

ACCOUNTANCY

1. Introduction to Accounting

- Business - whether large or small - main aim is to earn profit
- The details of business transactions viz., purchase of goods, sale of goods, salary, rent, interest on bank deposits, etc. have to be recorded in a clear and systematic manner to get answers easily and accurately for the following questions at any time he likes viz., what has happened to his investment, what is the result of the business transactions, what are the earnings and expenses, how much amount is receivable from customers to whom the goods have been sold on credit, how much amount is payable to suppliers on account of credit purchases, what are the nature and value of assets possessed by the business concern, what are the nature and value of liabilities of the business concern.
- The above questions are answered with the help of accounting.
- The need for recording business transactions in a clear and systematic manner is the basis which gives rise to Book-keeping.
- Every Individual performs some kind of economic activity. e.g. salaried person gets salary and spends to buy provisions, clothing, children education, construction of house etc.. A sports club formed by a group of individuals, a business run by an individual / group of individuals, local authority like Calcutta Municipal Corporation / Delhi Development Authority etc. - all are carrying some kind of economic activities. Either for individual benefit or for social benefit (public at large)
- Any such economic activities are performed through TRANSACTIONS AND EVENTS
- Transaction is used to mean a business, performance of an act, an agreement
- Event is used to mean a happening, as a consequence of transaction(s) i.e. result
- e.g. Sales = Rs.147000 Closing Stock = Rs.15000 Purchase = Rs.115000 Rent paid = Rs.5000
Surplus = 42000
Earning Rs.42000 is an event ; also closing stock is another event
Purchase / Sale / investment of money / paying rent etc. are transactions

2 BOOK- KEEPING

- Book-keeping is that branch of knowledge which tells us how to keep a record of business transactions.
- It is often routine and clerical in nature
- It is important to note that only those transactions related to business which can be expressed in terms of money are recorded.
- The activities of book-keeping include **Recording in the Journal, Posting to the Ledger, Balancing of Accounts**
- **DEFINITION :**
R.N. CARTER says : "Book-keeping is the science and art of correctly recording in the books of account all those business transactions that result in the transfer of money or money's worth".

- **OBJECTIVES :**

1. To have permanent record of all the business transactions
2. To keep records of income and expenses in such a way that the net profit or net loss may be calculated
3. To keep records of assets and liabilities in such a way that the financial position of the business may be ascertained.
4. To keep control on expenses with a view to minimize the same in order to maximize the profit
5. To know the names of the customers and the amount due from them
6. To know the names of the suppliers and the amount due to them
7. To have important information for legal and tax purposes

- **ADVANTAGES :**

1. **Permanent and Reliable Record** - for all business transactions - replacing the memory which fails to remember everything
2. **Arithmetical Accuracy of the Accounts** - Trial Balance can be easily prepared - to check the arithmetical accuracy of accounts
3. **Net Result of Business Operations** - Profit or loss - correctly calculated
4. **Ascertainment of Financial Position** - Not only P&L - full picture of his financial position on a particular date in a year, usually 31st March
5. **Ascertainment of Progress of Business** - compare statements with the previous year(s) - growth can be ascertained - THUS, BOOK KEEPING ENABLES A LONG RANGE PLANNING OF BUSINESS ACTIVITIES BESIDES SATISFYING THE SHORT TERM OBJECTIVE OF CALCULATION OF ANNUAL PROFIT OR LOSS
6. **Calculations of Dues** - for certain transactions payments may be made later - hence, the businessman has to know how much he has to pay others
7. **Control over Assets** - In the course of business, the proprietor acquires various assets like buildings, machines, furniture etc. and he has to keep a check over them and find out their values year after year
8. **Control over Borrowings** - Many businessmen borrow from banks and other sources. These loans are repayable. Like he must have a control over assets, he should have control over liabilities.
9. **Identifying Do's and Don'ts** - It enables the proprietor to make an intelligent and periodic analysis of various aspects of the business such as purchases, sales, expenditures and incomes - from such analysis, it will be possible to focus his attention on what should be done and what should not be done to enhance his profit earning capacity.
10. **Fixing the Selling Price** - In fixing the S.P., the businessmen have to consider many aspects of accounting information such as cost of production, cost of purchases & other expenses. Accounting information is essential in determining the S.P.
11. **Taxation** - Businessmen pay GST, Income Tax, etc. - the tax authorities require them to submit their accounts - for that purpose, businessmen have to record all their business transactions
12. **Management Decision Making** - Planning, Reviewing, Revising, Controlling, Decision Making functions of management are well aided by book-keeping records and reports.
13. **Legal Requirements** - Claims against and for the firm in relation to outsiders can be confirmed and established by producing the records as evidence in the Court.

3. **ACCOUNTING**

- Book Keeping does not present a clear financial picture of the statement of affairs of a business
- For judging the financial position of the firm, the **information contained in these books of accounts has to be analysed and interpreted. Accounting is considered as a system which collects and processes financial information of a business. These information are reported to the users to enable them to make appropriate decisions.**
- **DEFINITION :**
American Accounting Association defines accounting as "the process of identifying, measuring and communicating economic information to permit informed judgements and decision by users of the information
- Accounting is simply an art of record keeping. The process of accounting starts by first identifying the events and transactions which are of financial character and then be recorded in the books of account. This recording is done in Journal or Subsidiary Books, also known as PRIMARY BOOKS.
- After the transactions and events are recorded, they are transferred to secondary books i.e. Ledger.
- **OBJECTIVES :**
 1. To maintain accounting records (Book Keeping - Journal, Ledger, Trial Balance)
 2. To calculate the result of operations (Manufacturing / Trading & Profit and Loss A/c)
 3. To ascertain the financial positions (Balance Sheet)
 4. To communicate the information to users (Financial Reports)
- **PROCESS :**
INPUT = Business Transactions (monetary value)
PROCESS = Identifying, Recording, Classifying, Summarising, Analysing, Interpreting & Communicating
OUTPUT = Information to users

IDENTIFYING - Identifying the business transactions from the source documents

RECORDING - Keep a systematic record of all business transactions which are identified in an orderly manner, soon after their occurrence in the journal or subsidiary books

CLASSIFYING - e.g. Ledger accounts, Trial Balance (T.B.)

SUMMARISING - From T.B., prepare P&L, Balance Sheet

ANALYSING - Identify the financial strength and weakness of the business

INTERPRETING - Explaining the meaning and significance of the relationship so established by the analysis. Interpretation should be useful to the users, so as to enable them to take correct decisions.

COMMUNICATING - The results obtained from the summarized, analysed and interpreted information are communicated to the interested parties.

- **ACCOUNTING CYCLE :**

An Accounting cycle is a complete sequence of accounting process that begins with the recording of business transactions and ends with the preparation of final accounts

TRANSACTION - JOURNAL - LEDGER - TRIAL BALANCE - TRADING ACCOUNT -
PROFIT & LOSS ACCOUNT - BALANCE SHEET (CLOSING)

i.e. the OPENING BALANCE SHEET OF THE NEXT YEAR

Thus, this cyclic movement of the transactions through the books of accounts (accounting cycle) is a continuous process.

4. **ACCOUNTANCY, ACCOUNTING AND BOOK-KEEPING :**

- **ACCOUNTANCY** refers to a systematic knowledge of accounting.
- It explains “who to do” and “how to do” of various aspects of accounting.
- It tells us why and how to prepare the books of accounts and how to summarise the accounting information and communicate it to the interested parties.
- **ACCOUNTING** refers to the actual process of preparing and presenting the accounts. In other words, it is the art of putting the academic knowledge of accountancy into practice
- **BOOK-KEEPING** is a part of ACCOUNTING and is concerned with record keeping or maintenance of books of accounts. It is often routine and clerical in nature.
- **RELATIONSHIP BETWEEN ACCOUNTANCY, ACCOUNTING AND BOOK-KEEPING**

Book-keeping provides the basis for accounting and it is COMPLEMENTARY to accounting process. ACCOUNTING begins where BOOK-KEEPING ends.

ACCOUNTANCY INCLUDES ACCOUNTING AND BOOK-KEEPING.

- Order is BOOK-KEEPING, ACCOUNTING and they are coming under ACCOUNTANCY
- **DIFFERENCE BETWEEN BOOK-KEEPING AND ACCOUNTING**
 1. Book keeping - Recording and maintenance of books of accounts
Accounting - It is not only recording and maintenance of books of accounts but also includes analysis, interpreting and communicating the information.
 2. Book keeping - Primary Stage
Accounting - Secondary Stage
 3. Book keeping - Objective is to maintain systematic records of business transactions
Accounting - Objective is to ascertain the net result of the business operation

4. Book keeping - It is often routine and clerical in nature
Accounting - Analytical and executive in nature
5. Book keeping - A book-keeper is responsible for recording business transactions
Accounting - An accountant is also responsible for the work of a book-keeper
6. Book keeping - The book-keeper does not supervise and check the work of an Accountant
Accounting - An accountant supervises and checks the work of the book-keeper
7. Book keeping - The work is done by the junior staff of the organization
Accounting - Senior staff performs the accounting work

- **OBJECTIVE OF ACCOUNTING**

The basic objective of accounting is to provide information which is useful for persons and groups inside and outside the organization

INTERNAL USERS :

Owners (to know the profitability and financial soundness of the business), Management (to take promote decisions to manage the business efficiently) , Employees (remuneration / bonus depends on the performance of the company), Trade Unions etc.

EXTERNAL USERS :

Individuals / Groups such as Creditors, Investors, Banks / Other Lending Institutions, Present and Potential Investors, Government, Tax Authorities, Regulatory Agencies, Researchers, etc.

- **BRANCHES OF ACCOUNTING**

Increased scale of business operations has made the management function more complex. This has given raise to specialized branches in accounting.

1. **FINANCIAL ACCOUNTING** :

It is concerned with recording of business transactions in the books of accounts in such a way that OPERATING RESULT of a particular period (P&L a/c) and financial position on a particular date (Balance Sheet) can be known.

2. **COST ACCOUNTING** :

It relates to collection, classification and ascertainment of the cost of production or job undertaken by the firm

3. **MANAGEMENT ACCOUNTING** :

It relates to the use of accounting data collected with the help of financial accounting and cost accounting for the purposes of policy formulation, planning, control and decision making by the management.

5. **BASIC ACCOUNTING TERMS**

1. Transactions :

Transactions are those activities of a business, which involve transfer of money or goods or services between two persons or two account.

e.g. Purchase of goods, Sale of goods, Borrowing from Banks, Lending of money, Salaries Paid, Rent Paid, Commission Received, Dividend Received, etc.

TRANSACTIONS ARE TWO TYPES - CASH TRANSACTION AND CREDIT TRANSACTION

CASH TRANSACTION : where cash receipt or payment is involved

e.g. Mr. X buys goods from Mr. Y paying the price of goods by cash immediately, it is a cash transaction.

CREDIT TRANSACTION : where cash is not involved immediately but will be paid / received later

e.g. Mr. X buys goods from Mr. Y does not pay cash immediately but promises to pay later

2. Proprietor :

A person who owns a business is called its proprietor. He contributes capital to the business with the intention of earning profit.

3. Capital :

It is the amount invested by the proprietor(s) in the business. The amounts of profits / amounts of additional capital introduced will increase the original capital introduced. Similarly, losses incurred / amounts withdrawn will decrease the original capital introduced.

4. Assets :

Assets are the properties of every description belonging to the business.

e.g. Cash in hand, Plant & Machinery, Furniture & Fittings, Bank Balance, Debtors, Bills Receivable, Stock of Goods, Investment, Goodwill, etc.

Assets can be classified into Tangible and Intangible

Tangible - those having physical existence; it can be seen & touched

e.g. cash, Plant & Machinery

Intangible - those assets having no physical existence but their possession gives rise to some rights and benefits to the owner. It cannot be seen and touched.

e.g. Goodwill, Patents, Trademarks etc.

5. Liabilities :

Liabilities refer to the financial obligation of the business. They denote the amounts which a business owes to others

e.g. loans from banks / other persons, creditors for goods supplies, bills payable, outstanding expenses, bank overdraft etc.

6. Drawings :

It is the amount of cash or value of goods withdrawn from the business by the proprietor for his personal use.

It is deducted from capital.

7. Debtors :

A person (individual or firm) who receives a benefit without giving money or money's worth immediately, but liable to pay in future or in due course of time is a DEBTOR.

The debtors are shown as an asset in the Balance Sheet.

e.g. Mr. A bought goods on credit from Mr. B for Rs.2 lakhs. Mr. A is a debtor to Mr. B till he pays the value of the goods.

8. Creditors :

A person who gives a benefit without receiving money or money's worth immediately but to claim in future, is a CREDITOR.

The creditors are shown as a liability in the Balance Sheet.

e.g. Mr. B is a creditor to Mr. A till he receives the value of the goods.

9. Purchases :

Purchases refers to the amount of goods bought by a business for resale or for use in the production.

Cash Purchase - goods purchased on cash

Credit Purchase - goods purchased on credit

TOTAL PURCHASES = CASH PURCHASES + CREDIT PURCHASES

10. Purchase Return or Return Outward :

When goods are returned to the suppliers due to defective quality or not as per the terms of purchase, it is called purchase return.

NET PURCHASES = PURCHASES - PURCHASE RETURN

11. Sales :

It refers to the amount of goods sold that are already bought or manufactured by the business.

Cash Sales - goods sold for cash

Credit sales - goods sold on credit i.e. payment is not received at the time of sale

TOTAL SALES = CASH SALES + CREDIT SALES

12. Sales Return or Return Inward :

When goods are returned from the customers due to defective quality or not as per the terms of sale, it is called sales return.

NET SALES = SALES - SALES RETURN

13. Stock :

Stock includes goods unsold on a particular date. Stock may be opening stock and closing stock.

Opening Stock - Goods unsold in the beginning of the accounting period

Closing Stock - Goods unsold at the end of accounting period

Closing Stock of this year is the opening stock of subsequent year.

14. Revenue:

It means the amount receivable or realized from sale of goods, earnings from interest / dividend, commission etc.

15. Expenses :

It is the amount spent in order to produce and sell the goods and services.

e.g. purchase of raw materials, payment of wages / salaries etc.

16. Income :

Income = Revenue – Expense

17. Voucher :

It is a written document in support of a transaction. It is a proof that a particular transaction has taken place for the value stated in the voucher. It may be in the form of cash receipt, invoice, cash memo, bank pay-in-slip etc.

Voucher is necessary to audit the accounts.

18. Invoice :

Invoice is a business document which is prepared when one shall goods to another.

The statement is prepared by the seller of the goods.

Name, Address of the seller & buyer, date of sale, clear description of goods with quantity and price

19. Receipt :

Receipt is an acknowledgement for cash received. It is issued to the party paying cash. Receipts form the basis for entries in cash book

20. Account :

It is a summary of relevant business transactions of one place relating to a person, asset, expense or revenue named in the heading.

An account is a brief history of financial transactions of a particular person or item.

An account has 2 sides i.e. Debit Side and Credit Side

CONCEPTUAL FRAME WORK OF ACCOUNTING

THREE FUNDAMENTAL ACCOUNTING ASSUMPTIONS :

1. GOING CONCERN
2. CONSISTENCY
3. ACCRUAL

IF THESE ASSUMPTIONS ARE FOLLOWED, NO DISCLOSURE IS ESSENTIAL. IF THESE ARE NOT FOLLOWED, SPECIFIC DISCLOSURE IS ESSENTIAL TO HIGHLIGHT THE DEVIATIONS.

- **Basic Assumptions (CONCEPTS) :**

1. **Accounting Entity Assumption** - Business is treated as a unit or entity apart from its owners, creditors and others.
The proprietor of a business concern is always considered to be separate and distinct from the business which he controls.
All business transactions are recorded in the books of accounts from the view point of business.
The proprietor is treated as a creditor to the extent of his capital

2. **Money Measurement Assumption**- In accounting, only those business transactions and events which are of financial nature are recorded.
e.g. When sales manager is not on good terms with production manager, the business is bound to suffer. This fact will not be recorded because it cannot be measured in terms of money.
3. **Accounting period Assumption** - Usually 1 year i.e. from 1st April to 31st Mar
4. **Going Concern Assumption** - the business will exist for a long period i.e. there is neither the intention nor the necessity to wind up the business in the foreseeable future
5. **ACCRUAL CONCEPT :**
Out of sale of Rs.60,000/- during the year, Rs.50000/- cash collected. Rs. 10,000/- is yet to collect. REVENUE is Rs.60000/-.
6. **Matching Concept** : Matching the revenues earned during an accounting period with the cost associated with the period to ascertain the result of the business concern.
It is the basis for finding accurate profit for a period which can be safely distributed to the owners.
7. **COST CONCEPT :**
Historical Cost
Assets are recorded at the price paid to acquire them and this cost is the basis for all the subsequent accounting for the asset.
e.g. if a piece of land is purchased for Rs.3 lakhs and the market value is Rs.5 lakhs at the time of preparing final accounts, the land value is recorded only for Rs.3 lakhs. Thus, the Balance Sheet does not indicate the price at which the asset could be sold for.
8. **REALISATION CONCEPT :**
Revenue is considered as the income earned on the date when it is realized. Unearned or Unrealised revenue should not be taken into account. It avoids possibility of inflating incomes and profits..

The realization concept is vital for determining income pertaining to an accounting period and it avoids the possibility of inflating incomes and profits.
9. **Dual aspect concept**- It is the basis for Double Entry system of book-keeping;. All business transactions recorded in accounts have 2 aspects i.e. receiving aspect and giving aspect.
e.g. For acquiring an asset, one aspect is receiving the asset (receiving of benefit) and the other aspect is paying cash for that (giving of benefits)

EQUITY + LIABILITIES = ASSETS

10. **Prudence (Conservatism) Principle** : It takes into consideration all prospective losses but leaves all prospective profits.
The essence of this principle is "anticipate no profit and provide all possible losses".
e.g. while valuing stock in trade, market price or cost price whichever is less is considered.
11. **Consistency Principle** : The aim is to preserve the comparability of financial statements.
The rules, practices, concepts and principles used in accounting should be continuously observed and applied year after year.
Comparisons of financial results of business among different accounting period can be significant and meaningful only when consistent practices were followed in ascertaining them.
e.g. Depreciation of assets - which method ? - to be followed regularly
12. **Materiality Principle** : It requires all relatively relevant information should be disclosed in the financial statements.
Unimportant and immaterial information are either left out or merged with other items.
13. **Full Disclosure Concept** : Accounting statements should disclose fully and completely all the significant information. Based on this, decision can be taken by various interested parties.
It involves proper classification and explanations of accounting information which are published in the financial statements.
14. **Verifiable and Objective Evidence Concept** : Each recorded business transactions in the books of accounts should have an adequate evidence to support it.
e.g. cash receipt is necessary for payments made
The documentary evidence of transactions should be free from any bias.
An accounting records are based on documentary evidence which are capable of verification, it is universally acceptable.
15. **Cost Benefit Principle** : The cost of applying a principle should not be more than the benefit derived from it.
If the cost is more than the benefit, that principle should be modified.

FINANCIAL STATEMENTS

- Aim of accounting is to keep systematic records to ascertain financial performance and financial position of an entity and to communicate the relevant financial information to the interested user groups.
- The financial statements are basic means through which the management of an entity makes public communication of the financial information along with the selected quantitative details.
e.g. Balance Sheet, Profit & Loss a/c, Cash Flow Statement etc.

CHARACTERISTICS OF FINANCIAL STATEMENTS

- Understandability
- Relevance - Relevant to the decision making needs of the users
- Reliability
- Comparability
- Materiality - Information is material if its misstatement (i.e. omission or erroneous statement) could influence the economic decisions of users taken on the basis of the financial information.
- Faithful Representation etc.

No.1 - Questions

1. The amount which the proprietor has invested in the business is
2. Book Keeping is an art of recording in the books of accounts
3. is a written document in support of transaction
4. Accounting begins where ends.
5. Liabilities refer to theobligations of a business
6. Owner of the business is called
7. Receipt is an acknowledgement for
8. Income is the difference between Revenue and
9. The debts owing to others by the business is known as
10. Assets minus liabilities is
11. Business transactions may be classified into and
12. Purchase return means goods returned to the suppliers due to

No.2 - Questions

1. Stock in trade are to be recorded at cost or market price whichever is less is based onprinciple
2. The assets are recorded in books of accounts in the cost of acquisition is based onconcept
3. The benefits to be derived from the accounting information should exceed its cost is based on Principle
4. Transactions between owner and business are recorded separately due toassumption
5. Business concern must prepare financial statements at least once in a year is based onassumption
6.principle requires that the same accounting method should be followed from one accounting period to the next.
7. Going concern assumption tell us the life of the business is
8. Cost incurred should be matched with the revenues of the particular period is based on
9. As per dual concept, every business transaction has

No.1 - Answers

Ans :

1. Capital
2. Business Transactions
3. Voucher
4. Book Keeping
5. Financial
6. Proprietor
7. Cash Received
8. Expense
9. Liabilities
10. Capital
11. Cash transaction and Credit transaction
12. Defective quality

No.2 - Answers

Ans.

1. Prudence
2. Historical cost
3. Cost benefit
4. Business entity
5. Accounting period
6. Consistency
7. very long
8. Matching concept
9. Two aspects

QUESTION AND ANSWERS

1. Which of the following is not a subfield of accounting ?

- a) Management Accounting
- b) Cost Accounting
- c) Financial Accounting

d) Book Keeping

2. Book Keeping is mainly concerned with

a) **Recording of Financial Data**

b) Designing the systems in recording, classifying, summarizing the recorded data

c) Interpreting the data for internal and external user

3. All the following are functions of Accounting except

a) Decision Making

b) Measurement

c) Forecasting

d) Ledger Posting

4. Financial Statements are part of

a) Accounting

b) Book Keeping

c) Management Accounting

5. Users of accounting information include

a) Creditors / Suppliers

b) Lenders

c) Customers

d) All of the above

6. On 1.1.2018, Mr. S paid rent of Rs.60,000/-. This can be classified as
- a) An Event
 - b) A Transaction**
 - c) A Transaction as well as an Event
 - d) Neither a Transaction nor an Event
7. On 31.3.2018, after sale of goods worth Rs.15000/-, he is left with the closing inventory of Rs.60,000/-. This is
- a) An Event**
 - b) A Transaction
 - c) A Transaction as well as an Event
 - d) Neither a Transaction nor an Event
8. All the following items are classified as fundamental accounting assumptions except
- a) Consistency
 - b) Business Entity**
 - c) Going Concern
 - d) Accrual
9. Two primary qualitative characteristics of financial statements are
- a) Understandability and Materiality
 - b) Relevance and Reliability**
 - c) Neutrality and Understandability
 - d) Materiality and Reliability
10. Capital brought in by the proprietor is an example of
- a) Increase in asset and increase in liability**
 - b) Increase in liability and decrease in asset
 - c) Increase in asset and decrease in liability
 - d) Increase in one asset and decrease in another asset

11. Assets are held in the business for the purpose of
- a) Resale
 - b) Conversion into cash
 - c) **Earning Revenue**
 - d) None of the above
12. The determination of expenses for an accounting period is based on the principle of
- a) Objectivity
 - b) Materiality
 - c) **Matching**
 - d) Periodicity

BASICS / FUNDAMENTALS / CONCEPTS / PRINCIPLES

Year 2009

1. Which of the following transactions are not recorded in Cash basis of Accounting
- Prepaid Expenses
 - Accrued Incomes
 - Depreciation on fixed assets
 - All of the above**

2. Objects of accounting

- Maintaining business records
- Ascertaining profit or loss and the financial position of an enterprise
- Assisting management in making reasoned decisions
- Providing information to users for analysis as per individual requirement

Options : a&b, b&c, a&d, **all of the above**

3. Book keeping is concerned with

- Summarizing the recorded transactions, interpreting them and communicating the results**
- Identifying financial transactions, measuring them in money terms, recording and classifying them**
- Maintaining systematic records of financial transactions
- Ascertaining net result of operations and financial position and communication information to the interested parties

Options : **a&b**, a&d, a&c, b&c

4. Accounting cycle involves the following activities

- Posting
- Balancing
- Preparation of P&L
- Entering into financial transactions
- Preparation of Balance Sheet

Which is the correct order combination of sequence of accounting cycle out of the following ?

Options : abcde, adbec, **dabce**, daceb

5. Name of convention that states "closing stock is valued at cost price or market price or lower of the two" is
- a) **Convention of conservatism**
 - b) Convention of consistency
 - c) Convention of full disclosure
 - d) None of the above
6. What is the basic input of accounting ?
- a) Sales to the party
 - b) Transaction of expenditure
 - c) **Financial transaction**
 - d) None of the above
7. Which of the following event will be recorded in accounting
- a) **Insurance claim received**
 - b) Providing letter of credit
 - c) Providing bank guarantee
 - d) None of the above
8. According to the "Cost Concept"
- a) **Assets are recorded at the value paid for acquiring it**
 - b) Assets are recorded by estimating the market value at the time of purchase
 - c) Assets are recorded at lower of cost or market value
 - d) None of the above
9. Which account shall be classified as Real Account according to traditional approach of classification of accounts
- a) Purchase account
 - b) **Land account**
 - c) Outstanding salary account
 - d) None of the above
10. Which of the following will not be recorded in the books of accounts
- a) Sale of goods
 - b) Payment of salary
 - c) **Quality of staff**
 - d) Expenses

11. According to the Going Concern Concept

a) Assets are recorded at cost and are depreciated over their useful life

b) Assets are valued at their market value at the year end and are recorded in the books of accounts

c) Assets are valued at their market value, recorded in the books and depreciation is charged on the market value

d) None of the above

12. Accounting gives information about

a) Total assets of the enterprise

b) Total contingent liabilities of the enterprise

c) Present market value of the enterprise

d) All of the above

13. Accounting is necessary

a) To record all the financial transactions

b) To ascertain the financial position of the enterprise

c) To provide useful information to user

d) All of the above

14. Vouchers are prepared on the basis of

a) Evidence

b) Options arising out of the discussions

c) Discussions

d) None of the above

15. According to the Money Measurement Concept

a) All transactions and events are recorded

b) All transactions and events which can be estimated in money terms are recorded in the books of accounts

c) All transactions and events which can be measured in money terms are recorded in the books of accounts

d) None of the above

16. Find the incorrect statement :

- a) Accounting principles are rigid and universally acceptable like those of physical sciences
- b) Accounting includes record keeping for preparation of final accounts
- c) Accounts generate information for management decision
- d) Accounting system provides support in measuring the social cost incurred and social benefit generated**

17. Under the Cash Basis of Accounting :

- a) It is not a reliable basis of accounting because only cash transactions are recorded and correct profit or loss cannot be ascertained under this basis
- b) This basis of accounting is simple because it does not require any technical knowledge
- c) This basis records both cash as well as credit transactions
- d) This system is not recognized under the Companies Act, 1956

Options : All of the above, a&b, **abd**, bd

18. Accounting enables the management to perform the functions of

- a) Planning
- b) Control
- c) Decision making
- d) All of the above**

19. Steps of accounting :

- a) Identifying, recording, classifying, summarizing and interpreting the financial transactions**
- b) Recording events and transactions of financial nature only
- c) Identifying, recording and analyzing the financial transactions
- d) Identifying, interpreting and recording the events and transactions.

20. According to "Business Entity Concept"

- a) Transactions between the business and its owners are not recorded
- b) Transactions between the business and its owners are recorded considering them to be a one single entity
- c) Transactions between the business and its owners are recorded from the business point of view**
- d) None of the above

21. Which of the following best describe the prudence principle
- a) All anticipated losses to be reported even before they occur**
 - b) Assets to be reported at the highest possible values
 - c) Profits to be reported at the highest possible values
 - d) Liabilities and expenses to be reported at the lowest possible value
22. The policy of “anticipate no profit and provide for all the possible losses” arises due to convention of
- a) Consistency
 - b) Disclosure
 - c) Conservatism**
 - d) Matching
23. According to accrual accounting, transactions and events are recorded in the books
- a) At the time when they are entered into**
 - b) At the time of their settlement in cash
 - c) Both (a) and (b)
 - d) None of the above
24. Revenue is generally recognized being earned at the point of time when
- a) Sale is effected**
 - b) Cash is received
 - c) Production is completed
 - d) Goods are delivered

DOUBLE ENTRY SYSTEM OF BOOK KEEPING

- Every business transaction affects two accounts
- Each transaction reveals 2 aspects i.e. Debit aspect and Credit aspect
- It is based upon accounting assumption concepts and principles
- Help in preparing trial balance which is a test of arithmetical accuracy in accounting
- Preparation of final accounts with the help of trial balance
- For every debit, there must be corresponding credit of equal amount
- Similarly, for every credit, there must be corresponding debit of equal amount
- $\text{Assets} = \text{Liabilities} + \text{Capital}$

- **CLASSIFICATION OF ACCOUNTS :**
 Three Categories :
 1. Transaction relating to Individuals and Firms (Personal Accounts)
 2. Transactions relating to properties, goods or cash (Real Accounts)
 3. Transactions relating to expenses or losses and incomes or gains (Nominal Accounts)
- Personal Accounts -
 - Natural Persons** e.g. Mohan a/c, Shyam a/c etc
 - Artificial (legal) Persons** - e.g. group of persons or firms or institutions HMT Limited, IOB, SBI, LIC, Cosmopolitan club etc.
 - Representative Persons** - represent a particular person or group of persons e.g. Outstanding Salary a/c, Prepaid Insurance a/c, Capital a/c, Drawings a/c

The proprietor being an individual, **his capital a/c and his drawings a/c** are also personal accounts.

Personal Accounts = Capital A/c, Drawings, Outstanding Salary (Personal Rep a/c), Indian Bank (Personal Legal Body a/c), Chandran, Senthil Lending Library etc.
- Impersonal Accounts -
 - Real Accounts** Accounts relating to properties and assets which are owned by the business concern.
 - Real Accounts include Tangible and Intangible Accounts
 e.g. Cash in hand, cash at bank, investment, fixed deposits, Land, Building, Goodwill, Purchases, sales, etc.

 - Nominal Accounts** They relate to incomes and expenses & gains and losses of business concern. The net result of all the nominal accounts is reflected as profit or loss which is transferred to the capital a/c. NOMINAL ACCOUNTS ARE THEREFORE TEMPORARY.
 e.g. Salary a/c, Dividend a/c , Rent, Advertisement etc.

- **Golden Rules of Accounting**

PERSONAL ACCOUNT - DEBIT THE RECEIVER
CREDIT THE GIVER

REAL ACCOUNT - DEBIT WHAT COMES IN
CREDIT WHAT GOES OUT

NOMINAL ACCOUNT - DEBIT ALL EXPENSES AND LOSSES
CREDIT ALL INCOMES AND GAINS

- Increases in assets are Debits ; Decreases are Credits
- Increases in liabilities are Credits ; Decreases are Debits
- Increases in Owner's Capital are Credits ; Decreases are Debits
- Increases in expenses are Debits ; Decreases are Credits
- Increases in Revenue or Incomes are Credits ; Decreases are Debits

1. **Journal**

The books in which a transaction is recorded for the first time from a source document are called

BOOKS OF ORIGINAL ENTRY OR PRIME ENTRY.

Journal is a books of original entry in which transactions are originally recorded in a chronological (day-to-day) order according to the Principles of Double Entry System.

Journal is a date-wise record of all the transactions with details of the accounts debited and credited and the amount of each transaction.

Format

Journal

Date	Particulars	L.F.	Debit Amount Rs.	Credit Amount Rs.

Narration : After each entry, a brief explanation of the transaction together with necessary details is given in the particulars column with in brackets called NARRATION.

Steps :

1. Determine the 2 accounts which are involved in the transaction.
 2. Classify the above 2 accounts under Personal, Real or Nominal
 3. Find out the rules of Debit and Credit for the above 2 accounts
 4. Identify which account is DEBITED and which account is CREDITED
 5. Record the date of transaction in the date column (sequence of the dates and months be strictly maintained)
 6. a/c Dr.
To
 7. Write the narration
2. Compound Journal Entry
 3. Bad Debts / Bad Debts Recovered
 4. **Advantages of Journal**
 - a) It reduces the possibility of errors
 - b) It provides an explanation of the transaction
 - c) It provides a chronological record of all transactions

Disadvantages :

- a) Too long if all transactions are recorded
- b) Difficult to ascertain the balance of each account

SOURCE DOCUMENTS

- **Cash Memo** : When a trader sells goods for cash, he gives a cash memo and when he purchases goods for cash, receives a cash memo. Details regarding the items, quantity, rate and price are mentioned in the cash memo
- **Invoice or Bill** : When a trader sells goods on credit, he prepares a sale invoice. It contains full details relating to the amount, the terms of payment and the name and address of the seller and buyer. The original copy of the sales invoice is sent to the purchaser and its duplicate copy is kept for making records in the books of accounts

Similarly, when a trader purchases goods on credit, he receives a credit bill from supplier of goods.

- **Receipt :** When a trader receives cash from a customer, he issues a receipt containing the date, the amount and the name of the customer. The original copy is handed over to the customer and the duplicate copy is kept for record.

Whenever we make payment, we obtain a receipt from the party to whom we make payment.

- **Debit Note :** A debit note is prepared by the buyer (purchaser) and it contains the date of the goods returned, name of the supplier, details of goods returned and reasons for returning the goods. On the basis of debit note, the **suppliers a/c** is debited in the book.
- **Credit Note :** A credit note is prepared by the seller (to the purchaser) and it contains the date on which the goods are returned, name of the customer, details of goods received back, amount of such goods and reasons for returning the goods. On the basis of credit note, the **customer's a/c** is credited in the books.
- **Pay-in-slip**
- **Cheque leaf / Cheque Book**
- **Vouchers :** A Voucher is a written document in support of a business transaction. Vouchers are prepared by an accountant and each voucher is counter signed by an authorized person of the organization.

No.1 - Questions

1. The incoming aspect of a transaction is calledand the outgoing aspect of a transaction is called
2. Impersonal accounts are classified intotypes
3. Plant and Machinery is an example ofaccount
4. Capital A/c is an example ofaccount
5. Commission received will be classified under Account
6. Murali a/c is an example fora/c
7. Goodwill is an example ofa/c
8. Outstanding rent a/c is an example fora/c
9. Nominal account is an impersonal a/c - True or False
10. Drawings a/c is a nominal a/c - True or False

No.1 - Answers

Ans.

1. Debit, Credit
2. Two
3. Real
4. Personal
5. Nominal
6. Personal
7. Intangible
8. Representative Personal a/c
9. True
10. False - correct is "Personal" a/c

No.2 - Questions

1. Capital of a business = Rs.20 lakhs
Other Liabilities = Rs. 5 lakhs
Calculate the total assets of the business
2. Total Assets of the business = Rs.36 lakhs
Outstanding liabilities = Rs.6 lakhs
Calculate the Capital of the business
3. The source document gives information about the nature of the
4. A transaction which increases the capital is called
5. The journal is a book of
6.account is debited for the amount not recovered from the customer.
7. The origin of a transaction is derived from

No.2 - Answers

Ans.

1. Rs.25 lakhs
2. Rs.30 lakhs
3. Transactions
4. Revenue or Income
5. Original Entry
6. Bad Debts
7. Source document

12. Journalise the following transactions in the books of Mr. T

- a) Received cash from Siva - Rs.75000
- b) Paid cash to sayeed - Rs.45000
- c) Bought goods for cash - Rs.27000
- d) Bought goods on credit from David - 48000
- e) Sold goods for cash - Rs.70000

No.4 - Questions

1. Ledger is the Principal book of Account - True or False
2. The process of transferring entries from Journal to the Ledger is called
3. c/d means
4. b/d means
5. c/f means
6. b/f means
7. Real Accounts cannot havebalance
8. L.F. column in the journal is filled at the time of
9. Ledger is a book of
10. The balances of personal and real accounts are shown in the
11. Journalise the following transactions in Mrs. Rani's journal and post them to ledger and balance them
 - a) Mrs. Rani started business with Rs.300000
 - b) Opened a current a/c with SBI Rs.50000
 - c) Bought goods from Mrs. Sumathi Rs.90000 (12.6.2016)
 - d) Paid to Mrs. Sumathi Rs.90000 (18.6.2016)
 - e) Sold goods to Mrs. Chitra Rs.126000 (20.6.2016)
 - f) Mrs. Chitra settled her account on 28.6.2016

No.4 - Answers

Ans. :

1. True - Principal Book of Account
2. Posting
3. Carried down
4. Brought down
5. Carried forward
6. Brought forward
7. Credit
8. Posting

9. Final entry

10. Balance Sheet

11. Journal Entries

- a) Cash a/c Dr. 300000
To Rani's Capital a/c 300000
- b) Bank a/c Dr. 50000
To Cash 50000
- c) Purchase a/c Dr. 90000
To Sumathi 90000
- d) Sumathi a/c Dr. 90000
To Cash 90000
- e) Chitra a/c Dr. 126000
To Sales 126000
- f) Cash a/c Dr. 126000
To Chitra 126000

CHOOSE THE CORRECT ANSWER :

- 1) The origin of a transaction is derived from the
- Source Document
 - Journal
 - Accounting Equation
- 2) Which of the following is correct ?
- Capital = Assets + Liabilities
 - Capital = Assets – Liabilities
 - Assets = Liabilities – Capital
- 3) Amount owned by the proprietor is called
- Assets
 - Liabilities
 - Capital
- 4) The Accounting Equation is connected with
- Assets Only
 - Liabilities Only
 - Assets, Liabilities and Capital

- 5) Goods Sold to Mr. S should be debited to
- Cash a/c
 - S a/c
 - Sales a/c
- 6) Purchased goods from Mr. V for cash should be credited to
- V a/c
 - Cash a/c
 - Purchases a/c
- 7) Withdrawals of cash from bank by the proprietor for office use should be credited to
- Drawings a/c
 - Bank a/c
 - Cash a/c
- 8) Purchased goods from Mr. M on credit should be credited to
- M a/c
 - Cash a/c
 - Purchases a/c
- 9) An entry is passed in the beginning of each current year is called
- Original entry
 - Final entry
 - Opening entry
- 10) The liabilities of a business are Rs.30000. The capital of the Proprietor is Rs.70000.
The total assets are
- 70000
 - 100000
 - 40000

Answer

1. A
2. B
3. C
4. C
5. B
6. B
7. B
8. A
9. C
10. B

QUESTION AND ANSWER

1. The rent paid to landlord is credited to
 - a) Landlord's a/c
 - b) Rent a/c

c) Cash a/c

- d) None of the above
2. In case of a debt becoming bad, the amount should be credited to

a) Trade receivable a/c (Sundry Debtors a/c)

- b) Bad Debts a/c
- c) Cash a/c
- d) Sales a/c
3. Which financial statement represents the accounting equation
ASSETS = LIABILITIES + OWNER'S EQUITY
 - a) Income Statement
 - b) Statement of Cash Flows

c) Balance Sheet

- d) None of the above
4. Which a/c is the odd one out ?
 - a) Office Furniture & Equipment
 - b) Freehold Land and Buildings

c) Inventory of Materials

- d) Plant and Machinery

5. The debts written off as bad, if recovered subsequently are

a) Credited to Bad Debts Recovered a/c

- b) Credited to Trade Receivables a/c
- c) Debited to Profit and Loss a/c
- d) None of the above

6. In Double Entry System of Book Keeping, every business transaction affects

a) Two accounts

- b) Two sides of the same account
- c) The same account on two different dates
- d) All of the above

7. A sale of goods to Ram for Cash should be debited to

a) Ram

b) Cash

- c) Sales
- d) Capital

8. A withdrawal of cash from business by the proprietor should be credited to

- a) Drawing a/c
- b) Capital a/c

c) Cash a/c

- d) Purchase a/c

LEDGER

In the journal, each transaction is dealt with separately. Therefore, it is not possible to know at a glance, the net result of many transactions.

So, in order to ascertain the net effect of all the transactions relating to a particular account are collected at one place in the LEDGER.

A Ledger is a book which contains all the accounts whether personal, real or nominal, which are first entered in journal or special purpose subsidiary books

A Ledger is a book which contains a classified and permanent record of all the transactions of a business.

Usually, it is a bound note book. This can be preserved for a long time.

Each account in the ledger is opened preferably on a separate page.

Ledger is a principal or main book which contains all the accounts in which the transactions recorded in the books of original entry are transferred. Ledger is also called the BOOK OF FINAL ENTRY OR BOOK OF SECONDARY ENTRY because the transactions are finally incorporated in the Ledger.

Format

Name of the Account

Dr.

Cr.

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
Year Month Date	To (Name of Credit A/c in Journal)			Year Month Date	By (Name of Debit A/c in Journal)		

- Each Ledger account is divided into 2 parts. The left hand side is Dr. (Debit Side) and right hand side is Cr. (Credit Side)
- The name of the account is mentioned on the top

Posting

- The process of transferring the entries recorded in the journal or subsidiary books to the respective accounts opened in the ledger is called POSTING

BALANCING AN ACCOUNT

- Balance is the difference between the total debits and the total credits of an account
Debit Balance
Credit Balance
NIL BALANCE (when equal) e.g. Purchased on credit Rs.50000/- after 2 months paid in full
- BALANCING PERSONAL ACCOUNTS : DEBTORS / CREDITORS
- BALANCING REAL ACCOUNTS : CASH ON HAND, VALUE OF ASSETS OWNED BY THE BUSINESS
- NOMINAL ACCOUNTS : DEBIT = EXPENSE OR LOSS
CREDIT = INCOME OR GAIN
- ALL SUCH BALANCES IN PERSONAL AND REAL ACCOUNTS ARE SHOWN IN THE BALANCE SHEET AND THE BALANCES IN NOMINAL ACCOUNTS ARE SHOWN IN PROFIT AND LOSS ACCOUNT

DIFFERENCE BETWEEN JOURNAL AND LEDGER :

BASIS OF DISTINCTION	JOURNAL	LEDGER
BOOK	It is the book of prime entry	It is the main book of account
STAGE	Recording of entries in these books is the first stage	Recording of entries in the ledger is the second stage
PROCESS	The process of recording entries in these books is called "Journalising"	The process of recording entries in the ledger is called "Posting"
TRANSACTIONS	Transactions relating to a person or property or expense are spread over	Transactions relating to a particular account are found together on a particular page
NET EFFECT	The final position of a particular account cannot be found	The final position of a particular account can be ascertained just at a glance
NEXT STAGE	Entries are transferred to the ledger	From the Ledger, first the Trial Balance is drawn and then final accounts are prepared
TAX AUTHORITIES	Do not rely upon these books	Rely on the ledger for assessment purpose

QUESTIONS

1. Ledger is thebook of account
2. The process of transferring entries from Journal to the Ledger is called
3. c/d means and b/d means
4. c/f means and c/f means
5. Debiting an account signifies recording the transactions on the side
6. The left hand side of an account is known as..... and the right hand side as
7. Credit balance means..... is heavier than
8. Real accounts cannot have Balance
9. Account having debit balance is closed by writing
10. L.F. column in the journal is filled at the time of

Ans.

1. Principal
2. Posting
3. Carried down Brought down
4. Carried forward Brought forward
5. Debit side
6. Debit side Credit side
7. Credit total Debit total
8. Credit
9. By Balance c/d
10. Posting

Choose the Correct Answer :

1. Ledger is a book of
 - a) Original Entry
 - b) Final entry / Secondary Entry
 - c) All cash transactions
2. Personal and Real Accounts are
 - a) Closed
 - b) Balanced
 - c) Closed and transferred
3. The column of ledger which links the entry with journal is
 - a) L.F. Column
 - b) J.F. column
 - c) Particulars column
4. Posting on the credit side of an account is written as
 - a) To
 - b) By
 - c) Being
5. Nominal account having credit balance represents
 - a) Income / gain
 - b) Expenses / losses
 - c) Assets
6. Nominal account having debit balance represents
 - a) Income / gain
 - b) Expenses / losses
 - c) Liability

7. Real accounts always show
 - a) Debit balances
 - b) Credit balances
 - c) Nil balance

8. Account having credit balance is closed by writing
 - a) To balance b/d
 - b) By balance c/d
 - c) To balance c/d

9. When the total of debits and credits are equal, it represents
 - a) Debit balance
 - b) Credit balance
 - c) Nil balance

10. The balances of personal and real accounts are shown in the
 - a) Profit and loss account
 - b) Balance sheet
 - c) Both

Ans. :

1. B
2. B
3. B
4. B
5. A
6. B
7. A
8. C
9. C
10. B

SUBSIDIARY BOOKS

- For a business having a large number of transactions, it is practically impossible to write all the transactions in one journal - bulk - voluminous
- Generally, transactions are of two types - CASH TRANSACTION AND CREDIT TRANSACTION
- Cash transactions can be grouped in one category and Credit transactions can be grouped in another category.
- Thus, main journal is sub-divided in such a way that a separate book is used for each category or group of transactions which are repetitive and sufficiently large in number.
- Each one of the subsidiary books is a special journal and a book of original or prime entry.
- The number of subsidiary books may vary according to the requirements of each business e.g. Day Books (Purchase Book, Sales Book, Purchase Return Book, Sales Return Book), Bill Books (Bills Receivable Book, Bills Payable Book), Cash Book, Journal Proper
- Purchase Book = records only credit purchases of goods by the trader
- Sales Book = entering only credit sales of goods by the trader
- Similarly, other books such as Purchase Returns, Sales Returns etc.
- Cash Book = recording only cash transaction i.e. Receipts and Payments of cash
- Journal Proper = records the entries which cannot be entered in any of the above listed subsidiary books

QUESTION AND ANSWERS

1. Sub division of the journals into various books for recording transactions of similar nature are called SUBSIDIARY BOOKS

2. The total of the PURCHASES book is posted to the debit of the purchase a/c

3. Purchase of machinery is recorded in

a) Sales Book

b) **Journal Proper**

c) Purchase Book

4. Purchases book is kept to record

a) all purchases

b) only cash purchases

c) **only credit purchases**

SUBSIDIARY BOOK - CASH BOOK

- In every business organization, there are both cash transactions and credit transactions
- All credit transactions will become cash transactions where payments are made to creditors or cash received from debtors.
- Since, cash transactions are numerous in some organizations, it is better to keep a separate book to record only the CASH TRANSACTIONS
- A cash book is SPECIAL JOURNAL which is used to record all cash receipts and cash payments
- The cash book is a book or original entry or prime entry
- The cash book is both a journal and a ledger.
- Cash book always show a DEBIT BALANCE
- **TYPES**
 - a) Single Column cash book
 - b) Double Column cash book = either cash and discount column or cash and bank column
 - c) Triple Column cash book = Cash, Bank, Discount
 - d) Petty Cash book
- CONTRA ENTRY = When an entry affect both CASH AND BANK ACCOUNTS, it is called a CONTRA ENTRY. ("CONTRA" in Latin means "Opposite")

QUESTION AND ANSWERS

1. Discount Allowed column appears in **DEBIT SIDE** of the cash book
2. Discount Received column appears in **CREDIT SIDE** of the cash book
3. Cash book is one of the **SUBSIDIARY BOOKS**
4. The cash book records
 - a) All cash payments
 - b) All cash receipts
 - c) All cash receipts & payments**
5. When goods are purchased for cash, the entry will be recorded in
 - a) Cash book**
 - b) Purchases book
 - c) Journal
6. The balance of cash book indicates
 - a) Net Income
 - b) Cash in hand**
 - c) Difference between Debtors and Creditors

7. In triple column cash book, cash withdrawn from bank for office use will appear in
- Debit side of the cash book only
 - Both sides of the cash book**
 - Credit side of the cash book only

PETTY CASH

- Small and recurring expenses are recorded in a separate cash book called PETTY CASH BOOK
- PETTY MEANS SMALL
- IMPRESET MEANS MONEY ADVANCED ON LOAN
- PETTY CASHIER ESTIMATE THE AMOUNT REQUIRED TO MEET VARIOUS PETTY EXPENSES, RECEIVE IN ADVANCE i.e. at the beginning
- Postage & Telegram, Printing & Stationery, Carriage, Travelling Expenses, Office Expenses & Repairs, Sundries etc.

QUESTION AND ANSWER

1. The book that records all small payments is called PETTY CASH
2. The person who maintain petty cash book is known as PETTY CASHIER
3. On 1st Jan 2018, Rs.1000/- given to a petty cashier. He has spent Rs.860/- during the month of January. On 1st February to make the imprest, he will receive cheque for Rs.....
 - a) Rs.1000
 - b)Rs.860**
 - c) Rs.1860

Journal / Ledger / Trial BalanceTEAM – A1. Pass Compound Journal Entry

- a) On 1st Feb 2018, Smt. "A" contributed capital of Rs.50000/-
Smt. "B" contributed capital of Rs.70000/-

2. Pass Journal Entry (BAD DEBTS)

- a) Smt. "G" who owed us Rs.10000/- is declared insolvent and 25 paise in a rupee is received from her on 20th Feb 2018

3. Prepare Trial Balance

The following balances were extracted from the ledger of Shri "X" on 31.3.2018. You are requested to prepare a Trial Balance as on that date in the proper form.

Particulars	Amount (Rs.)
Drawings	43000
Capital	212000
Sundry Creditors	61500
Bills Payable	22000
Sundry Debtors	55000
Bills Receivable	72600
Purchases	298000
Sales	364000
Salaries	44950
Sales Return	500
Purchase Return	2550
Travelling Expenses	12300
Loan from "S"	250000
Furniture & Fittings	12250
Opening Stock	223500
Cash at Bank	86250
Commission Paid	250
Discount Earned	2000
Cash in Hand	65450

TEAM – C

7. Pass Compound Journal Entries

- a) On 5th Feb 2018, Smt. "E" received cash of Rs.24700/- from Smt. "S" in full settlement of her account of Rs.25000/-

8. Prepare Cash a/c - Closing Balance (**LEDGER**)

- a) Opening Cash in hand Rs.40000
 b) Cash Purchases Rs.200000
 c) Wages paid Rs.400
 d) Withdraw from Bank Rs.3000
 e) Cash Sales 60000
 f) Cash received from Debtors 700000
 g) Paid into Bank Rs.12000
 h) Office expenses paid Rs.3000
 i) Purchase of Motor Bike 25000

9. Prepare **Trial Balance**

Particulars	Amount (Rs.)
Capital	340000
Creditors	13000
Drawings	4000
Salaries	38200
Purchases	94000
Sales Returns	3400
Purchase Return	2400
Carriage Inward	1400
Bills Receivable	5800
Bills Payable	7000
Debtors	16000
Sales	144000
Insurance	2200
Land	250000
Commission Received	800
Printing & Stationery	5000
Stock	29900
Machinery	50000
Wages	5000
Rent	1600
Interest Received	1700
Electricity Charges	2400

TEAM – D

10. Pass Compound Journal Entries

- a) On 5th Feb 2018, Smt. "F" paid cash to Smt. "T" Rs.14500/- in full settlement of her account of Rs.15000/-

11. Prepare **Trial Balance**

The following balances were extracted from the ledger of Shri "R" on 31.3.2018. You are requested to prepare a Trial Balance as on that date in the proper form.

Particulars	Amount (Rs.)
Salaries	36320
Sales	173500
Plant and Machinery	34300
Commission Paid	1880
Stock as on 1.4.2017	11100
Repairs	1670
Sundry Expenses	460
Return Inward	1000
Discount Allowed	1150
Rent & Rates	3220
Purchases	144670
Sundry Debtors	1430
Travelling Expenses	2630
Carriage Inward	240
Sundry Creditors	14260
Capital 1.4.2017	62500
Drawings	3500
Cash at Bank	1090
Return outward	400
Investments	6000

12. Prepare **Sundry Debtors Account**

- a) Opening Sundry Debtors - Rs.20000
 b) Cash Sales - Rs.5000
 c) Credit Sales - Rs.65000
 d) Received from Debtors - Rs.23000

TEAM – E

13. Pass Compound Journal Entries

- b) On 9th Feb 2018, Smt. "Z" paid cash to Smt. "Y" Rs.29000/- in full settlement of her account of Rs.30000/-

14. Prepare **Trial Balance**

The following balances were extracted from the ledger of Smt. "M" on 31.3.2018. You are requested to prepare a Trial Balance as on that date in the proper form.

Particulars	Amount (Rs.)
"M" Capital	95000
Plant & Machinery	37000
Repairs to Machinery	9150
Wages	42000
Salaries	6000
Income Tax	750
Cash and Bank Balance	3000
Land and Building	111750
Purchases	180000
Purchase Returns	3000
Sales	375000
Interest Paid	2250
Bills Receivable	15000
Bills Payable	4500
Commission (Cr.)	6000
Debtors	52500
Creditors	40650
Opening Stock 1.4.2017	55500
Drawings	12000
Suspense A/c (Cr.)	2750

15. Prepare **Sundry Debtors Account**

- e) Opening Sundry Debtors - Rs.10000
 f) Cash Sales - Rs.50000
 g) Credit Sales - Rs.90000
 h) Received from Debtors - Rs.42000

QUESTIONS - YEAR 2010

1. Cash withdrawn by the proprietor should be credited to

- a) Drawings a/c
- b) Capital a/c
- c) Profit and loss a/c

d) Cash a/c

2. Liabilities of a business are Rs.11220 ; Owner's equity is Rs.15000. The assets of the business will be

- a) Rs.11220
- b) Rs.3780
- c) Rs.15000

d) Rs.26220

3. The balance of Purchase Return book is always

- a) Debit
- b) Debit or Credit

c) Credit

d) Neither Debit nor Credit

4. Income means

a) Income earned during the year

- b) Income received during the year
- c) Income receivable during the year
- d) All of the above

5. Intangible assets are intangible in the sense that

- i) Their value cannot be recorded tangibly
- ii) They do not have a tangible existence

OPTIONS ARE : only (i), Both (i) & (ii), **Only (ii)**, None of the above

6. Goods given as charity should be credited to

- a) Charity account
- b) Sales account

c) Purchase account

d) None of the above

7. Fixed assets are

- a) **kept in the business for use over a long time for earning income**
- b) meant for resale
- c) meant for conversion into cash as quickly as possible
- d) All of the above

8. Double column cash book records

- a) All transactions
- b) **cash and bank transactions**
- c) only cash transactions
- d) only credit transactions

9. In which transaction contra entry is made in the three column cash book

- a) **Cash deposited in bank a/c**
- b) cash goods sold
- c) cash purchases
- d) cash payment of expenses

10. Purchase of a machinery with cash has which effect

- a) Increase the total assets
- b) Increase the total liabilities
- c) Decreases the total assets
- d) **Does not change total assets**

11. Dual aspect concept results in the accounting equation

- a) **Capital + Liabilities = Assets**
- b) Capital = Assets
- c) Revenue = Expenses
- d) Capital + profit = Assets + expenses

12. Capital account is

- a) **A personal or individual account**
- b) A real account
- c) an unreal account
- d) a balance sheet

13. Credit Balance of bank column in cash book shows

- a) **Overdraft**
- b) cash deposited in our bank
- c) cash withdrawn from bank
- d) none of the above

14. Bank collected dividend as per standing instructions Rs.11000/- on 30.04.2009. What is the entry in the books of Ram

- a) Dividend a/c Dr. 11000
To Bank a/c 11000

- b) **Bank a/c Dr. 11000**
To Dividend 11000

- c) Cash a/c Dr. 11000
To Bank 11000

- d) Bank a/c Dr. 11000
To cash 11000

15. Purchase of equipment for cash

- a) Decreases total assets
- b) Increases total assets
- c) **Leaves total assets unchanged**
- d) Increases liabilities

16. The debts written off as bad, if subsequently recovered are credited to

- a) Debtors
- b) Sales account
- c) **Profit and loss account**
- d) Bad debts account

17. Purchase of furniture for cash will

- a) Increase current assets and decrease fixed assets
- b) **Decrease current assets and increase fixed assets**
- c) Increase both current and fixed assets
- d) Decrease both current and fixed assets

18. A sale of goods to Vishal for cash should be debited to

- a) Sales a/c
- b) Vishal a/c
- c) **Cash a/c**
- d) None of these

19. Debit voucher is prepared for

- a) **cash payment**
- b) cash receipt
- c) credit transaction
- d) all of the above

20. Mohan spent Rs. 2000/- as repair on purchases of machine from scrap dealer. The transaction will

- a) **Increase and decrease assets**
- b) Decrease assets and capital
- c) Increase and decrease capital
- d) Increase and decrease liability

21. Current liabilities do not include

- a) unclaimed dividends
- b) Sundry Creditors
- c) **Prepaid Insurance**
- d) Bank Overdrafts

22. Goodwill is

- a) a current asset
- b) **an intangible fixed asset**
- c) a tangible fixed asset
- d) an investment

23. Which of the following is a personal account

- a) Creditor's account
- b) Rent account
- c) Motor vehicle account
- d) cash account

Options are : Only (i) and (ii) ; only (ii) and (iii) ; only (iii) and (iv) ; **NONE OF THESE OPTIONS**

24. Journal is a book

- a) all the cash transactions only
- b) All credit transactions only
- c) Secondary entry

d) **Original entry**

25. what is the correct form of accounting (balance sheet) equation

- a) liabilities = assets + capital
- b) liabilities = capital – assets
- c) capital = assets + liabilities

d) **capital = assets - liabilities**

26.(i) Every debit has an equal and corrodng credit

(ii) Maintenance of accounts enables calculation of tax liability

Which of the above is correct ?

OPTIONS : (a) **only (i) is correct**

- (b) Both (i) and (ii) are correct
- (c) Only (ii) is correct
- (d) None of the above is correct

27. Financial accounts are prepared

- a) At the end of calendar year
- b) At the end of assessment year
- c) On every Diwali

d) **at the end of accounting year**

28. While preparing parties a/c on the basis of Purchase book, posting is made at theside of parties

a) Debit

b) **Credit**

- c) Either credit or debit
- d) Neither credit or debit

29. a) Capital is diminished by drawings and increased by profits
b) A transaction which increases capital is income.

Which of the above is correct

- OPTIONS : (a) **Only (I)**
(b) Both (i) and (ii)
(c) only (iii)
(d) None of the above.

BILL OF EXCHANGE

- There are two transactions in business namely Cash Transactions and Credit Transactions
- Usually in business transactions, credits may be allowed and the amounts are received after some time.
- If the amount involved in the credit transactions is large, the seller needs security and evidence over the dealings. He feels the purchaser should give a definite promise in writing to pay the amount of the goods on a certain date. The written promise is either in the form of a Bill of Exchange or in the form of a promissory note.
- According to the Negotiable Instruments Act, 1881, "Bill of Exchange" is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of a certain person or to the bearer of the instrument".
- **Features of a Bill of Exchange are :**
 - a) It is a written document
 - b) It is an unconditional order
 - c) It is an order to pay a certain sum of money
 - d) It is signed by the drawer
 - e) It bears stamp or it is drafted on a stamp paper
 - f) It is accepted by the acceptor
 - g) The amount is paid to drawer or endorsee
- **FORMAT :**

Stamp	Accepted M.K. REDDY 22.3.2018	45, TH ROAD CHENNAI - 21 18.3.2018
Rs.2,00,000/-		
Three months after date pay to me or to my order the sum of Rupees Two Lakhs only for value received.		
SHYAM		
To Mr. M.K. Reddy 22, Maistry Street Chennai - 81		

In this Mr. Shyam is the Drawer and Payee. Mr. M.K. Reddy is the Drawee.

- **Important Terms used in connection with BILL OF EXCHANGE :**

1. **Drawing of a Bill**

The Seller (Creditor) prepares the bill in the prescribed form (given above). The act of preparing the bill in its complete form with the signature is known as "DRAWING" a bill.

The term of bill of exchange may be of any duration. Usually, the term does not exceed 90 days from the date of bill. "BILL AT SIGHT" means the instrument in which no time for payment is mentioned.

A cheque is always payable on demand. Similarly, a promissory note or bill of exchange is payable on demand

(i) When no time for payment is specified

(ii) When it is expressed to be payable on demand, or at sight or on presentment

2. **Parties :**

There are 3 parties to a bill of exchange

a) **Drawer** : The person who prepares the bill is called the drawer i.e. Creditor

b) **Drawee**: The person who has to make the payment or who accepts to make the payment is called the drawee i.e. a debtor

c) **Payee**: The person who receives the payment is payee. He may be the drawer himself or a third party

3. **Acceptance :**

In a bill, drawee gives his acceptance by writing the word "ACCEPTED" and also put his signature and the date. Now, the bill becomes a legal document enforceable in the court of law.

4. **Due Date and Days of grace**

When a bill is drawn payable after a specified period, the date on which the payment should be made is called "DUE DATE".

In the calculation of the due date 3 extra days are added to the specified period of the bill are known as "DAYS OF GRACE".

If the date of maturity falls on a holiday, the bill will be due for payment on the preceding day.

e.g.

Date of Bill	Period of Bill	Days of Grace	Due Date
1.3.2018	2 months	3	4.5.2018
12.7.2017	1 month	3	14.8.2018 as 15.8.2017 (Independence Day) is a public holiday
1.10.2017	30 days	3	3.11.2017

5. **Endorsement**

It means writing of one's signature on the face or back of a bill for the purpose of transferring the title of the bill to another person. The person who endorses is called the "ENDORSER" and the person to whom the bill is endorsed is called "ENDORSEE". By this, the endorsee is entitled to collect the money

6. Discounting

When the holder of a bill is need of money before the due date of a bill, he can convert it into cash by discounting the bill with his banker. This process is called "DISCOUNTING OF BILL". The banker deducts a small amount of the bill which is called DISCOUNT and pay the balance in cash immediately to the holder of the bill.

7. Retiring of Bill

An acceptor (Debtor) may make the payment of a bill before its due date and discharge his liability and this is called "RETIREMENT OF A BILL". Usually, the holder of the bill allows a concession called "REBATE" to the drawee (Debtor) for the unexpired period of the bill.

8. RENEWAL

When the acceptor (Debtor) of a bill knows in advance that he will not be able to meet the bill on its due date, he may approach the drawer (Creditor) and make a request for extension of time for payment. The drawer of the bill may agree to cancel the original bill and draw a NEW BILL for the amount due with interest thereon. This is called "RENEWAL".

9. DISHONOUR

Dishonour of the bill means the NON-PAYMENT of bill, when it is presented for payment.

10. NOTING AND PROTESTING

If a bill is dishonoured, the drawer (Creditor) may approach the Court and file a suit against the drawee (Debtor).

In order to collect the documentary evidence, the drawer may approach a lawyer and explain the fact of the dishonour of the bill. The lawyer will take the bill to the drawee and ask for the payment. If the drawee does not make the payment, the lawyer will note the statement of the drawee and get the statement signed by him. The lawyer will then put his signature. The statement noted by the lawyer will be the documentary evidence for the dishonour of the bill.

Writing this statement by the lawyer is known as NOTING of the bill.

The lawyer performing this work of noting the bill is called as the "NOTARY PUBLIC".

A notary public is an official appointed by the government.

After recording a note of dishonour on the dishonoured bill, the Notary Public issues a certificate to this effect which is called PROTEST. A protest is a certificate issued by the NOTARY PUBLIC attesting that the bill has been DISHONOURED.

BILL RECEIVABLE / BILL PAYABLE BOOK :

This book will record the receipt of bills receivable and issue of bills payable respectively. These books are also called BILLS JOURNALS / BOOKS.

Journal Entries

1. **On Receipt of Bill**

Bill Receivable a/c Dr.
To Drawee (Debtor)

The Drawer (Creditor) can hold the bill till maturity. If he wants to endorse the bill in favour of another party, he can do so.

2. **Discounting with Bank**

Bank a/c Dr.
Discount a/c Dr.
To Bill Receivable

3. **If bill is dishonoured**

Drawee (Debtor) a/c Dr.
To Bill Receivable

4. **Bill sent for collection**

Bill for collection a/c Dr.
To Bills Receivable

5. **When the amount is realized**

Bank a/c Dr.
To Bill for collection

QUESTION AND ANSWER

1. The person who prepares a bill is called the **DRAWER**
2. Days of grace are **3 in number**
3. On 1st Jan 2018, Mr. Gupta draws a bill on Mr. Sharukh for 3 months, its due date is
 - a) 31.03.2018
 - b) 1.4.2018
 - c) 4.4.2018**
4. On 1.1.2016, X draws a bill on Y for Rs.20000/- for 3 months and the maturity date of bill be
 - a) 1.4.2016
 - b) 3.4.2016
 - c) 4.4.2016**
 - d) 4.5.2016

5. On 15.8.2017, X draws a bill on Y for 3 months for Rs.20000/-. 18th Nov 2017 was a sudden holiday. Maturity date of the bill will be
- a) 17th Nov
 - b) 18th Nov
 - c) 19th Nov**
 - d) 16th Nov
6. On 16.6.2017 X draws a bill on Y for Rs.25000 for 30 days. Suppose, 19th July 2017 is a public holiday, maturity date of the bill will be
- a) 19th Jul
 - b) 18th Jul**
 - c) 17th Jul
 - d) 16th Jul
7. X draws a bill on Y. X endorsed the bill to Z. The payee of the bill will be
- a) X
 - b) Y
 - c) Z**
 - d) None
8. A bill of Rs.12000/- was discounted by Mr. A with the banker for Rs.11880/-. At maturity, the bill returned dishonoured, noting charges Rs.20. How much amount will the bank deduct from Mr. A's bank balance at the time of such dishonour
- a) Rs.12000
 - b) Rs.11880
 - c) Rs.12020**
 - d) Rs.11900
9. On 1.1.2017, X draws a bill on Y for Rs.50000/- for 3 months. X got the bill discounted 4.1.2017 at 12% rate. The amount of discount on bill will be
- a) Rs.1500**
 - b) Rs.1600
 - c) Rs.1800
 - d) Rs.1450

10. On 1.1.2018, X draws a bill on Y for Rs.10000. At maturity Y request X to renew the bill for 2 months at 12% p.a. interest. The amount of interest will be
- a) Rs.200**
- b) Rs.150
c) Rs.180
d) Rs.190
11. On 1.1.2018 X draws a bill on Y for Rs.50000. At maturity, the bill returned dishonoured as Y become insolvent and 40 paise per rupee is recovered from his estate. The amount recovered is
- a) Rs.20000**
- b) NIL
c) Rs.30000
d) 40 paise
12. Noting charges are borne by the drawee in the event of dishonour of bill - True or False
(Ans. : True)
13. Which of the following instrument is not a negotiable instrument
- a) Bearer Cheque
b) Promissory Note
c) Bill of Exchange
d) Account Payee Crossed Cheque
14. From the following information, find out who can draw the bill if Mr. A sold goods to B
- a) **A will draw a bill on B**
b) B will draw a bill on A
c) Third party will draw a bill on A
d) None of the above
15. When the bill is to be produced to notary public
- a) At the time of drawing the bill
b) At the time of acceptance of bill
c) At the time of dishonour of bill
d) At the time of "bill for collection"

16. Which of the following statement is false
- a) Bill Receivable is a negotiable instrument
 - b) Bill Receivable must be accepted by drawee
 - c) There can be three parties in respect of bill of exchange - drawer, drawee, payee
 - d) Oral bill of exchange is also valid**
17. Under which circumstances drawer and payee is same person
- a) When drawer discounted the bill with banker
 - b) When drawer endorse the bill to the third party
 - c) When drawer held the bill till maturity**
 - d) When drawee rejects to accept the bill

BANK RECONCILIATION STATEMENT

- In double column / triple column cash book, we have both cash column and bank column
- The debit side of the bank column of the cash book represents
 - a) Cheques deposited into bank for collection
 - b) Cash paid into bank (CONTRA ENTRY)
 - c) Some entries that are made only after receiving information from the bank

e.g. amounts collected by the bank on behalf of the customer as per the standing instructions (interest collected on investments)

Interest given by the bank

Amount paid by the customers directly into the bank

- The credit side of the bank column of the cash book represents
 - a) Cheques issued for payment
 - b) Cash withdrawn from bank for office use or personal use
 - c) Information received from the bank
 - Amounts paid by the bank on behalf of the customer as per the standing instruction – payment of insurance premium

Interest charged by the bank on overdraft

Other bank charges (agency and utility services rendered by the bank)

BANK PASS BOOK

- Bank pass book (statement of account) is merely a copy of the customer's account in the books of a bank
- It shows all the deposits, withdrawals and the balance available as on date

Bank Reconciliation Statement

- It is a list in which the various items that cause a difference between bank balance as per cash book and pass book on any given date are indicated
- It prevents fraud - moral check on the accounting staff

- **CAUSES FOR DISAGREEMENT BETWEEN THE BALANCE SHOWN BY THE CASH BOOK AND THE BALANCE SHOWN BY THE PASS BOOK**

1. Cheques Paid into Bank but not yet collected
 - e.g. not collected and credited till date
 - collected but the bank staff has forgotten to make entry
 - collected but credited to wrong account
 - dishonoured
 - collected for no. 1 account but credited to no. 2 account of the same customer
2. Cheques issued but not yet presented for payment
 - e.g. not cashed till date
 - not presented till date
 - presented but dishonoured
 - lost by the party to whom cheque issued
 - encashed at no.1 account but wrongly entered in no. 2 account
3. Amount credited by the banker in the pass book without the immediate knowledge of the customer
 - e.g. bank might have collected rent, dividend, bills of exchange, interest etc. due for the customer as per standing instruction
 - some debtors might have directly paid into the bank
 - bank Interest credited
 - bank wrongly credited to this account
4. Amount debited by the banker in the pass book without the immediate knowledge of the customer
 - e.g. Bank charges, interest on overdraft etc.
 - Banker paid insurance premium etc. on behalf of customer as per standing Instruction
 - Banker wrongly debited this account instead of some other account

FORMAT FOR B.R.S.

Balance as per Cash Book

Add :

Cheques issued but not presented for payment

Interest credited by bank but not recorded in cash book

Debtors directly paid into bank but not entered in cash book

Wrong credit by banker

Collection by banker as per customer standing instruction

Less :

Cheques deposited but not credited by the bank

Dishonoured cheques appeared in the pass book but
not entered in the cash book

Bank charges as per pass book

Wrong debit by banker

Payments as per standing Instruction

**

Balance as per PASS BOOK

Question and Answer

1. Balance as per cash book - Rs.200

Cheques deposited but not yet collected by the bank - Rs.1500

Cheques issued to Mr. Raju has not yet been presented for payment - Rs.2500

Bank charges debited in the pass book - 200

Interest allowed by the bank - 100

Insurance premium directly paid by the bank as per standing instruction - 500

Ans. : $200 + 2500 + 100 - 1500 - 500 - 200 = \text{Rs.}600$

2. Overdraft means (Ans. : credit balance as per cash book)

3. When cash is withdrawn from the bank, the bank the customer account
(Ans. : Debit)

4. Bank Reconciliation Statement is prepared by the
- a) Bank
 - b) Creditor of a business
 - c) Customer of a bank**
5. Debit balance in the cash book means
- a) Overdraft as per pass book
 - b) Credit balance as per pass book
 - c) Overdraft as per cash book
6. When the balance as per cash book is the starting point, direct deposits by customers are
- a) Added**
 - b) Subtracted
 - c) Not required to be adjusted
 - d) None of the above
7. A Bank Reconciliation Statement is a
- a) Part of cash book
 - b) Part of financial statements
 - c) Part of bank account
 - d) None of the above**
8. When balance as per pass book is the starting point, interest allowed by the bank is
- a) Added
 - b) Subtracted**
 - c) Not required to be adjusted
 - d) None of the above
9. A BRS is prepared with the help of
- a) Bank statement and bank column of the cash book**
 - b) Bank statement and cash column of the cash book
 - c) Bank column of the cash book and cash column of the cash book
 - d) None of the above

10. Debit balance as per cash book of XYZ co. as on 31.3.2018 is Rs.1500. Cheques deposited but not cleared amounts to Rs.100 and cheques issued but not presented of Rs.150. The bank allowed interest amounting to Rs.50 and collected dividend Rs.50 on behalf of XYZ co. Balance as per pass book should be
- a) Rs.1600
 - b) Rs.1450
 - c) Rs.1850
 - d) **Rs.1650**
11. Cash book showed an overdraft of Rs.1500; but the pass book made up to the same date showed that cheques of Rs.100, Rs.50 and Rs.125 respectively had not been presented for payments and the cheque of Rs.400 paid into account had not been cleared. The balance as per the pass book will be
- a) Rs.1100
 - b) Rs.2175
 - c) **Rs.1625**
 - d) Rs.1375
12. When drawing up a BRS, if you start with a debit balance as per the bank statement, the un-presented cheques should be
- a) **Added**
 - b) Deducted
 - c) Not required to be adjusted
 - d) None of the above

Note : Debit balance as per bank statement = overdraft

13. A debit balance in the depositor's cash book will be shown as
- a) A debit balance in the bank statement
 - b) **A credit balance in the bank statement**
 - c) An overdrawn balance in the bank statement
 - d) None of the above
14. When preparing a BRS, if you start with a debit balance as per the cash book, cheques issued but not presented within the period should be
- a) **Added**
 - b) Deducted
 - c) Not required to be adjusted
 - d) None of the above

15. When the balance as per pass book is the starting point, direct payment by bank are
- a) Added in the BRS**
 - b) Subtracted in the BRS
 - c) No adjustment
 - d) None of the above
16. When balance as per cash book is the starting point, uncollected cheques are
- a) Added in the BRS
 - b) Subtracted in the BRS**
 - c) No adjustment
 - d) None of the above
17. A BRS is prepared to know the causes for the difference between
THE BALANCE AS PER BANK COLUMN OF CASH BOOK AND THE PASS BOOK
18. A BRS is prepared by
- a) The bank
 - b) The Government
 - c) The bank account holder**
 - d) The user of financial statements
19. A bank statement is a copy of
- a) Cash column of the cash book
 - b) Bank column of the cash book
 - c) A customer's account in the bank's book**
 - d) None of the above
20. The difference in the balances of both the cash book and the pass book can be because of
- a) Errors in recording the entries either in the cash book or pass book**
 - b) Omission of the same entry in both cash book and pass book
 - c) Debit balance of cash book is the credit balance of pass book
 - d) None of the above

CAPITAL AND REVENUE EXPENDITURE / RECEIPTS

- Net Result of the business = Profit and Loss account
- Financial Position = Balance Sheet
- **MATCHING PRINCIPLE** governs the preparation of these 2 statements
- According to that, the revenues and relevant expenditures incurred during a particular period should be matched.
- Hence, a proper distinction must be accounted for between CAPITAL AND REVENUE TRANSACTIONS.
- Business transactions can be CAPITAL TRANSACTION AND REVENUE TRANSACTION
- **CAPITAL TRANSACTIONS**

The business transactions, which provide benefits or supply services to the business concern for more than 1 year or 1 operating cycle of the business are known as CAPITAL TRANSACTIONS

1. CAPITAL EXPENDITURE
2. CAPITAL RECEIPT

CAPITAL EXPENDITURE

- The benefit of which is carried over to several accounting periods
 - The benefit is not consumed within 1 accounting period
 - NON-RECURRING in nature
 - e.g. Purchase of a fixed asset --- not acquired for sale --- non-recurring in nature --- incurred to increase the operational efficiency of the business concern
- a) Acquisition of Land, Building, Machinery, Furniture, Car, Goodwill, Copyright, Trademark, Patent Right etc.
 - b) Expenses incurred for increasing the seating accommodation in cinema hall
 - c) Expenses incurred for installation of fixed assets like wages paid for installing a plant
 - d) Expenses incurred for remodeling and reconditioning an existing asset like remodeling a building

CAPITAL RECEIPT

- It includes Long Term Loans, amount realized on sale of fixed assets
- Generally, NON-RECURRING in nature
- e.g. Capital introduced by the owner, borrowed loans, sale of fixed asset

- **REVENUE TRANSACTIONS**

The business transactions, which provide benefits or supplies services to a business concern for an accounting period only are known as REVENUE TRANSACTIONS.

It can be Revenue Expenditure or Revenue Receipt

REVENUE EXPENDITURE

- It consists of those expenditures, which are incurred in the normal course of business.
- They are incurred in order to maintain the existing earning capacity of the business
- It helps in upkeep of fixed assets
- Generally, it is RECURRING IN NATURE
- e.g. Cost of goods purchased for resale, Office and Administrative expenses, Selling and Distribution expenses, Depreciation of fixed assets, Interest on borrowings, Repairs, Renewals, etc.

REVENUE RECEIPT

- It is the receipt of income which is earned during the normal course of business
- It is RECURRING IN NATURE
- e.g. Sale of goods or services, Commission and Discount Received, Dividend, Interest received on Investments etc.

DEFERRED REVENUE EXPENDITURE

- A heavy revenue expenditure
- Benefit of which may be extended over a number of years
- e.g. heavy advertisement expenditure, expenses incurred on Research and Development, Abnormal loss arising out of fire or lightning (if assets not insured) etc.

CAPITAL PROFITS

- It is the profit which arises not from the normal course of business.
- e.g. profit on sale of fixed asset

REVENUE PROFITS

- It is the profit which arises from the normal course of the business
- e.g. Net Profit (excess of revenue receipts over revenue expenditures)

CAPITAL LOSS

- It arises not from the normal course of business
- e.g. loss on sale of fixed assets

REVENUE LOSS

- The losses arise from the normal course of business
- e.g. Net Loss (excess of revenue expenditure over revenue receipts)

QUESTION AND ANSWERS

CLASSIFY EXPENDITURE / RECEIPTS WHETHER THEY ARE CAPITAL / REVENUE IN NATURE

1. Purchase of Furniture = CAPITAL EXPENDITURE
2. Purchase of second hand machinery = CAPITAL EXPENDITURE
3. Carriage expenses on goods purchased = REVENUE EXPENDITURE
4. Repairs on second hand machinery as soon as it was purchased = CAPITAL EXPENDITURE
5. Wages paid for installation of plant = CAPITAL EXPENDITURE
6. Expenses in connection with obtaining a license = CAPITAL EXPENDITURE
(acquiring right to carry on business)
7. Fire insurance paid for one year = REVENUE EXPENDITURE
8. During the first week after the release of the cinema, free tickets worth Rs.30000/- were distributed to increase the publicity of the cinema house = DEFERRED REVENUE EXPENDITURE
(heavy advertisement & benefit will last more than one year)
9. Manager's salary for the year = REVENUE EXPENDITURE
10. Spent towards replacement of a worn out part in a machinery = CAPITAL EXPENDITURE
11. Legal expenses in relation to raising of a loan for the business = CAPITAL EXPENDITURE
12. Spent for ordinary repairs of plant = REVENUE EXPENDITURE
13. Spent on replacing a petrol driven engine by a diesel driven engine = CAPITAL EXPENDITURE
14. Electricity charges for the month = REVENUE EXPENDITURE
15. Purchasing a tyre for a lorry = REVENUE EXPENDITURE
16. Old Machinery value Rs.10000/- was sold for Rs.9500/-
CAPITAL LOSS = 500/- CAPITAL RECEIPT = 9500
17. Dividend receipt on investment in shares = REVENUE RECEIPT
18. Sell cotton shirts (cost Rs.1200) for Rs.1500
REVENUE RECEIPT = 300 (ordinary course of business)
19. Rs.6000/- spent on alteration of a machinery in order to reduce power consumption
CAPITAL EXPENDITURE (reduces cost of production)
20. 60000/- travelling expenses of their sales manager who travelled to Japan to attend a meeting in order to increase sales - trip was quite successful
DEFERRED REVENUE EXPENDITURE (benefit likely to be enjoyed for more than one year)
21. Spent for installation of machinery = CAPITAL EXPENDITURE
22. Spent for research and development = DEFERRED REVENUE EXPENDITURE
23. Fuel expenses = REVENUE EXPENDITURE
24. Amount spent on acquiring a copy right is CAPITAL EXPENDITURE
25. Capital Expenditure is NON-RECURRING in nature
26. Revenue Transactions can be REVENUE RECEIPT AND REVENUE EXPENDITURE
27. Depreciation on fixed asset is a REVENUE EXPENDITURE
28. Expenses on research and development will be classified under DEFERRED REVENUE EXPENDITURE

29. Transaction which provide benefit to the business for more than one year is called

a) **Capital Transaction**

- b) Revenue Transaction
- c) Neither of the two

30. Amount spent on remodeling an old car is example of

- a) Deferred revenue expenditure
- b) Revenue expenditure

c) **Capital expenditure**

31. Mr. S introduces Rs.5 lakhs as additional capital in the business. This amount will be considered as

a) **Capital Receipt**

- b) Revenue Receipt
- c) Both

32. A plant worth Rs.800000/- sold for Rs.850000/- ; the capital receipt amounts to

- a) Rs.800000
- b) **Rs.850000**
- c) Rs.50000

33. An asset worth Rs.1 lakh sold for Rs.85000/-; what is the capital loss

- a) 85000
- b) **15000**
- c) 1 lakh

34. The net loss which arises in a business is an example of

- a) **Revenue loss**
- b) Capital loss
- c) Neither of the two

35. Rs.50000/- spent towards expenses connected with rain water harvesting as per government orders =
CAPITAL EXPENDITURE

36. Registration expenses incurred in connection with purchase of land = CAPITAL EXPENDITURE

37. Annual white washing charge = REVENUE EXPENDITURE

38. Overall expenses of second hand machinery purchased = CAPITAL EXPENDITURE
39. Money spent to reduce working expenses = CAPITAL EXPENDITURE
40. Legal fees to acquire property = CAPITAL EXPENDITURE
41. Amount spent as lawyer's fee to defend a suit claiming that the firm's factory site belonged to the plaintiff's land = MAINTENANCE EXPENDITURE OF THE ASSET = REVENUE EXPENDITURE
42. Expenses in connection with obtaining a license for running the cinema = CAPITAL EXPENDITURE
43. Rs.10000/- spent as travelling expenses of the directors on trips abroad for purchase of capital assets = CAPITAL EXPENDITURE
44. Insurance claim received on account of a machinery damaged by fire = CAPITAL RECEIPT
45. M/s. New Delhi Financing Co. sold certain goods on installment payment basis. 5 customers did not pay installments. To recover such outstanding installments, the firm spent Rs.10000/- on account of legal exp = REVENUE EXPENDITURE
46. Entrance fee of Rs.2000/- received by R and S Social Club is
- a) Capital Receipt**
- b) Revenue Receipt
- c) Capital expenditure
- d) Revenue expenditure
47. Subsidy of Rs.40000/- received from the government for working capital by a manufacturing company is
- a) Capital receipt
- b) **Revenue receipt**
- c) Capital expenditure
- d) Revenue expenditure

TRIAL BALANCE

- We have learnt how to record and classify the transactions in the various accounts along with balancing thereof.
- The next step in the accounting process is to prepare a statement to check the ARITHMETICAL ACCURACY OF THE TRANSACTIONS RECORDED. This statement is called **TRIAL BALANCE**.
- Preparation of Trial Balance is the third phase in the accounting process
- Trial Balance is a statement which shows DEBIT BALANCES AND CREDIT BALANCES OF ALL ACCOUNTS IN THE LEDGER. Since every debit should have a corresponding credit as per the rules of DOUBLE ENTRY SYSTEM, the total of DEBIT BALANCES and CREDIT BALANCES should tally.
- In case, there is a difference, one has to check the correctness of the balances brought forward from the respective accounts.
- TRIAL BALANCE CAN BE PREPARED IN ANY DATE PROVIDED ACCOUNTS ARE BALANCED.
- **Trial Balance is a statement, prepared with the debit and credit balances of ledger accounts to test the arithmetical accuracy of the books.**
- **TRIAL BALANCE IS A STATEMENT AND NOT AN ACCOUNT**

Objectives :

- To check the arithmetical accuracy of the ledger accounts
- To locate the errors
- To facilitate the preparation of final accounts

Advantages :

- It helps to ascertain the arithmetical accuracy of the book-keeping work done during the period
- It supplies in one place ready reference of all the balances of the ledger accounts
- If any error is found out by preparing a trial balance, the same can be rectified before preparing final accounts
- It is the basis on which final accounts are prepared

Limitations :

- The agreement of TB is not a conclusive proof of accuracy. There may be some errors.
- Transaction has not been entered at all in the journal
- A wrong amount has been written in both columns of the journal
- A wrong account has been mentioned in the journal
- An entry has not at all been posted in the ledger
- Entry is posted twice in the ledger

STILL, THE PREPARATION OF TRIAL BALANCE IS VERY USEFUL WITHOUT IT, THE PREPARATION OF FINANCIAL STATEMENT, THE PROFIT AND LOSS ACCOUNT AND BALANCE SHEET , WOULD BE DIFFICULT.

METHODS OF PREPARATION OF TRIAL BALANCE

1. TOTAL METHOD
2. BALANCE METHOD
3. Both the above 2 methods shown in a single statement

TOTAL METHOD**TRIAL BALANCE OF X AND CO. AS AT 31.3.2018**

NAME OF THE ACCOUNT	TOTAL OF DEBIT ITEMS	TOTAL OF CREDIT ITEMS
Cash a/c	Xxxxx	Xxxx
Furniture a/c	Xxxxx	Xxxx
Salaries a/c	Xxxxx	Xxxxx
Shyam's a/c	Xxxxx	Xxxxx
Purchases a/c	Xxxxx	Xxxxx
Purchase Returns a/c	Xxxxx	Xxxxx
Ram's a/c	Xxxx	Xxxxx
Sales a/c	Xxxxx	Xxxxx
Sales Returns a/c	Xxxxx	Xxxxx
Capital a/c	Xxxx	xxxxx

BALANCE METHOD**TRIAL BALANCE OF X AND CO. AS AT 31.3.2018**

NAME OF THE ACCOUNT	DEBIT BALANCE	CREDIT BALANCE
Cash a/c	Xxxxx	
Furniture a/c	Xxxxx	
Salaries a/c	Xxxxx	
Shyam's a/c		Xxxxx
Purchases a/c	Xxxxx	
Purchase Returns a/c		Xxxxx
Ram's a/c	Xxxx	
Sales a/c		Xxxxx
Sales Returns a/c	Xxxxx	
Capital a/c		xxxxx

FormatTRIAL BALANCE OF AS ON 31ST MARCH 2018

S. No.	Name of the Account	L.F.	Debit Rs.	Credit Rs.
1	Opening Stock		Yes	-
2	Purchases		Yes	-
3	Sales		-	Yes
4	Sales Returns (Return Inwards)		Yes	-
5	Purchase Returns (Return Outwards)		-	Yes
6	Manufacturing Expenses		Yes	-
7	Direct Expenses		Yes	-
8	Factory Expenses (Factory Rent, Factory Insurance etc.)		Yes	-
9	Wages		Yes	-
10	Carriage Inwards		Yes	-
11	Octroi, Customs Duty etc.		Yes	-
12	Trading Expenses		Yes	-
13	Salaries		Yes	-
14	Rent & Rates / Office Rent		Yes	-
15	Printing & Stationery		Yes	-
16	Postage, Courier Exp		Yes	-
17	Insurance		Yes	-
18	Repairs & Maintenance		Yes	-
19	Office Expenses		Yes	-
20	Interest Paid		Yes	-
21	Bank Charges		Yes	-
22	Sundry Expenses		Yes	-
23	Commission Paid		Yes	-
24	Discount Allowed		Yes	-
25	Advertisement		Yes	-
26	Carriage Outward		Yes	-
27	Travelling Expenses		Yes	-
28	Selling & Distribution Expenses		Yes	-
29	Bad Debts		Yes	-
30	Telephone Bill, Mobile Bill etc.		Yes	-
31	Depreciation		Yes	-
32	Commission earned		-	Yes
33	Rent Received		-	Yes
34	Interest Received		-	Yes
35	Discount Received		-	Yes
36	Plant & Machinery		Yes	-
37	Furniture & Fixtures		Yes	-
38	Cash		Yes	-

39	Bank		Yes	-
40	Bank Overdraft		-	Yes
41	Closing Stock (Stock-in-Trade)		-	Yes
42	Secured Loan / Unsecured Loan / Loan Creditors / Mortgage Loan		-	Yes
43	Capital		-	Yes
44	Other Liabilities		-	Yes
45	Other Assets		Yes	-
46	Sundry Debtors		Yes	-
47	Sundry Creditors		-	Yes
48	Drawings		Yes	-
49	Investments		Yes	-
50	Bills Payable		-	Yes
51	Outstanding Expenses		-	Yes
52	Prepaid Expenses		Yes	-
53	Accrued Income		Yes	-
54	Prepaid Income		-	Yes
55	Reserve Fund / General Fund		-	Yes
56	Bills Receivable		Yes	-
57	Land & Building		Yes	-
58	Business Premises		Yes	-
59	Goodwill, Patents & Trademarks		Yes	-
60	Debentures		-	Yes
	TOTAL		XXXXXX	XXXXXX

QUESTION AND ANSWER

1. Trial Balance should be tallied by following the rules of **DOUBLE ENTRY SYSTEM**
2. If the total debits exceeds the total credits of trial balance, suspense account will show **CREDIT BALANCE**
3. Suspense account having debit balance will be shown on the **ASSET SIDE** of the Balance Sheet
4. Short credit of an account decreases the **CREDIT** column of the Trial Balance
5. When errors are located and rectified, **SUSPENSE ACCOUNT** automatically gets closed.
6. Journal entries passed to correct the errors are called **RECTIFYING ENTRIES**
7. Trial Balance is prepared to find out the

- a) Profit or loss
- b) Financial Position

c) Arithmetical Accuracy of the Accounts

8. Suspense a/c in the trial balance is entered in

- a) Trading a/c
- b) Profit and Loss a/c

c) Balance Sheet

9. Suspense a/c having credit balance will be shown on the

- a) Credit side of the P&L a/c

b) Liabilities side of the balance sheet

- c) Assets side of the balance sheet

10. A trial balance will not balance if

- a) Correct journal entry is posted twice
- b) The purchase on credit basis is debited to purchases and credited to cash

c) Rs.500/- cash payment to creditor is debited to Trade Payables (Sundry Creditors a/c) for Rs.50 and credited to cash as Rs.500/-

- d) None of the above

11. Rs.1500/- received from sub-tenant for rent and entered correctly in the cash book is posted to the debit of the rent account. In the Trial Balance

a) The debit total will be greater by Rs.3000/- that the credit total

- b) The debit total will be greater by Rs.1500/- than the credit total
- c) Subject to other entries being correct the total will agree
- d) None of the above

12. After preparation of ledgers, the next step is the preparation of

- a) Trading a/c

b) Trial balance

- c) Profit and loss a/c
- d) None of the above

13. After preparing the trial balance, the accountant finds that the total of debit side is short by Rs.1500/-.

This difference will be

a) Credited to suspense a/c

b) Debited to suspense a/c

c) Adjusted to any of the debit balance a/c

d) Adjusted to any of the credit balance a/c

14.

Account Details	Debit (Rs.)	Credit (Rs.)
Sales		15000
Purchases	10000	
Misc. Expenses	2500	
Salaries		2500
TOTAL	12500	17500

The difference in trial balance is due to

a) Wrong placing of sale a/c

b) Wrong placing of salaries a/c

c) Wrong placing of misc. exp a/c

d) Wrong placing of all accounts

ERRORS AND RECTIFICATION OF ERRORS

- The fundamental principle of double entry system is that every debit has a corresponding credit of equal amount and vice-versa
- Therefore, total of all debit balances in different accounts must be equal to the total of all credit balances in different accounts i.e. the total of two columns should tally / agree.
- The tallying of the two totals (debit balances and credit balances) of the trial balance ensures only arithmetic accuracy but not accounting accuracy
- If however, the two totals do not tally, it implies that some errors have been committed while recording the transactions in the books of accounts.

KINDS OF ERRORS

1. Errors of Principle
 2. Clerical Errors e.g. Errors of Omission, Errors of Commission, Compensating Errors
- Errors of Omission include Partial Omission, Complete Omission
 - Errors of Commission include Error of recording, Error of Posting, Error of Casting, Error of Carrying Forward

i) Errors of Principle

Violation or ignoring the principles of accounting result in errors of principle

e.g. Treating a revenue expense as capital expenditure or VICE VERSA

Treating sale of fixed asset as an ordinary sale

PURCHASE OF ASSETS RECORDED IN THE PURCHASE BOOK

TRIAL BALANCE WILL NOT DISCLOSE ERRORS OF PRINCIPLE

ii) Errors of Omission

- a) When a transaction is **completely or partially omitted to be recorded** in the books of accounts.

e.g. for error of complete omission = Goods purchased from Mr. Ram was completely omitted to be recorded. **THIS ERROR DOES NOT AFFECT THE TRIAL BALANCE.**

- b) When omitted to post to the concerned ledger account from the subsidiary book

e.g. for error of partial omission = this error arises when only one aspect of the transaction either debit or credit is recorded. Credit Sale of goods to Mr. S was recorded in sales book but omitted to be posted in Mr. S a/c. **THIS ERROR AFFECTS THE TRIAL BALANCE.**

iii) **ERRORS OF COMMISSION**

This error arises due to wrong recording, wrong posting, wrong casting, wrong balancing, wrong carrying forward etc.

Errors of Commission include Error of Recording / Error of Posting

Error of Recording does not affect the Trial Balance. This error arises when a transaction is wrongly recorded in the books of original entry.

e.g. goods purchased to the tune of Rs.50000/- was recorded in the book for Rs.55000/-

Error of Posting : e.g. Right amount in the wrong side or wrong amount in the right side

THIS WILL AFFECT THE TRIAL BALANCE.

iv) **ERRORS OF CASTING (Totaling) - AFFECT THE TRIAL BALANCE**

Rs.12000/- was wrongly totaled as Rs.13000/-. (OVERCASTING)

Rs. 5000/- was wrongly totaled as Rs.4000/- (UNDERCASTING)

v) **ERROR OF CARRYING FORWARD - AFFECT THE TRIAL BALANCE**

Total of purchase book in page no. 282 of the ledger was Rs.10686. While carrying forward, it was wrongly recoded as Rs.10866/-

vi) **Compensating Errors - WILL NOT AFFECT THE TRIAL BALANCE**

If purchase book and sales book are overcast, the errors mutually compensate each other.

QUESTION AND ANSWER

1. Goods Purchased from Mr. A for Rs.10000 passed through the Sales Book. The error will result in

a) Increase in Gross Profit

- b) Decrease in Gross Profit
c) No effect on Gross Profit
d) Either (a) or (b)

Ans. **Correct Journal Entry**

Purchase a/c Dr.	10000	
To A		10000

Wrong Journal Entry

To Sales	10000	
----------	-------	--

("purchase" is a debit item and it is an expense. "Sales" is a revenue.

Because of this error, REVENUE INCREASED THERE BY INCREASE IN GROSS PROFIT)

Rectifying Entry

Purchase a/c Dr.	10000	
Sales a/c Dr.	10000	

2. Sale of Office Furniture should be credited to

a) Sales a/c

b) Furniture a/c

- c) Purchase a/c
d) Cash a/c

Ans. **Correct Journal Entry**

Cash a/c Dr.		
To Furniture a/c		

3. Goods worth Rs.100 taken by the proprietor for domestic use should be credited to

- a) Sales a/c
b) Proprietor's personal expenses

c) Purchases a/c

d) Expenses a/c

Ans. **Correct Journal Entry**

Drawing a/c Dr.	100	
To Purchases		100

4. Purchase of Office Furniture Rs.1200/- has been debited to General Expenses a/c. It is
- a) A clerical error
 - b) An error of principle**
 - c) An error of omission
 - d) Compensating error

5. Which of the following errors will not be revealed by the Trial Balance
- a) Compensating error**
 - b) Errors of principle**
 - c) Wrong balancing of an account
 - d) Wrong totaling of an account

Options : **ab**, ac, ad, cd

6. Which of the following errors will be revealed by the Trial Balance
- a) Compensating Error
 - b) Errors of Principle
 - c) Wrong balancing of an account**
 - d) Wrong totaling of an account**

Options : ab, ac, ad, **cd**

FORMAT FOR TRADING ACCOUNT , PROFIT & LOSS ACCOUNTTrading Profit & Loss Account for the year ending 31st March 2017

Dr.

Cr.

To Opening Stock

By Sales Less Sales Returns /
Return Inward

To Purchases Less Purchase Returns / Return Outwards

By Closing Stock

To Wages

By Gross Loss c/d(Tr.to P& L a/c)

To Freight

To Carriage Inwards

To Clearing Charges

To Packing Charges

To Dock Dues

To Power (Factory)

To Octroi Duty

To GROSS PROFIT c/d (Transferred to P&L a/c)

To Trading A/c (G.L.)

By Trading A/c (GROSS PROFIT)

To Salaries

By Commission earned

To Rent & Rates

By Rent received

To Stationery

By Interest received

To Postage expenses

By Discount received

To Insurance

By Net Loss (tr. to Capital a/c)

To Repairs

To Trading expenses

To Office expenses

To Interest Paid

To Bank charges

To Sundry expenses

To Commission Paid

To Discount allowed

To Advertisement

To Carriage Outwards

To Travelling expenses

To Distribution expenses

To Repacking charges

To Bad Debts

To Depreciation

To Net Profit (transferred to Capital a/c)

FORMAT FOR BALANCE SHEET OFAS AT 31ST MARCH 2017**CAPITAL & LIABILITIES****Capital a/c**

Add : Net Profit / Less: Net Loss

Less : Drawings

Less : Income Tax

Long Term Loans

Term Loans

Other Loans

Short Term Loans

Over Draft

Other Loans

Current Liabilities

Trade Liabilities (Sundry Creditors)

Outstanding expenses

Income received in advance

Bills Payable

Provision

Provision for Bad Debts

Provision for Retirement Benefits

Provision for Taxation

-----**ASSETS**

Land and Building

Plant and Machinery

Furniture and Fixture

Vehicles

Good will

Patent Rights

Designs and Brand Names

Investments

Current Assets

Trade Receivables (Sundry Debtors)

Closing Stock

Outstanding Income

Prepaid Expenses

Bills Receivables

Cash in hand

Cash at bank

List of Current Assets and Current Liabilities & Fixed Assets and Long Term Liabilities

Current Assets :

Stock-in-Trade (Closing Stock)
 Sundry Debtors
 Prepaid Expenses
 Accrued Income
 Bills Receivable
 Cash at Bank
 Cash in hand

Current Liabilities :

Sundry Creditors
 Bills Payable
 Bank Overdraft
 Outstanding Expenses
 Prepaid Expenses

Fixed Assets :

Goodwill, Patents & Trademark
 Land and Building
 Plant & Machinery
 Furniture & Fixtures
 Investment

Long Term Liabilities :

Debentures
 Long-Term Loans

CAPITAL + NET PROFIT – DRAWINGS + LIABILITIES = ASSETS

MANUFACTURING ACCOUNTS**Raw Material Consumed**

Opening Inventory	xxx
Add : Purchases	xx
Less : Closing Inventory	x

Xxxxx

Direct Wages xxx

Direct Expenses xxx

Factory Overheads xxx

Indirect Expenses xxx

Depreciation on Plant & Machinery xxx

Xxxx

Closing WIP xxxx

By- Products *** xxxx

Trading a/c**(Cost of Finished Goods transferred) xxx**

xxxx

- Molasses is the by-product in sugar manufacturing
- Butter milk is the by-product of a dairy which produces butter, cheese etc.