Basics of Accounting

In this section, we will familiarize ourselves with the basics of Accounting. The main topics covered in this section include—Need for Accounting, Accounting Principles, Basic Terms used in Accounting and finally preparation of the various books of accounts viz. Journal, Ledger, Trial Balance, Trading and Profit and Loss Account and Balance Sheet.

Accounting Concepts

Every business organisation whether big or small carries out a number of transactions, such as sale of its products, purchase of raw materials etc. in its daily routine. One cannot memorize each and every transaction taking place in business. These have to be recorded somewhere. The books which almost every business organisation maintains for recording transactions are the Books of Accounts.

The usual format of any account is the T-form , which is as follows :

Dr. Cr.

Particulars	Amount	Particulars	Amount
.			

Left Side, is called as *Debit Side*, Right side, called as *Credit Side*,

Thus, a simple Cash Account showing inflow and outflow of cash will be as shown below:

Dr. ***Cash Account*** Cr.

Particulars (inflow)	Amount	Particulars (outflow)	Amount
Cash sales	6,000	Purchase of goods	6,000
.		.	

When you record a transaction on the Debit side, it is said that you have `debited` the account. Similarly, when you record a transaction on the Credit side, it is said that you have `credited` the account.

The Need For Accounting

Let us suppose you have a small book store. You have sold some books to your customer, say, X, who has given you the full amount in return. This is a transaction that took place between you and X. Now, suppose you deposit all the money received from X in the bank. This is another transaction, between you and the bank. You can very easily remember these transactions and need not write them anywhere.

But, what if there were a large number of customers, say 100 or even more and most of them have not given you the full amount due ? This is what really happens in a business. In such a case, you will have to memorize all the details regarding each and every customer i.e. details of the amount received from them, the amount due from them etc. which is nearly impossible for anybody.

So, what you can do is to prepare an account of each and every customer in order to record the details of the transactions with them. This means you have to prepare a large number of accounts i.e one account for each customer.

For example, suppose you have sold books worth Rs.100 to X and books worth Rs.1000 to Y. X has given you only Rs.50 and Y has given you Rs.750. To remember the balance due from X and Y, you can record these transactions by preparing X's Account, Y's Account as well as your own Cash Account. The 3 accounts will be as follows:

Dr. ***X's Account*** Cr.

Particulars (Incoming)	Amount	Particulars (Outgoing)	Amount
Books	100	Cash	50
		Balance due	50
	100		100

Table1

Dr. ***Y's Account*** Cr.

Particulars (Incoming)	Amount	Particulars (Outgoing)	Amount
Books	1000	Cash	750
		Balance due	250
	1,000		1,000

Table2

X has received books worth Rs.100, that is why books have been written on the left side i.e. incoming side. X has given only Rs.50 for books and the balance is due from him which he has to give later. So these are written on the right side i.e. outgoing side, as shown in Table1. Similarly, the account for Y is shown in Table2.

Dr. ***Cash Account*** Cr.

Particulars (Incoming)	Amount	Particulars (Outgoing)	Amount
Cash Sales(X)	50	Other expenditures	
Cash Sales(Y)	750		
.			

Table3

The same logic applies for Cash Account. The amounts received from X and Y are written on the left side whereas, cash expenses are written on the right side, as these are outflows.

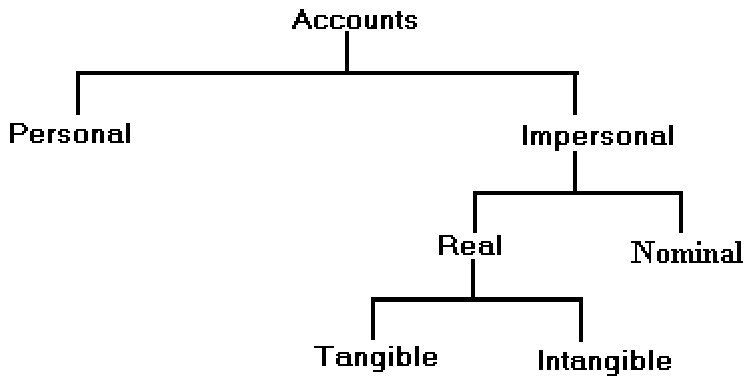
The real problem will arise when one has to prepare a very large number of accounts, considering the discount given to customers, the commission given to salesmen and such other things.

Moreover, there are not just customers with whom you have to have everyday transactions. There are the suppliers of raw materials, people who have given you loan etc. with whom you have to transact everyday. This means you have to prepare a separate account for each of these persons as well, and if this is so, you will end up with an interminable list of accounts which will be really difficult to maintain. The situation will be complicated further if your knowledge of accounting concepts is not quite adequate.

***Accounting* is the art of recording, classifying and summarizing transactions and interpreting the results thereof.**

To understanding accounting properly, it is necessary to know first, the different types of Accounts.

Classification of Accounts



Personal Accounts
These are the accounts which relate to persons, such as Customers Account, Suppliers Account etc. Personal accounts include both real accounts (Human beings) and artificial persons (Bank, Company etc)

Impersonal Accounts
Accounts which are not personal are called impersonal accounts. These can be further sub-divided into two categories : Real Accounts and Nominal Accounts.

Real Accounts
These can be tangible (i.e. can be touched and seen) or intangible (i.e. cannot be touched and seen). As a result they are further divided into:

1. Tangible Real Accounts. These accounts relate to things that can be touched, felt, measured etc. such as Cash Account.

2. Intangible Real Accounts. These accounts relate to things that cannot be touched but can be measured in terms of money, such as a Patents Account

Nominal Accounts
These accounts deal with expenses and losses, incomes and gains. They explain the nature of the transactions i.e. whether the particular transaction will result in an expense/loss or in an income/gain.

Rules of Debit (Dr.) and Credit (Cr.)

1. Personal Account

   Debit the receiver
   Credit the giver

2. Impersonal Account (Real Account/Assets Account)

   Debit what comes in
   Credit what goes out

3. Nominal Account

   Debit all expenses and losses
   Credit all incomes and gains

Accounting Principles

Accounting principles are the general rules which are used as guidelines in accounting and as the basis of practice. These principles can be classified into two categories :

1. Accounting Concepts
2. Accounting Conventions

Accounting Concepts

1. **Separate Entity Concept**
   Every business is a separate entity from the proprietor. Business and owners are distinct.

2. **Dual aspect Concept:** Every business
   Every business transation has two aspects – Debit. For example "Cash Received from Mr. Samtha Rs. 5000" has two aspects "Cash" – Real account and "Mr.Samtha" – Personal Account.

3. **Going Concern Concept**
   It is assumed that the business will exist for an indefinite period of time and transactions are recorded from this point of view.

4. **Money Measurement Concept**
   Those transactions and events are recorded in accounting only when they can be expressed in terms of money. Accounting records only financial character of the business

5. **Cost Concept**

   All transactions are to be recorded in the books of accounts at their *Cost Price* when purchased, not on *Market Price*.

6. **Matching Concept**

   At the end of the financial year all costs (expenses) of the organisation are to be matched against the revenues of the organization of the current year. Increments made by the business during a period can be measured only when the revenue earned during a period is compared with the expenses incurred for earning that revenue.

7. **Accounting Period Concept**

   Uniformity in accounting period should be maintained in order to provide for intra firm comparison. Performance of one year can be compared with other only when uniformity in accounting period is maintained.

8. **Accrual concept / Realisation Concept.**

   Transaction should be recorded on due basis. Expenses / Incomes are recognised and recorded on accrual basis. Actual receipt/payment is irrelevant for recognizing income/expense.

Accounting Conventions

1. **Materiality**
   An accountant should disclose all the material facts and should ignore insignificant details. Accounting records should consist only of such events as are significant from the point of view of income determination.

2. **Consistency**
   Accounting procedures or practices should remain the same(consistent) from one year to another.

3. **Conservatism**
   An accountant should be conservative and prudent. Profits are not to be expected and provision should be made to encounter losses. Valuing stock at *Cost Price* or *Market Price* whichever is lower, and creating provision for doubtful debts are the examples of applications of the principle of conservatism.

Basic Terms Used In Accounts

1. **Entry**
   Recording of a transaction in any book of accounting is called an *Entry*.

2. **Proprietor(Owner)**
   The person who invests his money in the business and bears all the risks connected with the business is called the *proprietor*.

3. **Capital**
   It means the amount invested by the proprietor in the business. For the business, *capital* is a liability towards the owner. It is an owner`s account i.e. a personal account.

4. **Assets**
   Economic resources owned by an entity which may or may not have realizable value. An expenditure will be classified as an asset when the benefit from which is yet to be enjoyed.

5. **Liabilities**
   The amount which the business owes and has to return to the outsiders is termed *Liabilities*.

6. **Debtor**
   A person who owes money to the business mostly on account of credit sales of goods

   For example, when goods are sold to a person on credit that person pays the price in future. He is called a *debtor* because he owes the amount to the organisation.

7. **Creditor**
   Any person who gives credit is a *creditor*. The proprietor gives money to the business so he is a *creditor* to the business. A *creditor* is a person to whom money is owed by the business organisation.

8. **Revenue or Income**
   It is the income of a recurring or non recurring nature from any source related/not related to business.

9. **Expense**
   It is the amount spent in order to produce and sell the goods and services which generate the revenue. For example, payment of salaries to bring some benefit to the business. *Expenses* can be of the following types :

   - **Revenue Expenditure or Expenses**
     When the benefit of an expense is not likely to be available for one year or less, it is treated as *revenue*.
     For example, salaries, wages, power and fuel, maintenance expenses of assets etc.

   - **Capital Expenditure**
     When the benefit of an expenditure is not exhausted in the year in which it was incurred but is available over a number of years, it is considered as *Capital Expenditure*. An example is the expenditure incurred for purchase of fixed assets.

- **Deferred Revenue Expense**
  When the benefit of a revenue expenditure continues for more than one year, it is treated as *Deferred Revenue Expense*. Such expenditure is not written off in one year but over a period of 2 or 3 years.

  For example, expenditure incurred on heavy advertisement.

Revenue Expenditure is a Nominal Account, since it is a current expenditure. Whereas capital expenditure is a Real Account, since it is used for buying fixed assets.

10. **Purchases**
    The term *purchase* is used only for the purchase of goods. Goods are those things which are purchased for resale or for producing the finished products which also are meant to be sold. Goods purchased for cash are called *Cash Purchases* whereas goods purchased on credit are called *Credit Purchases*. `*Purchases*` includes both cash and credit purchase of goods.

11. **Sales**
    The term *sale* is used for the sale of goods only. When goods are sold for cash, they are *Cash Sales* but if they are sold on credit it is referred to as *Credit Sales*. `*Sales*` include both cash and credit sales.

12. **Stock**
    The term *Stock* refers to goods lying unsold on a particular date. Stock is valued on the cost or market price whichever is less. It may be an opening or a closing stock.

    Opening stock means goods lying unsold in the beginning of the accounting year.

    Closing Stock means goods lying unsold at the end of the accounting period.

13. **Losses**
    Loss is something against which the business receives no benefit.

    For example, loss by theft, loss by fire etc.

14. **Drawings**
    It is the amount of money taken away by the proprietor for his personal use.

15. **Discount**
    When customers are allowed any deduction or allowance from an amount due, that is called *Discount*. Discount payable is an expense of the organisation where discount received is an income. Discount can be trade discount or cash discount.

    - **Trade Discount**
      When some discount is allowed in the prices of goods on the basis of sales of the items, it is called *Trade Discount*. Trade discounts are not recorded in the books of accounts.

    - **Cash Discount**
      When debtors are allowed some discount in the prices of the goods for quick payment, it is called *Cash Discount*

16. **Solvent**
    A person who is in a position to pay his debts as they become due.

17. **Insolvent**
    A person who is not in a position to pay his debts as they become due.

18. **Bad Debts**

When debtors fail to pay their dues either partially or completely and all hope of recovering the amount is lost, the amount owed by such debtors is termed as *bad debts* and it is a loss to the business.

19. **Reserve for Bad Debts/Provision for bad debts**
    A reserve from the profits of the business is created for bad and doubtful debts. It is created to meet any anticipated loss on account of bad debts.

20. **Wages**
    It is the remuneration paid to the labourers in a factory.

21. **Salary**
    It is the remuneration paid to the employees working in the administrative building.

22. **Profit**
    After paying all the possible expenses relating to the business viz. wages, salaries, rent, interest etc. the surplus amount that is left is called the *profit*. It is a gain and hence is a Nominal Account.

23. **Brokerage/Commission**
    This is an expense of the business. It is a Nominal Account.

Having defined the basic terms used in accounting, let us now understand how transactions are actually recorded in the books of accounts. The following section explains `**Journal**', which is commonly referred to as the primary book of accounts.

Journal

Usually in a business, transactions are to be debited and credited are recorded carefully in a systematic manner. The book in which the accounts are recorded in a systematic manner is called a *Journal*. The *Journal* is the primary book of accounts which contains transactions recorded in a chronological (day-to-day) order.

Recording transactions in a Journal is known as *journalising the transactions*.

Format of a Journal

Date	Particulars	L.F	Debit (Rs)	Credit (Rs)

As is clear from the format of a Journal, it contains 5 columns . These are explained below :

1. The first column is for **Date,** wherein the date of the transaction is written.

2. The second column is for the **Particulars** of the transaction, wherein the names of the accounts involved in the transactions are written in a logical manner.

   First the account to be debited is written with the words `*Dr.*` following it.
   In the next line, after leaving a little space, the name of the account to be credited is written preceded by the word `*To*`

   In the next line, the explanation of the entry together with details is written in brackets. This is called

Narration.

3. In the third column, **L.F** means *Ledger Folio*. It is the number of the page in the Ledger where the respective account will be entered.

4. The fourth column is named **Debit (Rs.)**. In this column the amounts to be debited to various accounts is entered.

5. The fifth column i.e. **Credit (Rs.)** is meant for entering the amounts to be credited to various accounts.

The following example will clarify the various columns of a Journal.

Example-1

Jay starts a business with a capital of Rs 50,000 on 1st Jan, 2001. This means that his company has Rs 50,000 cash, which is cash brought into the business. \`Cash\` is an asset. So Cash Account is a \`Real Account\`. The rule of *Dr.* and *Cr.* for a Real Account is :

Debit what comes in
Credit what goes out

Since cash is coming in, it will be debited i.e. Cash Account will be debited. Now, the second account involved in the example is the \`Capital Account\` (i.e. Jay's Capital Account). Capital account is a Personal account. The rules of *Dr.* and *Cr.* for Personal Accounts are :

Debit the receiver
Credit the giver

As the business is a separate entity (separate entity concept) and Jay is investing money in the business, Jay is the giver and the company is the receiver. So, in order to keep an account of his capital, Jay has to prepare his own account. Also that account is called Jay's Capital Account or simply Capital Account. Capital Account is a personal Account. So the Capital account is being credited in accordance to the rule : credit the giver. So, the journal entry for this example will be:

Date	Particulars	L.F	Dr.	Cr.
1st Jan '99	Cash Account Dr. To Capital Account (Being the amount invested by Jay in the business as Capital)		50,000	 50,000

Let us take another example.

Example-2

The following transactions took place in the business on a particular date :

1. A salary of Rs 5000 is paid.
2. Goods of Rs 500 purchased in cash.
3. Goods worth Rs 1000 purchased on credit from Rahul.
4. Sold goods to Ankur for Rs 4000.

Journalise the above transactions.

1. The accounts involved in this transaction are:

a. **Salary Account** : Salary is an expense for the business. So, Salary Account is a nomimal account. Rule of *Dr.* and *Cr.* for Nominal Account is :

Debit all expenses and losses.
Credit all incomes and gains.

So, Salary Account should be debited

Salary Account	Dr.

b. **Cash Account** : Cash is an asset. So, Cash Account is a Real Account. The rule for Real Account is :

Debit what comes in
Credit what goes out

Since cash is going out of the business in the form of salary, Cash Account should be credited.

Cash Account	Cr.

The journal entry for this transaction is:

Salary Account	Dr.
To Cash Account	

2. The accounts involved in this transaction are:
   a. **Purchases Account** : Goods are Purchased.

Purchase of goods is an expense, so Purchases Account is a Nominal Account. The rule for Nominal Account is :

Debit all expenses and losses
Credit all incomes and gains

Thus, we have to Debit Purchases Account.

Purchases Account	Dr.

Note that it is only in the case of goods relating to business that we Debit the Purchases Account. Purchase of anything other than goods in which the business deals is not debited to Purchase Account but to the respective accounts. For example, in case of purchase of furniture, we do not debit the Purchases Account but will debit the Furniture Account.

b. **Cash Account** : The second account being involved is the Cash Account. Since goods are purchased for cash, cash is going out of the business. Cash Account being a Real Account, the rules for Real Account apply :

Debit what comes in
Credit what goes out

So, Cash Account should be credited. The journal entry for this transaction will be:

Purchase Account	Dr.

To Cash Account

3. The Accounts involved in this transaction are :

   a. **Purchases Account** : Purchase is an expense. So Purchase Account should be debited (following the rules of Nominal Account)
   b. **Rahul`s Account** : Goods are purchased on credit from Rahul. Since Rahul is a person, Rahul`s account is a personal account. Also Rahul has given the goods. Therefore, following the rules of Personal Account,

Debit the receiver
Credit the giver

Rahul`s Account should be credited.

The journal entry for this transaction will be :

Purchase Account Dr.
To Rahul`s Account

4. The Accounts involved in this transaction are :

   a. **Sales Account** : Goods are sold to Ankur.

Sale of goods is income to the business. Being a source of income, Sales Account is a Nominal Account. The Rule for nominal Account is :

Debit all expenses/losses
Credit all incomes/gains

Therefore, Sales Account should be credited.

As in the case of Purchases Account, all the sales regarding goods, whether for cash or for credit are credited to Sales Account.

   b. **Ankur's Account** : Ankur received the goods. Ankur's account is a personal account and Ankur is the receiver of goods. So, Ankur Account should be debited following the rule,

Debit the receiver
Credit the giver

The journal entry will be:

Ankur'sAccount Dr.
To Sales Account

Let us write the Journal Entries in the proper format :

Journal Entries

Date	Particulars	L.F	Debit (Rs)	Credit (Rs)
1	Salary Account Dr. To Cash Account (being salary paid worth		5,000	5,000

	Rs 5000)			
2	Purchases Account Dr. To Cash Account (being goods purchased for cash)		500	500
3	Purchases Account Dr. To Rahul's Account (being goods purchased on credit from Rahul)		1,000	1,000
4	Ankur's Account Dr. To Sales Account (being goods sold to Ankur)		4,000	4,000

Let us take one more example.

Example-3
Journalise the following transactions that took place in the books of S&D Co. Ltd. for the month of July'2001:

July 1	Dev started business with cash Rs 70,000 .
July 2	He paid into bank Rs 20,000.
July 3	Purchased furniture for Rs 4000, machinery for Rs 10,000 and typewriter for Rs 5000 in cash.
July 5	Bought books (Books-1) for cash worth Rs 15,000. Details : 15 books @ Rs 1000 each Purchase Voucher No. 001[JUL-01]
July 6	Sold books for cash Rs 5000. Details : 5 Books @ Rs 1000 Sale Voucher No.001
July 7	Purchased books on credit from S & Co for Rs 8000 (Book-2) Details : 80 Books @ Rs 100 Purchase Voucher No. 002
July 8	Income earned from Investments Rs 8000.
July 9	Paid Electric charges by cheque Rs 2000.
July 10	Paid office rent in cash Rs 5000.
July11	Books worth Rs 1000 were found defective and returned to S& Co. The balance due to S & Co was paid by cheque in full settlement. Details : 10 Books @ Rs 100
July12	Sold Books on Credit to M/s. R & C0 for Rs 12,750 Details : 8 Books(Book-1) @ Rs 1125 : Rs 9000 25 Books(Book-2) @ Rs 150 : Rs 3750 Sale Voucher No. 002
July 13	Sold Books to Ramesh on Credit for Rs 2400. Details : 16 Books(Book-2) @ Rs 150 : Rs 2400 Sale Voucher No. 003.
July 14	Cash received from M/s R & Co. Rs 12,700, discount allowed to them Rs 50.
July 15	Cash deposited in Bank Rs 12,700.
July 16	Drew out of bank for personal use Rs 6000.
July 17	Bought goods worth Rs 3500 from Ram and sold them at Rs 4000 to Shyam. Details : Purchase 100 Books(Book-3) @ Rs 35 : 3500 Purchase Voucher No. 003 Sale 100 Books(Book-3) @ Rs 40 : 4000 Sale Voucher No.004
July 18	Books returned by Shyam worth Rs 1000 were sent back to Ram. Details : Books returned to company by Shyam. 25 Books(Book-3) @ Rs 40 : 1000 Books returned by Company to Ram 25 Books(Book-3) @ Rs35 : 875

July 19	Dividend received on shares Rs 7000.
July 20	Ramesh paid by cheque Rs 2200; the cheque was deposited in the bank.
July 21	Purchased goods from ABC Ltd Rs 4000 on credit Details : 40 Books(Book-4) @ Rs 100 Purchase Voucher No. 004.
July 22	Paid office expenses in Cash Rs 2000
July 23	Paid salaries to staff Rs 4000.
July 24	Cash received from Salesman Rs 3000 for goods sold by him, after deducting conveyance expense Rs 200 Details : 30 books (book-4) @ Rs 100 : 3000
July 25	Payment made to ABC Ltd. by cheque and they allowed discount Rs 100.
July 27	Rs 200 due from Ramesh are bad debts

Explanation for Journal Entries

S.No.	Account Name	Account Type	Rule	Explanation
1.	a.) Capital Account	P	Cr. the giver	Dev has invested his money in the business i.e. he is the giver, Credit his account. Capital Account is the owner's account.
	b.) Cash Account	R	Dr. what comes in	Cash is coming into the business. So Debit it.
2.	a.) Bank Account	P	Dr. the receiver	Money is deposited in bank, i.e. money is received by bank. So Debit it.
	b.) Cash Account	R	Cr. what goes out	Cash is deposited so Credit it.
3. (i)	a.) Furniture Account	R	Dr. what comes in	Furniture is purchased. So Debit it.
	b.) Cash Account	R	Cr. what goes out	Furniture being purchased for cash. Cash goes out. So Credit it.
(ii)	a.) Machinery Account	R	Dr. what comes in	Machinery being purchased. So Debit it.
	b.) Cash Account	R	Cr. what goes out	Cash goes out. So Credit it.
(iii)	a.) Type Writer Account	R	Dr. what comes in	Typewriter is purchased, Debit it.
	b.) Cash Account	R	Cr. what goes out	Cash goes out, Credit it.
4.	a.) Purchase Account	N	Dr. all expenses/losses	Purchase of goods loans. is an expense. So Debit it.
	b.) Cash Account	R	Cr. what goes out	Cash goes out. So Credit it.
5.	a.) Cash Account	R	Dr. what comes in	Cash is coming in on account of sale of goods. So Debit it.
	b.) Sales Account	N	Cr. all incomes/gains	Sale of goods is gains an income for the balance. Credit it.

6.	a.) Purchase Account b.) S&Co. Account	N P	Dr. all expenses/losses Cr. the giver	Purchase being an /losses Expenditure, Debit it. Goods given by S&Co on credit.
7.	a.) Election Charges Account b.) Bank Account	N P	Dr. all expenses/losses Cr. the giver	Electric charge being an expense. So debit it. Charges paid through cheque.
8.	a.) Office Rent Account b.) Cash Account	N R	Dr. all expenses/losses Cr. what goes out	Office Rent is an Expense. Rent paid through cash, cash goes out.
9.	a.) S&Co. Account b.) Purchase Return Account c.) Bank Account	P N P	Dr. the receiver Cr. all incomes/gains Cr. the giver	Cheque given to S&Co. on account of goods purchased from them. Goods purchased being returned. Reduction of expenses. Amount paid by the bank(cheque)
10.	a.) M/s R&Co. Account b.) Sales Account	P N	Dr. the receiver Cr. all incomes/gains	M/s R&Co received the goods on account of Credit Sales. Sale of goods is an income.
11.	a.) Ramesh Account b.) Sales Account	P N	Dr. the receiver Cr. all incomes/gains	Ramesh received the goods. Sale of goods is gains an income.
12.	a.) Cash Account b.) Discount Allowed Account c.) M/s R&Co. Account	R N P	Dr. what comes in Dr. all expenses/losses Cr. the giver	Cash received from M/s R&Co. Discount given to the customer is an expense. Cash given by M/s R&Co.
13.	a.) Bank Account b.) Cash Account	P R	Dr. the receiver Cr. what goes out	Cash deposited in bank Cash goes out.
14.	a.) Drawing Account b.) Bank Account	P P	Dr. the receiver Cr. the giver	Money withdrawn for personal use. Money withdrawn form bank.
15.	a.) Purchase Account b.) Ram Account a.) Shyam Account b.) Sales Account	N P P N	Dr. all expenses/losses Cr. the giver Dr. the receiver Cr. all incomes/gains	Money spent on purchasing goods is an expense. Goods purchased from Ram Goods sold to Shyam. Sale of goods is an income.
16. (i)	a.) Sales Return Account	N	Dr. all expenses/losses	Decrease in income due to

	b.) Shyam Account	P	Cr. the giver	return of goods. Shyam returned the goods.
(ii)	a.) Ram Account	P	Dr. the receiver	Goods retrned by Shyam returned to Ram.
	b.) Purchase Return Account	N	Cr. all incomes/gains	Increase in income due to purchase return.
17.	a.) Bank Account	P	Dr. the receiver	Cheque paid by Ramesh deposited in bank.
	b.) Ramesh Account	P	Cr. the giver	Cheque given by Ramesh.
18.	a.) Purchase Account	N	Dr. all expenses/losses	Purchase of goods - expense.
	b.) ABC Ltd. Account	P	Cr. the giver	Goods purchased from ABC Ltd.
19.	a.) Office Expenses	N	Dr. all expenses/losses	Payment of office expenses.
	b.) Cash Account	R	Cr. what goes out	Cash goes out.
20.	a.) Salary Account	N	Dr. all expenses/losses	Payment of Salaries.
	b.) Cash Account	R	Cr. what goes out	Cash goes out.
21.	a.) Cash Account	R	Dr. what comes in	Cash received from Salesman.
	b.) Conveyance Account	N	Dr. all expenses/losses	Conveyance Expense
	c.) Sales Account	N	Cr. all incomes/gains	Sale of goods is an income.
22.	a.) ABC Ltd. Account	P	Dr. the receiver	ABC Ltd. received cheque.
	b.) Bank Account	P	Cr. the giver	Payment through bank.
	c.) Discount Account	N	Cr. all incomes/gains	Discount given by ABC Ltd., gain to the business.
23.	a.) Bad debts Account	N	Dr. all expenses/losses	Bad debts are loss to the business.
	b.)Ramesh Account	P	Cr. the giver	Ramesh failed to give the amount due from him.

Journal Entries

Date	Particulars	L.F	Debit (Rs)	Credit (Rs)
1st July`01	Cash Account Dr. To Capital Account (being amount invested by Dev in business as capital)		70,000	70,000
2nd July`01	Bank Account Dr. To Cash Account (being the amount deposited in bank)		20,000	20,000
3rd July`01	Furniture Account Dr. To Cash Account (being furniture purchased for cash)		4,000	4,000

	Machinery Account Dr. To Cash Account (being machinery purchased for cash)		10,000	10,000
	Type WriterAccount Dr. To Cash Account (being type writer purchased for cash)		5,000	5,000
5th July' 01	Purchases Account Dr. To Cash Account (being goods purchased for cash)		15,000	15,000
6th July`01	Cash Account Dr. To Sales Account (being goods sold for cash)		5,000	5,000
7th July`01	Purchases Account Dr. To S&Co. Account (being goods purchased from S&Co on credit)		8,000	8,000
8th July`01	Cash Account Dr. To Investment Account (being income earned from investment)		8,000	8,000
9th July`01	Electric Charges Account Dr. To Bank Account (being electric charges paid by cheque)		2,000	2,000
10th July`01	Office Rent Account Dr. To Cash Account (being office rent paid in cash)		5,000	5,000
11th July`01	S&Co. Account Dr. To Purchase Return A.C To Bank Account (being the goods worth Rs 1000 returned to S&Co and balance being paid by cheque)		8,000	1,000 7,000
12th July`01	M/s R&Co. Account Dr. To Sales Account (being goods sold M/s R & Co on credit)		12,750	12,750
13th July`01	Ramesh Account Dr. To Sales Account (being goods sold to Ramesh)		2,400	2,400
14th July`01	Cash Account Dr. Discount Allowed Account Dr. To M/s R&Co. Account (being cash received from M/s R&Co.in full settlement after allowing them discount)		12,700 50	12,750
15th July`01	Bank Account Dr. To Cash Account (being cash deposited in bank)		12,700	12,700

16th July`01	Drawings Account Dr. To Bank Account (being amount drawn from the bank for personal use)		6,000	6,000
17th July`01	Purchases Account Dr. To Ram Account (being goods purchased from Ram)		3,500	3,500
17th July`01	Shyam Account Dr. To Sales Account (being goods sold to Shyam on credit)		4,000	4,000
18th July`01	Sales Return Account Dr. To Shyam Account (being goods returned by Shyam)		1,000	1,000
18th July`01	Ram Account Dr. To Purchase Return Account (being goods returned to Ram)		875	875
19th July`01	Cash Account Dr. To Dividend Account (being dividend received on shares)		7,000	7,000
20th July`01	Bank Account Dr. To Ramesh Account (being cheque received from Ramesh and deposited in Bank)		2,200	2,200
21st July`01	Purchases Account Dr. To ABC Ltd.Account (being goods purchased from ABC Ltd. on credit)		4,000	4,000
22nd July`01	Office Expenses Account Dr. To Cash Account (being office expenses paid in cash)		2,000	2,000
23rd July`01	Salary Account Dr. To Cash Account (being salary paid to staff)		4,000	4,000
24th July`01	Cash Account Dr. Conveyance Account Dr. To Sales Account (being cash received from Salesman after deducting conveyance expense)		2,800 200	3,000
25th July`01	ABC Ltd. Account Dr. To Bank Account To Discount Received Account (being amount paid by cheque to ABC Ltd.who allowed discount of Rs 100)		4,000	3,900 100
27th July`01	Bad debts Account Dr. To Ramesh Account		200	200

	(being bad debts written off)			

As you have seen, in a *Journal* each transaction is dealt separately. A *Journal* tells us the amounts to be \`debited\` and \`credited\` and also the accounts involved.

Since transactions are recorded in the *Journal* in the chronological order, i.e. on day-to-day basis, it may be possible that transactions relating to one account appear in different pages. But to know the exact position of an account, it is required that all the transactions relating to that account should be grouped together and shown under the particular account head.

For example, there may be a number of separate entries regarding purchases, sales, etc. in a *Journal*. If we want to know exactly how much purchases and sales took place during a particular period, then we have to look through all the pages of the Journal and it might be possible that we skip one or more entries regarding purchases and sales. So, it is always better to classify and group the entries relating to purchases at one place, that is, under \`Purchases Account\`, entries relating to sales under \`Sales Account\` and those relating to salaries under \`Salary Account\` etc. In this way it will really become easy to just look at any account and know the particulars of that account. This task is accomplished with the help of the Ledger, which is explained in the following section.

Ledger

The book which contains accounts is known as the *Ledger*. Transactions relating to a particular account for a given period are brought together and finally they are recorded at one place in a *Ledger*.

For example, cash transactions like Cash Sales, Cash Purchases, Cash Expenses etc. are put in one place in the *Ledger* under the Cash Account.

Transactions relating to different persons whether customers or suppliers, are recorded separately in their respective accounts in the *Ledger*. A *Ledger* is the most important book of accounts as it provides necessary information regarding various accounts.

Each Ledger account is divided into two equal parts :

a. Debit side

b. Credit side

The left-hand side is known as the Debit side and the right hand side as the Credit side. On each side there are columns for Date, Particulars, Journal Folio and Amount. The format of a Ledger Account is as follows :

Dr. Cr.

Date	Particulars	J.F.	Amount		Date	Particulars	J.F.	Amount
	Debit Entries					Credit Entries		

Transferring the entries from Journal to respective Ledger Accounts is known as **Posting of entries.**

How entries are posted in Ledger Accounts?

Each debit and credit entry is transferred from the Journal to their respective accounts in the Ledger. For example, consider the following journal entry:

Furniture Account Dr. 1000
To Cash Account 1000
(being furniture purchased for cash)

:

In the Furniture Account on the Dr. side, write `Cash Account` preceded by the word `To` inside the Particulars column. Write the amount under the Amount column.

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

Date	Particulars	J.F.	Amount		Date	Particulars	J.F.	Amount
	To Cash Account		1000					

Similarly, in Cash Account on the Cr. side, write `Furniture Account` preceded by the word `By` inside the Particulars column. Write the amount under the Amount column.

Dr. ***Cash Account*** Cr.

Date	Particulars	J.F.	Amount		Date	Particulars	J.F.	Amount
						By Furniture Account		1000

In every account, the total of both the sides should be same i.e. the total of Dr. should always be equal to the total of Cr.

Balance c/d and Balance b/d

Balance c/d (Balance carried down)
Balance carried down is usually the balancing figure in any account. Before closing an account both the sides (*Dr.* and *Cr.*) of that account should tally. The amount that is added to make the shorter side of any account equal to the other side is called balance carried down. It is in fact the closing balance of any account. To understand the concept of balance carried down, let us consider the Furniture Account and the Cash Account of the previous example. The two accounts have been reproduced as follows :

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

Date	Particulars	J.F.	Amount		Date	Particulars	J.F.	Amount
	To Cash Account		1,000			By Balance c/d		1,000
			1,000					1,000
	To Balance b/d		1,000					

Dr. **Cash Account** Cr.

Date	Particulars	J.F.	Amount		Date	Particulars	J.F.	Amount
	To Balance c/d		1,000			By Furniture Account		1,000
			1,000					1,000
						By Balance b/d		1,000

We have now understood the various aspects of preparing a Ledger. Let us now proceed to prepare a Ledger for all the accounts we dealt with in the example 3.

Accounts for Example-3

Dr. ***Capital Account*** Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
31st July	To Balance c/d		70,000	1st July	By Cash Account		70,000
			70,000				70,000
				1st August	By Balance b/d		70,000

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

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
3rd July	To Cash Account		4,000	31st July	By Balance c/d		4,000
			4,000				4,000
1st August	To Balance b/d		4,000				

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

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
3rd July	To Cash Account		10,000	31st July	By Balance c/d		10,000
			10,000				10,000
1st August	To Balance b/d		10,000				

Dr. ***Type Writer Account*** Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
3rd July	To Cash Account		5,000	31st July	By Balance c/d		5,000
			5,000				5,000
1st August	To Balance b/d		5,000				

Dr. ***Electric Charges Account*** Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
9th July	To Bank Account		2,000	31st July	By Balance c/d		2,000
			2,000				2,000
1st August	To Balance b/d		2,000				

Office Rent Account

Dr. Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
10th July	To Cash Account		5,000	31st July	By Balance c/d		5,000
			5,000				5,000
1st August	To Balance b/d		5,000				

Salary Account

Dr. Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
23rd July	To Cash Account		4,000	31st July	By Balance c/d		4,000
			4,000				4,000
1st August	To Balance b/d		4,000				

Conveyance Account

Dr. Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
24th July	To Sales Account		200	31st July	By Balance c/d		200
			200				200
1st August	To Balance b/d		200				

Bad Debts Account

Dr. Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
27th July	To Ramesh Account		200	31st July	By Balance c/d		200
			200				200
1st August	To Balance b/d		200				

Purchases Account

Dr. Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
5th July	To Cash Account		15,000	31st July	By Balance c/d		30,500
7th July	To S&Co. Account		8,000				
17th July	To Ram Account		3,500				
21st July	To ABC Ltd. Account		4,000				
			30,500				30,500
1st August	To Balance b/d		30,500				

Dr. ***Purchase Return Account*** Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
31st July	To Balance c/d		1,875	11th July	By S & Co.		1,000
				18th July	By Ram		875
			1,875				1,875
				1st August	To Balance b/d		1,875

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

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
31st July	To Balance c/d		27,150	6th July	By Cash Account		5,000
				12th July	By M/s R&Co Account		12,750
				13th July	By Ramesh Account		2,400
				17th July	By Shyam Account		4,000
				24th July	By Cash Account		2,800
				24th July	By Conveyance Account		200
			27,150				27,150
				1st August	To Balance b/d		27,150

Dr. ***S&Co. Account*** Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
11th July	To Purchase Return A.c		1,000	7th July	By Purchases A.C		8,000
11th July	To Bank Account		7,000				
			8,000				8,000

Dr. ***Sales Return Account*** Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
18th July	To Shyam Account		1,000	31st July	By Balance c/d		1,000
			1,000				1,000
1st August	To Balance b/d		1,000				

Dr. ***Cash Account*** Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
1st July	To Capital Account		70,000	2nd July	By Bank Account		20,000
6th July	To Sales Account		5,000	3rd July	By Furniture Account		4,000
8th July	To Investment Account		8,000	3rd July	By Machinery Account		10,000
14th July	To M/s R & Co		12,700	3rd July	By Type writer		5,000

	Account				Account		
19th July	To Dividend Account		7,000	5th July	By Purchases Account		15,000
24th July	To Sales Account		2,800	10th July	By Office Rent Account		5,000
				15th July	By Bank Account		12,700
				22nd July	By OfficeExpenses Account		2,000
				23rd July	By Salary Account		4,000
				31st July	By Balance c/d		27,800
			1,05,500				1,05,500
1st August	To Balance b/d		27,800				

Dr. ***Bank Account*** Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2nd July	To Cash Account		20,000	9th July	By Electric Charges Account		2,000
15th July	To Cash Account		12,700	11th July	By S&Co Account		7,000
20th July	To Ramesh Account		2,200	16th July	By Drawings Account		6,000
				25th July	By ABC Ltd. Account		3,900
				31st July	By Balance c/d		16,000
			34,900				34,900
1th August	To Balance b/d		16,000				

Dr. ***M/s R&Co. Account*** Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
12th July	To Sales Account		12,750	14th July	By Cash Account		12,700
				14th July	By Discount Allowed Account		50
			12,750				12,750

Ramesh Account

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
13th July	To Sales Account		2,400	20th July	By Bank Account		2,200
				27th July	By Bad Debts Account		200
			2,400				2,400

Dr. ***Shyam Account*** Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
17th July	To Sales Account		4,000	18th July	By Sales Return Account		1,000
				31st July	By Balance c/d		3,000
			4,000				4,000

1st August	To Balance b/d		3,000				

Dr. ***Ram's Account*** Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
18th July	To Purchase return		875	17th July	By Purchases		3,500
31st July	To Balance c/d		2,625				
			3,500				3,500
				1st August	To Balance b/d		2,625

Dr. ***ABC Ltd. Account*** Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
25th July	To Bank Account		3,900	21st July	By Purchases Account		4,000
25th July	To Discount Received Account		100				
			4,000				4,000

Dr. ***Drawing Account*** Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
16th July	To Bank Account		6,000	31st July	By Balance c/d		6,000
			6,000				6,000
1st August	To Balance b/d		6,000				

Dr. ***Discount Allowed Account*** Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
14th July	To M/s R&Co Account		50	31st July	By Balance c/d		50
			50				50
1st August	To Balance b/d		50				

Dr. ***Discount Received Account*** Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
31st July	To Balance b/d		100	25th July	By ABC Ltd. Account		100
			100				100
				1st August	By Balance b/d		100

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

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
22nd July	To Cash Account		2,000	31st July	By Balance c/d		2,000
			2,000				2,000
1st August	To Balance b/d		2,000				

Dr. ***Investment Account*** Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
31st July	To Balance c/d		8,000	8th July	By Cash		8,000
			8,000				8,000
				1st August	To Balance b/d		8,000

Dr. ***Dividend Account*** Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
31st July	To Balance c/d		7,000	19th July	By Cash		7,000
			7,000				7,000
				1st August	To Balance b/d		7,000

Trial Balance

The statement which is prepared to show separately the debit and the credit balances of the Ledger accounts on a particular date is known as the *Trial Balance*. Trial balance is prepared to check the arithmetical accuracy of recording the transactions.

It is a summary of the entire Ledger. It has two columns, one for Debit balances and another for Credit balances. The totals of the two columns must match. If the totals of the two columns do not match then there may be :

a. Some error in arithmetic calculations or,
b. you may have transferred the wrong amount or,
c. You may have forgotten to include an account altogether.

So *Trial Balance* helps you in finding out the possible errors at an early stage before preparing Final Accounts.

Format of Trial Balance

Trial Balance (as on.....)

Particulars	Debit Amount (Rs.)	Credit Amount (Rs.)

Why both sides (Dr. and Cr.) of a Trial Balance should match?
Trial Balance helps in locating errors in accounting work. It is based on the concept of Double Entry System. According to this system every transaction has two aspects and both the aspects are recorded. For example, on purchase of furniture, either the cash balance will reduce or a liability to the supplier will arise

match the Credit side.

Let us prepare the Trial Balance for S&D company of example 3, for the month of July:

Trial Balance (as on 31st July 2001)

Particulars	Debit Amount (Rs.)	Credit Amount (Rs.)
Capital Account		70,000
Furniture Account	4,000	
Machinery Account	10,000	
Type Writer Account	5,000	
Electric Charges Account	2,000	
Office Rent Account	5,000	
Office Expenses Account	2,000	
Salary Account	4,000	
Conveyance Account	200	
Bad Debts Account	200	
Purchases Account	30,500	
Purchases Return Account		1875
Sales Account		27,150
Sales Return Account	1000	
Cash Account	27,800	
Bank Account	16,000	
Ram Account		2,625
Shyam Account	3,000	
Dividend		7,000
Drawing Account	6,000	
Investment		8,000
Discount Allowed Account	50	
Discount Received Account		100
Total	1,16,750	1,16,750

Final Accounts

After preparing Trial Balance and being sure that books of Accounts are written in proper form and are arithmetically accurate, the owner of the business would like to know about the ultimate results of operating the business, that is,

1. How much profits were earned or losses were incurred during a particular period (generally one year)?.

2. What is the status of the business, that is, the position of various assets and liabilities at the end of a particular period (generally one year)?.

To ascertain the profit earned or loss incurred during an accounting year, a Profit and Loss Account (P & L A/c) is prepared which is also known as `Income Statement`. To ascertain the financial position of the business as on the last date of the accounting year, the `Balance Sheet` is prepared which is also known as the `position statement`.These two financial statements viz. Profit and Loss Account and Balance Sheet are termed as `Final Accounts`.

Before preparing Profit and Loss Account one more account called Trading Account is prepared. Usually, Trading Account is combined with the Profit and Loss Account and they are together termed as the `Income Statement`.

Trading Account

Trading Account is prepared to find out the Gross Profit/Gross Loss for the accounting period. This Gross Profit/Loss is then used to find out the Net Profit/Loss for that period.

Trading Account deals with the manufacturing expenses i.e expenses at the factory level. For example, purchase of raw material, wages, carriage inwards etc. All these expenses together with the opening stock (if any) are written on the debit side and all the sales together with the closing stock are written on the credit side of the *Trading Account*. The balancing figure is Gross Profit or Gross Loss, as the case may be.

Debit Side of Trading Account

Debit side of Trading Account consists of the following items :

1. **Opening Stock**
   This item is usually the first item. In the first year of a business there will be no opening stock. Opening stock may be the opening stock of :

   1. Finished Goods
   2. Raw Materials
   3. Work in progress (unfinished goods)

2. **Purchases**
   This refers to goods purchased for resale or purchase of raw materials and includes both cash and credit purchases. Purchases here are Net Purchases (i.e. Total Purchases-Purchase Return). Goods taken away by the owners of the business for personal use should also be deducted from the total purchases.

3. **Carriage of Freight Inwards**
   It is the cost of bringing the materials to the factory and making them available for use.

4. **Manufacturing Wages**
   These are the wages paid to the workers in factory.

5. **Power and Fuel**
   It is the cost of running the machines in the factory.

6. **Factory Lighting**
   Cost of electricity consumed for providing power for running the factory.

7. **Factory Rent and Rates**
   Rent paid for factory premises, municipal taxes, charges for water etc.

Credit side of Trading Account

1. **Sales**
   It is the Total Sales made during the year. If some goods have been returned by the cusomers then it should be deducted from the Total Sales i.e. only Net Sales(Total Sales- Sales Return) will come on the credit side of the Trading Account.

2. **Closing Stock**
   It refers to the: Finished Goods Raw Materials and Work-in-progress

Dr. **Trading Account for the year ended....**

Cr Particulars	Amount	Particulars	Amount
.... To Gross Profit		. By Gross Loss	

Gross Profit/Loss
If the total of credit side is more than the total of debit side, then the difference between the two sides is the *Gross Profit*. The *Gross Profit* will come on the debit side as it is the balancing figure.
Similarly, if the total of debit side is more than that of credit side, the balance i.e. *Gross Loss* will come on the credit side.

Having discussed the various items shown in the *Trading Account*, let us understand how atrading Account is prepared. For that consider the following example.
The following are the items from the Trial balance of an industrial firm :

Opening stock	:	Raw Materials	40,000
		Finished Goods	70,000
Purchases			1,80,000
Sales			3,50,000
Returns	:	Purchases	5,000
		Sales	3,000
Wages			65,000
Factory Expenses			45,000
Freight	:	Inwards	10,000
		Outwards	15,000

At the end of the concerned period, the stock-in-hand was:

Raw Materials	35,000
Work-in-progress	10,000
Finished Goods	55,000

Prepare Trading Account of the firm.

Dr. **Trading Account** Cr.

Particulars		Amt.	Particulars		Amt
To Opening stock			By Sales (3,50,000 - 3000)		3,47,000
Raw Material :	40,000		By Closing stock		
Finished Goods :	70,000		Raw Material :	35,000	
		1,10,000	Work-in-progress :	10,000	
To Purchases 1,80,000-5000		1,75,000	Finished goods :	55,000	1,00,000
To Wages		65,000			
To Factory Expenses		45,000			
To Freight Inwards		10,000			
To Gross Profit		42,000			
		4,47,000			4,47,000

Profit and Loss Account
Profit and Loss Account is prepared to calculate the Net Profit or Net Loss of the business for a given accounting period.

Profit and Loss Account is a Nominal Account, therefore following the rule of Nominal Account (`Debit all Expenses/Losses and Credit all Incomes/Gains`). Profit and Loss Account is debited with all the indirect expenses or losses which have not been included in the Trading Account. Whereas all the Incomes and gains are credited to it. Let us examine the various items that are debited or credited to the Profit and Loss Account

Indirect Expenses and losses
Indirect Expenses include all Administrative, Selling and Distribution expenses such as- Salaries, Rent and Taxes, Postage, Stationery, Insurance, Depreciation, Interest paid, Office Lighting, Advertising, Packing,

Carriage Outwards etc.
Losses include— Loss by fire, Loss by theft etc and other unavoidable losses.

Incomes and gains

Incomes may include— Discount received from suppliers, Income from investments, Dividend on shares, Commission etc.
Gains include any profit made on Sale of old assets, Miscellaneous revenue etc.
The Gross Profit from the Trading Account is credited to the Profit and Loss Account whereas the Gross Loss is debited to it. The Balancing figure of Profit and Loss Account can be Net Profit or Net **Loss.** If the total of credit side (incomes) is more than the total of debit side (expenses), that is, if incomes are in excess of expenses then there is Net Profit. On the other hand if debit side (expenses) is more than the credit side (incomes) then there is Net loss.

Net Profit/Loss is transferred and adjusted against the Capital Account in the Balance Sheet. Net Profit is added to the Capital Account whereas Net Loss is deducted from the Capital Account in the Balance sheet. Once the Trading and Profit and Loss accounts are prepared we can proceed to prepare the Balance Sheet which shows the position of various assets and liabilities as on a particular date.

Balance Sheet

Balance sheet is prepared only after the preparation of the Trading and Profit and Loss Account. It is prepared to ascertain the financial position of the business i.e. to know what the business owes and what it owns on a certain date. A *Balance sheet* is not an account but only a statement of assets and liabilities. On the left hand side, the liabilities of the business are shown whereas, on the right hand side the assets of the business are shown. The two sides of the *Balance Sheet* (i.e. Assets and Liabilities) must have the same totals. If it is not, then there is some error in the accounts. A *Balance Sheet* is prepared as on a particular date and not for a period.

The Form of Balance Sheet

Balance Sheet as on....

Liabilities		Assets	
Owner's funds Fixed or Long Term Liabilities Current or Short Term Liabilities		Fixed Assets Investments Current Assets	

Example-4
From the following Trial Balance, prepare a Trading & a P&L A/c for the year ending 31st Dec, 1998 and a Balance Sheet as on that date.

S.Drs	15,000	
Stock (1-1-98)	50,000	
Land & Building	1,00,000	
Capital		2,50,000
Rent		6000
Cash in hand	16,000	
Cash at bank	40,000	
Wages	30,000	70,000
S.Crs.		
B/R	20,000	
Interest	2000	
Bad debits	5000	
Repairs	3000	1,70,000
T.Sales (ABC)		40,000
B/P		
Furniture & fixtures	15,000	
Depreciation	10,000	
Rates & Taxes	8000	
Salaries	20,000	
Drawings	20,000	
Purchases	1,00,000	
Office expenses	25,000	
Plant & Mach	57,000	
Total	5,36,000	5,36,000

Dr. **Trading Account** Cr.

Particulars	Amount	Particulars	Amount
Opening Stock	50,000	Sales	1,70,000
Wages	30,000	Closing Stock	1,00,000
Purchases	1,00,000		
Gross Profit	90,000		
	2,70,000		2,70,000

Dr. **Profit and Loss Account for the year ending....** Cr.

Particulars	Amount	Particulars	Amount
To Interest	2,000	By Gross Profit	90,000
To Bad Debts	5,000	By Rent	6,000
To Repairs	3,000		
To Depreciation	10,000		
To Rates & Taxes	8,000		
To Salaries	20,000		
To Office expenses	25,000		
To Net Profit	23,000		
	96,000		96,000

Dr. **Balance Sheet as on....** Cr.

Liabilities		Amount	Assets	Amount
Capital	2,50,000		Sundry Debtors	15,000
Add Net Profit	23000		Land & Building	1,00,000
			Cash in Hand	16,000
	2,73,000		Cash at Bank	40,000
-Drawings	20,000	2,53,000	Bills Receivable	20,000
			Furniture & Fixture	15,000
Sundry Creditors		70,000	Plant &Machinery	57,000
Bills Payable		40,000	Closing Stock	1,00,000
		3,63,000		3,63,000

We took up the various books of accounts and learned how they are prepared manually. However, there are certain drawbacks in manual accounting. One has to be extremely cautious while recording and posting entries since every accounting transaction has dual impact. Missing out any aspect of a transaction will lead to differences in the figures shown by various accounts, which can further lead to troubles.This is the main drawback of manual accounting.

Problems on Journal entries.

1) Pass journal entries in the books of MIB.

1.1.2005	Anu commenced business with a capital of Rs. 50,000
2.1.2005	Bought goods for cash Rs. 7,000
3.1.2005	Deposited in HDFC bank to open a current account Rs. 10,000
4.1.2005	Sold goods for cash Rs. 2,000 and on credit to Ram Rs. 4,000
4.1.2005	Paid Rs. 800 as delivery charges on the above.
5.1.2005	Bought goods for cash Rs. 4,000 from KK and Rs. 6,000 on credit from Big B
5.1.2005	Paid PC Parcel Service for the above Rs. 300
6.1.2005	Bought furniture for cash Rs. 20,000 from Miss. Namrath
7.1.2005	Returned goods purchased for cash Rs. 200 and from Big B Rs. 500
	Signed Accommodation bills for Rs. 10,000 with Gopi
9.1.2005	Discounted the above bill @ 12 % for ½ month with HDFC bank
10.1.2005	Sold goods costing Rs. 4000 at Rs. 5000 to Bhargav on sale on approval basis
13.1.2005	Introduced further capital Rs. 10,000
14.1.2005	Withdrew from HDFC Rs. 3,000
14.1.2005	Goods returned by Ram Rs. 300 and others Rs. 100
15.1.2005	Purchased an old car for official use Rs. 3,000 and spent Rs. 2,000 on reconditioning
16.1.2005	Paid salary to employees Sri, Radhi, Empty and Jana - Rs. 750 each by cheque
17.1.2005	Settled Big B's account at a cash discount of 5%
18.1.2005	Electric charges paid out of bank a/c Rs. 345
19.1.2005	Ram settled his account and allowed him a cash discount of 6 %
20.1.2005	Paid fire insurance premium Rs. 750 to Sarath insurance co.
21.1.2005	Paid for accommodation bill
22.1.2005	HDFC bank charges Rs. 40 for services
23.1.2005	HDFC bank allowed interest on balance Rs. 25
24.1.2005	Gopi failed to honour his acceptance.
25.1.2005	Paid Rs. 19,500 in full settlement to Namrath
27.1.2005	Repairs to car Rs. 300 and petrol expenses Rs. 750

28.1.2005	Bhargav approved 80 % of sales and rest were rejected
29.1.2005	Bhargav settled his account by paying 98 % net.

2) Show journal entries in respect of the following transactions in the books of Murali.
   a. Started business with cash Rs. 15,000, goods worth Rs. 8,000, office equipment worth Rs. 7,000 and his private car worth Rs. 12,000 which will henceforth be used solely for business purposes
   b. Bought furniture worth Rs. 4,000 of which those worth Rs. 1,000 are for office purpose and balance for stock
   c. Purchased 3 motor cars worth Rs. 15,000 each from SV associates for stock
   d. Purchased 2 motor cars worth Rs. 8,000 each from Sherif for stock.
   e. Purchased for cash 1 motor car worth Rs. 7,000 for private use
   f. Returned motor cars worth Rs. 15,000 from stock and that worth Rs. 8,000 from business use to SV and Sherif
   g. Sold old office equipments for Rs. 4,000 (Cost Rs. 7,000; Book value Rs. 5,000)
   h. Sold household furniture for Rs. 2,000 and paid in to Business Bank A/C
   i. Paid Landlord Rs. 1,200 for rent. (½ of the premises used for Murali's residence)
   j. Sold some office equipments for Rs. 1,300 (Proceeds being received as Rs. 700 by cheque and balance in cash) and the cheque was paid into private bank A/C

3) Journalise the following transactions in the books of Remo & Co.
   a. Started business with cash Rs. 25,000, goods worth Rs. 20,000, Machinery worth Rs. 30,000 and Private investments in 10% Govt. Securities Rs. 10,000 (Face Value Rs. 12,000)
   b. Bought furniture worth Rs. 20,000 of which those worth Rs. 10,000 are for interior decoration and balance for resale
   c. Purchased 4 Sewing machines worth Rs. 10,000 each from Aswin for resale
   d. Purchased one Welding machine worth Rs. 20,000 for business use from Sona.
   e. Purchased for cash 1 motor car worth Rs. 7,000 for private use
   f. Sold 2 sewing machines for Rs. 12,000 each at a trade discount of 10 % of MRP
   g. Sold welding machine for Rs. 13,000 (depreciation up to the date of sale Rs. 2,000)
   h. Sold household furniture for Rs. 2,000 and paid in to Business Bank A/C
   i. Purchased goods Rs. 45,000 on credit from Neha.
   j. Of the goods purchased Rs. 5,000 was used for advertisement, Rs. 3,000 was taken for private use; Rs. 1,000 was given to employees on Diwali as bonus and Gift to Mrs. Heena Rs. 600 (His wife Mrs. Heena rendering part-time services in office)
   k. Collected six months interest on investments.
   l. Depreciation on Machinery Rs. 5,000