

Journalising and Posting of Transactions

Learning Objectives

- Classification of transactions according to their nature.
- Subsidiary books and Control accounts.
- Trial Balance.
- Trading and Profit & Loss account.
- Balance Sheet.

2.1 Introduction

Commercial businesses run with the objective of earning profit, and financial transactions are the order of the day. It becomes essential for a business owner to keep a record of the business' income and expenditure, in order to find answers to numerous questions, a few of which are:

- Is the business earning profits or is it incurring a loss?
- How much do third parties owe the business?
- How much does the business owe to third parties?
- Can the business be expanded?
- Should a specific operation be withdrawn?
- What is the total value of business assets?

These answers can be arrived at, by studying the financial information of a business operation. Thus, accounting is an integral part of any business.

Accounting is the practice of maintaining precise records of the financial transactions of a business. It involves identifying business transactions, recording them, and summarising the same in such a way that important financial information can be communicated to the stakeholders of the business. Accounting is also called as language of business.

The stakeholders of a typical business concern are:

- Owners
- Management
- Employees
- Investors (existing and potential)
- Suppliers
- Customers
- Lending institutions
- Government authorities

2.2 Recording of Business Transactions

A transaction is an event or happening that changes an organisation's financial position and/or its earnings. For example, when you sell goods for cash, your cash balance increases and your stock reduces. Such a transaction involves the reciprocal exchange of two things, receipt of cash and delivery of stock.

Hence, the transaction involves the aspect of 'give and take'. Receipt of cash involves the take aspect and delivery of stock is a give aspect. Thus, business transactions are exchanges of economic consideration between parties and have two-fold effects that are recorded in at least two accounts.

As explained earlier, business transactions are usually evidenced by appropriate documents such as cash memo, invoice, sales bill, pay-in slip, cheque, salary slip, and so on. A document which provides evidence of the transactions is called the source document or voucher.

2.2.1 The Accounting Equation

The double entry system of accounting is based on accounting equations where the relationship between assets, liabilities, and capital can be expressed in the form of equations. The accounting equation signifies that the assets of a business are always equal to the total of its liabilities and capital (owner's equity).

The equation reads as follows:

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

The above equation can be presented in the following forms.

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

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

As the accounting equation depicts the fundamental relationship among the components of the balance sheet, it is also called the balance sheet equation.

2.2.2 Recording of Transactions in Books of Original Entry/Journal

In real accounting systems, transactions recorded in source documents are analysed and recorded for the first time in a journal, which is also known as the book of original entry. This practice provides a complete record of each transaction in one place, apart from linking the debits and credits for each transaction. After the debits and credits for each transaction are entered in the journal, they are transferred to the individual accounts. The process of recording transactions in the journal is called journalising. Once the journalising process is complete, the journal entry provides a complete and useful description of the event's effect on the organisation.

Journal is a day book or a daily record wherein the transactions are recorded in chronological order, i.e. as and when they take place. The act of recording a transaction in the journal is called journalising.

The format of journal is as shown.

Journal

Date	Particulars	L.F	Dr.	Cr.

Table 2.1

Date: The date column is meant to record the date on which a particular transaction takes place.

Particulars: In the particulars column the account title to be debited is written in the first line beginning from the left corner and the word **Dr.** is written at the end of the column. The account title to be credited is written in the second line, leaving a margin on the left with a prefix **To.** Below the account titles, a brief explanation of the transaction is given which is called **narration.** After the narration, a line is drawn in the particulars column which indicates the end of recording the specific journal entry.

Ledger Folio (L.F): In the Ledger Folio (L.F.) column, the page number of the ledger book on which relevant account appears is recorded.

Debit (Dr.): The debit column is meant to record the amount against the account to be debited.

Credit (Cr.): The credit column is meant to record the amount against the account to be credited

2.2.2.1 Use of Debit and Credit

Every transaction involves two aspects – give and take. In the double entry system of accounting, every transaction is recorded in at least two accounts. While recording transactions, the total amount debited and credited must be equal. In accounting, the terms debit (abbreviated as Dr.) and credit (abbreviated as Cr.) indicate whether the transactions are to be recorded on the left or right of the account.

2.2.2.2 Rules of Debit and Credit

All accounts are divided into five categories for the purpose of recording business transactions.

- Assets
- Liabilities
- Capital
- Expenses or losses
- Incomes or gains

Two fundamental rules are followed to record the changes in these accounts.

- For recording changes in assets or expenses (losses)
 - **Debit:** Increase in assets, increase in expenses (losses)
 - **Credit:** Decrease in assets, decrease in expenses (losses)
- For recording changes in liabilities, capital or revenues (gains)

- For recording changes in liabilities, capital, or revenues (gains)
 - **Debit:** Decrease in liabilities, decrease in capital, decrease in revenue (gain)
 - **Credit:** Increase in liabilities, increase in capital, increase in revenues (gains)

The following table summarises the rules applicable to different kinds of accounts.

Type of Account	Increase	Decrease
Asset	Debit	Credit
Liability	Credit	Debit
Income/Revenue	Credit	Debit
Expense/Losses	Debit	Credit
Capital/Stock Holders' Equity	Credit	Debit
Dividends	Debit	Credit

Table 2.2

The following illustration will help you to understand the Rules of Debit and Credit.

Illustration 1: Application and recording transactions using Debit and Credit rules.

1. As on 01-04-2017, Karthik commenced the business with ₹ 1,00,000
2. As on 10-04-2017, purchased goods from Narayan on credit for ₹ 20,000
3. As on 30-04-2017 sold good to ABU Enterprises on credit ₹ 15,000

Solution:

1. Karthik commenced the business with ₹ 1,00,000

This transaction increases the capital as well as the cash. Increase in assets is debited and increase in capital is credited. Therefore, record the transaction with debit to cash account and credit to Karthik's capital account.

Journal					
Date	Particulars		L.F	Dr.	Cr.
01-04-2017	Cash Account	Dr.		1,00,000	
	To, Capital Account				1,00,000
	(Being cash invested by the proprietor)				

Table 2.3

2. Purchased goods from Narayan on credit for 20,000

Purchased goods from Narayan for ₹ 20,000 on credit. Increase in Revenue is credited and increase in assets is debited. Therefore, record the transaction with credit to sales account and debit to ABUEnterprises account.

Journal					
Date	Particulars		L.F	Dr.	Cr.
10-04-2017	Purchase Account	Dr.		20,000	
	To, Narayan Account				20,000
	(Being goods purchased from Narayan on credit)				

Table 2.4

3. Sold good to ABU Enterprises on credit ₹ 10,000

This transaction increases sales (Income) and assets (ABU Enterprises as debtors). The rule of debit & credit says; increase in asset is debited and increase in revenue is credited. Therefore record the transaction by debiting the ABU Enterprises and Crediting the Sales Account.

Journal					
Date	Particulars		L.F	Dr.	Cr.
30-04-2017	ABU Enterprises Account	Dr.		100,000	
	To, Sales Account				100,000
	(Being goods sold to ABU Enterprises on credit)				

Table 2.5

2.2.2.3 Recording of Business Transactions in Journal

As explained earlier, a journal is a day book or a daily record wherein the transactions are recorded in chronological order, i.e. as and when they take place. The act of recording a transaction in the journal is called journalising.

They are two of Journal Entries namely:

- 1. Simple Journal Entry:** A journal entry in which one account is debited and one account is credited.

For Example refer the journal entry given below:

As on 30-04-2017, sold good to Akash Enterprises on credit ₹ 10,000

Date	Particulars		L.F	Dr.	Cr.
30-04-2017	Akash Enterprises Account	Dr.		15,000	
	To, Sales Account				15,000

	(Being goods sold to Akash Enterprises on credit)				
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Table 2.6

In the above journal entry we have debited one account i.e., Akash Enterprises and Credited one account i.e., Sales Account.

- 2. Compound Journal Entry:** A journal entry in which more than one debit account, more than one credit account or more than one of both debit and credit accounts are involved in the transactions on the same date relating to one particular account or one particular Nature of account is termed as Compound Entry.

Instead of recording several Journal entries we can record the transaction which involves more than one debit or credit in a single journal entry called Compound Journal Entry.

For Example refer the journal entry given below:

As on 30-04-2017, made a payment of ₹ 30,000 towards Telephone bill ₹ 10,000, Stationery Expenses ₹ 10,000, and Travelling Expenses ₹ 10,000.

Journal					
Date	Particulars		L.F	Dr.	Cr.
30-04-2017	Telephone Bill	Dr.		10,000	
	Stationery Expenses	Dr		10,000	
	Travelling Expense	Dr		10,000	
	To, Cash Account				30,000
	(Being expenses paid through cash)				

Table 2.7

In the above entry we have debited three Accounts (Telephone bill, Stationery Expenses and Travelling Expenses) and credited one Account that is Cash Account. A compound entry can be recorded in any one of the following manner:

- Debit multiple accounts and credit one account
- Debit multiple accounts and credit multiple accounts
- Debit one account and credit multiple accounts

Illustration 2: Journalising and recording of business transactions in journal using simple and compound entries.

TIM Enterprises furnishes the following information regarding transactions for the month of April, 2017.

Date	Transactions
01-04-2017	Business started with cash ₹ 5,00,000
02-04-2017	Goods purchased from Mohan ₹ 40,000
04-04-2017	Stationery purchased for cash ₹ 2,000
05-04-2017	Opened a bank account with UTI Bank by depositing cash of ₹ 50,000
08-04-2017	Goods sold to Riya for ₹ 25,000
10-04-2017	Received a cheque of ₹ 25,000 from Riya
11-04-2017	Sold goods to Shrinidhi ₹ 12,000
15-04-2017	Shrinidhi pays ₹ 12,000 cash
16-04-2017	Goods purchased for ₹ 16,000 on credit from Nectu
18-04-2017	Insurance paid by cheque ₹ 8,000
19-04-2017	Paid ₹ 4,000 towards rent by cash
20-04-2017	Payment made to Suraj for ₹10,000 and discount received for ₹1,000
30-04-2017	Cash of ₹ 30,000 was received from Sohan and discount allowed for ₹ 3,000

Table 2.8

Solution:

Books of TIM Enterprises for the month of April				
Date	Particulars	L.F.	Debit	Credit
01-04-2017	Cash A/c Dr		5,00,000	
	To, Capital A/c			5,00,000
	(Business started with cash)			
02-04-2017	Purchases A/c Dr		40,000	
	To, Mohan A/c			40,000
	(Goods purchased on credit)			
04-04-2017	Stationery A/c Dr		2,000	
	To, Cash A/c			2,000
	(Purchase of stationery for cash)			
05-04-2017	UTI Bank A/c Dr		50,000	
	To, Cash A/c			50,000
	(Opened a bank account with UTI Bank)			

08-04-2017	Riya A/c	Dr	25,000	
	To, Sales A/c			25,000
	(Goods sold to Riya on credit)			
10-04-2017	UTI Bank A/c	Dr	25,000	
	To, Riya A/c			25,000

	(Cheque received from Riya)			
11-04-2017	Shrinidhi A/c	Dr	12,000	
	To, Sales A/c			12,000
	(Sale of goods to Shrinidhi on credit)			
15-04-2017	Cash A/c	Dr	12,000	
	To, Shrinidhi A/c			12,000
	(Cash received from Shrinidhi)			
16-04-2017	Purchases A/c	Dr	16,000	
	To, Neetu A/c			16,000
	(Purchase of goods on credit)			
18-04-2017	Insurance premium A/c	Dr	8,000	
	To, UTI Bank A/c			8,000
	(Insurance premium paid by cheque)			
19-04-2017	Rent A/c	Dr	4,000	
	To, Cash A/c			4,000
	(Rent paid)			
20-04-2017	Suraj A/c	Dr	11,000	
	To, Cash A/c			10,000
	To, Discount Received A/c			1,000
	(Payment made to raghav after discount)			
30-04-2017	Cash A/c	Dr	27,000	
	Discount Allowed A/c	Dr	3,000	
	To, Sohan' s A/c			30,000
	(Cash received from Mohan and discount allowed)			
	Total		7,35,000	7,35,000

Table 2.9

Note: When there are many transactions recorded in a number of pages in the journal book, then at the end of each page of the journal book, the amount columns are totalled and carried forward (c/f) to the next page where such amounts are recorded as brought forward (b/f) balances.

2.3 Ledger

Ledger is the principal book of the accounting system and is also called the book of secondary entry. It is defined as a book of final entry containing all the accounts of a business or all the accounts of a particular type. In a ledger, the transactions of the same nature are classified and grouped together at one place in the form of accounts. Ledgers may be in the form of a bound register, cards, or separate sheets maintained in a loose leaf binder.

2.3.1 Need for Ledger

A well-maintained accounting system plays a significant role in the growth of an organisation. The ledger, as a record of the transactions, assumes great importance in the process. The net result of all transactions in respect of a particular account on a given date can be ascertained only from the ledger. For example, the organisation can ascertain the amount due from a customer only from the ledger. Ledgers, thus act as a reference for the transactions of an organisation on any given date. Accounts are opened in the ledger in a specific order, facilitating easy posting and location. For example, accounts may be opened in the same order as they appear in the profit and loss account or balance sheet. An index is also provided in the beginning. Some large organisations allot code numbers for each account for easy identification.

The format of a ledger is shown below:

Dr.				Title of the Account				Cr.			
Date	Particulars	J.F	Amount (₹)	Date	Particulars	J.F	Amount (₹)				

Table 2.10

The columns contain the following information:

Title of the account: The name of the item is written at the top as the title of the account. The title of the account ends with the suffix, 'Account'.

Dr./Cr.: Dr. is the debit side of the account, i.e. the left side and Cr. is the credit side of the account, i.e. the right side.

Date: Year, month, and date of transactions are posted in chronological order in this column.

Particulars: Name of the item with reference to the original book of entry is written on debit/credit side of the account.

relevant transaction is recorded. This column is filled in at the time of posting.

Amount (₹): It records the amount in numerical figures, corresponding to what has been entered in the amount column of the original book of entry.

2.3.2 Differences between a Journal and a Ledger

Journal and ledger are the most important books in the double entry system of accounting. The following table highlights the main differences between a journal and a ledger.

Journal	Ledger
It is the book of primary entry (original entry).	It is the book of secondary entry.
It is the book for chronological record.	It is the book for analytical record.
Journal, as a book of source entry, gets greater importance as legal evidence.	Ledger gets lesser importance as legal evidence.
Transaction is the basis of classification of data.	Account is the basis of classification of data.
The process of recording in the journal is known as journalising.	The process of recording in the ledger is known as posting.
In the journal, information relating one particular account is not found in one place.	In the ledger, the information relating to one particular account is found in one place.

Table 2.11

2.3.3 Classification of Ledger Accounts

Ledger accounts are classified into five categories. They are:

- Assets
- Liabilities
- Capital
- Revenues/gains
- Expense/losses

All these accounts may further be classified into two groups, namely:

- Permanent accounts (assets, liabilities, and capital accounts)
- Temporary accounts (revenue and expense accounts)

Permanent accounts are balanced and carried forward to the next accounting period. The temporary accounts are closed at the end of the accounting period by transferring them to the trading account and profit and loss account. All permanent accounts appear in the balance sheet.

2.3.4 Posting from Journal

The process of transferring entries from the books of original entry (journal) to the ledger is called posting. In other words, posting is the process of grouping all the transactions in respect to a

particular account at one place for a meaningful conclusion and to further the accounting process. Depending on the requirement and convenience of the business, posting from the journal may be done periodically, i.e. weekly, fortnightly, or monthly.

The process of posting from journal to the ledger involves the following steps.

Step 1: Locate in the ledger, the account to be debited as entered in the journal.

Step 2: Enter the date of transaction in the date column on the debit side.

Step 3: In the particulars column, write the name of the account through which it has been debited in the journal. For example, furniture sold for cash ₹ 17,000. Now, in the cash account on the debit side in the particulars column, 'Furniture' is entered, signifying that cash is received from the sale of furniture. In the furniture account, in the ledger on the credit side is the particulars column, the word, cash is recorded. The same procedure is followed for all the entries recorded in the journal.

Step 4: Enter the page number of the journal in the folio column and in the journal, write the page number of the ledger on which a particular account appears.

Step 5: Enter the relevant amount in the amount column on the debit side. It may be noted that the same procedure is followed for making the entry on the credit side of that account to be credited. An account is opened only once in the ledger and all entries relating to a particular account are posted on the debit side or credit side, as the case may be.

Illustration 3: Posting journal transactions into the respective ledgers and transferring from journal to ledgers.

TIM Enterprises furnishes the following information regarding transactions for the month of May, 2017. Journalise the transactions and then post them to ledgers

Date	Transactions
01-05-2017	Further Invested in a business with cash of ₹ 4,00,000
03-05-2017	Opened an account in HDFC Bank by depositing ₹ 1,00,000
05-05-2017	Purchased furniture for ₹ 20,000 by paying cash
10-05-2017	Goods purchased from Ranjan Traders for ₹ 50,000
15-05-2017	Sold goods on cash ₹ 25,000
20-05-2017	Paid insurance of ₹ 2,000 by cash
22-05-2017	Paid ₹ 3,000 towards rent in cash
25-05-2017	Paid ₹ 5,000 as salary to the manager in cash
26-05-2017	Sold goods worth ₹ 8,000 to Raghu
27-05-2017	Purchased stationery worth ₹ 200 in cash

Table 2.12

Solution:

Books of TIM Enterprises for the month of May
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BOOK OF THE ENTERPRISE FOR THE MONTH OF MAY

Date	Particulars	L.F.	Debit	Credit
01-05-2017	Cash A/c Dr		4,00,000	
	To Capital A/c			4,00,000
	(Business started with cash)			
03-05-2017	HDFC Bank A/c Dr		1,00,000	
	To Cash A/c			1,00,000

	(Cash deposited in bank account)			
05-05-2017	Furniture A/c Dr		20,000	
	To Cash A/c			20,000
	(Furniture purchased)			
10-05-2017	Purchase A/c Dr		50,000	
	To Ranjan Traders			50,000
	(Goods purchased on credit)			
15-05-2017	Cash A/c Dr		25,000	
	To Sales A/c			25,000
	(Goods sold on cash)			
20-05-2017	Insurance A/c Dr		2,000	
	To Cash A/c			2,000
	(Insurance premium paid)			
22-05-2017	Rent A/c Dr		3,000	
	To Cash A/c			3,000
	(Rent paid)			
25-05-2017	Salary A/c Dr		5,000	
	To Cash A/c			5,000
	(Salary paid)			
26-05-2017	Raghu A/c Dr		8,000	
	To Sales A/c			8,000
	(Furniture purchased)			
27-05-2017	Stationery A/c Dr		200	
	To Cash A/c			200
	(Stationery Purchased)			
	Total		6,13,000	6,13,000

	Total		0,10,200	0,10,200
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Table 2.13

Posting of entries from journal to ledger accounts

Dr.	Cash Account	Cr.
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Date	Particulars	J.F	Amount (₹)	Date	Particulars	J.F	Amount (₹)
01-05-2017	To Capital A/c		4,00,000	03-05-2017	By HDFC Bank A/c		1,00,000
15-05-2017	To Sales		25,000	05-05-2017	By Furniture A/c		20,000
				20-05-2017	By Insurance A/c		2,000
				22-05-2017	By Rent A/c		3,000
				25-05-2017	By Salary A/c		5,000
				27-05-2017	By Stationery A/c		200
				31-05-2017	By Balance c/d		2,94,800
			4,25,000				4,25,000
01-06-2017	To Balance b/d		2,94,800				

Table 2.14

Dr.	HDFC Bank Account	Cr.					
Date	Particulars	J.F	Amount (₹)	Date	Particulars	J.F	Amount (₹)
03-05-2017	To Cash A/c		1,00,000	31-05-2017	By Balance c/d		1,00,000
	Total		1,00,000		Total		1,00,000
01-06-2017	To Balance b/d		1,00,000				

Table 2.15

Dr.		Furniture Account				Cr.	
Date	Particulars	J.F	Amount (₹)	Date	Particulars	J.F	Amount (₹)
05-05-2017	To Cash A/c		20,000	31-05-2017	By Balance c/d		20,000

			20,000				20,000
01-06-2017	To Balance b/d		20,000				

Table 2.16

Dr.		Purchase Account				Cr.	
Date	Particulars	J.F	Amount (₹)	Date	Particulars	J.F	Amount (₹)
10-05-2017	To Ranjan Traders A/c		50,000	31-05-2017	By Balance c/d		50,000
			50,000				50,000
01-06-2017	To Balance b/d		50,000				

Table 2.17

Dr.		Ranjan Traders Account				Cr.	
Date	Particulars	J.F	Amount (₹)	Date	Particulars	J.F	Amount (₹)
31-05-2017	To Balance c/d		50,000	10-05-2017	By Purchase A/c		50,000
			50,000				50,000
				01-06-2017	By Balance b/d		50,000

Table 2.18

Dr.		Sales Account				Cr.	
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Date	Particulars	J.F	Amount (₹)	Date	Particulars	J.F	Amount (₹)
31-05-2017	To Balance c/d		33,000	15-05-2017	By Cash A/c		25,000
				26-05-2017	By Raghu A/c		8,000
			33,000				33,000

				01-06-2017	To Balance b/d		33,000
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Table 2.19

Dr.		Insurance Account				Cr.	
Date	Particulars	J.F	Amount (₹)	Date	Particulars	J.F	Amount (₹)
20-05-2017	To Cash A/c		3,000	31-05-2017	By Balance c/d		3,000
			3,000				3,000
01-06-2017	To Balance b/d		3,000				

Table 2.20

Dr.		Rent Account				Cr.	
Date	Particulars	J.F	Amount (₹)	Date	Particulars	J.F	Amount (₹)
22-05-2017	To Cash A/c		3,000	31-05-2017	By Balance c/d		3,000
			3,000				3,000
01-06-2017	To Balance b/d		3,000				

Table 2.21

Dr.		Salary Account				Cr.	
Date	Particulars	J.F	Amount (₹)	Date	Particulars	J.F	Amount (₹)
25-05-2017	To Cash A/c		5,000	31-05-2017	By Balance c/d		5,000
			5,000				5,000

01-06-2017	To Balance b/d		5,000				
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Table 2.22

Dr.		Raghu Account				Cr.	
Date	Particulars	J.F	Amount (₹)	Date	Particulars	J.F	Amount (₹)
26-05-2017	To Sales A/c		8,000	31-05-2017	By Balance c/d		8,000
			8,000				8,000
01-06-2017	To Balance b/d		8,000				

Table 2.23

Dr.		Stationery Account				Cr.	
Date	Particulars	J.F	Amount (₹)	Date	Particulars	J.F	Amount (₹)
27-05-2017	To Cash A/c		200	31-05-2017	By Balance c/d		200
			200				200
01-06-2017	To Balance b/d		200				

Table 2.24

2.4 Trial Balance

Furniture		xxxx	—
Purchases		xxxx	—
Returns Inwards		xxxx	—
Bills Receivable		xxxx	—
Debtors		xxxx	—
Cash in Hand		xxxx	—
Plant and Machinery		xxxx	—
Printing Charges		xxxx	—
Carriage Outwards		xxxx	—
Capital		—	xxxx
Creditors		—	xxxx

Bills Payable		—	xxxx
Bad Debts		xxxx	—
Petty Cash in Hand		xxxx	—
Bank Overdraft		—	xxxx
Wages		xxxx	—
Discount (Dr.)		xxxx	—
Salaries		xxxx	—
Returns Outwards		—	xxxx
Total		xxxx	xxxx

Table 2.25

Illustration 4: Preparation of Trial Balance

Example 1: From the following ledger balances extracted from the books of TIM Enterprises, prepare the Trial Balance as on 31-03-2017

Particulars	Amount (₹)	Particulars	Amount (₹)
Debtors	12,000	Purchases return	400
Creditors	10,000	Sales return	500
Capital	15,000	Buildings	10,000
Drawings	5,200	Rent paid	500
Cash balance	300	Furniture	5,000
Bank balance	2,100	Sales	30,000
Purchases	20,000	Interest received	200

Table 2.26

Solution:

Trial Balance as on 31st March 2017

Particulars	Debit (₹)	Credit (₹)
Debtors	12,000	—
Creditors	—	10,000
Capital	—	15,000
Drawings	5,200	—

Cash balance	300	—
Bank balance	2,100	—
Purchases	20,000	—
Sales	—	30,000
Buildings	10,000	—
Rent paid	500	—
Purchases return	—	400
Sales return	500	—
Interest received	—	200
Furniture	5,000	—
Total	<u>55,600</u>	<u>55,600</u>

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Table 2.27

Example 2: From the following ledger balances extracted from the books of Coffee Federation India Ltd., prepare the Trial Balance as on 31-03-2017

Particulars	Amount (₹)	Particulars	Amount (₹)
Opening Stock	1,250	Printing Charges	481
Sales	11800	Carriage Outwards	200
Depreciation	667	Capital	9228
Commission (Cr.)	211	Creditors	1780
Insurance	380	Bills Payable	541
Carriage Inwards	300	Bad Debts	180
Furniture	670	Petty Cash in Hand	47
Purchases	8679	Bank Overdraft	4000
Returns Inwards	1659	Wages	1589
Bills Receivable	2730	Discount (Dr.)	328
Debtors	1905	Salaries	750
Cash in Hand	895	Returns Outwards	1380
Plant and Machinery	6230		

Table 2.28

Solution:

Trial Balance as on 31st March 2017

Particulars	Debit (₹)	Credit (₹)
Opening Stock	1,250	—
Sales	—	11,800
Depreciation	667	—
Commission (Cr.)	—	211
Insurance	380	—

Carriage Inwards	500	—
Furniture	670	—
Purchases	8,679	—
Returns Inwards	1,659	—
Bills Receivable	2,730	—
Debtors	1,905	—
Cash in Hand	895	—
Plant and Machinery	6,230	—
Printing Charges	481	—
Carriage Outwards	200	—
Capital	—	9,228
Creditors	—	1,780

Bills Payable	—	541
Bad Debts	180	—
Petty Cash in Hand	47	—
Bank Overdraft	—	4,000
Wages	1,589	—
Discount (Dr.)	328	—
Salaries	750	—
Returns Outwards	—	1,380
Total	<u>28,940</u>	<u>28,940</u>

Table 2.29

2.5 Subsidiary Books & Control Accounts

Business transactions are first recorded in the journal and then posted to ledger accounts. Small businesses usually record all their transactions in a single journal. In large organisations, the journal is sub-divided into special journals, also known as day books or subsidiary books.

A special journal facilitates division of labour in accounting work and enables you to record transactions of a similar nature. Business transactions, which are repetitive in nature, can be easily recorded in special journals. For example, all cash transactions may be recorded in one book, all credit sales transactions in another book, and so on. Transactions that cannot be recorded in any special journal are recorded in the journal proper.

This section deals with the following special purpose books.

- Cash book
- Purchases book
- Purchases return (Return outwards) book
- Sales book
- Sales return (Return inwards) book

- Journal proper

2.5.1 Cash Book

The Cash book is an accounting book which records cash receipts and disbursements. It is opened with a cash or bank balance at the beginning of the period. The entries are balanced on a monthly basis. Cash book, also known as book of original entry, is maintained by all organisations, big or small, profit or not-for-profit. It serves the purpose of both journal as well as the ledger (cash) account. When a cash book is maintained, transactions of cash are not recorded in the journal and no separate account for cash or bank is required in the ledger

2.5.1.1 Single Column Cash Book

The single column cash book records all cash transactions (receipts and payments) of a business in chronological order. It has only one amount column on each (debit and credit) side.

The format of a Single Column Cash Book is as follows.

Dr.

Cr.

Date	Particulars	R No	L. F	Amount (₹)	Date	Particulars	V No	L. F	Amount t (₹)

Table 2.30

Single column cash book consists of two sides.

- **Debit side:** The left side or the receipt side (used for recording cash receipts).
- **Credit side:** The right side or the payment side (used for recording cash payments).

Each side is further divided into five columns. These columns contain the following information.

- **Date column:** Records the date on which cash is received or paid.
- **Particulars column:** Records the name of the person from whom cash is received or to whom cash is paid.
- **Receipt Number (R. No.) column:** Records the serial number of the receipt which is issued at the time of receipt of cash.
- **Voucher Number (V. No.) column:** Records the serial number of the voucher which is received at the time of payment of cash.
- **Ledger Folio (L.F.) column:** Records the page number of the ledger to which a particular item from the cash book is posted.
- **Amount (₹) column:** Records the amount of cash received or paid.

Illustration 5: Recording of Transactions in Single Column Cash Book

TIM Enterprises furnishes the following information regarding transactions for the month of June, 2017. Record the transactions in Single Column Cash Book

Date	Transactions
01-06-2017	Business has an opening cash balance of ₹ 50,000
02-06-2017	Received cash ₹ 30,000 from Gaganjeet
03-06-2017	Paid ₹ 3,000 towards insurance premium
04-06-2017	Purchased furniture for cash ₹ 6,000
10-06-2017	Sold goods for cash ₹ 20,000

15-06-2017	Purchased goods for cash ₹ 7,500 from Tom
30-06-2017	Deposited cash ₹ 20,000 in bank

Table 2.31

Solution:

The Transactions are recorded in the Single Column Cash Book as shown.

Date	Particulars	R No	L. F	Amount (₹)	Date	Particulars	V No	L. F	Amount (₹)
01-06-2017	To balance b/d			50,000	03-06-2017	By Insurance A/c			3,000
02-06-2017	To Gangajeet A/c			30,000	04-06-2017	By Furniture A/c			6,000
10-06-2017	To Sales A/c			20,000	15-06-2017	By Purchase A/c			7,500
					30-06-2017	By Bank A/c			20,000
					30-06-2017	By Balance c/d			63,500
				1,00,000					1,00,000
01-07-2017	By Balance c/d			63,500					

Table 2.32

Posting from Single column cash book

The left side of a cash book shows the receipts of cash, while the right side shows payments made in cash. The accounts appearing under debit are credited as cash has been received. Thus, in the above example, the entry 'Cash received from Gaganjeet' appears on the debit side of the cash book. Therefore, Gangajeet's account is credited by writing cash in the particulars column on the

credit side. Similarly, all account names appearing on the credit side of the cash book are debited as cash/cheque has been received.

Consider how the transactions in the above example are posted to the related ledger accounts

Dr.		Gangajeet's Account						Cr.
Date	Particulars	J.F	Amount (₹)	Date	Particulars	J.F	Amount (₹)	
30-06-2017	To Balance c/d		30,000	02-06-2017	By cash A/c		30,000	
			30,000				30,000	
				01-07-2017	By Balance b/d		30,000	

Table 2.33

Dr.		Sales Account						Cr.
Date	Particulars	J.F	Amount (₹)	Date	Particulars	J.F	Amount (₹)	
30-06-2017	To Balance c/d		20,000	10-06-2017	By cash A/c		20,000	
			20,000				20,000	
				01-07-2017	By Balance b/d		20,000	

Table 2.34

Dr.		Insurance Account						Cr.
Date	Particulars	J.F	Amount (₹)	Date	Particulars	J.F	Amount (₹)	
03-06-2017	To Cash A/c		3,000	30-06-2017	By Balance b/d		3,000	
			3,000				3,000	
01-07-2017	To Balance B/d		3,000					

Table 2.35

Dr.		Furniture Account						Cr.
Date	Particulars	J.F	Amount (₹)	Date	Particulars	J.F	Amount (₹)	
04-06-				30-06-				

2017	To Cash A/c		6,000	2017	By Balance b/d		6,000
			6,000				6,000
01-07-2017	To Balance B/d		6,000				

Table 2.36

Dr.		Purchase Account				Cr.	
Date	Particulars	J.F	Amount (₹)	Date	Particulars	J.F	Amount (₹)
15-06-2017	To Cash A/c		7,500	30-06-2017	By Balance b/d		7,500
			7,500				7,500

01-07-2017	To Balance B/d		7,500				
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Bye Table 2.37

Dr.		Bank Account				Cr.	
Date	Particulars	J.F	Amount (₹)	Date	Particulars	J.F	Amount (₹)
30-06-2017	To Cash A/c		20,000	30-06-2017	By Balance b/d		20,000
			20,000				20,000
01-07-2017	To Balance B/d		20,000				

Table 2.38

2.5.1.2 Double Column Cash Book

A double column cash book contains two columns of amounts on each side of the cash book. In many organisations, as far as possible, all receipts and payments are affected through bank.

Cash/cheque is deposited in a bank account by filling a form called the pay-in slip. This slip contains a counterfoil to be returned to the customer (depositor) with the signature of the cashier as receipt.

To withdraw money, banks issue blank cheque books to account holders, Cheques are generally crossed in practice. The payment of a crossed cheque is effected only through a bank account.

As the number of bank transactions increases, a separate amount column can be maintained in the cash book to record bank transactions. Using this, you are updated on the position of the bank account from time to time. Entries of all deposits made to the bank are recorded on the left. Withdrawals/payments through the bank are recorded on the right. Cash deposits and cash withdrawals are recorded both in the bank column and cash column because both aspects of the transaction appear in the cash book itself. The amount of cash deposited in the bank is recorded

in the bank column on the left. At the same time, the same amount is entered in the cash column on the right. The reverse entries are recorded when cash is withdrawn from the bank for use in the office. Such entries are called contra entries. In the ledger folio column, the letter C which indicates contra is written against such entries. This ensures that these entries are not to be posted to any other ledger account.

The bank column and the cash column are balanced in a similar way. However, in the bank column, there can be credit balance as an overdraft may have been availed from the bank. Overdraft indicates a situation when cash withdrawn from the bank exceeds the deposits in the bank.

In a cash book, particulars of cheques received are entered in the bank column. If a cheque is deposited in the bank on the day of its receipt, the amount is recorded in the bank column of the cash book on the receipts side. If it is deposited on another day, it is treated as cash received on the date of receipt and hence recorded in the cash column on the receipts side. It is recorded in the bank column on the receipt (Dr.) side and in the cash column on the payment (Cr.) side on the day of deposit to the bank. This is a contra entry.

Sometimes, due to insufficient funds, the bank dishonours cheques deposited. If a cheque received from a customer is dishonoured, then the bank returns it and debits the firm's account. On receiving a returned cheque or intimation from the bank, the firm makes an entry on the credit side of the cash book by entering the amount of the cheque in the bank column. The name of the customer is mentioned in the particulars column. This entry restores the position prevailing before the receipt of the cheque from the customer and its deposit in the bank.

If the bank debits the firm on account of interest, commission, or other charges for bank services, the entry is made on the credit side in the bank column. If the bank credits the firm's account, then the entry is made on the debit side of the cash book in the appropriate column.

The format of a Double Column Cash Book is as follows:

Date	Particulars	R No	L.F	Cash (₹)	Bank (₹)	Date	Particulars	V No	L.F	Cash (₹)	Bank (₹)

Table 2.39

Note: In double column cash book, bank column is added.

Illustration 6: Recording of cash and bank transactions in Double Column Cash Book.

TIM Enterprises furnishes the following information regarding transactions for the month of July, 2017. Record the transactions in Double Column Cash Book

Date	Transactions
01-07-2017	Business has cash balance of ₹ 25,000 and bank balance of ₹ 50,000
02-07-2017	Purchased goods for ₹ 5,000 and paid by cheque
05-07-2017	Sold goods for cash ₹ 6,000
08-07-2017	Purchased machinery worth ₹ 15,000 by cheque
10-07-2017	Received cheque for ₹ 10,000 towards the sales made and deposited it in bank
15-07-2017	Goods purchased from Sarala on cash for ₹ 8,000

2017	b/d		17,500	28,750				
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Table 2.41

Note: Drawing Account for Personal use is not a Contra entry because cash has not been brought into office use.

Posting from Double Column Cash Book

Dr.				Sales Account				Cr.			
Date	Particulars	J.F	Amount (₹)	Date	Particulars	J.F	Amount (₹)				
31-07-2017	To Balance b/d		16,000	05-07-2017	By Cash		6,000				
				10-07-2017	By Bank		10,000				
			16,000				16,000				

Dr.				Purchase Account				Cr.			
Date	Particulars	J.F	Amount (₹)	Date	Particulars	J.F	Amount (₹)				
02-07-2017	To Bank		5,000	31-07-2017	By Balance b/d		13,000				
15-07-2017	To Cash		8000								
			13,000				13,000				
01-08-2017	To Balance b/d		13,000								

Table 2.43

Dr.				Machinery Account				Cr.			
Date	Particulars	J.F	Amount (₹)	Date	Particulars	J.F	Amount (₹)				
08-07-2017	To Bank		15,000	31-07-2017	By Balance b/d		15,000				
			15,000				15,000				
01-08-2017	To Balance b/d		15,000								

Table 2.44

Dr.		Stationery Account				Cr.	
Date	Particulars	J.F	Amount (₹)	Date	Particulars	J.F	Amount (₹)
18-07-2017	To Bank		750	31-07-2017	By Balance b/d		750
			750				750
01-08-2017	To Balance b/d		750				

Table 2.45

Dr.		Uday Shankar Account				Cr.	
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Date	Particulars	J.F	Amount (₹)	Date	Particulars	J.F	Amount (₹)
20-07-2017	To Bank		2,000	31-07-2017	By Balance b/d		2,000
			2,000				2,000
01-08-2017	To Balance b/d		2,000				

Table 2.46

Dr.		Rent Account				Cr.	
Date	Particulars	J.F	Amount (₹)	Date	Particulars	J.F	Amount (₹)
23-07-2017	To Bank		3,000	31-07-2017	By Balance b/d		3,000
			3,000				3,000
01-08-2017	To Balance b/d		3,000				

Table 2.47

Dr.		Salary Account				Cr.	
Date	Particulars	J.F	Amount (₹)	Date	Particulars	J.F	Amount (₹)
25-07-2017	To Cash A/c		10,000	31-07-2017	By Balance b/d		10,000
			10,000				10,000
01-08-							

2017	To Balance b/d		10,000			
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Table 2.48

Dr. Drawing's Account							
Cr.							
Date	Particulars	J.F	Amount (₹)	Date	Particulars	J.F	Amount (₹)
28-07-2017	To Bank A/c		1,000	31-07-2017	By Balance b/d		1,000
			1,000				1,000
01-08-2017	To Balance b/d		1,000				

Table 2.49

2.5.1.3 Three Column Cash Book

When we receive cash from Debtors, we allow discount to them and when we pay cash to suppliers, we receive discount from them. To record Discount received and discount allowed details, Three Column Cash Book is used. When we add Discount Column is added in both the sides of Double Column Cash Book, It is called as Three Column Cash Book

The format of a Three Column Cash Book is as follows

Date	Particulars	R No	J.F	Discount Allowed	Cash (₹)	Bank (₹)	Date	Particulars	V No	J.F	Discount Received	Cash (₹)	Bank (₹)

Table 2.50

Illustration 7: Recording of cash and bank transactions with discount in Three Column Cash Book.

TIM Enterprises furnishes the following information regarding transactions for the month of August, 2017. Record the transactions in Double Column Cash Book.

Date	Transactions
01-08-2017	Cash at Bank is ₹ 50,000.
01-08-2017	Cash in Hand is ₹ 2, 00,000.
03-08-2017	Received Cash from Suraj for ₹ 20,000 against the bill of ₹ 20,500 and discount of ₹ 500 is allowed

04-08-2017	Paid ₹ 10,000 to Sun Traders against the bill of ₹ 10,300 and discount of ₹ 300 was received.
05-08-2017	Received a Cheque from Akash for ₹ 30,000 against the bill of ₹ 31,000 and discount of ₹ 1,000 is allowed.
09-08-2017	Paid Cash of ₹ 20,000 to Royal Traders against the bill of ₹ 21,000 and discount of ₹ 1,000 was received.
15-08-2017	Sold goods for cash ₹ 60,000.
20-08-2017	Paid ₹ 3,000 towards rent by cheque.
25-08-2017	Paid ₹ 10,000 as salary in cash.
30-08-2017	Received a Cheque from TT Traders for ₹ 20,000 against the bill of ₹ 20,500 and discount of ₹ 500 is allowed.

Table 2.51

Solution:

The Transactions are recorded in the Three Column Cash Book as shown

Date	Particulars	R No	I. F	Discount Allowed	Cash (₹)	Bank (₹)	Date	Particulars	V No	I F	Discount Received	Cash (₹)	Bank (₹)
01-08-2017	To Balance b/d				2,000	50,000	04-08-2017	By Sun Traders A/c			300	10,000	
03-08-2017	To Suraj's A/c			500	20,000		09-08-2017	By Royal Traders A/c			1,000	20,000	
05-08-2017	To Akash A/c			1,000		30,000	20-08-2017	By Rent A/c					3,000
15-08-2017	To Sales A/c				60,000		25-08-2017	By Salary				10,000	
30-08-2017	To TT Traders A/c			500		20,000	31-08-2017	By Balance b/d				2,400	97,000
				2,000	2,80,000	1,000					1,300	2,80,000	1,000

Table 2.52

2.5.2 Petty Cash Book

Miscellaneous expenses such as conveyance, cartage, postage, telegrams, and so on are common to every organisation. These are generally repetitive in nature and it would burden the cashier to record all these payments in the main cash book. Further, the cash book would become very bulky

record all these payments in the main cash book. Further, the cash book would become very bulky. Hence, large organisations usually appoint a petty cashier and maintain a separate cash book to record such transactions. Such a cash book is called a petty cash book.

The petty cashier follows the Imprest system. Under this system, a definite sum, say ₹ 1500, is given to the petty cashier at the beginning of a certain period. This amount is called imprest amount. The petty cashier makes all small payments out of this imprest amount. When he has spent a substantial portion of the imprest amount, say ₹1380, he gets a reimbursement from the head cashier. Thus, he again has the full imprest amount. The reimbursement may be made on a weekly, fortnightly, or monthly basis, depending on the frequency of small payments.

Generally, petty cash books have a number of columns for the amount on the payment side (credit) besides the first total payment column. Each of the amount columns is allotted for items of specific payments which are most common. The last amount column is 'miscellaneous'. Payments for which a separate column does not exist are recorded in the miscellaneous column. At the end of the period, all amount columns are totalled. The total payment column shows the total amount spent and to be reimbursed. On the receipt (debit) side, there is only one amount column. Columns for the date, voucher number and particulars are common for both receipts and payments.

2.5.3 Purchase Book

A purchase book is used to record all credit purchases of goods used in the normal course of business. Other purchases such as the purchases of office equipment, furniture, and building are recorded in the journal proper, if purchased on credit, or in the cash book if purchased for cash. Invoices or bills received from suppliers of goods are the source documents to record entries in the book. Entries are made with the net amount of the invoice. Details of the invoice such as trade discount need not be recorded in this book

2.5.4 Purchase Return Book

Goods purchased are sometimes returned to the supplier for reasons such as poor quality, defects and so on. Entries regarding the purchases return of goods are recorded in the purchases return book.

For every return, the trader prepares a debit note (in duplicate) to inform the supplier that his account has been debited to the extent of the goods returned or for the allowance claimed. The original is then sent to the supplier to enable him to make the necessary entries in his book. The source document to record entries in the purchases return journal is generally a debit note. A debit note contains the name of the party (to whom the goods have been returned), details of the goods returned and the reason for returning the goods. Each debit note has a serial number and date.

2.5.5 Sales Book

The sales journal is a book maintained to record all credit sales of merchandise. The format of the sales journal is similar to that of the purchases journal explained earlier. Sales invoices or bills, issued by the firm to its customers, are the source documents to record entries in the sales journal. For each sale, two or more copies of a sales invoice are prepared. The book-keeper makes entries in the sales journal from a copy of the sales invoice. In the sales journal, one additional column may be added to record sales tax recovered from the customer and to be paid to the government within the stipulated time. At the end of each month, the amount column is totalled and posted to

the credit of sales account in the ledger. Posting to the debit side of individual customer accounts may be made daily.

2.5.6 Sales Return Book

Sales return book is used to keep a record of the goods returned by customers. The trader prepares a statement, known as credit note, when goods are taken back from the customers or an allowance is granted to a customer. A credit note informs the customer that his account has been credited for the goods returned or for the allowance granted.

2.5.7 Journal Proper

The **journal proper** is a book maintained to record transactions that cannot be recorded in any of the special journals. It is also known as modern journal or journal residual.

- A journal proper generally records the following entries.
- Opening entries
- Rectifying entries

- Transfer entries
- Adjustment entries
- Closing entries
- Entries regarding dishonour of cheques
- Credit purchases and sale of things other than goods
- Entries of goods withdrawn by the owner for personal use
- Loss of goods by fire, theft and so on
- Transactions with respect to consignment and joint ventures

2.5.8 Control Accounts

Control Account is also termed as Controlling Account, are accounts prepared to keep the general ledgers like Asset Account (Cash, Accounts Receivable, Inventory) nice and clean.

Control Accounts are the total accounts used for checking the arithmetical accuracy of each ledger separately; and contains the correct balances which can be used in the Financial Statements.

Control Accounts Balance are updated for a particular period; from here the balances are transferred to Balance Sheet and Profit & Loss account.

For example; all receivables entered during one day will be accumulated from the subsidiary ledger and posted as a single summary-level number into the accounts receivable control account. Posting to all control accounts must be completed before the books are closed at the end of the reporting period; otherwise, transactions may be trapped in a subsidiary ledger.

If anyone wants to understand the detailed transaction level information for accounts receivable,

they can get the details from subsidiary ledger, since it is not located in the general ledger.

Control accounts are most commonly used by large establishments, since their transactions are very high in volume. A small business can naturally store all of its transactions in the general ledger, and does not need a subsidiary ledger that is linked to a control account.

Note:

1) *Bad debts recovered, cash purchase, cash sales and increase in provision for doubtful debts are not included in control accounts and do not affect debtors and creditors account.*

2) *'Sales ledger control account' is also known as 'debtors control account' and 'purchases ledger control account' is called as 'creditors control account'.*

2.6 Financial Statements

Stakeholders need to know the business' position at the end of each financial year. Financial statements serve a significant purpose to users of accounting information, in knowing about the profitability and the financial position of the organisation.

Financial statements normally include:

- Trading and Profit & Loss Account
- Balance Sheet

2.6.1 Trading and Profit & Loss Account

Profit and loss account is an accounting statement that shows an organisation's trading position over a given period of time, usually the financial year. A profit and loss account has two sections namely trading account and profit and loss account.

At the option of the organisation (trading or manufacturing), these two accounts may be put together in one account or shown separately. However, the usual practice is that a single account is prepared with two sections, viz. trading account and profit and loss account.

2.6.1.1 Trading Account

A trading account merely indicates the result of buying and selling of goods, i.e. the gross profit or gross loss on trading, without considering administration, selling and financial expenses incurred in running the business.

The format of trading account is given below.

Trading Account for the year ending

Particulars	Amount	Amount	Particulars	Amount	Amount
	(₹)	(₹)		(₹)	(₹)
To Opening stock		xxxx	By Sales	xxxx	
.....				

To Purchases	xxxx		Less: Sales returns	xx	xxxx
Less: Purchase returns	xx		By Closing stock		xxxx
To Cartage		xxxx	By Gross loss (Gross loss transferred to profit and loss account)		
To Carriage inwards		xxxx			
To Freight		xxxx			
To Import duty		xxxx			
To Excise duty		xxxx			
To Octroi		xxxx			
To Dock dues		xxxx			

To Wages		xxxx			
To Power		xxxx			
To Electricity and water		xxxx			
To Packaging		xxxx			
To Gross profit (Gross profit transferred to profit and loss account)		xxxx			xxxx

Table 2.53

Explanation of the items in the above format

Opening stock: It is the first item on the debit side of the trading account. In case of manufacturing business, opening stock includes the stock of raw materials, partly finished goods, and finished goods at the beginning of the trading period. In case of trading business, it includes only the stock of finished goods at the beginning of the trading period.

Purchases and purchase returns: Purchases refer to finished goods purchased for resale or raw materials purchased for manufacture. It includes both cash and credit purchases. Net purchases are entered in the outer column by deducting the purchase returns from the total purchases.

Cartage, carriage inwards, and freight: The details of transportation charges incurred for the movement of goods are entered in these fields. They may be inwards or outwards. Carriage, carriage inwards, and freight incurred on the goods purchased are entered on the debit side of the

trading account. When these expenses are incurred on goods sold, they are entered in the profit and loss account. When it is not stated whether cartage, carriage, and freight are inward or outward, the common practice is to treat them as inwards.

Import duty, Excise duty, Octroi: The import duty, excise duty, and octroi paid on the goods purchased are shown on the debit side of the trading account. Such duties paid on goods sold are entered in the profit and loss account. If there is no specification as to whether these duties are paid on purchases or on sales, it is considered to have been paid on purchases.

Dock dues: Dock dues incurred on purchases are entered on the debit side of the trading account and those incurred on sales are entered in the profit and loss account. If it is not stated whether they are paid on the purchases or sales, it can be regarded as the dues paid on the purchases.

Wages: Wages incurred while manufacturing goods or making purchased goods ready for sale are considered direct expenses and entered on the debit side of the trading account. Indirect and non-manufacturing wages are entered in the profit and loss account. The wages, of which the nature (direct or indirect) is not mentioned, are treated as direct wages. Certain organisations combine wages and salaries. They treat them as direct expenses and enter the details on the debit side of the trading account.

Power, fuel, gas, water, heating, lighting, and so on: Fuel, power, gas, and oil used for running the machines are direct expenses. Water used in the factory is also treated as a direct expense. They are entered on the debit side of the trading account.

Heating and lighting may be for a factory or an office. Factory heating and lighting are direct expenses and appear on the debit side of the trading account. Office heating and lighting appear on the debit side of the profit and loss account. When it is not stated whether the heating and lighting are for factory or office they are treated as direct expenses.

Packaging materials and charges: Packaging materials and charges incurred to make goods ready for sale are direct expenses and entered on the debit side of the trading account. Whereas such expenses incurred on the finished goods for their safe dispatch to the customer are treated as indirect expenses. They appear on the debit side of profit and loss account.

Other factory expenses: Other factory expenses such as factory rent, factory insurance are direct expenses. They appear on the debit side of the trading account.

Sales and sales returns: Sales is the first item on the credit side of the trading account. Sales include both cash and credit sales. Net sales are entered in the outer column by deducting the sales returns from the total sales.

Sales tax: Sales tax refers to the tax paid by a businessman to the government on the sales made by him. It can be deducted from sales on the credit side of the trading account. Alternatively, it can also be treated as a selling expense and entered on the debit side of the profit and loss account.

Closing stock: Closing stock represents the stock of finished goods in case of a trading business. Whereas in case of a manufacturing business, it represents the stock of raw materials, partly finished goods, and finished goods at the end of the trading period. Closing stock generally does not appear in the trial balance but it has to be calculated and brought into the books of accounts.

Illustration 8: Preparation of a Trading Account

Prepare the trading account for the year ended 31-03-2017 from the following particulars.

Particulars	Amount (₹)
Opening stock	12,000
Purchases	60,000
Carriage	600
Sales	1,10,000
Sales returns	5,000
Sales tax	2,000
Factory lighting	1,000
Fuel and oil	750
Freight inwards	1,050

Octroi	1,200
Import duty	1,800
Marine insurance	2,400
Dock dues	500
Wages	6,000
Water and electricity	650
Factory rent	7,500
Packing materials	1,500
Purchase returns	3,000
Cartage	120
Customs duty	3,000
Factory insurance	2,500
Closing stock on 31.03.2009	10,500
Purchase Returns	3000

Table 2.54

Solution:

Trading Account for the year ending on 31st March, 2017

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Opening Stock		12,000	By Sales	1,10,000	

To Purchase	60,000		Less Sales Return	5,000	
Less Purchase Return	3000	57,000	Less Sales Tax	2,000	1,03,000
To Carriage		600	By Closing Stock		10,500
To Factory lighting		1,000			
To Fuel and oil		750			
To Freight inwards		1,050			
To Octroi		1,200			
To Import duty		1,800			
To Marine insurance		2,400			
To Dock dues		500			
To Wages		6,000			
To Water and electricity		650			
To Factory rent		7,500			
To Packing materials		1,500			
To Purchase returns		3,000			
To Cartage		120			
To Customs duty		3,000			
To Factory insurance		2,500			

To Gross Profit		10,930			
(Transferred to Profit & Loss Account)					
		1,13,500			1,13,500

Table 2.55

Illustration 9: Preparation of Trading Account

Prepare the Trading Account for the year ended 31-03-2017 from the following particulars.

Particulars	Amount (₹)
Opening stock	30,000
Purchases	85,000
Sales	1,20,000
Octroi	2,500
Cartage	600
Purchase returns	7,800
Sales returns	12,000
Import duty	6,000
Carriage inwards	3,500
Dock dues	1,500
Excise duty	2,000
Clearing charges	1,200
Factory rent	8,000
Factory insurance	2,400

Marine insurance	1,750
Customs duty	1,500
Water and electricity	780
Gas and oil	1,300
Factory lighting	760
Closing stock	12,800

Table 2.56

Solution:

Trading Account for the year ending on 31st March, 2017

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Opening Stock		30,000	By Sales	1,20,000	
To Purchase	85,000		Less Sales Return	12,000	1,08,000
Less Purchase Return	7,800	77,200	By Opening Stock		12,800
To Octroi		2,500	By Gross Loss		20,190

To Cartage	600	(Transferred to profit and Loss Account)		
Import duty	6,000			
Carriage inwards	3,500			
Dock dues	1,500			
Excise duty	2,000			
Clearing charges	1,200			
Factory rent	8,000			
Factory insurance	2,400			
Marine insurance	1,750			
Customs duty	1,500			
Water and electricity	780			
Gas and oil	1,300			
Factory lighting	760			
	1,40,990			1,40,990

Table 2.57

2.6.1.2 Profit & Loss Account

The profit and loss account helps to ascertain the net profit earned or net loss incurred during a particular period. This helps the company in monitoring and controlling the costs incurred and in improving its efficiency. In other words, the profit and loss statement shows the performance of the company in terms of profits or losses over a specified period.

The **Net Profit/Loss is expressed as Total revenue-Total Expenses.**

Net Profit or Loss = Total Revenue - Total Expenses

The Format of Profit & Loss Account is shown below:

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Gross loss			By Gross profit		
(Transferred from trading account)		xxxx	(Transferred from trading account)		xxxx
To Salaries		xxxx	By Rent received		xxxx
To Rent, rates and taxes		xxxx	By Commission received		xxxx
To Office lighting and Heating		xxxx	By Discount earned		xxxx

To Insurance		xxxx	By Bad debts recovered		xxxx
To Printing and stationery		xxxx	By Interest on drawings		xxxx
To Postage and telegrams		xxxx	By Net loss (Transferred to capital account)		xxxx
To Interest paid		xxxx			
To Discount allowed		xxxx			
To Bad debts		xxxx			
To Repairs		xxxx			
To Depreciation		xxxx			
To Commission paid		xxxx			
To Carriage outwards		xxxx			
To Travelling expenses		xxxx			
To Interest on capital		xxxx			
To Net profit (Transferred to capital account)		xxxx			
		Xxxxxx			xxxxxx

Table 2.58

Explanation of a few important items in the above format

Office and Maintenance Expenses

Salaries: This refers to the salaries paid to office staff.

Rent and taxes: Rent and taxes refers to municipal taxes and the rent paid for the office building.

Insurance: This refers to the premium paid for insuring buildings, machinery, stock, and so on against risks.

Office lighting and heating: This refers to lighting and heating expenses incurred in providing lighting and heating for the office.

Printing and stationery: This indicates the printing and stationery expenses incurred in the office.

Repairs and renewals: This refers to repair charges incurred for repairing the properties of the business.

Depreciation: Depreciation refers to the wear and tear, i.e. the reduction in the value of an asset, resulting out of its use.

Selling and Distribution Expenses

Carriage outwards or Freight outwards: It refers to the transportation expenses incurred in carrying the goods to the market for sale.

Bad debts: Bad debts refers to the debts that are considered to be irrecoverable.

Commission paid: This is the commission paid to the salesmen and distributors for their services.

Financial Expenses

Discount on sales or Discount allowed: This indicates the cash discount allowed to the debtors for the prompt payment made by them.

Interest paid: This refers to the interest paid on loans.

Interest on capital: Interest allowed to the proprietor on his capital is entered under interest on capital.

Incomes

Non-trading incomes: It refers to all incomes other than trading incomes, such as rent received, commission received, interest received, and so on.

Interest on drawings: It refers to the interest charged on the amount withdrawn by the proprietor from the business for his personal use. It is an income of the business and appears on the credit side of profit and loss account.

***Note:** Personal expenses such as life insurance premium, income tax, and so on, incurred by the business owner should not be included in the profit and loss account. Such expenses are treated as drawings, which has to be deducted from the capital.*

Illustration 10: Preparation of Profit & Loss A/c

From the below given particulars, prepare the profit and loss account for the year ended 31-12-2017

Particulars	Amount (₹)
--------------------	-------------------

Particulars	Amount (₹)
Gross profit	1,50,000
Salaries	25,000
Commission received	1,800
Rent paid	10,000
Office lighting	2,500
Advertisement	5,600
Printing and stationery	3,000
Repairs and renewals	4,200
General expenses	500
Interest on capital	1,800
Interest on loan	900
Discount allowed	2,000
Insurance premium	1,800
Interest on bank deposits	1,200
Interest on drawings	250
Bad debts	2,200
Carriage outwards	1,200
Travelling outwards	1,850
Rent received from sub-tenant	1,500
Bad debts recovered	700

56

Sundry expenses	550
Discount received	600
Commission received	1,200

Table 2.59

Solution:

Profit & Loss Account for the year ending on 31st December, 2017

Dr.

Cr.

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Salaries		25,000	By Gross Profit		1,50,000
To Rent paid		10,000	By Commission Received		1,800
To Office lighting		2,500	By Interest on bank deposits		1,200
To Advertisement		5,600	By Interest on drawings		250
To Printing and stationery		3,000	By Rent received from sub-tenant		1,500
To Repairs and renewals		4,200	By Bad debts recovered		700

To General expenses		500	By Discount received		600
To Interest on capital		1,800	By Commission Received		1,200
To Interest on loan		900			
To Discount allowed		2,000			
To Insurance premium		1,800			
To Bad debts		2,200			
To Carriage outwards		1,200			
To Travelling outwards		1,850			
To Sundry Expenses		550			
To Net Profit		94,150			
(Transferred to Capital Account)		1,57,250			1,57,250

Table 2.60

Illustration 11: Preparation of Profit & Loss A/c

From the given particulars, prepare the profit and loss account for the year ended 31-03-2017

Particulars	Amount (₹)
Gross loss	25,000
Salaries	13,500
Rent paid	5,600
Advertisement expenses	2,100
Commission received	1,950
General expenses	750
Bad debts	1,100
Printing and stationery	2,150
Repairs and renewals	900
Discount allowed	600
Discount received	850
Carriage	300
Lighting and heating	1,250
Trade expenses	560
Insurance	2,000
Interest on investments	3,000
Depreciation	1,450
Commission Paid	800

Table 2.61

Solution:

Profit & Loss Account for the year ending on 31st March, 2017

Dr.

Cr.

Particulars	Amount	Amount	Particulars	Amount	Amount
	(₹)	(₹)		(₹)	(₹)
To Gross Loss		25,000	By Commission Received		1,950
(Transferred from Trading A/c)			By Discount Received		850
To Salaries		13,500	By Interest on Investment		3,000
To Rent paid		5,600	By Net Loss		52,260
To advertisement expenses		2,100	(Transferred to Capital A/c)		
To General expenses		750			
To Bad debts		1,100			
To Printing and stationery		2,150			
To Repairs and renewals		900			
To Discount allowed		600			

To Carriage		300			
To Lighting and heating		1,250			
To Trade expenses		560			
To Insurance		2,000			
To Depreciation		1,450			
To Commission Paid		800			
		58,060			58,060

Table 2.62

2.6.2 Balance Sheet

The Balance Sheet is a statement that summarises the assets and liabilities of a business. The excess of assets over liabilities is the net worth of a business. The balance sheet provides information that helps in assessing:

- A company's long-term financial strength and performance
- A company's efficiency in day-to-day working capital management
- A company's asset portfolio

A key element of the Profit and Loss Account, and one that distinguishes it from the Balance Sheet, is that the amounts shown on the statement represent transactions over a period of time, while the items represented on the balance sheet show information as on a specific date.

All revenue and expense accounts are closed once the profit and loss account is prepared. The Revenue and Expenses accounts will not have an opening balance for the next accounting period

2.6.2.1 Types of Assets and Liabilities included in Balance Sheet

Assets are defined as any item of economic value owned by an individual or corporation, provided it can be measured in terms of money. In other words, assets are the properties owned by an organisation and the debts (i.e. amounts) due to an organisation from other parties. Examples are cash, securities, accounts receivable, inventory, office equipment, and other properties. On a balance sheet, assets are equal to the sum of liabilities, common stock, preferred stock, and retained earnings.

From an accounting perspective, assets are divided into the following categories namely current assets (cash and other liquid items), long-term assets (real estate, plant, equipment), prepaid and deferred assets (expenditures for future costs such as insurance, rent, interest), and intangible assets (trademarks, patents, copyrights, goodwill).

- **Current assets, circulating, floating or fluctuating assets:** These refer to cash or other temporary assets which can be converted into cash in a short period. Examples are cash in hand, cash at bank, bills receivable, and other liquid items.
- **Liquid assets:** Liquid assets are the current assets which are either in the form of cash or can be converted into cash immediately without incurring high losses. Examples are cash in hand, cash at bank, and sundry debtors.

- **Investments:** This refers to the amount invested by the business on government bonds, on shares and debentures of companies for the purpose of earning interest and dividends. Investments may be for a short-term or long-term. Short-term investments are grouped with current assets and long-term investments are shown as a separate item.
- **Fixed assets:** These are the assets held by a business organisation for its use, and not for sale. These are relatively permanent in nature. Examples are buildings, furniture, and machinery.
- **Wasting assets:** Wasting assets are the fixed assets lost through use or exhausted. Examples are mines and quarries.
- **Intangible assets:** Intangible assets are the fixed assets which do not have a physical existence, i.e. it cannot be seen or touched, but the possession of which yields benefit to the business or the possessor. Examples are copyright, patent, and goodwill.
- **Fictitious assets:** Fictitious assets are the debit balances, i.e. expenses and losses, carried forward from one accounting period to another. These are fictitious and not represented by any tangible or concrete property. Examples are heavy advertisement expenses not written off and preliminary expenses.

Format of Balance Sheet is shown below:

Balance sheet as on _____ (e.g. 31 st March, 2017)					
Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
1. Capital	xxxx		1. Fixed Assets		

<i>Less: Drawings</i>	xxxx		<i>Good will</i>		xxxx
<i>Less: Net loss</i>	xxxx		<i>Patents</i>		xxxx
<i>Add: Net profit</i>	xxxx		<i>Copyrights</i>		xxxx
<i>Add: Interest on Capital</i>	xxxx		<i>Land & Buildings</i>		xxxx
(Capital/Proprietor's Fund)		xxxx	<i>Plant & Machinery</i>		xxxx
2.Long Term Liability			<i>Motor Vehicles</i>		xxxx
<i>Long term loan</i>		xxxx	<i>Furniture and Fixtures</i>		xxxx
<i>Long term deposits</i>		xxxx	<i>Loose Tools</i>		xxxx
3. Current Liability			2. Long term Investments		xxxx
<i>Income received in advance</i>		xxxx	3. Current Assets		
<i>Liabilities for expenses</i>		xxxx	<i>Short term investments</i>		xxxx
<i>Sundry Creditors</i>		xxxx	<i>Outstanding Incomes</i>		xxxx
<i>Bills Payable</i>		xxxx	<i>Prepaid Expenses</i>		xxxx
<i>Bank Overdraft</i>		xxxx	<i>Closing Stock</i>		xxxx
<i>Short-term Loans</i>		xxxx	<i>Sundry Debtors</i>		xxxx

			<i>Bills Receivables</i>		xxxx
			<i>Cash at Bank</i>		xxxx
			<i>Cash in Hand</i>		xxxx
		xxxx			xxxx

Table 2.63

Illustration 12: Preparation of Balance Sheet

Prepare the Balance Sheet as on 31-03-2017, from the below given particulars

Particulars	Amount (₹)
Capital	60,000
Drawings	3,000
Long term loan	40,000
Sundry creditors	16,000
Sundry debtors	30,000
Investments	20,000
Bills receivable	5,000
Outstanding rent	1,500
Plant and machinery	18,000
Land and building	25,000
	10,000

Goodwill	10,000
Patents	5,000
Bills payable	13,000
Cash in hand	5,600
Cash at bank	10,400
Net profit	12,000
Closing stock	15,500
Bank overdraft	5,000

Table 2.64

Solution:

Balance sheet as on 31 st March, 2017					
Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
1. Capital	60,000		1. Fixed Assets		
<i>Less: Drawings</i>	3,000		<i>Good will</i>		10,000
<i>Add: Net profit</i>	12,000	69,000	<i>Patents</i>		5,000
2. Long Term Liability			<i>Land & Buildings</i>		25,000
<i>Long term loan</i>		40,000	<i>Plant & Machinery</i>		18,000
3. Current Liability			2. Long term Investments		20,000
<i>Sundry Creditors</i>		16,000	3. Current Assets		

<i>Bills Payable</i>		13,000	<i>Closing Stock</i>		15,500
<i>Bank Overdraft</i>		5,000	<i>Sundry Debtors</i>		30,000
<i>Outstanding Rent</i>		1,500	<i>Bills Receivables</i>		5,000
			<i>Cash at Bank</i>		10,400
			<i>Cash in Hand</i>		5,600
		1,44,500			1,44,500

Table 2.65

Illustration 13: Preparation of Balance Sheet

Prepare the Balance Sheet as on 31-12-2017, from the below given particulars

Particulars	Amount (₹)
Capital	1,20,000
Drawings	6,000
Interest on capital	7,200
Net loss	14,200
Building	32,000
Plant and machinery	16,500
Patents and trademarks	6,500
Goodwill	7,000

Sundry creditors	14,000
Sundry debtors	24,000
Bills receivable	18,000
Cash in hand	8,700
Cash at bank	15,300
Long-term loan	20,000
Deposits (Cr)	15,000
Bank overdraft	8,000
Closing stock	21,000
Outstanding salary	6,500
Long term investments	10,000
Prepaid insurance	750
Commission accrued	250
Deposits (Dr)	10,500

Table 2.66

Solution:

Balance sheet as on 31 st March, 2017					
Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
1. Capital	1,20,000		1. Fixed Assets		

<i>Less: Drawings</i>	6,000		<i>Good will</i>		7,000
<i>Add: Interest on Capital</i>	7,200		<i>Patents and Trademarks</i>		6,500
<i>Less: Net Loss</i>	14,200	1,07,000	<i>Land & Buildings</i>		32,000
2. Long Term Liability			<i>Plant & Machinery</i>		16,500
<i>Long term loan</i>		20,000	2. Long term Investments		10,000
<i>Long term deposits(Cr.)</i>		15,000	3. Current Assets		
3. Current Liability			<i>Prepaid Insurance</i>		750
<i>Sundry Creditors</i>		14,000	<i>Closing Stock</i>		21,000
<i>Bills Payable</i>		6,500	<i>Sundry Debtors</i>		24,000
<i>Bank Overdraft</i>		8,000	<i>Bills Receivables</i>		18,000
			<i>Cash at Bank</i>		15,300
			<i>Cash in Hand</i>		8,700
			<i>Commission Accrued</i>		250
			<i>Deposits(Cr.)</i>		10,500
		1,70,500			1,70,500

Table 2.67

Conclusion

This chapter summarises the fundamentals of Accountancy, starting with the Accounting terms, assumptions, principles, right up to the double entry system of accounting. It explains the process of recording business transactions in the Books of Original Entry/Journal, posting of the same to the Books of Final Entry/Ledger, preparation of a Trial Balance and finally preparation of the key financial reports like Balance Sheet and Profit & Loss Accounts to know the financial position and performance of a company

Key Takeaways

- Journal and ledger are the most important books in the double entry system of accounting.
- Trial Balance is prepared with a view to verify the arithmetical accuracy of posting to the ledger accounts.
- Control Accounts are used for checking the arithmetical accuracy of each ledger separately.
- Profit and loss statement shows the performance of the company in terms of profits or losses made by it over a specified period.
- Balance Sheet gives an overview of the financial position of a company as on a specific date.