ACCOUNTING CONCEPTS & CONVENTIONS

SHORT NOTES

1. Business Entity Concept

According to this assumption, for accounting purposes a business is treated as a separate entity that is distinct from its owner(s) and all other economic proprietors. For example, in case of a proprietary concern, though the legal entity of the business and its proprietor is not same for the purpose of accounting they are to be treated as separate from each other.

If this assumption is not followed, the financial statues and operating results of a business entity cannot be ascertained. In other words this assumption requires that for accounting purpose, a distinction should be made between (i) personal transaction and business transactions, and (ii) transaction of one business entity and transactions of another business entity.

2. Monetary unit assumption.

According to this assumption only those transactions which are capable of being expressed in terms of money are included in the accounting records. For example, if the sale director is not in speaking terms with the production director, the enterprise is bound to suffer. Since monetary measurement of this information is not possible, this fact is not recorded in accounting records.

By expressing all transactions in terms of money the different transactions expressed in different unit are brought to a common unit of measurement (i.e., money). Besides ignoring the non-monetary facts of attributes, this assumption also ignores the charges in the purchasing power of the monetary unit. In other words, this assumption treats all rupees alike, whether it is rupee of 1950 or 1995.

3. Accounting period assumption.

This assumption is also known as *periodicity assumption or time period assumption.* According to this assumption the economic life of an enterprise is artificially split into periodic intervals which are known as accounting periods at the end of which an income statement and position statement are prepared to show the performance and financial position. The use of this assumption further requires the allocation of expenses between capital and revenue.

That portion of capital expenditure which is consumed during the current period is charged as an expense to income statement and the unconsumed portion is shown in the balance sheet as an asset for future consumption. Truly speaking measuring the income following the concept of accounting period is more an estimate than factual since actual income can be determined only on the liquidation of the enterprise.

4. Revenue Recognition Principle

This principle is mainly concerned with the revenue being recognized in the income statement of an enterprise. Revenue is the gross inflow of cash, receivables or other considerations arising in the course of services and from the use by others of enterprise resources yielding interest, royalties and dividend.

It excludes the amount collected on behalf of third parties such as certain taxes. In an agency relationship the revenue is the amount of commission.

5. Cost Principle

According to this principle, an asset is ordinarily recorded in the accounting records at the price paid to acquire it at the time of its acquisition and the cost becomes the basis for the accounts during the period of acquisition and subsequent accounting periods. Accordingly if nothing is paid to acquire an asset the same will not be usually recorded as an asset, e.g., a favorable location and increasing reputation of the concern will remain unrecorded though these are variable assets. The justification for the use of the cost concept lies in the fact that is objective verifiable.

6. Matching Principle

According to this principle the expenses incurred in an accounting period should be matched with the revenue recognized in that period e.g., if revenue is recognized on all goods sold during a period cost of those goods sold should also be charged to that period. It is wrong to recognize revenue on all sale but charge expenses only on such sales as are collected in cash till that period. It is wrong to recognized revenue on all sales but charge expenses only on such sales as are collect of in cash till that period.

This concept is basically an accrual concept since it disregards the timing and the amount of actual cash inflow or cash outflow and concentrates on the occurrence (i.e., accrual) of revenues and expenses. This concept calls for adjustment to be made in respect of prepaid expenses, outstanding expenses, accrued revenues and unaccrued revenues.

Matching does not mean that expenses must be identifiable with the revenue. Expenses charged to a period may or may not be related to revenue recognized in that period e.g., cost of goods sold, commission to salesman are directly related to sale, whereas, rent, interest, depreciation, accruing with the passage of time and stock lost by fire are not directly related to sales revenue yet they are charged to the accounting period to which they relate.

7. Full disclosure principle

According to this principle the financial statement should act as means of conveying and not concealing. The financial statement must disclose all the relevant and reliable information which it purports to represent so that the information may be useful for the users. For this it is necessary that the information is accounted in accordance with their substance and economic reality and not merely with their legal form. The practice of appending notes to the financial statement has been developed as a result of the principle of full disclosure.

8. Objectivity Principle:

According to this principle the accounting data should be definite, verifiable and free from the personnel bias of the measures. In other words, this principle requires that each recorded transaction/event I the books of accounts should have adequate evidence to support it.

In historical cost accounting the accounting data are verifiable, since the transactions are recorded on the basis of source documents such as voucher receipts, cash memos, invoices, etc. At the same time the accounting data are bias-free since the accounting data are neither subject to the bias of either management of the accountants whose prepares the accounts.

9. Principle of Conservative

According to this principle, anticipate no profit but provide for all probable losses should be applied. The valuations of stock in-trade at lower of cost or net releasable value and making the provisions for bad and doubtful debts are the applications of this principle.

In other words, the principle of conservatism requires that in the situation of uncertainty and doubt, the business transactions should be recorded in such a manner that the profits and assets are not accounted in current accounting period, this principle conflicts with the principle of consistency.

When excessive provisions for bad and doubtful debts and depreciation are charged it leads to creation of secret reserve, and thus this principle conflicts with the principle of full disclosure.

The estimation of probable losses in subjective judgement and thus this principle conflicts with the principle of objective.

The practice of making provisions for bad and doubtful debts etc. implies lesser charges in the following accounting periods. In other words, reduces the current income and raises the future income and thus it conflicts with the matching principle.

Now a-days the conservation principle is being replaced by precedence principle, which requires that the conservatism principle should be applied only in circumstances in which great uncertainty and doubt exist.

10. Materiality Principle

This principle is basically to the full disclosure principle, since the full disclosure principle requires that all facts necessary to make financial statement not misleading must be disclosed whereas the materiality principle requires that the items or events having an insignificant economic effect or not being relevant to the user need not be disclosed.

According to materiality principle, all relatively relevant items the knowledge of which might influence the decision of the users of the financial statement should be disclosed in the financial statements. What information is relevant than others is largely a matter of judgement. For instance accounting and recording of small calculator as an asset in the balance sheet may not be justified due to the excess of cost of recording over the benefits in terms of usefulness or recording and the accounting of calculator as assets.

The materiality depends not only upon the amount of item but also upon the size of business, level and nature of information, level of the person department who makes the judgement about materiality, e.g., the reporting by a worker to his foreman about the production in grams (e.g., part of kilogram), by a foreman to his supervisor in kilogram, by a worker to his foreman about the production manager to the top management in toner may be justify having to the circumstances. It hardly makes may difference if the production manager reports the top management that the production is 1,99,999 kilogram or simply 200 tonnes (nearly).

11. Fundamental Accounting Assumptions.

As per as – 1: *Disclosure of Accounting Policies, states following fundamental accounting assumptions.*

(a) Going concern; **(b)** Consistency; and **(c)** Accrual.

These are not usually specifically stated because their acceptance and use are assumed. These are to be followed while preparation and presentation of financial statements. Disclosures are necessary if these are not follows.

12. Going Concern Concept.

According to Kohler's Dictionary for Accountants, a going concern is defined as "any enterprise which is expected to continue operating indefinitely in the future".

The assumption behind this concept is that the business will continue trading over long period of time. Accounting is to be done on the basis of this assumption and all transactions are recorded at cost. If the business decides to liquidate, a different approach to valuation is required. In such case, market value may be adopted.

13. Accrual Concept.

Revenues and costs are accrued i.e., recognized as they are earned or incurred (and not as money is received or paid) and recorded in the financial statement of the periods to which they relate. This assumption is the core of accrual accounting system. For companies it is mandatory to keep account on accrual basis under the companies act, 1956.

14. Consistency Principle.

According to this principle whatever accounting practices (whether logical or not) are selected for a given category of transaction, they should be followed on horizontal basis from on accounting period another to achieve comparability, e.g., if the inventory is valued on LIFO basis, this basis should be followed year after year. The consistency should not be confused with mere formality or inflexibility and should not be allowed to become an impediment to the introduction of improved accounting standards.

It is not appropriate for a enterprise to level its accounting policies employed in the preparation of the financial statement any change in these policies and the effects of such changes.

15. Double Entry System.

Double Entry System may be defined as that system which recognizes and records both the aspects of transactions.

Every transaction has two aspects and according to this system, both the aspects are recorded. This system was developed in the 15^{th} century in Italy by Luca Pacioli. It has proyed to be systematic and has been found of great use for recording the financial affairs for all institutions requiring use of money. This system offers the under mentioned advantage:

- **a)** By the use of this system, the accuracy of the accounting work can be established through the device of the trial balance.
- **b)** The profit earned or loss suffered during a period can be ascertained together with details.
- **c)** The financial position of the firm or the institution concerned can be ascertained at the end of each period, through preparation of the Balance Sheet.
- **d)** The system permits to be kept in as much detail as necessary and therefore, affords significant information for the purpose of control etc.
- **e)** Result of one year may be compared with those of previous years and reasons for the change may be ascertained. It is because of these advantages that the system has been used extensively in all countries.

16. Classification of Accounts.

Accounts are broadly classified into assets, liabilities and, capital. The basic accounting equation specifies those broad categories, which are as follows:

- **a) Assets:** These are resources controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise, namely cash, stock of goods, lands buildings, machinery etc.
- **b) Liabilities:** These are financial obligation of an enterprise other than owner's funds, namely long term loans, creditors, outstanding expenses etc.
- **c) Capital:** It generally refers to the amounts invested in an enterprise by its owner(s), the accretion to it or a reduction in it. Since expenses and incomes of revenue nature affect capital, there are two more categories of accounts, namely expenses and incomes. The difference between incomes and expenses are taken into capital account.
  - **(i) Expenses:** These represent those accounts, which show the amount spent or even lost in carrying on operation.
  - **(ii) Incomes:** These represent those accounts, which show the amounts earned by the enterprise. However, traditionally accounts are classified as follows:
    - **a. Personal Accounts:** These accounts relate to persons, institutions, debtors or creditors.
    - **b. Impersonal Accounts:** These represent accounts, which are not personal. These can be further Sub-divided as follows:
    - **i. Real Accounts:** These accounts relate to assets of the firm but not debt e.g., accounts relating to land, building, and cash in hand etc.
    - **ii. Nominal Accounts:** These accounts relate to expenses, losses, gains, revenues etc.

17. Personal and Impersonal Accounts.

Personal accounts relate to persons, debtors or creditors. Examples would be the account of Ram & Co. a credit customer or the account of Jhaveri & Co., a supplier of goods. The capital account is the account of the proprietor and therefore, it is also personal but adjustments on account of profits and losses are trade in it.

Accounts which are not personal such as machinery account, cash account, rent account, etc. are called impersonal accounts. These can be further subdivided as real account and nominal accounts. Accounts which relate to assets of the firm but not debts are real accounts. For example, accounts regarding land, building, investments, fixed deposits, cash in hand and bank balances etc. are real accounts in nature. Nominal accounts relate to expenses, losses, gains, revenues etc. like salary account, interest paid account, commission received account. The net result of all the nominal accounts is reflected as profit or loss, which is transferred to the capital account. Nominal accounts are, therefore, temporary.

18. Account Current.

An Account Current is a running statement of transactions between parties, maintained in the form of a ledger, for a given period of time and includes interest allowed or charged on various items. It is prepared when transactions regularly take place between two parties. A example is of a manufacturer who sells good frequently to a merchant on credit and receive payments from him in installments at different intervals and charges interest on the amount which remains outstanding. An Account Current has two parties one who renders the account and the other to whom the account is rendered. There are three ways of preparing an Account Current – **(a)** with the help of interest tables; **(b)** by means of products and **(c)** by means of products of balances.

19. Discuss briefly the relationship of Accounting with:

(i) Economics, **(ii)** Statistics, **(iii)** Mathematics,
(iv) Law, **(v)** Management.

Relationship of Accounting with other Disciplines:

(i) Accounting and Economics: Economics is a science of rational decision-making about the resources, which are scarce. It is concerned with the analysis of efficient use of scarce resources for satisfying human wants. Accounting is viewed as a system, which provides data to the users to permit informed judgement and decisions. Accounting overlaps economics in many respects and contributes widely in enriching the management decision-making process.
From the economist's viewpoint, the close relationship between economics and accounting is mainly attributed to two cases:

a) There has been an increased emphasis on testing economic theories and therefore, increased concern with economic data, a rich source of which is accounts.
b) Economics is becoming more and more concerned with uncertain situation and a greater application of information about various aspects to economic agents. Thus, these developments have brought accounting and economics much closer together.

Conclusion: At the macro-level, accounting provides the data base over which the economic decision model has been developed, micro-level data arranged by the accounting system is summed up to get macro-level data base.

(ii) Accounting and Statistics: To know the Statistics is of great importance to an accountant. Profit and sales data of a concern for a number of previous years can be perceived and studied to get the trend of profit and sales.

Deviations in profits and sales can be analysed and reasons investigated. In forecasting profit and in interpreting the income statement and statement of affairs (Balance Sheet), statistical techniques are of great use and help. In Break-even-analysis, statistical tools are very useful, 100% inspection techniques and Random-checking techniques is also useful to check accounting records. Theory of probability could be used at the time of investment decision of Reserve and Surplus.

(iii) Accounting and Mathematics: Knowledge of arithmetic and algebra is mandatory for a efficient accountant for computing and measuring at the time of accounting. The basic concept of accounting 'Dual aspect' is expressed in form of mathematical equation, known as 'accounting equation', i.e., A = C+L. With the use of operation research techniques and with the advent of the computer, mathematics is becoming vital part of accounting for communicating accounting information graphs and charts are being extensively used. For better understanding about the accounting communication system, knowledge of geometry and trigonometry including menstruation is also essential.

(iv) Accounting and Law: The entity has to operate in legal environment. We can say that accounting and law both are inter dependants. The entity itself is the creation of law, hence, known as "artificial person". Every country has a set of economic, fiscal and labour laws. All the transactions are governed by mercantile laws etc.

Conclusion: Legislation about accounting system cannot be enacted unless there is a corresponding development in the accounting discipline.

(v) Accounting and Management: Accountants are well placed in the management and play a key role in the management team, substantial part of accounting information is prepared for management decision-making. Since the accountant plays an active role in management, he understands the data requirement. So the accounting system can be moulded to serve the management purpose. Management accounting processes accounting data for management decision-making. This indicates the linkage between management and accounting. Accounting is an essential service function of management.

20. Briefly explain the Contingent Liability.

Contingent Liabilities: Guidance Note on Terms Used in Financial Statement defines Contingent as an "Obligation relating to an existing condition or situation which may arise in future depending on the occurrence or non-occurrence of one or more uncertain future events". Contingent Liability may be in respect of bills discounted, pending suits etc. Thus it is not and actual liability and as such it is not recorded in the Balance Sheet. It is simply mentioned by way of footnote to the Balance Sheet.

DISTINGUISH BETWEEN THE FOLLOWINGS

1) Distinction between fundamental accounting assumptions and accounting policies

Fundamental Accounting Assumptions: The institute of chartered accounts of India issued accounting standard (AS-1) Disclosure of accounting policies which states that there are three fundamental accounting assumptions:

(i) Going Concern **(ii)** Consistency **(iii)** Accrual

Accounting Policies: Accounting policies refer to specific accounting principles and methods of applying these principles adopted by the enterprise in the preparation and presentation of financial statement. For example, accounting policies relating to valuation of inventors, provision for depreciation, research and development costs.

Basic of Distinction	Fundamental Accounting Assumptions	Accounting Policies
Number	There are only three fundamental accounting assumption *viz.* Going concern, Consistency and Accrual.	There is no single list of accounting policies, which are applied in all circumstances. As a result there may be different accounting policies adopted by different enterprise.
Disclosure if followed	No disclosure is required if all the fundamental assumptions have been followed.	Disclosure is required if a particular accounting policy has been followed.
Disclosure if not followed	In case the fundamental assumptions are not followed the fact has to be disclosed in the financial statements together with the reasons.	In case the policy is changed in subsequent year, the reasons for such change and the resulting financial consequences have to be disclosed.
Choice	There is no choice	The firm has a choice to select a particular.

2) Distinction between books of original entry and ledger:

Basic of distinction	Books of original Entry	Ledger
Stage of recording	Recording of entries in these books is the first stage.	Recording of entries in the ledger is the second stage.
Net effect of various transactions	These books do not help to know the net effect of various transactions	Ledger helps to know the net effect of various transactions affecting a

	affecting a particular account.	particular account.
Format	In the journal there is one column for particular and two columns for amounts one for debit and another for credit. Special journals (except cash book) have only one column of amount.	In the ledger there are two equally divided sides having identical columns. The left side is known as debit and the right side is known as credit.
Balancing	In the books of original entry (except cash book) balancing is not done.	In the ledger all the accounts (except nominal accounts) are balanced.
Next stage of accounting process	From the books of original entry entries are transferred to the ledger.	From the ledger first the trial balance is drawn and then financial statements are prepared.
Name of the process of recording entries	The process of reforming entries in these books is called journalizing.	The process or recording entries in the ledger is called posting.

3) Capital Receipt and Revenue Receipts: Receipts which are obtained in course or normal trading operations are revenue receipts (e.g. sale of goods, interest income etc.). On the other hand, receipts which are not revenue in nature are capital (e.g. sale of fixed assets or investments, secured or unsecured loans, owner's contributions etc.). Capital receipts are not directly shown in the Profit and Loss Account; rather the profit or loss on sale of asset is reflected in the Profit and Loss Account. But revenue receipts are always shown in the Trading or Profit and Loss Account. Capital receipts, other than sale proceeds of assets, creates a liability whereas revenue receipts do not create any liability.

4) Deferred Expenses and Prepaid Expenses: Deferred expenses may be defined as those expenses for which payments have been made or liabilities incurred but which are carried forward on the presumption that these will be of benefit over a subsequent period or periods. In short, it refers to those expenses that are, for the time being, deferred from being charged to income. Prepaid expenses refer to payments for expenses in an accounting period, the benefit for which will accrue in the subsequent accounting period or periods. From the above definitions, it is apparent that only a thin line of difference exists between deferred expenses and prepaid expenses. The benefits available from prepaid expenses can be precisely estimated but that is not so incase of deferred revenue expenses. Heavy advertisement to launch a new product is deferred expenses since the benefit from it will be available over the next three to five years but one cannot say precisely how long. On the other hand, insurance premium paid say, for the year ending 30th June 1995. When the accounting year ends on 31st March 1995, will be an example of prepaid expenses to the extent of premium relating to three months period i.e. from 1st April 1995 to 30th June 1995. Thus the insurance protection will be available for three months after the close of the year and the amount of the premium to be carried forward can be calculated exactly.

5) Deferred Revenue Expenditure: The Guidance Note on 'Terms used in Financial Statement', issued by the Institute of Chartered Accountants of India, defines "deferred revenue expenditure as those expenditure for which payment has been made or a liability incurred but which is carried forward on the presumption that it will be of benefit over a subsequent period or periods". In shorts, it refers to that expenditure that is for the time being, deferred from being charged to income. Such suspension of charging operation may be due to the nature of expenses and the benefit expected there from. So long as deferred revenue expenditure is not written off this is shown on the assets side of the balance sheet under the head "Miscellaneous Expenditure".
Deferred expenditure exists between deferred revenue expenses and prepaid expenses. The benefits available from prepaid expenses can be precisely estimated but that is not so in case of deferred revenue expenses. Heavy advertising to launch a new product is a deferred expense since the benefit from it with be available over the next three to five years but one cannot say precisely how long. On the other hand, insurance premium paid say, for the year ending 30th June, 1993 when the accounting year ends on 31st March, 1993 will be an

example of prepaid expenses to the extent of premium relating to three months period i.e., from 1st April 1993 to 30th June 1993. Thus the insurance protection will be available precisely for three months after the close of the year and the amount of the premium to be carried forward can be calculated exactly.

6) Provision and Reserve: Provision means "any amount written off or retained by way of providing for depreciation, renewal or diminution in value of assets, of retained by way of providing for any known liability of which the amount can not be determined with substantial accuracy" (part III, Schedule VI of the Companies Act).

The following are instances of amount retained in the business out of earning for difference purpose that are described as provisions:

a) Amount provided for meeting claims which are admissible in principle but the amount where of has not been ascertained.

b) Amount provided for payment of taxes still to be assessed.

c) Amount set aside for payment off bad debts or payment of discounts.

The term 'reserve' is not defined in Part III of Schedule VI except negatively in the sense that profit retained in the business not having any of the attributes of a 'provision' is to be treated as a reserve.

7) Accrual and Cash Basis:

Accrual basis accounting is a system of classifying and summarizing transactions into assets, liabilities, equity, (owner's fund), costs and revenues and recording thereof. A transaction is recognized when either a liability is created/impaired and or an asset is created/impaired. Whether payment is made or received is immaterial in accrual basis accounting.

On the other hand cash basis of accounting is system of accounting by which a transaction is recognized only if cash is received or paid.

Accrual basis accounting is the only generally accepted accounting method for business entities, which are supposed to operate for a long period. Cash basis accounting is suitable for short duration ventures.

8) Trade discount and cash discount:

Trade discount is a discount on the selling price payable by the customer for bulk purchase. It is also called quantity discount. Trade discount is offered generally to customers for purchasing above a minimum quantity. This is a technique or sales promotion.

Cash discount is the discount offered by the supplier in consideration of immediate payment. It may very with the period of payment.

9) Commission and Discount: Commission may be defined as a remuneration relating to service performed in connection with sales purchase, collection of other types of business transactions and is usually computed as a percentage of the amount involved. Commission may also be payable to the managerial personnel for overall supervision. Discount, on the other hand, is a reduction from the list price, quoted price or invoiced price. It also refers to the price for obtaining payment on a bill before its maturity. There can be two types of discounts *viz.* Trade discount is a reduction granted by a supplier from the list price of goods or services on business consideration other than for prompt payment. A cash discount is a reduction granted by a supplier from the invoiced price in consideration of immediate payment or payment within a stipulated time. Thus, commission is payable in recognition of services performed and discount is allowable either in recognition of prompt payment or for some trade considerations. A trade discount is not shown in the books of account separately and it is shown by way of deduction from cost of purchases. But, commission payable is always shown separately.

10) LIFO and FIFO method of valuation: LIFO method of inventory valuation states that units of inventories issued should be valued at the price paid for the latest purchases and closing inventories should be valued at the price paid for earlier purchase. In other words, under LIFO method, closing inventories are valued at old purchase prices and inventory issues are valued at corresponding latest purchase prices. In an inflationary environment older and hence lower costs remain in the Balance Sheet as value of inventories under LIFO basis and newer and higher costs are included in cost of inventories consumed. Thus, during inflation reported profits fall due to higher cost of goods sold when LIFO method is followed.

On the other hand, under FIFO method of inventory valuation, inventories purchased first are issued first. The closing inventories are valued at latest purchase prices and inventory issues are valued at corresponding old purchase prices. In other words, under FIFO method, costs are assigned to the units issued in the same order as the costs entered in inventory. During periods of rising prices, cost of goods sold are valued at older and lower prices if FIFO is followed and consequently reported profits rise due to lower cost of goods sold.

But neither LIFO nor FIFO can be considered as an ideal method for inventory valuation, because these methods either understate profits and assets or overstate them respectively. This distorts the true and fair nature of the financial statements.

11) **Adjusted Selling Price Method of Valuation of Stock:** This method is also called retail inventory method. It is used widely in retail business or in business where the inventory comprises of items, the individual costs of which are not readily ascertainable. The historical cost of inventory is estimated by calculating it in the first instance at selling price and then deducting an amount equal to the estimated gross margin of profit on such stocks. The calculation of the estimated gross margin of profit may be made for individual items or groups of items or by department as may be appropriate to the circumstances.

12) **Consignment and Sale:** In sale of consignment, the property in the goods remains with the consigner until the goods are actually sold. The consignee acts only as a custodian or the goods sent by consignor. In consignment the ownership of goods does not pass on to the consignee in any case. In case of ordinary sale, the ownership or goods passes to the buyer immediately after sale. In case of consignment, the risk attached to the goods remains with the consignor even after sending the goods to the consignee. However, in case of ordinary sale as soon as the property in the goods passes on to the buyer, the buyer the risk attached to the goods also passes at the same time. The relationship between consignor and consignee is that of principal and agent and the consignee acts on behalf of the consignor for a commission. Whereas in case of credit sale, the relationship between the buyer and the seller is that of a debtor and a creditor.

13) **Consignment and Joint Venture**

Consignment transactions and events relate to a business technique by which one person sends goods to another on such basis that goods will be sold on behalf of and at the risk of the former. The party who sends the goods is called consignor, the party who takes the responsibility of selling the goods, is called consignee. For all purposes consignor is an agent of the consignor. The consignee sold goods on commission basis. A joint venture is a short duration business (generally confined to a job or service contract) entered into by two or more persons/firms jointly. The parties to ventures are called co-ventures. Co-ventures contribute towards venture capital and share profit and losses as per agreement.

Thus the following important distinctions may be observed between these two types of business:

a) Consignment arrangement may continue for a long period. But venture is usually for a specific purpose. As soon as the specific purpose is over venture come to an end.

b) The relationship between consignor and consignee is that of principal and agent but co-ventures as short-term partners.

c) Consignee gets commission for working on behalf of the consignor. Co-ventures share profit/losses arising out of the venture.

14) **Partnership and Joint Venture:** Partnership is a relationship between persons who have agreed to share profits or losses of a business carried on by all or of them acting for all. Whereas, a joint venture is a contractual agreement whereby two or more parties undertake an economic activity, which is subject to joint contract. Thus joint venture is a temporary partnership formed particular for economic activity or venture. The following differences exist between joint venture and other forms of partnership.

a) The owner of a partnership business are called partner, whereas the owner of a joint venture are called co-ventures.

b) Accrual basis of accounting is followed in case of partnership and a joint venture generally follows cash basis of accounting.
c) The financial results of a joint venture are obtained generally at the end of the N venture.
However, there may be ventures in certain areas, which may last for a longer period. For example, joint ventures in key areas like power, petroleum, telecommunication etc. in this case, the ventures may even last for ten/fifteen years. For these long-term joint ventures, financial statements are prepared periodically by following accrual basis of accounting. Therefore, the line of distinction between long-term joint venture and other forms of partnership is very thin.

15) Profit and Loss Account and Balance Sheet: Profit and Loss Account shows the financial result or an enterprise. It presents the revenues and expenses or an enterprise for an accounting period and shows the excess of revenues over expenses (or vice-versa) known as profit or loss respectively. Balance Sheet on the other hand, is a statement on the financial position of a enterprise as at a given date, which exhibits its assets, liabilities, capital, reserves and the other account balances at their respective book value. All nominal account balances (like purchases, wages, sales, rent, salaries, etc.) are transferred to Profit and Loss Account. These balance there after cases to exist. On the other hand, Balance Sheet consists mainly of personal and real account balances and these balances (like fixed assets, closing stock in trade, debtors, liabilities etc.) do makes them to balance independently. In other words, in self-balancing system each individual ledger is independent in the sense that a trial balance can be prepared for each ledger. The method of maintaining self-balancing ledgers is simple. The accounts of individual debtors are maintained in a separate ledger called Debtors Ledger or Sales Ledger. All credit Sales Ledger, Bought Ledger, General Ledger etc., and also makes them to balance independently. In other words, in self-balancing system each individual ledge is independent in the sense that a trial balance can be prepared for each ledger. The method of maintaining self-balancing ledgers is simple. The accounts of individual debtors are maintained is a separate ledger called Debtors Ledger or Sales Ledger. All credit sales, cash collection, discount, bad debts etc. are recorded in the individual debtors accounts are Sales Ledger.
Similarly, in the creditors Ledger or ledger adjustment account is maintained which gives a summary of all transactions in the sales ledger in a reverse manner. Against the general ledger adjustment account in Sales Ledger, a sales ledger adjustment account is opened in the General Ledger to complete the double entry. Similarly, in the Bought Ledger a general Ledger a general ledger adjustment account is opened which gives a summary of all transactions of the Bought Ledger in a reverse manner and against this adjustment account a Bought Ledger adjustment account is opened in the general ledgers to complete the double entry. In this way, all the ledgers – General Ledgers, Sales Ledger and Bought Ledger – are made self-balanced.
A self-balancing ledger system implies a system of ledger keeping which classifies ledger as per nature of transactions namely, Sales Ledger, Bought Ledger, General Ledger etc., and also makes them to balance independently.
In order to make each ledger self-balancing, an extra account called General Ledger Adjustment Account is opened in each of the sales ledger and bought ledger. Normally, the accounts of individual debtors are maintained recording credit sales, cash collections, discount, bad debts etc., in Debtors Ledger or Sales Ledger. The general ledger adjustment account in the Sales Ledger gives a summary of all these transactions in reverse manner similarly in the Bought Ledger; General Ledger Adjustment Account gives a summary of all transactions of the Bought Ledger in a reverse manner. Against these ledger adjustment accounts, two other adjustment accounts are maintained in the General Ledger to complete the double entry.
(a) Bought Ledger Adjustment Account, (b) Sales Ledger Adjustment Account.
These adjustment accounts are known as Control Account. The correctness of individual balances in each ledger would be verified by extracting its balances and agreeing them with the balance of the control account. The object of the system is to identify errors and to identify errors and to facilitate their quick direction with the minimum effort.

Under sectional balancing system, only two additional accounts (i) Total Debtors Account; and (ii) Total Creditors Account are kept in the General Ledger. Thus, only the totals account for each of the subsidiary ledgers is opened in the General Ledger and no Control account. Adjustment Account is opened in the subsidiary ledger. It would mean that whereas accounts of individual customers would be maintained in the Sales Ledger in the General Ledger, the Total Debtors Account would be posted by the (monthly) totals of various transactions with credit customers. The balance in the Total Debtors Account should be equal to the total of balance shown by the accounts of individual, customers. A difference would show that there is some errors somewhere. In the same way, the accuracy of individual supplier's account may be checked by comparing the total of their balances with the balance of the Total Creditors Account. A trial balance can be prepared on the basis of General Ledger only, without using Debtors Ledger and Creditors Ledger since the double entry is completed in the General ledger itself.

ACCOUNTING EQUATION

Classes By: Rajeev Kumar (9911101212)

Recording of Business Transactions

SOURCE DOCUMENTS OF ACCOUNTING: VOUCHERS AND ACCOUNTING EQUATION

1) **Source Documents:** Source documents are basically the written documents relating to external activities of a business. These are in the form of receipts, bills, cash memo, invoices, debit and credit notes, pay-in-slip, cheque, etc. these documents certify the actual happening of the transaction, its amount, parties invoiced, data and the nature of the transaction. These documents are the first input to the accounting system. On the basis of these source documents/vouchers, journal entries are passed in the books of accounts. Such documents are known as supporting vouchers.

2) **Cash Memo:** It provides details regarding cash transactions. A seller issues it when he sells the goods and receives when he buys the goods. It consists of details regarding the item sold/purchased, quantity, rate and the total amount.

3) **Invoices:** When goods are sold on credit, an invoice is sent to the buyer containing the details about quantity, rate, total amount, etc. Similarly when goods are purchased on credit, an invoice or bill is received from the supplier containing the same details. The seller retains the duplicate copy of the invoice with him and sends the original copy of the invoice to the buyer.

4) **Receipt:** It provides the details of the payments received or made.

5) **Debit Note:** the buyer prepares a debit note when he returns the goods to the supplier from whom he has purchased those goods on credit.
On the basis of the duplicate copy or counterfoil of the "debit note", the supplier's account is debited in the buyer's books.

6) **Credit Note:** the seller prepares a credit note when he receives back the goods from a customer to whom these goods have been sold on credit. On the basis of the duplicate copy or counterfoil of the "credit note", the customer's account is credited in the seller's books.

7) **Pay-in-slip:** This is the form available in a bank, which is used for depositing cash and cheque in the bank. Each pay-in=-slip has a counterfoil which is returned to the depositor duly stamped and signed by the cashier of the bank.

8) **Cheque:** A cheque is an order is an order in writing drawn upon a bank to pay a specified sum to the bearer or the person named in it.

9) **Accounting Equations:** Accounting equation explains that the assets of a business are always equal to the total of capital and liabilities. If a business transaction results in the increase of assets, there will also be a corresponding increase in the amount of either capital or liability by the same amount.

Accounting Equation

Assets = Capital + other liabilities

S No	Particulars	Assets	Capital + Other Liabilities

Problems:

Problem 1: What will be the effect of the following on the Accounting Equation:
1) Harish started business with cash Rs. 18,000
2) Purchased goods for cash Rs. 5,000 and on credit Rs. 2,000
3) Sold goods for cash Rs. 4,000 (costing Rs. 2,400)
4) Rent paid Rs. 1,000 and rent outstanding Rs. 200

Problem 2: Prove that Accounting statement is satisfied in all the following transactions of Sameer Goel:
a) Started business with cash Rs. 10,000.
b) Paid rent in advance Rs. 300
c) Purchased goods for cash Rs. 5,000 and credit Rs. 2,000
d) Sold goods for cash Rs. 8,000 costing Rs. 4,000
e) Paid salary in cash Rs. 450 and salary outstanding Rs. 100
f) Bought motorcycle for personal use Rs. 3,000

Problem 3: Arvind has the following transactions. Use accounting equation to show their effect on his assets, liabilities and capital:
1) Invested Rs. 15,000 in cash;
2) Purchased securities for cash Rs. 7,500;
3) Purchased a home for Rs. 15,000; giving Rs. 5,000 in cash and balance through loan;
4) Sold securities costing Rs. 1,000 for Rs. 1,500;
5) Purchased an old car for Rs. 2,800 in cash;
6) Received cash as salary for Rs. 3,600;
7) Paid cash Rs. 500 for loan and Rs. 300 for interest;
8) Paid cash for household expenses Rs. 300;
9) Received cash for dividend on securities Rs. 200.

Problem 4: Anil had the following transactions:
1) Commenced business with cash Rs. 50,000;
2) Purchased goods for cash Rs. 20,000 and credit Rs. 30,000;
3) Sold goods for cash Rs. 40,000 costing Rs. 30,000;
4) Rent paid Rs. 500;
5) Rent outstanding Rs. 100;
6) Bought furniture Rs. 5,000 on credit;
7) Bought refrigerator for personal use Rs. 5,000;
8) Purchased building for cash Rs. 20,000

Use accounting equation to show the effect of the above transactions on his assets, liabilities and capital and also show his final balance sheet.

Problem 5: Show the accounting equation on the basis of the following transactions and also show the balance sheet:
a) Started the business with: Cash Rs. 80,000; Goods Rs. 30,000 and Furniture Rs. 40,000;
b) Purchased goods on credit from Y, Rs. 15,000 and on cash from X, for Rs. 10,000;
c) Bought refrigerator for personal use Rs. 5,000;
d) Goods costing Rs. 6,000 sold at the loss of 10%, out of which Rs. 2,000 received in cash;

e) Received cash from debtors Rs. 3,200 in full settlement;
f) Sold goods for cash Rs. 5,000;
g) Introduced fresh capital Rs. 1,00,000 on 1.1.2002.
h) Rent outstanding Rs. 5,000;
i) Plant purchased for cash Rs. 20,000;
j) Interest on capital at the rate of 10%;
k) Accrued interest Rs. 10,000;
l) Goods costing Rs. 24,000 sold at the profit of 33 1/3%, 3/4th payment received in cash;
m) Paid 3 months advance rent for office accommodation Rs. 2,000;
n) Sold office furniture to Mr. John at cost for Rs. 5,000. Mr. John paid Rs. 3,000 in cash and accepted a bill at 3 months for the balance.
o) Goods withdrawn for personal use Rs. 10,000;
p) Interest on drawings at the rate of 5%;
q) Depreciation on furniture at the rate of 10%;
r) Purchased a holiday home for office use Rs. 20,000, out of which Rs. 15,000 paid in cash and for the rest a loan is taken from SBI;
s) Goods worth Rs. 1,000 are given as charity;
t) Goods destroyed by fire Rs. 2,000;
u) Loss of cash by theft Rs. 1,000;
v) Half of the loan taken from SBI is repaid with interest at 20%;
w) Purchased securities Rs. 10,000;
x) Sold securities costing Rs. 1,000 for Rs. 1,500.

Journal, ledger Posting and Trial Balance

Journal Entries:

Types of accounts

Personal accounts:-

Real accounts:-

Nominal accounts:-

GOLDEN RULES: -

Types of account	Rule for journal entries
Personal account	Debit the receiver, Credit the giver
Real account	Debit what comes in, Credit what goes out
Nominal account	Debit all losses and Expenses, Credit all profit and gains

Journal in the books of:

S No	Particulars	Debit (Rs)	Credit (Rs)

Problems:-

Problem 1: Journalise the following transactions:

1) Goods worth Rs. 500 were used by the proprietor for domestic purpose;
2) Goods uninsured worth Rs. 3,000 were destroyed by fire;
3) Paid Rs. 250 as wages on installation of new machine;
4) Supplied goods costing Rs. 600 to Mohan issued at 10% above cost less 5% trade discount.

Problem 2: Journalise the following transactions:

1) Goods destroyed by the fire Rs. 500
2) Paid Rs. 2,500 in cash as wages on installation of a machinery
3) Issued a cheque in favour of M/s Parmatma Singh and Sons on account of purchase of goods Rs. 7,500
4) Goods sold costing Rs. 6,000 to M/s Kalu Sons at an invoice price 10% above cost less 5% Trade Discount.

Problem 3: Journalise: -

1) Received a cheque from J Peterson Rs. 5,450. Allowed him discount of Rs. 150.
2) Returned goods to Sudershan of the value of Rs. 350
3) Issued a cheque in favour of M/s Karanvir Timber Company on account of the purchase of Timber of Rs. 7,500.

Problem 4: Journalise:
1) Bought goods from Nilesh for cash Rs. 1,500;
2) Paid to Sita Rs. 965 in full payment of her dues of Rs. 1,000;
3) Paid Rs. 250 in cash as wages on installation of a machine.

Problem 5: Journalise the following transactions:
1) Paid Rs. 25 in cash as wages on installation of a machine.
2) Sold goods to Kitty at a list price of Rs. 2,000. Sales subject to 10% Trade Discount and 5% Cash Discount if payment is made immediately. Kitty availed of Cash Discount.
3) Supplied goods costing Rs. 600 to Shakuntala. Issued invoice at 10% above cost less 5% Trade Discount.

Problem 6: Journalise:
1) Goods worth Rs. 400 were given as charity out of business;
2) Received cash Rs. 500 of a bad debt written off last year;
3) Interest charged on drawings @ 5%. Total drawings were Rs. 10,000.

Problem 7: Give journal entries for the following:
1) Goods worth Rs. 500 were given as charity.
2) Received Rs. 975 from Hari Krishan in full settlement of his account Rs. 1,000.
3) Received a first and final dividend of 60 paise in a rupee from the official receiver of Mr. Rajan, who owed us Rs. 100.

Problem 8: At the end of an accounting year a trader finds that entries have not been passed in the books of accounts in respect of the following transactions:

1)	Outstanding salary at the end of the year	Rs. 200
2)	Goods given as charity during the year	Rs. 300
3)	Stock in hand at the end of the year	Rs. 20,000

Journalise these transactions:

Problem 9: Journalise the following 'Opening Entry':

	Rs.
Cash in hand	200
Plant	5,000
Furniture	2,500
Salary outstanding	300
Goodwill	2,000
Creditors	1,300
Debtors	1,800

Problem 10: Pass necessary Journal Entries:
a) Paid cash to Pawan on behalf of Mukesh Rs. 2,000.
b) Received cash from Sonu Rs. 5,000 on behalf of Monu.
c) Exchanged of old car for a new car. The old car was valued at Rs. 15,000, the price of the new car was Rs. 36,000. The balance was paid through Bank.
d) Purchased from Akshay goods worth Rs. 20,000 and sold on the same day 30% of the goods at a profit of 30%.
e) Rs. 30,000 was paid to the Builder for construction of a shed by a crossed cheque.

CASH BOOK

Cash Book - It is a special journal, which is used for regarding all cash receipts and cash payment.

Types of Cash Book –

1) Single Column Cash Book – Having only cash column.

2) Two Column Cash Book – Having either cash and bank columns or cash and discount columns or bank and discount columns.

3) Three Column Cash Book – Having Cash, Bank and Discount Column.

4) Petty Cash Book – It is a book used for recording the petty expenses, so that the head cashier is relieved of the detailed record of these expenses.

5) Contra Entry – It is that entry which is not posted in the ledger. It is recorded when a transaction effects both balance, e.g., depositing of cash in Bank.

6) Trade Discount is allowed when goods are sold or purchased. The more is the sale, the more will be rate and amount of discount. This discount is not recorded in the books of account. It is also not shown Cash Book. This discount is deducted from the invoice value or listed price of goods.

7) Cash Discount is allowed at the time of making payment. The earlier the Payment, the more will be Cash Discount. This amount is recorded in the book of account. It is not deducted from the invoice value of goods. It is shown on the debit side of Cash Book as discount allowed and on the credit side as discount received.

Note – Discount columns are never balanced.

8) **Imprest System of Petty Cash** – The word 'Imprest' means amount paid in advance. In this system, a fixed amount is paid to the petty cashier, which is determined on the basis of past experience by the month in the beginning of a particular period (month). The petty cashier is required to make payments of all petty expenses out of this fixed amount. At the end of that period or on the first day of the next period, the main cashier reimburses the amount actually spent by the cashier during the last period so as to make the balance same as before.

9) **Cash Book – a Subsidiary Book and Principal Book of Accounts** – Cash Book is both a subsidiary book and a principal book. When a Cash Book is maintained, all cash transactions are recorded in it and therefore, they are not recorded in the journal. Since all the cash transactions are recorded for the first time in the Cash Book, it is therefore a book of original entry. Also, when a Cash Book is prepared, cash account in the ledger is not prepared. In this way, Cash Book represents the cash account and hence, becomes the principal book of accounts. Thus, Cash Book is both a subsidiary book as well as principal book.

10) **Cash Book is a Journalised Ledger** – Cash Book is a journal as all the cash transactions are recorded in it for the first time from the source document and from there these are posted to the respective account in the Ledger. The Cash Book is also a ledger as it serves the purpose of cash account also. No separate cash account is opened in the ledger when a Cash Book has been made. Thus, the Cash Book is a journal as well as a ledger and hence it may be called 'Journalised Ledger'.

Opening Balance –

Opening balance of each column – The cash column of a Cash Book always shows debit balance. It is written as "To balance b/d" on the debit side.

a) **Opening balance of bank column** – The bank column of a Cash Book may show either a debit or a credit balance. If there is a debit bank balance, it is shown on the debit side of the Bank column as "To Balance b/d" while if a credit balance is given, it means an overdraft balance and it is shown on the credit side as "By Balance b/d".

B. **Contra Entries** – The word 'contra' means 'the other side' or 'on both the sides' of the Cash Book. These are the entries that are recorded on both the sides of the Cash Book. In other words, those entries, which involve both Bank Account and Cash Account simultaneously, are known as contra entries.

PRACTICAL PROBLEMS –

Problem 1: Enter the following transactions in a Cash Book –

2006		Rs.
January 1	Commenced business with cash	20,000
January 2	Deposited into Bank	40,000
January 3	Received cash from Mohan Rs. 950 in full settlement of a debit of Rs. 1,000	
January 4	Bought goods for cash	10,000
January 4	Bought goods by Cheque	15,000
January 5	Sold goods by cheque Rs. 20,000 and deposited into Bank the same day	
January 5	Paid to Arun by cheque Rs. 1,900 in full settlement of his account of Rs. 2,000	
January 6	Draw from Bank for office use	1,000

Problem 2: Enter the following transactions in Cash Book with Cash and Bank columns –

2002		Rs.
June 1	Cash in hand Rs. 800, Bank Overdraft Rs. 5,700	
June 7	Received a cheque from Bharati	3,250
June 9	Deposited the above cheque into Bank	
June 15	Cheque received from Panna Lal	1,200
June 20	Bharati's cheque returned dishonoured	
June 28	Panna Lal's cheque was endorsed to Kamal	
June 30	Income-tax paid by cheque	150

Problem 3: Prepare a Cash Book with Discount, Cash and Bank Column from the following transactions:

2003		Rs.
March 1	Cash in hand Rs. 5,000, Bank overdraft 1,000	
March 2	General Expenses paid	500
March 3	Deposited into Bank	2,000
March 7	Purchased goods from Hari on credit	4,000
March 8	Drew from Bank for personal use	100
March 10	Paid to Hari in full settlement	3,500
March 15	Recovered from Ravi, who owes Rs. 5,000, Rs. 2,000	

Problem 4: Prepare a Cash Book with Discount, Cash and Bank Column from the following transactions: -

2002	
January 1	Cash in hand Rs. 1,600 and at Bank Rs. 10,000
5	Discounted a B/R for Rs. 15,000 at 2% through Bank.
7	Bought goods for cash Rs. 1,20 and for cheque Rs. 5,000
10	Purchased Computer for Rs. 6,000
14	Paid into Bank Rs. 4,000
18	Remesh who owed us Rs. 500 became bankrupt and paid us 50 paise in a rupee.
20	Received Rs. 1,000 from Manoj and allowed him discount Rs. 20.
23	Withdraw from Bank for office use Rs. 2,000
25	Goods sold for cash Rs. 1,000 and for cheque Rs. 9,000.

Problem 5: Enter the following transactions in a three column Cash Book:

2003		Rs.
January 1	Cash in hand	3,150

January 1	Cash at bank	91,400
January 2	Discounted a Bill of Rs. 1,000 at 1% through Bank	
January 5	Bought goods for Rs. 2,000 Paid cheque for them, discount allowed 1%	
January 15	Paid trade Expenses	120
January 16	Paid expenses	400
January 17	Paid Insurance charges	100
January 25	Sold goods for Rs. 12,50 Received cheque for them, discount allowed 1%	
January 28	Received cheque from John & Co.	6,000
January 30	Purchased 100 War Bonds for Rs. 100 each at Rs. 95 each and paid for them by cheque	

Problem 6: The transactions for the month of March 2002 of M/s Gupta & Co. are furnished here as under. You are required to enter the same in an appropriate Cash Book:

2002

March 1	Cash in hand Rs. 415 and Cash at Bank Rs. 2,530
March 2	Paid wages by cheque Rs. 950
March 5	Made cash purchases Rs. 150
March 15	Received Rs. 530 by cheque from Krishna and allowed him discount Rs. 20
March 16	Paid cheque to Mohan Rs. 400 in full settlement of his account 415
March 18	Cash sales amounted to Rs. 150
March 20	Bought furniture for Rs. 300 paid by cheque
March 22	Bank credited the account with Rs. 200 for interest
March 25	Received a cheque for Rs. 250 from Suresh and allowed him discount Rs. 10
March 30	Deposited cash into Bank Rs. 300

Problem 7: Prepare the two columns cashbook from the following transactions of Yogita:

1.1.97	Opening balance cash Rs. 150, overdraft at Bank Rs. 1,000
2.1.97	Cash received from sale of goods Rs. 3,000 which was deposited into bank on 4.1.97
6.1.97	Cash withdrew from Bank Rs. 500 for office use.
15.1.97	Paid office rent by cheque Rs. 200

Problem 8: Enter the following transactions in a three columns cash book and balance it:

1995		Rs.
February 1	Commenced business with Cash	20,000
February 2	Opened a Current Account in State Bank of India and deposited	16,000
February 2	Purchased goods and paid for these by cheque	3,200
February 5	Sold goods and received cheque	2,000
	Discount allowed	10
	Cash in hand	500

Problem 9: Enter the following in a three columns Cash Book:

2000		Rs.
July 1	Cash in hand	4,000
	Bank Overdraft	1,000
July 3	Received a cheque from Ramlal on account	290
	Allowed him discount	40

July 7	Ramlal's cheque deposited into bank	--
July 10	Withdrew from the bank for office use	800
July 12	Paid bills payable by cheque	600
July 15	B/R received from Mohan	
	Discounted with the bank, bank crediting the Current A/c with	2,400
July 20	Issued a cheque for petty cash	100
July 25	Paid to Rakesh by cheque and discount received (Rs. 30)	470
July 28	Cash Sales	900

Problem 10: Enter the following transactions in a two-column cashbook having cash and discount columns:

2000		Rs.
June 1	Cash in hand	8,900
June 3	Bought goods for cash	4,300
June 5	Paid for wages	4,100
June 7	Withdrew from bank for expenses	7,500
June 7	Cash paid to Yogesh	1,950
June 7	Discount allowed by Yogesh	50
June 10	Cash Sales	13,500
June 13	Received cash from Babu	3,900
	Allowed him discount	100
June 15	Purchased stationary from Prakash on credit	200
June 16	Paid for postage stamps	150
June 18	Amount introduced as capital	5,000
June 21	Received cash from Hitesh	7,840
	Allowed him discount	160
June 24	Paid cash for Traveling expenses	120
June 26	Amount paid into bank	2,500
June 27	Cash paid to Bansal	975
	Discount allowed by him	25
June 28	Credit purchases from Ahmed	3,800
June 30	Cash purchases	1,500
June 30	Paid Salaries	2,800

Problem 11: Compile a three columns cashbook from the following transactions –

2003		Rs.
January 1	Cash in hand	567
January 1	Cash at bank	12,675
January 2	Deposited into the Bank	500
January 5	Received from A and	790
	Allowed him discount	10
January 7	Purchased furniture for cash	250
January 8	Paid to B by cheque	745
	And received discount	5
January 13	Received from C by cheque and deposited into the Bank	500
January 15	Cash sales	785
	Deposited into Bank	1,000
January 17	Purchased a motor car and paid by cheque	5,240
January 19	Paid by cheque to D	367
	And received discount	3
January 22	Withdrew from Bank for office use	250

January 25	Purchased goods for cash	350
January 31	Paid Establishment Expenses through Bank	450
January 31	Paid Rent in cash	50

Problem 12: Prepare a Double Columns Cash Book with Discount and Bank Column –

2002	
January 1	Mr. Rahul commences business with Rs. 20,000 in cash
January 3	He pays Rs. 15,000 into Bank Current A/c
January 4	He receives cheques for Rs. 600 from Sanjay & Co. on account.
January 7	He pays into Bank Sanjay & Co.'s cheque for Rs. 600
January 10	He pays Usha Co. by cheque Rs. 330 and is allowed discount Rs. 20
January 12	Tanvi & Co. pays into his Bank A/c Rs. 400
January 13	He receives cheque for Rs. 450 from Harsh and allows him discount Rs. 35
January 15	He receives cash Rs. 75 and cheque Rs. 100 for Cash Sales.
January 20	He pays into Bank Rs. 1,000
January 22	He pays by cheque for cash purchases Rs. 275
January 25	He pays sundry Expenses in cash Rs. 50
January 26	He pays Ajay and Co. Rs. 375 in cash.
January 31	He pays office rent by cheque Rs. 200
January 31	He draws a cheque for personal use Rs. 250
January 31	He pays staff salaries by cheque Rs. 300
January 31	He draws a cheque for office use Rs. 400
January 31	He pays cash for stationery Rs. 25
January 31	He purchased goods for cash Rs. 125
January 31	He pays Ajay by cheque for commission Rs. 300
January 31	He gives cheque to Shakti for cash purchase of furniture for office Rs. 1,500
January 31	He receives cheque for commission Rs. 800 from Usha Co. and pays the same into Bank

B.R. Statement

Problems:-

Problem 1. From the following particulars prepare a Bank Reconciliation Statement as on 31st December 1990.

- (i) Balance as per Cash Book Rs. 5,800.
- (ii) Cheque issued but not presented for payment Rs. 2,000.
- (iii) Cheque sent for collection but not collected upto 31st December, 1990 Rs. 1,500.
- (iv) The Bank had wrongly debited the account of the firm by Rs. 200, which was rectified by them after 31st December.

Balance as per Pass Book is Rs. 6,100.

Problem 2. Janardan and Co. have bank account with two banks, viz., Dena Bank and Bank of India. On 31st December, 1988, his Cash Book (bank columns) shows balance of Rs. 5,000 with Dena Bank and overdraft of Rs. 2,250 with Bank of India. On further verification, the following facts were discovered:

- (a) A deposit of Rs. 1,500 made in Dena Bank on 20th December, 1988 has been entered in the column for Bank of India.
- (b) A withdrawal of Rs. 500 from Bank of India on 2nd November, 1988 has been entered in the column of Dena Bank.
- (c) Two cheque of Rs. 500 and Rs. 750 deposited in Dena Bank on 1st December, 1988 (and entered in the Bank of Indian column) have been dishonoured by the Bankers. The entries for dishonoured have been made in the Bank of India column.
- (d) Cheques were issued on 29th December 1988 on Dena Bank and Bank of India of Rs. 10,000 and Rs. 1,000 respectively. These have not been cashed till 31st December, 1988.
- (e) Incidental charges of Rs. 10 and Rs. 25 charged by Dena Bank and Bank of India respectively have not been entered in the books.
- (f) Dena Bank has credited an interest of Rs. 50 and Bank of India has charged interest of Rs. 275. These have not been recorded in the books.
- (g) The deposits of Rs. 5,000 and Rs. 3,500 made into Dena Bank and Bank of India respectively have not been credited to by them till 31st December, 1988.

Draw up the two Bank Reconciliation Statement.

Problem 3. From the following information, prepare a Bank Reconciliation Statement as at 31st December 1997 for Messrs New Steels Limited:

		Rs.
(i)	Bank overdraft as per cash book on 31st December 1997	2,45,900
(ii)	Interest debited by bank on 26th December 1997 but no advice received	
(iii)	Cheque issued before 31st December but not yet presented to bank	27,870
(iv)	Transport subsidy received from the State Government directly by the bank but not advised to the company	66,000
(v)	Draft deposited in the bank but not credited till 31st December	42,500
(vi)	Bills for collection credited by the bank till 31st December but no advice received by the company	13,500
(vii)	Amount wrongly debited to company account by the bank, for which no details are available.	83,600
		7,400

Problem 4. (Overdraft as per pass book): From the following particulars prepare a bank reconciliation statement of Alpha Engineering Co. as at 30th September, 1996.

(a) Overdraft on 30th September, 1996 as per bank pass book Rs. 13,095;
(b) Cheque deposited in bank not recorded in cash book Rs. 105;
(c) Cheque received and recorded in the bank column but not sent to bank for collection Rs. 1,015;
(d) *(i)* Several cheque were drawn in the end of September totaling Rs. 15,015. Of these cheques totaling Rs. 9,074 were cashed.
(ii) Similarly, several cheque totaling Rs. 9,400 were sent for collection. Of these cheque of the value of Rs. 1,500 were credited on 5th October 1996 and Rs. 2,050 were credited on 7th October 1996 the last being credited before 30th September 1996.
(e) On 11th September, 1996 the credit side of bank column of the cash book was cast Rs. 1,000 short and on 15th September, 1996 the credit balance of Rs. 2,600 was brought forward on 16th September, 1996 as debit balance of Rs. 2,600.
(f) Chamber of Commerce fee of Rs. 250 was paid by the bank but was not recorded in the cashbook.
(g) In the cashbook, a bank charge of Rs. 30 was recorded twice while another bank charge of Rs. 45 was not recorded at all.
(h) Interest of Rs.1,400 was charged by the bank but was not recorded in the cash book.

Problem 5.. On December 31, 1996 my cashbook showed bank overdraft of Rs. 49,350. On going through the Bank pass book for reconciling the balance. I find the following:

Out of cheques drawn on December 26, 1996 the bankers cashed those for Rs. 3,700 on January 2, 1997 and a crossed cheque for Rs. 750 given to Judy was returned by her and a bearer one was issued to her in lieu on January 1, 1997.

Cash and cheques amounting to Rs. 3,400 were deposited in bank on December 29, 1996 but cheques worth rs 1,300 were cleared by the bank on January 1, 1997 and one cheque for Rs. 250 was returned by them as dishonored on the latter date.

According to my standing orders, the bankers have, on December 31, 1996 paid Rs. 320 as interest to my creditors, paid quarterly premium on my policy account Rs. 160, and have paid a second call for Rs. 600 on shares held by me and lodged with the bankers for safe custody. They have also received Rs. 150 as dividend on my shares and recovered an insurance claim of rs, 800, their charges and commission on the above being Rs. 15. On receipt of information of the above transactions, I have passed necessary entries in my cash book on January 1, 1997.

My bankers seem to have given me a wrong credit for Rs. 500 paid in by me in No. 2 account and a wrong debit in respect of a cheque for Rs. 300 drawn against my No. 2 account.

Prepare a Reconciliation Statement as on December 31, 11996.

Problem 6. Following are the entries recorded in the Bank column of the Cash Book of Mr. X for the month ending on 31-3-1997.

CASH BOOK (bank column)

Date	Particulars	Rs.	Date	Particulars	Rs.
15-3-97	To Cash	36,000	1-3-97	By Balance b/d	40,000
20-3-97	To Roy	24,000	4-3-97	By John	2,000
22-3-97	To Kapoor	10,000	6-3-97	By Krishnan	400
31-3-97	To Balance c/d	7,640	15-3-97	By Kailash	240
			20-3-97	By Joshi	35,000
		77,640			77,640
				By Balance b/d	7,460

On 31-3-97 Mr. X received the Bank Statement. On perusal of the Statement Mr. X ascertained the following information:

(i) Cheque deposited but not credited by the bank Rs. 10,000.
(ii) Interest on securities collected by the bank but not recorded in cash book Rs. 1,080.
(iii) Credit transfer not recorded in the cash book Rs. 200.
(iv) Dividend collected by the bank directly but not recorded in the cash book Rs. 1,000.

(v) Cheques issued but not presented for payments Rs. 37,400.
(vi) Interest debited by the bank but not recorded in the cash book Rs. 1,000.
(vii) Bank charges not recorded in the cash book Rs. 340.

From the above information you are asked to prepare a Bank Reconciliation Statement to ascertain in the balance as per Bank Statement.

Problem 7. From the following particulars prepare a statement showing how the difference between the cash book balance and the pass book balance is reconciled:

	Rs.
Balance as per Pass Book (Cr.)	360
Balance as per Cash Book (Cr.)	480
Unpresented cheque	864
Uncredited cheques	156

In addition, you ascertain the following:
(a) A cheque for Rs. 120 paid to Shambhu has been entered erroneously in the cash column.
(b) The debit side of the cash book (bank column) has been undercast by Rs. 30.
(c) Bank charges of Rs. 48 have not been entered in the cash book.

Problem 8. On checking Ram's cash book with the Bank Statement of his overdraft current account for the month of November 1997 you find the following:
(a) Cash book showed an overdraft of Rs. 4,500.
(b) The payment side of the cash book had been undercast by Rs. 150.
(c) A cheque for Rs. 750 drawn on his Savings Deposit Account has been shown as drawn on Current A/c
(d) Cheques amounting to Rs. 7,000 drawn and entered in the cash book had not been presented.
(e) Cheque amounting to Rs. 6,000 sent to the bank for collection, though entered in the Cash book, had not been credited by the bank.
(f) Bank charges of Rs. 75 as per Bank Statement of Account had not been taken into the Cash-book.
(g) Dividends of the amount of Rs. 2,500 had been paid direct to the bank and not entered in the cash book.

You are requested to arrive at a balance as it would appear in the Bank Statement as on 30th November, 1997.

Problem 9. From the following particulars, prepare a Bank Reconciliation Statement as on 31st March 1997:
Bank balance as per Pass Book, overdraft Rs. 3,000.
(i) A cheque of Rs. 2,000 was credited in the Pass Book on 28.3.97, later dishonoured and was debited in the Pass Book on 1.4.97 only. There was no entry of this dishonoured cheque in the cash book within the date.
(ii) The bank collected Rs. 1,000 by way of interest and credited the amount but the same was not recorded in the cash book within 31st March 1997.
(iii) A cheque of Rs. 25,000 was lodged in the Bank on 31st March 1997 but the same was credited in the Pass Book only on 7th April 1997.
(iv) Of the cheque drawn 20th March 1997 for Rs. 8,000 a cheque of Rs. 2,000 was presented for payment on 7th April 1997.

Rectification of Errors

Problem 1. Rectify the following errors:

(a) Sales to X Rs. 2,000 posted to his account as Rs. 200.
(b) Sales to X Rs. 2,000 debited to his account as Rs. 200.
(c) Sales to X Rs. 2,000 credited to his account as Rs. 200.
(d) Sales to Y Rs. 5,600 posted to his account as Rs. 6,500.
(e) Purchases of Rs. 8,755 from X posted to his account as Rs. 5,578.
(f) Purchases of Rs. 6,580 from X posted to his account as Rs. 8,560.
(g) A credit purchase of furniture Rs. 9,000 from Z was posted as Rs. 900.
(h) A credit sale to Rajesh of Rs. 10,000 posted as Rs. 1,000.
(i) A cash sale to Amit of Rs. 10,000 posted as Rs. 1,000.

Problem 2. Rectify the following errors:

1. Sales to X Rs. 2,500 was recorded as Rs. 2,050.
2. Sales to X Rs. 2,040 was recorded as Rs. 2,400.
3. Wages paid Rs. 2,550 were recorded in the cash book as Rs. 2,500.

Problem 3. Rectify the following errors:

1. Sales to X Rs. 4,000 posted to Y's account.
2. Sales to X Rs. 4,000 debited to Y's account.
3. Sales to X Rs. 4,000 credited to Y's account.
4. Sales to X Rs. 4,000 debited to Y's account as Rs. 400.
5. Sales to X Rs. 4,000 credited to Y's account as Rs. 400.

Problem 4. Rectify the following errors:

1. Paid wages for the construction of office debited to wages account Rs. 4,500.
2. Paid cartage for the newly purchased furniture Rs. 210, posted to cartage account.
3. Paid Rs. 1,500 for the newly purchased table fan posted to purchase account.
4. Paid Rs. 500 for the installation of machinery debited to wages account.
5. Purchased machinery for Rs. 10,000 passed through the purchase book.
6. sold old furniture for Rs. 1,000 passed through the Sales book.

Problem 5. The following errors affecting the accounts for the year 2002 were detected in the books of Das & Co., Kolkata:

(i) Sales of old furniture or Rs. 5,000 was treated as sale of goods.
(ii) Rent of proprietor's residence Rs. 6,000 was debited to Rent Account.
(iii) Cash received from Rajesh Rs. 2,150 was credited to Brajesh.

Pass rectifying journal entries. State the nature of each of these mistakes.

Problem 6. Pass rectification entries for the following transactions:

(a) A builder's bill for Rs.14,600 for erection of a small shed was debited to Repair Account.
(b) Repairs to plant amounting to Rs. 1,900 had been charged to Plant and Machinery Account.
(c) Wages paid to the firm's workmen for making certain additions to machinery amounting to Rs. 1,340 were debited to Wages Account.
(d) A cheque for Rs. 7,500 received from S. Desai was credited to the account of R. Ram.
(e) sold to Z Rs. 475 have Goods to the value of Rs. 700 returned by X were included in closing stock, but no entry was made in the books.

(f) Goods costing Rs. 2,000 were purchased for various members of the staff and the cost was included in 'Purchases'. A similar amount was deducted from the salaries of the staff members concerned and the net payments to them debited to Salaries Account.
(g) A bill of exchange (received from Hari) for Rs. 13,000 had been returned by the Bank with whom it had been discounted, as dishonoured and had been credited to Bank Account and debited to Bills Receivable Account.
(h) Goods been wrongly entered in the Sales Journal as Rs. 745.

Problem 7. A book-keeper of a trading concern having failed to agree the trial balance opened a suspense account and entered the difference in trial balance. The following errors were subsequently discovered:

(a) Sales book was overcast by Rs.200.
(b) Purchased furniture Rs. 3,000 was passed through Purchases book and from there Furniture House account was posted as Rs. 300.
(c) Sold goods to Ram Manohar Rs. 55, was posted as Rs. 550.
(d) Purchases book overcast by Rs. 80
(e) Purchases return book was carried forward as Rs. 122 instead of Rs. 112.
(f) Sold goods Rs. 200, entered in the Sales book as Rs. 2,000.

You are required to find out the difference in the trial balance. Show suspense account. Pass necessary rectifying journal entries also.

BILLS OF EXCHANGE

Journal entries

Books of drawer (seller)

1	When goods sold on credit		
2	When bill accepted by accepter and return to drawer		
3	When bill realized on due date		
	When bill dishonored on due date		

Books of Accepter (purchaser)

1	When goods purchases on credit		
2	When bill accepted by accepter and return to drawer		
3	When bill realized on due date		
	When bill dishonoured on due date		

Problem 1. A sold goods to B for Rs. 10,000 on 1st January, 2003. A drew a bill upon him for three months for the amount. B accepted the bill and returned it to A. O the due date, the bill was paid. Pass necessary journal entries in the books of A and B.

Problem 2. Mohan owes Shyam Rs. 6,000 on 1st January, 2003. Mohan accepts a three-month bill for Rs. 5,900 being in full settlement of the claim. At its due date **the bill is dishonoured**. Nothing charges are paid by Shyam Rs. 50. Give journal entries in the books of Mohan.

Case 1st:- When bill discounted with Bank before due date

Books of drawer (seller)

1	When goods sold on credit		
2	When bill accepted by accepter and return to drawer		
3	When bill discounted		
4	On due date		
	When bill dishonoured on due date		

Case 2nd:- When bill endorse in favour of 3rd party

Books of drawer (seller)

1	When goods sold on credit		
2	When bill accepted by accepter and return to drawer		
3	When bill endorse to 3rd party		

4	On due date **When bill dishonoured on due date**		

Problem 3. On February 1, 2003, A drew a bill on B for two months for Rs. 12,000. B accepted the draft and returned it to A. A discounted the bill immediately with his bankers at 18% per annum. Pass necessary journal entries in the books of all the parties concerned.

Books of 3rd Party

1	When bill received from Drawer		
2	When bill realized on due date **When bill dishonoured on due date**		

Problem 4. A drew on B a bill on March 1, 2003 for two months for Rs. 7,000 which B accepted and returned to A. The bill is endorsed one month after the acceptance in favour of C. On the due date, the bill was honoured. Pass necessary journal entries in the books of all the parties concerned.

Case 3rd:- When bill sent of collection

Books of drawer (seller)

1	When goods sold on credit		
2	When bill accepted by accepter and return to drawer		
3	When bill sent for collection		
4	On due date		

	When bill dishonoured on due date		

Problem 5. A drew a bill on B for Rs. 5,000 payable two months after date. Immediately after its acceptance, A sent the bill to his banker for collection. On the due date bank collects the bill and sends the advise of collection after deducting Rs. 25 as collection charges. Pass journal entries in the books of all parties.

Problem 6. A bill for Rs. 4,500 is drawn by Ram Kumar & Co., on Shyam Nath & CO. and accepted by the latter payable at Central Bank of India. Show what journal entries would be passed in the books of both the parties under each of the following circumstances:

(i) If they are retained the bill till the due date and then realized it on maturity.
(ii) If they discounted it with their bankers, Bank of Baroda, for Rs. 4,380.
(iii) If they endorsed it over to their creditors, Mehtab & Co. in settlement of their debt Rs. 4,520.
(iv) If they are the same to their bankers for collection.

Re – new of bill

Books of drawer (seller)

1	When bill of exchange received		
2	Before due date Old bill will be canceled first		
3	If any cash received		
4	For interest		
5	For new bill of exchange		

Books of Accepter (purchaser)

1	When bill of exchange accepted		
2	Before due date Old bill will be canceled first		
3	If any cash paid		
4	For interest		
5	For new bill of exchange		

Problem 7. K having accepted a bill for Rs. 15,000 is unable to meet the same. Before the due date he requests L to receive Rs. 13,200 in cash and to draw on him a new bill or Rs. 2,000 for a further period of 2 months and cancel the old bill. L agrees to his proposal. Pass journal entries in the books of both the parties.

Rebate

Books of drawer (seller)

1	When bill of exchange received		
2	When bill realized on before due date		

Books of Accepter (purchaser)

1	When bill of exchange accepted		
2	When bill realized before due date		

Problem 8. On 1st January, 2003, A sells goods for Rs. 10,000 to B and draws a bill at three months for the amount. B accepts it and returns it to A. On 1st March, 2003, B retires his acceptance under rebate of 12% per annum. Record these transactions in the journal of A and B.

Insolvency of Party

Books of drawer (seller)

1	When bill of exchange received		
2	Before due date when party become insolvent bill will be canceled first		
3	If any cash received		
4	For interest		
5	For new bill of exchange		

Books of Accepter (purchaser)

1	When bill of exchange accepted		
2	Before due date Old bill will be canceled first		

3	If some amount received		
4	For interest		
5	For new bill of exchange		

Problem 9. Ajay purchased goods from Vijay for Rs. 2,000 on 1st January, 2003. He accepted a bill of exchange for the amount at 2 months drawn on him by Vijay on the same day. On 4th January, 2003, Vijay got the bill discounted with his bank at 18% per annum. At maturity, the bill was dishonoured, noting charges amounting to Rs. 15. However, Vijay agreed to receive a sum of Rs. 575 from Ajay in cash and two promissory notes – one at one month for Rs. 500 and the other at 3 months for Rs. 1,000 in full settlement. The first promissory note was duly honoured but the second promissory note was dishonoured due to Ajay's insolvency. Vijay could recover 30% of the amount due from him.

Show journal entries in the books of both the parties and Ajay's account in Vijay's ledger.

Problems: -

Problem 1: Pass journal entries in the books of Rakesh –

1) Rakesh's acceptance to Mukesh for Rs. 50,000 is discharged by immediate cash payment of Rs. 21,000 including interest of Rs. 1,000 and an acceptance of a bill for the balance.
2) Puneet's acceptance to Rakesh for Rs. 40,000, which was endorsed to Kamal, is dishonoured, Rs. 500 being paid as noting charges.
3) Suresh's acceptance to Rakesh for Rs. 90,000 is retired before its due date for Rs. 88,500

Problem 2: 'X' draws a bill on 'Y' for Rs. 20,000 on September 4, 2005 payable after 4 months. 'X' discounts the bill with the bank @ 12% on October 7. The bill is dishonoured on the due date. Pass the necessary journal entries in the books of X and Y if banks paid Rs. 300 as noting charges.

Problem 3: On 1st January 2003, A received Rs. 25,000 in cash and two bills for Rs. 45,000 and Rs. 30,000 for two months each from B, duly accepted by later, against sale proceeds. First bill was endorsed to C in settlement of his account Rs. 45,500 and second bill discounted from bank @ 12% p.a. on the date of acceptance of Bills. Both bills were dishonoured on due date. C has paid Rs. 100 and bank has paid Rs. 80 as noting charges. B paid Rs. 20,000 and noting charges in cash and accepted a new bill for balance at three months. The interest on balance @ 18% p.a. was paid in cash.
On the due date of new bill, B became insolvent and nothing is recovered from his estate. Give entries in the books of Drawer.

Problem 4: Sharma owes Gupta Rs. 4,20,000 on 1st January 2004. Sharma accepted a bill for 3 months for Rs. 4,00,000 in full settlement. On the same date Gupta discounted the bill from his Bank at 6% p.a. Before due date Sharma became bankrupt and Gupta receives first and final dividend of 20 paise in a rupee. Give journal in the books of Drawer. Also prepare Drawee's A/c in the books of Drawer.

Problem 5: 'X' sold goods for Rs. 10,000 to 'Y' on 1.1.2001 and drew upon him a bill for the same amount of three months. 'Y' accepted the bill and returns it to 'X'. On the same date 'X' discounted the bill with his bank at 10% p.a. The bill dishonoured on the due date and the bank paid Rs. 50 as noting charges. 'X' agreed to accept a sum of Rs. 5,300 in cash from 'Y' and agreed to draw two new bills on 'Y'. One for Rs. 3,000 for two months and the other for Rs. 2,000 for three months in full satisfaction of his claims. 'Y' accepted the bills and returned them to 'X'. 'X' endorsed the first bill to 'Z' and the same was duly paid on maturity. The second bill was dishonoured as 'Y' became insolvent and a dividend of 25 paise in the rupees was received from his estate. Pass journal entries in the book of 'X'.

Problem 6: On 10th July 2002, Rohan sold goods to Dhir for Rs. 10,000 and drew upon him a bill for 4 months, which was accepted by latter. On 13th August 2002, Rohan discounted the same at 12% per annum from his Bank. On due date Bills dishonoured and noting charges paid by bank Rs. 100. Another bill was accepted by Dhir in favour of Rohan at 1 month for Rs. 10,300 interest being included. The new bill also dishonoured due to insolvency of Dhir. Rohan recovered 30% from Dhir's estate as full and final settlement. Show entries in the books of Rohan.

Problem 7: On 1st July 2003 Anjana draws a bill on Ranjan for Rs. 10,000 payable 3 months due for goods sold of the same amount. Anjana gets the bill discounted with her bank on 4th August at a discount of 9% p.a. On due date bank returned the bill as dishonoured with noting charges of Rs. 50. Ranjan paid Rs. 2,050 in cash and requested to draw another bill, on him for the balance amount for 2 months with interest @ 12% p.a. which Anjana did. Before due date Ranjan became insolvent and his estate paid 40% as first and final installment.

Problem 8: Hari draws a three months bill on Krishana for Rs. 1,000 on 1st January 2001. Krishana accepts the bill and returns it to Hari who discounts it with his bankers at 5%.
On 15th March, Krishana not being able to meet the bill offers Hari Rs. 400 and asks him to draw on him another bill for 3 months for the balance plus interest at 5%. Hari agrees but before the second bill becomes due, Krishana becomes bankrupt and pays only 50% of the amount due to Hari.
Give Journal entries in the books of Hari.

Problem 9: On 15th April 2003 A agrees to draw on B, who is his debtor for Rs. 2,400 three bills of exchange No. 1 for Rs. 900 at one month. No. 2 for Rs. 800 at two months and No. 3 for Rs. 700 at 3 months. B accepts and returns these bills to A on 20th April 2003.
A endorsed the first bill to his creditor 'C' in full settlement of his claim of Rs. 920. He discounted the second bill on 22nd April for Rs. 792.
The first bill was met on maturity. The second bill was dishonoured, Rs. 10 being the Noting Charges. A agreed to draw on B a fourth bill for Rs. 825 at 3 months. The third and fourth bills were met on the due dates. Record the entries in the books of 'A'.

Problem 10: On 1st August 2002 Shruti sold goods to Palak fir Rs. 5,000 and drew upon her a bill at 4 months for the amount, which was accepted by the latter. On 4th August 2002, Shruti discounted the same at 8% p.a. from bank. On due date, Palak dishonoured the bill and noting charges paid by bank Rs. 50. Palak gave another bill to Shruti for Rs. 5,100 including interest. As Palak became insolvent, the second bill was also dishonoured on due date. Shruti could recover only 50% from the estate of Palak as full and final installment. Show the entries in the books of the drawer only.

DEPRECIATION, PROVISION AND RESERVE

1. **Meaning of Depreciation** – Depreciation is the persistent or regular fall in the value of a fixed asset either due to wear and tear in use, accident, passage of time, obsolescence or fall in its market price.

According to the American Institute of Certified Public Accountants, "Depreciation accounting is a system of accounting that aims to distribute cost or other basic value of tangible capital assets less salvage value, over the estimate or useful life of the unit, which may be a group of assets, is a systematic and rational manner. It is a process of allocation and not of valuation".

Depreciation of current assets takes place by valuing them for balance sheet purpose at the cost or market price, whichever is lower, e.g., valuation of stock.

2. **Factors of affecting the amount of Depreciation -**
   - **a)** Cost of an asset
   - **b)** Estimated scrap value/Residual value or Break-up value
   - **c)** Estimated useful life of the asset.

3. **Causes of Depreciation in the value of an asset -**
   - **a)** Physical wear and tear from use
   - **b)** Effluxion (passage) of time
   - **c)** Accidents
   - **d)** Fall in the demand of the asset
   - **e)** Obsolescence of the asset due to change in production techniques
   - **f)** Fall in market prices of the asset
   - **g)** Expiration of Legal rights
   - **h)** Physical deterioration from forces of nature like earthquake, flood, etc.

4. **Depreciation and Related Terms -**
   1) **Obsolescence** – When an asset becomes out of date or out of fashion earlier then what was foreseen, because of availability of a better or advanced product, model or a technique is called obsolescence.

   2) **Depletion** – This term is used in relation to natural resources or wasting assets. The value of these assets reduced as more and more or resources are extracted or removed out of these assets, e.g., coal mines, oil wells, etc.

   3) **Amortization** – It is the process of writing off the proportion of the cost of intangible assets such as goodwill, copyrights, patents, etc. It is same as that cost for recording depreciation of fixed assets.

5. **Need or Important Objects for Providing Depreciation -**
   - **a)** Matching of Costs and Revenue so as to ascertain the profit/loss correctly.
   - **b)** To Present "True and Fair View" of the financial position of the firm by showing assets at their proper value in the Balance Sheet.

Journal Entries:

Assets account

Deprecation account

PROBLEMS

Problem 1: The following balances appear in the books of Gupta Ltd.

Machinery Account as on 1.4.2005 = Rs. 8,00,000

Provision for Depreciation as on 1.4.2005 = Rs. 3,10,000

On 1.7.2005 machinery, which was purchased on 1.4.2002 for Rs. 1,20,000 was sold for Rs. 50,000 and on the same date another machinery was purchased for Rs. 32,000.

The firm charges depreciation @ 15% p.a. on original cost method and closes its books on 31st March every year. Prepare the 'Machinery A/c' and 'Provision for Depreciation A/c' for the year 2005-06.

Show your workings clearly. Also give the journal entries for the sale of machinery.

Problem 2: On 1st January 2004, M/s Atul and Bros. purchased 5 washing machines for Rs. 15,000 each. They sold on January 1, 2005 one machine for Rs. 12,500. They have decided to write off depreciation @ 10% on Straight Line Method. Prepare Washing Machine A/c and Disposal A/c and Provision for Depreciation A/c for two years. Accounts are closed on 31st December every year.

Problem 3: A firm on 1st January 1999, second-hand machinery for Rs. 36,000 and spent Rs. 4,000 on its installation.

On 1st July in same year, another machinery bought on 1st January 1999 was sold off for Rs. 12,000 and a fresh machine purchased for Rs. 64,000 on the same date. Depreciation is provided annually on 31st December@ 10% p.a. on the written down value method. Show Machine A/c from 1999 to 2001.

Problem 4: The following balance appear in the books of X Ltd. as on 1st April 2001:

Machinery Account = Rs. 5,00,000
Provision for Depreciation = Rs. 2,25,000

The machinery is depreciated at 10% p.a. on the fixed installment method. The accounting year being April-March. On 1st October 2001, machinery, which was purchased on 1st July 1998 for Rs. 1,00,000 was sold for Rs. 42,000 and on the same date a fresh machine was purchased for Rs. 2,00,000. Prepare the Machinery A/c and Provision for Depreciation A/c for the year 2001-02.

Problem 5: On 1.1.2000 X Ltd. purchased from Y Ltd. plant costing Rs. 4,00,000 on installment basis payable as follows:

On 1.1.2000	Rs. 1,00,000
On 1.7.2000	Rs. 1,00,000
On 1.1.2001	Rs. 1,00,000
On 1.1.2002	Rs. 1,00,000

The company spent Rs. 10,000 on transportation and installation of plant. It was decided to provide for depreciation on Straight Line Method. Useful life of the plant was estimated at 5 years. It was also estimated that at the end of useful life, realizable value of the plant would be Rs. 12,000 (gross) and dismantling cost of plant, to be paid by company was estimated at Rs. 2,000. The plant was destroyed by fire on 31.12.2002, and insurance company admitted an insurance claim Rs. 50,000. Prepare Plant A/c, Accumulated Depreciation A/c and Plant Disposal A/c assuming that the company closes its books on 31st December every year.

Problem 6: A firm purchased on 1st January 1998 certain Machinery for Rs. 5,82,000 and spent Rs. 18,000 on its erection. On 1st July, 1998, additional machinery costing Rs. 2,00,000 was purchased. On 1st July 2000, the machinery purchased on 1st January 1998 was auctioned for Rs. 2,86,000 and fresh machinery for Rs. 4,00,000 was purchased on same date. Depreciation was provided annually on 31st December at the rate of 10% on written down value method. Prepare Machinery A/c from 1998 to 2000.

Problem 7: “Astha” Engineering Works purchased a machine on 1st April 2001 for Rs. 1,80,000 and spent Rs. 20,000 on its installation.
On 1st January 2002, it purchased another machine for Rs. 2,40,000. On 1st July 2003, the machine purchased on 1st April 2001 was sold for Rs. 1,45,000. On 1st October 2003 another machine was purchased for Rs. 4,00,000
Prepare Machinery Account from 2001 to 2003 after charging depreciation @ 10% p.a. by diminishing balance method.
Accounts are closed on 31st December every year.

Problem 8: A company whose accounting year is the calendar year purchased on 1st April 1991 machinery costing Rs. 30,000. It further purchased machinery on 1st October 1991 costing Rs. 20,000 and on 1st July 1992 costing Rs. 10,000.
On 1st January 1993 one third of the machinery installed on 1st April 1991 became obsolete and was sold for Rs. 3,000.
Show how the machinery account would appear in the books of the company if depreciation is charged at 10% p.a. on written down value method.

Problem 9: A Maruti van was purchased on 1-1-2000n for Rs. 60,000 and Rs. 5,000 was spent on its repairs and registration. On 1-7-2001 another van was purchased for Rs. 70,000. On 1-1-2002 first van was purchased on 1-1-2002 was sold for Rs. 45,000 and a new van costing Rs. 1,70,000 was purchased on the same date. Show Maruti van account from 2000-2002 on the basis of straight-line method, if the rate of depreciation charged is 10% p.a. Assume that books are closed on 31st December every year.

Problem 10: On 1st October 1999, the ‘SAHARA Transport Company’ purchased a truck for Rs. 4,00,000. On 1st April 2001 this truck was involved in an accident and was completely destroyed and Rs. 3,00,000 were received from the Insurance Company in full settlement. On the same date another truck was purchased by the company for Rs. 5,00,000. The company writes off 20% depreciation p.a. on 'Written down value method' and closes its books on 31st December every year. Give the Truck Account from 1999 to 2001.

Problem 11: A company whose accounting year is calendar year purchased on 1st April 1998 machinery costing Rs. 30,000. It purchased further machinery on 1st October 1998 costing Rs. 20,000 and on 1st July 1999 costing Rs. 10,000. On 1st January 2000 one-third of the machinery installed on 1st April 1998 became obsolete and was sold for Rs. 3,000.
Show Machinery Account as it would appear in the books of the company if machinery was depreciated by diminishing balance method @ 10% p.a. What would be the balance of machinery account on 1st January 2001?

Problem 12: X Ltd. has imported a machine on 1st July 1987 for Rs. 1,28,000, paid customs duty and freight Rs. 64,000 and incurred erection charges Rs. 48,000. Another local machinery costing Rs. 80,000 was purchased on January 1, 1988. On 1st July 1989 a portion of the imported machinery (value one-third) got out of order and was sold for Rs. 27,840. Another machinery was purchased to replace the same for Rs. 40,000 on 1-7-1989. Depreciation being provided @ 20% p.a. on original cost of the machinery. Show Machinery A/c for 1987, 1988 and 1989 ending as on 31st December each year.

Problem 13: M/s Krishana Publication purchased machinery for Rs. 40,000 on 1-7-1998. Depreciation is provided @ 10% p.a. on diminishing balance method. On 31.10.2000 one-fourth of the machinery was found unsuitable and disposed off at Rs. 5,600. On the same date new machinery at cost of Rs. 15,000 was purchased. Write up the machinery account from 1998 to 2000. The accounts are closed on 31st December every year.

Problem 14: The following balances appear in the books of M/s Kushwaha Sons:

January 1, 1996	Machinery Account	Rs. 40,000
January 1, 1996	Provision for Depreciation	Rs. 18,000

On 1st January 1996 they decided to sell machinery for Rs. 4,350. This machine was purchased in January 1992 for Rs. 8,000.
You are required to prepare Machinery Account and the Provision for Depreciation A/c on 31st December 1996. Assuming the firm has been charging depreciation at 10% p.a. on straight-line method.

Final Accounts

FINAL ACCOUNTS WITH ADJUSTMENTS AND METHODS OF PRESENTING FINAL ACCOUNTS

Meaning, Usefulness and Types of Financial Statements - After the agreement of the Trail Balance, a business enterprise proceeds to prepare financial statements. Financial statements are the statements which present periodic reports on the progress of a business enterprise and the results achieved during a given period.
Financial statements include – (i) Trading A/c, (ii) Profit and Loss Account, (iii) Balance Sheet and other statements and explanatory notes, which form part thereof.

Difference between Capital Expenditure and Revenue Expenditure:

Basis	**Capital Expenditure**	**Revenue Expenditure**
Nature	It is incurred for the acquisition or erection of a fixed asset, e.g., Cartage paid on purchase of plant.	It is incurred for the day-to-day running of the business, e.g., Manufacturing expenses, office expenses.
Purpose	It is incurred for the purpose of increasing the earning capacity of the business, e.g., Amount spent in the extension or improvement of fixed assets.	It is incurred for the maintenance of earning capacity, e.g., White washing of building.
Benefit	It provides benefit over a long period of time.	It provides benefit for one year only, e.g., Goods purchased for resale.
Posting	It is written in the balance sheet, e.g., Building, Machinery etc.	It is written in the trading or profit or loss account, e.g., Depreciation on fixed assets.

Direct Expenses: All those expenses that are incurred on purchase or production of goods are known as Direct Expenses. In other words, these are the expenses incurred before the goods become ready for sale. Such expenses are debited to the trading account.
Example –
1) Wages
2) Carriage inward or freight
3) Fuel and power and motive power
4) Import duty/Octroi/Customs
5) Consumable materials
6) Work Manager's Salary

Indirect Expenses: All those expenses, which are incurred after the goods have been manufactured, are known as indirect expenses. These expenses include office and administration expenses, selling and distribution expenses and other expenses not directly related to production.
Example –
1) Office Salaries
2) Rent, Rates and Taxes
3) Carriage Outwards
4) Discount allowed
5) Bad debts
6) Depreciation
7) Insurance
8) Goods lost by fire
9) Interest on loan

10) Interest on capital

Wages & Salaries and Salaries & Wages – Some accountants are of the opinion that whenever wages and salaries are given together they must be treated as wages only. (i.e., to be treated as direct expenses) therefore, it is to be debited to the Trading Account. It means preference to be given to the first word.
However, if salaries and wages is given it must be treated as salaries and therefore it is to be debited to the Profit and Loss Account.

Packing Charges – The primary packing that is necessary for the handling of a product should be treated as direct expenses and should be debited to the Trading Account.
When the packing is done to make the product attractive, it should be taken to the Profit and Loss Account.

Meaning, Need and Technique of Preparing the Trading Account – The Trading Account shows the results of buying and selling of goods during a given period. The basis for the preparation of the Trading Account is the matching of selling prices of goods and services with the cost of goods and services rendered. The need for preparation of the Trading Account is to known the gross loss as a result of buying and selling of goods during the accounting period.

Trading Account in the books of ………, for the year

Particulars	Rs	Particulars	Rs
To opening stock To Purchases Less: Purchase Return / Return Outward To all Direct Expenses - Wages - Carriage inward - Freight inward - All factory expenses - Power,Fuel,Gas,Water - Import duty - Expenses on purchases - Royalty on production - Manuf. Expenses To gross Profit transfer to Profit and Loss account		By Sales Less: Return / Return inward By closing Stock By gross Loss transfer to Profit and Loss account	

Profit & Loss account in the books of ………, for the year

Particulars	Rs	Particulars	Rs
To Gross Loss To all indirect expenses		By Gross Profit By all indirect income	

Balance sheet as on …….

Liabilities	Rs	Assets	Rs

Difference between Trading and Profit and Loss Account:

Basis	**Trading Account**	**Profit and Loss Account**
Net Result	Gross profit or Gross loss is the net result of preparing Trading A/c	Net profit or Net loss is the net result of preparing Profit and Loss A/c
Transfer of Balance	The Balance of this account is transferred to the Profit and Loss A/c	The Balance of this account is transferred to the Capital A/c
Contents	Sales and cost of goods sold are shown in this account	All Indirect Expenses, losses, incomes and gains are recorded in this account
Relation	It is a part of the Profit and Loss A/c	It is dependent on Trading A/c to know Gross Profit or Gross Loss.

PROBLEMS:

Problem 1: Calculate the value of opening stock from the following –

	Rs.		Rs.
Cash Sales	40,000	Credit Sales	1,65,000
Sales Returns (Out of Credit Sales)	5,000	Purchases	1,24,000
Purchase Return	4,000	Carriage Inwards	8,000
Closing Stock	36,000	Rate of Gross Profit	40% of Sales

Problem 2: The following is the trial balance of Mrs. S. S. on 31st December 2005.

Particulars	**Dr. Amount**	**Cr. Amount**
Cash in hand	1,080	--
Cash at bank	5,200	--
Purchases	81,350	--
Return outwards	--	1,000
Sales account	--	1,97,560
Return inwards	1,360	--
Wages	20,960	--
Fuel and Power	9,460	--
Carriage on Sales	6,400	--
Carriage on Purchases	4,080	--
Stock (1.1.2005)	11,520	--
Buildings	60,000	--
Freehold land	20,000	--
Machinery	40,000	--

Salaries	30,000	--
Patents	15,000	--
General expenses	6,000	--
Insurance	1,200	--
Capital	--	1,42,000
Drawings	10,490	--
Sundry Debtors	29,000	--
Sundry Creditors	--	12,600
	3,53,160	3,53,160

Prepare Trading and Profit and Loss Account and the Balance Sheet:

Problem 3: The following balances were extracted from books of Shri Krishan Kumar on 31st December 2004:

Ledger Accounts	Dr. Amount	Cr. Amount
Capital	--	24,500
Drawings	2,000	--
General Expenses	2,500	--
Buildings	115,00	--
Machinery	9,340	--
Stock (1.1.2004)	16,200	--
Power	2,240	--
Taxes & Insurance	1,315	--
Wages	7,200	--
Sundry Debtors	6,280	--
Sundry Creditors	--	2,500
Charity	105	--
Bad Debts	550	--
Bank Overdraft	--	11,180
Sales	--	65,360
Purchases	47,000	--
Scooter	2,000	--
Stationery Expenses	500	--
Bad Debts Provision	--	900
Commission	--	1,320
Trade Expenses	1,280	--
Bills Payable	--	3,850
Cash	100	--
	1,09,610	1,09,610

Problem 4: Prepare Trading and Profit & Loss Account for the year ended 31.12.2000 and Balance Sheet as at that date from the following trial balance of K. Roy:

Ledger Accounts	Dr. Amount	Cr. Amount
Capital	--	1,60,000
Drawings	45,000	--
Goodwill	90,000	--
Buildings	60,000	--
Machinery	40,000	--
Bills Receivable & Bills Payable	3,000	33,800
Debtors and Creditors	45,000	70,000
Returns inward and outward	2,000	2,650
Carriage inward	1,000	--

Carriage outward	500	--
Furniture	4,200	--
Wages	25,800	--
Salaries	35,000	--
Stock on 1.1.2000	40,000	--
Purchases and sales	51,000	2,18,000
Bad Debts	1,200	--
Rent	6,100	--
Cash in hand	25,400	--
General expenses	9,250	--
	4,84,450	4,84,450

Adjustments and Closing Entries:

Problem 1: From the following Trial Balance extracted from the books of M/s Bhushan & Sons, prepare a Trading and Profit & Loss Account for the year ended 30th September 1998 and a Balance Sheet as on that date –

Ledger Accounts	Dr. Amount	Cr. Amount
Bhushan's Capital	--	80,000
Bhushan's Drawings	6,480	--
Land & Buildings	25,000	--
Plant & Machinery	14,270	--
Furniture & Fixtures	1,250	--
Carriage inwards	4,370	--
Wages	21,470	--
Salaries	4,670	--
Provision for bad debts	--	2,470
Sales	--	91,230
Sales Returns	1,760	--
Bank charges	140	--
Coal, Gas and Water	720	--
Rates & Taxes	840	--
Discount	--	120
Purchase	42,160	--
Purchase Returns	--	8,460
Bills Receivable	1,270	--
Trade Expenses	1,990	--
Sundry debtors	37,800	--
Sundry creditors	--	12,170
Stock (1st October 1997)	26,420	--
Apprentice premium	--	500
Fire insurance	490	--
Cash at bank	13,000	--
Cash in hand	850	--
	2,04,950	2,04,950

Charges depreciation on Land and Building A/c at $2\frac{1}{2}$%, on Plant and Machinery A/c at 10% and on Furniture and Fixture A/c at 10%. Make a provision of 5% on sundry debtors for bad debts. Carry forward the following unexpired amounts:

1) Fire Insurance – Rs. 125
2) Rates and Taxes – Rs. 240

3) Apprentice premium – Rs. 400

Charges - 5% interest on capital and on Drawings Rs. 300, the value of stock as on 30th September 1998 was agreed at Rs. 29,390.

Problem 2: From the following ledger balances of Mr. Charan Singh, prepare a Trading and Profit and Loss Account for the year ended 31st March 2005 and a Balance Sheet as on that date after making the necessary adjustment:

Particular	Rs.	Particular	Rs.
Trade Expenses	800	Purchases	82,000
Freight and Duty	2,000	Stock on (1.4.2004)	15,000
Carriage Outward	500	Plant and Machinery (1.4.2004)	20,000
Sundry Debtors	20,600	Plant and Machinery (additional on	5,000
Furniture and Fixtures	5,000	1.10.2004)	6,000
Return Inwards	2,000	Drawings	80,000
Printing and Stationary	400	Capital	800
Rent, Rates and Taxes	4,600	Reserve for Doubtful Debts	1,600
Sundry Creditors	10,000	Rent for Premises Sublet	700
Sales	1,20,000	Insurance Charges	21,300
Return Outwards	1,000	Salaries and Wages	6,200
Postage and Telegraphs	800	Cash in hand	20,500
		Cash at bank	

Adjustments:

1) Stock on 31st March 2005 was Rs. 14,000
2) Write off Rs. 600 as bad debts
3) The reserve for doubtful debts is to be maintained @ 5%.
4) Prove for depreciation, furniture and fixtures at 5% p.a. and on plant and machinery at 20% p.a.
5) Insurance prepaid was Rs.
6) A fire occurred in the godown and stock of the value of Rs. 5,000 was destroyed. It was insured and insurance company admitted full claim.

Problem 3: (a) Sales during the year is Rs. 2,00,000. Gross profit is 25% on cost. Find out gross profit.

C. (b) Show the treatment of the following items in the Profit and Loss Account and Balance Sheet and also prepare provision for doubtful debts -

Trial Balance

Particulars	**Dr. Amount**	**Cr. Amount**
Debtors	40,300	--
Provision for Doubtful Debts	--	2,000
Bad Debts	700	--

Adjustments:

1) There was further bad debt of Rs. 300
2) Make a provision for doubtful debts @ 5%.
3) Create discount on debtors @ 2%.

Problem 4: The following is the trial balance of Mrs. S. S. on 31st December 2005.

Particulars	**Dr. Amount**	**Cr. Amount**
Cash in hand	1,080	--
Cash at bank	5,200	--
Purchases	81,350	--
Return outwards	--	1,000
Sales account	--	1,97,560

Return inwards	1,360	--
Wages	20,960	--
Fuel and Power	9,460	--
Carriage on Sales	6,400	--
Carriage on Purchases	4,080	--
Stock (1.1.2005)	11,520	--
Buildings	60,000	--
Freehold land	20,000	--
Machinery	40,000	--
Salaries	30,000	--
Patents	15,000	--
General expenses	6,000	--
Insurance	1,200	--
Capital	--	1,42,000
Drawings	10,490	--
Sundry Debtors	29,000	--
Sundry Creditors	--	12,600
	3,53,160	3,53,160

Taking into account the following adjustments, prepare Trading and Profit and Loss Account and the Balance Sheet:

1) Stock on hand on 31st December 2005 is Rs. 13,600
2) Machinery is to be depreciated at the rate of 10% and patents at the rate of 20%
3) Salaries for the month of December 2005 amount to Rs. 3,000 were unpaid
4) Insurance included a premium of Rs. 170 for next year.
5) Wages include a sum of Rs. 4,000, spent on the erection of cycle-shed for employees and customers
6) A provision for Bad and Doubtful debts is to be created to the extent of 5% on Sundry Debtors.

Problem 5: The following balances were extracted from books of Shri Krishan Kumar on 31st December 2004:

Ledger Accounts	Dr. Amount	Cr. Amount
Capital	--	24,500
Drawings	2,000	--
General Expenses	2,500	--
Buildings	115,00	--
Machinery	9,340	--
Stock (1.1.2004)	16,200	--
Power	2,240	--
Taxes & Insurance	1,315	--
Wages	7,200	--
Sundry Debtors	6,280	--
Sundry Creditors	--	2,500
Charity	105	--
Bad Debts	550	--
Bank Overdraft	--	11,180
Sales	--	65,360
Purchases	47,000	--
Scooter	2,000	--
Stationery Expenses	500	--
Bad Debts Provision	--	900
Commission	--	1,320
Trade Expenses	1,280	--

Bills Payable	--	3,850
Cash	100	--
	1,09,610	1,09,610

Adjustments:

1) Stock on 31st December 2005 was valued at Rs. 23,500
2) 1/5th of General Expenses and Taxes & Insurance to be charged to factory and balance to office.
3) Depreciate machinery at 10% and scooter by Rs. 240
4) Provide 700 for outstanding interest on Bank Overdraft
5) Prepaid Insurance is to the extent of Rs. 50
6) Write off further bad debts of Rs. 160 and maintain provision for bad debts at 5% on Debtors.

Problem 6: The following balances are taken from the books of Mr. Niranjan. You are required to prepare Trading A/c, Profit and Loss A/c and Balance Sheet for the year ending on 31.03.2004:

Ledger Account	Rs.	Ledger Account	Rs.
Capital	1,20,000	Drawings	21,000
Opening Stock	45,000	Plant and Machinery	24,000
Furniture	1,500	Purchases	2,95,000
Sales	4,35,000	Insurances	1,500
Purchase Return	4,000	Sales Return	7,000
Rent	5,000	Trade Expenses	2,000
Salaries	24,000	Wages	40,000
Bad Debts	1,000	6% Investments	50,000
Debtors	40,000	Sundry Creditors	19,000
Bad Debts Reserve	800	Cash	12,200
Advertisement Expenses	6,000	Miscellaneous Receipts	1,200
Patents	4,800		

Adjustments:

1) Closing Stock Rs. 75,000
2) Depreciate Machinery by 10% and Furniture by 20%
3) Wages Rs. 5,000 and Salaries Rs. 1,200 outstanding
4) Write off Rs. 500 as Bad Debts and create 5% Provision for Bad Debts. Also create a reserve for discount on Debtors @ 2%
5) Investments were made on 01-07-2003 and no interest has been received so far.

Problem 7: Calculate the value of closing stock from the following information

Purchase	Rs. 93,000	Wages	Rs. 20,000
Sales	Rs. 1,20,000	Carriage Outward	Rs. 3,200
Opening Stock	Rs. 16,000		

Rate of Gross Profit on cost 25%.

Problem 8: (a) What do you mean by Marshalling of Assets and Liabilities:]

D. (b) Calculate the amount of operating profit from the following balances:

Net Sales	Rs. 5,00,000
Cost of goods sold	Rs. 3,00,000
Operating Expenses	Rs. 1,20,000

Problem 9: The Trial Balance of M/s Taj & Co. as on 31st December 2002 was as follows:

Ledger Accounts	**Dr. Amount**	**Cr. Amount**
Purchases	1,62,505	--
Sales	--	2,52,400

Reserve for doubtful debts	--	5,200
Sundry Debtors	50,200	--
Sundry Creditors	--	30,526
Bills Payable	--	3,950
Opening Stock	26,725	--
Wages	23,137	--
Salaries	5,575	--
Furniture	7,250	--
Postage	4,226	--
Power and fuel	1,350	--
Trade Expenses	5,831	--
Bad Debts	525	--
Loan to Suraj @ 10% (Sep. 1, 2002)	3,000	--
Cash in hand and at Bank	10,000	--
Trade Expenses accrued not paid	--	700
Drawing Account	4,452	--
Capital Account	--	10,000
Outstanding Wages	--	2,000

Prepare Trading and Profit & Loss Account for the year December 2002 and Balance Sheet after considering following information:

1) Depreciation on furniture @ 10% to be charged
2) Debtors include an item of Rs. 500 due from a customer who has become insolvent.
3) Reserve for Bad Debts @ 5% on Sundry Debtors is to be maintained.
4) Goods valued Rs. 1,500 destroyed by fire and insurance company admitted a claim for Rs. 1,000
5) Stock on 31st December 2002 was Rs. 12,550.