of Ledger

Ledger is a book of all accounts, it is in the form of 'T' shape, the left-hand side is considered side Debit, and the right-hand side is considered as Credit. The dual aspect of the double-entry system of accounting for each business transaction is recorded account-wise in the ledger.

According to Merriam-Webster "A book containing accounts to which debits and credits are posted from books of original entry"

According to J.R.Batliboi, "The Ledger is the chief book of accounts, and it is in this book that all the business transactions would ultimately find their place under their accounts in duly classified form"

3.3 Significance of Ledger

The ledger is most important because it helps the business concerns to monitor and control financial operations. Ledger provides full information relating to various business transactions in summary form. It also provides the tools for the analysis of accounts and transactions. Ledger provides the complete record of business operations in a permanent manner.

3.4 Advantages of Ledger

- ❖ Ledger maintains data in a classified form of data which is highly useful to understand the net results of a particular nature of transactions for a specific period
- ❖ Ledger provides perfect classification of income and expenses. Which is highly useful for auditing?

ఆవర్ణా

ఆవర్ణా: ఆవర్ణా అనేది ఒక ప్రత్యేక పుస్తకం, దీనిని ప్రధాన ఖాతాల పుస్తకం అని కూడా అంటారు. చిట్టాలో వ్రాసిన చిట్టా పద్ధులను బదిలీ చేయడానికి కావలసిన వ్యక్తిగత, వాస్తవిక, నామమాత్రపు ఖాతాలు అన్ని ఆవర్ణా లో ఉంటాయి. చిట్టాలో వ్రాసిన డెబిట్ మరియు క్రెడిట్ అంశాలకు సంబంధించి వాటి యొక్క ఖాతాలను ఆవర్ణాలో బదిలీ చేయబడతాయి. ఈ విధంగా బదిలీ చేసే ప్రక్రియను ఆవర్ణాలో నమోదు అని అంటారు. బదిలీ ప్రక్రియ పూర్తయిన తరువాత ఒక నిర్ణీత ఖాతా వివిధ వ్యవహారాలు యొక్క నికర ఫలితాన్ని తెలుసుకోవడానికి ఆవర్ణా ఖాతాలను నిల్వలు తేల్చడం జరుగుతుంది. చిట్టా పద్ధులు చిట్టాలో వ్యాపార వ్యవహారాలు జరిగిన కాల క్రమము ఆధారంగా వ్రాయడం జరుగుతుంది అందువలన ప్రత్యేక స్వభావానికి సంబంధించిన ఒకే రకమైన వ్యాపార లావాదేవీల నికర ఫలితాన్ని తెలియజేయలేదు, ఈ పరిస్థితిని అధిగమించడానికి అకౌంటింట్లు ప్రత్యేక స్వభావానికి సంబంధించిన ఒకే రకమైన వ్యాపార లావాదేవీలను ప్రత్యేకంగా ఒక ప్రత్యేక ప్రదేశంలో నిర్వహిస్తారు. వీటినే ఖాతాలు అని అంటారు. ఆవర్ణా అనేది అన్ని రకాల ఖాతాలు కలిగినటువంటి పుస్తకం, ఇది 'T' ఆకారంలో ఉంటుంది, ఎడమ వైపు డెబిట్ మరియు కుడివైపు క్రెడిట్ గా పరిగణించబడుతుంది. డబుల్ ఎంట్రీ అకౌంటింగ్ సిస్టమ్ ప్రకారం ప్రతీ వ్యాపార లావాదేవీకి సంబంధించిన రెండు అంశాలు ఆవర్ణా లో ఖాతాల వారీగా నమోదు చేయబడతాయి.

ఆవర్ణా ఆవశ్యకత: ఆవర్ణా డేటాను వర్గీకృత డేటా రూపంలో నిర్వహిస్తుంది, ఇది నిర్దిష్ట వ్యవధిలో లావాదేవీల యొక్క నిర్దిష్ట స్వభావం యొక్క నికర ఫలితాలను అర్థం చేసుకోవడానికి అత్యంత ఉపయోగకరంగా ఉంటుంది. ఆవర్ణా, ఆదాయం మరియు ఖర్చుల యొక్క సరైన వర్గీకరణను అందిస్తుంది. ఆడిటింగ్ కోసం ఆవర్ణా బాగా ఉపయోగపడుతుంది. ముగింపు లెక్కలను తయారుచేయడానికి ఆవర్ణా సహాయపడుతుంది. బడ్జెట్లు ఖచ్చితంగా తయారుచేయడానికి ఆవర్ణా ఉపయోగపడుతుంది.

చిట్టాకు మరియు ఆవర్ణా కు గల వ్యత్యాసములు : చిట్టా తొలిపద్ధు పుస్తకము, ఆవర్ణా మలిపద్ధు పుస్తకము. ముగింపు లెక్కలు తయారీకి చిట్టా ఉపయోగపడదు, ఆవర్ణా ముగింపు లెక్కలు తయారీకి ఉపయోగపడుతుంది. చిట్టాను - కొనుగోలు పుస్తకము, కొనుగోలు వాపసులు పుస్తకము, అమ్మకాల పుస్తకం, అమ్మకాల వాపసులు పుస్తకము, నగదు పుస్తకం, పనులు బిల్లులు పుస్తకం, చెల్లింపు బిల్లులు పుస్తకం, అసలు చిట్టాగా ఉప విభజన చేస్తారు. ఆవర్ణాను - సాధారణ ఆవర్ణా - రుణగ్రస్తులు లేదా అమ్మకాలు ఆవర్ణా - రుణదాతలు లేదా కొనుగోలు ఆవర్ణాగా ఉప విభజన చేస్తారు.

- ❖ Ledger is helpful for preparation of Final Accounts
- ❖ Ledger provides easy reference of particular nature of transactions for a specific period
- ❖ Ledger is useful for preparation of budgets accurately

3.5 Format of Ledger and Ledger Posting Process

Dr				----- Account				Cr	
Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount		

3.6 Ledger Posting Process and Ledger Balancing Process

Ledger Posting and Ledger Balancing Process	
Step: I	While posting in ledger debit side of the account, the word 'To' should be written first and followed by credit part of the journal entry
Step: II	While posting in ledger credit side of the account, the word 'By' should be written first and followed by debit part of the journal entry
Step: III	After posting the journal entries for every specific period, accounts need to be balanced to know the net results of the accounts
Step: IV	After completion of specific period, we need to check the amount columns on both the sides of the account to find out which side of the account is having high amount.
Step: V	If the total of the debit side of the account is more than the credit side total, the difference amount is written on the credit side of the account at the end of the specific period as "By Balance c/d" and later after the totals column the amount is written on the debit side as "To Balance b/d" representing debit balance.
Step: VI	If the total of the credit side of the account is more than the debit side total, the difference amount is written on the debit side of the account at the end of the specific period as "To Balance c/d" and later after the totals column the amount is written on the credit side as "By Balance b/d" representing credit balance.

3.7 Differences between Journal and Ledger

S.No	Journal	Ledger
1	Journal is book of original entry, it is also called Primary Book	Ledger is Secondary Book , it is also called summary of all accounts
2	Journal is subsidiary book of accounts	Ledger is a permanent books of accounts
3	Transactions are recorded in the journal in chronological order	Transactions are posted in the ledger in classified manner from the journal.
4	Journal cannot provide a net result of similar nature of transactions for a specific period	Ledger provides net result of similar nature of transactions for a specific period
5	Recording of the transaction in journal is called journalizing.	Recording of transactions in the ledger is called posting.
6	Vouchers are the source for journal entries	Journal entries are the source for Ledger postings
7	Journal is maintained in a statement format	Ledger is maintained in an account format
8	Journal is not doing any balancing activity of the transactions	Ledger accounts are balanced to know the net result of the specific account
9	Journal is subdivided into Cash Book, Petty Cash Book, Sales book, sales returns book, purchases book, purchase returns book, Bills receivable Book, Bills payable Book.	Ledger is sub-divided into General Ledger, Debtors/Sales Ledger, and Creditors/Purchases Ledger.

3.8 Practical Illustrations

3.8.1 Journalize the following transactions and show the Ledger in the books of Sony.

Date	Transactions	Amount
1-6-2021	Sony Started business with capital	1,00,000
2-6-2021	Purchased goods for cash.	20,000
5-6-2021	Sold goods for cash.	50,000
30-6-2021	Salaries Paid	10,000
30-6-2021	Office Expenses	5,000
30-6-2021	Goods Purchased from Rajesh on credit	25,000

Solution:

Step I. Journalize the transactions by using the following approach

Transaction	Step I Find out two accounts	Step II Classification of Accounts	Step III Identify the Characteristics of the account	Step IV Ascertain Debit and Credit according to Golden Rule of Accounting
Sony Started business with capital	Cash a/c Capital a/c	Real a/c Personal a/c	Cash comes in Giver	Debit - Cash a/c Credit - Capital a/c
Purchased goods for cash.	Purchase a/c Cash a/c	Nominal a/c Real a/c	Expenses Cash goes out	Debit - Purchase a/c Credit - Cash a/c
Sold goods for cash.	Cash a/c Sales a/c	Real a/c Nominal a/c	Cash comes in Income	Debit - Cash a/c Credit - Sales a/c
Salaries Paid	Salaries a/c Cash a/c	Nominal a/c Cash a/c	Expenses Cash goes out	Debit - Salaries a/c Credit - Cash a/c
Office Expenses	Office expenses a/c Cash a/c	Nominal a/c Cash a/c	Expenses Cash goes out	Debit - Office Expenses a/c Credit - Cash a/c
Goods Purchased from Rajesh on credit	Purchase a/c Rajesh a/c	Nominal a/c Personal a/c	Expenses Giver	Debit - Purchase a/c Credit - Rajesh a/c

Journal Entries in the Books of Sony

Date	Particulars	L. F	Debit Amount(Rs)	Credit Amount(Rs)
1-6-2021	Cash a/c Dr To Capital a/c (Being business commenced with cash)		1,00,000	1,00,000
2-6-2021	Purchase a/c Dr To Cash a/c (Being goods purchased on cash)		20,000	20,000
5-6-2021	Cash a/c Dr To Sales a/c (Being goods sold for cash)		50,000	50,000
30-6-2021	Salaries a/c Dr To Cash a/c (Being salaries paid)		10,000	10,000
30-6- 2021	Office Expenses a/c Dr To Cash a/c (Being office expenses paid)		5,000	5,000
30-6-2021	Purchases a/c Dr To Rajesh a/c (Being goods purchased from Rajesh on credit)		25,000	25,000

Step II. Identify different types of Accounts from the above passed Journal Entries

From the above journal entries the following accounts were identified

- 1) Cash a/c 2) Capital a/c 3) Purchase a/c 4) Sales a/c 5) Salaries a/c
- 6) Office Expenses a/c 7) Rajesh a/c

Step III. Maintain the Identified Accounts

Step IV. Transferring Journal Entries from Journal to Ledger Accounts

Step V. Balancing the Ledger Accounts

Dr				Cash Account		Cr	
Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount
1-6-2021	To Capital a/c		1,00,000	2-6-2021	By Purchases a/c		20,000
5-6-2021	To Sales a/c		50,000	30-6-2021	By Salaries a/c		10,000
				30-6-2021	By Office expenses a/c		5,000
				30-6-2021	By Balance c/d		1,15,000
			1,50,000				1,50,000
1-7-2021	To Balance b/d		1,15,000				

Dr				Capital Account		Cr	
Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount
30-6-2021	To Balance c/d		1,00,000	1-6-2021	By Cash a/c		1,00,000
			1,00,000				1,00,000
				1-7-2021	By Balance b/d		1,00,000

Dr				Purchases Account		Cr	
Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount
2-6-2021	To Cash a/c		20,000	30-06-2021	By Balance c/d		45,000
30-06-2021	To Rajesh a/c		25,000				
			45,000				45,000
1-7-2021	To Balance b/d		45,000				

Dr				Sales Account		Cr	
Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount
30-6-2021	To Balance c/d		50,000	5-6-2021	By Cash a/c		50,000
			50,000				50,000
				1-7-2021	By Balance b/d		50,000

Dr				Salaries Account		Cr	
Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount
30-6-2021	To Cash a/c		10,000	30-6-2021	By Balance c/d		10,000
			10,000				10,000
1-7-2021	To Balance b/d		10,000				

Dr				Office Expenses Account		Cr	
Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount
30-6-2021	To Cash a/c		5,000	30-6-2021	By Balance c/d		5,000
			5,000				5,000
1-7-2021	To Balance b/d		5,000				

Dr				Rajesh Account		Cr	
Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount
30-6-2021	To Balance c/d		25,000	30-6-2021	By Purchases a/c		25,000
			25,000				25,000
				1-7-2021	By Balance b/d		25,000

3.8.2Journalize the following transactions in the books of Shafi

Date	Transactions	Amount
1-7-2021	Shafi started business with cash	2,00,000
2-7-2021	Goods purchased for cash	1,00,000
3-7-2021	Goods purchased on credit from Ramesh	50,000
5-7-2021	Goods sold for cash	75,000
8-7-2021	Goods sold to Ravi on credit	50,000
10-7-2021	Cash paid to Ramesh	50,000
12-7-2021	Cash received from Ravi	50,000
14-7-2021	Furniture purchased	25,000
18-7-2021	Office expenses	5,000
21-7-2021	Machinery purchased	20,000
22-7-2021	Furniture sold	20,000
24-7-2021	Goods returned from Ravi	5,000
25-7-2021	Goods returned to Ramesh	2,000
28-7-2021	Commission paid	10,000
30-7-2021	Rent Paid	25,000
31-7-2021	Salaries paid	50,000

Solutions

Step I.Journalising the Transactions

Date	Particulars	L. F	Debit Amount(Rs)	Credit Amount(Rs)
1-7-2021	Cash a/c Dr To Capital a/c (Being business commenced with cash)		2,00,000	2,00,000
2-7-2021	Purchases a/c Dr To Cash a/c (Being goods purchased on cash)		1,00,000	1,00,000
3-7-2021	Purchase a/c Dr To Ramesh a/c (Being goods purchased on credit)		50,000	50,000
5-7-2021	Cash a/c Dr To Sales a/c (Being goods sold for cash)		75,000	75,000
8-7-2021	Ravi a/c Dr To Sales a/c (Being goods sold for credit)		50,000	50,000

10-7-2021	Ramesh a/c To Cash a/c (Being cash paid to Ramesh)	Dr		50,000	50,000
12-7-2021	Cash a/c To Ravi a/c (Being cash received from Ravi)	Dr		50,000	50,000
14-7-2021	Furniture a/c To Cash a/c (Being furniture purchased)	Dr		25,000	25,000
18-7-2021	Office expenses a/c To Cash a/c (Being Office expenses paid)	Dr		5,000	5,000
21-7-2021	Machinery a/c To Cash a/c (Being machinery purchased)	Dr		20,000	20,000
22-7-2021	Cash a/c To Furniture a/c (Being furniture sold)	Dr		20,000	20,000
24-7-2021	Sales Returns a/c To Ravi a/c (Being goods returned by customer Ravi)	Dr		5,000	5,000
25-7-2021	Ramesh a/c To Purchase Returns a/c (Being goods returned to supplier Ramesh)	Dr		2,000	2,000
28-7-2021	Commission a/c To Cash a/c (Being commission paid)	Dr		10,000	10,000
30-7-2021	Rent a/c To Cash a/c (Being Rent paid)	Dr		25,000	25,000
31-7-2021	Salaries a/c To Cash a/c (Being salaries paid)	Dr		50,000	50,000

Step II .Identify different types of Accounts from the above passed Journal Entries

From the above journal entries, the following accounts are identified

- 1) Cash a/c 2) Capital a/c 3) Purchase a/c 4) Ramesh a/c 5) Sales a/c 6) Ravi a/c
7) Furniture a/c 8) Office Expenses a/c 9) Machinery a/c 10) Sales returns a/c
11) Purchase returns a/c 12) Commission a/c 13) Rent a/c 14) Salaries a/c

Step III. Maintain the Identified Accounts

Step IV. Transferring Journal Entries from Journal to Ledger Accounts

Step V. Balancing the Ledger Accounts

Dr				Cash Account				Cr	
Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount		
1-7-2021	To Capital a/c		2,00,000	2-7-2021	By Purchase a/c		1,00,000		
5-7-2021	To Sales a/c		75,000	10-7-2021	By Ramesh a/c		50,000		
12-7-2021	To Ravi a/c		50,000	14-7-2021	By Furniture a/c		25,000		
22-7-2021	To Furniture a/c		20,000	18-7-2021	By Office Expenses a/c		5,000		
				21-7-2021	By Machinery a/c		20,000		
				28-7-2021	By Commission		10,000		
				30-7-2021	By Rent a/c		25,000		
				31-7-2021	By Salaries a/c		50,000		
				31-7-2021	By Balance c/d		60,000		
			3,45,000				3,45,000		
1-8-2021	To balance b/d		60,000						

Dr				Capital Account				Cr	
Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount		
31-7-2021	To Balance c/d		2,00,000	1-7-2021	By Cash a/c		2,00,000		
			2,00,000				2,00,000		
				1-8-2021	By Balance b/d		2,00,000		

Dr				Purchases Account				Cr	
Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount		
2-7-2021	To Cash a/c		1,00,000	31-7-2021	By Balance c/d		1,50,000		
3-7-2021	To Ramesh a/c		50,000						
			1,50,000				1,50,000		
1-8-2021	To Balance b/d		1,50,000						

Dr **Ramesh Account** **Cr**

Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount
10-7-2021	To Cash a/c		50,000	3-7-2021	By Purchase a/c		50,000
25-7-2021	To Purchase returns a/c		2,000	31-7-2021	By Balance c/d		2,000
			52,000				52,000
1-8-2021	To Balance b/d		2,000				

Dr **Sales Account** **Cr**

Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount
31-7-2021	To Balance c/d		1,25,000	5-7-2021	By Cash a/c		75,000
			1,25,000	8-7-2021	By Ravi a/c		50,000
							1,25,000
				1-8-2021	By Balance b/d		1,25,000

Dr **Ravi Account** **Cr**

Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount
8-7-2021	To Sales a/c		50,000	12-7-2021	By Cash a/c		50,000
31-7-2021	To Balance c/d		5,000	24-7-2021	By Sales returns a/c		5,000
			55,000				55,000
				1-8-2021	By Balance b/d		5,000

Dr **Furniture Account** **Cr**

Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount
14-7-2021	To Cash a/c		25,000	22-7-2021	By Cash a/c		20,000
			25,000	31-7-2021	By Balance c/d		5,000
							25,000
1-8-2021	To Balance b/d		5,000				

Dr Office Expenses Account Cr

Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount
18-7-2021	To Cash a/c		5,000	31-7-2021	By Balance c/d		5,000
			5,000				5,000
1-8-2021	To Balance b/d		5,000				

Dr Machinery Account Cr

Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount
21-7-2021	To Cash a/c		20,000	31-7-2021	By Balance c/d		20,000
			20,000				20,000
1-8-2021	To Balance b/d		20,000				

Dr Sales Returns Account Cr

Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount
24-7-2021	To Ravi a/c		5,000	31-7-2021	By Balance c/d		5,000
			5,000				5,000
1-8-2021	To Balance b/d		5,000				

Dr Purchase Returns Account Cr

Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount
31-7-2021	To Balance c/d		2,000	25-7-2021	By Ramesh a/c		2,000
			2,000				2,000
				1-8-2021	By Balance b/d		2,000

Dr				Commission Account				Cr			
Date	Particulars	J	Amount	Date	Particulars	J	Amount				
		·				·					
		F				F					
28-7-2021	To Cash a/c		10,000	31-7-2021	By Balance c/d		10,000				
			10,000				10,000				
1-8-2021	To Balance b/d		10,000								

Dr				Rent Account				Cr			
Date	Particulars	J	Amount	Date	Particulars	J	Amount				
		·				·					
		F				F					
30-7-2021	To Cash a/c		25,000	31-7-2021	By Balance c/d		25,000				
			25,000				25,000				
1-8-2021	To Balance b/d		25,000								

Dr				Salaries Account				Cr			
Date	Particulars	J	Amount	Date	Particulars	J	Amount				
		·				·					
		F				F					
31-7-2021	To Cash a/c		50,000	31-7-2021	By Balance c/d		50,000				
			50,000				50,000				
1-8-2021	To Balance b/d		50,000								

Compound Journal Entry Ledger Posting

A compound journal entry is passed when two or more transactions taken place on the same day relating to a particular account or one particular nature may be recorded by means of a single journal entry instead of a separate entry for each transaction. The compound journal entry is an accounting entry in which there is more than one debit, more than one credit, or more than one of both debits and credits in a passed journal entry.

3.8.3 Journalize the following transactions in the books of Sharma.

Date	Transactions	Amount
1-7-2021	Sharma started business with the following.	
	Cash	1,00,000
	Bank Loan	50,000
	Furniture	50,000
	Machinery	1,00,000
	Land and Building	10,00,000

Solution:

Step I. journalizing the transactions

Journal entries in the books of Sharma.

Date	Particulars	L. F	Debit Amount(Rs)	Credit Amount(Rs)
1-7-2021	Cash a/c	Dr	1,00,000	
	Furniture a/c	Dr	50,000	
	Machinery a/c	Dr	1,00,000	
	Land and Buildings a/c	Dr	10,00,000	
	To Bank Loan a/c			50,000
	To Capital a/c			12,00,000
	(Being business started with various assets and liabilities)			

While Ledger posting of Compound Journal Entry you are required to assume the journal entries for individual transaction wise passed. Instead of compound journal entry, the above compound journal entry can be passed as individual journal entries as follows and then posting into ledger easily.

Journal Entries

Date	Particulars	L. F	Debit Amount(Rs)	Credit Amount(Rs)
1-7-2021	Cash a/c	Dr	1,00,000	
	To Capital a/c (Being cash brought in to business)			1,00,000
1-7-2021	Furniture a/c	Dr	50,000	
	To Capital a/c			50,000

	(Being Furniture brought in to business)			
1-7-2021	Machinery a/c Dr To Capital a/c (Being machinery brought in to business)		1,00,000	1,00,000
1-7-2021	Land and Buildings Dr To Capital a/c (Being Land and Buildings brought in to business)		10,00,000	10,00,000
1-7-2021	Capital a/c Dr Bank loan a/c (Bank loan amount brought in to business)		50,000	50,000

Identify different types of Accounts from the above passed Journal Entries

- 1) Capital a/c 2) Cash a/c 3) Furniture a/c
 4) Machinery a/c 5) Land and Buildings a/c 6) Bank Loan a/c

Dr		Capital Account			Cr		
Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount
1-7-2021	To Bank Loan a/c		50,000	1-7-2021	By Cash a/c		1,00,000
31-7-2021	To Balance c/d		12,00,000	1-7-2021	By Furniture a/c		50,000
				1-7-2021	By Machinery a/c		1,00,000
				1-7-2021	By Land and Buildings a/c		10,00,000
			12,50,000				12,50,000
				1-8-2021	By Balance b/d		12,00,000

Dr		Cash Account			Cr		
Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount
1-7-2021	To Capital a/c		1,00,000	31-7-2021	By Balance c/d		1,00,000
			1,00,000				1,00,000
1-8-2021	To Balance b/d		1,00,000				

Dr				Furniture Account				Cr	
Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount		
1-7-2021	To Capital a/c		50,000	31-7-2021	By Balance c/d		50,000		
			50,000				50,000		
1-8-2021	To Balance b/d		50,000						

Dr				Machinery Account				Cr	
Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount		
1-7-2021	To Capital a/c		1,00,000	31-7-2021	By Balance c/d		1,00,000		
			1,00,000				1,00,000		
1-8-2021	To Balance b/d		1,00,000						

Dr				Land and Buildings Account				Cr	
Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount		
1-7-2021	To Capital a/c		10,00,000	31-7-2021	By Balance c/d		10,00,000		
			10,00,000				10,00,000		
1-8-2021	To Balance b/d		10,00,000						

Dr		Bank Loan Account				Cr	
Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount
31-7-2021	To Balance c/d		50,000	1-7-2021	By Capital a/c		50,000
			50,000				50,000
				1-8-2021	By Balance b/d		50,000

Most Prestigious Accounting Firms

#1 [PwC \(PricewaterhouseCoopers\) LLP](#)

#2 [Deloitte](#)

#3 [Ernst & Young LLP \(EY\)](#)

#4 [KPMG LLP](#)

#5 [Grant Thornton LLP](#)

Source: <https://www.vault.com/best-companies-to-work-for/accounting/most-prestigious-accounting-firms>

Test your Understanding



I. Fill in the Blanks

- Ledger is a ----- Book
- Journal entries are transferred to ----- Book
- J.F Means - -----
- The process of finding net result of a specific account is called -----
- Ledger contains ----- types of accounts.

II. True or False

1. Ledger follows the chronological order
2. Ledger is secondary Book
3. Ledger is used for analytical purpose
4. Ledger maintains permanent record of accounting information.
5. Ledger is sub divided in to General Ledger, Debtors Ledger, Creditors Ledger

Identify the accounting Terms



Source: <https://wordmint.com/categories/accounting-auditing>

Accounts payable	Accounts Receivable	Advertising Expense	Assets
Balance sheet	Bank statement	Business transactions	Cash in the bank
Cash receipt	Closing entries	Credit	Debit
General journal	Income statement	Ledger	Liabilities
Memorandum	Net income	Net loss	On account
Owners equity	Rent expense	Revenue	T-account
Trail Balance	Withdrawal		

III. Multiple Choice Questions (MCQ)

1. Which of the following is the Chief book of accounts
a) Journal b) Ledger c) Bookkeeping d) Account
2. Which of the following is the basis for Ledger
a) Journal b) Ledger c) Bookkeeping d) Account
3. Real accounts do not have ----- Balance
a) Debit Balance b) Credit Balance c) Either debit balance or credit balance
d) Cannot say
4. Personal accounts can have
a) Debit Balance b) Credit Balance c) Either debit balance or credit balance
d) Cannot say
5. Which of the following is used as the base for preparing trial balance?
a) Subsidiary Books b) Journal c) Ledger b) None
6. Accounts that have debit balance are closed by using the statement.
a) By balance b/d b) By balance c/d c) To balance b/d d) To balance c/d
7. Which of the following item will be appearing on the credit side of the ledger account?
a) Commission received b) Cash received c) commission paid d) Rent paid
8. Which of the following item will be appearing on the debit side of the ledger account?
a) Commission received b) Machinery purchased c) Discount received
d) Rent received
9. Which of the following item will be appearing on the credit side of the ledger account?
a) Furniture Sold b) Purchases c) commission paid d) Rent paid
10. Which of the following item will be appearing on the debit side of the ledger account?
a) Commission received b) Discount received c) Sales Returns d) Purchase Return

IV. Short Answer Questions (SAQ)

1. What is Ledger and explain the importance of Ledger?
2. Explain the Ledger posting process
3. What are the differences between Journal and Ledger
4. What are the advantages of Ledger
5. How do you justify ledger is book of principal entry

V. Long Answer Questions (LAQ)

1. Prepare the Ledger accounts in the books of Suresh.

Date	Transactions	Amount
1-5-2021	Started business with the following.	
	Cash	2,00,000
	Bank Overdraft	1,50,000
	Furniture and fittings	1,50,000
	Computers	2,00,000
	Land and Building	20,00,000
2-5-2021	Purchased goods from Ravi for cash and allowed trade discount 10%	1,00,000
3-5-2021	Goods sold to Raju with trade discount 20%	75,000
4-5-2021	Goods purchased on credit from Roshan	55,000
6-5-2021	Goods sold to Shanthi on credit	65,000
8-5-2021	Cash paid to Roshan for full settlement	50,000
14-5-2021	Cash received from shanthi full settlement	64,000
	Allowed discount	1,000
15-5-2021	Labour Charges	20,000
16-5-2021	Office expenses	25,000
20-5-2021	Advertisements expenses	15,000

22-7-2021	Cash with drawn from bank for personal use	20,000
23-5-2021	Cash with drawn from bank for office use	25,000
25-5-2021	Loan taken from Ratnam	50,000
28-5-2021	Cash paid to Ratnam	25,000
30-5-2021	Rent paid	10,000
31-5-2021	Salaries paid	40,000

2 .Prepare the Ledger Accounts in the books of Dinesh.

Date	Transactions	Amount
1-3-2021	Dinesh started business with cash	15,00,000
1-3-2021	Purchased goods from Raju for cash and allowed trade discount 10%, cash discount 10%	50,000
2-3-2021	Goods sold to Ramu with trade discount 20% and Cash Discount 20%	50,000
4-3-2021	Goods purchased on credit from Ranjith	75,000
6-3-2021	Goods sold to Rakesh on credit	55,000
7-3-2021	Cash paid to Ranjith in full settlement	70,000
10-3-2021	Cash received from Rakesh in full settlement	50,000
12-3-2021	Wages paid	10,000
14-3-2021	Printing and stationary expenses	5,000
17-3-2021	Commission paid	5,000
18-3-2021	Goods returned from customers	10,000
20-3-2021	Goods returned to suppliers	15,000
22-3-2021	Machinery purchased	50,000
22-3-2021	Installation expenses of Machinery	5,000
26-3-2021	Telephone expenses	2,000
30-5-2021	Salaries paid	50,000

VI. Additional Resources for Advanced Learning

Study Material (Handouts):

https://nios.ac.in/media/documents/SrSec320NEW/320_Accountancy_Eng/320_Accountancy_Eng_Lesson6.pdf



Reference Text Books:

1. R L Gupta & V K Gupta, Principles and Practice of Accounting, Sultan Chand & Sons
- 2.S.P. Jain & K.L Narang, Accountancy-I, KalyaniPublishers
- 3.Tulasian, Accountancy -I, Tata McGraw HillCo.

E - Text Books:

<https://icmai.in/upload/Students/Syllabus2016/Foundation/Paper-2New-29012021.pdf>

<https://www.icsi.edu/media/webmodules/publications/FULL%20FAA%20PDF.pdf>

YouTube Links:

<https://www.youtube.com/watch?v=FlndzsBGI6M>

Power Point Presentations:

<https://www.slideshare.net/YaminiKahaliya/ledger-in-financial-accounting-11th-commerce>

VII. Suggested Activity

1. Visit a firm (Individual or Group) and observe the process of Ledger Posting
2. Problem Solving Exercises
3. Learn Computer based Accounting system through tally



Answers



I. Fill in the Blanks

Q.No	1.Principal	2.Ledger	3.Journal Folio	4.Balancing	5.All Types

II. True or False

Q.No	1.F	2.T	3.T	4.T	5.T

III. Multiple Choice Questions (MCQ)

Q.No	1.B	2.A	3.B	4.C	5.C	6.C	7.A	8.B	9.A	10.C

Glossary



Ledger: Ledgers is a book which maintains similar business transactions relating to a particular nature of accounts specifically at one separate place.

Journal Folio (J.F): Folio means page number.J.F means Journal Page Number

Ledger Posting: The process of transferring the entries from journal to respective ledger accounts is called ledger posting

Ledger Balancing: The process of finding net result of a specific account is called Ledger Balancing

General Ledger: General ledger also called as Nominal ledger. General Ledger transactions are relating to 1.Assets 2. Incomes 3. Expenses 4.Losses 5. Liabilities

Debtors Ledger: Debtors Ledger is also called Sales Ledger. The purpose of the Sales Ledger is to provide information about credit sales

Creditors Ledger: Creditors Ledger is also called Purchase Ledger. The purpose of the Purchase Ledger is to provide information on credit purchases from suppliers.

CHAPTER - IV

SUBSIDIARY BOOKS

Learning Outcomes

1. Understand the importance of Subsidiary Books
2. Understand the different types of Subsidiary Books
3. Understand how to maintain Subsidiary Books

Contents

- 4.1 Introduction to Subsidiary Books
- 4.2 Need for Subsidiary Books
- 4.3 Objectives of Subsidiary Books
- 4.4 Difference between Subsidiary Books and Ledger
- 4.5 Types of Subsidiary Books
- 4.6 Formats of subsidiary Books
- 4.7 Practical Illustrations

CHAPTER - IV

SUBSIDIARY BOOKS

4.1 Introduction to Subsidiary Books

The journal is sub-divided into various books are called Subsidiary Books; they are also known as special journals. Subsidiary Books are the books that record business transactions of a similar nature at one place in chronological order. The significance of the subdivision is arising due to the increase in the volume of business transactions. In every business, certain core operations are repeatedly taken place and also affect the entire business. Business concerns are required to concentrate specifically on the core activities and taking into the hands of the control. The core transactions of every business are cash transactions, credit purchases, and credit sales etc. Subsidiary Books are maintained on those core transactions for an effective operation of the business concern.

4.2 Need for Subsidiary Books

When the number of transactions is at large, it is very difficult to maintain one journal for all the transactions. For maintaining the business operations effectively, the division of general journal was subdivided into various books; those books are called subsidiary books. These books are depicting a clear picture of the specific transactions of cash or credit transactions of the business organizations on a specific date. Subsidiary books are simplifying the task of classification of accounting transactions and also helps to save time and labour.

4.3 Objectives of Subsidiary Books

- ❖ To the support the classification of business transactions and to provide the clear picture
- ❖ To help the identification of errors and detection of frauds
- ❖ To provide/facilitate the division of work for the enhancement of the efficiency.
- ❖ To facilitate the proper reference to any particular transactions of the business concerns.

4.4 Difference between Subsidiary Books and Ledger

Subsidiary Books	Ledger
1. Subsidiary Books are books of original entry	1. Ledger is a principal book of accounting
2. Transactions are recorded at first in Subsidiary Books only	2. Recorded Transactions in Subsidiary Books transferred to Ledger
3. Subsidiary Books are the base for Ledger Accounts	3. Ledger accounts are the base for preparation of Trail Balance
4. Subsidiary Books facilitates classification of transactions	4. Ledger accounts facilitates analysis of transactions

సహాయక పుస్తకాలు

అకౌంటింగ్ ప్రక్రియలో భాగంగా వ్యాపార వ్యవహారాలన్నీ జరిగినటువంటి తేదీక్రమంలో చిట్టాలో ముందుగా వ్రాసి, చిట్టాలోని అంశాలను ఆవర్తక బదిలీ చేయబడుతుంది. ఈ క్రమంలో చిన్న తరహా వ్యాపార సంస్థలు అయినట్లయితే వ్యాపార కార్యకలాపాలు కనీస స్థాయిలో ఉండి ప్రతి అంశాన్ని ఒకే చిట్టాలో వ్రాసి ఆవర్తకలో నమోదు చేయడం తేలికవుతుంది.

పెద్ద పెద్ద వ్యాపార సంస్థలు తమ యొక్క రోజువారీ కార్యకలాపాలు వేల సంఖ్యలో నిర్వహిస్తూ ఉంటాయి, ఈ సందర్భంలో పనిభారాన్ని తగ్గించడానికి ఒకే రకమైనటువంటి వ్యవహారాలను ఒక్కొక్క ప్రత్యేక చిట్టాలో వ్రాయడం జరుగుతుంది, ఈ విధముగా ఒకే స్వభావంగల అతి ముఖ్యమైన వ్యవహారాలకు చెందిన అంశాలను ఖాతాపుస్తకాలలో ప్రత్యేకంగా చూపడానికి చిట్టాను ఉపవిభజన చేసి చిట్టా నిర్వహిస్తారు. ఈ విధంగా ఉపవిభజన చేసిన చిట్టాను సహాయక చిట్టాలు లేదా సహాయక పుస్తకాలు అని అంటారు.

సహాయక పుస్తకాలు ప్రయోజనాలు

- ❖ వ్యాపార వ్యవహారాలను అత్యంత వేగవంతంగా మరియు సమర్థవంతంగా నమోదు చేయవచ్చు
- ❖ శ్రమ విభజన వలన పనిలో నాణ్యత పెరిగి కాలము మరియు శ్రమ ఆదా అవుతుంది
- ❖ సహాయక పుస్తకాల మొత్తాలను ఒకేసారి ఆవర్తకలో సులభంగా నమోదు చేయవచ్చు
- ❖ సహాయక పుస్తకాల నిర్వహణలో ఎక్కువ యధార్థత ఉంటుంది
- ❖ సహాయక పుస్తకాల నిర్వహణ విధాన నిర్ణయాలకు అవసరమైన సమాచారాన్ని పొందడానికి మరియు ఖాతాపుస్తకాల తనిఖీని వేగవంతం చేయడానికి ఎంతో ఉపయోగపడుతుంది

సహాయక పుస్తకాలు రకాలు

వ్యాపార సంస్థల యొక్క స్థాయి మరియు వాటి యొక్క అవసరాల దృష్ట్యా సహాయక పుస్తకాలను క్రింది విధంగా వర్గీకరించడం జరిగింది

1. కొనుగోలు పుస్తకము - సరుకు అరువు కొనుగోలుకు సంబంధించిన వ్యవహారాలు నమోదు చేయుటకు
2. కొనుగోలు వాపసులు పుస్తకము - సరఫరాదారు కు పంపిన కొనుగోలు వాపసులు నమోదు చేయుటకు

TYPES OF SUBSIDIARY BOOKS	4.5 Types of Subsidiary Books:
	Purchases Book: Maintained to record all the credit purchases of goods.
	Purchase Return Book: Maintained to record all goods returned to the supplier.
	Sales Book: Maintained to record all the credit sales of goods.
	Sales Returns Book: Maintained to record all goods returned by the customers.
	Cash Book: Maintained to record all the cash receipts and payments.
	Bills Receivable Book: Maintained to record all bills received from debtors.
	Bills Payable Book: Maintained to record all bills accepted to creditors.
	Journal Proper: Used to record those transactions for which there is no separate book.

4.6 Formats of subsidiary Books

4.6.1 Purchases Book Format

Date	Particulars	Invoice No	L.F No	Amount

4.6.2 Purchase Returns Book Format

Date	Particulars	Debit Note No	L.F No	Amount

3. అమ్మకాల పుస్తకము - సరుకు అరువు అమ్మకాలకు సంబంధించిన వ్యవహారాలు నమోదు చేయుటకు
 4. అమ్మకాల వాపసుల పుస్తకము - వినియోగదారుల నుండి వచ్చిన అమ్మకాల వాపసులు నమోదు చేయుటకు
 5. నగదు పుస్తకం - అన్ని రకాలైన నగదు వ్యాపార వ్యవహారాలు నమోదు చేయుటకు
 6. వసూలు బిల్లుల పుస్తకము - రుణ గ్రస్తులు నుండి వచ్చిన వసూలు బిల్లులు నమోదు చేయుటకు
 7. చెల్లింపు బిల్లుల పుస్తకము - రుణదాతల కు అంగీకరించి ఇచ్చిన చెల్లింపు బిల్లులు నమోదు చేయుటకు
 8. అసలు చిట్టా- ఇతర సహాయక చిట్టాలలో నమోదు చేయడానికి వీలు లేని వ్యవహారాలు అయిన ప్రారంభ పద్దులు, సర్దుబాటు పద్దులు, ముగింపు పద్దులు మొదలైనవి ఈ చిట్టాలో వ్రాయడానికి నిర్వహిస్తారు
- సహాయక పుస్తకాలకు ఆవర్తాకు మధ్య గల వ్యత్యాసాలు:

1. సహాయక పుస్తకాలు ఒరిజినల్ ఎంట్రీ పుస్తకాలు, ఆవర్తా అనేది అకౌంటింగ్ యొక్క ప్రధాన పుస్తకం
2. లావాదేవీలు మొదట సహాయక పుస్తకాలలో మాత్రమే నమోదు చేయబడతాయి, సహాయక పుస్తకాలలో రికార్డ్ చేయబడిన లావాదేవీలు ఆవర్తాకు బదిలీ చేయబడతాయి
3. ఆవర్తా ఖాతాలకు సహాయక పుస్తకాలు ఆధారం, అంకణ తయారీకి ఆవర్తా ఖాతాలు ఆధారం
4. సహాయక పుస్తకాలు లావాదేవీల వర్గీకరణను సులభతరం చేస్తాయి, ఆవర్తా ఖాతాలు లావాదేవీల విశ్లేషణను సులభతరం చేస్తాయి

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4.6.3 Sales Book Format

Date	Particulars	Invoice No	L.F No	Amount

4.6.4 Sales Returns Book Format

Date	Particulars	Credit Note No	L.F No	Amount

4.6.5 Cash Book Format

Cashbook performs the functions of both Journal and Ledger Accounts. Cash Book is a subsidiary book as well as the principal book. Cash Book is treated as a subsidiary book because transactions are recorded in the cash book directly. The recording of transactions in the cash book is in the form of accounts having debit and credit sides. There is no need to maintain a separate cash account because the cash book serves the purpose. Cash Book is again subdivided into four types, they are as follows

- Single Column Cash Book or Simple Cash Book
- Double Column Cash Book containing discount and cash columns
- Three Column Cash Book containing discount, cash and bank columns
- Petty Cash Book

a) Format of Single Column Cash Book

Dr				Cr			
Single Column Cash Book							
Date	Particulars	L.F	Amount	Date	Particulars	L.F	Amount

b) Format of Double Column Cash Book

Dr		Double Column Cash Book								Cr	
Date	Particulars	L · F	Discount Allowed	Amount	Date	Particulars	L · F	Discount Received	Amount		

c) Format of Three Column Cash Book

Dr		Three Column Cash Book									Cr	
Date	Particulars	L · F	Discount Allowed	Cash	Bank	Date	Particulars	L · F	Discount Received	Cash	Bank	

d) Format of Petty Cash Book:

Petty Cash Book

Petty cash book is maintained by the business concerns to record the petty cash expenses that occurred during the daily business operations. The cashier who maintains the petty cash book is called the petty cashier. In every business certain petty cash expenses frequently taken place for the purpose of operating the business, such as Postage & Telegrams, Telephone, Printing & stationery, Travelling & Transport, Wages, etc. In the petty cash book, each head of most frequently occurred expenses are maintained in separate columns as an analysis of payments. The total number of columns in the petty cash book depends on the nature and size of the business operations. In the petty cash book, transactions are recorded as individual head and total head. The main reason for not recording petty cash transactions in the main cash book is petty cash transactions are a very small category of expenses, if we mixed with main cashbook transactions it is very difficult to balancing and also it leads to a lot of confusion about the main receipts and payments of the business operations. To avoid confusion and for providing information on core business receipts and payments, petty cash book is separately maintained in an analytical form of

petty cash book, which means each head of most frequently occurred expenses are maintained in separate columns as an analysis of Payments Systems of Petty Cash

According to the practices of advancing the amount to the petty cashier by the chief cashier, they are two types of petty cash systems.

i) Fixed Advanced System: Under this method, a fixed amount of advance is given to petty cashier for petty cash expenses, for a stipulated period.

ii) Imprest System: Under this method, the amount of advance depends on the amount spent by the petty cashier for petty expenses. If petty cashier spent Rs800/- out of given first advance of Rs.1,000/-, the main cashier reimburses the expenses amount of Rs800/-. This system is called imprest system.

There is no standard format for petty cash book. Most of the business concerns are adopting the following format.

d) Petty Cash Book Format

Amount Received	Date	Particulars	V · N o	Total Payments	Analysis of Payments				
					Printing & Stationery	Postage Telegrams Telephone	Transport & Travelling	Personal Account	Other Expenses

e) Bills Receivable Book Format

S.No	Date of Receipt of the Bill	From whom Received	Term of the Bill	Due date of the Bill	Amount	Remarks

f) Bills Payable Book Format

S.No	Date of Acceptance of the Bill	To whom Payable	Term of the Bill	Due date of the Bill	Amount	Remarks

g) Journal Proper Format

Journal proper is a book which is maintained to record the transactions in an extra-ordinary nature which are not covered by any of the other subsidiary books. This book is generally used to record the following categories of transactions.

i) Opening Entries ii) Closing Entries iii) Transfer Entries iv) Rectification Entries

v) Adjustment Entries

Journal Proper is maintained in the format of Journal only

Journal				
Date	Particulars	L.F	Debit	Credit

4.7 Practical Illustrations

Important Points to be noted while preparing Purchases Book and Sales Book	
1	Credit Purchases only recorded in Purchases Book.
2	Credit Sales only recorded in Sales Book.
3	Credit or Cash Purchases of Assets are not recorded in Purchases Book.
4	Credit or Cash Sales of Assets are not recorded in Sales Book.
5	Cash Purchases or Sales not to be recorded in Purchases Book or Sales Book.

4.7.1 From the following particulars, maintain necessary Subsidiary Books in the books

Rajesh Traders

Date	Transaction	Amount
1-1-2021	Goods Purchased from Anand	50,000
2-1-2021	Goods sold to Amith	40,000
3-1-2021	Goods Purchased from Barath (trade discount 10%)	50,000
4-1-2021	Goods Sold to Bhavani (trade discount 5%)	25,000
5-1-2021	Purchases	10,000
6-1-2021	Sales	20,000
7-1-2021	Chetan Purchased goods from us	15,000
8-1-2021	Chandini sold goods to us	25,000
9-1-2021	Goods returned to Anand	1,000
10-1-2021	Goods Returned from Amith	2,000
11-1-2021	Goods returned from Bhavani	2,000
12-1-2021	Goods Returned to Bharath	4,000
15-1-2021	Goods Purchased from Anand for cash	25,000
20-1-2021	Goods sold to Amith for cash	20,000

Solution:

Purchases Book

Date	Particulars	Invoice No	L.F No	Amount
1-1-2021	Anand			50,000
3-1-2021	Barath (50,000 Less trade discount 10%)			45,000
8-1-2021	Chandini			25,000
31-1-2021	Sundry Creditors transferred to Purchases Account			1,20,000

Purchase Returns Book

Date	Particulars	Debit Note No	L.F No	Amount
9-1-2021	Anand			1,000
12-1-2021	Bharat			4,000
31-1-2021	Transferred to Purchase returns A/c			5,000

Sales Book

Date	Particulars	Invoice No	L.F No	Amount
2-1-2021	Amith			40,000
4-1-2021	Bhavani (25,000 - trade discount 5%)			23,750
7-1-2021	Chetan			15,000
31-1-2021	Sundry Debtors transferred to Sales Account			78,750

Sales Returns Book

Date	Particulars	Credit NoteNo	L. F No	Amount
10-1-2021	Amith			2,000
11-1-2021	Bhavani			2,000
31-1-2021	Transferred to Sales returns A/c			4,000

4.7.2 From the following particulars maintain necessary Subsidiary Books in the books of Ramesh Traders

Date	Transaction	Amount
1-2-2021	Goods Purchased from Appa rao	60,000
3-2-2021	Goods sold to Anjibabu	20,000
4-2-2021	Hari Purchased goods from us (trade discount 10%)	20,000
6-2-2021	Naidu Sold goods to us(trade discount 10%)	40,000
7-2-2021	Machinery purchased from Ravi	1,00,000
8-2-2021	Furniture sold to Bhushan	40,000
10-2-2021	Goods returned from Hari	5,000
12-2-2021	Goods returned to Naidu	5,000
15-2-2021	Goods Purchased from Raju for cash	10,000
16-2-2021	Goods Returned from Anjibabu	4,000
24-2-2021	Furniture purchased from Dinesh for cash	4,000
26-2-2021	Goods returns to Appa rao	5,000
28-2-2021	Goods Returned from Anjibabu	2,000

Solution:

Purchases Book

Date	Particulars	Invoice No	L.F No	Amount
1-2-2021	Apparao			60,000
6-2-2021	Naidu (40, 000- Trade discount 10%)			36,000
28-2-2021	Sundry Creditors transferred to Purchases Account			96,000

Purchase Returns Book

Date	Particulars	Debit Note No	L.F No	Amount
12-2-2021	Naidu			5,000
26-2-2021	Apparao			5,000
28-2-2021	Transferred to Purchase returns A/c			10,000

Sales Book

Date	Particulars	Invoice No	L.F No	Amount
3-2-2021	Anjibabu			20,000
4-2-2021	Hari(20,000 - Trade discount 10%)			18,000
28-2-2021	Sundry Debtors transferred to Sales A/c			38,000

Sales Returns Book

Date	Particulars	Credit Note No	L. F No	Amount
10-2-2021	Hari			5,000
16-2-2021	Anjibabu			4,000
28-2-2021	Anjibabu			2,000
28-2-2021	Transferred to Sales returns A/c			11,000

4.7.3 From the following particulars maintain necessary Subsidiary Books and Ledger accounts in the books of Swathi Ltd.

Date	Transaction	Amount
1-3-2021	Goods Purchased from Amar	80,000
2-3-2021	Goods sold to Ananda rao	40,000
3-3-2021	Ramu Purchased goods allowed trade discount 10%	50,000
5-3-2021	Rajesh Sold goods to us received trade discount 10%	50,000
8-3-2021	Land purchased from Ravi	5,00,000
10-3-2021	Machinery sold to Babu	50,000
14-3-2021	Goods returned from Ramu	3,000
15-3-2021	Goods returned to Rajesh	2,000
15-3-2021	Goods Purchased from Rajesh for cash	20,000
18-3-2021	Goods Returned from Anand rao	2,000
20-3-2021	Goods returned to Amar	4,000
22-3-2021	Furniture purchased from sastry for cash	5,000
28-3-2021	Goods returns to Amar	3,000
31-3-2021	Goods Returned from Anand Rao	1,000
31-3-2021	Goods sold	25,000

Solution:

Purchases Book

Date	Particulars	Invoice No	L.F No	Amount
1-3-2021	Amar			80,000
5-3-2021	Rajesh (50,000-Trade discount 10%)			45,000
31-3-2021	Sundry Creditors transferred to Purchases A/c			1,25,000

Purchase Returns Book

Date	Particulars	Debit Note No	L.F No	Amount
15-3-2021	Rajesh			2,000
20-3-2021	Amar			4,000
28-3-2021	Amar			3,000
31-3-2021	Transferred to Purchase returns A/c			9,000

Sales Book

Date	Particulars	Invoice No	L.F No	Amount
2-3-2021	Anand rao			40,000
3-3-2021	Ramu (50,000- Trade discount 10%)			45,000
31-3-2021	Sundry debtors transferred to Sales Account			85,000

Sales Returns Book

Date	Particulars	Credit Note No	L.F No	Amount
14-3-2021	Ramu			3,000
18-3-2021	Anandarao			2,000
31-3-2021	Anandarao			1,000
31-3-2021	Transferred to Sales returns A/c			6,000

Ledger Accounts: From the above business transactions we need to maintain the following ledger accounts

- 1) Purchases A/c 2) Amar A/c 3) Sales A/c 4) Ananda rao A/c 5) Ramu A/c
 6) Rajesh A/c 7) Land A/c 8) Ravi A/c 9) Machinery A/c 10) Babu A/c
 11) Sales returns A/c 12) Purchases returns A/c 13) Furniture A/c 14) Cash A/c

Dr		Purchases A/c			Cr		
Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount
15-3-2021	To Cash A/c		20,000	31-3-2021	By Balance c/d		1,45,000
31-3-2021	To Sundry creditors (Transferred from Purchases Book)		1,25,000				
			1,45,000				1,45,000
1-4-2021	To Balance b/d		1,45,000				

Dr		Amar A/c			Cr		
Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount
20-3-2021	To Purchase returns A/c		4,000	1-3-2021	By Purchases A/c		80,000
28-3-2021	To Purchase returns A/c		3,000				
31-3-2021	To Balance c/d		73,000				
			80,000				80,000
				1-4-2021	By Balance b/d		73,000

Dr		Sales A/c				Cr	
Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount
31-3-2021	To Balance c/d		1,10,000	31-3-2021	By Sundry Debtors account (Transferred from Sales book)		85,000
				31-3-2021	By CashA/c		25,000
			1,10,000				1,10,000
				1-4-2021	By Balance b/d		1,10,000

Dr		Anand rao A/c				Cr	
Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount
2-3-2021	To Sales A/c		40,000	18-3-2021	By Sales returns A/c		2,000
				31-3-2021	By Sales returns A/c		1,000
				31-3-2021	By balance c/d		37,000
			40,000				40,000
1-4-2021	To balance b/d		37,000				

Dr		Ramu A/c				Cr	
Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount
3-3-2021	To Sales A/c		45,000	14-3-2021	By Sales returns A/c		3,000
				31-3-2021	By Balance c/d		42,000
			45,000				45,000
1-4-2021	To balance b/d		42,000				

Dr				Rajesh A/c		Cr	
Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount
15-3-2021	To Purchase returns A/c		2,000	5-3-2021	By Purchases A/c		45,000
31-3-2021	To balance c/d		43,000				45,000
			45,000				
				1-4-2021	By Balance b/d		43,000

Dr				Land A/c		Cr	
Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount
8-3-2021	To RaviA/c		5,00,000	31-3-2021	By Balance c/d		5,00,000
			5,00,000				5,00,000
1-4-2021	To Balance b/d		5,00,000				

Dr				Ravi A/c		Cr	
Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount
31-3-2021	To Balance c/d		5,00,000	8-3-2021	By Land A/c		5,00,000
			5,00,000				5,00,000
				1-4-2021	By Balance b/d		5,00,000

Dr				Machinery A/c		Cr	
Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount
31-3-2021	To Balance c/d		50,000	10-3-2021	By Babu A/c		50,000
			50,000				50,000
				1-4-2021	By Balance b/d		50,000

Dr				Babu A/c		Cr	
Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount
10-3-2021	To Machinery A/c		50,000	31-3-2021	By Balance c/d		50,000
			50,000				50,000
1-4-2021	To Balance b/d		50,000				

Dr				Sales Returns A/c		Cr	
Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount
31-3-2021	To Transfer from sales returns book		6,000	31-3-2021	By Balance c/d		6,000
			6,000				6,000
1-4-2021	To balance b/d		6,000				

Dr				Purchase Returns A/c		Cr	
Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount
31-3-2021	To Balance c/d		9,000	31-3-2021	By Transfer from Purchases returns book		9,000
			9,000				9,000
				1-4-2021	By Balance b/d		9,000

Dr		Furniture A/c				Cr	
Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount
22-3-2021	To Cash A/c		5,000	31-3-2021	By Balance c/d		5,000
			5,000				5,000
1-4-2021	To Balance b/d		5,000				

Dr		Cash A/c				Cr	
Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount
31-3-2021	To Sales		25,000	15-3-2021	By PurchasesA/c		20,000
			25,000	22-3-2021	By Furniture A/c		5000
							25,000

4.7.4 From the following particulars prepare Simple Cash Book Single Column Cash Book in Suresh Merchants Books

Date	Transactions	Amount
1-1-2021	Opening balance	1,00,000
2-1-2021	Goods purchased from Rani for cash	25,000
5-1-2021	Furniture purchase	20,000
5-1-2021	Goods sold to Ramu for cash	50,000
8-1-2021	Machinery sold	25,000
10-1-2021	Rent paid	15,000
15-1-2021	Goods sold to Rajesh	10,000
16-1-2021	Cash received from Rajesh	10,000
18-1-2021	Commission received	25,000
20-1-2021	Advertisements	10,000
25-1-2021	Salaries paid	20,000

Solution:

Dr		Simple Cash Book			Cr		
Date	Particulars	L	Amount	Date	Particulars	L	Amount
		F				F	
1-1-2021	To Balance b/d		1,00,000	2-1-2021	By Purchases A/c		25,000
5-1-2021	To Sales A/c		50,000	5-1-2021	By Furniture A/c		20,000
8-1-2021	To Machinery A/c		25,000	10-1-2021	By Rent A/c		15,000
16-1-2021	To Rajesh A/c		10,000	20-1-2021	By Advertisements		10,000
18-1-2021	To commission A/c		25,000	25-1-2021	A/c		20,000
				31-1-2021	By Salaries A/c		1,20,000
					By balance c/d		
			2,10,000				2,10,000
1-2-2021	To balance b/d		1,20,000				

*** 15-1-2021 Goods sold to Rajesh is a credit transaction hence it is not shown in cash. Cash book records cash related transactions only****

4.7.5 From the following particulars prepare Double Column Cash Book in the books of Samrat Merchants

Date	Transactions	Amount
1-2-2021	Balance of Cash	80,000
2-2-2021	Goods purchased from Ramu for cash	20,000
5-2-2021	Machinery purchased	10,000
8-2-2021	Goods sold to Ravi for cash	60,000
10-2-2021	Machinery sold	10,000
15-2-2021	Rent paid	10,000
18-2-2021	Goods sold to Robins	20,000
20-2-2021	Cash received from Robins (Discount allowed 2,000)	18,000
21-2-2021	Goods Purchased from Ranjith	25,000
22-2-2021	Cash paid to Ranjith for full settlement of his account	22,000
23-2-2021	Cash received from Tarun (Discount allowed 1,000)	9,000
24-2-2021	Cash paid to Jagadish (Discount received 2,000)	18,000
25-2-2021	Advertisement expenses	5,000
28-2-2021	Salaries paid	25,000

Important Points to be noted while preparing Three Column Cash Book	
1	Credit transactions should be ignored
2	Contra entries: Certain transactions required to be recorded in both Cash and Bank columns in three column cash book. Such transactions are Contra entries. For example, Cash withdrawn from bank for office use, in this case Cash balance increases and bank balance decreases, hence it should be recorded in cash column on the debit side and in bank column on the credit side. Another case Cash deposited in to Bank, in this case, Cash balance decreases and bank balance increases, hence it should be recorded in bank column on Debit side and in Cash column on the credit side.
3	Cash withdrawn from bank for personal use should be treated as drawings. It should be recorded in credit side of the bank column and specifying as drawing
4	Receipt of Cheques: When cheque received from customers not deposited into bank on the same day of receipt, it should be recorded in debit side of the cash column only. If received cheques deposited into bank on the same day of receipt, it should be recorded in debit side of the Bank column only
5	Receipt of Cheques: When cheques received from customers not deposited into bank on the same day of receipt, and deposited on another day, first it should be recorded in debit side of the cash column only, later the cheques sent for collection to the bank treated as cash deposited into bank.
6	Payment through Cheques: Directly enter in credit side of the Bank Column
7	Bank Charges: Directly enter in credit side of the Bank Column because bank charges deducted by Bank directly from the customer account
8	Dishonour of cheques: Cheques sent to bank for collection dishonoured by Bank It should be entered in credit side of the bank column and specifying the name of customer who has given the cheque.
9	Amount directly deposited by the customer into our bank account is treated as a direct deposit into bank, hence it should be recorded directly in debit side of the Bank Column
10	Bank Overdraft: Bank overdraft is also called unfavourable balance or adverse balance which means payments are more than the receipts. It is shown as the credit side balance of the bank column in the triple column cash book

Solution: Sunil Traders Books

Dr

Three Column Cash Book

Cr

Date	Particulars	L F	Disc ount Allo wed	Cash	Bank	Date	Particulars	L F	Disc ount Rec eiv ed	Cash	Bank
1-3-2021	To Balance b/d			50,000	50,000	2-3-2021	By Purchases A/c				10,000
4-3-2021	To Sales A/c			50,000		6-3-2021	By Rent A/c				5,000
6-3-2021	To Furniture A/c			15,000		18-3-2021	By Rana A/c		2,000	23,000	
10-3-2021	To Sales A/c				20,000	22-3-2021	By Jagadish A/c		2,000	18,000	
15-3-2021	To Sales A/c			10,000		25-3-2021	By Transport expenses A/c			5,000	
20-3-2021	To Teja A/c		2,000	18,000		30-3-2021	By Rent A/c			8,000	
						31-3-2021	By Salaries A/c			20,000	
						31-3-2021	By Balance c/d			69,000	55,000
			2,000	1,43,000	70,000				4,000	1,43,000	70,000
1-4-2021	To Balance b/d			69,000	55,000						

4.7.7 Prepare Three Column Cash Book from the following transactions

Date	Transactions	Amount
1-4-2021	Cash Balance	75,000
1-4-2021	Bank Balance	60,000
2-4-2021	Cash Sales	50,000
5-4-2021	Machinery purchased and issued cheque	10,000
8-4-2021	Rent Paid by cheque	15,000
10-4-2021	Cash deposited in the bank	20,000
12-4-2021	Commission Received	5,000
13-4-2021	Cash received from Raju	18,000
15-4-2021	Paid maintenance expenses	5,000
18-4-2021	Received from Vinod (discount allowed 500)	14,500
20-4-2021	Received cheque from Anand and deposited in the bank	10,000
22-4-2021	Anand cheque was dishonoured	10,000
24-4-2021	Goods purchased from Ganesh for cash	15,000
25-4-2021	For office use cash withdrawn from bank	10,000
28-4-2021	Cheque issued to Ravi (discount received 200)	9,800
30-4-2021	Cash withdrawn for personal use	50,000

Solution:

Dr					Three Column Cash Book				Cr		
Date	Particulars	L · F	Disc out Allo wed	Cash	Bank	Date	Particulars	L · F	Dis cou nt Rec eiv ed	Cash	Bank
1-4-2021	To Balance b/d			75,000	60,000	5-4-2021	By Machinery A/c				10,000
2-4-2021	To Sales A/c			50,000		8-4-2021	By Rent A/c				15,000
10-4-2021	To Cash A/c				20,000	10-4-2021	By Bank A/c			20,000	
12-4-2021	To Commission			5,000		15-4-2021	By Maint. Exp A/c			5,000	
13-4-2021	To Raju A/c			18,000		22-4-2021	By Anand A/c				10,000
18-4-2021	To VinodA/c		500	14,500		24-4-2021	By Purchases A/c			15,000	
20-4-2021	To Anand A/c				10,000	25-4-2021	By Cash A/c				10,000
25-4-2021	To Bank A/c			10,000		28-4-2021	By Ravi A/c				9,800
						30-4-2021	By Drawings A/c		200	50,000	
						30-4-2021	By Balance c/d			82,500	35200
				500	1,72,500				200	1,72,500	90,000
1-5-2021	To Balance b/d			82,500	35,200						

4.7.8 Record the transactions in Three Column Cash Book of Sri .Murthy

Date	Transactions	Amount
1-5-2021	Cash in Hand	90,000
1-5-2021	Cash at Bank	50,000
2-5-2021	Cash received from Lasya (discount allowed 50)	950
5-5-2021	Salaries paid	5,000
8-5-2021	Cash Sales	10,000
10-5-2021	Paid to Pavan by cheque	500
12-5-2021	Withdraw cash from bank for office use	5,000
15-5-2021	Paid rent by Cheque	6000
18-5-2021	Deposited money into bank	5,000
20-5-2021	Received cheque from Anitha and cheques was deposited on the same day in bank	5000
22-5-2021	Received the dividend by a cheque and deposited into bank	2,000
24-5-2021	Commission paid by cheque	2,500
25-5-2021	With draw cash from bank for personal use	2,000
28-5-2021	Paid money to Gopal through a cheque to settle his account (discount received 100)	1,900
30-5-2021	Bank Charges shown in pass book	100

Dr						Cr					
Three Column Cash Book											
Date	Particulars	L · F	Disc out Allo wed	Cash	Bank	Date	Particulars	L · F	Disc out Rec eiv ed	Cash	Bank
1-5-2021	To Balance b/d			90,000	50,000	5-5-2021	By Salaries A/c			5,000	
2-5-2021	To Lasya A/c		50	950		10-5-2021	By Pavan A/c				500
8-5-2021	To Sales A/c			10,000		12-5-2021	By Cash A/c	C			5,000
12-5-2021	To Bank A/c	C		5,000		15-5-2021	By Rent A/c				6,000
18-5-2021	To CashA/c	C			5,000	18-5-2021	By Bank A/c	C		5,000	
20-5-2021	To AnithaA/c				5,000	24-5-2021	By Commission A/c				2,500
22-5-2021	To Dividend A/c				2,000	25-5-2021	By Drawings A/c				2,000
						28-5-2021	By Gopal A/c		100		1,900
						30-5-2021	By Bank Charges A/c				100
						31-5-2021	By Balance c/d			95,950	44,000
			50	105,950	62,000				100	1,05,950	62,000
1-6-2021	To Balance b/d			95,950	44,000						

4.7.9 Enter the following transactions in Three Column Cash Book

Date	Transactions	Amount
1-6-2021	Cash in hand	60,000
1-6-2021	Bank Over Draft	5,000
3-6-2021	Brought additional capital	25,000
4-6-2021	Deposited cash into bank	10,000
6-6-2021	Issued Cheque to Vikram (discount received 500)	4,500
9-6-2021	Cash Purchases	5,000
12-6-2021	Cash Paid to Manasa	10,000
16-6-2021	Cash Sales	20,000
21-6-2021	Amount collected from Ranga (discount allowed 500)	7,500
23-6-2021	Paid into bank	5,000
24-6-2021	Withdraw cash from bank for personal use	2,000
25-6-2021	Cheques received from Anand	6,000
27-6-2021	Anand cheque was deposited in to bank	6,000
29-6-2021	Anand cheque dishonoured	6,000
30-6-2021	Paid rent through cheque	9,000
30-6-2021	Paid salaries in cash	20,000

Dr		Three Column Cash Book						Cr			
Date	Particulars	L · F	Dis co unt All ow ed	Cash	Bank	Date	Particulars	L · F	Dis co unt Re cei ve d	Cash	Bank
1-6-2021	To Balance b/d			60,000		1-6-2021	By Balance b/d				5,000
3-6-2021	To Capital A/c			25,000		4-6-2021	By Bank A/c	C		10,000	
4-6-2021	To Cash A/c				10,000	6-6-2021	By Vikram A/c		500		4,500
16-6-2021	To Sales A/c			20,000		9-6-2021	By Purchases A/c			5,000	
21-6-2021	To Ranga A/c		500	7,500		12-6-2021	By Manasa A/c			10,000	
23-6-2021	To Cash A/c	C			5,000	23-6-2021	By Bank A/c	C		5,000	
25-6-2021	To Anand A/c			6,000		24-6-2021	By Drawings A/c				2,000
27-6-2021	To Cash A/c	C			6,000	27-6-2021	By Bank A/c	C		6,000	
30-6-2021	To Balance c/d				5,500	29-6-2021	By Anand A/c				6,000
						30-6-2021	By Rent A/c				9,000
						30-6-2021	By Salaries A/c			20,000	
						30-6-2021	By Balance c/d			62,500	
			500	1,18,500	26,500				500	1,18,500	26,500
1-7-2021	To balance b/d			62,500		1-7-2021	By Balance b/d				5,500

4.7.10 Record the transactions in Three Column Cash Book of Sri .Ratnam

Date	Transactions	Amount
1-7-2021	Cash in hand	50,000
1-7-2021	Bank over draft	5,000
3-7-2021	Deposited into bank	5,000
5-7-2021	Cheque received from Krishna for full settlement of his account 3,000 Rs	2500
10-7-2021	Cheque from Krishna paid into bank	2500
10-7-2021	Draw from bank for office use	5000
14-7-2021	Wages paid	2,000
15-7-2021	Cheque issued to Sasi for his account full settlement of 1,000 Rs.	900
17-7-2021	Stationary purchased	500
21-7-2021	Drew from bank for personal use	2,000
23-7-2021	Bank Charges	200
24-7-2021	Received from Murali with discount 250 Rs	1,750
26-7-2021	Cheques issued for paying salaries	10,000
30-7-2021	Cash in excess of 1,000was deposited into bank	

Dr		Three Column Cash Book					Cr				
Date	Particulars	L F	Disc ount Allo wed	Cash	Bank	Date	Particulars	L F	Disc ount Rec eive d	Cash	Bank
1-7-2021	To Balance b/d			50,000		1-7-2021	By Balance b/d				5,000
3-7-2021	To Cash A/c	C			5,000	3-7-2021	By Bank A/c	C		5,000	
5-7-2021	To Krishna A/c		500	2,500		10-7-2021	By Bank A/c	C		2,500	
10-7-2021	To Cash A/c	C			2,500	10-7-2021	By Cash A/c	C			5,000
10-7-2021	To Bank A/c	C		5,000		14-7-2021	By Wages A/c			2,000	
24-7-2021	To Murali A/c		250	1,750		15-7-2021	By Sasi A/c		100		900
30-7-2021	To Cash A/c	C			48,250	17-7-2021	By Stationary A/c			500	
						21-7-2021	By Drawings A/c				2,000
						23-5-2021	By Bank charges				200
						26-7-2021	By Salaries A/c				10,000
						30-7-2021	By Bank A/c	C		48,250	
						31-7-2021	By Balance c/d			1,000	32,650
			750	59,250	55,750				100	59,250	55,750
1-8-2021	To Balance b/d			1,000	32,650						

4.7.11 Record the transactions in Analytical Petty Cash Book

Date	Transactions	Amount
1-1-2021	Cash received from main cashier	1,000
2-1-2021	Postage Charges	55
4-1-2021	Telephone Charges	45
5-1-2021	Stationary expenses	75
8-1-2021	Snacks	15
10-1-2021	Paid for carriage	10
11-1-2021	Wages	150
14-1-2021	Paid for Conveyance	40
16-1-2021	Printing Expenses	125
20-7-2021	Repairs	75
25-1-2021	Office Cleaning	150
28-1-2021	Paid Attender Raju on account	100
30-1-2021	Tea	25
31-1-2021	Cleaning	100

Analytical Petty Cash Book

Dr	Analytical Petty Cash Book					Cr			
Amount received	Date	Particulars	V. No.	Total Payments	Analysis of payments				
					Printing & Stationery	Postage Telegrams Telephone	Transport & Travelling	Personal Account	Other Expenses
1,000	1-1-2021	To Cash		55					
	2-1-2021	By Postage		45		55			
	4-1-2021	By Telephone exp		75	75	45			
	5-1-2021	By Stationary exp		15					15
	8-1-2021	By Snacks exp		10			10		
	10-1-2021	By Carriage exp		150					150
	11-1-2021	By Wages		40			40		
	14-1-2021	By Conveyance		125	125				
	16-1-2021	By Printing		75					75
	20-1-2021	By Repairs		150					150
	25-1-2021	By Cleaning exp		100				100	
	28-1-2021	By Raju		25					25
	30-1-2021	By Tea exp		100					100
	31-1-2021	By Cleaning exp		35					
	31-1-2021	By Balance c/d		1,000	200	100	50	100	515
1,000									
35	1-2-2021	To Balance b/d							
965	1-2-2021	To Cash							

4.7.12 Record the transactions in Petty Cash Book

Date	Transactions	Amount
1-2-2021	Cash received from main cashier	1,500
2-2-2021	Registration Charges for post	50
4-2-2021	Telephone Charges	25
6-2-2021	Printing expenses	125
11-2-2021	Tea expenses	50
12-2-2021	Cottage	150
14-2-2021	Wages	200
16-2-2021	Transport expenses	150
18-2-2021	Stationary expenses	75
19-2-2021	Repairs	100
22-2-2021	Office Cleaning	100
26-2-2021	Paid to clerk Apparao	150
27-2-2021	Auto charges	100
28-2-2021	Coolie charges	150

Dr

Analytical Petty Cash Book

Cr

Amount received	Date	Particulars	V · N o	Total Payments	Analysis of payments				
					Printing & Stationery	Postage Telegrams Telephone	Transport & Travelling	Personal Account	Other Expenses
1,500	1-2-2021	To Cash							
	2-2-2021	By Postage		50		50			
	4-2-2021	By Telephone exp		25		25			
	6-2-2021	By Printing exp		125	125				
	11-2-2021	By Tea exp		50					50
	12-2-2021	By Cottage exp		150			150		
	14-2-2021	By Wages		200					200
	16-2-2021	By Transport exp		150			150		
	18-2-2021	By Stationary exp		75	75				
	19-2-2021	By Repairs		100					100
	22-2-2021	By Cleaning exp		100					100
	26-2-2021	By Apparao		150				150	
	27-2-2021	By Auto charges		100			100		
	28-2-2021	By Coolie charges		150					150
	28-2-2021	By Balance c/d		75					
1,500				1,500	200	75	400	150	600
75	1-3-2021	To Balance b/d							
1425	1-3-2021	To Cash							

Test your Understanding



I. Fill in the Blanks

1. Journal is sub-divided into various books called -----
2. Subsidiary Books support the -----of business transactions
3. The division work is facilitated by -----
4. The Subsidiary books are the base for ----- accounts
5. Adjustment entries are recorded in -----

II. True or False

1. Ledger is a principal book of accounting
2. Ledger accounts are the base for preparation of trail balance
3. Purchases Book is maintained to record all the credit and cash purchases of goods
4. Bills Receivable Book is maintained to record all bills received from creditors
5. Bills Payable Book is maintained to record all bills accepted to debtors

III. Multiple Choice Questions (MCQ)

1. Which of the following is recorded in Journal Proper
a) Cash Discount b) Trade Discount Allowed c) Trade Discount Received d) Opening Entries
2. Debit note is used in
a) Purchases Book b) Sales Book c) Purchase Returns Book d) Sales Returns Book
3. Bills receivable book is a part of the following
a) Journal b) Ledger c) Balance Sheet d) Profit and Loss Account
4. The source document used for recording entries in Sales Book is
a) Invoice Received b) Invoice sent out c) Debit Note d) Credit Note
5. The periodical total of the Sales Book amount is posted into
a) Credit side of the Sales Account b) Debit side of the Sales Account
c) Credit side of the Cash Account d) Debit side of the Sales Account
6. Cash Book act as ----- and a----- at the same time
a) Journal, Ledger b) Ledger, Journal c) Journal, Statement d) None
7. Cash Book is an example of
a) Special Ledger b) Special Journal c) Special Journal and Ledger d) None
8. Contra entry not required for which of the following transaction
a) Cash withdrawn from Bank b) Cash Deposited into Bank
c) Cash withdraw from bank for personal use d) None
9. The system followed in petty cash book is
a) Accrual System b) Imprest system c) Cash System d) a&c
10. If the debit and credit aspects of a transaction are recorded in the cash book is called
a) Double Entry b) Single Entry c) Simple Entry d) Contra Entry

IV. Short Answer Questions (SAQ)

1. What are the Subsidiary Books explain clearly?
2. What are the objectives and Need of Subsidiary Books?
3. Differences between Subsidiary Books and Ledger
4. What is a petty Cash Book and explain methods of operating Petty Cash Book?
5. Explain Debit Note and Credit Note

V. Long Answer Questions (LAQ)

1. From the following information prepare a) Purchases Book b) Sales Book
c) Purchase Returns Book d) Sales Returns Book

Date	Transaction	Amount
1-1-2021	Goods Purchased from Amar	60,000
2-1-2021	Goods sold to Avinash	20,000
3-1-2021	Goods Purchased from Vanitha (trade discount 10%)	40,000
4-1-2021	Goods Sold to Sastry trade discount 10%	50,000
5-1-2021	Purchases goods for cash	20,000
5-1-2021	Goods sold for cash	10,000
8-1-2021	Charan Purchased goods(trade discount 20%)	10,000
9-1-2021	Chinni sold goods	50,000
10-1-2021	Goods returned to Amar	2,000
16-1-2021	Goods Returned from Avinash	4,000
18-1-2021	Goods returned from Sastry	2,000
20-1-2021	Goods Returned to Vanitha	4,000
25-1-2021	Goods Purchased from Avanthi for cash	5,000
31-1-2021	Furniture sold to Raju	10,000

2. From the following information prepare a) Purchases Book b) Sales Book c) Purchase Returns Book d) Sales Returns Book and Ledger accounts.

Date	Transaction	Amount
1-2-2021	Goods Purchased from Ravikanth	80,000
4-2-2021	Goods sold to Viswanadh	50,000
5-2-2021	Ranganadh purchased goods (trade discount 10%)	40,000
7-2-2021	Vishnu sold goods with trade discount 5%	50,000

9-2-2021	Machinery Purchase	80,000
12-2-2021	Furniture sold on for credit	15,000
14-2-2021	Krishna Purchases goods	25,000
15-2-2021	Ravikiran sold goods	15,000
17-2-2021	Goods returned to Ravikanth	2,000
20-2-2021	Goods Returned from Viswanadh	2,000
24-2-2021	Goods returned from Ranganadh	2,000
26-2-2021	Goods Returned to Vishnu	6,000
27-2-2021	Good purchased from Kasi 20,000Rs but cash paid	15,000
28-2-2021	Goods sold to Janaki Rs.50,000,cash received	30,000

3. From the following transactions prepare Single Column Cash Book

Date	Transactions	Amount
1-1-2021	Opening balance	50,000
5-1-2021	Goods sold to Rajini for cash	45,000
8-1-2021	Machinery purchase	20,000
9-1-2021	Goods Purchased from Ramu for cash	20,000
11-1-2021	Machinery sold	15,000
13-1-2021	Rent paid	5,000
15-1-2021	Goods sold to Satish	20,000
17-1-2021	Cash received from Satish	20,000
22-1-2021	Commission received	15,000
28-1-2021	Office expenses	1,000
31-1-2021	Salaries paid	10,000

4. From the following transactions prepare Double column cash book

Date	Transactions	Amount
1-1-2021	Balance of Cash	60,000
4-1-2021	Goods purchased from Rajesh for cash	10,000
5-1-2021	Furniture purchase	20,000
10-1-2021	Goods sold to Ravi for cash	50,000
15-1-2021	Furniture sold	15,000
16-1-2021	Advertisement expenses	10,000
17-1-2021	Goods sold to Ram	20,000
18-1-2021	Cash received from Ram (Discount allowed 1,000)	19,000
20-1-2021	Goods Purchased from Rao	5,000
22-1-2021	Cash paid to Rao for full settlement of his account	4,500
24-1-2021	Cash received from Satish (Discount allowedRs.2,000)	8,000

25-1-2021	Cash paid to Apparao (Discount received Rs.500)	19,500
26-1-2021	Office expenses	2000
31-1-2021	Rent Paid	5,000
31-1-2021	Salaries paid	20,000

5. From the following transactions prepare Three Column Cash Book

Date	Transactions	Amount
1-5-2021	Cash Balance	95,000
1-5-2021	Bank Balance	50,000
2-5-2021	Good purchased from Ravikanth	25,000
4-5-2021	Goods purchased and issued a cheque	10,000
6-5-2021	Commission paid by cheque	15,000
9-5-2021	Cash deposited in the bank	30,000
10-5-2021	Cheque Received from Ravikanth	25,000
12-5-2021	Paid office expenses	5,000
16-5-2021	Received from Vani (discount allowed 500)	24,500
18-5-2021	Received cheque from Kiran and deposited in the bank	20,000
20-5-2021	Ravi Kanth cheque was dishonoured	25,000
22-5-2021	Goods Purchased	10,000
26-5-2021	For office use cash withdrawn from bank	10,000
29-5-2021	Cheque issued to Rajesh (discount received 500)	9,500
31-5-2021	Paid salaries by cash 10,000 and by cheque	15,000

6. Prepare analytical Petty Cash Book

Date	Transactions	Amount
1-3-2021	Cash received from main cashier	900
3-3-2021	Postal Stamps	15
5-3-2021	Telephone Charges	15
8-3-2021	White papers	25
10-3-2021	Cleaning charges	50
12-3-2021	Carriage expenses	75
15-3-2021	Wages	100
17-3-2021	Travelling expenses	35
18-3-2021	Stationary expenses	55
20-3-2021	Repairs	75
21-3-2021	Postal Registration charges	50
25-3-2021	Paid to clerk Ramu	100
29-3-2021	Bus charges	50
31-3-2021	Tea and snacks expenses	60

VI. Additional Resources for Advanced Learning

Study Material (Handouts):

<https://lun yax.files.wordpress.com/2014/04/group-4.pdf>

Reference Text Books:

1. R L Gupta & V K Gupta, Principles and Practice of Accounting, Sultan Chand & Sons
2. S.P. Jain & K.L Narang, Accountancy-I, Kalyani Publishers
3. Tulasian, Accountancy -I, Tata McGraw Hill Co.

E - Text Books:

https://icmai.in/upload/Students/Syllabus-2012/Study_Material_New/Foundation-Paper2-Revised.pdf

<https://icmai.in/upload/Students/Syllabus2016/Foundation/Paper-2New-29012021.pdf>

<https://d2cyt36b7wnvt9.cloudfront.net/exams/wp-content/uploads/2020/03/06164311/cs-foundation-paper4.pdf>

<http://www.ddegjust.ac.in/studymaterial/bba/bba-104.pdf>

YouTube Links:

<https://www.youtube.com/embed/HG7uUnPIBuE>

<https://www.youtube.com/embed/JAKVim3ICsI>

Power Point Presentations:

https://www.slideshare.net/takshilalearning/accounting-process-subsiary-books?next_slideshow=1



VII. Suggested Activity

1. Visit a firm (Individual or Group) and observe the maintenance of subsidiary books
2. Problem Solving Exercises
3. Learn Computer based Accounting system through tally



Answers



II. True or False

II. True or False					
Q.No	1.T	2.T	3.F	4.F	5.F

I. Fill in the Blanks

I. Fill in the Blanks					
Q.No	Subsidiary Books	Classification	Subsidiary Books	Ledger	Journal Proper

III. Multiple Choice Questions (MCQ)

III. Multiple Choice Questions (MCQ)										
Q.No	1.D	2.C	3.A	4.B	5.A	6.A	7.B	8.C	9.B	10.D

Glossary



Subsidiary Books: Journal is sub-divided into various books, those books are called Subsidiary Books.

Purchases Book: Purchases Book is a Book maintained to record all the credit purchases of goods.

Purchase Returns Book: Book Maintained to record all goods returned to the suppliers.

Sales Book: Sales Book is a Book maintained to record all the credit sales of goods.

Sales Returns Book: Book Maintained to record all goods returned by the customers.

Cash Book: Cash Book is Book maintained to record all the cash receipts and payments.

Bills Receivable Book: Book Maintained to record all bills received from debtors.

Bills Payable Book: Book Maintained to record all bills accepted to creditors.

Journal Proper: Used to record those transactions for which there is no separate book. Journal proper is used to record adjustment entries, rectification entries, opening and closing entries.

Debit Note: Debit Note is a document/voucher which is prepared at the time of purchase returns by stating that suppliers account is debited in the books of the sender business concerns

Credit Note: Credit Note is a document/voucher which is prepared at the time of sales returns from the customers by stating that customer account is credited in accounting books of the business concerns

Invoice: Invoice is complete details of goods sent or received with a statement of the amount receivable or amount payable

Contra Entry: The debit and credit aspect of a transaction are recorded in the cash book is called contra entry, it means both cash and bank columns are effected with a single transaction, for example cash withdrawn from bank in this transaction cash balance increases and the bank balance decreases.

Petty Cash Book: Petty cash book is maintained by the business concerns to record the petty cash expenses occurred during the business operations.

Imprest System: Imprest system is a method of advancing by the main cashier to petty cashier for meeting the petty cash expenses depends on the amount spent by the petty cashier for petty expenses.

Word Scramble?



1. _____ will cause a Business Stockholders' Equity to increase.

EEERSUVN

List Of Top Accounting & Finance Courses

1. C.A (Chartered Accountant)
2. CMA (Certified Management Accountant)
3. CS (Company Secretary)
4. ACCA (Association of Chartered Certified Accountants)
5. CFA (Chartered Financial Analyst)
6. FRM (Financial Risk Management)
7. CPA (Certified Public Accountant)

CHAPTER -V

TRIAL BALANCE

Learning Outcomes

1. Understand the meaning and characteristics of trial balance
2. Describe the need for preparation of trial balance
3. Examine the methods of preparation of trial balance
4. Develop the skill of preparation of trial balance

Contents

- 5.1 Introduction
- 5.2 What is a trial balance?
- 5.3 Why do we need to prepare trial balance?
 - 5.4 How to prepare trial balance?
 - 5.5 What if trial balance does not tally?
- 5.6 Limitations of trial balance
- 5.7 Practical Illustrations

5.1 Introduction:

Accounting process encompasses many stages. In the first stage transactions and events are analysed and recorded in the form of journal entries in journal, or recorded in appropriate subsidiary journals. The entries are then classified and posted into the relevant accounts in the ledger in the next stage. The various accounts in ledger are then balanced to find out the balances of accounts in the next stage. So far students have come across the above-mentioned process in the initial stages of accounting also known as book keeping.

In the next stage the balances of various accounts should be summarized to set a stage for analysis and interpretation by preparation of final accounts. Statement prepared to summarize the ledger balances is called Trial balance. Preparation of trial balance is a key stage in accounting process. Trial balance acts as a link between book keeping and accounting. Trial balance is discussed in this chapter.

5.2 What is a trial balance?

We follow double entry system which is based on the 'principle of dual aspect'. As per dual aspect principle every transaction has two aspects one is giving aspect and another is receiving aspect. We record the transaction into our books by considering both the aspects and by assigning debits and credits to those aspects. So, every debit has a corresponding credit. For each and every rupee debited there should be a rupee of credit. If an account is credited with a sum amount there must be other account(s) debited with the same amount.

Since we have been following double entry system of accounting, on any day the total of debit balances and total of credit balances shown by our ledger should be equal. This rule of thumb will help us in checking the arithmetical accuracy of our books of accounts.

To ensure the arithmetical accuracy of our books of accounts, we prepare a statement by summarizing the balances shown by various accounts in ledger. The statement is known as trial balance. Summarization of the balances of ledger is done by preparation of trial balance. Hence, Trial balance is a summarized ledger.

“Trial balance is a statement which shows the totals or balances of ledger accounts on a particular date, prepared to check the arithmetical accuracy of books of accounts”.

5.2.1 Definition of Trial balance:

According to R.N. Carter

“A trial balance is a schedule or a list of balances both debit and credit extracted from the accounts in the ledger and including the cash and bank balances from the cash book.”

అంకణా

అంకణా-పరిచయం:

అకౌంటింగ్ ప్రక్రియలో అంకణాతయారీ అనేది కీలకమైన దశ. ఇది ఆవర్తా కు ముగింపు లెక్కల తయారీ కి మధ్య వంతెనలా పనిచేస్తుంది. జంట పద్ధతి విధానము ద్వంద్వ రూప భావన పై ఆధారపడి ఉంటుంది. ద్వంద్వ రూప భావన ప్రకారం ప్రతీ వ్యవహారము యొక్క డెబిట్ మరియు క్రెడిట్ అంకాలను పరిగణిస్తూ వ్యవహారాలను పుస్తకాలలో నమోదు చేస్తారు. కావున ఏ సమయం లో అయినా ఆవర్తా చూపించు మొత్తం డెబిట్ నిల్వలు మరియు మొత్తం క్రెడిట్ నిల్వలు సమానంగా ఉండాలి. అలా ఉన్నట్లయితే ఖాతా పుస్తకములు అంకగణిత ఖచ్చితత్వమును కలిగి ఉన్నట్లుగా భావించవచ్చు.

ఖాతా పుస్తకాల యొక్క అంకగణిత ఖచ్చితత్వమును నిర్ధారించడానికి, లెడ్జర్లోని వివిధ ఖాతాల యొక్క డెబిట్ మరియు క్రెడిట్ వైపు మొత్తాలనులేదా ఆ ఖాతాలనిల్వలను సంగ్రహించి ఒక నివేదికను తయారు చేస్తారు. ఆ నివేదికను అంకణా అని అంటారు.

అంకణా యొక్క లక్షణాలు:

- ✓ అంకణా అనునది ఒక నివేదిక మాత్రమే ఇది ఖాతా కాదు.
- ✓ అంకణాను ఒక నిర్దిష్ట సమయములో ఉన్న ఆవర్తా నిల్వలను చూపుతుంది.
- ✓ ఖాతా పుస్తకాల అంకగణిత ఖచ్చితత్వాన్ని తనిఖీ చేయడానికి అంకణాను ఏ తేదీనైనా తయారు చేయవచ్చు, కానీ ముగింపు లెక్కల తయారీకి ముందు మాత్రము దీనిని తప్పనిసరిగా తయారు చేయాలి.
- ✓ అంకణా లోని డెబిట్ , క్రెడిట్ మొత్తములు సరి తూగినట్లయితే ఖాతా పుస్తకములు అంకగణిత ఖచ్చితత్వమును కలిగి ఉన్నట్లుగా భావించవచ్చును.
- ✓ అంకణా లోని డెబిట్ , క్రెడిట్ మొత్తములు సరి తూగక పోతే ఖాతా పుస్తకముల లో తప్పులు ఉన్నట్లుగా భావిస్తారు.

అంకణాతయారీ పద్ధతులు: అంకణా ను రెండు పద్ధతులలో తయారు చేయవచ్చు

మొత్తముల పద్ధతి:

ఈ పద్ధతి లో లెడ్జర్ లోని వివిధ ఖాతాల యొక్క డెబిట్ మరియు క్రెడిట్ వైపుల మొత్తాలతో అంకణాతయారు చేయబడుతుంది.

According to J.R. Batliboi,

“A trial balance may be defined as a statement of debit and credit balances extracted from the ledger with a view to testing the arithmetical accuracy of the books.”

The characteristics of trial balance are given below.

5.2.2 Characteristics of Trial balance:

- Trial balance is a statement not an account.
- It is prepared on a particular day but not for a period of time. So, it is a point statement not a periodic statement.
- It is prepared by taking either the debit and credit totals or balances of ledger accounts.
- The Debit and credit totals or debit and credit balances are shown in debit and credit columns/sides of trial balance respectively.
- Trial balance can be prepared on any date to check the accuracy of books, but it must be prepared before the preparation of final accounts.
- Agreement of both sides of trial balance indicates the reasonable accuracy of books of accounts.
- Disagreement of both sides of trial balance indicates the presence of unrectified errors in books of accounts.
- It is helpful in preparation of final accounts.

5.3 Why do we need to prepare trial balance?

Need for trial balance is explained below

- i. The arithmetical accuracy of the books of accounts can be verified by preparation of trial balance. The tally of debit side total with credit side totals in trial balance indicates that the books of accounts are arithmetically accurate.
- ii. By preparation of trial balance, one can notice that the errors have taken place in books of accounts. Disagreement of trial balance indicates that the books of accounts contain some errors. Errors can be located and rectified before the preparation of final accounts.
- iii. The trial balance is a summarized ledger, one can know the balance of any ledger account by referring to trial balance. However, to get complete details of an account one should go to ledger.
- iv. Preparation of trial balance is the basis for preparation of final accounts. It becomes very difficult to prepare final accounts from ledger without trial balance. Trial balance serves as a connecting link between ledger and final accounts.

నిల్వల పద్ధతి:

ఈ పద్ధతి లో లెడ్డర్ లోని వివిధ ఖాతాల యొక్క డెబిట్ లేదా క్రెడిట్ నిల్వ లతో అంకణాను తయారు చేస్తారు. ముగింపు లెక్కల తయారీలో ఈ పద్ధతి ఎక్కువ ఉపయోగకరంగా ఉంటుంది.

అంకణాయొక్క ఆవశ్యకత:

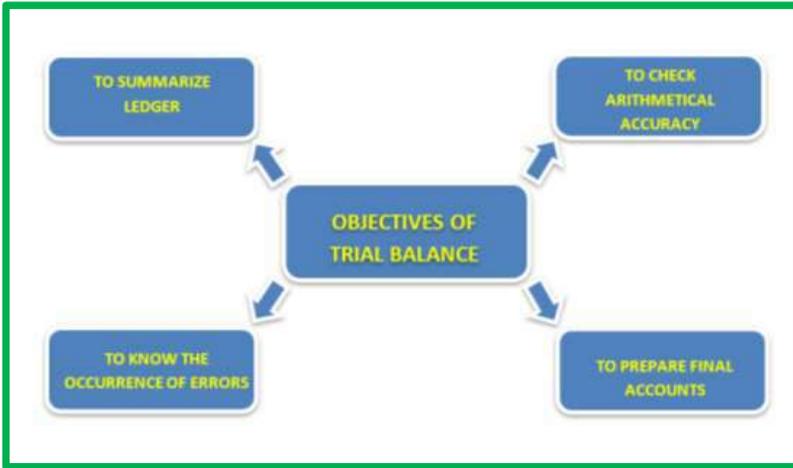
- i. ఖాతా పుస్తకాల యొక్క అంకగణిత ఖచ్చితత్వమును అంకణాతయారీ ద్వారా ధృవీకరించవచ్చు.
- ii. అంకణాతయారు చేయడం ద్వారా ఖాతా పుస్తకములలో తప్పులు ఉన్న విషయము తెలుసుకొనవచ్చు. అంకణాయొక్క రెండు వైపులా సరితూగక పోవడం ఖాతా పుస్తకాలు తప్పులను కలిగి ఉండుటను సూచిస్తుంది. తద్వారా ముగింపులెక్కల తయారీకి ముందుగానే తప్పులను గుర్తించి సరిదిద్దవచ్చు.
- iii. అంకణాఅనేది లెడ్డర్ యొక్క సంక్షిప్త రూపము. ఒక నిర్ణీత తేదీన ఏదైనా ఒక ఖాతా నిల్వ ను అంకణాచూసి తెలుసుకోవచ్చు. అయితే, ఒక ఖాతా యొక్క పూర్తి వివరాలను పొందాలంటే లెడ్డర్ లోనే చూడాలి.
- iv. ముగింపు లెక్కల తయారీకి అంకణా ఆధారము గా ఉంటుంది. అంకణా, లెడ్డర్ మరియు ముగింపులెక్కల మధ్య అనుసంధానముగా పనిచేస్తుంది.

అంకణా పరిమితులు:

1. అంకణారెండు వైపులా సరితూగడము అకౌంట్స్ పుస్తకాల ఖచ్చితత్వం మరియు పరిపూర్ణతకు ఖచ్చితమైన రుజువు కాదు. ఇది మొత్తం డెబిట్లు మొత్తం క్రెడిట్లకు సమానమని మాత్రమే నిర్ధారిస్తుంది, కానీ ఖాతా పుస్తకాలు పూర్తి గా వ్రాయబడ్డాయని మరియు తప్పులు లేవనీ పూర్తిగా ధృవీకరించదు. అన్ని తప్పులనూ అంకణా వెల్లడి చేయ్యదు.

అంకణా తయారీ ద్వారా బహిర్గతం కాని కొన్ని తప్పులు:

- ❖ ఒక లావాదేవీని పుస్తకాలలో నమోదు చేయడము పూర్తిగా మరచిపోవుట లేదా ఒకే వ్యవహారమును చిట్టాలో పలుమార్లు రికార్డు చేయటము.
- ❖ ఒక చిట్టాపద్ధును లెడ్డర్ లో ఖాతాలకుపోస్ట్ చేయడం మరచిపోవుట లేదా ఒకే చిట్టాపద్ధును పలుమార్లు లెడ్డర్ లో ఖాతాలకు పోస్ట్ చేయడం
- ❖ చిట్టా లో తప్పు మొత్తాన్ని నమోదు చేయడం.
- ❖ చిట్టా పద్ధు వ్రాసేటప్పుడు ఒక ఖాతాను లేదా రెండు ఖాతాలను పొరబాటుగా డెబిట్ లేదా క్రెడిట్ చేయుట. చిట్టాపద్ధును లెడ్డర్ లో తప్పు ఖాతాలలో పోస్ట్ చేయడం.
- ❖ రెవెన్యూ వ్యయాన్ని మూలధన వ్యయంగా పరిగణించి పద్ధు వ్రాయుట.
- ❖ ఒక తప్పు యొక్క ప్రభావమును మరొక తప్పు సరిబెట్టుట.



5.4 How to prepare Trial balance?

Trial balance can be prepared under two methods

1. Total method
2. Balance method

5.4.1 Total method:

Under this method Trial balance is prepared with the totals of debit and credit sides of the ledger accounts. Totals of debit side and credit side of every ledger account are entered in the respective columns/sides of trial balance. Ledger accounts need not be balanced to prepare trial balance under this method. The sum total of debit column should be equal with the sum total of credit column. This method is not popular as it is not much helpful in preparation of final accounts.

Format of Trial balance under total method:

Trial balance as on.....

Name of the account	L.F	Debit Total	Credit total

2. అకౌంటింగ్ యొక్క డబుల్ ఎంట్రీ సిస్టమ్ను ఉపయోగించే సంస్థలు మాత్రమే అంకణాతయారు చేస్తాయి. సింగిల్ ఎంట్రీ సిస్టమ్ను ఉపయోగించే చిన్న సంస్థలు ట్రయల్ బ్యాలెన్స్ను తయారు చేయలేవు.

అంకణా యొక్క నమూనా :

..... తేదీ నాటి అంకణా

ఖాతా పేరు	డెబిట్ నిల్వ రూ.	క్రెడిట్ నిల్వ రూ.
కొనుగోళ్ళు	XXX	
కొనుగోలు వాపసులు		XXX
అమ్మకాలు		XXX
అమ్మకాల వాపసులు	XXX	
మూలధనము		XXX
నొంతవాడకాలు	XXX	
ఖర్చులు	XXX	
ఆదాయాలు		XXX
నష్టాలు	XXX	
లాభాలు		XXX
స్థిర ఆస్తులు	XXX	
కంటికి కనిపించని ఆస్తులు	XXX	
క్రుత్రిమ ఆస్తులు	XXX	
పెట్టుబడులు	XXX	
అప్పులు		XXX
వివిధ రుణగ్రస్తులు	XXX	
వివిధ రుణదాతలు		XXX
వసూలు బిల్లులు	XXX	
చెల్లింపు బిల్లులు		XXX
చేతిలో నగదు/బ్యాంకులో నగదు	XXX	
బ్యాంక్ ఓవర్ డ్రాఫ్ట్		XXX
సరుకు	XXX	
ఏర్పాట్లు/రిజర్వు/నిధులు		XXX
మొత్తం	XXXXXX	XXXXXX

5.4.2 Balance method:

In this method the balances of ledger accounts are used to prepare Trial balance. Debit and credit balances of ledger accounts are taken into respective debit and credit columns/sides in trial balance. The total of debit balances should be equal to the total of credit balances. Ledger accounts should have been balanced to prepare trial balance under this method. This method is popular among business firms. This method is very much helpful in preparation of final accounts.

Format of Trial balance under balance method:

Trial balance as on.....

Name of the account	L.F	Debit balance	Credit balance

Alternatively, Trial balance under balances method can be prepared in the following manner

Trial balance as on.....

Debit balances	Amount	Credit balances	Amount

5.4.3 Total Method Vs Balance Method

S.No	Total Method	Balance Method
1	Totals of debit and credit sides of ledger accounts are used to prepare trial balance under this method.	Balances of ledger accounts are used to prepare trial balance under this method.
2.	Ledger accounts need not be balanced to prepare trial balance in this method	Ledger accounts must be balanced to prepare trial balance under this method.
3	This method is not much helpful in preparation of final accounts	This method is Very helpful in preparation of final accounts
4.	This method is not a popular method	This method is very Popular method

అంకణారెండు వైపులా సరితూగకపోతే?

అంకణ రెండు వైపులా సరితూగకపోతే అకౌంట్ పుస్తకాలలో లో కొన్ని దోషములు ఉన్నాయని అర్థము. అంకణ రెండువైపులా మొత్తము సరిపడకపోతే, వ్యత్యాసమును సరిచేయుట కొరకు ఖాతా పుస్తకములలోని తప్పులను గుర్తించి, సవరణ చేస్తారు. అయినప్పటికీ అంకణ సరిపడకపోతే, అనామతు ఖాతా అనే ఒక ఊహాత్మక ఖాతా తెరచి వ్యత్యాస మొత్తమును ఆ ఖాతాకు మళ్ళిస్తారు. దీనివలన ముగింపు లెక్కల తయారీలో ఆలస్యము జరుగకుండా ఉంటుంది.

5.4.4 Guide lines for preparation of Trial balance

Balance method of trial balance is widely used for preparation of trial balance. Guide lines for Preparation of trial balance under balance method is explained under:

- ✓ Ensure that all transactions are recorded in books of accounts properly.
- ✓ Ensure that all journal entries or totals of subsidiary journals are properly posted to various ledger accounts.
- ✓ Ensure that all the accounts are balanced properly.
- ✓ Get the updated balance of cashbook
- ✓ Rectify the errors found if any committed in journalising, ledger posting and balancing.
- ✓ Calculate the total amount of debtors by making a list with balances of different accounts of debtors, follow the same procedure to know the total amount of creditors, bills receivables and bills payables. Take the total amounts to trial balance.
- ✓ Record the balances of ledger in trial balance on respective column/side.

The Balances usually recorded on debit side/debit column of trial balance are:

1. Assets of all type
2. Expenses of all type
3. Losses of all type
4. Drawings
5. Purchases (cash and credit)
6. Sales returns

The Balances usually recorded on credit side/credit column of trial balance are:

1. Liabilities of all type
2. Incomes of all type
3. Profits or gains of all type
4. Capital
5. Sales (cash and credit)
6. Purchase returns
7. Provisions, reserves, funds

5.4.5 Model of Trial Balance:General model of trial balance is given below

Trial balance ofas on

Name of the Account	Debit Balance Rs.	Credit Balance Rs.
Purchases	XXX	
Purchases Returns		XXX
Sales		XXX
Sales Returns	XXX	
Capital		XXX
Drawings	XXX	
Expenses	XXX	
Incomes		XXX
Losses	XXX	
Profits/Gains		XXX
Fixed Assets	XXX	
Intangible assets	XXX	
Fictitious assets	XXX	
Investments	XXX	
Loans and borrowings		XXX
Sundry debtors	XXX	
Sundry creditors		XXX
Bills Receivable	XXX	
Bills Payables		XXX
Cash in hand	XXX	
Cash at bank	XXX	
Bank Over Draft		XXX
Stock	XXX	
Provisions		XXX
Reserves /Funds		XXX
Total	XXXX	XXXX

5.4.6 Preparation of Trial Balance:

Preparation of trial balance from ledger is explained below:

The Ledger of Shanti is as under:

Dr				Cash Account				Cr			
Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount				
1-7-2021	To Capital a/c		2,00,000	2-7-2021	By Purchase a/c		1,00,000				
5-7-2021	To Sales a/c		75,000	10-7-2021	By Ramesh a/c		50,000				
12-7-2021	To Ravi a/c		50,000	14-7-2021	By Furniture a/c		25,000				
22-7-2021	To Furniture a/c		20,000	18-7-2021	By Office Expenses a/c		5,000				
				21-7-2021	By Machinery a/c		20,000				
				28-7-2021	By Commission		10,000				
				30-7-2021	By Rent a/c		25,000				
				31-7-2021	By Salaries a/c		50,000				
				31-7-2021	By Balance c/d		60,000				
			3,45,000				3,45,000				
1-8-2021	To balance b/d		60,000								

Dr				Capital Account				Cr			
Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount				
31-7-2021	To Balance c/d		2,00,000	1-7-2021	By Cash a/c		2,00,000				
			2,00,000				2,00,000				
				1-8-2021	By Balance b/d		2,00,000				

Dr				Purchases Account				Cr			
Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount				
2-7-2021	To Cash a/c		1,00,000	31-7-2021	By Balance c/d		1,50,000				
3-7-2021	To Ramesh a/c		50,000								
			1,50,000				1,50,000				
1-8-2021	To Balance b/d		1,50,000								

Dr**Ramesh Account****Cr**

Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount
10-7-2021	To Cash a/c		50,000	3-7-2021	By Purchase a/c		50,000
25-7-2021	To Purchase returns a/c		2,000	31-7-2021	By Balance c/d		2,000
			52,000				52,000
1-8-2021	To Balance b/d		2,000				

Dr**Sales Account****Cr**

Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount
31-7-2021	To Balance c/d		1,25,000	5-7-2021	By Cash a/c		75,000
			1,25,000	8-7-2021	By Ravi a/c		50,000
							1,25,000
				1-8-2021	By Balance b/d		1,25,000

Dr**Ravi Account****Cr**

Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount
8-7-2021	To Sales a/c		50,000	12-7-2021	By Cash a/c		50,000
31-7-2021	To Balance c/d		5,000	24-7-2021	By Sales returns a/c		5,000
			55,000				55,000
				1-8-2021	By Balance b/d		5,000

Dr**Furniture Account****Cr**

Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount
14-7-2021	To Cash a/c		25,000	22-7-2021	By Cash a/c		20,000
				31-7-2021	By Balance c/d		5,000
			25,000				25,000
1-8-2021	To Balance b/d		5,000				

Dr**Office Expenses Account****Cr**

Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount
18-7-2021	To Cash a/c		5,000	31-7-2021	By Balance c/d		5,000
			5,000				5,000
1-8-2021	To Balance b/d		5,000				

Dr**Machinery Account****Cr**

Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount
21-7-2021	To Cash a/c		20,000	31-7-2021	By Balance c/d		20,000
			20,000				20,000
1-8-2021	To Balance b/d		20,000				

Dr**Sales Returns Account****Cr**

Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount
24-7-2021	To Ravi a/c		5,000	31-7-2021	By Balance c/d		5,000
			5,000				5,000
1-8-2021	To Balance b/d		5,000				

Dr				Purchase Returns Account				Cr	
Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount		
31-7-2021	To Balance c/d		2,000	25-7-2021	By Ramesh a/c				2,000
			2,000						2,000
				1-8-2021	By Balance b/d				2,000

Dr				Commission Account				Cr	
Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount		
28-7-2021	To Cash a/c		10,000	31-7-2021	By Balance c/d				10,000
			10,000						10,000
1-8-2021	To Balance b/d		10,000						

Dr				Rent Account				Cr	
Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount		
30-7-2021	To Cash a/c		25,000	31-7-2021	By Balance c/d				25,000
			25,000						25,000
1-8-2021	To Balance b/d		25,000						

Dr				Salaries Account				Cr	
Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount		
31-7-2021	To Cash a/c		50,000	31-7-2021	By Balance c/d				50,000
			50,000						50,000
1-8-2021	To Balance b/d		50,000						

In the ledger of Shanthi,

- i. The personal account of Ramesh is showing a debit balance of Rs 2,000 so he is assumed to be a debtor for Rs.2,000
- ii. The personal account of Ravi is showing a credit balance of Rs 5,000 so he is assumed to be a creditor for Rs.5,000
- iii. The balances of assets accounts, expenses accounts, purchases, sales returns, cash and debtors should be recorded on debit column of trial balance. So, Balances of Cash Rs. 60,000, purchases Rs.1,50,000, sales returns Rs.5000, Debtors Rs. 2,000, Furniture Rs. 5,000, Machinery Rs. 20,000, Office expenses Rs.5000, Commission Rs.10,000, Rent Rs.25,000, salaries Rs.50,000 should be recorded on debit column of the trial balance.
- iv. The balances of liabilities accounts, incomes accounts, sales, purchase returns, creditors should be recorded on credit column of trial balance. So, Balances of Capital Rs.2,00,000, sales Rs.1,25,000, creditors Rs.5,000, purchase returns Rs.2,000 should be recorded on credit column of trial balance.

Trial Balance of Shanti as on 31-07-2021

Name of Account	Debit Balances	Credit Balances
Cash	60,000	
Capital		2,00,000
Purchases	1,50,000	
Debtors	2,000	
Sales		1,25,000
Creditors		5,000
Furniture	5,000	
Office expenses	5,000	
Machinery	20,000	
Sales returns	5,000	
purchase returns		2,000
Commission	10,000	
Rent	25,000	
Salaries	50,000	
Total	3,32,000	3,32,000

5.5 What if trial balance does not tally?

The total of debit balances and credit balances in trial balance should be equal at any point of time. This implies that the trial balance is tallied or agreed. If trial balance does not tally it implies that books of accounts contain some errors. If trial balance does agree, then the amount of difference should be noted and all possible efforts should be made to locate all the errors in books. The identified errors should be rectified until the trial balance tally. If trial balance still does not agree due to unknown errors, an imaginary account is opened and the difference amount can be placed in it. The account so created is called “Suspense Account”. Suspense account is prepared to tally the trial balance and to avoid the delay in preparation of final accounts.

5.5.1 Suspense Account:

Suspense account is an imaginary account created to make the trial balance agree. The difference amount in trial balance would be placed in suspense account.

If the total of debit balances is more than the total credit balances in trial balance, the difference amount is placed on credit side of the suspense account. If total of debit balances is less than the total credit balances in trial balance, the difference amount is placed on debit side of the suspense account. Trial balance would be tallied by writing the balance of suspense account on shorter side of trial balance.

The balance in suspense indicates the net effect of unknown errors. The balance in suspense account would be affected by rectification of errors found. If all those errors found and rectified then the suspense account would be balanced automatically.

If suspense account shows a debit balance on the date of preparation of final accounts it is shown on assets side of the balance sheet. If suspense account shows a credit balance on the date of preparation of final accounts it is shown on liabilities side of the balance sheet.

5.5.2 Illustration: From the Balances of Vishwamitra prepare trial balance as on 31-03-2021

Balances	Amount	Balances	Amount
Land and Building	2,10,000	Creditors	32,000
Opening Stock	36,000	Cash in Hand	8,000
Sales	365,000	Capital	350,000
Carriages Inwards	4,000	Purchases	270,000
Salaries	18,000	Wages	12,000
purchase returns	12,000	bills receivables	21,000
Investments	136,000	Discount received	8,000
Furniture	53,000	Debtors	41,000
Borrowings	124,000	Interest paid	4,000
Postage	5,000	Cash at Bank	45,000
Sales returns	8,000	Office expenses	8,000
Clearing charges	5,000	Commission received	11,000
Bad Debts	12,000		

Trial Balance as on 31-03-2021

Debit balances	Amount Rs	Credit balances	Amount Rs
Purchases	2,70,000	Capital	3,50,000
Opening Stock	36,000	Borrowings	1,24,000
Wages	12,000	Commission received	11,000
Carriages Inwards	4,000	Discount received	8,000
Salaries	18,000	Sales	3,65,000
Postage	5,000	Purchase returns	12,000
Investments	1,36,000	Creditors	32,000
Furniture	53,000		
Office expenses	8,000		
Land and Buildings	2,10,000		
Sales returns	8,000		
Clearing charges	5,000		
Bad Debts	12,000		
bills receivables	21,000		
Cash in Hand	8,000		
Cash at Bank	45,000		
Debtors	41,000		
Interest paid	4,000		
Suspense A/c	6,000		
	9,02,000		9,02,000

In the above case the total of debit balances is Rs. 8,96,000 and total of credit balances is Rs. 9,02,000. The total of credit balances is in excess of Rs. 6,000 over total of debit balances. The difference Rs. 6,000 is placed in suspense account and trial balance is tallied by writing suspense account of Rs. 6,000 on shorter side(Debit).

Dr

Suspense Account

Cr

Particulars	Amount	Particulars	Amount
To Balance b/d (Difference in trial balance)	6,000		

5.6 Limitations of trial balance:

Following are the limitations of trial balance

1. Agreement of trial balance is not a conclusive proof of accuracy and completeness of books of accounts. It ensures that the total debits are equal to total credits, which not necessarily mean that books of accounts are complete and contain no errors. There are some errors which are not disclosed by Trial balance:
 - i. Error of recording the transactions twice and thrice
 - ii. Error of posting to ledger twice are thrice
 - iii. Error of omitting to enter a transaction in books
 - iv. Error of omitting to post an entry into accounts in ledger
 - v. Recording a wrong amount in journal
 - vi. Error of debiting or crediting a wrong account
 - vii. Error of posting to a wrong account
 - viii. Error of treating a revenue expenditure as capital expenditure and vice versa
 - ix. Compensation of one error by another error
2. Trial balance is prepared only by firms using double entry system of accounting. Small firms using single entry system of accounting cannot prepare trial balance.
3. The accuracy of financial results shown by profit and loss account and balance sheet are dependent on accuracy of trial balance. Trial balance prepared erroneously may lead to wrong financial results which are not true and fair.

5.7 PRACTICAL ILLUSTRATIONS

(PREPARATION OF TRIAL BALANCE WHEN LEDGER BALANCES ARE GIVEN)

5.7.1. From the following balances of Chandu Enterprises prepare a trial balance on 31-03-2021.

Ledger balances	Amount	Ledger balances	Amount
Capital	13,50,000	Creditors	12000
Debtors	32,000	Building	8,41,260
Opening Stock	63,250	Salaries	87,000
Office expenses	13,060	Commission Paid	12,670
Sales	3,21,080	Purchase returns	11,300
Income from investments	3,000	Cash in Hand	12,210
Freight	6,080	Computer	24,500
Purchases	2,24,900	Bills receivables	19,500
Discount Allowed	3,500	Sales returns	16,350
Loan from Kumar	80,000	Cash at bank	1,29,300

Furniture	3,20,000	Bills Payable	27,000
Interest Received	1,200		

Solution:

Trial balance of Chandu Enterprises as on 31-03-2021

Debit Balances	Amount	Credit balances	Amount
Debtors	32,000	Capital	13,50,000
Opening Stock	63,250	Sales	3,21,080
Office expenses	13,060	Income from investments	3,000
Freight	6,080	Loan from Kumar	80,000
Purchases	2,24,900	Interest Received	1,200
Discount Allowed	3,500	Creditors	12000
Furniture	3,20,000	Purchase returns	11,300
Buildings	8,41,260	Bills Payable	27,000
Salaries	87,000		
Commission Paid	12,670		
Cash in Hand	12,210		
Computer	24,500		
Bills receivables	19,500		
Sales returns	16,350		
Cash at bank	1,29,300		
Total	18,05,580	Total	18,05,580

5.7.2. Practical Illustration (Correction of Trial Balance): Trial Balance of Sri Krishna

Name of Account	Debit Balance	Credit Balance
Bank overdraft	265,000	
Purchases Returns		28,000
Wages	9,00,000	
Establishment Expenses	1,50,000	
Sales Returns		36,200
Capital		4,50,00,000
Land and Buildings	1,70,00,000	
Plant		40,00,000
Carriage outward		22,000
Discount allowed	32,600	
Reserve		2,21,000
Discount Received	22,000	
Commission paid	26,200	
Bills payables	3,89,000	
Machinery	2,60,00,000	
Stock	6,35,000	
Debtors		4,69,000
Creditors	6,12,200	
Furniture	20,00,000	
Sales		40,17,800
Purchases	18,80,000	
Manufacturing Expenses	6,25,000	
Loans and borrowings	32,39,000	
Carriage Inward	39,000	
Interest on Investment		21,000
Total	5,38,15,000	5,38,15,000

Is the above trial balance prepared correctly? If not prepare the correct trial balance.

CORRECTED TRIAL BALNCE OF SRI KRIHNA AS ON 31-03-2020

Name of the Account	Debit Balance	Credit Balance
Bank overdraft		265000
Purchases Returns		28,000
Wages	9,00,000	
Establishment Expenses	1,50,000	
Sales Returns	36,200	
Capital		4,50,00,000
Land and Buildings	1,70,00,000	
Plant	40,00,000	
Carriage outward	22,000	
Discount allowed	32,600	
Reserve		2,21,000
Discount Received		22,000
Commission paid	26,200	
Bills payables		3,89,000
Machinery	2,60,00,000	
Stock	6,35,000	
Debtors	4,69,000	
Creditors		6,12,200
Furniture	20,00,000	
Sales		40,17,800
Purchases	18,80,000	
Manufacturing Expenses	6,25,000	
Loans and borrowings		32,39,000
Carriage Inward	39,000	
Interest on Investment		21,000
Total	5,38,15,000	5,38,15,000

Test your Understanding



I. Fill in the Blanks

1. Trial balance is a summarized _____
2. Trial balance is prepared to check _____ of books of accounts
3. Trial balance is prepared with the _____ of debit and credit sides of the ledger accounts under Total Method.
4. _____ method of trial balance is more useful in preparation of final accounts
5. Disagreement of trial balance indicates the presence of _____ in books of accounts.

II. True or False

1. Trial balance is an account, not a statement.
2. Trial balance can be prepared at any date.
3. Ledger accounts need not be balanced to prepare trial balance under total method.
4. Total method is more popular than balance method.
5. Trial balance serves as a connecting link between ledger and final accounts.
6. Omitting to record a transaction in journal would be disclosed by trial balance.

III. Multiple Choice Questions (MCQ)

1. Trial balance can be prepared by
 - a) Balance Method
 - b) Total Method
 - c) Summary method
 - d) Either a or b
- 2) Which one is used as the base for preparing trial balance?
 - a) Subsidiary Books
 - b) Journal
 - c) Ledger
 - b) None
- 3). Preparation of trial balance is needed
 - a) To check arithmetical accuracy
 - b) To prepare final accounts
 - c) To summarize ledger balances
 - d) All of the above
- 4). Which of the following account balance is to be recorded on debit side of trial balance?
 - a) Interest received
 - b) Capital
 - c) Purchases
 - d) Bills payables
- 5). Which of the following account balance is to be recorded on credit side of trial balance?
 - a) Machinery
 - b) Bank overdraft
 - c) Drawings
 - d) Discount allowed
- 6). Which of the following account balance is to be recorded on credit side of trial balance?
 - a) Commission received
 - b) Long term loans
 - c) Creditors
 - d) All of the above
- 7). Which of the following account balance is to be recorded on debit side of trial balance?
 - a) Salaries
 - b) Goodwill
 - c) Bills receivables
 - d) All of the above
- 8). Which of the following account balance is not to be recorded on debit side of trial balance?
 - a) Factory expenses
 - b) Sales
 - c) Buildings
 - d) Debtors
- 9). Which of the following account balance is not to be recorded on credit side of trial balance?
 - a) Investments
 - b) Purchase returns
 - c) Mortgage debt
 - d) Discount received
- 10). Which of the following errors are not disclosed by trial balance?
 - a) Omitting a transaction in journalising
 - b) Recording a wrong amount in journal
 - c) Entering a transaction in journal multiple times
 - d) All of the above

IV. Short Answer Questions (SAQ)

1. Write the meaning and characteristics of trial balance
2. Explain the total method of trial balance preparation
3. Explain the balance method of trial balance preparation
4. Explain the need for the preparation of trial balance
5. Explain the limitations of trial balance

V. Long Answer Questions (LAQ)

1. Explain how to prepare a trial balance under balances method?

2. Prepare a trial balance as on 31-03-2021 from the following balances of Kartheek

Particulars	Amount Rs.	Particulars	Amount Rs.
Capital	20,00,000	Purchases	2,48,000
Debtors	1,00,000	Bills Receivables	56,000
Sales	1,80,000	Creditors	1,50,000
Bills Payable	38,000	Plant & Machinery	3,50,000
Insurance	9,000	Drawings	56,000
Salaries	1,95,000	Rent	9,800
Bank Overdraft	20,000	Salaries Outstanding	15,400
Inventory	50,000	Carriage inwards	16,000
Sales returns	16,000	Discount received	4,500
Borrowings	2,10,000	Returns outwards	10,400
Investments	15,14,000	Postage	1,710
Commission Received	2,800	Bank Loan	56,000
Furniture	52,400	Distribution expenses	16,900
Interest Received	6,400	General expenses	2,690

Answer: 26,93,500

3. Ledger of GDT agencies showing the following balances on 31-12-2020. Prepare trial balance.

Account name	Amount	Account name	Amount
Capital	26,21,000	Bills receivable	78,440
Machinery	8,00,000	Purchases	10,55,220
Bills Payable	39,520	Carriage inwards	22,910
Cash in hand	19,880	General expenses	60,850
Provision for doubtful debts	13,400	Insurance	27,830
Buildings	7,10,000	Reserve	35,000
Sales	12,39,600	Bad debts	14,130
Furniture	51,400	Legal expenses	18,000
Creditors	1,45,000	Investments	8,09,220
Debtors	1,16,000	Travelling expenses	3,250
Opening stock	1,50,400	Discount allowed	12,200
Interest received	8,400	Sales returns	12,850
Cash at bank	1,45,340	Other income	6,000

Answer: 41,07,920

VI. Additional Resources for Advanced Learning

Study Material (Handouts):

<https://nios.ac.in/media/documents/srsec320newE/320EL10.pdf>

Reference Text Books:

1. R L Gupta & V K Gupta, Principles and Practice of Accounting, Sultan Chand & Sons
2. S.P. Jain & K.L Narang, Accountancy-I, Kalyani Publishers
3. Tulasian, Accountancy -I, Tata McGraw Hill Co.

E - Text Books:

<https://icmai.in/upload/Students/Syllabus2016/Foundation/Paper-2New-29012021.pdf>

<https://www.icsi.edu/media/webmodules/publications/FULL%20FAA%20PDF.pdf>

YouTube Links:

<https://www.youtube.com/watch?v=ZWlRcVlBjls>

<https://www.youtube.com/watch?v=w3hhhQxHiwo>

Power Point Presentations:

<https://www.slideshare.net/srinivasmethuku/topic-8-trial-balance>

<https://www.slideshare.net/iamkuldeep/trial-balance-46046133>



VII. Suggested Activity

1. Visit a firm (Individual and Group) and observe the process of Preparation of trial balance
2. Problem Solving Exercises
3. Learning Computer based Accounting system through tally.



ANSWERS



I. Fill in the Blanks

Q.No	1. Ledger	2.Arithmetical Accuracy	3.Totals	4.Balance	5.Errors
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II. True or False

Q.No	1. False	2.True	3.True	4.False	5.True	6.False
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III. Multiple Choice Questions (MCQ)

Q.No	1.D	2.C	3.D	4.C	5.B	6.D	7.D	8.B	9.A	10.D
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Glossary



Accuracy: Correctness.

Balance Method: Method of preparing trial balance by taking balances of ledger accounts.

Dual Aspect Principle: A principle of accounting which states that every debit should have a corresponding credit.

Error: An unintentional mistake.

Ledger: Book containing all ledger accounts.

Suspense Account: An imaginary account created to tally trial balance.

Total Method: Method of preparing trial balance by taking debit and credit side totals of ledger accounts.

Trial balance: A Statement showing the balances of ledger accounts on a particular date.

CHAPTER - VI

RECTIFICATION OF ERRORS

Learning Outcomes

1. Understand the types of errors occur in accounting
2. Understand the need for rectification of errors
3. Learn how to locate the errors
4. Develop the skill of rectification of errors in different stages of accounting.

Contents

- 6.1 Introduction
- 6.2 What are the accounting errors?
- 6.3 Why Rectification of errors?
- 6.4 How to Locate the errors?
- 6.5 How to Rectify the errors?
- 6.6 Practical Illustrations

6.1 Introduction:

Accounting is a skill and knowledge-based activity. Accounting involves a lot of clerical and conceptual work. In earlier days accounting was done manually. Right from the journalizing to preparation of final accounts everything would be done completely by humans. Account books were maintained manually by accountants. An error is human. Humans commit errors due to fatigue, pressure, over work, confusion, ignorance, oversight, over confidence, lack of knowledge and so on. Accounting is not an exception to errors since it requires a lot of human work. Despite the best efforts from accountants, errors would occur in books of accounts. Introduction of computer in the new century has changed the facet of accounting and commerce. Many business firms resorting to Computer based accounting from the last two decades. The occurrence of errors somehow decreased in computerized accounting. Usage of computerized accounting helped in speeding up the accounting work and in getting accurate financial results. However, the human element in accounting is not completely minimized by introduction of computers in accounting. Even in the computerized accounting a lot of skills and efforts by humans are required. Moreover, to process any function by computer, inputs must be given by humans.

Every business firm is interested to know its profit or loss and its financial position. For that they maintain books of accounts, and prepare final accounts at the end of the financial year. Final accounts prepared would not provide accurate results when books of accounts contain errors. So, errors in books of accounts should be located and rectified properly in order to get accurate financial results. Rectification of errors will be discussed in this chapter.

6.2 What are the accounting errors?

Meaning and types of accounting errors is presented below

6.2.1 Accounting Error:

An accounting error is an unintentional mistake committed during the process of accounting. Errors in accounting would occur due to fatigue, pressure, boredom, carelessness, lack of proper accounting skills and knowledge and loss of concentration.

6.2.2 Types of errors:

Errors can be classified on different bases.

1. General classification.
2. On the basis of agreement of trial balance/disclosure by trial balance.
3. On the basis of stage in which errors committed.
4. On the basis of number of accounts affected by an error.

తప్పుల సవరణ

పరిచయం:

అకౌంటింగ్ అనునది నైపుణ్యం మరియు పరిజ్ఞానం ఆధారిత కార్యకలాపం. పొరబాట్లు చేయుట మానవ సహజం. అలసట, ఒత్తిడి, అజాగ్రత్త, గందరగోళం, సరైన పరిజ్ఞానం లేకపోవుట, తొందరపాటు మొదలగు కారణాల వల్ల మానవులు తప్పులు చేస్తారు. అకౌంటింగ్ ప్రక్రియలో కూడా లోపాలు, తప్పులు జరుగుతూ ఉంటాయి. అకౌంటింగ్ ప్రక్రియలో అనుకోకుండా జరిగిన తప్పును అకౌంటింగ్ ఎర్రరబాటు. కంప్యూటర్ ఆధారిత అకౌంటింగ్ లో తప్పులు జరిగే అవకాశం కొంతవరకు తగ్గినప్పటికీ పూర్తిగా తప్పులు జరిగే అవకాశము తొలగిపోలేదు.

ప్రతి వ్యాపార సంస్థ, దాని యొక్క యదార్థ లాభం లేదా నష్టం మరియు ఆర్థిక పరిస్థితిని తెలుసుకోవడానికి ఆసక్తి చూపుతుంది. అందు కోసం వారు ఖాతా పుస్తకాలను నిర్వహిస్తారు మరియు ఆర్థిక సంవత్సరం చివరిలో ముగింపు లెక్కలను తయారు చేస్తారు. అకౌంట్స్ పుస్తకాలలో తప్పులు ఉన్నప్పుడు ముగింపు లెక్కలు ఖచ్చితమైన ఫలితాలను అందించలేవు. కాబట్టి, ఖచ్చితమైన, వాస్తవమైన ఆర్థిక ఫలితాలను పొందడానికి ఖాతా పుస్తకాలలో ఉన్న దోషాలను గుర్తించి, సరిదిద్దాలి.

తప్పులలో రకములు :

అకౌంటింగ్ ప్రక్రియ లో జరిగే తప్పులను వివిధ ప్రాతిపదికలపై వర్గీకరించవచ్చును.

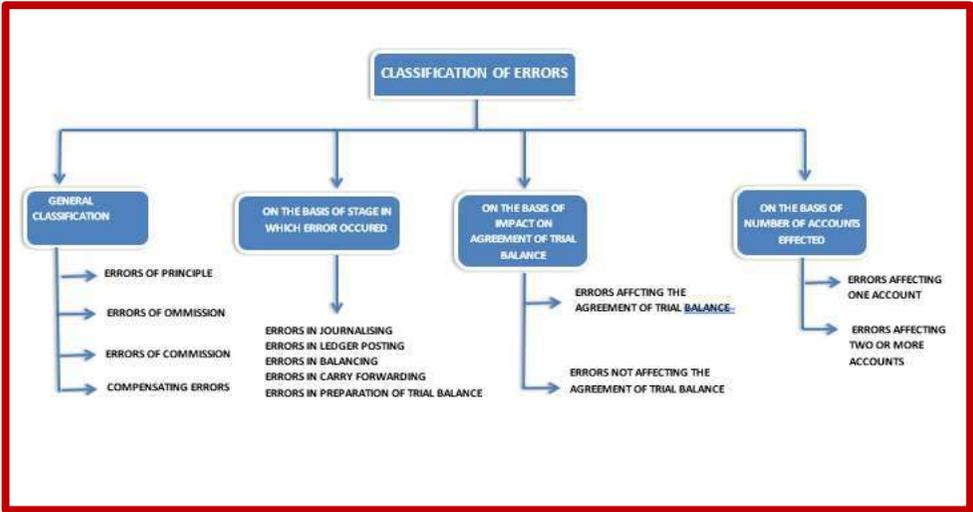
1. సాధారణ వర్గీకరణ:

తప్పులను ప్రధానముగా నాలుగు రకాలుగా వర్గీకరించవచ్చును. అవి

i. సిద్ధాంత పరమయిన దోషములు:

వ్యవహారములను అకౌంటింగ్ సూత్రాలకు విరుద్ధముగా పుస్తకాల్లో నమోదుచేసినట్లయితే అటువంటి దోషములను సిద్ధాంత పరమయిన దోషములు అంటారు. నామమాత్రపు ఖాతాకు బదులుగా వ్యక్తిగత ఖాతాను డెబిట్ లేదా క్రెడిట్ చేయడం, వాస్తవిక ఖాతాకు బదులుగా నామమాత్రపు ఖాతాను డెబిట్ లేదా క్రెడిట్ చేయడం, మూలధన వ్యయాన్ని రాబడి వ్యయంగా లేదా రాబడి వ్యయాన్ని మూలధన వ్యయం గా పరిగణించడం, ఖాతా పుస్తకాలలో యజమాని వ్యక్తిగత లావాదేవీలను నమోదు చేయడం అనేవి సిద్ధాంత పరమయిన దోషములు. ఈ దోషములు ట్రయల్ బ్యాలన్సు యొక్క సమానతను ప్రభావితం చేయవు.

ఉదాహరణకు, యంత్రాల కొనుగోలు రూ. 5,00,000ను కొనుగోలుపుస్తకములో నమోదుచేయడము.



6.2.2.1. General classification

Basically, errors are classified into four types. They are

- I. Errors of principle
- ii. Errors of Omission
- iii. Errors of Commission
- iv. Compensating errors

i. Errors of principle:

Errors committed due to lack of conceptual knowledge in accounting can be termed as errors of principle. An Entry made in books against to the principles of accounting is a principle error. Debiting or crediting a personal account instead of a nominal account, Debiting or crediting a nominal account instead of a real account, treating a capital expenditure as revenue expenditure and treating a revenue expenditure as capital expenditure, recording the personal transactions of owner in books of accounts of business are the commonly made principles of error. Since the debit and credit amounts are recorded equally, these type of error does not affect the agreement of trial balance.

ii.మర్చిపోవుట వలన దోషములు:ఇవి అకౌంటింగ్ ప్రక్రియలో కొన్ని అంశాలను వదిలివేయుట వలన జరిగిన దోషములు. వీటిలో పూర్తిగా వదిలివేయుట మరియు పాక్షికముగా వదిలివేయుటలను రెండు రకాలు కలవు.

ఎ. పూర్తిగా వదిలివేయుట:ఇవి ఒక వ్యవహారమును అకౌంట్స్ పుస్తకాలలో రికార్డ్ చేయడము పూర్తిగా వదిలివేయుట వలన జరుగు దోషములు. వ్యవహారములను చిట్టాలో రికార్డ్ చేయు దశలో ఈ తప్పులు తలెత్తుతాయి. లావాదేవీ యొక్క డెబిట్ మరియు క్రెడిట్ అంశాలు రెండూ పుస్తకాలలో నమోదు చేయబడనందున, ఈ తరహా దోషములు అంకణా సమానతను ప్రభావితం చేయవు. ఉదాహరణకు, దీపికకు అమ్మిన సరుకు రూ.14,000జర్నల్ నందు నమోదు చేయకపోవుట.

బి. పాక్షికముగా వదిలివేయుట:ఒక వ్యవహారమును ఒక ఖాతాలోపోస్ట్ చేసి మరొక ఖాతాలో పోస్ట్ చేయుట వదిలి వేయుటను పాక్షికముగా వదిలివేయు దోషము అంటారు. ఈ దోషాలు చిట్టా నుంచి లెజ్జర్ కు పోస్ట్ చేసే దశలో తలెత్తుతాయి. ఈ దోషములు డెబిట్ లేదా క్రెడిట్ అంకములలో ఒక దానిని మాత్రమే ప్రభావితం చేస్తాయి కావున, ఇవి అంకణా సమానతను ప్రభావితం చేస్తాయి. ఉదాహరణకు, దీపికకు అమ్మిన సరుకు రూ.14,000జర్నల్ లో నమోదు చేసి దీపికా ఖాతాకు పోస్ట్ చేయుట మర్చిపోవుట.

iii. అకార్యకరణ దోషములు:

పుస్తకాలలో ఈ తరహా దోషములు ఎక్కువగా జరుగుతూ ఉంటాయి. వ్యవహారమును తప్పు పుస్తకములో రికార్డు చేయుట , తప్పు మొత్తము వ్రాయుట , ఖాతాలో తప్పు వైపున పోస్ట్ చేయుట, ఖాతాలోని మొత్తాలను తప్పుగా కూడుట, ఖాతాలను తప్పుగా నిల్వ తేల్చుట మరియు మొత్తాలు లేదా నిల్వలను తప్పుగా క్యారి ఫార్వర్డ్ చేయుట మొదలగునవి ఈ తరహా దోషముల క్రిందకు వస్తాయి. ఈ తరహా తప్పులలో కొన్ని అంకణా ను ప్రభావితం చేస్తాయి మరియు కొన్ని ప్రభావితం చేయవు. ఉదాహరణకు, బాబు నుండి కొనుగోళ్లు రూ. 14,000సేల్స్ జర్నల్ లో రికార్డ్ చేయుట. నాగేశ్వరరావు నుండి వచ్చిన సేల్స్ రిటర్న్స్ రూ .1,600యొక్క జర్నల్ ఎంట్రీను నాగేశ్వరరావు అకౌంట్ లో డెబిట్ సైడ్ పోస్ట్ చేయుట. రిపేర్ ఖర్చులు రూ 1,500 లను అక్సెంట్ పుస్తకాలలో రూ.150 గా నమోదు చేయుట.

iv. సరిబెట్టే దోషములు:ఒక తప్పుయొక్క ప్రభావమును మరొక తప్పు సరిబెడితే వాటిని సరిబెట్టే దోషములు అంటారు. ఉదాహరణకు: వసూలయిన వడ్డీ రూ. 500 లను వసూలయిన వడ్డీ ఖాతాకు పోస్ట్ చేయకపోవుట వలన జరిగిన తప్పు ప్రభావమును రిపేరు ఖర్చులు రూ.500 లను రిపేరు ఖర్చుల ఖాతాలో పోస్ట్ చేయకపోవుట అను తప్పు యొక్క ప్రభావము సరిబెట్టుట.

2. తప్పు జరిగిన దశ ఆధారముగా తప్పులలో రకాలు:

అకౌంటింగ్ యొక్క ఏ దశలోనైనా తప్పులు జరగవచ్చు. అనగా జర్నల్ లో రికార్డు చేయునపుడు, లెజ్జర్ పోస్టింగ్ చేయునపుడు, సహాయక చిట్టాల మొత్తము కూడునపుడు, ఖాతాలు బ్యాలన్సు చేయునపుడు,

These errors cannot be avoided in computerized accounting since these errors are conceptual in nature and the inputs to the computer are given by humans.

For Example,

Purchase of machinery of Rs. 5,00,000 was recorded in purchases journal

Salaries paid to Mahesh Rs. 15,000 may be debited to personal account of Mahesh.

Repairs to furniture Rs. 5000 may be debited to Furniture account.

ii. Errors of omission:

Omission means forgetting. Errors of omission occur due to oversight, negligence etc. Omission is of two types, complete omission and partial omission.

Complete omission:

Omitting to record a transaction in books of accounts totally is called complete omission. These errors arise in the stage of recording. Since both debit and credit aspects of the transaction are not being recorded in books, this type of errors do not affect the agreement of trial balance.

For example,

Sale of goods to Deepika Rs. 14,000 may not be recorded in sales journal.

Goods worth Rs 5,000 taken by proprietor for his personal use may be not recorded in books.

These errors cannot be avoided in computerized accounting since inputs to the computer are given by humans. If it is not recorded into computer, the computer cannot do anything.

Partial Omission:

Omitting to record a transaction in books of accounts partly is called partial omission. In other words, considering only debit or credit aspect of a transaction by leaving another is called partial omission. These errors generally arise in the stage of posting to ledger. Since these errors affect only one aspect, trial balance would get affected by these errors. These errors can be avoided in computerized accounting because once the transaction is entered into computer; preparation of ledger can be done by computer itself.

For example,

Sale of goods to Deepika Rs. 14,000 may be entered in sales journal but may not be posted to deepika's account.

Goods Rs 5,000 taken by proprietor for his personal use may be recorded in journal but may not be posted to purchases account.

మొత్తాలను ఒక పేజీ నుండి మరొక పేజీకు క్యారీఫార్వార్డు చేయనప్పుడు, నిల్వలను ట్రయల్ బ్యాలన్సు నకు తీసుకువెళ్ళనప్పుడు తప్పులు జరగవచ్చును.

3. అంకణ సమానత పై తప్పుల ప్రభావములేదా అంకణ ద్వారా వెల్లడి చేయబడే ప్రాతిపదికన తప్పుల వర్గీకరణ :

i. అంకణ సమానతను ప్రభావితం చేసే తప్పులు లేదా అంకణ వెల్లడి చేసే తప్పులు/ ఏకపక్ష దోషములు:

డెబిట్ మొత్తానికి సమాన మయిన క్రెడిట్ మొత్తము ఉండాలనే ద్వంద్వ రూప భావనను ఉల్లంఘించడం వలన తలెత్తిన దోషములను ఏకపక్ష దోషములు అంటారు. ఇవి డెబిట్ లేదా క్రెడిట్ ఏదో ఒక అంశమును మాత్రమే ప్రభావితం చేయుట వలన వీటిని ఏకపక్ష దోషములు అంటారు. ఈ తప్పులు అంకణాలో డెబిట్ లేదా క్రెడిట్ మొత్తాల అసమానతకు దారితీయుట ద్వారా అంకణ సమానతను ప్రభావితం చేస్తాయి. అందువల్ల, ఇవి ట్రయల్ బ్యాలన్సు ద్వారా వెల్లడి చేయబడతాయి. చిట్టాపద్ధును ఒక ఖాతాలో తప్పు వైపున పోస్ట్ చేయడం, ఒక ఖాతాకు తప్పుడు మొత్తాన్ని పోస్ట్ చేయడం, పాక్షిక వదిలివేత దోషములు, తప్పు మొత్తాన్ని క్యారీఫార్వార్డ్ చేయడం, తప్పువైపునకు క్యారీఫార్వార్డింగ్ చేయడం, బ్యాలెన్సింగ్ లో దోషాలు, టోటలింగ్ లో దోషాలు ఏకపక్ష దోషములకు ఉదాహరణలు.

ఉదాహరణ: కొనుగోలు పుస్తకాన్ని రూ .10,000 ఎక్కువగా కూడడం వలన ట్రయల్ బ్యాలెన్స్ లో రూ.10,000 ఎక్కువ డెబిట్ లేదా తక్కువ క్రెడిట్ వస్తుంది.

ఆఫీస్ ఖర్చులు రూ .2,100 లకు వ్రాసిన జర్నల్ ఎంట్రీని ఆఫీస్ ఖర్చులు ఖాతాకు రూ. 1,200 లుగా పోస్ట్ చేయడం వలన ట్రయల్ బ్యాలెన్స్ లో రూ. 900 తక్కువ డెబిట్ లేదా ఎక్కువ క్రెడిట్ కు దారి తీస్తుంది.

ii. అంకణ సమానతను ప్రభావితం చేయని తప్పులు లేదా అంకణ వెల్లడి చేయని తప్పులు/ ఉభయ పక్ష దోషములు:

పుస్తకాలలో జరిగిన కొన్ని దోషముల ప్రభావము డెబిట్ మరియు క్రెడిట్ అంశములపై సమానంగా ఉండటం వలన అవి అంకణ సమానతను ప్రభావితం చేయవు. అందువల్ల, ఈ దోషములు అంకణ ద్వారా వెల్లడి చేయబడవు. ఈ దోషముల ప్రభావం డెబిట్ మరియు క్రెడిట్ రెండు వైపులా ఉన్నందున, వీటిని ఉభయ పక్ష దోషములు అంటారు. పూర్తి గా వదిలివేయు దోషములు, ఒకే వ్యవహారమును రెండుసార్లు చిట్టాలో నమోదు చేయుట, సిద్ధాంతపరమయిన దోషములు, సరిబెట్టే దోషములు, జర్నల్ లో తప్పు చిట్టాపద్ధు వ్రాయడము, లావాదేవీని తప్పు సహాయక చిట్టాలో నమోదు చేయడం, జర్నల్ లో తప్పు మొత్తాన్ని నమోదు చేయడం ఉభయ పక్ష దోషములకు ఉదాహరణలు.

iii. Errors of commission:

Errors of Commission results from doing what is not supposed to do. These are the errors consisting of wrong amounts, wrong sides, wrong accounts, wrong balances and wrong carry forwards. Errors of commission are very common errors and in fact, majority of accounting errors occurred are of this nature. These errors happen due to lack of accounting knowledge, negligence, oversight of book keepers. These errors can happen in any of the stages of journalising, ledger posting, totalling, balancing and carry forwarding. Some of the errors of commission can be avoided by the usage of computerized accounting and some of them cannot be avoided even in computerized Accounting. Some of the errors of commission affect the agreement of trial balance and some of them do not.

Following are some of the errors of commission:

1. Making accounting treatment for a transaction multiple times, for example Repairs of Rs.1,500 may be recorded in journal twice.
2. Writing a wrong journal entry, For example, T.Lakshmi account may be credited in the place of D,Lakshmi in the journal entry for a transaction of Cash received from D.Lakshmi Rs. 5,000.
3. Entering a transaction to a wrong subsidiary journal, For example, Purchase of goods from Minni babu Rs.14,000 may be entered in Sales returns journal.
4. Posting to a Wrong Account, For example, Journal entry for Goods sold to sujani Rs.18,600 may be Posted to sujani account.
5. Posting to a wrong side of an account, for example Journal entry for Sales returns from Nageswara rao Rs.1,600 may be Posted to credit side of Sales returns account.
6. Entering a wrong amount, for example, Purchases from Rama Lakshmi Rs. 9,800 may be recorded as 8,900 in purchases journal.
7. Recording in a wrong column of cash book, for example, Cash paid to Parvathi by NEFT Rs.10,000 may be recorded in cash column of cash book.
8. Wrong totalling, for example Sales returns book may be under cast by Rs. 1,000 .
9. Wrong balancing, for example Repairs account may be short balanced by Rs 100.
10. Wrong carry forward, for example debit side of Bills payables journal is totalled as Rs 78,000 but it may be carry forwarded to next page as Rs. 87,000.

iv. Compensating Errors:

If the wrong effect of one error is compensated by wrong effect of one or more another errors, they are called compensating errors. Errors that are compensating the wrong effect of one another are called compensating errors. These errors do not affect the agreement of trial balance.

For example,

ఉదాహరణ:

శ్రవణ్ నుండి సరుకు కొనుగోలు రూ .5,000 జర్నల్ లో రాయక పోవడము. జర్నల్ ఎంట్రీ రాయలేదు కావున కొనుగోలు ఖాతా రూ .5,000 తక్కువ డెబిట్ నిల్వని చూపుతుంది మరియు శ్రవణ్ ఖాతా రూ.5,000 తక్కువ క్రెడిట్ బ్యాలెన్స్ ని చూపుతుంది. తప్పు యొక్క ప్రభావం రెండు వైపులా ఉంది అనగా రూ. 5,000 తక్కువ డెబిట్ మరియు రూ .5000 తక్కువ క్రెడిట్. కావున, ట్రయల్ బ్యాలన్సు రెండు వైపులా సమానమవుతుంది.

4. దోషము ఎన్ని ఖాతాలపై ప్రభావము చూపుతుంది అనే ప్రాతిపదికన:

i. ఒక ఖాతాను ప్రభావితం చేసే దోషములు:

కొన్ని దోషముల విషయంలో, దోషము యొక్క ప్రభావం ఒక ఖాతా యొక్క బ్యాలెన్స్ పై మాత్రమే ఉంటుంది. ఒక అకౌంట్ కి తప్పుడు మొత్తాన్ని పోస్ట్ చేయడం, ఒక అకౌంట్ లో తప్పు వైపున పోస్ట్ చేయడం, ఒక సహాయక చిట్టాను తప్పుగా టోటల్ చేయడం, ఒక ఖాతాను తప్పుగా నిల్వ తేల్చడం, సబ్విడయిరీ జర్నల్ లేదా లెడ్జర్ లో తప్పుడు మొత్తాన్ని క్యారి ఫార్వార్డ్ చేయడము వంటివి ఈ రకమైన దోషాలకు ఉదాహరణలు. ఈ దోషాలన్నీ ఒక ఖాతా యొక్క బ్యాలెన్స్ ని మాత్రమే ప్రభావితం చేస్తాయి.

ఉదాహరణకు:

ఆఫీసు వ్యయాలు రూ .12,300 ఎంట్రీని ఆఫీసు వ్యయాలు ఖాతా లో రూ.13,200 గా పోస్ట్ చేయడము. ఈ తప్పు కేవలం ఆఫీసు వ్యయాలు ఖాతా యొక్క డెబిట్ బ్యాలెన్స్ ని మాత్రమే రూ .900 పెంచుతుంది.

ii. రెండు లేదా అంతకంటే ఎక్కువ ఖాతాలను ప్రభావితం చేసే దోషములు:

దాళా తప్పుల విషయం లో, తప్పు యొక్క ప్రభావం రెండు లేదా అంతకంటే ఎక్కువ ఖాతాలపై ఉంటుంది. పూర్తి గా వదిలిపెట్టు దోషము, తప్పు చిట్టా పద్దు వ్రాయడము, తప్పు మొత్తముతో చిట్టాపద్దు వ్రాయడము, వ్యవహారమును తప్పు సహాయక చిట్టాలో రికార్డ్ చేయడం వంటివి ఈ రకమైన దోషములకు ఉదాహరణలు. ఈ దోషములు రెండు లేదా అంతకంటే ఎక్కువ ఖాతాల నిల్వలను ప్రభావితం చేస్తాయి.

ఉదాహరణకు,

"జావేద్ కు అమ్మకాలు రూ.7,500 లను జర్నల్ లో రికార్డ్ చేయక పోవడం వలన జావేద్ ఖాతా మరియు అమ్మకాల ఖాతా రెండూ ప్రభావితం అవుతాయి.

Commission received Rs. 1,500 was not posted to commission received account, repairs paid Rs. 1,500 was not posted to repairs account. In this case the wrong effect of first error (short credit) would be compensated by wrong effect of second error (short debit).

Under casting of purchases book by Rs. 2000 may be compensated by wrong carry forward of Rs.3,000 as Rs.1,000 in sales account.

2. On the basis of stage in which the error is committed:

Errors can occur in any of the following stages of accounting.

i. Journalizing

- ii. Ledger posting
- iii. Totalling
- iv. Balancing
- v. Carry forward
- vi. Preparing Trial balance

Errors in Journalizing:

Following are the probable errors that may happen while recording of transactions in journal/subsidiary journal.

- Omitting to record a transaction.
- Recoding the same transaction twice or thrice.
- Debiting or crediting a wrong account in a journal entry.
- Recording a transaction in a wrong subsidiary journal.
- Recording a wrong amount in subsidiary journals.
- Writing a Reverse journal entry.
- Writing a wrong amount in both debit and credit in a journal entry.
- Writing a wrong amount in either debit or credit in a journal entry.
- Recording a transaction in a wrong column in cashbook on correct side.
- Recording a transaction in a wrong column in cashbook on wrong side.

Errors in Ledger posting:

Following are the probable errors that may happen while posting the entries from journal to ledger.

- Posting a correct amount on a correct side of a wrong ledger account.
- Posting a correct amount on a wrong side of a wrong ledger account.
- Posting a wrong amount on a correct side of a wrong ledger account.
- Posting a wrong amount on a wrong side of a wrong ledger account.
- Posting a correct amount to a wrong side of correct ledger account.

తప్పుల సవరణ ఆవశ్యకత:

అకౌంటింగ్ ప్రక్రియ యొక్క ఒక దశలో జరిగిన తప్పు సరిదిద్దబడకపోతే, దాని ప్రభావం అకౌంటింగ్ చక్రం యొక్క తర్వాత దశల ద్వారా ముగింపులెక్కల తయారీ దాకా కూడా వెళుతుంది.

వ్యాపార సంస్థలువాటి ఆర్థిక ఫలితాలను అనగా లాభము లేదా నష్టము మరియు ఆర్థిక పరిస్థితిని తెలుసుకోవడానికి అకౌంటింగ్ పుస్తకాలను నిర్వహిస్తాయి. అకౌంటింగ్ యొక్క బాహ్య మరియు అంతర్గత వినియోగదారులు ముగింపు లెక్కలు చూపే ఆర్థిక ఫలితాలపై ఆసక్తిని కలిగి ఉంటారు. పుస్తకాలలోని తప్పులను కనుగొని సరిదిద్దకపోతే, ముగింపు ఆర్థిక నివేదికలు యదార్థమైన ఆర్థిక ఫలితాలను అందించలేవు. కావున, తప్పులను సరియైన విధముగా గుర్తించి, సరిదిద్దాలి.

తప్పులను కనిపెట్టడం:

అంకణాయొక్క సమానత ఖాతా పుస్తకాల అంకగణిత ఖచ్చితత్వమును సూచిస్తుంది. అంకణా రెండువైపులా సరితూగక పోతే అకౌంట్స్ పుస్తకాల్లో తప్పులు ఉన్నట్లుగా చెప్పవచ్చు. అయితే అంకణారెండువైపులా సరితూగినప్పటికీ పుస్తకాలలో కొన్ని దోషములు ఉండవచ్చు. ఖాతా పుస్తకాలలో తప్పులను గుర్తించడానికి ఖాతా పుస్తకాలను పూర్తిగా పరిశీలించవలసి ఉంటుంది. తప్పులను గుర్తించడానికి తీసుకోవలసిన చర్యలు క్రింద ఇవ్వబడ్డాయి:

- ట్రయల్ బాలెన్సు యొక్క డెబిట్ మరియు క్రెడిట్ మొత్తాలు సరిచూడాలి.
- లెడ్జర్ నుండి అన్ని బ్యాలెన్సులను ట్రయల్ బ్యాలెన్సుకు సరిగా తీసుకున్నదీ లేనిదీ తనిఖీ చేయాలి.
- రుణగ్రస్తులు, వసూలు బిల్లులు, రుణదాతలు మరియు చెల్లింపు బిల్లుల మొత్తాలను తనిఖీ చేయాలి.
- నగదు పుస్తకం మరియు బ్యాంక్ ఖాతాల బ్యాలెన్సులు ట్రయల్ బ్యాలెన్సులోకి సరిగ్గా తీసుకోబడ్డాయా లేదా అని తనిఖీ చేయాలి.
- అన్ని లెడ్జర్ ఖాతాలు సరిగా నిల్వ తేల్చబడినవా లేదా అని తనిఖీ చేయాలి
- జర్నల్ నుండి లెడ్జర్ లోని ఖాతాలకు పోస్ట్ చేయడం సరిగా జరిగిందా లేదా అని తనిఖీ చేయాలి
- సహాయక పుస్తకాల మొత్తాలను తనిఖీ చేయాలి.
- లెడ్జర్ మరియు సహాయక పుస్తకాల లో క్యారిఫార్వార్డింగ్ లను తనిఖీ చేయాలి.
- వోచర్లు, ఇన్వాయిస్ లు మొదలగు అనుబంధ పత్రాల ప్రకారము అన్ని వ్యవహారాలు జర్నల్ లో సరిగ్గా నమోదు చేయబడ్డాయా లేదో తనిఖీ చేయాలి.
- అన్ని వాస్తవిక ఖాతా మరియు వ్యక్తిగత ఖాతాల నిల్వలు ప్రస్తుత సంవత్సరానికి సరిగా తీసుకురాబడ్డాయా లేదా అని తనిఖీ చేయాలి.
- అంకణా వ్యత్యాస మొత్తమునకు సమానమయిన అంశములు ఏవైనా ఉన్నవేమో పరిశీలించుట ద్వారా వదిలివేసిన అంశములను లేదా రెండు సార్లు నమోదు చేయబడిన అంశములను కనిపెట్టవచ్చును.

- Posting a wrong amount on a correct side of a correct ledger account.
- Posting a wrong amount on a wrong side of a correct ledger.

Errors in Totaling:

Following are the probable errors that may happen while totaling the ledger accounts or subsidiary journals.

- Wrong totaling of a subsidiary journal i.e under casting and over casting.
- Wrong totaling on debit side of an account.
- Wrong totaling on credit side of an account.

Errors in Balancing:

Following are the probable errors that may happen while balancing the ledger accounts.

- Writing a Correct balance on wrong side.
- Writing a Wrong balance on correct side.
- Writing a Wrong balance on wrong side.
- Writing a correct balance in wrong column of cashbook on either of the sides.
- Writing a wrong balance in wrong column of cash book on either of the sides.

Errors in Carrying forward:

Following are the probable errors that may happen while carrying forward the total of subsidiary journals or balances of ledger accounts from one page to another page or from old book to new book.

- Carrying forward a wrong amount in a subsidiary journal.
- Carrying forward a correct amount to a wrong side of a ledger account.
- Carrying forward a wrong amount to a correct side of a ledger account.
- Carrying forward a wrong amount to a wrong side of a ledger account.
- Carrying forward a correct amount to a wrong column of cashbook on either of the sides.
- Carrying forward a wrong amount to a correct column of cashbook on either of the sides.
- Carrying forward a wrong amount to a wrong column of cashbook on either of the sides.

- అంకణా వ్యత్యాస మొత్తములో సగము మొత్తముతో సమానమయిన అంకములు ఏవైనా ఉన్నవేమో పరిశీలించుట ద్వారా తప్పు వైపున నమోదు చేయబడిన అంకములను కనిపెట్టవచ్చును
- వ్యత్యాస మొత్తము 9 చే నిశ్శేషముగా భాగంపబడితే అంకల తారుమారు వలన తప్పు జరిగినట్లుగా భావించవచ్చు.

తప్పుల సవరణ:

తప్పుల సవరణ అనగా సరియైన సవరణసాధనాన్ని ఉపయోగించి ఒక దోషం యొక్క తప్పు ప్రభావాలను సరిచేయడం.

తప్పుల సవరణ సాధనాలు:

తప్పులను రెండు సాధనాల ద్వారా సరిచేయవచ్చు.

1. సవరణ పద్ధు వ్రాయుట ద్వారా:

ఈ పద్ధతిలో తప్పు యొక్క ప్రభావమునుపోగొట్టి సరియైన ప్రభావము కలిగించే విధముగా సవరణ పద్ధు వ్రాసి తప్పును సరిదిద్దుతారు. సవరణ పద్ధులను అసలు చిట్టా లో నమోదు చేస్తారు.

ఉదాహరణకు, సుధాకర్ కు సరుకు అమ్మకం రూ. 10,000 అను వ్యవహారమునకు వ్రాసిన చిట్టా పద్ధులో సుధాకర్ ఖాతాకు బదులుగా సుధాధర్ ఖాతాను డెబిట్ చేసినట్లయితే ఆ పద్ధును క్రింది సవరణ పద్ధు రాయుట ద్వారా సవరించవచ్చును.

సుధాకర్ ఖాతా	Dr	10,000	
	To	సుధాధర్ ఖాతా	10,000

ఈ ఉదాహరణలో సుధాధర్ అకౌంట్ ను తప్పుగా డెబిట్ చేసిన ప్రభావం సుధాధర్ ఖాతాను క్రెడిట్ చేయుట ద్వారా సరిదిద్దబడినది మరియు సుధాకర్ ఖాతాను డెబిట్ చేయుట ద్వారా సరి అయిన ప్రభావము కలిగించ బడినది.

2. దిద్దుబాటు వివరణ వ్రాయుట ద్వారా:

ఈ పద్ధతిలో లెజ్జర్ అకౌంట్ లేదా సబ్సిడయరీ జర్నల్లో దిద్దుబాటు ప్రకటన లేదా వివరణాత్మక నోట్ రాయడం ద్వారా తప్పులు సరిచేయబడతాయి. సవరణ పద్ధు వ్రాయడం ద్వారా తప్పు సరిదిద్దడం సాధ్యం కానప్పుడు ఈ పద్ధతిని ఉపయోగిస్తారు.

Errors in Preparation of Trial Balance:

Errors may occur even in bringing the balances of accounts from ledger to trial balance. Errors of omission, commission, compensating errors may also be occurred while preparing the trial balance.

Following are the probable errors that may happen during taking ledger balances to trial balance

- Taking a wrong balance amount to a correct side.
- Taking a correct balance amount to a wrong side.
- Taking a wrong balance amount to a wrong side.
- Omitting to take a balance.
- Taking a balance twice or thrice.
- Taking balance from a wrong column of cash book.

For example,

Balance of sales account Rs.1,00,000 may be taken to trial balance as Rs. 10,000.

Debit balance in Bank A/c Rs. 8,000 may be taken to credit side of trial balance.

Balance of Salaries Rs.2,50,000 account may be omitted to take to trial balance.

6.2.2.3 . On the basis of impact on agreement of trial balance:

Errors can be classified on the basis of their impact on trial balance.

i. Errors affecting the agreement of trial balance/Errors disclosed by trial balance/One sided errors:

Some errors may arise due to making accounting treatment by violation of basic principle of dual aspect. In other words, committing these errors would lead to excess/short debit than credit or excess/short credit than debit. Since the impact of these errors would be on either of the two sides i.e. debit side or credit side, these are called one-sided errors. These affect the agreement of trial balance. Thus, occurrence of these errors would be disclosed by trial balance. Errors in posting to wrong sides, posting a wrong amount to an account, errors of partial omission, carry forwarding a wrong amount, carry forwarding to a wrong side, balancing errors, errors in casting are the examples for one-sided errors.

For example,

Over casting of purchases book by Rs 10,000 would lead to an excess debit over credit by Rs.10,000 or a short credit than debit by Rs.10,000 in trial balance.

Posting an entry of Rs.2,100 to Office expenses account as Rs. 1,200 would lead to an excess credit over debit by Rs.900 or a short debit than credit by Rs.900 in trial balance.

తప్పుల సవరణ ప్రక్రియ:

ఒకదోషము యొక్క సవరణప్రక్రియ ఆ దోషము గుర్తించబడిన దశ మరియు అంకణాపై ఆ దోషము యొక్క ప్రభావమును బట్టి ఉంటుంది.

దోషములు మూడు దశలలో గుర్తించబడవచ్చు.

1. అంకణా తయారీకి ముందు (మొదటి దశ)

2. అంకణా తయారయిన తర్వాత మరియు ఫైనల్ అకౌంట్స్ తయారీకి ముందు (రెండవ దశ)

3. ఫైనల్ అకౌంట్స్ తయారయిన తర్వాత (మూడవ దశ)

అంకణా పై దోషముయొక్క ప్రభావము ఆధారముగా దోషములు రెండు రకములు:

1. ఏక పక్ష దోషములు
2. ఉభయ పక్షదోషములు

1. మొదటి దశ (అంకణా తయారీకి ముందు) లో కనుగొన్న తప్పుల సవరణ:

I. ఏకపక్ష తప్పులు:

మొదటి దశలో కనుగొన్న ఏకపక్ష తప్పులను, ప్రభావిత ఖాతాలో (తగిన వైపున) లేదా ప్రభావిత సబ్విడయిరీ జర్నల్ లో వివరణాత్మక నోట్ లేదా దిద్దుబాటు ప్రకటనను వ్రాయడం ద్వారా సవరించవచ్చు.

II. ఉభయ పక్షతప్పులు:

మొదటి దశలో కనుగొనబడిన ఉభయ పక్ష తప్పులను సరియైన సవరణ పద్ధతి వ్రాయుట ద్వారా సరిదిద్దవచ్చు.

2. రెండవ దశ లో (అంకణా తయారీ తర్వాత మరియు ముగింపు లెక్కల తయారీకి ముందు) కనుగొన్న తప్పుల సవరణ:

అనామతు ఖాతా: తప్పుల కారణముగా అంకణా సరితూగనపుడు, అంకణాలోని వ్యత్యాసమును అనామతు ఖాతాకు మళ్ళిస్తారు. సస్పెన్సు ఖాతా అనేది కేవలం అంకణా ను సమానము చేయడానికి సృష్టించబడిన ఊహాత్మక ఖాతా. ట్రయల్ బ్యాలెన్స్ లో వ్యత్యాసం వచ్చినపుడు ముగింపు లెక్కల తయారీలో జాప్యాన్ని నివారించడానికి దీనిని సృష్టిస్తారు. పుస్తకాలలో తప్పులన్నీ కనుగొనబడి , సరిదిద్దబడితే అనామతు ఖాతా నిల్వ దానంతట అదే ముగిసిపోతుంది.

.ii. Errors not affecting the agreement of trial balance/ Errors not disclosed by trial balance/Two sided errors:

Some errors committed in books are not against to the dual aspect. In other words, committing these errors do not lead to excess/short debit or credit as the impact of these errors distributed to both debit and credit sides equally. Since the impact of these errors would be on both debit and credit sides, these are called two sided errors. These errors do not affect the agreement of trial balance. Thus, occurrence of these errors would not be disclosed by trial balance. Errors of complete omission, errors of repetition, errors of principle, compensating errors, errors of debiting or crediting a wrong account in journal, recording a transaction in a wrong subsidiary journal, recording a wrong amount in journal are examples of two side errors.

For example, omitting to record “Purchases from Jagadeesh Rs.5000” in journal. Since the journal entry is not passed, purchases account will show a lower debit balance by Rs.5,000 and Jagadeesh account will show a lower credit balance by Rs.5,000. The impact of this error will be on both sides i.e lower debit by Rs. 5,000, lower credit by Rs.5000. So, the impact will be neutralized and trial balance will remain agreed.

Repairs to machinery Rs.2,500 is debited to machinery account. In this example, machinery account is debited in the place of repairs account. So, the repairs account will show a higher debit balance by Rs. 2,500 and machinery account will show a lower debit balance by Rs.2,500. The impact of higher debit in repairs account by Rs 2,500 will be neutralized by lower debit of Rs. 2,500 in machinery account. So, trial balance will remain agreed.

6.2.2.4.On the basis of number of accounts affected by an error:

Errors can be classified on the basis of number of accounts affected by the errors

i. Errors affecting one account:

Some errors may affect only one account. Posting awrong amount to an account, posting to a wrong side of one account, wrong totaling of a subsidiary journal, wrong balancing of a ledger account, carrying forward a wrong amount in a subsidiary journal or ledger are some of the errors of this type.

For example,

Under casting of bills receivables book by Rs 1,000 will reduce the balance of bills receivables account only by Rs.1,000.

Posting of an entry of Rs.12,300 to Travelling expenses account as Rs. 13,200 will overstate the debit balance of Travelling expenses account by Rs.900.

I. ఏకపక్ష తప్పులు:

మొదటి దశలో కనుగొనబడని ఏకపక్ష దోషాల యొక్క నికర ప్రభావం ట్రయల్ బ్యాలెన్స్ లో వ్యత్యాసంగా ఉంటుంది మరియు వ్యత్యాస మొత్తం **సస్పెన్సు** ఖాతాకు బదిలీ చేయబడి ఉంటుంది. కావున, రెండవ దశలో అనగా అంకణా తయారీ తర్వాత కనుగొన్న ఏకపక్ష తప్పులను **సస్పెన్సు** ఖాతాను ఉపయోగిస్తూ సవరణ పద్ధులను వ్రాయడం ద్వారా సరిచేయాలి.

II. ఉభయ పక్ష తప్పులు:

రెండవ దశలో కనుగొన్న ఉభయ పక్ష తప్పులను కూడా మొదటి దశలో కనుగొనబడిన ఉభయ పక్ష తప్పుల లానే సరియైన సవరణ పద్ధులు వ్రాయుట ద్వారా సరిదిద్దవచ్చు.

3. మూడవ దశ లో (ముగింపు లెక్కల తయారీ తర్వాత) కనుగొన్న తప్పుల సవరణ:

I. ఏకపక్ష దోషాలు:

మూడవ దశలో కనుగొన్న ఏకపక్ష దోషాలను అనామతు ఖాతాను ఉపయోగించి సవరణ పద్ధులు వ్రాయడం ద్వారా సరిదిద్దవచ్చు. ఒక దోషము వాస్తవిక లేదా వ్యక్తిగత ఖాతాలపై ప్రభావం చూపుతుంటే ఆ దోషమును రెండవ దశ లో చర్చించిన విధంగానే సరిదిద్దాలి. కానీ దోషం నామమాత్రపు ఖాతాను ప్రభావితం చేసినప్పుడు, సవరణ పద్ధులో నామమాత్రపు ఖాతా స్థానంలో లాభనష్టాల సర్దుబాటు ఖాతాను ఉపయోగించాలి.

II. ఉభయ పక్ష తప్పులు:

మూడవ దశలో కనుగొన్న ఉభయ పక్ష దోషాలను సవరణ పద్ధులు వ్రాయడం ద్వారా సరిదిద్దవచ్చు. ఒక దోషము వాస్తవిక లేదా వ్యక్తిగత ఖాతాలపై ప్రభావం చూపుతుంటే ఆ దోషమును మొదటి రెండు దశలలో చర్చించిన విధంగానే సరిదిద్దాలి. కానీ దోషం నామమాత్రపు ఖాతాను ప్రభావితం చేసినప్పుడు, సవరణ పద్ధులో నామమాత్రపు ఖాతా స్థానంలో లాభనష్టాల సర్దుబాటు ఖాతాను ఉపయోగించాలి.

ii. Errors affecting two or more accounts:

In most of the errors, the effect of an error is on two or more accounts. Errors of complete omission, repetition, debiting or crediting a wrong account, recording in a wrong subsidiary journal, posting to a wrong account are some of the errors of this type.

For example,

Cash received from A.Subhash Rs.5,000 wrongly posted to the debit of K.Subhash account. Due to this error, the balances of both the personal accounts are affected.

Goods purchased from Valli Rs. 32,500 had been entered in sales journal. In this case, debit balance of purchases account would be decreased by Rs.32,500, credit balance in sales account would be increased by Rs. 32,500 and debit balance in valli account would be increased by Rs.65,000.

Practical Illustration1:(Identification of type of error and its impact on trial balance) .

Let us see how to identify the type of error and its impact on Trial balance.

- i. Repairs to buildings Rs. 7,000 have been debited to buildings account.
- ii. A credit sale of goods to Sirisha Rs. 1800 posted to her account as Rs. 1,080.
- iii. Goods taken over by proprietor for his personal use Rs. 2,100 was not recorded in books.
- iv. Discount allowed to Somesh Rs. 300 was not posted to his account.
- v. Sale of old furniture on credit Rs. 2,500 has been entered in sales day book.
- vi. The total of sales returns book has been totaled in short by Rs. 100.

Solution:

- i. Since an expense is debited to an asset account, it is an error of principle. This error would not affect the agreement of trial balance because equal amount of debit and credit were recorded.
- ii. Since a wrong amount was posted to an account, it is an error of commission. This error would affect the agreement of trial balance because wrong amount was posted to one account (debit side) only.
- iii. The transaction was not recorded in books, so it is an error of omission. This error would not affect the agreement of trial balance since both debit and credit amounts were not recorded in books.
- iv. Since the entry not posted to one account, it is an error of partial omission. This error would affect the agreement of trial balance because amount was not posted to one account (credit side) only.

- v. Since the sale of an asset was recorded as a sale of goods, it is an error of principle.

This error would not affect the agreement of trial balance because equal amount of debit and credit were recorded.
- vi. Since a wrong total was posted to sales returns account, it is an error of commission. This error would affect the agreement of trial balance because wrong amount was posted to one account (debit side) only.

6.3 Why rectification of errors?

There are many stages in accounting cycle. The stages follow a sequence in a way that work to be done in a stage is dependent on work already been done in its previous stage. In other words, work completed in a stage serves as the base for work to be done in next stage. If an error occurred in a stage is not located and rectified, then its impact will pass through the next stages of accounting cycle even into the preparation of final accounts. Final accounts consist of profit and loss account and balance sheet. Profit and loss account is prepared to ascertain profit or loss of business and balance sheet is prepared to know the financial position.

Business units adopt accounting system to know its accurate financial results. External and internal users of accounting are interested in financial results shown by financial statements. If errors are not detected and rectified, then the accuracy of financial results shown by final accounts will become questionable, the true and fair financial picture of the business unit would not be reflected by final accounts. The whole objective of accounting would not be served.

Thus, one should locate and rectify errors properly.

Effect of errors on financial results:

As discussed earlier, errors affect the accuracy of financial results disclosed by final accounts. Errors involving real and personal accounts would affect the assets and liabilities, whereas errors involving nominal accounts would affect the profit as well as assets and liabilities.

Let us observe the impact of unrectified errors on profit with a Practical Illustration.

Practical Illustration 2: (Impact of errors on net profit)

1. Goods Purchases from Surya Rs. 5,000 was omitted to enter in journal.
2. Repairs to machinery Rs. 10,000 debited to machinery account.
3. Sales returns book was overcast by Rs. 2,000.
4. Rent paid Rs. 6,000 debited to Rent account as Rs. 600.
5. Goods sold to Ravi Rs. 10,000 was not posted to his account.

Solution:

1. Since the transaction was not entered in journal, purchases account would show a lower balance by Rs 5,000. It would decrease the cost of goods sold by Rs 5,000, hence profit would be increased by Rs.5,000.
2. Due to this error of principle, expenditure on repairs will be reduced and profit will be increased by Rs. 10,000.
3. Due to this casting mistake, sales returns account would show a higher balance and it will lead to lowering the sales revenue. Hence profit will be decreased by Rs. 2,000.
4. As the rent account is debited with Rs.600 instead of the actual payment of Rs.6,000, it would increase the profit by Rs 5,400.
5. This error won't affect the profit because, no nominal account was affected in this error.

6.4 How to locate the errors?

Agreement of trial balance indicates the relative accuracy and completeness of books of accounts. If trial balance does not agree, there must be some errors in books of accounts. Even if trial balance is agreed there may be some errors.

Identifying the errors is not always be an easy task. Especially, the two-sided errors cannot be found easily because impact of existence of these errors in books would not be disclosed by trial balance.

Detecting the errors in books of accounts needs detailed scrutiny and cross checking of books. It is a time-consuming process. However, some of the trial-and-error measures to locate the errors in books also discussed in this section.

Steps to be taken to locate the errors are given below:

Detailed checking:

- Check the totals of debit and credit columns / sides of trial balance.
- Check whether all balances from ledger are properly taken to trial balance or not.
- Check the totals of debtors, bills receivables, creditors and bills payables.
- Check whether the balances of cash book and bank accounts are properly taken into trial balance or not.
- Check whether all ledger accounts are totaled and balanced properly or not.
- Check whether postings from journal to ledger have been made properly or not.
- Check the totals of subsidiary books.
- Check whether carrying forward of totals and balances in ledger and subsidiary books are correctly done or not.
- Check whether all transactions as per supporting documents viz. vouchers, invoices, debit notes, credit notes, passbooks are properly recorded in journal or not.
- Check whether the opening balances of real accounts and personal accounts are properly brought down to the current year or not.

Trial and error Checking:

- Search with the difference amount.

If there is a short credit in trial balance by Rs. 3,500, it is possible that posting of Rs. 3,500 on the credit side has been omitted or posting of Rs. 3,500 on debit side has been done twice or a creditor for Rs. 3,500 has been omitted to be included in list of creditors or a credit balance of Rs. 3,500 has not been taken to trial balance or a debit balance of Rs. 3,500 has been taken to trial balance twice. One should check all the entries made with Rs.3,500 to locate such errors.

- Divide the difference amount with 2 then check with the result amount.

If there is a short debit in trial balance by Rs. 16,000, it is possible that a debit item of Rs. 8,000 has been posted to the credit side, or a debit balance of Rs. 8,000 has been taken to the credit side of trial balance. One should check all the entries made with Rs.8,000 to locate such errors.

- Divide the difference amount with 9, if it is divisible by 9, it is possible that the error of transposition has been occurred.

If an item of Rs. 4,157 has been posted as Rs. 4,517, then the difference would be Rs.360, which is exactly divisible by 9. So, one should focus more on mistakes of these kind if the difference is divisible by 9.

- Errors in entering zeros may be located by dividing the difference with 9, 99, 0.9, 0.99.

If there is a difference in trial balance by Rs. 4,500 which is exactly divisible by 9, it is possible that an item of Rs. 5,000 has been posted as Rs. 500. So, one should check all the entries made with quotient amount Rs.500 ($4,500/9 = 500$) to locate such errors.

If the difference in trial balance is Rs. 4,950 which is exactly divisible by 99 it is possible that an item of Rs. 5,000 has been posted as Rs. 50. So, one should check all the entries made with quotient amount Rs.50 ($4,950/99 = 50$) to locate such errors.

If the difference in trial balance is Rs. 16,200 which is exactly divisible by 0.9 it is possible that an item of Rs. 1,800 has been posted as Rs. 18,000. So, one should check all the entries made with quotient amount Rs.18,000 ($16,200/0.9 = 18,000$) to locate such errors.

If the difference in trial balance is Rs. 17,820 which is exactly divisible by 0.99 it is possible that an item of Rs. 180 has been posted as Rs. 18,000. So, one should check all the entries made with quotient amount Rs.18,000 ($17,820/0.99 = 18,000$) to locate such errors.

- If a one-side error found after the agreement of trial balance, check all entries made with the same amount or half of the amount or double amount to locate compensating errors.

If an error found leading to a short debit of Rs.520 in trial balance, it is possible that another error has been committed with Rs. 520 or Rs. 260 or Rs.1040.

6.4.1 Detecting Errors:

The following transactions were taken place in the business of Ganesh during June 2021

Date	Transactions	Amount
1-6-2021	Ganesh Started business with capital	1,00,000
4-6-2021	Purchased goods for cash.	20,000
13-6-2021	Sold goods for cash.	50,000
18-06-2021	Goods purchased from Reema	5,000
20-06-2021	Purchase of computer	25,000
30-6-2021	Salaries Paid	10,000
30-6-2021	Office Expenses	5,000
30-6-2021	Goods Purchased from rajesh on credit	25,000

Following is the journal of Ganesh:

Journal Entries in the Books of Ganesh

Date	Particulars	L.F	Debit Amount(Rs)	Credit Amount(Rs)
1-6-2021	Cash a/c Dr To Capital a/c (Being business commencement with cash)		1,00,000	1,00,000
4-6-2021	Purchase a/c Dr To Cash a/c (Being goods purchased on cash)		20,000	20,000
13-6-2021	Cash a/c Dr To Sales a/c (Being goods sold for cash)		50,000	50,000
20-06-2021	Purchases a/c Dr To Cash a/c (Being goods purchased on cash)		25,000	25,000
30-6-2021	Salaries a/c Dr To Cash a/c (Being salaries paid)		10,000	10,000
30-6-2021	Office Expenses a/c Dr To Cash a/c (Being office expenses paid)		5,000	5,000
30-6-2021	Purchases a/c Dr To Rajesh a/c (Being goods purchased from Rajesh on credit)		25,000	25,000

Following is the Ledger of Ganesh:

Dr				Cash Account		Cr	
Date	Particulars	J F	Amount	Date	Particulars	J F	Amount
1-6-2021	To Capital a/c		1,00,000	2-6-2021	To Purchases a/c		20,000
5-6-2021	To Sales a/c		50,000	20-6-2021	By Purchases		25,000
				30-6-2021	By Salaries a/c		10,000
				30-6-2021	By Office expenses a/c		5,000
				30-6-2021	By Balance c/d		90,000
			1,50,000				1,50,000
1-7-2021	To Balance b/d		90,000				

Dr				Capital Account		Cr	
Date	Particulars	J F	Amount	Date	Particulars	J F	Amount
30-6-2021	To Balance c/d		1,00,000	1-6-2021	By Cash a/c		1,00,000
			1,00,000				1,00,000
				1-7-2021	By Balance c/d		1,00,000

Dr				Purchases Account		Cr	
Date	Particulars	J F	Amount	Date	Particulars	J F	Amount
2-6-2021	To Cash a/c		20,000	30-06-2021	By Balance c/d		70,000
20-6-2021	To cash		25,000				
30-06-2021	To Rajesh a/c		25,000				
			70,000				70,000
1-7-2021	To Balance c/d		70,000				

Dr **Sales Account** **Cr**

Date	Particulars	J · F	Amount	Date	Particulars	J · F	Amount
30-6-2021	To Balance c/d		50,000	5-6-2021	By Cash a/c		50,000
			50,000				
				1-7-2021	By Balance b/d		50,000

Dr **Salaries Account** **Cr**

Date	Particulars	J F	Amount	Date	Particulars	J F	Amount
30-6-2021	To Cash a/c		10,000	30-6-2021	By Balance c/d		20,000
30-6-2021	To Cash a/c		10,000				
1-7-2021	To Balance b/d		20,000				
			20,000				20,000
			20,000				

Dr **Office Expenses Account** **Cr**

Date	Particulars	J F	Amount	Date	Particulars	J F	Amount
30-6-2021	To Cash a/c		500	30-6-2021	By Balance c/d		500
			500				
1-7-2021	To Balance b/d		500				

Dr **Rajesh Account** **Cr**

Date	Particulars	J F	Amount	Date	Particulars	J F	Amount
30-6-2021	To Balance c/d		20,500	30-6-2021	By Purchases a/c		20,500
			20,500				
				1-7-2021	By Balance b/d		20,500

Trial balance of Ganesh:

Debit balances	Amount	Credit balances	Amount
Cash A/c	90,000	Capital	1,00,000
Purchases	70,000	Sales	55,000
Salaries	20,000	Rajesh	20,500
Office expenses	500		
Total	1,80,500	Total	1,75,500

The trial balance showing a difference of Rs.5,000 due to errors committed in books. Identify the errors.

6.5 How to rectify the errors?

Rectification of an error involves correcting the wrong effects of an error by using an appropriate tool of rectification.

6.5.1 Tools of Rectification:

Errors in books of accounts cannot be rectified by striking off wrong particulars or amount and rewriting correct particulars or amount.

Errors can be rectified by the following ways.

1. Passing a rectification entry:

Errors can be rectified by passing a journal entry. Rectification entries are passed in Journal proper. A rectification entry is passed in such a way that the wrong treatment given should be nullified and correct treatment should be incorporated.

Passing rectification entries is explained by the following examples,

- i. If an account is wrongly debited instead of another account in a journal entry, rectification entry should be passed by debiting the correct account and crediting the wrong account. If an account is wrongly credited instead of another account, rectification entry should be passed by crediting the correct account and debiting the wrong account.

For example,

If a journal entry was passed by debiting Sudhadhar's account instead of Sudhakar's account for the transaction 'Goods sold to Sudhakar of Rs.10,000'.

The rectification entry is

Sudhakar's A/c Dr	10,000		
	To Sudhadhar's A/c		10,000

In this example, the effect of wrong debit of sudhadhar's account is neutralized by crediting sudhadhar's account for Rs. 10,000 and the correct effect to be made to sudhakar's account is now made by debiting Sudhakar's account.

- ii. If a journal entry is passed with a higher (wrong) amount, reverse journal entry has to be passed with the excess amount to rectify the error.

For example,

If Cash received from sindhu Rs.2,500 was recorded in journal with Rs 2,900.

The rectification entry is

Sindhu A/c Dr	400
To Cash A/c	400

In this example, the effect of excess(wrong) debit in cash account of Rs.400 and excess (wrong) credit in sindhu account of Rs.400 is neutralized by debiting sindhu account with Rs. 400 and crediting cash account with Rs. 400.

Alternative method for passing a Rectification entry is as follows:

1. Write wrong journal entry.
2. Reverse the wrong journal entry (To cancel its wrong effect) .
3. Write correct journal entry (To give correct effect) .
4. Cancel the particulars and amounts on opposite sides in journal entries 2 and 3 (To get net effect).
5. Write the remaining particulars with remaining amounts in the form of a journal entry.

For example, Goods purchased from Krishna Rao Rs.5,000wrongly credited to Krishnamurthy account can be rectified as follows

1. **Wrong Journal entry**

Purchases A/c Dr	5,000
To Krishna Murthy A/c	5,000

2. **Reversed Wrong Journal entry**

Krishna Murthy A/c Dr	5,000
To Purchases A/c	5,000

3. **Correct Journal Entry**

Purchases A/c Dr	5,000
To Krishna Rao A/c	5,000

1. One sided error
2. Two-sided error

6.5.2.1 Rectification of errors found in Stage 1: Before the preparation of trial balance:

I. One-sided errors:

One-sided errors found in stage one can be rectified by writing an explanatory note or corrective statement on appropriate side of affected account or in affected subsidiary journal.

Let us learn how to rectify the one-sided errors found before the preparation of trial balance.

Practical Illustration 3:

The following errors were found in the books of Srinivasa Pvt Ltd before the preparation of trial balance. You are required to rectify the errors.

- A. Purchases from Jaya Rs. 6,800 was not posted to Jaya's account.
- B. Cash received Rs. 7,000 from Madhav was posted to his account on debit side.
- C. Sales to Sateesh Rs. 10,200 debited to his account as Rs. 12,000.
- D. Bills payables book was overcast by Rs 100.
- E. The total of a page in purchase returns book Rs.2,100 was wrongly carry forwarded as Rs 1,200 to next page.

Solution:

- A. In this case the purchase amount of Rs. 6,800 should be posted to credit side of Jaya's account, but it was not posted. Hence, Jaya's account would show a less credit by Rs. 6,800 because of the error. So, the error can be rectified by posting Rs. 6,800 on credit side of Jaya's account. The rectification of this error is shown below

Dr

Jaya Account

Cr

Date	Particulars	J F	Amount	Date	Particulars	J F	Amount
				A	By Omission of posting for purchases (Error rectified)		6,800

- B. In this case the cash received Rs. 7,000 from Madhav should be posted to credit side of Madhav's account, but instead it was posted to his account on debit side. Hence, Madhav's account would show a higher debit by Rs. 14,000(For not posting to credit side Rs.7,000 + For wrong posting to debit side Rs.7000). So, the error can be rectified by posting Rs. 14,000(Rs 7,000 to neutralize the wrong effect+ Rs.7,000 to give the correct effect) on credit side of Madhav's account. The rectification of this error is shown below

Dr

Madhav Account

Cr

Date	Particulars	J F	Amount	Date	Particulars	J F	Amount
				B	By Wrong debit for cash receipt (Error rectified)		14,000

C. In this case the Sales amount of Rs. 10,200 should be posted to debit side of Sateesh's account, but it was posted as Rs 12,000. Hence, Sateesh's account would show an excess debit by Rs. 1,800 (Rs. 12,000- 10,200) because of the error. The error can be rectified by posting Rs. 1,800 on credit side of Madhav's account to neutralize the wrong(excess) debit. The rectification of this error is shown below

Dr

Sateesh Account

Cr

Date	Particulars	J F	Amount	Date	Particulars	J F	Amount
				C	By Excess debit on account of sales (Error rectified)		1,800

D. Since the bills payable account over cast by Rs 100, the total transferred to bills payables account would be more by Rs. 100. Hence, bills payables account would show a high credit by Rs. 100 because of the error. So, the error can be rectified by posting Rs. 100 on debit side of bills payables account to neutralize the wrong(excess)credit. The rectification of this error is shown below

Dr

Bills payable Account

Cr

Date	Particulars	J F	Amount	Date	Particulars	J F	Amount
D	To Over casting error rectified		100				

E. In this case amount to be carry forwarded to next page would be Rs. 2,100 but the amount carry forwarded was Rs. 1,200 which is less than by Rs 900. The total transferred to purchase returns account would be less by Rs. 900(2,100-1,200). Hence, purchase returns account would show a low credit by Rs. 900 because of the error. So, the error can be rectified by posting Rs. 900 on credit side of purchase returns account. The rectification of this error is shown below

Dr **Purchase Returns Account** **Cr**

Date	Particulars	J F	Amount	Da te	Particulars	J F	Amount
				E	By Carry forwarding error rectified		900

II. Two-sided errors:

Two sided errors found in first stage can be rectified by passing a rectification entry.

Let us learn how to rectify the two-sided errors found before the preparation of trial balance.

Practical Illustration 4: The following errors were found in the books of Yasaswi before the preparation of trial balance you are asked to rectify the errors.

- i. Goods purchased from Chiranjeevi omitted to be recorded in books.
- ii. Cash paid to Seetha Rs. 5,000 was recorded as payment to Satha.
- iii. Wages paid in cash Rs. 4,600 was wrongly entered in bank column of cash book.
- iv. A credit sale of Rs. 10,000 to Kumari was recorded in the purchases book.
- v. Repairs to Plant Rs. 2,000 was wrongly debited to Plant account.

Solution:

- i. Since the transaction was not recorded in journal, we can rectify it just by passing a journal entry for the transaction.
- ii. In this case, cash account was credited correctly, but satha account was debited instead of seetha account. Since seetha account was not debited, we should debit seetha's account and we should credit satha's account to neutralize the effect of wrong debit in

satha's account. It should be noted that cash account should not be used in rectification entry since no error was made in crediting cash account.

- iii. Wages paid Rs. 4,600 was wrongly recorded in bank column instead of cash column. So wrong credit given to bank account by Rs. 4,600 is canceled by debiting bank account and correct affect is made by crediting cash account with Rs. 4,600.
- iv. Since it is a credit sale transaction, Kumari's account should be debited and sales account should be credited. But in this case purchase account was wrongly debited with Rs.10,000, Kumari account credited with Rs. 10,000 instead of debiting by Rs. 10,000, sales account was not credited. Three accounts are affected in this case. To rectify this error,

Kumari account should be debited with double amount i.e 20,000 (To cancel wrong affect Rs. 10,000 + To give correct affect Rs. 10,000),

Purchases account should be credited with Rs. 10,000 to neutralize the wrong debit

Sales account should be credited with Rs. 10,000 as it was not credited earlier.

- v. This error is an error of principle. Plant account was wrongly debited with Rs.2,000 in the place of Repairs account. Repairs account should be debited with Rs. 2,000 to give correct effect and plant account should be credited to cancel the wrong debit in plant account.

Rectification Entries in Journal Proper of Yasaswi Ltd.

Date	Particulars	L.F	Debit Amount (Rs)	Credit Amount (Rs)
I	Purchases A/c Dr To Chiranjeevi A/c (Being error of complete omission rectified)		3,600	3,600
Ii	Seetha A/c Dr To Satha A/c (Being error of commission rectified)		5,000	5,000
Iii	Bank A/c Dr To Cash A/c (Being error of commission rectified)		4,600	4,600
Iv	Kumari A/c Dr To Purchases A/c		20,000	10,000

	To Sales A/c (Being error of commission rectified)			10,000
V	Repairs A/c Dr To Plant A/c (Being error of principle rectified)		2,000	2,000

6.5.2.2. Rectification of errors found in Stage 2: After the preparation of trial balance and before the preparation of final accounts

Suspense Account:

Students learnt about suspense account in the previous chapter. Let us recall the suspense account.

Suspense account is an imaginary account created to make the trial balance agree. It is created to avoid the delay in preparation of final accounts because of difference in trial balance. The difference in trial balance indicates the net effect of unknown one side errors occurred in books. If all those errors detected and rectified then the suspense account would be balanced automatically.

I. One-sided errors:

One-sided errors found in second stage cannot be rectified by writing an explanatory note in affected accounts. The difference in trial balance which represents the net effect of one-sided errors remain in the books is placed in suspense account. So, one-sided errors found in this stage are corrected by passing a rectification entry with the help of suspense account.

Let us learn how to rectify the one-sided errors found after the preparation of trial balance and before the preparation of final accounts.

Practical Illustration 5: Following are the errors found in the books of Srirama after the preparation of trial balance. Rectify the errors.

- A. Purchases from Naveen Rs. 15,000 was not posted to Naveen’s account.
- B. Cash Paid to Vara prasad Rs. 7000 was posted to his account on credit side.
- C. Repairs paid Rs.1,200 debited to repairs account as Rs. 120.
- D. Purchases book was undercast by Rs 1,300.
- E. The credit balance of Hareesh a/c Rs.2,000 at the end of a month was wrongly carry forwarded to debit side of his account for the next month.

Solution:

Given errors are one-sided errors found after the preparation of trial balance. It should be noted that the difference on account of these errors was placed in suspense account. They should be rectified by passing a rectification entry using suspense account.

- A. Since Naveen's account was not credited, we should credit Naveen's account with Rs.15,000. And we should debit suspense account with Rs. 15,000 to adjust the difference in suspense account.
- B. Cash paid to Vara prasad Rs. 7,000 should be posted to his account on debit side, instead of that it was posted to credit side of his account. So, Vara prasad account should be debited with Rs. 14,000 and suspense account should be credited with Rs. 14,000 to rectify the error.
- C. In this case Only Rs.120 was posted to the debit of Repairs account which is Rs. 1,080 less than the actual amount of Rs. 1,200. So, the error can be rectified by debiting the repairs account and crediting suspense account with the difference amount of Rs 1,080.
- D. Since the purchases book under cast by Rs. 1,300, the amount posted to debit side of purchases account from purchases book would be less by Rs.1,300. To rectify the error, purchase account should be debited and suspense account should be credited.
- E. Carry forwarding of Rs. 2,000 to debit side instead of credit side of Hareesh account would increase the debit balance or decrease the credit balance by Rs. 4,000. Harish account should be credited with and suspense account should be debited with Rs. 4,000 to rectify the error.

Rectification Entries in Journal Proper of Srirama.

Date	Particulars	L. F	Debit Amount (Rs)	Credit Amount (Rs)
A	Suspense A/c Dr To Naveen A/c (Being error of partial omission rectified)		15,000	15,000
B	Vara Prasad A/c Dr To suspense A/c (Being error of commission rectified)		14,000	14,000
C	Repairs A/c Dr To Suspense A/c		1,080	1,080

	(Being error of commission rectified)			
D	Purchases A/c Dr To Suspense A/c (Being error of commission rectified)		1,300	1,300
E	Suspense A/c Dr To Hareesh A/c (Being error of commission rectified)		4,000	4,000

II. Two-sided errors:

Two sided errors found in second stage can be rectified by passing a rectification entry as same as in case of two-sided errors found in first stage.

3. Rectification of errors found in Stage 3: After the preparation of final accounts:

Final accounts comprise Profit and Loss account and balance sheet. Balances of all the nominal accounts are transferred to Profit and loss account to ascertain profit or loss. So, no balance would be left in the accounts of nominal accounts for the year after the preparation of final accounts. So, adjusting the wrong effect or giving correct affect to a nominal account is not possible. Any error which affected the nominal accounts found in third stage i.e after the preparation of final accounts can only be rectified by adjusting the effect to profit/ loss of the period only. To adjust the previous year's profit /loss, Profit and loss adjustment account should be used. So, profit and loss adjustment account should be used in the place of nominal account in rectification entries to rectify the errors which affected the nominal accounts.

I. One-sided errors:

Rectification of one-sided errors found in stage 3 can be rectified by passing a rectification entry using suspense account. If an error effects real or personal accounts, it should be rectified in the same manner discussed in stage 2. But whenever an error effect a nominal account, Profit and Loss adjustment account should be used in the place of nominal account in the rectification entry.

II. Two-sided errors:

Rectification of two-sided errors found in stage 3 can be rectified by passing a rectification entry. If an error effects real or personal accounts, it should be rectified in the same manner as discussed in stage 1 and 2. But whenever the error effects a nominal account, Profit and Loss adjustment account should be used in the place of nominal account in the rectification entry.

The rectification of errors summarized in the following table:

Stage \ Error	One sided error	Two-sided error
Stage 1: Before the preparation of trial balance	By writing a corrective statement/ Explanatory note	By Passing a rectification entry
Stage 2: After the preparation of trial balance and before the preparation of final accounts	By passing a rectification entry using suspense account	By passing a rectification entry
Stage 3: After the preparation of final accounts	By passing a rectification entry using suspense account But P&L adjustment account is used in the place of nominal accounts.	By passing a rectification entry But P&L adjustment account is used in the place of nominal accounts.

6.6 Practical Illustrations:

1. Following errors were found in the books of Vijay after the preparation of trial balance. Rectify the following errors.

- Purchase returns of Rs. 500 to Ramana was recorded in Sales returns book.
- An amount of Rs. 1,000 due from Raju was omitted from the list of sundry debtors.
- Goods purchased from Babu Rs. 1,200 was recorded in books twice.
- Sales book was undercast by Rs. 200.
- Discount received from Ajay Rs. 450 was wrongly entered in bank column of cash book.
- Cash received from Lakshmi Rs. 5,400 was posted to debit side of her account as Rs. 4,500.

Rectification Entries in the books of Srirama.

Date	Particulars	L. F	Debit Amount (Rs)	Credit Amount (Rs)
A	Ramana A/c Dr		1000	
	To Purchase returns A/c			500
	To sales returns A/c			500
	(Being error of commission rectified)			

B	Debtors A/c Dr To Suspense A/c (Being error in preparation of trial balance rectified)		1,000	1,000
C	Babu A/c Dr To Purchases A/c (Being error of duplication rectified)		1,200	1,200
D	Suspense A/c Dr To sales A/c (Being error of commission rectified)		200	200
E	Bank A/c Dr To Discount received A/c (Being error of commission rectified)		450	450
F	Suspense A/c Dr To Lakshmi A/c (Being multiple errors of commission rectified)		9,900	9,900

2. Rectify the following mistakes if they are identified

A) Before the preparation of Trial Balance (Stage1).

B) After the preparation of Trial Balance (Stage2).

- i. Cheque issued to Umesh Rs 2,000 has been debited to Suresh account.
- ii. Goods returned by Santosh Rs 850 were taken into stock but not recorded in books.
- iii. A credit sale of goods to Jayram Rs 4,200 has been entered twice in sales book.
- iv. Repairs to motor van Rs 1,850 were entered in cash book but not posted in ledger.
- v. Rent paid to Govind Rs 1,500 were posted to the credit of his personal account.
- vi. The monthly total of sales returns book Rs 900 was not posted in ledger.

3. Raghu industries prepared a trial balance by putting the difference amount of Rs. 3,200 on debit side of suspense account. The following errors were found later.

Rectify the errors and show suspense account.

- i. Amount paid for repairs to computers Rs. 400 was wrongly posted to computer account twice.
- ii. Sales book was over cast by Rs. 850.
- iii. Bill received from Ranga Rs. 1,800 was not recorded in books.
- iv. Cash received from Naresh Rs. 600 was wrongly posted to Nagesh account as Rs. 60.
- v. The monthly total of discount column on debit side of the cash book Rs. 1,510 was not Posted to ledger.
- vi. Rent paid to Hari Rs. 1,300 debited to his personal account.
- vii. Cheque issued to Giri Rs. 5,500 was wrongly entered in cash column of the cashbook.

Rectification Entries in Journal Proper of Raghu Industries

Date	Particulars	L.F	Debit Amount (Rs)	Credit Amount (Rs)
i	Repairs A/c Dr Suspense A/c Dr To Computer A/c (Being error of commission rectified)		400 400	800
ii	Sales A/c Dr To Suspense A/c (Being error of commission rectified)		850	850
iii	Bills receivables A/c Dr To Ranga A/c (Being error of omission rectified)		1,800	1,800
iv.	Nagesh A/c Dr Suspense A/c Dr To Naresh A/c (Being error of commission rectified)		60 540	600
v.	Discount allowed A/c Dr To Suspense A/c (Being error of partial omission rectified)		1,510	1,510
vi.	Rent paid A/c Dr To Hari A/c		1,300	1,300

	(Being error of principle rectified)			
vii.	Cash A/c Dr To Bank A/c (Being error of commission rectified)		5,500	5,500

Dr

Suspense Account

Cr

Date	Particulars	JF	Amount	Date	Particulars	JF	Amount
	To Difference in Trial balance		3,200	ii	By Sales A/c		850
i	To Computers A/c		400	v	By Discount allowed A/c		1,510
iv.	To Naresh A/c		540		By Balance C/d		1,780
			4,140				4,140

Note: Balance in suspense account has been reduced to Rs. 1,780 from Rs 3,200 after the rectification of given errors. A balance of Rs. 1,780 is still there in suspense account which indicates that there are some more un identified errors in books of accounts.

4. A book keeper while preparing the trial balance found that the debit total exceeds the credit by Rs. 1,400. He placed the difference to suspense account. The following errors were found after the preparation of trial balance. Pass journal entries to rectify the errors and prepare suspense account.

- A. Cash received from Madhu Rs.1,600 had been posted to the debit of his account as Rs. 600.
- B. Cash paid to Raju Rs. 5,200 was posted to his account as Rs. 2,500.
- C. Goods sold to Chandu Rs. 5,000 was not recorded in books.
- D. A credit purchase from Nandu Rs.2,900 was not posted to his account.
- E. Sales Returns journal was Under cast by Rs. 1,000.
- F. Bill received from vinay Rs.3,000 was recorded in bills payable journal as Rs. 300.

Rectification Entries

Date	Particulars	L.F	Debit Amount (Rs)	Credit Amount (Rs)
A	Suspense A/c Dr To Madhu A/c (Being error of commission rectified)		2,200	2,200
B	Raju A/c Dr To Suspense A/c (Being error of commission rectified)		2,700	2,700
C	Chandu A/c Dr To Sales A/c (Being error of omission rectified)		5,000	5,000
D	Suspense A/c Dr To Nandu A/c (Being error of partial omission rectified)		2,900	2,900
E	Sales returns A/c Dr To suspense A/c (Being error of commission rectified)		1,000	1,000
F	Bills receivable A/c Dr Bills payable A/c Dr To Vinay A/c (Being error of commission rectified)		3,000 300	3,300

Dr				Suspense Account				Cr			
Date	Particulars	JF	Amount	Date	Particulars	JF	Amount				
A	To Madhu A/c		2,200		By Difference in trial balance		1,400				
D	To Nandu A/c		2,900	B	By Raju A/c		2,700				
				E	By sales Returns A/c		1,000				
			5,100				5,100				

Test your Understanding



I. Fill in the Blanks

1. Debiting a nominal account in the place of a real account is an error of _____.
2. Omitting to post an entry to one account is an error of _____ omission.
3. Recording a wrong amount in books is an example of error of _____.
4. Errors can be rectified by writing a _____ or _____.
5. _____ sided errors do not affect the agreement of trial balance.

II. True or False

1. Errors of principle affect the agreement of trial balance.
2. Entering a transaction in a wrong subsidiary book is an example of error of commission.
3. Omitting to record a transaction in journal affect the agreement of trial balance.
4. Under casting of sales book is an example of one-sided error.
5. Two-sided errors do not affect the agreement of trial balance.

III. Multiple Choice Questions (MCQ)

1. Writing an entry multiple times in journal is an example of
 - A. Error of omission
 - B. Error Commission
 - C. Error of principle
 - D. None of the above
2. Omitting to Post an entry into one account is an error of
 - A. Error of complete omission
 - B. Error of principle
 - C. Compensating error
 - D. Error of partial omission
3. Which of the following error affect the agreement of trial balance
 - A. Error of complete omission
 - B. Error of principle
 - C. Compensating error
 - D. Error of partial omission
4. Recording personal expenses of proprietor in the books of business is an error of
 - A. Error of principle
 - B. Error of commission
 - C. Compensating error
 - D. Error of partial omission
5. Wrong carry forwarding of total in sales returns book is a
 - A. One-sided error
 - B. Two-sided error
 - C. Both of the above
 - D. None of the above
6. Which of the following is a two-sided error
 - A. Omitting to post an entry to one account
 - B. Posting a wrong amount to one account
 - C. Entering a wrong amount in subsidiary journal
 - D. Over casting of bills receivables book
7. Which of the following is an error disclosed by trial balance.
 - A. Omitting to record general expenses of Rs. 500 in journal
 - B. Posting a purchase of goods from Ravi Rs.500 to the debit side of Ravi A/c
 - C. Entering a sales return of Rs. 1,000 in purchase returns book
 - D. Debiting Machinery account for repairs to machinery Rs. 2,100
8. How many accounts would be affected by an error of recording a purchase in sales book
 - A. 2
 - B. 3
 - C. 4
 - D.1
9. What is the effect of under casting of purchases book by Rs. 200 on trial balance
 - A. Excess debit by Rs. 200
 - B. Short debit by Rs. 200
 - C. No effect on trial balance
 - D. Short debit by Rs. 400

10. What is the effect of “posting cash received from suma Rs.300 to the debit of her account” on trial balance

- A. Excess credit by Rs.600
- B. Short debit by Rs. 300
- C. Short credit by Rs. 600
- D. Short debit by Rs. 600

11. One sided Errors found before the preparation of trial balance can be rectified by

- A. Writing an explanatory statement
- B. By passing a rectification entry
- B. Either of the above
- D. None of the above

12. Two-sided errors found before the preparation of trial balance can be rectified by

- A. Writing an explanatory statement
- B. By passing a rectification entry
- B. Either of the above
- D. None of the above

13. One-sided errors found after the preparation of trial balance can be rectified by

- A. Writing an explanatory statement
- B. Passing a rectification entry
- C. Passing a rectification entry using suspense account
- D. None of the above

IV. Short Answer Questions (SAQ)

1. Explain Suspense Account
2. Explain the need for rectification of errors
3. Explain the tools of rectification of errors

V. Long Answer Questions (LAQ)

1. Explain different types of errors.
2. Explain the process of rectification of errors.

3. Classify the following errors into

A). Error of principle B) Error of commission C) Error of omission

and write their impact on agreement of trial balance.

1. Rent paid to the landlord Rs3400 was debited to his personal account.
2. Goods returned by A.Khan Rs700 was posted to the credit of K.Khan.
3. Goods taken by proprietor for his personal use Rs500 wasn't recorded in books.
4. An item of Rs.950 in sales account was wrongly entered as Rs 590.
5. Amount spent for installing an Air Conditioner Rs3000 have been debited to office expenses account.
6. The total of discount column of the debit side of cash book Rs 280 wasn't posted in ledger.

4. Determine the effect of the following errors on the agreement of trial balance and net profits of a business firm.

1. Amount paid for repairs on purchase of a second-hand machine Rs 2500 were debited to repairs account.
2. Goods distributed by way of free samples Rs 800 was not recorded in the books at all.
3. Amount due from Mehta Rs 3,000 is irrecoverable as he became insolvent was also not recorded in the books.
4. Cash paid to Ali Rs 1,250 was wrongly posted to his account as Rs 1,520.
5. Commission received from Sachin Rs 525 were wrongly credited to his account in ledger.
6. Discount received from Kumar Rs 400 were shown on the credit side of his Account.

5. Make out rectification entries for the following errors found after the preparation of trial balance.

1. The total of return outward journal was understated by Rs 300.
2. Discount allowed to Madhav Rs 150 wasn't posted to his personal account.
3. Cash paid to Krishna Rs 1650 though correctly entered in cash book, posted in his account as Rs 1,605.
4. Cheque received from shekar Rs 1,150 was posted to his account twice in error.
5. Goods purchased from Avinash Rs 1800 was passed through the sales day book.
6. Amount received from Bhaskar Rs 750 whose account was written off as bad debt earlier has been credited to his personal account.

6. How would you rectify the following mistakes if they were found in the books

A) Before preparing the trial balance. B) After preparing the trial balance.

1. Sales book total was under casted by Rs2000.
2. Cheque received from Amar Rs 5000 was wrongly credited to the account of Samar.
3. Depreciation on furniture Rs1500 wasn't posted to depreciation account.
4. Purchase of goods from abhram Rs. 3,000 was not recorded in books.
5. A return of goods from prabhu Rs1800 was wrongly entered in purchases daybook.
6. Repairs to machinery Rs1200 wrongly debited to machinery account.

7. The trial balance of Mr.Karthik showed a difference of Rs 1720 (short credit). On scrutiny of his books, the following errors were noticed.

1. Purchase book total was in excess by Rs 620.
2. Amount due from Kiran Rs 800 was not included in the list of trade debtors.
3. School bag purchased for Mr.Karthik's son Rs 650 was debited to stationery expenses account.
4. Return of goods from Raju Rs 1380 was correctly entered in returns inward journal but not posted to his account.
5. Sale of old scooter Rs 5200 was credited to sales account.
6. Wages paid to workers Rs 1500 for the construction of parking shed for staff were debited to wages account.

Pass rectification entries for the above mistakes and prepare the suspense account. (Ans: Balance in suspense account Rs 520 Cr).

8. After preparing the trial balance, a trader found that it shows an excess credit of Rs1500 which he placed against a suspense account. On verification the following errors were discovered. Pass rectification entries and show suspense account.

1. Credit purchase of goods from Venkat Rs.3200 has been entered in purchases book as 2,300.
2. Purchases book was under cast by Rs. 700.
3. Cash paid to Saikumar Rs.1,000 was posted to the wrong side of his account.
4. Sale of second-hand machine for Rs.9,000 to Mr. Gupta has been recorded in sales daybook.
5. Amount payable to Mr. Pratap Rs.500 was not taken in the list of sundry creditors.
6. Cash paid for purchase of medicines to proprietor's mother Rs.900 were debited to miscellaneous expenses account.
7. Commissions received Rs. 900 was posted to commission received account as Rs. 200.

VI. Additional Resources for Advanced Learning

Study Material (Handouts):

<https://nios.ac.in/media/documents/srsec320newE/320EL11.pdf>

Reference Text Books:

1. R L Gupta & V K Gupta, Principles and Practice of Accounting, Sultan Chand & Sons
- 2.S.P. Jain & K.L Narang, Accountancy-I, KalyaniPublishers
- 3.Tulasian, Accountancy -I, Tata McGraw HillCo.

E - Text Books:

<https://icmai.in/upload/Students/Syllabus2016/Foundation/Paper-2New-29012021.pdf>

<https://www.icsi.edu/media/webmodules/publications/FULL%20FAA%20PDF.pdf>

YouTube Links:

<https://www.youtube.com/watch?v=zCZoqINp5P0>

<https://www.youtube.com/watch?v=3bYHy5NZ73k>

Power Point Presentations:

<https://www.slideshare.net/takshilalearning/rectification-of-errors-67813481>

<https://www.slideshare.net/srinivasmethuku/topic-8-rectification-of-errors-n>



VII. Suggested Activity

1. Visit a firm (Individual and Group) and observe the process of rectification of errors
- 2.Problem Solving Exercises
- 3.Learning Computer based accounting system through tally



Answers



I. Fill in the Blanks					
Q.No	1. Error of principle	2. Error of partial omission	3. Error of commission	4. Corrective statement, Rectification entry	5. Two sided
II. True or False					
Q.No	1. False	2. True	3. False	4. True	5. True

III. Multiple Choice Questions (MCQ)										
Q.No	1. B	2. D	3. D	4. A	5. A	6. C	7. B	8. B	9. B	10. C
	11. A	12. B	13. C							

Glossary



Compensating errors: Errors that are compensating the wrong effect of one another.

Error: An unintentional mistake.

Errors of Commission: Errors made with wrong amounts, wrong totals, wrong sides, and wrong accounts.

Error of Omission: Error committed by forgetting to record or post an entry.

Errors of principle: Errors committed by violating the principles of accounting.

One-sided Error: An error that affect the agreement of trial balance.

Rectification: Correcting the wrong effect of an error.

Suspense Account: An imaginary account created to make trial balance agree.

Two-sided error: An Error that does not affect the agreement of trial balance.

CHAPTER - VII

BANK RECONCILIATION STATEMENT

Learning Outcomes

1. Understand the nature of cash book and passbook
2. Understand the reasons for difference between balance as per cash book and passbook
3. Identify the differences between the cash book and Passbook balances
4. Analyse the reason for difference to know its impact on cash book and Passbook balances
5. Develop the skill of preparation of Bank reconciliation statement

Contents

- 7.1 Introduction
- 7.2 Passbook and Cash book
- 7.3 Why the Balances of Passbook and Cashbook differ?
- 7.4 What an Accountant has to do with the differences?
- 7.5 Why Reconciliation?
- 7.6 How to reconcile the passbook and cashbook balances
- 7.7 Practical Illustrations

7.1 Introduction

Banking is one of the important auxiliaries to business. Banks help business entities in smooth conduct of business by arranging for receipts and payments of cash. In the past the activities of banks were confined to receipt of deposits and provision of loans. Moreover, only a few types of deposits were available at banks and means of payment they offered to their customers were also limited. The changing techno economic conditions have changed the face of banking. Now a days banks are rendering a wide variety of services like insurance, asset management, forex services and so on, in addition to their core functions. They are offering a wide range of innovative deposits to meet the changing needs of customers. New branches of banking viz. Internet banking, SMS banking, mobile banking have been evolved. Usage of Information technology in banking gives rise to many speedy payment mechanisms viz. RTGS, NEFT, IMPS, UPI. The speed and accuracy in banking services has increased the volume of bank transactions. Receipt and payment of cash by hand has been decreased significantly among businesses and common public. Majority of the receipts and payments of business today are being made through banks.

In earlier chapters students have come across the preparation of Cashbook with bank column. Business entities usually receive and pay money through their current accounts with banks. The transactions made by them through banks are recorded in the bank column of the cash book or entered into the relevant field in accounting software. On the other side, bankers also keep the record of transactions made by their customers. Banks provide the record of transactions periodically to their customers either in the form of Account statement or in the form of entries in the passbook.

7.2. Cash Book and Passbook:

Let us examine the nature of cash book and passbook in detail to proceed further.

7.2.1 Cash Book and its characteristics:

In earlier chapters students have learnt about Cash book. The cash book is prepared by cashiers either manually or through computerized accounting software. It is common among the business entities to prepare Cash book with bank column because many of their receipts and payments are made through bank accounts. Firms record the receipts and payments made through bank in the bank column of the cash book.

Receipts through bank account are entered in the bank column on the Receipts side (Debit) of the cash book. Payments made through bank account are entered in the bank column on the payments (Credit) side of the cash book. Excess of Receipts (debits) over Payments (credits) lead to a favourable balance and excess of Payments (credits) over Receipts (debits) lead to an unfavourable balance in bank column of the cash book.

7.2.2 Passbook and its characteristics:

Passbook is issued to customers when they open their account with a bank. The purpose of passbook is to make the customers aware of the transactions that have taken place in their bank account. It is an evidence for transactions made by the customer through their bank account. Customers get their transactions printed on passbook periodically.

బ్యాంకు నిల్వల సమన్వయ పట్టి

నగదు పుస్తకం మరియు పాస్ పుస్తకం:

సాధారణంగా వ్యాపార సంస్థలు వాటి యొక్క నగదు లావాదేవీలు బ్యాంక్ ఖాతాల ద్వారాచేస్తాయి. బ్యాంకుల ద్వారా వారు చేసిన వ్యవహారములు నగదు పుస్తకం యొక్క బ్యాంక్ వరుసలో నమోదు చేస్తారు. బ్యాంకులు తమ ఖాతాదారులు(వ్యాపార సంస్థలు) బ్యాంకు ద్వారా చేసిన లావాదేవీలను నమోదు చేసి వాటిని అకౌంట్ స్టేట్మెంట్ రూపంలో లేదా పాస్ బుక్ ఎంట్రీలను ప్రింట్ చేయడం ద్వారా గానీ వారి ఖాతాదారులకు అందిస్తాయి.

బ్యాంక్ ఖాతా ద్వారా వసూలైన మొత్తాలను నగదు పుస్తకం యొక్క వసూళ్ళ వైపు (డెబిట్ వైపు) బ్యాంక్ వరుసలో నమోదు చేస్తారు. బ్యాంక్ ఖాతా ద్వారా చేసిన చెల్లింపులను నగదు పుస్తకం యొక్క చెల్లింపులు వైపు (క్రెడిట్ వైపు) బ్యాంక్ వరుసలో నమోదు చేస్తారు. నగదు పుస్తకం యొక్క వసూళ్ళ వైపు (డెబిట్ వైపు) అంశముల మొత్తం చెల్లింపుల వైపు (క్రెడిట్ వైపు) అంశముల మొత్తం కన్నా ఎక్కువగా ఉంటే నగదు పుస్తకములో అనుకూల నిల్వ (డెబిట్ నిల్వ) వస్తుంది. అలా గాక చెల్లింపుల వైపు (క్రెడిట్ వైపు) అంశముల మొత్తం వసూళ్ళ వైపు (డెబిట్ వైపు) అంశముల మొత్తం కన్నా ఎక్కువగా ఉంటే నగదు పుస్తకములో ప్రతికూల నిల్వ (క్రెడిట్ నిల్వ) వస్తుంది.

బ్యాంకులు, తమ ఖాతాదారులు వారి బ్యాంకు ఖాతా ద్వారా చేసిన వ్యవహారములను పాస్ బుక్ లో క్రమానుగతంగా ముద్రిస్తాయి. పాస్ బుక్ యొక్క ఉద్దేశ్యం ఏమనగా ఖాతాదారులకు వారి బ్యాంక్ ఖాతా ద్వారా జరిగిన లావాదేవీల గురించి తెలియజేయడం. ఇటీవల కాలం లో బ్యాంకులు తమ ఖాతాదారులకు వారి లావాదేవీల వివరాలను అకౌంట్ స్టేట్మెంట్ రూపములో అందిస్తున్నాయి. బ్యాంక్ అకౌంట్ స్టేట్మెంట్ మరియు పాస్ బుక్ ఒకే లక్షణాలను కలిగి ఉంటాయి.

కస్టమర్ బ్యాంక్ ఖాతా ద్వారా చేసుకున్న వసూళ్ళను బ్యాంకర్ పాస్ బుక్ లో క్రెడిట్స్ (వసూళ్ళు) గా నమోదు చేస్తారు. కస్టమర్ బ్యాంక్ ఖాతా ద్వారా చేసిన చెల్లింపులను బ్యాంకర్ పాస్ బుక్ లో డెబిట్స్ (చెల్లింపులు) గా నమోదు చేస్తారు. పాస్ బుక్ / స్టేట్మెంట్ లోని చెల్లింపుల (డెబిట్) మొత్తం కన్నా వసూళ్ళ (క్రెడిట్) మొత్తం ఎక్కువగా ఉంటే పాస్ పుస్తకం లో అనుకూల నిల్వ వస్తుంది. అలా గాక వసూళ్ళ (క్రెడిట్) మొత్తం కన్నా చెల్లింపుల (డెబిట్) మొత్తం ఎక్కువగా ఉంటే ప్రతికూల నిల్వ వస్తుంది.

నగదు పుస్తకం యొక్క డెబిట్ వైపు నమోదు చేయబడిన వ్యవహారము పాస్ బుక్ / స్టేట్మెంట్ యొక్క క్రెడిట్ వైపు నమోదు చేయబడుతుంది మరియు నగదు పుస్తకం యొక్క క్రెడిట్ వైపు నమోదు చేయబడిన లావాదేవీ పాస్ బుక్ / స్టేట్మెంట్ యొక్క డెబిట్ వైపు నమోదు చేయబడుతుంది.

Now a days the usage of passbook as a means of transactions information has been minimized. The technological improvements in banking sector and wide usage of internet gives rise to other means of information on transactions. Banks provide statement of transactions to their customers periodically or at their request. Customers can get their account statement in no time through internet banking and mobile banking. Now, the account statements generated by banker or customer himself have replaced the passbook entries. It is not exaggerating to say that only very few business firms rely on passbook for information now. However, in this chapter 'Bank Reconciliation Statement' the word 'passbook' is often used in lieu of 'Bank Account statement' and both the words used interchangeably.

Though the bank transaction statement and passbook belong to different periods, they carry the same characteristics. Receipts by a customer through bank are recorded as credits (Receipts) in passbook by banker. The payments made by customer through bank are recorded as debits (Payments) in passbook by the banker. The excess Receipts (credits) over Payments (debits) gives rise to favourable balance as per passbook/statement and the excess Payments(debits) over Receipts (credits) gives rise to unfavourable balance in passbook/statement.

7.2.3 Favourable balance:

Favourable balance otherwise known as the Debit balance as per cash book or credit balance as per passbook refers to the balance of money left in the account. This is positive and usual form of balance in bank accounts. The Favourable balance indicates the amount receivable from bank. It is treated as a short-term asset and the banker is assumed to be a debtor.

7.2.4 Unfavourable (Overdraft) Balance:

Unfavourable balance otherwise known as overdraft balance or Credit balance as per cash book or debit balance as per passbook refers to the money drawn from an account in excess of what it actually contains. It indicates the negative balance and amount payable to bank. Overdraft facility is a financial facility provided by bank to its customers that enables them to withdraw money from their bank account even they do not have any account balance. Put it in simple terms it is a short-term credit given to customers. It is treated as a short-term liability and the banker is assumed as a creditor. Bankers levy interest on overdraft.

ఉదాహరణకు, బ్యాంకు ఖాతా ద్వారా చెల్లించిన నగదు రూ .10,000 నగదు పుస్తకముయొక్క క్రెడిట్ వైపు బ్యాంక్ కాల్మ్ నందునమోదు చేయబడుతుంది, అదే వ్యవహారమునుబ్యాంకర్ పాస్ బుక్ లో డెబిట్ వైపు నమోదు చేస్తారు .

నగదు పుస్తకములో డెబిట్ వైపువసూళ్ళు, క్రెడిట్ వైపు చెల్లింపులు నమోదు చేయటం వలన నగదు పుస్తకములో అనుకూల నిల్వ డెబిట్ వైపు ఉంటుంది, ప్రతికూల నిల్వ క్రెడిట్ వైపు ఉంటుంది. పాస్ పుస్తకంలో డెబిట్ వైపు చెల్లింపులు క్రెడిట్ వైపు వసూళ్ళు వ్రాయటం వలన పాస్ పుస్తకంలో అనుకూల నిల్వ క్రెడిట్ వైపు ఉంటుంది, ప్రతికూల నిల్వ డెబిట్ వైపు ఉంటుంది.

పాస్ బుక్ మరియు క్యాష్ బుక్ బ్యాలెన్స్ ల మధ్య వ్యత్యాసానికి గల కారణాలు :

పాస్ బుక్ మరియు క్యాష్ బుక్ ఒకే వ్యవహారములను నమోదు చేస్తాయి కాబట్టి ఒక నిర్దిష్ట తేదీన పాస్ బుక్ లేదా బ్యాంక్ స్టేట్ మెంట్ ప్రకారం నగదు నిల్వ మరియు క్యాష్ బుక్ యొక్క బ్యాంక్ వరుస ప్రకారం నగదు నిల్వ సమానంగా ఉండాలి, కాని కొన్ని కారణాల వల్ల ఆ నిల్వలు భిన్నంగా ఉంటాయి.

పాస్ బుక్ మరియు క్యాష్ బుక్ నిల్వల ల మధ్య వ్యత్యాసానికి గల ముఖ్యమైన కారణాలు:

1. పొరబాట్లు:

వ్యాపార సంస్థ యొక్క క్యాషియరు లేదా అకౌంటింగ్ సిబ్బంది నగదు పుస్తకము తయారు చేయుటలో చేసిన లోపాలు, పొరబాట్లు నగదు పుస్తకం మరియు పాస్ పుస్తకం నిల్వల మధ్య భేదానికి దారితీయవచ్చు. ఉదాహరణకు, బ్యాంక్ ద్వారా వసూలైన నగదు రూ.1,00,000 ను నగదు పుస్తకం బ్యాంకు వరుసలో రూ.10,000 గా నమోదు చేయటం.

కొన్ని సందర్భాలలో అలసట, పని ఒత్తిడి, సాఫ్ట్ వేర్ అవాంతరాలు, నెట్ వర్క్ సమస్యలు మొదలగు కారణాల వల్ల బ్యాంక్ సిబ్బంది కస్టమర్ల వ్యవహారాలను అమలు చేయడంలో కూడా లోపాలు, పొరబాట్లు జరగవచ్చు. ఉదాహరణకు, ఒక కస్టమర్ చేసిన రూ .66,200 ల NEFT చెల్లింపు అభ్యర్థనను నెట్ వర్క్ లోపం కారణంగా బ్యాంకు సాఫ్ట్ వేర్ లో రెండుసార్లు నమోదు చేయుట.

2. చెక్కుల ప్రోసెసింగ్ సమయం:

వ్యాపార సంస్థలు వారి రుణగ్రస్తుల నుండి వసూలయిన చెక్కులను నగదు పుస్తకంలో నమోదు చేసి వసూలు కోసం బ్యాంకుకు పంపుతాయి. బ్యాంకర్లు, ఆ చెక్కుల మొత్తాన్ని వసూలు చేసిన తర్వాత వ్యాపార సంస్థ ఖాతాకు క్రెడిట్ చేస్తారు. ఈ వసూలు ప్రక్రియకి కొన్ని రోజుల సమయం పడుతుంది. అదే విధంగా వ్యాపార సంస్థలు తమ రుణదాతలకు జారీ చేసిన చెక్కులను జారీ చేసిన వెంటనే క్యాష్ బుక్ లో రికార్డ్ చేస్తాయి.

7.2.5 Favourable Balance Vs Unfavourable Balance:

Reason for difference	Favourable balance	Un favourable balance
1. Meaning	Money left in the bank Account at a particular point of time	Amount of Money drawn over the favourable balance up to a particular point of time.
2. Type of balance	Positive Balance	Negative balance
3. Occurrence	It occurs when receipts are more than payments.	It occurs when payments are more than receipts.
4. Appearance in cash book	It appears on the Debit side of cash book	It appears on the Credit side of cashbook
5. Appearance in passbook	It appears on the Credit side of pass book	It appears on the Debit side of passbook
6. Asset or liability	It is treated as a current asset	It is treated as a current liability
7. Indicates	It indicates amount owe by bank	It indicates amount owe to bank
8. Possibility	It is a usual form of balance and possible in all accounts	It is an unusual form of balance and possible only in accounts for which overdraft facility allowed by the banker.
9. Interest on balance	Payable by the banker to the customer	Payable by the customer to the banker

7.2.6 Cash book and passbook A comparison:

We should recall the relationship between the banker and customer for the better understanding of the differences in preparation of cash book and passbook. In general, 'Bank Account' is treated as a personal account from customer's perspective and the rules of personal account are applied to transactions made through bank.

For any receipt through the bank the banker is assumed as the receiver from customer's point of view and customer is assumed as a giver from banker's point of view.

కానీ బ్యాంకర్లు వ్యాపారసంస్థ బ్యాంక్ ఖాతా నుండి ఆ చెక్కులపై చెల్లింపుజరిగినపుడు మాత్రమే వ్యాపార సంస్థ ఖాతాను డెబిట్ చేస్తారు. కావున, పాస్ పుస్తకం మరియు నగదు పుస్తకంలో చెక్కుల ద్వారా జరిగిన ఒక లావాదేవీని రికార్డు చేయటం లో కొంత సమయ అంతరం ఉంటుంది. ఈ సమయ అంతరం లేదా చెక్కుల ప్రాసెసింగ్ సమయం కారణంగా ఒక నిర్ణీత తేదీన నగదు పుస్తకం మరియు పాస్ బుక్ ప్రకారం బ్యాలెన్సులు ఒకదానికొకటి భిన్నంగా ఉండవచ్చు.

ఉదాహరణకి, మిస్టర్ రాజ్ జూన్ 25, 2021 న రూ 1,20,000 చెక్ ను వారి రుణదాతలకు జారీ చేసి ఉంటే ఆ వ్యవహారమును నగదు పుస్తకము నందు అదే తేదీన అనగా జూన్ 25 2021 న చెల్లింపు గా నమోదు చేస్తారు కానీ అదేవ్యవహారమును బాంకరు ఆ చెక్కుపై చెల్లింపు చేసిన జూలై 2 2021 న మాత్రమే చెల్లింపుగా పాసు పుస్తకము లో నమోదు చేస్తారు.

కొన్నిసార్లు వసూలైన చెక్కులను పుస్తకంలో రికార్డ్ చేసి బ్యాంకుకు పంపడం మర్చిపోవడం వలన మరియు చెక్కులను సిద్ధం చేసి పుస్తకాలలో నమోదు చేసి జారీ చేయడం మర్చిపోవడం వలన ఒక నిర్దిష్ట తేదీన క్యాష్ బుక్ మరియు పాస్ బుక్ బ్యాలెన్స్ వేరు వేరుగా ఉండవచ్చు.

3. సమాచారం అందుటలో ఆలస్యం:

సంస్థలకు వారి బ్యాంకు ఖాతా ద్వారా జరిగినవ్యవహారాలను గురించిన సమాచారం అందుటలో ఆలస్యం కారణంగా ఒక నిర్ణీత తేదీన నగదు పుస్తకము మరియు పాసు పుస్తకము నిల్వలలో భేదము ఉండవచ్చును.

ఉదాహరణకి, ఒక బ్యాంకర్ తమ కస్టమర్ యొక్క స్ట్రాయ్ ఉత్తర్వుల ప్రకారం జూన్ 2 2021 న రూ.3,000 చెల్లింపు చేసినపుడు వెంటనే రూ .3,000 తమ కస్టమర్ ఖాతాకు డెబిట్ చేస్తారు కానీ, అదే వ్యవహారము బ్యాంక్ స్టేట్మెంట్/ పాసుబుక్ వచ్చిన తర్వాత మాత్రమే నగదు పుస్తకం లో కస్టమర్ యొక్క క్యాషియర్ నమోదు చేస్తారు. కావున , ఆ మధ్య సమయములో నగదు పుస్తకము మరియు పాసు పుస్తకము ప్రకారం నిల్వలలో భేదము ఉంటుంది.

బ్యాంకు నిల్వల సమన్వయము యొక్క అర్థము , నిర్వచనము :

సమన్వయము అనగా "బేదాలు లేదా తేడాలు సర్దుబాటు". బ్యాంక్ నిల్వల సమన్వయం అనగా " పాస్ బుక్ మరియు క్యాష్ బుక్ బ్యాలెన్స్ మధ్య వ్యత్యాసానికి కారణాలను గుర్తించడం మరియు వాటిని సర్దుబాటు చేయడం ద్వారా క్యాష్ బుక్ మరియు పాస్ బుక్ నిల్వలను సమన్వయము చేయడం".

బ్యాంకు నిల్వల సమన్వయ పట్టిక అనగా " నగదు పుస్తకం మరియు పాస్ పుస్తకం యొక్క నిల్వల మధ్య గల భేదానికి గల కారణాలను సర్దుబాటు చేయుట ద్వారా నగదు పుస్తకం మరియు పాస్ పుస్తకము యొక్క నిల్వలను సమన్వయం చేయుటకు మరియు బ్యాంక్ ఖాతాలోని ఖచ్చితమైన నిల్వను తెలుసుకోవడానికి ఒక నిర్దిష్ట తేదీన, సాధారణంగా నెల చివరిలో తయారుచేయు ఒక నివేదిక".

For any payment made through bank, the banker is assumed to be the giver from customer's point of view and the customer is assumed as the receiver from banker's point of view. Hence, A transaction recorded on the debit side of the cash book will be recorded on the credit side of the passbook/statement and a transaction recorded on the credit side of the cash book will be recorded on the debit side of the passbook/statement.

For example,

If cash paid by Naveen, our customer, into our account Rs10,000 would be recorded on the credit side of the passbook by the bankers, and the same transaction would be recorded on debit side of the cash book bank column by the cashier.

If cash paid to Sateesh, our supplier, Rs18,000 through bank would be recorded on credit side of the cash book bank column by the cashier, and the same transaction would be recorded on the debit side of the passbook by the bankers.

So, the debits in cash book are credits in passbook and the credits in cash book are debits in passbook

Favourable balance of cash book lies on debit side but the favourable balance in passbook lies on credit side. Unfavourable balance of cash book lies on credit side but the unfavourable balance in passbook lies on debit side

Since receipts are debited and payments are credited to cash book debit balance in cash book refers to favourable balance and credit balance refers to unfavourable (Overdraft) balance. Against to cash book, receipts are credited, and payments are debited to passbook, hence the credit balance in passbook refers to favourable balance and debit balance in passbook refers to unfavourable (Overdraft) balance.

Differences between Cash book and Passbook:

Reason for Difference	Cash book	Passbook/ Bank Statement
1.Prepared by	Cashier of the firm (customer)	Bankers
2. Prepared to	keep record of transactions and to know the cash balance	Inform customer about the transactions and balance in their account
3. What it contains	Receipts and payments	Deposits and withdrawals
4. How it records Receipts	Receipts are debited	Receipts (Deposits) are credited
5. How it records Payments	Payments are credited	payments(withdrawals)are debited
6. Favourable balance	Reflects on Debit side	Reflects on Credit side
7. Unfavourable balance	Reflects on Credit side	Reflects on Debit side

బ్యాంకు నిల్వల సమన్వయము యొక్క ఆవశ్యకత :

- బ్యాంకు నిల్వలసమన్వయము ద్వారా నగదు పుస్తకాన్ని తయారుచేయడంలో జరిగిన లోపాలను, దోషాలను గమనించవచ్చు. మరియు వాటిని సర్దుబాటు చేయుట ద్వారా నగదు పుస్తక బ్యాలెన్స్ ను సరిదిద్దవచ్చును. బ్యాంకర్ల ద్వారా జరిగిన దోషాలను కూడా గుర్తించి, దిద్దుబాట్ల కోసం వాటిని వారి దృష్టికి తీసుకుని వెళ్ళవచ్చును.
- సమన్వయము ద్వారా చెక్కుల ప్రోసెసింగ్ సమయం గురించి అవగాహన కలుగుతుంది. తద్వారా భవిష్యత్ లో చెక్కుల ద్వారా జరుగు చెల్లింపులు మరియు వసూళ్ళ సమయం పై అంచనాను కలిగి ఉండవచ్చు.
- సమన్వయము ద్వారా వ్యాపార సంస్థలు తమ బ్యాంక్ ఖాతాయొక్క ఖచ్చితమైన బ్యాలెన్స్ తెలుసుకోగలవు, తద్వారా వారు వారి బ్యాంకు ఖాతానిల్వ ప్రకారం చెల్లింపులను ప్రణాళిక చేసుకోవచ్చు.
- నగదు పుస్తకాన్ని పాస్ పుస్తకముతో పోల్చడం ద్వారా, సమాచారం లేకపోవడం వల్ల క్యాష్ బుక్ లో ఇంతకు ముందు నమోదు చేయని అంశాలను గమనించి, వాటిని క్యాష్ బుక్ లో నమోదు చేయవచ్చును.
- పాస్ బుక్ తో నగదు పుస్తకాన్ని పోల్చి పరిశీలించడం ద్వారా అకౌంటింగ్ సిబ్బంది చేసిన మోసం లేదా నగదు దుర్వినియోగాలను గుర్తించి అవసరమైన చర్యలు తీసుకోవచ్చు. బ్యాంకింగ్ సిబ్బంది చేసిన మోసాలు మరియు నగదు దుర్వినియోగాలను కూడా గుర్తించవచ్చు.

బ్యాంకు నిల్వల సమన్వయ ప్రక్రియ :

పాస్ బుక్ మరియు క్యాష్ బుక్ నిల్వల సమన్వయ ప్రక్రియ లో రెండు దశలు ఉంటాయి. నగదు పుస్తకంలో నమోదు చేసిన వ్యవహారములను మరియు పాస్ బుక్ / స్టేట్ మెంట్ లో నమోదు అయిన వ్యవహారములను పోల్చడం ద్వారా క్యాష్ బుక్ మరియు పాస్ బుక్ నిల్వల మధ్య భేదానికి గల కారణాలను గుర్తించడం మొదటి దశ. మొదటి దశలో గుర్తించిన వ్యత్యాసానికి గల కారణాలతో పాస్ బుక్ లేదా క్యాష్ బుక్ నిల్వల కు అవసరమైన సర్దుబాట్లు చేయడం ద్వారా రెండు బ్యాలెన్స్ లను సమన్వయం చేయుట రెండవ దశ.

క్యాష్ బుక్ మరియు పాస్ బుక్ నిల్వల మధ్య వ్యత్యాసానికి గల కారణాలను గుర్తించడం:

నగదు పుస్తకం మరియు పాస్ పుస్తకం బ్యాలెన్స్ ల మధ్య వ్యత్యాసానికి గల కారణాలను గుర్తించడం బ్యాంకు నిల్వల సమన్వయమునకు ఆధారంగా ఉంటుంది.

7.2.7 Practical Illustration 1: (Entries in Cashbook and Passbook)

Enter the following transactions in three column cash book and passbook of Rohit, and show the balances as per cash book and passbook as on Feb28,2021.

Feb 1,2021: Opening balance of cash 1,00,000/-

Feb 1,2021: Rohit Opened a current account in SK bank with Rs.50,000/- (A/C No.0214562787)

Feb 3,2021: Cash withdrawn from bank 20,000/-

Feb 4,2021: Cash deposited by Bhuvan into our account 35,000/-

Feb 7,2021: Insurance paid by banker as per our mandate 1,000/-

Feb10,2021: Paid Rs 5,000/- to Krishna by NEFT.

Feb15,2021: Cheque received from Surya for Rs.15,000/- deposited into bank, the cheque was collected on Feb 19,2021.

Feb 21,2021: Dividend collected by our banker 1500/-

Feb 23,2021: Bank charges debited to Account 150/-

Feb 24,2021: Cheque issued to Deepak for Rs.10,000/- the cheque was presented for payment on March 2,2021.

Feb 27,2021: Electricity bill paid through UPI 3,350.

Solution:

Dr.						Cr.					
Three column cash book of Rohit											
Date	Particulars	L F	Disco Unt	Cash	Bank	Date	Particulars	L F	Disc ount	Cash	Bank
Feb 1 2021	To Rohit capital A/c			100000		Feb 1 2021	By Bank A/c	c		50000	
Feb 1 2021	To Cash A/c	c			50000	Feb 3 2021	By Cash A/c	c			20000
Feb 3 2021	To Bank A/c	c		20000		Feb 7 2021	By Insurance A/c				1000
Feb 4 2021	To Bhuvan A/c				35000	Feb 10 2021	by Krishna A/c				5000
Feb15 2021	To Surya A/c				15000	Feb 23 2021	by Bank charges A/c				150
Feb21 2021	To Dividends A/c				1500	Feb 24 2021	by Deepak A/c				10000
						Feb 27 2021	by Electricity charges A/c				3350
						Feb 28 2021	By Balance c/d			70000	62000
				120000	101500					120000	101500
				70000	62000						
Mar 1 2021	To Balance b/d										

నగదు పుస్తకంలో నమోదు చేసిన ఎంట్రీలను మరియు పాస్ బుక్ / స్టేట్ మెంట్ లోని ఎంట్రీలతో పోల్చడం ద్వారా క్యాష్ బుక్ మరియు పాస్ బుక్ నిల్వల మధ్య వ్యత్యాసానికి గల కారణాలను కనుగొనవచ్చు.

వ్యత్యాసానికి గల కారణాలను గుర్తించు విధానం ఈ కింది విధంగా ఉంటుంది:

- నగదు పుస్తకం యొక్క డెబిట్ వైపు ఉన్న ఎంట్రీలను పాస్ బుక్ యొక్క క్రెడిట్ వైపు ఎంట్రీలతో పోల్చవలెను. నగదు పుస్తకం యొక్క క్రెడిట్ వైపు ఎంట్రీలను పాస్ బుక్ యొక్క డెబిట్ వైపు ఎంట్రీలతో పోల్చవలెను. ఎంట్రీల యొక్క వివరాలు మరియు మొత్తాలను కూడా పోల్చవలెను.

- రెండు పుస్తకాలలో వేరు వేరు వైపుల ఒకేవివరాలతో మరియు ఒకే మొత్తంతో నమోదు చేయబడిన ఎంట్రీలను వదిలివేయాలి. ఈ సారూప్య ఎంట్రీలు నగదు పుస్తకం మరియు పాస్ పుస్తకం మధ్య ఏ విధమైన వ్యత్యాసాన్ని కలిగించవు కావున వాటిని సమన్వయం చేసేటప్పుడు లెక్కలోనికి తీసుకోవనవసరం లేదు. ఈ విధమైన ఎంట్రీలకు ఒక గుర్తు పెట్టవలెను.

- కొన్ని ఎంట్రీలు కేవలం నగదు పుస్తకంలో లేదా పాస్ పుస్తకంలో మాత్రమే కనిపిస్తాయి. కొన్ని ఎంట్రీలు రెండు పుస్తకాలలోనూ ఉన్నా వేర్వేరు మొత్తాలతో ఉండవచ్చు. కొన్ని ఎంట్రీలు ఒకే మొత్తంతో మరియు ఒకే వివరాలతో ఉన్నా పొరబాటుగా రెండు పుస్తకాలలో ఒకే వైపు నమోదయి ఉండవచ్చు. ఈ విధమైన ఎంట్రీలకు వేరే రకమైన గుర్తు పెట్టవలెను. ఈ విధమైన ఎంట్రీలు నగదు పుస్తకం మరియు పాస్ పుస్తకం బ్యాలెన్స్ లో వ్యత్యాసాన్ని కలిగిస్తాయి. బ్యాంక్ నిల్వల సమన్వయ పట్టికను తయారుచేసేటప్పుడు ఈ విధమైన ఎంట్రీలకు సర్దుబాటు చేయవలసి ఉంటుంది.

- వ్యత్యాసాన్ని కలిగించే అంశములను విశ్లేషించడం ద్వారా వ్యత్యాసానికి గల కారణాన్ని తెలుసుకొని మరియు వాటికి బ్యాంక్ సమన్వయ పట్టికలో తగిన సర్దుబాటు చేయడానికి వీలవుతుంది.

క్యాష్ బుక్ మరియు పాస్ బుక్ నిల్వల మధ్య వ్యత్యాసానికి గల కారణాలను సర్దుబాటు చేయడం:

క్యాష్ బుక్ మరియు పాస్ బుక్ నిల్వల మధ్య వ్యత్యాసానికి గల కారణాలను గుర్తించిన తరువాత, వాటికి సరయిన సర్దుబాటు చేయాలి. కొన్ని వ్యత్యాస కారణాల వలన పాస్ పుస్తక నిల్వ కంటే నగదు పుస్తక నిల్వ పెరుగుతుంది మరియు కొన్ని కారణాల వలన నగదు పుస్తక నిల్వ కంటే పాస్ పుస్తక నిల్వ పెరుగుతుంది. సమన్వయము ఏ నిల్వతో ప్రారంభించామో ఆ నిల్వ పై వ్యత్యాస కారణము యొక్క ప్రభావమును బట్టి సర్దుబాటు చేయవలసి ఉంటుంది.

ఉదాహరణకు , సమన్వయమును నగదు పుస్తకం అనుకూల నిల్వ తో ప్రారంభిస్తే నగదు పుస్తకం అనుకూల నిల్వపై వ్యత్యాసానికి గల కారణాల ప్రభావాన్ని విశ్లేషించి సర్దుబాట్లు చేయాలి.

STATEMENT OF ACCOUNT OF A/c : 0214562787 FOR THE PERIOD OF 01-FEB-2019 TO 28-FEB-2019

Date	Transaction description	Cheque id/ reference no	Withdrawal s (Dr)	Deposits (Cr)	Balance	
					Dr/Cr	Amount
1/2/2019	By Cash			50,000.00	Cr	50,000.00
3/2/2019	To Cash		20,000.00		Cr	30,000.00
4/2/2019	By Bhuvan (cash)			35,000.00	Cr	65,000.00
7/2/2019	To Insurance premium (cash)		1,000.00		Cr	64,000.00
10/2/2019	To Krishna (NEFT)		5,000.00		Cr	59,000.00
19/2/2019	By Surya (Cheque)	1352		15,000.00	Cr	74,000.00
21/2/2019	By Dividends (cash)			1,500.00	Cr	75,500.00
23/2/2019	To Bank charges		150.00		Cr	75,350.00
27/2/2019	To Electricity Bill (Cash)		3,350.00		Cr	72,000.00
			29,500.00	101,500.00	Cr	72,000.00

In the above case balance as per cash book was Rs.62,000 and Balance as per passbook was Rs. 72,000.

7.3 Why the Balances of Passbook and Cashbook Differ?

Mr. Rama Krishna is an experienced accountant in Raj Traders. Mr. Jaswanth, son of proprietor, is a student and he once visited the office of his father. He asked Mr. Rama Krishna about the balance of cash in their current account with SG bank. After checking the bank column of their cashbook Mr. Rama Krishna replied that they have Rs. 1,54,259 in their current account with SG bank. Mr. Jaswant said ‘Ok’ and started doing his personal work on computer system. After some time, he noticed that a bank statement was sent by SG bank through email. He opened the statement and got surprised to see that the balance shown by the statement is Rs.1,89,147 which is around 35,000 more than the balance as told by Mr. Rama Krishna. He then asked Mr. Rama Krishna to check the cashbook carefully and tell him the balance. Mr. Rama Krishna rechecked the cashbook and replied that the balance is Rs.1,54,259. Mr. Jaswanth felt very happy and told Mr. Ramakrishna that we are luckily got an extra amount in our current account. Mr. Rama Krishna smiled and replied that there is nothing like that would happen. Mr. Jaswanth shocked this time and asked Mr. Rama Krishna curiously “how do you know that? and why the balance as per bank statement is more than our cash book balance? “. Mr. Ramakrishna smiled again and started explaining. Guess What Mr. Rama Krishna could say about the mismatch between cash balance as per cash book and bank statement?

సమన్వయమును పాస్ పుస్తకం ప్రతికూల నిల్వ తో ప్రారంభిస్తే, పాస్ పుస్తకం ప్రతికూల నిల్వపై వ్యత్యాసకారణాల ప్రభావాన్ని విశ్లేషించి సర్దుబాటు చేయాలి.

వ్యత్యాస కారణాలను ఈ క్రింది విధంగా సర్దుబాటు చేయాలి:

1. వ్యత్యాసానికి గల ఒక కారణం వలన పాస్ పుస్తక అనుకూల నిల్వ కంటే నగదు పుస్తక అనుకూల నిల్వ పెరిగితే, నగదు పుస్తకం మరియు పాస్ పుస్తక బ్యాలెన్స్ లను సమన్వయం చేయడానికి ఆ వ్యత్యాస మొత్తాన్ని నగదు పుస్తకం అనుకూల బ్యాలెన్స్ నుండి తీసివేయాలి లేదా పాస్ పుస్తక అనుకూల బ్యాలెన్స్ కు కలపాలి. ఉదాహరణకు, మాదురి నుండి వసూలైన రూ. 4,56,000 చెక్కును వసూలు కొరకు బ్యాంకు కు పంపగానే నగదు పుస్తకం యొక్క డెబిట్ వైపు నమోదు చేస్తారు, కానీ బాంకరు ఆ చెక్కుపై మొత్తము వసూలైన తర్వాత మాత్రమే కస్టమర్ యొక్క ఖాతాకు క్రెడిట్ చేస్తారు. కావున ఆ మధ్య సమయములో పాస్ బుక్ బ్యాలెన్స్ తో పోల్చినప్పుడు క్యాష్ బుక్ బ్యాలెన్స్ రూ.4,56,000 ఎక్కువగా లేదా నగదు పుస్తక బ్యాలెన్స్ తో పోల్చినప్పుడు పాస్ బుక్ బ్యాలెన్స్ రూ రూ.4,56,000 తక్కువగా ఉంటుంది. కావున, చేయవలసిన సర్దుబాటు ఏమనగా, సమన్వయమును నగదు పుస్తక బ్యాలెన్స్ తో ప్రారంభిస్తే నగదు పుస్తక నిల్వ నుండి రూ. 4,56,000 లను తీసివేయడం, పాస్ పుస్తకం నిల్వతో ప్రారంభిస్తే, పాస్ పుస్తక నిల్వకు రూ.4,65,000లను కలపడం.
2. వ్యత్యాసానికి గల ఒక కారణం వలన క్యాష్ బుక్ అనుకూల నిల్వ కంటే పాస్ బుక్ అనుకూల నిల్వ పెరిగితే, నగదు పుస్తకం మరియు పాస్ పుస్తకం బ్యాలెన్స్ లను సమన్వయం చేయడానికి ఆ వ్యత్యాస మొత్తాన్ని పాస్ పుస్తకం అనుకూల బ్యాలెన్స్ నుండి తీసివేయాలి లేదా నగదు పుస్తక అనుకూల బ్యాలెన్స్ కు కలపాలి . ఉదాహరణకు, ఒక కస్టమర్ ఖాతాలో వారి రుణగ్రహీత నేరుగా జమ చేసిన నగదు రూ.41,000ను బాంకరు కస్టమర్ ఖాతాకు వెంటనే క్రెడిట్ చేస్తారు. కానీ సంబంధిత ఎంట్రీ నగదు పుస్తకంలో పాస్ బుక్ లేదా స్టేట్ మెంట్ రికార్డుకున్న తర్వాత మాత్రమే నమోదవుతుంది. ఆ మధ్య కాలంలో నగదు పుస్తకంతో పోల్చినప్పుడు పాస్ బుక్ ప్రకారం బ్యాలెన్స్ రూ .41,000 ఎక్కువగా లేదా పాస్ బుక్ ప్రకారం నిల్వతో పోల్చినప్పుడు నగదు పుస్తకం ప్రకారం బ్యాలెన్స్ రూ.41,000 తక్కువగా ఉంటుంది. కాబట్టి, చేయవలసిన సర్దుబాటు, నగదు పుస్తక బ్యాలెన్స్ తో ప్రారంభిస్తే నగదు పుస్తక నిల్వకు రూ.41,000 కలపడం లేదా పాస్ పుస్తకం నిల్వతో ప్రారంభిస్తే పాస్ బుక్ ప్రకారం బ్యాలెన్స్ నుండి రూ.41,000 తీసివేయడం.
3. వ్యత్యాసానికి గల ఒక కారణం వలన పాస్ పుస్తక ప్రతికూల నిల్వ కంటే నగదు పుస్తకం ప్రతికూల నిల్వ పెరిగితే నగదు పుస్తకం మరియు పాస్ బుక్ బ్యాలెన్స్ లను సమన్వయం చేయడానికి ఆ వ్యత్యాస మొత్తాన్ని నగదు పుస్తకం ప్రతికూల బ్యాలెన్స్ నుండి తీసివేయాలి లేదా పాస్ పుస్తక ప్రతికూల బ్యాలెన్స్ కు కలపాలి .

The balances as per passbook or bank statement and bank column of cashbook on a particular date should be equal fundamentally as both the books records the same transactions but in practice the balances on a particular date differ due to some reasons.

7.3.1 Reasons for Difference Between Cash Book and Passbook:

The following are the reasons for difference between passbook and cashbook balances.

1. Errors:

Errors made by cashiers, accounting staff or bank staff while doing their work may lead to disagreement between cash book and passbook balances.

Errors from Customer side:

Errors made by cashiers or accounting staff of a business house while recording the transactions in bank column of the cashbook, totalling, balancing, and carrying forward the balances of cashbook may lead to mismatch of cashbook and passbook balances on a particular date. Forgetting to record the transaction or recording the transaction twice also causes the difference. The scope of committing an error is comparatively low if a business adopts computerized accounting. But still there is a chance of committing an error as the inputs to a computer are given by humans. Error of Entering a wrong amount or forgetting to enter a transaction or entering the same transaction twice or thrice can happen even in computerized accounting.

For example,

If cash deposited into a bank Rs.1,00,000 entered in cash book as Rs.10,000 in this case the balance as per cashbook would be Rs. 90,000 less than the balance as per passbook or bank statement or the balance as per passbook would be Rs. 90,000 more than the cashbook balance.

If Cash paid to our supplier through bank Rs. 45,496 /- was not recorded in cash book then the balance shown by cashbook would be more than the balance shown by passbook/account statement or the balance shown by passbook/statement would be less than the balance as per cash book.

Errors from Banker side:

Errors made by the bank staff in executing the transactions of customers may cause disagreement of passbook and cashbook balances on a particular date. Errors can happen due to fatigue, work pressure, software glitches or network issues. Entering a wrong amount or debiting the customer's account for deposit or crediting for payment may lead to mismatch between passbook and cash book balances.

ఉదాహరణకు, మే 25వ తేదీన గణేష్ కు చెల్లించిన రూ 1,00,000 పాస్ బుక్ డెబిట్ వైపు రూ. 1,00,000 గానే నమోదు చేయబడినది. కానీ నగదు పుస్తకం లో క్రెడిట్ వైపు పొరబాటున రూ .1,10,000 గా నమోదు చేయబడింది. ఈ సందర్భంలో, పాస్ బుక్ ప్రతికూల బ్యాలెన్స్ తో పోల్చినప్పుడు నగదు పుస్తకం ప్రకారం ప్రతికూల బ్యాలెన్స్ రూ. 10,000 ఎక్కువగా లేదా నగదు పుస్తకం ప్రతికూల బ్యాలెన్స్ తో పోల్చినప్పుడు, పాస్ బుక్ ప్రకారం ప్రతికూల బ్యాలెన్స్ రూ. 10,000 తక్కువగా ఉంటుంది. కాబట్టి, చేయవలసిన సర్దుబాటు, నగదు పుస్తక ప్రతికూల నిల్వతో ప్రారంభిస్తే నగదు పుస్తక ప్రతికూల నిల్వ నుండి రూ.10,000 తీసివేయడం. పాస్ పుస్తకం ప్రతికూల నిల్వతో ప్రారంభిస్తే పాస్ బుక్ ప్రకారం ప్రతికూల బ్యాలెన్స్ కు రూ.10,000 కలపడం.

4. వ్యత్యాసానికి గల ఒక కారణం వలన క్యాష్ బుక్ ప్రతికూల నిల్వ కంటే పాస్ పుస్తకం ప్రతికూల నిల్వ పెరిగితే నగదు పుస్తకం మరియు పాస్ బుక్ బ్యాలెన్స్ లను సమన్వయం చేయడానికి ఆ వ్యత్యాసం మొత్తాన్ని పాసు పుస్తకం ప్రతికూల బ్యాలెన్స్ నుండి తీసివేయాలి లేదా నగదు పుస్తక ప్రతికూల బ్యాలెన్స్ కు కలపాలి .

ఉదాహరణకు, బ్యాంక్ ఛార్జీలు రూ.350 పాసు పుస్తకములో సరిగానే డెబిట్ చేయబడ్డాయి, కానీ పొరబాటున నగదు పుస్తకములో కూడా డెబిట్ చేయబడ్డాయి. ఈ సందర్భంలో పాస్ బుక్ ప్రతికూల బ్యాలెన్స్ తో పోల్చినప్పుడు నగదు పుస్తకం ప్రకారం ప్రతికూల బ్యాలెన్స్ రూ. 700 తక్కువగా లేదా నగదు పుస్తకం ప్రతికూల బ్యాలెన్స్ తో పోల్చినప్పుడు పాస్ బుక్ ప్రకారం ప్రతికూల బ్యాలెన్స్ రూ. 700 ఎక్కువగా ఉంటుంది. కావున, చేయవలసిన సర్దుబాటు ఏమనగా

నగదు పుస్తక ప్రతికూల నిల్వతో ప్రారంభిస్తే నగదు పుస్తక ప్రతికూల నిల్వకు రూ. 700 కలపడం లేదా పాస్ పుస్తకం ప్రతికూల నిల్వతో ప్రారంభిస్తే పాస్ బుక్ ప్రకారం బ్యాలెన్స్ నుండి రూ.700 తీసివేయడం.

బ్యాంక్ నిల్వల సమన్వయ పట్టిక తయారీ మరియు నమూనా:

నగదు పుస్తకం మరియు పాస్ పుస్తకం ప్రకారం బ్యాలెన్స్ ల మధ్య వ్యత్యాసమునకు కారణములు మరియు నగదు లేదా పాసు పుస్తక బ్యాలెన్స్ పై వాటి ప్రభామును బట్టి బ్యాంక్ నిల్వల సమన్వయ పట్టికలో వాటిని సర్దుబాటు చేసి చూపుతారు.

బ్యాంక్ నిల్వల సమన్వయ పట్టిక తయారీలో మొదటగా సమన్వయమును ఏ బ్యాలెన్స్ తో ప్రారంభించాలో నిర్ణయించాలి. తదుపరి వ్యత్యాసానికి గల కారణాలను విశ్లేషణ చేసి, ప్రారంభం లో తీసుకున్న నిల్వపై ఆ కారణాల ప్రభావాన్ని బట్టి సర్దుబాట్లు చేయాలి.

Omitting to enter a transaction or entering the transaction multiple times also impact the balance as per bank statement/passbook.

For example,

If cash withdrawn by a customer Rs. 50,000 was credited to his account instead of debiting to his account in this case the balance as per passbook/bank statement would be more than the cash book balance. Or the balance as per cash book would be less than the passbook balance.

If a NEFT payment request made by a customer for Rs.66,200 was entered in the software twice by a bank employee due to a network error, then the balance as per statement/ passbook would be less than the balance as per cash book or balance as per cash book would be more than the balance as per passbook.

2.Processing time of Cheques:

Usage of Cheques for payment is quite natural in business. Businessmen issue cheques to their creditors for making payment and receive cheques from their customers. Cheques received by us are recorded in our cash book/software and sent to bank for collection. Our Banker collects the amount of cheques from our debtor's bank and credit our account after collection. The process of collection may take days to weeks' time. In the same way cheques issued to our suppliers are collected by their respective bankers from our bank account after some time. Our account is debited by our banker after making the payment on cheques issued by us. But we record the transaction in our cashbook/software on the date of issue of cheque. So, there exists a time gap between entry of the same transaction in passbook and cash book and the gap is nothing but the processing time of cheque. Because of this time gap or processing time of cheques the balances as per cash book and passbook on a date differ from each other.

For example,

If a cheque issued to Mr. Raj, one of our creditors, for Rs 1,20,000 on June 27, 2021 was recorded as payment in books on June 27, 2021, but the transaction would be recorded in our bank account on July 2, 2021 only after the payment made by our banker. So, the balance as per cash book would be lower compared to passbook/statement or the balance as per passbook would be higher compared to cash book during the time June 27 to July 2, 2021.

If a cheque of Rs. 50,000 received by us from Mr. Shyam,our debtor, on March 27, 2021, was recorded as receipt in books on March 27, 2021, but the transaction would be recorded by our banker in our account on April 3, 2021 only after the cheque gets cleared and amount collected. So, the balance as per passbook/statement would be lower compared to cash book or the balance as per cash book would be higher compared to passbook/ statement during the time March 27, 2021 to April 3, 2021.

Sometimes cheques received from customers recorded in cash book / software but forget to send to the bank and sometimes cheques prepared to issue to suppliers are recorded in books/software but forget to send to them. In both the cases cash book and passbook/statement balance disagrees with one another.

వివరములు	మొత్తము	మొత్తము
<p>నగదు పుస్తకం ప్రకారం అనుకూల నిల్వ: (ప్రారంభ బిందువు)</p> <p>కూడుము:</p> <p>పాసు పుస్తక అనుకూల నిల్వ తో పోలిస్తే నగదు పుస్తక అనుకూల నిల్వ ను తగ్గించే అన్ని వ్యత్యాస కారణములు.</p> <p>వ్యత్యాస కారణము (మొదటి)</p> <p>.....</p> <p>వ్యత్యాస కారణము (చివరి)</p>	<p>*****</p> <p>*****</p> <p>*****</p> <p>*****</p>	<p>*****</p> <p>(+) *****</p>
<p>తీయుము:</p> <p>పాసు పుస్తక అనుకూల నిల్వ తో పోలిస్తే నగదు పుస్తక అనుకూల నిల్వ ను పెంచే అన్ని వ్యత్యాస కారణములు.</p> <p>వ్యత్యాస కారణము (మొదటి)</p> <p>.....</p> <p>వ్యత్యాస కారణము (చివరి)</p>	<p>*****</p> <p>*****</p> <p>*****</p> <p>*****</p>	<p>*****</p> <p>(-) *****</p>
<p>పాసు పుస్తకము ప్రకారము నిల్వ</p>		<p>*****</p>

.....యొక్కనాటి బ్యాంకు నిల్వల సమన్వయ పట్టీ

పైన ఇచ్చిన నమూనా లో సమన్వయ పట్టీనగదు పుస్తకము ప్రకారం అనుకూల నిల్వతో ప్రారంభించడమయినది. అదే విధముగా నగదు పుస్తకము ప్రకారము ప్రతికూల నిల్వ, పాసు పుస్తకము ప్రకారము అనుకూల నిల్వ, పాసు పుస్తకము ప్రకారము ప్రతికూల నిల్వలను కూడా ప్రారంభ బిందువుగా తీసుకొని సమన్వయ పట్టికను తయారు చేయవచ్చును. ఏ నిల్వను ప్రారంభముగా తీసుకున్నామో ఆ నిల్వపై వ్యత్యాస కారణ ప్రభావమును బట్టి సర్దుబాటు (కూడుట లేక తీసివేయుట) చేయవలెను.

For Example:

If a cheque received from Veerendra for Rs. 12,000 was entered in cashbook/ software but omitted to send to bank for collection, in this case balance as per cashbook would be higher by Rs. 12,000 when compared to balance as per passbook since the receipt entry was made in cashbook only.

A Cheque for Rs. 5,000 was prepared to issue to Madhu and entered in cash book / software but omitted to send to Madhu. In this case cashbook would show a balance less than pass book by Rs. 5,000 since the payment was recorded in cash book only.

3.Time lag in Getting information from bank:

Cashiers record the transactions in cash book with all available information pertaining to receipts and payments made through bank account. Earlier the information regarding payments made by the banker on behalf of their customers, amounts directly paid into accounts of customers, bills collected by banker, cheques dishonoured, bills dishonoured, interest and dividends on investments credited to account and bank charges debited to account used to come to the cashier only after the receipt of bank statement or getting the passbook printed. But bank Statement or passbook entries were received weekly or fortnightly or monthly. Because of the lag of information, there used to be a mismatch between cashbook and passbook balances unless and until the bank statement received or passbook entries printed.

For Example:

If a banker paid Rs 30,000 towards loan repayment on June 2, 2021, as per the standing instructions by their customer and debited the customer account with Rs.30,000 on the same day but the same transaction would be recorded in cashbook by the cashiers of customer on June 9, 2021, when the bank statement was received. So, the balance as per passbook/statement would be lower compared to cash book or during the time of June 2, 2021 to June 9, 2021.

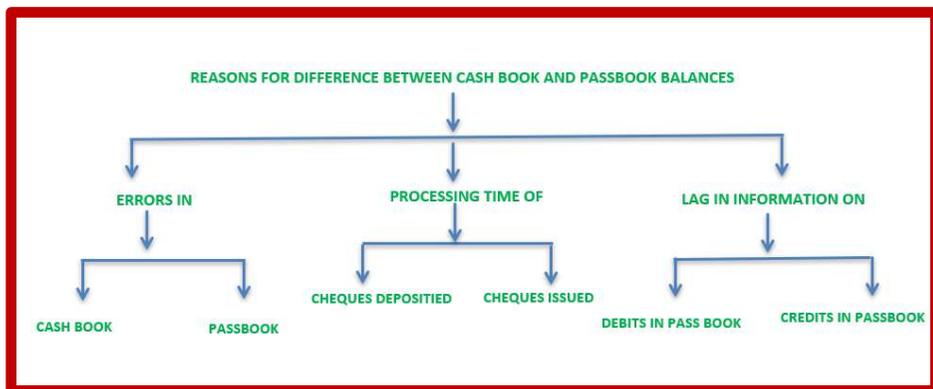
If a banker Credited a customer's account with Rs 1,750 as interest on September 30, 2020, but the same transaction was recorded in cashbook by cashier of customer on October 04, 2020, when the bank statement was received. So, the balance as per passbook/statement would be higher compared to cash book during the time September 30, 2020, to October 04, 2020.

If a cheque for Rs 60,000 was deposited into bank for collection on July 8,2021 and recorded in cash book immediately. The cheque gets dishonoured, and the information was passed to the customer on July 15, 2021, through bank statement. No entry was made by the banker as the cheque was not cleared. The entry for dishonour was made in the cash book only on July 15, 2021. So, the balance as per passbook/statement would be lower compared to cash book during the time of July 8, 2021 to July 15, 2021.

The technology and innovation in banking sector changed the picture. Now a days there is not so much delay in information because the business entities can get their account statement at any time through internet banking or mobile banking or by requesting the banker to provide the statement and can record the transactions in cashbook/software up to date.

Customers can come to know about the transactions in their accounts in real time by the messages or mail alerts sent by their banks.

However, some of the small business firms which are still not migrated to internet or mobile banking are relying on periodical bank statements and passbook entries to record the transactions in their cashbook. So, the delay in information relating to the transactions in their current account is still present in the case of those firms and it causes disagreement of passbook and cash book balances.



7.4 What an Accountant has to do with the differences and why?

An accountant must carefully identify the reasons for disagreement of passbook and cash book balances at a particular time by comparing the entries in account statement/passbook with the entries in cash book. Then he must reconcile the passbook/statement and cash book with the identified differences. For that he needs to prepare a statement called Bank Reconciliation Statement.

7.4.1 Meaning of Bank Reconciliation and Bank Reconciliation Statement:

The Dictionary meanings of Reconciliation are “an action of making of one view or belief compatible with another” and “Adjustment of disagreements or differences”.

In our context the word ‘Reconciliation’ is used for harmonization of cash book and passbook.

“Bank Reconciliation means identifying the reasons for difference between balance as per cashbook and balance as per passbook and adjusting them to make cash book and passbook compatible with one another”.

“Bank Reconciliation Statement is a statement prepared by accountants of business firms periodically, usually on the end date of the month to reconcile the balances of cash book and passbook with identified reasons of disagreement and to know the exact balance in bank account”.

7.4.2 Features of Bank Reconciliation statement:

1. It is a statement but not an account.
2. It is prepared by Customer only but not by banker.
3. It is prepared on a particular date usually at the end of the month.
4. The objective of the statement is to reconcile the balances as per cash book and pass book.
5. It shows the balances as per cash book, pass book and adjustments of differences between pass book and cash book balances.

7.5 Why Reconciliation?

Assume that you are studying B. Com First year by staying in a hostel in Vijayawada. Your parents live in a village which is 35 K.M away from Vijayawada. Your father sends money to you to meet your educational expenses. You record your expenses and the amount received from your father in a book. Your father also keeps the record of the amount sent by him. At the end of every month, you and your father discuss on whatever expenses that are paid during the month. As usual, on July 31, 2021, when both of you were discussing on, your father told you that he had sent Rs 6,000 to you during the month of July. You said that ‘no dad you have sent only Rs. 5,600 during the past month’. You have shown the book of account maintained by you to your dad as an evidence. Then he also has shown the diary where he recorded all the amounts sent by him. His diary shows that he has sent Rs 6,000. But your book shows amount received from your father as Rs. 5,600.

What will you do next with the difference in two books?

Reconciliation helps in knowing the difference between passbook and cash book balances and the reasons for difference. Knowing the reasons for difference helps in taking necessary corrective actions whenever possible and/or taking preventive measures.

7.5.1 Need for Reconciliation

The need for Reconciliation is explained as under

- i. By reconciliation the one can notice the errors that took place in preparation of cash book and rectify the errors by making rectification entries to correct the cash book balance. Errors made by bankers can also be identified and brought to their notice for corrections.

For Example, a wrong debit can be corrected by crediting it, and vice versa. Omitted transactions can be entered; errors in totalling and carry forwarding can be rectified.

Error of Debiting the same amount twice or Error of wrongly debiting the account for a transaction instead of crediting made by the bankers can be identified and brought to the notice of bankers for correction.

- ii. By reconciliation, one can have a better understanding about the processing time of cheques, so that he can prudently plan his future payments and receipts through cheques accordingly. Moreover, he can identify unrealized cheques and make follow up.

For example, if the average clearance time of cheque is 5 days, he may get the cheques from his debtors and issue cheques to his creditors in advance by keeping in mind the 5 days processing time. And he can plan his next one to two weeks payments according to his estimated future funds position.

- iii. By preparing the Bank Reconciliation Statement, business houses can know the exact balance in their current account on a particular date. so that they can plan their payments according to the bank balance. It reduces the chance of dishonour of cheques and bills and in turn loss of credibility.

For example, if the balance as per cash book is Rs. 4,50,123 but the balance as per the bank statement is Rs. 3,06,665, the businessman can issue cheques or make payment up to Rs. 3,06,665 only but not Rs. 4,50,123. If he issues a cheque for Rs 4,00,000 by keeping in mind the balance as per cash book it will lead to serious problems.

- iv. By comparing the cash book with passbook, Business firms can update their cashbook with the receipts and payments not recorded earlier due to lack of information.

For example, Amount of Rs 10,000 directly deposited into our account by a customer, bank charges of Rs 1,368 debited to our account by the banker could be known and entered in cash book.

- v. By Careful examination of Cash book with passbook any fraud or misappropriation of cash done by the cashier or accounting staff can be identified and necessary action can be taken. Frauds and mal practices by banking staff can also be identified with Reconciliation.

For example, cash of the firm Rs. 5000 used by a cashier for his personal use by recording in book as cash deposited into bank or Cash Rs 10,000 withdrawn from bank for his personal use will come to limelight by Reconciliation.

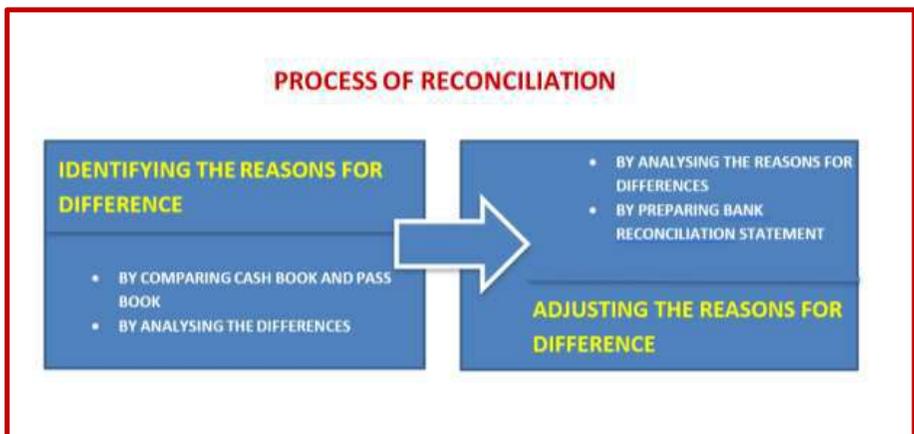
Amount taken by banker's staff by debiting our account or crediting unauthorized money to our account can be avoided through periodical examination of cash book with passbook/statement.



7.6 How to Reconcile the Passbook and Cashbook Balances?

Reconciliation of balance as per passbook/account statement and cash book balance is a two steps process.

First step is identifying the reasons for disagreement by comparing the transactions entered in cash book and passbook/statement. Second step is reconciling the two balances by making necessary adjustments with the reasons for difference found in first step.



7.6.1 Identifying the Reasons for Difference:

Identifying the reasons for difference between cash book and passbook balances is the base for reconciliation. We can find the reasons for difference by comparing the transactions entered in cash book and passbook/statement.

The procedure of identifying the reasons for differences is as under:

1. Get the cash book and passbook/ statement for the same period for which we have to do reconciliation.

For example, if you are doing reconciliation for the month of May on May 31st, get the bank statement / passbook containing the transactions from 1 May to 31 May and get the cash book for the same period.

2. Compare the entries on the debit side of the cash book with the entries on the credit side of the passbook. Then compare the entries on the credit side of the cash book with the entries on the debit side of the passbook. Comparison should be made with particulars of transaction and amounts of transaction. Sometimes, an entry may be found on a different date.

For example, an entry of Rs 1,80,000 on May 5 visible on Debit side of the Cash book should be compared with entries visible on May 5 on credit side of passbook /statement.

An entry of Rs 41,228 on May 21 visible on credit side of the cash book should be compared with the entries visible on debit side of the passbook/ statement on May 21 or on a different date (if it is not found on May 21) by searching with the particulars or amount.

3. Most of the entries may be found in both the books with same particulars and same amounts. Put a mark on these identical entries found in both the books. Since these entries were recorded in both the books on different sides with identical particulars and identical amount, they did not cause difference of cash book and passbook. Leave these identical entries. We have nothing to do with these entries further.

For example, an entry of Rs 80,000 visible on Credit side of Cash book on May 5 may be found as same on debit side of passbook /statement on May 5. An entry of Rs 900 visible on debit side of the cash book on May 21 may be found as same on credit side of the passbook/ statement on May 24.

4. Some entries may be found only in either of the books i.e., in cash book only or in passbook only. Some entries with same particulars but different amounts may also be found. Some entries may be found with same amount and same transaction description but also on the same side. Put a different mark on these entries. These entries cause the difference in cash book and passbook balances. These entries need adjustment while preparing Bank Reconciliation Statement.

For example, an entry of Rs. 4,56,000 found on Debit side of the cash book on May 18 may not be found in passbook. An entry of Rs. 41,000 found on credit side of the passbook on May 29 may not be found in cash book. An entry of Rs. 350 may be found on debit side of the cash book and

debit side of the passbook on May 1. An entry with Rs.1,10,000 may be found on cash book credit side but an entry with same particulars with Rs.1,00,000 (instead of Rs.1,10,000) may be found on passbook debit side on May 25.

5.Analyse the differences. Analysing the difference will be helpful in knowing the reason for difference and to make appropriate adjustment in Bank Reconciliation Statement.

For example, If an entry on May 18 of Rs. 4,56,000 found on Debit side of cash book but not found in passbook.

By analysis, we can know that, on May 18, a Cheque was received from Madhuri for Rs. 4,56,000 recorded on Debit side of the cash book only but no corresponding entry was recorded in passbook as the cheque was not paid yet. So, the identified reason for difference is processing time of the cheque.

If an entry on May 29 of Rs. 41,000 found on credit side of the passbook only but not found on cash book.

By analysis, we can know that Cash deposited by Prasad on May 29 in our account Rs. 41,000 recorded on credit side of the passbook only but no corresponding entry was made in cash book as our cashier had no information about that receipt. So, the identified reason for difference is time lag in information.

If an entry on May 1 for Rs. 350 found on debit side of the cash book and debit side of the passbook.

By analysis, we can know that bank charges amounted to Rs 350 debited to passbook correctly but wrongly debited to cash book. So, the identified reason for difference is error in recording the transaction in cash book.

An entry with Rs.1,10,000 on May 25 was found on cash book credit side but an entry with Rs.1,00,000 instead of Rs.1,10,000 was found on passbook debit side.

By analysis, we can know that Payment of Rs 1,00,000 made to Ganesh on May 25 was recorded in cash book credit side wrongly as Rs.1,10,000 and the same was recorded correctly in passbook debit side as Rs. 1,00,000. So, the identified reason for difference is error in recording the transaction in cash book.

The following table helps students in identifying the reasons for differences between passbook and cash book balances on a particular date.

Identifying the Differences between Cash book and Passbook balances:

S.no	Entry in Cashbook	Entry in Passbook	With Amount	Action needed
1	Transaction appears on Debit side of the cashbook and	Transaction appears on Credit side of the passbook	With same Amount	Ignore
2	Transaction appears on credit side of the cashbook and	Transaction appears on Debit side of the passbook	With same amount	Ignore
3	Transaction appears on Debit side of the cashbook and	Transaction appears on Credit side of the passbook	With different amount	Consider
4	Transaction appears on credit side of the cashbook and	Transaction appears on Debit side of the passbook	With different amount	Consider
5	Transaction appears on Debit side of the cashbook and	Transaction does not appear on credit side of passbook		Consider
6	Transaction appears on credit side of the cashbook and	Transaction does not appear on debit side of passbook		Consider
7	Transaction does not appear on debit side of the Cash book	Transaction appears on Credit side of the passbook		Consider
8	Transaction does not appear on credit side of the Cash book	Transaction appears on Debit side of the passbook		Consider
9	Transaction appears on Debit side of the cashbook and	Transaction appears on Debit side of the passbook	With same amount	Consider
10	Transaction appears on credit side of the cashbook and	Transaction appears on Credit side of the passbook	With same amount	Consider
11	Transaction appears on Debit side of the cashbook and	Transaction appears on Debit side of the passbook	With different amount	Consider
12	Transaction appears on credit side of the cashbook and	Transaction appears on Credit side of the passbook	With different amount	Consider

Practical Illustration 2: (Identification of reasons for difference between Cash Book and Passbook balances).

Following are the extracts of Cash Book and Passbook of Amit. You are Required to Identify the reasons for difference between Cash Book and Passbook balances.

Dr.

Cash Book (Bank Column)

Cr.

Date	Particulars	Bank Column Amount	Date	Particulars	Bank column Amount
01/06/2020	To Balance B/d	2,21,000	02/06/2020	By Rajesh A/C (cheque)	1,20,000
04/06/2020	To Santhosh A/c (cheque)	1,50,000	08/06/2020	By Vinod A/C (NEFT)	50,000
08/06/2020	To Mohan A/c (UPI)	23,000	10/06/2020	By Insurance A/c (Transfer)	2,000
13/06/2020	To Mahesh A/c (Cheque)	75,000	12/06/2020	By Sameer A/c (cheque)	37,000
15/06/2020	To Interest A/c (Transfer)	3000	20/06/2020	By Sasikala A/c (NEFT)	5,000
21/06/2020	To Cash A/c (Deposit)	18,000	29/06/2020	By Advertisement (UPI)	3,000
			30/06/2020	By Balance c/d	2,73,000
		4,90,000			4,90,000
1/7/2020	To Balance b/d	2,73,000			

PASSBOOK

Date	Transaction description	Cheque no/ reference id	Withdrawals (Dr)	Deposits (Cr)	Closing balance	
					Dr/Cr	amount
1/6/2020	By Balance B/d			221,000.00	Cr	221,000.00
8/6/2020	To Vinod (NEFT)		50,000.00		Cr	171,000.00
8/6/2020	By Mohan (UPI)			23,000.00	Cr	194,000.00
10/6/2020	To Insurance premium(Transfer)		2,000.00		Cr	192,000.00
15/6/2020	By Interest Receipt			3,000.00	Cr	195,000.00
20/6/2020	To Sasikala (NEFT)		5,000.00		Cr	190,000.00
21/6/2020	By Cash (Deposit)			8,000.00	Cr	198,000.00
23/6/2020	By Madhav (Cash deposit)			11,000.00	Cr	209,000.00
29/6/2020	To Advertisement (UPI)		3,000.00		Cr	206,000.00
30/6/2020	By Dividends Receipt			4,000.00	Cr	210,000.00
30/6/2020	To Bank charges		1,000.00		Cr	209,000.00
			61,000.00	270,000.00	Cr	209,000.00

Solution:**Reasons for difference between Cash book and Passbook:**

By Comparing the cash book and passbook it is found that the balance as per cash book is Rs 2,73,000 and the balance as per passbook is Rs. 2,09,000 on June 30, 2020. There is a difference of Rs 64,000 between the balances shown by cash book bank column and passbook.

The reasons for difference found are given below:

1. On 02/06/2020 Rs 1,20,000 credited to cash book for cheque issued to Rajesh, but it was not visible in passbook as the cheque might not have been presented for payment before June 30,2020.So, the reason for difference is processing time of cheque and the difference amount is Rs 1,20,000.
2. A cheque received from Santosh for Rs 1,50,000 On 04/06/2020 was deposited into Bank and it was recorded on the receipts side of cash book bank column on the same day. But corresponding entry was not found on debit side of the passbook as the cheque might not have been cleared before June 30,2020. So, the reason for difference is processing time of cheque and the difference amount is Rs 1,50,000.
3. A cheque received from Mahesh for Rs 75,000 On 13/06/2020 was deposited into Bank and it was recorded on the receipts side of cash book bank column on the same day. But corresponding entry was not found on debit side of the passbook as the cheque might not have been cleared before June 30,2020. So, the reason for difference is processing time of cheque and the difference amount is Rs 75,000.
4. On 12/06/2020 Rs 37,000 credited to cash book for cheque issued to Sameer, but it was not visible in passbook as the cheque might not have been presented for payment before June 30,2020.So, the reason for difference is processing time of cheque and the difference amount is Rs 37,000.
5. On 21/06/2020 cash deposited into bank Rs. 8,000 was wrongly recorded in cashbook as Rs.18,000.So, the reason for difference is error in cash book entry. The amount of difference is Rs 10,000 (18,000-8,000).
6. On 23/06/2020 cash deposited by Madhav into the account Rs 11,000 was recorded by banker on deposits side but the same was not recorded in cashback due to lack of information.So, the reason for difference is lag in information and the amount of difference is Rs. 11,000.
7. On 30/06/2020 amount of Rs 4,000 collected by banker as dividends was recorded on credit side of the passbook but it was not recorded on debit side of the cash book due to lack of Information. So, the reason for difference is lag in information and the amount of difference is Rs.4,000.

8. On 30/06/2020 an amount of Rs.1,000 was debited to passbook as bank charges and there was no corresponding entry on credit side of the cashbook. So, the reason for difference is lag in information and the amount of difference is Rs.1,000.

Summary of the reasons for difference:

1. Cheque issued to Rajesh but not yet presented for payment Rs.1,20,000.
2. Cheque received from Santosh deposited into bank but not yet collected Rs.1,50,000.
3. Cheque received from Mahesh deposited into bank but not yet collected Rs.75,000.
4. Cheque issued to Sameer but not yet presented for payment Rs.37,000.
5. Error of excess debit by Rs.10,000 in cash book.
6. Amount directly deposited into bank account by madhav Rs.11,000.
7. Dividends collected and credited to account by bank Rs. 4,000.
8. Charges debited to account by bank. Rs. 1,000.

Total of cheques issued but not presented for payment: Rs. 1,57,000.

(Rajesh Rs.1,20,000 + Sameer Rs.37,000)

Total of cheques deposited but not collected: Rs.2,25,000.

(Santosh Rs. 1,50,000 + Mahesh Rs. 75,000)

7.6.2 Adjusting the Reasons for Difference:

After identification of the reasons for difference, the identified reasons should be adjusted properly. The reason for difference should be analysed further to know its impact on the balance of the books. Some of the reasons may increase the balance as per cash book than passbook and some of them may increase the balance as per passbook than cash book. The reasons for difference have to be adjusted by adding or deducting the difference amount to/from cash book or passbook balance.

It should be noted that adjustments can be made to either balance as per cash book or balance as per passbook.

For example,

- If we take 'cash book favourable balance' as the starting point, then adjustments have to be made to cash book favourable balance by analysing the impact of reasons for difference on cash book favourable balance.
- If we take 'passbook unfavourable balance' as the starting point, then adjustments have to be made to passbook unfavourable balance by analysing the impact of reasons for difference on passbook unfavourable balance.

Since the cash book and passbook are prepared with the same transactions, we can arrive at the balance of the book other than we have started with. We can arrive at the balance of

passbook if we take cash book balance as starting point and once all the reasons are adjusted to it. We can arrive at cash book balance If we take passbook balance as the starting point and once all the reasons are adjusted to it.

The reasons for difference have to be adjusted as follows:

If a reason for difference increases the favourable cash book balance than the favourable passbook balance, the amount of difference should be deducted from cash book favourable balance, or it should be added to passbook favourable balance to harmonize cash book and passbook balances.

For example, a Cheque was received from Madhuri for Rs. 4,56,000 was recorded on Debit side of the cash book only but no corresponding entry was recorded in passbook as the cheque was not Collected yet. In this case the balance of cash book would be higher by Rs. 4,56,000 when compared to passbook or the balance of passbook would be lower by Rs. 4,56,000 when compared to cash book.

So, the adjustment to be made is

Deduct the difference amount Rs. 4,56,000 from the Balance as per Cash book if Cash book balance is taken as the starting point (Or) Add the difference amount Rs. 4,56,000 to Balance as per passbook if Passbook balance is taken as the starting point.

If a reason of difference decreases the favourable cash book balance than the favourable passbook balance, the amount of difference should be added to favourable cash book balance, or it should be deducted from favourable passbook balance to harmonize cash book and passbook balances.

For example, Cash deposited by Prasad on May 29 in our account Rs. 41,000 was recorded on credit side of the passbook only but no corresponding entry was made in cash book as our cashier had no information about that receipt. In this case the balance as per cash book would be lower by Rs. 41,000 when compared to passbook or the balance as per passbook would be higher by Rs.41,000 when compared to cash book.

So, the adjustment to be made is

Add the difference amount Rs. 41,000 to the Balance as per Cash book if Cash book balance is taken as the starting point (Or) Deduct the difference amount Rs. 41,000 to Balance as per passbook if Passbook balance is taken as the starting point.

If a reason of difference increases the unfavourable cash book balance than the unfavourable passbook balance, the amount of difference should be deducted from cash book unfavourable balance, or it should be added to passbook unfavourable balance to harmonize cash book and passbook balances.

For example, if a Payment of Rs 1,00,000 to Ganesh on May 25, is recorded in cash book credit side wrongly as Rs.1,10,000 and the same is recorded correctly in passbook debit side as Rs. 1,00,000. In this case the unfavourable balance as per cash book will be higher by Rs. 10,000 when compared to passbook unfavourable balance Or Unfavourable balance as per passbook will be lower by Rs. 10,000 when compared to Cash book unfavourable balance.

So, the adjustment to be made is

Deduct the difference amount of Rs. 10,000 from the Unfavourable Balance as per Cash book if Cash book unfavourable balance is taken as the starting point (Or) Add the difference amount of Rs.10,000 to the Balance as per passbook if Passbook unfavourable balance is taken as the starting point.

If a reason of difference decreases the unfavourable cash book balance than the unfavourable passbook balance, the amount of difference should be added to cash book unfavourable balance, or it should be deducted from passbook unfavourable balance to harmonize cash book and passbook balances.

For example, If Bank charges of Rs 350 are debited to passbook correctly but wrongly debited to cash book. In this case the unfavourable balance as per cash book will be lower than the passbook unfavourable balance by Rs. 700 Or Unfavourable balance as per passbook will be higher than unfavourable balance in cash book by Rs. 700.

So, the adjustment to be made is

Add the difference amount Rs. 700 to the Unfavourable Balance as per Cash book if Cash book unfavourable balance is taken as the starting point (Or) Deduct the difference amount Rs. 700 from unfavourable balance as per passbook if Passbook unfavourable balance is taken as the starting point.

The adjustments made to the cash book or passbook balance are shown in Bank Reconciliation statement.

7.6.2.1. Summary of adjustments:

The adjustments are summarized as under:

Impact of Reason\ Adjustment	Adjustment to be made to cash book favourable balance	Adjustment to be made to cash book unfavourable balance	Adjustment to be made to passbook favourable balance	Adjustment to be made to passbook unfavourable balance
Cash book favourable balance will be more than passbook favourable balance (Or) Passbook favourable balance will be less than cash book favourable balance	Deduct		Add	
Cash book favourable balance will be less than passbook favourable balance (Or) Passbook favourable balance will be more than cash book favourable balance	Add		Deduct	
Cash book unfavourable balance will be more than passbook unfavourable balance (Or) Passbook unfavourable balance will be less than Cash book unfavourable balance		Deduct		Add
Cash book unfavourable balance will be less than Passbook unfavourable balance (Or) Passbook unfavourable balance will be more than Cash book unfavourable balance		Add		Deduct

7.6.3 Preparation of Bank Reconciliation Statement:

Bank Reconciliation statement is a statement prepared to reconcile Cash book and Passbook balances by adjusting the reasons of difference. Preparation of Bank Reconciliation statement is the core of Reconciliation. Bank Reconciliation statement presents the entire work of reconciliation. The first step in preparation of Bank Reconciliation statement is to decide with which balance we have to start or choosing the starting point. Then the reasons for difference are adjusted to the balance taken as starting point by analysing their impact on balance taken as the starting point. We should follow a format for reconciliation.

The Formats of Bank Reconciliation statement with various starting points are given below:

7.6.3.1: Favourable Balance as per cash book as Starting point

Particulars	Amount	Amount
	(Rs)	(Rs.)
Favourable Balance as per cash book: (Starting point)		*****
Add: All reasons for difference that cause decrease in balance as per cash book when compared to passbook.		
Reason for difference (First)	***** *****	
Reason for difference (Last)	*****	
		(+) *****

Deduct: All reasons for difference that cause increase in balance as per cash book when compared to passbook.		
Reason for difference (First)	***** *****	
Reason for difference (Last)	*****	
		(-) *****

Balance as per Passbook		*****

7.6.3.2: Favourable Balance as per passbook as Starting point

Particulars	Amount (Rs)	Amount (Rs.)
Favourable Balance as per passbook: (Starting point)		*****
Add: All reasons for difference that cause decrease in balance as per passbook when compared to cash book.		
Reason for difference (First) Reason for difference (Last)	***** ***** ***** *****	(+) *****
Deduct: All reasons for difference that cause increase in favourable balance as per passbook when compared to cash book.		*****
Reason for difference (First) Reason for difference (Last)	***** ***** ***** *****	(-) *****
Balance as per Cash book		*****

7.6.3.3: Un favourable Balance as per cash book as Starting point

Particulars	Amount (Rs)	Amount (Rs.)
Un favourable Balance as per Cash book: (Starting point)		*****
Add: All reasons for difference that cause decrease in unfavourable balance as per cash book when compared to passbook.		
Reason for difference (First) Reason for difference (Last)	***** ***** ***** *****	(+) *****

<p>Deduct: All reasons for difference that cause increase in unfavourable balance as per cash book when compared to passbook.</p> <p>Reason for difference (First) Reason for difference (Last)</p>	<p>***** ***** ***** *****</p>	<p>***** (-) *****</p>
<p>Balance as per Cash book</p>		<p>*****</p>

7.6.3.4: Unfavourable Balance as per passbook as Starting point

Particulars	Amount (Rs)	Amount (Rs.)
<p>Un favourable Balance as per passbook: (Starting point)</p> <p>Add: All reasons for difference that cause decrease in unfavourable balance as per passbook when compared to cash book.</p> <p>Reason for difference (First) Reason for difference (Last)</p>	<p>***** ***** ***** *****</p>	<p>***** (+) *****</p>
<p>Deduct: All reasons for difference that cause increase in unfavourable balance as per passbook when compared to cash book.</p> <p>Reason for difference (First) Reason for difference (Last)</p>	<p>***** ***** ***** *****</p>	<p>***** (-) *****</p>
<p>Balance as per Cash book</p>		<p>*****</p>

Practical Illustration 3: (Preparation of Bank Reconciliation statement by adjusting the reasons for difference) .

Let us see how to prepare a bank reconciliation statement by analysing the reasons for difference identified In Practical Illustration 2.

In this case favourable balance shown by cash book was Rs.2,73,000 and favourable balance shown by passbook was Rs. 2,09,000. One should prepare Bank Reconciliation Statement by taking either of the two balance as starting point. We will prepare the statement by taking balance as per cash book as starting point.

Reasons for difference identified in Practical Illustration 2 are:

1. Cheque issued to Rajesh but not yet presented for payment Rs.1,20,000.
2. Cheque received from Santosh deposited into bank but not yet collected Rs.1,50,000.
3. Cheque received from Mahesh deposited into bank but not yet collected Rs.75,000.
4. Cheque issued to Sameer but not yet presented for payment Rs.37,000.
5. Error of excess debit by Rs.10,000 in cash book.
6. Amount directly deposited into bank account by madhav Rs.11,000.
7. Dividends collected and credited to account by bank Rs. 4,000.
8. Charges debited to account by bank. Rs. 1,000.

Total of cheques issued but not presented for payment: Rs. 1,57,000

(Rajesh Rs.1,20,000 + Sameer Rs.37,000)

Total of cheques deposited but not collected: Rs.2,25,000

(Santosh Rs. 1,50,000 + Mahesh Rs. 75,000)

Since we have taken balance as per cash book as starting point, we should adjust every reason for difference by considering its impact on balance as per cashbook.

1. Cheques amounting to Rs. 1,57,000 were issued but not presented for payment would **decrease** the balance as per cash book when compared to passbook. So, we have to **add** Rs. 1,57,000 to balance as per cash book.
2. Cheques amounting to Rs. 2,25,000 were deposited into bank but not collected would **increase** the balance as per cash book when compared to passbook. So, we should **deduct** Rs. 2,25,000 from balance as per cashbook.
3. Error of excess debit by Rs. 10,000 in cashbook would **increase** the balance as per cashbook when compared to balance as per passbook, So, we should **deduct** Rs. 10,000 from balance as per cash book.
4. Direct deposit Of Rs. 11,000 by madhav would **decrease** the balance as per cashbook when compared to balance as per passbook, so we should **add** Rs. 11,000 to balance as per cash book.
5. Dividends collected Rs. 4,000 credited to account by bank would **decrease** the balance as per cash book when compared to balance as per passbook, so we should **add** Rs. 4,000 to balance as per cash book.

6. Charges Rs. 1,000 debited to account by bank would **increase** the balance as per cash book when compared to balance as per passbook, so we should **deduct** Rs. 1,000 from balance as per cash book

BANK RECONCILIATION STATEMENT AS ON 30-06-2020

Particulars	Amount	Amount
	(Rs)	(Rs.)
Favourable Balance as per cash book: (Starting point)		2,73,000
Add: All reasons for difference that cause decrease in balance as per cash book when compared to passbook		
1. Cheques issued but not presented for payment	1,57,000	
2. Direct deposit by Madhav	11,000	
3. Dividends credited to account	4,000	(+) 1,72,000
		4,45,000
Deduct: All reasons for difference that cause increase in balance as per cash book when compared to passbook		
1. Cheques Deposited but not collected	2,25,000	
2. Excess debit in cash book	10,000	
3. Charges debited by banker	1,000	(-) 2,36,000
Balance as per Passbook		2,09,000

7.7 Practical illustrations:

4. (When favourable cash book balance and reasons for differences are given)

On 31st march,2020 the cash book of Ravichandra showed a favourable balance of Rs 2,50,000. Prepare a bank reconciliation statement.

- i) Cheque issued but not presented for payment Rs 25,000.
- ii) An amount of Rs.10,000 deposited by one of the debtors directly into the account on 28th march,2020. Intimation in this respect was received from the bank on 03rd April,2020.
- iii) Acash deposit of Rs 1,000 into bank was omitted to enter on the debit side of the cashbook.
- iv) Bank charges of Rs 2,000 was debited by the banker but it was not recorded in cashbook.
- v) Cheques deposited into bank for collection were Rs 1,00,000. Out of which cheques amounted to Rs. 70,000 were collected by the banker during March,2020.

- vi) A cheque for Rs 20,000 received from a debtor was recorded in the cash book but not sent to bank for collection.

Bank reconciliation statement of Ravichandra as on 31st March 2020

Particulars	Amount	Amount
Favourable Balance as Per Cashbook		2,50,000
Add:- Entries that cause lower cashbook balance compared to passbook balance:		
(i). Cheque issued but not presented for payment	25,000	
(ii) Amount directly deposited into bank account by a debtor	10,000	
(iii) Deposit omitted to enter on the debit side of the cashbook	1,000	(+) 36,000
		2,86,000
Deduct : Entries that cause higher cashbook Balance compared to passbook balance:		
(i) Bank charges debited by the bank but not recorded in cashbook	2,000	
(ii) Cheques deposited into bank but not collected	30,000	
(iii) Cheque recorded in cash book but not deposited into bank	20,000	(-) 52,000
Favourable Balance as per passbook		2,34,000

5.(When favourable balance as per passbook and reasons for differences are given)

Prepare a Bank Reconciliation Statement of Mr. Durga Prasad on June 30,2021 using the following information.

- i. Favourable Balance as per Passbook on June 30,2021 Rs. 1,25,000.
- ii. A cheque received from Anand for Rs 51,000 was sent to bank for collection, but not collected till the date of reconciliation.
- iii. Debit side of the cash book bank column was overcast by Rs. 5,000.
- iv. Dividends on investments Rs. 10,000 collected and insurance premium of Rs.3,500 paid by the banker were not recorded in cash book.
- v. During the month of June Durga prasad issued 2 Cheques, one cheque is to Mr. Veeresh for Rs 41,000 and another is to Mr. Narasimha for Rs. 25,100, out of which Cheque issued to Mr. Narasimha was only presented for payment during the month.

- vi. Wrong credit in Passbook Rs. 3,000.
- vii. Bank charges debited to Passbook only Rs 500.
- viii. Amount directly deposited by Raju in bank account Rs. 3,500 was not recorded in Cashbook.

Solution:

BANK RECONCILIATION STATEMENT OF MR. DURGA PRASAD AS ON 30 JUNE 2021

Particulars	Amount	Amount
Favourable Balance as per Passbook		1,25,000
Add: Transactions having the effect of lower favourable balance as per Passbook		
i. Cheques deposited but not collected	51,000	
ii. Overcasting in Dr.side of cashbook bank column	5,000	
iii. Insurance premium paid by bank	3,500	
iv. Bank charges debited to Passbook only	500	(+)
		60,000
		1, 85,000
Deduct: Transactions having the effect of higher balance as per Passbook		
i. Dividends credited to Passbook only		
ii. Cheques issued but not presented for payment	10,000	
iii. Wrong credit in Passbook	41,000	
iv. Amount deposited by Raju into bank account	3,000	
	3,500	
		(-) 57,500
Favourable Balance as per cash book		1,27,500

6. (When unfavourable balance as per cashbook and reasons for differences are given)

From the following particulars prepare a bank reconciliation statement of Mr. Shikhar on Feb 28, 2021.

- i. Unfavourable balance as per cashbook Rs.5,25,000 on Feb 28, 2021.
- ii. Cash deposited into bank Rs.5,000 was recorded in cashbook twice.
- iii. Cheques issued on 18thFeb,2021 were Rs.1,20,000. Out of these, cheques amounting to Rs.35,000 were not presented for payment before 28 Feb,2021.
- iv. Cheque deposited into bank on 24thFeb,2021 were Rs.1,00,000. Out of these, cheques for Rs.60,000 were only collected before Feb 28,2021.
- v. Interest on investments credited in passbook only Rs. 2,000.
- vi. A cheque for Rs.10,000 deposited into bank on Feb 27,2021 was dishonoured but information in respect thereof was not received from bank.
- vii. Mr. Raghu, one of the debtors, deposited Rs 10,000 in the bank account of shikhar but no entry was made in cash book.
- viii. A receipt of Rs 4,500 was recorded on debit side of passbook by mistake.

- ix. Bank paid Rs 15,000 towards loan instalment as per our mandate. But no entry was made in cash book.
- x. A cheque issued by Shikhar for Rs. 30,000 was returned by banker on technical grounds on Feb 26, 2021, but it was not recorded in cashbook.

Solution:

Bank reconciliation statement of Mr.Shikhar as On Feb 28, 2021.

Particulars	Amount	Amount
Unfavourable Balance as Per Cashbook		5,25,000
Add: Items that decrease unfavourable balance as Per Cashbook Compared to passbook.		
(i) Cash deposit recorded in cashbook twice	5,000	
(ii) Cheques deposited but not collected	40,000	
(iii) Cheque dishonoured but not recorded in Cashbook	10,000	
(iv) Receipt wrongly recorded on debit side of passbook	9,000	
	15,000	(+ 79,000)
(v) Loan instalment paid by bank		
		6,04,000
Deduct: Items that increase unfavourable balance as Per Cashbook Compared to passbook.		
(i) Cheques issued but not presented for payment	35,000	
(ii) Interest on investments credited in passbook only	2,000	
(iii) Amount deposited into account by Mr.Raghu	10,000	
(iv) Cheque returned on technical grounds.	30,000	(-) 77,000
Unfavourable balance as per passbook		5,27,000

7. (When unfavourable balance as per passbook and reasons for differences are given)

From the following particulars prepare a bank reconciliation statement of Eshwar & Co on September 30,2020.

- A. Unfavourable balance as per passbook Rs. 2,10,000.
- B. A cheque for Rs 23,000 was entered in bank column of the cash book but we forgot to issue to a supplier.
- C. Interest on overdraft debited to passbook only Rs.3,800.
- D. House tax paid by bank on our behalf Rs 2,500 was recorded on credit side of the cashbook as Rs 5,200.
- E. Cheques deposited into bank during the month of September were Rs. 2,00,000

Out of which:

Cheques collected before Sep 30: Rs.1,40,000

Cheques not collected before Sep 30: Rs. 60,000

F. Cheques issued but not presented for payment Rs.50,000.

G. Bank charges debited to passbook Rs.200.

H. Dividends collected by banker Rs.5,600.

Solution:Bank reconciliation statement of Eshwar&Co. as on Sep 30, 2020.

Particulars	Amount	Amount
Unfavourable Balance as per passbook		2,10,000
Add:		
(i) Cheque entered in cashbook but not issued	23,000	
(ii) Excess amount credited to cashbook	2,700	
(iii) Cheques issued but not presented for payment	50,000	
(iv) Dividends collected by banker	5,600	
		(+ 81,300)
		2,91,300
Deduct:		
(i) Interest on overdraft debited in passbook only	3,800	
(ii) Cheque deposited but not collected	60,000	
(iii) Bank charges debited in passbook only	200	(-) 64,000
Unfavourable balance as per cashbook		2,27,300

8.(Favourable cashbook balance, unfavourable passbook balance)

Cashbook of Hanuman brothers showed a debit balance of Rs 4,80,000 on July 31,2020. This did not agree with the balance as per Passbook. From the following particulars prepare a bank reconciliation statement and ascertain the balance as per Passbook.

- (i) Amount collected by the banker as interest on govt. securities Rs 28,000 was not entered in cashbook.
- (ii) Cheques deposited for collection were Rs 4,00,000, out of which cheques with Rs 1,00,000 were only collected.
- (iii) A Bill for Rs 50,000 previously discounted with bank for Rs. 49,000 was dishonoured on July 30 but it was recorded in cashbook on 2 august.

- (iv) A payment transaction initiated for Rs. 5,000 was declined and amount reversed but no entry was made for reversal of the transaction in cashbook.
- (v) Cheque issued to Raj Rs 6,000 on 27th July was encashed by him on 31st July.
- (vi) A wrong debit was entered in passbook with Rs.50,000
- (vii) A Cheque issued to Mr.Ramon July 28 for Rs.10,000 was presented for payment on Aug 05, 2020.
- (viii) While carrying forward, debit balance of Rs.2,35,000 of previous page brought forwarded to next page as Rs.3,25,000 in cashbook bank column.
- (ix) An outgoing cheques of Rs.3,000 wrongly debited by bank to the account of hanuman and sons.
- (x) Bank charges debited to passbook were Rs.3,000.
- (xi) Hire purchase instalment of Rs.75,000 paid by banker was not recorded in cashbook.

Solution:

Bank Reconciliation Statement of Hanuman Brothers as on Jul 31, 2020.

Particulars	Amount	Amount
Favourable balance as per cashbook		4,80,000
Add:		
(i). Interest on govt securities	28,000	
(ii). Entry for reversal of cash not made in cashbook	5,000	
(iii). Cheque issued to Ram but not presented for payment	10,000	
(iv). Payment not recorded in passbook	3,000	(+ 46,000)
		5,26,000
Deduct:		
(i). Cheques deposited but not collected	3,00,000	
(ii). Bill discounted at bank dishonoured	50,000	
(iii). Wrong debit in passbook	50,000	
(iv). Wrong carry forward of debit balance in cashbook	90,000	
(v). Bank charges debited to passbook only	3,000	
(vi) Hire purchase instalment paid by banker	75,000	(-)5,68,000
Unfavourable balance as per passbook*		(42,000)*

*** Since the balance as per Passbook calculated is negative it is assumed as Unfavourable balance.**

7.7.6 Reconciliation with adjusted cash book balance

In the preparation of Bank reconciliation statement at the end every month the balance as per cash book can be taken for reconciliation. But if we prepare Bank reconciliation statement at the end of the accounting year, the balance as per cash book should be adjusted first, then the adjusted/amended cash book balance should be considered for reconciliation. The balance as per cash book would be adjusted by recording the entries which are recorded in Passbook only and rectifying the wrong entries in cash book.

In this case, the preparation of Bank Reconciliation Statement would become easier a bit. Only a few reasons for differences viz. Cheques deposited but not collected, Cheques issued but not presented for payment, Cheques entered in cash book but not issued, cheques entered in cash book but not deposited into bank and Errors in Passbook only need to be adjusted in Bank Reconciliation Statement.

9.(Amended/adjusted cashbook)

From the following particulars of JAI Enterprises find out adjusted cashbook balance on March 31,2021 and prepare a Bank reconciliation statement.

- (i) Balance as per cashbook Rs.75,000.
- (ii) Cheques received and recorded in bank column of the cashbook but omitted to send to bank for collection Rs.10,000.
- (iii) Interest allowed in passbook only Rs.1,500.
- (iv) Bills receivables directly collected by the bank Rs.5,000.
- (v) Cheques deposited (cleared) but not recorded in cashbook Rs,7,000.
- (vi) Payment side of cashbook bank column was under cast by Rs 1,000.
- (vii) Bank charges debited in passbook only Rs.500.
- (viii) Advance tax paid by bankRs. 6,000 was not recorded in cashbook.
- (ix) Cheques issued but not presented for payment Rs.15,000.
- (x) A payment by SAI enterprises Rs.2,000 was debited by banker to our account.
- (xi) Dishonour of a discounted bill not entered in cashbook bank column Rs. 5,000
Noting charges Rs.200.
- (xii) Claim received from insurance company Rs 6,000 was recorded in passbook twice.

- (xiii) Direct payment by Sudhakar into our bank account was recorded in passbook only Rs. 10,000.
- (xiv) Cheques deposited into bank but not collected Rs.50,000.
- (xv) Cheque recorded in cash book but not issued Rs. 33,000.

Solution:

Dr **Cashbook (Adjusted)** **Cr**

Particulars	Amount	Particulars	Amount
To Balance B/d	75,000	By Under casting in payment side of cashbook bank column	1,000
To Interest Allowed	1,500	By Bank charges	500
To Bills receivables	5,000	By Advance tax paid by bank	6,000
To Cheque depositedbut not recorded	7,000	By dishonour of discounted bill	5,200
To Direct paymentby Sudhakar	10,000	By Balance C/d	85,800
	98,500		98,500
To Balance B/d	85,800		

Bank reconciliation statement of JAI Enterprises as on March 31, 2021

Particulars	Amount	Amount
Balance as per cashbook (Adjusted)		85,800
Add:-		
(i) Cheque issued but not presented for payment	15,000	
(ii) Insurance claim recorded in passbook twice	6,000	
(iii) Cheque recorded in cashbook but not issued	33,000	
		(+ 54,000)
		1,39,800
Deduct:		
(i) Cheque recorded in cashbookbut not sent to bank for collection	10,000	
(ii) Wrong debit given in pass book	2,000	
(iii) Cheques deposited but collected	50,000	
		(-) 62,000
Favourable Balance as per passbook		77,800

Test your Understanding



I. Fill in the Blanks

1. The excess debits over credits in Cash book leads to _____ Balance.
2. A transaction recorded on debit side of the cash book is to be recorded on _____ side of the passbook.
3. A deposit made by a debtor directly in a bank account _____ the favourable balance as per cash book when compared to favourable balance as per passbook.
4. If a reason for difference increases the favourable balance as per passbook when compared to favourable balance as per cash book. Then the difference should be added to _____ balance to reconcile the balances.
5. Omitting to record a receipt in cash book decrease the unfavourable balance as per _____ Book.

II. True or False

1. Bank Reconciliation statement is prepared by Bankers.
2. Bank Reconciliation means Harmonizing the balances as per cash book and balance as per Passbook.
3. Lack of information from bank doesn't cause disagreement of cash book and Passbook balances.
4. By comparing the Passbook and cash book one can identify the reasons for difference between cash book and passbook balances.
5. Adjustment for differences have to be made to the balance as per cash book when we take Balance as per Passbook as the starting point.

III. Multiple Choice Questions (MCQ)

1. Payments made by the firm through banks are recorded in
 - A. Cash Column of the cash book on Debit side
 - B. Bank Column of the cash book on Debit side
 - C. Cash Column of the cash book on Credit side
 - D. Bank Column of the cash book on Credit side
2. An item recorded on Debit side of the passbook would be recorded on
 - A. Credit side of the cash book
 - B. Debit side of the cash book
 - C. Both sides of the cash book
 - D. Neither side of the cash book.
3. Which of the following is not a reason for difference between cash book and Passbook balances
 - A. Processing time of cheques
 - B. Delay in information
 - C. Errors
 - D. Volume of transactions
4. Omitting to record a transaction on credit side of the cash book will
 - A. Increase the debit balance as per cash book
 - B. Decrease the debit balance as per cash book
 - C. Both of the above
 - D. None of the above
5. Bank Reconciliation statement is needed to
 - A. Notice the errors
 - B. Identify the frauds and misappropriations
 - C. Know the processing time of cheques
 - D. All of the above
6. Reconciliation involves
 - A. Identifying the reasons for difference
 - B. Adjusting the reasons for difference
 - C. Both of the above
 - D. A Only
7. If a reason for difference increases the balance as per cash book when compared to Passbook, it will be adjusted
 - A. By adding to balance as per cash book
 - B. By Deducting from balance as per cash book
 - C. By adding to balance as per Passbook
 - D. B and C
8. If a reason for difference decreases the unfavourable balance as per Passbook when compared to cash book, it will be adjusted
 - A. By adding to unfavourable balance as per cash book
 - B. By Deducting from Unfavourable balance as per Passbook
 - C. By Deducting from favourable balance as per cash book
 - D. None of the above

9. If Cheques deposited for collection were Rs 1,00,000 out of which 75,000 cheques were collected up to the date of reconciliation, then adjustment to be made to Cash book balance with Rupees.

A. 1,00,000 B. 75,000 C. 25,000 D. 1,25,000

10. If a receipt Of Rs. 5,000 was wrongly recorded on credit side of the cash book, it should be adjusted by

A. Deducting Rs 10,000 from Cash book debit balance B. Adding Rs 10,000 to cash book debit balance
C. Adding Rs 5,000 to cash book debit balance D. Deducting Rs 5,000 from cash book debit balance

11. If a transaction recorded on debit side of the cash book with Rs 10,000 and the same transaction was recorded on credit side of the Passbook with Rs.6,000, it should be adjusted by

A. Adding Rs. 4,000 to Passbook credit balance B. Adding Rs. 6,000 to Passbook credit balance
C. Deducting Rs 6,000 from Passbook credit balance D. Deducting Rs 4,000 from Passbook credit balance

12. A wrong debit of Rs 20,000 in Passbook is adjusted by

A. Deducting Rs. 20,000 from unfavourable balance as per Passbook
B. Deducting Rs. 20,000 from unfavourable balance as per cash book
C. Adding Rs .40,000 to unfavourable balance as per Passbook
D. Adding Rs. 20,000 to unfavourable balance as per Passbook.

13. Cheques issued but not presented for payment Rs. 25,000 will be adjusted by

A. Adding Rs 25,000 to Passbook favourable balance
B. Adding Rs 25,000 to Cash book favourable balance
C. Deducting Rs. 25,000 from Passbook unfavourable balance
D. None of the above

14. The impact of Bank charges Rs 500 entered in Passbook only would be

A. Cash book balance will decrease by Rs.500 B. Passbook balance will increase by Rs. 500
C. Cash book balance will increase by Rs 500 D. None of the above

15. The impact of under casting of debit side of the cash book By Rs 1,000

A. Favourable balance as per cash book will increase by Rs 1,000
B. Unfavourable balance as per Passbook will increase by Rs 1,000
C. Favourable balance as per cash book will decrease by Rs 1,000
D. Unfavourable balance as per cash book will decrease by Rs. 1,000

IV. Short Answer Questions (SAQ)

1. Explain the characteristics of pass book or Bank Account statement.
2. Define Bank Reconciliation and Bank Reconciliation Statement.
3. Explain the need for Preparation of Bank Reconciliation Statement
4. Write the proforma of Bank Reconciliation statement by taking balance as per pass book as the starting point.

V. Long Answer Questions (LAQ)

1. Explain the reasons for disagreement of balance as per cash book and Passbook.
2. Explain the process of Identifying the differences between Cash book and Passbook balances.
3. Explain the process of Adjusting the reasons for difference between Cash book and Passbook balances.
4. Enter the following transactions in bank column of the cash book and Passbook. And show the balances as on 31 January 2019.

Date	Transaction
1/1/2019	Opening Balance (Favourable Bankbalance) Rs. 25,400
4/1/2019	Cash deposited into bank Rs. 10,000
7/1/2019	Amount received from Nagesh through Bank Rs. 7,000
8/1/2019	Amount Paid to Babu by Cheque of Rs. 12,600 (presented for payment on 19-01-19)
11/1/2019	Cash withdraw from bank for office use Rs. 8,000
17/1/2019	Cheque received from Krishna Rs. 11,400. The cheque was sent to bank for collection on the same day, it was collected on 02-02-2019
23/1/2019	Commission paid to Eshwari by NEFT Rs. 4,600
25/1/2019	Interest on deposits collected by Bank Rs. 9,500
27/1/2019	Bank charges Rs. 750
30/1/2019	Life insurance premium paid by bank as per Mandate Rs. 1,000

Answer: Debit Balance as per cashbook: Rs. 36,350 Credit Balance as per pass book: 24,950

5. From the following cash book and passbook, you are required to identify the reasons for difference between Cash book and passbook balances.

Dr		Cash Book (Bank Column)				Cr
Date	Particulars	Bank Column Amount	Date	Particulars	Bank column Amount	
01-08-2019	To Balance B/d	3,25,000	02-08-2019	By Sowmya A/C (cheque)	2,00,000	
04-08-2019	To Ranga A/c (cheque)	3,00,000	08-08-2019	By Madhu A/C (NEFT)	65,000	
08-08-2019	To Anjali A/c (UPI)	32,000	10-08-2019	By Commission A/c (Transfer)	9,000	
13-08-2019	To Srinivas A/c (Cheque)	63,000	12-08-2019	By Amar A/c (cheque)	47,000	
16-08-2019	To Interest A/c (Transfer)	7,000	20-08-2019	By Kiran A/c (NEFT)	15,000	
21-08-2019	To Cash A/c (Deposit)	80,000	29-08-2019	By Repairs A/c (UPI)	5,000	
			31-08-2019	By Balance C/d	4,66,000	
					8,07,000	
		8,07,000			8,07,000	
01-09-2019	To Balance B/b	4,66,000				

PASSBOOK

Date	Transaction description	Cheque no/ reference id	Withdrawals (Dr)	Deposits (Cr)	Closing balance	
					Dr/Cr	Amount
1/8/2019	By Balance B/d			3,25,000	Cr	3,25,000
8/8/2019	To Madhu (NEFT)		65,000		Cr	2,60,000
8/8/2019	By Anjali (UPI)			32,000	Cr	2,92,000
10/8/2019	To Commission (Transfer)		9,000		Cr	2,83,000
16/8/2019	By Interest Receipt			7,000	Cr	2,90,000
20/8/2019	To Kiran (NEFT)		15,000		Cr	2,75,000
21/8/2019	By Cash (Deposit)			80,000	Cr	3,55,000
23/8/2019	By Gopal (Cash deposit)			33,000	Cr	3,88,000
29/8/2019	To Repairs (UPI)		5,000		Cr	3,83,000
30/8/2019	By Interest Receipt			9,000	Cr	3,92,000
31/8/2019	To Bank charges		2,000		Cr	3,90,000
			96,000	4,86,000	Cr	3,90,000

6. From the following information of Mrs. Aleena, prepare a bank reconciliation statement as on 31st July 2020.

	Amount in Rs.
i. Debit balance as per Cash book on 31st July 2020	2,00,000
ii. Cheques issued but not yet presented for payment	8,550
iii. Bank charges debited in passbook only	3,000
iv. Cheques deposited but not yet collected	1,50,000

- v. Rent paid through bank omitted to enter in Cashbook bank column 10,000
- vi. Income tax refund credited in passbook only 1,800
- vii. Bills receivables directly collected by bank 26,000
- viii. Electricity bill paid through phone pe was not yet recorded in cashbook 3,800
- ix. Interest on fixed deposits credited by bank but no advice was received 7,000
- x. Loan instalment paid by bank as per our standing instructions 15,300

Answer: Credit Balance as per passbook: 61,250

7. From the following particulars prepare a bank reconciliation statement of Madhu&Co on 31st December 2020.

- a. Favourable (Credit) Balance as per passbook was Rs.1,28,300 on 31st December 2020.
- b. Amount deposited by Nagaraj in our account Rs. 15,000 was not entered in Cash book.
- c. Cheques deposited into bank in December 2020 were Rs. 2,00,000 but cheques for Rs 1,35,000 were only credited by the bank in December 2020.
- d. Dividends collected by bank Rs.5,000 was wrongly entered in cashbook as Rs.500.
- e. The Following cheques issued by the firm in December 2020 were presented for payment in January 2021.
Bhagavan Rs.5,000; Lakshmi Rs.9,500; Govind Rs.12,300.
- f. Lic premium Rs.6,500 paid by bank has been entered in cash book cash column.
- g. Payments made by the bank directly as per standing instructions not entered in the cash book: Internet Charges Rs. 2,500; Trade Subscriptions Rs.1,000.
- h. Interest credited in pass book only Rs.1,600.
- i. A cheque for Rs.9,000 Received from a customer was entered in the bank column of cash book in December 2020 but was omitted to send to bank in December 2020.

Answer: Favourable Balance as per cash book: 1,64,400.

8. By comparing Anand's cash book with the bank statement of current account for the month of October 2018, the following were found:

- (a) Overdraft balance showed by Cash book Rs.35,500.
- (b) Receipts side of bank column of the cash book was overcast by Rs.1,000.
- (c) Interest on Overdraft Rs.500 was wrongly entered on debit side of bank column of cash book.

- (d) Cheques deposited into bank Rs.16,400 and entered in the cash book but not yet collected.
- (e) Cheque issued Rs.7,500 was not presented for payment during October 2018.
- (f) Bank charges of Rs. 1,300 as per bank statement of account had not been taken into the cashbook.
- (g) Cheque for Rs. 4,500 was recorded in cash book but omitted to issue.
- (h) Dividends on investments of Rs. 3,000 was collected by the bank but was not entered in the cash book.
- (i) Payment of Electricity bill through UPI Rs. 950 was not recorded in cash book.
- (j) Payment on a bill payable of Rs.1,000 by bank was entered as Rs.1,100 in cash book.

You are asked to prepare the bank reconciliation statement on 31st October 2018.

Answer: Overdraft Balance as per passbook: 41,050

9. Aruna Ltd. Provides you the following information as on 30th April 2020.

Rs.

1. Direct payment by a customer into the bank not recorded in cash book	40,000
2. Cheques deposited but not yet collected by bank	18,500
3. Cheques issued but not yet presented for payment	23,100
4. Rent collected and credited in passbook only	7,200
5. Insurance premium paid directly by bank as per standing instructions	5,000
6. Bills receivables directly collected by bank	8,000
7. A wrong credit given by bank in passbook	2,000
8. A cash deposit in bank was recorded in cash book twice	5,000
9. Bank charges recorded in passbook only	2,000

Prepare a bank reconciliation statement on 30th April 2020 in the following cases

A. If the debit balance as per passbook was Rs.1,25,000

B. If the Credit balance as per cashbook was Rs. 2,00,000.

Answer: A).OD Balance as per cash book:1,74,800; B).O.D Balance as per passbook:1,50,200

10. The cash book of Anil showed an overdraft balance of Rs.12,000 on 30th November 2019. By comparing the cash book with the bank statement, he found the following:

- a) Two cheques of Rs. 7,000 each received from Ravi were banked during the month. But only one cheque was collected by bank prior to 30th November.
- b) Interest on Overdraft charged by bank Rs.1,800.

- c) Cheques issued amounting to Rs. 25,000 were entered in the cashbook but has not been presented for payment.
- d) Bank charges of Rs. 750 shown in the bank statement but not entered in the cash book.
- e) A Cheque amounting to Rs. 8,300 was entered in cash book but omitted to send to bank for collection.
- f) The payment side of the cash book was overcast by Rs. 3,000.
- g) Dividends amounting to Rs. 2,000 were collected by the bank, but not entered in the cash book.
- h) A cheque for Rs. 5,000 issued to Vinay presented for payment but it was not recorded in Cash book.
- i) Direct payment of Rs.15,000 by Radha krishna into bank account was recorded in passbook only.
- j) A payment of Rs. 9,800 was wrongly entered as Rs 8,900 in bank column of cash book
- k) A cheque for Rs.6,000 prepared and entered in cashbook but omitted to issue.
- l) Subsidy from government received by bank Rs. 4,200 not adjusted in cashbook.

You are required to:

- a) Ascertain amended cash book balance.
- b) Prepare a Bank reconciliation statement by taking amended cash book balance as the starting point.

Answer: Amended cash book balance: 3,750 (Debit)

Favourable Balance as per pass book: 19,450

VI. Additional Resources for Advanced Learning

Study Material (Handouts):

https://nios.ac.in/media/documents/SrSec320NEW/320_Accountancy_Eng/320_Accountancy_Eng_Lesson10.pdf



Reference Text Books:

1. R L Gupta & V K Gupta, Principles and Practice of Accounting, Sultan Chand & Sons
- 2.S.P. Jain & K.L Narang, Accountancy-I, KalyaniPublishers
- 3.Tulasian, Accountancy -I, Tata McGraw HillCo.

E - Text Books:

<https://icmai.in/upload/Students/Syllabus2016/Foundation/Paper-2New-29012021.pdf>

<https://www.icsi.edu/media/webmodules/publications/FULL%20FAA%20PDF.pdf>

YouTube Links:

<https://www.youtube.com/watch?v=qeHc8w23Kl4>

https://www.youtube.com/watch?v=_RfayQTf5zU

Power Point Presentations:

<https://www.slideshare.net/itisha89/bank-reconciliation-statement-113088575>

<https://www.slideshare.net/AnkitSand1/bank-reconciliation-statement-76050134>

VII. Suggested Activity

1. Visit a firm (Individual and Group) and observe the process of preparing Bank reconciliation statement
- 2.Problem Solving Exercises
- 3.Learning Computer based Accounting system through tally





Answers

I. Fill in the Blanks					
Q.No	1.Favourable	2. Credit	3. Decreases	4.Cash book	5. Passbook

II. True or False					
Q.No	1.False	2.True	3.False	4.True	5.False

III. Multiple Choice Questions (MCQ)										
Q.No	1.D	2.A	3.D	4.A	5.D	6.C	7.D	8.D	9.C	10.B
	11. A	12.A	13.B	14.C	15.C					

Glossary



Account Statement: A statement showing the transactions made by a customer through Bank Account during a specified period.

Bank Reconciliation: A process of harmonizing the balances as per cash book and Passbook.

Bank Reconciliation Statement: A statement prepared by businessmen periodically to reconcile the balances as per cash book and passbook.

Cash Book: A subsidiary journal maintained by the firms to record cash receipts and payments made by the firm itself or through bank.

Cheque: A negotiable instrument used to make payments.

Error: An unintentional mistake.

Favorable Balance: Positive balance in a bank account. Amount of cash available in a bank account at a particular point of time.

Misappropriation: Using something in an unauthorized way.

Overdraft: A facility provided by bankers to a customer to draw an amount over and above the favorable balance.

Passbook: A book in which entries of transactions made by a customer through bank account are printed periodically by the Banker.

Unfavorable Balance: Sum of money drawn over the favorable balance up to a particular point of time.

Chart of Accounts

Assets

- Office Equipment
- Computer Equipment
- Buildings
- Machinery
- Goodwill
- Bank Account
- Petty Cash
- Accounts Receivable
- Stock

Liabilities

- Credit Card
- Accounts Payable
- Income Tax Payable
- Payroll Taxes
- Bank Loan
- Overdraft

Equity

- Capital
- Drawings
- Current Year Earnings
- Retained Earnings

Income

- Sales
- Consultancy
- Shipping
- Other Income

BOOKKEEPERS

VERSUS

ACCOUNTANTS



Bookkeeping is the record-keeping process of tracking your finances.

Bookkeepers record your business's daily transactions & generate data. They record data the same way, every time.

Bookkeeping is the foundation of your finances. Call them when you need help keeping your books.



Accounting is the process of compiling account info and analyzing data.

Accountants verify recorded data about your financial activities. They turn data into statements, giving a big picture view of your finances.

Accounting takes care of higher-level processing. Call them when you need help making sense of your financial information.

CHAPTER -VIII

FINAL ACCOUNTS

Learning Outcomes

1. Understand the concept of Capital and revenue
2. Understand the contents of final accounts
3. Understand the need for preparation of final accounts
4. Develop the skill of Preparation of Final accounts

Contents

- 8.1 Introduction
- 8.2 What are Final Accounts and what do they constitute?
- 8.3 Why do we prepare Final Accounts?
- 8.4 How to prepare Final Accounts?
- 8.5 How to prepare Final Accounts with adjustments ?
- 8.6 Practical Illustrations

8.1 Introduction:

Business refers to conducting activities with a motive to earn profit. Every business firm irrespective of its size tries to achieve the objective of profit earning. Sometimes due to various reasons a business may suffer from losses. The composition of assets and liabilities on a particular date gives a precise picture of the financial position of a business firm. The profit or loss earned, and their size determines the financial position of a business unit and in turn the financial position determines its profits and growth. Every business house irrespective of its nature of business, is interested to know its financial results, i.e. profits made by them and their financial position. Besides owners of the firm, there are many accounting users like creditors, lenders, employees, government etc., are interested in financial results of a business unit. To know financial results, one should prepare final accounts. Preparation of final accounts is the last stage in accounting cycle. Non business units also prepare final accounts. We focus on preparation final accounts of sole proprietorship business in this chapter.

8.2 What are Final Accounts and what do they constitute?

Preparation of Profit and Loss Account and Balance sheet helps the business firms in knowing their financial results. Profit and loss account is prepared to ascertain the profit or loss and balance sheet is prepared to know financial position. Knowing the financial results of a business unit at the end of life time of the business unit is not at all useful. Hence, accounting period concept comes into light, according to which the life of the business is divided into equal accounting periods (accounting years). Business firms prepare Profit and Loss Account at the end of each accounting year to ascertain the profit or loss of the accounting year and prepare Balance sheet at an end of accounting year to know their financial position on that date. Profit and loss account is a periodic statement as it shows the net result of incomes and expenses of an accounting period. Balance sheet is a point statement as it shows the assets and liabilities on a particular date. Since, Profit and loss account, and balance sheet are prepared usually at the end of the accounting year as a final step in accounting process, these are called Final Accounts.

Final Accounts comprise Profit and Loss Account and Balance sheet. Preparation of Final accounts varies with the nature of business. In case of a sole proprietor engaged only in trading activity or primarily engaged in trading activity, Profit and Loss account is sub divided into two parts 1. Trading Account and 2. Profit and Loss Account. So, final accounts of a trader comprise Trading Account, Profit and Loss Account and Balance sheet. In case of sole proprietor engaged in manufacturing cum trading activity, Profit and Loss account is sub divided into three parts 1. Manufacturing Account, 2. Trading Account and 3. Profit and Loss Account. So, final accounts of a manufacturer cum trader comprise Manufacturing Account, Trading Account, Profit and Loss Account and Balance sheet.

ముగింపు లెక్కలు

పరిచయం:

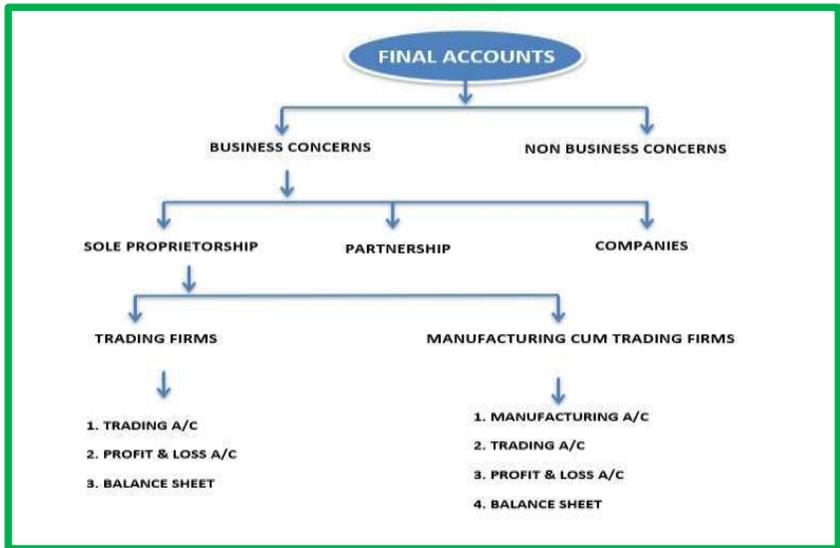
ప్రతీ వ్యాపార సంస్థ తమ యొక్క లాభం లేదా నష్టం మరియు ఆర్థిక స్థితిని తెలుసుకోవాలనే ఆసక్తి కలిగి ఉంటుంది. సంస్థ యజమానులతో పాటు, సంస్థ యొక్క రుణదాతలు, ఉద్యోగులు, ప్రభుత్వం మొదలైన అనేక అకౌంటింగ్ వినియోగదారులు సంస్థ ఆర్థిక ఫలితాలపై ఆసక్తి కలిగి ఉంటారు. వ్యాపార సంస్థలు తమ యొక్క ఆర్థిక ఫలితాలను తెలుసుకునుటకు ముగింపు లెక్కలను తయారు చేస్తాయి. ముగింపు లెక్కల తయారీ అకౌంటింగ్ చక్రం యొక్క చివరి దశ.

ముగింపు లెక్కలు:

వ్యాపార సంస్థ యొక్క లాభం లేదా నష్టం తెలుసుకునుటకు ప్రతి అకౌంటింగ్ సంవత్సరం చివరిలో లాభనష్టాల ఖాతా మరియు ఒక నిర్దిష్ట తేదీన సంస్థఆర్థిక ఫరిస్థితిని తెలుసుకోవడానికి ఆస్తి అప్పుల పట్టీ తయారు చేస్తారు. లాభనష్టాల ఖాతాలో ఉత్పత్తి ఖాతా, వర్తకపు ఖాతామరియు లాభనష్టాల ఖాతా భాగముగా ఉంటాయి.లాభ నష్టముల ఖాతామరియు ఆస్తి అప్పుల పట్టీలను సాధారణంగా అకౌంటింగ్ సంవత్సరం చివరిలో తయారు చేస్తారు కాబట్టి, వీటిని ముగింపు లెక్కలు అంటారు.

వ్యాపార స్వభావమును బట్టి ముగింపు లెక్కల తయారీ ఉంటుంది. కొన్ని సంస్థలు ఉత్పత్తి మరియు వర్తక కార్యకలాపాలు చేస్తాయి. అనగా ముడిసరుకును కొనుగోలు చేసి, దానిని తయారైన వస్తువుగా మార్చిన తర్వాత అమ్ముతాయి. కొన్ని సంస్థలుకేవలం వర్తకము చేస్తాయి.అనగా సరుకు రూపాన్ని మార్చకుండా కేవలం సరుకుని కొనుగోలు చేసి అమ్మకము చేస్తాయి. కొన్ని సంస్థలు ప్రధానంగా వర్తకముచేస్తున్నప్పటికీఒక సరుకును విక్రయించడానికి ముందు కొంచెం ప్రాసెసింగ్కూడా చేస్తాయి.

కేవలము వర్తకము లేదా ప్రధానముగా వర్తకము చేసే ఒక వ్యాపారి యొక్క లాభనష్టాల ఖాతా లో రెండు భాగాలు ఉంటాయి1. వర్తకపు ఖాతా, 2. లాభనష్టాల ఖాతా. కాబట్టి,ఆవ్యాపారి యొక్క ముగింపు లెక్కలలో వర్తకపు ఖాతా, లాభనష్టాల ఖాతా మరియు బ్యాలెన్స్ షీట్ ఉంటాయి. ఉత్పత్తి మరియు వర్తకముచేసేవ్యాపారి విషయంలో, లాభనష్టాల ఖాతాలో మూడు భాగాలుఉంటాయి అవి1. ఉత్పత్తి ఖాతా, 2. వర్తకపు ఖాతా మరియు 3. లాభనష్టాల ఖాతా. కాబట్టి, ఉత్పత్తిమరియు వర్తకముచేసే వ్యాపారి ముగింపులెక్కలలో ఉత్పత్తి ఖాతా, వర్తకపు ఖాతా, లాభనష్టాలఖాతా మరియు ఆస్తి అప్పుల పట్టీ ఉంటాయి.



8.3 Why do we prepare Final Accounts?

Final accounts are prepared to ascertain the profit or loss of a business unit in the current accounting year and to know the financial position as on a particular date at the end of the accounting year. Apart from this some more benefits are there from Preparation of Final accounts.

- ✓ Financial results of one accounting period can be compared with that of another period to know the changes occurred between the two accounting periods.
- ✓ The financial health of a business unit can be assessed by financial analysis. Financial statements prepared would serve as the basis for financial analysis.
- ✓ Final Accounts communicate the financial results of a business unit to all its stake holders' viz. Suppliers, Bankers, employees.
- ✓ Preparation of Final accounts is needed to fulfil the statutory requirements and to calculate tax to be paid to Government.

ముగింపు లెక్కల ఆవశ్యకత:

ఒక అకౌంటింగ్ సంవత్సరంలో వ్యాపార యూనిట్ సంపాదించిన లాభం లేదా నష్టాన్ని నిర్ధారించడానికి మరియు అకౌంటింగ్ సంవత్సరం చివరిలో ఒక నిర్దిష్ట తేదీ నాటి ఆర్థిక స్థితిని తెలుసుకోవడానికి ముగింపు లెక్కలు తయారు చేస్తారు. ఇవి కాకుండా ముగింపు లెక్కల తయారీ వలన మరికొన్ని ప్రయోజనాలు ఉన్నాయి.

- ❖ రెండు అకౌంటింగ్ సంవత్సరాల మధ్య జరిగిన మార్పులను తెలుసుకోవడానికి మరియు ఒక అకౌంటింగ్ సంవత్సరము యొక్క ఆర్థిక ఫలితాలను మరొక సంవత్సరఫలితాలలో పోల్చుటకు అవకాశము ఉంటుంది.
- ❖ ముగింపు ఆర్థిక నివేదికలు వ్యాపారఆర్థిక విశ్లేషణకు ఆధారంగా ఉంటాయి.
- ❖ ముగింపు లెక్కలు వ్యాపారము యొక్క ఆర్థిక ఫలితాలను సరఫరాదారులు, బ్యాంకర్లు, ఉద్యోగులు మొదలగు అకౌంటింగ్ వినియోగదారులకు తెలియజేస్తాయి.
- ❖ చట్టపరమైన అవసరాలను తీర్చడానికి మరియు ప్రభుత్వానికి చెల్లించాల్సిన పన్నును లెక్కించడానికి ముగింపు లెక్కల తయారీ అవసరంఅవుతుంది.

ముగింపు లెక్కల తయారీ

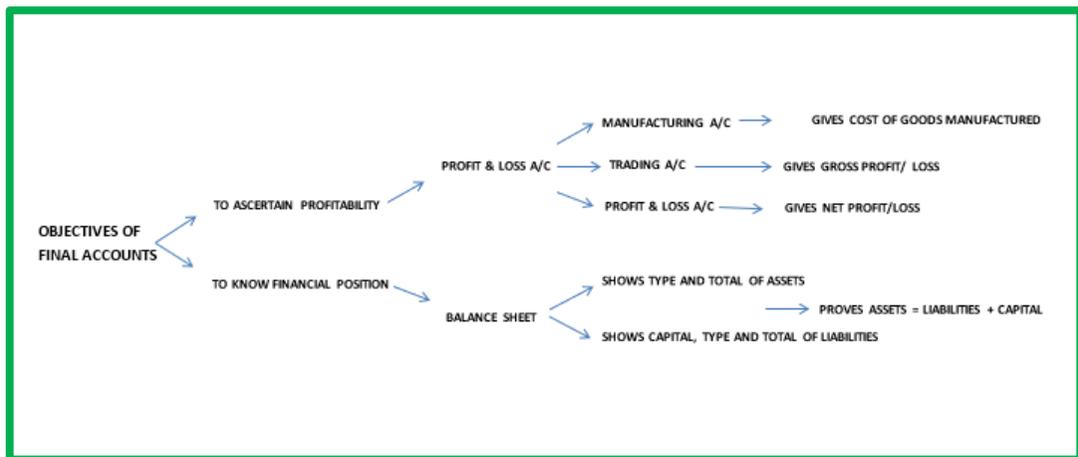
ముగింపు లెక్కలలో లాభనష్టాల ఖాతా మరియు ఆస్తి అప్పుల పట్టి ఉంటాయి. లాభనష్టాల ఖాతా - ఉత్పత్తి ఖాతా, వర్తకపు ఖాతా మరియు లాభనష్టాల ఖాతాగా విభజించబడుతుంది. అకౌంటింగ్ ప్రక్రియలో ముగింపు లెక్కల తయారీ చివరి మరియు అతి ముఖ్యమైన దశ.

వ్యాపార సంస్థ యొక్క అంకణా వివిధ రకాల ఖాతా నిల్వలను కలిగి ఉంటుంది. వాటిలో కొన్ని నిల్వలు వ్యక్తిగత ఖాతాలకు సంబంధించినవి, కొన్ని వాస్తవిక ఖాతాలకు సంబంధించినవి మరియు మిగిలినవి నామమాత్రపు ఖాతాలకు సంబంధించినవి ఉంటాయి.

ముగింపు లెక్కల తయారీ కోసం, అంకణాలోని అంశాలను విశ్లేషించి వాటిని మూలధన, రాబడి అంశములుగా వర్గీకరించాలి.

పెట్టుబడి వ్యయం మరియు రెవెన్యూ వ్యయం:

ఒక వ్యయం యొక్క ప్రయోజనము ఒకటి కంటే ఎక్కువ అకౌంటింగ్ సంవత్సరాలలో లభ్యమయితే ఆ వ్యయమును మూలధన వ్యయం అని అంటారు. ఒక వ్యయము యొక్క ప్రయోజనము కేవలం ఒక అకౌంటింగ్ సంవత్సరానికే పరిమితమయితే ఆ వ్యయమును రెవెన్యూ వ్యయం అంటారు. రాబడి వ్యయములు పునరావృతం అవుతూ ఉంటాయి.



8.4 How to Prepare Final Accounts?

As we discussed earlier, Final accounts comprise of Profit and Loss Account and Balance sheet. Profit and Loss Account is again divided into Manufacturing Account, Trading Account and Profit and Loss Account.

Students already came across the various steps in accounting cycle viz. Recording the transactions in Journal, posting to Ledger, balancing of ledgers and preparation of trial balance. Preparation of final accounts is the last and most important step in accounting cycle.

Trial balance of a business firm contains summary of various types of ledger balances. Some of the balances relates to personal accounts, some of them belong to real accounts and remaining are of nominal accounts. In general, balances of nominal accounts are taken to Manufacturing or Trading or Profit and loss account and balances of real and personal accounts are recorded in balance sheet.

To serve the purpose of knowing the financial results through preparation of final accounts, all the ledger accounts in trial balance should be analyzed. Analysis of elements in trial balance helps in categorizing them and to place them in appropriate statement or account.

Categorization of Income and Expenditure into Capital and Revenue is essential in preparation of Final Accounts.

ఉదాహరణ: యంత్రాల కొనుగోలు నిమిత్తంచేసిన వ్యయం రూ .10,00,000మూలధన వ్యయంఅవుతుంది, ఎందుకంటే ఆ వ్యయం నుండి పొందే ప్రయోజనాలు అనేక అకౌంటింగ్ సంవత్సరాలకు అందుబాటులో ఉంటాయి.జీతాల చెల్లింపుపై చేసిన వ్యయం రూ. 50,000 రాబడి వ్యయంఅవుతుంది, ఎందుకంటేఆ వ్యయం నుండి పొందే ప్రయోజనం ఆ సంవత్సరంలో మాత్రమే లభిస్తుంది.

మూలధన వ్యయాలు ఆస్తులు గా భావించబడతాయి, వాటిని బ్యాలెన్స్ షీట్ లో చూపాలి. రాబడి వ్యయాలను వాటి నుండి లభించు ప్రయోజనాల స్వభావము ఆధారముగాఉత్పత్తి ఖాతాలేదా వర్తకపు ఖాతాలేదాలాభనష్టముల ఖాతాయొక్క డెబిట్ వైపు చూపాలి.

ఉదాహరణ: ఉత్పత్తిలో వినియోగించే ఇంధనం మరియు శక్తి వ్యయం ఉత్పత్తి ఖాతాలోడెబిట్ వైపు నమోదు చేయాలి.ట్రేడింగ్ సంస్థల విషయంలో కొనుగోలు రవాణా వ్యయంవర్తకపు ఖాతాలో నమోదు చేయాలి.ఆఫీస్ ఖర్చులు లాభనష్టాల ఖాతాలో నమోదు చేయాలి.

పెట్టుబడి వసూళ్ళు మరియు రాబడి వసూళ్ళు:

సరుకు అమ్మకముద్వారా వసూళ్ళు, వసూలయిన డిస్కాంట్, వసూలైన కమీషన్ మొదలగు వాటినిరాబడి వసూళ్ళు అంటారు.మూలధనము,రుణములు, ఆస్తుల అమ్మకము వంటి వాటి ద్వారా వసూళ్ళను పెట్టుబడి వసూళ్ళు అంటారు. రాబడి వసూళ్ళు పునరావుతముఅవుతూ ఉంటాయి.

రాబడి వసూళ్ళను వర్తకపు ఖాతా లేదా లాభనష్టముల ఖాతాలో క్రెడిట్ వైపున వ్రాస్తారు. మూలధన వసూళ్ళ ప్రభావంఆస్తిఅప్పుల పట్టిపై ఉంటుంది.

1. ఉత్పత్తి ఖాతా తయారీ:

ఉత్పత్తి మరియు వర్తక కార్యకలాపాలు చేసే వ్యాపార సంస్థలుఉత్పత్తి ఖాతాను తయారు చేస్తాయి. ఈ సంస్థలు ముడి పదార్థాలను తయారైన వస్తువులుగా మార్చుతాయి, ఆపైనతయారైన వస్తువులను అమ్ముతాయి. తయారు అయిన వస్తువుల వ్యయాన్నికనుగొనడానికి ఉత్పత్తి ఖాతాను తయారు చేస్తాయి. ముడిసరుకు కొనుగోలు,ముడిసరుకు మరియు తయారీలోఉన్నసరుకును తయారైన వస్తువుగా మార్చడానికి సంబంధించిన అన్ని ఖర్చులు ఉత్పత్తి ఖాతా యొక్క డెబిట్ వైపు నమోదు చేయబడతాయి. ఉత్పత్తి ఖాతా ద్వారా కనుగొనబడిన "ఉత్పత్తి అయిన వస్తువుల వ్యయం" వర్తకపు ఖాతాకు బదిలీ చేయబడుతుంది.

8.4.1. Categorization of Income and Expenditure into Capital and Revenue:

Following is the summary of expenditure towards education of a student in intermediate

Expenditure in First Year:

Hostel fee	30,000	Bus fare	1,700	Fee	11,000
Laptop	40,000	Examination Fee	2,250	Textbooks	5,600
Notebooks	800	Other Stationary	1,000		

Total: 92,350

Expenditure in Second Year:

Hostel fee	36,000	Bus fare	1,900	Fee	13,000
Examination Fee	2,500	Notebooks	900	Other Stationary	1,050

Total: 55,350 Total Expenditure for two years: 1,47,700

1. Why was the expenditure in first year more when compared to second year?
2. Could the benefits from expenditure of Rs.1,47,700 have been exhausted?

8.4.1.1 Capital Expenditure and Revenue Expenditure:

Basically, we can divide expenditures into two broad categories with respect to the length of benefits derived from expenditure. Benefits from an expenditure may last for more than one Accounting Period(year) or they may expire in one accounting period (Year). Former is known as Capital expenditure and latter is known as Revenue expenditure. In other words, expenditure made to generate revenue for number of accounting years is known as Capital Expenditure whereas, expenditure made to generate revenue in a particular accounting year is known as Revenue expenditure. Capital Expenditures are usually non-recurring in nature whereas revenue expenditures are recurring.

For example,

Expenditure incurred on Purchase of a machinery Rs.1,00,00,000 in May 2021 is a capital expenditure as the benefits (services of Machinery) from that expenditure will be available for several accounting years.

Expenditure incurred on payment of salaries Rs. 5,00,000 in May 2021 is a revenue expenditure as the benefit (Services from employees) from that expenditure would be available in that accounting year only.

Capital expenditures should be taken into the Balance sheet. Revenue expenditures should be compared with incomes of the current year for ascertainment of profit for the current year. In other words, they should be recorded in Manufacturing or trading or profit and loss account.

2. వర్తకపు ఖాతా తయారీ:

వస్తువుల అమ్మకాల ద్వారా వచ్చిన రాబడిని అమ్మిన వస్తువులు వ్యయంతో పోల్చడం ద్వారా స్థూల లాభం/స్థూల నష్టాన్ని నిర్ధారించడానికి ట్రేడింగ్ ఖాతాను తయారు చేస్తారు. అమ్మకాల ఆదాయం మరియు ముగింపు సరుకునిల్వవర్తకపు ఖాతాకు క్రెడిట్ చేయబడతాయి. సరుకు కొనుగోలు చేయుటకు మరియు సరుకును అమ్మడగిన స్థితి లోనికి తేవడానికి చేసే అన్ని ఖర్చులు వర్తకపు ఖాతాకు డెబిట్ చేయబడతాయి. వర్తకపు ఖాతా లో డెబిట్ వైపు మొత్తము కన్నా క్రెడిట్ మొత్తము ఎక్కువగా ఉంటే ఆ బేధం స్థూల లాభం అవుతుంది. క్రెడిట్ వైపు మొత్తము కన్నా డెబిట్ వైపు మొత్తము ఎక్కువగా ఉంటే ఆ బేధం స్థూల నష్టం అవుతుంది. వర్తకపు ఖాతా ద్వారా కనుగొనబడిన స్థూల లాభం లేదా స్థూల నష్టం లాభనష్టాల ఖాతాకు బదిలీ చేయబడుతుంది.

3. లాభనష్టాల ఖాతా తయారీ:

వ్యాపార సంస్థ యొక్క నికర లాభమును లేదా నికర నష్టమును కనుగొనడానికి లాభనష్టాల ఖాతాను తయారు చేస్తారు. వర్తకపు ఖాతా నుండి బదిలీ కాబడిన స్థూల లాభం లేదా స్థూల నష్టం తో లాభనష్టాల ఖాతా మొదలవుతుంది. వర్తకపు ఖాతాకు క్రెడిట్ కాబడని ఆదాయాలు అన్నీ లాభనష్టాల ఖాతాకు క్రెడిట్ చేస్తారు. ఆఫీసు మరియు వ్యాపార నిర్వహణకు సంబంధించిన అన్ని ఖర్చులను, వస్తువుల అమ్మకము మరియు పంపిణీకి సంబంధించిన అన్ని ఖర్చులను లాభనష్టాల ఖాతాకు డెబిట్ చేస్తారు. లాభనష్టాల ఖాతా లో డెబిట్ వైపు మొత్తము కన్నా క్రెడిట్ వైపు మొత్తము ఎక్కువగా ఉంటే ఆ బేధం నికర లాభం అవుతుంది. క్రెడిట్ వైపు మొత్తము కన్నా డెబిట్ మొత్తము ఎక్కువగా ఉంటే ఆ బేధము నికరనష్టం అవుతుంది. లాభనష్టాల ఖాతా ద్వారా కనుగొనబడిన నికర లాభం లేదా నికర నష్టం యజమాని మూలధన ఖాతాకు బదిలీ చేయబడుతుంది.

4. ఆస్తి అప్పుల పట్టి తయారీ:

ఆస్తి అప్పుల పట్టి , ఒక నిర్దిష్ట తేదీన వ్యాపార సంస్థ యొక్క ఆస్తులు మరియు అప్పులను చూపుతుంది. ఇది ఒక నిర్దిష్ట తేదీన సంస్థ ఆర్థిక పరిస్థితిని చూపుతుంది కనుక దీనిని పోజిషన్ స్టేట్ మెంట్ అని కూడా అంటారు. అన్ని వాస్తవిక మరియు వ్యక్తిగత ఖాతాల నిల్వలు ఆస్తి అప్పుల పట్టికి తీసుకురాబడతాయి. ఆస్తులు ఆస్తి అప్పుల పట్టి యొక్క కుడి వైపున చూపబడతాయి. ఆస్తి అప్పుల పట్టి యొక్క ఎడమ వైపు అప్పులు మరియు మూలధనం చూపబడతాయి.

అకౌంటింగ్ సమీకరణం అనగా “ఆస్తులు = అప్పులు + మూలధనం” ప్రకారం ఆస్తి అప్పుల పట్టిలోని ఆస్తుల వైపు మొత్తం మరియు అప్పుల వైపు మొత్తం ఎల్లప్పుడూ సమానంగా ఉండాలి.

ఆస్తి అప్పుల పట్టి తయారు చేస్తున్నప్పుడు , ఆస్తులు మరియు అప్పులను వాటి స్వభావం ఆధారంగా వివిధ గ్రూపులుగా వర్గీకరించి వివిధ శీర్షికల క్రింద చూపుతారు. దీనిని 'గ్రూపింగ్' అంటారు.

8.4.1.2 Capital Receipts and Revenue Receipts:

Receipts that take place in ordinary course of business are known as Revenue receipts. These are recurring in nature and received mainly on account of goods sold or services rendered by the business. Capital receipts are non - recurring in nature, and they do not be received in ordinary course of business. These are received by way of sale of fixed assets, receipt of capital and loans.

Example,

Revenue from sale of goods, commission received, interest received is revenue receipts. Sale proceeds of Machinery, Capital contributed by the owners, bank loan taken are capital receipts.

Revenue receipts should be compared with expenses in ascertainment of profit. Capital receipts generally arise from decrease in fixed assets and increase in capital and liabilities. They should be adjusted to respective asset or liabilities accounts.

Let us sum up,

A Trial balance consists of both capital and revenue items. All expenditure and receipts are of revenue nature should be brought to Manufacturing or Trading or Profit and Loss account to ascertain profit or loss for an accounting period. All expenditure and receipts of capital nature should be brought to Balance sheet to show the financial position as on a particular date usually at the end of the accounting period.

8.4.2. Closing entries:

As we discussed earlier, the balances of nominal accounts i.e expenses and incomes are transferred to Manufacturing, Trading, and Profit and Loss Accounts based on their nature. In accounting any transfer of balance should be done only by passing an appropriate journal entry. So, we should pass journal entries to transfer the balances of expenses and incomes to Manufacturing, Trading, and Profit and Loss Accounts. Closing entries are recorded in Journal proper. Closing entries related to preparation of Manufacturing A/c , Trading A/c , and Profit and Loss A/c will be discussed in the sections Preparation Manufacturing Account, Preparation of Trading Account, and preparation of Profit and Loss Accounts respectively.

8.4.3. Preparation of Manufacturing Account

Manufacturing account is prepared by concerns which are engaged in manufacturing cum trading activities. These firms convert raw material into finished good, then sell the finished goods. Manufacturing account is prepared to ascertain the cost of goods manufactured. All the expenditure associated with purchase of material, and conversion of raw material and work in process into finished good is recorded on debit side of this account. The outcome of manufacturing account is “Cost of goods Manufactured” and is transferred to Trading account.

ఉదాహరణకు, స్థిరాస్థుల అను శీర్షికలో భూమి, భవనాలు, యంత్రాలు వంటి ఆస్తులను చూపుట.

ఆస్తి అప్పులపట్టీలో ఆస్తులు మరియు అప్పులను ద్రవ్యత్వత క్రమంలో గానీ లేదా శాశ్వతత్వ క్రమంలో గానీ చూపుతారు. ఈ విధముగా చూపుటను మార్వలింగ్ అంటారు.

ఉదాహరణకు, ప్రస్తుత అప్పులను మొదట, దీర్ఘకాలిక అప్పులను ఆ తర్వాత, మూలధనమును చివర చూపుట ద్రవ్యత్వత క్రమము. మూలధనమును మొదట, దీర్ఘకాలిక అప్పులను ఆ తర్వాత, ప్రస్తుత అప్పులను చివర చూపుట శాశ్వతత్వ క్రమము.

సర్దుబాటు:

అంకణా, వ్యాపార సంస్థ యొక్క అన్ని ఆవర్తాఖాతాల నిల్వలను కలిగి ఉంటుంది. అంకణా సహాయంతో ముగింపు లెక్కలను తయారు చేస్తారు. కానీ, కొన్ని అంకములు అంకణా లో కనిపించవు. ముగింపు లెక్కలు తయారు చేసేటప్పుడు ఈ అంకాలను జాగ్రత్తగా విశ్లేషించి సర్దుబాటు చేయాలి.

కొన్ని సర్దుబాట్లను ఈ క్రింది పట్టిక లో ఇవ్వడమయినది.

సర్దుబాటు	వర్తకపు లాభనష్టముల ఖాతా	ఆస్తి అప్పుల పట్టీ
ముగింపు సరుకు	వర్తకపు ఖాతాకు క్రెడిట్ చేయాలి.	ఆస్తుల వైపున చూపాలి.
తరుగుదల	లాభనష్టాల ఖాతాకు డెబిట్ చేయాలి.	ఆస్తుల వైపు సంబంధిత స్థిరాస్తి నుండి తగ్గించాలి.
చెల్లించవలసిన ఖర్చులు	వర్తకపు/ లాభనష్టాల ఖాతా లో డెబిట్ వైపున సంబంధిత ఖర్చుకు కలపాలి.	అప్పుల వైపు చూపాలి.
ముందుగా చెల్లించిన ఖర్చులు	వర్తకపు/ లాభనష్టాల ఖాతా లో డెబిట్ వైపున సంబంధిత ఖర్చునుంచి తీసివేయాలి.	ఆస్తుల వైపున చూపాలి.
రావలసిన ఆదాయాలు	లాభనష్టాల ఖాతా లో క్రెడిట్ వైపున సంబంధిత ఆదాయానికి కలపాలి.	ఆస్తుల వైపున చూపాలి.

8.4.3.1 Format of Manufacturing Account:

Dr. Manufacturing Account offor the period ending on....

Cr.

Particulars	Amount	Amount	Particulars	Amount	Amount
To Raw material Consumed:			By Trading A/c		XXXX
Opening stock of Raw material	XXXX		(Cos of goods manufactured)		
Add: purchases	XXXX				
	XXXX				
Less: closing stock of raw material	XXXX	XXXX			
To Direct/Manufacturing wages		XXXX			
To Direct expenses					
Carriage inwards	XXX				
Taxes and Duties on purchases	XXX				
Insurance on purchases	XXX				
Royalty based on production	XXX				
Other direct expenses	XXX	XXXX			
To Factory/Indirect expenses					
Indirect wages	XXX				
Factory supervisor's salary	XXX				
Foreman / Works manager salary	XXX				
Factory rent, rates and taxes	XXX				
Factory lighting, steam	XXX				
Gas, coal and water	XXX				
Fuel and power	XXX				
Stores consumed	XXX				
Insurance on Factory building	XXX				
Insurance on plant and machinery	XXX				
Depreciation on Factory building	XXX				
Depreciation on plant and machinery	XXX				
Repairs to Factory building	XXX				
Repairs to plant and machinery	XXX				
Factory general expenses	XXX				
Other indirect Factory expenses	XXX	XXXX			
To Work in process					
Work in process Beginning	XXXX				
Less: closing work in process	XXX				
Less: Sale of scrap	XXX	XXXX			
		XXXXXX			XXXXXX

ముందుగా వచ్చిన ఆదాయాలు	లాభనష్టాల ఖాతా లో క్రెడిట్ వైపునసంబంధిత ఆదాయము నుంచి తీసివేయాలి.	అప్పుల వైపు చూపాలి.
మూలధనము పై వడ్డీ	లాభనష్టాల ఖాతా కు డెబిట్ చేయాలి.	అప్పులవైపు మూలధనమునకు కలపాలి.
సొంతవాడకాలపై వడ్డీ	లాభనష్టాలఖాతాకు క్రెడిట్ చేయాలి.	అప్పులవైపు మూలధనము నుండి తీసివేయాలి.
రాని బాకీలు	లాభనష్టాల ఖాతాకు డెబిట్ చేయాలి.	ఆస్తుల వైపు రుణగ్రస్తుల నుండి తగ్గించాలి.
సంశయాత్మక బాకీలకు ఏర్పాటు	లాభనష్టాల ఖాతాకు డెబిట్ చేయాలి.	ఆస్తుల వైపు రుణగ్రస్తుల నుండి తగ్గించాలిలేదా అప్పులవైపు చూపాలి.
రుణగ్రస్తుల పై డిస్కాంట్ కొరకు ఏర్పాటు	లాభనష్టాలఖాతాకు డెబిట్ చేయాలి.	ఆస్తుల వైపు రుణగ్రస్తుల నుండి తగ్గించాలిలేదా అప్పులవైపు చూపాలి.
రుణదాతల పై డిస్కాంట్ కొరకు ఏర్పాటు	లాభనష్టాలఖాతాకు క్రెడిట్ చేయాలి.	అప్పుల వైపు రుణదాతల నుండి తగ్గించాలి.
సరుకు నష్టము	ఏర్పడిన సరుకు నష్టమును వర్తకపుఖాతాకు క్రెడిట్ చేయాలి. భీమా క్లయిము ద్వారా భర్తీ చేయబడని నష్టమును లాభనష్టాల ఖాతా కు డెబిట్ చేయాలి.	భీమా కంపెనీ నుంచి రావల్సిన క్లయిము మొత్తమును ఆస్తుల వైపు చూపాలి.
మేనేజరు కు లాభముపై కమీషను	లాభనష్టాల ఖాతా కు డెబిట్ చేయాలి.	అప్పుల వైపు చూపాలి.

8.4.3.2 Closing Entries Related to preparation of Manufacturing Account:

The usual closing entries required in preparation of Manufacturing Account are given below:

Journal Proper

Particulars	Amount	Amount
<p>1. For Transfer of raw material consumed, opening work in process, , direct wages, direct expenses, factory expenses to the debit side of Manufacturing Account:</p> <p> Manufacturing A/c Dr</p> <p> To Raw material consumed* A/c</p> <p> To Opening work in process A/c</p> <p> To Direct wages A/c</p> <p> To Direct expenses A/c</p> <p> To Factory expenses A/c</p> <p>(Being the expenses transferred to Manufacturing Account)</p>	XXXXXX	XXXX XXXX XXXX XXXX XXXX
<p>2. For Transfer of closing stock of work in process and sale of scrap/ by products into account</p> <p> Closing work in process A/c Dr</p> <p> Sale of scrap/ by product A/c Dr</p> <p>To Manufacturing A/c</p> <p>(Being closing stock of work in process and sale of scrap/ by products transferred to manufacturing account)</p>	XXXX XXXX	XXXXXX
<p>3. For transfer of Cost of goods manufactured to Trading account</p> <p> Trading A/c Dr</p> <p> To Manufacturing A/c</p> <p>(Being Cost of goods manufactured transferred to Trading A/c)</p>	XXXX	XXXX

* **Raw material consumed**

= **Opening raw material + Purchases of raw material (net) – Closing raw material**

Note: Expenses and losses should be transferred to Manufacturing account individually.

8.4.3.3 Explanation to Key items in Manufacturing Account:

1. Opening stock of raw material:

Inventories of a concern are in three forms. Raw material, work in process and finished goods. Raw material refers to a basic or unprocessed material used to produce goods. Opening stock of Raw material has to be debited to Manufacturing Account. Opening stock of raw material refers to the raw material stock left at the end of the previous accounting year and brought forward to the current year.

2. Purchases of raw material:

Raw material purchased during the current year has to be debited to Manufacturing account. Both cash and credit Purchases are to be taken into account. Purchase returns, goods taken by proprietor for his personal use, goods lost by fire, theft etc, are adjusted to be Purchases.

3. Opening stock of work in process

Work in process refers to goods partly processed. They are semi-finished goods that lie in between raw material and finished goods. Opening stock of Work in process has to be debited to Manufacturing Account. Opening stock of work in process refers to the stock of work in process left at the end of the previous accounting year and brought forward to the current accounting year.

4. Closing stock of raw material:

Closing stock of Raw material has to be credited to Manufacturing Account or adjusted to opening stock and purchases on debit side. Closing stock of raw material refers to the raw material stock left at the end of the current accounting year. The stock of goods is valued at cost price or market price whichever is lower.

5. Closing stock of Work in Process:

Closing stock of work in process has to be credited to Manufacturing Account or adjusted to opening stock on debit side. Closing stock of work in process refers to the stock of work in process left at the end of the current accounting year.

6. Direct wages/ Manufacturing wages:

Wages paid to the manufacturing labor directly involved in manufacture of a product are direct wages. Direct wages refer to wages directly linked to the units produced. These have to be debited to Manufacturing account.

7. Direct Expenses:

Expenses directly related to the manufacturing of a product other than direct material and direct wages are called direct expenses. These expenses have to be debited to Manufacturing Account.

8. **Factory/Indirect expenses:**

Expenses not directly related to the manufacturing of a product are known as indirect expenses. These include indirect material, indirect labor and indirect expenses. These are otherwise known as factory/manufacturing over heads.

9. **Cost of goods manufactured:**

The total of cost incurred on finished goods produced is known as cost of goods manufactured. This is the outcome of manufacturing account and it should be transferred to trading account.

Practical Illustration 1: (Preparation of manufacturing account)

Mr. Anil Manufactures a Special Brand phenyl and he gives you the following information in respect of his manufacturing activities for the half-year ending 31/03/2021. Prepare Manufacturing A/c.

Working in Process Opening (01/10/2020)	Rs.17,200
Working in Process Closing (31/03/2021)	Rs. 22,900
Raw material Opening (01/10/2020)	Rs, 9,900
Raw material Closing (31/03/2021)	Rs. 15,100
Raw material purchases	Rs. 84,600
Direct Wages	Rs. 32,800
Factory Rent	Rs. 7,500
Heat & Light	Rs. 6,200
Foreman Salary	Rs. 4,100
Motive Power	Rs. 2,300
Repairs to Plant	Rs. 1,500
Consumble Stores	Rs.1,000
Sale of scrap	Rs.600
Carriage on purchases	Rs.1,800

Dr.		Manufacturing A/c for the 6 Months Ending 31/03/2021		Cr.	
Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Working in Process (Opening)		17,200	By Sale of Scrap		600
To <u>Raw material consumed</u>			By Working in Process (Closing)		22,900
Opening Raw material	9,900				
(+ Purchases	84,600				
	94,500				
(-) Closing Raw material	15,100	79,400	BY Cost of Production (Transferred to Trading Account)		1,30,300
To Direct Wages		32,800			
To <u>Direct Expenses</u>					
Carriage on Purchases		1,800			
To <u>Indirect Expenses</u> (Manufacturing overheads)					
Factory Rent	7,500				
Heat & Light	6,200				
Foreman Salary	4,100				
Motive Power	2,300				
Repairs to Plant	1,500				
Consumable stores	1,000	22,600			
		1,53,800			1,53,800

8.4.4. Preparation of Trading Account

According to J.R. Batliboi, “The Trading Account shows the results of buying and selling of goods. In preparing this account, the general establishment charges are ignored and only the transaction in goods are included.”

There are some firms engaged in manufacturing cum trading activity, these firms purchase raw material and convert it into finished good then sell. Some firms only purchase and sell goods without changing the form of goods. In between these two, there are some semi manufacturing cum trading firms which primarily involve in trading but process goods a bit before selling them. All these firms prepare trading account. Trading account is prepared to ascertain the gross profit/gross loss by matching Revenue on account of sale of goods with the cost of goods sold. Revenue from sale of goods, and balance of closing stock are credited to trading account. Expenses related to purchases of goods and expenses incurred to bring the

goods in to saleable form are debited to trading account. Excess of credits over debits indicates Gross profit and excess of debits over credits indicates Gross loss. The outcome of trading account i.e Gross profit or gross loss has to be transferred to Profit and Loss account.

8.4.4.1 Trading Account Model of Manufacturing cum Trading firms:

Dr.Trading Account offor the year ended..... Cr.

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Opening stock of finished goods		XXX	By Sales	XXX	
To Purchase of finished goods	XXX		Less: Sales Returns	XXX	XXX
Less: Purchases Returns	XXX	XXX	By closing stock of finished goods		XXX
To Cost of goods manufactured (Transferred from Manufacturing account)		XXX			
To Gross Profit c/d (Transferred to Profit & Loss A/c)		XXX	By Gross Loss c/d (Transferred to Profit & Loss A/c)		XXX
		XXXX			XXXX

8.4.4.2 Trading Account Model of Trading / Semi Manufacturing cum Tradingfirms:

Dr.Trading Account offor the year ended..... Cr.

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Opening stock		XXX	By Sales	XXX	
To Purchases	XXX		Less: Sales Returns	XXX	XXX
Less: Purchases Returns	XXX	XXX	By closing stock		XXX
<u>Direct expenses:</u>					
To Carriage Inward		XXX			
To Cartage inward		XXX			
To Import/Customs duty		XXX			
To Freight on purchases		XXX			
To Taxes and Duties on purchases		XXX			
To Dock charges		XXX			
To Clearing charges		XXX			
To Insurance on purchases		XXX			
To Royalties on production		XXX			
To Wages		XXX			
To Foreman/works manager salary		XXX			
To Factory Rent, rates and taxes		XXX			

To Factory insurance	XXX		
To Factory expenses	XXX		
To Production/manufacturing expenses	XXX		
To Gas, coal and water	XXX		
To Power and fuel	XXX		
To Factory lighting	XXX		
To Consumable stores	XXX		
To primary packaging charges	XXX		
To Other direct expenses	XXX		
To Gross Profit c/d (Transferred to Profit & Loss A/c)	XXX	By Gross Loss c/d (Transferred to Profit & Loss A/c)	XXX
	XXX		XXX

8.4.4.3 Closing Entries Related to preparation of Trading Account:

Journal Proper

Particulars	Amount	Amount
1. For Transfer of Opening stock, purchases, direct expenses, to the debit side of Trading Account:		
Trading A/c Dr	XXXXXX	
To Opening stock A/c		XXXX
To Purchases(net) A/c		XXXX
To Direct expenses A/c		XXXX
(Being the expenses transferred to Trading Account)		
2. For taking closing stock into account		
Closing stock A/c Dr	XXXX	
To Trading A/c		XXXXXX
(Being value of closing inventory brought into account)		
3. For transfer of Sales to Trading account		
Sales(net) A/c Dr	XXXX	
To Trading A/c		XXXX
(Being Sales transferred to Trading Account)		

<p>4. For transfer of Gross profit to Profit and Loss Account</p> <p style="padding-left: 40px;">Trading A/c Dr</p> <p style="padding-left: 80px;">To Profit and Loss A/c</p> <p>(Being Gross profit transferred to Profit and Loss Account)</p>	XXXX	XXXX
<p>5. For transfer of Gross loss to Profit and Loss Account</p> <p style="padding-left: 40px;">Profit and Loss A/c Dr</p> <p style="padding-left: 80px;">To Trading A/c</p> <p>(Being Gross loss transferred to Profit and Loss Account)</p>	XXXX	XXXX

Note: Expenses and losses, Income should be transferred to Trading account individually.

8.4.4.4 Explanation to Key items in Trading Account:

1. Opening stock:

Opening stock of goods has to be debited to Trading Account. Opening stock of goods refers to the stock of goods left at the end of the previous accounting year and brought forwarded to the current accounting year.

2. Purchases:

Goods purchased during the current year have to be debited to Trading account. It includes both cash and credit Purchases. Purchase returns, goods taken by proprietor for his personal use, goods lost by fire, theft etc, are to be adjusted to purchases.

Adjustment entries required are

- i. Purchase returns a/c Dr
 - To purchases A/c

(For adjustment of purchase returns)

- ii. Drawings A/c Dr
 - To purchases A/c

(For adjustment of goods taken by owner for personal use)

- iii. Goods lost by ____ A/c Dr
 - To purchases A/c

(For adjustment of goods lost)

It should be noted that purchases of goods only taken into consideration. Purchases of assets are not concerned with trading account.

3. Direct Expenses:

Expenses related to purchase of goods and bringing goods into saleable condition are known as direct expenses. Direct expenses have to be debited to trading account.

Some of the direct expenses are given below

- i. **Wages:** wages are the consideration paid to the labour involved in manufacturing of goods or bringing the goods into saleable condition.
- ii. **Carriage, cartage, freight inwards:** These are the expenses paid for the transport of purchased goods to the place of business.
- iii. **Import/Customs duty:** These are the taxes paid on import of goods.
- iv. **Dock charges:** These are the Charges paid to port while unloading the goods.
- v. **Royalties on production:** Royalty represents the amount paid to the patentee to use his patent in production. If royalty is paid on the basis of production, it should be debited to trading account.
- vi. **Consumable stores:** These are the items used to maintain the machines in good condition like engine oil, grease, cotton, soap etc.
- vii. **Power and fuel:** Gas, Electricity, coal, oil, water etc., are used in processing.

4. Sales:

Goods sold during the year has to be credited to Trading account. It includes both cash sales and credit sales. Sales returns have to be adjusted to Sales. Adjustment entry is:

Sales A/c Dr
To Sales returns A/c

It should be noted that sales of goods only taken into consideration. Sales of assets are not concerned with trading account.

5. Closing stock:

Closing stock of goods has to be credited to Trading Account or adjusted to purchases on debit side. Closing stock of goods refers to the stock of goods left at the end of the current accounting year. The stock of goods is valued at cost price or market price whichever is lower.

6. Gross profit/ Gross Loss:

Incomes on account of goods sold are credited to Trading Account and cost of goods sold is debited to Trading account. If credit side total of the trading account is more than debit side total, the difference would be Gross profit. Else if debit side total of the trading account is more than credit side total, the difference would be Gross Loss. Gross profit or gross loss is transferred to profit and loss account.

Practical Illustration 2: (Preparation of Trading Account)

Prepare Trading Account and ascertain gross profit

Purchases	68,000
Sales	1,12,500
Freight & duty	6,400
Wages	9,000
Opening Stock	17,200
Closing Stock	32,600
Return inward	1,200
Return outward	2,300
Fuel & Power	5,200

Dr Trading Account Cr

Particulars	Amount	Amount	Particulars	Amount	Amount
To Opening Stock		17,200	By Sales	1,12,500	
To Purchases	68,000		(-) Returns	1,200	1,11,300
(-) Returns	2,300	65,700	By Closing Stock		32,600
To <u>Direct Expenses</u>					
Freight & Duty	6,400				
Wages	9,000				
Fuel & Power	5,200	20,600			
To Gross Profit (Transferred P&L A/c)		40,400			
		1,43,900			1,43,900

8.4.5. Preparation of Profit and Loss Account:

According to Prof. Carter, “A Profit & Loss Account is an account into which all gains and losses are collected, in order to ascertain the excess gains over the losses or vice-versa”.

Profit and loss account is prepared to ascertain net profit or net loss of the business for a particular period. It is prepared as a continuation to Trading account. Profit and loss account starts with the balance of trading account i.e Gross profit or Gross loss. Incomes received other than from sale of goods are credited to profit and loss account and all indirect expenses related to Office and administration, selling and distribution, and other expenses and losses are debited to Profit and loss account. Excess of credits over debits in profit and loss account indicates Net profit and excess of debits over credits indicates Net loss. The outcome of profit and loss account i.e Net profit or Net loss is transferred to Owner’s Capital account.

8.4.5.1 General format of Profit and Loss account is given below

Dr. Profit and Loss A/c offor the year ended..... Cr.

Particulars	Rs.	Particulars	Rs.
To Gross Loss b/d		By Gross Profit b/d	XXX
<u>Office and Administration Expenses</u>			
To Salaries	XXX	By Commission Received	XXX
To Office Rent, Rates, Taxes	XXX	By Discount Received	XXX
To Office Insurance	XXX	By Interest Received	XXX
To Repairs and maintenance	XXX	By Dividends Received	XXX
To Depreciation	XXX	By Rent Received	XXX
To Postage and Telephone charges	XXX	By Profit on sale of Assets	XXX
To Printing & Stationery	XXX	By Bad debts recovered	XXX
To Office electricity charges	XXX	By Interest on Drawings	XXX
To Trade expenses	XXX	By Provision for Doubtful debts (Decrease)	XXX
To Legal expenses	XXX	By Other incomes/gains	XXX
To Audit Fees	XXX		
To General expenses	XXX		
<u>Selling and Distribution Expenses</u>			
To Commission to salesmen	XXX		
To Traveling expenses	XXX		
To Advertisement and publicity.	XXX		
To sales promotion expenses	XXX		
To Bad debts	XXX		
To Free samples	XXX		
To Godown / Storage Expenses	XXX		
To Carriage out ward	XXX		
To Fright outward	XXX		
To Packing charges	XXX		
To Dock charges on sales	XXX		
<u>Other Expenses and losses</u>			
To Discount allowed	XXX		
To Interest on capital	XXX		
To Interest on loans	XXX		
To Bank charges	XXX		
To Loss on sale of Assets	XXX		
To Provision for Bad & doubtful debts	XXX		
To miscellanies expenses or losses	XXX		
To Net Profit		By Net Loss	
(Transferred to Capital A/c)	XXX	(Transferred to Capital A/c)	
	XXXX		XXXX

8.4.5.2 Closing Entries Related to preparation of Profit and Loss Account:

The usual closing entries related to preparation of Profit and Loss Account are given below:

Journal Proper

Particulars	Amount	Amount
1. For the Transfer of Office and administration expenses, selling and distribution expenses and other expenses and losses to Profit and loss Account: Profit and Loss A/c Dr To Office and administration expenses A/c To Selling and Distribution expenses A/c To Other expenses and losses A/c (Being the expenses transferred to Profit and Loss Account)	XXXXXX	XXXX XXXX XXXX
2. For the transfer of Incomes to Profit and Loss account Incomes A/c Dr To Profit and Loss A/c (Being incomes transferred to profit and loss account)	XXXX	XXXX
3. For the transfer of Net profit to Capital Account Profit and Loss A/c Dr To Capital A/c (Being net profit transferred to Capital Account)	XXXX	XXXX
4. For the transfer of Net loss to Capital Account Capital A/c Dr To Profit and Loss A/c (Being netloss transferred to Capital Account)	XXXX	XXXX

Note: Expenses and losses, Incomes and gains should be transferred to profit and loss account individually.

8.4.5.3 Explanation to Key items in Profit and Loss Account:

Incomes and gains:

Incomes received other than from sale of goods are recorded on credit side of the profit and loss account. Interest received, commission received, discount received are some of the incomes to be recorded on credit side of the Profit and loss account. Gains from financing and investment activities like profit on sale of assets and investments are also recorded on credit side of the profit and loss account.

Office and administration expenses:

Expenses related to management of office and incurred in the day to day operations are shown on debit side of the profit and loss account under the head Office and administration expenses.

Selling and Distribution expenses:

Expenses incurred to generate and increase sales, and expenses associated with distribution of goods to customers are recorded on debit side of the profit and loss account under the head selling and distribution expenses.

Other expenses and losses:

All other expenses like interest paid, discount allowed are to be recorded on debit side of the profit and loss account. Losses on account of sale of fixed assets are also recorded on debit side of the profit and loss account.

Some of the expenses to be debited to profit and loss account are explained below:

Salaries: Salaries generally represent the consideration paid to office and sales staff for rendering their services.

Legal charges: These are the expenses paid to maintain legality in business include fee paid to legal advisers.

Audit fee: Fee paid to auditors for auditing books of accounts.

Trade expenses: These are various small expenses incurred in maintenance of office. These are also called general expenses, sundry expenses, office expenses and miscellaneous expenses.

Depreciation: Depreciation is a permanent and gradual decrease in value of fixed assets due to wear and tear. It should be debited to profit and loss account.

Advertisement, promotion and publicity: These are the Expenses paid to generate and increase the sales of business.

Commission paid: Commission means amount paid to sales persons on sales

Carriage outwards: These are the expenses paid for the transport of sold goods to the place of buyer.

Net Profit or Net Loss:

Incomes received other than from goods sold are credited to Profit and Loss Account and cost of administering the office, sales and other expenses and losses are debited to profit and loss account. If credit side total of the Profit and loss account is more than debit side total, the difference would be Net profit. Else if debit side total of the profit and loss account is more than credit side total, the difference would be Net Loss. Net profit or Net loss should be transferred to capital account.

Practical illustration 3: (preparation of Profit and loss Account)

Prepare Profit and Loss A/c of M & Co for the year 2020

Discount Received	700	Insurance	1,800
Advertising	6,900	Gross Profit	76,400
Repairs	2,500	Bad Debts Recovered	400
Depreciation	2,900	Stationery & Printing	4,000
Carriage Outward	3,000	Postage, courier	1,600
Rent and rates	11,400	Salaries and PF	17,200

Solution:

Dr. Profit and Loss Account of M & Co for the year ending 31/12/2020 Cr.

Particulars	Amount	Particulars	Amount
To Salaries & PF	17,200	By Gross Profit	76,400
To Rent & Rates	11,400	By Discount Received	700
To Insurance	1,800	By Bad debts Recovered	400
To Stationery & Printing	4,000		
To Postage, Courier	1,600		
To Repairs	2,500		
To Depreciation	2,900		
To Advertising	6,900		
To Carriage outward	3,000		
To Net Profit (Transferred to Capital A/c)	26,200		
	77,500		77,500

Differences between Trading Account and Profit and Loss Account

Reason for difference	Trading Account	Profit and Loss Account
Prepared to	Ascertain Gross profit /Gross loss.	Ascertain Net profit/Net loss.
Incomes recorded	Income from sale of goods or services.	Income other than from sale of goods and services.
Expenses recorded	Expenses relating to purchase and production of goods.	Expenses relating to office administration and sales.
End result transferred to	Gross profit/ gross loss transferred to profit and loss account.	Net profit/net loss transferred to capital account.

Practical illustration 4: (Preparation of Trading and Profit and loss Account)

From the following Particulars, Prepare Trading & Profit and Loss A/c of Mr. Anand for the Year ending 31/03/2021

Opening Stock (01/04/2020)	22,000	Clearing Charges	5,120
Closing Stock (31/03/2021)	39,850	Office Rent	11,400
Commission (Credit)	1,100	Staff Salaries	22,600
Carriage on sales	3,750	Publicity	16,500
Sales (net)	1,89,000	Telephone Charges	7,180
Purchases (net)	84,300		

Solution:

Dr. Trading & Profit & Loss Account of Mr. Anand for the year ending 31/03/2021 Cr.

Particulars	Amount	Particulars	Amount
To Opening Stock	22,000	By Sales (Net)	1,89,000
To Purchases (net)	84,300	By Closing Stock	39,850
To <u>Direct Expenses</u>			
Clearing Charges	5,120		
To Gross Profit	1,17,430		
	2,28,850		2,28,850
To Staff Salaries	22,600	By Gross Profit	1,17,430
To Office Rent	11,400	By Commission	1,100
To Telephone charges	7,180		
To Publicity	16,500		
To Carriage on sales	3,750		
To Net Profit	57,100		
	1,18,530		1,18,530

Ascertainment of net profit using formulae:

Net profit or loss of a business unit can also be ascertained with the help of the following formulae.

Net Profit/Loss =

Gross profit /Loss + Indirect incomes – (Office and administration expenses + Selling and distribution expenses + Other expense and losses)

(Note: Positive value indicates net profit whereas negative value indicates net loss)

Where Gross profit/Loss =

Net sales – Cost of goods sold

(Note: Positive value indicates gross profit whereas negative value indicates gross loss)

Where Cost of goods sold is =

i. In case of trading concerns:

Cost of goods sold =

Opening stock of finished goods + Purchases of finished goods (less returns) + Direct expenses if any – Closing stock of finished goods

ii. In case of manufacturing cum trading concerns:

Cost of goods sold =

Opening stock of finished goods + cost of goods manufactured + purchases of finished goods (less returns) if any – closing stock of finished goods

Where Cost of goods manufactured =

Raw material consumed + Direct wages + Direct Manufacturing expenses + Factory/ Indirect expenses + Opening stock of Work in process – Closing stock of work in process – sale of scrap or by products.

Where Raw material consumed =

Opening stock of raw material + Purchases of raw material (less returns) – closing stock of raw material.

From the above discussion, one can notice that net profit/loss is ascertained by going through different phases. Gross profit/loss ascertained through Trading account is transferred to Profit and Loss account and taken as the base in ascertainment of net profit/loss. In case of manufacturing cum trading firms, Cost of goods manufactured ascertained through Manufacturing account is transferred to Trading account and considered in ascertainment of gross profit/loss.

Thus, Manufacturing account (which is prepared to ascertain cost of goods manufactured in case of manufacturing cum trading business), Trading account (Which is prepared to

ascertain gross profit/loss) and Profit and loss account (which is prepared to ascertain net profit/loss) are the constituents of the periodic statement Profit and Loss account.

Ascertainment of Net profit using formulae (for the data given in Practical illustration 4) is explained below:

Opening Stock (01/04/2020)	22,000	Clearing Charges	5,120
Closing Stock (31/03/2021)	39,850	Office Rent	11,400
Commission (Credit)	1,100	Staff Salaries	22,600
Carriage on sales	3,750	Publicity	16,500
Sales (net)	1,89,000	Telephone Charges	7,180
Purchases (net)	84,300		

Cost of goods sold:

Cost of goods sold: =

$$\begin{aligned}
 & \text{Opening stock of finished goods} + \text{Purchases of finished goods (less returns)} + \\
 & \text{Direct expenses if any} - \text{Closing stock of finished goods} \\
 & = 22,000 + 84,300 + 5,120 - 39,850 \\
 & = 71,570
 \end{aligned}$$

Gross profit:

Gross profit = Net sales – Cost of goods sold

$$\begin{aligned}
 & = 1,89,000 - 71,570 \\
 & = 1,17,430
 \end{aligned}$$

Net Profit: =

Net Profit =

$$\begin{aligned}
 & \text{Gross profit /Loss} + \text{Indirect incomes} - (\text{Office and administration} \\
 & \text{expenses} + \text{Selling and distribution expenses} + \text{Other expense and losses}) \\
 & = 1,17,430 + 1,100 - (22,600 + 11,400 + 7,180 + 16,500 + 3,750) \\
 & = 1,18,530 - 61,430 \\
 & = 57,100
 \end{aligned}$$

8.4.6. Preparation of Balance sheet:

According to A. Palmer, “The Balance Sheet is a statement at a particular date showing on one side the trader’s property and possessions and on the other hand the liabilities.”

According to J.R. Batliboi, “A Balance Sheet is a statement prepared with a view to measure the exact financial position of a business on a certain fixed date.”

Balance sheet is prepared to show assets and liabilities of a business on a particular date. Since it shows the financial position on a particular date it is also called as position statement. Balances of all Real and personal accounts are brought into Balance sheet. Assets of the firm are shown on right side of the statement, and liabilities and capital are shown on left side of the statement. The total of right side should always be equal with total of left side as per accounting equation i.e $Assets = Liabilities + Capital$.

While preparing the balance sheet, assets and liabilities are classified into different groups on the basis of their nature and presented under different heads. This practice is called ‘**Grouping**’.

For example, Assets like Land, Buildings, Machinery are shown under Fixed assets head.

One should follow an order in presenting assets and liabilities in Balance sheet.

- The order of presentation may be based on liquidity, means showing the assets which are realizable in cash in less time first and showing assets which can take a long time to be converted into cash next. In the same way liabilities, which require immediate payment are shown first, and liabilities which doesn't require payment immediately shown next.

For example,

Cash is shown first and Buildings are shown next.

Bank overdraft is shown first and Capital is shown next.

- The order may be based on permanence which is absolutely reverse to Liquidity order. In this approach, assets remain with the firm for a long term are shown first and assets that remain with the firm for a short period are shown next. In the same way liabilities remain for a long term are shown first and liabilities for a short term are shown next.

For example,

Buildings are shown first, Cash is shown next.

Capital is shown first, bank overdraft is shown next.

Showing assets and liabilities in balance sheet in an order is known as “**Marshalling**”.

8.4.6.1 General format of Balance sheet (In the order of Permanence)

Balance Sheet of as on.....

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
<u>Capital:</u>			<u>Fixed Assets:</u>		
Opening Balance	XXX		Tangible Fixed assets:		
Add: Additional capital	XXX		Land & Buildings		XXX
Net profit	XXX		Plant & Machinery		XXX
Interest on capital	XXX		Furniture, Fixtures and Fittings		XXX
	XXX		Intangible Assets:		
Less: Drawings	XXX		Patents, Trademarks, Copyrights		XXX
NetLoss	XXX	XXX	Goodwill		XXX
			<u>Investments:</u>		
<u>Long term liabilities</u>			Long Term Investments		XXX
Long Term Loans	XXX		<u>Current Assets:</u>		
Mortgage loans	XXX	XXX	Pre-paid expenses		XXX
<u>Current liabilities:</u>			Closing Inventory		XXX
Incomes received in advance		XXX	Sundry Debtors & Bills Receivables		XXX
Sundry Creditors & Bills Payables		XXX	Accrued Income		XXX
Outstanding expenses		XXX	Short term deposits		XXX
Bank Over draft		XXX	Cash at Bank		XXX
			Cash in hand		XXX
			<u>Fictitious assets:</u>		
			Profit and loss A/c (Loss)		XXX
		XXX			XXX

8.4.6.2 Format of Balance sheet (In the order of Liquidity)

Balance Sheet of as on.....

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
<u>Current liabilities:</u>			<u>Current assets:</u>		
Bank Over draft		XXX	Cash in hand		XXX
Outstanding expenses		XXX	Cash at Bank		XXX
Creditors		XXX	Short term deposits		XXX
Bills Payables		XXX	Accrued Income		XXX
Incomes received in advance		XXX	Debtors		XXX
			Bills receivables		XXX
			Closing inventory		XXX
			Prepaid expenses		XXX
<u>Long term liabilities:</u>			<u>Investments:</u>		
Long Term Loans	XXX		Long Term Investments		XXX
Mortgage loans	XXX	XXX			
			<u>Fixed Assets:</u>		
			<u>Tangible Fixed assets:</u>		
			Furniture,Fixtures,Fittings		XXX
			Plant & Machinery		XXX
<u>Capital:</u>			Land & Buildings		XXX
Opening Balance	XXX		<u>Intangible Assets :</u>		
Add: Additional capital	XXX		Patents,Trademarks,		
Net profit	XXX		Copyrights		XXX
Interest on capital	XXX		Goodwill		XXX
	XXX				
Less:Drawings	XXX		<u>Fictitious assets:</u>		
NetLoss	<u>XXX</u>	XXX	Profit and loss A/c (Loss)		XXX
		XXX			XXX

8.4.6.3 Explanation to Key items in Balance sheet:

Capital:

Capital represents amount provided by the owner to establish and maintain business. Amount of capital contributed by the owner is treated as a liability and it is shown on liabilities side of the balance sheet. The opening balance of capital is taken first and any further amount of capital provided by the proprietor during the year should be added to it. If any interest on capital payable to the owner it should also be added. Risks and rewards, profits and losses of business should belong to Owner. Hence, net profit / net loss earned should be added to / deducted from owner's capital. Any amount/goods drawn by owner from business for his personal use represent drawings. Drawings should be deducted from capital. If any interest on drawings receivable from the owner it should also be deducted from capital.

Long term Liabilities:

Loans and Borrowings with a maturity period of more than one year or in other words, loans and borrowings repayable after one year like loans from banks, financial institutes and persons, mortgage debt would come under this head. For example, Loan taken from a bank repayable after 5 years.

Current liabilities

The dictionary meaning of Current is present or recent. Current liabilities represent the liabilities repayable within a year. Bank over draft, debtors, bills payable, short term loans, outstanding expenses, income received in advance would come under this head. All the above liabilities need to be cleared within one year.

Fixed assets:

Assets acquired to use in business for revenue generation over a long period are known as fixed assets. These assets are not meant for sale and generally remain with the business for longer periods. Since they provide benefits for a series of years, they are capital expenditures. These assets are illiquid in nature. Land, buildings, plant, machinery, furniture are some of the fixed assets and should be shown on assets side of the balance sheet under the head fixed assets.

Current assets:

Assets that are consumed in regular course of business or converted into cash within a year are known as current assets. These are liquid in nature. However, some of the current assets are highly liquid and some of them are moderately liquid and rest is less liquid. These assets are otherwise known as variable assets since they do not remain in the business for longer periods in one form. These are circulating assets, means one current asset is converted into another asset continuously. Cash in hand, cash at bank, short term investments, debtors, bills receivables, prepaid expenses, accrued incomes are example of current assets and these should be placed in balance sheet under the head current assets.

Investments:

Investments made by the business unit for medium to long term i.e more than one year, would come under this head. Investments in securities, long term deposits in banks are the examples for investments.

Intangible assets:

Intangible assets are the assets which do not have a physical form. Intangible assets can't be seen or touched though they are present in business and have a value. Goodwill, copy rights, patents, trademarks are the examples for intangible assets. These are shown under the head Intangible assets in fixed assets on assets side.

Fictitious assets:

As the name itself indicates Fictitious assets are not real assets. These are the assets for the name sake and do not add any real value to the business. Expenditures and losses to be written off over a number of years are shown under the head fictitious assets. Accumulated losses, discount on issue of debentures are the examples of fictitious assets.

Practical illustration 5: (Preparation of Balance sheet)

From the following particulars, Prepare Balance sheet of Sukumar as on 31/12/2020

Drawings	10,200	Creditors	18,500
Machinery	68,000	Cash in hand	15,900
Furniture	26,000	Bank Overdraft	13,100
Closing Stock	16,800	Debtors	10,200
Capital	1,21,000	Investments	25,000
Bills Receivables	3,100	Net profit	22,600

Solution :

Balance sheet of Mr. Sukumar as on 31/12/2020

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital	1,21,000		Machinery		68,000
(+) Net Profit	22,600		Furniture		26,000
	1,43,600		Investments		25,000
(-) Drawings	10,200	1,33,400	Closing Stock		16,800
Creditors		18,500	Debtors		10,200
Bank Overdraft		13,100	Bills Receivables		3,100
			Cash in hand		15,900
		1,65,000			1,65,000

Differences between Profit and Loss account and Balance sheet

Reason for difference	Trading, Profit and Loss account	Balance sheet
Purpose	It is prepared to know the financial performance of the firm during the account period	It is prepared to know the financial position on a particular date
Nature	It is an account	It is a statement
Types of Account balances shown	Balances of Nominal accounts	Balances of Real and personal accounts
Contents	Incomes and expenses	Assts, liabilities and capital
Preparation	It is prepared for a period of time. It is a periodic statement	It is prepared at a point of time. It is a point statement
Sides	Debit side and credit side	Assets side and liabilities side
Nature of expenditure and receipts shown	Revenue expenditure and revenue receipts	Capital expenditure and capital receipts

Practical illustration 6: (Preparation of Trading,profit & loss account and Balance sheet)

The Trial Balance of Shankar Lal as on 31/12/2019 is as under

Debit Balances	Amount Rs.	Credit Balances	Amount Rs.
Cash in hand	1,730	Capital	60,000
Drawings	3,250	Creditors	8,420
Stock (01/01/2019)	7,820	Discount	300
Salaries	5,200	Purchases Returns	650
Interest Paid	1,240	Loan from X	20,000
Purchases	48,650	Sales	64,050
Debtors	11,600		
Carriage In wards	1,850		
Sales Returns	2,100		
Insurance	800		
Gas & water	1,200		
Wages	6,320		
Advertising	3,100		
Octroi	1,140		
Furniture	15,600		
Machinery & Plant	32,000		
Repairs & Maintenance	2,640		
Rent & Taxes	7,180		
	1,53,420		1,53,420

Stock on 31/12/2019 - 15,200. Prepare final Accounts

Particulars	Amount	Amount	Particulars	Amount	Amount
To Opening Stock		7,820	By Sales	64,050	
To Purchases	48,650		(-) Sales returns	2,100	61,950
(-) Purchase returns	650	48,000	By Closing Stock		15,200
To <u>Direct Expenses</u>					
Carriage In Ward	1,850				
Gas & Water	1,200				
Wages	6,320				
Octroi	1,140	10,510			
To Gross Profit		10,820			
		77,150			77,150
To Salaries		5,200	By Gross Profit		10,820
To Interest Paid		1,240	By Discount		300
To Insurance		800			
To Advertising		3,100			
To Repairs & Maintenance		2,640	By Net loss		9,040
To Rent & Taxes		7,180			
		20,160			20,160

Balance sheet as on 31/12/2019

Liabilities	Amount	Amount	Assets	Amount	Amount
Capital	60,000		Machinery & Plant		32,000
Net Loss	-9,040		Furniture		15,600
Drawings	-3,250	47,710	Closing Stock		15,200
Loan from X		20,000	Debtors		11,600
Creditors		8,420	Cash in Hand		1,730
		76,130			76,130

Practical illustration 7: (Preparation of Manufacturing, Trading, Profit and loss Account and Balance sheet)

The trial Balance of Mr Green on 31/03/2019 is given below. Prepare Manufacturing, Trading, Profit and Loss account for the year ending 31/03/2019 and prepare Balance sheet as on 31/03/2019.

Trial Balance

Particulars	Debit Rs.	Particulars	Credit Rs.
Sundry Debtors	11,540	Sundry Creditors	6,800
Shares & Bonds	20,000	Sale of by-products	950
Drawings	7,000	Interest Received	1,120
Carriage on Purchases	1,260	Sale of finished goods	1,24,680
Productive wages	28,500	Bank overdraft	7,430
Rent of factory	4,720	Capital A/c	85,000
Rent of office	3,850		
Telephone & Stationery	1,200		
Plant & Machinery	42,300		
Advertising	9,000		
Consumable stores	960		
Cash at bank	4,800		
Interest on overdraft	850		
Repairs to Plant	1,300		
Heat Light & Power	5,500		
Office Furniture	18,000		
Purchases of Raw Material	40,200		
<u>Stock (01/04/2018)</u>			
Raw material	4,100		
Work in process	5,980		
Finished goods	14,920		
	2,25,980		2,25,980

Additional info:

Stock on 31/03/2019: Raw Material 2,150, Work in Process 3,840, finished goods 6,500.

Dr

Manufacturing A/c

Cr

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Work in process		5,980	By Sale of by-products		950
<u>To Raw Material consumed</u>			By Work in		
Opening Stock	4,100		Process(Closing)		3,840
(+) Purchases	40,200		By Cost of Production		85,580
	44,300		(Transferred to Trading		
(-) Closing Stock	2,150	42,150	A/c)		
To Direct Wages		28,500			
<u>To Direct Expenses</u>					
Carriage on purchases		1,260			
<u>To Indirect Expenses</u>					
(Production overheads)					
Factory Rent	4,720				
Consumable Stores	960				
Repairs to plant	1,300				
Heat light & Power	5,500	12,480			
		90,370			90,370

Dr

Trading A/c Cr

Particulars	Rs.	Particulars	Rs.
To Finished goods (opening)	14,920	By Sales	1,24,680
To Cost of Production	85,580	By Finished goods (Closing)	6,500
To Gross Profit	30,680		
(Transferred to P&L A/c)			
	1,31,180		1,31,180

Dr

Profit & loss A/c

Cr

Particulars	Rs.	Particulars	Rs.
To Office Rent	3,850	By Gross Profit	30,680
To Telephone & Stationery	1,200	By Interest Received	1,120
To Interest on overdraft	850		
To Advertising	9,000		
To Net Profit	16,900		
(Transferred to capital A/C)			
	31,800		31,800

Balance Sheet

Liabilities	Rs.	Rs.	Assets	Rs.	RS.
Capital	85,000		Plant & Machinery		42,300
(+) Net Profit	16,900		Office furniture		18,000
	1,01,900		Shares & Bonds		20,000
(-) Drawings	7,000	94,900	<u>Closing Stock</u>		
Creditors		6,800	Raw material	2,150	
Bank overdraft		7,430	Work in Process	3,840	
			Finished goods	6,500	12,490
			Debtors		11,540
			Cash at bank		4,800
		1,09,130			1,09,130

8.5. How to prepare final accounts with adjustments:

It is the responsibility of an accountant to provide true and fair financial results to the users of accounting. He should be very cautious in preparation of final accounts. Proper care should be taken towards every item which impacts the results of final accounts.

Trial balance serves as a basis for preparation of final accounts. One should prepare final accounts by taking the balances of trial balance. But in practice, there exist some items whose effect is not reflected in trial balance. These items should be adjusted carefully to arrive at accurate financial results.

8.5.1 Adjustment Entries:

Adjustment of items can be made by passing an appropriate adjustment entry. Adjustment entry should be passed in such a way that the complete effect of an item should be brought into account. Adjustment entries are passed in journal proper.

For example, salaries of final month of the current accounting year Rs. 50,000 not paid till the date of preparation of final accounts.

As the salaries of Rs. 50,000 belong to current year though they are un paid, they should be taken into account along with salaried paid while calculating total salaries of the current year. Since, they are un paid they represent a liability to the business. So, the adjustment entry would be

Salaries A/c Dr 50,000

To Outstanding salaries A/c 50,000

Salaries debited in the above entry should be added to the salaries paid on debit side of profit and loss account, and outstanding salaries credited in the entry should be shown on liabilities side of the balance sheet.

Adjustment of some of the items is discussed below

8.5.2 Adjustments:

1. Closing Stock:

Closing stock refers to the stock of goods left at the end of the current accounting year. The stock of goods is valued at cost price or market price whichever is lower. Closing stock can be adjusted as under.

Adjustment Entry:

Closing stock A/c Dr

To Trading A/c

Adjustment:

Closing stock can be adjusted by crediting to Trading Account and by recording on Assets side of the balance sheet.

Example:

If the Closing stock of a firm valued at Rs. 4,50,000, then

Closing stock of Rs.4,50,000 should be credited to Trading Account.

and

Closing stock of Rs.4,50,000 should be shown on assets side of the balance sheet under the head Current assets.

Note: if closing stock is given in trial balance, it should be shown on assets side of the balance sheet only.

2. Expenses outstanding:

Expenses of the current year not actually paid in the current year are known as outstanding expenses. We should consider the unpaid expenses of the current year along with expenses paid in ascertainment of current year's profit though they are not paid in the current year. Since the expenses are payable in future, they are treated as a liability.

Adjustment Entry:

Expenses A/c Dr

To Outstanding expenses A/c

Adjustment:

Expenses payable should be added to the respective expense on the debit side of the Profit and Loss Account, and it should be shown on liabilities side of the balance sheet under Current liabilities head.

Example:

If salaries given in Trial balance is Rs 11,00,000 and salary payable given in adjustments is Rs. 1,00,000 then

Salary outstanding of Rs.1,00,000 should be added to Salaries of Rs. 11,00,000 on debit side of Trading, Profit and Loss A/c.

and

Salary outstanding of Rs.1,00,000 should be shown on liabilities side of the balance sheet under the head Current liabilities.

Note: If outstanding expenses are given in trial balance, they should be shown on liabilities side of the balance sheet only.

3. Prepaid Expenses:

Expenses paid for the next accounting period in current year are known as prepaid expenses. We should not consider the expenses paid in advance as expenses of the current year though the expenses are paid in the current year. Since the benefits of prepaid expenses are receivable in future, prepaid expenses are treated as an asset.

Adjustment Entry:

Prepaid expenses A/c Dr

To Expenses A/c

Adjustment:

Prepaid expenses should be deducted from the respective expenses on the debit side of the Trading, Profit and Loss Account, and they should be shown on assets side of the balance sheet under the Current assets head.

Example:

If insurance premium paid given in Trial balance is Rs 65,000 and prepaid insurance premium given in adjustments is Rs. 5000, then

Prepaid insurance of Rs.5,000 should be deducted from Insurance premium paid Rs. 65,000 on the debit side of Profit and Loss account.

and

Adjustment:

Incomes received in advance should be deducted from the respective income on the credit side of the Profit and Loss Account, and they should be shown on liabilities side of the balance sheet under the head Current liabilities.

Example:

If Commission received given in Trial balance is Rs 39,000 and commission received in advance given in adjustments is Rs. 3,000 then,

Commission received in advance Rs.3,000 should be deducted from Commission received of Rs. 39,000 on credit side of the Profit and Loss A/c

and

Commission received in advance of Rs.3,000 should be shown on liabilities side of the balance sheet under the head Current liabilities.

Note: If income received in advance is given in trial balance, it should be shown on liabilities side of the balance sheet only.

6. Depreciation on Fixed assets:

Values of fixed assets decrease year by year due to various physical and economic reasons. That decrease in the value of fixed assets is known as depreciation. One should calculate and record the depreciation in the books of accounts to ascertain true profit to show real value of fixed assets. Usually, depreciation is calculated at the end of the accounting year on the opening balance of a fixed asset. If trial balance is prepared before the calculation of depreciation, depreciation should be adjusted to fixed assets at the time of preparation of final accounts.

Adjustment Entry:

Depreciation A/c Dr

To Fixed Asset A/c

Adjustment:

Depreciation should be debited to Manufacturing/Profit and loss account and it should be deducted from respective fixed asset on assets side of the balance sheet. Depreciation (Accumulated) can also be shown on liabilities side of the balance sheet.

Example:

If the value of machinery given in Trial balance is Rs 5,00,000 and the rate of depreciation given in adjustments is 10% then,

Depreciation of Rs. 50,000 (5,00,000 X 10%) should be debited to manufacturing/Profit and Loss A/c

and

Depreciation of Rs. 50,000 should be deducted from Machinery of Rs. 5,00,000 on assets side of the balance sheet. So, the net value of Machinery Rs. 4,50,000 (Rs 5,00,000 – Rs.50,000) would be reflected in balance sheet. Alternatively, one can show Rs. 50,000 on liabilities side under depreciation fund/accumulated depreciation.

Note: If depreciation is given in trial balance, it should be debited to profit and loss account only.

7. Interest on capital:

Interest calculated on capital provided by the proprietor is treated as an expense to the business. If, interest on capital is calculated after the preparation of trial balance and payable to the proprietor, it needs an adjustment.

Adjustment Entry:

Interest on capital A/c Dr
To Capital A/c

Adjustment:

Interest on capital should be debited to Profit and loss account since it is an expense to the business and it should be added to the capital on liabilities side of the balance sheet as the amount due to proprietor would be increased by the amount of interest.

Example:

If Capital provided by the owner Rs. 10,00,000 is given in trial balance and rate of interest on capital is 6% per annum then,

Interest on capital Rs. 60,000 (10,00,000 X 6%) should be debited to Profit and Loss A/c and

Interest on capital Rs. 60,000 should be added to Capital of Rs. 10,00,000 on liabilities side of the balance sheet.

Note: If interest of capital is given in trial balance, it should be debited to profit and loss account only.

8. Interest on Drawings:

Interest calculated on Drawings made by the proprietor is treated as an income to the business. If, interest on drawings is calculated after the preparation of trial balance and receivable from the proprietor, it needs an adjustment.

Adjustment Entry:

Drawings A/c Dr
To Interest on Drawings A/c

Adjustment:

Interest on drawings should be credited to Profit and loss account since it is an income to the business and it should be deducted from capital along with drawings on liabilities side of the balance sheet.

Example: If Drawings by the owner Rs. 1,00,000 is given in trial balance and the rate of interest on drawings is 7% then,

Interest on drawings Rs.7,000 (1,00,000 X 7%) should be credited to Profit and Loss A/c
and

Interest on drawings Rs. 7,000 along with drawings of Rs. 1,00,000 should be deducted from capital on liabilities side of the balance sheet.

Note: If interest of drawings is given in trial balance, it should be credited to profit and loss account only.

9. Bad debts:

Selling goods to customers on credit is quite natural in business. In some cases, the amount of credit allowed cannot be recovered from debtors. The amount lost on account of non-recovery of a debt is known as Bad debt. Bad debts arose after the preparation of trial balance needs an adjustment.

Adjustment Entry:

Bad debts A/c Dr

To Debtors A/c

Adjustment:

Bad debts account can be debited to Profit and loss account since it is a loss to the business and it can be deducted from Debtors on assets side of the balance sheet as the amount of debtors would be reduced because of bad debts.

Example:

If debtors of Rs. 2,00,000 are given in trial balance and bad debts given in adjustments are Rs. 5,000 then,

Bad debts Rs. 5,000 can be debited to Profit and Loss A/c

and

Bad debts of Rs. 5,000 can be deducted from Debtors of Rs. 2,00,000 on assets side of the balance sheet.

Note: If bad debts are given in trial balance, it should be debited to profit and loss account only.

If bad debts are given in trial balance and in adjustments too, bad debts given in adjustments should be added to the bad debts given in trial balance on debit side of profit and loss account, and bad debts given in adjustments should only be deducted from debtors in balance sheet.

10. Provision for bad and doubtful debts:

Provision means an amount set aside by charging to profit and loss account to meet a future expense or loss. Provision made to set off the loss from bad debts is called provision for bad and doubtful debts.

- i. When Provision for doubtful debts is given only in adjustments.

In this case we have to create a provision for bad and doubtful debts as asked in adjustments by charging an amount to profit and loss account.

Adjustment Entry:

Profit and loss A/c Dr

To provision for doubtful debts A/c

Adjustment:

Provision for Bad debts account can be debited to Profit and loss account since it is charged from profit and loss account and it can be deducted from Debtors on assets side of the balance sheet or shown on liabilities side of the balance sheet.

Example:

If debtors Rs. 2,00,000 given in trial balance and provision for bad debts has to be made at 5% is given in adjustments then,

Provision for bad debts of Rs. 10,000 can be debited to Profit and Loss A/c

and

provision for Bad debts of Rs. 10,000 can be deducted from Debtors of Rs. 2,00,000 on assets side of the balance sheet or shown on liabilities side of the balance sheet.

It should be remembered that provision has to be created on doubtful debts only. If Bad debts are given in adjustments, bad debts given in adjustments should be deducted from debtors before calculating provision for bad and doubtful debts.

If bad debts of Rs 20,000 are given in adjustments in the above example, then the provision for bad and doubtful debts should be calculated on 1,80,000 (2,00,000-20,000) only.

- ii. When provision for doubtful debts is given in trial balance and in adjustments.

Provision for bad and doubtful debts given in trial balance refers to the balance of provision for doubtful debts that we already have, whereas provision for doubtful debts given in adjustments refers to the amount of provision required to be maintained. When provision for doubtful debts is given in trial balance as well as in adjustments, first we should compare them.

- If the provision for bad debts given in adjustments is more than the provision given in trial balance, it indicates that excess provision is required, so we have to provide the difference amount for bad and doubtful debts by debiting to profit and loss account.

Adjustment Entry:

Profit and loss A/c Dr

To Provision for bad and doubtful debts A/c

Adjustment:

Provision for doubtful debts can be debited to profit and loss account with the difference amount and the amount of provision as per adjustment can be deducted from debtors on assets side of the balance sheet or shown on liabilities side.

Example:

If debtors of Rs. 2,00,000 and provision for bad and doubtful debts of Rs.7,000 are given in trial balance, and provision for bad debts has to be made at 5% is given in adjustments, then

Provision for bad debts required as per adjustment = $2,00,000 \times 5\% = 10,000$

Provision for bad debts given in trial balance 7,000

Provision for bad debts in adjustments 10,000 > Provision for bad debts in trial balance 7,000

Excess provision required is $10,000 - 7,000 = 3,000$

Provision for bad and doubtful debts of Rs 3,000 can be debited to profit and loss account and

Provision for doubtful debts of Rs 10,000 can be deducted from debtors of Rs 2,00,000 or shown on liabilities in balance sheet.

- If the provision for bad debts given in adjustments is less than the provision given in trial balance, it indicates that we had an excess provision than required, so we have to reverse the difference (excess) amount from provision for bad and doubtful debts to profit and loss account by crediting profit and loss account.

Adjustment Entry:

Provision for bad and doubtful debts A/c Dr

To Profit and loss A/c

Adjustment:

Provision for doubtful debts can be credited to profit and loss account with the difference (excess) amount and the amount of provision as per adjustment can be deducted from debtors on assets side or shown on liabilities side of the balance sheet.

Example:

If debtors Rs. 2,00,000 and provision for bad and doubtful debts Rs.12,000 given in trial balance, and provision for bad debts has to be made at 5% is given in adjustments, then

Provision for doubtful debts required as per adjustment = $2,00,000 \times 5\% = 10,000$

Provision for doubtful debts given in trial balance 12,000

Provision for bad debts in adjustments 10,000 < Provision for bad debts in trial balance 12,000

Provision exceeded than required is $12,000 - 10,000 = 2,000$

Provision for bad and doubtful debts of Rs 2,000 can be credited to profit and loss account.

and

Provision for doubtful debts of Rs 10,000 can be deducted from debtors of Rs 2,00,000 or shown on liabilities in balance sheet.

It should be noted that provision has to be created on doubtful debts only. If bad debts are given in adjustments, bad debts given in adjustments should be deducted from debtors before calculating provision for doubtful debts.

Example:

If bad debts of Rs 25,000 are given in adjustments in the above example, then the provision for bad and doubtful debts required as per adjustments has to be calculated on Rs.1,75,000 (2,00,000-25,000) only.

Note: If provision for doubtful debts is given in trial balance only, it has to be deducted from debtors in balance sheet only.

11. Provision for discount on debtors:

Discount is allowed to customers to encourage prompt and early payment. Businessmen maintain provision for discount on debtors to set off discount allowed.

Adjustment Entry:

Profit and loss A/c Dr

To provision for discount on debtors A/c

Adjustment:

Provision for discount on debtors account can be debited to Profit and loss account since it is charged from profit and loss account and it can be deducted from Debtors on assets side of the balance sheet.

Example:

If debtors of Rs. 3,00,000 is given in trial balance and provision for discount on debtors has to be made at 2% is given in adjustments then,

Provision for discount on debtors Rs. 6,000 can be debited to Profit and Loss A/c.

13. Loss of goods due to accidents:

Risk is inherent in business. Sometimes goods may be lost due to fire or theft or other unexpected events. That loss of goods should be recorded in books. If goods were insured, then the value of goods lost could be recovered by insurance claim either fully or partly based on the terms of insurance contract. The unrecovered part of the loss, if any, must be borne by the businessmen. If the goods were not insured then the total amount of loss must be borne by the businessmen only. If loss of goods is happened after the preparation of trial balance, it needs an adjustment in preparation of final accounts.

Adjustment Entries:

- i. Loss of goods by _____ A/c Dr (Total value of loss)
To Trading/purchases A/c (Total value of loss)

- ii. Insurance company A/c Dr (Claim receivable)
Profit and Loss A/c Dr (Un-recoverable part of loss)
To Loss of goods by _____ A/c (Total value of loss)

Adjustment:

The total value of goods lost can be credited to Trading account or it can be adjusted against purchases. The value of unrecovered part of loss should be debited to profit and loss account. The value of claim (recovered part) receivable from insurance company should be recorded on assets side of the balance sheet.

Example:

If the value of good lost by fire is Rs 25,000 and insurance claim accepted by Insurance company is Rs. 15,000. Then

Value of goods lost Rs. 25,000 should be credited to Trading A/c

Unrecovered part of loss Rs. 10,000 (25,000-15,000) should be debited to profit and loss account.

and

Insurance claim receivable from Insurance company Rs. 15,000 should be recorded on assets side of the balance sheet.

Note: If loss of goods is given in trial balance only, it should be debited to profit and loss account only.

14. Commission to Manager:

Remuneration payable to Managers is in two forms. First, fixed Salaries are paid to managers monthly. Second, some managers are given a commission linked with profits besides salaries. Their commission would be more if the profits are more and vice versa.

Since, the commission is linked with net profit, commission can only be calculated at the time of preparation of profit and loss account. It means that the trial balance has already been prepared. Hence, we need to do adjustment for managers commission on net profits.

Adjustment Entry:

Commission to managers A/c Dr
To Commission outstanding A/c

Adjustment:

Commission to managers account should be debited to profit and loss account as it is an expense to the business and it should be shown on liabilities side of the balance sheet since the commission is payable to manager.

Example,

Case (i).

If net profit calculated before charging the manager's commission is 4,00,000 and commission payable is 10% of net profit before charging such commission, then

$$\text{Commission to managers} = \text{Rs } 4,00,000 \times \frac{10}{100} = \text{Rs. } 40,000$$

Commission of Rs. 40,000 should be debited to profit and loss account.

and

Commission payable to manager Rs.40,000 should be shown on liabilities side of the balance sheet.

In this case the,

Net profit before charging the commission	4,00,000
<u>Commission to Manager</u>	<u>(-) 40,000</u>
<u>Net profit after charging the commission</u>	<u>3,60,000</u>

Case ii.

If net profit calculated before charging the manager’s commission is 4,00,000 and commission payable is 10% of net profit after charging such commission, then

$$\text{Commission to managers} = \text{Rs } 4,00,000 \times \frac{10}{110} = \text{Rs.}36,364$$

Commission of Rs. 36,364 should be debited to profit and loss account.

and

Commission payable to manager Rs.36,364 should be shown on liabilities side of the balance sheet.

Net profit before charging the commission	4,00,000
<u>Commission to Manager</u>	<u>(-) 36,364</u>
<u>Net profit after charging the commission</u>	<u>3,63,636</u>

15. Errors:

If any accounting error found at the time of preparation of final accounts, it should be rectified by a proper adjustment so as to avoid the wrong effect of error on financial results shown by final accounts.

Adjustments Summary Table

Adjustment	Manufacturing,Trading, Profit &loss A/c	Balance sheet
Closing stock	Credit side of the Trading account	Assets side
Outstanding expenses	Add to respective expense on Debit side of trading account/ profit and loss A/c	Liabilities side
Prepaid expenses	Deduct from respective expense on Debit side of trading account/ profit and loss A/c	Assets side
Accrued income	Add to respective income on Credit side of profit and loss A/c	Assets side
Income received in advance	Deduct from respective income on Credit side of profit and loss A/c	Liabilities side
Depreciation	Debit side of Manufacturing /Profit and loss account	Deduct from respective fixed asset on assets side
Interest on Capital	Debit side of the profit and loss account	Add to capital on liabilities side

Interest on Drawings	Credit side of the profit and loss account	Deduct from capital on liabilities side
Bad debts	Debit side of the profit and loss account	Deduct from Debtors on Assets side of the balance sheet
Provision for bad and doubtful debts	Debit side of the profit and loss account	Deduct from Debtors on Assets side of the balance sheet
Provision for discount on debtors	Debit side of the profit and loss account	Deduct from Debtors on Assets side of the balance sheet
Provision for discount on creditors	Credit side of the profit and loss account	Deduct from Creditors on Liabilities side of the balance sheet
Loss of goods	Credit side of Trading account (Total value of goods lost) Debit to Profit and Loss account (Unrecovered part of loss)	Assets side (Claim amount receivable from insurance company)
Commission on profits payable to manager	Debit side of profit and loss account	Liabilities side

8.6 Practical Illustrations

7. The following balances have been extracted from the Trial Balance of Mr. Jeevan as on 31/12/2020. Prepare his final accounts

Stock in hand (01/01/2020)	33,000	Insurance	5,650
Buildings	60,000	Drawings	7,600
Fixtures	24,000	Repairs	2,950
Debtors	31,200	Investments	42,000
Salaries	9,600	Interest on investments	1,600
Purchases	88,750	Purchases Returns	1,300
Capital	85,000	Discount Received	750
Creditors	32,000	Bank Loan	50,000
Sales Returns	900	Go down Rent	19,400
Stationary	3,000	Freight In ward	3,200
Goodwill	10,000	Cash in hand	11,800
Sales	1,82,400		

Adjustments:

- 1) Stock in hand (31/12/2020) 42,000
- 2) Godown Rent outstanding 1,200
- 3) Interest Accrued on investments 500
- 4) Depreciate Buildings by 5% and Fixtures by 10%

Solution:

Dr. Trading & Profit and Loss A/c for the year ending 31/12/2020 Cr.

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Opening Stock		33,000	By Sales	1,82,400	
To Purchases	88,750		(-) Returns	900	1,81,500
(-) Returns	1,300	87,450	By Closing Stock		42,000
To Freight in ward		3,200			
To Gross Profit		99,850			
		2,23,500			2,23,500
To Salaries		9,600	By Gross Profit		99,850
To Stationery		3,000	By Discount Received		750
To Insurance		5,650	By Interest on Received	1,600	
To Godown Rent	19,400		(+) Accrued Interest	500	2,100
(+) outstanding Rent	1,200	20,600			
To Repairs		2,950			
To <u>Depreciation</u> On Building (60,000 X 5%)	3,000				
On Fixtures (24,000 X 10%)	2,400	5,400			
To Net Profit		55,500			
		1,02,700			1,02,700

Balance sheet of Jeevan as on 31/12/2020

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital	85,000		Buildings	60,000	
(+) Net Profit	55,500		(-) Depreciation	3,000	57,000
	1,40,500		Fixtures	24,000	
(-) Drawings	7,600	1,32,900	(-) Depreciation	2,400	21,600
Bank Loan		50,000	Goodwill		10,000
Creditors		32,000	Debtors		31,200
Godown Rent payable		1,200	Investments	42,000	
			(+) Accrued Interest	500	42,500
			Cash in hand		11,800
			Closing Stock		42,000
		2,16,100			2,16,100

8. Following is the Trial Balance of Sri Vishnu Traders as on 31/12/2019

Particulars	Dr. (Rs.)	Cr. (Rs.)
Trade debtors & Creditors	19,200	11,100
Returns	900	1,400
Discounts	420	110
Drawings & capital	5,650	75,000
Stock in hand (01/01/2019)	10,380	
Furniture	16,000	
Plant & Machinery	45,000	
Staff Salaries	8,200	
Advertising & Publicity	4,250	
Mortgage Loan		22,000
Cash & Bank	3,850	
Postage and Telephone	4,800	
Purchases and Sales	68,500	87,390
Interest Paid	1,100	
Insurance	4,000	
Bad-Debts	1,500	
Freight in ward	3,250	
	1,97,000	1,97,000

Adjustments:

- 1) Stock in hand on 31/12/2019: 23,900
- 2) Further Bad-Debts to be written off : 700
- 3) Depreciation to be provided @ 5% on Plant & machinery and @ 10% on Furniture
- 4) Interest on loan outstanding: 400
- 5) During the last week of December, a fire occurred and goods costing Rs. 7,000 were damaged. Insurance Company admitted the claim to the extent of Rs. 5,000.

Prepare Trading & Profit and loss Account for the year ending 31/12/2019, and a balance sheet as on that date.

Dr Trading & Profit and Loss A/c of Sri Vishnu Traders for the year ending 31/12/2019. Cr

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Opening Stock		10,380	By Sales	87,390	
To Purchases	68,500		(-) Sales Returns	900	86,490
(-) Purchases Returns	1,400	67,100	By Closing Stock		23,900
<u>To Direct Expenses</u>			By Goods lost by fire		7,000
Freight in ward		3,250			
To Gross Profit		36,660			
		1,17,390			1,17,390
To Discount allowed		420	By Gross Profit		36,660
To Salaries		8,200	By Discount received		110
To Advertising & Publicity		4,250			
To Postage & Telephone		4,800			
To Interest Paid	1,100				
(+) Outstanding interest	400	1,500			
To Insurance		4,000			
To Bad debts	1,500				
(+) Further bad debts	700	2,200			
To <u>Depreciation</u>		2,250			
On Plant & Machinery (45,000 X 5%)					
On Furniture (16,000 X 10%)		1,600			
To Goods lost by fire		2,000			
To Net Profit		5,550			
		36,770			36,770

Balance Sheet as on 31/12/2019

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital	75,000		Plant & Machinery	45,000	
(+) Net Profit	5,550		(-) Depreciation	2,250	42,750
	80,550		Furniture	16,000	
(-) Drawings	5,650	74,900	(-) Depreciation	1,600	14,400
Mortgage Loans	22,000		Debtors	19,200	
(+) Outstanding Interest	400	22,400	(-) Further Bad debts	700	18,500
Creditors		11,100	Closing Stock		23,900
			Insurance Claim Due		5,000
			Cash & Bank		3,850
		1,08,400			1,08,400

9. From the under mentioned Trial Balance and other information Prepare final accounts of Mr Anwar for the year 2020

Trial balance

Debit Balances	Rs.	Credit Balances	Rs.
Office equipment	32,000	Sales	2,74,500
Opening Stock	11,000	Capital	1,20,000
Sundry Debtors	52,000	Sundry Creditors	44,000
Buildings	1,80,000	Provision for doubtful debts	4,000
Purchases	1,67,000	Interest Received	2,000
Wages	39,000	6% Loan	1,30,000
Carriage in ward	5,000		
Carriage Out ward	7,500		
Sales Commission	10,000		
Gas & water	4,000		
Motive Power	7,000		
Drawings	9,500		
Cash & Bank	16,000		
Bank charges	1,500		
Newspapers & Magazines	6,000		
Rent & Rates	19,000		
Telephone, Stationary	8,000		
	5,74,500		5,74,500

Additional Information:

- 1) Write off Rs 2000/- as Bad debts and keep 5% on Debtors against doubtful debts
- 2) 6% Loan Was Taken on 01st august 2020
- 3) Rent paid in Advance Rs.1,500
- 4) Provide depreciation @ 10% on Building and 15% on office Equipment.
- 5) Interest Received in advance Rs. 600
- 6) Unsold Stock on 31/12/2020 was Rs.19,000

Dr Trading & Profit and Loss A/c of Mr Anwar for the year ending 31/12/2020
Cr

Particulars	Rs	Rs.	Particulars	Rs	Rs.
To Opening Stock		11,000	By Sales		2,74,500
To Purchases		1,67,000	By Closing Stock		19,000
To <u>Direct Expenses</u>					
Wages		39,000			
Carriage in wards		5,000			
Gas & Water		4,000			
Motive Power		7,000			
To Gross Profit		60,500			
		<u>2,93,500</u>			<u>2,93,500</u>
To Carriage Out ward		7,500	By Gross Profit		60,500
To Sales commission		10,000	By Interest	2,000	
To Bank Charges		1,500	(-) Received in advance	600	1,400
To News Papers&Magazines		6,000	By Provision for Baddebts		1,500
To Rent & Rates	19,000				
(-) Pre- Paid	1,500	17,500			
To Telephone, Stationery		8,000	By Net Loss		15,150
To Interest payable on loan		3,250	(Transferred to Capital A/c)		
To Bad debts		2,000			
To <u>Depreciation</u>					
On Buildings	18,000				
On office Equipment	4,800	22,800			
		<u>78,550</u>			<u>78,550</u>

Balance Sheet as on 31/12/2020

Liabilities	Rs	Rs	Assets	Rs	Rs
Interest Received in Advance		600	Cash & Bank		16,000
Sundry Creditors		44,000	Sundry Debtors	52,000	
6% Loan	1,30,000		(-) Bad- Debts	2,000	
(+) Out Standing Interest	3,250	1,33,250	(-) Provision for Bad debts	2,500	47,500
Capital	1,20,000		Unsold Stock		19,000
(-) Net Loss 15,150			Pre-Paid Rent		1,500
(-) Drawings <u>9,500</u>	24,650	95,350	Office Equipment	32,000	
			(-) Depreciation	4,800	27,200
			Building	1,80,000	
			(-) Depreciation	18,000	1,62,000
		2,73,200			2,73,200

$$1. \text{ Interest payable on loan} = 1,30,000 \times \frac{6}{100} \times \frac{5}{12} = 3,250$$

2. Provision for Bad debts:

Debtors	=	52,000
Bad debts in adjustments	=	<u>- 2,000</u>

50,000

Provision for bad debts required	=	50,000 X 5%	=	2,500
Provision in trial balance			=	<u>4,000</u>
Excess provision to be credited to P&L A/c			=	<u>1,500</u>

3. Depreciaton:

On Buildings: 1,80,000 X 10 % = 18,000

On office equipment: 32,000 X 15% = 4,800

From the following information, Prepare final A/c's of Mr X for the year 31/03/2021

Rent Received	1,350	Trade Expenses	850
Creditors	9,650	Purchases	67,240
Insurance	900	Bad-debts	390
Discount allowed	100	Debtors	16,200
Repairs	1,750	Telephone Postage Etc.	970
Opening inventory	8,250	Travelling Expenses	2,190
Mr. X's Capital	52,000	Electricity	1,520
Salaries	5,100	Interest Paid	770
Furniture	17,400	Cash in hand	3,850
Mr.X's Drawings	5,500	Discount Received	80
Computers	24,000	Sales	93,900

Adjustments:

- 1) Unexpired insurance was 120
- 2) Allow interest on Capital @ 6%
- 3) Charge interest on Drawings @ 10%
- 4) Depreciate furniture & Computers by 5% and 10% Respectively
- 5) A Provision of 5% is required on debtors to cover Bad debts
- 6) Purchases include Purchases of a cycle worth Rs. 2,500
- 7) Stock in hand on 31/03/2021 Rs.15,390.

Dr. Trading, Profit and Loss A/c of Mr.X for the year ending 31-03-2021 Cr

Particulars	Rs	Rs.	Particulars	Rs	Rs.
To Opening Inventory		8,250	By Sales		93,900
To Purchases	67,240		By Closing Inventory		15,390
(-) Cycle	2,500	64,740			
To Gross Profit		36,300			
		1,09,290			1,09,290
To insurance	900		By Gross Profit		36,300
(-) Pre- Paid	120	780	By Rent Received		1,350
To Discount allowed		100	By Discount received		80
To Repairs		1,750	By Interest on Drawings		550
To Salaries		5,100	(5,500 X 10%)		
To Trade Expenses		850			
To Telephone, Postage etc.,		970			
To Travelling		2,190			
To Electricity		1,520			
To Interest Paid		770			
To Bad-debts		390			
To Provision for Bad debts (16,200 X 5%)		810			
To Interest on Capital (52,000 X 6%)		3,120			
To Depreciation on furniture (17,400 X 5%)		870			
To Depreciation on computer (24,000 X 10%)		2,400			
To Net profit		16,660			
		38,280			38,280

Balance Sheet of X as on 31/03/2021

Liabilities	Rs.	Rs	Assets	Rs.	Rs
Capital	52,000		Furniture	17,400	
(+) Net Profit	16,660		(-) Depreciation	870	16,530
(+) Interest on capital	3,120		Computers	24,000	
	71,780		(-) Depreciation	2,400	21,600
(-) Drawings	5,500		Closing Stock		15,390
(-) Interest on Drawings	550	65,730	Debtors	16,200	
Creditors		9,650	(-) Provision for Baddebts	810	15,390
			Pre-Paid insurance		120
			Cycle		2,500
			Cash in hand		3,850
		75,380			75,380

11. The following is the Trial Balance of Mr.Karunakar on 31/12/2019

Debit Balances	Rs.	Credit Balances	Rs.
Fixed Assets	2,60,000	Purchase returns	13,000
Stock (01/01/2019)	39,000	Sales	4,08,000
Salaries & Wages	52,000	Sundry Creditors	67,000
Rent & Taxes	33,000	Commission	5,000
Office Maintenance	16,500	Provision for bad debts	4,500
Advertising	27,500	Capital	2,50,000
Showroom Charges	7,000	Miscellaneous Income	1,500
Sundry Debtors	78,000		
Cash at bank	23,000		
General Expenses	13,000		
Purchases	1,97,000		
Sales Returns	3,000		
	7,49,000		7,49,000

Prepare final Accounts after making the following adjustments

Adjustments:

1. Stock on 31/12/2019 Rs.63,000
2. Depreciate fixed Assets by 5%
3. Goods taken by proprietor for his personal use not recorded in books Rs.5,000/-
4. Rent per month Rs.3,000/-
5. Provision is to be maintained at 10% on Debtors for doubtful debts
6. Manager is entitled to a commission of 6% on Net Profit before charging such commission.

Dr

Trading & Profit and Loss A/c for the year ending 31/12/2019

Cr

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Opening Stock		39,000	By Sales	4,08,000	
To Purchases	1,97,000		(-) Sales Returns	3,000	4,05,000
(-) Purchases Returns 13,000			By Closing Stock		63,000
(-) Drawings <u>5,000</u>	18,000	1,79,000			
To Gross Profit		2,50,000			
		4,68,000			4,68,000
To Salaries and Wages		52,000	By Gross Profit		2,50,000
To Rent & Taxes (33,000 + 3,000)		36,000	By Commission		5,000
To Office maintenance		16,500	By Misc. Income		1,500
To Advertising		27,500			
To Showroom Charges		7,000			
To General Expenses		13,000			
To Depreciation (2,60,000 X 5%)		13,000			
To Provision for Bad debts (7,800 - 4,500)		3,300			
To Manager Commission (88,200 X 6%)		5,292			
To Net Profit (88,200 - 5,292)		82,908			
		2,56,500			2,56,500

Balance Sheet as on 31/12/2019

Liabilities	Rs	Rs	Assets	Rs	Rs
Capital	2,50,000		Fixed Assets	2,60,000	
(+) Net Profit	82,908		(-) Depreciation	13,000	2,47,000
	3,32,908		Closing Stock		63,000
(-) Drawings	5,000	3,27,908	Debtors	78,000	
Creditors		67,000	(-) Provision for bad debts	7,800	70,200
Rent payable		3,000	Cash at Bank		23,000
Manager Commission due		5,292			
		4,03,200			4,03,200

Test your Understanding



I. Fill in the Blanks

1. Benefits of _____ expenditure available for a number of years.
2. Receipt from Sale of a building is a _____ receipt
3. Trading account is prepared to ascertain _____
4. Showing liabilities of similar nature under one head is called _____
5. Bad debts are entered on _____ side of the profit and loss account
6. Incomes received in advance are shown on _____ side of the balance sheet.
7. Bank overdraft is an example of _____ liability
8. Land and building should be shown under the head of _____ assets.
9. Interest on capital should be _____ to profit and loss account.
10. Goods lost by fire should be _____ to trading account.

II. True or False

1. Revenue expenditures are non-recurring in nature
2. Receipt of interest is a revenue receipt
3. Profit and loss account is also called position statement
4. Closing entries are recorded in journal proper
5. Goodwill is a fictitious asset.
6. Depreciation should be credited to profit and loss account
7. Outstanding expenses should be shown on liabilities side of balance sheet
8. Interest on drawings is an expense to the business
9. Accrued Interest is shown as a current asset in balance sheet.
10. Provision for doubtful debts is made by debiting to profit and loss account

III. Multiple Choice Questions (MCQ)

1. Which of the following is an example of capital expenditure?
 - A. Carriage inwards
 - B. Additions to buildings
 - C. Discount allowed
 - D. Office expenses
2. Final accounts of a trader consist of
 - A. Trading account
 - B. Profit and Loss account
 - C. Balance sheet
 - D. All of the above
3. Final accounts are prepared to
 - A. To ascertain profit or loss
 - B. To know financial position
 - C. A and B
 - D. A only
4. The outcome of Manufacturing account is
 - B. Cost of goods sold
 - C. Cost of goods produced
 - D. None of the above
5. Showing the assets in balance sheet by following an order is known as
 - A. Grouping
 - B. Marshalling
 - C. Heading
 - D. None of the above
6. Which of the following expense should not be debited to trading account?
 - A. Fright
 - B. Carriage outwards
 - C. Clearing charges
 - D. Carriage inwards
7. Which of the following expense should not be debited to profit and loss account?
 - A. Postage
 - B. Advertisement
 - C. Octroi
 - D. Interest paid
8. Which of the following expense should be debited to profit and loss account?
 - A. Excise duty
 - B. Salaries
 - C. Heat and light
 - D. Foreman salary
9. Which of the following expense should be debited to trading account?
 - A. Trade expenses
 - B. Stationary
 - C. Wages
 - D. Travelling expenses
10. Prepaid Insurance should be adjusted by

- I. Deducting from Insurance paid
- II. Adding to insurance paid
- III. Showing on liabilities side
- IV. Showing on assets side

A. I & IV

B. II & III

C. I & III

D. II & IV

11. Depreciation on Furniture should be adjusted by

- I. Deducting from Furniture
- II. Adding to Furniture
- III. Debiting to profit and loss account
- IV. Crediting to profit and loss account

A. I & IV

B. II & III

C. I & III

D. II & IV

12. If Provision for doubtful debts is given in adjustments only, it should be adjusted by

- I. Deducting from Debtors
- II. Adding to Debtors
- III. Debiting to profit and loss account
- IV. Crediting to profit and loss account

A. I & III

B. II & III

C. II & IV

D. I & IV

13. If value of goods lost by fire is Rs. 8,000, insurance claim accepted by insurance company is Rs. 5,000. it should be adjusted by

- I. Crediting Rs 5,000 to trading account
- II. Debiting Rs 3,000 to profit and loss account
- III. Debiting Rs. 5,000 to profit and loss account
- IV. Crediting Rs 8,000 to trading account
- V. Showing Rs. 5,000 on assets side
- VI. Showing Rs. 3,000 on assets side

A. I, III, V

B. IV, I, VI

C. I, II, V

D. IV, II, V

IV. Short Answer Questions (SAQ)

1. Capital expenditure Vs Revenue expenditure
2. Capital receipts Vs Revenue receipts
3. Need for preparation of final accounts
4. Trading Account
5. Profit and loss Account
6. Balance sheet
7. Closing entries

V. Long Answer Questions (LAQ)

1. Explain the preparation of Trading, Profit and loss Account
2. Explain the preparation of Balance sheet
3. Briefly explain the elements in Trading account
4. Briefly explain the elements in Profit and Loss account
5. Briefly explain the elements in Balance sheet
6. Briefly explain any 5 adjustments with adjustment entries
7. Using the following information, Prepare P&L A/c of Mr. Akash for the year ending 31/12/2020 and a Balance sheet as on that date

		Cash	6,850
Rent & Rates	13,250	Bank charges	470
Discount allowed	880	Advertising	6,040
Gross Profit	71,200	Machinery	32,400
Carriage out wards	3,230	Discount Received	400
Stationery	6,210	Provision for bad debts	500
Drawings	6,100		
Inventory (31-12-2020)	11,400		
Telephone	4,850		
Interest on overdraft	1,370		
Sundry debtors	16,800		
Bad debts	700		
Bank Overdraft	14,500		
Capital	72,000		
Motor vehicles	32,000		
Staff salaries	9,800		
Repairs	1,600		
Insurance	2,550		
Furniture	18,000		
Sundry creditors	15,900		

Adjustments:

- 1) Depreciate Fixed Assets by 10%
- 2) Provide 5% on debtors against Bad-debts
- 3) Un-expired Insurance was Rs. 160
- 4) Rent due and un-paid was Rs. 450
- 5) Allow interest on capital at 4%

(Answer: Net profit. Rs. 8,900, Balance sheet total. Rs.1,08,530)

8. Prepare Final Accounts of Varma for the year 2020 from the following information

The Trial Balance of Varma Trading Co as on 31/12/2020

Debit Balances	Rs.	Credit Balance	Rs.
Office Rent	11,400	Outstanding Salaries	1,100
Purchases	79,600	Capital	1,50,000
Stock (01/01/2020)	17,500	Creditors	27,400
Buildings	1,30,000	Interest on investments	2,400
Salaries	17,600	Returns	4,500
Cash in hand	9,500	Bank overdraft	13,400
Investments	32,000	Bills Payable	2,900
Debtors	29,500	Sales	2,07,000
Bad-debts	1,800		
Depreciation on Building	3,600		
Postage & Telephone	4,100		
Insurance	5,900		
Returns	3,300		
Advertising	6,900		
Pre-Paid Insurance	600		
Direct Expenses	13,400		
Machinery	38,000		
Bills Receivable	4,000		
	4,08,700		4,08,700

Additional Information:

Stock 31-12-2020 : Rs. 7,600

(Answers: Gross Profit: Rs.1,05,300, Net Profit :Rs.56,400, Balance sheet: Rs.2,51,200)

9.

From the following information, prepare Trading & Profit and Loss A/c of Mr. Raja Sekhar, for the year ending 31/03/2021 and show balance sheet on 31/03/2021.

Sales	14,12,000	Goodwill	80,000
(Including cash sales of 1,60,000)		Interest on overdraft	3,000
Creditors	2,48,000	Return in ward	8,000
Interest Received	9,000	Furniture	86,000
Motor Vehicles	3,80,000	Capital	6,36,000
Stock (01/04/2020)	69,000	Freight & Carriage	25,000
Cash in hand	43,000	Salaries Paid	54,000
Bank overdraft	52,000	Printing & Stationary	18,000
Purchases	7,29,000	Repairs & Maintenance	42,000
(Including cash purchases of 90,000)		Bad-debts	7,000
Rent Rates & Insurance	42,000	Courier charges & Postage	18,000
Wages	74,000	Drawings	32,000
Debtors	3,10,000	Plant & Machinery	1,80,000
Clearing charges	15,000	Return out ward	4,000
Investments	1,30,000	Provision for Bad-debts	5,000
Discount Received	1,000	Patents & Copy rights	22,000

Adjustment:

1. Stock (31/03/2021) Rs.1,01,000
2. Write off Rs.10,000 as Bad-debts and keep 5% on Debtors for doubtful debts.
3. Wages Outstanding Rs.4,000/- and salaries outstanding Rs.3,000
4. Depreciation to be charged on motor vehicles Rs. 12,000, furniture Rs. 4,000 and plant Machinery Rs.9,000/-

(Answers: Gross Profit: Rs.5,93,00,Net Profit :Rs.3,71,000, Balance sheet: Rs.12,82,000)

10.The Trial Balance of Prabhu Das as on 31/12/2020 is given below

Debit Balances	Rs.	Credit Balances	Rs.
Drawings	3,730	Capital	70,000
Cash & Bank	5,425	Sales	1,04,905
Stock (01/01/2020)	9,620	Creditors	6,450
Wages & Salaries	4,670	8% Loan (01/10/2020)	32,000
Carriage	1,530	Apprentice Premium	1,000
Furniture	17,400	Provision for Bad debts	550
Travelling Expenses	2,480		
Discount	250		
Purchases	74,600		

Machinery	62,500	
Debtors	18,400	
Customs & Duties	1,450	
Publicity	3,900	
Godown Rent	2,500	
Insurance	1,200	
Sundry office Expenses	5,250	
	2,14,905	2,14,905

Adjustments:

- 1) Write off Rs.400 as Bad debts and keep 5% on Debtors for doubtful Debts
- 2) Godown rent Payable 500
- 3) Insurance Pre-paid 250
- 4) Depreciation: 10% on Furniture & 5% on Machinery
- 5) Stock on 31/12/2020 was 27,120

Prepare final Accounts

(Answer: Gross Profit: Rs.40,155, Net Profit Rs19,070, Balance sheet Total:Rs. 1,24,930)

11.The following figures taken from the TB of Kasturi Agencies as on 31/03/2020. Prepare their final A/c's

Particulars	Dr Balance	Cr Balance
Drawings & Capital	12,500	2,00,000
Stock (01/04/2019)	36,000	-
Purchases and Sales	1,68,500	2,87,000
Machinery	64,000	-
Cash & Bank	25,000	-
Rent	18,000	-
Commission	-	4,500
Salaries Paid	24,000	-
Insurance (Paid up to 30/06/2020)	7,200	-
Returns	3,800	2,500
Furniture & Fittings	30,000	-
Debtors & Creditors	42,000	31,000
Import duties and clearing charges	13,400	-
Carriage on Sales	8,000	-
Postage & telephone	15,600	-
Freight inward	9,000	-
6% Government Bonds (01/10/2019)	48,000	-
	5,25,000	5,25,000

Adjustments:

1. Closing Stock Rs.63,700/-

2. Depreciation 10% on furniture & $7\frac{1}{2}$ % on Machinery.
3. Write off Rs.1,000/- as Bad-debts and provide 6% on Debtors for doubtful debts.
4. Manager is entitled to a commission of 10% on N/P after charging his commission.

ANSWERS:Gross Profit: Rs. 1,22,500, Net Profit Rs.41,982 ,Balance Sheet Total Rs.2,64,680

Hint: Manager Commission $46,180 \times \frac{10}{110} = 4,198/-$

VI. Additional Resources for Advanced Learning

Study Material (Handouts):

https://nios.ac.in/media/documents/Seccour224New/ch_14.pdf

https://nios.ac.in/media/documents/Seccour224New/ch_15.pdf



Reference Text Books:

1. R L Gupta & V K Gupta, Principles and Practice of Accounting, Sultan Chand & Sons
- 2.S.P. Jain & K.L Narang, Accountancy-I, KalyaniPublishers
- 3.Tulasian, Accountancy -I, Tata McGraw HillCo.

E - Text Books:

<https://icmai.in/upload/Students/Syllabus2016/Foundation/Paper-2New-29012021.pdf>

<https://www.icsi.edu/media/webmodules/publications/FULL%20FAA%20PDF.pdf>

YouTube Links:

<https://www.youtube.com/watch?v=4N0Dmzhi3Tw>

[final accounts introduction in telugu part 1 - YouTube](#)

Power Point Presentations:

<https://www.slideshare.net/PrachiSharma304/final-accounts-120924892>

<https://www.slideshare.net/TanishqSoni1/principles-of-accountingbasics-of-accounting>

VII. Suggested Activity

1. Visit a firm (Individual and Group) and observe the process of preparation of final accounts

2. Problem Solving Exercises

3. Learning Computer based accounting system through tally



Answers



I. Fill in the Blanks

Q.No	1. Capital	2. Capital	3. Gross profit or Gross loss	4. Grouping	5. Debit
	6. Liabilities	7. Current	8. Fixed	9. Debited	10. Credited

II. True or False

Q.No	1. False	2. True	3. False	4. True	5. False
	6. False	7. True	8. False	9. True	10. True

III. Multiple Choice Questions (MCQ)

Q.No	1.B	2.D	3.C	4.C	5.B	6.B	7.C	8.B	9.C	10.A
	11.C	12.A	13.D							

Glossary

Accrued income: Income earned but not received.

Bad debt: Part of debtors which became unrecoverable.

Balance sheet: A part of final accounts prepared to show assets and liabilities.

Capital expenditure: An expenditure giving benefits for more than one year.

Capital Receipts: Receipts on account of capital by owners, taking loans and sale of assets.

Depreciation: A permanent and gradual decrease in value of a fixed asset.

Grouping: Showing elements of similar nature under one head in balance sheet.

Liquidity: Degree of Convertibility of an asset in to cash.

Manufacturing Account: A part of final accounts prepared to ascertain Cost of goods manufactured.

Marshalling: Following an order in presenting elements in balance sheet.

Outstanding expenses: Expenses incurred but not paid yet.

Profit and Loss Account: A Part of final accounts prepared to ascertain Net profit.

Provision: An amount set aside by charging to profit and loss account to meet known future expense or loss.

Revenue expenditure: An expenditure giving benefits in current year only.

Revenue receipts: Receipts in regular course of business.

Trading Account: A part of final accounts prepared to ascertain gross profit.

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