Unit 2 – Subsidiary books, Final Accounts & Depreciation

Subsidiary Books

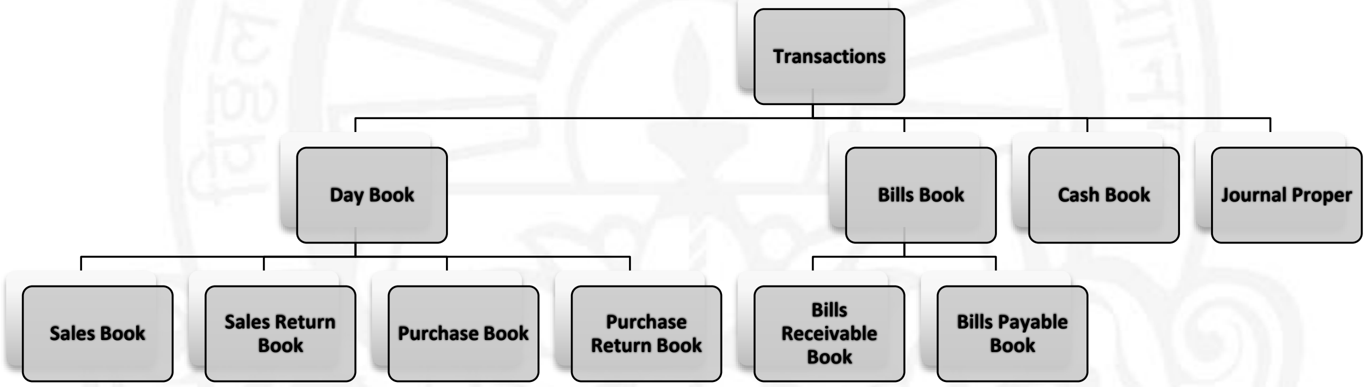
For a business having a large number of transactions it is practically impossible to write all transactions in one journal, because of the following limitations:

- Periodical details of some important business transactions cannot be known, from the journal easily, e.g., monthly sales, monthly purchases.
- Such a system does not facilitate the installation of an internal check system since the journal can be handled by only one person.
- The journal becomes bulky and voluminous.

For such reasons, some separate books are kept for recording certain types of transactions which are very common in business and repetitive in nature. In other words, "Subsidiary books are those books of original entry which are of repetitive nature and sufficiently large in number".

Kinds of Subsidiary Books

The number of subsidiary books may vary according to the requirements of each business. The following are the special purpose subsidiary books.



Purpose

- **Purchases Book** records only credit purchases of goods by the trader.
- **Sales Book** is meant for entering only credit sales of goods by the trader.
- **Purchases Return Book** records the goods returned by the trader to suppliers.
- **Sales Return Book** deals with goods returned (out of previous sales) by the customers.
- **Bills Receivable Book** records the receipts of bills (Bills Receivable).
- **Bills Payable Book** records the issue of bills (Bills Payable).
- **Cash Book** is used for recording only cash transactions i.e., receipts and payments of cash.
- **Journal Proper** is the journal which records the entries which cannot be entered in any of the above listed subsidiary books.

Advantages

- **More persons can write accounts:** There is division of work and many persons can work independently in writing books of original entries.
- **Ease in posting:** Due to subdivision of journal, the work of posting can be done at convenient times easily. These are no disturbance in recording transactions in journal.
- **Entrusting Responsibility:** different clerks can be allotted work of writing different books and responsibility can be fixed.
- **Possibility of errors and frauds reduced:** As different persons are writing different books, there is indirect internal check system. One person's writing different books, there is indirect internal check system. One person's work is checked by another. This will reduce the possibility of frauds or errors.
- **Speed and efficiency in writing records:** As there is division of work, the work of recording transactions become smooth, easy and speedy. Secondly, due to specialization in writing only a particular book, efficiency increases.
- **Information available promptly:** As the transactions of similar nature are recorded in one separate book, it is easy to get required information without delay.
- **Audit work becomes easy:** The work of auditing the accounts becomes easy, as two or more persons can work at a time in auditing the accounts.
- **Saving of time and energy:** There is unnecessary duplication in recording transactions of similar nature in journal. This is avoided here, which leads to saving of time and energy.
- **More accuracy:** As the work of recording transactions becomes easy, the possibility of error is also reduced. Also, the work of tracing and locating errors becomes easy.

Cash Book

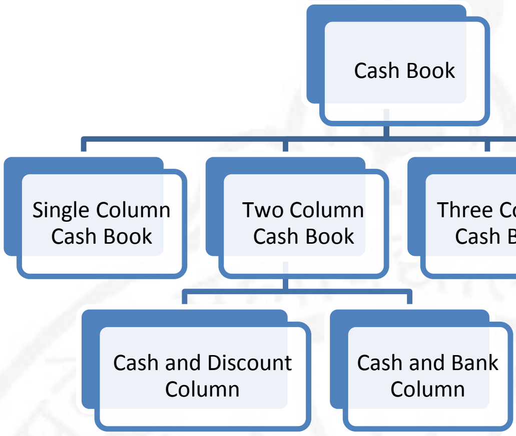
A cash book is a special journal which is used to record all cash receipts and cash payments. The cash book is a book of original entry or prime entry since transactions are recorded for the first time from the source documents. The cash book is a ledger in the sense that it is designed in the form of a cash account and records cash receipts on the debit side and cash payments on the credit side. **Thus, the cash book is both a journal and a ledger**. **Cash Book will always show debit balance**, as cash payments can never exceed cash available. In short, cash book is a special journal which is used for recording all cash receipts and cash payments.

Advantages

- **Saves time and labor:** When cash transactions are recorded in the journal a lot of time and labor will be involved. To avoid this all cash transactions are straight away recorded in the cash book which is in the form of a ledger.
- **To know cash and bank balance:** It helps the proprietor to know the cash and bank balance at any point of time.

- **Mistakes and frauds can be prevented:** Regular balancing of cash book reveals the balance of cash in hand. In case the cash book is maintained by business concern, it can avoid frauds. Discrepancies if any can be identified and rectified.
- **Effective cash management:** Cash book provides all information regarding total receipts and payments of the business concern at a particular period. So that, effective policy of cash management can be formulated.

Types of Cash Book



Single Column Cash Book

Single column cash book (simple cash book) has one amount column in each side. All cash receipts are recorded on the debit side and all cash payments on the credit side. In fact, this book is nothing but a Cash Account. Hence, there is no need to open cash account in the ledger. The format of a single column cash book is given below:

Cash Book of ___________

Dr. **Cr.**

Date	Particulars	RN	LF	Amount Rs.	Date	Particulars	VN	LF	Amount Rs.

Explanation:

- **Date:** This column appears in both the debit and credit side. It records the date of receiving cash at debit side and paying cash at credit side.
- **Particulars:** This column is used at both debit and credit side. It records the names of parties (personal account), heads (nominal account) and items (real account) from whom payment has been received and to whom payment has been made.
- **Receipt Number (R.N):** This refers to the serial number of the cash receipt.
- **Voucher Number (V.N):** This refers to the serial number of the voucher for which payment is made.

- **Ledger Folio (L.F):** This column is used in both the debit and credit side of cash book. The ledger page (folio) of every account in the cash book is recorded against it.
- **Amount:** This column appears in both sides of the cash book. The actual amount of cash receipt is recorded on the debit side. The actual payments are entered on the credit side.

Balancing

The cash book is balanced like any other account. The total of the receipt (debit side) column will always be greater than the total of the payment column (credit side). The difference will be written on the credit side as "By Balance c/d". In the beginning of the next period, to show the cash balance in hand, the balance amount is recorded in the debit side as "To balance b/d".

Rules for writing a simple cash book

1. Cash book is a cash account. It is a real account and the rule "debit what comes in and credit what goes out" applies to it.
2. The cash book starts with the opening cash balance shown as the first item on the receipt side.
3. When cash is received in business according to rule of debit what comes in, the entry is made on the debit side (receipt side) of the cash book and in particulars column, the name of the other account is written.
4. When cash is paid in business on any account, cash goes out. According to the rule 'credit what goes out', the entry is made on the credit side (payments side) of the cash book. The name of the other account is written in the particulars column.
5. Balance of cash book is found at the end of the day and it is written on the payments side as a closing balance.

Two Column Cash Book

The most common two column cash books are:

i. Cash book with discount and cash columns.
ii. Cash book with cash and bank columns.

Cash Book with discount and cash columns

On either side of the single column cash book, another column is added to record discount allowed and discount received. The format is given below:

Cash Book of ___________

Dr. **Cr.**

Date	Particulars	R N	L F	Discount Allowed Rs.	Amount Rs.	Date	Particulars	V N	L F	Discount Received Rs.	Amount Rs.

It should be noted that in the two column cash book, cash column is balanced like any other ledger account. But the discount column on each side is merely totaled. The total of the discount column on the debit side shows the total discount allowed to customers and is debited to Discount Allowed Account. The total of the discount column on the credit side shows total discount received and is credited to Discount Received Account.

Cash Book with Cash and Bank Columns

When bank transactions are more in number, it is advisable to open a cash book by providing a separate column on either side of the cash book to record the bank transactions therein.

In such case, it is not necessary to open a separate Bank Account in the Ledger because the two columns in the cash book serve the purpose of Cash Account and Bank Account respectively. It is a combination of Cash Account and Bank Account. The format of this cash book is given below:

Cash Book of ___________

Dr. **Cr.**

Date	Particulars	R N	L F	Bank Rs.	Amount Rs.	Date	Particulars	V N	L F	Bank Rs.	Amount Rs.

There are two amount columns on debit side one for cash receipts and the other for bank deposits (i.e., payment made into Bank Account). Similarly there are two amount columns on the credit side, one for payments in cash and the other for payments by cheque respectively.

Contra Entry

When an entry affects both cash and bank accounts it is called a contra entry. Contra in Latin means opposite. In contra entries both the debit and credit aspects of a transaction are recorded in the cash book itself.

Example 1: Cash paid into bank

Bank A/c Dr. x x x
To Cash A/c x x x
(Cash paid into bank)

This is a contra entry. As the cash book with cash and bank columns is a combined cash and bank account, both the aspects of the transaction will be entered in the same book. In the debit side 'To Cash A/c' will be entered in the particulars column and the amount will be entered in the bank column. In the credit side 'By Bank A/c' will be entered in the particulars column and the amount will be entered in the cash column.

Such contra entries are denoted by writing the letter 'C' in the L.F. column, on both sides of the cash book. They indicate that no posting in respect thereof is necessary in the ledger.

Example 2: Cash withdrawn from bank for office use.

Cash A/c Dr. x x x
To Bank A/c x x x
(Cash withdrawn for office use)

This is also a contra entry. In the debit side 'To Bank A/c' will be entered in the particulars column and the amount will be entered in the cash column. In the credit side 'By Cash A/c' will be entered in the particulars column and the amount will be entered in the bank column.

Such contra entries are denoted by writing the letter 'C' in the L.F. column, on both sides of the cash book. They indicate that no posting in respect thereof is necessary in the ledger.

Points to be remembered while preparing cash book:

Transaction	**Debit/Credit side of Cash book**	**The column in which the amount to be entered**
Cash/M.O./P.O. – received	Debit	Cash
Cash paid	Credit	Cash
Discount Allowed	Debit	Discount Allowed
Discount Received	Credit	Discount Received
Cash deposited in the bank	Debit(C) Credit(C)	Bank Cash
Cash withdrawn for office use	Debit(C) Credit(C)	Cash Bank
Cheque received	Debit	Cash
Cheque deposited into bank	Debit(C) Credit(C)	Bank Cash
Cheque received and deposited into bank for collection immediately	Debit	Bank
Cheque issued	Credit	Bank
Customer directly paid into bank	Debit	Bank
Cheque deposited and dishonored	Credit	Bank
Cheque issued and dishonored	Debit	Bank
Bank charges	Credit	Bank
Interest allowed by bank	Debit	Bank
Interest on overdraft	Credit	Bank
Payments directly made by the bank as per standing instructions	Credit	Bank
Amounts directly received by bank as per standing instructions	Debit	Bank

Three Columnar Cash Book

Large business concerns receive and make payments in cash and by cheque. Where cash discount is a regular feature, a Three Column Cash Book is more advantageous. This cash book has three amount columns (cash, bank and discount) on each side. All cash receipts, deposits into bank and discount allowed are recorded on debit side and all cash payments, withdrawals from bank and discount received are recorded on credit side. The format is given in the next page.

Cash Book of ___________

Dr. **Cr.**

Date	Particulars	RN	LF	Discount Allowed Rs.	Bank Rs.	Cash Rs.	Date	Particulars	VN	LF	Discount Received Rs.	Bank Rs.	Cash Rs.

Postings from cash book to concerned ledger accounts

- Opening (Cash and Bank) balance appearing in the cash book is not posted to any account in the ledger.
- Contra entries are not posted to any account.
- Each item of discount allowed appearing on the debit side of the cash book will be posted to the credit of respective personal account. Total of discount allowed column should be posted to the debit side of discount allowed account with the words “To Sundry Accounts”.
- Each item of discount received appearing on the credit side of the cash book will be posted to the debit of respective personal account. Total of discount received column should be posted to the credit of discount received account with the words “By Sundry Accounts”.
- The other transactions recorded on the debit side of the cash book are posted to the credit of the respective accounts in the ledger.
- The other transaction recorded on the credit side of the cash book is posted to the debit of the respective accounts in the ledger.

Purchase Book

Purchases (journal) book is also a book of original entry. This book records only Credit purchases of goods in which the firm deals. Cash purchases of goods are recorded in the cash book. Credit purchases of items not for resale are not recorded in the Purchases Book e.g., If a firm deals in Computer parts, any item of furniture purchased on credit is not recorded in the book. They are recorded in another book which is known as ‘journal proper’. Purchases book also known as “Bought Day Book”.

Format of Purchases Book is as under:

Purchase book of ___________

Date	Name of Suppliers	Inward Invoice No.	L.F.	Amount Rs.

Explanation:

- **Date:** In this column Year, Month and Date of transactions are recorded in chronological order.
- **Name of Supplier:** In this column, the name of the supplier from whom the goods were purchased is written.
- **Inward Invoice Number:** In this column, Invoice number is entered.
- **Ledger Folio:** In this column, it records the page number of the ledger book in which supplier account is maintained.
- **Amount:** In this column, it records the net amount payable to the supplier.

Before discussing the Purchase Day Book, in detail we are to explain the most significant terms, Trade Discount and Cash Discount.

Trade discount: It is an allowance or concession granted by the seller to the buyer, if the customer purchases goods above a certain quantity or above a certain amount. The amount of the purchase made, is always arrived at after deducting the trade discount, i.e., only the net amount is considered. For example, if the list price (price prescribed by the manufacturers or wholesalers) of a commodity is Rs.100, and trade discount granted by manufacturer to the wholesaler is 20% then cost price of the commodity to the wholesaler is Rs.80. Trade discount is not recorded in the books. They are used for determining the net price.

Cash Discount: Sale of goods on credit is a common phenomenon in any business. When goods are sold on credit the customers enjoy a facility of making payment on some date in the future. In order to encourage them to make the payment before the expiry of the credit period a deduction is offered. The deduction so made is known as cash discount. For example, If Ram purchases goods worth Rs.5,000 on 30 days credit then, as per the terms of contract, he is authorized to make payment 30 days after the date of purchase. If he is offered a cash discount of 2% on payment within 10 days and if he does so, he is entitled to deduct Rs.100 from the invoice price and pay Rs.4,900. In this case Rs.100 is cash discount. But if he does not choose to make payment within 10 days then he will not get any cash discount. In this case he will pay Rs.5,000 after 30 days.

While entering transactions in the purchase book, the following points must be kept in mind:

- Only transactions relating to credit purchases are entered in the purchase book. If the goods are purchased for cash, they are entered in the cash book and not in the purchase book.
- In the purchase book only transaction relating to goods purchased are recorded, i.e. transactions should be of the purchase made of only those things in which we deal/ for example, a merchant dealing in cloth, but he cannot record purchase of furniture, because furniture is not goods for him. It is a purchase of an asset, which is not recorded in purchase book.
- In the purchase book transactions are recorded for net amount, i.e. the amount after deducting the trade discount.

Transactions not recorded in purchase book:

- Transactions of cash purchases. They are recorded in the cash book.
- If there is only an order for supply of goods, then no entry is made.
- Purchases of goods for the private and personal use of the proprietor are not recorded in purchase book.
- Goods received from a supplier to be sold on “sale or return” basis.
- If goods are received from some other city or from a foreign country to be sold on his behalf.
- When some asset other than goods is purchased, e.g. if a cloth merchant purchase furniture.

Record of partly credit purchase:

- The transaction may be treated in the first instance as a credit transaction and recorded in purchase books.
- Then an entry for part payment may be made in the cash book, which will have no effect in purchase book.
- If trade discount is to be allowed, then entry will be made after deducting such discount in the purchase book.
- If the condition of cash discount is mentioned, then cash discount is calculated only on that amount which is actually paid.

Posting and Balancing

Once transactions are properly recorded in purchases journal, they are posted into the ledger.

Step 1: Entries will be posted to the credit side of the respective creditors (supplier) account in the ledger by writing “By Purchases A/c” in the particulars column.

Step 2: Periodic total is posted to the debit of purchases account by writing “To sundries as per purchases book” in the particulars column.

Sales Book

The sales book is used to record all credit sales of goods dealt with by the trader in his business. Cash sales, cash and credit sales of assets are not entered in this book. The entries in the sales book are on the basis of the invoices issued to the customers with the net amount of sale.

Format of Sales Book is as under:

Sales book of ___________

Date	Name of Customers	Outward Invoice No.	L.F.	Amount Rs.

Explanation:

- **Date:** In this column Year, Month and Date of transactions are recorded in chronological order.
- **Name of Customer:** In this column, Name of the Customer is recorded.
- **Outward Invoice Number:** In this column, Invoice number is entered.
- **Ledger Folio:** In this column, it records the page number of the ledger book in which supplier account is maintained.
- **Amount:** In this column, the amount of the total goods sold to the customer is recorded.

While entering transactions in the sales book, the following points must be kept in mind:

- Only transactions relating to goods sold on credit are entered in the sales book. So if it is a cash sale, it is not recorded in the sales book, but it is recorded in the cash book.
- In the sales book, only transactions relating to sale of goods are entered. For example, if a cloth merchant sells cloth on credit, that transaction will be entered in the sales book. But if he sells wastes or old furniture, the same will not be recorded in the sales book.
- An entry is made with the net amount of the goods sold on credit, i.e. the amount after deducting trade discount is written.

Transactions not recorded in sales book:

- Cash sales
- Orders received for which goods are still not supplied and invoice is not prepared.
- Goods withdrawn by the proprietor for personal use.
- Goods sent on sale or return basis.
- Sales of an asset other than goods, e.g. if the cloth merchant sells his old furniture, it is not recorded in sales book.

Posting and Balancing
At the end of the month the individual entries and the total of the sales book column are posted into the ledgers as under.

Step 1: Individual amounts are daily posted to the debit of Customers' Accounts by writing "To Sales A/c" in the particulars column.

Step 2: Grand total of the sales book is posted to the credit of sales account by writing "By Sundries as per Sales Book" in the particulars column.

Final Accounts

The businessman is interested in knowing whether the business has resulted in profit or loss and what the financial position of the business is at a given period. In short, he wants to know the profitability and the financial soundness of the business. The trader can ascertain these by preparing the final accounts. The final accounts are prepared at the end of the year from the trial balance.

The final account of business concern generally includes two parts. The first part is Trading and Profit and Loss Account. This is prepared to find out the net result of the business. The second part is Balance Sheet which is prepared to know the financial position of the business.

Trading Account

After preparing a trial balance at the end of an accounting period, the next step is to prepare Trading Account.

Meaning
Trading account is one of the financial statements, which result of buying and selling of goods and/or services during an accounting period.

Purpose
Trading account is prepared to know the gross profit or gross loss during the accounting period. The basis for the preparation of this account is the matching of selling prices of goods and services with the cost of goods sold and services rendered.

On the debit side of the Trading Account:

i. The opening stock
ii. Purchases less purchase returns
iii. Expenses relating to purchases

On the credit side of the Trading Account:

i. Sales after deducting sales return
ii. Goods going out of business in any other way
iii. Closing stock

Format of Trading Account

Trading Account for the year ending ………….

Dr. **Cr.**

Particulars	Amount Rs.	Particulars	Amount Rs.
To Opening stock	_______	By Sales _________	
To purchases _______		*Less* Sales Returns _____	_______
Less purchase Returns _____	_______	By Goods Burnt by Fire	_______
To Wages	_______	By Goods Stolen	_______
To Carriage Inward	_______	By Goods given in Charity	_______
To Railway Freight	_______	By Goods given as Sample	_______
To excise duty	_______	By Goods drawn for	
To octroi	_______	personal use	_______
To Custom Duty	_______	By Closing Stock	_______
To Unloading charges	_______	By Gross Loss (Transferred	_______
To Demurrage	_______	to Profit & Loss Account)	
To Clearing Charges	_______		
To Dock charges	_______		
To Packing Charges	_______		
To Gross Profit (Transferred to	_______		
Profit & Loss Account)			

Opening stock: Stock on hand at the beginning of the year is termed as opening stock. The closing stock of the previous accounting year is brought forward as opening stock of the current accounting year. In the case of new business, there will not be any opening stock.

Purchases: Purchases made during the year, includes both cash and credit purchases of goods. Purchase returns must be deducted from the total purchases to get net purchases.

Direct Expenses: Expenses which are incurred from the stage of purchase to the stage of making the goods in saleable condition are termed as direct expenses. Some of the direct expenses are:

- **Wages:** It means remuneration paid to workers.
- **Carriage or carriage inwards:** It means the transportation charges paid to bring the goods from the place of purchase to the place of business.
- **Octroi Duty:** Amount paid to bring the goods within the municipal limits.
- **Customs duty, dock dues, clearing charges, import duty etc.:** These expenses are paid to the Government on the goods imported.
- **Other expenses:** Fuel, power, lighting charges, oil and grease, waste related to production and packing expenses.

Sales: This includes both cash and credit sale made during the year. A net sale is derived by deducting sales return from the total sales.

Closing stock: Closing stock is the value of goods which remain in the hands of the trader at the end of the year. It does not appear in the trial balance. It appears outside the trial balance. (As it appears outside the trial balance, first it will be recorded in the credit side of the trading account and then shown in the assets side of the balance sheet).

Balancing

The difference between the two sides of the Trading Account indicates either Gross Profit or Gross Loss. If the credit side total is more, the difference represents Gross Profit. On the other hand, if the total of the debit side is more, the difference represents Gross Loss. The Gross Profit or Gross Loss is transferred to Profit & Loss Account.

Gross profit = Net sales – Cost of goods sold
Gross loss = Cost of goods sold – Net sales

Profit & Loss Account

After calculating the gross profit or gross loss the next step is to prepare the profit and loss account.

Meaning

The Profit and Loss account is one of the financial statements. It shows the net result of the business operation during an accounting period.

Purpose

The Profit and Loss Account is prepared to ascertain the Net Profit earned or Net Loss incurred by the business as a result of business operations during an accounting period.

Contents

All the indirect revenue expenses and losses (i.e. other than those shown on the debit side of the Trading Account) are shown on the debit side of the Profit and Loss Account, whereas all indirect revenue incomes (i.e. other than those shown on the credit side of the Trading Account) are shown on the credit side of the Profit and Loss Account.

Items appearing in the debit side

Selling and distribution expenses

To materialize sales, the expenses incurred are called selling and distribution expenses. Examples are: Carriage on sales/carriage outwards, advertisement, selling expenses, travelling expenses and salesman commission, depreciation of delivery van, salary of driver of the delivery van, etc.

Office and administration expenses

These are the expenses incurred on establishment and maintenance of office. Some of the expenses that may be under this head are: rent, rates and taxes, postage, printing and stationery, insurance, legal charges, audit fees, office salaries, etc.

Financial expenses

Finances are to be arranged for business. Expenses that are incurred in this connection are called financial expenses. Some of the financial expenses are: interest on loan, interest on capital, discount on bills, etc.

Depreciation and maintenance charges

The total value of a fixed asset like machinery, building, furniture, etc. is not charged to profit and loss account in the year in which it is purchased. Such assets help running business for a number of years to come. Therefore, only a part of the value of such assets is treated as an expense and is charged to Profit and Loss A/c as depreciation.

Depreciation means decline in the value of fixed asset due to wear and tear, lapse of time, obsolescence, etc. Expense incurred on repairs and renewals and maintenance of assets are expenses other than depreciation under this category.

Other expenses

These are the expenses which are not included under the above mentioned heads of expenses for example, losses and expenses due to fire, theft etc.

Items appearing in the credit side

Besides the gross profit, other gains and incomes of the business are shown on the credit side. The following are some of the incomes and gains.

- Interest received on investment
- Interest received on fixed deposits.
- Discount earned.
- Commission earned.
- Rent Received

Balancing

The difference between the two sides of profit and loss account indicates either net profit or net loss. If the total on the credit side is more the difference is called net profit. On the other hand if the total of debit side is more the difference represents net loss. The net profit or net loss is transferred to capital account.

Need of preparing Profit and Loss Account

- Knowledge of the net profit or net loss of a business for an accounting year.
- Net profit of one year can be compared with net profits of previous year or years. It helps in ascertaining whether the business is being conducted efficiently or not.
- Different expenses which are taken to Profit & Loss A/c in one year can be compared with the amounts incurred in previous year or years. This helps in ascertaining the need of applying control over such expenses.

Format of Profit & Loss Account

Profit & Loss Account for the year ending …………..

Dr. **Cr.**

Particulars	Amount Rs.	Particulars	Amount Rs.
To Gross Loss	________	**By Gross Profit**	
To Administrative Expenses:		**By incomes:**	
To Salaries	________	By interest received	________
To Rent	________	By dividend received	________
To Stationeries	________	By rent received	________
To Provident Fund	________	By discount received	________
To Electricity	________	By commission	
To taxes	________	Received	________
To Postage expenses	________	By brokerage	
To Printing charges	________	Received	________
To Insurance premium	________	By sale of old news	
To audit fees	________	Papers	________
To Repairs	________	By apprentice	
To Office expenses	________	Premium	________
To Selling Expenses:		By bad debt	
To Discount allowed	________	Recovered	________
To Advertisement	________	By interest on loan	________
To salesman salary	________	By interest on	
To Commission paid	________	Drawing	________
To Travelling expenses	________		
To Bad debts	________	**By Net Loss**	________
To Distribution expenses:		(transferred to Capital A/c)	
To Carriage outwards	________		
To Repacking charges	________		
To delivery van expense	________		
To financial Expenses:			
To Interest on capital	________		
To interest on loan	________		
To interest on b.o.	________		
To Bank charges	________		
To Misc. Expenses:			
To Depreciation	________		
To loss by theft	________		
To loss by charity	________		
To loss on sale of asset	________		
To Net Profit			
(transferred to Capital A/c)	________		

Balance Sheet

This is the second part of the final accounts. It is a statement showing the financial position of a business. Balance sheet is prepared by taking up all personal accounts and real accounts (assets and properties) together with the net result obtained from profit and loss account. On the left hand side of the statement, the liabilities and capital are shown. On the right hand side, all the assets are shown. Balance sheet is not an account but it is a statement prepared from the ledger balances. So we should not prefix the accounts with the words ‘To’ and ‘By’.

Balance sheet is defined as ‘a statement which sets out the assets and liabilities of a business firm and which serves to ascertain the financial position of the same on any particular date’.

Need

- Balance Sheet is prepared to measure the true financial position of a business entity at a particular point of time.
- It is a systematic presentation of what a business unit owns and what it owes.
- Balance Sheet shows the financial position of the concern at a glance.
- Creditors, financiers are particularly interested in the Balance Sheet of a concern so that they can decide whether to deal with the concern or not.

Format of Balance Sheet

Balance Sheet for the year ending …………..

Capital & liabilities	Amount Rs.	Assets	Amount Rs.
Capital ____		Goodwill	________
+ Net profit ____		Land building	________
+ increase in capital ____		Factory	________
+interest on capital ____		Plant and machinery	________
(-) Net loss (if any) ____		Land of lease	________
(-) drawings ____		Furniture and fitting	________
(-) interest on drawing___	________	Vehicles	________
		Patent, trademark etc.	________
Reserve fund	________	Investments	________
Bank overdraft	________	Sundry debtors	________
Bank loan	________	Bills receivable	________
Sundry creditors	________	Closing stock	________
Bills payable	________	Stationary stock	________
Unpaid expenses	________	Cash on hand	________
Provident fund	________	Bank balance	________
	________	Loan given	________
		Prepaid expenses	________
		Income due but not received	________
		Deferred revenue expenses	________

Balance Sheet Equation

An important thing to note about the Balance Sheet is that, the total value of the assets is always equal to the total value of the liabilities.

This is because the liability to the owner - capital, is always made up of the difference between assets and liabilities. Thus,

Assets = Liabilities + Capital

or

Capital = Assets - Liabilities

While preparing the trial balance in case it does not tally the difference is transferred to an imaginary account called as suspense account. In case the suspense account is not closed before the preparation of the final accounts then it has to be placed in the balance sheet, so that it can be rectified later. If suspense account has a debit balance it will appear as the last item at the asset side. In case it shows a credit balance it will appear as the last item in the liability side.

Difference between balance sheet and trial balance

Points	Trial Balance	Balance sheet
Objective	To know the arithmetical accuracy of the accounting work.	To know the true and fair financial position of a business.
Format	The columns are debit balances and credit balances.	The two sides are assets and liabilities.
Content	It is a summary of all the ledger balances – personal, real and nominal accounts.	It is a statement showing closing balances of personal & real accounts.
Stage	It is the middle stage in the preparation of accounts.	It is the last stage in the preparation of accounts.
Period	It can be prepared periodically, say at the end of the month, quarterly or half yearly, etc.	It is generally prepared at the end of the accounting period.
Preparation	It is prepared before the preparation of trading, profit and loss account.	It is prepared after the preparation of trading, profit and loss account.
Stock	It shows opening stock only.	It shows closing stock only.
Order	Balances shown in the trial balance are not in order.	Balances shown in the balance sheet must be in order.
Evidence	It cannot be produced as documentary evidence in the court.	It can be produced as documentary evidence.
Compulsion	Preparation of trial balance is not compulsory.	Preparation of the balance sheet is a must.

Points to remember while preparing a balance sheet

- The balance sheet is a statement showing the financial positions of the business on a particular date. Hence on the top of the balance sheet is written, "Balance Sheet as on ….." whereas on the top of the Trading account and the Profit and Loss account is written, "For the year ending on ….". This is because a summary of transactions of the whole year is given in the Trading account and the profit and loss account.
- The balance sheet is a statement and not an account; hence no such words debit on the left side and credit on the right side are written. The balance sheet as a list of balances. The words Capital and Liabilities are written on the top of its left side, while the word Assets is written on the top of its right side. Credit balances are written on the liabilities side and debit balances are written on the assets side.
- The balance sheet is a systematic statement, and hence assets and liabilities have to be shown therein in a particular order.
- Totals on both sides of the Balance Sheet should be equal, which will suggest that the accounts have been written correctly. The difference between two sides of the trading account and the profit and loss account shows the net profit (or net loss) and it is added to or deducted from the capital in the Balance Sheet. The final results of real accounts and nominal accounts given in the Trail Balance are thus included in the Balance sheet, and the remaining balances of the Trial Balances are written in the Balance sheet. Thus, if totals of debit balances and credit balance in the Trail Balance tally, the totals of the two sides of the Balance Sheet must also tally.
- Since the Balance Sheet is not an account, closing entries are not required for writing balances of accounts in it.
- The closing stock is written on the assets side of the balance sheet. The closing stock has been recorded in the books as a result of the entry made for entering the closing stock on the credit side of the Trading account. Its debit balance ewill be written in the balance Sheet on asset side.

Adjustment Entries

The final account statements are prepared on the basis of Trial Balance and other information. It is possible that there are certain items of income or expenses which do not pertain to the accounting period for which Trial Balance is prepared or other such items which have accrued but have not been accounted for and hence are not reflected in Trial Balance. Both these types of incomes and expenses are to be fully accounted for, only then the above stated two statements will show the true and fair position of the business. These are called 'adjustments'.

Thus, adjustment entries are made, after preparing trial balance but before preparing proft and loss account and the Balance Sheet.

Interest on Capital

As per business entity concept capital of the proprietor is a liability for the business. Like other loans interest can be paid on capital also. In case it is decided to allow interest on capital, adjustment entry will be as follows :

Interest on Capital A/c Dr.
To Capital A/c
(Interest allowed on capital)

In financial statements it is shown as under:

Profit & Loss Account for the year ending ………….

Dr. **Cr.**

Particulars	Amount Rs.	Particulars	Amount Rs.
To Interest on capital	________		

Balance Sheet for the year ending ………….

Capital & liabilities	Amount Rs.	Assets	Amount Rs.
Capital ____ + increase in capital ____	________		

Interest on loan

Interest must be paid on loans whether there is profit or loss. It is calculated by reference to the rate of interest agreed to be paid by the firm, the amount of the loan and the period. The entry is:

Interest A/c Dr.
To Interest Outstanding A/c
(outstanding interest)

In financial statements it is shown as under:

Profit & Loss Account for the year ending ………….

Dr. **Cr.**

Particulars	Amount Rs.	Particulars	Amount Rs.
To Interest on loan	________		

Balance Sheet for the year ending ………….

Capital & liabilities	Amount Rs.	Assets	Amount Rs.
		loan ____ + interest on loan ____	________

Depreciation

The value of fixed assets such as Plant and Machinery, Furniture and Fixtures, Land & Building, Motor Vehicles etc. goes on reducing year after year due to wear and tear, obsolescence or for any other reason. As the fixed assets are used for earning revenue the amount by which the value of a fixed asset decreases is an item of expense, similar to other expenses. This is called depreciation. It should be charged to the Profit and loss Account. The value of such assets should also be shown in the Balance Sheet at the reduced value by the amount of depreciation: The adjustment entry for depreciation will be:

Depreciation A/c Dr.
To Asset (by name) A/c

It will be shown in the Profit and Loss A/c and Balance sheet as under :

Profit & Loss Account for the year ending …………..

Dr. **Cr.**

Particulars	**Amount Rs.**	**Particulars**	**Amount Rs.**
To depreciation on Assets	____		

Balance Sheet for the year ending …………..

Capital & liabilities	**Amount Rs.**	**Assets**	**Amount Rs.**
		Asset ____ (-) depreciation on asset ____	____

"Asset means Plant & Machinery, Building, Furniture, vehicle etc."

Note: In case amount of depreciation has been calculated before closing of accounts, it will appear in the debit column of the Trial Balance. It will be shown only on the debit of profit & Loss A/c and further adjustment is not required in the Balance Sheet.

Depreciation

DEPRECIATION is derived from Latin word Depretium which means reduction in the value fixed assets. In other words, Depreciation means reduction in the value of fixed assets due to usage and passage of time. Depreciation is a loss in value of an asset due to number of factors, they are:

- Due to use (wear and tear)
- Due to technological changes
- Due to effusion of time and efflux of time
- Any loss in value of fixed assets
- Obsolescence
- Accidents

Methods of Depreciation

- Straight line method
- Double decline method
- Sum of year's digit method

Straight Line Method

According to this method, a fixed percentage of the original cost of the asset is charged as depreciation every year during the life of the assets. The depreciation remains constant year after year. The amount of depreciation is calculated as follows:

$$Depreciation = \frac{Original\ Cost\ of\ the\ Fixed\ Asset - Estimated\ scrap\ Value}{Life\ of\ the\ Asset\ in\ Number\ of\ Accounting\ Periods}$$

or $D = \frac{C-S}{N}$

The depreciation to be charged each year can also be expressed as a percentage of cost. This percentage can be calculated as follows:

$$R = \frac{D}{C} \times 100$$

For example, the original cost is Rs. 10,000/- residual scrap value is Rs. 1,000/- number of years of assets is 10 years.

Then, $Depreciation = \frac{10000-1000}{10} = \frac{9000}{10}$ = Rs. 900 per annum

Advantages of Straight Line Method

1. It is the simple method of charging depreciation.
2. The book value of an assets can be reduced to Zero or Scrap value
3. The provision for depreciation is spread equally over the estimated life of the assets.
4. Suitable for costing purpose, as there is no variation in depreciation change from year to year.
5. It matches cost and revenue.

Disadvantages of Straight Line Method

1. Provision of depreciation is equal for every year during the life of assets. However, the expenditure on repairs and renewal goes on increase as the assets gets older, resulting in higher aggregate charge on account of depreciation and repairs on revenue. i.e. to profit and loss A/c, in the later years of the life of the assets.
2. Under this method, interest lost on the money locked up in the assets is not taken into consideration.
3. When additions are made to assets, calculations are required for each asset having a different estimated lifetime.
4. It does not take into account the cost by way of interest on the money invested.

Double decline method

The declining balance method figures depreciation each accounting period by applying a fixed rate to the asset's book value. That's its value when you subtract accumulated depreciation from its cost. The declining balance method doesn't take the asset's salvage value off the front end, as the other two did. Instead, it stops when the asset's book value hits its salvage value. The "fixed rate" mentioned above is usually twice the straight line rate, which is why this method is often called the "double declining balance method." It's an accelerated method that increases depreciation in a machine's newer years and decreases it as it gets older. The formula is as under:

$$Depreciation = book\ value\ \times Depreciation\ Rate$$

$$Book\ Value = Cost - Accumulated\ Depreciation$$

$$Depreciation\ Rate = Straight\ Line\ depreciation\ rate\ \times 200\%$$

Sum of year's digit method

Under this method, the digits or the remaining useful life of the asset is calculated. The digits are added up to get the sum of digits. The corresponding ratio of digits is then obtained. The amount of depreciation to be charged to the Profit and Loss Account under this method goes on decreasing every year. The depreciation is calculated according to the following formula:

$$Depreciation = \frac{remaining\ Life\ of\ the\ Asset\ (including\ the\ current\ year)}{Sum\ of\ all\ the\ digits\ of\ the\ life\ of\ the\ asset\ in\ years} \times Original\ Cost$$

For example, if the digits of the life of the asset is Rs. 10000 and it has an effective life of 5 years, the amount of depreciation to be written off each year will be computed as follows:

1st year $= \frac{5}{1+2+3+4+5} \times 10000 \quad = \quad Rs. 3333$

2nd year $= \frac{4}{15} \times 10000 \quad = Rs. 2666$

3rd year $= \frac{3}{15} \times 10000 \quad = Rs. 2000$

4th year $= \frac{2}{15} \times 10000 \quad = Rs. 1333$

5th year $= \frac{1}{15} \times 10000 \quad = Rs. 667$

This provides a more accurate decrease in the value of the asset if it is being used more heavily in the first years, and it decreases tax burdens faster than the straight-line method does. If, for financial reasons, you prefer an even larger estimate of depreciation during the first years, this is the best method for your business.

Example of single column cash book

Enter the following transactions in a single column cash book of Mr.Kumaran.

2004 Jan

1 Started business with cash ... Rs. 1,000
3 Purchased goods for cash ... Rs. 500
4 Sold goods ... Rs. 1,700
5 Cash received from Siva ... Rs. 200
12 Paid Balan ... Rs. 150
14 Bought furniture ... Rs. 200
15 Purchased goods from Kala on credit ... Rs. 2,000
20 Paid electric charges ... Rs. 225
24 Paid salaries ... Rs. 250
28 Received commission ... Rs. 75

Cash Book of Mr. Kumaran

Dr. **Cr.**

Date	Particulars	L. F.	Amount Rs.	Date	Particulars	L. F.	Amount Rs.
2004				2004			
Jan 1	To Capital A/c		1000	Jan 3	By Purchases A/c		500
4	To Sales A/c		1700	12	By Balan A/c		150
5	To Siva A/c		200	14	By Furniture A/c		200
28	To Commission A/c		75	20	By Ele. charges A/c		225
				24	By Salaries A/c		250
				31	By Balance c/d		1650
			2975				2975
Feb 1	To Balance b/d		1650				

Note: The transaction dated January 15th will not be recorded in the cash book as it is a credit transaction.

Example of two column (cash and discount) cash book

Prepare a Double Column Cash Book from the following transactions of Mr. Gopalan:

2004 Jan. 1 Cash in hand Rs. 4,000
6 Cash Purchases Rs. 2,000
10 Wages paid Rs. 40
11 Cash Sales Rs. 6,000
12 Cash received from Suresh and Rs. 1,980 and allowed him discount 20
19 Cash paid to Meena Rs. 2,470 and discount received Rs. 30
27 Cash paid to Radha Rs. 400
28 Purchased goods for cash Rs. 2,070

Cash Book of Mr. Gopalan

Dr. **Cr.**

Date	Particulars	LF	Discount Allowed Rs.	Amount Rs.	Date	Particulars	LF	Discount Received Rs.	Amount Rs.
2004					2004				
Jan 1	To Balance b/d			4,000	Jan	By Purchases A/c			2,000
11	To Sales A/c			6,000	6	By Wages A/c			40
12	To Suresh A/c		20	1,980	10	By Meena A/c		30	2,470
					19	By Radha A/c			400
					27	By Purchases A/c			2,070
					28	By Balance c/d			5,000
					31				
			20	11,980				30	11,980
Feb 1	To Balance b/d			5,000					

Example of two column (cash and bank) cash book

Enter the following transactions in the double column cash book of Mr.Rajesh.

2003 Aug.	1	Opening Balance: Cash in Hand Rs.4,250, Cash at Bank Rs.13,750
	2	Paid to petty cashier Rs.2,500, Cash sales Rs.1,750
	3	Paid to Arun by cheque Rs.3,750
	3	Received a cheque from Mr.Ram Babu Rs.4,500 paid into bank.
	5	Received cheque from Mr.Jayaraman Rs.6,000 paid into bank
	8	Cash purchases Rs.2,500, Paid rent by cheque Rs. 2,500
	9	Cash withdrawn from bank for office use Rs.2,500
	10	Cash sales Rs.3,750
	14	Stationery purchased Rs.1,000
	20	Cash sales Rs.6750
	21	Paid into bank Rs.10,000
	23	Withdrew cash for personal use Rs.1,000
	25	Salaries paid by cheque Rs.9000.

Cash Book of Mr. Rajesh

Dr. **Cr.**

Date	Particulars	LF	Bank Rs.	Amount Rs.	Date	Particulars	LF	Bank Rs.	Amount Rs.
2003					2003				
Aug 1	To Balance b/d		13,750	4,250	Aug 2	By Petty Cash A/c			2,500
2	To Sales A/c			1,750	3	By Arun's A/c		3,750	
3	To Ram Babu's A/c		4500		8	By Purchases A/c			2,500
5	To Jayaramans A/c		6,000		8	By Rent A/c		2,500	
9	To Bank A/c	C		2,500	9	By Cash A/c	C	2,500	
10	To Sales A/c			3,750	14	By Stationery A/c			1,000
20	To Sales A/c			6,750	21	By Bank A/c	C		10,000
21	To Cash A/c	C	10,000		23	By Drawings A/c		1,000	
					25	By Salary A/c		9,000	
					31	By Balance c/d		15,500	3,000
			34,250	19,000				34,250	19,000
Sep 1	To Balance b/d		15,500	3,000					

Example of three column cash book

Prepare three column cash book of Mr. Sundar from the following transactions:

2002 Aug	1	Sundar started business with cash Rs.2,00,000
	2	Deposited into Bank Rs.50,000.
	4	Cash purchases Rs.5,000.
	5	Purchases by cheque Rs.6,000.
	6	Goods sold to Nathan on credit Rs. 5,000.
	8	Received cheque from Mano Rs.490, Discount allowed Rs.10.
	10	Paid carriage Rs.1,000.
	12	Withdrew from Bank for office use Rs.10,000.
	15	Paid to Sundari Rs.4,960, Discount allowed by her Rs.40.
	20	Received a cheque for Rs.4950 from Nathan in full settlement of his account, which is deposited into Bank.

Cash Book of Mr. Sundar

Dr. **Cr.**

Date	Particulars	L F	Discount Allowed Rs.	Bank Rs.	Cash Rs.	Date	Particulars	L F	Discount Received Rs.	Bank Rs.	Cash Rs.
2002						2002					
Aug 1	To Capital A/c				2,00,000	Aug 2	By Bank A/c	C			50,000
2	To Cash A/c	C		50,000		4	By Purchases A/c				5,000
8	To Mano's A/c		10		490	5	By Purchases A/c			6,000	
12	To Bank A/c	C			10,000	10	By Carriage A/c				1,000
20	To Nathan's A/c		50	4,950		12	By Cash A/c	C		10,000	
						15	By Sundari's A/c		40		4,960
						31	By Balance c/d			38,950	1,49,530
			60	54,950	2,10,490				40	54,950	2,10,490
Sep 1	To Balance b/d			38,950	1,49,530						

Example of Purchase book

From the following transactions of Ram for July, 2003 prepare the Purchases Book.

2003 July 5 Purchased on credit from Kannan & Co.
50 Iron boxes @ Rs. 500
10 Grinders @ Rs. 3,000

July 6 Purchased for cash from Siva & Bros. 25 Fans @ Rs. 1,250

July 10 Purchased from Balan & Sons on credit
20 Grinders @ Rs. 2,500
10 Mixie @ Rs. 3,000

July 20 Purchased, on credit, one Computer from Kumar for Rs. 35,000.

Purchase book of Ram

Date	Name of Suppliers		Inward Invoice No.	L.F.	Amount Rs.
2003 July 5	Kannan & Co. 50 Iron boxes @ Rs. 500 10 Grinders @ Rs. 3,000 (Goods purchased)	 25000 30000			55000
10	Balan & Co. 20 Grinders @ Rs.2,500 10 Mixie @ Rs. 3,000 (Goods purchased)	 50000 30000			80000
	Total				135000

Note: July 6th transaction is a cash transaction and July 20th transaction is purchase of an asset, so both will not be recorded in the purchases book.

Example of Sales book

From the transactions given below prepare the Sales Book of Ram for July 2003.

2003 July 5 Sold on credit to S.S. Traders
10 Chairs @ Rs. 250 } Less 10%
10 Tables @ Rs. 850 } Discount
July 8 Sold to Raja for cash
15 Chairs @ Rs. 250
July 20 Sold to Mohan & Co.
5 Almirah @ Rs. 2,200
10 Tables @ Rs. 850
July 23 Sold on credit to Narayanan old computer for Rs. 5,000
July 28 Sold to Kumaran for cash 15 Chairs @ Rs. 250

Sales book of Ram

Date	Name of Customers		Outward Invoice No.	L.F.	Amount Rs.
2003 July 5	S.S. Traders & Co. 10 Chairs @ Rs. 250 10 Tables @ Rs. 850 Less : 10% Discount (Sold to S.S. Traders)	 2,500 8,500 11,000 1,100			9900
20	Mohan & Co. 5 Almirah @ Rs. 2,200 10 Tables @ Rs. 850 (Sold to Mohan & co.)	 11,000 8,500			19500
		Total			29400

Note: July 8th and 28th transaction is a cash transaction and July 23rd transaction is sales of an asset, so both will not be recorded in the sales book.

Example of final account

The Following trial balance has been extracted from the books of M/s. Naina Prepare the Trading, Profit & Loss Account and Balance Sheet for the year ended 31 March 2004.

	Debit (Rs.)	**Credit (Rs.)**
Drawings	35,000	
Building	60,000	
Debtors and Creditors	50,000	80,000
Returns	3,500	2,900
Purchases and Sales	3,00,000	4,65,000
Discount	7,100	5,100
Life Insurance	3,000	
Cash	30,000	
Stock (Opening)	12,000	
Bad Debts	5,000	
Reserves for Bad Debts	-	17,000
Carriage Inwards	6,200	
Wages	27,700	
Machinery	8,00,000	
Furniture	60,000	
Salaries	35,000	
Bank Commission	2,000	
Bills Receivable/Payable	60,000	40,000
Trade Expenses/Capital	13,500	9,00,000

Stock on 31st March 2004 was valued at Rs. 50,000.

Trading Account for the year ending 31 March, 2004

Dr. **Cr.**

Particulars		Amount Rs.	Particulars		Amount Rs.
To Opening Stock		12,000	By Sales	4,65,000	
To Purchases	3,00,000		Less: Return	3,500	4,61,500
Less: Return	2,900	2,97,100			
			By Closing Stock		50,000
To Wages		27,700			
To Carriage Inward		6,200			
To Gross Profit		1,68,500			
Total		5,11,500	Total		5,11,500

Profit & Loss Account for the year ending 31 March, 2004

Dr. **Cr.**

Particulars	Amount Rs.	Particulars	Amount Rs.
To Discount Paid	7,100	By Gross Profit	1,68,500
To Life Insurance	3,000	By Discount Received	5,100
To Salaries	35,000	By Reserve for Bad Debts	17,000
To Bank Commission	2,000		
To Trade Expenses	13,500		
To Bad Debts	5,000		
To Net Profit	1,25,000		
Total	1,90,600	Total	1,90,600

Balance Sheet for the year ending 31 March, 2004

Capital & liabilities		Amount Rs.	Assets	Amount Rs.
Capital	9,00,000		Building	60,000
+ Net profit	1,25,000		Machinery	8,00,000
- Drawings	35,000	9,90,000	Furniture	60,000
			Debtors	50,000
Bills Payable		40,000	Closing Stock	50,000
Creditors		80,000	Cash	30,000
			Bills Receivable	60,000
Total		11,10,000	Total	11,10,000

The difference between Profit and loss account and Balance sheet are;

- Balance sheet is a statement of assets and liabilities, whereas profit and loss is an account.
- Balance sheet discloses the financial position of the business on a particular date, whereas, profit and loss account discloses profits earned or losses suffered during an accounting period.
- Profit and loss account is prepared for the accounting period ending, whereas, Balance sheet is prepared as at the last day of accounting period.
- Accounts which are transferred to Balance sheet do not lose their identity and become the opening balances for next period, whereas, those accounts which are transferred to the profit loss account are closed and cease to exist.

Enter the following transactions in the Simple Cash Book of M/s Golden Traders:

2006 April	1	Started Business with Cash 30,000
	2	Goods Purchased for Cash 10,000
	3	Furniture Purchased 1,000
	6	Goods Sold for Cash 7,000
	9	Cartage paid 200
	10	Postage 100
	12	Cash Sales 3,000
	14	Cash withdrawn for Personal use 2,000
	18	Deposited into Bank 10,000
	22	Goods purchased for Cash 13,000
	25	Wages paid 500
	27	Rent paid 3,000
	28	Cash Sales 2,000
	30	Commission received 500

(Answer: Closing Cash in hand Rs.2,700)

From the following particulars, prepare single column cash book of Ms.Kokila.

2002 March	1	Cash in hand Rs.20,000.
	4	Cash purchases Rs.4,000.
	7	Cash sales Rs.8,000.
	8	Paid to Balan Rs. 5,000
	9	Received cash from Cheran Rs.10,000.
	13	Paid into bank Rs.10,000.
	14	Cash withdrawn from bank Rs.4,000.
	18	Paid salaries Rs.1,000.
	20	Bought furniture Rs.3,000.
	28	Rent paid Rs. 1,000.

(Answer: Cash balance Rs. 18,000)

Prepare a single column cash book from the following particulars of Mr.Chandran.

2002 Dec.	1	Cash balance Rs.80,000.
	7	Bought goods for cash Rs.25,000
	9	Purchased goods on credit from Guru Rs.6,000.
	12	Sold goods to Somu on credit Rs.8,000.
	14	Paid Guru Rs.6,000.
	17	Cash received from Somu Rs,8,000.
	20	Paid trade expenses Rs.10,000.
	21	Received cheque from Krishna Rs.10,000.
	27	Commission received Rs.5,000.

(Answer: Cash balance Rs.62,000)

Prepare Two column Cash Book of M/s Style India from the following transactions for the month of April 2006 :

2006	August	1	Cash in hand 18,000, Cash at Bank 27,500
		3	Cash Sales 10,000
		5	Furniture purchased by cheque 8,700
		8	Paid by cheque to Sonu 13,500
		12	Received Cheque from Ashima and deposited into Bank 13,000
		15	Cash Sales 7,000
		18	Deposited into Bank 8,000
		20	Withdrawn from Bank for personal use 7,000
		22	Cheque received from Naveen 7,000
		24	Rent paid 5,000
		26	Naveen Cheque deposited into Bank
		28	Withdrawn from Bank for office use 5,000
		29	Salary paid 3,000
		31	Cash paid for Electric Bill 500
		31	Cash paid for Telephone bill 1,000

(Answer: Closing Cash in hand Rs.3,060, Closing Bank Balance Rs.48,300)

Record the following transactions in Sujatha's cash book with cash and bank columns.

2002 Mar	1	Cash Balance Rs.45,000. Bank Balance Rs.42,000.
	3	Cash paid into bank Rs.5,000.
	5	Purchases by cheque Rs.9,000.
	8	Cash sales, deposited in the bank Rs.13,500.
	10	Furniture purchased Rs.600.
	14	Cheque received from Ramu Rs.2550.
	17	Ramu's cheque deposited in the bank for collection.
	18	Cash withdrawn for personal use by cheque Rs.750.
	20	Cash withdrawn from bank Rs.3,000.
	26	Ramu's cheque was returned by bank as dishonoured.

(Answer: Cash balance Rs.42,400; Bank Balance Rs.47,750)

Prepare Double Column Cash Book with cash and bank columns from the following:

2003 Jan.	1	Cash in hand Rs.22,000, Cash at bank Rs.5,000.
	2	Sold goods for cash Rs.15,000.
	4	Cash withdrawn from bank Rs.2,000.
	5	Credit purchases from Deena Rs.15,000.
	6	Cash deposited into bank Rs.5,000.
	10	Paid wages by cheque Rs.10,000.
	14	Cash sale of furniture Rs.10,000 and out of it paid into bank Rs.2,000.
	18	Bank charges charged by the bank Rs.1,300.
	20	Cheque issued to Deena Rs.15,000.
	24	Received a cheque for Rs.1,000 from Pasubathy, deposited into the bank.
	28	Deena, to whom we have issued a cheque for credit purchases has reported that our cheque is dishonoured.

(Answer : Cash balance Rs.42,000; Bank balance (Cr) Rs.300)

Enter the following transactions in two column cash book of Mr. Nandakumar.

2003 Jan 1 Cash in hand Rs.60,000.
3 Bought goods from Premnath Rs.10,000.
4 Opened a current account with bank Rs.15,000.
7 Withdraw from bank Rs.5,000.
8 Sold goods to Kandan for Rs.10,000 credit on terms 2% cash discount if payable within two weeks.
10 Paid cash to Premnath, less 1% C.D.
14 Received a cheque from Arul Rs.3,400, allowed him discount Rs.100.
15 Kandan settled his account.

(Answer: Cash balance Rs.53,300)

Enter the following transaction in the Cash Book with Discount and Cash of Mr. Guru.

2003 Sep 1 Cash in hand Rs.19,000.
3 Sold goods for cash Rs.10,000.
4 Credit purchases from Venkat Rs.18,000.
6 Received from Mohan Rs.4,160, Discount allowed to him Rs.40.
8 Paid for Electricity charges Rs.850.
9 Cash deposited in bank Rs.20,000.
14 Paid cash to Venkat Rs.17,600 in full settlement.
24 Received cash from Vel Murugan Rs.4,800.
26 Salaries paid Rs.4,000.
28 Cash drawn from bank Rs.5,000.

(Answer: Cash balance Rs. 510)

Prepare a three column cash book from the transactions given below:

2002 Jan 1 Cash Balance Rs.75,000, Bank Balance Rs. 45,000.
3 Deposited into bank Rs.60,000.
4 Bought furniture and paid by cheque Rs.7,500
5 Paid for repair Rs.650.
6 Goods purchased and paid by cheque Rs.12,500.
10 Received a cheque for Rs.21,000 from Chandran and allowed him discount Rs.200.
13 Gave Muthu a cheque for Rs.11,500 and received a discount of Rs.150.
15 Sarathy directly paid into our bank account Rs.15,000.
20 Withdrew from bank for office use Rs.2,500.
28 Withdrew from bank for personal use Rs.500.

(Answer : Cash balance Rs.37,850; Bank balance Rs.85,500)

Enter the following transactions in the Purchase Book of M/s. Subhashree.

2003 March 1 Purchased 100 Kg. of coffee seeds from Suresh @ Rs.40 per Kg.
5 Purchased 80 Kg. of tea dust from Hari @ Rs.20 per Kg.
12 Bought from Rekha Sugars, Trichy 1,200 Kg.of Sugar @ Rs.8 per Kg.
18 Bought from Perumal Sweets40 tins of Sweets @ Rs.200 per tin.
20 Purchased from Govinda Biscuit, 20 tins of biscuits @ Rs.400 per tin.

(Answer: Purchases book total Rs.31,200)

Enter the following transactions in the Three Column Cash Book of Mr.Albert.

2002 May 1 Cash in hand Rs.30,000, Cash at bank Rs.2,000
3 Received cheque for goods sold to Arun and banked it Rs.1000.
5 Paid into bank Rs.4,000.
9 Paid cash to David from whom goods worth Rs.6,000 were purchased for credit on 1st May on term 2% cash discount within two weeks.
10 Paid to Robert by cheque Rs.2,400 in full settlement of his account of Rs.2,500.
12 Received cash from Nathan Rs.4,750. Discount allowed Rs.250.
19 Interest allowed by bank Rs.200.
20 Robert to whom we have issued a cheque has reported that our cheque is dishonoured.
22 Roshan got exchange a five hundred rupee note.
31 Paid into bank all cash in excess of Rs.5,000.

(Answer : Cash balance Rs.5,000. Bank balance Rs.27,070. Deposited into bank Rs.19,870)

Enter the following transactions in the Triple Column Cash Book of Mr.Raja Durai.

2002 May 1 Cash balance Rs.6,000, Bank balance Rs.4,000.
2 Withdrew from Bank Rs.2,000.
3 Abdulla directly paid into our bank account Rs.3,000.
4 Cheque received from Daniel Rs.5,000 sent to bank.
7 Cheque received from Ramakrishnan for sales Rs.8,000.
8 Received cash from Subramaniyam Rs.2,800. Discount allowed Rs.200.
10 Ramakrishnan's cheque sent to bank for collection.
14 Paid to Balu by cheque Rs.13,900. Discount received Rs.100.
17 Withdrew cash for personal use Rs.1,500 and by cheque Rs.12,500.
27 Rent paid Rs.2,000.

(Answer : Cash balance Rs.7,300; Bank balance (cr) Rs.8,400)

From the following particulars prepare the sales book of Modern Furniture Mart

2003 June 5 Sold on credit to Arvind & Co.
20 tables @ Rs.600 per table, 20 chairs @ Rs.300 per chair
7 Cash sales to Anand & Co.,
10 tables @ Rs.300 per table, 20 chairs @ Rs.150 per chair
10 Sold to Baskar & Co., on credit
10 almirahs @ Rs.3,000 per almirah, 10 tables @ Rs.200 per table
15 Sold old typewriter for Rs.1,000 to Madan on credit
20 Sold to Gopinath on credit.
10 tables @ Rs.1,000 per table, 2 revolving chairs @ Rs.1,200 per chair

(Answer : Sales book Rs.62,400)

The following information was extracted from the books of M/s.Sudha Ltd. Prepare final accounts on 31.3.2002.

Particulars	Debit Rs.	Particulars	Credit Rs.
Opening stock	12,500	Sales	1,89,000
Depreciation	7,000	Commission	2,000
Carriage inwards	700	Capital	1,71,300
Furniture	8,000	Creditors	17,500
Carriage outwards	500	Bills payable	5,000
Plant & machinery	2,00,000	Return outwards	13,800
Cash	8,900		
Salaries	7,500		
Debtors	19,000		
Discount	1,500		
Bills receivable	17,000		
Wages	16,000		
Sales returns	14,000		
Purchase	86,000		
	3,98,600		**3,98,600**

Closing stock on 31.12.2002 Rs.45,000.
(Answer : Gross profit Rs. 1,18,600, Net profit Rs.1,04,100, Balance sheet Rs. 2,97,900)

The trial balances of Mr. Uma Shankar shows the following balances on 31st March 2000. Prepare final accounts.

Debit Balance	Rs.	Credit Balance	Rs.
Purchases	70,000	Capital account	56,000
Sales returns	5,000	Sales	1,50,000
Opening stock	20,000	Purchase returns	4,000
Discount allowed	2,000	Discount received	1,000
Bank charges	500	Sundry creditors	30,000
Salaries	4,500		
Wages	5,000		
Freight inwards	4,000		
Freight outwards	1,000		
Rent, rates and taxes	5,000		
Advertising	6,000		
Cash in hand	1,000		
Plant and machinery	50,000		
Sundry debtors	60,000		
Cash at bank	7,000		
	2,41,000		2,41,000

Closing stock on 31st March 2000 was Rs. 30,000.

(Answer: Gross profit Rs.80,000, Net profit Rs.62,000,Balance sheet Rs. 1,48,000)

The following trial balance extracted from the books of Murugan, prepare trading, profit and loss a/c and balance sheet for the year ended 31st Dec. 2001.

Particulars	**Debit Rs.**	**Credit Rs.**
Drawings	20,000	
Capital		1,89,000
Plant & machinery	80,000	
Sundry debtors	70,000	
Sundry creditors		50,000
Purchases	1,03,000	
Sales		2,20,000
Sales returns	10,000	
Wages	40,000	
Cash in hand	5,000	
Cash at bank	10,000	
Salaries	38,000	
Stock	45,000	
Rent	10,000	
Manufacturing expenses	7,000	
Bills receivable	12,000	
Bills payable		20,000
Bad debts	5,000	
Carriage inwards	9,000	
Furniture	15,000	
	4,79,000	**4,79,000**

Closing stock as on 31.12.2001 Rs. 50,000.
(Answer: Gross profit Rs. 56,000, Net profit Rs. 3,000,
Balance sheet Rs.2, 42,000)

Compiled By: Mr. Navtej Bhatt, Assistant Professor,
BCA Department, V.P. & R.P.T.P. Science College, Vallabh Vidyanagar

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Declaration: This material is compiled only for the reference for lectures in the classrooms. Students are required library reading for more study. This study material compiled from various reference Book.

"If you wish success in life, make perseverance your bosom friend, experience your wise counselor, cautions your elder brother, and hope your guardian genius."