

Block

2

ACCOUNTING PROCESS

UNIT 5**Journal and Ledger****5**

UNIT 6**Subsidiary Books****48**

UNIT 7**Trial Balance****100**

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BLOCK 2 ACCOUNTING PROCESS

This block introduces you to the initial stages of recording business transactions in the books of account. It consists of three units as follows:

Unit 5 deals with the first stage of recording transactions in the books of account i.e., Journalising and it is also devoted to the second stage of recording transactions in the books of account i.e., posting into ledger.

Unit 6 identify the need for sub-division of journal and specifies the subsidiary books usually maintained by business. It concentrates on the preparation of the most important subsidiary book called Cash Book. It also describes the nature of various banking transactions as related to business and their recording in the Three Column Cash Book. It also covers the preparation of the remaining subsidiary books viz., Purchases Journal, Purchases Returns Journal, Sales Journal, Sales Returns Journal etc. It also describes the method of posting these books into related ledger accounts.

Unit 7 deals with the preparation of Trial Balance and discusses its role in ascertaining the arithmetical accuracy of the books of account. It also describes the methods of rectification of errors and their effect on profits.

The three units together constitute the basic steps in accounting and facilitate the initiation into the fundamental recording process.





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UNIT 5 JOURNAL AND LEDGER

Structure

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5.0 OBJECTIVES

After going through this unit, you will be able to:

- explain what journal is;
- analyse a business transaction and identify the accounts affected;
- apply rules of debit and credit, and formulate journal entries;
- prepare journal;
- post the journal entries in the respective ledger accounts;
- balance a ledger account and explain the significance of balance in an account;
- prepare a trial balance to test the arithmetical accuracy of recording in the books of account; and
- post an opening entry.

5.1 INTRODUCTION

You are aware that every business transaction involves transfer of money or money's worth between two accounts. Recording of transaction is considered as complete only when both the receiving and the giving aspects are recorded in the books of account. This recording takes place in two stages. In the first stage, the transactions are recorded through a book called 'Journal' and in the second stage they are entered in the other book called 'Ledger'. You have learnt about the different stages of accounting, different classes of accounts, and the rules of debit and credit. With this background, you will now be able to analyse the transactions and record them in the book of original entry i.e., Journal. In this unit, we intend to explain how exactly the entries are made in the journal. All business transactions are recorded in the books of account in two stages: (1) Journalising, and (2) Posting into Ledger. In this unit, you will learn about recording in the ledger. This involves posting journal entries into various accounts in the ledger, balancing the accounts periodically, and preparing a Trial Balance to check the arithmetical accuracy of all accounting entries.

5.2 WHAT IS JOURNAL ?

A Journal is called a book of prime entry (also called book of original entry) because all business transactions are entered first in this book. The word 'Journal' means a daily record. The transactions are recorded in this book in the order in which they occur i.e., they are entered in a chronological order. In this book, both aspects i.e., the receiving aspect and the giving aspect of the transaction, are recorded. The process of recording a transaction in the journal is called Journalising. The entries made in the journal are called 'journal entries'.

5.3 FORM OF THE JOURNAL

We shall now study the form of the journal. The form is given in Figure 5.1.

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

Fig. 5.1

The journal is provided with five columns. Each of these columns is meant for recording a specific detail of the transaction.

Column (1) is used for recording the date of the transaction i.e., the date on which the transaction has occurred. It is customary to write the year at the top of the column. In the next line, the month is written below the year and the date of the transaction is entered immediately after the month as follows:

(Year)	2018
(Month,date)	Jan. 1

Note that the year and the month are not repeated for every transaction. Ditto (“”) mark is placed below the month to indicate that the month is the same. Similarly when two or more transactions have taken place on the same day, ditto mark is placed below the date.

Column (2) is called Particular’s column. This column is meant for recording the names of the two accounts which are involved in the transaction. This is also used for writing a brief description about the transaction called ‘narration’. Let us note carefully the method of writing in this column.

The same of the amount to be debited is written very close to the left hand side line i.e., the line demarcating the date column and the particulars column. The abbreviation ‘Dr’ for debit is written on the same line against the name of the account. The name of the account which is to be credited is written in the next line preceded by the word ‘To’. Note that it is not written immediately below the name of the account which has got the debit but a few spaces towards the right. It is not necessary to write ‘Cr.’ after the name of the account to be credited. Then, in the next line, a brief description (narration) of the transaction is given within brackets. The narration would generally begin with a word like ‘Being’ or ‘For’. After completing narration, a line must be drawn across the entire ‘particulars’ columns to separate one entry from the other.

Let us take an example: **Sold goods for cash, Rs. 500 on May 2, 2018.** In this transaction, the two accounts are Cash Account and Goods Account. You know, as per rules, Cash Account is to be debited and Goods Account is to be credited. This transaction will be shown in the journal as follows:

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
2018 May 2	Cash Account Dr. To Goods Account (Being cash Sale of goods)	–	Rs. 500	Rs. 500

Column (3) is known as the L.F. (Ledger Folio) Column. Folio means page number, so it is meant for writing the number of the page in the Ledger on which the particular account appears. The account to be debited and the account to be credited are likely to be on different pages in the Ledger. The page numbers on which these accounts appear are indicated against the name of each account in this column. This column is filled at the time of posting into the ledger.

Columns (4) and (5) are called amount columns. Column (4) is called the debit amount column and column (5) is called the credit amount column. The amount to be debited is entered in the debit amount column against the name of the account, and the amount to be credited is entered in the credit amount column against the name of the account. Both the amounts will always be equal, as you have observed in the case of the above example.

5.4 STEPS IN JOURNALISING

In recording various business transactions in the journal, the most important aspect is the entry in the 'Particulars' column. Any mistake in this regard would lead to incorrect accounting. Hence, you should analyse the transaction carefully before making such entries. The following steps shall help you to do such analysis:

1. Take up the transaction, one by one. Read and analyse the transaction carefully from the business entity point of view, and identify the two accounts that are being affected by the transaction.
2. You are aware that accounts have been classified as personal, real and nominal accounts. Hence, after identifying the two accounts that are affected by the transaction, you must determine, in respect of each account, whether it is a personal account or a real account or a nominal account.
3. Each class of account has its own rule of debit and credit, which you have already learnt. Now, apply the relevant rules and decide which account is to be debited and which is to be credited.

The three steps explained above will have to be repeated in respect of every transaction. We have simply reinforced the point here to help you to journalise correctly.

Besides identifying the accounts to be debited and credited, you should be equally careful about the date of the transaction and the amounts with which each account is to be debited or credited. Now let us take a transaction, analyse it and see how a complete journal entry will be made.

Sold goods to Saran Brothers on credit for Rs. 500 on January 3, 2018

Step 1: From the business point of view, it is a sale of goods on credit. In this case, the receiving aspect is Saran Brothers (as they receive the goods) and the giving aspect is Goods (as goods go out). So, the two accounts affected are 'Saran Brothers' Account' and 'Goods Account'.

Step 2: The next step is to classify the accounts identified in the Step 1. You are aware that Saran Brothers' Account is a personal account because it relates to persons, and Goods Account is a real account as it relates to property of the business.

Step 3: The rule for personal accounts is 'debit the receiver and credit the giver'. Saran Brothers receive the goods. So, Saran Brothers' Account will be 'debited'. The rule for real accounts is 'debit what comes in and credit what goes out'. Goods go out of business. So, Goods Account will be credited.

Having identified that Saran Brothers' Account is to be debited and Goods Account is to be credited, the entry will be recorded in the journal as follows:

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
2018 Jan. 3	Saran Brothers Dr. To Goods Account (Being goods sold on credit)	–	Rs. 500	Rs. 500

Check Your Progress A

- State whether the following are **True** or **False**:
 - Journal is a book of original entry.
 - Journal records all transactions in a business in the order in which they occur.
 - The process of recording a transaction is called posting.
 - In the journal entry 'Dr.' must be written against the name of the account debited, and 'Cr.' against the name of the account credited.
 - Narration must be written for every transaction entered in the Journal.
- What are the steps to be followed in journalising the business transaction?

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5.5 TRANSACTIONS OF DIFFERENT TYPES

Study carefully the following illustrations where entries for particular type of transactions are presented. Later, some comprehensive illustrations will be given which shall include transactions of all types.

5.5.1 Transactions Relating to Purchase and Sale of Goods for Cash

Most common transactions in business relate to buying and selling of goods. Purchase and sale of goods can take place either on cash basis or on credit basis. In illustration 1, we take up transactions relating to purchase and sale of goods for cash.

Illustration 1

Enter the following transactions in the journal.

2018 Jan. 1.	1.	Bought goods for cash	38,000
	2.	Sold goods for cash	2,500
	3.	Purchased goods for cash from Ajeet	8,000
	4.	Sold goods to Kishan for cash	3,500

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
2018 Jan. 1	Goods Account Dr. To Cash Account (Being cash purchase of goods)		Rs. 38,000	Rs. 38,000
“ 2	Cash Account Dr. To Goods Account (Being cash sale of goods)		2,500	2,500
“ 3	Goods Account Dr. To Cash Account (Being cash purchase of goods)		8,000	8,000
“ 4	Cash Account Dr. To Goods Account (Being cash sale of goods)		3,500	3,500

If you carefully go through the four transactions given above, you will notice that in the first two transactions, there is no mention of the names of the parties with whom the transactions took place. In the other two transactions, the names of the parties concerned are clearly given. However, it has not made any difference in the journal entries. They remain the same, because while recording cash purchase or cash sale it is not necessary to involve personal accounts of the parties concerned. For the business, the dual effect of such transactions is only on (i) cash account, and (ii) goods account.

5.5.2 Transactions Relating to Purchase and Sale of Goods on Credit

In case of purchase and sale of goods on credit, cash is not paid immediately. The settlement of the account is postponed to a later date. Hence, while recording such transactions, it is necessary to involve the personal accounts of the parties concerned. In case of credit sale, the personal account of the buyer is debited. He becomes a debtor, signifying that the party is under an obligation to pay later. Similarly, in case of credit purchase, the personal account of the party is credited. He becomes a creditor, signifying that the business is under an obligation to pay them at a later date.

Now let us consider some transactions of purchase and sale of goods on credit and understand how they are recorded in journal.

Illustration 2

Journalise the following transactions:

2018			Rs.
March	1	Sold goods to Anand on credit	18,000
“	4	Bought goods on account from Ram	48,000
“	6	Purchased goods from Shyam	13,000

JOURNAL

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
2018 March 1	Anand's Account Dr. To Goods Account (Being goods sold on credit)		Rs. 18,000	Rs. 18,000
March 4	Goods Account Dr. To Ram's Account (Being goods purchased on credit)		48,000	48,000
March 6	Goods Account Dr. To Shyam's Account (Being goods purchased on credit)		13,000	13,000

You have seen that it is necessary to involve the personal account of the party, when purchase or sale of goods is on credit. You must have noticed that terms like 'on credit' and 'on account' indicate that it is a credit transaction. It is not always necessary to use such terms. For example, transactions can be worded as 'Bought goods from Mahesh', 'Sold goods to Suresh', without using the terms 'on 'on credit' or 'on account'. These are also credit transactions.

Sometimes a transaction may merely read as 'bought goods' or 'sold goods'. Here it is not clearly stated whether these are cash or credit transactions. Remember that in case of a credit transaction, the name of the party concerned is always given. In the above transactions, names of the parties concerned are not stated. Hence, these shall be treated as cash transactions.

Check Your Progress B

1. Explain the distinction between cash and credit transactions.

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2. Some transactions are given below. State whether they are cash transactions or credit transactions.

Transaction	State whether a cash transaction or a credit transaction
a) Bought from Rahul, goods worth Rs. 10,000	.
b) Purchased goods for Cash, Rs. 5,000 from Tagore	
c) Bought on account from Bose, goods for Rs. 8,000	
d) Bought goods for Rs. 16,000	
e) Sold goods to Chatterjee Rs. 2,000	

f)	Sold goods to Trivedi for cash Rs. 3,000	
g)	Sold goods to Lal on account, Rs. 4,000	
h)	Sold goods Rs. 6,000	

5.5.3 Transactions Relating to Return of Goods

Goods may be returned for various reasons. When goods are returned by a customer, his liability to that extent gets reduced. Hence, it is necessary to give him a credit for the goods returned. Similarly, when the business returns some goods to its supplier, the liability of the business stands reduced to that extent. Hence, the supplier's account will be debited.

Illustration 3

Journalise the following transactions:

2018		Rs.
April 10	Anand returned goods	500
“ 12	Returned goods to Ram	700

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
2018	Goods Account Dr.		Rs. 500	Rs.
April 10	To Anand's Account (Being goods returned by Anand)			500
April 12	Ram's Account Dr.		700	
	To Goods Account (Being goods returned by Anand)			700

Note: In illustrations 1, 2 and 3 above you find that all transactions relating to goods (be it purchase, purchase return, sale or sale return) have been recorded through the Goods Account. However, it would be more purposeful and convenient to record different types of transactions relating to goods, through separate accounts. This helps you to ascertain the amount of purchase and sale for a given period more quickly and correctly. Hence, in practice, instead of one Goods Account, five separate accounts are maintained, as shown below:

- i) For recording all cash and credit purchases of goods—Purchases Account.
- ii) For recording all cash and credit sales of goods—Sales Account.
- iii) For recording goods returned to suppliers—Returns Outward Account or Purchase Returns Account.
- iv) For recording goods returned by customers—Returns Inward Account or Sales Returns Account.
- v) For goods in stock as at the end of the year—Stock Account.

In the comprehensive illustrations 9 and 10, entries have been made according to the above practice. Purchase of goods has been debited to Purchases Account, and sale of goods has been credited to Sales Account, and so on.

5.5.4 Transactions Relating to Purchase and Sale of Assets

Assets like machinery, furniture, vehicles, etc. are brought for use in the business and not for resale. Hence, when an asset is bought, the particular asset account is debited. Similarly, when an asset is sold, the account of that asset is credited.

Assets may also be bought for cash or on credit. You have already noted the difference in the treatment of transactions relating to cash and credit purchases. The same treatment is followed in case of transactions relating to purchase and sale of assets.

Illustration 4

Journalise the following transactions:

2018		Rs.
May 1	Purchased buildings	1,75,000
“ 4	Sold old machinery to Joshi	1,500
“ 8	Bought furniture from Gopal & Company for cash	1,10,000
“ 9	Bought motor vehicles from Allied Motors	90,000

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
2018			Rs.	
May 1	Building Account Dr. To Cash Account (Being building purchased)		1,75,000	1,75,000
“ 4	Joshi's Account Dr. To Machinery Account (Being machinery sold to him)		1,500	1,500
“ 8	Furniture Account Dr. To Cash Account (Being furniture purchased)		1,10,000	1,10,000
“ 9	Motor Vehicle Account Dr. To Allied Motor's Account (Being motor vehicles purchased)		90,000	90,000

5.5.5 Transactions Relating to Expenses and Incomes

You know the expenses and incomes are generally paid/received in cash. So in case of expenses, we debit the concerned expense account and credit cash account. In case of incomes, we debit cash account and credit the concerned income account. Now let us take some examples of such transactions.

Illustration 5

Journalise the following transactions:

2018		Rs.
April 2	Paid salaries	18,000
“ 3	Paid rent to landlord Rajesh	2,000
“ 6	Received interest on investments	1,300
“ 7	Received commission from Mahesh	1,900

Solution:**JOURNAL**

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
2018 May 2	Salaries Account Dr. To Cash Account (Being salaries paid)		Rs. 18,000	Rs. 18,000
May 3	Rent Account Dr. To Cash Account (Being rent paid)		2,000	2,000
May 6	Cash Account Dr. To Interest Received Account (Being interest received on investments)		1,300	1,300
May 7	Cash Account Dr. To Commission Received Account (Being commission received)		1,900 1,900	

In the second transaction in the above illustration, rent was paid to Rajesh, the landlord, but the debit has been given to the nominal account (Rent Account) and not to the personal account of Rajesh. Similarly, when commission was received from Mahesh (fourth transaction), it is the Commission Received Account that has been credited and not the personal account of Mahesh who paid the commission. This is so because these are cash transactions, and no debtor/creditor relationship is created as there is no obligation yet to be fulfilled.

There is another point to be noted in this context. In illustration 5, you have seen that when rent is paid, Rent Account has been debited (it is an expense) and when interest is received, Interest Received Account has been credited (it is an income). In business, certain nominal accounts like Salaries Account, Wages Account, and Postage Account would involve only payments, as these will always be expenses. But certain other items like interest, commission, rent, etc., can sometimes be an expense, sometimes an income. In such case, it is better to maintain separate accounts for their payments and receipts.

5.5.6 Transactions Relating to other Receipts and Payments of Cash

Apart from cash purchase, cash sale, payment of expenses, and receipt of incomes, there are many other transactions which involve movement of cash. For example, the business may receive cash from its debtors (customers from the goods were sold on credit), pay cash to creditors (suppliers of goods on credit), receive or repay loan, etc. In the earlier illustrations, you have learnt that whenever cash is paid, Cash Account is credited, and whenever cash is received, Cash Account is debited. The same treatment will be applicable to the other cash transactions as given in illustration 6

Illustration 6

Enter the following transactions in the journal:

2018		Rs.
April 1	Received cash from Anand, on account	9,000
“ 2	Paid to Ram on account	6,000
“ 3	Took a loan from Chetan	30,000

Solution:**JOURNAL**

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
2018 April 1	Cash Account Dr. To Anand's Account (Being cash received on account)		Rs. 9,000	Rs. 9,000
“ 2	Ram's Account Dr. To Cash Account (Being cash paid on account)		6,000	6,000
“ 3	Cash Account Dr. To Loan from Chetan Account (Being loan taken)		30,000	30,000

In business, sometimes loans are taken to augment the capital invested by the proprietor. In such cases, the word 'loan' is added to the name of the party concerned to distinguish this account from the other accounts. For example, in illustration 6, a loan was taken from Chetan, the credit was given to Loan from Chetan Account and not to Chetan's Account.

Similarly, a business unit may give a loan. In such a case, also the word loan is added to the name of the account. For example, a business unit has given loan to Sohan, the debit will be given to Loan to Sohan Account, and not to Sohan's Account.

5.5.7 Transactions Relating to Receipts and Payments by Cheque

So far, all payments and receipts which have been discussed were in the form of cash. But you know that payments and receipts are also made through cheque. Although we intend to discuss the various banking transactions later. You must at this stage, learn about the journal entries for payments and receipts by cheque.

When payment is made by cheque the credit will be given to Bank Account because the bank balance will be reduced. Similarly, when payment is received by cheque, the amount will be debited to Bank Account as the cheque is deposited in the bank which increases the bank balance. Some examples are given in illustration 7.

Illustration 7

Journalise the following transactions:

2018		Rs
April 2	Paid to Ram on Account by cheque	9,000
“ 4	Received cheque from Shiva on account	6,000

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
2018 April 2	Ram's Account Dr. To Bank Account (Being paid to him by cheque)		Rs. 9,000	Rs. 9,000
“ 4	Bank Account Dr. To Shiva's Account (Being ammount received from him by cheque)		6,000	6,000

5.5.8 Transactions with the Proprietor

You have already learnt that the business and its proprietor are treated as separate entities. This necessitates maintaining of separate accounts in the ledger for recording the transactions between the proprietor and the business. Whatever the proprietor brings into the business is treated as capital and is credited to the Capital Account. Similarly, when the proprietor withdraws cash from the business for his personal use he is debited with the amount withdrawn. Such debit is given to a separate account called Drawings Account. Drawings Account is also debited when the proprietor takes goods from business for his domestic use.

As explained earlier, both the Capital Account and the Drawings Account are treated as personal accounts belonging to the proprietor. Some examples of transactions with the proprietor are given in illustration 8.

Illustration 8

Enter the following transactions in the Journal:

2018		Rs.
May 1	Ganesh commenced business with a capital of	1,00,000
“ 2	He withdraw cash for personal use	7,000
“ 3	He introduced additional capital	18,000
“ 4	He took goods for domestic use	1,000

JOURNAL

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
2018 May 1	Cash Account Dr. To Capital Account (Being capital bought in)		Rs. 1,00,000	Rs. 1,00,000
“ 2	Drawings Account Dr. To Cash Account (Being cash ithdrawn for personal use)		7,000	7,000
“ 3	Cash Account Dr. To Capital Account (Being additional capital brought in)		18,000	18,000
“ 4	Cash Account Dr. To Capital Account (Being additional capital brought in)		1,000	1,000

5.5.9 Transaction Relating to Cash Discount

You have learnt earlier about two types of discounts allowed to customers: (i) trade discount, and (ii) cash discount. Trade discount is not shown in the books of account since it is adjusted in the invoice itself and the entry in the books of account is made for the net amount only. But the case of cash discount is different. At the time of sale, the buyer is debited with the net amount of the invoice. Later if cash discount is allowed at the time of payment, it must be adjusted in the personal account of the debtor. This would show that his account stands cleared, and nothing more remains due.

When cash discount is allowed to the debtor, it is a loss to the business and so debited to Discount Allowed Account and credited to the personal account of the debtor. Similarly, when cash discount is allowed by the creditor, it is a gain to the business so it is credited to Discount Received Account and debited to the personal account of the creditor.

The entries relating to cash discount shall be illustrated under compound journal entry.

5.5.10 Transactions Relating to Bad Debts

When a debtor becomes insolvent, the business shall not be able to realise full amount due from him. A part of it will remain unrealised. The unrealised amount is called 'bad debt'. It is a loss to the business and so debited to Bad Debts Account, and credited to the personal account of the debtor.

If the amount treated as bad debts is recovered later on, the same shall be a gain to the business. Hence, it will be credited to Bad Debts Recovered Account and debited to Cash Account. Note that the bad debts so recovered shall not be credited to the personal account of the debtor.

Look at journal entry from transaction on April 10 under illustration 12 and see how bad debts are recorded.

Illustration 9

Ramesh commenced business on January 1, 2018. His transactions for the month are given below. Journalise them.

2018		Rs.
Jan. 1	Commenced business with a capital of	1,50,000
" 2	Bought goods from Ajeet and Co.	35,000
" 3	Sold goods for cash	6,000
" 4	Purchased furniture	6,000
" 7	Purchased goods on account from Gautam & Co.	18,000
" 8	Returned goods to Gautam & Co.	600
" 8	Paid for advertisement	1,000
" 10	Cash sales	5,000
" 13	Sold goods to Venkat	6,000
" 14	Venkat returns goods	400
" 19	Paid Ajeet and Co. on account	18,000

“ 25	Paid office expenses	300
“ 26	Received from Venkat on account	3,000
“ 31	Paid salaries	5,000
“ 31	Drew cash for private expenses.	3,000

Solution:**JOURNAL**

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
2018 Jan. 1	Cash Account Dr. To Capital Account (Being capital bought in)	Rs.	Rs. 1,50,000	1,50,000
“ 2	Purchase Account Dr. To Ajeet and Co's Account (Being credit purchase)		35,000	35,000
“ 3	Cash Account Dr. To Sales Account (Being cash sales)		6,000	6,000
“ 4	Furniture Account Dr. To Cash Account (Being furniture purchased)		8,000	8,000
“ 7	Purchase Account Dr. To Gautam & Co's Account (Being credit Purchases)		18,000	18,000
“ 8	Gautam & Co's Account Dr. To Returns Outwards Account (Being goods returned to Gautam & Co.)		600	600
“ 8	Advertisement Account Dr. To Cash Account (Being payment, for advertisement)		1,000	1,000
“ 10	Cash Account Dr. To Sales Account (Being cash sales)		5,000	5,000
“ 13	Venkat's Account Dr. To Sales Account (Being credit sales)		6,000	6,000
“ 14	Returns Inwards Account Dr. To Venkat's Account (Being goods returned by Venkat)		400	400
“ 19	Ajeet Co's Account Dr. To Cash Account (Being cash paid on account)		18,000	18,000

“ 25	Office Expenses Account Dr. To Cash Account (Being office expenses)		300	300
“ 26	Cash Account Dr. To Venkat's Account (Being cash received on account)		3,000	3,000
“ 31	Salaries Account Dr. To Cash Account (Being salaries paid)		5,000	5,000
“ 31	Drawings Account Dr. To Cash Account (Being cash withdrawn for personal use)		3,000	3,000

Illustration 10

Journalise the following transactions:

2018		Rs.
June 1	Cash sale to Ashok	1,800
“ 2	Bought goods from Vinod	10,000
“ 3	Old newspapers sold	100
“ 4	Paid Municipal taxes by cheque	900
“ 4	Paid for repairs to machinery	600
“ 8	Received commission by cheque	1,700

Solution:**JOURNAL**

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
2018 June. 1	Cash Account Dr. To Sales Account (Being cash sales)		Rs. 1,800	Rs. 1,800
“ 2	Purchase Account Dr. To Vinod's Account (Being credit purchase)		10,000	10,000
“ 3	Cash Account Dr. To Miscellaneous Income Account (Being the income received by sale of old newspaper)		100	100
“ 4	Municipal Taxes Account Dr. To Bank Account (Being Municipal taxes paid by cheque)		900	900
“ 4	Repairs Account Dr. To Cash Account (Being repairs to machinery)		600	600
“ 8	Bank Account Dr. To Commission Account (Being commission received by cheque)		1,700	1,700

Check Your Progress C

1. Name the accounts which are maintained in lieu of Goods Account.
 - i)
 - ii)
 - iii)
 - iv)
 - v)

2. Select the best answer.
 - a) The amount bought in by the proprietor in the business, should be credited to :
 - i) Proprietor's Account
 - ii) Drawings Account
 - iii) Capital Account

 - b) Purchase of furniture should be debited to
 - i) Furniture Account
 - ii) Goods Account
 - iii) Equipment Account

 - c) Return of goods to a supplier should be credited to
 - i) Goods Account
 - ii) Returns Outward Account
 - iii) Supplier's Account

 - d) Wages paid to Billu should be debited to
 - i) Billu's Account
 - ii) Cash Account
 - iii) Wages Account

 - e) Loan taken from Krishna should be credited to
 - i) Krishna's Account
 - ii) Loan from Krishna Account
 - iii) Bank Account

 - f) Payment made by cheque should be credited to
 - i) Bank Account
 - ii) Cheque Account
 - iii) Cash Account

g) Cash discount allowed to a debtor should be debited to

- i) Customer's Account
- ii) Allowances Account
- iii) Discount Allowed Account

h) In case of bad debts, the amount should be debited to

- i) Debt Account
- ii) Bad debts Account
- iii) Discount Allowed Account

3. Distinguish between trade discount and cash discount.

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.....

4. What is bad debt?

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5. How do you deal with the amount treated as bad debt which is recovered later on?

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5.6 COMPOUND JOURNAL ENTRY

You have seen transactions which involve only two accounts. Sometimes, a transaction may involve more than two accounts. Sometimes, there may be more transactions of the same nature taking place on the same date. In such situations, if we pass separate journal entries, it may take more time and also require more space. Hence, such transactions may be recorded by means of a single journal entry. Such an entry is called a 'compound journal entry'. It may be recorded in the following three ways:

- a) by debiting one account and crediting two or more accounts; or
- b) by debiting two or more accounts and crediting one account; or
- c) by debiting several accounts and crediting several accounts.

Take, for example, the following transactions:

- a) **Paid cash to Ganesh Rs. 490. He allowed Rs. 10 as discount and settled his account.** This transaction involves three accounts: (i) Ganesh's Account, (ii) Cash Account, and (iii) Discount Received Account. The journal entry will be:

		Rs.	Rs.
Ganesh's Account	Dr.	500	
	To Cash Account		490
	To Discount Received Account		10

(Being cash paid to him in full settlement of the account)

- b) **Sold goods to Rao & Sons Rs. 800 and Sharma Bros. Rs. 500, on May 5, 2018.**

These two transactions are of the same nature and have taken place on the same date. Their entries can be combined by passing the following compound journal entry.

		Rs.	Rs.
Rao & Sons Account	Dr.	800	
Sharma Bros. Account	Dr.	500	
	To Sales Account		1,300

(Being sale made)

- c) **A running business with the following assets and liabilities was purchased from Tularam for Rs. 64,000**

Building	Rs. 40,000	Furniture	Rs. 12,000
Stock	Rs. 20,000	Creditors	Rs. 8,000

The journal entry will be:

		Rs.	Rs.
Building Account	Dr.		40,000
Furniture Account	Dr.		12,000
Stock Account	Dr.		20,000
	To Creditors	8,000	
	To Tularam's Account		64,000

(Being assets and liabilities taken over)

5.7 OPENING ENTRY

When a new accounting year begins, the previous year's balances in different accounts are brought forward to the new books of accounts. This is done by means of a journal entry called 'opening entry'. In this entry, all assets accounts are debited and liabilities accounts (including owner's capital account) are credited. If, however, capital account balance is not given, it can be worked out by deducting other liabilities from the total assets. This will become clear from illustration 11.

Illustration 11

Mr. Avinash has the following balances of assets and liabilities on December 31, 2018.

Cash in hand	Rs. 2,500	Stock of goods	Rs. 22,500
Furniture	Rs. 5,000	Bank Loan	Rs. 10,000

Pass the opening entry on January 1, 2019.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
2019			Rs.	Rs.
June. 1	Cash Account Dr.		2,500	
	Stock Account Dr.		22,500	
	Furniture Account Dr.		5,000	
	To Bank Loan Account			10,000
	To Capital Account (Being balances brought forward from the previous year)			20,000

Check Your Progress D

1. What is a Compound entry ?

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2. Complete the following sentences:

- A compound entry is passed for transactions involving
- A compound entry is passed if there are more transactions of same nature on.....
- A compound entry can be passed by debiting one account and crediting.....
- A compound entry can be passed by crediting one account and debiting.....
- In opening entry, all assets are debited and all are credited

3. On December 31, 2018, the assets and liabilities of Chemico Industries were as follows:

Machinery	Rs. 11,000	Furnitur	Rs. 3,000
Stock	Rs. 24,000	Debtors	Rs. 17,000
Cash	Rs. 3,000	Creditors	Rs. 29,600
Loan	Rs. 5,400		

Calculate the capital of M/s Chemico Industries as on January 1, 2019 to enable you to pass an opening entry.

5.8 CASTING AND CARRY FORWARD

Journal is totalled periodically (daily or weekly), depending upon the volume of business and the number of transactions. Totalling is called 'casting'. You have to total both the debit amount column and the credit amount column. Since every debit has an equal and corresponding credit, the totals of the two columns should always be equal. If, however, they do not tally, it implies that there is some error. In that case, you must go through the entire work and locate the error and get the correct total.

When the transactions during a particular period are many and cannot be journalised in the same page, then it would be necessary to total the two amount columns on that page and carry forward the total to the next page. This is done by writing 'Total c/f' against the totals in the particulars column and entering the amount in both amount columns. These totals are then brought forward on the next page by writing 'Total b/f' in the particulars column and entering the amount in both the amount columns. You must draw a line in the particulars column before making the remaining entries in the journal.

Illustration 12

Enter the following transactions in the journal:

2018

- | | | |
|-------|----|---|
| April | 1 | Bought an almirah for Rs. 450, and paid Rs. 30 for cartage. |
| “ | 2 | Proprietor took away goods worth Rs. 200 for personal use. |
| “ | 3 | Gave goods worth Rs. 100 in charity. |
| “ | 4 | Sold an old machine for Rs. 2,000. |
| “ | 5 | Paid insurance premium Rs. 90. |
| “ | 6 | Purchased goods worth Rs. 5,000 for cash less 20 trade discount. |
| “ | 7 | Received Rs. 980 from Kisan Chand, and allowed him Rs. 20 cash discount. |
| “ | 8 | Rs. 500 were due to Ghanshyam. Paid Rs. 480 in full settlement of his account. |
| “ | 9 | Cash of Rs. 560 was stolen from the cash box. |
| “ | 10 | Han Singh, a debtor became insolvent. He owed Rs. 400. A final composition of 50 paise in a rupee was received. |
| “ | 11 | Sold goods to Karim Rs. 800. |
| “ | 12 | Paid into bank Rs. 400. |

JOURNAL

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
2018 June.1	Furniture A/c Dr. To Cash A/c (Being Purchase of an almirah for Rs. 450, Cartage paid Rs. 30)		Rs. 480	Rs. 480
“ 2	Drawings A/c Dr. To Purchases A/c (Being goods taken away by the proprietor for personal use)		200	200
“ 3	Charity A/c Dr. To Purchases A/c (Being goods given in charity)		100	100
“ 4	Cash A/c Dr. To Machinery A/c (Being sale of old machinery)		2,000	2,000
“ 5	Insurance A/c Dr. To Cash A/c (Being payment of insurance premium)		90	90
“ 6	Purchase A/c Dr. To Cash A/c (Being purchase of goods)		4,000	4,000
“ 7	Cash A/c Dr. Discount Allowed A/c Dr. To Kishan Chand (Being cash received from him, discount allowed Rs. 20)		980 20	1000
“ 8	Ghanshyam Dr. To Cash A/c To Discount Received A/c (Being cash paid to him, discount received Rs. 20)		500	480 20
“ 9	Loss by Theft A/c Dr. To Cash A/c (Being loss by theft)		560	560
“ 10	Cash A/c Dr. Bad Debts A/c Dr. To Hari Singh (Being cash received from him, discount allowed Rs. 20)		200 200	400
“ 11	Karim Dr. To Sales A/c (Being credit sales)		800	800
“ 12	Bank A/c Dr. To Cash (Being cash paid into bank)		400	400
			10,530	10,530

The following clarifications with regard to Some transactions will help you to understand their journal entries.

Transaction 1. Rs. 30 paid as cartage have been included in the cost of the furniture purchased and debited to Furniture Account. You know, furniture is a fixed asset. Any expenditure incurred in relation to the purchase of a fixed asset is included in the cost of the fixed asset and as such debited to that asset itself.

Transaction 2. When goods are taken away by the proprietor for his personal use, it is treated as his drawings and so debited to Drawings Account. Further, the proprietor can be charged with only the cost of the goods taken and not the selling price. Hence, it is considered appropriate to reduce the purchases of the business by the amount of goods taken by him, as if the goods were purchased partly for the business and partly for the proprietor.

Transaction 3. The argument applicable to transaction 2 also holds good for the goods given in charity.

Transaction 5. Note that the amount paid as insurance premium is debited to Insurance Account and not to Insurance Premium Account. The premium is just an instalment for an insurance policy taken to cover the risk. The head of account is insurance.

Transaction 6. The entry has been made for the net amount only. Nothing has been debited to Discount Account. You have learnt that debit to Discount Account is needed only in case of cash discount and not in case of trade discount.

Transaction 10. Hari Singh became insolvent. Only half the amount due could be recovered from him. The balance is bad debt. It is a loss to the business and so has been debited to Bad Debts Account.

You would observe a few more points in the above illustration

- a) Instead of writing full word 'Account' its abbreviation 'A/c' has been used. This is what we normally do. In fact the current practice is not to write anything, just the name of the account is enough.
- b) The word 'Account' or its abbreviation 'A/c' has not been used against personal names. This again is a common practice. Writing 'A/c' is confined to real and nominal accounts only.
- c) While carrying forward the total from one page to another, no lines have been drawn below the totals. A line is drawn only in the particulars column after writing 'Total b/f'.

5.9 WHAT IS LEDGER?

Ledger is a book which contains all accounts affected by various transactions in a business. Ledger can be termed as a classified and summarised record of business transactions relating to all personal, real and nominal accounts.

All transactions which are first recorded in the journal, must invariably be posted into the concerned accounts in the ledger. This is necessary because Journal is just a chronological record of transactions, identifying the accounts to be debited and credited. It does not help us to know the net effect of various transactions affecting a particular account. This can only be achieved by recording the effect

of all transactions on each account at one place. Let us illustrate this. Suppose, Mohan Brothers have been selling goods on credit to Suresh. Suresh is allowed to make part payments and make further purchases even before the old balance is cleared. No doubt, all transactions relating to the goods sold to him and the amounts received from him would be duly recorded in the journal (or its subdivisions). But the journal, by itself, will not be in a position to readily provide information as to whether Suresh, at a given point of time, owes them any money and if so, how much. This is because the entries for transactions with him have been made at different places in the journal and you will have to go through all entries to obtain the required information. If however, all sales made to Suresh and the amounts received from him are shown at one place, say, in Suresh's Account in the ledger, the required information would be readily available. This is true of all accounts, be they personal accounts, real accounts or nominal accounts.

Ledger, thus is a book where all accounts are maintained and into which all journal entries are posted. As all transactions must ultimately be recorded in the respective accounts, the ledger is called the 'Book of Final Entry'. It is also called the 'Principal Book of Accounts'. In fact transactions can even be directly recorded into various ledger accounts. But, normally, this is not done because in that case we will not have any date wise record of all transactions and the details thereof. Such record is necessary for future reference.

To sum up (i) the ledger contains all the personal, real and nominal accounts, (ii) the ledger is a permanent, ultimate and up-to-date record of all transactions, and (iii) the ledger provides a means of easy and ready reference.

The ledger is a bound volume with the pages numbered consecutively. Alphabetical index is also shown at the beginning so that the page in which an account appears can be easily ascertained. In certain modern business, loose-leaf ledgers are maintained, instead of one bound volume. Banks maintain loose-leaf ledgers for customer's deposit accounts.

5.10 FORM OF A LEDGER ACCOUNT

As stated earlier, an account is the summarised record of all the transactions relating to a particular person or an item. The form of an account is given below:

NAME OF THE ACCOUNT

Dr.

Cr.

Date	Particular	Folio	Amount	Date	Particular	Folio	Amount
			Rs.				Rs.

You are already familiar with 'T' form of an account. A page is folded vertically in the middle to make it into two halves. Actually, folding is not necessary as usually pre-printed books are available. Sometimes, two pages are taken together as a unit. In that case, the entire page on the left hand side is considered as the debit side and the other page on the right hand side is treated as the credit side.

The columns in ledger account are very much similar to those in journal. In the journal, you have two amount columns because the dual aspect of each transaction has to be analysed and presented side by side. In the ledger account, the first three columns of the journal, viz., date, particulars and folio, appear on both the debit and the credit side and so also the amount column. However, the column meant for entering the page number in ledger is merely called . 'folio', whereas in the journal it is called 'ledger folio'. It is important to note this similarity at the outset, as it would make ledger posting an easy task.

Let us look at the form of ledger account once again. In the middle of the top of the account, the 'Name of the Account' is given. It will be written as 'Shyam's Account', or 'Furniture Account' or 'Rent Account', as the case may be. You also find that Dr. and Cr. appear at the two extreme ends of the top line of the account. The left hand side is designated as debit side and is indicated by writing 'Dr.' on the left hand top corner. Similarly, 'Cr.' is written on the right hand top corner to indicate the credit side. When an account is to be debited, the entry is made on the debit side and when it is to be credited, the entry is made on the credit side.

5.11 POSTING IN TO LEDGER

The journal entries form the basis for recording in the ledger accounts, and the process of entering transaction in the ledger is called 'Posting'. When a journal entry has to be posted in the concerned ledger accounts, the following procedure is adopted.

1. Every journal entry will have to be posted into all those accounts which have been debited and credited in the journal entry. For example, for cash sales, Cash Account is debited and Sales Account is credited in the journal. When this entry is posted in the ledger, it must be posted in Cash Account as well as in Sales Account.
2. Posting will be made on the debit side of the account which has been debited in the journal, and the credit side of the account which has been credited in the journal. In case of above example of the cash sales, posting will be made on the debit side of Cash Account, as it has been debited in journal and the credit side of Sales Account, as it had been credited in the journal.
3. Whether the posting is made on the debit side or the credit side, first of all the date of the transaction (as given in the journal) will be entered in the date column. The method of recording the date in the ledger account is the same as in journal.
4. While posting on the debit side of an account, in the particulars column, we shall write the name of the account which had been credited in the journal and add the word 'To' before the name. Similarly while posting on the credit side of an account, we shall write the name of the account which has been debited in the journal and add the word 'By' before the name. In case of the above example, we shall write 'To Sales A/c' in particulars column on the debit side of Cash Account and 'By Cash A/c' in particulars column on the credit side of the Sales Account.

5. The journal entries contain 'narration'. But it is not required in the ledger accounts. Similarly, there is no need to draw a line between the two entries in an account as is done in the journal. Note that posting in the ledger account is considered complete only when both the debit and the credit aspects of all journal entries have been posted.
6. In the folio column, we shall mention the page number of the journal where the concerned journal entry appears. At the same time, the page number of the ledger accounts will be entered in the 'L.F.' column in the journal so as to complete the cross reference.
7. The amount involved in the journal entry shall be entered in amount columns of both the accounts.

Now let us take a transaction, Journalise it, and then show how the posting is done in the ledger.

Illustration 13

Purchased machinery for cash, Rs. 50,000 on April 4, 2018. This transaction will appear in the journal and the ledger as under:

JOURNAL

Date	Particulars	L. F.	Dr. Amount	Cr. Amount
2018 Apr.4	Machinery A/c Dr. To Cash A/c (Being machinery purchased)		Rs. 50,000	Rs. 50,000

LEDGER

Machinery Account

Dr.				Cr.			
Date	Particulars	Folio	Amount	Date	Particular	Folio	Amount
2018 April 4	To Cash A/c		Rs. 50,000				Rs.

Cash Account

Dr.				Cr.			
Date	Particulars	Folio	Amount	Date	Particular	Folio	Amount
2018			Rs.	2018 April 4	By Machinery		Rs. 50,000

Now we take a few more transactions and illustrate further the ledger posting aspect of the transactions, from the journal entries.

Illustration 14

Journalise the following transactions and post them into the ledger.

2018 April		Rs.
2"	Cash Sales	15,000
2"	Paid Salaries	6,000
6"	Sold goods to Pankaj	10,000
10"	Cash purchases	5,000
13"	Paid for stationery	100
18"	Goods taken by proprietor for personal use	1,000
23"	Bought goods from Manoj	13,000
25"	Received from Pankaj on account	4,000
27"	Sold goods for cash	4,000
30"	Received interest on investments	1,400

Date	Particulars	L. F.	Dr. Amount	Cr. Amount
2018 April 2	Cash Account Dr. To Sales Account (Being cash sales)	Rs.	Rs. 15,000	15,000
" 2	Salaries Account Dr. To Cash Account (Being salaries paid)		6,000	6,000
" 6	Pankaj's Account Dr. To Sales A/c 10,000 (Being goods sold to Pankaj on credit)		10,000	10,000
" 10	Purchases Account Dr. To Cash Account (Being cash purchase)		5,000	5,000
" 13	Stationery Account Dr. To Cash Account (Being stationery purchased)		100	100
" 18	Drawings Account Dr. To Purchases Account (Being goods taken for personal use)		1,000	1,000
" 23	Purchases Account Dr. To Manoj's Account (Being goods purchased from Manoj on credit)		13,000	13,000

“ 25	Cash Account To Pankaj's Account (Being the amount received)	Dr.		4,000	4,000
“ 27	Cash Account To Sales Account (Being cash sales)	Dr.		4,000	4,000
“ 30	Cash Account To Interest Account (Being interest received on investments)	Dr.		1,400	1,400

LEDGER**Cash Account**

Dr.

Cr.

Date	Particular	Folio	Amount	Date	Particular	Folio	Amount
2018			Rs.	2018			Rs.
April 2	To Sales A/c		15,000	April 2	By Salaries A/c		6,000
“ 25	To Pankaj's A/c		4,000	“ 10	By Furniture A/c		5,000
“ 27	To Sales A/c		4,000	“ 13	By Stationery A/c		100
“ 30	To Interest A/c		1,400				

Sales Account

				2018			Rs.
				April 2	By Cash A/c		15,000
				“ 6	By Pankaj's A/c		10,000
				“ 27	By Cash A/c		4,000

Salaries Account

2018			Rs.				
April 2	To Cash A/c		6000				

2018			Rs.	2018			Rs.
April 6	To Sales A/c		10,000	April 25	By Cash A/c		4,000

Purchase Account

2018			Rs.	2018			Rs.
April 10	To Cash A/c		5,000	April 18	By Drawings A/c		1,000
“ 23	To Manoj's A/c		13,000				

Stationery Account

2018			Rs.				
April 13	To Cash A/c		100				

Drawings Account

2018			Rs.				
April 18	To Purchases A/c		1,000				

				2018 April 23	By Purchase A/c		Rs. 13,000
--	--	--	--	------------------	-----------------	--	---------------

Interest Account

				2018 April 30	By Cash A/c		Rs. 1,400
--	--	--	--	------------------	-------------	--	--------------

5.12 POSTING A COMPOUND JOURNAL ENTRY

Normally we post a journal entry into two accounts, on the debit side of one account and the credit side of the other account. This is because most journal entries have only two accounts. But it is not so in case of a compound journal entry which involves more than two accounts. A compound entry will be posted on the debit side of two or more accounts and the credit side of one account, or on the debit side of one account and credit side of two or more accounts. This will depend upon the number of accounts that have been debited and credited in the journal entry. Take, for example, a journal entry for the following transactions:

On May 31, 2018 Mohan, a customer, paid cash Rs. 950 in settlement of his account of Rs. 1,000.

The journalentry for this transaction will be:

2018 May 31	Cash A/c Discount Allowed A/c To Mohan (Being amount received in full settlement)	Dr. Dr.		Rs. 950 50	Rs. 1,000
----------------	--	------------	--	------------------	------------------

In this journal entry, two accounts have been debited and one account has been credited. It will be posted in the debit side of both Cash Account and Discount Allowed Account, and the credit side of Mohan's Account. In the Particular column of the debit side of Cash Account and Discount Allowed Account we shall write 'To Mohan'. On the credit side of Mohan's Account, in Particulars column we shall write 'By Cash A/c', and then in the next line 'By Discount Allowed A/c' and show the respective amounts in the Amount column. See the posting of this compound journal entry as given below:

Cash Account

2018 May 31	To Mohan	Rs. 950			
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Discount Allowed Account

2018 May 31	To Mohan	Rs. 50			
----------------	----------	-----------	--	--	--

Mohan's Account

			2018 May 31	By Cash A/c	Rs. 950
			" 31	By Discount Allowed A/c	50

Alternatively, in Mohan 's Account we can simply write 'By Sundries' in Particulars column and show full amount in the Amount column.

The above example should help you to also correctly post a compound journal entry where one account has been debited and two or more accounts have been credited, or where many accounts have been debited and many accounts have been credited.

Check Your Progress E

1. What is Ledger?

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2. What is posting?

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.....

3. State whether each of the following statements is **True** or **False**.

- a) Posting is done in the journal.
- b) Posting will be made on the debit side of an account which had been debited in the journal.
- c) The word 'To' is used with the name of an account while making posting on the credit side of an account.
- d) No narration is written while posting into ledger accounts.
- e) Every journal entry will be posted only into those accounts which have been debited in the journal.
- f) Compound journal entry is posted to more than two accounts.

5.13 BALANCING LEDGER ACCOUNTS

In the above illustration, you have seen that many transactions are likely to involve a particular account, and there are a number of entries on both sides of an account. At the end of a day, a week or a month, it would be necessary to know the net effect of various transactions entered in an account. For example, it would be important and useful to know as to what is still due from a customer. We can get this information by working out the difference between the total of debit entries and the total of credit entries in customer's account. This process is termed as 'balancing of an account. For example, look at the Pankaj's Account in illustration 14. You find that there are two transactions, one on each side. Pankaj has been debited with Rs. 10,000 for credit sales to him, and credited by Rs. 4,000 for the amount paid by him. The difference between the amount debited and the amount credited is Rs. 6,000. This amount of Rs. 6,000 is the 'balance' in his account which he still owes to the business. Where the debit side total is more than the credit side total, as in this case, it is called a debit balance. It is shown, in particulars column, on the credit side by writing 'By

Balance c/d' and totals on both sides made equal. After totaling the two sides of the account, the same balance is shown on the debit side, on the next date, by writing 'To Balance b/d' in particulars column. The term c/d is an abbreviation for carried down and b/d is for brought down. Such balancing of accounts is done periodically, say, daily (as in the case of cash account), weekly, monthly or at any other convenient time, as and when needed.

Let us see the balancing of Pankaj's Account.

Pankaj's Account

Dr.				Cr.			
Date	Particulars	L.F.	Amount Rs.	Date	Particulars	L.F.	Amount Rs.
2018 April 6	To Sales A/c		10,000	2018 April 25	By Cash A/c		4,000
				" 30	By Balance c/d		6,000
			10,000				10,000
May 1	To Balance b/d		6,000				

In another situation, the total of the credit side may be more than the total of the debit side. In that case, it will be called credit balance. It will be shown on the debit side by writing 'To Balance c/d' in particulars column and the totals of the two sides made equal. After totalling the two sides of the accounts, the same balance will be shown on the credit side on the next date, by writing 'By Balance b/d' in particulars column.

Let us now explain the procedure of balancing an account stepwise.

1. Total both the amount columns (debit and credit) and ascertain the difference in two totals (use a separate rough sheet for this purpose). If there is no difference between the totals of the two sides, it means there is nil balance on this account. This means, the account is closed. However, if there is some difference in the two totals, such difference is called the 'balance'. **If the debit side total is more than the credit side total (as in Pankaj's Account), the difference is called debit balance. If, on the other hand, the total of the items on the credit side is greater than the total of the debit side, the difference is called credit balance.**
2. Put the difference between the two sides on the side showing a smaller total.
3. Enter the date on which balancing is being done, in the date column. Note that balancing is not a transaction, as this does not involve any transfer between two accounts.
4. If the balance is entered on the debit side, then write in particulars column 'To Balance c/d'. In case, the balance is entered on the credit side, write in particulars column 'By Balance c/d' (c/d stands for carried down).
5. Now total both the amount column. There might be more entries on one side, as compared to the other. Even then, the totals must be written on the same horizontal line. Draw one line across both the amount columns, on the same horizontal line. Draw one line across both the amount columns, on the same

horizontal line. Put the totals on both the sides, which will now be identical and then draw line immediately beneath the totals.

6. The closing balance (which was carried down) has now to be brought down on the side which was showing the bigger total. In other words, at the beginning of the next period, the debit balance is shown on the debit side and credit balance on the credit side of the account. It is called opening balance, The balance brought down is usually given the date following the balance date. After entering the date in the date column, if the balance brought down is on the debit side, write 'To Balance b/d' in particulars column. Similarly, if the balance brought down is on the credit side, write 'By Balance b/d' (b/d stands for brought down), particulars column. Suppose an account was balanced on June 30, and the closing balance was entered on the credit side as 'By Balance c/d'. On July 1, this balance would be entered on the debit side as 'To Balance b/d' below the total.

You have now understood the method of balancing an account. Usually a page is allotted to an account and all transactions affecting that account are posted there. Sometimes, when transactions are numerous, more number of pages can be set apart for such an account. When the balance is proposed to be brought down on the same page, then the abbreviations, c/d and b/d are used. However, when there is not much space in the same page, and the balance has to be carried forward either to the next page, or some other page, the abbreviations 'c/f' (carried forward) and 'b/f' (brought forward) are used in place of 'c/d' and 'b/d'. The page numbers are entered in the Folio columns to show as to where the balance has been carried forward and from where it has been brought forward.

Sometimes, there may be no difference between the totals of the two sides. In such cases, there will be no closing balance and no opening balance. However, to signify that the balancing has been done, totals are entered on both the sides and the account is closed.

Now let us take up comprehensive illustration and reinforce what you have learnt so far regarding journalising, posting into ledger and balancing the accounts.

Illustration 15

Journalise the following transactions, post them into ledger and balance the accounts:

2018		Rs.
March 1	Ashok commenced business with cash	1,20,000
" 2	Purchased furniture for cash	24,000
" 2	Purchased goods from Vijay	36,000
" 3	Sold goods	4,800
" 4	Paid rent	3,000
" 6	Sold goods to Arun	9,000
" 7	Arun returned goods	450
" 10	Bought goods from Dinesh	24,000
" 11	Returned goods to Dinesh	600
" 14	Paid for advertising	1,500

“ 15	Paid for stationery	300
“ 17	Drew for personal use	2,400
“ 20	Cash Sales	9,600
“ 21	Received from Arun	2,550
“ 23	Paid to Vijay	12,000
“ 24	Sold goods to Sanjay	15,000
“ 28	Cash sales	6,000
“ 31	Paid salaries	6,000
“ 31	Paid municipal taxes	1,200
“ 31	Paid printing charges	1,500

Solution:**JOURNAL**

Date	Particulars	L. F.	Dr. Amount	Cr. Amount
2018 March 1	Cash Account Dr To Capital Account (being Capital brought in)		Rs. 1,20,000	Rs. 1,20,000
“ 2	Furniture Account Dr. To Cash Account (Being furniture purchased)		24,000	24,000
“ 2	Purchases Account Dr. To Vijay's Account (Being credit purchases)		36,000	36,000
“ 3	Cash Account Dr. To Sales Account (Being cash sales)		4,800	4,800
“ 4	Rent Account Dr. To Cash Account (Being rent paid)		3,000	3,000
“ 6	Arun's Account Dr. To Sales Account (Being credit sales)		9,000	9,000
“ 7	Returns Inwards Account Dr. To Arun's Account (Being goods returned by Arun)		450	450
“ 10	Purchases Account Dr. To Dinesh's Account (Being credit purchases)		24,000	24,000
“ 11	Dinesh's Account Dr. To Returns Outwards Account (Being goods returned to Dinesh)		600	600

“ 14	Advertising Account Dr. To Cash Account (Being the amount paid for advertising)	1,500	1,500
“ 15	Stationary Account Dr. To Cash Account (Being the payment for stationery)	300	300
“ 17	Drawings Account Dr. To Cash Account (Being cash withdrawn for Personal use)	2,400	2,400
“ 20	Cash Account Dr. To Sales Account (Being cash sales)	9,600	9,600
“ 21	Cash Account Dr. To Arun's Account (Being the amount received from Arun)	2,550	2,550
“ 23	Vijay's Account Dr. To Cash Account (Being the amount paid to Vijay)	12,000	12,000
“ 24	Sanjay's Account Dr. To Sales Account (Being credit sales)	15,000	15,000
“ 28	Cash Account Dr. To Sales Account (Being Cash sales)	6,000	6,000
“ 31	Salaries Account Dr. To Cash Account (Being salaries paid)	6,000	6,000
“ 31	Municipal Taxes Account Dr. To Cash Account (Being municipal taxes paid)	1,200	1,200
“ 31	Printing Charges Account Dr. To Cash Account (Being Printing charges paid)	1,500	1,500

LEDGER**Cash Account**

Dr.

Cr.

Date	Particulars	Amount	Date	Particulars	Amount
2018		Rs.	2018		Rs.
March 1	To Capital A/c	1,20,000	March 2	By Furniture A/c	24,000
March 3	To Sales A/c	4,800	March 4	By Rent A/c	3,000
March 20	To Sales A/c	9,600	March 14	By Advertising A/c	1,500
March 21	To Arun A/c	2,550	March 15	By Stationery A/c	300

Accounting Process

“ 28	To Sales A/c	6,000	“ 17	By Drawings A/c	2,400
			“ 23	By Vijay A/c	12,000
			“ 31	By Salaries A/c	6,000
			“ 31	By Municipal Tax A/c	1,200
			“ 31	By Printing Charges A/c	1,500
			“ 31	By Balance c/d	91,050
		1,42,950			1,42,950
Apr. 1	To Balance b/d	91,050			

Sales Account

2018		Rs.	2018		Rs.
Mar. 31	To Balance c/d	44,400	Mar.3	By Cash A/c	4,800
			“ 20	By Arun A/c	9,000
			“ 24	By Cash A/c	9,600
			“ 28	By Sanjay A/c	15,000
		44,400		By Cash A/c	6,000
					44,400
			Apr. 1	To Balance b/d	44,400

Arun's Account

2018		Rs.	2018		Rs.
Mar. 6	To Sales A/c	9,000	Mar. 7	By Returns Inwards	450
			“ 21	By Cash A/c	2,550
			“ 31	By Balance c/d	6,000
		9,000			9,000
Apr. 1	To Balance b/d	9,000			

Return Inward Account

2018		Rs.	2018		Rs.
Mar. 7	To Arun A/c	450	Mar. 31	By Balance c/d	450
Apr. 1	To Balance b/d	450			

Dinesh Account

2018		Rs.	2018		Rs.
Mar.11	To Return Outward A/c	600	Mar. 10	By Purchase A/c	24,000
“ 31	To Balance c/d	23,400			24,000
		24,000	Apr. 1	By Balance b/d	23,400

Return Outward Account

2018		Rs.	2018		Rs.
Mar.31	To Balance c/d	600	Mar.11	By Dinesh's	600
			Apr. 1	By Balance b/d	600

Advertising Account

Journal and Ledger

2018		Rs.	2018		Rs.
Mar.14	To Cash A/c	1,500	Mar. 31	By Balance c/d	1,500
Apr. 1	By Balance b/d	1,500			

Capital Account

2018		Rs.	2018		Rs.
Mar. 31	To Balance c/d	1,20,000	Mar. 1	By Cash A/c	1,20,000
			Apr. 1	By Balance b/d	1,20,000

Furniture Account

2018		Rs.	2018		Rs.
Mar. 2	To Cash A/c	24,000	Mar. 31	By Balance c/d	24,000
Apr. 1	To Balance b/d	24,000			

Purchase Account

2018		Rs.	2018		Rs.
Mar. 2	To Vijay's A/c	36,000	Mar. 31	By Balance c/d	60,000
" 10	To Dinesh's c/d	24,000			
		60,000			
Apr. 1	To Balance b/d	60,000			

Vijay's Account

2018		Rs.	2018		Rs.
Mar. 23	To Cash A/c	12,000	Mar. 2	By Purchase A/c	36,000
" 31	To Balance c/d	24,000			36,000
		36,000	Apr. 1	To Balance b/d	24,000

Rent Account

2018		Rs.	2018		Rs.
Mar. 4	To Cash A/c	3,000	Mar. 31	By Balance c/d	3,000
Apr. 1	To Balance b/d	3,000			

Stationery Account

2018		Rs.	2018		Rs.
Mar.15	To Cash A/c	300	Mar. 31	By Balance c/d	300
Apr. 1	To Balance b/d	300			

Drawings Account

2018		Rs.	2018		Rs.
Mar.17	To Cash A/c	2,400	Mar. 31	By Balance c/d	2,400
Apr. 1	To Balance b/d	2,400			

Sanjay's Account

2018 Mar.24	To Sales A/c	Rs. 15,000	2018 Mar.31	By Balance c/d	Rs. 15,000
Apr. 1	To Balance b/d	15,000			

Salaries Account

2018 Mar.31	To Cash A/c	Rs. 6,000	2018 Mar.31	By Balance c/d	Rs. 6,000
Apr. 1	To Balance b/d	6,000			

Municipal Taxes Account

2018 Mar.31	To Cash A/c	Rs. 1,200	2018 Mar.31	By Balance c/d	Rs. 1,200
Apr. 1	To Balance b/d	1,200			

Printing Charges Account

2018 Mar.31	To Cash A/c	Rs. 1,500	2018 Mar. 31	By Balance c/d	Rs. 1,500
Apr. 1	To Balance b/d	1,500			

Note : Nominal Accounts are balanced for the purpose of preparing the Trial Balance which is being explained in the next section.

5.14 SIGNIFICANCE OF BALANCE

You have learnt that the 'balance in an account signifies the net effect of all transactions related to it during a given period. It may be a debit balance or a credit balance or a nil balance depending upon whether the debit or the credit total is higher. Let us now understand the significance of a balance in respect of the various types of accounts in the ledger.

Personal Accounts

Personal accounts are more frequently balanced as compared to any other class of accounts. Balance in a personal account indicates whether the party concerned owes to the business or the other way round. When it shows a debit balance, it means that the party owes that amount to the business. In other words, he is a debtor to the business. Similarly, when it shows a credit balance, it would mean that the business owes that amount to him i.e., he is creditor of the business if however, the account shows a nil balance, it means that the account has been cleared, nothing is due to him or due from him.

Real Accounts

Real accounts are normally balanced at the end of the accounting period primarily for the purpose of preparing the final accounts. The cash account, however, is balanced everyday because the actual cash is to be verified and confirmed with the closing balance shown by Cash Account. All real accounts show a debit balance as there are assets (property) accounts.

Nominal Accounts

Nominal accounts are not usually balanced, but closed by transfer to Profit and Loss Account, at the time of preparing the final accounts (at the end of the accounting period). However, to start with, for the purpose of understanding the procedure involved, nominal accounts have also been balanced. Even otherwise, the difference between the debit side and credit side totals have to be worked out for preparing the trial balance (you will learn about the trial balance later). The accounts which relate to expenses or losses will show a debit balance; whereas those relating to incomes and gains will have a credit balance. This is because all expenses and losses are debited and all incomes and gains are credited.

Check Your Progress F

1. Why do you balance an account ?

.....

2. Explain the procedure for balancing a ledger account.

.....

3. Name the types of accounts that are balanced.

.....

5.15 POSTING AN OPENING ENTRY

So far, you have learnt about the opening entry which is passed in the journal for all assets and liabilities brought from the previous year. The posting of the opening entry is very different from the posting of other journal entries. We open the concerned accounts in the new ledger for all items that appear in the opening entry. Then, in the accounts which have been debited in the opening entry we shall write 'To Balance b/f in the Particulars column on the debit side of those accounts and show the respective amount in the Amount column. Similarly, in the accounts that have credited in the opening entry, we shall write 'By Balance b/f in the particulars column on the credit side of those accounts and show the respective amount in the Amount column. Thus, the posting is complete.

As a matter of fact, the account which have been debited or credited in the opening entry merely represent the closing balances of various personal and real accounts from the previous year. These are now entered in the ledger accounts of the current year as opening balances through the opening entry. Illustration 16 should help you to understand the posting of the opening entry.

Illustration 16

Post the following opening entry into ledger:

2018			Rs.	Rs.
Jan. 1	Cash A/c	Dr.	5,000	
	Stock A/c	Dr.	20,000	
	Furniture A/c	Dr.	2,000	
	Shah & Co.	Dr.	2,000	
	Prem Chand	Dr.	1,500	
	To Ramesh Lal			3,000
	To Rakesh			1,000
	To Capital A/c			26,500
	(Being and opening entry for assets and liabilities b/f from last year)			

Solution :**Cash Account**

2018		Rs.		
Jan. 1	To Balance b/f	Rs.5,000		

Stock Account

2018		Rs.		
Jan. 1	To Balance b/f	20,000		

Furniture Account

2018		Rs.		
Jan. 1	To Balance b/f	2,000		

Shah's Account

2018		Rs.		
Jan. 1	To Balance b/f	2,000		

Prem Chand's Account

2018		Rs.		
Jan. 1	To Balance b/f	1,500		

Ramesh Lal's Account

			2018		Rs.
			Jan. 1	By Balance b/f	3,000

Rakesh's Account

			2018		Rs.
			Jan. 1	By Balance b/f	1,000

Capital Account

			2018		
			Jan. 1	By Balance b/f	26,500

5.16 LET US SUM UP

1. The journal is the book of prime entry in which all business transactions must be carried first. Each transaction is analysed so that the two-fold aspect of each transaction is clearly presented in the form of a 'Journal Entry'.
2. While journalising the transaction, it is necessary to remember the difference between the treatment of cash and credit transaction, as it is necessary to decide whether the personal account of the party concerned is to be involved or not.
3. Entries relating to Goods Account are made in five separate accounts depending upon the nature of the transactions. These accounts are:
 - (i) Purchase Account, (ii) Sales Account, (iii) Purchase Returns Account, (iv) Sales Returns Account, and (v) Stock Account.
4. A compound journal entry is one where two or more accounts receive the debit (or the credit, as the case may be) and the corresponding credit (or the debit, as the case may be) is given to the other account (or accounts).
5. An opening entry is one which is passed at the beginning of the year to bring forward the previous year's balances of assets and liabilities.
6. Ledger is a book which contains all the accounts affected by various transactions.
7. Journal by itself does not help us to know the net effect on the various transactions affecting a particular account. Hence, all journal entries are posted into ledger accounts.
8. Posting is made on the debit side of the accounts which have been debited in the journal, and the credit side of the accounts which have been credited in the journal.
9. As various transactions are posted to different accounts during a particular period of time, it is necessary to ascertain the net effect of all the posting made. This is done by balancing an account.

5.17 KEY WORDS

Balance: The difference between the total of debits and total of credits appearing in an account. It signifies the net effect of the transactions posted to that account.

Compound Entry: A journal entry involving more than two accounts.

Journal: A book of original entry where a chronological record of transactions is first made.

Journal Entry: An entry made in the journal.

Journalising: The process of recording the business in the journal.

Ledger: A book which contains all accounts affected by various transactions in business.

Opening Entry: A journal entry passed at the beginning of the year to bring forward the previous year's assets and liabilities.

Posting: A process of entering transactions into ledger accounts.

5.18 ANSWERS TO CHECK YOUR PROGRESS

- A 1. a) True b) True c) False d) False e) True
- B 2. a) Credit b) Cash c) Credit d) Cash e) Credit f) Cash g) Credit h) Cash
- C 2. a) Capital A/c
 b) Furniture A/c
 c) Returns Outwards A/c
 d) Wages A/c
 e) Loan from Krishna A/c
 f) Bank A/c
 g) Discount Allowed A/c
 h) Bad Debts A/c
5. Credit to Bad Debts Recovered A/c
- D 2. a) More than two accounts
 b) the same date
 c) two or more accounts
 d) two or more accounts
 e) liabilities
3. Rs. 23,000
- E 3. a) False b) True c) False d) True e) False f) True

5.19 TERMINAL QUESTIONS/EXERCISES

Questions

1. Give the form of journal.
2. What is a journal entry?
3. Explain the steps to be followed in journalising.
4. What is narration?
5. Explain as to why the journal is called a book of original entry.
6. What is a compound journal entry? Give examples.
7. What is an opening entry? Show how is it recorded?
8. Explain the rules regarding posting of journal entries into ledger accounts.
9. What is Balancing an Account? Explain how an account is balanced?

1. Journalise the following transactions:

2018		Rs.
Feb. 1	Purchased goods for cash	18,000
“ 2	Purchased goods on credit from Mithun	37,000
“ 5	Sold goods to Mahesh	10,000
“ 8	Cash sales	8,000
“ 9	Cash sales to Jayant	7,000
“ 11	Returned goods to Mithun	4,000
“ 12	Mahesh returned goods	1,000

2. Give journal entries to record the following transactions:

2018		Rs.
March 1	Purchased furniture from Jay for cash	38,000
“ 2	Bought plant and machinery on credit from Satish	1,10,000
“ 5	Sale of old furniture	1,800
“ 6	Paid to Raman	3,700
“ 8	Received from Suresh	2,500
“ 11	Paid salaries	1,500
“ 13	Purchased stationery	250
“ 15	Paid rent	2,250
“ 17	Received commission	400

3. Journalise the following transactions :

2018		Rs.
April 1	Tarun started business with Cash	8,00,000
“ 2	Bought plant and machinery	1,00,000
“ 2	Bought furniture from Naveen	50,000
“ 3	Purchased typewriter	3,000
“ 4	Purchased goods	70,000
“ 6	Paid wages	8,000
“ 8	Bought loose tools	3,000
“ 9	Cash Sales	15,000
“ 10	Sales to Anil	20,000
“ 12	Paid wages	8,000
“ 13	Purchased goods from Uday	40,000
“ 15	Returned goods to Uday	2,000
“ 18	Purchased stationery	400
“ 20	Bought postage stamps	150
“ 23	Paid insurance premium	600
“ 25	Paid miscellaneous charges	600
“ 26	Paid printing charges	500
“ 29	Paid salaries	20,000
“ 30	Paid to Naveen	25,000

4. The following are the transactions of Gurnath for the month of January. Journalise the transactions:

2018		Rs.
Jan 1	Cash paid into bank	20,000
“ 2	Bought stationery	100
“ 3	Bought goods for cash	8,500
“ 4	Sold goods for cash	4,500
“ 5	Bought office furniture from Pramod & Bros. and paid Rs. 100 as cartage	2,500
“ 6	Sold goods to Maneesh	3,000
“ 8	Received cheque from Maneesh	3,000
“ 9	Paid Pramod & Bros. by cheque	1,500
“ 11	Sold goods to Anil	2,500
“ 15	Bought goods from Sinha & Co.	3,000
“ 16	Bought goods for cash	1,000
“ 19	Sold goods to Praveen	1,300
“ 22	Received from Praveen Rs. 1,250 in full settlement of his account	1,250
“ 24	Paid salaries	2,000
“ 26	Drew for private expenses	1,000
“ 31	Paid rent	1,000

5. Journalise the following transactions and post them into the Ledger.

2018		Rs.
Jan. 1	Manoj commenced business with cash	48,000
“ 2	Deposited into bank	36,000
“ 3	Purchased goods for cash	2,000
“ 4	Bought furniture for office use	5,600
“ 10	Drew from Bank for office use	4,000
“ 13	Goods sold to Rahul	2,400
“ 15	Bought goods from Anil	1,600
“ 18	Paid trade expenses	400
“ 19	Received cash from Rahul	2,400
“ 25	Paid wages	200
“ 28	Paid Anil in full settlement	1,590
“ 30	Paid rent	400
“ 31	Interest on capital	400

6. Enter the following transactions in the journal of Harnath and post them into the Ledger.

2018		Rs.
Feb. 1	Commenced business with cash	60,000
“ 2	Bought goods from Madhan	30,000
“ 2	Purchased fittings for cash	4,800
“ 2	Sold goods to Chetan	9,600
“ 3	Paid Madhan on account	18,000
“ 4	Sold goods to Pradeep	12,000
“ 5	Received cheque from Chetan in full settlement of his account	9,550
“ 6	Paid wages	480

“ 8	Bought goods for cash	3,600
“ 9	Sold goods to Ravi	20,400
“ 10	Purchased goods from Promod	15,600
“ 11	Paid Madhan in final settlement	12,000
“ 12	Paid carriage on goods sold	240
“ 13	Paid wages	480
“ 14	Bought goods from Mahesh	18,000
“ 16	Sold goods to Shyam	21,600
“ 17	Shyam paid on account	24,000
“ 18	Purchased goods from Hareesh	9,000
“ 19	Sold goods for cash	9,600
“ 20	Paid wages	480
“ 21	Sent cheque to Hareesh	9,000
“ 22	Sold goods to Sunil	15,600
“ 23	Bought goods from Amar	28,800
“ 24	Bought goods for cash	8,400
“ 25	Sent cheque on account to Amar	28,000
“ 26	Received from Sunil on Account	15,600
“ 27	Paid wages	500
“ 28	Paid rent	1,100

7. Enter the following transactions in journal, and post them into the ledger.

2018	Rohan commenced his business with the following assets.	Rs.
Mar. 1	Plant and Machinery	1,00,000
	Stock	36,000
	Furniture	26,000
	Cash	2,500
	His transactions for the month were	
“ 2	Sold goods to Sanjay	16,000
“ 3	Bought goods from Murari	26,000
“ 4	Sanjay paid cash	10,000
“ 6	Returned damaged goods to Murari	720
“ 10	Paid Murari on account	11,280
“ 15	Bought goods from Govind	21,600
“ 18	Sold goods to Krishna	30,000
“ 20	Received cash from Krishan	24,000
“ 20	Krishna returned damaged goods	1,600
“ 26	Paid to Govind	14,400
“ 31	Paid salaries	3,000
“ 31	Paid rent	1,000

5.20 SOME USEFUL BOOKS

Grewal T.S. Double Entry Book-Keeping (New Delhi: Sultan Chand & Sons, 2018)

Maheshwari, S.N. Principles and Practice of Accountancy Part-I (New Delhi: Arya Book Depot, 2018)

Patil, V.A. & Korlahalli, S. Principles and Practice of Book-Keeping (New Delhi: R. Chand & Co., 2018)

Note : These questions will help you to understand the unit better. Try to write answers for them. But, do not submit your answers to the University for assessment. These are for your own practice only.

UNIT 6 SUBSIDIARY BOOKS

Structure

- 6.0 Objectives
- 6.1 Introduction
- 6.2 Need for Sub-division of Journal
- 6.3 Subsidiary Books
- 6.4 Advantages of Subsidiary Books
- 6.5 Cash Book
- 6.6 Single Column Cash Book
 - 6.6.1 Recording in Single Column Cash Book
 - 6.6.2 Posting the Single Column Cash Book
 - 6.6.3 Balancing the Single Column Cash Book
- 6.7 Two Column Cash Book
 - 6.7.1 Recording in Two Column Cash Book
 - 6.7.2 Posting the Two Column Cash Book
 - 6.7.3 Balancing the Two Column Cash Book
- 6.8 Petty Cash Book
 - 6.8.1 Imprest System
 - 6.8.2 Recording, Posting and Balancing the Petty Cash Book
- 6.9 What is a Bank?
- 6.10 Types of Bank Accounts
 - 6.10.1 Advantage of having a Bank Account
 - 6.10.2 How to Open and Operate a Bank Account
- 6.11 Crossing of Cheques
- 6.12 Endorsement and Dishonour of Cheques
- 6.13 Three Column Cash Book
 - 6.13.1 Recording in Three Column Cash Book
 - 6.13.2 Posting the Three Column Cash Book
 - 6.13.3 Balancing the Three Column Cash Book
 - 6.13.4 Special Points Regarding Cheques Received
- 6.14 Purchases Journal
 - 6.14.1 Invoice
 - 6.14.2 Recording in the Purchases Journal
 - 6.14.3 Posting the Purchases Journal
- 6.15 Purchases Returns Journal
 - 6.15.1 Debit Note
 - 6.15.2 Recording in the Purchases Returns Journal
 - 6.15.3 Posting the Purchases Returns Journal

- 6.16 Sales Journal
 - 6.16.1 Recording in the Sales Journal
 - 6.16.2 Posting the Sales Journal
- 6.17 Sales Returns Journal
 - 6.17.1 Credit Note
 - 6.17.2 Recording in the Sales Returns Journal
 - 5.17.3 Posting the Sales Returns Journal
- 6.18 Journal Proper
- 6.19 Let Us Sum Up
- 6.20 Key Words
- 6.21 Answers to Check Your Progress
- 6.22 Terminal Questions/Exercises

6.0 OBJECTIVES

After studying this unit, you should be able to:

- appreciate the need for special journals;
- sub-divide the journal into various special journals;
- identify the type of transactions recorded in special journal;
- prepare simple cash book and balance it;
- post cash book entries into ledger;
- prepare cash book with discount column;
- post discount column entries into ledger;
- describe imprest system;
- prepare petty cash book and post it into ledger;
- describe the functions of a bank;
- explain the advantages of opening a bank account;
- describe how to open bank account;
- explain the functions of pay-in-slip book, cheque book and the pass book;
- appreciate the importance of crossing and endorsement;
- record banking transactions in a three column cash book;
- post three column cash book into ledger;
- prepare purchases and purchases returns journals and post them into ledger;
- prepare sales and sales returns journals and post them into ledger;
- prepare bills books and post them into ledger; and
- state various transactions recorded in journal proper.

6.1 INTRODUCTION

You learnt how to record the business transactions in journal and then post them into ledger. You know that journal is a book of prime entry in which all transactions are to be recorded first. But, in practice, the number of transactions happens to be so large that it becomes difficult to record them in one book. Hence, the journal is sub-divided into a number of special journals, called subsidiary books. In this unit, you will learn about the most important subsidiary book called Cash Book. We shall discuss various types of cash books, study how transactions are recorded in the Single Column Cash Book, Two Column Cash Book and Three Column Cash Book and how they are posted into ledger. You shall also learn about the Imprest System and the preparation, posting and balancing of Petty Cash Book.

Further, you will learn how to record cash transactions in Single Column Cash Book, Two Column Cash Book and Three Column Cash Book and post them into ledger. In three column cash book, we have an additional column for banking transactions. As a prelude, we shall first discuss how to open an account in a bank, the advantages of opening a bank account, the functions of pay-in-slip, cheque book and pass book, and the importance of crossing and endorsement of cheques. Then, we shall learn how various transactions with a bank are recorded in the Three Cash Book and posted into ledger.

In this unit, we also intend to take up the books like: (i) Purchases Journal, (ii) Purchases Returns Journal, (iii) Sales Journal (iv) Sales Returns Journal, (v) Journal Proper. You will also learn how transactions are recorded in each of these books and how they are posted into ledger.

6.2 NEED FOR SUB-DIVISION OF JOURNAL

The system of having only one book of prime entry may work for a small organisation where the number of transactions is usually small. But, when the number of transactions are large, it is practically impossible to record all the transactions through one journal. It is because:

- i) the journal can be handled by only one person and the work becomes too heavy for him;
- ii) the transactions may not be recorded promptly, as all transactions have to be recorded in the same book; and
- iii) the journal becomes bulky and voluminous.

In order to overcome these difficulties and to facilitate speedy recording of various transactions, the journal is sub-divided into a number of special journals called 'Subsidiary Books'.

6.3 SUBSIDIARY BOOKS

Before we list various books into which the journal is sub-divided, let us understand the basis for its sub-division. You may adopt any basis. But, the principle generally followed is that transactions of the same nature are to be recorded at one place. For example, the cash receipts and cash payments may be grouped into one category and recorded in a separate book. Similarly, all credit purchases of goods may be grouped into one category, all credit sales of goods into another category and recorded in separate books.

In practice, the journal is sub-divided in such a way that a separate book is used for each category of transactions which are repetitive in nature and are sufficiently large in number. In any large business, the following subsidiary books are generally used.

1. **Cash Book:** It is used for recording all receipts and payments of cash, including cash purchases and cash sales of goods.
2. **Purchases Journal:** It is used for recording credit purchases of goods only.
3. **Purchases Returns Journal:** It is used for recording goods returned to suppliers.
4. **Sales Journal:** It is used for recording credit sales of goods only.
5. **Sales Returns Journal:** It is used for recording goods returned by the customers.
6. **Bills Receivable Journal:** It is used for recording bills of exchange and promissory notes received from the debtors.
7. **Bills Payable Journal:** It is used for recording bills of exchange and promissory notes accepted by the business in favour of creditors.
8. **Journal Proper:** This book is used for recording all such transactions which are not covered by any of the above mentioned special journals, for example, credit purchases of fixed assets, opening entry, rectification entries, etc.

It must, however, be noted that there is no rigidity as to the number of special journals. Depending on the necessity, the number of journals may be increased or decreased.

6.4 ADVANTAGES OF SUBSIDIARY BOOKS

The following are the advantages of having a number of subsidiary books:

- i) **Classification of transactions becomes automatic:** As there is a separate book for each type of transactions, the transactions of same nature are automatically brought at one place. For example all credit purchase of goods are recorded in the purchases book.
- ii) **Reference becomes easy:** If any reference is required, it can be traced easily by referring to the appropriate subsidiary book. You do not have to go through all the transactions recorded in the journal.
- iii) **Facilitates division of work:** The division of journal into various subsidiary books facilitates division of work among many persons. This, in turn, facilitates prompt recording of transactions and saves a lot of time.
- iv) **More particulars:** More details about the transactions can be given in subsidiary books than would be possible in one book.
- v) **Responsibility can be fixed:** The work of maintaining a particular book can be entrusted to a particular person. He will be responsible for keeping it up-to-date and in order.
- vi) **Facilitates checking:** When the Trial Balance does not agree, the location of errors will be relatively easy.

Check Your Progress A

1. Write the number of correct alternative in the box.

- a) A separate journal is kept for
- i) each transaction
 - ii) each type of transactions
 - iii) each type of transactions which are repetitive in nature and sufficiently large in number
-
- b) Cash Book contains
- i) all receipts and payments of cash
 - ii) all receipts only
 - iii) all payments only
-
- c) Journal Proper is meant for recording
- i) credit purchase of fixed assets
 - ii) return of goods
 - iii) all such transactions for which no special journal has been kept by the business
-
- d) Purchases Journal is kept to record
- i) all purchases of goods
 - ii) all credit purchases of goods
 - iii) all credit purchases
-
- e) Sales Journal is used to record
- i) cash sales
 - ii) credit sales of assets
 - iii) credit sales of goods

6.5 CASH BOOK

Having outlined various subsidiary books, we shall now discuss the most important subsidiary book called 'Cash Book'. In any business there would be numerous cash transactions which involve either receipts or payments of cash. Cash sales, receipt of cash from debtors, cash purchases, payments to creditors, payment of various expenses such as salaries, wages, rent, taxes, etc., are some examples of transactions involving cash. All these are recorded in cash book, receipts on one side and payments on the other.

Every business unit, small or big, maintains a cash book. It enables the businessman to know and verify the amount of cash in hand from time to time. As a matter of fact, cash book plays a dual role. It is a book of prime entry and also serves the purpose

of a Cash Account. It is designed in the form of a ledger account and records cash receipts on the debit side and payments on credit side. It is also balanced in the same way. Hence, when cash book is maintained, there is no need to have a Cash Account in the ledger.

There are different types of cash books maintained by the business. These are:

1. Simple or Single Column Cash Book
2. Two or Double Column Cash Book
3. Three or Triple Column Cash Book

We shall now consider them one by one and learn how they are prepared and posted into ledger.

6.6 SINGLE COLUMN CASH BOOK

Look at the proforma of a Single Column Cash Book shown in Figure 6.1. Doesn't it look like a ledger account? Yes, it does. In fact a Single Column Cash Book is nothing but a Cash Account. It is used for recording all cash receipts and cash payments and serves the purpose of Cash Account as well. It is called Single Column Cash Book just because it has only one amount column on each side.

Single Column Cash Book

Dr.				Cr.			
Date	Particulars	L.F.	Amount	Date	Particular	L.F.	Amount
	To (write the name of the account to be credited)		Rs.		To (write the name of the account to be debited)		Rs.

Fig. 6.1

6.6.1 Recording in Single Column Cash Book

You know that Cash Account is a real account. According to rules, Cash Account is to be debited when cash is received and credited when cash is paid. Hence, the debit side of the cash book is used for recording all cash receipts and the credit side for all cash payments. Let us now discuss how entries are made in this book.

As explained above, whenever cash is received, it is to be recorded on the debit side. The date on which it is received is recorded in the date column. The name of the account from which it is received is mentioned in the particulars column. In the L.F. (Ledger Folio) column the page number of the account in the ledger, where the posting is made, is to be recorded at the time of posting. The amount column is meant for recording the amount received. Similarly, whenever cash is paid, it is recorded on the credit side. Here, in particulars column, we write the name of the party to whom payment is made, and complete the other columns in the same manner as on the debit side.

6.6.2 Posting the Single Column Cash Book

As said earlier, Cash Book also serves the purpose of a Cash Account, so there

is no need to open a Cash Account in the ledger. When a cash transaction is recorded in the cash book, posting of the cash aspect of the transaction in Cash Account stands fully covered. What remains to be posted is the other aspect of the transaction. The posting of this aspect will complete the double entry. The rules of posting therefore are:

- i) for all transactions entered on the debit side of the cash book, credit the concerned accounts in the ledger individually by writing 'By Cash Account'.
- ii) for all transactions entered on the credit side, debit the concerned accounts in the ledger individually by writing 'To Cash Account'.

Thus, the posting into the ledger accounts is completed. Note that the transactions entered on the debit side of the cash book are to be posted on the credit side of the accounts in the ledger and vice versa.

6.6.3 Balancing the Single Column Cash Book

You have already learnt how to balance a ledger account. The cash book is balanced just like any other ledger account. The cash book will always show a debit balance. This is because the cash payments can never exceed the amount of cash available. For example, if you have Rs. 10 in your pocket, can you pay Rs 15? You cannot. So the total of the debit side in the cash book will always be more than the total of the credit side. This difference indicates the cash in hand. It shall be entered on the credit side by writing 'By Balance c/d' in particulars column and showing the amount in the amount column. Now total the amount columns and you will find that the two sides are equal.

After closing the cash book, the balance is shown on the debit side by writing 'To Balance b/d'. It becomes the opening balance of cash for the next period. Note that the cash book shall generally show a debit balance and occasionally a nil balance. Look at illustration 1. It shows the recording, posting and balancing of a Single Column Cash Book.

Illustration 1

From the following particulars of M/s Naveen & Co., prepare a Simple Cash Book and balance the same. Also show postings into the ledger accounts.

2018		Rs.
July 1	Naveen started business with a capital of	25,000
" 2	Opened a bank account and deposited	20,000
" 5	Purchased goods for cash	3,000
" 6	Sold goods for cash	4,000
" 8	Purchased furniture	1,000
" 10	Purchased goods from Ramlal on credit	2,500
" 12	Sold goods to Chhotelal on credit	3,000
" 16	Sold goods for cash	1,000
" 17	Paid to Ramlal on account	2,500
" 19	Received from Chhotelal	2,000
" 22	Withdrawn cash from bank	3,000
" 25	Paid electricity bill	50
" 28	Paid rent to the landlord	350
" 31	Paid salary to the clerk	500

Cash Book of Naveen & Co.

Dr.

Cr

Date	Particular	I.F.	Amount	Date	Particular	I.F.	Amount
2018			Rs.	2018			Rs.
July, 1	To Capital A/c		25,000	July, 2	By Bank A/c		20,000
“ 16	To Sales A/c		4,000	“ 5	By Purchases A/c		3,000
“ 19	To Sales A/c		1,000	“ 8	By Furniture A/c		1,000
“ 22	To Chhotelal		2,000	“ 17	By Ramlal		2,500
	To Bank A/c		3,000	“ 25	By Electricity Charges A/c		50
				“ 28	By Rent		350
				“ 31	By Salaries A/c		500
				“ 31	By Balance c/d		7,600
			35,000				35,000
Aug.1	To Balance b/d		7,600				

Note: Transactions of July 10 and 12 are credit transactions. So they are not recorded in the cash book.

LEDGER

Capital Account

Dr.

Cr.

			2018		Rs.
			July 1	By Cash A/c	25,000

Sales Account

			2018		Rs.
			July 6	By Cash A/c	4,000
			“ 16	By Cash A/c	1,000

Chhotelal's Account

			2018		Rs.
			July 19	By Cash A/c	2,000

Bank Account

2018		Rs.	2018		Rs.
July, 2	To Cash A/c	20,000	July 22	By Cash A/c	3,000

Purchase Account

2018		Rs.			
July, 5	To Cash A/c	3,000			

Furniture Account

2018		Rs.			
July, 8	To Cash A/c	1,000			

Ramlal's Account

2018		Rs.			
July, 17	To Cash A/c	2,500			

Electricity Charges Account

2018		Rs.		
July, 25	To Cash A/	50		

Rent Account

2018		Rs.		
July, 28	To Cash A/c	350		

Salaries Account

2018		Rs.		
July, 31	To Cash A/c	500		

Check Your Progress B

1. Fill in the blanks:

- a) Alltransactions are recorded in the cash book.
- b) Cash receipts are recorded on theside of the cash book and cash payments are recorded on the side of the cash book.
- c) Cash book also serves the purpose of
- d) Transactions entered on the debit side of the cash book are to be posted on theside of the accounts in the ledger.
- e) Cash book always shows abalance.
- f) Cash book balance reflectsin hand.

2. Why does cash book always show a debit balance?

.....

.....

.....

6.7 TWO COLUMN CASH BOOK

Previously you learnt about the cash discount. When cash is received from a debtor, some discount may be allowed to him. Similarly, when payment is made to a creditor, some discount may be allowed by him. This is termed as Cash Discount and it has to be recorded in the books of account. While making compound journal entries for such transactions, you learnt that cash and discount go together. You know that receipts from debtors and payments to creditors are to be recorded in the cash book. Now the question arises as to how to record the cash discount. One method is to record the discount aspect separately in the journal. But this would be cumbersome, and the possibility of failing to record can also happen. Hence, accountants have developed a practice of recording the discount aspect in the cash book itself. For this, an extra amount column is added on both sides of the cash book. Look at the proforma shown in Figure 6.2. The discount allowed to debtors is recorded on the debit side and the discount received from creditors is recorded

on the credit side. Thus, now there are two amount columns on both sides of the cash book, one for discount and the other for cash. It is called ‘Two Column Cash Book’.

Two Column Cash Book

Dr.					Cr.				
Date	Particulars	L.F.	Discount Allowed	Cash	Date	Particulars	L.F.	Discount Received	Cash
			Rs.	Rs.				Rs.	Rs.

Fig. 6.2

6.7.1 Recording in Two Column Cash Book

Recording of cash transactions in a Two Column Cash Book is similar to Single Column Cash Book. As for cash discount, it is entered on the debit side if allowed to the debtor and on the credit side if received from the creditor. Study cash book entries for transactions of August 7 and 12 in illustration 2.

6.7.2 Posting the Two Column Cash Book

The entries in the cash columns of Two Column Cash Book are posted to the ledger accounts in the same way as we did in the case of Single Column Cash Book. The entries in the discount columns are also to be posted to the respective personal accounts. The entries in discount allowed column will be posted to the credit side of the respective personal accounts by writing ‘By Discount Allowed A/c’. Similarly, the entries in the discount received column will be posted to the debit side of the respective personal accounts by writing ‘To Discount Received A/c’. For example,

Cash received from Devi Traders Rs. 490, and discount allowed Rs. 10: This transaction will be entered in particulars column on the debit side of the cash book by writing ‘To Devi Traders A/c’. An amount of Rs. 10 will be shown in discount allowed column and Rs. 490 in cash column. Its posting into Devi Traders’ Account in the ledger will be made as follows:

Devi Traders Account					
Dr.					Cr.
				By Cash A/c	Rs. 490
				By Discount Allowed A/c	10

As for the transactions relating to cash, the double entry is complete as soon as postings have been made to the respective personal accounts. But it is not so for the discount aspect. The cash book does not serve the purpose of discount account. We have to open ‘Discount Allowed Account’ and ‘Discount Received Account’ in the ledger. The total of discount allowed columns on the debit side of the cash book is posted to the debit side of the ‘Discount Allowed Account’ in the ledger by writing ‘To Sundries’. Similarly, the total of discount received column on the credit side of the cash book is posted to the credit side of the ‘Discount Received Account’ in the ledger by writing ‘By Sundries’. This will complete the double entry in respect of discount allowed and discount received. Note that the postings in the two discount accounts are made only for the totals and not for the individual transactions. Thus, we save time and labour.

6.7.3 Balancing the Two Column Cash Book

In case of Two Column Cash Book, only the cash columns are balanced. Procedure is similar to Single Column Cash Book. The discount columns are not balanced, they are simply totalled. This is because the two discount columns relate to two separate accounts—the Discount Allowed Account and the Discount Received Account.

Study illustration 2 carefully. You will understand how transactions are recorded in the Two Column Cash Book and posted to the ledger accounts.

Illustration 2

From the following transactions of M/s. Joshi & Sons, prepare Cash Book and show the ledger postings:

2018	Rs.
Aug.1 Cash in hand	4,270
“ 5 Purchased an old typewriter for	1,500
“ 7 Received cash from Singh & Co. Rs. 1,980 and allowed discount of	20
“ 10 Cash Sales	5,500
“ 12 Paid to Ram Narain Rs. 2,970 and he allowed a discount of	30
“ 14 Sold old newspapers for Rs. 60.	
“ 16 Received from Prasad Rs. 985 in full settlement of his account for	1,000
“ 18 Purchased goods worth from Sanjeev Bros. at a trade discount of 10% and paid cash.	2,000
“ 20 Sold goods worth for cash at a trade discount of 5%.	1,000
“ 24 Settled the account of Tiwari of by paying the necessary amount after deducting a discount of 3%.	500
“ 30 Paid rent	500
“ 30 Deposited in the bank the cash in excess of	1,490

Notes:

Solution :

Joshi & Sons Cash Book (With Discount and Cash Columns)

Rs.					Rs.				
Date	Particular	L.F.	Discount Allowed	Cash	Date	Particula	L.F.	Discount Received	Cash
2018			Rs.	Rs.	2018			Rs.	Rs.
Aug.1	To Balance b/d			4,270	Aug. 5	By Typewriter A/c			1,500
“ 7	To Singh & Co.		20	1,980	“ 12	By Rain Narain		30	2,970
“ 10	To Sales A/c			5,500	“ 18	By Purchases A/c			1,800
“ 14	To Old News-papers A/c			60	“ 24	By Tiwari		15	485
“ 16	To Prasad		15	985	“ 30	By Rent A/c			500
“ 20	To Sales A/c			950	“ 30	By Bank A/c			5,000
					“ 31	By Balance c/d			1,490
			35	13,745				45	13,745
Sep. 1	To Balance b/d			1,490					

1. The cash in hand on August 1, 2018 is not a transaction but the balance brought down from the previous month. It has been shown on the debit side of the cash column as 'To Balance b/d'. No posting to any account is necessary for the balance.
2. The transactions of August 18 and 20 are recorded at net amounts i.e., after adjusting trade discount. Earlier you learnt that trade discount is not to be shown in the books.
3. Cash in excess of Rs 1,490 is deposited in the bank. It means the closing balance of cash is Rs 1,490. The actual difference between the debit and credit cash columns would work out at Rs 6,490. Hence, the amount deposited in the bank is Rs 5,000 (6,490-1,490).

LEDGER
Singh & Co. Account

Dr.					Cr.
			2018		Rs.
			Aug. 7	By Cash A/c	1,980
			“ 7	By Discount Allowed	20

Sales Account

			2018		Rs.
			Aug 10	By Cash A/c	5,500
			Aug. 20	By Cash A/c	950

Old Newspapers Account

			2018		Rs.
			Aug. 14	By Cash A/c	60

Prasad's Account

			2018		Rs.
			Aug. 16	By Cash A/c	985
			Aug. 16	By Discount Allowed	15

Typewriter Account

2018		Rs.			
Aug. 5	To Cash A/c	1,500			

Ram Narain's Account

2018		Rs.			
Aug. 12	To Cash A/c	2,970			
Aug. 12	To Discount Received A/c	30			

Purchases Account

2018		Rs.			
Aug. 18	To Cash A/c	1,800			

Tiwari's Account

2018		Rs.			
Aug. 24	To Cash A/c	485			
Aug. 24	To Discount Received	15			

Rent Account

2018		Rs.			
Aug. 30	To Cash A/c	500			

Bank Account

2018		Rs.			
Aug. 30	To Cash A/c	5,000			

Discount Allowed Account

2018		Rs.			
Aug. 31	To Sundries A/c	35			

Discount Received Account

			2018		Rs.
			Aug. 31	By Sundries A/c	45

Check Your Progress C

1. How are the cash discount transactions normally recorded in the Cash Book?

2. A few statements are given below. Mention against each whether it is **True** or **False**.
 - a) Trade discount is not recorded in the books of account.
 - b) Cash discount can be recorded through Journal or through Cash Book
 - c) Two Column Cash Book has an extra column for discount on the debit side.
 - d) No posting is required in personal accounts for cash discount
 - e) Discount columns in the Cash Book are not balanced, they are merely totalled.
3. How do you post entries from the discount allowed and discount received columns to the Discount Allowed Account and Discount Received Account in the ledger?

6.8 PETTY CASH BOOK

In every business, there will be numerous small payments in cash such as payments for postage, telegrams, stationery, cartage, conveyance, entertaining the customers, minor repairs, etc. If all these petty payments are recorded in the cash book along with other payments, the cash book will be overloaded. Hence, a separate book called 'Petty Cash Book' is maintained for recording all such small (petty) payments. A person called petty cashier is entrusted with the work of making the small payments and maintaining the Petty Cash Book. The sum of money given to the petty cashier for making small payments is called petty cash.

6.8.1 Imprest System

Generally, Petty Cash Book is maintained on Imprest System. Under this system, an estimate is made of the amount required for petty payments for a certain period, say a week or a month. This amount is handed over to the petty cashier in advance. The petty cashier is required to obtain vouchers for all expenses he incurs. At the end of the period, the petty cashier presents the Petty Cash Book together with the vouchers to the chief cashier. The chief cashier verifies the entries in the Petty Cash Book and pays to the petty cashier a sum equal to the amount spent by him. The original amount of the petty cash with which the petty cashier had started is thus restored. This system of advance at the beginning and reimbursing the amount spent from time to time is called 'Imprest System'. For example, on June 1, Rs. 200 is given as advance for petty payments to the petty cashier. He spent Rs. 185 on various items during the month. The chief cashier, after verifying the expenses with the vouchers, would pay Rs 185 to him. Thus on July 1, the petty cashier would again have Rs. 200 (Rs. 185 paid by the chief cashier plus the old balance of Rs. 15), the imprest amount. This system provides an adequate check on petty payments.

6.8.2 Recording, Posting and Balancing the Petty Cash Book

Look at illustration 3. You will find only one column each for receipts, cash book folio, date, particulars, and voucher no. But, it provides a number of amount columns for recording the payments of various petty expenses. This facilitates the analysis of payments under different heads and their posting to appropriate expense account. The headings under which petty expenses are generally categorised are: (i) printing and stationery, (ii) postage and telegrams, (iii) cartage, (iv) conveyance (v) entertainment, and (vi) miscellaneous.

When the head cashier advances money to the petty cashier, either in cash or by cheque, an entry is made in the cash or bank column of the main cash book on the credit side by writing 'By Petty Cash A/c'. The petty cashier, on receiving the cash, records it in the particulars column of the Petty Cash Book by writing 'To Cash A/c' (if cash is received) or 'To Bank A/c' (if cheque is received) and enters the amount in receipts column. When he makes payments, each payment is entered in the particulars column by writing the name of expense incurred. The amount is first entered in the total payments column and then in the column specified for the concerned expense.

The Petty Cash book is balanced periodically, say weekly or monthly. The various expense accounts in the ledger are individually debited with the periodic totals (as per Petty Cash Book) by writing 'To Petty Cash A/c'. The Petty Cash Account in the ledger is credited with the total expenditure incurred during the period by writing 'By Sundries as per Petty Cash Book'. The Petty Cash Account is then balanced. It will normally have a debit balance which will be equal to the actual cash with the petty cashier. Illustration 3 shows recording in Petty Cash Book and its posting into the ledger.

Illustration 3

2018

Rs.

Aug

“ 1	Received a cheque from head cashier	250.00
“ 2	Paid to printing of letter heads	40.00
“ 4	Purchased postal stamps	15.00
“ 5	Paid for cartage on goods purchased	9.00
“ 7	Paid auto fare	6.00
“ 9	Tea expenses for customers	4.75
“ 12	Sent telegram to Calcutta	8.50
“ 14	Paid for stationery	16.25
“ 15	Paid taxi fare	12.75
“ 17	Paid for postage	42.50
“ 19	Paid tips to office boys	8.00
“ 20	Paid for cartage	14.50
“ 22	Paid for cold drinks offered to customers	6.00
“ 25	Payments made to coolies	9.75
“ 27	Purchase of postal envelopes	3.60
“ 28	Rickshaw charges	3.00
“ 30	Cartage on goods purchased	10.00

Balance the Petty Cash Book at the end of August and show the amount of the cheque to be issued to the petty cashier on September 1, 2018. Also show the ledger postings.

Solution

Petty Cash Book

Receipts	Cash Book Folio No.	Date	Particulars	Voucher No.	Pay-ments	Print- ing & Sta- tion- ery	Post- age & Tele- gram	Cart- age	Conve- yance	Enter- tain- ment	Misc- lane- ous	Re- marks
Rs. 250.00		2018 Aug. 1	To Bank A/c			Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
		“ 2	By Letter heads		40.00	40.00						
		“ 4	By Postal stamps		15.00		15.00					
		“ 5	By Cartage		9.00			9.00				
		“ 7	By Auto fare		6.00				6.00			
		“ 9	By Tea expenses		4.75					4.75		
		“ 12	By Telegram		8.50		8.50					
		“ 14	By Stationery		16.25	16.25						
		“ 15	By Taxi fare		12.75				12.75			
		“ 17	By Postage		42.50		42.50					
		“ 19	By Tips to office boy		8.00						8.00	
		“ 20	By Cartage		14.50			14.50				
		“ 22	By Cold drinks		6.00					6.00		
		“ 25	By Coolies		9.75			9.75				
		“ 27	By Envelopes		3.60		3.60					
		“ 28	By Rickshaw		3.00				3.00			
		“ 30	By Cartage		10.00			10.00				
			Total Payments		209.60	56.25	69.60	43.25	21.75	10.75	8.00	
		“ 31	By Balance b/d		40.40							
250.00			Total		250.00	L.F.	L.F.	L.F.	L.F.	L.F.	L.F.	
40.40		Sept 1	To Balance b/d									
209.60		“ 1	To Bank A/c									

LEDGER
Petty Cash Account

Dr.		Rs.	2018		Rs.
2018			2018		
Aug. 1	To Bank A/c	250.00	Aug. 31	By Sundries as per Petty Cash Book	209.60
			“ 31	By Balance c/d	40.40
		250.00			250.00
Sept 1	To Balance b/d	40.40			
“ 1	To Bank A/c	209.60			

Bank Account

			2018		
			Aug. 1	By Petty Cash A/c	250.00
			Sept. 1	By Petty Cash A/c	209.60

Printing and Stationery Account

2018		Rs.			
Aug. 31	To Petty Cash A/c	56.25			

Postage and Telegram Account

2018		Rs.			
Aug. 31	To Petty Cash A/c	69.60			

Cartage Account

2018		Rs.			
Aug. 31	To Petty Cash A/c	43.25			

Conveyance Account

2018		Rs.			
Aug. 31	To Petty Cash A/c	21.75			

Entertainment Account

2018		Rs.			
Aug. 31	To Petty Cash A/c	10.75			

Miscellaneous Expenses Account

2018		Rs.			
Aug. 31	To Petty Cash A/c	8.00			

6.9 WHAT IS A BANK?

You might have heard the names of State Bank of India, Andhra Bank, Allahabad Bank. You may also be having an account with some bank. Now, let us have an idea what exactly a bank is and what it does. Bank is an organisation which deals in money by accepting deposits and lending to those who need it. Accepting deposits is the primary function of a bank. It accepts demand deposits and time deposits. Demand deposits are those deposits which are payable on demand, and time deposits are those which are repayable after a specified period. The bank pays interest on the deposits (except deposits on current account).

Lending of money is another important function of a bank. It lends money to needy persons and organisations in the form of short-term advances, term loans, and overdraft facility. The bank collects interest on the amount lent.

The bank also renders various other services to its customers such as (i) collecting amounts due to the customer like interest, dividends, etc., (ii) making payments on behalf of the customer; (iii) issuing letters of credit, (iv) providing travellers cheques (v) providing safe deposit lockers for safe custody of valuables, and (vi) tarnishing guarantee on behalf of customers. etc. The bank charges some amount for the services rendered to its customer.

6.10 TYPES OF BANK ACCOUNTS

There are broadly three types of accounts: (i) savings bank account, (ii) current account, and (iii) fixed deposit account. In case of savings bank account, there are certain restrictions on the number and amount of withdrawals. It is mainly intended to encourage savings. Hence, it is not considered suitable for business purposes.

Business firms generally open current account. There are no restrictions on the number and amount of withdrawals in case of a current account. Any amount can be withdrawn any number of times from a current account.

Fixed deposit account is meant for deposits for a fixed period. Withdrawal of fixed deposits is allowed only on maturity. It is used by people generally for long term savings.

6.10.1 Advantages of Having a Bank Account

Now-a-days, every business firm has an account with a bank. The business generally retains a small sum of money with itself for immediate use and deposits the rest in a bank. The money deposited in a bank is as good as money on hand. There are various advantages of maintaining an account with the bank. These are:

1. Money is safe and it also earns some interest.
2. The bank provides various types of loans.
3. It is easy and safe to make payments by issuing cheques.
4. Money can be sent or transferred to other places at a nominal charge through a bank.
5. The bank helps in collection of bills, cheques, etc., on behalf of its customers.

- 6 If 'standing instructions' are given to the bank, it collects interest on debentures, dividend on shares, etc., and makes payment of insurance premium, pension, subscriptions, etc., on behalf of its customers.

6.10.2 How to Open and Operate a Bank Account?

If you want to open a bank account you have to apply to the bank on a prescribed form. You are also required to be introduced to the bank by a person known to the bank (possibly an account holder). The banker, after satisfying himself about the applicant, accepts the initial deposit in cash and opens an account in your name. Thus, you become a customer of the bank. Your account is given a number for easy identification. When an account is opened, the banker gives to its customer (i) a pass book, (ii) a pay-in-slip book and (iii) a cheque book.

- i) **Pass Book:** The pass book is a copy of the customer's account as maintained by the bank. In other words, it is nothing but a true copy of the transactions with the bank, as they appear in the customer's account in the bank's ledger. In case of a current account, the bank may not issue a pass book. In that case, it would furnish a statement of account from time to time. Whether it is a pass book or a statement of account, the proforma is as given in Figure 6.3.

Pass Book

Date	Particulars	Dr. Withdrawals	Cr. Deposits	Dr. or Cr. Balance	Initials
		Rs.	Rs.	Rs.	

Fig. 6.3

When an amount is deposited in the bank, it is entered in the deposit column (Cr.). When an amount is withdrawn, it is entered in the withdrawal column (Dr.). After every deposit or withdrawal, the balance is worked out and shown in the balance column in the pass book. It is also indicated whether it is a Dr. balance or a Cr. balance. Usually, the pass book shows a credit balance, which means the customer has money in his account. But when the customer has withdrawn more than what he has deposited, the pass book shows a debit balance called overdraft.

- ii) **Pay-in-Slip Book:** It contains printed forms which are used for depositing cash and cheques into the bank. Look at the form of a pay-in-slip as shown in Figure 6.4.

The first part is called counterfoil and the second part is the main pay-in-slip. When you submit it to the bank along with the amount to be deposited, the bank will stamp and sign the counterfoil and give it back to you. The main pay-in-slip is retained by the bank for further processing. The counterfoil is for your own record and future reference. The cash book entry for deposit is also made with the help of the counterfoil.

Maharani/10000/10/87 F. No. 291
 बैंक ऑफ बड़ोदा. BANK OF BARODA
 Branch : Model Town, Delhi-110009
 सा. Date _____ 19
 बचत खाते में जमा करने के लिए
 For Credit of Saving A/c.
 सं/No. _____
 नाम Name _____
 रुपये (शब्दों में) Rupees _____
 जमाकर्ता By _____
 रु. Rs _____
 दर्ज किया Ent. से. Acctt. स. Cashier - दर्ज किया Entered _____ सेवापान Acctt. खातानी Cashier Less Com/Ex.

नकद/स्थानीय/बाह्य के चेको के लिए अलग-अलग पर्ची भरिए
 Please use separate slip for cash/local/out station cheques. F. No. 291
 बैंक ऑफ बड़ोदा
BANK OF BARODA
 Branch : Model Town, Delhi-110009
 बचत खाते में जमा करने के लिए सं./No.
 For Credit of Saving A/c. _____
 नाम/Name _____

खाता पं. L. F. _____
 Date _____ 1999

नोट Notes	₹. Rs.	₹. P.
.. x 100		
.. x 50		
.. x 20		
.. x 10		
.. x 5		
.. x 2		
.. x 1		
₹. P.		
बच/Ch.		
कुल Total		

Fig. 6.4

iii) **Cheque Book:** A cheque book contains a number of leaves (10 to 20 or 50 leaves) called cheques. A cheque is an instrument used for withdrawing money from the bank. It is an unconditional order on the bank made by its customer, instructing the bank to pay the amount specified therein to the person named in the cheque or to his order. The person who draws a cheque is called 'drawer'. The bank on whom the cheque is drawn is called 'drawee'. The person in whose favour the cheque is drawn (or to whom it is payable) is called 'payee'. Look at Figure 6.5 for specimen of a cheque. In this cheque, Mr. S. Jain is the drawer. He has drawn and signed the cheque. The Bank of Baroda on whom the cheque is drawn, is the drawee. Mr. P. Ram Dev is the payee as the cheque is payable to him.

While writing a cheque, care must be taken to write the date, the name of the party to whom payment has to be made, and the amount to be paid both in words and figures. It must be signed by the account holder. The signature on the cheque must tally with the specimen signature which the bank has.

A cheque can be a bearer cheque or an order cheque. In case of a bearer cheque, the bank pays the amount to any person who presents it at the counter of the bank without much fuss. But, in case of an order cheque, identification of the party claiming payment is necessary, specially if he wants payment at the counter.

Specimen of Cheque

PAY P. Ram Dev 1-10 19 87
 या धारकको OR BEARER
 रुपये RUPEES One thousand only ₹. Rs. 1,000/=
 जमा करें
 आका सं/ A/c No. 1120 बच/ IF S. F. INTS
बैंक ऑफ बड़ोदा Bank of Baroda
 विशाखा एन्क्लेव, दिल्ली-110034
 Vishaka Enclave, DELHI-110034
 VEN / CA. 86
 S. Jain
 008650 1002033

Fig. 6.5

6.11 CROSSING OF CHEQUES

If two parallel lines are drawn on the left hand top corner of the cheque, it is called 'Crossing', and such a cheque is called a 'Crossed Cheque'. A crossed cheque cannot be encashed directly at the counter. It has to be deposited in an account with a bank. This makes it safe, as the party to whom the payment is made can be easily identified.

Crossing can be 'General Crossing' or 'Special Crossing'. General crossing is one where two parallel lines are drawn across the cheque with or without the words '&Co.', 'Not Negotiable', 'A/c Payee' as shown in Figure 6.6. In case of special crossing, the name of a particular bank is also mentioned. This implies that the amount of cheque is payable only to the bank named in the crossing. Look at Figure 6.6. The name of 'Bank of Baroda, Agra' is written within the two parallel lines. Payment of this cheque can be collected only through Bank of Baroda, Agra.

Crossing of a Cheque

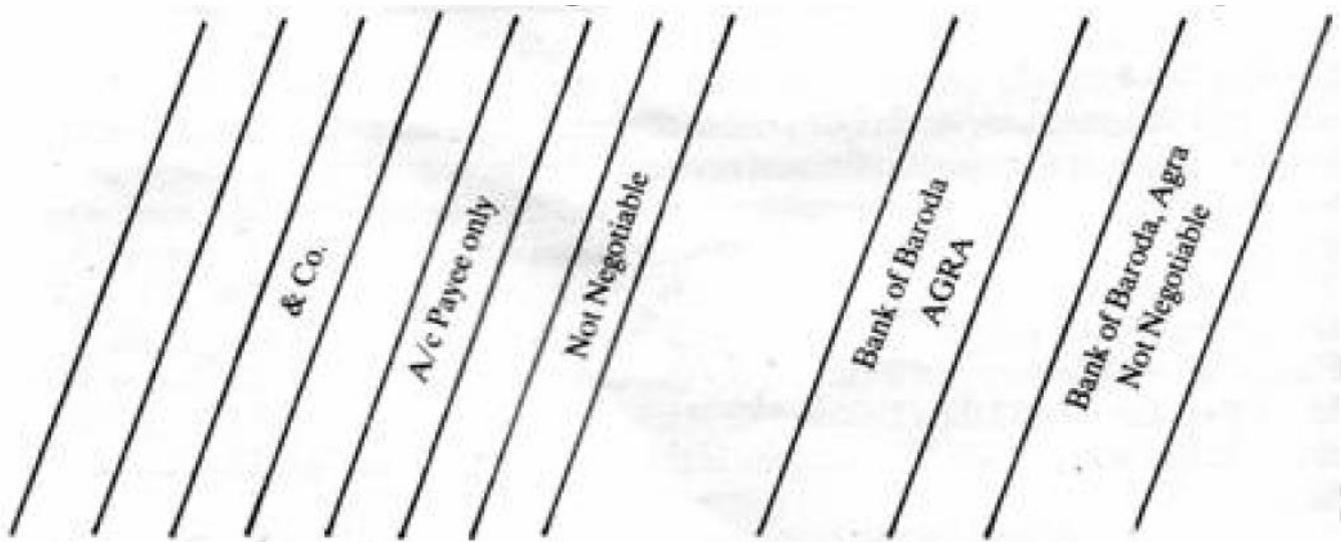


Fig. 6.6

In case of general crossing, payment can be made to any bank which present the cheque for payment. The use of words 'A/c Payee Only' means that the cheque can be paid only into the account of the payee named in the cheque. The words 'Not Negotiable' provide further safeguard against stolen and forged cheques. But '& Co.' has no special connotation.

6.12 ENDORSEMENT AND DISHONOUR OF CHEQUES

A cheque is a negotiable instrument. It can be transferred to another person by 'endorsement' (except in case of a bearer cheque which can be transferred by mere delivery). The endorsement is done by signing at the back of the cheque and writing the name of the party to whom it is to be transferred. For example, if a cheque payable to Mr. P. Ram Dev is to be endorsed in favour of Mr. Kishan Lal, Mr. P. Ram Dev will write at the back of the cheque as follows:

Pay to Kishan Lal or Order

P. Ram Dev

(Signature)

Thus, endorsement can be defined as signing at the back of the cheque for the purpose of negotiation. The person who endorses the cheque is called endorser (P. Ram Dev in this example) and the person to whom it is endorsed is called endorsee (Kishan Lal in this example). Kishan Lal can now collect payment of this cheque.

Dishonour of Cheques :When a cheque is presented for payment, there are two possibilities. It may be paid or the payment may be refused. When the payment of a cheque is refused, it is said to be dishonoured. The bank refuses the payment for the following reasons:

1. When no date is written on the cheque, or a future date is written, or it is more than three months old.
2. If the amount written in words differs from the amount written in figures.
3. When the cheque is not signed or when the signature on the cheque does not tally with the specimen signature with the bank.
4. When the drawer does not have sufficient balance in his account.
5. When the drawer requests the bank in writing to stop payment on that cheque.
6. If the bank has come to know about the death of the drawer or his becoming insolvent or insane.

Check Your Progress D

1. List the main functions of a bank.

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.....
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2. What is a pass book?

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.....
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3. What is a pay-in-slip?

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.....
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4. What is a cheque ?

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5. What do you mean by crossing a cheque?

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6.13 THREE COLUMN CASH BOOK

Generally, business firms deposit the day's collections in a bank, retaining only a small amount for immediate use. They prefer to make payment by cheque as it is more safe and convenient. So, bank transactions are more numerous than cash transactions.

The bank transactions can also be recorded in the cash book along with cash transactions. It is done by providing an additional column for bank on both sides of the cash book. Look at the proforma of a Three Column Cash Book in Figure 6.7. A bank column in the cash book, also serves the purpose of a bank account and avoids the need to have a 'Bank Account' in the ledger. The bank column on the debit side records all deposits made in the bank and the bank column on the credit side records all withdrawals from the bank. We shall now have three amount columns, one each for discount, cash and bank. Hence, it is called a Three Column or Triple Column Cash Book.

Three Column Cash Book

Dr.						Cr.					
Date	Particulars	L.F.	Discount Allowed	Cash	Bank	Date	Particulars	L.F.	Discount Received	Cash	Bank
			Rs.	Rs.	Rs.				Rs.	Rs.	Rs.

Fig. 6.7

6.13.1 Recording in Three Column Cash Book

All receipts of cash or cheques are to be recorded on the debit side: When payment is received in cash, the amount is recorded in the cash column. If it is by cheque, it is recorded in the bank column. The date on which it is received, and the name of the person from whom it is received, are recorded in the date and particulars columns respectively.

If any discount is allowed to a party on receipt of cash or cheque, it is recorded on the debit side in the discount allowed column as usual.

All cash and cheque payments are to be recorded on the credit side: When payment is made by cash, the amount is recorded in the cash column. If it is made by cheque, it is recorded in the bank column. The date on which payment is made, and the name of the person to whom payment is made, are recorded in the date and particulars columns respectively,

Discount received, if any, at the time of making payment is to be recorded on the credit side in the discount received column as usual.

Contra Entry: The word 'contra' means 'the other side'. If the double entry of a transaction is complete in the cash book itself such entry is called 'contra entry'. Contra entry arises only when cash account and bank account are simultaneously involved in a transaction. It happens only when either cash is deposited in the bank or cash is withdrawn from it. In both cases, entries have to be made in cash as well as bank columns. When cash is deposited in the bank, it is recorded (i) in bank column on the debit side of the cash book, and (ii) in cash column on the credit side of the cash book. Similarly, when cash is withdrawn from the bank, it is recorded on the (i) debit side in cash column, and (ii) on the credit side in bank column. It must, however, be noted that if cash is withdrawn from bank for personal use of the owner, it is recorded only on the credit side of cash book in bank column as drawings.

In order to denote contra entries, the capital letter 'C' is written in the L.F. column on both sides of the cash book. It means that the corresponding aspect of the transaction is entered on the other side (contra) of the same page of the cash book. The letter 'C' also indicates that the relevant entry need not be posted into the ledger, as the double entry is complete in the cash book itself.

6.13.2 Posting the Three Column Cash Book

All the entries recorded in the Three Column Cash Book are to be posted to their respective ledger accounts, except the contra entries. For posting the entries recorded on the debit side of the cashbook, credit the accounts concerned in the ledger by writing 'By Cash A/c' if the entry is in cash column, and 'By Bank A/c' if the entry is in bank column. If discount is also involved, credit the concerned personal account by writing 'By Discount Allowed A/c'. Totals of the discount allowed and discount received columns shall be posted to the respective discount accounts the same way as for Two Column Cash Book.

6.13.3 Balancing the Three Column Cash Book

The cash and bank columns are balanced separately like any other ledger account. As stated earlier, the Cash Account always shows a debit balance. The bank account also normally shows a debit balance. But, sometimes it may show a credit balance which indicates a bank overdraft. It reflects the amount withdrawn from the bank in excess of what is deposited in the bank.

The procedure of recording the closing and opening balances is the same as in Two Column Cash Book. Note that the discount columns will not be balanced. They are simply totalled.

Study illustration 4 carefully. You will follow the recording, posting and balancing of a Three Column Cash Book.

Illustration 4

Enter the following transactions in the Three Column Cash Book of Galaxy Enterprises and show the ledger postings:

2018			
July 15	Cash in hand	800	
“ 15	Balance in bank account	4,500	
“ 16	Purchased goods and issued cheque	3,000	
“ 17	Cash sales	4,000	
“ 18	Received from Saniad in full settlement of his account Rs.4,000 cheque	2,000	
	cash	1,950	
“ 20	Cash deposited into bank	5,000	
“ 21	Paid Rama Krishna by cheque	2,970	
	Received discount	30	
“ 22	Received from Bose	1,680	
	Discount allowed	20	
“ 24	Cash withdrawn for office purpose	2,000	
“ 25	Paid Mahantha in cash	3,000	
	Discount allowed by him	40	
“ 26	Paid for stationery	100	
“ 28	Deposited cash into bank	2,000	
“ 30	Cash withdrawn from bank for personal use of proprietor	500	

Solution :

Joshi & Sons
Cash Book (With Discount and Cash Columns)

Rs.					Rs.						
Date	Particular	I.F.	Discount Allowed	Cash		Date	Particula	I.F.	Discount Received	Cash	Bank
2018				Rs.	Rs.	2018			Rs.	Rs.	
July.15	To Balance c/d			800	4,500	July 16	By Purchase A/c				3,000
“ 17	To Sales A/c			4,000		“ 20	By Bank A/c	C		5,000	
“ 18	To Samad		50	1,950	2,000	“ 21	By Rama Krishna		30		2,970
“ 20	To Cash A/c	C			5,000	“ 24	By Cash A/c	C			2,000
“ 22	To Bose		20	1680		“ 25	By Mahanta		40	3000	
“ 24	To Bank A/c	C		2,000		“ 26	By Stationery A/c				100
“ 28	To Cash A/c	C			2,000	“ 28	By Bank A/c	C		2,000	
						“ 30	By Drawings A/c				500
						“ 31	By Balance c/d			330	5,030
			70	10,430	13,500				70	10,430	13,500
Aug. 1	To Balance b/d			330	5030						

LEDGER**Sales Account**

2018			
		July 17	By Sales A/c
			4,000

Sanad's Account

			2018		
			July 18	By Discount Allowed	50
			“ 18	By Cash A/c	1,950
			“ 18	By Bank A/c	2,000

Bank Account

			2018		
			July 22	By Discount Allowed	20
			“ 22	By Cash A/c	1,680

Purchase Account

2018			Rs.		
July 16	To Bank A/c		3,000		

Rama Krishna's Account

2018			Rs.		
July 21	To Discount allowed		30		
“ 21	To Bank A/c		2,970		

Mahendra's Account

2018			Rs.		
July 25	To Discount Received A/c		40		
“ 25	To Cash A/c		3,000		

Stationery Account

2018			Rs.		
July 26	To Cash A/c		100		

Drawings Account

2018			Rs.		
July 30	To Bank A/c		500		

Discount Allowed Account

2018			Rs.		
July 31	By Sundries as per Cash book		70		

Discount Received Account

			2018		
			July 31	By Sundries as per Cash book	70

In illustration 4, you will notice that the total of bank column on the debit side is more than the total of bank column on the credit side of the cash book. This indicates that there is money in the bank. If, however, the total of bank column on the debit side is less than the total on the credit side, it will reflect an overdraft in the bank. You will find this in Illustration 5.

6.13.4 Special Points Regarding Cheques Received

Generally, cheques received from various parties are deposited in the bank on the same day. However, for some reason, if a cheque is not sent to the bank on the day of receipt, it can be entered in the cash column, treating the cheque as cash. Then, the day it is sent to the bank, it can be recorded in the cash book as cash deposit in the bank in the form of a contra entry. For example, on April 8, a cheque for Rs. 500 is received from Rao and it is sent to the bank on April 11. The entries in cash book will appear as follows:

Banking Transactions and Three Column Cash Book

Cash Book (Cash and Bank Column only)

Dr.					Cr.				
Date	Particulars	L.F.	Cash	Bank	Date	Particulars	L.F.	Cash	Bank
			Rs.	Rs.				Rs.	Rs.
2018 Apr. 8	To Rao		500		2018 Apr. 11	By Bank a/c	C	500	
“ 11	To Cash A/c	C		500					

Normally, this procedure is avoided. The entry is made directly in the bank column on the day the cheque is deposited in the bank. In the absence of any specific instructions, it can be presumed that the cheque received from a party was sent to the bank for collection on the same day.

Sometimes, a cheque received by the firm may not be deposited in the bank but may be endorsed to a third party. In that case, the cheque received will be recorded first in the cash column on the debit side of the cash book and then on its credit side in the cash column. This ensures entries in the personal accounts of (i) the party from whom it is received, and (ii) the party to whom it is endorsed. For example, on April 12, a cheque for Rs. 800 was received from Ganpati and it was endorsed on April 14, in favour of Shiva, a creditor of the firm. The entries in cash book will appear as follows:

Cash Book (Cash Column only)

Dr.				Cr.			
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2018 Apr. 12	To Ganpati		Rs. 800	2018 Apr. 14	By Shiva a/c		Rs. 800

Sometimes, a cheque sent to the bank for collection may be dishonoured. In that case, the bank will return the cheque along with the advice stating the cause of dishonour. Whatever the firm may do to realise its payment from the concerned

party, the entry for dishonour of the cheque must immediately be recorded in the cash book. The entry will be made on the credit side in bank column. This nullifies the effect of the entry made earlier at the time of receiving and depositing the cheque in the bank. For example, on April 16, a cheque for Rs. 750 was received from Yogesh and sent to bank for collection on the same day. The bank dishonoured the cheque and returned it on April 20. The entries in the cash book will appear as follows:

Cash Book
(Bank Column only)

Dr.				Cr.			
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2018 Apr. 16	To Yogesh		Rs. 750	2018 Apr. 20	By Yogesh		Rs. 750

Check Your Progress E

Fill in the blanks.

1. All deposits into the bank are recorded in bank column on the..... side of the cash book.
2. All withdrawals from the bank are recorded in bank column on the side of the cash book.
3. If debit as well as the credit aspects of a transaction are recorded in the cash book itself it is called.....
4. When a cheque received on a particular date is not deposited the same day into bank, it is entered in column on the debit side of the cash book.
5. When a cheque received is endorsed, it is recorded in cash column on..... sides of the cash book.
6. When a cheque is returned dishonoured, it is recorded on the..... side of the cash book in bank column.

Illustration 5

Record the following transactions in Three Column Cash Book of Balaji Agencies and balance the same.

		Rs.
2018		
July 1	Cash in hand	40,000
“ 2	He opened a current account with a bank	36,000
“ 3	Purchased goods for cash and by cheque	600 1,500
“ 5	Sold goods for cash	800
“ 6	Sold goods to Mohan and received a cheque for the same	1,200
“ 8	Deposited Mohan's cheque in the bank	1,200
“ 9	Purchased stationery by cheque	200
“ 10	Cash sales	2,000

“ 11	Issued cheque for cash purchase of furniture to Woodland	2,500
“ 12	Deposited cash in the bank	3,000
“ 13	Misra paid directly into bank account	1,000
“ 15	Received from Madhu cash	1,000
	cheque	1,400
	Allowed him discount	50
“ 16	Paid to Ravi in cash	500
	cheque	2,500
	Received discount	40
“ 17	Received a cheque from Joseph	1,500
“ 18	Withdrew cash from the bank for office use	1,500
“ 20	Balaji paid his son’s college fees in cash	400
“ 22	Paid Subhan & Co. by cheque	975
	Received discount	25
“ 24	Joseph’s cheque returned dishonoured	1,500
“ 25	Received a cheque from Gagan. It was endorsed to Ram	700
“ 26	Withdrew from bank for personal use	1,600
“ 27	Issued cheque for purchase of machinery	40,000
“ 28	Paid sundry expenses in cash	200
“ 30	Paid rent by cheque	600
“ 31	Deposited Cash in excess of	500

Balaji Agencies Cash Book

Date	Particulars	L.F.	Discount Allowed	Cash	Bank	Date	Particulars	L.F.	Discount Received	Cash	Bank
2018			Rs.	Rs.	Rs.	2018			Rs.	Rs.	Rs.
July 1	To Balance b/d			40,000		July 2	By Bank A/c	C		36,000	
“ 2	To Cash A/c	C			36,000	“ 3	By Purchases A/c			600	1,500
“ 5	To Sales A/c			800		“ 8	By Bank A/c	C		1,200	
“ 6	To Sales A/c			1,200		“ 9	By Stationery A/c				200
“ 8	To Cash A/c	C			1,200	“ 11	By Furniture A/c				2,500
“ 10	To Sales A/c			2,000		“ 12	By Bank A/c	C		3,000	
“ 12	To Cash A/c	C			3,000	“ 16	By Ravi		40	500	2,500
“ 13	To Misra				1,000	“ 18	By Cash A/c	C			1,500
“ 15	To Madhu		50	1,000	1,400	“ 20	By Drawings A/ c			400	
“ 17	To Joseph				1,500	“ 22	By Subhan & Co		25		975
“ 18	To BankA/c	C		1,500		“ 24	By Joseph				1,500
“ 25	To Gagan			700		“ 25	By Ram			700	
“ 31	To Cash A/c	C			4,100	“ 26	By Drawings A C				1,600
“ 31	To Balance c/d				4,675	“ 27	By Machinery A/c				40,000
						“ 28	By Sundry exp.A/c			200	
						“ 30	By Rent A/c				600
						“ 31	By Bank A/c	C		4,100	
						“ 31	By Balance c/d			500	
		50	47,200	52,875				65	47,200	52,875	
Aug.1	To Balance b/d			500		Aug.1	By Balance b/d				4,675

Note :

1. When cheques are received from parties, unless otherwise specified, it is assumed that they are deposited in the bank on the same day. But, in case of the transaction dated July 6, the cheques was received on July 6, but was deposited in the bank on July 8. Hence on July 6, it is recorded as the cash column on the debit side, and on July 8, it is shown as cash deposit through a contra entry.
2. On July 17, Joseph gave a cheque for Rs. 1,500 which was duly entered on the debit side. On July 24, the cheque was returned dishonoured. When a cheque is dishonoured, the rule is to reverse the entry made earlier. Hence, on July 24, an entry has been passed on the credit side in the bank column. This nullifies the entry made on July 17.
3. On July 25, a cheque was received from Gagan which was endorsed to Ram. It has been first entered in the cash column on the debit side on July 25, and then on the credit side on the same date.
4. The credit side total of the bank column is Rs 52,875 and the debit side total is Rs 48,200. It means that there is a credit balance of Rs. 4,675 in the bank account. As you know this is a case of overdraft. On July 31, it has been shown on the debit side of the cash book making two sides equal, and then on August 1, it is recorded on the credit side of the bank column.

6.14 PURCHASES JOURNAL

While studying sub-division of journal, you learnt that Purchases Journal is used for recording credit purchases of goods and raw materials. The goods or raw materials can be purchased either on cash basis or on credit basis. When they are purchased on cash basis, the entry is made in the cash book. But when they are purchased on credit, they are recorded in the Purchases Journal. Note that the credit purchases of fixed assets like typewriter, vehicle, etc., are not recorded in this book. They are recorded in Journal Proper about which you will learn later. The Purchases Journal is also called 'Purchases Book', 'Purchases Day Book', and 'Invoice Book'.

6.14.1 Invoice

When you purchase something from a shop, you receive a bill Such bill is called 'invoice'. It contains the details pertaining to the quantity, description, price, total amount, and trade discount, if any. Thus, an invoice is a business document giving full details of the goods purchased. It is a 'Purchase Invoice' or 'Inward invoice' for the purchaser and a 'Sales Invoice' or 'Outward Invoice' for the seller. Entries in the Purchases Journal are made on the basis of the purchase invoices received (inward invoices). Look at Figure 6.8 for a specimen of an invoice.

Invoice			
Book Lovers Private Limited Hyderabad			
No.3891 To M/s. Book Paradise, Nagpur		Date: 15-7-2018	
Quantity	Particulars	Rate per unit	Total
10 Copies	Principles and Practice of Accountancy by R. Srirani Less: Discount 10% (Rupees two hundred and twenty five only)	Rs. 25.00	Rs. 250.00
			25.00
			225.00
xxxxx For Book Lovers Private Limited			

Fig. 6.8

6.14.2 Recording in the Purchases Journal

Look at Figure 6.9. It shows the Proforma of a Purchases Journal.

Purchases Journal

Date	Name of the supplier	Inward invoice Number	L.F.	Amount	Remarks
(1)	(2)	(3)	(4)	(5)	(6)
				Rs.	

Fig. 6.9

The Purchases Journal has six columns.

Column 1: It is meant for writing the date of purchase.

Column 2: In this column, you write the name and address of the supplier.

Column 3: The inward invoice number is recorded in this column. As stated earlier, when you purchase goods on credit, you get an invoice from the supplier. Although it bears a number, you have to accord your own serial numbers to all inward invoices for easy reference. It is this serial number which will be entered in the inward invoice column of the Purchase Journal.

Column 4: In this column, you will write the page number of the account in ledger where posting is done.

Column 5: In this column, the amount payable to the supplier is recorded. You must note that the amount payable is arrived at after deducting the trade discount, if any. For example, see the invoice given in Figure 6.8. The amount payable is Rs. 225. If, some sales tax is also involved, the amount payable should include that also.

Column 6: Any other relevant information is to be recorded in this column. Information such as the date on which the amount of the bill is payable and the date on which it is actually paid may be noted in this column.

6.14.3 Posting the Purchases Journal

The transactions recorded in the Purchases Journal are to be posted to their respective personal accounts in the ledger. When a purchase is made on credit, the supplier becomes the creditor for the firm. Hence, every credit purchase recorded in the Purchases Journal is posted on the credit side of the personal account of the supplier by writing 'By Purchases A/c' in particulars column. The Purchases Journal is totalled periodically, say, weekly or monthly. This total is posted to the debit side of Purchases Account in the ledger by writing 'To Sundries—as per Purchases Journal'.

Thus, you observe that posting of Purchases Journal involves two steps: (i) posting each purchase to the credit of the respective personal accounts of suppliers, and (ii) posting the total purchases to the debit of the Purchases Account. With this, double entry for credit purchases is complete. Look at illustration 6 for recording i the Purchases Journal and its posting into ledger.

Illustration 6

Record the following transactions in the Purchases Journal of M/s. Dharam Chand & Co., and show the ledger postings.

2018		Rs.
July 1	Bought goods from Shreedhar	5,000
“ 2	Purchased goods from Shreekant	4,000
“ 3	Purchased from Shreenivas goods worth	2,500
“ 4	Shreedhar sold us goods	1,500
“ 5	Purchased goods from Shreenivas subject to a trade discount of 10%	3,000
“ 6	Bought from Shreekant goods worth with discount of 20%	3,500

Dharam Chand & Co. PURCHASES JOURNAL

Date	Name of the supplier	Inward invoice number	L.F.	Amount	Remarks
2018	Shreedhar	25		Rs. 5,000	
July 1	Shreekant	26		4,000	
“ 2	Shreenivas	27		2,500	
“ 3	Shreedhar	28		1,500	
“ 4	Shreenivas	29		2,700	
“ 5	Shreekant	30		2,800	
“ 6	Total			18,500	

Note: i) The inward invoice numbers are imaginary.

ii) Sometimes, the particulars of items purchased can also be given with each entry.

But it is considered unnecessary because the details are available in the invoice, the serial numbers of which are duly given in the Purchases Journal.

LEDGER

Shreedhar's Account

Dr.			Cr.		
			2018		Rs.
			July 1	By Purchases A/c	5,000
			“ 4	By Purchases A/c	1,500

Shreekant's Account

			2018		Rs.
			July 2	By Purchases A/c	4,000
			“ 6	By Purchases A/c	2,800

Shreenivas's Account

			2018		Rs.
			July 3	By Purchases A/c	2,500
			“ 5	By Purchases A/c	2,700

Purchases Account

2018		Rs.			
July, 31	To Sundries - as per Purchase Journal	18,500			

6.15 PURCHASES RETURNS JOURNAL

In any business, sometimes goods purchased may have to be returned to the supplier either partly or fully. This may become necessary when they are found to be defective, damaged in transit, inferior quality, short weight, received too late (off season), or not in conformity with the order given. If the number of such returns is small, they can be recorded in the journal itself. But, if it is large, a separate book called 'Purchases Returns Journal' should be used for recording these transactions. This book is also called 'Returns Outwards Journal'.

6.15.1 Debit Note

When you return goods to supplier, a statement called 'Debit Note' is sent to the supplier. It informs the supplier that his account has been debited to the extent of the value of goods returned. You know that when goods were purchased, the supplier's account was credited. Debiting his account now means that the amount payable to him has been reduced by the value of goods returned. The debit note also contains other particulars such as the name and address of the supplier, the description of the goods returned, etc. The specimen of a debit note is shown in Figure 6.10.

Debit Note

Book Paradise Nagpur Debit Note			
No. 587		Date: 20-7-18	
To			
M/s. Book Lovers Pvt. Ltd. Hyderabad.			
WE HAVE DEBITED YOUR ACCOUNT FOR			
GOODS RETURNED AS FOLLOWS			
	Rs.	Ps.	Rs. Ps.
2 Copies of 'Principles and Practice of Accountancy' by Sriram @ Rs, 25 each	50.00		
Less: Trade discount allowed by you @ 10%	5.00		
(Rupees forty five only)			45.00
		xxxxx For Book Paradise	

Fig. 6.10**6.15.2 Recording in the Purchases Journal**

Look at Figure 6.11. It shows the Proforma of a Purchases Returns Journal.

Purchase Returns Journal

Date	Name of the supplier	Inward invoice Number	L.F.	Amount	Remarks
(1)	(2)	(3)	(4)	(5)	(6)
				Rs.	

Fig. 6.11

Like the Purchase Journal, the Purchases Returns Journal also has six columns. As usual, the date on which the goods are returned is recorded in the first column. The name and address of the supplier to whom goods are returned are entered in the second column. Write the serial number of the debit note in the third column. The page number of the account in the ledger where posting is done will be entered in the L.F. column. In the fifth column, the value of goods returned is entered. At the time of original purchase, if some trade discount had been given, the same should also be adjusted so as to arrive at the value of goods returned. If there is any other relevant information, the same may be recorded in the remarks column.

6.15.3 Posting the Purchases Returns Journal

The transactions recorded in the Purchases Returns Journal are to be posted to their respective personal accounts in the ledger. Separate accounts in the name of each supplier already exists in the ledger (opened at the time of purchase). The entries made in the Purchases Returns Journal will be posted to the debit of each supplier's account by writing To Purchases Returns A/c'.

The total of the Purchases Returns Journal is posted to the credit side of the Purchases Returns Account' in the ledger by writing 'By Sundries—as per Purchases Returns Journal'.

Look at illustration 7 for the procedure of recording in the Purchases Returns Journal and its posting into the ledger.

illustration 7 (Continuation of illustration 6)

Enter the following transactions in the Purchases Returns Journal of M/s. Dharam Chánd and Co. and show the ledger postings.

2018		Rs.
July 5	Returned goods to Shreekant (vide invoice No. 26)	200
“ 10	Returned goods to Shreenivas (vide invoice No. 29)	90
“ 12	Returned goods to Shreekant (vide invoice No. 30)	120

Dharam Chand & Co.

PURCHASES RETURNS JOURNAL

Date	Name of the supplier	Debit note number	L.F.	Amount	Remarks
2018				Rs.	
July 5	Shreekant	16		200	
“ 10	Shreenivas	17		90	
“ 12	Shreekant	18		120	
“ 31	Total			----- 410 -----	
-				-----	

Note : Debit Note numbers are imaginary.

LEDGER

Shreekant's Account

2018		Rs.	2018	Rs.	
July 5	To Purchases Return A/c	200	July 2	By Purchases A/c	4,000
“ 12	To Purchases Return A/c	120	“ 6	By Purchases A/c	2,800

2018		Rs.	2018		Rs.
July 10	To Purchases Return A/c	90	July 3	By Purchases A/c	2,500
			" 5	By Purchases A/c	2,700

Purchase Returns Account

			2018		Rs.
			July 31	By Sundries – as per Purchase Returns Journal	410

6.16 SALES JOURNAL

This book is used for recording only the credit sales of goods. Note that the cash sale of goods or sale of fixed assets (cash or credit) are not recorded in this book. The Sales Journal is also called 'Sales Day Book', or 'Sales Book'.

6.16.1 Recording in the Sales Journal

The ruling of the Sales Journal is similar to that of Purchases Journal. The difference is only with regard to the second column. In Purchases Journal, the second column is used for recording the name of the supplier. But, in case of Sales Journal, it is used for writing the name of the customer.

When goods are sold on credit, an invoice is given to the buyer. The seller generally has a bound invoice book. It contains consecutively numbered invoices in duplicate. While the original copy is given to the buyer, the duplicate remains in the book itself. The entries in the Sales Journal are made with the help of the duplicate copies which are duly numbered. The procedure for recording in the Sales Journal is similar to that of the Purchases Journal.

6.16.2 Posting the Sales Journal

All entries made in the Sales Journal are posted to the respective personal accounts in the ledger. In a credit sale, the customer becomes a debtor to the firm. Hence, every credit sale recorded in the Sales Journal is posted on the debit side of the personal account of individual customers by writing 'To Sales A/c' in particulars column. Then, the total of the Sales Journal is posted on the credit side of the Sales Account by writing 'By Sundries—as per Sales Journal'.

Look at illustration 8 and study how credit sales of goods are recorded in the Sales Journal and how they are posted into ledger.

Illustration 8

Prepare the Sales Journal of M/s. Bharat Furniture Works, Delhi from the following transactions:

2018

Aug. 1 Sold to Doulath Furniture House, Delhi
50 Chairs @ Rs. 150 each

10 Tables @ Rs. 500 each

At a trade discount of 10%

“ 4 Supplied the following furniture, as per the order, to Kesav Memorial School, Mehrauli

100 Chairs @ Rs. 135 each

40 Tables @Rs. 450 each

2 Almirahs @Rs. 750 each

5 Black boards @ Rs. 800 each

“ 10 Supplied on credit to Pyarelal Furniture Palace, Okhla

10 Sofa sets @ Rs. 800 each

10 Dining tables @ Rs. 500 each

5 Cots @ Rs. 600 each

5 Dining tables @ Rs. 800 each

Trade discount 10%

Solution :

Bharat Furniture Works

Sales Journal

Date	Name of the supplier	Debit note number	L.F.	Amount	Remarks
2018				Rs.	
Aug. 1	Doulath Furniture House, Delhi	107		11,250	
“ 4	Kesav Memorial School, Mehrauli	108		37,000	
“ 10	Pyarelal Furniture Palace, Okhla	109		18,000	
“ 31	Total			66,250	

Note: i) Invoice numbers are imaginary,

ii) Sometimes, the particulars of items sold can also be given with each entry, but it is considered unnecessary because the details are available in the invoices and the serial numbers of which are duly given in the Sales Journal.

LEDGER

Daulath Furniture House Account

Dr.

Cr.

2018		Rs.			
Aug 1	To Sales A/c	1,250			

Kesav Memorial School, Mehrauli

2018		Rs.			
Aug 4	To Sales A/c	37,000			

2018 Aug 10	To Sales A/c	Rs. 18,000			
Sales Account					
			2018 Aug 31	By Sundries – as per Sales Journal	Rs. 66,250

6.17 SALES RETURNS JOURNAL

When customers return the goods to the business, it will be recorded in a separate book called 'Sales Returns Journal'. Normally, if the number of such returns is small, they can be recorded in the journal itself. But if their number is large, it is better to maintain a separate book called Sales Returns Journal. This book is also called 'Returns Inwards Journal'.

6.17.1 Credit Note

When a customer returns goods, a statement called 'Credit Note' is sent to him. The credit note informs the customer that his account has been credited to the extent of the value of goods returned. You know that when goods were sold, the customer's account was debited. Now crediting his account means the amount payable by him stands reduced by the value of goods returned. The credit note also contains other information such as the name and address of the customer, description of the goods returned, etc. The credit notes are consecutively numbered and are prepared in duplicate. The original is sent to the customer and the duplicate is carefully filed. The specimen of a credit note is shown in Figure 6.12.

Credit Note

Book Lovers Private Limited		
Hyderabad		
No.698	Date: 25-7-2018	
M/s. Book Paradise		
Nagpur		
WE HAVE CREDITED YOUR ACCOUNT FOR GOODS RETURNED AS FOLLOWS		
	Rs. Ps.	Rs.Ps.
2 Copies of 'Principles and Practice of Accountancy' by Shriram @Rs. 25 each	50.00	
Less: Trade discount allowed @ 10%	5.00	
(Rupees forty five only).		45.00
xxx		
For Book Lovers Pvt. Ltd		

Fig. 6.12

Note: Normally the customer, while returning the goods, may also send a debit note. But quite often they do not do so. Hence, the seller always prepares a credit note for his record. If debit note is also received, it may be filled along with the respective credit note.

6.17.2 Recording in the Sales Returns Journal

The ruling of the Sales Returns Journal is similar to that of Purchases Returns Journal. The difference is only with regard to the second column. In Purchases Returns Journal, the second column is used for recording the name of the supplier. But in case of Sales Returns Journal, it is used for writing the name of the customer. The Procedure for recording in the Sales Returns Journal is also similar to that the Purchases Returns Journal. The entries in the Sales Returns Journal are made with the help of duplicate copy of the credit notes.

6.17.3 Posting the Sales Returns Journal

The transaction recorded in the Sales Returns Journal are posted to the respective personal accounts in the ledger. Separate accounts in the name of each customer already exist in the ledger (opened at the time of sale). Credit the customers' accounts individually by writing 'By Sales Returns A/c'. Then post the total of the Sales Returns Journal to the debit side of the Sales Returns A/c by writing 'To Sundries—as per Sales Returns Journal'.

Look at illustration 9 and study how sales returns have been recorded in the Sales Returns Journal and posted into ledger.

Illustration 9 (Continuation of illustration 8)

2018

- Aug. 5 Received a debit note along with one chair and a table from Douloth Furniture House, Delhi, saying that the legs of the chair and table are broken (remember, each chair was sold at Rs. 150 and each table at Rs. 500 with a trade discount of 10%).
- 10 Received 2 chairs and 2 tables along with a letter from Kesav Memorial School, Mehrauli, saying that they were damaged (chairs were sold at Rs. 135 each and tables at Rs. 450 each).
- 16 Received a debit note from M/s. Pyarelal Furniture Palace, Okhla, stating that the mirrors of two dressing tables were found defective and so returned.

Enter the above transactions in the Sales Return Journal of M/s Bharat Furniture Works, Delhi, and show the ledger postings.

Bharat Furniture Works SALES RETURNS JOURNAL

Date	Name of the supplier	Credit note number	L.F.	Amount	Remarks
2018					
Aug.5	Doulath Furniture House, Delhi	56		585	
“ 10	Kesav Memorial School, Mehrauli	57		1,170	
“ 16	Pyarelal Furniture Palace, Okhla	58		200	
“ 31	Total			1,955	

Note: Credit Note numbers are imaginary.

LEDGER
Doulath Furniture House Account

Dr.		Rs.		Cr.
2018 Aug 1	To Sales A/c	11,250	2018 Aug 5	By Sales Returns A/c
				Rs. 585

Kesav Memorial School Account

		Rs.		Rs.
2018 Aug 4	To Sales A/c	37,000	2018 Aug 10	By Sales Returns A/c
				1,170

Pyarelal Furniture Palace Account

		Rs.		Rs.
2018 Aug 10	To Sales A/c	18,000	2018 Aug 16	By Sales Returns A/c (Allowance granted)
				200

Sales Returns Account

		Rs.		
2018 Aug 31	To Sundries - as per Sales Returns Journal	1,955		

These postings were made from Sales Journal, when goods were sold (refer illustration 9).

Check Your Progress F

1. What is an invoice?

.....

2. What is a debit note?

.....

3. What is a credit note?

.....

4. Fill in the blanks
- Purchases Journal records credit purchase ofonly.
 - Sales Journal records allsales of goods.
 - Ais sent to a customer when he returns the goods.
 - Total purchases are posted toAccount at the end of every month.
 - Total of Sales Journal is posted on the side of Sales Account at the end of every month.
 - Sales Returns are also called
 - Purchase Returns are also called.....
 - Debit Note is sent to the supplier when the goods are
..... to him.

6.18 JOURNAL PROPER

By now, you know what a journal is and what its sub-divisions are. You also know that the special journals discussed earlier take care of certain types of transactions which are repetitive and numerous. However, there are a number of transactions which do not occur frequently and hence do not warrant preparation of special journals. But they have to be recorded somewhere. For them, the proper place is the original journal itself, which is now called 'Journal Proper'. Thus all events and transactions which cannot be recorded in any of the special journals maintained by the firm, shall be recorded in the Journal Proper. Examples of such transactions are:

- Opening Entry
 - Closing Entries
 - Transfer Entries
 - Adjustment Entries
 - Rectification Entries
 - Miscellaneous Entries
- a) **Opening Entry:** An opening entry is passed in the journal for opening a new set of accounts. This may be needed at the time of the commencement of business or at the commencement of new accounting year.

If a person commences business only with cash, there is no need to pass a journal entry. The cash brought in is just entered in the cash book. But, if he also brings some other assets, then an opening entry is passed in Journal Proper, debiting the concerned assets accounts and crediting the Capital Account.

In case of a running business, an opening entry is passed at the commencement of a new accounting year to incorporate various balances of assets and liabilities brought forward from the previous year into current year's books.

- b) **Closing Entries:** At the end of the accounting year, when final accounts are prepared, the nominal accounts are closed by transferring them to Trading

Account or Profit and Loss Account. The journal entries passed for this purpose are called 'Closing Entries'.

- c) **Transfer Entries:** When an amount is to be transferred from one account to another, you have to pass an entry in the Journal Proper in order to effect the transfer. Such entries are called 'Transfer Entries'. Suppose, you want to transfer proprietor's total drawings made during the year to his Capital Account. The proprietor's total drawings appear in Drawings Account which shows a debit balance. You will transfer the balance of Drawings Account to Capital Account by passing the following entry in the Journal Proper.

Capital Account	Dr.
To Drawings Account	
(Transfer entry)	

- d) **Adjustment Entries:** At the time of preparing the final accounts, it is necessary to bring into the books of account certain unrecorded items like closing stock, depreciation on fixed assets, interest on capital, expenses incurred but not yet paid, income earned but not yet received, etc. Entries passed in the Journal Proper to record such items are called 'Adjustment Entries'. These entries are explained in detail later.
- e) **Rectification Entries:** You may commit errors while recording transactions in various books, and while posting, totalling, balancing, etc. Such errors are generally corrected through entries in Journal Proper and are known as 'Rectification Entries'.
- f) **Miscellaneous Entries:** In addition to the entries mentioned above, if there is any transaction which cannot be recorded in any of the special journals, it will be entered in the Journal Proper. Example of such transactions are:
- i) Credit purchases of fixed assets, investments, etc.
 - ii) Credit sales of fixed assets, investments etc.
 - iii) Withdrawal of goods from the business by the owner for his personal use.
 - iv) Loss of goods by theft, accident, fire, etc.
 - v) Special allowances received from suppliers or given to customers.
 - vi) Endorsement or dishonour of bills.
 - vii) Writing off bad debts.

Look at illustration 10 for entries of such transactions in the Journal Proper.

Illustration 10

Enter the following in the Journal Proper of Rajani Enterprises.

2018

Aug. 3 Sold office van on credit for Rs. 15,000 to Ahmed Ali.

“ 8 The owner has taken away goods worth Rs. 1,000 for his domestic use.

“ 15 Fire broke out in the premises and goods worth Rs. 5,000 were destroyed.

- “ 21 Bill drawn on Singh returned dishonoured when presented for payment, Rs. 2,000.
- “ 25 Amount due Rs. 500 from Bahadur is irrecoverable, as he has been declared insolvent.
- “ 28 Misra, a customer, informed that some goods were damaged in transit. An allowance of Rs. 50 was granted to him for repairs.

Solution :

JOURNAL PROPER

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2018 Aug. 3	Ahmed Ali Dr. To Office Van A/c (Being the credit sale of office van to Ali)		15,000	15,000
“ 8	Drawing A/c Dr. To Purchases A/c (Being the withdrawal of goods By the owner for domestic use)		1,000	1,000
“ 15	Loss by Fire A/c Dr. To Purchases A/c (Being loss of goods by fire accident)		5,000	5,000
“ 21	Singh Dr. To Bills Receivable A/c (Being the dishonour of bill by Singh)		2,000	2,000
“ 25	Bad Debts A/c Dr. To Bahadur (Being the amount irrecoverable from Bahadur)		500	500
“ 28	Allowances A/c Dr. To Misra (Being an allowance granted for repair of goods damaged in transit)		50	50

6.19 LET US SUM UP

- Journal is the book of original entry in which normally all transactions are recorded. But when transactions are numerous, there are many difficulties in recording all of them in one journal. Hence, the need for sub-division of journal arises.
- In business many transactions are of repetitive nature. The journal is therefore sub-divided in such a way that a separate book is used for each category of transactions which are repetitive in nature and are sufficiently large in number.
- Depending on the requirements of business, the special journals used are:
 - Cash book
 - Purchases Journal,
 - Sales Journal,
 - Purchase Returns Journal
 - Sales Returns Journal
 - Journal Proper

4. All cash transactions are recorded in cash book. There are different types of cash books. The most commonly used are: (i) Single Column Cash Book, (ii) Two Column Cash Book, and (iii) Three Column Cash Book.
5. The Single Column Cash Book has only one amount column on both sides. All cash receipts are recorded on the debit side and all cash payments on the credit side.
6. The Two Column Cash Book has an additional amount column for cash discount on both sides. The discount allowed is recorded on the debit side and the discount received on the credit side.
7. Petty Cash Book is prepared for recording payments of various petty expenses. This saves a lot of labour and time.
8. The main functions of a bank are to accept deposits and lend money to business. It also provides various other services to its customers.
9. There are three types of accounts available in the bank. The businessman generally opens current account.
10. When an account is opened in the bank, the depositor receives a pass book, a pay-in-slip book, and a cheque book.
11. A cheque is an instrument used for withdrawal of money from the bank. It can also be used for making payments to other parties.
12. For safety, the cheques can be crossed. Crossing can be general or specific.
13. The Payee of a cheque can endorse it to a third party by putting his signature at the back of the cheque.
14. The bank can refuse payment of a cheque. Refusing to pay is called dishonouring the cheque.
15. The Three Column Cash Book has three amount columns on each side. One of these three columns is for recording banking transactions of the firm.
16. All deposits into the bank are recorded in the bank column on the debit side of the cash book, and all withdrawals on the credit side.
17. The bank column in the cash book serves the purpose of bank account. Hence, there is no need to open bank account in the ledger.
18. Purchases Journal is meant for recording all credit purchase of goods. Inward invoice is the basis for recording in the Purchases Journal.
19. Purchases Returns Journal is used for recording goods returned to the suppliers. Debit note is the basis for recording in Purchases Returns Journal.
20. Sales Journal is meant for recording all credit sales of goods. Outward invoice is the basis for recording in the Sales Journal.
21. Sales Returns Journal is used for recording goods returned by the customers. Credit note is the basis for recording in it.
22. All transactions which cannot be recorded in any of the special journals will be recorded in the journal itself, which is now called Journal Proper.

6.20 KEY WORDS

Adjustment Entry : An entry passed to bring into account certain unrecorded items like closing stock, outstanding expenses and incomes, at the time of preparing final accounts.

Bearer Cheque : A cheque payable at the counter of the bank without identification.

Cash Book : A special journal used for recording all cash receipts and cash payments.

Cash Discount : An allowance given by the creditor to the debtor for prompt payment.

Closing Entries : Entries passed at the end of each accounting year to close the nominal accounts by transferring them to Trading and Profit and Loss Account.

Credit Note : A statement sent by the seller to his customer informing that his account is credited to the extent of the goods returned by him or allowance granted to him.

Cheque : An instrument used for withdrawing money from the bank.

Crossed Cheque : A cheque on which two parallel lines have been drawn. It is not payable at the counter.

Contra Entry : When both the debit and credit aspects of a transaction are recorded in the cash book itself.

Debit Note : A statement sent by the purchaser to his supplier informing that his account is debited to the extent of the goods returned or allowance claimed.

Dishonour : Refusal to pay the cheque by the bank

Endorsement : A written statement signed by the payee at the back of the cheque for its transfer.

Imprest System : A system of advancing a fixed amount to the petty cashier periodically.

Invoice : A bill or a statement issued by the seller to the purchaser giving details of goods sold.

Opening Entry : An entry passed to open a new set of accounts.

Order Cheque : A cheque in respect of which identification of the payee is necessary.

Pass Book : A book or a statement supplied by the bank to its customer showing his transactions with the bank.

Pay-in-slip : A slip or a challan used for depositing cash or cheques in the bank.

Petty Cash Book : A cash book prepared for recording small payments of cash.

Subsidiary Book : Any special journal used for recording a particular category of transactions.

Special Crossing : A crossing specifying the name of bank through whom the cheque can be presented for payment.

Transfer Entry : An entry passed to transfer an amount from one account to another account.

6.21 ANSWERS TO CHECK YOUR PROGRESS

- A a) iii b) i c) iii d) ii e) iii
- B a) Cash b) debit, credit c) Cash Account d) credit e) debit f) cash
- C 2. a) True b) True c) False d) False e) True
- E 1) Debit 2) Credit 3) Contra entry 4) Cash 5) Both 6) Credit
- F 4. (a) goods (b) credit (c) credit note (d) Purchases (e) credit (f) returns inwards (g) returns outwards (ii) returned
- G 6. (a) True (b) False (c) False (d) True (e) False (f) False (g) True (h) False

6.22 TERMINAL QUESTIONS / EXERCISES

Questions

1. Why is journal sub-divided? Name the special journals and state the type of transactions entered in each of them.
2. Explain the following in about 10 lines each.
 - a) 'Cash Book is both a journal and a ledger'
 - b) Imprest system
 - c) Types of Cash Books
 - d) Posting of Two Column Cash Book.
3. What are the advantages of maintaining a Petty Cash Book? Explain the method of balancing and posting the Petty Cash Book.
4. Explain the following in about ten lines each.
 - a) Bank Column in cash book serves the purpose of a Bank Account in the ledger
 - b) Advantages of having a bank account.
 - c) Effect of crossing a cheque.
 - d) Contra Entry.
5. State the reasons for the following:
 - a) All entries in Three Column Cash Book are not posted into the ledger.
 - b) The total in the cash column on the debit side of the cash book is always more than its credit side, but it is not true of the bank column.
 - c) When a cheque received is endorsed to a third party, it must be entered on both sides of the cash book.
6. Why is a cheque dishonoured? How do you record it in the cash book?

7. Give the proforma of Purchases Journal. Explain the method of recording the transactions in the Purchases Journal and its posting into ledger.
8. How does Debit Note differ from Credit Note? Discuss the utility of these notes.
- 9 Write short notes on the following:
 - a) Returns Inward Journal
 - b) Returns Outward Journal
10. What is a Journal Proper? List the transactions recorded in the Journal Proper.

Exercises

1. Enter the following transactions of Motilal Stores in the Single Column Cash Book and balance the same.

2018		Rs.
Jan.1	Motilal started business with a capital	20,000
“ 2	Purchased furniture	5,000
“ 2	Purchased goods	3,000
“ 3	Paid cartage	75
“ 5	Sold goods for cash	2,800
“ 10	Paid to Ratan Lal	2,000
“ 18	Sold goods for cash	1,000
“ 25	Paid wages	225
“ 28	Paid rent	500
“ 30	Purchased goods	2,000

(Answer: Cash in hand Rs. 11,000)

2. From the following transactions of Mani Ram Agencies, prepare a Single Column Cash Book, balance it, and post it into ledger.

2018		Rs.
Jan. 1	Mani Ram started business with cash	40,000
“ 2	Opened a bank account and deposited	15,000
“ 5	Purchased furniture	8,000
“ 8	Purchased goods	12,000
“ 10	Sold goods for cash	7,000
“ 15	Sold goods on credit to Rajan	6,000
“ 20	Purchased electrical fan	450
“ 25	Received cash from Rajan	6,000
“ 28	Paid rent	550
“ 29	Deposited into the bank	10,000
“ 31	Paid wages	1,500

Hint: Credit sales are not a cash transaction. Hence, not recorded in the Cash Book.

(Answer: Cash in hand Rs. 5,500)

3. Enter the following transactions of Gupta Emporium in Two Column Cash Book and balance it.

2018	
Apr. 1	Cash in hand Rs. 3,000
“ 3	Paid to S.K, Basu Rs. 580 and received discount Rs. 20.
“ 5	Purchased goods for cash Rs. 2,000
“ 8	Received from N.K. Prasad Rs. 960, and allowed him discount of Rs. 40
“ 15	Sold goods on credit to Adinarayan Rs. 2,000
“ 20	Cash sales Rs. 600 -
“ 25	Paid to Narayan Rs. 1,150 in full settlement of his account of Rs. 1,200
“ 28	Received from Adinarayan Rs. 1,950 in full settlement of his account
“ 29	Rent paid Rs. 600
“ 30	Took cash for personal use Rs. 500

(Answer: Cash balance Rs. 1,680. Discount allowed total Rs. 90, Discount received total Rs. 70).

4. Prepare Two Column Cash Book of M/s. Sanjay Enterprises from the following transactions. Also show the ledger postings.

2018		Rs.
Apr. 1	Cash in hand	3,000
“ 3	Purchased goods	800
“ 5	Paid to Gupta	600
	Discount allowed by him	40
“ 7	Sold goods	1,000
“ 9	Received from Pannalal	1,960
	Discount allowed to him	40
“ 12	Received cash from Nagesh in full settlement of his account Rs. 1,000	970
“ 15	Paid to Rakesh after deducting 2.5% discount	1,170
“ 18	Received from Shanker	590
	Discount allowed to him	10
“ 24	Paid wages	100
“ 27	Paid for stationery	60
“ 29	Paid to Kartar Singh in full settlement of his account Rs. 800	780
“ 30	Deposited cash into bank in excess of	800

(Answer: Amount deposited in the bank Rs. 3,210. Discount allowed total Rs. 80. Discount received total Rs. 90).

5. Prepare a Petty Cash Book on the Imprest System from the following particulars of M/s. Preetam Industries.

2018		Rs.
July 1	Received a cheque for petty cash	150.00
“ 2	Paid bus charges	1.50
	Paid cartage	5.00
“ 3	Paid for postage and telegrams	15.25
	Paid wages to casual workers	10.00
“ 4	Paid for Stationery	4.75
“ 5	Paid for repairs of chairs	15.00
	Bus Charges	1.00
“	Cartage	4.50
“ 6	Purchased locks	35.00
“ 7	Tea expenses to customers	4.00
“ 15	Repair to typewriter	7.00
“ 20	Paid tanga charges	6.00
“ 24	Paid taxi fare to manager	18.00
“ 26	Purchased stamps	5.00
“ 29	Auto charges	7.00

(Answer: On August 1, 2018, petty cashier will be given a cheque for Rs. 139)

6. Enter the following transactions in the Three Column Cash Book of M/s. Shreelekha & Co.

2018		Rs.
May 1	Cash in hand	1,134
“ 1	Cash at bank	25,350
“ 2	Deposited into bank	1,000
“ 4	Received from Ram Lal and discount allowed	1,580 20
“ 8	Purchased furniture for cash	500
“ 11	Paid to Jai Kishan by cheque received discount	1,490 10
“ 15	Received from Gopal by cheque	1,000
“ 16	Cash sales	1,570
“ 20	Deposited into bank	2,000
“ 21	Purchased an old motor car for office and paid by cheque	10,480
“ 22	Paid by cheque to Ranganath and received discount	734 6
“ 24	Withdrew from bank for office use	500
“ 27	Purchased goods for cash	600
“ 28	Withdrew from bank for personal use	1,000
“ 31	Paid establishment expenses through bank	900

(Answer: Discount allowed Rs. 20; Discount Received Rs. 16; Cash Balance Rs. 684; Bank Balance Ps. 14,246.)

7. Record the following transactions in Three Column Cash Book of M/s Modern Commercials, and post them into ledger.

2018		Rs.
Jan. 1	Cash balance	700
	Bank balance (overdraft)	1,400
“ 2	Cash sales	900
“ 3	Paid into bank	1,000
	Paid to Alag by cheque	1,225
“ 5	Discount allowed by him	25
“ 10	Paid to Prasad	150
“ 14	Paid wages	250
“ 16	Received a cheque from Dasgupta in full settlement of a claim of Rs	980
“ 20	Paid for stationery	150
“ 21	Purchased by cheque	600
“ 23	Received a cheque from Ram. It was endorsed to Shyam	800
“ 24	Paid Ranga by cheque and discount received	245 5
“ 29	Withdrew from bank for office use	250
“ 31	Cash drawn for personal use	150

(Answer: Discount Allowed Rs. 20; Discount Received Rs. 30; Cash Balance Rs. 150; Bank Overdraft Rs. 1,740.)

8. Prepare a Three Column Cash Book from the following transactions and post them into ledger.

2018		Rs.
Aug 1	Cash in hand	700
“ 1	Cash at bank	10,000
“ 3	Cash sales	6,000
“ 5	Paid rent by cheque	2,400
“ 9	Cash deposited in the bank	6,000
“ 10	Wages paid	100
“ 11	Purchased stationery	180
“ 13	Received cheque from Roy	780
	Discount allowed	20
“ 15	Purchased goods	400
“ 16	Withdrawn from bank for office use	2,000
“ 18	Issued cheque to Gagan	1,340
	Received discount	60
“ 20	Withdrew cash for personal use	400
“ 20	Received cheque from Nath	1,000
“ 24	Nath's cheque dishonoured	1,000

“ 26	Issued cheque for furniture purchased	600
“ 28	Received interest on securities by cheque	300
“ 30	Paid salaries	480

(**Answer:** Discount Allowed Rs. 20; Discount Received Rs. 60; Cash Balance Rs. 1,140; Bank Balance Rs. 10,740.)

9 From the following particulars, prepare the Purchases Book of Devi Stationers and also show the ledger postings.

2018

- Aug. 5 Purchased from Madan Mohan & Sons on credit 5 reams of white paper @ Rs. 75 per ream,
- 10 Purchased from Gopikrishna Bros. 5 dozen ink bottles @ Rs. 52 per dozen at a discount of 10%.
- 14 Purchased from Avanti Pen Stores 3 dozen ball pens @ Rs. 15 per dozen at a discount of 20%.
- 18 Purchased 100 pencils from Muralidhar & Co. @ Rs. 0.75 each.
- 25 Purchased a typewriter on credit from Office Equipment Limited for Rs. 4,500.
- 28 Purchased one dozen pen stands @ Rs. 100 per dozen for cash.
- 30 Purchased 5 dozen of note books on the credit from Rama & Co. @ Rs. 24 per dozen.

(**Hint:** Transactions dated August 25 and 28 are not to be entered in Purchases Book.)

(**Answer:** Total of Purchases Book Rs. 840)

10. Enter the following in the Purchases Returns Book of Lakshmi Traders. Also show their ledger postings.

2018		Rs.
June 2	Returned goods to Sharma Bros.	350
“ 4	Returned goods to Eswar & Sons.	500
“ 6	Returned goods to Venkat & Co. on which a discount of 10% was received.	600
“ 8	Allowance claimed from Ranga & Co. for goods damaged.	450
“ 10	Goods returned to Suryanarayana	200

(**Answer:** Total of Purchases Returns Book Rs. 2,040)

11 Write up the Sales Book of Kiran Associates, wholesale cloth dealers, from the following transactions and post them into ledger.

2018

- Aug.16 Sold to Patel Nanded:
100 metres of silk @ Rs. 45 per metre.
75 metres of velvet @ Rs. 12 per metre.
- “ 18 Sold to Hassen, Gulbarga:

- 60 pieces of two by two cloth @ Rs. 10 per piece.
100 pieces of velvet @ Rs. 8 per piece.
- “ 20 Sold to Shankaraiah, Vikarabad:
50 pieces of dhoties @ Rs. 50 per dhoti.
40 towels @ Rs. 8 per towel.
- “ 25 Sold to Koteswara Rao, Vijayawada:
100 metres of shirting cloth @ Rs. 40 per metre.
60 sarees @ Rs. 75 per sari.
- “ 28 Krishna Murthy, Warangal, purchased from us:
100 metres of long cloth @ Rs. 15 per metre.
100 metres of coarse cloth @ Rs. 9 per metre.

(Answer: Sales Book Total Rs. 20,520)

12. From the following particulars of Sriram Stationers, prepare the Sales Returns Book and show their ledger posting.

2018

- July 5 M/s Sridevi Stationers returned:
4 dozens 100 page note books @ Rs. 18 per dozen.
2 dozens 200 page note books @ Rs. 30 per dozen.
- “ 10 Ramakrishna & Bros. returned @
3 dozen ink bottles @ Rs. 30 per dozen.
1 dozen gum bottles @ Rs. 20 per dozen.
2 dozen erasers @ Rs. 6 per dozen.
- “ 15 Sanjeev & Co. returned:
5 dozen pencils @ Rs. 12 per dozen.
2 dozen reflis @ Rs. 5 per dozen.

(Answer: Sales Returns Book Total Rs. 336)

13. Enter the following transactions in proper subsidiary books of Chekra Enterprises.

2018	Rs.
Aug. 1 Sold goods to Ram Singh	2,550
“ 2 Bought goods from Dhillon	1,200
“ 3 Sold goods to Gopinath	2,500
“ 4 Purchased goods from Habeeb	3,600
“ 5 Ram Singh returns goods	350
“ 6 Goods returned to Dhillon	200
“ 9 Gopinath returned goods	150
“ 10 Returned goods to Habeeb	260
“ 12 Bought goods from Sanyal	4,750
“ 13 Sold goods to Sailo	6,200
“ 14 Sold goods to Michael	4,850
“ 15 Purchased goods from Anthony	3,940
“ 18 Returned goods to Sanyal	320
“ 19 Sailo returned us goods	230

“ 22	Michael returned goods	150
“ 25	Returned goods to Anthony	250
“ 27	Sold goods to Solanki	5,340
“ 28	Purchased goods from Gopalan	4,670
“ 29	Sold goods to Harbinder Singh subject to trade discount of 5%	2,000
“ 30	Purchased goods from Bhandari subject to a trade discount of 10%	1,000

(**Answer:** Totals of Purchases Book Rs. 19,060, Purchases Returns Book Rs. 1,030, Sales Book Rs. 23,340, and Sales Returns Book Rs. 880)

14. The following are the bill transactions of Saptagiri Agencies, Hyderabad. All bills accepted by Saptagiri Agencies are payable at the Andhra Bank, Hyderabad. Prepare Bills Receivable and Bills Payable Journals and post them into ledger.

2018

- Aug. 3 A bill is drawn on Ram Narayan of Hyderabad, payable after three months for Rs. 5,000. It was duly accepted by him on the same day, payable at State Bank of India, Hyderabad.
- “ 5 Accepted a bill dated August 1, 2018 drawn by Agarwal of Lucknow, payable after 60 days, for Rs. 3,000.
- “ 8 Drew a bill on Milkha Singh of Chandigarh for Rs. 4,000 payable after 2 months at Punjab National Bank, Chandigarh. The bill is received on August 16, duly accepted.
- “ 12 Accepted a bill dated August 6, 2018 drawn by Ghanshyam Oza of Rajkot, payable after one month, for Rs. 2,500.
- “ 18 Received an acceptance dated August 12, 2018 from N. Mirdha of Jaipur, payable at State Bank of Bikaner, Jaipur 90 days after date, for Rs. 6,000. It was endorsed to S. Sakeecha of Bhopal on the same day.
- “ 22 Accepted the bill dated July 14, 2018 drawn by P. Obul Reddy, Tirupathi, for Rs. 3,500, payable after 2 months.
- “ 23 A bill is drawn on S. Mukherjee of Calcutta for Rs. 9,000 payable at Allahabad Bank, Calcutta, 90 days after date. The bill was received duly accepted on August 28, 2018, and was discounted with Andhra Bank, on the same day.
- “ 30 Accepted the bill dated August 25, 2018 drawn by Paleirio of Panaji, for Rs. 2,800, payable after 30 days.

(**Answer:** Total of Bills Receivable Book Rs. 24,000. Bills Payable Book Rs. 11,800)

Note : These questions will help you to understand the unit better. Try to write answers for them. But, do not submit your answers to the University for assessment. These are for your own practice only.

UNIT 7 TRIAL BALANCE

Structure

- 7.0 Objectives
- 7.1 Introduction
- 7.2 What is a Trial Balance?
- 7.3 Preparation of a Trial Balance
- 7.4 Preparation of Trial Balance from a Given List of Balances
- 7.5 Causes for the Disagreement of a Trial Balance
- 6.6 Locating Errors when the Trial Balance Disagrees
- 7.7 Errors not Disclosed by Trial Balance
- 7.8 Advantages of a Trial Balance
- 7.9 Limitations of a Trial Balance
- 7.10 Rectification of Errors
 - 7.10.1 Rectification of One-sided Errors
 - 7.10.2 Rectification of Two-sided Errors
- 7.11 Suspense Account and Rectification
- 7.12 Effect of Rectifying Entries on Profits
- 7.13 Let Us Sum Up
- 7.14 Key Words
- 7.15 Some Useful Books
- 7.16 Answers to Check Your Progress
- 7.17 Terminal Questions/Exercises

7.0 OBJECTIVES

After studying this unit, you should be able to:

- define trial balance;
- prepare trial balance from a given set of balances;
- explain the causes of disagreement of a trial balance;
- describe the procedure for locating the errors;
- describe the types of errors which remain undisclosed by the trial balance;
- explain the advantages and limitations of trial balance;
- rectify errors before preparing the final accounts;
- explain the use of suspense account;
- prepare the suspense account;

- rectify errors located during subsequent accounting years; and
- compute the effect of rectifying errors on profits.

7.1 INTRODUCTION

You have learnt the method of recording transactions in journal and its sub-divisions. You have also learnt their posting to various accounts in the ledger. This process of recording and posting continues throughout the year. At the end of the year it becomes necessary to check the arithmetical accuracy of the books of account before the final accounts can be prepared. For this purpose, we prepare a statement called Trial Balance. In this unit, you will study about the preparation of Trial Balance and the extent upto which it can be relied upon for testing the accuracy of accounts. You will also learn about the errors that will be disclosed by Trial Balance and the method of locating such errors.

You know that Trial Balance is prepared to verify the arithmetical accuracy of accounting records. When the Trial Balance does not tally, it means there are errors in the books of account and you will also learn about the errors that affect the Trial Balance and also study the procedure for locating such errors. In the process of rechecking, a number of errors are detected. These errors must be rectified before preparing the final accounts. In this unit, you will also learn about the method of rectifying various errors and study the effect of the rectification on the profit of the business. You are advised to go through this unit once again and note the errors that are usually committed in the process of recording various transactions in subsidiary books and their postings.

7.2 WHAT IS A TRIAL BALANCE ?

Numerous transactions take place in business everyday. They are first recorded in some books of original entry i.e., Journal Proper or one of its sub-divisions. Then they are posted to the appropriate accounts in the ledger. Each ledger account is balanced periodically so as to ascertain the net effect of various transactions posted therein. In the process, some accounts may get closed, while the others may show a debit or a credit balance. Based on these balances, the final accounts are prepared for ascertaining the profit or loss and the financial position of the business. The quality and reliability of the results obtained depend largely on the correctness of the entries made in various books of account. Hence, it is necessary to ascertain the accuracy of these entries before we proceed with the preparation of final accounts. For this purpose, we prepare a statement called 'Trial Balance', which shows balance of all ledger accounts. The ruling of trial balance is similar to that of journal. We write the name of each account in the particulars column. If the account shows a debit balance, its amount is entered in the debit balances column and if it shows a credit balance the amount is entered in the credit balances column. You know that the total of the debit balances column must tally with the total of the credit balances column, because for every debit there is a corresponding credit and vice versa. When the two totals tally, it is considered as a preliminary proof of the arithmetical accuracy of entries in the books of accounts. It is an assurance that posting into ledger has been correctly done and that equality between debits and credits has been maintained throughout. If, however, the two totals do not tally it implies that there are errors in the books of account.

Trial Balance can thus be defined as a statement (or a schedule) listing, in separate columns, the debit and credit balances of all ledger accounts on a particular date. It indicates whether or not the books of account have been written in accordance with the rules of double entry and ensures, to a great extent, the arithmetical accuracy of accounting entries.

7.3 PREPARATION OF A TRIAL BALANCE

At the outset, it is necessary to note that Trial Balance is a statement of balances. Its preparation does not involve passing of any journal entries. We simply balance various accounts in the ledger and list all accounts which show some balance, whether it is debit or credit. You are aware that when cash book is maintained, the ledger does not contain cash and bank accounts. Hence, cash and bank balances are taken from the cash book. If the number of personal accounts is large, you may prepare separate statements of balances for all debtors and creditors and show only the total debtors and total creditors in the trial balance.

Let us now take a comprehensive example covering all types of transactions, record them in appropriate books, post them into ledger, and prepare a trial balance. Look at illustration 1. It shows the accounting process right upto the preparation of Trial Balance.

Illustration 1

The following is the Balance Sheet of Kapil Dev as on March 31, 2018.

Liabilities	Rs.	Assets	Rs.
Capital	50,000	Cash in hand	15,000
		Stock	50,000
Loan from bank	8,000	Due from Khanna	1,500
Due to Saluja Bros.	15,000	Due from Mittal	2,500
		Furniture	4,000
	73,000		73,000

The following transactions took place during April, 2018:

	Rs.
April 2 Paid wages and salaries	6,000
“ 2 Cash sales of bicycles	3,000
“ 3 Purchased 20 bicycles on credit from Mehra Cycle Co. @ Rs. 600 per bicycle	12,000
“ 5 Sold 30 bicycles to Mittal @ 900 per bicycle	27,000
“ 8 Paid to Saluja Bros. in full settlement of their account	14,600
“ 10 Received from Mittal 2 bicycles as defective, and sent him a credit note	1,800
“ 13 Paid rent	1,750
“ 15 Purchased from Saluja Bros. on credit	
20 cycle rims @ Rs. 100 each	2,000
20 cycles hubs @ Rs. 20 each	400

“ 18	Sold to Rao 10 bicycles @ Rs. 800 per bicycle	8,000	Trial Balance
“ 20	Returned to Saluja Bros. 10 cycle hubs being cracked	200	
“ 21	Rao returned 2 bicycles, and sent him credit note	1,600	
“ 22	Mittal Paid	14,000	
“ 24	Purchased one typewriter on credit from Kutub Typewriter Co.	6,500	
“ 25	Cash sales	3,500	
“ 28	Khanna paid; no hope of getting the balance	1,000	
“ 30	Rao paid	6,200	
	Discount allowed	200	
“ 30	Paid to Mehra Cycle Co. on accoun	10,000	

Prepare Journal Proper and the subsidiary books involved. Show their postings into ledger and prepare a Trial Balance.

Cash Book									
Dr.					Cr.				
Date	Particulars	L.F.	Discount	Cash	Date	Particulars	L.F.	Discoun	Cash
2018			Rs.	Rs.	2018			Rs.	Rs.
Apr. 1	To Balance b/d			15,000	Apr.2	By Wages and Salaries A/c			6,000
“ 2	To Sales A/c			3,000					
“ 22	To Mittal			14,000	“ 8	By Saluja Bros.		400	14,600
“ 25	To Sales A/c			3,500	“ 13	By Rent Alc			1,750
“ 28	To Khanna			1,000	“ 30	By Mehra Cycle Co.			10,000
“ 30	To Rao		200	6,200	“ 30	By Balance c/d			10,350
			200	42,700				400	42,700
May 1	To Balance b/d			10,350					

PURCHASES JOURNAL

Date	Particulars	Invoice No.	L.F.	Amount
2018				Rs.
Apr. 3	Mehra Cycle Co.			12,000
“ 15	Saluja Bros.			2,400
“ 30	Total			14,400

PURCHASES RETURNS JOURNAL

Date	Particulars	Debit Note No.	L.F.	Amount
2018				Rs.
Apr. 20	Saluja Bros.			200
“ 30	Total			200

Date	Particulars	Invoice No.	L.F.	Amount
2018				Rs.
Apr. 5	Mittal			27,000
“ 18	Rao			8,000
“ 30	Total			35,000

SALES RETURNS JOURNAL

Date	Particulars	Credit Note No.	L.F.	Amount
2018				Rs.
Apr. 10	Mittal			1,800
“ 21	Rao			1,600
“ 30	Total			3,400

JOURNAL

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
2018			Rs.	Rs.
Apr. 1	Cash A/c Dr. Stock A/c Dr. Khanna Dr. Mittal Dr. Furniture A/c Dr. To Capital A/c To Bank Loan A/c To Saluja Bros. (Opening balances of assets and liabilities being brought in on April 1, 2018)		15,000 50,000 1,500 2,500 4,000	50,000 8,000 15,000
“ 24	Typewriter A/c Dr. To Kutub Typewriter Co. (Being purchase of typewriter on credit)		6,500	6,500
“ 28	Bad Debts A/c Dr. To Khanna (Being amount still due from Khanna, now written off as bad debt)		500	500
“ 30	Total		80,000	80,000

LEDGER
Capital Account

Trial Balance

Dr.		Rs.			Cr.
2018 Apr. 30	To Balance c/d	50,000	2018 Apr. 1	By Balance b/d	50,000
			May 1	By Balance b/d	50,000

Saluja Bros Account

2018 Apr. 8	To Cash A/c	14,600	Apr. 1	By Balance b/d	15,000
“ 8	To Discount A/c	400	“ 15	By Purchases A/c	2,400
“ 20	To Returns Outward A/c	200			
“ 30	By Balance c/d	2,200			
		17,400			17,400
			May 1	By Balance b/d	2,200

Bank Loan Account

2018 Apr. 30	To Balance c/d	8,000	2018 Apr. 1	By Balance b/d	8,000
		8,000	May 1	By Balance b/d	8,000

Mehra Cycle Co. Account

2018 Apr. 30	To Cash A/c	10,000	2018 Apr. 3	By Purchases A/c	12,000
“ 30	To Balance c/d	2,000			
		12,000			12,000
			May 1	By Balance b/d	12,000

Khanna's Account

2018 Apr. 1	To Balance b/d	1,500	2018 Apr. 28	By Cash A/c	1,000
			“ 30	By Bad Debts A/c	500
		1,500			1,500

2018		Rs.	2018		Rs.
Apr. 1	To Balance b/d	2,500	Apr. 10	By Return Inward A/c	1,800
" 5	To Sales A/c	27,000	" 22	By Cash A/c	14,000
			" 30	By Balance c/d	13,700
		29,500			29,500
May 1	To Balance b/d	13,700			

Rao's Account

2018		Rs.	2018		Rs.
Apr. 18	To Sales A/c	8,000	Apr. 21	By Return Inward A/c	1,600
			" 30	By Cash A/c	6,200
			" 30	By Discount A/c	200
		8,000			8,000

Furniture Account

2018		Rs.	2018		Rs.
Apr. 1	To Balance b/d	4,000	Apr. 30	By Balance c/d	4,000
May 1	To Balance b/d	4,000			

Typewriter Account

2018		Rs.	2018		Rs.
Apr. 24	To Kutub Type Writer Co.	6,500	Apr. 30	By Balance c/d	6,500
May 1	To Balance b/d	6,500			

Stock Account

2018		Rs.	2018		Rs.
Apr. 1	To Balance b/d	50,000	Apr. 30	By Balance c/d	50,000
May 1	To Balance b/d	50,000			

Sales Account

2018		Rs.	2018		Rs.
			Apr. 2	By Cash A/c	3,000
			" 25	By Cash A/c B	3,500
			" 30	By Sundries as per Sales Book	35,000

Purchase Account

Trial Balance

2018 Apr. 30	To Sundries as per Purchase Book	Rs. 14,400			
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Return Outwards Account

			2018 Apr, 30	By Sundries as per Returns Outward Book	Rs. 200
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Return Inwards Account

2018 Apr, 30	To Sundries as per Returns Inward Book	Rs. 3,400			
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Wages & Salaries Account

2018 Apr. 2	To Cash A/c	Rs. 6,000			
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Rent Account

2018 Apr. 13	To Cash A/c	Rs. 1,750			
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Bad Debts Account

2018 Apr. 28	To Gupta	Rs. 500			
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Discount Account

2018 Apr.30	To Sundries - as per Cash Book	Rs. 200	2018 Apr. 30	By Sundries - as per Cash Book	Rs. 400
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Kutub Typewriter Co.

2018 Apr. 30	To Balance c/d	Rs. 6,500	2018 Apr, 24 May 1	By Typewriter A/c By Balance b/d	Rs. 6,500
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Trial Balance as on April 30, 2018

Name of Account		L.F.	Dr. Balances	Cr. Balances
			Rs.	Rs.
	Cash in hand		10,350	
	Capital			50,000
	Saluja Bros.			2,200

Bank Loan			8,000
Mehra Cycle Co.			2,000
Kutub Typewriter Co.			6,500
Mittal		13,700	
Furniture		4,000	
Typewriter		6,500	
Stock		50,000	
Sales			41,500
Purchases		14,400	
Returns Outwards			200
Returns Inwards		3,400	
Wages & Salaries		6,000	
Rent		1,750	
Bad Debts		500	
Discount Allowed		200	
Discount Received			400
Total		1,10,800	1,10,800

- Note:**
1. You should know that the Trial Balance can also be prepared on the basis of the totals of all debits and credits in various accounts. But, this method is not followed any more. Hence it has not been discussed.
 2. In this illustration, you will find that some accounts have not been balanced. It is because these are all nominal accounts which are to be closed by transfer to the Trading and Profit & Loss Account.

7.4 PREPARATION OF TRIAL BALANCE FROM A GIVEN LIST OF BALANCES

Normally when a trial balance is to be prepared, you have full details of ledger accounts with you. You can, therefore, easily ascertain whether a particular account has a debit balance or credit balance, and prepare the Trial Balance without any difficulty. But, sometimes, you are given only a list of balance. The nature of each balance is not mentioned. In other words, it is not clearly indicated whether the account is showing a debit balance or credit balance. Can you prepare a Trial Balance in such a situation? No you can't unless you know the nature of each balance. You will not know whether to show a particular balance in the debit column or in the credit column of the Trial Balance.

Hence, when you are asked to prepare a Trial Balance from a given list of balances and it is not clearly indicated whether a particular account has a debit balance or credit balance, you will first have to determine the nature of each balance. In this exercise, your knowledge of rules of debit and credit should help you. For example, you are aware that in case of nominal accounts all expenses and losses are debited and all incomes and gains are credited. Hence, accounts like salaries, wages, etc., will show debit balances and the accounts like interest received, discount received, etc., will show credit balances. Similarly, you know the rules for real and personal accounts. The accounts of assets like cash in hand, machinery, etc., will show debit balances and accounts like capital, creditors, etc., will show credit balances. For

convenience, however, a few guidelines may help you to determine quickly the nature of each balance. These are:

- a) All accounts of expenses (including purchases) and losses will be debit balances.
- b) All accounts of incomes (including sales) and gains will be credit balances.
- c) All accounts of assets will be debit balances.
- d) All accounts of liabilities will be credit balances.
- e) Capital Account will normally be a credit balance.
- f) Drawings Account will be a debit balance.

The difficulty may arise with regard to items like commission, discount, rent and interest, because these can take the form of expenses as well as incomes. In such cases, the nature of balance is usually indicated by mentioning (Dr.) or (Cr.) against each item, or the word 'received' or 'paid' is usually added. So you can treat them correctly without much difficulty. If, however, there is one item for which no such indication is given and you find it difficult to identify the nature of its balance, you just proceed with the preparation of Trial Balance. At the time of totalling the amount columns in the trial balance, you will find that the total of one column is less than the other. This implies that the unindicated balance pertains to the column which is short. For example, there is an item of commission Rs. 300. But it is not indicated whether it is paid or received. When you prepare the trial balance, you find that the debit total is short by Rs. 300. This means that Commission Account has a debit balance. Now, if you show it as such in the Trial Balance, it will tally.

Look at illustration 2. The Trial Balance has been prepared from a given list of balances where the nature of each balance is not indicated. Study illustration carefully and note how each item has been shown in the Trial Balance.

Illustration 2

Prepare a Trial Balance from the following balances taken from the books of Sudhakar on March 31, 2018.

	Rs.		Rs.
Capital	1,80,000	Discount Received	360
Stock (1-4-2017)	49,200	Bills Payable	12,270
Sales	2,43,600	Sundry Creditors	31,110
Gas & Water	2,520	Returns Outwards	19,200
Land & Buildings	60,000	Bank Charges	3,000
Machinery	55,470	Drawings	14,550
Debtors	1,07,400	Trade Expenses	2,970
Commission (Dr.)	4,410	Cash	2,400
Plant	30,810	Bank	15,780

Accounting Process

Carriage	3,370	Purchases	96,480
Rent Received	1,290	Rates & Taxes	2,520
Insurance	3,180	Furniture	3,750
Returns Inwards	5,970	Bills Receivable	4,410
Salaries	19,640		

Solution :

Trial Balance as on March 31, 2018

Name of Account	L.F.	Dr. Balances	Cr. Balances
		Rs.	Rs.
Capital		—	1,80,000
Stock (1-4-2017)		49,200	—
Sales		—	2,43,600
Gas and Water		2,520	—
Land & Buildings		60,000	—
Machinery		55,470	—
Debtors		1,07,400	—
Commission (Dr.)		4,410	—
Plant		30,810	—
Carriage		3,370	—
Rent Received		—	1,290
Salaries		19,640	—
Insurance		3,180	—
Returns Inwards		5,970	—
Discount Received		—	360
Bills Payable		—	12,270
Sundry Creditors		—	31,110
Returns Outwards		—	19,200
Bank Charges		3,000	—
Drawings		14,550	—
Trade Expenses		2,970	—
Cash		2,400	—
Bank		15,780	—
Purchases		96,480	—
Rates & Taxes		2,520	—
Furniture		3,750	—
Bills Receivable		4,410	—
Total		4,87,830	4,87,830

In illustration 2, the Trial Balance has tallied i.e., the total of debit balances is equal to the total of credit balances. This implies that each balance has been entered in the appropriate amount column.

However, you require constant practice to determine the correct nature of items. Hence, another illustration is given where the accountant has not been able to correctly place the balances and, consequently, the Trial Balance does not tally. Look at illustration 3. The total of debit balances (Rs. 10,83,600) is different from the total of credit balances (Rs. 7,16,400). It is because a number of balances have been entered in the wrong amount columns. To cite one example, stock (an asset) is a debit balance but it has been wrongly entered in the credit column. Now, go through all items and identify those which have not been correctly shown in the given Trial Balance. Then, study the Revised Trial Balance and note how they are actually shown. This should help you gain clarity about the nature of various balances.

Illustration 3

Given below is a Trial Balance prepared by an inexperienced accountant and the Trial Balance has not tallied. Rewrite the Trial Balance.

Trial Balance of Buddhu & Co. as on December 31, 2018

Name of Account	L.F.	Dr. Balances	Cr. Balances
		Rs.	Rs.
Capital		—	1,12,600
Buildings		1,70,000	—
Motor Car		—	30,000
Sales		6,00,000	—
Purchases		—	3,40,000
Furniture		25,000	—
Stock		—	44,000
Bank Overdraft		12,000	—
Cash		3,000	—
Interest on Bank Loan		—	4000
Discounts Received		2,600	—
Discounts Allowed		—	4,600
Salaries		14,000	—
Wages		—	12,000
Printing & Stationery		4,000	—
Investments		10,000	—
Advertisement		6,000	—
Legal Charges		2,000	—
Audit Fees		1,000	—
Bad Debts		3,000	—
Debtors		2,31,000	—
Creditors		—	1,72,800
Total		10,83,600	7,16,400

**Revised Trial Balance of Buddhu & Co.
as on December 31, 2018**

Name of Account	L.F.	Dr. Balances	Cr. Balances	Remarks
		Rs	Rs.	
Capital		—	1,12,600	—
Buildings		1,70,000	—	Asset Dr.
Motor Car		30,000	—	Asset Dr.
Sales		—	6,00,000	Income Cr.
Purchases		3,40,000	—	Expense Dr.
Furniture		25,000	—	Asset Dr.
Stock		44,000	—	Asset Dr.
Bank Overdraft		—	12,000	Liability Cr.
Cash		3,000	—	Asset Dr.
Interest on Bank Loan		400	—	Expense Dr.
Discounts Received		—	2,600	Income Cr.
Discounts Allowed		4,600	—	Expense Dr.
Salaries		14,000	—	“
Wages		12,000	—	“
Printing & Stationery		4,000	—	“
Investments		10,000	—	Asset Dr.
Advertisement		6,000	—	Expense Dr.
Legal Charges		2,000	—	“
Audit Fees		1,000	—	“
Bad Debts		3,000	—	“
Debtors		2,31,000	—	Asset Dr.
Creditors		—	1,72,800	Liability Cr.
Total		9,00,000	9,00,000	

Check Your Progress A

1. Define Trial Balance

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2. Mention against each item whether it will generally show a debit balance or a credit balance.

Item	Nature of Balance (Debit or Credit)
a) Opening Stock
b) Bad Debts
c) Carriage Inwards

d) Carnage Outwards	.....
e) Returns Inwards	.....
f) Returns Outwards	.....
g) Loan from Bank	.....
h) Drawings	.....
i) Goodwill	.....
j) Bill Payable	.....
k) Cash at Bank	.....
l) Interest on Loan	.....
m) Discount Allowed	.....
n) Freehold Premises	.....
o) Insurance	.....
p) Salaries Payable	.....

7.5 CAUSES FOR THE DISAGREEMENT OF A TRIAL BALANCE

As mentioned earlier, when the Trial Balance does not tally, it means that there are errors in the books of account. Let us now analyse the errors which usually affect the Trial Balance and lead to its disagreement.

1. **Omission of posting in one account:** You are aware that both the debit and credit aspects of a transaction have to be posted in the ledger accounts. If you post it to the debit of one account and forget its posting to the credit of the other concerned account, it is bound to affect the Trial Balance. For example, an amount of Rs. 200 received from Ali, correctly entered on the debit side of the cash book but is not posted to the credit side of Ali's Account. This error shall result in the lower credit and hence the Trial Balance will not tally.
2. **Double posting in one account:** If by mistake you post an entry two times to the debit or to the credit of an account it would result in extra debit or credit and as such cause disagreement in the Trial Balance. If, however, the whole entry is posted twice i.e., both the debit and the credit aspects are posted twice, it won't affect the Trial Balance. It is because both the debit and the credit sides will be equally affected.
3. **Posting on the wrong side of an account:** When an entry is posted on the wrong side of an account i.e., instead of debit side it is posted on the credit side, it would also cause disagreement in the Trial Balance. In such a situation, the difference will be for double the amount. For example, Rs. 300 received from Khan which is correctly entered on the debit side of the Cash Book, but while posting it to Khan's Account, it is wrongly posted to the debit side instead of the credit side. This would mean that a debit of Rs. 600 (Rs. 300 in Cash Account and Rs. 300 in Khan's Account) has no corresponding credit. So, in the Trial Balance, the credit side will be lower by Rs. 600.
4. **Posting wrong amount in an account:** If you post an entry to the correct side of an account but commit an error in writing the amount, this would affect the Trial Balance. Suppose, in the above example you post the entry

correctly on the credit side of Khan's Account but the amount is wrongly put as Rs. 200. It would cause a difference of Rs. 100. In the Trial Balance, the credit side will be lower by Rs. 100.

5. **Wrong totalling of the subsidiary book:** If any subsidiary book is overcast or undercast, it affects the concerned account in ledger. Suppose the correct total of Sales Journal is Rs. 5,600, but it is actually totalled as Rs. 5,300. You know that the total of Sales Journal is posted to the credit side of the Sales Account. So, the Sales Account will be short by Rs. 300, and the Trial Balance will not tally.
6. **Omitting to post the total of a subsidiary book:** If the total of a subsidiary book is not posted to the concerned account, it would affect the Trial Balance. Such mistake relates only to the account where posting was to be done and as such affects only one account. Take for example, the Sales Journal. If its total of Rs. 18,900 is not posted to the credit of Sales Account, the credit side on the Trial Balance will be lower by Rs. 18,900.
7. **Wrong totalling or balancing of an account:** When an account is wrongly totalled or wrongly balanced, this would affect the Trial Balance. Suppose the debit side of Shyam's Account is totalled as Rs. 1,300 instead of Rs. 1,100. It would lead to wrong balance in Shyam's Account. Consequently, the debit total in the Trial Balance will be higher by Rs. 200. Similarly, if the totalling is correctly done but a mistake is committed in balancing the account, it would also cause a difference in the Trial Balance.
8. **Omission of an account from Trial Balance:** You know that all accounts which show some balance must be included in the Trial Balance. If you forget to write the balance of any account in the Trial Balance, it will not tally. In practice, cash book balances are often omitted from Trial Balance.
9. **Writing the balance of an account on the wrong side of the Trial Balance:** If the balance of an account which is to be shown in the debit column of the Trial Balance is actually shown in the credit column, the Trial Balances will not tally. It will be affected by double the amount. You noticed such error in respect of many items in illustration 3.
10. **Wrong totaling of the Trial Balance :** If a mistake is committed in totalling the Trial Balance amount columns of the Trial Balance itself, the Trial Balance will not tally. Thus, you learn about various errors which may cause differences in the Trial Balance. Note that these errors affect only one aspect (debit or credit). This upsets the debit-credit correspondence leading to the disagreement of the Trial Balance.

7.6 LOCATING ERRORS WHEN THE TRIAL BALANCE DISAGREES

When a Trial Balance disagrees, an attempt must be made to locate the errors and rectify them. If all errors are rectified and the Trial Balance is revised, it will tally.

The following routine procedure is usually adopted for locating the errors.

- a) Check the totals of both the debit and the credit columns of the Trial Balance.
- b) If the difference still persists, ascertain the exact amount of difference; and then

- i) See whether an account having that balance has been omitted from the Trial Balance. Suppose the debit column in Trial Balance is short by Rs. 630, it is just possible that an account with a debit balance of Rs. 630 has not been entered in the Trial Balance.
 - ii) Check whether an account with a balance equal to that difference has been entered twice in the Trial Balance.
 - iii) Take the half amount of difference, see whether there is any account with such balance in the Trial Balance and, if so, check whether it is entered in the correct column or not. If an account with a debit balance of Rs. 315 has been entered in the credit column, the debit column becomes short by Rs. 630.
- c) Verify whether (i) the balances of all the accounts are included in the Trial Balance, (ii) they are entered in the correct column, and (iii) their amounts have been correctly written. If no errors are found upto this stage, or the errors located have been duly corrected, but still the Trial Balance does not tally, there is need to take further action. You may take the following steps:
- d) Check the totals of the lists of sundry debtors and sundry creditors.
 - e) Check the totals and balances of all accounts in the ledger.
 - f) Check the totals and the postings of all subsidiary books.
 - g) Check the postings of all amounts equal to the difference in Trial Balance. It is possible that a posting has been omitted. Similarly, check the postings of all amounts equal to half the difference. It is possible that the amount has been posted on the wrong side of the concerned account.
 - h) See that correct amounts have been brought forward from the previous pages.
 - i) Verify that all opening balances have been correctly entered in various accounts.
 - j) Compare the current year's Trial Balance with that of the previous year. Any variation noticed should be carefully checked.

The procedure outlined above, if carefully followed, should normally reveal all the errors. The errors are then rectified and a Revised Trial Balance is prepared. If no other errors exist, the Revised Trial Balance is likely to tally. However, if the Revised Trial Balance also does not tally, there is no alternative but to recheck the entire accounting work done during the year. Sometimes, all these efforts fail to reveal the errors. In such a situation, the difference may be placed to the debit or credit of a Suspense Account (as the case may be) and you may proceed with the preparation of the final accounts. Later on, as and when the errors come to light, they will be corrected through proper rectifying entries in the journal.

7.7 ERRORS NOT DISCLOSED BY TRIAL BALANCE

As stated earlier, the Trial Balance is only a reasonable proof (not a conclusive proof) of the arithmetical accuracy of accounting entries. There is no guarantee

that when the Trial Balance has tallied, there will be no errors left. As a matter of fact, there are a number of errors which do not affect the Trial Balance at all. They are:

1. **Errors of Principle:** When a transaction has not been recorded as per the rules of debit and credit, or some other accounting principle has been ignored, the errors so arising are called 'Errors of Principle'. Example of such errors are:
 - i) A credit purchase of a fixed asset recorded in the Purchases Journal instead of the Journal Proper: This results in debiting the Purchases Account instead of the concerned fixed asset account. It means that a capital expenditure has been treated as a revenue expenditure. This is an error of principle. This does not disturb the debit-credit correspondence. Hence, the Trial Balance will not be affected.
 - ii) An expenditure incurred on repairs of machinery debited to Machinery Account: As per rules it should have been debited to Machinery Repair Account, as it is a revenue expenditure. Debiting to Machinery Account amounts to treating it as a capital expenditure. It is therefore an error of principle. This also does not affect the Trial Balance because the debit has been duly recorded, though in the wrong account.
 - iii) Salary paid to Shyam recorded in the Cash Book as a payment to Shyam: This results in debiting Shyam's personal account instead of the Salaries Account. This is also an error of principle and does not affect the Trial Balance.
2. **Errors of Omission:** When a transaction is completely or partially omitted to be recorded in books of account, it is called an 'Error of Omission'. If the transaction is omitted to be recorded in the subsidiary books or its posting is completely omitted, it is called an 'Error of Complete Omission'. If, however, the posting is done in one account, but omitted to be done in the other, it is called an 'Error of Partial Omission'. For example, if a credit purchase of goods from Shyam is not recorded in the Purchases Journal or a credit purchase of furniture from Ram is duly recorded in the Journal Proper but no posting is done in any of the two accounts involved, then these will be termed as errors of complete omission. If the purchase of goods from Shyam is recorded in the Purchases Journal but is omitted to be posted in Shyam's Account, it will be called an error of partial omission. Other examples of partial omission are: omission in carrying forward the total from one page to the other, omission to balance an account, and so on.

The errors of complete omission do not, affect the Trial Balance. But the errors of partial omission would certainly cause disagreement of the Trial Balance because they would lead to either short debit or short credit.

3. **Some Errors of Commission:** When an error is committed in recording a transaction in the subsidiary book with a wrong amount, or is committed in posting it to a wrong account or to the wrong side of an account, it is called an 'Error of Commission'. Errors like double posting, wrong totalling of an account, wrong carry forward, wrong balancing, etc., are also regarded as errors of commission. Such errors will generally affect the Trial Balance. But, if an error of commission is committed while recording a transaction in

any of the subsidiary books, it shall not affect the Trial Balance because both the debit and the credit are equally affected. Suppose, a machine of Rs. 5,000 purchased on credit from Gautam is recorded in the journal for Rs. 5,500. It means both the debit and the credit have been recorded for Rs. 5,500. Hence, the Trial Balance remains unaffected.

4. **Compensating Errors:** Those errors which nullify the effect of each other are called 'Compensating Errors'. In other words, compensating errors refer to such a group of errors wherein the effect of one error is compensated by the effect of another error or errors. Such errors do not affect the Trial Balance. For example, while posting an entry of Rs. 200 to the debit of Ram's personal account, we wrongly wrote Rs: 400. Then, while posting an entry of Rs. 500 to the debit of some other account we wrote Rs. 300. The first error will result in a higher debit of Rs. 200 whereas the second error will result in a lower debit of Rs. 200. Thus, the effect of the first error is nullified by the effect of the second error. So the Trial Balance will not be affected. Take another example. The Purchases Journal is overcast by Rs. 1,000 which means the Purchases Account will be debited in excess by Rs. 1,000. The sales journal also, by mistake, is overcast by Rs. 1000 which means the sales account will be credited in excess by Rs. 1000. These two mistakes together result in excess debit of Rs. 1,000 as well as an excess credit of Rs. 1,000. Thus, they cancel out each other and the Trial Balance remains unaffected.

Check Your Progress B

1. Select one of the following alternatives and tick the correct answer.
 - a) Overcasting of Purchases Journal would affect:
 - i) Sales Account ()
 - ii) Purchases Account ()
 - iii) Supplier's Account and Purchases Account ()
 - b) Sales to Benson Rs. 500 posted to his account as Rs. 50 would affect:
 - i) Sales Account ()
 - ii) Benson's Account ()
 - iii) Cash Account ()
 - c) Sales to Gill recorded in Purchases Journal would affect:
 - i) Sales Account ()
 - ii) Sales Account, Purchases Account and Gill's Account ()
 - iii) Purchases Account and Gill's Account ()
 - d) Purchases made on credit not recorded at all would affect:
 - i) Purchases Account ()
 - ii) Supplier's Account ()
 - iii) Purchases Account and Supplier's Account ()

- e) Amount paid to Billu posted to the credit side of his account would affect:
- i) Billu's Account ()
 - ii) Cash Account ()
 - iii) Cash Account and Billu's Account ()
- f) Amount received from Sita Ram posted to the credit of Mela Ram would affect:
- i) Sita Ram's Account ()
 - ii) Mela Ram's Account ()
 - iii) Sita Ram's Account and Mela Ram's Account ()
2. Give two examples of errors of principle.
-
-
-
3. Give two examples of compensating errors.
-
-
-
4. A few errors committed in Ahluwalia's books of account are given below. State which errors would affect the Trail Balance.
- a) Sales of Rs. 950 to Ram completely omitted from books of account.
 - b) Purchases of Rs. 720 from Shyam entered in the Purchases Journal as Rs.700.
 - c) Purchases Journal is overcast by Rs. 1,000.
 - d) Sales Returns Journal is undercast by Rs. 200.
 - e) Amount paid to Agarwal wrongly posted to the debit of Mittal's Account.
 - f) Bank overdraft shown under debit column in the Trial Balance.
 - g) Sales of Rs. 500 to Sadiq entered in Sales Journal as sales to Mushtaq.
 - h) Wages paid for installation of machinery debited to Wages Account.

7.8 ADVANTAGES OF A TRIAL BALANCE

The following advantages accrue from a Trial Balance:

1. It is a reasonable proof of the arithmetical accuracy of accounting entries. If the two sides of a Trial Balance tally, it is an indication that the books of account are arithmetically correct. Of course, there may still be some errors left.

2. It contains the balances of all ledger accounts on a particular date. Thus it serves as a summary of the results of all transactions during the period. The position of each account can be judged simply by looking at the Trial Balance. The ledger may be referred only if some further details are required in respect of a particular account.
3. It acts as a basis for preparing the final accounts i.e., Profit & Loss Account and the Balance Sheet. Of course, one can prepare these statements even by taking each balance directly from the ledger. But, that will be too cumbersome.
4. Regular preparation of a trial balance ensures that the accounting staff will work carefully. They will keep the accounts up to date and strive hard to avoid mistakes.

7.9 LIMITATIONS OF A TRIAL BALANCE

The following can be considered as the limitations of Trial Balance:

1. Trial balance does not disclose all types of errors. Certain types of errors remain undetected even when the Trial Balance tallies. Hence, it is not a conclusive proof of the accuracy of the books of account.
2. A Trial Balance does not provide any additional information. You can not have any idea about the net result of the trading activity or about the financial position directly from the Trial Balance. Thus, the Trial Balance serves a limited purpose only.

Notwithstanding the limitations expressed above, the Trial Balance serves a useful purpose as a preparatory step in the preparation of final accounts.

7.10 RECTIFICATION OF ERRORS

Any error when located must be rectified. However, the rectification should not be made by overwriting or by striking off the wrong entry. This would destroy the authenticity of the books of account. Hence, the errors should always be corrected by making suitable entries called rectifying entries. For purposes of rectification, the errors are divided into two categories: (i) one-sided errors, and (ii) two-sided errors.

One-sided Errors : Certain errors affect only one side of an account, either the debit side or the credit side. Such errors are called 'one-sided errors'. Examples of one-sided errors are:

- i) Rs. 100 received from Deshmukh was posted to his account as Rs. 10. It means Deshmukh's Account has been credited with Rs. 10 instead of Rs. 100 and there is no mistake in the Cash Book. Thus, this error has affected only one side of an account.
- ii) The Purchase Book is overcast by Rs. 1000. This will affect the debit side of Purchases Account where the total of the Purchases Book is posted, and no other account is affected.

Two-sided Errors : Certain errors may affect two or more accounts. Such errors are called 'two-sided errors'. Examples of two-sided errors are:

- i) A credit sale of Rs. 1,080 to Anand was wrongly recorded in the Sales Book for Rs. 1,800. This error will affect two accounts viz., Anand's Account and Sales Account. Anand's Account has been debited by Rs. 1,800 instead

of Rs. 1,080. The Sales Account has also been credited by an additional amount of Rs. 720 (Rs. 1,800—Rs. 1,080), because the Sales Book shows a higher total.

- ii) A sale of Rs. 500 made to Kamal has been posted on the debit side of Kishore's Account. This error will affect two accounts viz., Kamal's Account and Kishore's Account. An entry of Rs. 500 does not appear on the debit side of Kamal's Account whereas Kishore's Account has been wrongly debited with that amount.

7.10.1 Rectification of One-sided Errors

Generally errors are corrected by passing suitable journal entries. You know passing a journal entry means debiting one account and crediting another. But in the case of one-sided error only one account is involved. So it cannot be corrected by passing journal entry. It is rectified by noting the correction on the appropriate side. Take the first example of one-sided error. Deshmukh's Account was credited short by Rs. 90. This will be corrected by an additional entry for Rs. 90 on the credit side of his account as follows:

Deshmukh's Account

Dr.	Cr.
	By Difference in amount received from him posted on
	Rs. 90

In the second example of one-sided error, the Purchases Account is debited in excess by Rs. 1,000. This will be corrected by crediting the Purchases Account with Rs. 1,000 as follows:

Purchases Account

Dr.	Cr.
	By Overcasting of Purchases Book for the month of
	Rs. 1,000

The wrong total in the Purchases Book will be circled with red ink and the correct total entered above or below the circle. The person doing the rectification will also put his initials.

Let us take a few more examples of one-sided errors and study how they will be rectified.

- The Sales Returns Book for the month of June was undercast by Rs. 10 :** You know the periodical total of the Sales Returns Book is posted to the debit side of Sales Returns Account. So, a mistake in totalling the Sales Returns Book will affect only the Sales Returns Account. It has been debited short by Rs. 10. So, this error can be corrected by an additional entry for Rs. 10 on the debit side of Sales Returns Account as shown below:

Sales Returns Account

Dr.	Cr.
To Undercasting of Sales Returns Book for the month of June	Rs. 10

2. **A payment of Rs. 1,000 towards interest was posted twice to Interest Account :** You know when interest is paid it is recorded on the credit side of the Cash Book and posted On the debit side of Interest Account. The error lies in repeating the posting to interest Account. Thus, it has affected only the Interest Account which now shows an excess debit of Rs. 1,000. This will be corrected by crediting the Interest Account with Rs. 1,000 as follows:

Interest Account

Dr.	Cr.		
		By Double posting from Cash Book on now, rectified	Rs. 1,000

3. **A receipt of Rs. 300 towards commission was omitted to be posted :** You know receipt of commission is recorded on the debit side of the Cash Book and posted on the credit side of the Commission Account. The error lies in omitting to post. Hence, it has not been credited by Rs. 300. This error can be corrected by making the posting now as shown below:

Commission Account

Dr.	Cr.		
		By Omission of posting from Cash Book	Rs. 300

4. **A credit sale for Rs. 1,000 to Tiwari was posted to the credit side of his account:** You know a credit sale is entered in the Sales Book and posted on the debit side of the customer’s account from the Sales Book. This error relates to posting on wrong side of Tiwari’s Account. His account should have been debited and not credited. To correct this error, we have not only to remove the wrong credit of Rs. 1,000 from his account but also give a debit of Rs. 1,000 to his account. Hence, the error can be rectified by debiting Tiwari’s Account with double the amount i.e. Rs, 2,000 as shown below:

Tiwari’s Account

Dr.	Cr.		
To Posting of sales made to him on credit side on Now rectified	Rs. 2,000		

Check Your Progress C

1. What do you understand by one-sided error?

2. The following errors have been committed in the books of account.
 - i) Purchase Book was overcast by Rs. 500.
 - ii) Sales Book was undercast by Rs. 600.

- iii) Payment made to Krishna has not been posted to his account.
- iv) Rs. 675 received from Rahul was posted to the debit of his account.
- v) A total of Rs. 67 in the discount allowed column of the Cash Book was posted to the Discount Allowed Account as Rs. 76.
- vi) Payment of Rs. 750 towards salaries was posted twice to Salaries Account.

3. You are required to answer the following questions.

a) State the name of the account affected by each error.

- i)
- ii)
- iii)
- iv)
- v)
- vi)

b) State how you will rectify each error.

- i)
- ii)
- iii)
- iv)
- v)
- vi)

7.10.2 Rectification of Two-sided Errors

You have learnt that one-sided errors are corrected by noting the Correction on the appropriate side of the account affected by the error. These cannot be rectified by suitable journal entries because only one account was involved. But, the two-sided errors are mostly rectified by journal entries. It is because such errors affect two or more accounts and in most cases the debit and credit are equally affected. Take the case of first example of two-sided errors given earlier. A credit sale of Rs. 1,080 to Anand was wrongly recorded in the Sales Book as Rs. 1,800. The two accounts affected are: (i) Anand's Account which shows an excess debit of Rs. 720, and (ii) Sales Account which stands credited in excess by Rs. 720. To rectify this error, we must credit Anand's Account with Rs. 720 and debit the Sales Account with Rs. 720. So, a journal entry can be passed as follows:

	Rs.	Rs.
Sales Account Dr.	720	
To Anand		720

(Being sales of Rs. 1,080 to Anand wrongly recorded in the Sales Book as Rs. 1,800, now rectified)

Take the second example of two-sided errors given earlier. A sale of Rs. 500 made to Kamal was posted to the debit side of Kishore's Account. The two accounts affected are: (i) Kamal's Account which has not been debited by Rs. 500, and (ii) Kishore's Account which has been wrongly debited with Rs. 500. To rectify this error we have to debit Kamal's Account with Rs. 500 and credit Kishore's Account with Rs. 500. So, journal entry for the rectification of this error will be as follows:

		Rs.	Rs.
Kamal	Dr.	500	
To Kishore			500
(Being rectification of wrong debit to Kishore for sale made to Kamal)			

Now let us take a few more examples of two-sided errors and see how they will be rectified

1. **Sale of old machinery to Chakraborty for Rs. 600 was wrongly entered in the Sales Book.** You know the correct entry for this transaction would be as follows:

		Rs.	Rs.
Chakraborty	Dr.	600	
To Machinery Account			600

Instead of the above entry, the transaction was recorded as

		Rs.	Rs.
Chakraborty	Dr.	600	
To Sales Account			600

Thus, debit to Chakraborty's Account is correctly given. But it has affected two other accounts (i) Machinery account: which has not been credited, and (iii) Sales Account which has been wrongly credited. This can be rectified by debiting the Sales Account since it has been wrongly credited, and crediting the Machinery Account which has not been credited. Hence, a rectifying entry can be passed

		Rs.	Rs.
Sales Account	Dr.	600	
To Machinery Account			600

(Being rectification of wrong credit to sales for the sale of old machinery)

2. **A credit sale of Rs. 7,600 to Sharma was recorded in the Sales Book for Rs. 6,700:** It means the entry in the Sales Book has been made with Rs. 900 (Rs. 7,600 – Rs. 6,700) short. So, this error has affected two accounts: (i) Sharma's Account which is having a short debit of Rs. 900, and (ii) the Sales Account which is having a short credit of Rs. 900. It can be rectified by debiting Sharma's Account and crediting Sales Account. The rectifying journal entry will be as follows:

		Rs.	Rs.
Sharma	Dr.	900	
To Sales Account			900

(Being the rectification of a credit sale for Rs. 7,600 wrongly recorded as Rs. 6,700)

3. **A credit sale of Rs. 2,000 to Sinha was wrongly passed through the Purchases Book.** This should have been recorded in the Sales Book and the correct entry would have been:

		Rs.	Rs.
Sinha	Dr.	2,000	
	To Sales Account		2,000

Since it was wrongly passed through Purchases Book, the effective entry is:

		Rs.	Rs.
Purchases Account	Dr.	2,000	
	To Sinha		2,000

By comparing the above two entries, you will notice that:

- i) Sinha's Account which should have been debited with Rs. 2,000 is actually credited with Rs. 2,000. So, to rectify this error in his account. You have to debit Sinha's Account with double the amount—Rs. 2,000 to cancel the wrong credit and another Rs. 2,000 to give the correct debit.
- ii) Sales Account has not been credited with Rs. 2,000. So, to rectify error, the Sales Account should now be credited with Rs. 2,000.
- iii) Purchases Account has been wrongly debited with Rs. 2,000. So, to rectify this error, the Purchases Account should be credited with Rs 1000.

After identifying the three accounts involved and nature of correction required in each account, you can easily make out the rectifying journal entry. This will as follows:

		Rs.	Rs.
Sinha	Dr.	4,000	
	To Purchases Account		2,000
	To Sales Account		2,000

(Being the rectification for a credit sale wrongly passed through the Purchases Book)

4. **Repairs to machinery amounting to Rs. 400 was wrongly debited to Machinery Account :** You know when routine repairs are made, such expenditure is debited to Repairs Account and not to the concerned asset account. So, in this case the debit should have gone to Repairs Account and not to Machinery Account. To rectify this error, we should now debit the Repairs Account and credit the Machinery Account. Thus, the rectification entry will be:

		Rs.	Rs.
Repairs Account	Dr.	400	
	To Machinery Account		400

(Being the rectification of wrong debit to Machinery Account for routine repairs)

Illustration 4

How would you rectify the following errors in the books of Kiran & Co.?

1. The Sales Returns Book has been undercast by Rs. 500.

2. The total of the Bills Receivable Book amounting Rs. 4,500 has been posted to the credit of Bills Receivable Account.
3. While posting Purchases Book to the ledger, the personal account of Kumar has been credited with Rs. 221 instead of Rs. 212.
4. Rs. 10,000 paid for the purchase of a TV set for the proprietor is debited to General Expenses Account.
5. An amount of Rs. 1,000 paid by Pran has been credited to the account of Praneet.
6. Goods sold to Inder for Rs. 1,200 have been entered in the Purchases Book.

Solution:

1. This error will be rectified by entering Rs. 500 on the debit side of Sales Returns Account by writing “To Undercasting of Sales Returns Book for the Month ofRs. 500”.
2. This error will be rectified by entering an amount of Rs. 9,000 on the debit side of Bills Receivable Account by writing “To Wrong posting of the total of Bills Receivable Book on the opposite side Rs. 9,000”.
3. Kumar’s Account has been credited with an excess amount of Rs. 9 (Rs. 221— Rs. 212). This error will be rectified by debiting his account with Rs. 9 by writing “To Difference in amount posted from the Purchases Book onRs. 9”.

4. The following journal entry is required for rectification:

		Rs.		Rs.
Drawings A/c	Dr.	10,000		
To General Expenses A/c			10,000	
(Being rectification of purchase of TV wrongly debited to General Expenses A/c)				

5. The following journal entry is required for rectification:

		Rs.		Rs.
Praneet	Dr.	1,000		
To Pran (Being rectification of wrong credit to Praneet for the amount paid by Pran)			1,000	

6. The following journal entry is required for rectification:

		Rs.		Rs.
Inder	Dr.	2,400		
To Purchases A/c			1,200	
To Sales A/c			1,200	
(Being rectifying entry for sale to Inder wrongly entered in the Purchases Book)				

Illustration 5

How would you rectify the following errors:

1. Rs. 3,000 received from the sale of old machinery has been wrongly posted to Sales Account.
2. Rs. 600, the cost of repairing the machinery has been wrongly charged to Machinery Account.
3. Goods purchase for Rs. 500 from Sanjay has been wrongly debited to Furniture Account.
4. A sales of Rs. 600 has been wrongly credited to the customer's account.
5. A payment of Rs. 460 on account of rent has been posted twice to the Rent Account.
6. An item of Rs. 197 has been debited to a personal account as Rs. 179.

Solution:

1. The following journal entry is required for rectification:

		Rs.		Rs.
Sales A/c	Dr.	3,000		
To Machinery A/c				3,000
(Being rectifying entry for sale of old machinery credited to Sales A/c)				

2. The following journal entry is required for rectification:

		Rs.		Rs.
Repairs A/c	Dr.	600		
To Machinery A/c				600
(Being rectification of wrong debit to Machinery A/c instead of Repairs A/c)				

3. The following journal entry is required for rectification:

		Rs.		Rs.
Purchases A/c	Dr.	500		
To Furniture A/c				500
(Being rectifying entry for purchase wrongly debited to Furniture A/c)				

4. This error will be rectified by debiting the customer's account with Rs. 1,200 (double of Rs. 600) by writing "To Wrong posting from Sales Book on the credit side on Rs. 1,200"
5. This error will be rectified by entering Rs. 460 on the credit side of the Rent Account by writing "By Double posting from Cash Book onRs. 460"
6. The personal A/c has been debited Rs. 18 short (Rs. 197-179). To rectify this error, the personal A/c will be debited with the difference by writing "To Difference in amount posted on Rs. 18".

Check Your Progress D

1. Following errors have been detected:
 - a) A credit purchase of goods from Chetan amounting to Rs. 15,000 has been wrongly passed through the Sales Book.

- b) A Sale of an old Typewriter for Rs. 800 was passed through the Sales Book.
- c) Rs. 700 withdrawn for personal use has been debited to General Expenses Account.
- d) A credit sale of Rs. 2,300 to Zatin was omitted from Sales Book.
- e) Purchase of a wooden cupboard for Rs. 3,000 has been passed through the Purchases Day Book.

You are required to answer the following questions.

1. In case of each error name the accounts affected.

- a) i)
- ii)
- b) i)
- ii)
- c) i)
- ii)
- d) i)
- ii)
- e) i)
- ii)

2. In case of each error, write the effect on the accounts involved.

- a) i)
- ii)
- b) i)
- ii)
- c) i)
- ii)
- d) i)
- ii)
- e) i)
- ii)

7.11 SUSPENSE ACCOUNT AND RECTIFICATION

You have learnt the method of rectifying the errors. This method is used for rectifying the errors located before preparing the final accounts. After the corrections have been made, a revised Trial Balance is prepared which should normally tally. But, if it does not tally, it means there are still some errors which have not been

detected. As considerable time and effort have already been spent in locating and rectifying the errors, it may not be possible to wait any longer because it will delay the preparation of final accounts. Hence, in such situation the usual practice is to place the difference to Suspense Account and tally the Trial Balance for the time being. If the total of the debit column in the Trial Balance is more than the total of its credit column, the difference is placed to the credit of Suspense Account and the Trial Balance will tally. Similarly, if the credit column total is more than the debit column total, the difference is placed to the debit of Suspense Account. The Suspense Account thus created is shown in the Balance Sheet and is carried forward to the next year.

Note that the Suspense Account is not the result of any transaction. It merely represents the net effect of errors which still remain undetected. Therefore, during the next accounting year, after the errors are located and rectified, the Suspense Account will get closed. Let us now understand how errors will be corrected during the next year. As for the two sided errors, there is no change in the method of rectification. These errors do not affect the agreement of Trial Balance and hence do not involve the Suspense Account. They are rectified by means of the journal entries as usual. This is not the case in respect of one-sided errors. When one-side errors were to be corrected before preparing the Trial Balance we did it by writing an appropriate note in the concerned account. But, when they are to be corrected during the next year i.e., after Suspense Account has been created, the rectification will be through an appropriate journal entry. The one-sided error usually affects only one account. So to pass a journal entry for rectification of such error, we shall now take Suspense Account as the other account involved. For example, Rs. 580 received from Shyam were posted to his account as Rs. 850. It means Shyam's Account is to be debited with Rs. 270. You can now pass the following journal entry to rectify this error:

		Rs.	Rs.
Shyam A/c	Dr.	270	
To Suspense Account	(Being rectification entry)		270

Thus all errors, whether they are two-sided or one-sided will now be rectified by means of journal entries.

Let us assume that a businessman could not tally his Trial Balance. The difference of Rs. 1 between the totals of the two columns was put against the Suspense Account on its debit side and the Trial Balance was made to tally temporarily. The Suspense Account was carried forward to the next accounting year. The following errors were then located:

1. An amount of Rs. 99 was omitted to be posted to the credit of a customer's account from the Cash Book.
2. The Sales Book was overcast by Rs. 100.

The first error involved the omission of posting to the credit of customer's account. So, to rectify this error, you will have to credit customer's account with Rs. 99. As the Suspense Account is in existence, the corresponding debit would be given to the Suspense Account. Thus, the journal entry will be:

		Rs.	Rs.
Suspense A/c	Dr.	99	
	To Customer's A/c		99

(Being the rectification of omission in posting)

The second error refers to Sales Book being overcast by Rs. 100. It means that the Sales Account has been credited with Rs. 100 in excess. To rectify this error, the Sales Account will have to be debited with Rs. 100. The corresponding credit would be given to Suspense Account. The rectifying entry will be:

		Rs.	Rs.
Sales A/c	Dr.	100	
	To Suspense A/c		100

(Being the rectification of overcasting in Sales Book)

The Suspense Account, after posting the two rectification entries, would appear as follows:

Suspense Account

Dr.			Cr.
To Difference in Trial Balance	Rs.	By Sales A/c	Rs.
To Customer's A/c	1		100
	199		100
	100		100

With the posting of the two rectification entries the Suspense Account got closed. Note that the opening balance in Suspense Account simply shows the net effect of these errors. **Sometimes, the balance of Suspense Account is not given. In that case it can be worked out after completing the posting of the rectification entries.**

Suppose in the above example, the amount with which the Suspense Account was opened was not given. Leave the first line blank on both the debit and credit sides of the Suspense Account and post the rectification entries. The difference between the totals of two sides will be considered as the balance with which the Suspense Account was opened. This is based on the assumption that there are no more errors remaining undetected.

Look at illustrations 6, 7 and 8 and study how errors are rectified when Suspense Account is in existence.

Illustration 6

The Trial Balance of Siva did not tally. The credit side exceeded by Rs. 1,455. This amount was entered in the debit column against Suspense Account and the Trial Balance was made to tally.

Later, the following errors were discovered.

1. Goods worth Rs. 1,250 were sold to Mahesh on credit. This was entered in the Sales Book but was not posted.
2. Goods worth Rs. 313 were returned by Ahmed. The amount was credited to his account but was not recorded in the Returns Inwards Book.

3. Manoj paid Rs. 670 but his account was wrongly credited with Rs. 607.
4. An amount of Rs. 375 owed by Dinesh was omitted from the schedule of Sundry Debtors.
5. The Sales Book was undercast by Rs. 420.

Rectify the errors and show the Suspense Account.

Solution:

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		Rs.	Rs.
1.	Mahesh Dr. To Suspense A/c (Being sales to Mahesh not posted)	1,250	1,250
2.	Returns Inwards A/c Dr. To Suspense A/c (Being goods returned not recorded in Returns Inwards Book though credited to personal account)	313	313
3.	Suspense A/c Dr. To Manoj (Being Cash paid by Manoj underposted)	63	63
4.	Sundry Debtors A/c Dr. To Suspense A/c (Being Dinesh's debit omitted from the list of Sundry Debtors)	375	375
5.	Suspense A/c Dr. To Sales A/c (Being rectification of overcasting in Sales Book)	420	420

Suspense Account

Dr.		Cr.
To Difference in Trial Balance	Rs. 1,455	By Mahesh
To Manoj	63	By Returns Inwards A/c
To Sales A/c	420	Sundry Debtors A/c
	1,938	1,938

Illustration 7

Kishan, the accountant, found certain errors in the books. He transferred the difference in the Trial Balance to the credit of a Suspense Account. Subsequently, the following errors were discovered. Pass the necessary journal entries to rectify the errors and show the Suspense Account.

1. An amount of Rs. 300 paid as Commission was not posted to Commission Account.
2. Rs. 3,400 paid towards rent was wrongly entered in the Rent A/c as Rs. 4,300.

3. Discount Received column of the Cash Book was undercast by Rs. 100.

Trial Balance

4. Cash sales not posted to the Sales Account amounted to Rs. 1,000.

Solution:

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		Rs.	Rs.
1.	Commission A/c To Suspense A/c (Being the omission of posting to commission A/c rectified)	Dr. 300	300
2.	Suspense A/c To Rent A/c (Being excess debit to Rent Account now rectified)	Dr. 900	900
3.	Suspense A/c To Discount Received A/c (Being rectification of undercasting in the discount received column of the Cash Book)	Dr. 100	100
4.	Suspense A/c To Sales A/c (Being the omission of posting to sales account now rectified)	Dr. 100	100

Suspense Account

Dr.		Cr.	
	Rs.		Rs.
To Rent A/c	900	By Balance b/d (balancing figure)	1,700
To Discount Received A/c	100	By Commission A/c	300
To Sales A/c	1,000		
	<u>2,000</u>		<u>2,000</u>

Illustration 8

Rectify the following errors assuming that a Suspense Account was opened.

1. A purchase made from Anthony & Co. for Rs. 8,000 was not entered in the Purchases Book.
2. An amount of Rs. 500 received from Mr. Roy was credited to Ray's A/c.
3. A sale of Rs. 600 to Gopal was debited to his account as Rs. 6,000.
4. Salaries paid amounting to Rs. 1,000 was wrongly debited to Wages Account.
5. Rs. 450 received on account of interest stands wrongly credited to Commission Account.

6. The total of Returns Outwards Book amounting to Rs. 560 was not posted in the ledger.
7. A credit sale of Rs. 250 to Rakesh was wrongly credited to his Account.
8. A credit sale of Rs. 520 to Madhu debited to him as Rs. 250.
9. A credit purchases from Kailash of Rs. 400 was debited to him.
10. In Cash Book, the total of Discount Allowed column of Rs. 304 has been carried forward as Rs. 403.

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		Rs.	Rs.
1.	Purchases A/c Dr. To Anthony & Co. (Being the omission of credit purchases, now rectified)	8,000	8,000
2.	Ray Dr. To Roy (Being credit given to Ray's account instead of Roy's account, now rectified)	500	500
3.	Suspense A/c Dr. To Gopal (Being excess debit given to Gopal's A/c, now rectified)	5,400	5,400
4.	Salaries A/c Dr. To Wages A/c (Being debit to Wages A/c instead of Salaries A/c, now rectified)	1,000	1,000
5.	Commission A/c Dr. To Interest A/c (Being credit given to Commission A/c instead of interest A/c, now rectified)	450	450
6.	Suspense A/c Dr. To Returns Outwards A/c (Being the omission of posting total of Returns Outwards Book, now rectified)	560	560
7.	Rakesh Dr. To Suspense A/c (Being wrong credit given to Rakesh, now rectified)	500	500
8.	Madhu Dr. To Suspense A/c (Being short amount debited to Madhu now rectified)	270	270

9.	Suspense A/c To Kailash (Being debit given to Kailash instead of credit, now rectified)	Dr.	800	800	Trial Balance
10.	Suspense A/c To Discount Allowed A/c (Being excess amount carried forward in Cash Book, now rectified)	Dr.	99	99	

Suspense Account

Dr.		Cr.	
	Rs.		Rs.
To Gopal	5,400	By Balance b/d (balancing figure)	6,089
To Returns Outward A/c	560	By Rakesh	500
To Kailash A/c	800	By Madhu	270
To Discount Allowed A/c	99		
	6,859		6,859

Check Your Progress E

- The following errors were found in the books of Raghavan. The Trial Balance was out by an excess credit of Rs. 3,720. The difference has been placed to the debit of Suspense Account.
 - The discount column of the Cash Book on the debit side has been overcast by Rs. 25.
 - A credit sale of Rs. 1,525 to Rajesh has been wrongly posted to the credit of his account.
 - The total of the Purchases Returns Book has been overcast by Rs. 605.
 - A sum of Rs. 784 received from Nagesh has been posted to his account as Rs. 874.

S. No.	Account to be debited	Account to be credited
a)
b)
c)
d)

7.12 EFFECT OF RECTIFYING ENTRIES ON PROFITS

You have seen that the creation of Suspense Account helps in tallying the Trial Balance and avoiding delay in the preparation of final accounts. The errors still remain to be detected and rectified. So, the Profit and Loss Account prepared from such Trial Balance is subject to the undetected errors. The profit thus arrived at may be less or more than the actual profits. Similarly, when the errors are

detected and rectified during the next year, the rectifying entries will have their effect on the profit of the next year.

The profit is affected only if the errors involve accounts which usually appear in the Trading and Profit and Loss Account (nominal accounts) and not those which appear in the Balance Sheet (real and personal accounts).

Let us understand it with the help of an example. Suppose Rs. 24,000 paid for salaries during 2017 was posted to the Salaries Account as Rs. 20,400. This error has resulted in short debit of Rs. 3,600 to Salaries Account and so the salaries charged to Profit and Loss Account are short by Rs. 3,600. This would overstate the profits of 2017. When this error will be detected in 2018 and the rectifying entry passed, Rs. 3,600 will be added to salaries of 2018 and so the profit of 2018 will be decreased by Rs. 3,600. Thus, both the errors and the rectifying entries affect the profit. The effect of rectifying entries will be the reverse of the effect of errors.

The effect of errors and their rectification on the profits has been presented in a summarised form in Table 7.1.

Table 7.1: Effect of Errors and Rectifying Entries on Profits

Nature of Error in Nominal Accounts	Effect of Error on Profit	Effect of Rectifying Entry on Profit
Excess debit	reduces	increases
Excess credit	increases	reduces
Short debit	increases	reduces
Short credit	reduces	increases
Omission of debit	increases	reduces
Omission of credit	reduces	increases

Look at illustration 9. It shows rectifying entries and their effect on profits.

Illustration 9

A businessman finds that he could tally his Trial Balance of 2017 only by opening a Suspense Account. During 2018, he discovered the following errors:

1. The Discount Allowed column of the Cash Book was overcast by Rs. 25.
2. Sale of old machinery amounting to Rs. 550 had been credited to Sales A/c.
3. A Sale of Rs. 780 to Ahmed had been debited to his account as Rs. 870.
4. The total of Bill Payable Book amounting to Rs. 4,000 for the month of June was not posted into the ledger.

Rectify the above errors and prepare the Suspense A/c. Also explain the effect of rectifying errors on the profits of 2018.

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		Rs.	Rs.
1.	Suspense A/c To Discount Allowed A/c (Being the rectifying entry for overcasting of discount allowed column)	Dr. 25	25
2.	Sales A/c To Machinery A/c (Being the rectifying entry for sales of Machinery wrongly credited to Sales Account)	Dr. 550	550
3.	Suspense A/c To Ahmed (Being rectifying entry for excess debit to Ahmed's Account)	Dr. 90	90
4.	Suspense A/c To Bill Payable A/c (Being the rectifying entry for omission of posting of the total of Bills Payable Book)	Dr. 4,000	4,000

Suspense Account

Dr.	Rs.		Cr.	Rs.
To Discount Allowed A/c	25	By Balance b/d (balancing figure)	4,115	
To Ahmed	90			
To Bills Payable A/c	4,000			
	<u>4,115</u>			<u>4,115</u>

Effect on Net Profit of 2018

	Rectifying Entry	Increases	Decreases
		Rs.	Rs.
1.	Credit to Discount Allowed A/c	25	—
2.	Debit to Sales A/c	—	550
3.	No nominal A/c is involved A/c	—	—
4.	No nominal account is involved	—	—
		25	550
	Net decrease in Profits		525

In the above illustration, you observed that errors were committed during 2017 and the rectifying entries were passed in the books of 2018. This unnecessarily affected the profits of 2018. In order that the profits of the year in which rectifying entries are passed is not affected, a new account called Profit and Loss Adjustment Account is opened. Now, all amounts which are to be debited or credited to nominal accounts

in the rectifying entries will be debited or credited to the Profit and Loss Adjustment Account. The balance of the Profit and Loss Adjustment Account is directly adjusted in Capital. The current year's profit will thus remain unaffected.

The rectifying entries 1 and 2 of illustration 9 which involve debit and credit to nominal accounts can now be shown as follows:

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		Rs.	Rs.
1.	Suspense A/c Dr. To Profit and Loss Adjustment A/c (Being the rectification of overcasting the discount allowed column)	25	25
2.	Profit & Loss Adjustment A/c Dr. To Machinery A/c (Being the rectification for wrong credit given to Sales Account)	550	550

The Profit and Loss Adjustment Account will be as follows:

Profit and Loss Adjustment Account

Dr.			Cr.
To Machinery A/c	Rs. 550	By Suspense A/c By Capital A/c (Transfer)	Rs. 25 525
	550		550

Check Your Progress F

1. State how the rectification of the following errors will effect the profits. Assume that a Suspense Account has been created.
 - i) The total of the discount allowed column of the Cash Book, amounting to Rs. 40, had been posted to the credit of Discount Received Account.
.....
.....
 - ii) The total of the Purchases Book has been overcast by Rs. 100.
.....
.....
 - iii) The Returns Outwards Book has been overcast by Rs. 80.
.....
.....
 - iv) Rs. 105 spent on repairs to furniture had been debited to Furniture Account.
.....
.....

- v) A cheque for Rs. 100 received from Mohinder, had been recorded in the Cash Book, but it was not posted to Mohinder’s Account.

.....

7.13 LET US SUM UP

1. It is necessary to prepare a Trial Balance before preparing the final accounts. It verifies the arithmetical accuracy of the books of account.
2. When a Trial Balance does not tally, it means that there are errors in books of account. A series of steps are taken to locate errors.
3. There are certain errors which affect the Trial Balance and there are some which do not.
4. Errors of principle, errors of complete omission, certain errors of commission in subsidiary books, and the compensating errors are not disclosed by the Trial Balance.
5. Though the Trial Balance has its limitations, it is useful in ensuring the arithmetical accuracy of the books of account.
6. When the Trial Balance does not tally it means that there are errors in the books of account. Attempts are made to locate the errors and rectify them.
7. One-sided errors which affect only one account are rectified by means of a suitable note on the relevant side in the concerned account.
8. Two-sided errors, involving two or more accounts, are rectified by means of journal entries.
9. If the Trial Balance does not tally even after the detected errors have been rectified, the difference is put against a Suspense Account to avoid delay in preparing the final accounts.
10. The Suspense Account is carried forward to the next accounting year and as and when the errors are located, they are rectified.
11. When the Suspense Account is in existence, all errors are rectified by means of journal entries.
12. When all the errors are rectified, the Suspense Account gets closed.
13. When errors are rectified during the next account year, the rectification entries involving nominal accounts affect the profits of the next year. To avoid such effect, Profit and Loss Adjustment Account can be opened and its balance is directly adjusted in capital.

7.14 KEY WORDS

Compensating Errors : A group of errors wherein the effect of an error is counter-balanced (or compensated) by the effect of one or more errors, as a result of which the agreement of Trial Balance remains unaffected.

Errors of Principle An error committed by ignoring or misapplying some principles of accounting while recording a transaction in the books of account.

Errors of Complete Omission: An error committed in completely omitting to record a transaction in the books of account.

Errors of Partial Omission : An error committed in omitting to post one aspect of an entry in the ledger.

Errors of Commission : A clerical error committed while recording or posting of a transaction.

One-sided error : An error which affects the debit or credit side of one account only.

Profit and Loss Adjustment Account : An account opened for avoiding the effect of rectifying entries in respect of previous year's errors on the profit or loss of the current year.

Suspense Account : An account opened to make the Trial Balance tally temporarily. It represents the net effect of undetected one-sided errors.

Two-sided errors : An error which involves two or more accounts and both the debit and credit aspects.

7.15 SOME USEFUL BOOKS

Frank Wood. Book-keeping and Accounts (London: Pitman, 1996)

Greweal. TS. Double Entry Book-keeping (New Delhi: Sultan Chand & Sons, 2018)

Maheshwari, S.N. Principles and Practice of Accountancy (New Delhi: Arya Book Trial **Balance** Depot, 2018)

Frank Wood, 1996. Book-keeping and Accounts, Pitman Publishing Limited: London.

Grewal, T.S. 2018. Double Entry Book-keeping, Sultan Chand & Sons: New Delhi.

Maheshwari, S.N. 2018. Principles and Practice of Accountancy, Arya Book Depot: New Delhi.

Patil, V.A., and Korlahalli, J.S. 2018. Principles and Practice of Book-keeping, R. Chand & Co.: Delhi.

7.16 ANSWERS TO CHECK YOUR PROGRESS

A 2 (a) Debit (b) Debit (c) Debit (d) Debit (e) Debit (f) Credit
(g) Credit (h) Debit (i) Debit (j) Credit (k) Debit (l) Debit
(m) Debit (n) Debit (o) Debit (p) Credit

B 1 (a) i (b) ii (c) ii (d) iii (e) i (f) ii

B 4 Errors (c), (d) and (f) would affect the Trial Balance

C 2 a) i) Purchases Account

- ii) Sales Account
- iii) Krishna's Account
- iv) Rahul's Account
- v) Discount Allowed Account
- vi) Salaries Account

- b) i) Credit Purchases Account with Rs. 500
- ii) Credit Sales Account with Rs. 600
- iii) Debit Krishna's Account
- iv) Credit Rahul's Account with Rs. 1,350
- v) Credit Discount Allowed Account with Rs. 9
- vi) Credit Salaries Account with Rs. 750

- D 1 a) i) Chetan's Account
- ii) Purchases Account
- iii) Sales Account
- b) i) Typewriter Account
- ii) Sales Account
- c) i) Drawings Account
- ii) General Expenses Account
- d) i) Zatin's Account
- ii) Sales Account
- e) i) Furniture Account
- ii) Purchases Account

- 2 a) i) Chetan's Account debited with Rs. 15,000 instead of being credited.
- ii) Purchases Account not debited with Rs. 15,000
- iii) Sales Account credited in excess with Rs. 15,000
- b) i) Typewriter Account not credited
- ii) Sales Account credited in excess
- c) i) Drawings Account not debited
- ii) General Expenses Account debited in excess
- d) i) Zatin's Account not debited
- ii) Sales Account not credited
- e) i) Furniture Account not debited
- ii) Purchases Account debited in excess

- E a) i) Debit Suspense Account
 ii) Credit Discount Allowed Account
- b) i) Debit Rajesh's Account
 ii) Credit Suspense Account
- c) i) Debit Purchases Returns Account
 ii) Credit Suspense Account
- d) i) Debit Nagesh's Account
 ii) Credit Suspense Account
- F1 i) Profit will decrease by Rs. 80 because the rectifying entry will involve debiting Rs. 40 to Discount Allowed Account and Rs. 40 to Discount Received Account.
- ii) Profit will increase by Rs. 100.
- iii) Profit will decrease by Rs. 80.
- iv) Profit will decrease by Rs. 105.
- v) No effect on profit.

The net effect will be a decrease in the Profits by Rs. 165.

7.17 TERMINAL QUESTIONS/EXERCISES

Questions

1. Why do you regard Trial Balance as a test of the arithmetical accuracy of the books of account? List the errors that will be disclosed by the Trial Balance.
2. If the Trial Balance does not tally, it means there are some errors in books of account. How are these errors located? Describe the procedure fully.
3. Is the Trial Balance a conclusive proof of the accuracy of the books of account? Discuss the errors not disclosed by the Trial Balance.
4. What are the different types of errors that are usually committed in recording transactions? Explain with examples.
5. State the advantage of preparing a Trial Balance. Also give its limitations, if any.
6. What are one-sided errors? Give five examples. Explain the method of rectifying one-sided errors.
7. What are two-sided errors? Give five examples and show how two-sided errors are corrected?
8. What is a Suspense Account? When is it opened? How do you rectify the error when a Suspense Account that has already been opened?
9. Does rectification of errors in a subsequent accounting period always affect the trading result of the current accounting period? Explain with examples.

1. On January 1, 2018 the balance of Tanali Traders stood as follows:

Cash in hand Rs. 2,000; Cash at bank Rs. 12,300; Stock in trade Rs. 51,700; Furniture Rs. 8,200; Debtors Rs. 6,600 (Shyam Rs. 3,500, Shanker Rs. 2,600, Laxman Rs. 500); Creditors Rs. 7,100 (Reddy & Co. Rs. 3,020, Kishore Rs. 4,080); Capital Rs. 73,700.

Their transactions during the month of January were as follows:

2018	Rs.
Jan. 1 Borrowed from Globe Finance Co	10,000
“ 2 Bought goods for cash	2,300
“ 2 Purchased from Reddy & Co	5,500
“ 3 Paid into bank	9,000
“ 5 Received cheque from Shyam	3,500
“ 6 Sold goods for cash	1,200
“ 7 Sold to Shanker	8,700
“ 8 Paid Kishore by cheque	2,000
Discount received	100
“ 9 Received cheque from Shanker on account	5,000
“ 9 Received credit note from Reddy & Co. for goods returned to them	380
“ 10 Sold goods to Thomas	10,000
“ 10 Drew cash from the bank	1,000
“ 12 Purchased postage stamps	300
“ 14 Bought of Bose & Sons	9,300
“ 16 Paid Globe Finance & Co. by cheque in part payment of loan	5,000
“ 17 Received cash from Laxman	500
“ 21 Paid Reddy & Co. by cheque	6,000
“ 23 Carriage paid	100
“ 24 Withdrew cash for private expenses	1,500
“ 28 Paid salaries in cash	800
“ 30 Rent due to landlord	500
“ 31 Purchased furniture on credit from Joseph	600
“ 31 Paid interest to Globe Finance Co.	100

Enter the above transactions in the appropriate books, post them into ledger and prepare a Trial Balance.

(**Answer:** Cash in hand Rs. 600, Cash at bank Rs. 15,800, Trial Balance Total Rs. 1,13,600.)

2. From the details given below prepare a Trial Balance as at March 31, 2018.

	Rs.		Rs.
Purchases	80,000	Salaries & Wages	42,500
Discount (Dr.)	6,500	Sales	1,50,000
Travelling Expenses	2,500	Carriage Outwards	225
Carriage Inwards	1,375	Repairs	1,500
Insurance	750	Miscellaneous Expenses	275
Commission Paid	1,625	Buildings	20,000
Rent and Rates	2,500	Machinery	7,500
Cash in hand	125	Horses and Carts	2,500
Cash at bank	13,625	Stock in Trade (1-4-2017)	29,500
Sundry Debtors	16,025	Capital	68,525
Sundry Creditors	10,500		

(**Answer:** Total of Trial Balance Rs. 2,29,025.)

3. From the following details, prepare a Trial Balance as on June 30, 2018.

	Rs.		Rs.
Opening Stock	40,000	Drawings	10,000
Purchases	4,10,000	Wages	7,300
Sales	4,29,000	Salaries	11,000
Purchase Returns Sales	1,250	Outstanding Expenses	1,000
Returns	2,500	Prepaid Expenses	750
Carriage Inwards	1,500	Postage	900
Carriage Outwards	2,500	Discount Received	375
Bank Overdraft	21,000	Discount Allowed	1,000
Cash	4,000	Bad Debts	750
Capital	1,27,750	Sundry Debtors	1,00,000
Sundry Creditors	37,500	Interest	3,500
Loans	41,375	Interest Received	300
Investments	10,000	Provisions for Bad Debts	1,750
Accrued Income	600	Furniture & Fixture	7,500
Machinery	47,500		

(**Answer:** Total of Trial Balance. Rs. 6,61,300.)

4. The following Trial Balance is incorrectly drawn up and shows a difference of Rs. 5,180. Rewrite it correcting the errors.

Lakshman Singh & Co.
Trial Balance as on December 31, 2018

Trial Balance

Name of Account	L.F.	Dr. Balances	Cr. Balances
		Rs.	Rs.
Bank Overdraft		600	..
Depreciation		---	330
Bank		3,300	---
Wages		---	160
Insurance		--	270
Fixtures		1,700	---
Capital		20,200	---
Stock(1-1-18)		---	550
Rates		200	---
Cash		120	---
Stock (3 1-12-18)		900	----
Sales		---	8,600
Purchases		---	5,200
Drawings		---	350
Premises		---	16,980
Insurance		300	..
Difference		5,180	..
Total		32,500	32,500

(Answer: Total of Trial Balance Rs. 29,460.)

(Hint: Stock (31-12-18) will not be shown in the Trial Balance.)

5. Owing to three obvious errors, the following Trial Balance does not agree.
 Correct the errors and prepare a Trial Balance as on March 31, 2018

	Rs.		Rs.
Stock on 1-4-2017	20,000	Loan Account	30,000
Purchases	98,000	Debtors	84,000
Wages Rent,	30,000	Capital	1,00,000
Rates & Taxes	2,000	Provision for Bad Debts	5,600
Salaries	16,000		
General Expenses	1,800		
Discount Allowed	1,000		
Plant and Machinery	30,000		
Creditors	40,000		

Cash at Bank	16,000	
Furniture & Fixtures	10,000	
Sales	2,57,200	
Returns on Sales	4,000	
Cost of Lease	1,20,000	
	<u>6,46,000</u>	<u>2,19,600</u>

(Answer: Total of the Trial Balance Rs. 4,32,800.)

6. An inexperienced accountant provides you with the following Trial Balance. In case you find it to be incorrect, prepare it again so as to remove its defects.

Trial Balance as on June 30,2018

Name of Account	LF.	Dr. Balances	Cr. Balances
		Rs.	Rs.
Stock (opening)		10,500	
Building		31,500	
Bills Payable		1,800	
Bank Overdraft		1,500	
Capital			45,000
Furniture			12,000
Discount Allowed		90	
Sales		39,000	
Loan from Suresh		2,400	
Carriage Inwards		270	
Bills Receivable			3,000
Purchases			24,000
Salaries			3,300
Investments		3,000	
Interest on Investments			1,650
Returns Inwards		900	
Returns Outwards		300	
Insurance Premium		360	
Interest on Loan		30	
Advertisement			1,200
Drawings			1,500
		<u>91,650</u>	<u>91,650</u>

(Answer: Total of Trial Balance Rs. 91,650)

7. From the following transactions of Shanker, write up Journal Proper and the other subsidiary books involved. Show their postings into ledger and prepare a Trial Balance.

2018	Rs.
Mar. 1 Assets:	
Cash in hand	1,000
Cash at bank	34,000
Stock of goods	20,000
Machinery	50,000
Furniture	5,000
Sudhir owes	5,000
Naveen owes	12,500
Liabilities:	
Loan	20,000
Sum owing to Samuel	10,000
“ 2 Bought goods on credit from Naresh	5,000
“ 3 Cash sales	2,000
“ 4 Sold goods to Raman	5,000
“ 5 Received from Sudhir in settlement of his account	5,000
“ 6 Payment made to Samuel by cheque, in full settlement	9,950
“ 9 Old furniture sold for cash	500
“ 10 Cash purchases	4,000
“ 11 Naveen pays by cheque which was deposited into bank	12,500
“ 11 Paid for repairs to machinery	500
“ 13 Purchased goods from Shyam	5,000
“ 13 Paid carriage on these goods	250
“ 16 Received cheque from Raman	5,000
“ 17 Paid to Shyam by cheque	5,000
“ 18 Bank intimates that cheque of Raman has been returned unpaid	
“ 19 Cash sales	3,000
“ 21 Cash deposited into bank	2,500
“ 25 Paid municipal taxes in cash	500
“ 26 Old newspaper sold	50
“ 28 Paid for advertisements	500
“ 31 Paid rent by cheque	600

(**Answer:** Cash in hand Rs. 2,800; Cash at bank Rs. 33,450; Total of Trial Balance Rs. 1,32,600.).

Hint: Find out the opening capital before working on the problem.

8. Rectify the following errors:
 - a) Goods amounting to Rs. 3,000 sold to Pran, were correctly entered in the Sales Book, but posted to his account as 30,000.
 - b) The total of the Sales Book for the month was undercast by Rs. 5,000.
 - c) Rs. 6,000 paid for the cash purchase of furniture was not posted to the Furniture Account.
 - d) A credit purchase of Rs. 9,000 from Arjun was wrongly passed through the Sales Book.
9. Rectify the following errors:
 - a) Rs. 690, the amount of rent paid to the landlord, was debited to his personal account.
 - b) Goods purchased for the personal use of the proprietor, costing Rs. 600, was debited to the Purchases Account.
 - c) Rs. 1,080 paid as wages for construction of a room was debited to the Wages Account.
 - d) Total of Purchases Book of one page was carried forward to the next page as Rs. 876 instead of Rs. 786.
 - e) Discount allowed amounting to Rs. 25 had been credited to Discount Received Account.
 - f) Total of Sales Book of one page was carried forward to the next page as Rs. 872 instead of 782.
10. Rectify the following errors:
 - a) Rs. 700 received on account of a bad debit written off earlier, credited to customer's personal account.
 - b) Goods returned by Murari amounting to Rs. 250 has been entered in the Returns Outwards Book.
 - c) An amount of Rs. 800 withdrawn by the proprietor for his personal use has been debited to General Expenses Account.
 - d) Discount allowed to Kurien amounting to Rs. 47 has not been entered in the discount column of the Cash Book, but it has been posted to the Customer's personal account.
 - e) A cash sale to Ashok for Rs. 690 was recorded in the Cash Book and also in the Sales Book. Postings were made from both the books.
 - f) The Bank Column on the credit side of the Cash Book was overcast by Rs. 50.
11. Rectify the following errors:
 - a) A credit purchase of goods from Manoj, amounting to Rs. 1,800, has been wrongly passed through the Sales Book.
 - b) A credit sale of Rs. 600 to Anand was posted to his credit.

- c) The Returns Inwards Journal has been undercast by Rs. 1,800.
- d) Rs. 1,450 paid as commission was wrongly debited to Interest Account.
- e) Rent paid for proprietor's residence amounting to Rs. 2,000 was debited to the Rent Account.
- f) A credit sale of Rs. 1,400 to Roshan was entered in the Returns Outwards Book.

12. Correct the following errors found in the books of Rohit, whose Trial Balance was out by Rs. 1,746 (excess debit), and the difference was posted to a Suspense Account. Also show Suspense Account.

- a) The Sales Returns Book has been totalled Rs. 54 short.
- b) The Purchases Book has been totalled Rs. 150 more.
- c) Goods purchased amounting to Rs. 750 has been posted to the debit of Supplier's (Srinath) Account.
- d) The Sales Book has been totalled Rs. 150 short.

(Answer : Suspense Account gets closed).

13. On taking out a Trial Balance, a book-keeper finds an excess credit of Rs. 2,460. Being desirous of closing the books, he places the difference to a Suspense Account, which is carried forward. In the next period, he discovers the following errors. Pass the rectifying entries and prepare the Suspense Account.

- a) The total of Returns Inwards Book has been totalled Rs. 400 short.
- b) A sum of Rs. 4,800 written off as depreciation on machinery, has not been posted to the Depreciation Account.
- c) A discount of Rs. 1,000 allowed to a customer has been posted to his account as Rs. 100.
- d) The Sales Book was undercast by Rs. 4,000.
- e) Purchase of Rs. 480 was posted as Rs. 840 in the supplier's account.

(Answer : Suspense Account still shows a debit balance of Rs. 1,800)

14. A book-keeper failed to balance his Trial Balance. He places the difference to a newly opened Suspense Account which is carried forward. The following errors were subsequently discovered. Give journal entries to rectify these errors and show the Suspense Account.

- a) The total of Purchases Day Book had been undercast by Rs. 200.
- b) Purchase of a Typewriter on credit from Harnath for Rs. 9,600 was entered in the Purchases Book.
- c) Goods returned by Hari amounting to Rs. 2,000 has been entered in the Returns Outwards Book, however, the posting was done correctly to Hari's Account.
- d) A Cash sales of Rs, 2,500 to Somnath, correctly entered in the Cash Book was posted to the credit of his personal account.

- e) A cheque received from Mahinder for Rs. 8,160 had been debited in the Cash Book, but the double entry had not been completed.

(Answer : Suspense Account was started with a credit balance of Rs. 3,960)

15. The Trial Balance prepared by Dhanraj did not tally and the difference was transferred to a Suspense Account. Subsequently, the following errors were found. Rectify the errors and show the Suspense Account. Also explain the effect of rectifying entries on the profits.

- a) A sale of Rs. 1,600 to Kamalnath was posted to Karunanath.
- b) Insurance paid amounting to Rs. 250 was posted twice.
- c) A sale of Rs. 1,500 for old machinery was passed through the Sales Book.
- d) A Purchase of Rs. 600 from Kamesh was not passed through the books.
- e) Rs. 80, the debit balance of Commission Account was omitted from the Trial Balance.
- f) The Purchases Returns Book was undercast by Rs. 700.

(Answer : Suspense Account was started with a credit balance of Rs. 870; Profit will decrease by Rs. 1,230).

Note : These questions will help you to understand the unit better. Try to write answers for them. But, do not submit your answers to the University for assessment. These are for your own practice only.