
EXPERIMENT 6 PREPARATION OF LEDGER, TRIAL BALANCE AND BALANCE SHEET OF DCS

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6.1 INTRODUCTION

Dairy plants have to maintain records of financial transactions in the course of their business. How to record entries in various books of accounts is very important for financial planning and control over costs. The information so generated need to be processed further to draw meaningful conclusions so that it can be utilized effectively by the users. The students shall learn how financial transactions are Journalised in the Journal and the information thus generated is used to prepare various accounts. Construction of Trial balance and Balance Sheet of a company is also attempted.

6.2 OBJECTIVE

- 1 to journalise various financial transactions in the Journal and prepare various accounts. Trail balance and balance sheet of a company engaged in milk transport business is to be prepared.

6.3 EXPERIMENT

i. Principle

The experiment is based on Double-entry system of book-keeping and is governed by the following accounting equation.

$$\text{Assets} + \text{Expenses} = \text{Liabilities} + \text{Equity} + \text{Revenue}$$

The rules of debits and credits are then applied according to the accounts that is

affected by the transactions. The Balance Sheet is subsequently constructed to know the financial status of the business entity.

ii. Requirement

The students shall be provided with the data on financial transactions which they are supposed to journalise the entries in the Journal, prepare various accounts and construct the Trial Balance and the Balance Sheet. The students required a calculator to make simple arithmetic calculations.

iii. Procedure

According to the information provided in the exercise the students are to journalise the entries in the journal and prepare various accounts using the rules of debits and credits as per the Double-entry system of book-keeping. Construction of trial balance and the balance sheet is also to be done subsequently.

iv. Observations

The student shall journalise entries in the Journal and accordingly prepare various accounts and construct the Trial Balance and the Balance Sheet as required under the exercise.

v. Results

The students shall make entries in the Journal and the various accounts shall be prepared and recorded.

6.4 PRECAUTIONS

The students need to be careful while making various entries in different accounts and check for their accuracy.

Exercise 1 : Analyze and Record the Journal entries relating to transactions given below. Also make the Trial Balance.

Tr. No.	Date	Particulars
1.	2004 1 April	Mr. Raj Singh started business by investing Rs. 8,00,000.
2.	1 April	Deposited Rs. 6,00,000 in the bank account opened in the name of business.
3.	3 April	Purchased furniture for Rs. 96,000 payment make by cheque.
4.	8 April	Purchased goods costing Rs. 1,52,000 against payment made by cheque.
5.	10 April	Purchased goods from Fair Traders on account (on credit for Rs. 1,12,000).
6.	12 April	Sold goods to M/s Himmat Lal for Rs. 36,000 costing Rs. 28,400 on account (on credit).

7.	15 April	Paid to Fair Traders Rs. 72,000 by Cheque.
8.	18 April	Goods sold for Rs. 47600(costing Rs. 38,000) on cash.
9.	22 April	Received cheque for Rs. 36,000 from Himmat Lal.
10.	36 April	Paid the balance amount (Rs. 40,000) to M/s Fair Traders by cheque.

Exercise 2

Hindustan Transport Company (HTC) began milk transport operations on January 1, 2004. The owners of HTC originally invested Rs. 16,00,000. HTC purchased ten trucks during the year, each costing Rs. 8,00,000. The company's bank account showed a balance of Rs. 9,00,000 as on December 31, 2004. It also had Rs. 60,000 cash in the office and Rs. 40,000 worth cheques received from customers as on 31.12.2004. On December 31, 2004 receivables outstanding amounted to Rs.30,00,000. The Company also had Rs. 3,00,000 worth promissory notes signed by their customers. Employees had drawn festival advance, which was outstanding to the extent of Rs. 60,000.

HTC owed Rs. 36,00,000 to Northern Service Station as on December 31, 2004.

During the year HTC purchased stationary and office supplies costing Rs. 1,10,000 from Rama & Co. The use of stationary and supplies during the year was estimated at Rs. 80,000. They owed Rs. 40,00,000 to Northern Sales and Finance at the end of the year on account of trucks bought. It was according to a hire-purchase agreement which was made by HTC to Northern Sales and Finance to pay at the rate of 1,00,000 per month. Depreciation was Rs. 1,60,000 per truck for the year. Spare parts and tyres inventory to Rs. 1,30,000.

For its operations the Company (HTC) had rented on lease, a garage, office space and parking space at Rs. 1,00,000 a year. On January 1, 2004 when HTC started operations they had paid first two year rent in advance.

On December 31, 2004 HTC purchased an air conditioned car for office use costing Rs. 3,00,000. Registration, Insurance and other costs amounted to Rs. 8,000/-.

The company had a bulk storage tank for Diesel needed for its trucks on December 31 the meter reading indicated that 1,800,000 Litres of Diesel had been used during the year while 20,000 Litres of Diesel was still left in the storage Tank. Average cost per litre of diesel was Rs. 30/-.

HTC paid employees salary on the last day of each month. Bonus for the employees was due in the amount of Rs. 4,12,000 relating to 2004 and will be paid along with first salary in 2005.

Net income of 2004 was Rs. 34,16,000. Drawings by the owners for personal use during the year amounted to Rs. 10,00,000. prepare the balance sheet as on December 31, 2004 for HTC.

Solution**Exercise –1** : The transactions are recorded to journal as under:**JOURNAL**

Date	Particulars	L.F	Debit Amount	Credit Amount
2000 1 April	Cash A/c Raj Singh capital A/c Dr. (Raj Singh invested capital in the firm)		8,00,000	8,00,000
1	Bank A/c Dr. Cash A/c (Cash deposited in newly opened Bank Account)		6,00,000	6,00,000
3	Purchase A/c Dr. Bank A/c (Furniture purchased and payment made by cheque)		96,000	96,000
7	Inventory A/c Dr. Bank A/c (Inventory purchased on payment by cheque)		1,52,000	1,52,000
10	Inventory A/c Dr. Fair Traders A/c (Inventory purchased from M/s Honest Traders on account credit)		1,12,000	1,12,000
12	Himmat Lal A/c Dr. Sales A/c (Sold goods to Himmat Lal on Account Credit)		36,000	36,000
12	Cost of Goods sold A/c Dr. Inventory A/c (Cost of good sold transferred to inventory)		28,400	28,400
15	M/s Fair Traders A/c Dr. Inventory A/c (Cheque given to M/s Fair Traders)		72,000	72,000
18	Cash A/c Sales A/c (goods sold for cash)		47,600	47,600

18	Cost of goods sold A/c Dr. Inventory A/c (Cheque given to M/s Fair Traders)	38,000	38,000
22	Bank A/c M/s Himmat Lal A/c (Received cheque from Hira Lal)	36,000	36,000
26	M/s Fair Traders A/c Bank A/c (Cheque given to M/s Fair Traders)	40,000	40,000
Total		20,58,000	20,58,000

Note: 1. Inventory purchased may be debited to purchase account also.

Following is the summarised effect of transactions on different accounts.

BOOK OF RAJ SINGH

Cash account

Dr.				Cr.			
Date 2005	Particulars	J.F	Amount (Rs.)	Date 2005	Particulars	J.F.	Amount
April, 1	Raj Singh's		8,00,000	April, 2	Bank		6,00,000
18	Capital Sales		47,600				

Bank Account

Dr.				Cr.			
Date 2005	Particulars	J.F	Amount (Rs.)	Date 2005	Particulars	J.F.	Amount
April 22	Cash		6,00,000	April, 3	Furniture		96,000
	Himmat Lal		36,000	8	Inventory		1,52,000
				15	Fair Traders		72,000
				26	Fair Traders		40,000

Inventory Account

Dr.				Cr.			
Date 2005	Particulars	J.F	Amount (Rs.)	Date 2005	Particulars	J.F.	Amount
April, 8	Bank		1,52,000	April, 2	Cost of goods		28,400
10	Fair Traders		1,12,000		Sold		
				18	Cost of goods		38,000
					Sold		

Sales Account

Preparation of Ledger,
Trial Balance and
Balance Sheet
of DCS

Dr.

Cr.

Date 2005	Particulars	J.F	Amount (Rs.)	Date 2005	Particulars	J.F.	Amount
				April			
				12	Himmat Lal		36,000
				18	Cash		47,600

Cost of Goods Sold Account

Dr.

Cr.

Date 2005	Particulars	J.F	Amount (Rs.)	Date 2005	Particulars	J.F.	Amount
				April,			
12	Inventory		28,400				
18	Inventory		38,000				

Fair Traders Account

Dr.

Cr.

Date 2005	Particulars	J.F	Amount (Rs.)	Date 2005	Particulars	J.F.	Amount
				April,			
15	Bank		72,000	April			
26	Bank		40,000	10	Inventory		1,12,000

Himmat Lal's Account

Dr.

Cr.

Date 2005	Particulars	J.F	Amount (Rs.)	Date 2005	Particulars	J.F.	Amount
				April			
12	Sales		36,000	2	Bank		36,000
				2			

Furniture Account

Dr.

Cr.

Date 2005	Particulars	J.F	Amount (Rs.)	Date 2005	Particulars	J.F.	Amount
April, 3	Bank		96,000		Bank		6,00,000

Trial Balance

Debit		Credit	
Cash	247600	Capital	30000
Purchases	20000	Sales	25000
Salaries	2100	Interest	500

Exercise - 2

**Hindustan Transport Company
Balance Sheet as on 31 December 2004**

<i>Assets</i>		<i>Liabilities and Capital</i>	
Current Assests		Current Liabilities	
Cash	1,00,000	Hire purchase Payment due in one year	12,00,000
Cash at Bank	9,00,000	Account payable	36,00,000
Promissory Notes	3,00,000	Bonus Payable	4,12,000
Accounts receivable	30,00,000		52,12,000
Advance to employees	60,000	Long Term Liabilities	
Office supplies inventory	30,000	Hire purchase Payable	28,00,000
Prepaid insurance and licence	8,000	Owner's Capital	16,00,000
Prepaid rent	2,00,000	Net income for the year (34,16,000) Less Owner's Drawing (10,00,000)	24,16,000
Inventory of diesel	6,00,000		
Spare part inventory	1,30,000		
	53,28,850		
Long Term Assests			
Trucks (Rs. 80,00,000) Less Accumulated Depreciation (Rs. 16,00,000)	64,00,000		
Motor Car	3,00,000		
Total Assests	1,20,28,000	Total Liabilities and Capital	1,20,28,000