

Syllabus
M.C.A. Semester-II
Accounting and Financial Management

1. Accounting process and principles, financial, cost and management accounting.
2. Elements of book keeping, Journal, cash and handbook, Book reconciliation statement, Ledger, trial balance, profit and loss accounts, final accounts of proprietary and partnership concern and balance sheet.
3. Cost accounting – Objectives, elements of cost, understanding of the different methods of costing.
4. Financial Management – Meaning, scope and role, a brief study of functional areas of financial management. Introduction to various FM tools: Ration Analysis
 - Meaning
 - Basis of comparison
 - Types of ratios
5. Working Capital Management: Theory of Working Capital Management: Introduction, Nature of Working Capital, Concepts and Definitions of Working Capital, Need for Working Capital, Permanent and Temporary Working Capital, Changes inn Working Capital, Determinants of Working Capital.
6. Budgeting – budgets, purpose, budgetary control, preparation of budgets, master budget, fixed and flexible budgeting.

Reference Books:

1. “Book Keeping and Accountancy” Choudhari, Chopde.
2. “Cost Accounting”: Choudhari, Chopde.
3. “Financial Management” Text and Problems: M.Y.Khan, P.K. Jain.
4. “Financial Management Theory & Practice” Prasanna Chandra Tata McGraw Hill.
5. Managerial Economics & Financial Analysis, Siddiqui S.A. Siddiqui A.S. New Age.



ACCOUNTING PROCESS AND PRINCIPLES, FINANCIAL, COST AND MANAGEMENT ACCOUNTING

Unit Structure:

- 1.0 Objectives
- 1.1 Introduction
- 1.2 Meaning of Accounting
- 1.3 Accounting Principles
- 1.4 Branches of Accounting
- 1.5 Accounting process
- 1.6 Funds Flow Statement
- 1.7 Cash Flow Statement
- 1.8 Distinction between Funds Flow Statement and Cash Flow Statement
- 1.9 Exercises

1.0 OBJECTIVES

After studying the unit the students will be able to:

- Understand the meaning of Accounting.
- Explain the Accounting Principles and Concepts.
- Know the Process of Accounting.
- Understand and explain the process of Accounting.

1.1 INTRODUCTION

Every person performs some kind of economic activity. A worker daily works and get wages and he spends to buy goods, cloths and some part of earnings saves for future. A business man purchases goods and sales it. He incurred various expenses like salaries, rent etc. A partner in firm contributes towards capital in the firm which carries on business may be trading in goods. Similarly companies, Governments are also carries on some financial

activities. All are carrying some kind of economic activities. Such economic activities are performed through transactions and / or events. Thus the business transactions include purchase, sale of goods, rendering various services, receipts and payments for such transactions. In a business concerns the transactions are numerous. The details of all transactions cannot be remembered by the business man. Therefore it is necessary to keep written records of all such transactions. The records of written transaction will help business to settle disputes and also possible to provide valuable information to the owner of business. Book-keeping discipline has been developed to serve this purpose. The aim of Book-keeping is to provide the information needed by the businessmen and also it helps him to take decisions.

1.2 MEANING OF ACCOUNTING

The American Institute of Certified Public Accounts (AICPA) defined Accounting as “Accountancy is the art of recording classifying and summarizing in a significant manner and in terms of money transactions and events which are in part of at least a financial characters and interpreting the result there of”.

Again in 1966, AICPA defines Accounting as “The process of identifying, measuring and communicating economic information to permit; informed judgement and decisions by the uses of accounts”.

Thus accounting may be defined as the process of recording, classifying, summarizing, analysing and interpreting the financial transactions and communicating the results. There of to the persons interested in such information.

The utility of accounting information is greatly increased when it is compiled in a systematic manner and financial statements are prepared at periodic intervals.

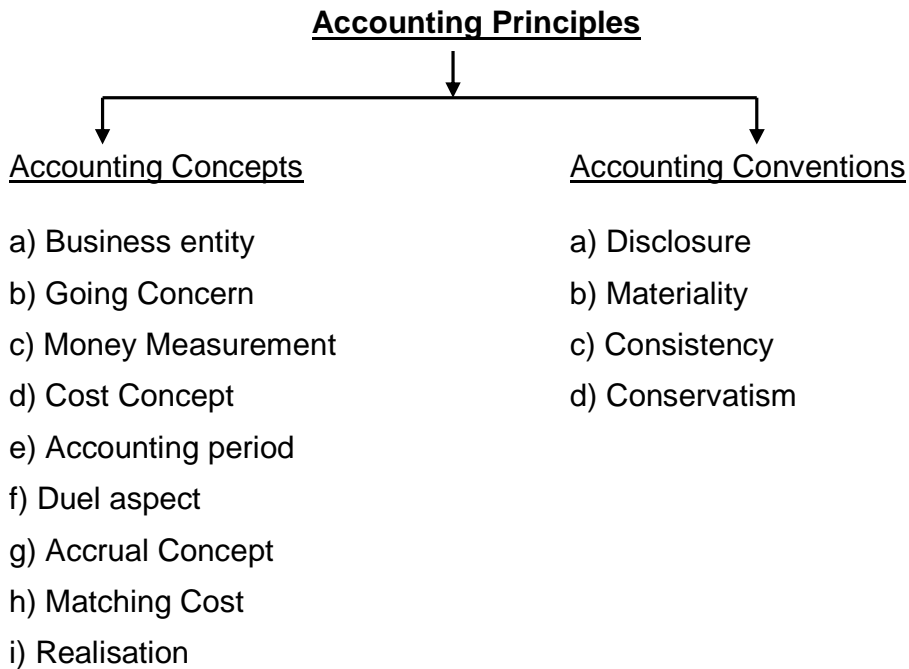
There is difference between the terms “Book keeping” and “Accounting”. Book keeping is merely concerned with orderly record keeping and recording business transactions and financial Accounting is border in scope than book keeping. Accounting involves analysis and judgements at different stages such as recording of transactions, classification, summarization and interpretation.

1.3 ACCOUNTING PRINCIPLES

The basis aims of book-keeping and accountancy are to record the business transactions and events in a summarised form. Transactions are recorded in chronological order in proper books of

accounts book-keeping. Accountancy and science based or fundamental truth and rules or conducts or procedures which are universally accepted. These rules of conducts to record business transactions are called accounting principles. These principles are developed over long period of time.

The classification of accounting principles is as under:



1.3.1 Accounting Concepts:

Concepts mean a general idea which conveys certain meaning. Accounting concepts may be considered as basis assumption or conditions on which the science of accounting is based. Concepts are based on logical consideration. Accounts and Financial statements are always interpreted in light of concepts which govern accounting method.

Different accounting concepts are discussed as follows:

a. **Business Entity Concepts**

According to Entity concept, business is treated as a unit of entity form separate from its Owner, Creditors and Management etc. Accounts are kept for business entity as distinguished from a person associated with it. All business transactions are recorded in the books of Accounts from the point of view of business only. Every type of business organisation is treated as separate Accounting entity.

The failure to recognise the business as separate accounting entity would make it extremely difficult to evaluate the performance of business alone.

The overall effect of adopting this concept is –

- 1) Only the business transactions are reported and not the personal transactions of the owners.
- 2) Profit is the property of business unless distributed to the owners.
- 3) The personal assets of the owners are not considered while recording and reporting the assets of the business entity.

b. Going Concern

Business transactions are recorded on the assumption that the business will continue for a long time. There is neither the intention nor the necessity to liquidate the particular business in near future. Therefore, it would be able to meet its contractual obligation and use its resources according to the plans and predetermined goals. Therefore, Fixed Assets are recorded at cost and depreciation is calculated on cost / written down value. Similarly prepaid expenses are treated as Assets on the presumption that the business will continue and these expenses will be utilized in future.

When an enterprise liquidates a branch or one division or one segment of its business, the ability of the enterprise to continue as a going concern is not imparted.

In case of enterprise going to liquidate or become insolvent. Then the enterprise cannot be considered as a going concern.

c. Money Measurement Concept

A unit of exchange and measurement is necessary to account for business transaction in a uniform manner. Money is common denominator in terms of which the exchange ability of goods and services are measured. Only such transactions and events as can be interpreted in terms of money are recorded.

Non monetary events like public political contract, location of business; certain disputes, efficient Sales Force etc. can not be recorded in the books of Accounts even through these have great effects.

However, a unit of money measurement over period of time has its own drawbacks. Money has time value, which can not be considered. Time value of money is affected seriously by economic differences etc. System of accountancy treats all units of money same irrespective of time of original and settlement of it say after

two years. It will be the same amount. However value of Money true sense will be less. This is a great drawback. This leads to the introduction of inflation accounts.

d. Cost Concepts

According to cost concept the various assets acquired by enterprise should be recorded on the basis of actual cost incurred. The cost concept does not mean that the basis for all subsequent accounting for the assets. As per cost concept Fixed Assets are shown at cost less depreciation charged from year to year. It may be noted that if nothing has been paid for acquiring something it would not be shown/recorded in the books of accounts maintain.

Financial statement based on historical cost may not be much relevant for investors and other users because they are more interested in knowing what the business actually worth today rather than the original cost.

e. Accounting Period Concept

It is customary that the life of the business is divided into appropriate parts or segments of analysing the results shown by the business. Each part divided is known as an accounting period. It is an interval of time at end of which the income statement and balance sheet are prepared. Normally the accounting period consists of twelve months.

f. Dual Aspect Concept

This concept based on double Entry book-keeping which means that Accounting system is set up in such a way that a record is made of the two aspects of each transaction that affects the record. The recognition of the two aspects of every transaction is known as dual aspects concept. Modern Financial Accounting considers both aspects of every transaction.

One entry consists of debit to one or more accounts and another effect consist of credit to some other one or more accounts. However, the total amount debited is always equal to the total amount credited. Therefore at any point of time total assets of a business are equal to its total liabilities. Liabilities to outsider are known as liabilities, liabilities to the owner are referred to as capital.

$$\text{Assets} = \text{Liabilities} + \text{Capital}$$

$$\text{Therefore, Capital} = \text{Assets} - \text{Liabilities}$$

Assets referred to valuable things owned by the business, Capital refers to the owner's contribution to the business.

g. Accrual Concept

This accounting concept states that revenue is recognised when they are earned and when they are not received similarly, cost are recognised as and when they are incurred and not when they are paid. This concept implies that the income should be measured as difference between revenues and expenses rather than the difference between cash received and disbursements. Therefore certain adjustments are required while preparing Final Accounts. In case of revenue accounts; prepaid expenses, outstanding expenses, Income received in advance / Receivable are adjusted. These adjustments have their impact on both the income statement and the Balance sheet.

h. Matching Cost Concept

This concept is based on accounting period concept for determining accurate profit / Income has to compare the revenues of the business with the cost that is incurred to earn that revenue. The term "Matching" means appropriate association of related revenues and expenses. According to this concept adjustments should be made for all outstanding expenses, income receivable, prepaid expenses, Income received in advance, depreciation etc. While preparing final accounts at the end of accounting period.

i. Realisation Concept

This accounting concept explains that sell is supposed to be completed only when ownership of goods are passed on from the seller to the buyer. Income is considered to be earned on the date when sales take place. No profit is supposed to accrue on the acquisition of any thing, however, income earned / realised will be earned only when goods are sold at a profit. Therefore closing stock is valued at cost or market price whichever is less. It prevents business Firms from inflecting their profits by recording income that is expected in future.

1.3.2 Accounting Conventions:

The term 'Convention' denotes customs or traditions or practice based on general agreement between the accounting bodies which guide the accountant while preparing the financial statements.

a. Disclosure

According to convention of full disclosure, accounting must disclose all the material facts and informations so that interested parties after reading such accounting report can get a clear view of the state of affairs of the business. All information which are of

material interest to proprietors, creditors and investors should be disclosed in accounting statement.

The Companies Act makes various provisions for disclosure of essential information that there is no chance of any material information being left out.

b. Materiality

The term material means “relative importance”, Accounting to the convention of materiality; account should report only what is material and ignore insignificant details while preparing the final accounts. Materiality will differ or change with nature, size and tradition of the business. What is material for one enterprise may be immaterial for another enterprise. This is because otherwise accounting will unnecessarily be overburdened with minute details. It is not possible to lay down any fixed standard by which Materiality can be judged. The decision is to be made by the accountant or the Auditor based on their professional experience.

c. Consistency

This accounting convention states that once a particular accounting practice, method or policy is adopted to prepare accounts, statements and Reports. It should be continued for years together and should not change unless it is forced to change it. Accounting practices should remain the same from one year to another. The results of different years will be comparable only when accounting rules are continuously adhered to from year to year i.e. Valuation of stock in trade, method of depreciation, treatment of approval sale etc. Since methods of accounting consistence the financial statements are reliable to the people who use it.

d. Conservatism

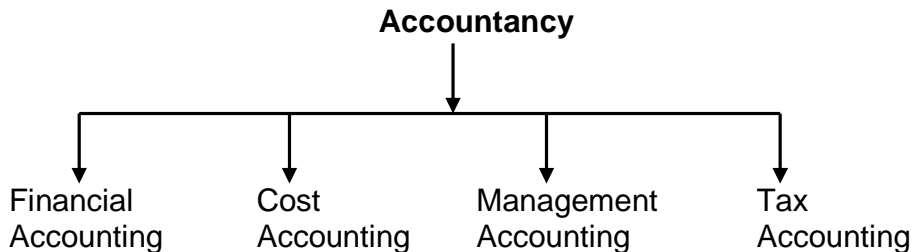
Financial Statements are usually drawn up on a conservative basis. There are two principles which stem directly from conservatism.

- a) The accountant should not anticipate income and should provide all possible losses, and
- b) Faced with the choice between two methods of valuing an asset the accountant should choose a method which leads to the lesser value.

It is also called “Principles of prudence”. Therefore, provision for bad and doubtful debts is also permitted and made every year. Accounting convention must be followed continuously. If not followed continuously it would result into understatement of incomes, assets and overstatement of liabilities and provisions and expenses.

1.4 BRANCHES OF ACCOUNTING

Accounting has forms of branches as under



1.4.1 Financial Accounting

It is concerned with record keeping directed towards the preparation of Trial balance, profit and loss account and balance sheet.

1.4.2 Cost Accounting

Cost Accounting is the process of accounting for costs. It shows classification and analysis of cost on the basis of functions process, products etc. It also deals with cost computation, cost saving, cost reduction etc. In cost accounting cost per unit of output produced or services rendered is ascertained. It helps management in the control of cost of output or services rendered.

1.4.3 Management Accounting

It deals with the processing of data sentenced in financial accounting and cost accounting for managerial decision making. It also deals with application of managerial economic concepts for decision making for the efficient running of the business and thus in maximising profits.

1.4.4 Tax Accounting

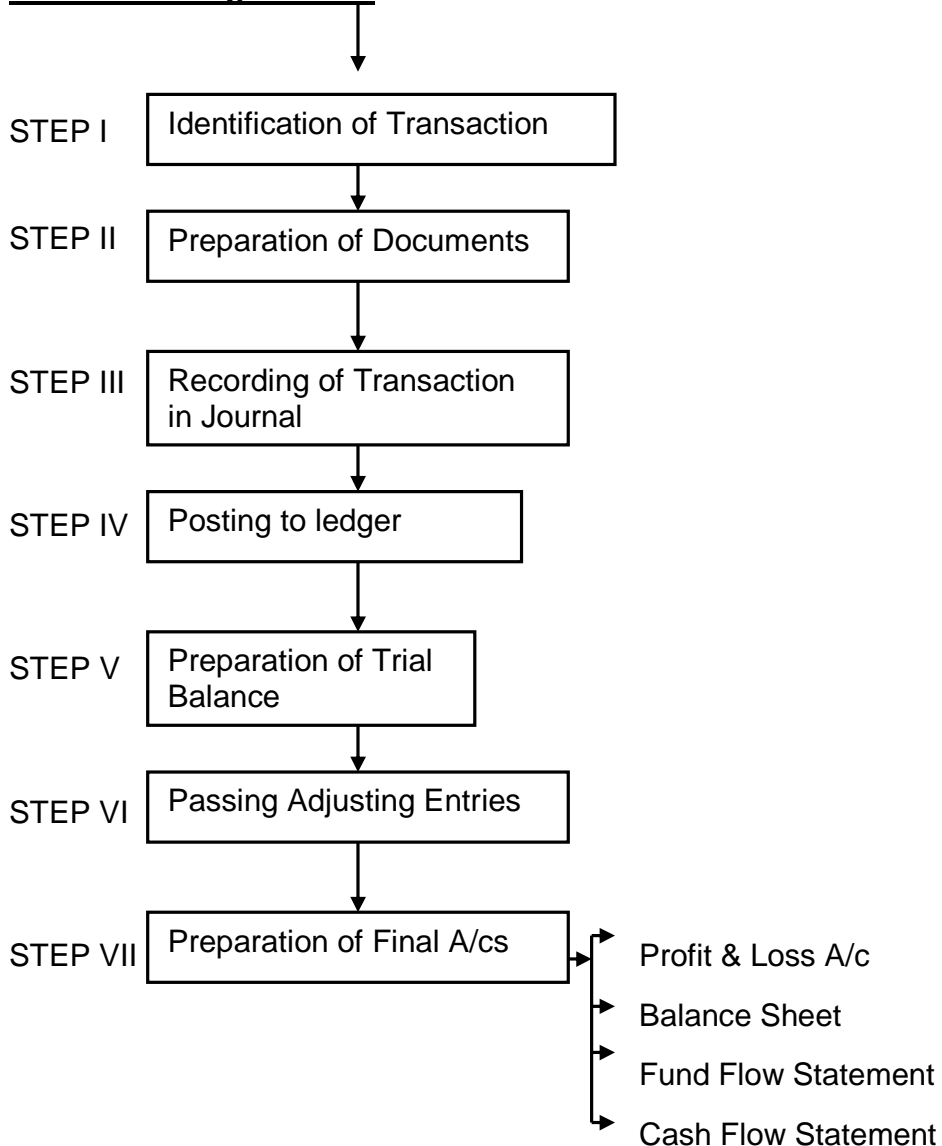
This branch of accounting is becoming important because of complex tax laws governing income-tax, Excise duty, value added tax etc. Tax planning is now a days is very important as well to save tax, Account for tax deducted at sources, payment of advance tax, Filing of various tax returns in time as well as taking Cenvat credit for various taxes whenever is available.

1.5 ACCOUNTING PROCESS

The process of accounting involves recording classifying and summarizing of past events and transactions of financial nature, with a view to enabling the user of accounts to interpret the resulting summary.

The utility of accounting information is greatly increased when it is compiled in a systematic manner and financial statements prepared at periodic intervals.

The Accounting Process



Note: As final Accounts are separately explains in subsequent chapter, here only fund flows & cash flows statements are explained.

CHECK YOUR PROGRESS

- Define the following terms:
 1. Cost Concept
 2. Business entity concept
 3. Going concern concept
 4. Dual aspect concept
- Explain the following Accounting conventions:
 1. Disclosure
 2. Consistency
- Draw the chart showing Accounting Process.

1.6 FUND FLOW STATEMENT

The fund flow statement reflects movement of fund during particular period i.e. movement of working capital. Funds means working capital and not only cash/Bank balances. Sources consider of the transactions that increases net working capital and their applications consist of transactions that decrease working capital.

Specimen of funds flow statement

Funds flow statement for the year ended.....

Sources		Applications	
Issue of Share Capital	x	Redemption of preference shares	x
Issue of Debentures	x	Redemption Debentures	x
Sale of Fixed Assets	x	Repayment of loan Term loans	x
Sale of Investments	x	Purchased of Fixed Assets	x
Long term Loans	x	Purchased of Investment	x
Decrease in working capital	x	Dividend paid	x
Funds from operations (Cash Trading Profit)	x	Income Tax paid	x
		Buy-Back of Equity shares	x
		Increase in working capital	x
	xx		xx

In short fund flows statement indicates various sources of working capital and its applications.

1.7 CASH FLOW STATEMENT

Cash flow statement shows inflows and outflows of cash/ cash equivalent. It is prepared as per A.S-3.

As per A.S-3, the cash flow statement should report cash flows during the period classified as operating, Investing and financing activities.

Activities that do not require use of cash / cash equivalents should be excluded from a cash flow statement. e.g. Issue of Bonus shares conversion of Debentures into new Debentures / Shares.

Cash flow statement can be prepared by Direct method or Indirect method.

Under direct method, major classes of gross cash receipts and gross cash payments are obtained for showing it in funds from operations.

Indirect method, cash flow operating activities is calculated by adjusting net profit. Net profit is adjusted, with non cash transaction such as depreciation, Goodwill w/off etc, result figure indicates cash operating profit, which further adjusted with net increases / decreases in current Assets / Current liabilities. The final amount resulted indicates cash flows operating activities.

Proforma of cash flow statement As per A.S-3 (Indirect Method)

Cash Flow statement for the year ended

	Rs.	Rs.
I) <u>Cash flows from operating Activities</u>		
Net profit before taxations	x	
Add: Adjustment for		
Depreciation, Goodwill w/off	x	
Loss on sale of fixed Assets / Investment	x	
Interest / Dividend Income	x	
Operating profit before working capital changes	xx	
Increases in working capital	(x)	
Decreases in working capital	x	
Cash generated from operations	x	
Cash Income Tax paid	(x)	
Net cash from operating activities		x

II) <u>Cash flows from Investing Activities</u>			
	Sale of Fixed Assets / Investment	x	
	Interest / Dividend received	x	
	Purchased of fixed assets / Investment	(x)	
	Net cash flow from investing activities		x
III) <u>Cash flows from financing Activities</u>			
	Proceeds from Issurance of share capital	x	
	Proceeds from Issurance of Debentures	x	
	Proceeds from long term loans	x	
	Repayment of long term loans	(x)	
	Redemption of Pref. Shares / Debenture	(x)	
	Interest / Dividend paid	(x)	
	Net cash used in financing activities		x
	Net increases or decreases in cash / cash equivalents		xx
	Add: Cash/ cash equivalents at the beginning of the period.		x
	Cash / cash equivalent at the end of period.		xx

1.8 DISTINCTION BETWEEN FUNDS FLOW STATEMENT AND CASH FLOW STATEMENT

Both the above statement are used in analysis of past performance of the business firm.

	Fund Flow Statement		Cash Flow Statement
1.	It is based on accrued accounting system	1.	All cash and cash equivalents are taken into consideration
2.	It analyses the sources & application in Long term funds affecting working capital	2.	Cash flows statements considers only the transactions affecting increases or decreases in current assets or / and current liabilities.
3.	It is more useful in Long-run planning	3.	It help form in identifying the current liquidity problems.
4.	It is broader concepts, considering short term / long term funds into accounts in analysis.	4.	It only deals with current assets/ current liabilities shown in Balance sheet.

5.	It tallies the funds generated from various sources with various uses to which they are put.	5.	It shows in increases or decreases in cash/ cash equivalent during the period, which tallies with difference in opening / closing cash / Bank balances.
6.	It shows the funds generated and applied as regards long term assets & liabilities.	6.	It shows the cash flows from operating, financing and investing activities.

1.9 EXERCISES :

1. Are the accounting concepts and conventions necessary?
2. Explain meaning of:
 - a) Accounting concepts
 - b) Accounting conventions
 - c) Accounting principles
3. Explain accounting conventions of:
 - a) Conservatism
 - b) Consistency
 - c) Disclosure
 - d) Materiality
4. Define and explain:
 - a) Concept of entity
 - b) Concept of continuity
 - c) Cost concept
 - d) Cost attach concept
 - e) Periodic matching of costs and revenues
5. Explain different branches of Accounting.



2

ELEMENT OF BOOK-KEEPING, JOURNAL, CASH AND BANK BOOK-I

Unit Structure:

- 2.0 Objectives
- 2.1 Meaning of Book-keeping
- 2.2 Objective of Book-keeping
- 2.3 Utility of Book-keeping
- 2.4 Book-keeping and Accountancy
- 2.5 Accounting system
- 2.6 Account
- 2.7 Classification of Accounts
- 2.8 Rules of Debit & Credit
- 2.9 Books of Accounts
- 2.10 A conceptual framework of financial accounting
- 2.11 Journal
- 2.12 Solved Problems
- 2.13 Exercises

2.0 OBJECTIVES

After studying the unit the students will be able to:

- Know the Meaning, utility and objectives of Book keeping.
- Explain the Accounting system.
- Know the Classification of Accounts.
- Understand the rules of Debit and Credit.
- Explain the Meaning and Utility of Journal.
- Journalise the Business transactions.

2.1 MEANING OF BOOK-KEEPING

The oxford dictionary defines Book-keeping as “The activities of keeping records of financial dealings”.

J.R. Batiboi defines book-keeping as, "Book-keeping is the art of recording business dealings in set of Books".

R.N. Carter defines book-keeping as "The science and art of correctly recording in the books of accounts. All those business transactions and events inset of books, as and when such transactions take place. It is a systematic recording interms of money in set of books."

2.2 OBJECTIVES OF BOOK-KEEPING

The main objectives of Book-keeping are given below:

1. To maintain the permant records of the business transactions.
2. To ascertain the profit earned or loss suffered during accounting period.
3. To know various business Assets and liabilities apart from the above main objectives.
4. To know amount due to businessman from his customers.
5. To know amount payable to Suppliers.
6. To know various taxes and duties payable to government.
7. To defect and prevent errors and frauds committed by employees and other person.
8. To provide valuable informations for taking for taking various decisions.
9. To take decision on significant business matters.
10. To compare and measure the optional efficiency of his business with other firm, companies in same type of Industry.
11. To review the progress of the business from year to year.
12. To maintain permanent record of all transactions of business for future reference.
13. To excise effective control on various expenses, incomes earned over business assets, business liabilities.
14. Other firms, Companies and within the firm compare current year with previous years. Such comparison is known as infra-firm comparison.

2.3 UTILITY OF BOOK- KEEPING

Utility means usefulness. The utilities to different persons and entities are as under:

- 1) **Businessman:**

The owner who invest his money and assets into his business. He must know the profitabilities, financial stability. The owner can take various decisions on the basis of the valuable information obtained from books of accounts.

2) Evidence:

Books of Accounts can be produced as evidence in a court of law in case of disputes.

3) Book-keeping ensures proper calculation of Income Tax, Sales Tax, VAT and other tax liabilities.

4) Lenders:

On the basis of information from books, it is possible to obtain additional finance for business and working capital. On the basis of such information, lender can be provided any additional information along with various financial statements.

5) Trade Union:

On the basis of financial statement Trade union can insist like in Wages, Bonus etc.

6) Prospective Investors:

Prospective Investor can take investment decision by studying financial statements.

7) Comparative Study:

Financial statement of business enterprise may be compared over a period of years inter firm and can be compared with two or more business enterprise in same type of Business over period of years. This is known as inter firm comparison. Such comparison helps businessman to judge profitabilities and efficient of his business.

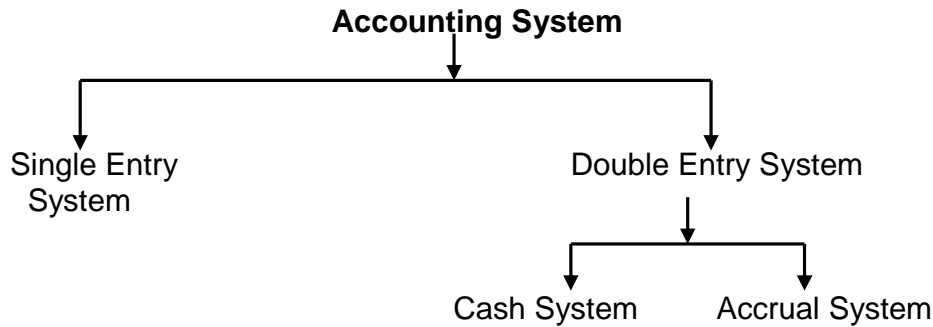
2.4 BOOK- KEEPING AND ACCOUNTANCY

Book-keeping and Accounting they are differ from each other. Book-keeping is mainly concern with recording of financial data relating to business operations in a significant and orderly manner. It is mechanical and repetitive.

Accounting is a broader and more analytical subject. It includes the design of accounting system which book-keepers use to preparation of financial statement, audit, cost studies, Income tax, value added tax etc. Analysis and interpretation of accounting information for internal and external end users as on aid to making business decision. Book-keeping provides the basis of accounting.

2.5 ACCOUNTING SYSTEM

There are two accounting system of keeping records.



2.5.1 Single Entry System:

The single entry system appears to be time saving and economical but it is unscientific, having number of defects. Under single Entry system only few personal accounts are kept, as nothings; Expenses / Income accounts are totally ignored. This system is followed by sole proprietor, having total control on cash as well as on goods. However this system is not generally followed by any trader.

2.5.2 Double Entry System:

The Double entry system is based on scientific principle and is used universally by most of business organisations. This system recognises the fact that every transaction has two aspects and records both aspects of each and every transaction. Every business transaction involves exchange of equal values or benefits. Exchange means the act of giving or receiving one thing in return of the other thing or service or benefit. Thus every transaction has two aspects i.e. receiving and giving. The receiving aspect is also known as the incoming aspect (Debit) and going aspect is known as the outgoing aspect (credit).

Under double entry system books of accounts can be maintained by either cash basis or accrual basis.

- **Cash System of Accounting**

Under cash system of accounting entries are made only when cash is received or paid. No entry is made when amount is due for receipts or payments. Income is received is accounted irrespective of period for which relates. Similarly expenses are restricted to the actual payments made in cash, during the current

period is immaterial whether the payments have been made for previous year or subsequent year.

The financial statement prepare under this system do not present a true and fair view of Income, operating results of enterprise. However it is suitable in following cases.

- i) For very small business organisation.
- ii) For individual to record his own transactions.
- iii) For professionals like Doctors, Lawyers, Chartered Accountant etc.

In cash system financial statements are prepared on the basis of Receipts and payments accounts.

- **Accrual System of Accounts**

This is also known as mercantile system of accounts. Under this system business transactions are recorded as and when it take place irrespective of amount / cash received or paid. Income earned as well as expenses incurred are recorded related to the Particular period. The following are the essential features of accrual basis.

- a) Revenue is recognised on it is earned irrespective of whether cash is received or not.
- b) Costs are matched against revenues on the basis of relevant time period to determined periodic income.
- c) Costs which are not charged to income are carried forward. Any cost that lost its utility is written off as a loss.

2.6 ACCOUNT

An account is summarised record or statement of all transactions relating to a particular person or to a Assets or liability or income or expense.

According to Kohler's Dictionary for accounts, An account has been defined as a formal record of a particular type of transaction expressed in money.

Each account is divided into two parts by the vertical line drawn in the middle.

Dr.Account Cr.

Date	Particulars	JF	Amount	Date	Particulars	JF	Amount

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The left hand side is termed as Debit (Dr.) side and the right hand side is termed as credit (cr.) side.

In order to keep full record of all the transactions the business has to keep.

- i) An account of each head of expenses or income earned by the business and
- ii) An account of each property which belongs to the business and
- iii) An account of each party with whom business deals.

2.7 CLASSIFICATION OF ACCOUNTS :

Accounts are classified into two classes:

- Personal Accounts
- Impersonal Accounts

Impersonal Accounts are further sub divided into

1. Real Accounts
2. Nominal Accounts
3. Valuation Accounts

Thus all accounts can be classified into Personal, Real and Nominal Accounts.

2.7.1 Personal Accounts:

These accounts show the transactions with customers, suppliers, Money lenders, the banks and the owner.

For example: Mohan's A/c, Rajesh's A/c, M/s XY and Co. Reliance Industries Ltd., Apna Bazar Co-operative Society Ltd., Mumbai University, Dena Bank etc.

2.7.2 Real Accounts:

Real accounts may be the following types.

a) Tangible real Accounts: These are accounts of such things which are tangible i.e. which can be seen touched or felt physically. Example: Land, Building, Furniture, Cash etc.

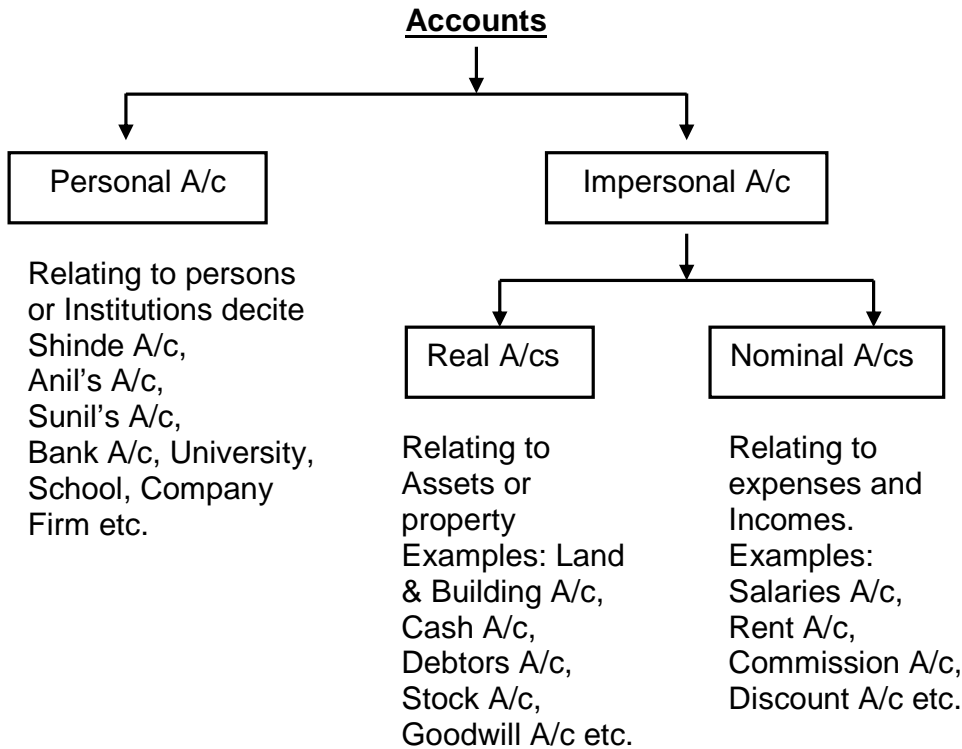
b) Intangible real Accounts: These accounts represent such things which cannot be touched, seen or felt physically. Example: Goodwill, Trade marks, Patent right etc.

2.7.3 Nominal Accounts:

Nominal Accounts includes accounts of all expenses, losses, incomes and gains. Nominal Accounts represent only services or uses.

2.7.4 Valuation Accounts:

Valuation accounts are accounts open to adjust values of assets e.g. provision for Depreciation, Stock Reserve, Provision for doubtful debt A/c.



CHECK YOUR PROGRESS:

- Draw the chart showing the classification of Accounts.
- Define the following terms:
 1. Account
 2. Personal Accounts
 3. Tangible Real Accounts
 4. Valuation Accounts
 5. Single Entry System
 6. Accrual System of Account
 7. Book Keeping

2.8 RULES OF DEBIT AND CREDIT :

The two sides of any account are arbitrarily distinguished. The left hand side of an Account is called Debit side and Right hand side is called the Credit side.

When entry on the left side is made it is called account is debited, and an Entry made on the right hand side of account is called account is credited.

An account is capable of receiving and giving values. When an account receives a value / benefit. It is debited and when it gives a value / benefit it is credited. Each business transactions affects at least two accounts. One account receives benefit of certain value, another account would give the benefit of the same value. The difference between the total debits and total credits in the accounts is considered as balance.

Golden Rules for Debit and Credit

A Personal A/c	B Real A/c	C Nominal A/c
Debit the receiver, Credit the giver	Debit what comes in, Credit what goes out	Debit expenses or losses, Credit Incomes and gains

A) Personal Accounts

The personal Account which receives the benefit is debited, while the personal account which gives the benefit is credited. The fundamental rule of Debit and Credit regarding personal Account is

Debit the Receiver
And Credit the Giver

The rule means, if a person receives anything from the business, his account will be debited in the books of business, and if person gives anything to the business, his account will be credited.

Illustrations 1

Suppose Goods sold on credit to Sunil from the view point of business Sunil is a receiver because he receives goods and therefore Sunil's Account will be debited.

Subsequently cash is received from Sunil. Mr. Sunil becomes a giver because he gives cash and hence his account will be credited.

B) Real Accounts

As a thing either comes in into business or goes out of business.

Debit-What Comes In
Credit-What Goes Out

Real account relates to things or property. Hence the above rule says if anything is coming into business, account of thing is to

be debited and anything is going out of business account of that thing is to be credited.

In the Illustration goods are sold to Mr. Sunil on credit. Goods are going out of business and therefore 'Goods A/c' is to be credited subsequently cash is received from Sunil. Cash is comes in therefore cash Account is to be debited.

C) Nominal Accounts

Being the accounts of losses and expenses or gains and incomes.

Debit Expenses and Losses

Credit Incomes and Gains.

Dr.	Nominal Accounts	Cr.
Payment of Salary, rent loss on sale of Assets. Bad Debts etc	Received Commission. Interest Discount etc.	
Debit losses and expenses.	Credit Incomes and Gains	

The accounts of expenses or losses of the business are to be debited where as the accounts of Incomes or profits are to be credited Exp. Paid salaries.

Here Salary is on expenditure of the business and there fore Salary account is to be debited.

In the transaction "Received Interest from A & Co" Interest is an Income of the business and hence Interest Account is to be credited.

Illustration. 2

State the names of the accounts to be debited or credited in the following transactions.

No.	Transactions	Name of accounts affected	Classification of account	Application of the rules	Answers
1.	Sujit Commenced business with cash	Sujit's Capital A/c	Personal A/c	Credit the giver	Credit
		Cash A/c	Real A/c	Cash comes in Debit what comes in	Debit
2.	Purchased goods for cash	Goods A/c	Real A/c	Goods are comes in	Debit

24

		Cash A/c	Real A/c	Cash is goes out	Credit
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3.	Sold goods on credit to Mr. Avinash	Avinash's A/c	Personal A/c	Avinash is receiver	Debit
		Goods A/c	Real A/c	Goods are goes out	Credit
4.	Cash received from Mr. Avinash	Cash A/c	Real A/c	Cash comes In	Debit
		Avinash's A/c	Personal A/c	Avinash is giver	Credit
5.	Cash deposited into the Bank	Cash A/c	Real A/c	Cash goes out	credit
		Bank A/c	Personal A/c	Bank is receiver	Debit

2.9 BOOKS OF ACCOUNTS :

A business organisations maintains three types books of Accounts; namely,

Cash Book:

To record cash receipts and payments including receipts and Payments through Bank. A separate cash book is kept to record petty expenses.

Journal:

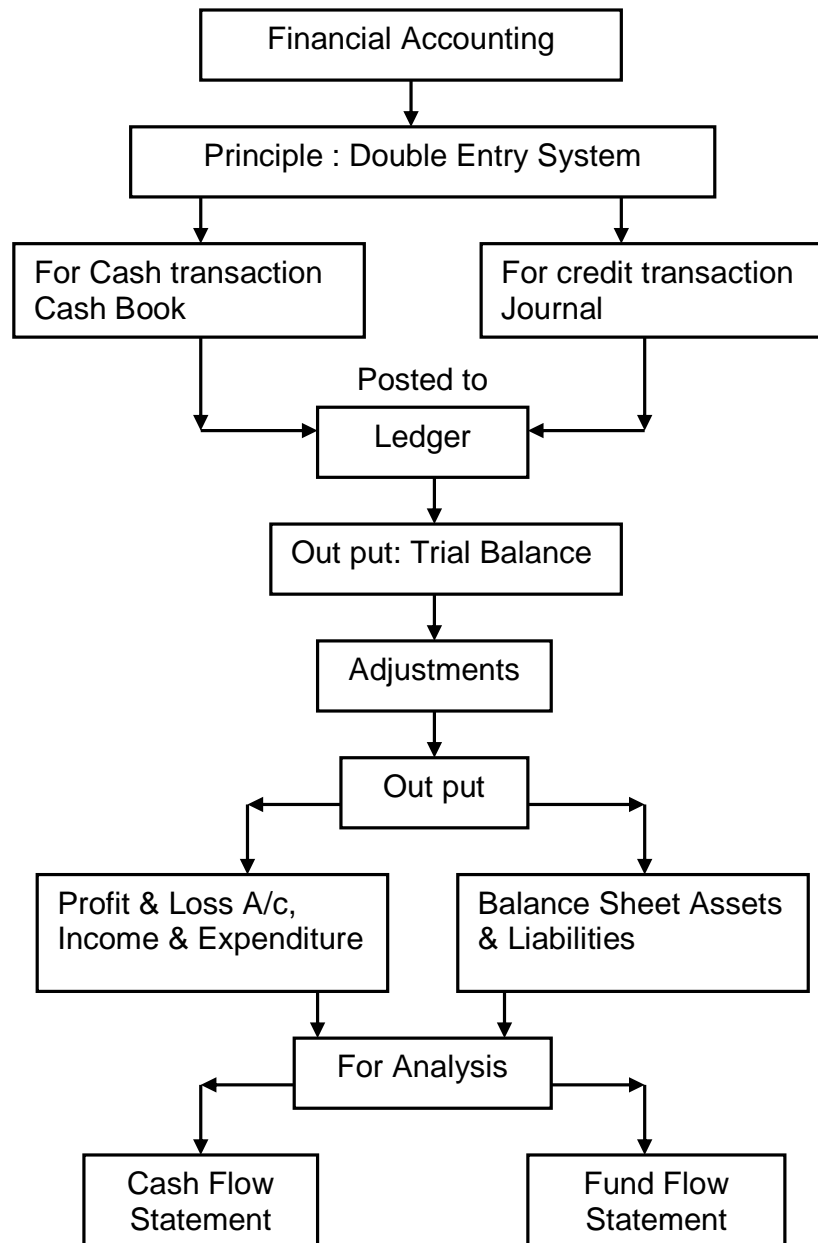
To record non cash transactions like credit sales, credit purchases, Sales Returns, Purchase Returns. These Books are called Subsidiary books.

Ledger:

Ledger contains a classified summary of all transactions recorded in cash book and journal. All personal, Real and Nominal Accounts are prepared into the ledger.

Few additional books of account may be maintained as per requirement of business organisation e.g. Stock Register, Members Register etc.

2.10 A CONCEPTUAL FRAMEWORK OF FINANCIAL ACCOUNTING :



2.11 JOURNAL :

2.11.1 Meaning:

It is essential in a business to record each and every transaction immediately after it takes place. To record credit transaction a separate book, called 'Journal' is maintain, Journal can be defined as, 'a subsidiary book in which all day-to-day

monetary transactions of business are recorded first as and when they take place in chronological order (i.e. date wise), in debit and credit form and in a systematic manner. Journal is also known as 'Prime entry' or 'Original entry' book. Because transactions are first entered in this book and then they are posted in the Ledger.

As Business transactions are numerous and large in size, the Journal may be split up into number of separate Journals to record particular type of transaction. These journal are known as the subsidiary books. Some of the subsidiary books are:

- i) Purchase Book
- ii) Purchase Return Book
- iii) Sales Book
- iv) Sales Return Book
- v) Bills Receivable Book
- vi) Bills Payable Book
- vii) Journal Proper

2.11.2 Necessity or Utility of Journal

1. Direct recording of transactions in the ledger may result in committing errors and omissions and it would be difficult to correct them later on. Hence, Journal is necessary.
2. A complete record (i.e. Debit and credit aspects of each transaction) is available at one place.
3. As the transactions are recorded date wise, it facilitates quick and easy reference to any transaction, whenever necessary.
4. Narration to Journal entry explains the purpose of the entry and helps in understanding the transaction recorded.
5. Entries in the ledger can be made at leisure by the clerk concerned according to his convenience.
6. Cross checking between Journal and Ledger is facilitated to check the accuracy.
7. As the entries in the Journal are made from basic documents like invoices. Vouchers, receipts etc. The court considers the entries in the Journal as proof of transactions.

2.11.3 Specimen of Journal:

Date	Particulars	Voucher No.	LF	Dr. Amt. (Rs.)	Cr. Amt. (Rs.)

Journalising: The act of recording a transaction in the Journal in the form required is called Journalising.

2.11.4 How to Journalise the Transactions

1. First find out the two accounts involved in a transaction.
2. Ascertain the types of those accounts and then decide by applying rules of Debit and Credit as to which account is to be debited and which account is to be credited.
3. The name of the account is to be debited is to be written first under 'Particulars' column. It is written close to the first margin line and the name of the account to be credited is to be preceded by the word "To" and is to be written on the Second line.
4. The amount involved in the transactions is written under the "Dr" and "Cr" columns against the names of debit and credit accounts respectively.
5. A brief explanation of the entry is given in the bracket just below the entry. It is called "narration".
6. A line is drawn below each Journal Entry from first margin line to the second margin line to keep the entries of the transaction separate from one another.
7. Ledger folio (L.F.): It means page number in the ledger. The page on which the particular account is opened in the "Ledger" is stated under "L.F." column to facilitate easy reference.
8. Date: The date of the transaction is written under the column "Date".

2.11.5 Debit note and Credit note:**Debit Note:**

When goods are received from the supplier, the Supplier account is credited. When goods are returned from him the supplier account is debited, so in case of purchase returns a debit note is prepared. It should contain all the details of purchase returns. Generally a debit note will be made in duplicate, one copy will be sent to the customer and other will be kept as office copy.

Credit Note:

It is a statement sent by the seller to his customer intimating that, his account has been credited with the amount of goods return by him or any other allowances granted to him.

2.12 SOLVED PROBLEMS

Illustration 1

Journalise the following transactions in the books of "Ketan".
2009

- Jan. 1 Purchased goods from Nalini on Credit Rs. 1000/-.
- Jan. 2 Sold goods to Mr. Sharma on credit Rs. 2,500/-
- Jan. 3 Purchased furniture for cash Rs. 10,000/-
- Jan. 4 Received interest Rs. 800
- Jan. 5 Paid salaries Rs. 3,500/-

After deciding the accounts to be debited and accounts to be credited the Journal Entries are passed as shown below.

**In the Books of Ketan
Journal Entreis**

Date	Particulars	L.F.	Dr. Rs.	Cr. Rs.
2009				
Jan.1	Purchases A/cDr. To Nalini's A/c (Being goods purchased on credit from Nalini)		1,000	1,000
2	Mr. Sharma's A/cDr. To Sales A/c (Being goods sold on credit to Mr. Sharma)		2,500	2,500
3	Furniture A/cDr. To Cash A/c (Being furniture purchased for Cash)		10,000	10,000

4	Cash A/cDr. To Interest A/c (Being interest received)		800	800
5	Salaries A/cDr. To Cash A/c (Being Salaries paid)		3,500	3,500
	Total		17,800	17,800

Illustration 2

Journalise the following transactions in the books of Shri. More. 2009

- Dec. 1 Shri More started business with cash Rs. 15000.
- 2 Purchased goods from Mr. Singh Rs. 30,000
- 3 Deposited cash into the Bank Rs. 4,000
- 4 Sold goods to Mr. Gujar Rs. 2,500
- 5 Purchased furniture of Rs. 2,500 from furniture and Co.
- 6 Paid to Mr. Singh by cheque Rs. 1,000
- 7 Received a cheque from Mr. Gujar Rs. 1,200
- 8 Paid Interest Rs. 450
- 9 Withdraw cash Rs. 3,000 for personal use
- 10 Cheque received from Mr. Gujar Deposited into the Bank.
- 11 Returned goods to Mr. Singh Rs. 500
- 12 Received goods returned by Mr. Gujar Rs. 300
- 13 Paid salary by cheque Rs. 4,000
- 14 Received a cheque for rent Rs. 900. The cheque is deposited into the Bank.
- 15 Withdraw cash Rs. 3,000 from Bank for office use.
- 16 Returned Furniture of Rs. 400 to Furniture and company.

**In the books of Shri. More.
Journal Entries**

Date	Particulars	L.F.	Dr. Rs.	Cr. Rs.
2009				
Dec.1	Cash A/cDr. To Capital A/c (Being started business with cash)		15,000	15,000
2	Purchases A/cDr To Mr. Singh's A/c (Being credit purchases from Mr. Singh)		30,000	30,000

3	Bank A/cDr. To Cash A/c (Being Cash deposited in the bank)		4,000	4,000
4	Gujar's A/cDr. To Sales A/c (Being goods sold on credit to Mr. Gujar)		2,500	2,500
5	Furniture A/cDr. To Furniture & Co. A/c (Being furniture purchased on credit)		2,500	2,500
6	Singh's A/cDr. To Bank A/c (Being issued a cheque to Mr. Singh)		1,000	1,000
7	Cash A/c Dr. To Mr. Gujar's A/c (Being Cheque received from Mr. Gujar)		1,200	1,200
8	Interest A/cDr. To Cash A/c (Being Interest paid)		450	450
9	Drawings A/cDr. To Cash A/c (Being Mr. More withdraw cash for personal use)		3,000	3,000
10	Bank A/cDr. To Cash A/c (Being cheque deposited into the Bank)		1,200	1,200
11	Mr. Singh's A/cDr. To Purchase Return A/c (Being Goods returned to Mr. Singh)		500	500
12	Sales Return A/c Dr. To Mr. Gujar's A/c (Being Goods returned by Mr. Gujar)		300	300
13	Salaries A/cDr. To Bank A/c (Being cheque issued for Salaries)		4,000	4,000

14	Bank A/cDr. To Rent A/c (Being a cheque from the subtenant in payment of Rent and the cheque is deposited into the Bank)		900	900
15	Cash A/cDr. To Bank A/c (Being cash withdrawn from Bank for office use)		3,000	3,000
16	Furniture and Co's A/cDr. To Furniture A/c (Being Furniture returned to Furniture and Co's A/c)		400	400
	Total		69,950	69,950

The students will note that the total Debits is always equal to total of credits.

The entries in which there are more than one debit or more than one credit are called compound Entries.

Illustration 3

Journalise the following transactions in the books of Mr. Ashok.
March, 2009

- March 1 Mr. Ashok commenced business with Rs. 10,000 of his own and Rs. 5,000 borrowed from his friend Pramod.
- 2 Opened a current account in the Bank of Maharashtra by depositing Rs. 4000.
 - 3 Purchased goods worth Rs. 3,000 from Anil and Co. subject to the 2% Trade Discount.
 - 4 Credit Sales of Rs. 4,000 to Mr. Desai.
 - 5 Cash Sales of Rs. 6,000 to Mr. Kulkarni.
 - 6 Purchased furniture costing Rs. 4,000 of which furniture of Rs. 600 was for residential use of Mr. Ashok.
 - 7 Received cash from Mr. Desai Rs. 3,800 and he was allowed cash discount Rs. 200.
 - 8 Cash purchases of Rs. 1,000 paid carriage Rs. 300.
 - 8 Withdrew from Bank Rs. 2,000 for office use.
 - 10 Returned goods to Anil and Co. Rs. 100.

- 15 Paid cash to Anil & Co Rs. 980, who allowed us discount Rs. 20.
- 16 Received a cheque for Rs. 300 in exchange of cash from Raju.
- 18 Received Interest from M/s Shah and Sons Rs. 800.
- 20 Sale of goods to Kadam Rs. 500.
- 21 Distributed goods of Rs. 500 as free samples.
- 22 Goods of Rs. 500 were used by Ashok for his private purposes.
- 25 Paid Rs. 400 to Manan on behalf of our creditor, Anil and co.
- 30 Our debtor Ketan paid our office Rent Rs. 800.
- 30 Received goods returned by Kadam Rs. 100.
- 31 Ashok brought into business sale proceeds of his personal Furniture Rs. 7,000.
- 31 Invested Rs. 10,000 in the shares of ABB Co. Ltd.
- 31 Received Rs. 360 in full settlement of Kadam dues.

**In the Books of Ashok
Journal**

Date	Particulars	L.F.	Dr. Rs.	Cr. Rs.
2009				
Mar. 1	Cash A/cDr. To Pramod Loan A/c To Capital A/c (Being Ashok Started business with cash Rs. 10,000 of his own and Rs. 5,000 borrowed from Pramod)		15,000	10,000 5,000
2	Bank of Maharashtra A/c Dr. To Cash Ac (Being Cash is deposited into Bank)		4,000	4,000
3	Purchases A/cDr. To Anil and Co's A/c (Being Purchased goods from Anil & Co.)		2,940	2,940
4	Mr. Desai's A/cDr. To Sales A/c (Being goods Sold on credit)		4,000	4,000

5	Cash A/cDr. To Sales A/c (Being goods Sold for cash)	6,000	6,000
6	Furniture A/cDr. Drawings A/cDr. To cash A/c (Being Furniture purchased for office use and personal use)	3,400 600	4,000
8	Cash A/cDr. Discount A/cDr. To Mr. Desai's A/c (Being cash received from Mr. Desai)	3,800 200	4,000
8	Purchases A/cDr. Carriage A/cDr. To Cash A/c (Being Goods purchased for cash and carriage paid thereon)	1,000 300	1,300
9	Cash A/cDr. To Bank A/c (Being cash withdrawn from Bank)	2,000	2,000
10	Anil and Co's A/cDr. To Goods A/c (Pur. Return) (Being Goods returned to Anil and Co.)	100	100
15	Anil and Co's A/cDr. To Cash A/c To Discount A/c (Being cash paid to Anil and Co and received discount from him)	1,000	980 20
18	Cash A/cDr. To Interest A/c (Being interest received from Shah and Co.)	800	800
20	Kadam's A/cDr. To Sales A/c (Being goods sold for credit to Kadam)	500	500

21	Advertisement A/cDr. To Goods A/c (Being Goods distributed as free samples)		500	500
22	Drawings A/cDr. To Goods A/c (Being Goods withdrawn by proprietor for personal use)		500	500
25	Anil and Co's A/cDr. To Cash A/c (Being cash paid to Manan of behalf of Anil and Co's A/c)		400	400
30	Rent A/cDr. To Ketan's A/c (Being Ketan paid rent behalf of us)		800	800
30	Goods A/c / Sales Return A/c Dr. To Kadam's A/c (Being Goods returned by Kadam)		100	100
31	Cash A/cDr. To Capital A/c (Being Proprietor introduced additional capital into the business)		7,000	7,000
31	Investment's / Shares A/c Dr. To Cash A/c (Being investment made in shares of ABB Co. Ltd)		10,000	10,000
31	Cash A/cDr. Discount A/cDr. To Kadam's A/c (Being cash received from Kadam and allowed him to Discount)		360 40	400
	Total		65,340	65,340

Note: Transaction dated 16 march, 2009 does not require Journal Entry as cash exchanged for a cheque. It is not a transaction.

Illustration 4

Journalise the following transactions in the books of Dhawal 2008.

		Rs.
Mar.	2 Commenced business with cash	2,50,000
	4 Purchased furniture for cash	20,000
	4 Cash purchases	1,45,000
	5 Deposited with bank	30,000
	6 Bought from Z	40,000
	Sold to Natu for cash	14,300
	7 Stationery purchased	1,050
	7 Bought from Mona	20,000
	7 Sold to Rakesh	8,000
	9 Rent for two years paid in advance	14,000
	9 Drawings by the proprietor for household Expenses	4,000
	Goods taken out by the proprietor for domestic use	1,500
	9 Cash withdrawn from Bank	25,000
	10 Sold to A & Co on credit	9,000
	11 Purchases made, payment through cheque	2,900
	14 Cash received from Z on account	10,000
	14 Cash paid to Mona after deduction of discount Rs. 130	3,870
	17 Cash received from A & Co. in full settlement of his account	8,750
	28 Purchase of office furniture	40,000
	30 Sold goods to Agarwal for cash	8,000
	Sold to Nana	3,000
	31 Cartage paid in cash	150

Solution:**Journal in books of Dhawal**

Date	Particulars	L.F.	Dr. Rs.	Cr. Rs.
2008				
Mar. 2	Cash A/cDr. To Capital A/c (For cash brought in by proprietor as his capital)		2,50,000	2,50,000
4	Furniture A/cDr. To Cash A/c (For purchase of furniture for cash)		20,000	20,000

4	Purchases A/cDr. To Cash A/c (For purchase of goods in trade for cash)	1,45,000	1,45,000
5	Bank A/cDr. To Cash A/c (For cash deposited in bank)	30,000	30,000
6	Purchases A/cDr. To Z's A/c (Goods purchased from Z on credit)	40,000	40,000
6	Cash A/cDr. To Sales A/c (For cash sales made to Natu)	14,300	14,300
7	Stationery A/cDr. To Cash A/c (For purchase of stationery for cash)	1,050	1,050
7	Purchases A/cDr. To Mona's A/c (For credit purchases of goods to Mona)	20,000	20,000
7	Rakesh's A/cDr. To Sales A/c (For credit sales of goods to Rakesh)	8,000	8,000
9	Rent paid in Advance A/c ..Dr. To Cash A/c (For rent paid in advance)	14,000	14,000
9	Drawings A/cDr. To Cash A/c To Purchases A/c (For drawings in cash and goods made by the proprietor)	5,500	4,000 1,500
9	Cash A/cDr. To Bank A/c (For cash withdrawn from Bank)	25,000	25,000
10	A & Co's A/cDr. To Sales A/c (For sales to Mathur on credit)	9,000	9,000

11	Purchases A/cDr. To Bank A/c (For purchases of goods, payment made by means of cheque)		2,900	2,900
14	Cash A/cDr. To Z's A/c (For cash received from Z)		10,000	10,000
14	Mona's A/cDr. To Cash A/c To Discount A/c (For cash paid to Mona and discount received from him)		4,000	3,870 130
17	Cash A/cDr. Discount A/cDr. To A & Co. A/c (For cash received from A & Co. and discount allowed)		8,750 250	9,000
28	Furniture A/cDr. To Cash A/c (For purchase of a scooter)		40,000	40,000
30	Cash A/cDr. Nana A/cDr. To Sales A/c (For sales made in cash and Nana on credit on this day)		8,000 3,000	11,000
31	Cartage A/cDr. To Cash A/c (Cartage paid)		150	150

Illustration 5

Shri Sona started his business with cash Rs. 35,000 and furniture of Rs. 5,000 on 1st April 2009.

- April. 4 Paid cash into Bank Rs. 10,000
6 Purchased furniture and issued a cheque Rs. 4,000.
8 Credit purchases from Ketan Rs. 20,000 less 5% trade discount.
14 Returned goods to Ketan Rs. 400
19 Cash Sales Rs. 10,000

27 Credit Sales to Natu Rs. 4,000 less trade discount 3%

29 Natu returned goods of Rs. 196

30 Distributed goods of Rs. 4,000 as free samples and Sona used goods of Rs. 1,000 for personal use.

Solution:

**In books of Sona
Journal**

Date	Particulars	L.F.	Dr. Rs.	Cr. Rs.
2009				
April. 1	Cash A/cDr. Furniture A/cDr. To Capital A/c (Sona started business by bringing cash & furniture)		35,000 15,000	50,000
April. 4	Bank A/cDr. To Cash A/c (Paid cash into Bank)		10,000	10,000
April 6	Furniture A/cDr. To Bank A/c (Purchased furniture by issuing a cheque in payment)		4,000	4,000
April 8	Purchase A/cDr. To Ketan's A/c (Credit purchases from Ketan's)		19,000	19,000
April 14	Ketan's A/cDr. To Return outwards A/c (Returned goods to Ketan)		400	400
April 19	Cash A/cDr. To Sales A/c (Cash Sales)		10,000	10,000
April 27	Natu's A/cDr. To Sales A/c (Credit Sales to Natu)		3,880	3,880
April 29	Return Inwards A/cDr. To Natu's A/c (Natu Returned goods to us)		196	196

April 30	Advertisement A/cDr. Drawings A/c To Purchases A/c (Distributed goods as free samples & Madhav took goods for personal use)		4,000 1,000	5,000
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2.13 EXERCISE

2.13.1 Theory Questions

1. Explain term 'Book Keeping.
2. What is Account?
3. Distinguish between:
 - a) Book-keeping and Accountancy
 - b) Personal Accounts and impersonal Accounts
 - c) Real Accounts and Nominal Accounts
 - d) Single Entry system and Double Entry system
 - e) Cash system of Accounts and Accrual system of Accounts.
4. Discuss the principles of debit and credit of Accounts.
5. Explain Journal & its utility.
6. "By sub-division of journal, there will be a division of labour". Explain.

2.13.2 Practical Problems

- 1) Journalise the following transactions in the books of Ram for the month of March 2010.

March 1 Ram commenced business with cash Rs. 60,000.

2 Purchased furniture for Rs. 5,000.

4 Purchased goods for cash Rs. 2,000.

7 Bought goods from M/s. Raj & Co. for Rs. 4,000.

10 Sold goods costing Rs. 3,000 on cash.

15 Purchased stationery for office use Rs. 1,000.

19 Received cash Rs. 1,250 from Mr. Ketan in full settlement of his account for Rs. 1,500.

20 Paid salaries by cheque Rs. 1,500.

25 Introduced additional capital Rs. 20,000.

27 Paid to Raj Rs. 3,250 in full settlement of Rs. 3,500

29 Sold goods for Rs. 15,000 to Mr. Dohi.

31 Deposited Rs. 3,000 into the Bank.

- 2) Journalise the following transactions in the books of Mr. Shiva for the month of April 2010.

April 1 Started business with cash Rs. 25,000/-
2 Purchased goods worth Rs. 10,000/-
4 Deposited cash Rs. 3,000 into the Bank.
6 Purchased goods of Rs. 6,000 from M/s. Raju Trading Company.
9 Sold goods to Mr. Ramesh for Rs. 3,000.
12 Paid to M/s. Raju Trading Company Rs. 3,000.
15 Received Rs. 1,000 from Mr. Ramesh.
20 Paid salaries Rs. 1,000/- and paid commission Rs. 1,600/- in cash.
25 Bought stationery for office use Rs. 300.
27 Withdrew Rs. 2,500 from business for personal use.
29 Withdrew Rs. 4,000 from bank for office use.

- 3) Journalise the following transactions in the journal of Mr. Anand for the month of February, 2010.

Feb 1 Borrowed from Bank @ 15% interest Rs. 20,000.
3 Purchased goods from Mr. Sam for Rs. 3,500.
4 Paid carriage and cartage Rs. 250
7 Sold goods on cash Rs. 3,000.
10 Paid Rs. 2,250 to Mr. Sam.
15 Purchased office furniture for Rs. 6,000.
18 Paid interest Rs. 450/- to Mr. Bank.
20 Paid salaries Rs. 6,000.
22 Cash sales Rs. 20,000.
26 Cash purchases Rs. 15,000
28 Paid Rs. 2,000 to Bank in part payment of loan.

- 4) Journalise the following transactions in the books of Mr. Vishal for the month of March, 2010.

Mar. 1 Vishal started business with cash Rs. 35,000, goods worth Rs. 10,000.
2 Opened bank account in the Bank of India by depositing Rs. 5,000.
4 Bought goods worth Rs. 6,000 @ 10% trade discount term.
7 Sold goods worth Rs. 3,000

- 9 Purchased furniture of Rs. 4,000 for office use and furniture of Rs. 1,000 for home use.
- 14 Withdrawn goods of Rs. 1,000 for self use.
- 17 Received Rs. 2,400 from Mr. Ravindra in full settlement of Rs. 2,450.
- 19 Paid salaries Rs. 500 to office clerk and paid electricity bill of Rs. 750 in cash.
- 24 Paid Mr. Raj Rs. 1,960 in full settlement of Rs. 2,000.
- 26 Paid insurance premium of Rs. 1,200 on the life of Mr. Vishal, a proprietor.
- 29 Cash sales Rs. 3,000.
- 30 Withdrew Rs. 4,000 from bank for office use.

5) Draft journal entries for the business transactions given below.

- Apr. 1 Mr. Atul started business with cash Rs. 5,000/-, goods Rs. 7,500 and furniture Rs. 2,500/-
- 3 Purchased goods worth Rs. 4,500 from Mr. Kamalakar.
- 5 Cash sales Rs. 6,000
- 8 Purchased stationery for office use Rs. 500.
- 10 Paid to Mr. Kamalakar Rs. 4,350 in full settlement of Rs. 4,500.
- 13 Deposited Rs. 1,000 into the Bank.
- 16 Received Rs. 500 from Mr. Kiran.
- 19 Withdrawn Rs. 200 from business for self use.
- 23 Paid Rs. 150 for commission and paid Rs. 450 for rent.
- 27 Paid wages Rs. 600 in cash, and paid sundry expenses Rs. 200/- by cheque.
- 29 Borrowed Rs. 5,000 from wife for business purpose.
- 30 Cash purchases Rs. 1,000.



ELEMENT OF BOOK-KEEPING, JOURNAL, CASH AND BANK BOOK-II

Unit Structure:

- 3.0 Objectives
- 3.1 Cash Book
- 3.2 Cash Discounts
- 3.3 Petty Cash Book
- 3.4 Three Column Cash Book
- 3.5 Exercises

3.0 OBJECTIVES

After studying the unit the students will be able to:

- Know the Meaning of Cash book.
- Understand the meaning of Cash discount and effect of cash discount.
- Understand the types of Cash Book.
- Record the transactions in the Cash Book.

3.1 CASH BOOK

This records all receipts of and payments in cash. Usually the deposits into bank accounts maintained by the business, withdrawals from such accounts and cheques payments are also recorded in the Cash Book. Sometimes a separate book for recording receipts and payments by cheques / DDs etc., is kept known as the Bank Book. A Cash Book which is used to record both cash and bank transactions is referred to as a Two-column Cash Book. The format of this cash book is given below:

Illustration 1**Cash Book of Anand & Co.**

Dr.					Cr.				
Date	Receipts	Ledger Folio	Cash	Bank	Date	Payments	Ledger Folio	Cash	Bank
2008					2008				
July					July				
1	To Balance b/f		11,500	13,000	2	By Wages		150	
6	To Sales		1,800		5	By Electricity			800
7	To Z & Co.			7,000	8	By Salaries		4,400	
11	To R.K. Corporation			2,000	15	By O Ltd			11,200
30	To Sales		2,500		22	By Plant		4,000	
					31	By Balance c/f		7,250	10,000
			15,800	22,000				15,800	22,000

3.2 CASH DISCOUNTS

Sometimes, in order to encourage early payments due from customers, a company may offer a certain percentage of the amount as a discount. For example, if a customer owes the company Rs. 11,000, the company may allow 3% discount if the payment is made before a certain date. In such a case, the customer would pay an actual cash of Rs. 10,670 only (Rs. 11000-3% of Rs. 11,000) and Rs. 330 would be treated as discount expense by the company. A cash discount may be distinguished from a trade discount which is given on the invoice price, especially when orders for large quantities are placed. The trade discount is therefore reflected as a reduction in the sale price itself. Therefore Trade discount not recorded in books of Accounts.

A cash book can also be used to record the cash discounts that are allowed to customers for prompt payments and the cash discounts that are earned on payments made to suppliers within a stipulated time period. Since discounts will be allowed to customers at the time of receipt of money and received from suppliers at the time of payment of dues, it is convenient to maintain the column for discounts allowed on the receipts side of the cash book and the column for discounts received on the payments side. A cash book in which the cash and bank transactions and the details of cash discounts are recorded is referred to as a Three-column cash book. An illustrative format of this type of cash book is given below:

Illustration 2**Cash Book of Anand & Co.**

Dr.					Cr.				
Date	Receipts	Discount allowed	Cash	Bank	Date	Payments	Discount received	Cash	Bank
2010					2010				
April					April				
1	To Balance b/f		11,500	6,500	1	By Salaries			6,200
6	To Sales		8,000		3	By Wages		2,500	
7	To Z & Co.	100		10,000	5	By Printing			4,000
11	To Balu Corpn.	100	600	22,350	8	By Repairs		4,000	
20	To Sales		1,500		15	By K Ltd	100	12,700	10,900
					20	By Drawings		1,000	4,000
					30	By Balance c/f		1,400	13,750
		200	21,600	38,850			100	21,600	38,850

Illustration: 3

Enter the following transactions in simple cash book.

April, 2010

- 1 Started business with Cash Rs. 50,000
- 3 Made Cash purchases Rs. 8,000
- 4 Made Cash Sales Rs. 12,000
- 6 Purchased furniture Rs. 4,000
- 7 Received Cash from Mr. Kulkarni Rs. 8,000
- 8 Paid Salaries Rs. 5,000

Cash Book

Dr.

Cr.

Date	Particulars	V. No.	JF No	Rs.	Date	Particulars	V. No.	JF No	Rs.
2010					2010				
April, 1	To Capital A/c			50,000	April, 3	By Purchases A/c			8,000
4	To Sales A/c			12,000	6	By Furniture A/c			4,000
7	To Kulkarni's A/c			8,000	8	By Salaries A/c			5,000
					30	By bal. c/d			53,000
				70,000					70,000

Illustration: 4

From the following particulars of Kahan's. Prepare a cash book with discount and cash column only.

2010

- Jan 1 Balance of cash in hand Rs. 50,000
- 2 Purchased goods worth Rs. 25,000 for cash and paid carriage inward Rs. 700.
- 5 Paid into Bank current A/c Rs. 15,000
- 13 Paid by cheque to Malini Rs. 4,800 in full settlement of Rs. 5,000.
- 13 Received for cash sales Rs. 1500 cash and cheque Rs. 5,000
- 14 Drew for sister's marriage Rs. 8,000/- by cheque.
- 16 Paid for wages Rs. 400 and salaries Rs. 2,000.
- 17 Received interest on investment Rs. 900 and paid the same into the Bank.
- 20 Paid by cheque Rs. 5,000 on account Mr. Mali and was allowed discount of Rs. 300.
- 25 Drew two cheques for petty cash and office use Rs. 150 and Rs. 100 respectively.
- 31 Received a cheque from Bharat Rs. 2,880 in full settlement of Rs. 3,000.
- 31 Paid in cash in excess of Rs. 4,000 into Bank.

47

Solution:

Cash Book

Receipts

Payments

Date	Particulars	R. No	LF No	Dis.	Rs. Cash	Date	Particulars	R. No.
2010						2010		
Jan.1	To bal b/d			-	50,000	Jan. 2	By Purchases A/c	
13	To Sales A/c			-	6,500		By Carriage Inward A/c	
15	To Bank A/c			-	4,800	5	By Bank A/c	
14	To Bank A/c			-	8,000	13	By Malini's A/c	
17	To Interest A/c			-	900	14	By Drawings A/c	
20	To Bank A/c			-	5,000	16	By Wages A/c	
25	To Bank A/c			-	250		By Salaries A/c	
31	To Bharat's A/c			120	2,880	17	By Bank A/c	
						20	By Mali A/c	
						25	By Petty Cash	
						31	By Bank A/c	
							By Bal c/d	
				120	73,530			

3.3 PETTY CASH BOOK

When the petty cash fund is operated as an imprest fund, the recording of the petty expenses paid will be made in the petty cash book. This would also avoid recording too many small value transactions in the main cash book. The petty cash book would contain a number of analytical columns for grouping the various expenses under a few classifications which would facilitate subsequent posting into the General Ledger. A specimen petty cash book is given below:

Illustration 1:

Analytical Petty Cash Book of Anand & Co.

Amount Received	Date	Particulars	Total Amount paid	Postage & Telegrams	Printing & Stationery	Carriage	Traveling Expenses	Sundry Expenses
	2010							
3000	April, 1	To Bank A/c (Cheque encashed)						
	April, 7	By Postal stamps	190	190				
	April, 10	By Stationery	232		232			
	April, 15	By Carriage	616			616		
	April, 20	By Auto fare of salesman	400				400	
	April, 22	By Telegrams	10	10				
	April, 27	By Carriage	110					110
	April, 30	By Stationery	206		206			
			1764	200	438	616	400	110
	April, 30	By Balance c/d	1236					
3000			3000					
	2010							
1236	May, 1	To Balance b/d						
1764	May, 1	To Bank A/c (Cheque encashed)						

Separate Petty Cash A/c is open in Ledger & total Exp. credited to Petty Cash A/c. Individual expenses total is debited to concerned expenses A/c in the Ledger.

3.4 THREE COLUMN CASH BOOK

Cash book with Discount, cash and bank column is known as three column cash-book. In this cash book along with cash transactions banking transactions are also recorded.

Dr. Receipts Cash book Payments Cr.

Date	Particulars	R No.	LF No.	Disc out	Cash Rs.	Bank Rs	Date	Particulars	R No.	LF No.	Disc out	Cash Rs.	Bank Rs

Journal Entries for cash and Banking Transactions

Accounting Entry

1) Investment of capital in cash by proprietor	Cash A/cDr. To Capital A/c
2) Sale of goods on cash basis	Cash A/cDr. To sales A/c
3) Receipt of Income in cash	Cash A/cDr. To Income A/c
4) Cash deposited in to the Bank	Bank A/cDr. To Cash A/c
5) Cash withdrawn from Bank for office use	Cash A/cDr. To Bank A/c
6) Sale of goods and amount received by Cheque and same cheque is deposited into Bank immediately.	Bank A/cDr. To Sales A/c
7) When bearer cheque is received from outside party.	Cash A/cDr. To Party's A/c
8) When order or crossed cheque received from outside party.	Bank A/cDr. To Party's A/c
9) When cheque received from outside Party and deposited in into the bank on the same day	Bank A/cDr. To Party's A/c
10) Cheque received on earlier day and deposited to day	Bank A/cDr. To Cash A/c
11) Cheque issued to other Party Dishonoured	Bank A/cDr. To Party's A/c
12) When customer directly deposits the amount into the Bank	Bank A/cDr. To Customers A/c

13) When bank collects our income and deposit into our account	Bank A/cDr. To Incomes A/c
14) Cheque received, deposited and then dishonoured	Party's A/cDr. To Bank A/c
15) Purchase of goods on cash basis / cash purchase	Purchases A/cDr. To Cash A/c
16) Payment of expenses in cash	Expenses A/cDr. To Cash A/c
17) Entry for Bank charges and commissions	Bank charges A/c..Dr. Commission A/c ..Dr To Bank A/c
18) Transfer of amount from current A/c to Fixed Deposit or savings A/c	Fixed Deposit A/c .Dr Savings A/c Dr. To Bank A/c
19) When cheque is issued to outside Party	Party's A/cDr. To Bank A/c

Illustration 2:

During January 2010 Ram transacted the following business:

2010 Jan		Rs.
1.	Commenced business with cash	20,000
2.	Purchased goods on credit from Nadu.	1,00,000
3.	Purchased goods for cash	4,000
4.	Paid Gopal an advance for goods ordered	10,000
5.	Received cash from Maruti as advance for goods ordered by him	6,000
6.	Purchased furniture, office use for cash	2,000
7.	Paid Rent	1,000
8.	Received commission (in cash)	1,600
9.	Goods returned to Nadu	2,000
10.	Goods sold to Kishore	10,000
11.	Paid for postage and telegrams	200
13.	Goods returned by Kishore	2,000
14.	Purchase furniture (amount cheque paid)	16,000
15.	Paid for stationery	1,200
18.	Paid into Bank	5,000

20.	Goods sold for cash	27,750
22.	Bought goods for cash	3,000
25.	Paid salaries by cheque	3,200
28.	Paid rent	1,000
31.	Drew cash for personal use	4,000
31.	Deposited cash into Bank	12,000

Journal Entries in the books of Ram

Date	Particulars	L.F.	Dr. Rs.	Cr. Rs.
2010				
Jan. 1	Cash A/cDr. To Ram's Capital A/c (Being the cash brought into business as capital)		20,000	20,000
Jan. 2	Purchase A/cDr. To Nandu's A/c (Being the goods purchased on credit)		1,00,000	1,00,000
Jan. 3	Purchases A/cDr. To Cash A/c (Being the goods purchased for cash)		4,000	4,000
Jan. 4	Gopal A/cDr. To Cash A/c (Being the amount paid to Gopal)		10,000	10,000
Jan. 5	Cash A/cDr. To Maruti A/c (Being the cash received from Maruti)		6,000	6,000
Jan. 6	Furniture A/cDr. To Cash A/c (Being the furniture purchased for office use for cash)		2,000	2,000
Jan. 7	Rent A/cDr. To Cash A/c (Being the wages paid)		1,000	1,000

Jan. 8	Cash A/cDr. To Commission Received A/c (Being the commission received)		1,600	1,600
Jan. 9	Nandu A/cDr. To Purchase return A/c (Being goods returned to Nandu)		2,000	2,000
Jan. 10	Kishore A/cDr. To Sales A/c (Being goods sold to Kamal on credit)		10,000	10,000
Jan. 12	Postages & Telegrams A/c..Dr To Cash A/c (Being the amount paid for postages & Telegrams)		200	200
Jan. 13	Sales returns A/c ...Dr. To Kishore's A/c (Being the goods returned by Kamal)		2,000	2,000
Jan. 14	Furniture A/cDr. To Bank A/c (Being cheque issued for purchase of Furniture)		16,000	16,000
Jan. 15	Stationery A/cDr. To Cash A/c (Being the amount paid for stationery)		1,200	1,200
Jan. 18	Bank A/cDr. To Cash A/c (Being the amount deposited into the Bank)		5,000	5,000
Jan. 20	Cash A/cDr. To Sales A/c (Being the goods sold for cash)		27,750	27,750
Jan. 22	Purchases A/cDr. To Cash A/c (Being the goods purchased for cash)		3,000	3,000

Jan. 25	Salaries A/cDr. To Bank A/c (Being the amount paid as salaries)		3,200	3,200
Jan. 28	Rent A/cDr. To Cash A/c (Being the rent paid)		1,000	1,000
Jan. 31	Ram Drawings A/c ..Dr. To Cash A/c (Being the cash drawn for personal use)		4,000	4,000
Jan. 31	Bank A/cDr. To Cash A/c (Being cash deposited)		12,000	12,000

Posting in the Ledger Accounts:

Now let us prepare the ledger accounts based on the entries passed earlier. A separate account is opened in ledger for each account. All the debit entries and credit entries are duly entered. At the end, the accounts are properly balanced. In other words, the total of all debit entries is adjusted against the total of credit entries and balance is carried forward to the next accounting period.

In the Books of Ram Cash Book, Subsidiary Books and General Ledger Cash Book (Three Column)

Date	Receipts	L.F.	Cash Rs.	Bank Rs.	Date	Payments	L.F.	Cash Rs.	Bank Rs.
2010					2010				
Jan.1	To Capital A/c		20,000		Jan. 3	By Purchases A/c		4,000	
Jan. 5	To Maruti's A/c		6,000		Jan. 4	By Gopal A/c		10,000	
Jan. 8	To Commission A/c		1,600		Jan. 6	By Furniture A/c		2,000	
Jan. 18	To Cash A/c	C	-	5,000	Jan. 7	By Rent A/c		1,000	
Jan. 20	To Sales A/c		27,750		Jan. 12	By Postage A/c		200	
Jan. 31	To Cash A/c	C	-	12,000	Jan. 14	By Furniture A/c			16,000
					Jan. 15	By Stationery A/c		1,200	
					Jan. 18	By Bank A/c	C	5,000	
					Jan. 22	By Purchases A/c		3,000	
					Jan. 25	By Salaries A/c			3,200
					Jan. 28	By Rent A/c		1,000	
					Jan. 31	By Bank A/c	C	12,000	
					Jan. 31	By Drawings A/c		4,000	
					Jan. 31	By Balance c/d		11,950	12,000
			55,350	17,000				55,350	17,000

Note: The letter 'C' in the Ledger Folio column denotes a 'contra entry'. That is an entry for which the debit and credit aspects are found in the Cash Book itself.

Purchases Book

Date	Name of Supplier	Ledger Folio	Inward Invoice No.	Amount Rs.
2010				
Jan.2	Nandu			1,00,000
			Total	1,00,000

Purchase Returns Book

Date	Name of Supplier	Ledger Folio	Debit Note No.	Amount Rs.
2010				
Jan.9	Nandu			2,000
			Total	2,000

Sales Book

Date	Name of Customer	Ledger Folio	Outward Invoice No.	Amount Rs.
2010				
Jan.10	Kishore			10,000
			Total	10,000

Sales Returns Book

Date	Name of Customer	Ledger Folio	Credit Note No.	Amount Rs.
2010				
Jan.13	Kishore			2,000
			Total	2,000

General Ledger

Ram's Capital A/c

Dr.

Cr.

Date	Particulars	JF No	Amount Rs.	Date	Particulars	JF No	Amount Rs.
2010				2010			
Jan.31	To Balance c/d		20,000	Jan.1	By Cash A/c		20,000
			20,000				20,000
				Feb.1	By Balance b/d		20,000

55

Nandus A/c

Dr.				Cr.			
Date	Particulars	JF No	Amount Rs.	Date	Particulars	JF No	Amount Rs.
2010				2010			
Jan.9	To Purchase Returns A/c		2,000	Jan.2	By Purchases A/c		1,00,000
Jan.31	To Balance c/d		98,000				
			1,00,000				1,00,000
				Feb.1	By Balance b/d		98,000

Purchases A/c

Dr.				Cr.			
Date	Particulars	JF No	Amount Rs.	Date	Particulars	JF No	Amount Rs.
2010				2010			
Jan.2	To Nandu's A/c		1,00,000	Jan.31	By Balance c/d		1,07,000
Jan.3	To Cash A/c		4,000				
Jan.22	To Cash A/c		3,000				
			1,07,000				1,07,000
Feb.1	To Balance b/d		1,07,000				

Sales A/c

Dr.				Cr.			
Date	Particulars	JF No	Amount Rs.	Date	Particulars	JF No	Amount Rs.
2010				2010			
Jan.31	To Balance c/d		37,750	Jan.13	By Kishore's A/c		10,000
				Jan.20	By Cash A/c		27,750
			37,750				37,750
				Feb.1	By Balance b/d		37,750

Purchase Return A/c

Dr.				Cr.			
Date	Particulars	JF No	Amount Rs.	Date	Particulars	JF No	Amount Rs.
2010				2010			
Jan.31	To Balance c/d		2,000	Jan.9	By Nandu's A/c		2,000
			2,000				2,000
				Feb.1	By Balance b/d		2,000

56

Sales Return A/c

Dr.

Cr.

Date	Particulars	JF No	Amount Rs.	Date	Particulars	JF No	Amount Rs.
2010				2010			
Jan.13	To Kishore's A/c		2,000	Jan.31	By Balance c/d		2,000
			2,000				2,000
Feb.1	To Balance b/d		2,000				

Gopal's A/c

Dr.

Cr.

Date	Particulars	JF No	Amount Rs.	Date	Particulars	JF No	Amount Rs.
2010				2010			
Jan.6	To Cash A/c		10,000	Jan.31	By Balance c/d		10,000
			10,000				10,000
Feb.1	To Balance b/d		10,000				

Rent A/c

Dr.

Cr.

Date	Particulars	JF No	Amount Rs.	Date	Particulars	JF No	Amount Rs.
2010				2010			
Jan.7	To Cash A/c		1,000	Jan.31	By Balance c/d		1,000
			1,000				1,000
Feb.1	To Balance b/d		1,000				

Commission Received A/c

Dr.

Cr.

Date	Particulars	JF No	Amount Rs.	Date	Particulars	JF No	Amount Rs.
2010				2010			
Jan.1	To Balance c/d		1,600	Jan.31	By Cash c/d		1,600
			1,600				1,600
				Feb.1	By Balance b/d		1,600

57

Kishore's A/c

Dr.

Cr.

Date	Particulars	JF No	Amount Rs.	Date	Particulars	JF No	Amount Rs.
2010				2010			
Jan.10	To Sales A/c		10,000	Jan.31	By Sales		2,000
				Jan.31	Returns A/c		8,000
			10,000		By Balance c/d		10,000
Feb.1	To Balance b/d		8,000				

Postage & Telegram A/c

Dr.

Cr.

Date	Particulars	JF No	Amount Rs.	Date	Particulars	JF No	Amount Rs.
2010				2010			
Jan.12	To Cash A/c		200	Jan.31	By Balance c/d		200
			200				200
Feb.1	To Balance b/d		200				

Stationery A/c

Dr.

Cr.

Date	Particulars	JF No	Amount Rs.	Date	Particulars	JF No	Amount Rs.
2010				2010			
Jan.15	To Cash A/c		1,200	Jan.31	By Balance c/d		1,200
			1,200				1,200
Feb.1	To Balance b/d		1,200				

Salaries A/c

Dr.

Cr.

Date	Particulars	JF No	Amount Rs.	Date	Particulars	JF No	Amount Rs.
2010				2010			
Jan.25	To Bank A/c		3,200	Jan.31	By Balance c/d		3,200
			3,200				3,200
Feb.1	To Balance b/d		3,200				

58

Rent A/cDr. Cr.

Date	Particulars	JF No	Amount Rs.	Date	Particulars	JF No	Amount Rs.
2010				2010			
Jan.28	To Cash A/c		1,000	Jan.31	By Balance c/d		1,000
			1,000				1,000
Feb. 1	To Balance b/d		1,000				

Drawings A/cDr. Cr.

Date	Particulars	JF No	Amount Rs.	Date	Particulars	JF No	Amount Rs.
2010				2010			
Jan.31	To Cash A/c		4,000	Jan.31	By Balance c/d		4,000
			4,000				4,000
Feb.1	To Balance b/d		4,000				

Maruti's A/cDr. Cr.

Date	Particulars	JF No	Amount Rs.	Date	Particulars	JF No	Amount Rs.
2010				2010			
Jan.31	To Balance c/d		6,000	Jan.5	By Cash A/c		6,000
			6,000				6,000
				Feb.1	By Balance b/d		6,000

Furniture A/cDr. Cr.

Date	Particulars	JF No	Amount Rs.	Date	Particulars	JF No	Amount Rs.
2010				2010			
Jan.6	To Cash A/c		2,000	Jan.31	By Balance c/d		2,000
			2,000				2,000
Feb. 1	To Balance b/d		2,000				

Illustration 3:

Enter the following transactions in Raj's Cash show 'Discount Allowed' and 'Discount Received A/c'. March 2010.

- 1 Cash on hand Rs. 2,400 and bank overdraft Rs. 500.

- 3 Atmaram bought goods from us worth Rs. 300 on credit for 2 months, but he paid cash on the spot after deducting discount Rs. 6.
- 5 Received a cheque for Rs. 150 and cash Rs. 100 from Govind. He was allowed discount RS. 10. The cheque was deposited into the Bank.
- 6 Purchased goods from Mehta and paid for same by cheque Rs. 150.
- 8 Cheque from Govind is returned dishonoured.
- 10 Deposited Rs. 1,300 into Bank.
- 12 Received Bank Pass Book showing interest charged by Bank Rs. 10.
- 13 K. Nath paid by cheque Rs. 100 in full settlement of his debt to us Rs. 105.
- 14 Above cheque is paid into Bank.
- 15 Transferred Rs. 1,000 from fixed deposit to current account.
- 18 Paid rent of residential quarters of Rajkumar by issuing a cheque for Rs. 75.
- 20 Withdrew for office use Rs. 300.
- 22 Received for cash sales from Manikchand a crossed cheque for Rs. 525.
- 25 Purchased safe from Kolhapur Steel Company for Rs. 700 and issued a cheque for the same.
- 26 Paid into bank a cheque on a National Bank, Bombay for Rs. 800 collection charges being charged by Bank Rs. 3.
- 28 Received a cheque for Rs. 200 from P. Pant in full settlement of his account for Rs. 205.
- 29 P. Pant's cheque was endorsed to S. Sant in full settlement of his account for Rs. 210.
- 30 Issued a cheque in payment of office rent Rs. 150.
- 31 Our cheque to Kolhapur Steel Company was returned dishonoured.
- 31 Cancelled the cheque issued for rent and paid the amount in cash.
- 31 Excess over Rs. 500 deposited into Bank.

Solution:

Date	Particulars	R. No.	L.F.	Discount Rs.	Cash Rs.	Bank Rs.	Date	Particulars	R. No.
2005							2005		
Mar. 1	To Balance b/d				2,400		Mar.1	By Balance b/d	
3	To Sales (Cash Sales & Cash discount)			6	294		6	By Purchases (Issue Cheque No.)	
5	To Govind (Received cheque, cash & discount, allowed, cheque is paid into Bank)			10	100	150	8	By Govind (Cheque received is dishonored, dis. Allowed cancelled).	
10	To Cash (Deposited into Bank)		C			1,300	10	By Bank (Deposited into Bank)	
13	To K. Nath (Cheque received & Discount allowed)			5	100		12	By Interest (Bank charged Interest)	
14	To Cash (Cheque deposited)		C			100	14	By Bank (Cheque deposited)	
15	To Fixed deposit (Transferred from fixed deposit).					1,000	18	By Drawings (Issued cheque No. for rent of residence.)	
20	To Bank (Withdrew for office use.)		C		300		20	By Cash (Withdrew for office use.)	

20	To Sales (A crossed cheque received from, Manikchand for Cash sales.)					525	25	By Furniture (Issued cheque No. for purchase of safe.)
26	To Cash (Paid cheque)		C			800	26	By Bank (Paid into Bank)
28	To P. Pant (Received cheque.)			5	200		26	By Bank Charges (Collection charges.)
30	To Kolhapur Steel Co. (Cheque No. dishonoured.)					700	29	By S. Sant (Cheque endorsed.)
31	To Rent (Cancelled cheque No.)					150	30	By Rent (Paid by cheque.)
31	To Cash (Paid into Bank)		C			344	31	By Rent (Paid cash in cancellation of cheque.)
							31	By Bank (Paid into Bank).
							31	By Balance c/d
				26	3,394	5,069		
1-4	To Balance b/d				500	3,031		

Illustration: 4

Enter the following transactions in a cash book with 3 columns that is Discount, Cash and Bank in the books Yashshri for the month of June, 2010.

2010

- Jan
- 1 Cash in hand Rs. 8,000 and at Bank Rs. 10,000
 - 2 Sold goods to Swami and Co. for Rs. 6,000 and received a cheque of Rs. 2,000 as part payment.
 - 3 Purchased goods from Patel for Rs. 8,000 less trade discount 2% and paid the amount by issue of cheque.
 - 5 Transferred Rs. 5,000 from Private Banking A/c to Business Bank A/c.
 - 10 Issued a cheque for Rs. 3,000 to furniture mart for the furniture purchased for last month in full settlement of Rs. 3,200
 - 12 Withdrew for personal use from Bank Rs. 8,000
 - 14 Issued a cheque to petty cashier for Rs. 2,000
 - 15 Withdrew for office use Rs. 4,000
 - 16 Swami and Co. informed that they paid directly into our Bank A/c in; the remaining balance amounting Rs. 4,000.
 - 19 Bank collected Dividend and credited to our Account to Rs. 1,400.
 - 20 Paid Insurance premium for goods Rs. 3,000, by cheque.
 - 20 Cash sales Rs. 8,000.
 - 25 Paid Salaries by cheque Rs. 800
 - 30 Purchased Govt. securities of Rs. 900.

Solution:**Yashshri****Cash Book****Receipts****Payments****In the books of****Three column**

Date	Particulars	R. No	LF No	Dis.	Cash	Bank	Date	Particulars	R. No.
2010 Jan. 1	To bal. b/d			-	8,000	10,000	2010 Jan. 3	By Purchases A/c	
2	To Sales A/c			-	-	2,000	10	By furniture Mant. A/c	
5	To Capital A/c			-	-	5,000	12	By Drawings A/c	
15	To Bank A/c		C	-	4,000	-	14	By Petty Cashier A/c	
16	To Swami & Co's A/c			-	-	4,000	15	By Cash A/c	
19	To Dividend A/c			-	-	1,400	20	By Insurance A/c	
20	To Sales A/c			-	8,000	-	25	By Salaries A/c	
31	To Bank over draft c/d			-	-	5,440	30	By Investment A/c (Govt. Securities)	
				-	20,000	27,840		By Balance c/d	

3.5. EXERCISES

3.5.1 Theory Questions

7. Explain term 'Book Keeping.
 8. What is Account?
 9. Distinguish between:
 - a) Book-keeping and Accountancy
 - b) Personal Accounts and impersonal Accounts
 - c) Real Accounts and Nominal Accounts
 - d) Single Entry system and Double Entry system
 - e) Cash system of Accounts and Accrual system of Accounts.
 10. Discuss the principles of debit and credit of Accounts.
 11. Explain Journal & its utility.
 12. What is Ledger? What is a ledger Account?
 13. Explain how a ledger account is balance? What is indicates by Debit or Credit balance?
 14. "By sub-division of journal, there will be a division of labour". Explain.
 15. Which type of transactions will be recorded in sales Book and purchase Book.
 16. What is cash Book? What are different types of cash book.
 17. What do you mean by "Contra Entries" in the cash book with Cash & Bank columns?
 18. What is the petty cash?
- 1) Journalise the following transactions in the books of Ram for the month of March 2010.
- March 1 Ram commenced business with cash Rs. 60,000.
- 2 Purchased furniture for Rs. 5,000.
 - 4 Purchased goods for cash Rs. 2,000.
 - 7 Bought goods from M/s. Raj & Co. for Rs. 4,000.
 - 10 Sold goods costing Rs. 3,000 on cash.
 - 15 Purchased stationery for office use Rs. 1,000.
 - 19 Received cash Rs. 1,250 from Mr. Ketan in full settlement of his account for Rs. 1,500.
 - 20 Paid salaries by cheque Rs. 1,500.
 - 25 Introduced additional capital Rs. 20,000.
 - 27 Paid to Raj Rs. 3,250 in full settlement of Rs. 3,500
 - 29 Sold goods for Rs. 15,000 to Mr. Dohi.
 - 31 Deposited Rs. 3,000 into the Bank.

- 2) Journalise the following transactions in the books of Mr. Shiva for the month of April 2010.

April 1 Started business with cash Rs. 25,000/-
6 Purchased goods worth Rs. 10,000/-
4 Deposited cash Rs. 3,000 into the Bank.
6 Purchased goods of Rs. 6,000 from M/s. Raju Trading Company.
9 Sold goods to Mr. Ramesh for Rs. 3,000.
12 Paid to M/s. Raju Trading Company Rs. 3,000.
15 Received Rs. 1,000 from Mr. Ramesh.
20 Paid salaries Rs. 1,000/- and paid commission Rs. 1,600/- in cash.
25 Bought stationery for office use Rs. 300.
27 Withdrew Rs. 2,500 from business for personal use.
29 Withdrew Rs. 4,000 from bank for office use.

- 3) Journalise the following transactions in the journal of Mr. Anand for the month of February, 2010.

Feb 1 Borrowed from Bank @ 15% interest Rs. 20,000.
7 Purchased goods from Mr. Sam for Rs. 3,500.
8 Paid carriage and cartage Rs. 250
9 Sold goods on cash Rs. 3,000.
11 Paid Rs. 2,250 to Mr. Sam.
16 Purchased office furniture for Rs. 6,000.
19 Paid interest Rs. 450/- to Mr. Bank.
20 Paid salaries Rs. 6,000.
22 Cash sales Rs. 20,000.
26 Cash purchases Rs. 15,000
28 Paid Rs. 2,000 to Bank in part payment of loan.

- 4) Journalise the following transactions in the books of Mr. Vishal for the month of March, 2010.

Mar. 1 Vishal started business with cash Rs. 35,000, goods worth Rs. 10,000.
4 Opened bank account in the Bank of India by depositing Rs. 5,000.
4 Bought goods worth Rs. 6,000 @ 10% trade discount term.
7 Sold goods worth Rs. 3,000

- 9 Purchased furniture of Rs. 4,000 for office use and furniture of Rs. 1,000 for home use.
- 14 Withdrawn goods of Rs. 1,000 for self use.
- 17 Received Rs. 2,400 from Mr. Ravindra in full settlement of Rs. 2,450.
- 19 Paid salaries Rs. 500 to office clerk and paid electricity bill of Rs. 750 in cash.
- 24 Paid Mr. Raj Rs. 1,960 in full settlement of Rs. 2,000.
- 26 Paid insurance premium of Rs. 1,200 on the life of Mr. Vishal, a proprietor.
- 29 Cash sales Rs. 3,000.
- 30 Withdrew Rs. 4,000 from bank for office use.

5) Draft journal entries for the business transactions given below.

- Apr. 1 Mr. Atul started business with cash Rs. 5,000/-, goods Rs. 7,500 and furniture Rs. 2,500/-
- 5 Purchased goods worth Rs. 4,500 from Mr. Kamalakar.
- 9 Cash sales Rs. 6,000
- 10 Purchased stationery for office use Rs. 500.
- 10 Paid to Mr. Kamalakar Rs. 4,350 in full settlement of Rs. 4,500.
- 13 Deposited Rs. 1,000 into the Bank.
- 16 Received Rs. 500 from Mr. Kiran.
- 19 Withdrawn Rs. 200 from business for self use.
- 23 Paid Rs. 150 for commission and paid Rs. 450 for rent.
- 27 Paid wages Rs. 600 in cash, and paid sundry expenses Rs. 200/- by cheque.
- 29 Borrowed Rs. 5,000 from wife for business purpose.
- 30 Cash purchases Rs. 1,000.

6) On 1st July, 2010, Mr. X commenced business with cash Rs. 25,000, Bank balance Rs. 25,000, Stock Rs. 43,000 & Computer Rs. 18,000.

- July 2 Borrowed Rs. 20,000 from Mr. Y for business purpose.
- 6 Sold goods to Mr. Z for Rs. 10,000 @ 5% T.D.
- 7 Paid for business stationery by cheque Rs. 500.
- 7 Sold goods to Mr. A on credit Rs. 5,000.

- 9 Sold goods to Mr. B on cash Rs. 10,000 and amount deposited into the bank.
 - 11 Received cheque from Mr. Z in payment for goods sold to him on 4th July less 5% C.D. and deposited into the bank.
 - 13 Mr. A paid us cash Rs. 4,900 for goods sold to him on 7th July.
 - 15 Bought printer for Rs. 2,000 and amount paid by cheque.
 - 18 Withdrawn Rs. 600 from Bank to pay insurance premium on the life policy.
 - 19 Withdrawn goods of Rs. 500 from stock for private use.
 - 22 Purchased second hand car for Rs. 15,000 for business purpose and amount paid by cheque.
 - 25 Paid monthly wages Rs. 1,000 in cash.
 - 26 Purchased 1,500 shares of M/s. ABC Co. Ltd. at Rs. 10 per share.
 - 27 Transferred Rs. 10,000 from Current A/c to Fixed Deposit A/c.
 - 28 Issued a cheque to chartered accountant for auditing Rs. 800.
 - 30 Deposited into Bank Rs. 6,000.
- You are required to prepare three columns cash book and balance the same.

7) Record the following transactions in a cash book with cash, bank and discount columns and balance the same.

- Aug. 1 Mr. Arvind kumar started business with cash Rs. 30,000.
- 2 He opened a Current A/c into the city Co-operative Bank by depositing Rs. 20,000.
 - 4 He received a cheque from Mr. Ram for Rs. 5,000 for goods sold to him, which was deposited in Bank.
 - 6 Paid by cheque an amount of Rs. 11,500 to Mr. Shah for goods purchased from him for Rs. 12,000 (cheque is issued for full settlement)
 - 11 Bank informed that Ram cheque is dishonoured, and our account is debited by Rs. 50 for bank charges.
 - 17 Paid salaries Rs. 1,600, commission Rs. 1,000 and rent Rs. 1,000 by cheque.

- 18 Bank informed that our account is credited by Rs. 3,000 for receipt of dividend and debited our account for payment of insurance premium for Rs. 1,600.
- 23 Purchased key board for Rs. 3,000 for home use and a computer for Rs. 40,000 for office use, total amount paid by cheque.
- 24 Borrowed Rs. 7,500 from our business friend Mr. Sam for business purpose.
- 27 Bought stationery worth Rs. 500 for business purpose and fan for home use for Rs. 2,000. Both the payments were made by cheques.
- 28 Mr. Kishor deposited Rs. 1,750 into our bank account directly.
- 29 Issued a cheque to Art & Creative Co. for advertisement Rs. 12,500/-
- 8) Compile a Cash Book having cash, discount and bank columns from the following transactions for the month of May, 2010 and balance the same.
- May. 1 Cash in Cash Box Rs. 20,000 and Bank balance Rs. 25,000.
- 2 Deposited into the bank Rs. 7,500.
- 4 Cheque of Rs. 14,000 received from Mr. Arjun in full settlement of Rs. 15,000.
- 6 Mr. Arjun's cheque deposited into the bank along with cash Rs. 1,500/-
- 7 Amount of Rs. 1,000 directly deposited into the our Bank A/c by Mr. Anu.
- 9 Paid to M/s. Z and sons by cheque Rs. 1,090 and earned discount of Rs. 10.
- 12 Cash sales Rs. 2,520 and allowed cash discount of Rs. 30.
- 14 Cash purchases Rs. 6,000 and amount paid by issuing across cheque for the same amount.
- 16 Bank informed that Mr. Arjun's cheque is dishonoured and he is paid Rs. 13,500 immediately to settle his account.
- 19 Purchased stationery for Rs. 250 and office furniture for Rs. 2,250.
- 20 Paid commission Rs. 1,000 and Staff salaries Rs. 1,000 through bank.
- 24 Withdrawn cash Rs. 750 from office for self use and cash Rs. 1,500 from bank for petty expenses.

- 26 Received a crossed cheque of Rs. 14,500 from Mr. Ashok.
- 28 Endorsed a cheque received from Mr. Ashok in favour of Mrs. Jani.
- 29 Borrowed from wife Rs. 20,000 for business purpose.
- 30 Mr. Ashok's cheque endorsed to Mrs. Jani was dishonoured.
- 31 Transferred Rs. 10,000 from Current A/c to Fixed Deposit A/c.

9) Prepare the three column cash book from the following details and balance the same.

- June 1 Cash office Rs. 40,500/- and Overdraft Bank balance Rs. 16,600/-.
- 2 Purchased goods worth Rs. 15,000/- @ 10% T.D. and 5% C.D. from M/s. Randhir and Sons. 50% of the amount paid immediately and balance after 15 days.
 - 4 Bought office furniture for Rs. 15,000 and paid Rs. 12,500 as first installment.
 - 6 Purchased stationery for office use costing Rs. 400.
 - 7 Sold goods worth Rs. 20,000 @ 2% C.D. and amount deposited into Bank.
 - 9 Received a cheque of Rs. 12,000 from Mr. Anand on account.
 - 11 Deposited Mr. Anand's cheque into the Bank.
 - 13 Paid Mr. Ramesh by cash Rs. 1,500 and by cheque Rs. 750 in full settlement of his account of Rs. 2,400.
 - 14 Gave loan of Rs. 10,000 to wife by issuing cheque.
 - 16 Cheque issued to Mr. Ramesh returned dishonoured and cash Rs. 1,000 paid to him.
 - 18 Transferred Rs. 20,000 from Fixed deposit A/c. to Current A/c.
 - 20 Withdrawn from bank cash Rs. 4,000 for office use and withdrawn from office cash Rs. 10,000 for daughter's marriage.
 - 22 Issued a cheque of Rs. 6,700 to M/s. Randhir and Sons and earned discount of Rs. 50.
 - 25 Bank has debited our account by Rs. 550 for payment of insurance premium.
 - 28 Issued a cheque of Rs. 2,500 for payment of salaries. Paid office rent Rs. 1,600 in cash.
 - 29 Deposited into Bank all the cash in excess of Rs. 1,400.

10) From the following information prepare cash book with cash, bank and discount column and balance the Cash Book.

- Mar. 1 Opening balance of cash Rs. 21,000 and at bank Rs. 16,000
- 3 Received from Jayant Rs. 12,900 and allowed discount Rs. 100.
- 5 Paid to Babar by cheque Rs. 2,910 in full settlement of their account for Rs. 2,930.
- 10 Sanjay deposited directly into our bank account Rs. 3,000.
- 15 Received a cheque of Rs. 2,000 for interest on investments which was deposited into the bank.
- 20 Drew cheque for personal use Rs. 5,000.
- 24 Paid salaries Rs. 2,250 and rent Rs. 4,000 by cheque.
- 26 Sold goods costing Rs. 18,000 at 25% profit on cost and received half the amount in cash and half by cheque which is deposited into the bank.
- 28 Bank pass book shows that bank has debited our account by Rs. 200 for bank charges and credited account by Rs. 1,000 for interest on investment.
- 30 Transferred Rs. 5,000 from savings account to current account.

11) From the following details prepare three column cash book and balance the same.

- Jan 1 Opening cash balance Rs. 20,000 and bank balance Rs. 25,000.
- 5 Received cash from Kaka Rs. 9,500 and allowed discount Rs. 500.
- 8 Received a cheque from Anil for Rs. 7,000 and immediately deposited into bank.
- 10 Paid to Suresh by cheque Rs. 3,000 for rent.
- 14 Paid salary by cash Rs. 3,000 and by cheque Rs. 10,000.
- 16 Received by cheque Rs. 14,000 and cash Rs. 6,000 from Nagori and deposited the same cheque into the bank immediately.
- 20 Paid to Rakesh Rs. 4,000 by cash and Rs. 1,500 by cheque on account.
- 22 Paid to Narayan by cheque Rs. 4,500 and received discount Rs. 500.
- 25 Cash sales Rs. 20,000 at 5% C.D.
- 27 Cash purchases Rs. 20,000 at 5% C.D.

- 28 Paid to Nagori on account Rs. 5,000 by cheque.
- 29 Received from Arun Rs. 4,500 towards full settlement of Rs. 5,000.
- 30 Paid telephone bill by cheque Rs. 450.

12) Enter the following transactions in a three column cash book and balance the same.

- May 1 Opening cash balance Rs. 30,000 and bank balance Rs. 42,500.
- 2 Cash purchases Rs. 20,000 at 3% C.D.
- 5 Cash sales Rs. 25,000 at 3% C.D.
- 9 Received cash from ABC Co. Rs. 5,900 and allowed discount Rs. 100.
- 11 Received a cheque from Delta Co. for Rs. 2,000 and deposited it into the bank immediately.
- 13 Paid rent by cash Rs. 1,000 and by cheque Rs. 5,000.
- 15 Paid to XYZ Co. Rs. 2,000 by cash and Rs. 4,000 by cheque.
- 18 Received cash Rs. 9,750 from Bata & Co. and allowed a discount of Rs. 250.
- 22 Deposited into bank Rs. 5,000.



4

BANK RECONCILIATION STATEMENT

Unit Structure:

- 4.0 Objectives
- 4.1 Meaning
- 4.2 Reasons for differences in Bank balance of Cash Book with Pass Book
- 4.3 Prepares of Bank Reconciliation Statement
- 4.4 Chart for solving the problems
- 4.5 Specimen of Bank Reconciliation Statement
- 4.6 Bank Overdraft
- 4.7 Importance of Bank Reconciliation Statement
- 4.8 Illustrations
- 4.9 Exercises

4.0 OBJECTIVES

After studying the unit the students will be able to:

- Define and explain bank reconciliation statement.
- Know the reasons of disagreement of the balances of cash book and bank statement.
- Prepare the format of the statement.
- Prepare bank reconciliation statement.

4.1 MEANING

A customer of the bank opens a Bank Account in his Cash book to record all his bank transactions. Similarly a bank maintains a Customer's Account in its ledger, and gives a Bank Pass Book to the customer. From the entries in the pass book a customer can have knowledge of the transactions recorded by the bank in his account. When we make entries on the debit side of Bank Account the bank makes entries on the credit side of our account for the same transactions and vice versa. As a result when the Bank Account shows debit balance, the pass book shows credit balance and vice-versa.

As a matter of fact balance shown by the Bank Account and by the bank pass book on a particular day must tally. But in actual practice they differ due to reasons given below. It is therefore, becomes necessary to reconcile the difference to ascertain that there are no mistakes committed. Thus a Bank Reconciliation Statement is a statement prepared to reconcile the difference between the balances as shown by the Bank Account in a Cash Book and by the Bank Pass Book.

4.2 REASONS FOR DIFFERENCES IN BANK BALANCE OF CASH BOOK WITH PASS BOOK

Some of the transactions are entered in the Cash Book (Bank column only) whereas some are entered only in the Pass Book. In addition to this there may be some mistakes committed, either in the Cash book or in the Pass Book.

A) Transactions entered in the Cash Book (Bank Column) or in the pass book.

- i) Cheques issued: When a cheque is issued, Bank Account is at once credited, but the Customers Account is debited by the Banker only when the payment of that cheque is effected by the Bank.
- ii) Cheques paid or deposited into the Bank : When a cheque is received and paid into the bank, the customer debits at once the Bank Account in his Cash Book, but the Customer's Account is credited by the Banker only when the cheque is collected by the bank.

B) Generally the following transactions are entered first in the Pass Book and subsequently they are entered in the Cash Book from the Pass Book.

1. Bank Charges
2. Interest allowed or charged by Bank
3. Dividend, Interest on Investment collected by Bank on behalf of a customer.
4. Dishonour of cheque paid into Bank and credited to Customer's Account by Bank.
5. Amount collected or paid for Bills of Exchange by Bank, Sale of Securities on behalf of a customer.
6. Payment by Bank, such as Club Subscription, Insurance Premium, Purchases of Securities on behalf of a customer.

4.3 PREPARATION OF BANK RECONCILIATION STATEMENT

In actual practice, we have both Cash Book (Bank Account) and the Bank Pass Book on hand, to compare the entries in them during a particular period. As the entries which are made in both the books do not cause the difference in balance, they are to be left out. The entries which are recorded only in one of the two books are taken into consideration.

Generally, Bank balance either as per Cash Book or as per Pass Book of a particular date is given and the balance as per other book is required to be traced out.

- A) First ascertain balance that is whether a debit balance or a credit balance.
- B) Out of the transactions given, those which are recorded in both the books that is Cash Book and Pass Book before the date of reconciliation are not to be considered.
- C) Transaction which is recorded in only one of two books either in the Cash Book or in the Pass Book is to be considered.

Bank Reconciliation Statements helps the customer to know which cheques are yet to be realized and which cheques are not yet encashed.

It reduces the chances of misappropriation by the Bank employees.

4.4 CHART FOR SOLVING THE PROBLEMS

The following charts will help the students in solving the problems:

Transactions	Given Bank balance as per Cash Book or overdraft as per Pass Book	Given Bank balance as per Pass Book or overdraft as per Cash Book
1. Cheques issued but not encashed recorded in the Cash Book only.	Add	Less
2. Interest allowed or collected by Bank, Sale of Investments recorded in Pass Book only.	Add	Less
3. Direct payment into bank by our customer etc.	Add	Less

4. Wrong amount taken in Cash Book i) Short Amount ii) Excess Amount	Add Less	Less Add
5. Cheque paid into Bank but not credited by Bank.	Less	Add
6. Bank Charges, Interest charged by Bank or dishonour of cheque etc. are recorded in Pass Book only.	Less	Add
7. Bank charges, Interest charged by Bank or dishonour of cheque etc. are recorded in Pass Book only.	Less	Add
8. Payment by bank for insurance premium, club subscription, Purchase of Securities etc. are recorded in Pass Book only.	Less	Add

4.5 SPECIMEN OF BANK RECONCILIATION STATEMENT

Particulars	Rs.	Rs.
Balance as per Cash / Pass Book given		XX
<u>Add</u> : The transaction that would increase the balance in the other Book.	XX	XX
<u>Less</u> : The transaction that would reduce the balance of the other book	XX	(XX)
Balance as per Cash / Pass Book (i.e. other book) as on		XXX

4.6 BANK OVERDRAFT

Normally, Traders keeps depositing cash into Bank Account and withdraws by issuing cheques to various parties. However, trader makes arrangement with the bank, to withdraw more than his bank balance. This is known as Bank Overdraft. The upper limit of such overdraft is fixed in advance. When there is overdraft Bank Account in trader's books shows credit balance and in the books of Bank, trader's account will show debit balance, and he is a debtor.

For preparing reconciliation statement, taking Bank overdraft as base, it will be exact opposite that of Bank Balance, add items will become Less and less items will be Add.

4.7 IMPORTANCE OF BANK RECONCILIATION STATEMENT

After getting Bank Statement / Pass Book, businessmen, compares entries in Cash Book (recorded by trader) and Bank Statement (recorded by bank in relation to businessmen) and prepare Bank Reconciliation. While preparing reconciliation statement, numbers of entries are not matching with each other these discrepancies may lead to notice frauds, errors, misappropriation of cash, by cashier. It reduces the charges of misappropriation by the employees, so timely action may be taken. At the same time, it is possible that Bank might have made wrong entry of deposit or withdrawal, businessmen can be inform bank to correct it.

It presents sinero, of e-banking of increasing use of credit card / debit card facilities / Net banking. Their may be number of transaction are not recorded in time which can be brought to notice. For wrong entry by bank, immediate action can be taken, asking bank to verify the mistake(s).

CHECK YOUR PROGRESS

- Give the examples of various transactions which are generally entered first in the Pass Book.
- If the Bank balance as per Cash Book is given, how the following transactions affect:
 1. Interest allowed or collected by Bank, Sale of Investments recorded in Pass Book only.
 2. Cheque paid into Bank but not credited by Bank.
 3. Payments by bank for insurance premium, club subscription, Purchase of Securities etc. are recorded in Pass Book only.
 4. Direct payment into bank by our customer.
 5. Bank Charges, Interest charged by Bank or dishonour of cheque etc. are recorded in Pass Book only.

4.8 ILLUSTRATIONS

Illustration 1 : On 31st December 2010, M/s. M.D. & Co.'s bank column of Cash Book showed a debit balance Rs.17,800/- from the

following particulars prepare a Bank Reconciliation Statement showing the balance as per Bank Pass Book as on 31st December 2010.

1. Cheques deposited into the Bank but not cleared and credited before 31st December amounted to Rs.8,950/-.
2. Cheques issued on 31st December but presented for payment on the 7th January 2011 amounted to Rs.6,750/-.
3. Purchases of securities of Rs.4,000/- by the Bank on behalf of M/s. M.D. & Co. appeared in Pass Book only.
4. Interest Rs.95/- was credited in the Pass Book but was entered in the Cash Book as Rs.59/-.
5. Bank charges Rs.45/- were recorded in the Pass Book but no entry was made in the Cash Book.

Bank Reconciliation Statement as on 31-12-2010

Particulars	Rs.	Rs.
Balance at the bank as per Cash Book as on 31-12-2010.		17,800
Add :		
(i) Cheques issued on 31 st December but not cashed upto 31 st December 2010.	6,750	
(ii) Interest recorded in the Cash Book as Rs.59/- instead of Rs.95/-, hence the difference.	36	6,786
		24,586
Less :		
(i) Cheques paid into Bank but not cleared upto 31 st December 2010.	8,950	
(ii) Payment made by Bank for purchase of securities not entered in the Cash Book.	4,000	
(iii) Bank charges appearing in the Pass Book.	45	(6,390)
Balance as per Pass Book as on 31 st December 2010.		8,710

Illustration 2 : On 30th June, 2010 the Cash Book of M/s. Patil & Co. showed a Bank balance of Rs.12,000/-.

1. Cheques sent to Bank for collection of Rs.10,000/- before 30-06-2010 but only one cheque of Rs.4,000/- is credited in June 2010.
2. Cheque issued for Rs.5,000/- in the month of June, but cheques of Rs.2,500/- presented for payment in July 2010.

3. The following entries were passed in the Pass Book before 30th June, 2010 but no corresponding entry was made in the Cash Book.
- Rs.320/- paid a Insurance Premium.
 - Interest on Investment collected by the Bank Rs.600/-.
 - Bank has charged Rs.50/- as interest and commission Rs.20/-.

Prepare a Bank Reconciliation Statement as on 30th June, 2010 from the above particulars.

Solution :

Bank Reconciliation Statement as on 30-06-2010

Particulars	Rs.	Rs.
Balance as per Cash Book as on 30-06-2010.		12,000
Add :		
(i) Cheques issued but not encashed before 30 th June 2010.	2,500	
(ii) Interest collected by Bank.	600	3,100
		15,100
Less :		
(i) Cheques paid in to Bank but not credited by Bank.	6,000	
(ii) Insurance Premium paid by Bank.	320	
(iii) Interest and Commission charged by Bank.	70	(6,390)
Balance as per Pass Book as on 3-06-2010.		8,710

Illustration 3 : Bank Account as per Bank Pass Book of Mr. Kant showed Credit Balance of Rs.20,168/- on 31-03-2010. From the following particulars prepare Bank Reconciliation Statement arriving at the balance as per Cash Book as on 31st March, 2010.

- Two cheques for Rs.458/- and Rs.760/- were paid into the Bank in March 2010 but they were not credited in the Pass Book by the Bank till 31-03-2010.
- Three cheques for Rs.1,065 Rs,545/- and 335/- were issued on 28-03-2010 out of which (i) the cheque for Rs.335/- was presented to the bank on 30-03-2010. (ii) the cheque for Rs.545/- was presented on 2-04-2010 and (iii) the cheque for Rs.1,065/- was lost and not presented at all.

3. The Bank has charged Rs.5/- as Bank charges and has credited interest of Rs.30/-. The bank has also collected interest on investment on behalf of Mr. Kant Rs.100/-. These are not recorded in the Cash Book.
4. A customer of Mr. Kant has paid Rs.500/- directly in the Bank Account of Mr. Kant has paid Rs.500/- directly in the Bank Account of Mr. Kant on 31-03-2010 of which Mr. Kant has no intimation.

Solution :**Bank Reconciliation Statement as on 31-03-2010**

Particulars	Rs.	Rs.
Balance as per Pass Book as on 31-03-2010.		20,168
Add :		
(i) Cheques paid into Bank but to credited by Bank upto 31-03-2010.	1,218	
(ii) Bank charges entered in Pass Book.	5	1,223
		21,391
Less :		
(i) Cheques issued but not presented for payment upto 31-03-2010.	1,610	
(ii) Interest credited by Bank.	30	
(iii) Interest on investments collected & credited by Bank.	100	
(iv) Direct payment into Bank by a customer.	500	(2,240)
Balance as per Cash Book as on 31-03-2010.		19,151

Illustration 4 : On 31st December 2010 the Pass Book of Dr. Raj showed a credit balance of Rs.11,000/-. On comparing it with Cash Book, following differences were discovered.

- (i) Cheques deposited with Bank before 31-12-2010, but not yet collected Rs.1,400/-.
- (ii) Cheque issued upto 31-12-2010 but not yet presented for payment Rs.450/-.
- (iii) The Bank has collected dividend Rs.250/- and has charged Rs.15/- as collection charges. Entries of these transactions do not appear in Cash Book.
- (iv) The Bank has paid his electricity bill Rs.410/- for the month of November 2010. This transaction appears only in Pass Book.

- (v) The debit column of Bank Account in Cash Book is added shorted by Rs.40/-.

Prepare Bank Reconciliation Statement.

Solution :

Bank Reconciliation Statement as on 31-12-2010

Particulars	Rs.	Rs.
Balance as per Pass Book as on 31-12-2010.		11,000
Add :		
(i) Cheques paid into Bank but to collected and credited by Bank.	1,400	
(ii) Bank Charges not entered in Cash Book.	15	
(iii) Payment of electricity bill by Bank not entered in Cash Book.	410	1,825
		12,825
Less :		
(i) Cheques issued but not encashed	450	
(ii) Collection of dividend by bank not entered in Cash Book.	250	
(iii) Undercasting of debit column of Bank Account in Cash Book.	40	(740)
Bank Balance as per Cash Book as on 31-12-2010.		12,085

Illustration 5 : On 31st December 2010 the Bank Pass Book of a company showed an overdraft of rrs.12,060/-. Comparison of the Pass Book and the Cash Book showed the following.

- The company had sent to the Bank three cheques on 28th December 2010. The cheques were for Rs.4,100/-, Rs.900/-, and Rs.560/- of these only the cheque for Rs.4,100/- was credited by the Bank before 31st December 2010.
- The company had issued on 27th December, 2010 cheques for Rs.800/-, Rs.500/- and Rs.1,760/-. The cheque for Rs.1,760/- was paid before 31st December, 2010. The other cheques were paid on 3rd January, 2011.
- The Bank had debited the company with Rs.120/- as Bank charges and with Rs.5,120/- as interest. The entries had not yet been made in the Cash Book.
- A customer had deposited in Company's Account Rs.1,500/- but the fact was not recorded in the Cash Book.

Prepare Bank Reconciliation Statement as on 31st December, 2010.

Solution :

Bank Reconciliation Statement as on 31-12-2010

Particulars	Rs.	Rs.
Balance as per Pass Book as on 31-12-2010.		12,060
Add :		
(i) Cheques issued but not encashed before 31-12-2010 (Rs.800/- + Rs.500/-)	1,300	
(ii) Direct payment into Bank by the customer not recorded in Cash Book.	1,500	2,800
		14,800
Less :		
(i) Cheques paid into Bank but not credited by Bank before 31-12-2010 (Rs.560/- + Rs.900/-).	1,460	
(ii) Bank charges and interest not recorded in Cash Book as on 31-12-2010 (Rs.120/- + Rs.5,120/-)	5,240	(6,700)
Balance as per Cash Book as on 31-12-2010.		8,160

Illustration 6 : On 1st January, 2010 the Cash Book of Dayand showed a Bank balance overdrawn to the extent of Rs.3,117/-. On comparing his Cash Book with the Pass Book he finds that :

1. A Cheque for Rs.125/- sent to Shah has not been entered in the Cash Book.
2. Bank charges of Rs.47/- at 31st December, 2010 were not entered in the Cash Book at all.
3. The Bank has debited Dayand's Account with a cheque for Rs.410/- received from Damodar which had been returned dishonoured. The fact of dishonour was not shown in the Cash Book.
4. The Bank column on the receipt side of the Cash Book was found to be under cast by Rs.70/-.
5. Unpresented cheques amounted to Rs.1,450/-.

Prepare a Bank Reconciliation Statement of Doyand as on 1st January 2010.

Solution :

Bank Reconciliation Statement as on 1-1-2010

Particulars	Rs.	Rs.
Overdraft as per Pass Book as on 1-1-2010.		3,117
Add :		
(i) Bank charges not entered in Cash Book	47	
(ii) Entry for dishonour of cheque not recorded in Cash Book	410	
(iii) Cheque issued to Shah and encashed is not entered in the Cash Book.	125	582
		3,699
Less :		
(i) Undercasting of the debit side of Bank column.	70	
(ii) Cheques issued but not presented for payment till 01-01-2011.	1,450	(1,520)
Bank Balance as per Pass Book as on 1-1-2011.		2,179

• **Different Periods:**

Sometimes entries in the Pass Book and in the Cash Book (Bank Account) are given. But they are not for the same month but they are two different months. In such a case following entries only in the Cash Book are to be considered for preparation of Reconciliation Statement.

Cash Book entries which appear also in the Pass Book; common entries in the both Books are to be consider for preparation of Reconciliation.

Illustration 7 Prepare Bank Reconciliation Statement as on 30-04-2010 from the following.

Cash Book (Bank Column)

2010 April	Receipts	Rs.	2010 April	Payments	Rs.
1	To Balance b/d	500	5	By Wages A/c	100
10	To Kasab A/c	100	15	By Shanti A/c	200
15	To Interest	50	20	By Pawar A/c	150
20	To Sales A/c	200	25	By Purchases A/c	100
22	To Ashok A/c	300	30	By Balance c/d	600
		1,050			1,050

Pass Book

2010 May	Particulars	Rs.	2010 May	Particulars	Rs.
	To Shanti A/c	200	1	By Balance b/d	550
	To Pawar A/c	150	2	By Kasab A/c	100
	To Charges A/c	25	3	By Sales A/c	200
	To Kulkarni A/c	100	10	By Jani A/c	1,100
	To Mane A/c	1,010			

Common entries in both book are consider in reconciliation. Uncommon month, common entries appear in Reconciliation.

Solution

Bank Reconciliation Statement as on 30th April 2010

Particulars	Rs.	Rs.
Bank balance as per Cash Book		600
Add :		
(i) Cheques issued but not presented		
Shanti	200	
Pawar	150	350
Less :		950
(i) Cheques deposited but not cleared		
Kasab	100	
Sales	200	
(ii) Cash Book payment total over casted	100	(400)
Bank Balance as per Pass Book as on 1 st May 2010.		550

Illustration 8 :

Cash Book (Bank column only)

Dr.			Cr.		
Date	Receipts	Rs.	Date	Payments	Rs.
2010			2010		
Mar 2	To Sales A/c	6,200	Mar 1	By Balance b/d	6,010
4	To A & Co. A/c	1,200	2	By Salaries A/c	7,200
6	To Data's A/c	3,000	4	By Wages A/c	2,100
10	To Moti's A/c	6,300	10	By Zandu A/c	4,200

14	To Cash A/c	7,000	15	By Commission A/c	1,400
19	To Malini's A/c	3,000	19	By Drawings A/c	6,100
24	To Sales A/c	1,200	24	By Furniture A/c	3,000
26	To Ketan's A/c	7,000	29	By Purchases A/c	6,750
			30	By Balance c/d	7,160
		43,940			43,940

Pass Book (Extract only)

Dr.			Cr.		
Date	Particulars	Rs.	Date	Particulars	Rs.
2010			2010		
Apr 1	To Balance b/d	9,630	Apr 1	By A & Co. A/c	1,200
6	To Rakesh A/c	1,000	2	By Z & Co. A/c	3,100
7	To Joshi A/c	620	4	By RK & Co. A/c	1,420
9	To Salaries A/c	7,200	9	By Moti's A/c	6,300
10	To Wages A/c	15,000	10	By Ketan's A/c	7,000
16	To Furniture A/c	3,000	20	By Plant A/c	7,950
19	To Purchase A/c	6,750	25	By Drawings A/c	1,650
20	To Suresh A/c	1,350			

Bank Reconciliation Statement as on 31.03.2010

Particulars	Rs.	Rs.
Bank balance as per Cash Book		7,180
Add :		
(ii) Cheques issued but not presented		
Salaries	7,200	
Furniture	3,000	
Purchases	6,750	16,950
		24,130
Less :		
(ii) Cheques deposited but not cleared		
A & Co.	1,200	
Moti	6,300	
Ketan	7,000	(14,500)
Bank Balance as per Pass Book as on 1 st April 2010.		9,630

Note : When Cash Book & Pass Book are different month, common entry should be taken in Reconciliation Statement.

Illustration 9 : Following information is supplied by Chitra and she ask you to prepare B.R.S.

Cash Book (Bank column)

Dr.			Cr.		
Date	Receipts	Rs.	Date	Payments	Rs.
2010			2010		
May 2	To Balance b/d	2,100	May 1	By Salaries A/c	9,210
4	To Sales A/c	3,000	4	By Printing A/c	6,200
10	To P's A/c	1,450	6	By Purchases A/c	7,500
12	To T's A/c	1,900	10	By Plant A/c	16,000
16	To R's A/c	2,000	21	By Travelling A/c	600
18	To RK's A/c	4,100	24	By Office Exp. A/c	1,250
21	To Sales A/c	3,600	26	By Drawings A/c	14,000
22	To Fixed Deposit A/c	11,000	29	By Purchases A/c	6,000
29	To Interest A/c	1,150	30	By Fixed Deposit A/c	15,000
31	To Balance c/d	55,460	31	By Audit Fees A/c	10,000
		85,760			85,760

Bank Pass Book for the month ended 31st May 2010

Date	Particulars	Withdrawal	Deposits	Balance
2010				
May 1	Balance b/d	-	2,100	2,100 CR
2	Salaries	9,210		7,110 DR
4	Sales		3,000	4,110 DR
6	Purchases	7,500		11,810 DR
10	T's A/c		1,900	9,710 DR
24	Office Expenses	1,250		10,960 DR
25	RK's A/c		4,100	6,860 DR
29	Purchases	6,000		12,860 DR
30	Sales		3,600	9,260 DR
31	OT & Co.	6,000		15,260 DR
31	Commission		7,500	7,760 DR
		29,960	22,200	7,760 DR
Bank Overdraft				

Solution :

Chitra

Bank Reconciliation Statement as on 31st May 2010

Particulars	Rs.	Rs.
Bank overdraft as per Cash Book as on 31 st May 2010.		55,460
Add :		
(i) Cheques deposited but not presented		
P	1,450	
R	2,000	
Fixed Deposit	11,000	
Interest	1,150	
(ii) Cheques issued to OT & Co. not accounted in Cash Book.	6,000	21,600
		77,060
Less :		
(i) Cheques issued but not presented		
Printing	6,200	
Plant	16,000	
Travelling Expenses	600	
Drawings	14,000	
Transferred to Fixed Deposits	15,000	
Audit Fees	10,000	
Commission received but not accounted in Cash Book	7,500	(69,300)
		7,760

4.9 EXERCISES

4.9.1 Theory Questions :

- i) What is Bank Reconciliation Statement?
- ii) What are different reasons for disagreement between Bank balance as per Cash Book & Pass Book / Bank Statement?
- iii) Discuss procedure for preparation of Bank Reconciliation Statement.
- iv) A Trader feels that it is not necessary to prepare Bank Reconciliation Statement, do you as Finance Manager agrees with trader? Why?
- v) Discuss need of preparing Bank Reconciliation Statement.

4.9.2 Practical problems:

- 1) The Cash Book of Mr. Raj shows a balance of Rs.26,700/- on 31st October, 2011. From the following information you are required to prepare a Bank Reconciliation Statement as on 31st October, 2010.
 - i) A cheque of Rs.5,000/- received from Miss Varma, deposited into the Bank but not yet credited in the Pass Book by the bank.
 - ii) A cheque of Rs.6,000/- drawn in favour of Miss Meena, had not been presented into the Bank.
 - iii) As per our instruction the bank had a promissory note of Rs.1,000/-. It is not yet recorded in the Cash Book.
 - iv) A cheque of Rs.7,500/- received from Mr. Madhu recorded in the Cash Book, but the same cheque was sent to the bank on 1st November, 2010.
 - v) Bank collected proceeds of Bill Receivable amounted to Rs.5,500/- and credited in the Pass Book but not yet recorded in the Cash Book.
 - vi) Post dated cheque amounted to Rs.10,500/- issued to Mr. Shanti, recorded in the Cash Book but not yet presented to the bank.
 - vii) Pass Book shows credit entries in respect of Rs.4,500/- as interest collected on investment and Rs.2,000/- as dividend collected by bank. These were not recorded in the Cash Book.

- 2) Prepare Bank Reconciliation Statement as on 31st January, 2011 from the following particulars.
 - i) Bank balance as per Cash Book Rs.22,510/-.
 - ii) Cheque amounted to Rs.13,500/- sent to the bank for collection as on 28th January, 2010 but collected by the bank as on 2nd February, 2010.
 - iii) Bank column of Cash Book credit side cast short by Rs.2,250/-.
 - iv) Cheques of Rs.7,500/- deposited into the bank and collected by the bank and credited in the Pass Book but recorded twice in the Cash Book.
 - v) Cheques of Rs.16,000/- issued in favour of Mr. Rane returned dishonoured for lack of fund. Dishonour of cheque not yet recorded in the Cash Book.

- vi) Proprietor has closed his savings account and transferred the balance of Rs.9,500/- to current account, not recorded in Cash Book.
 - vii) Bank Pass Book shows debit entry for payment of electricity charges of Rs.1,800/- and credit entry of Rs.9,500/- for collection of salaries. Corresponding entries were not found in the Cash Book.
- 3) On 31st December, 2010 the Cash Book showed an overdraft of Rs.16,600/-. From the following particulars, prepare Bank Reconciliation Statement as on 31st December, 2010.
- i) Cheques paid into the bank but not cleared Rs.4,040/-.
 - ii) Cheques drawn but not cashed for Rs.3,100/-.
 - iii) A Bill Receivable for Rs.1,500/- previously discounted with the bank had been dishonoured and debited in the Pass Book along with bank charges Rs.100/-.
 - iv) Pass Book debit total undercasted by Rs.100/- whereas credit total of Cash Book under.
 - v) Interest on Bank overdraft amounting Rs.6,750/- not accounted in Cash Book.
 - vi) ECS claring for telephone charges Rs.710 not accounted in Cash Book.
 - vii) Debit total of Cash Book Page No. 11 = Rs.3,100/- wrongly carried on credit side of Cash Book.
- 4) Prepare a Bank Reconciliation Statement from the following particulars as on 31st March 2010.
- i) Cash Book showed an overdraft of Rs.41,000/- as on 31st March, 2010.
 - ii) Cheques deposited worth Rs.6,500/- into the bank out of which only Rs.5,500/- were credited.
 - iii) Cheques issued worth Rs.3,000/- were not presented until 4th April, 2010.
 - iv) The bank has entered in the Pass Book the interest collected on investment Rs.2,500/- and bank charges Rs.400/-, but same were not entered in the Cash Book.
 - v) Rs.1,050/- in respect of dishonour of issued cheques appears in the Pass Book and not in the Cash Book.

- 5) Prepare Bank Reconciliation Statement as on 28th February, 2010.
- i) Credit balance as per Cash Book was Rs.10,000/- on 28th February, 2010.
 - ii) Interest charged by bank Rs.125/- was recorded in the Pass Book only.
 - iii) Dividend on shares Rs.1,750/- was collected by bank but not recorded in cash.
 - iv) Cheques paid into the bank Rs.2,000/- but cheques of Rs.1,000/- were only cleared and credited by the bank.
 - v) Two cheques of Rs.4,000/- and Rs.4,200/- were issued, but only the cheque of Rs.4,100/- was presented for payment before the end of month.
- 6) The Cash Book of Mr. Kamat shows a credit balance of Rs.10,350/-. Prepare the Bank Reconciliation Statement as on 30th April, 2010.
- i) Cheques of Rs.4,250/- received and deposited in the bank, but same were not collected upto 30th April, 2010.
 - ii) Cheques of Rs.850/- issued, but not presented for payment.
 - iii) Interest on investment Rs.275/- and dividend of Rs.510/- collected by the bank and recorded only in the Pass Book.
 - iv) Cheques of Rs.2,250/- deposited in the bank and collected by the bank but recorded twice in the Cash Book.
 - v) Cheques of Rs.1,502/- issued and presented for payment, but entered in the Pass Book as Rs.1,052/-.
- 7) Cash Book of Mr. Dinesh shows a credit balance of Rs.30,000/- on 31st January, 2010. However, his Pass Book shows a different balance. You are therefore, requested to prepare a Bank Reconciliation Statement as on 31st January, 2010 from the following information :
- i) Cheques amounting to Rs.15,000/- issued to supplier Mr. Rane, not yet presented for payment.
 - ii) Cheques amounting to Rs.14,000/- deposited into the bank but not yet collected by the bank.
 - iii) Bank has charged Rs.450/- as interest on overdraft for six months ending 31st December, 2010 and also charged Rs.100/- as bank charges for above period. Same were not recorded in the Cash Book.
 - iv) Total of Cash Book at credit side cast short by Rs.520/-.

- v) Cheque amounted to Rs.10,525 issued and presented into the bank for payment but recorded in the Pass Book as Rs.10,652/-.
- vi) Transfer of Rs.15,000/- from fixed deposit account to current account, not recorded in the Cash Book.
- 8) The following are the extracts given from the Cash Book (Bank column only) and bank Pass Book of Mr. V. S. K. You are required to prepare a Bank Reconciliation Statement as on 31st December, 2010.

Cash Book (Bank column only)

Dr.			Cr.		
Date	Receipts	Rs.	Date	Payments	Rs.
2010			2010		
Dec16	To Interest A/c	900	Dec15	By Wages A/c	4,400
19	To Vichare & Sons	7,800	18	By Interest A/c	2,700
25	To D.D. Sharma A/c	2,200	22	By Sunder & Sons	1,500
30	To Mukesh's A/c	2,600	31	By Kishore & Sons	2,100
			31	By Balance c/d	2,800
		13,500			13,500
2011					
Jan 1	To Balance b/d	2,800			

Pass Book (Extract only)

Dr.			Cr.		
Date	Particulars	Rs.	Date	Particulars	Rs.
2010			2010		
Dec18	To Wages A/c	2,400	Dec19	By Interest A/c	900
21	To Interest A/c	1,700	22	By Vichare A/c	7,800
25	To Sunder & Sons	1,500	28	By D.D. A/c	2,200
27	To Janata Trader	400	29	By Jaya A/c	2,020
29	To Service Charges	20			
31	To Balance c/d	6,900			
		12,920			12,920
			2011		
			Jan 1	By Balance c/d	6,900

- 9) From the following extracts of Cash Book and Pass Book, prepare a Bank Reconciliation Statement as on 30.06.2010.

Cash Book (Bank column only)

Dr.			Cr.		
Date	Receipts	Rs.	Date	Payments	Rs.
2010			2010		
June 1	To Balance b/d	1,070	June 3	By Keshav & Sons	1,400
5	To Madhav A/c	1,650	9	By Drawing	150
7	To White & Co. A/c	1,340	12	By Lala & Sons	1,810
14	To M/s. Ram Ratan & Sons A/c	180	19	By Nutan Stores	360
17	To Commission A/c	2,250	20	By Salary	1,350
22	To Bhav & Sons	1,985	23	By Vivek & Co.	1,150
26	To Govind A/c	1,000	29	By Shinde	600
			30	By Balance c/d	2,655
		9,475			9,475

Bank Pass Book (Extract only)

Dr.			Cr.		
Date	Particulars	Rs.	Date	Particulars	Rs.
2010			2010		
Jun 1	To Keshav & Sons	1,400	Jun 1	By Balance b/d	1,070
9	To Drawings A/c	150	9	By Madhav A/c	1,650
18	To Lala & Sons A/c	1,810	11	By Dividend A/c	175
25	To Nutan Stores A/c	360	17	By Commission A/c	2,250
27	To Salary A/c	1,350	23	By White & Co. A/c	1,340
29	To Bank Charges	16	29	By Interest A/c	78
30	To Balance c/d	2,477			
		6,563			6,563

- 10) From the following extracts of Cash Book and Pass Book prepare a Bank Reconciliation Statement as on October 31, 2010.

Cash Book (Bank column)

Dr.			Cr.		
Date	Receipts	Rs.	Date	Payments	Rs.
2010			2010		
Oct 1	To Balance b/d	4,250	Oct 3	By Salary A/c	2,600
6	To Mr. A A/c	2,000	7	By Commission A/c	175
9	To Mr. B A/c	1,200	10	By Mr. Pal A/c	1,930
16	To Mr. C A/c	2,000	17	By Mr. Bal A/c	1,190
28	To Mr. D A/c	1,600	29	By Mr. Lal A/c	2,500
29	To Mr. E A/c	1,075	30	By Mr. Jal A/c	1,300
31	To Mr. F A/c	1,300	31	By Mr. Dal A/c	1,150
			31	By Balance c/d	1,705

Bank Pass Book

Dr.		Cr.		
Date	Particulars	Debit Rs.	Credit Rs.	Balance Rs.
2010				
Oct 1	By Balance			1,250
4	To Salary	2,600		1,350
8	To Commission	175		1,525
9	By Mr. A		2,000	1,525
12	By Mr. B		1,200	475
13	To Mr. Pal			1675
18	By Mr. C			255
19	To Mr. Bal	1,930		55
26	By Interest		200	1,245
28	By Dividend on Share		145	1,100
29	To Subscription to a Club	450		11,100
30	To Life Insurance Premium	450	12,200	10,650
				10,200

11) Prepare a Bank Reconciliation Statement for the month of September i.e. as on 30.09.10 from the following.

Cash Book (Bank column)

Dr.			Cr.		
Date	Receipts	Rs.	Date	Payments	Rs.
2010			2010		
Sep 1	To Balance b/d	400	Sep 2	By Wages A/c	900
	To PZ A/c	300		By Purchases A/c	300
	To Sales A/c	800		By MO A/c	200
	To Interest A/c	150		By KT A/c	250
	To Commission A/c	50		By Rent A/c	200
	To IT A/c	200	29	By Drawings A/c	100
30	To Balance c/d	50			
		1,950			1,950

Bank Pass Book

Dr.			Cr.		
Date	Particulars	Rs.	Date	Particulars	Rs.
2010			2010		
Sep 2	To Wages A/c	900	Sep 1	By Balance b/d	300
	To N Cheque			By S A/c	100
	dishonoured A/c	90		By Interest A/c	150
	To KT A/c	250		By B/R	550
	To MO A/c	200	28	By Sale of	
	To Charges A/c	10	29	Investment A/c	300
30	To Drawings A/c	100		By T A/c	200
	To Balance c/d	50			
		1,600			1,600

- 12) Set out below are extracts from Cash Book (Bank column) & Bank Pass Book of A. Prepare Bank Reconciliation Statement as on 31st March, 2010.

Cash Book

Date	Receipts	Rs.	Date	Payments	Rs.
2010			2010		
Mar 1	To Balance b/d	500	Mar 5	By Salaries A/c	100
5	To Kaju A/c	100	8	By S. A/c	200
10	To Interest A/c	50	11	By S. Pawar A/c	50
15	To Sales A/c	200	12	By Purchases A/c	100
			15	By Balance c/d	400
		850			850

Bank Pass Book (A's A/c)

Dr.			Cr.		
Date	Payments	Rs.	Date	Receipts	Rs.
2010			2010		
Mar 5	To Salaries A/c	100	Sep	By Soman A/c	400
9	To S. A/c	200	1	By Balance b/d	200
12	To Purchases A/c	100	6	By Kaju A/c	100
13	To Commission A/c	25	9	By Interest A/c	50
15	To Insurance Premium A/c	775	12	By Kulkarni A/c	50
			15	By Balance c/d	400
		1,200			1,200

- 13) Given below are the extracts from the Cash Book (Bank columns) and the Bank Pass Book of Shri. Vora. Prepare a Bank Reconciliation Statement as on 31-12-2010.

Cash Book (Bank Column)

Dr.			Cr.		
Date	Payments	Rs.	Date	Receipts	Rs.
2010			2010		
Dec 1	To Balance b/d	1,600	Dec 5	By Wages A/c	100
8	To Ramkant A/c	700	10	By Nair A/c	250
12	To Ram Prasad A/c	1,400	15	By Furniture A/c	200
13	To Sales A/c	500	20	By Drawings A/c	450
15	To Interest A/c	100	25	By Salaries A/c	175
20	To S. Suresh A/c	2,350	31	By Commission A/c	125
			31	By Balance c/d	5,350
		6,650			6,650
2010					
Jan 1	To Balance b/d	1,200			

Pass Book

Date	Particulars	Rs.	Date	Particulars	Rs.
2010			2010		
Jan 2	To Wages A/c	150	Jan 1	By Balance b/d	825
4	To Commission A/c	125	2	By Ram Prasad A/c	1,400
5	To Nair A/c	250	5	By Interest A/c	100
6	To Drawings A/c	450	8	By S. Suresh A/c	2,350
6	To Kulkarni A/c	150			



LEDGER AND TRIAL BALANCE

Unit Structure:

- 5.0 Objectives
- 5.1 Meaning
- 5.2 How to open an Account in the ledger
- 5.3 Posting
- 5.4 Balance and Balancing of Accounts
- 5.5 Meaning of Balances
- 5.6 Illustrations-1
- 5.7 Trial Balance
- 5.8 Some important items and their balance
- 5.9 Illustrations-2
- 5.10 Exercises

5.0 OBJECTIVES

After studying the unit the students will be able to:

- Know the meaning of Ledger.
- Understand the process of opening a Ledger Account.
- Prepare a Ledger Account from the given information.
- Explain the types of Trial Balance.
- Prepare the Trial Balance from the balances given.

5.1 MEANING

The ledger is the principal book of accounts relating to a particular person or property or revenue or expenses are recorded in summarized form. It is a set of accounts. It contains all accounts of the business enterprise whether real, nominal or personal. The main function of a ledger is to classify or sort out all items appearing in the journal or other subsidiary books under their appropriate accounts & that at the end of the accounting period

each account will contain the entire information of all the transactions relating to in a summarized or condensed form.

All the transactions are recorded first in the journal and then from the journal they are posted in the respective accounts in the ledger. Ledger is a book where in all the transactions would ultimately find their place under the respective heads of accounts. Ledger is a book of final entry.

5.2 HOW TO OPEN AN ACCOUNT IN THE LEDGER :

The pages of all books of accounts must be numbered to facilitate reference. The page is divided into two parts by vertical line in between. The left hand side is used as a debit side of an account and the right hand side is used as a credit side.

_____ Name (Account)							
Dr.				Cr.			
Date	Particulars	J.F.	Amt.	Date	Particulars	J.F.	Amt.

5.3 POSTING :

Every transaction is first recorded in the book of original entry and then it is posted into the ledger. Posting is made to the debit side account which is debited in the journal entry and to the credit side of an account which is credited in the journal entry. Name of the credit account is written on the debit account and the name of debit account is written on the credit side of account. Entry on the debit side of an account starts with "To" whereas on the credit side starts with "By".

5.4 BALANCE AND BALANCING OF ACCOUNTS :

The object of recording the business transactions in various ledger accounts to enable a trader to ascertain balance in account easily at any time. For the preparation of Trial balance all accounts are to be closed.

Each account in the ledger may have same entries on the debit side and some entries on the credit side of an account. Find out difference between totals of each side. The difference in the total of both the side is termed as Balance of an account. The process of extracting the balance and inserting it on lesser side of an account is called balancing or closing of an account.

Types of Balances

A) Debit Balance : If the debit side of an account is heavier than its credit side, the balance is called debit balance.

B) Credit Balance : If the credit side of an account is heavier than its debit side, the balance is called credit balance.

5.5 MEANING OF BALANCES :

5.5.1 Personal Accounts : Personal Accounts may have debit or credit balance.

Debit balance shows that person owes to the firm. He is debtors.

Credit balance shows that persons owed to him. He is creditor.

5.5.2 Real Accounts : Real accounts always have debit balance. These are value of Assets, properties owned by businessmen.

5.5.3 Nominal Accounts : Nominal Account may have debit or credit balance debit balances shows total expenses / losses for the period. Credit balances shows total income / gain for the period.

At the end of accounting period balances of nominal accounts transferred to Trading, Profit & Loss Account, whereas balances shown of Personal Accounts & Real accounts in the Balance Sheet, and next year these balances considered as opening balances.

CHECK YOUR PROGRESS

- Fill in the blanks:
 1. If the debit side of an account is heavier than its credit side, the balance is called-----.
 2. The left hand side of a Ledger Account is used as a ----- and the right hand side is used as a -----.
 3. -----and ----- Accounts may have debit or credit balance.

4. Debit balance of the -----Account shows that person owes to the firm. It means he is the -----of the firm.
 5. Credit balances of the Nominal Account shows total -----
-----for the period.
 6. Real accounts always have ----- balance.
- Define Ledger and draw the proforma of Ledger Account.

5.6 ILLUSTRATIONS-1 :

Illustration 1: Enter the following transactions in the proper subsidiary books and post them to the Ledger Accounts and balance the Account 30 June 2010.

- 1 Commenced business with Cash Rs.5,000/- (of which Rs.2,000/- borrowed from friend Ram) and furniture Rs.1,400/-
- 2 Purchased goods from Kanta Rs.1,800/- less 5% Trade Discount.
- 6 Sold goods to Ketual costing Rs.400/- at 10% Profit.
- 7 Cash purchases Rs.500/-.
- 8 Cash sales – Rs.1,200/-.
- 9 Purchased goods from Baba Rs.500/-.
- 9 Paid into Bank Rs.2,000/-.
- 10 Returned to Kanta goods worth Rs.150/-.
- 11 Purchased office furniture for Rs.1,200/- and paid for same by cheque.
- 16 Issued a cheque to Kanta for Rs.910/-.
- 21 Invoiced goods to Ketual Rs.5,000/- less 2% Trade discount.
- 23 Ketual paid cash Rs.400/- and returned goods of Rs.140/-.
- 24 Purchased goods from Kanta Rs.1,300/-.
- 28 Returned damaged goods to Janta Rs.160/- & to Baba Rs.150/-.
- 28 Sold goods to Kant Rs.1,200/-.
- 29 Received a cheque for Rs.1,100/- from Kant and banked the same.
- 30 Kant, who owes us Rs.100/- pays rent Rs.100/- to our landlord on our behalf.
- 30 We paid Rs.75/- to Raju on instructions from our creditor Kanta on his behalf.

Solution :

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2010 June 1	Furniture A/c Dr. To Capital A/c (Furniture brought in by Proprietor.)		1,400	1,400
30	Rent A/c Dr. To Kant A/c (Rent paid by Kant on our behalf.)		100	100

Purchases Book

Date	Name of Supplier	Inward Invoiced No.	L.F.	Amount Rs.
2010 June 2	Kanta	-	-	1,710
9	Baba	-	-	500
24	Kanta	-	-	1,300
		Total		3,510

Returns Outward Book

Date	Particulars	Debit Note No.	L.F.	Amount Rs.
2010 June 10	Kanta	-	-	150
28	Kanta	-	-	160
28	Baba	-	-	150
		Total		460

Sales Book

Date	Particulars	Debit Note No.	L.F.	Amount Rs.
2010 June 6	Ketual	-	-	440
21	Ketual	-	-	4,900