2. ACCOUNTING PROCESS

UNIT 1 : BASIC ACCOUNTING PROCEDURES JOURNAL ENTRIES

CONCEPT 1 : DOUBLE ENTRY SYSTEM

- It is the only systematic &*scientific system* of accounting.
- According to it, every transaction has *two-fold aspects-debit and credit.*
  For example, on *purchase of furniture* either the *cash balance* will be *reduced* or a *liability* to the supplier will *arise.*
- Double Entry System is so named since it *records both the aspects.*
- Double Entry System as the *system which recognises and records both the aspects* of transactions.

CONCEPT 2 : ADVANTAGES OF DOUBLE ENTRY SYSTEM

[a] This system affords the under mentioned advantages:
[b] Accuracy of the accounting through trial balance.
[c] Profit earned or loss suffered during a period can be ascertained.
[d] The financial position can be ascertained, by preparation of the Balance Sheet.
[e] Accounts to be kept in as much details as necessary.
[f] Result of previous years can be compared and reasons for the change may be ascertained.

CONCEPT 3 : ACCOUNTS

[a] We can change the cash balance with every transaction but this will be cumbersome.
[b] Instead it would be better if all the transactions that increase cash balance are recorded in one column and those that reduce in another column.
[c] These two columns which are put in the form of an account, called the 'T' form.

Closing Balance (of Cash) = Opening Balance + Increases - Decreases

☺ For example :

- Payment for goods purchased, for salaries and rent, etc., will reduce cash balance; whereas, sales of goods for cash and collection from customers will increase it.

Cash A/c

Particulars	Increase (Receipt) Rs.	Particulars	Decrease (Payment) Rs.
To Opening Balance	10,000		1,000
	2,500		300
	2,000		200
	50		500
	1,350		
	400	By Closing Balance *	14,300
Total	16,300	Total	16,300

- What we have done is to put the increase of cash on the left hand side and the decrease on the right hand side; the closing balance has been ascertained by deducting the total of payments, from the total of the left - hand side.

- The proper form of an account is as follows:
- The columns are self-explanatory except that the column for reference (Ref.) is meant to indicate the sources where information about the entry is available

CONCEPT 4 : DEBIT AND CREDIT

- By deducting the total of liabilities from the total of assets the amount ofcapital is ascertained, as is indicated by the accounting equation.
  Assets = Liabilities + Capital Or
  Assets - Liabilities = Capital
- If one side of the equation changes, there is bound to be similar change on the other side of the equation.
- This is again illustrated below:

Sr. No.	Transactions	Total Assets Rs.	= Liabilities Rs.	+ Owner's Capital Rs.
[1]	Started business with cash Rs.10,000	10,000		10,000
[2]	Borrowed Rs.5,000	+ 5,000	+ 5,000	
[3]	Withdrew cash from business Rs.2,000	-2,000		-2,000
[4]	Loan repaid to the extent of Rs.1,000	-1,000	-1,000	
	Balance	12,000	= 4,000	+ 8,000

- It is suitable if the number of transactions is small.
- But if the number is large, putting increases and decreases in different columns will be useful as shown below :

	Total Assets		= Liabilities		+ Owner's Capital	
	Increase Rs.	Decrease Rs.	Decrease Rs.	Increase Rs.	Decrease Rs.	Increase Rs.
(1)	10,000					10,000
(2)	5,000			5,000		
(3)		2,000			2,000	
(4)		1,000	1,000			
Total	15,000	3,000	1,000	5,000	2,000	10,000
Balance	12,000			4,000		+8,000

	Increase	Decrease
Assets	LHS (Dr)	RHS (Cr)
Liabilities	RHS (Cr)	LHS (Dr)

BASIC RULES

Sr. No.	Elements of Financial Statements	Effects	Example
1]	Asset		
	Increases	Assets (Dr.)	Asset Purchased.
	Decreases	Assets (Cr.)	Asset Sold.
2]	Liability		
	Increases	Liability (Cr.)	Loan borrowed.
	Decreases	Liability (Dr.)	Loan repaid.
3]	Owner's Capital		
	Increases	Capital (Cr.)	Capital introduced.
	Decreases	Capital (Dr.)	Drawings.
4]	Expenses		
	Increases	Expenses (Dr.)	Expense Incurred. (Depreciation)
	Decreases	Expenses (Cr.)	Prepaid Expenses.
5]	Income		
	Increases	Income (Cr.)	Income Earned. (Interest on Investment)
	Decreases	Income (Dr.)	Income received in Advance.
6]	Profit	Capital (Cr.)	Transferred from Profit & Loss A/c
7]	Loss	Capital (Dr.)	

CONCEPT 5 : TRANSACTIONS

¤ Meaning :
A transaction is a type of event,
which is generally external in nature and
can be determined in terms of money.

¤ Transactions in every business go through the following stages to know the impact on financial statements:
[a] Analysis in financial terms.
[b] Recorded Individually
[c] Classification of Transactions.
[d] Summarization Process.

¤ A transaction is a two way process.

¤ Transactions analysed in terms of money and supported by proper documents like purchasing invoices, bills, pay-slips, cash-memos, passbook etc. are recorded under double entry system.

¤ For this two approaches can be followed:
[a] Accounting Equation Approach.
[b] Traditional Approach.

CONCEPT 6 : ACCOUNTING EQUATION APPROACH

➷ The relationship of assets with that of liabilities and owners' equity in the equation form is known as 'Accounting Equation'.

☺ Example :

Sr. No.	Transactions	Total Assets Rs.	= Liabilities Rs.	+ Owner's Capital Rs.
[1]	Started business with cash Rs.5,00,000 & loan Rs.1,00,000	6,00,000	1,00,000	5,00,000
[2]	Purchased furniture costing Rs.1,00,000 for cash.	1,00,000 -1,00,000	0	0
[3]	For purchasing the merchandiseRs.5,00,000 he paid Rs.4,00,000 & balance after 3 months.	5,00,000 -4,00,000	1,00,000	
	Balance	7,00,000	= 2,00,000	+ 5,00,000

TERMS & EXPLANATIONS

Sr. no.	Terms	Explanations
1]	Capital	Contribution by Owner
2]	Short Term or Long Term Loans/ Liabilities	It is borrowings. When loan is repayable in the short-run, say within one year, it is called as short-term loan or liability. If the loan is repayable within 4 or 5 years or more, it is called as long term loan or liability.
3]	Trade Payables	Credit purchase of merchandise
4]	Expense payables	Other purchases and services received on credit
➷ These short-term liabilities are also termed as current liabilities.		
➷ Money raised has been invested in two types of assets—fixed assets and current assets.		
5]	Fixed asset	If it lasts long, say more than one year, and has utility to the business
6]	Current assets	If it does not last long.
7]	Equity	Owner's claim or fund in the business
8]	Owner's claim	Capital invested + any profit earned – any loss sustained.

Now we have an equation:

Equity + Liabilities = Assets or,

Equity + Long-Term Liabilities = Fixed Assets + Current Assets - Current Liabilities

Particulars	Rs.	Particulars	Rs.
Equity	Rs.5,00,000	Fixed Assets:	
Long - Term Liabilities	Rs.1,00,000	Furniture	Rs.1,00,000
Current Liabilities	Rs.1,00,000	Current Assets :	
		Inventory	Rs.5,00,000
		Cash	Rs.1,00,000
	Rs.7,00,000		Rs.7,00,000

Cash = Capital + Loan - Furniture - Payment to Trade payables
= Rs.5,00,000 + Rs.1,00,000 -Rs.1,00,000 - Rs.4,00,000
= Rs.1,00,000

CONCEPT 7 : TRADITIONAL APPROACH

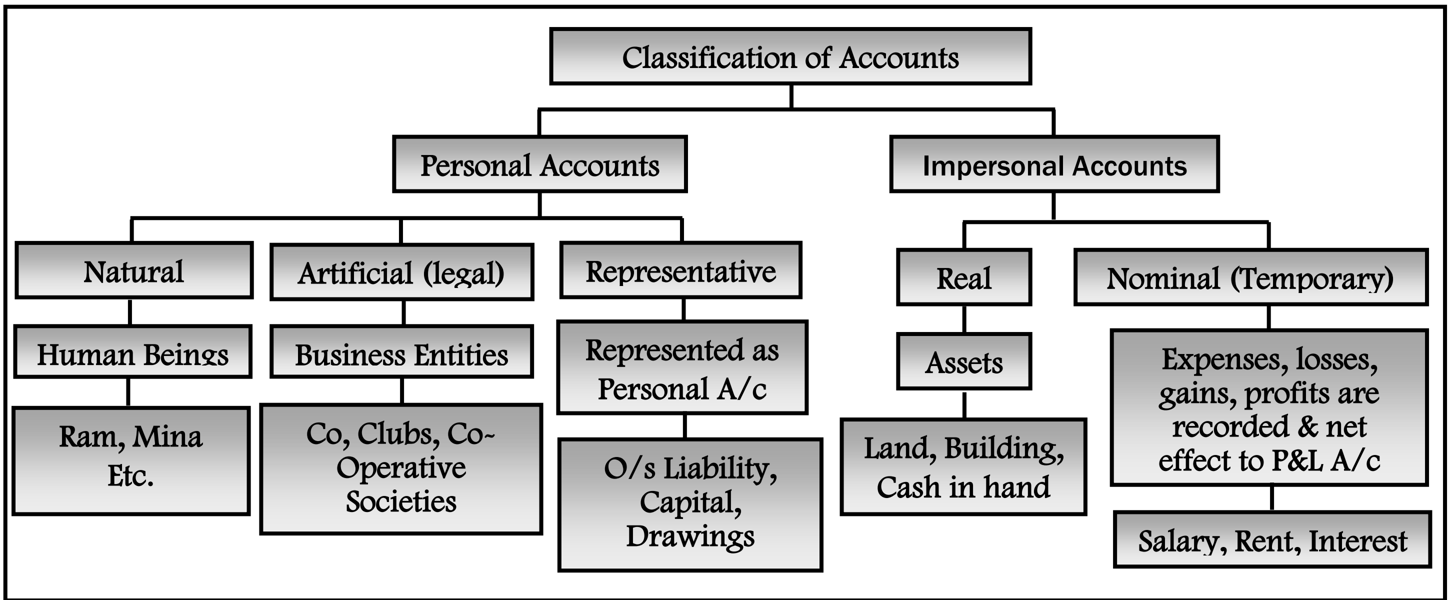
¤ Under traditional approach the term debit and credit and their rules are important (Concept 4).

¤ For the purpose of recording, these transactions are classified in three groups:

[a] Personal transactions.

[b] Transactions related to assets and properties(real).

[c] Transactions related to expenses, losses, income and gains (nominal).



⌘ GOLDEN RULES OF ACCOUNTING :

Sr. No.	Account	Rule
1]	Personal account	Debit the receiver
		Credit the giver
2]	Real account	Debit what comes in
		Credit what goes out
3]	Nominal account	Debit all expenses and losses
		Credit all incomes and gains.

CONCEPT 8 : JOURNAL

[1] JOURNALISING PROCESS :

- All transactions are first recorded in the journal as and when they occur; in chronological order.
- The form of the journal is given below :

JOURNAL

Date	Particulars	L.F.	Dr. Amount Rs.	Cr. Amount Rs.
(1)	(2)	(3)	(4)	(5)

- The following points should be noted:

[a] In first column the year is written at the top, then month and in the narrow part the particular date.
[b] In the second column, the names of the accounts are written; first the account to be debited, with "Dr" written towards the end of the column. In the next line, after leaving a little space, the name of the account to be credited is written proceeded by the word "To" Then in the next line the explanation for the entry together with necessary details is given-this is called narration.
[c] In the third column number of the page in the ledger on which the account is written up is entered.
[d] In the fourth column the amounts to be debited to the various accounts concerned are entered.
[e] In the fifth column, the amounts to be credited to various accounts is entered.

[2] POINTS TO BE TAKEN INTO CARE WHILE RECORDING A TRANSACTION IN THE JOURNAL
[a] It is important to check that the total of both debits and credits are equal.
[b] If journal entries are recorded in several pages then amt column of each pg should be totaled & the balance is written at the end of the pg & also same total is carried forward at the beginning of next pg.

✍ We will now consider some individual transactions.

	Particulars		Rs.	Rs.
1]	Mohan commences business with Rs.5,000.			
	Cash Account (R/What Comes in)	Dr.	5,000	
	To Capital Account(P/Creditor)			5,000
	(Being capital introduced by Shri Mohan)			
2]	Out of the above, Rs.500 is deposited in the bank. [Contra Entry]			
	Bank Account (P/Receiver)	Dr.	500	
	To Cash Account(R/What goes out)			500
	(Being cash deposited in Bank)			
3]	Furniture is purchased for cash Rs.200.			
	Furniture Account (R/What Comes in)	Dr.	200	
	To Cash Account(R/What goes out)			200
	(Being Furniture purchased vide CM No....)			
4]	Purchased goods for cash Rs.400.			
	Purchases Account (N/Expense)	Dr.	Rs.400	
	To Cash Account(R/What goes out)			Rs.400
	(Being goods purchased vide CM No....)			
5]	Purchased goods for Rs.1,000 credit from M/s. Ram Narain Bros.			
	Purchases Account(N/Expense)	Dr.	Rs.1,000	
	To M/s Rain Narain Bros.(P/Creditor)			Rs.1,000
	(Being goods purchased vide Bill No.....)			
6]	Sold goods to M/S Ram & Co. for cash Rs.600.			
	Cash Account (R/What Comes in)	Dr.	Rs.600	
	To Sales Account(N/Income)			Rs.600
	(Being goods s old vide CM No....)			
7]	Sold goods to Ramesh on credit for Rs.300.			
	Ramesh (P/Debtor)	Dr.	Rs.300	
	To Sales Account(N/Income)			Rs.300
	(Being goods sold vide Bill No....)			

✍ Note :

☞ There are two views on classification of "Purchase Account" and "Sales Account".

☞ One view is that they represents "flow of goods", so they should be classified as 'Real A/c'.

☞ However, others are of the only nominal A/c are closed by transferring to 'Trading or P&L A/c'.

☞ Therefore, purchases and sales shall be classified as Nominal A/cs.

However, in both the views, there will be debit balance of Purchase A/c and credit balance of Sales A/c.

8]	Received cash from Ramesh Rs.300.			
	Cash Account (R/What Comes in)	Dr.	Rs.300	
	To Ramesh (P/Giver)			Rs.300
	(Being cash received against Bill No....)			
9]	Paid to M/s Ram Narain Bros. Rs.1,000.			
	M/S Ram Narain Bros.(P/Receiver)	Dr.	Rs.1,000	
	To Cash Account(R/What goes out)			Rs.1,000
	(Being cash paid against Bill No....)			
10]	Paid rent Rs.100.			
	Rent Account(N/Expense)	Dr.	Rs.100	
	To Cash Account(R/What goes out)			Rs.100
	(Being rent paid for the month of.......)			
11]	Paid Rs.200 to the clerk as salary.			
	Salary Account (N/Expense)	Dr.	Rs.200	
	To Cash Account(R/What goes out)			Rs.200
	(Being salary paid to Mr..... for the month of ....)			
12]	Received Rs.20 interest.			
	Cash Account (R/What Comes in)	Dr.	Rs.20	
	To Interest Account(N/Income)			Rs.20
	(Being interest received from........for the period............)			

✷ When transactions are of similar nature, combined journal entry is passed. For example, entries (10) and (11) may be combined as follows:

Sr. no.	Particulars		Dr.	Cr.
1]	Rent Account	Dr.	Rs.100	
	Salary Account	Dr.	Rs.200	
	To Cash Account			Rs.300
	(Being expenses done as per detail attached)			

CONCEPT 9 : ADVANTAGES OF JOURNAL

[a] Complete Information :

➪ As transactions are recorded in chronological order, one can get complete information about the business transactions on time basis.

[b] Correctness of Entry :

➪ Entries recorded in the journal are supported by a note termed as narration, which is a precise explanation of the transaction for the proper understanding of the entry. One can know the correctness of the entry through these narrations.

[c] Easy Accounting :

➪ Journal forms the basis for posting the entries in the ledger. This eases the accountant in their work and reduces the chances of error.

UNIT 2 : LEDGERS

CONCEPT 1 : INTRODUCTION

- MEANING :After recording the transactions in the journal, recorded entries are classified and grouped by preparation of accounts.
- The book, which contains all set of accounts (personal, real and nominal account) is known as Ledger.
- It is known as principal books of account in which account-wise balance of each account is determined.

CONCEPT 2 : SPECIMEN OF LEDGER ACCOUNTS

- A ledger account has two sides-debit (left part of the account) and credit (right part of the account).
- Each of the debit and credit side has four columns :
  [i] Date
  [ii] Particulars
  [iii] Journal folio i.e. page from where the entries are taken for posting and
  [iv] Amount.

CONCEPT 3 : POSTING

- The process of transferring the debit and credit items from journal to classified accounts in the ledger is known as posting.

RULES REGARDING POSTING OF ENTRIES IN THE LEDGER

[a] Separate account is opened in ledger book and entries from journal are posted to respective account.

[b] It is a practice to use words 'To' on the debit side and 'By' on the credit side while posting transactions in the ledger.

[c] Account debited in the journal is also debited in the ledger but reference is of the respective credit A/c.

CONCEPT 4 : BALANCING AN ACCOUNT

- At the end of the particular period, it may be necessary to ascertain the balance in an account.
- Eg.: A person has bought goods worth Rs.1,000 and has paid only Rs.850; he owes Rs.150 and that is balance in his account.
- If the Credit side is Bigger than the debit side, it is a Credit Balance (Liability).
- The Credit Balance is written on the Debit Side as "To Balance c/d". (Closing)
- Then the Credit Balance is written on the Credit Side as "By balance b/d".(Opening)

Dr. Liability A/c Cr.

Date	Particulars	J.F	Amount (Rs.)	Date	Particulars	J.F	Amount (Rs.)
					By Bal b/d		
	To Bal c/d						
	Total Rs.				Total Rs.		

- If the Debit side is Bigger than the credit side, it is a Debit Balance (Asset).
- The debit balance is written on the credit side as "By Balance c/d".(Closing)
- Then the debit balance written on the debit side as" To Balance b/d".(opening)

Dr. Asset A/c Cr.

Date	Particulars	J.F	Rs.	Date	Particulars	J.F	Rs.
	To Bal b/d						
					By Bal c/d		
	Total Rs.				Total Rs.		

- It should be noted that nominal accounts are not balanced; and are transferred to the P&L A/c.
- Only personal and real accounts show balances and are reflected in balance sheet.

CONCEPT 5 : EXAMPLES

Sr. No.	Transactions	Journal Entries	Dr	Cr
1]	Started Business with Cash Rs.5,00,000	Cash A/c Dr		
		To Capital A/c		
2]	Purchased goods from Ram Rs.2,00,000	Purchases A/c Dr		
		To Ram A/c		
3]	Sold goods to Sham Rs.3,00,000	Sham A/c Dr		
		To Sales A/c		
4]	Cash received from Sham Rs.2,00,000	Cash A/c Dr		
		To Sham A/c		
5]	Paid to Ram Rs.1,00,000	Ram A/c Dr		
		To Cash		

Cash A/c (R)

Date	Particulars	J.F	Rs.	Date	Particulars	J.F	Rs.
1/04	To Bal b/d		0				
	To Capital A/c				By Ram		
	To Sham						
				31/03			
	Total Rs.				Total Rs.		

Capital A/c (P-Creditor)

Date	Particulars	J.F	Rs.	Date	Particulars	J.F	Rs.
				1/04	By Bal b/d		0
					By Cash A/c		
31/03							
	Total Rs.				Total Rs.		

Purchases A/c (N-Expense)

Date	Particulars	J.F	Rs.	Date	Particulars	J.F	Rs.
1/04	To Ram A/c						
				31/03			
	Total Rs.				Total Rs.		

Ram A/c (P-Creditor)

Date	Particulars	J.F	Rs.	Date	Particulars	J.F	Rs.
				1/04	By Bal b/d		0
	To Cash A/c				By Purchases A/c		
31/03							
	Total Rs.				Total Rs.		

Sales A/c (N~Income)

Date	Particulars	J.F	Rs.	Date	Particulars	J.F	Rs.
				1/04	By Sham		
31/03							
	Total Rs.				Total Rs.		

Sham A/c (P~Debtor)

Date	Particulars	J.F	Rs.	Date	Particulars	J.F	Rs.
1/04	To Bal b/d		0				
	To Sales				By Cash		
				31/03			
	Total Rs.				Total Rs.		

Trial Balance as at 31/03/20XX

Sr. No.	Ledger Accounts	L.F.	Dr. Amount (Total or Balance)	Cr. Amount (Total or Balance)
1]	Cash A/c			
2]	Capital A/c			
3]	Ram A/c			
4]	Sham A/c			
5]	Purchases A/c			
6]	Sales A/c			

UNIT 3 : TRIAL BALANCE

CONCEPT 1 : INTRODUCTION

❈ MEANING :

- After posting the accounts in the ledger, a statement is prepared to show separately the debit and credit balances.
  Such a statement is known as the trial balance.
- The totals of the two columns (debit and credit) should agree under Double Entry System.
- An agreement of trial balance indicates arithmetical accuracy of the accounting work and that the accounting work is free from clerical errors.
- Though a trial balance can be prepared at any time but it is preferable to prepare it at the end of the accounting year.

✍ NOTE : Trial balance is a statement and not an account.

CONCEPT 2 : OBJECTIVES OF PREPARING THE TRIAL BALANCE

[i] To establish arithmetical accuracy of the books.
[ii] To prepare Financial Statements on the basis of Trial Balance.
[iii] To serve as a summary of what is contained in the ledger.

CONCEPT 3 : FORMAT OF TRIAL BALANCE

TRIAL BALANCE as at 31/03/20XX

Sr. No.	Ledger Accounts	L.F.	Dr. Amount (Total or Balance)	Cr. Amount (Total or Balance)

❈ The under mentioned points maybe noted:
[a] A trial balance prepared as on a particular date should be mentioned at the top
[b] In the second column the name of the account is written.
[c] In the fourth column the total of the debit side of the account or the debit balance.
[d] In the fifth column, the total of the credit side or the credit balance is written.

CONCEPT 4 : LIMITATIONS OF TRIAL BALANCE

✷ In spite of the agreement of the trial balance some errors may remain like :
[a] Transaction has not been entered at all in the journal.
[b] A wrong amount has been written in both columns of the journal.
[c] A wrong account has been mentioned in the journal.
[d] An entry has not at all been posted in the ledger.
[e] Entry is posted twice in the ledger.

✷ Inspite of these limitations, preparation of trial balance plays an important role in the preparation of financial statements.

CONCEPT 5 : METHODS OF PREPARATION OF TRIAL BALANCE

[1] TOTAL METHOD

❈ Meaning :

➥ Under this method, every ledger account is totaled and that total amount (both of debit side and credit side) is transferred to trial balance.

❈ Advantages :

[a] Trial balance can be prepared immediately.

[b] Time taken to balance the ledger accounts is saved.

❈ Disadvantage :

[a] Not commonly used because it cannot help in the preparation of the financial statements.

[2] BALANCE METHOD

➥ Under this method, every ledger account is balanced and those balances only are carry forward to the trial balance.

➥ This method is used commonly and helps in the preparation of the financial statements.

[3] TOTAL AND BALANCE METHOD

➥ It is the combination of above two methods.

➥ Under this method statement of trial balance contains seven columns instead of five columns.

➥ This has been explained with the help of the following example:

Trial Balance of X as at 31.03.2016

Sr. No.	Heads of Accounts	L.F.	Debit Balance Rs.	Credit Balance Rs.	Debit Total Rs.	Credit Total Rs.
1]	Cash Account		7,500	-	35,000	28,000
2]	Furniture Account		3,000	-	3,000	-
3]	Salaries Account		2,500	-	2,500	-
4]	Shyam's Account		-	3,500	21,500	25,000
5]	Purchases Account		26,000	-	26,000	-
6]	Purchase Returns Account		-	500	-	500
7]	Ram's Account		4,900	-	30,000	25,100
8]	Sales Account		-	30,500	-	30,500
9]	Sale Returns Account		100	-	100	-
10]	Capital Account		-	9,500	500	10,000
	Total		44,000	44,000	1,19,100	1,19,100

CONCEPT 6 : ADJUSTED TRIAL BALANCE (THROUGH SUSPENSE ACCOUNT)

➥ If TB do not agree after transferring balance of all ledger accounts & also errors are not located timely, then TB is tallied by transferring difference to an account known as suspense A/c.

➥ Suspense account is temporary in nature.

CONCEPT 7 : RULES OF PREPARING THE TRIAL BALANCE

Sr. No.	Debit column of Trial Balance	Credit Column of Trial Balance
1]	Assets accounts	Liabilities account
2]	Expenses accounts	Income accounts
3]	Losses	Profits
4]	Drawings	Capital
5]	Cash and bank balances	

UNIT 4 : SUBSIDIARY BOOKS

CONCEPT 1 : SUBSIDIARY BOOKS

- Due to large number of transactions, it is convenient to keep a separate register for each class of transactions called as book of original entry or of prime entry or subsidiary books.
- For transactions recorded in such books there will be no journal entry.
- The system in which transactions of a class are first recorded in the book specially meant for it is known as the Practical System of Book keeping or even the English System.

Types of Subsidiary Books

	Name of Subsidiary Book	To record
1	Cash Book	Receipts and Payments of Cash and transactions of Bank.
2	Purchases Book	Credit purchases of goods dealt in by the firm or materials required in the factory.
3	Purchase Returns Book	Returns of goods and materials previously purchased.
4	Sales Book	Sales of the goods dealt in by the firm.
5	Sales Return Book	Returns made by the customers.
6	Bills receivable Book	Receipts of promissory notes or Hundies.
7	Bills Payable Book	Issue of the promissory notes or Hundies.
8	Journal (Proper)	Transactions which cannot be recorded in any of the seven books.

CONCEPT 2 : ADVANTAGES OF SUBSIDIARY BOOKS

Sr. No.	Advantages	Explanation
1]	Division of work	Accounting work may be divided amongst a number of clerks because there will be many subsidiary books.
2]	Specialization & efficiency	When the same work is allotted to a particular person, he acquires full knowledge of it and becomes efficient.
3]	Saving of the time	Various accounting processes can be undertaken simultaneously.
4]	Availability of information	Separate register is kept for each class of transactions, so the information relating to each class of transactions will be available at one place.
5]	Facility in checking	When the trial balance does not agree, the location of the errors is facilitated by the existence of separate books.

CONCEPT 3 : PURCHASES BOOK

Format of Purchases Book:

Date	Particulars	J.F	Details Rs.	Amount Rs.

⌘ Points To Remember :

[a] Cash purchases are not entered in this book. It will be entered in cash book.

[b] Credit purchases of things other than goods or materials, such as office furniture or typewriters are journalised.

⌘ Rules For Purchases Book :

- The particulars column is meant to record the name of the supplier and name of the articles purchased and the respective quantities.
- The amount in respect of each article is entered in the details column.
- After totaling the various amounts included in a single purchase, the amount for packing or other charges is added and the amount for trade discount is deducted.
- The net amount is entered in the extreme right-hand column

❈ Posting The Purchases Book :

➥ The Purchases Book shows the names of the parties whose accounts have to be credited at respective amounts from the purchase book. .

➥ The total amount of purchases book is debited to the Purchase Account.

CONCEPT 4 : SALES BOOK

Format of Sales Book :

Date	Particulars	J.F	Details Rs.	Amount Rs.

⌘ Points To Remember :

[a] Cash sales are not entered in this book. It will be entered in cash book.

[b] Credit sales of things, other than goods dealt in by the firm, are journalised.

⌘ Rules for Sales Book are similar to that of purchases book.

[1] Posting The Sales Book :

[a] The Sales Book shows the names of the parties whose accounts have to be debited at respective amounts from the sales book.

[b] The total amount of sales book is credited to the Sales Account.

[2] Sales Book With Sales Tax Column :

❈ Meaning :

➥ Sales tax is collected by the seller from the customers on sales of goods and deposited with the government.

➥ It is charged at a fixed percentage on net price i.e. after trade discount.

➥ Separate column is provided in the Sales Book for sales tax.

❈ Accounting for sales tax :

➥ At regular intervals, the total of sales tax column is credited to the Sales Tax Account.

➥ When sales tax is deposited, the Sales Tax Account is debited and Cash/Bank Account is credited.

➥ The credit balance in Sales Tax A/c shows amount payable & shown in the Balance Sheet as a liability.

CONCEPT 5 : SALES RETURNS BOOK OR RETURNS INWARD BOOK

✷ If customers frequently return the goods sold to them, it is recorded in a separate book, named as the Sales Returns Book or the Returns Inward Book.

✷ The ruling of the Sales Returns Book is similar to Sales Book.

☺ For Example (assumed figures) :

RETURNS INWARD BOOK

Date 2015	Particulars	Details	L.F.	Amount Rs.
June 7	Sunil Bank & Co.			
	6 Copies-Double Entry			
	Book keeping by T.S. Grewal @ Rs.7	42.00		
	Less : Trade Discount 10%	(4.20)		37.80
	(returns as per debit note no.......)			
June 7	Kailash & Co.			
	1 Copy-Business Methods			
	by R.K. Gupta			3.50
	(returns as per debit note no.......)	Total		41.30

CONCEPT 6 : PURCHASE RETURNS OR RETURNS OUTWARD BOOK

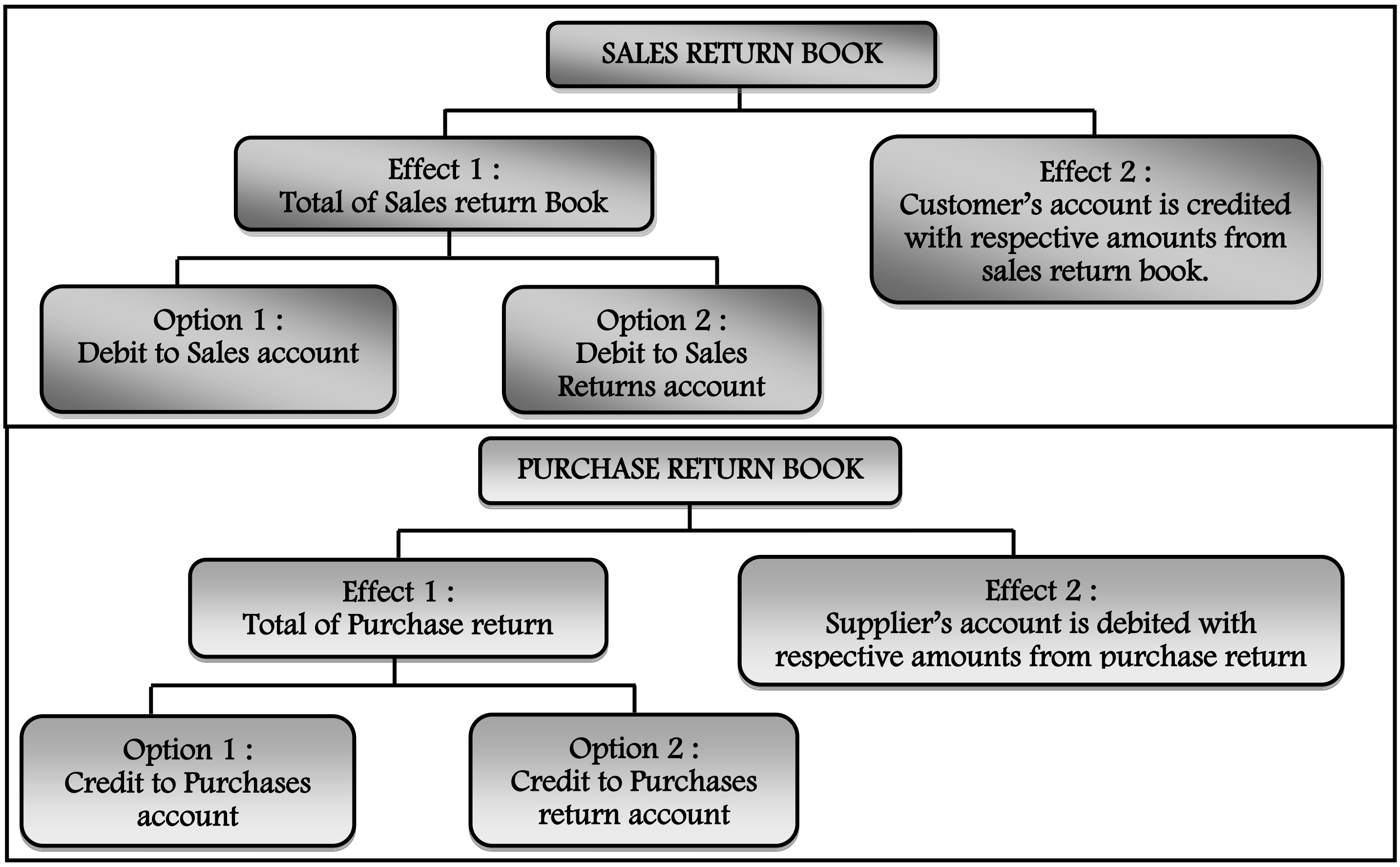
- If there are frequent returns of goods or material purchased to the suppliers, it is recorded in separate book called as Purchase Returns Book or Returns Outward Book.
- The ruling of the Purchase Returns book is similar to Purchase Book.

☺ <u>For Example (assumed figures) :</u>

RETURNS OUTWARD BOOK

Date 2015	Particulars	Rs.	Amount Rs.
June 2	Premier Electric Co.		175.00
	One 36" Usha Ceiling Fan		
June 28	Mohan Electric Co.		
	Ten Iron Heaters	150.00	
	Less : Discount	(15.00)	135.00
	Total		310.00

CONCEPT 7 : POSTING OF THE RETURN BOOKS (2 EFFECTS)



CONCEPT 8 : IMPORTANCE OF JOURNAL

✷ If there is no special book meant to record a transaction, it is recorded in the journal (Proper).

Role of Journal is restricted to following types of entries :

Sr. no.	Types of Entries	Explanation
1]	Opening entries	▸ When books are started for the new year, opening balance of assets and liabilities are journalised.
2]	Closing entries	▸ At the end of the year nominal accounts are transferred to profit and loss account by passing closing entries.
3]	Rectification entries	▸ If an error has been committed, it is rectified through a journal entry.
4]	Transfer entries	▸ If some amount is to be transferred from one account to another, the transfer will be made through a journal entry.
5]	Adjusting entries	▸ At the end of the year the amount of expenses or income may have to be adjusted by passing adjusting entries. ☺ For Example : [i] Outstanding expenses. [ii] Prepared expenses. [iii] Interest on capital. [iv] Depreciation.
6]	Entries on dishonour of Bills	▸ If someone who accepted a promissory note (or bill) is not able to pay it on the due date, a journal entry will be necessary to record the non-payment or dishonour.
7]	Miscellaneous entries	[1] Credit purchase of things other than goods dealt inor materials required for production- ☺ Example :Credit purchase of furniture or machinery. [2] An allowance or charge to the customers after the issue of the invoice. [3] Receipt of promissory notes or issue to them if separate bill books have not been maintained. [4] On an amount becoming irrecoverable. ☺ Example :The customer became insolvent. [5] Effects of accidents. ☺ E.g. Loss of property by fire. [6] Transfer of net profit to capital account.

UNIT 5 : CASH BOOK

CONCEPT 1 : CASH BOOK – A SUBSIDIARY BOOK AND A PRINCIPAL BOOK

- Cash transactions are recorded in the Cash Book ledger accounts are prepared. Therefore, the Cash Book is a subsidiary book.
- Cash Book serves as the cash account and the bank account; are entered in the trial balance directly.
- Cash Book, therefore, is part of the ledger also.
- Hence, it has also to be treated as the principal book.
- Cash Book is thus both a subsidiary book and a principal book.

CONCEPT 2 : KINDS OF CASH BOOK

- [a] Simple Cash Book → Only Cash Column (1)
- [b] Two~column Cash → Cash & Discount (2)
- [c] Three~column Cash → Cash, Bank & Discount (3)

Sr. no.	Types	Explanation
1]	Simple Cash Book	▸ One amount column on each side. ▸ The left~hand side records receipts of cash and the right hand side the payments. ▸ Balancing of the Cash Book : It is balanced like other accounts. The total of receipts column is always greater than total of payments column. The difference is written on the credit side as 'By balance c/d'.
2]	Double~ Column Cash Book	▸ If along with columns for amounts another column is added to record the cash discount allowed or the discount received. It is a double column cash book. ▸ Cash discount is an allowance which often accompanies cash payments. ▸ In the cash column on the debit side, actual cash received is entered; the amount of the discount allowed, if any is entered in the discount column. ▸ Similarly, cash paid is entered in the cash column on the payments side and discount received in the discount column. ▸ Balancing : It should be noted that the discount columns are not balanced. The total of the discount column on the receipts side shows total discount and is debited to the Discount Account.
3]	Three~Column Cash Book	[a] All receipts are written on the receipts side, cash in the cash column and cheques in the bank column. If discount is allowed it is entered in the discount column. [b] All payments are written on the payments side, cash payment in the cash column and payments by cheques in the bank column. If some discount has been received it is entered in the discount column. [c] Contra Entries :Often cash is withdrawn from bank for use in the office. In such a case the amount is entered in the bank column on the payments side and also in the cash column on the receipts side. Against such entries, the letter "C" should be written in the L.F. Column. ✷ In case of maintaining more than one Bank A/c, separate column can be added for each Bank Account.

CONCEPT 3 : PETTY CASH BOOK

❈ Meaning :

- If all the small payments, such as telegrams, taxi fare, cartage, etc., are recorded in the cashbook, it will become unnecessarily heavy &the main cashier will be overburdened with work.
- Thus, firms appoint a person as 'Petty Cashier' to entrust the task of making small payments.

[1] IMPREST SYSTEM OF PETTY CASH :

- A definite sum of money is given to the petty cashier in the beginning of a period and to reimburse him for payments made at the end of the period.
- Such a system is known as the imprest system of petty cash.
- The system is very useful if an analytical Petty Cash Book is used. The book has one column to record receipt of cash and other columns to record payments of various types.

[2] ADVANTAGES OF PETTY CASH BOOK :

[a] Saving of time of the chief cashier;
[b] Saving in labour in writing up the cash book and posting into the ledger; and
[c] Control over small payments.

[3] POSTING THE PETTY CASH BOOK :

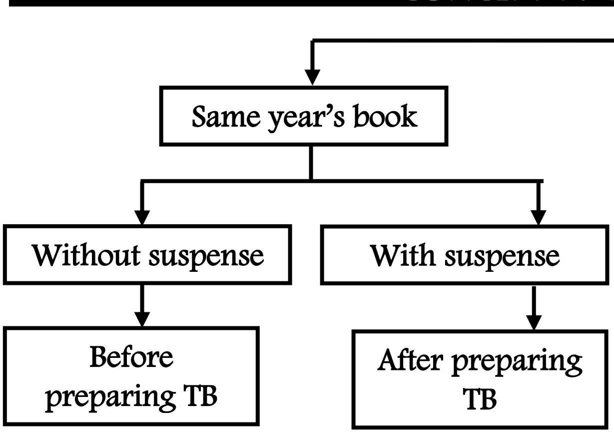
- When an amount is given to the petty cashier, the petty cash account is debited.
- Each week or forth night, the total of the payments made is credited to this account.
- At the end of the year, the balance is shown in the balance sheet as part of cash balance.
- The payments must be debited to their respective accounts as shown by the petty cash book.
- For this two methods may be used:
  [a] From the petty cash book the total of the various columns may be directly debited to the concerned accounts; or
  [b] A journal entry may be prepared by debiting the accounts shown by the various analysis columns, and crediting the total of the payment of the petty cash accounts.

UNIT 6 : RECTIFICATION OF ERRORS

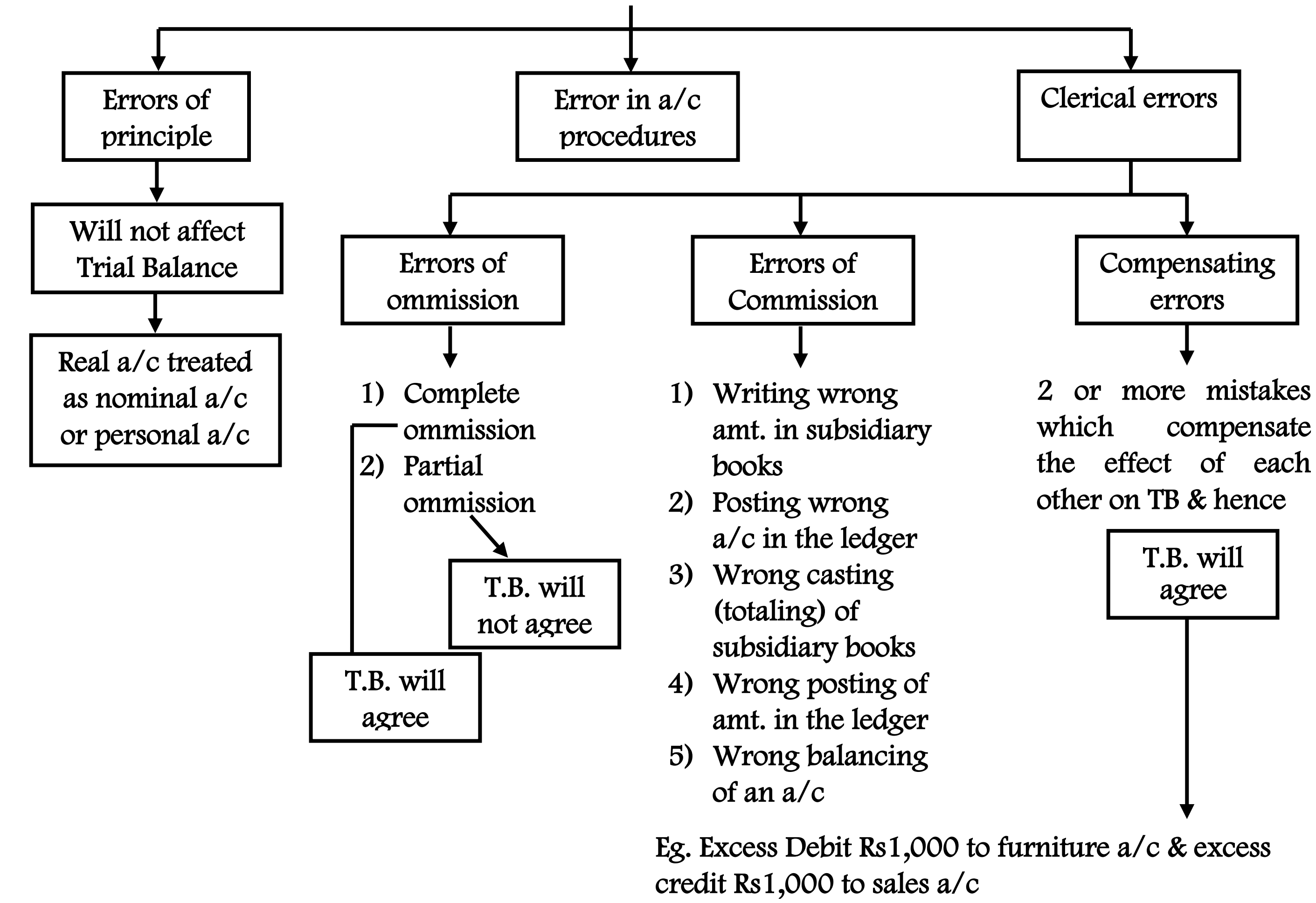
CONCEPT 1 : INTRODUCTION

- *Unintentional omission or commission* of *amounts and accounts* in the process of *recording* the transactions are commonly known as *errors.*
- May occur due to *mathematical mistakes* or mistakes in *accounting policies.*
- If the *trial balance does not tally*, it is said that there are *errors in the accounts* which requires rectification.
- These errors *may or may not affect the Trial Balance* but it *affects* the determination of *profit or loss, assets and liabilities.*

CONCEPT 1 : RECTIFICATION OF ERRORS



CONCEPT 2 : CLASSIFICATION OF ERRORS



CONCEPT 3 : ALTERNATIVE CLASSIFICATION OF ERRORS

- Double sided → T.B. will tally
- One sided → T.B. will not tally

CONCEPT 4 : MEANING OF RECTIFICATION

✈ Correct entry = Wrong entry + Rectification entry

CONCEPT 5 : SUSPENSE A/C

- Debited IF Cr. Side > Dr. Side → Short Dr.
- Credited IF Dr. Side > Cr. Side → Short Cr.

CONCEPT 9 : EXAMPLES WITH SUSPENSE I.E. AFTER TB WITHOT SUSPENSE I.E. BEFORE TB

✈ Welding machine purchased for Rs1,000 from x company entered into purchase day book.

Correct entry	Wrong entry	Rectification entry (Same entry with / without Suspense)
Machine --- Dr. 1,000 To X a/c 1,000	Purchase --- Dr 1,000 To X a/c 1,000	Machine a/c --- Dr. 1,000 To Purchase 1,000

✈ Total of Return outward is Rs.100 short.

Rectification entry (With suspense)	Rectification entry (Without suspense)
Suspense a/c --- Dr. 100 To Return Outward A/c 100	No debit just credit Return Outward by Rs.100 i.e. To Return outward 100

<u>Rectification : -</u>

Sr. No	Particulars	Under cast/ Short	Over cast / Excess.
1)	Purchase (Dr.)	Debit	Credit
2)	Sales (Cr.)	Credit	Debit
3)	Purchase return (Cr.)	Credit	Debit
4)	Sales return (Dr.)	Debit	Credit

✈ Discount allowed to D Rs.15 had not been entered in cash book, but full amt. has been credited to D a/c (Cash received – 100)

Rectification entry (With suspense)	Rectification entry (Without suspense)
Discount allowed --- Dr. 15 To Suspense A/c 15	Debit Discount Allowed by Rs.100

- A Sale of Rs.200 of old furniture has been passed through sales book.

Correct entry	Wrong entry	Rectification entry
Cash ---- Dr. 200 To Furniture 200	Cash --- Dr. 200 To Sales 200	Sales ---- Dr. 200 To Furn. 200

- Purchase of Rs100 from x wrongly entered in sales book → (full entry wrong)

Correct entry	Wrong entry	Rectification entry
Purchase ---- Dr. 100 To X 100	X--- Dr. 100 To Sales 100	Purchase ---- Dr. 100 Sales ---- Dr. 100 To X 200

- Purchase of Rs100 from x wrongly entered in sales a/c → (only sales a/c affected)

Correct entry	Wrong entry	Rectification entry
Purchase ---- Dr. 100 To X 100	Suspense --- Dr. 200 To Sales 100 To X 100	Purchase ---- Dr. 100 Sales ---- Dr. 100 To Suspense 200

- Sales return of Rs100 wrongly entered in purchase return book.

Correct entry	Wrong entry	Rectification entry
SR ---- Dr. 100 To X 100	X --- Dr. 100 To PR 100	SR ---- Dr. 100 PR ---- Dr. 100 To x 200

- While carry fwd, total of sales book from one page to another written as Rs176,658 instead of Rs.16,7568

Correct entry	Wrong entry	Rectification entry
X ---- Dr. 1,67,5768 To Sales 1,67,568	X --- Dr. 1,67568 Suspense ---Dr. 9090 To Sales 1,76,658	Sales ---- Dr. 9090 To Suspense 9090

CONCEPT 10 : RECTIFICATION IN SUBSEQUENT YEAR BOOKS

- If errors are located after Finalisation (BOD approved A/c's) & rectified in next year.
- This will involve P&L adjustment A/c

CONCEPT 11 : P&L ADJUSTMENT A/C

- Rectification entry of nominal a/c will be made in P&L adjustment a/c & not in head of income/expense.
- Why? To avoid affect on this year's profit.
- P&L adjustment balance will be transferred to capital a/c.

✶✶✶